Japan Petroleum Exploration Co., Ltd.

JAPEX

ANNUAL REPORT **2010**

For The Year Ended March 31, 2010

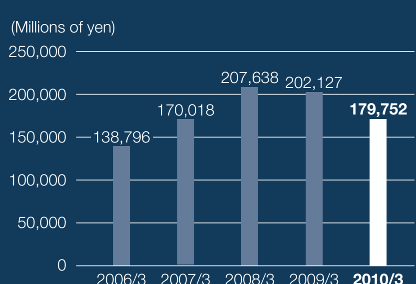
FINANCIAL HIGHLIGHTS

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

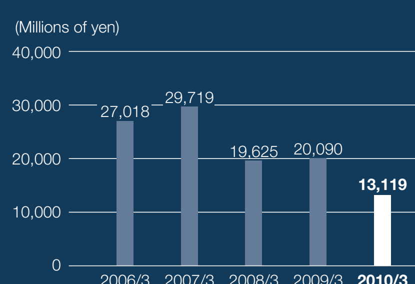
	2010	2009	2008	2010
			Millions of yen	Thousands of U.S. dollars*
For the year:				
Net sales	**¥179,752**	¥202,127	¥207,638	**$1,932,827**
Cost of sales	**125,467**	134,447	143,682	**1,349,110**
Exploration expenses	**10,396**	15,352	13,559	**111,790**
Selling, general and administrative expenses	**30,769**	32,237	30,770	**330,859**
Operating income	**13,119**	20,090	19,625	**141,068**
Net income	**17,939**	12,560	20,097	**192,895**
At year-end:				
Total assets	**¥521,009**	¥500,444	¥620,946	**$5,602,250**
Net assets	**398,747**	378,227	448,226	**4,287,605**
Long-term loans payable	**24,471**	25,325	21,922	**263,136**
			Yen	U.S. dollars
Per share data:				
Net assets per share	**¥6,839.05**	¥6,486.85	¥7,696.00	**$73.54**
Net income per share	**313.88**	219.77	351.65	**3.38**
Cash dividends per share (full-year)	**40.00**	40.00	40.00	**0.43**
Other data:				
Number of employees	**1,735**	1,678	1,622	**1,735**

* Exchange rate: ¥93/$

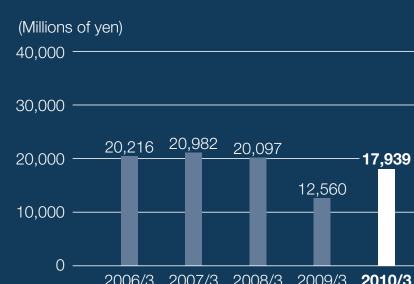
Net Sales



Operating Income



Net Income



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.

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.

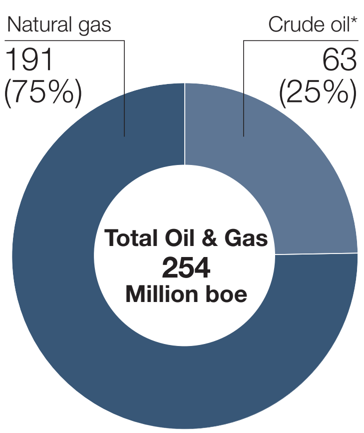
Pursue sustainable growth and maximize shareholder value by placing top priority on maintaining mutual trust between society, customers, shareholders and employees.

Profile

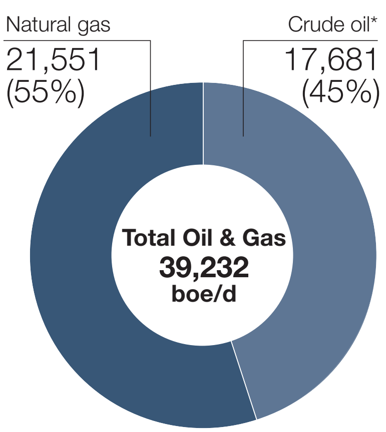
Japan Petroleum Exploration Co., Ltd. (JAPEX) is a leading Japanese upstream company engaged in crude oil and natural gas exploration and production (E&P) activities both in Japan and overseas. The Group is headquartered in Tokyo and employs nearly 1,700 people world-wide.

JAPEX was founded in December 1955 as a special purpose company through a government initiative. With the primary objective to enhance Japan's self-sufficiency ratio, JAPEX has continued to explore and produce crude oil and natural gas in Japan while expanding its activities overseas. As a result, after launching operations with zero reserves, JAPEX has since established a sound operating base underpinned by numerous new discoveries. Between 1967 and 1970, JAPEX was incorporated into the Japan Petroleum Development Corporation (JPDC) as its E&P operating body. Thereafter, JAPEX was separated and re-established as a private-sector company under the former Commercial Code in April 1970. JAPEX listed on the First Section of the Tokyo Stock Exchange in December 2003.

Proved Reserves
(End of March 2010)



Daily Production
(Consolidated / Fiscal 2009)



* Crude oil includes bitumen.

Business Domains

Acquisition of Oil and Gas Block Interests

- Mining and E&P rights application
- Negotiation
- Project bidding

Exploration

- Geological surveys
- Geophysical surveys
- Exploration well drilling
- Appraisal well drilling
- Evaluation of reserves

Development

- Production well drilling
- Facility construction
- Oil and gas production

Transportation, Supply and Sales

Natural gas: pipelines
LNG: tank containers and tank tracks
Crude oil: oil tankers and tank trucks

Contents

To Our Shareholders and Investors

Taking on the challenge of enhancing corporate value through efforts that both increase reserves and contribute to the stable supply of energy

Osamu Watanabe
President & Chief Executive Officer

To Our Shareholders and Investors

Business Circumstances and Operating Performance in Fiscal 2010

Business Circumstances

Challenging Market Conditions Continue

In fiscal 2010, Japan's economy weakened amid a large dip in corporate-sector earnings at the start of the fiscal year, and rapidly deteriorating employment conditions. Starting in the summer, however, signs of recovery were visible and by the end of the fiscal year corporate-sector earnings had improved. This would suggest that Japan's economy is on the verge of a recovery. Yet, as the nation's unemployment rate remains at a high level, there is little or no indication of a change in what is a persistently difficult operating climate.

The Japan Crude Cocktail (JCC) price* at the outset of fiscal 2010 was stuck around the mid US$40 per barrel range. By the summer, however, prices had rapidly increased to around US$70 per barrel. After reaching this plateau, prices trended largely sideways, as the JCC price came in slightly below US$80 per barrel at the end of the fiscal year 2010.

Concerning the dollar-yen exchange rate, the yen gained strength and momentum from the upper ¥90s per dollar range at the start of fiscal 2010, eventually settling around ¥90 to the dollar starting from the beginning of autumn and lasting through to the end of the fiscal year.

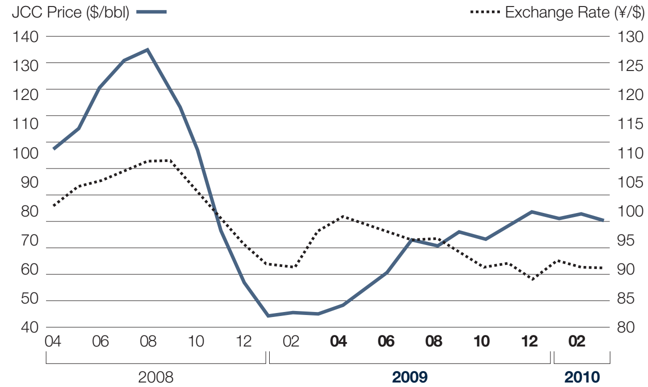
As a result, our average cost of crude oil for fiscal 2010 dropped by a wide margin compared with the previous fiscal year.

In addition, amid the ongoing slump in natural gas demand due to the poor economic conditions, the JAPEX Group continues to face a very challenging market circumstance.

Under these circumstances, and with the advent of the feedstock cost adjustment system applicable to mixtures of domestically produced natural gas and imported LNG, steps were taken to review a portion of the Company's natural gas sales pricing mechanism.

* The average price of customs-cleared crude oil imports into Japan, including the cost of insurance and freight.

Trends in the Japan Crude Cocktail (JCC) Price and Exchange Rates (April 2008 – March 2010)



Operating Performance

Net Income and Total Assets Up Year on Year

Under these circumstances, the JAPEX Group made efforts to ensure safe and stable production and transportation, while focusing on efficiency in its E&P activities in Japan and overseas as the means to achieving the stable, long-term supply of energy essential for daily life. As a result, JAPEX recorded consolidated net sales of ¥179,752 million for fiscal 2010, down ¥22,374 million compared with fiscal 2009. From a profit perspective, operating income was ¥13,119 million, a decrease of ¥6,971 million year on year, while net income in fiscal 2010 totaled ¥17,939 million, a year-on-year increase of ¥5,378 million.

In addition, total assets at the end of fiscal 2010 grew ¥20,565 million compared to the end of the previous fiscal year to ¥521,009 million. Total liabilities increased ¥45 million to ¥122,261 million and net assets increased ¥20,519 million to ¥398,747 million. As a result, the equity ratio was 75.0%.

Follow-Up Our Mid-Term Business Plan and Three Key Management Tasks

In May 2008, JAPEX announced its Mid-Term Business Plan for the five-year period from fiscal 2009 to fiscal 2013, setting out basic strategies for business expansion as well as targets for sales volume, reserves, profit and loss and cash flows.

The Mid-Term Business Plan was partially revised in May 2009 to account for the drastic changes in business conditions that occurred in the wake of the rapid deterioration in the international economy from the summer of 2008 as well as the sharp decline in crude oil prices. Our three key management tasks aimed at expanding operations, however, were unchanged, as we continued to take consistent measures in fiscal 2010.

Taking into consideration changes in our business circumstances since May 2009, and particularly indications of a recovery in economic conditions and the steady upswing in crude oil prices, we took steps to conduct a follow-up of our Mid-Term Business Plan in May 2010. In the context of this follow-up, we provide a report on the status of recent initiatives and efforts to achieve established numerical targets for each of the three key management tasks as follows.

Initiatives Aimed at Addressing Three Key Management Tasks

Recent Initiatives

Sustaining and increasing reserves through exploration and development

- Acquisition of the E&P right relating to the Garraf oilfield in Iraq
- Acquisition of an interest in the coalbed methane (CBM) block in Indonesia
- Examination of the Hangingstone oilsands expansion project in Canada

Strengthening our natural gas integrated operation system

- Acquisition of Japex Energy Co., Ltd. shares
- Clarification of the decision to construct an LNG terminal in the Yufutsu area (Hokkaido) for domestic vessels

Pursuing technological R&D activities and initiatives to address global environmental challenges

- Implementation of CCS* feasibility studies for large-scale CCS demonstrations through Japan CCS Co., Ltd.
- Construction of an environmentally friendly facility for processing flared gas in the Hokkaido division office

* CCS is the acronym for Carbon dioxide Capture and Storage.

Mid-Term Business Plan Follow-Up

May 2008

Mid-Term Business Plan (FY2009-FY2013)

Key Management Tasks

1. Sustaining and increasing reserves through exploration and development
2. Strengthening our natural gas integrated operation system
3. Pursuing technological R&D activities and initiatives to address global environmental challenges

Specific Policies and Approaches

- Target Proved Reserves
- Target Natural Gas Sales Volume
- Target Income and Expenditure

Rapid deterioration in international economic conditions
Sharp decline in crude oil prices

May 2009

Partial revision to the Mid-Term Business Plan

May 2010

Reflects business circumstance changes after May 2009

Plan and conduct follow-up of the Mid-Term Business Plan

Mid-Term Business Plan

Assumptions Relating to Crude Oil Prices and Foreign Exchange Rates

Taking into consideration steady recovery from and beyond fiscal 2011, assumptions regarding crude oil prices were revised to US$80 per barrel. Assumptions regarding foreign exchange rates remain unchanged at ¥90 per dollar.

Revised Assumptions: Crude Oil Prices (JCC Price) and Exchange Rates

		FY2009 (a)	FY2010 (a)/(e)	FY2011 (e)	FY2012 (e)	FY2013 (e)
Crude oil prices ($/bbl)	Current revision	89.70	67.5(a)	80	80	80
	May 2009 revision	89.71	40(e)	40	60	80
Exchange rates (¥/$)	Current revision	102.60	92.7(a)	90	90	90
	May 2009 revision	102.56	90(e)	90	90	90

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

To Our Shareholders and Investors

The Target for Proved Reserves

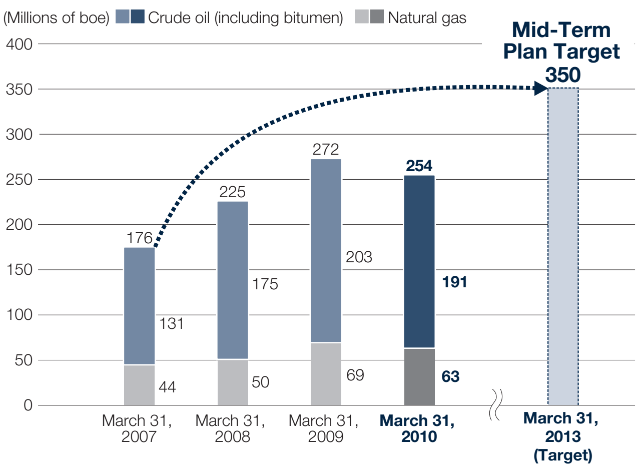
The Specific target for the expansion of our proved reserves set out in the Mid-Term Business Plan is the doubling of JAPEX Group oil equivalent proved reserves from 176 million barrels at the end of March 2007 to approximately 350 million barrels by the end of March 2013. If development of the Garraf oilfield and the expansion of our Canada oil sands project progress smoothly and we are able to add to our proved reserves, I believe that we can comfortably achieve this ambitious target.

The Target for Natural Gas Sales Volume

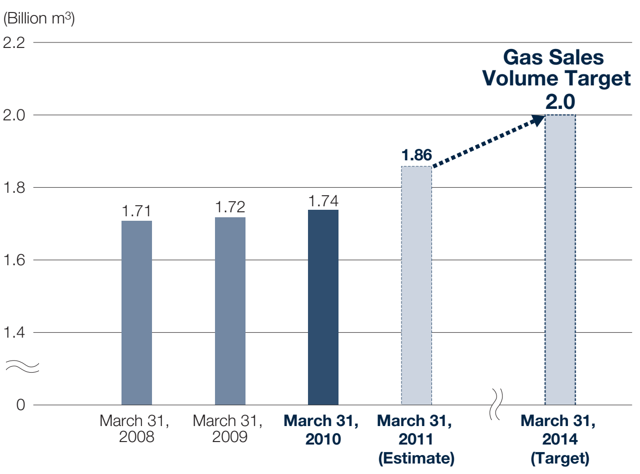
Reflecting the impact on demand following the collapse of Lehman Brothers and subsequent financial crisis, in our May 2009 review, we have pushed back our previous target of achieving 2.0 billion cubic meters in natural gas sales volume by one year to fiscal 2014.

Fiscal 2010 natural gas sales volume, including LNG, increased slightly to 1.74 billion cubic meters, but by leveraging ongoing sales and marketing initiatives, we aim to achieve our sales target of 2.0 billion cubic meters in fiscal 2014, as planned.

Trends in Proved Reserves of Oil and Gas



Trends in Natural Gas Sales Volume



Consolidated Profit and Loss, Cash Flows and Allocations

With respect to average consolidated net income for the five-year period from fiscal 2009 to fiscal 2013, we expect net income to improve by approximately ¥4 billion compared to our forecast released in May 2009 to around ¥15 billion reflecting changes in assumed crude oil prices and exchange rates.

In addition, operating cash flows should increase by around ¥45 billion to ¥275 billion, compared to our outlook from May 2009. During the current follow-up, an additional investment amount was also added to the business investment plan up to fiscal 2013 for the development of the Garraf oilfield in Iraq and the oil sands expansion project in Canada. As a result, total investments until fiscal 2013 have increased by approximately ¥62 billion to ¥249 billion. Operating cash flows will be sufficient to cover these added investments.

On the other hand, as future operating cash flows may potentially fluctuate due to crude oil prices and other factors, we will also review the potential to fund these investments through well-timed debt financing. Taking into consideration debt financing that is held to within appropriate and viable levels, we believe that it is possible to fund new investments aimed at future growth while maintaining sufficient cash reserves to meet tax and dividend obligations as long as the financing is in line with our debt repayment capacity.

Allocation of Operating Cash Flows

			May 2009 Revision FY2009 – FY2013	Current Follow-up FY2009 – FY2013
Operating cash flows (5-year cumulative) a			¥230 billion	¥275 billion
Investments	**Capital investments b**	**Domestic**	¥90 billion	¥96 billion
		Overseas	¥40 billion	¥96 billion
	Exploration investments c	**Domestic**	¥37 billion	¥43 billion
		Overseas	¥20 billion	¥14 billion
Total investments d=b+c			¥187 billion	¥249 billion
Difference between cumulative cash flows a–d			¥43 billion	¥26 billion
Uses of above balance			Taxes, dividends, new investment, etc.	Same as left (consider debt financing)

To Our Shareholders and Investors

Although there are signs of an economic recovery ahead in fiscal 2011, the economic landscape remains very much a circumstance of uncertainty. While continuing our initiatives toward our three key management tasks, we will work to maximize the generation of business value by moving forward with existing projects, including newly acquired rights overseas, as well as seeking to enhance our internal operating structure, including the cultivation of human resources.

We will take a long-term approach to our future allocation of profits and plan to focus the spending of cash generated from business operations on initiatives toward our three key management tasks. At the same time, however, we will also ensure a stable dividend payout and strive to 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 the continued support of our stakeholders as we seek to achieve these objectives.

September 2010

Osamu Watanabe

Osamu Watanabe
President and Chief Executive Officer

1996

Begins study of Garraf oilfield

2005

Concludes MoU on technical cooperation with the Iraqi Ministry of Oil

2005 ~ 2009

Launches joint study together with the Iraqi Ministry of Oil

2009

Acquires a development and production right

2010

Concludes the development and production service contract

Highlight 1

Acquired a Development and Production Service Contract for the Garraf Oilfield in Iraq

First Japanese company to win a bid in Iraq
Targeting daily production of 230,000 barrels in 2016


Existing Well of the Garraf Oilfield

2012

Scheduled to commence initial production

2016

Scheduled to achieve production target plateau of 230,000 b/d

First Japanese Company to Win a Bid in Iraq

In June 2009, the government of Iraq opened oil field development to foreign companies for the first time in four decades, marked by the launch of the first petroleum licensing round. Although it participated in this first licensing round, conditions were difficult across-the-board and JAPEX was unable to achieve a satisfactory result.

