JAPEX

Annual Report 2007

Year Ended March 31, 2007

Japan Petroleum Exploration Co., Ltd.

JAPAN PETROLEUM EXPLORATION CO., LTD. (JAPEX) IS A LEADING JAPANESE UPSTREAM COMPANY ENGAGED IN OIL AND NATURAL GAS EXPLORATION AND PRODUCTION (E&P) ACTIVITIES BOTH IN JAPAN AND OVERSEAS.

COMPANY PROFILE

JAPEX was founded in December 1955 as a special purpose company through a government initiative. The Company's total assets have grown from ¥1.5 billion at the end of its first fiscal year, to ¥578.0 billion as of March 31, 2007. Its main operating areas are Hokkaido, Akita, Yamagata and Niigata in Japan, and Canada, Indonesia, China, the Philippines, Libya and other regions, where it is engaged in E&P activities.

COMPANY VISION

Taking on the challenge of creating new value from energy and increasing corporate value

- Contribute to the supply of energy through global exploration and production (E&P) activities.
- Contribute to coexistence between the planet and humankind by promoting the use of environment-friendly natural gas and taking on new business challenges
- Pursue sustainable growth and maximize shareholder value by placing top priority on maintaining mutual trust between society, customers, shareholders and employees.

Contents

Cautionary Statement

Statements made in this annual report with respect to Japan Petroleum Exploration Co., Ltd. (JAPEX)'s plans, estimates, strategies and other statements that are not historical facts are forward-looking statements about the future performance of JAPEX. These statements are based on management's assumptions and beliefs in light of information currently available. As such, these projections entail risks and uncertainties. Readers should be aware that actual results and events may differ substantially from these projections. Risks and uncertainties that may affect JAPEX include, but are not limited to, economic conditions in Japan, fluctuations in crude oil prices and exchange rates, rapid developments in technology, deregulation and other contingencies.

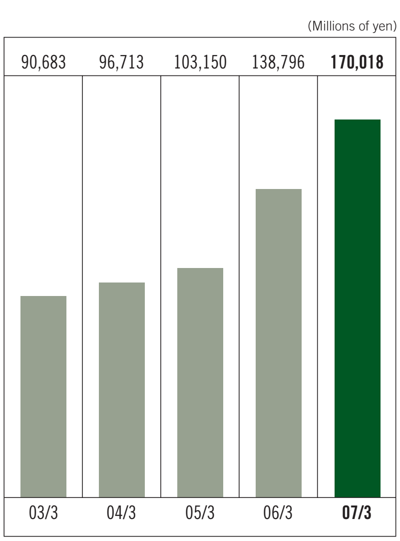
FINANCIAL HIGHLIGHTS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003, 2004, 2005, 2006 and 2007

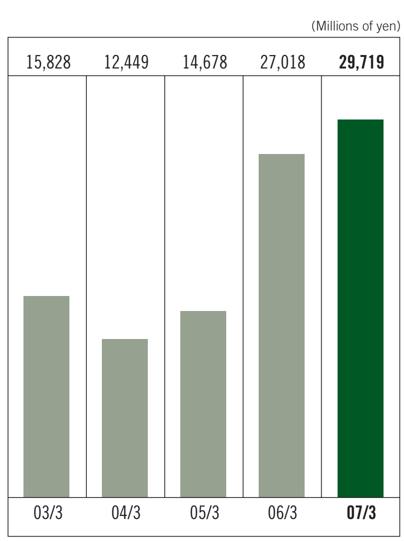
	Millions of yen					Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2007
For the year:						
Net sales	¥ 170,018	¥ 138,796	¥ 103,150	¥ 96,713	¥ 90,683	$1,440,831
Operating income	29,719	27,018	14,678	12,449	15,828	251,856
Income before income taxes and minority interests	34,660	31,166	18,129	14,207	12,572	293,729
Net income	20,982	20,216	13,234	9,960	8,828	177,814
At year-end:						
Total assets	¥ 578,059	¥ 532,516	¥ 393,733	¥ 24,765	¥ 242,455	$4,898,805
Net assets (formerly Shareholders' equity) (Note 2)	418,929	386,222	293,152	195,715	186,914	3,550,246
	Yen					U.S. dollars
Per share data:						
Net assets per share	¥7,185.80	¥6,756.00	¥5,127.67	¥3,422.80	¥3,268.99	$ 60.897
Net income per share	367.12	352.11	230.50	172.76	153.14	3.111
Cash dividends per share	40.00	40.00	37.50	35.00	25.00	0.339

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=U.S.$1.00.
2. From the fiscal year ended March 31, 2007 net assets are presented in the balance sheets.

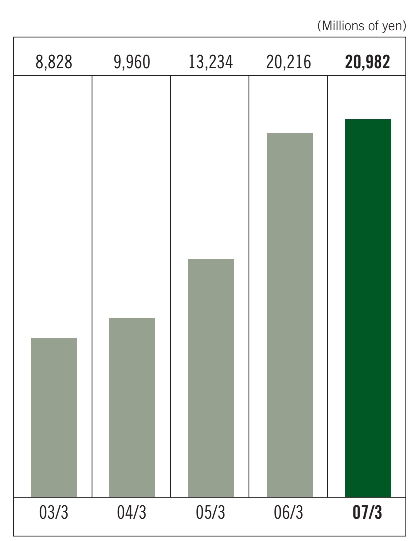
NET SALES



OPERATING INCOME



NET INCOME



TO OUR SHAREHOLDERS AND THE INVESTING COMMUNITY

Yuji Tanahashi
President & Chief Executive Officer

President & CEO of JAPEX (left) and President & CEO of PT. PERTAMINA (Persero) (right) at the signing ceremony for the Kangean block, Indonesia, in March 2007

BUSINESS ENVIRONMENT IN FISCAL 2007

In fiscal 2007, ended March 31, 2007, despite a weakening of consumer spending, the Japanese economy continued its moderate recovery thanks to the steady growth of capital investments propelled by favorable corporate earnings. The price of crude oil (including cost, insurance and freight) rose from the US$60 per barrel range at the beginning of the fiscal year to more than US$70 per barrel in August and September 2006 as demand for oil grew, particularly in the US and Asia. Increasing geopolitical risk in Middle East also pushed up the price of crude oil. Subsequently, however, the price began to decline slightly due to mild winter weather, an easing of geopolitical risk, and other factors. By the fiscal year-end the oil price was below $60 per barrel, although the price remained at generally high levels throughout the fiscal year. In addition, there was moderate devaluation of the Japanese yen against the US dollar from the summer of 2006, and because of the aforementioned reasons, the crude oil price for the Group rose compared with the previous fiscal year. Meanwhile, although natural gas became more competitive with respect to other types of energy due to higher prices for petroleum products amid the surging price for crude oil, the market environment remained difficult as further deregulation encouraged more players to enter the natural gas industry. Overall, therefore, the Group faced a challenging operating environment in fiscal 2007.

DOMESTIC OPERATIONS

As a company with an operational focus on E&P, sustaining and increasing reserves of crude oil and natural gas to ensure stable supplies over the long term is of principal concern for us at JAPEX. We have therefore focused on expanding domestic reserves, which are a key source of earnings and cost competitiveness. Centered on the Niigata, Akita and Hokkaido regions of Japan, we have been conducting an active E&P program that effectively combines expansion of reserves in areas surrounding existing oil and gas fields (field growth), with exploration aimed at adding new large-scale reserves.

In parallel, we are working to utilize and expand a natural gas supply system that effectively integrates our domestic natural gas upstream (E&P), midstream (transportation and storage), and downstream (large-scale supply and supply to local distribution companies, or LDCs, and other users) operations. In addition to expanding sales to customers along our existing pipeline network, we expect our new Shiroishi-Koriyama gas pipeline, which came onstream in March 2007 and is a branch of our Niigata-Sendai gas pipeline, to help us capture more users in the Tohoku region. We have also begun a full-scale survey aimed at constructing a subsea gas pipeline between Sendai and Iwaki.

In addition, JAPEX is working to promote sales of natural gas over a wide area by using its LNG Satellite System to supply liquefied natural gas (LNG) by tanker truck and railway tank containers to areas outside our gas pipeline network. To meet demand within Hokkaido, we are continuing expansion with the second train at the Yufutsu LNG plant, scheduled for completion in fiscal 2008. When completed, this plant will give us the capability to supply gas from the Yufutsu field by LNG railway tank containers to users throughout Hokkaido.

OVERSEAS OPERATIONS

We recognize that building a stable operating base over the long term is an important aspect of our overseas operations. We are therefore working to develop projects offering business expansion and earnings opportunities in Southeast Asia, the Middle East, North Africa, Canada and other target E&P areas.

In Indonesia, we acquired the Buton and Kangean blocks as part of our efforts to expand operations in the country. In the Kangean Block in particular, our policy will be to conduct development and production, as well as additional exploration going forward. Meanwhile, we have launched active exploration programs in both Libya and the Philippines. In our oil sands business in Canada, we began a geological evaluation using 3D seismic surveys and other methods in December 2006 in an undeveloped area immediately south of where we are currently producing. We plan to carry out detailed evaluation of oil sand reserves in the area. In Iraq, where technical cooperation with the country's Ministry of Oil has entered its third year, we are continuing to conduct joint studies on a range of topics, including evaluation of oil field potential. We also plan to provide training for oil engineers to give them proficiency in cutting-edge technologies such as 3D seismic survey techniques. Over the past two years, we have invited a total of 300 specialists from Iraq's Ministry of Oil to Japan.

ENVIRONMENTAL AND SOCIAL CONTRIBUTION INITIATIVES

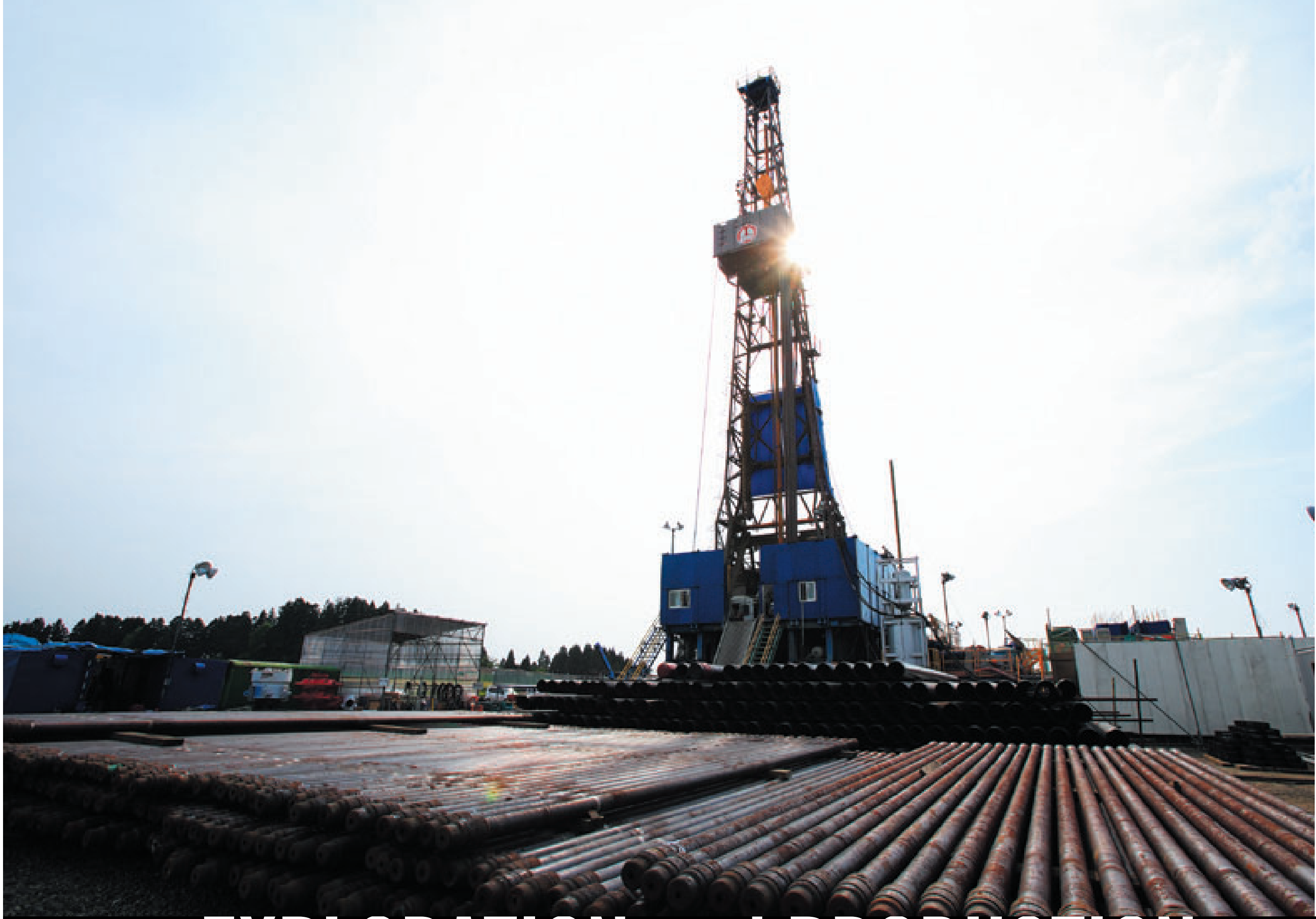
As part of our efforts to protect the global environment and contribute to the community, we began an afforestation program in 2005. Specifically, we are working to help reduce emissions of CO_2 through tree planting activities in Akita Prefecture, Hokkaido and Niigata Prefecture. We are also investing in the World Bank's BioCarbon Fund. Moreover, we are promoting the diversified use of natural gas, and making efforts to apply JAPEX's technology in environmental businesses. Of these, in gas-to-liquids (GTL) technology, which enables the effective utilization of natural gas, we plan to develop GTL technology for commercialization with a government agency and other private-sector companies in Niigata Prefecture. More recently, through education and research in the form of endowed graduate school courses launched in 2007 at the universities of Tokyo and Kyoto, we are supporting the development of personnel who can help Japan secure long-term, stable supplies of energy.

