6. Message to Our Stakeholders

"I shall continue to lead INPEX firmly and steadily, keeping in mind the expectations and stern guidance of our stakeholders as we pursue further growth as a global company."

We are aware of our social responsibility to provide a stable and efficient supply of energy, and as a global independent upstream company we strive to take coexistence with and the development of the international community into consideration in conducting our business. We are aware that our presence as a global upstream company is not enough, so we believe it is necessary to strive to engage in meaningful communication with all of our stakeholders so as to inform them of our company’s growth potential and the progress of our projects in ways that are easy to understand, so as to be properly appreciated as a company. Fortunately, I had many opportunities in the past year to exchange opinions with our stakeholders including shareholders through our IR and other activities. The expectations and serious suggestions received from our shareholders made me re-acknowledge my desire to lead the company firmly and steadily as President of INPEX. In the current year as well, I encourage our stakeholders to voice opinions directly at our General Shareholders’ Meeting or through our IR activities. It is my hope that we can increase our mutual communications.

We paid a dividend of ¥6,000 per share during the year ended March 31, 2011 (full year), a year-on-year increase of ¥500, so as to return profits to our shareholders. For the past several years, our payout ratio has been 10%–15%, but we are currently at a stage where we are allocating our retained earnings toward attaining our medium-term targets, so we are not setting a numerical target for a performance-based payout ratio. I believe that once our growth pace reaches cruising speed through the commercialization of the Ichthys and Abadi projects we will review our policy on returns to shareholders.

We expect the year ending March 31, 2012, to be a period of great progress toward reaching our future growth targets including the Ichthys Project where FID is planned. As President, I pledge to lead the company firmly and steadily so as to realize our projects and achieve our growth targets, which will enhance our corporate and shareholder value.

I would like to close by thanking our shareholders and all other stakeholders for support and understanding.

Sincerely,

Toshiaki Kitamura
President & CEO
July 2011
Our company was founded in October 2008 through the business integration of INPEX CORPORATION and Teikoku Oil Co., Ltd. Utilizing several decades of performance in developing oil and natural gas fields and the experience gained through 71 projects in 26 countries (as of June 30, 2011), we are actively promoting the exploration, development and production of oil and natural gas.

Mission and Vision
The mission of the INPEX is to provide a stable and efficient supply of energy to customers by exploring and developing oil and natural gas resources both domestically and throughout the world. Through its business, we aim to become an integrated energy company, which contributes to our community and makes it more livable and prosperous.

Business Overview
INPEX is a corporate group formed by 62 subsidiaries (53 consolidated subsidiaries), 19 affiliates (12 equity-method affiliates) and three subsidiaries of affiliates (as of March 31, 2011). Our main business activities are the exploration, development, production and sale of oil and natural gas both domestically and throughout the world in areas such as Asia, Oceania, Eurasia (Europe-NIS), the Middle East, Africa and the Americas. We also invest in companies conducting such activities.

Profile
- Number of projects / Number of countries: 26 countries, 71 projects
- Consolidated net sales: ¥943.1 billion (for the year ended March 31, 2011)
- Common stock: ¥2,680.4 billion (as of March 31, 2011)
- Consolidated total assets: ¥9,604 billion (as of March 31, 2011)
- Consolidated number of employees: 1,854 (as of March 31, 2011)

History
- 1941: Teikoku Oil Co., Ltd. is founded.
- 1962: Japan’s first long-distance natural gas pipeline between Tokyo and Niigata Prefecture (Tokyo Line) is completed.
- 1973: The Minami Nagaoka Gas Field with Japan’s largest reserve of natural gas is discovered in Niigata Prefecture.
- 1992: Becomes the first Japanese company to participate in an oil development project in Venezuela.
- 1998: Acquires interests in the Offshore North Caspian Block, Kazakhstan; Permit WA 285-P, offshore Australia; and the Meela Block, Indonesia.
- 2000: Production at Minami Nagaoka Gas Field begins with completion of the Koshijihara Gas Plant.
- 2005: Exploration rights in the East China Sea are granted.
- 2006: Business integration
Oil and Natural Gas Business

The business activities of the oil industry can be envisioned as the flow of a river. The upstream consists of the 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 is to handle operations in the upstream including discovery, drilling, collecting and selling crude oil and natural gas, which exists underground. As shown in the business flow below, business activities in the upstream can be further classified into the acquisition of blocks, exploration, appraisal, development and production and sales.

