

# Consolidated Financial Results for Fiscal Year Ended March 31, 2004

May 17, 2004

Note: The following report is a summary of the Japanese-language original.

Company Name: Japan Petroleum Exploration Co., Ltd.

Stock Listing: Tokyo Stock Exchange

Company Code: 1662

Location of Head Office: Tokyo

(URL: <http://www.japex.co.jp/>)

President: Yuji Tanahashi

Inquiries: Koichi Shimomura, Manager, Media Relations, Administration Department TEL: (03) 5461-7413

Date of the Board of Directors meeting to settle year-end consolidated accounts: May 17, 2004

U.S. GAAP not applied

## 1. Consolidated Results for FY 2004 (April 1, 2003 – March 31, 2004)

### (1) Consolidated Operating Results (Amounts less than one million yen have been omitted)

|        | Net Sales   |     | Operating Income |        | Ordinary Income |      |
|--------|-------------|-----|------------------|--------|-----------------|------|
|        | (¥ million) | %   | (¥ million)      | %      | (¥ million)     | %    |
| FY2004 | 96,713      | 6.6 | 12,449           | (21.3) | 14,468          | 13.3 |
| FY2003 | 90,683      | 1.1 | 15,828           | 44.0   | 12,769          | 28.2 |

|        | Net Income  |      | Net Income Per Share | Diluted Net Income per Share | Return on Equity | Ordinary Income-to-Total Assets Ratio | Ordinary Income-to-Net Sales Ratio |
|--------|-------------|------|----------------------|------------------------------|------------------|---------------------------------------|------------------------------------|
|        | (¥ million) | %    | (¥)                  | (¥)                          | %                | %                                     | %                                  |
| FY2004 | 9,960       | 12.8 | 172.76               | -                            | 5.2              | 5.9                                   | 15.0                               |
| FY2003 | 8,828       | 69.8 | 153.14               | -                            | 4.8              | 5.3                                   | 14.1                               |

(Notes)

- Equity in net income (loss) of unconsolidated subsidiaries and affiliates  
FY2004 (¥2,072) million FY2003 (¥722) million
- Average number of outstanding shares (Consolidated):  
FY2004: 57,154,715 shares FY2003: 57,154,776 shares
- Changes in accounting methods: None
- Percentage figures for net sales, operating income and other items represent changes compared with the previous fiscal year.
- Diluted net income per share is not shown because there are no shares with a dilutive effect.

### (2) Consolidated Financial Position

|        | Total Assets | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity per Share |
|--------|--------------|----------------------|----------------------------|--------------------------------|
|        | (¥ million)  | (¥ million)          | %                          | (¥)                            |
| FY2004 | 246,765      | 195,715              | 79.3                       | 3,422.80                       |
| FY2003 | 242,455      | 186,914              | 77.1                       | 3,268.99                       |

(Note) Number of shares issued and outstanding (consolidated) at fiscal year-end:

FY2004 57,154,472  
FY2003 57,154,776

### (3) Consolidated Cash Flows

|        | Operating Activities | Investing Activities | Financing Activities | Cash and Cash Equivalents<br>at Period-End |
|--------|----------------------|----------------------|----------------------|--|
|        | (¥ million)          | (¥ million)          | (¥ million)          | (¥ million)                                |
| FY2004 | 21,522               | (12,677)             | (4,599)              | 27,851                                     |
| FY2003 | 21,619               | (11,915)             | (7,981)              | 23,866                                     |

### (4) Number of consolidated Subsidiaries and Affiliates

Consolidated subsidiaries: 13

Non-consolidated subsidiaries accounted for by the equity method: 1

Equity method affiliates: 11

### (5) Changes in Scope of Consolidation and Application of equity method

Consolidated subsidiaries (Added): 1 (Excluded): 0

Equity method affiliates (Added): 0 (Excluded): 5

### 2. Forecasts for FY 2005 (April 1, 2004 – March 31, 2005)

|                 | Net Sales   | Ordinary Income | Net Income  |
|-----------------|-------------|-----------------|-------------|
|                 | (¥ million) | (¥ million)     | (¥ million) |
| Interim Period  | 37,100      | 2,518           | 3,055       |
| Fiscal Year-end | 84,163      | 11,313          | 9,556       |

(Reference) Estimated net income per share for the year ending March 31, 2005 is ¥167.19

Note: The above estimates have been made based on information available as of the date of this release. Actual results may differ from these estimates due to a variety of factors. Please refer to the attached materials for more information related to these estimates.

## **II. Management Policies**

### **1. Fundamental Business Policies**

Since its establishment in 1955, Japan Petroleum Exploration Co., Ltd. (JAPEX) has pursued its mission of contributing to Japan's energy supplies by securing reserves and expanding production centered on the exploration, development, and sale of petroleum and natural gas. Guided by this mission, the Company has steadily discovered petroleum and natural gas reserves to result in the business base of today.

In light of its expanding role as a supplier and, consequently, related increases in its responsibility to society, JAPEX Group is actively focused on constructing a new business model that not only relies on expanding reserves but also upgrading and expanding transmission systems for natural gas and other initiatives. As such, the Group aims to move forward as a company with the competitive capabilities required to respond to changes in its operating environment. The section below outlines the Group's business philosophy in this respect.

### **Taking on the challenge of new energy value creation and increasing corporate value**

- Contribute to the supply of energy through global exploration and production (E&P) activities.
- Contribute to coexistence between the planet and its population by developing and promoting the use of environment-friendly natural gas.
- Pursue sustainable growth and maximize shareholder value by placing top priority on winning and maintaining the trust of society, customers, shareholders and employees.

### **2. Fundamental Policy on Dividends**

The Company's basic policy is to sustain stable dividends over the long term. Taking into account the medium-term outlook for the business, dividend payments are set based on respect for the return of profits to shareholders. While considering the need to acquire new reserves as an energy company that plays a role in providing stable supplies of petroleum and natural gas, indispensable resources for society, the policy also takes into account the need for retained earnings to finance the acquisition of new reserves and to upgrade and improve transmission systems, primarily pipelines.

