Securing the Future Energy Supply

INPEX

INPEX CORPORATION

# Annual Report 2008

INPEX Holdings Inc.

INPEX TEISEKI

INPEX

INPEX CORPORATION

# Toward New Frontiers

In October 2008, following the completion of a two-and-a-half-year integration process, we made a new start as the newly founded INPEX CORPORATION.

The substantial improvement in international competitiveness resulting from the merger of INPEX CORPORATION, a leading Japanese E&P company, and Teikoku Oil Co., Ltd., a pioneer of E&P in Japan, will enable us to strive to become an energy company that continues to meet expanding energy demand.

**Masatoshi Sugioka**
*Representative Director*

**Kunihiko Matsuo**
*Representative Director, Chairman*

**Naoki Kuroda**
*Representative Director, President*

## Contents



**FORWARD-LOOKING STATEMENTS**

This annual report includes forward-looking information that reflects the Company's plans and expectations. Such forward-looking information is based on the current assumptions and beliefs of the Company in light of the information currently available to it, and involves known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause the Company's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking information. Such risks and uncertainties include, without limitations, fluctuations in the following:

- the price of and demand for crude oil and natural gas;
- exchange rates; and
- the costs associated with exploration, development, production and other related expenses.

The Company undertakes no obligation to publicly update or revise any information in this annual report (including forward-looking information).

**NOTES REGARDING FIGURES**

Financial figures in this annual report have been rounded to the nearest unit (millions, billions, etc.) for purposes of convenience.

# Our Performance

| INPEX CORPORATION and Consolidated Subsidiaries<br>Years ended March 31 | Millions of yen | | Thousands of U.S. dollars*7 |
|---|---|---|---|
| | 2007 | 2008 | 2008 |
| Net sales | ¥ 969,713 | **¥1,202,965** | **$12,005,639** |
| Japan | 77,322 | **93,882** | **936,946** |
| Asia & Oceania | 387,543 | **452,542** | **4,516,387** |
| Eurasia (Europe & NIS) | 118,618 | **183,879** | **1,835,120** |
| Middle East & Africa | 386,009 | **464,523** | **4,635,958** |
| Americas | 221 | **8,139** | **81,228** |
| Operating income | 559,077 | **714,211** | **7,127,854** |
| Net income | 165,092 | **173,246** | **1,729,002** |
| Cash flows from operating activities | 231,982 | **363,995** | **3,632,684** |
| ROE*1 (%) | 17.7 | **15.8** | — |
| Net ROACE*2 (%) | 20.4 | **21.4** | — |
| Payout ratio (%) | 9.9 | **10.2** | — |
| Total assets | 1,608,107 | **1,807,901** | **18,042,924** |
| Net debt (at period end)*3,6 | (169,667) | **(328,353)** | **(3,276,976)** |
| Equity ratio*4 (%) | 64.0 | **64.0** | — |
| Net debt/Total capital employed*5,6 (%) | (18.6) | **(36.1)** | — |

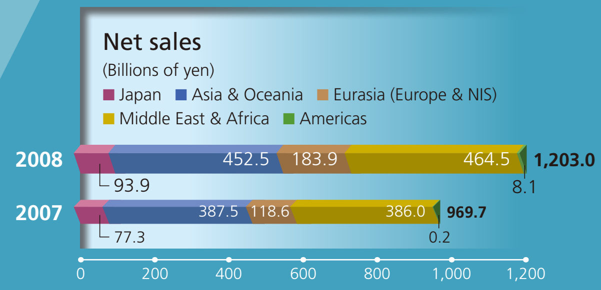
| | Yen | | U.S. dollars*7 |
|---|---|---|---|
| Per share data: | | | |
| Net income | 70,423.45 | **73,510.14** | **733.63** |
| Cash dividends | 7,000.00 | **7,500.00** | **74.85** |

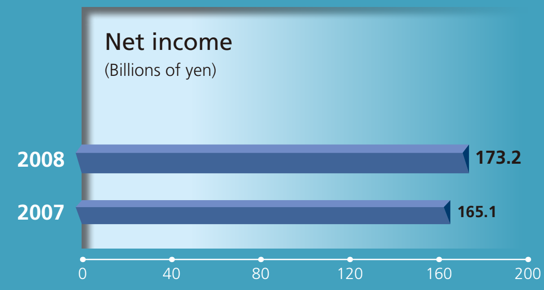
| | Yen | | |
|---|---|---|---|
| Share price | 1,020,000 | **1,110,000** | — |

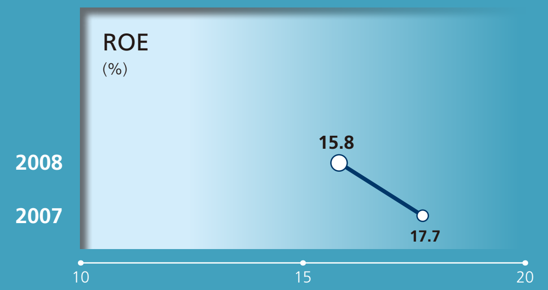
| | Billions of yen | | Millions of U.S. dollars*7 |
|---|---|---|---|
| Market Capitalization | 2,405.6 | **2,617.8** | **26,126** |

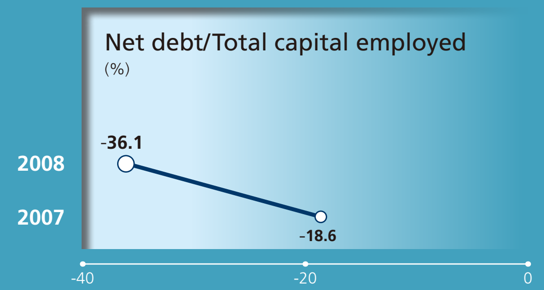
Notes:
*1 ROE = Net income / Average of net assets excluding minority interests at the beginning and end of the fiscal year
*2 Net ROACE = (Net income + Minority interests + (Interest expense – Interest income) × (1 – Tax rate)) / (Average of sum of net assets and net debt at the beginning and end of the fiscal year)
*3 Net debt = Interest-bearing debt – Cash and deposits – Public bonds and corporate bonds and other debt securities with determinable value – MMF, short-term bonds with repurchase agreements and certificate of deposit
*4 Equity ratio = (Net assets – Minority interests) / Total assets
*5 Net debt / Total capital employed = (Interest-bearing debt – Cash and deposits – Public bonds and corporate bonds and other debt securities with determinable value – MMF, short-term bonds with repurchase agreement and certificates of deposit) / (Net assets + Interest-bearing debt – Cash and deposits – Public bonds and corporate bonds and other debt securities with determinable value – MMF, short-term bonds with repurchase agreement and certificates of deposit)
*6 Figures in parentheses denote negative amounts.
*7 The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥100.20 = US$1.00, the approximate rate of exchange in effect on March 31, 2008.

- Higher sales and profits in the year ended March 31, 2008 were the result of increased sales volume for oil and natural gas, coupled with support from high oil prices and a weaker yen.
- Return on equity (ROE) was slightly lower due to greater growth in shareholders' equity relative to growth in net income. However, net return on average capital employed (ROACE), which takes net interest-bearing debt into account, rose by roughly 1%.
- The Company's ratio of net debt to total capital employed improved significantly year on year to –36.1% due to an increase in cash and deposits, government bonds and other funds on hand for use in future large-scale projects. This ratio indicates INPEX's continuing financial soundness.




# Our Operations

| Years ended March 31 | 2007 | 2008 |
|---|---|---|
| **Net proved reserves (End of period)*[1]:** | | |
| Crude oil, condensate and LPG (MMbbls) | 1,139 | **1,088** |
| Natural gas (Bcf) | 3,782 | **3,346** |
| Total (MMboe) | 1,770 | **1,645** |
| **Net production*[1]:** | | |
| Crude oil, condensate and LPG (Mbbls/day) | 242.5 | **241.5** |
| Natural gas (MMcf/day) | 1,051.1 | **1,088.8** |
| Total (Mboe/day) | 417.7 | **423.0** |
| **Average expenses per boe produced (US$)*[2]:** | | |
| Production*[3] | 8.5 | **10.2** |
| General and administrative | 1.7 | **1.6** |
| **Costs incurred (Millions of yen)*[4]:** | | |
| Acquisition | 1,144 | **17,980** |
| Exploration | 30,544 | **64,746** |
| Development | 185,957 | **232,958** |
| Total | 217,646 | **315,684** |
| **Reserves to production ratio (Years):** | | |
| Proved reserves as of the end of the fiscal year / Production in the fiscal year | 11.6 | **10.7** |
| Proved reserves + Probable reserves, as of the end of the fiscal year / Production in the fiscal year | 24.5 | **28.2** |
| **Standardized measure of discounted future net cash flows from proved reserves (Millions of yen)*[1,5]:** | 1,347,128 | **1,701,806** |
| **Reserve replacement ratio (3-year average as %)*[6]:** | 293 | **122** |
| **Finding and development cost per boe (3-year average in US$)*[2,7]:** | 6.9 | **17.5** |
| **Net probable reserves (End of period)*[1]:** | | |
| Crude oil, condensate and LPG (MMbbls) | 1,610 | **1,274** |
| Natural gas (Bcf) | 2,095 | **8,682** |
| Total (MMboe) | 1,959 | **2,721** |

Notes:

*[1] See item on page 78 regarding "Oil and Natural Gas Reserves and Production Volume." Proved reserves and production volume are calculated in accordance with U.S. Security Exchange Commission (SEC) rules.

*[2] Figures are translated into U.S. dollars based on the average exchange rate of ¥116.62 per U.S. dollar for the fiscal year ended March 31, 2007, and ¥113.61 per U.S. dollar for the fiscal year ended March 31, 2008. Figures exclude all equity-method affiliates except those of Japan Oil Development Co., Ltd. (JODCO).

*[3] Operating expenses plus royalties due others.

*[4] Excluding our proportional interest of equity-method affiliates except JODCO's equity-method affiliate.

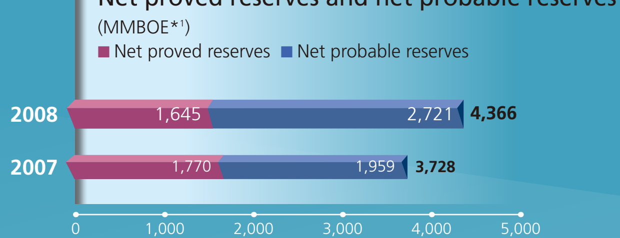
*[5] The exchange rate was the telegraphic transfer middle (TTM) rate of ¥118.09 per U.S. dollar as of March 31, 2007, and ¥100.20 per U.S. dollar as of March 31, 2008.

*[6] Reserve replacement ratio = Proved reserves increase including acquisition / production

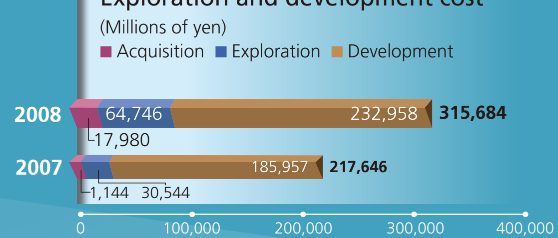
*[7] The sum of total costs incurred, for exploration and development of oil and gas fields and total costs incurred for acquisitions divided by the sum of proved reserve extensions, acquisitions and revisions.

- Although net proved reserves as of March 31, 2008 slightly decreased from the previous year, net probable reserves rose sharply year on year due to the addition of reserves from the Ichthys Project.
- Net production for crude oil, condensate and LPG decreased slightly from the previous year, while natural gas increased around 1.3% from the previous year, mainly from increased gas production in Japan.
- Exploration and development cost increased sharply for the year, reflecting aggressive exploration and development activities in our operator projects and others.

Net proved reserves and net probable reserves




Exploration and development cost

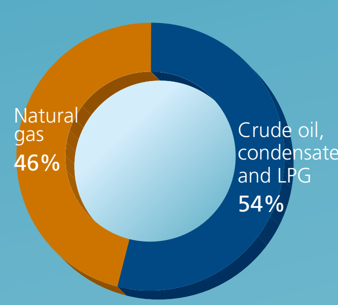



## Net proved reserves and net probable reserves

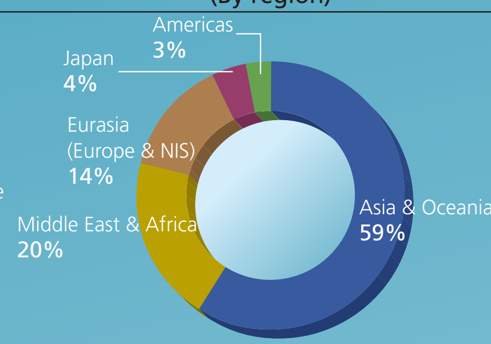
(As of March 31, 2008)

4,366 MMBOE*1

(By product)



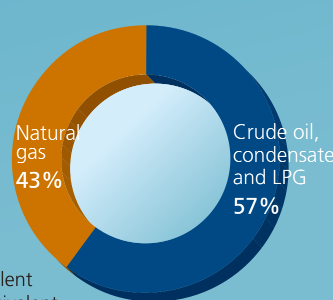

(By region)



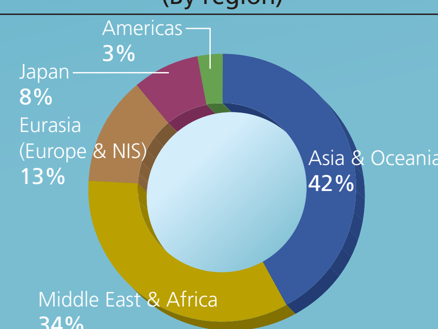

## Net production

423 MBOED*2

(By product)



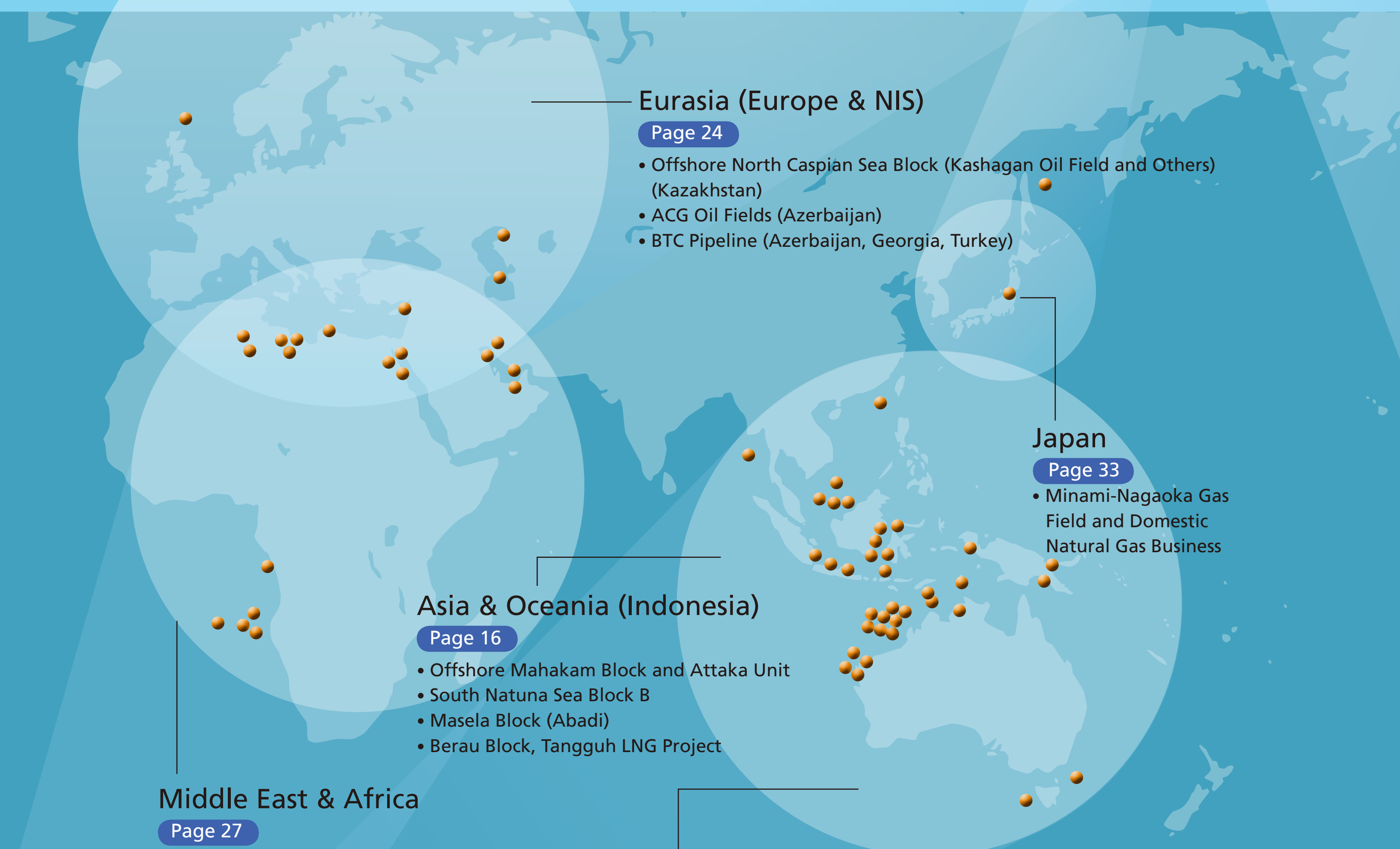

(By region)




*1 Millions of barrels of oil equivalent
*2 Thousands of barrels of oil equivalent per day

# Our Supply Basis

Worldwide E&P Activities



## Eurasia (Europe & NIS)

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- Offshore North Caspian Sea Block (Kashagan Oil Field and Others) (Kazakhstan)
- ACG Oil Fields (Azerbaijan)
- BTC Pipeline (Azerbaijan, Georgia, Turkey)

## Japan

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- Minami-Nagaoka Gas Field and Domestic Natural Gas Business

## Asia & Oceania (Indonesia)

Page 16

- Offshore Mahakam Block and Attaka Unit
- South Natuna Sea Block B
- Masela Block (Abadi)
- Berau Block, Tangguh LNG Project

## Middle East & Africa

Page 27

- ADMA Block (United Arab Emirates)
- Offshore Democratic Republic of the Congo (Democratic Republic of the Congo)
- West Bakr Block (Egypt)
- El Ouar I/II Blocks (Algeria)

Our E&P operations

## Asia & Oceania (Australia & JPDA*)

Page 20

- WA-10-L (Griffin Fields), WA-155-P (Part I) Block (Van Gogh and Ravensworth Fields) (Australia)
- WA-285-P (Ichthys) and the Surrounding Blocks (Australia)
- JPDA03-12, Bayu-Undan Project (JPDA)
- JPDA06-105 (Kitan Oil Field) (JPDA)

* The Timor Sea Joint Petroleum Development Area

## 72 projects in 26 countries

With business operations covering 72 projects in 26 countries, we boast a balanced portfolio in terms of activity area, types of contracts, operating stages (exploration/development/production) and the proportion of crude oil to natural gas.

(Figures as of June 30, 2008)

## Net probable reserves of 2,721 MMBOE*1

We have the largest proved reserves among Japanese companies, and our net probable reserves amount to 2,721 MMBOE. The reserve-production ratio for the proved reserves equates to 10.7 years, or 28.2 years when probable reserves are added. Based on this, we expect steady increases of production volume and proved reserves over the medium to long term.

*1 MMBOE: Millions of barrels of oil equivalent

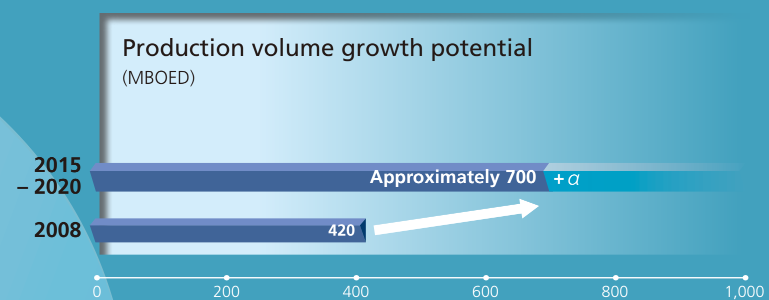
## Production volume*2 to exceed 700 MBOED*3

Based solely on existing projects, we estimate that production volume will increase to 700 MBOED between 2015 and 2020, an increase of roughly 70% compared to our present volume of around 420 MBOED.

The discovery of new oil and gas fields, coupled with new asset purchases, have the potential to add even more to this projected production volume.

*2 In accordance with U.S. Security Exchange Commission (SEC) rules.

*3 MBOED: Thousands of barrels of oil equivalent per day




### Production Start-up Schedule

| Production Start-up | Project/Oil & Gas Field | Country |
|---|---|---|
| April 2008 – March 2009 | Frade Oil Field<br>Tangguh LNG Project | Brazil<br>Indonesia |
| April 2009 – March 2010 | Van Gogh Oil Field<br>North Belut Gas Field | Australia<br>Indonesia |
| April 2010 – March 2011 | Ravensworth Oil Field | Australia |
| April 2012 – March 2013 | El Ouar I/II | Algeria |
| After April 2013 | Joslyn Oil Sands Project (Cut off mining)<br>Ichthys LNG Project<br>Abadi (Masela) LNG Project | Canada<br>Australia<br>Indonesia |
| Discovered/ Production start-up (TBD) | Kashagan Oil Field<br>Kuda Tasi/Jahal/Kitan<br>Kalamkas, Aktote, Kairan and Southwest Kashagan structures | Kazakhstan<br>JPDA<br>Kazakhstan |

### Americas

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- Joslyn Oil Sands Project (Canada)
- Copa Macoya and Guarico Oriental Blocks (Venezuela)
- Frade Block (Brazil)
- Ship Shoal 72, Main Pass 117/118 and West Cameron 401/402 (United States of America)

## To Our Stakeholders

On October 1, 2008, INPEX Holdings Inc. absorbed INPEX CORPORATION and Teikoku Oil Co., Ltd. and made a fresh start as the new INPEX CORPORATION.

We will secure an even more efficient and flexible management structure to realize the stable and efficient supply of crude oil and natural gas. We will strive to enhance corporate value, while securing shareholder support.

October 2008

**Naoki Kuroda**
*Representative Director, President*

# Question 1

## Could you give us a brief overview of business performance for the fiscal year ended March 31, 2008?

# Answer

## Sales and earnings increased based on steady increases in crude oil and natural gas sales volume and higher sales prices.

Production and sales volume increased steadily in the fiscal year ended March 31, 2008, with increased crude oil production volume at the ACG Oil Fields in Azerbaijan, increased sales volume to major clients in the domestic natural gas business, and the booking of natural gas sales as contracts took effect in the Venezuela project. High crude oil and natural gas prices also lent support, resulting in consolidated net sales of ¥1,203.0 billion, an increase of 24.1% compared to the previous year, including crude oil sales of ¥783.5 billion, up 29.0%, and natural gas sales of ¥391.1 billion, up 17.5%.

Cost of sales increased due to higher royalty and development expenses, exploration expenses increased, and selling, general and administrative expenses increased due to higher crude oil transport expenses and depreciation expenses, but operating income was ¥714.2 billion, an increase of 27.7% compared to the previous year.

Net income before income taxes and minority interests was ¥685.8 billion, an increase of 17.0% compared to the previous year, while net income was ¥173.2 billion, an increase of 4.9%, mainly because of a higher proportion of foreign taxes, which have a higher tax rate.

We believe that we were able to achieve further strengthening of our financial base in the fiscal year ended March 31, 2008, supported by such strong earnings.

Billions of yen

| | 2007 | 2008 | Change | Percentage change (%) |
|---|---|---|---|---|
| Consolidated net sales | 969.7 | 1,203.0 | 233.3 | 24.1 |
| Crude oil sales | 607.4 | 783.5 | 176.1 | 29.0 |
| Natural gas sales* | 332.9 | 391.1 | 58.2 | 17.5 |
| Others | 29.4 | 28.4 | (1.0) | (3.3) |
| Operating income | 559.1 | 714.2 | 155.1 | 27.7 |
| Net income before income taxes and minority interests | 586.3 | 685.8 | 99.5 | 17.0 |
| Net income | 165.1 | 173.2 | 8.1 | 4.9 |

* Includes LPG

# Question 2

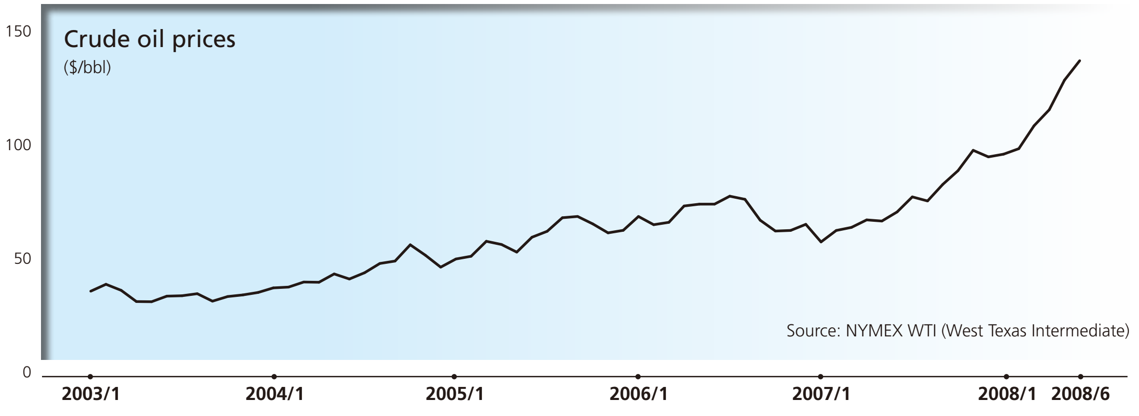
## Soaring prices for crude oil and natural gas had a significant impact on revenues in the fiscal year ended March 31, 2008. Tell us about market trends for crude oil and natural gas.

