INPEX

INPEX CORPORATION Annual Report 2004

Year ended March 31, 2004

2004

Profile

We are the leading upstream oil and gas company in Japan engaged for almost the past four decades in the exploration, development and production of crude oil and natural gas outside Japan. Based on production and reserve amounts, we are the largest upstream oil and gas company in Japan. As of March 31, 2004, our total net proved reserves were approximately 977 MMboe and for the fiscal year ended March 31, 2004, our net production was 196 Mboe per day. We conduct a substantial portion of our exploration, development and production activities through joint ventures with international oil and gas companies. In May 2004, we increased our net proved reserves and production by acquiring JODCO, which holds a working interest in the Abu Dhabi Marine concession area in the United Arab Emirates. On a combined basis, as of March 31, 2004, our total net proved reserves were 1,634 MMboe and for the fiscal year ended March 31, 2004, our net production was 309 Mboe per day.

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FORWARD-LOOKING STATEMENTS:

This annual report includes forward-looking information that reflects the Company's plans and expectations. Such forward-looking information is based on the current assumptions and beliefs of the Company in light of the information currently available to it, and involves known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause the Company's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking information. Such risks and uncertainties include, without limitations, fluctuations in the following:

- the price of and demand for crude oil and natural gas;
- exchange rates; and
- the costs associated with exploration, development, production and other related expenses.

The Company undertakes no obligation to publicly update or revise any information in this annual report (including forward-looking information).

Financial Highlights

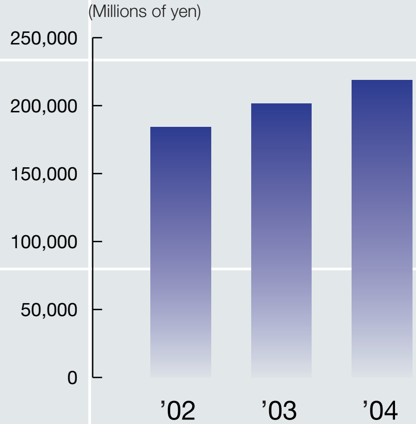
INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

Years ended March 31,	2002	2003	Millions of yen 2004	Thousands of U.S. dollars[2] 2004
Net sales	¥184,204	¥201,533	**¥218,831**	**$2,071,675**
Operating income	97,049	97,270	**93,876**	**888,725**
Net income	27,606	27,912	**34,782**	**329,282**
Cash flows from operating activities	51,827	51,282	**44,464**	**420,941**
Total assets (at period end)	287,649	338,747	**525,298**	**4,973,000**
Long-term debt (at period end)	31,024	46,865	**169,307**	**1,602,831**
Shareholders' equity (at period end)	230,825	253,570	**278,114**	**2,632,907**
			Yen	U.S. dollars[2]
Net income per share[1]	¥46,852.92	¥47,178.51	**¥58,838.76**	**$557.03**
Cash dividends per share[1]	10,000	10,000	**10,000**	**94.67**

Notes: (1) We made a three-for-one stock split of our common stock effective May 18, 2004. The figures are the amounts before the stock split.
(2) The translations of yen amounts into U.S. dollar amounts have been made at the rate of ¥105.63=US$1.00, the approximate exchange rate on March 31, 2004.

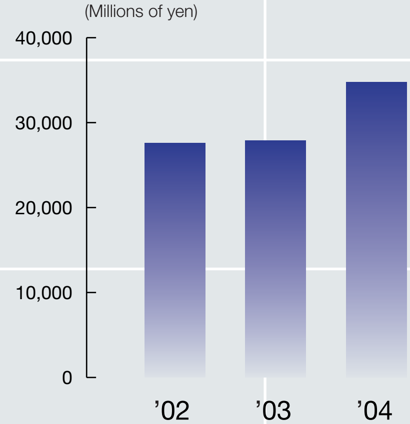
Net sales

(Millions of yen)



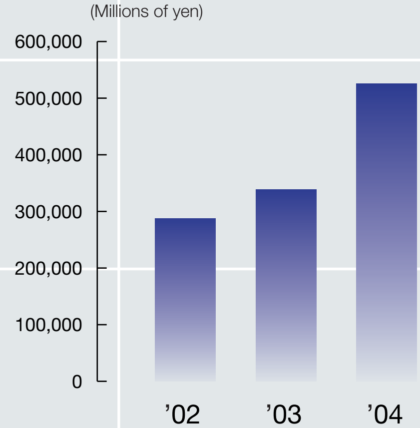
Net income

(Millions of yen)



Total assets

(Millions of yen)



Summary Reserve and Operating Data

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

The following table sets forth the operating and reserve data of the INPEX Group (including our subsidiaries and equity method affiliates) for the years ended March 31, 2002, 2003 and 2004. We acquired Japan Oil Development Co., Ltd. (JODCO) in May 2004. The column 'Combined INPEX and JODCO' in this table represents the information assuming that JODCO became a fully-owned subsidiary of INPEX on April 1, 2003.

				Combined INPEX & JODCO(9)
Year ended March 31,	2002	2003	2004	2004
Net proved reserves (end of period)(1):				
Oil (MMbbls)	199.9	166.4	359.5	1,016.3
Gas (Bcf)	3,555.2	3,367.4	3,703.5	3,703.5
Total (MMboe)	792	728	977	1,634
Net production(1):				
Oil (Mbbls/day)	61.0	52.0	59.8	173.2
Gas (Mcf/day)	652,109.6	704,630.1	814,547.9	814,547.9
Total (Mboe/day)	169.7	169.5	195.5	309.0
Average expenses per boe produced (US$)(2)				
Production(1)(3)	3.73	4.40	4.76	5.07 (8)
General and Administrative	0.63	0.73	0.67	0.63
Costs incurred (millions of yen):				
Acquisition	1,777	7,893	167,792	167,792
Exploration	12,383	18,030	25,296	25,431
Development	38,151	67,161	92,348	99,031
Total	52,311	93,084	285,436	292,254
Reserves to production ratio	12.8	11.8	13.7	14.5
Standardized measure of discounted future net cash flows (millions of yen)(1)		498,225 (7)	615,827	670,073
Reserve replacement ratio (3-year average as %)			170	436 (5)
Finding and development cost per boe (3-year average in US$)(2)(4)			12.1	4.4 (5)(6)
Net probable reserves (end of period)(1)				
Oil (MMbbls)			903.7	1,676.4
Gas (Bcf)			3,834.0	3,834.0
Total (MMboe)			1,542.7	2,315.4

Notes: (1) See "Reserves and Production"
(2) Converted into U.S. dollars using the average exchange rate for the respective fiscal year. ¥125.64, ¥121.10 and ¥112.94=US$1.00 were the respective exchange rates for the years ended March 31, 2002, 2003 and 2004.
(3) Operating expenses plus royalties due others.
(4) The sum of total costs incurred, including ¥37,297 million which is our proportional interest in the costs incurred by our equity method affiliates, for exploration and development of oil and gas fields and total costs incurred for acquisitions of proved and probable reserves for the years ended March 31, 2002, 2003 and 2004 divided by the sum of proved reserve extensions, acquisitions and revisions for the years ended March 31, 2002, 2003 and 2004.
(5) When calculating these figures, (i) for the years ended March 31, 2002 and 2003 and as of March 31, 2002 and 2003, we took into account only our relevant amounts and (ii) for the year ended March 31, 2004 and as of March 31, 2004, we also took into account JODCO's relevant amounts as if it had been our consolidated subsidiary during the entire period.
(6) Includes costs relating to the acquisition of JODCO in the amount of approximately ¥51 billion and the increase in reserves from acquisition of JODCO.
(7) Converted into Japanese yen using the exchange rate of ¥120.20=US$1.00 which was the exchange rate as of March 31, 2003.
(8) Three-year average for the years ended March 31, 2002, 2003 and 2004 on a combined basis.
(9) Based on sales, expense or cost information for the immediately preceding year ended December 31.

A Message from the President

The mission of INPEX CORPORATION is to secure a stable and efficient supply of oil and natural gas for Japan, a nation poor in energy resources. INPEX was established in 1966 as a pioneering Japanese company to promote the development of oil resources in an international context. Over the course of our history, we have overcome many difficulties, and since 1970 we have discovered a number of large oil and gas fields in Indonesia. Thanks to the solid financial foundation secured through those discoveries, we have been diversifying the geographical scope of our activities in the midst of major shifts in the business environment surrounding oil—the two oil crises of the 1970s, the first Gulf War, and the collapse of the Soviet Union. As a result, we have steadily and actively engaged in exploration and development in many promising regions of the world: Indonesia and Australia, as our core areas, as well as the Caspian Sea, the Middle East and South America.

With respect to environmental issues, INPEX has been focusing more of its efforts on the development of natural gas, primarily because natural gas is increasingly recognized as a cleaner energy resource both at home and abroad. Illustrating this approach is the fact that we are now the largest supplier of natural gas to the Bontang LNG Plant in Indonesia, one of the largest facilities of its kind in the world. In that capacity, we are responsible for more than 25% of all the LNG exported to Japan from Indonesia, a major supplier of LNG to Japan. We are also involved in natural gas exports via pipeline from the West Natuna Sea in Indonesia to Singapore and Malaysia, and we are participating in two LNG projects: Bayu-Undan, located in the Timor Sea Joint Petroleum Development Area, and Tangguh in Indonesia. In addition to these gas exports, we supply natural gas to the domestic markets of Indonesia and Australia.

As an operator with a 100% working interest, INPEX has made promising discoveries of natural gas and condensate fields in Indonesia and Australia. In partnership with prominent western oil companies, we have discovered crude oil in the Kashagan structure in the Caspian Sea, Kazakhstan. This structure is considered to have the great potential to be one of the leading super-giant oil fields in the world. We are also participating in the BTC (Baku-Tbilisi-Ceyhan) Oil Pipeline Project, which will serve as the main link in securing a shipping route for the crude oil to be produced in this region. Furthermore, INPEX is actively working to increase its assets throughout the Caspian Sea, acquiring interests in the ACG (Azeri, Chirag and Gunashli) oil fields in Azerbaijan, which is greatly expanding the scale of production there. In February 2004, we entered into a service contract as an operator with a 75% working interest for the integrated appraisal and development operations of the giant Azadegan Oil Field in the Islamic Republic of Iran. Then in May 2004, INPEX acquired all the shares in Japan Oil Development Co., Ltd., which holds a participating interest and is involved in the development of large oil fields offshore Abu Dhabi, the United Arab Emirates. These steps have surely resulted in a larger and more balanced asset portfolio.

In September 2001, we changed our corporate name from Indonesia Petroleum, Ltd. to “INPEX CORPORATION” to more precisely reflect our corporate activity pursuing diversified business opportunities in promising regions around the world.

We also announced in June 2001 that we would expand our activities to any promising location throughout the world, abroad or in Japan. In addition, we extended the scope of our business to areas related to the development of oil and gas, such as electricity and heat supply and sea water desalination.

As projected by the Agency for Natural Resources and Energy in its Outlook for Domestic and World Energy Demand/Supply, we believe oil and gas will continue to serve as the dominant energy sources in the 21st century. It is also forecasted that the need to secure a stable supply, especially to Asia, will become more acute on account of this area’s remarkable rise in demand, and accordingly, its rapid increase in dependency on Middle East sources.

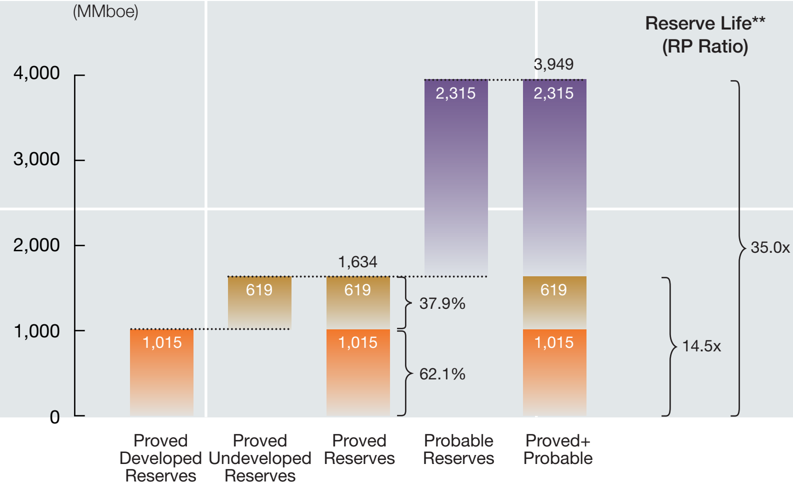
On November 17, 2004, INPEX listed on the First Section of the Tokyo Stock Exchange. As a designated national flag company with advantageous access to desirable projects through diplomacy of energy resources by the Japanese Government, INPEX is working to ensure the stable and efficient supply of energy to Japan. Our overarching goal is to maximize corporate value by conducting our operations in an efficient and highly transparent manner based on a long-range business strategy.

K. Matsuo

Kunihiko Matsuo
President

The Ambition to ***Grow***

Upside Potential through Probable Reserves*



Notes:
* Reserve amount includes INPEX and JODCO assuming that JODCO became a fully owned subsidiary of INPEX at the beginning of FY2004. Amounts attributable to the equity affiliates are included.
** Reserve Life = Proved (& Probable) Reserves as of end of March 2004/Production in FY2003 (RP Ratio: Reserve Production Ratio). Production amount in FY2003 includes JODCO's production.

[*Our* **Strengths**]

Large proved reserve base with interests in both legacy fields and significant development projects.

Our extensive and geographically diverse proved reserves support our stable and growing production. Based on independent evaluation of proved reserves carried out in accordance with SEC regulations by DeGolyer and MacNaughton, independent petroleum engineering consultants, as of March 31, 2004, our proved reserves after giving effect to our acquisition of JODCO were 1,634 MMboe, 38% of which were proved undeveloped reserves. In addition, as of March 31, 2004, we and JODCO had a combined net probable reserves of approximately 2,315 MMboe, based on DeGolyer and MacNaughton estimates.

Our reserves consist of interests in a mix of mature legacy fields in the Mahakam basin in Indonesia and the Abu Dhabi Marine concession area and other acquisitions, such as our interest in the ACG oil fields in the South Caspian Sea. In addition, we are involved in a number of key global oil and gas development projects, including the North Caspian Sea Project in Kazakhstan, the Tangguh LNG project in Indonesia and the Azadegan oil field in Iran. Our reserves are, in many cases, jointly developed and produced with leading global oil and gas companies including the "super major" and "major" oil and gas companies, as well as state-owned oil and gas companies.

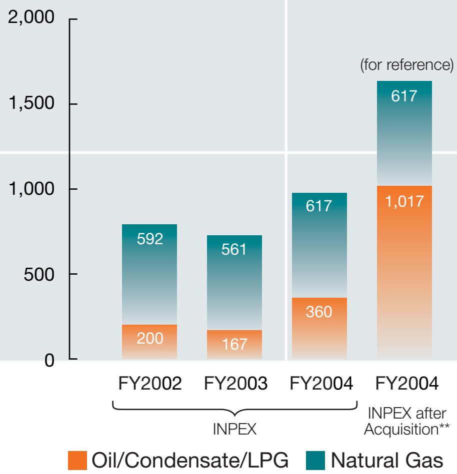
After giving effect to our acquisition of JODCO, based on our net proved reserves as of March 31, 2004 and combined production amounts for the period from April 1, 2003 to March 31, 2004, we had a reserve-to-production ratio of approximately 14.5 years. Based on our net proved plus probable reserves as of March 31, 2004, that ratio would increase to 35.0 years. The reserve amounts and the production amounts used to calculate these ratios take into account the interests held by INPEX's and JODCO's equity method affiliates.

High growth potential in medium-term production through development of proved undeveloped and probable reserves.

We believe that several of our current development projects will result in increased production over the medium term through utilization of our net proved undeveloped and probable reserves, including:

Historical Proved Reserves* by Product

(MMboe)



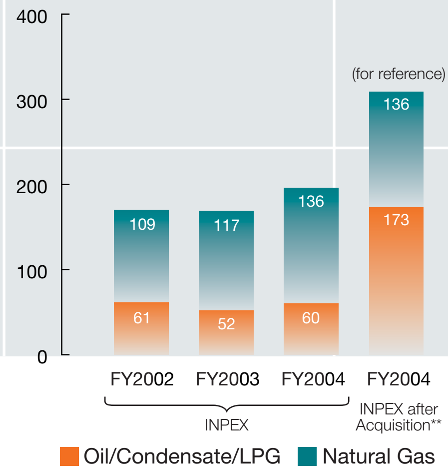
Notes:

* Amounts attributable to the equity affiliates are included.

** The sum of INPEX and JODCO assuming that JODCO became fully owned subsidiary of INPEX at the beginning of FY2004.

Historical Production* by Product

(MMboe/d)



Notes:

* Amounts attributable to the equity affiliates are included.

** The sum of INPEX and JODCO assuming that JODCO became fully owned subsidiary of INPEX at the beginning of FY2004.

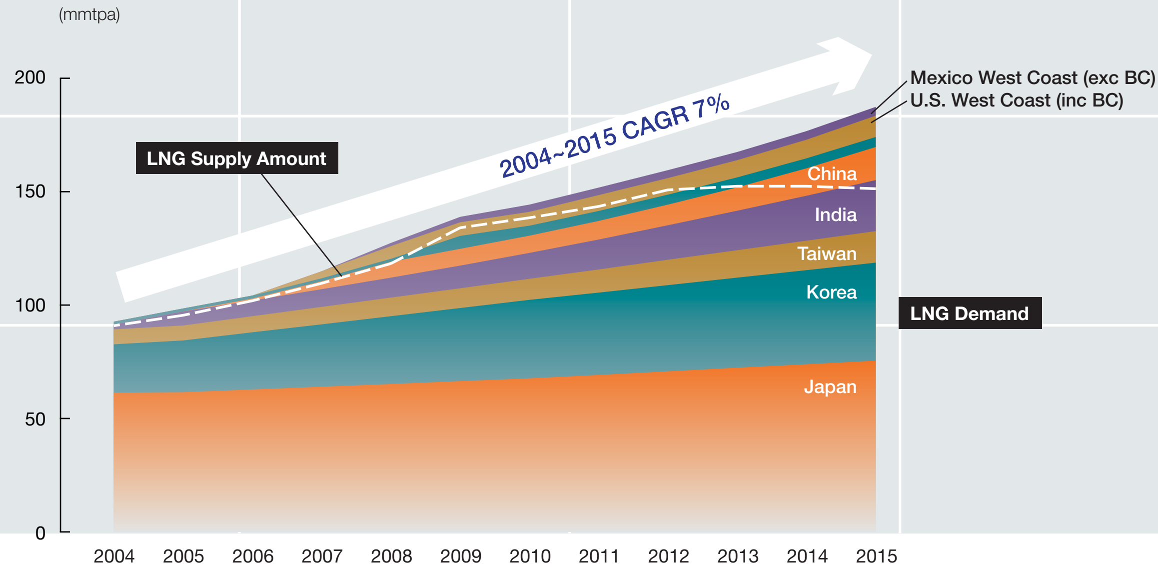
- Phase one of the development of ACG oil fields, which is expected to enter full production during 2005 with the start-up of the related Baku-Tbilisi-Ceyhan crude oil pipeline. Work on phase two, which is expected to significantly expand production in 2006, has already begun;
- Development of the Kashagan oil field in the North Caspian Sea Project, which is scheduled to commence production in 2008;
- Development of the Belanak oil and gas field in South Natuna Sea Block B, Indonesia, which commenced oil production in December 2004 with subsequent gas and LPG development plans expected in 2006 and 2008;
- Development of the Berau-Bintuni Bay region of Papua, Indonesia, which is scheduled to commence production of natural gas to be processed at the Tangguh LNG plant in 2008; and
- Stage one of the development of the Azadegan oil field in Iran where commencement of oil production is expected by 2008.

Strategic participation in gas projects that benefit from growing LNG demand in the Asia-Pacific region.

We believe that we are strategically positioned to be a major supplier of natural gas to help meet the increasing demand for LNG in the Asia-Pacific region, including Japan, South Korea, Taiwan, China and the west coast of the United States. LNG is becoming an increasingly important energy source for countries in this region because, compared with other energy alternatives, LNG is a cleaner source of primary energy. Our natural gas projects located in the Asia-Pacific region, include:

- Working interests in fields in the Mahakam basin that supply natural gas to the Bontang LNG plant in East Kalimantan, Indonesia, which is one of the largest LNG plants in the world in terms of annual LNG production capacity. Our partners and we have been investing to expand both the natural gas production in Mahakam and the surrounding fields and the processing capacity of the Bontang LNG plant in order to capitalize on the increasing demand for LNG in the Asia-Pacific region;
- The joint development of the Bayu-Undan gas field in the Joint Petroleum Development Area in the Timor Sea and the related construction of the 500 kilometer undersea pipeline to transport natural gas from the Bayu-Undan gas field to a planned LNG plant outside of Darwin, Australia;

LNG Supply and Demand Prospects in Asia/Pacific Region



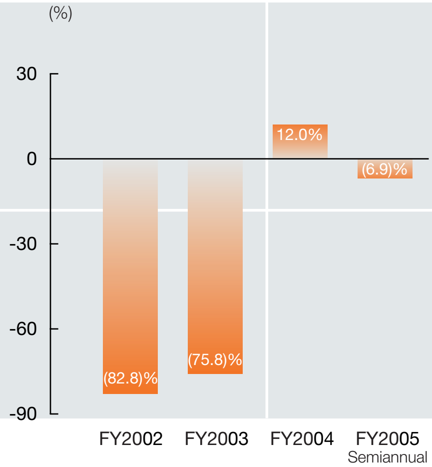
Source: Wood Mackenzie

- The joint development of the gas fields in the Berau-Bintuni Bay region of Papua, Indonesia and our investment in the Tangguh LNG Project in Indonesia, which is scheduled to process 1,210 MMcf of natural gas per day and produce approximately 7 million tonnes of LNG per year starting in 2008;
- The gas discovery in the Masela block in Indonesia where we act as the operator. The Masela block contains the Abadi structure, the first hydrocarbon discovery in the Indonesian territory in the far eastern Timor Sea. We are conducting studies to commercialize the production of LNG from the natural gas found in the Abadi structure; and
- The gas and condensate discovery in the WA-285-P block (Ichthys) in the Browse Basin on the Northwest Shelf of Western Australia, where we act as the operator. We discovered natural gas and condensate flow in our exploratory wells drilled in the northwestern part of the permit area and are currently conducting feasibility and marketing studies to engage in the production of LNG or GTL and dimethyl ether (DME) as well as gas supply to the domestic market.

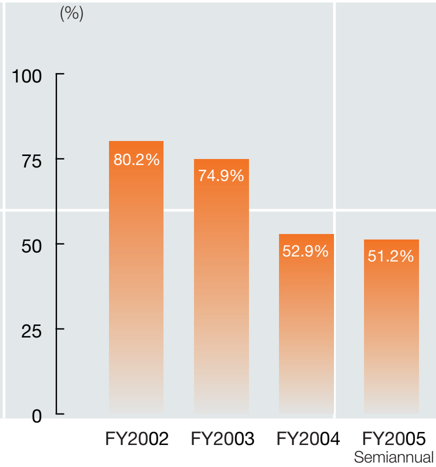
Successful track record of reserve expansion

Our recent acquisitions have focused on strategic, long-term development projects that will offset expected production declines in some of our mature producing assets. These acquisitions include an interest in the Berau block, the principal block in the Tangguh LNG project acquired in October 2001, an interest in the ACG oil fields in the Offshore South Caspian Sea area of Azerbaijan acquired in April 2003, an interest in the Abu Dhabi Marine concession area through the acquisition of all JODCO shares in May 2004, and our participation as an operator in the development of the Azadegan oil field in Iran from February 2004. As a result of these acquisitions and participation, our three-year average reserve replacement ratio for the years ended March 31, 2004 was 170%. This ratio would be 436% if the acquisition of JODCO had taken place on April 1, 2003.

Net Debt to Total Capital Employed*



Equity Ratio**



Notes:
* Net Debt/(Net Debt + Minority Interests + Shareholder's Equity)
Net Debt = Interest-bearing Debt – Cash and Cash Equivalents – Restricted Cash – Other debt securities with determinable market value
** Equity Ratio = Shareholder's Equity/Total Assets

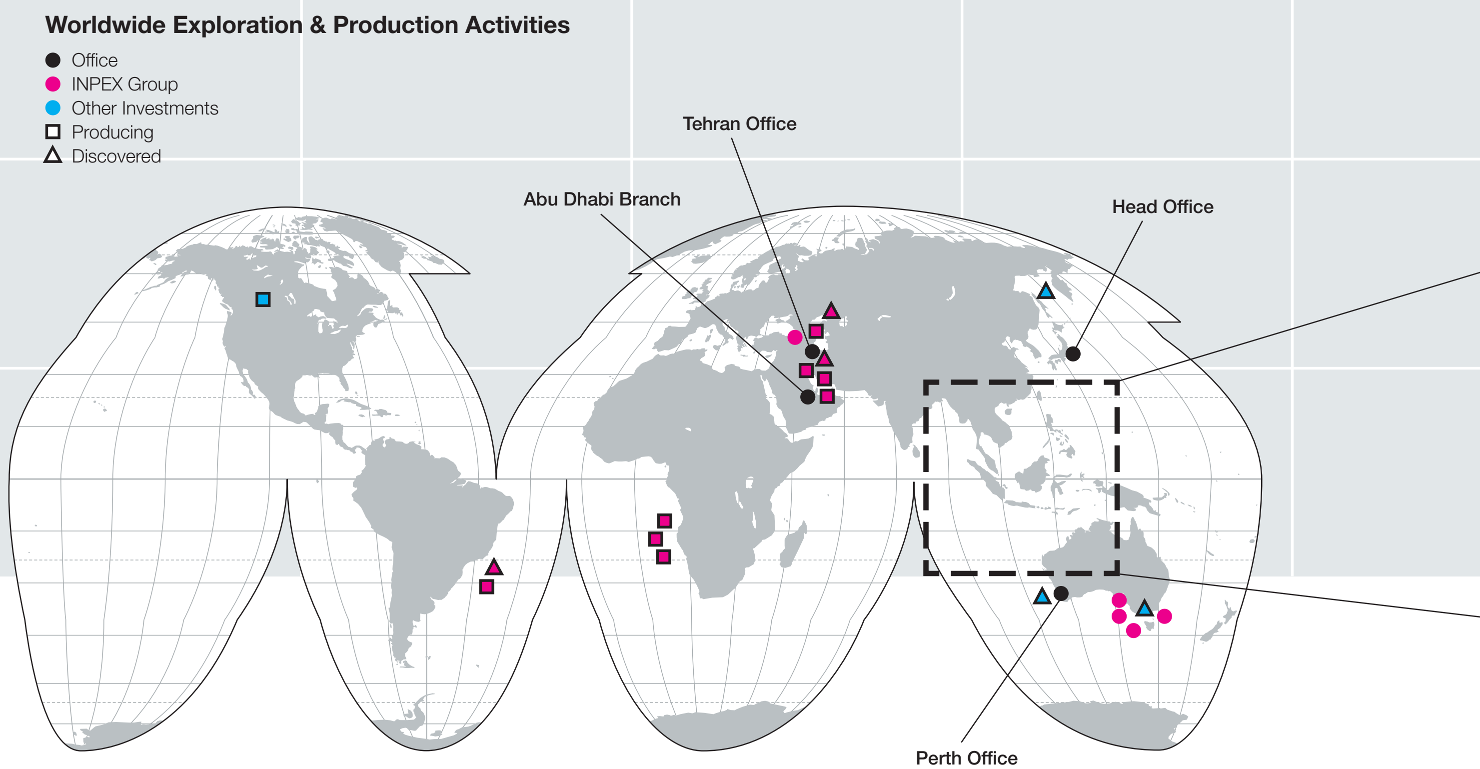
Sound financial base and access to additional capital resources

Our future growth and capital needs will be supported by our sound capital structure and our significant liquidity. We also expect to continue to have access to financial assistance from Japanese governmental agencies. Our financial strength is supported by the following:

- Our sound capital structure. We believe we have a strong financial position to fund the increasing future expenditures needed to support our sustainable growth. As of September 30, 2004, we had a net debt to total capitalization ratio of (-6.9)%. Net debt is interest-bearing debt less cash and cash equivalents, restricted cash and other debt securities with determinable market value.
- Our significant liquidity. Our policy is to maintain sufficient cash at all times to enable us to make necessary and appropriate investments for existing and new crude oil and natural gas projects in a timely manner. As of September 30, 2004, we had ¥121.2 billion yen in cash and cash equivalents and ¥77.2 billion in other debt securities with determinable market value.

