Annual Report 2006

Year Ended March 31, 2006

Japan Petroleum Exploration Co., Ltd.

PROFILE

Japan Petroleum Exploration Co., Ltd. (JAPEX) is a leading Japanese upstream company engaged in oil and natural gas exploration and production (E&P) activities both in Japan and overseas. Its main operating areas are Hokkaido, Akita, Yamagata and Niigata in Japan, and Canada, Indonesia, China, the Philippines, Libya, and other regions where it has overseas interests.

JAPEX was founded 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 and expand its activities overseas. JAPEX was once incorporated into the former Japan Petroleum Development Corporation (JPDC) as its E&P operating body from 1967 to 1970. Subsequently, JAPEX was separated and established in April 1970 as a private company under the former Commercial Code. JAPEX listed on the First Section of the Tokyo Stock Exchange in December 2003.

Since its foundation, JAPEX has conducted integrated operations extending from oil and gas E&P through transportation and supply. JAPEX is continuing to work on increasing its reserves, expanding its natural gas supply network and other aspects of its operations as it aims for growth as a competitive player in the market.

Wellhead equipment, the Sarukawa oil field, Akita Prefecture

Contents

Financial Highlights	1
To Our Shareholders and the Investing Community	2
Exploration and Production	4
Domestic E&P	6
Supply Network	10
Overseas E&P	12
Corporate Governance	16
Financial Section	18
Principal Subsidiaries and Affiliates	40
Corporate Data	41

On the Cover

A platform in the Lufeng 13-1 oil field (China), jointly operated by Japex New Nanhai Ltd. and partners

LNG tank containers being loaded onto railway wagon

Drilling rig under operation in the Yufutsu oil and gas field, Hokkaido

Crude oil storage tanks

FINANCIAL HIGHLIGHTS

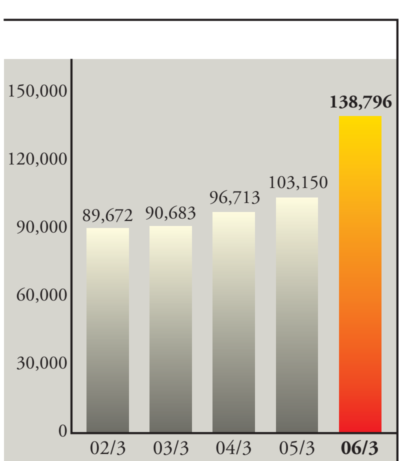
Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2005 and 2006

	Millions of yen (except per share data and other data)			Thousands of U.S. dollars (except per share data and other data)
	2006	2005	2004	2006
For the year:				
Net sales	¥138,796	¥103,150	¥ 96,713	$1,186,291
Operating income	27,018	14,678	12,449	230,923
Income before income taxes and minority interests	31,166	18,129	14,207	266,376
Net income	20,216	13,234	9,960	172,786
At year-end:				
Total assets	¥532,516	¥393,733	¥246,765	$4,551,419
Shareholders' equity	386,222	293,152	195,715	3,301,043
Per share data:				
Net income per share	¥ 352.11	¥ 230.05	¥ 172.76	$ 3.009
Cash dividends per share	40.00	37.50	35.00	0.342
Other data:				
Number of employees	1,481	1,470	1,388	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117=U.S.$1.00.

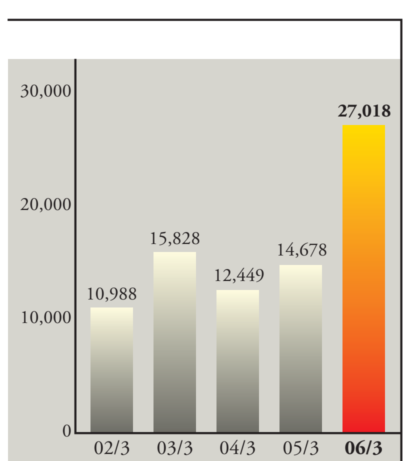
Net Sales

(Millions of yen)



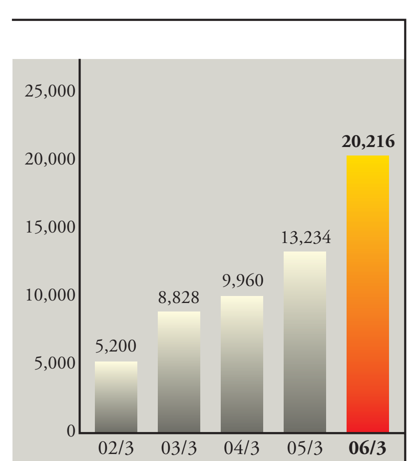
Operating Income

(Millions of yen)



Net Income

(Millions of yen)



Yuji Tanahashi
President & Chief Executive Officer

President & CEO of JAPEX (left) and former President of the Libyan National Oil Corporation (right) at the signing ceremony of petroleum contracts in Libya in December 2005.

Results of Operations

In fiscal 2006, ended March 31, 2006, the Japanese economy continued to recover steadily, reflecting strong capital investment on the back of improved corporate earnings, and a moderate increase in personal spending prompted by improvement in the employment market and household budgets.

In the petroleum market, the steady rise in international crude oil prices from the beginning of the fiscal year, along with the general weakness of the yen in currency markets, resulted in a sharp rise in prices for domestic crude oil. However, the operating environment for the JAPEX Group remained challenging, as domestic natural gas prices were affected by acceleration in the pace of deregulation, leading to escalating competition among energy sectors.

Net sales for fiscal 2006 rose 34.6% year on year to ¥138,796 million due to increased sales of crude oil on the back of higher prices. Operating income jumped 84.1% to ¥27,018 million, reflecting the higher sales and a full-year contribution of rising earnings from Japex New Nanhai Ltd. and Jawa Oil Co., Ltd.—which became consolidated subsidiaries during the second half of the previous fiscal year—outweighing a higher cost of sales and increased exploration expenses. Net income increased 52.8% to ¥20,216 million.

Domestic Operations

With our operations centered on E&P, increasing reserves of crude oil and natural gas to ensure stable supply over the long term is of principal concern for us at JAPEX. We have therefore focused on comprehensively reevaluating domestic E&P potential in recent years, conducting a systematic E&P program that effectively combines expansion of reserves in areas surrounding existing oil and gas fields (field growth), with exploration aimed at discovering new large-scale reserves.

In addition to reserves, we are working to utilize and expand a natural gas supply system that effectively integrates the upstream (E&P), midstream (transportation and storage), and downstream (large-scale supply and supply to local distribution companies, or LDCs). Along with the Shiroishi–Koriyama gas pipeline scheduled for completion in March 2007, we have begun a full-scale survey aimed at constructing a subsea gas pipeline between Sendai and Iwaki. Through these efforts JAPEX is working to further expand its natural gas supply network.

JAPEX is also working to promote sales of natural gas over a wide area by using its LNG Satellite System to supply liquefied natural gas (LNG) by tanker truck and railway tank containers to areas outside of our gas pipeline network. To meet demand within Hokkaido, we are continuing expansion with the second train at the Yufutsu LNG plant, scheduled for completion in 2007.

Overseas Operations

We recognize that securing reserves and generating earnings is an important aspect of our overseas operations as well. We are therefore working to develop projects offering business expansion and earnings opportunities in Southeast Asia, the Middle East, North Africa, Canada and other target E&P areas.

In Libya, JAPEX acquired two exploration blocks in 2005 through a public auction, and established Japex Libya Ltd. as an operating company. Japex Libya has opened a local office in Tripoli, and started exploration activities from 2006. In Indonesia, we acquired a partial interest in an E&P block that includes discovered gas fields located in northern Sumatra, and are expanding our business in that country. Further, in Canada, from this winter we plan to begin geological surveys in the undeveloped area.

In Iraq, in line with a Memorandum of Understanding signed with Iraq's Ministry of Oil concerning technical cooperation, we are conducting joint studies covering assessment of exploration potential and oil reserves in focused areas. We are also providing training to the ministry's engineers. With the achievements of the technical cooperation recognized by the ministry, both parties have agreed to extend the memorandum for another year, as well as deepen and expand the scope of the joint studies. JAPEX is determined to contribute to the rebirth of the Iraqi economy through stronger cooperation with the ministry and the reconstruction of the country's energy industry.

Environmental Initiatives

JAPEX considers environmental concerns to be an important issue, and is taking steps to address them. All company sites have acquired ISO 14001 certification, and through the ongoing use of environmental management systems, we are working to reduce the environmental impact of our business activities.

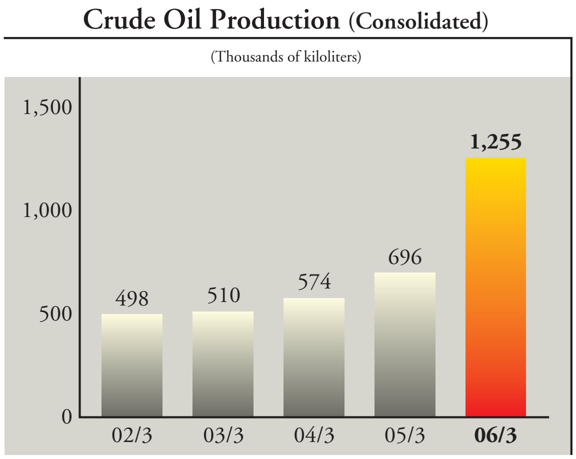
We also contribute to environmental protection activities by conducting afforestation programs, including tree planting near the Yurihara and Ayukawa oil and gas fields in the city of Yurihonjo, Akita Prefecture, and investing in the World Bank's BioCarbon Fund. Moreover, we are promoting the diversified use of natural gas, and are making efforts to apply JAPEX's technology in environmental businesses. Of these, in gas-to-liquids (GTL), a utilization technology of natural gas, we plan to work on establishing practical feasibility with a government agency and other private-sector companies in Niigata Prefecture.