### **3. Medium-term Business Strategy and Critical Issues**

Japan's energy industry is entering an era of full-scale competition, ushered in by rapid deregulation, beginning with revisions to the Gas Business Law and the Electric Utility Law. As such, competition is intensifying almost on a daily basis with the entry of new players into each energy sector.

Specifically, the Gas Business Law was revised in April 2004, thereby further expanding the scope of deregulation. In addition, the Japanese government has introduced a concept of "common carrier" in gas transmission. Under this concept, companies, including JAPEX, that possess gas pipelines above a certain capacity are obligated to open their pipelines for third party access. As a result of these and other developments, the Company's gas business is facing a major turning point.

In the current environment, natural gas, a major earnings base for the JAPEX Group, is drawing significant attention for its clean energy characteristics. Going forward, the Company believes demand for natural gas is likely to rise steadily due to the proliferation of distributed energy sources, including micro gas turbines and fuel cells, and acceleration in the expansion and upgrade of natural gas supply networks. This presents opportunities for JAPEX to further develop its natural gas business. Moreover, petroleum will continue to play a critical part in the Group's business base, based on recognition of the central role this resource still plays as a primary energy source in Japan.

Accordingly, expanding natural gas sales and enlarging reserves of petroleum and natural gas are critical issues for the Company.

***Expanding sales of natural gas and upgrading and expanding the supply system***

To cope with the intensifying competitive environment, the Company must be able to address the expectations and requirements of a much broader user base. Specifically, the Company is working to construct a natural gas business that seamlessly integrates services and facilities, from upstream (E&P) through mid-stream (transmission and storage) to downstream (marketing). The Company is therefore promoting sales to existing major gas suppliers and city gas providers, tapping overseas gas sources to replenish domestic reserves, and working to strengthen its distribution and storage network, which allows the Group to more fully leverage its upstream divisions.

From this perspective, the Company is stepping up efforts to expand sales of natural gas passing through its Yufutsu-Sapporo and Niigata-Sendai pipelines. Simultaneously, it is working to expand and upgrade its transmission network by constructing a new natural gas pipeline to the city of Koriyamashi by way of Fukushima, by branching its Niigata-Sendai pipeline.

JAPEX's LNG Satellite System is designed to serve customers in geographic areas not reached by its pipeline network. LNG is loaded onto tanker trucks and railway tank containers and shipped to the Tohoku, Kanto, Hokuriku, and Kyushu regions to supply natural gas to a broader base of customers. The Company is also working to promote sales to users within Hokkaido by dispatching LNG tank containers from its LNG plant in Yufutsu, which is located in the region.

Securing overseas gas sources is another critical issue for JAPEX. While continuing to purchase LNG from Malaysia LNG Tiga, a contract started in March 2003, the Company also actively participates in the Sakhalin Pipeline Project, a strategic initiative to build an international pipeline to supply natural gas to Japan from the extensive gas fields to be developed in the Sakhalin I Project.

***Conducting efficient E&P and securing new reserves***

With its business centered on E&P, the JAPEX Group continually works to sustain and expand its reserves, and strives to further expand and upgrade its system for providing stable supplies of petroleum and natural gas over the long term. Specifically, to expand domestic reserves, the Company is conducting exploration, mainly in Niigata, Akita, and Hokkaido prefectures with the aim of adding substantial new gas reserves. It is also conducting exploration aimed at tapping reserves in areas surrounding existing gas fields. In this way, the Company is able to conduct interlocking, tactical exploration that affords greater efficiencies.

Furthermore, recognizing the importance of maintaining a stable revenue from the overseas E&P business, the Company is working to increase operating efficiency and carry out exploration in areas identified as key geographies. Specifically, the Company aims to increase the efficiency of operations at fields where it currently carries out oil and gas production. Moreover, in uncovering new business, the Company seeks to acquire the rights to oil and gas fields that are already on stream, as well as fields that have been discovered but remain undeveloped, both of which offer relatively low risk and rapid returns, with consideration given to the balanced preservation of exploration assets over long-term operating periods.

The Japan Oil, Gas and Metals National Corporation (JOGMEC) was established in February 2004, inheriting the functions of Japan National Oil Corporation (JNOC). As such, Japan is heading for a turning point in terms of reinforcing its system for promoting the nation's resource and energy policies. The JAPEX Group is committed to flexibly and appropriately responding to the upcoming changes from the perspective of maximizing its corporate value.

### ***Addressing environmental issues***

As global environmental issues become more serious, JAPEX, as a company that supplies environment-friendly natural gas, feels an obligation to contribute to environmental protection. The Company therefore works to increase environmental awareness within the company through ongoing use of internal environment management systems (acquisition of ISO14001), and reducing the environmental impact of its business activities.

JAPEX will continue pushing ahead with efforts to inject added value into the supply of natural gas, and appropriately apply Group technologies in the environment business field. To this end, the Company is proactively taking on R&D themes in new fields such as gas-to-liquid technology, which can be used to extract liquid fuel from methane, the main component of natural gas.

The JAPEX Group aims to utilize these activities to further strengthen its operating base and enhance its competitiveness, thereby bolstering operating efficiency. The ultimate goal is to achieve sustainable development and maximize shareholder value.

## **4. Basic stance and progress on strengthening corporate governance**

### **(1) Basic stance on corporate governance**

The JAPEX Group recognizes the importance of corporate governance in translating efficient management into higher earnings and in ensuring the company plays a valuable useful in society. The Company therefore makes it a top priority to continually reinforce and upgrade its corporate governance systems.

### **(2) Measures to strengthen corporate governance**

The Board of Directors and corporate auditors (together with the Audit Committee, comprising all the Company's auditors) are responsible for overseeing executive actions carried out by each director. JAPEX therefore employs what is known as a Corporate Auditing System.

The Board of Directors meets monthly. In addition to making decisions pertaining to important business and affairs of the corporation, the Board oversees executive actions based on status reports it receives from directors. Also, from the perspective of speeding up decision-making, an Executive Committee, comprising full-time directors that reside in Tokyo, meets weekly to make decisions regarding items that are not subject to decision by the Board of Directors. It also deliberates on items in support of decision-making by the Board. No outside directors are appointed to the Executive Committee.

