

Message from the President

Toshiaki Kitamura

President & CEO



Looking Back at the Past Year

For the fiscal year ended March 31, 2017, net sales decreased 13.4% year on year to ¥874.4 billion, while net income attributable to owners of parent showed a significant increase of 175.2% to ¥46.2 billion. Looking at trends in oil prices, although the price fell under to the US\$42 level a barrel in August 2016, the December 2016 Declaration of Cooperation accord between OPEC and non-OPEC oil-producing countries triggered a price rise and ended the fiscal year at around the US\$50 a barrel level. Despite the decrease in net sales, brought about by falls in crude oil and natural gas prices as well as by a decline in revenues due to the yen's appreciation in comparison with the previous fiscal year, operating income increased due to a variety of factors, such as a decrease in the amount of temporary loss recorded.

Net production volume (the total of crude oil and natural gas, crude oil conversion), which is a key pillar supporting the Company's earnings, increased by 70,000 barrels a day compared with the previous fiscal year

to 521 thousand barrels of oil equivalent per day (BOED), and we are continuing to maintain a level of more than 500 thousand BOED. Proved reserves (the total of crude oil and natural gas, crude oil conversion), which represent a source of future earnings, also rose slightly compared with the previous fiscal year-end to about 3.3 billion barrels of oil equivalent (BOE). Summarizing the progress of the major projects now under way, we are continuing to make progress with the development work on offshore and onshore facilities on the Ichthys LNG Project, and the project will, during the current fiscal year (ending March 31, 2018), begin production of condensate, liquefied natural gas (LNG) and liquefied petroleum gas (LPG) in sequence and then ship these products. In the Abadi LNG Project in Indonesia, we began preparatory work related to the start of the conceptual design (pre-front-end engineering and design [pre-FEED]) for the optimum development of the Abadi gas field centered on an onshore LNG plant.

Cost Reduction Initiatives

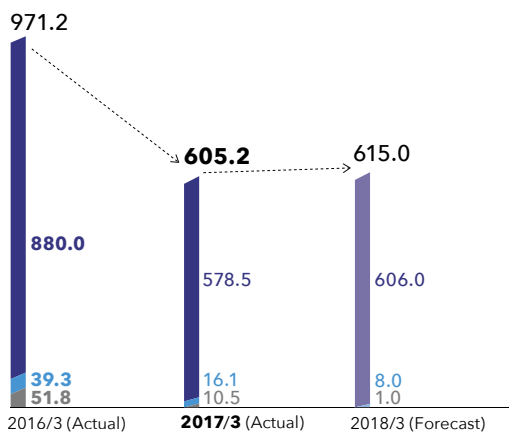
As an oil and natural gas development company, we are responsible for fulfilling our social mission through our business activities, regardless of current supply and demand fluctuations. Crude oil prices, which had remained at more than US\$100 per barrel until the middle of 2014, dropped to under US\$30 per barrel at the beginning of 2016, a mere year and a half later. In response to this change in the price for crude oil, the Company is continuing to handle the issue with a sense of urgency and, keeping in mind the possibility that crude oil prices will remain at a low level for some time to come, has drawn up countermeasures and is advancing

a number of initiatives to continue making investments for future growth and maintain stable dividends.

Whereas operating cash flows for the period under review showed a substantial increase of more than ¥270.0 billion compared with the previous fiscal year, total investment decreased by just under 40% year on year. Production costs per barrel (crude oil equivalent) were further reduced from US\$7.80 in the previous fiscal year to US\$6.10. We believe that these efforts to reduce costs played a supporting role leading to recovery and the posting of a net profit for the fiscal year under review.

Shifts in Investment-Reduction Measures

■ Development* ■ Exploration ■ Other capital expenditures**
(¥ billion)

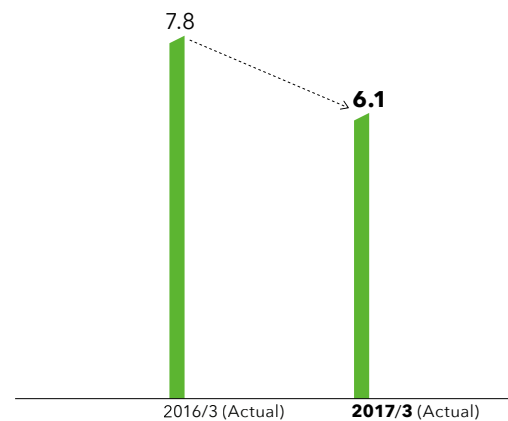


*Includes investments in Ichthys downstream business

**Mainly investments in Naoetsu LNG Terminal and domestic pipeline network

Production Cost per BOE***

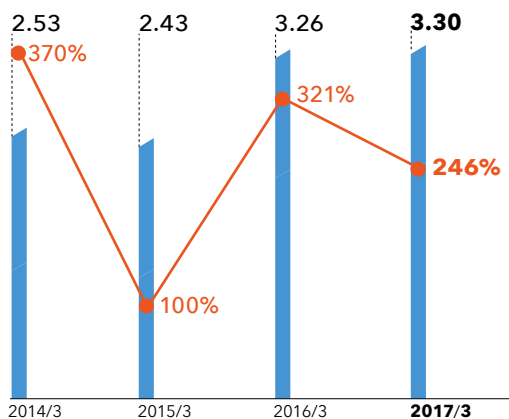
(US\$/BOE)



