

Bonds of trust with Abu Dhabi lead to a bright future

The Emirate of Abu Dhabi, in the United Arab Emirates, is home to some of the largest oil fields in the world. In May 2004, INPEX made Japan Oil Development Co., Ltd. (JODCO) into a wholly owned subsidiary, inheriting the oil development and production business that JODCO had been conducting in Abu Dhabi for more than 30 years since 1973. JODCO reached 2 billion barrels of cumulative crude oil lifting in April 2004, one month prior to joining the INPEX Group, having contributed significantly over many years to Japan's energy security as a Japanese oil developer. Following its acquisition of JODCO, INPEX continued to work with its partners on oil fields under development located in the vicinity of ones already in production, and succeeded in commencing oil production at the Umm Lulu and Nasr oil fields between 2014 and 2015.

Through JODCO, INPEX has since been further expanding its footprint in Abu Dhabi by acquiring new concessions and extending existing ones as part of its mission to contribute to meeting the energy needs of Japan over the long-term. The Abu Dhabi authorities have adopted a strategy of selecting genuine partners in the upstream domain committed to participating in diverse projects that will contribute to enhanced economic and social development in the UAE. In light of this, INPEX has worked hard to further strengthen its multi-faceted relationships with ADNOC and other key stakeholders in Abu Dhabi to secure and maintain its oil concessions.

Technical strengths a decisive factor in the extension of the Upper Zakum concession

In 1978, INPEX began developing the Upper Zakum Oil Field in partnership with Abu Dhabi National Oil Company (ADNOC), and started production in 1982. The oil field's

production capacity continued to increase thereafter, reaching the 550,000 barrels per day threshold, and the Upper Zakum Oil Field became one of Abu Dhabi's principal oil fields.

In March 2006, ExxonMobil acquired a 28% stake in the Upper Zakum concession from ADNOC and proceeded to conduct a redevelopment study. ExxonMobil then made a proposal to increase the oil field's production capacity to 750,000 barrels per day through extended reach drilling from artificial islands. INPEX leveraged its experience working in the Upper Zakum Oil Field to contribute to the discussions on the ExxonMobil-led development proposal.

During this process, INPEX also pursued a further extension of the concession period and a revision of the fiscal terms that would ensure adequate returns on the enormous additional investment required. INPEX considered these items to be prerequisites for the production capacity enhancement project to go forward, and negotiated its proposal alongside ExxonMobil with Zakum Development Company (ZADCO), the operating company of the oil field.

With a positive response from ADNOC, an agreement was reached in January 2014 that included an improvement to the fiscal terms and an extension of the concession period by more than 15 years, from March 2026 to December 2041.

During the negotiations, INPEX had to carefully steer the challenging discussions to maintain the good relations it had built up with ADNOC and Abu Dhabi, while also considering



Abu Dhabi oil fields (INPEX participation)

its relations with ExxonMobil, which was prepared to pull out of the project altogether if necessary.

Today, INPEX continues to work with ADNOC and ExxonMobil on the plan to increase the Upper Zakum Oil Field's production capacity to 750,000 barrels per day using an innovative artificial island-based development combined with extended-reach drilling technology. The three companies also reached an agreement in November 2017 to further increase the oil field's production capacity to 1 million barrels per day by 2024, resulting in a further 10-year extension of the concession until December 2051.

Participating interest in ADCO Onshore Concession acquired through successful bid

With the 1939 onshore concession expiring in January 2014, the Abu Dhabi government decided to grant a combined 40% interest in a new, 40-year concession through an international bidding process. At the time of INPEX's acquisition of a 5% participating interest in April 2015, the ADCO Onshore Concession, as it was known then, produced about 1.6 million barrels of oil per day and was one of the world's largest deposits of oil, consisting of 11 onshore oil fields in production and four that remained undeveloped.

The Abu Dhabi onshore concession originally began in January 1939 after the Ruler of Abu Dhabi granted Petroleum Development (Trucial Coast) Ltd. a 75-year concession agreement to explore and develop petroleum in Abu Dhabi. Full-scale exploration activities began after the end of the Second World War. Thereafter, following the discovery of a number of