Corporate auditors, who attend Board meetings on an as-needed basis, also exchange opinions with Board members with executive functions as part of their oversight function. In June 2003, the Company appointed an additional outside auditor, bringing the number of outside auditors to two (out of a total of four). Outside auditors have no special interests in the Company.

In addition to implementing corporate governance based on this management structure, the Company conducts investor relations activities, including holding earnings results meetings and posting data on its corporate website, to increase management transparency, with the goal of ensuring optimal business execution in any operating environment.

## **5. Basic policies on relationships with related parties (parent company and others)**

As of March 31, 2004, JNOC held 49.94% of the Company's outstanding shares. In addition, some JAPEX subsidiaries and affiliates engaged in overseas E&P activities received equity investment as well as credit guarantees from JNOC.

Directors and employees of JNOC do not serve concurrently as directors of JAPEX. The Company loans

employees to JNOC in order to co-operate in R&D activities (as of March 31, 2004, two JAPEX employees were seconded to JNOC).

The JAPEX Group conducts basic exploration and various research activities for JNOC on a contract basis. The price terms for these contracts are determined as direct expenses plus a marginal amount of related administrative expenses.

Pursuant to the Law on Abolition of the JNOC and the Metal Mining Agency of Japan, officially announced in July 2003, JOGMEC was established on February 29, 2004, taking over many of the functions of the JNOC, including investment/credit guarantees, R&D, and the re-commissioning of basic research in Japan.

### III. Business Results and Financial Position

#### 1. Business Results

##### (1) Overview of the fiscal year ended March 31, 2004

In the fiscal year ended March 31, 2004, the Japanese economy began largely unchanged from the end of the previous year. However, from the middle of the year, signs of a recovery emerged and the economy continued to rebound solidly toward the end of the year supported by capital investment and exports.

Looking at petroleum market conditions, although the yen strengthened in the currency market, prices for internationally traded crude oil stabilized at a high level, supporting firm prices for domestic crude oil. Still, due to acceleration in the pace of deregulation, domestic natural gas prices remained problematic for the Company amid escalating competition among energy sectors.

Under these conditions, the JAPEX Group worked to maintain robust pipeline operations with the aim of ensuring stable supplies of affordable and safe energy over the long term. In addition, the Group focused its collective efforts on efficient E&P both in Japan and overseas.

In the fiscal year ended March 31, 2004, consolidated net sales totaled ¥96,713 million, up ¥6,029 million, or 6.6%, from the previous fiscal year. Driving this growth was firm prices for crude oil and higher sales volume for crude oil and natural gas, as well as government orders for exploration drilling.

Operating income totaled ¥12,449 million, down ¥3,378 million, or 21.3%, from the previous fiscal year, reflecting a higher cost of sales associated with increased sales of natural gas and government orders for exploration drilling, as well as a greater volume of domestic exploration work. Ordinary income totaled ¥14,468 million, up ¥1,698 million, or 13.3%, from the previous fiscal year. Key factors supporting this rise were lower investment in overseas exploration and a reduction in valuation losses on marketable securities.

As a result, consolidated net income totaled ¥9,960 million, up ¥1,132 million, or 12.8%, from the previous fiscal year.

Below is a summary of earnings data for each of the Company's business segments by division.

##### Oil and Natural Gas Segment

###### (a) E&P Division

The E&P division sells crude oil, natural gas and liquefied natural gas (LNG). Net sales totaled ¥79,361 million, up ¥4,079 million, or 5.4%, from the previous fiscal year, reflecting a sharp rise in crude oil prices and higher sales volume for crude oil and natural gas.

###### (b) Contract Services Division

The Contract Services Division accepts orders mainly for drilling projects and geological and geophysical surveys. Net sales totaled ¥7,049 million, up ¥1,234 million, or 21.2%, from the previous fiscal year. This growth was mainly due to government orders for exploration drilling.

###### (c) Other Businesses Division

This division mainly includes the manufacturing and trading of products such as LPG and fuel oil, the transmission of third-party gas, and other miscellaneous consignment orders. Net sales totaled ¥9,213 million, up ¥823 million, or 9.8%, from the previous fiscal year, reflecting higher orders for third-party gas transmission and higher sales volume for petroleum products.

Geothermal Energy Segment  
Geothermal Energy Business

The Geothermal Energy Business sells steam used for electric power generation and undertakes work related to geothermal exploration technology and R&D on a contract basis. Net sales totaled ¥1,089 million, down ¥107 million, or 9.0%, reflecting lower steam sales volume.

**(2) Outlook for the fiscal Year Ending March 31, 2005**

In the fiscal year ending March 31, 2005, the Company expects consolidated net sales to decline ¥12,500 million from the previous fiscal year to ¥84,100 million, based mainly on projections for lower sales volume for crude oil and natural gas and lower selling prices.

The Company forecasts that ordinary income will decline ¥3,100 million, or 21.8%, to ¥11,300 million due to higher depreciation and increased exploration expenses, which is expected to more than offset lower costs stemming from reduced purchases of crude oil and natural gas products commensurate with lower sales.

The Company expects net income to fall ¥400 million, or 4.0%, to ¥9,500 million, chiefly reflecting increased purchases of shares in Japex New Nanhai Ltd. to make the company a subsidiary. This will result in a reassessment of allowance for losses on overseas investments, which is expected to increase extraordinary income by ¥800 million from the previous fiscal year.

These forecasts were formulated on the following assumptions: 1) a price of US\$28/barrel for imported crude oil and 2) an exchange rate of ¥105/US\$.

A number of risks and uncertainties have the potential to affect JAPEX's business performance, including, but not limited to, the following:

Operational risk

The JAPEX Group's business requires substantial investment over long periods in the exploration stage. However, there is no guarantee that resources will be discovered. As such, the Company's business is high risk by nature. Moreover, even after resources are discovered, heavy investment is still required, including for the drilling of development wells and the construction of related production and transmission facilities. Accordingly, long lead times are typically required from the time of project initiation to investment recovery and contribution to profits. In the meantime, there is a risk that various changes in the operating environment will prevent desired investment objectives from being attained.

