3
Market Trend and Management Policy

Business Flow in Oil and Gas Development and Our Strengths

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 entails handling upstream operations including the exploration, drilling, production and sale of crude oil and natural gas. As shown in the business flow at right, upstream business activities can be further classified into ❶ **acquisition of blocks**, ❷ **exploration**, ❸ **appraisal**, ❹ **development**, ❺ **production** and ❻ **sales**.

The Company's Oil and Natural Gas Projects

- **In production**
  Projects that entail the production and sales of oil and natural gas
- **Under development**
  Projects for which the Company has made a final investment decision and is undertaking development activities with a view to production
- **Discovered/ Preparation for development**
  Projects that entail the discovery of resources through exploration and evaluation
- **Under exploration**
  Projects where exploration and evaluation activities are in progress with resources yet to be discovered
- Other projects

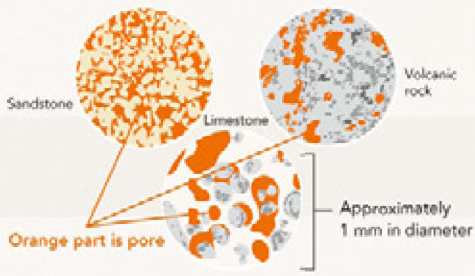
❶ Acquisition of Blocks

Signing ceremony of contract

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.

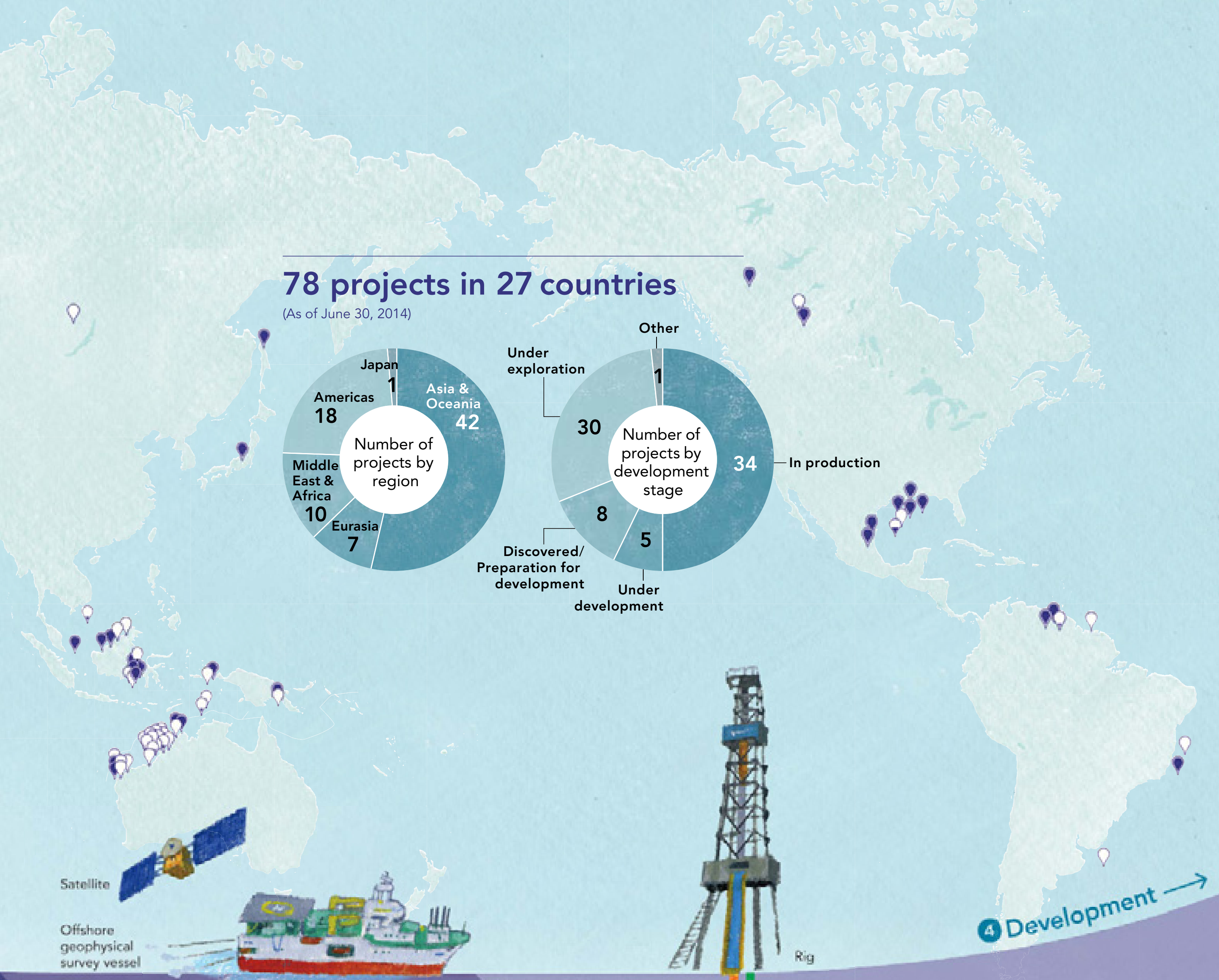
Where do crude oil and natural gas come from?