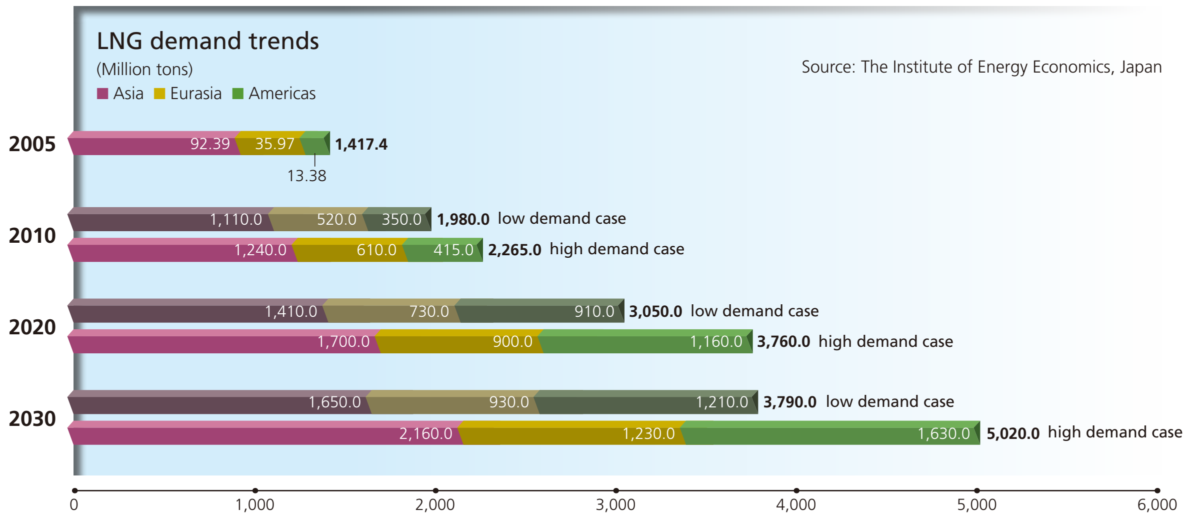
# Answer

As the increase in crude oil prices becomes prolonged, demand for natural gas is expanding rapidly, including in the domestic market. It is now becoming apparent that LNG is emerging as the approach for meeting strong demand for natural gas.

Crude oil prices, which have a significant impact on Group business performance, changed drastically in the year ended March 31, 2008, rising by US$35.64 per bbl for the year on a West Texas Intermediate (WTI) closing price basis. WTI started at US$65.94 in April 2007, rose continuously due to political turmoil and geopolitical risk in Nigeria and low gasoline inventories in the U.S., as well as the shift of speculative money to the crude oil futures market, and ended the fiscal year at US$101.58. Reflecting these factors, the Group's average sales price for crude oil rose 28.8% compared to the previous year, reaching US$80.07 per bbl.

Amid the continuing increase in crude oil prices and increased prioritization of environmental issues, demand for natural gas is expanding globally, especially given its superior environmental performance relative to oil. Demand for natural gas continues to grow in domestic regions supplied by the Group as well, mainly due to a shift in fuel from petroleum-based fuel to natural gas. The approach of meeting strong demand for natural gas with LNG is also becoming marked as pipeline supply of gas produced in the U.S. and the North Sea stagnates. Based on such trends, we believe that LNG transactions, which previously had been positioned as a fuel for East Asia, mainly Japan, will become rapidly globalized in the future.






# Question 3

## Tell us about progress in major projects.

# Answer

## Steady progress is being made in major projects both domestically and overseas.

In the Ichthys Project, which is a large-scale project in Australia where we are involved as an operator from exploration and development of the gas field to production and sales of LNG, we are actively working on development studies toward the start of LNG production from the second half of 2013 to the first half of 2014. LNG production volume is scheduled to be more than 8 million tons per year, and we also expect production of about 100,000 bbl of condensate daily and about 1.6 million tons of LPG per year. Going forward, we will begin detailed engineering work after selecting a construction site for the LNG plant (liquefying facility).

In the Abadi Gas Field, Masela Block, Indonesia—our next major project with promising commercial potential after Ichthys—we are planning annual LNG production of 3.5 million to 5 million tons with a target date of 2015 to 2016 for the start of production. In May 2007, we continuously drilled four appraisal wells for the purposes of evaluating the extent of the gas reserve, and the results of the appraisal wells have been very favorable, leading to hopes for a further increase in reserves.

Our two large-scale oil field development projects on the coast of the Caspian Sea are progressing as well. At the ACG Oil Fields in Azerbaijan, crude oil production was started from the Deep Water Gunashli Field in April 2008. The start of production from this field means that all phases of the original plan for the ACG Oil Fields have moved to the production stage. As a result, crude oil production for the entire ACG block will exceed one million barrels per day in 2009, as scheduled. As for the Kashagan Oil Field in Kazakhstan, the first phase is currently under development, with a shift to a Full Field Development Program scheduled thereafter, with peak crude oil production set to reach 1.5 million barrels per day, a 25% increase from the initial plan.

Finally, in the domestic natural gas business based on the Minami-Nagaoka Gas Field, Japan's largest, we began full-scale studies toward construction of an LNG import terminal in Joetsu City, Niigata Prefecture (Naoetsu Port) in August 2007, aiming to secure medium- to long-term capacity to supply natural gas. We decided to go ahead with construction in August 2008. In December 2007, the Shin Tokyo Line (extension) and the Gunma Line pipelines, which we had been working on as a way to strengthen natural gas transport capacity, were completed, improving the capacity and stability of the overall pipeline network and strengthening our natural gas supply structure.

## Question 4

### How will you expand the natural gas business amid the global expansion in natural gas demand?

## Answer

### We will expand the natural gas business by taking full advantage of our strengths of abundant reserves and core areas with relatively low country risk.

The biggest strength of our growth strategy for the natural gas business is our abundant reserves of natural gas. As of the end of March 2008, we held proved and probable reserves of about 2 billion barrels of oil equivalent. Adding in the Abadi Gas Field in Indonesia, which has not been included in probable reserves at this point, our reserves compare favorably to mid-sized E&P companies.

In addition, the investment environment in Indonesia and Australia, the core areas for our natural gas business, is very favorable, and country risk is relatively low, making it possible to secure stable earnings.

We believe that we will be able to maintain and enhance our corporate value by commercializing profitable, abundant natural gas resources, taking full advantage of the wealth of operating experience and technical skills we have accumulated domestically and abroad, and conducting appropriate cost controls. In particular, we have identified the realization of two large LNG projects, Ichthys and Abadi, as top priorities for our growth strategy, and will focus our efforts on these projects.

## Question 5

### How is the Joslyn Oil Sands Project positioned for your Group?

## Answer

### The project is the Group's first full-scale entry into a large-scale unconventional oil development project.

In November 2007, the Group acquired a 10% interest in the Joslyn Oil Sands Upstream Project* in Alberta Province, Canada, being conducted by French oil company TOTAL S.A., as well as the right to participate in the construction and operation of the Upgrader Project for the production of synthetic crude oil planned by TOTAL in Edmonton, Alberta.

The Joslyn Oil Sands Project represents the Group's first full-scale entry into a large-scale unconventional oil development project. Country risk is extremely low, and abundant reserves and stable, long-term production can be counted on, so we believe this project can contribute to an improved portfolio balance. We also view participation in this project as a steppingstone to development of unconventional oil resources in Venezuela and other parts of South America.

* Currently producing oil through steam assisted gravity drainage (SAGD). Plans are in progress for large-scale mining development.

# Question 6

## What is your understanding of the social responsibilities that your Group should fulfill?

# Answer

## Our mission is to provide a stable and efficient supply of energy to our customers, and we believe it is important to realize our corporate social responsibilities through the fulfillment of our mission.

It goes without saying that the business of our Group is closely connected to the realization of a prosperous society through the stable supply of energy, as well as to regional and global environmental issues. We are tackling head-on the implementation of our mission, which is to "provide a stable and efficient supply of energy to our customers by exploring and developing oil and natural gas resources throughout the world. Through its business, we aim to become an integrated energy company that contributes to the community and makes it more livable and prosperous."

Amid rapid growth in demand for crude oil and natural gas and intensified competition for resources on a global scale, the Japanese government announced an energy policy that stated oil resources produced by Japanese companies should increase to around 40%. Consequently, the birth of a stronger E&P company for meeting Japan's energy supply needs with strong international competitiveness and a solid business foundation has been long awaited. We will actively work on development of crude oil and natural gas both domestically and abroad and strive to provide stable and efficient energy in order to fulfill our responsibility as a Japanese leading E&P company.

In pursuing our business in various parts of the world, protecting the regional and global environment wherever we operate is an important social responsibility that should be prioritized, and we are sincerely tackling measures against global warming as an energy company. We will also promote various activities that contribute to coexistence with local society, such as educational support and protection of biodiversity, while respecting the cultures and traditions of each region, in order to contribute to the development of the regions where we conduct our projects. In the future, we will continue to create and realize business strategies that support environmental protection, contribute to the lives of citizens living close to business areas as well as to their economic development, and engage in sustainable development.

# Question 7

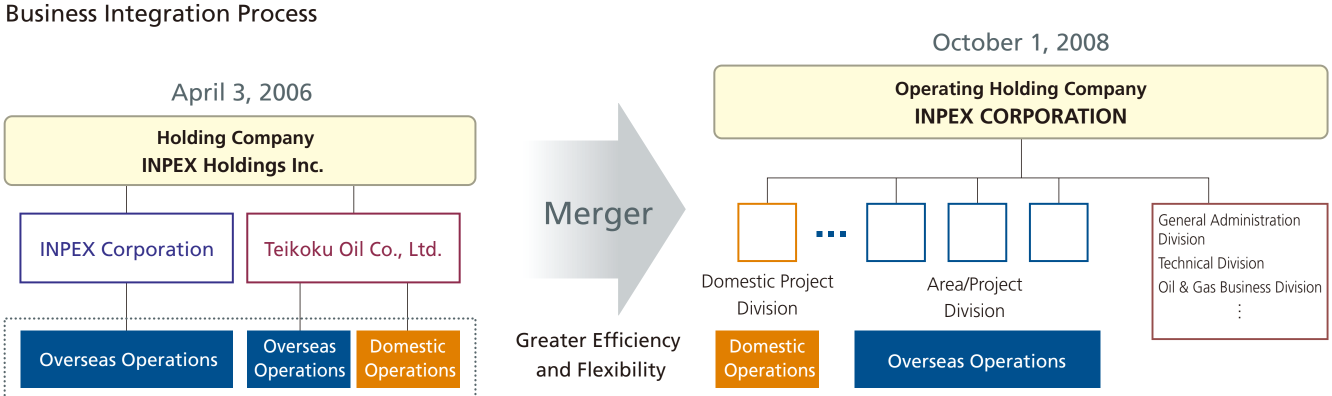
## In closing, what message do you have for shareholders?

# Answer

## We will distribute earnings while taking into consideration both the sustained enhancement of corporate value through active investment and direct returns to shareholders through dividends.

On October 1, 2008, INPEX Holdings Inc. absorbed INPEX CORPORATION and Teikoku Oil Co., Ltd. and made a fresh start as the new INPEX CORPORATION, the culmination of a merger that began in April 2006. We have to date worked on various initiatives aimed at the early realization of merger effects, setting up project teams that combine outstanding human resources from both companies in parallel with studies into new organizations, the division of operations and development of accounting and human resource systems. Going forward, we will make our management structure even more efficient and flexible through complete organizational unification and consolidation of key offices.

Business Integration Process




We will strive to further enhance corporate value in a sustained manner by maintaining and expanding our reserves and production volume of crude oil and natural gas through aggressive investments in exploration and development projects at home and abroad, and return profits directly to our shareholders through dividends. We believe that it will be crucial from a medium- to long-term perspective to harmonize these two initiatives across the Group.

In order to fulfill our corporate social responsibilities as a global energy company, we will continue to strengthen corporate governance, promote rigorous compliance and fully ensure safety management in operations. At the same time, our business activities will be carried out with full consideration for development in harmony with the environment and local communities.

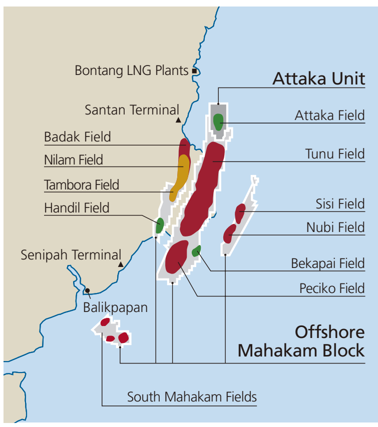
I respectfully thank our shareholders and ask for their continued understanding and support for the new INPEX Group.


Production facilities (Offshore Mahakam Block)

# 1 Offshore Mahakam Block and Attaka Unit

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Offshore Mahakam | INPEX CORPORATION (Est. February 21, 1966) | INPEX CORPORATION 50%<br>TOTAL* 50% |
| Attaka Unit | | INPEX CORPORATION 50%<br>Chevron* 50% |

* Operator (As of June 30, 2008)




Gas field
Oil field
Oil and gas field

In October 1966, INPEX CORPORATION entered into a production sharing contract (PSC) with the Indonesian government and acquired a 100% working interest in the Offshore Mahakam Block. The Attaka Unit was established in April 1970, by the unitization of parts of adjoining blocks owned by the Company and Unocal (now Chevron). Both Companies hold an equal 50% interest in the unit. Soon after this, the Attaka Field was discovered and the production of crude oil and natural gas commenced in 1972. The Company farmed out 50% of its working interest in the Offshore Mahakam Block to CFP (now TOTAL) in July 1970. This venture resulted in the successive discoveries of the Bekapai, Handil, Tambora, Tunu and Peciko Fields, all of which continue to produce crude oil and natural gas.

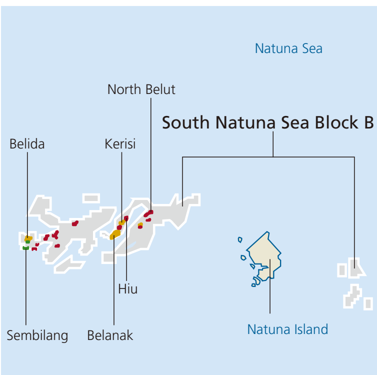
Once produced, crude oil and condensate are shipped by tanker from the Santan and Senipah terminals, mainly to petroleum refineries and power companies in Japan. Natural gas is mainly supplied to the Bontang LNG Plant, one of the largest facilities of its kind in the world, and shipped to Japan and other countries.

The PSC was extended 20 years through 2017, continuing the Mahakam Block's role as a key profit center in the Group's business. The Company is currently discussing with the Indonesian Authorities with the aim of further extending the term of the contract beyond 2017.

# 2 South Natuna Sea Block B

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| South Natuna Sea Block B | INPEX Natuna, Ltd. (Est. September 1, 1978) | INPEX Natuna 35%<br>ConocoPhillips* 40%<br>Chevron 25% |

* Operator (As of June 30, 2008)




Gas field
Oil field
Oil and gas field

In July 1977, INPEX CORPORATION acquired a 17.5% working interest in the South Natuna Sea Block B, which includes the Udang Oil Field. In January 1994, the Company acquired an additional interest in the block for a total of 35%.

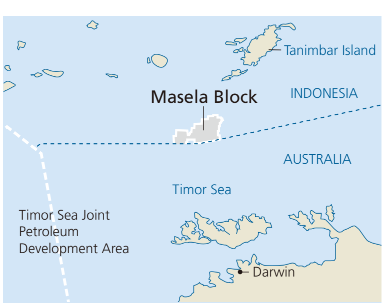
Subsequent to the Company's participation, several new fields were discovered in Block B, including the Belida, Sembilang, Belanak, Hiu, Kerisi and North Belut Fields. Crude oil production has continued since 1979. Regarding gas, in January 1999, a sales agreement was concluded to deliver gas to Singapore—from Block B, the neighboring Natuna Sea Block A and Kakap Block—through the first Indonesian subsea pipeline connecting foreign markets. This pipeline commenced operations in 2001, and the following year saw new gas sales to Malaysia from Block B. Owing to these achievements, the PSC covering Block B was extended through 2028.

In the Belanak Field, where production operations are orchestrated through the world-class Belanak FPSO (Floating Production, Storage and Offloading) system, crude oil and condensate production began in December 2004 and was followed by LPG production in April 2007. Following on the start of production in the Hiu and Kerisi Fields in 2006 and 2007, respectively, the Company plans to commence production in the North Belut Field in 2009.

# 3 Masela Block (Abadi)

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Masela | INPEX Masela, Ltd. (Est. December 2, 1998) | INPEX Masela* 100% |

* Operator (As of June 30, 2008)



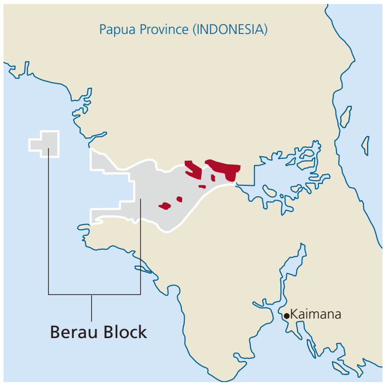

In November 1998, INPEX CORPORATION won an open bid for and acquired a 100% working interest in the Masela Block. Pursuing exploration activities as an operator, the Company discovered the Abadi Gas Field during the drilling of the first exploration well in the block in 2000. This represented the first discovery of hydrocarbon (crude oil and natural gas) in the Indonesian Arafura Sea. Subsequently, two appraisal wells drilled in 2002 confirmed the expansion of the gas structure.

On the basis of the evaluations and reviews, the Company drilled four additional appraisal wells starting in May 2007 in order to enhance the accuracy of the reserve evaluation. At the same time, the Company is pressing ahead with technical studies of the field development for future commercial LNG production. Discussions also began in mid-2008 with BPMIGAS, the Indonesian regulatory authority, regarding the plan of development for the Abadi Gas Field.

## 4 Berau Block, Tangguh LNG Project

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Berau | MI Berau B.V.<br>(Est. August 14, 2001) | MI Berau 22.856%<br>BP* 48.0%<br>Nippon Oil Exploration (Berau) 17.144%<br>KG Breau 12.0% |
| Tangguh Unit | | MI Berau 16.3%<br>BP* 37.16%<br>CNOOC 13.9%<br>Nippon Oil Exploration (Berau) 12.23%<br>KG Berau, KG Wiriagar 10.0%<br>LNG Japan 7.35%<br>Talisman 3.06% |

* Operator (As of June 30, 2008)




■ Gas field

In October 2001, MI Berau B.V., a joint venture established by INPEX CORPORATION (44%) and Mitsubishi Corporation (56%), acquired an approximately 22.9% interest in the Berau Block, a hub in the Tangguh LNG Project. MI Berau holds a 16.3% working interest in the Tangguh Unit (including approximately 7.17% actual interest held by the Company), a unitized area between the Berau Block, the adjoining Wiriagar Block and the Muturi Block. In addition, MI Berau Japan Ltd., a joint venture in which the Company has a 44% share and Mitsubishi Corporation has a 56% share, acquired approximately 16.5% of KG Berau Petroleum Ltd. shares in October 2007, bringing the Company's actual interest in the project to approximately 7.79%.

Long-term sales agreements have been concluded, stipulating a total annual supply of 7.45 million tons of LNG to China, South Korea and North America. In March 2005, the Indonesian government approved a development plan for the Tangguh LNG Project and an extension of the PSC through 2035. Partners in the project are drilling production wells and constructing LNG plants with production due to come onstream at the end of 2008.

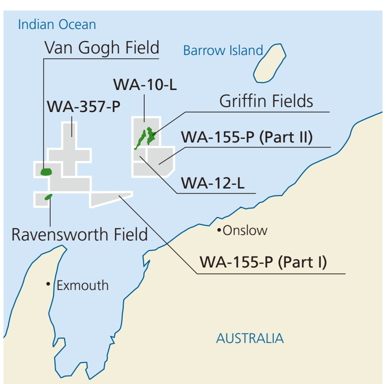
# Asia & Oceania (Australia & JPDA)


LNG shipping berth (Bayu Undan Project)

# 1 WA-10-L (Griffin Fields), WA-155-P (Part I) Block (Van Gogh and Ravensworth Fields) and Others

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| WA-10-L | INPEX Alpha, Ltd.<br>(Est. February 17, 1989) | INPEX Alpha 20%<br>BHPBP* 45%<br>ExxonMobil 35% |
| WA-12-L (Deep) | | INPEX Alpha 18.67%<br>ExxonMobil* 81.33% |
| WA-155-P (Part I) | | INPEX Alpha 28.5%<br>BHPBP* 39.999%<br>Apache 31.501% |
| Van Gogh Defined Area | | INPEX Alpha 47.499%<br>Apache* 52.501% |
| WA-155-P (Part II) | | INPEX Alpha 18.67%<br>Apache* 81.33% |
| WA-357-P | | INPEX Alpha 35%<br>Apache* 65% |

* Operator (As of June 30, 2008)




Oil field

In February 1989, INPEX CORPORATION acquired a 20% working interest in WA-210-P in offshore Western Australia. As a result of subsequent exploration activities, the Griffin Fields were discovered and a production license for four blocks in WA-10-L was granted by the Australian government. Commercial crude oil and natural gas production from these blocks commenced in January 1994.

In the area surrounding WA-10-L, the Company acquired working interests in WA-155-P (Part II) and WA-12-L (Deep) in July 1994 and in WA-155-P (Part I) in July 1999, as well as in the WA-357-P in July 2006. The Van Gogh and Ravensworth Fields were discovered in WA-155-P (Part I). In April 2007 it was agreed to commit to develop the Van Gogh Field, aiming to commence crude oil production in April 2009. The final investment decision concerning the Ravensworth Field development was made in November 2007, and development is under way in conjunction with the Crosby Field and Stickle Field located in the eastern adjacent license WA-12-R as part of the Pyrenees project, aiming to commence crude oil production in the second half of 2010.

## 2 WA-285-P (Ichthys) and the Surrounding Blocks

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| WA-285-P | INPEX Browse, Ltd. (Est. September 1, 1998) | INPEX Browse* 76%<br>TOTAL 24% |
| WA-274-P | | INPEX Browse 20%<br>Chevron 50%<br>Santos* 30% |
| WA-281-P | | INPEX Browse 20%<br>Santos* 47.8306%<br>Chevron 24.8300%<br>Beach 7.3394% |
| WA-341-P | | INPEX Browse* 60%<br>Total 40% |
| WA-343-P | | INPEX Browse* 60%<br>Total 40% |
| WA-344-P | | INPEX Browse* 60%<br>Total 40% |
| WA-410-P | | INPEX Browse 20%<br>Santos* 30%<br>Chevron 50% |
| WA-411-P | | INPEX Browse 26.6064%<br>Santos* 63.6299%<br>Beach 9.7637% |

* Operator (As of June 30, 2008)


After winning an open bid in August 1998, INPEX CORPORATION acquired a working interest in WA-285-P in offshore Western Australia. Pursuing exploration activities as an operator, the Company discovered the highly promising Ichthys Gas and Condensate Field in 2000.

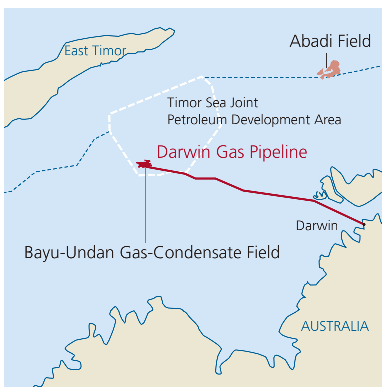
To date, the Company has drilled eight exploratory wells, confirming the presence of sufficient reserves for a large-scale gas and condensate project. Currently, the Company is vigorously engaging in feasibility studies including engineering work, field data collection and environmental impact assessments, as well as gas marketing for commercial LNG production. The Company plans to produce LNG, condensate and LPG starting from the second half of 2013 or the first half of 2014. Annual production and sales volume at the initial stage is expected to total over 8 million tons of LNG and roughly 1.6 million tons of LPG, but the Company will consider additional LNG and LPG production in the future, depending on the reserve capacity and the market situation. At its peak, it is also estimated that daily production will reach 100,000 barrels of condensate.

Moreover, the Company has acquired interests in seven blocks surrounding WA-285-P (WA-274-P, WA-281-P, WA-341-P, WA-343-P, WA-344-P, WA-410-P, and WA-411-P). If a large volume of crude oil and natural gas is discovered in these blocks through explorations, further expansion of the Company's business, including synergy effects with the Ichthys Gas and Condensate Field, can be expected.

# 3 JPDA03-12, Bayu-Undan Project

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| JPDA03-12 | INPEX Sahul, Ltd.<br>(Est. March 30, 1993) | INPEX Sahul 19.0712244%<br>ConocoPhillips* 61.6624238%<br>Santos 19.2663518% |
| Bayu-Undan Unit | | INPEX Sahul 11.274908%<br>ConocoPhillips* 57.150852%<br>Eni 10.985973%<br>Santos 11.390267%<br>Tokyo Timor Sea Resources<br>(Tokyo Electric/Tokyo Gas)<br>9.198000% |

* Operator (As of June 30, 2008)




■ Gas field

In April 1993, INPEX CORPORATION acquired a working interest in JPDA03-12, located in the Timor Sea Joint Petroleum Development Area (JPDA). The exploration in the contract area resulted in the discovery of oil and gas in the Elang, Kakatua, Kakatua North, and Undan structures.

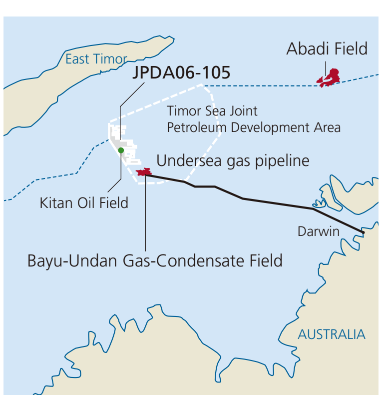
Oil production in the Elang, Kakatua and Kakatua North Fields began in 1998, but ceased in 2007 due to natural depletion. Well abandonment is scheduled for completion by the end of 2008. In 1999, a final agreement on unitization was reached between the interest holders of JPDA03-12 and the adjacent JPDA03-13, and joint development began in the Bayu-Undan gas-condensate field, which straddles both contract areas.

Production of condensate and LPG commenced in 2004. LNG sales agreements stipulating a total supply of 3 million tons annually were concluded with Tokyo Electric Power Co., Inc. and Tokyo Gas Co., Ltd. in August 2005. Sales of LNG commenced in February 2006, which is produced from natural gas shipped to the Darwin LNG plant in the Northern Territories, Australia.

