



## Revision of Financial Forecasts for the year ending March 31, 2007 and Management Policy of INPEX Holdings Inc.

(The following report is an English translation of the Japanese-language original.)

May 16, 2006

Company name	INPEX Holdings Inc.	Stock Exchange on which the Company is listed	Tokyo Stock Exchange
Code number	1605	Location of the head office	Tokyo
(URL <a href="http://www.inpexhd.co.jp/">http://www.inpexhd.co.jp/</a> )			
Representative	Naoki Kuroda, President		
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Date of the meeting of the Board of Directors for the year ended March 31, 2006 financial results	May 16, 2006		
Prepared in accordance with accounting principles generally accepted in the United States of America	No		

### I . Revision of Financial Forecasts

INPEX Holdings Inc. has revised its financial forecasts for the year ending March 31, 2007, which were previously announced on April 3, 2006. For your information, financial forecasts for the six months ending September 30, 2006 and dividend forecasts for the year ending March 31, 2007 were not announced on April 3, 2006.

#### 1. Forecasts for consolidated financial results for the six months ending September 30, 2006

(Millions of yen)

	Net Sales	Ordinary income	Net income
Previous Forecasts : A	—	—	—
Revised Forecasts : B	375,000	209,000	48,000
Increase (Decrease) : B-A	—	—	—
Rate of Increase (%)	—	—	—

#### 2. Forecasts for consolidated financial results for the year ending March 31, 2007

(Millions of yen)

	Net Sales	Ordinary income	Net income
Previous Forecasts : A	769,000	379,000	90,000
Revised Forecasts : B	794,000	419,000	97,000
Increase (Decrease) : B-A	25,000	40,000	7,000
Rate of Increase (%)	3.3	10.6	7.8

Reference: Net income per share for the year ending March 31, 2007 : ¥41,516.71 (Based on the number of shares issued on April 3, 2006 : 2,336,408 shares)

#### 3. Forecasts for non-consolidated financial results for the six months ending September 30, 2006

(Millions of yen)

	Operational revenue	Ordinary income	Net income
Previous Forecasts : A	—	—	—
Revised Forecasts : B	1,500	0	0
Increase (Decrease) : B-A	—	—	—
Rate of Increase (%)	—	—	—

4. Forecasts for non-consolidated financial results for the year ending March 31, 2007

(Millions of yen)

	Operational revenue	Ordinary income	Net income
Previous Forecasts : A	29,000	26,500	26,500
Revised Forecasts : B	30,000	27,500	27,500
Increase (Decrease) : B-A	1,000	1,000	1,000
Rate of Increase (%)	3.4	3.8	3.8

Reference: Net income per share for the year ending March 31, 2007: ¥11,770.20 (Based on the number of shares issued on April 3, 2006 : 2,336,408 shares)

5. Forecasts for dividend per share for the year ending March 31, 2007

	Interim	Year End	Annual
Previous Forecasts : A	—	—	—
Revised Forecasts : B	—	6,250 JPY	6,250 JPY
Increase (Decrease) : B-A	—	—	—
Rate of Increase (%)	—	—	—

6. Reasons for the revisions

Based on the business environment such as increase of crude oil price and yen appreciation, INPEX Holdings Inc. revised its financial forecasts for the year ending March 31, 2007.

The above forecasts are calculated based on the following assumptions:

	Previous Forecasts	Revised Forecasts
Crude Oil Price (Brent)	Full year US\$50/bbl	Full year US\$55/bbl
Exchange rates	¥115/US\$1	¥110/US\$1

Note: The aforementioned forecasts are based on currently available information and contain many uncertainties. Changing business conditions including oil and gas price levels, production and sales plans, projects development schedules, government regulations and financial and tax schemes may cause actual results to differ from the above forecasts.

## **I. Management Policy**

### 1. Management Strategy

On April 3, 2006, INPEX Corporation and Teikoku Oil Co., Ltd. integrated their businesses, and established a joint holding company, INPEX Holdings Inc. (the Company). INPEX Corporation and Teikoku Oil Co., Ltd. are wholly owned subsidiaries of the Company.

In pursuit of development of petroleum and natural gas which is the fundamental business of the Company, we seek to improve the productivity and profitability of our existing oil and gas fields in Japan and overseas. At the same time, we are working steadily and proactively to commercialize undeveloped oil and gas projects, particularly our operator projects. Furthermore, to ensure sustainable growth from the medium- to long-term perspective, we are leveraging to the maximum our substantially strengthened ability to obtain upstream interests as a consequence of the business integration by building a more balanced asset portfolio, further strengthening our solid financial base, and mobilizing our practical operational and technical capabilities. By maintaining and increasing our reserves and production of petroleum and natural gas, we will endeavor to secure stable profits over the medium to long term and to achieve enhanced corporate value over time.

