

Japan Petroleum Exploration Co., Ltd. (JAPEX)

Securities Code: 1662 (Prime Market of the Tokyo Stock Exchange)

Summary of Q&A Session in Briefing on Results for the Fiscal Year Ended March 31, 2023 to Institutional Investors and Analysts

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Date and time: Monday, May 15, 2023, 11:00–12:05 (both offline and online)

Attendance: 44 attendees (institutional investors and analysts)

Key Questions and Answers:

**Q1: How will the financial forecast for this fiscal year be affected by the current spot LNG price? Specifically, please let us know its impact on the forecasts of profit on sales of natural gas in the domestic E&P business and marginal gain on LNG procurement in the Infrastructure/Utility Business.**

A1: During the fiscal year ended March 31, 2023 (hereinafter, the “previous fiscal year”), the spot LNG price was hovering between \$35 and \$40/mmbtu. In the meantime, the financial forecast for the fiscal year ending March 31, 2024 (hereinafter, “this fiscal year”) is based on the assumption that the price will settle down to around \$15/mmbtu in this fiscal year.

While the sales price average of domestic natural gas for this fiscal year is expected to remain high in the first quarter due to the impact of raw material slide time lag, we expect a drop in the sales price from the second quarter onwards with the impact fading away. This results in a ¥10.0 billion year-on-year decrease in forecasted operating profit from the sale of domestic natural gas in the domestic E&P business. About half of this ¥10.0 billion decrease in operating profit is attributable to the expected cooling of the spot LNG price hike, and the other half to the lowered JCC price and foreign exchange rate assumptions.

On the other hand, in the Infrastructure/Utility (I/U) Business, marginal gain on LNG procurement and others is projected to be ¥6.0 billion, compared to the actual results for the previous fiscal year of ¥24.5 billion. We also expect marginal gain on raw material slide time lag of approximately ¥6.0 billion for this fiscal year, compared to marginal loss of ¥3.5 billion in the previous fiscal year. This is because we made this forecast based on the assumption of a decline in the JLC price.

**Q2: What is your outlook for the future profit contribution and peak production of the tight oil development project in the United States?**

A2: Annual production for the previous fiscal year was 860,000 barrels of crude oil equivalent. Meanwhile, annual production will likely to be around 3.6 million barrels of crude oil equivalent for this fiscal year. We have factored operating profit of ¥10.4 billion and net income of ¥8.8 billion in our financial forecast. For the next fiscal year ending March 31, 2025, we expect around 20% year-on-year decreases in both production and operating profit. We are currently making various efforts to maintain the production and operating profit levels for this fiscal year, such as efforts to acquire additional interests.

**Q3: Please share your thoughts on your cash and deposits utilization policy from a perspective of improving capital efficiency.**

A3: The balance of cash and deposits as of March 31, 2023 amounted to ¥191.9 billion, and we are aware of the high level of cash in the balance sheet. One of the factors for the high cash level is the simultaneous increases in cash and deposits and current liabilities. While cash and deposits increased by ¥44.0 billion from the end of March 2022, trade payables and other current liabilities increased by ¥39.0 billion year on year.

We currently require a total of ¥85.0 billion to ¥90.0 billion funds, which include funds held by overseas projects, namely Japex Garraf Ltd. (Japex Garraf), Japex (U.S.) Corp. (JUS), and JAPEX UK E&P Ltd. (JUK), of about ¥45.0 billion and the entire Group's working capital of about ¥40.0 billion. The rest of the cash and deposits, which comes to ¥100.0 billion, is the amount supposed to be used for investment. To address this, we have been working to explore and structure various projects.

**Q4: What is the expected impact on your business performance of the Seagull Project in the U.K. North Sea, which is anticipated to start production during this fiscal year?**

A4: With the assumptions of production starting in the middle of this year and annual production of 760,000 barrels, we forecast operating profit of approximately ¥4.0 billion using the Brent price assumption of \$75/barrel. However, the specific start timing of production has not yet been fixed, and there may be a slippage in the timing to a certain extent. For the next three fiscal years, including this fiscal year, the project's operating profit contribution is expected to be between ¥3.0 billion and ¥4.0 billion per year, using the crude oil price assumption of \$70 to \$75/barrel. However, the contribution to net income is likely to be more limited than initially expected because of the application of a recently introduced windfall profit tax of 75% until 2028 in the U.K.

**Q5: Please explain how you will improve your shareholder return and cash build-up, as well as the current PBR of below 1x.**

A5: While we intend to maintain a payout ratio of 30% for the time being, we may have a chance to review the shareholder return policy in the future. On the other hand, we think there is no immediate remedy for the cash build-up and PBR of below 1x. The Company is currently in a transition period to change its business structure drastically. Therefore, to implement and achieve the management plan we formulated a year ago, we will make investment in projects that contribute to our growth in accordance with the plan. We are aware that the current PBR of below 1x is partially due to the market's perception that it is quite hard to expect future growth in our business that is centered on oil and gas, in the face of the future megatrend of decarbonization. The Company expects that oil and gas will still play a pretty major role among the entire energy sources at least until around 2050. Based on this, we will strive to achieve both stable energy supply and decarbonization by using CCS and CCUS. We are intending to improve our PBR through efforts to increase business profit from non-E&P businesses and improve the market's perception of the future of the E&P business company, as well as through the realization of more E&P projects and their profit contribution.