Business flow (image)

Acquisition of Blocks

We collect extensive information on laws 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 entered into a contract for exploration and development.

Exploration

In addition to terrestrial geological surveys, we utilize geophysical surveys conducted through aerial photographs, 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 fields.

Appraisal

Once the presence of oil and natural gas has been confirmed through exploration activities, we drill an appraisal well to assess the extent of the oil and gas fields. We conduct a production test and evaluate the amount of reserves. In addition, we make comprehensive judgments regarding the commercial viability of the fields. For example, we examine profitability and create development plans.

Development

We drill production wells for the production of oil and natural gas. We also construct processing facilities to separate oil and gas, and remove impurities and production, and shipping facilities such as a pipeline to transport oil and gas.

Production test

Oil or natural gas is produced in a test to confirm if there is a sufficient amount for commercialization.

Drilling of production wells

We drill a well deep into the ground while joining individual pipes of about 10 meters in length. The tip of the pipe is equipped with a special drill known as a “bit.” The bit drills through hard rock and digs into the ground.

Production and Sales

We perform production and operation management such as refining/treatment to create products from the oil and natural gas excavated from the production wells. We also perform marketing and sales for the produced crude oil, condensate, LNG, natural gas and LNG.

Investment for further exploration, purchase of assets, etc. (Expansion of reserves and production volume)

What is oil and natural gas?

Both oil and natural gas are types of organic matter (hydrocarbons) formed from a combination of carbon and hydrogen. Oil is a chemical compound in which large numbers of carbon molecules and hydrogen molecules are joined together. Under normal conditions (one atmosphere, which is about 15 pounds per square inch, conditions suitable for human life), oil is a liquid. Conversely, natural gas is a gas under normal conditions. Although there are differences between the properties of liquid and gas, both are classified as energy sources.

The oil and gas generated deep underground have a lighter specific gravity than the water and soil in geological layers and therefore rise upward over a period of many years. However, when contacting high-density geological layers through which they cannot pass, the oil and gas stop rising and form an oil field or a gas field.

Depending on the excavation site, crude oil and natural gas exhibit a variety of differences in terms of color (from colorless and transparent to black), specific gravity, viscosity and amount of impurities.

Sample of crude oil and condensate

Acquisition of blocks

Exploration

Appraisal

Development

Production and sales

Investment for further exploration, purchase of assets, etc.

What is oil and natural gas?
Global energy demand is forecast to increase even more, particularly in emerging economies. Natural gas is attracting particular attention as an important fossil fuel that provides energy with a low environmental impact. Accordingly, demand is expected to rise more quickly than that for other forms of fuel, such as coal and oil. Meanwhile, crude oil prices stand at a high level, and appreciation of the yen continues.

**Outlook for Global Energy Demand**

Global energy demand is forecast to increase even more, particularly in emerging economies. Greater energy demand in the world is expected especially in emerging economies such as China and India. According to the World Energy Outlook announced by the International Energy Agency (IEA) in June 2011, it is predicted that global energy demand in 2035 will increase by approximately 1.4 times compared to 2008 and that oil and natural gas will account for more than half of all energy sources.

The shift to natural gas is becoming more prominent. Higher demand for natural gas is expected, particularly in emerging economies such as China. Although total energy demand is predicted to increase 1.2% annually until 2035, a 2% annual increase is also forecast for natural gas. The ratio of natural gas to total energy demand is forecast to overtake coal by 2030 and to increase to more than 25% by 2035 (IEA Outlook).

Other factors significantly contributing to increased demand for natural gas include alternative demand from other energy sources such as nuclear power, changes in policy concerning climate change such as the suppression of carbon dioxide emissions and rising crude oil prices, which lead to the selection of reasonably priced natural gas (i.e., the shift to natural gas).

**Crude Oil Prices and Exchange Rates**

Crude oil price stands at a high level, and appreciation of the yen continues.

The oil and natural gas business is greatly affected by changes in crude oil prices and exchange rates. As a result of continued investment from the financial markets, the propensity for fluctuation in crude oil prices exceeds the level of change that the supply-demand balance (fundamentals) would normally dictate. Currently, even the recovery of demand is uncertain due to a stagnant economy. The price of Brent crude is projected to reach high levels that exceed $90–$100 per barrel. There is the possibility of further price increases in the future. The average exchange rate for the year ended March 31, 2011, was in the range of ¥85 to $1. Moreover, yen appreciation continued with an average exchange rate of ¥81 to $1 during April–June, 2011.

