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MATERIALITY

## Corporate Governance

### Our Policy

Our approach to governance is designed to fulfill our responsibilities to our shareholders and other key stakeholders and support transparent, fair, timely and conclusive decision-making, with the goal of achieving sustainable growth and increasing corporate value over the medium to long term. Furthermore, we formulated and disclosed our Corporate Governance Guidelines for the purpose of ensuring transparency and fairness in decision-making and achieving effective corporate governance through proactive information disclosure. We also revise the guidelines as appropriate in step with the evolution of corporate governance.

In FY2021, we continued to strengthen and enhance our corporate governance through measures such as formulating the Sustainability Principles through discussions on how to respond to the revised Corporate Governance Code and other discussions at Board meetings.

### Management System

For the enhancement of corporate governance, we have established the following advisory bodies to the Board of Directors: 1) the Nomination and Compensation Advisory Committee—the majority of which consists of outside officers including independent Outside Directors—for the purpose of strengthening the independence, objectivity, and accountability of Board of Directors' functions and contributing to the further enhancement of the corporate governance system; and 2) the INPEX Advisory Committee, for the purpose of obtaining multifaceted and objective counsel and recommendations from external experts across a wide range of areas, including domestic/international political and economic outlook, prospects for the energy sector, and sustainability, with the aim of maintaining sustainable growth and enhancing medium- and long-term corporate value. The member attendance rate at committee meetings held in FY2021 was 100% on every occasion. We have also established the Compliance Committee for the purpose of promoting unified compliance initiatives throughout the INPEX Group, the details of which are stated in the Compliance Management System.

We have many opportunities to engage in important negotiations with the governments of oil-producing countries, government-owned oil companies, and international oil companies. This requires internal Directors and executive officers who have knowledge, expertise and international experience related to the Company's business, and in-depth knowledge of both the Company and their particular fields of expertise. Internal Directors in principle hold concurrent positions as executive officers. By adopting this organizational structure, our Board of Directors is better placed to make efficient business decisions. At the same time, this structure helps to ensure the effective supervision of management.

We have appointed five of the twelve members of the Board of Directors from outside the Company to enhance the transparency of management and strengthen the effective supervisory function of the Board of Directors. We also take advantage of the objective perspectives of Outside Directors, which may differ from those of the Internal Directors. Given their independent standing, Outside Directors are expected to provide advice based on their own knowledge and experience, monitor management and conflict of interest transactions, and appropriately represent the views of stakeholders in the boardroom. We appoint as Outside Directors people who have extensive experience and wide-ranging insights as corporate managers, academics, or other specialists in the resource/energy industry, or in finance, legal affairs or other fields.

As of the end of March 2022, four of the five Audit & Supervisory Board Members are Outside Auditors. The INPEX Audit & Supervisory Board has been established pursuant to laws and regulations of Japan to strengthen the audit function and ensure the independence of auditors and the effectiveness of audits. Further efforts of the Company include assigning audit assistants to the Audit & Supervisory Board Members' Office—which assists Audit & Supervisory Board operations—and strengthening this board's coordination with the internal audit

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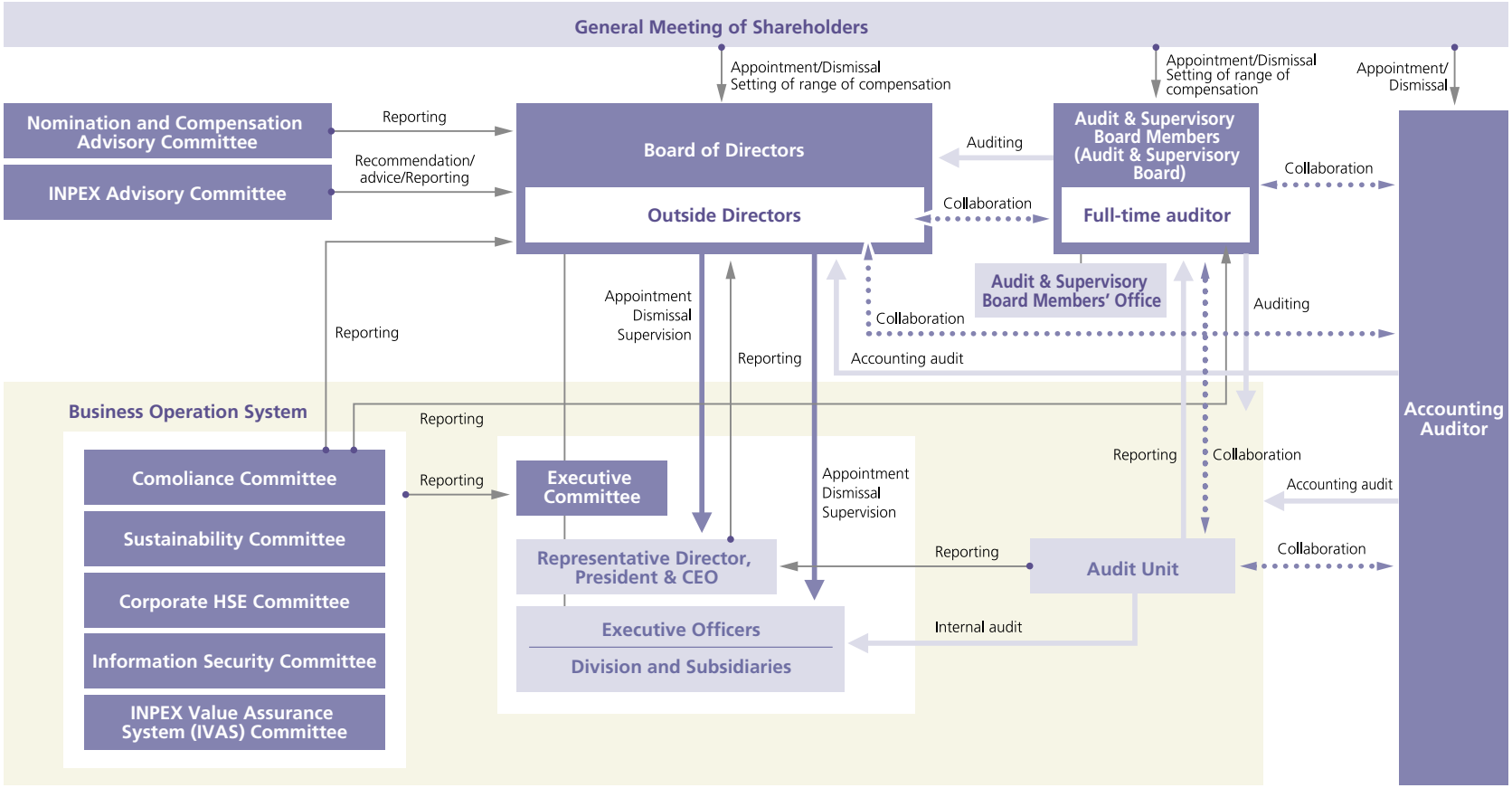
departments (Audit Unit) and accounting auditors.