***Excluding royalties

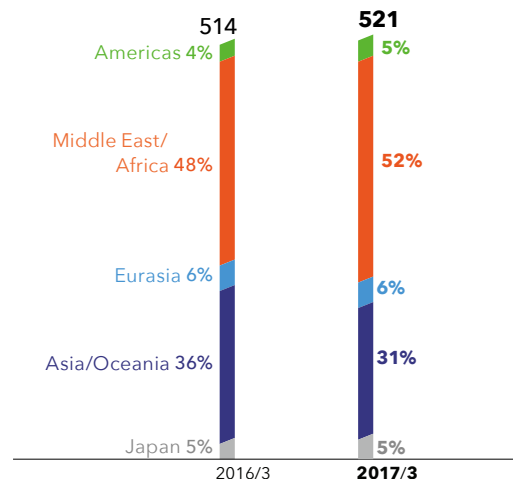
Net Proved Reserves and Reserve Replacement Ratio (3-year average)

■ Proved reserves (Billion BOE)
● Reserve Replacement Ratio (3-year average) (%)



Net Production

(Thousand BOED)



Aiming to Achieve Our Growth Targets

We have set three growth targets for sustainable growth. With regard to our growth target's first pillar of **Continuous Enhancement of Exploration & Production (E&P) Activities**, if we report on progress from the standpoint of the indicators for that progress, our reserves (the total of crude oil and natural gas) as of March 31, 2017, were net proved reserves of about 3.3 billion BOE and net probable reserves of about 1.39 billion BOE. The total of proved and probable reserves was roughly at the 4.69 billion BOE level. At 246%, we continued to maintain the reserve replacement ratio (RRR) (proved reserve increase during year divided by production volume during year, three-year average) at a good level. Although there was a natural decline in production volume in the Asia/Oceania segment, net production volume for the fiscal year under review increased by 70,000 barrels per day to 521,000 barrels per day due to the contribution throughout the year from the Abu Dhabi onshore ADCO Block acquired in the Middle East/Africa segment and the restart of production at the Kashagan Project in the Eurasia segment.

Looking at the progress of Continuous Enhancement of E&P Activities by individual project, in the case of the offshore facilities at the Australian Ichthys LNG Project, the construction work for each of the Central Processing Facility (CPF) and the Floating Production Storage and Offloading (FPSO) facility has now been completed.

Having started the drilling of the produc-

tion wells in February 2015, work is continuing smoothly. At the Darwin onshore LNG plant, we finished bringing all the modules that were manufactured overseas to the plant site in September 2016 and are carrying out commissioning operations. At the gas export pipeline (GEP), the installation and pressure tests on the land section are completed, and we are ready to accept gas, including the seabed part that has already been laid and pressure tested. Looking ahead at the production schedule, installation and commissioning work will be undertaken and production from the wellhead will commence. Thereafter, the Ichthys LNG Project will, during the current fiscal year (ending March 31, 2018), begin production of condensate, liquefied natural gas (LNG) and liquefied petroleum gas (LPG) in sequence and then ship these products.

At the Abadi LNG Project in Indonesia, we received a notification instructing to re-propose a plan of development based on onshore LNG from the Indonesian government authorities in April 2016. As a company, we will maintain our policy of aiming for early start-up of development and implementing the projecting the most economically and technically rational way, and will proceed with the project. In line with this basic policy, we started the preparatory work relating to the start of the conceptual design (Pre-FEED) on the basis of the results of constructive consultations with the Indonesian government up until then with regard to the optimum development of the Abadi Gas Field.



CPF (Ichthys Explorer) undergoing mooring operations



Aerial view of the Ichthys LNG Project's new operations complex at Bladin Point, Darwin, Australia

With regard to the Abu Dhabi offshore Satah oil Field and Umm Al-Dalkh oil Field in Abu Dhabi in the United Arab Emirates, we agreed in principle with Abu Dhabi National Oil Company (ADNOC) concerning the extension of the duration of the joint development in January 2017. On the basis of this agreement in principle, we will aim to conclude a formal agreement by consulting with ADNOC on detailed terms, such as extending the joint development for about 25 years. In exploration projects, we succeeded in discovering deposits of quality oil as a result of an exploration well drilled at the onshore Exploration Block 10 in Iraq and confirmed a production volume capacity of more than 8,000 barrels per day in crude oil production tests that were subsequently conducted.

Going forward, we will analyze the data obtained from the crude oil production tests, undertake further exploration activities and, dependent upon the evaluation results, expect there to be a high probability of the find becoming a large-scale oil field. In December 2016, we acquired a joint license for Exploration Block 3 in the Mexican sector of the northern Gulf of Mexico. I hope that such an exploration project will contribute to our Continuous Enhancement of E&P Activities.