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

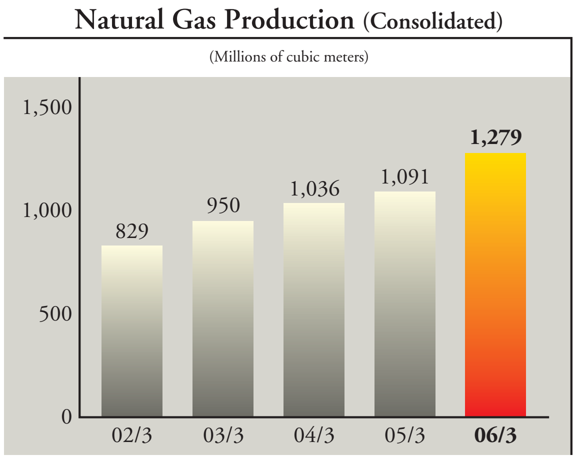
August 2006

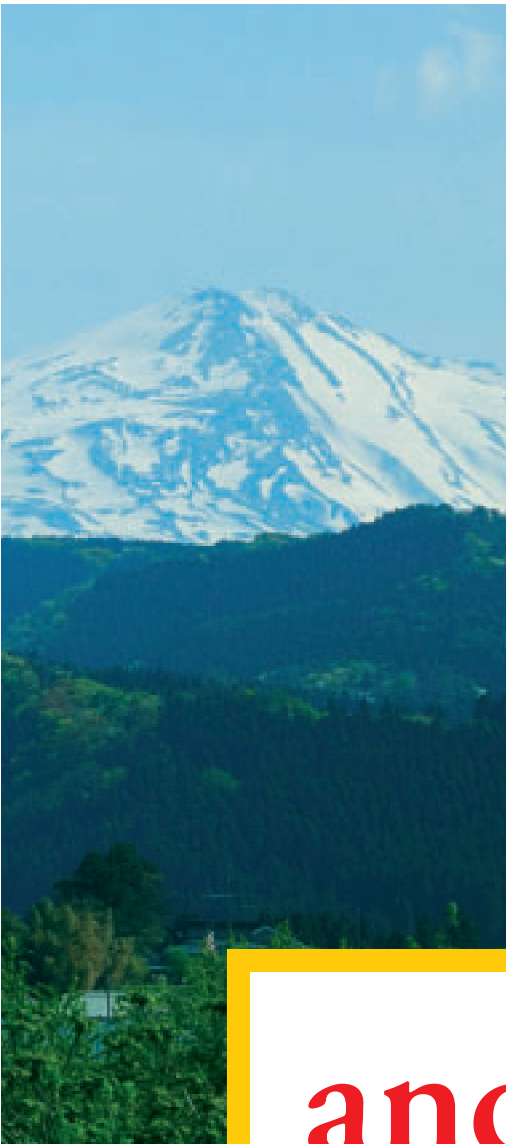
Yuji Tanahashi

Yuji Tanahashi
President & Chief Executive Officer



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





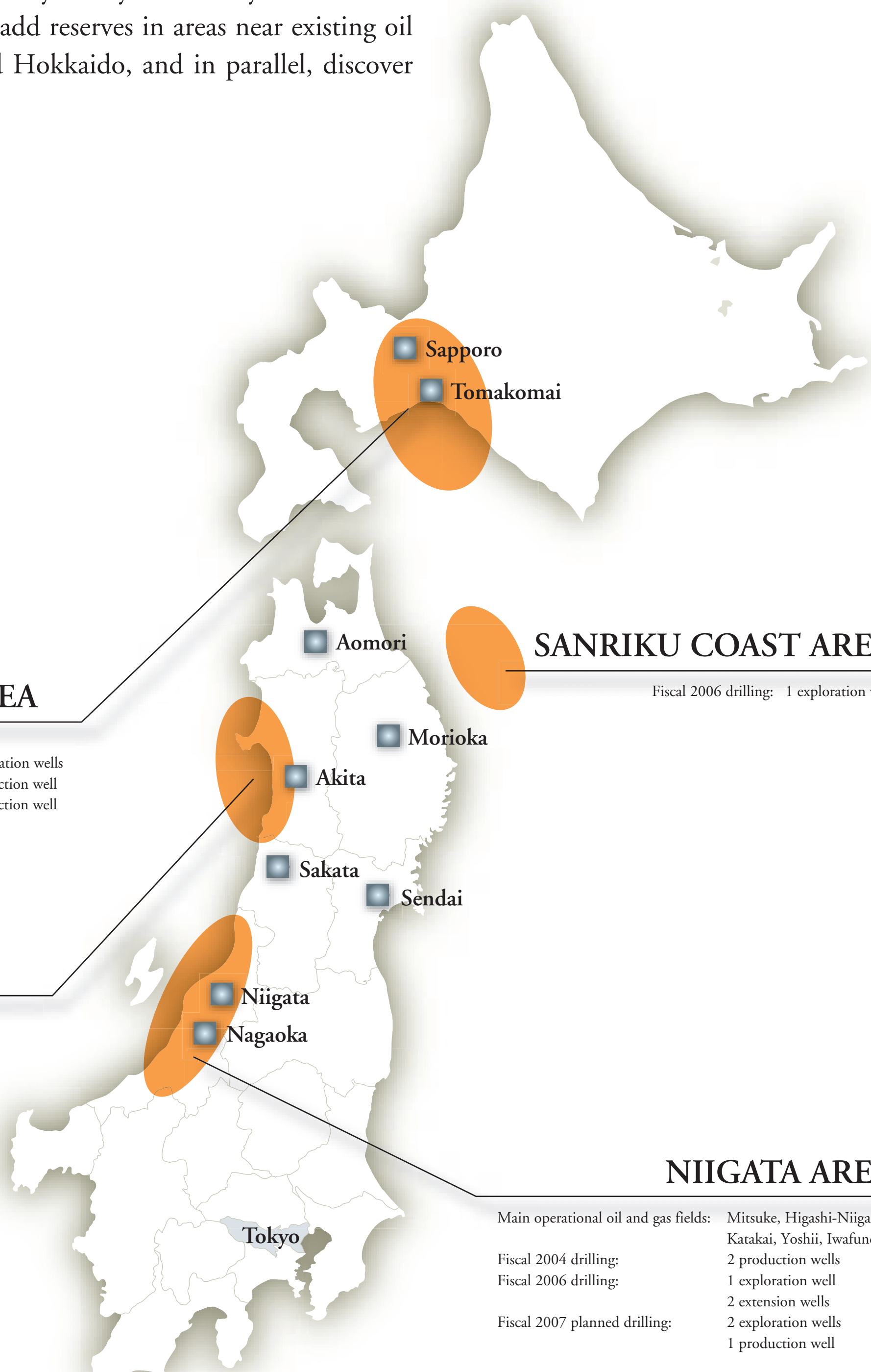
Exploration and Production

JAPEX's E&P operations in Japan are centered on Niigata and Akita prefectures and Hokkaido. Overseas, E&P is focused on Southeast Asia, Canada, North Africa, the Middle East, and Sakhalin in Russia.

Average net production volume on a consolidated basis during fiscal 2006 was 3,439 kl/d (approx. 22,000 barrels of oil per day (bopd)) of crude oil and 3,504 thousand m³/d (approx. 124 million cubic feet per day (mmcfd)) of natural gas.

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

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



HOKKAIDO AREA

Operational oil and gas fields:	Yufutsu
Fiscal 2006 drilling:	3 exploration wells 1 production well
Fiscal 2007 planned drilling:	1 production well

SANRIKU COAST AREA

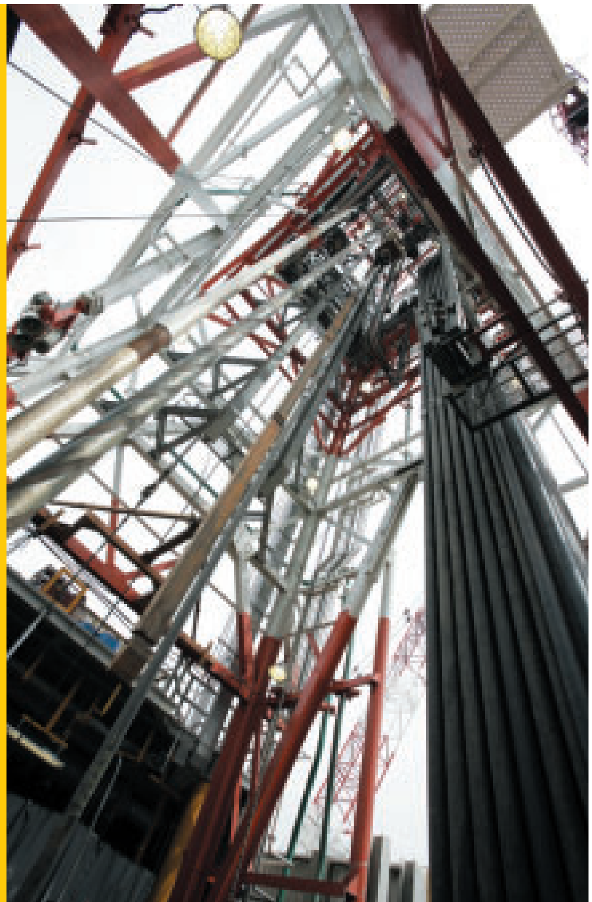
Fiscal 2006 drilling:	1 exploration well

AKITA AREA

Main operational oil and gas fields:	Sarukawa, Yurihara, Ayukawa
Fiscal 2004 drilling:	2 exploration wells 3 extension wells
Fiscal 2005 drilling:	1 exploration well 1 extension well
Fiscal 2006 drilling:	1 exploration well
Fiscal 2007 drilling:	1 exploration well

NIIGATA AREA

Main operational oil and gas fields:	Mitsuke, Higashi-Niigata, Katakai, Yoshii, Iwafuneoki
Fiscal 2004 drilling:	2 production wells
Fiscal 2006 drilling:	1 exploration well 2 extension wells
Fiscal 2007 planned drilling:	2 exploration wells 1 production well



Niigata Area

JAPEX produces crude oil and natural gas from the Mitsuke oil field—first discovered in 1958—as well as the Higashi-Niigata gas field, the Katakai gas field, the Yoshii gas field, the Iwafuneoki oil and gas field, and other fields in the Niigata area.

In fiscal 2006, JAPEX completed drilling of one exploration well and two extension wells. The Higashi-Niigata MS-45 and Higashi-Niigata MS-46 extension wells were drilled to search for extended oil and gas formations in the Higashi-Niigata gas field, while the Iwafuneoki-Nishi MS-1 exploration well was drilled to the west of the Iwafuneoki oil and gas field, which is located 30 km offshore to the northeast of the city of Niigata. Production tests of these wells have proved successful.

During fiscal 2007, we plan to conduct seismic surveys and drill two exploration wells, at the offshore Iwafuneoki X location to the southwest of the Iwafuneoki oil and gas field offshore Niigata, and at the inland Nozumi location. We also intend to drill one production well at the Katakai gas field.

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

Niigata

Akita Area

JAPEX produces crude oil and natural gas from the Sarukawa oil field—first discovered in 1958—as well as the Yurihara oil and gas field, the Ayukawa oil and gas field, and other fields in the Akita area. In fiscal 2006, we drilled one exploration well. In fiscal 2007, we completed drilling one exploration well in June, and are currently conducting seismic surveys.

We have completed the expansion of production and processing facilities to raise production of crude oil from the Yurihara and Ayukawa oil and gas fields, and since the end of November 2004, have increased production capacity to a level of 330kl/d (2,000 bopd).

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

Akita

Hokkaido and Sanriku Coast Areas

Production operations in Hokkaido are centered on the Yufutsu oil and gas field. JAPEX discovered this field in 1989. Since starting production in 1996, we have expanded production capacity every year in line with strong demand.

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

During fiscal 2007, we plan to conduct seismic surveys in areas surrounding the Yufutsu oil and gas field and the central-south area of Hokkaido. We also intend to drill one production well in the Yufutsu oil and gas field.