# 4 JPDA06-105 (Kitan Oil Field)

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| JPDA06-105 | INPEX Timor Sea, Ltd.<br>(Est. November 25, 1991) | INPEX Timor Sea 35%<br>Eni* 40%<br>Talisman 25% |

* Operator (As of June 30, 2008)




■ Oil field
■ Gas field

In January 1992, INPEX CORPORATION acquired an interest in JPDA06-105, located in the Timor Sea Joint Petroleum Development Area (JPDA). The subsequent explorations resulted in the discoveries of oil in the Jahar structure in 1996 and in the Kuda Tasi structure in 2001. In March 2008, oil was discovered by the exploration well Kitan-1, and the presence of a potentially commercial oil accumulation was confirmed by the appraisal well Kitan-2 drilled later that month.

In April 2008, based on the provisions of the production sharing contract, the Company made a declaration of commercial discovery to the Timor Sea Designated Authority for the Joint Petroleum Development Area indicating that the Kitan Oil Field was of a sufficient scale to allow for commercial development, and in May of that year this field was approved as a development area. Going forward, the Company will proceed with development studies of the Kitan Oil Field, aiming to formulate a development plan within 12 months from receiving the approval.

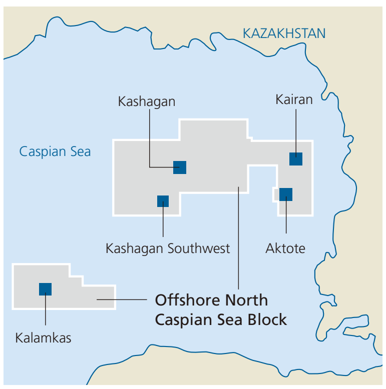
# Eurasia (Europe & NIS)


Offshore (on ice) production facilities
(Kashagan Oil Field)

# 1 Offshore North Caspian Sea Block (Kashagan Oil Field and Others)

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Offshore North Caspian Sea | INPEX North Caspian Sea, Ltd. (Est. August 6, 1998) | INPEX North Caspian Sea 8.33%<br>Eni* 18.52%<br>ExxonMobil 18.52%<br>Shell 18.52%<br>TOTAL 18.52%<br>ConocoPhillips 9.26%<br>KMG 8.33% |

* Operator (As of June 30, 2008)




In September 1998, INPEX CORPORATION acquired an approximate 7.14% working interest in the Offshore North Caspian Sea Block that lies within the Republic of Kazakhstan's territorial waters. In September 2001, the Company acquired additional working interests, totaling approximately 8.33%.

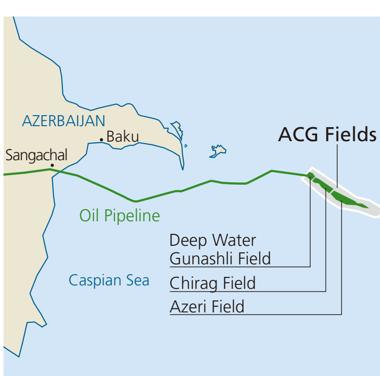
The Kashagan Oil Field was discovered during the first exploratory drillings in September 1999, representing the first discovery in the Kazakhstan-controlled area of the Caspian Sea. The Kashagan Oil Field is considered to have great potential and is expected to become one of the largest fields ever discovered in the history of oil exploration. Following the first phase of the project (experimental program) which is currently under way, full field development program is scheduled. The production level is expected to reach a peak rate of 1.5 million barrels per day.

In addition to the Kashagan Oil Field, hydrocarbon reserves have been confirmed in four other structures: Kalamkas, Kashagan Southwest, Aktote and Kairan. The Company aims to increase production volume from the Offshore North Caspian Sea Block through appraisal work for the existing structures along with the development of the Kashagan Oil Field.

# 2 ACG Oil Fields

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Offshore Southwest Caspian Sea | INPEX Southwest Caspian Sea, Ltd. (Est. January 29, 1999) | INPEX Southwest Caspian Sea 10.00%<br>BP* 34.14%<br>Chevron 10.28%<br>SOCAR 10.00%<br>Statoil Hydro 8.56%<br>ExxonMobil 8.00%<br>TPAO 6.75%<br>Devon Energy 5.63%<br>Itochu 3.92%<br>Hess 2.72% |

* Operator (As of June 30, 2008)




■ Oil field

In April 2003, INPEX CORPORATION acquired a 10% working interest in the Azeri-Chirag-Gunashli Fields, known as the ACG Oil Fields, located in the Republic of Azerbaijan-controlled area of the South Caspian Sea.

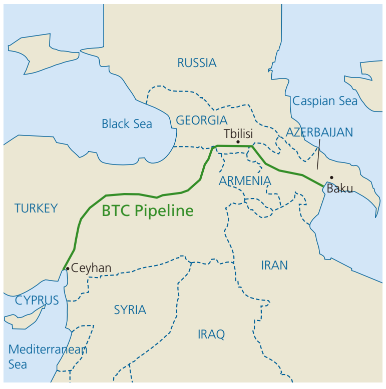
In addition to crude oil production in the Chirag Field, the Company also began production in the Central Azeri Field in February 2005, in the West Azeri Field in December 2005 and in the East Azeri Field in October 2006, followed by the Deep Water Gunashli Field in April 2008. Crude oil production for the entire block is expected to reach a combined peak volume of one million barrels per day in 2009.

Along with the transportation via the Western Route Export Pipeline running from Baku in Azerbaijan to Supsa on the Black Sea coast, the crude oil from these fields is being transported from Baku in Azerbaijan to Ceyhan in Turkey via the mainstay BTC Pipeline that commenced operations in June 2006, and then shipped from the Mediterranean Sea.

# 3 BTC Pipeline

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| BTC Pipeline | INPEX BTC Pipeline, Ltd.<br>(Est. October 16, 2002) | INPEX BTC Pipeline 2.5%<br>BP* 30.1%<br>SOCAR 25%<br>Chevron 8.9%<br>Statoil Hydro 8.71%<br>TPAO 6.53%<br>Eni 5%<br>TOTAL 5%<br>Itochu 3.4%<br>ConocoPhillips 2.5%<br>Hess 2.36% |

* Operator (As of June 30, 2008)



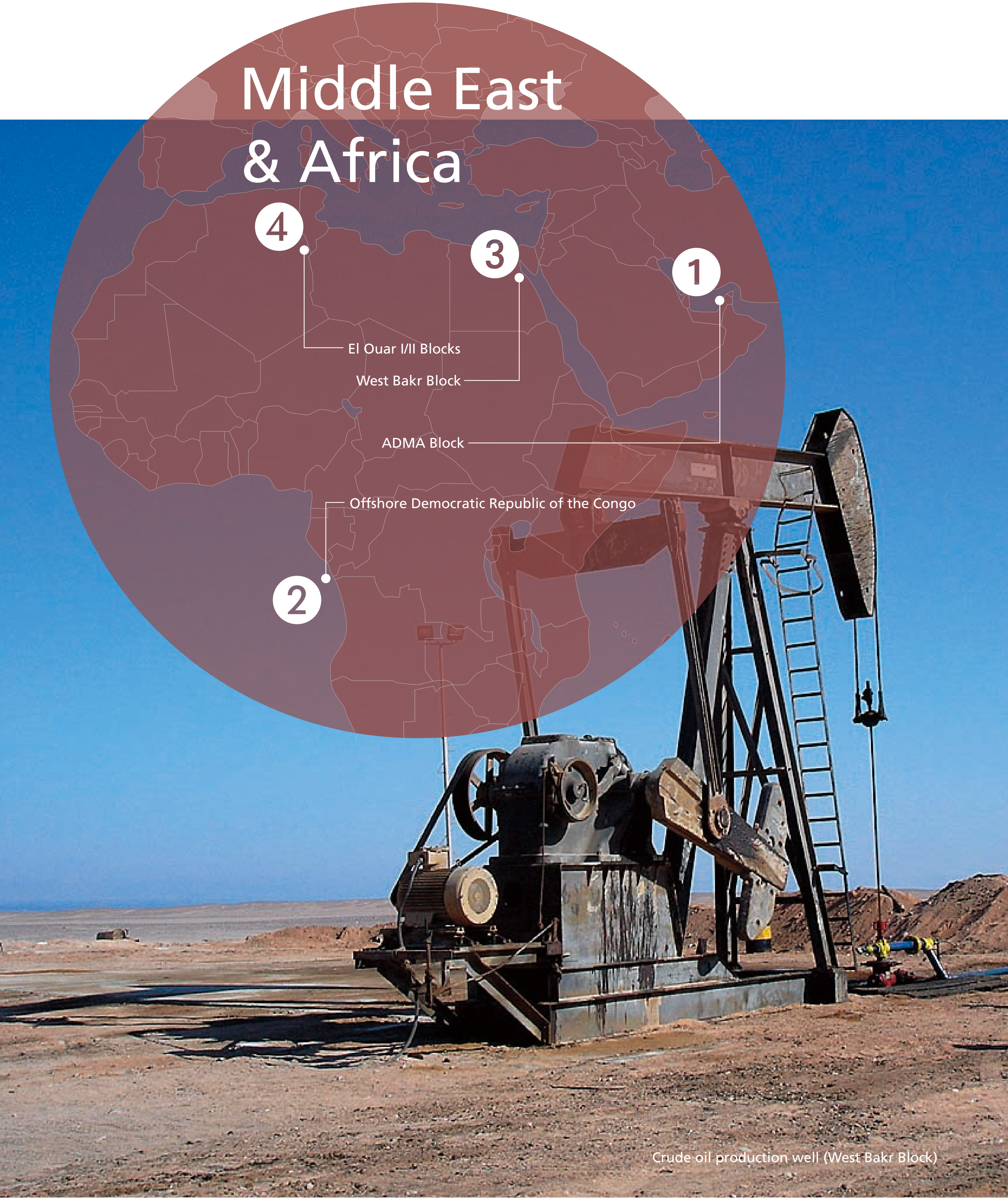

In October 2002, INPEX CORPORATION acquired a 2.5% interest in the BTC Pipeline Project. The 1,770-kilometer BTC Pipeline, which stretches from Baku in Azerbaijan to Ceyhan on Turkey's Mediterranean coast, via Tbilisi, Georgia, and has a transport capacity of one million barrels per day. The BTC Pipeline commenced full-fledged operations in June 2006.

Initially the BTC Pipeline was constructed to transport crude oil produced in the ACG Oil Fields in Azerbaijan. Now the partners have basically agreed to also transport crude oil produced in the Kashagan Oil Field in Kazakhstan. Given this, the transport capacity of the BTC Pipeline will be increased to 1.2 million barrels per day.

The Ceyhan marine terminal has seven one-million-barrel-capacity crude oil storage tanks and a two-kilometer-long jetty capable of docking two 300,000-ton tankers at the same time.

The Company is participating in the development of the ACG Oil Fields in Azerbaijan and the Kashagan Oil Field in Kazakhstan, both of which rank among the world's major oil fields. The completion of the BTC Pipeline enables direct shipments by large-scale vessels from the Mediterranean Sea, thereby avoiding the Turkish straits, which are particularly prone to shipping traffic congestion. This represents a major contribution to the transport of the ever-growing production of crude oil in Azerbaijan and Kazakhstan.

# Middle East & Africa

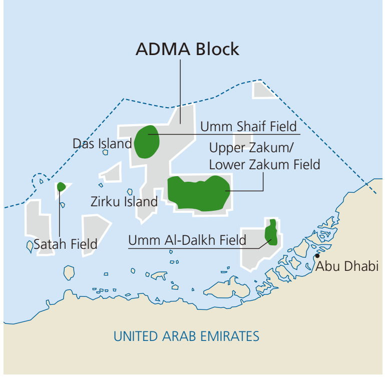



Crude oil production well (West Bakr Block)

# 1 ADMA Block

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Umm Shaif Field/Lower Zakum Field | Japan Oil Development Co., Ltd. (JODCO)<br>(Est. February 22, 1973) | JODCO 12%<br>ADNOC 60%<br>BP 14.67%<br>TOTAL 13.33% |
| Upper Zakum Field | | JODCO 12%<br>ADNOC 60%<br>ExxonMobil 28% |
| Umm Al-Dalkh Field | | JODCO 12%<br>ADNOC 88% |
| Satah Field | | JODCO 40%<br>ADNOC 60% |

(As of June 30, 2008)




Oil field

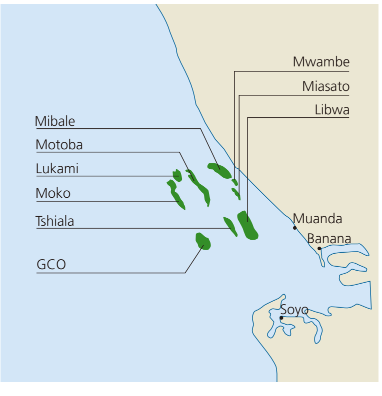
In May 2004, INPEX CORPORATION made Japan Oil Development Co., Ltd. (JODCO) a wholly owned subsidiary by acquiring all the shares held by the Japan National Oil Corporation through a share exchange. JODCO, established in 1973, holds an interest in the ADMA Block, located in offshore Abu Dhabi, the United Arab Emirates, where it currently produces oil from five fields. Production commenced in the Upper Zakum Field, the area's largest oil field, and in the Umm Al-Dalkh and Satah Fields in 1982, 1985 and 1987, respectively, in which JODCO was deeply engaged or directly took part in development operations. Crude oil production has also continued steadily at two existing fields, the Umm Shaif and Lower Zakum, since 1962 and 1967, respectively. The crude oil is transported by subsea pipeline to the islands of either Das or Zirku for onward shipment.

The development and operation of these fields are undertaken by the local operating companies, ADMA-OPCO and ZADCO. JODCO, Abu Dhabi National Oil Company (ADNOC) and the other participating companies hold the shares of these operating companies. JODCO dispatches its personnel, primarily engineers, to these operating companies.

# 2 Offshore Democratic Republic of the Congo

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Offshore Democratic Republic of the Congo | Teikoku Oil (D.R. Congo) Co., Ltd.<br>(Est. August 1, 1970) | Teikoku Oil (D.R. Congo) 32.28%<br>Perenco* 50%<br>Chevron 17.72% |

* Operator (As of June 30, 2008)




Oil field

In July 1970, INPEX CORPORATION acquired a 17.03% working interest and participated in oil exploration and development in the offshore Democratic Republic of the Congo. An additional interest was acquired in July 1972, increasing the Company's current share to 32.28%.

The GCO Field was discovered in 1971, and oil production commenced in 1975. Including the GCO Field, 11 oil fields have been discovered. In May 1995, the contract at the Offshore Congo Block was extended to 2023, and the Company continues stable production at the existing oil field.

## 3 West Bakr Block

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| West Bakr | The Egyptian Petroleum Development Co., Ltd. (EPEDECO) (Est. July 17, 1970) | EPEDECO* 100% |

* Operator (As of June 30, 2008)


In June 1975, The Egyptian Petroleum Development Co., Ltd. (EPEDECO), a joint venture established by INPEX CORPORATION, Mitsui & Co., Ltd. and others, acquired a 100% working interest in the West Bakr Block, located in a desert region on the west bank of Egypt's Gulf of Suez, and conducted exploration activities as an operator of the project. As a result, three oil fields were discovered and commercial production has continued since 1980.

An additional new oil field was discovered through additional exploration work conducted from 1989, with commercial production commencing in 1990. In July 2005, the contract term was extended through 2020. The Company maintains stable production operations in existing oil fields while pursuing possibilities for increased production through additional exploration activities.

## 4 El Ouar I/II Blocks

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| El Ouar I/II | Teikoku Oil Algeria Co., Ltd. (Est. December 21, 2001) | Teikoku Oil Algeria 10.29%<br>Sonatrach 67.33%<br>Eni* 22.38% |

* Operator (As of June 30, 2008)


In November 2001, INPEX CORPORATION acquired a 10.29% working interest in the El Ouar I/II Blocks, located in onshore eastern Algeria. The drilling of exploration wells confirmed the existence of natural gas and condensate in El Ouar I in 1997, and in El Ouar II in 2001. Feasibility studies for the commercial development of natural gas are currently under way.


Gas processing plant (Copa Macoya Gas Field)

# 1 Joslyn Oil Sands Project

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| OSL 7280060T24<br>OSL 7405070799<br>OSL 7404110452 | INPEX Canad, Ltd.<br>(Est. November 28, 2006) | INPEX Canada 10%<br>Total* 74%<br>EnerMark 15%<br>Larichina 1% |

* Operator (As of June 30, 2008)


In November 2007, INPEX CORPORATION acquired a 10% interest in the Joslyn Oil Sands Upstream Project in Alberta, Canada, including associated pipeline rights.

Since 2006, the Joslyn Oil Sands Upstream Project has produced bitumen using Steam Assisted Gravity Drainage (SAGD) technology. In the future, as the first phase of large-scale development, the Company plans to conduct oil sand mining development on the scale of 100,000 barrels a day early in the next decade, later increasing daily production to 230,000 barrels per day at the second phase of production.

Along with acquiring an interest in the Oil Sands Upstream Project, the Company has acquired the right to participate in the construction and operation of the upgrader to produce synthetic crude oil (Upgrader project) planned by TOTAL in Edmonton, Alberta. As the first phase in this project the Company plans to build an upgrader with total production capacity to 130,000 barrels of synthetic crude oil a day before 2015.

# 2 Copa Macoya and Guarico Oriental Blocks

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Copa Macoya | Teikoku Oil and Gas Venezuela, C.A.<br>(Est. June 7, 2006) | Teikoku Oil and Gas Venezuela 70%<br>PDVSA 30% |
| Guarico Oriental | | Teikoku Oil and Gas Venezuela 30%<br>PDVSA 70% |

(As of June 30, 2008)


INPEX CORPORATION participated in the bidding rounds and was awarded a 100% working interest in a central onshore area, the East Guarico Block, in July 1992. The Company took part in the reactivation of crude oil and natural gas fields, exploration and development activities as an operator under an operating service agreement (OSA).

In 2006, the Venezuelan government changed its policy to revise the existing OSAs to joint venture agreements.

Based on the new policy, the Company established gas and crude oil venture companies jointly with Petroleos de Venezuela, S.A. (PDVSA), the Venezuelan national petroleum company, and continued the gas business in the Copa Macoya Block and the crude oil business in the Guarico Oriental Block from April 1, 2006, which replaced the East Guarico Block. With the shift to joint venture agreements, the contract periods of the two blocks were extended to 2026.

# 3 Frade Block

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Frade Block | Frade Japão Petróleo Limitada (FJPL) (Est. July 5, 1999) | FJPL 18.2609%<br>Chevron* 51.7391%<br>Petrobras 30% |

* Operator (As of June 30, 2008)


In July 1999, Frade Japão Petróleo Limitada (FJPL), a joint venture established by INPEX CORPORATION and Sojitz Corporation, acquired a 12.75% working interest in the Frade Block in Brazil's offshore Northern Campos Basin. In July 2001, FJPL increased its working interest to 15%, and in June 2006, FJPL's total working interest rose to approximately 18.3% in accordance with contractual agreements.

The Frade Oil Field was discovered in 1986 and the reserves volume was evaluated by two appraisal wells in 2001, immediately after the Company's participation in the block.

In June 2006, the final investment decision was made for the development of the Frade Oil Field, and the Company is engaging in development and pursuing commercial production in 2009. This project will realize the first ever crude oil production in Brazil by a Japanese enterprise.

# 4 Ship Shoal 72, Main Pass 117/118 and West Cameron 401/402

| Contract Area | Venture Company | Interest Owned |
|---|---|---|
| Ship Shoal 72 | Teikoku Oil (North America) Co., Ltd. (Est. May 30, 2003) | Teikoku Oil (North America) 25%<br>PetroQuest* 50.5%<br>Other 24.5% |
| Main Pass 117/118 | | Teikoku Oil (North America) 10%<br>Hunt* 50%<br>Other 40% |
| West Cameron 401 | | Teikoku Oil (North America) 25%<br>PetroQuest* 38%<br>Other 37% |
| West Cameron 402 | | Teikoku Oil (North America) 25%<br>PetroQuest* 25%<br>Other 50% |

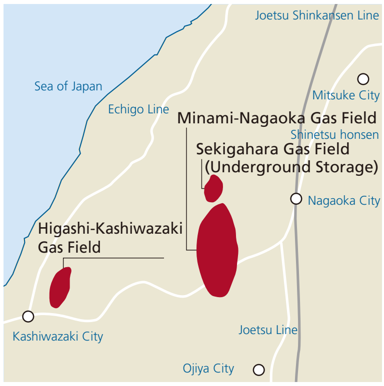
* Operator (As of June 30, 2008)


INPEX CORPORATION participated in oil and gas field development projects in the shallow waters of the Gulf of Mexico in April 2006. In July of the same year, the Company commenced the production of oil and gas in Ship Shoal 72. Following this achievement, production was also commenced in Main Pass 117/118 in April 2007 and in West Cameron 401/402 in February 2008.

# Japan


Shizuoka Line

# ❶ Minami-Nagaoka Gas Field and Domestic Natural Gas Business




Gas field


Domestic pipeline network

Making up approximately 50% of total gas production in Japan—even though over 20 years have passed since the commencement of production in 1984—the Minami-Nagaoka Gas Field, which INPEX CORPORATION discovered in 1979, is the largest gas field in Japan.

Produced and processed natural gas, which is transported through a 1,300 km trunk pipeline network that stretches across the Kanto-Koshinetsu region surrounding the Tokyo metropolitan area, is supplied to city gas companies and industrial customers along the pipeline network.

In recent years, the demand for natural gas has grown substantially in Japan because it is cleaner and more environmentally friendly compared with other fuels and competing fuel prices have soared. The Company's sales volume for fiscal 2007 reached approximately 1.7 billion $m^3$, a 40% increase over the previous year, due to the expanding supply area through aggressive pipeline development in new areas. This represents a threefold increase in sales volume compared to 1996. Going forward, in the medium- to long-term, annual demand is forecast to reach the scale of 2 billion to 3 billion $m^3$.

The Company is vigorously reinforcing production facilities in addition to enhancing pipeline transport capacity with the aim of shoring up growth. Furthermore, we started preparations to build an LNG import terminal in Joetsu City, Niigata Prefecture. We will expand our gas business, focusing on the establishment by the end of 2013 of a "natural gas value chain" that organically connects the domestic infrastructure with our group's overseas natural gas assets prospectively.

# Mission, Corporate Social Responsibility Policy & Health, Safety and Environment Policy

## Mission

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

## Corporate Social Responsibility Policy

The INPEX Group conducts our business efficiently and proactively with a long-term perspective. Guided by the leadership of top management, we are committed to fulfilling our corporate social responsibilities. Our key principles include:

1. Deliver energy in a stable and efficient manner.
2. Comply with laws, rules and regulations and adhere to ethical business conduct.
3. Communicate timely and openly with shareholders, employees, customers, business partners and other stakeholders.
4. Value the individuality of our employees, secure a safe, healthy and worker-friendly environment, and provide opportunities for career development.
5. Recognize our responsibility to help preserve the environment and contribute to sustainable development.
6. Contribute to the development of our host countries and communities based on the understanding of cultural diversity.

## Health, Safety and Environment (HSE) Policy

The INPEX Group is a global, independent energy company and its vision is to provide a stable and efficient supply of energy to customers. We recognize our responsibility to sustainable development and, in this regard, we aim to protect the health and safety of all those associated with our business activities and to minimize adverse impacts on the environment.

To accomplish this, we will:

- Comply with all applicable HSE laws and regulations, and apply our standards where laws and regulations do not exist or are considered insufficient.
- Implement and maintain HSE management systems, and perform regular audits of legal compliance and progress of our HSE activities to achieve continuous improvement in our HSE performance.
- Identify and assess health and safety hazards and eliminate or, if not possible, reduce risks to as low as reasonably practicable to prevent incidents.
- Conduct environmental assessments and promote efficient energy consumption to reduce adverse environmental impact.
- Maintain and regularly test emergency plans to ensure a quick and effective response in the event of emergencies.
- Provide resources that will enable our employees to meet HSE objectives and targets.
- Provide training in HSE activities and safe driving to ensure all employees are aware of their responsibilities and accountabilities in these areas.
- Require contractors to manage HSE in accordance with this Policy, and to achieve agreed HSE targets.
- Communicate openly on HSE activities with stakeholders.

# Corporate Social Responsibility

INPEX CORPORATION carries out E&P business around the globe with commitment to the protection and preservation of environment and to the safety and well-being of our employees. To turn this commitment into action, we have implemented our own HSE (Health, Safety and Environment) Management System as a guiding framework for undertaking a series of initiatives.

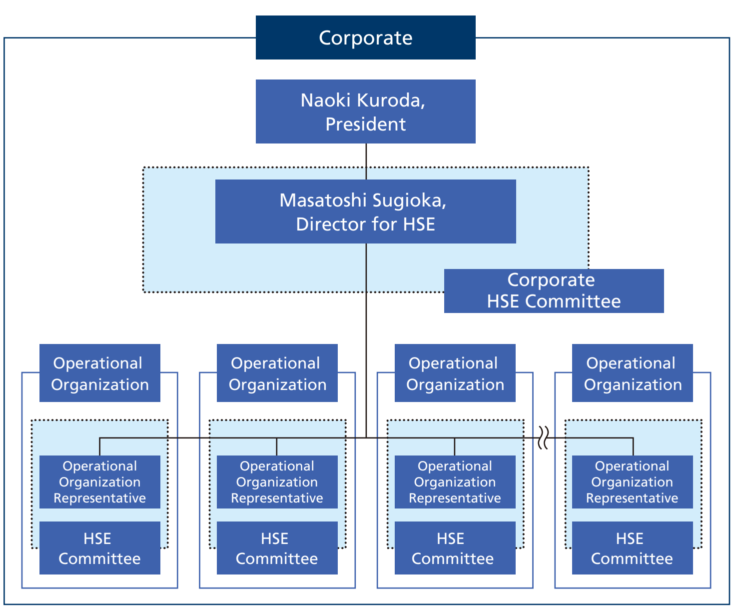
In order to develop energy resources efficiently in different parts of the world, we must have a dialogue with those who live in the regions in which we operate and solicit their understanding and support. In return, we make a positive contribution to making their lives better now and for the future, and to helping develop their community.