### 2. Dividend Policy

In order to secure a stable supply of petroleum and natural gas resources efficiently, the Company aims to expand its operating base. To this end, we are reinforcing investments in exploration and development in Japan and overseas, as well as in maintenance and expansion of the supply infrastructure. The robust financial base of the Company is crucial for maintaining this level of investment. Therefore, our basic policy is to maximize corporate value through ongoing maintenance and enlargement of our reserves and production of petroleum and natural gas, while paying out cash dividends as direct compensation to shareholders, in light of the medium- to long-term prospects for the Company.

With the enactment of the Corporation Law, restrictions on the number of times for paying dividends have been eliminated. However, currently, we do not plan to pay quarterly.

### 3. Share Trading Unit

In order to improve the liquidity of our shares and to expand the diversity of shareholders participating in the equity market, including individual investors, the Company deems it necessary to establish a fair and stable stock price on the equity market. Although we have no plans to lower our minimum share trading unit for the time being, we carefully review it as necessary in the light of liquidity of shares, trends in transaction volume, and distribution of shareholders.

### 4. Medium-to Long Term Management Key Initiatives

The key management initiatives for the Company in developing petroleum and natural gas resources is achieving sustainable growth by maintaining and expanding reserves through reinvesting the cash flow obtained from existing oil and gas fields. By combining overseas projects that promise high growth potential due to expansion of reserves with domestic projects without the attendant country risk and foreign currency risk, we are seeking qualitative improvements in our asset portfolio. At the same time, by leveraging our business resources more effectively through an organic linkage of our overseas assets and domestic infrastructure, we aim to further enhance corporate value.

With the tougher conditions associated with acquiring resources overseas, the Company must take the opportunity of business integration to become a more robust enterprise possessing an enhanced ability to acquire interests in promising projects. The foremost management task is to achieve smooth integration of the two companies' organizations, with transition to an operational holding company after two years. As international competition intensifies, this represents the surest path to ensuring long-term growth by building a robust position for the Company.

We will continue to move forward with exploration and development in new and existing projects such as the Masela Block(Abadi) gas project in Indonesia and the WA-285-P (Ichthys) gas and condensate project in Australia, the Abu Dhabi offshore oil fields in the UAE, and the Azadegan field in Iran, Kashagan and ACG fields in the

Caspian Sea. Domestically, we are working to increase the scale of our natural gas business by exploiting domestic reserves located close to a strong market and by expanding our natural gas supply infrastructure. This involves plans to build a major pipeline as a substantial reinforcement of supply capacity to the North Kanto region where demand is expected to substantially exceed previous estimates, and where the Company already operates a network of pipelines. Since we anticipate continuous substantial investment in order to achieve the growth strategy of the Company, we must take all possible measures to raise the capital required.

We will undertake operations according to the following policies in order to implement the business strategy of the Company.

(1) Achieve Well Balanced Asset Portfolio

① Regional Diversification

Through business integration, the operating area of the Company has diversified to include Asia, Oceania, the Middle East, the Caspian Sea, Central and South America, and Africa, besides Japan, and the regional balance of our asset portfolio has improved significantly. However, we recognize the need to reduce our dependence on specific regions from the viewpoint of country and operating risks, and we will continue to be proactive in considering investment in other new promising areas.

② Balance between Crude Oil and Gas

In terms of output by products, the share of crude oil is about 60% compared with about 40% for natural gas as a result of business integration.

Since crude oil is a commodity highly sensitive to various factors, the selling price fluctuates in the marketplace. On the other hand, the term of sales contract with customers are for a short period (one year), the required investment for production and transportation facilities is relatively small and the development period is comparatively short compared with the natural gas projects. Accordingly, profitability can be achieved comparatively soon after discovery in the case of oil fields.

Commercial production of natural gas requires substantial investments and a long lead time of preparation for constructing liquefaction plants and pipelines. Because the buyer also must make large investments in LNG receiving facilities, stable and long-term sales contracts are essential. With an assurance of long term LNG supply to the customers, profitability can be maintained.

Regarding a new project, we focus on a balance between crude oil and natural gas to ensure efficient investment with a view to long-term cash flow.

