JAPEX

ANNUAL REPORT 2008

Year Ended March 31, 2008

Japan Petroleum Exploration Co., Ltd.

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.

COMPANY PROFILE

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.

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 ¥620.9 billion as of March 31, 2008. Its main operating areas are Hokkaido, Akita, Yamagata and Niigata in Japan, and Canada, Indonesia, China, Libya and other regions, where it is engaged in E&P activities.

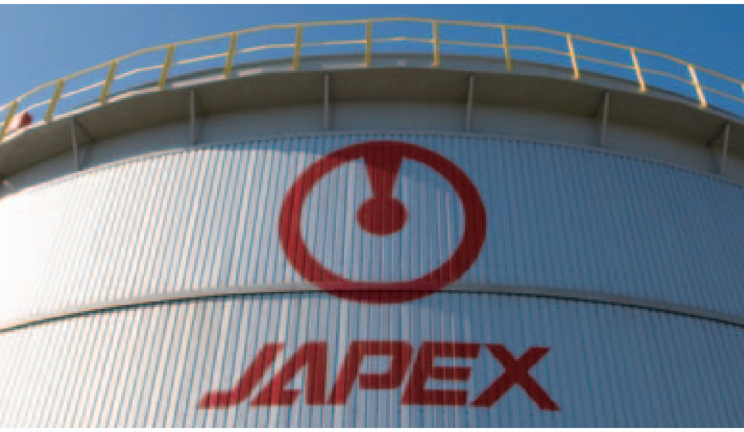
COMPANY VISION

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.

Since our founding in 1955, JAPEX has been engaged in the E&P business with its primary purpose being to expand oil and natural gas supplies in Japan. Starting with zero oil reserves, our continued efforts have established the foundation of our business, growing through numerous discoveries of oil and gas fields.

Because JAPEX explores, develops and distributes both oil and gas, we recognize that we bear a social responsibility to continue to use our best endeavors to secure reserves and increase production volumes, and to maintain a highly reliable, sustainable oil and gas supply as the scale of energy supplies expands. Moreover, we realize that it is critical to establish a new business model; one that builds and utilizes a transportation system to deliver natural gas. Hence, we strive to further evolve as a company that is competitive and responsive to a changing business environment, and to this end have formulated the above Company vision.



Osamu Watanabe

President and Chief Executive Officer

I was elected and assumed the office of President and CEO at our Board of Directors' meeting following the annual meeting of shareholders held on June 25. I am committed to dedicating my full efforts toward the further growth of the JAPEX Group.

Business Environment and Operating Performance in Fiscal 2008

In fiscal 2008, ended March 31, 2008, the Japanese economy continued its moderate recovery thanks to the steady growth of capital investments and improved corporate earnings. However, consumer spending was sluggish, and risks of an economic downturn increased mainly due to a decelerating economy in the U.S. brought on by the sub-prime housing loan problem. The Japan Crude Cocktail (JCC) price rose from below the US$60 per barrel range at the beginning of the fiscal year to more than US$90 at year end as global demand for crude oil grew. The yen appreciated against the U.S. dollar—from around ¥120 per dollar at the beginning of the year to under ¥100 per dollar in March—but because of the major increase in the JCC price, 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 from other business sectors to enter the natural gas industry.

In such an environment, consolidated results for fiscal 2008 comprised net sales of ¥207,638 million, operating income of ¥19,625 million, and net income of ¥20,097 million.

Domestic Operations

As a company with an operational focus on E&P, sustaining and increasing reserves of crude oil and natural gas to ensure a stable supply system over the long term is of principal concern for us at JAPEX. We have therefore focused on exploration with a basic strategy of expanding domestic reserves of crude oil and natural gas. Centered on the Niigata, Akita and Hokkaido regions of Japan, we have been conducting a systematic and 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, with increased demand for natural gas accompanying its emergence as a cost-effective alternative in the face of rising crude oil and petroleum product prices in recent years, in our natural gas business we are investing capital in order to expand our supply capability for domestic natural gas, while also cultivating further demand and expanding sales. In addition, JAPEX is working to expand sales of natural gas in the Tohoku and Hokuriku regions by using its LNG Satellite System to supply liquefied natural gas (LNG) by tanker truck and railway tank containers. To meet demand within Hokkaido, we have completed the second train at the Yufutsu LNG plant.

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 toward efficient E&P activity in existing projects, as well as making efforts to secure new projects, in Southeast Asia, Canada, the Middle East, North Africa, Sakhalin in Russia, and other regions we have identified as target areas. Through Japan Canada Oil Sands Limited (JACOS), we are continuing to produce bitumen using the Steam-Assisted Gravity Drainage (SAGD) process in existing production areas, and in May 2008, we began procedures to perform an environmental impact assessment for development in the undeveloped part of the Hangingstone area in Canada. Based on our reserves assessment at this point in time, we anticipate additional production of up to 35,000 barrels per day over the next 25 to 30 years with the start of production targeted for the fourth quarter of 2014. In Iraq, in April this year, we were qualified by the country's Ministry of Oil as one of 35 companies from among 120 international oil companies who bid in the first licensing round for future oil development in Iraq.

Mid-term Business Plan

In May of this year, JAPEX announced its mid-term business plan for the JAPEX Group for the five-year period from fiscal 2009 to fiscal 2013. The business environment surrounding JAPEX has been experiencing rapid changes in recent years, including the rising prices of crude oil and other natural resources, changes in social priorities, such as the increasing importance given to countermeasures for global warming, and ongoing deregulation in Japan accompanying revisions to Japan's Electricity Enterprises Law and Gas Utility Industry Law. Based on this business environment, the JAPEX Group will work to further increase corporate value by clarifying both the important management tasks from a long-term perspective and the policies to accomplish them.

Three Important Management Tasks

The three important management tasks identified in the mid-term business plan are as follows:

- Sustaining and increasing reserves through exploration and development
- Strengthening our natural gas integrated operation system
- Technology R&D activities and initiatives to help solve global environmental problems

We will expand our core crude oil and natural gas businesses through the effective pursuit of the above three tasks.

Management Objectives

The following three main points have been positioned as management objectives in tackling the three important management tasks.

- Increase recoverable reserves held by the JAPEX Group from 170 million barrels of oil equivalent (BOE) as of March 31, 2007 to 350 million BOE by the end of fiscal 2013.
- Increase sales volume of natural gas from 1.7 billion m^3 in fiscal 2008 (domestic sales volume including LNG Satellite) by 0.3 billion m^3 to 2.0 billion m^3 by fiscal 2013.
- Secure ¥300 billion as cash flows from operating activities (before deduction of exploration costs and taxes) over the next five years.

As set forth in our mid-term business plan, 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 2008

Osamu Watanabe

Osamu Watanabe
President and Chief Executive Officer

JAPEX GROUP Mid-term Business Plan

The JAPEX Group Mid-term Business Plan, Fiscal 2009 to Fiscal 2013

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Numerical Targets for ***the JAPEX Group*** Mid-term Business Plan

- Recoverable reserves of 350 million BOE by the end-March 2013
- Natural gas sales volume of 2.0 billion m^3 in fiscal 2013

Important Management Tasks

- Sustaining and increasing reserves through exploration and development
- Strengthening our natural gas integrated operation system
- Technological R&D activities and initiatives to help solve global environmental problems

Important Management Tasks and Concrete Measures

We will implement the following concrete measures to achieve the three important management tasks.

1. Sustaining and Increasing Reserves Through Exploration and Development

In our high-risk oil and gas exploration and development activities, we aim to discover and secure new oil and gas reserves by identifying promising projects and conducting efficient exploration activities.

In particular, in order to increase domestic oil and gas reserves, which currently account for our largest revenue source and are highly competitive in price, we will continue exploration and development activities in a proactive manner by setting our priorities on restructuring our domestic oil and gas exploration and development activities. While carefully considering investment balance, we aim to establish a new revenue base through the acquisition of overseas interests.

Domestic exploration—exploration aimed at discovering new large-scale gas reserves

The targets for exploration aimed at discovering large-scale gas reserves are Yufutsu-type geological structures in onshore and offshore mid-southern Hokkaido, and green tuff formation in the Niigata area. Although geological risks are relatively high in these areas, we anticipate the addition of substantial reserves upon successful exploration. We will pay careful attention to data acquired from geophysical surveys up to now and focus on the early execution of exploration drilling.

Domestic exploration—exploration aimed at field growth

The targeted areas for exploration aimed at field growth are the Yufutsu area in Hokkaido, the Kosei, Yurihara and Ayukawa areas in Akita prefecture, and in Niigata—the Kita-Kanbara area and the area in the vicinity of offshore Higashi-Niigata and Iwafuneoki. While prospective reserves in the surrounding areas of each of these oil and gas fields are relatively medium-scale, geological risks are low enough to generate earnings from additional reserves within a short period of time. We will conduct exploration while leveling the workload by considering the production levels of existing fields and the division of costs between our joint venture partners.

Scale of domestic investments

Based on the above policies, we expect to invest ¥50 billion in domestic exploration projects, including geophysical surveys, and carry out approximately 20 exploration and extension wells during the five years from fiscal 2009 to fiscal 2013.

Domestic Exploration and Extension Well Programs from Fiscal 2009 to 2013

Area	Target	Number of wells drilled
Hokkaido area	Field growth	4
	Large-scale reserves	2
Akita area	Field growth	5
Niigata area	Field growth	9
	Large-scale reserves	2

Overseas exploration and development

Our target areas are the regions of Southeast Asia centering on Indonesia; Canada; the Middle East; North Africa; and Sakhalin in Russia. In these regions, we will continue to advance operations and maximize the value of all existing projects, while focusing also on the acquisition of new projects. Further, we aim to achieve synergies between the revenue base expansion of our upstream and midstream operations in the natural gas business, and the securing of stable sources of gas sales in Japan in the long term, thereby preparing ourselves to acquire upstream and midstream LNG interests.

Southeast Asia centering on Indonesia

Due to our proactive interest acquisition activities over the past few years, we have successfully acquired interests in Block A and in the Kangean Block of Indonesia. We will work to maximize the value of our assets by conducting exploration and development in these blocks. We will also continue to work at identifying new projects, aiming to cultivate the core regions for our overseas business.

Canada

In the Hangingstone 3.75 Section, we will continue with bitumen production using the SAGD process, while conducting geological evaluation in the undeveloped part of the Hangingstone area. By carefully reviewing geological data obtained up to now, we have assessed that there are sufficient resources for development, and have commenced environmental impact assessment procedures as an initial step toward development. Currently, based on resource assessments, we expect to be able to produce up to an additional 35,000 barrels per day over the next 25 to 30 years.

The Middle East

Based on the MOU concerning technical assistance that we have concluded with the Ministry of Oil in Iraq, we will continue to conduct joint studies, and provide technical assistance and training to bolster our relationships with the Ministry.

With regard to Middle East areas other than Iraq, we will seek opportunities to acquire interests in fields discovered but not yet developed, and in fields under production, as well as in IOR/EOR projects, primarily in the Gulf region.

North Africa

Both Libya and Algeria are said to possess sedimentary basins with some of the greatest potential for oil and gas exploration and development in the world. In Libya, we will advance exploration activities in the 40-3/4 Block and 176-4 Block, and also continue to seek further interests. In Algeria, Egypt and other regions, we are working to acquire interests, focusing on fields under production and fields discovered but not yet developed.