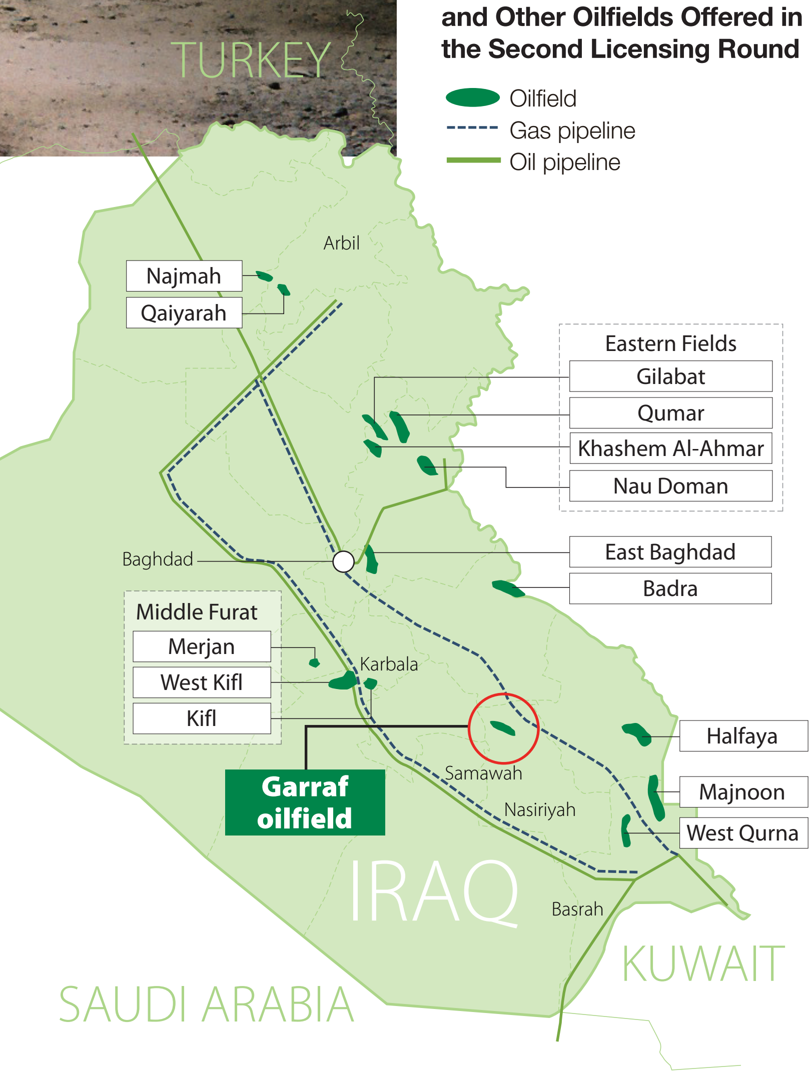
In December 2009, the Iraqi government held its second licensing round in Baghdad. In this second licensing round, JAPEX, together with Malaysia state oil company PETRONAS, secured the winning bid for the development of the Garraf oilfield in southern Iraq. As a result, JAPEX has concluded an oil development and production service contract with the government of Iraq through the South Oil Company in January 2010.

Initial production from the Garraf oilfield is scheduled to commence in 2012. Plans are to achieve maximum daily production of 230,000 barrels in 2016. Thereafter, projections are to continue at this level of production for ten years and more.


Mr. Hussain al-Shahristani (second from the right), Iraqi Minister of Oil, together with the heads of PETRONAS and JAPEX
(immediately following the signing of an oil development and production service contract)

Location of the Garraf Oilfield and Other Oilfields Offered in the Second Licensing Round

Oilfield
Gas pipeline
Oil pipeline



Leading Up to Securing the Bid

JAPEX has focused on the potential of the Garraf oilfield, first discovered in 1984 but left undeveloped, having generated a strong foundation of data through various geological surveys, started in 1996. Despite an interruption due to the war in Iraq, we ensured that our key relationships on the ground continued, and concluded a memorandum of understanding for technical cooperation with the Iraqi Ministry of Oil in 2005.

Under the memorandum, JAPEX has welcomed approximately 520 Iraqi engineers to Japan to participate in technical training programs. In addition, we have also conducted joint evaluation activities of oil fields in Iraq, including the Garraf oilfield.

As a result, we are leveraging our knowledge and experience, together with the close relationship with the Iraqi Ministry of Oil, to maximum effect. Moving forward, together with project operator PETRONAS, we look forward to pursuing development and production.

Overview of the Garraf Oilfield Development

Contract Type:	Development and production service
Contract Term:	20 years (with optional 5-year extension)
Remuneration:	US$1.49 per barrel of crude oil production
Scheduled Production Plan	**2012:** Commence initial production **2016:** Achieve production target of 230,000 b/d
Aggregate Production Volume:	Approximately 1.2 billion barrels during the contract
Contracting Party:	South Oil Company (controlled by the Iraqi Ministry of Oil)

Development Contractors:	Project Share	Capital Contribution
PETRONAS	45%	60%
Japex Garraf Ltd.	30%	40%
North Oil Company (controlled by the Iraqi Ministry of Oil)	25%	—*

* JAPEX and PETRONAS are to provide the capital contribution for the North Oil Company.

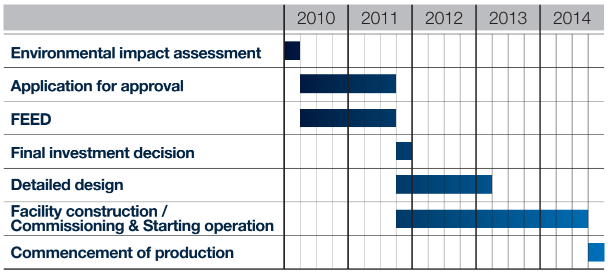
Drilling of delineation wells at an area of the Hangingstone Expansion Project

Highlight 2

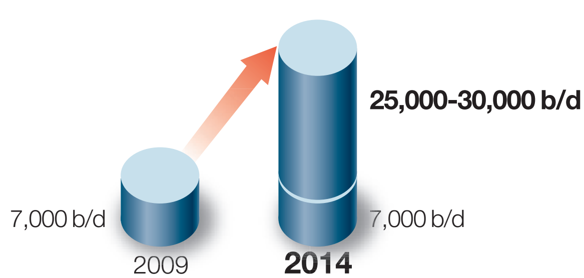
Canada Oil Sands Expansion Project

Submitted application for the Hangingstone expansion project
Aiming to ramp up production volume starting in 2014

Project Schedule to 2014



Production Volume



Submitted an Application for the Expansion Project

JACOS, a consolidated subsidiary, produces approximately 7,000 b/d of bitumen at an area (commonly referred to as the 3.75 section area) of the Hangingstone area in Alberta, Canada.

In addition, JACOS began an environmental impact assessment from May 2008 with the aim of expanding operations.

With the recent completion of the environmental impact assessment, JACOS submitted an application to the Alberta Energy Resources Conservation Board (ERCB) and Alberta Environment (AENV) for approval to expand its oil sands operations on April 29, 2010. The expansion project is to include an increase in bitumen production capacity at the Hangingstone block by up to 35,000 b/d, in addition to existing operations.

Expecting to Commence Production by the End of 2014

As the project operator for the expansion area, JACOS holds a 75% interest, while Nexen Inc., an energy company based in Canada, holds the remaining 25%. Under current development plans, bitumen production within the expansion area is expected to average between 25,000 to 30,000 b/d. JACOS is now working to optimize both the scale and configuration of the facilities at the front end engineering design (FEED) stage.

The Hangingstone Expansion Project will utilize the steam-assisted gravity drainage (SAGD) process, which has been used successfully at the 3.75 section area.

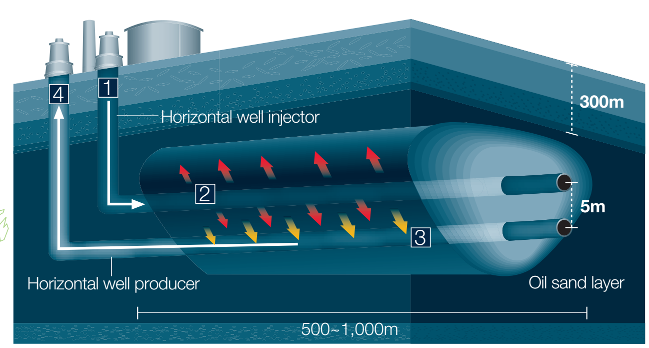
Development approval generally requires a period of approximately one year and six months. As such, in the event JACOS makes a final investment decision (FID) regarding the expansion project around autumn 2011, after acquiring development approval, construction should start during the winter of 2011 to 2012, with production expected to commence by the end of 2014.

The Bitumen Price Break-Even Point at which the Expansion Project Becomes Commercially Feasible

The scale of production at the Hangingstone 3.75 section area, in which JACOS maintains a 100% interest, is currently running at 7,000 b/d. Initially pursued on an experimental and research basis, development expenditure had been accounted for as an expense. Accordingly, the depreciation burden was minimal. Taking into consideration just the operating costs excluding exploration expenses, the break-even point comes in at around C$25 per barrel.

With respect to an economic evaluation of the Hangingstone Expansion Project that indicates that profitability fluctuates depending on overall scale, the project is not yet at the stage where the bitumen price at which the project is feasible can be disclosed. As we understand it, however, it is generally accepted that a large number of economists consider an oil sands project to become feasible when the bitumen price falls somewhere between C$40 and C$50 per barrel. We expect the JCC price to hover around US$80 per barrel toward the latter fiscal years of the JAPEX's Mid-Term Business Plan. Should the price indeed rise to this level, the price of bitumen is also anticipated to increase. Accordingly, the project is expected to reach a profitable level.

Schematic of the SAGD Process



1 Continuously injecting high-temperature, high-pressure steam into the upper well to provide liquidity to the bitumen
2 The steam heats the oil sand layer
3 Bitumen falls down to the lower well
4 Bitumen emerges above ground along with warm water*

* JACOS conducts environmentally friendly operations that minimize fresh water consumption by recycling at least 90% of the warm water produced

Review of Operations

Exploration and Production (E&P)

Effective E&P and the Discovery of New Oil and Gas Reserves

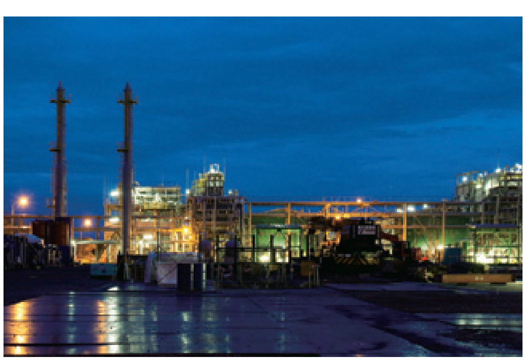
Japan

We engage in strategic exploration and production activities in Hokkaido, Akita and Niigata in Japan that effectively combine "the broadening of our gas reserves" and "the expansion of reserves in the areas surrounding our existing oil and gas fields".

Overseas

JAPEX selectively channels management resources into identifying new overseas projects in such target areas as Canada, the Middle East, North Africa, Southeast Asia focusing mainly on Indonesia and Sakhalin. At the same time, the Company strives to build an investment portfolio that optimally balances rights to oil and gas fields that are already on-stream or that have been discovered but not yet developed, which offer relatively low risk and early returns, and exploration rights that are expected to deliver relatively high returns for projects of considerable length.

As domestic demand for natural gas is on the rise, our mission going forward will be to provide stable supplies of LNG that are effective from the late 2010s. In executing this mission, JAPEX will focus on increasing profit margin as well as sales by uncovering project opportunities in the LNG upstream (exploration and production) and mid-stream (transport and storage) concentrated on our international target areas.



Where We Operate

Libya

Japex Libya Ltd.

Iraq

Japex Garraf Ltd.

Iran

JJI S&N B.V.

Japan

Japan Petroleum Exploration Co., Ltd.
Japex Offshore Ltd.

Russia

Sakhalin Oil and Gas Development Co., Ltd.

Photo courtesy of
Exxon Neftegas Ltd.

Indonesia

Japex Block A Ltd.
Universe Gas & Oil Company, Inc.
Japan CBM Limited
Japex Buton Ltd.
Energi Mega Pratama Inc.
Kangean Energy Indonesia Ltd.
EMP Exploration (Kangean) Ltd.

The Kangean Block

United States

Japex (U.S.) Corp.

Canada

Canada Oil Sands Co., Ltd.
Japan Canada Oil Sands Limited

International Target Area

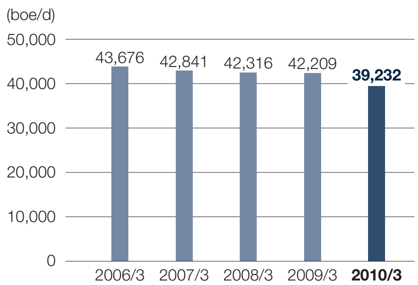
Consolidated Subsidiary and Equity-Method Affiliate

Review of Operations

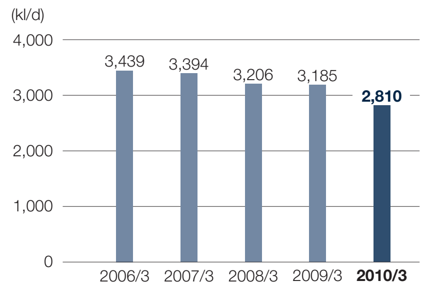
Daily Production of Crude Oil and Natural Gas

Average net production volume for fiscal 2010 for JAPEX and its consolidated subsidiaries was 2,810 kl/d (17,681 b/d) of crude oil, including bitumen, and 3,426 thousand m³/d (21,551 boe/d) of natural gas for an aggregate total of 39,232 boe/d.

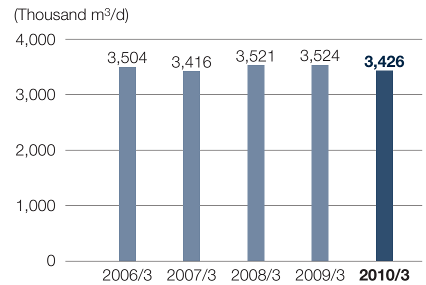
Total Production of Crude Oil and Natural Gas



Crude Oil Production



Natural Gas Production



Note: Figures for crude oil include bitumen (an extra-heavy oil extracted from oil sands).

Conversion Factors and Units

Crude oil 1 kl = 6.29 bbl

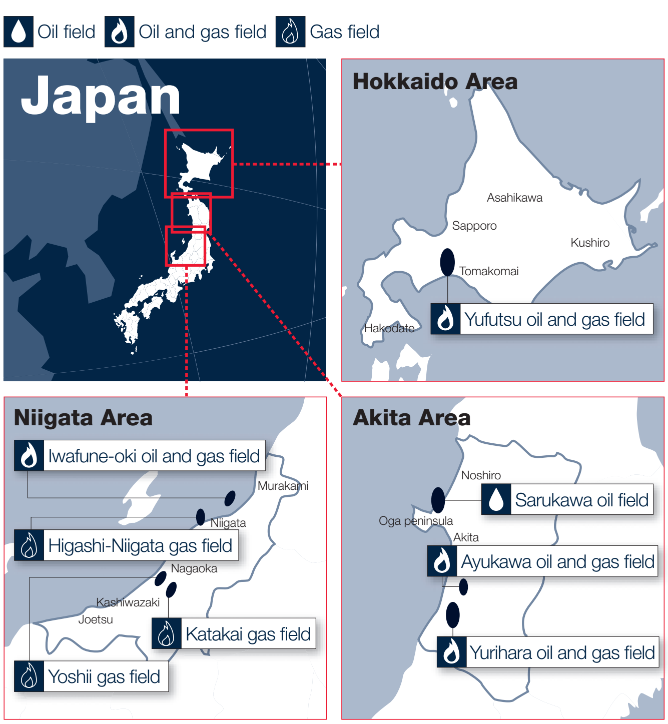
Natural gas 1,000 m³ = 35.31 thousand cubic feet

Natural gas 1,000 m³ = 1 kl of oil equivalent

boe/d : barrels of oil equivalent per day

b/d : barrels per day

kl/d : kilolitre per day



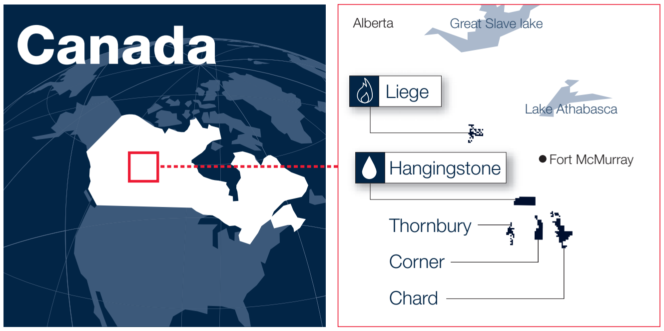
JAPEX and Japex Offshore Ltd.

In Japan, JAPEX conducts E&P in Hokkaido, Akita and Niigata. In fiscal 2010, the average net production volume was 1,624 kl/d of crude oil and 3,294 thousand m3/d of natural gas for a total production volume of 30,934 boe/d.

JAPEX conducted 2D and 3D seismic surveys in the Niigata area as a part of its exploration activities in fiscal 2010. At the same time, the Company drilled one exploration well in the Akita area and was successful with its Iwafune-oki MS-B18-1 extension well in the Niigata area. In addition, we drilled three production wells in fiscal 2010 and undertook construction of new production facilities at existing oil and gas fields.

In our E&P activities for fiscal 2011, we plan to conduct 2D and 3D seismic surveys in Akita and to drill one exploration well (Akita), one extension well (Hokkaido) and one production well (Niigata).

Target Area: Canada



Block	Hangingstone (commonly known as the 3.75 section area)	
Project Company	Canada Oil Sands Co., Ltd. (local subsidiary: Japan Canada Oil Sands Limited)	
Interest	Japan Canada Oil Sands Limited (JACOS)	100%

Block	Hangingstone (undeveloped area)	
Project Company	Canada Oil Sands Co., Ltd. (local subsidiary: Japan Canada Oil Sands Limited)	
Interest	Japan Canada Oil Sands Limited (JACOS)	75%
	Nexen	25%

Note: JAPEX has partnered with Suncor (formerly Petro-Canada), Nexen (formerly Canadian OXY) and Imperial Oil (formerly Esso) with respect to such yet to be developed areas as Chard, Corner and Thornbury. Participating interests differ for each respective block.

Japan Canada Oil Sands Limited (JACOS)

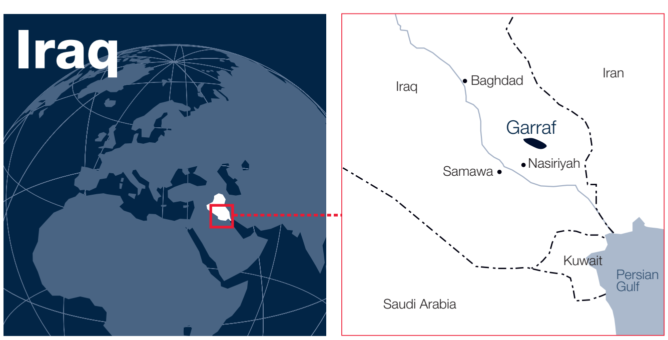
In Canada, our consolidated subsidiary Canada Oil Sands Co., Ltd. is engaging in oil sand development through locally incorporated Japan Canada Oil Sands Limited (JACOS) using steam-assisted gravity drainage (SAGD) in a part of the Hangingstone area (commonly known as the 3.75 section area) in the Athabasca region of Alberta. Production volume in 2009 for the 3.75 section area was 7,093 barrels per day of crude oil (bitumen).

Progress at and future plans for the Hangingstone Oil Sands Expansion Project are presented as follows.

May 2008-Mar. 2010: Conducted an environmental impact assessment
Apr. 2010: Submitted a development application to the relevant agency of the Alberta provincial government (additional production of bitumen to a maximum of 35,000 b/d)
Around autumn 2011: Acquire development approval; make a final investment decision
2011-2012: Commence construction during the winter season
End of 2014: Commence production

Furthermore, JACOS owns leases for an oil sand area that is yet to be developed spanning a total of 460 km^2 in the Athabasca region. These leases comprise the Hangingstone, Corner, Chard and Thornbury as well as other areas. 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.

