

Consolidated Financial Results for the Nine Months Ended December 31, 2020 <under Japanese GAAP>

February 8, 2021

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: –

Scheduled date to file Quarterly Report: February 9, 2021

Presentation of supplementary material on quarterly financial results: Yes

Holding of quarterly financial results presentation meeting (for analysts): Yes

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

1. Consolidated financial results for the nine months ended December 31, 2020

(April 1, 2020 – December 31, 2020)

(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	%
Nine months ended								
December 31, 2020	150,099	(39.4)	(4,448)	–	(2,948)	–	(3,776)	–
December 31, 2019	247,819	19.5	11,533	–	19,849	61.7	16,556	45.2

Note: Comprehensive income: Nine months ended December 31, 2020: (14,732) million yen (–%)
 Nine months ended December 31, 2019: 20,791 million yen (–%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended				
December 31, 2020		(66.12)		–
December 31, 2019		289.68		–

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of December 31, 2020		596,808		421,333		64.6
As of March 31, 2020		627,132		440,157		64.2

Reference: Equity As of December 31, 2020: 385,289 million yen As of March 31, 2020: 402,706 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, 2020	–	25.00	–	25.00	50.00
Fiscal year ending March 31, 2021	–	25.00	–		
Fiscal year ending March 31, 2021 (Forecasts)				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, 2021 (April 1, 2020 – March 31, 2021)
(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, 2021	227,826	(28.5)	5,157	(63.9)	9,191	(71.8)	7,472	(72.1)	130.92

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, 2020	57,154,776 shares
As of March 31, 2020	57,154,776 shares
 - b. Number of treasury shares at the end of the period

As of December 31, 2020	79,982 shares
As of March 31, 2020	2,303 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2020	57,116,753 shares
Nine months ended December 31, 2019	57,152,539 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, 2020” 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, 2020

(1) Explanation of operating results

During the nine months ended December 31, 2020, net sales was ¥150,099 million, a decrease of ¥97,719 million (-39.4%) year on year. Gross profit was ¥18,741 million, a decrease of ¥16,416 million (-46.7%) year on year. Major factors behind the year-on-year decreases for net sales and gross profit were decreases in the sales volume and sales price of crude oil from the Garraf Oil Field in the southern part of the Republic of Iraq, decreases in the sales volume and sales price of crude oil and natural gas in Japan, and a decline in diluted bitumen sales.

Exploration expenses was ¥706 million, a decrease of ¥10 million (-1.5%) year on year. Selling, general and administrative expenses was ¥22,483 million, a decrease of ¥424 million (-1.9%) year on year. As a result, operating profit deteriorated by ¥15,981 million year on year to an operating loss of ¥4,448 million (operating profit of ¥11,533 million in the same period of the previous fiscal year).

Ordinary profit deteriorated by ¥22,798 million year on year to an ordinary loss of ¥2,948 million (ordinary profit of ¥19,849 million in the same period of the previous fiscal year), due mainly to the turnaround from foreign exchange gains to foreign exchange losses.

Profit before income taxes deteriorated by ¥22,656 million year on year to a loss before income taxes of ¥2,970 million (profit before income taxes of ¥19,686 million in the same period of the previous fiscal year). Profit attributable to owners of parent deteriorated by ¥20,332 million year on year to a loss attributable to owners of parent of ¥3,776 million (profit attributable to owners of parent of ¥16,556 million in the same period of the previous fiscal year).

Below is a breakdown of net sales.

(i) E&P Business

Net sales from the E&P Business came to ¥54,123 million, a decrease of ¥91,154 million (-62.7%) year on year. This was mainly the result of decreased sales volumes and sales prices of crude oil and diluted bitumen.

