

- INPEX CORPORATION (TSE 1605)
  - Presentation on financial results for the six months ended June 30, 2022
- Summary of Q&A session
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Date : August 9, 2022  
Number of attendees : Approximately 120  
Key questions :

Q1. According to the announcement, the total returns and total payout ratio are expected to be 200 billion yen and 57.3 percent, respectively, which greatly exceeds the "total payout ratio of 40 percent or greater" set forth in INPEX's shareholder return policy. What is the rationale behind these additional shareholder returns for the fiscal year ending December 31, 2022?

A1. For this fiscal year, due to ongoing stable production and sales, and an exceptionally high oil price environment, we anticipate a positive financial forecast and sufficient cash flow. Based on this situation, first, INPEX decided to consider additional debt reductions, which had increased due to past investments in the Ichthys LNG Project (hereinafter, Ichthys), to secure financial soundness and prepare for various future projects. Second, in terms of shareholder returns, the total payout ratio is expected to be 57.3 percent, based on the notion of maximizing returns to investors under the current situation where we can expect a positive financial forecast and sufficient cash flow. We recognize the patience of investors during the period when INPEX invested in Ichthys. We also recognize that investors expect a certain level of shareholder returns, with the high oil prices and the stable production of Ichthys. Based on these factors, INPEX resolved to allocate as much cash as possible to shareholder returns.

Q2. What makes it possible for Ichthys to maintain stable operations?

A2. The fact that Ichthys has been able to maintain stable operations is the most important point and one that we take pride in. We have taken measures to prevent the spread of COVID-19 and operate the project based on a safety first policy. Regarding the scheduled shutdown maintenance conducted this fiscal year, INPEX has prioritized safety over scheduling. Stable operations at Ichthys are the result of a concerted team effort.

Q3. From a marketing perspective, isn't there a need to expedite the expansion of Ichthys?

A3. Based on the situation in Russia and Ukraine, international demand for LNG is increasing, and structural changes are taking place in the international supply chain. We will need a new gas source for the expansion of Ichthys, and we would like to work to realize this as soon as possible. First, by 2024 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. In addition to maintaining Ichthys' plateau, we plan to proactively work on exploration activities in the vicinity of the Ichthys Field for expansion.

Q4. How did you determine the ratio of dividends and share buybacks?

A4. First, the annual dividend per share was set at 60 yen, in line with the shareholder return policy of strengthening shareholder returns in accordance with growth in financial performance with stable dividends as a basis. The dividend has increased by 25 percent from the 48 yen paid out in the previous fiscal year. The dividend has also steadily increased from 24 yen during the low oil price period in fiscal year 2020 to 48 yen and then to 60 yen. On the other hand, in the current situation where oil prices continue to be high, it is also an option to combine share buybacks with stable dividends when the profit level is high. Based on the actions of other companies and our own view on the stock price, we have decided to implement a relatively large-scale share buyback that will have a certain impact on the stock market.

Q5. Is there any meaning in the net D/E ratio of 50 percent, which is one of the management targets of the Medium-term Business Plan 2022-2024 (hereinafter MBP)? If you achieve a net D/E ratio of 50 percent ahead of schedule, how will you allocate the additional cash?

A5. If the oil prices maintain their current high level and our projects including Ichthys progress steadily, we expect to get closer to a net D/E ratio of 50 percent, a management target of the MBP. If the net D/E ratio is around 50 percent, we believe we can secure our current external rating level. We consider a net D/E ratio of 50 percent to be a benchmark as one form of financial discipline for continuous investment and procurement while using leverage. Regarding the allocation of additional cash, if there is a good project opportunity, we may invest with a net D/E ratio exceeding 50 percent, or we may prepare for the next investment while suppressing leverage. We will flexibly control this while maintaining financial discipline.

Q6. If the crude oil price and exchange rate maintain their current level and the financial results further improve, can we expect further shareholder returns?

A6. Oil prices are highly volatile, and the IEA's long-term supply and demand outlook suggests that there is an oversupply. It is necessary to pay close attention to the long-term supply-demand balance and trends in geopolitical risks. We will determine the year-end dividend in the appropriate manner at the end of the fiscal year based on oil prices, exchange rates, and business performance.

Q7. Will there be a negative impact on INPEX's financial performance in the fiscal year ending December 31, 2022, due to high LNG spot prices?

A7. Most of the LNG produced at Ichthys is sold under long-term sales contracts, so the impact of spot sales is limited. On the other hand, the Prelude project has intermittently suspended production since the end of last year. We are considering and taking measures to address the issues and contribute to stable supply. Although we are duly responding in accordance with the LNG sales contracts, we cannot comment on the specifics due to nondisclosure requirements. Given the current market environment, it is possible that losses may occur because of these measures, and this has been factored into the figures in the current financial forecast as part of the decrease in profit due to production issues in certain projects.

Q8. What is the cause of Prelude's production issues? When will Prelude resume production?

A8. Prelude resumed LNG production in April this year. However, in mid-June, protected industrial action among unionized workers occurred and labor restrictions were expanded from early July. As a result, production was suspended. The prospect of restarting production is currently unclear.

Q9. How do you consider the impact of translation adjustments on ROE and net D/E ratio?

A9. Net assets as of the end of June 2022 exceed 4 trillion yen, of which the translation adjustments account for approximately 900 billion yen, which is a very large figure. Investments made when the yen was stronger are now being swayed by the weaker yen, resulting in a higher translation adjustment, and the equity capital is increasing accordingly. This is positive for us from the perspective of strengthening our financial position. On the other hand, it has a negative effect on ROE. Going forward, we will consider financial strategies while paying close attention to the situation of exchange rate trends.

Q10. What are your thoughts on the return of R&D expenses in the five net-zero businesses? How do you apply the PDCA cycle?

A10. The five net-zero business can be categorized into businesses that can expect a certain amount of profit, such as the renewable energy business, and businesses that are promising for the future but cannot be expected to generate profits in the short term, such as the hydrogen and ammonia business. We are already focusing on the wind power and geothermal businesses, and moving these businesses along while confirming future cash flow and profitability based on our internal standards. On the other hand, for hydrogen, ammonia, CCS businesses, etc., which are not economically viable in the short term, we are engaged in research and development and demonstration work. For example, in Kashiwazaki City, Niigata Prefecture, we are conducting an integrated demonstration of hydrogen and ammonia production and usage. There are no clear investment criteria for these projects now, but we will work through research and development and demonstration. It will take some time to generate a reasonable amount of profit in the net zero five businesses.

Q11. What is the percentage of weighted average cost of capital (WACC) for INPEX?

A11. Our WACC is estimated to be approximately 5 percent based on certain assumptions. However, it will be reviewed as appropriate considering the recent rise in interest rates.

End

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