Target Area: The Middle East



Field	Garraf oilfield in Southern Iraq	
Project Company	Japex Garraf Ltd.	
Participating Interest	PETRONAS (Operator)	45%
	Japex Garraf Ltd.	30%
	North Oil Company	25%

Japex Garraf Ltd.

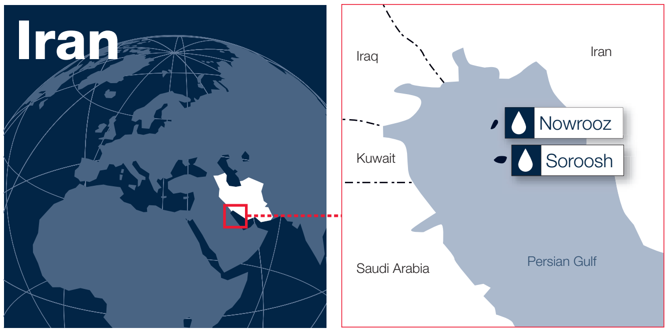
The second petroleum licensing round was held by the Iraqi Ministry of Oil in December 2009. JAPEX together with Malaysian state-owned oil company PETRONAS jointly secured the winning bid and acquired the development and production service contract to the Garraf oilfield located in Southern Iraq.

In March 2010, JAPEX established Japex Garraf Ltd. as a project company and consolidated subsidiary to promote development of the Garraf oilfield.

At this time, production is scheduled to commence in 2012 with plans to achieve a daily production target of 230,000 barrels in 2016. Total capital investment for the oilfield over a 20-year period is around US$5.0 to US$6.0 billion. Of this amount, the Company's share is estimated at between US$2.0 to US$2.4 billion. Taking into consideration plans to offset crude oil revenues against capital investments following the commencement of production in 2012, as well as a forecast crude oil price of US$70 per barrel, the maximum investment required is estimated at approximately US$600 to US$800 million with the Company's share projected at between US$250 to US$300 million.

Review of Operations

Target Area: The Middle East

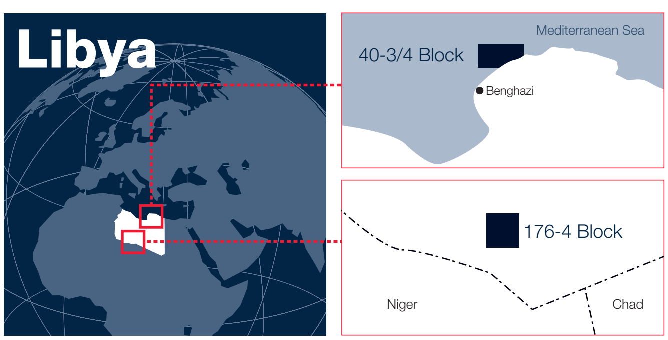


Field	Soroosh oil field and Nowrooz oil field (offshore Persian Gulf)	
Project Company	JJI S&N B.V.	
Interest	Shell Exploration B.V.	70%
	JJI S&N B.V.	20%
	OIEC	10%

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, with production operation handed over to the National Iranian Oil Company. At present, JJI S&N is recovering costs and remuneration from the project, with collection scheduled to conclude by the end of 2010.

Target Area: North Africa



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%

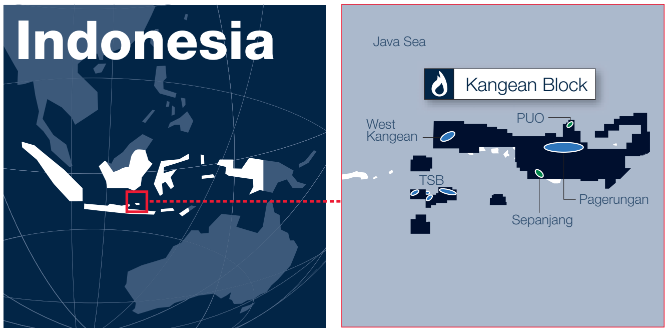
Japex Libya Ltd.

Consolidated subsidiary Japex Libya Ltd. holds two blocks acquired in 2005 through a public tender: 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 kilometers of 2D seismic data and 500 square kilometers of 3D seismic data. Although the 1st exploration well was drilled between March and April 2009, and the 2nd exploration well between May and July 2010, we plugged and abandoned both wells due to a lack of commercially feasible oil and gas. Evaluation studies are currently underway for the block.

176-4 Block: In 2008, we interpreted 2,053 kilometers 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 commercially viable oil and gas. Evaluation studies are currently underway for the block.

Target Area: Southeast Asia



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

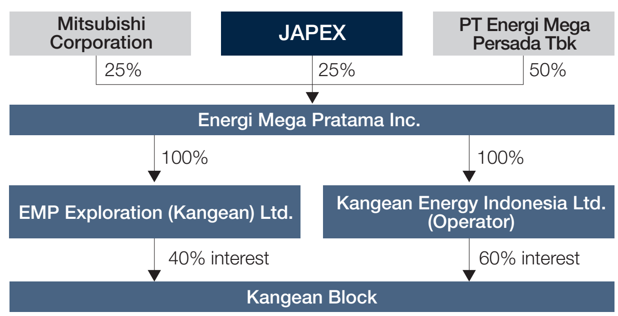
Note: Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. are subsidiaries of Energi Mega Pratama Inc.

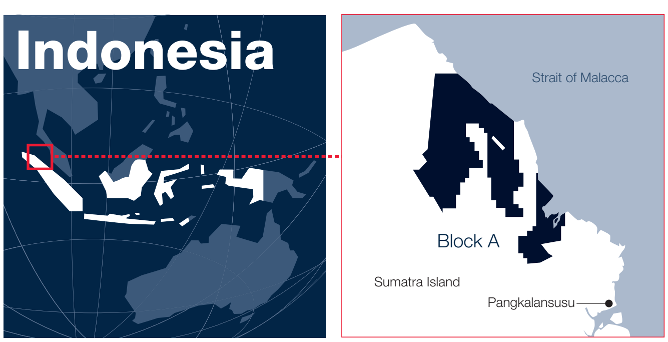
Energi Mega Pratama Inc.

Equity-method affiliate Energi Mega Pratama Inc. (EMPI) holds a 100% working interest in the Kangean Block offshore East Java through subsidiaries Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd.

Within the same block, the company is moving forward with development activities at the Pagerungan Utara (PUO) oilfield and TSB gas field and production activities at the Pagerungan gas field and Sepanjang oilfield. Production volume of both crude oil and natural gas for the entire block in 2009 totaled 7,021 barrels of oil equivalent per day. In addition, daily production of 4,500 barrels is scheduled to commence in October 2010 at the PUO oilfield, while we are moving forward with development work in an effort to commence production of around 50,000 barrels of oil equivalent per day by the end of March 2012 at the TSB gas field.

Kangean Block Ownership Structure





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 the North Sumatra Block A. We began the FEED process for production facilities in 2008. Because the current PSC for the block expires in August 2011, we are awaiting approval from the government of Indonesia 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-owned electric power company in April 2008.

In 2010, we will pursue development activities to start gas production in 2012.

Review of Operations

Target Area: Southeast Asia

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.

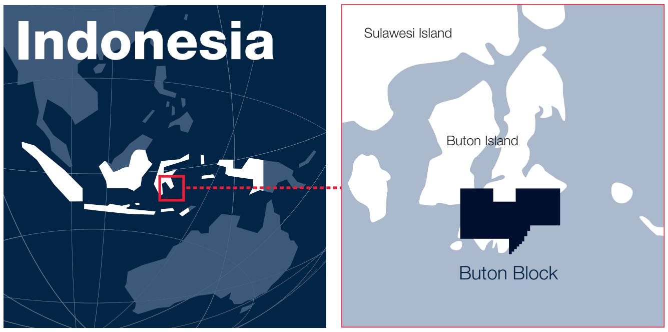
Equity-method affiliate Universe Gas & Oil Company, Inc. (4.375% interest) carries out development and production centered on the four oil and gas fields of Badak, Nilam, Mutiara and Semberah in the onshore Sanga Sanga Block in East Kalimantan. In 2009, the company drilled 52 production wells to increase recovery efficiency and maintain production volume of crude oil and natural gas. Gross production volume was 88,951 barrels of oil equivalent per day of crude oil and natural gas for the block.

Block	Sanga Sanga CBM Block (onshore East Kalimantan)	
Project Company	Japan CBM Limited	
Interest	BP East Kalimantan CBM Limited	26.250%
	Eni CBM Limited	26.250%
	Opicoil Energy	20.000%
	Virginia Indonesia Co. CBM Limited (Operator)	7.500%
	VIC CBM Limited	15.625%
	Japan CBM Limited	4.375%

Japan CBM Limited

JAPEX, Osaka Gas, Japan Energy Corporation (name subsequently changed to JX Nippon Oil & Gas Exploration on July 1, 2010) and LNG Japan jointly established Japan CBM Limited on November 30, 2009. On the same day, the company signed a Production Sharing Contract (PSC) for the onshore Sanga Sanga CBM Block on East Kalimantan in which it won a public tender from the Indonesian Ministry of Mines and Energy. This same block occupies the same Sanga Sanga Block area in which JAPEX owns an interest through Universe Gas & Oil. JAPEX holds a 40.12% stake in Japan CBM Limited, making it an equity-method affiliate.

Activities on production feasibility of the coal bed methane from the block, including test production, are scheduled to take place in 2010.



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 PSC in January 2007 for the Buton Block, an onshore/offshore block on Buton Island, Southeast Sulawesi, which was awarded through a public tender in October 2006. Exploration activities in the area have included airborne gravity surveys and data interpretation activities conducted in 2008. We also acquired 318 kilometers of 2D seismic data from June 2008 through January 2009, with data processing activities completed in June 2009. Following this, the exploration well structure was selected based on data interpretation and later geological surveys.

In 2010, one exploration well is scheduled to be drilled.

Target Area: Sakhalin

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%

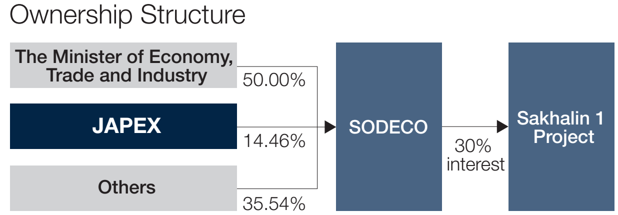
Sakhalin Oil and Gas Development Co., Ltd. (SODECO)

In Russia, JAPEX is engaged in the Sakhalin 1 Project through its investment in Sakhalin Oil and Gas Development Co., Ltd. (SODECO), which owns a 30% interest in the project. The Sakhalin 1 project is a consortium to explore and produce oil and gas at three fields: Chayvo, Odoptu and Arkutun-Dagi (offshore Sakhalin). Oil and gas are produced from the Cayvo field using offshore platforms, onshore well pads and a processing facility. In February 2007, the project reached its peak gross production target of around 40,000 kiloliters per day (250,000 barrels per day) and achieved a cumulative crude oil production volume of 100 million barrels in January 2008.

Crude oil produced at Sakhalin 1 is exported from an oil export terminal in DeKastri to international markets as SOKOL oil, while natural gas produced from the project is sold domestically in Russia.

JAPEX received the first dividend payment from SODECO in March 2008 and the third dividend payment in March 2010.

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



Review of Operations

Proved Reserves

As of March 31, 2010, proved reserves owned by JAPEX and its consolidated subsidiaries along with the Company's investment equivalent in proved reserves of equity-method affiliates are presented in the following table.

Proved Reserves of the JAPEX Group

Proved reserves	JAPEX and consolidated subsidiaries						Equity-method affiliates		Total	
	Japan		Overseas		Subtotal					
	Crude oil (Thousand kl)	Gas (Million m^3)	Crude oil (Thousand kl)	Gas (Million m^3)	Crude oil (Thousand kl)	Gas (Million m^3)	Crude oil (Thousand kl)	Gas (Million m^3)	Crude oil (Thousand kl)	Gas (Million m^3)
As of March 31, 2009	7,679	26,154	3,061	1,395	10,740	27,549	195	4,722	10,935	32,271
Increase due to expansion or discovery	101	1,014	—	—	101	1,014	—	—	101	1,014
Change due to revision of evaluation standard	108	(737)	(47)	(322)	61	(1,059)	(50)	(666)	11	(1,725)
Change due to acquisition and/ or divestiture	—	—	—	—	—	—	—	—	—	—
Decrease due to production	(701)	(999)	(370)	(43)	(1,071)	(1,042)	(11)	(57)	(1,082)	(1,099)
As of March 31, 2010	**7,187**	**25,432**	**2,644**	**1,030**	**9,831**	**26,462**	**134**	**3,999**	**9,965**	**30,461**

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

Proved reserves	JAPEX and consolidated subsidiaries						Equity-method affiliates		Total	
	Japan		Overseas		Subtotal					
	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Gas (Million boe)	Crude oil (Million bbl)	Gas (Million boe)
As of March 31, 2009	48	165	19	9	68	173	1	30	69	203
									272	
Increase due to expansion or discovery	1	6	—	—	1	6	—	—	1	6
Change due to revision of evaluation standard	1	(5)	(0)	(2)	0	(7)	(0)	(4)	0	(11)
Change due to acquisition and/ or divestiture	—	—	—	—	—	—	—	—	—	—
Decrease due to production	(4)	(6)	(2)	(0)	(7)	(7)	(0)	(0)	(7)	(7)
As of March 31, 2010	**45**	**160**	**17**	**6**	**62**	**166**	**1**	**25**	**63**	**191**
									254	

Notes:

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

Conversion Factors and Units

Crude oil 1 kl = 6.29 bbl

Natural gas 1,000 m^3 = 35.31 thousand cubic feet

Natural gas 1,000 m^3 = 1 kl of oil equivalent

boe : barrels of oil equivalent

Definition of Proved Reserves

Proved reserves indicated on the previous page represent estimated quantities of crude oil and natural gas according to surface conditions that geological and engineering data demonstrate with reasonable certainty to be recoverable from known crude oil and natural gas reservoirs under existing economic and operating conditions. They do not include past production or resources related to undiscovered deposits.

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

Figures for proved reserves reflect JAPEX'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 has been confirmed) are classified as "contingent resources" and are categorized separately from "reserves." Such "contingent resources," which include oil sand held in Canada by a consolidated subsidiary, are not included in the figures on the previous page.

In addition to the PRMS, the definition of proved reserves compiled by the United States Securities and Exchange Commission (SEC) is widely known among the investment community. Revisions released by the SEC in December 2008 have made this definition in essence similar to that provided by the PRMS.

Based on its judgment, JAPEX has been disclosing data that conforms to the PRMS definition of "proved reserves." Proved reserves held by overseas project companies are indicated based on the economic share of each project company as defined in agreements signed with respective local governments.

To verify its own evaluations and judgments with respect to reserves, JAPEX contracted with third party Ryder Scott Company Petroleum Consultants to examine 73% of the proved reserves of the Company and its consolidated subsidiaries as of March 31, 2010 [*1] in Japan , as shown in the table on the previous page. Overseas, with respect to bitumen reserves in the 3.75 section area currently under production owned by consolidated subsidiary Japan Canada Oil Sands Limited, JAPEX 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 equity-method affiliate Kangean Energy Indonesia Ltd., JAPEX received a third-party evaluation from Gaffney, Cline & Associates (Consultants) Pte Ltd. JAPEX has therefore received third-party evaluations for approximately 76% of total proved reserves (9,965 thousand kl of crude oil and 30,461 million m^3 of natural gas) [*2] as of the fiscal year under review, as shown in the table on the previous page. JAPEX believes these figures for proved reserves are accurate and reflect the results of evaluations carried out by the aforementioned third parties.

"Reserves" as defined above refer to reserves with future development potential and contain inherent uncertainties. While JAPEX strives to obtain accurate evaluations according to geological, engineering and other scientific data, such reserves may again be reviewed based on data obtained in the future, changes in economic conditions, or changes in internationally recognized definitions. Evaluations are thus subject to upward or downward revision.

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

*2 Same as above.

Review of Operations

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 2010, sales volume for natural gas including LNG remained roughly in line with the previous fiscal year at 1.74 billion cubic meters.

For its mid-term sales target, JAPEX, expecting to capitalize on newly expanded sales and a recovery in existing demand on the back of improved economic conditions in fiscal 2011 and beyond, is working to achieve two billion cubic meters in domestic sales volume of natural gas including LNG by fiscal 2014.

Natural Gas Pipeline Network

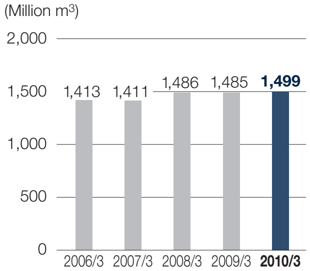
JAPEX owns and operates a domestic natural gas pipeline network with a total length of approximately 826 kilometers. This pipeline represents a key strategic asset because it allows us to directly link our natural gas field to customers, and thereby boost sales.

In the Hokkaido area, we have constructed a pipeline connecting the Yufutsu oil and gas field to the city of Tomakomai and on to the vicinity of Sapporo to supply local distribution companies (LDCs) and industrial customers.

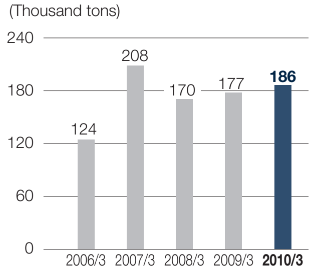
In the Akita area, we have constructed pipelines from the Yurihara and Ayukawa oil and gas fields into Akita City to supply natural gas, primarily to LDCs.

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, LDCs and industrial customers.