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, that was 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 long period of time. If the crude oil and natural gas encounter highly dense geological formations on the way to the surface, however, deposits form that become oil and gas fields.



Crude oil and natural gas are found in small pores in sand and rocks.

The color, specific gravity and viscosity of crude oil and natural gas differ greatly depending on the location of the well.



2 Exploration

3 Appraisal

Undertaking geological surveys to uncover reserves of natural resources trapped between rock formations


Geophysical surveys

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.


Drilling of appraisal wells

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 production wells

After a final investment decision (FID) has been made, steps are taken to construct the necessary facilities to engage in crude oil and natural gas production and shipment. This includes facilities that separate resources into their liquid and gaseous states to remove impurities and pipelines to facilitate transportation.

In addition, the drilling of production wells is undertaken to extract crude oil and natural gas. A pipe is inserted into the ground. The tip of the pipe is equipped with a special drill referred to as a "bit." The bit drills through hard rock while digging into the ground.

4 Development

Construct production and shipping facilities; dig wells using rigs (drilling equipment); extract crude oil and natural gas

2 Increasing Reserves

We will upgrade our probable/possible reserve volume to proved reserves by shifting to development work.

A Balanced Portfolio and Strong Reserve Volume/Resources

78 projects in 27 countries, 4.48 billion barrels of proved and probable reserve volume

INPEX has secured a balanced portfolio of oil and gas fields while establishing appropriate risk management by combining different projects, such as by oil and natural gas ratios, regional variances and exploration, development and production. In addition, holding a proved and probable reserve volume – the source of corporate value – of 4.48 billion barrels (crude oil equivalent) and we have an abundance of possible reserves and contingent resources beyond our probable reserves. We expect to continue increasing proved and probable reserves over the medium to long term.

INPEX's

1 Aggressive Exploration and Development Investment

We will reinvest cash flows gained from production and expand our reserve volume.

Strong Financial Base

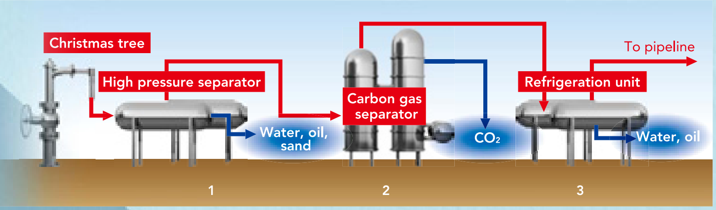
Equity Ratio 69.1%,
Net Debt/Net Total Capital Employed -31.9%

A strong, healthy balance sheet and 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. In August 2010, our company secured a strong financial position. As of March 31, 2014, our company had an equity ratio of 69.1% and a ratio of net debt to net total capital employed of –31.9%. (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.

Investment in Further Exploration/

5 Production

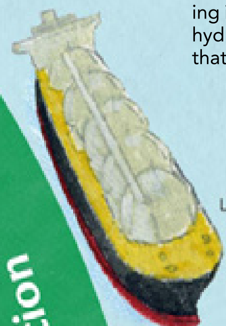
Refine and treat the oil and natural gas extracted from production wells



Refining/treatment of natural gas

After separating oil and removing impurities (e.g., carbon gas, hydrogen), we ship natural gas that can be used as a product.

Business Mode



LNG tanker

Transportation

LNG receiving terminal

There are many methods for selling crude oil linked to spot prices (market prices established one time per transaction), the spot prices themselves being mainly decided based on crude oil, which has become the transaction benchmark. Representative crude oil spot prices are those quoted for Middle East Dubai crude, North Sea Brent crude and West Texas Intermediate (WTI) from the United States, to name but a few.

In contrast, because projects characteristically require large-scale investment, in many cases sales of liquefied natural gas (LNG) result from long-term sale and purchase contracts concluded from both producers and buyers.

Dynamic Growth Scenario

Promoting Ichthys and Other Large-Scale LNG Projects

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 Company's net production volume is currently at the level of 400 thousand boed, and there are prospects of an increase to 700 thousand boed following the start of production at Ichthys. We are focusing on Ichthys development work, which will increase the corporate value of our company.