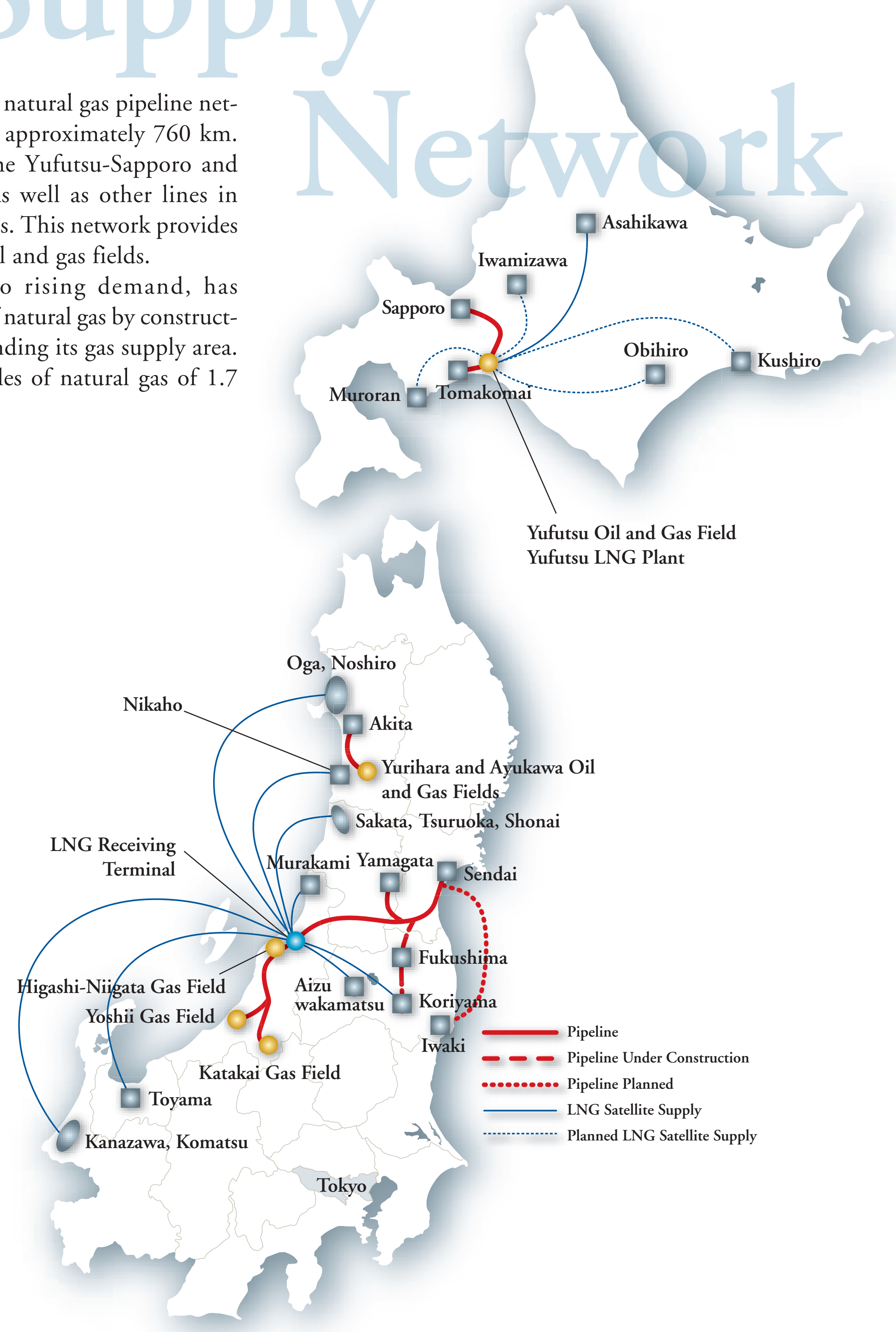
To support future exploration in the Hokkaido and Sanriku coast area, JAPEX will continue to acquire new geological data from geophysical surveys, as well as identify then drill exploratory wells in structures that are expected to yield large reserves.

Hokkaido and Sanriku Coast

Supply Network

JAPEX owns and operates a natural gas pipeline network with a total length of approximately 760 km. This network consists of the Yufutsu-Sapporo and Niigata-Sendai pipelines, as well as other lines in Niigata and Akita prefectures. This network provides direct connections to our oil and gas fields.

JAPEX, in response to rising demand, has increased the sales volume of natural gas by constructing new pipelines and expanding its gas supply area. We have set a target for sales of natural gas of 1.7 billion m^3 in fiscal 2009.



Pipeline Extension

JAPEX regards its natural gas pipeline network as an important strategic asset vital to increasing gas sales volume. In line with this thinking, we are constructing new pipelines to expand our marketing area. In February 2005, we completed a new pipeline extending from the Yufutsu oil and gas field in Hokkaido to the city of Tomakomai, and began supplying gas.

On the main island of Honshu, construction is proceeding on a 95 km extension of a 16-inch diameter pipeline from the Shiroishi valve station along the Niigata-Sendai pipeline, to Koriyama via the city of Fukushima. This extension project is progressing as planned toward a scheduled completion date of March 2007. JAPEX already has agreements to supply gas to Fukushima Gas Co., Ltd. and Tobu Gas Co., Ltd., and is continuing with efforts to open up new markets, targeting mainly industrial users along the pipeline.

JAPEX is also formulating a plan to supply natural gas to meet demand in the coastal areas of southern Fukushima Prefecture. We have launched a full-scale survey for the construction of a 20 to 24-inch diameter subsea pipeline extending approximately 160 kilometers from the outskirts of Sendai to an area near Iwaki in Fukushima Prefecture. We plan to begin supplies in early 2011.

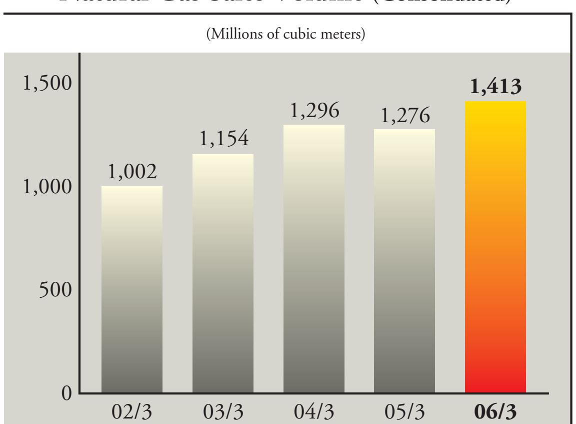
LNG Transportation

JAPEX operates an LNG Satellite System to meet demand for natural gas in regions not served by its gas pipeline network.

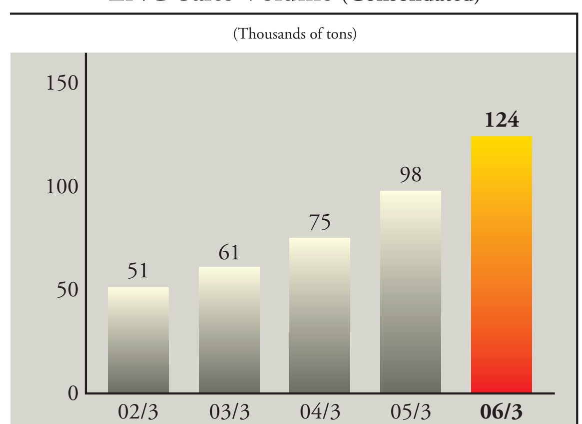
On the main island of Honshu, we supply the Tohoku, Hokuriku and other northern regions with LNG imported from overseas through an LNG receiving terminal in the port of Niigata using tanker trucks and railway tank containers.

In Hokkaido, we have constructed an LNG plant in the Yufutsu oil and gas field, and since October 2003, have been converting natural gas from this field into LNG for supply to Asahikawa Gas Co., Ltd. We plan to begin supplying LNG to Obihiro Gas Co., Ltd., Kushiro Gas Co., Ltd., Iwamizawa Gas Co., Ltd. and Muroran Gas Co., Ltd. in turn from 2007. We have also started construction of the second train at the Yufutsu LNG plant scheduled for completion in 2007.

Natural Gas Sales Volume (Consolidated)



LNG Sales Volume (Consolidated)



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

Asia

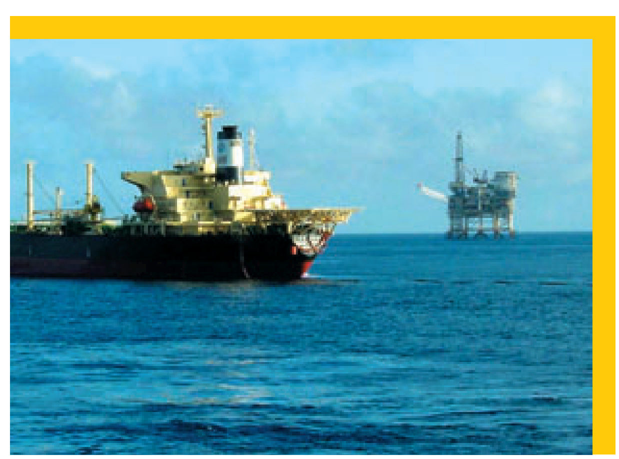
In China, our consolidated subsidiary Japex New Nanhai Ltd. is conducting production activities as a joint operator of the Lufeng 13-1 oil field offshore the Pearl River mouth in the South China Sea. Average gross production volume in 2005 for the oil field was 1,500 kl/d (approx. 9,400 bopd). Three new production wells were drilled between November 2005 and March 2006, and workovers were carried out on six existing wells to maintain production volume and increase recovery efficiency. We will continue to drill side tracking wells from existing wells.

In Indonesia, equity-method affiliate Universe Gas & Oil Company, Inc. owns an interest in the Sanga Sanga block in Eastern Kalimantan. Production of crude oil and natural gas is carried out mainly at the four oil and gas fields of Badak, Nilam, Mutiara, and Semberah. Average gross production for the block in 2005 was 4,000 kl/d (approx. 25,000 bopd) of crude oil and 20,000 thousand m^3/d (approx. 690 mmcfd) of natural gas. A total of 24 new production wells were drilled and workovers conducted on four existing wells to increase recovery efficiency and maintain production volume of crude oil and natural gas.

Further, our consolidated subsidiary Japex Block A Ltd. acquired a partial interest ($16\,^2/_3$%) in the northern Sumatra block A in April 2006. Japex Block A will conduct development of discovered gas fields and exploration drilling in promising unexplored structures.

In the Philippines, our consolidated subsidiary Japex Philippines Ltd. is conducting exploration work as the operator of the SC46 block, located in the sea between the islands of Negros and Cebu. Based on the results of seismic surveys conducted during 2005, Japex Philippines plans to drill one exploration well in the summer of 2007.

Asia

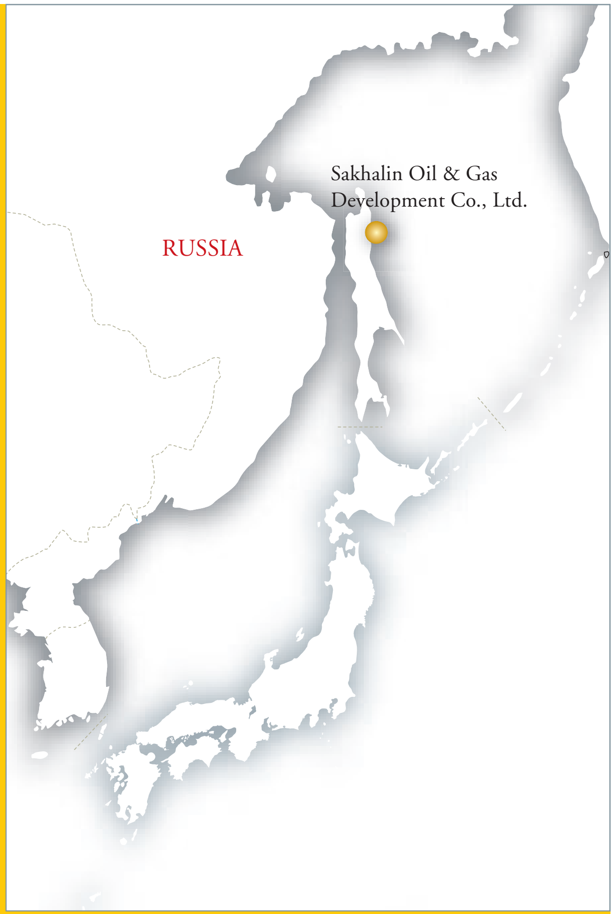


Platform and floating storage and offloading unit (FSOU) in the Lufeng 13-1 oil field (China)

Russia

In Russia, through its investment in Sakhalin Oil & Gas Development Co., Ltd. (SODECO), which owns a 30% interest in the Sakhalin-1 Project, JAPEX is involved in a project to develop three oil and gas fields: Chayvo, Odoptu and Arkutun-Dagi on the northeast shelf of Sakhalin island. SODECO, with Exxon Neftegas Limited (the operator) and other partners, is currently proceeding with Phase 1 operations to develop crude oil reserves in the Chayvo oil and gas field. Early production got under way in October 2005, followed by the start of sales of both oil and gas to the Russian market.

