Japan Petroleum Exploration Co., Ltd.

JAPEX
ANNUAL REPORT **2009**

For The Year Ended March 31, 2009

Corporate 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.

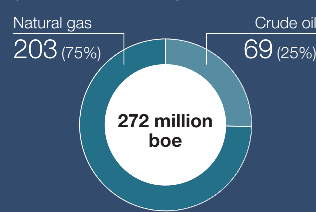
Pursue sustainable growth and maximize shareholder value by placing top priority on maintaining mutual trust between society, customers, shareholders and employees.

Company Profile

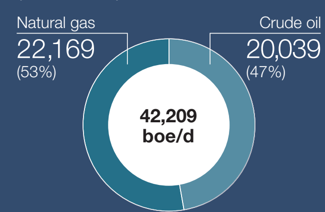
Japan Petroleum Exploration Co., Ltd. (JAPEX) is a leading Japanese upstream company engaged in oil and natural gas E&P activities both in Japan and overseas.

JAPEX was established in December 1955 as a special purpose company through a government initiative and has continued to explore and produce oil and natural gas in Japan while expanding its activities overseas. From 1967 to 1970, JAPEX was incorporated into the Japan Petroleum Development Corporation (JPDC) as its E&P operating body and was subsequently separated from JPDC and reorganized in April 1970 as a private-sector company under the former Commercial Code. JAPEX was listed on the First Section of the Tokyo Stock Exchange in December 2003.

Proved Reserves
(End of March 2009)



Production
(Fiscal 2009)

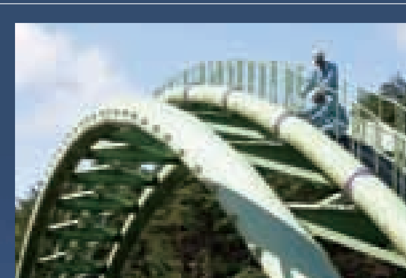


*Crude oil includes bitumen.

Business Domains

Exploration

Development and Production



Transportation and Supply

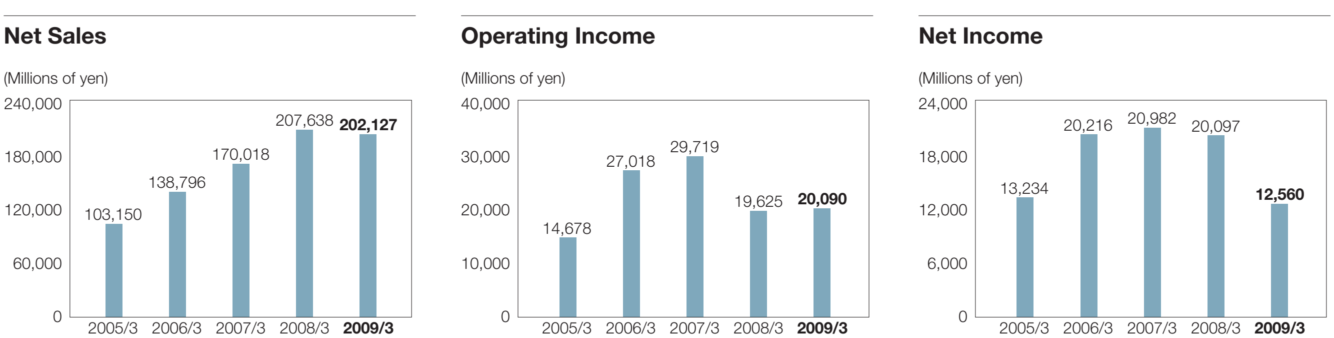
Index

FINANCIAL HIGHLIGHTS

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

	2009	2008	2007	**2009**
			Millions of yen	Thousands of U.S. dollars*1
For the year				
Net sales	**¥ 202,127**	¥ 207,638	¥ 170,018	**$2,062,525**
Cost of sales	**134,447**	143,682	104,174	**1,371,910**
Exploration expenses	**15,352**	13,559	8,178	**156,658**
Selling, general and administrative expenses	**32,237**	30,770	27,946	**328,950**
Operating income	**20,090**	19,625	29,719	**205,007**
Net income	**12,560**	20,097	20,982	**128,168**
At year-end				
Total assets	**¥ 500,444**	¥ 620,946	¥ 578,059	**$5,106,573**
Net assets	**378,227**	448,226	418,929	**3,859,468**
Long-term loans payable	**25,325**	21,922	17,722	**258,425**
			Yen	U.S. dollars
Per share data				
Net assets per share	**¥6,486.85**	¥7,696.00	¥7,185.80	**$ 66.19**
Net income per share	**219.77**	351.65	367.12	**2.24**
Cash dividends per share	**40.00**	40.00	40.00	**0.40**
Other data				
Number of employees	**1,678**	1,622	1,557	**1,678**

*1 Exchange rate: ¥98/$



Disclaimer

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.

Osamu Watanabe
President and Chief Executive Officer

Message from the President

Business Environment and Operating Performance in Fiscal 2009

Business Environment

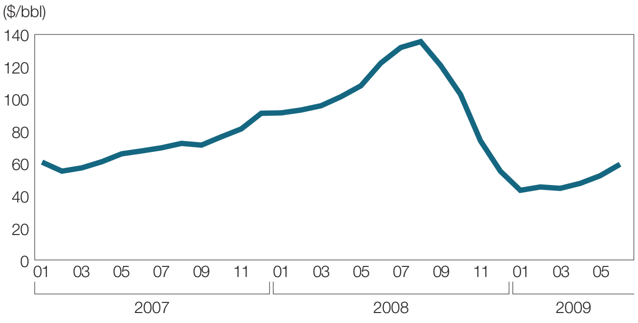
In fiscal 2009, the Japanese economy, which had been marking time at the beginning of the fiscal year, began to weaken around summer. By year-end there was a considerable drop in corporate earnings amid a major employment adjustment, resulting in severe conditions characterized by a continuing, rapid overall deterioration.

The Japan Crude Cocktail (JCC) price surged from around $100 per barrel at the start of the fiscal year to the mid-$130 levels by August, where it peaked and then plunged to the mid-$40 levels by fiscal year-end.

The yen fell against the dollar to its lowest level in the fiscal year to above ¥110 per dollar in August, then reversed course and rose to historic highs of the upper ¥80 level per dollar in December, and again rebounded to end the fiscal year at the upper ¥90 level per dollar. Despite the volatile movements in foreign exchange rates, the JAPEX Group's selling price for crude oil decreased slightly compared with fiscal 2008 due to the impact of stagnant JCC prices during autumn and winter.

Furthermore, natural gas became less competitive against other types of energy because of the decline in prices of petroleum products resulting from the rapid decline in crude oil prices that began in autumn, and demand slowed with the deteriorating economic situation, leaving the JAPEX Group in a difficult market environment.

Japan Crude Cocktail (JCC) Price



Operating Performance

Given this environment, the JAPEX Group endeavored to secure production and transportation, and focused on efficient E&P in Japan and overseas toward achieving a stable, long-term supply of energy essential for daily life. Despite these efforts, consolidated net sales for fiscal 2009 fell ¥5,510 million compared with fiscal 2008 to ¥202,127 million, consolidated operating income rose ¥464 million to ¥20,090 million, and consolidated net income fell ¥7,537 million to ¥12,560 million.

At the end of fiscal 2009, total assets decreased ¥120,502 million compared with fiscal 2008 to ¥500,444 million, total liabilities decreased ¥50,503 million to ¥122,216 million and total net assets decreased ¥69,998 million to ¥378,227 million. The shareholders' equity ratio was 74.1%.

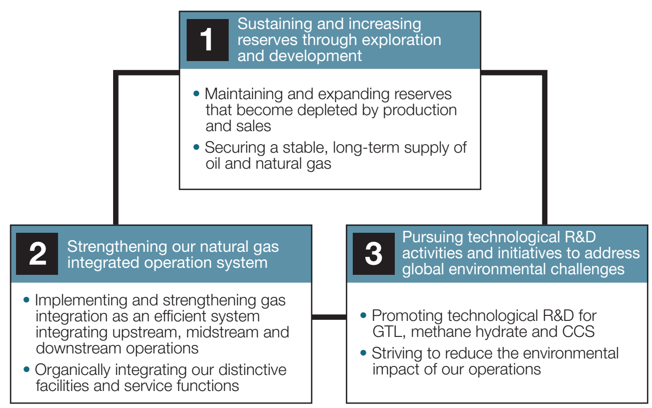
Revised Mid-term Business Plan and New Targets

Plan Revision in Response to the Changing Business Environment

In May 2008, JAPEX announced its mid-term business plan for the five-year period from fiscal 2009 to fiscal 2013, setting out its basic strategy for business expansion as well as targets for sales volume, reserves, profit and loss, and cash flow. However, the business environment surrounding JAPEX has drastically changed in the wake of a rapid deterioration in the international economic situation since the summer of 2008 and an abrupt plunge in crude oil prices.

In response to these changes in the business environment, the JAPEX Group decided to review part of its plan while maintaining the three tasks of sustaining and increasing reserves through exploration and development, strengthening our natural gas integrated operation system, and pursuing technological R&D activities and initiatives to address global environmental challenges as our management pillars. We are especially working toward improving our earnings by postponing some of our domestic exploration activities and by reducing general and administrative expenses during the first half of the planned period. And we are preparing to aggressively invest in activities for the future expansion of our profit base starting in the latter half of the planned period, when the economic environment is expected to show some signs of recovery.

Key Management Tasks



Expected Crude Oil Prices and Foreign Exchange Rates

At the time we announced the mid-term business plan in May 2008, our projected JCC price was $80 per barrel and the foreign exchange rate was estimated at ¥105 per dollar over the five-year period. Our currently revised projections for fiscal 2010 and fiscal 2011 call for $40 per barrel and ¥90 per dollar. Beyond that period, we expect crude oil prices to gradually recover to levels around $80 per barrel by fiscal 2013.

Assumptions: Crude Oil Price (JCC Price) and Foreign Exchange Rate

	FY2009 (a)	FY2010 (e)	FY2011 (e)	FY2012 (e)	FY2013 (e)
Crude oil prices ($/bbl)	89.71	40	40	60	80
Foreign exchange rates (¥/$)	102.56	90	90	90	90

Note: (a) denotes actual and (e) denotes estimates

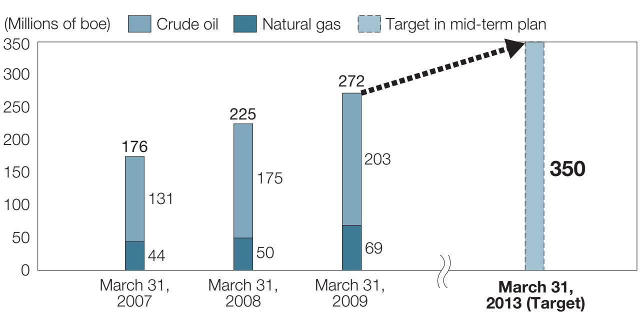
Target for Proved Reserves

We have not changed our target to double proved reserves owned by the JAPEX Group from 176 million boe (barrels of oil equivalent) as of March 31, 2007, to 350 million boe by March 31, 2013, through domestic and overseas E&P investments.

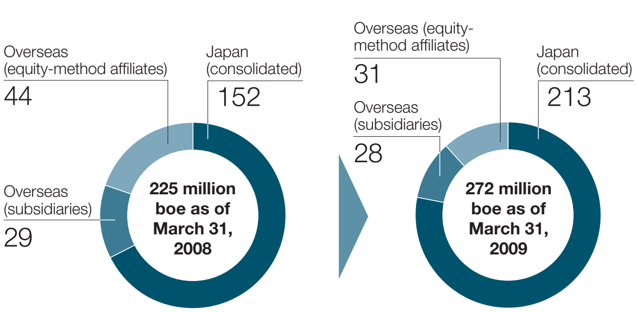
Proved reserves owned by the JAPEX Group in terms of the combined total of crude oil and natural gas were 272 million boe as of March 31, 2009, an increase of approximately 21% compared with March 31, 2008.

A major factor behind this increase was a revised proved reserve assessment, in which we stringently applied the PRMS (Petroleum Management System 2007), an international assessment standard set by four organizations including the Society of Petroleum Engineers (SPE), starting from March 31, 2009. In particular, the Reserve Replacement Ratio (RRR) of domestic proved reserves to fiscal 2009 production volume increased considerably by approximately 600%.

Proved Reserves of Oil and Gas



Proved Reserves by Region



Natural Gas Sales Volume Target and Adjustment of Selling Price

Due to the rapid economic decline in the latter half of 2008, the sales volume of natural gas including LNG centered on the domestic market fell to levels equivalent to fiscal 2008 at 1.7 billion m³, in contrast to initial forecasts of an increase. Based on projections that this trend will continue for the time being, we extended the timeframe for accomplishing the targeted natural gas sales volume of 2.0 billion m³ announced in May 2008 by one year from fiscal 2013 to fiscal 2014.

While continuing to review the selling price of natural gas, we will adjust it through measures such as expanding the number of large-scale customers to whom we can apply Japan LNG Cocktail (JLC)-linked prices that to a certain extent reflect changes in the energy market. Other measures include introducing a feedstock cost adjustment system for the mixed supply of domestic natural gas and imported LNG provided to local distribution companies, while maintaining cost competitiveness against other types of energy.

Natural Gas Sales Volume Target

Natural gas sales volume target	Target period announced in May 2008	Target period based on latest revision
2.0 billion m³	FY2013	FY2014

Investments in Domestic Exploration

We will reduce domestic exploration expenses by postponing the drilling of four exploration wells targeting deep reservoirs, originally scheduled to be carried out between fiscal 2010 and fiscal 2013 at the time of our May 2008 announcement, to beyond fiscal 2013. Meanwhile, in overseas E&P business, with the aim of maximizing the value of our businesses by promoting existing overseas projects (including those in

Indonesia, Canada and Libya) and future growth by acquiring new investment opportunities, we will strengthen our human resource development and the system by which human resource capabilities are acquired.

Domestic Exploration Investments and Number of Drilling Wells from Fiscal 2009 to Fiscal 2013

	Plan announced in May 2008	Plan based on latest revision
Domestic exploration investment	¥50 billion	¥37 billion
Number of drilling wells	20 wells	16 wells

Consolidated Profit and Loss, Cash Flows and Allocation

With respect to average consolidated net income for the five-year period from fiscal 2009 to fiscal 2013, we are forecasting approximately ¥11.0 billion, a decrease of approximately ¥14.0 billion compared with the initial net income forecast announced

Allocation of Cash Flows

		Plan announced in May 2008	Plan based on latest revision
Cash inflows from operating activities, before deductions for exploration expenses and taxes		¥300 billion	¥230 billion
Capital expenditures	Domestic	¥ 80 billion	¥ 90 billion
	Overseas	¥ 80 billion	¥ 40 billion
Exploration investments	Domestic	¥ 50 billion	¥ 37 billion
	Overseas	¥ 30 billion	¥ 20 billion
Total		¥240 billion	¥187 billion

in May 2008, in view of revised assumptions related to the deteriorating economic situation, crude oil prices and foreign exchange rates. Consolidated net income for fiscal 2009 was ¥12.5 billion and under ¥11 billion is forecasted for fiscal 2010. However, we anticipate some improvement in net income for the latter half of the planned period, when crude oil prices are expected to recover.

Our forecast for cumulative cash inflows from operating activities, before deductions for exploration expenses and taxes, for the five-year period from fiscal 2009 to fiscal 2013 is ¥230 billion, a decrease of ¥70 billion compared with the forecast of ¥300 billion announced in May 2008. Of the ¥230 billion cash inflow, we will allocate ¥187 billion for capital expenditure and exploration investments.

To Our Shareholders and the Investing Community

JAPEX intends to allocate funds gained from business activities to E&P investments and technological R&D from a long-term perspective and also maintain stable dividends and enhance shareholder value. Recognizing the importance of corporate governance, we will strengthen and expand its scope and pursue business activities that will contribute to the global environment and local communities. We look forward to your continued support as a vital element for achieving these objectives.

September 2009

Osamu Watanabe

Osamu Watanabe
President and Chief Executive Officer

The President answers questions from investors

Q In reviewing the Mid-Term Business Plan, how did you determine your projections for crude oil prices and foreign exchange rates?

A We projected crude oil prices and foreign exchange rates to reflect levels at which we could secure an operating income even under harsh management conditions.

For fiscal 2010 and fiscal 2011, our projections for JCC prices and foreign exchange rates were $40 per barrel and ¥90 per dollar, respectively. Crude oil prices have been extremely volatile in recent years, while the outlook on the international economy remains clouded. To prepare for this uncertainty, we decided to set these severe assumptions of $40 per barrel and ¥90 per dollar for the first half of our Mid-Term Business Plan and to review our levels of investment and cost structure so we could secure an operating income even under these conditions toward recovering future profitability.

In 2009, JCC prices remained at around $40 per barrel from January to April until they gradually rose to around $70 per barrel by July. Should this price level prevail, its impact may result in an upward revision in our performance forecast for fiscal 2010.

Q How do you plan to achieve your target for proved reserves?

A We expect our Oil Sands Expansion Project in Canada will increase our proved reserves.

