

Management Message



Message from the President

From Develop to Delivery

For the year ended March 31, 2014,
we made solid progress on activities undertaken for future growth.
INPEX maintained stable volumes of production, substantially increased its
proved reserves and made steady progress across several major projects.
In the current year, INPEX will gear up its activities to achieve growth targets.

Gaining a Strong Sense of Accomplishment That Significant Progress Is Being Made Across Several Major Projects

In addition to stable production,
performance trends benefited from continuous weak Japanese yen

For the year ended March 31, 2014, net sales and net income increased by 9.7% and by 0.4% compared with the previous period, to ¥1,334.6 billion and ¥183.7 billion, respectively. Despite the absence of the one-off gain on transfer of mining rights recorded in the previous period, and the downturn in crude oil prices, these favorable results were largely attributable to stable production volumes and the positive flow-on effect of the weak yen. In the year ended March 31, 2013, INPEX incurred certain losses as a result of fluctuations in foreign currency exchange rates. In the period under review, however, the Company brought to

account unrealized gains on the redemption of foreign currency denominated bonds mainly due to depreciation in the value of the yen. From the perspective of its profit and loss, INPEX also saw the gap between assets and liabilities denominated in foreign currencies narrow and the currency exchange risk tended to neutralize as a result. Taking these factors into consideration, the weak yen had a favorable impact on both the Company's balance sheet and its profit and loss throughout the year ended March 31, 2014.

Securing the stable production of crude oil and natural gas to support earnings

INPEX is mainly engaged in the development and production of crude oil and natural gas. Accordingly, the vast majority of the Company's revenue is derived from crude oil and natural gas sales. Net production of crude oil and natural gas, the primary source of earnings, edged up slightly to 409 thousand boed in the period under review. Buoyed by contributions from such projects as the Ichthys LNG Project in Australia, INPEX has identified the medium- to long-term target of increasing production volume to one million boed by the early 2020s. Meanwhile, in the period leading up to the start of commercial production at

the Ichthys LNG Project, the Company must look to increase the production of crude oil and natural gas at existing fields while generating production at new fields. At the Company's gas field in the offshore Mahakam Block in Indonesia, a major source of current earnings, INPEX saw little deterioration in production levels with volumes essentially unchanged from the previous year. Moreover, additional crude oil production began in January 2014 at the large-scale ACG Oil Field in Azerbaijan reinforcing the Company's earnings capabilities.

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“ We will accelerate the pace of activities aimed at achieving growth targets while maintaining production of oil and natural gas. ”

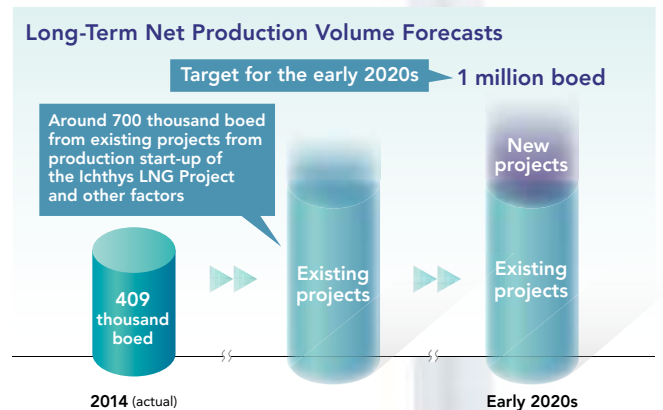
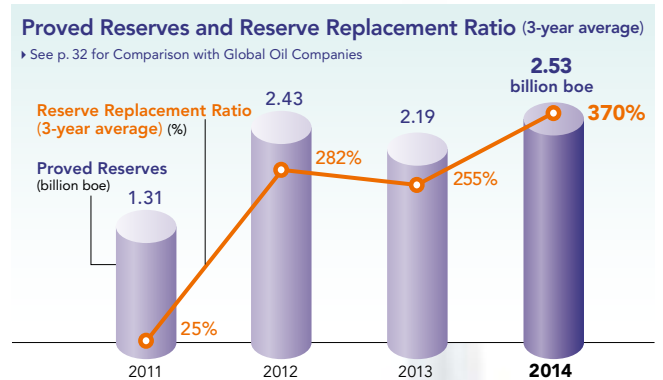
**Toshiaki
Kitamura**
President & CEO