(ii) Infrastructure/Utility Business

Net sales from the Infrastructure/Utility Business came to ¥67,691 million, an increase of ¥6,428 million (+10.5%) year on year. This was mainly the result of the full-scale inclusion of sales of electricity with the commencement of commercial operations at the Fukushima Natural Gas Power Plant of the No. 2 Unit, which began operations in August 2020, in addition to the No. 1 Unit, which began operations in April 2020 despite decreased sales volumes and sales prices of natural gas in Japan and sales prices of liquefied natural gas (LNG).

(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 ¥28,284 million, a decrease of ¥12,994 million (-31.5%) year on year.

(2) Explanation of financial position

At the end of the third quarter, total assets decreased by ¥30,324 million from the previous fiscal year-end to ¥596,808 million.

Current assets decreased by ¥28,643 million from the previous fiscal year-end. This was mainly due to decreases in cash and deposits, raw materials and supplies, and notes and accounts receivable - trade. Non-current assets decreased by ¥1,680 million from the previous fiscal year-end due to a decrease in investment securities resulting from the fall in market values and a decrease in property, plant and equipment resulting from the progress in the depreciation, despite an increase in recoverable accounts included in other under investments and other assets, with investment being made.

Liabilities decreased by ¥11,501 million from the previous fiscal year-end to ¥175,474 million.

Current liabilities increased by ¥199 million from the previous fiscal year-end. This was mainly due to the reclassification of long-term borrowings with repayments due in one year or less from non-current liabilities despite a decrease in notes and accounts payable - trade. Non-current liabilities decreased by ¥11,700 million from the previous fiscal year-end. This was 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 as stated above.

Net assets decreased by ¥18,823 million from the previous fiscal year-end to ¥421,333 million.

The main factors were decreases 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, 2021 have been revised from the forecasts announced on November 10, 2020.

Please refer to the “Notice of Financial Forecasts Revision” released on February 8, 2021, 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, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	160,077	140,321
Notes and accounts receivable - trade	27,510	23,492
Securities	4,000	4,030
Merchandise and finished goods	5,223	4,392
Work in process	167	338
Raw materials and supplies	11,141	7,036
Other	4,966	4,829
Allowance for doubtful accounts	(31)	(30)
Total current assets	213,054	184,410
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	173,682	163,646
Other, net	120,355	118,667
Total property, plant and equipment	294,038	282,313
Intangible assets		
Other	6,823	6,400
Total intangible assets	6,823	6,400
Investments and other assets		
Investment securities	88,922	88,697
Other	25,052	35,489
Allowance for doubtful accounts	(44)	(44)
Allowance for overseas investment loss	(715)	(458)
Total investments and other assets	113,216	123,683
Total non-current assets	414,078	412,397
Total assets	627,132	596,808

(Millions of yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,237	11,648
Provisions	555	443
Other	22,945	23,846
Total current liabilities	35,738	35,938
Non-current liabilities		
Long-term borrowings	118,774	108,908
Deferred tax liabilities	9,878	8,442
Retirement benefit liability	3,528	3,406
Provisions	798	464
Asset retirement obligations	15,432	15,648
Other	2,824	2,664
Total non-current liabilities	151,236	139,536
Total liabilities	186,975	175,474
Net assets		
Shareholders' equity		
Share capital	14,288	14,288
Retained earnings	350,934	343,388
Treasury shares	(11)	(151)
Total shareholders' equity	365,212	357,525
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,061	29,019
Deferred gains or losses on hedges	181	(1,570)
Foreign currency translation adjustment	3,494	(313)
Remeasurements of defined benefit plans	756	628
Total accumulated other comprehensive income	37,494	27,763
Non-controlling interests	37,450	36,044
Total net assets	440,157	421,333
Total liabilities and net assets	627,132	596,808

