

Consolidated Financial Results for the Six Months Ended September 30, 2023

<under Japanese GAAP>

November 10, 2023

Note: The following report is a summary of the Japanese-language original.

Company name: Japan Petroleum Exploration Co., Ltd.
 Listing: Prime Market, Tokyo Stock Exchange
 Securities code: 1662
 URL: <https://www.japex.co.jp/en/>
 Representative: FUJITA Masahiro, Representative Director and President
 Inquiries: MATSUMOTO Akinori, General Manager, Corporate Communication Office
 Telephone: +81-3-6268-7111 (from overseas)
 Scheduled date to commence dividend payments: December 12, 2023
 Scheduled date to file Quarterly Report: November 13, 2023
 Presentation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting (for institutional investors and analysts): Yes

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the six months ended September 30, 2023 (April 1, 2023 – September 30, 2023)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	150,708	24.9	28,501	47.6	39,135	(9.2)	27,770	(11.6)
Six months ended September 30, 2022	120,708	1.9	19,304	102.3	43,084	122.7	31,430	–

Note: Comprehensive income: Six months ended September 30, 2023: 70,817 million yen (102.6%)
 Six months ended September 30, 2022: 34,953 million yen (–%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2023	512.09		–	
Six months ended September 30, 2022	573.89		–	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2023	619,769		515,803		77.8	
As of March 31, 2023	568,180		457,169		74.9	

Reference: Equity As of September 30, 2023: 482,190 million yen As of March 31, 2023: 425,632 million yen

2. Cash dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	150.00	–	220.00	370.00
Fiscal year ending March 31, 2024	–	125.00			
Fiscal year ending March 31, 2024 (Forecasts)			–	125.00	250.00

Note: Revisions to the latest forecasts of cash dividends: Yes

3. Consolidated financial forecasts for the fiscal year ending March 31, 2024 (April 1, 2023 – March 31, 2024)
(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2024	325,400	(3.3)	48,800	(21.4)	57,000	(31.4)	45,000	(33.2)	833.06

Note: Revisions to the consolidated financial forecasts most recently announced: Yes

* Notes

- (1) Changes in significant subsidiaries during the six months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes
Note: For details, please refer to “(3) Notes to quarterly consolidated financial statements (Application of specific accounting for preparing quarterly consolidated financial statements)” of “2. Consolidated financial statements and significant notes thereto” on page 9 of the attached material.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement: None
- (4) Number of issued shares (common shares)
 - a. Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2023	54,300,076 shares
As of March 31, 2023	54,300,076 shares
 - b. Number of treasury shares at the end of the period

As of September 30, 2023	65,253 shares
As of March 31, 2023	73,730 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	54,229,503 shares
Six months ended September 30, 2022	54,766,817 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of financial forecasts, and other special matters

The forward-looking statements, including the financial forecasts shown in this document are based on information currently available to our company and on certain assumptions deemed to be reasonable. As such, they do not constitute guarantees by our company of future performance. Actual performance and other results may differ materially from these forecasts due to various factors.

For the suppositions that form the assumptions for financial forecasts and cautions concerning the use thereof, please refer to “(3) Explanation of consolidated financial forecasts and other forward-looking statements” of “1. Qualitative information regarding settlement of accounts for the six months ended September 30, 2023” on page 4 of the attached material to the quarterly financial results report.

(Attached Material)

1. Qualitative information regarding settlement of accounts for the six months ended September 30, 2023

(1) Explanation of operating results

During the six months ended September 30, 2023, net sales was ¥150,708 million, an increase of ¥30,000 million (+24.9%) year on year. Gross profit was ¥43,304 million, an increase of ¥9,323 million (+27.4%) year on year. Main factors behind the year-on-year increase for net sales and increase for gross profit include a rise in the selling price of natural gas in Japan as a result of the increase in LNG price, etc., and the growth of sales volume for crude oil in North America.