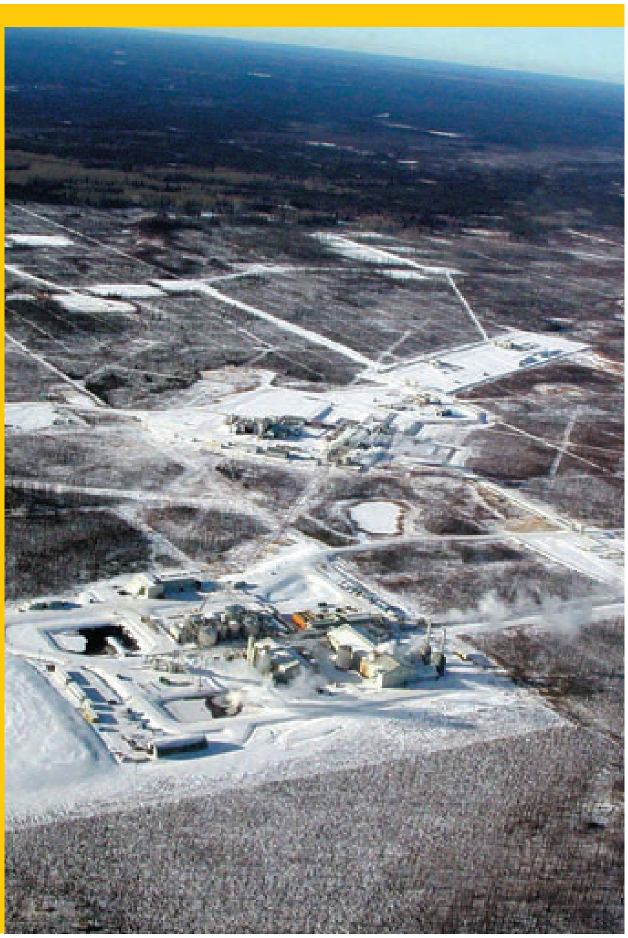
An oil export terminal is about to be completed and deliveries of crude oil to Japan and other areas of East Asia are planned to begin in the latter half of 2006. The project will shift to full-scale production from late 2006 to early 2007, with expected peak gross production to reach around 40,000 kl/d (250,000 bopd).



Russia

Orlan Platform in drilling operation on Chayvo field
(by Courtesy of Exxon Neftegas Limited)

Canada



Canada

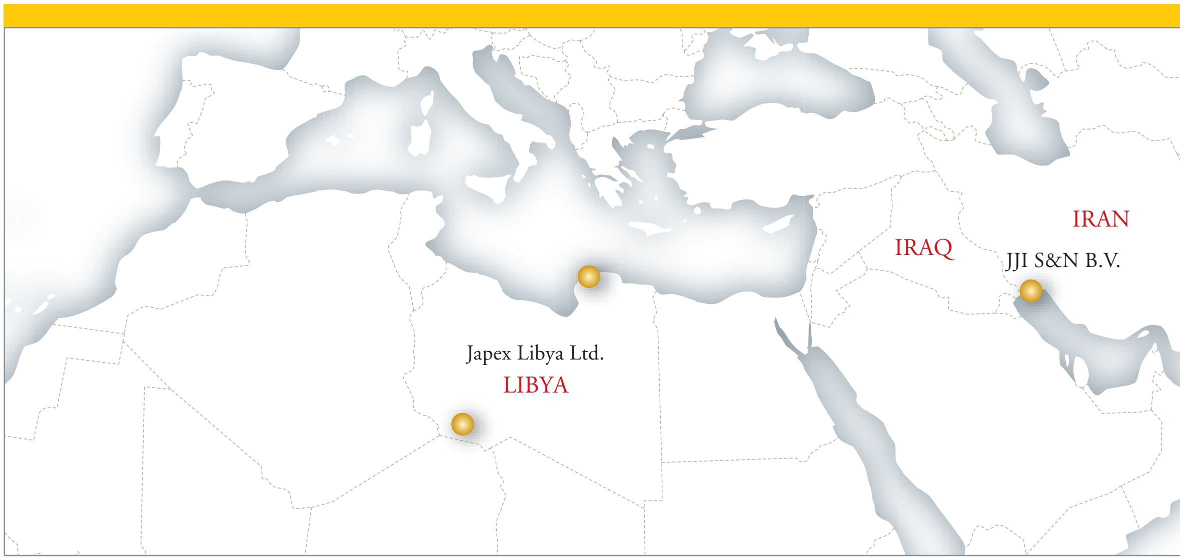
In Canada, our consolidated subsidiary Canada Oil Sands Co., Ltd., through the locally-incorporated Japan Canada Oil Sands Limited (JACOS), is conducting oil sands development using the Steam-Assisted Gravity Drainage (SAGD) method as operator in the Hangingstone area in the Athabasca region, Alberta. In 2005, an additional three pairs of horizontal wells were drilled, making a total of 15 pairs of horizontal wells in production. Average gross production volume in 2005 for the production area was 1,230 kl/d (approx. 7,750 bopd) of crude oil (bitumen). From the winter of 2006, we will begin geological surveys in the undeveloped area by conducting 3D seismic surveys and drilling appraisal wells.

Oil sands production site in the Hangingstone area

North Africa

North Africa

In Libya, our consolidated subsidiary Japex Libya Ltd. established a local office in Tripoli to promote exploration operations in two blocks acquired in 2005 through a public auction: the 40-3/4 block (coastal area of the Mediterranean Sea) and the 176-4 block (southwest area of the Murzuq region). Japex Libya will commence exploration activities in these blocks with seismic surveys this year.



Middle East

Middle East

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

In Iraq, following the conclusion in March 2005 of a Memorandum of Understanding with the Ministry of Oil concerning technical cooperation, JAPEX is conducting evaluation studies of undeveloped oil fields and exploration potential in four regions jointly with the ministry, as well as providing technical support for 3D seismic surveys and offering training programs for ministry employees. In March 2006, the ministry and JAPEX agreed to extend the memorandum for another year, and expand and deepen the scope of the joint studies. JAPEX will work with the ministry to review technology for upgrading heavy crude oil and methods to increase production, and continue to provide training to ministry engineers.

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

Company Organizations

On June 24, 2005, JAPEX adopted the executive officer system as a means of clarifying the operational structure. At the same time, we also reduced the number of directors.

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

• *Board of Directors*

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

Further, from the perspective of increasing the speed of decision-making, an Executive Committee composed of directors and other executives based in Tokyo has been established to make decisions on matters that are not part of the decision-making remit of the Board of Directors. This committee also conducts discussions to support the decision-making of the Board of Directors. JAPEX has not appointed any outside directors.

• *Corporate Auditors and the Board of Auditors*

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

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

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

Internal Auditing

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

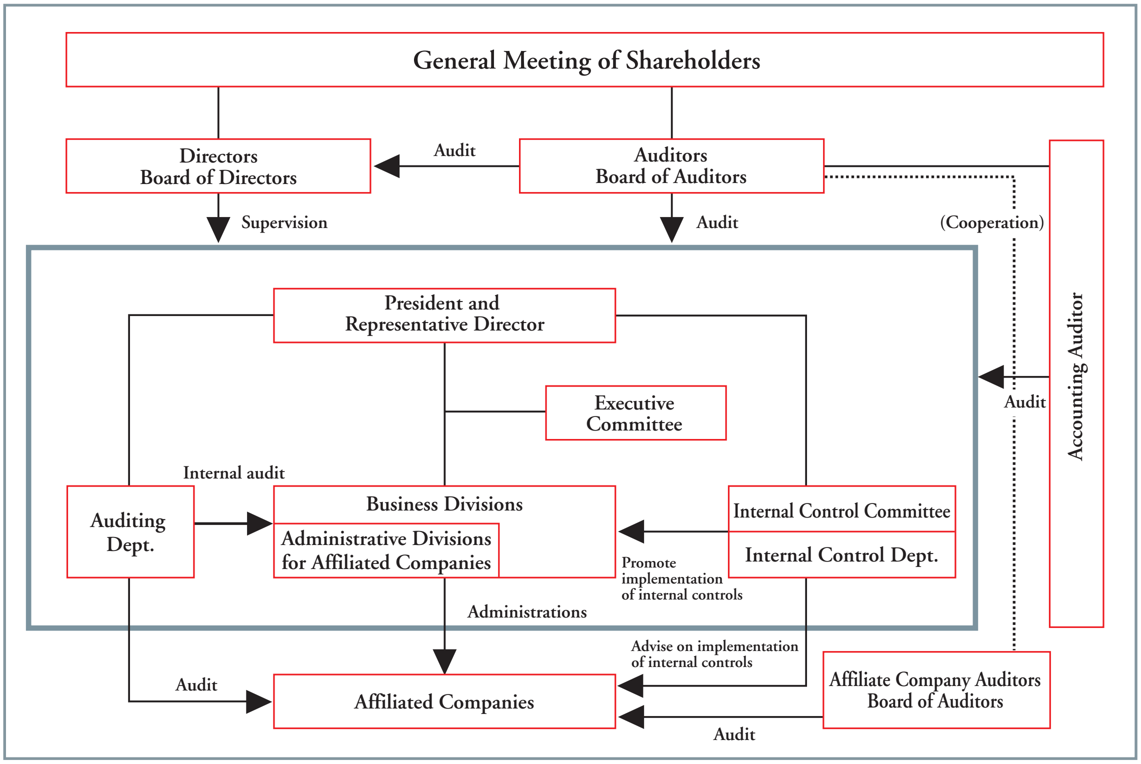
Other than one who has been assigned to the secretariat of the Board of Auditors to provide administrative support, three employees are assigned to the Auditing Department. The department takes successive actions based on the auditing plan for the fiscal year, reports the audit results to the president, 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

JAPEX established an Internal Control Committee and Internal Control Department on April 1, 2006, as bodies to ensure the integrity of operations in accordance with the Company Law and its enforcement regulations. These two bodies examine and enhance structures in order to ensure the appropriateness of operations.