Natural Gas Sales



LNG Sales

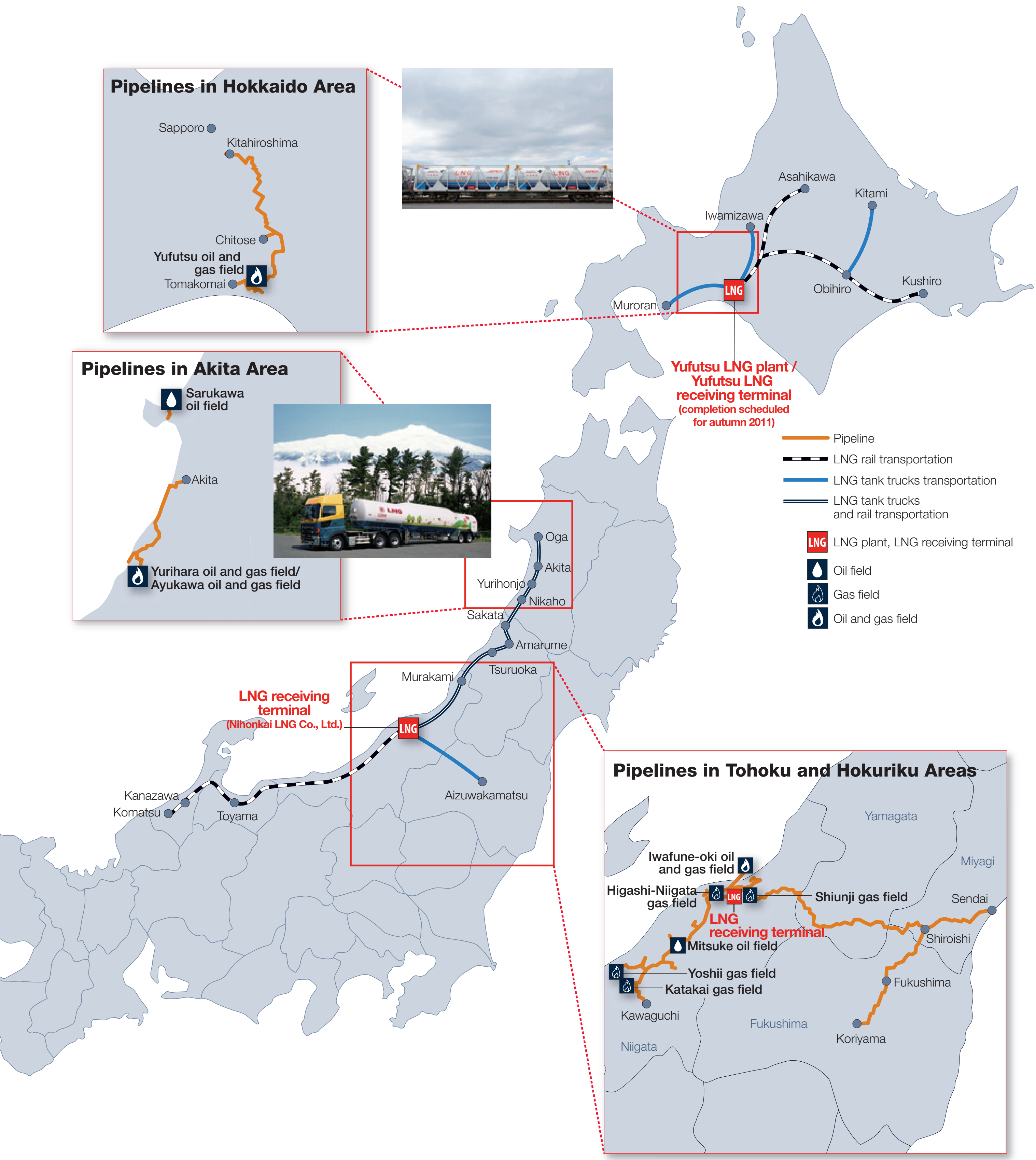


LNG Satellite System

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. Since it offers comparatively lower carbon dioxide emissions than tank trucks, the rail transport of natural gas is in the spotlight both in Japan and internationally as an environment-friendly transport method.

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 LDCs throughout the prefecture. The Yufutsu LNG plant acts as a key staging ground for the supply of LNG to 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 LDCs in Hokkaido.

In fiscal 2010, plans were finalized for the construction of an LNG receiving terminal at the Yufutsu facility. LNG procured from outside the prefecture will be shipped to the terminal using domestic vessels, which will enable the best possible mix of external natural gas and natural gas extracted from the Yufutsu oil and gas field. This will serve to further enhance the distribution system for natural gas in Hokkaido.



Pipelines in Hokkaido Area
Sapporo
Kitahiroshima
Chitose
Yufutsu oil and gas field
Tomakomai
Pipelines in Akita Area
Sarukawa oil field
Akita
Yurihara oil and gas field/ Ayukawa oil and gas field
Asahikawa
Kitami
Iwamizawa
Obihiro
Kushiro
Muroran
LNG
Yufutsu LNG plant / Yufutsu LNG receiving terminal
(completion scheduled for autumn 2011)
Pipeline
LNG rail transportation
LNG tank trucks transportation
LNG tank trucks and rail transportation
LNG plant, LNG receiving terminal
Oil field
Gas field
Oil and gas field
Oga
Akita
Yurihonjo
Nikaho
Sakata
Amarume
Tsuruoka
Murakami
LNG receiving terminal
(Nihonkai LNG Co., Ltd.)
Aizuwakamatsu
Kanazawa
Komatsu
Toyama
Pipelines in Tohoku and Hokuriku Areas
Yamagata
Miyagi
Iwafune-oki oil and gas field
Higashi-Niigata gas field
Shiunji gas field
Sendai
LNG receiving terminal
Mitsuke oil field
Shiroishi
Yoshii gas field
Katakai gas field
Fukushima
Kawaguchi
Fukushima
Koriyama
Niigata

Review of Operations

Research & Development


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

Toward the Effective Utilization of Energy

The petroleum E&P industry is based on comprehensive technologies including geological surveys, geophysics, exploration, well drilling, oil reservoir engineering and information technologies. While many E&P companies outsource most of these diverse technologies, JAPEX, having evolved as a group of integrated E&P companies, boasts the competitive advantage of those inherent and accumulated technologies essential for exploration, development, production and transport.

JAPEX considers technological research and development as one of its key management tasks. The Company has placed particular emphasis on efforts to acquire innovative technologies and knowledge through its research on GTL, methane hydrate and CCS, as well as other areas.

The Environment and Innovative Technology Projects Division Newly Established

In April 2010, JAPEX established the Environment and Innovative Technology Projects Division in Tokyo headquarters as a measure to promote environmental and innovative technology businesses to address one of the three key management tasks, namely the pursuit of technological R&D activities and initiatives to address global environmental challenges. Moving forward, JAPEX will continue to incorporate its advanced technologies and in-depth expertise into its business model as a means to cultivating new revenue bases.

Newly Established Units

Environment and Innovative Technology Projects Division

Project Implementation Strategies Department

Technology Research and Development Department

Development of Gas-to-Liquids (GTL) Technologies

GTL uses natural gas as feedstock to produce petroleum products such as naphtha, kerosene and gas oils through a chemical reaction. Liquid fuel produced through GTL is considered 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.

Combining Our Technological Capabilities for Commercialization

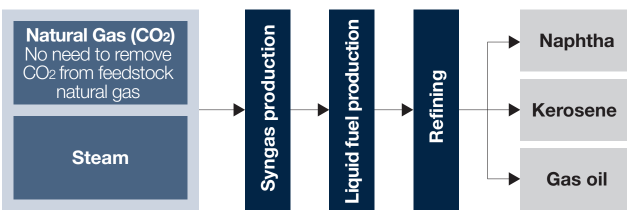
From 2001 through to 2004, JAPEX collaborated with the Japan National Oil Corporation (JNOC) (currently Japan Oil, Gas and Metals National Corporation: JOGMEC) and four private-sector companies in a seven barrel per day GTL pilot test at the Yufutsu oil and gas field in Tomakomai, Hokkaido, which proved to be a success. 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 by 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 barrel per day demonstration plant at a site owned by our subsidiary Japex Offshore Ltd. in the Niigata Port industrial park. Construction was completed in April 2009, with test operations commenced shortly thereafter. Demonstration tests are scheduled to continue until the end of fiscal 2011, as we move toward developing GTL technology at a commercial scale of several tens of thousands of barrels per day, which would be competitive from both the technological and economical standpoints.

Establishing Japanese Proprietary GTL Technologies

The GTL technology currently leading the global market requires oxygen and in some cases also the removal of CO_2 contained in the natural gas feedstock. On the other hand, 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 sufficiently competitive in the global market.

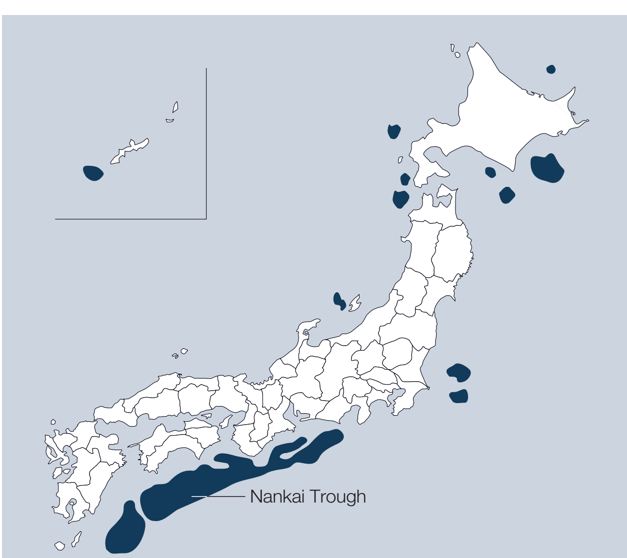
Japan GTL Process



Development of Methane Hydrate in Japan

Methane hydrate, a sherbet-like solid formed by methane gas—the main component of natural gas—captured inside water molecules, 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 meters or in permafrost layers near the north and south poles. Some estimate that offshore reserves of methane hydrate equivalent to more than 100 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 Hydrate Reservoirs around Japan



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 its 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 Nankai Trough (Kumano-nada to Tokai-oki)
FY2004	Exploration drilling in Nankai Trough (Kumano-nada to Tokai-oki)
FY2007	Detailed assessment of reserve volume in Nankai Trough (Kumano-nada to Tokai-oki)
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). At present, we are moving forward with establishing drilling and production test plans aimed at offshore production tests.

Review of Operations

Commercialization of CO_2 Capture and Storage (CCS)

CCS is one of the methods 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 Japan's annual CO_2 emissions.

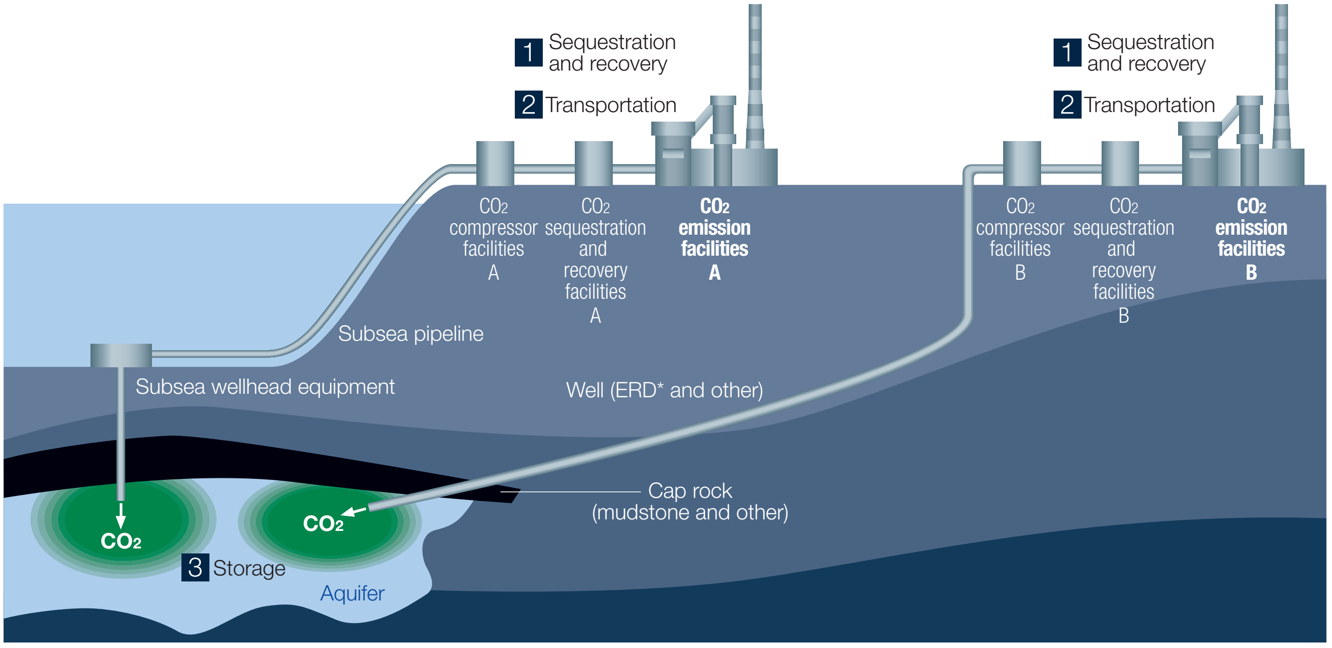
Applying Core E&P Technologies

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 properties, 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



* ERD: Extended Reach Drilling

1 Sequestration and recovery:
CO_2 is separated and recovered from the gas and other emissions of such major emitters as power generating stations and plants

2 Transportation:
After capture, the CO_2 is transported to suitable storage sites

3 Storage:
This CO_2 is then injected and stored in the reservoir or aquifer capped by seal layers at depths in excess of 1,000 m

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. At the same time, JAPEX makes every effort to disclose all pertinent information to its shareholders and investors including information that may not necessarily constitute a risk to the Company's business.

1. Factors Relating to Changes in Operating Results

(1) Factors Affecting 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.

(2) 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 the price is determined according to the market price of LNG, and therefore the price is exposed to the heightened risk of 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 the deregulation of Japan's energy markets and other factors.

(3) 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 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.

2. Business Risks

(1) Business Characteristics

The exploration stage of business operations, from initial surveys to exploration work and discovery of resources, requires the substantial investment of funds and time with no assurances that oil or gas will be found, making it an inherently high risk endeavor. 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. At the same time, 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.

(2) 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 Act that took 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 customer base. At the same time, however, restructuring the energy market will generate tougher price competition, and there is a possibility that this will impact the Group's natural gas sales.

Risk Factors

(3) 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 debt financing), 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 with respect to the guaranteed amount.

Further, oil resource development in general is predisposed to having a portion of its 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.

3. Fluctuations in the Stock Price of INPEX CORPORATION

As of the end of March 2010, JAPEX owned 11.33%* of the stock of INPEX CORPORATION. The JAPEX Group's balance of investment securities as of the end of the fiscal year ended March 31, 2010 was ¥246,141 million. Of this amount, shares of INPEX CORPORATION accounted for ¥183,321 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.

* In accordance with a resolution of its Board of Directors at a meeting held on July 8, 2010, INPEX CORPORATION issued new shares. As a result, JAPEX's shareholding in the company amounted to 7.31%.

4. JAPEX Shares Held by the Government

JAPEX listed its stock on the First Section of the Tokyo Stock Exchange on December 2003, after the Japan National Oil Corporation (the name of the corporation at that time) 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 Minister'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.

Corporate Social Responsibility

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 work safety of its employees and global environment preservation. In Japan, we strive to contribute to the development of the local community by maintaining communication with various stakeholders as a corporate citizen with roots in the communities in which we operate.

Health, Safety and Environment (HSE)

Each year, JAPEX revises its Safety Policy and Objectives to exercise initiative in its voluntary safety activities. The Safety Policy and Objectives for 2010 are as follows:

Safety Policy for 2010

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 2010

(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.

Preservation of the Global Environment

Since 2005, JAPEX has been helping to protect the global environment as well as local communities 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 Yuri Forest
(Yurihonjo City, Akita Prefecture)

Relationship with Society

Sponsorship of University Lectures

JAPEX sponsors lectures at universities and graduate schools to help develop the next generation of 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 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 exchange among the residents of local communities in which our domestic operations are located. The Company also promotes a greater understanding about its business activities.

Participating in the Nagaoka Festival in Niigata Prefecture

Corporate Governance

1. Basic Policy

JAPEX recognizes the importance of corporate governance in increasing earnings through more efficiency management and ensuring that the Company continues to play a valuable role in Society. We have therefore adopted an executive officer system, appointed outside directors and corporate auditors who bring to the Company external perspectives, established an internal audit division and put in place an effective audit and other systems to further enhance corporate governance.

2. Corporate Governance 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. The Board of Directors and corporate auditors (including the Board of Corporate Auditors consisting of all corporate auditors) in turn supervise the execution of these responsibilities. JAPEX has adopted the Corporate Auditor System.

(1) Directors, the Board of Directors and the Executive Committee

JAPEX has appointed 13 directors, one of whom is selected from outside the Company. The Board of Directors meets regularly once per month, and retains decision-making authority over important decisions. It also serves in a supervisory role by receiving reports on the status of operations submitted by directors and executive officers.

Furthermore, 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 has been established. This Committee meets in principle twice per month to make decisions on matters that are not the responsibility of the Board of Directors and to conduct discussions to support the decision-making of the Board of Directors.

(2) Corporate Auditors and the Board of Auditors

JAPEX appoints four corporate auditors, two of whom are outside corporate 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.

Although each corporate auditor commands independent auditing authority, auditing policy and the assignment of auditing responsibilities are decided by the Board of Corporate Auditors.

(3) Outside Director and Outside Corporate Auditors

The outside director and two outside corporate auditors have no personal, financial, business relationship or other interests with the Company.

The outside director and outside corporate auditors must not possess a conflict of interest with ordinary shareholders and must have a neutral and equitable status to pursue profits on behalf of the Company's shareholders. Each of the current three outside officers meets these conditions.

In addition, the selection of the current outside director and outside corporate auditors has been determined to be valid based on a corporate governance perspective that accounts for the mix and number of directors and corporate auditors of the Company.

(4) Internal Audit

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

The internal audit is conducted sequentially based on an annual plan, with the results reported to the president each time. When necessary, guidance and advice are also provided to relevant business departments.

(5) Accounting Auditor

The accounting auditor who conducted the audit of the Company's financial statements and the internal control practices 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: Kazuhiko Umemura, Hiroaki Kosugi

Composition of auditors: 9 certified public accountants,
17 assistant auditors

(6) Cooperation between Corporate Auditors, Accounting Auditor and Internal Audit Departments

The Board of Corporate Auditors receives prior explanations on the audit plan and explanations of audit implementation at the time of receipt of the audit report from the accounting auditor, while full-time corporate auditors also receive implementation status reports of the accounting audit, when necessary.

The internal control report compiled by the Internal Control Department is submitted to the president, Board of Corporate Auditors and the accounting auditor. The department also provides regular explanations on the status of the audit to full-time corporate auditors.

(7) Reason for Adopting this Corporate Governance Structure

JAPEX adopts the executive officer system for the purpose of clarifying the business execution 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.

In order to strengthen the oversight function of the Board of Directors, JAPEX also appoints an outside director with a high degree of independence and insight. The outside director and outside corporate auditors stand in an independent position from the Company's executive management team to actively offer ideas on resolution proposals and deliberations, provide advice and engage the Board of Directors in dynamic discussion.

Through an oversight structure where outside directors and outside corporate auditors provide ideas and opinions to the representative directors and executive officers who are familiar with each delegated responsibility and act with responsibility, JAPEX believes objectivity and fairness are guaranteed in the decision-making process.

3. Structures regarding Internal Control and Risk Management Systems

JAPEX, with the Internal Control Committee and the Internal Control Department as its main organs, continually conducts reviews of and implements improvements to its internal control and risk management structures in order to ensure operations are executed appropriately. In compliance with the Companies Act and its enforcement regulations, JAPEX has developed the required structures to ensure operations are conducted appropriately according to the following policy.

(1) 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. Corporate auditors may offer their opinions to the Board where necessary.

(2) 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.

(3) 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.

(4) System to Ensure Directors Execute Their Duties Efficiently

In principle, the Board of Directors meets monthly, to conduct swift 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.

(5) 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.

(6) 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 principal Group companies, and manages Group companies in accordance with the rules for administering subsidiaries and affiliated companies. In addition, the parent company's Auditing Department conducts regular audits of principal Group companies.

(7) 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.

(8) Independence of Employees Mentioned in the 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.

