JAPEX

ANNUAL REPORT 2004

Year Ended March 31, 2004

# CLEAN ENERGY PROVIDER

JAPAN PETROLEUM EXPLORATION CO., LTD.

# JAPEX'S VISION

## TAKING ON THE CHALLENGES OF CREATING NEW VALUE FROM ENERGY AND RAISING CORPORATE VALUE

*Since its establishment, Japan Petroleum Exploration Co., Ltd. (JAPEX) has conducted integrated operations extending from oil and natural gas exploration and production (E&P) through transportation and supply. Aiming for growth as a competitive player in the market, JAPEX will continue to work on increasing its reserves, expanding its natural gas transmission network and building new business models.*

### CAUTIONARY STATEMENT

Statements made in this annual report with respect to Japan Petroleum Exploration Co., Ltd. (JAPEX)'s plans, estimates, strategies and other statements that are not historical facts are forward-looking statements about the future performance of JAPEX. These statements are based on management's assumptions and beliefs in light of information currently available. As such, these projections entail risks and uncertainties. Readers should be aware that actual results and events may differ substantially from these projections. Risks and uncertainties that may affect JAPEX include, but are not limited to, economic conditions in Japan, fluctuations in crude oil prices and exchange rates, rapid developments in technology, deregulation and other contingencies.

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# FINANCIAL HIGHLIGHTS

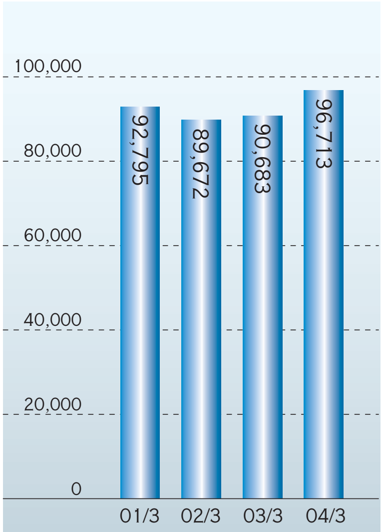
Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002, 2003 and 2004

| | Millions of yen (except per share data and other data) | | | Thousands of U.S. dollars (except per share data and other data) |
|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 |
| **For the year:** | | | | |
| Net sales | ¥ 96,713 | ¥ 90,683 | ¥ 89,672 | $ 912,392 |
| Operating income | 12,449 | 15,828 | 10,988 | 117,450 |
| Income before income taxes and minority interests | 14,207 | 12,572 | 5,588 | 134,032 |
| Net income | 9,960 | 8,828 | 5,200 | 93,971 |
| **At year-end:** | | | | |
| Total assets | ¥246,765 | ¥242,455 | ¥239,799 | $2,327,977 |
| Shareholders' equity | 195,715 | 186,914 | 180,339 | 1,846,369 |
| **Per share data:** | | | | |
| Net income per share | ¥ 172.76 | ¥ 153.14 | ¥ 363.97 | $ 1.630 |
| Cash dividends per share | 35.00 | 25.00 | 100.00 | 0.330 |
| **Other data:** | | | | |
| Number of employees | 1,388 | 1,358 | 1,387 | |

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106=U.S.$1.00.
2. JAPEX conducted a four-for-one stock split on January 1, 2003.

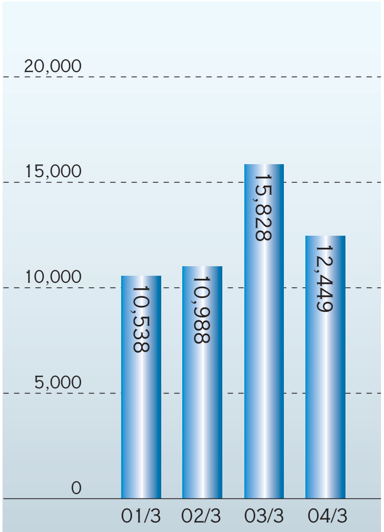
## NET SALES

(Millions of yen)



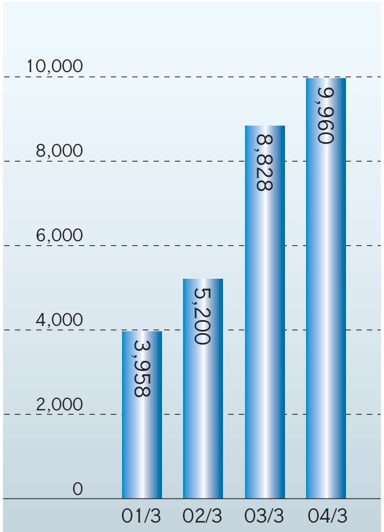

## OPERATING INCOME

(Millions of yen)




## NET INCOME

(Millions of yen)



# TO OUR SHAREHOLDERS AND THE INVESTING COMMUNITY

PRESIDENT
YUJI TANAHASHI

## RESULTS OF OPERATIONS

Japan's economy began staging a recovery from the middle of fiscal 2004, ended March 31, 2004. Since then, there has been a steady economic improvement supported by capital expenditures and exports.

In the petroleum market, prices for domestically produced crude oil were solid despite the yen's appreciation, as international crude oil prices remained high. However, rapid deregulation in the natural gas market has put severe pressure on the price of our domestically produced natural gas. As a result, we continued to face difficult market conditions in the year under review.

Net sales increased 6.6% to ¥96,713 million, the result of high crude oil prices and growth in sales volumes of crude oil and natural gas. Operating income was down 21.3% to ¥12,449 million, mainly a reflection of growth in domestic exploration expenses. Net income rose 12.8% to ¥9,960 million due to a decline in overseas exploration expenses, a drop in devaluation loss on securities and other factors.

## FURTHER GROWTH IN DEMAND FOR NATURAL GAS ANTICIPATED IN JAPAN

A series of deregulatory actions began in Japan's natural gas market in 1995, starting with the lifting of regulations on supplying gas to large-scale customers via local distribution companies (LDCs). The aim was to allow market forces to determine prices. Amendments to the Gas Business Law that took effect in April 2004 further expanded the scope of deregulation.

In addition, the concept of the common carrier was introduced to the gas supply industry. This obligates companies that possess a pipeline transmission capacity above a certain level, including JAPEX, to open their networks to third-party access.

Due to this development, our natural gas business is now on the verge of a major transformation.

Natural gas, which is our primary source of earnings, is attracting much interest as a clean-burning fuel. Substantial growth in demand for this fuel is expected as supply infrastructures are enlarged. These developments represent an excellent opportunity to begin a new stage in the development of our natural gas business.

## EXPANDING RESERVES AND STRONGER SUPPLY CAPABILITIES

As a company with operations centered on E&P, our overriding goal is to increase reserves of crude oil and natural gas in order to ensure a reliable supply of energy over the long term. Domestic reserves are the primary source of our earnings. To increase these reserves, we are conducting E&P activities that combine two approaches in an efficient and carefully planned manner: exploration for the purpose of adding large-scale gas reserves; and exploration and development for the purpose of adding reserves on the periphery of existing fields.

Furthermore, recognizing the importance of acquiring reserves and generating profit from the overseas E&P business, JAPEX is working to increase operating efficiency and carry out exploration in areas identified as key geographies.

As we conduct E&P activities, we must increase natural gas sales and upgrade our infrastructure for the distribution of natural gas. We are building an efficient and integrated framework for our natural gas operations, covering upstream (E&P), mid-stream (transmission and storage) and downstream (marketing to large-scale customers and LDCs). Our objective is to build a natural gas business model that seamlessly links our infrastructure and services. We plan to step up actions to raise sales of natural gas to customers along existing pipelines. Our plans also include expanding our transmission network by constructing more pipelines. We use our LNG Satellite System to serve customers who are not near a pipeline, mainly by transporting LNG using tanker trucks and trains. Through this approach, we intend to sell natural gas to an even broader spectrum of users.

## ENVIRONMENTAL AND SAFETY MEASURES

JAPEX attaches great importance to the environment and safety, and accordingly, is implementing a number of measures in both areas. In the environment, JAPEX is working to reduce the environmental impact of its operations by introducing the internationally recognized standard for environmental management systems, ISO 14001, at all its offices, and reducing its environmental footprint in other ways such as through energy and resource conservation. In safety, JAPEX is working to ensure the safety of local communities and employees by aiming for accident- and disaster-free operations.

## DEDICATED TO MAXIMIZING CORPORATE VALUE

On December 10, 2003, JAPEX listed on the First Section of the Tokyo Stock Exchange. Everyone at JAPEX will continue to focus on meeting the expectations of all stakeholders as well as fulfilling a broad range of social responsibilities as a leader in the development of energy resources in the 21st century. We are also determined to make our businesses even more competitive in order to raise earnings and maximize shareholder value. The support of our shareholders and other investors will be instrumental to our ability to achieve these goals.

August 2004

Yuji Tanahashi
President

Yuji Tanahashi

# EXPLORATION AND PRODUCTION

## ENHANCING E&P ACTIVITIES IN JAPAN

Deregulation is advancing on many fronts in the natural gas market in Japan. While this presents opportunities for growth, deregulation is also sparking intense price-based competition. In response, the fundamental strategy of JAPEX is to increase natural gas reserves in Japan to gain a greater cost advantage. This stance will enable JAPEX to adapt to changes in its operating environment and sustain growth in its core natural gas business.

A comprehensive review of domestic E&P activities is now under way that will result in intensive exploration, development and production investment over the next few years.