We believe we can achieve our target for proved reserves through projected increases from existing overseas projects. With particular focus on the Oil Sands Expansion Project in Canada, once we decide to proceed with the development stage in 2011, the project should significantly increase proved reserves, allowing us to achieve our target of 350 million boe as planned.

In general, evaluation and development decisions require a certain amount of time before newly discovered reserves can be counted as proved. Therefore, we hope the results of exploration investments undertaken domestically and overseas between fiscal 2010 and fiscal 2013 will contribute to raising our target for proved reserves from fiscal 2014 and beyond, after the period covered by the current Mid-Term Business Plan.

"We aim to achieve company growth through revising our business plan for securing an operating income, even in this harsh management environment."

Q What is your outlook on boosting the natural gas sales volume and revising the selling price of natural gas?

A We have postponed the achievement of our target by one year and will concentrate on revising selling prices to appropriate levels by switching from fixed to variable pricing.

Although we expect natural gas sales volume to existing customers to decrease as a result of the impact of the economic downturn, sales to new customers will begin as scheduled, and we are therefore forecasting an overall increase in sales volume for natural gas compared with fiscal 2009. As for fiscal 2011 and beyond, we extended the timeframe for achieving our target of 2 billion m^3 by one year to fiscal 2014, in light of the possibility that the projected recovery in new demand as set out in the Mid-Term Business Plan announced in May 2008 may be delayed by the impact of the economic downturn. We will nevertheless maintain the maximum marketing effort toward achieving our initial target.

Concerning the selling price of natural gas, we have made consistent efforts over the past few years to revise the price to levels that correctly reflect the rise in imported LNG prices. In fiscal 2009, a government commission reviewed the feedstock cost adjustment system and clarified that the rules applied to local distribution companies that use a mixture of domestic natural gas and imported LNG as feedstock. As a result, in terms of residential customer prices for local distribution companies mainly based on fixed pricing, we believe conditions have been prepared for switching to a pricing system linked to imported LNG prices that correspond with the supply ratio of mixed gas.

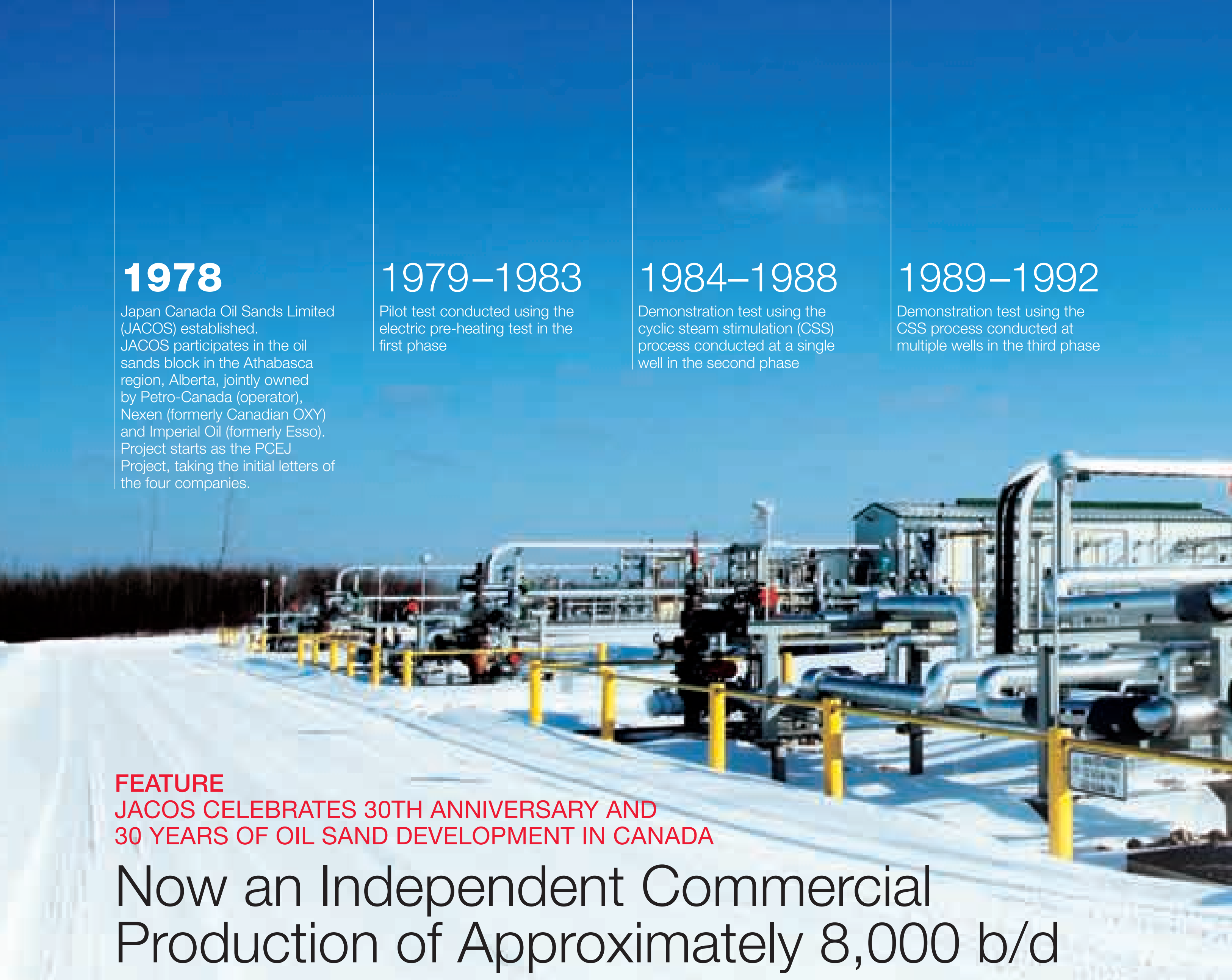
In addition, with respect to pricing for direct sales to large-scale customers, we have been responding appropriately through measures including partial introduction of a pricing system linked to imported LNG prices. We will also use the introduction of recent regulatory revisions as an opportunity for continuing to hold consultations toward a phased revision in pricing in an ongoing effort to attain proper selling prices for natural gas.

Q What is the breakeven price for bitumen to ensure the feasibility of the Oil Sands Expansion Project in Canada?

A While this depends on project scope, we believe feasibility would be realized at C$40 per barrel.

The development expenses for the Hangingstone 3.75 section area (100% interest), which currently produces 8,000 barrels per day, have been accounted as cost with the understanding that the project is for research and so our depreciation burden is low. We therefore believe the breakeven point is C$25 per barrel considering only the operating costs while excluding those for exploration.

As for the expansion project (maximum production of 35,000 b/d) for the undeveloped section (75% interest) adjacent to the Hangingstone 3.75 section area, we are currently assessing the volume of reserves and the environmental impact as well as doing conceptual planning. At this point of economic evaluation, we are unable to disclose the bitumen price level at which the project would be feasible, since the breakeven point will vary depending on project scope. Generally speaking, however, we understand many economists would consider the new development project feasible at a bitumen price above C$40. We expect the level of JCC prices to recover to $80 per barrel in the latter half of the planned period and hope bitumen prices will also rise at the same pace as JCC prices, ultimately reaching levels that would ensure business feasibility.



1978

Japan Canada Oil Sands Limited (JACOS) established.
JACOS participates in the oil sands block in the Athabasca region, Alberta, jointly owned by Petro-Canada (operator), Nexen (formerly Canadian OXY) and Imperial Oil (formerly Esso). Project starts as the PCEJ Project, taking the initial letters of the four companies.

1979–1983

Pilot test conducted using the electric pre-heating test in the first phase

1984–1988

Demonstration test using the cyclic steam stimulation (CSS) process conducted at a single well in the second phase

1989–1992

Demonstration test using the CSS process conducted at multiple wells in the third phase

FEATURE
JACOS CELEBRATES 30TH ANNIVERSARY AND 30 YEARS OF OIL SAND DEVELOPMENT IN CANADA

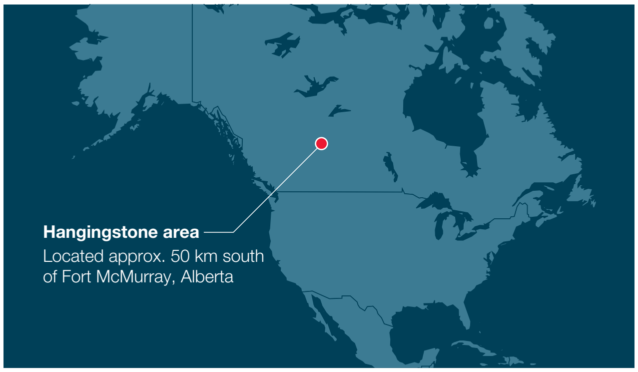
Now an Independent Commercial Production of Approximately 8,000 b/d

Japan Canada Oil Sands Limited (JACOS) celebrated its 30th anniversary in December 2008.

JACOS was established in December 1978 with considerable support from the Japan Federation of Economic Organizations, Japan National Oil Corporation (JNOC) and various private companies, and a joint research project for oil sands development was launched with the participation of three Canadian companies (then Petro-Canada, Canadian OXY and Esso, respectively). JACOS then continued research using the electronic pre-heating, cyclic steam stimulation (CSS) and the steam-assisted gravity drainage (SAGD) processes.

In 1997, JACOS started test production using the SAGD process as an independent project and made the transition to commercial production in 2003. Since 2005, JAPEX has taken the initiative in the JACOS operation following the dissolution of the JNOC. Actual production volume is approximately 8,000 b/d (barrels of oil per day) as of August 2009. A geological evaluation and environmental impact assessment are currently underway in line with our plan to expand production up to 35,000 b/d at the undeveloped part of the Hangingstone area.

Hangingstone Area Operated by JACOS



1992–1994
JACOS starts the operator and conducts a demonstration test using the CSS process at multiple wells as an independent project

1997
JACOS starts test production using the steam-assisted gravity drainage (SAGD) process at a portion of Hangingstone as an independent project

2003
Transition from test production to commercial production in August

2008
Hangingstone Expansion Project announced in May

2014
Hangingstone Expansion Project scheduled to start producing up to 35,000 b/d

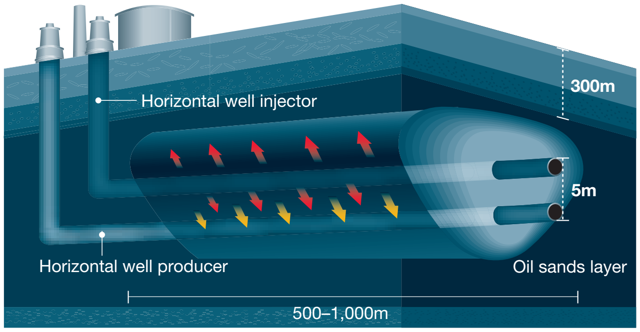
Interests in Oil Sands Leases with Contingent Reserves of 1.7 Billion Barrels

JACOS owns oil sands leases spanning a total area of 460 km^2 in the Athabasca region. The lease comprises the Hangingstone, Chard, Corner, and Thornbury areas as well as others. Our current estimates, as of the end of December 2008, of 1.7 billion barrels in contingent reserves have received third-party evaluation from Sproul of Canada.

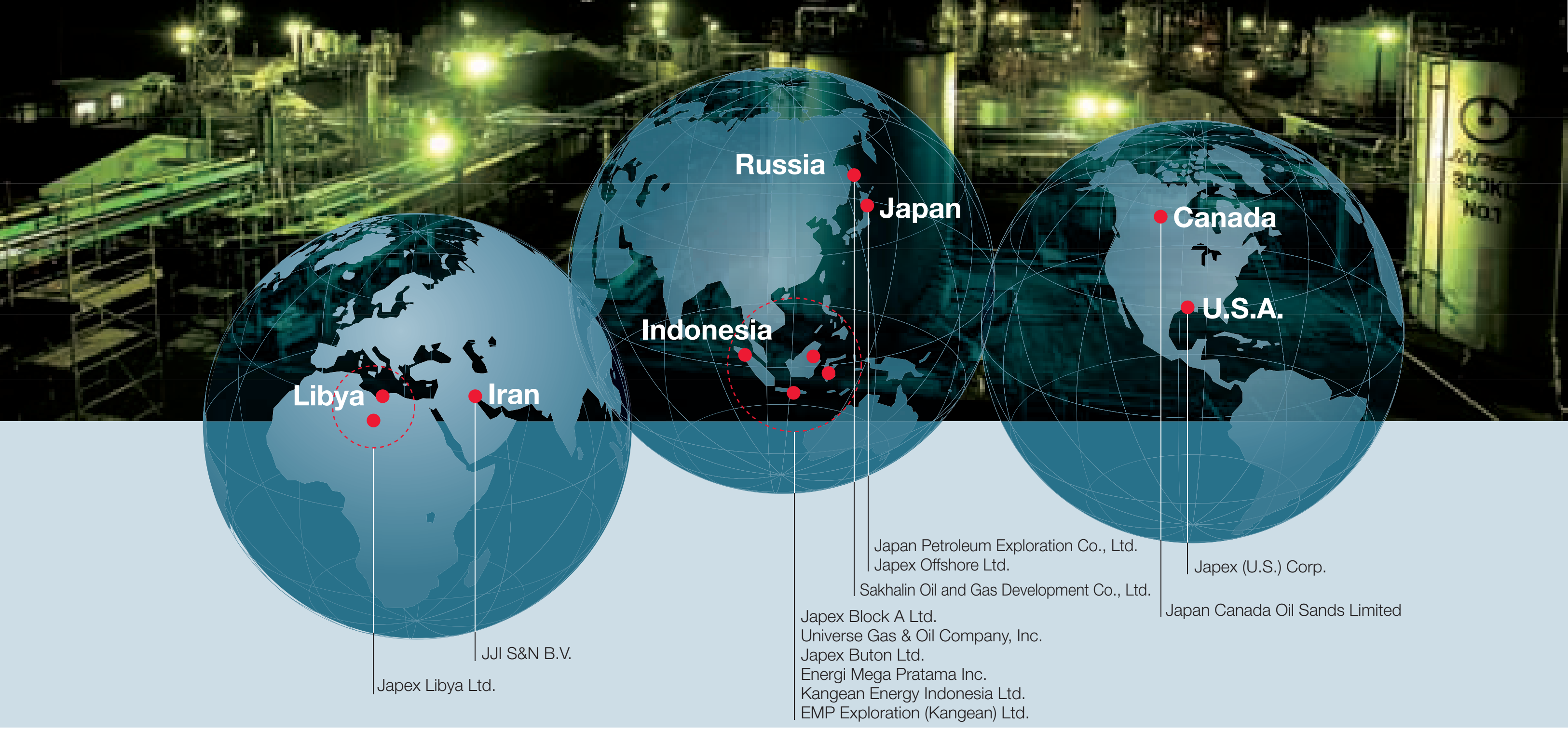
Oil Sands Development Using SAGD Process

JACOS has significantly contributed to the practical application of the SAGD process and is the leader in oil sands development and production based on this process. For SAGD, two wells with horizontal sections of between 500 and 1,000 m are drilled at an exact distance of 5 m between the upper and lower wells. This drilling process involves heating the oil sands layer by continuously injecting high-temperature, high-pressure steam into the upper well to provide liquidity to the bitumen, which in turn flows down to the lower well and emerges above ground along with warm water. JACOS is achieving operational efficiencies that minimize fresh water consumption by recycling at least 90% of the warm water produced.

Schematic of SAGD Process



Exploration and Production



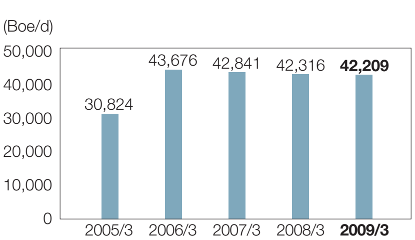
Increasing reserves and maintaining stable production activities

The JAPEX Group's E&P business consists of domestic operations undertaken by JAPEX and Japex Offshore Ltd., overseas operations handled by consolidated subsidiaries and equity-method affiliates, and investments in overseas project companies.

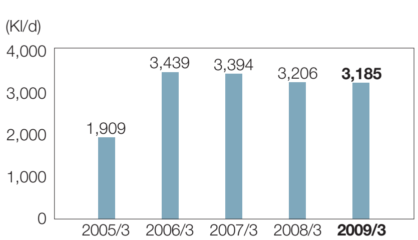
In fiscal 2009, activities in major production areas were maintained, and we also explored for new oil and gas reserves in target areas and conducted the evaluation work for the oil sands expansion project in Canada. The working interest in the offshore Lufeng 13-1 oil field in the Pearl River Mouth Basin, South China, owned by consolidated subsidiary JAPEX New Nanhai Ltd., expired in February 2009 and production there has ceased.

Average net production volume for fiscal 2009 for JAPEX and its consolidated subsidiaries was 3,185 kl/d (20,039 b/d) of crude oil, including bitumen, and 3,524 thousand m³/d (22,169 barrels of oil equivalent per day (boe/d)) of natural gas, resulting in a crude oil and natural gas total roughly on par with fiscal 2008 at 42,209 boe/d. Proved reserves as of March 31, 2009 for the JAPEX Group totaled 272 million boe, an increase of 21% compared with March 31, 2008.