Factors causing volatility in crude oil sales

JAPEX markets crude oil in Japan at international prices. Consequently, the price at which the Company sells crude oil is affected by market trends, such as the level of output set by OPEC and trends in the international balance of supply and demand, as well as fluctuations in exchange rates. To reduce associated risks, the Company engages in crude oil swap transaction, although this approach does not entirely eliminate all associated risks.

Factors causing volatility in natural gas sales

Selling prices for natural gas are normally set based on fixed contracts with customers and denominated in yen. As such, prices are not affected by short-term fluctuations in prices for internationally traded natural gas or exchange rates. However, volumes of gas sales to local distribution companies(LDCs) do exhibit seasonality, that is, lower demand in the summer and higher demand in the winter. In addition, sales volume declines during warm winters. Furthermore, over the longer term, deregulation of Japan's energy markets carries the risk of lower unit selling prices and lower sales volume for natural gas.



### **(3) Distribution of Dividends**

The Company plans to pay an annual dividend of ¥35 (to be paid in full at the end of the period), comprising an ordinary dividend of ¥30 per common share and an additional ¥5 dividend to commemorate the Company's listing on the First Section of the Tokyo Stock Exchange. The ordinary dividend of ¥30 per common share is ¥5 higher than in the previous fiscal year. In light of the fact that sales and earnings rose for the second straight year in the fiscal year ended March 31, 2004, the Company decided to increase its dividend as a means of returning profits to shareholders.

Consequently, the dividend payout ratio for the year was 21.0% and the ratio of dividends to shareholders' equity was 1.1% on a unconsolidated base.

## **2. Financial Condition**

### **(1) Overview of the Fiscal Year Ended March 31, 2004**

#### Balance sheet

Total assets at the end of the fiscal year stood at ¥246,765 million, an increase of ¥4,309 million, or 1.8%, from the previous fiscal year. Of the total amount, current assets accounted for ¥54,932 million, an increase of ¥282 million, or 0.5%, and fixed assets accounted for ¥191,832 million, up ¥4,027 million, or 2.1%.

Of fixed assets, tangible fixed assets rose ¥5,315 million, or 5.6%. This rise was mainly due to capital expenditures in excess of depreciation related to construction of the Akebono well site at the Yufutsu field, and construction of the flowing line, expansion and renovation of the production facility in Yufutsu, and construction of an LNG plant.

Investments in securities declined ¥3,006 million, or 3.4%, to ¥84,771 million, while allowance for losses on overseas investments fell ¥3,325 million, or 20.0%, to ¥13,334 million. Both fell mainly because of the dissolution of business ties with Japan Azerbaijan Oil Co., Ltd., which led to a devaluation of that company's stock and an associated reversal on allowance for losses on overseas investments.

Total liabilities declined ¥4,483 million, or 8.9%, to ¥45,658 million. Of the total, current liabilities fell ¥1,388 million, or 7.6%, to ¥16,798 million, while fixed liabilities declined ¥3,095 million, or 9.7%, to ¥28,859 million.

The decline in total liabilities mainly reflected a ¥3,122 million, or 57.0%, decrease in notes and accounts payable. Interest-bearing debt (short-term debt, long-term debt, and the current portion of long-term debt) declined ¥2,615 million, or 18%.

Shareholders' equity rose ¥8,800 million, or 4.7%, to ¥195,715 million. The primary factors underlying the increase were a rise in retained earnings and an increase in unrealized holding gains on securities. Retained earnings rose ¥8,456 million, or 4.9%, to ¥180,826 million, reflecting net income less dividends paid. Owing to higher stock prices, unrealized holding gains on securities rose ¥1,107 million, or 48.1%, to ¥3,412 million.

As a result, the shareholders' equity ratio rose from 77.1% to 79.3%, and shareholders' equity per share increased from ¥3,268.99 to ¥3,422.80.

Credit guarantees for bank loans taken out by affiliated company and others, treated as contingent liabilities, rose ¥3,008 million, or 21.5%, to ¥17,030 million.

### Cash flows

Net cash provided by operating activities was ¥21,522 million, a decrease of ¥97 million, or 0.5%, from the previous fiscal year. The main components were ¥14,207 million in net income before income taxes and ¥11,043 million in depreciation.

Net cash used in investing activities amounted to ¥12,677 million, up ¥761 million, or 6.4%, from the previous fiscal year. The main use was, as noted earlier in the discussion of balance sheet items, construction of the Akebono well site at the Yufutsu field and construction of the flowing line, expansion and renovation of the production facility in Yufutsu, and construction of an LNG plant. Expenditures to acquire fixed tangible assets totaled ¥15,734 million, up ¥3,826 million, or 32.1%.

Net cash used in financing activities was ¥4,599 million, down ¥3,381 million, or 42.4%, from the previous fiscal year. The main component was the repayment of loans and the payment of dividends.

As of March 31, 2004, cash and cash equivalents totaled ¥27,851 million, up ¥3,984 million, or 16.7% compared to the end of the previous fiscal year. This increase was mainly attributable to the net impact of the aforementioned cash flows and translation differences due to fluctuations in exchange rates.

### (2) Outlook for the Fiscal Year Ending March 31, 2005

The Company projects that, in net cash provided by operating activities, net income before income taxes will decline from the year under review. Depreciation is forecasted at approximately ¥13,800 million.

In net cash used in investing activities, the Company is projecting that roughly ¥14,000 million will be used for capital expenditure, including projects to upgrade capacity. Still, the Company expects that capital expenditure will be lower than fiscal year under review.

In net cash used in financing activities, the Company expects to pay a term-end dividend of ¥35 and an interim dividend of ¥15. The Company also plans to continue repaying interest-bearing debt to result in a balance of around ¥10,400 million.

In addition, the Company anticipates the consolidation of Japex New Nanhai Ltd. will add roughly ¥4,000 million to cash and equivalents.

Based on the aforementioned factors, the Company expects cash and equivalents as of March 31, 2005 to be largely unchanged from the end of the fiscal year under review.