Exploration expenses was ¥982 million, a decrease of ¥158 million (-13.9%) year on year. Selling, general and administrative expenses was ¥13,820 million, an increase of ¥285 million (+2.1%) year on year. As a result, operating profit was ¥28,501 million, an increase of ¥9,196 million (+47.6%) year on year.

Ordinary profit was ¥39,135 million, a decrease of ¥3,948 million (-9.2%) year on year, due mainly to decreases in share of profit of entities accounted for using equity method and foreign exchange gains.

Profit before income taxes decreased by ¥3,946 million year on year to ¥39,121 million. Profit attributable to owners of parent decreased by ¥3,659 million year on year to ¥27,770 million.

Below is a breakdown of net sales.

(i) E&P Business

Net sales from the E&P Business came to ¥47,536 million, an increase of ¥33,393 million (+236.1%) year on year, mainly due to the growth of sales volume for crude oil in North America.

(ii) Infrastructure/Utility Business

Net sales from the Infrastructure/Utility Business came to ¥74,686 million, a decrease of ¥2,093 million (-2.7%) year on year. This was mainly the result of the decreased sales volume for LNG, despite factors for increased net sales such as a rise in the selling price of natural gas in Japan due to the increase in LNG price, etc., and the growth of sales volume for electricity.

(iii) Other Businesses

Net sales from other businesses, such as the contract services (drilling and geological surveys, etc.), sale of oil products, including liquefied petroleum gas (LPG), fuel oil and the like, as well as other subcontracted tasks, came to ¥28,486 million, a decrease of ¥1,300 million (-4.4%) year on year.

(2) Explanation of financial position

Total assets at the end of the second quarter increased by ¥51,589 million from the previous fiscal year-end to ¥619,769 million.

Current assets decreased by ¥20,716 million from the previous fiscal year-end. This was mainly due to decreases in notes and accounts receivable - trade, and contract assets and raw materials and supplies. Non-current assets increased by ¥72,305 million from the previous fiscal year-end. This was mainly due to increases in the recording of wells, etc. under property, plant and equipment, and a rise in market values of investment securities.

Liabilities decreased by ¥7,044 million from the previous fiscal year-end to ¥103,966 million.

Current liabilities decreased by ¥21,990 million from the previous fiscal year-end. This was due mainly to a decrease in notes and accounts payable - trade. Non-current liabilities increased by ¥14,946 million from the previous fiscal year-end. This was mainly due to an increase in deferred tax liabilities resulting from the rise in market values of investment securities and other factors.

Net assets increased by ¥58,633 million from the previous fiscal year-end to ¥515,803 million. The main factor was an increase in valuation difference on available-for-sale securities.

(3) Explanation of consolidated financial forecasts and other forward-looking statements

The consolidated financial forecasts for the fiscal year ending March 31, 2024 have been revised from the forecasts announced on August 9, 2023.

Please refer to the “Notice of Financial Forecasts Revision, Interim Dividend Payout, and Year-end Dividend Forecast Revision” disclosed on November 10, 2023, the same day of this report.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheet

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	191,956	187,239
Notes and accounts receivable - trade, and contract assets	48,474	43,517
Securities	3,000	3,000
Merchandise and finished goods	2,216	2,744
Work in process	11	183
Raw materials and supplies	21,613	15,742
Other	14,574	8,701
Allowance for doubtful accounts	(54)	(54)
Total current assets	281,791	261,075
Non-current assets		
Property, plant and equipment	118,411	143,032
Intangible assets	5,569	5,569
Investments and other assets		
Investment securities	115,940	167,981
Other	46,855	42,514
Allowance for doubtful accounts	(47)	(47)
Allowance for overseas investment loss	(341)	(357)
Total investments and other assets	162,407	210,091
Total non-current assets	286,388	358,694
Total assets	568,180	619,769