3 Maintenance/ Growth of Production Volume

We will produce oil and natural gas from proved reserves through our production operations.

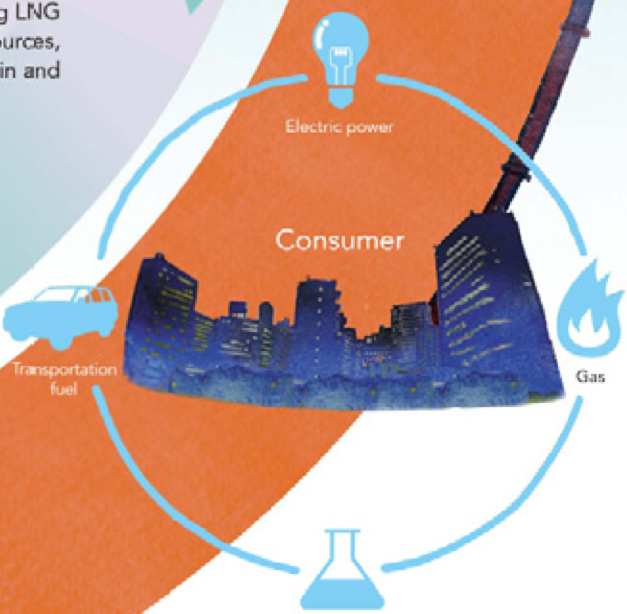
Strengths

Natural Gas Supply Chain

Owns Around 1,400 km of Gas Pipeline in Japan and the Naoetsu LNG Terminal

INPEX owns a natural gas pipeline network in Japan of around 1,400 km. The Naoetsu LNG Terminal commenced operations in December 2013, bringing one step closer the realization of a natural gas supply chain that links natural gas assets in Japan and overseas with the domestic market. By receiving LNG from the large-scale Ichthys project and other sources, the Company will build a global gas supply chain and plan further improvements in value added.

6 Sales



As sources of power needed, for example, for industry, transportation and the lives of consumers, oil and natural gas are used in a variety of applications. Oil is widely used for transportation fuel, including for automobiles and aircraft. Oil is also used as a raw material for petrochemicals, such as plastics.

Natural gas commonly has consumer uses, such as in the production of electricity, including thermal power generation, and city gas. Compared with petroleum and coal, natural gas produces fewer emissions such as carbon dioxide and is thus attracting attention as a form of environment-friendly, clean energy.

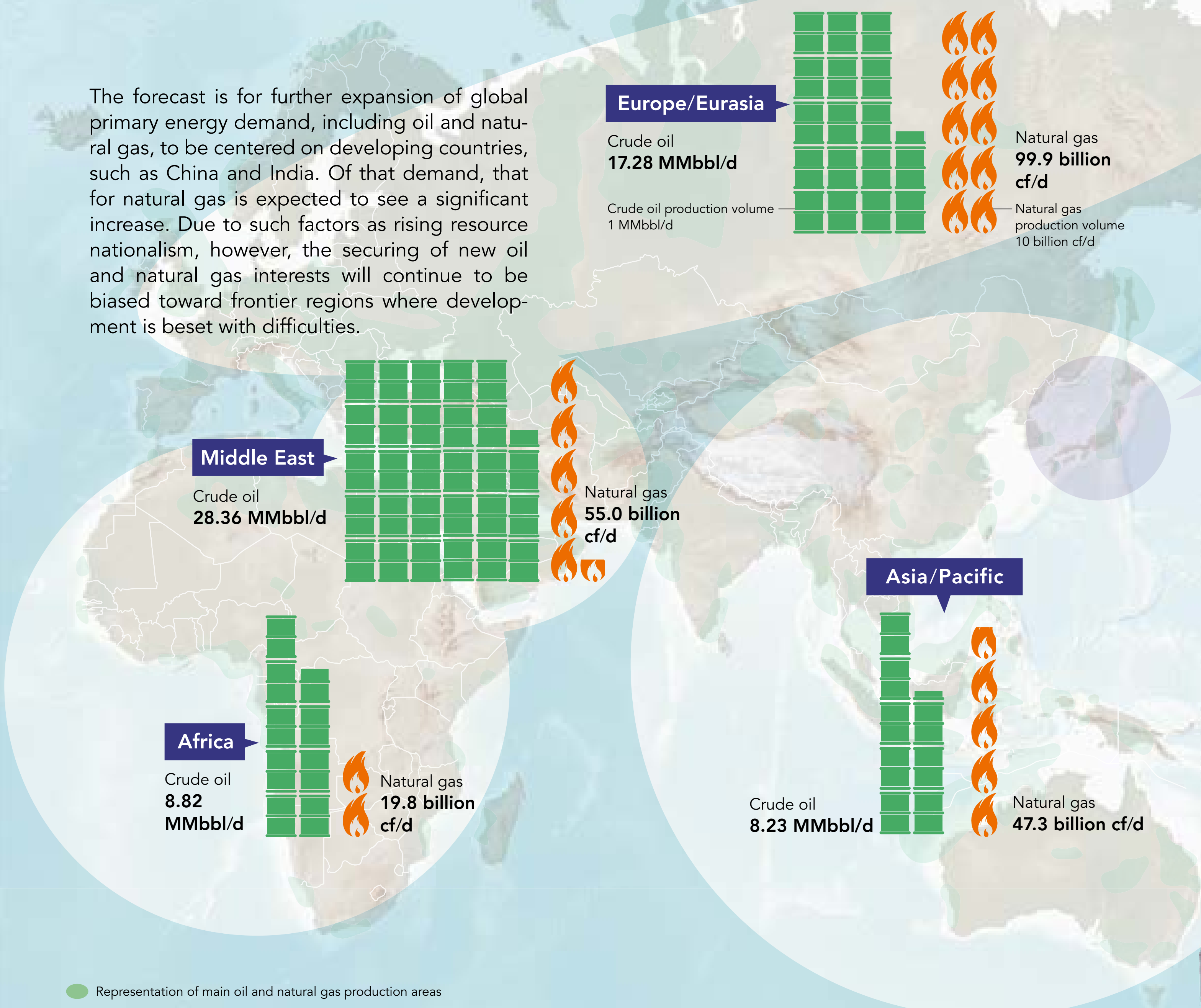
4 Accounting of Revenue Attributable to Sales

