

Greetings from the Representative Directors



Masatoshi Sugioka
Vice Chairman

Naoki Kuroda
Chairman

Toshiaki Kitamura
President & CEO

We aim for sustained growth in corporate value by providing stable and efficient energy supplies.

We would like to begin by thanking everyone for your support and understanding of our business.

INPEX made a new start through a business integration on October 1, 2008, which has made our management structure more efficient and proactive. We continue to be Japan's leading oil and natural gas E&P company and are pushing forward with our exploration, development and production activities both in Japan and around the world.

In addition to instability in crude prices and the foreign exchange rate, the E&P business has been experiencing great changes marked by intensifying competition for resources, increased geopolitical risk and a rise in nationalism in oil-producing countries. This is occurring at a time when global energy demand is expected to increase due to economic growth, especially in the emerging economies. Amid this business environment, strong growth in demand for natural gas, in particular, is forecast both in Japan and worldwide.

We view the contribution to providing a stable and efficient supply of energy as our social mission and aim to maintain and expand our reserves and production in the medium to long term. We will continue to do everything in our power to realize steady growth in our corporate value, so as to meet the expectations of our stakeholders including our shareholders.

On behalf of everyone at INPEX we would like to extend our sincere condolences to all those affected by the Great East Japan Earthquake, which occurred on March 11, 2011.

We look forward to your continued support and understanding.

July 2011

Naoki Kuroda
Chairman

Masatoshi Sugioka
Vice Chairman

Toshiaki Kitamura
President & CEO

A Firm Commitment to Sustainable Energy

Seeking to establish a firm position among the leading global upstream companies

Toshiaki Kitamura
President & CEO



To Our Stakeholders

During the year ended March 31, 2011, we continued to achieve solid performance and provide a stable dividend as in the previous year. In addition, we made steady progress in developing a number of projects, most notably our large-scale liquefied natural gas (LNG) projects, to help reach our future growth targets. I hereby present to our stakeholders my review of the first year since my appointment as President, reporting on such topics as the business environment surrounding our company and the progress we have made in our projects.

1. Looking Back over My First Year as President – The Role of the President

Since being appointed President in June of last year, I have been at the helm of the company as we have steadily reached one milestone after another in pursuit of our project targets.

The role of the President is to ensure the effective and efficient allocation of resources and operate the company efficiently as it steadily progresses toward the full realization of its projects. I believe that, in particular, this means placing the right people in the right jobs and establishing financing plans, and I am pleased to be able to report to our stakeholders some definite results in that regard.

Another important role of the President is to maximize our opportunities to acquire quality interests while minimizing risks amid harsh competition for resources in a complex and ever-changing international arena. Such a situation requires **developing and promoting international relationships based on mutual trust with the oil-producing countries and our partners.** An oil-producing country entrusts its precious oil and gas resources to an E&P company, and whether that company succeeds in development is extremely important to the economic development of that country. INPEX has demonstrated reliance and trust as a company based in Japan, and has proven results as we continue to move forward with projects in more than 20 countries worldwide. I believe that these factors have been

enhancing mutual trust with the oil-producing countries and our partners at the international level.

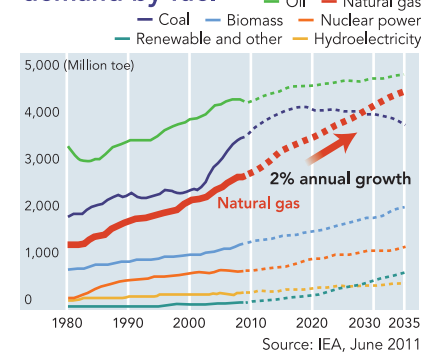
As I look back over the past year, in the course of face-to-face discussions with the leaders of oil-producing countries and the top management of the oil majors, I get the sense that our international relationships based on mutual trust and our international presence are reaching a much higher level with the progress of our large-scale LNG projects — Ichthys and Abadi. Although it has been a year since we faced the difficult decision such as withdrawal from the Azadegan Oil Field in Iran, we have increased the trust of oil-producing countries and our partners by producing steady results on a daily basis, and this has brought us more opportunities to acquire quality interests. I have developed an increasing awareness of our successful growth story over the past year.

“One role of the President is to maximize opportunities to acquire quality interests while minimizing risks. This requires the developing and promoting of international relationships based on mutual trust.”

2. The Business Environment Surrounding Oil and Gas Development

In achieving an optimal mix of energy sources, the most important factor is security, followed by supply stability, economic rationality and environmental considerations. Natural gas takes on ever more importance as the natural gas shift proceeds.

