Message from the President

To Our Stakeholders

Developing Stable Energy

Efforts of INPEX to secure a stable energy supply

In addition to having achieved higher sales and income in the year ended March 31, 2012, we made great progress in our projects, including our large-scale LNG projects. I hereby present to our stakeholders my review of the past year, reporting on such topics as the business environment surrounding our company, the progress we have made in our projects and the Medium-to Long-Term Vision of INPEX we have established as a foundation for further growth.

1. The Year in Review

This was a year in which the business environment surrounding energy changed greatly as the global economy became increasingly unstable. The importance of energy supply stability in Japan was reconfirmed in the aftermath of last year’s earthquake, and we at INPEX have become even more aware of our role and importance as Japan’s leading oil and gas E&P company.

Performance Overview

INPEX’s performance for the year ended March 31, 2012, was buoyed by the ongoing rise in crude oil prices, with consolidated net sales for the year up 25.8% to ¥1,186.7 billion and consolidated net income up 50.7% to ¥194.0 billion. Cash dividends per share for the year were ¥7,000, a ¥1,000 increase over the previous year. Proved reserves increased 86% year-on-year to 2.43 billion boe mainly due to the upgrading of reserves in Ichthys from probable to proved, with the RRR (Reserves Replacement Ratio, three-year average) at 282%, a top-class level within the industry. Net production volume was also fairly strong at 426 Mboed.

We also continued to vigorously address safety measures. There were no major accidents at any of our projects, and we reached our HSE numerical targets (LTIF and TRIR) for the year ended March 31, 2012, which in terms of absolute figures is comparable with the average of industry peers.

The State of Energy

The energy business environment has changed dramatically over the past year given such concerns as fierce resource competition and responses to environmental regulations. At the global level, political risk came to the fore especially in the Middle East due to heightened political and religious tensions, resulting in sharply higher crude prices. Nonetheless, from the early spring of 2012 the European sovereign debt crisis led to growing uncertainty about the world economy that superseded political risks and caused crude prices to fall.

Against this backdrop, global energy demand is expected to increase over the medium to long term, especially in the newly emerging economies such as China and India. At the same time, crude oil and natural gas are produced only in certain regions, and new exploration and development projects tend to be deepwater blocks or other technically difficult areas. Also, more resource-rich countries are taking a hard stance regarding the opening of new blocks, making competition with emerging economies even more fierce.

The world is paying close attention to unconventional sources, such as the North American shale gas and shale oil that are causing major changes at least to the energy supply structure of the United States, with the effect on global energy supplies also requiring attention. Although some are of the opinion that supplies will loosen up, those of us on the front lines have the impression that severe competition for unconventional resources has begun, so we cannot be too optimistic.

Japan has had lively discussions and debates about revising policies on nuclear power since the nuclear plant accident that followed last year’s earthquake, with all nuclear plants in Japan temporarily shut down in May of this year. We currently see a trend toward LNG-driven thermal generation in the near term, but maintaining a stable supply of energy as a substitute for nuclear will become an issue over the medium to long term, so the optimal “best mix” of energy sources is being studied.

Although the unprecedented disaster of the Great East Japan Earthquake is already a year in the past, the road to recovery stretches before us. However, the mission of INPEX is to secure stable energy supplies to Japan and prepare for any supply chain contingencies.

Toshiaki Kitamura

President & CEO
Renewed Awareness of Our Role

As an energy developer mainly focused on oil and gas, the INPEX mission is to provide a stable, efficient supply of energy to Japan, which has few energy resources. The most secure way for Japan to ensure a stable supply of energy is without question for Japanese companies to develop resources themselves—what we call “independent development.” Everyone at INPEX, therefore, has become particularly aware of the importance of “independent development” and has the mission and pride of having made it a reality.

INPEX has projects under way in more than 20 countries, and in January 2012 we made an FID on the Ichthys Project and have begun development work that will lead to Ichthys producing around 9% of Japan’s annual LNG imports.

Independent Development

“Independent development” means oil and gas development undertaken by Japanese companies; the acquisition of long-term extraction rights or their equivalent in oil-producing countries; conducting oil and gas E&P; and receiving an allotment of the oil and gas produced. Independent development secures better long-term supply stability than purchasing contracts usually do and can play an important role in providing supply stability during emergencies.