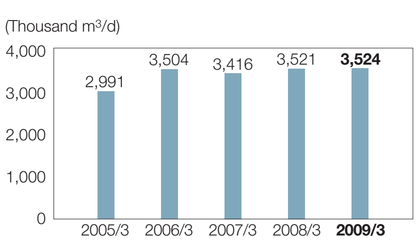
Production of Crude Oil and Natural Gas

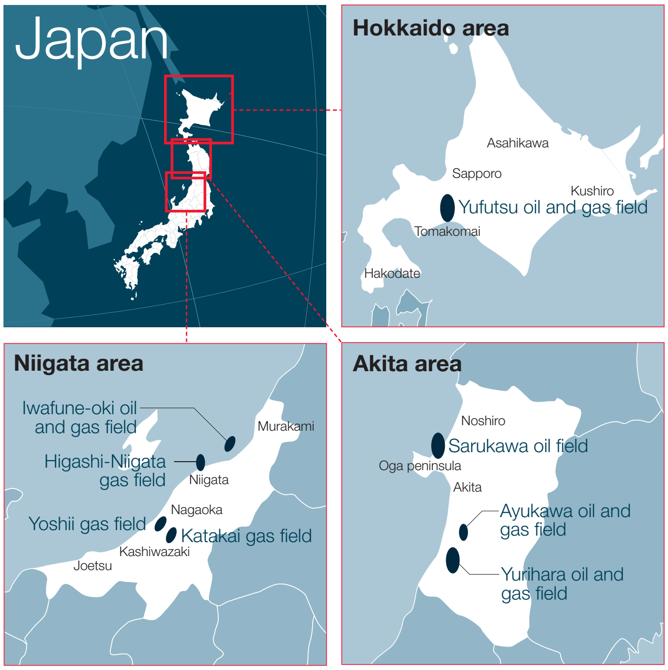


Crude Oil Production



Natural Gas Production





JAPEX and Japex Offshore Ltd.

In Japan, we have been conducting E&P in the Hokkaido, Akita and Niigata areas. In fiscal 2009, total production volume for crude oil and natural gas was 31,711 boe/d (Fiscal 2008: 31,688 boe/d).

In fiscal 2009, we conducted 2D and 3D seismic surveys in the Hokkaido, Akita and Niigata areas and also drilled four exploration wells and one extension well. Of these, the extension well was successful in producing hydrocarbons.

Although we drilled four production wells, we abandoned a portion of the Numanohata SK-8D well in the Yufutsu oil and gas field in Hokkaido due to its inability to produce a commercial quantity. To meet growing demand for natural gas, a new processing facility at the Yufutsu oil and gas field with a processing capacity of 2.4 million m^3/d was built starting in May 2007, and construction was completed in February 2009.

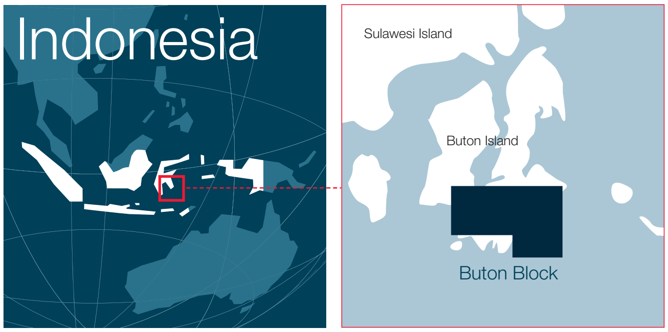
In our E&P activities for fiscal 2010, we plan to conduct 2D and 3D seismic surveys and to drill one exploration well, one extension well and three production wells.

Block	Hangingstone, Corner, Chard, Thornbury, Liege	
Project company	Canada Oil Sands Co., Ltd. (localized subsidiary: Japan Canada Oil Sands Limited)	
Interest	Japan Canada Oil Sands Limited (JACOS)	100% – 12%
	Nexen	25% – 0%
	Petro-Canada	50% – 0%
	Imperial Oil	63% – 0%

Japan Canada Oil Sands Limited

In Canada, our consolidated subsidiary Japan Canada Oil Sands Ltd., is conducting oil sands development through the locally incorporated Japan Canada Oil Sands Limited (JACOS) using steam-assisted gravity drainage (SAGD) in a part of the Hangingstone area (commonly known as the 3.75 section area) in the Athabasca region of Alberta. In 2008, we started production at three pairs of new horizontal wells and are engaged in production at a total of 19 pairs of horizontal wells. Production volume in 2008 for the 3.75 section area was 1,137 kl/d (7,155 b/d) of crude oil (bitumen).

As for the Hangingstone Oil Sands Expansion Project (75% interest, operator), we have drilled 100 appraisal wells to assess the volume of reserves. In addition, as part of the preparations required for making a final decision on the project, we started an environmental impact assessment in May 2008 under the procedures set out by the environmental agency of the Alberta provincial government. We are continuing assessment through consultations with landowners, residents and other related parties as well as relevant government agencies. In addition to existing operations, we currently estimate maximum production of 35,000 b/d of bitumen for more than 25 to 30 years starting in the fourth quarter of 2014.

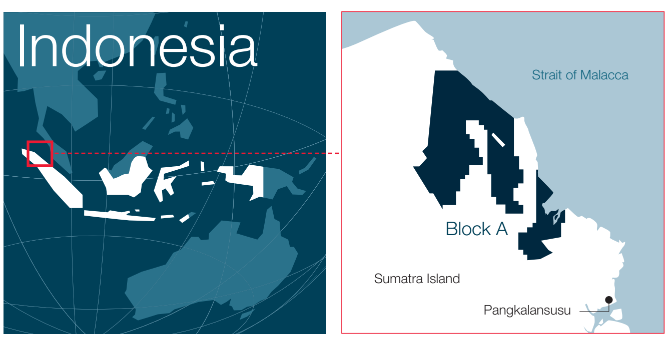


Block	Buton Block (onshore/offshore Buton Island, offshore Southeast Sulawesi)	
Project company	Japex Buton Ltd.	
Interest	Japex Buton Ltd. (Operator)	40%
	Premier Oil	30%
	KUFPEC	30%

Japex Buton Ltd.

Consolidated subsidiary Japex Buton Ltd. (40% interest, operator) signed a product sharing contract (PSC) in January 2007 for the Buton Block, an onshore/offshore block on Buton Island, Southeast Sulawesi, which was awarded through a public auction in October 2006. In our exploration activities, we conducted airborne magnetic surveys in February and March 2008 and airborne gravity surveys in May and June of the same year, and completed data evaluation in January 2009. We also acquired 318 km of 2D seismic data from June 2008 through January 2009.

In 2009, we plan to conduct a geological and geophysical study to make a final decision on the location of the exploration well to be drilled in 2010.

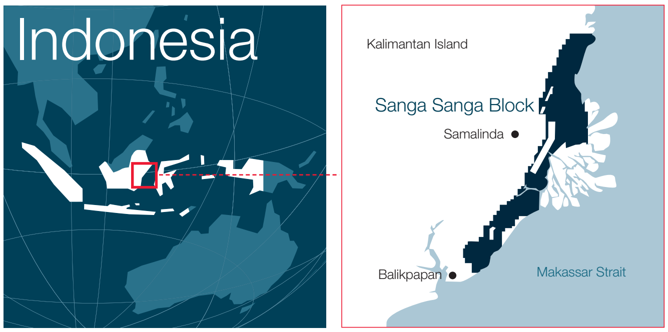


Block	Block A (onshore North Sumatra)	
Project company	Japex Block A Ltd.	
Interest	Medco (Operator)	41.6667%
	Premier Oil	41.6666%
	Japex Block A Ltd.	16.6667%

Japex Block A Ltd.

In December 2007, consolidated subsidiary Japex Block A Ltd. (16.6667% interest) received approval from BPMIGAS, the PS contracting authority of Indonesia, for its development plan for gas fields consisting of Alur Siwah, Alur Rambong and Julu Rayeu in North Sumatra Block A. We started drawing up front-end engineering design (FEED) for production facilities in 2008. Because the current PSC for the block expires in August 2011, we are awaiting approval from the Indonesian government for a contract extension. Meanwhile, we signed a gas sales agreement (GSA) with a government-operated fertilizer plant in December 2007, and an additional GSA with Indonesia's state-run electric power company in April 2008.

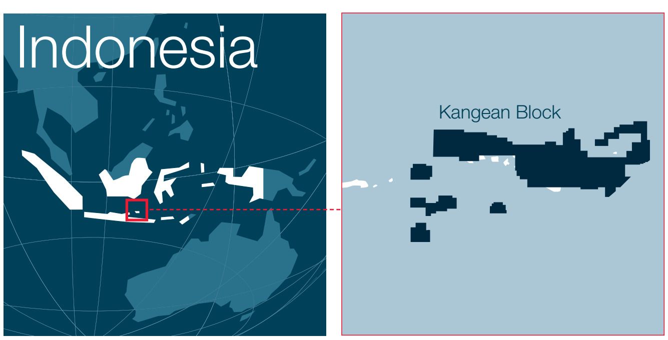
In 2009, we will pursue development activities to start gas production in 2010.



Block	Sanga Sanga Block (onshore East Kalimantan)	
Project company	Universe Gas & Oil Company, Inc.	
Interest	BP East Kalimantan Ltd.	26.250%
	LASMO Sanga Sanga Ltd.	26.250%
	Virginia International Co.	15.625%
	Virginia Indonesia Co. (Operator)	7.500%
	Opicoil Houston Inc.	20.000%
	Universe Gas & Oil Company, Inc.	4.375%

Universe Gas & Oil Company, Inc.

Equity-method affiliate Universe Gas & Oil Company, Inc. (4.375% interest) is carrying out development and production centered on the four oil and gas fields of Badak, Nilam, Mutiara and Semberah in the onshore Sanga Sanga Block in East Kalimantan. In 2008, it drilled 40 production wells to increase recovery efficiency and maintain production volume of crude oil and natural gas. Gross production volume was 97,991 boe/d of crude oil and natural gas for the block.



Block	Kangean Block (offshore East Java)	
Project company	Energi Mega Pratama Inc.	
Interest	Kangean Energy Indonesia Ltd. (Operator)	60%
	EMP Exploration (Kangean) Ltd.	40%

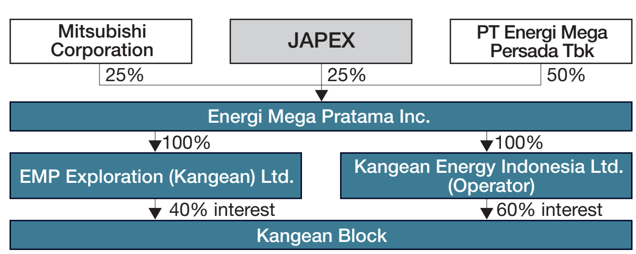
Note: Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. are subsidiaries of Energi Mega Pratama Inc.

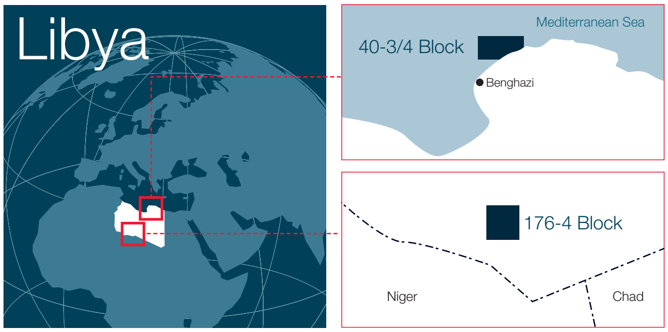
Energi Mega Pratama Inc.

In May 2007, JAPEX acquired a 25% equity stake in Energi Mega Pratama Inc. (EMPI), making it an equity-method affiliate. EMPI holds a 100% working interest in the Kangean Block offshore East Java through subsidiaries Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd.

In the Kangean Block, production continued in the existing Pagerungan gas field and the Sepanjang Island oil field. We also commenced operations toward full-scale production at the Sepanjang Island oil field, and we are conducting development work at the TSB gas field and Pagerungan Utara oil field. Gross production volume for crude oil and natural gas for the block was 6,645 boe/d. At the TSB gas field, we are engaged in development work to start production of around 50,000 boe/d in crude oil equivalent by the end of December 2010.

Kangean Block Ownership Structure





Block	40-3/4 Block (coastal area, Mediterranean Sea)	
Project company	Japex Libya Ltd.	
Interest	Japex Libya Ltd. (Operator)	42%
	Nippon Oil Exploration Ltd.	38%
	Mitsubishi Corp.	20%

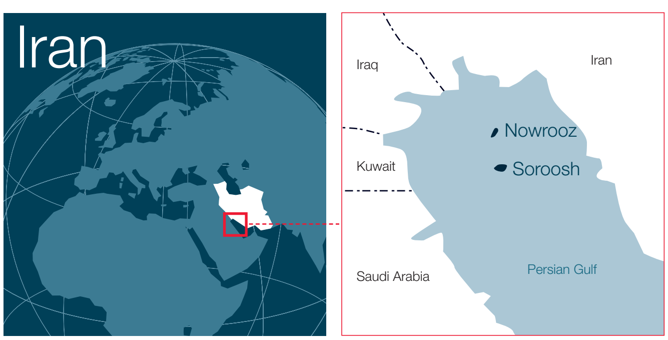
Block	176-4 Block (onshore, southwest area of Murzuq region)	
Project company	Japex Libya Ltd.	
Interest	Japex Libya Ltd. (Operator)	100%

Japex Libya Ltd.

Consolidated subsidiary Japex Libya Ltd. holds two blocks acquired in 2005 through a public auction: the 40-3/4 Block, in the coastal area of the Mediterranean Sea (42% interest, operator) and the 176-4 Block, southwest area of the Murzuq region (100% interest, operator).

40-3/4 Block: In 2008, we interpreted 2,112 km of 2D seismic data and 500 km^2 of 3D seismic data. Although we drilled the 1st exploration well in March and April 2009, we plugged and abandoned the well due to a lack of commercial oil and gas discovered there. We plan to start drilling the 2nd exploration well after autumn 2009.

176-4 Block: In 2008, we interpreted 2,053 km of 2D seismic data. We drilled the 1st exploration well from July through September 2009, but the well was plugged and abandoned due to a lack of commercial oil and gas discovered there.

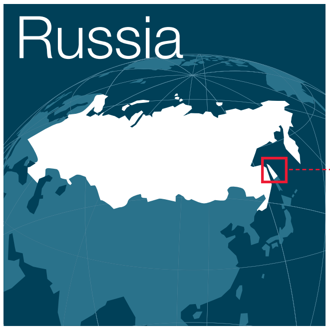


Block	Soroosh oil field and Nowrooz oil field	
Project company	JJI S&N B.V.	
Interest	Shell Exploration B.V.	70%
	JJI S&N B.V.	20%
	OIEC	10%

JJI S&N B.V.

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.

Russia



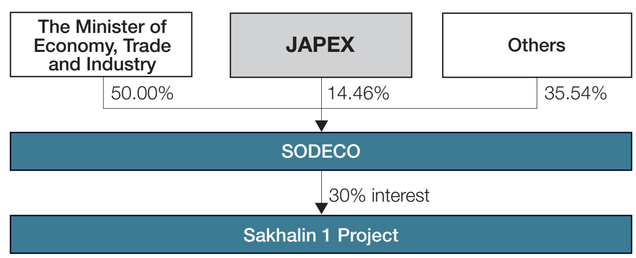
Block	Chayvo, Odoptu and Arkutun-Dagi (offshore Sakhalin)	
Project company	Sakhalin Oil and Gas Development Co., Ltd.	
Interest	Sakhalin Oil and Gas Development Co., Ltd.	30.0%
	Exxon Neftegas Ltd. (Operator)	30.0%
	ONGC Videsh Ltd.	20.0%
	Sakhalinmorneftegas-Shelf	11.5%
	RN-Astra	8.5%

Sakhalin Oil and Gas Development Co., Ltd. (SODECO)

JAPEX is involved 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. Chayvo is producing oil and gas through major production facilities including its onshore well pad and processing facility and its Orlan offshore platform.

Following the completion of an oil export terminal in DeKastri in August 2006, oil produced from the Sakhalin 1 Project (Sokol crude) has been exported to international markets. In February 2007, the project reached its peak gross production target of around 40,000 kl/d (250,000 b/d), and in January 2008 it achieved a cumulative crude oil production volume of 100 million barrels. Meanwhile, the consortium continues to sell natural gas to customers in Russia. JAPEX received the first dividend payment from SODECO in March 2008 and the second dividend payment in March 2009.