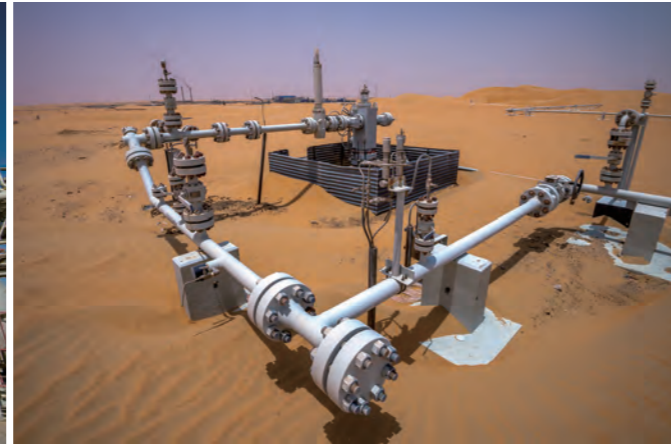
Ceremony affirming the agreement to increase the Upper Zakum Oil Field's production capacity to 1 million barrels per day by 2024 (Photo: ADNOC) INPEX President & CEO Toshiaki Kitamura (right) with ADNOC CEO Dr. Sultan Ahmed Al Jaber (center) and ExxonMobil CEO Darren W. Woods (left) (November 2017)



Upper Zakum Oil Field



Abu Dhabi Onshore Concession production facilities



A wellhead in the Abu Dhabi Onshore Concession

oil fields including Bab, Bu Hasa, Asab, Shah and Sahil, development work led to the production and exportation of Murban crude.

Petroleum Development (Trucial Coast) later changed its name to Abu Dhabi Petroleum Company (ADPC). As natural resources nationalism grew around the world in the years that followed, ADNOC acquired a 25% interest in the concession in 1973, which was then raised to 60% in 1974. ADPC was restructured in 1978 to become Abu Dhabi Company for Onshore Oil Operations Ltd. (ADCO), thereby bringing the concession's operatorship under the control of an Abu Dhabi company, much like the Emirate's offshore concessions. Thus, the Abu Dhabi onshore concession became known as the ADCO Onshore Concession.

At this point, Murban oil accounted for about half of Abu Dhabi's total oil production, and Japan was one of the world's largest importers of the grade.

When the ADCO Onshore Concession opened to international bidding, INPEX decided to participate in the bidding through JODCO. INPEX submitted its pre-qualification documents in mid-2012 and was pre-qualified in early 2013, at which point the bidding process began. INPEX presented its bidding documents at the end of 2013, after which there were briefings and due diligence conducted by ADNOC.

While the former concession expired in January 2014, a decision on granting stakes in a new concession was still pending at the time. In January 2015, JODCO was notified that ADNOC had entered an agreement with Total SA for a 10% interest in the concession, and that INPEX could also take an interest if it accepted the same terms and conditions. Accepting these terms and conditions was a major decision. In April 2015, INPEX concluded a 40-year agreement for a 5% interest effective January 2015, where JODCO Onshore Limited (JOL) was established as the interest holder.

Thereafter, South Korea's GS was granted a 3% interest in the concession in May 2015, followed by a 10% interest being awarded to BP in December 2016. Finally, in February 2017, China's CNPC and CEFC (currently China ZhenHua Oil) were granted interests of 8% and 4%, respectively, bringing the total participating interest assigned to international players to 40%.

Today, ADNOC Onshore serves as the operator of what is known as the Abu Dhabi onshore concession, where INPEX has begun development work alongside ADNOC and others to raise oil production to 1.8 million barrels per day. Oil produced from the concession is shipped from the port of Jebel Dhanna on the western coast of Abu Dhabi as well as from the Emirate of Fujairah on the Indian Ocean, where the oil is first transported through the Abu Dhabi/Fujairah crude oil pipeline, which became operational in 2012. The oil exported from the Fujairah terminal effectively bypasses the Strait of Hormuz, a maritime transit route considered to be prone to geopolitical risk.



ADNOC and JODCO peer review of Zakum integration study

Abu Dhabi offshore oil field concessions acquired and extended amid tough competition

The ADMA Block, an offshore oil field concession dating from 1953 until 2018, was located off the coast of Abu Dhabi and comprised seven oil fields including Upper Zakum, which is one of the world's largest, as well as Umm Shaif, Lower Zakum, Umm Lulu, Nasr, Satah and Umm Al-Dalkh.

The Upper Zakum Oil Field concession agreement was first extended in 2014 and again in 2017. However, the concession agreements for the remaining oil fields were due to expire in March 2018, prompting major international oil companies and many other key players in the industry to vie for new stakes in these oil fields.

During this time, INPEX worked to reach an agreement in principle with ADNOC in January 2017 to extend the concession agreements for the Satah and Umm Al-Dalkh oil fields. Discussions included the terms on which the duration of the joint development of the oil fields would be extended by approximately 25 years until December 2042, and INPEX's participating interest in the Umm Al-Dalkh Oil Field would be increased from 12% to 40%.