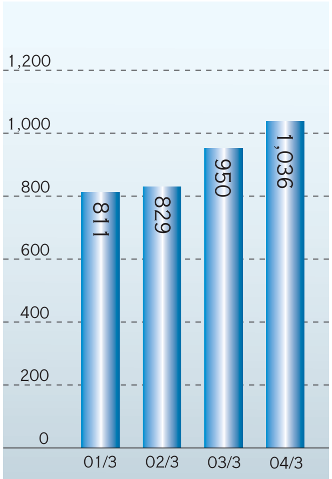
## PLANS FOR DOMESTIC E&P

Domestic reserves represent the primary source of earnings at JAPEX. To increase these reserves, we will conduct efficient and carefully planned E&P activities by taking advantage of our enormous volume of domestic geological data, E&P expertise, and advanced technology.

The basic strategy is to conduct E&P that can add reserves in areas near our existing fields in Niigata, Akita and Hokkaido. This type of E&P is taking place mainly at the Iwafuneoki oil and gas field in Niigata and the Sarukawa oil field and Yurihara oil and gas field in Akita. Another goal is finding large reserves in new frontier areas. Here, E&P work is proceeding chiefly off Hokkaido's southern Iburi coast and off Aomori's eastern Sanriku coast.

NATURAL GAS PRODUCTION

(Millions of cubic meters)



## FISCAL 2004 DOMESTIC E&P HIGHLIGHTS

In line with our basic strategy of concentrating on domestic E&P, our primary activities in fiscal 2004 involved geophysical surveys at sites in Niigata (onshore), Akita (offshore), Aomori (offshore) and Hokkaido (onshore). We also drilled two exploration wells in Akita, three extension wells in Akita and Yamagata, and two production wells in Niigata. JAPEX has also discovered oil and gas deposits with the Naka-Ayukawa SK-1D exploration well, located near the Ayukawa oil and gas field. The well was drilled to a total depth of 2,401 meters and test production yielded 94 kiloliters of oil and 16,500 cubic meters of gas per day.

Currently, the JAPEX Group's production activities mainly represent 17 oil and gas fields in Japan. Fiscal 2004 production was 574,000 kiloliters of crude oil and 1,036 million cubic meters of natural gas.

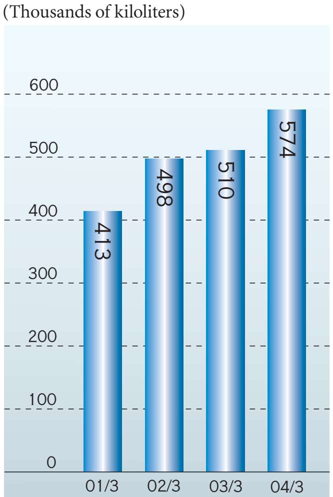
## FISCAL 2005 DOMESTIC E&P PLANS

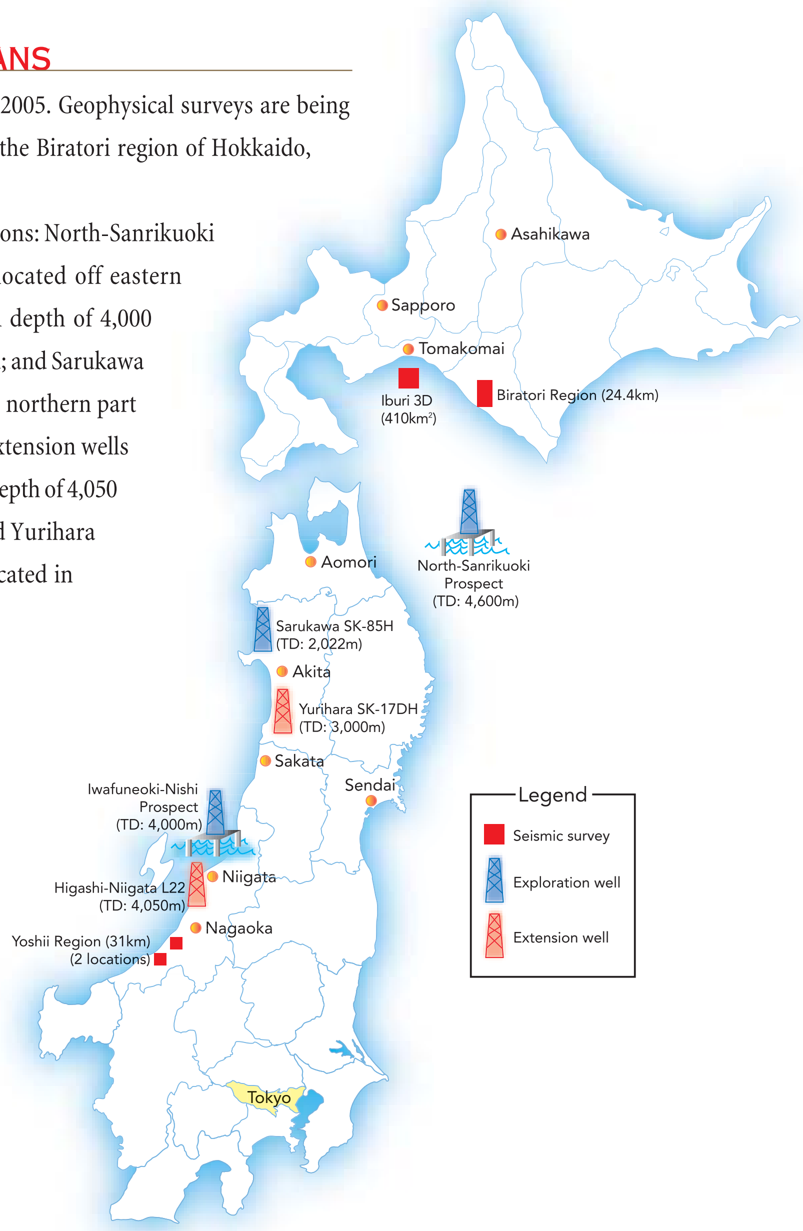
An aggressive E&P program will continue in fiscal 2005. Geophysical surveys are being conducted off Hokkaido's southern Iburi coast, in the Biratori region of Hokkaido, and near the Yoshii gas field in Niigata.

Exploration drilling programs target three locations: North-Sanrikuoki prospect (planned total depth of 4,600 meters), located off eastern Aomori; Iwafuneoki-Nishi prospect (planned total depth of 4,000 meters), located near the Iwafuneoki oil and gas field; and Sarukawa SK-85H (total depth of 2,022 meters), located in the northern part of the Sarukawa oil and gas field. In addition, two extension wells are to be drilled: Higashi-Niigata L22 (planned total depth of 4,050 meters), located in the Higashi-Niigata gas field; and Yurihara SK-17DH (planned total depth of 3,000 meters), located in the Yurihara oil and gas field.

### CRUDE OIL PRODUCTION

(Thousands of kiloliters)



# THE YUFUTSU OIL AND GAS FIELD
## —The Only Source of Locally Produced Gas in Hokkaido

*JAPEX has conducted an extensive exploration program for oil and gas in Hokkaido. The success of the Minami-Yufutsu SK-1 exploration well drilled in 1989 led to the discovery of an oil and gas field, the only one in Hokkaido, in the Yufutsu district in the city of Tomakomai. We constructed a pipeline to link this field, which has one of the largest domestic reserves, to Sapporo. We also constructed Japan's first LNG plant at the site, which we expect to play a major role in our operations going forward.*

Yufutsu Central Processing Facility at the Yufutsu oil and gas field

## THE DISCOVERY OF THE YUFUTSU OIL AND GAS FIELD

The development of the Yufutsu oil and gas field near the Hokkaido city of Tomakomai dates back to drilling conducted between 1988 and 1989 at the Minami-Yufutsu SK-1 exploration well, leading to the discovery of hydrocarbons. Two subsequent exploration wells in the same structure also encountered oil and gas deposits.

Next came two more successful exploration wells in 1992: Numanohata SK-1D targeted the Numanohata structure in the northwestern sector of the Minami-Yufutsu area, while Akebono SK-1, also to the northwest, was drilled over the Akebono structure. In all, we discovered one of Japan's largest oil and gas fields, with three separate structures.

The Yufutsu oil and gas field is extremely unusual in the world, as gas is stored in a fractured reservoir covering a broad area ranging from 3,900 to 4,800 meters in depth. In all, the Yufutsu field extends about 11 kilometers to the north and south and 4 to 5 kilometers to the east and west. We are continuing to conduct exploration and development activities to increase the size of this field's reserves.