Increase in proved reserves through the extension of the concession agreement in the Upper Zakum Oil Field helping to secure reserve volume growth

The volume of reserves is the lifeline of any E&P company. Not only does it govern the level of current earnings, but it also provides the source of future profits. The Company's proved reserves, estimated quantities of crude oil and natural gas that can, with reasonable certainty, be collected, as of March 31, 2014, increased by approximately 340 million barrels, or 16%, year on year. This is largely attributable to the extension of the concession agreement in the large-scale Upper Zakum Oil Field located in the offshore area of Abu Dhabi in the United Arab Emirates for a further approximately 15 years.

As a result of this increase in proved reserves, the three-year average reserve replacement ratio, which is an indication of the amount of oil added to proved reserves compared with the total amount of oil produced over a given period, reached 370% for the period under review. Oil and gas E&P companies in general commonly set an RRR target of 100% or more. At 370%, INPEX's current RRR is not only a record high since the Company's public listing but also represents a level that far exceeds the oil majors. In addition, the reserves-to-production ratio, which measures the current number of production volume years of reserve volumes held, was 17.1 years for proved reserves and 30.2 years on the basis of proved and probable reserves as of March 31, 2014. These levels are above the average of the oil majors.

Favorable revisions to financial terms and conditions at the Upper Zakum Oil Field also helped to push up the Company's net income. INPEX in fact has a long history in the area with an operating and technology development track record in Abu Dhabi that spans four decades. On a personal note, I am convinced that the Abu Dhabi government's decision to extend the concession agreement and favorably revise financial terms and conditions is a reflection of the high esteem in which INPEX is held. Our persistence and hard work coupled with attention to detail is therefore a major and highly significant factor in efforts to fulfill our social mission of ensuring the stable supply of energy.



Tangible progress toward commencing production at the Ichthys LNG Project

The attention to detail that has attracted wide acclaim in Abu Dhabi is a key feature of the Ichthys LNG Project in Australia. The Ichthys LNG Project is the first large-scale LNG project to be operated by a Japanese company. Accordingly, this project is an extremely important key to the Company's future growth. Since the final investment decision (FID) was made in January 2012, development activities have proceeded smoothly both in terms of cost and schedule.

At that time, our level of expertise as an operator of an LNG project of this size was limited. Prior to making an FID, we naturally took steps to complete all due diligence including an analysis of risks. We also took time to look closely at other LNG projects of a similar nature. Considerable attention was given to detailed discussions with contractors, as well as frequent and thorough reviews of technology design documentation leading up to the tender phase. The success we have therefore had in advancing the project without any major difficulty is due in large part to these earnest and comprehensive preparatory measures.

Ground was broken for all major facilities of the Ichthys LNG Project during the period under review. As of June 2014, half of all construction work had been completed. Details of progress are provided in the Special Report (▶ see p. 34) of this Annual Report.

Looking ahead, steps will be taken to install a module in connection with the gas liquefaction plant. This will be followed by several important phases including the drilling of production wells and the laying of pipelines. Taking into consideration progress to date and plans for the immediate future, the Ichthys LNG Project is steadily taking shape.

When the Project enters a period of full production, the Company's net production volume is expected to increase by around 1.5 times its current level. From a profit perspective, net income is projected to jump by a factor that exceeds this upswing in production volume. With approximately 70% of the LNG produced to be transported to Japan, INPEX will substantially boost its contributions to the stable supply of energy to Japan. I have often referred to this project as the Company's highest priority. Success will inevitably determine the level of our growth going forward, and it represents an important first step in achieving our Medium- to Long-Term Vision. Looking back, INPEX first ventured to Australia during the mid-1980s. Since then, we have accumulated a wealth of knowledge, expertise and geographical advantages. Taking full use of this intellectual capital, we will work diligently through to production with a sense of both urgency and anticipation.