Sakhalin in Russia

We are witnessing steady progress in crude oil production by the Sakhalin Oil and Gas Development Co., Ltd (SODECO). We will continue our involvement in this project, aiming to maximize our asset value in collaboration with ExxonMobil Corporation.

Seeking participation opportunities in LNG upstream and midstream projects

We aim to ensure the stable supply of LNG imports necessary for our domestic natural gas supply business, and to achieve synergies together with the active utilization of the domestic natural gas supply network. We seek participating opportunities in LNG upstream and mid-stream projects from a long-term perspective.

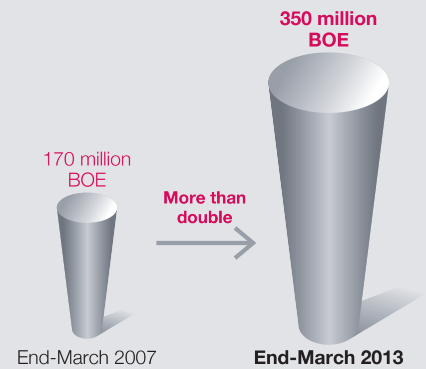
Scale of overseas investments

During the period of this mid-term business plan, JAPEX will invest an estimated ¥110 billion over five years for exploration work in existing projects, and for development work where exploration drillings are expected to lead to successful commercial discoveries. Although it may be difficult to acquire new projects with the escalating crude oil prices today, we consider investment in new projects essential for sustainable growth. We will pay close attention to financial viability and then conduct E&P activities.

Target reserves

Through our efforts to advance domestic and overseas investment in exploration and development, we aim to raise the 170 million barrels of oil equivalent (BOE) of recoverable reserves as of March 31, 2007, to approximately twice the volume of 350 million BOE by the end of fiscal 2013.

Reserves



2. Strengthening Our Natural Gas Integrated Operation System

We will implement an efficient natural gas integrated operation system called “Gas Integration” in our core natural gas supply business, by integrating upstream (exploration and development), midstream (transportation and storage) and downstream (large-scale supply, wholesale, etc.) operations. By building a natural gas business model that organically integrates our distinctive facilities and service functions, we will differentiate ourselves from other gas suppliers. Specifically, we will focus our efforts on the following areas.

- With regard to upstream operations, we seek to secure competitive sources of natural gas supplies through exploration and development activities in the earlier described areas in Japan and overseas.
- In midstream operations, we will respond to increasing demand by ensuring sufficient supply capabilities. As we identify new demand, we will work to build up supply infrastructure such as new pipelines.
- In downstream operations, while expanding sales and raising sale prices, we will diversify supply methods of natural gas through new businesses such as GTL.

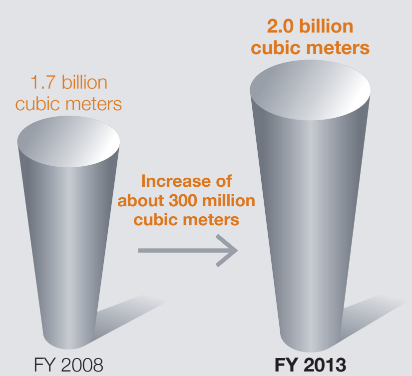
Scale of domestic capital expenditure

With regard to the expansion of domestic gas supplies, we plan to invest ¥80 billion in the form of domestic capital expenditure during the five-year period of this mid-term business plan, aimed at sustaining and increasing production facilities and production wells mainly in the Yufutsu and Katakai areas.

Sales expansion and sales volume targets

With the soaring prices of crude oil and oil products in recent years, the relative price advantage of natural gas has become of particular note. Consequently, we are seeing a surge in the demand for natural gas among industrial consumers. While we make efforts to respond to the rising demand by investing in facilities to increase our domestic gas supply capacities and by increasing LNG purchases from overseas, we will seek to adjust our gas selling prices to the equivalent Japan LNG Cocktail (JLC) price. Further, we take a proactive approach to expanding natural gas sales in Japan, aiming to achieve a sales volume (domestic sales volume inclusive of LNG satellite) of 2 billion m^3 in fiscal 2013, approximately 0.3 billion m^3 higher than the actual results in fiscal 2008.

Natural Gas Sales Volume



3. Technological R&D Activities and Initiatives to Help Solve Global Environmental Problems

The technology related to our exploration and development activities is evolving in various ways. Aiming to apply this technology to our environmental business in the future, we will work on improving and utilizing our technological capabilities through initiatives in the following new businesses. In addition, we will take proactive steps to reduce the burden that our business activities place on the environment, and to participate in tree-planting programs and other initiatives to help solve global environmental problems.

GTL and DME

We are making efforts to promote the efficient use of natural gas by participating in joint research programs in the public and private sectors, regarding the development of Gas to Liquids (GTL) and dimethyl ether (DME) manufacturing technology.

Carbon dioxide capture and storage

We will advance the development of carbon dioxide capture and storage (CCS) technology, which is used in reducing greenhouse gas emissions, through the application of our exploration and development technology.

Methane hydrate

In tandem with the government's development plans, we are playing a central role in the development of methane hydrate, which is touted as the next-generation energy source.

Corporate efforts to protect the environment

Our fundamental approach to environmental conservation is to protect the regional and global environment. To this end, we have set forth the following action guidelines.

- Integrate environmental concerns into our domestic and overseas business operations.
- Focus on supplying energy that is beneficial to the environment.
- Work together with members of regional communities and business partners to strengthen partnerships in environmental activities.

Cash Flows and Allocations

Based on our sales target for natural gas, we have set a target for our cash inflows from operating activities, before deductions for exploration expenses and taxes, of ¥300 billion for the five-year period of the current mid-term business plan. Of this, ¥240 billion has been allocated to capital expenditure and exploration investments. While striving to keep dividends stable, we aim to provide shareholder returns through an increase in our corporate value.

Cumulative Total for Five Years from Fiscal 2009 to Fiscal 2013 (Consolidated basis)
Assumptions: JCC price—US$80/bbl; Exchange rate—¥105/US$

Cash flows from operating activities (before deductions for exploration expenses and taxes)	: 300 billion yen

Capital expenditure	: 160 billion yen (80 billion yen each for domestic and overseas expenditure)
Exploration investments	: 80 billion yen (50 billion yen and 30 billion yen for domestic and overseas investments, respectively)
Total	: 240 billion yen

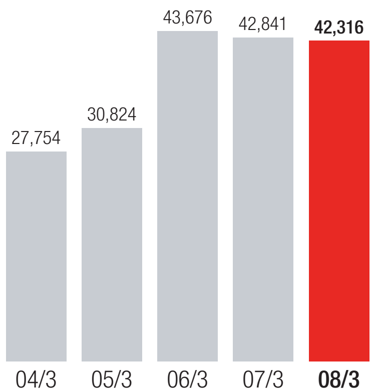
PRODUCTION

JAPEX and its consolidated subsidiaries produce crude oil and natural gas in Japan centered on Niigata and Akita prefectures and Hokkaido. Overseas, crude oil and natural gas production activities are being conducted in Canada, China and the U.S.

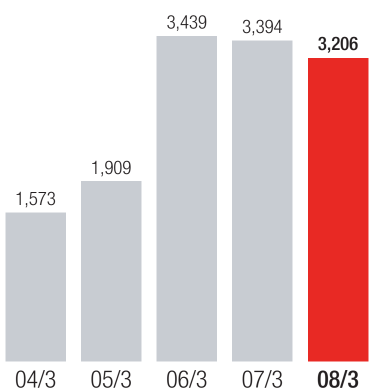
Average net production volume on a consolidated basis during the fiscal year ended March 31, 2008 was 3,206 kl/d (20,167 barrels of oil per day (b/d)) of crude oil, including bitumen, 3,521 thousand m³/d (124 million cubic feet per day (mmcf/d)) of natural gas and a crude oil equivalent of 42,316 barrels of oil equivalent per day (boe/d).

Conversion factors:	
Crude oil	1 kl = 6.29 bbl
Natural gas	1,000 m³ = 35.31 thousand cubic feet
Natural gas	1,000 m³ = 1 kl of oil equivalent

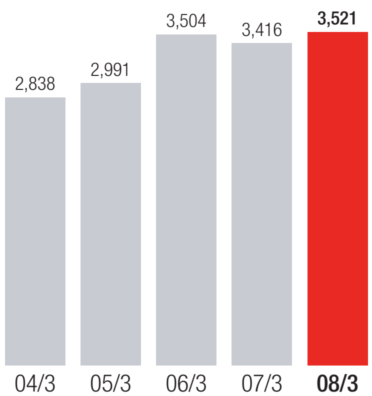
Crude Oil Equivalent
(Consolidated)
(boe/d)



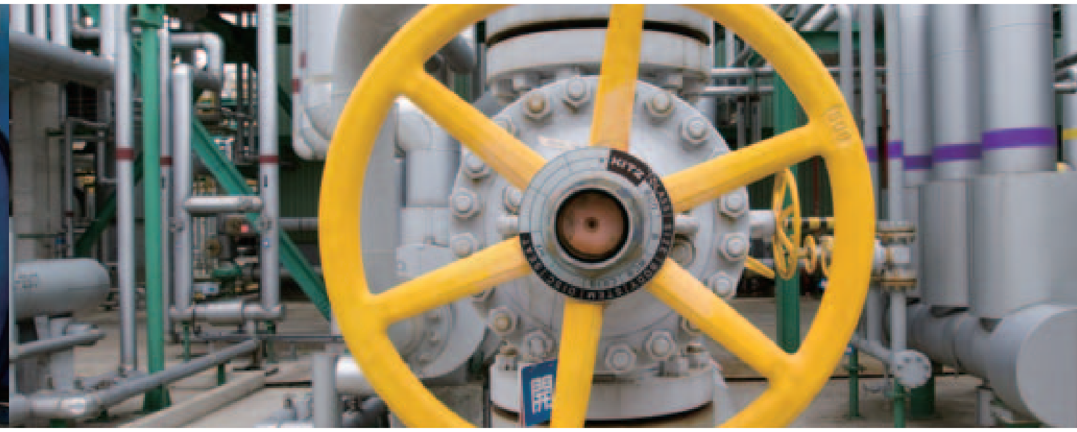
Crude Oil Production
(Consolidated)
(kl/d)



Natural Gas Production
(Consolidated)
(m³/d)



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



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 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

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. Exploration activities in fiscal 2008 included conducting 3D seismic surveys aimed at assessing the exploration potential of the Kita-Kanbara onshore region to shallow offshore areas. In the sea off Kita-Kanbara, we also started an exploration drilling campaign based on data acquired from 3D seismic surveys conducted in 2005.

We also drilled production wells to maintain and expand the production capacities of the Katakai gas field and the Iwafuneoki oil and gas field.

OUTLOOK Fiscal 2009

- 3D seismic surveys of area from the Kita-Kanbara onshore region to shallow offshore areas, and 2D seismic surveys of Kashiwazaki area
- Four exploration wells (including one from the previous fiscal year)
- Three production wells (including one from the previous fiscal year)

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 2008, we conducted 2D seismic surveys to assess the exploration potential of the areas surrounding the Yurihara oil and gas field.