## PRODUCTION AT YUFUTSU

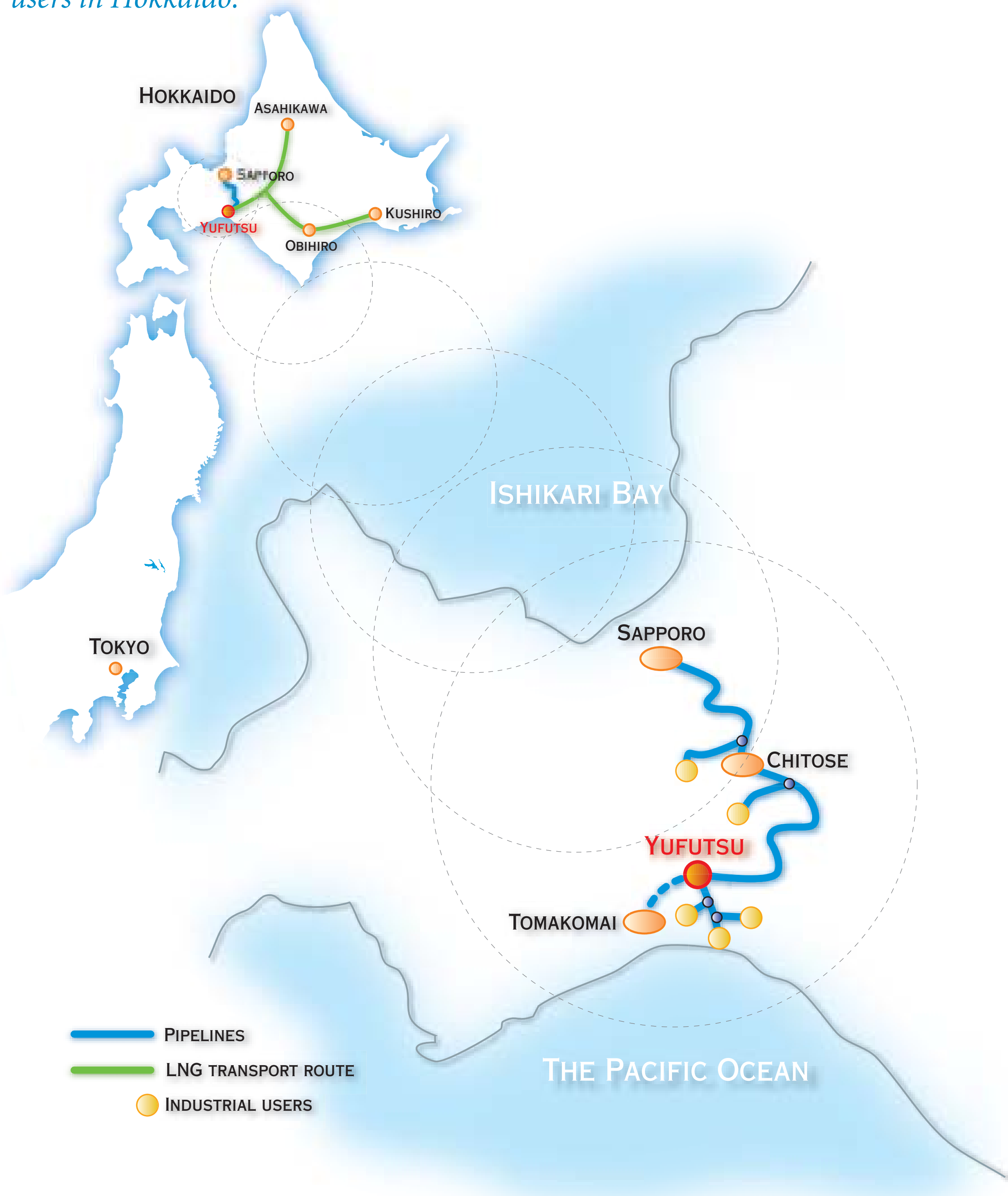
Production at Yufutsu began in 1996 with facilities capable of processing 1.2 million cubic meters of natural gas and 1,000 kiloliters of crude oil daily. We subsequently raised capacity to keep up with steady growth in demand for natural gas from LDCs and industrial users. A new facility completed in January 2004 doubled daily natural gas processing capacity to 2.4 million cubic meters and crude oil capacity to 2,400 kiloliters.

Natural gas is transmitted through the Yufutsu-Sapporo pipeline to users in Sapporo as well as LDCs and industrial users along the pipeline route. The Yufutsu Central Processing Facility monitors and controls oil and gas processing facilities 24 hours a day, as well as natural gas transmissions via telephone and satellite links with each valve station along the pipeline. Sophisticated equipment is in place to detect leaks and shut down the pipeline in an emergency. As an additional safety precaution, JAPEX patrols check the entire length of the pipeline every day.

Yufutsu Central Processing Facility control room

# UPGRADING THE NATURAL GAS SUPPLY INFRASTRUCTURE

*JAPEX uses a pipeline and an LNG facility to take full advantage of its Yufutsu gas field, the only local source of gas in Hokkaido. We continue to generate higher sales by using these two distribution methods to supply users in Hokkaido.*



## THE NATURAL GAS PIPELINE NETWORK

The 1996 completion of the 75-kilometer Yufutsu-Sapporo gas pipeline, which has a daily capacity of 3 million cubic meters, enabled JAPEX to begin selling gas in the Sapporo area. Since then, sales were started to an LDC in the city of Chitose, and sales are to begin to another LDC in the city of Tomakomai in 2007. This illustrates how our supply area is continuing to expand. For industrial users, JAPEX supplies gas to an industrial park in Chitose and several companies in the Tomakomai area.

Demand for natural gas is rising steadily in areas along the pipeline. By serving more industrial users and increasing sales to LDCs, JAPEX hopes to further increase the utilization of natural gas in central Hokkaido.

## THE BEGINNING OF LNG OPERATIONS AT YUFUTSU

JAPEX constructed a natural gas liquefaction plant at Yufutsu to supply gas to customers in Hokkaido in geographic areas outside the reach of its pipeline network. Since Hokkaido has no terminal for imported LNG, the Yufutsu plant created the first LNG supply system in this part of Japan. Shipments of LNG by road and rail began in October 2003 using a container system we call the LNG Satellite System. The first customer to use this service was Asahikawa Gas Co., Ltd.

LNG supplies to the cities of Obihiro and Kushiro are to begin in 2007 or thereafter. To increase the number of customers, JAPEX will continue to encourage companies located in areas far from the pipeline, mainly providers of city gas, to begin using natural gas.

Yufutsu LNG Plant

# DEREGULATION AND GROWTH IN THE NATURAL GAS BUSINESS

## THE GROWING SCOPE OF DEREGULATION IN ENERGY MARKETS

Japan has implemented a series of measures to deregulate the electricity and gas markets so that market forces can determine prices. In the gas business, the first step was a 1995 revision to the Gas Business Law that lifted regulations on sales of gas to users who purchase more than 2 million cubic meters annually. Deregulation has since moved quickly, with the maximum volume subsequently lowered to 1 million cubic meters in 1999 and 500,000 cubic meters in April 2004. Revisions to the Gas Business Law that took effect in April 2004 further increased the scope of deregulation and required companies owning pipeline networks of a certain capacity to carry gas supplied and sold by third parties; the so-called common carrier concept. JAPEX believes these latest developments will increase activity in gas markets across Japan as well as raise demand for natural gas. The benefits of deregulation for JAPEX also include greater freedom in marketing activities, something that is expected to enlarge the company's business domains and customer base.

## OPPORTUNITIES FOR GROWTH IN THE NATURAL GAS BUSINESS

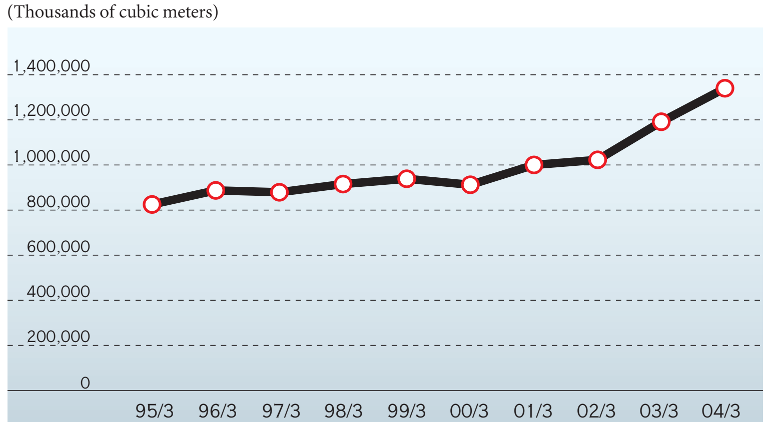
Deregulation spells many opportunities for JAPEX. In response, we are strengthening our supply network and expanding our customer base in order to raise sales volumes of natural gas.

Further progress in deregulation, along with rising concerns about global environmental issues, are expected to lead to greater demand for natural gas. To capitalize on this growth, we are continuing to build an efficient and fully integrated framework for our core natural gas business. Our goal is to build an organization that seamlessly links facilities and services, encompassing upstream (E&P), mid-stream (transmission and storage) and downstream (marketing to large-scale customers and LDCs) activities. This will allow us to add greater value as we meet customers' needs for natural gas.

The start of a common carrier business gives us the opportunity to establish a unique position in the marketplace as well as fulfill our legal obligations. This business is anticipated to grow in importance in the industry going forward. To give our trunk pipelines an even stronger role in our operations, we established the Gas Pipeline Transportation Business Dept. in April 2004. This office is establishing a framework for the strategic use of our pipelines, ensuring that we are fully prepared for the use of our pipelines by third parties. Although structural reforms in the energy market are spawning more business opportunities, they are also sparking more intense competition. To cope with this challenge, we are tapping our unique strengths to ensure we operate on a more cost-competitive basis. We believe this is the best way to ensure the long-term growth of our natural gas business.

### TEN-YEAR NATURAL GAS SALES VOLUME (NON-CONSOLIDATED)

(Thousands of cubic meters)



| Years ended March 31 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | Millions of yen (except per share data and other data) | | | | |
| | Consolidated | | | | Non-Consolidated |
| **For the year:** | | | | | |
| Net sales | ¥ 96,713 | ¥ 90,683 | ¥ 89,672 | ¥ 92,795 | ¥ 75,027 |
| Cost of sales | 58,060 | 52,288 | 56,220 | 59,138 | 48,947 |
| Exploration expenses | 5,213 | 3,113 | 3,674 | 4,344 | 3,957 |
| Selling, general and administrative expenses | 20,990 | 19,452 | 18,788 | 18,774 | 15,739 |
| Operating income | 12,449 | 15,828 | 10,988 | 10,538 | 6,383 |
| Net income | 9,960 | 8,828 | 5,200 | 3,958 | 1,361 |
| Capital expenditures | 16,735 | 11,806 | 7,245 | 2,903 | 1,709 |
| Depreciation and amortization | 11,043 | 9,817 | 9,523 | 9,601 | 7,505 |
| **At year-end:** | | | | | |
| Total assets | ¥ 246,765 | ¥ 242,455 | ¥ 239,799 | ¥ 256,970 | ¥ 222,090 |
| Shareholders' equity | 195,715 | 186,914 | 180,339 | 176,868 | 162,197 |
| **Per share data:** | | | | | |
| Net assets per share | ¥3,422.80 | ¥3,268.99 | ¥12,621.10 | ¥12,378.21 | ¥11,351.45 |
| Net income per share | 172.76 | 153.14 | 363.97 | 277.02 | 95.26 |
| Cash dividends per share | 35.00 | 25.00 | 100.00 | 100.00 | 100.00 |
| **Other data:** | | | | | |
| Number of employees | 1,388 | 1,358 | 1,387 | 1,447 | 773 |

Notes: 1. JAPEX has prepared consolidated financial statements since the fiscal year ended March 31, 2001.
2. JAPEX conducted a four-for-one stock split on January 1, 2003.