(9) System to Allow Directors and Employees to Report Information to Corporate Auditors and Other Related Reporting Systems

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

(10) Other Systems to Ensure Corporate Auditor Activities are Conducted Effectively

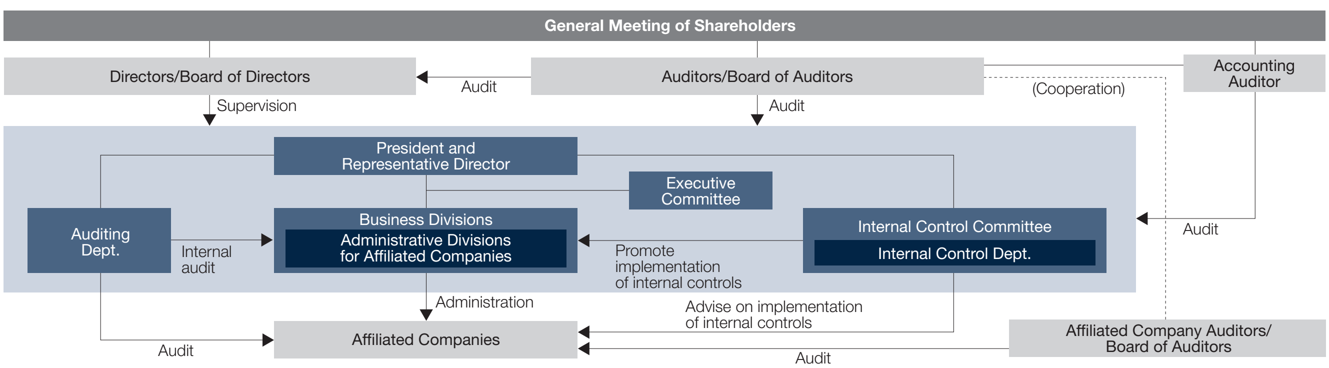
The Auditing Department and the accounting auditor must regularly provide information to the corporate auditors.

(11) 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, JAPEX, in executing decisions regarding business matters, makes organizational decisions at the Executive Committee or when necessary at the Board of Directors, under the responsibility of directors and executive officers in charge of each business group, based on an assessment of operational risk (planning, strategy, finance and credit risk). JAPEX conducts business operations according to this phased approach to decision making, and has developed a framework for managing operational risk, including the creation of various operating manuals developed for the execution phase. In addition, the Internal Control Committee and Internal Control Department create risk-mapping scenarios for specific operational risks and conduct reviews of risk management structures that include principal Group companies.

Corporate Governance and Internal Control Structure



4. Details about Remuneration and Compensation

For the fiscal year under review, remuneration provided to directors and corporate auditors as well as compensation provided to the accounting auditors are presented as follows.

(1) Remuneration of Directors and Corporate Auditors

1. Total Remuneration, Breakdown of Remuneration and Number of Applicable Officers by Classification

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefit	
Directors (Excluding the outside director)	644	425	82	136	15
Corporate auditors (Excluding the outside corporate auditors)	42	29	4	9	4
Outside director and outside corporate auditors	46	36	—	10	3

Note: The number of officers above includes two corporate auditors who retired at the conclusion of the 39th annual General Meeting of Shareholders on June 24, 2009 and one director who retired as of March 29, 2010.

2. Director Remuneration Policy

Monthly remuneration for each director is determined based on a resolution passed by the Board of Directors, while monthly remuneration for each corporate auditor is determined based on discussions among corporate auditors. Monthly remuneration is set within the ceiling determined by the resolution passed at the General Meeting of Shareholders (directors: 40 million yen; corporate auditors: 5 million yen).

Based on approval received at the General Meeting of Shareholders, as well as monthly remuneration, the total bonus paid to directors is determined based on a resolution passed by the Board of Directors, while the total bonus paid to each corporate auditor is determined based on discussions among corporate auditors.

Based on a resolution passed at the General Meeting of Shareholders, the retirement benefit is awarded to a retiring director or corporate auditor following the prescribed standard of the Company with the specific amount, payment date and method determined voluntarily for a retiring director by the Board of Directors and through a discussion among corporate auditors for a retiring corporate auditor.

(2) Compensation of Accounting Auditors

1. Compensation based on auditing and attestation

JAPEX: ¥57 million Consolidated subsidiaries: ¥26 million

2. Compensation based on other services

Consolidated subsidiaries: ¥2 million

Compensation provided to accounting auditors is determined based on such factors as the number of auditing days.

Financial Section

Six-Year Summary

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

	2010	2009	2008	2007	2006	2005
						Millions of yen
For the Year:						
Net sales	**¥179,752**	¥202,127	¥207,638	¥170,018	¥138,796	¥103,150
Cost of sales	**125,467**	134,447	143,682	104,174	77,433	61,046
Exploration expenses	**10,396**	15,352	13,559	8,178	9,677	6,127
Selling, general and administrative expenses	**30,769**	32,237	30,770	27,946	24,666	21,298
Operating income	**13,119**	20,090	19,625	29,719	27,018	14,678
Net income	**17,939**	12,560	20,097	20,982	20,216	13,234
Capital expenditures	**28,835**	30,902	41,742	31,746	19,934	13,587
Depreciation and amortization	**23,237**	21,521	16,669	14,938	13,951	14,081
At Year-End:						
Total assets	**¥521,009**	¥500,444	¥620,946	¥578,059	¥532,516	¥393,733
Net assets (formerly shareholders' equity)*	**398,747**	378,227	448,226	418,929	386,222	293,152
Long-term loans payable	**24,471**	25,325	21,922	17,722	15,000	15,973
						Yen
Per Share Data:						
Net assets per share	**¥6,839.05**	¥6,486.85	¥7,696.00	¥7,185.80	¥6,756.00	¥5,127.67
Net income per share	**313.88**	219.77	351.65	367.12	352.11	230.50
Cash dividends per share (full-year)	**40.00**	40.00	40.00	40.00	40.00	37.50
Other Data:						
Number of employees	**1,735**	1,678	1,622	1,557	1,481	1,470

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

Management's Discussion and Analysis

Scope of Operations

The JAPEX Group (the Company and its subsidiaries and affiliates) comprises the Company, 26 subsidiaries and 16 affiliates as of March 31, 2010. 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 2010, ended March 31, 2010, net sales were ¥179,752 million, a decrease of ¥22,374 million compared with the previous fiscal year. Operating income was ¥13,119 million, a decline of ¥6,971 million year on year, while net income was up ¥5,378 million to ¥17,939 million.

Crude Oil Prices and Exchange Rates

The average unit sales price of crude oil received by JAPEX during fiscal 2010 in terms of year-round average sales price was ¥40,436 per kiloliter, a decrease of ¥13,131 per kiloliter compared with 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 dollar basis, the weighted average price of crude oil based on the Japan Crude Cocktail (JCC) price was $67.50 per barrel, down $22.21 from the level per barrel of the previous fiscal year. Compared with the previous fiscal year, the yen appreciated ¥9.82 relative to the dollar, for a weighted average exchange rate of ¥92.74.

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.

In addition, the weighted average unit sales price of bitumen in Canadian dollars was C$50.15 per barrel, which was down by C$16.42 compared with fiscal 2009. Whereas, the weighted average exchange rate was ¥88.07 to the Canadian dollar, as the yen depreciated by ¥13.23 relative to the dollar year on year.

Capital Expenditures and Depreciation

Capital expenditures decreased ¥2,066 million year on year to ¥28,835 million. Major components of these expenditures included the drilling of production wells in Hokkaido, the construction of new production facilities in Niigata and the acquisition of E&P right for the Garraf oilfield in Southern Iraq. Depreciation and amortization expenses rose ¥1,716 million from the previous fiscal year to ¥23,237 million.

Exploration Activities

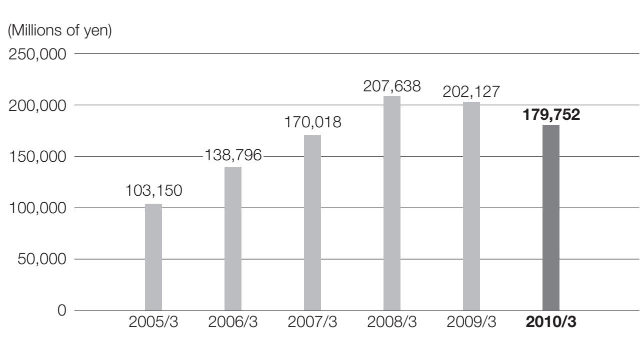
Exploration expenses decreased ¥4,956 million year on year to ¥10,396 million after excluding government subsidies.

Domestic exploration costs were primarily attributed to seismic survey activities as well as exploratory drilling in Niigata and Akita prefectures, while exploratory drilling as well as exploration assessment activities in Canada and Libya were the main sources of exploration costs outside of Japan.

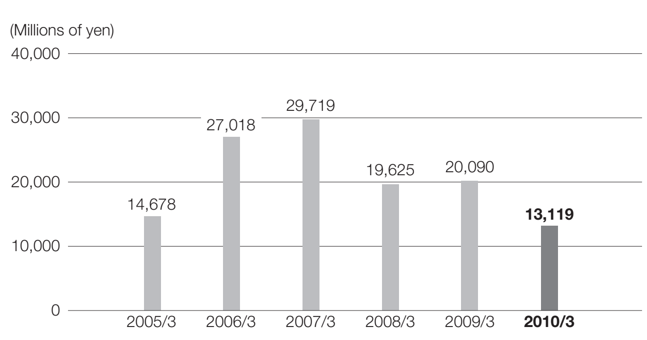
Net Sales

In fiscal 2010, net sales in the E&P Division totaled ¥148,604 million, accounting for 82.7% of the total. Net sales in the Contract Services Division were ¥4,859 million, or 2.7% of the total. Net sales in the Other Businesses Division were ¥26,289 million, representing 14.6% of the total.

Net Sales



Operating Income



Management's Discussion and Analysis

E&P Division

The E&P Division sells crude oil, natural gas, liquefied natural gas (LNG) and bitumen. During fiscal 2010, this division posted net sales of ¥148,604 million, down ¥34,867 million year on year. This was mainly due to the drop in crude oil and bitumen prices, expiry of the commercial production period for Japex New Nanhai Ltd. and a decrease in the sales volume of SOKOL crude purchased from Sakhalin Oil & Gas Development Co., Ltd. (SODECO).

In fiscal 2010, the volume of crude oil sales decreased 205 thousand kiloliters to 1,714 thousand kiloliters. Principal reasons for this decreased volume were expiration of the commercial production term for Japex New Nanhai Ltd. and lower sales volume of SOKOL crude purchased from SODECO. Total crude oil sales decreased ¥33,537 million year on year to ¥69,308 million.

The volume of natural gas sales increased 13 million cubic meters to 1,499 million year on year. The unit sales price rose ¥0.66 per cubic meter to ¥37.08 per cubic meter. As a result, sales of natural gas grew ¥1,467 million to ¥55,593 million.

Although sales volume for LNG increased 8 thousand tons year on year to 186 thousand, LNG sales decreased ¥1,144 million to ¥12,268 million.

Sales volume for bitumen decreased 6 thousand kiloliters year on year to 411 thousand kiloliters. In monetary terms, bitumen sales decreased ¥1,653 million to ¥11,433 million.

Contract Services Division

The Contract Services Division is primarily involved in drilling and geophysical surveys. During fiscal 2010, the division recorded net sales of ¥4,859 million, up ¥119 million year on 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 as well as other subcontracted tasks. During fiscal 2010, this division posted net sales of ¥26,289 million, up ¥12,373 million year on year, primarily because JAPEX Energy Co., Ltd., which is mostly engaged in the sale of petroleum products, became a JAPEX consolidated subsidiary.

Operating Expenses

The cost of sales fell ¥8,979 million to ¥125,467 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 were down ¥1,467 million to ¥30,769 million. This is largely due to reduced tax obligations from China's Special Petroleum Gain Levy on petroleum companies following the termination of the commercial production term for Japex New Nanhai Ltd.

Please see the Exploration Activities section for information on exploration expenses on page 36.

As a result of these factors, operating income decreased ¥6,971 million from the previous fiscal year to ¥13,119 million.

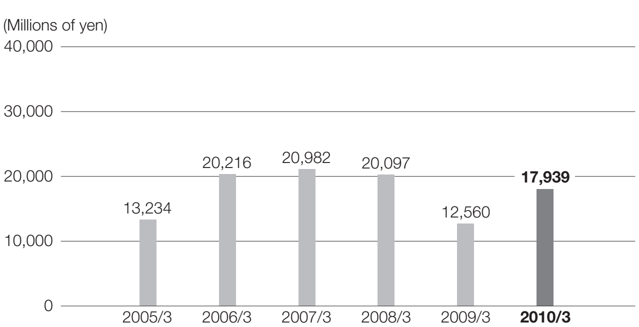
Income before Income Taxes and Minority Interests

Other income posted an increase over fiscal 2009 primarily due to higher dividend payments received after SODECO revised its dividend policy upward.

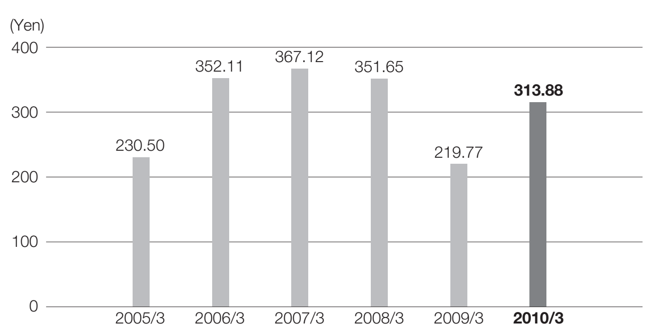
Whereas, other expenses were down year on year as a result of smaller write-downs due to losses on valuation of securities held, a smaller provision for the cost of abandonment, narrower foreign exchange losses, declaring gain on changes in equity from the issuance of new shares for equity-method affiliate Japan Drilling Co., Ltd., in line with its share listing, and narrower losses from the retirement of noncurrent assets and impairment.

As a result, income before income taxes and minority

Net Income



Net Income per Share



interests increased ¥6,260 million year on year to ¥23,368 million.

Net Income

For the fiscal year under review, the total of current and deferred income taxes was ¥4,443 million, or 19.0% of income before income taxes and minority interests of ¥23,368 million. This was 17.2% below the Company's statutory tax rate of 36.2%. In accordance with the exploration reserve system (Article 58 of the Act on Special Measures Concerning Taxation) and the new deposit exploration expense special exemption system (Article 59 of the Act on Special Measures Concerning Taxation), 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 fall under the category of "mineral extraction activities" and are therefore tax-exempt.

As a result of the above factors, after deducting income taxes (following the application of tax effect accounting) and minority interests, net income totaled ¥17,939 million, up ¥5,378 million year on year.

Analysis of Financial Position and Cash Flows

Balance Sheet

Total assets at the end of fiscal 2010 stood at ¥521,009 million, an increase of ¥20,565 million year on year. Total current assets increased ¥8,449 million to ¥105,569 million and total noncurrent assets jumped ¥12,115 million to ¥415,439 million.

Primary fluctuations in current assets are the increase in short-term loans receivable as a result of repo transactions (transactions relating to repurchase or resale agreements) (included in other current assets at the end of fiscal 2009) and in short-term investment securities from the purchase of money market funds, etc. despite decreases in cash and deposits.

In total noncurrent assets, total property, plant and equipment increased ¥1,998 million. This was due to the cost of drilling two production wells at the Yufutsu oil and gas field in Hokkaido and improvements to production facilities at the Katakai gas field in Niigata, which outweighed a fall in depreciation charges. Total intangible assets increased ¥3,058 million due primarily to the acquisition of the E&P right for the Garraf oilfield in the Republic of Iraq.

Total investments and other assets increased ¥7,059 million year on year as a result of such factors as the purchase of corporate bonds and increases in investment securities in connection with a revaluation of the market value of the stock of INPEX CORPORATION, as well as an increase in long-term loans receivable extended to Kangean Energy Indonesia Ltd. (KEI) and EMP Exploration (Kangean) Ltd. (EMPE), both equity-method affiliates.

Total liabilities at the fiscal year-end increased ¥45 million year on year to ¥122,261 million due to higher deferred tax liabilities and the provision for retirement benefits. This was despite decreases in notes and accounts payable-trade and long-term loans payable.

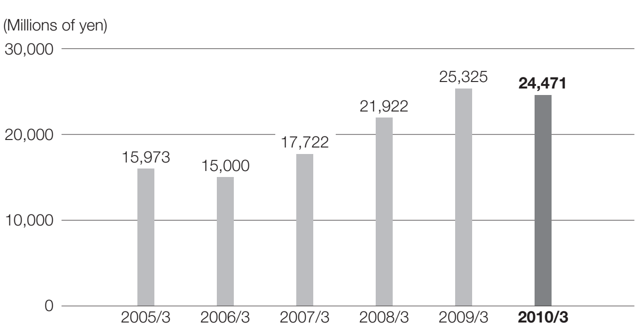
Total net assets increased ¥20,519 million year on year to ¥398,747 million, as a result of increases in retained earnings as well as the valuation difference on available-for-sale securities and in foreign currency translation adjustment.

As a result, the equity ratio at March 31, 2010 was 75.0%.

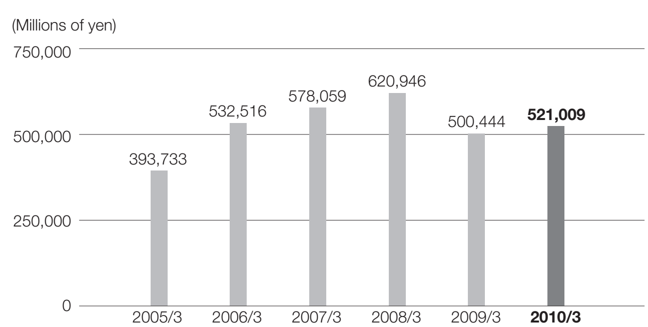
Cash Flows

As of March 31, 2010, cash and cash equivalents (hereinafter "net cash") totaled ¥57,645 million, up ¥5,669 million compared to the

Long-Term Loans Payable



Total Assets



Management's Discussion and Analysis

end of the previous fiscal year. Below is a summary of cash flows for each activity.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥38,948 million. This was mainly attributable to ¥23,368 million in income before income taxes and minority interests as well as ¥23,237 million in depreciation and amortization.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥29,300 million. This was primarily due to expenditures of ¥29,074 for the acquisition of the above-mentioned property, plant and equipment, ¥4,519 million for the acquisition of the abovementioned intangible assets and ¥14,892 million for payments into time deposit accounts. These items exceeded such cash inflows as ¥10,368 million in proceeds from withdrawal of time deposits and ¥10,523 million in interest and dividends income received.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥4,054 million as a result of proceeds from long-term loans payable of ¥1,934 million to be channeled as investments in KEI and EMPE. This exceeded the amount of total expenditures such as ¥2,284 million for cash dividends paid and ¥2,278 million for repayment of long-term loans payable.

Financial Policy

JAPEX and its consolidated subsidiaries manage working capital, capital expenditures and other financial policy according to the following practices.

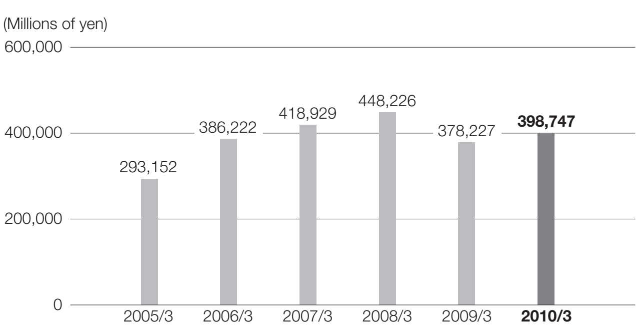
Working capital is primarily procured using internal funds. Some consolidated subsidiaries, however, when temporarily in need of working capital as a result of gaps in the timing between fixed payments and accounts receivable, procure working capital from intercompany loans, or if this is not sufficient, then through short-term debt. In addition, the Company also maintains an overdraft facility in the amount of ¥26,968 million signed with six of its banking partners to be used for working capital when required. The Company, however, had not executed any short-term dept as at the end of fiscal 2009 and fiscal 2010.