(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, 2019	Nine months ended December 31, 2020
Net sales	247,819	150,099
Cost of sales	212,661	131,358
Gross profit	35,157	18,741
Exploration expenses	716	706
Selling, general and administrative expenses	22,907	22,483
Operating profit (loss)	11,533	(4,448)
Non-operating income		
Interest income	846	371
Dividend income	2,996	1,439
Share of profit of entities accounted for using equity method	6,796	5,312
Other	1,561	648
Total non-operating income	12,201	7,772
Non-operating expenses		
Interest expenses	3,486	2,162
Foreign exchange losses	–	3,652
Other	398	458
Total non-operating expenses	3,885	6,273
Ordinary profit (loss)	19,849	(2,948)
Extraordinary income		
Gain on sales of non-current assets	0	10
Total extraordinary income	0	10
Extraordinary losses		
Loss on retirement of non-current assets	149	27
Other	14	5
Total extraordinary losses	163	32
Profit (loss) before income taxes	19,686	(2,970)
Income taxes	3,105	1,860
Profit (loss)	16,580	(4,830)
Profit (loss) attributable to non-controlling interests	24	(1,054)
Profit (loss) attributable to owners of parent	16,556	(3,776)

Consolidated quarterly statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit (loss)	16,580	(4,830)
Other comprehensive income		
Valuation difference on available-for-sale securities	7,554	(4,044)
Deferred gains or losses on hedges	4	(197)
Foreign currency translation adjustment	(3,138)	(4,181)
Remeasurements of defined benefit plans, net of tax	(155)	(128)
Share of other comprehensive income of entities accounted for using equity method	(53)	(1,349)
Total other comprehensive income	4,211	(9,901)
Comprehensive income	20,791	(14,732)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	20,893	(13,507)
Comprehensive income attributable to non- controlling interests	(102)	(1,225)

(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.

(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 three months ended June 30, 2020, Fukushima Gas Power Co., Ltd., an affiliate of the Company, became an equity method affiliate of the Company due to its increased material significance following the launch of its power business upon the start of commercial operations of the Fukushima Natural Gas Power Plant in April 2020.

(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.

(Additional information)

Financial covenants

A part of loans from financial institutions to JAPEX Montney Ltd., a consolidated subsidiary of the Company, amounting to ¥28,671 million includes certain financial covenants clauses. JAPEX Montney Ltd. has been breaching the financial covenants clauses as it has been in a state of insolvency. However, creditor financial institutions have agreed to suspend execution of their rights in relation to an acceleration clause until March 2021.

Accounting estimates in connection with the spread of novel coronavirus disease (COVID-19)

While the dissipation of the COVID-19 pandemic remains uncertain as of the end of the third quarter, prolonged stagnation is seen in economic activities in Japan and overseas. Although the timing COVID-19 dissipates is still unknown and difficult to be predicted, the Company expects that the situation will gradually recover as time goes by.

The Garraf Oil Field in the southern part of the Republic of Iraq, which had temporarily suspended its development and production operation due to the impact of COVID-19, resumed its production operation from July last year. However, due to restrictions on transfer and other factors, the additional development was delayed and therefore, the increase in production volume to a scale of 230,000 barrels a day, which was expected at the end of last year, will be delayed to later years. Also, scheduling and other matters concerning the development in the UK North Sea's Seagull field, for which we are aiming for production commencement by the end of this year, are subject to change.

Concerning the impact on sales volumes of crude oil, natural gas, diluted bitumen, electricity, etc. during the nine months ended December 31, 2020, the sales volume of the crude oil from the above-mentioned Garraf project decreased by 757,000 kl (-83.1%) year on year to 154,000 kl. In the oil sand development business in Canada, the sales volume of diluted bitumen decreased by 352,000 kl (-27.3%) year on year to 937,000 kl due to the curbing of production in response to the deteriorated business environment. In Japan, the sales volume of natural gas declined by 43 million cubic meters (-5.1%) year on year to 813 million cubic meters, due to the sluggish economic activity.

The crude oil price plummeted towards the end of April last year with the energy demand in the doldrums; however, the price has recovered subsequently with the current price at about US\$50 per barrel as a result of oil-producing countries having implemented a series of coordinated production cuts. The Company expects the crude oil price to remain at the current level throughout the fiscal year ending March 31, 2021, and regain its momentum to hit the pre-COVID-19 pandemic level after some time.

