

# Consolidated Financial Results for the First Three Quarters Ended December 31, 2004

February 9, 2005

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

Company Name: Japan Petroleum Exploration Co., Ltd.

(Company Code: 1662, First Section, Tokyo Stock Exchange)

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

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## 1. Notes Relating to Preparation of Quarterly Financial Statements

### (1) Use of simplified accounting procedures: Yes

Income taxes are calculated using an estimated annual income tax rate based on the statutory tax rate.

### (2) Changes in accounting treatment from the most recent consolidated fiscal year: Yes

(Accounting Standards for Impairment of Fixed Assets)

JAPEX has applied in advance Accounting Standards for Impairment of Fixed Assets (Opinions on Accounting Standards for Impairment of Fixed Assets, Business Accounting Council, August 9, 2002) and Guidance for the Application of Accounting Standards for Impairment of Fixed Assets (Accounting Standards Board of Japan, Business Accounting Standards Application Policy No. 6, October 31, 2003).

Although the Company has recognized impairment losses for the third quarter, these losses have been offset by a reversal of accrual for losses on projects, as shown on the quarterly income statement. Consequently, the adoption of accounting standards for impairment of fixed assets has had no impact on income before income taxes and minority interests for the period under review.

### (3) Changes in scope of consolidation and application of equity method: Yes

Consolidated (Added): 2 companies; Equity-method (Excluded): 2 companies

## 2. Consolidated Financial Results for the First Nine Months of Fiscal 2005 (April 1, 2004 – December 31, 2004)

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
FY05 First 3Qs	73,370	9.4	7,652	(11.0)	12,329	22.0	8,708	22.3
FY04 First 3Qs	67,079	-	8,593	-	10,102	-	7,123	-
( Ref. )FY04 Full Year	96,713		12,449		14,468		9,960	

	Net Income per Share	Diluted Net Income per Share
	(¥)	(¥)
FY05 First 3Qs	152.36	-
FY04 First 3Qs	124.62	-
( Ref. )FY04 Full Year	172.76	-

(Notes)

1. Percentage figures for net sales, operating income and other items represent changes compared with the corresponding period of the previous fiscal year.
2. Diluted net income per share is not shown because there are no shares with a dilutive effect.

## Qualitative Information Concerning Consolidated Business Performance

For the first nine months of fiscal 2005, ended December 31, 2004, JAPEX reported consolidated net sales of ¥73,370 million, up 9.4% year on year. Compared to the same period a year earlier, operating income declined 11.0% to ¥7,652 million, ordinary income increased 22.0% to ¥12,329 million, and net income rose 22.3% to ¥8,708 million.

Third-quarter operating performance by business segment is as follows:

### 1. Oil and Natural Gas Segment

#### (a) E&P Division

This division sells crude oil, natural gas and liquefied natural gas (LNG). This division posted net sales of ¥59,388 million, an increase of 3.6% from a year earlier on the back of rising crude oil prices.

(b) Contract Services Division

The Contract Services Division accepts orders mainly for drilling projects and geological and geophysical surveys. Net sales for the period were ¥3,854 million, up 46.5% year on year, mainly reflecting an increase in the volume of orders for contract services.

(c) Other Businesses Division

This division mainly carries out the manufacturing and trading of petroleum products such as LPG and fuel oil, the transmission of third-party natural gas and petroleum products, and other miscellaneous consignment orders. Net sales totaled ¥9,147 million, a year-on-year increase of 50.7%. This rise was primarily attributable to an increase in revenues from third-party oil and natural gas transmissions and higher sales of petroleum products.

2. Geothermal Energy Segment

Geothermal Energy Division

This division primarily sells steam used for electric power generation. For the period under review, the division reported net sales of ¥979 million, down 5.1% from a year earlier, reflecting lower steam sales volume.