## Overview of HSE Management System

A stable supply of energy can be disrupted for any number of reasons. Of most concern to us is the risk of incidents that not only could interrupt the energy supply, but also could cause environmental pollution, jeopardizing our business continuity. In light of this, the Group considers environmental conservation and the prevention of such incidents to be inseparable from each other. With the aim of improving health (H), safety (S) and the environment (E), we operate our own HSE Management System, which enables us to continuously enhance our HSE performance.

## Implementation Framework for HSE Management System

In October 2007, in an effort to promote systematic group-wide HSE initiatives, we established the Corporate HSE Committee, which was tasked with formulating guidelines, procedures, and objectives regarding HSE.




The implementation framework for the HSE Management System has been taking shape to achieve HSE objectives.

Under the Group's HSE Management System, a business unit that is in charge of an operator project is called an Operational Organization. Each Operational Organization has its own HSE Committee, which is responsible for promoting HSE activities in accordance with the HSE Policy for the project that the Organization undertakes inside and outside Japan.

Since fiscal 2008, we have started to take another step toward establishing a management system in which each Operational Organization collaborates with the Head Office to ensure the health and safety of workers engaged in projects in the event of an emergency.

In May 2008, we held our 1st Annual HSE Meeting, in which senior management from the Head Office and heads of Operational Organizations met to develop a greater awareness and knowledge of HSE management, and to ensure HSE objectives for fiscal 2008 were understood throughout all Organizations. Representatives of all Operational Organizations in Japan, Australia, Egypt, Indonesia, Libya and Venezuela attended the meeting.

In Japan, the head of Domestic Project Division and HSE Managing Supervisors (Safety Officers) convene a Safety Steering Committee to set specific HSE objectives, and monitor and review their achievement.

In addition, each office in Japan has a Safety Committee chaired by an HSE Managing Supervisor, which comprises HSE Field Supervisors (Safety Administrators) and safety personnel. The Safety Committee at each office is responsible for setting HSE objectives for the office, devising an implementation plan, and monitoring and reviewing progress made toward these objectives, based on the decisions made by the Safety Steering Committee.

## Regional and Community Development

The INPEX Group conducts a social impact assessment when it begins a project; it reviews the economic and social effects the project will have on a community, and takes action to mitigate any potential adverse impacts of the project. Measures taken to mitigate such impacts are continuously monitored for their effectiveness. During this process, information concerning the project is disclosed to the community so that it knows the community can be aware of the project activities. We also listen to the community to understand its needs, and this information is used to formulate community development programs.

## Participating in the Environmental Conservation Program for the Mahakam Delta

The Company participates in the Community Empowerment Programs Delta Mahakam in the Republic of Indonesia, which runs from 2007 through 2012, in collaboration with the United Nations Development Program and others.

This program is intended to restore and conserve the mangrove forests in the Mahakam Delta, that were severely damaged by the development of shrimp ponds in the area, and to help the local economy and community achieve sustainable development.

The delta surrounding the offshore Mahakam Block, in which the Company has a working interest and which has become one of the Group's major blocks, has a prominent area of mangrove vegetation that plays an important role in maintaining the biodiversity of the surrounding areas and of absorbing $CO_2$. It also provides a source of drinking water and serves as a transportation route for natural resources.

Following the Asian financial crisis of 1997, shrimp ponds mushroomed everywhere in the area, as the shrimp business was seen as a lucrative source of foreign currency. As a result, the majority of the mangrove forests vanished from the delta, up to 80% of which was turned into shrimp farms. Worse yet, chemicals used in the farms to protect shrimp from diseases polluted the delta.

The objectives of this program are not only to restore and protect the mangrove forests, but ultimately to assist the local community and municipal authorities in restoring and protecting the environment of the entire Mahakam Delta on their own, and to help the local economy achieve sustainable development.

In pursuit of these objectives, we are undertaking the following support initiatives: (1) Deploying a community development model called Silvo Fisheries, intended to concurrently pursue the community's environmental preservation and economic development in agriculture and fishery. Under this model, the area will be lined with alternating shrimp ponds and mangrove forests; (2) Assisting municipal authorities in developing and implementing a policy on resolving issues over land-use rights; (3) Helping municipal authorities become better organized and carry out human resources development; and (4) Enlightening local residents on environmental preservation.

In 2007, we conducted surveys on the pilot farm, engaged in public relations activities at wide-ranging international conferences, published newsletters, and provided environmental education and enlightenment for government agencies, municipal authorities and educational institutions.

Our plans for 2008 include analyzing and assessing the ecosystem in the Mahakam Delta, and identifying the area in which mangrove forests were most severely damaged. We also plan to devise specific plans to implement the Silvo Fisheries method and look into local restrictions and government ordinances.

The Group is committed to contributing a total of U.S. $1 million to the program over five years. We will continue to support the program by working within the Executive Committee—the project's highest decision-making body—to work out action plans and monitor their implementation.

The Mahakam Delta

Meeting with government officials and UNDP

For details, please refer to the Inpex Group's *CSR Report 2008*.

# Corporate Governance

INPEX CORPORATION recognizes the importance of improving the efficiency and soundness of its management and enforcing compliance in order to continue increasing corporate value and maintain the trust of its stakeholders including shareholders and society at large, and will continue to reinforce corporate governance.

## Corporate Governance Structure

### Directors and Board of Directors' Meeting

The Board of Directors of INPEX CORPORATION (the "Company") is composed of 16 members, four of whom are outside directors. The Board of Directors meets once a month and when necessary to discuss and make decisions regarding important operational matters and oversees the execution of directors' operations.

The four outside directors ("interlocking directors") have many years of management know-how and experience in the Company's business and are able to offer objective, professional advice regarding operations. For this reason, they were asked to join the Board of Directors to contribute to the development of the Company's business. The four interlocking directors concurrently serve as directors or advisors of Japan Petroleum Exploration Co., Ltd., Mitsubishi Corporation, Mitsui Oil Exploration Co., Ltd. and Nippon Oil Corporation ("shareholder corporations"), respectively.

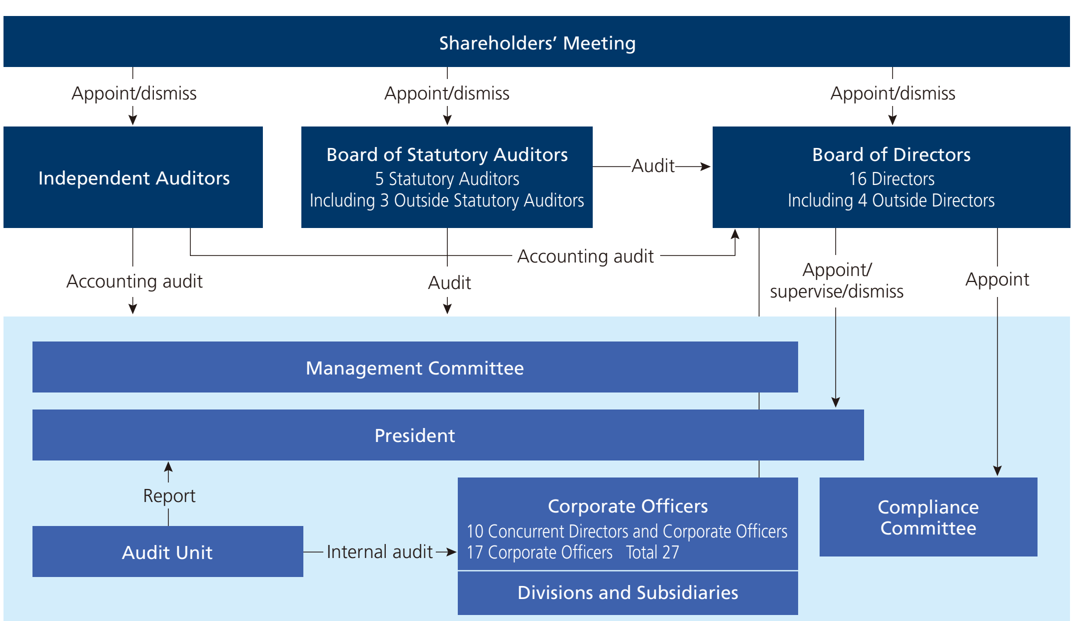
At the same time, however, the shareholder corporations are involved in businesses that overlap with those of the Company. The Company therefore recognizes that it must pay particular attention to corporate governance to avoid conflicts of interest in connection with competition and other matters.

To this end, all Company directors, including the interlocking directors, are required to sign a written undertaking to carry out their duties as officers of the Company appropriately and with the highest regard for the importance of such matters as their obligations in connection with non-competitive practices under the Japanese Companies Act, the proper manner for dealing with conflict of interest, and confidentiality.

### Management Committee

The Management Committee has been established to speed up decision-making and resolve matters that do not require a decision by the Board of Directors, and to conduct discussions

Corporate Governance System



that facilitate the Board's decisions by conducting meetings on a weekly and an as-needed basis.

### Statutory Auditors and Board of Statutory Auditors

The Company employs a statutory auditor system. The Board of Auditors is composed of five members, including three from outside the Company.

The statutory auditors attend meetings of the Board of Directors and the Management Committee, conduct interviews with departments as necessary and audit the business execution of directors with regard to overall operations and individual projects based on reports from relevant departments and other information. The statutory auditors also receive reports related to regular and special audits from the independent auditors and regular reports from the Internal Audit Unit on the status of internal audits.

Two of the three outside auditors concurrently serve as directors of Japan Petroleum Exploration Co., Ltd. and Marubeni Corporation and are involved in businesses that overlap with those of the Company.

### Internal Audit

The Internal Audit Unit was established as an internal audit division independent from business departments and directly responsible to the president, to ensure the appropriateness and efficiency of business activities. The Internal Audit Unit examines and evaluates the status of management bodies, the efficiency of business operations and other matters, pinpointing problem areas, making necessary reports and conducting follow-up audits to confirm the status of improvements. The Internal Audit Unit also contributes to proper operational management by exchanging opinions with independent and statutory auditors as necessary.

### Accounting Audit

The Company receives accounting audits from Ernst & Young ShinNihon in accordance with the Companies Act and the Financial Instruments and Exchange Law. Certified Public Accountants (CPAs) and assistants for audits during the fiscal year under review are described as follows.

- Names of CPAs:
  Kenji Endo, Yusuke Kosugi, Takeshi Nakano
- Accounting audit members:
  Six CPAs, 19 assistant CPAs and four others

## Internal Control System

### System to Ensure that Directors and Employees Conduct Business in Compliance with Laws and Regulations as well as with the Company's Articles of Incorporation

In order to ensure that directors and employees conduct business in compliance with laws and regulations as well as with the Company's Articles of Incorporation, the Company has formulated a corporate social responsibility policy and is building a structure to make sure that all concerned thoroughly abide by its contents.

To this end, the Company has appointed a representative director with compliance responsibilities. Simultaneously, the Company established a Compliance Committee chaired by the officer responsible to ensure that directors and employees remain in compliance with laws and regulations as well as the Company's Articles of Incorporation in the execution of their business duties. Furthermore, the Company set up an internal notification system with the responsible in-house departments and an outside specialist (lawyer) as points of contact.

In order to maintain an effective compliance system and related in-house rules, the Company also makes timely improvements by implementing inspections and evaluations of these systems through audits carried out by the Internal Audit Unit, which reports directly to the president.

### System for Administration and Storage of Information Regarding Execution of Directors' Business Duties

In accordance with laws and regulations, the Company's Articles of Incorporation and in-house rules, directors administer and store documents as well as information regarding the execution of their business duties.

### Management System for Losses and Other Risks

To deal with all risks relating to the Group's business activities, the Company has designated a division to support risk management conducted by directors and formulated a basic risk management policy. In concert with these initiatives, the Company has established a group-wide risk management system, which is handled in liaison with other Group companies based on the Group Management Regulations.

With regard to the management of risks relating to everyday business operations, the Company makes timely improvements by implementing inspections and evaluations of these systems through audits carried out by the Internal Audit Unit.

### System to Ensure the Efficient Execution of Directors' Business Duties

To ensure efficient business execution, directors engage in business operations with particular attention to the following:

a. Holding the Management Committee, composed of full-time directors, on a weekly and an as-needed basis in a timely manner, and performing their duties promptly and appropriately.
b. For everyday business duties, responsibility is delegated in accordance with rules governing job demarcation and administrative authority, those responsible at each level performing their duties in a prompt manner.

### System to Ensure Appropriate Business Conduct in a Business Group Composed of the Company and Its Subsidiaries

In accordance with the Group Management Regulations, important matters concerning the Company's subsidiaries are reported on and approved at the Company's Board of Directors' meetings as well as at the Management Committees.

The Company and its Group companies coordinate risk management, compliance control measures and internal audits.

### Matters Concerning Auditor-approved Employees Appointed to Assist Auditors' Duties

A Company employee concurrently serves as an auditor's assistant. The assistant concerned is engaged in business in accordance with auditors' instructions.

### Matters Concerning the Impartiality of the Employee Mentioned in Preceding Clause

Any changes in personnel involving the auditors' assistant are discussed with auditors.

### System for Directors and Employees to Report to Auditors, Other Systems for Reporting to Auditors

Directors and employees report and provide information to auditors for matters stipulated in law, matters that may cause significant impact on the Company and its Group companies, and other matters that are judged as necessary to be reported in relation to the execution of auditors' business duties.

Auditors shall always obtain job-related information by attending the Board of Directors' meetings and other important in-house meetings as well as receiving in-house approval documents.

### System to Ensure Efficient Audit Implementation

Upon the implementation of audits, the Company ensures close coordination with outside specialists including lawyers, CPAs and certified tax accountants.

In addition, the Company is in close liaison with the internal audit system to enhance audit efficiency by receiving reports as required.

## Special Class Share

The Company's Articles of Incorporation stipulate that certain major corporate decisions require a resolution by the holder of a special class share in addition to the approval of the shareholders' meeting or Board of Directors. The special class share is issued to the Minister of Economy, Trade and Industry.

Major corporate decisions include the appointment and removal of directors, the disposition of material assets, amendments to the Articles of Incorporation, mergers, share exchanges or share transfers, capital reductions and dissolutions. Director appointments or removals, mergers, share exchanges or share transfers require a resolution by the holder of special class share, provided 20 percent or more of the voting rights attached to shares of common stock are held by a single non-public entity or a single non-public entity and its joint shareholders.

The Minister of Economy, Trade and Industry announced the establishment of guidelines for the exercise of special class shareholders' veto rights (with respect to decisions not approved by a resolution of the special class shareholder). The Minister of Economy, Trade and Industry may veto any one of the aforementioned major corporate decisions only to the extent that it determines a proposed action or transaction (1) will likely result in the Company being managed in a manner inconsistent with its goal of securing a stable energy supply for Japan as a national flag company; (2) will likely adversely affect the goal of efficiently securing a stable energy supply for Japan as a national flag company; or (3) may affect the exercise of voting rights of special class shareholders.

The exercise of veto rights by special class shareholders is, therefore, restricted. With the existence of this class of share, however, the Company can minimize the risk of losing management control to foreign-owned concerns and an unsolicited takeover for speculative reasons. Moreover, because the scope of the veto is limited and guidelines have been set for the exercise of veto rights, the special class share is an absolute minimum necessary measure that is highly transparent and does not unjustly impinge on the Company's ability to operate with flexibility and efficiency.

## Risk Management and Corporate Ethics

The Company recognizes that two factors are vital to increase corporate value amid drastic changes in its operating environment: forestalling and mitigating losses by properly managing risk inherent in its business operations; and maintaining and strengthening trust with customers, investors and other parties. As such, the Company will strive on an ongoing basis to enhance its risk management.

Compliance is also a vital element of continuous corporate development. The Company will methodically develop its compliance system to ensure strict observance of laws, regulations and corporate ethics.

## Information Disclosure

The Company seeks to improve management transparency and accountability by disclosing information in a timely fashion through IR activities directed at shareholders and investors, the shareholders' meeting, its Web site, public relations activities and in other ways, and will constantly strive to enhance these efforts.

## Director Compensation

In the fiscal year ended March 31, 2008, the Company's compensation to directors and auditors was as follows:

| |
|---|
| ¥587 million for 15 directors (including ¥11 million for 3 outside directors) |
| ¥76 million for 5 auditors (including ¥28 million for 3 outside auditors) |

Notes: (1) The amount of compensation for directors does not include the portion of salaries for those who concurrently serve as ordinary employees. However, there was no payment of salaries to directors for concurrent service as ordinary employees during the fiscal year under review.

(2) The total compensation includes a ¥113 million bonus (¥104 million for directors and ¥9 million for auditors) approved at the second Ordinary General Meeting of Shareholders held on June 25, 2008 as well as an allowance for directors' retirement benefits.

(3) Compensation was not paid to one of the 16 directors as of the end of Fiscal 2007.

## Auditor Compensation

In fiscal 2007, the Company's compensation to Ernst & Young ShinNihon was as follows:

| | |
|---|---|
| Compensation based on Article 2, Paragraph 1 of the Certified Public Accountant Law (Act No. 103 of 1948): | ¥70 million |
| Other compensation: | ¥26 million |

Note: Other compensation primarily consists of payments for advisory services related to the establishment of an internal control system for financial reporting.

## Regular Number of Directors

The Company's Articles of Incorporation stipulate that the number of directors shall be up to 16.

## Conditions for Appointment and Removal of Directors

The Company's Articles of Incorporation stipulate that the appointment of directors shall be approved by a majority of the voting rights with the presence of shareholders representing at least one third of all shareholders. The Articles of Incorporation also stipulate that the appointment of directors shall not be determined by a cumulative vote.

The Articles of Incorporation also stipulate that the appointment and removal of directors requires approval from a General Meeting of Special Class Shareholders in addition to that from an ordinary General Meeting of Shareholders. For details, please refer to the preceding clause, "Special Class Share."

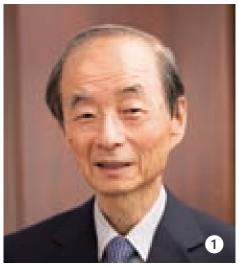
## Matters Arising from the General Meeting of Shareholders Resolved at Board of Directors' Meetings

In accordance with Article 165, Paragraph 2 of the Companies Act, the Company may acquire its own shares by resolution of the board of directors in pursuit of flexible implementation of future capital policy.

Furthermore, in order for directors and statutory auditors to fulfill the roles expected of them and in accordance with Article 426, Paragraph 1 of the Companies Act, the Company may, within the limits of laws and ordinances, exempt directors and statutory auditors (including a person who was a director and a statutory auditor in the Company) from liability, by resolution of the board of directors.

For the purpose of implementing flexible profit return to shareholders, the Company may make cash distribution (here and hereinafter, "interim dividends") to the shareholders or pledge right holders registered or recorded in the final shareholders' register, and the holders of fractional shares registered or recorded in the register of fractional shares as of September 30 of each year in accordance with Article 454, Paragraph 5 of the Companies Act.

# Management Team




Representative Director, Chairman
1 **Kunihiko Matsuo**

Representative Director
2 **Masatoshi Sugioka**

Representative Director, President
3 **Naoki Kuroda**

Director
4 **Hisatake Matsuno**

Director
5 **Katsujiro Kida**

Director
6 **Mutsuhisa Fujii**

Director
7 **Seiji Yui**

Director
8 **Kunio Kanamori**

Director
9 **Masaharu Sano**

Director
10 **Shunichiro Sugaya**

Director
11 **Seiya Ito**

Director
12 **Takahiko Ikeda**

Statutory Auditor
13 **Shigeru Hayashi**

Statutory Auditor
14 **Haruhito Totsune**

Statutory Auditor
15 **Shigeru Watanabe**

Directors (Adjunct)
**Kazuo Wakasugi**
**Hisanori Yoshimura**
**Yoshiyuki Kagawa**
**Shigeo Hirai**

Statutory Auditors (Adjunct)
**Hiroshi Sato**
**Fumiya Kokubu**

# Financial Section

**Contents**

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Overview

During this fiscal year, the overall Japanese economy has shown a steady recovery, bolstered by strong global economic growth, driven by buoyant economies in the United States and China. However, the outlook for Japanese economy has become more uncertainty due to the slowdown in the U.S. economy stemming from the so-called subprime loan issue, soaring natural resources prices and appreciation of the yen.

Under this business environment, global crude oil prices, an important factor that affects our Group's businesses, underwent a year of great change throughout the fiscal year, where the price of WTI (West Texas Intermediate) rose by US$35.64 per bbl. WTI stalled at US$65.94 per bbl in April, then firmed up again due to political uncertainty in Nigeria and low-level of gasoline stock in United States. From September to December, the price continuously increased due to geopolitical factors such as the strengthening of U.S. sanctions against Iran, an influx of speculative money in the oil futures market due to concerns stemming from the weak dollar and inflation related to the subprime loan issue. In January, the WTI price rose over the US$100 per bbl mark. After setting a record high of US$111.80 per bbl in March, the price dropped toward the end of the month and closed at US$101.58 per bbl at the fiscal year end. Meanwhile, domestic crude oil and petroleum product prices followed a similar pattern of global price movements; the Group recording an average sales price for crude oil for the year ended March 31, 2008 of US$80.07 per bbl, an increase of US$17.91 from the previous fiscal year.

The foreign exchange market also has a large impact on our business performance. The U.S. dollar began to be traded at the lower end of the ¥118 range and hovered around the lower end of the ¥120. From early July, due to the surfacing of the subprime loan issue, the U.S. dollar dropped against the yen and the U.S. stock market dropped in value. Amid the concerns of U.S. economy recession, continuous interest rate reduction by the Federal Reserve Board (FRB) caused to close interest spread between U.S. and Japan, and the exchange rate touched ¥95 at one point. Until the fiscal year end, the exchange rate rebound slightly for stronger dollar and as a result Telegraphic Transfer Middle rate (TTM) closed at ¥100.20 which was ¥17.89 appreciation compared to the fiscal year end of March 31, 2007. The average exchange rate for the Group's sales for the year ended March 31, 2008 was ¥113.71, a ¥3.19 appreciation.

For the year ended March 31, 2008, the Group recorded net sales of ¥1,203.0 billion, ordinary income of ¥685.8 billion and net income of ¥173.2 billion mainly due to the net effect of the following factors: prices of oil and natural gas rose and sales volume increased, while appreciation in the average exchange rate of the yen for the year caused sales to decline.

As of March 31, 2008, our total net proved reserves were 1,645 MMboe, and for the year ended March 31, 2008, our net annual production was 423 Mboe per day. Net proved reserves comprised 1,088 MMbbls of crude oil, condensate and LPG, and 3,346 Bcf (billion cubic feet) of natural gas as of March 31, 2008. Net proved undeveloped reserves accounted for 28.3% of net proved reserves. Net production for the year ended March 31, 2008 averaged 242 Mbbls per day of crude oil, condensate and LPG, and 1,089 MMcf per day of natural gas.

## Our Method of Accounting for Types of Arrangements

Most of the net sales and income of our Group come from the crude oil and natural gas business. Currently, we have mainly entered into two types of arrangements in connection with our oil and gas business: production sharing contracts (PSCs) and concession agreements which include domestic mining rights and overseas permits, licenses or lease agreements.

## Production Sharing Contracts

*Cost Recovery and Production Sharing*

The allocation of crude oil and natural gas production among the host country's government (or government entity) and contractors (including ourselves) must first be determined under PSCs.

Different PSCs provide for different formulas for allocating oil and gas production among the host country's government and contractors. The following discussion is based on one type of PSC arrangement that applies to projects in Indonesia, for which the Company concludes many agreements. Under this type of PSC, at the end of each fiscal year, total production for that year is allocated to:

(1) "first tranche petroleum," which is a prescribed portion of total production allocated between the host country's government and the contractors pursuant to prescribed percentages;

(2) "cost recovery portion," which is the oil and gas equivalent, determined based upon the current unit price of crude oil and natural gas, of (i) non-capital expenditures incurred for production during the current period and (ii) scheduled depreciation of the capital expenditures for the current period, as calculated under the PSC, and which is allocated only to the contractors; because the oil and gas equivalent is determined based upon the current unit price, as the unit price of crude oil and natural gas increases, the volume of oil and gas comprising the "cost recovery portion" decreases while that of the "equity portion" (explained below) increases; and if the actual production for the year is not enough to cover the entire quantity of the oil and gas equivalent so calculated, the "cost recovery portion" will be reduced to the extent it is covered by the actual production, and the quantity not so covered is carried forward to the succeeding year in accordance with the relevant PSC; and

(3) "equity portion," which represents the residual and is allocated between the host country's government and the contractors pursuant to prescribed percentages.

For purposes of our statements of income, we record:

- as net sales, our share of total sales relating to crude oil and natural gas production that are allocated to contractors, and
- as cost of sales, a portion of "Recoverable accounts under production sharing" that is recovered through the allocation of our share of the "cost recovery portion."

### Recoverable Costs under PSCs

*Exploration Costs*

Our share of all recoverable exploration costs incurred under the terms of the relevant PSC is capitalized under "Recoverable accounts under production sharing."

*Development Costs*

We record our share of all recoverable expenditures under the terms of the relevant PSC under "Recoverable accounts under production sharing."

*Production Costs*

During the production phase, operating costs incurred for production are initially included under "Recoverable accounts under production sharing" if such costs are recoverable under the relevant PSC.

*Administrative Expenses*

Administrative expenses are recorded under "Recoverable accounts under production sharing" if such expenses are recoverable under the relevant PSC. As explained above under "Cost Recovery and Production Sharing," such expenses are recovered as capital or non-capital expenditures.

### Non-recoverable Costs under PSCs

*Acquisition Costs*

For projects under PSCs that are entirely in the exploration phase, we expense costs relating to the acquisition of rights, or "Exploration and development rights," as amortization of exploration and development rights of other expenses when they are incurred. When we acquire rights to projects which are already in the development or production phase, we record the acquisition expenditures or costs under "Exploration and development rights" in our consolidated balance sheets, which are amortized under the unit-of-production method and accounted for depreciation and amortization. Generally, cost recovery provisions under PSCs do not cover such expenditures or costs.

*Interest on Loans*

We expense interest on loans we obtain for PSC projects.