I believe top management plays basically a two-part role in achieving stable, efficient energy supplies and sustainable corporate growth. One is to allocate and operate management resources efficiently and effectively toward the steady realization of projects successful. The other is to maximize opportunities to acquire advantageous interests for our company while minimizing risk in an environment marked by large resource competition and an unstable and complex international situation. In May of this year, we established the Medium-to-Long-Term Vision of INPEX, which outlines our management policies and clarifies our goals and means for achieving greater results through fulfilling the roles I’ve described. The content of the Medium-to-Long-Term Vision is provided below, and essentially it establishes our growth targets for sustainable growth over the approximately 10-year period after the start-up of Ichthys. Also covered in the vision are our efforts for stronger corporate governance, implementation of CSR, which are required in strengthening INPEX as a global company.

Our successful performance as an operator will lead to greater international confidence, providing opportunities for us to participate in many other projects; this, in turn, will lead to more chances to acquire new interests. I refer to this as the ‘virtuous cycle of growth.’

The Energy Development Environment

The business environment surrounding energy is changing rapidly due to increasingly fierce competition for resources and geopolitical risks, as well as responses to environmental regulations. Next, I will address two items that get a lot of attention—the shift to natural gas and renewable energy.

Shift to Natural Gas

I believe that the “best mix” of energy sources must take into account stable supplies, efficiency and environmental impact. Natural gas meets those criteria, which is why it is currently gaining attention. Natural gas is superior to oil and coal in terms of price and environmental impact, and the expectations for natural gas are high as Japan continues debating energy policy in the wake of the nuclear accident.

Although the discussion about energy policy in Japan, including whether to restart the nuclear plants, is ongoing, I think the major trend is toward achieving a balance of the following four items:

1. Energy conservation
2. Fossil fuels (coal, oil and gas)
3. Renewable energy (with the exception of nuclear)
4. Restoring the nuclear plants if safety can be assured.

Although restarting the nuclear plants is under discussion, (2-4) are already under way, and within fossil fuels the comparatively low environmental impact of natural gas makes its role certain to increase significantly.

Natural gas produced in North America is gaining particular attention as expectations grow for gas. Due to a decrease in demand from mild winters in the United States and the increased output of shale gas, natural gas prices in the United States dropped significantly. Some believe the price is low compared to the spot price for LNG to Japan and East Asia, even when liquefaction and transport costs are added in, so the shipment of North American natural gas to Japan is being considered. However, there are environmental concerns involving the extraction of shale gas and issues such as the ability to guarantee supplies over the long term if U.S. demand increases, conformity with U.S. energy policy, the existence of a sufficient infrastructure for conversion to LNG for export, and the operational capabilities and stability of the many small to mid-sized companies. As these discussions were unfolding, INPEX acquired shale gas interests in Canada in November 2011 as part of its global gas portfolio. Although infrastructure improvement is the primary issue before us, we chose Canada because the government there takes a more aggressive approach toward LNG exports than the U.S. government. We will proceed to acquire participating interests that contribute to stable supplies of natural gas, and while expanding our global natural gas portfolio with a focus on LNG, we are also giving consideration to North American natural gas, mainly shale gas.

Renewable Energy

Renewable energy, including solar, wind and geothermal power, is an environmentally and friendly and results in almost no CO2 emissions, is gaining more and more attention. Looking 30 to 50 years in the future, INPEX has determined that efforts in the field of renewable energy are necessary. We are considering various means of commercializing renewable energy and are putting our strongest efforts into geothermal. A company within our group, Teiseki Drilling Co., Ltd., has drilled the most geothermal exploratory and development wells in Japan. Drilling for geothermal wells uses the same technology as that for oil and gas so this is a strong point for INPEX.

Japan has the third greatest potential in the world for geothermal energy sources after Indonesia and the United States, but most Japanese geothermal resources are located in national parks and hot spring areas, so environmental regulations and gaining the understanding of local communities must be considered in proceeding with development. In June 2011, we began participating with Idemitsu Kosan Co., Ltd., in joint geothermal development in areas in Hokkaido and Akita prefectures, where we conducted basic studies. INPEX will continue to find ways to overcome the difficulties associated with geothermal and pursue the possibilities for geothermal and other newILITYs in Japan and overseas including Indonesia where we have a strong base.

References

1. See p. 74 for Geothermal Power.

2. The Energy Development Environment

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3. Commencing Development Work at the Ichthys LNG Project

Having made the FID on the US$34 billion Ichthys LNG Project in Australia in January 2012, development work on this project is progressing. Ichthys will contribute greatly to providing a stable supply of energy to Japan.

