

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 Fiscal Year Ended March 31, 2022 to Institutional Investors and Analysts

Date and time: Monday, May 16, 2022 - 11:00-12:05 (both offline and online)

Attendance: 53 attendees (institutional investors and analysts)

Key Questions and Answers:

Q1: Regarding the "Expansion of Investment to Tight Oil Development Business in the United States" announced on the same day as the results announcement, please tell us about the potential return from the investment totaling approximately 500 million US dollars and the details of interests the Company has acquired.

A1: For the fiscal year ending March 31, 2023, return is expected only from the investment of which decision was made in January this year. Since the volume of shale oil peaks out usually within about three years from the launch of production, and the volume of production will decline after that, we expect payback of the investment within a short period of time.

In the tight oil development business in the U.S., we plan to invest in areas where we have experiences in, such as Eagle Ford.

Although details regarding the acquired interest cannot be given for confidentiality reasons, during the fiscal year ending March 31, 2023, JAPEX (U.S.) Corp. (JUS), our consolidated subsidiary, will invest nearly 160 million dollars (Property, plant and equipment) in total, including those for the existing interests held by JUS. The annual production volume of crude oil of JUS is expected to increase from 120,000 barrels in 2021 to 880,000 barrels in 2022, and we expect to record net sales of 60 million dollars and operating profit of 25 million dollars this fiscal year.

The investment in the tight oil development business this time will allow us to not only recover cash earlier but also accelerate depreciation under the unit-of-production method. We believe this investment is beneficial, because we can avoid balance sheet risks from acquisition of interest at a time when crude oil prices are high, by early depreciation.

Q2: While the Government of Japan has publicly announced not to withdraw from the Sakhalin-1, ExxonMobil, the operator, has issued a force majeure on the project. Please tell us the current status and outlook of the project operation. Also, to the extent possible, tell us about how the issuance of force majeure could affect the operation.

A2: Sakhalin-1 is currently under operation but we do not disclose the volume of production. ExxonMobil, the operator, has announced its withdrawal from the project, but how it will withdraw and the operator after its withdrawal are still unclear. We are confirming details including these matters.

We will consult with the government and other partners on further stances, as one of the shareholders of SODECO.

Q3: You have forecast that the amount of net cash as of March 31, 2023 will be 150.0 billion yen. I believe you will need to make some improvement in terms of capital efficiency because cash and deposits are the type of assets that hardly produce returns. Please tell us about your view on the position of cash and deposits. Also, is it possible that you consider distributing part of such cash and deposits to shareholders?

A3: For the use of cash, we plan to invest 450.0 billion yen for growth in the New Management Plan. Although we are looking for new opportunities in North America and other areas, we find it difficult to invest in the type of projects that take medium- to long-term to recover invested funds when oil price remains high. We are also willing to proactively invest in other than E&P, such as renewable energy, but we may have to retain cash for some time in the future.

As for shareholder return, we basically strive to achieve a payout ratio of 30%. Then, we will continue to consider our shareholder return policy based on a range of factors, such as the status of Sakhalin-1, volatile energy market conditions, and the ongoing and accelerating shift to carbon neutrality.

Q4: Please let us know if there are any one-time factors that affect the earnings for the current fiscal year.

A4: At the moment, we see no major extraordinary factors.

Q5: Please tell us how the fluctuations in LNG spot prices and JEPX prices affect your earnings for the fiscal year ending March 31, 2023.

A5: Since we have already secured the necessary volume of LNG through term contracts, we do not assume any influence of fluctuations in LNG spot prices on our earnings for the current fiscal year.

Regarding JEPX, we sell the majority of the quota of electricity from Fukushima Gas Power Co., Ltd. to certain customers under a fixed formula and sells the remainder on a spot basis. Sales on a spot basis are linked to JEPX prices.

Q6: Is the sales price of the tight of oil in the U.S. mostly fixed at 70 dollars per barrel as assumed for the current fiscal year? Will a rise in WTI, if any, be reflected in your earnings?

A6: The sales price is not fixed at 70 dollars per barrel. The tight oil sales price could rise or fall depending on market conditions. In view of the recent market conditions, we are considering to fix our profits by hedging part of the transactions.

Q7: Please tell us why the level of income taxes for the current fiscal year is lower compared to operating profit and ordinary profit.