# Management's Discussion and Analysis

## OVERVIEW OF OPERATING RESULTS

**Operating Environment and Results**

In fiscal 2004, ended March 31, 2004, domestic crude oil prices remained strong despite the yen's appreciation because of consistently high international crude oil prices. However, the price for domestic natural gas was pressured by increasingly intense competition among different categories of energy due to rapid deregulation. As a result, JAPEX continued to face a difficult operating environment.

In this environment, JAPEX reported a 6.6% increase in net sales to ¥96,713 million, a 21.3% decrease in operating income to ¥12,449 million and a 12.8% increase in net income to ¥9,960 million.

**Effect of Foreign Exchange Rates and Crude Oil Prices on Performance**

The average unit sales price of crude oil received by JAPEX during the year under review was ¥21,566/ kiloliter, ¥302 higher than in the previous fiscal year. The price of domestic crude oil is basically linked to yen translations of the price of imported crude oil. On a U.S. dollar basis, the average price of crude oil rose $2.80 to $29.30 per barrel. However, this increase was largely offset by a ¥9.16 appreciation of the yen relative to the U.S. dollar to an average exchange rate of ¥113.71 for the year under review. As a result, the unit sales price of domestic crude oil was about the same as in the previous fiscal year. For sales of imported crude oil, fluctuations in crude oil prices and foreign exchange rates do not have a large effect on earnings because the sales price is set to reflect the purchase price.

Also, because JAPEX signs fixed yen-based contracts with customers on a single-year basis, the unit sales price of natural gas is not affected by short-term fluctuations in the international natural gas market or exchange rates.

**Capital Expenditures and Depreciation**

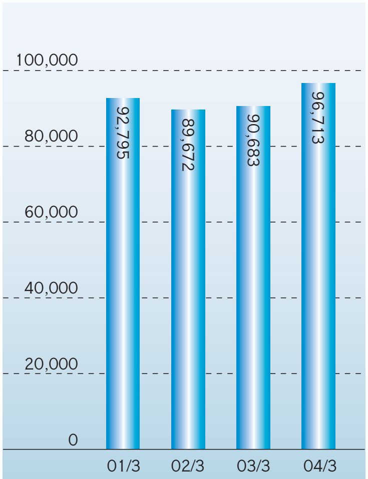
Capital expenditures increased ¥4,928 million to ¥16,735 million. Major components of these expenditures were the construction of the Akebono well site in the Yufutsu field, operated by the Sapporo Office, and the construction of a flowline linking the Akebono site with the Yufutsu Central Processing Facility; expansion and renovation of the Yufutsu Central Processing Facility; construction of an LNG plant; and drilling of production wells at the Katakai gas field and the Iwafuneoki oil and gas field, both operated by the Nagaoka Office. Due to the increase in capital expenditures, depreciation and amortization expenses rose ¥1,225 million to ¥11,043 million.

**Exploration Activities**

The cost of exploration activities in Japan is recorded as an expense on the income statement under exploration expenses. In the year under review, these expenses increased ¥2,099 million to ¥5,213 million. These expenses mainly represent seven seismic surveys and five exploration and extension wells. Four of these five wells were successful, including the Naka-Ayukawa SK-1D well, where test production yielded 94 kiloliters of oil and 16,500 cubic meters of gas per day. Outside Japan, exploration activities are performed by companies established for each project. As expenses represent the purchase of equity in these companies, these expenses are recorded on the balance sheets as allowance for losses on overseas investment. If these companies are consolidated subsidiaries, JAPEX posts an accrual for losses on projects based on estimated losses in accordance with the financial condition of each company. In the year under review, investments for overseas exploration activities were ¥1,090 million less than in the previous fiscal year, at ¥305 million. Investments were for exploration in Azerbaijan, Kazakhstan and other countries.

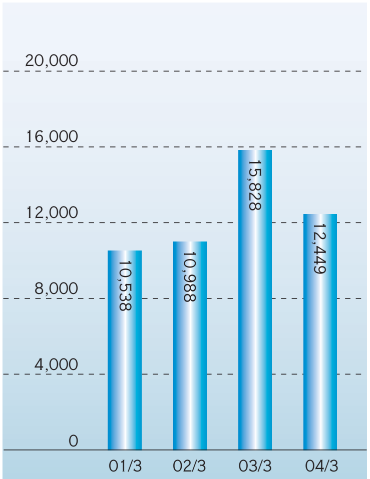
### Net Sales

(Millions of yen)



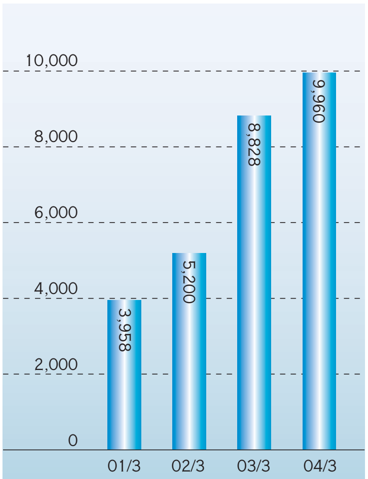

### Operating Income

(Millions of yen)




### Net Income

(Millions of yen)



The scale of exploration activities has a significant impact on results of operations. The exploration budget is determined in each fiscal year on an ordinary income basis by taking into consideration the medium-term exploration plan and sales forecasts for the next few fiscal years.

## NET SALES

In the year under review, net sales in the Oil and Natural Gas Segment were ¥95,624 million, accounting for 98.9% of total sales. Net sales in the Geothermal Energy Segment were ¥1,089 million, representing 1.1% of total sales. The Oil and Natural Gas Segment is divided into three divisions: E&P, contract services, and other businesses. The following paragraph provides analysis of oil and gas sales, which generate the majority of JAPEX's sales.

The volume of natural gas sales increased 12.3% to 1,296 million cubic meters. Growth was attributable to steadily rising demand for city gas in Hokkaido and higher sales volumes in Niigata (including along the Sendai pipeline), mainly to industrial users. However, unit sales prices were lower because of intense competition associated with deregulation. The result was a 2.6% increase in natural gas sales to ¥42,560 million.

The volume of LNG sales rose 14,000 tons to 75,000 tons. On a monetary basis, sales increased 25.5% to ¥3,837 million. Growth was due to the start of LNG sales in Hokkaido following completion of the Yufutsu LNG Plant and to higher sales to LDCs in the Hokuriku region.

The volume of crude oil sales increased 5.7% to 1,528,000 kiloliters. Since the unit sales price rose ¥302 to ¥21,566/ kiloliter, monetary sales increased 7.2% to ¥32,963 million. For domestically produced crude oil, sales volume was up 25.1% to 584,000 kiloliters and monetary sales increased 20.7% to ¥12,468 million.

## REVIEW OF OPERATIONS BY SEGMENT

### OIL AND NATURAL GAS SEGMENT

**E&P Division**

The sale of crude oil, natural gas and LNG are the principal activities in this division. Division sales increased 5.4% to ¥79,361 million, due to the sharp increase in the price of crude oil and higher sales volumes of crude oil and natural gas.

**Contract Services Division**

Drilling, seismic data acquisition and processing are the principal activities of this division. Division sales increased 21.2% to ¥7,049 million, mainly due to government orders for exploration drilling.

**Other Businesses Division**

Sales in this division mainly represent sales of products such as LPG and fuel oil, the transmission of third-party natural gas and petroleum products, and other consignment orders. Division sales increased 9.8% to ¥9,213 million due to growth in third-party transmission orders and higher sales volumes of petroleum products.

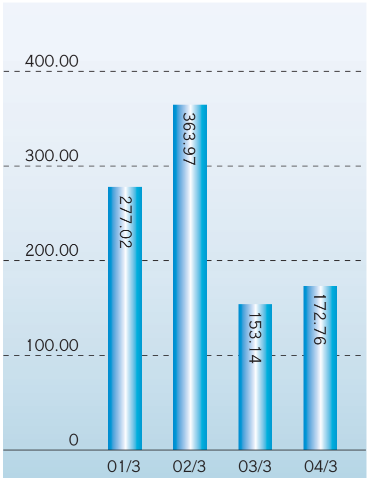
### GEOTHERMAL ENERGY SEGMENT

**Geothermal Energy Division**

This division is engaged in the sale of steam for electric power generation and consigned R&D activities in the field of geothermal energy. Division sales decreased 9.0% to ¥1,089 million because of lower sales volumes of steam for generating electricity.

