Consolidated Financial Results for Fiscal Year Ended March 31, 2005

May 16, 2005

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 16, 2005
U.S. GAAP not applied

1. Consolidated Results for Fiscal 2005 (April 1, 2004 – March 31, 2005)

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

	Net Sales		Operating Income		Ordinary Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%
FY2005	103,150	6.7	14,678	17.9	19,001	31.3
FY2004	96,713	6.6	12,449	(21.3)	14,468	13.3

	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)	%	(¥)	(¥)	%	%	%
FY2005	13,234	32.9	230.05	—	5.4	5.9	18.4
FY2004	9,960	12.8	172.76	—	5.2	5.9	15.0

(Notes)
1. Equity in net income (loss) of non-consolidated subsidiaries and affiliates: FY2005 ¥116 million FY2004 (¥2,072 million)
2. Average number of outstanding shares (Consolidated): FY2005: 57,154,118 shares FY2004: 57,154,715 shares
3. Changes in accounting methods: Yes
4. Percentage figures for net sales, operating income and other monetary items represent changes compared with the previous fiscal year.
5. 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)	%	(¥)
FY2005	393,733	293,152	74.5	5,127.67
FY2004	246,765	195,715	79.3	3,422.80

(Note) Number of shares issued and outstanding (consolidated) at fiscal year-end: FY2005 57,153,822
FY2004 57,154,472

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at Period-end
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
FY2005	21,936	(15,805)	786	34,568
FY2004	21,522	(12,677)	(4,599)	27,851

(4) Number of Consolidated Subsidiaries and Affiliates
Consolidated subsidiaries: 17 Non-consolidated subsidiaries accounted for by the equity method: 1 Equity-method subsidiaries: 8

(5) Changes in Scope of Consolidation and Application of Equity Method
Consolidated subsidiaries (Added): 4 (Excluded): 0 Equity-method affiliates (Added): 0 (Excluded): 3

2. Forecasts for Fiscal 2006 (April 1, 2005 – March 31, 2006)

	Net Sales	Ordinary Income	Net Income
	(¥ million)	(¥ million)	(¥ million)
Interim Period	44,325	7,352	6,282
Full Year	96,897	18,630	13,615

(Reference) Estimated net income per share for the year ending March 31, 2006 is ¥238.21

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 with regard to a stable supply, 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 and long-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 the “common carrier” concept 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. Efforts are presently under way to formulate the necessary terms and conditions for the start of these operations. 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. Government efforts to bolster environmental measures in the wake of enforcement of the Kyoto Protocols, coupled with activities to tackle global warming on the corporate and individual level, are likely to continue to drive demand for natural gas. 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.

The mounting concerns over recent escalation in global fuel prices and supply stability, has underscored the importance of exploration and development operations. JAPEX Group, for its part, will continue to position these activities as key elements of its business base. Accordingly, expanding natural gas sales and maintaining and enlarging reserves of oil 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 as well as expand sales of environment-friendly natural gas, the Group 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 (supply to large users and local distribution companies, or LDCs).

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, slated for completion in 2006, between the cities of Shiraishi and Koriyama 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, Hokuriku, and Kyushu regions to supply natural gas to a broader base of customers. To expand supply to users within Hokkaido by LNG tank containers from its LNG plant in Yufutsu, which is located in the region, JAPEX is taking steps to augment a liquefaction plant scheduled for completion in fiscal 2008.

Through the ongoing development of its gas operations, JAPEX is targeting natural gas sales volume of 1.7 billion m^3 in fiscal 2008. Moreover, leveraging the Group's upstream division uniqueness, JAPEX is upgrading its natural gas transmission and underground storage network organically linking a range of facilities and services in a drive to put gas operations on a more solid footing.

Conducting efficient E&P and securing new reserves

With its business centered on E&P, the JAPEX Group continually works to maintain 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 significantly expand cost-competitive domestic reserves, a key source of earnings, 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 establishing a stable business base from a long-term viewpoint overseas, the Company will work to increase operating efficiency and carry out exploration in areas identified as key geographies. Specifically, the Company aims to increase the efficiency of operations and development 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 high early returns, with consideration given to the balanced preservation of exploration assets over long-term operating periods.

