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, 2023 to Institutional Investors and Analysts

Date and time: Tuesday, February 13, 2024, 11:00–11:50 (web conference)

Attendance: 48 attendees (institutional investors and analysts)

Key Questions and Answers:

Q1: Please tell us how the acquisition in December 2023 of the additional well interests in the tight oil development project in the U.S. will contribute to the financial results of Japex (U.S.) Corp. (JUS).

A1: We expect to invest approximately US$200 million in 2024 for the additional well interests that we acquired in December 2023. We previously explained that operating profit would be ten and several billion yen for 2024 based on the WTI price assumption of $75/bbl. With the acquisition of the additional well interests, we expect operating profit to increase about ¥2.5 billion over the years 2024 and 2025. Meanwhile, crude oil prices remained at around $75/bbl in the recent months partly due to geopolitical risks, but they are expected to be low in the coming months. We think that a lower oil price assumption of around $5/bbl than the current one would be a factor in decreasing operating profit by approximately ¥2.5 billion in the financial results for next year. Therefore, while the acquisition of the well interests is a certain upswing factor on operating profit, it will not be much different from the level we previously explained, taking into account the decline in oil prices.

Q2: Please tell us about the one-time factors included in the financial forecast for this fiscal year that should also be taken into account for the financial forecast for the next fiscal year.

A2: One-time factors that may be removed from our financial forecast for the next fiscal year are foreign exchange gains (¥2.6 billion in our revised forecast) and a marginal gain on raw material slide time lag in the Infrastructure/Utility (I/U) Business (approximately ¥6.0 billion in our revised forecast). In addition to these factors, in terms of differences from our revised forecast for this fiscal year, the forecast is based on the JKM (Japan/Korea Marker) price assumption of US$13/mmbtu; however, the price currently stays at around US$10/mmbtu, reflecting excess LNG supply. Assuming the current market conditions, the impact of a decline in the Japan Liquefied Natural Gas Cocktail (JLC) price through a fall in the JKM price could be a factor in a nearly ¥1.5 billion decrease in profit in the domestic E&P business and a slightly more than ¥1.5 billion decrease in marginal gain on LNG procurement in the I/U business, which total a ¥3.0 billion decrease in profit for the next fiscal year.

Q3: As the management structure for the next fiscal year became clear, I would like to confirm your approach to shareholder returns. Please tell us what you currently think about them, whether you will keep the dividend payout ratio at 30%, or whether there is room for reconsidering the approach in light of the way you have generated cash so far.

A3: At this moment, we do not consider making any major changes to our shareholder return policy. We remain aware that one of our top priorities is to improve the quality of profit while increasing sustainable return on the left side of our balance sheet. If we were to change our approach to shareholder returns, it would not be due to a change in our management structure, but rather when we make progress in building the business portfolio.

We just explained our approach to achieving sustainable growth and improving our medium- to long-term corporate value at the briefing held in November on the financial results for the six months ended September 30, 2023. We are currently continuing to undertake share buybacks using temporary excess cash. Going forward, we will consider whether to change our shareholder return policy while keeping the perspective of securing resources to make investments for future growth as we are at a very significant turning point for our business structure.

Q4: What are the reasons why you expect net profit to decrease while expecting operating profit to increase from the previous forecast in terms of the Seagull Project in the U.K. North Sea?

A4: We did not factor sales from the project for this fiscal year in the previous forecast. We expected an operating loss of about ¥1.0 billion mainly due to the incurrence of SG&A expenses, but expected net profit of about ¥1.4 billion due to the recognition of deferred tax assets related to investments. This time, however, we expect an operating profit of about ¥200 million as sales begin from the project, and expect net profit of about ¥1.2 billion, down ¥200 million from the previous forecast, due to increased tax expense resulting from the reduction of deferred tax assets as taxable income generated.

Q5: Please tell us how the Seagull Project in the U.K. North Sea will contribute to your profit for the next fiscal year and beyond.

A5: With the Brent oil price assumption of $70 to $75/bbl, we have forecasted operating profit of ¥8.0 to ¥10.0 billion in total and net profit of ¥2.5 to ¥3.0 billion in total for three years from 2024 to 2026. As the rate of tax applicable to the project is as high as 75% due to the introduction of the Energy Profit Levy, the contribution of the project to net profit is limited.