Confidence in Commencement of Production at Ichthys

The Ichthys LNG Project is the first time any Japanese company, including INPEX, has been the operator of a large-scale project, so naturally there are risks associated with the project. In addition to the usual risk analysis, during the study phase for this project we thoroughly examined other such projects that preceded it. We conducted case studies of other past large-scale LNG projects that had actually undergone schedule delays or cost overruns and took those into consideration in carefully coordinating with construction contractors and thoroughly completing technical design specifications before the bidding stage. As a result, we are able to broadly reduce the cost overrun risk, for example, establishing lump-sum contracts for 75% of the project cost.

We also conducted a serious study of funding for the Ichthys LNG Project. INPEX’s share of the project costs is to be approximately $2 billion. Of this, we are looking to U.S. dollar-denominated bank loans for about half (or ¥1 trillion), mainly through project financing. In our negotiations so far, banks in Japan, Australia and elsewhere have taken a positive stance toward the project. Currently we are not concerned about the effects of the European sovereign debt crisis. Although the remaining half will come out of INPEX’s own funds, approximately ¥250 billion consists of the proceeds from the equity offering in 2015, with the remainder sufficiently covered by operating cash flow.

Moreover, we have a more than 40-year cooperative relationship with project partner TOTAL of France, an oil major with rich, worldwide experience as an LNG project operator. INPEX will accumulate experience and know-how through our partnership with TOTAL.

Commitment to Success

The FID on Ichthys means we are making an investment of such a degree that we can be said to be staking the future of the company on this project. In the real analysis that decision is merely another milestone in the progress of the overall project. Ichthys has left the planning stage and is now at the starting line, from which we are embarking on the actual construction of one of the world’s largest LNG projects in facilities. I believe that the

4. Future Growth Opportunities

At the Abadi LNG Project (Indonesia), which is also a large-scale LNG project following Ichthys, we are proceeding with preparations to begin front-end engineering and design (FEED) works which we plan to start in the second half of this year. In March 2012, INPEX decided to acquire a participating interest in Prelude (Australia), which is the world’s first FLNG project for which an FID was announced.

Abadi and Prelude

Having been granted approval by the Indonesian Government for the Plan of Development (POD) for the Abadi Project in December 2010, INPEX, as the operator in that project, will proceed with preparations to begin FEED work in the latter half of this year. The POD of the Abadi Project is based on the “floating LNG” (a floating offshore facility where natural gas is processed, liquefied, stored and offloaded) concept. A floating LNG eliminates the need for some conventional equipment, such as pipelines, and therefore requires less initial investment and minimizes environmental impact. In the course of moving toward full-scale development of the Abadi, INPEX invited oil major Shell to join us in Abadi as a strategic partner in July 2011. Although a number of companies had expressed an interest in joining the Abadi LNG Project, and many E&P companies, including oil majors, had applied for participation, we chose Shell. Shell’s FLNG know-how and experience in LNG projects have been a major force propelling the steady progress of the Abadi.

INPEX began participating in the Prelude FLNG Project off the Western Australia, for which Shell is the operator. This is also an FLNG project, similar to Abadi, and the FID was made in July 2011 as the world’s first FLNG project. Participating in the Prelude FLNG Project, our sixth LNG project will strengthen the INPEX LNG portfolio, helping us accumulate FLNG experience and know-how, and we expect business synergies to be created with the Abad LNG Project.

Main Topics for the Year Ended March 31, 2012

On the domestic front, we made progress in building our gas supply chain. Progress in construction of the Naosetu LNG Receiving Terminal was marked by the completion of installation of roofs over the LNG tanks in September 2011, and work is proceeding on schedule for the planned commencement of operations in early 2014. We also made the decision in May 2011 to construct a natural gas pipeline (the Toyama Line) to supply gas to the Hokuriku region. Construction of the Toyama Line began in May 2012, with supply through that line scheduled to commence at the end of 2014.

INPEX’s gas supply chain

INPEX delivers LNG from overseas to LNG receiving terminals in Japan, from which domestic natural gas users are supplied via our pipeline network.

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As described above, our efforts to tap unconventional resources of gas include the decision in November 2011 to acquire shale gas interests. We acquired a 40% interest in a shale gas project in Canada with the goal of eventually achieving production in the range of 200 Mboed. We are also considering the possibility of exporting LNG to Japan. Shale gas is found off the coast of North America but also in Asia and Europe, so we would like to gain knowledge on shale gas development through our aforementioned project and subsequently look into shale gas development in the future.

