- INPEX CORPORATION (TSE 1605)
- Presentation on financial results for the year ended December 31, 2022. Summary of Q&A session

Date : February 10, 2023
Number of attendees : Approximately 120
Speaker:
Takayuki Ueda, Representative Director, President & CEO
Daisuke Yamada, Director, Managing Executive Officer, Finance & Accounting

Key questions :

Q1.	The Ichthys LNG Project (hereinafter, Ichthys) aims to further increase its current production capacity by 2024 to build a framework capable of stably producing 9.3 million tons per year as per INPEX's Medium-term Business plan (hereinafter, MBP). How is the progress towards increasing production?
Ueda:	Based on the current supply and demand situation, we have accelerated our efforts to increase production. Ichthys plans to ship approximately 11 LNG cargoes per month in the fiscal year ending December 2023 (hereinafter, FY2023). INPEX aims to build a framework capable of stably supplying 9.3 million tons of LNG per year, one year ahead of schedule.
Q2:	Ichthys is expected to ship approximately 11 LNG cargoes per month in FY2023. By rough calculation, there will be approximately 20 more LNG cargo shipments compared to last year. How are these cargoes going to be sold?
Ueda:	In principle, we will market the additional volume based on long-term contracts, although we are not able to disclose details due to confidentiality requirements. Most of the cargoes scheduled for shipment will be marketed based on long-term contracts, and the number of spot cargoes is expected to be limited.
Q3:	Regarding cash allocation for FY2023, what will be your approach if the operating cash flow before exploration including the Ichthys downstream company (hereinafter "operating CF"), exceeds the forecast? The net D/E ratio including the Ichthys downstream company (hereinafter, net D/E ratio) is below the target of 50 percent or less in the MBP. Are you aiming to further reduce the leverage going forward? If the operating CF exceeds the forecast, will you increase debt reduction, or will you increase the amount of shareholder returns?
Yamada:	In the fiscal year ended December 31 2022 (hereinafter, FY2022), we allocated cash with a focus on debt reduction. As a result, the net D/E ratio fell below 50 percent. We must prepare for large projects in the future, but given that financial discipline has improved, we will consider how to allocate cash to debt reduction, shareholder returns, growth investment as we go forward. The net D/E ratio for FY2022 was 46 percent. The initial outlook for FY2023 assumes a net D/E ratio of 39 percent with an oil price assumption of 75 US dollars/barrel. We assess the level to be generally favorable. The net D/E ratio includes factors that cannot be controlled independently, such as oil prices, investment conditions, accumulated capital, and foreign currency translation adjustments. In my personal view, as one of the guidelines, a lower limit of approximately 30 percent is an appropriate level for our company's net D/E ratio.

	Regarding cash allocation for FY2023, the proportions allocated to growth investment, shareholder returns, and debt reduction are generally as expected in the MBP, and the situation is well-balanced. In the initial forecast for FY2023, we plan to reduce debt by approximately 190 billion yen. Retaining cash for future investments rather than pursuing debt reduction is one approach. We will manage our finances using the net D/E ratio as one of the guidelines.
Q4:	Regarding the expansion of Ichthys and the Abadi LNG Project (hereinafter, Abadi), is there any change to INPEX's plans to accelerate efforts toward further expanding LNG development considering the current LNG prices and supply and demand?
Ueda:	Based on the situation in Russia and Ukraine, the structure of the LNG market is changing. For example, LNG terminals are being set up in Europe, LNG export terminals are being constructed in the United States, and Russia is considering laying pipelines to China in the future. In the short and medium term, the LNG market will be fragmented. As a result, supply and demand is expected to remain tight for the time being. In terms of managing the energy transition, many countries believe that, realistically, they will have no choice but to rely on natural gas and LNG for the time being. In light of the changes in the LNG market structure and the positioning of LNG, we recognize that strengthening LNG production capacity in the short term and accelerating the expansion of LNG in the long term are issues that need to be addressed. From this perspective, we would like to accelerate exploration activities in the vicinity of the Ichthys Field and aim to expand Ichthys in around 2030.
Q5:	While it is understood that Abadi is considering incorporating CCS, will emissions reduction be limited to Scopes 1 and 2, or would Scope 3 be included too? In the former case, if Abadi starts production in the early 2030s, Abadi will continue to produce into the 2050s. If that is the case how will Abadi LNG be decarbonized in the 2050s?
Ueda:	Abadi's CCS solutions will initially aim to reduce Scopes 1 and 2 emissions. However, depending on CCS methods, Abadi could potentially absorb more CO2, including Scope 3 emissions, in the long term. The PSC contract for the Abadi runs until 2055, and if production starts, it is assumed that LNG supply will continue beyond 2050. Therefore, depending on the situation, Scope 3 emissions will also be considered and reduced through offsetting. Abadi just completed a CCS study last year, and based on the results of the study, we will develop a competitive and clean project that can respond to changes in the external environment from the perspective of securing long-term competitiveness and sustainability. We are currently discussing the revised Plan of development (POD) with the Indonesian government.
Q6:	Regarding shareholder returns, what is the background behind the increase in the annual dividend to 64 yen for FY2023, despite the decrease in sales and profits? How do you balance the distribution of dividends and share buybacks?
Ueda:	In 2023, it will be important for INPEX to increase its earning power, except for the external factors we cannot control. We will build a framework to stably supply 9.3 million tons of LNG per year at Ichthys, increase production at Abu Dhabi, and enhance short-term and long-term earning power in the five net zero businesses. To meet the expectations of our shareholders and steadily and actively promote shareholder returns, we thought we would demonstrate our stance of emphasizing

