

■ INPEX CORPORATION (TSE1605)

Presentation on financial results for the year ended Dec. 31, 2019

Summary of Q&A session

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Date	:	February 13, 2020
Number of attendees	:	97
Key questions	:	

Q1. Regarding the Ichthys LNG Project (hereinafter referred to as Ichthys), what is the upside of Ichthys' contribution to the company's profit for fiscal year 2020 (hereinafter referred to as FY2020)? While Ichthys LNG is mainly sold through long-term contracts, some LNG is sold as spot cargo. How does the fall in LNG spot prices affect Ichthys' contribution to the company's profit?

A1. Ichthys' contribution to the company's profit for the fiscal year ended December 31, 2019 (hereinafter referred to as FY2019), a 9-month accounting period, was around 75 billion yen. Ichthys' contribution to the company's profit for FY2020 is expected to be around 105 billion yen. The assumption is that Ichthys will maintain plateau production in FY2020 (stably producing more than 8.4 million tons/year of LNG). Ichthys will continue to aim to reach its production capacity of 8.9 million tons/year of LNG, which will be one upside factor. Additionally, efforts are being made to reduce and optimize OPEX. The sale of 8.4 million tons/year of Ichthys LNG is covered by long-term contracts. However, there are cases in which the delivery of some (long-term contract) cargoes are postponed due to circumstances surrounding customers, etc., and some spot cargo sales are being made. While the impact of (these) spot sales is limited, this may be considered as a downside factor.

Q2. ROE was 4.1% for FY2019, a 9-month accounting period. If the oil price stays at the current level, the ROE for FY2020 is expected to be somewhere around 5%. What is your strategy to further improve capital efficiency, including share buybacks?

A2. The company is aware of market expectations regarding capital efficiency. The company recognizes share buybacks as one of the options to be considered for shareholder returns in the future. The annual dividend for FY2019 is 30 yen and the annual dividend forecast for FY2020 is 36 yen. The company plans to strengthen shareholder returns, primarily through dividends. While free cash flow is improving steadily, the repayment of the loan principal must be taken

into consideration.

Q3. Ichthys' contribution to the company's profit for FY2020 is expected to be around 105 billion yen. To what extent have you factored in the downside risks, such as the postponement of some (long-term contract) LNG cargo deliveries? Ichthys' net income contribution for the three-month period between October and December 2019 was about 35 billion yen, compared to just over 20 billion yen for the three-month period between July and September 2019. What factors contributed to this significant increase?

A3. Ichthys' contribution to the company's profit for FY2020, which is expected to be around 105 billion yen, is based on the initial outlook for FY2020 shipments, which includes both long-term sales contract cargoes and some spot cargoes. Given the current spot prices, if the number of spot cargoes further increases during the period, this would be a downside factor.

One factor behind the significant increase in Ichthys' contribution for the three-month period between October and December 2019 is the difference between the number of cargoes on a shipping basis versus an accounting basis. Another factor is the higher-than-expected prices of condensate, etc., buoyed by the rise in naphtha prices.

Q4. What dialogue was behind the increase in dividends for FY2019 and FY2020? In addition, the dividend payout ratio since the announcement of the Medium-Term Business Plan 2018-2022 (hereinafter referred to as MTBP) has been in the mid-30% range, including the forecast for the current term. Is there any intention behind this?

A4. As specified in the MTBP, the company's basic policy on shareholder returns is to maintain stable dividends and enhance annual dividends in stages in accordance with the growth in the company's financial performance. Considering the company's strong business performance in FY2019, INPEX will increase the year-end dividend to 18 yen per common stock by 3 yen from the November 2019 forecast of 15 yen. As a result, the annual dividend for FY2019 amounts to 30 yen per common stock. Regarding the dividend payout ratio, it should be stressed once again that the MTBP lists the payout ratio as "30% or higher."

Q5. What projects other than Ichthys and the Abadi LNG Project (hereinafter

referred to as Abadi) can contribute to the company's net profit for FY2020, FY2021 and FY2022?

A5. In the Abu Dhabi oil field projects the company is involved in, development work is ongoing to increase the production capacity of each oil field, where medium- to long-term increases in production and profit contribution are expected. The company also expects profit contributions from the US tight oil project, which has contributed to the company's profit since FY2019, as well as the ACG Oil Fields in Azerbaijan where additional development is planned, and the Prelude FLNG Project, etc.

Q6. Approximately two years have passed since you were appointed President & CEO. How do you think the external environment including the global warming issue has changed during this period?

A6. The external environment including global warming and its countermeasures has changed rapidly in the last few years. There is a global energy supply and demand outlook scenario in which oil and natural gas will continue to account for about 50% of all primary energy sources in 2040. The company will first implement a "gas shift" while strengthening its renewable energy initiatives in order to reduce the carbon footprint of its business. In the future, the company will also aim to establish new technologies such as methanation technology, which is one form of carbon recycling.

Q7. How do you view Abadi in comparison to Ichthys?

A7. Abadi has a similar development concept to Ichthys, but there are no plans to construct a CPF (Central Processing Facility) for Abadi, because the liquid content of the Abadi Gas Field is not as large as that of the Ichthys Field. Abadi also has excellent reservoir productivity enabling production from a limited number of wells. While approximately 50 wells are planned to be drilled at Ichthys over the life of the project, only about 15 wells are planned for Abadi. In addition, Abadi has secured strong financial conditions in terms of investment and credit, etc. Moving toward FID, costs and other details will be worked out during the FEED process, while securing customers will also be important.

Q8. The company's overall production cost per barrel for FY2019 is 5.3 US dollars. How will the company reduce Ichthys production costs to meet the FY2022 company's overall production cost target of 5 US dollars as outlined in the

MTBP?

A8. The priority is to reduce and optimize Ichthys production costs while maintaining safe and stable operations based on the existing production facilities and framework. Further cost reductions may be expected if additional LNG trains are constructed in the future, albeit there are no specific expansion strategy plans at this time.

Q9. If the 5-year cumulative operating cash flow exceeds the 2.5 trillion yen outlined in the MTBP mainly due to smooth production operations at Ichthys, how will the upside be allocated?

A9. The upside will be allocated considering various factors such as the business environment including the oil price at that time and investment opportunities, etc. Cash allocation priorities are in the following order: debt reduction; shareholder returns; and growth investment. This priority order remains unchanged from the policy outlined in the MTBP. It should be noted that while no large-scale maintenance work at Ichthys is planned for FY2020, there are plans at this point to hold such work in FY2021 and FY2022.

End

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