Furthermore, we regularly hold meetings among Outside Directors, Audit & Supervisory Board Members (including accounting auditors as necessary) and the Representative Directors to exchange opinions on a wide range of themes relating to important management issues, for the development and operation of internal control systems, and other issues related to corporate governance. Those meetings consist of the "Meeting of Outside Directors, Audit & Supervisory Board Members, and the Representative Directors", "Meeting of Outside Directors and Audit & Supervisory Board Members (including accounting auditors as necessary)", and "Meeting of Audit & Supervisory Board Members and the Representative Directors".

INPEX also promotes gender diversity at the executive level. We appointed our first female executive officer in March 2020, with the appointment of one female Outside Director and one Outside Audit & Supervisory Board Member.

Management System

## Corporate Governance System



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## Attendance at the Board of Directors meetings during FY2021

In principle, the Board of Directors meets on a monthly basis, with 16 meetings being held in FY2021. The attendance of all Directors at Board of Directors meetings was as follows.❷

❷ Notice of the 16th Ordinary General Meeting of Shareholders p.10&78

### Attendance of all Directors at Board of Directors meetings (FY2021)

| Position | Name | Responsibilities | Attendance at the Board of Directors |
|---|---|---|---|
| Representative Director and Chairman | Toshiaki Kitamura | — | 100% (16/16 times) |
| Representative Director, President & CEO | Takayuki Ueda | — | 100% (16/16 times) |
| Director, Senior Executive Vice President | Seiya Ito | Senior Vice President, Oceania Projects<br>Head of Overseas Projects | 100% (16/16 times) |
| Director, Senior Executive Vice President | Takahiko Ikeda | Senior Vice President, Technical Headquarters<br>Hydrogen & CCUS Development Office<br>HSE and Compliance | 100% (16/16 times) |
| Director, Senior Managing Executive Officer | Shigeharu Yajima | Senior Vice President, Global Energy Marketing | 100% (16/16 times) |
| Director, Managing Executive Officer | Kimihisa Kittaka | Senior Vice President, Corporate Strategy & Planning<br>Legal Affairs | 100% (16/16 times) |
| Director, Managing Executive Officer | Nobuharu Sase | Senior Vice President, General Administration | 100% (16/16 times) |
| Director, Managing Executive Officer | Daisuke Yamada | Senior Vice President, Finance & Accounting | 100% (16/16 times) |
| Director (Outside) | Jun Yanai | — | 100% (16/16 times) |
| Director (Outside) | Norinao Iio | — | 100% (16/16 times) |
| Director (Outside) | Atsuko Nishimura | — | 100% (16/16 times) |
| Director (Outside) | Yasushi Kimura | — | 100% (16/16 times) |
| Director (Outside) | Kiyoshi Ogino | — | 100% (16/16 times) |
| Director (Outside) | Tomoo Nishikawa | — | 100% (16/16 times) |

Note: Positions and responsibilities are as of December 31, 2021

### Changes in Corporate Governance System Membership

| Fiscal Year | Number of Directors | Of which, Outside Directors | Number of Audit & Supervisory Board Members | Of which, Outside Auditors |
|---|---|---|---|---|
| 2017 | 15 | 6 (One female included) | 5 | 4 |
| 2018 | 15 | 7 (One female included) | 5 | 4 |
| 2019 | 13 | 5 (One female included) | 5 | 4 (One female included) |
| 2020 | 14 | 6 (One female included) | 5 | 4 (One female included) |
| 2021 | 14 | 6 (One female included) | 5 | 4 (One female included) |

Note: INPEX adopts the institutional design of a company with a board of corporate auditors.

## Evaluation results of effectiveness of Board of Directors in FY2021

With the aims of regularly verifying that the Board of Directors is functioning appropriately and identifying issues for continuous improvement, the Company evaluates the effectiveness of the Board of Directors each year, and discloses the summary of the results. In line with this policy, the seventh evaluation was conducted in FY2021. The evaluation method and summary of the results are as follows.

## Evaluation Method

An interim review of the issues identified in the effectiveness evaluation for the previous fiscal year was undertaken at the meeting with Outside Directors and Audit & Supervisory Board Members held in August 2021. The implementation method of this fiscal year's effectiveness evaluation was also discussed, including how to involve a third-party evaluation body. As a result, the decision was made to retain the Board of Directors self-evaluation method as the effectiveness evaluation in fiscal 2021, as this method was confirmed to be appropriate by the third-party evaluation organization in the previous evaluation. In addition, going forward, we confirmed a policy to appoint a third-party evaluation organization on a roughly three-yearly basis to determine the appropriateness of the method of evaluation and analysis conducted by the Board of Directors secretariat, and the validity of the draft improvement plan.

Subsequently, this fiscal year's implementation policy and evaluation items were deliberated at the meeting of the Board of Directors held in November 2021, including the content of the survey prepared by the Board of Directors secretariat.

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The evaluation items included: the self-evaluation of each Director and Audit & Supervisory Board Member; the composition, operations, roles and responsibilities of the Board of Directors; operations of the Nomination and Compensation Advisory Committee; and the status of improvement of issues identified in the previous evaluation. An anonymous online survey of all Directors and Audit & Supervisory Board Members was conducted in December 2021. Directors were encouraged to make comments on many of the question to obtain more specific views and opinions.

The results of the survey were consolidated and analyzed by the Board of Directors secretariat, and in January 2022, the results of the consolidation and analysis—as well as issues and initiatives for the future—were discussed at a meeting among the Outside Directors, Audit & Supervisory Board Members and the Representative Directors. Based on that discussion, the following evaluation results were confirmed at the Board of Directors meeting held in February 2022.

## Summary of Evaluation Results

(1) The overall effectiveness of the Board of Directors was confirmed to be sufficient, as in the previous fiscal year.
(2) The following initiatives received positive evaluations and their continuation was requested: (i) Implementation of online pre-meeting briefings; (ii) Implementation of lectures and opinion exchange meetings by outside experts; and (iii) Establishment of agenda items to discuss medium- to long-term themes.
(3) The following issues were identified as future initiatives, in order to secure even further effectiveness for the Board of Directors:
- Deeper discussions on management strategies, including the planning and progress of initiatives for each of the Net Zero businesses
- Further invigoration of discussions at Board of Directors meetings
- Deeper discussions regarding the desired state of the Board of Directors
- Enhanced discussions on portfolio management.

The Company will continue to improve the effectiveness of the Board of Directors based on the results of this evaluation.