Taking advantage of our designation as the national flag company in the upstream oil and gas industry

As the national flag company designated by the Japanese government, we expect to benefit through diplomacy of energy resources by the Japanese government. Accordingly, we expect to have access to opportunities of new and promising exploration, development and production projects, and in connection with our participation in such projects, we expect to have the strategic support of the Japanese government.



[Our **Strategy**]

Our primary objective as a leading exploration and production company in Japan is to maximize corporate value. In order to achieve this goal, we are seeking to execute the following strategies:

Increase production through the development of our large existing reserves base

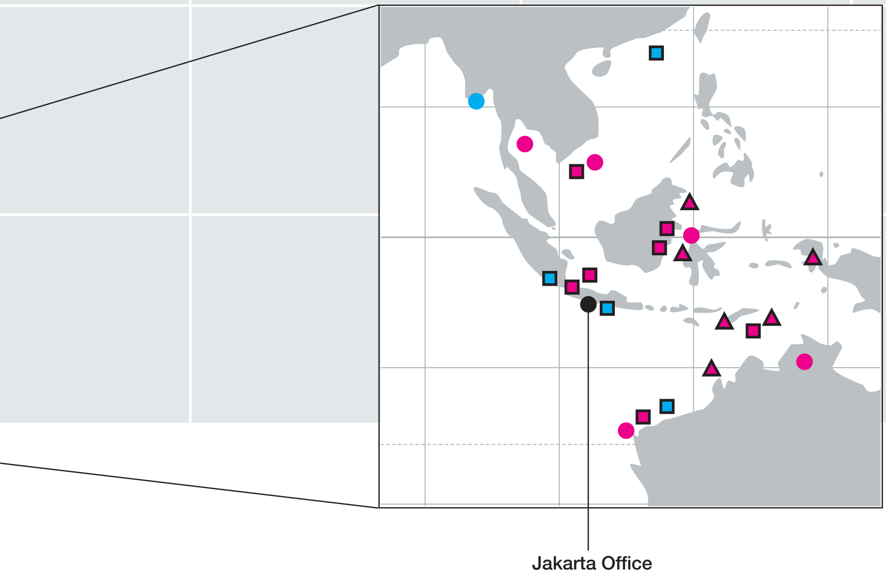
We are actively participating in major projects such as Kashagan, ACG, Azadegan and Tangguh. Our proved undeveloped reserves give us the opportunity to achieve substantial production growth even without further discoveries of new reserves. We also believe we have opportunities to develop new probable reserves. As a result of the development and the commencement of production of some of our proved undeveloped and probable reserves, we expect stable net production to increase in the coming years.

Leverage our historical working relationships with major international oil and gas companies to expand our operations worldwide

Through our long-term involvement in international projects, we have established positive working relationships with leading oil and gas companies, including national oil companies in host countries. By capitalizing on these existing relationships, we pursue participation in new promising projects, helping us to capture long-term growth opportunities for our reserves and production levels.

Achieve regional diversification of our asset portfolio, while balancing project phases

We have been diversifying business opportunities in promising regions around the world and acquired high quality assets, including ACG, Kashagan and JODCO's assets in the Abu Dhabi Marine Concession area. While focusing on Indonesia and Australia as our core area and continuing our active involvement in the Caspian Sea area and the Middle East, we are seeking to achieve further geographic diversification of our assets through participation in new projects in areas such as Africa and South America in the near term, and Russia, particularly Far East and East Siberia in the medium and long term. In addition to regional diversification, we consider various



factors to achieve a well balanced portfolio such as assuming oil and gas operatorships, diversification of contractual arrangements comprising production sharing contracts, concession agreements and service contracts, and balancing our assets among exploration, development and production stages.

Enhance activities and capabilities as an operator

While we intend to continue acquiring attractive nonoperator working interests in selected projects, we are also pursuing opportunities to act as operator in order to have more control over our investments. We have gained operating expertise by working closely over the year with other leading international oil and gas companies. Furthermore, the acquisition of JODCO brings us valuable technical know-how and experienced staff in the fields of petroleum development and facility engineering. We are currently the operator of the Masela block (Abadi) in Indonesia and the WA-285-P block (Ichthys) in Australia as well as the Azadegan oil field in Iran. We are confident that we will be able to operate these projects accurately and efficiently by outsourcing work to professionals and experts, and expect that, by enhancing our capabilities as an operator, we will be able to compete more effectively in the acquisition and development of new projects around the world.

Capitalize on the growing demand for LNG in Japan and elsewhere in the Asia-Pacific region, through involvement in major natural gas projects

Increasing demand for LNG in Japan, other countries in Asia and the West Coast of the United States provides us with a favorable environment to increase our natural gas production. In the Asia Pacific region, we have been participating in gas projects including Mahakam, Tangguh and Bayu-Undan and also engaged in Masela (Abadi) and WA-285-P (Icthys) as an operator. We intend to leverage our experience and relationships in these projects to further extend our involvement in regional gas projects and thereby expand our exposure to the LNG market generally.

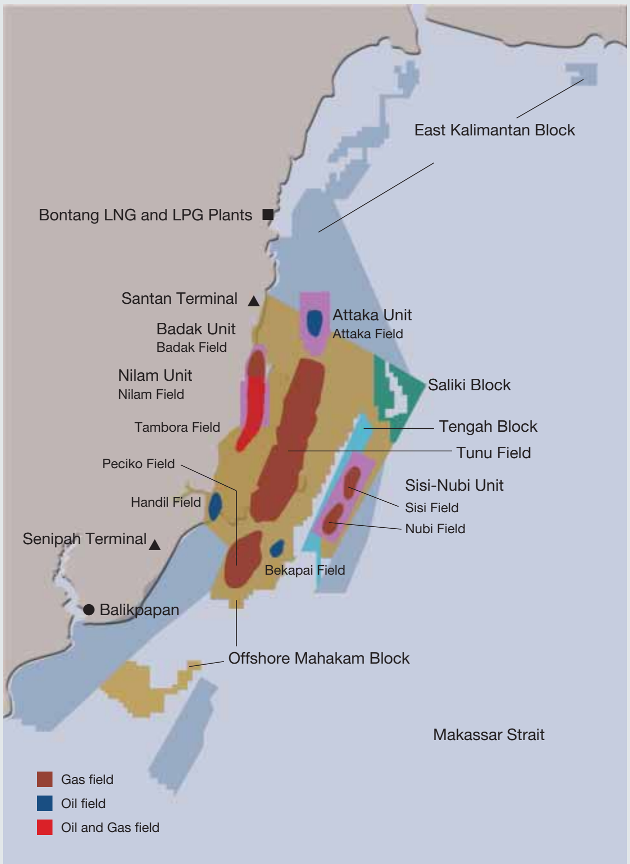
Promote an efficient and transparent business culture that focuses on maximizing corporate value and return on capital invested

We intend to improve our net ROACE, which was 12.4% on a pro forma basis for the year ended March 31, 2004, through the realization of returns on current development projects, continued focus on cost reductions and continuous portfolio review.

Indonesia

Indonesia represents one of our Core Areas and the foundation of INPEX's business activities. INPEX has conducted successful projects in offshore East Kalimantan, as well as in the Natuna Sea and in the offshore Java and Sumatra regions. We also own interests in promising assets such as the Masela Block (Timor Sea) where natural gas and condensate have been discovered, and the Tangguh LNG Project, which is expected to become a new major LNG base in Indonesia.

Offshore Mahakam Block and Attaka Unit, East Kalimantan (INPEX CORPORATION) (Producing)



In October 1966 our company entered into a production sharing contract (PSC) with the Indonesian government and acquired a 100% working interest. This contract covers operations in the Attaka Unit and the Mahakam Block.

In April 1970, INPEX established the Attaka Unit with Unocal, each holding 50% interest. Soon after, the Attaka Field was discovered, with production of crude oil and accompanying natural gas beginning in 1972. INPEX farmed out 50% of our working interest in the Mahakam Block to TOTAL in July 1970. This venture resulted in the successive discoveries of the Bekapai Field, Handil Field, Tambora Field, Tunu Field and Peciko Field, all of which are still producing crude oil and natural gas today.

Once produced, crude oil and condensate are shipped by tanker from the terminal mainly to refineries and power companies in Japan. Natural gas is mainly transported to the Bontang LNG/LPG Plant and then shipped to Japan and other countries.

In January 1991, the PSC was extended 20 years through December 2017. With this extension, the related blocks will continue to play a central role in INPEX Group operations.

Contributing to the Supply of Natural Gas

In August 1977, construction of the first and second gas liquefaction trains in Bontang, East Kalimantan were completed, and they then began receiving supplies of natural gas produced in the East Kalimantan region. Rapidly increasing demand for LNG as a clean energy source has fueled growth at Bontang, which has become a world leading LNG production plant. This plant has eight trains with an annual production of approximately 21 million tons of LNG and approximately 1 million tons of LPG. INPEX is the largest supplier of natural gas to Bontang, fulfilling its key role as a supplier of clean energy resources.

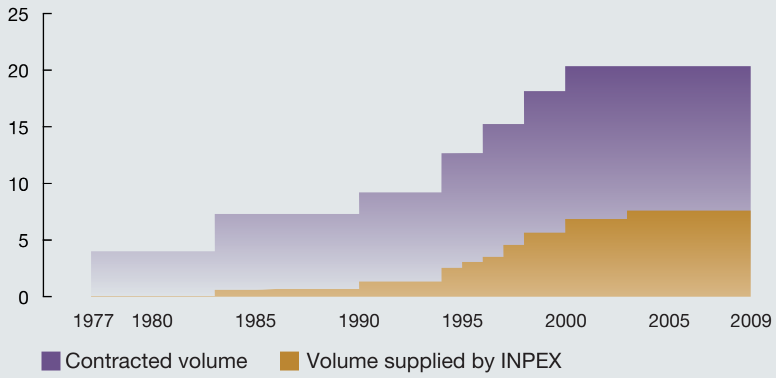
INPEX is also heavily involved in financing activities. The company is the largest investor in four finance companies created for the purpose of securing construction capital for the liquefaction plants at Bontang.

The blocks where INPEX is active have sufficient reserves for natural gas supply to the Bontang LNG Plant for the term of the current PSC.

Bontang LNG Plant, East Kalimantan

LNG Production Volume (Historical and Projected) at Bontang LNG Plant

(Units: million tons)



Contract Area	Venture Company (est.)	Interest Owned
Offshore Mahakam	INPEX CORPORATION	INPEX 50%/TOTAL 50%
Attaka Unit	(February 21, 1966)	INPEX 50%/Unocal 50%

Handil Central Processing Area

South Natuna Sea Block B (INPEX Natuna, Ltd.) (Producing)

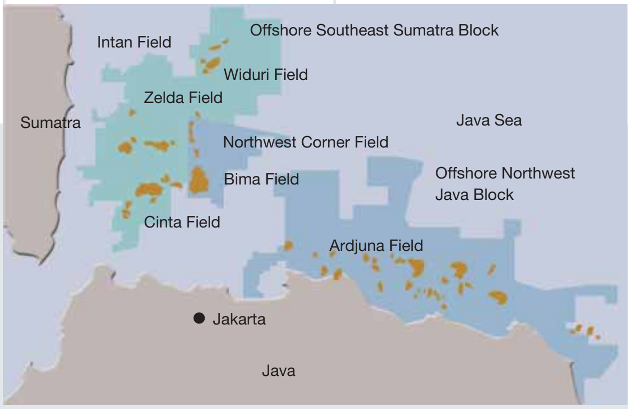
In September 1978, our subsidiary, INPEX Natuna, acquired an interest in South Natuna Sea Block B, where the Udang Field had already been in production.

Subsequent to purchasing the interest in Block B, several new fields were discovered in this block, including the Ikan Pari Field, the Belida Field and the Sembilang Field. All crude oil produced from these fields is shipped out from a sea terminal.

In January 1999, a sales agreement was concluded to deliver gas from this block and its neighboring Natuna Sea Block A and Kakap Blocks to Singapore, through the first Indonesian subsea pipeline connecting foreign markets. Supply began in 2001, and the following year saw new gas sales to Malaysia from this block. On the strength of these developments, the PSC for this block was extended through 2028.

Belida A Platform, South Natuna Sea Block B

Contract Area	Venture Company (est.)	Interest Owned
South Natuna Sea Block B	INPEX Natuna, Ltd. (September 1, 1978)	INPEX Natuna, Ltd. 35%/ConocoPhillips 40%/ChevronTexaco 25%



Offshore Northwest Java Block (INPEX Jawa, Ltd.) (Producing)

In 1986, INPEX acquired an interest in the Offshore Northwest Java Block, which was then transferred to INPEX Jawa, Ltd., a joint venture with other Japanese oil companies, in January 1987. The decision for the interest acquisition was based on the fact that not only was this block already producing oil, it also held the promise of discovery of new fields in unexplored regions.

The crude oil produced from the Ardjuna Field and others is shipped from a sea terminal, and the natural gas is supplied to PLN (Indonesian national power company) and PGN (Indonesian national gas company).

In March 2004, INPEX acquired JNOC's 50% shares of INPEX Jawa, Ltd. and increased its shares to 85%.

Contract Area	Venture Company (est.)	Interest Owned
Offshore Northwest Java	INPEX Jawa, Ltd. (November 10, 1986)	INPEX Jawa, Ltd. 7.25%/BP 46%/CNOOC approx. 36.72%/three others 10.03%

Offshore Southeast Sumatra Block (INPEX Sumatra, Ltd.) (Producing)

In January 1987, INPEX transferred an interest in the Offshore Southeast Sumatra Block (acquired at the same time as the acquisition of the Offshore Northwest Java Block interest) to the newly established INPEX Sumatra, Ltd.

Subsequent to INPEX's involvement, new discoveries were made at the Intan and Widuri Fields in this block, both of which are currently producing oil. The crude oil produced from these fields is shipped via sea terminal. In December 2004, INPEX Sumatora, together with other contractors, concluded the gas sales agreement with PLN to supply natural gas from 2006 to 2018. The natural gas will be produced mainly from gas fields of Zelda and Banuwati areas and the sales gas will be supplied to the Cilegon Power Plant of PLN in West Java by a subsea pipeline.

Contract Area	Venture Company (est.)	Interest Owned
Offshore Southeast Sumatra	INPEX Sumatra, Ltd. (February 15, 1991)	INPEX Sumatra, Ltd. 13.07%/CNOOC 65.54%/five others 21.39%

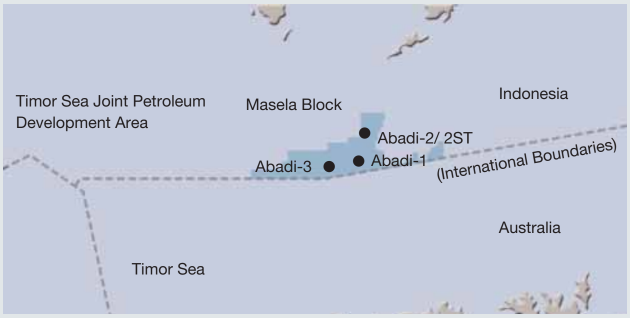
Abadi-1 DST, Masela Block

Masela Block, Timor Sea (INPEX Masela, Ltd.) (Discovered)

In December 1998, we won an open bid for and acquired a 100% interest as an operator in the Masela Block of the Timor Sea.

In December 2000, INPEX discovered a large-scale gas structure, Abadi, by drilling an exploration well in the Masela Block. This represented the first discovery of natural gas in the Indonesian Timor Sea. In 2002, two appraisal wells delivered results that far exceeded expectations. These two wells confirmed a considerable volume of gas and condensate reserves. We are presently engaged in preparing for development and future commercialization, including the development of LNG as well as new technologies in GTL and DME production.

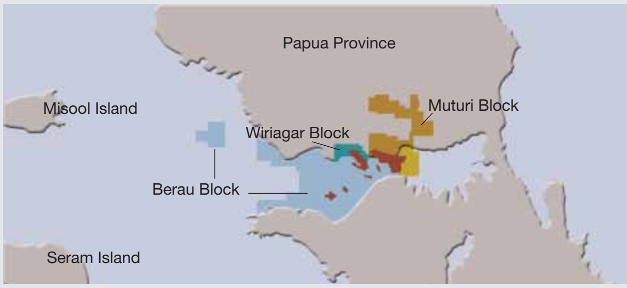
INPEX, working as a 100% operator in the permit WA-285-P (Browse), offshore Western Australia, discovered a considerable volume of gas and condensate reserves. We intend to evolve into a production operator through the commercialization of both of these blocks.



Contract Area	Venture Company (est.)	Interest Owned
Masela	INPEX Masela, Ltd. (December 2, 1998)	INPEX Masela, Ltd. 100%

Berau Block, Papua Province Tangguh LNG Project (MI Berau B.V.) (Discovered)

In October 2001, INPEX, working in a joint venture with Mitsubishi Corporation, invested in MI Berau B.V., which holds an interest in the Berau Block, a principal block in the Tangguh LNG Project, the third LNG Project in Indonesia. Through this investment, INPEX acquired a participating interest in the gas reserves of the Tangguh LNG Project. The Tangguh project is scheduled to commence LNG production around 2008. Long term sales agreements to supply LNG for China, Korea and the U.S. have already been concluded.



Contract Area	Venture Company (est.)	Interest Owned
Berau	MI Berau B.V. (August 14, 2001)	MI Berau B.V. 22.856%/BP 48%/Nippon Oil Exploration (Berau), Ltd. 17.144%/ KG Berau 12.0%
(Tangguh Unit)		MI Berau B.V. 16.3%/BP 37.2%/ CNOOC 12.5%/others 34%

Drilling Rig, Timor Sea

Expansion of Exploration Activities

To further bolster our status in the East Kalimantan area, and to increase assets that lead directly to commercialization, we are strategically strengthening exploration activities in blocks around East Kalimantan and South Natuna Sea Block B. These efforts will replenish assets in Indonesia, an INPEX Core Area.

Contract Area	Venture Company (est.)	Interest Owned
Saliki, Offshore East Kalimantan	INPEX Offshore Northeast Mahakam, Ltd. (June 11, 1997)	INPEX Offshore Northeast Mahakam, Ltd. 50%/ TOTAL 50%
East Kalimantan, Offshore East Kalimantan (producing block)	INPEX Offshore North Mahakam, Ltd. (November 6, 2002)	INPEX Offshore North Mahakam, Ltd. 7.5%/ Unocal 92.5%
Nila, Natuna Sea	INPEX North Natuna, Ltd. (January 18, 2002)	INPEX North Natuna, Ltd. 35%/ ConocoPhillips 65%

Santan LPG Storage Facility

Australia and Joint Petroleum Development Area (JPDA)

Together with Indonesia, this region represents another INPEX Core Area. INPEX Alpha, Ltd. has been very active in this area, with successes in offshore Western Australia. Together with our involvement in the Bayu-Undan LNG Project in the Joint Petroleum Development Area (JPDA), we intend to increase our assets in this area, pursuing a policy of proactive exploration in the region. We have also succeeded in discovering natural gas and condensate, working as an operator in the permit WA-285-P, offshore Western Australia.

1. Projects in Australia

WA-10-L and others, Offshore Western Australia (INPEX Alpha, Ltd.) (Producing)

In February 1989, INPEX acquired a participating interest in the permit WA-210-P in offshore Western Australia. This interest was then transferred to our subsidiary, INPEX Alpha, Ltd. As a result of subsequent exploration activities, the Griffin Fields were discovered, and a production license (WA-10-L) was granted by the Australian government for four blocks. Commercial production from these blocks started in January 1994. The crude oil produced from the WA-10-L is processed and stored at the Griffin Venture, a floating production storage unit, and then shipped for sale. Natural gas is also processed at the Griffin Venture and is transported through a 70 kilometer underwater pipeline which connects to the mainland's trunk pipeline. The natural gas is then transported for sale to an onshore gas producer.

Griffin Venture

In August 1995, INPEX Alpha also acquired participating interests in the WA-155-P (Part II) and the WA-12-L permits.

In July 1999, our company acquired an interest in the permit WA-155-P (Part I). The Vincent and Ravensworth discoveries were made in this permit.

In March 2001, our company received 54% of the outstanding shares of INPEX Alpha, Ltd. from Japan National Oil Corporation (JNOC), after which INPEX Alpha became a 100% subsidiary of INPEX CORPORATION.

Contract Area	Venture Company (est.)	Interest Owned
WA-10-L	INPEX Alpha, Ltd. (February 17, 1989)	INPEX Alpha 20%/BHPBP 45%/ExxonMobil 35%
WA-155-P (Part I)		INPEX Alpha 28.5%/BHPBP 39.999%/Apache 31.501%
WA-155-P (Part II)		INPEX Alpha 18.67%/Apache 81.33%
WA-12-L		INPEX Alpha 18.67%/ExxonMobil 81.33%

Drilling Rig, WA-285-P

Expansion of Exploration Activities

INPEX Alpha, Ltd. has a total of eight projects in Australia, including four projects in offshore Western Australia and four projects in offshore Tasmania, Victoria. These activities are part of our overall goal to increase our assets in Australia, one of the Core Areas for INPEX.

Region	Contract Area	Interest Owned
Bass Strait, Victoria	VIC/P42	INPEX Alpha 50%/Bass Strait Oil 50%
Offshore Portland, Victoria	VIC/P51	INPEX Alpha 20%/Santos 80%
	VIC/P52	INPEX Alpha 33.33%/Santos 33.33%/Unocal 33.33%
Northwest Ocean, Tasmania	T/33P	INPEX Alpha 20%/Santos 80%

WA-285-P, Offshore Western Australia (INPEX Browse, Ltd.) (Discovered)

INPEX transferred its 100% interest in the permit WA-285-P, offshore Western Australia, to our subsidiary, INPEX Browse, Ltd. in September 1998. INPEX had previously won the interest through an open bid.

INPEX Browse has pursued exploration activities as a 100% operator, resulting in the discovery of an extremely promising gas and condensate structure, Icthys, during 2000.

A development scheme is in the planning stages, looking toward not only LNG, but also new technologies associated with GTL and DME, as well as possibilities for domestic supply.

Operation in Offshore Western Australia

Contract Area	Venture Company (est.)	Interest Owned
WA-285-P	INPEX Browse, Ltd. (September 1, 1998)	INPEX Browse 100%

2. Projects in the Timor Sea Joint Petroleum Development Area (JPDA)

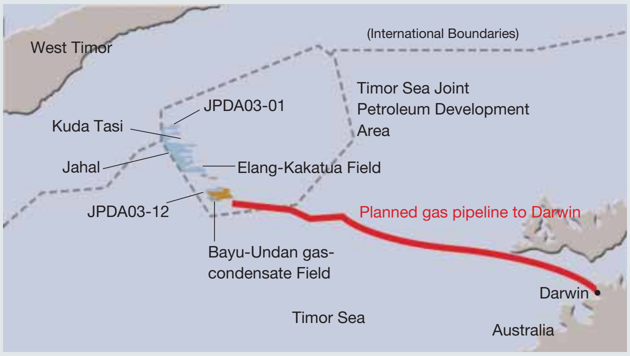


Image of Offshore Production Facility, Bayu-Undan

JPDA03-12 Timor Sea Joint Petroleum Development Area (INPEX Sahul, Ltd.) (Producing)

In April 1993, INPEX acquired a 21.21% working interest in the JPDA03-12 Contract Area, located in the Timor Sea Joint Petroleum Development Area which is an area jointly administered by the government of Australia and East Timor.

The exploration operations in this contract area resulted in the discovery of oil and gas in the Elang, Kakatua, Kakatua North, Bayu-Undan and Hingkip structures. Production began in the Elang field in July 1999, and in the Kakatua and Kakatua North Fields in the following month.

The Undan gas-condensate field was discovered in JPDA03-12 in 1995 immediately after the Bayu field was discovered in JPDA03-13 in 1995 which is located directly east of JPDA03-12. Both the JPDA03-12 and JPDA03-13 partners determined that the Bayu and Undan fields are a common gas-condensate accumulation and straddle both contract areas. In 1999, the unit operating agreement and the unitization agreement were entered into between JPDA03-12 and the JPDA03-13 partners to establish the Bayu-Undan unit for the purpose of carrying out the development and production of the Bayu-Undan gas-condensate field.

The original plans of the Bayu-Undan unit called for the development and production of condensate and LPG only. However, during 2002, an LNG sales contract was agreed designating the unit as a gas supply source for delivery to Japan. This arrangement necessitated new plans for developing the unit as an LNG project. For INPEX, the Bayu-Undan Project will stand alongside the LNG projects of Bontang and Tangguh in Indonesia in terms of scale and importance.

