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, 2025, to Institutional Investors and Analysts

Date and time: Wednesday, May 14, 2025, 14:30–15:20 (both offline and online)
Attendance: 33 attendees (institutional investors and analysts)
Key Questions and Answers:

Q1: How do you view the recent change by a foreign credit rating agency (Moody's), which maintained JAPEX's rating at Baa1 but revised the outlook from "Stable" to "Negative"?

A1: My understanding is that the credit side, which emphasizes financial soundness, and the equity side, which focuses on growth potential, are aligned in their views of JAPEX this time. Both sides see building core assets in overseas E&P businesses as an urgent challenge, and we share that view. In other words, compared with our E&P peers, we fall short in terms of reserves and production levels, and consequently in the certainty of future cash flows. That is likely the rationale for the change in outlook. From the perspective of maintaining our credit rating, it is necessary for the time being to control the increase in debt while reallocating the assets side of the balance sheet to more efficient assets. Divesting the UK North Sea and selling strategic shareholdings are consistent with this approach.

Q2: Previously, JAPEX's North America investment strategy involved continuing to acquire minority interests in assets while also pursuing operator assets in parallel. Given the ongoing preparations for asset building in the U.S., is it correct to understand that you are now placing greater focus on acquiring operator assets?

A2: That is essentially our current policy. We are shifting our focus to operator projects, or the Dry Piney Project. However, that does not mean we are overlooking investment opportunities in well interests that support near-term profits. Due to the recent decline in oil prices, activity among North American E&P companies has slowed, and we have not yet secured any new well interest deals. As such, these are not included in the current financial forecasts, but we intend to continue pursuing such investment opportunities.

Q3: Regarding the substantial year-on-year decline in the forecasted sales volume of domestic crude oil and natural gas, is this due to changes in well conditions, or is it within the expected range?

A3: For the fiscal year ending March 31, 2026, we forecast a 10% year-on-year decrease in domestic crude oil sales volume and a 6% decrease in natural gas sales volume. These figures are generally within the range anticipated in the "JAPEX Management Plan 2022-2030" announced in March 2022. We will continue to invest in maintaining production volumes while consolidating our domestic business locations into Nagaoka basically, and at the same time, pursue cost reductions and greater operational efficiency.

Q4: As JAPEX prioritizes the acquisition of operator assets in the U.S. and seeks to increase its asset over the long term, is there a possibility of a temporary decline in profits?

A4: We expect early profit contribution from acquiring producing assets, so we do not anticipate a sharp temporary decline in profits. That said, if there are delays in acquiring operator assets and we are also unable to acquire additional well interests, there is a possibility of a temporary dip in profits. However, we are actively working to avoid such a scenario.
When it comes to acquiring operator assets, we are targeting assets that include a mix of producing and development-phase properties within a single project. This allows us to proactively control medium- to long-term development planning and maintain stable production volumes and earnings.

Q5: How long will it take to build sustainable core assets?

A5: We are working with a strong sense of urgency to build core assets as quickly as possible.

Q6: What was the reason for changing the minimum dividend from ¥10 to ¥40?

A6: Amid ongoing uncertainty, we believe that our previous dividend policy may have left investors feeling uneasy about the possibility of dividend cuts. We have raised the minimum dividend to provide a greater level of reassurance. The ¥40 level was determined with reference to the shareholder return policies and dividend yields of peer companies. Assuming a dividend payout ratio of 30%, the required net profit—approximately ¥34 billion—is considered achievable based on conservative assumptions for oil prices and exchange rates. We also took into account the ability to continue securing sufficient funds for growth investments even if external conditions remain challenging.

Q7: The operating profit result for the domestic E&P business in the fiscal year ended March 31, 2025, declined due to a revision of asset retirement obligation estimates. Was this a one-off event?

A7: Yes, this was a one-off event. Under standard accounting treatment, asset retirement obligations are recorded as part of property, plant and equipment and depreciated over its useful life. However, since the relevant domestic property, plant and equipment have already been fully depreciated, nearly the entire revised amount was expensed. As this is a one-off factor, we do not expect it to impact results in the next fiscal year.

Q8: Regarding the breakdown of actual and forecast operating profit for the Infrastructure and Utility (I/U) business, has there been any change in JAPEX's perception of core profit levels?

A8: For the fiscal year ended March 31, 2025, operating profit was significantly higher due to one-off gains, including surplus cargo resales. For the fiscal year ending March 31, 2026, those effects have subsided, and I/U operating profit has returned to around ¥13 billion from ¥19 billion. Our fundamental view of profit levels remains unchanged.

Q9: What is the assumed marginal gain on LNG procurement included in the forecast for the fiscal year ending March 31, 2026, and what is the rationale behind it?

A9: We have factored in approximately ¥8 billion in marginal gain on LNG procurement for the fiscal year ending March 31, 2026. This reflects our continued competitiveness due to declining crude oil-linked procurement prices.