

Date and time: March 25, 2022 (Fri); 10:00 AM
Place: The Okura Tokyo
Attendees: 130 shareholders
Summary of key Q&A:

Q1: Prospect of development around Ichthys

A1: Since development costs can be reduced if development is conducted near existing facilities, there is prospect for commercialization even when the discovery is marginal. We are currently proceeding with our evaluation process, and hope to formulate a feasible plan by 2024.

Q2: Mid- to long-term oil price forecast in light of decarbonization trends and situation in Ukraine

A2: While the current Brent oil price exceeds 100 USD per barrel, there was a time in which the WTI oil price was in the negative last year, and the situation is extremely volatile. And while there are geopolitical risks such as the situation in Ukraine in the background of the current high oil prices, it is difficult to foresee whether the current oil price level will continue on a long-term basis. Even though there is volatility due to geopolitical risks, we believe that downward pressure could be applied to oil prices and gas prices from the circumstances of net zero carbon and demands, and, in “INPEX Vision @2022”, assume that the mid- to long-term oil prices by 2030 will be roughly Brent 60 to 70 USD per barrel. We will make efforts to strengthen ourselves so that we can gain profits even when the oil prices are low.

Q3: Ratio of investment in the Sakhalin I Project

A3: With the Sakhalin I Project in which we are participating, ExxonMobil as the operator owns a 30% interest, and Sakhalin Oil and Gas Development Co., Ltd. (SODECO) from the Japan side owns a 30% interest. We are investing 6.08% in SODECO, and our share in the overall project is an extremely small share at roughly 1.8%. SODECO is not our consolidated company, and the crude oil produced from the project is not recorded as the production volume of the INPEX Group.

Q4: Plan of supplying natural gas to Europe in relation to the situation in Ukraine

A4: With regard to the supply of natural gas to Europe, we are aware that the Japanese government has approached numerous companies, including INPEX, in light of the current international situation. Nevertheless, the natural gas produced in our projects is mostly sold and supplied domestically based on long-term contracts, and, since domestic demands are increasing due to the coldness of this winter, we actually lacked the capacity to supply natural gas to Europe. Nevertheless, the situation in Ukraine is a crucial international issue, and, in light of the circumstances of future demands, we would like to adequately take measures if there are any measures that could be taken.

Q5: ExxonMobil's intent to withdraw from the Sakhalin I Project

A5: ExxonMobil has declared its intent to withdraw from the Sakhalin I Project. It is our understanding that ExxonMobil is currently considering the optimal method for realizing the smooth succession of operations.

Q6: Influence of weak yen on revenues

A6: In the term ending December 2022, for yen depreciation of 1 yen against the dollar, the effects on the current net profit belonging to the shareholders of our parent company are estimated as being approximately 2.8 billion yen in the positive.

Q7: Efforts in methane hydrate and development of resources in Japanese coastal waters including the off coast of San'in

A7: In relation to methane hydrate, the Ministry of Economy, Trade and Industry publicly sought business operators to participate in a research project in March 2019, and JOGMEC, AIST, and JMH were entrusted with the project (*). We have been contributing to this project as JMH's shareholder. We will continue to actively be involved in the research/survey project, and contribute to overcoming the technical challenges with our technical capabilities. In relation to the project off the coast of San'in, we are scheduled to drill an exploratory well off the coast of Shimane prefecture and Yamaguchi prefecture this April, and we are proceeding with the preparations. In other coastal water bodies, the Japanese government is currently proceeding with the exploration geophysics project, and we would like to utilize the data of this project for our study. In light of the current international situation, the value of domestic projects with a low country risk is extremely high, and, while we are currently operating the Niigata Minami Nagaoka Gas Field, we will also focus on other regions such as the off coast of Shimane prefecture and Yamaguchi prefecture, Minami Sekihara of Niigata prefecture.

(*) Japan Oil, Gas and Metals National Corporation (JOGMEC), The National Institute of Advanced Industrial Science and Technology (AIST), Japan Methane Hydrate Operating Co., Ltd. (JMH)

Q8: Potential geothermal power generation in Japan and INPEX's efforts

A8: It is said that the potential of geothermal power generation in Japan is No. 3 in the world after Indonesia and the U.S., and we have been engaged in geothermal projects in Hokkaido and Tohoku for the past 10 years. Nevertheless, the current situation is that much time is required for development since much of the target land is subject to restrictions, such as the land being located in national parks, national forests and protected forests, and since access to the project location is difficult because the topography is steep in many parts of Japan. Furthermore, for example, while 3 or 4 wells can be drilled annually in Indonesia, there are circumstances where only roughly 1 well can be drilled annually in Japan due to the limited work period resulting from the influence of the accumulation of snow. While there are these conditions which are unique to Japan, we endeavor to promote geothermal projects in Japan while gaining support from the government in the form of institutional reforms and subsidies.