Q6: Please tell us about the composition of electricity generation regarding the electricity sales volume of 3.5 billion kWh that you forecasted this time.

A6: The forecasted electricity sales volume for this fiscal year is basically from the electricity generated at the Fukushima Natural Gas Power Plant, although there is a partial contribution from renewable energy. Electricity is generated according to the share of each of the project partners, but it is not strictly in line with their respective shares. The amount of electricity generated increases or decreases as the electricity generation quota is flexibly adjusted as appropriate. We expect the electricity sales volume to return to around 3.0 billion kWh in the next fiscal year and beyond.

Q7: Please tell us about the sensitivity of crude oil prices in fiscal 2024 based on portfolio changes and other factors. How will the sensitivity change from the assumption you disclosed at the beginning of fiscal 2023 that a $1 rise in the price of crude oil would result in a ¥350 million increase in net profit?

A7: It is difficult for us to clearly show such a change at this moment. The production volume of domestic crude oil is expected to remain almost unchanged. The tight oil development project in the U.S. currently produces crude oil of about nine thousand barrels per day. With the additional investment of US$200 million, we expect to increase the production volume by around 30%. In addition, if we expect the production volume of the Seagull Project in the U.K. North Sea (equivalent to our 15% share) to be about one million barrels per year, the sensitivity of crude oil prices due to their fluctuations will be greater than the one we assumed at the beginning of fiscal 2023.

Q8: The business in the tight oil development project in the U.S. is being consolidated. What is your future plan for the business?

A8: The tight oil development project in the U.S. has matured in terms of technology and market. We believe that the common perspective of all the companies involved in the project is that how we should expand the scale and lower production costs in order to maintain high profitability. Our intention is to hold full-scale assets while maintaining the style of acquiring these short-term interests to receive a share of profit as a way of earning immediate profit.

Q9: Regarding the selling prices of oil and gas produced in the Seagull Project in the U.K. North Sea and the tight oil development project in the U.S., to what extent are the selling prices fixed through hedging transactions as of the beginning of the next fiscal year?

A9: We have already entered into hedge contracts for 40% to 50% of the production volume of the tight oil development project in the U.S. We do not enter into a hedge contract for the Seagull Project in the U.K. North Sea.

Q10: What is the basis for forecasting operating profit of the I/U business?

A10: In our revised full-year forecast, we have expected an operating profit of ¥19.7 billion in the I/U business, ¥2.5 billion of which is the core profit of the business. We have also expected a marginal gain on raw material slide time lag of around ¥6.0 billion, a marginal gain on LNG procurement and other gains of ¥8.0 billion, and a gain on resale of surplus LNG cargos of around ¥3.0 billion.

The core profit of the business is expected to remain unchanged for the next fiscal year. In addition, we expect a certain amount of a marginal gain on raw material slide time lag to arise as fuel and raw material costs will fall over the next fiscal year in line with the decline in the JKM price. We expect a marginal gain on LNG procurement to arise in the next fiscal year as well, but it will decrease by about ¥1.5 billion. Since we have assumed a gain on resale of surplus LNG cargos, we have expected operating profit to be ¥10.0 to ¥12.0 billion for the I/U business as a whole.

Q11: The forecasted balance of cash and deposits at the end of the fiscal year ending March 31, 2024, has increased to ¥149.3 billion from the previous forecast of ¥120.0 to ¥130.0 billion. What are the factors

behind this increase?

A11: The balance of cash and deposits at the end of December 31, 2023, was ¥166.6 billion, about ¥60.0 billion of which was held by JUS, Japex Garraf Ltd. (Japex Garraf), and JAPEX UK E&P Ltd. (JUK) as funds to make investments. The balance of cash and deposits held by the parent company was less than ¥100.0 billion, which means it does not have excessive funds. The reason why the forecasted balance of cash and deposits at the end of the fiscal year ending March 31, 2024, has increased by ¥20.0 billion from the previous forecast of about ¥129.0 billion is a one-time factor that some investment spending by JUS was delayed from December to January.