

May 21, 2008, Tokyo
Japan Petroleum Exploration Co., Ltd.

JAPEX Group Mid-term Business Plan

Japan Petroleum Exploration Co., Ltd. (JAPEX) has established a mid-term business plan for JAPEX and its group companies for the next 5 years from fiscal year 2008 to 2012.

Our business environment has rapidly been changing as we experience price hikes in natural resources such as crude oil in recent years, changes in the state of society due to the sense of priority concerning global warming issues, and advancing deregulations resulting from the revisions in both the Electric Business Act and Gas Business Act. With these business circumstances in mind, we aim to further enhance our corporate value by identifying primary business objectives from a long-term perspective and establish policies to accomplish these objectives.

1. Business Philosophy

Since our founding in 1955, Japex has been engaged in the E&P business with its primary purpose to expand oil and natural gas supplies in Japan. Starting with zero oil reserves, our continued efforts have established the foundation of our business, growing through numerous discoveries of oil and gas fields. As a company that explores, develops and distributes oil and gas alike, we will continue to use our best endeavors to secure reserves and increase production capacities to contribute to domestic energy supplies. We acknowledge that we bear an increasing amount of social responsibility in maintaining a highly reliable, sustainable oil and gas supply as the scale of energy supply expands, and that it is critical to establish a new business model; one that builds and utilizes a transportation system to deliver natural gas. Given such perspectives, we strive to further evolve as a company that is competitive and responsive to a changing business environment, and set forth the following as our business philosophy.

[Aiming for New Value Creation in Energies and Elevation of the Corporate Value]

- As a corporation engaged in the exploration, development and distribution of oil and natural gas, we will contribute to the nation's energy supply through our global business activities.
- By exploring new business development with environmentally-friendly natural gas and promoting its usage, we are committed to realizing a harmonious coexistence between humans and the earth.
- By setting our priority on building trust from society, our clients, shareholders and employees, we will maximize shareholder value and the continuance of corporate development.

2. Understanding the Business Environment

(1) Prospects of the oil and natural gas business

Natural gas is our significant revenue base. Unlike oil and LPG, natural gas reserves are not centered in the Middle East, and therefore, a stable energy supply can be expected. Furthermore, due to its clean-burning and environmentally-friendly characteristics, natural gas has come under the spotlight labeled as a crucial energy source for the future. Due to the recent price hikes in crude oil and LPG, natural gas has particularly gained in popularity.

In terms of oil, making up more than half of our primary energy sources, there are serious concerns over the supply and demand balance in future markets, triggered by geopolitical turbulence in the Middle East, prolonging instability in Iraq, increasing fuel consumption by emerging markets such as China, and a decreasing production spare capacity by oil-producing countries. Given these perspectives, our domestic oil supplies and overseas production play an important role in meeting the increasing demand.

(2) Rising energy prices

The recent price hikes in natural resources, including crude oil, have become significantly noticeable. These hikes in energy market may boost our revenue in the short term, but from a mid-term revenue sustainability and security perspective, our revenue and cash flow levels will heavily depend on how the current price volatility and soaring oil prices play out in the market. Or worse, the escalation of competition for access to energy and rising costs of exploration/development operations associated with oil price hikes may potentially have a negative impact on our revenue.

Furthermore, LNG import prices are also increasing in line with the price hikes in oil. We are facing a situation where we promptly need to adjust domestic retail gas prices in proportion with international energy market conditions while not disturbing corporate relationships with our continued business accounts.

(3) Increase in social environmental awareness

With increasing social awareness concerning environmental issues, we acknowledge that working towards environmental management is essential for strengthening corporate competitiveness and business development. With this in mind, we must implement “environmentally sound business practices” that will ensure corporate profitability. The industry organization that we are a member of has also started taking action by setting its self-action objectives. We, as an environmentally-friendly natural gas provider, must continue our endeavors to contribute to saving the environment in response to our environmentally-conscious customers, and drive forward our proactive engagement in the environmental conservation business.

3. Primary Business Objectives

(1) Exploration/development efficiency and discovery of new reserves

We consider it extremely critical to sustain and increase our reserves, which otherwise only decrease due to production and sales. And bolstering our long-term, secure oil and natural gas supply system is equally critical for a company like ours whose business is centered around exploration, development and distribution of these resources.

In our effort to prosper in the high-risk exploration and development business, we aim to discover and secure new oil and natural gas reserves through the participation in promising projects and the implementation of an efficient exploration.