OUTLOOK Fiscal 2009

- 2D seismic surveys in southern Mt. Chokai area
- One extension well

Hokkaido Area

Production operations in Hokkaido are centered on the Yufutsu oil and gas field. During fiscal 2008, JAPEX continued conducting the 3D seismic surveys from the previous year to assess the exploratory prospects of the areas surrounding the Yufutsu field.

With respect to production activities, we drilled one production well with the aim of maintaining and increasing the production capacity of the Yufutsu oil and gas field. Seeking to meet growing demand for natural gas, we are constructing a new processing facility that will have a capacity of 2.4 million m^3/d upon completion, scheduled for fiscal 2009.

OUTLOOK Fiscal 2009

- 3D seismic surveys in Yufutsu area and 2D seismic surveys in Shizukawa area
- One exploration well
- One production well

OVERSEAS E&P

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.

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 process of SAGD (100% interest, operator) in a part of the Hangingstone area (commonly known as the 3.75 section area) in the Athabasca region, Alberta. In 2007, we drilled seven pairs of new horizontal wells to maintain and increase production. Among these, we started production at one pair of wells. Accordingly, we were engaged in production at 16 pairs of horizontal wells at the end of 2007. Average gross production volume in 2007 for the 3.75 section area was 1,124 kl/d (7,071 b/d) of crude oil (bitumen). Meanwhile, in an undeveloped part (75% interest, operator) of the Hangingstone area adjoining the south side of the 3.75 section area, continuing from 2006 we drilled appraisal wells and conducted 3D seismic surveys in an effort to assess the volume of reserves.

OUTLOOK 2008

- Conduct environmental impact study of an undeveloped part of the Hangingstone area
- Continue geological evaluation work by drilling appraisal wells in an undeveloped part of the Hangingstone area

Hangingstone Oil Sands Expansion Project: Environmental Impact Assessment Work Begins

In May 2008, **JACOS** submitted a Public Disclosure Document (PDD) to conduct an environmental impact assessment on the oil sands expansion project applying the process of SAGD (Hangingstone SAGD Project) to Alberta Environment, the environmental agency of the Alberta provincial government. This assessment is in line with preparations necessary to make a final decision about the Hangingstone SAGD Project, jointly held by JACOS (75% interest, operator) and Nexen Inc. (25% interest).

With respect to the potential environmental and socio-economic impact of the project, we are undertaking preparatory work while engaged in full discussion with landowners, residents and other related parties, including local authorities, aboriginal communities and relevant government agencies. We expect the entire preparatory process, from submission of PDD to completion of environmental impact assessment, to take around 18 months.

Based on its current assessment of the resource of recoverable bitumen, **JACOS** estimates that over the next 25 to 30 years it can produce a maximum of 35,000 barrels of bitumen in addition to existing operations. The development schedule is subject to various factors, such as the progress of additional geological evaluation and business conditions. Nevertheless, we are hoping to commence production in the fourth quarter of 2014.

Map of Hangingstone Block

Indonesia

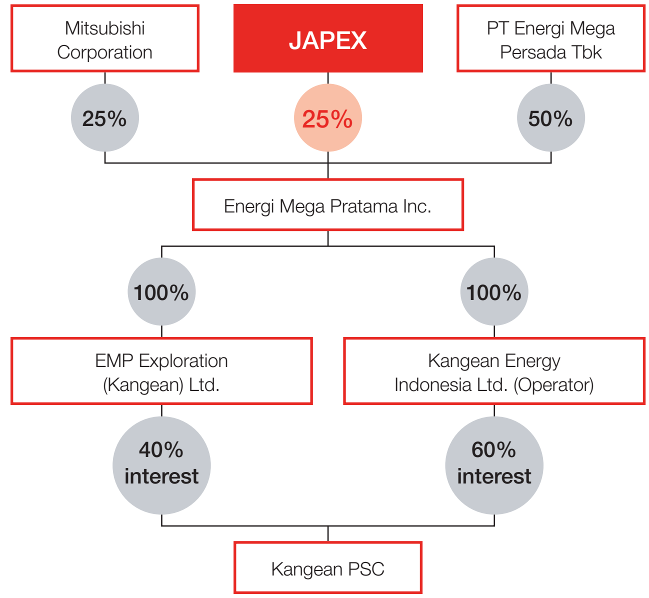
In Indonesia, consolidated subsidiary **Japex Buton Ltd.** was awarded the Buton Block, an onshore/offshore block on Buton Island, Southeast Sulawesi, through a public auction in October 2006. Following the execution of a production sharing contract (PSC) in January 2007, **Japex Buton** (40% interest, operator) began exploration activities, including geological airborne gravity and magnetic and 2D seismic surveys.

In addition, consolidated subsidiary **Japex Block A Ltd.**, which holds a 16.67% interest in the northern Sumatra Block A, has received approval from the Indonesian government for its plan to develop discovered and undeveloped gas fields in Block A. At present, that company is undertaking the front-end engineering and design (FEED) work. Because the current PSC for the block expires in August 2011, we are negotiating an extension of the contract with the Indonesian government. In December 2007, meanwhile, we signed a gas sales agreement (GSA) with a government-operated fertilizer plant, and in April 2008 we signed an additional GSA with Indonesia's state-run electric power company.

Universe Gas & Oil Company, Inc., an equity-method affiliate in Indonesia, owns a 4.375% interest in the Sanga Sanga Block in Eastern Kalimantan. It has drilled a total of 37 production wells to increase recovery efficiency and maintain production volume of crude oil and natural gas. In 2007, the average gross production for the block was 2,479 kl/d (15,595 b/d) of crude oil, 14,334 thousand m^3/d (506 mmcf/d) of natural gas and a crude oil equivalent of 16,813 kl/d (105,760 boe/d).

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 through subsidiaries. **EMPI** became a JAPEX equity-method affiliate as a result of this share purchase. In the Kangean Block, together with production in the existing Pagerungan gas field and the Sepangang Island oil field, we have also restarted production at the Sepangang Island oil field and are conducting development work at the Pagerungan Utara offshore oil field and TSB gas field. In 2007, the average gross production for the block was 211 kl/d (1,329 b/d) of crude oil and 1,168 thousand m^3/d (41 mmcf/d) of natural gas and a crude oil equivalent of 1,380 kl/d (8,681 boe/d).

Kangean Block Ownership Structure



OUTLOOK 2008

- Buton Block: Conduct airborne gravity and magnetic and 2D seismic surveys
- Block A: Obtain approval to extend PSC; continue FEED work
- Kangean Block: Continue development of Pagerungan Utara offshore oil field and TSB gas field

China

In China, consolidated subsidiary **Japex New Nanhai Ltd.** is conducting production activities as a joint operator (30% interest) of the offshore Lufeng 13-1 oil field in the South China Sea offshore the Pearl River mouth. In 2007, it drilled one side-tracking well from existing wells to maintain production volume and increase recovery efficiency. We also placed our floating storage and offloading unit (FSOU) in dry dock from June to August to keep it in good running condition. Average gross production volume in 2007 for the oil field was 1,365 kl/d (8,592 b/d).

OUTLOOK 2008

- Allow expiration of contract for Lufeng 13-1 oil field (production operation work deadline February 2009)

Philippines

In the Philippines, consolidated subsidiary **Japex Philippines Ltd.** has conducted exploration work including the drilling of one exploration well as the operator (65% interest) of the SC46 Block, located in the Tanon Straits. Unable to identify commercially viable oil and gas reserves, however, that company relinquished its rights to the block on June 20, 2008, the deadline for phase two of the exploration work.

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 (100% interest, operator); and the 40-3/4 Block, in the coastal area of the Mediterranean Sea (42% interest, operator). In the year under review, Japex Libya conducted 2D seismic surveys in the 176-4 Block. It also conducted 2D and 3D seismic surveys in the 40-3/4 Block.

OUTLOOK 2008

- Two exploration wells

Iran

In Iran, equity-method affiliate **JJI S&N B.V.** (20% interest) 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. At present, **JJI S&N** is recovering costs and remuneration from that project.

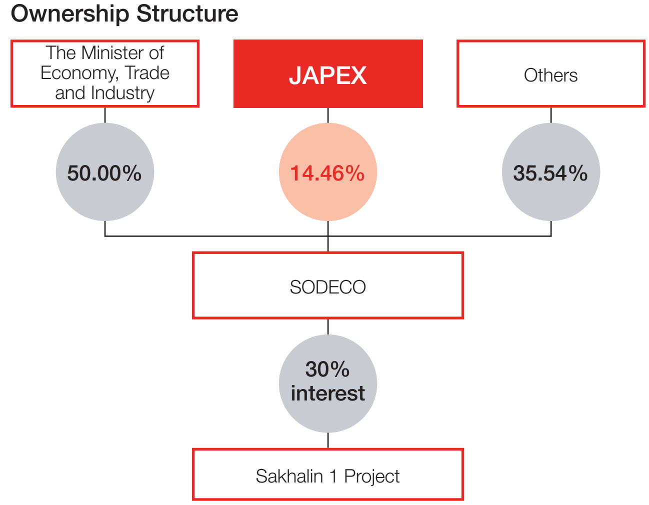
Iraq

Since March 2005, JAPEX has been engaged in technical cooperation with Iraq's Ministry of Oil. Since then, we have conducted evaluation studies of undeveloped oil fields jointly with the Ministry's engineers. JAPEX has also been reviewing technology for upgrading heavy crude oil and methods to increase production, and providing support technologies related to 3D seismic surveys. Over the past three years, JAPEX has welcomed more than 450 trainee engineers dispatched from the Ministry of Oil. Since the beginning of 2008, the Ministry has been screening the qualifications of international oil companies around the world for future development of Iraqi oil fields. JAPEX has been included among 35 companies qualified from 120 applicants. In addition, the Ministry has commenced surveys of the Gharaf oil field, using 3D seismic survey equipment and software supplied by JAPEX. Going forward, we will also offer technical support for such surveys.

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 DeKastri in August 2006, the Sakhalin 1 Project consortium has completed an onshore processing facility for the Chayvo field, and also started exports of Sokol crude, the Russian name given to oil produced from the Sakhalin 1 Project. In February 2007, the project reached its peak gross production target of around 40,000 kl/d (250,000 b/d). Meanwhile, the consortium continues to sell natural gas to customers in Russia.

**Sakhalin Oil and Gas Development Co., Ltd.
Ownership Structure**



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 thereby increase sales.

JAPEX responded to rising demand by increasing the sales volume of natural gas by constructing new pipelines and expanding its gas supply 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 are continuing to work at identifying new demand in the regions covered by our gas pipeline network.

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. To meet increasing demand within Hokkaido, in November 2007 we completed the second train at the Yufutsu LNG plant, which had been under construction.

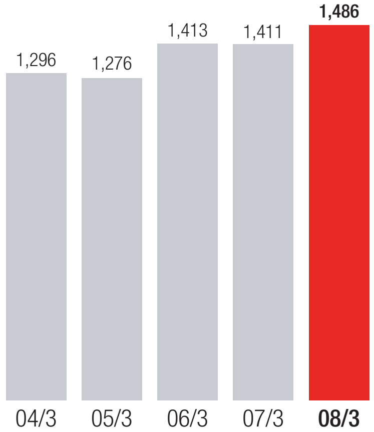
Sales Targets

As identified in our mid-term business plan, JAPEX is aiming to achieve a domestic sales volume of natural gas (including LNG Satellite) increased by approximately 0.3 billion m^3 from the actual results for the fiscal year ended March 31, 2008 to 2.0 billion m^3.

