Japan Petroleum Exploration Co., Ltd. (JAPEX)

Securities Code: 1662 (First Section of the Tokyo Stock Exchange)

Summary of Q&A Session in the New Management Plan Briefing

Date and time: Tuesday, March 29, 2022 - 14:00-15:00 (online conference)

Attendance: 69 attendees (institutional investors and analysts)

Key Questions and Answers:

Q1: Your long-term assumption of crude oil price is 50USD/bbl. When the price continues to stay above 100USD/bbl, as it has recently been doing, what are your priorities for the use of excess cash? If you will make additional shareholder returns, would they be share buybacks or dividend increase?

A1: In regard to excess cash generated as a result of significantly higher-than-expected oil prices, we will basically use them to invest in growth, with some portion to return profits to shareholders. It's not that we return to the shareholders the cash left over from the investments. Excess cash will be allocated to investment and shareholder returns based on the financial condition at the time.

Q2: How do you plan to achieve an ROE of 8% in FY2030? You state that the growth in business profits from FY2026 to FY2030 is largely due to contribution from the business field of Infrastructure/Utility (I/U), but I have a doubt that there are any businesses in the I/U with enough contribution to achieve an ROE over 8%. How will you raise ROE from 5% in FY2026 to 8% in FY2030?

A2: In I/U field, leveraged investment is possible through project financing. We would like to increase profits by expanding renewable energy, from increasing demand for natural gas, and by devising ways to sell natural gas such as in the case of solution-type sales in Yamagata to provide heat and electricity bundled together. We also expect the business in overseas LNG supply infrastructure such as a project in Vietnam to contribute to profit. Another factor is reduced depreciation of the Soma LNG terminal and related facilities. I think the target is challenging, but not unattainable.

Q3: Withdrawal of ExxonMobil from the Sakhalin-1 has been reported in the media. Please let us know about the current status of the project, the status of the operator, and what discussions are being held with the Japanese government.

A3: The Japanese government and some private companies including us are participating in the Sakhalin-1 project through their investment in SODECO. ExxonMobil is reportedly withdrawing from the project, and currently SODECO is gathering information on how it will make the withdrawal. We would like to work with the Japanese government and other private shareholders on this matter.

Q4: Please describe the specific details in growth investments. Are you considering any specific new overseas project in E&P? Are there any projects in the current market that will promptly

contribute to earnings and meet your investment discipline?

A4: When we go for a new project, we do not necessarily assume 50USD/bbl. Rather, when making examination over a project, we consider its economic feasibility based on outlook on the future oil price. We are gathering information through our offices in Houston, U.S. and Aberdeen, U.K., and we have some potential projects. We prefer to find a suitable project after careful examination, rather than considering an investment at first.

Q5: Given the current status of the balance sheet with a high level of cash and deposits, do you have a rationale for paying out 30% of net income assuming the dividend payout ratio and retaining the rest for internal use?

A5: We have traditionally adhered to a policy of long-term stable dividends and have continued to pay a certain amount of dividends even when our business results have fallen into the red. This is based on the possibility that, as an E&P-centered company, we may experience sudden and massive capital needs. Because we will shift our focus toward a 50-50 split between E&P and non-E&P businesses, and because the liquidation of the two projects in Canada will reduce the risk of sudden need for funding contributions, we decided to return more to shareholders than before. Although you consider the 30% not necessarily a high dividend payout ratio, as at a turning point in our business structure to achieve growth, we would like to start with a payout ratio of 30%.

Q6: What are your assumptions for the business profit targets in each business field? In the E&P, how much will the company rely on new projects amid production declining in Japan? In the I/U, what projects will be added on top of the 2.5 billion yen in core profit?

A6: Of the business profit target of 27.0 billion yen in E&P for FY2030, 20% are from business in Japan and 80% are from overseas. The existing overseas businesses have scale of several billion yen annually. As for SODECO, with our oil price assumption at 50USD/bbl and expectation for continued investment in certain scale, we do not expect the profit level to stay high as seen in the current fiscal year ending March 31, 2022.

As for the I/U, we will seek to achieve the profit target of 27.0 billion yen by adding to core profit of 2.5 billion yen, several billion yen from LNG procurement margins and 4.0 billion yen from reduced depreciation of I/U-related assets (down 1.0 billion yen in FY2026 and down 4.0 billion yen in FY2030 due to end of depreciation of the Soma LNG terminal and pipeline, etc.), as well as through the following measures: renewable energy projects in and out of Japan, the launch of overseas LNG supply infrastructure projects, and expanding sales of gas in Japan. Please note that the oil price sensitivity in the business profit targets do not include entities accounted for using equity method.