In connection with this LNG project, INPEX established INPEX DLNGPL Pty Ltd for the purpose of investing in an undersea pipeline to Darwin, Australia, and in a venture carrying out the construction and operation of an LNG plant in the suburbs of Darwin.

Contract Area	Venture Company (est.)	Interest Owned
03-12	INPEX Sahul, Ltd. (March 30, 1993)	INPEX Sahul 19.07%/ConocoPhillips 46.71%/Santos 19.27%/Petroz 14.95%
(Bayu-Undan Unit)		INPEX Sahul 10.53%/ConocoPhillips 48.47%/Santos 10.64%/Petroz 8.25%/ EniAgip 12.04%/ Tokyo Timor Sea Resources (Tokyo Electric/ Tokyo Gas) 10.08%
Undersea pipeline project connecting the Bayu-Undan gas-condensate Field with Darwin	INPEX DLNGPL Pty Ltd (March 19, 2003)	INPEX DLNGPL Pty 10.53%/ConocoPhillips 48.47%/Santos 10.64%/ Petroz 8.25%/EniAgip 12.04%/ Tokyo Timor Sea Resources (Tokyo Electric/ Tokyo Gas) 10.08%
Construction and operation of an LNG plant in Darwin		

JPDA03-01 Timor Sea Joint Petroleum Development Area (JPDA) (INPEX Timor Sea, Ltd.) (Discovered)

INPEX acquired the JPDA03-01 Contract Area in an open bid in October 1991. In January 1992, all relevant parties signed a PS contract. Subsequently, the drilling of five exploration wells resulted in the discovery of crude oil in the Jahal, Klill and Kuda Tasi structures.

Contract Area	Venture Company (est.)	Block Interest Ownership
03-01	INPEX Timor Sea, Ltd. (November 25, 1991)	INPEX Timor Sea 35%/Woodside 40%/Santos 25%

Caspian Sea Area

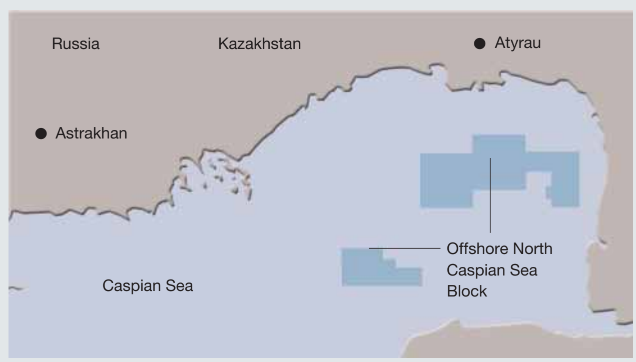
In 1998, INPEX made its appearance in the Caspian Sea, successfully discovering the Kashagan Field, a giant oil field in the North Caspian Sea. In 2003, we acquired the interests in the ACG Oil Field, a giant oil-producing field in the South Capian Sea. We are also participating in the BTC Pipeline, which serves as an important transport facility for both the Kashagan Field and the ACG Oil Field.

INPEX's activities in the Caspian Sea area will serve to expand our business. These projects will contribute to our corporate strategy of creating a balanced regional asset portfolio across the globe. These projects deal mainly with crude oil, which will contribute to improving our balance between oil and gas assets.

Offshore North Caspian Sea Block, Republic of Kazakhstan (INPEX North Caspian Sea, Ltd.) (Development)

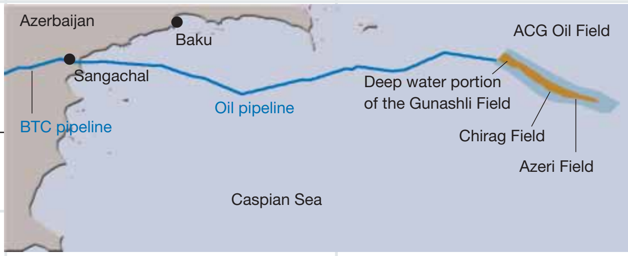
In September 1998, INPEX North Caspian Sea, Ltd., established jointly between INPEX and other Japanese companies, concluded an Assignment and Assumption agreement with the Kazakhstan government and KazakhOil. Under the terms of this agreement, a participatory interest in the attractive North Caspian Sea Block was acquired.

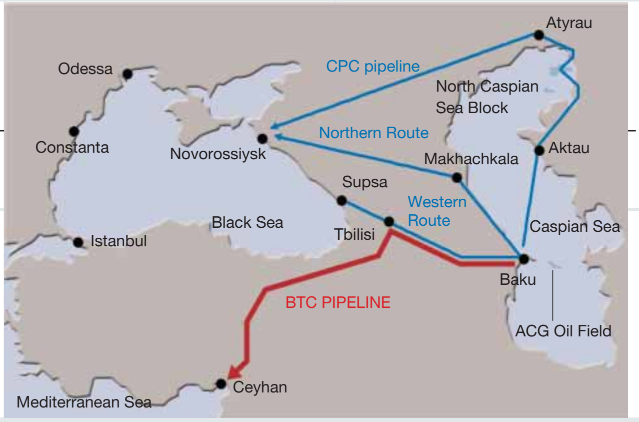
The block contains regions encapsulating five giant structures. The September 1999 drilling of the first exploration well, Kashagan East 1 in the Kashagan Structure, the largest of the five structures and located in the eastern part of the block, resulted in the discovery of oil. This discovery was formally announced in July of the following year. This event represented the first discovery in the Kazakhstan controlled area of the Caspian Sea. The Kashagan oil field is the largest oil field discovered in the past 30 years. Total oil production is anticipated to reach 13 billion barrels by maximizing oil production though the injection of gas produced concomitantly with the oil into the reservoir. In June 2002, KazMunayGas and the North Caspian Sea PSA Contracting Companies made a Declaration of Commerciality for the block. In addition to the Kashagan Structure, this block holds four other structures. In addition, exploratory wells were drilled in four other structures, the Kalamkas, Kashagan Southwest, Aktote and Kairan structures from 2002 to 2004. All of the wells confirmed hydrocarbon reserves and the declarations of discovery were made for each of the structures.



Operation in Offshore North Caspian Sea

Contract Area	Venture Company (est.)	Interest Ownership
Offshore North Caspian Sea	INPEX North Caspian Sea, Ltd. (August 6, 1998)	INPEX North Caspian Sea 1/12/ EniAgip/ExxonMobil/Shell/ TOTAL/BG 1/6 each/ConocoPhillips 1/12





ACG Oil Field, Caspian Sea, Republic of Azerbaijan (INPEX Southwest Caspian Sea, Ltd.) (Producing)

The Azeri-Chirag-deepwater Gunashli Fields, known as the ACG Oil fields, are located in the South Caspian Sea area of the Republic of Azerbaijan. In December, 2002, we entered into an agreement to purchase a 10% working interest in the ACG Oil fields. In April, 2003, with the consent of SOCAR, the Azerbaijan national petroleum company, and the other ACG partners, the 10% interest in the ACG Oil fields were transferred to us. We are a member of The Azerbaijan International Operating Company, or AIOC, a joint operating company formed by the ten participating companies to oversee the operations of the ACG Oil fields. BP has assumed the operatorship of ACG Oil fields. We have been participating in the ACG Oil fields through INPEX Southwest Caspian Sea, Ltd., our consolidated subsidiary, in which JNOC holds a 49% interest.

Crude oil production began at the Chirag field in 1997 and its current production is approximately 150,000 barrels per day. This project is expected to increase production in stages, aiming to reach a production level of 1 million barrels per day by 2009. The crude oil from these fields is currently being transported along a route running from Baku to Supsa on the Black Sea (Western Route). However, once construction of the BTC Pipeline has been completed, oil will mainly be transported via this route to the Mediterranean Sea.

Contract Area	Venture Company (est.)	Interest Ownership
ACG Oil Fields	INPEX Southwest Caspian Sea, Ltd. (January 29, 1999)	INPEX Southwest Caspian Sea 10%/BP 34.14%/Unocal 10.28%/SOCAR 10%/ Statoil 8.56%/ExxonMobil 8%/Itochu 3.92%/three others 15.1%

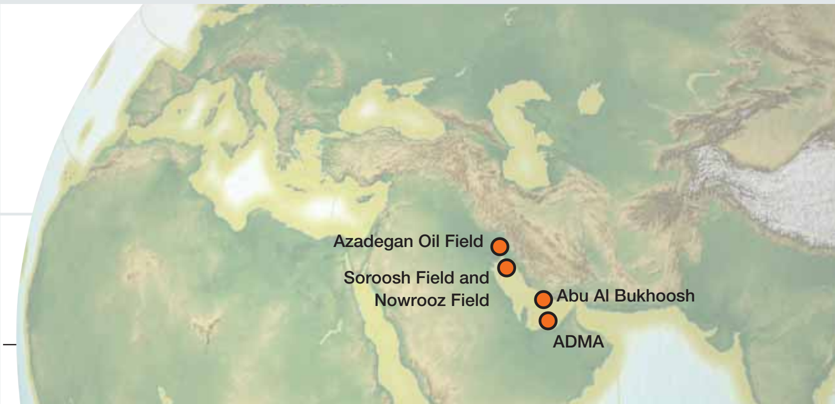
BTC Pipeline (INPEX BTC Pipeline, Ltd.)

In September 2002, through our wholly-owned subsidiary, INPEX BTC Pipeline, Ltd., we acquired a 2.5% interest in the 1,760 km BTC pipeline project in order to secure promising means of transporting crude oil produced by our projects in the Caspian Sea from Baku (Azerbaijan) to Ceyhan (Turkey) on the Mediterranean Sea via Tbilisi (Georgia). The multinational consortium formed by 11 companies is carrying out the construction and operation of the BTC pipeline project.

The construction of the pipeline began in 2003 and is expected to be completed and ready to export oil produced from the ACG oil fields in 2005. Upon completion, the pipeline is expected to have the capacity to transport 1 MMbbls of oil per day. Moreover, the BTC pipeline partners are contemplating further increasing the transport capacity to accommodate the crude oil produced from the Kashagan field.

Project	Venture Company (est.)	Interest Ownership
BTC Pipeline	INPEX BTC Pipeline, Ltd. (October 16, 2002)	INPEX BTC Pipeline 2.5%/BP 30.1%/SOCAR 25%/Unocal 8.9%/ Statoil 8.71%/TPAO 6.53%/EniAgip 5%/TOTAL 5%/Itochu 3.4%/ ConocoPhillips 2.5%/Amerada Hess 2.36%

Middle East



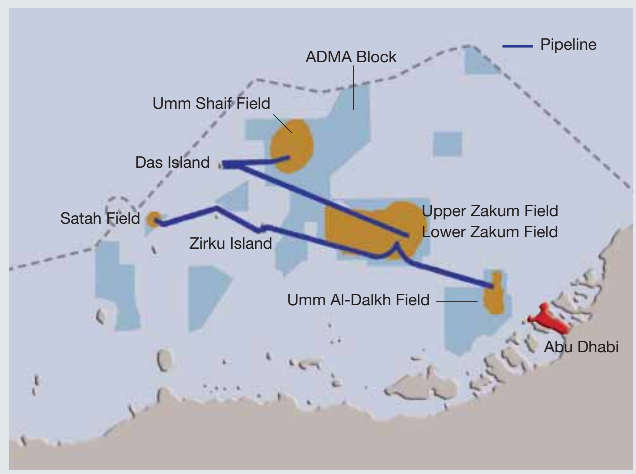
INPEX has working interests in the ADMA Block and the ABK Block offshore Abu Dhabi and produces crude oil from a total of six fields. In Iran, INPEX is acting as operator in appraisal and development operations in the Azadegan Oil Field. As with the Caspian Sea and South America, INPEX has designated the Middle East as one of our essential Target Areas, worthy of our continued development efforts.

ADMA Block, United Arab Emirates (Japan Oil Development Co., Ltd. (JODCO)) (Producing)

In May 2004, INPEX made Japan Oil Development Co., Ltd. (JODCO) a wholly owned subsidiary by acquiring, through a share exchange, all the shares in the company held by Japan National Oil Corporation (JNOC).

JODCO was established in 1973 and currently produces crude oil from five fields in the ADMA Block, located in the Abu Dhabi Marine Concession Area offshore Abu Dhabi, the United Arab Emirates. Production in the Upper Zakum Field, the area's largest oil field, began in 1982, and in the Umm Al-Dalkh and Satah fields, in which JODCO took part in operations, in 1985 and 1987, respectively. Production has continued steadily since. Crude oil production also continues at two existing fields: the Umm Shaif and Lower Zakum fields. Production at these locations began in 1962 and 1967, respectively. Crude oil is transported by subsea pipeline to the islands of either Das or Zirku, and then shipped.

These five fields are operated by local operating venture companies. JODCO continuously sends a number of its personnel, primarily engineers, to those companies.



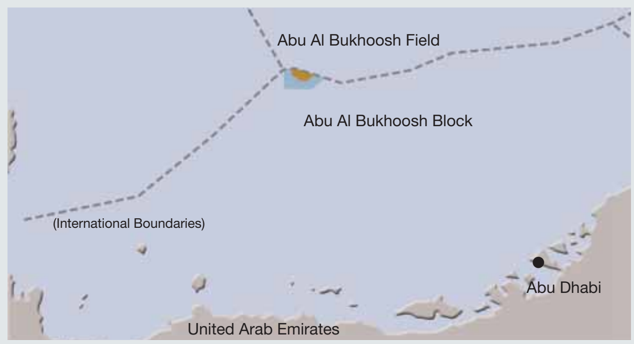
Contract Area	Venture Company (est.)	Interest Ownership
Umm Shaif Field/Lower Zakum Field	Japan Oil Development Co., Ltd.	JODCO 12%/ADNOC 60%/BP 14.67%/TOTAL 13.33%
Upper Zakum Field/Umm Al-Dalkh Field	(February 22, 1973)	JODCO 12%/ADNOC 88%
Satah Field		JODCO 40%/ADNOC 60%

Abu Al Bukhoosh Block, United Arab Emirates (INPEX ABK, Ltd.) (Producing)

In January 1996, INPEX acquired a 25% working interest in the concession agreement covering the Abu Al Bukhoosh block offshore Abu Dhabi. In February 1996, we formed INPEX ABK, Ltd. with JNOC and Mitsubishi Corporation and transferred our 25% interest in the concession area to INPEX ABK. In March 2004, we acquired JNOC's 40% share in INPEX ABK.

This project is the first for INPEX in the Middle East oil-producing block, serving as a beachhead for additional projects in the future.

Crude oil from the Abu Al Bukhoosh Field is sent by pipeline to Das Island, where it is blended with crude oil from the Umm Shaif Field, and then shipped on as Umm Shaif Crude.



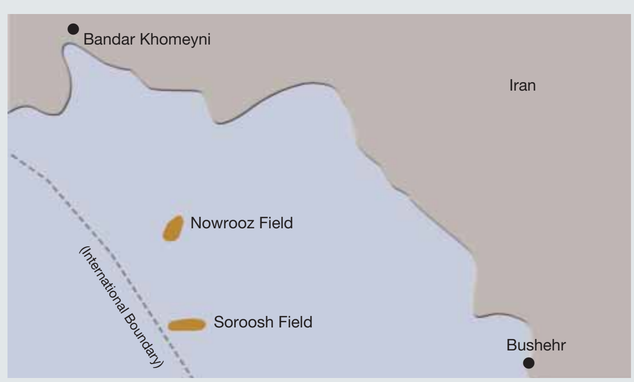
Contract Area	Venture Company (est.)	Interest Ownership
Abu Al Bukhoosh Block	INPEX ABK, Ltd. (February 29, 1996)	INPEX ABK 25%/TOTAL 75%

Soroosh Field and Nowrooz Field, Islamic Republic of Iran (JJI S&N B.V.) (Producing)

In January 2003, JAPEX and INPEX participated in the development project of the Soroosh and Nowrooz Fields through joint investment in JJI S&N, which holds a 20% participating interest in the project.

Shell conducts development operations as the operator based on a service contract (a so-called "buyback" contract) which was entered into in 1999 with National Iranian Oil Company (NIOC).

Production at the Soroosh Field began in December 2001. Currently the preparation for full scale production such as drilling development wells and constructing offshore production facilities is under way.



Contract Area	Venture Company (est.)	Interest Ownership
Soroosh Field and Nowrooz Field	JJI S&N B.V. (October 3, 2002)	JJI S&N 20%/Shell 70%/OIEC 10%

Azadegan Oil Field, Islamic Republic of Iran (Azadegan Petroleum Development, Ltd.) (Development)

In February 2004, INPEX entered into a service contract (a so-called "buyback contract") which became effective in March 2004 with Iran's National Iranian Oil Company (NIOC) and its subsidiary, Naftiran Intertrade Co. Ltd. (NICO) for the integrated appraisal and development operations of the Azadegan Oil Field in the Islamic Republic of Iran.

Under this agreement, INPEX holds a 75% participating interest as an operator in the project to develop the oil field, with NICO holding the remaining 25%. Under the current plan, two development stages are contemplated, where the second stage is optional. In the first stage, oil production from the field is scheduled to reach 50,000 bbls per day within 40 months after the effective date of the contract, and a production level of 150,000 bbls per day is scheduled to be reached within 52 months. In the optional second stage, the production level is expected to increase by a further 110,000 bbls per day within 8 years after the effective date.

Our engagement as an appraisal and production operator is expected to enhance both our technological capabilities and presence as an international oil and gas development company.

Preparations are now underway to transfer INPEX's participating interest in the project to wholly owned subsidiary Azadegan Petroleum Development, Ltd.

Contract Area	Venture Company (est.)	Interest Ownership
Azadegan Oil Field	Azadegan Petroleum Development, Ltd. (February 18, 2004)	INPEX 75%/NICO 25%

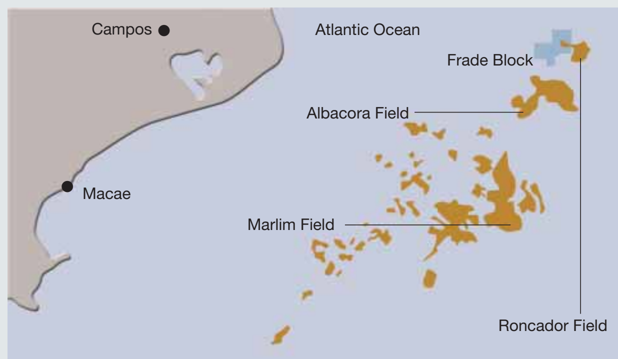
South America

In Brazil, INPEX has signed a Master Agreement with respect to the expansion of oil production in the Albacora Field Concession. We are also engaged in oil field exploration in the Frade Block, offshore North Campos. We expect further business development in this area.

Frade Block Offshore North Campos, Brazil (INPEX Offshore North Campos, Ltd.) (Discovered)

In July 1999, through Frade Japão Petróleo Limitada, or FJPL, our equity method affiliate, we acquired a 12.75% interest (which subsequently increased to 15%) in the Frade Block. FJPL is wholly-owned by INPEX Offshore North Campos, Ltd., which is a joint venture with JNOC and Sojitz Corporation which hold 50% and 12.5% interest, respectively, while we retained the remaining 37.5% interest.

The Frade Block consists of a discovered portion with confirmed crude oil reserves and an undeveloped oil accumulation in the northern Campos Basin, Brazil's largest oil-producing region. ChevronTexaco is the operator and the Frade partners are planning to commence development activities in 2005.



Contract Area	Venture Company (est.)	Interest Ownership
Frade	INPEX Offshore North Campos, Ltd. (October 12, 2000)	INPEX Offshore North Campos 15%/ Petrobras 42.5%/ChevronTexaco 42.5%

Albacora Block, Offshore North Campos, Brazil (Albacora Japão Petróleo Limitada (AJPL)) (Producing)

In December 1998, we established Albacora Japão Petróleo Limitada, or AJPL, a Brazilian entity, jointly with Sojitz Corporation and we own 50% of AJPL. In November 2000, AJPL entered into a master agreement with Petrobras, the Brazilian national oil company.

Under this agreement, AJPL agreed to provide to Petrobras the exclusive right to possess and use the assets in connection with the Albacora Field Phase II Development Project and in turn has been granted the oil allotments for nine years.

It is our belief that INPEX's participation in this second project in Brazil will give us more opportunities for involvement in new projects by building a stronger cooperative relationship with Petrobras. Furthermore, through periodic dialogue with Petrobras, we hope that we will be able to share expertise on deepwater exploration and development technologies, skills in which Petrobras has a world-class reputation.

Contract Area	Venture Company (est.)
Albacora	Albacora Japão Petróleo Limitada (AJPL) (December 23, 1998)

Corporate Governance

INPEX contributes to ensuring a stable and efficient supply of energy to Japan, a social responsibility it takes very seriously. Within this context, INPEX recognizes that enhancing corporate governance is an important management imperative.

Company Organizations

Management Bodies

Directors and Board of Directors

At INPEX, representative directors and other directors who act as executive officers carry out business operations. The execution of these business operations is overseen by the Board of Directors, which also discusses and decides on important business affairs. Meetings of the Board are convened once a month and at other times as necessary. The Board is made up of 18 directors, 4 of whom are outside directors. Each of these four outside directors serve concurrently as directors of Japan Petroleum Exploration Co., Ltd., Mitsubishi Corporation, Mitsui Oil Exploration Co., Ltd. and Marubeni Corporation, which are corporate shareholders of INPEX. As business experts with extensive knowledge and experience in INPEX's business fields, these outside directors are asked to express opinions on management of essential INPEX businesses that contribute to its development from both specialist and objective perspectives. The business fields of the previously mentioned corporate shareholders include overseas upstream businesses. Therefore they might compete against the INPEX Group occasionally. For this reason, INPEX recognizes the need to abide by special corporate governance measures with respect to the possibility of conflicts of interest. To this end, each of INPEX's directors, including outside directors, is required to sign a written undertaking to comply with the Japanese Commercial Code relating to such matters as non-competition practices, proper treatment for transactions giving rise to a conflict of interest and unauthorized information disclosure. This reflects the importance of precisely carrying out their duties as directors with a high level of awareness of such matters.

Executive Committee

Made up of managing directors and above, the Executive Committee was established in April 2002 to expedite decision-making. In principle, the Committee is convened every week, and at other times as necessary, to decide on matters that do not require a resolution of the Board and to conduct discussions that facilitate Board decisions. In addition to the aforementioned members of the Committee, executive directors and standing statutory auditors, as well as representatives of departments related to resolutions and reports being discussed also attend these meetings.

Statutory Auditors and Board of Statutory Auditors

INPEX employs the statutory auditor system. Statutory auditors attend important meetings such as the Board of Directors and Executive Committee. In addition, they conduct interviews with departments as necessary and audit the execution of duties of directors with regard to the company's overall business affairs and individual projects based on reports from relevant departments and other information. Furthermore, statutory auditors receive reports related to every audit from the independent auditors and internal audit reports from the Internal Audit Department. The Board of Statutory Auditors, which consists of all statutory auditors, determines auditing policy, formulates audit plans and receives reports on the status of audits and other matters from statutory auditors. To bolster the audit system, the number of statutory auditors was increased from three to four in June 2002. The result is that there are now three outside statutory auditors (one standing and two part-time) and one other statutory auditor (standing). Moreover, since June 2003, the Board of Statutory Auditors has convened every month instead of every three months as before.

Internal Audit

The Internal Audit Department was established as an organization independent from business departments and reporting directly to the president, to ensure the appropriateness and efficiency of business activities. As a body cutting across the INPEX Group, the Internal Audit Department evaluates the internal control systems of the group, including overseas offices. It also examines and evaluates the status of management bodies, the efficiency of business operations and other matters, pinpointing problem areas, making necessary reports and conducting follow-up audits to confirm the status of improvements. The activities of the Internal Audit Department thus contribute to the proper management of the INPEX Group.

Classes of Share and Corporate Governance

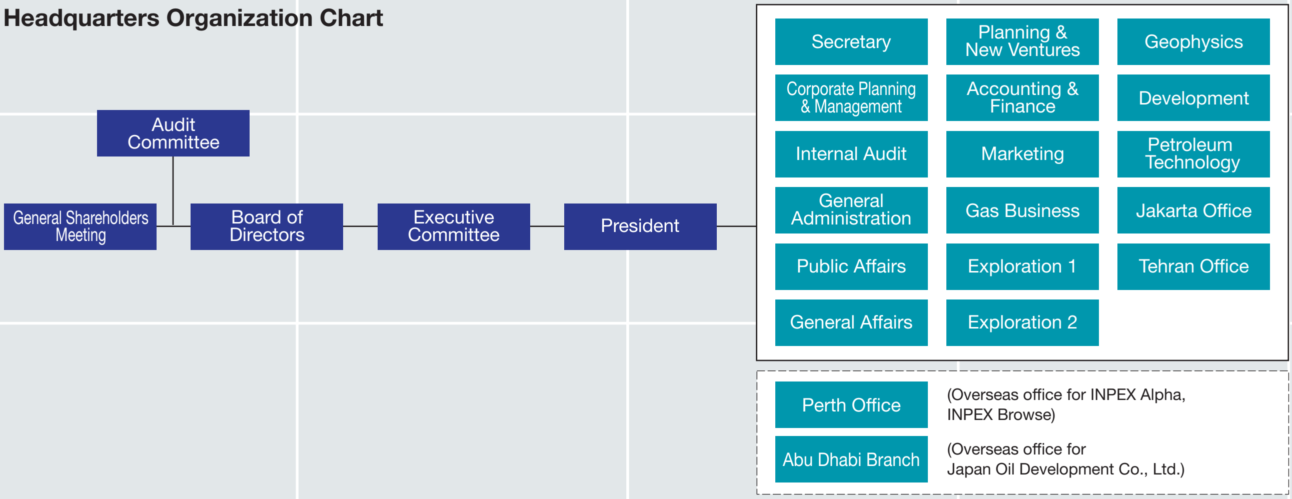
The company's Articles of Incorporation stipulate that certain major corporate decisions require a resolution by the holder of the special class share, in addition to the approval of the ordinary general meeting of shareholders or Board of Directors. The one special class share was issued on November 17, 2004 to coincide with the listing of INPEX's common stock on the Tokyo Stock Exchange. This share is held by Japan National Oil Corporation (JNOC).