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,489	10,466
Income taxes payable	9,333	9,211
Provisions	2,331	2,178
Other	26,096	20,403
Total current liabilities	64,250	42,259
Non-current liabilities		
Deferred tax liabilities	20,461	34,009
Retirement benefit liability	3,428	3,437
Provisions	620	273
Asset retirement obligations	20,043	20,586
Other	2,206	3,399
Total non-current liabilities	46,759	61,706
Total liabilities	111,010	103,966
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Retained earnings	362,989	378,742
Treasury shares	(136)	(121)
Total shareholders' equity	377,141	392,909
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	46,324	80,147
Deferred gains or losses on hedges	(699)	84
Foreign currency translation adjustment	2,275	8,572
Remeasurements of defined benefit plans	590	476
Total accumulated other comprehensive income	48,491	89,280
Non-controlling interests	31,536	33,612
Total net assets	457,169	515,803
Total liabilities and net assets	568,180	619,769

(2) Consolidated quarterly statement of income and Consolidated quarterly statement of comprehensive income
Consolidated quarterly statement of income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	120,708	150,708
Cost of sales	86,727	107,404
Gross profit	33,980	43,304
Exploration expenses	1,140	982
Selling, general and administrative expenses	13,535	13,820
Operating profit	19,304	28,501
Non-operating income		
Interest income	406	985
Dividend income	1,651	2,035
Share of profit of entities accounted for using equity method	6,684	1,270
Foreign exchange gains	9,176	6,352
Gain on valuation of derivatives	6,446	–
Other	173	524
Total non-operating income	24,540	11,167
Non-operating expenses		
Interest expenses	2	58
Commitment fees	155	159
Provision for loss on disaster	250	141
Other	352	174
Total non-operating expenses	760	533
Ordinary profit	43,084	39,135
Extraordinary income		
Gain on sale of non-current assets	–	0
Total extraordinary income	–	0
Extraordinary losses		
Loss on retirement of non-current assets	15	13
Total extraordinary losses	15	13
Profit before income taxes	43,068	39,121
Income taxes	8,970	9,092
Profit	34,097	30,029
Profit attributable to non-controlling interests	2,667	2,258
Profit attributable to owners of parent	31,430	27,770

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	34,097	30,029
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,378)	33,818
Deferred gains or losses on hedges	(64)	492
Foreign currency translation adjustment	4,036	6,155
Remeasurements of defined benefit plans, net of tax	(117)	(114)
Share of other comprehensive income of entities accounted for using equity method	379	436
Total other comprehensive income	855	40,788
Comprehensive income	34,953	70,817
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	32,285	68,559
Comprehensive income attributable to non-controlling interests	2,667	2,257

(3) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

No item to report.

(Notes on significant changes in the amount of shareholders' equity)

No item to report.

(Changes in the scope of consolidation or the scope of application of the equity method)

Significant changes in the scope of application of the equity method

Effective the first quarter, Abashiri Biomass Power 3 LLC., an affiliate of JAPEX, became an equity method affiliate of JAPEX due to its increased material significance.

Effective the second quarter, Longboat JAPEX Norge AS became an equity method affiliate of JAPEX because JAPEX acquired its shares.

(Application of specific accounting for preparing quarterly consolidated financial statements)

Deferral accounting of cost variance

Cost variance arising from seasonal changes in production level is deferred as current assets (other) because such variance is expected to be almost completely eliminated by the end of the cost accounting period.

Calculation of taxes

For the taxes, JAPEX and some of its consolidated subsidiaries compute first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the second quarter, and next by multiplying the quarterly profit before income taxes by such estimated effective tax rate.

However, in cases where the calculation of taxes using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the effective statutory tax rate is used.

Note that income taxes - deferred is included in income taxes.

(Significant subsequent events)

Repurchase and cancellation of own shares

At the Board of Directors meeting held on November 10, 2023, JAPEX resolved to repurchase its own shares in accordance with the provisions of Article 156 of the Companies Act as applied pursuant to Article 165, paragraph (3) of the same Act, and also resolved to cancel a portion of its own shares in accordance with the provisions of Article 178 of the Companies Act.