## Concession Agreements

*Acquisition Costs*

We account for acquisition costs related to projects under concession agreements, or "Mining rights" in the same manner as those related to projects under PSCs, as described above.

*Exploration Costs*

Our share of costs incurred for exploration is expensed as incurred.

*Development Costs*

Our share of costs related to mining facilities is capitalized under "Tangible fixed assets" in the balance sheets. We depreciate overseas tangible fixed assets primarily under the unit-of-production method and domestic tangible fixed assets primarily under the straight-line method during our production. Such depreciation expenses constitute cost of sales.

*Production Costs*

During the production phase, our share of operating costs is included in cost of sales.

*Administrative Expenses*

Our share of administrative expenses is expensed as incurred.

# Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with Japanese GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates, judgments and assumptions.

An accounting estimate in our consolidated financial statements is a critical accounting estimate if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if the presentation of our financial condition or results of operations are materially affected either by different estimates that we reasonably could have used in the current period, or by changes in the accounting estimates that are reasonably likely to occur from period to period. We have identified the following critical accounting estimates with respect to our financial presentation:

## Allowance for Recoverable Accounts under Production Sharing

We capitalize expenditures made during the exploration, development and production phases under PSCs as "Recoverable accounts under production sharing," if they are recoverable under the relevant PSC. A reserve in equal amounts to exploration costs is provided for as "Allowance for recoverable accounts under production sharing," which is a reserve account for potential losses from unsuccessful exploration. Generally, this allowance continues to remain unchanged in our balance sheet until the allowance balance exceeds the remaining balance of exploration cost previously capitalized during the exploration phase under "Recoverable accounts under production sharing." In light of the uncertainty, a reserve is provided for probable losses on development activities individually estimated for each project as "Allowance for recoverable accounts under production sharing." While we believe that the assessment and estimates are reasonable, future changes in the actual situation of projects may affect future results of operations.

## Unit-of-Production Method

Overseas mining facilities, mining rights and exploration and development rights when such rights are acquired during the production phase are mainly amortized by the unit-of-production method. The unit-of-production method requires a significant estimate as to the reserve quantities. While we believe that our reserve estimates are appropriate, changes in the estimates of the reserves may significantly affect future results of operations.

## Liabilities for Site Restoration and Decommissioning Costs

We recognize liabilities for the expected amount of future decommissioning costs based on the future decommissioning plan. While we believe that the assessment and estimates are reasonable, future changes in the decommissioning plan may affect future results of operations.

## Liabilities for Losses on Development Activities

We recognize liabilities for the amount of provable losses on oil and natural gas development activities which are estimated individually for each project, such as delays in development. While we believe that the assessment and estimates are reasonable, future changes in the actual situation of projects may affect future results of operations.

## Allowance for Investments in Exploration Companies

We have made investments in companies that are engaged in oil and gas activities, and have provided an allowance for probable losses on such investments at an estimated amount based on the net assets of the investees. While we believe that the assessments and estimates are reasonable, future changes in the actual production volume, prices and foreign exchange rates may affect future results of operations.

## Deferred Tax Assets

We record deferred tax assets for temporary differences (including net operating loss carry-forwards) arising mainly from the write-down of investments in related parties and foreign tax payable. Valuation allowances are provided when we believe that it is more likely than not that assets will not be realized. Also, we take into account the effect of foreign tax credits in the calculation of valuation allowances. Realization of deferred tax assets is principally dependent on our generating sufficient taxable income based on available evidence. If future taxable income is lower than expected due to market conditions, foreign exchange rates or poor operating results, adjustments may be required.

### Retirement Benefits to Employees

Our group recognizes the accrued retirement benefits to employees at the present value of the future obligations at the end of this period and related periodic benefit costs which have occurred during this period. To determine the accrued retirement benefits and periodic benefit costs, our Group uses assumptions, including discount rate, resignation rate, rate of compensation increase, and the expected return on plan assets.

Differences between actual results and those assumptions or differences arising from changes in the assumptions may generate actuarial gains and losses, and the future results of operations may be affected. Any actuarial gains and losses are charged or credited to income during the period when they are generated.

Since certain subsidiaries are classified as small enterprises under the "Accounting Standard for Retirement Benefits," (ASBJ Statement No. 14) issued by the Accounting Standards Board of Japan (ASBJ), because an individual retirement benefit plan covers less than 300 people, we employ a simplified method (at the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) for the calculation of the retirement benefit obligations of the subsidiaries.

## Historical Results of Operations

The following table shows consolidated income statement data derived from audited consolidated financial statements:

(Millions of yen, except percentages)

| Years ended March 31, | 2007 | | **2008** | |
|---|---|---|---|---|
| Net sales | ¥969,713 | 100.0% | **¥1,202,965** | **100.0%** |
| Cost of sales | 343,795 | 35.5 | **390,554** | **32.5** |
| Gross profit | 625,918 | 64.5 | **812,411** | **67.5** |
| Exploration expenses | 17,689 | 1.8 | **34,095** | **2.8** |
| Selling, general and administrative expenses | 36,285 | 3.7 | **48,346** | **4.0** |
| Depreciation and amortization | 12,867 | 1.3 | **15,759** | **1.3** |
| Operating income | 559,077 | 57.7 | **714,211** | **59.4** |
| Other income: | | | | |
| Interest income | 12,843 | 1.3 | **10,984** | **0.9** |
| Gain on transfer of mining rights | 33,534 | 3.4 | **—** | **—** |
| Net gain on redetermination of unitized field | — | — | **4,005** | **0.3** |
| Net gain on taking effect of exploration and production agreement | — | — | **3,482** | **0.3** |
| Foreign exchange gain | 5,738 | 0.6 | **2,747** | **0.2** |
| Other | 7,965 | 0.8 | **11,872** | **1.0** |
| | 60,080 | 6.1 | **33,090** | **2.7** |
| Other expenses: | | | | |
| Interest expense | 12,389 | 1.3 | **10,888** | **0.9** |
| Provision for allowance for recoverable accounts under production sharing | 6,176 | 0.6 | **20,587** | **1.7** |
| Provision for exploration projects | 2,973 | 0.3 | **3,104** | **0.3** |
| Loss on valuation of investment securities | — | — | **21,350** | **1.8** |
| Other | 11,356 | 1.2 | **5,572** | **0.4** |
| | 32,894 | 3.4 | **61,501** | **5.1** |
| Income before income taxes and minority interests | 586,263 | 60.4 | **685,800** | **57.0** |
| Income taxes | 413,239 | 42.6 | **491,349** | **40.8** |
| Minority interests | 7,932 | 0.8 | **21,205** | **1.8** |
| Net income | ¥165,092 | 17.0% | **¥ 173,246** | **14.4%** |

### *Net Sales*

Net sales increased ¥233.3 billion, or 24.1%, to ¥1,203.0 billion for the year ended March 31, 2008 from ¥969.7 billion for the year ended March 31, 2007. The increase in consolidated net sales of crude oil and natural gas was mainly due to the net effect of the following factors: prices of oil and natural gas rose and sales volume increased, while appreciation of the average exchange rate of the yen for the year caused sales to decline. Of this figure, net sales of crude oil increased ¥176.1 billion, or 29.0%, to ¥783.5 billion for the year ended March 31, 2008 from ¥607.4 billion for the year ended March 31, 2007, net sales of natural gas increased ¥58.2 billion, or 17.5%, to ¥391.1 billion for the year ended March 31, 2008 from ¥332.9 billion for the year ended March 31, 2007, and net sales of others decreased ¥1.0 billion, or 3.3%, to ¥28.4 billion for the year ended March 31, 2008 from ¥29.4 billion for the year ended March 31, 2007.

Sales volume of crude oil increased 2,440 thousand barrels, or 2.9%, to 85,716 thousand barrels for the year ended March 31, 2008 from the previous year, mainly due to an increase in production volume of crude oil at ACG Oil Fields. Sales volume of natural gas increased 36 Bcf, or 9.8%, to 402 Bcf for the year ended March 31, 2008 from the previous year. The average overseas sales price of crude oil for the year ended March 31, 2008 was US$80.07 per bbl, a US$17.91 per bbl or 28.8% increase over the previous year. The average exchange rate for the Group's sales was ¥113.71 per U.S. dollar, a ¥3.19 per U.S. dollar or 2.7% yen appreciation against the U.S. dollar. The increase of ¥233.3 billion in net sales was derived mainly from the following factors: an increase in sales volume contributed ¥48.6 billion and an increase in unit sales price contributed ¥216.6 billion, whereas the appreciation of Japanese yen against U.S. dollar contributed to the sales decrease of ¥31.0 billion and net sales excluding crude oil and natural gas decreased by ¥0.9 billion.

### *Cost of Sales*

Cost of sales increased ¥46.8 billion, or 13.6%, to ¥390.6 billion for the year ended March 31, 2008 from ¥343.8 billion for the year ended March 31, 2007. This was mainly due to increase in royalty at ADMA Block owing to increase in sales and also due to increase in expenses for development wells at South Natuna Sea Block B and Offshore Mahakam Block.

### *Exploration Expenses*

Exploration expenses increased ¥16.4 billion, or 92.7%, to ¥34.1 billion for the year ended March 31, 2008 from ¥17.7 billion for the year ended March 31, 2007 mainly due to exploration activities in North America in addition to increase in exploration activities in Asia & Oceania.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased ¥12.0 billion, or 33.2%, to ¥48.3 billion for the year ended March 31, 2008 from ¥36.3 billion for the year ended March 31, 2007 mainly due to increase in transportation costs.

### *Depreciation and Amortization*

Depreciation and amortization increased ¥2.9 billion, or 22.5%, to ¥15.8 billion for the year ended March 31, 2008 from ¥12.9 billion for the year ended March 31, 2007. This was mainly due to increase in amortization of exploration and development rights which belong to INPEX Southwest Caspian Sea, Ltd. owing to increase in production volume and also due to increase in depreciation of domestic pipelines.

Under our accounting for PSCs, capitalized costs included in "Recoverable accounts under production sharing" are reflected in cost of goods sold at the time of recovery, and thus the Company does not have a substantial amount of fixed asset depreciation or amortization.

### *Other Income*

Other income decreased ¥27.0 billion, or 44.9%, to ¥33.1 billion for the year ended March 31, 2008 from ¥60.1 billion for the year ended March 31, 2007. This was mainly due to absence of gain on transfer of mining rights of ¥33.5 billion which recorded in the previous year, whereas net gain on redetermination of unitized field of ¥4.0 billion at Bayu-Undan Gas-Condensate Field and net gain on taking effect of exploration and production agreement of ¥3.5 billion in Venezuela for the year ended March 2008.

### *Other Expenses*

Other expenses increased ¥28.6 billion, or 87.0%, to ¥61.5 billion for the year ended March 31, 2008 from ¥32.9 billion for the year ended March 31, 2007. This was mainly due to loss on valuation of investment securities of ¥21.3 billion and increase in provision for allowance for recoverable accounts under production sharing of ¥14.4 billion owing to increase in exploration activities at Masela Block.

### *Income Taxes*

Income taxes increased ¥78.1 billion, or 18.9%, to ¥491.3 billion for the year ended March 31, 2008 from ¥413.2 billion for the year ended March 31, 2007 due to increase in overseas corporate taxes as a result of increase in income before income taxes owing to higher prices of oil and natural gas. The effective income tax rate for the year ended March 31, 2008 was 72% compared to 70% for the year ended March 31, 2007.

As explained in "Factors Affecting Our Results of Operations—Corporate Taxes Imposed on Us Outside Japan," the fact that most of the Company's corporate taxes are paid overseas, where certain regions impose high corporate taxes, and expenses incurred in Japan are not deductible for such taxes results in a high effective income tax rate.

### *Minority Interests*

Minority interests increased ¥13.3 billion, or 167.3%, to ¥21.2 billion for the year ended March 31, 2008 from ¥7.9 billion for the year ended March 31, 2007.

### *Net Income*

As a result of the foregoing factors, net income increased ¥8.1 billion, or 4.9%, to ¥173.2 billion for the year ended March 31, 2008 from ¥165.1 billion for the year ended March 31, 2007.

## Investment and Funding

### Our Investments for Crude Oil and Natural Gas Projects

In order to maintain stable earnings, we need to continuously explore for new reserves of crude oil and natural gas.

The following information, which includes the breakdown of our investments among exploration expenditures, development expenditures and operating expenses, has been prepared based on available data in the reports provided by operators. The definition of each item is as follows:

- Exploration expenditures include exploration drilling, and geological and geophysical studies. If the project (contract area) is entirely in the exploration phase, administrative costs, such as personnel costs and office operations costs in the country where the relevant project is conducted are included in this category.
- Development expenditures include development drilling and production facilities.
- Operating expenses include well operations, maintenance, and supervision of production activities. Administrative expenses in the project (contract area) where there is a producing field and/or a development field are included in this category.

  Our definition of exploration and development expenditures and the basis of preparation of the following table are different from those required under the Statement of Financial Accounting Standard No. 69, "Disclosures about Oil and Gas Producing Activities," or SFAS 69. Such differences include, but are not limited to, the following:
- Our expenditures reflected in the table are on a cash-call basis as to joint ventures for PSCs where we are not an operator, while SFAS 69 requires that expenditures be recorded on an accrual basis.

- We prepared the table based on definitions in the reports from operators. These definitions may not be consistent with that of SFAS 69.
- SFAS 69 requires that administrative costs not directly related to exploration and development activities be excluded from exploration and development expenditures. However, administrative costs are not necessarily excluded from those expenditures.

The table below shows our expenditures for the years ended March 31, 2007 and 2008:

(Millions of yen, except percentages)

| Years ended March 31, | 2007 | | 2008 | |
|---|---|---|---|---|
| Exploration | ¥ 30,544 | 10.5% | **¥ 64,746** | **16.8%** |
| Development | 185,957 | 63.8 | **232,958** | **60.3** |
| Subtotal | 216,501 | 74.3 | **297,704** | **77.1** |
| Operating expenses | 74,952 | 25.7 | **88,270** | **22.9** |
| Total | ¥291,453 | 100.0% | **¥385,974** | **100.0%** |

The table below shows our exploration and development expenditures for the years ended March 31, 2007 and 2008 by geographical region:

(Millions of yen, except percentages)

| Years ended March 31, | 2007 | | 2008 | |
|---|---|---|---|---|
| Japan | ¥ 11,318 | 5.2% | **¥ 12,836** | **4.3%** |
| Asia & Oceania | 112,434 | 51.9 | **169,924** | **57.1** |
| Eurasia (Europe & NIS) | 70,679 | 32.7 | **77,442** | **26.0** |
| Middle East & Africa | 19,208 | 8.9 | **24,345** | **8.2** |
| Americas | 2,862 | 1.3 | **13,157** | **4.4** |
| Total | ¥216,501 | 100.0% | **¥297,704** | **100.0%** |

The table below shows our operating expenses for the years ended March 31, 2007 and 2008 by geographical region:

(Millions of yen, except percentages)

| Years ended March 31, | 2007 | | 2008 | |
|---|---|---|---|---|
| Japan | ¥ 8,978 | 12.0% | **¥ 9,294** | **10.5%** |
| Asia & Oceania | 43,126 | 57.5 | **47,992** | **54.4** |
| Eurasia (Europe & NIS) | | 6.4 | **6,755** | **7.7** |
| Middle East & Africa | 18,018 | 24.0 | **21,994** | **24.9** |
| Americas | 70 | 0.1 | **2,235** | **2.5** |
| Total | ¥74,952 | 100.0% | **¥88,270** | **100.0%** |

Our expenditures increased ¥94.5 billion, or 32.4%, to ¥386.0 billion for the year ended March 31, 2008 from ¥291.5 billion for the year ended March 31, 2007. This was primarily due to increases in exploration expenditures at Masela Block in Asia & Oceania, development expenditures at WA-285-P and Offshore Mahakam Block, and operating expenditures.

## Our Expenditures for Acquisitions of Crude Oil and Natural Gas Projects

The table below shows our expenditures for acquisitions of oil and gas properties for the years ended March 31, 2007 and 2008 by geographical region. Expenditures for acquisitions include the acquisition cost of mining rights, exploration and development rights, and signing bonuses, as well as the acquired tangible fixed assets and recoverable accounts under production sharing due to acquisitions.

(Millions of yen, except percentages)

| Years ended March 31, | 2007 | | 2008 | |
|---|---|---|---|---|
| Asia & Oceania | ¥ 509 | 44.5% | **¥ 1,029** | **5.7%** |
| Middle East & Africa | 635 | 55.5 | **1,058** | **5.9** |
| Americas | — | — | **15,893** | **88.4** |
| Total | ¥1,144 | 100.0% | **¥17,980** | **100.0%** |

Our expenditures for acquisitions increased ¥16.9 billion to ¥18.0 billion for the year ended March 31, 2008 from ¥1.1 billion for the year ended March 31, 2007.

## Analysis of Recoverable Accounts under Production Sharing

With respect to projects under PSCs, our share of costs arising during the exploration, development and production phases are capitalized under "Recoverable accounts under production sharing." The following table shows changes in the balance of "Recoverable accounts under production sharing" during the years ended March 31, 2007 and 2008:

(Millions of yen)

| Years ended March 31, | 2007 | 2008 |
|---|---|---|
| Balance at beginning of period | ¥295,076 | **¥319,150** |
| Add: Exploration costs | 9,792 | **27,460** |
| Development costs | 160,114 | **183,002** |
| Operating expenses | 46,683 | **52,698** |
| Other | 17 | **—** |
| Less: Cost recovery—capital expenditures | 105,950 | **92,147** |
| Cost recovery—non-capital expenditures | 86,320 | **106,048** |
| Other | 262 | **952** |
| Balance at end of period | 319,150 | **383,163** |
| Allowance for recoverable accounts under production sharing at end of period | ¥ (51,191) | **¥ (71,445)** |

"Cost recovery—non-capital expenditures" are generally higher than "operating expenses" because some of the exploration costs and development costs that are recoverable in the fiscal year when such costs are incurred are included in addition to operating expenses.

Compared with the year ended March 31, 2007, exploration costs for the year ended March 31, 2008 significantly increased primarily due to exploration activities at Masela Block.

Compared with the year ended March 31, 2007, development costs for the year ended March 31, 2008 increased primarily due to development expenditures at Offshore Mahakam Block.

Compared with the year ended March 31, 2007, operating expenses for the year ended March 31, 2008 increased primarily due to operation expenses at South Natuna Sea Block B.

Cost recovery during the year ended March 31, 2008 primarily consisted of cost recovery at Offshore Mahakam Block, ACG Oil Fields and South Natuna Sea Block B.

A substantial portion of the amount under "Less: Other" for the years ended March 31, 2007 and 2008 related to reductions in the balance of recoverable accounts under production sharing with respect to fields being closed.

## Liquidity and Our Funding Sources

Our policy is to maintain sufficient cash on hand at any given time to fund expenditures for existing and new crude oil and natural gas projects in a timely manner and to provide for any steep decline of oil and gas prices. For this purpose, our cash management policy is to invest excess cash in low-risk and liquid financial instruments. It is our strategy to improve capital efficiency in the long term by business expansion while maintaining a sound financial position with sufficient cash on hand.

Our primary sources of funding are cash on hand and many other sources. We fund oil and gas exploration projects with cash on hand and equity financing; and oil and gas development projects, construction or expansion of domestic pipelines and other supply infrastructure with cash on hand and/or long-term loans. The Japan Bank for International Cooperation (JBIC) and Japanese commercial banks have been providing long-term loans for oil and gas development activities. Certain aggregate outstanding principal amounts of our long-term debt have been guaranteed by Japan Oil, Gas and Metals National Corporation (JOGMEC). The Development Bank of Japan and Japanese commercial banks have been providing long-term loans for construction or expansion of domestic pipelines.

We are considering diversifying financing sources in the future using non-recourse project financing, arrangement, issuance of bonds and equity financing.

## Maturities of Long-term Debt

The following table summarizes the maturities of our outstanding long-term debt as of March 31, 2008:

| | | | (U.S. dollars and Millions of yen) |
|---|---|---|---|
| | Long-term debt denominated in | | |
| Years ending March 31, | U.S. dollars | Yen | Total yen equivalent |
| 2009 | $ 138.3 | ¥ 5,097 | ¥ 18,950 |
| 2010 | 138.3 | 4,891 | 18,744 |
| 2011 | 138.3 | 4,770 | 18,623 |
| 2012 | 129.1 | 4,283 | 17,221 |
| 2013 | 27.2 | 3,055 | 5,775 |
| 2014 and thereafter | 868.1 | 27,457 | 114,450 |
| Total | $1,439.2 | ¥49,553 | ¥193,763 |

## Historical Cash Flows

The following table summarizes our historical cash flows for the years ended March 31, 2007 and 2008:

| | | (Millions of yen) |
|---|---|---|
| Years ended March 31, | 2007 | **2008** |
| Net cash provided by operating activities | ¥231,982 | **¥363,995** |
| Net cash used in investing activities | (209,243) | **(261,767)** |
| Net cash (used in) provided by financing activities | 13,794 | **(45,228)** |
| Cash and cash equivalents at end of period | 189,417 | **222,270** |

### *Cash Provided by Operating Activities*

Cash provided by operating activities increased ¥132.0 billion to ¥364.0 billion for the year ended March 31, 2008 from ¥232.0 billion for the year ended March 31, 2007. This was due to increase in income before income taxes and minority interests mainly owing to higher prices of oil and natural gas and increase in oil and gas sales volume.

*Cash Used in Investing Activities*

Cash used in investing activities increased ¥52.6 billion to ¥261.8 billion for the year ended March, 2008 from ¥209.2 billion for the year ended March 31, 2007. This was mainly due to increase in investment in recoverable accounts under production sharing (capital expenditures) and purchase of tangible fixed assets.

*Cash (Used in) Provided by Financing Activities*

Cash used in financing activities increased ¥59.0 billion to ¥45.2 billion (compared to cash provided by financing activities of ¥13.8 billion for the year ended March 31, 2007). This was primarily due to increase in repayments of long-term debt for the year ended March 31, 2008 while proceeds from sales of treasury stock were recorded in the previous year.

## Factors Affecting Our Results of Operations

A number of factors affect our results of operations, including the following:

- Crude oil and natural gas prices;
- Our crude oil and natural gas sales volumes;
- Level of exploration activities;
- Fluctuation in exchange rates between the U.S. dollar and Japanese yen;
- Fluctuation in interest rates; and
- Corporate taxes imposed on us outside Japan.

### Crude Oil and Natural Gas Prices

While we negotiate sales prices for crude oil and condensate with customers, those prices generally take into account official prices, which are determined by governmental authorities in their respective oil producing regions, which fluctuate generally in line with the fluctuation in international crude oil prices. Sales contracts for crude oil are generally one-year contracts but also include spot contracts. In both cases, sales prices are those at the time of sale and thus fluctuate.

For our natural gas, which is currently mostly produced in Indonesia, the selling price is determined based on the Indonesian Crude Price, or ICP, pursuant to each sales contract. Sales contracts for natural gas are long-term contracts, typically lasting over 10 years. Typically, natural gas sales prices move in conjunction with crude oil prices; however, movements in sales prices of natural gas are not directly proportional to those of crude oil prices.

Most of our sales contracts with domestic customers of natural gas sales are made and entered into by fixed sales prices for the fiscal year taking into consideration the price of competing energy such as LNG.

As mentioned above, we are exposed to fluctuations in prices of crude oil and overseas natural gas, which are determined by reference to international market prices. International oil and gas prices are volatile and are influenced by global as well as regional supply and demand conditions. This volatility has a significant effect on our net sales and net income.

### Our Crude Oil and Natural Gas Sales Volumes

Our crude oil and natural gas sales volumes depend primarily on the production level. As described above in “Our Method of Accounting for Types of Arrangements,” our sales volumes under production sharing contracts depend on not only production levels, but also on the price of crude oil and natural gas, cost recovery and equity portion.

## Level of Exploration Activities

Due to our policy of expensing exploration costs or, in the case of production sharing contracts, providing a full allowance for recoverable costs incurred in the exploration phase, an increase in our level of participation in exploration phase projects has a more immediate negative impact on our results of operations than would be the case if such costs were accounted for using the successful efforts or full cost method of accounting under U.S. GAAP.

## Fluctuation in Exchange Rates between the U.S. Dollar and Japanese Yen

Because our sales of crude oil and natural gas, most of our expenses and a substantial portion of our debt are denominated in U.S. dollars, our net income, which is denominated in Japanese yen, is affected by fluctuations in the exchange rate between these currencies. Depreciation of the Japanese yen against the U.S. dollar positively impacts our sales and related earnings, while an appreciation of the Japanese yen against the U.S. dollar has the opposite effect. However, as a substantial portion of our long-term debt is denominated in U.S. dollars, revaluation of such long-term debt at the end of each period results in a foreign exchange loss if the Japanese yen depreciates against the U.S. dollar, while an appreciation of the Japanese yen against the U.S. dollar has the opposite effect. As a result, these positive and negative effects cancel out each other to the certain extend.

## Fluctuation in Interest Rates

We fund certain development projects with long-term loans. A substantial portion of our long-term debt has floating interest rates that are determined by reference to the six-month London Interbank Offered Rate in U.S. dollars. Accordingly, we are exposed to fluctuations in interest rates in U.S. dollars.

## Corporate Taxes Imposed on Us Outside Japan

We conduct mostly operations outside Japan, and most of corporate taxes are paid overseas. With respect to the overseas taxes, expenses incurred in Japan are not deductible in general. Such domestic expenses include those relating to administrative expenses at our headquarters, foreign exchange losses and the provision of various types of allowances. When such domestic expenses increase, pre-tax income recorded in our consolidated statement of income decreases, but the corporate taxes we pay overseas do not decrease, thereby increasing our effective tax rate.

Indonesia imposes corporate taxes on oil and gas operations on a PSC basis and does not permit the aggregating of expenses from different PSCs for tax purposes. Thus, even if our exploration activities in Indonesia expand and related expenses increase with respect to one PSC, we cannot deduct such expenses from taxable income attributable to another PSC in that country.