By working to further strengthen our operating base and competitiveness, and by pursuing effective management, JAPEX is seeking to achieve sustainable development and increase shareholder value. As ever, your continued support will be vital in achieving these objectives.

August 2007

Yuji Tanahashi

Yuji Tanahashi
President and Chief Executive Officer



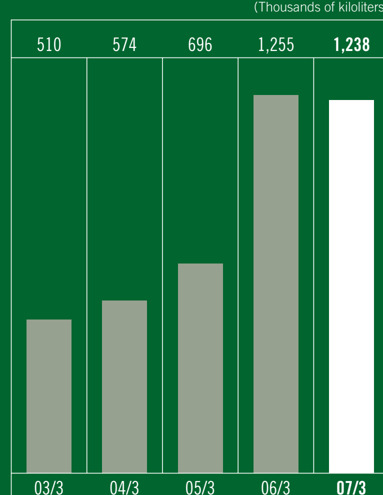
EXPLORATION and PRODUCTION

JAPEX's E&P operations in Japan are centered on Niigata and Akita prefectures and Hokkaido. Overseas, E&P is focused on Canada, Indonesia, China, the Philippines, Libya and Sakhalin in Russia.

Average net production volume on a consolidated basis during fiscal 2007 was 3,394 kl/d (approx. 21,350 barrels of oil per day (b/d)) of crude oil, including bitumen, and 3,416 thousand m^3/d (approx. 120 million cubic feet per day (mmcf/d)) of natural gas.

CRUDE OIL PRODUCTION
(Consolidated)

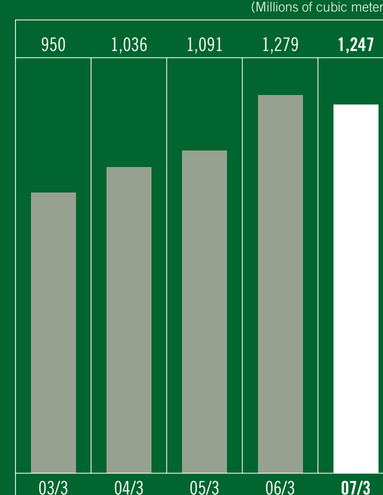
(Thousands of kiloliters)



Note: Total crude oil production volume from fiscal 2006 includes bitumen (a type of extra-heavy oil extracted from oil sands)

NATURAL GAS PRODUCTION
(Consolidated)

(Millions of cubic meters)

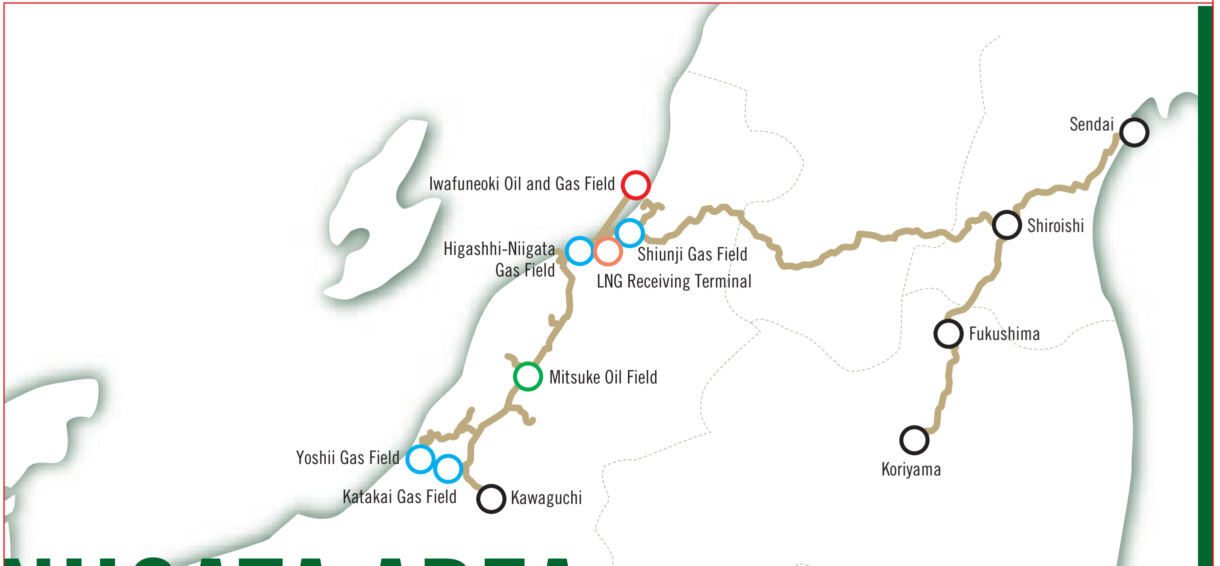


DOMESTIC E&P

To ensure sustained growth in domestic operations, the Company's core business, JAPEX's basic strategy is to increase reserves of domestic crude oil and natural gas, which are a key source of earnings and cost competitive. Guided by a policy of comprehensively reviewing domestic E&P potential, JAPEX is working to increase reserves of crude oil and natural gas in Japan. It has positioned the five years from fiscal 2004 as a period for actively exploring and developing reserves.

JAPEX's basic strategy is to effectively combine two approaches: conduct E&P that can increase reserves in areas near existing oil and gas fields in Niigata, Akita and Hokkaido (field growth), and in parallel, discover large reserves in frontier areas.

JAPEX is also boosting capital investment such as expanding production facilities at existing oil and gas fields and drilling additional production wells in response to rising demand for domestic natural gas.



NIIGATA AREA

Niigata Area

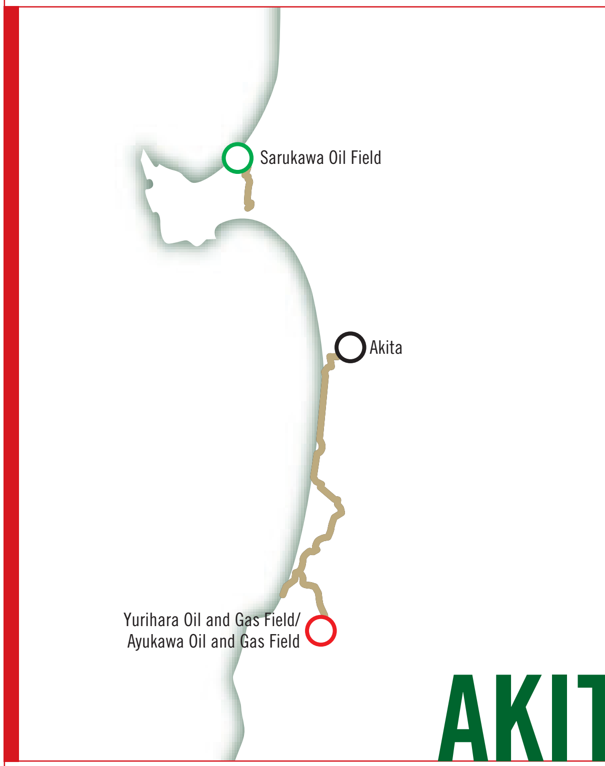
JAPEX's production activities in the Niigata area focus on the Katakai gas field, the Yoshii gas field, the Higashi-Niigata gas field, and the Iwafuneoki oil and gas field.

In fiscal 2007, JAPEX completed the drilling of two exploration wells. One of these, the Iwafuneoki-Nansei MS-1 exploration well, was drilled to the southwest of the Iwafuneoki oil and gas field, which is located 30 km offshore to the northeast of the city of Niigata. The well was drilled from our Iwafuneoki platform in the area and production tests were conducted between May and June 2007, successfully producing both crude oil and gas.

So far during fiscal 2008, we have continued to conduct seismic surveys. In addition to completing the Iwafuneoki-Nansei MS-1 well in June 2007, we plan to drill a new onshore exploration well, Kitakuzutsuka A, and a new offshore exploration well, Seirooki A. In order to sustain and boost production in existing fields, we will drill four new production wells and expand production facilities.

We will continue to conduct geophysical surveys on and offshore in the Niigata area to acquire new data, while at the same time conducting an active program of E&P combining the objectives of increasing reserves through exploration in existing oil and gas fields and exploratory drilling in new structures.

Katakai Gas Field



AKITA AREA

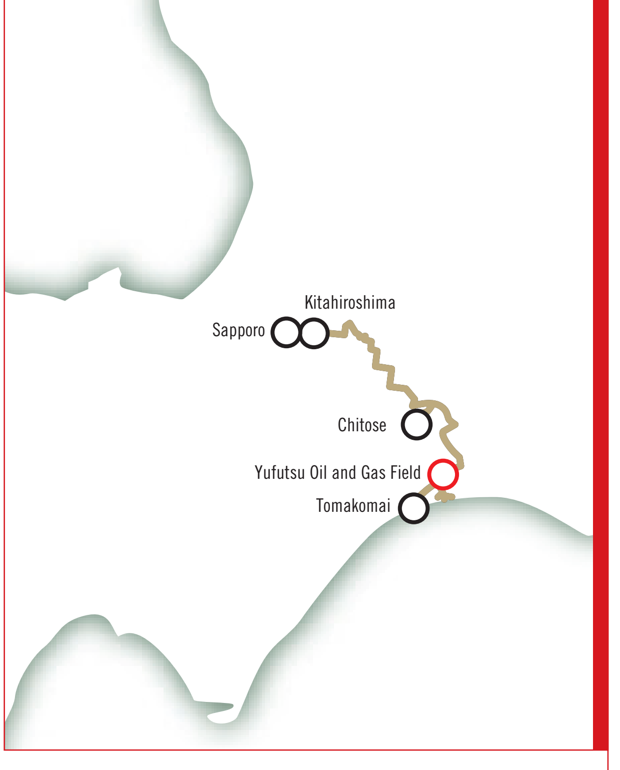
Akita Area

JAPEX's production activities in the Akita area focus on the Sarukawa oil field, Yurihara oil and gas field, and the Ayukawa oil and gas field. In fiscal 2007, we drilled one exploration well. In fiscal 2008, we plan to conduct seismic surveys, and carry out capital investment focused on completing production wells to maintain production levels.

In terms of future exploration in the Akita area, we will collect new geological data from geophysical surveys on and offshore, and conduct E&P oriented toward increasing reserves, targeting structures near existing oil and gas fields in the Sarukawa, Yurihara, and Ayukawa regions.

Sarukawa Oil Field

HOKKAIDO AREA



Hokkaido Area

Production operations in Hokkaido are centered on the Yufutsu oil and gas field.

During fiscal 2007, JAPEX completed drilling of two onshore exploration wells. In April 2006, with the Numanohata (T1) Higashi SK-1D exploration well drilled to the east of the Yufutsu oil and gas field, we succeeded in producing crude oil from a new horizon shallower than that at which commercial production is currently being conducted. We also drilled one production well to maintain and increase production capacity in the Yufutsu oil and gas field.

During fiscal 2008, we plan to conduct seismic surveys in areas surrounding the Yufutsu oil and gas field and drill one production well in the field. At the same time, seeking to meet growing demand for natural gas, we have started construction of a new processing facility that will have a capacity of 2.4 million m^3/d when completed.

To support future exploration in the Hokkaido area, JAPEX will continue to acquire new geological data from geophysical surveys, as well as identify then drill exploratory wells in structures that are expected to yield large reserves.

JAPEX knows that securing reserves and generating earnings overseas are important themes for establishing a stable operating base over the long term. Based on this thinking, JAPEX is continuing to boost operating efficiency and secure new projects in Southeast Asia, the Middle East, North Africa, Canada and other regions it has identified as target areas. JAPEX is adopting two approaches. One is to acquire rights to oil and gas fields that are already onstream or that have been discovered but not yet developed, which offer relatively low risk and early returns. The other is to acquire exploration rights that are expected to deliver relatively high returns.

OVERSEAS E&P

CANADA

Canada

In Canada, our consolidated subsidiary Canada Oil Sands Co., Ltd., through the locally-incorporated Japan Canada Oil Sands Limited (JACOS), is conducting oil sands development using the Steam-Assisted Gravity Drainage (SAGD) method as operator in a part of the Hangingstone area (commonly known as the 3.75 section area) in the Athabasca region, Alberta. Average gross production volume in 2006 for the production area was 1,200 kl/d (approx. 7,500 b/d) of crude oil (bitumen). Between January and June 2007, we drilled 7 pairs of new horizontal wells to maintain and increase production. Meanwhile, in the Hangingstone West region, an undeveloped area adjoining the south side of the 3.75 section area, we drilled appraisal wells and conducted 3D seismic surveys in an effort to assess the volume of reserves.

