

Consolidated Financial Results for the Six Months Ended September 30, 2019 <under Japanese GAAP>

November 8, 2019

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

Company name: Japan Petroleum Exploration Co., Ltd.
 Listing: Tokyo Stock Exchange, First Section
 Securities code: 1662
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Scheduled date to commence dividend payments: December 16, 2019
 Scheduled date to file Quarterly Report: November 11, 2019
 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, 2019 (April 1, 2019 – September 30, 2019)

(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, 2019	162,346	41.0	7,730	–	13,636	954.4	12,069	395.9
September 30, 2018	115,136	2.5	(1,183)	–	1,293	(85.4)	2,433	(68.6)

Note: Comprehensive income: Six months ended September 30, 2019: 4,625 million yen (-36.1 %)
 Six months ended September 30, 2018: 7,235 million yen (-49.9 %)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2019	211.19		–	
September 30, 2018	42.59		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2019	651,501	452,551	64.4
As of March 31, 2019	655,288	450,156	63.6

Reference: Equity As of September 30, 2019: 419,546 million yen As of March 31, 2019: 416,488 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, 2019	–	10.00	–	30.00	40.00
Fiscal year ending March 31, 2020	–	25.00			
Fiscal year ending March 31, 2020 (Forecast)			–	25.00	50.00

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

3. Consolidated financial forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 – March 31, 2020)
(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, 2020	318,351	18.8	11,735	407.3	21,898	74.9	18,820	27.4	329.29

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 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, 2019	57,154,776 shares
As of March 31, 2019	57,154,776 shares
 - b. Number of treasury shares at the end of the period

As of September 30, 2019	2,265 shares
As of March 31, 2019	2,207 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2019	57,152,562 shares
Six months ended September 30, 2018	57,152,637 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 the Company and on certain assumptions deemed to be reasonable. As such, they do not constitute guarantees by the 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, 2019” 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, 2019

(1) Explanation of operating results

During the six months ended September 30, 2019, net sales was ¥162,346 million, an increase of ¥47,210 million (+41.0%) year on year. Gross profit was ¥23,101 million, an increase of ¥8,975 million (+63.5%) year on year. Major factors behind the year-on-year increases were as follows: for net sales, there were growth in sales volume of diluted bitumen in Japan Canada Oil Sands Limited (JACOS) Hangingstone leases and growth in sales volume of crude oil, while for gross profit, there was an improvement in profit from diluted bitumen sales stemming from the narrowing light-heavy differential (*1) in the oil sands business.

Exploration expenses was ¥358 million, a decrease of ¥4 million (-1.4%) year on year. Selling, general and administrative expenses was ¥15,013 million, an increase of ¥67 million (+0.5%) year on year. As a result, operating profit improved by ¥8,913 million year on year to ¥7,730 million (operating loss of ¥1,183 million in the same period of the previous fiscal year).

Ordinary profit increased by ¥12,342 million year on year to ¥13,636 million, due mainly to the turnaround from foreign exchange losses to foreign exchange gains, despite a decrease in share of profit of entities accounted for using equity method.

Profit before income taxes increased by ¥11,704 million year on year to ¥13,617 million. Profit attributable to owners of parent increased by ¥9,636 million year on year to ¥12,069 million.

(*1) The differential between Western Canadian Select (WCS), which is the reference price for heavy crude oil from the oil sands in Canada, and the WTI, which is the reference price of light crude oil

Below is a breakdown of sales.

(i) Oil and Gas

Net sales from oil and gas (including liquefied natural gas (LNG) and diluted bitumen) came to ¥131,969 million, an increase of ¥40,254 million (+43.9%) year on year. This was mainly the result of an increase in sales volume of crude oil and diluted bitumen.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥10,474 million, an increase of ¥7,648 million (+270.6%) year on year.

(iii) Other Businesses

Net sales from other businesses, such as the sale of oil products, including liquefied petroleum gas (LPG), fuel oil and the like, the transportation of natural gas, etc., as well as other subcontracted tasks, came to ¥19,902 million, a decrease of ¥692 million (-3.4%) year on year.

(2) Explanation of financial position

At the end of the second quarter, total assets decreased by ¥3,786 million from the previous fiscal year-end to ¥651,501 million.

Current assets increased by ¥22,755 million from the previous fiscal year-end, mainly due to increases in cash and deposits, and notes and accounts receivable - trade. Non-current assets decreased by ¥26,542 million from the previous fiscal year-end. This was mainly due to a decrease in investment securities resulting from the fall in market values and a decrease in recoverable accounts included in other in investments and other assets resulting from the progress in the recovery.

Liabilities decreased by ¥6,181 million from the previous fiscal year-end to ¥198,950 million.

Current liabilities increased by ¥1,971 million from the previous fiscal year-end. This was largely due to an increase in notes and accounts payable - trade despite a decrease in accrued consumption taxes included in other in current liabilities. Non-current liabilities decreased by ¥8,152 million from the previous fiscal year-

end, mainly due to a decrease in deferred tax liabilities resulting from the above-mentioned fall in market values of investment securities and a decrease in long-term borrowings resulting from the impact of fluctuation in foreign exchange rates and the reclassification of borrowings with repayments due in one year or less to current liabilities.

Net assets increased by ¥2,394 million from the previous fiscal year-end to ¥452,551 million. The main factor was an increase in retained earnings, despite a decrease 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, 2020 have been revised from the forecasts announced on August 9, 2019.