Q9: Supply of natural gas to Germany facing supply instability of natural gas due to the situation in Ukraine

A9: With regard to the energy self-sufficiency rate, the U.S. and Canada exceed 100%, Germany is 35%, France is 55%, and Italy is 25%, but Japan has the lowest energy self-sufficiency rate among the G7 countries at roughly 11%. In relation to the situation in Ukraine, the Japanese government is exerting utmost efforts, and, although we hope to cooperate with the supply of natural gas to Europe to the extent possible, our primary mission is a stable supply of energy to Japan, and, upon fulfilling such mission, we hope to cooperate if there is anything that we can do. In addition, while our policy is to shift to natural gas and increase its production volume, we ask for your understanding in that production is not possible immediately even after we make an investment, and that much time is required for exploration, production and plant construction, etc.

Q10: Forecast on holding facility tours of Naoetsu LNG terminal

A10: We were unable to hold a facility tour last year as well, and we apologize for the inconvenience that we caused to our shareholders. In light of the recent infection status, we are of the opinion that there is still a risk in holding a facility tour, and we have announced on our website that the facility tour has been cancelled this year. Next year, we will consider the possibility of holding a facility tour in light of future situations, and hope to resume the tour once it becomes possible.

Q11: Risk of leakage in development of offshore oil/gas fields in earthquake-prone Japanese coastal waters

A11: On existing oil/gas reservoirs, since there is a stable stratum of hard rocks and oil and gas are retained thereunder, we are of the opinion that the risk of leakage from the stratum is low. Furthermore, the production facilities are designed and constructed based on strict safety standards, and are designed to withstand earthquakes equivalent to the Great Kanto earthquake.

Q12: Grounds for selecting core business areas for the exploration and development of oil/natural gas and future prospects in non-core areas such as the U.S. and Brazil

A12: We will concentrate our resources in core business areas where we have advantages such as Australia, Southeast Asia, Abu Dhabi, Japan, and Europe, and efficiently promote exploration and development. While onshore in the U.S., the Gulf of Mexico, and the deep waters of Brazil are promising areas in relation to crude oil reserves, we intend to concentrate our investment in the core business areas of the foregoing 5 regions by focusing on increasing the production of natural gas.

Q13: INPEX's position of future investment in upstream businesses in a decarbonized society

A13: While many countries including Japan have announced their target of net zero carbon by around 2050 on the one hand, we do not believe that demands for oil and natural gas will vanish immediately even in light of the recent situation in Ukraine. In particular, we are of the opinion that demands for natural gas will continue to increase for a while longer. As a result of internal discussions, our strategy is to concurrently promote both upstream businesses and the 5 net zero businesses. In other words, the stable supply of energy is our primary responsibility, and, while we have a mission to stably supply oil and natural gas according to demands, we will also promote the reduction and utilization of CO₂ by CCS/CCUS technology as well as the renewable energy such as wind power and geothermal power. As the pioneer of energy transformation, we formulated our “INPEX Vision @2022” under the direction of supplying various types of clean energy and contributing to a net zero-carbon society.

Q14: Venezuela projects from which INPEX withdrew (background of initial participation, etc.)

A14: INPEX participated in Venezuela's upstream projects in 1992 when they were first opened to foreign investors. Venezuela's crude oil reserves are one of the greatest in the world, and, since Venezuela was still on friendly relations with the U.S. at the time, we participated in the project as an operator through a bidding process. While we thereafter continued production smoothly even though the production volume was not significantly great, we decided to withdraw from Venezuela due to the economic sanctions by the U.S., depreciation of bolivar, and worsened project economics.

Q15: Influence of and measures against inflation pressure and rising interest rates, and reduction of interest-bearing debt

A15: With regard to the interest-bearing debt including Ichthys IJV, we aim to reduce it to 2 trillion yen by the end of this year, and, with a further reduction of roughly 500 billion yen, we aim for a balance of roughly 1.5 trillion yen by the final business year (2024) of the Medium-term Business Plan. There are reports that interests will continue to be of an increasing trend, and the interest-rate level is an important matter that is directly linked to our business management. We will steadily repay our debt and reinforce our financial standing; specifically, we will reduce the net D/E ratio to be 50% or less. Furthermore, we will also consider hedging the rising interest rates through fixation of the interest rates. With regard to the increase of costs due to inflation pressure, each business division will deal with such increase of costs in a timely and appropriate manner in light of the operating conditions. We will continue to take proper measures in light of market trends and exert efforts so we can meet the expectations of our shareholders.

Q16: Possibility of cooperation for CO2 reduction with China and the U.S. with considerable CO2 emissions

A16: The issue of CO2 emissions is a global challenge. CO2 emissions of Japan are less than 4% of the entire world, and global CO2 emissions cannot be reduced unless CO2 emissions of China, India, the U.S., etc. are reduced. Most of our overseas projects are not being conducted just by INPEX, but through the JV with numerous overseas companies. While we are promoting efforts for CO2 reduction in our Ichthys LNG Project where we act as the operator, we hope to also promote CO2 reduction in projects where we are participating as a non-operator through dialogue with the respective JV partners. U.S. companies also consider CO2 reduction a major challenge, and efforts for CO2 reduction are actually already underway.

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