### (3) Cash Flow Indicators

| Fiscal Years Ended March 31                            | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------|------|------|------|------|
| Shareholders' equity ratio (%)                         | -    | 68.8 | 75.2 | 77.1 | 79.3 |
| Shareholders' equity ratio on mark-to-market basis (%) | -    | -    | -    | -    | 96.4 |
| Debt repayment period (years)                          | -    | 2.0  | 1.2  | 0.7  | 0.6  |
| Interest coverage ratio (times)                        | -    | 14.2 | 12.5 | 34.5 | 60.3 |

Notes:

Shareholders' equity ratio: Shareholders' equity/total assets

Shareholders' equity ratio on mark-to-market basis: Total market capitalization/total assets

Debt repayment period: Interest-bearing debt/net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/interest paid

- \* The Company started compiling consolidated financial statements in the fiscal year ended March 31, 2001.
- \* JAPEX listed on the Tokyo Stock Exchange on December 10, 2003.
- \* The various indicators are calculated based on consolidated financial figures.
- \* Total market capitalization is calculated using the closing stock price at the end of the term multiplied by the number of shares outstanding at the end of the term (excluding treasury stock).
- \* Net cash flow from operating activities is that shown on the statement of consolidated cash flows.  
Interest-bearing debt is all debt subject to interest payments within debt shown on the consolidated balance sheets. Interest paid is that shown on the consolidated statement of cash flows.

## . Consolidated Financial Statements

### 1 . Consolidated Balance Sheets

| Description                                  | (As of March 31, 2003) |          | (As of March 31, 2004) |          |
|--|------------------------|----------|------------------------|----------|
|  | Amount (¥ million)     | ( % )    | Amount (¥ million)     | ( % )    |
| (Assets)                                     |                        |          |                        |          |
| Current assets                               |                        |          |                        |          |
| 1 . Cash and deposits                        | 20,162                 |          | 22,201                 |          |
| 2 . Notes and accounts receivable            | 11,746                 |          | 11,430                 |          |
| 3 . Marketable securities                    | 8,191                  |          | 9,854                  |          |
| 4 . Inventories                              | 8,785                  |          | 6,116                  |          |
| 5 . Deferred income taxes                    | 567                    |          | 726                    |          |
| 6 . Other current assets                     | 5,227                  |          | 4,617                  |          |
| Less: Allowance for doubtful receivables     | (31)                   |          | (13)                   |          |
| Total current assets                         | 54,650                 | 22.5     | 54,932                 | 22.3     |
| Fixed assets                                 |                        |          |                        |          |
| 1 . Property, plant and equipment            |                        |          |                        |          |
| (1)Buildings and structures                  | 121,431                |          | 123,744                |          |
| Accumulated depreciation and amortization    | 64,113                 | 57,317   | 70,332                 | 53,411   |
| (2)Wells                                     | 26,792                 |          | 30,295                 |          |
| Accumulated depreciation and amortization    | 23,262                 | 3,529    | 23,154                 | 7,140    |
| (3)Machinery and equipment                   | 47,363                 |          | 59,619                 |          |
| Accumulated depreciation and amortization    | 34,338                 | 13,024   | 35,921                 | 23,697   |
| (4)Land                                      |                        | 12,011   |                        | 12,051   |
| (5) Construction in progress                 |                        | 4,611    |                        | 1,370    |
| (6) Other property, plant and equipment      | 13,195                 |          | 10,097                 |          |
| Accumulated depreciation and amortization    | 8,429                  | 4,765    | 7,193                  | 2,904    |
| Property, plant and equipment, net           |                        | 95,261   |                        | 100,576  |
| 2 . Intangible fixed assets                  |                        | 565      |                        | 819      |
| 3 . Investments and others                   |                        |          |                        |          |
| (1)Investments in securities                 |                        | 87,778   |                        | 84,771   |
| (2)Long-term loans                           |                        | 3,320    |                        | 2,562    |
| (3)Deferred income taxes                     |                        | 6,993    |                        | 4,966    |
| (4)Others                                    |                        | 10,679   |                        | 11,592   |
| Less: Allowance for doubtful receivables     |                        | (134)    |                        | (123)    |
| Allowance for losses on overseas investments |                        | (16,659) |                        | (13,334) |
| Total investments and others                 |                        | 91,978   | 38.0                   | 90,436   |
| Total fixed assets                           |                        | 187,805  | 77.5                   | 191,832  |
| Total assets                                 |                        | 242,455  | 100.0                  | 246,765  |

| Description  | (As of March 31, 2003) |       | (As of March 31, 2004) |       |
|--|------------------------|-------|------------------------|-------|
|  | Amount (¥ million)     | ( % ) | Amount (¥ million)     | ( % ) |
| (Liabilities)  |                        |       |                        |       |
| Current liabilities  |                        |       |                        |       |
| 1 . Notes and accounts payable                                 | 5,476                  |       | 2,353                  |       |
| 2 . Short-term bank loans                                      | 900                    |       | 600                    |       |
| 3 . Current portion of long-term debt                          | 2,315                  |       | 2,306                  |       |
| 4 . Income taxes payable                                       | 840                    |       | 1,610                  |       |
| 5 . Other current liabilities                                  | 8,655                  |       | 9,928                  |       |
| Total current liabilities                                      | 18,186                 | 7.5   | 16,798                 | 6.8   |
| Long-term liabilities  |                        |       |                        |       |
| 1 . Long-term debt   | 11,309                 |       | 9,003                  |       |
| 2 . Accrued retirement benefits for employees                  | 3,276                  |       | 3,574                  |       |
| 3 . Accrued retirement benefits for officers                   | 598                    |       | 696                    |       |
| 4 . Accrued estimated cost of abandonment of wells             | 3,122                  |       | 2,423                  |       |
| 5 . Accrual for losses on projects                             | 11,480                 |       | 10,975                 |       |
| 6 . Other long-term liabilities                                | 2,166                  |       | 2,186                  |       |
| Total long-term liabilities                                    | 31,954                 | 13.2  | 28,859                 | 11.7  |
| Total liabilities  | 50,141                 | 20.7  | 45,658                 | 18.5  |
| (Minority interests)   |                        |       |                        |       |
| Minority interests in consolidated subsidiaries                | 5,400                  | 2.2   | 5,392                  | 2.2   |
| (Shareholders' equity)   |                        |       |                        |       |
| Common stock   | 14,288                 | 5.9   | 14,288                 | 5.8   |
| Retained earnings  | 172,370                | 71.1  | 180,826                | 73.2  |
| Unrealized holding gain on securities                          | 2,304                  | 0.9   | 3,412                  | 1.4   |
| Translation adjustments  | (2,048)                | (0.8) | (2,810)                | (1.1) |
| Treasury stock   | -                      | -     | (1)                    | (0.0) |
| Total shareholders' equity                                     | 186,914                | 77.1  | 195,715                | 79.3  |
| Total liabilities, minority interests and shareholders' equity | 242,455                | 100.0 | 246,765                | 100.0 |