Major corporate decisions include "the appointment and removal of directors," "the disposal of material assets," "material amendments to the Articles of Incorporation," "mergers, share exchanges or share transfers," "capital reductions" and "dissolution." Among these decisions the special class share will allow the holder to veto any appointment or removal of directors and any merger, share exchange or share transfer, provided 20% or more of the voting rights attached to shares of common stock are held by a single non-public entity or a single non-public entity and its joint shareholders.

JNOC has established guidelines for the exercise of the special class share's veto rights (with respect to decisions not approved by a meeting of the special class shareholder) in accordance with its internal business regulations. JNOC may veto any one of the aforementioned major corporate decisions only to the extent that it determines a proposed action or transaction (1) will likely result in INPEX being managed in a manner inconsistent with its goal of securing a stable and efficient energy supply for Japan as a national flag company; (2) will likely adversely affect the goal of efficiently securing a stable and efficient energy supply for Japan as a national flag company; or (3) may affect the exercise of voting rights of the special class share held by JNOC. Furthermore, JNOC is obliged to obtain the approval of the Minister of Economy, Trade and Industry before exercising its voting rights or carrying out any other action at the general meeting of the special class shareholder.

The exercise of veto rights by the special class share is thus restricted. With the existence of this class of share, INPEX believes that it can minimize the risk of losing management control to foreign-owned concerns and an unsolicited takeover for speculative reasons.

Headquarters Organization Chart



Moreover, because the scope of the veto is limited and guidelines have been set by JNOC for the exercise of veto rights, the special class share is an absolute minimum necessary measure that is highly transparent and does not unjustly impinge on INPEX's ability to operate with flexibility and efficiency.

After the scheduled abolishment of JNOC, the special class share shall be transferred to either the Japanese government or a Japanese governmental agency. If the special class share is transferred to an entity other than the Japanese government or a Japanese governmental agency, INPEX shall be entitled to redeem it by a resolution of the board of directors.

Risk Management and Corporate Ethics

INPEX recognizes that two factors are vital to increase corporate value amid drastic changes in its operating environment: forestalling and mitigating losses by properly managing risk inherit in its business operations; and maintaining and strengthening trust with customers, investors and other parties. A wide range of risk factors could affect corporate value. With respect to risks associated with management decisions such as management strategy, related departments analyze and examine issues, receiving advice from attorneys of law and other outside specialists as necessary. Materially important projects are decided on by the Board of Directors after first being discussed by the Executive Committee and other managerial bodies. Subsequent changes in matters related to these projects are then closely monitored.

The INPEX Group has formulated a set of Business Principles that embody the basic policies of its corporate activities. These principles encompass corporate goals; code of conduct; corporate growth; ethics; health, safety and environment; and contributions to society. The INPEX Group believes that by strictly adhering to these principles it can maintain and increase the trust and credibility of the company in the eyes of shareholders, employees, business partners and international society—a vital element of continuous corporate development. The company's commitment to this approach is unwavering.

Financial Section

Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

For the year ended March 31, 2004, we had net sales of ¥218.8 billion and net income of ¥34.8 billion. Net sales of crude oil and natural gas amounted to ¥68.8 billion and ¥150.0 billion, respectively. Based on both production and reserves, we are the largest upstream oil and gas company in Japan. As of March 31, 2004, our total net proved reserves were approximately 977 MMboe, and for the year ended March 31, 2004, our net annual production was 195.5 Mboe per day.

Giving effect to our acquisition of JODCO, we had estimated net proved reserves of 1,634 MMboe, comprised of 1,016 MMbbls of crude oil, condensate and LPG, and 3,704 Bcf of natural gas as of March 31, 2004. Approximately 38% of such reserves were classified as net proved undeveloped. On the same basis, net production for the year ended March 31, 2004 averaged 173.2 Mbbls per day of crude oil, condensate and LPG, and 814.5 MMcf per day of natural gas, which together totaled 309.0 Mboe per day.

We engage primarily in the exploration, development and production of natural gas and crude oil in Indonesia, the Middle East, Oceania, the Caspian Sea and certain other areas. Currently, most of our natural gas production takes place in Indonesia. We supply the natural gas we produce in Indonesia to PERTAMINA, an Indonesian oil and gas company, which in turn sells most of the natural gas to power and gas companies and others in Japan, Korea and Taiwan. A substantial portion of our crude oil production takes place in the Middle East, in particular the United Arab Emirates. We sell substantially all of our crude oil production to electric power companies, oil refinery companies and others in Japan.

We consider Asia, including Indonesia, and Oceania, including Australia, to be our core areas and the Middle East and the Caspian Sea to be our target areas. The reserves of some of the projects in those core areas that are currently producing are expected to decline over the next ten to fifteen years. In order to address such future reduction of reserves, we have been actively seeking new prospective oil and gas projects to replace and supplement reserves in our existing core areas as well as other areas. In our core areas, we have discovered natural gas and condensate in the course of our acting as operator in the Masela block in Indonesia and the WA-285-P (Ichthys) block in Australia, which we hope to bring to successful development and production. In other areas, in February 2004, we entered into a service contract with NIOC, Iran's national oil company, for the development of the Azadegan Field, which, if we successfully move to a production phase, will increase our crude oil production in the Middle East. We are also involved in exploration, development and production in other areas, including the North and South Caspian Sea. Furthermore, we may acquire additional oil and gas assets from JNOC prior to its abolishment, which is expected to occur by July 2005. We are actively seeking opportunities to acquire additional working interests in fields which are already producing, as well as those under development. We expect that, over the next several years, our development activities will significantly increase, thereby requiring substantial expenditures, and that such expenditures will require additional financing.

As we invest in additional projects, we are seeking to diversify in our business operations in five principal ways, which we expect will materially affect our future results of operations and financial condition:

- We are diversifying our areas of production to reduce the relative concentration of our crude oil and natural gas production assets in Indonesia.
- In recent years, a substantial portion of our production volume and reserves have been natural gas, as opposed to crude oil, in particular natural gas production in the Mahakam contract area in Indonesia. We are focusing on participating in more new projects for crude oil, such as those in the Caspian Sea, as well as those in the Middle East through the acquisition of the right to develop the Azadegan Field in Iran and the acquisition of JODCO, for the purpose of achieving a better balance between crude oil and natural gas. There are material differences between crude oil and natural gas in terms of susceptibility to market price fluctuations, the time necessary to recover costs, the manner in which they are sold, the average duration of the sales arrangements and the infrastructure required for transportation.
- Historically, we have participated in most projects as a non-operator. We are now seeking opportunities to act as project operator. Already, we are acting as operator in exploration and appraisal projects in the Masela block in Indonesia and the WA-285-P (Ichthys) block in Australia. Also, we were appointed as an operator to develop the Azadegan Field in Iran.
- We are diversifying the mix of our working interests in the exploration, development and production phases. Crude oil and natural gas exploration and development require substantial expenditures and investments, with high risks of failure. We have been seeking to acquire working interests in projects that are already in the production phase in addition to those under development, which would provide additional operating cash flow to fund our exploration and development activities.
- We are diversifying the types of arrangements for exploration, development and production, into which we enter. Currently, a substantial portion of our activities are conducted under production sharing contracts, or PSCs, and to a lesser extent, concession agreements. With respect to the Azadegan Field, we have a service contract (buy-back arrangement) with the Iranian government.

Our Method of Accounting for Costs Related to Acquisition, Exploration, Development and Production

We incur four primary types of costs in connection with our oil and gas activities: costs of acquisition, exploration, development and production. Currently, we have mainly entered into two types of arrangements in connection with these activities: PSCs and concession agreements. For the year ended March 31, 2004, approximately 90% of our net sales were attributable to sales under PSCs. Starting in the year ending March 31, 2005, the portion attributable to sales under concession agreements will increase in light of our acquisition of JODCO.

Production Sharing Contracts

Non-recoverable Costs

Acquisition Costs

For projects under PSCs which are entirely in the exploration phase, we expense costs relating to the acquisition of rights to explore, develop and produce as they are incurred. When we acquire rights to projects which are already in the development or production phase, we record the acquisition expenditures or costs under “Exploration and development rights” in our consolidated balance sheet, which is amortized under the unit-of-production method. Generally, cost recovery provisions under PSCs do not cover such expenditures or costs.

Interest on Loans

We expense interest on loans we obtain for PSC projects.

Recoverable Costs

Exploration Costs

Our share of exploration costs incurred is capitalized under “Recoverable accounts under production sharing.” For projects which are entirely in the exploration phase prior to the obtaining of governmental approval for development, in light of the significant uncertainty involved in the exploration activities for such projects, reserves in equal amounts to exploration costs are provided for as “Allowance for recoverable accounts under production sharing,” which is a reserve account for potential losses from unsuccessful exploration. Once governmental approval for development of a field in a contract area is received, reserves for exploration costs incurred thereafter in the same contract area are not provided. The previously provided allowance continues to remain unchanged in our balance sheet until the allowance balance exceeds the remaining balance of exploration cost previously capitalized during the exploration phase under “Recoverable accounts under production sharing,” at which point the excess of the allowance balance is reversed to income in our income statement.

Development Costs

We record our share of all recoverable expenditures under the terms of the relevant PSC under “Recoverable accounts under production sharing.”

Production Costs

During the production phase, operating costs incurred for production are initially included under “Recoverable accounts under production sharing” if such costs are recoverable under the relevant PSC.

General and Administrative Expenses

General and administrative expenses are recorded under “Recoverable accounts under production sharing” if such expenses are recoverable under the relevant PSC.

Cost Recovery and Production Sharing

In order to determine the cost of sale for crude oil and natural gas sold during a given period, the allocation of crude oil and natural gas production among the host country's government (or government entity) and contractors (including ourselves) must first be determined.

Different PSCs provide for different formulas for allocating oil and gas production among the host country's government and contractors. The following discussion is based on one type of PSC arrangement that applies to projects in Indonesia. Under that type of PSC, at the end of each fiscal year, total production for that year is allocated to:

(1) "first tranche petroleum," which is a prescribed portion of total production and which is allocated between the host country's government and the contractors pursuant to prescribed percentages;

(2) "cost recovery portion," which is the oil and gas equivalent, determined based upon the then current unit price of crude oil and natural gas, of (i) non-capital expenditures incurred for production during the current period and (ii) scheduled depreciation of the capital expenditures for the current period, as calculated under the PSC, and which is allocated only to the contractors; because the oil and gas equivalent is determined based upon the then current unit price, as the unit price of crude oil and natural gas increases, the volume of oil and gas comprising the "cost recovery portion" decreases while that of the "equity portion" (explained below) increases; and if the actual production for the year is not enough to cover the entire quantity of the oil and gas equivalent so calculated, the "cost recovery portion" will be reduced to the extent it is covered by the actual production and the quantity not so covered is carried forward to the succeeding year in accordance with the relevant PSC; and

(3) "equity portion," which represents the residual and which is allocated between the host country's government and the contractors pursuant to prescribed percentages.

For purposes of our income statement, we record:

- as net sales, our share of total sales relating to crude oil and natural gas production that are allocated to contractors, and
- as cost of sales, a portion of "Recoverable account under production sharing" that is recovered through the allocation of our share of the "cost recovery portion."

Concession Agreements

Acquisition Costs

We account for acquisition costs related to projects under concession agreements in the same manner as those related to projects under PSCs, as described above.

Exploration Costs

Our share of costs incurred for exploration is expensed as incurred. Exploration costs include our share of the costs of drilling exploratory wells whether or not proved reserves are found at such wells.

Development Costs

Our share of costs related to tangible assets incurred during the development phase is capitalized under "Development preparation account," which is included in "Other tangible fixed assets" in our balance sheet. When the project moves from the development phase to the production phase, the balance under "Development preparation account" is reclassified as buildings and structures, wells, and other fixed assets as appropriate. We depreciate fixed assets primarily under the unit-of-production method. Such depreciation expenses constitute cost of sales.

Production Costs

During the production phase, our share of operating costs is included in cost of sales.

General and Administrative Expenses

Our share of general and administrative expenses is expensed as incurred.

Factors Affecting Our Results of Operations

A number of factors affect our results of operations. They include:

- crude oil prices and natural gas contract prices (and price adjustment frequency);
- our crude oil and natural gas production volumes;
- level of acquisition and exploration activities;
- corporate taxes imposed on us outside Japan;
- other trends in the international oil industry; and
- movements in the exchange rate between the U.S. dollar and Japanese yen.

Crude Oil and Natural Gas Prices

While we negotiate sales prices for crude oil and condensate with customers, those prices generally take into account official prices, which are determined by governmental authorities in the relevant oil producing regions, which fluctuate generally in line with the fluctuation in international crude oil prices. In Indonesia, our crude oil prices are determined based on the Indonesian Crude Price, or ICP, which is based on price valuations by three private companies. Each type of Indonesian crude oil has its own ICP. For crude oil produced in Australia and East Timor, our prices are determined based on the APPI (Asian Petroleum Price Index) Tapis, an internationally recognized crude oil price. Sales contracts for crude oil are generally one-year contracts but also include spot contracts. In both cases, sales prices are those at the time of sale and thus fluctuate.

For our natural gas, which is currently mostly produced in Indonesia, the selling price is determined based on ICP pursuant to each sales contract. Sales contracts for natural gas are long-term contracts, typically lasting over 10 years. Typically, natural gas sales prices move in conjunction with crude oil prices.

Our Crude Oil and Natural Gas Production Volumes

Our crude oil and natural gas production volumes depend primarily on the level of the proved and developed reserves in the projects in which we participate, and market demand for crude oil and natural gas. The level of proved and developed reserves is affected by such factors as speed at which successful exploration and development moves to production and speed at which we produce crude oil and natural gas, the extent to which we acquire additional producing reserves, our own as well as our partners' expertise in recovery from reserves, and expiration and extension of the terms of the contracts under which we produce crude oil and natural gas.

Level of Acquisition and Exploration Activities

Due to our policy of expensing exploration costs or, in the case of production sharing contracts, providing a full allowance for recoverable costs incurred in the exploration phase, an increase in our level of participation in exploration phase projects has a more immediate negative impact on our results of operations than would be the case were such costs accounted for using the successful efforts or full cost method of accounting under U.S. GAAP.

Corporate Taxes Imposed on Us Outside Japan

We conduct all of our operations outside Japan, and most of the corporate taxes we pay are those paid overseas. With respect to our overseas taxes, expenses we incur in Japan are not deductible in general. Such domestic expenses include those relating to administrative expenses at our headquarters, foreign exchange losses and the provision of various types of allowances. When such domestic expenses increase, pre-tax income in our consolidated statement of income decreases, but corporate taxes we pay overseas do not decrease, thereby increasing our effective tax rate.

Historically, most of our corporate taxes are paid to Indonesia. Indonesia's current corporate tax rate applicable to us is 48%. Indonesia imposes corporate taxes on oil and gas operations on a PSC basis and does not permit the aggregating of expenses from different PSCs for tax purposes. Thus, even if our exploration activities in Indonesia expand and related expenses increase with respect to one PSC, we cannot deduct such expenses from taxable income attributable to another PSC in that country.

Other Trends in the International Oil Industry

Our results of operations are also affected by other trends in the international oil industry. They include:

- actions by members of OPEC affecting price and production levels and related volatility in the levels of international oil prices;
- political and military events in Iraq affecting the volume of future oil production in that country and the levels of international oil prices; and
- recent consolidation in the industry, including mergers creating so-called “super majors”, which is increasing competition for exploration opportunities and operatorships.

Movements in the Exchange Rate Between the U.S. Dollar and Japanese Yen

Because our sales of crude oil and natural gas, most of our expenses and a substantial portion of our debt are denominated in U.S. dollars, our net income, which is denominated in Japanese yen, is affected by fluctuations in the exchange rate between these currencies. Appreciation of the Japanese yen against the U.S. dollar negatively impacts our sales and net income, while a depreciation of the Japanese yen against the U.S. dollar will have the opposite effect. However, as a substantial portion of our long-term debt is denominated in U.S. dollars, revaluation of such long-term debt at the end of each period results in a foreign exchange gain if the Japanese yen appreciates against the U.S. dollar, while a depreciation of the Japanese yen against the U.S. dollar will have an opposite effect.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with Japanese GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates, judgments and assumptions.

An accounting estimate in our consolidated financial statements is a critical accounting estimate if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if the presentation of our financial condition or results of operations are materially affected either by different estimates that we reasonably could have used in the current period, or by changes in the accounting estimates that are reasonably likely to occur from period to period. We have identified the following critical accounting estimates with respect to our financial presentation:

Recoverable Accounts under Production Sharing

We capitalize expenditures made during the exploration, development and production phases under PSCs as “Recoverable accounts under production sharing,” if they are recoverable under the relevant PSC. As discussed above, during the exploration phase prior to obtaining governmental approval for development, a reserve in equal amounts is provided for as “Allowance for recoverable accounts under production sharing.” Generally, this allowance continues to remain unchanged in our balance sheet until the allowance balance exceeds the remaining balance of exploration cost previously capitalized during the exploration phase under “Recoverable accounts under production sharing,” at which point the excess of the allowance balance is reversed to income in our income statement.

Exploration and Development Rights

Acquisition costs for exploration and development rights when such rights are acquired during the exploration phase are fully expensed in the year such rights are acquired, and the costs when such rights are acquired during the production phase are amortized by the unit-of-production method. The unit-of-production method requires a significant estimate as to the proved reserve quantities. While we believe that our proved reserve estimates are appropriate, changes in the estimates of the proved reserves may significantly affect future results of operations.

Investments in Exploration Companies

We have made investments in companies that are engaged in oil and gas activities, and have provided an allowance for probable losses on such investments at an estimated amount based on the net assets of the investees. While we believe that the assessment and estimates are reasonable, future changes in the actual production volume, prices and foreign exchange rates may affect future recoverability of the investments.

Deferred Tax Assets

We record deferred tax assets for temporary differences (including net operating loss carry-forwards) arising mainly from write-down of investments in related parties and revaluation of land. Valuation allowances are provided when we believe that it is more likely than not that assets will not be realized. Also, we take into account the effect of foreign tax credits in the calculation of valuation allowance.

Realization of deferred tax assets is principally dependent on our generating sufficient taxable income based on available evidence. If future taxable income is lower than expected due to market conditions, foreign exchange rates or poor operating results, adjustments may be required.

Retirement Benefits for Employees

The Japanese accounting standard "Accounting for Retirement Benefits" requires the recognition of retirement costs and related liabilities based on the actuarially determined present value of retirement benefit obligations by the projected unit credit method. However, a company is permitted to use a simplified method to account for its retirement costs and related liabilities if the number of its employees is less than 300. For purposes of determining whether the simplified method may be used, the Japanese accounting standard requires that such determination be made for each retirement benefit plan separately, based on the number of employees covered by such plan. We do not have any retirement benefit plan that individually covers more than 300 employees. Because of this, we use the simplified method and provide an accrual for retirement benefits at the amount which would be required to be paid to all active employees as if they voluntarily terminated their employment as of the balance sheet date. Accordingly, if our retirement costs and related liabilities had been recognized based on the actuarially determined present value of the retirement benefit obligations by the projected unit credit method, different retirement costs and liabilities would have been reported.

Historical Results of Operations

The following table shows certain audited consolidated income statement data derived from our audited consolidated financial statements:

(Millions of yen, except percentages)

Year ended March 31,		2002		2003		2004
Net sales	¥184,204	100.0%	¥201,533	100.0%	**¥218,831**	**100.0%**
Cost of sales	79,121	43.0	95,997	47.6	**105,759**	**48.3**
Gross profit	105,083	57.0	105,536	52.4	**113,072**	**51.7**
Exploration expenses	2,700	1.4	2,478	1.2	**11,552**	**5.3**
Selling, general and administrative expenses	4,799	2.6	5,336	2.7	**5,314**	**2.4**
Depreciation and amortization	535	0.3	452	0.2	**2,330**	**1.1**
Operating income	97,049	52.7	97,270	48.3	**93,876**	**42.9**
Other income:						
Interest income	1,465	0.8	1,310	0.7	**1,575**	**0.7**
Gain on sales of mining rights	–	–	272	0.1	**1,497**	**0.7**
Equity in earnings of affiliates	–	–	–	–	**453**	**0.2**
Foreign exchange gain	3,419	1.8	–	–	**10,761**	**4.9**
Other	697	0.4	702	0.3	**1,217**	**0.6**
	5,581	3.0	2,284	1.1	**15,503**	**7.1**
Other expenses:						
Interest expense	267	0.1	689	0.3	**1,817**	**0.8**
Equity in losses of affiliates	15,758	8.5	1,503	0.7	**–**	**–**
Provision for allowance for recoverable accounts under production sharing	7,132	3.9	16,234	8.1	**10,057**	**4.6**
Amortization of exploration and development rights	1,777	1.0	5,945	2.9	**746**	**0.4**
Foreign exchange loss	–	–	2,538	1.3	**–**	**–**
Other	840	0.5	2,594	1.3	**1,986**	**0.9**
	25,774	14.0	29,503	14.6	**14,606**	**6.7**
Income before income taxes and minority interests	76,856	41.7	70,051	34.8	**94,773**	**43.3**
Income taxes	51,902	28.1	51,953	25.8	**60,318**	**27.6**
Minority interests	(2,652)	(1.4)	(9,814)	(4.8)	**(327)**	**(0.2)**
Net income	¥ 27,606	15.0%	¥ 27,912	13.8%	**¥ 34,782**	**15.9%**

Comparison of the Year Ended March 31, 2004 with the Year Ended March 31, 2003

Net Sales

Net sales increased ¥17.3 billion, or 8.6%, to ¥218.8 billion for the year ended March 31, 2004 from ¥201.5 billion for the year ended March 31, 2003. Net sales of crude oil for the year ended March 31, 2004 amounted to ¥68.8 billion, representing a decrease of ¥0.6 billion, or 0.8%, from the year before. Net sales of natural gas for the year ended March 31, 2004 amounted to ¥150.0 billion, representing an increase of ¥17.8 billion, or 13.5%, over the year before.

Sales volume of crude oil for the year ended March 31, 2004 was 20.6 MMbbls, compared with 20.5 MMbbls for the previous year. Although there was an increase in sales volume reflecting our acquisition of working interests in the ACG fields in Azerbaijan, this was offset by a decrease in the amount of production received by us for cost recovery purposes at South Natuna Sea Block B in the South Natuna Sea, Indonesia and a decrease in production volume at WA-10-L (Griffin Fields) in Australia. The average crude oil price for the year ended March 31, 2004 was US$29.03 per bbl, an increase of $1.79 per bbl, or 6.6%, from US$27.24 per bbl for the previous year. At the same time, there was a negative translation effect on net sales from the fact that the yen appreciated against the U.S. dollar, with the average rate moving to ¥113.14 per U.S. dollar for the year ended March 31, 2004 from ¥122.26 per U.S. dollar for the previous year.

With regard to natural gas, although the yen appreciated against the U.S. dollar as mentioned above, net sales increased. In connection with the extension of a certain sales agreement, we increased our share in the natural gas production covered by that agreement, and this led to an increase in sales volume. Sales prices, which are linked to the crude oil price, also increased.

Cost of Sales

Cost of sales increased ¥9.8 billion, or 10.2%, to ¥105.8 billion for the year ended March 31, 2004 from ¥96.0 billion for the year ended March 31, 2003. Although the appreciation of the yen against the U.S. dollar mentioned above had the effect of reducing cost of sales, there were also increases in operating costs associated with increased production of natural gas, as well as increased development costs related to an increase in the number of development wells drilled in the Mahakam contract area and the addition of cost of sales related to the ACG fields, in which we acquired working interests.

Exploration Expenses

Exploration expenses increased by ¥9.1 billion to ¥11.6 billion for the year ended March 31, 2004 from ¥2.5 billion for the year ended March 31, 2003. This increase was primarily due to our drilling of exploratory wells in the WA-285-P (Ichthys) block in Australia.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to ¥5.3 billion for the year ended March 31, 2004, almost the same as that for the year ended March 31, 2003. During the year ended March 31, 2004, the number of employees increased and related expenses increased by ¥0.5 billion. Also during that year, petroleum resources rent tax, or PRRT, which is levied in Australia, decreased by ¥1.2 billion. This decrease was due to a large increase in exploration costs related to the WA-285-P (Ichthys) block, which are deductible in PRRT calculations.

Depreciation and Amortization

Depreciation and amortization increased ¥1.8 billion to ¥2.3 billion for the year ended March 31, 2004 from ¥0.5 billion for the year ended March 31, 2003. We incurred an expense for the amortization of "Exploration and development rights" relating to INPEX Southwest Caspian Sea, Ltd., a subsidiary which is in the production phase under a PSC, in the amount of ¥0.8 billion, and the amortization of similar rights recorded in connection with our acquisition of INPEX Jawa, another such subsidiary, in the amount of ¥1.1 billion. Under our accounting for PSCs, capitalized costs included in "Recoverable accounts under production sharing" are reflected in cost of goods sold at the time of recovery, and thus we do not have substantial depreciation of fixed assets in connection with such projects.

Other Income

Other income increased by ¥13.2 billion to ¥15.5 billion for the year ended March 31, 2004 from ¥2.3 billion for the year ended March 31, 2003. This increase was primarily due to a foreign exchange gain in the amount of ¥10.8 billion with respect to revaluation of our U.S. dollar denominated long-term debt reflecting the appreciation of the Japanese yen against the U.S. dollar.

Other Expenses

Other expenses decreased by ¥14.9 billion, or 50.5%, to ¥14.6 billion for the year ended March 31, 2004 from ¥29.5 billion for the year ended March 31, 2003. This decrease was primarily due to decreased provisions for "Allowance for recoverable accounts under production sharing" recorded to offset costs capitalized under "Recoverable accounts under production sharing" because subsidiaries which were in the exploration phase under PSCs incurred lower expenses than the year before. Another reason was that we did not incur new acquisition costs of working interests in projects which were entirely in the exploration phase for the year ended March 31, 2004, thereby reducing the amount of amortization of "Exploration and development rights."

Income Taxes

Income taxes for the year ended March 31, 2004 increased ¥8.3 billion, or 16.1%, to ¥60.3 billion, from ¥52.0 billion for the year ended March 31, 2003. This increase was primarily due to an increase in taxable income reflecting higher crude oil and natural gas prices. The effective income tax rate for the year ended March 31, 2004 was 63% compared to 73% for the year ended March 31, 2003. As explained in "Factors Affecting Our Results of Operations—Corporate Taxes Imposed Outside Japan," the fact that most of the corporate taxes we pay are those paid overseas and administrative expenses we incur in Japan are not deductible for such taxes results in a high effective income tax rate. The decrease from the previous year was due to the fact that we recorded a foreign exchange gain as discussed above, but this gain did not affect the foreign corporate taxes which constitute most of our corporate taxes.

