



MARKET TREND AND MANAGEMENT POLICY | 3



Business Model and Strengths

In its oil and gas development business, INPEX employs a business model that focuses on stable production and supply as well as the reinvestment of cash flows obtained from production activities toward the acquisition of new reserves and the discovery and development of oil and gas which contribute to further production revenues. This cycle is the wellspring for sustainable growth as a company.



Large-scale LNG project operator

Ichthys

Abadi

INPEX is in the process of developing two of the world's leading-scale LNG projects at Ichthys in Australia and Abadi in Indonesia. We are the first Japanese company to develop such large-scale projects as an operator. The expected production volume from both projects is vast, equaling more than 10% of Japan's current LNG annual import volume. We are focusing on these priority projects, which will increase the corporate value of our company.

Strong reserve / Resource base

Proved and probable reserves of **4.09 billion boe**

Reserves and resources, which are the source of corporate value, are the critical factor in the oil and gas E&P business. INPEX has the largest proved reserves in Japanese companies in the sector. Our net proved and probable reserves total 4.09 billion boe. Our reserves-to-production ratio is 14.7 years for proved reserves and 27.5 years if probable reserves are added. Beyond our probable reserves, we have an abundance of possible reserves and contingent resources. We expect to continue increasing proved and probable reserves over the medium to long term.



Gas supply chain

Domestic natural gas pipeline network
1,400km

Complementing the completion of the Naoetsu LNG Terminal, INPEX owns a domestic natural gas pipeline network stretching approximately 1,400 km that connects domestic and overseas gas assets to the Japanese gas market. We plan to add value by establishing a gas supply chain through linkage between this network and our major LNG projects. We are currently proceeding with work on the Naoetsu LNG Terminal, with the terminal scheduled to enter operation in early 2014. Construction of Toyama Line (Toyama Prefecture) is also under way, with supplies slated to commence around the end of 2014.

Accounting
of Revenue
Attributable
to Sales

Strong financial position

Equity ratio: **68.6%**
Net debt/Net total capital employed: **-43.9%**

A strong, healthy balance sheet and plentiful cash reserves are essential for oil and gas E&P companies. This reflects both the high degree of risk associated with E&P activities and the need to have sufficient funds on hand to take advantage of major investment opportunities quickly as they arise. As a result of a public offering held in August 2010, our company secured a strong financial position. As of March 31, 2013, our company had an equity ratio of 68.6% and a ratio of net debt to net total capital employed of -43.9%. (Cash and cash equivalents and public bonds were greater than interest-bearing debts.) Compared with the oil majors and other global peers, this represents a sound level of financial strength.

Aggressive
Exploration and
Development
Investment

The Structure and Mechanism of Oil and Natural Gas Exploration and Development

Acquisition of Blocks

The business activities of the oil and gas industry can be envisioned as the flow of a river. The upstream consists of exploration, development and production of oil and natural gas. The midstream is where products are transported. The downstream refers to refining and sales. Our mainstay business is to handle operations in the upstream including the exploration, drilling, production and sales of crude oil and natural gas. As shown in the business flow at right, upstream business activities can be further classified into the acquisition of blocks, exploration, appraisal, development, and production and sales.

We collect extensive information on legal system and country risks related to areas in which oil and natural gas are expected to exist. We then apply and bid for mining rights and/or exploration and development rights and enter into a contract for exploration and development.



Signing ceremony of contract

INPEX participates in **80 projects across 29 countries** worldwide as of June 30, 2013.

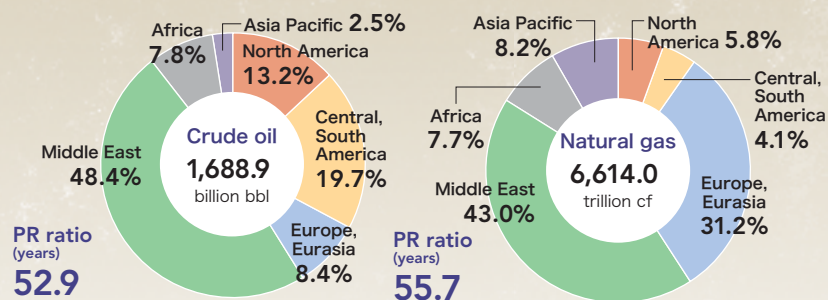


Global Reserves and Reserves-to-Production Ratio

(As of December 31, 2012)

Global proved reserves of oil and natural gas total around 1.7 trillion bbl and 6,600 trillion cf, respectively. By region, the Middle East accounts for the largest portion. In specific terms, Central and South America as well as North America have vast proved reserves of oil while Europe and Eurasia boast large proved reserves of natural gas.

