

Message from the President



**Growth Explorer,
Reliable
Energy Contributor**

Toshiaki
Kitamura
President & CEO

To Our Stakeholders

For the year ended March 31, 2013, we took steady strides toward developing the Ichthys LNG Project, a central growth driver, and saw progress at every stage of business development, including the successive acquisition of upstream interests.

Consolidated net income totaled ¥183.0 billion, exceeding our initial forecast.

In the Message from the President section of the Annual Report 2013, I cover in detail the topics that matter the most to our shareholders and investors.

The Year in Review

Q. Please describe the Company's performance last year, financial forecasts for this year, and cash dividend plans.

A. INPEX recorded consolidated net income of ¥183.0 billion for the year ended March 31, 2013, partially reflecting gain on transfer of interests of the Ichthys. Assuming zero gains on the transfer of interests going forward, financial forecasts are for net income of ¥142.0 billion for the year ending March 31, 2014. Nevertheless, the Company plans to slightly increase cash dividends per share.

Consolidated net income of ¥183.0 billion for the year ended March 31, 2013, exceeded our initial forecast at the beginning of the year. The value of our interests in the Ichthys LNG Project contributed to earnings for the year ended March 31, 2013, as net income included approximately ¥50.0 billion in gains on the transfer of interests to LNG buyers/partner in the Ichthys LNG Project. Moreover, INPEX decided to distribute an annual cash dividend of ¥7,000 per share.

As announced on August 2, 2013, we forecast negligible growth in net sales for the year ending March 31, 2014, and we expect net income of ¥142.0 billion on account of the disappearance of the aforementioned one off gains on the transfer of interests in the Ichthys LNG Project. INPEX plans to pay a slightly higher annual cash dividend of ¥7,200 per share for the year ending March 31, 2014 (calculated prior to the planned stock split). INPEX emphasizes a balanced approach to shareholder returns and profit growth over the longer term, because the Company is at the stage where it is investing in growth mainly by developing two world-scale LNG projects, Ichthys and Abadi.

Q. With business development advancing steadily and earnings and dividends doing well, what is your take on the Company's share price?

A. Our share price is also affected by macroeconomic factors to a certain degree, and we are focusing on steadily achieving milestones in the Ichthys LNG Project and other promising projects in order to be given fair assessment by the market.

Factors relaxing the balance of supply and demand have given rise to expectations for a fall in energy prices. These factors include projections for an increase in the supply of energy based on expectations for higher production of shale gas in North America, as well as opinions that energy demand may be weaker than the outlook for emerging countries. I believe factors such as these have applied downward pressure to the share prices of all resource-related companies around the world, including our own. Taking a closer look at each individual stock, however, we can see that the market has reacted positively to companies that have promising development and production projects compelling stories, and companies with compelling stories such as production starting on major LNG projects. The share prices of companies that fit this description have remained strong.

Our compelling story begins with the start of production at the large-scale Kashagan oil field (Kazakhstan) during the year ending March 31, 2014, and full-term contributions from production at the Angola Block 14 area, in which we acquired an interest last year. In addition, INPEX plans to commence production at the Lucius oil field in the Gulf of Mexico in the latter half of 2014. The most compelling part of our story is the smooth and steady progress being made to move development forward on the Ichthys LNG Project in Australia toward the launch of production. We expect the market to recognize this steady progress in a timely fashion going forward. As we progress through each chapter of our compelling story, we expect our share price to be reassessed at an appropriate level.

Q. What are your thoughts on stock splits and lowering the minimum investment unit?

A. Conditions are now conducive to setting a share price threshold that would facilitate investing.

On October 1, 2013, INPEX plans a 1:400 stock split for shares of common stock. At the same time, the Company will adopt the share unit system and set its basic investment unit at 100 shares of common stock. As a result, investors will be able to buy and sell one investment unit at one-quarter of the current share price. INPEX has received comments in the past, especially by individual investors, that its minimum investment unit in common stock was too high. By making it easier for investors to invest in the Company's stock, INPEX believes liquidity in its shares will increase and lead to a fairer evaluation of its share price.