Please refer to the “Revision of Financial Forecasts, Interim Dividend, and Year-end Dividend” released on November 8, 2019, 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, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	117,468	133,697
Notes and accounts receivable - trade	20,825	28,311
Securities	2,330	2,400
Merchandise and finished goods	4,559	5,082
Work in process	362	297
Raw materials and supplies	7,589	10,715
Other	12,985	8,371
Allowance for doubtful accounts	(33)	(33)
Total current assets	166,087	188,843
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	185,198	176,227
Other, net	123,915	121,249
Total property, plant and equipment	309,114	297,476
Intangible assets		
Other	7,399	6,916
Total intangible assets	7,399	6,916
Investments and other assets		
Investment securities	137,794	135,369
Other	35,995	23,825
Allowance for doubtful accounts	(46)	(44)
Allowance for overseas investment loss	(1,057)	(886)
Total investments and other assets	172,686	158,264
Total non-current assets	489,200	462,657
Total assets	655,288	651,501

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,666	12,170
Provisions	400	512
Other	24,311	21,666
Total current liabilities	32,378	34,349
Non-current liabilities		
Long-term borrowings	127,715	120,714
Deferred tax liabilities	22,330	21,182
Retirement benefit liability	3,452	3,440
Provisions	1,236	1,013
Asset retirement obligations	15,335	15,284
Other	2,681	2,964
Total non-current liabilities	172,752	164,600
Total liabilities	205,131	198,950
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Capital surplus	157	157
Retained earnings	331,306	341,661
Treasury shares	(10)	(11)
Total shareholders' equity	345,741	356,096
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	66,296	61,903
Deferred gains or losses on hedges	(2)	9
Foreign currency translation adjustment	3,338	525
Remeasurements of defined benefit plans	1,114	1,010
Total accumulated other comprehensive income	70,747	63,449
Non-controlling interests	33,668	33,005
Total net assets	450,156	452,551
Total liabilities and net assets	655,288	651,501

(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, 2018	Six months ended September 30, 2019
Net sales	115,136	162,346
Cost of sales	101,009	139,244
Gross profit	14,126	23,101
Exploration expenses	362	358
Selling, general and administrative expenses	14,946	15,013
Operating profit (loss)	(1,183)	7,730
Non-operating income		
Interest income	745	584
Dividend income	1,032	1,658
Share of profit of entities accounted for using equity method	5,489	4,405
Other	559	1,934
Total non-operating income	7,827	8,584
Non-operating expenses		
Interest expenses	1,825	2,433
Foreign exchange losses	2,940	–
Other	584	244
Total non-operating expenses	5,351	2,677
Ordinary profit	1,293	13,636
Extraordinary income		
Gain on sales of non-current assets	715	–
Total extraordinary income	715	–
Extraordinary losses		
Loss on sales of non-current assets	60	3
Loss on retirement of non-current assets	35	15
Total extraordinary losses	96	19
Profit before income taxes	1,912	13,617
Income taxes	394	1,512
Profit	1,518	12,104
Profit (loss) attributable to non-controlling interests	(915)	34
Profit attributable to owners of parent	2,433	12,069

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	1,518	12,104
Other comprehensive income		
Valuation difference on available-for-sale securities	8,006	(4,394)
Deferred gains or losses on hedges	45	12
Foreign currency translation adjustment	(2,287)	(2,827)
Remeasurements of defined benefit plans, net of tax	(14)	(103)
Share of other comprehensive income of entities accounted for using equity method	(31)	(164)
Total other comprehensive income	5,717	(7,478)
Comprehensive income	7,235	4,625
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,117	4,772
Comprehensive income attributable to non- controlling interests	(881)	(146)

- (3) Notes to 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.

(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.

3. Supplemental information

Status of production and sales

(1) Production

		Six months ended September 30, 2018 (April 1, 2018 – September 30, 2018)	Six months ended September 30, 2019 (April 1, 2019 – September 30, 2019)	(Reference) Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)
Oil and gas	Crude oil (kl)	504,987 (376,001)	547,580 (397,084)	1,157,037 (892,535)
	Natural gas (thousand m ³)	585,037 (262,561)	530,853 (214,469)	1,170,457 (488,436)
	LNG (t)	4,808	3,891	5,600
	Bitumen (kl)	338,534 (338,534)	561,946 (561,946)	812,720 (812,720)

- 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.
3. Bitumen is a type of extra-heavy oil extracted from oil sands.

(2) Sales

		Six months ended September 30, 2018 (April 1, 2018 – September 30, 2018)		Six months ended September 30, 2019 (April 1, 2019 – September 30, 2019)		(Reference) Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)	
		Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)	Volume	Amount (Millions of yen)
Oil and gas	Crude oil (kl)	782,391	41,048	1,469,861	68,902	1,888,653	94,579
	Natural gas (thousand m ³)	813,097	27,835	746,637	29,362	1,731,141	67,820
	LNG (t)	145,796	9,574	149,179	10,319	322,331	22,913
	Diluted bitumen (kl)	496,568	13,257	838,297	23,385	1,176,091	30,116
Subtotal			91,715		131,969		215,429
Contract services			2,826		10,474		7,342
Other businesses	Oil products /merchandise		18,170		17,168		39,820
	Others		2,424		2,733		5,387
Subtotal			20,594		19,902		45,207
Total			115,136		162,346		267,980

- Notes: 1. "Oil products/merchandise" includes liquefied petroleum gas (LPG), fuel oil, gas oil and kerosene, and "Others" includes the transportation of natural gas and oil products as well as other subcontracted tasks.
2. Diluted bitumen is bitumen diluted by ultra-light crude oil for pipeline transportation.
3. Monetary amounts in the table do not include consumption taxes.