In line with the disposal of assets held by the Japan National Oil Corporation (JNOC) in the wake of its dissolution on April 1, 2005, JAPEX, from the perspective of maximizing corporate value, acquired additional shares in Japex New Nanhai Ltd., Canada Oil Sands Co., Ltd. and other entities. JAPEX has long played a leading role in guiding the operations of these companies, and, with this change, is committed to improving operational efficiency and enlarging its overseas business base. The Company is also proactively considering the acquisition of shares in project companies inherited by the national government following JNOC's dissolution where its dovetails with its own business strategies.

Addressing environmental issues

JAPEX, as a company that supplies environment-friendly natural gas, feels an obligation to contribute to environmental protection. The Company therefore works to increase internal environmental awareness through ongoing use of internal environment management systems (all company sites have acquired ISO 14001 certification), and to reduce the environmental impact of its business activities. At the same time, JAPEX is contributing to environmental activities on the societal level by, among other actions, participating in and funding tree planting programs in Japan and overseas.

In Japan, emissions rights trading and other new environmental businesses are being steadily generated in an effort to help reduce the nation's greenhouse gas levels. For its part, JAPEX will continue pushing ahead with efforts to promote natural gas use from a variety of angles, 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, and technologies for storing carbon dioxide underground.

The JAPEX Group aims to utilize these activities to further strengthen its operating base and enhance its competitiveness as well as bolster 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 and useful role 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

① Company organizations

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

Board of Directors

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, in principle, 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. There are no outside directors on the Board of Directors.

(Adoption of the executive officer system)

To clarify its business execution framework, JAPEX plans to adopt the executive officer system on June 24, 2005. Accompanying this change, the number of directors will be reduced. Both these moves should expedite decision-making by the Board of Directors.

Corporate Auditors and Audit Committee

Corporate auditors attend meetings of the Board of Directors, and full-time corporate auditors also attend meetings of the Executive Committee and other important Company meetings. At the same time, corporate auditors also exchange opinions with Board members with executive functions as part of their oversight function.

The Company has four corporate auditors, two of whom are outside auditors. While each auditor has the authority to conduct audits on an independent basis, general audit policy and the allocation of auditing tasks is decided by the Audit Committee. One staff member, concurrently attached to JAPEX's Internal Auditing Dept., is posted in the office that assists corporate auditors in the execution of their duties.

The Audit Committee receives pre-audit briefings from the independent auditor, as well as details on the specific areas audited upon receipt of the independent auditor's report. As needed, the full-time corporate auditors also receive status reports on the progress of audits by the independent auditor.

Outside auditors have no special conflicts of interests with the Company.

② Internal audits
The Internal Auditing Dept., which is under the direct authority of the Company president, is responsible for monitoring each department and division to ensure compliance with all laws and internal regulations in the course of business operations. One of the three members on staff serves concurrently in the Audit Committee office. Internal audits are conducted based on yearly audit plans, with audit results reported to the president. The Internal Auditing Dept. also provides instruction and advice to departments and divisions as needed.

Internal audit reports submitted to the president are shared with the Audit Committee and the corporate auditors. The Internal Auditing Dept. also provides briefings to full-time corporate auditors regarding the status of audits on a regular basis.

③ IR activities
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.

④ Remuneration for directors, corporate auditors, and the independent auditor
Information regarding remuneration for JAPEX directors and corporate auditors, as well as fees paid to the independent auditor, in the fiscal year ended March 31, 2005 is outlined below.

Remuneration for directors and corporate auditors
Directors ¥363 million
Corporate auditors ¥34 million

Note: The remuneration for directors and corporate auditors listed above does not include bonuses appropriated from earnings, retirement allowances or wages for directors holding concurrent posts as salaried employees.