Funds used for capital investments and overseas investments are also primarily procured using internal funds. When the investment amount warrants, however, long-term debt financing is occasionally used in light of the quality of the project and the balance of the Company's liquidity in hand. The total of long-term loans payable maturing within one year as of the end of fiscal 2010 and other long-term loans payable was down ¥853 million compared with the end of fiscal 2009 to ¥26,749 million. A breakdown of long-term loans payable includes ¥6,166 million for the Shiroishi-Koriyama gas pipeline construction project, ¥7,000 million to acquire stock of Japan Canada Oil Sands Limited (JACOS) and ¥13,583 million for the development of the Kangean Block in Indonesia.

In addition, in fiscal 2010 the Company maintained contingent liabilities totaling ¥15,258 million for guarantees of bank financing used for operating capital of overseas project companies and for employee home loans. Provisions for these obligations, however, ensure adequate liquidity through cash on hand and marketable securities.

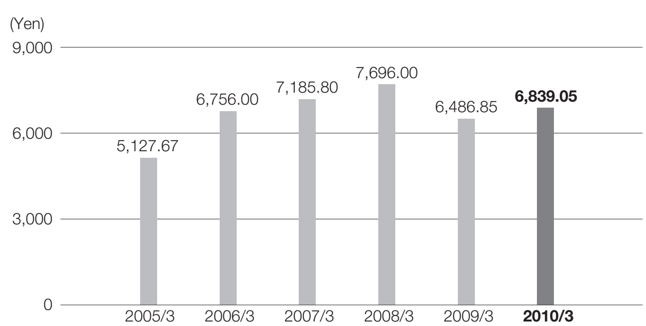
Entries appearing in the above text about the future represent an assessment made by the Company as of the end of fiscal 2010.

Net Assets (formerly Shareholders' Equity)*



* Shareholders' Equity was amended to Net Assets starting from the fiscal year ended March 2007

Net Assets per Share



CONSOLIDATED BALANCE SHEETS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars (Note 1)
ASSETS			
Current assets:			
Cash and deposits (Notes 10 and 18)	**¥ 24,314**	¥ 27,702	**$ 261,443**
Notes and accounts receivable-trade (Note 10)	**19,774**	17,050	**212,630**
Short-term investment securities (Notes 4, 10 and 18)	**17,669**	11,510	**189,993**
Merchandise and finished goods (Note 3)	**4,632**	4,255	**49,814**
Work in process (Note 3)	**386**	553	**4,159**
Raw materials and supplies (Note3)	**5,398**	6,200	**58,050**
Deferred tax assets (Note 6)	**1,336**	1,315	**14,371**
Short-term loans receivable (Note 10)	**28,534**	20,506	**306,823**
Other	**3,532**	8,037	**37,986**
Less — allowance for doubtful accounts	**(10)**	(12)	**(112)**
Total current assets	**105,569**	97,120	**1,135,157**
Noncurrent assets:			
Property, plant and equipment:			
Land (Note 15)	**14,955**	15,338	**160,811**
Buildings and structures (Note 15)	**148,591**	142,900	**1,597,760**
Wells	**67,143**	59,115	**721,972**
Machinery, equipment and vehicles	**106,870**	101,561	**1,149,150**
Construction in progress (Note 15)	**7,263**	4,790	**78,097**
Other	**15,130**	14,310	**162,692**
Less — accumulated depreciation	**(215,189)**	(195,249)	**(2,313,865)**
Total property, plant and equipment	**144,765**	142,767	**1,556,617**
Intangible assets:			
Goodwill	**—**	1,063	**—**
Other	**7,450**	3,328	**80,115**
Total intangible assets	**7,450**	4,392	**80,115**
Investments and other assets:			
Investment securities (Notes 4 and 10)	**246,141**	241,945	**2,646,687**
Long-term loans receivable (Note 10)	**15,377**	13,432	**165,351**
Deferred tax assets (Note 6)	**1,332**	648	**14,328**
Other	**6,211**	6,010	**66,789**
Less — allowance for doubtful accounts	**(46)**	(68)	**(501)**
Less — allowance for overseas investment loss	**(5,793)**	(5,803)	**(62,293)**
Total investments and other assets	**263,223**	256,164	**2,830,361**
Total noncurrent assets	**415,439**	403,324	**4,467,093**
Total assets	**¥521,009**	¥500,444	**$5,602,250**

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable-trade (Note 10)	**¥ 5,914**	¥ 6,508	**$ 63,600**
Provision for directors' bonuses	**104**	93	**1,126**
Provision for loss on disaster	**—**	188	**—**
Other (Notes 5 and 6)	**15,966**	17,302	**171,685**
Total current liabilities	**21,986**	24,093	**236,411**
Noncurrent liabilities:			
Long-term loans payable (Notes 5 and 10)	**24,471**	25,325	**263,136**
Deferred tax liabilities (Note 6)	**61,386**	60,108	**660,072**
Provision for retirement benefits (Note 7)	**6,429**	5,732	**69,139**
Provision for directors' retirement benefits	**690**	559	**7,420**
Provision for cost of abandonment	**6,216**	5,725	**66,845**
Provision for loss on business of subsidiaries and affiliates	**—**	35	**—**
Other (Note 5)	**1,080**	635	**11,622**
Total noncurrent liabilities	**100,275**	98,123	**1,078,234**
Total liabilities	**122,261**	122,216	**1,314,645**
Commitment and contingent liabilities (Notes 9, 11 and 12)			
Net assets (Note 8)**:**			
Shareholders' equity:			
Capital stock:			
Authorized —120,000,000 shares			
Issued —57,154,776 shares in 2010 and 2009	**14,288**	14,288	**153,642**
Retained earnings	**271,858**	255,499	**2,923,209**
Treasury stock: 1,961 shares in 2010 and 1,783 shares in 2009	**(10)**	(9)	**(109)**
Total shareholders' equity	**286,137**	269,778	**3,076,742**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**106,896**	105,430	**1,149,423**
Deferred gains or losses on hedges	**24**	(0)	**263**
Foreign currency translation adjustment	**(2,186)**	(4,465)	**(23,516)**
Total valuation and translation adjustments	**104,733**	100,964	**1,126,170**
Minority interests	**7,876**	7,484	**84,693**
Total net assets	**398,747**	378,227	**4,287,605**
Total liabilities and net assets	**¥521,009**	¥500,444	**$5,602,250**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	**¥179,752**	¥202,127	**$1,932,827**
Cost of sales (Note 3)	**125,467**	134,447	**1,349,110**
Gross profit	**54,285**	67,680	**583,717**
Exploration expenses	**10,865**	16,272	**116,828**
Exploration subsidies	**(468)**	(920)	**(5,038)**
	10,396	15,352	**111,790**
Selling, general and administrative expenses (Note 14)	**30,769**	32,237	**330,859**
Operating income	**13,119**	20,090	**141,068**
Other income (expenses):			
Interest income	**720**	1,253	**7,743**
Dividends income	**8,669**	5,823	**93,220**
Gain (loss) on sales of securities, net	**176**	57	**1,894**
Gain (loss) on change in equity, net	**1,279**	—	**13,759**
Reversal of provision for loss on business of subsidiaries and affiliates	**35**	275	**380**
Interest expenses	**(291)**	(494)	**(3,138)**
Loss on valuation of securities	**(11)**	(1,805)	**(128)**
Provision for cost of abandonment	**(890)**	(2,055)	**(9,580)**
Foreign exchange gains (losses)	**(686)**	(1,886)	**(7,382)**
Subsidy	**—**	191	**—**
Loss on retirement of noncurrent assets	**(378)**	(2,986)	**(4,073)**
Impairment loss (Note 15)	**(575)**	(2,312)	**(6,188)**
Retirement benefit expenses for prior periods	**(265)**	—	**(2,855)**
Other, net	**2,469**	955	**26,558**
	10,249	(2,982)	**110,210**
Income before income taxes	**23,368**	17,108	**251,278**
Income taxes (Note 6):			
Income taxes-current	**4,135**	1,879	**44,469**
Income taxes-deferred	**307**	1,686	**3,306**
	4,443	3,565	**47,775**
Minority interests in income	**986**	981	**10,608**
Net income (Note 17)	**¥ 17,939**	¥ 12,560	**$ 192,895**

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, 2010 and 2009

	2010	2009	2010
		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	**$ 153,642**
Balance at the end of current period	**¥ 14,288**	¥ 14,288	**$ 153,642**
Retained earnings			
Balance at the end of previous period	**¥255,499**	¥245,225	**$2,747,304**
Changes of items during the period			
Dividends from surplus	**(2,286)**	(2,286)	**(24,582)**
Net income	**17,939**	12,560	**192,895**
Change of scope of equity method	**706**	—	**7,592**
Total changes of items during the period	**16,359**	10,274	**175,905**
Balance at the end of current period	**¥271,858**	¥255,499	**$2,923,209**
Treasury stock			
Balance at the end of previous period	**¥ (9)**	¥ (7)	**$ (100)**
Changes of items during the period			
Purchase of treasury stock	**(0)**	(2)	**(9)**
Total changes of items during the period	**(0)**	(2)	**(9)**
Balance at the end of current period	**¥ (10)**	¥ (9)	**$ (109)**
Total shareholders' equity			
Balance at the end of previous period	**¥269,778**	¥259,506	**$2,900,846**
Changes of items during the period			
Dividends from surplus	**(2,286)**	(2,286)	**(24,582)**
Net income	**17,939**	12,560	**192,895**
Change of scope of equity method	**706**	—	**7,592**
Purchase of treasury stock	**(0)**	(2)	**(9)**
Total changes of items during the period	**16,358**	10,272	**175,896**
Balance at the end of current period	**¥286,137**	¥269,778	**$3,076,742**

See notes to consolidated financial statements.

	2010	2009	2010
		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	**¥105,430**	¥179,629	**$1,133,659**
Changes of items during the period			
Net changes of items other than shareholders' equity	**1,465**	(74,199)	**15,764**
Total changes of items during the period	**1,465**	(74,199)	**15,764**
Balance at the end of current period	**¥106,896**	¥105,430	**$1,149,423**
Deferred gains or losses on hedges			
Balance at the end of previous period	**¥ (0)**	¥ (0)	**$ (2)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**24**	—	**265**
Total changes of items during the period	**24**	—	**265**
Balance at the end of current period	**¥ 24**	¥ (0)	**$ 263**
Foreign currency translation adjustment			
Balance at the end of previous period	**¥ (4,465)**	¥ 716	**$ (48,018)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**2,278**	(5,182)	**24,502**
Total changes of items during the period	**2,278**	(5,182)	**24,502**
Balance at the end of current period	**¥ (2,186)**	¥ (4,465)	**$ (23,516)**
Total valuation and translation adjustments			
Balance at the end of previous period	**¥100,964**	¥180,346	**$1,085,639**
Changes of items during the period			
Net changes of items other than shareholders' equity	**3,769**	(79,381)	**40,531**
Total changes of items during the period	**3,769**	(79,381)	**40,531**
Balance at the end of current period	**¥104,733**	¥100,964	**$1,126,170**
Minority interests			
Balance at the end of previous period	**¥ 7,484**	¥ 8,373	**$ 80,482**
Changes of items during the period			
Net changes of items other than shareholders' equity	**391**	(888)	**4,211**
Total changes of items during the period	**391**	(888)	**4,211**
Balance at the end of current period	**¥ 7,876**	¥ 7,484	**$ 84,693**
Total net assets			
Balance at the end of previous period	**¥378,227**	¥448,226	**$4,066,967**
Changes of items during the period			
Dividends from surplus	**(2,286)**	(2,286)	**(24,582)**
Net income	**17,939**	12,560	**192,895**
Change of scope of equity method	**706**	—	**7,592**
Purchase of treasury stock	**(0)**	(2)	**(9)**
Net changes of items other than shareholders' equity	**4,160**	(80,270)	**44,742**
Total changes of items during the period	**20,519**	(69,998)	**220,638**
Balance at the end of current period	**¥398,747**	¥378,227	**$4,287,605**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars (Note 1)
Cash provided by (used in) operating activities:			
Income before income taxes	**¥23,368**	¥17,108	**$251,278**
Depreciation and amortization	**23,237**	21,521	**249,870**
Impairment loss	**575**	2,312	**6,188**
Amortization of goodwill	**1,207**	1,014	**12,983**
Loss on retirement of property, plant and equipment	**360**	2,964	**3,881**
Loss (gain) on valuation of short-term and long term investment securities	**11**	1,805	**128**
Increase (decrease) in allowance for doubtful accounts	**(24)**	(26)	**(262)**
Increase (decrease) in provision for retirement benefits	**695**	459	**7,482**
Increase (decrease) in provision for directors' retirement benefits	**130**	47	**1,404**
Increase (decrease) in provision for cost of abandonment	**395**	1,870	**4,252**
Increase (decrease) in allowance for overseas investment loss and provision for loss on business of subsidiaries and affiliates	**(46)**	(2,092)	**(496)**
Interest and dividends income	**(9,389)**	(7,077)	**(100,963)**
Interest expenses	**291**	494	**3,138**
Loss (gain) on redemption of securities	**(47)**	81	**(511)**
Loss (gain) on redemption of investment securities	**—**	39	**—**
Loss (gain) on sales of short-term and long term investment securities	**(176)**	(57)	**(1,894)**
Equity in (earnings) losses of affiliates	**(1,059)**	270	**(11,390)**
Loss (gain) on change in equity	**(1,279)**	—	**(13,759)**
Decrease (increase) in notes and accounts receivable-trade	**(2,623)**	8,511	**(28,210)**
Decrease (increase) in inventories	**656**	(517)	**7,060**
Increase (decrease) in notes and accounts payable-trade	**(752)**	(11,410)	**(8,095)**
Increase (decrease) in accrued consumption taxes	**1,214**	(383)	**13,064**
Other, net	**733**	4,966	**7,890**
Subtotal	**37,482**	41,901	**403,038**
Proceeds from collection of claim for indemnity of debt guarantee	**—**	1,134	**—**
Other proceeds	**—**	191	**—**
Income taxes (paid) refund	**1,466**	(6,845)	**15,767**
Net cash provided by (used in) operating activities	**38,948**	36,381	**418,805**

See notes to consolidated financial statements.

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars (Note 1)
Cash provided by (used in) investing activities:			
Payments into time deposits	**¥(14,892)**	¥ (8,306)	**$(160,131)**
Proceeds from withdrawal of time deposits	**10,368**	2,572	**111,489**
Proceeds from sales and redemption of securities	**1,159**	2,246	**12,463**
Purchase of property, plant and equipment	**(29,074)**	(28,012)	**(312,627)**
Proceeds from sales of property, plant and equipment	**12**	20	**137**
Purchase of intangible assets	**(4,519)**	(593)	**(48,599)**
Purchase of investment securities	**(5,695)**	(2,607)	**(61,247)**
Proceeds from sales and redemption of investment securities	**5,062**	9,039	**54,433**
Payments of loans receivable	**(2,025)**	(6,064)	**(21,777)**
Collection of loans receivable	**58**	312	**626**
Interest and dividends income received	**10,523**	7,607	**113,153**
Other, net	**(276)**	442	**(2,977)**
Net cash provided by (used in) investing activities	**(29,300)**	(23,342)	**(315,057)**
Cash provided by (used in) financing activities:			
Proceeds from long-term loans payable	**1,934**	6,014	**20,802**
Repayment of long-term loans payable	**(2,278)**	(2,278)	**(24,495)**
Purchase of treasury stock	**(0)**	(2)	**(9)**
Cash dividends paid	**(2,284)**	(2,284)	**(24,567)**
Cash dividends paid to minority shareholders	**(1,038)**	(1,387)	**(11,167)**
Interest expenses paid	**(332)**	(514)	**(3,574)**
Other, net	**(54)**	(25)	**(585)**
Net cash provided by (used in) financing activities	**(4,054)**	(477)	**(43,595)**
Effect of exchange rate change on cash and cash equivalents	**75**	(3,025)	**809**
Net increase (decrease) in cash and cash equivalents	**5,669**	9,534	**60,962**
Cash and cash equivalents at beginning of period	**51,975**	42,440	**558,878**
Cash and cash equivalents at end of period (Note 18)	**¥ 57,645**	¥51,975	**$ 619,840**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

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 Act 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 2009 financial statements to conform to the classifications used in 2010.

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 ¥93 = U.S.$1, the approximate rate of exchange at March 31, 2010. 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 Act, 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, 2010 include the accounts of the Company and its 22 significant (20 in 2009) subsidiaries (together, the “Group”). In the year ended March 31, 2010, two companies are newly included in the scope of consolidation due to new acquisition of shares.

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 2009) unconsolidated subsidiaries and 12 (10 in 2009) affiliates are accounted for by the equity method. In the year ended March 31, 2010, two companies are newly included in the scope of affiliates accounted for by the equity method due to increase in materiality and new acquisition of shares, respectively.

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.

(6) Property, plant and equipment and depreciation (excluding leased assets)

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 assets of the Hokkaido Division Office 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, 2010, the Company changed its depreciation method for administrative assets in the Hokkaido Division Office from the declining balance method to the straight-line method in order to use the same method as for sales and manufacturing assets. This change was for the organizational integration of the administrative department and product and manufacturing plants in the Hokkaido division to strengthen the administrative support to main plant operations in the Yufutsu area. In addition, the Company moved the division office from Sapporo, to Tomakomai on October 26, 2009 and changed its name to the Hokkaido Division Office. The effect of this change on operating income and income before income taxes for the year ended March 31, 2010 was not material.

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

(7) Intangible assets (excluding leased assets)

Capitalized computer software costs are being amortized over a period of five years. Other intangible fixed assets are amortized by the straight-line method.

(8) Deferred assets

Development expenses are charged to income when incurred.

(9) Leases

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 transferred 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 for the year ended March 31, 2009 was not material.

(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.

“Partial Amendments to Accounting Standard for Retirement Benefits (Part3)”(ASBJ Statement No.19, July 31, 2008) has been applied effective the year ended March 31, 2010. There was no effect of this change on operating income and income before income taxes for the year ended March 31, 2010.

(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 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 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, the short-cut method is applied.

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

The following summarizes hedging derivative instruments used by the Group and items hedged:

Hedging instruments: Interest rate swaps, foreign exchange forward contracts, and foreign currency deposits

Hedged items: Accounts payable-trade and long-term loans payable.

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) Recognition of revenue and costs of construction contracts

The Group previously applied the percentage-of-completion method for long-term construction contracts (over one year and ¥3 billion or more) and for other contracts the completed-contract method was used for recognizing revenues of construction contracts. For the year ended March 31, 2010 the Group has applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, December 27, 2007). Under the new standard and guidance, the percentage-of-completion method (cost-comparison method using primarily estimates of construction progress) is applied for construction contracts which started in the year ended March 31, 2010, if the progress of the construction by March 31, 2010 is deemed certain. For contracts where the outcome is uncertain, the completed-contract method is applied. The effect of this change on the sales, operating income and income before income taxes for the year ended March 31, 2010 was not material.

(21) Research and development expenses

Research and development expenses are charged to income when incurred.

(22) Income taxes

Income taxes are computed based on income before income taxes included in the consolidated statements of income.

Deferred taxes and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enacted dates.