**Q6: What are the composition ratios of the E&P business, the I/U business, and the CN business to total assets of approximately ¥570.0 billion?**

A6: The total amount of business assets amounts to approximately ¥200.0 billion by subtracting the amount of cross-shareholdings and others from the balance sheet (BS) amount of non-current assets of ¥286.0 billion. This ¥200.0 billion includes approximately ¥60.0 billion of assets, including Soma LNG Terminal and pipelines, attributable to the I/U business; approximately ¥20.0 billion of assets attributable to the domestic E&P business; and the remaining attributable to the overseas E&P business. While there are hardly any assets relating to the CN business at this point, the outstanding balance of renewable energy-related investments, including investment in silent business partnerships and that in funds, stood at around ¥11.0 billion as of March 31, 2023.

**Q7: I agree with what you said that there is no immediate remedy for the current PBR of below 1x from the perspective of the target of 1x, but I would like you to elaborate on whether management has intention to manage the BS and how much interest outside directors have in this issue.**

A7: They have high interest in BS management, and we of course think we should not leave our BS as it is. However, our highest-priority management issue is to restructure our business portfolio, and we therefore are focusing on the left-hand side of the BS first. And then we will tackle issues in the right-hand side of the BS, such as a required level of equity capital, adequate level of leverage, and optimal capital structure, taking into account the types and quantities of risks to which our business assets are exposed.

**Q8: As for the TSE's requirements for improvement of the current PBR of below 1x, please share your timeline of responsive measures you will take during this fiscal year. I also request you to disclose your improvement plan, including target performance indicators, when you announce the financial results for the first half of this fiscal year.**

A8: Our executive officers and outside directors are all fully aware of the requirements imposed by the TSE. Although we have intention to discuss this issue at the Board of Directors and other meetings, we have not yet decided a concrete timeline at the moment. With regard to current state analysis, which is one of the TSE's requirements, we believe that the previous explanation about our analysis on the market's perception of the Company, whose business is centered on oil and gas, covers that requirement in essence. We will consider how and when to make a disclosure of this issue, including indicators and other information, in light of the requirements from the TSE.

**Q9: Please tell us about the current status of acquiring new projects for the tight oil development project in the United States.**

A9: We are working hard to maintain production and profit level. Although the WTI price has recently fallen to \$70/barrel, it is still not easy to acquire new assets as their prices remain high. We will continue to pursue our policy to acquire new assets at reasonable prices.

**Q10: What is the basis for calculation of the forecasted marginal gain on LNG procurement of ¥6.0 billion in the I/U business for this fiscal year?**

A10: The figure was estimated based on our proprietary calculation formula using the JKM and JCC price assumptions of \$15/mmbtu and \$75/barrel, respectively. How the JKM price affects the JLC price depends on factors such as how much LNG inventory electric power providers will build up. Therefore, I would like you to take it as only an estimate made by the Company at this point.

**Q11: How did you factor SODECO in your financial forecast for this fiscal year?**

A11: We did not factor equity in earnings of SODECO in our financial forecast for this fiscal year. This contributes to the ¥3.8 billion year-on-year decrease in profit.

**Q12: What are the factors behind the 13% decrease in forecasted sales volume of domestic crude oil for this fiscal year? Also, please let us know your outlook for the next fiscal year and beyond.**

A12: Domestic crude oil production has been decreasing mainly due to natural decline. We have been making every effort to minimize such a decline, such as drilling new wells at the Katakai Gas Field. However, we need to assume that production of not only crude oil but also gas will decrease in the longer term.

**Q13: Please explain the progress in your new investment projects as details as you can.**

A13: We are currently screening quite a few investment projects that we have at the moment, according to their different phases. I would like to refrain from giving the specific number of investment projects that we are currently working on, but once a certain number of these projects are realized, we will be able to move forward to achieve our management plan.

**Q14: On what condition will you revise the dividend payout ratio that you set at 30% a year ago?**

A14: Before considering a revision, we would like to show you the outline of a new form of the Company first. And then once we can establish a new business foundation, we will consider revising our dividend payout ratio. For that reason, we intend to keep it at 30% for the time being.

Cautionary Statement

This document contains future outlooks such as plans, forecasts, strategies, and others which are not historical fact and these are made by the management's judgement based on the obtainable information at the time of the disclosure. Actual results may significantly differ from those future outlooks due to various factors.

This document is not intended to invite investment.

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