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

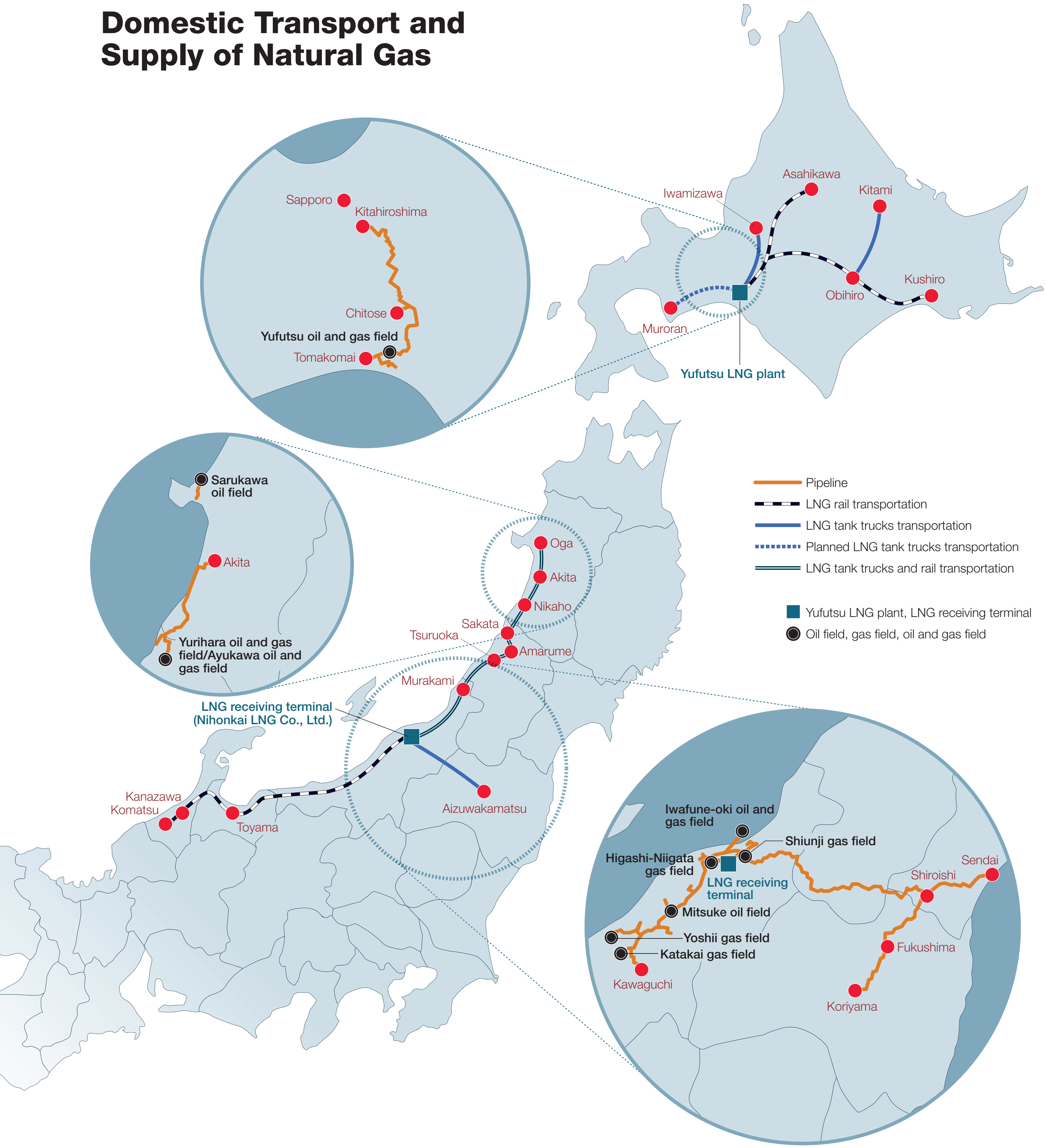


Iraq

Based on a Memorandum of Understanding for technical cooperation signed together with Iraq's Ministry of Oil in March 2005, JAPEX had been conducting evaluation studies of undeveloped oil fields with Ministry engineers. The cooperation also included examining technologies for upgrading heavy crude oil and methods to increase production, providing support technologies related to 3D seismic surveys and training Ministry staff. Over the course of four years, JAPEX welcomed more than 500 engineers from the Ministry of Oil.

The memorandum of cooperation expired at the end of March 2009; however, at the request of Iraq's Ministry of Oil we have been dedicatedly following up on the evaluation studies conducted during the period. Meanwhile, the Ministry has since moved on to conducting international auctions to promote oil field development. The first petroleum licensing round took place in June 2009 for oil field development and will be followed by second rounds at the end of 2009 for oil fields that have been discovered but not yet developed. We will aggressively pursue opportunities to participate in development projects through these international auctions as well as through selective tenders regarding oil fields for which we have the knowledge and experience.

Domestic Transport and Supply of Natural Gas



Covering a broad area through diverse supply channels

In supplying gas in our core domestic natural gas business, we are aiming to cover a broad marketing area and expanding sales volume by enhancing our transport network with natural gas pipelines, tank trucks and railways.

In fiscal 2009, demand for gas rose rapidly due to a surge in crude oil prices that continued until summer 2008. Growth in gas sales declined with the drop in crude oil prices and rapid deterioration in the international economic situation starting in autumn of the same year. As a result, sales volume for natural gas including LNG remained roughly in line with the previous fiscal year at 1.7 billion m^3.

For its mid-term sales target, JAPEX is working to achieve 2.0 billion m^3 in domestic sales volume of natural gas including LNG by fiscal 2014, an increase of 0.3 billion m^3 from the actual sales volume of 1.7 billion m^3 for fiscal 2009.

Natural Gas Pipeline Network

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

In the Hokkaido area, we have constructed a pipeline from the Yufutsu oil and gas field to Tomakomai City, where the gas field is located, and into the vicinity of Sapporo City to supply local distribution companies and industrial customers.

In the Akita area, we have constructed pipelines from the Yurihara and Ayukawa oil and gas fields into Akita City to supply natural gas, primarily to local distribution companies.

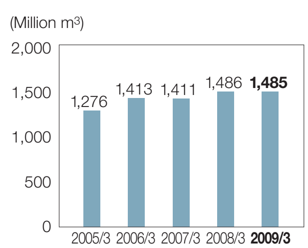
In the Tohoku and Hokuriku areas, we have expanded our largest natural gas pipeline network, covering the four prefectures of Niigata, Yamagata, Miyagi and Fukushima, branching out from our gas fields and LNG receiving terminal in Niigata and supplying gas-fired power plants, local distribution companies and industrial customers.

LNG Satellite System

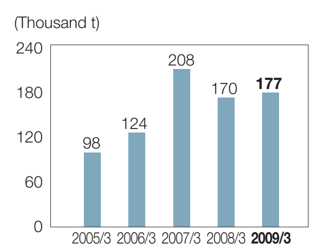
JAPEX operates an LNG Satellite System to meet demand for gas in regions not served by its gas pipeline network. On the main island of Honshu, we supply the Tohoku, Hokuriku and other northern regions with LNG imported from overseas through an LNG receiving terminal in the port of Niigata using tank trucks and railway tank containers.

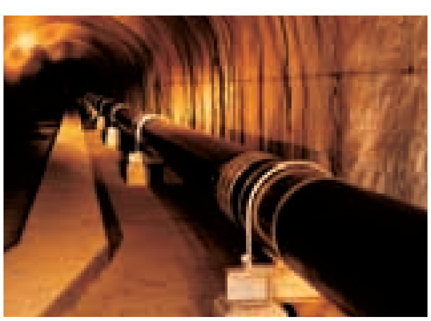
In Hokkaido, we have constructed a small LNG plant in the Yufutsu oil and gas field. Since October 2003, gas produced at this field has been converted into LNG and supplied to local distribution companies throughout Hokkaido. The Yufutsu LNG plant is a milestone for LNG supply in Hokkaido, where there are no LNG receiving terminals. In November 2007 we completed a second train at the Yufutsu LNG plant to expand supply volume to local distribution companies in Hokkaido.

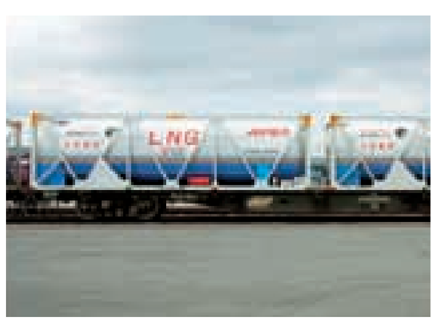
Natural Gas Sales



LNG Sales







Bolstering and utilizing our technological capabilities to develop diverse energy resources and prevent global warming

The petroleum E&P industry is based on comprehensive technologies including geological and geophysical surveys, exploration, well drilling, oil reservoir engineering and information technologies. While many E&P companies outsource most of these diverse technologies, the JAPEX Group maintains the advantage of having accumulated technologies required for exploration, development, production and transport within the Group through years of evolving as integrated E&P companies.

JAPEX considers technological research and development as a pillar of its key management tasks. It has placed particular emphasis on new energy and environment-related technology toward acquiring new technologies and knowledge through our research on GTL, methane hydrate and carbon dioxide capture and storage (CCS), as well as other areas. Looking ahead, we will incorporate these technologies and knowledge into the JAPEX business model and develop them into a new profit base.

Development of Gas-to-Liquids (GTL) Technology

GTL uses natural gas as feedstock for producing petroleum products such as naphtha, kerosene and gas oils through a chemical reaction. Liquid fuel produced through GTL is considered to be a clean source of energy with less environmental impact since it does not contain sulfur and aromatic compounds. This technology could also become a source of new liquid fuels leading to a diversified energy supply because natural gas is used instead of crude oil as feedstock. South Africa's Sasol and major European and U.S. oil companies are pursuing commercial projects utilizing GTL technology.

Combining Our Technological Capabilities for Commercialization

From 2001 through 2004, JAPEX collaborated with the Japan National Oil Corporation (JNOC) (currently Japan Oil, Gas and Metals National Corporation: JOGMEC) and four private-sector companies in a 7 b/d GTL pilot test at the Yufutsu oil and gas field in Tomakomai, Hokkaido, which was successful.

JAPEX subsequently established the Nippon GTL Technology Research Association in October 2006 with five other private-sector companies and commenced demonstration research on GTL technology with JOGMEC. The development and demonstration of Japan's own GTL technology can be globally competitive after bringing together the financial and technological capabilities of the Japanese government and private sector to establish a research association and conduct joint research with JOGMEC.

In 2007, the Nippon GTL Technology Research Association commenced construction of a 500 b/d demonstration plant at a site owned by our subsidiary Japex Offshore Ltd. in the Niigata Port industrial park; construction was completed in April 2009. The Association is currently conducting demonstration tests, scheduled for conclusion in fiscal 2011, toward developing GTL technology at a commercial scale of several tens of thousands b/d, which would be competitive from both technological and economic perspectives.

Establishing Japanese Proprietary GTL Technology

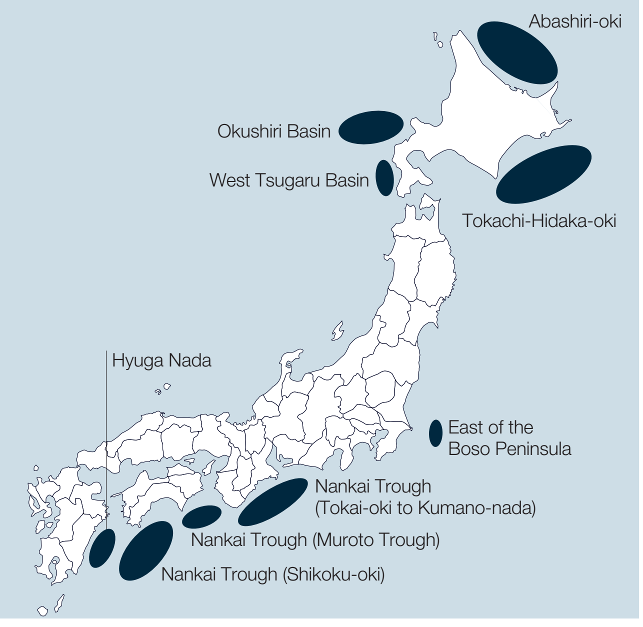
The GTL technology currently leading the global market requires oxygen and in some cases also requires the removal of CO_2 contained in the natural gas feedstock. The technology being developed for commercialization by the Nippon GTL Technology Research Association adopts a different approach in that it uses the CO_2 contained in natural gas without the need for oxygen, and therefore does not require an oxygen plant or CO_2 removal. This reduces capital expenditures and operational costs and is thus considered to be fairly competitive in the global market.

GTL demonstration plant (Photo courtesy of Nippon GTL Technology Research Association)

Development of Methane Hydrate in Japan

Methane hydrate is a sherbet-like solid formed by methane gas, the main component of natural gas, captured inside water molecules, and is attracting attention as a new energy resource. It is known to exist in highly pressurized, low-temperature natural environments, embedded in a shallow layer below the seabed at a water depth of over 500 m or in permafrost layers near the north and south poles. Some estimate that offshore reserves of methane hydrate equivalent to more than a hundred years of national gas consumption are present within the seas around Japan. Hopes are high that these reserves of methane hydrate could significantly enhance Japan's energy self-sufficiency.

Map of Methane Hydrade Reservoirs



Development Plan: Results of Phase 1 (Fiscal 2002 to Fiscal 2009)

The physical properties of methane hydrate are fundamentally different from those of conventional natural gas, and its recovery poses technical challenges that have yet to be resolved. Recognizing the potential of methane hydrate from early on, JAPEX has been actively involved in the development of technology to overcome these challenges, playing a central role in joint research carried out between fiscal 1996 and fiscal 2000 with JNOC and a number of private-sector companies. In 2000, JAPEX conducted exploration drilling of the Nankai Trough offshore Shizuoka Prefecture within our block and became the first company in Japan to successfully collect a methane hydrate core in domestic waters. Building on these achievements, Phase 1 of a full-scale joint research effort involving the public and private sectors was launched in fiscal 2002 in accordance with the Methane Hydrate Development Plan formulated by the Ministry of Economy, Trade and Industry. The main activities of this plan are presented below. The results of Phase 1 research have demonstrated the potential of using methane hydrate present in the waters off Japan as an energy source.

Methane Hydrate Development Plan in Japan: Phase 1 (Fiscal 2002 to Fiscal 2009)

FY2002	First onshore production test in Canada
FY2003	3D seismic survey in the eastern section of Tokai-oki to Kumano-nada
FY2004	Exploration drilling in the eastern section of Tokai-oki to Kumano-nada
FY2007	Detailed assessment of reserve volume in the eastern section of Tokai-oki to Kumano-nada
FY2007–FY2008	Second onshore production test in Canada
FY2009	Final assessment of Phase 1

Development Plan: Outline of Phase 2 (Fiscal 2010 to Fiscal 2016)

In Phase 2, we will build on the technical achievements gained in Phase 1 through offshore production tests in the seas around Japan to more reliably assess the potential of using methane hydrate as an energy resource, while also working to identify the technical challenges for commercially producing methane hydrate and conducting research related to environmental impact assessment. JAPEX will continue to play a central role as a member of the Steering Committee of the Research Consortium for Methane Hydrate Resources in Japan (MH21).

Commercialization of CO_2 Capture and Storage (CCS)

CCS is one of the methods that has been proposed for reducing CO_2 emissions. It involves storing CO_2 by directly injecting it into depleted oil and gas reservoirs, coal reservoirs or aquifers, and is considered to be highly practical, reliable and safe.

It is estimated that up to approximately 150 billion tons of CO_2 could be stored in underground geological formations in Japan. This is equivalent to approximately 100 years of annual CO_2 emissions in Japan.

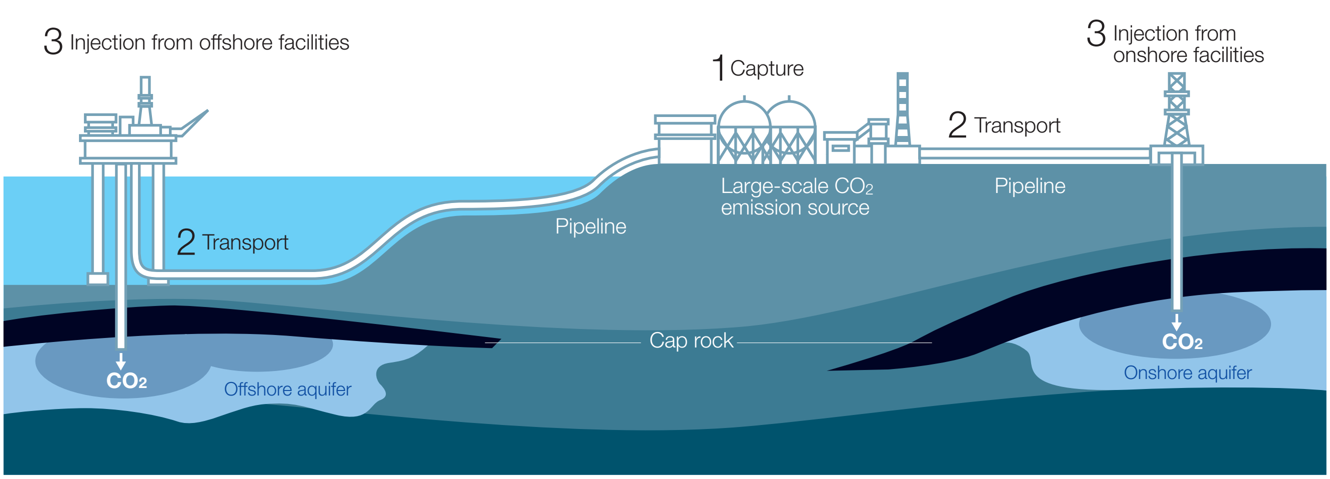
Applying Core E&P Technologies

JAPEX possesses cutting-edge technologies cultivated over half a century of experience in petroleum development, such as those used for investigating underground structures, estimating petrophysical property, drilling, production, and fluid migration simulation, as well as underground monitoring centered on seismic surveys. Our exploration and production technologies combined represent an indispensable core technology for CCS.