Corporate Governance and Internal Control Structure



FINANCIAL SECTION

FIVE-YEAR SUMMARY	19
MANAGEMENT'S DISCUSSION AND ANALYSIS	20
CONSOLIDATED BALANCE SHEETS	24
CONSOLIDATED STATEMENTS OF INCOME	26
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY	27
CONSOLIDATED STATEMENTS OF CASH FLOWS	28
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	29
REPORT OF INDEPENDENT AUDITORS	39

FIVE-YEAR SUMMARY

Years ended March 31	2006	2005	2004	2003	2002
	Millions of yen (except per share data and other data)				
For the year:					
Net sales	¥ 138,796	¥ 103,150	¥ 96,713	¥ 90,683	¥ 89,672
Cost of sales	77,433	61,046	58,060	52,288	56,220
Exploration expenses	9,677	6,127	5,213	3,113	3,674
Selling, general and administrative expenses	24,666	21,298	20,990	19,452	18,788
Operating income	27,018	14,678	12,449	15,828	10,988
Net income	20,216	13,234	9,960	8,828	5,200
Capital expenditures	19,934	13,587	16,735	11,806	7,245
Depreciation and amortization	13,951	14,081	11,043	9,817	9,523
At year-end:					
Total assets	¥ 532,516	¥393,733	¥ 246,765	¥ 242,455	¥ 239,799
Shareholders' equity	386,222	293,152	195,715	186,914	180,339
Per share data:					
Net assets per share	¥6,756.00	¥5,127.67	¥3,422.80	¥3,268.99	¥12,621.10
Net income per share	352.11	230.05	172.76	153.14	363.97
Cash dividends per share	40.00	37.50	35.00	25.00	100.00
Other data:					
Number of employees	1,481	1,470	1,388	1,358	1,387

Note: JAPEX conducted a four-for-one stock split on January 1, 2003.

OVERVIEW OF OPERATING RESULTS

Operating Environment and Results

In fiscal 2006, ended March 31, 2006, the Japanese economy continued to recover steadily, reflecting strong capital investment on the back of improved corporate earnings, and a moderate increase in personal spending prompted by improvement in the employment market and household budgets.

In the petroleum market, the steady rise in international crude oil prices from the beginning of the fiscal year, along with the general weakness of the yen in currency markets, resulted in a sharp rise in prices of domestic crude oil. However, the operating environment for the JAPEX Group remained challenging, as domestic natural gas prices were affected by acceleration in the pace of deregulation, leading to escalating competition among energy sectors.

Net sales for fiscal 2006 rose 34.6% year on year to ¥138,796 million due to increased sales of crude oil on the back of higher prices. Operating income jumped 84.1% to ¥27,018 million, reflecting the higher sales and a full-year contribution of rising earnings from Japex New Nanhai Ltd. and Jawa Oil Co., Ltd.—which became consolidated subsidiaries during the second half of the previous fiscal year—outweighing a higher cost of sales and increased exploration expenses. Net income for fiscal 2006 increased 52.8% to ¥20,216 million.

Proved Reserves

As of March 31, 2006, the Company and its consolidated subsidiaries owned proved reserves as shown in the table below. The figure for crude oil includes bitumen, a heavy oil extracted from oil sands.

	Proved Reserves
Crude oil (thousand kl)	8,007
Natural gas (million m^3)	21,593

Foreign Exchange Rates and Crude Oil Prices

The average unit sales price of crude oil received by JAPEX during fiscal 2006 was ¥41,179/kl, an increase of ¥13,496/kl compared to the previous fiscal year. The sales price of domestic crude oil is essentially linked to yen translations of the price of imported crude oil. On a U.S. dollar basis, the weighted-average price of crude oil rose $15.9 to $54.1 per barrel.

Compared to the previous year, the yen depreciated ¥5.19 relative to the U.S. dollar to a weighted-average exchange rate of ¥112.44. The unit sales price of domestic crude oil increased sharply year on year because of the higher U.S dollar-denominated crude oil price, along with the impact of a weaker yen.

For sales of imported crude oil, fluctuations in crude oil prices and foreign exchange rates have a limited effect on earnings because the sales price is set to reflect the purchase price.

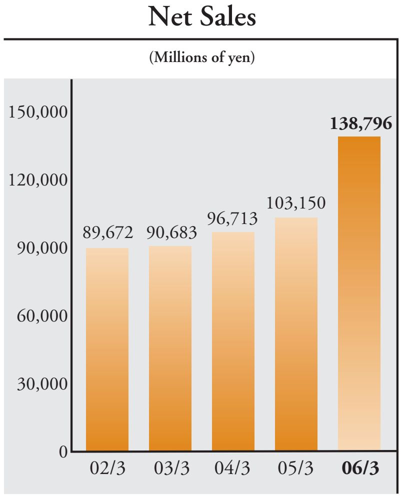
Also, because JAPEX signs fixed yen-based contracts with customers on a single-year basis, the unit sales price of natural gas is not affected by short-term fluctuations in the international natural gas market or exchange rates.

Capital Expenditures and Depreciation

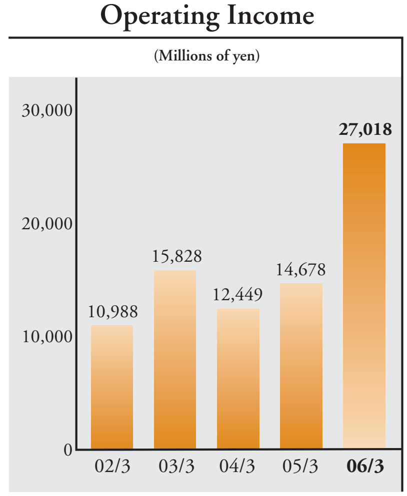
Capital expenditures increased ¥6,347 million year on year to ¥19,934 million. Major components of these expenditures were acquisition of gas supply facilities from the city of Tsubame, drilling of a production well (the Numanohata SK-6D well at the Yufutsu field in Hokkaido), construction of the Shiroishi-Koriyama gas pipeline, and acquisition of land for expansion of production facilities at the Yufutsu field.

Depreciation and amortization expenses did not change significantly from the previous fiscal year, declining ¥130 million year on year to ¥13,951 million.

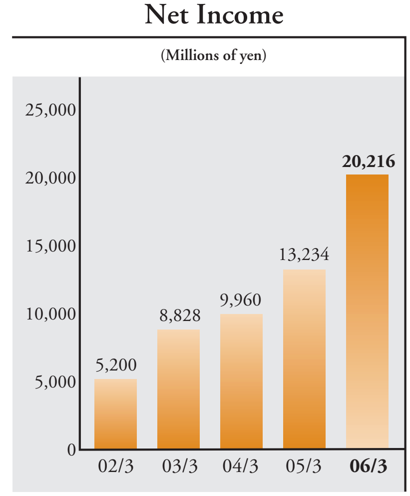
Net Sales



Operating Income



Net Income



Exploration Activities

Exploration expenses rose ¥3,550 million year on year to ¥9,677 million, due to an increase in the amount of exploration conducted.

In Japan, the Company completed exploration drilling off the coast of Tomakomai in Hokkaido, off the coast of Hachinohe in Aomori Prefecture, in the Yurihara and Ayukawa areas in Akita Prefecture, and off the coast of Iwafune in Niigata Prefecture. As of the end of the year under review, JAPEX was conducting exploratory drilling at two wells in Hokkaido, one in the Ebetsu area and the other in the Yufutsu area. Of these, we have received positive results from the well in the Yufutsu area.

Outside Japan, the Company conducted seismic surveys at an offshore block in the Philippines. We also participated in a public auction for E&P blocks in Libya in North Africa, successfully bidding for two blocks. Consolidated subsidiary Japex Libya Ltd. was established in October 2005, and has begun preparatory work for exploration surveys.

For exploration activities conducted through overseas project companies that are not consolidated subsidiaries, the Company records an allowance for losses on overseas investments, with the provision in non-operating expenses. During the year under review, JAPEX invested ¥32 million for exploration activities in Kazakhstan.

NET SALES

In fiscal 2006, JAPEX reported total net sales of ¥138,796 million. Of this amount, net sales in the Oil and Natural Gas Division totaled ¥117,504 million, accounting for 84.7% of total net sales. Sales in the Contract Services Division were ¥7,148 million, or 5.2% of sales, and in the Other Businesses Division ¥14,143 million, representing 10.1% of the total. The analysis that follows covers sales of crude oil and natural gas, representing the largest proportion of sales.

The volume of crude oil sales, excluding bitumen, increased 7.6% to 1,485 thousand kiloliters, while the average unit sales price of crude oil, as mentioned in the previous "Foreign Exchange Rates and Crude Oil Prices" section, rose ¥13,496/kl. As a result, crude oil sales, excluding bitumen, rose 60.1% to ¥61,185 million. Of this total, the sales volume for domestically produced and sold crude oil rose 8.3% to 590 thousand kiloliters, while sales in monetary terms increased 62.1% to ¥23,103 million.

The volume of natural gas sales increased 10.7% to 1,413 million cubic meters, with natural gas sales in monetary terms for fiscal 2006 up 9.2% to ¥43,539 million.

LNG sales volume increased 25 thousand tons year on year to 124 thousand tons. In monetary terms, LNG sales rose 27.9% to ¥6,252 million. Sales volume for bitumen, produced by Japan Canada Oil Sands Limited (a subsidiary of Canada Oil Sands Co, Ltd.), which became a consolidated subsidiary at the end of the previous fiscal year, amounted to 448 thousand kiloliters, with sales on a monetary basis of ¥6,526 million.

REVIEW OF OPERATIONS BY DIVISION

Oil and Natural Gas Division

The Oil and Natural Gas Division handles sales of crude oil, natural gas and LNG. Sales in this division rose 41.6% to ¥117,504 million due to an increase in crude oil sales on the back of surging crude oil prices.

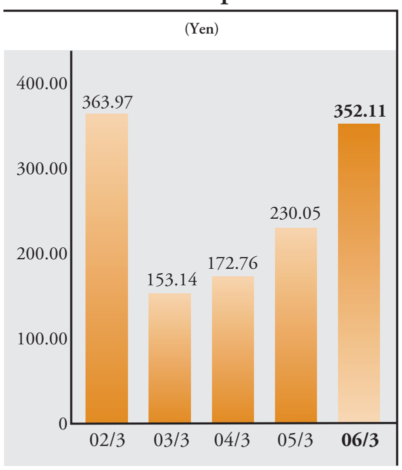
Contract Services Division

The Contract Services Division mainly handles orders for drilling work and geological surveys. Sales in this division rose 2.3% to ¥7,148 million.

Other Businesses Division

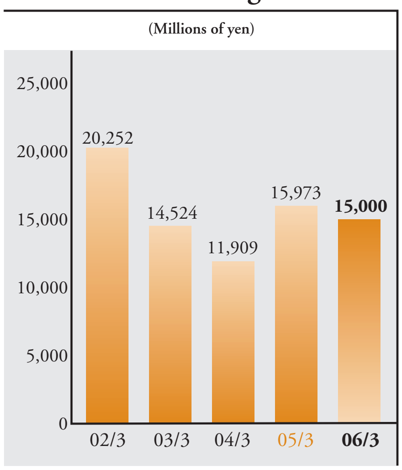
The Other Businesses Division primarily deals with sales of petroleum products such as LPG and fuel oil, the transmission of third-party natural gas and petroleum products, and other consignment orders. Sales in this division rose 14.3% to ¥14,143 million due to an increase in sales of petroleum products.