③ Balancing the Project Phases among Exploration, Development and Production

Because crude oil and gas reserves are limited, we continuously seek to acquire new reserves in order to ensure stable profitability. Therefore, we reinvest in exploration to discover new reserves while maintaining our cash flow from production. Projects must be carried out continuously in order to allocate and balance our assets among exploration, development and production stages. To achieve this balance, we invest in exploration and undeveloped oil and gas assets.

④ Enhance Activities and Capabilities as an Operator

In acting as an operator, we face managerial issues such as the difficulty in securing manpower and the heavy burden of financing. However, involvement as an operator also increases our opportunities to obtain new working interests by improving our technical capabilities and winning recognition from oil and gas producing countries and international oil companies. The Company is pursuing opportunities to act as operator with the substantially enhanced technical capabilities resulting from business integration, while addressing the effective utilization of management resources.

⑤ Balancing Contractual Arrangements

We intend to diversify the risk of oil price volatility by balancing contractual arrangements among production

sharing contracts, or concession contracts, for which profit is linked to the price of oil, with service contracts, such as buyback or fixed margin contracts, for which profitability is less influenced by oil prices and amounts are fixed.

(2) Investments through Acquisition relative to the Expiration of Working Interests

The production sharing contract for the offshore Mahakam area, which is the Company's major gas production project, expires in 2017. Although we will negotiate to extend the contract, production is expected to decline in the long term as the remaining reserves decline even if the contract is renewed. We intend to maintain and increase production beyond 2017 by acquiring obtaining working interests from other companies or participating in new projects or taking over companies that have substantial production and stable cash flow.

(3) Enlarging the Company's Business Domain through Organic Linkage of Domestic and Foreign Assets

The Company aims to expand operations in the domestic natural gas market, which represents a stable base of earnings that is expected to grow. As well as building a natural gas pipeline network to supply the promising market in the Kanto-Koshinetsu region, we plan to expand production in the key Minami Nagaoka gas field. We also own promising undeveloped assets, primarily natural gas, in Indonesia and Australia, and to ensure their long-term growth, we will consider the possibilities of gas business integration that organically links these overseas gas assets with our domestic infrastructure, in aggressive pursuit of an enlarged business domain.

(4) Strengthening Relationships with Leading Domestic and International Oil and Gas Companies

Developing petroleum and gas involves considerable risks. Large-scale projects in particular require huge investments, presenting an insuperable obstacle for a single company. Typically, several companies form a consortium to share the risk, and this is the case internationally too. The Company plans to expand its business and diversify risk by increasing opportunities for participation in projects through enhanced cooperation with the major international oil companies, the national oil companies of oil and gas producing countries and leading private oil resource developers, trading companies and other energy-related companies.

(5) Promote an Efficient and Transparent Corporate Management

The Company bears the heavy responsibility of assuring a stable supply of energy to Japan in an efficient manner. Consequently, we recognize not only that our corporate social responsibility is increasing but also that it is essential that we exercise sensitivity in conducting business in communities in Japan and around the world. Therefore, we intend to manage our business efficiently and transparently in line with global standards.

(6) Environmental Efforts

Environmental issues, particularly global warming, are a matter of worldwide concern. We make every effort to minimize the effects on surrounding areas when we explore, develop, produce and sell energy resources. Also we are working to reduce our greenhouse gas emission reduction unit, reduce emissions of chemical substances, suppress emissions into the atmosphere and river systems, and to take measures to prevent soil pollution and reduce waste. Combustion of natural gas involves relatively small emissions of CO<sub>2</sub> and NO<sub>x</sub> compared with combustion of other fossil fuels. Positioning natural gas as our core business, we intend to further promote the use of this clean fuel.

(7) Development of New Business

New technologies such as GTL (Gas to Liquids) and DME (Dimethyl Ether) produce synthesizing liquid fuel as oil substitute form by reforming natural gas at normal temperature. Their environmental benefits have attracted attention because the GTL products contain almost no pollutants. As the Company has large reserves of natural gas, we are participating in R&D projects for GTL and DME. Introduction of these new technologies is considered in our plans to develop a new gas fields.

In order to supply energy in a stable and efficient manner and thereby contribute to the good of society, the Company aims to maintain and expand its reserves and production by rapidly achieving synergy through business integration between INPEX and Teikoku Oil. We will seek to allocate our business resources optimally and

maintain the soundness of our financial position with a view to securing steady growth.

In addition, to fulfill our corporate social responsibility, we will strengthen corporate governance and compliance, and carry out strict safety management throughout our operations. Recognizing our obligation to protect the environment and to become an integral part of the communities where we operate, we aim to improve our corporate value over the long term.

5. Matters regarding the Parent Company

None applicable.