Commercialization of CCS Technology

In its Action Plan for Building a Low-carbon Society, the government has stated its policy to commercialize CCS by 2020. In response to this policy, JAPEX in May 2008 jointly established Japan CCS Co., Ltd. with other private-sector companies. Japan CCS has been commissioned to conduct research on demonstration tests for CCS by the Ministry of Economy, Trade and Industry and the New Energy and Industrial Technology Development Organization (NEDO). Through these demonstration tests we will establish CCS as a commercial business as our contribution to the prevention of global warming.

Schematic of CCS



Contributing to people's lives and society by ensuring HSE and maintaining close communications with local communities

JAPEX endeavors to fulfill its mission of providing a stable, long-term supply of energy essential to the livelihood of society and places top priority on health, safety and environment. In Japan, we endeavor to contribute to the development of the regional community by maintaining communication with various stakeholders as a corporate citizen with roots in the areas where we operate.

Health, Safety and Environment (HSE)

Each year, JAPEX revises its Safety Policy and Objectives to exercise initiative in voluntary safety activities. The Safety Policy and Objectives for 2009 are as follows:

Safety Policy for 2009

Upholding the principle of human dignity and recognizing that safety takes precedence over all else, we will strive to ensure safety and health through a concerted effort and create a healthy and comfortable working environment, free from disaster and pollution.

Safety Objectives for 2009

(1) Aim for zero occupational accidents
(2) Prevent pollution
(3) Create a healthy and comfortable workplace

In addition, we conduct emergency drills once a year and offer regular HSE training to prevent disasters and pollution. We conduct an overall review of these safety activities at the end of each year, evaluate the achievements and incorporate the results into the coming year's safety activities. In this way, we continuously upgrade our safety levels to virtually eliminate accidents and disasters.

Safety self audit (Katakai gas field)

Preservation of the Global Environment

Since 2005, JAPEX has been helping protect the global environment and the regional community by planting trees and improving forests. To date, we have engaged in forest improvement activities in Hokkaido, Akita and Niigata.

Tree-planting ceremony at the JAPEX Jomon Forest (Nagaoka, Niigata)

Relationship with Society

Sponsorship of University Lectures

JAPEX sponsors lectures at universities and graduate schools to help develop human resources that can contribute to future energy resource development by promoting academic research at universities and supporting the education of engineers. These lectures are currently being offered at the graduate schools of Tokyo University, Kyoto University and Tohoku University, and at Hokkaido University.

As a Member of the Regional Community

JAPEX actively participates and sponsors local festivals and other events to deepen mutual exchanges among the residents of regional communities in which our domestic operations are located. The company is also promoting a greater understanding about our business activities.

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

Company Organizations

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

As well as the representative directors, JAPEX's directors and/or executive officers whose duties are assigned by the Board of Directors, serve as the Company's operating officers. Supervision of business operations is carried out by the Board of Directors and each corporate auditor, as well as the Board of Auditors composed by all auditors. JAPEX has adopted the corporate auditor corporate governance system.

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 interests 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. Two employees, who also hold other posts, have 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 interests 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. 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 Corporation Law and its enforcement regulations designed to ensure the appropriateness of operations. Following the enforcement of regulations concerning internal controls on financial statements as stipulated by the Financial Instruments and Exchange Law, a section entitled, "System to ensure the appropriateness of documents and other information pertaining to financial calculations," was added to the existing policies by a decision of the Board of Directors on December 19, 2008.

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 discussions 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 are 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 (rules for administering subsidiaries and 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) appointed 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 corporate management documents. In the event that directors discover facts that could lead to substantial damages to 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.

System to ensure the appropriateness of documents and other information pertaining to financial calculations

To ensure the reliability of financial statements, an internal control system related to financial statements will be established and effectively operated, and its effectiveness will be evaluated.

In addition to the above, the Company's Internal Control Committee and the Internal Control Department, both established on April 1, 2006, are responsible for continuously 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

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

Class	Number of personnel paid (persons)	Amount paid (Millions of yen)
Board members	17	638
Corporate auditors	4	71
Total	21	710
(Outside directors)	(3)	(46)

Notes: 1. The number of personnel paid presented above includes one board member who retired at the conclusion of the 38th annual General Meeting of Shareholders on June 25, 2008.
2. The amount paid presented above comprises remuneration, directors' bonuses and retirement benefit for officers that were either paid or set aside during the fiscal year under review.
3. The amount of ¥107 million was paid to a board member who retired at the conclusion of the 38th annual General Meeting of Shareholders on June 25, 2008. This figure includes the incremental amount in the accrued retirement benefit for officers disclosed in the securities report during and prior to the fiscal year under review.

Details about the Accounting Auditors

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

Accounting auditors	Kenji Yumoto, Hiroaki Kosugi
Composition of auditors	6 certified public accountants 10 assistant auditors

Note: Ernst & Young ShinNihon became Ernst & Young ShinNihon LLC due to its transition into a limited liability corporation effective July 1, 2008.

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.

In addition, the Articles of Incorporation stipulate that a resolution for appointment cannot be approved through accumulative voting.

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 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 by 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 running of the General Meeting of Shareholders.

Details of compensation paid to certified public accountants

Class	Previous fiscal year		Fiscal year under review	
	Compensation based on auditing and attestation	Compensation based on other services	Compensation based on auditing and attestation	Compensation based on other services
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Company submitting the statement	—	—	57	0
Consolidated subsidiaries	—	—	22	3
Total	—	—	79	4

Details about Other Important Compensation

Consolidated subsidiary Japan Canada Oil Sands Limited paid ¥9 million to Ernst & Young LLP, which belongs to the same network of certified public accountants of the Company, for auditing and attestation services. The Company has not paid compensation to Ernst & Young LLP during the fiscal year under review.

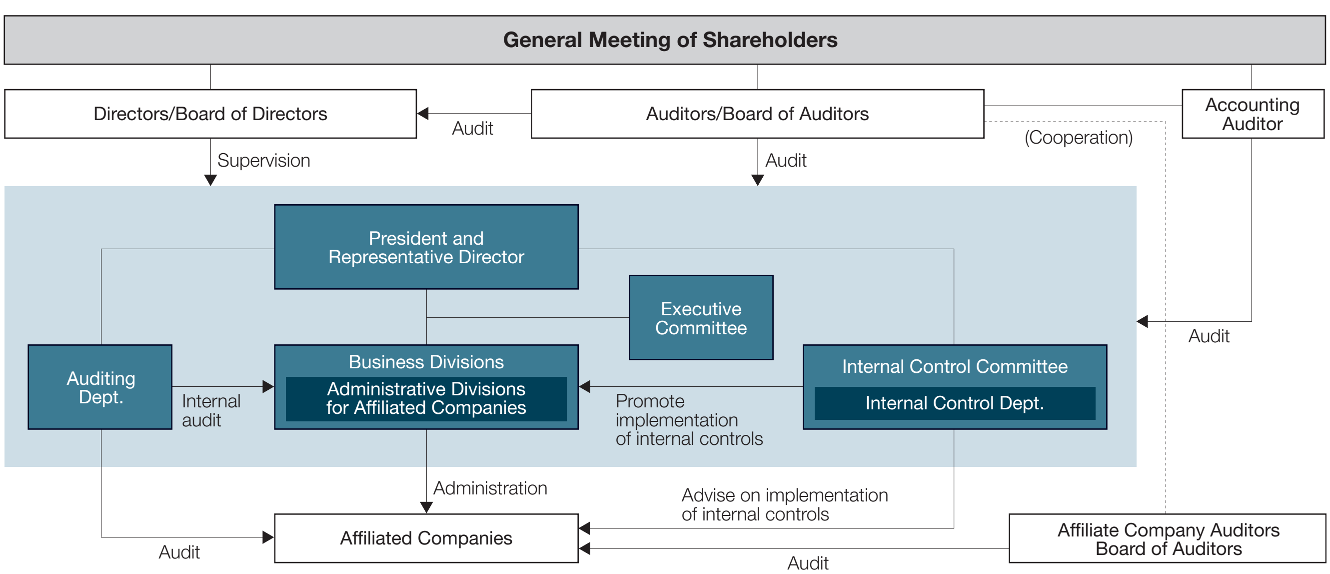
Details about services other than auditing and attestation related to reports submitted by certified public accountants

Details of services other than auditing and attestation for which the Company pays compensation to certified public accountants pertain to advice and guidance on internal controls related to financial statements.

Policy on deciding compensation for auditors

While there are no applicable items, compensation is determined through consideration for the days required for the audit and other factors.

Corporate Governance and Internal Control Structure



FINANCIAL SECTION

SIX-YEAR SUMMARY

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

	2009	2008	2007	2006	2005	2004
						Millions of yen
For the year						
Net sales	**¥ 202,127**	¥ 207,638	¥ 170,018	¥ 138,796	¥ 103,150	¥ 96,713
Cost of sales	**134,447**	143,682	104,174	77,433	61,046	58,060
Exploration expenses	**15,352**	13,559	8,178	9,677	6,127	5,213
Selling, general and administrative expenses	**32,237**	30,770	27,946	24,666	21,298	20,990
Operating income	**20,090**	19,625	29,719	27,018	14,678	12,449
Net income	**12,560**	20,097	20,982	20,216	13,234	9,960
Capital expenditures	**30,902**	41,742	31,746	19,934	13,587	16,735
Depreciation and amortization	**21,521**	16,669	14,938	13,951	14,081	11,043
At year-end						
Total assets	**¥ 500,444**	¥ 620,946	¥ 578,059	¥ 532,516	¥ 393,733	¥ 246,765
Net assets (formerly Shareholders' equity)*1	**378,227**	448,226	418,929	386,222	293,152	195,715
Long-term loans payable	**25,325**	21,922	17,722	15,000	15,973	11,909
						Yen
Per share data						
Net assets per share	**¥6,486.85**	¥7,696.00	¥7,185.80	¥6,756.00	¥5,127.67	¥3,422.80
Net income per share	**219.77**	351.65	367.12	352.11	230.50	172.76
Cash dividends per share	**40.00**	40.00	40.00	40.00	37.50	35.00
Other data						
Number of employees	**1,678**	1,622	1,557	1,481	1,470	1,388

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

Scope of Operations

The JAPEX Group (the Company and its subsidiaries and affiliates) comprises the Company, 23 subsidiaries and 16 affiliates as of March 31, 2009. 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 2009, ended March 31, 2009, net sales were ¥202,127 million, a decrease of ¥5,510 million year on year. Operating income was ¥20,090 million, an increase of ¥464 million year on year, and net income was ¥12,560 million, a fall of ¥7,537 million.

Crude Oil Prices and Foreign Exchange Rates

The average unit sales price of crude oil received by JAPEX during fiscal 2009 in terms of year-round average sales price was ¥53,567/kl, a decrease of ¥4,205/kl compared to the previous fiscal year, reflecting the rapid decline since autumn 2008.

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 based on the Japan Crude Cocktail (JCC) price was $89.71 per barrel, up $13.50 from the level per barrel of the previous fiscal year. Compared to the previous fiscal year, the yen appreciated ¥12.10 relative to the U.S. dollar, to a weighted average exchange rate of ¥102.56.

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 linked to changes in the purchase price.

Capital Expenditures and Depreciation

Capital expenditures decreased ¥10,840 million year on year to ¥30,902 million. Major components of these expenditures included the drilling of production wells in Hokkaido and Niigata and the construction of new production facilities. Depreciation and amortization expenses rose ¥4,851 million from the previous fiscal year to ¥21,521 million.

Exploration Activities

Exploration expenses increased ¥1,793 million year on year to ¥15,352 million. The increase was primarily attributable to offshore exploration drilling of three wells in Niigata Prefecture and one well each in Hokkaido and Akita. Overseas, the Company drilled an exploration well in the Philippines and conducted seismic surveys in Indonesia.

Net Sales

In fiscal 2009, net sales in the E&P Division totaled ¥183,471 million, accounting for 90.8% of the total. Net sales in the Contract Services Division were ¥4,739 million, or 2.3% of the total. Net sales in the Other Businesses Division were ¥13,916 million, representing 6.9% of the total.

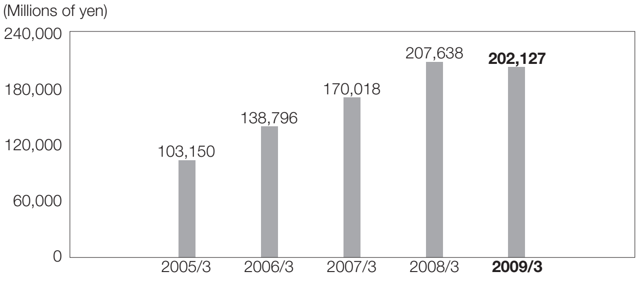
• E&P Division

The E&P Division, which sells crude oil, natural gas, liquefied natural gas (LNG) and bitumen, recorded net sales of ¥183,471 million in fiscal 2009, a decrease of ¥4,188 million from the previous fiscal year. This loss was due to decreases in the purchase and sales volume of Sakhalin crude oil (SOKOL crude) and the year-round average sales price of crude oil, outpacing increases in the sales price of natural gas and bitumen.

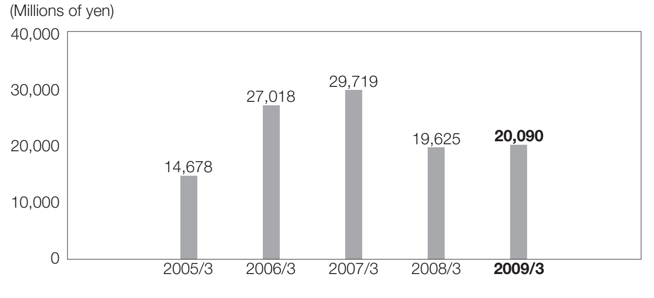
The volume of crude oil sales decreased 121 thousand kl to 1,919 thousand kl. This was primarily attributable to decreases in the purchase and sales volume of SOKOL crude. Total crude oil sales decreased ¥15,077 million year on year to ¥102,845 million.

The volume of natural gas sales remained little changed at 1,485 million m^3 after falling 0.9 million m^3 year on year. This decrease, however, was offset by the unit sales price, which rose ¥3.48/m^3 to ¥36.43/m^3. As a result, sales of natural gas grew ¥5,143 million to ¥54,126 million. This was primarily due to revisions in the price for local distribution companies and industrial customers, as well as to the rise in sales price associated with the adoption of a pricing

Net Sales



Operating Income



formula linked to the Japan LNG Cocktail (JLC) price.

Sales volume for LNG increased 6 thousand tons year on year to 177 thousand tons. In monetary terms, LNG sales increased ¥3,126 million to ¥13,412 million.

Sales volume for bitumen increased 7 thousand kl year on year to 417 thousand kl. In monetary terms, bitumen sales increased ¥2,618 million to ¥13,087 million.

• Contract Services Division

The Contract Services Division, which is primarily involved in drilling and geophysical surveys, recorded net sales of ¥4,739 million in the fiscal year under review, a decrease of ¥655 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 ¥13,916 million, a decrease of ¥666 million from the preceding fiscal year.

Operating Expenses

The cost of sales fell ¥9,235 million to ¥134,447 million. The decrease was principally attributable to a fall in procurement volume of SOKOL crude purchased from SODECO.

Selling, general and administrative (SG&A) expenses rose ¥1,466 million to ¥32,237 million. This increase was primarily the result of a rise in the Special Petroleum Gain Levy imposed on the sales price on crude oil in China and an increase in domestic product transportation costs. Please see the Exploration Activities section for information on exploration expenses.

As a result of these factors, operating income increased ¥464 million from the previous fiscal year to ¥20,090 million.

Income Before Income Taxes

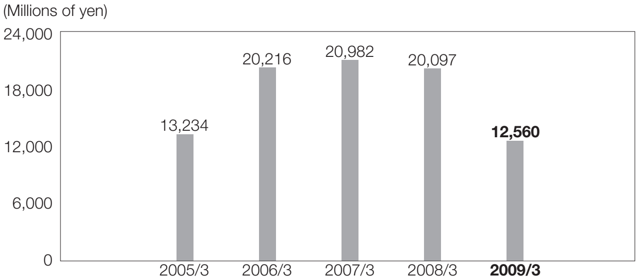
Dividends income increased mainly due to an increase in annual dividends received from SODECO, net equity in earnings of affiliates accounted for under the equity method went from an increase in the previous fiscal year to a loss. As a result, other income decreased from the previous fiscal year. In other expenses, revised well abandonment plans in Niigata led to an increase in the provision for cost of abandonment. A posting of a loss on retirement of noncurrent assets and an impairment loss as extraordinary loss resulted from the abandoning of a portion of the Numanohata SK-8D well due to its inability to produce a commercial quantity. The well was spudded in May 2008 for production drilling at the Yufutsu oil and gas field in Hokkaido. Due to these and other factors, income before income taxes decreased ¥9,196 million year on year to ¥17,108 million.