## Skill Matrix

We select Directors who have diverse and abundant experience and insights for executing our INPEX Vision @2022, which aims to realize a net zero carbon society in 2050.

The skill matrix of the Company's Directors is shown in the table below.

**Directors' Skill Matrix**

| | Name | Position | Field | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Corporate management | Global | Finance/ Accounting | Legal/Risk management | Sustainability (ESG) | Technology/DX | Energy | Sales/Marketing | HR development/ Diversity |
| 1 | Toshiaki Kitamura | Representative Director and Chairman | ● | ● | | | ● | | ● | | ● |
| 2 | Takayuki Ueda | Representative Director, President & CEO | ● | ● | | | ● | ● | ● | | |
| 3 | Takahiko Ikeda | Director, Senior Executive Vice President | ● | | | ● | | ● | ● | | ● |
| 4 | Kenji Kawano | Director, Senior Executive Vice President | | ● | | | | ● | ● | | |
| 5 | Kimihisa Kittaka | Director, Managing Executive Officer | | ● | | ● | ● | | | | |
| 6 | Nobuharu Sase | Director, Managing Executive Officer | | | ● | ● | | | | ● | ● |
| 7 | Daisuke Yamada | Director, Managing Executive Officer | ● | | ● | | | ● | | | |
| 8 | Jun Yanai | Director (Outside) | ● | ● | | ● | | | ● | ● | |
| 9 | Norinao Iio | Director (Outside) | ● | ● | | | | | ● | ● | |
| 10 | Atsuko Nishimura | Director (Outside) | | ● | | ● | ● | | | | ● |
| 11 | Kiyoshi Ogino | Director (Outside) | ● | ● | ● | ● | | | | | ● |
| 12 | Hideka Morimoto | Director (Outside) | | | | ● | ● | | ● | | ● |

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# Process for Determining Directors' Compensation

As an advisory body to the Board of Directors, we have established the Nomination and Compensation Advisory Committee—the majority of whose members are Independent Outside Directors—to help strengthen the independence, objectivity, and accountability of the Board of Directors' functions in determining the compensation for each Director. Based on the report of the Committee, the Board of Directors establishes a policy for determining the amount of compensation for Directors and the method of calculating such amount. The compensation etc. paid to Directors is no more than the upper limit of the compensation, etc. resolved at the General Meeting of Shareholders.

The Nomination and Compensation Advisory Committee is expected to meet, in principle, at least four times a year to deliberate on major matters concerning the policy for determining the amount and calculation method of compensation for Directors and the details of compensation, etc for each individual and to provide a report to the Board of Directors, and the Board of Directors makes decisions with the utmost respect for the content of that report. The amount of compensation to be paid to each Director (including the final amount of bonuses based on the evaluation of the performance of the division in charge) shall be decided by the President & CEO—who has been entrusted by the resolution of the Board of Directors and who is most familiar with the Company's management situation—in accordance with the report of the Committee.

Considering the external environment and recent social and economic trends surrounding the Company, the Company may adjust the calculation of the amount of compensation for each Director. This is conducted by resolution of the Board of Directors and after careful deliberation by the Nomination and Compensation Advisory Committee about the appropriateness of the target value and calculation method for performance-linked compensation.

The total amount of consolidated compensation for each Director and Audit & Supervisory Board Member is not disclosed due to the absence of applicable Directors or Audit & Supervisory Board Members who received consolidated compensation of 100 million yen or more, which is the disclosure standard stipulated in the Cabinet Office Ordinance on Disclosure of Corporate Affairs issued by the Financial Services Agency of Japan.

## Remuneration for Directors

There are three types of remuneration for Directors (excluding Outside Directors): (i) basic compensation in accordance with the duties of each position; (ii) bonuses as short-term incentive compensation; and (iii) stock-based compensation as a medium- to long-term incentive. Compensation for Outside Directors consists only of basic compensation, so as to preserve the independence of their role.

(1) Basic compensation

- Cash compensation paid to Directors as a fixed monthly compensation in accordance with the duties of each position
- Cash compensation paid (in addition to the aforementioned monthly fixed compensation) to Outside Directors who also serve as committee members

(2) Bonuses

- Performance-linked cash compensation paid each June, taking into account the Company's performance for the fiscal year in question and the performance of the division in charge
- In addition to the Company's main financial indicators of: net income attributable to shareholders of the parent company (hereinafter "net income"); and cash flows from operating activities before exploration, the company adopts non-financial indicators including safety indicators (zero major accidents), which are indispensable to fulfill the Company's mission of stable energy supply. The amount of compensation is calculated based on the evaluation weights in the table below and according to the degree of achievement of these targets. The final amount of compensation fluctuates within the range of 0% to 200%.

| Bonus KPI | | Evaluation weight |
|---|---|---|
| Financial indicators | Net income | 45% |
| | Cash flows from operating activities before exploration | 45% |
| Non-financial indicators | Safety indicators (zero major accidents) | 10% |

- The degree of achievement of the targets of the divisions under each Director's jurisdiction, excluding the Chairman, President & CEO, etc., shall be annually evaluated, and the results of the evaluation of each division shall be reflected in the bonus amount of each Director, which is calculated based on the degree of achievement of corporate performance indicators.

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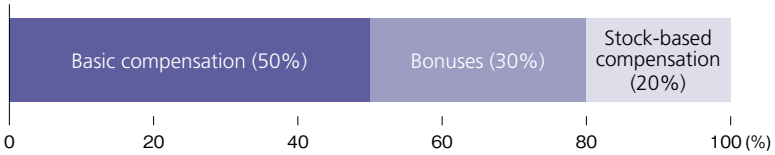
(3) Stock-based compensation

- Stock-based compensation to be paid to Directors after their retirement that combines performance-linked elements aimed at raising Directors' awareness of their contribution to the Company's medium- to long-term business performance and enhancement of corporate value, and fixed elements aimed at strengthening Directors' awareness of sharing interests with shareholders through ownership of the Company's shares
- The standard amount of stock-based compensation is set for each position, and a portion of the standard amount is linked to performance share, while the remainder is comprised of non-performance share stock-based compensation.
- The Company's performance indicators for the performance share portion are based on the key management indicators in the Medium-term Business Plan—such as net income, cash flows from operating activities before exploration, return on equity (ROE) and total payout ratio—as well as on the performance indicators for production cost per BOE and net carbon intensity, with the goal of thoroughly strengthening the oil and natural gas business and promoting each of the five net zero businesses. Depending on the degree of achievement of these goals, the amount of compensation will be calculated based on the evaluation weights in the table below, and the final amount of compensation will vary within the range of 0% to 200%.
- The non-performance share portion is paid as stock-based compensation with a fixed number of shares to be delivered, from the perspective of strengthening the sense of shared interest with shareholders.
- Stock-based compensation is provided through a system using the Board Incentive Plan Trust. Under this system, points are granted annually to those eligible for the system based on their position, performance, etc., and in principle, the Company's shares equivalent to the accumulated number of points are delivered from the trust after the retirement of those eligible for the system.

| Stock-based compensation KPI | | Evaluation weight |
|---|---|---|
| Financial indicators | Net income | 30% |
| | Cash flows from operating activities before exploration | 30% |
| | ROE | 10% |
| | Total payout ratio | 10% |
| Non-financial indicators | Production cost per BOE | 10% |
| | Net Carbon Intensity | 10% |

- The ratio of the President & CEO's remuneration when the target achievement level for each index shall be 100% is as follows.