#### NET INCOME PER SHARE

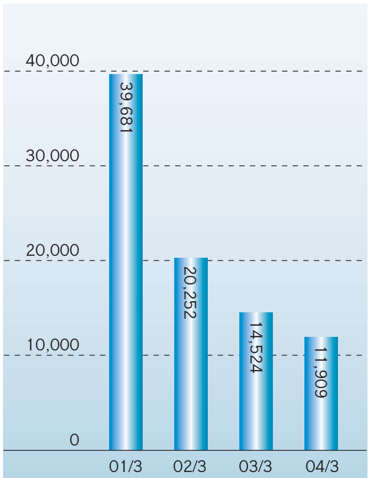
(Yen)




Note: JAPEX conducted a four-for-one stock split on January 1, 2003.

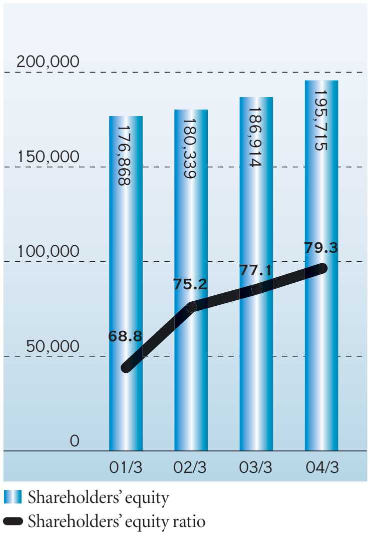
#### INTEREST-BEARING DEBT

(Millions of yen)




#### SHAREHOLDERS' EQUITY/ SHAREHOLDERS' EQUITY RATIO

(Millions of yen/%)



## FINANCIAL POSITION

**Assets**

Total assets at the end of the fiscal year stood at ¥246,765 million, 1.8% higher than a year earlier. Current assets rose 0.5% to ¥54,932 million and fixed assets increased 2.1% to ¥191,832 million.

Property, plant and equipment increased ¥5,315 million as capital expenditures exceeded depreciation and amortization expenses. Major components of these expenditures were construction of the Akebono well site in the Yufutsu field, operated by the Sapporo Office, and the construction of a flowline linking the Akebono site with the Yufutsu Central Processing Facility; expansion and renovation of the Yufutsu Central Processing Facility; and construction of an LNG plant.

Investments in securities decreased ¥3,006 million to ¥84,771 million and the allowance for losses on overseas investments was down ¥3,325 million to ¥13,334 million. Both declines were the result of the liquidation of Japan Azerbaijan Oil Co., Ltd., which resulted in the devaluation of stock held in this company and an associated reversal of the allowance for losses on overseas investments.

**Liabilities**

Total liabilities decreased 8.9% to ¥45,658 million. Total current liabilities decreased 7.6% to ¥16,798 million and long-term liabilities were down 9.7% to ¥28,859 million. The primary causes were a ¥3,122 million decrease in notes and accounts payable and a ¥2,615 million decrease in interest-bearing debt (the sum of short-term bank loans, current portion of long-term debt and long-term debt).

**Shareholders' Equity**

Total shareholders' equity increased 4.7% to ¥195,715 million due to growth in retained earnings and unrealized holding gain on securities. There was a 4.9% increase in retained earnings to ¥180,826 million, the difference between net income and dividend payments and other profit allocations. An upturn in stock prices resulted in a 48.1% increase in unrealized holding gain on securities to ¥3,412 million. As a result, the shareholders' equity ratio rose from 77.1% to 79.3% and net assets per share rose from ¥3,268.99 to ¥3,422.80.

## CASH FLOWS

As of March 31, 2004, cash and cash equivalents on a consolidated basis totaled ¥27,851 million, ¥3,984 million, or 16.7%, more than one year earlier.

**Cash Flows From Operating Activities**

Net cash provided by operating activities decreased ¥97 million, or 0.5%, to ¥21,522 million. The main components were income before income taxes and minority interests of ¥14,207 million and depreciation and amortization of ¥11,043 million.

**Cash Flows From Investing Activities**

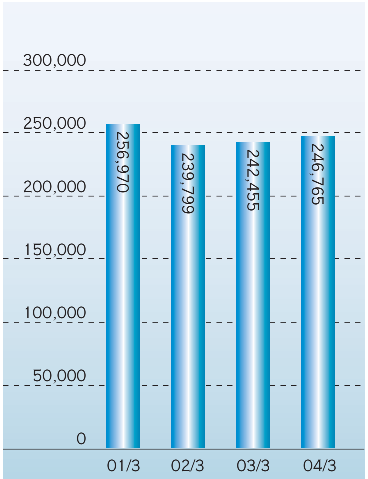
Net cash used in investing activities increased ¥761 million, or 6.4%, to ¥12,677 million. The main use of cash was an increase of ¥3,826 million, or 32.1%, to ¥15,734 million for acquisition of property, plant and equipment.

**Cash Flows From Financing Activities**

Net cash used in financing activities decreased ¥3,381 million to ¥4,599 million. Cash was used mainly for the repayment of loans and the payment of dividends.

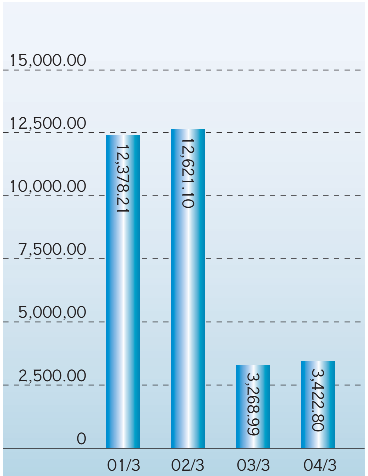
### TOTAL ASSETS

(Millions of yen)




### NET ASSETS PER SHARE

(Yen)




Note: JAPEX conducted a four-for-one stock split on January 1, 2003.

## RISK FACTORS

A number of risks and uncertainties have the potential to affect JAPEX's performance. The following is a list of particularly significant risk factors that are unique to the resource development business or to the nature of JAPEX's business operations.

**Risks Associated With Business Operations**

The exploration stage of business operations is inherently highly risky. These operations require substantial investments and extended time frames to conduct activities beginning with initial surveys and including exploration work and 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 change, meaning additional investment may become necessary, demand may decline, prices may fall, operating costs may escalate, and foreign exchange rates may become unfavorable. Any one of these factors can make it difficult to achieve the original investment goals of the project. Developers of natural resources must also contend with technical risks, among which are unexpected declines in recoverable reserves and production volumes, and unanticipated levels of impurities.

**Factors Causing Volatility in Crude Oil Sales**

The price of domestic 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 also conduct crude oil swaps and other transactions to reduce exposure to these risks, but a certain degree of risk exposure inevitably remains.

**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 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 carries the risk of lower unit sales prices and lower sales volumes of natural gas.

**Marketing Risk**

Although JAPEX has built long-term business relationships with many customers, annual supply contracts are the norm in the industry and JAPEX does not normally enter into long-term contracts. This means that most customers are under no obligation to continue to do business with JAPEX. Demand for JAPEX oil and gas may decline or prices may come under pressure if customer demand drops or if customers switch to other suppliers.

**Procurement Risk**

JAPEX began importing Malaysian LNG in March 2003. The contract includes a take-or-pay clause under which JAPEX has a long-term obligation to purchase no less than a certain volume of Malaysian LNG each year. Consequently, JAPEX may have to continue procuring a fixed amount of LNG despite a possible decline in its natural gas sales volume in the future. Moreover, the price of LNG is affected by crude oil prices and foreign exchange rates. JAPEX's profits may be squeezed in the event of a sudden rise in the cost of oil and gas unless it is able to pass on any increases in procurement prices to its customers in the form of higher sales prices.

**Impact of Deregulation of the Japanese Energy Market**

A number of deregulatory measures have been introduced in the Japanese power generation and gas sectors with the aim of encouraging more competitive practices. Revisions to the Gas Business Law that took effect on April 1, 2004 further require companies owning pipeline networks of a certain capacity to carry gas that is supplied and sold by third parties. JAPEX believes this wave of liberalization will energize the entire Japanese gas market and contribute to greater demand for natural gas. This development will also permit greater flexibility in the JAPEX marketing structure, opening opportunities to expand into new business areas and enlarge the customer base. Deregulation may also have an impact on JAPEX's sales of natural gas as a result of intensifying price competition caused by structural shifts in the energy market.

**JAPEX Shares Held by Japan National Oil Corporation**

Japan National Oil Corporation currently has a 49.9% equity interest in JAPEX. The possibility remains that this corporation will sell all or part of its JAPEX shares. Such a sale could have an effect on the market price of JAPEX stock depending on the timing, method, number of shares and other details concerning such a sale. Furthermore, although Japan National Oil Corporation is scheduled to be dissolved no later than the end of July 2005, no decision has been made regarding the entity or entities to which this corporation will transfer any JAPEX shares held upon its dissolution.

