Message from the President

Looking Back at the Past Year

For the fiscal year ended March 31, 2016, in a harsh market environment with declining crude oil prices, net sales decreased 13.8% year on year to ¥1,009.6 billion, while net income attributable to owners of parent dropped 78.4% to ¥16.8 billion. Briefly reviewing oil price trends over the past year, although the oil price rose as far as a mid-US$60 per barrel in early May 2015, the price subsequently fell, dropping by an average of more than 40% during the fiscal year. Under these circumstances, INPEX was forced to record an impairment loss for some projects already in production.

On the other hand, net production volume, which is a key pillar supporting the Company's earnings, increased about 26% year on year to roughly 514 thousand BOED. Proved reserves, which represent a source of future earnings, rose 34% compared to the previous fiscal year-end to about 3.26 billion BOE. The increases are both due to the contribution from ADCO Onshore Concession in Abu Dhabi, U.A.E. acquired in April 2015. Summarizing the progress of major projects now underway, development work on offshore and onshore facilities for the Ichthys LNG Project is steadily moving forward along a schedule that was updated in September of last year. In light of an increase in natural gas reserves, we submitted a revised development plan for the Abadi LNG Project in September 2015 and received a notice from government authorities calling for a review of the development plan based on onshore LNG. Moving forward, we will negotiate with government authorities for the optimal development of the project with the goal of early start-up of development.

INPEX, an oil and gas E&P company, has a responsibility to fulfill its social mission through its business activities, irrespective of short-term fluctuations in demand. Bearing in mind that crude oil prices could remain low for a certain period of time, after taking countermeasures for that, we will continue to make necessary investments in future growth and undertake various initiatives to maintain the stable dividends of the past.

Toshiaki Kitamura
President & CEO

Cost Reduction Initiatives

Crude oil prices, which had remained at more than $100 per barrel until the middle of 2014, dropped to under $30 per barrel at the beginning of 2016, a mere year and a half later. Recently, oil prices have bounced back somewhat and it appears that prices will continue to converge toward a new equilibrium point over the medium to long term. However, what we need is to shift away from the over $100 per barrel era mindset that has continued for the past several years.

The Company is dealing with a sense of urgency regarding the current state of oil prices, which have dropped sharply in a short period of time. Specifically, from the perspective of importance and urgency we must:

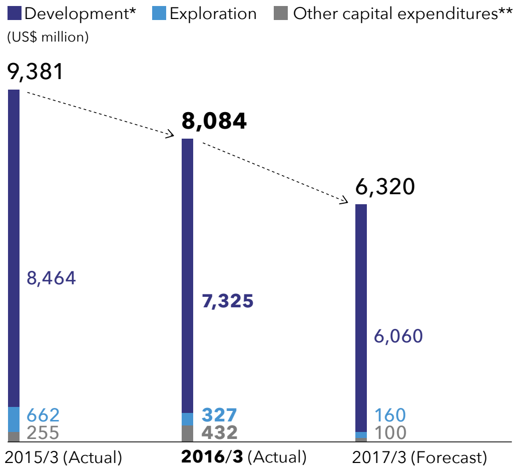
1. Continue to implement and steadily carry out according to schedule important development projects that support Company growth, such as the Ichthys LNG Project, and investments that we should pursue.
2. Reduce production costs and development and exploration expenditure, and in particular review the schedule and costs of exploration projects to reduce investments.
3. Maintain stable dividends to all shareholders.

With these three policies, we are committed to minimizing the impact on oil price decline performance for the foreseeable future.

Since the fiscal year ended March 31, 2015, we have continuously worked to reduce investments and in the fiscal year ended March 31, 2016, even though we invested steadily in Ichthys, we reduced investments in other projects. As a result, total investments came to approximately $8.1 billion, a roughly $1.3 billion decrease (about 14%) compared with about $9.4 billion in the fiscal year ended March 31, 2015. In the fiscal year ending March 31, 2017, we will continue to reduce investments and expect total investments to reach about $6.3 billion, an almost 22% reduction from that of the year ended March 31, 2016.

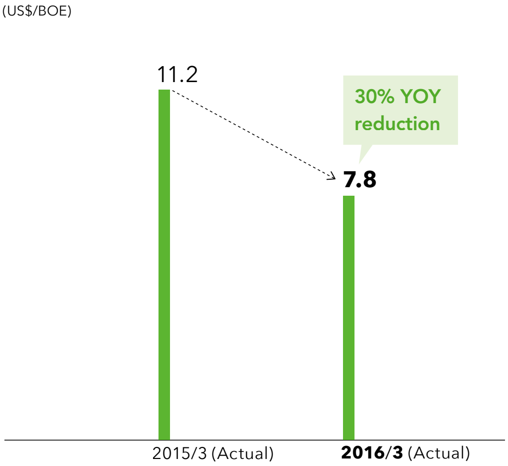
In addition, projects in production that developed high cost structures in the last few years have cut back their production costs. In major production projects such as the Offshore Mahakam Block in Indonesia and the ACG Oil Fields in Azerbaijan, after reviewing the unit price of work contracts and reducing indirect costs, we significantly lowered production costs. With the reduction of production costs per barrel, and the impact of increased production volume, in the fiscal year ended March 31, 2016, the $11.2 per barrel cost of the previous fiscal year was lowered to $7.8 per barrel. Net income attributable to owners of parent in the fiscal year ended March 31, 2016 decreased substantially due to an impairment loss, but at the same time, we believe these investments and cost reduction efforts contributed by propping up profits.

