

Introduction

Good morning ladies and gentlemen. Thank you, Mr Cole for your kind introduction.

First, I wish to acknowledge the Noongar people on whose traditional lands we meet today and pay respect to their Elders, past and present.

I am very honoured to have been invited to join you today. Thank you for providing me this valuable opportunity to deliver a keynote address at the 2014 APPEA conference. It is certainly a pleasure to be a part of this important event.

APPEA has a long history of representing the oil and gas industry in this country and INPEX has been a member of the organisation since

1996. Last November, INPEX President Director Australia, Seiya Ito, was elected to the APPEA Board. I commend APPEA members for recognising the capability of INPEX and our ability to add value to APPEA's work.

INPEX Growth History

Now, I would like to touch on our growth history and our future strategy as it relates to the Australian oil and gas industry.

Since the foundation, INPEX has been growing steadily from the four core areas of Japan, Australia, Indonesia and Abu-Dhabi, into the Caspian Sea region, Russia, Africa and the Americas. Currently, we are involved in nearly 80 oil and gas projects in 28 countries.

Through the course of expanding our exploration and production (E&P) activities, we have accumulated experiences and expertise with an aim of undertaking a major development project as an operator.

By participating and proactively collaborating with the operators of major LNG projects such as Bontang, Bayu-Undan/Darwin, Tangguh and Prelude, we have acquired a solid understanding of what it takes to manage and operate LNG facilities effectively.

INPEX can also boast more than half century's experience as the biggest gas field operator in Japan and major gas distributor via our extensive domestic gas pipeline network.

In addition, through good communications and cooperation, we have established a firm relationship with all major gas buyers in Japan and North Asia including Korea and most recently Taiwan.

As a result, INPEX has secured the lead position in the Japanese E&P industry and established our presence globally as a mid-tier oil and gas E&P company.

Ichthys Project

Our achievements provided us with the confidence required to take on the significant challenges of being a major project operator. We thus made a Final Investment Decision on the Ichthys Project in January 2012.

This was the most important event not just in our nearly three decades of activities in this country, but in our entire corporate history.

In making this investment decision, INPEX emerged as the biggest Japanese investor in Australia.

Since the Ichthys FID, we are making steady progress by achieving key milestones onshore and offshore. Work is now underway on all of the Project's major components including the Central Processing Facility (CPF), Gas Export Pipeline, LNG plant modules, and Blaydin Point onshore facilities.

Later this year we are planning to commence installation on the plant site of pre-fabricated LNG plant modules. We will additionally commence pipe-laying operations and spud the first wells of our development well drilling campaign.

It is very satisfying to witness this steady progress and to see the facilities start to take shape.

Our Managing Director of the Project, Mr Louis Bon, will give you a more detailed project update this afternoon.

Success of the Ichthys Project is the absolute starting point for us to realize our growth strategy and, as such, we will continue to strive to deliver this Project on budget, on schedule.

Let me give you some numbers how critical the Project's success is for Australia, for Japan and for us.

We expect that total revenues from the Project will exceed 250 billion Australian dollars with receipts to various levels of government in Australia expected to surpass 100 billion dollars

Over its 40 years operational life, the Project will create thousands of jobs and offer opportunities and benefits for generations to come.

The impact is already being felt. Today, the INPEX office in Perth already employs nearly 1,000 people. That is more than at any other INPEX location globally, including our Tokyo head office.

The Ichthys Project will also help Japan's energy security through the supply of 5.7 million tons of LNG per year over a 15 year period. This corresponds to around 7per cent of Japan's total LNG import in 2013.

In addition, the Ichthys Project has almost doubled INPEX's oil and gas reserves and when fully operational it will increase our production volume by around 50per cent.

Now, I think you can start to appreciate why we call the Ichthys Project "big, bold and beautiful!"

INPEX Future Growth Strategy

As for our future growth strategy, we released the "Medium- to Long-Term Vision of INPEX" in May 2012, four months after Ichthys FID. In this Vision, we articulated an ambitious goal to make the leap from a mid-tier to a top-class international oil and gas E&P company by doubling our production volume to 1 million barrels of oil equivalent per day by the early 2020s.