Management in Review: Progress on Major Projects

Q. What is the level of production at the Mahakam Project in Indonesia?

A. Under the project, measures were implemented to slow diminishing production, and they worked.

The Mahakam Project is a main source of earnings for INPEX until production commences at the Ichthys Project. The Mahakam Project has been producing oil and gas for more than four decades, and production volume began to diminish in 2011. In addition to this natural decline, technical problems for the year ended March 31, 2012, resulted in a drop of about 20% in production volume compared with the previous year. Under the project, measures were implemented, including additional development, to counter this decline. These measures were successful in effectively slowing the decrease in production from autumn 2012. We expect the rate of decline in production to stay at a moderate level going forward.

Q. Can you give us a progress report on the Ichthys LNG Project in Australia?

A. INPEX has finalized a project financing agreement to secure funding. Development is on schedule, and costs are in line with initial projections.

The Ichthys LNG Project is a crucial medium- to long-term growth driver for INPEX. More than 10 years have passed since the discovery of gas and condensate in 2000, during which we have carefully moved ahead with preparations for development. In January 2012, INPEX made the Final Investment Decision (FID) for the project. In December 2012, INPEX took a major leap forward on fund procurement, reaching a project financing agreement for US\$20 billion, one of the largest such agreements in the world, for the development of the Ichthys Project. INPEX has worked long and hard collaborating with the banking group that signed the agreement, composed of eight export credit agencies and 24 commercial banks, and the fact that we reached an agreement without incident underlines the confidence placed in the project by the financial professionals.

Development work is on schedule and on budget according to initial projections, and I believe the next three or so years before production starts will be a time that tests the mettle of INPEX as an operator. With a great sense of urgency and responsibility, our employees are unifying as one to take on the challenges that each day brings.

Q. How is progress on the Abadi LNG Project?

A. For the previous year, INPEX started front-end engineering and design (FEED) work on the project, placing orders with two groups in a bid to foster competition and maintain quality.

The Abadi LNG Project is a large project on par with the Ichthys LNG Project. We have been making steady progress on the Abadi LNG Project, starting up FEED work on facilities from November 2012 through January 2013. For FEED work on FLNG facilities, INPEX placed orders with two groups, one led by JGC Corporation and the other by Saipem S.p.A. (Italy), to foster a competitive environment and improve work quality to the greatest extent possible. In 2011, INPEX welcomed oil major Shell as a strategic partner in the Abadi LNG Project, and this successful partnership has been a major force propelling progress on various fronts, including FEED work.

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The Medium- to Long-Term Vision of INPEX

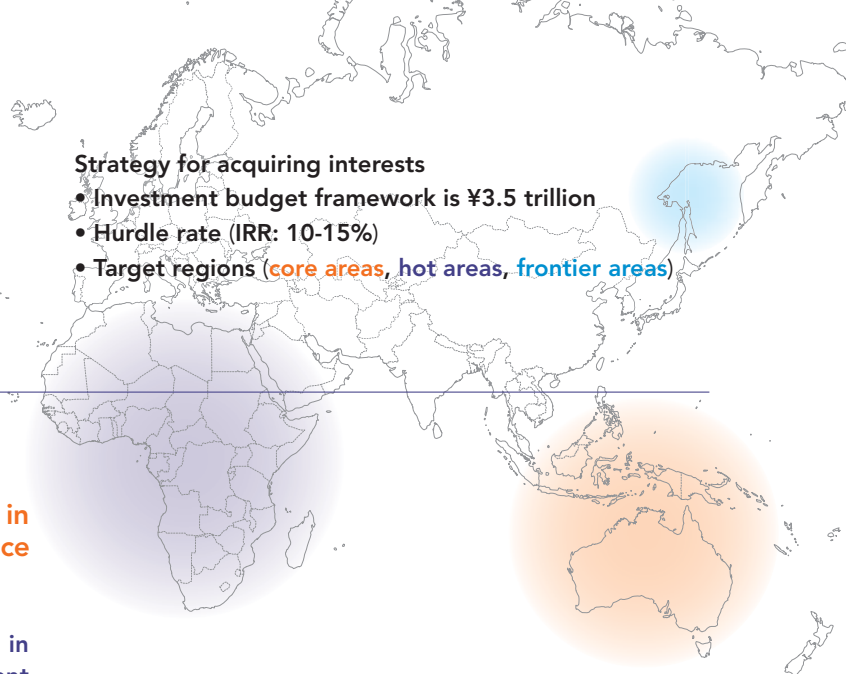
Q. **What has been achieved in the first year of the Medium- to Long-Term Vision of INPEX.**

A. I would characterize the first year as a “jump-start” as the Company spared no effort working toward the growth targets of the vision. In particular, we took bold steps forward in upstream businesses.

