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, 2024, to Institutional Investors and Analysts

Date and time: Wednesday, May 15, 2024, 11:00–12:10 (both offline and online)

Attendance: 38 attendees (institutional investors and analysts)

Key Questions and Answers:

**Q1: Regarding the North America segment, please tell us about the sustainability of this fiscal year's forecast of ¥19.7 billion in operating profit as well as your investment policy for the future.**

A1: Operating profit of ¥19.7 billion for the North America segment is based on the WTI price assumption of $80/bbl. But with present assets alone, profits will be reduced to almost half by 2025. This is not enough in terms of profit sustainability. Going forward, we will change our stance to a more aggressive one, such as going for our own assets. In line with this, we will also strengthen the structure of our U.S. subsidiary (Japex U.S.).

**Q2: Please let us know if your medium- to long-term fund allocation policy will change as you work toward building core assets. Is it that investment in renewable energy projects will be curbed while investment in CCS projects will be expanded?**

A2: We did not put out a clear message that we will reduce our fund allocation to renewable energy business and the overseas Infrastructure and Utilities (I/U) field. Rather, we believe that these fields remain important from the perspective of environmental value toward decarbonization. Accordingly, we will invest aggressively in projects that can clear the hurdle rates we set. However, we are also aware that it is becoming increasingly difficult to secure returns appropriate to the risk as with the case of offshore wind power. As a result, investments in renewable energies and other projects may not be progressing. As for CCS, we will work on each specific project with future monetization in mind. The project with the greatest potential for bankability at this point is the project with BSO in the U.S. Over the next few years, we will make it a bankable business while also investing a certain amount of risk money. In Malaysia, Indonesia and Japan, we will gradually bring our business closer to monetization while leveraging governmental systems.

**Q3: The company is ongoingly repurchasing its own shares (up to 3.00 million shares or ¥20.0 billion). What are the decision criteria for considering additional shareholder returns?**

A3: We do not completely rule out the possibility of future share repurchases, but we do not intend to do so in the near future. We believe that our first priority is to make aggressive business investments. In particular, financing E&P business has become significantly more difficult as financial institutions are increasingly trying to curb Scope 3 financed emissions. In order to make agile investments, we need to maintain a conservative balance sheet with an enhanced cash position.

**Q4: Is the main cash outflow for the moment the tight oil development project in the U.S.?**

A4: That is correct. Funds will also be allocated to the I/U field as needed when investment opportunities arise that will ensure a return appropriate to the risk. But basically, we assume that the main focus will be on investment in E&P in

North America and investments to make the CCS business bankable.

**Q5: When would you repurchase additional shares? Would it be when profits are higher than planned?**

A5: It is undecided whether to repurchase shares in the same concept and format as the share repurchase now underway.

**Q6: Is the E&P business asset environment favorable for acquisitions?**

A6: The asset acquisition environment is not necessarily favorable, as oil prices are currently high and asset transfer prices tend to rise. On the other hand, we recognize the risk that real oil prices will decline over the long term due to the introduction of carbon pricing and other factors driven by the decarbonization trend. We have developed a management plan for the E&P business that aims to make a profit even at $50. But the current surge in oil prices is a major underpinning factor for profits, which is good in terms of returns. Given the change in the perception in the external environment, we consider it possible to take on more risk in the E&P business than originally envisioned in the management plan. Accordingly, we would like to proceed cautiously with investment in the E&P business while avoiding the risk of turning the business into a stranded asset.

**Q7: If financing E&P becomes more difficult in the future, how do you see ROIC and WACC will change? If you are going to invest primarily using equity, is it reasonable to assume that WACC will increase and ROIC spread will be reduced?**

A7: As is true with the E&P industry in general, as debt financing grows more difficult, WACC is expected to be as close as possible to the cost of shareholders' equity, and in that sense, it will be a factor that reduces the ROIC spread. However, ROIC of individual E&P assets will depend on the assets to be acquired in the future. Accordingly, we intend to acquire core assets that can achieve high ROIC.

**Q8: Please give us some background of your thinking about continuing to invest in the E&P business while recognizing the possibility of higher WACC.**

A8: The background of our thinking is our view of the world that society will continue to need oil and natural gas as energy sources, but that, in order for them to be sustainable, some measures must be taken to reduce CO2 emissions. We intend to develop both the E&P and CCS businesses, as we can apply the technical expertise of the E&P business to CCS/CCUS and other areas. In addition, we will also pursue business opportunities as we anticipate growing needs for renewable energy and other energy sources.

**Q9: What do you think will be the main source of revenue if CCS is commercialized? I think there will be a mixture of ways to generate revenue, such as development of legal systems like carbon pricing and Feed-in Tariff (FIT) for renewable energy, as well as investment by consumers in CCS for the value of the CO2 reduction.**

A9: There are many different ideas. Either of the examples given or a combination of them should be feasible. We are working to promote two projects that have been adopted as "advanced CCS projects," but we consider that these projects are difficult to carry out without direct public support for the time being. However, there is a question of how long public support will continue in the future. An example of solution could be that CO2 emission sources receive incentives for capture or disincentives for emissions, which would allow us, a storage operator, to receive fees from emission sources. Another option could be to provide direct public support to transport and storage operators. We would like to further discuss this matter with policy makers in the future.

**Q10: In pursuing the operator business in the U.S., please tell us if there is any possibility of exceeding the investment limit envisioned in the management plan.**

A10: We may exceed the investment limit in the E&P field that was envisioned in the management plan. But we will not allocate a large amount of funds to a single asset. We will consider asset composition, timing and other factors, and avoid excessive concentration as we carry out our investments.

**Q11: I know that JAPEX has had some historically specific circumstances, such as cross-shareholdings. Please share with us how you view the current situation from the standpoint of an outside director.**

A11: I have been an outside director for this company for four years now. I was not sure at first if I could serve properly in an industry different from my own experience. But I have been able to express my opinions at the board of directors meetings, thanks in part to the thorough explanations given in advance of the meetings. Speaking of cross-shareholdings, it would be better not to have them from a general perspective. But considering the historically specific circumstances of the company, it is necessary to consider them as one of the assets that should be kept for when necessary. The board of directors evaluates its holdings every year, and I make an appropriate statement each time. I also advised that, while I understand that this is a business with a long time frame, it is necessary to respond with an increased sense of speed in a changing business environment. In the past, there were times when I felt that this company is much too cautious, but these days I see an increased sense of speed in the overall business, as in the aggressive and bold response to the two stalled projects in Canada. As for operator projects, for example, we need to properly recognize the risks, but we also need to first give it a try and then give it a thought.

**Q12: Please give us a breakdown of operating profit of ¥12.0 billion in the I/U business for this fiscal year.**

A12: Core profit is expected to remain unchanged at ¥2.5 billion, but marginal gain on procurement is expected to decline due to a drop in JLC price. In addition, a marginal gain on raw material slide time lag is expected to be minimal in this fiscal year.

**Q13: What is the business profit and ROE for FY2030 if the current oil price and exchange rate remain unchanged?**

A13: Although we refrain from giving you an answer about the target for FY2030, we expect to be able to achieve ¥30.0 billion in business profit and ROE of 5% in FY2026 at an oil price of $70 and an exchange rate of ¥140, using only the assets already acquired at this time. We intend to aim for further increase through additional investment in the future.

**Q14: Please let us know the current status and target for ROA and ROIC for the non-E&P business, if available.**

A14: They are not disclosed at present. We will consider disclosing target values and other information in some way for assets to be acquired in the future, including those in the non-E&P business.

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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