- For stock-based compensation, in the event that any Director commit a significant improper or illegal act, the Company may cancel or forfeit their right to receive the Company's shares under the system (malus) and demand the return of cash corresponding to the Company's shares already delivered to them (clawback).

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## Audit & Supervisory Board

We have adopted the auditor system and have an Audit & Supervisory Board consisting of five Audit & Supervisory Board members, four of whom are Outside Auditors. These four Outside Auditors have abundant experience and knowledge of the Company's business, finance, accounting, legal and other fields, which they apply to their auditing duties. In addition, we have established the Audit & Supervisory Board Member's Office, an organization independent from executive divisions, whose role is to assist the Audit & Supervisory Board members in the execution of their duties. Three full-time employees have been assigned to the Office with appropriate knowledge and abilities necessary for that purpose.

In principle, the Audit & Supervisory Board meets monthly on the same day as the Board of Directors meetings, and as necessary. The Audit & Supervisory Board makes resolutions on statutory matters including audit plans, receives reports from the internal audit department and accounting auditors on the performance of their duties, and requests explanations when necessary. In addition, the Audit & Supervisory Board members share information on issues and other matters identified through audit activities and hold discussions on them as necessary.

In FY2021, a total of sixteen Audit & Supervisory Board meetings were held and all Audit & Supervisory Board members attended all of these meetings, as shown in the table below:

| Position | Name | Attendance at Audit & Supervisory Board meetings in FY2021 |
|---|---|---|
| Full-time Audit & Supervisory Board Member | Noboru Himata | 100% (16/16 times) |
| Full-time Audit & Supervisory Board Member (Outside) | Hideyuki Toyama | 100% (16/16 times) |
| Full-time Audit & Supervisory Board Member (Outside) | Shinya Miyake | 100% (16/16 times) |
| Audit & Supervisory Board Member (Outside) | Mitsuru Akiyoshi | 100% (16/16 times) |
| Audit & Supervisory Board Member (Outside) | Hiroko Kiba | 100% (16/16 times) |

## Training for Directors and Audit

To ensure that Directors and Audit & Supervisory Board members can properly fulfill their roles and responsibilities, we explain important matters such as the Company's business and management strategies and business risks to newly appointed Directors and Audit & Supervisory Board members. We also provide each Director and Audit & Supervisory Board Member with necessary training opportunities (training by experts, site visits, etc.).

In addition, we strive to enhance the Board of Directors' cooperation and business knowledge by inviting outside experts in the environment, energy, and other fields to regularly hold lectures and opinion exchanges for the members.

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# Internal & Outside Officer Roundtable

**INPEX has evaluated the effectiveness of its Board of Directors on an ongoing basis since FY2015, and has taken action to enhance the Board's performance by responding to the issues identified in the process. The Company additionally issued the Long-term Strategy and Medium-term Business Plan (INPEX Vision @2022) this past February.**
**Further to these activities, a roundtable discussion was held among internal and outside officers to examine the Board's effectiveness and its role in leading INPEX forward.**

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## Topic No. 1 The Effectiveness of the INPEX Board of Directors

**Sase: Ms. Nishimura, Mr. Nishikawa, and Mr. Akiyoshi, you have served in your current positions for four, two, and three years, respectively. Based on what you've seen in that time, what are your impressions of our Board of Directors' composition, climate, and functioning? Also, has the Board changed in any way?**

**Nishimura:** Diverse challenges have emerged during the several years that I have been a director. Energy companies have reached a turning point. Action needs to be taken on climate change. COVID-19 has had a severe impact on society and the economy. Geopolitical risks are growing. Because of the need to respond to these and other challenges, the Board of Directors has devoted considerable time in its meetings to the discussion of medium- and long-term strategies and ways to further enhance INPEX's competitiveness and enterprise value—more time than is given to discussion of specific projects.

Steps have been taken to improve how meetings are held to ensure those medium-to-long-range issues can be fully explored and the Board can perform more effectively. For instance, outside officers are given enhanced pre-meeting briefings, the agenda is streamlined, and information is shared in a more timely manner.

Another positive change is that the Board membership has been made more diverse. Five of the twelve directors and four of the five auditors are from outside the company. Having a Board made up of people with diverse insights has enabled us to have livelier, more meaningful discussions that incorporate many different perspectives. Also, efforts have been made to increase opportunities for outside Board members to visit operating sites in Japan and overseas. Facility tours and chats with local employees have helped us to better appreciate the importance of operatorship in major projects. And, when visiting Australia, we've been able to meet with government representatives and Aboriginal and Torres Strait Islander peoples, allowing us to directly hear the thoughts and expectations of local stakeholders. These opportunities have been very informative for us, so I hope that the Company will continue to provide them.

**Nishikawa:** My impression is that the executive leadership and secretariat have been working in many ways to enhance the Board's performance. Changes such as holding pre-meeting briefings and disclosing the content of Executive Committee meetings have made the Board meeting agenda more clear-cut and reduced the time it takes for executive officers to bring outside officers up to speed on each item. This means we can optimize Board meeting time for important deliberations. I also feel a solid system of support has been put in place, with the Company duly following up on points raised by outside officers and striving to make improvements where needed.

As for the Board's composition, I think it has been made sufficiently diverse through the Company's efforts, including another enhancement made earlier this year. Bringing together people with different backgrounds enables a wide range of insights to be shared in our discussions, and the executive team really strives to tune in to those insights. The result is each topic gets explored and examined from diverse angles. With regard to the ratio of members from outside, I think this should be tailored to INPEX'S standing as both a listed company and a key player in the implementation of Japan's energy policy.

**Akiyoshi:** I think that Board discussions have become more energized over the past three years. I'm extremely impressed by how the Board is proactive in engaging the outside directors in its discussions, and the eagerness with which the internal directors take part. I hope that INPEX will continue to cultivate a climate that encourages such open-minded discussion.

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In terms of membership, I think that the Board's current size is a good size to enable meaningful discussion. As for its diversity, however, more work should be done to appoint people who can help the Company tackle the challenges outlined in INPEX Vision @2022.