Net Income per Share

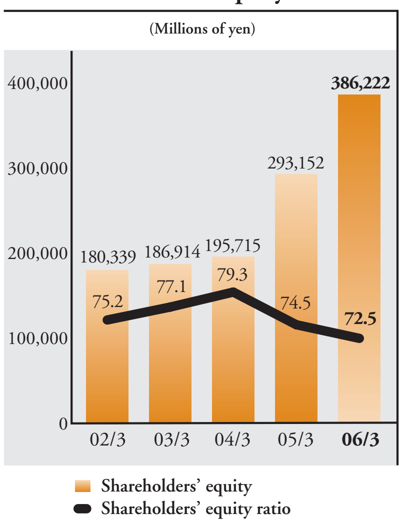


Note: JAPEX conducted a four-for-one stock split on January 1, 2003.

Interest-bearing Debt



Shareholders' Equity/ Shareholders' Equity Ratio



FINANCIAL POSITION

Assets, Liabilities and Shareholders' Equity

Assets

Total assets as of March 31, 2006 stood at ¥532,516 million, up 35.2% from a year earlier. This was due chiefly to valuation gains on shares held by the Company in INPEX CORPORATION.

Current assets increased ¥7,532 million from the end of the previous fiscal year due to increases in notes and accounts receivable and marketable securities.

Property, plant and equipment, net increased ¥6,178 million from a year earlier. Major capital investment included acquisition of gas business assets from the city of Tsubame, drilling of a production well, construction of the Shiroishi-Koriyama gas pipeline, and acquisition of land for expansion of production facilities at the Yufutsu field in Hokkaido.

Investments and long-term loans receivable, and other assets increased ¥125,071 million from the end of the previous fiscal year. This was mainly due to an increase in investments in securities of ¥118,877 million from a year earlier stemming from the rise in share prices of INPEX noted previously.

Liabilities

Total liabilities rose 51.6% to ¥138,531 million from the end of the previous fiscal year.

Although long-term debt (including the current portion of long-term debt) declined by ¥973 million from a year earlier, deferred tax liabilities increased ¥42,343 million following the rise in share prices of INPEX noted previously.

Shareholders' Equity

Shareholders' equity rose 31.7% from the end of the previous fiscal year to ¥386,222 million. Retained earnings rose 9.4% to ¥209,095 million, reflecting net income less dividends and other appropriations. Unrealized holding gains on securities increased ¥73,636 million to ¥161,949 million following the rise in share prices in INPEX noted previously.

As a result, the shareholders' equity ratio declined from 74.5% to 72.5%, while shareholders' equity per share increased from ¥5,127.67 to ¥6,756.00.

Credit guarantees for bank loans taken out by affiliated companies and others, treated as contingent liabilities, rose 24.3% from the end of the previous fiscal year to ¥28,341 million.

CASH FLOWS

As of March 31, 2006, cash and cash equivalents totaled ¥43,082 million, an increase of ¥8,514 million from a year earlier.

Cash Flows From Operating Activities

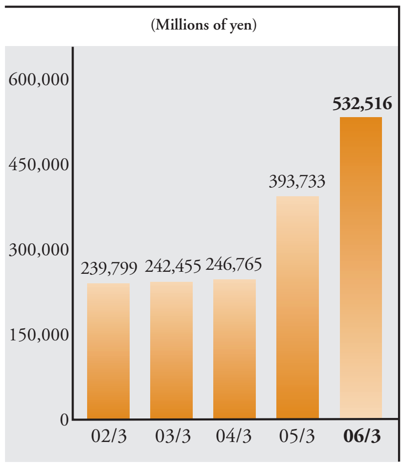
Net cash provided by operating activities was ¥32,850 million, an increase of 49.8% from the previous fiscal year. This was due mainly to an increase in income before income taxes and minority interests of ¥13,037 million.

The payments of debt guarantees totaling ¥7,515 million was for debt payable by Japan China Oil Development Corp. and JJI S&N B.V. Japan China Oil Development Corp. was liquidated in March 2001, but the redemption of its debt guarantees was deferred. JJI S&N B.V. has a 20% participating interest in a development project in the Soroosh and Nowrooz oil fields (Shell Exploration B.V. is the operator) under contract from the National Iranian Oil Company. The company's cash flow temporarily deteriorated, and when this interfered with its repayment of borrowings to the Japan Bank for International Cooperation, JAPEX made the payment on its behalf.

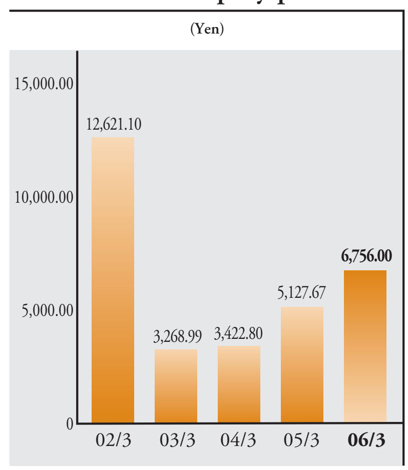
Cash Flows From Investing Activities

Net cash used in investing activities amounted to ¥20,063 million, up 26.9% from the previous fiscal year. The main use of cash was ¥21,042 million in expenditures for acquisition of property, plant and equipment. During fiscal 2006, JAPEX made capital investments that included acquisition of gas business assets from the city of Tsubame, drilling of a production well, construction of the Shiroishi-Koriyama gas pipeline, and acquisition of land for expansion of production facilities at the Yufutsu field in Hokkaido.

Total Assets



Shareholders' Equity per Share



Note: JAPEX conducted a four-for-one stock split on January 1, 2003.

Cash Flows From Financing Activities

Net cash used in financing activities was ¥6,088 million, compared with net cash provided of ¥786 million in the previous fiscal year.

In the previous fiscal year, the main uses of cash were cash dividends paid of ¥3,047 million, repayment of long-term debt of ¥2,311 million and other factors, but cash increased in total due to proceeds from long-term debt of ¥7,000 million. During the year under review, cash was provided by long-term debt totaling ¥8,000 million, but this was more than offset by repayment of long-term debt totaling ¥8,973 million, along with cash dividends paid of ¥2,752 million and other factors.

RISK FACTORS

The following is a list of significant risk factors that could affect JAPEX's business results, including, but not limited to, stock price and financial condition.

Business Risks

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

Factors Affecting Sales of Crude Oil

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

Factors Affecting Sales of Natural Gas

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

Fluctuation in Earnings Due to the Level of Exploration Investment

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

Overseas Business Risks

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

Effect of Energy Market Liberalization

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

JAPEX Shares Held by the Government

JAPEX shares (49.94%) held by the former Japan National Oil Corporation (JNOC) were transferred to the Japanese government (The Minister of Economy, Trade and Industry) on April 1, 2005, following the dissolution of JNOC. There is a possibility that these government-held shares could be sold, which depending on the timing, method and volume of any sale, could affect the Company's stock price.

CONSOLIDATED BALANCE SHEETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥ 43,082	¥ 34,568	$ 368,222
Time deposits	1,217	491	10,402
Short-term investments in securities (Note 4)	1,306	4,602	11,162
Notes and accounts receivable:			
Non-consolidated subsidiaries and affiliates	955	408	8,162
Trade	17,757	13,504	151,769
Less: Allowance for doubtful receivables	(19)	(17)	(162)
	18,693	13,895	159,769
Inventories (Note 5)	8,794	9,158	75,162
Deferred tax assets (Note 8)	837	706	7,154
Other current assets	4,389	7,365	37,513
Total current assets	78,321	70,788	669,410
Investments and long-term loans receivable:			
Investments in securities (Notes 4, 6 and 7)	335,345	216,467	2,866,197
Long-term other receivables	9,351	–	79,923
Less: Allowance for losses on overseas investments (Note 6)	(9,095)	(8,312)	(77,735)
	335,600	208,155	2,868,376
Long-term loans receivable	1,827	2,366	15,615
Total investments and long-term loans receivable	337,428	210,521	2,884,000
Property, plant and equipment (Note 7):			
Land	13,131	11,191	112,231
Buildings and structures	116,219	113,155	993,325
Wells	37,012	31,401	316,342
Machinery and equipment	68,561	64,095	585,991
Other property, plant and equipment	17,303	13,003	147,889
	252,228	232,847	2,155,795
Less: Accumulated depreciation	(151,116)	(137,913)	(1,291,590)
Property, plant and equipment, net	101,112	94,933	864,205
Other assets:			
Deferred tax assets (Note 8)	432	457	3,692
Other	15,220	17,031	130,085
Total assets	¥ 532,516	¥ 393,733	$ 4,551,419

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 3) 2006
Current liabilities:			
Current portion of long-term debt (Note 7)	¥ –	¥ 8,973	$ –
Notes and accounts payable:			
Non-consolidated subsidiaries and affiliates	73	126	624
Trade	8,122	2,920	69,419
	8,195	3,047	70,043
Accrued income taxes (Note 8)	6,208	992	53,060
Other current liabilities	11,157	16,092	95,359
Total current liabilities	25,561	29,105	218,470
Long-term liabilities:			
Long-term debt (Note 7)	15,000	7,000	128,205
Deferred tax liabilities (Note 8)	88,556	46,213	756,889
Accrued retirement benefits for employees (Note 9)	4,735	3,831	40,470
Accrued retirement benefits for officers	761	773	6,504
Accrued estimated cost of abandonment	2,943	2,690	25,154
Accrual for losses on projects	871	1,688	7,444
Other long-term liabilities	100	77	855
Total long-term liabilities	112,969	62,275	965,547
Minority interests in consolidated subsidiaries	7,762	9,199	66,342
Shareholders' equity:			
Common stock:			
Authorized — 120,000,000 shares			
Issued — 57,154,776 shares	14,288	14,288	122,120
Retained earnings (Notes 10 and 17)	209,095	191,116	1,787,137
Unrealized holding gains on securities	161,949	88,313	1,384,179
Translation adjustments	894	(561)	7,641
	386,227	293,156	3,301,085
Less: Treasury stock, at cost; 1,090 shares in 2006 and 954 shares in 2005	(4)	(4)	(34)
Total shareholders' equity	386,222	293,152	3,301,043
Contingent liabilities (Note 14)			
Total liabilities and shareholders' equity	¥532,516	¥393,733	$4,551,419

CONSOLIDATED STATEMENTS OF INCOME

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥138,796	¥103,150	$1,186,291
Cost of sales	77,433	61,046	661,821
Gross profit	61,362	42,104	524,462
Exploration expenses	9,677	6,127	82,709
Selling, general and administrative expenses (Note 12)	24,666	21,298	210,821
Operating income	27,018	14,678	230,923
Other income (expenses):			
Interest and dividend income	3,916	2,833	33,470
Interest expense	(144)	(261)	(1,231)
Gain on sales of securities, net	129	3	1,103
Loss on devaluation of securities	(1)	(121)	(9)
Loss on disposal of property, plant and equipment	(101)	(665)	(863)
Reversal of allowance for losses on overseas investments	–	1,376	–
Reversal of accrual for losses on projects	814	957	6,957
Provision for accrued estimated cost of abandonment	(522)	(513)	(4,462)
Provision for allowance for losses on overseas investments	(784)	–	(6,701)
Equity in earnings (losses) of non-consolidated subsidiaries and affiliates	(587)	116	(5,017)
Reversal of allowance for doubtful receivables	77	–	658
Other, net	1,352	(274)	11,556
	4,148	3,451	35,453
Income before income taxes and minority interests	31,166	18,129	266,376
Income taxes (Note 8)**:**			
Current	8,845	1,801	75,598
Deferred	448	2,469	3,829
	9,294	4,270	79,436
Income before minority interests	21,872	13,859	186,940
Minority interests	(1,655)	(624)	(14,145)
Net income (Note 17)	¥ 20,216	¥ 13,234	$ 172,786