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

Domestic Operations:

With the geological potential, future prospects and economic effects of the Hokkaido, Akita and Niigata areas always in mind, we will conduct systematic exploration operations by effectively integrating “reserves expansion in areas surrounding existing oil and gas fields (field growth)” and “exploration aimed at adding new large-scale gas reserves”.

Overseas Operations:

In addition to domestic reserves expansion projects, we also focus on the increase in overseas reserves & production and corporate revenues to build a long-term, stable business foundation.

To realize the above notion, we will identify target areas to invest in the E&P business. In order to secure stable reserves, production and earnings, we will create a well-balanced investment portfolio between relatively low-risk, early-return investments in already-in-production or discovered and undeveloped projects and high-return investments in exploration projects.

By taking future LNG needs into account for the domestic natural gas supply business, we will seek opportunities to participate in upstream and midstream LNG projects primarily in the target areas stated above. In addition to profit contributions through upstream and midstream LNG operations, by late 2010s, we aim to contribute to the stability of domestic natural gas supplies from secured LNG sources for domestic use.

(2) Reinforcing an efficient, integrated natural gas operation system

In order to further prosper in the fiercely competitive market of the energy sector, we need to be responsive to rapid changes in the natural gas market associated with advancing deregulations and increasing environmental consciousness in society. To this end, not only do we simply fulfill a role in

providing natural gas as a supplier, but it is essential that we foster the ability to understand and meet the diverse range of needs and expectations of consumers in order to offer natural gas in a more appealing fashion.

To put this into practice, we will implement an efficient, integrated natural gas supply system called “Gas Integration” by integrating upstream (E&P), midstream (transportation and storage) and downstream (large-scale supply, wholesale, etc) operations in our core natural gas supply business. By building a natural gas business model that organically integrates our distinctive facilities and service functions, we strive to differentiate ourselves from other gas suppliers.

To be more specific, we will focus on; the enhancement of an integrated natural gas supply system through sales of large-scale gas supplies and wholesale distributions to utility gas companies, the introduction of overseas gas sources to compensate for domestic reserves, and the establishment of transportation/underground storage network utilizing JAPEX’s own upstream (E&P) operation. And in order to diversify supply methods of natural gas by integrating our efforts into the environment-oriented business, we will strive for further increase in sales along our existing natural gas pipeline network, as well as the installation of new pipelines. We will also endeavor to promote the utilization of natural gas in a broad area by introducing an LNG Satellite system in regions not equipped with pipelines. More importantly, based on long-established principles for mutual benefits made with local gas suppliers, we make our best efforts to continue to work with our wholesale clientele; the local gas suppliers.

To diversify revenue sources and further increase profits, we realize that it is significant to turn the current natural gas supply system into new form of revenue base. To this end, by considering a new policy granting third party access to natural gas pipelines associated with the revisions in the Gas Business Act as our new business opportunity, we will dedicate ourselves to the R&D of advanced natural gas utilization technologies like GTL/DME technologies to advance to diversification of natural gas supply system combined with eco-business.

(3) Corporate efforts to protect the global environment

We will accelerate our effort to reduce environmental burdens associated with our operations and proactively involve ourselves in tree-planting programs. In addition to exploring environment-oriented business potentials such as emissions trading, we strive to heighten the added value of the natural gas supply business, meet the diverse needs of our clients, and apply our technological expertise to the environmental business.

4. Specific measures

The above primary business objectives are vital elements for further growth of our business. In this mid-term business plan covering up to fiscal 2012, we will implement the following concrete measures to achieve our primary business objectives.

(1) Domestic Exploration Investment Policy

- 1) Areas for “exploration aimed at discovering large-scale gas reserves” are; Yufutsu-type geological structure in onshore and offshore mid southern Hokkaido and green tuff formation in the Niigata area. Although geological risks are relatively high in these areas, upon successful exploration, a vast amount of gas reserves are expected. While paying careful attention to the data acquired from the seismic surveys, we will map out focus plans for the execution of exploration drilling at an early stage.
- 2) In terms of “exploration aimed at field growth,” we are looking at the Yufutsu area in Hokkaido, the Kosei, Yurihara and Ayukawa areas in Akita prefecture, and in Niigata, the Kitakanbara area and the area in the vicinity of offshore Higashi-Niigata and Iwafune-oki. Prospective reserves in the surrounding areas of each of these oil and gas fields are relatively medium-scale, yet, geological risks are low enough to generate earnings from additional reserves in relatively short term periods. We will conduct exploration operations while leveling the workload by measuring the production status of the existing fields, as well as cost burdens amongst our joint venture partners.
Based on the above policy, we will invest approx. 50 billion yen in domestic exploration projects, including approx. 20 exploration or exploitation wells during the next 5 years in fiscal 2008-2012.