Construction of the Naoetsu LNG Terminal completed ahead of schedule helping to strengthen a gas supply chain

The Company's natural gas business in Japan is another prominent example of its know-how accumulated over many years and geographic competitive advantage. During the period immediately following the Second World War through to the present day, INPEX boasts an unbroken track record for the continuous and uninterrupted supply of natural gas in Japan. The volume of annual natural gas sales in Japan has today reached 1.8 billion m³. This is equivalent to the amount of gas consumed by nearly five million households (32 m³ per month per household) and places the Company fourth within Japan's gas sector.

In its natural gas business in Japan, INPEX began construction on the Naoetsu LNG Terminal in 2009. The terminal was completed ahead of schedule in December 2013 and operations have commenced. Despite confronting severe winter conditions and a

number of other difficulties, this initiative was completed without major incident. Looking ahead, the Naoetsu LNG Terminal will receive shipments from the Ichthys LNG Project. This will allow the Company to maintain and operate a comprehensive gas supply chain. Undertaking the development and production of natural gas both in Japan and overseas in its own right, while transporting supplies to end users through its own LNG terminal and pipeline network, will place INPEX in an unprecedented and globally unique position. We are also in sight of our medium- to long-term target of domestic gas supply volume of 2.5 billion m³ per year. It is now just under two years before the Ichthys LNG Project comes online. The fact that we were able to commence operation at the Naoetsu LNG Terminal ahead of schedule is therefore a major step forward for the Company.

With about two years before the Ichthys LNG Project comes online, we will go about our daily activities in an earnest and structured manner with an increased sense of urgency and anticipation.

Working in Unison, INPEX Is Moving Steadfastly Toward Achieving Its Medium- to Long-Term Vision

Maintaining a sound financial position while steadily undertaking investments geared toward growth

Our overarching vision is to position ourselves to become a top-class international oil and gas E&P company through sustainable growth in the oil and gas development business. In May 2012, INPEX took steps to identify the priority targets to be overcome and management policies that need to be pursued in order to achieve its **Medium- to Long-Term Vision**. The Company is therefore pursuing the following three strategic growth targets, namely to

- 1 Achieve net production volume of one million boed as a part of efforts to continuously enhance its E&P activities,
- 2 Strengthen its gas supply chain in a bid to secure domestic gas supply volume of 2.5 billion m³/year, and
- 3 Reinforce its renewable energy initiatives with the aim of ensuring next-generation growth.

Looking at the specifics of the first strategic growth target—continuous enhancement of our E&P activities—we are endeavoring to increase our production volume while securing reserve volumes through the reinvestment of cash flows generated from production operations at oil and gas fields. To this end, and under our Medium- to Long-Term Vision, we have plans to invest a total of ¥3.5 trillion over the five-year period from the year ended March 31, 2013, to the year ending March 31, 2017, in order to achieve net production volume of one million boed. In the year ended March 31, 2014, the Company's investments

amounted to ¥962.9 billion. Combined with investments totaling ¥653.3 billion in the year ended March 31, 2013, our aggregate investment over this two-year period came to ¥1,616.0 billion. While more than half of the Company's investments are directed to the Ichthys LNG Project, construction work and activities continue to proceed smoothly and essentially in line with plans allowing us to maintain an unchanged investment plan.

Recognizing that the Company is currently operating within a period that requires active investment in the Ichthys and other large-scale projects, INPEX must undertake the procurement of funds in order to meet these requirements. Accordingly, maintaining a sound financial position and increasing the balance of net assets are of the utmost importance. The balance of our net assets increased as of March 31, 2014, with profit margins on a net assets basis falling short (ROE 7.0%) of the high profit levels secured in the previous period. Meanwhile, we have been successful in maintaining our strong financial position and, in particular, our long-term financial targets of an equity ratio of 50% or more and a net debt to net total capital employed ratio of 20% or less. As of March 31, 2014, INPEX's equity ratio was 69.1% with net debt to net total capital employed coming in at negative 31.9%. On this basis, we are confident that the Company maintains a high degree of financial stability.