I also hope that the Company will keep up its efforts to enhance the Board's understanding of various topics—particularly with regard to the technical knowledge needed to advance decarbonization—and continue to provide us with opportunities to exchange information and insights on the current state of the energy market, including global supply and demand.

**Sase: We will maintain our commitment to deepening the Board's knowledge and understanding through actions such as the enhanced pre-meeting briefings, and hosting lectures by various experts. Further, after the pandemic subsides, we will provide the Board members opportunities for site visits in Japan and overseas.**

## Topic No. 2 INPEX's Future, as Viewed through the Lens of the Business Environment

**Kittaka: In February this year, INPEX set forth its Long-term Strategy and Medium-term Business Plan (INPEX Vision @2022, hereafter "the Vision"). Ms. Nishimura, Mr. Nishikawa, and Mr. Akiyoshi—as three of our outside officers, you were actively involved in the discussions to formulate the Vision. Please tell us your thoughts on the Vision, and the future of INPEX. Also, as the Vision comprehensively deals with sustainability, please share what you think about the sustainability of INPEX.**

**Nishimura:** The Board spent a large amount of time discussing the Vision, based on ample information provided to all directors and Audit & Supervisory Board members. The discussions that eventually led to the Vision's release this past February expanded on talks the Board had when hammering out the Business Development Strategy issued in 2021. I believe that the Vision provides a roadmap that will enable INPEX to surmount the energy market's growing instability and complexity. While the importance of maintaining a stable supply of energy is increasing, the trend toward decarbonization will continue over the medium and long term, and the movement toward greater ESG investment will likewise pick up steam. The Vision charts a course for INPEX to successfully navigate this setting and play a leading role in developing and stably supplying a clean, diverse mix of energy. That's the future that the Vision articulates for INPEX. It won't always be smooth sailing, but as the Company rapidly expands its business portfolio under the Vision, the Board will make even more concerted efforts to share information with executive management in a timely manner so that all business decisions will be grounded in a solid understanding of the Company's situation. Although it's only been a few months since it was unveiled, I feel INPEX is already ambitiously moving to bring 'a new wind' to the energy market by putting the Vision into action. For example, INPEX has carried out prudent organizational restructure and established a new technology center—the INPEX Research Hub for Energy Transformation (I-RHEX). This bold start has me very excited for INPEX's future.

As for the Company's sustainability, I think it will be largely underpinned by the efforts and achievements made toward the Vision's goal of sustainably supplying the energy needed by society. Of course, this commitment to sustainability is not limited to business—it encompasses ESG and all other aspects of the Company's operation. Therefore, this pursuit will require constant effort.

**Nishikawa:** The goal of achieving both a net zero carbon society and a stable energy supply is a daunting challenge for the whole world. Meanwhile, the business environment is plagued with growing uncertainty. In a setting like this, it is impossible for companies to make perfect business decisions. The most realistic approach, I think, is to build up an organization that can flexibly and agilely respond to the unexpected. As outside officers, our job is to help the Company construct this kind of organization, by making sure that corporate governance is functioning as intended. Of course, a company

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doesn't run solely on the efforts of its officers—it will be increasingly imperative for all employees to drive INPEX forward to success. For this to happen, the Company's leadership has to take certain actions, such as providing an adequate share of profits to employees. INPEX also needs to be a company where employees can experience the appeal and reward of being part of cutting-edge efforts to realize a net zero carbon society. I really want the Company to work together as one big team as it takes on the daunting challenge at hand.

**Sase:** One of the Vision's aims is to lay the foundation to make INPEX "a most rewarding company to work for". I firmly recognize the importance of that aim and want to help lead our Company to achieve it.

**Akiyoshi:** The realization of a stable energy supply and a net zero carbon society is a global sustainability challenge that INPEX is tackling head on. And it cannot be solved unless employee engagement is taken to a higher level. I believe the hiring and training of talent is intrinsically linked to INPEX's future and therefore a critical activity. I especially encourage the Company to get an early start on boosting its efforts for talent acquisition.

**Nishimura:** I also think securing outstanding talent is an important issue for INPEX. I currently teach at a university, so I have opportunities to interact with young people. They show a sense of ownership toward global challenges. Many of them want to be part of the efforts to solve those problems in some way or another. I think that INPEX should boldly showcase its standing as a company that can help the world to overcome global challenges and achieve the SDGs. I think the Vision will strongly appeal to younger generations, so I would like INPEX to more actively promote it outside the Company.

**Nishikawa:** I think that one effective way of developing our younger talent would be to provide them with regular opportunities to study and share insights with peers and mid-level workers at companies in other industries. A surprisingly large number of people know very little about industries outside their own, so I believe that learning about other domains would be a rich source of ideas that our employees could put to use in their jobs.

**Kittaka:** It think that it's necessary for us as executive managers to proactively leverage INPEX's strengths in ways that foster employee solidarity. We need to have our outside officers provide their diverse insights to help us evolve the five net zero businesses into strengths.

**Akiyoshi:** Within those five businesses, I especially see potential in hydrogen/ammonia and CCUS, as they are areas where INPEX can play to the strengths the Company has cultivated over the years.

**Nishimura:** INPEX's future will be largely decided by how we target our investments in the years ahead. To make the right choices, the Company needs to get a precise handle on the changing environment and view everything from a long-range perspective.

**Nishikawa:** Instead of trying to go it alone, INPEX should lead the energy industry and actively pursue collaboration with other businesses and academia.

**Sase: Thank you, everyone, for sharing your valuable insights today. Your inputs will help us in our efforts to further enhance the Board of Directors' performance and accelerate the implementation of INPEX Vision @2022.**

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# Risk Management

## Our Policy

We strive to accurately identify and assess the complex and diverse risks inherent in the business environment and to implement risk prevention measures and systems needed to minimize those risks. For instance, our risk management system is intended to cover our action plans not only for large-scale natural disasters and pandemics, but also for risks related to changes in the business environment—such as economic and social conditions, laws and regulations—and other risk factors inherent in our business processes—that is, in the exploration, development, production, transportation, and sale of natural resources. We have implemented internal controls under Japan's Financial Instruments and Exchange Law (known as "J-SOX") based on the COSO❸ framework. Each Project Division also performs risk management related to occupational health, safety and environment under the HSE❹ Management System.

Additionally, we analyze the impact of fluctuations in oil prices and foreign exchange rates and disclose this information at every financial result briefing.

❸ The Committee of Sponsoring Organization of the Treadway Commission
❹ Health, Safety and Environment

## Risk Management System

We are committed to continuously improving our risk management system, which is designed to identify and manage the risks associated with business operations. We establish systems that prevent and minimize the occurrence or spread of loss or damage to maintain and reinforce the trust of our customers, business partners, investors and other stakeholders, and to maximize our corporate value.