# Consolidated Balance Sheets

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2003 and 2004

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| ASSETS | 2004 | 2003 | 2004 |
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 27,851 | ¥ 23,866 | $ 262,746 |
| Time deposits | 340 | 5 | 3,208 |
| Short-term investments in securities (Note 4) | 4,264 | 4,722 | 40,227 |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 91 | 315 | 861 |
| Trade | 11,339 | 11,431 | 106,975 |
| Less: Allowance for doubtful receivables | (13) | (31) | (129) |
| | 11,416 | 11,715 | 107,706 |
| Inventories (Note 5) | 6,116 | 8,785 | 57,701 |
| Deferred tax assets (Note 8) | 726 | 567 | 6,851 |
| Other current assets | 4,218 | 4,989 | 39,797 |
| Total current assets | 54,932 | 54,650 | 518,235 |
| **Investments and long-term loans receivable:** | | | |
| Investments in securities (Notes 4, 6 and 7) | 84,771 | 87,778 | 799,734 |
| Less: Allowance for losses on overseas investments (Note 6) | (13,334) | (16,659) | (125,792) |
| | 71,437 | 71,119 | 673,942 |
| Long-term loans receivable | 2,562 | 3,320 | 24,177 |
| Total investments and long-term loans receivable | 74,000 | 74,440 | 698,119 |
| **Property, plant and equipment** (Note 7): | | | |
| Land | 12,051 | 12,011 | 113,698 |
| Buildings and structures | 123,744 | 121,431 | 1,167,400 |
| Wells | 30,295 | 26,792 | 285,804 |
| Machinery and equipment | 59,619 | 47,363 | 562,444 |
| Other property, plant and equipment | 11,468 | 17,807 | 108,191 |
| | 237,178 | 225,405 | 2,237,537 |
| Less: Accumulated depreciation | (136,602) | (130,144) | (1,288,700) |
| Property, plant and equipment, net | 100,576 | 95,261 | 948,837 |
| Other assets: | | | |
| Deferred tax assets (Note 8) | 4,966 | 6,993 | 46,855 |
| Other | 12,288 | 11,111 | 115,931 |
| Total assets | ¥246,765 | ¥242,455 | $2,327,977 |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2004 | Millions of yen 2003 | Thousands of U.S. dollars (Note 3) 2004 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 7) | ¥ 600 | ¥ 900 | $ 5,660 |
| Current portion of long-term debt (Note 7) | 2,306 | 2,315 | 21,755 |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | 35 | 404 | 338 |
| Trade | 2,317 | 5,071 | 21,866 |
| | 2,353 | 5,476 | 22,205 |
| Accrued income taxes (Note 8) | 1,610 | 840 | 15,190 |
| Other current liabilities | 9,928 | 8,655 | 93,669 |
| Total current liabilities | 16,798 | 18,186 | 158,479 |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 7) | 9,003 | 11,309 | 84,934 |
| Accrued retirement benefits for employees (Note 9) | 3,574 | 3,276 | 33,722 |
| Accrued retirement benefits for officers | 696 | 598 | 6,573 |
| Accrued estimated cost of abandonment of wells | 2,423 | 3,122 | 22,861 |
| Accrual for losses on projects | 10,975 | 11,480 | 103,542 |
| Other long-term liabilities (Note 8) | 2,186 | 2,166 | 20,626 |
| Total long-term liabilities | 28,859 | 31,954 | 272,257 |
| **Minority interests in consolidated subsidiaries** | 5,392 | 5,400 | 50,871 |
| **Shareholders' equity:** | | | |
| Common stock, without par value: | | | |
| Authorized — 120,000,000 shares | | | |
| Issued — 57,154,776 shares | 14,288 | 14,288 | 134,799 |
| Retained earnings (Notes 10 and 18) | 180,826 | 172,370 | 1,705,909 |
| Unrealized holding gain on securities | 3,412 | 2,304 | 32,191 |
| Translation adjustments | (2,810) | (2,048) | (26,517) |
| | 195,716 | 186,914 | 1,846,382 |
| Less: Treasury stock, at cost; 304 shares in 2004 and 0 share in 2003 | (1) | – | (13) |
| Total shareholders' equity | 195,715 | 186,914 | 1,846,369 |
| Contingent liabilities (Note 14) | | | |
| Total liabilities and shareholders' equity | ¥246,765 | ¥242,455 | $2,327,977 |

# Consolidated Statements of Income

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2004

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| **Net sales** | ¥96,713 | ¥90,683 | $912,392 |
| **Cost of sales** (Note 12) | 58,060 | 52,288 | 547,739 |
| **Gross profit** | 38,653 | 38,394 | 364,652 |
| Exploration expenses (Note 12) | 5,213 | 3,113 | 49,181 |
| Selling, general and administrative expenses (Note 12) | 20,990 | 19,452 | 198,022 |
| **Operating income** | 12,449 | 15,828 | 117,450 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 2,491 | 2,681 | 23,502 |
| Interest expense | (346) | (590) | (3,266) |
| Gain (loss) on sales of securities, net | 210 | (207) | 1,983 |
| Loss on devaluation of securities | (498) | (2,236) | (4,707) |
| Loss on disposal of property, plant and equipment | (286) | (262) | (2,706) |
| Reversal of (provision for) allowance for losses on overseas investments | 2,705 | (151) | 25,525 |
| Provision for accrued estimated cost of abandonment of wells | (160) | (986) | (1,518) |
| Provision for accrual for losses on projects | (129) | (821) | (1,221) |
| Equity in losses of unconsolidated subsidiaries and affiliates | (2,072) | (722) | (19,548) |
| Other, net | (154) | 41 | (1,462) |
| | 1,757 | (3,256) | 16,582 |
| Income before income taxes and minority interests | 14,207 | 12,572 | 134,032 |
| **Income taxes** (Note 8): | | | |
| Current | 2,568 | 1,654 | 24,233 |
| Deferred | 1,386 | 1,916 | 13,082 |
| | 3,955 | 3,571 | 37,314 |
| Income before minority interests | 10,252 | 9,001 | 96,718 |
| Minority interests | (291) | (172) | (2,746) |
| **Net income** (Note 17) | ¥ 9,960 | ¥ 8,828 | $ 93,971 |

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2004

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| **Common stock:** | | | |
| Beginning of year | ¥ 14,288 | ¥ 14,288 | $ 134,799 |
| End of year | ¥ 14,288 | ¥ 14,288 | $ 134,799 |
| **Retained earnings:** | | | |
| Beginning of year | ¥172,370 | ¥165,042 | $1,626,133 |
| Adjustment for exclusion from consolidation | – | (0) | – |
| Net income | 9,960 | 8,828 | 93,971 |
| Cash dividends paid | (1,428) | (1,428) | (13,480) |
| Bonuses to directors and statutory auditors | (75) | (72) | (715) |
| End of year | ¥180,826 | ¥172,370 | $1,705,909 |
| **Unrealized holding gain on securities:** | | | |
| Beginning of year | ¥ 2,304 | ¥ 2,484 | $ 21,741 |
| Net change during the year | 1,107 | (179) | 10,450 |
| End of year | ¥ 3,412 | ¥ 2,304 | $ 32,191 |
| **Translation adjustments:** | | | |
| Beginning of year | ¥ (2,048) | ¥ (1,475) | $ (19,330) |
| Net change during the year | (761) | (573) | (7,187) |
| End of year | ¥ (2,810) | ¥ (2,048) | $ (26,517) |
| **Treasury stock:** | | | |
| Beginning of year | ¥ – | ¥ – | $ – |
| Net change during the year | (1) | – | (13) |
| End of year | ¥ (1) | ¥ – | $ (13) |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2004

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| **Operating activities:** | | | |
| Income before income taxes and minority interests | ¥14,207 | ¥12,572 | $134,032 |
| Depreciation and amortization | 11,043 | 9,817 | 104,188 |
| Equity in losses of unconsolidated subsidiaries and affiliates | 2,072 | 722 | 19,548 |
| Interest and dividend income | (2,491) | (2,681) | (23,502) |
| Interest expense | 346 | 590 | 3,266 |
| (Gain) loss on sales of securities, net | (270) | 187 | (2,549) |
| Loss on devaluation of securities | 498 | 2,236 | 4,707 |
| Increase (decrease) in accrued retirement benefits | 303 | (188) | 2,863 |
| Decrease in accrued estimated cost of abandonment of wells | (638) | (25) | (6,026) |
| (Decrease) increase in allowance for losses on overseas investments and accrual for losses on projects | (3,830) | 132 | (36,137) |
| Decrease (increase) in notes and accounts receivable | 310 | (1,172) | 2,931 |
| Decrease (increase) in inventories | 2,669 | (2,261) | 25,183 |
| (Decrease) increase in notes and accounts payable | (2,161) | 1,654 | (20,392) |
| Other, net | 1,266 | (178) | 11,946 |
| Subtotal | 23,326 | 21,405 | 220,057 |
| Income taxes (paid) refunded | (1,803) | 214 | (17,014) |
| Net cash provided by operating activities | 21,522 | 21,619 | 203,043 |
| **Investing activities:** | | | |
| (Increase) decrease in time deposits | (320) | 1,004 | (3,019) |
| Acquisition of property, plant and equipment | (15,734) | (11,908) | (148,440) |
| Proceeds from sales of property, plant and equipment | 38 | 8 | 362 |
| Acquisition of securities | (12,029) | (15,513) | (113,482) |
| Proceeds from sales of securities | 12,996 | 12,289 | 122,611 |
| Decrease (increase) in loans receivable | 465 | (375) | 4,393 |
| Interest and dividends received | 2,638 | 2,651 | 24,893 |
| Other, net | (733) | (72) | (6,917) |
| Net cash used in investing activities | (12,677) | (11,915) | (119,599) |
| **Financing activities:** | | | |
| (Decrease) increase in short-term bank loans | (300) | 650 | (2,830) |
| Repayment of long-term debt | (2,315) | (6,377) | (21,841) |
| Acquisition of treasury stock | (1) | – | (13) |
| Cash dividends paid | (1,626) | (1,626) | (15,340) |
| Interest paid | (356) | (627) | (3,367) |
| Net cash used in financing activities | (4,599) | (7,981) | (43,391) |
| **Effect of exchange rate changes on cash and cash equivalents** | (260) | (270) | (2,459) |
| **Cash and cash equivalents at beginning of year** | 23,866 | 22,592 | 225,152 |
| **Adjustment for exclusion from consolidation** | – | (179) | – |
| **Cash and cash equivalents at end of year** | ¥27,851 | ¥23,866 | $262,746 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004

## 1. Basis of Preparation

Japan Petroleum Exploration Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the regulations under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

## 2. Significant Accounting Policies

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

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

The difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies accounted for by the equity method is amortized over a period of 5 years in general.

