

Consolidated Financial Results for the Three Months Ended June 30, 2022 <under Japanese GAAP>

August 9, 2022

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/>
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Scheduled date to commence dividend payments: –
 Scheduled date to file Quarterly Report: August 10, 2022
 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 three months ended June 30, 2022 (April 1, 2022 – June 30, 2022)

(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 | % |
| Three months ended June 30, 2022 | 58,617 | 17.0 | 9,810 | 188.5 | 22,600 | 115.4 | 15,640 | 120.1 |
| June 30, 2021 | 50,083 | (1.8) | 3,400 | – | 10,491 | – | 7,106 | – |

Note: Comprehensive income: Three months ended June 30, 2022: 19,821 million yen (11.2 %)
 Three months ended June 30, 2021: 17,818 million yen (– %)

| | Basic earnings per share | | Diluted earnings per share | |
|----------------------------------|--------------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Three months ended June 30, 2022 | 283.66 | | – | |
| June 30, 2021 | 124.50 | | – | |

(2) Consolidated financial position

| | Total assets | | Net assets | | Equity ratio | |
|----------------------|-----------------|--|-----------------|--|--------------|--|
| | Millions of yen | | Millions of yen | | % | |
| As of June 30, 2022 | 487,596 | | 418,394 | | 79.1 | |
| As of March 31, 2022 | 471,941 | | 402,770 | | 78.7 | |

Reference: Equity As of June 30, 2022: 385,791 million yen As of March 31, 2022: 371,638 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, 2022 | – | 25.00 | – | 25.00 | 50.00 |
| Fiscal year ending March 31, 2023 | – | | | | |
| Fiscal year ending March 31, 2023 (Forecasts) | | 110.00 | – | 110.00 | 220.00 |

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

3. Consolidated financial forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 – March 31, 2023)
(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, 2023 | 275,755 | 10.7 | 39,705 | 100.4 | 50,988 | 16.7 | 40,007 | – | 734.79 |

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

* Notes

- (1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

New inclusion: –

Exclusion: one company (Canada Oil Sands Co., Ltd.)

- (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 June 30, 2022 57,154,776 shares

As of March 31, 2022 57,154,776 shares

b. Number of treasury shares at the end of the period

As of June 30, 2022 2,433,510 shares

As of March 31, 2022 1,518,982 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2022 55,136,725 shares

Three months ended June 30, 2021 57,074,794 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 three months ended June 30, 2022” on page 4 of the attached material to the quarterly financial results report.

(Attached Material)

1. Qualitative information regarding settlement of accounts for the three months ended June 30, 2022

(1) Explanation of operating results

During the three months ended June 30, 2022, net sales was ¥58,617 million, an increase of ¥8,533 million (+17.0%) year on year. Gross profit was ¥16,696 million, an increase of ¥5,517 million (+49.4%) year on year. Main factors behind the year-on-year increase for net sales and increase for gross profit were upside performances in sales of crude oil and natural gas in Japan as a result of the rising price of crude oil, despite the revenue-reducing effect of the absence of sales of diluted bitumen as a result of the transfer of all the shares of Japan Canada Oil Sands (JACOS), which had been a consolidated subsidiary that promoted the oil sands project in Canada in the previous fiscal year.

Exploration expenses was ¥97 million, a decrease of ¥34 million (-26.1%) year on year. Selling, general and administrative expenses was ¥6,788 million, a decrease of ¥858 million (-11.2%) year on year. As a result, operating profit increased by ¥6,410 million year on year to ¥9,810 million.

Ordinary profit increased by ¥12,108 million year on year to ¥22,600 million, due mainly to increases in share of profit of entities accounted for using equity method and foreign exchange gains.

Profit before income taxes increased by ¥12,108 million year on year to ¥22,598 million. Profit attributable to owners of parent increased by ¥8,533 million year on year to ¥15,640 million.

Below is a breakdown of net sales.

(i) E&P Business

Net sales from the E&P Business came to ¥7,266 million, a decrease of ¥9,530 million (-56.7%) year on year, mainly due to the absence of the sales of diluted bitumen resulting from the transfer of all the shares of JACOS, despite a rise in the selling price of crude oil.

(ii) Infrastructure/Utility Business

Net sales from the Infrastructure/Utility Business came to ¥36,009 million, an increase of ¥12,999 million (+56.5%) year on year. This was mainly the result of a rise in the selling prices of natural gas (Japan) and electricity due to the rising crude oil price and LNG price, despite the decreased 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 ¥15,341 million, an increase of ¥5,064 million (+49.3%) year on year.

(2) Explanation of financial position

At the end of the first quarter, total assets increased by ¥15,654 million from the previous fiscal year-end to ¥487,596 million.