We have adopted a division system in the Company and assign Directors and executive officers as the head of each division to establish a system of responsibility and efficiently manage business operations. The divisions work closely together to conduct risk identification, analysis, and evaluation in accordance with our internal regulations, guidelines, and other rules. The material risks identified are reported to the Executive Committee and/or the Board of Directors, which provides comprehensive reviews and decisions on action plans to manage those material risks. For example, when acquiring concessions and formulating development plans for exploration and production (E&P) activities, various scenarios are developed for expected reserves, predicted production volumes, and oil prices. At these times, risks are identified, analyzed, and evaluated.

As regards the operational status of the risk management system pertaining to day-to-day business operations, we conduct continuous monitoring in each department in charge and cooperate with the relevant corporate departments. Regular examinations and assessments are also conducted either by an internal audit team that reports directly to the President & CEO or by external experts. By giving feedback on these results to each department in charge, we can review and update our risk management system related to day-to-day operations to respond to changing conditions in the business environment in a timely manner.

Furthermore, to realize Medium-term Business Plan and other main business objectives, the Executive Committee discusses and approves the Fiscal Year Plans & Targets in which annual goals for each department are defined in a manner to reflect the short- and medium-term goals. This process also incorporates identified material risks and associated mitigation/management plans. Each department subsequently carries out initiatives to achieve its targets and reviews its progress at the middle and end of each fiscal year.

In accordance with the internal rules on group management, we conduct group-wide risk management of the Company's subsidiaries in collaboration with each subsidiary. In particular, we require our subsidiaries to cooperate in audits carried out by the internal audit department under the direct control of the President & CEO of the Company and other relevant departments or an external expert to verify and evaluate the management of risks related to the daily operations of the subsidiaries. Based on the results of such verification and evaluation, we have our subsidiaries conduct continuous review of their risk management in response to changes in the business environment. We have established the Standards for Evaluation and Selection of Independent Auditors, which mandate the criteria for the Audit & Supervisory Board to follow when evaluating the quality management, independence, and audit compensation of independent auditors. The Audit & Supervisory Board evaluates independent auditors annually, based on these standards.

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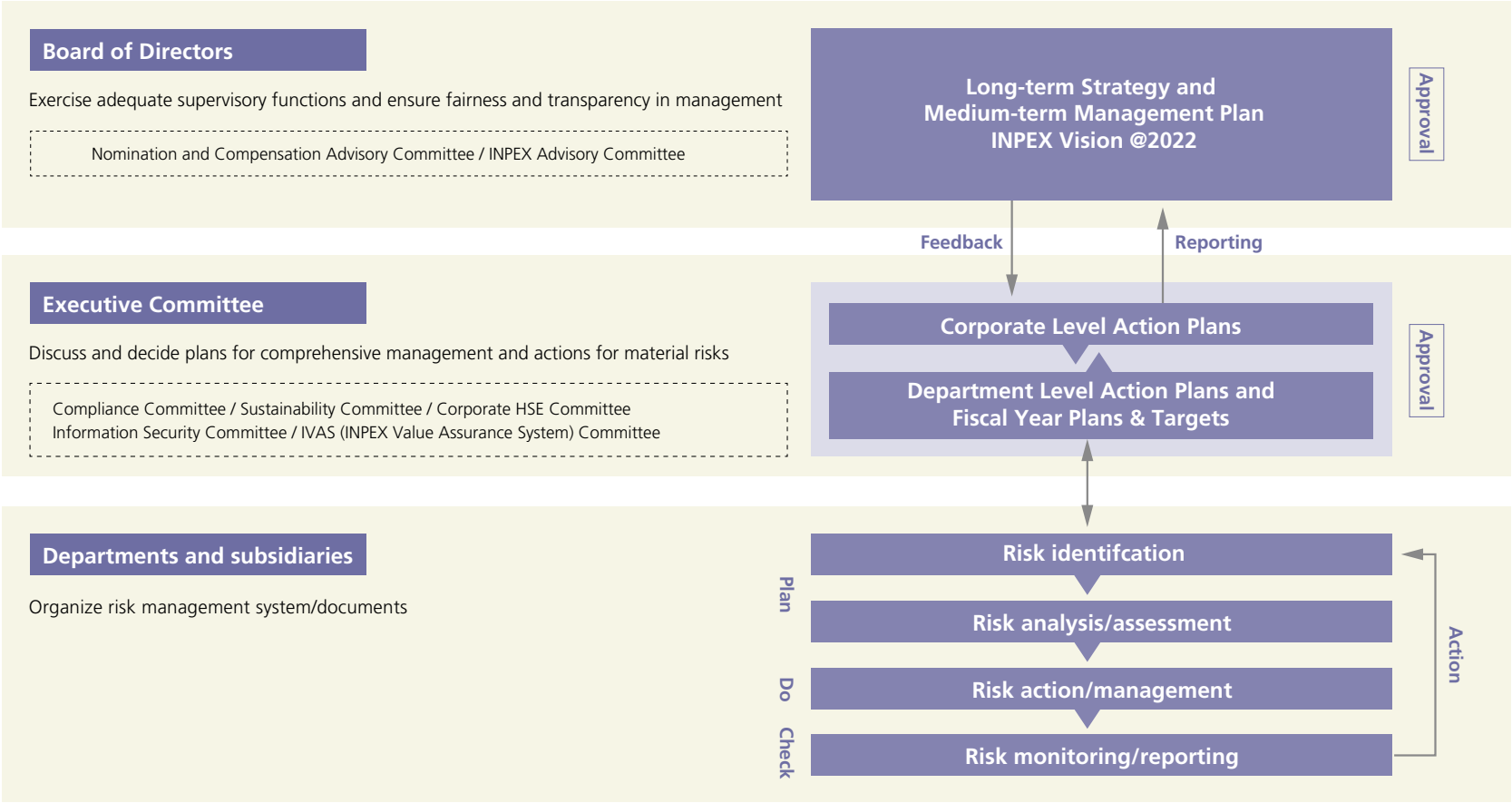
## Risk Management Structure




**1 Characteristics and risks of the oil and natural gas development business**
(1) Risks of disasters, incidents, system failures, etc.
(2) Risk of failure in exploration, development or production
(3) Dependence of production volume on specific regions and mining areas
(4) Risks related to contract deadlines, etc.
(5) Risk of change in reserves of crude oil, condensate, LPG, and natural gas
(6) Operatorship-related risks
(7) Risks related to project partners
(8) Risk attributable to a large capital investment and lengthy period of recovery of funds for the oil and natural gas development business
(9) Risks related to future abandonment

**2 Impact on financial results from fluctuations in crude oil prices, natural gas prices, foreign exchange rates, and interest rates**
(1) Impact on financial results from fluctuations in oil prices and natural gas prices
(2) Impact on financial results from fluctuations in foreign exchange rates
(3) Impact on financial results from fluctuations in interest rates

**3 Climate-related risks**
(1) Policy and regulatory risks
(2) Technology risks
(3) Market risks
(4) Physical risks

**4 Country risks in overseas business**

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## Operational Risk Management System

To manage diverse risks related to our business, we have introduced guidelines for economic evaluations and risk assessment to individual projects. We analyze and evaluate the feasibility of potential new projects based on identified major risks, and we respond to these risks. For existing projects, we convene the INPEX Value Assurance System (IVAS) Committee as a mechanism for cross-organizational technical evaluation in each phase of exploration, evaluation, and development. In addition, we conduct economic evaluations and risk assessments in principle at least once a year, and provide an annual summary report of risk assessment results for major projects to the Board of Directors.