This will be achieved through continuous enhancement of our exploration and production activities, including those here in Australia.

Based on this strategy, we are currently engaging in the so-called "3.5 trillion yen investment plan" which is set in our Vision. In other words, INPEX is in the course of investing around 44 billion US dollars in exploration and development projects over five years from 2012 to 2016.

A significant amount of our global exploration budget will be allocated to Australian projects where we already have positions in 10 exploration blocks surrounding Ichthys Field, six as operator. I fully expect we will discover resources to supply the Ichthys LNG plant in Darwin well into the future.

Another major target set in our Vision is to develop and strengthen our global gas supply chain.

In Japan today, we operate 1,400 kilometre gas pipeline network. We currently sell 1.8 billion cubic meters of gas or equivalent of 1.3 million tons of LNG per year to our domestic customers. The pivotal facility, the Naoetsu LNG Terminal started its operation in December 2013 located on the coast of the Sea of Japan.

We intend to receive LNG from the Ichthys field at this regasification terminal in the coming years. Once this is accomplished, we will have established a gas supply chain by which we will be distributing natural gas from our own fields directly to our customers using our own fleet of LNG carriers, receiving terminal and pipeline network.

Leveraging our position in the Ichthys Project in this way, we will create what I consider to be a strategic "Gas Silk Road" between Australia and Japan.

In order to achieve the ambitious targets set in our Vision, I believe that it is crucial for us to secure and utilize global human resources with diverse backgrounds and experience.

From this perspective, our people in Australia will have the opportunity to play a significant role in shaping the company's future. Indeed, with the expertise we have assembled to deliver the Ichthys Project, our Perth office is poised to become a centre of excellence for INPEX operations worldwide. This means that we will be able to leverage the talented and skilled personnel we have recruited into our Australian operation to help us meet our global growth strategy.

The future of LNG market and Australia's role

I would now like to expand on the subject of the global LNG market and Australia's role in it into the future.

Currently, there are signs of enormous structural changes in the global LNG market as a result of certain triggering factors such as the increase in gas demand, new gas suppliers entering the market and the uncertainties of the future gas pricing mechanism.

I would like to point out several important factors with respect to the outlook of the global LNG market from the Japanese and Asian point of view.

First is the growing demand for LNG in the Asian countries. A large increase in LNG demand in the Asian market is forecast.

Wood Mackenzie, for example, predicts figures of around 260 million tons per annum in 2020 and 380 million tons per annum in 2030, of which 90 million tons and 100 million tons are expected to reach the Japanese market respectively.

Although the actual figures are subject to change depending on economic growth and other factors, it is forecast that Japan will remain the largest LNG importer in the world.

Of the total forecast LNG demand in Japan in 2020, around 40 per cent is expected to come from long-term contracts with Australian LNG suppliers.

I would like to touch briefly on the current status of nuclear power and the national energy policy in Japan. I believe this will be of interest as policy decisions relating to the energy mix will impact Japanese LNG demand.

With respect to national energy policy, the draft new energy policy was released by the Japanese government on February 25th. The so-called "Strategic Energy Plan" highlights nuclear energy as an "important source of base-load power generation" and pushes for the restarting of nuclear reactors.

The Nuclear Regulation Authority is currently conducting a safety screening of 17 reactors at 10 nuclear power plants. It is expected that, subject to local government consent, the first reactor will be restarted sometime this summer in Japan.

However, because of the very strict review process based on the new safety standard, our view is that the number of reactors that will restart this year will be limited.

The plan also identifies natural gas as an "important energy source" and urges a shift towards natural gas usage by conversion from other energy sources and diversification of gas utilization.

The draft is expected to be approved by the Cabinet soon.

Although this new energy policy is important because it will be the first policy to be adopted at the national level since the Fukushima disaster, it only indicates the direction of future energy policy. It will thus be important to keep a close watch on the energy mix that the Japanese government decides to propose.