Net Income

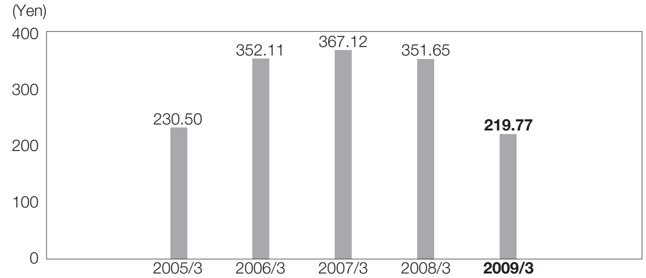
For the year under review, the total of current and deferred income taxes was ¥3,565 million, or 20.8% of income before income taxes of ¥17,108 million. This was 15.4 percentage points below the Company's statutory tax rate of 36.2%. In accordance with the exploration reserve system (Article 58 of the 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 of exploration work (reserve for exploration) is exempt from taxes if conditions set out in the tax laws are met. The Company also utilized tax loss carried forward for consolidated subsidiaries. The statutory tax rate applicable to the Company is less than the standard statutory tax rate (about 40%) because 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 ¥12,560 million, down ¥7,537 million year on year.

Net Income



Net Income per Share



Financial Position

Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year stood at ¥500,444 million, a decrease of ¥120,502 million from the previous fiscal year-end. Total current assets grew ¥8,111 million to ¥97,120 million, while total noncurrent assets declined ¥128,613 million to ¥403,324 million.

The change in total current assets was primarily attributable to decreases in short-term investment securities due to redemptions for commercial paper and in notes and accounts receivable-trade, among other factors, despite a higher balance in gensaki transactions (transactions with a repurchase or resale agreement) included in other current assets.

In total noncurrent assets, total property, plant and equipment rose ¥1,604 million. Factors for the increase, such as the drilling of offshore and onshore production wells in Niigata along with an expansion of production facilities at the Yufutsu oil and gas field in Hokkaido, were greater than factors causing a decrease, such as depreciation expenses. Total intangible assets declined ¥1,786 million, due mainly to amortization of goodwill. Total investments and other assets fell ¥128,431 million, primarily due to a revaluation of the market value of the stock of INPEX Corporation.

Total liabilities at fiscal year-end fell ¥50,503 million to ¥122,216 million. This decrease was mainly due to a decrease in deferred tax liabilities following the revaluation of the market value of investment securities.

Total net assets declined ¥69,998 million to ¥378,227 million, mainly as a result of a fall in valuation difference on available-for-sale securities and in foreign currency translation adjustment.

As a result, the shareholders' equity ratio at the end of the fiscal year was 74.1%.

Cash Flows

As of March 31, 2009, cash and cash equivalents totaled ¥51,975 million, up ¥9,534 million from the end of the previous fiscal year.

Cash Provided by Operating Activities

Net cash provided by operating activities was ¥36,381 million. This was mainly attributable to ¥17,108 million in income before income taxes, ¥21,521 million in depreciation and amortization and ¥6,845 million in income taxes paid.

Cash Used in Investing Activities

Net cash used in investing activities amounted to ¥23,342 million. The main factors were ¥28,012 million for purchase of property, plant and equipment, as mentioned above, ¥6,064 million in payments of loans receivable mainly to Kangean Energy Indonesia Ltd. (KEI) and EMP Exploration (Kangean) Ltd. (EMPE), both equity-method affiliates which are subsidiaries of Energi Mega Pratama Inc., and ¥9,039 million in proceeds from sales and redemption of investment securities.

Cash Used in Financing Activities

Net cash used in financing activities amounted to ¥477 million as a result of proceeds from long-tem loans payable of ¥6,014 million to be directed for investment in KEI and EMPE exceeding the total of the items of expenses such as ¥2,284 million in cash dividends paid and a ¥2,278 million repayment of long-term loans payable.

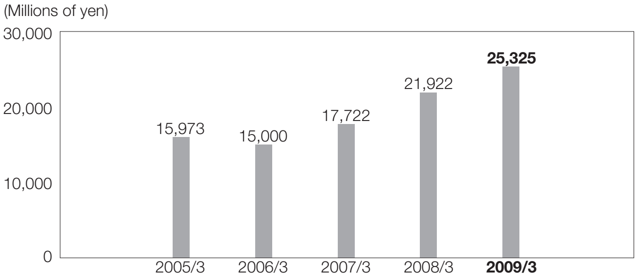
Reserves of the JAPEX Group

As of March 31, 2009, proved reserves owned by the Company and its consolidated subsidiaries along with the Company's investment equivalent in proved reserves of equity-method affiliates are shown on the facing page.

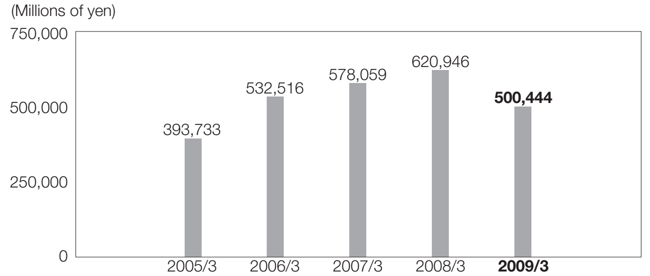
These proved reserves are estimated quantities of oil and gas under surface conditions that geological and engineering data demonstrate with reasonable certainty to be recoverable from known oil and gas reservoirs under existing economic and operating conditions. They do not include past production or resources related to undiscovered deposits.

Reserves conform to the Petroleum Resources Management System 2007 (PRMS), the international standards defined in 2007 by four organizations: the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the American Association

Long-term Loans Payable



Total Assets



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 the PRMS. 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

Reserves of the JAPEX Group

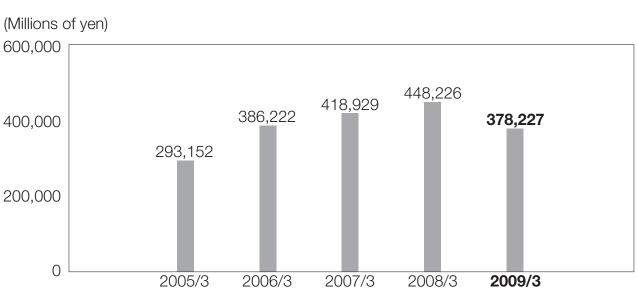
Proved reserves	The Company and its consolidated subsidiaries						Equity-method affiliates		Total	
	Japan		Overseas		Subtotal					
	Crude oil (Thousand kl)	Gas (Million m3)	Crude oil (Thousand kl)	Gas (Million m3)	Crude oil (Thousand kl)	Gas (Million m3)	Crude oil (Thousand kl)	Gas (Million m3)	Crude oil (Thousand kl)	Gas (Million m3)
As of March 31, 2008	4,966	19,128	2,556	2,108	7,522	21,236	464	6,536	7,986	27,771
Increase due to expansion or discovery	—	—	—	—	—	—	—	—	—	—
Changes due to revision of evaluation standard	3,324	8,352	976	(672)	4,300	7,680	(251)	(1,660)	4,049	6,020
Changes due to acquisition and divestitures	—	—	—	—	—	—	—	—	—	—
Decrease due to production	(611)	(1,326)	(471)	(41)	(1,082)	(1,367)	(18)	(154)	(1,100)	(1,521)
As of March 31, 2009	7,679	26,154	3,061	1,395	10,740	27,549	195	4,722	10,935	32,271

Reference: Reserves of the JAPEX Group (crude oil equivalent)

Proved reserves	The Company and its consolidated subsidiaries						Equity-method affiliates		Total	
	Japan		Overseas		Subtotal					
	Crude oil (mmbbl)	Gas (mmboe)	Crude oil (mmbbl)	Gas (mmboe)	Crude oil (mmbbl)	Gas (mmboe)	Crude oil (mmbbl)	Gas (mmboe)	Crude oil (mmbbl)	Gas (mmboe)
As of March 31, 2008	31	120	16	13	47	134	3	41	50	175
Increase due to expansion or discovery	—	—	—	—	—	—	—	—	—	—
Changes due to revision of evaluation standard	21	53	6	(4)	27	48	(2)	(10)	25	38
Changes due to acquisition and divestitures	—	—	—	—	—	—	—	—	—	—
Decrease due to production	(4)	(8)	(3)	(0)	(7)	(9)	(0)	(1)	(7)	(10)
As of March 31, 2009	48	165	19	9	68	173	1	30	69	203

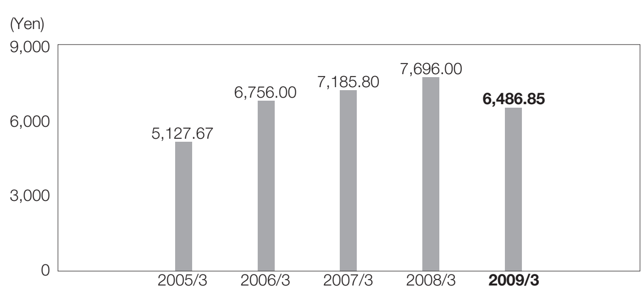
Notes: 1. Figures for crude oil include bitumen, an extra-heavy oil extracted from oil sands.
2. Proved reserves of consolidated companies include reserves held by minority interests.

Net Assets (Formerly Shareholders' Equity)*



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

Net Assets per Share



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 PRMS 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 the PRMS, but the recognized evaluation methods are different, and the SEC only defines "proved reserves."*1

Based on its judgment, the Company has been disclosing data that conforms to the PRMS definition of "proved reserves." The Company in 2008 revised part of its evaluations and judgments to more stringently apply PRMS standards. Until the previous fiscal year, it had been counting reserves owned by overseas project companies based on figures in accordance with its working interest. However, in 2008 the Company revised these figures based on the economic share of each project company as defined in agreements signed with the respective local governments. Changes resulting from this revision have been shown in the table on the previous page under "Changes due to revision of evaluation standard."

To verify its own evaluations and judgments of reserves, the Company contracted Ryder Scott Company Petroleum Consultants to examine 75% of the proved reserves in Japan of the Company and its consolidated subsidiaries*2 as of March 31, 2009, as shown in the table on the previous page for third-party evaluation and appraisal. Overseas, 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. In addition, with respect to Kangean Energy Indonesia Ltd., an equity-method affiliate, the Company received third-party evaluation from Gaffney, Cline & Associates (Consultants) Pte Ltd. The Company has therefore received third-party evaluations for approximately 77% of total proved reserves (10,935 thousand kl of crude oil and 32,271 million m^3 of gas)*3 as of the fiscal year under review, as shown in the table on the previous page. The Company believes 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. Such reserves may be reviewed based on data obtained in the future, changes in economic conditions, or changes in internationally recognized definitions and are thus subject to upward or downward revision in the future.

*1 The SEC released an announcement in December 2008 concerning the revision of existing standards. Based on this revision, evaluation standards for reserves used in reports submitted to the SEC will be generally closer to PRMS standards, while new definitions for "probable reserves" and "possible reserves" are also in progress.

*2 Calculations are based on a conversion factor of 1 thousand kl for crude oil = 1 million m^3 for natural gas.

*3 Same as above.

Risk Factors

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

Business Risks

The exploration stage of business operations, from initial surveys to 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 geological uncertainties, such as unexpected declines in reserves and production volume and unanticipated levels of impurities.

Factors Affecting the Sales of Crude Oil

The price of crude oil sold in Japan is determined by international crude oil prices, and the market could 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 impact 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. However, over the past few years there has been a growing trend toward contracts in which price is determined according to the market price of LNG, and therefore the price may be affected by fluctuations in international market prices or foreign exchange. 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 volume. 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.

Fluctuations in Earnings Due to the Level of Exploration Investment

Exploration, development and sales constitute the backbone of the JAPEX Group, and it is important that the Company reinforce its framework for ensuring the stable, long-term supply of crude oil and natural gas by maintaining and expanding reserves that become depleted by production and sales. 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 as 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 affect on Group earnings.

Impact 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 the energy market will generate fiercer price competition, and there is a possibility that this will impact the Group's natural gas sales.

Overseas Business Risks

As the Company's overseas business progresses from the stage of exploration to development, it may require substantial investments (capital investments or loans), which may affect the financial condition of the Company. 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 all or part of the borrowings. Should the financial position of such a project company deteriorate and it defaults on its obligation, the Company could be required to fulfill this obligation in the guaranteed amount. Further, oil resource development in general is predisposed to have a portion of overseas business conducted in areas with a relatively high level of country risk. There is a possibility that the overseas business of the Group could be adversely affected by political or economic turmoil in these countries, as well as by their respective legal systems, tax structures, political policies or other factors.

Fluctuations in the Stock Price of INPEX Corporation

As of the end of March 2009, the Company owned 11.33% of the stock of INPEX Corporation. The JAPEX Group's balance of investment securities at the end of the fiscal year ended March 2009 was ¥241,945 million. Of this amount, shares of INPEX Corporation accounted for ¥182,520 million. As is the case with the JAPEX Group, the results of operations and stock price of INPEX Corporation are affected by such factors as trends in crude oil prices. Accordingly, in the event of fluctuations in INPEX Corporation's stock price, there is a possibility that the Group's financial position could be affected.

JAPEX Shares Held by the Government

The Company listed its stock on the First Section of the Tokyo Stock Exchange on December 2003, after the Japan National Oil Corporation sold a portion of its holdings of the Company's stock. As a result, its share of stockholdings in the Company fell from 65.74% to 49.94%. Following the abolition of the Corporation, stock it owned in the Corporation was transferred to the government (Minister of Economy, Trade and Industry) as of April 1, 2005. The government subsequently sold 15.94% of its stockholdings in the Company through a stock sale with a date of delivery of June 15, 2007, and as a result, the Ministry's stockholding in the Company has fallen to and remains at 34.00%. 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.

There is a memorandum that stipulates consultation between the government and the Company 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 independent 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, 2009 and 2008

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
ASSETS			
Current assets:			
Cash and deposits (Note 17)	¥ 27,702	¥ 27,794	$ 282,681
Notes and accounts receivable-trade	17,050	25,865	173,988
Short-term investment securities (Notes 4 and 17)	11,510	17,724	117,456
Merchandise and finished goods (Note 3)	4,255	3,921	43,424
Work in process (Note 3)	553	271	5,651
Raw materials and supplies (Note 3)	6,200	6,299	63,269
Deferred tax assets (Note 6)	1,315	2,295	13,419
Other	28,543	4,846	291,265
Less — allowance for doubtful accounts	(12)	(10)	(132)
Total current assets	97,120	89,008	991,021
Noncurrent assets:			
Property, plant and equipment:			
Land	15,338	15,305	156,516
Buildings and structures	142,900	139,690	1,458,167
Wells	59,115	54,140	603,218
Machinery, equipment and vehicles	101,561	83,059	1,036,337
Construction in progress (Note 14)	4,790	12,893	48,887
Other	14,310	13,860	146,025
Less — accumulated depreciation	(195,249)	(177,788)	(1,992,340)
Total property, plant and equipment	142,767	141,162	1,456,810
Intangible assets:			
Goodwill	1,063	2,092	10,851
Other	3,328	4,086	33,968
Total intangible assets	4,392	6,179	44,819
Investments and other assets:			
Investment securities (Note 4)	241,945	376,137	2,468,831
Long-term loans receivable	13,432	7,489	137,067
Long-term accounts receivable — other	70	2,065	718
Deferred tax assets (Note 6)	648	749	6,619
Other	5,939	5,872	60,610
Less — allowance for doubtful accounts	(68)	(97)	(698)
Less — allowance for overseas investment loss	(5,803)	(7,621)	(59,224)
Total investments and other assets	256,164	384,595	2,613,923
Total noncurrent assets	403,324	531,937	4,115,552
Total assets	¥ 500,444	¥ 620,946	$ 5,106,573

See notes to consolidated financial statements.