## 2 . Consolidated Statements of Income

| Description  | FY2003<br>(Apr. 1, 2002 – Mar. 31, 2003) |        |       | FY2004<br>(Apr. 1, 2003 – Mar. 31, 2004) |        |       |
|--|--|--------|-------|--|--------|-------|
|  | Amount (¥ million)                       |        | ( % ) | Amount (¥ million)                       |        | ( % ) |
| Net sales  |  | 90,683 | 100.0 |  | 96,713 | 100.0 |
| Cost of sales  |  | 52,288 | 57.7  |  | 58,060 | 60.0  |
| Gross profit   |  | 38,394 | 42.3  |  | 38,653 | 40.0  |
| Exploration expenses   |  |        |       |  |        |       |
| 1 . Exploration expenses   | 3,695                                    |        |       | 5,888                                    |        |       |
| 2 . Exploration subsidies  | (582)                                    | 3,113  | 3.4   | (675)                                    | 5,213  | 5.4   |
| Selling, general and administrative expenses                       |  | 19,452 | 21.4  |  | 20,990 | 21.7  |
| Operating income   |  | 15,828 | 17.5  |  | 12,449 | 12.9  |
| Non-operating income   |  |        |       |  |        |       |
| 1 . Interest income  | 1,454                                    |        |       | 1,192                                    |        |       |
| 2 . Dividend income  | 1,226                                    |        |       | 1,298                                    |        |       |
| 3 . Gain on sale of securities                                     | 88                                       |        |       | 244                                      |        |       |
| 4 . Reversal of allowance for losses on overseas investments       | -  |        |       | 2,705                                    |        |       |
| 5 . Other non-operating income                                     | 637                                      | 3,406  | 3.7   | 515                                      | 5,956  | 6.2   |
| Non-operating expenses   |  |        |       |  |        |       |
| 1 . Interest expense   | 590                                      |        |       | 346                                      |        |       |
| 2 . Loss on sale of securities                                     | 295                                      |        |       | 34                                       |        |       |
| 3 . Devaluation loss on securities                                 | 2,236                                    |        |       | 498                                      |        |       |
| 4 . Equity in losses of unconsolidated subsidiaries and affiliates | 722                                      |        |       | 2,072                                    |        |       |
| 5 . Provision for allowance for losses on overseas investments     | 151                                      |        |       | -  |        |       |
| 6 . Provision for accrued estimated cost of abandonment of wells   | 986                                      |        |       | 160                                      |        |       |
| 7 . Provision for losses on projects                               | 821                                      |        |       | 129                                      |        |       |
| 8 . Other non-operating expenses                                   | 661                                      | 6,465  | 7.1   | 695                                      | 3,937  | 4.1   |
| Ordinary income  |  | 12,769 | 14.1  |  | 14,468 | 15.0  |
| Extraordinary income   |  |        |       |  |        |       |
| 1 . Reversal of allowance for doubtful receivables                 | 65                                       | 65     | 0.1   | 25                                       | 25     | 0.0   |
| Extraordinary losses   |  |        |       |  |        |       |
| 1 . Loss on disposal of fixed assets                               | 262                                      | 262    | 0.3   | 286                                      | 286    | 0.3   |
| Income before income taxes and minority interests                  |  | 12,572 | 13.9  |  | 14,207 | 14.7  |
| Current income taxes   | 1,654                                    |        |       | 2,568                                    |        |       |
| Deferred income taxes  | 1,916                                    | 3,571  | 4.0   | 1,386                                    | 3,955  | 4.1   |
| Minority interests   |  | 172    | 0.2   |  | 291    | 0.3   |
| Net income   |  | 8,828  | 9.7   |  | 9,960  | 10.3  |

### 3 . Consolidated Statements of Shareholders' Equity

|  | FY2003<br>(Apr. 1, 2002 – Mar. 31, 2003) |         | FY2004<br>(Apr. 1, 2003 – Mar. 31, 2004) |         |
|--|--|---------|--|---------|
| Description                                    | Amount (¥ million)                       |         | Amount (¥ million)                       |         |
| Retained earnings                              |  |         |  |         |
| Balance at beginning of year                   |  | 165,042 |  | 172,370 |
| Add:   |  |         |  |         |
| 1 . Net income                                 | 8,828                                    | 8,828   | 9,960                                    | 9,960   |
| Deduct:  |  |         |  |         |
| 1 . Cash dividends paid                        | 1,428                                    |         | 1,428                                    |         |
| 2 . Bonuses to officers                        | 72                                       |         | 75                                       |         |
| 3 . Decrease from exclusion from consolidation | 0  | 1,501   | -  | 1,504   |
| Balance at end of year                         |  | 172,370 |  | 180,826 |