	shareholder returns. Regarding the distribution of dividends and share buybacks, we will implement share buybacks considering our business environment, financial position and management conditions, etc. in accordance with the improvement in our financial performance, with stable dividends as a basis.
Q7:	INPEX announced the sale of its Eagle Ford assets in the United States. Are there any regions that require reassessment of the portfolio?
Ueda:	From the perspective of our portfolio management, we are focused on selectively concentrating on our core areas. We will continue to monitor our portfolio at all times going forward.
Q8:	The MBP includes a net income target of 240 billion yen assuming an oil price of 70 US dollars/barrel in FY2024. Does the net income outlook for FY2023 not appear to be making weak progress in relation to that target, when compared using oil price sensitivity calculations?
Yamada:	The net income forecast of 270 billion yen for FY2023 includes a one-time loss of approximately 35 billion yen for decarbonization costs at Ichthys. The net base income is therefore expected to be approximately 300 billion yen, and we are progressing as planned toward achieving the MBP target.
Q9:	The ROE forecast for FY2023 is 7 percent. Is this not progressing weakly compared to the target (8 percent) for FY2024 at an oil price assumption of 70 US dollars/barrel? The weak factors may be that the debt has been reduced faster than expected, equity capital has increased more than expected, and earning power has fallen more than expected from the perspectives of ROA and ROIC.
Yamada:	ROE for FY2022 is 12.7 percent. The ROE forecast for FY2023 is 7 percent. We are aware that the ROE is not in line with investors' expectations. From the perspective of ROE, one area beyond our control is the depreciation of the yen. While a weaker yen has a positive impact on net income, it also increases foreign currency translation adjustments, leading to an increase in equity capital, which is the denominator when calculating ROE. From the perspective of earning power, we are making steady progress on increasing production volume and reducing production costs. We will keep working while keeping mindful of the ROE target of 8 percent included in the MBP.
Ueda:	We are making progress in line with the goals of the MBP. We believe that it is important to increase production volume and work to further reduce costs. In FY2022, our net production volume was 622,000 barrels per day and in FY2023, it is expected to reach 639,000 barrels per day. In addition, production costs were 5.8 US dollars/barrel in FY2022 and are projected to drop to 5.5 US dollars/barrel in FY2023. Further cost reduction efforts will result in an increase in ROE. We acknowledge the viewpoint that the 8 percent target set in the MBP is insufficient and take this very seriously, and will continue our efforts.
Q10:	How do you view the cost of equity? Based on the oil price and exchange rate assumptions for FY2023, INPEX's ROE forecast is 7 percent, which is lower than the ROE of 8 percent required by the Ito Report, despite the favorable external conditions.

Yamada:	Our WACC is estimated to be approximately 5 percent based on certain assumptions. Our hurdle rate is set at around 8 percent to a double-digit percentage or more, considering the characteristics, schemes, risks, profit structures, etc. of the businesses in which we participate. We will continue to improve our investment discipline, while reviewing the policy as appropriate. Currently, we recognize that the return relative to the cost of shareholders' equity is in a reasonable position.
Q11:	Net production is expected to reach 639,000 barrels per day in FY2023. What progress will be made toward the MBP target of 700,000 barrels per day?
Ueda:	In addition to building a framework that can stably produce 9.3 million tons per year at Ichthys, we will steadily increase production in Abu Dhabi and other locations. In addition, production operations at Prelude are expected to be more stable than last year. In addition to expanding the production volume of these existing projects, we plan to invest approximately 400 billion yen in the oil and natural gas business in FY2023. Through such efforts, we will work toward achieving 700,000 barrels per day.
Q12:	What are the factors behind the difference between the first half (199 billion yen) and the second half (71 billion yen) of FY2023?
Yamada:	The difference between the first and second halves is due to the following four reasons: (1) crude oil prices are expected to decline mainly from the first half to the second half; (2) the sales unit price in the first half is expected to be higher than in the second half due to the delayed effect of gas prices; (3) Ichthys decarbonization costs are expected to be incurred in the second half; and (4) greater exploration expenses are planned for the second half.
Q13:	Is inflation factored into the FY2023 forecast?
Yamada:	Inflation is not factored into the investment figure at this time.
Q14:	A negative 19.7-billion-yen interest rate impact has been factored into the FY2023 financial forecast analysis. What are the assumptions of the interest rate? What is the sensitivity of the interest rate?
Yamada:	The Libor assumption for FY2023 is 5.5 percent. All yen-denominated borrowings have fixed interest rates, so there is no impact on these. Approximately half of US dollar-denominated borrowings are affected by rising interest rates. A 1 percent rise in the interest rate will create an impact of between 3 billion and 5 billion yen.

End

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