Operating conditions in Japan and overseas surrounding the energy sector

The oil and natural gas development business is characterized by the lengthy period required to recoup initial investment. In addition to maintaining a sound financial position, it is therefore imperative to consistently undertake an accurate assessment of global operating conditions surrounding the energy sector. Looking at recent trends, growing resource nationalism and aggressive efforts by developing nations to secure resources are intensifying competition making it all the more difficult to secure development opportunities. At the same time, development project operating conditions are becoming increasingly harsh due to rising construction and personnel costs. Despite this environment, INPEX must continue to steadfastly engage in such large-scale projects as the Ichthys LNG Project and establish a robust international reputation as a global oil development company. Moreover, we must overcome this competitive environment and forge an undeniable position as a promising market player.

Turning to other aspects of the energy environment, shale gas LNG originating from the United States is expected to play a major role in meeting the growing future demand for energy. The specific characteristics of shale gas were discussed in last year's annual report. Recognizing the significant hurdles that need to be overcome in order to successfully bring a shale gas LNG project to production, I believe that only competitive projects will win out over the competition. This belief applies equally to shale gas LNG and existing LNG projects.

On the domestic front, the Cabinet of Japan approved a new Strategic Energy Plan in April 2014. Under this plan, crude oil and natural gas are identified as important sources of energy. At the same time, the overall direction of the plan remains consistent with the Company's Medium- to Long-Term Vision. With an increased sense of responsibility, INPEX will continue to carry out its business activities as a core company in Japan involved closely in the development of crude oil and natural gas.

Building a global workforce as a part of efforts to ensure a robust operating platform and promoting initiatives aimed at sharing knowledge

In this section of its 2012 Annual Report, INPEX provided a breakdown of its five-year ¥3.5 trillion investment plan and details of prospects regarding the procurement of funds. Just short of two years since putting in place our Medium- to Long-Term Vision, I would now like to talk about our efforts to develop the management platform necessary to properly carry out our business activities amid the ongoing growth of our operating scale.

In May 2012, INPEX established the New Ventures Division to oversee the acquisition of overseas projects as one initiative aimed at achieving its Medium- to Long-Term Vision. In May 2013, the Company set up the Gas Supply & Infrastructure Division for the integrated management of gas supply facilities in Japan. Each of these initiatives was aimed at strengthening our organization. Meanwhile, the increasing global nature of employee nationalities and workplace locations is a reflection of progress being achieved in the Ichthys, Abadi and other large-scale projects. At the same time, we are witnessing the growing need for more sophisticated knowledge and skills. Taking these factors into consideration, INPEX has commenced steps to put in place a common global human resources management platform. In addition to identifying measures aimed at securing the necessary professional personnel to ensure the success of large-scale projects, this initiative is designed to promote human resources development and to provide employees with

the essential skills and technological capabilities required to succeed on the frontline. In building a sound human resources management platform, INPEX is also looking to ensure the cross-border transfer of talented personnel and to establish a mechanism that will ensure the optimal application of human resources.

The hurdles that need to be overcome increase in line with the size of the project. Against this backdrop, it is vital that the Group comes together as one to collectively lift the level of its expertise. Management and employees alike must bring to bear their individual experience and skills as a multiplier effect that bolsters the Group's overall capabilities. With this in mind, INPEX has put in place a structure to facilitate the sharing of knowledge and to make the most of the Group's intellectual capital. This structure enables the knowledge and know-how gained through exploration projects, as well as the health, safety and environment (HSE) experience accumulated through projects conducted worldwide, to be commonly shared throughout the Group. I make it a point when visiting our many operating bases in Japan and around the world to check on how effectively this structure is helping to lift our overall capabilities. Recently, I have noticed that our technological standards and the interaction among personnel have improved significantly under this structure.

INPEX Values serving to unite the Group under a common global foundation

On a consolidated basis, INPEX maintained a total workforce of 2,874 employees as of March 31, 2014. Of this total, around half work in locations outside of Japan. In addition, non-Japanese nationals including Australian and Indonesian nationals make up approximately 40% of all INPEX employees. As the Company's structure becomes increasingly diverse, made up of individuals from a wide range of cultures and countries, the need to put in place a set of common global-level values also becomes extremely important. For this reason, in April 2014 we identified five core values that represent our shared understanding of the type of behavior that we strive to demonstrate. These values are ① safety, ② integrity, ③ diversity, ④ ingenuity and ⑤ collaboration. These **INPEX Values** are the culmination of more than a year's deliberation and debate and integrate the individual value standards of those countries in which we operate including Japan, Australia and Indonesia. Taking into consideration our stated goal of becoming a top-class international oil and gas E&P company, it is vital that the Group comes together under the umbrella of a single set of common and uniform value standards that extend beyond and across different nationalities and work locations.