World primary energy demand by fuel



A catastrophic earthquake struck Japan in March of this year, causing many casualties. On behalf of INPEX, I would like to express our sympathies to those affected and our desire for a speedy recovery.

Since the earthquake, I have become even more aware of the importance of our company's role in providing a stable and efficient supply of energy. During the oil crisis in the 1970s in Japan, I witnessed the disturbance to the lives of people caused by the energy shortage. Looking back on my firsthand experiences during that oil crisis and the recent earthquake, it is my belief that in achieving an optimal mix of energy sources, the most important factor is security, followed by supply stability, economic rationality and environmental considerations. In reviewing the optimal mix of energy sources after the impact of the earthquake, it is clear that the comparative importance of renewable energy sources such as solar power will increase in the long term, but in the short to medium term fossil fuels, such as oil, coal and natural gas, will continue to play a major role, in particular, natural gas due to environmental considerations.

Global energy demand is expected to continue to be firm as economic growth, especially among the emerging economies, proceeds apace. Demand for natural gas, in particular, is expected to grow broadly due to its superiority over oil and coal in terms of price and environmental considerations. It is expected to grow at a rate of 2% annually from 2010 through 2035, accounting for 25% or more of total global primary energy demand in 2035 (according to the International Energy Agency (IEA) outlook). Japan and other countries

are currently reviewing their medium- to long-term energy policies due to matters such as the impact of the recent earthquake and climate change, and I believe that we will see the shift to natural gas accelerate.

As part of this shift to natural gas, the development of "shale gas," an unconventional natural gas source, is progressing in North America. The main supply of natural gas in Asia is in the form of LNG. This differs from the mainly pipeline-based supply that is the focus of the supply system in North America and Europe, so I believe at this time that the rapid development of shale gas will have no direct impact on the LNG projects being developed by INPEX.

In addition to reconsideration of the optimal energy mix, the stable and efficient supply of energy will take on increasing importance in light of factors such as resource nationalism (as seen in some oil-producing countries) and intensifying competition for resources by emerging economies, primarily China. As a natural gas supplier in Japan, we have been supplying domestically produced natural gas to the Japanese market for decades. Henceforth, in addition to the gas supplies from overseas projects operated by INPEX, we intend to enhance our provision of stable and efficient supplies of energy and continue to expand our presence not only in Japan but also in the global natural gas market.

3. Management Strategies for This Business Environment

INPEX is currently a mid-tier global independent upstream company, with production volume and reserves ranking after the oil majors. **Our goal is to continue to enhance our corporate value, with our long-term goal being to achieve net production volume of 800,000–1 million barrels of oil equivalent per day (boed) by 2020.**

We also aim to establish a firm position among the top group of global independent upstream companies with well-balanced assets, finances and human resources.

We have been pursuing three medium- to long-term strategies to achieve our growth targets.

1. Sustainable Expansion of Our E&P Business

Get existing projects such as Ichthys and Abadi up and running, and continue to add to production by discovering new oil and gas fields through exploration and by acquiring interests in existing oil and gas fields.

2. Establishment of a Gas Supply Chain and Proactive Expansion of Gas Business

Build the Naoetsu LNG Receiving Terminal, further expand the approximately 1,400-km trunk natural gas pipeline network connecting the Kanto and Koshinetsu regions in Japan and combine overseas LNG projects with domestic gas to establish a stable supply network.

3. Evolution into a Company that Offers Diversified Forms of Energy

Look to the future by commercializing new forms of energy, including unconventional sources such as shale gas, gas-to-liquids (GTLs) and geothermal power generation.

Achieve net production volume of 800,000–1 million boed by 2020 and establish a firm position in the top group of global independent upstream companies with the right balance of assets, finances and human resources.

We must not be optimistic about the path to achieve our goals. In real terms, it will require measures to deal with the upside risk in development costs associated with a rise in materials prices, as well as overcoming the increasingly high technological hurdles associated with new exploration and development projects in polar regions or deep water. Also, as the April 2010 oil spill in the Gulf of Mexico demonstrated, we must work even harder to establish accident and disaster response measures, maintain safety operations and minimize environmental impact. The appropriate and timely response to country risk, such as political instability in the Middle East and North Africa, is also important.

I believe we can overcome these issues one by one by fully employing our characteristic strengths, such as our experience, our solid financial basis and the technical capabilities we have amassed at every stage of our exploration, development and production efforts.

We are strengthening our safety management by establishing ties with our partners and by putting our experience as an operator to use. We are also striving to cultivate personnel who can operate successfully in the global arena by actively dispatching younger employees to overseas sites, where they can accumulate experience and technical skills. Such efforts serve to help us enhance our presence as a global independent upstream company.