Oil sand production site in the 3.75 section area of Hangingstone, Canada

ASIA

Pagerungan gas field (Kangean block, Indonesia)

Asia

In Indonesia, consolidated subsidiary Japex Buton Ltd. was awarded the Buton Block, an onshore/offshore block on Buton Island, Southeast Sulawesi, through a public auction in October 2006. Following the execution of a production sharing contract in January 2007, Japex Buton, the operator, began exploration activities including geophysical, airborne gravity and magnetic and 2D seismic surveys.

In addition, in May 2007, JAPEX acquired a 25% equity stake in Energi Mega Pratma Inc. (EMPI), which holds a 100% working interest in the Kangean block offshore East Java, Indonesia through subsidiaries. EMPI became a JAPEX equity-method affiliate as a result of this share purchase. In the Kangean block, we will continue production in the existing Pagerungan gas field and Sepangang Island oil field, and begin developing the Pagerungan Utara offshore oil field and TSB gas field.

Another equity-method affiliate in Indonesia, Universe Gas & Oil Company, Inc., owns an interest in the Sanga Sanga block in Eastern Kalimantan. In 2006, average gross production for the block was 3,300 kl/d (approx. 21,000 b/d) of crude oil and 16,000 thousand m^3/d (approx. 570 mmcf/d) of natural gas. A total of 25 new production wells were drilled to increase recovery efficiency and maintain production volume of crude oil and natural gas.

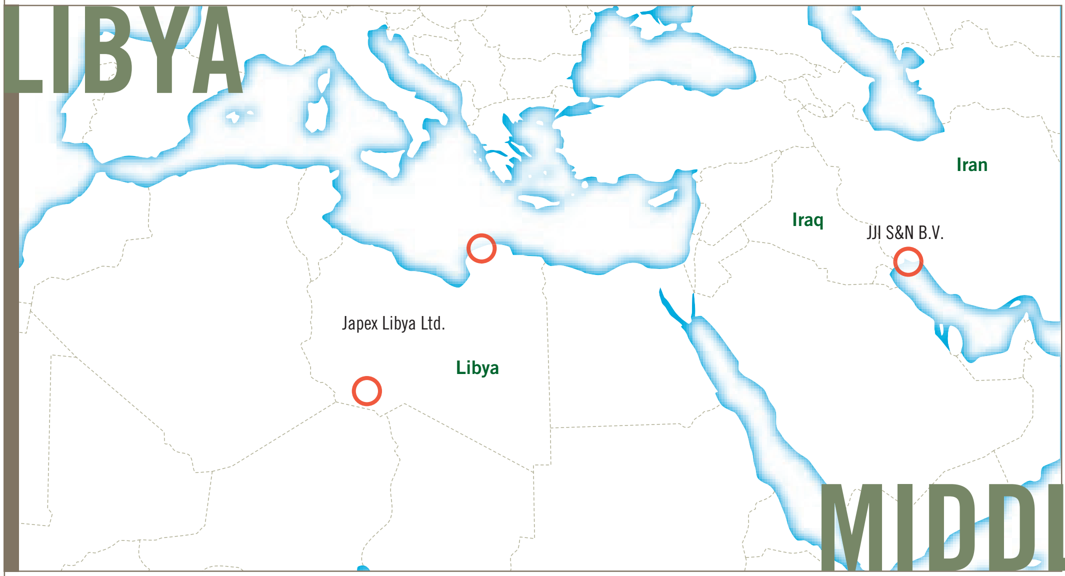
Further, consolidated subsidiary Japex Block A Ltd., which holds a partial interest in the northern Sumatra block A, is preparing plans to develop discovered and undeveloped gas fields.

In China, consolidated subsidiary Japex New Nanhai Ltd. is conducting production activities as a joint operator of the Lufeng 13-1 oil field offshore the Pearl River mouth in the South China Sea. Average gross production volume in 2006 for the oil field was 1,760 kl/d (approx. 11,000 b/d). To maintain production volume and increase recovery efficiency, we drilled two new production wells and five side tracking wells from existing wells.

In the Philippines, consolidated subsidiary Japex Philippines Ltd. conducted 2D seismic surveys and other exploration work as the operator of the SC46 block, located in the Tanon Straits between the islands of Negros and Cebu. The company is currently preparing for the planned drilling of an exploration well.

A Platform in the Lufeng 13-1 Oil Field (China)

LIBYA



MIDDLE EAST


Seismic survey (176-4 block, Libya)

Libya

In Libya, consolidated subsidiary Japex Libya Ltd. holds two blocks acquired in 2005 through a public auction: the 176-4 block (southwest area of the Murzuq region), and the 40-3/4 block (coastal area of the Mediterranean Sea). Japex Libya began 2D seismic surveys in the 176-4 block in February 2007, and conducted 2D and 3D seismic surveys between March and May 2007 in the 40-3/4 block.

Middle East

In Iran, equity-method affiliate JJI S&N B.V. is participating in a development and production project in the Soroosh and Nowrooz oil fields. Full-scale production from both fields was achieved in July 2005, and production operations were handed over to the National Iranian Oil Company.

In Iraq, technical cooperation, launched in March 2005 with the country's Ministry of Oil, entered its third year. JAPEX is conducting evaluation studies of undeveloped oil fields jointly with the ministry's engineers and reviewing technology for upgrading heavy crude oil and methods to increase production. There are also plans to provide training for the ministry's engineers.

RUSSIA

Russia

JAPEX has a presence in Russia through its investment in Sakhalin Oil and Gas Development Co., Ltd. (SODECO), which owns a 30% interest in the Sakhalin 1 Project. This project is developing three oil and gas fields: Chayvo, Odoptu and Arkutun-Dagi offshore Sakhalin island. Following the completion of an oil export terminal in September 2006, exports of Sokol crude, the Russian name given to oil produced from the Sakhalin 1 Project, got under way the following month, mainly to customers in East Asia. In February 2007, the project also reached its peak gross production target of around 40,000 kl/d (250,000 b/d). Sales of natural gas to Russia are also continuing.

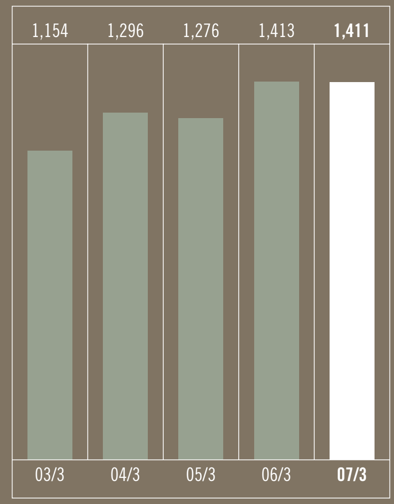
DeKastri oil terminal (photo: Exxon Neftegas Limited)

GAS SUPPLY NETWORK

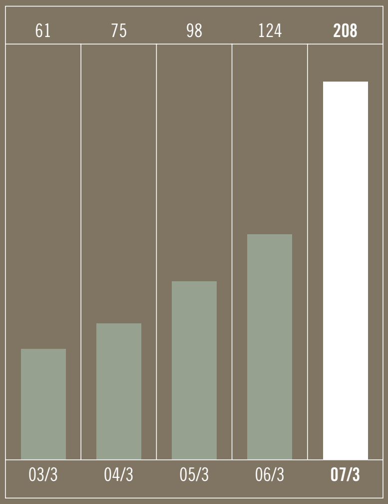
JAPEX owns and operates a domestic natural gas pipeline network with a total length of approximately 826 km. This network is a key strategic asset because it allows us to directly link our domestic gas fields to customers, and therefore increase sales.

In response to rising demand, JAPEX has increased the sales volume of natural gas by constructing new pipelines and expanding its gas supply area. We have set a target for total sales of natural gas and LNG of 1.7 billion m^3 in fiscal 2009. However, reflecting steadily rising demand, we had generally achieved this goal by the end of the year under review. We plan to continue working to increase sales going forward.

NATURAL GAS SALES VOLUME
(Consolidated)
(Millions of cubic meters)



LNG SALES VOLUME
(Consolidated)
(Thousands of tons)




Railway tank container transporting LNG


Yufutsu LNG Plant


Niigata-Sendai Pipeline

Pipeline Extension

JAPEX is constructing new pipelines to expand its marketing area. In March 2007, we began operating a 96 km extension of a 16-inch diameter pipeline from the Shiroishi valve station along the Niigata-Sendai pipeline, to Koriyama via the city of Fukushima. With the completion of this pipeline, we have created a natural gas pipeline network that covers four prefectures: Niigata, Yamagata, Miyagi and Fukushima. We believe the extension will enable us to encourage greater use and increase sales of natural gas in the Tohoku region. Meanwhile, we have launched a full-scale survey for the construction of a 20 to 24-inch diameter subsea pipeline extending approximately 160 km from the outskirts of Sendai to an area near Iwaki in Fukushima Prefecture.

LNG Transportation

JAPEX operates an LNG Satellite System to meet demand for natural gas in regions not served by its gas pipeline network. On the main island of Honshu, we supply the Tohoku, Hokuriku and other northern regions with LNG imported from overseas through an LNG receiving terminal in the port of Niigata using tanker trucks and railway tank containers. In Hokkaido, we have constructed an LNG plant in the Yufutsu oil and gas field, and since October 2003, have been converting natural gas from this field into LNG for supply to customers throughout Hokkaido. We are also currently expanding facilities at our Yufutsu LNG plant, scheduled for completion in fiscal 2008. This will allow us to further increase supplies of Yufutsu gas to local customers using LNG railway tank containers.

FINANCIAL SECTION

SIX-YEAR SUMMARY

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	**2007**	2006	2005	2004	2003	2002
						Millions of yen
For the year:						
Net sales	**¥ 170,018**	¥ 138,796	¥ 103,150	¥ 96,713	¥ 90,683	¥ 89,672
Cost of sales	**104,174**	77,433	61,046	58,060	52,288	56,220
Exploration expenses	**8,178**	9,677	6,127	5,213	3,113	3,674
Selling, general and administrative expenses	**27,946**	24,666	21,298	20,990	19,452	18,788
Operating income	**29,719**	27,018	14,678	12,449	15,828	10,988
Net income	**20,982**	20,216	13,234	9,960	8,828	5,200
Capital expenditures	**31,746**	19,934	13,587	16,735	11,806	7,245
Depreciation and amortization	**14,938**	13,951	14,081	11,043	9,817	9,523
At year-end:						
Total assets	**¥ 578,059**	¥ 532,516	¥ 393,733	¥ 24,765	¥ 242,454	¥ 239,799
Net assets (formerly Shareholders' equity) (Note 2)	**418,929**	386,222	293,152	195,715	186,914	180,339
						Yen
Per share data (Note 1)**:**						
Net assets per share	**¥7,185.80**	¥6,756.00	¥5,127.67	¥3,422.80	¥3,267.99	¥12,621.10
Net income per share	**367.12**	352.11	230.50	172.76	153.14	363.97
Cash dividends per share	**40.00**	40.00	37.50	35.00	25.00	100.00
Other data:						
Number of employees	**1,557**	1,481	1,470	1,388	1,358	1,387

Notes 1: JAPEX conducted a four-for-one stock split on January 1, 2003.
2: From the fiscal year ended March 31, 2007 net assets are presented in the balance sheets.

SCOPE OF OPERATIONS

The JAPEX Group (the Company and its subsidiaries and affiliates) comprises the Company, 24 subsidiaries, and 13 affiliates as of March 31, 2007. The Group is principally involved in oil and natural gas-related operations through three business divisions—the E&P Division, Contract Services Division, and Other Businesses Division. Because business data by segment has been omitted, presentation is made on a divisional basis.

ANALYSIS OF OPERATING RESULTS

Overview

In fiscal 2007, ended March 31, 2007, net sales were ¥170,018 million, an increase of ¥31,222 million year on year. Operating income was ¥29,719 million, a rise of ¥2,701 million year on year, and net income was ¥20,982 million, an increase of ¥765 million.

Foreign Exchange Rates and Crude Oil Prices

The average unit sales price of crude oil received by JAPEX during fiscal 2007 was ¥46,624/kl, an increase of ¥5,445/kl compared to the previous fiscal year. The sales price of domestic crude oil is essentially linked to yen translations of the price of imported crude oil. On a U.S. dollar basis, the weighted-average price of crude oil was $63.2 per barrel, up $9.1 from the level of $54.1 per barrel in the previous year.

Compared to the previous year, the yen depreciated ¥4.45 relative to the U.S. dollar, to a weighted-average exchange rate of ¥116.89, compared with ¥112.44 in the previous year. The unit sales price of domestic crude oil increased year on year because of the higher U.S dollar-denominated crude oil price and the higher import price stemming from the weaker yen.

For sales of imported crude oil, fluctuations in crude oil prices and foreign exchange rates have a limited effect on earnings because the sales price is set to reflect the purchase price. Also, because in most cases JAPEX signs fixed yen-based contracts with customers on a fiscal-year basis, the unit sales price of natural gas is not affected by short-term fluctuations in the international market or exchange rates.

Capital Expenditures and Depreciation

Capital expenditures increased ¥11,811 million year on year to ¥31,746 million. Major components of these expenditures included the construction of the Shiroishi-Koriyama gas pipeline and the drilling of a production well (the Akebono SK-4D well at the Yufutsu field in Hokkaido).

Depreciation and amortization expenses rose ¥986 million from the previous fiscal year, to ¥14,938 million.