Now let's consider the outlook for LNG supply.

The potential increase of future LNG supply targeting the Asian market is huge.

The outlook for the global LNG supply volume, according to Wood Mackenzie, is around 450 million tons per annum in 2020 and 630 million tons per annum in 2030, of which 90 million tons and 120 million tons are expected to come from Australia respectively. This is a huge excess in supply.

And if the planned LNG projects in Australia come on stream as scheduled, Australia will overtake Qatar as the world's largest LNG supplier by 2020.

However, this forecast is again subject to change depending on how many new LNG projects actually materialize and how much they are able to supply.

It should be noted that there is a substantial gap in the supply forecast between LNG suppliers and buyers.

This gap is reflected in much the same way in their perspective on the future supply-demand balance.

Next, let's mull over the uncertainty surrounding the future LNG pricing mechanism. Not surprisingly given their varying views on the supply-demand balance, LNG Suppliers and Buyers hold different opinions on how future pricing should be formulated.

The key importance for Suppliers is to secure long term sales and purchase contracts with the Buyers including a bankable pricing formula to justify the huge capital expenditure required whether it is Henry Hub linked, traditional oil linked or any other. For the Buyers, priority is given to diversify their LNG pricing formula.

The next item to consider is the position of the Asian LNG market against the other regional markets. Although the Asian market has been more or less isolated from the other markets, the barriers between the markets are starting to become lower due to new supply sources such as North America and Africa entering the market and the spot or short-term trading increasing across the globe.

For the meantime, however, given that the supply from new sources will be limited and unlike commodities such as crude oil, LNG normally calls for a long-term contract to underpin huge capital expenditure, it is reasonable to predict that there will be a gradual convergence of the markets.

I am concerned that there exists a substantial gap between the Suppliers and the Buyers with regard to their understanding on the future supply-demand balance and what future pricing mechanism they envision.

Unless this gap can be narrowed, the worst- case scenario would be a delay in the development of a healthy global LNG market resulting in a "lose-lose" situation for all concerned.

To convert such a negative situation into a "win-win" outcome, close coordination between LNG Suppliers and Buyers is needed. I suggest that the following three points be considered by both parties in this respect.

Firstly, we need to establish a cooperative relationship between the Suppliers and the Buyers through close dialogue and by promoting mutual understanding which can serve to seek solutions that will satisfy both parties at the end.

Secondly, having the Buyers in upstream joint ventures with small participating interest could be an option to expand the partnerships between the both parties. Although this should be considered on a case-by-case basis, it can be anticipated that where such partnerships are feasible, issues existing between the both parties could be solved from a wider perspective.

Thirdly, the Suppliers must continue their efforts to make their LNG developments cost effective and competitive through the application of new technologies, discovery of new gas resources and efficient project management. The Buyers would be required to understand and support the efforts made by the Suppliers.

Finally host countries, including Australia, would also be requested to offer an appropriate environment to support the positive efforts of the Supplier. In this respect, I would like to commend the recent initiatives taken by Australian Government to sharpen this nation's competitive edge.

Conclusion

Japan is a country that aspires "security of energy supply" while Australia is a country that aspires "security of energy demand". This results in a mutually complementary relationship.

Indeed Australia and Japan are already indispensable to each other's desire to achieve sustainable development.

This is evidenced by the positive discussions over a Free Trade Agreement between the two countries under way.

The INPEX logo consists of the word "INPEX" in a bold, white, sans-serif font, centered within a dark blue square.

In this regard, INPEX is committed to serve as a valued business partner in Australia and hopes to build a bridge between Australia and Japan well into the future.

In closing, I would like to leave you with this thought.

For INPEX, Australia remains an attractive destination in which to invest and Australia will likely play a central role in fulfilling our ambitious global growth aspirations.

While we have been a proud member of the Australian oil and gas community for nearly three decades, INPEX's journey in Australia has in many respects just begun.

Thank you.