(1) Reasons for the repurchase and cancellation of own shares

JAPEX will carry out the acquisition of its own shares in order to improve capital efficiency and enhance shareholder returns. All of the own shares to be repurchased this time will be cancelled in order to increase shareholder profits through a decrease in the total number of issued shares.

(2) Details of resolution of the Board of Directors concerning the repurchase of own shares

(i) Types of shares to be repurchased

Common shares

(ii) Total number of shares to be repurchased

Up to 3 million shares

(5.53% of the total number of outstanding shares (excluding treasury shares))

(iii) Total value of shares to be repurchased

Up to ¥20 billion

(iv) Repurchase period

From November 13, 2023 to August 30, 2024

(v) Repurchase method

Market purchases based on the discretionary dealing contract regarding repurchase of own shares

(3) Details of resolution of the Board of Directors concerning the cancellation of own shares

(i) Types of shares to be cancelled

Common shares

(ii) Total number of shares to be cancelled

All of the shares repurchased as stated in (2) above

(iii) Scheduled date of cancellation

September 30, 2024

3. Supplemental information

Status of production and sales

(1) Production

		Six months ended September 30, 2022 (April 1, 2022 – September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 – September 30, 2023)	(Reference) Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)
E&P Business	Crude oil (kL)	297,110 (181,998)	546,545 (440,374)	751,616 (518,697)
	Natural gas (thousand m ³)	246,826 (1,922)	255,876 (27,541)	523,998 (14,136)
Infrastructure/ Utility Business	LNG (t)	1,102	–	1,258
	Electricity (thousand kWh)	1,206,213	1,717,047	2,509,471

Notes: 1. The figures in parentheses represent overseas production and are included in the total.

2. Part of the natural gas production volume is used as a feedstock for LNG.

(2) Sales

		Six months ended September 30, 2022 (April 1, 2022 – September 30, 2022)		Six months ended September 30, 2023 (April 1, 2023 – September 30, 2023)		(Reference) Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)	
		Sales volume	Net sales (Millions of yen)	Sales volume	Net sales (Millions of yen)	Sales volume	Net sales (Millions of yen)
E&P Business	Crude oil (kL)	141,842	14,101	650,603	47,259	695,633	55,703
	Natural gas (overseas) (thousand m ³)	1,494	40	25,790	276	11,494	360
	Subtotal		14,142		47,536		56,063
Infrastructure/ Utility Business	Natural gas (Japan) (thousand m ³)	446,423	35,966	399,748	36,389	989,051	97,360
	LNG (t)	94,053	13,486	61,567	6,049	340,503	51,572
	Electricity (thousand kWh)	1,452,999	25,251	1,946,513	29,251	3,005,864	58,735
	Others		2,074		2,996		5,988
	Subtotal		76,779		74,686		213,657
Other Businesses	Contract services		3,861		3,117		7,750
	Oil products/ merchandise		25,037		23,755		56,573
	Others		887		1,612		2,447
	Subtotal		29,786		28,486		66,771
Total			120,708		150,708		336,492

- Notes: 1. “Crude oil” includes crude oil that the JAPEX Group produced in oil fields and the crude oil purchased from other companies.
2. “Natural gas (Japan)” of the Infrastructure/Utility Business refers to gas supplied in Japan via pipeline and comprises the total of natural gas produced in Japan and regasified LNG. Natural gas (Japan) is classified under the Infrastructure/Utility Business, since both natural gas produced in Japan and LNG vaporized gas are sold together by our company’s supply network, which consists of the natural gas fields in Japan and the LNG terminals that vaporize gas linked by a pipeline network.
3. “Others” of the Infrastructure/Utility Business includes commissioned transportation of natural gas and contracted vaporization of LNG used for power plant fuel, etc.
4. Under the Other Businesses, “Oil products/merchandise” includes liquefied petroleum gas (LPG), fuel oil, gas oil and kerosene, and “Others” includes other subcontracted tasks.