(2) Overseas Investment Policy

We identify the regions of Southeast Asia centering around Indonesia, Canada, the Middle East, North Africa and Sakhalin as target areas. In these areas, we will continue to propel operations in projects in the existing projects, and maximize the project value of all the projects that are already in production, while focusing also on the discovery of new projects. Further, we strive for synergy effects between a revenue base expansion of our upstream & medium-stream operations in the natural gas business and long-term, secure gas source in Japan, and will prepare ourselves for acquisitions of upstream and medium-stream LNG interests.

1) Southeast Asia centering around Indonesia

Due to our proactive activities over the past few years, we have acquired oil and gas interests in Block A and the Kangean Block in Indonesia. We will make further endeavors to optimize our asset value by conducting exploration and development operations in these areas, and cultivate these areas to serve as our overseas operation hub while focusing also on the discovery of new projects.

2) Canada

In the oil sands project, we will continue oil production using the Steam Assisted Gravity Drainage (SAGD) process in the producing area (the 3.75 section area), and are currently conducting geological evaluation in the Hangingstone area. By carefully reviewing geological data, we will take positive steps forward to begin development projects in the area. Meanwhile, we are set to conduct environmental impact assessments as an initial step to this approach.

3) The Middle East

In Iraq, based on the MOU for technical assistance with the Ministry of Oil, we will continue to conduct joint studies, and provide technical assistance and training to bolster our relationships with the Ministry. In other areas in the Middle East, we will seek opportunities to acquire interests in discovered/undeveloped or in-production oil fields, and IOR/EOR projects, primarily in the Gulf region.

4) North Africa

Both Libya and Algeria are said to possess sedimentary basins claimed to have one of the greatest exploration potential in the world. In Libya, we will drive forward with exploration operations in the 2 blocks already acquired and continue to seek further interests. In Algeria, Egypt and other regions, we continue our effort to acquire interests in discovered/undeveloped or in-production oil fields.

5) Sakhalin

Crude oil production is making steady progress by Sakhalin Oil and Gas Development Co., Ltd (SODECO). We will continue our involvement in the project, and look to optimize our asset value in collaboration with ExxonMobil Corporation.

6) Seeking participating opportunities in LNG upstream and medium-stream projects

In order to strengthen our domestic natural gas supply business in the future, we aim to secure stable import LNG supplies. Further, in addition to investigating generating operation revenue from upstream & medium-stream LNG operations, we seek participating opportunities in LNG upstream & medium-stream projects in the above listed target areas.

7) Overseas Investment Scale

During the period of this mid-term business plan, JAPEX will invest estimated 110 billion yen for exploration operations in the existing projects and for development operations in the event that exploration drillings lead to successful commercial discovery. We consider investment in new projects essential for sustainable growth. While it is rather challenging to forecast the timing and the value of each prospective project, we will pay close attention to our financial standing in our endeavors to seek and obtain new projects.

(3) Production and Sales Policy

As prices of crude oil and oil products have soared in the recent years, the relative price advantage of natural gas has become of particular note. Due to such a phenomenon, demand for natural gas among industrial consumers is particularly rising. We will make an effort to respond to such demand by investing in facilities to enhance our domestic gas supply capacities and by increasing LNG purchases from overseas. Additionally, we will seek to adjust our gas selling prices to equivalent LNG import (CIF) prices.

Further, we take a proactive approach to expanding natural gas sales in the country with a sales volume targeting at 2 billion m³ in fiscal 2012, about 0.3 billion m³ increase from actual results in fiscal

2007.

We consider the enhancement in the efficiency of drilling production wells and expanding production facilities important to realize an increase in domestic natural gas sales and security of stable gas supplies. For these reasons, we will invest an estimated 80 billion yen over the next 5 years in fiscal 2008-2012.

(4) Technological Research and Development Policy

The oil and natural gas development industry is based on comprehensive engineering consisting of several specialized fields, including geology, geophysical survey, well drilling technology, petroleum reservoir engineering and information technology. As a company having pioneered an integrated operation in the exploration and development business, we embrace our own unique cutting-edge technologies that have been cherished to this date.

These technologies have already been utilized and developed in diverse applications by our group entities. Yet to develop new business areas, we are committed to further elevating our technological strengths to a higher level through the following framework.