(2) Consolidated Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity Ratio per Share
	(¥ million)	(¥ million)	%	(¥)
Dec. 31, 2004	368,206	278,812	75.7	4,878.26
Dec. 31, 2003	243,095	192,356	79.1	3,365.54
(Ref.) Mar. 31, 2004	246,765	195,715	79.3	3,422.80

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at Period-End
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
FY05 First 3Qs	11,369	(604)	(5,634)	32,937
FY04 First 3Qs	13,596	(5,730)	(4,122)	27,405
( Ref. )FY04 Full Year	21,522	(12,677)	(4,599)	27,851

**Qualitative Information Concerning Consolidated Financial Position**

Total assets as of December 31, 2004 stood at ¥368,206 million, an increase of ¥121,441 million from March 31, 2004. This rise was mainly attributable to the revaluation of shares held in INPEX Corporation following this company's listing on the First Section of the Tokyo Stock Exchange on November 17, 2004. Also as a result of this listing, shareholders' equity rose ¥83,096 million, to ¥278,812 million.

As of December 31, 2004, cash and cash equivalents on a consolidated basis stood at ¥32,937 million, an increase of ¥5,086 million compared with the end of the previous fiscal year.

**(Cash Flows from Operating Activities)**

Operating activities provided net cash of ¥11,369 million, mainly reflecting cash from income before income taxes and minority interests of ¥11,638 million and depreciation and amortization of ¥10,475 million, against an increase in inventories of ¥5,314 million, income taxes paid of ¥3,407 million and other uses of cash.

**(Cash Flows from Investing Activities)**

Investing activities used net cash of ¥604 million, primarily attributable to cash of ¥7,061 million used for the purchase of property, plant and equipment and ¥5,103 million from proceeds from the purchase of consolidated subsidiary stock accompanied by changes in the scope of consolidation (the net amount after deduction of expenses for the acquisition of shares in Japex New Nanhai Ltd. and Jawa Oil Co., Ltd. from funds held by these companies).

**(Cash Flows from Financing Activities)**

Financing activities used net cash of ¥5,634 million, reflecting mainly outflows of ¥2,829 million for cash dividends paid and ¥1,864 million for the repayment of long-term debt.

## 3. Results Forecasts for Fiscal 2005 (April 1, 2004 – March 31, 2005)

(¥ million)

	Net Sales	Ordinary Income	Net Income
Full Year	(¥ million)	(¥ million)	(¥ million)
Consolidated	99,558	16,470	11,043
Non-consolidated	85,210	12,199	9,041

(Reference)

Note: There has been no change to the full-year consolidated and non-consolidated forecasts announced on November 15, 2004. The above forecasts have been prepared based on information available to management at the time of release. Actual results may differ from forecasts due to a range of factors.

# 1.Consolidated Quarterly Balance Sheets

(¥ million)