Fees for independent auditors
Compensation pursuant to Article 2-1 of Japan's CPA Law ¥30 million
Other compensation ¥3 million

⑤ Matters regarding the independent auditor
Financial statements for the fiscal year ended March 31, 2005 were audited by Shin Nihon & Co. The names of the certified public accountants (CPAs) responsible for executing audits and those assisting in audit operations are detailed below.

CPAs responsible for audit execution
Atsuhiro Umesawa, Hiroaki Kosugi

Staff assisting in audits
CPAs, assistants

5. Relationships With Parent Company and Others
JAPEX has no parent company.

III. Business Results and Financial Position

1. Business Results

(1) Overview of the fiscal year ended March 31, 2005

In the fiscal year ended March 31, 2005, the Japanese economy moved onto a firm recovery track, as improvements in the corporate sector finally spread to ordinary households. Nevertheless, the pace of recovery gradually lost momentum from mid-year onward as weakness emerged in some sectors.

Looking at petroleum market conditions, although the yen strengthened in the currency market, a tight supply and demand environment caused prices for internationally traded crude oil to remain at a high level, supporting sharp growth in prices for domestic crude oil. Still, amid escalating competition among energy sectors due to acceleration in the pace of deregulation, domestic natural gas prices remained problematic for the Company.

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, 2005, consolidated net sales totaled ¥103,150 million, up ¥6,436 million, or 6.7%, from the previous fiscal year. Driving this growth was the price of crude oil, which stabilized at a high level.

Operating income totaled ¥14,678 million, up ¥2,228 million, or 17.9%, from the previous fiscal year, reflecting increased sales and other factors, which outweighed a higher cost of sales and increased exploration expenses. Ordinary income totaled ¥19,001 million, up ¥4,533 million, or 31.3%, from the previous fiscal year, mainly due to an increase in the amount of reversal of accrual for losses on projects and other factors.

As a result, consolidated net income totaled ¥13,234 million, up ¥3,273 million, or 32.9%, from the previous fiscal year.

Among overseas operations companies led by JAPEX, additional shares were acquired in Japex New Nanhai Ltd., Java Oil Co., Ltd., Canada Oil Sands Co. Ltd. and Japex Gulf Producing Corp. following the sale of assets held by JNOC. However, in the case of Japex New Nanhai and Java Oil, only second-half business results for these companies have been included in consolidated results for JAPEX for the year ended March 31, 2005, due to the timing of the acquisition of additional shares.

Although detailed segment information has been omitted, below is a summary of earnings data for each of the Company’s business segments by division.

① 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 ¥82,966 million, up ¥3,605 million, or 4.5%, from the previous fiscal year, reflecting higher crude oil sales on a sharp rise in crude oil prices.

(b) Contract Services Division
The Contract Services Division accepts orders mainly for drilling projects and geological and geophysical surveys. Net sales totaled ¥6,987 million, down ¥61 million, or 0.9%, from the previous fiscal year.

(c) Other Businesses Division
This division mainly includes the sale of petroleum products such as LPG and fuel oil, the transmission of third-party

gas and petroleum products, and other miscellaneous consignment orders. Net sales totaled ¥12,378 million, up ¥3,164 million, or 34.3%, from the previous fiscal year, reflecting higher orders for third-party gas transmission and sales of petroleum products.

② Geothermal Energy Segment
Geothermal Energy Dvision
The Geothermal Energy Division 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 ¥818 million, down ¥270 million, or 24.9%, reflecting lower steam sales volume.

(2) Outlook for the fiscal year ending March 31, 2006

In the fiscal year ending March 31, 2006, the Company expects consolidated net sales to decline ¥6.2 billion, or 6.1%, from the previous fiscal year to ¥96.9 billion, based mainly on projections for lower sales for overseas crude oil.

The Company forecasts that ordinary income will decline ¥0.4 billion, or 2.0%, to ¥18.6 billion due largely to higher exploration expenses from aggressive exploration activities, and increased selling, general and administrative (SG&A) expenses accompanying the consolidation of subsidiaries. These factors are expected to offset a firm increase in sales of domestically produced crude oil and natural gas.