To enhance our ability to respond to emergencies caused by large-scale accidents and disasters, we have established the Emergency and Crisis Response Plan and conduct emergency response drills on a regular basis to proactively manage risks related to our business. To prevent the suspension of important operations, we have established the Business Continuity Plan (BCP[5]), which is reviewed as necessary. Our Information Security Committee also meets regularly and as needed to implement systematic and organized information security measures, as well as education and training, including concerning the prevention of information leakage.

With respect to HSE risks, we identify, analyze, and evaluate risks for each business location based on the Risk Management Procedure established under the HSE Management System to promote continuous improvement activities in occupational health and safety management, environmental management, and security in our business activities. In addition to formulating and implementing risk control measures, our HSE risk management status is regularly reported to our headquarters and regular workshops held to ensure that the headquarters continuously checks the status of HSE risk management.

We manage financial risks presented by fluctuations in crude oil and natural gas prices, foreign exchange rates, interest rates and securities prices by identifying the risks of fluctuations in each of these areas and establishing methods for managing and hedging these risks.

We have also established guidelines for managing country risks in the countries and regions where we operate, and manage those risks by setting target limits on the cumulative investment balance in countries with high risk.

For legal risks, we have established a system to provide appropriate legal advice to divisions and management on major contracts and lawsuits.

[5] Business Continuity Plan: A proactive plan outlining the priority operations and steps to be taken in the event of a disaster to avoid or mitigate the risk of interruption to business activities

## Climate-related Risks

We implement assessment and management of climate-related risks in line with the TCFD[6] recommendations. Risk and opportunity assessment and management are described on page 56[7].

We include policy and legal transitions, technology and market transitions, and reputation as transition risk areas. For physical risks, we identify acute and chronic risks. We also apply short-, medium- and long-term classifications to each of these risk categories. The Climate Change Strategy Group within the Corporate Strategy & Planning Unit acts as the secretariat and conducts risk assessment and management on the annual cycle. Company-wide workshops are conducted given the importance of the development process for assessing, preventing and mitigating climate-related risks. The Climate Change Strategy Group serves as the secretariat at these workshops, and the Climate Change Strategy Working Group—an advisory body to the Sustainability Committee (chaired by the President & CEO)—participates in the discussion. The Working Group consists of members from each business division and also has knowledge of CSR and sustainability issues. The discussions, studies, and proposals from each business division are integrated into the company-wide risk assessment process.

We use the following two methods to financially assess climate-related risks. The first is an economic evaluation of projects using internal carbon pricing, and we are currently conducting an economic evaluation with internal carbon pricing applied as a base case. The second method is a financial assessment of our business portfolio. We financially assess the market risk that the oil and carbon prices in the IEA[8] WEO's Sustainable Development Scenario (SDS; a scenario consistent with the Paris Agreement goals) pose to our entire portfolio.

In addition, a cross-organizational team regularly carries out physical risk assessments. In FY2019, we identified risks at major facilities in Japan and Australia during a physical risk assessment trial at our operator facilities. In FY2021, we verified the status of physical risk assessments performed on the major projects for which we hold non-operator status.

[6] Task Force on Climate-related Financial Disclosures
[7] **Assessing and Managing Climate-related Risks and Opportunities**
[8] International Energy Agency

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## Supply Chain Risk Management

Our Group procures approximately 200 billion yen per year in goods and services from approximately 2,000 suppliers. To manage risks in our supply chain, we take appropriate actions in prevention, detection, and correction. As preventive controls, we require suppliers to comply with labor and environmental laws and regulations and respect the INPEX Group Human Rights Policy. These requirements are built into our standard contracts.

Furthermore, we strive to provide fair opportunities to all suppliers in the selection process, and award supplier contracts based on fair, impartial, and transparent assessments. During the bidding process for overseas operator projects, we conduct comprehensive assessments of bidding companies' compliance with local laws and regulations, the INPEX ABC Policy, and INPEX Group Human Rights Policy. We have also established prequalification criteria regarding HSE requirements. For projects in Japan, during the bidding process for large-scale construction, we also conduct a comprehensive assessment according to the INPEX ABC Policy and HSE requirements to ensure fair and impartial procurement.

As detective controls, we have established a supply chain risk assessment system, and have been conducting a self-assessment survey of our major suppliers since FY2018. This survey enables us to monitor the compliance systems of our suppliers and identify risks. A total of 23 companies have responded to the survey over the past three years.

Key items monitored:

- Human rights and labor
- Health and safety
- Fair business practices
- Environment
- Contribution to local communities
- Approach to business partners.

In addition, we monitor risks through our grievance mechanism and HSE audits.

We also work to strengthen risk management in our supply chain through engagement with our suppliers. In Japan, we are seeking to improve HSE in supplier operations by holding HSE Liaison Meetings with our major suppliers. Activities include: i) explanation and dissemination of INPEX's HSE Objectives and activity programs; ii) explanation and sharing of information about incidents and near misses; and iii) introduction and sharing of HSE-related information from the above suppliers and hearing their thoughts on HSE. In addition, in FY 2021, we held a seminar on human rights inviting external presenters.

In Australia, we have opportunities for engagement with our main suppliers by meeting regularly with them to review their performance in terms of HSE, quality and service content, as well as by exchanging views in a timely and appropriate manner on risks to our business and corresponding mitigation measures.

As for corrective controls, we take corrective actions against suppliers assessed as high risk through detective controls, including: i) improvement activities through HSE audit and ESG audit; and ii) avoidance and mitigation of risks, including through review of contracts.

## Large-scale Natural Disaster and Pandemic Countermeasures

### Large-scale Natural Disaster Countermeasures

We assess the risk of natural disasters that may occur at each of our business locations and implement appropriate prevention and mitigation measures for each natural disaster, such as earthquakes, and heavy rainfall and flooding. In addition, for unexpected events, we have prepared an emergency response plan and a Business Continuity Plan (BCP) to protect lives in the event of damage and to quickly restore business operations.