Minority Interests

Minority interests for the year ended March 31, 2004 reflected a net loss in the amount of ¥0.3 billion, compared with a net loss in the amount of ¥9.8 billion for the year ended March 31, 2003. In the year ended March 31, 2004, INPEX North Caspian Sea, Ltd. and INPEX Masela, Ltd., both subsidiaries in the exploration phase, incurred net losses, just as they did the previous year. In the year ended March 31, 2004, however, there was an offsetting factor in that INPEX Southwest Caspian Sea had net income.

Net Income

As a result of the foregoing factors, net income increased ¥6.9 billion, or 24.6%, to ¥34.8 billion for the year ended March 31, 2004 from ¥27.9 billion for the year ended March 31, 2003.

Comparison of the Year Ended March 31, 2003 with the Year Ended March 31, 2002

Net Sales

Net sales increased ¥17.3 billion, or 9.4%, to ¥201.5 billion in the year ended March 31, 2003 from ¥184.2 billion in the year ended March 31, 2002. Net sales of crude oil for the year ended March 31, 2003 amounted to ¥69.3 billion, representing an increase of ¥3.9 billion, or 5.9%, from the year before. Net sales of natural gas for the year ended March 31, 2003 amounted to ¥132.2 billion, representing an increase of ¥13.5 billion, or 11.3%, over the year before.

Sales volume of crude oil for the year ended March 31, 2003 was 20.5 MMbbls, a 10.0% decrease from 22.8 MMbbls for the previous year. This was due, among other reasons, to a decrease in the volume of production received for cost recovery under the Mahakam PSC, because of an increase in the crude oil price for the calculation of production for cost recovery. There was a positive impact on net sales from the fact that the average crude oil price for the year ended March 31, 2003 was US$27.24 per bbl, an increase of $4.44 per bbl, or 19.5%, from US$22.80 per bbl for the previous year. There was a negative translation effect on net sales from the appreciation of the yen against the U.S. dollar, with the average rate moving to ¥122.26 per U.S. dollar for the year ended March 31, 2003 from ¥124.41 per U.S. dollar for the previous year.

With regard to natural gas, although the yen appreciated against the U.S. dollar as mentioned above, net sales were positively affected by an increase in sales price, which is linked with crude oil price, as well as by the commencement of full-scale production at South Natuna Sea Block B.

Cost of Sales

Cost of sales increased ¥16.9 billion, or 21.3%, to ¥96.0 billion in the year ended March 31, 2003 from ¥79.1 billion in the year ended March 31, 2002. Although the appreciation of the yen against the U.S. dollar mentioned above had a negative effect on cost of sales, there were increases in operating costs associated with increased production of natural gas, as well as increased development costs related to an increase in the number of drilling development wells at the Mahakam contract area and to the commencement of full-scale production at South Natuna Sea Block B.

Exploration Expenses

Exploration expenses decreased by ¥0.2 billion, or 8.2%, to ¥2.5 billion for the year ended March 31, 2003 from ¥2.7 billion for the year ended March 31, 2002. This reflected the net result of an increase in activities in exploration areas in Australia where we, through INPEX Alpha, Ltd., have a working interest, and a decrease in such activities at the WA-285-P (Ichthys) block, also in Australia.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by ¥0.5 billion, or 11.2%, to ¥5.3 billion in the year ended March 31, 2003 from ¥4.8 billion in the year ended March 31, 2002. The primary reason for this increase was an increase in PRRT levied by Australia, reflecting an increase in the amount subject to that tax due to a decrease in production-related expenditures and exploration costs that are deductible from that tax.

Depreciation and Amortization

Depreciation and amortization for the year ended March 31, 2003 amounted to ¥0.5 billion, remaining relatively unchanged from the year before.

Other Income

Other income decreased by ¥3.3 billion, or 59.1%, to ¥2.3 billion for the year ended March 31, 2003 from ¥5.6 billion for the year ended March 31, 2002. This decrease was primarily due to the foreign exchange gain of ¥3.4 billion recognized in 2002, which was not recognized in 2003 with the appreciation of the yen against the dollar.

Other Expenses

Other expenses increased by ¥3.7 billion, or 14.5%, to ¥29.5 billion for the year ended March 31, 2003 from ¥25.8 billion for the year ended March 31, 2002. Large increases in both the amortization of "Exploration and development rights" and our provision for "Allowance for receivable accounts under production sharing," both associated with our acquiring an additional working interest in the Kashagan Field in the North Caspian Sea and increasing exploration activities, more than offset a decrease of ¥14.2 billion in our equity in losses of affiliates. The large amount of equity in losses in affiliates in the year ended March 31, 2002 was attributable to the loss incurred at the Tangguh Project in Indonesia.

Income Taxes

Income taxes for the year ended March 31, 2003 amounted to ¥52.0 billion, largely unchanged from the year ended March 31, 2002. The effective income tax rate for the year ended March 31, 2003 was 73%, compared with 68% for the previous year. The increase in the effective income tax rate was due to the fact that we recorded a foreign exchange loss as discussed above, but this loss was not a deductible item for purposes of foreign corporate taxes which constitute most of our corporate taxes.

Minority Interests

Minority interests for the year ended March 31, 2003 reflected a net loss in the amount of ¥9.8 billion, compared with a net loss in the amount of ¥2.7 billion for the year ended March 31, 2002. In the year ended March 31, 2003, INPEX North Caspian Sea, Ltd. and INPEX Masela, Ltd., both subsidiaries in the exploration phase, incurred net losses, reflecting the incurrence of substantial exploration expenses.

Net Income

As a result of the foregoing factors net income increased ¥0.3 billion, or 1.1%, to ¥27.9 billion in the year ended March 31, 2003 from ¥27.6 billion in the year ended March 31, 2002.

Analysis of Recoverable Accounts under Production Sharing

As discussed above, with respect to projects under PSCs, our share of costs arising during the exploration, development and production phases are capitalized under "Recoverable accounts under production sharing." The following table shows changes in the balance of "Recoverable accounts under production sharing" during the year ended March 31, 2002 through the year ended March 31, 2004:

			(Millions of yen)
			Year ended March 31,
Recoverable accounts under production sharing	2002	2003	**2004**
Balance at beginning of period	¥ 84,457	¥ 97,201	**¥136,441**
Add: Exploration costs	9,684	15,552	**13,743**
Development costs	30,468	57,634	**84,848**
Operating expenses	24,911	28,654	**34,242**
Other	–	1,948	**30,692**
Less: Cost recovery—capital expenditures	12,716	14,212	**21,744**
Cost recovery—non-capital expenditures	39,584	49,476	**60,008**
Other	19	860	**9,446**
Balance at end of period	¥ 97,201	¥136,441	**¥208,768**
Allowance for recoverable accounts under production sharing at end of period	¥(27,127)	¥ (42,838)	**¥ (44,676)**

"Cost recovery—non-capital expenditures" are generally larger than "operating expenses" because some of the exploration costs and development costs that are recoverable in the fiscal year when such costs are incurred are included in addition to operating expenses.

Comparison of the Year Ended March 31, 2004 with the Year Ended March 31, 2003

Compared with the year ended March 31, 2003, exploration costs for the year ended March 31, 2004 increased at our project in the North Caspian Sea, but overall such costs decreased due to the fact that there were no exploratory drilling activities at the Masela block in Indonesia. Development costs increased substantially, reflecting the fact that they now included development costs relating to our project at the ACG fields. Another reason for the increase was the increase in development drilling activities at the Mahakam contract area. Operating expenses increased due to increases at the Mahakam contract area and South Natuna Sea Block B, and reflecting the addition of operating activities at the ACG fields during the period. Other recoverable costs increased, reflecting the increase in "Recoverable accounts under production sharing" due to the acquisition of the ACG fields.

Cost recovery during the year ended March 31, 2004 occurred primarily at the Mahakam contract area, South Natuna Sea Block B and the ACG fields. The increase in cost recovery from the previous year reflected the addition of the ACG fields and also increased expenditures in those projects. Most of the reductions under "Less: Other" in the year ended March 31, 2004 related to reductions in the balance of recoverable accounts under production sharing with respect to fields being closed.

Comparison of the Year Ended March 31, 2003 with the Year Ended March 31, 2002

Compared with the year ended March 31, 2002, exploration costs for the year ended March 31, 2003 increased, reflecting exploratory activities at our project in the North Caspian Sea and at the Masela block. Development costs also increased, reflecting increased development activities at South Natuna Sea Block B and the increased development drilling at the Mahakam contract area. Operating expenses increased, mainly at the Mahakam contract area. Other costs reflect the investment in additional rights for the project in the North Caspian Sea, which contributed to an increase in "Recoverable accounts under production sharing."

Cost recovery during the year ended March 31, 2003 occurred primarily at Mahakam and Natuna, and the increase from the previous year reflected increased expenditures in those projects.

Liquidity and Capital Resources

Our Funding Sources

Our primary sources of funding are cash generated by operating activities, long-term borrowings, and equity investments in our subsidiaries by JOGMEC. We expect that, over the next several years, our acquisition, exploration and development activities, including the development of the ACG fields in Southwest Caspian Sea, the Azadegan field in Iran and the Kashagan field in the North Caspian Sea, will significantly increase, thereby requiring substantial expenditures. Under appropriate circumstances, in addition to obtaining funds from the sources described above, we may seek additional funding through any of, or a combination of, issuances of debt and equity securities in domestic or international capital markets, project financing on a non-recourse basis, and the farming out of working interests in projects.

Our policy is to maintain sufficient cash at hand at any given time to fund expenditures for existing and new crude oil and natural gas projects in a timely manner. For this purpose, our cash management policy is to invest excess cash in low-risk and liquid financial instruments, such as Japanese government bonds.

We fund oil and gas projects which are in the exploration phase with funds generated by operations or equity investments from JNOC (going forward, we will obtain such equity investments from JOGMEC), and projects which are in the development phase with funds generated by operations and/or long-term loans. We finance our acquisitions of working interests in oil and gas projects with funds generated by operations as well as equity investments from JNOC (going forward, we will obtain such equity investments from JOGMEC) and/or long-term loans. JNOC has made a substantial portion of such equity investments, and JBIC and Japanese commercial banks have been providing such long-term loans, which are partly guaranteed by JNOC (going forward, we will obtain such guarantees from JOGMEC). JBIC, a Japanese governmental financial institution, provides financing for development of natural resources overseas, among other things. JBIC currently provides up to 70% of the aggregate amount of debt for projects which have agreed to supply crude oil or natural gas to Japan in an energy crisis. Currently, the Japanese commercial banks that provide loans to us are Mizuho Corporate Bank, Ltd. and The Bank of Tokyo-Mitsubishi, Ltd. The aggregate outstanding principal amount of our long-term debt was ¥169.4 billion as of March 31, 2004. JNOC has guaranteed ¥56.1 billion of that aggregate principal amount.

JOGMEC has succeeded to JNOC's role of providing financial assistance to oil and gas projects of Japanese companies. In response to criticism that taxpayer money previously has not been used by JNOC as effectively as possible to promote Japan's energy supply, JOGMEC has stated that it intends to assess more vigorously the economic viability of proposed projects when considering requests for financial assistance. Going forward, JOGMEC's financial assistance represents a useful capital resource for us, although it is too early to determine whether its tightened policy on project assessment will have any material impact on our ability to fund our projects.

A portion of JBIC's loans to us is guaranteed by JNOC (as mentioned above, going forward, we will obtain guarantees from JOGMEC). As for the remaining portion of such loans, in order to enhance the funding availability for our future development activities, we are required to maintain for JBIC cash collateral generally equivalent to six months' debt service in a reserve account established at Mizuho Corporate Bank. The balance of that reserve account was ¥8.6 billion as of September 30, 2004. JBIC is expected to provide us loans under such collateral for certain of our future development activities, and will maintain such loans without any further collateral, for so long as our financial condition does not significantly deteriorate, for example when our gross profit becomes negative in two consecutive periods.

We believe that we have sufficient funding sources for our planned expenditures and investments, such as our future cash flows from operating activities, equity investments by JOGMEC, borrowings from JBIC and/or commercial banks supported by JOGMEC's guarantee, issuances of debentures, and equity financing under appropriate circumstances.

Our Expenditures for Crude Oil and Natural Gas Projects

Although under our accounting for PSCs all recoverable costs are capitalized in "Recoverable costs under production sharing" regardless of the nature of the underlying activities and then expensed as cost recovery in accordance with the relevant PSC, we do look at the breakdown of our expenses among exploration expenses, development expenses and operating expenses.

The following information has been prepared based on available data in the reports provided by operators. The definition of each item is as follows:

- Acquisition of properties includes acquisition cost of mining rights, exploration and development rights, and signing bonus as well as the increase in recoverable accounts under production sharing due to acquisition.
- Exploration costs include exploration drilling, geological and geophysical studies. If the project (contract area) is entirely in the exploration phase, general and administrative costs, such as personnel costs, office running costs in the country where the relevant project is conducted, are included in this category.
- Development costs include development drilling and production facilities.
- Operating expenses include well operations, transportation, maintenance, and supervision of production activities. General and administrative expenses in the project (contract area) where there is a producing field and/or a field of which governmental approval for development has been received.

Our definition of exploration and development expenditures and the basis of preparation of the following table are different from those required under Statement of Financial Accounting Standard No. 69, "Disclosure about Oil and Gas Producing Activities," or SFAS 69. Such differences include, but are not limited to, the following:

- Our expenditures reflected in the table are on a cash-call basis as to joint ventures for PSCs where we are not an operator, while SFAS 69 requires that expenditures be recorded on an accrual basis.
- We prepared the table based on definitions in the reports from operators. These definitions may not be consistent with that of SFAS 69.
- SFAS 69 requires that general and administrative costs which are not directly related to exploration and development activities be excluded from exploration and development expenditures. However, general and administrative costs are not necessarily excluded from those expenditures.

The table below shows our expenditures for each of the three years ended March 31, 2004:

(Millions of yen, except percentages)

Year ended March 31,	2002		2003		2004	
Exploration	¥12,383	15.7%	¥ 18,030	15.3%	¥ 25,296	16.3%
Development	38,151	48.3	67,161	57.2	92,348	59.4
Subtotal	50,534	64.0	85,191	72.5	117,644	75.7
Operating expenses	28,393	36.0	32,249	27.5	37,685	24.3
Total	¥78,927	100.0%	¥117,440	100.0%	¥155,329	100.0%

The table below shows our exploration and development expenditures for each of the three years ended March 31, 2004 by geographical region:

(Millions of yen, except percentages)

Year ended March 31,	2002		2003		2004	
Asia and Oceania	¥46,085	91.2%	¥76,472	89.7%	¥ 85,286	72.5%
Middle East	1,116	2.2	1,333	1.6	1,106	0.9
Caspian Sea area and others	3,333	6.6	7,386	8.7	31,252	26.6
Total	¥50,534	100.0%	¥85,191	100.0%	¥117,644	100.0%

The table below shows our operating expenses for each of the three years ended March 31, 2004 by geographical region:

(Millions of yen, except percentages)

Year ended March 31,	2002		2003		2004	
Asia and Oceania	¥26,469	93.2%	¥30,309	94.0%	¥34,391	91.3%
Middle East	1,924	6.8	1,940	6.0	2,019	5.3
Caspian Sea area and others	–	–	–	–	1,275	3.4
Total	¥28,393	100.0%	¥32,249	100.0%	¥37,685	100.0%

Our expenditures increased by ¥37.9 billion, or 32%, to ¥155.3 billion in the year ended March 31, 2004 from ¥117.4 billion in the year ended March 31, 2003. This was primarily due to exploratory drilling activities at the WA-285-P (Ichthys) block in Australia, increased development drilling activities at the Mahakam contract area in Indonesia and the addition of development activities at the ACG fields. Our expenditures increased by ¥38.5 billion, or 49%, to ¥117.4 billion in the year ended March 31, 2003 from ¥78.9 billion in the year ended March 31, 2002. This was primarily due to exploratory drilling activities at the Masela block in Indonesia and North Caspian Sea and the start of full-time development activities at South Natuna Sea Block B in Indonesia.

Our Expenditures for Acquisitions of Crude Oil and Natural Gas Projects

The table below shows our expenditures for acquisitions of oil and gas properties for each of the three years ended March 31, 2004 by geographical region:

(Millions of yen, except percentages)

Year ended March 31,	2002		2003		2004	
Asia and Oceania	¥1,777	100.0%	¥ 336	4.3%	**¥ 3,252**	**2.0%**
Middle East	–	–	–	–	**44**	**0.0**
Caspian Sea area and others	–	–	7,557	95.7	**164,496**	**98.0**
Total	¥1,777	100.0%	¥7,893	100.0%	**¥167,792**	**100.0%**

Our acquisition cost increased by ¥159.9 billion to ¥167.8 billion in the year ended March 31, 2004 from ¥7.9 billion in the year ended March 31, 2003. This was primarily due to the acquisition of the ACG fields. Our expenditures increased by ¥6.1 billion to ¥7.9 billion in the year ended March 31, 2003 from ¥1.8 billion in the year ended March 31, 2002. This was primarily due to the acquisition of an additional working interest in the North Caspian Sea area.

Maturities of Long-term Debt

The following table summarizes the maturities of our outstanding long-term debt as of March 31, 2004:

(Millions of yen and U.S. dollars)

	Long-term debt denominated in		
Year ending March 31,	U.S. dollars	Yen	Total yen equivalent
2005	$ 1.1	¥ –	¥ 118
2006	34.9	–	3,688
2007	121.1	–	12,793
2008	154.3	–	16,300
2009 and thereafter	1,064.6	24,066	136,526
Total	$1,376.0	¥24,066	¥169,425

Although we have a significant amount of long-term debt from JBIC and other financial institutions and the amount of such debt is expected to increase going forward, we do not expect to require any significant amount of funds to be applied for the repayment of such debt in the near future as such loans are tied to projects and the repayment schedule takes into account the expected schedule of production from the relevant projects.

Historical Cash Flows

The following table summarizes our historical cash flows for the periods presented:

(Millions of yen)

Year ending March 31,	2002	2003	2004
Net cash provided by operating activities	¥ 51,827	¥ 51,282	**¥ 44,464**
Net cash used in investing activities	(39,624)	(40,533)	**(218,121)**
Net cash provided by financing activities	9,444	21,238	**151,120**
Cash and cash equivalents at the end of period	49,775	78,414	**54,582**

Cash Provided by Operating Activities

Cash provided by operating activities decreased ¥6.8 billion to ¥44.5 billion in the year ended March 31, 2004 from ¥51.3 billion in the year ended March 31, 2003. This decrease was primarily due to an increase in exploration costs at the WA-285-P (Ichthys) block which more than offset an increase in our income reflecting increased crude oil prices.

Cash provided by operating activities decreased by ¥0.5 billion to ¥51.3 billion in the year ended March 31, 2003 from ¥51.8 billion in the year ended March 31, 2002. Although increased crude oil prices resulted in increased income, it was slightly more than offset by cash provided to exploratory drilling activities at Masela block and North Caspian Sea.

We had a working capital surplus of ¥81.4 billion as of March 31, 2002, ¥91.8 billion as of March 31, 2003 and ¥78.1 billion as of March 31, 2004.

Cash Used in Investing Activities

Cash used in investing activities increased ¥177.6 billion to ¥218.1 billion in the year ended March 31, 2004 from ¥40.5 billion in the year ended March 31, 2003. This increase was primarily due to our acquisition of a 10% interest in the ACG fields.

Cash used in investing activities increased ¥0.9 billion to ¥40.5 billion in the year ended March 31, 2003 from ¥39.6 billion in the year ended March 31, 2002. Our capital expenditures included in recoverable accounts under production sharing agreements increased from ¥19.1 billion in the year ended March 31, 2002 to ¥39.4 billion in the year ended March 31, 2003 due in part to expanded development at South Natuna Sea Block B but this increase was largely offset by the net proceeds from sales of marketable and investment securities.

Cash Provided by Financing Activities

Cash provided by financing activities increased ¥129.9 billion to ¥151.1 billion in the year ended March 31, 2004 from ¥21.2 billion in the year ended March 31, 2003. This increase was primarily due to an increase in long-term debt and an increase in minority investments associated with our acquisition of rights in the ACG fields.

Cash provided by financing activities increased ¥11.8 billion to ¥21.2 billion in the year ended March 31, 2003 from ¥9.4 billion in the year ended March 31, 2002. The largest factor in the increase was an increase of ¥7.2 billion in proceeds from the issuance of minority interests caused by the additional acquisition of a working interest in the North Caspian Sea and exploration activities there and at the Masela block.

Market Risks

Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates.

Commodity Price Risk

We are exposed to fluctuations in prices of crude oil and natural gas, which are commodities whose prices are determined by reference to international market prices. International oil and gas prices are volatile and are influenced by global as well as regional supply and demand conditions. This volatility has a significant effect on our net sales and net income.

The effect of price changes on our sales and net income is highly complex. For example:

- natural gas sales prices move together with crude oil prices; however, movements in sales prices of natural gas are not directly proportional to those of crude oil prices;
- since sales and net income are determined by the prices as of the dates on which sales are recorded, the actual transaction price does not match the average price of the period; and
- sales and net income are affected by not only crude oil prices but also the cost recovery amount of the period under our contractual arrangements.

We currently do not hedge against market risk resulting from fluctuations in oil and gas prices. We are considering purchasing floor options to hedge against decreases of crude oil prices beyond certain levels, taking into account the balance between the cost of such options and the effectiveness of such hedging, in order to secure repayment of loans from third parties for our projects if crude oil prices were to decrease substantially.

For your information, the following analysis indicates the impact on our net income of changes in crude oil prices. The estimated amount generated from the analysis is presented only for analytical purposes. Since various market conditions and unforeseen situations that may arise due to our investment behavior (which may be directed by our strategic considerations) could change our sensitivity, you should not interpret the calculated amount shown below to be predictive of actual future events or results.

We have based our analysis of how movements in crude oil prices might have affected our net income on financial information derived from our consolidated financial statements as of and for the year ended March 31, 2004.

If the crude oil price had changed by US$ 1 per bbl, the effect on our net income for the year ended March 31, 2004 would have been approximately ¥2 billion.

In connection with this analysis, you should note the following:

- The amount indicated by the analysis for the year ended March 31, 2004 shows only the result of a simulation on the past that is not extendable to the future. The sales volume, costs, investments and other variables are discrete and different from the previous year. Therefore, the analysis for the year ending March 31, 2005 may differ from the impact shown above.
- Had crude oil prices been significantly different from the actual prices for the year ended March 31, 2004, the deviation would have had less of an impact on our net income than may be suggested by the amount indicated above. This is because the gas sales contracts of our natural gas projects have price mechanisms that moderate the effect of fluctuations of crude oil prices after the fluctuations exceed a certain level.

Foreign Exchange Risk

Our foreign exchange exposure gives rise to market risk associated with exchange rate movements. An appreciation of the Japanese yen against the U.S. dollar has a negative effect on sales and net income, while the same appreciation has a positive effect on a substantial portion of our long-term debt, which is denominated in U.S. dollars. Moreover, foreign exchange gain/loss resulting from sales of crude oil and natural gas is determined by the exchange rates as of the dates on which the sales are recorded during the period, while foreign exchange gain/loss resulting from revaluation of our debt denominated in U.S. dollars is determined by the difference of the exchange rates between the beginning date of the period or borrowing date and the ending date of the period. As a result, the sensitivity of the latter does not reflect the average exchange rate of the period. These positive and negative effects cancel out each other. For the year ended March 31, 2004, the effect of a ¥1 change per US$1 on net income would have been roughly neutral under our total foreign exchange risk exposure. We do not currently hedge against market risk resulting from foreign exchange fluctuations, but may engage in such activities under appropriate circumstances in the future.

Interest Rate Risk

We are exposed to interest rate risks arising from our long-term debt. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings. A substantial portion of our long-term debt has floating interest rates that are determined by reference to the 6-month London Interbank Offered Rate. We have no short-term debt. Currently, we have no plans to use interest rate swaps or other derivative products to hedge against our interest rate exposure, but may engage in such transactions under appropriate circumstances. If we face a situation where interest rates rapidly increase, we may consider entering into transactions such as interest rate swaps or cap options on interest rates to hedge against such increase with respect to our borrowings, taking into account the cost of such transactions and the prospect of future movements of interest rates.

