■ INPEX CORPORATION (TSE 1605)
Presentation on financial results for the year ended December 31, 2021
Summary of Q&A session

Date	:	February 10, 2022
Number of attendees	:	Approximately 95
Key questions	:	

Q1. “INPEX Vision@2022” (hereinafter “INPEX Vision”) includes aims for the Ichthys LNG Project (hereinafter “Ichthys”) to further increase its current LNG production capacity by 2024 to build a framework capable of stably producing 9.3 million tons per year with an eye to further expand production volume also visualizing the expansion of Ichthys in around 2030. Is it possible to achieve 9.3 million tons per year without a large investment? How will you market the additional LNG? Is the expansion of Ichthys factored in the cash allocation outlined in “Vision for around 2030” in the INPEX Vision?

A1: We will aim to increase Ichthys' annual production to 9.3 million tons per year by proceeding with debottlenecking work, continuing stable operations and improving the operating rate, at a certain amount of additional cost. We will consider how to market the additional LNG in the future. We are planning to work on the expansion of Ichthys toward around 2030, basing our considerations on the cash allocation outlined in “Vision for around 2030” in the INPEX Vision.

Q2: It seems challenging to aim to generate 10 percent of operating cash flow before exploration including the Ichthys downstream company (hereinafter “Operating CF”) from the 5 net zero businesses. How much is INPEX planning to invest in each of the 5 net zero businesses and what are the expected returns from each business?

A2: In the fiscal year ending December 2022 (hereinafter “FY2022”), out of the development expenditures and others (404.0 billion yen), 120 billion yen will be invested in the 5 net zero businesses. Most of this investment will be used for wind power, geothermal power generation, etc.
Renewable energy, which has already been established as a business, is expected to be the largest source of earnings around 2030, amongst the 5 net zero businesses. By 2030, we are aiming to build a hydrogen and ammonia business on a scale of 100,000 tons/year. Through these businesses, we aim to achieve 10 percent of Operating CF by 2030.

Q3: While net production is expected to increase, the net income target for the fiscal year ending 2024 (hereinafter “FY2024”) is 240 billion yen at an oil price of 70 US dollars/barrel where the net income for the fiscal year ended December 2021 (hereinafter “FY2021”) was 240.6 billion yen at an oil price of 70.95 US dollars/barrel. Why will net income remain mostly flat?

A3: Although production volume is expected to increase in FY2024 compared to FY2021, net income for FY2024 is expected to remain flat due to an increase in project-related costs, exploration costs and other factors.

Q4: Do you see ROA declining over the nine years in which it is presumed that equity capital or total assets will increase as you move forward with your “vision for around 2030”?

A4: During the period of the Medium-term Business Plan 2022 to 2024(hereinafter “MBP2022-2024”), the company is aiming for an ROE of 8 percent assuming an oil price of 70 US dollars/barrel. We make it a point to constantly optimize our portfolio, and the plan is not based on the assumption that total assets will increase significantly, and that ROA will deteriorate. While keeping ROE, ROA, and ROIC in mind, we will carry out financial management with an emphasis on asset efficiency.

Q5: From the management targets for FY2024 set forth in MBP2022-2024 (net income: 170 billion yen at 60 US dollars/barrel oil price, 240 billion yen at 70 US dollars/barrel oil price; ROE: 6 percent at 60 US dollars/barrel oil price, 8 percent at 70 US dollars/barrel oil price), it is estimated that the amount of equity capital will be approximately 3 trillion yen, which is about the same amount at the end of FY2021. If you implement shareholder returns with a total return ratio of 40 percent, I do not think the current net assets will decrease. How should this be interpreted?

A5: Our equity capital includes a foreign exchange adjustment account of approximately 460 billion yen. Investments made when the yen was stronger are now being swayed by the weaker yen, so equity capital is increasing accordingly. Since we also hedge interest rates, the fluctuation of interest rates will also affect our equity capital.

Q6: The (previous) Medium-term Business Plan 2018-2022 outlined a management target of 150 billion yen in net income assuming an oil price of 60 US dollars/barrel. MBP2022-2024 sets a net income target of 170 billion yen assuming an oil price of 60 US dollars/barrel. What is the reason for the 20 billion yen increase in net income?

A6: Our earning power and financial structure have been strengthened. Specifically, management efforts such as production volume, unit cost reduction and interest rate reduction are reflected in the 20 billion yen increase in net income.

Q7: If the oil price rises from 60 US dollars/barrel to 70 US dollars/barrel, what is the priority for shareholder returns?

A7: The allocation of funds from free cash flow inclusive of Ichthys downstream company (hereinafter “FCF”) will be directed to (1) debt reduction, (2) shareholder returns, and (3) investment for growth, in that order of priority. If the targets for debt reduction (500 billion yen) and shareholder returns (200 billion yen) are being addressed in a somewhat satisfactory manner, we will allocate the cash strategically with a certain degree of freedom, by considering various circumstances (net zero, trends in shareholder returns, etc.).

Q8: What is the cause of the difference between the cash flow from operating activities in the institutional accounting for FY2021 (445.4 billion yen) and Operating CF for FY2021 (586.8 billion yen)?

A8: Operating cash flow under institutional accounting does not include the Ichthys downstream company, which is an equity-method affiliate.

Q9: While there is not much difference in net income between FY2021 (223 billion yen) and FY2022 (250 billion yen), why is there an increase of about 120 billion yen in Operating CF from FY2021 (586.8 billion yen) to FY2022 (about 710 billion yen)?

A9: Although there is no significant difference in net income, the large increase in Operating CF is largely due to the net income being pushed down by the costs that do not involve cash out such as tax effects resulting from natural gas sales applying oil prices on a delayed basis, asset retirement obligation costs, and impact of non-controlling shareholder interest, etc.

In addition, Operating CF is pushed up due to increases/decreases, etc. in working capital.

Q10: Regarding the shareholder return policy in INPEX Vision, what is the background to setting the total payout ratio of around 40 percent or greater? What is the rationale behind the proportion of dividends and share buybacks?

A10: In FY2021, the company implemented share buybacks for the first time. If the target is limited to a dividend payout ratio, it may be difficult to achieve stable dividends. The company positions stable dividends as a basis and will make adjustments by implementing share buybacks in cases where oil price volatility creates a significant impact. In addition, we set a total payout ratio target of around 40 percent or greater considering that it was pointed out that our past dividend payout ratio target of approximately 30 percent or greater was rather low.

Q11: What is the contribution of LNG spot sales to the business results for FY2021?

A11: Most of the LNG produced at Ichthys is sold under long-term sales contracts, so the impact of spot sales is limited. In FY2021, the project shipped 117 LNG cargoes of which only a few were sold on the spot market.

End