With regard to our second pillar of our growth targets, "Strengthening the Gas Supply Chain," the construction work on the Toyama Line, which began in April 2012 and extends around 100 km, was completed in June 2016, and the total extent of the Company's domestic pipeline network stretches over approximately 1,500 km. The natural gas sales volume for the fiscal year ending March 31, 2018, is forecast to be 2.12 billion cubic meters and, due to the full-year contribution of the Toyama

Line and an increase in the fuel supply volume for gas-fired power plants, the Company's first annual sales volume is expected to exceed 2 billion cubic meters. Responding flexibly and accurately to changes in the business environment triggered by the liberalization of the gas retail market in April 2017, we conducted a reshuffle of the organizations involved in the domestic gas business with the aim of further strengthening the domestic gas business.

In the years to come, under the new organizational structure, we will continue to focus on continuing to strengthen the gas supply chain that will organically link the natural gas sources developed by overseas projects, such as Ichthys, and the natural gas business in Japan.

Finally, I will explain about our growth target's third pillar, "Reinforcement of Renewable Energy Initiatives". The first unit started commercial operations in the geothermal power generation project in the Sarulla Block, located on the island of Sumatra, Indonesia, in March 2017. The Sarulla Geothermal Independent Power Producer (IPP) Project is the world's largest single-contract geothermal power project, and we plan to sell all the generated power to Indonesia's government-owned electricity company over a period of 30 years. We are proceeding with construction and other work on the plant's second and third units with the aim of commencing commercial operations in sequence, starting with the second unit in 2017 and the third unit in 2018, and expect the amount of power generated to ultimately be increased to 330 MW. As a comprehensive energy company that contributes to society, we will continue to actively engage in the Reinforcement of Renewable Energy Initiatives.



Naoetsu LNG Terminal



Commercial operations commenced at the first unit of the Sarulla Geothermal Independent Power Producer (IPP) Project

Toward Improved Corporate Value from a Long-Term Perspective

In order to contribute to the creation of a prosperous society through the realization of the stable and efficient supply of energy, we are working on the development and supply of energy all over the world. In May 2012, we formulated the INPEX Medium- to Long-Term Vision and, as focused initiatives up to production startup at Ichthys, are advancing the three abovementioned growth target pillars: Continuous Enhancement of E&P Activities, Strengthening the Gas Supply Chain and Reinforcement of Renewable Energy Initiatives. Crude oil prices remain in a state where we cannot be optimistic about the future, but the decline in investment in E&P projects, particularly among the oil majors, is showing signs of bottoming due to a recovery in the balance between supply and demand and other factors. Under such circumstances, we are currently considering our post-Ichthys startup growth strategies and making earnest progress in examining the level of investment for future growth and the strengthening of shareholder returns, including an increase in dividends.

While building trust-based relationships with stakeholders, including local communities, as a company that develops business globally, we are steadily fulfilling our social responsibility throughout the value chain and focusing our efforts on contributing to the creation of a sustainable society, for example, by ensuring safety in our business activities, environmental protection, creating employment, respecting human rights as well as cultures and customs, and contributing to local communities. With a particular focus on ensuring respect for human rights, and as a part of efforts to address the UK Modern Slavery Act of 2015, the Company and the Company Group disclosed its Modern Slavery Act Statement FY2015 (UK Modern Slavery Act Statement) in September 2016. This disclosure was designed to clarify initiatives aimed at preventing any violation of human rights including slave labor and human trafficking from a supply chain management perspective. In addition, to comprehensively specify our stance toward respect for human rights, we formulated the **INPEX Human**

Rights Policy in May 2017. Formulated on the basis of the UN's Guiding Principles on Business and Human Rights, the policy is applicable to all officers and employees of the Group. We will continue to adhere strictly to a policy of human rights management in the years ahead.

The total dividend for the year under review was ¥18.0 per share, the interim and year-end dividend having each been ¥9.0. The initial dividend forecast for the year ending March 31, 2018, is that we will pay interim and year-end dividends of the same ¥9.0 per share, for a full-year dividend of again ¥18.0 per share. However, on the basis of the progress made with the Ichthys LNG Project going forward and the earnings outlook for the current fiscal year as well as other factors, the year-end dividend may be reviewed again toward the end of the year.

Energy resources are essential to the economy and society, and the importance of their long-term, stable development and efficient use will remain unchanged. Japan's energy self-sufficiency rate (2016) is only about 6%, the second from the bottom among OECD member countries. Under such circumstances, I believe that our mission is to improve our corporate value through the stable and efficient supply of energy. In the years to come, we will facilitate the stable and efficient supply of energy and, as an international oil and natural gas development company, will enhance our competitiveness so that these efforts lead to sustainable improvement in both shareholder and corporate value. We will be doing our utmost in these efforts, so I would like to take this opportunity to thank you in anticipation of your unwavering support.

June 2017

President & CEO
Toshiaki Kitamura

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