Meanwhile, the prolonging of the effects of the COVID-19 pandemic and the global movement toward decarbonization could give rise to the possibility of irreversible structural changes in various areas such as energy demand and environmental concerns, which could significantly change the business environment surrounding the Company. In recognition of the above, the Company is currently reexamining its medium- to long-term projections for the business environment and oil prices and reevaluating the main assets of the JAPEX Group.

Should assumptions change under such circumstances, the Company has options involving impairment of non-current assets and recoverability of deferred tax assets with respect to accounting estimates of high uncertainty. With respect to making such judgments, these accounting items are largely dependent on estimates of future revenue and cash flows, such that the JAPEX Group is likely to generate from its primary business activities. Accordingly, possibilities may involve recognition of impairment loss with respect to non-current assets and reversal of deferred tax assets listed on the consolidated balance sheet in the event that forecasts project further decreases in such revenue and cash flows brought about by declining sales prices or decreases in sales volume.

3. Supplemental information

Status of production and sales

(1) Production

		Nine months ended December 31, 2019 (April 1, 2019 – December 31, 2019)	Nine months ended December 31, 2020 (April 1, 2020 – December 31, 2020)	(Reference) Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
E&P Business	Crude oil (kl)	904,172 (678,804)	598,126 (370,288)	1,215,690 (913,298)
	Natural gas (thousand m ³)	810,969 (322,018)	735,998 (343,449)	1,083,862 (434,194)
	Bitumen (kl)	864,674 (864,674)	622,332 (622,332)	1,130,169 (1,130,169)
Infrastruc- ture/ Utility Business	LNG (t)	4,341	3,341	4,405
	Electricity (thousand kWh)	2,374	1,743,254	3,049

- 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.
 4. "Electricity," in addition to the solar power plant (mega solar) on the grounds of the Hokkaido District Office, includes the electricity generated by Fukushima Natural Gas Power Plant, which started commercial operations from the fiscal year ending March 31, 2021.

(2) Sales

		Nine months ended December 31, 2019 (April 1, 2019 – December 31, 2019)		Nine months ended December 31, 2020 (April 1, 2020 – December 31, 2020)		(Reference) Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)	
		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)	2,323,025	108,049	1,447,872	38,122	2,924,245	128,152
	Diluted bitumen (kl)	1,290,970	35,674	937,981	14,071	1,639,689	45,025
	Natural gas (overseas) (thousand m ³)	319,702	1,554	340,972	1,929	431,147	2,265
	Subtotal		145,277		54,123		175,443
Infrastruc- ture/Utility Business	Natural gas (Japan) (thousand m ³)	857,194	44,316	813,368	36,658	1,268,448	64,965
	LNG (t)	205,391	14,402	213,258	11,059	273,312	19,395
	Electricity (thousand kWh)	2,387	95	2,080,915	16,654	110,167	974
	Others		2,449		3,319		3,353
Subtotal		61,263		67,691		88,688	
Other businesses	Contract Services		12,903		5,962		15,003
	Oil products /merchandise		26,860		21,008		37,502
	Others		1,514		1,313		2,184
Subtotal		41,278		28,284		54,690	
Total			247,819		150,099		318,822

- Notes: 1. “Crude oil” includes crude oil that the JAPEX Group produces in oil fields and the crude oil purchased from other companies.
2. Diluted bitumen is bitumen diluted by ultra-light crude oil for pipeline transportation.
3. “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 the 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.
4. “Others” of the Infrastructure/Utility Business includes commissioned transportation of natural gas and contracted vaporization of LNG used for power plant fuel.
5. Under the Other businesses, “Oil products/merchandise” includes liquefied petroleum gas (LPG), fuel oil, gas oil and kerosene, and “Others” includes other subcontracted tasks.
6. Monetary amounts in the table do not include consumption taxes.