Current assets decreased by ¥2,968 million from the previous fiscal year-end. This was mainly due to decreases in notes and accounts receivable - trade, and contract assets, and income taxes refund receivable included in other, despite an increase in cash and deposits. Non-current assets increased by ¥18,623 million from the previous fiscal year-end. This was mainly due to an increase in recoverable accounts included in other under investments and other assets, a rise in market values of investment securities, and the recording of construction in progress, etc. under property, plant and equipment.

Liabilities increased by ¥30 million from the previous fiscal year-end to ¥69,201 million.

Current liabilities decreased by ¥997 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 ¥1,027 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 ¥15,624 million from the previous fiscal year-end to ¥418,394 million. The main factor was an increase in retained earnings.

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

The consolidated financial forecasts for the fiscal year ending March 31, 2023 have been revised from the forecasts announced on May 13, 2022.

Please refer to the “Notice of Financial Forecasts Revision, Dividend Forecast Revision and Recording of Non-operating Income” released on August 9, 2022, 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, 2022 | As of June 30, 2022 |
|--|----------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 147,241 | 174,701 |
| Notes and accounts receivable - trade, and contract assets | 47,564 | 26,985 |
| Securities | 3,030 | 3,000 |
| Merchandise and finished goods | 2,143 | 2,180 |
| Work in process | 29 | 142 |
| Raw materials and supplies | 12,503 | 12,202 |
| Other | 14,458 | 4,789 |
| Allowance for doubtful accounts | (51) | (51) |
| Total current assets | 226,920 | 223,951 |
| Non-current assets | | |
| Property, plant and equipment | 92,837 | 96,743 |
| Intangible assets | 5,802 | 5,779 |
| Investments and other assets | | |
| Investment securities | 108,910 | 115,827 |
| Other | 37,812 | 45,637 |
| Allowance for doubtful accounts | (45) | (45) |
| Allowance for overseas investment loss | (297) | (297) |
| Total investments and other assets | 146,380 | 161,123 |
| Total non-current assets | 245,021 | 263,645 |
| Total assets | 471,941 | 487,596 |

(Millions of yen)

| | As of March 31, 2022 | As of June 30, 2022 |
|---|----------------------|---------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 11,479 | 7,416 |
| Provisions | 1,905 | 1,844 |
| Other | 11,856 | 14,983 |
| Total current liabilities | 25,241 | 24,244 |
| Non-current liabilities | | |
| Deferred tax liabilities | 16,867 | 18,131 |
| Retirement benefit liability | 3,376 | 3,333 |
| Provisions | 486 | 516 |
| Asset retirement obligations | 19,539 | 19,335 |
| Other | 3,659 | 3,640 |
| Total non-current liabilities | 43,929 | 44,957 |
| Total liabilities | 69,171 | 69,201 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 14,288 | 14,288 |
| Capital surplus | 2,607 | 2,607 |
| Retained earnings | 310,592 | 324,776 |
| Treasury shares | (3,886) | (6,445) |
| Total shareholders' equity | 323,602 | 335,227 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 48,346 | 49,271 |
| Deferred gains or losses on hedges | (1,862) | (1,506) |
| Foreign currency translation adjustment | 89 | 1,392 |
| Remeasurements of defined benefit plans | 1,464 | 1,405 |
| Total accumulated other comprehensive income | 48,036 | 50,563 |
| Non-controlling interests | 31,131 | 32,603 |
| Total net assets | 402,770 | 418,394 |
| Total liabilities and net assets | 471,941 | 487,596 |

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

(Millions of yen)

| | Three months ended June 30, 2021 | Three months ended June 30, 2022 |
|---|-------------------------------------|-------------------------------------|
| Net sales | 50,083 | 58,617 |
| Cost of sales | 38,904 | 41,920 |
| Gross profit | 11,179 | 16,696 |
| Exploration expenses | 132 | 97 |
| Selling, general and administrative expenses | 7,647 | 6,788 |
| Operating profit | 3,400 | 9,810 |
| Non-operating income | | |
| Interest income | 37 | 149 |
| Dividend income | 48 | 47 |
| Share of profit of entities accounted for using equity method | 3,549 | 5,988 |
| Foreign exchange gains | 3,851 | 6,748 |
| Other | 178 | 82 |
| Total non-operating income | 7,666 | 13,015 |
| Non-operating expenses | | |
| Interest expenses | 322 | 1 |
| Commitment fees | 73 | 76 |
| Other | 178 | 147 |
| Total non-operating expenses | 574 | 225 |
| Ordinary profit | 10,491 | 22,600 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 0 | - |
| Total extraordinary income | 0 | - |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 1 | 1 |
| Total extraordinary losses | 1 | 1 |
| Profit before income taxes | 10,489 | 22,598 |
| Income taxes | 2,832 | 5,304 |
| Profit | 7,656 | 17,293 |
| Profit attributable to non-controlling interests | 550 | 1,653 |
| Profit attributable to owners of parent | 7,106 | 15,640 |