Consolidated Balance Sheets

INPEX CORPORATION and Subsidiaries
As of March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2003	2004	2004
Current assets:			
Cash and cash equivalents	¥ 78,414	¥ 54,582	$ 516,728
Accounts receivable—trade	15,789	19,265	182,382
Marketable securities (Note 4)	20,865	18,979	179,674
Inventories	1,373	893	8,454
Deferred tax assets (Note 6)	54	43	407
Other current assets	2,610	13,212	125,078
Less allowance for doubtful accounts	(28)	(22)	(208)
	119,077	106,952	1,012,515
Tangible fixed assets:			
Buildings and structures	8,123	9,160	86,718
Wells	7,230	8,508	80,545
Machinery, equipment, and vehicles	15,910	15,896	150,488
Land	4,014	4,002	37,887
Other	15,998	20,722	196,175
	51,275	58,288	551,813
Less accumulated depreciation and amortization	(21,405)	(23,146)	(219,123)
	29,870	35,142	332,690
Intangible assets:			
Exploration and development rights	–	134,367	1,272,054
Mining rights	811	651	6,163
Goodwill	3,036	2,868	27,151
Other	38	23	218
	3,885	137,909	1,305,586
Investments and other assets:			
Investment securities (Note 4)	96,174	79,371	751,406
Less allowance for investments in exploration	(7,369)	(5,710)	(54,057)
	88,805	73,661	697,349
Recoverable accounts under production sharing	136,441	208,768	1,976,408
Less allowance for recoverable accounts under production sharing	(42,838)	(44,676)	(422,948)
	93,603	164,092	1,553,460
Long-term loans receivable	54	52	492
Deferred tax assets (Note 6)	1,498	4,205	39,809
Other investments	2,085	3,615	34,223
Less allowance for doubtful accounts	(130)	(330)	(3,124)
	185,915	245,295	2,322,209
Total assets	¥338,747	¥525,298	$4,973,000

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars (Note 3) 2004
Current liabilities:			
Accounts payable	¥ 3,539	¥ 3,273	$ 30,985
Current portion of long-term debt (Note 5)	132	118	1,117
Income taxes payable (Note 6)	8,293	8,372	79,258
Other current liabilities	15,311	17,132	162,189
	27,275	28,895	273,549
Long-term liabilities:			
Long-term debt (Note 5)	46,865	169,307	1,602,831
Deferred tax liabilities (Note 6)	2,694	10,314	97,643
Accrued employees' retirement benefits	792	784	7,422
Accrued officers' retirement benefits	645	512	4,847
Other	6,012	4,493	42,535
	57,008	185,410	1,755,278
Total liabilities	84,283	214,305	2,028,827
Minority interests in consolidated subsidiaries	894	32,879	311,266
Shareholders' equity (Note 7)**:**			
Common stock, without par value:	29,460	29,460	278,898
Authorized — 600,000 shares			
Issued and outstanding — 589,200 shares			
Retained earnings	220,853	249,628	2,363,230
Unrealized holding gain on securities	410	154	1,458
Translation adjustments	2,847	(1,128)	(10,679)
Total shareholders' equity	253,570	278,114	2,632,907
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥338,747	¥525,298	$4,973,000

Consolidated Statements of Income

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

			Millions of yen	Thousands of U.S. dollars (Note 3)
	2002	2003	2004	2004
Net sales	¥184,204	¥201,533	**¥218,831**	**$2,071,675**
Cost of sales	79,121	95,997	**105,759**	**1,001,221**
Gross profit	105,083	105,536	**113,072**	**1,070,454**
Exploration expenses	2,700	2,478	**11,552**	**109,363**
Selling, general and administrative expenses (Note 10)	4,799	5,336	**5,314**	**50,308**
Depreciation and amortization	535	452	**2,330**	**22,058**
Operating income	97,049	97,270	**93,876**	**888,725**
Other income:				
Interest income	1,465	1,310	**1,575**	**14,911**
Foreign exchange gain	3,419	–	**10,761**	**101,874**
Gain on sales of mining rights	–	272	**1,497**	**14,172**
Equity in earnings of affiliates	–	–	**453**	**4,289**
Other	697	702	**1,217**	**11,521**
	5,581	2,284	**15,503**	**146,767**
Other expenses:				
Interest expense	267	689	**1,817**	**17,202**
Loss on devaluation of investment securities	36	26	**–**	**–**
Equity in losses of affiliates	15,758	1,503	**–**	**–**
Provision for allowance for recoverable accounts under production sharing	7,132	16,234	**10,057**	**95,210**
Amortization of exploration and development rights	1,777	5,945	**746**	**7,062**
Foreign exchange loss	–	2,538	**–**	**–**
Other	804	2,568	**1,986**	**18,801**
	25,774	29,503	**14,606**	**138,275**
Income before income taxes and minority interests	76,856	70,051	**94,773**	**897,217**
Income taxes (Note 6):				
Current	51,093	51,143	**55,081**	**521,452**
Deferred	809	810	**5,237**	**49,579**
	51,902	51,953	**60,318**	**571,031**
Minority interests	(2,652)	(9,814)	**(327)**	**(3,096)**
Net income (Note 8)	¥ 27,606	¥ 27,912	**¥ 34,782**	**$ 329,282**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

	Common stock	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Total shareholders' equity
					Millions of yen
Balance at March 31, 2001	¥29,460	¥178,840	¥ –	¥ –	¥208,300
Net income	–	27,606	–	–	27,606
Cash dividends paid	–	(7,365)	–	–	(7,365)
Bonuses to directors and statutory auditors	–	(124)	–	–	(124)
Unrealized holding gain on securities	–	–	730	–	730
Translation adjustments	–	–	–	1,678	1,678
Balance at March 31, 2002	29,460	198,957	730	1,678	230,825
Net income	–	27,912	–	–	27,912
Cash dividends paid	–	(5,892)	–	–	(5,892)
Bonuses to directors and statutory auditors	–	(124)	–	–	(124)
Unrealized holding gain on securities	–	–	(320)	–	(320)
Translation adjustments	–	–	–	1,169	1,169
Balance at March 31, 2003	**29,460**	**220,853**	**410**	**2,847**	**253,570**
Net income	**–**	**34,782**	**–**	**–**	**34,782**
Cash dividends paid	**–**	**(5,892)**	**–**	**–**	**(5,892)**
Bonuses to directors and statutory auditors	**–**	**(115)**	**–**	**–**	**(115)**
Unrealized holding loss on securities	**–**	**–**	**(256)**	**–**	**(256)**
Translation adjustments	**–**	**–**	**–**	**(3,975)**	**(3,975)**
Balance at March 31, 2004	**¥29,460**	**¥249,628**	**¥ 154**	**¥(1,128)**	**¥278,114**

	Common stock	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Total shareholders' equity
					Thousands of U.S. dollars (Note 3)
Balance at March 31, 2003	**$278,898**	**$2,090,817**	**$ 3,881**	**$ 26,953**	**$2,400,549**
Net income	**–**	**329,282**	**–**	**–**	**329,282**
Cash dividends paid	**–**	**(55,780)**	**–**	**–**	**(55,780)**
Bonuses to directors and statutory auditors	**–**	**(1,089)**	**–**	**–**	**(1,089)**
Unrealized holding gain on securities	**–**	**–**	**(2,423)**	**–**	**(2,423)**
Translation adjustments	**–**	**–**	**–**	**(37,632)**	**(37,632)**
Balance at March 31, 2004	**$278,898**	**$2,363,230**	**$ 1,458**	**$(10,679)**	**$2,632,907**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2002, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2002	2003	2004	2004
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 76,856	¥ 70,051	¥ 94,773	$ 897,217
Depreciation and amortization	2,710	2,464	4,049	38,332
(Gain) loss on sales of tangible fixed assets	32	(15)	58	549
Amortization of goodwill	169	169	169	1,600
Provision for allowance for doubtful accounts	4	14	123	1,164
Provision for allowance for recoverable accounts under production sharing	7,158	16,356	11,284	106,826
(Reversal of) provision for accrued retirement benefits	68	163	(141)	(1,335)
Interest and dividend income	(1,594)	(1,405)	(1,711)	(16,198)
Interest expense	266	690	1,816	17,192
Gain on sales of marketable securities	(4)	(17)	–	–
Loss on sales of marketable securities	–	2	–	–
Loss on devaluation of investment securities	35	26	–	–
Foreign exchange (gain) loss	(834)	1,977	(11,980)	(113,415)
Equity in losses of affiliates	15,758	1,503	(452)	(4,279)
Gain on sales of mining rights	–	–	(1,497)	(14,172)
Gain on sales of investment securities	(31)	(242)	(63)	(596)
Loss on sales of investment securities	–	64	–	–
Accounts receivable	(600)	(2,259)	(2,521)	(23,866)
Recovery of recoverable accounts under production sharing (capital expenditures)	12,716	14,212	21,744	205,851
Recoverable accounts under production sharing (operating expenditures)	(6,307)	(14,685)	(13,828)	(130,910)
Inventories	(344)	(567)	480	4,544
Accounts payable	1,016	(459)	(266)	(2,518)
Other receivables	(1,001)	(1,555)	(389)	(3,683)
Accrued expenses	1,809	1,829	541	5,121
Long-term accrued expenses	(1,007)	1,410	(741)	(7,015)
Advance payments received	(613)	4,795	(2,160)	(20,449)
Bonuses to directors and statutory auditors	(124)	(124)	(114)	(1,079)
Other	(951)	1,871	(826)	(7,820)
Subtotal	105,187	96,268	98,348	931,061
Interest and dividends received	2,562	2,397	2,471	23,393
Interest paid	(253)	(718)	(1,322)	(12,515)
Income taxes paid	(55,669)	(46,665)	(55,033)	(520,998)
Net cash provided by operating activities	51,827	51,282	44,464	420,941
Cash flows from investing activities:				
Decrease in short-term investments	260	90	–	–
Purchases of marketable securities	(41,469)	(2,424)	–	–
Proceeds from sales of marketable securities	83,083	38,691	20,707	196,033
Purchases of tangible fixed assets	(8,348)	(8,916)	(8,920)	(84,446)
Proceeds from sales of tangible fixed assets	–	237	22	208
Purchases of intangible assets	(15)	(5)	–	–
Purchases of investment securities	(56,878)	(59,676)	(19,661)	(186,130)
Proceeds from sales of investment securities	1,538	29,864	3,685	34,886
Investment in recoverable accounts under production sharing	(19,153)	(39,412)	(58,997)	(558,525)
Additional acquisition of shares of consolidated subsidiary	–	–	(633)	(5,992)
Decrease in short-term loans receivable	222	–	1	10
Long-term loan made	–	(8)	–	–
Collection of long-term loans receivable	5	4	2	19
Purchase of mining rights (Note 14)	–	–	(163,511)	(1,547,960)
Proceeds from sales of mining rights (Note 14)	–	–	3,052	28,893
Proceeds from purchase of subsidiaries' stock resulting in changes in the scope of consolidation (Note 14)	–	–	3,992	37,792
Other	1,131	1,022	2,140	20,259
Net cash used in investing activities	(39,624)	(40,533)	(218,121)	(2,064,953)
Cash flows from financing activities:				
Proceeds from long-term debt	14,256	17,381	136,028	1,287,778
Repayment of long-term debt	(116)	(148)	(195)	(1,846)
Proceeds from minority interests for additional shares	2,669	9,901	30,320	287,039
Cash dividends paid	(7,365)	(5,892)	(5,892)	(55,780)
Restricted cash deposited	–	–	(9,140)	(86,528)
Other	–	(4)	(1)	(9)
Net cash provided by financing activities	9,444	21,238	151,120	1,430,654
Effect of exchange rate changes on cash and cash equivalents	999	(3,348)	(1,295)	(12,260)
Net increase (decrease) in cash and cash equivalents	22,646	28,639	(23,832)	(225,618)
Cash and cash equivalents at beginning of year	27,129	49,775	78,414	742,346
Cash and cash equivalents at end of year	¥ 49,775	¥ 78,414	¥ 54,582	$ 516,728

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION

INPEX CORPORATION (the "Company") is primarily engaged in the exploration, development and production of natural gas and crude oil, and is 50% owned by Japan National Oil Corporation.

The Company and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which may differ in certain material respects from accounting principles generally accepted in the United States of America, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

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

Most of the Company's subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differ from that of the Company; however, the significant effect of the difference in fiscal periods has been properly adjusted in consolidation.

The excess of cost over underlying net assets at fair value as of their dates of acquisition is amortized over a period of less than 20 years on a straight-line basis.

(b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is 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. Except for the components of shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as components of shareholders' equity and minority interests in the accompanying consolidated financial statements.

(d) Securities

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

(e) Inventories

Inventories are mainly stated at cost determined by the average method.

(f) Allowance for doubtful accounts

The allowance for doubtful receivables 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.

(g) Recoverable accounts under production sharing and related allowance

Cash investments made by the Company during exploration, development and production phases under a production sharing contract are recorded as "Recoverable accounts under production sharing" so long as they are recoverable under the terms of the relevant contract. When the Company receives the natural gas and crude oil in accordance with the contract, an amount corresponding to the purchase costs of the products (i.e., a cost recovery portion of the investments) is released from this account.

Because these investments are recoverable only where commercial oil or gas is discovered, an allowance for recoverable accounts under production sharing is provided for probable losses on investments made during the exploration phase under production sharing contracts arising from the failure to discover commercial oil and gas. This allowance is stated at an amount based on an assessment of the recoverability of the investment in each respective project.

(h) Allowance for investments in exploration

The allowance for investments in exploration is provided for future potential losses on investments in exploration companies at an estimated amount based on the net assets of the investees.

(i) Tangible fixed assets

Depreciation of tangible fixed assets is determined primarily by the declining-balance method, except for the buildings acquired on and after April 1, 1998, 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 certain mining facilities of two domestic subsidiaries is computed by the unit-of-production method.

(j) Intangible fixed assets

Exploration and development rights at the exploration stage are fully amortized in the year such rights are acquired and those at the production stage are amortized by the unit-of-production method.

Capitalized computer software costs are being amortized over a period of five years.

Other intangible fixed assets are amortized by the straight-line method.

(k) Accrued retirement benefits

The Company and its subsidiaries have a defined benefit plan, i.e., lump-sum payment plan, covering substantially all employees, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Accrued retirement benefits for employees are provided at the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(l) Leases

Non-cancelable leases are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(m) Research and development expenses and advertising costs

Research and development expenses are charged to income as incurred.

(n) Income taxes

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

(o) Derivative financial instruments

The Company has entered into various derivatives transactions in order to manage risk arising from adverse fluctuation in interest rates and in the price of crude oil. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

(p) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations.

(q) Recent accounting pronouncements

Impairment of fixed assets

A new Japanese accounting standard “Impairment of Fixed Assets” was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and an application from fiscal years ending March 31, 2004 to March 30, 2006 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset net of disposition costs and (2) the present value of future cash flows arising ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets will be grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

The Accounting Standards Board of Japan issued practical guidelines on the application of the standard in October 2003. In accordance with the new guidelines, the Company and its subsidiaries expect to review their properties including recoverable accounts under product sharing on a contract basis. The Company believes that the new accounting standard on impairment of fixed assets will not have a material impact on their financial condition or results of operations under the current guidelines.

Business combination

A new Japanese accounting standard "Business Combination" was issued in October 2003 that is effective for fiscal years beginning on or after April 1, 2006. The new accounting standard requires business combinations to be accounted for primarily by the purchase method and permits certain limited business combinations to be accounted for by the pooling-of-interest method.

The Company will account for the acquisition of Japan Oil Development Co., Ltd. by the purchase method in line with the new standard. See Note 16.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥105.63 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2004. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. SECURITIES

a) Information regarding other securities with determinable market value as of March 31, 2003 and 2004 is as follows:

	Millions of yen		
March 31, 2003	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities whose fair value exceeds their carrying value:			
Stock	¥ 77	¥ 84	¥ 7
Debt securities	56,439	56,876	437
Subtotal	56,516	56,960	444
Securities whose carrying value exceeds their fair value:			
Stock	195	180	(15)
Debt securities	21,405	21,398	(7)
Subtotal	21,600	21,578	(22)
Total	¥78,116	¥78,538	¥422

	Millions of yen			Thousands of U.S. dollars		
March 31, 2004	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities whose fair value exceeds their carrying value:						
Stock	¥ 210	¥ 282	¥ 72	$ 1,988	$ 2,670	$ 682
Debt securities	35,950	36,076	126	340,339	341,531	1,192
Subtotal	36,160	36,358	198	342,327	344,201	1,874
Securities whose carrying value exceeds their fair value:						
Stock	77	70	(7)	729	663	(66)
Debt securities	27,363	27,330	(33)	259,046	258,733	(313)
Subtotal	27,440	27,400	(40)	259,775	259,396	(379)
Total	¥63,600	¥63,758	¥158	$602,102	$603,597	$1,495

b) Information regarding sales of securities classified as other securities for the years ended March 31, 2002, 2003 and 2004 is as follows:

Year ended March 31,	2002	2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Proceeds from sales	¥84,620	¥68,555	**¥24,391**	**$230,910**
Gain on sales	35	259	**63**	**596**
Loss on sales	–	65	**–**	**–**

c) The components of other securities without a determinable market value at March 31, 2003 and 2004 are summarized as follows:

March 31,	2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Other securities:			
Unlisted securities (*)	¥12,685	**¥17,402**	**$164,745**
Trust beneficiary certificates	3,529	**3,509**	**33,220**
Total	¥16,214	**¥20,911**	**$197,965**

(*) An allowance is provided for investments in exploration companies at an estimated amount based on the financial position of the investees.

d) The redemption schedule for securities with maturity dates classified as other securities at March 31, 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2004	1 year or less	More than 1 year but less than 5 years	More than 5 year but less than 10 years	1 year or less	More than 1 year but less than 5 years	More than 5 year but less than 10 years
Debt securities:						
Public bonds	**¥10,645**	**¥43,537**	**¥–**	**$100,776**	**$412,165**	**$–**
Corporate bonds	**4,824**	**4,398**	**–**	**45,669**	**41,636**	**–**
Other	**3,510**	**–**	**–**	**33,229**	**–**	**–**
Total	**¥18,979**	**¥47,935**	**¥–**	**$179,674**	**$453,801**	**$–**

5. LONG-TERM DEBT

Long-term debt at March 31, 2003 and 2004 consisted of the following:

March 31,	2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Loans from banks and others, at interest rates ranging from 1.055% to 2.150%, due through 2016:			
Secured	¥ –	**¥ 83,090**	**$ 786,614**
Unsecured	46,997	**86,335**	**817,334**
	46,997	**169,425**	**1,603,948**
Less: Current portion	132	**118**	**1,117**
	¥46,865	**¥169,307**	**$1,602,831**

Assets pledged as collateral for long-term debt and guarantee obligation at March 31, 2003 and 2004 were as follows:

March 31,	2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Other current assets (restricted cash)	¥–	**¥ 9,140**	**$ 86,528**
Investment securities	–	**2,722**	**25,770**
	¥–	**¥11,862**	**$112,298**

The aggregate annual maturities of long-term borrowings subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 118	$ 1,117
2006	3,688	34,914
2007	12,793	121,112
2008	16,300	154,312
2009	14,207	134,498
2010 and thereafter	122,319	1,157,995
	¥169,425	$1,603,948

6. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 36.2% in 2002, 2003 and 2004.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2002, 2003 and 2004 differ from the statutory tax rate for the following reasons:

Year ended March 31,	2002	2003	2004
Statutory tax rate	36.2%	36.2%	**36.2%**
Effect of:			
Permanent differences	0.1	0.1	**0.1**
Change in valuation allowance	2.2	5.7	**0.7**
Foreign tax credits	(34.1)	(39.9)	**(29.5)**
Foreign taxes	64.5	67.9	**54.0**
Equity in earnings of affiliates	0.5	0.7	**(0.6)**
Other	(1.9)	2.4	**1.9**
Effective tax rates	67.5%	73.1%	**62.8%**

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2004	2004
Deferred tax assets:			
Investments in related parties	¥ 23,915	**¥ 29,259**	**$ 276,995**
Loss on revaluation of land	4,547	**4,547**	**43,046**
Recoverable accounts under production sharing (Foreign taxes)	–	**6,778**	**64,167**
Allowance for investments in exploration	3,843	**2,558**	**24,217**
Allowance for recoverable accounts under production sharing	2,793	**670**	**6,343**
Net operating loss	1,634	**4,757**	**45,035**
Accumulated amortization of development costs	998	**545**	**5,160**
Accrued retirement benefits	453	**402**	**3,806**
Other	4,045	**4,603**	**43,576**
Total gross deferred tax assets	42,228	**54,119**	**512,345**
Valuation allowance	(39,105)	**(45,177)**	**(427,691)**
Total deferred tax assets	3,123	**8,942**	**84,654**
Deferred tax liabilities:			
Foreign taxes	2,676	**9,881**	**93,544**
Other	1,592	**5,427**	**51,377**
Total deferred tax liabilities	4,268	**15,308**	**144,921**
Net deferred tax liabilities	¥ (1,145)	**¥ (6,366)**	**$ (60,267)**

7. SHAREHOLDERS' EQUITY

In accordance with the Commercial Code (the "Code"), the Company has provided a legal reserve, which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥7,365 million and ¥7,365 million ($69,725 thousand), respectively, at March 31, 2003 and 2004.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment to the Code went into effect. The amendment provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

8. AMOUNTS PER SHARE

	Yen			U.S. dollars
Year ended March 31,	2002	2003	**2004**	**2004**
Net income	¥ 46,852.92	¥ 47,178.51	**¥ 58,838.76**	**$ 557.03**
Cash dividends	10,000.00	10,000.00	**10,000.00**	**94.67**
Net assets	391,760.56	430,169.19	**471,826.00**	**4,466.78**

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

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

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

See Note 16 (c) for the impact of a three-for-one stock split on amounts per share date.

9. DERIVATIVES

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuation in interest rates and the price of crude oil, but does not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to these derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions or trading companies with high credit ratings. The notional amounts of the derivatives do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivatives.

No derivatives positions remained outstanding at March 31, 2003 or 2004.

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses amounted to ¥13 million, ¥64 million and ¥56 million ($530 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively.

11. RETIREMENT BENEFIT EXPENSES

Retirement benefit expenses for employees amounted to ¥129 million, ¥155 million and ¥103 million ($975 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively.

12. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2003 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	**2004**	**2004**
Acquisition costs of leased property	¥36	**¥19**	**$180**
Accumulated depreciation	35	**19**	**180**
Net carrying amount	¥ 1	**¥ –**	**$ –**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥10 million, ¥8 million and ¥1 million ($9 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively.

There are no future minimum lease payment subsequent to March 31, 2004 relating to finance leases accounted for as operating leases.

13. CONTINGENT LIABILITIES

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of unconsolidated subsidiaries and affiliates in the aggregate amount of ¥9,461 million ($89,567 thousand).

In addition, INPEX BTC Pipeline, LTD, a consolidated subsidiary, was contingently liable as guarantor of indebtedness of BTC Pipeline Project Finance in the amount of ¥4,330 million ($40,992 thousand) at March 31, 2004.

14. SUPPLEMENTARY CASH FLOW INFORMATION

a) Following are the assets and liabilities of INPEX Jawa and its subsidiary which became consolidated subsidiaries during the year ended March 31, 2004 following the acquisition of their stock:

March 31, 2004	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 13,916	$ 131,743
Long-term assets	2,539	24,037
Current liabilities	(34)	(322)
Minority interests	(2,526)	(23,914)
Minority interests in consolidated subsidiaries	(5,126)	(48,528)
Purchase of stock	8,769	83,016
Cash and cash equivalents held by subsidiaries	(12,761)	(120,808)
Net proceeds	¥ 3,992	$ 37,792

b) Summary of the increase in assets and liabilities following the acquisition of interests by INPEX Southwest Caspian Sea, Ltd. during the year ended March 31, 2004 is as follows:

March 31, 2004	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 5	$ 47
Long-term liabilities	164,494	1,557,266
Current liabilities	(988)	(9,353)
Purchase of mining rights	¥(163,511)	$(1,547,960)

c) Summary of the decrease in assets and liabilities following the sales of interests by INPEX Sahul, Ltd. during the year ended March 31, 2004 is as follows:

March 31, 2004	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 21	$ 199
Long-term liabilities	1,737	16,444
Current liabilities	(203)	(1,922)
Net assets of business sold	1,555	14,721
Gain on sales of mining rights	1,497	14,172
Proceeds from sales of mining rights	¥3,052	$28,893

15. SEGMENT INFORMATION

The Company and its subsidiaries are primarily engaged in the joint exploration, development and production of natural gas and crude oil in Indonesia, the Middle East, Oceania, the Caspian Sea and certain other areas. As net sales, operating income and total assets of the oil and natural gas business constituted more than 90% of the consolidated totals for the years ended March 31, 2002, 2003 and 2004, the disclosure of business segment information has been omitted.

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2002, 2003 and 2004 is summarized as follows:

					Millions of yen
Year ended March 31, 2002	Asia-Oceania (a)	Other (b)	Total	Eliminations	Consolidated
Sales to third parties	¥180,023	¥4,181	¥184,204	¥ –	¥184,204
Intergroup sales and transfers	–	–	–	–	–
Total sales	180,023	4,181	184,204	–	184,204
Operating expenses	83,506	3,769	87,275	(119)	87,156
Operating income	¥ 96,517	¥ 412	¥ 96,929	¥ 119	¥ 97,048
Total assets	¥139,617	¥6,497	¥146,114	¥141,535	¥287,649

(a) Asia-Oceania: Indonesia, Australia
(b) Other: UAE

					Millions of yen
Year ended March 31, 2003	Asia-Oceania (a)	Other (b)	Total	Eliminations	Consolidated
Sales to third parties	¥196,986	¥4,547	¥201,533	¥ –	¥201,533
Intergroup sales and transfers	–	–	–	–	–
Total sales	196,986	4,547	201,533	–	201,533
Operating expenses	100,733	3,654	104,387	(124)	104,263
Operating income	¥ 96,253	¥ 893	¥ 97,146	¥ 124	¥ 97,270
Total assets	¥176,650	¥8,789	¥185,439	¥153,308	¥338,747

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) Other: UAE

						Millions of yen
Year ended March 31, 2004	Asia-Oceania (a)	NIS (b)	Other (c)	Total	Eliminations	Consolidated
Sales to third parties	**¥211,422**	**¥ –**	**¥7,409**	**¥218,831**	**¥ –**	**¥218,831**
Intergroup sales and transfers	**–**	**6,506**	**–**	**6,506**	**(6,506)**	**–**
Total sales	**211,422**	**6,506**	**7,409**	**225,337**	**(6,506)**	**218,831**
Operating expenses	**121,426**	**4,754**	**5,440**	**131,620**	**(6,665)**	**124,955**
Operating income	**¥ 89,996**	**¥ 1,752**	**¥1,969**	**¥ 93,717**	**¥ 159**	**¥ 93,876**
Total assets	**¥214,325**	**¥191,697**	**¥6,412**	**¥412,434**	**¥112,864**	**¥525,298**

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) NIS: Kazakhstan, Azerbaijan
(c) Other: UAE, Iran

						Thousands of U.S. dollars
Year ended March 31, 2004	Asia-Oceania (a)	NIS (b)	Other (c)	Total	Eliminations	Consolidated
Sales to third parties	**$2,001,534**	**$ –**	**$70,141**	**$2,071,675**	**$ –**	**$2,071,675**
Intergroup sales and transfers	**–**	**61,592**	**–**	**61,592**	**(61,592)**	**–**
Total sales	**2,001,534**	**61,592**	**70,141**	**2,133,267**	**(61,592)**	**2,071,675**
Operating expenses	**1,149,541**	**45,006**	**51,501**	**1,246,048**	**(63,098)**	**1,182,950**
Operating income	**$ 851,993**	**$ 16,586**	**$18,640**	**$ 887,219**	**$ 1,506**	**$ 888,725**
Total assets	**$2,029,016**	**$1,814,797**	**$60,703**	**$3,904,516**	**$1,068,484**	**$4,973,000**

Overseas sales

Overseas sales, which include sales (other than exports to Japan) of its overseas subsidiaries, for the years ended March 31, 2002, 2003 and 2004 are summarized as follows:

			Millions of yen
Year ended March 31, 2002	Asia (a)	Other (b)	Total
Overseas sales	¥43,405	¥6,819	¥ 50,224
Consolidated net sales	–	–	184,204
Overseas sales as a percentage of consolidated net sales	23.6%	3.7%	27.3%

(a) Asia: Korea, Taiwan, Indonesia, Singapore
(b) Other: Australia

			Millions of yen
Year ended March 31, 2003	Asia (a)	Other (b)	Total
Overseas sales	¥57,418	¥5,737	¥ 63,155
Consolidated net sales	–	–	201,533
Overseas sales as a percentage of consolidated net sales	28.5%	2.8%	31.3%

(a) Asia: Korea, Taiwan, Indonesia, Singapore
(b) Other: Australia

			Millions of yen			Thousands of U.S. dollars
Year ended march 31, 2004	Asia (a)	Other (b)	Total	Asia (a)	Other (b)	Total
Overseas sales	**¥58,089**	**¥6,257**	**¥ 64,346**	**$549,929**	**$59,235**	**$ 609,164**
Consolidated net sales	**–**	**–**	**218,831**	**–**	**–**	**2,071,675**
Overseas sales as a percentage of consolidated net sales	**26.5%**	**2.9%**	**29.4%**	**26.5%**	**2.9%**	**29.4%**

(a) Asia: Korea, Taiwan, Indonesia, Singapore
(b) Other: Australia

16. SUBSEQUENT EVENTS

a) In accordance with a share exchange contract dated March 29, 2004 between Japan Oil Development Co., Ltd. ("JODCO") and the Company, the Company acquired from Japan National Oil Corporation ("JNOC") all issued and outstanding shares of common stock of JODCO in exchange for 50,744.25 new shares of the Company's common stock on May 17, 2004. As a result, the Company's additional paid-in capital was increased by ¥62,402 million ($590,760 thousand).

