

Consolidated Financial Results for the Nine Months Ended December 31, 2019 <under Japanese GAAP>

February 10, 2020

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
 URL: <https://www.japex.co.jp/>
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Scheduled date to file Quarterly Report: February 12, 2020
 Scheduled date to commence dividend payments: –
 Presentation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting (for institutional investors and analysts): None

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

1. Consolidated financial results for the nine months ended December 31, 2019 (April 1, 2019 – December 31, 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	%
December 31, 2019	247,819	19.5	11,533	–	19,849	61.7	16,556	45.2
December 31, 2018	207,425	31.1	1,040	(76.4)	12,275	198.5	11,402	–

Note: Comprehensive income: Nine months ended December 31, 2019: 20,791 million yen (–%)
 Nine months ended December 31, 2018: (14,536) million yen (–%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
December 31, 2019	289.68		–	
December 31, 2018	199.51		–	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of December 31, 2019	665,801		467,292		65.2	
As of March 31, 2019	655,288		450,156		63.6	

Reference: Equity As of December 31, 2019: 434,187 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: None

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	325,763	21.6	14,109	509.9	27,859	122.5	23,493	59.1	411.06

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

* Notes

- (1) Changes in significant subsidiaries during the nine 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 December 31, 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 December 31, 2019	2,303 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)

Nine months ended December 31, 2019	57,152,539 shares
Nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 2019

(1) Explanation of operating results

During the nine months ended December 31, 2019, net sales was ¥247,819 million, an increase of ¥40,393 million (+19.5%) year on year. Gross profit was ¥35,157 million, an increase of ¥9,712 million (+38.2%) year on year. Major factors behind the year-on-year increases for net sales 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. The major factor behind the year-on-year increase for gross profit was an improvement in profit from diluted bitumen sales stemming from the narrowing light-heavy differential (*1) in the oil sands project.

Exploration expenses was ¥716 million, an increase of ¥99 million (+16.1%) year on year. Selling, general and administrative expenses was ¥22,907 million, a decrease of ¥879 million (-3.7%) year on year. As a result, operating profit increased by ¥10,492 million year on year to ¥11,533 million.

Ordinary profit increased by ¥7,574 million year on year to ¥19,849 million. Ordinary profit was mainly affected by a decrease in share of profit of entities accounted for using equity method and a decrease in gain on reversal of asset retirement obligations year on year, despite the turnaround from foreign exchange losses to foreign exchange gains.

Profit before income taxes increased by ¥6,805 million year on year to ¥19,686 million. Profit attributable to owners of parent increased by ¥5,153 million year on year to ¥16,556 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 ¥203,996 million, an increase of ¥34,585 million (+20.4%) year on year. This was mainly the result of growth in sales volume of crude oil and diluted bitumen.

(ii) Contract Services

Net sales from contract services (drilling and geological surveys, etc.) came to ¥12,903 million, an increase of ¥7,906 million (+158.2%) 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 ¥30,919 million, a decrease of ¥2,099 million (-6.4%) year on year.

(2) Explanation of financial position

At the end of the third quarter, total assets increased by ¥10,513 million from the previous fiscal year-end to ¥665,801 million.

Current assets increased by ¥28,549 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 ¥18,036 million from the previous fiscal year-end. This was mainly due to a decrease in property, plant and equipment resulting from the proceeding of depreciation and a decrease in recoverable accounts included in other in investments and other assets resulting from the progress in the recovery despite an increase in investment securities resulting from the rise in market values.

Liabilities decreased by ¥6,622 million from the previous fiscal year-end to ¥198,508 million.

Current liabilities decreased by ¥3,667 million from the previous fiscal year-end. This was mainly due to decreases in advances received and current portion of long-term borrowings included in other in current liabilities despite an increase in notes and accounts payable - trade. Non-current liabilities decreased by ¥2,954 million from the previous fiscal year-end. This was mainly due to a decrease in long-term borrowings resulting from the reclassification of borrowings with repayments due in one year or less to current liabilities, and the impact of fluctuation in foreign exchange rates despite an increase in deferred tax liabilities resulting from the above-mentioned rise in market values of investment securities.

Net assets increased by ¥17,135 million from the previous fiscal year-end to ¥467,292 million. The main factors were increases in retained earnings and 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 November 8, 2019.