Other projects also progressed, including the commencement of production in both the Kitan Oil Field (UPD) in October 2011, whereas the Ruby Gas Field in the Sebuku Block (Indonesia) and the Coniston Unit (Australia) transitioned to development work in June and December, respectively. Meanwhile, among the exploration blocks with the drilling of the Koh-Shi in Australia, in November 2011 we acquired a participating interest in the Babar Solano Block offshore Indonesia, whereas in December we acquired interests in blocks located offshore Sabah, Malaysia, and AC/FS offshore Western Australia. Although these are comparatively small-scale projects, they are expected to be of value in the expansion of INPEX’s reserves.

(See pp. 42-43 for the Medium- to Long-Term Vision of INPEX.)

5. Medium- to Long-Term Vision and Actions

In May of this year, we established the Medium- to Long-Term Vision of INPEX, which sets out the growth targets for sustainable development over the medium to long term, as well as key initiatives to be taken to achieve those targets over the next five years. Below, I provide a detailed description of that vision.

Background of Establishment of the Medium- to Long-Term Vision

In May of 2012, INPEX held its third shareholders’ meeting. At this meeting, the need for INPEX to redouble its efforts in expanding with the current year ending March 31, 2013 to be taken from the $4 trillion investment undertaken over the prior two years.

In May of this year, we established the Medium- to Long-Term Vision of INPEX, which sets out the growth targets for sustainable development over the medium to long term, as well as key initiatives to be taken to achieve those targets over the next five years. Below, I provide a detailed description of that vision.

Despite this expansion in our existing projects, Ichthys and Abadi, were discovered in 2011 and the technical staff working at that time. This led us to secure and cultivate the human resources necessary for INPEX as an oil and gas company. In addition, we will work to actively secure and deploy personnel with diverse skills and experience in Japan and overseas. We will also train our human resources so they can play an active role in the international arena and adapt to changes in the environment. In this way, we will succeed in building a structure for global development through a number of operator projects.

We will continue to focus on securing the next generation of talent and cultivating human resources capable of playing an active role in the global arena. Although INPEX has 2,146 employees as of March 31, 2012, we are expanding our ranks of technical and clerical staff in accordance with the growth of our business. We are cultivating the skills of key employees such as people, goods and equipment, and financial resources.

Nonetheless, development under unfavorable conditions has become increasingly difficult, and we have had no major oil or gas field discoveries since Abadi in 2000. In addition, after the success of discovering Ichthys, we started to think of developing the FID on Ichthys. This led us to secure and cultivate the human resources necessary for INPEX as an oil and gas company. In addition, we will work to actively secure and deploy personnel with diverse skills and experience in Japan and overseas. We will also train our human resources so they can play an active role in the international arena and adapt to changes in the environment. In this way, we will succeed in building a structure for global development through a number of operator projects.

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6. Responsible Management as a Global Corporation

We at INPEX are aware of the social responsibility inherent in our mission of providing stable and efficient energy supplies, and as a company that operates globally we strive to coexist with and advance the international community in our management.

Strengthening CSR and Governance
INPEX endorsed the UN Global Compact in December 2011, clarifying our intention to do our best to gain the trust of the global community. Another CSR measure we undertook was the establishment of the CSR Committee in April 2012, with myself as the Chairman of the committee. We did so in recognition of the need to enhance our CSR awareness companywide and develop measures to grow as an excellent global company.

INPEX’s operational base is mainly overseas, along with about 40% of our shareholders are foreign corporations, which means that the majority of our stakeholders are overseas. In operating overseas, it is necessary to build appropriate relationships with a variety of entities, such as governments, local communities and NGOs. Oil and gas E&P companies, in particular, must make forthright efforts to cultivate relationships of trust with local communities and show concern for the environment. Along with what is expected from the global community as a corporate citizen, I would like INPEX employees in Japan and overseas to think about how and what they will contribute to society and the environment.

Conclusion
Although INPEX has secured a position as a leading oil and gas E&P company in Japan, we are not generally well-known as a global company. Also, our current market value does not reflect the company’s own awareness of our corporate value. I believe that one reason for this is insufficient communication with our shareholders. Thus, we will seek more thorough dialogue with our shareholders to clarify and better explain our growth potential, goals, project progress, etc.

The management and employees of INPEX have developed a strong sense of awareness and pride concerning our role in providing a stable supply of energy since last year’s disaster. Our goal is to make steady progress in fulfilling our social mission of “providing stable and efficient energy supplies” as Japan’s largest oil and gas E&P company and thereby further enhance our value as a company serving an essential role in the global community. As President & CEO, I am strongly committed to realizing this mission.

Thank you for taking the time to read this. I will do my best again this year to lead the company toward our goals and once more kindly request the continued support and understanding of all our stakeholders as we forge ahead.

July 2012
President & CEO
Toshiaki Kitamura