JODCO's net sales and net loss for the year ended December 31, 2003 amounted to ¥259,697 million ($2,458,553 thousand) and ¥58,602 million ($554,786 thousand), respectively, which included civil rehabilitation-related gains of ¥124,545 million ($1,179,068 thousand) and civil rehabilitation-related losses of ¥192,397 million ($1,821,424 thousand).

A summary of JODCO's financial position as of December 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥104,777	$ 991,925
Fixed assets	48,265	456,925
Total assets	¥153,042	$1,448,850
Current liabilities	¥154,648	$1,464,054
Long-term liabilities	23,770	225,031
Total liabilities	178,418	1,689,085
Shareholders' equity	(25,376)	(240,235)
Total liabilities and shareholders' equity	¥153,042	$1,448,850

As of December 31, 2003, JODCO was in the process of civil rehabilitation proceedings and the civil rehabilitation plan was completed on January 31, 2004. A summary of JODCO' financial position as of March 31, 2004 is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 73,630	$ 697,055
Fixed assets	47,596	450,592
Total assets	¥121,226	$1,147,647
Current liabilities	¥ 42,593	$ 403,228
Long-term liabilities	22,773	215,592
Total liabilities	65,366	618,820
Shareholders' equity	55,860	528,827
Total liabilities and shareholders' equity	¥121,226	$1,147,647

b) The Company made a three-for-one stock split of the Company's common stock effective May 18, 2004 that resulted in an increase of 1,279,888.50 shares of the Company's common stock.

Had this stock split been made as of April 1, 2001, amounts per share information for the years ended March 31, 2002, 2003 and 2004 would have been as follows:

	Yen			U.S. dollars		
Year ended March 31,	2002	2003	2004	2002	2003	2004
Amounts per share:						
— Net assets	¥130,586.85	¥143,389.73	¥157,275.33	$1,236.27	$1,357.47	$1,488.93
— Net income	15,617.64	15,726.17	19,612.92	147.85	148.88	185.68

c) At the meeting of the Board of Directors held on April 15, 2004, it was resolved that the Company amend its Article of Incorporation and issue one special class share to JNOC. The shareholders at the extraordinary meeting held on May 10, 2004 approved these resolutions.

The special class share, which has no voting rights at the common shareholders meeting, will be issued to JNOC on the date the Company's common stock is listed on the Tokyo Stock Exchange. The ownership of the special class share will give its holder a veto right over the following major corporate actions and transactions by imposing the requirement to obtain a class vote:

- Appointment and removal of directors
- Disposition of all or part of the material assets
- Amendments to the Article of Incorporation with respect to (i) the purpose of the Company's business and (ii) the granting of voting rights to the Company's shares other than common stock
- Mergers, share exchange or share transfer
- Capital reduction
- Dissolution

The special class share will be redeemed upon request by the relevant special class shareholder.

d) At the meeting of the Board of Directors held on September 2, 2004, it was resolved that INPEX North Makassar, Ltd., a majority owned subsidiary of the Company, would assign its mining rights and related obligations to a third party due to a decline in expected profitability. The assignment of the mining rights and related obligations is expected to become effective November 22, 2004, subject to an approval of the government of Republic of Indonesia. No gain or loss on the assignment of mining rights and related obligations will be recognized.

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

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The Board of Directors and Shareholders
INPEX CORPORATION

We have audited the accompanying consolidated balance sheets of INPEX CORPORATION and subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of INPEX CORPORATION and subsidiaries at March 31, 2003 and 2004, 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.

Supplemental Information

As described in Note 16 to the consolidated financial statements, the Company acquired all the shares of common stock of Japan Oil Development Co., Ltd. on May 17, 2004. In addition, the Company made a three-for-one stock split effective May 18, 2004, and the issuance of one special class share was approved by the shareholders at an extraordinary meeting held on May 10, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon

Tokyo, Japan
October 8, 2004

Semiannual Consolidated Balance Sheets (Unaudited)

INPEX CORPORATION and Subsidiaries
As of September 30, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2003	2004	2004
Current assets:			
Cash and cash equivalents	¥ 37,976	¥ 121,183	$ 1,091,247
Accounts receivable—trade	13,685	39,751	357,956
Marketable securities (Note 4)	28,531	12,761	114,912
Inventories	828	1,256	11,310
Other current assets	21,241	28,205	253,985
Less allowance for doubtful accounts	(15)	(33)	(297)
	102,246	203,123	1,829,113
Tangible fixed assets	54,403	282,149	2,540,738
Less accumulated depreciation and amortization	(21,975)	(213,202)	(1,919,874)
	32,428	68,947	620,864
Intangible assets:			
Exploration and development rights	135,035	133,751	1,204,422
Other	3,713	8,513	76,659
	138,748	142,264	1,281,081
Investments and other assets:			
Investment securities (Note 4)	88,928	103,444	931,508
Less allowance for investments in exploration	(6,069)	(4,166)	(37,514)
	82,859	99,278	893,994
Recoverable accounts under production sharing	191,108	225,947	2,034,642
Less allowance for recoverable accounts under production sharing	(49,403)	(44,939)	(404,674)
	141,705	181,008	1,629,968
Other investments	11,099	24,223	218,127
Less allowance for doubtful accounts	(130)	(687)	(6,186)
	235,533	303,822	2,735,903
Total assets	¥508,955	¥ 718,156	$ 6,466,961

See accompanying notes to semiannual consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2004	Thousands of U.S. dollars (Note 3) 2004
Current liabilities:			
Accounts payable	¥ 1,942	¥ 16,784	$ 151,139
Current portion of long-term debt (Note 5)	132	1,230	11,076
Income taxes payable	10,751	38,335	345,205
Other current liabilities	25,108	44,981	405,052
	37,933	101,330	912,472
Long-term liabilities:			
Long-term debt (Note 5)	166,100	179,882	1,619,829
Accrued employees' retirement benefits	770	1,438	12,949
Accrued officers' retirement benefits	453	498	4,485
Other	13,556	34,355	309,365
	180,879	216,173	1,946,628
Total liabilities	218,812	317,503	2,859,100
Minority interests in consolidated subsidiaries	27,088	33,144	298,460
Shareholders' equity (Note 6)**:**			
Common stock, without par value:	29,460	29,460	265,286
Additional paid-in capital	–	62,403	561,936
Retained earnings	232,745	276,629	2,491,031
Unrealized holding gain (loss) on securities	(34)	256	2,305
Translation adjustments	884	(1,239)	(11,157)
Total shareholders' equity	263,055	367,509	3,309,401
Contingent liabilities (Note 9)			
Total liabilities and shareholders' equity	¥508,955	¥718,156	$6,466,961

Semiannual Consolidated Statements of Income (Unaudited)

INPEX CORPORATION and Subsidiaries
For the six months ended September 30, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Net sales	¥110,188	¥213,939	$1,926,511
Cost of sales	53,545	91,454	823,539
Gross profit	56,643	122,485	1,102,972
Exploration expenses	5,051	982	8,843
Selling, general and administrative expenses	2,314	4,068	36,632
Depreciation and amortization	399	888	7,997
Operating income	48,879	116,547	1,049,500
Other income:			
Interest income	541	1,604	14,444
Gain on sales of mining rights	1,498	–	–
Equity in earnings of affiliates	1,028	–	–
Reversal of allowance for recoverable accounts under production sharing	–	744	6,699
Other	567	348	3,134
	3,634	2,696	24,277
Other expenses:			
Interest expense	680	1,185	10,671
Equity in losses of affiliates	–	479	4,313
Provision for allowance for recoverable accounts under production sharing	5,890	180	1,621
Amortization of exploration and development rights	390	890	8,014
Foreign exchange loss	552	5,252	47,294
Other	1,252	940	8,465
	8,764	8,926	80,378
Income before income taxes and minority interests	43,749	110,317	993,399
Income taxes:			
Current	28,973	83,032	747,699
Deferred	(521)	(4,835)	(43,539)
	28,452	78,197	704,160
Minority interests	(2,601)	(897)	(8,078)
Net income (Note 6)	¥ 17,898	¥ 33,017	$ 297,317

See accompanying notes to semiannual consolidated financial statements.

Semiannual Consolidated Statements of Shareholders' Equity (Unaudited)

INPEX CORPORATION and Subsidiaries
For the six months ended September 30, 2003 and 2004

						Millions of yen
	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Total shareholders' equity
Balance at March 31, 2003	¥29,460	¥ –	¥220,853	¥ 410	¥ 2,847	¥253,570
Net income	–	–	17,898	–	–	17,898
Cash dividends paid	–	–	(5,892)	–	–	(5,892)
Bonuses to directors and statutory auditors	–	–	(114)	–	–	(114)
Unrealized holding gain on securities	–	–	–	(444)	–	(444)
Translation adjustments	–	–	–	–	(1,963)	(1,963)
Balance at September 30, 2003	29,460	–	232,745	(34)	884	263,055
Balance at March 31, 2004	**29,460**	**–**	**249,628**	**154**	**(1,128)**	**278,114**
Net income	**–**	**–**	**33,017**	**–**	**–**	**33,017**
Cash dividends paid	**–**	**–**	**(5,892)**	**–**	**–**	**(5,892)**
Bonuses to directors and statutory auditors	**–**	**–**	**(124)**	**–**	**–**	**(124)**
Unrealized holding loss on securities	**–**	**–**	**–**	**102**	**–**	**102**
Translation adjustments	**–**	**–**	**–**	**–**	**(111)**	**(111)**
Increase due to a share exchange transaction	**–**	**62,403**	**–**	**–**	**–**	**62,403**
Balance at September 30, 2004	**¥29,460**	**¥62,403**	**¥276,629**	**¥ 256**	**¥(1,239)**	**¥367,509**

						Thousands of U.S. dollars (Note 3)
	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Total shareholders' equity
Balance at March 31, 2004	**$265,286**	**$ –**	**$2,247,888**	**$1,387**	**$(10,158)**	**$2,504,403**
Net income	**–**	**–**	**297,317**	**–**	**–**	**297,317**
Cash dividends paid	**–**	**–**	**(53,057)**	**–**	**–**	**(53,057)**
Bonuses to directors and statutory auditors	**–**	**–**	**(1,117)**	**–**	**–**	**(1,117)**
Unrealized holding gain on securities	**–**	**–**	**–**	**918**	**–**	**918**
Translation adjustments	**–**	**–**	**–**	**–**	**(999)**	**(999)**
Increase due to a share exchange transaction	**–**	**561,936**	**–**	**–**	**–**	**561,936**
Balance at September 30, 2004	**$265,286**	**$561,936**	**$2,491,031**	**$2,305**	**$(11,157)**	**$3,309,401**

See accompanying notes to semiannual consolidated financial statements.

Semiannual Consolidated Statements of Cash Flows (Unaudited)

INPEX CORPORATION and Subsidiaries
For the six months ended September 30, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 43,749	¥110,317	$ 993,399
Depreciation and amortization	1,013	5,589	50,329
(Gain) loss on sales of tangible fixed assets	49	(46)	(414)
Amortization of goodwill	84	84	757
(Reversal of) provision for allowance for doubtful accounts	(13)	470	4,232
Provision for allowance for recoverable accounts under production sharing	6,565	263	2,368
(Reversal of) provision for accrued retirement benefits	(213)	41	369
Interest and dividend income	(570)	(1,688)	(15,200)
Interest expense	680	1,185	10,671
Foreign exchange loss	1,828	4,171	37,560
Equity in (gains) losses of affiliates	(1,028)	479	4,313
Gain on sales of mining rights	(1,498)	–	–
Gain on sales of investment securities	(63)	–	–
Accounts receivable	2,104	(7,218)	(64,998)
Recovery of recoverable accounts under production sharing (capital expenditures)	9,314	16,729	150,644
Recoverable accounts under production sharing (operating expenditures)	(7,826)	(3,078)	(27,717)
Inventories	545	(363)	(3,269)
Accounts payable	(1,597)	3,699	33,309
Other receivables	(452)	(5,932)	(53,417)
Accrued expenses	(74)	13,037	117,398
Long-term accrued expenses	(855)	1,547	13,931
Advance payments received	5,859	1,877	16,902
Bonuses to directors and statutory auditors	(114)	(127)	(1,144)
Other	243	(3,393)	(30,554)
Subtotal	57,730	137,643	1,239,469
Interest and dividends received	1,117	1,983	17,857
Interest paid	(482)	(1,047)	(9,428)
Income taxes paid	(26,515)	(75,062)	(675,930)
Net cash provided by operating activities	31,850	63,517	571,968
Cash flows from investing activities:			
Proceeds from sales of marketable securities	9,495	14,221	128,059
Purchases of tangible fixed assets	(4,873)	(5,542)	(49,905)
Proceeds from sales of tangible fixed assets	10	350	3,152
Purchases of intangible assets	(1)	(3)	(27)
Proceeds from intangible assets	–	0	0
Purchases of investment securities	(15,105)	(33,491)	(301,585)
Proceeds from sales of investment securities	684	–	–
Investment in recoverable accounts under production sharing	(26,859)	(30,829)	(277,614)
Decrease in short-term loans receivable	(12)	(0)	(0)
Long-term loan made	(0)	(736)	(6,628)
Collection of long-term loans receivable	1	3	27
Purchase of mining rights	(162,476)	–	–
Proceeds from sales of mining rights	3,053	–	–
Other	(17)	(516)	(4,646)
Net cash used in investing activities	(196,100)	(56,543)	(509,167)
Cash flows from financing activities:			
Proceeds from long-term debt	117,782	10,793	97,190
Repayment of long-term debt	(59)	(1,701)	(15,318)
Proceeds from minority interests for additional shares	28,795	1,244	11,202
Cash dividends paid	(5,892)	(5,892)	(53,057)
Restricted cash deposited	(16,500)	–	–
Proceeds from refund of restricted cash	–	580	5,223
Other	–	(79)	(711)
Net cash provided by financing activities	124,126	4,945	44,529
Effect of exchange rate changes on cash and cash equivalents	(314)	(1,212)	(10,914)
Net increase (decrease) in cash and cash equivalents	(40,438)	10,707	96,416
Cash and cash equivalents at beginning of the period	78,414	54,582	491,508
Increase in cash and cash equivalents due to a share exchange transaction	–	55,894	503,323
Cash and cash equivalents at end of the period	¥ 37,976	¥121,183	$1,091,247

See accompanying notes to semiannual consolidated financial statements.

1. BASIS OF PRESENTATION

INPEX CORPORATION (the "Company") is primarily engaged in the exploration, development and production of natural gas and crude oil, and is 54.0% owned by Japan National Oil Corporation.

The Company and its domestic subsidiaries maintain their accounting records and prepare their semiannual financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying semiannual consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which may differ in certain material respects from accounting principles generally accepted in the United States of America, and are compiled from the semiannual consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

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

Most of the Company's subsidiaries are consolidated on the basis of six-month periods ending June 30, which differ from that of the Company; however, the significant effect of the difference in the periods has been properly adjusted in consolidation.

The excess of cost over underlying net assets at fair value as of their dates of acquisition is amortized over a period of less than 20 years on a straight-line basis.

(b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is 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. Except for the components of shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity and minority interests in the accompanying semiannual consolidated financial statements.

(d) Securities

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

(e) Inventories

Inventories are mainly stated at cost determined by the average method.

(f) Allowance for doubtful accounts

The allowance for doubtful receivables 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.

(g) Recoverable accounts under production sharing and related allowance

Cash investments made by the Company during exploration, development and production phases under a production sharing contract are recorded as "Recoverable accounts under production sharing" so long as they are recoverable under the terms of the relevant contract. When the Company receives the natural gas and crude oil in accordance with the contract, an amount corresponding to the purchase costs of the products (i.e., a cost recovery portion of the investments) is released from this account.

Because these investments are recoverable only where commercial oil or gas is discovered, an allowance for recoverable accounts under production sharing is provided for probable losses on investments made during the exploration phase under production sharing contracts arising from the failure to discover commercial oil and gas. This allowance is stated at an amount based on an assessment of the recoverability of the investment in each respective project.

(h) Allowance for investments in exploration

The allowance for investments in exploration is provided for future potential losses on investments in exploration companies at an estimated amount based on the net assets of the investees.

(i) Tangible fixed assets

Depreciation of tangible fixed assets is determined primarily by the declining-balance method, except for the buildings acquired on and after April 1, 1998, 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 mining facilities is computed primarily by the unit-of-production method.

(j) Intangible fixed assets

Exploration and development rights at the exploration stage are fully amortized in the year such rights are acquired and those at the production stage are amortized by the unit-of-production method.

Mining rights are amortized primarily by the unit-of-production method.

Capitalized computer software costs are being amortized over a period of five years.

Other intangible fixed assets are amortized by the straight-line method.

(k) Accrued retirement benefits

The Company and its subsidiaries have a defined benefit plan, i.e., lump-sum payment plan, covering substantially all employees, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Accrued retirement benefits for employees are provided at the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(l) Leases

Non-cancelable leases are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(m) Research and development expenses and advertising costs

Research and development expenses are charged to income as incurred.

(n) Income taxes

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

(o) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations.

(p) Recent accounting pronouncements

Impairment of fixed assets

A new Japanese accounting standard “Impairment of Fixed Assets” was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and an application from fiscal years ending March 31, 2004 to March 30, 2006 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset net of disposition costs and (2) the present value of future cash flows arising ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets will be grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

The Accounting Standards Board of Japan issued practical guidelines on the application of the standard in October 2003. In accordance with the new guidelines, the Company and its subsidiaries expect to review their properties including recoverable accounts under product sharing on a contract basis. The Company believes that the new accounting standard on impairment of fixed assets will not have a material impact on their financial condition or results of operations under the current guidelines.

Business combination

A new Japanese accounting standard "Business Combination" was issued in October 2003 that is effective for fiscal years beginning on or after April 1, 2006. The new accounting standard requires business combinations to be accounted for primarily by the purchase method and permits certain limited business combinations to be accounted for by the pooling-of-interest method.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥111.05=U.S.$1.00, the approximate rate of exchange in effect on September 30, 2004. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. SECURITIES

a) Information regarding other securities with determinable market value as of September 30, 2003 and 2004 is as follows:

	Millions of yen		
September 30, 2003	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Other securities:			
Stocks	¥ 271	¥ 297	¥ 26
Bonds:			
National and local government bonds	67,020	66,919	(101)
Corporate bonds	10,636	10,676	40
Total	¥77,927	¥77,892	¥ (35)

	Millions of yen			Thousands of U.S. dollars		
September 30, 2004	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Other securities:						
Stocks	**¥ 287**	**¥ 355**	**¥ 68**	**$ 2,585**	**$ 3,197**	**$ 612**
Bonds:						
National and local government bonds	**71,135**	**71,301**	**166**	**640,567**	**642,062**	**1,495**
Corporate bonds	**5,917**	**5,947**	**30**	**53,282**	**53,552**	**270**
Total	**¥77,339**	**¥77,603**	**¥264**	**$696,434**	**$698,811**	**$2,377**

b) The components of other securities without a determinable market value at September 30, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
September 30,	2003	2004	2004
Other securities:			
Unlisted securities [*]	¥16,125	**¥18,628**	**$167,744**
Trust beneficiary certificates	3,519	**2,000**	**18,010**
Total	¥19,644	**¥20,628**	**$185,754**

[*] An allowance is provided for investments in exploration companies at an estimated amount based on the financial position of the investees.

5. LONG-TERM DEBT

Long-term debt at September 30, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
September 30,	2003	2004	2004
Loans from banks and others, at interest rates ranging from 1.025% to 3.050%, due through 2016			
Secured	¥ 80,847	**¥ 90,819**	**$ 817,821**
Unsecured	85,385	**90,293**	**813,084**
	166,232	**181,112**	**1,630,905**
Less: Current portion	132	**1,230**	**11,076**
	¥166,100	**¥179,882**	**$1,619,829**

Assets pledged as collateral for long-term debt and guarantee obligation at September 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
September 30,	2003	2004	2004
Other current assets (restricted cash)	¥16,500	**¥ 8,560**	**$ 77,082**
Investment securities	–	**2,743**	**24,701**
	¥16,500	**¥11,303**	**$101,783**

6. AMOUNTS PER SHARE

	Yen		U.S. dollars
For the six months ended September 30,	2003	2004	2004
Net income	¥ 30,377.50	**¥ 17,596.54**	**$ 158.46**
Cash dividends	–	**–**	**–**
Net assets	446,462.08	**191,427.36**	**1,723.79**

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the period.

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

Amounts per share of net assets are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the period end.

The Company made a 3-for-1 stock split on May 18, 2004. The following table shows the amounts per share information if this stock split had been made at the beginning of the previous year.

For the six months ended September 30,	Yen 2003
Net income	¥ 10,125.83
Cash dividends	–
Net assets	148,820.69

7. RETIREMENT BENEFIT EXPENSES

Retirement benefit expenses for employees amounted to ¥70 million and ¥112 million ($1,012 thousand) for the six months ended September 30, 2003 and 2004, respectively.

8. LEASES

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at September 30, 2003 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
September 30,	2003	2004	2004
Acquisition costs of leased property	¥20	¥–	$–
Accumulated depreciation	20	–	–
Net carrying amount	¥ –	¥–	$–

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1 million for the six months ended September 30, 2003.

There are no future minimum lease payment subsequent to September 30, 2004 relating to finance leases accounted for as operating leases.

9. CONTINGENT LIABILITIES

At September 30, 2004, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of unconsolidated subsidiaries and affiliates in the aggregate amount of ¥10,715 million ($96,488 thousand).

In addition, INPEX BTC Pipeline, LTD, a consolidated subsidiary, was contingently liable as guarantor of indebtedness of BTC Pipeline Project Finance in the amount of ¥4,455 million ($41,117 thousand) at September 30, 2004.

10. SEGMENT INFORMATION

The Company and its subsidiaries are primarily engaged in the joint exploration, development and production of natural gas and crude oil in Indonesia, the Middle East, Oceania, the Caspian Sea and certain other areas. As net sales and operating income of the oil and natural gas business constituted more than 90% of the consolidated totals for the six months ended September 30, 2003 and 2004, the disclosure of business segment information has been omitted.

The geographical segment information for the Company and its subsidiaries for the six months ended September 30, 2003 and 2004 is summarized as follows:

					Millions of yen
For the six months ended September 30, 2003	Asia-Oceania (a)	Other (b)	Total	Eliminations	Consolidated
Sales to third parties	¥106,068	¥4,120	¥110,188	¥ –	¥110,188
Intergroup sales and transfers	–	3,178	3,178	(3,178)	–
Total sales	106,068	7,298	113,366	(3,178)	110,188
Operating expenses	58,929	5,641	64,570	(3,261)	61,309
Operating income	¥ 47,139	¥1,657	¥ 48,796	¥ 83	¥ 48,879

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) Other: UAE, Azerbaijan

							Millions of yen
For the six months ended September 30, 2004	Asia-Oceania (a)	NIS (b)	Middle East (c)	Other (d)	Total	Eliminations	Consolidated
Sales to third parties	¥128,631	¥ –	¥85,308	¥ –	¥213,939	¥ –	¥213,939
Intergroup sales and transfers	–	7,187	–	–	7,187	(7,187)	–
Total sales	128,631	7,187	85,308	–	221,126	(7,187)	213,939
Operating expenses	69,565	5,238	29,797	60	104,660	(7,268)	97,392
Operating income	¥ 59,066	¥1,949	¥55,511	¥(60)	¥116,466	¥ 81	¥116,547

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) NIS: Kazakhstan, Azerbaijan
(c) Middle East: UAE, Iran
(d) Other: Japan

							Thousands of U.S. dollars
For the six months ended September 30, 2004	Asia-Oceania	NIS	Middle East	Other	Total	Eliminations	Consolidated
Sales to third parties	$1,158,316	$ –	$768,194	$ –	$1,926,510	$ –	$1,926,510
Intergroup sales and transfers	–	64,719	–	–	64,719	(64,719)	–
Total sales	1,158,316	64,719	768,194	–	1,991,229	(64,719)	1,926,510
Operating expenses	626,429	47,168	268,321	540	942,458	(65,448)	877,010
Operating income	$ 531,887	$17,551	$499,873	$(540)	$1,048,771	$ 729	$1,049,500

Overseas sales

Overseas sales, which include sales (other than exports to Japan) of its overseas subsidiaries, for the six months ended September 30, 2003 and 2004 are summarized as follows:

			Millions of yen
For the six months ended September 30, 2003	Asia (a)	Other (b)	Total
Overseas sales	¥26,377	¥2,107	¥ 28,484
Consolidated net sales	–	–	110,188
Overseas sales as a percentage of consolidated net sales	23.9%	1.9%	25.9%

(a) Asia: Korea, Taiwan, Indonesia
(b) Other: Australia

			Millions of yen			Thousands of U.S. dollars
For the six months ended September 30, 2004	Asia (a)	Other (b)	Total	Asia (a)	Other (b)	Total
Overseas sales	**¥67,986**	**¥2,133**	**¥ 70,119**	**$612,210**	**$19,208**	**$ 631,418**
Consolidated net sales	**–**	**–**	**213,939**	**–**	**–**	**1,926,511**
Overseas sales as a percentage of consolidated net sales	**31.8%**	**1.0%**	**32.8%**	**31.8%**	**1.0%**	**32.8%**

(a) Asia: Korea, Taiwan, Indonesia, Singapore, Thailand
(b) Other: Australia

11. SUBSEQUENT EVENTS

(a) The Company issued one special class share, which has no voting rights at the common shareholders meeting, to Japan National Oil Corporation on November 17, 2004. The ownership of the special class share will give its holder a veto right over the following major corporate actions and transactions by imposing the requirement to obtain a class vote.