Proved reserves by region and reserves-to-production ratio (PR ratio)



Source: BP Statistical Review of World Energy 2013

Exploration

In addition to geological surveys, we utilize geophysical surveys conducted through satellite images and seismic waves in order to assess the potential subsurface accumulations of oil and natural gas. Furthermore, we drill exploratory wells in order to confirm the presence of oil and gas.



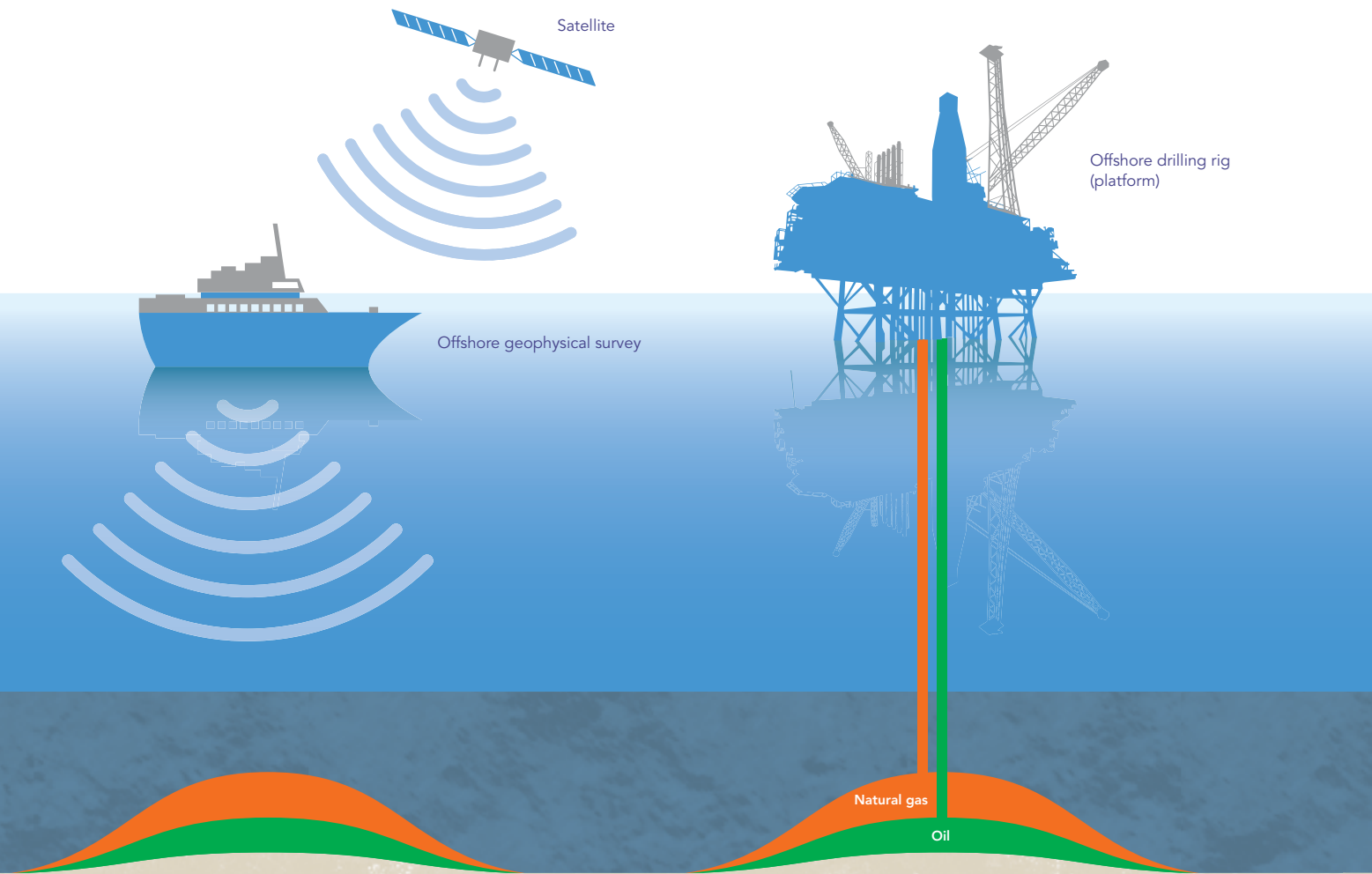
Geophysical surveys

Appraisal

Once the presence of oil and natural gas has been confirmed, we drill appraisal wells to assess the extent of the oil and gas fields and to evaluate the amount of reserves. In addition, we make comprehensive judgments regarding the commercial viability of the fields.



Drilling of appraisal wells

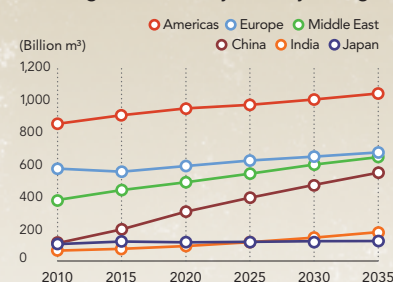


Global Energy Demand

Looking at global primary energy consumption, oil and natural gas account for more than half of the world's primary energy demand.

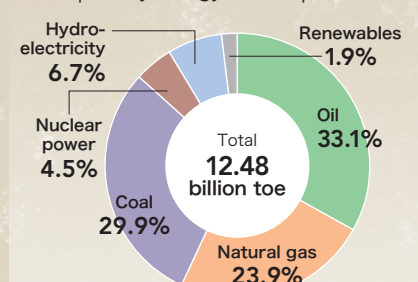
From a global perspective, demand for energy is forecast to increase even further in such developing countries as China and India. Natural gas in particular is expected to witness substantial growth in demand especially in major regions.

Natural gas demand by country or region



Source: IEA World Energy Outlook 2012 in the New Policies Scenario

World primary energy consumption 2012



Source: BP Statistical Review of World Energy 2013

Development

We drill production wells for the production of oil and natural gas. We also construct separators, gas processing facilities and a transport pipeline, which are necessary for production and shipping.