Meanwhile, INPEX also joined the bidding process for the other oil fields in the ADMA Block. ADNOC and the Abu Dhabi authorities had divided the ADMA Block oil fields into three groups for the new bid. These three groups consisted of the Umm Lulu and Satah al-Razboot (SARB, an oil field solely developed by ADNOC) oil fields, the Lower Zakum Oil Field, and the Umm Shaif and Nasr oil fields. Ownership of a participating interest in Abu Dhabi's offshore oil fields was considered attractive due to the relatively low cost of production, the large volume of reserves and Abu Dhabi's political stability. The bid therefore attracted the interest of numerous parties from around the world, with as many as fourteen companies



Students undertaking the Kumon method of learning mathematics (from 1998)



Signing the new concession agreement for the Lower Zakum Oil Field (February 2018) (Photo: ADNOC)

and organizations considered to be vying for stakes in the oil field concessions. INPEX had set its sights on pursuing a concession agreement for the Lower Zakum Oil Field, the largest among the offshore oil fields. Under the ADMA Block concession framework, INPEX was the only international oil company with participating interests in both the Upper Zakum and Lower Zakum oil fields, and it therefore leveraged this advantage by implementing a study on the synergies of an integrated development of the two oil fields, and submitted a technical proposal based on this study to ADNOC.

Despite the most intense competition for a stake in the Lower Zakum Oil Field, in February 2018 INPEX succeeded in being awarded a 10% participating interest in the Lower Zakum Oil Field to be held through JODCO Lower Zakum Limited over a 40-year period extending until March 2058. An extension of the Satah and Umm Al-Dalkh concession was also formally signed to substantiate the agreement in principle reached earlier. The concession agreement for these fields now runs until March 2043.

JODCO's operational and technical contributions to Abu Dhabi's oil development and production industry over more than four decades are believed to be a key contributing factor in INPEX's acquisition and extension of these concessions, as are the Japanese government's proactive efforts to engage in resource diplomacy with Abu Dhabi and the UAE.

Over the last decades, INPEX has built a sound reputation for excellence in Abu Dhabi, as evidenced by its appointment by ADNOC as the asset leader for the Lower Zakum Oil Field in April 2018, marking the first instance for a company other than an Oil Major to be appointed asset leader for a giant offshore field in Abu Dhabi. INPEX is committed to meeting the expectations of all its stakeholders and will continue to proactively engage in the oil development and production business in Abu Dhabi over the long-term.

Social contribution activities help build trusting relationships

INPEX has long worked on building cordial, long-term relationships with Abu Dhabi, and conducts various activities designed to contribute to social development in Abu Dhabi. These activities, which have been carried out in earnest since the latter half of the 1990s, are focused on education, the environment and cultural exchange.

Education and the development of human resources are considered to be key priorities for the authorities of Abu Dhabi. INPEX has proactively supported the training of Emirati students by organizing seminars in Japan for geology majors at the United Arab Emirates University from as early as 1993, subsequently also including students from the Petroleum Institute—currently part of the Khalifa University of Science, Technology and Research—from 2007. Meanwhile, in 1998, INPEX played an active role in introducing the Kumon method of learning mathematics to Abu Dhabi’s primary school education authorities, later expanding this initiative to support the introduction of Kumon at ADNOC-sponsored schools in 2018, in view of INPEX’s enhanced presence in Abu Dhabi’s oil and gas development and production sector. Since 2006, INPEX has also been instrumental in a project to accept Emirati children at the Japanese School in Abu Dhabi. In the spring of 2018, the Japanese School produced its first Emirati junior high school graduates who had entered the school’s kindergarten program in 2006, and two of these graduates have entered a high school in Japan. In terms of contributions to cultural exchange, INPEX has for many years assisted in the showcasing of traditional Japanese falconry in Abu Dhabi, while also helping introduce and promote traditional Japanese values and practices such as the tea ceremony and judo. Also, as part of a concerted effort to revive the local pearl farming industry, which earlier in history had supported the economy of Abu Dhabi, INPEX has played a role in helping local pearling operations adopt Japanese pearl culture technologies.

Behind INPEX’s social contribution activities in Abu Dhabi is a desire to help improve the Emirate’s social challenges and promote a mutual understanding to further enhance the strategic partnership between Japan and Abu Dhabi. These activities have also enabled INPEX to strengthen its relationships with government institutions as well as academic and research organizations, creating new channels that would not have been possible by focusing solely on the company’s core business of oil and gas development and production. In such ways, INPEX has successfully reinforced its ties to the local community reflecting its deep-rooted commitment.



Supporting a project to accept UAE children at the Japanese School in Abu Dhabi (from 2006)