Exploration Activities

Exploration expenses decreased ¥1,499 million year on year to ¥8,178 million. This decline was primarily attributable to reduced exploration expenses in Japan. In the previous year, the Company recorded exploration drilling expenses for projects off the coast of Tomakomai in Hokkaido and off the coast of Hachinohe in Aomori Prefecture. In the year under review, exploration drilling was limited to onshore projects in the Teradomari area in Niigata Prefecture, the Yurihara and Ayukawa areas in Akita Prefecture, and offshore Niigata Prefecture at the Iwafuneoki field. As a result, exploration drilling expenses in the year under review declined.

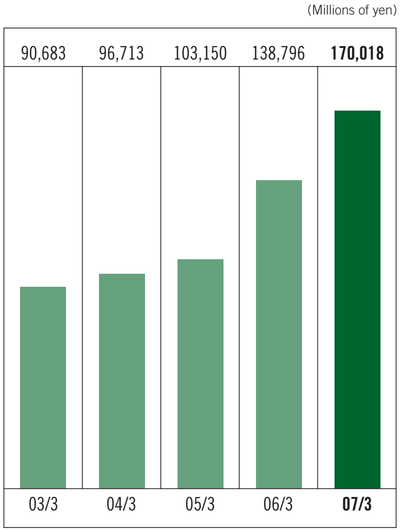
Overseas, the Company conducted exploratory evaluation work in Canada and the Philippines. We also began preparatory work for seismic surveys in Libya.

Net Sales

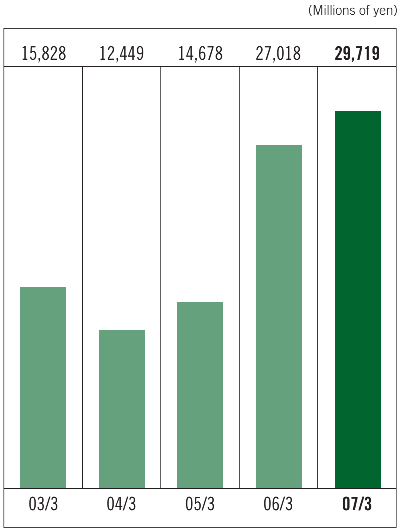
In fiscal 2007, net sales in the Oil and Natural Gas Division totaled ¥150,538 million, accounting for 88.5% of total net sales. Sales in the Contract Services Division were ¥5,383 million, or 3.2% of net sales, and sales in the Other Businesses Division were ¥14,096 million, representing 8.3% of the total. The analysis that follows covers sales of crude oil and natural gas, the largest component of sales.

The volume of crude oil sales increased 335 thousand kiloliters to 1,821 thousand kiloliters. This increase was primarily attributable to the start of the purchase and sale of Sakhalin crude oil (SOKOL crude) from Sakhalin Oil and Gas Development Co., Ltd. (SODECO). Also, the average unit sales price of crude oil rose ¥5,445/kl. As a result, crude oil sales increased ¥23,745 million, to ¥84,931 million.

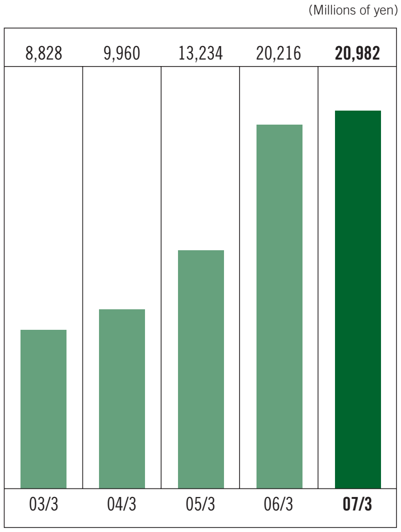
NET SALES



OPERATING INCOME



NET INCOME



The volume of natural gas sales in fiscal 2007 declined 2 million cubic meters, to 1,411 million cubic meters. Although sales volume decreased slightly, natural gas sales in monetary terms were up ¥1,410 million, to ¥44,949 million.

Sales volume for liquefied natural gas (LNG) increased 83 thousand tons year on year to 208 thousand tons. In monetary terms, LNG sales rose ¥4,626 million to ¥10,879 million.

Sales volume for bitumen amounted to 444 thousand kiloliters, a decline of 3 thousand kiloliters, while sales on a monetary basis increased ¥3,251 million to ¥9,777 million as the unit sales price rose to ¥7,436/kl. Bitumen is an extra heavy oil extracted from oil sands. It is produced in Canada by Japan Canada Oil Sands Limited, which is a consolidated subsidiary.

REVIEW OF OPERATIONS BY DIVISION

E&P Division

The E&P Division, which sells crude oil, natural gas, LNG, and bitumen, recorded net sales of ¥150,538 million, an increase of ¥33,033 million from the previous fiscal year. This gain was attributable to the commencement of the purchase and sale of SOKOL crude oil and to increases in sales accompanying higher crude oil and bitumen prices.

Contract Services Division

The Contract Services Division, which is primarily involved in drilling and geophysical surveys, recorded net sales of ¥5,383 million in the fiscal year under review, a decrease of ¥1,764 million from the previous fiscal year, due to a decline in geophysical survey contracts from the government.

Other Businesses Division

The Other Businesses Division is primarily involved in the sale of oil products, including liquefied petroleum gas (LPG) and fuel oil, the transportation of natural gas and oil products on consignment, and other work on consignment. Net sales in the fiscal year under review were ¥14,096 million, a decrease of ¥46 million from the preceding fiscal year.

Operating Expenses

The cost of sales rose ¥26,740 million, to ¥104,174 million. This increase was principally attributable to a rise in the procurement volume of crude oil due to the start of the sale of crude oil purchased from SODECO.

Selling, general and administrative (SG&A) expenses rose ¥3,279 million to ¥27,946 million. This increase was primarily the result of the start of full-scale joint studies and technical cooperation based on a technical cooperation agreement signed with Iraq's Ministry of Oil in March 2005 and extended on a yearly basis.

Please see the Exploration Activities section for more information on exploration expenses.

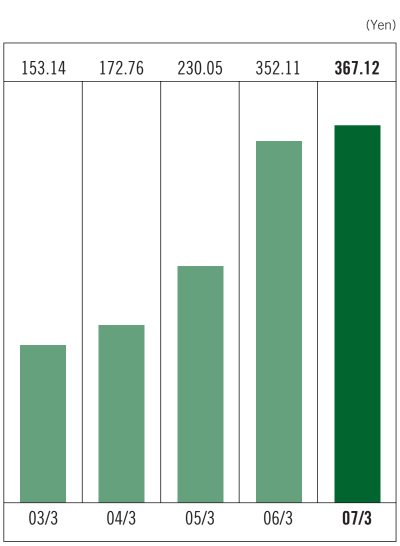
As a result of these factors, operating income increased by ¥2,701 million from the previous fiscal year, to ¥29,719 million.

Net Income

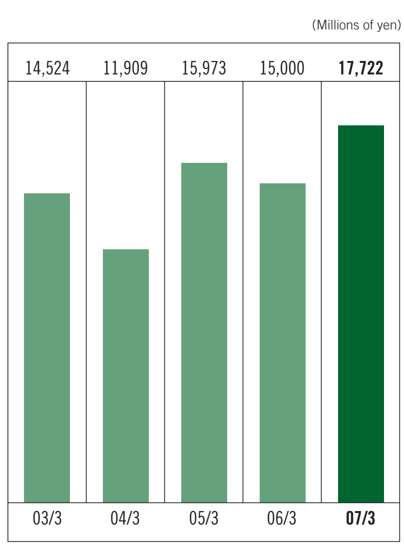
For the year under review, the total of current and deferred income taxes was ¥11,909 million, or 34.4% of net income before income taxes and minority interests of ¥34,660 million. This was 1.8 percentage points below the Company's statutory tax rate of 36.2%. In accordance with the exploration reserve system (Article 58 of the Special Taxation Measures Law) and the new deposit exploration expense special exemption system (Article 59 of the Special Taxation Measures Law), the amount of reserves from profits implemented in preparation for exploration work (reserve for exploration) are exempt from taxes if conditions set out in the tax law are met. The reason why the statutory tax rate applicable to the Company is less than the standard statutory tax rate (about 40%) is that oil and natural gas exploration and production operations come under the category of "mineral extraction activities" and are therefore tax exempt.

As a result of the above factors, after subtracting income taxes (following the application of tax effect accounting) and minority interests, net income totaled ¥20,982 million, an increase of ¥765 million.

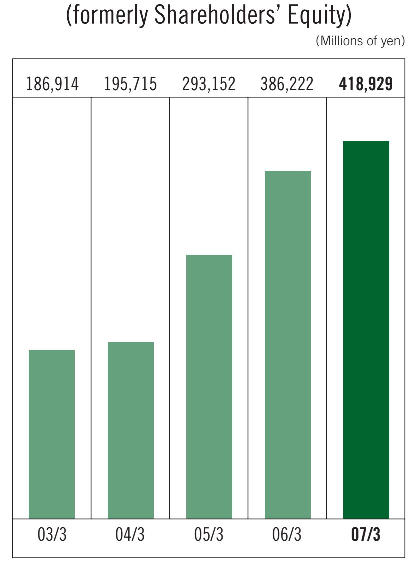
NET INCOME PER SHARE



INTEREST-BEARING DEBT



NET ASSETS
(formerly Shareholders' Equity)



Note: From the fiscal year ended March 31, 2007 net assets are presented in the balance sheets.

FINANCIAL POSITION

Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year stood at ¥578,059 million, an increase of ¥45,542 million from the previous fiscal year-end. Current assets increased ¥26,830 million to ¥105,152 million, and fixed assets grew ¥18,712 million to ¥472,907 million.

The change in current assets was primarily attributable to a ¥16,747 million increase in marketable securities resulting from an increase in investment in commercial paper.

In fixed assets, property, plant and equipment increased ¥14,395 million. This increase was mainly due to the completion of the Shiroishi-Koriyama pipeline. Intangible fixed assets grew ¥1,252 million. Key factors were the amortization of goodwill, which had a negative effect, and the acquisition of exploration rights by JAPEX Block A Ltd., a consolidated subsidiary. Investments and other assets increased by ¥3,063 million due to progress in the recovery of loans and indemnity claims from affiliate JJI S&N B.V. and to an increase in investment in securities as a result of the rise in the stock price of INPEX Holdings Inc.

Total liabilities rose ¥20,598 million to ¥159,130 million. This increase was due to the recording of payables associated with the construction of the Shiroishi-Koriyama pipeline completed in March 2007 as well as to new borrowings.

Total net assets increased ¥24,943 million to ¥418,929 million, mainly as a result of an increase in retained earnings and a rise in unrealized holding gains on securities. (This increase represents the change from the sum of total shareholders' equity and minority interests in consolidated subsidiaries at the end of the previous fiscal year.)

As a result, the shareholders' equity ratio at the end of the fiscal year was 71.0%.

CASH FLOWS

As of March 31, 2007, cash and cash equivalents totaled ¥60,199 million, up ¥17,117 million from the end of the previous fiscal year. Below is a summary of cash flows for each type of activity.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥34,256 million, an increase of ¥1,405 million from the ¥32,850 million in the previous fiscal year. This gain was attributable to the fact that factors with a positive effect on cash flow—¥34,660 million in income before income taxes and minority interests and ¥14,938 million in depreciation and amortization—exceeded factors with a negative effect, such as income taxes paid of ¥11,868 million and increase in notes and accounts receivable of ¥5,733 million.

Cash Flows From Investing Activities

Net cash used in investing activities amounted to ¥18,140 million, a decrease of ¥1,922 million from the previous fiscal year's level of ¥20,063 million. The main factors were acquisition of property, plant and equipment of ¥23,485 million, an increase of ¥2,443 million, and a decline in acquisition of securities. The principal reason for the increase in acquisition of property, plant and equipment was the Shiroishi-Koriyama pipeline.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥917 million. In comparison, in the previous year net cash used in financing activities was ¥6,088 million. In the previous fiscal year, factors with a negative effect on cash flows, such as repayment of long-term debt of ¥8,973 million, exceeded factors with a positive effect. In the year under review, however, the net change in short-term loans did not change significantly, but there was a net increase in long-term debt of ¥5,973 million.

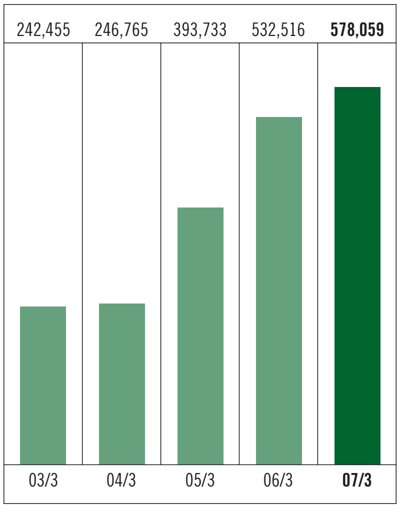
PROVED RESERVES

Product	Proved Reserves
Crude Oil (thousand kl)	7,014
Natural Gas (million m^3)	20,896

As of March 31, 2007, the Company and its consolidated subsidiaries owned proved reserves as shown in the table above. The figure for crude oil includes bitumen, an extra heavy oil extracted from oil sands. These proved reserves are estimated quantities of oil and gas under surface conditions that geological and engineering data demonstrate with reasonable certainty to be recoverable from known oil and gas reservoirs under existing economic and operating conditions. The figures above are based on the

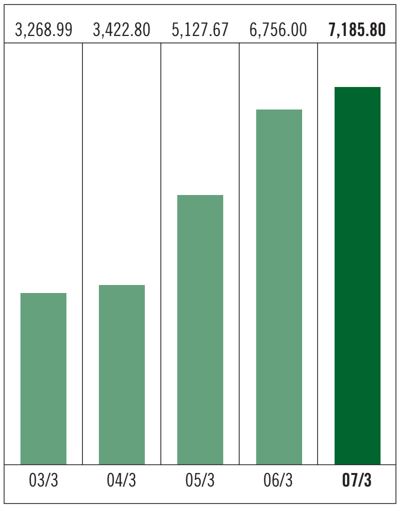
TOTAL ASSETS

(Millions of yen)



NET ASSETS PER SHARE
(formerly Shareholders' Equity per share)

(Yen)



Company's judgment and do not incorporate valuations or appraisals by third parties. These figures could be revised up or down in accordance with future reviews.