We sell products and record them as Company revenue.

Asset Acquisition, etc. (Go to 1)

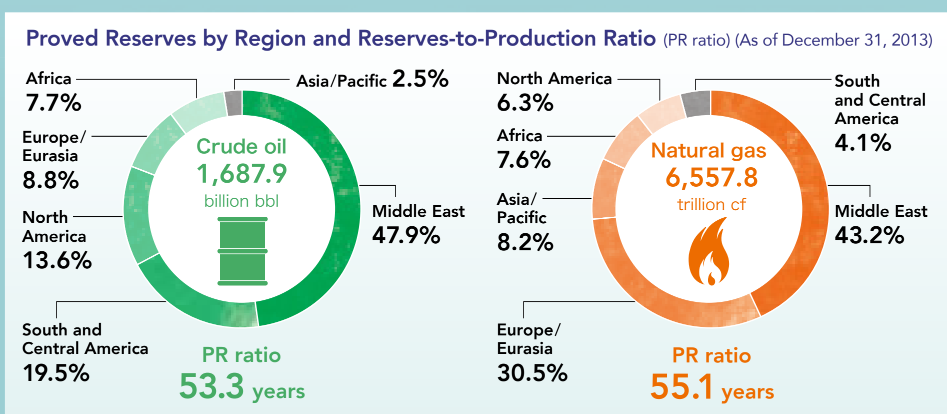
Business Environment in Oil and Gas Development

The forecast is for further expansion of global primary energy demand, including oil and natural gas, to be centered on developing countries, such as China and India. Of that demand, that for natural gas is expected to see a significant increase. Due to such factors as rising resource nationalism, however, the securing of new oil and natural gas interests will continue to be biased toward frontier regions where development is beset with difficulties.



Global Proved Reserves and Reserves-to-Production Ratio

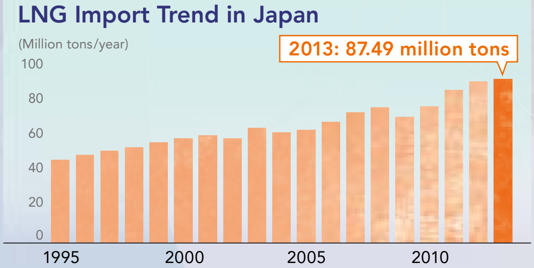
Global proved reserves of crude oil and natural gas total approximately 1.7 trillion barrels and 6.6 quadrillion cubic feet, respectively. By region, the Middle East holds the largest reserve volumes of both crude oil and natural gas in existence. There are also extensive proved reserves of crude oil in South and Central America and North America and of natural gas in Europe and Eurasia.