Description	FY05 First 3Qs	FY04	Change	FY04 First 3Qs
	As of Dec. 31, 2004	As of Mar. 31, 2004		As of Dec. 31, 2003
(Assets)				
Current assets				
1. Cash and deposits	30,564	22,201	8,363	23,203
2. Notes and accounts receivable	12,401	11,430	971	9,740
3. Marketable securities	6,004	9,854	(3,849)	11,321
4. Inventories	11,430	6,116	5,314	8,050
5. Other current assets	7,761	5,343	2,417	5,834
Less: Allowance for doubtful receivables	(14)	(13)	(0)	(9)
Total current assets	68,148	54,932	13,215	58,140
Fixed assets				
1. Property, plant and equipment				
(1) Buildings and structures	45,532	53,411	(7,878)	53,632
(2) Machinery and equipment	26,361	23,697	2,663	12,343
(3) Land	11,351	12,051	(700)	11,998
(4) Other property, plant and equipment	10,908	11,415	(506)	16,183
Total property, plant and equipment	94,154	100,576	(6,422)	94,157
2. Intangible fixed assets	1,749	819	929	724
3. Investments and others				
(1) Investments in securities	199,713	84,771	114,941	83,362
(2) Others	16,015	19,121	(3,106)	20,337
Less: Allowance for doubtful receivables	(195)	(123)	(71)	(117)
Allowance for losses on overseas investments	(11,379)	(13,334)	1,954	(13,508)
Total investments and others	204,154	90,436	113,718	90,073
Total fixed assets	300,057	191,832	108,225	184,955
Total assets	368,206	246,765	121,441	243,095
(Liabilities)				
I Current liabilities				
1. Notes and accounts payable	5,901	2,353	3,547	2,195
2. Short-term bank loans	-	600	(600)	525
3. Current portion of long-term debt	9,006	2,306	6,700	2,308
4. Other current liabilities	16,930	11,539	5,391	9,988
Total current liabilities	31,837	16,798	15,038	15,017
II Long-term liabilities				
1. Long-term debt	414	9,003	(8,589)	9,450
2. Deferred tax liabilities	38,536	-	38,536	-
3. Accrued retirement benefits for employees	4,147	3,574	573	4,030
4. Accrued retirement benefits for officers	720	696	23	663
5. Accrued estimated cost of abandonment of wells	2,371	2,423	(51)	2,525
6. Accrual for losses on projects	2,340	10,975	(8,635)	11,562
7. Other reserves	62	-	62	-
8. Other long-term liabilities	439	2,186	(1,747)	2,152
Total long-term liabilities	49,032	28,859	20,172	30,384
Total liabilities	80,870	45,658	35,211	45,402
(Minority interests)				
Minority interests in consolidated subsidiaries	8,524	5,392	3,132	5,336
(Shareholders' equity)				
I Common stock	14,288	14,288	-	14,288
II Retained earnings	186,590	180,826	5,764	177,988
III Unrealized holding gain on securities	78,055	3,412	74,643	2,638
IV Translation adjustments	(119)	(2,810)	2,691	(2,558)
V Treasury stock	(3)	(1)	(2)	(0)
Total shareholders' equity	278,812	195,715	83,096	192,356
Total liabilities, minority interests and shareholders' equity	368,206	246,765	121,441	243,095

## 2. Consolidated Quarterly Statements of Income

(¥ million)

Description	FY05 First 3Qs Apr. – Dec. 2004	FY04 First 3Qs Apr. – Dec. 2003	Change	FY04 Apr. 03 – Mar. 04
I Net sales	73,370	67,079	6,291	96,713
II Cost of sales	46,874	40,739	6,134	58,060
Gross profit	26,496	26,339	156	38,653
III Exploration expenses				
1. Exploration expenses	3,845	3,590	254	5,888
2. Exploration subsidies	(81)	(483)	402	(675)
Total exploration expense	3,763	3,106	657	5,213
IV Selling, general and administrative expenses	15,079	14,639	440	20,990
Operating income	7,652	8,593	(941)	12,449
V Non-operating income				
1. Interest income	883	922	(38)	1,192
2. Dividend income	1,240	1,034	205	1,298
3. Equity in profit of non-consolidated subsidiaries and affiliates	1,029	-	1,029	-
4. Reversal of allowance for losses on overseas investments	1,194	2,531	(1,337)	2,705
5. Reversal of accrual for losses on projects	809	-	809	-
6. Other non-operating income	771	514	256	759
Total non-operating income	5,929	5,003	925	5,956
VI Non-operating expenses				
1. Interest expense	205	267	(62)	346
2. Loss on sale of securities	145	-	145	34
3. Devaluation loss on securities	128	57	70	498
4. Equity in losses of non-consolidated subsidiaries and affiliates	-	2,335	(2,335)	2,072
5. Provision for accrued estimated cost of abandonment of wells	380	70	310	160
6. Provision for losses on projects	-	285	(285)	129
7. Other non-operating expenses	392	478	(86)	695
Total non-operating expenses	1,252	3,495	(2,243)	3,937
Ordinary income	12,329	10,102	2,227	14,468
VII Extraordinary income				
1. Reversal of allowance for doubtful receivables	2	24	(22)	25
VIII Extraordinary losses				
1. Loss on disposal of fixed assets	637	208	429	286
2. Earthquake disaster recovery expenses	55	-	55	-
Income before income taxes and minority interests	11,638	9,918	1,720	14,207
Income taxes	2,575	2,555	20	3,955
Minority interests	354	240	114	291
Net income	8,708	7,123	1,585	9,960