Investments in unconsolidated subsidiaries and affiliates other than the companies described above are stated at cost. Where there has been permanent impairment in the value of such investments, they have been written down in order to reflect the impairment.

**(2) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains and losses are credited or charged to income.

The balance sheet accounts of the foreign consolidated subsidiaries, except for shareholders' equity, the components of which are translated at the historical exchange rates, are translated into yen at the rates of exchange in effect at the balance sheet date. Revenue and expense accounts are also translated at the rates of exchange in effect at the balance sheet date.

Translation adjustments are presented as a component of shareholders' equity and minority interests in the consolidated financial statements.

**(3) Cash equivalents**

The Company and its consolidated subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**(4) Securities**

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

(5) Inventories

Merchandise and finished products are mainly stated at cost determined by the first-in, first-out method. Construction projects in progress are stated at cost determined by the specific identification method. Other inventories are mainly stated at cost determined by the moving average method.

(6) Property, plant and equipment and depreciation

Depreciation of property plant and equipment is computed mainly by the declining-balance method, except for the buildings acquired on and after April 1, 1998, the Sendai pipelines and the production and sales assets of Sapporo mining facilities on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets.

However, depreciation of property, plant and equipment of two domestic consolidated subsidiaries is computed by the straight-line method. That of one foreign consolidated subsidiary is computed by the percentage of production method.

The useful lives of property, plant and equipment are summarized as follows:

| | |
|---|---|
| Buildings and structures | 2 to 60 years |
| Wells | 3 years |
| Machinery and equipment | 2 to 13 years |

(7) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(8) Retirement benefits

Accrued retirement benefits for employees are stated principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period (mainly 10 years) which is shorter than the average remaining years of service of the employees. Prior service cost is being amortized as incurred by the straight-line method over a period which is shorter than the average remaining years of service of the employees.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to severance payments under their respective retirement benefit plans. Provisions for retirement benefits for these officers are made at an estimated amount as of the balance sheet date.

(9) Income taxes

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

(10) Allowance for losses on overseas investments

The allowance for losses on overseas investments is provided for possible losses arising from investments in the development of overseas natural resources at an amount determined based on the net worth of the investees with reference to the investees' financial position and certain other factors.

(11) Accrued estimated cost of abandonment of wells

The accrued estimated cost of abandonment of wells is provided to cover the costs to be incurred upon the abandonment of wells at an estimated amount which, in general, is allocated over a scheduled period based on the Company's or a consolidated subsidiary's plan for the abandonment of each respective well.

### (12) Accrual for losses on projects

The accrual for losses on projects is provided for possible losses arising from the project of natural resources conducted by consolidated subsidiaries at an estimated amount based on the net worth of each subsidiary's financial position and certain other factors.

### (13) Research and development costs

Research and development costs are charged to income when incurred.

### (14) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 18.

## 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at the rate of ¥106=U.S.$1.00, the approximate rate of exchange in effect on March 31, 2004. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

## 4. Securities

**(a) Information regarding marketable securities classified as other securities as of March 31, 2004 and 2003 is summarized as follows:**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| March 31, 2004 | Acquisition cost | Carrying value | Unrealized gain (loss) | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | |
| Stock | ¥ 5,947 | ¥11,049 | ¥5,101 | $ 56,110 | $104,240 | $48,130 |
| Bonds: | | | | | | |
| Government bonds | 3,708 | 4,038 | 329 | 34,988 | 38,097 | 3,109 |
| Corporate bonds | 4,529 | 4,891 | 362 | 42,727 | 46,149 | 3,422 |
| Other debt securities | 10,418 | 10,536 | 117 | 98,288 | 99,398 | 1,110 |
| Others | 5,243 | 6,279 | 1,036 | 49,464 | 59,244 | 9,780 |
| Subtotal | 29,847 | 36,795 | 6,948 | 281,578 | 347,128 | 65,550 |
| Securities whose acquisition cost exceeds or is equal to their carrying value: | | | | | | |
| Stock | 2,169 | 1,972 | (197) | 20,471 | 18,606 | (1,865) |
| Bonds: | | | | | | |
| Government bonds | 4,538 | 4,220 | (318) | 42,820 | 39,816 | (3,004) |
| Corporate bonds | 992 | 942 | (49) | 9,365 | 8,895 | (470) |
| Other debt securities | 10,873 | 10,217 | (655) | 102,583 | 96,396 | (6,187) |
| Others | 4,612 | 4,370 | (241) | 43,510 | 41,233 | (2,277) |
| Subtotal | 23,187 | 21,724 | (1,463) | 218,749 | 204,945 | (13,804) |
| Total | ¥53,034 | ¥58,519 | ¥5,485 | $500,326 | $552,073 | $51,747 |

| March 31, 2003 | Acquisition cost | Carrying value | Unrealized gain (loss) |
|---|---|---|---|
| | | | Millions of yen |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | ¥ 2,690 | ¥ 5,911 | ¥3,221 |
| Bonds: | | | |
| Government bonds | 6,760 | 7,723 | 963 |
| Corporate bonds | 6,710 | 6,942 | 231 |
| Other debt securities | 11,118 | 11,408 | 290 |
| Others | 6,047 | 6,310 | 263 |
| Subtotal | 33,326 | 38,297 | 4,970 |
| Securities whose acquisition cost exceeds or is equal to their carrying value: | | | |
| Stock | 5,304 | 4,862 | (441) |
| Bonds: | | | |
| Government bonds | 918 | 906 | (12) |
| Corporate bonds | 963 | 943 | (20) |
| Other debt securities | 12,885 | 12,445 | (440) |
| Others | 3,899 | 3,566 | (332) |
| Subtotal | 23,971 | 22,724 | (1,247) |
| Total | ¥57,298 | ¥61,021 | ¥3,723 |

Acquisition cost in the table above represents the book value after the devaluation of certain securities. Loss on devaluation of marketable securities for the years ended March 31, 2004 and 2003 amounted to ¥498 million ($4,707 thousand) and ¥2,236 million, respectively.

(b) Sales of securities classified as other securities amounted to ¥3,822 million ($36,066 thousand) with aggregate gain and loss of ¥244 million ($2,305 thousand) and ¥34 million ($322 thousand), respectively, for the year ended March 31, 2004.

For the year ended March 31, 2003, sales of securities classified as other securities amounted to ¥3,232 million with aggregate gain and loss of ¥88 million and ¥295 million, respectively.

(c) The redemption schedule for securities with maturity dates classified as other securities is summarized as follows:

| March 31, 2004 | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| | | | | Millions of yen |
| Bonds: | | | | |
| Government bonds | ¥ 125 | ¥ 3,437 | ¥ 3,959 | ¥ 735 |
| Corporate bonds | 721 | 3,156 | 1,724 | 232 |
| Other debt securities | 3,215 | 4,706 | 5,277 | 6,325 |
| Others | 3,201 | 780 | 430 | – |
| Total | ¥7,263 | ¥12,081 | ¥11,391 | ¥7,293 |

| March 31, 2004 | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
|---|---|---|---|---|
| | Thousands of U.S. dollars | | | |
| Bonds: | | | | |
| Government bonds | $ 1,187 | $ 32,431 | $ 37,355 | $ 6,939 |
| Corporate bonds | 6,805 | 29,779 | 16,268 | 2,193 |
| Other debt securities | 30,330 | 44,404 | 49,784 | 59,671 |
| Others | 30,204 | 7,366 | 4,061 | – |
| Total | $68,526 | $113,980 | $107,467 | $68,803 |

## 5. Inventories

Inventories at March 31, 2004 and 2003 were consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Merchandise and finished products | ¥3,553 | ¥4,188 | $33,524 |
| Raw materials and supplies | 2,442 | 3,922 | 23,041 |
| Construction projects in progress | 120 | 674 | 1,136 |
| | ¥6,116 | ¥8,785 | $57,701 |

## 6. Investments in Securities and Allowance for Losses on Overseas Investments

Investments in securities and the allowance for losses on overseas investments at March 31, 2004 and 2003 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Unconsolidated subsidiaries and affiliates | ¥14,140 | ¥17,040 | $133,397 |
| Less: Allowance for losses on overseas investments | (3,172) | (5,941) | (29,930) |
| | 10,967 | 11,099 | 103,467 |
| Other securities: | | | |
| Listed stocks | 13,021 | 10,774 | 122,846 |
| Unlisted stocks and other | 57,610 | 59,963 | 543,492 |
| Less: Allowance for losses on overseas investments | (10,161) | (10,717) | (95,862) |
| | 60,470 | 60,020 | 570,475 |
| | ¥71,437 | ¥71,119 | $673,942 |

## 7. Short-Term Loans and Long-Term Debt

Short-term bank loans are principally unsecured or represent notes. The weighted average interest rates for the years ended March 31, 2004 and 2003 were approximately 0.36% and 0.75%, respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Loans from banks and others, at interest rates ranging from 2.86% to 4.65%: | | | |
| Secured | ¥ 3,286 | ¥ 4,910 | $ 31,000 |
| Unsecured | 8,023 | 8,714 | 75,689 |
| | 11,309 | 13,624 | 106,689 |
| Less: Current portion | (2,306) | (2,315) | (21,755) |
| | ¥ 9,003 | ¥11,309 | $ 84,934 |

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2005 | ¥ 2,306 | $ 21,755 |
| 2006 | 8,973 | 84,651 |
| 2007 and after | 30 | 283 |
| | ¥11,309 | $106,689 |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Investments in securities | ¥ 0 | ¥ 0 | $ 0 |
| Property, plant and equipment—at net book value | 11,779 | 10,387 | 111,123 |
| | ¥11,779 | ¥10,387 | $111,123 |

The Company and certain consolidated subsidiaries have entered into bank overdrafts agreements amounting to ¥16,050 million ($151,415 thousand) with six banks. Bank overdrafts outstanding at March 31, 2004 under those agreements amounted to ¥300 million ($2,830 thousand).