Natural Gas Sales Volume

(Consolidated)

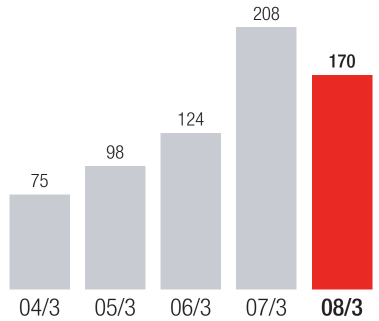
(Millions of cubic meters)



LNG Sales Volume

(Consolidated)

(Thousands of tons)



CORPORATE GOVERNANCE

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 its 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 per 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.

JAPEX has appointed non-executive outside directors to enhance the supervisory functions of the Board of Directors. The Board of Directors receives appropriate questions and advice concerning Board resolutions and deliberations from an objective perspective independent of the management team.

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.

There are no conflicts of interest between the outside directors and the Company.

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.

Five 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.

IR Activities

In addition to these management mechanisms of corporate governance, the Company conducts a full range of IR activities, including holding earnings presentations and maintaining the Company website, thereby increasing management transparency and thus achieving optimum business execution in all circumstances.

Remuneration of directors and auditors

For the fiscal year under review, remuneration provided to board members and corporate auditors of the Company, and to the accounting auditor, is described below:

Remuneration paid to board members : ¥371 million
Remuneration paid to corporate auditors : ¥ 52 million

Notes: 1. The above remuneration paid to board members includes ¥33 million of remuneration paid to outside directors and outside auditors.
2. The above remuneration paid to board members does not include directors' bonuses decided by resolution of the General Meeting of Shareholders, retirement benefits and employee salaries to persons who are both employees and board members.

Remuneration paid to the accounting auditor according to Section 1 under Article 2 of the Certified Public Accountant Law: ¥31 million

Details about the accounting auditor

The accounting auditor who conducted the audit of the financial statements for the fiscal year under review was Ernst & Young ShinNihon. The names of the individual accounting auditors who executed the audit are listed below.

Accounting auditors : Hiroyuki Terao, Kenji Yumoto, Hiroaki Kosugi
Composition of auditors: Certified public accountants 9
Assistant auditors 17

Quorum for Board of Directors

The number of directors for the Board of Directors has been stipulated by the Company's Articles of Incorporation to be 18 or less.

Requirements for resolutions for appointment of directors

The Company's Articles of Incorporation stipulate that a resolution of the General Meeting of Shareholders for the appointment of a director must be proposed at a meeting with the participation of at least one-third of the shareholders who have the right to vote and with votes cast for the resolution by the majority of those present.

Organization for deciding on interim dividends

The Company's Articles of Incorporation stipulate that the Company may pay interim dividends with date of record of September 30, in accordance with Section 5 under Article 454 of the Corporation Law, that have been approved by resolution of the Board of Directors. The objective is to make it possible for the Company to dynamically return profits to shareholders.

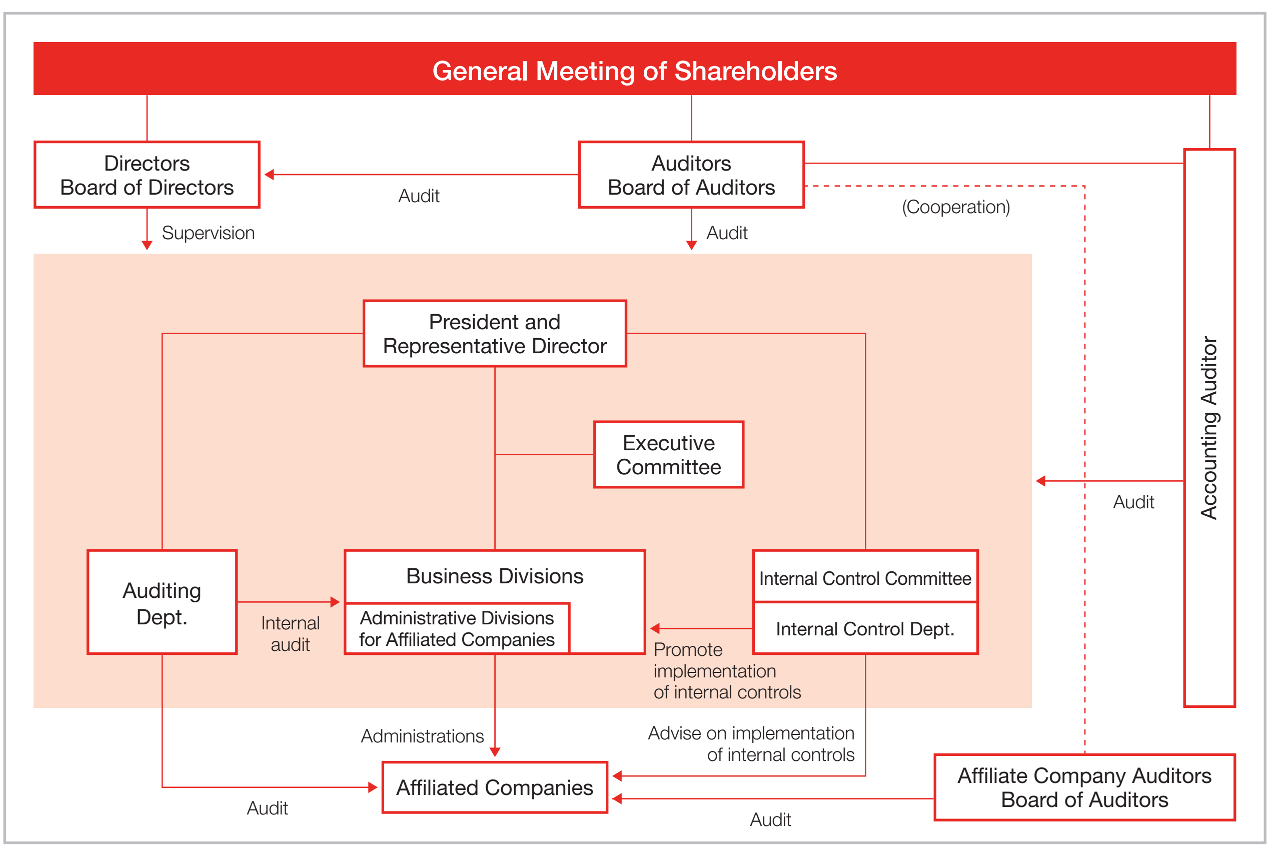
Organization for deciding on acquisition of own shares

The Company's Articles of Incorporation stipulate that the Company may acquire its own shares, in accordance with Section 2 under Article 165 of the Corporation Law, through market transactions in accordance with Section 1 under Article 165 of the Corporation Law, that have been approved by resolution of the Board of Directors. The objective is to make it possible for the Company to conduct dynamic capital strategies by purchasing its own shares.

Requirements for special resolutions at General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that the Company may approve a special resolution at the General Meeting of Shareholders, as stipulated by Section 2 under Article 309 of the Corporation Law, that such a resolution shall be proposed at a meeting with the participation of at least one-third of the shareholders who have the right to vote and with votes cast for the resolution by at least two-thirds of those present. The objective is smooth conduction of the General Meeting of Shareholders.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STRUCTURE



FINANCIAL SECTION

SIX-YEAR SUMMARY

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

	Millions of yen					
	2008	2007	2006	2005	2004	2003
For the year:						
Net sales	**¥ 207,638**	¥ 170,018	¥ 138,796	¥ 103,150	¥ 96,713	¥ 90,683
Cost of sales	**143,682**	104,174	77,433	61,046	58,060	52,288
Exploration expenses	**13,559**	8,178	9,677	6,127	5,213	3,113
Selling, general and administrative expenses	**30,770**	27,946	24,666	21,298	20,990	19,452
Operating income	**19,625**	29,719	27,018	14,678	12,449	15,828
Net income	**20,097**	20,982	20,216	13,234	9,960	8,828
Capital expenditures	**41,742**	31,746	19,934	13,587	16,735	11,806
Depreciation and amortization	**16,669**	14,938	13,951	14,081	11,043	9,817
At year-end:						
Total assets	**¥ 620,946**	¥ 578,059	¥ 532,516	¥ 393,733	¥ 246,765	¥ 242,454
Net assets (formerly Shareholders' equity) (Note 1)	**448,226**	418,929	386,222	293,152	195,715	186,914
Long-term debt	**21,922**	17,722	15,000	15,973	11,909	14,524
	Yen					
Per share data:						
Net assets per share	**¥7,696.00**	¥7,185.80	¥6,756.00	¥5,127.67	¥3,422.80	¥3,267.99
Net income per share	**351.65**	367.12	352.11	230.50	172.76	153.14
Cash dividends per share	**40.00**	40.00	40.00	37.50	35.00	25.00
Other data:						
Number of employees	**1,622**	1,557	1,481	1,470	1,388	1,358

Note 1: From the fiscal year ended March 31, 2007 net assets are presented in the balance sheets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SCOPE OF OPERATIONS

The JAPEX Group (the Company and its subsidiaries and affiliates) comprises the Company, 23 subsidiaries, and 17 affiliates as of March 31, 2008. 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 2008, ended March 31, 2008, net sales were ¥207,638 million, an increase of ¥37,620 million year on year. Operating income was ¥19,625 million, a fall of ¥10,093 million year on year, and net income was ¥20,097 million, a decrease of ¥884 million.

Foreign Exchange Rates and Crude Oil Prices

The average unit sales price of crude oil received by JAPEX during fiscal 2008 was ¥57,772/kl, an increase of ¥11,147/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 $76.2 per barrel, up $13.0 from the level per barrel in the previous year.

Compared to the previous fiscal year, the yen appreciated ¥2.23 relative to the U.S. dollar, to a weighted-average exchange rate of ¥114.66. The unit sales price of domestic crude oil increased year on year because the higher U.S dollar-denominated crude oil price outweighed the stronger 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

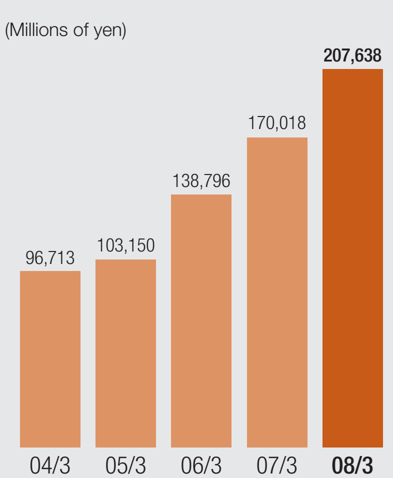
Capital expenditures increased ¥9,995 million year on year to ¥41,742 million. Major components of these expenditures included the drilling of production wells in Japan and Canada and the construction of new facilities.

Depreciation and amortization expenses rose ¥1,730 million from the previous fiscal year, to ¥16,669 million.