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Common stock:			
Beginning of year	¥ 14,288	¥ 14,288	$ 122,120
End of year	¥ 14,288	¥ 14,288	$ 122,120
Retained earnings:			
Beginning of year	¥191,116	¥180,826	$1,633,470
Net income	20,216	13,234	172,786
Cash dividends paid	(2,143)	(2,857)	(18,316)
Bonuses to directors and statutory auditors	(95)	(86)	(812)
Decrease in consolidated subsidiaries	(0)	–	(0)
End of year	¥209,095	¥191,116	$1,787,137
Unrealized holding gains on securities:			
Beginning of year	¥ 88,313	¥ 3,412	$ 754,812
Net change during the year	73,636	84,900	629,368
End of year	¥161,949	¥ 88,313	$1,384,179
Translation adjustments:			
Beginning of year	¥ (561)	¥ (2,810)	$ (4,795)
Net change during the year	1,456	2,248	12,444
End of year	¥ 894	¥ (561)	$ 7,641
Treasury stock:			
Beginning of year	¥ (4)	¥ (1)	$ (34)
Net change during the year	(0)	(2)	(0)
End of year	¥ (4)	¥ (4)	$ (34)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Operating activities:			
Income before income taxes and minority interests	¥ 31,166	¥ 18,129	$ 266,376
Depreciation and amortization	13,951	14,081	119,239
Amortization of goodwill	946	–	8,085
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	587	(116)	5,017
Interest and dividends income	(3,916)	(2,833)	(33,470)
Interest expense	144	261	1,231
Loss (gain) on sales and redemptions of securities, net	(334)	212	(2,855)
Loss on devaluation of securities	1	121	9
Increase in accrued retirement benefits	903	244	7,718
Increase (decrease) in accrued estimated cost of abandonment	97	(12)	829
Decrease in allowance for losses on overseas investments and accrual for losses on projects	(30)	(2,173)	(256)
Increase in notes and accounts receivable	(4,766)	(1,823)	(40,735)
Decrease (increase) in inventories	363	(3,042)	3,103
Increase in notes and accounts payable	6,260	152	53,504
Other, net	(2,575)	2,873	(22,009)
Subtotal	42,799	26,075	365,803
Payments of debt guarantees	(7,515)	–	(64,231)
Income taxes paid	(2,432)	(4,139)	(20,786)
Net cash provided by operating activities	32,850	21,936	280,769
Investing activities:			
(Increase) decrease in time deposits	(741)	300	(6,333)
Acquisition of property, plant and equipment	(21,042)	(11,978)	(179,846)
Proceeds from sales of property, plant and equipment	79	550	675
Acquisition of securities	(17,818)	(14,688)	(152,291)
Proceeds from sales and redemptions of securities	16,329	11,655	139,564
Acquisition of subsidiaries' stocks with change in the scope of consolidation	–	(2,269)	–
Increase in loans receivable	(774)	(940)	(6,615)
Interest and dividends received	4,124	2,815	35,248
Other, net	(220)	(1,248)	(1,880)
Net cash used in investing activities	(20,063)	(15,805)	(171,479)
Financing activities:			
Decrease in short-term bank loans	(158)	(600)	(1,350)
Proceeds from long-term debt	8,000	7,000	68,376
Repayment of long-term debt	(8,973)	(2,311)	(76,692)
Acquisition of treasury stock	(0)	(2)	(0)
Cash dividends paid	(2,752)	(3,047)	(23,521)
Interest paid	(174)	(252)	(1,487)
Payment of capital reduction for minority interests	(2,029)	–	(17,342)
Net cash used in (provided by) financing activities	(6,088)	786	(52,034)
Effect of exchange rate changes on cash and cash equivalents	1,020	(199)	8,718
Cash and cash equivalents at beginning of year	34,568	27,851	295,453
Increase in cash and cash equivalents due to merger	870	–	7,436
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	(76)	–	(650)
Cash and cash equivalents at end of year	¥ 43,082	¥ 34,568	$ 368,222

See notes to consolidated financial statements

1. BASIS OF PREPARATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(2) Foreign currency translation

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

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

The balance sheet accounts of the foreign consolidated subsidiaries, except for shareholders' equity, the components of which are translated at the historical exchange rates, are translated into yen at the rates of exchange in effect at the balance sheet date. Revenue and expense accounts are also translated at the rates of exchange in effect at the balance sheet date.

Translation adjustments are presented as a component of shareholders' equity and minority interests in the consolidated financial statements.

(3) Cash equivalents

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

(4) Securities

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

(5) Inventories

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

(6) Property, plant and equipment and depreciation

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

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

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

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

The Company and its domestic consolidated subsidiaries changed the residual value of wells, etc., to the economic residual value (memorandum value: ¥1) estimated by the Company and its domestic consolidated subsidiaries based on their scrap value and alternative usage of the assets instead of five percent of their acquisition costs.

(7) Leases

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

(8) 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. 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 (mainly 10 years) which is within and shorter than the average remaining years of service of the employees.

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

(9) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(10) Allowance for losses on overseas investments

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

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

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

(13) Research and development costs
Research and development costs are charged to income when incurred.

(14) Appropriation of retained earnings
Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The appropriations for that period are not, therefore, reflected in the consolidated balance sheets of respective years. See Note 17.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at the rate of ¥117=U.S.$1.00, the approximate rate of exchange in effect on March 31, 2006. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. SECURITIES

(a) Information regarding marketable securities classified as other securities as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥27,336	¥279,329	¥251,993	$233,641	$2,387,427	$2,153,786
Bonds:						
Government bonds	3,725	4,146	420	31,838	35,436	3,590
Corporate bonds	1,393	1,488	94	11,906	12,718	803
Other debt securities	6,274	6,412	137	53,624	54,803	1,171
Others	9,490	11,903	2,412	81,111	101,735	20,615
Subtotal	48,220	303,280	255,059	412,137	2,592,137	2,179,991
Securities whose acquisition cost exceeds or is equal to their carrying value:						
Stock	51	48	(3)	436	410	(26)
Bonds:						
Government bonds	991	969	(22)	8,470	8,282	(188)
Corporate bonds	13,548	13,470	(78)	115,795	115,128	(667)
Other debt securities	10,533	9,561	(971)	90,026	81,718	(8,299)
Others	2,733	2,689	(44)	23,359	22,983	(376)
Subtotal	27,858	26,738	(1,119)	238,103	228,530	(9,564)
Total	¥76,079	¥330,019	¥253,940	$650,248	$2,820,675	$2,170,427

March 31, 2005	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥19,180	¥156,677	¥137,497
Bonds:			
Government bonds	2,467	2,765	297
Corporate bonds	4,535	4,915	379
Other debt securities	7,672	7,829	157
Others	5,620	6,953	1,332
Subtotal	39,477	179,142	139,665
Securities whose acquisition cost exceeds or is equal to their carrying value:			
Stock	955	882	(73)
Bonds:			
Government bonds	3,738	3,528	(210)
Corporate bonds	568	539	(28)
Other debt securities	11,182	10,579	(603)
Others	6,032	5,829	(202)
Subtotal	22,477	21,358	(1,119)
Total	¥61,954	¥200,500	¥138,545

(b) Sales of securities classified as other securities amounted to ¥2,661 million ($22,744 thousand) with aggregate gain and loss of ¥222 million ($1,897 thousand) and ¥93 million ($795 thousand), respectively, for the year ended March 31, 2006.

For the year ended March 31, 2005, sales of securities classified as other securities amounted to ¥4,201 million with aggregate gain and loss of ¥148 million and ¥145 million, respectively.

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

March 31, 2006	Millions of yen Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:				
Government bonds	¥ –	¥1,889	¥2,916	¥ 310
Corporate bonds	12,800	860	1,009	288
Other debt securities	502	6,471	2,602	6,397
Others	–	512	100	153
Total	¥13,303	¥9,733	¥6,628	¥7,148

March 31, 2006	Thousands of U.S. dollars Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:				
Government bonds	$ –	$16,145	$24,923	$ 2,650
Corporate bonds	109,402	7,350	8,624	2,462
Other debt securities	4,291	55,308	22,239	54,675
Others	–	4,376	855	1,308
Total	$113,701	$83,188	$56,650	$61,094

5. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Merchandise and finished products	¥3,538	¥3,449	$30,239
Raw materials and supplies	4,112	2,769	35,145
Construction projects in progress	1,143	2,938	9,769
	¥8,794	¥9,158	$75,162

6. INVESTMENTS IN SECURITIES, LONG-TERM OTHER RECEIVABLES AND ALLOWANCE FOR LOSSES ON OVERSEAS INVESTMENTS

Investments in securities, long-term other receivables and the allowance for losses on overseas investments at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non-consolidated subsidiaries and affiliates:			
Investments in securities	¥ 9,513	¥ 11,687	$ 81,308
Long-term other receivables	9,351	–	79,923
Less: Allowance for losses on overseas investments	(2,031)	(1,148)	(17,359)
	16,833	10,539	143,872
Other securities:			
Listed stocks	279,378	157,560	2,387,846
Unlisted stocks and others	46,453	47,219	397,034
Less: Allowance for losses on overseas investments	(7,064)	(7,164)	(60,376)
	318,767	197,615	2,724,504
	¥335,600	¥208,155	$2,868,376

7. LONG-TERM DEBT

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans from banks and others, at interest rates ranging from 0.11% to 1.70%:			
Secured	¥ –	¥ 1,632	$ –
Unsecured	15,000	14,341	128,205
	15,000	15,973	128,205
Less: Current portion	(–)	(8,973)	(–)
	¥15,000	¥ 7,000	$128,205

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ –	$ –
2008	1,722	14,718
2009 and after	13,278	113,487
	¥15,000	$128,205

Assets pledged as collateral for long-term debt at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Property, plant and equipment – at net book value	¥ –	¥10,191	$ –

The Company and certain consolidated subsidiaries have entered into overdraft agreements amounting to ¥16,050 million ($137,179 thousand) with five banks.

8. 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, 2006 and 2005. Income taxes of two foreign consolidated subsidiaries are based principally on the tax rates applicable in their country of incorporation.