The Company expects net income to rise ¥0.4 billion, or 2.9%, to ¥13.6 billion, chiefly reflecting a projected decrease in extraordinary losses.

These forecasts were formulated on the following assumptions: 1) a price of US$42/barrel for imported crude oil and 2) an exchange rate of ¥102/US$.

(3) Distribution of dividends

The Company plans to pay an annual dividend of ¥37.50 per share, comprising interim and year-end dividends of ¥15 and ¥22.50 per share, respectively. In addition to the ordinary dividend of ¥30 per common share, this amount includes a commemorative dividend of ¥7.50 per share marking the Company's 50th anniversary.

Consequently, the dividend payout ratio for the year will be 20.1% and the ratio of dividends to shareholders' equity will be 0.8%.

2. Financial Condition

(1) Overview

① Balance sheet
Total assets at the end of the fiscal year stood at ¥393,733 million, an increase of ¥146,967 million, or 59.6%, from the previous fiscal year end. This large increase was due chiefly to valuation gains on shares held by JAPEX in INPEX CORPORATION, following the listing of that company's shares on the First Section of the Tokyo Stock Exchange.

Current assets increased ¥15,856 million, or 28.9%, primarily the result of the consolidation of two subsidiaries: Japex New Nanhai and Java Oil.

In fixed assets, property, plant and equipment declined ¥5,642 million, or 5.6%. This decrease was mainly due to depreciation and amortization and impairment losses, which outweighed capital expenditures such as for the acquisition of gas supply facilities from the city of Shirone (since incorporated into the city of Niigata), expansion of the central facilities of the Yurihara oil and gas field, and for constructing the basic layout of the Shiroishi-Koriyama pipeline. However, the impairment losses, recorded at Japex Geothermal Kyushu Ltd., had no effect on the consolidated statements of income because they are offset by the reversal of the accrual for losses on projects.

Intangible fixed assets increased ¥6,184 million, or 754.3%. The booking of goodwill following the acquisition of additional shares in Canada Oil Sands and other companies owned by JNOC was the primary factor behind this increase.

Investments and others increased ¥130,569 million, or 144.4%. This increase stemmed from an increase of ¥131,696 million, or 155.4%, in investments in securities accompanying the stock market listing of INPEX.

Total liabilities rose ¥45,722 million, or 100.1%, to ¥91,380 million. One factor was an increase in interest-bearing debt (short-term bank loans, long-term debt, and the current portion of long-term debt) of ¥4,064 million, or 34.1%. Another was the booking of ¥46,213 million in deferred tax liabilities at the fiscal year-end from recognition of the tax effect on valuation gains on the aforementioned INPEX shares. There were no deferred tax liabilities at the end of the previous fiscal year.

Shareholders' equity rose ¥97,437 million, or 49.8%, to ¥293,152 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 ¥10,290 million, or 5.7%, to ¥191,116 million, reflecting net income less dividends and other appropriations. Unrealized holding gains on securities rose ¥84,900 million to ¥88,313 million due to valuation gains on shares of INPEX.

As a result, the shareholders' equity ratio declined from 79.3% to 74.5%, while shareholders' equity per share increased from ¥3,422.80 to ¥5,127.67.

Credit guarantees for bank loans taken out by affiliated companies and others, treated as contingent liabilities, rose ¥5,402 million, or 31.7%, to ¥22,432 million.

② Cash flows

As of March 31, 2005, cash and cash equivalents totaled ¥34,568 million, up ¥6,717 million, or 24.1%, compared to the end of the previous fiscal year. This increase was mainly attributable to income before income taxes and minority interests of ¥18,129 million and depreciation and amortization of ¥14,081 million in operating cash flows. These factors and others offset ¥14,588 million in payments for purchase of investments in securities and ¥11,978 million for additions to property, plant and equipment in investing cash flows.