Shifts in Investment-Reduction Measures



*Includes investments in Ichthys downstream business
**Mainly investments in Naoetsu LNG Terminal and domestic pipeline network

Production Cost per BOE***



***Excluding royalties

Aiming to Achieve Our Growth Targets

We have set three growth targets for sustainable growth.

To begin with, if we report our growth target's first pillar of "**Continuous Enhancement of E&P Activities**" from the standpoint of the indicators for that progress, reserves (total of crude oil and natural gas) as of March 31, 2016 were net proved reserves of about 3.26 billion BOE and net probable reserves of about 1.71 billion BOE. The total of proved and probable reserves was roughly 4.97 billion BOE, an increase of about 23%, or 0.93 billion BOE compared with the previous year-end. Following the increase in proved reserves, the reserve replacement ratio (RRR) (proved reserve increase during year/ production volume during year, 3-year average) rose substantially, from 100% in the previous fiscal year, to 321% this fiscal year. Moreover, net production volume (total of crude oil and natural gas) increased about 106,000 barrels per day, or about 26% year on year, to roughly 514,000 barrels per day. These increases in reserves and production volumes were achieved due to the acquisition of a participating interest of the Abu Dhabi onshore ADCO Block which is in production.

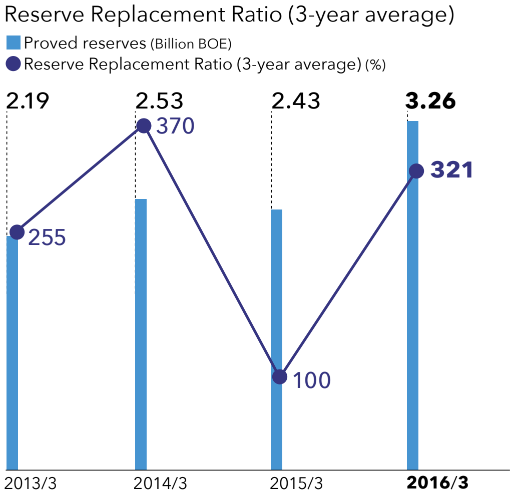
Looking at the progress of Continuous Enhancement of E&P Activities by individual project, development work on the Australia Ichthys LNG Project has steadily progressed in preparation for the start of production in the third quarter (July–September) of 2017. As for offshore facilities, we continue to move forward with the construction of an offshore central processing facility (CPF) and a floating production storage and offloading (FPSO) facility. The installation of all topside modules has already been completed for both of these. At present, we are performing internal construction and commissioning. In April 2016, we completed the onsite installation of the chain that will anchor the CPF and FPSO offshore. Other offshore work that we continue to perform is production well drilling.

We have delivered and installed all modules for the first train (natural gas liquefaction facilities) for onshore facilities and are now conducting connection and joint work.

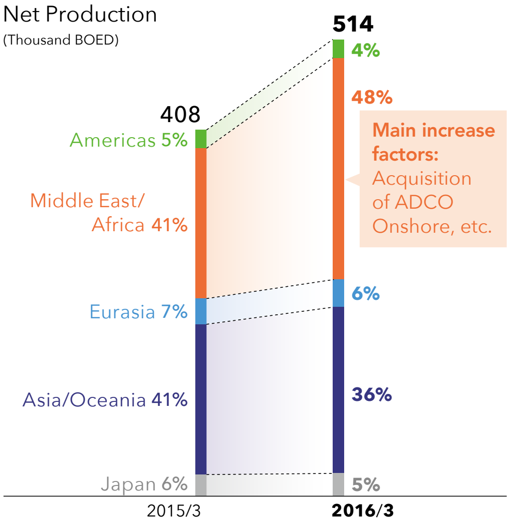
Although we are simultaneously moving forward on both offshore and onshore facilities and pursuing a variety of tasks, we are preparing to sequentially operate each facility and are working diligently to begin production while paying the utmost care to safety.