Gulf of Mexico Oil Spill

An explosion at an oil rig operated in the Gulf of Mexico offshore the coast of Louisiana caused a rupture in a well pipe, resulting in an enormous outflow of crude to the Gulf of Mexico.

4. Results for the Past Year and Our Business Activities

Consolidated net sales
¥943.1 billion
 up 12.2% (year on year)

Consolidated net income
¥128.7 billion
 up 20.0% (year on year)

Although there were negative factors affecting our performance in the year ended March 31, 2011, such as lower natural gas sales volumes and yen appreciation, consolidated net sales were up 12.2% to ¥943.1 billion and consolidated net income was up 20.0% to ¥128.7 billion due to the increase in crude oil prices and the concomitant rise in gas prices.

We made steady progress over the past year in our Ichthys and Abadi LNG Projects, into which we have focused considerable effort. For the Ichthys Project, we reached one milestone after another in approaching the final investment decision (FID), which is planned for Q4 2011. The engineering portion of the front-end engineering and design (FEED) work for the production facilities, which started in 2009, is nearly complete, and we are currently selecting contractors for the engineering, procurement and construction (EPC) phase. Administrative procedures for the construction of the LNG production facilities are under way, and our LNG marketing activities led us to reach basic agreements with a number of LNG buyers in June of this year. Also, we have made active efforts to contribute to local communities, one example of which was the opening of a trade training center for local youths in April of this year.

At the Abadi Project, we have been engaged in preparatory steps for FEED work, as well as environmental and social impact assessments, since obtaining approval for the plan of development (POD) from the Indonesian Government in December of last year. We are examining development of this project based on the "floating LNG" concept. In the course of moving toward full-scale development, we looked into forming a strategic partnership with a company with experience and proven results in the LNG business and large-scale offshore development. As a result, INPEX chose to invite Shell, an oil major, and signed an agreement with it for the transfer of a portion of our participating interest.

Insofar as other projects, we have transitioned to development activities in the Kitan oil field in the Timor Sea, acquired a participating interest in the Sebuk Block near the Offshore Mahakam Block and acquired an additional interest in the ACG project in Azerbaijan. Our exploration projects include the acquisition in February of this year of new deepwater exploration blocks in the U.S. Gulf of Mexico — a first for our company — and the discovery of oil and gas at an offshore exploratory well in Vietnam, also in February.

The earthquake that occurred in March caused no major damage to our main domestic facilities or natural gas pipeline network. The earthquake spurred us to proceed with some necessary improvements, such as drafting an additional business continuity plan (BCP) aimed at preserving important headquarters functions when a major earthquake occurs.

5. Investment Plans and Financial Strategies

We will make continuous investments based on our **plan to invest approximately ¥4 trillion over the seven-year period beginning with the year ended March 31, 2011**, so as to reach our goal of net production volume of 800,000–1 million boed by 2020. During the year ended March 31, 2011, we invested more than ¥240 billion in exploration and development, etc. During the three-year period beginning from the year ending March 31, 2012, we plan to invest approximately ¥1.8 trillion or less.

A solid financial strategy is vital to the steady investment of such a large sum. Taking into consideration our company's target indicators for financial soundness (an equity ratio of 50% or more and a net debt to net total capital employed ratio of 20% or less), the following items are assumed as funding sources for the planned investment of approximately ¥4 trillion:

1. Public offering
2. Cash or future operating cash flow
3. Bank loans, including project financing

We have already conducted a public offering in August 2010 that raised approximately ¥520 billion. As a result, our financial condition at the end of March 2011 was unquestionably sound compared to the other main upstream independents. (As of March 31, 2011, our equity ratio was 74.5% with a net debt to net total capital employed ratio of 48.9%.)

The capital increase through a public offering has provided support for our sound financial condition, and we foresee being able to maintain this sound financial condition until 2017, which we believe will be the year in which our net debt associated with increased bank loans peaks. We believe this puts us in a favorable position to proceed with future financing procurement.

Although the public offering diluted our shares, we expect to double our current net production volume by 2020 by commercializing projects such as Ichthys and Abadi. We therefore foresee earnings that will surpass the effects of the share dilution.

To invest approximately ¥4 trillion steadily over the seven-year period beginning with the year ended March 31, 2011, we increased capital through a public offering in August 2010.

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Ichthys LNG Project



Abadi LNG Project

pp. 40–43
for more about the Ichthys LNG Project

pp. 44–45
for more about the Abadi LNG Project



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 our 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

Cash dividends per share, Payout ratio