Net cash provided by operating activities was ¥21,936 million, an increase of 1.9%, from the previous fiscal year. The main components were ¥18,129 million in income before income taxes and minority interests and ¥14,081 million in depreciation and amortization, which outweighed ¥4,139 million in income taxes paid and other uses of cash.

Net cash used in investing activities amounted to ¥15,805 million, up 24.7%, from the previous fiscal year. The main uses were ¥11,978 million in additions to property, plant and equipment, as well as ¥3,033 million in net outlays from the purchase and sale of marketable and investment securities.

Net cash provided by financing activities was ¥786 million, up 117.1% from the previous fiscal year. Cash mainly increased due to ¥7,000 million in proceeds from long-term debt, outweighing cash of ¥2,854 million and ¥2,311 million used for dividend payments and the repayment of long-term debt, respectively.

(2) Outlook for the fiscal year ending March 31, 2006

The Company projects that, in net cash provided by operating activities, income before income taxes and minority interests will remain essentially unchanged from the year under review. Depreciation and amortization is forecast to be on a par with the previous year, at approximately ¥14.3 billion.

In investing activities, the Company is projecting that capital expenditure, including projects to upgrade capacity, will nearly double to roughly ¥25.0 billion.

In financing activities, the Company plans to pay a year-end dividend of ¥22.50 and an interim dividend of ¥15 per share. The Company also plans to continue repaying interest-bearing debt to result in a balance of around ¥7.0 billion.

Based on the aforementioned factors, the Company expects cash and equivalents as of March 31, 2006 to decline by around ¥10.0 billion compared to the end of the fiscal year under review.

(3) Cash Flow Indicators

Fiscal Years Ended March 31	2003	2004	2005
Shareholders' equity ratio (%)	77.1	79.3	74.5
Shareholders' equity ratio on mark-to-market basis (%)	—	96.4	63.5
Debt repayment period (years)	0.7	0.5	0.7
Interest coverage ratio (times)	34.5	60.3	86.8

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

- * JAPEX listed on the Tokyo Stock Exchange on December 10, 2003.
- * The above 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 liabilities shown on the consolidated balance sheets. Interest paid is that shown on the consolidated statement of cash flows.

3. Risk Factors

The following are a few of the range of different factors that could potentially impact the operating results of the JAPEX Group. Please be aware that factors with the potential to affect business performance are not limited to those discussed below.

① Risks associated with business operations
The exploration stage of business operations is inherently highly risky. These operations require substantial investments and extended timeframes to conduct activities beginning with initial surveys and including exploration work to the discovery of resources. Furthermore, there are no assurances that oil or gas will be found. Substantial investments are also required to commercialize newly found reserves, as JAPEX must drill development wells and construct production and transmission facilities. Due to these factors, long lead times are typically required from the start of a particular project until an investment can be recovered and earnings generated. During this period, the operating environment can undergo any number of changes that may make it difficult to achieve the original investment goals of the project.

② Factors causing volatility in crude oil sales
The price of crude oil JAPEX markets in Japan is closely linked to international crude oil prices. Consequently, the sales price of 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. JAPEX may conduct crude oil swaps and other transactions to reduce exposure to these risks, but a certain degree of risk exposure inevitably remains.

③ Factors causing volatility in natural gas sales
In most cases, the unit sales price of natural gas that JAPEX markets in Japan is fixed, on a yen-denominated basis,

each fiscal year in accordance with contracts with each customer. Prices are therefore not affected by short-term fluctuations in international prices or exchange rates. However, in the case of gas supplied to LDCs, demand peaks in winter and declines during the summer months. Moreover, abnormal weather conditions, such as a relatively warm winter, affect sales volumes. Furthermore, over the longer term, the deregulation of Japan’s energy markets and other factors carry the risk of lower unit sales prices and lower sales volumes of natural gas.