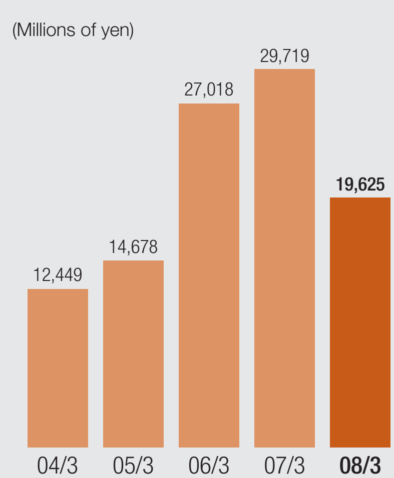
Exploration Activities

Exploration expenses increased ¥5,381 million year on year to ¥13,559 million. This increase was primarily attributable to onshore and offshore exploration drilling activities in Niigata Prefecture. Overseas, the Company conducted geological evaluation work in Canada and Libya, and drilled an exploration well in the Philippines.

Net sales



Operating income



Net Sales

In fiscal 2008, sales in the E&P Division totaled ¥187,660 million, accounting for 90.4% of total net sales. Sales in the Contract Services Division were ¥5,395 million, or 2.6% of net sales. Sales in the Other Businesses Division were ¥14,582 million, representing 7.0% of the total.

(E&P Division)

The E&P Division, which sells crude oil, natural gas, LNG, and bitumen, recorded net sales of ¥187,660 million in fiscal 2008, an increase of ¥37,122 million from the previous fiscal year. This gain was attributable to increases in the purchase and sale volumes of Sakhalin crude oil (SOKOL crude), and to an increase in sales of natural gas accompanying higher crude oil prices.

The volume of crude oil sales increased 219 thousand kiloliters to 2,041 thousand kiloliters. This was primarily attributable to the purchase and sales of SOKOL crude throughout the full year. As a result also of a rise in the average unit sales price of crude oil, total crude oil sales increased ¥32,991 million to ¥117,923 million.

The volume of natural gas sales rose 75 million cubic meters to 1,486 million cubic meters. Sales of natural gas in monetary terms grew ¥4,033 million to ¥48,982 million.

Sales volume for liquefied natural gas (LNG) decreased 37 thousand tons year on year to 170 thousand tons. In monetary terms, LNG sales declined ¥593 million to ¥10,285 million.

Sales volume for bitumen amounted to 409 thousand kiloliters, a decline of 35 thousand kiloliters. As a result of a ¥3,576/kiloliter rise in the unit price, however, sales on a monetary basis increased ¥690 million to ¥10,468 million. Bitumen is an extra heavy oil extracted from oil sands.

(Contract Services Division)

The Contract Services Division, which is primarily involved in drilling and geophysical surveys, recorded net sales of ¥5,395 million in the fiscal year under review, an increase of ¥11 million from the previous fiscal year.

(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 ¥14,582 million, an increase of ¥486 million from the preceding fiscal year.

Operating Expenses

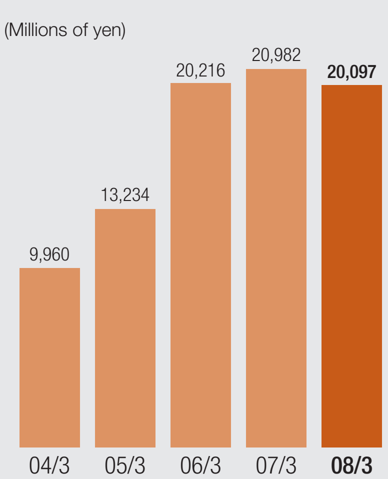
The cost of sales rose ¥39,508 million, to ¥143,682 million. This increase was principally attributable to a rise in the procurement volume of crude oil for the period, the first full year of purchasing and selling crude oil procured from SODECO. Other factors included a valuation loss due to the early application of the Accounting for Inventory Valuation accounting standard, as well as expenses for the dry dock of the floating storage and offloading unit (FSOU) by Japex New Nanhai Ltd., a consolidated subsidiary in China.

Selling, general and administrative (SG&A) expenses rose ¥2,824 million to ¥30,770 million. This increase was primarily the result of the commencement of the depreciation of the Shiroishi-Koriyama gas pipeline, as well as R&D costs related to the gas-to-liquids (GTL) demonstration test project.

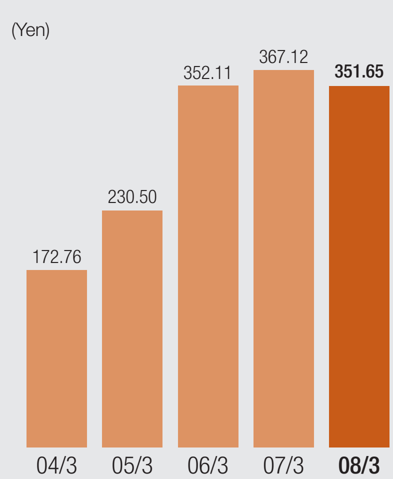
Please see the Exploration Activities section for more information on exploration expenses.

As a result of these factors, operating income decreased ¥10,093 million from the previous fiscal year, to ¥19,625 million.

Net income



Net income per share



Income Before Income Taxes and Minority Interests

In other income, both dividend income and net equity in earnings of non-consolidated subsidiaries and affiliates accounted for under the equity method increased year on year. However, income before income taxes and minority interests decreased ¥8,355 million year on year to ¥26,305 million. This was mainly due to the posting of a foreign exchange loss following a foreign exchange gain in the previous year, a loss on devaluation of securities, and disaster recovery expenses resulting from the Niigata-Chuetsu earthquake that occurred in July 2007.

Net Income

For the year under review, the total of current and deferred income taxes was ¥5,426 million, or 20.6% of net income before income taxes and minority interests of ¥26,305 million. This was 15.6 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) is 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 ¥20,097 million, down ¥884 million year on year.

FINANCIAL POSITION

Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year stood at ¥620,946 million, an increase of ¥42,887 from the previous fiscal year-end. Current assets declined ¥16,143 million to ¥89,008 million, while fixed assets grew ¥59,030 million to ¥531,937 million.

The change in current assets was primarily attributable to a decrease in marketable securities resulting mainly from ¥14,989 million in redemptions of commercial paper.

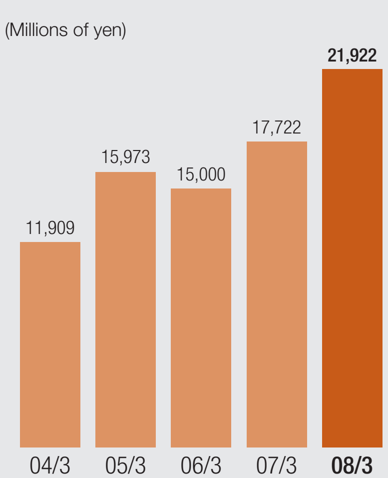
In fixed assets, property, plant and equipment rose ¥25,654 million. The increase was due to expansion of production facilities at the Yufutsu field central processing facilities and an increase in production wells in Canada. Intangible fixed assets declined ¥1,406 million, due mainly to amortization of goodwill. Investments and other assets grew ¥34,782 million due to an increase in securities investment following acquisition of shares in Energi Mega Pratama Inc. (EMPI) and valuation at market of shares in INPEX Holdings Inc.

Total liabilities at fiscal year-end rose ¥13,589 million to ¥172,720 million. This increase was due mainly to an increase in deferred tax assets following the valuation at market of investments in securities and an increase in long-term debt to finance the Company's investment in EMPI.

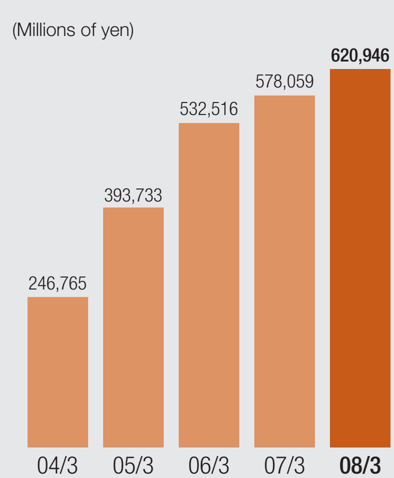
Total net assets increased ¥29,297 million to ¥448,226 million, mainly as a result of an increase in retained earnings and a rise in unrealized holding gains on securities.

As a result, the shareholders' equity ratio at the end of the fiscal year was 70.8%.

Long-term debt



Total assets



CASH FLOWS

As of March 31, 2008, cash and cash equivalents totaled ¥42,440 million, down ¥17,758 million from the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥34,314 million. This was mainly attributable to ¥26,305 million in income before income taxes and minority interests, ¥16,669 million in depreciation and amortization and ¥8,599 million in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥53,169 million. The main factors were acquisition of property, plant and equipment in Japan and Canada of ¥43,702 million, and an acquisition of securities such as EMPI of ¥21,808 million.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥1,522 million. This was mainly because cash inflows, such as ¥6,935 million in proceeds from long-term debt (to finance investment in EMPI), outweighed cash outflows, including ¥2,285 million in cash dividends paid and ¥2,278 million in repayments of long-term debt.

PROVED RESERVES

As of March 31, 2008, the Company and its consolidated subsidiaries owned proved reserves and the Company's investment equivalent in proved reserves of equity-method affiliates as shown in the table below.

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. They do not include past production or resources related to undiscovered deposits.

Reserves conform to international standards defined in 2007 by four organizations: the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE).

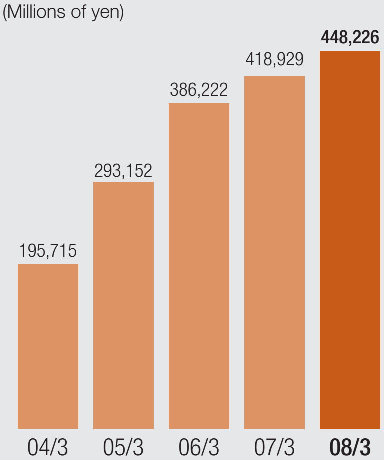
Figures for proved reserves reflect the Company's judgment based on "proved reserves" as defined by SPE/WPC/

As of March 31, 2008	The Company and its consolidated subsidiaries						Equity-method affiliates		Total	
	Japan		Overseas		Subtotal					
	Crude oil	Gas	Crude oil	Gas	Crude oil	Gas	Crude oil	Gas	**Crude oil**	**Gas**
	Thousand kl	Million m^3	Thousand kl	Million m^3	Thousand kl	Million m^3	Thousand kl	Million m^3	**Thousand kl**	**Million m^3**
Proved reserves	4,966	19,128	2,556	2,108	7,522	21,236	464	6,536	**7,986**	**27,771**

Notes: 1. Figures for crude oil include bitumen, an extra-heavy oil extracted from oil sands.
2. Proved reserves of consolidated companies include reserves held by minority interests.
3. Figures for overseas reserves represent the overseas project company's working interest.