Source: BP Statistical Review of World Energy 2014

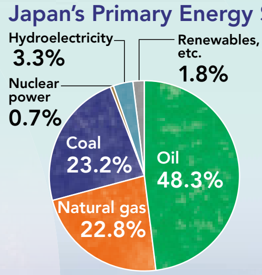
Oil and Natural Gas Demand in Japan

LNG Import Trend in Japan



Demand for LNG is increasing in Japan. This reflects the upswing in LNG use for thermal power generation in the wake of the shutdowns of nuclear power plants. Source: Ministry of Finance trade statistics

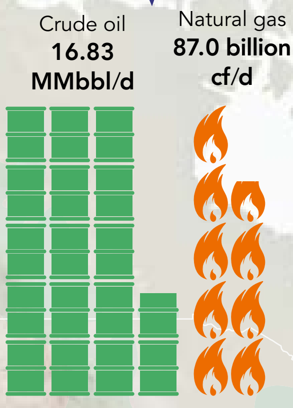
Japan's Primary Energy Supply (2012)



Although the demand for oil has declined in Japan in recent years, oil that is broadly used as a source of heat and power, as well as in the production of materials, even now accounts for more than 40% of Japan's primary energy demand.

Source: Energy & Economic Statistics in Japan 2013

North America

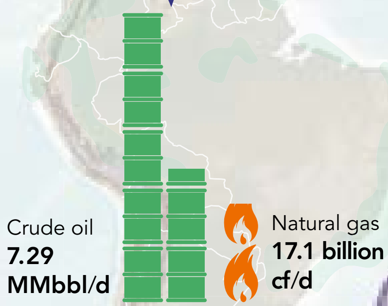


Production Volume by Region

There are many countries and regions that produce oil and natural gas, but countries that have large-scale production, have opened their mining areas to foreign oil companies or are capable of exporting LNG are limited to just a few. Due to the rise in resource nationalism, the securing of new oil and natural gas interests by energy development companies has in recent years continued to be biased toward frontier regions where development is beset with difficulties. Among these regions, however, are promising areas where large-scale reserve volumes are to be expected.

Production volume source: BP Statistical Review of World Energy 2014

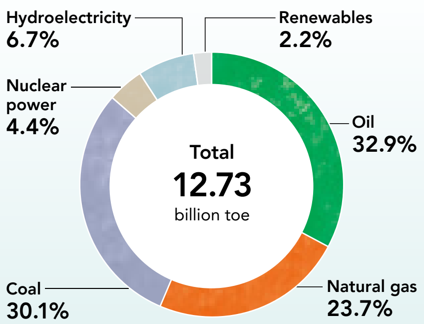
South and Central America



Global Energy Demand

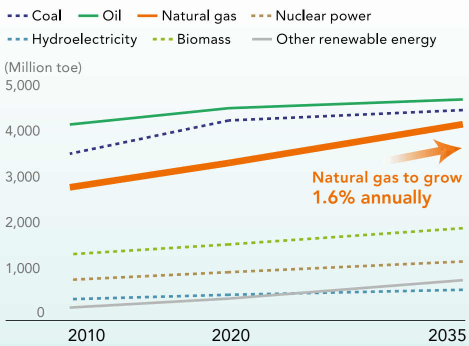
Oil and natural gas account for more than half of the amount of global primary energy consumption. The main focus is on other forms of energy, such as solar, hydro, biomass and geothermal, as these are renewable within a short time of first use and emit less CO_2 during power generation when compared with finite fossil fuels.

World Primary Energy Consumption (2013)



Source: BP Statistical Review of World Energy 2014

World Primary Energy Demand by Fuel



Source: IEA World Energy Outlook 2013 in the New Policies Scenario

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

In May 2012, the Company formulated the INPEX Medium- to Long-Term Vision that clarified such aspects as key initiatives up to the fiscal year ending March 2017 toward medium- to long-term growth targets and the achievement of those targets. The Medium- to Long-Term Vision defined **three growth targets** and **three management policies** and clearly specified the key initiatives over the following five-year period.

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:

www.inpex.co.jp/en/vision

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.

Become a Top-Class International Oil and Gas

1 Continuous Enhancement of E&P Activities

Achieve net production volume of 1 million boed by the early 2020s

2 Investment for Growth and Return for Shareholders

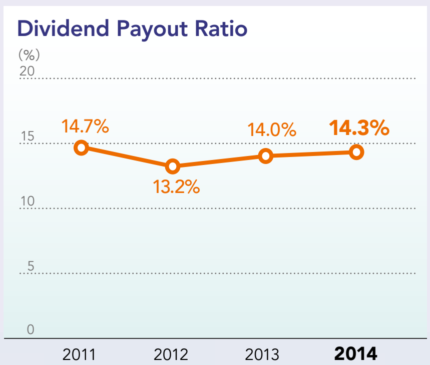
Investment over
five years

¥3.5 trillion

Including exploration expenditures of around
¥300 billion

From the year ended March 31, 2013, to March 31, 2017

From the period in which Ichthys starts production, we will be aware of our position as a top-class international oil and gas E&P company and will plan appropriate returns for our shareholders.