A7: There are two reasons why the effective tax rate is low. First, dividend income is excluded from the Company's gross profit. Dividend income from a portfolio company in which we hold an equity stake of 33.4% or more is excluded from gross profit in Japan. As for dividend income from abroad, 5% is tax deducted at the source, while 95% is excluded from gross profit. Second is the loss carried forward arisen due to the end of the Canada business. 50% of our taxable income before loss carried forward can be

offset. For these two reasons, the effective tax rate has been lowered.

Q8: I believe Permian is the main area for tight oil development in the U.S. Then, why did you choose Eagle Ford? Also, please tell us about your vision for the future of the tight oil development business, including your policies regarding the selection of partners and operatorship.

A8: The project we were considering this time was located in Eagle Ford, but we do not limit the area to the area. As for partners, we do not partner only with certain companies. We consider candidates depending on the opportunities.

Also, we do not seek investments just for returns, since we are an E&P company, not an investment fund. We will explore future business opportunities while drawing on the expertise of our partners.

Q9: Have you been able to offtake crude oil from Sakhalin-1? Please provide us with details about the project to the extent possible.

A9: We would like to decline to answer that question.

Q10: In terms of contribution to revenue, please list some of major projects we should pay attention to following the tight oil development project in the U.S.

A10: In the field of E&P, Seagull Project in the U.K. North Sea can be listed, although development activities have delayed in the wake of the COVID-19 outbreak.

In the field of renewable energy, Abashiri Biomass Power Plant No. 2 and 3 are scheduled for launch by the end of this year, although the capacity is limited.

Q11: If we take volatility of crude oil prices into account, isn't it better to adopt dividend policy by a total payout ratio rather than a target payout ratio of 30% in order to avoid a decrease in dividends due to decreased profits for declining oil prices? Also, please tell us about the possibility of an additional share repurchase.

A11: While deliberating on the New Management Plan, we decided to adopt the payout ratio. Unfortunately, we have to decrease the dividends in case that profit decreased, but we intend to pay dividends commensurate with profits. In fact, we would like to maintain an annual dividend per share of 50 yen even if our earnings deteriorate temporarily.

As for the liquidity of shares, we would like to consider repurchasing shares again after completion of the repurchase which is currently underway.

Q12: Please tell us in detail about the reflection of annual results in climate change response to executive compensation.

A12: We determine the amount of executive compensation based on the progress of our planned reduction in CO₂, as one of the evaluation items for all executive officers. The results in climate change response will be applied across-the-board to all executive officers, the overall compensation for executive officers will be increased or decreased by 20% at maximum based on the evaluation.

Q13: Please tell us your stance about your exposure to SODECO.

A13: Because SODECO is an equity-method affiliate of the Company, we have recognized 15.285% of its net income as an increase in equity in earnings of affiliates. In addition, as an exposure on the balance sheet, 15.285% of SODECO's share capital and legal retained earnings combined of about 28.0 billion yen, which amounts to about 4.0 billion yen, is recorded in the balance of investment securities.

Q14: Is there any topics regarding CCS?

A14: We recognize that CCS is currently in the demonstration phase. We have set up councils with related companies in Tomakomai, Hokkaido, and in Niigata. We would like to explore potential opportunities with other parties including municipalities. If the scale is larger than a certain threshold, large investments will be required, even in survey or demonstration, so we also consider to use government support programs. We would also like to make use of the experiences in successful storage of 300,000 tons of CO₂ at Tomakomai by JCCS.

Q15: About investments in renewal energy, in view of the generation capacity and feasibility of each project, it appears that the proportion of biomass will likely grow in the future. Please tell us about your portfolio of renewable energies.

A15: Although we have joined several biomass projects recently, we would like to explore opportunities in offshore wind power generation, photovoltaic (PV) power generation, and geothermal power generation as well, to draw on our experience in the past.

We have not yet determined our portfolio target on a kilowatt basis.

Q16: Please tell us why the sales volume of crude oil produced in Japan and electricity are expected to decrease for the fiscal year ending March 31, 2023.

A16: For the fiscal year ending March 31, 2023, we have reduced the sales forecast of crude oil produced in Japan by 16% from 286 thousand kilo liters to 239 thousand kilo liters to reflect a decline in production. This decline is attributable mainly to a shallow layer in Yufutsu. Although we expected to produce 70 thousand kilo liters per year, the volume of production has fallen below this projected volume. We do consider the 2nd phase of development, but there is no specific plan at this time.

The sales volume of electricity for the current fiscal year is projected at 2,842 million kWh, compared to 3,023 million kWh during the fiscal year ended March 31, 2022. As we assume that LNG spot prices will remain high for some time in the future, we have conservatively estimated the sales volume of electricity to JEPX.

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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