Net assets (formerly Shareholders' equity)

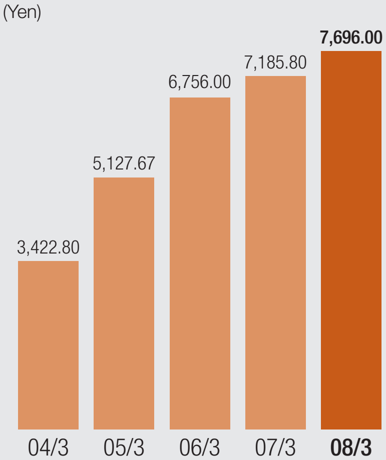
(Millions of yen)



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

Net assets per share (formerly Shareholders' equity per share)

(Yen)



AAPG/SPEE. Such figures do not include “probable reserves” or “possible reserves,” which have a high level of uncertainty regarding future extractability. Projects for which commercial development plans have not been finalized (even if the existence of resource deposits has been confirmed) are classified as “contingent resources” and are categorized separately from “reserves.” Such “contingent resources,” which include oil sands held in Canada by a consolidated subsidiary, are not included in the above figures.

Apart from the SPE/WPC/AAPG/SPEE definition, the definition of “proved reserves” by the U.S. Securities & Exchange Commission is also widely recognized, especially among U.S. investors. Fundamentally, the SEC’s definition resembles that of SPE/WPC/AAPG/SPEE, but the recognized evaluation methods are different, and the SEC only defines “proved reserves.”

To verify its own evaluations and judgments of reserves, the Company contracted Ryder Scott Company Petroleum Consultants to examine 76% of the proved reserves in Japan of the Company and its consolidated subsidiaries as of March 31, 2008 as shown in the table on the previous page (conversion factor: 1 thousand kiloliters for crude oil = 1 million cubic meters for natural gas), and contracted a third-party evaluation and appraisal based on SEC standards.

With respect to bitumen reserves in 3.75 section areas currently under production owned by Japan Canada Oil Sands Limited, a consolidated subsidiary, the Company received a third-party evaluation from GLJ Petroleum Consultants. This evaluation was based on standards outlined in the Canadian Oil and Gas Evaluation Handbook, compiled by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and others. The Company believes that the figures for proved reserves in the table on the previous page are accurate and reflect the results of evaluations carried out by the aforementioned third parties.

“Reserves” as defined above refers to reserves with future development potential and contains inherent uncertainties. The Company works hard to obtain accurate evaluations according to geological, engineering, and other scientific data at hand. Such reserves may be reviewed based on data obtained in the future, changes in economic conditions, or changes in internationally recognized definitions, and thus are subject to upward or downward revision in the future.

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 default 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 2008, 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 2008 was ¥376,137 million. Of this amount, shares of INPEX Holdings accounted for ¥296,628 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 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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2008	2007	2008
Current assets:			
Cash and deposits in banks (Note 14)	¥ 27,794	¥ 27,169	$ 277,945
Trade notes and accounts receivable	25,865	24,451	258,658
Marketable securities (Notes 3 and 14)	17,724	32,714	177,245
Inventories	10,492	8,683	104,923
Deferred tax assets (Note 5)	2,295	1,047	22,954
Other	4,846	11,097	48,466
Less — allowance for doubtful accounts	(10)	(12)	(103)
Total current assets	89,008	105,152	890,088
Fixed assets:			
Property, plant and equipment:			
Land	15,305	13,164	153,056
Buildings and structures	139,690	133,488	1,396,908
Wells	54,140	42,750	541,407
Machinery, equipment and vehicles	83,059	72,898	830,596
Construction in progress	12,893	4,699	128,936
Other	13,860	11,611	138,608
Less — accumulated depreciation	(177,788)	(163,104)	(1,777,886)
Property, plant and equipment, net	141,162	115,508	1,411,625
Intangible fixed assets:			
Goodwill	2,092	3,122	20,930
Other	4,086	4,463	40,862
Total intangible fixed assets	6,179	7,585	61,792
Investments and other assets:			
Investments securities (Note 3)	376,137	341,162	3,761,370
Long-term loans receivable	7,489	769	74,896
Long-term accounts receivable	2,065	4,908	20,653
Deferred tax assets (Note 5)	749	658	7,499
Other	5,872	11,745	58,724
Less — allowance for doubtful accounts	(97)	(95)	(973)
Less — allowance for losses on overseas investments	(7,621)	(9,335)	(76,212)
Total investments and other assets	384,595	349,812	3,845,957
Total fixed assets	531,937	472,907	5,319,374
Total assets	¥ 620,946	¥ 578,059	$ 6,209,462

LIABILITIES AND NET ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Trade notes and accounts payable	¥ 13,469	¥ 9,395	$ 134,695
Accrued income taxes	1,414	3,807	14,143
Accrued bonuses to officers	102	96	1,024
Accrual for losses resulting from casualty	487	–	4,880
Other (Notes 4 and 5)	23,382	23,565	233,829
Total current liabilities	38,857	36,864	388,571
Long-term liabilities:			
Long-term debt (Note 4)	21,922	17,722	219,225
Deferred tax liabilities (Note 5)	101,477	94,267	1,014,777
Accrued retirement benefits for employees (Note 6)	5,272	5,434	52,728
Accrued retirement benefits for officers	511	608	5,117
Accrued estimated cost of abandonment	4,126	3,459	41,265
Accrual for losses on projects	310	601	3,105
Other	241	170	2,412
Total long-term liabilities	133,862	122,265	1,338,629
Total liabilities	172,720	159,130	1,727,200
Commitment and contingent liabilities (Notes 8, 9 and 10)			
Net assets (Note 7):			
Shareholders' equity:			
Common stock:			
Authorized —120,000,000 shares			
Issued — 57,154,776 shares in 2008 and 2007	14,288	14,288	142,887
Retained earnings	245,225	227,413	2,452,250
Less — treasury stock at cost; 1,407 shares in 2008 and 1,224 shares in 2007	(7)	(5)	(73)
Total shareholders' equity	259,506	241,696	2,595,064
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	179,629	168,234	1,796,297
Unrealized gain on hedging instruments	(0)	55	(2)
Translation adjustments	716	707	7,165
Total valuation, translation adjustments and other	180,346	168,997	1,803,460
Minority interests in consolidated subsidiaries	8,373	8,234	83,738
Total net assets	448,226	418,929	4,482,262
Total liabilities and net assets	¥620,946	¥578,059	$6,209,462

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	¥207,638	¥170,018	$2,076,385
Cost of sales	143,682	104,174	1,436,827
Gross profit	63,955	65,844	639,558
Exploration expenses	13,856	8,987	138,568
Exploration subsidies	(297)	(809)	(2,976)
	13,559	8,178	135,592
Selling, general and administrative expenses (Note 11)	30,770	27,946	307,707
Operating income	19,625	29,719	196,259
Other income (expenses):			
Interest income	1,606	1,355	16,069
Dividend income	5,184	2,805	51,848
Gain (loss) on sales of securities, net	(87)	(123)	(876)
Equity in earnings (losses) of non-consolidated subsidiaries and affiliates accounted for under equity method, net	2,193	690	21,931
Reversal of allowance for losses on overseas investments	1,110	–	11,102
Provision for allowance for losses on overseas investments	–	(242)	–
Reversal of accrual for losses on projects	291	270	2,912
Interest expense	(313)	(120)	(3,132)
Loss on devaluation of securities	(1,578)	(54)	(15,785)
Provision for accrued estimated cost of abandonment	(748)	(569)	(7,485)
Foreign exchange gain (loss)	(1,242)	229	(12,421)
Gain on residual property	–	966	–
Loss on disposal of fixed assets	(218)	(387)	(2,182)
Restoration cost on earthquake disaster	(709)	–	(7,091)
Head office transfer cost	–	(587)	–
Other, net	1,190	707	11,901
	6,679	4,940	66,791
Income before income taxes and minority interests	26,305	34,660	263,050
Income taxes (Note 5):			
Current	6,165	9,421	61,651
Deferred	(738)	2,487	(7,381)
	5,426	11,909	54,270
Minority interests	780	1,768	7,802
Net income (Note 13)	¥ 20,097	¥ 20,982	$ 200,978

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen									
	Common stock	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Unrealized gain (loss) on hedging instruments	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance as of March 31, 2006	¥14,288	¥209,095	¥(4)	¥223,379	¥161,949	¥ –	¥ 894	¥162,843	¥7,762	¥393,985
Cash dividends paid		(2,571)		(2,571)						(2,571)
Bonuses to officers		(92)		(92)						(92)
Net income		20,982		20,982						20,982
Purchase of treasury stock			(0)	(0)						(0)
Net changes in items other than those in shareholders' equity					6,285	55	(187)	6,154	472	6,626
Total changes during the period	–	18,318	(0)	18,317	6,285	55	(187)	6,154	472	24,943
Balance as of March 31, 2007	14,288	227,413	(5)	241,696	168,234	55	707	168,997	8,234	418,929
Cash dividends paid		**(2,286)**		**(2,286)**						**(2,286)**
Net income		**20,097**		**20,097**						**20,097**
Purchase of treasury stock			**(1)**	**(1)**						**(1)**
Net changes in items other than those in shareholders' equity					**11,394**	**(56)**	**9**	**11,348**	**138**	**11,487**
Total changes during the period	**–**	**17,811**	**(1)**	**17,810**	**11,394**	**(56)**	**9**	**11,348**	**138**	**29,297**
Balance as of March 31, 2008	**¥14,288**	**¥245,225**	**¥(7)**	**¥259,506**	**¥179,629**	**¥ (0)**	**¥ 716**	**¥180,346**	**¥8,373**	**¥448,226**

