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 Nine Months Ended December 31, 2024 to Institutional Investors and Analysts

Date and time: Thursday, February 13, 2025, 11:00–11:50 (web conference)
Attendance: 40 attendees (institutional investors and analysts)
Key Questions and Answers:

Q1: Please tell us about your perception of the situation where the net cash for the full-year forecast has increased by more than ¥20 billion compared to the previous forecast.

A1: The sale of strategic shareholdings has improved our cash position compared to September last year, and we believe that our balance sheet is now ready for the next phase of growth investment. We recognize that the increased cash represent a recovery of funds waiting to be invested.

Q2: Please tell us what factors are contributing to the increase in profits from the Seagull project in the U.K. North Sea in the full-year forecast.

A2: The timing of crude oil shipments has been moved up, and sales volume has increased by approximately 230,000 barrels compared to the previous forecast.

Q3: Please give us your production forecast for the tight oil development project in the U.S. for the next fiscal year.

A3: While production from assets acquired in FY2022 has started to decline, production from assets acquired in FY2023 and FY2024 has increased. Therefore, we expect production and sales in the next fiscal year to be similar to this year. Profit will be about the same level as this year if operating costs for the assets that have begun to decline decrease in proportion to the decline in production.

Q4: Is it correct to understand that the year-end dividend forecast of ¥25 is provisional? In addition, please tell us your calculation method for reviewing dividends going forward.

A4: The year-end dividend forecast is unchanged, but may be reviewed. In addition, the calculation method for the year-end dividend will be adjusted so that the annual payout ratio will be 30%, including the interim dividend already paid.

Q5: Please tell us what we should watch for in terms of volume and cost in the E&P business (excluding the U.S. tight oil development) and the Infrastructure and Utility (I/U) business in the next fiscal year.

A5: The Seagull Project in the UK North Sea contributed for 12 months this fiscal year, and we expect it to continue at the same level as this fiscal year (the level of the revised forecast this time) in the next fiscal year, as well. In addition, we expect LNG sales volumes to decrease in the next fiscal year, and they are likely to settle between the 421,000 tons forecast for this fiscal year and the 275,000 tons achieved in the previous fiscal year. Furthermore, the exchange rate used for overseas subsidiaries in the forecast this time is 158 yen at the end of December. However, it is unrealistic to assume that the same level will be maintained in the next fiscal year, and we believe that this may be a factor in exchange fluctuations.

Q6: Please tell us why you have not revised your dividend forecast. Is there any downside risk?

A6: We do not see any particular downside risks in the fourth quarter. Although the year-end dividend will be decided after the full-year closing, we have already communicated to investors our full-year forecast and the limited sensitivity of our business to oil prices and exchange rates. Thus, we believe that this will help investors to understand the year-end dividend with a sense of predictability.

Q7: The operating profit forecast for the I/U business has increased to ¥17.1 billion from the initial forecast of ¥12.0 billion. Has the basis for the profit level changed?

A7: The base profit level is around the initial forecast of ¥12.0 billion. Although sales volume is increasing this fiscal year due to LNG cargo sales, it is expected to return to the base next fiscal year.

Q8: Please tell us about the profit sensitivity of translating the results of overseas subsidiaries into yen.

A8: In the previous forecast, we assumed and used the December-end exchange rate to be ¥140 for translation. But this time we used the actual rate of ¥158. Due to the exchange rate difference of approximately ¥18, operating profit was up by more than ¥1.5 billion approximately.

Q9: Please give us a breakdown of the ¥600 million decrease in equity method profit and loss compared to the previous year (full year). And what is the expected change for the next fiscal year?

A9: Of the ¥200 million in equity method profit for the previous fiscal year (full year), the largest was the ¥500 million from SODECO. However, we expect SODECO will be an equity method loss of just under ¥500 million due to foreign exchange losses this fiscal year. In addition, J Norge posted an equity method loss of ¥1.9 billion due to factors such as recognizing the impairment loss incurred when it became a subsidiary in the second half of this fiscal year.

GCLH (Freeport LNG Project) is expected to post ¥1.2 billion in equity method profit this fiscal year. However, we obtained a P/L forecast for the fiscal year concerned only at the beginning of the year. This is an issue that needs to be addressed. In addition, SODECO's profits and losses will fluctuate depending on the resumption of its operating activities.

Q10: Please tell us about the situation of the revenue from biomass power generation.

A10: In terms of biomass power generation, the accounting profit for each power plant is about break-even. However, if we include the supply of biomass fuel, we expect to make a profit of several hundreds of millions of yen.

Q11: Will the Trump administration have an impact on LNG procurement in the U.S.?

A11: We do not think that there will be any significant impact in the short term. The Trump administration has become more proactive on LNG exports than the Biden administration. Therefore, we believe that there is less concern about the expansion of the fourth train of the Freeport LNG Project, in which we are participating. Meanwhile, it is unlikely that the current LNG procurement contracts will be immediately switched to US-produced LNG in terms of an LNG procurement source. In addition, it is not clear at this stage whether LNG shipments from the U.S. will actually increase, so we do not expect this to have a major implication on our LNG procurement. In the medium to long term, if LNG production from the U.S. increases steadily, there is a sense of expectation from the procurement side that prices will become relatively less expensive or stabilize. Nevertheless, there are few concrete factors that can be mentioned at this point.

Q12: The operating profit level for the I/U business for the next fiscal year is expected to be ¥12.0 billion, which is the same as the initial forecast of this year. Can this be achieved with the core profit of ¥2.5 billion and procurement margin?

A12: It is assumed that core profits of ¥2.5 billion will be supplemented by approximately ¥10.0 billion in additional profits, including slide time lag gain, procurement margin, and cargo resale gain.

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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