Ⅳ. Consolidated Financial Statements

１. Consolidated Balance Sheets

	(As of March 31, 2004)			(As of March 31, 2005)		
Description	Amount (¥ million)		(%)	Amount (¥ million)		(%)
(Assets)						
Ⅰ Current assets						
１. Cash and deposits		22,201			32,778	
２. Notes and accounts receivable		11,430			13,913	
３. Marketable securities		9,854			6,688	
４. Inventories		6,116			9,158	
５. Deferred income taxes		726			706	
６. Other current assets		4,617			7,561	
Less: Allowance for doubtful receivables		(13)			(17)	
Total current assets		54,932	22.3		70,788	18.0
Ⅱ Fixed assets						
１. Property, plant and equipment						
(1) Buildings and structures	123,744			113,155		
Accumulated depreciation	70,332	53,411		67,132	46,023	
(2) Wells	30,295			31,401		
Accumulated depreciation	23,154	7,140		25,282	6,118	
(3) Machinery and equipment	59,619			64,095		
Accumulated depreciation	35,921	23,697		37,775	26,320	
(4) Land		12,051			11,191	
(5) Construction in progress		1,370			2,536	
(6) Other property, plant and equipment	10,097			10,097		
Accumulated depreciation	7,193	2,904		7,193	2,743	
Property, plant and equipment, net		100,576	40.8		94,933	24.1
２. Intangible fixed assets						
(1) Goodwill		—			5,082	
(1) Others		819			1,922	
Total intangible fixed assets		819	0.3		7,004	
３. Investments and others						
(1) Investments in securities		84,771			216,467	
(2) Long-term loans receivable		2,562			2,366	
(3) Deferred tax assets		4,966			457	
(4) Others		11,592			10,238	
Less: Allowance for doubtful receivables		(123)			(211)	
Allowance for losses on overseas investments		(13,334)			(8,312)	
Total investments and others		90,436	36.6		221,005	56.1
Total fixed assets		191,832	77.7		322,944	82.0
Total assets		246,765	100.0		393,733	100.0

	(As of March 31, 2004)		(As of March 31, 2005)	
Description	Amount (¥ million)	(%)	Amount (¥ million)	(%)
(Liabilities)				
Ⅰ Current liabilities				
1. Notes and accounts payable	2,353		3,047	
2. Short-term bank loans	600		—	
3. Current portion of long-term debt	2,306		8,973	
4. Income taxes payable	1,610		992	
5. Other current liabilities	9,928		16,092	
Total current liabilities	16,798	6.8	29,105	7.4
Ⅱ Long-term liabilities				
1. Long-term debt	9,003		7,000	
2. Deferred tax liabilities	—		46,213	
3. Accrued retirement benefits for employees	3,574		3,831	
4. Accrued retirement benefits for officers	696		773	
5. Accrued estimated cost of abandonment of wells	2,423		2,690	
6. Accrual for losses on projects	10,975		1,688	
7. Other long-term liabilities	2,186		77	
Total long-term liabilities	28,859	11.7	62,275	15.8
Total liabilities	45,658	18.5	91,380	23.2
(Minority interests)				
Minority interests in consolidated subsidiaries	5,392	2.2	9,199	2.3
(Shareholders' equity)				
Ⅰ Common stock	14,288	5.8	14,288	3.6
Ⅱ Retained earnings	180,826	73.2	191,116	48.6
Ⅲ Unrealized holding gains on securities	3,412	1.4	88,313	22.4
Ⅳ Translation adjustments	(2,810)	(1.1)	(561)	(0.1)
Ⅴ Treasury stock	(1)	(0.0)	(4)	(0.0)
Total shareholders' equity	195,715	79.3	293,152	74.5
Total liabilities, minority interests and shareholders' equity	246,765	100.0	393,733	100.0