The year ended March 31, 2013, was the first year of the Medium- to Long-Term Vision of INPEX, which takes a look at where we want to be in five and 15 years. We got off to a “jump-start” during the year, making progress in all areas covered by the vision. We made concerted efforts toward attaining our first growth target, the continuous enhancement of our E&P activities, by acquiring more than 10 upstream interests in the 14 months since the vision was unveiled (in May 2012). The second growth target is strengthening our gas supply chain. On this front,

construction on the Naoetsu LNG Terminal in Niigata Prefecture is on schedule, and we have entered the final adjustment stage prior to initiating operations. We also concluded contracts for two new vessels in June 2013. One vessel will service the offtake and delivery of LNG for Naoetsu LNG Terminal. Another vessel will be operated as a time charter. The third growth target under the vision is reinforcement of our renewable energy initiatives. We built a mega solar power plant on our idle land at the site of an old oil refinery in Niigata Prefecture and began generating electricity there in March 2013. At our geothermal energy projects under way in Hokkaido and Akita prefectures, we completed first-stage geological surveys and are drilling three exploration wells as part of second-stage activities in the year ending March 31, 2014.





Strategy for acquiring interests

- Investment budget framework is ¥3.5 trillion
- Hurdle rate (IRR: 10-15%)
- Target regions (core areas, hot areas, frontier areas)

Q. Why was INPEX able to acquire interests in so many upstream assets in the short space of a year?

A. One major reason is the greater trust placed in INPEX internationally as it began development work on the Ichthys LNG Project.

Of the more than 1,000 E&P companies around the world, there are only 10 or so companies with sufficient finances and technologies to warrant the trust placed in an LNG operator. Since INPEX is the LNG operator responsible for the Ichthys Project, on which development work has only just begun, a greater degree of trust has been earned on the international stage. And we are receiving increased number of partnership proposals from oil companies around the world. This is the main reason why we have been able to acquire interests in so many excellent projects.

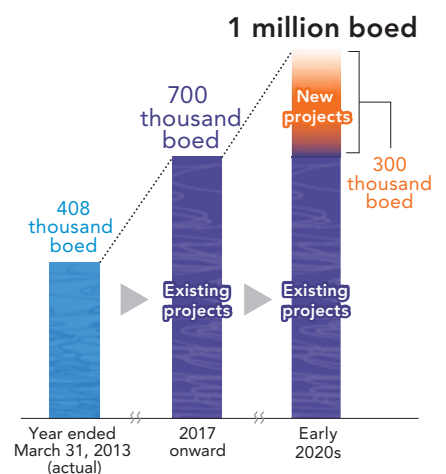
Q. Please talk about the strategies management when deciding whether to acquire an interest.

A. Assuming the interests align with our growth strategy, we base our evaluation on financial analysis, economic viability, regional characteristics, and other criteria.

INPEX has a medium- to long-term target for net production volume of 1 million boed by the early 2020s. Based on existing projects alone, we estimate production volume will increase to 700 thousand boed from 2017 onward, indicating that we need to make up the remaining 300 thousand boed through the acquisition of new interests. Assuming the interests align with this medium- to long-term growth strategy, we have set a hurdle rate that targets an internal rate of return (IRR) of 15% within an investment budget framework of ¥3.5 trillion, and if an interest has a strategic

premium, we would accept a minimum IRR of 10%. INPEX also considers regional characteristics. INPEX categorizes the strategic areas that it targets as core areas, hot (promising) areas, and frontier areas. Core areas center on Indonesia and Australia, mainstay regions where the Company has accumulated know-how and extensive experience over the years. When obtaining an interest in core areas, INPEX can expect synergies by using facilities that are already in place there. Hot areas are regions with strong potential reserves of oil and gas, such as Africa, Brazil and the Gulf of Mexico, but entry costs are so high that a careful examination of economic viability and finances are essential. Frontier areas are unexplored regions such as the Russian Far East, the Arctic Ocean and South America. From a long-term perspective these areas hold future potential, and projects mainly consist of exploratory activities.

