

■ INPEX CORPORATION (TSE1605)

Presentation on financial results for the six months ended Sep. 30, 2019

Summary of Q&A session

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Date : November 7, 2019  
Number of attendees : 87  
Key questions :

Q1. Regarding the Ichthys LNG Project (hereinafter referred to as Ichthys), while the number of LNG cargo shipments has increased, Ichthys' contribution over 20 billion yen for the second quarter (hereinafter referred to as 2Q) to the company's profit seems insufficient. In addition, Ichthys' contribution to the company's profit for the third quarter of the current fiscal year (hereinafter referred to as 3Q) is expected to be around 25 billion yen. If the oil price is around 60 US dollars/barrel, is it appropriate to expect Ichthys' contribution to the company's profit to be around 20billion~25 billion yen on a quarterly basis in the next fiscal year?

A1. Ichthys' contribution to the company's profit is dependent on multiple factors including, for example, oil price fluctuations, LNG carrier capacity and the ratio of LNG spot sales versus sales based on long-term contracts. Ichthys also produces condensate and LPG, in addition to LNG. Therefore, profit fluctuations cannot be explained solely based on the number of LNG cargo shipments.

In addition, Ichthys' profit contribution forecast for the 3Q is approximately 25 billion yen, which is equivalent to approximately 100 billion yen on a full year basis. This figure approaches the figure of "over 100 billion yen," (assuming a 60 US dollar oil price and a 1 US dollar/110 yen exchange rate) which was previously explained as Ichthys' profit contribution forecast for FY2022.

Given the benchmark of "about 120 LNG cargo shipments per year during plateau production," the achievement of 10 LNG cargo shipments per month in the last few months suggests that Ichthys is approaching the point where it is more or less on the verge of reaching the plateau production level. Currently, evaluations are being made to determine whether the production level may be maintained over the long-term in a stable manner, including monitoring the status and condition of facilities.

Q2. Outlook for free cash flow (hereinafter referred to as FCF) based on financial accounting in the next fiscal year.

A2. FCF, including Ichthys' downstream JV, is expected to be positive in the current fiscal year and will continue to be positive for a certain period. However, cash flow factoring in the repayment of the loan principal remains very tight. In addition, at the stage of full-scale investment in the Abadi LNG Project (hereinafter referred to as Abadi), FCF will become tight. Thereafter, FCF will return positive just before Abadi's production start-up. This does not necessarily correspond to FCF for financial accounting that does not include Ichthys' downstream JV.

Q3. What is the reason for increasing the year-end dividend? Were you mindful of the standard dividend payout ratio of around 39% to 40%?

A3. Net profit for the 12 months ended March 2019 was 96.1 billion yen. The oil price has dropped around 10 US dollars from last year and it is hard to say that the business environment has improved, but we believe that our earning power has increased based on the steady progress of Ichthys. In order to reward INPEX shareholders for their continuous support, the dividend was increased by 3 yen this time. Although we did not seek alignment with the payout ratio figures of 39% to 40%, last year's payout ratio was 36.5%, and this year's payout ratio forecast is 39.4%.

Q4. What is your approach to dividends for the next fiscal year? It is 27 yen for the nine months of the current fiscal year, but based on the policy of stable shareholder returns outlined in the Medium-term Business Plan (hereinafter referred to as the mid-term plan), will it be 36 yen in the next 12-month fiscal year?

A4. The annual dividend forecast of 27 yen for this term is based on the profit level forecast for the current fiscal year (100 billion yen) and not on the accounting period (nine months). We believe that if Ichthys continues to operate smoothly, we can again expect a certain profit level for the next fiscal year. We will consider dividends for the next fiscal year comprehensively taking into account the business environment including oil prices and exchange rates.

Q5. What are your views on the economics of new (project) investments as you aim to improve ROE?

A5. A double-digit IRR is the rule of thumb. It is important to ensure that sufficient profits can be expected even in a situation where oil prices do not

increase over the long term. We are fully aware of the views on ROE of those involved in the market.

Q6. It is understood that Ichthys' contribution to the company's profit is expected to exceed 100 billion yen in the final year of the mid-term plan or fiscal year 2022. Whereas it was previously believed that plateau production would be reached within 2~3 years following the LNG production start-up, production ramp-up has been progressing very well for about a year since the start-up of LNG production. Given this progress, is there a possibility that the expected profit will surpass the "over 100 billion yen" outlook? Also, will cash flow for the 5-year period of the mid-term plan increase?

A6. Ramping up production ahead of the initial schedule does not mean that the profit contribution level at plateau production will increase.

As for cash flow for the mid-term plan's 5-year period, while production ramp-up has been progressing very well, it must also be recognized that production start-up at Ichthys was delayed by several months beyond the schedule assumptions made in the mid-term plan .

Q7. Regarding the expansion of Ichthys and explorations blocks in the vicinity of the Ichthys field, please comment on the feasibility and timing of constructing additional LNG trains.

A7. Land for an additional 4 LNG trains has already been secured. However, our priority lies in conducting efforts aimed at maintaining stable production and reducing costs at Ichthys. Since expansion requires a large volume of reserves, we will carefully consider (all aspects of) the matter including the timing.

Q8. While Ichthys LNG is mainly sold through long-term contracts, how does the fall in LNG spot prices affect Ichthys' contribution to the company's profit?

A8. Approximately 8.4 million tons/year of LNG at the project are covered by long-term contracts. Spot cargoes have been included in this fiscal year, but the impact is limited.

Q9. It is understood that the crude oil price sensitivity in the final year of the mid-term plan or fiscal year 2022 will have an 8 billion yen impact on INPEX's net income per 1 US dollar. As Ichthys appears to be approaching the point where it is more or less on the verge of reaching the plateau production level, is there any

change to the sensitivity for 3Q in the current fiscal year? Also, what is the view on crude oil price sensitivity in the next fiscal year ending December 31, 2020?

A9. There is no change from the sensitivity disclosed at the beginning of the current fiscal year (crude oil sensitivity for 3Q in the current fiscal year: 0.7 billion yen). The crude oil price sensitivity is expected to increase due to factors including an increase in sales volume, etc. In the current fiscal year, we are disclosing quarterly crude oil price sensitivities in order to enhance accuracy and reflect oil price lags. The crude oil price sensitivity of 8 billion yen in the final year of the mid-term plan is a provisional calculation that does not reflect oil price lags.

End

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