2. Consolidated Statements of Income

	FY2004 (Apr. 1, 2003 – Mar. 31, 2004)			FY2005 (Apr. 1, 2004 – Mar. 31, 2005)		
Description	Amount (¥ million)		(%)	Amount (¥ million)		(%)
Ⅰ Net sales		96,713	100.0		103,150	100.0
Ⅱ Cost of sales		58,060	60.0		61,046	59.2
Gross profit		38,653	40.0		42,104	40.8
Ⅲ Exploration expenses						
1. Exploration expenses	5,888			6,445		
2. Exploration subsidies	(675)	5,213	5.4	(317)	6,127	5.9
Ⅳ Selling, general and administrative expenses		20,990	21.7		21,298	20.7
Operating income		12,449	12.9		14,678	14.2
Ⅴ Non-operating income						
1. Interest income	1,192			1,164		
2. Dividend income	1,298			1,669		
3. Gain on sale of securities	244			148		
4. Equity in profit of non-consolidated subsidiaries and affiliates	—			116		
5. Reversal of allowance for losses on overseas investments	2,705			1,376		
6. Reversal of accrual for losses on projects	—			957		
7. Other non-operating income	515	5,956	6.2	978	6,411	6.2
Ⅵ Non-operating expenses						
1. Interest expense	346			261		
2. Loss on sale of securities	34			145		
3. Loss on redemption of securities	—			306		
4. Devaluation loss on securities	498			121		
5. Equity in losses of non-consolidated subsidiaries and affiliates	2,072			—		
6. Provision for accrued estimated cost of abandonment of wells	160			513		
7. Provision for accrual for losses on projects	129			—		
8. Other non-operating expenses	695	3,937	4.1	739	2,088	2.0
Ordinary income		14,468	15.0		19,001	18.4
Ⅶ Extraordinary gains						
1. Reversal of allowance for doubtful receivables	25	25	0.0	—	—	—
Ⅷ Extraordinary losses						
1. Loss on disposal of fixed assets	286			665		
2. Earthquake disaster recovery expenses	—	286	0.3	206	871	0.8
Income before income taxes and minority interests		14,207	14.7		18,129	17.6
Current income taxes	2,568			1,801		
Deferred income taxes	1,386	3,955	4.1	2,469	4,270	4.2
Minority interests		291	0.3		624	0.6
Net income		9,960	10.3		13,234	12.8

３． Consolidated Statements of Shareholders' Equity

Description	FY2004 (Apr. 1, 2003 – Mar. 31, 2004) Amount (¥ million)		FY2005 (Apr. 1, 2004 – Mar. 31, 2005) Amount (¥ million)	
Retained earnings				
Ⅰ Balance at beginning of year		172,370		180,826
Ⅱ Add:				
１． Net income	9,960	9,960	13,234	13,234
Ⅲ Deduct:				
１． Cash dividends paid	1,428		2,857	
２． Bonuses to officers	75	1,504	86	2,944
Ⅳ Balance at end of year		180,826		191,116