## Consolidated Financial Forecasts for the Year Ending March 31, 2009

For the year ending March 31, 2009, consolidated net sales are expected to be ¥1,314.0 billion, an increase of ¥111.0 billion, or 9.2%, operating income is expected to be ¥850.0 billion, an increase of ¥135.8 billion, or 19.0%, ordinary income is expected to be ¥819.0 billion, an increase of ¥133.2 billion, or 19.4%, and net income is expected to be ¥177.0 billion, an increase of ¥3.8 billion, or 2.2%, compared with those for the year ended March 31, 2008. These changes are mainly due to an increase in oil prices.

Average oil price of Brent crude was US$123.0 per bbl and average exchange rate of the Japanese yen against the U.S. dollar was ¥104.6 for the three months ended June 30, 2008. In these estimates, which we announced on August 8, 2008, the oil price of Brent crude was assumed to be US$115.0 per bbl for the three months ending September 30, 2008 and US$95.0 per bbl for the six months ending March 31, 2009 with the exchange rate of the Japanese yen against the U.S. dollar at ¥105.0 for the three months ending September 30, 2008 and ¥100.0 for the six months ending March 31, 2009 in the light of the results for the three months ended June 30, 2008.

# Consolidated Balance Sheets

INPEX Holdings Inc. and Consolidated Subsidiaries
As of March 31, 2007 and 2008

| ASSETS | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars (Note 3) 2008 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 189,417 | **¥ 222,270** | **$ 2,218,263** |
| Accounts receivable—trade | 81,955 | **120,949** | **1,207,076** |
| Marketable securities (Note 4) | 46,618 | **97,465** | **972,705** |
| Inventories | 13,255 | **19,717** | **196,776** |
| Deferred tax assets (Note 6) | 17,242 | **11,236** | **112,136** |
| Accounts receivable—other | 81,689 | **83,436** | **832,695** |
| Other | 43,960 | **10,097** | **100,768** |
| Less allowance for doubtful accounts | (12) | **(59)** | **(589)** |
| | 474,124 | **565,111** | **5,639,830** |
| **Tangible fixed assets:** | | | |
| Buildings and structures | 185,484 | **201,864** | **2,014,611** |
| Wells | 173,245 | **180,609** | **1,802,485** |
| Machinery, equipment and vehicles | 252,832 | **240,041** | **2,395,619** |
| Land | 28,310 | **28,387** | **283,303** |
| Construction in progress | 24,730 | **28,721** | **286,637** |
| Other | 8,787 | **21,981** | **219,371** |
| | 673,388 | **701,603** | **7,002,026** |
| Less accumulated depreciation and amortization | (454,161) | **(447,122)** | **(4,462,295)** |
| | 219,227 | **254,481** | **2,539,731** |
| **Intangible assets:** | | | |
| Goodwill (Note 12) | 132,106 | **121,644** | **1,214,012** |
| Exploration and development rights | 127,110 | **120,177** | **1,199,371** |
| Mining rights | 4,365 | **18,844** | **188,064** |
| Other | 2,241 | **4,816** | **48,064** |
| | 265,822 | **265,481** | **2,649,511** |
| **Investments and other assets:** | | | |
| Recoverable accounts under production sharing | 319,150 | **383,163** | **3,823,982** |
| Less allowance for recoverable accounts under production sharing | (51,191) | **(71,445)** | **(713,024)** |
| | 267,959 | **311,718** | **3,110,958** |
| Investment securities (Notes 4 and 5) | 354,851 | **360,727** | **3,600,070** |
| Long-term loans receivable | 3,389 | **9,361** | **93,423** |
| Deferred tax assets (Note 6) | — | **20,618** | **205,768** |
| Other investments | 34,879 | **31,279** | **312,166** |
| Less allowance for doubtful accounts | (1,870) | **(912)** | **(9,102)** |
| Less allowance for investments in exploration | (10,274) | **(9,963)** | **(99,431)** |
| | 648,934 | **722,828** | **7,213,852** |
| Total assets | ¥1,608,107 | **¥1,807,901** | **$18,042,924** |

Refer to accompanying notes to consolidated financial statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars (Note 3) 2008 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts payable-trade | ¥ 21,794 | **¥ 22,582** | **$ 225,369** |
| Short-term borrowings and current portion of long-term debt (Note 5) | 50,649 | **19,275** | **192,365** |
| Income taxes payable (Note 6) | 85,143 | **131,524** | **1,312,615** |
| Accounts payable—other | 88,768 | **111,506** | **1,112,834** |
| Provision for exploration projects | 6,900 | **10,786** | **107,645** |
| Accrued bonuses to officers | 194 | **209** | **2,086** |
| Other | 12,800 | **29,404** | **293,453** |
| | 266,248 | **325,286** | **3,246,367** |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 5) | 198,320 | **174,813** | **1,744,641** |
| Deferred tax liabilities (Note 6) | 38,995 | **44,296** | **442,076** |
| Accrued retirement benefits to employees | 8,371 | **8,645** | **86,277** |
| Accrued retirement benefits to officers | 1,712 | **475** | **4,741** |
| Liabilities for site restoration and decommissioning costs | 11,930 | **12,728** | **127,026** |
| Liabilities for losses on development activities | 1,965 | **1,965** | **19,611** |
| Accrued special repair and maintenance | 179 | **230** | **2,295** |
| Other | 371 | **650** | **6,487** |
| | 261,843 | **243,802** | **2,433,154** |
| Total liabilities | 528,091 | **569,088** | **5,679,521** |
| **Net assets** (Note 7)**:** | | | |
| Common stock: | 30,000 | **30,000** | **299,401** |
| Authorized: 2007—9,000,001.00 shares | | | |
| 2008—9,000,001.00 shares | | | |
| Issued and outstanding: 2007—2,358,410.13 shares | | | |
| 2008—2,358,410.13 shares | | | |
| Capital surplus | 418,491 | **418,494** | **4,176,587** |
| Retained earnings | 570,120 | **718,616** | **7,171,816** |
| Less: Treasury stock: 2007—1,089.63 shares | | | |
| 2008—2,047.10 shares | (1,108) | **(2,215)** | **(22,106)** |
| Total shareholders' equity | 1,017,503 | **1,164,895** | **11,625,698** |
| Unrealized holding gain (loss) on securities | 9,349 | **(7,468)** | **(74,531)** |
| Unrealized gain from hedging instruments | 18 | **4** | **40** |
| Translation adjustments | 2,025 | **(60)** | **(599)** |
| Total valuation, translation adjustments and others | 11,392 | **(7,524)** | **(75,090)** |
| Minority interests | 51,121 | **81,442** | **812,795** |
| Total net assets | 1,080,016 | **1,238,813** | **12,363,403** |
| Contingent liabilities (Note 14) | | | |
| Total liabilities and net assets | ¥1,608,107 | **¥1,807,901** | **$18,042,924** |

# Consolidated Statements of Income

INPEX Holdings Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2008

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2007 | **2008** | **2008** |
| Net sales | ¥969,713 | **¥1,202,965** | **$12,005,639** |
| Cost of sales | 343,795 | **390,554** | **3,897,745** |
| Gross profit | 625,918 | **812,411** | **8,107,894** |
| Exploration expenses | 17,781 | **34,458** | **343,893** |
| Exploration subsidies | (92) | **(363)** | **(3,623)** |
| Selling, general and administrative expenses (Notes 10, 11 and 12) | 36,285 | **48,346** | **482,495** |
| Depreciation and amortization | 12,867 | **15,759** | **157,275** |
| Operating income | 559,077 | **714,211** | **7,127,854** |
| Other income: | | | |
| Interest income | 12,843 | **10,984** | **109,621** |
| Dividend income | 2,292 | **5,440** | **54,292** |
| Equity in earnings of affiliates | 1,350 | **1,765** | **17,615** |
| Gain on transfer of mining rights | 33,534 | **—** | **—** |
| Net gain on re-determination of unitized field | — | **4,005** | **39,970** |
| Net gain on taking effect of exploration and production agreement | — | **3,482** | **34,750** |
| Foreign exchange gain | 5,738 | **2,747** | **27,415** |
| Other | 4,323 | **4,667** | **46,577** |
| | 60,080 | **33,090** | **330,240** |
| Other expenses: | | | |
| Interest expense | 12,389 | **10,888** | **108,663** |
| Provision for allowance for recoverable accounts under production sharing | 6,176 | **20,587** | **205,459** |
| Provision for exploration projects | 2,973 | **3,104** | **30,978** |
| Loss on valuation of investment securities | — | **21,350** | **213,074** |
| Other | 11,356 | **5,572** | **55,609** |
| | 32,894 | **61,501** | **613,783** |
| Income before income taxes and minority interests | 586,263 | **685,800** | **6,844,311** |
| Income taxes (Note 6): | | | |
| Current | 432,894 | **496,852** | **4,958,602** |
| Deferred | (19,655) | **(5,503)** | **(54,920)** |
| | 413,239 | **491,349** | **4,903,682** |
| Minority interests | 7,932 | **21,205** | **211,627** |
| Net income (Note 8) | ¥165,092 | **¥ 173,246** | **$ 1,729,002** |

Refer to accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

INPEX Holdings Inc. and Consolidated Subsidiaries

For the year ended March 31, 2007

Millions of yen

| | Balance as of March 31, 2006 | Increase (decrease) due to joint stock transfer | Cash dividends paid | Bonuses to officers | Net income | Purchase of treasury stock | Disposal treasury stock | Net changes in items other than those in shareholders' equity | Total changes during the period | Balance as of March 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Common stock | ¥— | ¥ 30,000 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥ 30,000 | ¥ 30,000 |
| Capital surplus | — | 415,892 | — | — | — | — | 2,599 | — | 418,491 | 418,491 |
| Retained earnings | — | 415,734 | (10,559) | (147) | 165,092 | — | — | — | 570,120 | 570,120 |
| Treasury stock | — | (19,641) | — | — | — | (1,725) | 20,258 | — | (1,108) | (1,108) |
| Total shareholders' equity | — | 841,985 | (10,559) | (147) | 165,092 | (1,725) | 22,857 | — | 1,017,503 | 1,017,503 |
| Unrealized holding gain (loss) on securities | — | (5,723) | — | — | — | — | — | 15,072 | 9,349 | 9,349 |
| Unrealized gain from hedging instruments | — | — | — | — | — | — | — | 18 | 18 | 18 |
| Translation adjustments | — | 1,117 | — | — | — | — | — | 908 | 2,025 | 2,025 |
| Total valuation, translation adjustments and others | — | (4,606) | — | — | — | — | — | 15,998 | 11,392 | 11,392 |
| Minority interests | — | 39,921 | — | — | — | — | — | 11,200 | 51,121 | 51,121 |
| Total net assets | ¥— | ¥877,300 | ¥(10,559) | ¥(147) | ¥165,092 | ¥(1,725) | ¥22,857 | ¥27,198 | ¥1,080,016 | ¥1,080,016 |

For the year ended March 31, 2008

Millions of yen

| | Balance as of March 31, 2007 | Cash dividends paid | Net income | Purchase of treasury stock | Disposal treasury stock | Net changes in items other than those in shareholders' equity | Total changes during the period | Balance as of March 31, 2008 |
|---|---|---|---|---|---|---|---|---|
| Common stock | **¥ 30,000** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ 30,000** |
| Capital surplus | **418,491** | **—** | **—** | **—** | **3** | **—** | **3** | **418,494** |
| Retained earnings | **570,120** | **(24,750)** | **173,246** | **—** | **—** | **—** | **148,496** | **718,616** |
| Treasury stock | **(1,108)** | **—** | **—** | **(1,160)** | **53** | **—** | **(1,107)** | **(2,215)** |
| Total shareholders' equity | **1,017,503** | **(24,750)** | **173,246** | **(1,160)** | **56** | **—** | **147,392** | **1,164,895** |
| Unrealized holding gain (loss) on securities | **9,349** | **—** | **—** | **—** | **—** | **(16,817)** | **(16,817)** | **(7,468)** |
| Unrealized gain (loss) from hedging instruments | **18** | **—** | **—** | **—** | **—** | **(14)** | **(14)** | **4** |
| Translation adjustments | **2,025** | **—** | **—** | **—** | **—** | **(2,085)** | **(2,085)** | **(60)** |
| Total valuation, translation adjustments and others | **11,392** | **—** | **—** | **—** | **—** | **(18,916)** | **(18,916)** | **(7,524)** |
| Minority interests | **51,121** | **—** | **—** | **—** | **—** | **30,321** | **30,321** | **81,442** |
| Total net assets | **¥1,080,016** | **¥(24,750)** | **¥173,246** | **¥(1,160)** | **¥56** | **¥11,405** | **¥158,797** | **¥1,238,813** |

Thousands of U.S. dollars (Note 3)

| | Balance as of March 31, 2007 | Cash dividends paid | Net income | Purchase of treasury stock | Disposal treasury stock | Net changes in items other than those in shareholders' equity | Total changes during the period | Balance as of March 31, 2008 |
|---|---|---|---|---|---|---|---|---|
| Common stock | **$ 299,401** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ 299,401** |
| Capital surplus | **4,176,557** | **—** | **—** | **—** | **30** | **—** | **30** | **4,176,587** |
| Retained earnings | **5,689,820** | **(247,006)** | **1,729,002** | **—** | **—** | **—** | **1,481,996** | **7,171,816** |
| Treasury stock | **(11,058)** | **—** | **—** | **(11,577)** | **529** | **—** | **(11,048)** | **(22,106)** |
| Total shareholders' equity | **10,154,720** | **(247,006)** | **1,729,002** | **(11,577)** | **559** | **—** | **1,470,978** | **11,625,698** |
| Unrealized holding gain (loss) on securities | **93,303** | **—** | **—** | **—** | **—** | **(167,834)** | **(167,834)** | **(74,531)** |
| Unrealized gain (loss) from hedging instruments | **180** | **—** | **—** | **—** | **—** | **(140)** | **(140)** | **40** |
| Translation adjustments | **20,210** | **—** | **—** | **—** | **—** | **(20,809)** | **(20,809)** | **(599)** |
| Total valuation, translation adjustments and others | **113,693** | **—** | **—** | **—** | **—** | **(188,783)** | **(188,783)** | **(75,090)** |
| Minority interests | **510,190** | **—** | **—** | **—** | **—** | **302,605** | **302,605** | **812,795** |
| Total net assets | **$10,778,603** | **$(247,006)** | **$1,729,002** | **$(11,577)** | **$559** | **$ 113,822** | **$1,584,800** | **$12,363,403** |

Refer to accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

INPEX Holdings Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2008

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2007 | **2008** | **2008** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥586,263 | **¥685,800** | **$6,844,311** |
| Depreciation and amortization | 30,599 | **36,181** | **361,088** |
| Amortization of goodwill | 6,978 | **6,617** | **66,038** |
| Provision for allowance for recoverable accounts under production sharing | 6,081 | **21,207** | **211,647** |
| Provision for exploration projects | 3,038 | **3,937** | **39,291** |
| Provision for accrued retirement benefits to employees | 845 | **276** | **2,754** |
| Provision for site restoration and decommissioning costs | 1,215 | **815** | **8,134** |
| Other provisions | 1,377 | **(2,377)** | **(23,722)** |
| Interest and dividend income | (15,135) | **(16,424)** | **(163,912)** |
| Interest expense | 12,389 | **10,888** | **108,663** |
| Foreign exchange loss (gain) | (1,653) | **1,036** | **10,339** |
| Equity in earnings of affiliates | (1,350) | **(1,765)** | **(17,615)** |
| Gain on transfer of mining rights | (33,534) | **—** | **—** |
| Loss on the sale of investment securities | 2,613 | **15** | **150** |
| Loss on the valuation of investment securities | — | **21,350** | **213,074** |
| Accounts receivable—trade | (10,385) | **(39,393)** | **(393,144)** |
| Recovery of recoverable accounts under production sharing (capital expenditures) | 105,950 | **92,147** | **919,631** |
| Recoverable accounts under production sharing (operating expenditures) | (18,955) | **(26,052)** | **(260,000)** |
| Inventories | (8,086) | **(2,275)** | **(22,705)** |
| Accounts payable—trade | (879) | **481** | **4,800** |
| Accounts receivable—other | — | **(16,986)** | **(169,521)** |
| Accounts payable—other | — | **21,809** | **217,655** |
| Advances received | — | **10,352** | **103,313** |
| Other | (3,810) | **7,156** | **71,417** |
| Subtotal | 663,561 | **814,795** | **8,131,686** |
| Interest and dividends received | 20,560 | **17,515** | **174,800** |
| Interest paid | (11,993) | **(11,508)** | **(114,850)** |
| Income taxes paid | (440,146) | **(456,807)** | **(4,558,952)** |
| Net cash provided by operating activities | 231,982 | **363,995** | **3,632,684** |
| **Cash flows from investing activities** | | | |
| Increase in time deposits | (17,078) | **(2,765)** | **(27,595)** |
| Decrease in time deposits | 2,798 | **18,997** | **189,591** |
| Purchase of marketable securities | (5,141) | **(39,949)** | **(398,693)** |
| Proceeds from sales of marketable securities | 23,643 | **51,495** | **513,922** |
| Purchase of tangible fixed assets | (37,845) | **(59,465)** | **(593,463)** |
| Proceeds from sales of tangible fixed assets | 955 | **183** | **1,826** |
| Purchase of intangible assets | (1,778) | **(2,012)** | **(20,080)** |
| Purchase of investment securities | (109,823) | **(112,378)** | **(1,121,537)** |
| Proceeds from sales of investment securities | 43,609 | **105** | **1,048** |
| Investment in recoverable accounts under production sharing (capital expenditures) | (111,314) | **(131,060)** | **(1,307,984)** |
| Decrease (increase) in short-term loans receivable | (6,524) | **10,534** | **105,130** |
| Long-term loans made | (832) | **(7,453)** | **(74,381)** |
| Collection of long-term loans receivable | 889 | **527** | **5,260** |
| Payments for purchase of mining rights | — | **(15,887)** | **(158,553)** |
| Proceeds from transfer of mining rights | 6,707 | **27,891** | **278,353** |
| Other | 2,491 | **(530)** | **(5,289)** |
| Net cash used in investing activities | (209,243) | **(261,767)** | **(2,612,445)** |
| **Cash flows from financing activities** | | | |
| Decrease in short-term loans | (120) | **(50)** | **(499)** |
| Proceeds from long-term debt | 30,083 | **40,785** | **407,036** |
| Repayment of long-term debt | (38,662) | **(67,745)** | **(676,098)** |
| Proceeds from minority interests for additional shares | 3,606 | **8,344** | **83,274** |
| Purchase of treasury stock | (1,170) | **(1,105)** | **(11,028)** |
| Proceeds from sales of treasury stock | 22,397 | **—** | **—** |
| Cash dividends paid | (10,791) | **(24,719)** | **(246,697)** |
| Dividends paid to minority shareholders | (81) | **(737)** | **(7,355)** |
| Stock transfer payment | (868) | **(1)** | **(10)** |
| Restricted cash deposit | 9,400 | **—** | **—** |
| Net cash (used in) provided by financing activities | 13,794 | **(45,228)** | **(451,377)** |
| Effect of exchange rate changes on cash and cash equivalents | 1,741 | **(24,147)** | **(240,988)** |
| Net increase in cash and cash equivalents | 38,274 | **32,853** | **327,874** |
| Cash and cash equivalents at beginning of the period | 151,143 | **189,417** | **1,890,389** |
| Cash and cash equivalents at end of the period | ¥189,417 | **¥222,270** | **$2,218,263** |

Refer to accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

INPEX Holdings Inc. and Consolidated Subsidiaries

## 1 BASIS OF PRESENTATION

INPEX Holdings Inc. (the "Company") is primarily engaged in the exploration, development and production of natural gas and crude oil.

The Company and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which may differ in certain material respects from accounting principles generally accepted in the United States of America, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

For the 40 companies for which the closing date differed from the consolidated closing date, including but not limited to, INPEX Sahul, Ltd. and INPEX Masela, Ltd., the financial statements for the year ended December 31 were used. However, the necessary adjustments have been made to the financial statements of those companies to reflect any significant transactions made between the Company's closing date and those of the consolidated subsidiaries.

For the 10 companies, including but not limited to, Japan Oil Development, Co., Ltd., Teikoku Oil (D.R. Congo) Co., Ltd., INPEX Southwest Caspian Sea, Ltd., and INPEX North Caspian Sea, Ltd., the financial statements for the year ended on the consolidated closing date were used, even though their closing date is December 31.

Until the year ended March 31, 2007, INPEX Browse, Ltd. had been consolidated on the basis of fiscal periods ended December 31, which differs from that of the Company. Effective the year ended March 31, 2008, its financial statements prepared for consolidation purpose as of the consolidation closing date have been used due to increase in its materiality. Accordingly, the consolidated operating results for the year ended March 31, 2008 included operating results for 15 months from January 1, 2007 to March 31, 2008. The effect of this change does not have a significant impact on the consolidated financial statements.

The excess of cost over underlying net assets excluding minority interests at fair value as of their dates of acquisition is accounted for as goodwill and amortized over 20 years on a straight-line method.

### (b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

### (c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the overseas subsidiaries are translated into yen at the average rates of exchange during the period. Except for the components of net assets excluding minority interests, the balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding minority interests are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments and minority interests in the accompanying consolidated financial statements.

**(d) Securities**

In general, securities are classified into three categories: trading, held-to-maturity or other securities. Securities held by the Company and its subsidiaries are all classified as other securities. Other securities with a determinable market value are mainly stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Other securities without a determinable market value are stated at cost. Cost of securities sold is determined by the moving average method.

**(e) Inventories**

Products are carried mainly at the lower of cost or market, cost being determined mainly by the moving-average method. Other inventories are carried at cost, cost being determined by the moving-average method, except for construction projects in progress which are carried at cost, cost being determined by the individual cost basis.

**(f) Allowance for doubtful accounts**

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

**(g) Recoverable accounts under production sharing and related allowance**

Cash investments made by the Company during exploration, development and production project under a production sharing contract and a service contract (buyback arrangement) are recorded as "Recoverable accounts under production sharing" so long as they are recoverable under the terms of the relevant contract. When the Company receives natural gas and crude oil in accordance with the relevant contract, an amount corresponding to the purchase costs of the products (i.e., a cost recovery portion of the investments) is released from this account.

Because these investments are recoverable only where commercial oil or gas is discovered, an allowance for recoverable accounts under production sharing is provided for probable losses on investments made during the exploration stage under production sharing contracts arising from the failure to discover commercial oil and gas. In light of this uncertainty, an allowance for recoverable accounts under production sharing is provided for probable losses on development investment individually estimated for each project.

**(h) Allowance for investments in exploration**

The allowance for investments in exploration is provided for future potential losses on investments in exploration companies at an estimated amount based on the net assets of the investees.

**(i) Provision for exploration projects**

Provision for exploration projects is provided for future expenditures of consolidated subsidiaries at the exploration stage based on a schedule of investments in exploration.

**(j) Accrued bonuses to officers**

Accrued bonuses to officers are provided at the expected payment amount for the fiscal year.

**(k) Tangible fixed assets**

Depreciation of overseas mining facilities is mainly computed by the unit-of-production method.

For other tangible fixed assets, the straight-line method of depreciation is applied. The useful lives of fixed assets are based on the estimated useful lives of the respective assets.

As for tangible fixed assets acquired on or after April 1, 2007, the Company and certain subsidiaries have changed the depreciation method based on an amendment in corporate tax law.

As for other tangible fixed assets whose book value reached their residual value, the Company and certain subsidiaries depreciate the residual value equally over 5 years in accordance with the method prescribed in amendment to corporate tax law.

These changes do not have a significant impact on the consolidated financial statements.

**(l) Intangible assets**

Exploration and development rights at the exploration stage are fully amortized in the year such rights are acquired, and those at the production stage are amortized by the unit-of-production method.

Mining rights are amortized mainly by the unit-of-production method.

Capitalized computer software costs are being amortized over a period of five years.

Other intangible assets are amortized by the straight-line method.

**(m) Accrued retirement benefits to employees**

Accrued retirement benefits to employees are provided at the amount calculated based on the expected retirement benefit obligation and the fair value of pension plan assets at the end of this period. Because certain subsidiaries are classified as small enterprises, we employ a simplified method (at the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) for the calculation of the retirement benefit obligation of the subsidiaries.

Actuarial gains and losses are charged or credited to income as incurred.

**(n) Accrued retirement benefits to officers**

Accrued retirement benefits to officers are stated at the amount which would be required to be paid if all officers terminated their services as of the balance sheet date, based on the relevant internal rules.

**(o) Liabilities for site restoration and decommissioning costs**

Liabilities for site restoration and decommissioning costs are provided for expected future costs for site restoration and decommissioning.

**(p) Liabilities for losses on development activities**

Liabilities for losses on development activities are provided for provable losses on oil and natural gas development activities individually estimated for each project.

**(q) Accrued special repair and maintenance**

Accrued special repair and maintenance are provided for planned major repair and maintenance activities on tanks in certain subsidiaries at amounts accumulated through the next activity.

**(r) Leases**

Noncancelable leases are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

**(s) Hedge accounting**

The simplified accounting method is applied to interest rate swaps. For certain equity accounted companies, deferred hedge accounting is adopted. In addition, the nominal amount of the derivative transaction is limited to within the scope of actual demand, and the Company does not engage in speculative derivative transactions.

**(t) Research and development expenses**

Research and development expenses are charged to income as incurred.