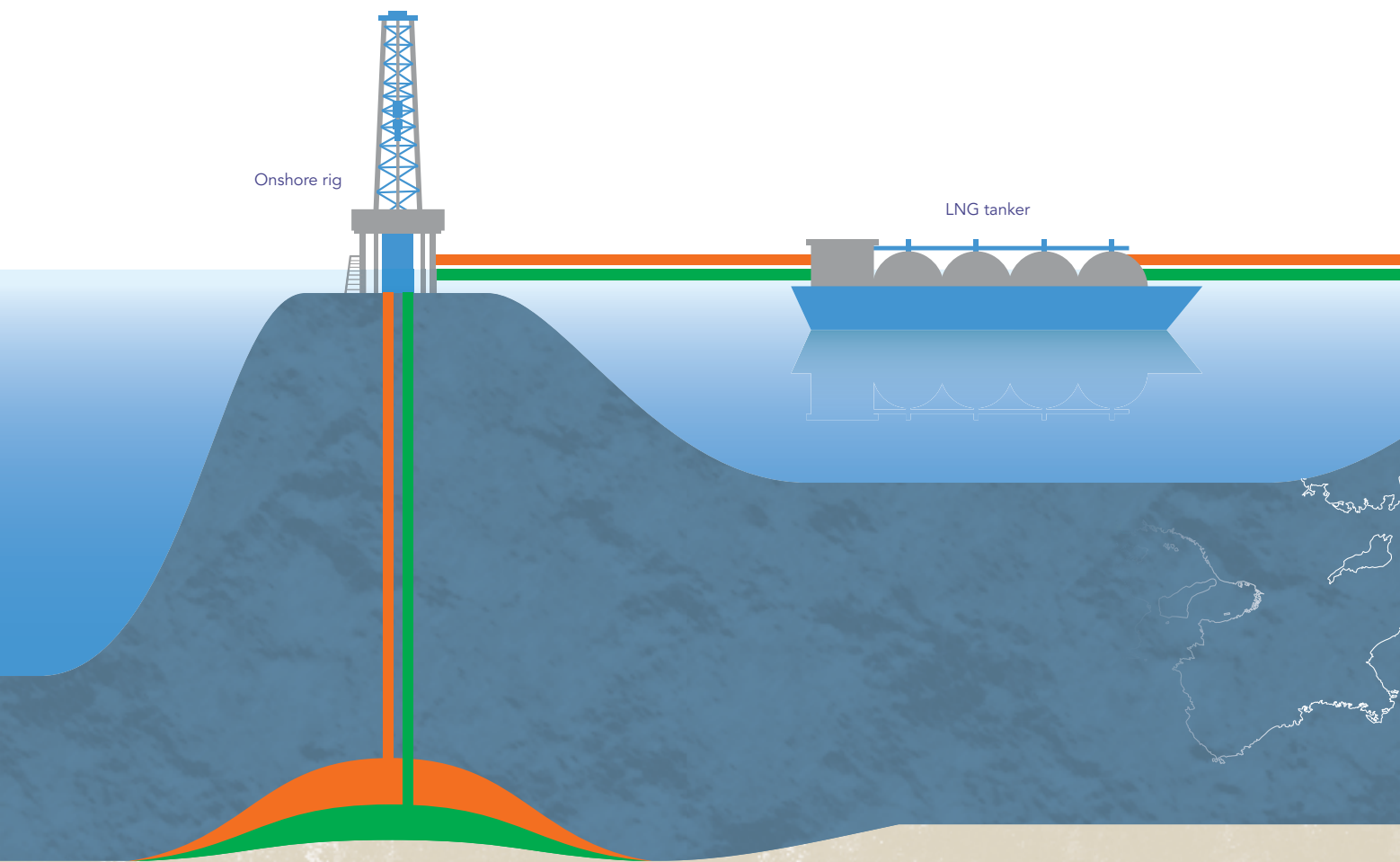
Drilling of production wells

Production and Sales

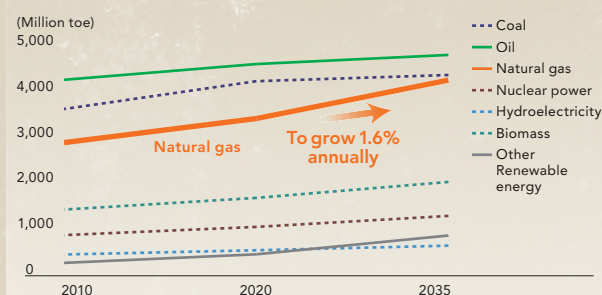
We perform production and operation management such as refining/treatment to create products from the oil and natural gas recovered from the production wells. We also engage in marketing and sales for the produced crude oil, condensate, LPG, natural gas and LNG.