(23) 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 for the year ended March 31, 2009 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, 2010 and 2009 was ¥414 million ($4,457 thousand) and ¥601 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Short-Term Investment Securities and Investment Securities

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

(a) Information of available-for-sale securities as of March 31, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2010	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥191,402**	**¥25,070**	**¥166,332**	**$2,058,094**	**$269,572**	**$1,788,522**
Debt securities:						
Government bonds	**666**	**640**	**26**	**7,168**	**6,884**	**284**
Corporate bonds	**3,327**	**3,289**	**37**	**35,775**	**35,374**	**401**
Other debt securities	**1,270**	**1,072**	**198**	**13,665**	**11,535**	**2,130**
Other	**3,409**	**2,861**	**548**	**36,664**	**30,763**	**5,901**
Subtotal	**200,077**	**32,933**	**167,143**	**2,151,366**	**354,128**	**1,797,238**
Securities whose acquisition cost exceeds or is equal to their carrying value:						
Equity securities	**308**	**336**	**(27)**	**3,320**	**3,614**	**(294)**
Debt securities:						
Government bonds	**983**	**1,084**	**(100)**	**10,581**	**11,660**	**(1,079)**
Corporate bonds	**2,130**	**2,176**	**(46)**	**22,903**	**23,407**	**(504)**
Other debt securities	**2,526**	**2,599**	**(73)**	**27,165**	**27,956**	**(791)**
Other	**17,326**	**17,329**	**(2)**	**186,308**	**186,340**	**(32)**
Subtotal	**23,275**	**23,526**	**(251)**	**250,277**	**252,977**	**(2,700)**
Total	**¥223,352**	**¥56,460**	**¥166,892**	**$2,401,643**	**$607,105**	**$1,794,538**

Unlisted securities of ¥8,855 million ($95,216 thousand) are not included in the above table, as there were no market prices available and it is extremely difficult to determine the fair value.

	Millions of yen		
March 31, 2009	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥189,286	¥24,202	¥165,083
Debt securities:			
Government bonds	1,548	1,439	109
Corporate bonds	—	—	—
Other debt securities	100	100	0
Other	2,171	1,867	303
Subtotal	193,107	27,610	165,497
Securities whose acquisition cost exceeds or is equal to their carrying value:			
Equity securities	1,475	1,572	(96)
Debt securities:			
Government bonds	698	812	(113)
Corporate bonds	2,473	2,634	(161)
Other debt securities	5,176	5,395	(218)
Other	1,924	2,070	(146)
Subtotal	11,749	12,485	(735)
Total	¥ 204,856	¥40,095	¥164,761

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

	2009
	Millions of yen
Unlisted securities	¥ 8,350
Money management fund and others	10,440
Golf course membership	64

(c) Information of sales of securities classified as available-for-sale for the year ended March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2010	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
Available-for-sale securities						
Equity securities	**¥ 501**	**¥ 52**	**¥70**	**$ 5,397**	**$ 561**	**$762**
Debt securities:						
Government bonds	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**603**	**4**	**2**	**6,490**	**50**	**26**
Other debt securities	**1,735**	**20**	**—**	**18,665**	**218**	**—**
Other	**1,039**	**187**	**15**	**11,173**	**2,018**	**164**
Total	**¥3,880**	**¥264**	**¥88**	**$41,725**	**$2,847**	**$952**

For the year ended March 31, 2009, sales of securities classified as available-for-sale amounted to ¥5,733 million with aggregate gain and loss of ¥490 million and ¥432 million, respectively.

(d) During the years ended March 31, 2010 and 2009, the Group recorded losses on write-downs of available-for-sale securities due to permanent diminutions in value in the amounts of ¥11 million ($128 thousand) and ¥1,805 million, respectively. In addition, an impairment loss is recognized for the full amount if the market value of the security declines by 50% or more from its acquisition cost as of the end of the period. If the decline ranges between about 30% and 50%, an impairment loss is recognized for a necessary amount considering recoverability collectability.

(e) Investments in unconsolidated subsidiaries and affiliates at March 31, 2010 and 2009 were ¥31,603 million ($339,821 thousand) and ¥29,743 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Long-Term Loans Payable and Lease Obligations

Long-term loans payable at March 31, 2010 and 2009 consisted of the following:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Loans from banks and others, at interest rates ranging from 0.51% to 1.83%:			
Unsecured	¥ 26,749	¥27,603	$287,631
	26,749	27,603	287,631
Less: Current portion	(2,278)	(2,278)	(24,495)
	¥24,471	¥25,325	$263,136

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 2,278	$ 24,495
2012	778	8,366
2013	3,494	37,578
2014	3,494	37,578
2015 and thereafter	16,704	179,614
Total	¥26,749	$287,631

Of the long-term loans maturing in 2015, the agreements permit early repayment of ¥7,000 million ($75,269 thousand).

The Company and certain consolidated subsidiaries have entered into overdraft agreements amounting to ¥26,968 million ($289,987 thousand) with six banks at March 31, 2010 and ¥26,523 million with six banks at March 31, 2009.

There were no borrowings outstanding under the overdraft agreements.

Lease obligations at March 31, 2010 and 2009 consisted of the following:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Lease obligations	¥410	¥122	$4,414
Less: Current portion	(63)	(24)	(680)
	¥347	¥ 97	$3,734

The aggregate annual maturities of lease obligations subsequent to March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 63	$ 680
2012	67	722
2013	67	722
2014	53	579
2015 and thereafter	159	1,711
Total	¥410	$4,414

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, 2010 and 2009. 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, 2010 and 2009 differed from the statutory tax rate for the following reasons:

	2010	2009
Statutory tax rate	36.2%	36.2%
Effect of :		
Net tax loss carried forward of consolidated subsidiaries	4.6	8.6
Exploration cost deducted for income tax purposes	(9.9)	(13.7)
Dividends income deductible for income tax purposes	(4.3)	(4.4)
Tax credit for loss carried forward	(7.4)	(13.6)
Expenses not deductible for income tax purposes	1.1	1.0
Consolidated adjustment for equity method	(3.6)	0.5
Change of valuation allowance	—	7.0
Other	2.3	(0.8)
Effective tax rates	19.0%	20.8%

The significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Deferred tax assets:			
Allowance for overseas investment loss	¥ 2,358	¥ 2,253	$ 25,359
Net loss carried forward	12,711	14,097	136,678
Provision for retirement benefits	2,357	2,102	25,348
Depreciation	2,424	—	26,069
Provision for directors' retirement benefits	280	233	3,014
Finished goods	966	967	10,395
Provision for cost of abandonment	1,881	1,814	20,227
Other	6,826	8,339	73,408
Subtotal	29,806	29,807	320,498
Valuation allowance	(17,618)	(18,457)	(189,444)
Total deferred tax assets	12,187	11,350	131,054
Deferred tax liabilities:			
Reserve for exploration	(10,230)	(9,554)	(110,008)
Valuation difference on available-for-sale securities	(59,894)	(59,427)	(644,032)
Reserve for advanced depreciation of noncurrent assets	(154)	(161)	(1,659)
Other	(889)	(352)	(9,564)
Total deferred tax liabilities	(71,169)	(69,495)	(765,263)
Net deferred tax liabilities	¥(58,981)	¥(58,145)	$(634,209)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(17,479)	¥(16,474)	$(187,956)
Plan assets at fair value	7,922	6,687	85,190
Unfunded retirement benefit obligation	(9,557)	(9,786)	(102,766)
Unrecognized actuarial gain or loss	2,779	3,647	29,882
Unrecognized prior service benefits and cost	348	406	3,745
Provision for retirement benefits	¥ (6,429)	¥ (5,732)	$ (69,139)

The components of retirement benefits expenses for the years ended March 31, 2010 and 2009 were outlined as follows:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Service cost	¥ 845	¥ 799	$ 9,092
Interest cost	305	300	3,290
Expected return on plan assets	(200)	(268)	(2,157)
Amortization of actuarial gain or loss	552	341	5,942
Amortization of prior service benefits and cost	58	58	624
Other	61	59	658
Total	¥1,622	¥1,290	$17,449

The assumptions used in accounting for the above plan as of March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rates	2.0%	2.0%
Expected rates of return on plan assets	3.0%	3.0%

8. Shareholders' Equity

The Companies Act 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, 2010 and 2009, 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)

	2010	2009	**2010**
		Millions of yen	Thousands of U.S. dollars
Acquisition costs:			
Machinery, equipment and vehicles	**¥1,276**	¥1,311	**$13,723**
Other	**—**	128	**—**
Total	**¥1,276**	¥1,439	**$13,723**
Accumulated depreciation:			
Machinery, equipment and vehicles	**¥ 648**	¥ 528	**$ 6,972**
Other	**—**	117	**—**
Total	**¥ 648**	¥ 646	**$ 6,972**
Net book value:			
Machinery, equipment and vehicles	**¥ 627**	¥ 782	**$ 6,751**
Other	**—**	10	**—**
Total	**¥ 627**	¥ 792	**$ 6,751**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥161 million ($1,733 thousand) and ¥271 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, 2010 and 2009, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥147	$1,582
2012 and thereafter	480	5,169
Total	¥627	$6,751

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Lessor)

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Acquisition costs:			
Buildings and structures	**¥ 54**	¥ 54	**$ 587**
Machinery, equipment and vehicles	**200**	200	**2,151**
Other	**50**	50	**545**
Total	**¥305**	¥305	**$3,283**
Accumulated depreciation:			
Buildings and structures	**¥ 4**	¥ 0	**$ 50**
Machinery, equipment and vehicles	**44**	3	**477**
Other	**13**	1	**146**
Total	**¥ 62**	¥ 4	**$ 673**
Net book value:			
Buildings and structures	**¥ 49**	¥ 54	**$ 537**
Machinery, equipment and vehicles	**155**	196	**1,674**
Other	**37**	49	**399**
Total	**¥242**	¥300	**$2,610**

For the year ended March 31, 2010 and 2009, the lease receivables relating to finance leases accounted for as operating leases amounted to ¥83 million ($902 thousand) and ¥0 yen, respectively. The depreciation expense of the leased assets computed by the straight-line method over the lease terms amounted to ¥57 million ($620 thousand) and ¥4 million, respectively.

Future minimum lease receivables (including the interest income portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 60	$ 653
2012 and thereafter	345	3,716
Total	¥406	$4,369

(2) Operating leases

Future minimum lease payments subsequent to March 31, 2010 for non-cancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥104	$1,121
2012 and thereafter	168	1,806
Total	¥272	$2,927

10. Financial Instruments

The Group has applied “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, March 10, 2008) and “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19, March 10, 2008) effective the year ended March 31, 2010.

(1) Overview

(a) Policy for measures relating to financial instruments

It is the Group’s policy to obtain operating funds for ensuring funding liquidity and the hedging of risks. The Group uses bank loans as its prime source of financing. Domestic capital investment is financed by Development Bank of Japan Inc. and other commercial banks and overseas investment is financed by Japan Bank for International Cooperation (Japan Finance Corporation) and other commercial banks.

The Group entered into loan agreements with financial institutions to invest in the Kangean Block in Indonesia and recorded the loans as long-term loans payable. Loans receivable from affiliates accounted for by the equity method operating in the Kangean Block are recognized as long-term loans receivable.

The Group does not use direct financing such as bond issuance or project finance; however, there is a possibility of financing by these methods depending on specific conditions. The Group does not enter into derivative transactions for trading or speculative purposes.

(b) Types of financial instruments and related risk and risk management

Operating receivables such as notes and accounts receivable-trade are exposed to credit risk. The Group evaluates current receivables accurately by following internal credit management rules and monitoring credit conditions of customers and takes action to prevent bad debts.

Some accounts receivable-trade are denominated in foreign currencies and are exposed to foreign currency risk. However, accounts payable-trade and accounts receivables-trade related to crude oil denominated in the same foreign currency are settled principally the same day, therefore the risk is limited to the net amount.

Short-term loans receivable mainly consists of repo transactions of bonds with financial institutions to manage the short-term fund and are exposed to credit risk. The Group mitigates the risk by dealing with creditworthy financial institutions and by purchasing bonds that carry little risk such as government bonds.

Short-term investment securities and investment securities mainly consist of investment trusts (open bond investment trust “MMF” and others) and stocks of partner companies and are exposed to market fluctuation risk. Fair value evaluation is reported to the director monthly and to the president on a quarterly basis according to the internal rules. Investment securities mainly consist of stock of INPEX CORPORATION valued at ¥ 183,321 million ($1,971,203 thousand) as of March 31, 2010 consisting of 75% of investment securities.

Long-term loans receivable are mainly loans to our affiliates in which the Group invests an operating capital and are exposed to credit risk and foreign currency risk. The Group manages credit risk appropriately by monitoring the collection status of the loans receivable following the internal rules. The Group minimizes the foreign currency risk by financing bank loans denominated in the same foreign currency as the loan receivable.

Operating payables such as notes and accounts payable-trade are due within one year. Some of the accounts payable-trade are denominated in foreign currencies and thus, they are exposed to foreign currency risk. Payables denominated in foreign currencies are mainly for the purchase of crude oil and liquefied natural gas (LNG). Accounts payable-trade of crude oil falls within the range of the balance of accounts receivable-trade denominated in the same foreign currencies. Accounts payable-trade relating to LNG in a foreign currency are hedged by foreign exchange forward contracts.

Long-term loans payable mainly consist of domestic capital investment and overseas investment. Part of the loans that the Group financed were loaned to affiliates for their equipment funds. Since our loans are mainly floating interest rate loans, they are exposed to interest rate fluctuation risk. Part of the loans payable are denominated in foreign currencies, thus there is foreign currency risk; however, the corresponding loans receivable from related companies are also denominated in the same foreign currency to minimize the risk.

The Group utilizes derivative transactions such as foreign exchange forward contracts to hedge its foreign currency risk, crude oil swap contracts to hedge oil price fluctuation risk, interest rate swaps contracts to hedge interest rate and foreign currency and interest rate swaps contracts to hedge fluctuation risk of foreign currencies and interest rates on loans. Implementation and management of derivative transactions are based on the internal rules which determines the authorization and maximum amounts of the transactions and transactions are executed after getting the approval from the approver.

The Group performs balance confirmation with counter parties directly on a regular basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Group's derivative transactions have risk related to fluctuation of interest rates, foreign currency exchange rates and oil prices.

The Group enters into transactions only with creditworthy financial institutions to reduce the counter party risk. Operating payables and loans are exposed to liquidity risk; however, the Group manages the risk by preparing monthly cash flow plans.

(c) Supplemental information on fair value of financial instruments
As well as the values based on market prices, fair values of financial instruments include values, which are calculated in case market prices do not exist. As the calculation of those values adopts certain assumptions, those values may vary in case different assumptions are applied. Also, for the contract amount and others regarding derivative transactions described in Note 11. Derivative transactions, the contract amount itself does not indicate market risk related to derivative transactions.

(2) Fair value of financial instruments

Carrying value on the consolidated balance sheet as of March 31, 2010, fair value and difference are as follows. The financial instruments whose fair value is extremely difficult to determine are not included below.

	Millions of yen		
March 31, 2010	Carrying value	Fair value	Difference
Cash and deposits	**¥ 24,314**	**¥ 24,342**	**¥ 28**
Notes and accounts receivable-trade	**19,774**	**19,774**	**—**
Short-term loans receivable	**28,534**	**28,534**	**—**
Short-term investment securities and investment securities	**233,548**	**249,539**	**15,990**
Long-term loans receivable	**15,377**		
Allowance for doubtful accounts (*1)	**(9)**		
	15,368	**15,368**	**—**
Total assets	**¥321,540**	**¥337,559**	**¥16,018**
Notes and accounts payable-trade	**¥ 5,914**	**¥ 5,914**	**¥ —**
Long-term loans payable	**24,471**	**24,543**	**(71)**
Total liabilities	**¥ 30,386**	**¥ 30,458**	**¥ (71)**
Derivative transactions (*2)	**¥ 498**	**¥ 498**	**¥ —**

	Thousands of U.S. dollars		
March 31, 2010	Carrying value	Fair value	Difference
Cash and deposits	**$ 261,443**	**$ 261,748**	**$ 305**
Notes and accounts receivable-trade	**212,630**	**212,630**	**—**
Short-term loans receivable	**306,823**	**306,823**	**—**
Short-term investment securities and investment securities	**2,511,278**	**2,683,218**	**171,940**
Long-term loans receivable	**165,351**		
Allowance for doubtful accounts (*1)	**(98)**		
	165,253	**165,253**	**—**
Total assets	**$3,457,427**	**$3,629,672**	**$172,245**
Notes and accounts payable-trade	**$ 63,600**	**$ 63,600**	**$ —**
Long-term loans payable	**263,136**	**263,910**	**(774)**
Total liabilities	**$ 326,736**	**$ 327,510**	**$ (774)**
Derivative transactions (*2)	**$ 5,362**	**$ 5,362**	**$ —**

(*1) Allowance for doubtful accounts recognized in long-term loans receivable on an individual basis is deducted from the carrying amount.
(*2) Net assets and liabilities arising from derivative transactions are presented on a net basis and the liability position is shown in parenthesis.

Note 1. Valuation method for financial instruments and information on short-term investment securities and derivative transactions

Assets

•Cash and deposits

As for deposits without maturities, fair value is based on carrying value since fair value is considered to be the equivalent of carrying value. As for deposits with maturities, present value is calculated by discounting the carrying value for each segment based on the term, using deposit interest rate, which is assumed to be applied to new deposits.

•Notes and accounts receivable-trade

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

•Short-term loans receivable

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

•Short-term investment securities and investment securities

Fair value of securities is based on the price on stock exchanges and that of bonds is based on the price on bond markets or prices provided by the counter party financial institutions. Fair value of investment trust is based on constant value or price provided by counter party financial institutions.

•Long-term loans receivable

The carrying value is deemed as the fair value for long-term loans receivable with floating interest since these loans reflect the short-term market interest rate and the carrying value approximates the fair value unless the credit condition changes dramatically after the loans are executed. For the receivables deemed to be uncollectible, the carrying value after deduction of the bad debt balance currently estimated is deemed as the fair value, since the estimated bad debt balance is calculated based on the future discounted cash flow and the carrying value as of the balance sheet date minus the estimated bad debt balance approximates the fair value.

Liabilities

•Notes and accounts payables-trade

Among accounts payable-trade, the accounts payables-trade with foreign exchange forward contracts that meet certain criteria are combined with foreign exchange forward contracts to determine the fair value. For the others, the carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

•Long-term loans payable

With regard to floating rate loans, the carrying value is deemed as the fair value because interest rate changes will be reflected quickly in the future cash flows and the credit condition of the Group does not change dramatically after executing the loans payable. For those loans, which meet special treatment of interest rate swaps, the fair value is determined by the total amount of principal and the interest processed as interest rate swaps. For fixed rate loans, the fair value is measured as the net present value of estimated future cash flows by discounting the principal and interest value for each segment based on the term, using the loan interest rate.