#### 4 . Consolidated Statements of Cash Flows

|  | FY2003<br>(Apr. 1, 2002 –<br>Mar. 31, 2003) | FY2004<br>(Apr. 1, 2003 –<br>Mar. 31, 2004) |
|--|---|---|
| Description  | Amount (¥ million)                          | Amount (¥ million)                          |
| <b>Operating activities</b>  |   |   |
| Income before income taxes and minority interests  | 12,572                                      | 14,207                                      |
| Depreciation and amortization  | 9,817                                       | 11,043                                      |
| Loss on devaluation of marketable securities and investments in securities   | 2,236                                       | 498   |
| Decrease in allowance for doubtful receivables   | (104)                                       | (27)  |
| Increase (decrease) in provision for accrued retirement benefits for employees                                       | (188)                                       | 303   |
| Increase (decrease) in provision for accrued retirement benefits for officers  | (28)  | 97  |
| Decrease in provision for accrued estimated cost of abandonment of wells   | (25)  | (638)                                       |
| Decrease (increase) in provision for allowance for losses on overseas investments and accrual for losses on projects | 132   | (3,830)                                     |
| Interest and dividend income   | (2,681)                                     | (2,491)                                     |
| Interest expense   | 590   | 346   |
| Gain on redemption and sales of marketable securities and investments in securities                                  | (108)                                       | (305)                                       |
| Loss on redemption and sales of marketable securities and investments in securities                                  | 295   | 34  |
| Equity in losses of unconsolidated subsidiaries and affiliates   | 722   | 2,072                                       |
| Decrease (increase) in notes and accounts receivable   | (1,172)                                     | 310   |
| Decrease (increase) in inventories   | (2,261)                                     | 2,669                                       |
| Increase (decrease) in notes and accounts payable  | 1,654                                       | (2,161)                                     |
| Increase (decrease) in consumption tax payable   | 259   | (211)                                       |
| Other, net   | (305)                                       | 1,408                                       |
| <b>Subtotal</b>  | <b>21,405</b>                               | <b>23,326</b>                               |
| Income taxes (paid) refunded   | 214   | (1,803)                                     |
| <b>Net cash provided by operating activities</b>   | <b>21,619</b>                               | <b>21,522</b>                               |
| <b>Investing activities</b>  |   |   |
| Investments in time deposits   | (25)  | (335)                                       |
| Proceeds from time deposits  | 1,029                                       | 15  |
| Payments for purchase of marketable securities   | (1,079)                                     | (2,998)                                     |
| Proceeds from redemption and sale of marketable securities   | 7,515                                       | 7,890                                       |
| Additions to property, plant and equipment   | (11,908)                                    | (15,734)                                    |
| Proceeds from sales of property, plant and equipment   | 8   | 38  |
| Additions to intangible fixed assets   | (94)  | (423)                                       |
| Payments for purchase of investments in securities   | (14,434)                                    | (9,030)                                     |
| Proceeds from redemption and sale of investments in securities   | 4,773                                       | 5,106                                       |
| Increase in loans receivable   | (441)                                       | (89)  |
| Decrease in loans receivable   | 65  | 554   |
| Increase in money trusts   | (500)                                       | -   |
| Decrease in money trusts   | 500   | -   |
| Interest and dividends received  | 2,651                                       | 2,638                                       |
| Other, net   | 21  | (309)                                       |
| <b>Net cash used in investing activities</b>   | <b>(11,915)</b>                             | <b>(12,677)</b>                             |
| <b>Financing activities</b>  |   |   |
| Increase (decrease) in short-term bank loans   | 650   | (300)                                       |
| Repayment of long-term debt  | (6,377)                                     | (2,315)                                     |
| Purchase of treasury stock   | -   | (1)   |
| Cash dividends paid  | (1,428)                                     | (1,428)                                     |
| Dividends paid to minority shareholders  | (197)                                       | (197)                                       |
| Interest paid  | (627)                                       | (356)                                       |
| <b>Net cash used in financing activities</b>   | <b>(7,981)</b>                              | <b>(4,599)</b>                              |
| Effect of exchange rate changes on cash and cash equivalents   | (270)                                       | (260)                                       |
| <b>Increase in cash and cash equivalents</b>   | <b>1,452</b>                                | <b>3,984</b>                                |
| <b>Cash and cash equivalents at beginning of year</b>  | <b>22,592</b>                               | <b>23,866</b>                               |
| Decrease in cash and cash equivalents arising from exclusion from consolidation                                      | (179)                                       | -   |
| <b>Cash and cash equivalents at period-end</b>   | <b>23,866</b>                               | <b>27,851</b>                               |



## V. Status of Production and Sales

### 1. Production

#### (1) Oil and Natural Gas Segment

| Division         | Product        | FY 2003<br>(Apr. 1, 2002 – Mar. 31, 2003) |        | FY2004<br>(Apr. 1, 2003 – Mar. 31, 2004) |        |
|------------------|----------------|---|--------|--|--------|
|                  |                | Volume                                    | Amount | Volume                                   | Amount |
| E&P              | Crude oil      | 510,249 kl<br>( 5,031 )                   |        | 574,417 kl<br>( 3,131 )                  |        |
|                  | Natural gas    | 950,158 thousand m3<br>( 10,506 )         |        | 1,036,120 thousand m3<br>( 7,231 )       |        |
|                  | LNG            | -   |        | 6,589 t                                  |        |
| Other Businesses | LPG            | 11,231 <sup>t</sup>                       |        | 10,811 t                                 |        |
|                  | Fuel oil, etc. | 36,655 <sup>kl</sup>                      |        | 52,393kl                                 |        |

(Notes)

1. The figures in parentheses in E&P Operations represent overseas production and are included in the total.
2. Part of the oil production volume is used as a feedstock for LPG, fuel oil and other products.
3. Part of the natural gas production volume is used as a feedstock for LNG, LPG and other products.

#### (2) Geothermal Energy Segment

| Division                   | Product | FY 2003<br>(Apr. 1, 2002 – Mar. 31, 2003) |        | FY2004<br>(Apr. 1, 2003 – Mar. 31, 2004) |        |
|----------------------------|---------|---|--------|--|--------|
|                            |         | Volume                                    | Amount | Volume                                   | Amount |
| Geothermal Energy Business | Steam   | 1,157,389 <sup>t</sup>                    |        | 1,107,443 <sup>t</sup>                   |        |

### 2. Sales

#### (1) Oil and Natural Gas Segment

| Division          | Product        | FY 2003<br>(Apr. 1, 2002 – Mar. 31, 2003) |                    | FY2004<br>(Apr. 1, 2003 – Mar. 31, 2004) |                    |
|-------------------|----------------|---|--------------------|--|--------------------|
|                   |                | Volume                                    | Amount             | Volume                                   | Amount             |
| E&P               | Crude oil      | 1,445,798 kl                              | 30,743 (¥ million) | 1,528,507 kl                             | 32,963 (¥ million) |
|                   | Natural gas    | 1,154,764 thousand m3                     | 41,479             | 1,296,389 thousand m3                    | 42,560             |
|                   | LNG            | 61,294 <sup>t</sup>                       | 3,058              | 75,883 <sup>t</sup>                      | 3,837              |
|                   | Subtotal       | -   | 75,281             | -  | 79,361             |
| Contract Services |                | -   | 5,815              | -  | 7,049              |
|                   | Subtotal       | -   | 5,815              | -  | 7,049              |
| Other Businesses  | LPG            | 36,400 <sup>t</sup>                       | 1,786 (¥ million)  | 31,506 <sup>t</sup>                      | 1,514 (¥ million)  |
|                   | Fuel oil, etc. | 71,518 kl                                 | 2,811              | 89,090 kl                                | 3,517              |
|                   | Others         | -   | 3,793              | -  | 4,182              |
|                   | Subtotal       | -   | 8,390              | -  | 9,213              |
|                   | Total          | -   | 89,486             | -  | 95,624             |