**Comparison with Major Independent Upstream Companies**

INPEX is among the mid-tier global independent upstream companies, just behind the oil majors, and we aim to establish a firm position in the top group of global upstream companies. Oil companies that conduct upstream activities can be divided into three categories: 1) national oil companies in governments in oil-producing countries that possess oil and natural gas assets, 2) major international oil companies known as the “oil majors” and 3) companies that specialize in upstream activities and are second in scale to the oil majors.

Currently, our company’s net production volume is 423 thousand barrels of oil equivalent per day (boed), which is 2% annual increase is forecast for natural gas. The ratio of natural gas within total energy demand is forecast to overtake coal by 2030 and to increase to more than 25% by 2035 (IEA Outlook).

Other factors significantly contributing to increased demand for natural gas include alternative demand from other energy sources such as nuclear power, changes in policy concerning climate change such as the suppression of carbon dioxide emissions and rising crude oil prices, which lead to the selection of reasonably priced natural gas (i.e., the shift to natural gas).

Global energy demand is forecast to increase even more, particularly in emerging economies such as China. Although total energy demand is predicted to increase 1.2% annually until 2035, a 2% annual increase is also forecast for natural gas. The ratio of natural gas within total energy demand is forecast to overtake coal by 2030 and to increase to more than 25% by 2035 (IEA Outlook).

Other factors significantly contributing to increased demand for natural gas include alternative demand from other energy sources such as nuclear power, changes in policy concerning climate change such as the suppression of carbon dioxide emissions and rising crude oil prices, which lead to the selection of reasonably priced natural gas (i.e., the shift to natural gas).

"Crude oil prices increase (decrease) by $1/bbl: +¥2.0 billion (+$2.0 billion) Depreciation (Appreciation) of ¥1/$1 in the exchange rate: +¥2.4 billion (+$2.4 billion)

Note: There are trial calculations of the impact on term net profits in the year ending March 31, 2012, in the event of a price fluctuation of ¥1 per barrel in crude oil (Brent) or in the event of exchange rate fluctuations of ¥1/$1. Actual impact will depend on changes in production volume, capital expenditures and recovery costs, and the amount of impact may not be strictly dependent on the absolute level of oil prices or the exchange rate.

**Effect on Our Performance**

The sensitivity index for oil prices and exchange rates when forecasting consolidated net income for the year ending March 31, 2012 has been calculated at approximately ¥2.0 billion in the event of fluctuations of $1 per barrel of crude oil and approximately ¥2.4 billion in the event of exchange rate fluctuations of ¥1/$1.

For natural gas include alternative demand from other energy sources such as nuclear power, changes in policy concerning climate change such as the suppression of carbon dioxide emissions and rising crude oil prices, which lead to the selection of reasonably priced natural gas (i.e., the shift to natural gas).
INPEX seeks to improve sustainable corporate value while fulfilling our social responsibility to supply energy stably and efficiently. We will enhance our four strengths and advance our business based on three medium-to-long-term fundamental strategies. By 2020, our goal is to increase our net production volume to 800,000–1 million boed and establish a firm position as a global independent E&P company following the oil majors.

While the upstream business is our core business, we will establish a gas supply chain and intend to evolve into a company that supplies diversified energy.

### INPEX’s Four Strengths

1. **Strong Reserve / Resource Base**
   - Reserves and resources, which are the source of corporate value, are the critical factor in the oil and natural gas E&P business. INPEX has the largest proved and probable reserves of 4.13 billion boe of any Japanese company. Our reserves-to-production ratio is 8.5 years for proved reserves, 26.7 years for probable reserves are added. Beyond our probable reserves, we also have an abundance of possible reserves and contingent resources. We expect to continue increasing proved and probable reserves over the medium to long term.

2. **A Large-scale LNG Project Operator**
   - INPEX is in the process of developing two of the world-leading in scale LNG projects in Ichthys and Abadi in Indonesia. We are the first Japanese company to develop such large-scale projects as an operator. The expected production volume from both projects is vast, being equivalent to more than 15% of Japan’s current LNG annual import volume. We are focusing on these priority projects, which contribute to the stable supply of LNG and increase the corporate value of our company.