RISK FACTORS

The following is a list of significant risk factors that could affect JAPEX's operating results, stock price, financial condition, and other factors. In recognition of the possibility that the events described below could occur, the JAPEX Group is working to prevent their occurrence and to respond appropriately in the event that they do occur.

Business Risks

The exploration stage of business operations, from the initial surveys to the exploration work and discovery of resources, requires substantial investments of funds and time with no assurances that oil or gas will be found, making it inherently highly risky. Moreover, after the discovery of resources, further substantial investments are required to drill development wells, construct production and transportation facilities, and other infrastructure. Consequently, long lead times are typically required from the start of a particular project until an investment can be recovered and earnings generated. During this period, changes in the business environment may lead to the need for additional investment, a decline in demand for products, a fall in unit sales prices, an escalation of operating costs, and fluctuations in exchange rates, or other negative effects, and there is a risk that the Company will be unable to achieve the original investment goals of the project. There is also a variety of technical risks specific to the resource development industry that could affect these investments, including unexpected declines in reserves and production volumes, and unanticipated levels of impurities.

Factors Affecting Sales of Crude Oil

The price of crude oil sold in Japan is determined by international crude oil prices, and the market may fluctuate according to the level of output set by OPEC, trends in the international balance of supply and demand, and other factors. Fluctuations in exchange rates may also have an impact on the price of crude oil sold by JAPEX. Although the Company conducts crude oil swaps and other transactions to limit these risks, risk cannot be completely avoided through such measures.

Factors Affecting Sales of Natural Gas

The unit sales price of natural gas sold in Japan is generally fixed according to year-long contracts with each customer on a yen-denominated basis. Consequently, the unit sales price is not affected by short-term fluctuations in international prices or exchange rates. However, the sales volume of gas supplied to local distribution companies fluctuates seasonally, with demand falling during the summer months and rising in winter. Moreover, a relatively warm winter will lead to a fall in sales volumes. Further, over the long term, there is a risk of lower unit sales prices and lower sales volumes of natural gas resulting from deregulation of Japan's energy markets and other factors.

Fluctuation in Earnings Due to the Level of Exploration Investment

Maintaining reserves is important to the future earnings stability of the JAPEX Group. Consequently, the Group allocates an appropriate amount of the earnings gained from the sales of crude oil and natural gas to exploration for resources in Japan and overseas. The amount of this exploration investment is expensed as an exploration expense or by recording it in a reserve at the time it is incurred. As a result, increases or decreases in the amount of exploration investment made in each fiscal year have a direct effect on Group earnings.

Effect of Energy Market Liberalization

Regulations in the electricity and gas sectors in Japan are being relaxed in various ways with the aim of introducing market mechanisms. In accordance with the revised Gas Business Law that came into effect on April 1, 2004, companies with a certain level of supply capacity are obligated to provide third-party access to their pipelines, which includes pipelines owned by the Company. JAPEX believes that such deregulatory moves will invigorate the Japanese gas industry overall and boost demand for natural gas, while also increasing the degree of marketing freedom for the Group and leading to an expansion of business fields and the customer base. At the same time, however, restructuring of the energy markets will bring fiercer price competition, and there is a possibility that this will have an impact on the Group's natural gas sales.

Overseas Business Risks

In cases where an overseas business company in which JAPEX has invested procures funds through bank financing or other means, the Company will sometimes provide a guarantee of debt for a portion of the borrowings. Should the financial position of such a project company deteriorate and it defaults on its obligation, the Company could be required to fulfill this obligation in the guaranteed amount. Further, oil resource development in general is predisposed to have a portion of overseas business conducted in areas with a relatively high level of country risk. There is a possibility that the overseas business of the Group could be adversely affected by political or economic turmoil in these countries, as well as by their respective legal systems, tax structures, political policies, or other factors.

Fluctuation in the Stock Price of INPEX Holdings Inc.

As of the end of March 2007, the Company owned 11.33% of the stock of INPEX Holdings Inc., and the Company's balance of investments in securities at the end of the fiscal year ended March 2007 was ¥341,162 million. Of this amount, shares of INPEX Holdings accounted for ¥272,577 million. As is the case with the JAPEX Group, the results of operations and stock price of INPEX Holdings are affected by such factors as trends in crude oil prices. Accordingly, in the event that INPEX Holdings' stock prices fluctuates, there is a possibility that the Group's financial position could be affected.

Note: INPEX Holdings Inc., the joint holding company of INPEX CORPORATION and Teikoku Oil Co., Ltd., was established through a stock transfer on April 3, 2006.

JAPEX Shares Held by the Government

As of March 31, 2007, the Japanese government (The Minister of Economy, Trade and Industry), held 28,543,724 JAPEX shares (49.94% of issued shares). In June 2007, through a sale of existing shares, 9,111,000 of these shares (15.94% of issued shares) were sold. There is a continuing possibility that the remaining government-held shares could be sold, which depending on the timing, method and volume of any sale, could affect the Company's stock price.

In regard to the ownership of these shares, there is a memorandum between the government and JAPEX that stipulates consultation between the government and JAPEX in regard to changes to the Articles of Incorporation, changes in capital or issuance of bonds, settlement and disposition of earnings, transfer of a portion or all of operations or acquisition of operations, selection of director candidates, and matters with a significant influence on assets or operational administration. The memorandum is administered in a way that respects the independence of the management of JAPEX, and the existence of the memorandum is neither a hindrance to the Company's operations nor a restriction on the scope of the Company's activities.

CONSOLIDATED BALANCE SHEETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2007 and 2006

ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2007
Current assets:			
Cash and deposits in banks (Note 12)	**¥ 27,169**	¥ 29,639	**$ 230,246**
Trade notes and accounts receivable	**24,451**	18,713	**207,212**
Marketable securities (Notes 4, 12)	**32,714**	15,966	**277,237**
Inventories	**8,683**	8,794	**73,585**
Deferred tax assets (Note 7)	**1,047**	837	**8,873**
Other	**11,097**	4,389	**94,042**
Less — allowance for doubtful accounts	**(12)**	(19)	**(102)**
Total current assets	**105,152**	78,321	**891,119**
Fixed assets:			
Property, plant and equipment:			
Land	**13,164**	13,131	**111,559**
Buildings and structures	**133,488**	116,219	**1,131,254**
Wells	**42,750**	37,012	**362,288**
Machinery, equipment and vehicles	**72,898**	68,561	**617,780**
Construction in progress	**4,699**	6,396	**39,822**
Other	**11,611**	10,906	**98,398**
Less — accumulated depreciation	**(163,104)**	(151,116)	**(1,382,237)**
Property, plant and equipment, net	**115,508**	101,112	**978,881**
Intangible fixed assets:			
Goodwill	**3,122**	4,132	**26,458**
Other	**4,463**	2,200	**37,822**
Total intangible fixed assets	**7,585**	6,333	**64,280**
Investments and other assets:			
Investments in securities (Note 4)	**341,162**	335,345	**2,891,203**
Long-term loans receivable	**769**	1,827	**6,517**
Long-term accounts receivable	**4,908**	9,351	**41,593**
Deferred tax assets	**658**	432	**5,576**
Other	**11,745**	9,008	**99,534**
Less — allowance for doubtful accounts	**(95)**	(120)	**(805)**
Less — allowance for losses on overseas investments	**(9,335)**	(9,095)	**(79,110)**
Total investments and other assets	**349,812**	346,749	**2,964,508**
Total fixed assets	**472,907**	454,195	**4,007,686**
Total assets	**¥578,059**	¥532,516	**$4,898,805**

LIABILITIES	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 3) 2007
Current liabilities:			
Trade notes and accounts payable	**¥ 9,395**	¥ 8,195	**$ 79,619**
Accrued income taxes	**3,807**	6,208	**32,263**
Accrued bonuses to officers	**96**	–	**814**
Other (Note 6)	**23,565**	11,157	**199,703**
Total current liabilities	**36,864**	25,561	**312,407**
Long-term liabilities:			
Long-term debt (Note 6)	**17,722**	15,000	**150,186**
Deferred tax liabilities (Note 7)	**94,267**	88,556	**798,873**
Accrued retirement benefits for employees (Note 8)	**5,434**	4,735	**46,051**
Accrued retirement benefits for officers	**608**	761	**5,153**
Accrued estimated cost of abandonment	**3,459**	2,943	**29,314**
Accrual for losses on projects	**601**	871	**5,093**
Other	**170**	100	**1,441**
Total long-term liabilities	**122,265**	112,969	**1,036,144**
Total liabilities	**159,130**	138,531	**1,348,559**
Net assets (Note 15)**:**			
Shareholders' equity:			
Common stock:			
Authorized — 120,000,000 shares			
Issued — 57,154,776 shares	**14,288**	14,288	**121,085**
Retained earnings	**227,413**	209,095	**1,927,229**
Less-treasury stock at cost; 1,224 shares in 2007 and 1,090 shares in 2006	**(5)**	(4)	**(42)**
Total shareholders' equity	**241,696**	223,379	**2,048,271**
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	**168,234**	161,949	**1,425,712**
Unrealized gain on hedging instruments	**55**	–	**466**
Translation adjustments	**707**	894	**5,992**
Total valuation, translation adjustments and other	**168,997**	162,843	**1,432,178**
Minority interests in consolidated subsidiaries	**8,234**	7,762	**69,780**
Total net assets	**418,929**	393,985	**3,550,246**
Contingent liabilities (Note 11)			
Total liabilities and net assets	**¥578,059**	¥532,516	**$4,898,805**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	**2007**
Net sales	**¥170,018**	¥138,796	**$1,440,831**
Cost of sales	**104,174**	77,433	**882,831**
Gross profit	**65,844**	61,362	**558,000**
Exploration expenses	**8,987**	10,800	**76,161**
Exploration subsides	**(809)**	(1,122)	**(6,856)**
	8,178	9,677	**69,305**
Selling, general and administrative expenses	**27,946**	24,666	**236,831**
Operating income	**29,719**	27,018	**251,856**
Other income (expense):			
Interest income	**1,355**	1,367	**11,483**
Dividend income	**2,805**	2,548	**23,771**
Gain (loss) on sales of securities, net	**(123)**	129	**(1,042)**
Equity in earnings (losses) of non-consolidated subsidiaries and affiliates accounted for under equity method, net	**690**	(587)	**5,847**
Reversal of accrual for losses on projects	**270**	814	**2,288**
Foreign exchange gain	**229**	847	**1,941**
Interest expense	**(120)**	(144)	**(1,017)**
Loss on devaluation of securities	**(54)**	(1)	**(458)**
Provision for accrued estimated cost of abandonment	**(569)**	(522)	**(4,822)**
Provision for allowance for losses on overseas investments	**(242)**	(784)	**(2,051)**
Gain on residual property	**966**	–	**8,186**
Loss on disposal of fixed assets	**(387)**	(101)	**(3,280)**
Head office transfer cost	**(587)**	–	**(4,975)**
Other, net	**707**	582	**5,992**
	4,940	4,148	**41,864**
Income before income taxes and minority interests	**34,660**	31,166	**293,729**
Income taxes (Note 7):			
Current	**9,421**	8,845	**79,839**
Deferred	**2,487**	448	**21,076**
	11,909	9,294	**100,924**
Minority interests	**1,768**	1,655	**14,983**
Net income (Note 16)	**¥ 20,982**	¥ 20,216	**$ 177,814**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2007

	Millions of yen							
	Balance as of March 31, 2006	Cash dividends paid	Bonuses to officers	Net income	Purchase of 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	¥ 14,288	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 14,288
Retained earnings	209,095	(2,571)	(92)	20,982	–	–	18,318	227,413
Treasury stock	(4)	–	–	–	(0)	–	(0)	(5)
Total shareholders' equity	223,379	(2,571)	(92)	20,982	(0)	–	18,317	241,696
Unrealized holding gain on securities	161,949	–	–	–	–	6,285	6,285	168,234
Unrealized gain from hedging instruments	–	–	–	–	–	55	55	55
Translation adjustments	894	–	–	–	–	(187)	(187)	707
Total valuation, translation adjustments and others	162,843	–	–	–	–	6,154	6,154	168,997
Minority interests	7,762	–	–	–	–	472	472	8,234
Total net assets	¥393,985	¥(2,571)	¥(92)	¥20,982	¥(0)	¥6,626	¥24,943	¥418,929