	Thousands of U.S. dollars (Note 1)									
	Common stock	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Unrealized gain (loss) on hedging instruments	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance as of March 31, 2007	$142,887	$2,274,133	$(58)	$2,416,962	$1,682,347	$ 560	$7,072	$1,689,979	$82,348	$4,189,289
Cash dividends paid		**(22,861)**		**(22,861)**						**(22,861)**
Net income		**200,978**		**200,978**						**200,978**
Purchase of treasury stock			**(15)**	**(15)**						**(15)**
Net changes in items other than those in shareholders' equity					**113,950**	**(562)**	**93**	**113,481**	**1,390**	**114,871**
Total changes during the period	**–**	**178,117**	**(15)**	**178,102**	**113,950**	**(562)**	**93**	**113,481**	**1,390**	**292,973**
Balance as of March 31, 2008	**$142,887**	**$2,452,250**	**$(73)**	**$2,595,064**	**$1,796,297**	**$ (2)**	**$7,165**	**$1,803,460**	**$83,738**	**$4,482,262**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 26,305	¥ 34,660	$ 263,050
Depreciation and amortization	16,669	14,938	166,693
Amortization of goodwill	1,029	1,006	10,295
Loss on devaluation of securities	1,578	54	15,785
Increase (decrease) in allowance for doubtful accounts	(0)	(32)	(4)
Increase (decrease) in accrued retirement benefits for employees	(161)	699	(1,618)
Increase (decrease) in accrued retirement benefits for officers	(96)	(153)	(968)
Increase (decrease) in accrued estimated cost of abandonment	602	510	6,030
Increase (decrease) in allowance for losses on overseas investments and accrual for losses on projects	(2,005)	(29)	(20,058)
Interest and dividend income	(6,791)	(4,161)	(67,918)
Interest expense	313	120	3,132
Gain on sales and redemptions of securities	(395)	(119)	(3,950)
Loss on sales and redemptions of securities	191	241	1,915
Equity in losses (earnings) of affiliates accounted for under equity method	(2,193)	(690)	(21,931)
(Increase) decrease in trade notes and accounts receivable	(1,161)	(5,733)	(11,620)
(Increase) decrease in inventories	(1,808)	111	(18,089)
Increase (decrease) in trade notes and accounts payable	5,962	3,757	59,621
Increase (decrease) in accrued consumption taxes	332	(550)	3,326
Gain on residual property	–	(966)	–
Other, net	2,976	(180)	29,762
Subtotal	41,345	43,481	413,453
Proceeds from collection of claim for indemnity of debt guarantee	1,568	2,643	15,681
Income taxes paid	(8,599)	(11,868)	(85,991)
Net cash provided by operating activities	34,314	34,256	343,143
Cash flows from investing activities:			
Increase in time deposits	(8,096)	(3,334)	(80,967)
Decrease in time deposits	10,934	948	109,349
Proceeds from sales and redemptions of marketable securities	1,078	1,300	10,786
Acquisition of property, plant and equipment	(43,702)	(23,485)	(437,029)
Proceeds from sales of property, plant and equipment	7	28	79
Acquisition of intangible fixed assets	(613)	(1,388)	(6,133)
Acquisition of investments in securities	(21,808)	(4,950)	(218,080)
Proceeds from sales and redemptions of investments in securities	7,573	7,643	75,738
Payments for loans receivable	(7,929)	(165)	(79,292)
Proceeds from collection of loans receivable	340	1,241	3,401
Interest and dividends received	7,532	4,283	75,328
Proceeds from residual property	2	1,047	20
Other, net	1,510	(1,309)	15,106
Net cash used in investment activities	(53,169)	(18,140)	(531,694)
Cash flows from financing activities:			
Increase (decrease) in short-term loans	–	(47)	–
Proceeds from long-term debt	6,935	5,000	69,352
Repayments of long-term debt	(2,278)	–	(22,780)
Purchase of treasury stock	(1)	(0)	(15)
Cash dividends paid	(2,285)	(2,571)	(22,854)
Cash dividends paid to minority shareholders	(306)	(1,015)	(3,061)
Interest paid	(231)	(105)	(2,310)
Payment of capital reduction for minority interests	–	(342)	–
Payment of dividend in liquidation of subsidiary for minority interests	(310)	–	(3,105)
Net cash provided by (used in) financing activities	1,522	917	15,227
Effect of exchange rate changes on cash and cash equivalents	(426)	84	(4,266)
Net increase (decrease) in cash and cash equivalents	(17,758)	17,117	(177,590)
Cash and cash equivalents at beginning of year	60,199	43,082	601,998
Cash and cash equivalents at end of year (Note 14)	¥ 42,440	¥ 60,199	$ 424,408

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Japan Petroleum Exploration Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for convenience of readers outside Japan and have been made at the rate of ¥100=U.S.$1, the approximate rate of exchange at March 31, 2008. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

As permitted by the regulations under the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

2. Significant Accounting Policies

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

The consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 20 significant (21 in 2007) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 0 (0 in 2007) unconsolidated subsidiaries and 10 (7 in 2007) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The goodwill and negative goodwill (including the difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries) are amortized, in general, over a period of 5 years.

The difference between the cost and the underlying net equity at fair value of investments in companies accounted for by the equity method is amortized over a period of 20 years, except for minor accounts that are charged to income in the period of acquisition.

The accounts of certain subsidiaries with a fiscal year-end of December 31 are consolidated on the basis of the subsidiaries' respective fiscal year-end.

The necessary adjustments have been made to the financial statements for any significant transactions that took place between their balance sheet dates and the date of the consolidated financial statements.

Investments in companies by the equity method whose fiscal year-ends were not identical to the Company are accounted on the basis of the companies' respective fiscal year-end.

(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 available-for-sale securities.

Available-for-sale 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

Prior to April 1, 2007, merchandise and finished products are mainly stated at cost determined by the first-in, first-out method and other inventories are mainly stated at cost determined by the moving average method.

This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

On July 5, 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2008.

The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥1,195 million ($11,953 thousand).

(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, the Shiroishi-Koriyama pipelines, and 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

Effective the fiscal year ended March 31, 2008, property, plant and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥310 million ($3,104 thousand).

Also, pursuant to the revised corporate tax law, the Company and its domestic consolidated subsidiaries depreciate the difference between 5% of the acquisition cost of assets acquired on or before March 31, 2007 and the memorandum value of said assets uniformly over a five-year period, starting the year following the fiscal year in which the depreciated value of said assets reaches 5% of the acquisition price using the pre-amendment depreciation method. Depreciated amounts are included in depreciation expenses.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥346 million ($3,466 thousand).

(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 intercompany regulations 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 the expected payment amount for the year-end.

(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) Accrual for losses resulting from casualty

Accrual for losses resulting from casualty is provided for payments of restoration costs on the Niigata Chuetsu-Oki Earthquake in 2007 at an amount estimated at the fiscal year-end.

(18) Hedge accounting

The 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.

(19) Research and development expenses

Research and development expenses are charged to income when incurred.

3. Marketable and Investment Securities

Securities held by the Company and its consolidated subsidiaries are all classified as available-for-sale securities.

(a) The carrying amounts and fair values of marketable and investment securities as of March 31, 2008 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2008	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥26,744	¥307,502	¥280,757	$267,447	$3,075,024	$2,807,577
Debt securities:						
Government bonds	2,146	2,337	190	21,469	23,375	1,906
Corporate bonds	708	767	59	7,084	7,678	594
Other debt securities	3,095	3,117	22	30,952	31,172	220
Other	3,879	5,082	1,202	38,797	50,822	12,025
Subtotal	36,574	318,807	282,232	365,749	3,188,071	2,822,322
Securities whose acquisition cost exceeds or is equal to their carrying value:						
Equity securities	565	538	(27)	5,658	5,387	(271)
Debt securities:						
Government bonds	1,767	1,525	(242)	17,680	15,258	(2,422)
Corporate bonds	2,315	2,202	(112)	23,153	22,025	(1,128)
Other debt securities	4,796	4,466	(330)	47,969	44,661	(3,308)
Other	4,010	3,425	(584)	40,104	34,256	(5,848)
Subtotal	13,456	12,158	(1,297)	134,564	121,587	(12,977)
Total	¥50,031	¥330,965	¥280,934	$500,313	$3,309,658	$2,809,345

	Millions of yen		
March 31, 2007	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥27,408	¥288,490	¥261,081
Debt securities:			
Government bonds	3,824	4,419	595
Corporate bonds	1,297	1,379	82
Other debt securities	6,683	6,798	114
Other	7,190	8,942	1,751
Subtotal	46,404	310,031	263,626
Securities whose acquisition cost exceeds or is equal to their carrying value:			
Equity securities	106	98	(7)
Debt securities:			
Government bonds	1,198	1,186	(11)
Corporate bonds	2,064	2,022	(42)
Other debt securities	6,202	5,722	(479)
Other	2,286	2,255	(30)
Subtotal	11,858	11,286	(572)
Total	¥58,263	¥321,317	¥263,054

(b) Marketable and investment securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Available-for-sales:			
Commercial papers	¥ 4,497	¥23,490	$ 44,978
Unlisted securities	10,165	10,073	101,650
Preferred subscription certificate	2,000	2,000	20,000
Money management fund and others	11,539	8,184	115,396
Golf course membership	96	123	964

(c) Sales of securities classified as available-for sale amounted to ¥6,377 million ($63,777 thousand) with aggregate gain and loss of ¥85 million ($852 thousand) and ¥172 million ($1,728 thousand), respectively, for the year ended March 31, 2008.

For the year ended March 31, 2007, sales of securities classified as available-for-sale amounted to ¥3,666 million with aggregate gain and loss of ¥118 million and ¥241 million, respectively.

(d) The redemption schedule for securities with maturity dates classified as available-for-sales is summarized as follows:

	Millions of yen			
March 31, 2008	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	¥ 663	¥1,135	¥1,954	¥ 110
Corporate bonds	4,631	957	696	193
Other debt securities	489	2,044	1,812	3,236
Other	399	479	–	–
Total	¥6,184	¥4,617	¥4,462	¥3,540

	Thousands of U.S. dollars			
March 31, 2008	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	$ 6,636	$11,350	$19,541	$ 1,106
Corporate bonds	46,317	9,571	6,961	1,937
Other debt securities	4,897	20,449	18,126	32,361
Other	3,999	4,800	–	–
Total	$61,849	$46,170	$44,628	$35,404

(e) During the year ended March 31, 2008 the Group recorded a loss on write-down of available-for-sale securities due to a permanent diminution in value in the amount of ¥1,578 million ($15,785 thousand).

(f) Investments in subsidiaries and associated companies at March 31, 2008 and 2007 were ¥34,511 million ($345,115 thousand) and ¥11,777 million, respectively.

4. Long-term Debt

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from banks and others, at interest rates ranging from 0.86% to 4.87%:			
Unsecured	¥24,200	¥20,000	$242,005
	24,200	20,000	242,005
Less: Current portion	(2,278)	(2,278)	(22,780)
	¥21,922	¥17,722	$219,225

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 2,278	$ 22,780
2010	2,278	22,780
2011	2,278	22,780
2012	778	7,780
2013 and thereafter	16,588	165,885
	¥24,200	$242,005

The Company and certain consolidated subsidiaries have entered into overdraft agreements amounting to ¥17,479 million ($174,799 thousand) with six banks at March 31, 2008 and ¥16,100 million with five banks at March 31, 2007.

5. 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, 2008 and 2007. Income taxes of two foreign consolidated subsidiaries are based principally on the tax rates applicable in their countries of incorporation.

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

	2008	2007
Statutory tax rate	36.2%	36.2%
Effect of:		
Exploration cost deducted for income tax purposes	(7.8)	(6.0)
Dividend income deductible for income tax purposes	(3.2)	(1.5)
Tax credit for loss carryforward	(2.4)	(4.1)
Expenses not deductible for income tax purposes	0.7	0.5
Consolidated adjustment for equity method	(3.0)	(0.7)
Other, net	0.1	10.0
Effective tax rates	20.6%	34.4%

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Allowance for losses on overseas investments	¥ 2,934	¥ 3,474	$ 29,350
Accrual for losses on projects	112	217	1,124
Net loss carryforward	8,943	6,988	89,439
Accrued retirement benefits for employees	1,934	1,991	19,348
Accrued retirement benefits for officers	208	241	2,084
Finished products	969	991	9,696
Accrued estimated cost of abandonment	1,199	1,021	11,990
Other	10,523	7,311	105,230
Subtotal	26,826	22,237	268,261
Valuation allowance	(13,160)	(10,369)	(131,603)
Total deferred tax assets	13,665	11,868	136,658
Deferred tax liabilities:			
Reserve for exploration	(10,050)	(9,070)	(100,507)
Unrealized holding gain on securities	(101,369)	(94,719)	(1,013,690)
Reserve for advanced depreciation of fixed assets	(167)	(173)	(1,675)
Other	(511)	(465)	(5,114)
Total deferred tax liabilities	(112,098)	(104,430)	(1,120,986)
Net deferred tax assets (liabilities)	¥ (98,432)	¥ (92,562)	$ (984,328)

6. 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, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 790	¥ 789	$ 7,905
Interest cost	301	294	3,011
Expected return on plan assets	(319)	(152)	(3,198)
Amortization of actuarial gain or loss	148	187	1,484
Amortization of prior service benefits and cost	58	58	581
Other	56	56	563
Total	¥1,034	¥1,232	$10,346

The assumptions used in accounting for the above plan as of March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rates	2.0%	2.0%
Expected rates of return on plan assets	3.0%	1.5%

7. Shareholders' Equity

The Corporate Law of Japan 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 at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

8. 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, 2008 and 2007, 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
	2008	2007	2008
Acquisition costs:			
Machinery and equipment	¥1,521	¥1,419	$15,216
Other	210	260	2,101
Total	¥1,731	¥1,680	$17,317
Accumulated depreciation:			
Machinery and equipment	¥ 513	¥ 377	$ 5,135
Other	162	169	1,622
Total	¥ 675	¥ 547	$ 6,757
Net book value:			
Machinery and equipment	¥1,008	¥1,041	$10,081
Other	47	90	479
Total	¥1,055	¥1,132	$10,560

Lease payments relating to finance leases accounted for as operating leases amounted to ¥307 million ($3,079 thousand) and ¥258 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, 2008 and 2007, respectively.