(Notes)

1. Others in Other Businesses includes revenue from the transmission of third-party gas through JAPEX's pipeline network and sales commissions.
2. Monetary amounts in the table do not include consumption tax.

**(2) Geothermal Energy Segment**

| Division                      | Product | FY 2003<br>(Apr. 1, 2002 – Mar. 31, 2003) |                      | FY2004<br>(Apr. 1, 2003 – Mar. 31, 2004) |                      |
|-------------------------------|---------|---|----------------------|--|----------------------|
|                               |         | Volume                                    | Amount               | Volume                                   | Amount               |
| Geothermal Energy<br>Business | Steam   | 1,080,685 t                               | (¥ million)<br>1,196 | 1,061,336 t                              | (¥ million)<br>1,089 |
|                               | Total   | -   | 1,196                | -  | 1,089                |

(Note)

1. Monetary amounts in the table do not include consumption tax.

# Unconsolidated Financial Results for Fiscal Year Ended March 31, 2004

May 17, 2004

Note: The following report is a summary of the Japanese-language original.

Company Name: Japan Petroleum Exploration Co., Ltd.

Stock Listing: Tokyo Stock Exchange

Company Code: 1662

Location of Head Office: Tokyo

(URL: <http://www.japex.co.jp/>)

President: Yuji Tanahashi

Inquiries: Koichi Shimomura, Manager, Media Relations, Administration Department TEL: (03) 5461-7413

Date of the Board of Directors meeting to settle year-end consolidated accounts: May 17, 2004 Interim dividend system: Yes

Date of the Annual General Meeting of Shareholders: June 24, 2004

Trading unit system: One unit 100 shares

## 1. Results for FY 2004 (April 1, 2003 – March 31, 2004)

### (1) Unconsolidated Operating Results (Amounts less than one million yen have been omitted)

|        | Net Sales   |     | Operating Income |        | Ordinary Income |      |
|--------|-------------|-----|------------------|--------|-----------------|------|
|        | (¥ million) | %   | (¥ million)      | %      | (¥ million)     | %    |
| FY2004 | 82,343      | 6.3 | 10,506           | (24.7) | 12,481          | 7.8  |
| FY2003 | 77,490      | 2.3 | 13,959           | 58.8   | 11,578          | 43.4 |

|        | Net Income  |       | Net Income Per Share | Diluted Net Income Per Share | Return on Equity | Ordinary Income-to-Total Assets Ratio | Ordinary Income-to-Net Sales Ratio |
|--------|-------------|-------|----------------------|------------------------------|------------------|---------------------------------------|------------------------------------|
|        | (¥ million) | %     | (¥)                  | (¥)                          | %                | %                                     | %                                  |
| FY2004 | 9,602       | 14.5  | 166.56               | -                            | 5.3              | 5.8                                   | 15.2                               |
| FY2003 | 8,385       | 105.7 | 145.44               | -                            | 4.8              | 5.5                                   | 14.9                               |

(Notes)

6. Average number of outstanding shares: FY2004: 57,154,715 shares FY2003: 57,154,776 shares

7. Changes in accounting methods: None

8. Percentage figures for net sales, operating income and other items represent changes compared with the previous fiscal year.

4. Diluted net income per share is not shown because there are no shares with a dilutive effect.

### (2) Dividends

|        | Dividends Per Share for the Fiscal Year |     |        | Dividends ( Full Year ) | Payout Ratio | Dividends-to-Shareholders Equity Ratio |
|--------|---|-----|--------|-------------------------|--------------|--|
|        | (¥)                                     | (¥) | (¥)    |                         |              |  |
| FY2004 | 3500                                    | 000 | 35. 00 | 2,000                   | 21.0         | 1.1                                    |
| FY2003 | 2500                                    | 000 | 25. 00 | 1,428                   | 17.2         | 0.8                                    |

(Note) The FY2004 year-end dividend comprises a ¥30 normal dividend and a ¥5 commemorative dividend.

### (3) Unconsolidated Financial Position

|        | Total Assets | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity Per Share |
|--------|--------------|----------------------|----------------------------|--------------------------------|
|        | (¥ million)  | (¥ million)          | %                          | (¥)                            |
| FY2004 | 217,802      | 186,923              | 85.8                       | 3,269.05                       |
| FY2003 | 212,488      | 177,774              | 83.7                       | 3,109.13                       |

(Notes) Number of shares issued and outstanding at fiscal year-end:

FY2004 57,154,472  
FY2003 57,154,776

Number of treasury stock at fiscal year-end:

FY2004 304  
FY2003 0

2. Unconsolidated Forecast for FY 2005 (April 1, 2004 – March 31, 2005)

|                 | Net Sales   | Ordinary Income | Net Income  | Dividends Per Share for the Fiscal Year |          |      |
|-----------------|-------------|-----------------|-------------|---|----------|------|
|                 |             |                 |             | Interim                                 | Year-end |      |
|                 | (¥ million) | (¥ million)     | (¥ million) | (¥)                                     | (¥)      | (¥)  |
| Interim         | 33,266      | 2,458           | 2,516       | 15.00                                   | -        | -    |
| Fiscal Year-end | 72,809      | 9,819           | 8,291       | -                                       | 1500     | 3000 |

(Reference) Estimated net income per share for the year ending March 31, 2005 is ¥145.06

The above estimates have been made based on information available as of the date of this release. Actual results could differ significantly from these estimates due to a variety of factors.