Medium- to long-term production volume targets



Of the more than 1,000 E&P companies around the world, there are only 10 or so companies that are LNG operators. While it is still in the development stage, INPEX is the LNG operator responsible for the Ichthys Project, raising the Company's visibility on the international stage.



The Business Environment for Energy Development

Q. What is your view of macroeconomic conditions in relation to natural gas in Asia?

A. We project robust demand for natural gas over the medium to long term. We think there are potential to supply for this growing market, but see high hurdles that must be overcome before full-fledged supply operations can begin.

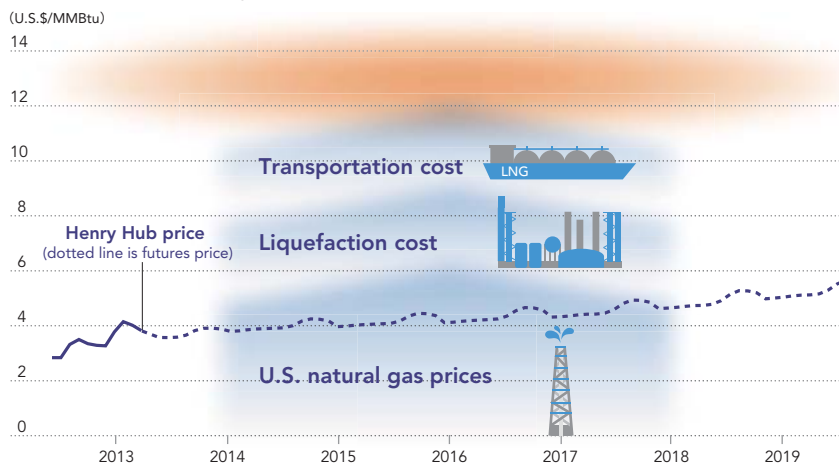
With regard to macroeconomic conditions, over the short term we anticipate higher natural gas production volumes in the United States, which means the LNG that had been destined for the United States is now available for other markets. Over the medium to long term, we expect three potential supply sources to fulfill growing demand for LNG in Asia, especially India, China and the ASEAN countries. One potential supply source is new LNG supplies from existing producer countries such as Australia, and another potential source is LNG supplies from new regions such as Mozambique. The third potential source is LNG made from shale gas in North America. However, the majority of these supply sources have not reached FID status yet. As such, I believe there are considerable hurdles that need to be overcome to start as development projects. before full-scale supply from them can begin.

Q. Regarding these hurdles that must be cleared, what impact will the so-called “shale gas revolution” have on existing LNG projects?

A. There are hurdles to making LNG from shale gas. We take a conservative view due to the challenges involved in expanding the production of shale gas and turning it into LNG for mass export from the United States. We also do not expect prices to be much different compared with a regular LNG project.

We often hear talk about the so-called “revolution” in shale gas in North America, but we think a bit of caution is warranted with regard to the feasibility of ramping up production and turning the shale gas into LNG for mass export. There are critics warning about the impact LNG exports will have on the industry in the United States, and the amount of shale gas that can be exported as LNG to Japan and Asia is unknown. Natural gas prices in the United States rose temporarily above US\$4 per million Btu entering 2013, and futures prices for five years out, when exports to Asia would presumably begin, are above US\$5 per million Btu. Adding to this the cost of liquefaction and transportation, which we estimate totals about US\$7 per million Btu, there is little difference in the price of shale gas LNG and that from a regular LNG project linked to the price of crude oil. In this light, shale gas would not replace existing LNG projects. We think that only the best individual projects will be competitive and prosper.

Outlook for the price of shale gas produced in the United States and turned into LNG for export to Asia



Q. What are considered to be the attributes of a quality LNG project with supply capacity?

A. The most important attribute is a project that can realistically create a stable supply of LNG from a geographical characteristic view.

Launching an LNG project requires a massive investment. To procure funds for these investments, we must gain the trust of financial institutions and win the confidence of LNG buyers to reach long-term LNG sales contracts with them. Until there is a clear path to collecting a return on the investment, the project stays on the drawing board. East Asian countries, including Japan, depend almost entirely on LNG for their natural gas imports, an important geographical characteristic to consider. For countries like these that have no viable alternative to LNG, the focus is on price fairness and the probability that a project can stably supply LNG. We think an important attribute of a quality project is it being able to earn the trust of LNG buyers in terms of supply stability.