### 3. Consolidated Quarterly Statements of Cash Flows

(¥ million)

Description	FY05 First 3Qs Apr. – Dec. 2004	FY04 First 3Qs Apr. – Dec. 2003	FY04 Apr. 03 – Mar. 04
<b>I Operating activities</b>			
1. Income before income taxes and minority interests	11,638	9,918	14,207
2. Depreciation and amortization	10,475	7,548	11,043
3. Loss on devaluation of marketable securities and investments in securities	128	57	498
4. Increase (decrease) in allowance for doubtful receivables	72	(23)	(27)
5. Increase in provision for accrued retirement benefits for employees	567	757	303
6. Increase (decrease) in provision for accrued retirement benefits for officers	23	64	97
7. Increase (decrease) in provision for accrued estimated cost of abandonment of wells	(62)	(555)	(638)
8. Decrease in provision for allowance for losses on overseas investments and accrual for losses on projects	(1,836)	(3,069)	(3,830)
9. Interest and dividend income	(2,124)	(1,957)	(2,491)
10. Interest expense	205	267	346
11. Gain on redemption and sales of marketable securities and investments in securities	(134)	(186)	(305)
12. Loss on redemption and sales of marketable securities and investments in securities	232	-	34
13. Equity in losses (profits) of non-consolidated subsidiaries and affiliates	(1,029)	2,335	2,072
14. Decrease (increase) in notes and accounts receivable	(375)	2,002	310
15. Decrease (increase) in inventories	(5,314)	735	2,669
16. Increase in prepaid expense	-	(321)	-
17. Decrease in advances	-	209	-
18. Increase (decrease) in notes and accounts payable	1,335	(2,640)	(2,161)
19. Increase (decrease) in consumption tax payable	371	(46)	(211)
20. Other, net	604	169	1,408
Subtotal	14,776	15,265	23,326
19. Income taxes (paid) refunded	(3,407)	(1,668)	(1,803)
Net cash provided by operating activities	11,369	13,596	21,522
<b>II Investing activities</b>			
1. Investments in time deposits	(40)	(330)	(335)
2. Proceeds from time deposits	330	-	15
3. Payments for purchase of marketable securities	(100)	(2,998)	(2,998)
4. Proceeds from redemption and sale of marketable securities	3,637	4,444	7,890
5. Additions to property, plant and equipment	(7,061)	(6,363)	(15,734)
6. Proceeds from sales of property, plant and equipment	154	34	38
7. Additions to intangible fixed assets	(355)	(291)	(423)
8. Payments for purchase of investments in securities	(7,531)	(6,264)	(9,030)
9. Proceeds from redemption and sale of investments in securities	4,111	4,072	5,106
10. Proceeds from purchase of consolidated subsidiary stock accompanied by changes in scope of consolidation	5,103	-	-
11. Increase in loans receivable	(263)	(527)	(89)
12. Decrease in loans receivable	53	543	554
13. Interest and dividends received	2,030	1,884	2,638
14. Other, net	(673)	67	(309)
Net cash used in investing activities	(604)	(5,730)	(12,677)
<b>III Financing activities</b>			
1. Decrease in short-term bank loans	(593)	(375)	(300)
2. Repayment of long-term debt	(1,864)	(1,865)	(2,315)
3. Purchase of treasury stock	(2)	(0)	(1)
4. Cash dividends paid	(2,829)	(1,428)	(1,428)
5. Dividends paid to minority shareholders	(192)	(197)	(197)
6. Interest paid	(152)	(255)	(356)
Net cash used in financing activities	(5,634)	(4,122)	(4,599)
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	(43)	(204)	(260)
<b>V Increase (decrease) in cash and cash equivalents</b>	5,086	3,539	3,984
<b>VI Cash and cash equivalents at beginning of year</b>	27,851	23,866	23,866
<b>VII Cash and cash equivalents at period-end</b>	32,937	27,405	27,851