Note 2. Financial instruments for which fair value is extremely difficult to determine

	Millions of yen	Thousands of U.S. dollars
Carrying value:		
Unlisted securities	**¥30,262**	**$325,402**

The above securities are not included in the above Note 1 Short-term investment securities and investment securities, as there were no market prices available and it is extremely difficult to determine the fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) The redemption schedule for financial instruments and securities with maturities classified as available-for-sale:

Millions of yen

March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥24,314	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	19,774	—	—	—
Short-term loans receivable	28,534	—	—	—
Short-term investment securities and investment securities				
Available-for-sale securities				
Equity securities	—	—	500	—
Debt securities:				
Government bonds, local government bonds and others	—	1,311	338	—
Corporate bonds	100	4,074	91	196
Other debt securities	399	1,262	1,273	861
Other	31	239	332	—
Long-term loans receivable (*)	—	8,156	7,205	—
Total	¥73,154	¥15,044	¥9,742	¥1,058

Thousands of U.S. dollars

March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	$261,443	$ —	$ —	$ —
Notes and accounts receivable-trade	212,630	—	—	—
Short-term loans receivable	306,823	—	—	—
Short-term investment securities and investment securities				
Available-for-sale securities				
Equity securities	—	—	5,376	—
Debt securities:				
Government bonds, local government bonds and others	—	14,106	3,642	—
Corporate bonds	1,080	43,809	983	2,112
Other debt securities	4,294	13,574	13,698	9,265
Other	335	2,580	3,579	—
Long-term loans receivable (*)	—	87,699	77,482	—
Total	$786,605	$161,768	$104,760	$11,377

(*) The amount does not include receivables deemed to be uncollectible of ¥15 million ($170 thousand).

(4) Scheduled maturities of long-term loans payable

				Millions of yen
March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Long-term loans payable	**¥—**	**¥18,262**	**¥6,209**	**¥—**
Total	**¥—**	**¥18,262**	**¥6,209**	**¥—**

				Thousands of U.S. dollars
March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Long-term loans payable	**$—**	**$196,368**	**$66,768**	**$—**
Total	**$—**	**$196,368**	**$66,768**	**$—**

11. Derivative Transactions

The Group utilizes derivative transactions for the purpose of hedging its risk to adverse fluctuations in interest rates, foreign currency exchange rates and oil prices, but does not enter into such transactions for trading or speculative 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 creditworthy financial institutions.

The fair value of derivatives held by the Group as of March 31, 2010 and 2009 were as follows.

Fair value is computed based on quotes and others by financial institutions and others.

1. Derivative transactions for which hedge accounting is not applied

				Millions of yen				Thousands of U.S. dollars
2010	Contract amount and others	Due after one year	Fair value	Unrealized gain (loss)	Contract amount and others	Due after one year	Fair value	Unrealized gain (loss)
Currency and interest rate related								
Foreign currency and interest rate swaps:								
Receive Japanese yen fixed/Pay U.S. dollars floating	**¥2,000**	**¥2,000**	**¥459**	**¥459**	**$21,505**	**$21,505**	**$4,946**	**$4,946**
Total	**¥2,000**	**¥2,000**	**¥459**	**¥459**	**$21,505**	**$21,505**	**$4,946**	**$4,946**

				Millions of yen
2009	Contract amount and others	Due after one year	Fair value	Unrealized gain (loss)
Currency and interest rate related				
Foreign currency and interest rate swaps:				
Receive Japanese yen fixed/Pay U.S. dollars floating	¥2,000	¥2,000	¥375	¥375
Total	¥2,000	¥2,000	¥375	¥375

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Derivative transactions for which hedge accounting is applied

	Millions of yen			Thousands of U.S. dollars		
2010	Contract amount and others	Due after one year	Fair value	Contract amount and others	Due after one year	Fair value
Currency:						
Benchmark method						
Foreign exchange forward contracts						
USD(Buying)	**¥1,263**	**¥—**	**¥38**	**$13,590**	**$—**	**$416**
SGD(Buying)	**10**	**—**	**0**	**108**	**—**	**1**
Allocation Method						
Foreign exchange forward contracts						
USD(Buying)	**274**	**—**	**(*1)**	**2,956**	**—**	**(*1)**
Total	**¥1,548**	**¥—**	**¥38**	**$16,654**	**$—**	**$417**

(*1) Fair value of derivative transactions is included in the fair value of the accounts payable-trade as the hedged item.

	Millions of yen			Thousands of U.S. dollars		
2010	Contract amount and others	Due after one year	Fair value	Contract amount and others	Due after one year	Fair value
Interest rate:						
Short-cut method						
Interest rate swaps						
Receive floating/Pay floating	**¥7,000**	**¥7,000**	**(*2)**	**$75,269**	**$75,269**	**(*2)**
Total	**¥7,000**	**¥7,000**	**¥—**	**$75,269**	**$75,269**	**$—**

(*2) Fair value of the derivative transactions is included in the fair value of long-term loans payable as the hedged item.

12. Contingent Liabilities

At March 31, 2010 and 2009, the Group had the following contingent liabilities:

	2010	2009	**2010**
		Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of others:			
Sakhalin Oil and Gas Development Co., Ltd.	**¥ 8,077**	¥11,627	**$ 86,853**
INPEX North Caspian Sea, Ltd.	**5,299**	3,983	**56,982**
Employees	**959**	1,191	**10,315**
TOHOKU NATURAL GAS Co., Inc.	**922**	1,127	**9,919**
Total	**¥15,258**	¥17,929	**$164,069**

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

(1) Dividends paid to shareholders

2010

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 24, 2009	Annual General Meeting of Shareholders	Common stock	**¥1,143**	**$12,291**	**¥20**	**$0.22**	March 31, 2009	June 25, 2009
November 6, 2009	Board of Directors	Common stock	**¥1,143**	**$12,291**	**¥20**	**$0.22**	September 30, 2009	November 27, 2009

2009

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, 2008	Annual General Meeting of Shareholders	Common stock	¥1,143	¥20	March 31, 2008	June 26, 2008
November 7, 2008	Board of Directors	Common stock	¥1,143	¥20	September 30, 2008	November 28, 2008

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

2010

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 23, 2010	Annual General Meeting of Shareholders	Common stock	**¥1,143**	**$12,291**	Retained earnings	**¥20**	**$0.22**	March 31, 2010	June 24, 2010

2009

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 24, 2009	Annual General Meeting of Shareholders	Common stock	¥1,143	Retained earnings	¥20	March 31, 2009	June 25, 2009

14. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the year ended March 31, 2010 and 2009 were as follows:

	2010	2009	**2010**
		Millions of yen	Thousands of U.S. dollars
Selling, general and administrative expenses:			
Personal expenses	**¥7,953**	¥7,486	**$85,523**
Significant components of personal expenses:			
Retirement benefits expenses	**589**	462	**6,335**
Provision for directors' bonuses	**106**	101	**1,149**
Provision for directors' retirement benefits	**193**	193	**2,080**
Freightage expenses	**4,216**	4,137	**45,343**
Depreciation	**¥8,255**	¥7,477	**$88,766**

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were ¥604 million ($6,497 thousand) and ¥847 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. 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 components of impairment loss for the year ended March 31, 2010 were as follows:

	2010	2010
	Millions of yen	Thousands of U.S. dollars
Idle asset:		
Sapporo City, Hokkaido		
Land	**¥219**	**$2,357**
Ito City, Shizuoka		
Land and others	**173**	**1,868**
Tomakomai City, Hokkaido		
Construction in progress	**174**	**1,873**
Yurihonjo City, Akita		
Buildings,structure and others	**8**	**90**
Total	**¥575**	**$6,188**

•Background to recognition of impairment:
Because the above idle assets do not have a specific utilization plan and their fair value is below the carrying value at March 31, 2010, their carrying values have been written down to their recoverable amounts and the Group has recognized the amount of the write-down as impairment losses. Impairment losses consisted of ¥17 million ($193 thousand) for buildings and structures, ¥383 million ($4,120 thousand) for land,¥174 million ($1,873 thousand) for construction in progress and ¥0 million ($2 thousand) for tools, furniture and fixtures. The recoverable amount of the asset group is measured according to net selling value. The net selling value is principally the amount valued for property tax and certain assets are valued at 0 yen.

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

	2009
	Millions of yen
Idle asset:	
Numanohata No.8 well, Yufutsu area, Hokkaido Construction in progress	¥2,275

•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.

16. Information on Related Party Transactions

1. 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, 2010, were as follows:

Transactions:	Millions of yen	Thousands of U.S. dollars
Payments of loans receivable	**¥1,160**	**$12,481**

Balances:	Millions of yen	Thousands of U.S. dollars
Long-term loans receivable	**¥8,230**	**$88,497**

Principal transactions between the Company and EMP Exploration (Kangean) Ltd., an affiliate accounted for by the equity method, for the year ended March 31, 2010, were as follows:

Transactions:	Millions of yen	Thousands of U.S. dollars
Payments of loans receivable	**¥ 773**	**$8,321**

Balances:	Millions of yen	Thousands of U.S. dollars
Long-term loans receivable	**¥5,486**	**$58,998**

The Company determines the reasonable interest rates of loans receivable by Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. based on the market interest rates.

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, were as follows:

Transactions:	Millions of yen
Payments of loan receivable	¥3,617

Balances:	Millions of yen
Long-term loan receivable	¥7,062

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

On October 17, 2006, the ASBJ issued ASBJ Statement No.11, “Accounting Standard for Related Party Disclosures” and related guidance.

The Company adopted the new accounting standard in the year ended March 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Note for significant affiliates

For the year ended March 31, 2010, the summarized financial information of all affiliates (12 companies) accounted for by the equity method, including a significant affiliate, Japan Drilling Co., Ltd. was as follows:

	Millions of yen	Thousands of U.S. dollars
Total current assets	**¥ 56,880**	**$ 611,614**
Total noncurrent assets	**80,702**	**867,766**
Total current liabilities	**19,541**	**210,118**
Total noncurrent liabilities	**49,379**	**530,958**
Total net assets	**68,662**	**738,304**
Net sales	**55,787**	**599,869**
Net income before income taxes	**6,587**	**70,838**
Net income	**5,881**	**63,245**

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.

	2010	2009	**2010**
		Yen	U.S. dollars
Net income per share	**¥ 313.88**	¥ 219.77	**$ 3.38**
Net assets per share	**6,839.05**	6,486.85	**73.54**

Diluted net income per share is not disclosed due to the absence of such dilution for the fiscal years ended March 31, 2010 and 2009.

18. 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, 2010 and 2009 were as follows:

	2010	2009	**2010**
		Millions of yen	Thousands of U.S. dollars
Cash and deposits	**¥ 24,314**	¥27,702	**$261,443**
Time deposits with maturity in excess of three months	**(12,301)**	(6,634)	**(132,277)**
Short-term investment within three months and others:			
Repo with forward resale commitment	**28,494**	20,466	**306,390**
Money management fund and other	**17,138**	10,440	**184,284**
Cash and cash equivalents	**¥57,645**	¥51,975	**$619,840**

19. 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, 2010 and 2009, the disclosure of business segment information has been omitted.

•Geographical segments

The geographical segments of the Group for the years ended March 31, 2010 and 2009 were as follows:

						Millions of yen
Year ended March 31, 2010	Japan	North America	Other areas	Total	Eliminations	Consolidated
Sales to third parties	**¥159,765**	**¥19,446**	**¥ 540**	**¥179,752**	**¥ —**	**¥179,752**
Inter-segment sales and transfers	**33**	**—**	**—**	**33**	**(33)**	**—**
Total sales	**159,799**	**19,446**	**540**	**179,786**	**(33)**	**179,752**
Operating expenses	**146,680**	**16,870**	**3,097**	**166,648**	**(14)**	**166,633**
Operating income	**13,119**	**2,576**	**(2,557)**	**13,138**	**(19)**	**13,119**
Total assets	**¥532,570**	**¥23,417**	**¥9,340**	**¥565,328**	**¥(44,319)**	**¥521,009**

						Thousands of U.S. dollars
Year ended March 31, 2010	Japan	North America	Other areas	Total	Eliminations	Consolidated
Sales to third parties	**$1,717,913**	**$209,106**	**$ 5,808**	**$1,932,827**	**$ —**	**$1,932,827**
Inter-segment sales and transfers	**365**	**—**	**—**	**365**	**(365)**	**—**
Total sales	**1,718,278**	**209,106**	**5,808**	**1,933,192**	**(365)**	**1,932,827**
Operating expenses	**1,577,210**	**181,403**	**33,304**	**1,791,917**	**(158)**	**1,791,759**
Operating income	**141,068**	**27,703**	**(27,496)**	**141,275**	**(207)**	**141,068**
Total assets	**$5,726,569**	**$251,802**	**$100,431**	**$6,078,802**	**$(476,552)**	**$5,602,250**

						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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

•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, 2010 and 2009, were as follows:

					Millions of yen
Year ended March 31, 2010	Southeast Asia	East Asia	North America	Europe	Total
Overseas sales	**¥ 1,129**	**¥ 540**	**¥ 19,446**	**¥ 34,303**	**¥ 55,419**
Consolidated net sales					**179,752**
					Thousands of U.S. dollars
Overseas sales	**$12,148**	**$5,808**	**$209,106**	**$368,851**	**$ 595,913**
Consolidated net sales					**1,932,827**
Overseas sales as a percentage of consolidated net sales	**0.63%**	**0.30%**	**10.82%**	**19.08%**	**30.83%**

					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
Overseas sales as a percentage of consolidated net sales	0.74%	4.34%	10.08%	24.65%	39.81%

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

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

Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
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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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 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 23, 2010

Ernst & Young ShinNihon LLC

Principal Consolidated Subsidiaries and Equity-Method Affiliates

(As of March 31, 2010)

Consolidated Subsidiaries	Principal Business Activities	Paid-In Capital or Subscription Amount (Millions of yen)	Percentage of Voting Rights Held (%)
Akita Natural Gas Pipeline Co., Ltd.	Pipeline transport of natural gas in Akita Prefecture	250	100.00
SK Engineering Co., Ltd.	Contract engineering and well drilling	300	100.00
JAPEX SKS Corporation	Manufacture and sales of petroleum products, real estate management, insurance and travel agent services	90	100.00
North Japan Oil Co., Ltd.	Refining, processing and sales of crude oil, recycling of waste oil, and contract handling and transportation of LNG and crude oil	80	100.00
Shirone Gas Co., Ltd.	Manufacturing, supply and sales of gas in Niigata City and Tsubame City	3,000	100.00
Japex Pipeline Ltd.	Pipeline management and maintenance	80	100.00
JGI, Inc.	Contract geophysical surveys and development of geophysical exploration technologies	2,100	100.00
Geophysical Surveying Co., Ltd.	Geophysical surveys and contract mud logging operations	446	100.00
Japex (U.S.) Corp.	Exploration, development and production of petroleum in the United States, and investment in an LNG project in Malaysia	25,000 (Thousands of U.S. dollars)	100.00
Japan Canada Oil Sands Limited	Exploration, development and production of oil sands in Canada under a block lease agreement	299,370 (Thousands of Canadian dollars)	100.00 (100.00)
Canada Oil Sands Co., Ltd.	Invests in oil sands exploration and development through Japan Canada Oil Sands Limited	1,682	87.98 (1.34)
North Japan Security Service Co., Ltd.	Disaster protection for industrial facilities and security services	30	89.42
Japex Offshore Ltd.	Exploration, development and production of offshore petroleum from the continental shelf in the Sea of Japan	5,963	70.61
GEOSYS, Inc.	Contract geophysical exploration operations and sales of geophysical exploration devices and equipment	49	54.49 (54.49)
Japex Libya Ltd.	Exploration, development and production of petroleum in Libya	4,100	100.00
Japex Block A Ltd.	Exploration, development and production of petroleum on the island of Sumatra in Indonesia	1,260	100.00
Japex Buton Ltd.	Exploration, development and production of petroleum on the island of Buton in Indonesia	590	100.00
Japex Energy Co., Ltd.	Purchasing and sales of LNG and petroleum products	90	90.00
Japex Garraf Ltd.	Exploration, development and production of petroleum in the Garraf oilfield in Iraq	10	100.00

Equity-Method Affiliates	Principal Business Activities	Paid-In Capital or Subscription Amount (Millions of yen)	Percentage of Voting Rights Held (%)
TOHOKU NATURAL GAS Co., Inc.	Purchasing and sales of natural gas in the Tohoku region of Japan	300	45.00
JJI S&N B.V.	Development and production of offshore petroleum Persian Gulf off Iran	36,883 (Thousands of Euros)	41.67
TELNITE CO., LTD.	Manufacture and sales of drilling mud for well drilling and the provision of mud services	98	47.00
Universe Gas & Oil Company, Inc.	Exploration, development and production of petroleum in east coast of Kalimantan, Indonesia	9,443	33.43
Japan Drilling Co., Ltd.	Contract offshore well drilling for petroleum	7,572	30.75
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 (British pounds)	— [100.00]
Diamond Gas Netherlands B.V.	Invests in a project operated by Malaysian LNG producer Malaysia LNG Tiga	12,316 (Thousands of Euros)	20.00 (20.00)
Japan CBM Limited	Exploration, development and production of coal bed methane in the eastern region of Kalimantan Island in Indonesia	75	40.12

Notes:
1. Brackets appearing in the voting rights column indicate the voting rights of individuals close to the Company or individuals agreeing with the Company and are excluded from the total.
2. Parenthesis appearing in the voting rights column indicate indirect voting rights which are included in the total.
3. Although shareholdings in Kangean Energy Indonesia Ltd. and EMP Exploration (Kangean) Ltd. amount to less than 20%, the Company considers the two to be affiliated companies because the Company essentially holds control of both.

Corporate Data

(As of March 31, 2010)

Company Name	Japan Petroleum Exploration Co., Ltd. (Abbreviation: JAPEX)
Service Logo	JAPEX
Established	April 1, 1970
Paid-In Capital	14,288,694,000 yen
Fiscal Year	April 1 to March 31 of the following year
Number of Employees	1,735 (Consolidated)
Principal Businesses	Exploration, development and sales of oil, natural gas, and other energy resources and contract service-related operations such as drilling
Main Offices	Headquarters (see below), Hokkaido, 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/english/index.html

Directors, Auditors and Officers (As of June 23, 2010)

Chairman
Yuji Tanahashi

President & Chief Executive Officer
Osamu Watanabe

Executive Vice Presidents & Executive Officers
Katsuo Suzuki
Norihiko Sawara
Hiroshi Sato

Managing Directors & Executive Officers
Shoichi Ishii
Toshio Ibi
Mitsuru Saito
Junichi Matsumoto
Nobuyuki Ogura
Nobuaki Moritani
Hitoshi Yamatoya

Director
Kazuo Kawakami

Corporate Auditors
Ken Fujii
Morio Ishizeki
Masahiko Kadotani
Kisaburo Ikeda

Managing Executive Officers
Kazuo Nakayama
Kiyoshi Ogino
Koji Sakuma

Executive Officers
Fumio Mizuno
Keisuke Inoue
Toru Kuroda
Yoshio Abe
Yosuke Higai
Hikaru Fukasawa
Shigeru Mitsuya
Yasuhiro Masui
Kazuhiko Ozeki

Notes:
1. Director Kazuo Kawakami is an outside director as stipulated under Article 2-15 of the Companies Act.
2. Auditors Masahiko Kadotani and Kisaburo Ikeda are outside auditors as stipulated under Article 2-16 of the Companies Act.

Stock Information (As of March 31, 2010)

Exchange Listing	First Section of the Tokyo Stock Exchange (Securities Code Number: 1662)
Common Stock	Authorized: 120,000,000 shares Issued: 57,154,776 shares
Number of Shareholders	17,719

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)

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	1,922,329	3.36
JFE Engineering Corporation	1,848,012	3.23
Japan Trustee Services Bank, Ltd. (Trust)	1,806,400	3.16
The Master Trust of Japan, Ltd. (Trust)	1,325,700	2.32
Nippon Oil Corporation	991,200	1.73
Nippon Petroleum Refining Co., Ltd.	872,456	1.53
Mizuho Corporate Bank, Ltd.	720,152	1.26
ITOCHU Corporation	698,000	1.22

Japan Petroleum Exploration Co., Ltd.

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