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 Three Months Ended June 30, 2022 to Institutional Investors and Analysts

Date and time: Monday, August 10, 2022, 11:00–11:55 (web conference)

Attendance: 47 attendees (institutional investors and analysts)

Key Questions and Answers:

Q1: Please tell us about the assumptions for the JLC price in the financial forecasts, including how you view the spot market. With this point, regarding the forecast of an increase of 13.4 billion yen in operating profit in the domestic E&P business compared to the previous forecast, what is the impact of the increase in the natural gas sales price (Japan) due to a rise in the JLC price?

A1: The JLC price (April to June) is the most significant factor behind the forecast revision. The previous forecast was around 65,000 yen per ton based on the 110 JPY/USD exchange rate. However, the actual result was 101,000 yen per ton, an upturn of 36,000 yen per ton. Of this amount, 20,000 yen per ton cannot be explained by exchange rate fluctuations and is seen as the effect of spot LNG arriving in Japan remaining high. As a result, we expect operating profit in domestic E&P and infrastructure & utility (I/U) in 2Q to increase by about 1.5 billion yen and about 3.0 billion yen, respectively. On the other hand, we assume that the JLC price will subside to around 85,000 to 80,000 yen per ton from July onward. The 13.4 billion yen increase in domestic E&P was attributable to a 6.5 billion yen increase in the sales price of domestic oil due to the increase in JCC; an about 1.5 billion yen increase in the sales price of domestic natural gas due to the above-mentioned extra factors; and an increase in the JLC price due to the impact of regular oil prices and exchange rates.

Q2: Regarding the forecasted 3.5 billion yen increase in operating profit for the I/U business, what is the impact of the increase in the wholesale price of electricity? Please tell us about your sales plan for the JEPX market.

A2: We have factored the JEPX price increase into our forecast of a profit increase of approximately 2.0 billion yen. We refrain from answering the question about sales plans in the spot market, but its percentage of our total sales is lower than before. The continued volatility in the power market and strong interest in bilateral transactions have led us to respond by reducing spot transactions and increasing bilateral ones.

Q3: Regarding shareholder returns, we believe that foreign exchange income and loss will also cause significant profit fluctuations. Are foreign exchange income and loss included in the calculation of dividends?

A3: If extraordinary income and loss arise, they may be excluded from the basis of dividend calculation. However, items belonging to ordinary income and loss, such as foreign exchange income and loss, will be included in dividend calculation, regardless of whether they are positive or negative.

Q4: Why did cash and deposits as of June 30, 2022 increase by approximately 30 billion yen from March 31, 2022?

A4: The increase in cash and deposits as of June 30, 2022 was due to the absence of significant expenditure in 1Q. Going forward, cash and deposits will decrease due to cash outflows from investments in the tight oil development in the United

States and other activities. As a result, they are expected to reach approximately 150.0 billion yen at the end of this fiscal year.

Q5: What factors in the forecast for investing cash flow will cause an increase of the acquisition of property, plant and equipment in the United States compared to the previous forecast released in May?

A5: We revised the previous forecast of 17.7 billion yen for costs for the tight oil development in the United States to 28.3 billion yen. Among the interests acquired in January and May of this year, the development costs of the interest acquired in May was not included in the previous forecast yet, so this portion of the cost has therefore increased this time. Development costs related to the interest acquired in May will start in the second half of this year, but the contribution to profit will not start until the next fiscal year.

Q6: You have raised your full-year forecast for SODECO. Please tell us about your thoughts on the current operational status of SODECO, the response of the Russian government, and the risk of holding interests.

A6: Equity in earnings of 5.1 billion yen related to SODECO's 1Q (January to March) settlement was reflected in our 1Q (April to June) consolidated results. As we cannot make reasonable estimates for 2Q and beyond, we use the 1Q results as full-year forecasts. We will refrain from commenting on the operational status of Sakhalin 1 Project and the actions of the Russian government. The balance of investment securities on our consolidated balance sheet at the end of June was 9.4 billion yen, indicating that our exposure to interest holding risk is not significant.

Q7: Please let us know if there is any update on the "Expansion of Investment to Tight Oil Development in the United States" announced in May.

A7: In the previous forecast announced in May, we had estimated an annual production of 880,000 bbl, sales of $60 million, and operating profit of $25 million for the entire interest in our consolidated subsidiary JAPEX (U.S.) Corp., along with its existing 74 Ranch and other interests. In the current forecast, we project sales of $65 million and operating profit of $35 million due to the raised oil price assumption, although production volume is expected to decrease slightly due to the revised production plan.

For the next year, with the assumption of WTI at around $70/bbl, we expect an operating profit to grow more than double of this year. Most of the $500-million investment is planned to be implemented from 2022 to 2023, while revenue contribution will be centered from 2023 to 2025. We are aiming to further expand the scale of the tight oil business in North America. In doing so, we need to consider the portfolio that contributes to stable earnings.

Q8: Regarding the full-year operating profit forecast of 10.2 billion yen for the I/U business, please tell us about the breakdown of the 8.0 billion yen, excluding core operating profit of 2.5 billion yen.

A8: The 8.0-billion-yen difference includes approximately 0.7 billion yen for the raw material and fuel slide time lag and approximately 1.0 billion yen for the upward swing in the electric power business balance. The remaining 6.0 billion yen is due to procurement margins and other factors.

Q9: Regarding the tight oil business in the United States, is my understanding correct that the production volume will become a sensitivity factor unless you hedge your exposure?

A9: Yes, your understanding is correct. Since the investment has been made in the midst of high oil prices, we sell the product while hedging only a certain portion that matches the production period. Therefore, we do not enter into a long-term hedge contract and the selling price will largely be set at the level close to the current oil price.

Q10: Regarding the profit contribution of the tight oil business in the United States for the next fiscal year, do you mean that operating profit will exceed 10.0 billion yen, if it more than doubles the current year's profit based on the $70/bbl assumption? Also, please tell us about the pace of profit decline since 2025.

A10: We expect JAPEX (U.S.) Corp. to post an operating profit of $35 million at a WTI of $95/bbl this fiscal year, or 4.2 billion yen at 120 JPY/USD. In the next fiscal year, we expect its operating profit to more than double that at $70/bbl driven. From 2026, however, the contribution by the tight oil business to production and operating profit is expected to decrease rapidly.

Q11: What is the expected annual profit contribution for three projects of biomass power generation? Please let us know if there are any updates for future investments.

A11: Biomass power generation involves an investment scale of several tens of billions of yen per project. After project financing is arranged, our investment ratio will be about 30% to 40%, or several billion yen per project. We expect a contribution of about 500 million yen per project per year, including profit on investment equity and fuel supply intermediation. In addition to biomass, we are working on expanding our portfolio of renewable energy projects, such as offshore wind power generation.

Q12: Regarding the tight oil business in the United States, is there any possibility of additional investment around the existing interests with existing partners?

A12: There are no specific deals at this moment. We will work with various partners to expand our investments.

Q13: Regarding shareholder returns, is it your policy to always calculate annual dividends, including quarterly forecasts, based on a consolidated dividend payout ratio of 30% during the period of the new business plan? Also, how will the interim and year-end dividends be managed?

A13: We are considering a consolidated dividend payout ratio of 30%.
Regarding the management of dividends in the first and second half, for example, after paying interim dividends of 110 yen per share, suppose the profit for the second half significantly deviates from the expected level. In this case, it would be natural to adjust the amount of year-end dividends to be paid after calculating a nominal amount of year-end dividends at a payout ratio of 30%. However, this has not been decided at this time.

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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