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 271	$ 2,712
2010 and thereafter	784	7,848
Total	¥1,055	$10,560

(2) Operating leases

Future minimum lease payments subsequent to March 31, 2008 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 59	$ 600
2010 and thereafter	80	809
Total	¥140	$1,409

9. 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, 2008 and 2007 is summarized as follows.

The derivatives to which hedge accounting is applied are not included. Market value is computed based on quotes by financial institutions.

	Millions of yen			Thousands of U.S. dollars		
2008	Contract amount	Market value	Devaluation gain (loss)	Contract amount	Market value	Devaluation gain (loss)
Currency and interest rate related						
Foreign currency and interest rate swaps:						
Receive Japanese yen fixed/Pay US dollars floating	¥2,000	¥ 238	¥ 238	$20,000	$ 2,383	$2,383
Total	¥2,000	¥ 238	¥ 238	$20,000	$ 2,383	$2,383
Commodity related						
Crude price swap:						
WTI float payment/ WTI fixed receipt	¥2,831	¥3,462	¥(630)	$28,317	$34,625	$(6,308)
Total	¥2,831	¥3,462	¥(630)	$28,317	$34,625	$(6,308)

	Millions of yen		
2007	Contract amount	Market value	Devaluation gain (loss)
Commodity related			
Crude price swap:			
WTI float payment/ WTI fixed receipt	¥1,075	¥942	¥133
Total	¥1,075	¥942	¥133

10. Contingent Liabilities

At March 31, 2008 and 2007, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
As guarantor of indebtedness of others:			
Sakhalin Oil and Gas Development Co., Ltd.	¥15,020	¥29,707	$150,201
INPEX North Caspian Sea, Ltd.	2,826	2,141	28,270
Employees	1,397	1,621	13,974
TOHOKU NATURAL GAS Co., Inc.	1,174	1,219	11,745
Malaysia LNG Tiga Sdn. Bhd.	–	321	–
Total	¥20,418	¥35,010	$204,190

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were ¥1,491 million ($14,918 thousand) and ¥377 million, respectively.

12. Related Party Transactions

Principal transactions between the Company and Energi Mega Pratama Inc., an affiliate accounted for by the equity method, for the years ended March 31, 2008 are summarized as follows:

Transactions:	Millions of yen	Thousands of U.S. dollars
Payments of capital increase	¥21,219	$212,197

Principal transactions between the Company and JJI S&N B.V., an affiliate accounted for by the equity method, for the year ended March 31, 2007 are summarized as follows:

Balances:	Millions of yen
Long-term accounts receivable	¥4,507

Transactions:	Millions of yen
Income for delinquency charges	¥992

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

13. 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
	2008	2007	2008
Net income per share	¥ 351.65	¥ 367.12	$3.52
Net assets per share	7,696.00	7,185.80	76.96
Cash dividends per share applicable to the year	40.00	40.00	0.40

Diluted net income per share is not disclosed due to the absence of such dilution for the fiscal years ended March 31, 2008 and 2007.

14. Cash Flow Information

A reconciliation of cash and cash equivalents in consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and deposits in banks	¥27,794	¥27,169	$277,945
Time deposits with maturity in excess of three months	(1,391)	(3,642)	(13,911)
Short term investment within three months:			
Commercial paper	4,497	23,490	44,978
Repo with forward resale commitment	–	4,998	–
Money management fund and other	11,539	8,184	115,396
Cash and cash equivalents	¥42,440	¥60,199	$424,408

15. Segment Information

The Company and its consolidated subsidiaries are engaged in the oil and natural gas segment and other segments.

(Business 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, 2008 and 2007, the disclosure of business segment information has been omitted.

(Geographical segments)

As the net sales and total assets of Japan constituted more than 90% of the consolidated totals for the years ended March 31, 2008, disclosure of geographical segment information has been omitted.

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

	Millions of yen					
Year ended March 31, 2007	Japan	North America	Other areas	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

The principal countries or areas included in each region are as follows:

North America	U.S.A. and Canada
Other areas	China, Indonesia, Philippines, Libya and others

(Overseas sales)

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, 2008 and 2007 are summarized as follows:

	Millions of yen				
Year ended March 31, 2008	Southeast Asia	East Asia	North America	Europe	Total
Overseas sales	¥ 1,799	¥ 6,758	¥ 13,265	¥ 70,124	¥ 91,946
Consolidated net sales					207,638
	Thousands of U.S. dollars				
Overseas sales	$17,990	$67,580	$132,652	$701,241	$ 919,463
Consolidated net sales					2,076,385
Overseas sales as a percentage of consolidated net sales	0.87%	3.25%	6.39%	33.77%	44.28%

The principal countries or areas included in each region are as follows:

Southeast Asia	Indonesia
East Asia	China
North America	U.S.A. and Canada
Europe	Russia

Year ended March 31, 2007	Southeast Asia	East Asia	North America	Europe	Other area	Total
						Millions of yen
Overseas sales	¥2,892	¥15,536	¥15,815	¥21,468	¥0	¥ 55,713
Consolidated net sales						170,018
Overseas sales as a percentage of consolidated net sales	1.70%	9.14%	9.30%	12.63%	0.00%	32.77%

The principal countries or areas included in each region are as follows:

Southeast Asia	Indonesia, Malaysia and Thailand
East Asia	China
North America	U.S.A. and Canada
Europe	Russia
Other area	Australia

16. Subsequent Event

Appropriation of retained earnings

On May 25, 2008, the Board of Directors resolved to propose the following for approval of the shareholders at the meeting to be held on June 25, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20.0=$0.20 per share)	¥1,143	$11,431

REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG SHINNIHON

■ **Certified Public Accountants**
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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, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

June 24, 2008

CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

(As of March 31, 2008)

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	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	68,000 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited	Exploration, development of oil sands in Canada and related production	300,570 (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
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	2,700	100.00
Japex Block A Ltd.	Exploration, development and production of petroleum in Sumatra, Indonesia	1,155	100.00
Japex Philippines Ltd.	Exploration, development and production of petroleum in the Philippines	2,500	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	33.78
Energi Mega Pratama Inc.	Exploration, development and production of petroleum in east coast of Java, Indonesia	52,000 (Thousands of U.S. dollars)	25.00
Kangean Energy Indonesia Ltd.	Exploration, development and production of petroleum in east coast of Java, Indonesia	10 (Thousands of U.S. dollars)	– [100.00]
EMP Exploration (Kangean) Limited	Exploration, development and production of petroleum in east coast of Java, Indonesia	100 (U.K. pounds)	– [100.00]

Note: Numbers in parentheses under voting rights represent close relationships or agreements.

CORPORATE DATA

(As of March 31, 2008)

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, Dubai, Houston, Beijing, Jakarta
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, 2008)

Chairman
Yuji Tanahashi

President & Chief Executive Officer
Osamu Watanabe

Executive Vice Presidents & Executive Officers
Katsuo Suzuki
Norihiko Sawara

Senior Managing Directors & Executive Officers
Tadatsuna Koda
Hiroshi Sato
Yoichi Ohta

Managing Directors & Executive Officers
Nobuzo Ichikawa
Masaki Hattori
Shoichi Ishii
Chikao Yoshida
Toshio Ibi
Mitsuru Saito
Junichi Matsumoto
Nobuyuki Ogura

Director
Kazuo Kawakami

Corporate Auditors
Kiyoshi Wazumi
Tsutomu Sugiura
Masahiko Kadotani
Kisaburo Ikeda

Managing Executive Officers
Hajime Nakamura
Ken Fujii
Kazuo Nakayama
Nobuaki Moritani

Executive Officers
Toshihiro Ohara
Mahito Uchida
Makoto Miyairi
Masami Miki
Fumio Mizuno
Keisuke Inoue
Hitoshi Yamatoya
Hironori Imazato
Toyohiko Kanekiyo
Toru Kuroda

Notes: 1. The director Kazuo Kawakami is an outside director as stipulated by Article 2-15 of the Company Law.
2. The auditors Masahiko Kadotani and Kisaburo Ikeda are outside auditors as stipulated by Article 2-16 of the Company Law.

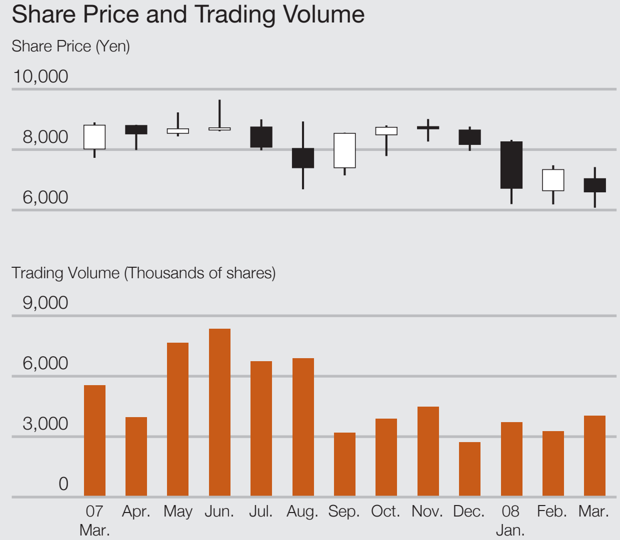
Stock Information (As of March 31, 2008)

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	19,571

Major Shareholders

Shareholders	Shares	Voting Rights (%)
The Minister of Economy, Trade and Industry	19,432,724	34.00
State Street Bank and Trust Company	2,855,359	5.00
Teikoku Oil Co., Ltd.	2,847,612	4.98
JFE Engineering Corporation	1,848,012	3.23
The Master Trust of Japan, Ltd.	1,499,700	2.62
Morgan Stanley and Company Inc.	1,031,750	1.81
Mizuho Corporate Bank, Ltd.	920,152	1.61
Nippon Petroleum Refining Co., Ltd.	872,456	1.53
Japan Trustee Services Bank, Ltd.	772,500	1.35
Nippon Oil Corporation	763,400	1.34

Share Price and Trading Volume



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

JAPEX

Japan Petroleum Exploration Co., Ltd.

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