LNG tanker



World primary energy demand by fuel



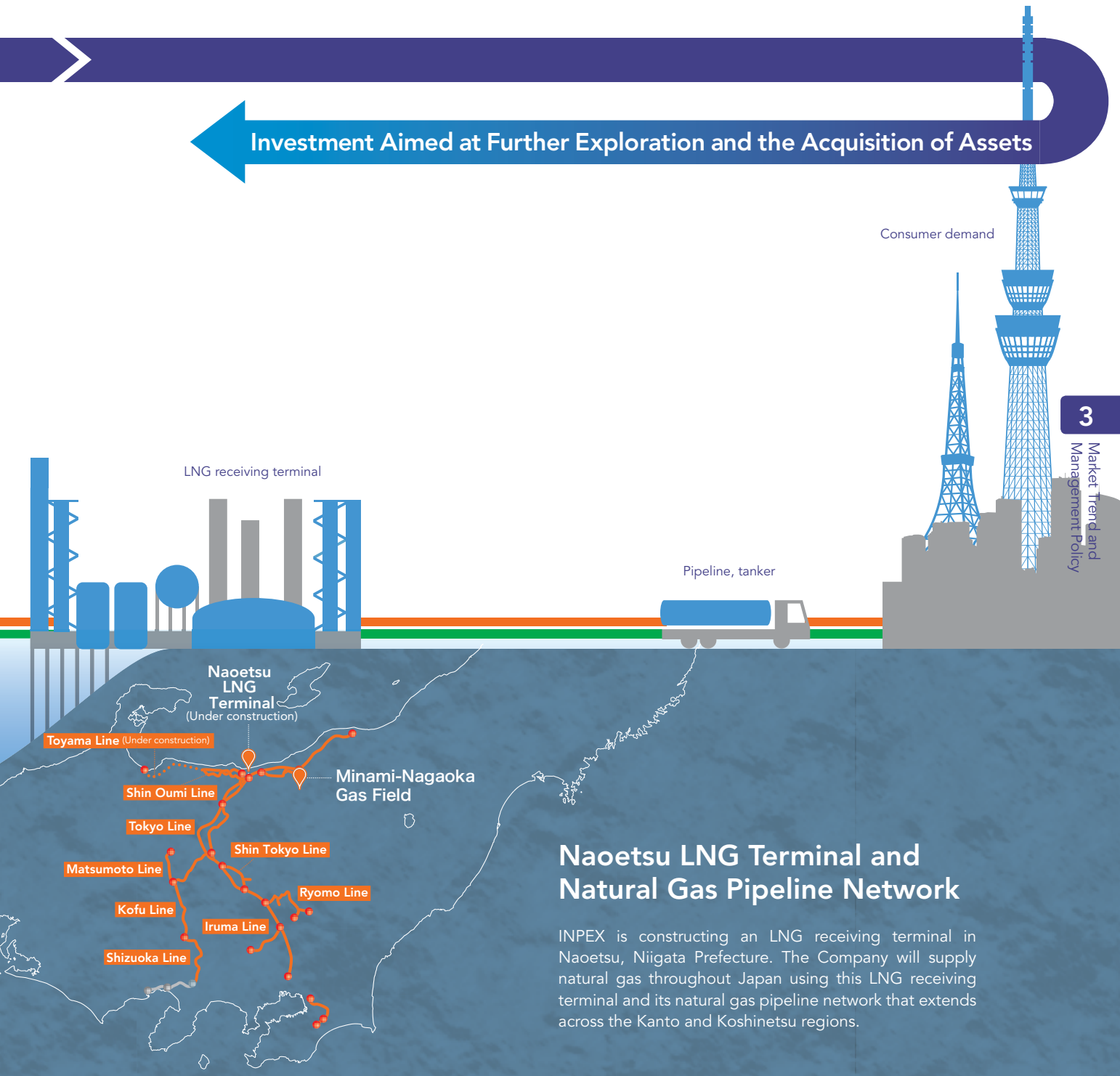
Source: IEA World Energy Outlook 2012 in the New Policies Scenario

Natural gas is forecast to experience high demand growth. Amid an upswing in overall energy demand, the annual natural gas growth rate is projected at 1.6% from 2010 to 2035. Expectations are that demand for natural gas will approach demand for coal in 2035. In contrast to fossil fuels, which are limited resources, solar, hydro, biomass, geothermal, and similar energy sources are gaining attention because they are renewable energy sources that can be reused in the short term and, moreover, produce less CO₂ emissions. Although demand for hydro and biomass energy as a ratio of overall energy demand is expected to remain more or less flat through to 2035, demand for other renewable energy sources is expected to increase (2010: 1% → 2035: 4%).