“Our focus is on price fairness and the probability that a project can stably supply LNG.”

Q. The terrorist incident in Algeria in January 2013 is still a fresh memory. What is the Company's approach to country risk?

A. In the energy development business, it is difficult to completely eliminate country risk. We frequently reevaluate security risk while incorporating the opinions of local staff and the resident officer.

The heart-wrenching terrorist incident symbolizes the various risks involved in the energy development business in different regions around the world. While carrying out our mission of developing natural resources, we must continually deal with country risk. In its biannual review of security risk, INPEX incorporates the opinions of local staff and resident officers that know the region best, and spares no effort to ensure the safety of all staff working on a project.

Q. Attention has focused on domestic energy resources from the viewpoint of supply stability. Are there potential oil and natural gas resources in Japan?

A. For the past two years, INPEX has scoured promising areas in Japan. From 2013, INPEX is starting exploration work in specific areas.

Although limited in volume, there are still some promising areas in Japan. The development of energy resources in Japan has the advantage of not having any of the foreign currency and country risk that comes with overseas projects. INPEX has spent the last two years looking to all over Japan for promising areas. Based on these results, we are finally starting exploration work in specific areas in 2013.

Backed by more than 70 years of operational experience in the development of oil and natural gas in Japan, INPEX's domestic business division is the largest in Japan. INPEX will continue to develop oil and natural gas resources in Japan, leveraging its technical capabilities, financial position and experience.

Our Relationship with Stakeholders

Q. Please describe the Company's relationship with stakeholders—shareholders and investors in particular.

A. INPEX aims to further enhance its ongoing communication with shareholders and investors.

The oil and natural gas business is exposed to considerable risks and operates on extremely long timelines. For this reason, it is imperative that projects are promoted with business partners that share the same values and have mutual trust and respect for one another. With this kind of relationship, it becomes possible to deal head on with problems in lockstep with business partners. Like these business partners, we hope to build long-term relationships of trust with our shareholders and investors.

As the Company has expanded operations in recent years, so too has the amount of information that should be shared between management, shareholders and investors. In these circumstances, we think it is important to follow a process where management respectfully discloses the Company's conditions to its shareholders and investors, engages in a candid discussion with its shareholders and investors and listens sincerely to their opinions, and reflects these opinions in management. I attend results briefings twice a year and an IR presentation for individual investors at least once a year. Moreover, I travel overseas to meet with institutional investors twice a year. This is just an example of how important I think direct communication is. For the year ending March 31, 2014, we will proactively disclose information and engage in discussions with our shareholders and investors.

// We hope to build long-term relationships of trust with our shareholders and investors. We will continue to emphasize ongoing communication. //



Outlook

Q. How are you going to lead the Company for the year ending March 31, 2014?

A. We aim to take bold strides forward as a company this year, building up our portfolio of quality projects.

Building on the “jump-start” we had for the year ended March 31, 2013, we want this year to be one of bold strides forward for the entire company as a number of projects come on stream, including the Kashagan oil field that is slated to start production, and the Angola Block 14 area that will have a full-year contribution to production. We went over our earnings forecasts and dividend plans at the start of this interview. Development work on the Ichthys LNG Project is in its second year, putting it at the central stage of its development, and we will continue to make safe and steady progress according to schedule. While firmly pushing these existing projects forward, there is also the possibility that we could see major results from exploratory projects in which we acquired an interest.

In last year’s annual report, I said that INPEX would gain trustworthiness from an international perspective as it accumulates experience in the Ichthys LNG Project and other projects, and that this would lead to more opportunities to form partnerships in a wider selection of projects. With the shift to development operations at the Ichthys LNG Project, opportunities for INPEX to participate in projects have in fact increased dramatically. Since energy development projects are “living things,” a promising area that will suddenly come to the scene must be pursued. On the other hand, it is also necessary to make steady progress on basic work. We are committed to steadily advancing the development of the Ichthys LNG Project and other projects while building up our portfolio of quality projects. We strive for sustainable growth as a company by applying a stronger spin to the virtuous cycle of growth.

July 2013

President & CEO

Toshiaki Kitamura

北村 俊昭



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