We also have a BCP and an initial response manual in place for our headquarters area, designed for the scenario of an earthquake centered directly under the Tokyo metropolitan area, and prepared based on the damage assumptions made by the Cabinet Office of Japan's Central Disaster Management Council. Our policy on business continuity clearly expresses company-wide values prioritizing the maintenance of stable energy supply while ensuring human safety and environmental preservation. The BCP and other manuals also stipulate not only the establishment of provisional offices but also how our employees should react in the event of an earthquake on a holiday or at night, and procedures for returning home from the office. We conduct an annual crisis response drill for the aforementioned earthquake scenario, as outlined by our BCP and other manuals. We use the lessons learned from the drill to continuously strengthen our disaster preparedness, including by improving our manuals and reviewing our materials, equipment, and reserves.

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## Novel Virus and Pandemic Risk Countermeasures

We have long had in place an infection prevention manual for implementation against pandemics caused by virulent novel influenza viruses. We also have formulated a pandemic BCP for ensuring the safety of our employees and handling related crises. This commitment to pandemic preparedness is a necessary part of fulfilling our responsibility as an infrastructure company that continuously supplies crude oil and natural gas even during crises.

In response to COVID-19, we established a Corporate Crisis Management Team headed by the Representative Director, President & CEO. The team meets regularly to ensure that countermeasure policies are implemented thoroughly and that pandemic-related information is shared throughout the Company. Moreover, we have established a local crisis response team at each of our domestic and overseas offices and sites. These are headed by the local managers and enable actions to be closely tailored to the local situation. Furthermore, by applying the aforementioned BCP, we have been able to smoothly respond to major changes in the pandemic situation, such as the state of emergency declared by the Japanese Government in April 2020. We have also been able to continuously maintain the supply of crude oil and natural gas even while drastically reducing the number of employees who go into offices or sites. In addition, in order to respond to the volatile situation and further impact of COVID-19, the BCP is continuously updated to increase its effectiveness and expand its applicability to general infectious diseases.

The following are the main specific infection risk controls that we are implementing in the headquarters area:

(1) Introduction of a work-from-home scheme for all administrative divisions throughout the Company
(2) Introduction of a flextime system without core working hours
(3) Ensuring compliance with rules for social distancing at the office, restriction of visitors, disinfection, body temperature measurement, and mask wearing

We are also committed to implementing thorough infection control measures at our domestic and international operating sites to fulfill our important social mission of providing a stable supply of energy, and we have maintained stable operations even during the global COVID-19 pandemic.

For details on specific countermeasures at our operating sites, please refer to "Special Report 3: Our Responses to COVID-19."❾

❾ Special Report 3: Our Responses to COVID-19

## Information Management

Our Group has established the "Basic Policy for Information Security" to maintain the confidentiality, integrity, and availability of information that it holds. Furthermore, we establish information security rules and regulations, develop management systems, and systematically implement systemic, physical and personnel measures necessary to protect information assets. This is done under the leadership of the Information Security Committee, a Company-wide control organization made up of Directors and other members.

We endeavor to prevent internal leaks of information by taking action to increase employees' information security awareness and to more firmly implant the values and culture essential for proactively safeguarding our information assets. These efforts include not only system enhancements, but also educational support such as regular e-learning courses and training on targeted emails.

We also strive to defend our information assets from external attacks through systems-related countermeasures as well as regular security assessments performed by an external security vendor. Moreover, we have a threat monitoring and response system in place to detect attacks and take corrective action against them.

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# Tax Strategies

## Our Policy

As one of our Sustainability Principles—and under the leadership of our top management—we will comply with laws, rules and regulations and engage in ethical business conduct in accordance with all international norms and the social norms that exist at our business locations. With respect to tax affairs, the executives and employees of the INPEX Group acknowledge it is one of our key social responsibilities to contribute to the socioeconomic development of the countries and regions in which we operate by properly paying taxes in accordance with the applicable laws and regulations, and by ensuring the transparency of our tax affairs.

As part of our commitment to maximizing shareholder value, we strive to optimize tax expenses by utilizing available tax incentives and eliminating double taxation in the normal course of business activities. At the same time, we do not engage in tax planning with the intent of avoiding taxes or use countries or regions with no taxes or extremely low tax rates (so-called 'tax havens') for tax avoidance purposes without any actual business activities involved.

## Tax Governance Structure

As we expand our business globally, our overseas subsidiaries and cross-border transactions with those subsidiaries are similarly increasing. Legislation governing international transactions has been developed in Japan and other countries based on the BEPS 2015 Final Reports issued by the OECD/G20 BEPS Project⑩ in October 2015, and the environment surrounding international taxation continues to change significantly. In accordance with those changes, we are enhancing tax governance to appropriately respond to taxation risks associated with international transactions. As a part of these initiatives, we have established the INPEX Tax Policy by resolution of the Board of Directors and published it on our website⑪ to cultivate an awareness of tax compliance among all INPEX Group executives and employees. The Senior Vice President of Finance & Accounting is in charge of such initiatives.

In September 2021, we enacted our Tax Management Rules to promote the tax compliance behaviors of our executives and employees in line with our Tax Policy. We also introduced the Tax Management Policy, which stipulates the establishment and operation of a tax management system in accordance with the Tax Management Regulations.

⑩ Project to review overall international tax rules to prevent excessive tax avoidance by global companies using gaps and loopholes in the international tax system.
⑪ Tax policy

## Taxation Risks

We identify taxation risks as important business issues. In compliance with our Tax Policy, our departments in charge of tax affairs work to deepen their understanding of the tax laws in each country in which we operate, in addition to transfer pricing rules, other international tax laws, and OECD tax guidelines. Those departments also cooperate and communicate closely with business divisions to mitigate taxation risks. We also make effective use of our external advisors' expertise in relation to mitigating tax risks.

## Relationships with Tax Authorities

We strive to build constructive, trustful relationships with tax authorities and pay taxes appropriately, such as by obtaining certainty through advanced pricing agreements.

## Tax Transparency

There is global movement for greater transparency and information disclosure in relation to corporate tax-related activities. As an example, the government of Australia—one of our core business areas—issued a set of principles defining the tax information that large enterprises should voluntarily disclose⑫. In response to this, we annually publish the INPEX Australia Tax Transparency Report⑬ on our website to consolidate our Australia-related tax information, including an overview of our local tax governance and cross-border transactions, and how much tax we pay. In addition, we publish annually the amounts of tax and other payments made to the governments of EITI participating countries⑭. Our consolidated income taxes paid in FY2021 amounted to 352,735 million yen.

As a global company, we will continue to closely monitor international taxation trends and legislative developments in each country and strive to adapt to them in a timely and appropriate manner.

⑫ Voluntary Tax Transparency Code released by the Australia's Board of Taxation
⑬ INPEX Australia 2020 Tax Transparency Report
⑭ ESG Performance Data