#### 4. Status of Production and Sales

##### 1 . Production

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

Division	Product	FY05 First 3Qs Apr. 1 – Dec. 31, 2004	FY04 First 3Qs Apr. 1 – Dec. 31, 2003	(Ref.) FY04 Apr. 1, 2003 – Mar. 31, 2004
E&P	Crude oil	462,779 <sup>kl</sup> (53,985)	412,748 <sup>kl</sup> (2,358)	574,417 <sup>kl</sup> (3,131)
	Natural gas	742,321 <sup>thousand m<sup>3</sup></sup> (2,032)	718,599 <sup>thousand m<sup>3</sup></sup> (5,357)	1,036,120 <sup>thousand m<sup>3</sup></sup> (7,231)
	L N G	14,181 <sup>t</sup>	4,105 <sup>t</sup>	6,589 <sup>t</sup>
Other Businesses	L P G	7,112 <sup>t</sup>	7,564 <sup>t</sup>	10,811 <sup>t</sup>
	Fuel oil, etc.	35,080 <sup>kl</sup>	38,274 <sup>kl</sup>	52,393 <sup>kl</sup>

( Notes )

1. The figures in parentheses in E&P 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 energies.

###### (2) Geothermal Energy Segment

Division	Product	FY05 First 3Qs Apr. 1 – Dec. 31, 2004	FY04 First 3Qs Apr. 1 – Dec. 31, 2003	(Ref.) FY04 Apr. 1, 2003 – Mar. 31, 2004
Geothermal Energy	Steam	767,264 <sup>t</sup>	848,753 <sup>t</sup>	1,107,443 <sup>t</sup>

##### 2 . Sales

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

Division	Product	FY05 First 3Qs Apr. 1 – Dec. 31, 2004		FY04 First 3Qs Apr. 1 – Dec. 31, 2004		( Ref. ) FY04 Apr. 1, 2003 - Mar. 31, 2004	
		Volume	Amount	Volume	Amount	Volume	Amount
E&P	Crude Oil	1,087,755 <sup>kl</sup>	29,551 <sup>(¥ million)</sup>	1,162,330 <sup>kl</sup>	24,618 <sup>(¥ million)</sup>	1,528,507 <sup>kl</sup>	32,963 <sup>(¥ million)</sup>
	Natural Gas	873,617 <sup>thousand m<sup>3</sup></sup>	26,422	912,817 <sup>thousand m<sup>3</sup></sup>	30,115	1,296,389 <sup>thousand m<sup>3</sup></sup>	42,560
	L N G	68,791 <sup>t</sup>	3,415	51,697 <sup>t</sup>	2,610	75,883 <sup>t</sup>	3,837
	Subtotal	-	59,388	-	57,344	-	79,361
Contract services		-	3,854	-	2,630	-	7,049
	Subtotal	-	3,854	-	2,630	-	7,049
Other Businesses	L P G	21,772 <sup>t</sup>	1,126 <sup>(¥ million)</sup>	21,624 <sup>t</sup>	1,033 <sup>(¥ million)</sup>	31,506 <sup>t</sup>	1,514 <sup>(¥ million)</sup>
	Fuel oil, etc	66,926 <sup>kl</sup>	2,993	59,704 <sup>kl</sup>	2,472	89,090 <sup>kl</sup>	3,517
	O t h e r s	-	5,026	-	2,565	-	4,182
	Subtotal	-	9,147	-	6,071	-	9,213
Total		-	72,390	-	66,046	-	95,624

**(2) Geothermal Energy Segment**

Division	Product	FY05 First 3Qs Apr. 1 – Dec. 31, 2004		FY04 First 3Qs Apr. 1 – Dec. 31, 2003		( Ref. ) FY04 Apr. 1, 2003 - Mar. 31, 2004	
		Volume	Amount	Volume	Amount	Volume	Amount
Geothermal Energy	Steam	t	(¥ million)	t	(¥ million)	t	(¥ million)
		722,926	979	813,191	1,032	1,061,336	1,089
	Total	-	979	-	1,032	-	1,089

( Notes )

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