Q7: Please let us know the concept behind the calculation of dividend levels for FY2026 and FY2030 as, while business profit targets are indicated, net income for those periods has not been disclosed. In addition, please tell us if there is a possibility, in case high crude oil prices resulted in increased profits, of a change in the basic policy on shareholder returns such as raising the dividend payout ratio or repurchasing treasury shares.

A7: In terms of relationship between business profit and net income for the period, while the effective tax rate varies in Japan and other countries, we expect a certain level of net income with assumption of overall tax rate at approximately 30%.Even in the event of a higher profit, we currently do not intend to buy back our own shares. For the present, our approach is to increase dividends in the event of a higher profit, based on a dividend payout ratio of 30%.

Q8: Please tell us the current status of operations in Sakhalin-1.

A8: We would like to decline to answer that question.

Q9: Of the profit target in the I/U business of 12.0 billion yen in FY2026 and 27.0 billion yen in FY2030, how much is already in sight at this point?

A9: As for the FY2026 target of 12.0 billion yen, we have a rough idea of 8.0 to 9.0 billion yen, including 2.5 billion yen in core profit, 1.0 billion yen in reduced depreciation, several billion yen in marginal gains on LNG procurement, and profits from renewable energy projects and overseas gas supply infrastructure projects such as that in northern Vietnam.

As for the FY2030 target of 27.0 billion yen, about half of it is already in sight, including core profit, a significant decrease in depreciation, marginal gains on LNG procurement, and profits from existing renewable energy projects. We will continue to accumulate profits through the further development of renewable energy, overseas gas supply infrastructure, and sales expansion in the gas business in Japan.

Q10: Please tell us about the background and thoughts behind setting the ROE target of 8% for FY2030.

A10: We have set this target in the aim of meeting the expectations of shareholders and the market, challenging for a reasonable level of ROE as a listed company. This target is not a figure set just for the sake of it. We believe it will not be difficult to attain it through accumulated effort in each of our businesses.

Q11: The establishment of quantitative indicators for shareholder return is an improvement and appreciated. If and when the oil price exceeds 100USD/bbl in the short term, will the company still pay dividends in accordance with a dividend payout ratio of 30%? Please let me confirm your thoughts as I understand that you might not want to cut the dividend in case of a drop in oil prices.

A11: Although it is not desirable to reduce dividends, we intend to determine the amount of dividends based on our business performance, in accordance with our principles. We do not consider holding down the amount of dividends in order to avoid reducing dividends in the following fiscal year and beyond.

Q12: What is your projection of positive or negative free cash flow (FCF) as of FY2026 or as of FY2030?

A12: Cash outflows will be affected by the progress of new investments, the largest factor. Of the 380.0 billion yen in cash flow from operating activities, 200.0 billion yen is from depreciation of assets and includes those for new investments, meaning that cash inflows and outflows are closely linked. Therefore, it is not matter of FCF becoming positive or negative at any point; it is expected to change following the progress of investments.

Q13: We expect total assets to increase toward FY2026 and FY2030 due to increases in interest-bearing debt and equity capital. Assuming such situation, please tell us the level you prefer to maintain in terms of finances, such as equity ratio and D/E ratio, and the level of ROA and ROIC you are aiming for.

A13: The equity ratio is expected to exceed 80% at the end of this fiscal year. In FY2030, total assets are expected to be at 600.0 billion yen and equity capital is expected to be at 460.0 to 470.0 billion yen, resulting in an equity ratio of about 80%. We will determine the appropriate equity ratio in consideration of the remaining balance of liabilities and business environment risks as investment activities progress in the future. Investments in renewable energy and overseas LNG supply infrastructure are premised on an off-balance sheet financing, which means that the company will also have off-balance sheet debt. We will also consider the desirable equity ratio in consideration of future risk-taking due to changes in the business environment for renewable energy, such as the reduction of the FIT.

ROIC depends on the future business portfolio. For the E&P, we aim for a higher ROIC. For the I/U, we will strive for an ROIC comparable as a whole to that for the E&P, while utilizing off-balance sheet debt.