Please refer to the “Notice of Financial Forecasts Revision” released on February 10, 2020, 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 December 31, 2019
Assets		
Current assets		
Cash and deposits	117,468	135,762
Notes and accounts receivable - trade	20,825	35,161
Securities	2,330	2,700
Merchandise and finished goods	4,559	4,475
Work in process	362	281
Raw materials and supplies	7,589	11,062
Other	12,985	5,227
Allowance for doubtful accounts	(33)	(32)
Total current assets	166,087	194,637
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	185,198	173,521
Other, net	123,915	119,618
Total property, plant and equipment	309,114	293,139
Intangible assets		
Other	7,399	6,675
Total intangible assets	7,399	6,675
Investments and other assets		
Investment securities	137,794	153,333
Other	35,995	18,860
Allowance for doubtful accounts	(46)	(44)
Allowance for overseas investment loss	(1,057)	(800)
Total investments and other assets	172,686	171,348
Total non-current assets	489,200	471,164
Total assets	655,288	665,801

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,666	9,301
Provisions	400	408
Other	24,311	19,000
Total current liabilities	32,378	28,710
Non-current liabilities		
Long-term borrowings	127,715	120,890
Deferred tax liabilities	22,330	26,285
Retirement benefit liability	3,452	3,476
Provisions	1,236	965
Asset retirement obligations	15,335	15,317
Other	2,681	2,863
Total non-current liabilities	172,752	169,797
Total liabilities	205,131	198,508
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Capital surplus	157	157
Retained earnings	331,306	344,668
Treasury shares	(10)	(11)
Total shareholders' equity	345,741	359,102
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	66,296	73,859
Deferred gains or losses on hedges	(2)	1
Foreign currency translation adjustment	3,338	265
Remeasurements of defined benefit plans	1,114	958
Total accumulated other comprehensive income	70,747	75,084
Non-controlling interests	33,668	33,105
Total net assets	450,156	467,292
Total liabilities and net assets	655,288	665,801

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

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	207,425	247,819
Cost of sales	181,980	212,661
Gross profit	25,445	35,157
Exploration expenses	617	716
Selling, general and administrative expenses	23,787	22,907
Operating profit	1,040	11,533
Non-operating income		
Interest income	1,157	846
Dividend income	2,064	2,996
Share of profit of entities accounted for using equity method	8,895	6,796
Gain on reversal of asset retirement obligations	3,369	–
Other	891	1,561
Total non-operating income	16,379	12,201
Non-operating expenses		
Interest expenses	3,090	3,486
Foreign exchange losses	1,244	–
Other	808	398
Total non-operating expenses	5,144	3,885
Ordinary profit	12,275	19,849
Extraordinary income		
Gain on sales of non-current assets	715	0
Total extraordinary income	715	0
Extraordinary losses		
Loss on sales of non-current assets	64	14
Loss on retirement of non-current assets	45	149
Total extraordinary losses	110	163
Profit before income taxes	12,880	19,686
Income taxes	2,000	3,105
Profit	10,879	16,580
Profit (loss) attributable to non-controlling interests	(522)	24
Profit attributable to owners of parent	11,402	16,556

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	10,879	16,580
Other comprehensive income		
Valuation difference on available-for-sale securities	(26,126)	7,554
Deferred gains or losses on hedges	(42)	4
Foreign currency translation adjustment	731	(3,138)
Remeasurements of defined benefit plans, net of tax	(22)	(155)
Share of other comprehensive income of entities accounted for using equity method	42	(53)
Total other comprehensive income	(25,416)	4,211
Comprehensive income	(14,536)	20,791
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(14,101)	20,893
Comprehensive income attributable to non- controlling interests	(435)	(102)

(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) and current liabilities (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 third 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

		Nine months ended December 31, 2018 (April 1, 2018 – December 31, 2018)	Nine months ended December 31, 2019 (April 1, 2019 – December 31, 2019)	(Reference) Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)
Oil and gas	Crude oil (kl)	801,671 (607,218)	904,172 (678,804)	1,157,037 (892,535)
	Natural gas (thousand m ³)	883,380 (379,522)	810,969 (322,018)	1,170,457 (488,436)
	LNG (t)	5,501	4,341	5,600
	Bitumen (kl)	639,003 (639,003)	864,674 (864,674)	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

		Nine months ended December 31, 2018 (April 1, 2018 – December 31, 2018)		Nine months ended December 31, 2019 (April 1, 2019 – December 31, 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)	1,577,301	80,016	2,323,025	108,049	1,888,653	94,579
	Natural gas (thousand m ³)	1,248,114	45,667	1,176,897	45,870	1,731,141	67,820
	LNG (t)	257,746	17,527	205,391	14,402	322,331	22,913
	Diluted bitumen (kl)	925,487	26,198	1,290,970	35,674	1,176,091	30,116
Subtotal			169,410		203,996		215,429
Contract services			4,997		12,903		7,342
Other businesses	Oil products /merchandise		29,401		26,860		39,820
	Others		3,617		4,059		5,387
Subtotal			33,018		30,919		45,207
Total			207,425		247,819		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.