Investment Aimed at Further Exploration and the Acquisition of Assets

3

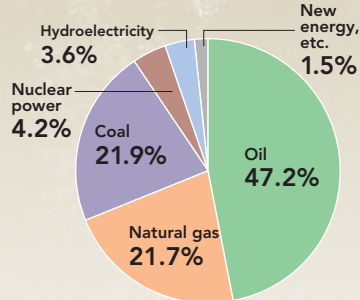
Market Trend and Management Policy



Oil and Natural Gas Demand in Japan

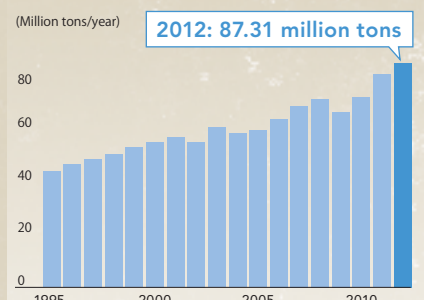
The demand for oil has been decreasing in Japan recently, but oil is broadly used as a source of heat and power, as well as in the production of materials, and even now accounts for more than 40% of Japan's primary energy demand. The share of LNG used for thermal power generation in Japan has risen in the wake of the shutdowns of nuclear power plants after the Great East Japan Earthquake, with demand for LNG growing. LNG import volume increased more than 10% from the previous year reaching an all-time peak of 87.31 million tons in 2012.

Japan's primary energy supply (2011)



Source: Energy & Economic Statistics in Japan 2013

LNG import trend in Japan



Source: Ministry of Finance trade statistics

The Medium- to Long-Term Vision of INPEX and Investment Plans

In May 2012, INPEX drew up its Medium- to Long-Term Vision of INPEX to clarify the Company's growth targets over the medium to long term and the key initiatives the Company will take through the year ending March 31, 2017, to achieve these targets. Over the five-year period from the year ended March 31, 2013 to the year ending March 31, 2017, INPEX plans to invest a total amount of ¥3.5 trillion. In addition to funds on hand, investment funding will be covered by future operating cash flows as well as bank loans while taking into consideration the Company's financial soundness.

MEDIUM- TO LONG-TERM VISION OF INPEX:

Ichthys and our growth beyond

For details, please refer to the booklet entitled "MEDIUM- TO LONG-TERM VISION OF INPEX: Ichthys and our growth beyond," or refer to the following Web site:

▶ inpx.co.jp/en/vision



Become a **Top-Class International Oil and Gas E&P Company**

1 Continuous Enhancement of E&P Activities

Achieve net production volume of

1 million boed

by the early 2020s

Three Growth Targets

We have set three growth targets necessary for sustainable growth, and will conduct key initiatives over the next five years to achieve them.

Three Management Policies

We are positioning ourselves to become a top-class international oil and gas E&P company and are improving and building our management base to evolve into an integrated energy company.

1 Securing / Developing Human Resources and Building an Efficient Organizational Structure

- Recruit and utilize personnel in and outside of Japan to develop global professionals
- Establish an efficient business execution system to facilitate decision making

Maintain Financial Strengths

Financial performance and target

As of March 31, 2013
69%

Net debt / Net total capital employed
20% or less

Equity ratio
50% or higher

As of March 31, 2013
-44%

Funding Source

Own Funds

Approximately ¥1.5 trillion of cash available on hand (As of March 31, 2013)

Cash Flows

Future operating cash flows obtained per year

Bank Loans

- Lending from JBIC
- Guarantee from JOGMEC
- Project finance

Become an **Integrated Energy Company** with natural gas as the core

2 Strengthening Gas Supply Chain

Achieve domestic gas supply volume of

2.5 billion m³/year

by the early 2020s
(3.0 billion m³/year in the long term)

3 Reinforcement of Renewable Energy Initiatives

Promote efforts to commercialize renewable energies and reinforce R&D activities for the next generation

2 Investment for Growth and Return for Shareholders

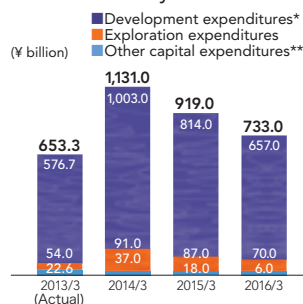
Future Investment

¥3.5 trillion to be invested over **5 years**

from the year ended March 31, 2013 to March 31, 2017 in major projects including Ichthys

Including exploration expenditures of around **¥300 billion**

Investment results and investment plan for the next three years



* Development expenditures include investment in Ichthys downstream
** Mainly investment in the Naoetsu LNG Terminal and the domestic pipeline network, etc.

