

INPEX CORPORATION (TSE 1605)

Summary of Q&A

-Investor meeting for the financial results for the six months ended June 30, 2023

Date: August 10, 2023

Number of attendees: Approximately 85

Speaker:

Takayuki Ueda, Representative Director, President & CEO

Daisuke Yamada, Director, Managing Executive Officer, Finance & Accounting

Key questions:

Q1 Please comment on the IRR, schedule and project risks of Abadi.

Ueda We will consider the schedule as we progress discussions and collaboration with our new partners. We aim to achieve an IRR in the mid-10% range. Regarding project risks, Abadi is a green field project and there are many considerations to be made, however we believe that we can decrease the risk by leveraging our experience gained at the Ichthys LNG Project.

Q2 Regarding INPEX's medium- to long-term dividend policy, will the DPS progressively increase?

Ueda We will make every effort for the FY2024 DPS to equal or exceed the FY2023 DPS. We will disclose shareholder returns for FY2025 onwards in our next medium-term business plan, but will take into account the elements we have explained today.

Q3 INPEX's total shareholder return ratio has exceeded 40% for the past two consecutive financial years. Please explain the aim to achieve a total payout ratio of over 40% stipulated in your current medium-term business plan.

Ueda The aim to achieve a total payout ratio of over 40% is stipulated in our current medium-term business plan and we have not made changes to this as of this moment. We have explained that we will allocate our operating cash flow before exploration in the order of 1. debt reduction, 2. shareholder returns, and 3. growth investment. Since the reduction of net interest-bearing debt has steadily progressed, going forward, we will appropriately control leverage so that net D/E ratio remains largely within the range of 30% to 50%, and expand allocation to growth investments and shareholder returns.

Q4 Tell us about the status of Ichthys operations. Is there any possibility of industrial action?

Yamada The Ichthys LNG Project did have some temporary production issues but is currently back to undergoing steady operations. We foresee an approximately

5% reduction in our sales gas volume due to the temporary production issues, and this is incorporated into our recent financial forecasts. As we set an aggressive budget at the beginning of the fiscal year, the sales gas volume will decrease from the initial projection, but is forecasted to remain more or less at the level of the previous fiscal year. Also, we have conducted part of the maintenance work ahead of schedule during the idling period.

Ueda At Ichthys, we have a good relationship with the unions, and we do not foresee situations resulting in industrial action.

Q5 What is the reason behind setting the total amount of shareholder returns to the scale of 200.0 billion yen?

Ueda Through conducting analysis to enhance our capital efficiency, in line with the Tokyo Stock Exchange's request, we concluded that the level of shareholder returns may not have been reaching a level expected by investors. Also, the reduction of net interest-bearing debt has progressed considerably, leaving more room for allocation to shareholder returns. We decided on a total shareholder return of 200.0 billion yen taking into account these factors.

Q6 Will there be continuity in the amount of shareholder returns that equates to more than 60% in total payout ratio?

Ueda We do not believe that we have reached beyond our limits in setting the level of shareholder returns this time around, which amounts to a total payout ratio exceeding 60%. This is based on our confidence in securing future business growth. We will disclose our medium- to long-term shareholder returns policy when we formulate our next medium-term business plan.

Q7 Regarding your growth initiatives, the timeframe for the Abadi and Ichthys expansion schemes is rather long-term. What are your thoughts on growth investments within the coming few years? Will these be targeted at areas such as renewable energy?

Ueda In the short to medium term, renewable energy business is certainly one of the areas that we will consider. However, the economics of renewable energy businesses are - generally speaking - not necessarily compelling. We aim to generate earnings through entire renewable energy value chains, including project development, power generation, storage and retail. One example is the business model of our partnership with ENEL.

Q8 How did you determine the balance between dividends and share buybacks? Did you set the dividend payout ratio of 30% as a benchmark?

Ueda We consider stable dividends as fundamental and understand that investors expect a sustained dividend level. Our basic approach is to sustain a dividend payout level, and if there is room for more, we will conduct share buybacks.

When considering the level of DPS, we have also used the dividend payout ratio of 30% as reference, as this is considered a general standard for listed Japanese companies that have enhanced dividend levels.

Q9 Regarding your FY2023 net income forecasts, what are the items included as one-off profit/losses?

Yamada We have incorporated a negative 10.0 billion yen project related loss in relation to our European wind power project due to poor wind conditions and a lower sales price. Also, although this is now being re-examined, we continue to incorporate a negative 35.0 billion yen loss as Ichthys decarbonization costs. We have also incorporated a 20.0 billion yen gain in divestment-related matters including participating interest sales and exchange gains upon project exits.

Q10 We understood that INPEX believes its Cost of Equity to be around 8% on a CAPM basis. However, as a company whose main business is upstream oil and gas, from a risk versus returns perspective, will you not need to target an ROE above 9%, which is the average ROE in FY2022 for companies listed in the prime market of the Tokyo Stock Exchange?

Ueda We recognize that the average ROE in FY2022 for companies listed in the prime market was 9%. We will not be satisfied with an ROE of around 8% and will aim for a higher ROE. As for our ROE level, on our balance sheet, translation adjustments have now increased to approximately 1.1 trillion yen due to the weaker yen. This comprises approximately one fourth of our total net assets. On the other hand, the weaker yen will have a positive impact on our net income, and therefore a simple calculation is not possible. However, depending on the movement of the forex, the translation adjustments could work to push down the ROE. Also, our assets are comparatively new and therefore depreciation has not yet progressed very much. It will not be easy but we will make every effort to increase our ROE and ROIC.

Yamada When we use the reciprocal of PER (P/E ratio) to estimate the cost of equity, it is around 11-12%. The level of net income required to achieve such a level of ROE is about the level of net income in FY2022 (461.0 billion yen). Based on our current net income level, if we conduct a share buyback of approximately 1 trillion yen (about the same amount of the current translation adjustments), it can be calculated that such an ROE is achievable. However, if we conduct such a massive buyback, net D/E ratio will worsen. Therefore, realistically the fundamental way forward would be to increase the net income level by maintaining quality growth investments. Also, we believe that reducing the

amount of translation adjustments through divesting projects could be an option that forms part of our financial strategy.

Q11 Do you have plans to disclose ROIC on a segment basis?

Ueda We will consider the way we disclose ROIC going forward.

Yamada Internally, we do calculate ROIC on a project basis as well as on a division basis. From this data, we will consider how much we will disclose externally going forward.

Q12 We understood that INPEX will appropriately control leverage so that net D/E ratio remains largely within the range of 30% to 50%. Will INPEX aim for a middle point of around 40%? We believe that you should aim to get close to 50%.

Ueda Regarding net D/E ratio, when growth investment is expected to increase in the future, the ratio is expected to increase. Therefore, we do not expect to fix our ratio at 40% or so.

Q13 Why did you reduce the FY2023 net production volume forecast?

Ueda Due to factors such as the temporary reduction in production volume at Ichthys and the coordinated production cuts by OPEC+.

Q14 We understood that INPEX has increased its total payout ratio by going as far as reducing growth investments. Will such capital allocation policy continue next fiscal year onwards?

Ueda Growth investment for this fiscal year is expected to decrease due to factors such as slight delays in the schedule. We have not reduced the amount of growth investment to increase the amount of shareholder returns, and we have been conducting necessary growth investments.
For FY2024 dividends, we will make every effort for the FY2024 DPS to be equal to or greater than the FY2023 DPS. Regarding shareholder returns for FY2025, we will disclose this in our next medium-term business plan. The content that we have disclosed today will be the basis of our approach to growing our corporate value and we will take into account such elements when considering our long-term capital policy.

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