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.

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)

E&P Company

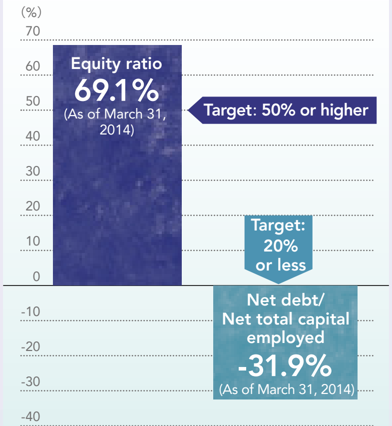
3 Reinforcement of Renewable Energy Initiatives

Promote efforts to commercialize renewable energies and reinforce R&D activities

for the next generation

Maintain Financial Strength

Equity Ratio, Net Debt/ Net Total Capital Employed



Funding Source

Own funds

Approximately ¥1.5 trillion of cash available on hand (As of March 31, 2014)

Cash flows

Future operating cash flows obtained per year

Bank loans

- Lending from JBIC
- Guarantee from JOGMEC
- Project finance

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.

Company Management Content in Business Model

A principal issue of the oil and gas development business is the ability to put in place a continuous cycle that entails the reinvestment of earnings for sustainable growth. In specific terms, this cycle involves ❶ **aggressive exploration and development investment**; ❷ **increasing reserves**; ❸ **maintenance/growth of production volume**; and ❹ **accounting of revenue attributable to sales**.

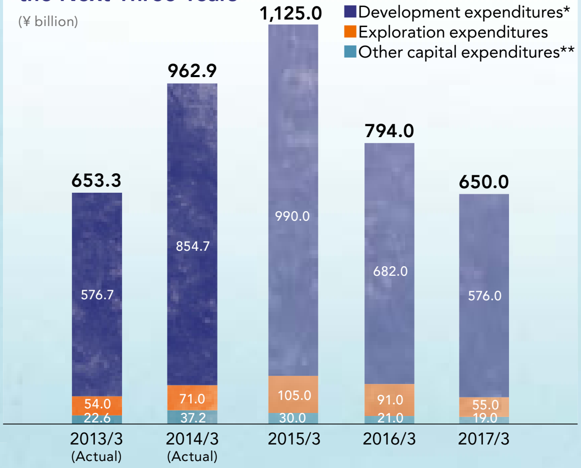
Over the five-year period from the year ended March 31, 2013, to the year ending March 31, 2017, INPEX intends to invest a total of ¥3.5 trillion and to continuously enhance its E&P activities. In specific terms, the Company will work diligently to achieve net production volume of 1 million boed by the early 2020s.

❶ Aggressive Exploration and Development Investment

To realize its growth targets, the Company will actively promote both exploration investment intended to maintain/expand reserve volume and development investment to produce oil and natural gas from reserve volume holdings.

The scale of investment is planned to be ¥3.5 trillion over the five-year period from the year ended March 2013 to that ending March 2017 (up until the start of production at Ichthys). Investment in Ichthys will account for more than half of the ¥3.5 trillion. As development operation at Ichthys is progressing smoothly for the most part, investment is being advanced in line with the investment plan. The value of the yen has weakened compared with the foreign currency exchange rate assumptions adopted at the time investment plans were formulated in May 2012. As a result, the amount of future investment has increased on a yen basis. However, as the Company's investments are for the most part denominated in U.S. dollars, there has been no change from the initial U.S. dollar–based investment amount of the ¥3.5 trillion.

Investment Results and Investment Plan for the Next Three Years



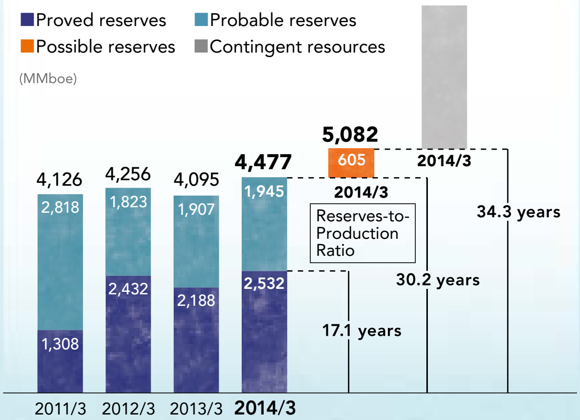
* Development expenditures include investment in the Ichthys downstream business