Condensate produced from the Ichthys field at the time of exploration.



In conjunction with the establishment of the INPEX Values, it is vital that the Group as a whole engage in detailed operations from the perspective of its personnel policies and systems. These parallel activities place us in a better position to ensure that each and every employee goes about his or her duties with a strong sense of fulfillment and pride. With this in mind, INPEX places considerable emphasis on creating a workplace environment in which its employees are able to excel and to provide all possible support irrespective of culture, nationality, gender or age. Our efforts in this area have attracted wide-ranging acclaim from a number of sources. INPEX has, for example, been selected as a “Nadeshiko Brand.” This designation is granted to companies that are considered exceptional in encouraging women’s success in the workplace. In real terms, the number of female employees has increased from 252, or around 13% of the total number of employees, as of March 31, 2010, to 535, approximately 19%, as of March 31, 2014. Moving forward, and in line with its position as a global company, INPEX will continue its quest to become a company that is rich in diversity and will continue to promote personnel policies and systems that enable employees to fulfill their potential while engaging in diversity management.

Relationships with Stakeholders based on Longstanding Ties of Mutual Trust

Maintaining safety through tangible and intangible endeavors

Having spoken about efforts to maintain and expand the volume of production and reserves, and outlined the vital role that participation in large-scale projects plays in ensuring ongoing growth, I would now like to focus on our most important priority – “safety.” By its very nature, risks of a major incident are part and parcel of the oil and natural gas E&P sector. Accordingly, safety should be the No. 1 concern for all operators. Just as a vehicle requires all four wheels to rotate in the same direction if it is to advance, I strongly believe that a combination of tangible and intangible measures is essential to achieving safety. “Safety first” is the most important principle of the five INPEX Values and forms the core of a strong health, safety and environment (HSE) culture. This mind-set and the commitment of each individual to suspend operations at the slightest hint of

potential danger is in my opinion the intangible quality necessary to ensure safety. Of equal importance, of course, are tangible measures, most notably the mechanisms that give shape to the Company's safety endeavors. With this in mind, INPEX adheres strictly to a policy of HSE management. As a company that operates on the world stage, it is imperative that our tan-

Securing the support of stakeholders is essential to achieving our management goals

Of equal importance is the support of all stakeholders including shareholders and investors. Taking into consideration the long investment span that characterizes work in the oil development industry, building longstanding ties of mutual trust with business partners is an inherent essential prerequisite. In similar fashion, I would like to see INPEX nurture equally strong ties of mutual trust with its shareholders and investors. Since assuming the position of president in June 2010, I have made it a point to personally attend and participate in meetings with institutional investors in Japan, large-scale briefings with individual investors and visits to overseas institutional investors. The feedback and opinions of shareholders and investors gained through regular meetings are an invaluable point of reference when making management decisions. Thanks to this process, I have a sense that our relationships with shareholders and investors have improved considerably.

Raising the Level and Pace of Our Efforts throughout the Year Ending March 31, 2015

Performance and production volume forecasts for the year ending March 31, 2015

Performance forecasts for the year ending March 31, 2015, the current year, are based on the assumption that crude oil prices will fall slightly below levels recorded in the year ended March 31, 2014. At the same time, forecasts factor in aggressive exploration investment. As a result, we project a decrease in revenue and earnings in the year ending March 31, 2015. In specific terms, consolidated net sales are expected to come in at ¥1,316.0 billion with net income totaling ¥178.0 billion, as of August 2014.

Net production volume, which is directly linked to earnings, is forecast to increase slightly year on year to 411 thousand boed. As of June 30, 2014, INPEX holds 78 oil and natural gas projects in 27 countries. Of this total, 34 projects are currently

gible measures conform to international standards. In the event that an incident occurs, we take all appropriate steps, including the establishment of communication channels, as well as employee education and training, to ensure that we ascertain and share information while undertaking proper onsite action in a timely and proper manner.