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable — trade	**¥ 6,508**	¥ 13,469	**$ 66,414**
Income taxes payable	**392**	1,414	**4,009**
Provision for directors' bonuses	**93**	102	**957**
Provision for loss on disaster	**188**	487	**1,924**
Other (Notes 5 and 6)	**16,909**	23,382	**172,546**
Total current liabilities	**24,093**	38,857	**245,850**
Noncurrent liabilities:			
Long-term loans payable (Note 5)	**25,325**	21,922	**258,425**
Deferred tax liabilities (Note 6)	**60,108**	101,477	**613,357**
Provision for retirement benefits (Note 7)	**5,732**	5,272	**58,496**
Provision for directors' retirement benefits	**559**	511	**5,709**
Provision for cost of abandonment	**5,725**	4,126	**58,426**
Provision for loss on business of subsidiaries and affiliates	**35**	310	**361**
Other (Note 5)	**635**	241	**6,481**
Total noncurrent liabilities	**98,123**	133,862	**1,001,255**
Total liabilities	**122,216**	172,720	**1,247,105**
Commitment and contingent liabilities (Notes 9, 10 and 11)			
Net assets (Note 8)**:**			
Shareholders' equity:			
Capital stock:			
Authorized — 120,000,000 shares			
Issued — 57,154,776 shares in 2009 and 2008	**14,288**	14,288	**145,803**
Retained earnings	**255,499**	245,225	**2,607,136**
Treasury stock: 1,783 shares in 2009 and 1,407 shares in 2008	**(9)**	(7)	**(96)**
Total shareholders' equity	**269,778**	259,506	**2,752,843**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**105,430**	179,629	**1,075,819**
Deferred gains or losses on hedges	**(0)**	(0)	**(2)**
Foreign currency translation adjustment	**(4,465)**	716	**(45,568)**
Total valuation and translation adjustments	**100,964**	180,346	**1,030,249**
Minority interests	**7,484**	8,373	**76,376**
Total net assets	**378,227**	448,226	**3,859,468**
Total liabilities and net assets	**¥500,444**	¥620,946	**$5,106,573**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥202,127	¥207,638	$2,062,525
Cost of sales (Note 3)	134,447	143,682	1,371,910
Gross profit	67,680	63,955	690,615
Exploration expenses	16,272	13,856	166,048
Exploration subsidies	(920)	(297)	(9,390)
	15,352	13,559	156,658
Selling, general and administrative expenses (Note 13)	32,237	30,770	328,950
Operating income	20,090	19,625	205,007
Other income (expenses):			
Interest income	1,253	1,606	12,794
Dividends income	5,823	5,184	59,426
Gain (loss) on sales of securities, net	57	(87)	591
Equity in earnings (losses) of affiliates, net	(270)	2,193	(2,763)
Reversal of allowance for overseas investment loss	—	1,110	—
Reversal of provision for loss on business of subsidiaries and affiliates	275	291	2,808
Interest expenses	(494)	(313)	(5,044)
Loss on valuation of securities	(1,805)	(1,578)	(18,418)
Provision for cost of abandonment	(2,055)	(748)	(20,980)
Foreign exchange gains (losses)	(1,886)	(1,242)	(19,246)
Subsidy	191	—	1,950
Loss on retirement of noncurrent assets	(2,986)	(218)	(30,472)
Impairment loss (Note 14)	(2,312)	(17)	(23,592)
Loss on disaster	—	(709)	—
Other, net	1,226	1,207	12,511
	(2,982)	6,679	(30,435)
Income before income taxes	17,108	26,305	174,572
Income taxes (Note 6)**:**			
Income taxes-current	1,879	6,165	19,181
Income taxes-deferred	1,686	(738)	17,206
	3,565	5,426	36,387
Minority interests in income	981	780	10,017
Net income (Note 16)	¥ 12,560	¥ 20,097	$ 128,168

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
Shareholders' equity			
Capital stock			
Balance at the end of previous period	¥ 14,288	¥ 14,288	$ 145,803
Balance at the end of current period	¥ 14,288	¥ 14,288	$ 145,803
Retained earnings			
Balance at the end of previous period	¥245,225	¥227,413	$2,502,296
Changes of items during the period			
Dividends from surplus	(2,286)	(2,286)	(23,328)
Net income	12,560	20,097	128,168
Total changes of items during the period	10,274	17,811	104,840
Balance at the end of current period	¥255,499	¥245,225	$2,607,136
Treasury stock			
Balance at the end of previous period	¥ (7)	¥ (5)	$ (75)
Changes of items during the period			
Purchase of treasury stock	(2)	(1)	(21)
Total changes of items during the period	(2)	(1)	(21)
Balance at the end of current period	¥ (9)	¥ (7)	$ (96)
Total shareholders' equity			
Balance at the end of previous period	¥259,506	¥241,696	$2,648,024
Changes of items during the period			
Dividends from surplus	(2,286)	(2,286)	(23,328)
Net income	12,560	20,097	128,168
Purchase of treasury stock	(2)	(1)	(21)
Total changes of items during the period	10,272	17,810	104,819
Balance at the end of current period	¥269,778	¥259,506	$2,752,843

See notes to consolidated financial statements.

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
Valuation and translation adjustments			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	¥179,629	¥168,234	$1,832,956
Changes of items during the period			
Net changes of items other than shareholders' equity	(74,199)	11,394	(757,137)
Total changes of items during the period	(74,199)	11,394	(757,137)
Balance at the end of current period	¥105,430	¥179,629	$1,075,819
Deferred gains or losses on hedges			
Balance at the end of previous period	¥ (0)	¥ 55	$ (2)
Changes of items during the period			
Net changes of items other than shareholders' equity	—	(56)	—
Total changes of items during the period	—	(56)	—
Balance at the end of current period	¥ (0)	¥ (0)	$ (2)
Foreign currency translation adjustment			
Balance at the end of previous period	¥ 716	¥ 707	$ 7,311
Changes of items during the period			
Net changes of items other than shareholders' equity	(5,182)	9	(52,879)
Total changes of items during the period	(5,182)	9	(52,879)
Balance at the end of current period	¥ (4,465)	¥ 716	$ (45,568)
Total valuation and translation adjustments			
Balance at the end of previous period	¥180,346	¥168,997	$1,840,265
Changes of items during the period			
Net changes of items other than shareholders' equity	(79,381)	11,348	(810,016)
Total changes of items during the period	(79,381)	11,348	(810,016)
Balance at the end of current period	¥100,964	¥180,346	$1,030,249
Minority interests			
Balance at the end of previous period	¥ 8,373	¥ 8,234	$ 85,447
Changes of items during the period			
Net changes of items other than shareholders' equity	(888)	138	(9,071)
Total changes of items during the period	(888)	138	(9,071)
Balance at the end of current period	¥ 7,484	¥ 8,373	$ 76,376
Total net assets			
Balance at the end of previous period	¥448,226	¥418,929	$4,573,736
Changes of items during the period			
Dividends from surplus	(2,286)	(2,286)	(23,328)
Net income	12,560	20,097	128,168
Purchase of treasury stock	(2)	(1)	(21)
Net changes of items other than shareholders' equity	(80,270)	11,487	(819,087)
Total changes of items during the period	(69,998)	29,297	(714,268)
Balance at the end of current period	¥378,227	¥448,226	$3,859,468

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
Cash provided by (used in) operating activities:			
Income before income taxes	¥ 17,108	¥ 26,305	$ 174,572
Depreciation and amortization	21,521	16,669	219,602
Impairment loss	2,312	17	23,592
Amortization of goodwill	1,014	1,029	10,355
Loss on retirement of property, plant and equipment	2,964	218	30,252
Loss (gain) on valuation of short-term and long term investment securities	1,805	1,578	18,418
Increase (decrease) in allowance for doubtful accounts	(26)	(0)	(268)
Increase (decrease) in provision for retirement benefits	459	(161)	4,692
Increase (decrease) in provision for directors' retirement benefits	47	(96)	488
Increase (decrease) in provision for cost of abandonment	1,870	602	19,085
Increase (decrease) in allowance for overseas investment loss and provision for loss on business of subsidiaries and affiliates	(2,092)	(2,005)	(21,351)
Interest and dividends income	(7,077)	(6,791)	(72,220)
Interest expenses	494	313	5,044
Loss (gain) on redemption of securities	81	18	833
Loss (gain) on redemption of investment securities	39	(309)	406
Loss (gain) on sales of short-term and long term investment securities	(57)	87	(591)
Equity in (earnings) losses of affiliates	270	(2,193)	2,763
Decrease (increase) in notes and accounts receivable-trade	8,511	(1,161)	86,849
Decrease (increase) in inventories	(517)	(1,808)	(5,280)
Increase (decrease) in notes and accounts payable-trade	(11,410)	5,962	(116,435)
Increase (decrease) in accrued consumption taxes	(383)	332	(3,917)
Other, net	4,966	2,740	50,677
Subtotal	41,901	41,345	427,566
Proceeds from collection of claim for indemnity of debt guarantee	1,134	1,568	11,573
Other proceeds	191	—	1,950
Income taxes (paid) refund	(6,845)	(8,599)	(69,848)
Net cash provided by (used in) operating activities	36,381	34,314	371,241

See notes to consolidated financial statements.

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars (Note 1)
Cash provided by (used in) investing activities:			
Payments into time deposits	¥ (8,306)	¥ (8,096)	$ (84,758)
Proceeds from withdrawal of time deposits	2,572	10,934	26,252
Proceeds from sales and redemption of securities	2,246	1,078	22,923
Purchase of property, plant and equipment	(28,012)	(43,702)	(285,847)
Proceeds from sales of property, plant and equipment	20	7	207
Purchase of intangible assets	(593)	(613)	(6,053)
Purchase of investment securities	(2,607)	(21,808)	(26,606)
Proceeds from sales and redemption of investment securities	9,039	7,573	92,240
Payments of loans receivable	(6,064)	(7,929)	(61,881)
Collection of loans receivable	312	340	3,187
Interest and dividends income received	7,607	7,532	77,626
Proceeds from dividends of residual property	—	2	—
Other, net	442	1,510	4,516
Net cash provided by (used in) investing activities	(23,342)	(53,169)	(238,194)
Cash provided by (used in) financing activities:			
Proceeds from long-term loans payable	6,014	6,935	61,375
Repayment of long-term loans payable	(2,278)	(2,278)	(23,245)
Purchase of treasury stock	(2)	(1)	(21)
Cash dividends paid	(2,284)	(2,285)	(23,314)
Cash dividends paid to minority shareholders	(1,387)	(306)	(14,160)
Interest expenses paid	(514)	(231)	(5,252)
Payment of dividends in liquidation of subsidiary to minority shareholders	—	(310)	—
Other, net	(25)	—	(259)
Net cash provided by (used in) financing activities	(477)	1,522	(4,876)
Effect of exchange rate change on cash and cash equivalents	(3,025)	(426)	(30,877)
Net increase (decrease) in cash and cash equivalents	9,534	(17,758)	97,294
Cash and cash equivalents at beginning of period	42,440	60,199	433,070
Cash and cash equivalents at end of period (Note 17)	¥ 51,975	¥ 42,440	$ 530,364

See notes to consolidated financial statements.

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 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 2008 financial statements to conform to the classifications used in 2009.

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 ¥98=U.S.$1, the approximate rate of exchange at March 31, 2009. 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 unconsolidated subsidiaries and affiliates

The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 20 significant (20 in 2008) 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 2008) unconsolidated subsidiaries and 10 (10 in 2008) affiliates are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliates 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 Group considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(4) Short-term Investment Securities and Investment 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

Merchandise and finished goods are mainly stated at cost determined by the first-in, first-out method and raw materials and supplies are mainly stated at cost determined by the moving average method.

However, inventories held for sale in the ordinary course of business are 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 Group adopted the new accounting standard for measurement of inventories in the year ended March 31, 2008.

(6) Property, plant and equipment and depreciation

Depreciation of property, plant and equipment is computed mainly by the declining-balance method, except for buildings acquired on and after April 1, 1998 as well as the Sendai pipelines, the Shiroishi-Koriyama pipelines, and the production and sales assets of the 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 held by two domestic consolidated subsidiaries is computed by the straight-line method and 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, equipment and vehicles	2 to 20 years

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the useful life of certain machinery in line with the revised corporate tax law. The effect of this change was not material.

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. As a result, income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥310 million compared with the previous method.

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. As a result, income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥346 million compared with the previous method.

(7) Intangible 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

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued on June 17, 1993.

The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that transfered ownership of the leased assets to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain" as if capitalized" information was disclosed in the notes to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions are capitalized to recognize leased assets and lease obligations in the balance sheet, in principle.

In addition, the accounting standard permits lease transactions that had been in existence at the transition date and do not transfer ownership of the leased assets to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard for the year ended March 31, 2009.

The effect of this change was not material.

For the year ended March 31, 2009, for finance leases which do not transfer ownership of the leased assets to the lessee, leased assets are depreciated by the straight-line method over the lease period.

In addition, the Group accounted for lease transactions that had been in existence at the transition date and do not transfer ownership of the leased assets to the lessee as operating lease transactions.

(10) Impairment of noncurrent assets

The Group reviews its noncurrent assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable.

An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(11) Provision for 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.

(12) Provision for directors' retirement benefits

Directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to severance payments under their respective retirement benefit plans. Provision for directors' retirement benefits is made at an estimated amount in accordance with the intercompany regulations as of the balance sheet date.

(13) 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.

(14) Provision for directors' bonuses

The provision for directors' bonuses is provided at the expected payment amount for the year-end.

(15) Allowance for overseas investment loss

The allowance for overseas investment loss 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.

(16) Provision for cost of abandonment

The provision for 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.

(17) Provision for loss on business of subsidiaries and affiliates

The provision for loss on business of subsidiaries and affiliates 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.

(18) Provision for loss on disaster

The provision for loss on disaster is provided for payments of restoration costs on the Niigata Chuetsu-Oki Earthquake in 2007 at an amount estimated at the fiscal year-end.

(19) Hedge accounting

Deferral hedge accounting is adopted for hedge transactions.

For interest rate swaps that meet certain criteria, exceptional treatment is applied.

For foreign exchange forward contracts that meet certain criteria, the allocation method is applied.

In addition, the nominal amount of the derivative transaction is limited to within the scope of actual demand, and the Group does not engage in speculative derivative transactions.

(20) Research and development expenses

Research and development expenses are charged to income when incurred.

(21) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No.18 was effective for fiscal years beginning on or after April 1, 2008.

The Company applied this accounting standard in the year ended March 31, 2009.

There was no effect of adoption of this accounting standard on income before income taxes compared with the previous standard.

3. Inventories

The amount of book value reduced by decreased profitability included in cost of sales for the years ended March 31, 2009 and 2008 was ¥601 million ($6,135 thousand) and ¥1,195 million, respectively.

4. Short-term Investment Securities and Investment Securities

Securities held by the Group are all classified as available-for-sale securities.

(a) The carrying amounts and fair values of available-for-sale securities as of March 31, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2009	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥24,202	¥189,286	¥165,083	$246,967	$1,931,495	$1,684,528
Debt securities:						
Government bonds	1,439	1,548	109	14,687	15,800	1,113
Corporate bonds	—	—	—	—	—	—
Other debt securities	100	100	0	1,020	1,025	5
Other	1,867	2,171	303	19,061	22,160	3,099
Subtotal	27,610	193,107	165,497	281,735	1,970,480	1,688,745
Securities whose acquisition cost exceeds or is equal to their carrying value:						
Equity securities	1,572	1,475	(96)	16,048	15,059	(989)
Debt securities:						
Government bonds	812	698	(113)	8,290	7,131	(1,159)
Corporate bonds	2,634	2,473	(161)	26,881	25,238	(1,643)
Other debt securities	5,395	5,176	(218)	55,053	52,825	(2,228)
Other	2,070	1,924	(146)	21,127	19,637	(1,490)
Subtotal	12,485	11,749	(735)	127,399	119,890	(7,509)
Total	¥40,095	¥204,856	¥164,761	$409,134	$2,090,370	$1,681,236

	Millions of yen		
March 31, 2008	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥26,744	¥307,502	¥280,757
Debt securities:			
Government bonds	2,146	2,337	190
Corporate bonds	708	767	59
Other debt securities	3,095	3,117	22
Other	3,879	5,082	1,202
Subtotal	36,574	318,807	282,232
Securities whose acquisition cost exceeds or is equal to their carrying value:			
Equity securities	565	538	(27)
Debt securities:			
Government bonds	1,767	1,525	(242)
Corporate bonds	2,315	2,202	(112)
Other debt securities	4,796	4,466	(330)
Other	4,010	3,425	(584)
Subtotal	13,456	12,158	(1,297)
Total	¥50,031	¥330,965	¥280,934

(b) Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Commercial paper	¥ —	¥ 4,497	$ —
Unlisted securities	8,350	10,165	85,205
Preferred subscription certificate	—	2,000	—
Money management fund and others	10,440	11,539	106,538
Golf course membership	64	96	663

(c) Sales of securities classified as available-for-sale amounted to ¥5,733 million ($58,503 thousand) with aggregate gain and loss of ¥490 million ($5,001 thousand) and ¥432 million ($4,410 thousand), respectively, for the year ended March 31, 2009.

For the year ended March 31, 2008, sales of securities classified as available-for-sale amounted to ¥6,377 million with aggregate gain and loss of ¥85 million and ¥172 million, respectively.

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

				Millions of yen
March 31, 2009	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	¥ 300	¥1,293	¥ 652	¥ —
Corporate bonds	320	924	73	193
Other debt securities	214	1,177	1,672	2,212
Other	233	228	495	—
Total	¥1,069	¥3,623	¥2,894	¥2,406

				Thousands of U.S. dollars
March 31, 2009	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	$ 3,071	$13,198	$ 6,663	$ —
Corporate bonds	3,270	9,435	748	1,972
Other debt securities	2,190	12,014	17,066	22,581
Other	2,387	2,329	5,058	—
Total	$10,918	$36,976	$29,535	$24,553

(e) During the year ended March 31, 2009 the Group recorded a loss on write-down of available-for-sale securities due to a permanent diminution in value in the amount of ¥1,805 million ($18,418 thousand).