** Mainly investment in the Naoetsu LNG Terminal and the domestic pipeline network, etc.

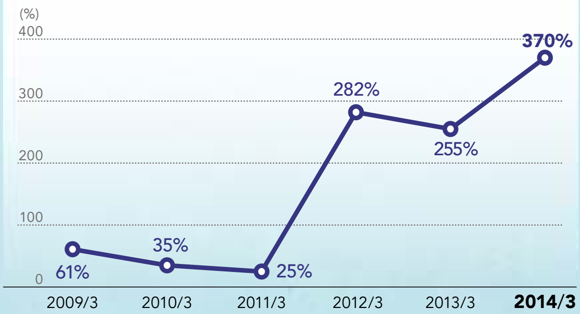
❷ Increasing Reserves

At the end of March 2014, the Company's reserves were proved reserves of 2.5 billion boe, probable reserves of 1.9 billion boe and possible reserves of 600 million boe. If reserve production is shown in terms of how many years reserve volumes will last at the current production volume, proved reserves will last 17.1 years, and 30.2 years if combined with probable reserves. Showing what level of recovery in interim production volume could be possible by increasing the interim reserve volume, the reserve replacement ratio (three-year average) has reached 370%. Also holding a wealth of contingent resource amounts, the Company expects to expand its medium- to long-term proved and probable reserves by launching new projects and improving the recovery rate from its existing oil and gas fields.

Our Reserves



Reserve Replacement Ratio (3-year average)

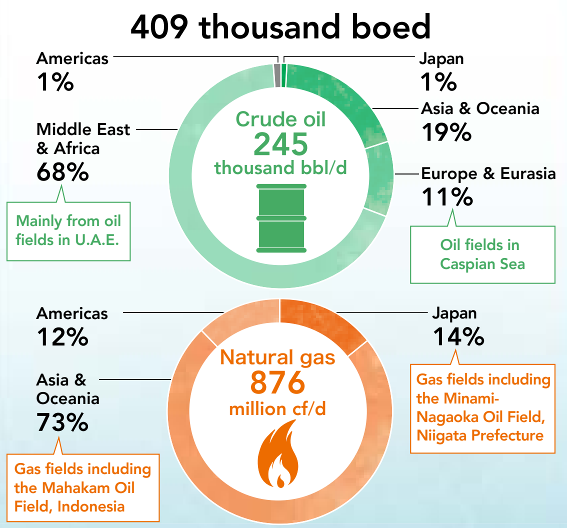


3 Maintenance/ Growth of Production Volume

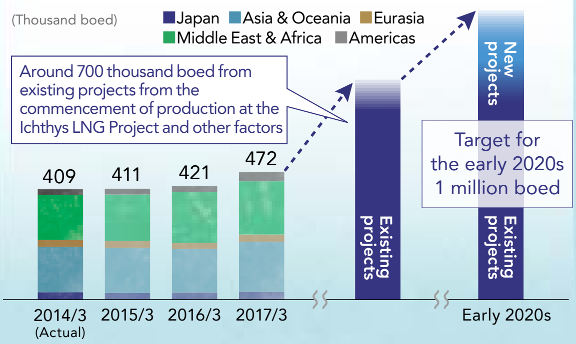
The Company's net production volumes for the year ended March 31, 2014, were 245 thousand barrels per day of crude oil, 876 million cubic feet per day of natural gas (164 thousand boed) for a combined oil and natural gas total of 409 thousand boed. We expect to increase that figure to 411 thousand boed for the year ending March 2015.

Concerning our medium- to long-term production volume forecasts, we plan to maintain and expand production volume due to the contributions from production at start-up production projects and existing projects until the start of production at the Ichthys LNG Project. After that, due to such factors as the start of production at Ichthys, we will increase net production volume of existing projects to the 700 thousand boed level and aim to achieve one million boed in the early 2020s by, for example, increasing the production volume of new projects.

Net Production (Year ended March 31, 2014)



Medium- to Long-Term Production Volume Targets

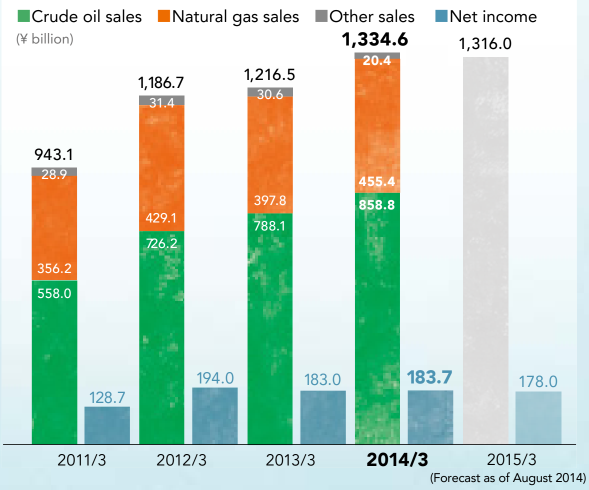


4 Accounting of Revenue Attributable to Sales

The Company maintains robust revenue based on the stable production of its revenue sources, crude oil and natural gas. For the year ended March 31, 2014, net sales reached an all-time high due to the effects of the yen's depreciation.