Based on the fact that the natural gas reserves of the Indonesian Abadi LNG Project increased due to the drilling of additional appraisal wells and the results of subsequent studies, we reviewed the development plans for an FLNG with a 2.5 million ton annual LNG production capacity and submitted a revised plan to government authorities in September

Net Proved Reserves and Reserve Replacement Ratio (3-year average)



Net Production
(Thousand BOED)



2015 based on an FLNG with a 7.5 million ton annual LNG production capacity. In April 2016, we received a notice from the government calling for a review of the development plan for onshore LNG. Under a policy that seeks the project's early start-up, the Company operates on the basis of selecting the most technologically and economically rational choices and moving the project forward. In line with this basic policy, we are now reviewing how optimal development, including the onshore LNG development system, can be achieved. We will discuss this with our partner, Royal Dutch Shell, and Indonesian government authorities.

With respect to the Offshore Mahakam Block in Indonesia, in December 2015, we reached a basic agreement with Pertamina and TOTAL regarding a basic approach to INPEX and TOTAL's participation from 2018 and thereafter. Together with TOTAL we continue to negotiate with Pertamina.

Next, the second pillar of our growth target "**Strengthening Gas Supply Chain**," construction of the Toyama Line, one of our priority initiatives, has continued since 2012 and is expected to be completed by the middle of this year. In January of 2016, the Company signed a basic natural gas sales and purchase agreement with Nihonkai Gas Co., Ltd., and after the Toyama Line is completed, the supply of natural gas to customers along this pipeline will finally begin.

The Company's medium- to long-term target for sales volume of domestic natural gas is 2.5 billion cubic meters annually by the early 2020s. With the completion of the Toyama Line, sales volume for the fiscal year ending March 31, 2017 is expected (initial forecast) to be 1.96 billion cubic meters, greatly exceeding the 1.7 to 1.8 billion cubic meters of the past several years, bringing us one step closer to our medium- to long-term target. In April 2016 in Japan, full deregulation of electric power retail sales was implemented, but in anticipation of full deregulation, the Company has promoted a gas supply proposal for natural gas thermal power generation for its pipeline network. INPEX has already agreed to several 100,000 kilowatt-class power generation plant projects and natural gas sales and some of the projects have begun to supply. In the years ahead, we believe that gas supply to these natural gas thermal power generation plants will help increase sales volume. Moreover, since July 2015, INPEX began proposing wholesale electric power sales jointly with Chubu Electric Power Co., Inc. to city gas companies that INPEX provides natural gas to. In the future, we want to flexibly respond to the diverse needs of customers by strengthening the supply chain.

Finally, I will explain the third pillar of our growth target "**Reinforcement of Renewable Energy Initiatives**." With respect to renewable energy, we continue to focus on initiatives for the commercialization of geothermal power and we have conducted joint research for the commercialization of geothermal power in Akita, Hokkaido, and Fukushima prefectures. In June 2015, we participated in the geothermal power generation business in the Sarulla Geothermal Field located in Sumatra, Indonesia, and will begin operating the first power plant in 2016 and plan to begin selling power to Indonesia's government-owned electricity company. As an integrated energy company that contributes to society, INPEX will focus on next-generation growth and pursue possibilities for the commercialization of renewable energy.

Outlook

In the fiscal year ending March 31, 2017, taking into account the possibility that recent low oil prices will continue, we will again clearly classify investments that we should pursue and areas of investment and cost reduction. We will make a Company-wide effort to strengthen into a strong corporate structure, while addressing the harsh market environment.

As for returns to shareholders, the year-end dividend for the fiscal year ended March 31, 2016 was ¥9.0 per share, and combined with the interim dividend, the full-year dividend was ¥18.0 per share. In accordance with our basic policy of maintaining a balance between sustainably raising corporate value by reinvesting in projects and returning profits to shareholders, for the year ending March 31, 2017, we plan to pay an interim and year-end dividend of ¥9.0 per share each, for a full-year dividend of ¥18.0 per share, thus paying the same dividend paid in the fiscal year ended March 31, 2016. After the start of production of the Ichthys LNG Project, we would like to ensure the proper return of profits to shareholders after taking into account the medium- to long-term business outlook, what other top-tier oil and gas exploration and production companies are returning, and other factors.

To raise sustainable growth and medium- to long-term corporate growth, we are fulfilling our social responsibilities in cooperation with all stakeholders including shareholders. At the same time, we are taking steps to further enhance corporate value with the aim of making transparent, fair, quick and decisive decisions. In the fiscal year ended March 31, 2016, we formulated Corporate Governance Guidelines on November 27, 2015 as a response to the Corporate Governance Code, which applied to all listed companies on June 1, 2015. These guidelines set forth our basic views on corporate governance and establish our relationship with stakeholders including shareholders, enhance information disclosure, define our corporate governance system and our policy of constructive dialogue with shareholders.

Energy resources are, needless to say, essential to society and the importance of their long-term stable development and efficient use will remain unchanged. The Company's social mission is to work hard to become an energy business and achieve sustainable growth, while taking an interest in further mounting environmental issues.

We will continue our policy of raising corporate value through the stable and efficient supply of energy and enhancing competitiveness as an international oil and gas E&P company. As we work to achieve these goals, we would greatly appreciate your continued understanding and support.

June 2016

President & CEO
Toshiaki Kitamura
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