4. Consolidated Statements of Cash Flows

Description	FY2004 (Apr. 1, 2003 – Mar. 31, 2004) Amount (¥ million)	FY2005 (Apr. 1, 2004 – Mar. 31, 2005) Amount (¥ million)
Ⅰ Operating activities		
Income before income taxes and minority interests	14,207	18,129
Depreciation and amortization	11,043	14,081
Loss on devaluation of marketable securities and investments in securities	498	121
Increase (decrease) in allowance for doubtful receivables	(27)	90
Increase in provision for accrued retirement benefits for employees	303	244
Increase in provision for accrued retirement benefits for officers	97	76
Decrease in provision for accrued estimated cost of abandonment of wells	(638)	(12)
Decrease in provision for allowance for losses on overseas investments and accrual for losses on projects	(3,830)	(2,173)
Interest and dividend income	(2,491)	(2,833)
Interest expense	346	261
Gain on redemption and sales of marketable securities and investments in securities	(305)	(239)
Loss on redemption and sales of marketable securities and investments in securities	34	452
Equity in losses (gains) of unconsolidated subsidiaries and affiliates	2,072	(116)
Decrease (increase) in notes and accounts receivable	310	(1,823)
Decrease (increase) in inventories	2,669	(3,042)
Increase (decrease) in notes and accounts payable	(2,161)	152
Increase (decrease) in consumption tax payable	(211)	783
Other, net	1,408	1,922
Subtotal	23,326	26,075
Income taxes paid	(1,803)	(4,139)
Net cash provided by operating activities	21,522	21,936
Ⅱ Investing activities		
Investments in time deposits	(335)	(30)
Proceeds from time deposits	15	330
Payments for purchase of marketable securities	(2,998)	(100)
Proceeds from redemption and sale of marketable securities	7,890	4,220
Additions to property, plant and equipment	(15,734)	(11,978)
Proceeds from sales of property, plant and equipment	38	550
Additions to intangible fixed assets	(423)	(586)
Payments for purchase of investments in securities	(9,030)	(14,588)
Proceeds from redemption and sale of investments in securities	5,106	7,435
Payments for purchase of consolidated subsidiary stock accompanying changes in scope of consolidation	—	(2,269)
Increase in loans receivable	(89)	(1,127)
Decrease in loans receivable	554	186
Interest and dividends received	2,638	2,815
Other, net	(309)	(662)
Net cash used in investing activities	(12,677)	(15,805)
Ⅲ Financing activities		
Decrease in short-term bank loans	(300)	(600)
Proceeds from long-term debt	—	7,000
Repayment of long-term debt	(2,315)	(2,311)
Purchase of treasury stock	(1)	(2)
Cash dividends paid	(1,428)	(2,854)
Dividends paid to minority shareholders	(197)	(192)
Interest paid	(356)	(252)
Net cash provided by (used in) financing activities	(4,599)	786
Ⅳ Effect of exchange rate changes on cash and cash equivalents	(260)	(199)
Ⅴ Increase in cash and cash equivalents	3,984	6,717
Ⅵ Cash and cash equivalents at beginning of year	23,866	27,851
Ⅶ Cash and cash equivalents at period-end	27,851	34,568

V. Status of Production and Sales

1. Production

(1) Oil and Natural Gas Segment

Division	Product	FY 2004 (Apr. 1, 2003 – March 31, 2004)	FY2005 (Apr. 1, 2004 – Mar. 31, 2005)
E&P	Crude oil	574,417 kl (3,131)	696,814 kl (101,436)
	Natural gas	1,036,120 thousand m3 (7,231)	1,091,902 thousand m3 (2,904)
	LNG	6,589 t	19,771 t
Other Businesses	LPG	10,811 t	10,338 t
	Fuel oil, etc.	52,393 kl	49,751 kl

(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	FY 2004 (Apr. 1, 2003 – Mar. 31, 2004)	FY2005 (Apr. 1, 2004 – Mar. 31, 2005)
Geothermal Energy	Steam	1,107,443 t	863,241 t

2. Sales

(1) Oil and Natural Gas Segment

Division	Product	FY 2004 (Apr. 1, 2003 – Mar. 31, 2004)		FY2005 (Apr. 1, 2004 – Mar. 31, 2005)	
		Volume	Amount	Volume	Amount
E&P	Crude oil	kl 1,528,507	(¥ million) 32,963	kl 1,380,337	(¥ million) 38,211
	Natural gas	thousand m3 1,296,389	42,560	thousand m3 1,276,887	39,867
	LNG	t 75,883	3,837	t 98,825	4,888
	Subtotal	—	79,361	—	82,966
Contract Services		—	7,049	—	6,987
	Subtotal	—	7,049	—	6,987
Other Businesses	LPG	t 31,506	(¥ million) 1,514	t 30,781	(¥ million) 1,622
	Fuel oil, etc.	kl 89,090	3,517	kl 94,430	4,202
	Others	—	4,182	—	6,553
	Subtotal	—	9,213	—	12,378
	Total	—	95,624	—	102,332

(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 2004 (Apr. 1, 2003 – Mar. 31, 2004)		FY2005 (Apr. 1, 2004 – Mar. 31, 2005)	
		Volume	Amount	Volume	Amount
Geothermal Energy	Steam	t 1,061,336	(¥ million) 1,089	t 813,999	(¥ million) 818
	Total	—	1,089	—	818

(Note)

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