**(u) Income taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

## 3 U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥100.20=US$1.00, the approximate rate of exchange in effect on March 31, 2008. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

# 4 SECURITIES

**a) Information regarding other securities with determinable market value as of March 31, 2007 and 2008 is as follows:**

| March 31, 2007 | Millions of yen<br>Acquisition cost | <br>Carrying value | <br>Unrealized gain (loss) |
|---|---|---|---|
| Securities with fair values exceeding their acquisition cost: | | | |
| Stock | ¥ 81,806 | ¥101,216 | ¥19,410 |
| Bonds: | | | |
| Public bonds | 61,212 | 61,272 | 60 |
| Corporate bonds | 325 | 345 | 20 |
| Other debt securities | 408 | 411 | 3 |
| Others | 501 | 502 | 1 |
| Subtotal | 144,252 | 163,746 | 19,494 |
| Securities with acquisition costs exceeding their fair value: | | | |
| Stock | 24,626 | 19,938 | (4,688) |
| Bonds: | | | |
| Public bonds | 152,827 | 150,215 | (2,612) |
| Other debt securities | 150 | 150 | (0) |
| Subtotal | 177,603 | 170,303 | (7,300) |
| Total | ¥321,855 | ¥334,049 | ¥12,194 |

| March 31, 2008 | Millions of yen<br>Acquisition cost | <br>Carrying value | <br>Unrealized gain (loss) | Thousands of U.S. dollars<br>Acquisition cost | <br>Carrying value | <br>Unrealized gain (loss) |
|---|---|---|---|---|---|---|
| Securities with fair values exceeding their acquisition cost: | | | | | | |
| Stock | **¥ 4,768** | **¥ 5,388** | **¥ 620** | **$ 47,585** | **$ 53,772** | **$ 6,187** |
| Bonds: | | | | | | |
| Public bonds | **241,843** | **243,098** | **1,255** | **2,413,603** | **2,426,128** | **12,525** |
| Other debt securities | **36** | **38** | **2** | **359** | **379** | **20** |
| Others | **501** | **505** | **4** | **5,000** | **5,040** | **40** |
| Subtotal | **247,148** | **249,029** | **1,881** | **2,466,547** | **2,485,319** | **18,772** |
| Securities with acquisition costs exceeding their fair value: | | | | | | |
| Stock | **76,515** | **70,427** | **(6,088)** | **763,623** | **702,864** | **(60,759)** |
| Bonds: | | | | | | |
| Public bonds | **58,897** | **55,809** | **(3,088)** | **587,794** | **556,976** | **(30,818)** |
| Corporate bonds | **325** | **301** | **(24)** | **3,243** | **3,004** | **(239)** |
| Other debt securities | **373** | **334** | **(39)** | **3,723** | **3,334** | **(389)** |
| Others | **9,228** | **7,422** | **(1,806)** | **92,096** | **74,072** | **(18,024)** |
| Subtotal | **145,338** | **134,293** | **(11,045)** | **1,450,479** | **1,340,250** | **(110,229)** |
| Total | **¥392,486** | **¥383,322** | **¥ (9,164)** | **$3,917,026** | **$3,825,569** | **$ (91,457)** |

### b) Information regarding sales of securities classified as other securities for the years ended March 31, 2007 and 2008 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2007 | **2008** | **2008** |
| Proceeds from sales | ¥67,260 | **¥51,580** | **$514,770** |
| Loss on sales | ¥ 2,610 | **¥ 16** | **$ 160** |

### c) Components of other securities without a determinable market value as of March 31, 2007 and 2008 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2007 | **2008** | **2008** |
| Other securities: | | | |
| Unlisted securities* | ¥38,274 | **¥38,286** | **$382,096** |
| Total | ¥38,274 | **¥38,286** | **$382,096** |

* An allowance is provided for investments in exploration companies at an estimated amount based on the financial position of the investees.

### d) Redemption schedule for securities with maturity dates classified as other securities as of March 31, 2008 is as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| March 31, 2008 | 1 year or less | More than 1 year but less than 5 years | More than 5 years but less than 10 years | More than 10 years | 1 year or less | More than 1 year but less than 5 years | More than 5 years but less than 10 years | More than 10 years |
| Debt securities: | | | | | | | | |
| Public bonds | **¥97,164** | **¥161,062** | **¥11,454** | **¥29,226** | **$969,701** | **$1,607,405** | **$114,311** | **$291,677** |
| Corporate bonds | **301** | **—** | **—** | **—** | **3,004** | **—** | **—** | **—** |
| Other | **—** | **334** | **38** | **—** | **—** | **3,333** | **379** | **—** |
| Total | **¥97,465** | **¥161,396** | **¥11,492** | **¥29,226** | **$972,705** | **$1,610,738** | **$114,690** | **$291,677** |

## 5 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2007 and 2008 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2007 | **2008** | **2008** |
| Short-term borrowings from banks and others (Interest rates ranging from 0.930% to 1.625% and from 1.240% to 1.875% at March 31, 2007 and 2008) | ¥375 | **¥325** | **$3,243** |
| Total | ¥375 | **¥325** | **$3,243** |

Long-term debt as of March 31, 2007 and 2008 are as follows:

| March 31, | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars 2008 |
|---|---|---|---|
| Loans from banks and others, due through 2019 (Interest rates ranging from 1.000% to 6.340% and from 1.000% to 5.800% at March 31, 2007 and 2008) | ¥248,594 | **¥193,763** | **$1,933,763** |
| Less: Current portion | 50,274 | **18,950** | **189,122** |
| Total | ¥198,320 | **¥174,813** | **$1,744,641** |

Assets pledged as of March 31, 2007 and 2008 are as follows:

| March 31, | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars 2008 |
|---|---|---|---|
| Buildings and structures | ¥ 2,181 | **¥ 2,447** | **$ 24,421** |
| Wells | — | **3,166** | **31,597** |
| Machinery, equipments and vehicles | 8,748 | **10,059** | **100,389** |
| Land | 1,826 | **1,826** | **18,224** |
| Investment securities | 9,999 | **6,513** | **65,000** |
| Other | 36 | **0** | **0** |
| Total | ¥22,790 | **¥24,011** | **$239,631** |

The above assets were pledged against the following liabilities:

| March 31, | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars 2008 |
|---|---|---|---|
| Short-term loans | ¥ 95 | **¥ 95** | **$ 948** |
| Accounts payable—other | 5,480 | **3,724** | **37,166** |
| Long-term debt | 15,272 | **13,218** | **131,916** |
| Other | 17 | **17** | **170** |
| Total | ¥20,864 | **¥17,054** | **$170,200** |

In addition, investment securities of ¥7,209 million as of March 31, 2007 and ¥ 6,908 million ($68,942 thousand) as of March 31, 2008 are pledged as collateral for the BTC Pipeline Project Finance.

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

| Years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2009 | ¥ 18,950 | $ 189,122 |
| 2010 | 18,744 | 187,066 |
| 2011 | 18,623 | 185,858 |
| 2012 | 17,221 | 171,866 |
| 2013 | 5,775 | 57,635 |
| 2014 and thereafter | 114,450 | 1,142,216 |
| Total | ¥193,763 | $1,933,763 |

# 6 INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 40.7% in 2007 and 2008.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2008 differ from the statutory tax rate for the following reasons:

| Years ended March 31, | 2007 | **2008** |
|---|---|---|
| Statutory tax rate | 40.7% | **40.7%** |
| Effect of: | | |
| Permanently non-taxable income such as dividend income | (0.3) | **(0.7)** |
| Valuation allowance | (0.1) | **0.2** |
| Foreign taxes | 68.0 | **70.5** |
| Foreign tax credits | (18.4) | **(19.1)** |
| Adjustment of deducted amounts of foreign taxes | (15.9) | **(11.3)** |
| Net operating losses utilized | — | **(0.9)** |
| Equity in earnings of affiliates | (0.1) | **(0.1)** |
| Amortization of goodwill | 0.5 | **0.4** |
| Differences of effective tax rates applied to income of foreign subsidiaries | (4.6) | **(4.7)** |
| Differences of effective tax rates applied to tax effect accounting | — | **(4.2)** |
| Other | 0.7 | **0.8** |
| Effective tax rate | 70.5% | **71.6%** |

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2008 are as follows:

| March 31, | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars 2008 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Investments in related parties | ¥ 42,305 | **¥ 53,308** | **$ 532,016** |
| Loss on revaluation of land | 4,543 | **4,543** | **45,339** |
| Non-deductible accounts payable—other | 5,499 | **—** | **—** |
| Recoverable accounts under production sharing (foreign taxes) | 3,482 | **11,881** | **118,573** |
| Allowance for investments in exploration | 3,223 | **3,122** | **31,157** |
| Foreign taxes payable | 31,375 | **11,326** | **113,034** |
| Net operating loss | 10,499 | **6,071** | **60,589** |
| Accumulated depreciation | 3,542 | **14,990** | **149,601** |
| Accrued retirement benefits | 3,883 | **3,772** | **37,645** |
| Translation differences of asset and liabilities denominated in foreign currencies | 1,395 | **1,004** | **10,020** |
| Liabilities for site restoration and decommissioning costs | 2,091 | **2,256** | **22,515** |
| Unrealized holding loss on securities | — | **3,058** | **30,519** |
| Other | 8,458 | **8,472** | **84,551** |
| Total gross deferred tax assets | 120,295 | **123,803** | **1,235,559** |
| Valuation allowance | (91,186) | **(77,114)** | **(769,601)** |
| Total deferred tax assets | 29,109 | **46,689** | **465,958** |
| Deferred tax liabilities: | | | |
| Foreign taxes | 7,371 | **15,595** | **155,639** |
| Translation differences due to an application of purchase accounting method | 29,945 | **22,526** | **224,810** |
| Reserve for exploration | 5,479 | **5,235** | **52,245** |
| Unrealized holding gain on securities | 2,969 | **—** | **—** |
| Translation differences of asset and liabilities denominated in foreign currencies | — | **9,676** | **96,567** |
| Other | 7,178 | **7,487** | **74,721** |
| Total deferred tax liabilities | 52,942 | **60,519** | **603,982** |
| Net deferred tax liabilities | ¥ 23,833 | **¥ 13,830** | **$ 138,024** |

## 7 NET ASSETS

As of March 31, 2008, the total number of the Company's shares issued consisted of 2,358,409.13 shares of common stock and 1 special class share. The special class share has no voting rights at the common shareholders' meeting, but the ownership of the special class share gives its holder a right of veto over certain important matters by imposing the requirement to obtain a class vote. However, requirements stipulated in the Articles of Incorporation need to be met in cases involving the appointment or removal of directors, the disposition of important assets or the exercise of the veto as follows:

- Appointment and removal of directors
- Disposition of all or part of the material assets
- Amendments to the Article of Incorporation with respect to (i) the purpose of the Company's business and (ii) the granting of voting rights to the Company's shares other than common stock
- Mergers, share exchanges or share transfers
- Capital reduction
- Dissolution

The special class shareholder may request the Company to acquire the special class share. Besides, the Company may also acquire the special class share by the resolution of a Board of Directors meeting in case of that special class share is transferred to a non-public entity.

The Corporate Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than capital reserve) and retained earnings (other than legal reserve) be transferred to the capital reserve and the legal reserve respectively until the total of capital reserve and the legal reserve equals 25% of the common stock account.

Such distribution can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

## 8 AMOUNTS PER SHARE

| | Yen | | U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2007 | **2008** | **2008** |
| Net income | ¥ 70,423.45 | **¥ 73,510.14** | **$ 733.63** |
| Cash dividends | 7,000.00 | **7,500.00** | **74.85** |
| Net assets | 436,467.92 | **491,168.09** | **4,901.88** |

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors together with the interim cash dividends paid.

Net assets per share are computed based on the net assets excluding minority interests and the number of common stock outstanding at the year end.

# 9 DERIVATIVES

**(a) Hedging instruments and hedged items**
The Company has entered into interest rate swap transactions in order to reduce its exposure to interest rate fluctuations.

**(b) Hedging policies**
The nominal amount of the derivative transaction is limited to within the scope of actual demand, and the Company does not engage in speculative derivative transactions.

**(c) Credit risk**
The Company is exposed to credit risk in the event of nonperformance by the counterparties to those derivative transactions, but any such risk would not be material because the Company enters into transactions only with financial institutions or trading companies with high credit ratings.

**(d) Risk management**
The execution and control of derivative transactions are based on internal rules. All transactions are reported to the director in charge on a timely basis and transaction confirmations obtained from counterparties on a regular basis.

**(e) Fair value of derivatives**
No derivatives are disclosed because hedge accounting is applied for all derivative transactions.

# 10 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses amounted to ¥301 million and ¥2,229 million ($22,246 thousand) for the years ended March 31, 2007 and 2008 respectively.

# 11 RETIREMENT BENEFITS

1. Retirement benefit obligation as of March 31, 2007 and 2008 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2007 | **2008** | **2008** |
| Retirement benefit obligation | ¥(15,707) | **¥(15,750)** | **$(157,185)** |
| Plan assets at fair value | 7,336 | **7,105** | **70,908** |
| Unfunded retirement benefit obligation | (8,371) | **(8,645)** | **(86,277)** |
| Unrecognized actuarial gain or loss | — | **—** | **—** |
| Accrued retirement benefits to employees | ¥ (8,371) | **¥ (8,645)** | **$ (86,277)** |

Certain subsidiaries had pension assets of ¥1,634 million, which is not included in above figures, in the Multi-Employer Pension Fund Plan for the year ended March 31, 2007. Funding status and contributory percentage of the Multi-Employer Pension Fund Plan for the year ended March 31, 2008 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| March 31, | **2008** | **2008** |
| Funding status as of March 31, 2007 | | |
| Plan assets at fair value | **¥175,105** | **$1,747,555** |
| Retirement benefit obligation | **159,848** | **1,595,290** |
| Balance | **¥ 15,257** | **$ 152,265** |
| Contributory percentage of the Multi-Employer Pension Fund Plan (weighted average for the year ended March 31, 2007) | **0.7%** | **0.7%** |

2. Retirement benefit expenses for the years ended March 31, 2007 and 2008 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended March 31, | 2007 | **2008** | **2008** |
| Service cost | ¥912 | **¥ 846** | **$ 8,443** |
| Interest cost | 273 | **274** | **2,735** |
| Expected return on plan assets | (106) | **(108)** | **(1,078)** |
| Amortization of actuarial gain or loss | (145) | **153** | **1,527** |
| Retirement benefit expenses | ¥934 | **¥1,165** | **$11,627** |

3. The assumptions used in accounting for the above plans are as follows:

| Years ended March 31, | 2007 | **2008** |
|---|---|---|
| Discount rate | 2.0% | **2.0%** |
| Expected return on plan assets | 1.5% | **1.5%** |
| Period for amortization of actuarial gain or loss | Amortized as incurred | **Amortized as incurred** |

## 12 GOODWILL

The changes in the carrying amount of goodwill for the years ended March 31, 2007 and 2008 are as follows:

| Years ended March 31, | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars 2008 |
|---|---|---|---|
| Balance at beginning of year | ¥ — | **¥132,106** | **$1,318,423** |
| Goodwill acquired during the year | 139,084 | **(3,845)** | **(38,373)** |
| Amortization of goodwill | (6,978) | **(6,617)** | **(66,038)** |
| Balance at end of year | ¥132,106 | **¥121,644** | **$1,214,012** |

Goodwill acquired during the year ended March 31, 2007 mainly consisted of goodwill related to the business integration.

Negative goodwill acquired during the year ended March 31, 2008 consisted of negative goodwill related to the taking effect of exploration and production agreement in Venezuela.

## 13 LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2007 and 2008, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases.

| March 31, | Millions of yen 2007 | Millions of yen 2008 | Thousands of U.S. dollars 2008 |
|---|---|---|---|
| Acquisition costs of leased property | ¥955 | **¥961** | **$9,591** |
| Accumulated depreciation | 518 | **614** | **6,128** |
| Net book value | ¥437 | **¥347** | **$3,463** |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥182 million for the year ended March 31, 2007 and ¥174 million ($1,737 thousand) for the year ended March 31, 2008, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms.

Future minimum lease payments (including the interest portion) subsequent to March 31, 2008 for finance lease transactions accounted for as operating leases are summarized as follows:

| Years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2009 | ¥140 | $1,397 |
| 2010 and thereafter | 207 | 2,066 |
| Total | ¥347 | $3,463 |

# 14 CONTINGENT LIABILITIES

As of March 31, 2008, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of affiliates in the aggregate amount of ¥29,078 million ($290,200 thousand). In addition, INPEX BTC Pipeline, Ltd. a consolidated subsidiary, was contingently liable for next scheduled payment, which was ¥340 million ($3,393 thousand) as of December 31, 2007, as the guarantor of indebtedness of BTC Pipeline Project Finance under certain conditions.

# 15 SEGMENT INFORMATION

As net sales, operating income and total assets of the oil and natural gas business constituted more than 90% of the consolidated totals for the years ended March 31, 2007 and 2008, the disclosure of business segment information has been omitted.

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2007 and 2008 is summarized as follows:

Millions of yen

| Year ended March 31, 2007 | Japan | Asia & Oceania (a) | NIS (b) | Middle East & Africa (c) | Americas (d) | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Sales to third parties | ¥ 77,322 | ¥387,543 | ¥118,618 | ¥386,009 | ¥ 221 | ¥ 969,713 | ¥ — | ¥ 969,713 |
| Intercompany sales and transfers between segments | 0 | — | — | — | — | 0 | (0) | — |
| Total sales | 77,322 | 387,543 | 118,618 | 386,009 | 221 | 969,713 | (0) | 969,713 |
| Operating expenses | 54,306 | 145,638 | 82,996 | 119,282 | 1,660 | 403,882 | 6,754 | 410,636 |
| Operating income | 23,016 | 241,905 | 35,622 | 266,727 | (1,439) | 565,831 | (6,754) | 559,077 |
| Total assets | ¥197,405 | ¥322,116 | ¥320,574 | ¥254,072 | ¥17,776 | ¥1,111,943 | ¥496,164 | ¥1,608,107 |

(a) Asia & Oceania: Indonesia, Australia, East Timor, Vietnam
(b) Newly Independent States (NIS): Azerbaijan, Kazakhstan
(c) Middle East & Africa: UAE, D.R.Congo, Iran, Libya, Egypt, Algeria
(d) Americas: Venezuela, Ecuador, USA

Millions of yen

| **Year ended March 31, 2008** | Japan | Asia & Oceania (a) | Eurasia (Europe & NIS) (b) | Middle East & Africa (c) | Americas (d) | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Sales to third parties | **¥ 93,882** | **¥452,542** | **¥183,879** | **¥464,523** | **¥ 8,139** | **¥1,202,965** | **¥ —** | **¥1,202,965** |
| Total sales | **93,882** | **452,542** | **183,879** | **464,523** | **8,139** | **1,202,965** | **—** | **1,202,965** |
| Operating expenses | **61,950** | **165,837** | **97,843** | **140,492** | **16,101** | **482,223** | **6,531** | **488,754** |
| Operating income | **31,932** | **286,705** | **86,036** | **324,031** | **(7,962)** | **720,742** | **(6,531)** | **714,211** |
| Total assets | **¥212,306** | **¥360,298** | **¥363,184** | **¥299,563** | **¥60,656** | **¥1,296,007** | **¥511,894** | **¥1,807,901** |

| Year ended March 31, 2008 | Japan | Asia & Oceania (a) | Eurasia (Europe & NIS) (b) | Middle East & Africa (c) | Americas (d) | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | |
| Sales to third parties | **$ 936,946** | **$4,516,387** | **$1,835,120** | **$4,635,958** | **$ 81,228** | **$12,005,639** | **$ —** | **$12,005,639** |
| Total sales | **936,946** | **4,516,387** | **1,835,120** | **4,635,958** | **81,228** | **12,005,639** | **—** | **12,005,639** |
| Operating expenses | **618,263** | **1,655,060** | **976,477** | **1,402,116** | **160,689** | **4,812,605** | **65,180** | **4,877,785** |
| Operating income | **318,683** | **2,861,327** | **858,643** | **3,233,842** | **(79,461)** | **7,193,034** | **(65,180)** | **7,127,854** |
| Total assets | **$2,118,822** | **$3,595,789** | **$3,624,591** | **$2,989,651** | **$605,349** | **$12,934,202** | **$5,108,722** | **$18,042,924** |

(a) Asia & Oceania: Indonesia, Australia, East Timor, Vietnam
(b) Eurasia (Europe & NIS): Azerbaijan, Kazakhstan, UK
(c) Middle East & Africa: UAE, D.R.Congo, Iran, Libya, Egypt, Algeria, Angola
(d) Americas: Venezuela, Ecuador, USA, Canada, Suriname

The geographical segment information for the Company and its subsidiaries has been reflected in the regions based on the location of operations.

While the classification of region until the previous fiscal year had been "Japan," "Asia & Oceania," "NIS," "Middle East & Africa," and "Americas," the "NIS" was changed to "Eurasia (Europe & NIS)" due to acquisition of interest in UK project during the year ended March 31, 2008.

### Overseas sales

Overseas sales, which include sales (other than exports to Japan) of its overseas subsidiaries, for the years ended March 31, 2007 and 2008 are summarized as follows:

| Year ended March 31, 2007 | Asia & Oceania (a) | Other (b) | Total |
|---|---|---|---|
| | Millions of yen | | |
| Overseas sales | ¥319,548 | ¥53,557 | ¥373,105 |
| Consolidated net sales | | | 969,713 |
| Overseas sales as a percentage of consolidated net sales | 33.0% | 5.5% | 38.5% |

(a) Asia & Oceania: South Korea, Taiwan, Indonesia, Singapore, Thailand, China, Malaysia, Philippines, Australia
(b) Other: USA, Italy

| Year ended March 31, 2008 | Asia & Oceania (a) | Other (b) | Total | Asia & Oceania (a) | Other (b) | Total |
|---|---|---|---|---|---|---|
| | Millions of yen | | | Thousands of U.S. dollars | | |
| Overseas sales | **¥381,147** | **¥84,470** | **¥ 465,617** | **$3,803,862** | **$843,014** | **$ 4,646,876** |
| Consolidated net sales | | | **1,202,965** | | | **12,005,639** |
| Overseas sales as a percentage of consolidated net sales | **31.7%** | **7.0%** | **38.7%** | **31.7%** | **7.0%** | **38.7%** |

(a) Asia & Oceania: South Korea, Taiwan, Indonesia, Singapore, Thailand, China, Philippines, Australia
(b) Other: USA, Italy

# Report of Independent Auditors

ERNST & YOUNG SHINNIHON

Certified Public Accountants
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Chiyoda-ku, Tokyo, Japan 100-0011
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## Report of Independent Auditors

The Board of Directors
INPEX Holdings Inc.

We have audited the accompanying consolidated balance sheets of INPEX Holdings Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of INPEX Holdings Inc. and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young Shinnihon

Tokyo, Japan
June 23, 2008

# Operating Data and Corporate Information

Contents

# Oil and Gas Reserves and Production Volume

## 1 Oil and Gas Reserves

### Definition of Proved Reserves and Probable Reserves Oil and Gas Reserves and Production Volume

INPEX CORPORATION commissioned DeGolyer and MacNaughton, an independent petroleum engineering consultant in the United States, to assess major proved reserves of our group. The definition of proved reserves evaluated by DeGolyer and MacNaughton is based on the U.S. Securities and Exchange Commission's Regulation S-X, Rule 4-10, which is widely known among U.S. investors. Proved oil and gas reserves are estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, as of the date such an estimate is made. According to SEC Standards, proved reserves are classified into two categories: "Proved developed reserves" can be expected to be recovered through existing wells with existing equipment and operating methods and "proved undeveloped reserves" can be expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. To be defined as "proved reserves" assumes the existence of a market and economic means of recovery, process and shipment, or the certainty to gain such means in the short term. This definition is widely regarded as being conservative. Nevertheless, the strictness of the definition does not imply any guarantee of the production of total reserves during a future production period.

In addition to the assessment of proved reserves based on SEC Standards, the Company also commissioned DeGolyer and MacNaughton and Ryder Scott to assess its probable reserves based on Petroleum Resources Management System 2007 (PRMS) published by four organizations of the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE). Probable reserves, as defined by the four organizations, are reserves outside proved reserves that are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves based on analyses of geological and engineering data. In this context, when probabilistic methods are employed, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved and probable reserves. The difference between this definition and the definition of proved reserves based on SEC standards is the degree of certainty that oil and gas can be recovered as of the date such an estimate is made. Probable reserves can be upgraded to proved reserves after the addition of new technical data, under different economical conditions, and with advances in operational conditions. Nevertheless, probable reserves offer no guarantee of the production of total reserves during a future production period with the same certainty as proved reserves.

A reserve evaluation depends on the available geological and engineering data from oil and gas reservoirs, the maturity of development plans, economic conditions, etc. as of the date such an estimate is made. Based on newly available data with progress of productions and operations, reserves may be revised in the future. As a result, there is a possibility that reserves will be restated upwards or downwards. As to the reserves under Production Sharing Contract, not only production but also oil and gas prices, investments and cost recoveries and remuneration fees may affect the economic entitlement under the contract. This may lead reserves to increase or decrease. In March 2007, as the SPE, WPC, AAPG and SPEE together changed the definition of reserves, our probable reserves could fluctuate because of various data, assumptions and changes of definition.

## Proved Reserves

The following tables list the proved reserves of crude oil, condensate, LPG and natural gas of our major subsidiaries and equity method affiliates. Disclosure items of proved reserves are based on the U.S. Statement of Financial Accounting Standards No. 69. The Company was established on April 3, 2006. Therefore, the reserves as of March 31, 2006 in the following table assume that integration of INPEX and Teikoku Oil took place in the year ended March 31, 2006.