The effective tax rates reflected in the consolidated statements of income and retained earnings for the years ended March 31, 2006 and 2005 differed from the statutory tax rate for the following reasons:

	2006	2005
Statutory tax rate	36.2%	36.2%
Effect of:		
Net loss carryforward of consolidated subsidiaries	(0.9)	(1.2)
Exploration cost deducted for income tax purposes	(5.9)	(9.3)
Expenses not deductible for income tax purposes	0.6	0.9
Dividend income deductible for income tax purposes	(0.8)	(1.1)
Other, net	0.7	(2.0)
Effective tax rates	29.8%	23.6%

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for losses on overseas investments	¥ 2,474	¥ 2,725	$ 21,145
Accrual for losses on projects	315	287	2,692
Net loss carryforward	8,018	8,236	68,530
Accrued retirement benefits for employees	1,731	1,370	14,795
Accrued retirement benefits for officers	296	298	2,530
Accrued estimated cost of abandonment	854	809	7,299
Finished products	998	1,019	8,530
Other	8,382	7,097	71,641
	23,071	21,845	197,188
Valuation allowance	(9,551)	(8,729)	(81,632)
Total deferred tax assets	13,520	13,115	115,556
Deferred tax liabilities:			
Reserve for exploration	(8,445)	(7,693)	(72,179)
Unrealized holding gain on securities	(91,957)	(50,168)	(785,957)
Reserve for advanced depreciation of fixed assets	(179)	(122)	(1,530)
Other	(224)	(180)	(1,915)
Total deferred tax liabilities	(100,807)	(58,165)	(861,598)
Net deferred tax assets (liabilities)	¥ (87,286)	¥(45,049)	$(746,034)

9. 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, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(15,177)	¥(14,923)	$(129,718)
Plan assets at fair value	10,160	8,715	86,838
Unfunded retirement benefit obligation	(5,017)	(6,208)	(42,880)
Unrecognized actuarial loss	282	2,377	2,410
Accrued retirement benefits for employees	¥ (4,735)	¥ (3,831)	$ (40,470)

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 758	¥ 697	$ 6,479
Interest cost	280	289	2,393
Expected return on plan assets	(130)	(130)	(1,111)
Amortization of actuarial loss	361	391	3,085
Amortization of prior service cost	–	0	–
Other	53	69	453
Total	¥1,324	¥1,317	$11,316

The assumptions used in accounting for the above plan as of March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rates	Mainly 2.0%	Mainly 2.0%
Expected rates of return on plan assets	Mainly 1.5%	Mainly 1.5%

10. RETAINED EARNINGS

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥3,572 million ($30,530 thousand) and ¥3,572 million as of March 31, 2006 and 2005, respectively.

11. DEPRECIATION

Depreciation of property, plant and equipment charged to income for the years ended March 31, 2006 and 2005 amounted to ¥13,118 million ($112,120 thousand) and ¥13,382 million, respectively.

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were ¥339 million ($2,897 thousand) and ¥841 million, respectively.

13. LEASES

(1) Finance Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition costs:			
Machinery and equipment	¥1,308	¥440	$11,179
Other	265	402	2,265
	¥1,574	¥843	$13,453
Accumulated depreciation:			
Machinery and equipment	¥ 231	¥235	$ 1,974
Other	136	281	1,162
	¥ 367	¥517	$ 3,137
Net book value:			
Machinery and equipment	¥1,077	¥205	$ 9,205
Other	129	120	1,103
	¥1,207	¥325	$10,316

Lease payments relating to finance leases accounted for as operating leases amounted to ¥203 million ($1,735 thousand) and ¥214 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, 2006 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 222	$ 1,897
2008 and thereafter	984	8,410
	¥1,207	$10,316

(2) Operating Leases

Future minimum lease payments subsequent to March 31, 2006 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 69	$ 590
2008 and thereafter	194	1,658
	¥264	$2,256

14. CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of others:		
Affiliated company	¥ 805	$ 6,880
Employees	1,826	15,607
Others	25,709	219,735
	¥28,341	$242,231

15. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are engaged in the oil and natural gas segment and other segments. As the net sales, operating income and total assets of the oil and natural gas segment constituted more than 90% of the consolidated totals for the years ended March 31, 2006 and 2005, the disclosure of business segment information has been omitted.

The disclosure of geographical segment information has also been omitted as net sales and total assets of the foreign operations constituted less than 10% of the consolidated totals for both the years ended March 31, 2006 and 2005.

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, 2006 and 2005 are summarized as follows:

					Millions of yen
Year ended March 31, 2006	Southeast Asia	East Asia	North America	Other Area	Total
Overseas sales	¥5,328	¥11,588	¥6,768	¥212	¥ 23,897
Consolidated net sales	–	–	–	–	138,796
					Thousands of U.S. dollars
Overseas sales	$45,538	$99,043	$57,846	$1,812	$ 204,248
Consolidated net sales	–	–	–	–	1,186,291
Overseas sales as a percentage of consolidated net sales	3.84%	8.35%	4.88%	0.15%	17.22%

				Millions of yen
Year ended March 31, 2005	Southeast Asia	East Asia	Other Area	Total
Overseas sales	¥12,864	¥5,116	¥204	¥ 18,185
Consolidated net sales	–	–	–	103,150
Overseas sales as a percentage of consolidated net sales	12.47%	4.96%	0.20%	17.63%

16. DERIVATIVE TRANSACTIONS

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

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

No specific disclosure for derivatives has been made as the Company holds derivative positions which meet the criteria for deferral hedge accounting as of March 31, 2006 and 2005.

17. AMOUNTS PER SHARE

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

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

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

	Yen		U.S. dollars
	2006	2005	2006
Net income	¥ 352.11	¥ 230.05	$ 3.009
Net assets	6,756.00	5,127.67	57.744
Cash dividends applicable to the year	40.00	37.50	0.342

18. SUBSEQUENT EVENTS

(1) Appropriation of retained earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a shareholders' meeting held on June 27, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥25.0=$0.214 per share)	¥1,428	$12,205
Bonuses to directors and statutory auditors	80	684

(2) The establishment of affiliates

a) The Company entered into an agreement to acquire one third of the shares of Mobil Block A Ltd., a subsidiary of ExxonMobil, which owns a 50% working interest of Block A in North Sumatra, Indonesia, and established a new subsidiary, "Japex Block A Ltd." on April 26, 2006 to promote exploration and development of oil and gas in the block. The Company transferred its whole shares to Japex Block A Ltd. on June 22, 2006.

b) The Company established a new subsidiary, "Japex Philippines Ltd." on May 26, 2006 to promote exploration and development of oil and gas in the SC 46 block, the Philippines of which the Company entered into a service contract with the Department of Energy on December 21, 2004 and has conducted seismic surveys with holding a 65% working interest. The Company transferred its whole rights, obligations and interests to Japex Philippines Ltd.

ERNST & YOUNG SHINNIHON

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

■ Tel : 03 3503 1100
Fax : 03 3503 1197

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

We have audited the accompanying consolidated balance sheets of Japan Petroleum Exploration Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, 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, 2006 and 2005, 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, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 27, 2006

MAJOR 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 Niigata City, Niigata Prefecture and other areas	3,000	100.00
Japex Pipeline Ltd.	Maintenance and management of pipelines	80	100.00
JGI, Inc.	Seismic data acquisition and processing services	2,100	100.00
Geophysical Surveying Co., Ltd.	Electrical well logging and mud logging services	446	100.00
JAPEX (U.S.) Corp.	An investor in the Malaysia LNG Project	113,900 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited	Exploration and development of oil sands in Canada and related production	302,070 (Thousands of Canada dollars)	100.00 (100.00)
Canada Oil Sands Co., Ltd.	Investment in exploration and development of oil sands through Japan Canada Oil Sands Limited	1,682	87.98 (1.34)
North Japan Security Service Co., Ltd.	Security services	30	86.67
Japex New Nanhai Ltd.	Production of petroleum in the South China Sea	2,300	82.00
Japex Offshore Ltd.	Exploration and production of petroleum on the continental shelf of the Sea of Japan	5,963	70.61
Jawa Oil Co., Ltd.	Provide loans to Indonesia's state-run Pertamina	400	67.50
Japex Libya Ltd.	Exploration and production of petroleum in Libya	1,000	100.00

Note: Numbers in parentheses under voting rights represent indirect shareholdings

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

CORPORATE DATA (As of March 31, 2006)

Company Name	Japan Petroleum Exploration Co., Ltd. (Abbreviation: JAPEX)
Service Logo	JAPEX
Establishment	April 1, 1970
Paid-in Capital	14,288,694 thousand yen
Fiscal Year	April 1 to March 31
Main Offices	Headquarters (see below), Sapporo, Akita, Nagaoka, Research Center (Chiba), London, Houston, Jakarta, Beijing, Dubai
Headquarters	NYK Tennoz Bldg., 2-2-20 Higashi-Shinagawa, Shinagawa-ku, Tokyo 140-0002, Japan TEL: 03 (5461) 7300 FAX: 03 (5461) 7400 URL: http://www.japex.co.jp/

Directors, Auditors and Officers (As of June 27, 2006)

Chairman
Kazuo Wakasugi

President & Chief Executive Officer
Yuji Tanahashi

Executive Vice Presidents & Executive Officers
Tetsuo Awano
Tadashi Sagai

Managing Directors & Executive Officers
Tadatsuna Koda
Katsuo Suzuki
Norihiko Sawara
Hiroshi Sato
Nobuzo Ichikawa
Masaki Hattori
Shoichi Ishii
Chikao Yoshida

Corporate Auditors
Kiyoshi Wazumi
Tsutomu Sugiura
Masahiko Kadotani
Kisaburo Ikeda

Managing Executive Officers
Toshihiro Ohara
Toshio Ibi
Mitsuru Saito
Yoichi Ohta
Hajime Nakamura

Executive Officers
Ken Fujii
Yutaka Aoki
Junichi Matsumoto
Nobuyuki Ogura

Stock Information (As of March 31, 2006)

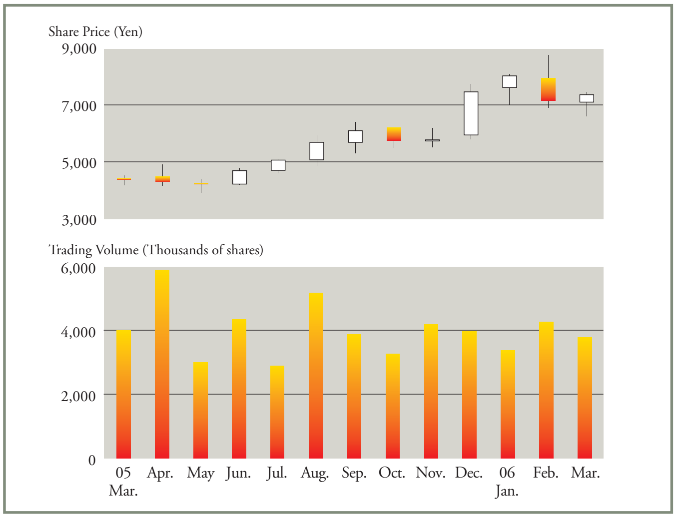
Exchange Listing	Tokyo Stock Exchange, First Section (Securities Code Number: 1662)
Common Stock	Authorized: 120,000,000 shares Issued: 57,154,776 shares
Number of Shareholders	5,365

Major Shareholders

Shareholders	Shares	Voting Rights (%)
The Minister of Economy, Trade and Industry	28,543,724	49.94
Teikoku Oil Co., Ltd.	2,847,612	4.98
JFE Engineering Corporation	1,848,012	3.23
Japan Trustee Services Bank, Ltd.	1,444,800	2.53
The Master Trust of Japan, Ltd.	1,129,500	1.98
Mizuho Corporate Bank, Ltd.	920,152	1.61
State Street Bank and Trust Company	906,900	1.59
Nippon Petroleum Refining Co., Ltd.	872,456	1.53
Nippon Oil Corporation	763,400	1.34
Itochu Corporation	698,000	1.22

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

Share Price and Trading Volume



Japan Petroleum Exploration Co., Ltd.

This Annual Report was printed on FSC-approved paper using 100% vegetable ink and waterless printing processes.

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SA-COC-1210
© 1996 Forest Stewardship Council

Vegetable INK for waterless printing
Non Volatile Organic Compounds

Printed in Japan