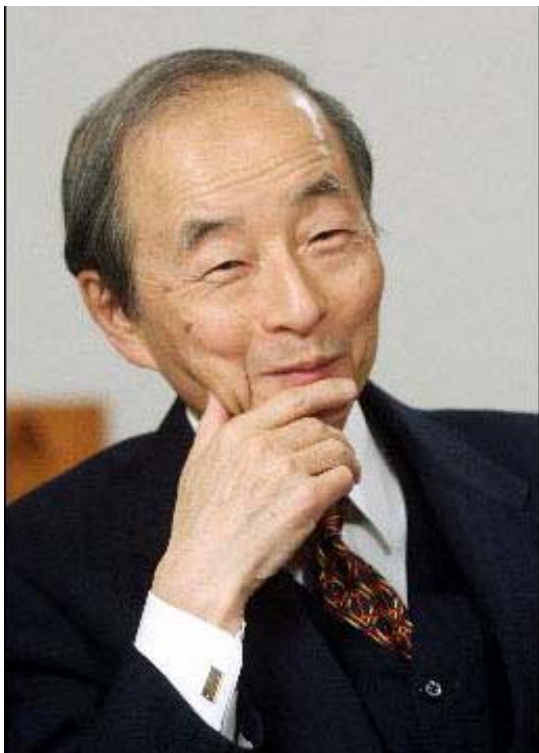


## Inpex to Increase Annual Investment in Oil, Gas Drilling by 50%

By Shigeru Sato and Akira Matsui



**Kunihiko Matsuo, chairman of Inpex Holdings Inc., speaks during an interview in Tokyo, Feb. 15, 2008. Photographer: Haruyoshi Yamaguchi/Bloomberg News**

Feb. 19 (Bloomberg) -- Inpex Holdings Inc., Japan's largest oil explorer, will increase investment in overseas oil and natural gas projects by as much as 50 percent a year as material and engineering costs rise.

Annual spending on overseas projects may rise to as much as 300 billion yen (\$2.8 billion) over the next three to five years compared with a year-earlier capital expenditure forecast of about 200 billion, Chairman Kunihiko Matsuo, 72, said in an interview broadcast today on Bloomberg Television.

The Tokyo-based company is developing its new overseas flagship venture, the Ichthys liquefied natural gas project in Australia, after losing an operating stake in Iran's Azadegan oil field. Benchmark LNG prices have more than doubled this decade as demand outpaced supply and a shortage of contractors delayed new production ventures.

"We need such an investment budget strategically since material costs and engineering expenses are rising," Matsuo said in Tokyo. "We are expecting to supply more LNG to Japan as Asia faces tight supply fundamentals."

Inpex has declined 9.1 percent in Japan trading this year, compared with a 9.7 drop in the Topix index.

The stock rose about 24 percent in 2007.

The explorer can probably finance 300 billion yen of annual capital spending without having to borrow or sell new shares, according to Lalita Gupta, an analyst at Morgan Stanley in Tokyo.

"They may tap project and equity finance in case they need to spend 500 billion yen a year or more," said Gupta, who has an "overweight/cautious" rating on Inpex's shares.

### Larger Plant

The Ichthys project is "under review" as Inpex and its partner Total SA are "holding back" on a decision to start engineering and design work, Sean Kildare, a Perth-based spokesman for the Japanese company, said Jan. 10.

"We're studying construction of a larger-than-planned LNG plant depending on gas reserves and economics," Inpex's Matsuo said. "We will hold internal talks to determine the plant size before the final investment decision."

Inpex holds 76 percent of the Ichthys venture and is the operator, while France's Total, the world's second-largest LNG producer outside government control, owns 24 percent.

Inpex and Total's existing plan includes building two 3.8 million tons-a-year liquefied natural gas production units on the uninhabited Maret Islands off Western Australia. The Japanese company last year estimated the project may cost as much as A\$10 billion (\$9.1 billion) and deliveries may start in late 2012 or early 2013.

#### Ichthys Delay

The project will probably cost the equivalent of 1 trillion yen (\$9.2 billion) and its start may be delayed because initial design work is expected to take more than a year and concerns of activist groups need to be addressed, Matsuo said.

“Start-up of the project may be delayed as we have to deal with some arrangements with local citizens and authorities in Australia,” he said. “At present we don't have any clear timetable because we can't determine it solely by ourselves.”

The plan to build the Ichthys LNG plant on the Maret Islands off the Kimberley coast is being opposed by some environmental groups including WWF-Australia. Tourism Australia describes the Kimberley region as “one of the world's last true wilderness areas.”

Inpex is considering alternative sites in case Australian authorities decline to approve the current location, Matsuo said. “Maret Island still is the best location for us,” he said.

The venture expects to receive environmental approval for the project at the end of 2008 or early 2009, later than originally expected, spokesman Kildare said on Jan. 10.

#### Talks With Shell

Matsuo said Inpex has ruled out taking Royal Dutch Shell Plc. as a partner for the Ichthys project, though the two companies are in talks to cooperate in procuring plant materials including steel pipes, he said.

Shell, which has discovered gas in an area adjacent to Ichthys, is considering options for developing the field, including joining with companies such as Inpex, the Australian newspaper reported in September, citing Linda Cook, Shell's executive director for gas and power.

“Shell and Inpex should basically develop gas fields on their own, while we are discussing how we can cooperate,” Matsuo said. “We need to speedily comprehend the structure of natural gas and condensate in the Ichthys field.”

Inpex's latest official estimate of proven and probable reserves at Ichthys is 9.5 trillion cubic feet of recoverable gas and 312 million barrels of condensates.

Inpex Holdings was created in 2006 by Inpex Corp.'s acquisition of Teikoku Oil Co. Matsuo had worked more than 30 years for Japan's trade ministry before taking his current position in April 2006.

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