	Thousands of U.S. dollars							
	Balance as of March 31, 2006	Cash dividends paid	Bonuses to officers	Net income	Purchase of 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	$ 121,085	$ –	$ –	$ –	$ –	$ –	$ –	$ 121,085
Retained earnings	1,771,992	(21,788)	(780)	177,814	–	–	155,237	1,927,229
Treasury stock	(34)	–	–	–	(0)	–	(0)	(42)
Total shareholders' equity	1,893,042	(21,788)	(780)	177,814	(0)	–	155,229	2,048,271
Unrealized holding gain on securities	1,372,449	–	–	–	–	53,263	53,263	1,425,712
Unrealized gain from hedging instruments	–	–	–	–	–	466	466	466
Translation adjustments	7,576	–	–	–	–	(1,585)	(1,585)	5,992
Total valuation, translation adjustments and others	1,380,025	–	–	–	–	52,153	52,153	1,432,178
Minority interests	65,780	–	–	–	–	4,000	4,000	69,780
Total net assets	$3,338,856	$(21,788)	$(780)	$177,814	$(0)	$56,153	$211,381	$3,550,246

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	**2007**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥34,660**	¥31,166	**$293,729**
Depreciation and amortization	**14,938**	13,951	**126,593**
Amortization of goodwill	**1,006**	946	**8,525**
Loss on devaluation of securities	**54**	1	**458**
Decrease in allowance for doubtful accounts	**(32)**	(89)	**(271)**
Increase in accrued retirement benefits for employees	**699**	903	**5,924**
Decrease in accrued retirement benefits for officers	**(153)**	(11)	**(1,297)**
Increase in accrued estimated cost of abandonment	**510**	97	**4,322**
Decrease in allowance for losses on overseas investments and accrual for losses on projects	**(29)**	(30)	**(246)**
Interest and dividend income	**(4,161)**	(3,916)	**(35,263)**
Interest expense	**120**	144	**1,017**
Gain on sales and redemptions of securities	**(119)**	(428)	**(1,008)**
Loss on sales and redemptions of securities	**241**	94	**2,042**
Equity in losses (earnings) of affiliates accounted for under equity method	**(690)**	587	**(5,847)**
Increase in trade notes and accounts receivable	**(5,733)**	(4,766)	**(48,585)**
Decrease in inventories	**111**	363	**941**
Increase in trade notes and accounts payable	**3,757**	6,260	**31,839**
Decrease in accrued consumption taxes	**(550)**	(322)	**(4,661)**
Gain on residual property	**(966)**	–	**(8,186)**
Other, net	**(180)**	(2,151)	**(1,525)**
Subtotal	**43,481**	42,799	**368,483**
Payments of debt guarantees	**–**	(7,515)	**–**
Proceeds from collection of claim for indemnity of debt guarantee	**2,643**	–	**22,398**
Income taxes paid	**(11,868)**	(2,432)	**(100,576)**
Net cash provided by operating activities	**34,256**	32,850	**290,305**
Cash flows from investing activities:			
Increase in time deposits	**(3,334)**	(1,302)	**(28,254)**
Decrease in time deposits	**948**	561	**8,034**
Acquisition of marketable securities	**–**	(5,998)	**–**
Proceeds from sales and redemptions of marketable securities	**1,300**	10,536	**11,017**
Acquisition of property, plant and equipment	**(23,485)**	(21,042)	**(199,025)**
Proceeds from sales of property, plant and equipment	**28**	79	**237**
Acquisition of intangible fixed assets	**(1,388)**	(743)	**(11,763)**
Acquisition of investments in securities	**(4,950)**	(11,819)	**(41,949)**
Proceeds from sales and redemptions of investments in securities	**7,643**	5,792	**64,771**
Payments for loans receivable	**(165)**	(3,128)	**(1,398)**
Proceeds from collection of loans receivable	**1,241**	2,353	**10,517**
Interest and dividends received	**4,283**	4,124	**36,297**
Proceeds from residual property	**1,047**	–	**8,873**
Other, net	**(1,309)**	523	**(11,093)**
Net cash used in investment activities	**(18,140)**	(20,063)	**(153,729)**
Cash flows from financing activities:			
Decrease in short-term loans	**(47)**	(158)	**(398)**
Proceeds from long-term debt	**5,000**	8,000	**42,373**
Repayments of long-term debt	**–**	(8,973)	**–**
Purchase of treasury stock	**(0)**	(0)	**(0)**
Cash dividends paid	**(2,571)**	(2,142)	**(21,788)**
Cash dividends paid to minority shareholders	**(1,015)**	(609)	**(8,602)**
Interest paid	**(105)**	(174)	**(890)**
Payment of capital reduction for minority interests	**(342)**	(2,029)	**(2,898)**
Net cash provided by (used in) financing activities	**917**	(6,088)	**7,771**
Effect of exchange rate changes on cash and cash equivalents	**84**	1,020	**712**
Net increase in cash and cash equivalents	**17,117**	7,720	**145,059**
Cash and cash equivalents at beginning of year	**43,082**	34,568	**365,102**
Increase in cash and cash equivalents due to merger	**–**	870	**–**
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	**–**	(76)	**–**
Cash and cash equivalents at end of year (Note 12)	**¥60,199**	¥43,082	**$510,161**

See notes to consolidated financial statements.

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

1. Basis of Preparation

Japan Petroleum Exploration Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the regulations under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Significant Accounting Policies

(1) Principles of consolidation and accounting for investments in non-consolidated subsidiaries and affiliates

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

The difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies accounted for by the equity method is amortized, in general, over a period of 5 years.

Investments in non-consolidated subsidiaries and affiliates other than the companies described above are stated at cost. Where there has been permanent impairment in the value of such investments, they have been written down in order to reflect the impairment.

(2) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains or losses are credited or charged to income.

The revenue and expense accounts of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and, 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.

(3) Cash equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(4) Securities

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

(5) Inventories

Merchandise and finished products are mainly stated at cost determined by the first-in, first-out method. Other inventories are mainly stated at cost determined by the moving average method.

(6) Property, plant and equipment and depreciation

Depreciation of property, plant and equipment is computed mainly by the declining-balance method, except for the buildings acquired on and after April 1, 1998, the Sendai pipelines, Shiroishi-Koriyama pipelines, the production and sales assets of Sapporo office facilities on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets.

However, depreciation of property, plant and equipment of two domestic consolidated subsidiaries is computed by the straight-line method. That of two foreign consolidated subsidiaries is computed by the unit of production method.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Wells	3 years
Machinery and equipment	2 to 20 years

Wells etc. are depreciated to the expected residual value (memorandum value: ¥1)

(7) Intangible fixed assets

Capitalized computer software costs are being amortized over a period of five years. Other intangible fixed assets are mainly amortized by the straight-line method. However, amortization of intangible fixed assets of one domestic consolidated subsidiary is computed by the unit of production method.

(8) Deferred assets

Development expenses are charged to income when incurred.

(9) Leases

Non-cancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(10) Retirement benefits

Accrued retirement benefits for employees are stated principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service benefits and cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period (10 years) which is within and shorter than the average remaining years of service of the employees.

Prior service benefits and cost are recognized as income or expense by the straight-line method over a period (10 years) which is within and shorter than the average remaining years of service of the employees.

(11) Accrued retirement benefits for officers

Directors and statutory auditors ("officers") of the Company and certain consolidated subsidiaries are customarily entitled to severance payments under their respective retirement benefit plans. Accrued retirement benefits for these officers are made at an estimated amount in accordance with the inter-company regulation as of the balance sheet date.

(12) 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.

(13) Accrued bonuses to officers

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

(14) Allowance for losses on overseas investments

The allowance for losses on overseas investments is provided for possible losses arising from investments in the exploration and development of overseas natural resources at an amount determined based on the net worth of the investees with reference to the investees' financial position and certain other factors.

(15) Accrued estimated cost of abandonment

The accrued estimated cost of abandonment is provided to cover the costs to be incurred upon the abandonment of wells and mining facilities at an estimated amount which, in general, is allocated over a scheduled period based on the Company's or consolidated subsidiaries' plans for the abandonment of wells and mining facilities.

(16) Accrual for losses on projects

The accrual for losses on projects is provided for possible losses arising from the exploration and development of natural resources conducted by consolidated subsidiaries at an estimated amount based on the net worth of each subsidiary's financial position and certain other factors.

(17) Hedge accounting

Simplified accounting method is applied to interest rate swaps. 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.

(18) Research and development expenses

Research and development expenses are charged to income when incurred.

(19) Accounting standard for presentation of net assets in balance sheet

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries are required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 has been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007. Total shareholders' equity under the previous method of presentation for the year ended March 31, 2007 amounted to ¥410,638 million (U.S.$3,479,983 thousand).

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at the rate of ¥118=U.S.$1.00, the approximate rate of exchange in effect on March 31, 2007. The 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 that or any other rate.

4. Securities

(a) Information regarding marketable securities classified as other securities as of March 31, 2007 and 2006 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2007	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥27,408**	**¥288,490**	**¥261,081**	**$232,271**	**$2,444,831**	**$2,212,551**
Bonds:						
Government bonds	**3,824**	**4,419**	**595**	**32,407**	**37,449**	**5,042**
Corporate bonds	**1,297**	**1,379**	**82**	**10,992**	**11,686**	**695**
Other debt securities	**6,683**	**6,798**	**114**	**56,636**	**57,610**	**966**
Other	**7,190**	**8,942**	**1,751**	**60,932**	**75,780**	**14,839**
Subtotal	**46,404**	**310,031**	**263,626**	**393,254**	**2,627,381**	**2,234,119**
Securities whose acquisition cost exceeds or is equal to their carrying value:						
Stock	**106**	**98**	**(7)**	**898**	**831**	**(59)**
Bonds:						
Government bonds	**1,198**	**1,186**	**(11)**	**10,153**	**10,051**	**(93)**
Corporate bonds	**2,064**	**2,022**	**(42)**	**17,492**	**17,136**	**(356)**
Other debt securities	**6,202**	**5,722**	**(479)**	**52,559**	**48,492**	**(4,059)**
Other	**2,286**	**2,255**	**(30)**	**19,373**	**19,110**	**(254)**
Subtotal	**11,858**	**11,286**	**(572)**	**100,492**	**95,644**	**(4,847)**
Total	**¥58,263**	**¥321,317**	**¥263,054**	**$493,754**	**$2,723,025**	**$2,229,271**

	Millions of yen		
March 31, 2006	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥27,336	¥279,329	¥251,993
Bonds:			
Government bonds	3,725	4,146	420
Corporate bonds	1,393	1,488	94
Other debt securities	6,274	6,412	137
Other	9,490	11,903	2,412
Subtotal	48,220	303,280	255,059
Securities whose acquisition cost exceeds or is equal to their carrying value:			
Stock	51	48	(3)
Bonds:			
Government bonds	991	969	(22)
Corporate bonds	13,548	13,470	(78)
Other debt securities	10,533	9,561	(971)
Other	2,733	2,689	(44)
Subtotal	27,858	26,738	(1,119)
Total	¥76,079	¥330,019	¥253,940

(b) Sales of securities classified as other securities amounted to ¥3,666 million ($31,068 thousand) with aggregate gain and loss of ¥118 million ($1,000 thousand) and ¥241 million ($2,042 thousand), respectively, for the year ended March 31, 2007.

For the year ended March 31, 2006, sales of securities classified as other securities amounted to ¥2,661 million with aggregate gain and loss of ¥222 million and ¥93 million, respectively.

(c) The redemption schedule for securities with maturity dates classified as other securities is summarized as follows:

March 31, 2007	Millions of yen Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:				
Government bonds	¥ 640	¥ 2,378	¥2,274	¥ 312
Corporate bonds	23,589	879	1,121	302
Other debt securities	300	6,350	1,712	4,157
Other	–	626	–	31
Total	¥24,530	¥10,235	¥5,109	¥4,803

March 31, 2007	Thousands of U.S. dollars Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:				
Government bonds	$ 5,424	$20,153	$19,271	$ 2,644
Corporate bonds	199,907	7,449	9,500	2,559
Other debt securities	2,542	53,814	14,508	35,229
Other	–	5,305	–	263
Total	$207,881	$86,737	$43,297	$40,703

5. Derivative Transactions

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations in interest rates, foreign currency exchange rates and oil prices, but does not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings.

The market value of derivatives held by the Company as of March 31, 2007 is summarized as follows. The derivatives to which hedge accounting is applied are not included. Market value is computed based on published quotations of financial institutions.

2007	Millions of yen Contract amount	Market value	Devaluation gain	Thousands of U.S. dollars Contract amount	Market value	Devaluation gain
Crude price swap:						
WTI float payment/						
WTI fixed receipt	¥1,075	¥942	¥133	$9,110	$7,983	$1,127
Total	¥1,075	¥942	¥133	$9,110	$7,983	$1,127

6. Long-Term Debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans from banks and others, at interest rates ranging from 1.02% to 1.05%:			
Unsecured	**¥20,000**	¥15,000	**$169,492**
	20,000	15,000	**169,492**
Less: Current portion	**(2,278)**	(–)	**(19,305)**
	¥17,722	¥15,000	**$150,186**

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 2,278	$ 19,305
2009	2,278	19,305
2010 and after	15,444	130,881
	¥20,000	$169,492

The Company and certain consolidated subsidiaries have entered into overdraft agreements amounting to ¥16,100 million ($136,441 thousand) with five banks.

7. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes. The statutory tax rate applicable to the Company was approximately 36.2% for the years ended March 31, 2007 and 2006. Income taxes of two foreign consolidated subsidiaries are based principally on the tax rates applicable in its country of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 differed from the statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	**36.2%**	36.2%
Effect of:		
Net loss carryforward of consolidated subsidiaries	**0.9**	0.9
Exploration cost deducted for income tax purposes	**(6.0)**	(5.9)
Dividend income deductible for income tax purposes	**(1.5)**	(0.8)
Tax credit for loss carryforward	**(4.1)**	(1.8)
Expenses not deductible for income tax purposes	**0.5**	0.6
Consolidated adjustment for equity method	**(0.7)**	(1.6)
Increase in valuation allowance	**7.1**	–
Other, net	**2.0**	2.3
Effective tax rates	**34.4%**	29.8%

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Allowance for losses on overseas investments	**¥ 3,474**	¥ 2,474	**$ 29,441**
Accrual for losses on projects	**217**	315	**1,839**
Net loss carryforward	**6,988**	8,018	**59,220**
Accrued retirement benefits for employees	**1,991**	1,731	**16,873**
Accrued retirement benefits for officers	**241**	296	**2,042**
Accrued estimated cost of abandonment	**1,021**	854	**8,653**
Finished products	**991**	998	**8,398**
Other	**7,311**	8,382	**61,958**
Subtotal	**22,237**	23,071	**188,449**
Valuation allowance	**(10,369)**	(9,551)	**(87,873)**
Total deferred tax assets	**11,868**	13,520	**100,576**
Deferred tax liabilities:			
Reserve for exploration	**(9,070)**	(8,445)	**(76,864)**
Unrealized holding gain on securities	**(94,719)**	(91,957)	**(802,703)**
Reserve for advanced depreciation of fixed assets	**(173)**	(179)	**(1,466)**
Other	**(465)**	(224)	**(3,941)**
Total deferred tax liabilities	**(104,430)**	(100,807)	**(885,000)**
Net deferred tax assets (liabilities)	**¥ (92,562)**	¥ (87,286)	**$(784,424)**

8. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain domestic consolidated subsidiaries have defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Retirement benefit obligation	**¥(16,316)**	¥(15,177)	**$(138,271)**
Plan assets at fair value	**10,659**	10,160	**90,331**
Unfunded retirement benefit obligation	**(5,657)**	(5,017)	**(47,941)**
Unrecognized actuarial gain or loss	**(299)**	282	**(2,534)**
Unrecognized prior service benefits and cost	**522**	–	**4,424**
Accrued retirement benefits for employees	**¥ (5,434)**	¥ (4,735)	**$ (46,051)**

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥ 789**	¥ 758	**$ 6,686**
Interest cost	**294**	280	**2,492**
Expected return on plan assets	**(152)**	(130)	**(1,288)**
Amortization of actuarial gain or loss	**187**	361	**1,585**
Amortization of prior service benefits and cost	**58**	–	**492**
Other	**56**	53	**475**
Total	**¥1,232**	¥1,324	**$10,441**

The assumptions used in accounting for the above plan as of March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rates	**2.0%**	Mainly 2.0%
Expected rates of return on plan assets	**1.5%**	Mainly 1.5%

9. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were ¥377 million ($3,195 thousand) and ¥339 million, respectively.

10. Leases

(1) Finance Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2007 and 2006, 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:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition costs:			
Machinery and equipment	**¥1,419**	¥1,308	**$12,025**
Other	**260**	265	**2,203**
Total	**¥1,680**	¥1,574	**$14,237**
Accumulated depreciation:			
Machinery and equipment	**¥ 377**	¥ 231	**$ 3,195**
Other	**169**	136	**1,432**
Total	**¥ 547**	¥ 367	**$ 4,636**
Net book value:			
Machinery and equipment	**¥1,041**	¥1,077	**$ 8,822**
Other	**90**	129	**763**
Total	**¥1,132**	¥1,207	**$ 9,593**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥258 million ($2,186 thousand) and ¥203 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 222	$1,881
2009 and thereafter	910	7,712
Total	¥1,132	$9,593

(2) Operating Leases

Future minimum lease payments subsequent to March 31, 2007 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 67	$ 568
2009 and thereafter	129	1,093
Total	¥196	$1,661

11. Contingent Liabilities

At March 31, 2007, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of others:		
Affiliated company	**¥ 1,219**	**$ 10,331**
Employees	**1,621**	**13,737**
Other	**32,170**	**272,627**
Total	**¥35,010**	**$296,695**

12. Cash Flow Information

A reconciliation of cash and cash equivalents as of March 31, 2007 and 2006 to accounts and amounts in the accompanying consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash and deposits in banks	**¥27,169**	¥29,639	**$230,246**
Time deposits with maturity in excess of three months	**(3,642)**	(1,217)	**(30,864)**
Short term investment within three months			
Commercial paper	**23,490**	11,997	**199,068**
Repo with forward resale commitment	**4,998**	–	**42,356**
Money management fund and other	**8,184**	2,663	**69,356**
Cash and cash equivalents	**¥60,199**	¥43,082	**$510,161**

13. Segment Information

The Company and its consolidated subsidiaries are engaged in the oil and natural gas segment and other segments. As the net sales, operating income and total assets of the oil and natural gas segment constituted more than 90% of the consolidated totals for the years ended March 31, 2007 and 2006, the disclosure of business segment information has been omitted.

The geographical segments of the Company and its subsidiaries for the year ended March 31, 2007 and 2006 are summarized as follows:

						Millions of yen
Year ended March 31, 2007	Japan	North America	Other area	Total	Eliminations	Consolidated
Sales to third parties	**¥147,211**	**¥15,805**	**¥ 7,001**	**¥170,018**	**¥ –**	**¥170,018**
Inter-segment sales and transfers	**31**	**–**	**2,223**	**2,254**	**(2,254)**	**–**
Total sales	**147,243**	**15,805**	**9,224**	**172,272**	**(2,254)**	**170,018**
Operating expenses	**125,185**	**13,806**	**3,721**	**142,713**	**(2,415)**	**140,298**
Operating income	**22,057**	**1,998**	**5,502**	**29,558**	**160**	**29,719**
Total assets	**¥578,161**	**¥15,783**	**¥15,012**	**¥608,957**	**¥(30,898)**	**¥578,059**

						Thousands of U.S. dollars
Year ended March 31, 2007	Japan	North America	Other area	Total	Eliminations	Consolidated
Sales to third parties	**$1,247,551**	**$133,941**	**$ 59,331**	**$1,440,831**	**$ –**	**$1,440,831**
Inter-segment sales and transfers	**263**	**–**	**18,839**	**19,102**	**(19,102)**	**–**
Total sales	**1,247,822**	**133,941**	**78,169**	**1,459,932**	**(19,102)**	**1,440,831**
Operating expenses	**1,060,890**	**117,000**	**31,534**	**1,209,432**	**(20,466)**	**1,188,966**
Operating income	**186,924**	**16,932**	**46,627**	**250,492**	**1,356**	**251,856**
Total assets	**$4,899,669**	**$133,754**	**$127,220**	**$5,160,653**	**$(261,847)**	**$4,898,805**

						Millions of yen
Year ended March 31, 2006	Japan	North America	Other area	Total	Eliminations	Consolidated
Sales to third parties	¥127,013	¥ 6,761	¥ 5,021	¥138,796	¥ –	¥138,796
Inter-segment sales and transfers	8	–	3,511	3,520	(3,520)	–
Total sales	127,022	6,761	8,532	142,316	(3,520)	138,796
Operating expenses	106,420	6,637	2,240	115,298	(3,520)	111,777
Operating income	20,601	123	6,292	27,017	0	27,018
Total assets	¥537,216	¥18,066	¥14,208	¥569,491	¥(36,975)	¥532,516

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2007 and 2006 are summarized as follows:

						Millions of yen
Year ended March 31, 2007	Southeast Asia	East Asia	North America	Europe	Other Area	Total
Overseas sales	**¥2,892**	**¥15,536**	**¥15,815**	**¥21,468**	**¥0**	**¥ 55,713**
Consolidated net sales	**–**	**–**	**–**	**–**	**–**	**170,018**
						Thousands of U.S. dollars
Overseas sales	**$24,508**	**$131,661**	**$134,025**	**$181,932**	**$0**	**$ 472,144**
Consolidated net sales	**–**	**–**	**–**	**–**	**–**	**1,440,831**
Overseas sales as a percentage of consolidated net sales	**1.70%**	**9.14%**	**9.30%**	**12.63%**	**0.00%**	**32.77%**

					Millions of yen
Year ended March 31, 2006	Southeast Asia	East Asia	North America	Other Area	Total
Overseas sales	¥5,328	¥11,588	¥6,768	¥212	¥ 23,897
Consolidated net sales	–	–	–	–	138,796
Overseas sales as a percentage of consolidated net sales	3.84%	8.35%	4.88%	0.15%	17.22%

14. Related Party Transactions

Principal transactions between the Company and JJI S&N B.V. an affiliate accounted for by the equity method, for the years ended March, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Balances:	**2007**	2006	**2007**
Long-term accounts receivable	**¥4,507**	¥8,544	**$38,195**
	¥4,507	¥8,544	**$38,195**

	Millions of yen		Thousands of U.S. dollars
Transactions:	**2007**	2006	**2007**
Acquisition of claim for indemnity	**¥ –**	¥5,589	**$ –**
Disbursement of loan receivable	**–**	2,955	**–**
Income for delinquency charges	**992**	–	**8,407**
	¥992	¥8,544	**$8,407**

The Company did not account for income for delinquency charges because it did not receive cash income.

15. Shareholders' Equity

The new Corporate Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to at least 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 of any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

16. Amounts per Share

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

Net assets per share is computed based on net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year-end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

	Yen		U.S. dollars
	2007	2006	**2007**
Net income	**¥ 367.12**	¥ 352.11	**$ 3.111**
Net assets	**7,185.80**	6,756.00	**60.897**
Cash dividends applicable to the year	**40.00**	40.00	**0.339**

17. Subsequent Events

(1) Appropriation of retained earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, were approved at a shareholders' meeting held on June 25, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20.0=$0.169 per share)	¥1,143	$9,686

(2) Acquisition of an indirect working interest of the Kangean block in Indonesia

On March 6, 2007, the Company and Mitsubishi Corporation, with the intention to assume an indirect working interest of the Kangean Block, east of Java Island, offshore Indonesia, agreed with PT Energi Mega Persada Tbk (EMP Tbk) on a proposed share subscription into EMP Tbk's 100% subsidiary, Energi Mega Pratama Inc. (EMPI) and financing a portion of EMP Tbk's development costs of the Block. EMPI owns 100% of the outstanding shares in each of EMP Kangean Ltd. (EMPK) and EMP Exploration (Kangean) Ltd. (EMPE), which hold 60% and 40% working interests, respectively, in the Block.

On May 16, 2007, as agreed above, the Company subscribed for the new shares in EMPI at US$180 million (¥21.2 billion) to become a 25% shareholder of EMPI. At the same time, the Company signed definitive loan agreements with EMP Tbk, EMPK and EMPE to finance a portion of development costs, including those incurred before that date, which will total a maximum of US$215 million.

Outline of EMPI (as of December 31, 2006)

	Millions of U.S. dollars
Consolidated net sales	$ 53
Consolidated operating income	$ 6
Consolidated gross asset	$501

REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG SHINNIHON

■ **Certified Public Accountants**
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

The Board of Directors
Japan Petroleum Exploration Co., Ltd.

We have audited the accompanying consolidated balance sheets of Japan Petroleum Exploration Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income and cash flows for the years then ended, and the related statements of changes in net assets for the year ended March 31, 2007, 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 Japan Petroleum Exploration Co., Ltd. and consolidated subsidiaries at March 31, 2007 and 2006, 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, 2007 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.

Ernst & Young ShinNihon

June 25, 2007

JAPEX recognizes the importance of corporate governance in increasing earnings through more efficient management and in ensuring the company continues to play a valuable role in society. We have therefore established and are enhancing our governance system.

COMPANY ORGANIZATIONS

On June 24, 2005, JAPEX adopted the executive officer system as a means of clarifying the operational structure.

JAPEX's directors and executive officers are selected and assigned their duties by the representative directors and Board of Directors, and serve as the Company's operating officers. Supervision of business execution is carried out by the Board of Directors and each corporate auditor, as well as the Board of Auditors composed of all auditors. JAPEX has adopted the corporate auditor corporate governance model.

• Board of Directors

The Board of Directors meets regularly once a month, and retains decision-making authority over important operations. It also serves in a supervisory role by receiving reports on the status of operations submitted by directors and executive officers.

Further, from the perspective of increasing the speed of decision-making, an Executive Committee composed of directors and other executives based at the Company's headquarters in Tokyo has been established to make decisions on matters that are not the responsibility of the Board of Directors. This committee also conducts discussions to support the decision-making of the Board of Directors.

JAPEX has appointed non-executive outside director to enhance the supervisory functions of the Board of Directors.

• Corporate Auditors and the Board of Auditors

Corporate auditors attend meetings of the Board of Directors. Standing auditors attend meetings of the Executive Committee and other important meetings, and fill a supervisory function through exchanges of opinions as necessary with the various directors and executive officers responsible for business execution.

There are four corporate auditors, two of whom are outside auditors. Each corporate auditor exercises independent auditing authority, while the Board of Auditors determines auditing policies and assigns tasks among auditors. One employee, who also has a post in the Auditing Department, has been assigned to the secretariat of the Board of Auditors to provide administrative support.

The Board of Auditors is provided with preliminary explanations of the auditing plan from the accounting auditor, and an explanation of the audit is provided at the time of receipt of the auditing report. Standing auditors also receive reports as necessary on the status of accounting audits. There are no conflicts of interest between the outside auditors and the Company.