Consolidated quarterly statement of comprehensive income

(Millions of yen)

| | Three months ended June 30, 2021 | Three months ended June 30, 2022 |
|--|-------------------------------------|-------------------------------------|
| Profit | 7,656 | 17,293 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 5,274 | 926 |
| Deferred gains or losses on hedges | (307) | 94 |
| Foreign currency translation adjustment | 5,438 | 1,107 |
| Remeasurements of defined benefit plans, net of tax | (59) | (58) |
| Share of other comprehensive income of entities accounted for using equity method | (184) | 458 |
| Total other comprehensive income | 10,162 | 2,527 |
| Comprehensive income | 17,818 | 19,821 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 16,974 | 18,167 |
| Comprehensive income attributable to non-controlling interests | 843 | 1,653 |

(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)

At a meeting of the Board of Directors held on November 9, 2021, JAPEX made a resolution concerning the repurchase of own shares, and as of June 30, 2022, it acquired 2,355,100 treasury shares.

As a result, treasury shares increased by ¥2,558 million during the three months ended June 30, 2022, amounting to ¥6,445 million as of June 30, 2022.

(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 2 LLC., an affiliate of JAPEX, became an equity method affiliate of JAPEX due to its increased material significance.

(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 first 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)

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

At the end of the first quarter, the specific dissipation of the COVID-19 pandemic still remains uncertain, and the impact on economic activities in Japan and overseas has continued. Although the timing COVID-19 dissipates is still unknown and difficult to be predicted, we expect that the situation will gradually recover as time goes by.

Currently, amid economic sanctions against Russia and chaos in the energy market, although the global prices for crude oil and natural gas are stuck at a high level, we consider there is a possibility that various structural changes brought about by the prolonged effect of the COVID-19 pandemic and global progress toward decarbonization could pose risks for future demand for fossil fuels. In light of the changes in the business environment surrounding our company and the trend of rising global carbon prices, our projection for the medium- to long-term oil price is set at \$50 per barrel.

Should assumptions change under such circumstances, we have options involving recoverability of deferred tax assets with respect to accounting estimates of high uncertainty. The estimate change resulting from the above-mentioned hypothetical fluctuations may impact taxable income for the JAPEX Group including its consolidated subsidiaries, and the amount of deferred tax assets recorded may increase or decrease.

3. Supplemental information

Status of production and sales

(1) Production

| | | Three months ended June 30, 2021 (April 1, 2021 – June 30, 2021) | Three months ended June 30, 2022 (April 1, 2022 – June 30, 2022) | (Reference) Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022) |
|---|---|---|---|--|
| E&P Business | Crude oil (kL) | 191,636 (118,779) | 143,592 (83,395) | 806,390 (525,392) |
| | Natural gas (thousand m ³) | 256,822 (129,403) | 129,753 (1,020) | 674,588 (132,025) |
| | Bitumen (kL) | 246,887 (246,887) | – (–) | 656,377 (656,377) |
| Infrastruc- ture/ Utility Business | LNG (t) | 421 | 249 | 2,136 |
| | Electricity (thousand kWh) | 679,638 | 546,523 | 2,655,529 |

- 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

| | | Three months ended June 30, 2021 (April 1, 2021 – June 30, 2021) | | Three months ended June 30, 2022 (April 1, 2022 – June 30, 2022) | | (Reference) Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022) | |
|------------------------------------|---|---|--------------------------------|---|--------------------------------|--|--------------------------------|
| | | 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) | 114,834 | 5,556 | 79,277 | 7,251 | 669,926 | 41,056 |
| | Diluted bitumen (kL) | 351,045 | 10,058 | – | – | 959,777 | 31,121 |
| | Natural gas (overseas) (thousand m ³) | 128,298 | 1,181 | 732 | 14 | 130,214 | 1,244 |
| | Subtotal | | 16,796 | | 7,266 | | 73,422 |
| Infrastructure/Utility Business | Natural gas (Japan) (thousand m ³) | 233,299 | 10,709 | 231,801 | 17,923 | 1,061,244 | 58,024 |
| | LNG (t) | 52,567 | 4,397 | 49,551 | 6,062 | 295,536 | 22,596 |
| | Electricity (thousand kWh) | 765,257 | 7,163 | 665,930 | 10,986 | 3,023,294 | 34,320 |
| | Others | | 739 | | 1,037 | | 4,903 |
| | Subtotal | | 23,009 | | 36,009 | | 119,845 |
| Other businesses | Contract services | | 1,021 | | 1,173 | | 6,395 |
| | Oil products /merchandise | | 8,722 | | 13,757 | | 47,354 |
| | Others | | 533 | | 410 | | 2,122 |
| | Subtotal | | 10,277 | | 15,341 | | 55,872 |
| Total | | | 50,083 | | 58,617 | | 249,140 |

- Notes: 1. “Crude oil” includes crude oil that the JAPEX Group produced 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 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.
4. “Others” of the Infrastructure/Utility Business includes commissioned transportation of natural gas and contracted vaporization of LNG used for power plant fuel, etc.
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.