(f) Investments in unconsolidated subsidiaries and affiliates at March 31, 2009 and 2008 were ¥29,743 million ($303,510 thousand) and ¥34,511 million, respectively.

5. Long-term Loans Payable and Lease Obligations

Long-term loans payable at March 31, 2009 and 2008 consisted of the following:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Loans from banks and others, at interest rates ranging from 0.92% to 2.01%:			
Unsecured	¥27,603	¥24,200	$281,670
	27,603	24,200	281,670
Less: Current portion	(2,278)	(2,278)	(23,245)
	¥25,325	¥21,922	$258,425

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2009 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 2,278	$ 23,245
2011	2,278	23,245
2012	778	7,939
2013	3,209	32,754
2014 and thereafter	19,059	194,487
Total	¥27,603	$281,670

Of the long-term loans maturing in 2015, the agreements permit early repayment of ¥7,000 million ($71,429 thousand).

The Company and certain consolidated subsidiaries have entered into overdraft agreements amounting to ¥26,523 million ($270,645 thousand) with six banks at March 31, 2009 and ¥17,479 million with six banks at March 31, 2008.

Lease obligations at March 31, 2009 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Lease obligations	¥122	$1,247
Less: Current portion	(24)	(249)
	¥ 97	$ 998

The aggregate annual maturities of lease obligations subsequent to March 31, 2009 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 24	$ 249
2011	28	291
2012	26	271
2013	26	267
2014 and thereafter	16	169
Total	¥122	$1,247

6. 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, 2009 and 2008. 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, 2009 and 2008 differed from the statutory tax rate for the following reasons:

	2009	2008
Statutory tax rate	36.2%	36.2%
Effect of:		
Net loss carried forward of consolidated subsidiaries	8.6	6.2
Exploration cost deducted for income tax purposes	(13.7)	(7.8)
Dividends income deductible for income tax purposes	(4.4)	(3.2)
Tax credit for loss carried forward	(13.6)	(2.4)
Expenses not deductible for income tax purposes	1.0	0.7
Consolidated adjustment for equity method	0.5	(3.0)
Change of valuation allowance	7.0	0.1
Other	(0.8)	(6.2)
Effective tax rates	20.8%	20.6%

The significant components of deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Deferred tax assets:			
Allowance for overseas investment loss	¥ 2,253	¥ 2,934	$ 22,992
Net loss carried forward	14,097	8,943	143,851
Provision for retirement benefits	2,102	1,934	21,457
Provision for directors' retirement benefits	233	208	2,384
Finished goods	967	969	9,867
Provision for cost of abandonment	1,814	1,199	18,511
Other	8,339	10,635	85,097
Subtotal	29,807	26,826	304,159
Valuation allowance	(18,457)	(13,160)	(188,340)
Total deferred tax assets	11,350	13,665	115,819
Deferred tax liabilities:			
Reserve for exploration	(9,554)	(10,050)	(97,492)
Valuation difference on available-for-sale securities	(59,427)	(101,369)	(606,405)
Reserve for advanced depreciation of noncurrent assets	(161)	(167)	(1,644)
Other	(352)	(511)	(3,596)
Total deferred tax liabilities	(69,495)	(112,098)	(709,137)
Net deferred tax assets (liabilities)	¥(58,145)	¥ (98,432)	$(593,318)

7. 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, 2009 and 2008 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2009	2008	**2009**
		Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	**¥(16,474)**	¥(16,162)	**$(168,102)**
Plan assets at fair value	**6,687**	8,941	**68,236**
Unfunded retirement benefit obligation	**(9,786)**	(7,220)	**(99,866)**
Unrecognized actuarial gain or loss	**3,647**	1,483	**37,223**
Unrecognized prior service benefits and cost	**406**	464	**4,147**
Provision for retirement benefits	**¥ (5,732)**	¥ (5,272)	**$ (58,496)**

The components of retirement benefits expenses for the years ended March 31, 2009 and 2008 are outlined as follows:

	2009	2008	**2009**
		Millions of yen	Thousands of U.S. dollars
Service cost	**¥ 799**	¥ 790	**$ 8,154**
Interest cost	**300**	301	**3,069**
Expected return on plan assets	**(268)**	(319)	**(2,737)**
Amortization of actuarial gain or loss	**341**	148	**3,485**
Amortization of prior service benefits and cost	**58**	58	**592**
Other	**59**	56	**609**
Total	**¥1,290**	¥1,034	**$13,172**

The assumptions used in accounting for the above plan as of March 31, 2009 and 2008 were as follows:

	2009	2008
Discount rates	**2.0%**	2.0%
Expected rates of return on plan assets	**3.0%**	3.0%

8. 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.

9. Leases

(1) Finance leases

As discussed in Note 2. Significant Accounting Policies (9) Leases, the Group accounts for leases that had been in existence at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2009 and 2008, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(Lessee)

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Acquisition costs:			
Machinery, equipment and vehicles	**¥1,311**	¥1,521	**$13,379**
Other	**128**	210	**1,306**
Total	**¥1,439**	¥1,731	**$14,685**
Accumulated depreciation:			
Machinery, equipment and vehicles	**¥ 528**	¥ 513	**$ 5,393**
Other	**117**	162	**1,200**
Total	**¥ 646**	¥ 675	**$ 6,593**
Net book value:			
Machinery, equipment and vehicles	**¥ 782**	¥1,008	**$ 7,986**
Other	**10**	47	**106**
Total	**¥ 792**	¥1,055	**$ 8,092**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥271 million ($2,768 thousand) and ¥307 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, 2009 and 2008, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥167	$1,706
2011 and thereafter	625	6,386
Total	¥792	$8,092

(Lessor)

	2009	2009
	Millions of yen	Thousands of U.S. dollars
Acquisition costs:		
Buildings and structures	**¥ 54**	**$ 557**
Machinery, equipment and vehicles	**200**	**2,041**
Other	**50**	**517**
Total	**¥305**	**$3,115**
Accumulated depreciation:		
Buildings and structures	**¥ 0**	**$ 4**
Machinery, equipment and vehicles	**3**	**35**
Other	**1**	**11**
Total	**¥ 4**	**$ 50**
Net book value:		
Buildings and structures	**¥ 54**	**$ 553**
Machinery, equipment and vehicles	**196**	**2,006**
Other	**49**	**506**
Total	**¥300**	**$3,065**

For the year ended March 31, 2009, there were no lease receivables relating to finance leases accounted for as operating leases. The depreciation expense of the leased assets computed by the straight-line method over the lease terms amounted to ¥4 million ($50 thousand).

Future minimum lease receivables (including the interest income portion thereon) subsequent to March 31, 2009 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 58	$ 601
2011 and thereafter	428	4,376
Total	¥487	$4,977

(2) Operating leases

Future minimum lease payments subsequent to March 31, 2009 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 77	$ 791
2011 and thereafter	205	2,100
Total	¥283	$2,891

10. Derivative Transactions

The Group 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 Group 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 Group enters into transactions only with financial institutions with high credit ratings.

The market value of derivatives held by the Group as of March 31, 2009 and 2008 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		
2009	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 U.S. dollars floating	**¥2,000**	**¥375**	**¥375**	**$20,408**	**$3,829**	**$3,829**
Total	**¥2,000**	**¥375**	**¥375**	**$20,408**	**$3,829**	**$3,829**

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

11. Contingent Liabilities

At March 31, 2009 and 2008, the Group had the following contingent liabilities:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of others:			
Sakhalin Oil and Gas Development Co., Ltd.	**¥11,627**	¥15,020	**$118,643**
INPEX North Caspian Sea, Ltd.	**3,983**	2,826	**40,648**
Employees	**1,191**	1,397	**12,160**
TOHOKU NATURAL GAS Co., Inc.	**1,127**	1,174	**11,502**
Total	**¥17,929**	¥20,418	**$182,953**

12. Information Related to Consolidated Statements of Changes in Net Assets

(1) Dividends paid to shareholders

2009

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 25, 2008	Annual General Meeting of Shareholders	Common stock	¥1,143	$11,664	¥20	$0.20	March 31, 2008	June 26, 2008
November 7, 2008	Board of Directors	Common stock	¥1,143	$11,664	¥20	$0.20	September 30, 2008	November 28, 2008

2008

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 25, 2007	Annual General Meeting of Shareholders	Common stock	¥1,143	¥20	March 31, 2007	June 26, 2007
November 15, 2007	Board of Directors	Common stock	¥1,143	¥20	September 30, 2007	December 3, 2007

(2) Dividends with a shareholders' cut-off date during the fiscal year but an effective date subsequent to the fiscal year

2009

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 24, 2009	Annual General Meeting of Shareholders	Common stock	¥1,143	$11,664	Retained earnings	¥20	$0.20	March 31, 2009	June 25, 2009

2008

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 25, 2008	Annual General Meeting of Shareholders	Common stock	¥1,143	Retained earnings	¥20	March 31, 2008	June 26, 2008

13. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2009 and 2008 were ¥847 million ($8,649 thousand) and ¥1,491 million, respectively.

14. Impairment Loss

For the purpose of recognition and measurement of impairment loss, noncurrent assets of the Group were principally grouped into minimum cash generating units. However, idle assets were individually considered.

The main content of impairment loss for the year ended March 31, 2009 is as follows:

	2009	2009
	Millions of yen	Thousands of U.S. dollars
Idle asset:		
Numanohata No.8 well, Yufutsu area, Hokkaido Construction in progress	¥2,275	$23,223

• Background to recognition of impairment:

The Group abandoned a portion of the Numanohata No.8 well due to its inability to produce a commercial quantity. The well was spudded in May 2008 for production drilling at the Yufutsu oil and gas field. The Group recognized a loss on the Numanohata No.8 well, comprising a loss on retirement of noncurrent assets and an impairment loss of construction in progress as an idle asset, of which the value was evaluated as 0 yen.

15. Related Party Transactions

Principal transactions between the Company and Kangean Energy Indonesia Ltd., an affiliate accounted for by the equity method, for the year ended March 31, 2009, are summarized as follows:

Transactions:	Millions of yen	Thousands of U.S. dollars
Payments of loans receivable	¥3,617	$36,910

Balances:	Millions of yen	Thousands of U.S. dollars
Long-term loans receivable	¥7,062	$72,065

The Company determines the rate of interest for payments of loans receivable by Kangean Energy Indonesia Ltd. based on market rates.

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

Transactions:	Millions of yen
Payments of capital increase	¥21,219

The Company underwrote the newly-issued shares of Energi Mega Pratama Inc.
On October 11, 2006, the ASBJ issued ASBJ Statement No.11, “Accounting Standard for Related Party Disclosures” and related guidance. The Group adopted the new accounting standard in the year ended March 31, 2009.

16. Amounts per Share

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

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

	2009	2008	2009
		Yen	U.S. dollars
Net income per share	¥ 219.77	¥ 351.65	$ 2.24
Net assets per share	6,486.85	7,696.00	66.19

Diluted net income per share is not disclosed due to the absence of such dilution for the fiscal years ended March 31, 2009 and 2008.

17. 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, 2009 and 2008 are as follows:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Cash and deposits	¥27,702	¥27,794	$282,681
Time deposits with maturity in excess of three months	(6,634)	(1,391)	(67,697)
Short-term investment within three months:			
Repo with forward resale commitment	20,466	—	208,841
Commercial paper	—	4,497	—
Money management fund and other	10,440	11,539	106,539
Cash and cash equivalents	¥51,975	¥42,440	$530,364

18. Segment Information

The Group is 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, 2009 and 2008, the disclosure of business segment information has been omitted.

• Geographical segments

The geographical segments of the Group for the years ended March 31, 2009 and 2008 are summarized as follows:

						Millions of yen
Year ended March 31, 2009	Japan	North America	Other areas	Total	Eliminations	Consolidated
Sales to third parties	¥172,989	¥20,373	¥8,764	¥202,127	¥ —	¥202,127
Inter-segment sales and transfers	26	—	—	26	(26)	—
Total sales	173,015	20,373	8,764	202,153	(26)	202,127
Operating expenses	159,452	15,137	7,480	182,070	(33)	182,036
Operating income	13,562	5,235	1,284	20,082	7	20,090
Total assets	¥515,545	¥16,246	¥8,828	¥540,620	¥(40,176)	¥500,444

						Thousands of U.S. dollars
Year ended March 31, 2009	Japan	North America	Other areas	Total	Eliminations	Consolidated
Sales to third parties	$1,765,199	$207,890	$89,436	$2,062,525	$ —	$2,062,525
Inter-segment sales and transfers	266	—	—	266	(266)	—
Total sales	1,765,465	207,890	89,436	2,062,791	(266)	2,062,525
Operating expenses	1,627,068	154,467	76,328	1,857,863	(345)	1,857,518
Operating income	138,397	53,423	13,108	204,928	79	205,007
Total assets	$5,260,668	$165,781	$90,084	$5,516,533	$(409,960)	$5,106,573

						Millions of yen
Year ended March 31, 2008	Japan	North America	Other areas	Total	Eliminations	Consolidated
Sales to third parties	¥187,615	¥13,265	¥ 6,758	¥207,638	¥ —	¥207,638
Inter-segment sales and transfers	36	—	395	431	(431)	—
Total sales	187,651	13,265	7,153	208,070	(431)	207,638
Operating expenses	166,579	13,650	8,217	188,447	(434)	188,012
Operating income	21,072	(385)	(1,064)	19,623	2	19,625
Total assets	¥619,951	¥16,209	¥20,583	¥656,744	¥(35,797)	¥620,946

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, 2009 and 2008, are summarized as follows:

					Millions of yen
Year ended March 31, 2009	Southeast Asia	East Asia	North America	Europe	Total
Overseas sales	**¥1,494**	**¥8,764**	**¥20,373**	**¥49,835**	**¥ 80,468**
Consolidated net sales					**202,127**
					Thousands of U.S. dollars
Overseas sales	**$15,255**	**$89,436**	**$207,890**	**$508,527**	**$ 821,108**
Consolidated net sales					**2,062,525**
Overseas sales as a percentage of consolidated net sales	**0.74%**	**4.34%**	**10.08%**	**24.65%**	**39.81%**

					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
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

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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, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Petroleum Exploration Co., Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, 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, 2009 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.

June 24, 2009

Ernst & Young ShinNihon LLC

CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

(As of March 31, 2009)

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	45,000 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited	Exploration, development of oil sands in Canada and related production	300,070 (Thousands of Canadian 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	89.42
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	54.49 (54.49)
Japex Libya Ltd.	Exploration and production of petroleum in Libya	3,950	100.00
Japex Block A Ltd.	Exploration, development and production of petroleum in Sumatra, Indonesia	1,155	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	47.00
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	34.60
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) Ltd.	Exploration, development and production of petroleum in east coast of Java, Indonesia	100 (U.K. pounds)	— [100.00]

Notes: 1. Numbers in parentheses under voting rights represent close relationships or agreements.
2. JAPEX owns less than 20% of the shares of Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd., respectively, but they are counted as affiliates because JAPEX exercises effective control over their management.

CORPORATE DATA

(As of March 31, 2009)

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
Number of Employees	1,678 (Consolidated)
Main Businesses	Exploration, development and sales of oil, natural gas, and geothermal resources, and contract service-related operations such as drilling
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: +81-3-6268-7000 FAX: +81-3-6268-7300 URL: http://www.japex.co.jp/

Directors, Auditors and Officers (As of June 24, 2009)

Chairman
Yuji Tanahashi

President & Chief Executive Officer
Osamu Watanabe

Executive Vice Presidents & Executive Officers
Katsuo Suzuki
Norihiko Sawara
Tadatsuna Koda

Senior Managing Directors & Executive Officers
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
Ken Fujii
Morio Ishizeki
Masahiko Kadotani
Kisaburo Ikeda

Managing Executive Officers
Kazuo Nakayama
Nobuaki Moritani
Hironori Imazato
Hitoshi Yamatoya

Executive Officers
Makoto Miyairi
Masami Miki
Fumio Mizuno
Keisuke Inoue
Toyohiko Kanekiyo
Toru Kuroda
Kiyoshi Ogino
Yoshio Abe
Yosuke Higai
Hikaru Fukasawa

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

Stock Information (As of March 31, 2009)

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	18,478

Major Shareholders

Shareholders	Shares	Voting Rights (%)
The Minister of Economy, Trade and Industry	19,432,724	34.00
INPEX Corporation	2,852,212	4.99
State Street Bank and Trust Company	2,078,998	3.64
JFE Engineering Corporation	1,848,012	3.23
Japan Trustee Services Bank, Ltd. (Trust 4G)	1,679,300	2.94
Japan Trustee Services Bank, Ltd. (Trust)	1,350,500	2.36
The Master Trust of Japan, Ltd. (Trust)	1,053,700	1.84
Nippon Oil Corporation	991,200	1.73
Mizuho Corporate Bank, Ltd.	920,152	1.61
Nippon Petroleum Refining Co., Ltd.	872,456	1.53

Transfer Agent and Registrar Inquiries
Mizuho Trust & Banking Co., Ltd.
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan
Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Division
TEL: 0120-288-324 (Toll-free in Japan)

JAPEX

Japan Petroleum Exploration Co., Ltd.

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