The Company is also vigorously engaged in investor relations activities aimed at individual investors. In October 2013, INPEX conducted a 1:400 stock split of its common shares. The Company also reset its share trading unit at 100 shares. These initiatives have made it easier for individuals to invest in this Company. From a separate angle, the number of oil and gas development companies in Japan is limited. With few domestic industry peers, it is difficult for investors to gain an in-depth knowledge of activities and to readily make comparisons. Accordingly, we are placing considerable emphasis on increasing communication with all investors and engaging in IR activities that focus on the trends and characteristics of the industry, as well as the Company's mission.

in production, led by the mainstay Offshore Mahakam Project in Indonesia. Naturally, maintaining and increasing production at each existing project is an important priority for the Company. Recognizing the country risks inherent in oil development operations, it is also important to build a geographically well-balanced asset portfolio. As I have mentioned, INPEX's production assets are spread across the world. The amount of production volume varies by region. Having said this, production will commence at the Lucius Oil Field in the U.S. Gulf of Mexico during the second half of this year boosting volumes in the Americas, which currently remain low compared to other regions. In addition to contributions to cash flow, we anticipate an improvement in the balance of our production assets by region.

Raising the level and pace of our efforts to secure growth throughout the year ending March 31, 2015

At the time our Medium- to Long-Term Vision was put in place in May 2012, I emphasized the importance of the first five-year period to the year ending March 31, 2017. The year ending March 31, 2015, is indeed the halfway point of this five-year period. In the first year, we sprinted out of the starting box to ensure a sound start. The second year was a period in which to solidify the gains that were made. In this the third year, we must now raise the level and pace of our endeavors as we aim to achieve our growth targets.

Several projects are scheduled to commence during the current year. In last year's annual report, I talked about the virtuous cycle of growth. By steadily harvesting the seeds that we

have sown, we will apply an even stronger spin to this cycle. We will progressively complete several large-scale projects moving forward. A prime example is the Ichthys LNG Project, where we have passed the halfway point toward completion. We will also actively engage in exploration investment in a bid to sow the seeds of the future. We plan to invest ¥105.0 billion in exploration during the current year, a record high for the Company, with the drilling of 21 exploratory wells scheduled mainly in Asia and Oceania. Naturally, we will place our first priority on safety and engage in prudent drilling activities. The expectations of success nevertheless remain high.

After the start-up of Ichthys, we will provide returns to shareholders commensurate with a top-class international oil and gas E&P company

INPEX held its 8th Ordinary General Meeting of Shareholders in June 25, 2014, with more than 600 shareholders in attendance. A number of questions were raised concerning the Company's participation in large-scale projects and conditions throughout the LNG market. It was clear that shareholders held high expectations for the Ichthys LNG Project and the Company's future growth.

During the first half of 2013, INPEX's share price trended downward. As if coinciding with the stock split in the lowering of the Company's share trading unit, the share price showed signs of a recovery during the second half. I believe that the increase in production and proved reserve volumes, as well as the progress of individual projects including the Ichthys LNG Project, is having a positive effect on our corporate value. Complementing our business endeavors, we will continue to actively engage in the disclosure of information and IR activities throughout the year ending March 31, 2015, to ensure that our shares are properly valued.

INPEX is implementing a balanced approach between investments and the payment of dividends according to its shareholder return policy. In the lead-up to production at the Ichthys LNG Project, cash flows derived from producing projects are being channeled into reinvestments. In this context, the focus of our activities is directed toward investment. As a result, we plan to pay an annual dividend of ¥18 per share for the year ending March 31, 2015, unchanged from the period under review. However, as production commences at the Ichthys LNG Project, we will provide returns to shareholders commensurate with a top-class international oil and gas E&P company.

As I have mentioned, the current year is the halfway point to realizing our Medium- to Long-Term Vision with around two years before the Ichthys LNG Project comes onstream. With this in mind, we will accelerate the pace of our endeavors. The entire INPEX Group is dedicated to bringing concrete shape to the gains achieved during the previous period and will raise the level of its activities to ensure further growth and development.

August 2014
President & CEO
Toshiaki Kitamura

Bringing concrete shape to the gains already achieved, we will raise the level of our endeavors going forward.

北村 俊昭