1) Bolstering technological strengths for the efficiency of exploration and development operations

As technologies identified as critical to our business objectives, we will particularly bolster the following areas: “fractured reservoirs modeling technology,” “geostatistical reservoirs modeling technology,” “high-accuracy geophysical survey technology,” which helps enhance the efficiency of reserves evaluation and reduce the risk of exploration or exploitation drilling, and “enhanced heavy oil recovery technology,” that is invaluable to oilfield development in the future.

2) Employment and establishment of new technologies for the realization of a new energy business

In order to propel the effective utilization of natural gas, we will engage ourselves in the development and manufacturing of GTL (Gas-To-Liquids) and DME (Di-Methyl Ether) technologies through participation in joint research programs of the public and private sectors.

3) Improvement of environment-oriented technologies

We will focus on technological development of Carbon dioxide Capture and Storage (CCS) technologies to help reduce green gas emissions by optimizing the application of our oil and natural gas E&P technologies.

4) Approach to unconventional resources development

Upon improvements in oil sands production technologies, including the SAGD process, and resolutions on cost-related challenges, we will seek commercial development opportunities in our area. At the same time, we will proactively participate in and cooperate with the methane hydrate development project initiated by the Government aiming for commercial production of methane hydrate by fiscal 2016.

(5) Environmental Policy

We strive to develop and realize safe and secure supplies of unreproducible resources, oil and natural gas. As our environmental conservation principles, we endeavor to protect our neighborhood and the earth particularly through the promotion of the utilization of environmentally-friendly natural gas, and set forth the following action guidelines.

- 1) Integrating environmental concerns into our domestic/overseas business operations
- 2) Focusing on an energy supply beneficial to the environment
- 3) Fostering environmental partnerships

Furthermore, in addition to the implementation of the Environmental Management System (EMS), we will take a more comprehensive approach to the environment through our social involvement in conservation activities such as contributions to the BioCarbon Fund (BioCF) and participations in domestic tree-planting projects, as well as compiling environmental reports. Likewise, we will continue developing environment related businesses through development of GTL, DME and CCS technologies.

5. Numerical Targets

- 1) Natural gas sales volume

We aim to increase the sales volume of natural gas at 1.7 billion m³ (the domestic sales volume, incl. LNG) in fiscal 2007 to 2.0 billion m³ with an increase of 0.3 billion m³ by fiscal 2012.

- 2) Operating Cash Flows Targets and Allocations

While ensuring leveling of our exploration activities, occasional occurrences of drilling operations requiring high operation costs will inevitably have a considerable degree of impact on yearly profit levels. Due to the nature of high risk for exploration works, a significant change in exploration plans will also sometimes be necessary after exploration drilling is conducted. In addition, in anticipation of change in the future energy market, it is difficult to set numerical targets for performance (profit levels) in future fiscal years. With these factors in mind, the following is a basic outlook for operational cash flows and their allocations with certain preconditions involving crude oil prices and exchange rates for the period of this mid-term business plan.

5-year period : 2008 to 2012

Cash Inflows from operating activities (before exploration investments and deduction/tax)	300 billion yen
Exploration investments (including exploration investments in existing overseas projects)	80 billion yen
Capital expenditure (including development investments in existing overseas projects)	160 billion yen

The cash inflows from operating activities include an estimated increase in sales from the realization of sales expansion of natural gas and a rise in natural gas prices.

The above investment figures do not include, however, costs for acquisition of new overseas

projects and their exploration/development operations, or any new projects posing uncertainty, such as new pipeline constructions in Japan. However, as we consider investing in new projects, such as the above, vital in order to attain long-term, sustainable corporate growth, we will carefully examine investment profitability and financing methods for these projects.

While looking at investments from a long-term perspective, we endeavor to sustain stable dividends to our stockholders.

3) Reserves

In our effort to sustain and raise the level of our reserves, which inevitably decrease due to production and sales, we will implement the previously mentioned initiatives, and aim to raise 170 million barrels of oil equivalent (BOE) of recoverable reserves as of end-March 2007 to 350 million BOE by end-March 2012.

<Reference Data>

Primary Preconditions for Cash Flows Assumption

Fiscal Year	2008	2009	2010	2011	2012
Crude Oil Price (JCC, \$/bbl)	80	80	80	80	80
Exchange Rate (yen per dollar)	105	105	105	105	105

* JCC: Japan Crude Cocktail =The weighted average CIF price of crude oil imports into Japan