3 Responsible Management as a Global Company

Promote continuous improvements in corporate compliance and HSE initiatives

Build trust-based working relationships with stakeholders through interactive communications

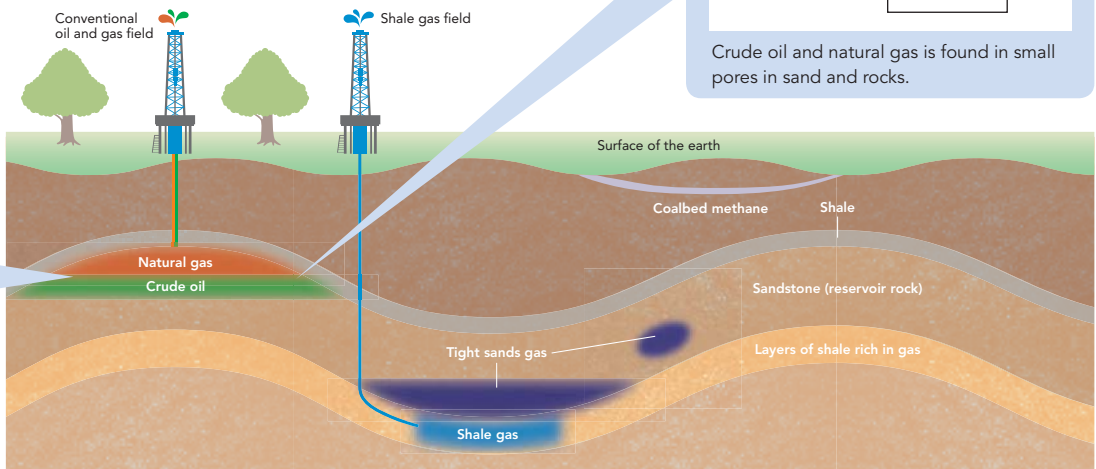
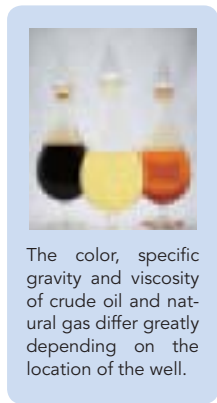
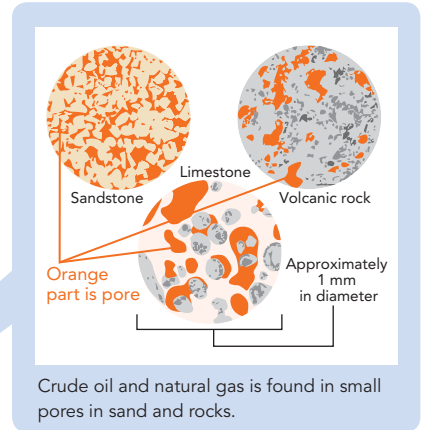
Column #1

Where does crude oil and natural gas come from?

Crude oil and natural gas are thought to originate from organic matter, such as the remains of once-living organisms that accumulated at the bottom of seas and lakes, and then subjected to extreme heat and pressure underground. Crude oil and natural gas that have formed deep underground are lighter than the dirt and water in the earth, allowing them to gradually rise to the surface over a very long period of time. If the crude oil

and natural gas encounters highly dense geological formations on the way to the surface, however, it is blocked and forms deposits that become oil and gas fields.

Shale gas differs from conventional natural gas in that it is trapped within layers of hard shale formations. Shale gas is recovered by drilling horizontal wells into these formations and applying hydraulic fracturing to crack the layers of shale to release the trapped gas.



INPEX's position among global E&P companies

INPEX is currently positioned as a mid-tier player among the global E&P companies. However, INPEX aims to join the leading group of global E&P companies in the early 2020s after the commencement of production at the Ichthys LNG Project

in Australia. The chart below compares the proved reserves, net production volume and market capitalization of major E&P companies.

Proved Reserves, Net Production Volume and the Market Value of the Major E&P Players

Proved reserves and production volume indicated in this chart are from documents disclosed by the major E&P companies in fiscal 2012. The size of the circle shows the market value of each company as of June 30, 2013.