3. **Gas Supply Chain**
   - INPEX owns a domestic natural gas pipeline network stretching approximately 1,400 km that connects domestic and overseas gas assets to the Japanese gas market. We plan to add value by establishing a gas supply chain through linkage between this network and our major LNG projects. Specifically, our construction of Naoetsu LNG Receiving Terminal, which commenced in July 2009, is moving right along with the terminal scheduled to enter operation in 2014.

4. **Strong Financial Position**
   - A strong, healthy balance sheet and plentiful cash reserves are essential for oil and gas E&P companies. This reflects both the high degree of risk associated with these activities and the need to have sufficient funds on hand to take advantage of major investment opportunities quickly as they arise. As a result of our public offering held in August 2010, our company has secured a strong financial position. As of March 31, 2011, our company had an equity ratio of 73.5% and the ratio of net debt to net total capital employed was 48.9%. Cash and cash equivalents and public bonds were greater than interest-bearing debt. Compared with the oil majors and other international peers, this represents a sound level of financial strength.

### Three Medium-to-Long-Term Fundamental Strategies

**Fundamental strategy 1**

**Sustainable Growth of E&P Activities**

We give top priority to the large-scale LNG projects in Ichthys and Abadi, as well as to other existing large-scale projects. For new projects, we conduct exploration activities mainly focused in regions that are predicted to have large reserves. We also seek to acquire assets both directly and/or indirectly through M&A activity.

We are also working to acquire promising interests by developing unconventional hydrocarbon resources such as oil sands and enhancing advanced technology for oil recovery techniques. For existing projects which have entered the later production phase and their profitability is expected to decline, we will improve our asset portfolio quality by selling off, etc., and expand our balanced portfolio.

**Fundamental strategy 2**

**Establishment of a Gas Supply Chain and Proactive Expansion of the Gas Business**

To respond to the domestic demand for natural gas, we construct an LNG receiving terminal that organically links domestic/overseas natural gas resources to the domestic market. We will also work to expand our existing pipeline network. Furthermore, to expand our domestic gas business, we will develop new gas demand and seek cooperation with domestic gas energy companies. Moreover, we will consider participating in overseas LNG receiving terminal and transportation activities required for the domestic/overseas gas trading business.

**Fundamental strategy 3**

**Evolution into a Company that Offers Diversified Forms of Energy**

We seek to create new added value by developing and supplying a variety of energy forms that include the reduction of environmental impact and renewable energy.

Through our four strengths and three fundamental strategies, we will seek to reach net production of 800,000–1 million boed by 2020.

**Commercialization of existing projects**

Ichthys LNG Project (Plan to start production in Q4 2016) / Abadi LNG Project, etc.

**Sustainable growth of E&P activities**

**Establishment of a gas supply chain and proactive expansion of the gas business**

**Evolution into a company that offers diversified forms of energy**

**Our Strengths and Medium- to Long-Term Strategies to Expand Net Production Volume**

- **Strong Reserve / Resource Base**: 4.13 billion boe of proved and probable reserves
- **Large-scale LNG Project Operator**: Ichthys LNG Project in Australia and Abadi LNG Project in Indonesia
- **Gas Supply Chain**: Domestic gas pipeline network 1,400 km
- **Strong Financial Position**: Equity ratio 73.5%, Net debt/Net total capital employed -48.9%

**Trend in net production volume**

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011 (Actual)</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>(thousand boe)</td>
<td>380</td>
<td>418</td>
<td>423</td>
<td>405</td>
<td>405</td>
<td>423</td>
<td>417</td>
<td>440</td>
</tr>
</tbody>
</table>

Note: The forecasts for net production for the years ending March 31, 2012 to 2016, are presented upon the same basis (Brent crude at $98.65) and in constant yen (excluding the results for Q1). The production volume of crude oil and natural gas under the production sharing contracts entered into by the INPEX Group corresponds to the net economic take of our group.