- Appointment and removal of directors
- Disposition of all or part of the material assets
- Amendments to the Article of Incorporation with respect to (i) the purpose of the Company's business and (ii) the granting of voting rights to the Company's shares other than common stock.
- Mergers, share exchange or share transfer
- Capital Reduction
- Dissolution

The special class share will be redeemed upon request by the relevant special class shareholder.

(b) As a part of a civil rehabilitation plan, Japan Oil Development Co., Ltd., which became a wholly owned subsidiary of the Company effective May 17, 2004, issued a new share allotted to Japan National Oil Corporation with an issued value of ¥10 million on January 29, 2004. Regarding this matter, Oversea Oil Development Co. Ltd., a former shareholder of Japan Oil Development Co., Ltd., appealed to the Tokyo District Court for the following items on February 23, 2004.

- Rescission of a resolution for approval to issue the new share to Japan National Oil Corporation at an extraordinary general shareholders meeting of Japan Oil Development Co., Ltd.
- Rescission of issuing the new share

The Tokyo District Court dismissed all accusations on October 14, 2004. The court decision was confirmed on October 28, 2004. The court appeal related to the aforementioned procedure of civil rehabilitation has been brought to the end by the court decision.

Reserves and Production

1. Oil and Gas Reserves

General

Our crude oil and natural gas reserve estimates have been extracted without material adjustments from the reserve report dated June 4, 2004 prepared by DeGolyer and MacNaughton, independent petroleum engineering consultants, which contains their evaluation of (i) both proved and probable reserves as of March 31, 2004 as well as (ii) proved reserves as of March 31, 2003, and is based upon their authority as experts with respect to such matters.

DeGolyer and MacNaughton conducted their review of our fields using the standards applied by the SEC with respect to our estimates of proved reserves, and the standards applied by SPE/WPC with respect to our estimates of probable reserves. SPE/WPC standards differ in various material respects from standards applied by the SEC.

Proved reserves are those estimated quantities which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future years from known reservoirs under existing economic and operating conditions as of the date the estimate is made. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

There is greater risk that the probable reserve estimates will not actually be recovered. Probable reserves are reserves susceptible of being proved that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts but are defined to a lesser degree of certainty because of more limited well control and/or the lack of definitive production tests. Since our proved reserve figures included in this offering circular were prepared under SEC standards, some reserves which might otherwise be classified as proved under SPE/WPC standards are included in probable reserves.

Estimation and evaluation of proved and probable reserves naturally involve multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the report date of the estimates prepared by DeGolyer and MacNaughton, reserves may be significantly restated upwards or downwards. Changes in the price of crude oil and natural gas may also affect our proved and probable reserve estimates as well as estimates of our discounted future net cash flows because these reserves are evaluated, and the discounted future net cash flows are estimated, based on prices and costs as of the date of the evaluation.

Reserve estimates included herein are (i) our reserve amounts as of our respective March 31 fiscal year end, for the most recent four years and (ii) combined figures of our and JODCO’s reserve amounts as of March 31, 2003 and 2004. The proportional interests in reserves held by equity method affiliates of (i) ours and (ii) ours and JODCO’s are not broken down by geographical regions, although in JODCO’s case all such reserves are in the Middle East.

At March 31, 2004, we had estimated combined net proved crude oil (which includes NGL) and natural gas reserves of approximately 1,016 MMbbls and 3,704 Bcf, respectively, of which approximately 16.5% and 100%, respectively, were attributable to our interests in the Asia and Oceania region which includes Indonesia, Australia, and the Joint Petroleum Development Area. Approximately 66.2% and 0%, respectively, of such reserves were attributable to our interest in the Middle East which includes the United Arab Emirates and Iran, and approximately 17.3% and 0%, respectively, were attributable to the Caspian Sea area and the remaining parts of the world.

Proved Reserves

INPEX

The table below sets forth information about our net proved and proved developed reserves at March 31, 2001, 2002, 2003 and 2004.

	Asia and Oceania		Middle East		Caspian Sea area		Subtotal		Interest in reserves held by equity method affiliates		Total	
	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)
Proved Developed and Undeveloped Reserves												
Reserves as of March 31, 2001	187.4	3,745.9	18.4	–	–	–	205.7	3,745.9	7.9	8.6	213.7	3,754.5
Extensions and discoveries	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition and sales	–	–	–	–	–	–	–	–	–	–	–	–
Revisions of previous estimates	8.1	39.3	–	–	–	–	8.1	39.3	0.4	(0.5)	8.5	38.8
Interim production	(19.6)	(236.4)	(1.6)	–	–	–	(21.1)	(236.4)	(1.1)	(1.6)	(22.3)	(238.0)
Reserves as of March 31, 2002	175.9	3,548.8	16.8	–	–	–	192.7	3,548.8	7.2	6.5	199.9	3,555.2
Reserves as of March 31, 2002	175.9	3,548.8	16.8	–	–	–	192.7	3,548.8	7.2	6.5	199.9	3,555.2
Extensions and discoveries	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition and sales	–	–	–	–	–	–	–	–	2.9	–	2.9	–
Revisions of previous estimates	(16.6)	70.0	–	–	–	–	(16.6)	70.0	(0.8)	(0.6)	(17.4)	69.4
Interim production	(16.4)	(255.6)	(1.6)	–	–	–	(17.9)	(255.6)	(1.1)	(1.6)	(19.0)	(257.2)
Reserves as of March 31, 2003	143.0	3,363.1	15.3	–	–	–	158.2	3,363.1	8.2	4.3	166.4	3,367.4
Reserves as of March 31, 2003	143.0	3,363.1	15.3	–	–	–	158.2	3,363.1	8.2	4.3	166.4	3,367.4
Extensions and discoveries	32.0	177.7	–	–	–	–	32.0	177.7	–	–	32.0	177.7
Acquisition and sales	12.7	34.1	–	–	177.9	–	190.6	34.1	(2.2)	(24.6)	188.4	9.5
Revisions of previous estimates	(4.4)	424.2	0.2	–	1.6	–	(2.6)	424.2	(2.9)	22.0	(5.5)	446.2
Interim production	(15.4)	(295.6)	(1.7)	–	(3.7)	–	(20.8)	(295.6)	(1.0)	(1.7)	(21.8)	(297.3)
Reserves as of March 31, 2004	167.8	3,703.5	13.8	–	175.8 (1)	–	357.4	3,703.5	2.1	–	359.5	3,703.5
Proved Developed Reserves												
As of March 31, 2004	89.0	1,372.6	13.8	–	24.5	–	127.3	1,372.6	2.1	–	129.4	1,372.6

Note: (1) Includes proved reserves of 175.8 MMbbls attributable to a consolidated subsidiary in which there is a 49% minority interest. Proved reserves of 89.6 MMbbls are attributable to our 51% interest in this subsidiary.

Combined Figures of INPEX and JODCO

The table below sets forth information about combined figures of our and JODCO's net proved and proved developed reserves as of March 31, 2003 and 2004.

	INPEX & JODCO		INPEX & JODCO's interest in reserves held by equity method affiliates		Total	
Combined figures for the year ended March 31, 2004	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)	Oil (MMbbls)	Gas (Bcf)
Proved Developed and Undeveloped Reserves						
Reserves as of March 31, 2003	526.8	3,363.1	336.2	4.3	863.0	3,367.4
Extensions and discoveries	32.0	177.7	–	–	32.0	177.7
Acquisition and sales	190.6	34.1	(2.2)	(24.6)	188.4	9.5
Revisions of previous estimates	(2.4)	424.2	(1.6)	22.0	(4.0)	446.2
Interim production	(43.6)	(295.6)	(19.6)	(1.7)	(63.2)	(297.3)
Reserves as of March 31, 2004	703.5	3,703.5	312.8	–	1,016.3	3,703.5
Proved Developed Reserves						
As of March 31, 2004	473.4	1,372.6	312.8	–	786.2	1,372.6

Standardized Measure of Discounted Future Net Cash Flows and Changes Relating to Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows and changes relating to proved oil and gas reserves for the year ended March 31, 2004 have been extracted without material adjustments from the reserve report dated June 4, 2004 prepared by DeGolyer and MacNaughton, independent petroleum engineering consultants. In calculating the standardized measure of discounted future net cash flows, year-end constant price and cost assumptions were applied to our estimated annual future production from proved reserves to determine future cash inflows. Future development costs are estimated based upon constant price assumptions and assume the continuation of existing economic, operating, and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimated future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by application of a 10% discount factor to the estimated future net cash flows.

We believe that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary, and prices change constantly from year-end levels.

				(Millions of yen)[1]
Year ended March 31, 2003	Total	Asia and Oceania	Middle East	Caspian Sea area
Future cash inflows	¥2,632,676	¥2,572,923	¥ 59,753	–
Future production and development costs	(853,363)	(817,844)	(35,519)	–
Future income tax expenses	(806,386)	(784,686)	(21,700)	–
Future net cash flows	972,927	970,393	2,534	–
10% annual discount for estimated timing of cash flows	(482,675)	(481,718)	(957)	–
Standardized measure of discounted future net cash flows	¥ 490,252	¥ 488,675	¥ 1,577	–
Share of equity method investees' standardized measure of discounted future net cash flows	¥ 7,973	¥ 3,330	¥ 4,643	–

Note: (1) Converted into Japanese yen using the exchange rate of ¥120.20=US$1.00 which was the exchange rate as of March 31, 2003.

					(Millions of yen)
	Year ended March 31, 2004				Combined figures for the year ended March 31, 2004
	Total	Asia and Oceania	Middle East	Caspian Sea area	INPEX & JODCO
Future cash inflows	¥2,825,423	¥2,214,915	¥ 54,623	¥ 555,885	¥ 3,981,641
Future production and development costs	(878,801)	(695,001)	(29,210)	(154,590)	(1,250,303)
Future income tax expenses	(784,076)	(668,008)	(23,208)	(92,860)	(1,486,212)
Future net cash flows	1,162,546	851,906	2,205	308,435	1,245,126
10% annual discount for estimated timing of cash flows	(551,371)	(394,243)	(725)	(156,403)	(589,645)
Standardized measure of discounted future net cash flows	¥ 611,175	¥ 457,663	¥ 1,480	¥ 152,032[1]	¥ 655,481
Share of equity method investees' standardized measure of discounted future net cash flows	¥ 4,652	–	¥ 4,652	–	¥ 14,592

Note: (1) Includes ¥152,032 million attributable to a consolidated subsidiary in which there is a 49% minority interest. A present value of ¥77,536 million is attributable to our 51% interest in this subsidiary.

					(Millions of yen)
				Year ended March 31, 2004	Combined figures for the year ended March 31, 2004
	Total	Asia and Oceania	Middle East	Caspian Sea area	INPEX & JODCO
Standardized measure, beginning of period	¥ 490,252	¥ 488,675	¥ 1,577	¥ –	¥ 549,272
Changes resulting from:					
Sales and transfers of oil and gas produced, net of production costs	(141,880)	(139,366)	(2,514)	–	(188,083)
Net change in prices, and production costs	(60,480)	(66,477)	5,997	–	53,116
Extensions, discoveries and improved recovery, less related costs	212,653	60,621	–	152,032	212,653
Development costs incurred during the year	61,464	60,356	1,108	–	68,343
Revisions of previous quantity estimates	(19,718)	(19,494)	(224)	–	(34,838)
Accretion of discount	91,705	90,194	1,511	–	133,403
Net change in income taxes	16,522	19,759	(3,237)	–	(40,940)
Other	(39,343)	(36,605)	(2,738)	–	(97,445)
Standardized measure, end of period	¥ 611,175	¥ 457,663	¥ 1,480	¥152,032	¥ 655,481

Probable Reserves Information

Probable reserve estimates included herein are (i) our probable reserve amounts as of March 31, 2004 and (ii) combined figures of our and JODCO's probable reserve amounts as of March 31, 2004. The proportional interest in probable reserves held by equity method affiliates of (i) ours and (ii) ours and JODCO's are not broken down by geographical regions, although in JODCO's case all such reserves are in the Middle East. For information on the inherent uncertainties involved in calculating probable reserves.

March 31, 2004	Asia and Oceania	Middle East	Caspian Sea and others	Subtotal	Interest in probable reserves held by equity method affiliates	Total
Crude oil, condensate, and LPG (MMbbl)	124.0	64.5	702.3	890.8	12.9	903.7
Natural gas (Bcf)	2,935.3	–	305.5	3,240.8	593.2	3,834.0
Total (MMboe)	613.2	64.5	753.2	1,430.9	111.8	1,542.7

Combined Figures of INPEX and JODCO

March 31, 2004	Asia and Oceania	Middle East	Caspian Sea and others	Subtotal	Interest in probable reserves held by equity method affiliates	Total
Crude oil, condensate, and LPG (MMbbl)	124.0	442.3	702.3	1,268.5	407.9	1,676.4
Natural gas (Bcf)	2,935.3	–	305.5	3,240.8	593.2	3,834.0
Total (MMboe)	613.2	442.3	753.2	1,808.7	506.7	2,315.4

2. Oil and Gas Production

General

The following table sets forth, in each of the principal geographical areas, (i) for the periods ended March 31, 2002, 2003 and 2004, our average net daily crude oil and natural gas production and average net daily total production and (ii) an additional column for the period ended March 31, 2004, showing the combined figures of our and JODCO's average net daily production. The proportional interests in production by equity method affiliates of (i) ours and (ii) ours and JODCO's are not broken down by geographical regions.

	Year ended March 31,			Combined figures for the year ended March 31,
	2002	2003	2004	2004
Crude Oil Production (Mbbls per day)				
Asia and Oceania	53.6	44.8	42.3	42.3
Middle East	4.2	4.2	4.7	67.1
Caspian Sea area	–	–	10.1	10.1
Subtotal	57.9	49.0	57.0	119.4
Our proportional interest in production by equity method affiliates	3.1	3.0	2.7	53.8
Total	61.0	52.0	59.8	173.2
Annual production (MMbbls)	22.3	19.0	21.8	63.2
Natural Gas Production (Mcf per day)				
Asia and Oceania	647,616.4	700,274.0	809,945.2	809,945.2
Middle East	–	–	–	–
Caspian Sea area	–	–	–	–
Subtotal	647,616.4	700,274.0	809,945.2	809,945.2
Our proportional interest in production by equity method affiliates	4,493.2	4,356.2	4,602.7	4,602.7
Total	652,109.6	704,630.1	814,547.9	814,547.9
Annual production (Bcf)	238.0	257.2	297.3	297.3
Total Production (Mboe per day)				
Asia and Oceania	161.6	161.5	177.3	177.3
Middle East	4.2	4.2	4.7	67.1
Caspian Sea Area	–	–	10.1	10.1
Subtotal	165.8	165.8	192.0	254.4
Our proportional interest in production by equity method affiliates	3.9	3.7	3.5	54.5
Total	169.7	169.5	195.5	309.0
Annual production (MMboe)	61.9	61.9	71.4	112.8

Notes: (1) JODCO's net production amount does not reflect reduction of royalties.
(2) JODCO's investments in affiliates which hold the concession interest have been accounted for by the cost method in its non-consolidated financial statements. However, these investments will be accounted for by the equity method of accounting in our consolidated financial statements for the year ending March 31, 2005 and thereafter. The table above has been prepared as if JODCO's investments in affiliates were accounted for by the equity method of accounting.

Subsidiaries and Affiliates

As of March 31, 2004

Consolidated Subsidiaries

Company Name	Location	Main business	Issued capital (Thousands)	Voting rights held by us (%)
INPEX Natuna, Ltd.	Japan	Exploration, development, production and sales of oil and natural gas under South Natuna Sea Block B Project	¥5,000,000	100.00
INPEX Tengah, Ltd.	Japan	Exploration, development, production and sales of natural gas under Tengah Project in Offshore East Kalimantan, Indonesia	¥1,020,000	100.00
INPEX Alpha, Ltd.	Japan	Exploration, development, production and sales of oil and natural gas in WA-10-L Block in Australia	¥3,814,000	100.00
INPEX Sahul, Ltd.	Japan	Exploration, development, production and sales of oil and natural gas in JPDA03-12 Block in Joint Petroleum Development Area of Australia and East Timor	¥4,600,000	100.00
INPEX ABK, Ltd.	Japan	Exploration, development, production and sales of oil in Abu Al Bukhoosh Block in United Arab Emirates	¥2,500,000	95.00
INPEX Southwest Caspian Sea, Ltd.	Japan	Exploration, development, production and sales of oil in ACG oil fields in Azerbaijan	¥53,594,000	51.00
INPEX Timor Sea, Ltd.	Japan	Exploration and development of oil and natural gas in Joint Petroleum Development Area of Australia and East Timor	¥2,275,000	100.00
INPEX Browse, Ltd.	Japan	Exploration and development of oil and natural gas under WA-285-P Project in West Australia	¥18,200,000	100.00
INPEX Masela, Ltd.	Japan	Exploration and development of oil and natural gas in Masela Block in Indonesia	¥12,859,000	50.14
INPEX North Caspian Sea, Ltd.	Japan	Exploration and development of oil and natural gas in offshore North Caspian Sea Block in Kazakhstan	¥43,180,000	45.00
INPEX Offshore Northeast Mahakam, Ltd.	Japan	Exploration of oil and natural gas in Saliki Block in offshore East Kalimantan, Indonesia	¥803,000	100.00
INPEX East Arguni, Ltd.	Japan	Being dissolved	¥263,000	100.00
INPEX West Arguni, Ltd.	Japan	Being dissolved	¥442,000	100.00
INPEX North Natuna, Ltd.	Japan	Exploration of oil and natural gas in Nila Block in Natuna Sea, Indonesia	¥570,000	100.00
INPEX Offshore North Mahakam, Ltd.	Japan	Exploration of oil and natural gas in East Kalimantan Block in offshore East Kalimantan, Indonesia	¥2,100,000	100.00
INPEX Offshore South Sulawesi Ltd.	Japan	Being dissolved	¥1,345,000	100.00
INPEX North Makassar, Ltd.	Japan	Exploration of oil and natural gas in Donggala Block in offshore East Kalimantan, Indonesia	¥3,243,000	54.18
INPEX Trading, Ltd.	Japan	Sales, agency, and brokerage in connection with crude oil and market research and sales planning in connection with oil and natural gas sales	¥50,000	100.00
INPEX Services, Ltd.	Japan	Management of owned properties and facilities	¥65,000	100.00
INPEX BTC Pipeline, Ltd.	Cayman Islands	Investment in pipeline construction companies	US$27,300	100.00
INPEX DLNGPL Pty Ltd.	Australia	Investment in pipeline construction companies and operation of pipeline businesses	A$63,240	100.00
Japan Oil Development Co., Ltd.*	Japan	Exploration, development, production and sales of oil	¥18,800,000	100.00

* Japan Oil Development Co., Ltd. and BP-Japan Oil Development Company Ltd. became our subsidiary and affiliate, respectively, on May 17, 2004.

Company Name	Location	Main business	Issued capital (Thousands)	Voting rights held by us (%)
INPEX Jawa, Ltd.	Japan	Exploration, development, production and sales of oil and natural gas in offshore Northwest Java, Indonesia	¥4,804,000	83.50
INPEX Sumatra, Ltd.	Japan	Exploration, development, production and sales of oil and natural gas in Southeast Sumatra Block in Indonesia	¥400,000	100.00
INPEX South Natuna, Ltd.	Japan	Being dissolved	¥520,000	100.00
INPEX Northeast Sahara, Ltd.	Japan	Being dissolved	¥2,301,700	50.07
INPEX Rabe Timor Sea, Ltd.	Japan	Being dissolved	¥5,441,400	47.00
Azadegan Petroleum Development, Ltd.	Japan	Appraisal and development of Azadegan Field	¥10,000	100.00

Affiliates Under Equity Method

Company Name	Location	Main business	Issued capital (Thousands)	Voting rights held by us (%)
Albacora Japão Petróleo Limitada	Brazil	Lease of production facilities in Albacora Block in offshore North Campos, Brazil	Reals 29,525	50.00
MI Berau B.V.	Netherlands	Exploration, development, production and sales of natural gas in Berau Block in Papua, Indonesia	Euro 612,112	44.00
INPEX Offshore North Campos, Ltd.	Japan	Financing for oil and natural gas exploration and development projects conducted by Frade Japão Petróleo Limitada	¥5,456,000	37.50
JJI S&N B.V.	Netherlands	Exploration and development of oil and natural gas in Iranian and Islamic seas	Euro 35,301	25.00
Frade Japão Petróleo Limitada	Brazil	Exploration and development of oil and natural gas in Frade Block in offshore north Campos, Brazil	Reals 92,923	0.0003
INPEX Northland, Ltd.	Japan	Being dissolved	¥2,935,000	32.16
Bontang Train G Project Finance, Ltd.	Japan	Financing for construction of LNG production facility in East Kalimantan Bongtang Block in Indonesia	¥50,000	40.00
Bontang LNG Train H Investment, Ltd.	Japan	Financing for construction of LNG production facility in East Kalimantan Bontang Block in Indonesia	¥50,000	40.00
Project Finance BLRE, Ltd.	Japan	Financing for repayment of LNG production facility in Bontang	¥20,000	30.00
BP-Japan Oil Development Company Ltd.*	UK	Financing for oil exploration and development projects conducted by Abu Dhabi Marine Areas Ltd.	£322	45.00
Angola Japan Oil Co., Ltd.	Japan	Production sharing contract related to offshore Angola 3/80 Block. Palanca, Pacassa, Bufalo, Impala SE, Impala and Pambi fields in current production.	¥10,500 million	10.00*
AJOCO Exploration Co., Ltd.	Japan	Production sharing contract related to offshore Angola 3/85 Block. Cobo and Pambi fields in current production.	¥6,400 million	12.50*
AJOCO'91 Exploration Co., Ltd.	Japan	Production sharing contract related to offshore Angola 3/91 Block. Oombo field in current production.	¥2,996 million	12.73*

* On September 27, 2004, we increased our shares in Angola Japan Oil Co., Ltd., AJOCO Exploration Co., Ltd. and AJOCO'91 Exploration Co., Ltd. to 19.60%, 25.00% and 25.00%, respectively.

Other Investments

As of March 31, 2004

Company Name	Location	Capital	INPEX Investment	Main Business
Indonesia Nippon Oil Corporation, Ltd.	Japan	¥46,814 million	¥2,393 million	Loaned capital funding for exploration and development in Indonesia under PERTAMINA operation. Repayment of principal and interest, project remuneration paid in form of products supplied to Japan.
Jawa Oil Co., Ltd.	Japan	¥6,200 million	¥744 million	Loaned capital funding for exploration and development in 2 blocks on Java Island under PERTAMINA operation. Repayment of principal and interest, project remuneration paid in form of products supplied to Japan. RDL Field in current production.
Burma Petroleum Development Co., Ltd.	Japan	¥346 million	¥15 million	Loan contract for Myanmar Oil and Gas Enterprise (MOGE) related to exploration well drilling in offshore Martaban.
Japex New Nanhai Ltd.	Japan	¥3,100 million	¥93 million	Exploration, development, production and sales of oil in the 16/06 Block in the Pearl River Mouth Basin.
New Huanan Oil Development Co., Ltd.	Japan	¥3,000 million	¥60 million	Exploration, development, production and sales of oil in the 16/06 Block in the Pearl River Mouth Basin. Lufeng 13-1 Field in current production.
Sakhalin Oil and Gas Development Co., Ltd.	Japan	¥22,592 million	¥973 million	Exploration and development of oil and natural gas in three fields (Odoptu, Chayvo, Arkutun-Dagi) located off the northeast of Sakhalin Islands.
Canada Oil Sands Co., Ltd.	Japan	¥36,483 million	¥693 million	Oil sand development contract for the Athabasca Block.
Wandoo Oil Development Co., Ltd.	Japan	¥3,000 million	¥450 million	Exploration and development rights for the WA-202-P, WA-14-L, WA-256-P, WA-257-P, WA-286-P, AC/P24, T/RL1, and T/18P of the offshore Dampier area of Western Australia. Wandoo Field in current production.

Corporate Data

Corporate Name: INPEX CORPORATION

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President	**Kunihiko Matsuo**	
Executive Senior Vice President	**Naoki Kuroda**	
Executive Senior Managing Director	**Katsujiro Kida**	Secretary Dept./ Corporate Strategies & Coordination/ General Administration/ Public Affairs/ Marketing
Executive Senior Managing Director	**Mutsuhisa Fujii**	General Affairs/ Accounting & Finance
Managing Director	**Kazuhisa Konoma**	Oceania Area
Managing Director	**Seiji Yui**	Middle Eastern Projects
Managing Director	**Noboru Tezuka**	Tehran Office
Managing Director	**Kunio Kanamori**	Exploration & Geophysics
Director & General Manager	**Katsuhiko Sakurai**	Planning & New Ventures Dept.
Director & General Manager	**Michio Hikari**	Gas Business Dept.
Director & General Manager	**Sadafumi Tanigawa**	Jakarta Office
Director & Coordinator	**Shunichiro Sugaya**	Development Dept. & Petroleum Technology Div.
Director & General Manager	**Seiya Ito**	Corporate Planning & Management Dept.
Director & Senior Deputy Managing Director	**Wataru Tanaka**	Tehran Office
Director (Outside Director)	**Kazuo Wakasugi**	Chairman, Japan Petroleum Exploration Co., Ltd.
Director (Outside Director)	**Yukio Masuda**	Member of the Board, Senior Executive Vice President, Chief Executive Officer for Energy Business Group, Mitsubishi Corporation
Director (Outside Director)	**Junji Sato**	President, Mitsui Oil Exploration Co., Ltd.
Director (Outside Director)	**Shigeki Kuwahara**	Executive Corporate Officer, Regional Strategy & Coordination Department and Research Institute; Advisor to President for Energy Division, and Metals & Mineral Resources Division, Marubeni Corporation
Auditor	**Nobuo Kawa**	
Auditor	**Shigeru Watanabe**	
Auditor (Outside Auditor)	**Ryoichi Ono**	Executive Vice President, Japan Petroleum Exploration Co., Ltd.
Auditor (Outside Auditor)	**Tadaaki Tokunaga**	Executive Director, Japan Overseas Development Corporation

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