INTERNAL AUDITING

The Auditing Department, headed directly by the president, oversees business execution in all departments in terms of compliance with laws and internal company regulations.

Two employees are assigned to the Auditing Department, including the individual who also has a post in the secretariat of the Board of Auditors to provide administrative support. The department takes successive actions based on the auditing plan for the fiscal year, reports the audit results to the president, and provides notifications and advice to relevant departments and divisions as necessary.

Reports on internal audits are submitted to the president, the Board of Auditors, and the accounting auditor. Standing auditors also receive regular feedback about the status of internal audits.

BASIC POLICY AND STRUCTURES REGARDING INTERNAL CONTROL SYSTEMS

Based on the policy below, JAPEX is working to enhance systems stipulated by the Company Law and its enforcement regulations designed to ensure the appropriateness of operations.

• System to ensure the execution of duties by directors is in compliance with relevant laws and the Articles of Incorporation

In accordance with regulations and resolutions of the Board of Directors, each director, based on their individual responsibilities and authority, promotes mutual supervision through discussion within and reports to the board, and corporate auditors may offer their opinions to the board where necessary.

• System to store and manage information related to the execution of duties by directors

Minutes of meetings of the Board of Directors, management approval documents, contracts and important documents that show the status of the execution of business matters are stored. The details of how these documents are handled is determined by specific document handling regulations.

• Regulations and other systems to manage risk related to losses

Credit management regulations, market risk management and derivative trading regulations and emergency response procedures are reviewed, and where necessary, procedural manuals created and other steps taken from the perspective of risk management.

• System to ensure directors execute their duties efficiently

In principle, the board of directors meets monthly, to conduct rapid decision-making on matters requiring a resolution of the Board of Directors as determined in advance through discussion by the Executive Committee. The board also ensures efficient business execution by delegating authority in accordance with decisions and authorization regulations.

• System to ensure the duties and actions of employees comply with relevant laws and the Articles of Incorporation

The duties of employees are managed in accordance with regulations for each administrative process and procedural manuals in each department; the Auditing Department monitors the effectiveness of internal control systems and reports the results to the president.

• System to ensure appropriate business activities by the JAPEX Group

The parent company's Internal Control Committee is responsible for communicating JAPEX's internal control policy to key Group companies, and manages Group companies in accordance with procedures for administering affiliated companies. In addition, the parent company's Auditing Department conducts regular audits of key Group companies.

• Matters related to employees requested by corporate auditors to support audit activities

At least one employee must be assigned to the secretariat of the Board of Auditors to perform duties as instructed by the Board of Auditors.

• Independence of employees mentioned in previous item from directors

Appointment, transfer and other personnel matters related to the employee(s) assigned to the secretariat of the Board of Auditors require the prior approval of the Board of Auditors.

• System to allow directors and employees to report information to the corporate auditors and other related reporting systems

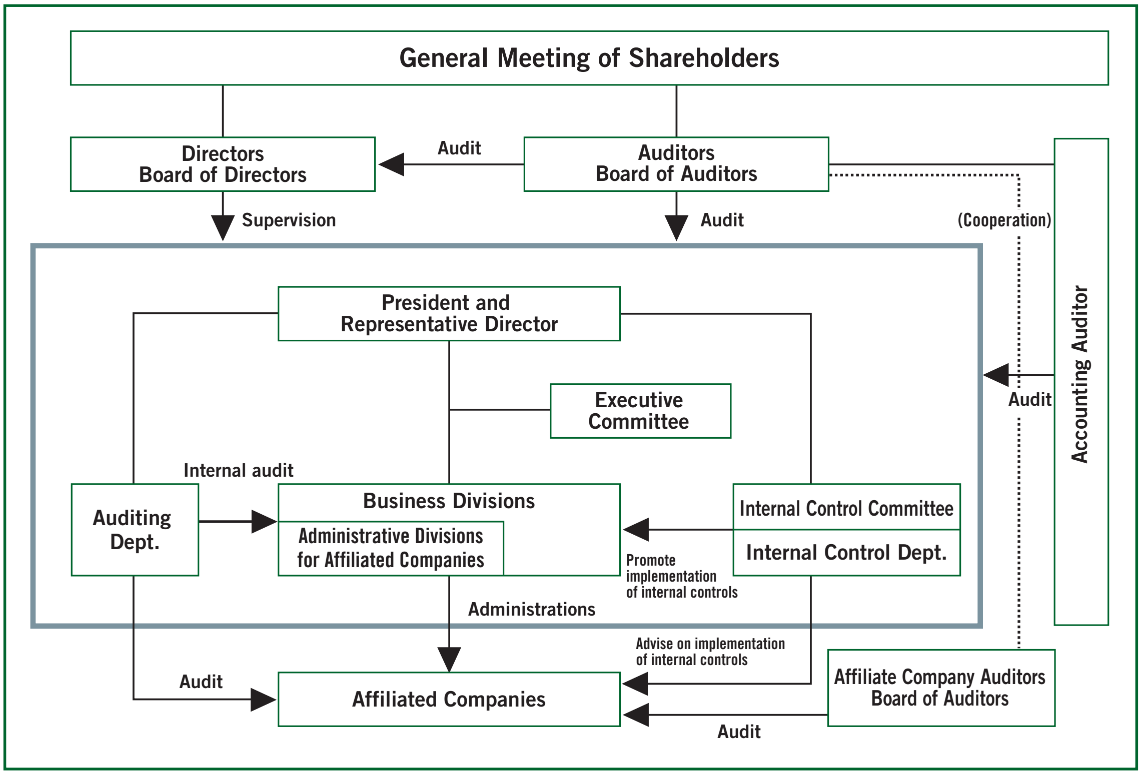
The directors must submit reports to the corporate auditors at monthly meetings of the Board of Directors, and refer the corporate auditors to management approval documents. In the event that directors discover facts that could lead to substantial damages for the Company, they must immediately report them to the Board of Auditors.

• Other systems to ensure corporate auditor activities are conducted effectively

The Auditing Department and the accounting auditor must regularly provide information to the corporate auditors.

In addition to the above, the Company's Internal Control Committee and Internal Control Department, both established on April 1, 2006, are responsible for continually checking and improving systems to ensure the appropriateness of operations.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STRUCTURE



CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

(As of March 31, 2007)

CONSOLIDATED SUBSIDIARIES	MAJOR BUSINESS ACTIVITIES	PAID-IN CAPITAL (Millions of yen)	VOTING RIGHTS (%)
Akita Natural Gas Pipeline Co., Ltd.	Transport of natural gas via pipelines in Akita Prefecture	250	100.00
SK Engineering Co., Ltd.	Onshore drilling and engineering services	300	100.00
JAPEX SKS Corporation	Manufacture and sale of petroleum products, real estate management	90	100.00
North Japan Oil Co., Ltd.	Refinement, processing and sale of crude oil	80	100.00
Shirone Gas Co., Ltd.	Production, supply and sale of gas in Tsubame and Niigata cities, Niigata Prefecture and other areas	3,000	100.00
Japex Pipeline Ltd.	Maintenance and management of pipelines	80	100.00
JGI, Inc.	Seismic data acquisition and processing services	2,100	100.00
Geophysical Surveying Co., Ltd.	Electrical well logging and mud logging services	446	100.00
JAPEX (U.S.) Corp.	Exploration, development and production of petroleum in the U.S., investment in Malaysia LNG project	88,000 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited	Exploration, development of oil sands in Canada and related production	301,320 (Thousands of Canada dollars)	100.00 (100.00)
Canada Oil Sands Co., Ltd.	Investment in exploration and development of oil sands through Japan Canada Oil Sands Limited	1,682	87.98 (1.34)
North Japan Security Service Co., Ltd.	Security services	30	87.33
Japex New Nanhai Ltd.	Production of petroleum in the South China Sea	400	82.00
Japex Offshore Ltd.	Exploration and production of petroleum on the continental shelf of the Sea of Japan	5,963	70.61
Jawa Oil Co., Ltd.	Provision of loans to PERTAMINA of Indonesia for exploration and development activities	400	67.50
GEOSYS, Inc.	Seismic data acquisition and processing services and sales of seismic software and hardware	49	48.72 (48.72)
Japex Libya Ltd.	Exploration and production of petroleum in Libya	1,500	100.00
Japex Block A Ltd.	Exploration, development and production of petroleum in Sumatra, Indonesia	1,055	100.00
Japex Philippines Ltd.	Exploration, development and production of petroleum in the Philippines	450	100.00

Note: Numbers in parentheses under voting rights represent indirect shareholdings.

EQUITY-METHOD AFFILIATES	MAJOR BUSINESS ACTIVITIES	PAID-IN CAPITAL (Millions of yen)	VOTING RIGHTS (%)
TOHOKU NATURAL GAS Co., Inc.	Marketing of natural gas in Japan's Tohoku region	300	45.00
JJI S&N B.V.	Development and production of petroleum in the Persian Gulf, off Iran	36,883 (Thousands of euros)	41.67
TELNITE CO., LTD.	Manufacture and sales of drilling mud	98	39.80
Universe Gas & Oil Company, Inc.	Production of petroleum in Eastern Kalimantan, Indonesia	9,443	33.43
Japan Drilling Co., Ltd.	Offshore drilling service	4,000	33.25

CORPORATE DATA (As of March 31, 2007)

Company Name	Japan Petroleum Exploration Co., Ltd. (Abbreviation: JAPEX)
Service Logo	JAPEX
Establishment	April 1, 1970
Paid-in Capital	14,288,694,000 yen
Fiscal Year	April 1 to March 31
Main Offices	Headquarters (see below), Sapporo, Akita, Nagaoka, Research Center (Chiba), London, Houston, Jakarta, Beijing, Dubai
Headquarters	SAPIA Tower, 1-7-12, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan TEL: 03 (6268) 7000 FAX: 03 (6268) 7300 URL: http://www.japex.co.jp/

Directors, Auditors and Officers (As of June 25, 2007)

President & Chief Executive Officer
Yuji Tanahashi

Executive Vice Presidents & Executive Officers
Osamu Watanabe　Tadashi Sagai
Katsuo Suzuki

Senior Managing Directors & Executive Officers
Tadatsuna Koda　Norihiko Sawara
Hiroshi Sato

Managing Directors & Executive Officers
Nobuzo Ichikawa　Masaki Hattori
Shoichi Ishii　Chikao Yoshida
Toshio Ibi　Mitsuru Saito
Yoichi Ohta

Director
Kazuo Kawakami

Corporate Auditors
Kiyoshi Wazumi　Tsutomu Sugiura
Masahiko Kadotani　Kisaburo Ikeda

Managing Executive Officers
Hajime Nakamura　Ken Fujii
Junichi Matsumoto　Kazuo Nakayama
Nobuaki Moritani

Executive Officers
Toshihiro Ohara　Nobuyuki Ogura
Mahito Uchida　Makoto Miyairi
Masami Miki　Fumio Mizuno
Keisuke Inoue　Hitoshi Yamatoya
Hironori Imazato

Stock Information (As of March 31, 2007)

Exchange Listing	Tokyo Stock Exchange, First Section (Securities Code Number: 1662)
Common Stock	Authorized: 120,000,000 shares Issued: 57,154,776 shares
Number of Shareholders	3,586

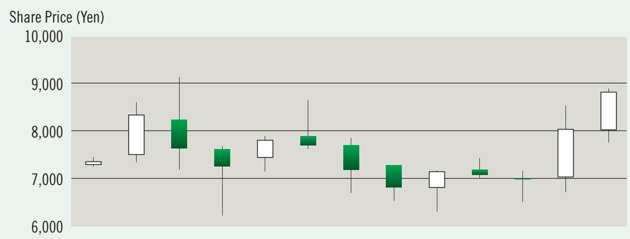
Major Shareholders

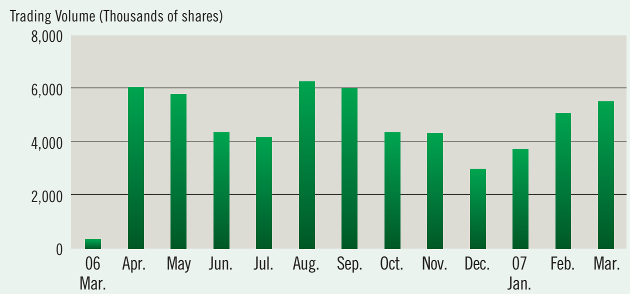
Shareholders	Shares	Voting Rights (%)
The Minister of Economy, Trade and Industry	28,543,724	49.94
Teikoku Oil Co., Ltd.	2,847,612	4.98
The Master Trust of Japan, Ltd.	2,821,000	4.94
JFE Engineering Corporation	1,848,012	3.23
Japan Trustee Services Bank, Ltd.	1,398,300	2.45
Mizuho Corporate Bank, Ltd.	920,152	1.61
Nippon Petroleum Refining Co., Ltd.	872,456	1.53
Nippon Oil Corporation	763,400	1.34
Morgan Stanley and Company Inc.	761,650	1.33
ITOCHU Corporation	698,000	1.22

Note: At the board of directors on May 29, 2007, a resolution was passed to create a prospectus and implement other necessary procedures in preparation for the sale of 9,111,000 shares by the Minister of Economy, Trade and Industry.

Transfer Agent and Registrar Inquiries	Mizuho Trust & Banking Co., Ltd. 17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722, Japan Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Division TEL: 0120-288-324

Share Price and Trading Volume





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