**Three Fundamental Strategies for Growth (Medium to Long Term)**

- **Sustainable growth of E&P activities**
- **Establishment of a gas supply chain and proactive expansion of the gas business**
- **Evolution into a company that offers diversified forms of energy**

**Long-term production outlook**: 800,000–1 million boed by 2020.
Our company’s objective for corporate growth is to raise production to 800,000–1 million boed by 2020. To achieve this goal, it is necessary to invest in existing projects such as the Ichthys and Abadi Projects, as well as new projects which will increase our reserves in the future.

In our investment plan, approximately ¥4 trillion will be required for development and exploration activities including the Ichthys Project during the seven-year period from the year ended March 31, 2011, to the year ending March 31, 2017. It is important for us to maintain a strong balance sheet and achieve financial stability in order to make continuous investments in potential projects while also maintaining the funding capability to ensure necessary investments for our major LNG projects.

To achieve financial stability, we set a long-term target for financial leverage, that is, an equity ratio of 50% or higher and a net debt to net total capital employed ratio of 20% or less. To implement our ¥4 trillion investment plan, while considering the financial target, we envisage the following three funding sources:

1) proceeds from a public offering,
2) cash and other liquid investments on hand and
3) bank loans including project financing.

We completed a public offering in August 2010 and succeeded in raising approximately ¥20 billion. Now we plan to procure funding through bank loans including project finance taking into account our financial target, on a financial base that has been further strengthened by the public offering.

Investment Plans and Financial Strategies

To ensure further growth, we plan to invest approximately ¥4 trillion over seven years from the year ended March 31, 2011, to the year ending March 31, 2017. While achieving financial stability, we will make appropriate investments through optimal funding sources.

Investment Plan

From the year ended March 31, 2011 to the year ending March 31, 2017

Approx. ¥4 trillion

April 2011-March 2014:
Approx. ¥1.8 trillion

Maintain strong financial position

- Maintain financial strength even at the peak in borrowing
- Maintain funding capability to ensure necessary investments
- Equity ratio: 50% or higher
- Net debt/net total capital employed: 20% or less

Investment Plan and funding sources of approx. ¥4 trillion

<table>
<thead>
<tr>
<th>Equities</th>
<th>Proceeds from public offering (approx. ¥20 billion) (in August 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow</td>
<td>Operating cash flow and cash equivalents on hand</td>
</tr>
<tr>
<td>Bank Loans</td>
<td>Lending from JICIC Guarantee from JOSMEXC Project finance</td>
</tr>
</tbody>
</table>

Credit rating information

As of June 30, 2011

<table>
<thead>
<tr>
<th>Long-term credit ratings</th>
<th>Standard &amp; Poor’s</th>
<th>A (negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term credit ratings</td>
<td>Standard &amp; Poor’s</td>
<td>A-1</td>
</tr>
</tbody>
</table>

Equity ratio

<table>
<thead>
<tr>
<th>Equity ratio</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Long-term target</td>
<td>50% or higher</td>
</tr>
<tr>
<td>66.0%</td>
<td>66.0%</td>
</tr>
</tbody>
</table>

Net debt/Net total capital employed

<table>
<thead>
<tr>
<th>Net debt/Net total capital employed</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Long-term target</td>
<td>20% or less</td>
</tr>
<tr>
<td>-31%</td>
<td>-21.2%</td>
</tr>
</tbody>
</table>

Credit rating information

As of June 30, 2011

<table>
<thead>
<tr>
<th>Long-term credit ratings</th>
<th>Standard &amp; Poor’s</th>
<th>A (negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term credit ratings</td>
<td>Standard &amp; Poor’s</td>
<td>A-1</td>
</tr>
</tbody>
</table>

Equity ratio

<table>
<thead>
<tr>
<th>Equity ratio</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Long-term target</td>
<td>50% or higher</td>
</tr>
<tr>
<td>66.0%</td>
<td>66.0%</td>
</tr>
</tbody>
</table>

Net debt/Net total capital employed

<table>
<thead>
<tr>
<th>Net debt/Net total capital employed</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Long-term target</td>
<td>20% or less</td>
</tr>
<tr>
<td>-31%</td>
<td>-21.2%</td>
</tr>
</tbody>
</table>

Credit rating information

As of June 30, 2011

<table>
<thead>
<tr>
<th>Long-term credit ratings</th>
<th>Standard &amp; Poor’s</th>
<th>A (negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term credit ratings</td>
<td>Standard &amp; Poor’s</td>
<td>A-1</td>
</tr>
</tbody>
</table>