Our proved reserves as of March 31, 2008 were 1,087.57 million barrels for crude oil, condensate and LPG, 3,345.7 billion cubic feet for natural gas and 1,645.18 million BOE (Barrels of Oil Equivalent) in total.

| | Japan | | Asia & Oceania | | Eurasia (Europe & NIS) | | Middle East & Africa | | Americas | | Subtotal | | Interest in Reserves Held by Equity-Method Affiliates | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) | Crude oil (MMbbls) | Gas (Bcf) |
| **Proved developed and undeveloped reserves** | | | | | | | | | | | | | | | | |
| As of March 31, 2006 | 22 | 886 | 105 | 2,655 | 116 | — | 542 | — | — | 120 | 785 | 3,662 | 305 | 447 | 1,090 | 4,109 |
| Extensions and discoveries | — | — | — | — | 99 | — | — | — | — | — | 99 | — | 8 | 1 | 107 | 1 |
| Acquisitions and sales | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Revisions of previous estimates | 0 | 1 | 16 | 58 | 5 | — | 11 | — | — | (6) | 32 | 53 | (2) | (2) | 30 | 51 |
| Interim production | (1) | (42) | (15) | (315) | (18) | — | (30) | — | — | (21) | (63) | (378) | (24) | — | (88) | (378) |
| As of March 31, 2007 | 21 | 845 | 106 | 2,398 | 203 | — | 523 | — | — | 93 | 853 | 3,336 | 286 | 446 | 1,139 | 3,782 |
| Extensions and discoveries | — | — | 20 | — | 29 | — | — | — | 1 | — | 50 | — | — | — | 50 | — |
| Acquisitions and sales | — | — | 0 | 1 | — | — | — | — | — | 40 | 0 | 41 | 0 | 3 | 0 | 44 |
| Revisions of previous estimates | 0 | (0) | (0) | (77) | (5) | — | (5) | — | — | 1 | (10) | (75) | (4) | (8) | (14) | (83) |
| Interim production | (1) | (59) | (13) | (309) | (20) | — | (30) | — | (0) | (29) | (64) | (397) | (23) | — | (88) | (397) |
| As of March 31, 2008 | **20** | **786** | **112** | **2,014** | **207** | **—** | **489** | **—** | **1** | **106** | **829** | **2,905** | **259** | **440** | **1,088** | **3,346** |
| **Proved developed reserves** | | | | | | | | | | | | | | | | |
| As of March 31, 2008 | **18** | **724** | **69** | **1,213** | **20** | **—** | **488** | **—** | **1** | **70** | **596** | **2,007** | **250** | **—** | **845** | **2,007** |

Notes: 1. Reserves of the following blocks and fields include minority interests.
Asia & Oceania: Offshore Northwest Java (16.5%), Offshore Southeast Sumatra (16.5%)
Eurasia (Europe & NIS): ACG (49%), Kashagan (55%)
Middle East & Africa: Abu Al Bukhoosh (5%), West Bakr (47.3%)
Americas: Copa Macoya (30%)
2. MMbbls: Millions of barrels
3. Bcf: Billions of cubic feet
4. Crude oil includes condensate and LPG
5. The geographical segment "NIS" will be changed to "Eurasia (Europe & NIS)" from March 31, 2008.

## Standardized Measure of Discounted Future Net Cash Flows and Changes Relating to Proved Oil and Gas Reserves

In calculating the standardized measure of discounted future net cash flows, year-end constant price and cost assumptions are applied to our estimated annual future production from proved reserves to determine future cash inflows. Future development costs are estimated based upon constant price assumptions and assume the continuation of existing economic, operating, and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimated future pretax cash flows after provision for taxes on the cost of oil and natural gas properties based upon existing laws and regulations. The discount is computed by application of a 10% discount factor to the estimated future net cash flows.

We believe that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary, and prices change constantly from year-end levels. Disclosure items are based on the U.S. Statement of Financial Accounting Standards No. 69. We use the exchange rates of ¥118.09 and ¥100.20 to US$1.00 as of March 31, 2007 and 2008, respectively.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| As of March 31, 2007 | Total | Japan | Asia & Oceania | NIS | Middle East & Africa | Americas |
| **Consolidated subsidiaries** | | | | | | |
| Future cash inflows | 8,540,286 | 814,449 | 2,645,392 | 1,444,902 | 3,612,733 | 22,810 |
| Future production and development costs | (2,586,449) | (143,763) | (863,273) | (425,072) | (1,141,377) | (12,964) |
| Future income tax expenses | (3,430,774) | (121,435) | (765,801) | (232,138) | (2,308,577) | (2,823) |
| Future net cash flows | 2,523,063 | 549,251 | 1,016,318 | 787,692 | 162,779 | 7,023 |
| 10% annual discount for estimated timing of cash flows | (1,239,469) | (305,507) | (386,207) | (450,200) | (95,905) | (1,650) |
| Standardized measure of discounted future net cash flows | 1,283,594 | 243,744 | 630,111 | 337,492 | 66,874 | 5,373 |
| Share of equity method investees' standardized measure of discounted future net cash flows | 63,534 | — | 37,916 | — | 22,981 | 2,637 |

Notes: 1. Reserves of the following blocks and fields include minority interests.
2. Asia & Oceania: Offshore Northwest Java (16.5%), Offshore Southeast Sumatra (16.5%)
3. NIS: ACG (49%), Kashagan (55%)
4. Middle East & Africa: Abu Al Bukhoosh (5%), West Bakr (47.3%)

Millions of yen

| As of March 31, 2008 | Total | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas |
|---|---|---|---|---|---|---|
| **Consolidated subsidiaries** | | | | | | |
| Future cash inflows | **10,784,073** | **879,942** | **3,055,125** | **2,030,128** | **4,792,848** | **26,030** |
| Future production and development costs | **(2,693,818)** | **(153,954)** | **(751,518)** | **(487,550)** | **(1,279,902)** | **(20,894)** |
| Future income tax expenses | **(4,882,340)** | **(145,218)** | **(1,011,368)** | **(384,543)** | **(3,339,299)** | **(1,912)** |
| Future net cash flows | **3,207,915** | **580,770** | **1,292,239** | **1,158,035** | **173,647** | **3,224** |
| 10% annual discount for estimated timing of cash flows | **(1,583,464)** | **(310,255)** | **(423,485)** | **(765,939)** | **(82,604)** | **(1,181)** |
| Standardized measure of discounted future net cash flows | **1,624,451** | **270,515** | **868,754** | **392,096** | **91,043** | **2,043** |
| Share of equity method investees' standardized measure of discounted future net cash flows | **77,355** | **—** | **43,219** | **—** | **18,680** | **15,456** |

Notes: 1. Reserves of the following blocks and fields include minority interests.
Asia & Oceania: Offshore Northwest Java (16.5%), Offshore Southeast Sumatra (16.5%)
Eurasia (Europe & NIS): ACG (49%), Kashagan (55%)
Middle East & Africa: Abu Al Bukhoosh (5%), West Bakr (47.3%)
Americas: Copa Macoya (30%)
2. The geographical segment "NIS" will be changed to "Eurasia" from March 31, 2008.

Millions of yen

| | Total | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas |
|---|---|---|---|---|---|---|
| **Consolidated subsidiaries** | | | | | | |
| Standardized measure, beginning of period As of April 1, 2007 | **1,283,594** | **243,744** | **630,111** | **337,492** | **66,874** | **5,373** |
| Changes resulting from: | | | | | | |
| Sales and transfers of oil and produced, net of production costs | **(628,569)** | **(40,219)** | **(297,020)** | **(127,112)** | **(160,676)** | **(3,542)** |
| Net change in prices, and production costs | **1,935,375** | **111,166** | **640,567** | **314,185** | **872,036** | **(2,579)** |
| Development cost incurred | **181,584** | **10,077** | **101,134** | **53,539** | **15,325** | **1,509** |
| Changes in estimated development costs | **(90,504)** | **(15,295)** | **(15,745)** | **(77,487)** | **20,149** | **(2,126)** |
| Revisions of previous quantity estimates | **(43,723)** | **(4,232)** | **(49,365)** | **34,272** | **(26,786)** | **2,388** |
| Accretion of discount | **264,348** | **29,488** | **109,146** | **39,421** | **85,615** | **678** |
| Net change in income taxes | **(1,005,154)** | **(23,532)** | **(179,165)** | **(12,479)** | **(790,606)** | **628** |
| Extentions, discoveries and improved recoveries | **38,369** | **—** | **38,417** | **—** | **—** | **(48)** |
| Other | **(310,869)** | **(40,682)** | **(109,326)** | **(169,735)** | **9,112** | **(238)** |
| Standardized measure, end of period As of April 1, 2008 | **1,624,451** | **270,515** | **868,754** | **392,096** | **91,043** | **2,043** |

Note: Reserves of the following blocks and fields include minority interests.
Asia & Oceania: Offshore Northwest Java (16.5%), Offshore Southeast Sumatra (16.5%)
Eurasia (Europe & NIS): ACG (49%), Kashagan (55%)
Middle East & Africa: Abu Al Bukhoosh (5%), West Bakr (47.3%)
Americas: Copa Macoya (30%)

## Probable Reserves

The following tables list the probable reserves of crude oil, condensate, LPG and natural gas of our major subsidiaries and equity method affiliates.

Our probable reserves as of March 31, 2008 were 1,273.80 million barrels for crude oil, condensate and LPG, 8,682.2 billion cubic feet for natural gas and 2,720.83 million BOE (Barrels of Oil Equivalent) in total.

| As of March 31, 2008 | Japan | Asia & Oceania | Eurasia (Europe & NIS) | Middle East & Africa | Americas | Subtotal | Interest in Reserves Held by Equity-Method Affiliates | Total |
|---|---|---|---|---|---|---|---|---|
| Crude oil, condensate and LPG (MMbbls) | **5** | **671** | **397** | **51** | **77** | **1,201** | **73** | **1,274** |
| Natural gas (Bcf) | **196** | **8,237** | **—** | **—** | **108** | **8,541** | **141** | **8,682** |

Notes: 1. MMbbls: Millions of barrels
2. Bcf: Billions of cubic feet

## 2 Oil and Gas Production

The following tables list average daily productions for crude oil, natural gas, and the total of crude oil and natural gas by region. The proportional interests in production by our equity-method affiliates are not broken down by geographical regions. the Company was established on April 3, 2006. Therefore, the figures for the year ended March 31, 2006 in the following table assume that integration of INPEX and Teikoku Oil took place in the year ended March 31, 2006.

Our productions for the year ended March 31, 2007 were 242 thousand barrels per day for crude oil, condensate and LPG, 1,089 million cubic feet per day for natural gas and 423 thousand BOE (Barrels of Oil Equivalent) per day in total.

| Fiscal year ended March 31 | 2006 | 2007 | **2008** |
|---|---|---|---|
| **Crude oil** (Thousands of barrels per day)**:** | | | |
| Japan | 3.2 | 3.9 | **4.9** |
| Asia & Oceania | 44.7 | 40.4 | **36.5** |
| Eurasia (Europe & NIS) | 27.1 | 47.9 | **54.5** |
| Middle East & Africa | 79.6 | 82.3 | **80.7** |
| Americas | 2.2 | 0.1 | **0.4** |
| Subtotal | 156.8 | 174.7 | **177.0** |
| Proportional interest in production by equity-method affiliates | 61.2 | 67.8 | **64.6** |
| Total | 218.0 | 242.5 | **241.5** |
| Annual production (Millions of barrels) | 79.6 | 88.5 | **88.4** |
| | | | |
| **Natural gas** (Millions of cubic feet per day)**:** | | | |
| Japan | 96.7 | 127.8 | **161.5** |
| Asia & Oceania | 787.8 | 865.8 | **845.7** |
| Eurasia (Europe & NIS) | | | |
| Middle East & Africa | | | |
| Americas | 76.6 | 57.5 | **81.6** |
| Subtotal | 961.2 | 1,051.1 | **1,088.8** |
| Proportional interest in production by equity-method affiliates | | | |
| Total | 961.2 | 1,051.1 | **1,088.8** |
| Annual production (Billions of cubic feet) | 350.8 | 383.6 | **398.5** |
| | | | |
| **Crude oil and natural gas** (Thousands of barrels of oil equivalent per day)**:** | | | |
| Japan | 19.3 | 25.2 | **31.9** |
| Asia & Oceania | 176.1 | 184.7 | **177.4** |
| Eurasia (Europe & NIS) | 27.1 | 47.9 | **54.5** |
| Middle East & Africa | 79.6 | 82.3 | **80.7** |
| Americas | 14.9 | 9.7 | **14.0** |
| Subtotal | 317.0 | 349.8 | **358.4** |
| Proportional interest in production by equity-method affiliates | 61.2 | 67.8 | **64.6** |
| Total | 378.2 | 417.7 | **423.0** |
| Annual production (Millions of barrels of oil equivalent) | 138.0 | 152.5 | **154.8** |

Note: Crude oil includes condensate and LPG.

# Subsidiaries and Affiliates

As of March 31, 2008

## Consolidated Subsidiaries

| Company Name | Issued Capital* (Millions of yen) | Voting Rights Held by Us (%) | Main Business |
|---|---|---|---|
| INPEX CORPORATION | 29,460 | 100.00% | Exploration, development, production and sales of oil and natural gas overseas, primarily in Indonesia |
| Teikoku Oil Co., Ltd. | 19,579 | 100.00% | Exploration, development, production and sales of oil and natural gas in Japan and overseas |
| Japan Oil Development Co., Ltd. | 18,800 | 100.00% | Exploration, development, production and sales of oil in ADMA Block, United Arab Emirates |
| INPEX Natuna, Ltd. | 5,000 | 100.00% | Exploration, development, production and sales of oil and natural gas in South Natuna Sea Block B, Indonesia |
| INPEX Alpha, Ltd. | 3,814 | 100.00% | Exploration, development, production and sales of oil and natural gas in WA-10-L Block and others, Australia |
| INPEX Sahul, Ltd. | 4,600 | 100.00% | Exploration, development, production and sales of oil and natural gas in JPDA03-12 Block in the Timor Sea JPDA |
| INPEX Jawa, Ltd. | 4,804 | 83.50% | Exploration, development, production and sales of oil and natural gas in Offshore Northwest Java Block, Indonesia |
| INPEX Sumatra, Ltd. | 400 | 100.00% | Exploration, development, production and sales of oil and natural gas in Offshore Southeast Sumatra Block, Indonesia |
| INPEX ABK, Ltd. | 2,500 | 95.00% | Exploration, development, production and sales of oil in Abu Al Bukhoosh Block, United Arab Emirates |
| INPEX Southwest Caspian Sea, Ltd. | 53,594 | 51.00% | Exploration, development, production and sales of oil in ACG Oil Fields, Azerbaijan |
| INPEX Tengah, Ltd. | 1,020 | 100.00% | Exploration, development, production and sales of oil and natural gas in Tengah Block in Offshore East Kalimantan, Indonesia |
| INPEX Browse, Ltd. | 30,690 | 100.00% | Exploration and development of oil and natural gas in WA-285-P Block and others, Australia |
| INPEX Masela, Ltd. | 24,783 | 55.37% | Exploration and development of oil and natural gas in Masela Block in the Timor Sea, Indonesia |
| INPEX North Caspian Sea, Ltd. | 50,080 | 45.00% | Exploration and development of oil and natural gas in Offshore North Caspian Sea Block, Kazakhstan |
| Azadegan Petroleum Development, Ltd. | 9,550 | 100.00% | Appraisal and development of Azadegan Oil Field, Iran |
| INPEX Timor Sea, Ltd. | 4,647 | 100.00% | Exploration and development of oil and natural gas in JPDA06-105 Block in the Timor Sea JPDA |
| INPEX Offshore Northeast Mahakam, Ltd. | 973 | 100.00% | Exploration of oil and natural gas in Saliki Block in Offshore East Kalimantan, Indonesia |
| INPEX Offshore North Mahakam, Ltd. | 3,875 | 100.00% | Exploration of oil and natural gas in East Kalimantan Block in Offshore East Kalimantan, Indonesia |
| INPEX Libya, Ltd. | 1,730 | 100.00% | Exploration of oil and natural gas in the 42-2&4 and 113-3&4 Blocks in the Great Socialist People's Libyan Arab Jamahiriya |
| INPEX Trading, Ltd. | 50 | 100.00% | Sales, agency, and brokerage of crude oil and market research and sales planning in connection with oil and natural gas sales |
| INPEX Services, Ltd. | 65 | 100.00% | Management of owned properties and facilities |
| INPEX Canada, Ltd. | 16,000 | 100.00% | Exploration, development, production and sales of oil and natural gas including oil sands in Canada |
| INPEX BTC Pipeline, Ltd. | 63,800 (Thousands of U.S. dollars) | 100.00% | Investment in pipeline construction and management business which connects Baku (Azerbaijan), Tbilisi (Georgia) and Ceyhan (Turkey) |
| INPEX DLNGPL Pty Ltd | 86,135 (Thousands of AUS dollars) | 100.00% | Investment in Darwin LNG Pty Ltd., that constructs and operates the under sea pipeline and LNG plant connecting Bayu Undan Gas/Condensate Field and Darwin (Australia) |
| Teikoku Oil (Venezuela) Co., Ltd. | 100 | 100.00% | Reactivation of oil and gas fields, exploration and development of new fields based on joint venture agreement in the Guarico Oriental area, Venezuela |
| Teikoku Oil Libya UK LTD | 36,855 (Thousands of U.S. dollars) | 100.00% | Exploration of oil in the western onshore, Libya |

| Company Name | Issued Capital* (Millions of yen) | Voting Rights Held by Us (%) | Main Business |
|---|---|---|---|
| Teikoku Oil (North America) Co., Ltd. | 16,533 (Thousands of U.S. dollars) | 100.00% | Exploration, development, production and sales of oil in the United States of America |
| Teikoku Oil Suez SEJ Co., Ltd. | 840 | 100.00% | Exploration of oil in the Gulf of Suez, Egypt |
| Teikoku Oil Algeria Co., Ltd. | 708 | 100.00% | Exploration and development of oil in the eastern onshore, Algeria |
| Teikoku Oil (Con Son) Co., Ltd. | 625 | 100.00% | Exploration of oil in the southern offshore, Vietnam |
| Teikoku Oil (Cabinda) Co., Ltd. | 370 | 100.00% | Exploration of oil in the Cabinda area, Angola |
| Teikoku Oil Suez SOB Co., Ltd. | 281 | 100.00% | Exploration of oil in the Gulf of Suez, Egypt |
| Teiseki Drilling Co., Ltd. | 100 | 100.00% | Geothermal production wells, crust activity observation wells, wells for hot springs, civil engineering |
| Teiseki Real Estate Co., Ltd. | 100 | 100.00% | Real estate rental, management and insurance agency services |
| Teiseki Pipeline Co., Ltd. | 100 | 100.00% | Natural gas transportation, pipeline operation, maintenance and management |
| Teiseki Propane Co., Ltd. | 80 | 100.00% | Sales of LPG and petroleum products |
| Teiseki Topping Plant Co., Ltd. | 70 | 100.00% | Petroleum refining related production, storage and shipment of petroleum products |
| Teikoku Oil Nile NQR Co., Ltd. | 191 | 100.00% | Exploration of oil in the Western Desert, Egypt |
| Teikoku Oil (D.R. Congo) Co., Ltd. | 10 | 100.00% | Exploration, development, production and sales of oil in the D. R. Congo |
| Offshore Iwaki Petroleum Co., Ltd. | 10 | 100.00% | Development, production and sales of oil and natural gas in Offshore Iwaki, Japan |
| Teikoku Oil Ecuador | 35 (Thousands of U.S. dollars) | 100.00% | Exploration, development, production and sales of oil in the eastern onshore, Ecuador |
| Saitama Gas Co., Ltd. | 60 | 62.00% | City gas sales |
| TEIKOKU OIL (SURINAME) CO., LTD. | 170 | 54.88% | Exploration of oil in the Northern offshore, Suriname |
| The Egyptian Petroleum Development Co., Ltd. | 10,722 | 52.70% | Exploration, development, production and sales of oil in the West Bakr Block, Egypt |
| Teiseki Transport System Co., Ltd. | 10 | 100.00% | Equipment and materials shipping, transport and sales of petrochemical products |
| Daiichi Warehouse Co., Ltd. | 100 | 94.00% | Warehousing services |

Other 14 subsidiaries

## Equity Method Affiliates

| Company Name | Issued Capital* (Millions of yen) | Voting Rights Held by Us (%) | Main Business |
|---|---|---|---|
| Albacora Japão Petróleo Limitada | 6,525 (Thousands of reais) | 50.00% | Lease of production facilities in Albacora Block in Offshore North Campos, Brazil |
| MI Berau B.V. | 656,279 (Thousands of euros) | 44.00% | Exploration and development of natural gas in Berau Block and Tanggu LNG Project, Indonesia |
| INPEX Offshore North Campos, Ltd. | 6,852 | 37.50% | Financing for oil and natural gas exploration and development projects conducted by Frade Japão Petróleo Limitada |
| Angola Japan Oil Co., Ltd. | 8,000 | 19.60% | Exploration, development, production and sales of oil in Offshore 3/05 Block and others, Angola |
| JJI S&N B.V. | 36,883 (Thousands of euros) | 25.00% | Development, production and sales of oil in Offshore Soroosh and Nowrooz Fields, Iran |
| Japan Ohanet Oil & Gas Co., Ltd. | 6,400 | 15.00% | Development, production and sales of natural gas in the southeastern onshore, Algeria |

Other 8 equity method affiliates

## Subsidiaries of Equity Method Affiliates

| Company Name | Issued Capital* (Millions of yen) | Voting Rights Held by Us (%) | Main Business |
|---|---|---|---|
| Frade Japão Petróleo Limitada | 103,051 (Thousands of reais) | 0.0003% | Exploration and development of oil and natural gas in Frade Block in Offshore North Campos, Brazil |

Other one subsidiary of equity method affiliates

* Rounding off fractions less than the unit.

# Stock Information

(As of March 31, 2008)

## Share Data

### Authorized Shares

9,000,000 common shares

1 special class share

### Total Number of Shareholders and Issued Shares

Common shares:................ 33,177 shareholders ........................................... 2,358,409.13 shares

Special class share*:.................... 1 shareholder (Minister of Economy, Trade and Industry) ....................... 1 share

* The Company's Articles of Incorporation stipulate that certain major corporate decisions require a resolution by the holder of the special class share in addition to the approval of the shareholders' meeting or Board of Directors.

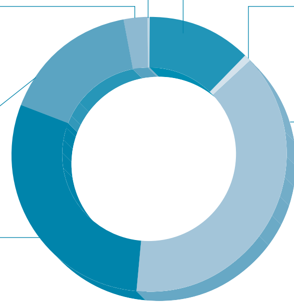
## Shareholding by Shareholder Type*1

Treasury Stock: 0.09%
Shareholders: 1
Shares: 2,047.10

Individuals and Other: 2.78%
Shareholders: 31,921
Shares: 65,420.84

Foreign Corporations and Other: 16.24%
Shareholders: 626
Shares: 383,079.37

Minister of Economy, Trade and Industry*2: 29.35%
Shareholders: 1
Shares: 692,307.75



Financial Institutions (Including Trust Accounts): 12.30%
Shareholders: 135
Shares: 290,087.20

Securities Companies: 0.81%
Shareholders: 71
Shares: 19,045.46

Other Domestic Corporations: 38.43%
Shareholders: 422
Shares: 906,421.41

*1 Shareholding ratios are for all issued and outstanding shares

*2 Excludes one special class share

## Major Shareholders (Common Shares)

| Name | Number of Shares | Holding (%) |
|---|---|---|
| Minister of Economy, Trade and Industry | 692,307.75 | 29.35 |
| Japan Petroleum Exploration Co., Ltd. | 267,232.68 | 11.33 |
| Mitsubishi Corporation | 193,460.40 | 8.20 |
| Mitsui Oil Exploration Co., Ltd. | 176,760.00 | 7.49 |
| Nippon Oil Corporation | 111,920.06 | 4.75 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 66,441.00 | 2.82 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 54,804.00 | 2.32 |
| Marubeni Corporation | 46,446.00 | 1.97 |
| State Street Bank and Trust Company | 35,993.00 | 1.53 |
| JFE Steel Corporation | 23,307.00 | 0.99 |

# Corporate Data

### Company Name

INPEX CORPORATION

### Company Headquarters

Akasaka Biz Tower 5-3-1 Akasaka, Minato-ku,
Tokyo 107-6332, Japan

### Established

April 3, 2006

### Number of Employees (Consolidated) (As of March 31, 2008)

1,724

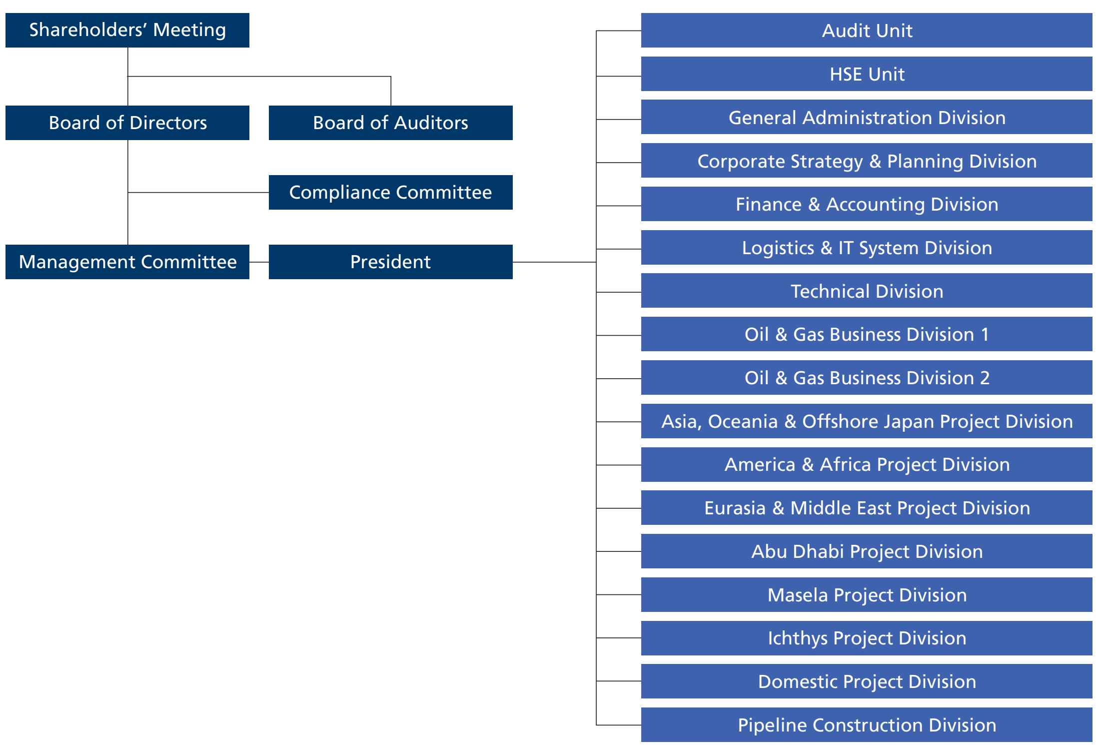
### Capital (As of March 31, 2008)

¥30 billion

### Main Business

Research, exploration, development, production and sales of oil, natural gas and other mineral resources and investment and lending to the companies engaged in these activities, etc.

### Organization Chart




(As of October 1, 2008)

### Homepage

The Company's Web site provides investors with the most up-to-date IR information, including financial statements.

http://www.inpex.co.jp/

### Inquiry

Please contact us via any of the following contact points:
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Corporate Communications Unit
Investor Relations Group
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