The Company's business revenues are greatly affected by changes in crude oil prices and exchange rates (U.S. dollar). The yearly average price of crude oil (ICE Brent) in the year under review was US$107 per barrel. On foreign currency exchanges, the yen remained at the ¥100 to the U.S. dollar mark for the year. The chart below shows the Company's sensitivity with regard to its consolidated net income forecasts for the current year in the event of changes in crude oil prices and exchange rates. A rise in crude oil prices and yen depreciation would have a positive effect on net income.

Net Sales (by product), Net Income



Sensitivities of Crude Oil Price and Foreign Exchange Fluctuation on Consolidated Net Income for the Year Ending March 31, 2015*1

Crude oil price; $1/bbl increase (decrease)*2	+2.5 (-2.5) billion yen
Exchange rate; ¥1 depreciation (appreciation) against the U.S. dollar	+0.8 (-0.8) billion yen
Flow effect on net income from operating activities*3	+2.1 (-2.1) billion yen
Stock effect on net income (valuation for assets and liabilities denominated in U.S. dollar)*4	-1.3 (+1.3) billion yen

*1: The sensitivities represent the impact on net income for the year ending March 31, 2015 against $1/bbl increase (decrease) of Brent crude oil price on annual average and ¥1 depreciation (appreciation) against the U.S. dollar. These are based on the financial situation at the beginning of the fiscal year. These are information purpose only and the actual impact may be subject to change in production volumes, capital expenditures and cost recoveries, and may not be constant, depending on crude oil prices and exchange rates.
*2: This is a sensitivity on net income by fluctuation of crude oil price and is subject to the average price of crude oil (Brent) in the fiscal year.
*3: This is a sensitivity on net income from operating activities by fluctuation of the yen against the U.S. dollar and is subject to the average exchange rate in the fiscal year.
*4: This is the impact of foreign exchange differences for foreign currency-denominated assets and liabilities, and is affected by the difference between the exchange rate at the end of the fiscal year and the end of the previous fiscal year. In this fiscal year, as foreign currency-denominated debt is greater than foreign currency-denominated assets due to an increase in foreign currency deposits, exchange valuation gains will occur when the yen is appreciated against foreign currency, while exchange valuation losses will occur when the yen becomes weaker against foreign currency. In addition, because of the impact of deferred tax accounting, when the yen is appreciated against the U.S. dollar to a certain extent, the above sensitivities may show different trend.

Comparison with Global Oil Companies

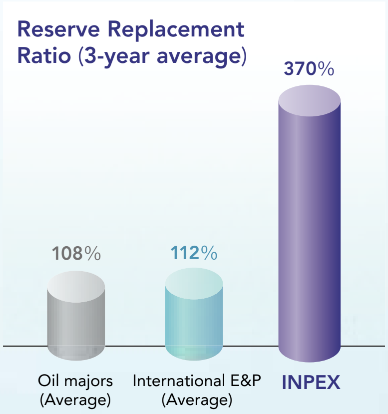
Oil companies that conduct upstream activities can be divided into three categories: ❶ **national oil companies of governments in oil-producing countries that possess oil and natural gas assets**, ❷ **major international oil companies known as the "oil majors"** and ❸ **companies that specialize in upstream activities and are second in scale to the oil majors**. INPEX is currently positioned in the mid-tier of international oil and gas E&P companies that are second to the oil majors.

Reserve Volume Comparison with Global Peers

Our reserve replacement ratio and reserves-to-production ratio were superior to those of the oil majors and other international oil and gas E&P companies, and they represent our growth potential.

Average of majors:
BP, Chevron, ConocoPhillips, ENI, ExxonMobil, TOTAL, Shell

Average of E&P that disclose the data:
Anadarko, Apache, BG, Occidental, Santos, Statoil, Talisman, Woodside



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

Comparing net production volumes and reserve volume, INPEX is positioned in the mid-tier of international oil and gas E&P companies that are ranked second to the oil majors. Looking ahead, the Company plans to join the leading group of international oil and gas E&P companies in the early 2020s through a variety of initiatives including increasing its net production volume and upgrading its reserve volume.

Proved reserves and production volume indicated in this chart are from documents disclosed by the major E&P companies in fiscal 2013. The size of the circle shows the market value of each company as of March 31, 2014.

Seeking to establish a firm position as an international oil and gas E&P company by the early 2020s