## 8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes. A statutory tax rate applicable to the Company is approximately 36.2% for 2004 and 2003. Income taxes of one foreign consolidated subsidiary are based principally on the tax rates applicable in its country of incorporation.

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

| | 2004 | 2003 |
|---|---|---|
| Statutory tax rate | 36.2% | 36.2% |
| Effect of: | | |
| Net loss carryforward of consolidated subsidiaries | (0.4) | (0.2) |
| Exploration cost deducted for income tax purposes | (8.8) | (6.4) |
| Expenses not deductible for income tax purposes | 1.1 | 1.2 |
| Dividend income deductible for income tax purposes | (1.4) | (1.4) |
| Other, net | 1.1 | (1.0) |
| Effective tax rates | 27.8% | 28.4% |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Deferred tax assets: | | | |
| Allowance for losses on overseas investments | ¥ 2,683 | ¥ 2,998 | $ 25,312 |
| Accrual for losses on projects | 3,947 | 4,110 | 37,240 |
| Net loss carryforward | 3,553 | 3,292 | 33,527 |
| Accrued retirement benefits for employees | 1,262 | 1,180 | 11,908 |
| Accrued retirement benefits for officers | 272 | 227 | 2,571 |
| Accrued estimated cost of abandonment of wells | 763 | 924 | 7,200 |
| Finished products | 1,023 | 1,023 | 9,658 |
| Other | 3,541 | 3,554 | 33,407 |
| | 17,047 | 17,313 | 160,823 |
| Valuation allowance | (2,064) | (1,720) | (19,481) |
| Total deferred tax assets | 14,982 | 15,592 | 141,342 |
| Deferred tax liabilities: | | | |
| Reserve for exploration | (7,270) | (6,478) | (68,592) |
| Unrealized holding gain on securities | (1,988) | (1,348) | (18,759) |
| Reserve for advanced depreciation of fixed assets | (140) | (157) | (1,327) |
| Other | (47) | (46) | (450) |
| Total deferred tax liabilities | (9,447) | (8,031) | (89,129) |
| Net deferred tax assets | ¥ 5,534 | ¥ 7,561 | $ 52,213 |

## 9. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain domestic consolidated subsidiaries have defined contribution plans. One foreign subsidiary has both defined benefit and defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Retirement benefit obligation | ¥(14,084) | ¥(13,923) | $(132,872) |
| Plan assets at fair value | 8,256 | 6,873 | 77,893 |
| Unfunded retirement benefit obligation | (5,827) | (7,049) | (54,979) |
| Unrecognized actuarial loss | 2,250 | 3,769 | 21,231 |
| Unrecognized prior service cost | 2 | 3 | 26 |
| Accrued retirement benefits for employees | ¥ (3,574) | ¥ (3,276) | $ (33,722) |

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Service cost | ¥ 660 | ¥ 623 | $ 6,229 |
| Interest cost | 269 | 326 | 2,546 |
| Expected return on plan assets | (6) | (239) | (66) |
| Amortization of actuarial loss | 418 | 236 | 3,947 |
| Amortization of prior service cost | 0 | 0 | 5 |
| Other | 51 | 54 | 490 |
| Total | ¥1,394 | ¥1,001 | $13,151 |

The assumptions used in accounting for the above plans as of March 31, 2004 and 2003 were as follows:

| | 2004 | 2003 |
|---|---|---|
| Discount rates | Mainly 2.0% | Mainly 2.0% |
| Expected rates of return on plan assets | Mainly 0.0% | Mainly 3.0% |

## 10. Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥3,572 million ($33,700 thousand) and ¥3,572 million as of March 31, 2004 and 2003, respectively.

## 11. Depreciation

Depreciation of property, plant and equipment charged to income for the years ended March 31, 2004 and 2003 amounted to ¥10,616 million ($100,156 thousand) and ¥9,381 million, respectively.

## 12. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses, cost of sales and exploration expenses for the years ended March 31, 2004 and 2003 were ¥383 million ($3,616 thousand) and ¥359 million, respectively.

## 13. Leases

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Acquisition costs: | | | |
| Machinery and equipment | ¥ 422 | ¥ 438 | $ 3,985 |
| Other | 660 | 729 | 6,235 |
| | ¥1,083 | ¥1,168 | $10,221 |
| Accumulated depreciation: | | | |
| Machinery and equipment | ¥ 206 | ¥ 220 | $ 1,946 |
| Other | 426 | 447 | 4,020 |
| | ¥ 632 | ¥ 667 | $ 5,966 |
| Net book value: | | | |
| Machinery and equipment | ¥ 216 | ¥ 218 | $ 2,040 |
| Other | 234 | 281 | 2,215 |
| | ¥ 451 | ¥ 500 | $ 4,255 |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥229 million ($2,165 thousand) and ¥315 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2005 | ¥190 | $1,800 |
| 2006 and thereafter | 260 | 2,455 |
| | ¥451 | $4,255 |

## 14. Contingent Liabilities

At March 31, 2004, the Company and its consolidated subsidiaries had the following contingent liabilities:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| As guarantor of indebtedness of others: | | |
| Affiliated company | ¥ 6,718 | $ 63,380 |
| Employees | 2,381 | 22,467 |
| Others | 7,930 | 74,817 |
| | ¥17,030 | $160,664 |

## 15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the oil and natural gas segment. As the net sales, operating income and total assets of the oil and natural gas segment constituted more than 90% of the consolidated totals for the years ended March 31, 2004 and 2003, the disclosure of business segment information has been omitted.

The disclosure of geographical segment information has also been omitted as net sales and total assets of the foreign operations constituted less than 10% of the consolidated totals for both the years ended March 31, 2004 and 2003.

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

| | Millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2004 | Southeast Asia | East Asia | Other Area | Total |
| Overseas sales | ¥10,032 | ¥4,891 | ¥326 | ¥15,250 |
| Consolidated net sales | – | – | – | ¥96,713 |
| | Thousands of U.S. dollars | | | |
| Overseas sales | $94,650 | $46,144 | $3,082 | $143,876 |
| Consolidated net sales | – | – | – | $912,392 |
| Overseas sales as a percentage of consolidated net sales | 10.37% | 5.06% | 0.34% | 15.77% |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| Year ended March 31, 2003 | Southeast Asia | Middle East | East Asia | Other Area | Total |
| Overseas sales | ¥11,346 | ¥2,722 | ¥3,444 | ¥341 | ¥17,855 |
| Consolidated net sales | – | – | – | – | ¥90,683 |
| Overseas sales as a percentage of consolidated net sales | 12.51% | 3.00% | 3.80% | 0.38% | 19.69% |

## 16. Derivative Transactions

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations in interest rates, foreign currency exchange rates and oil prices, but does not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings.

No specific disclosure for derivatives has been made as the Company holds derivative positions which meet the criteria for deferral hedge accounting as of March 31, 2004 and 2003.

## 17. Amounts Per Share

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

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

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

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| Net income | ¥ 172.76 | ¥ 153.14 | $ 1.630 |
| Net assets | 3,422.80 | 3,268.99 | 32.291 |
| Cash dividends applicable to the year | 35.00 | 25.00 | 0.330 |

## 18. Subsequent Events

(1) On April 30, 2004, the Company acquired 31,000 shares of common stock of Japex New Nanhai Ltd. from Japan National Oil Corporation for ¥2,350 million ($22,170 thousand) in order to further strengthen the Company's core business which is the marketing of oil and natural gas resources. As a result, the Company's ownership interest in Japex New Nanhai Ltd. increased from 32% to 82%, and Japex New Nanhai Ltd. will become a consolidated subsidiary of the Company instead of an affiliate accounted for under the equity method of accounting for the year ending March 31, 2005 and thereafter.
Information regarding Japex New Nanhai Ltd. is summarized as follows:
1) Representative: Representative director and president Hiroyoshi Hotta
2) Common stock: ¥3,100 million ($29,245 thousand)
3) Address: 2-2-20, Higashi-Shinagawa, Shinagawa-ku, Tokyo
4) Description of business: Exploration, development and production of oil and natural gas off the Pearl River Mouth in South China Sea in the People's Republic of China
5) Net sales and net income for the year ended December 31, 2003 amounted to ¥4,151 million ($39,165 thousand) and ¥897 million ($8,466 thousand), respectively.
6) Total assets and total shareholders' equity as of December 31, 2003 amounted to ¥4,642 million ($43,793 thousand) and ¥4,414 million ($41,648 thousand), respectively.

(2) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 24, 2004:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥35=$0.330 per share) | ¥2,000 | $18,872 |
| Bonuses to directors and statutory auditors | 82 | 778 |

# REPORT OF INDEPENDENT AUDITORS

Shin Nihon & Co.

The Board of Directors
Japan Petroleum Exploration Co., Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Petroleum Exploration Co., Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Shin Nihon & Co.

June 24, 2004

# Principal Subsidiaries and Affiliates

| MAJOR SUBSIDIARIES | MAJOR BUSINESS ACTIVITIES | PAID-IN CAPITAL (MILLIONS OF YEN) | VOTING RIGHTS (%) |
|---|---|---|---|
| Akita Natural Gas Pipeline Co., Ltd. | Transport of natural gas via pipelines in Akita Prefecture | 250 | 100.00 |
| SK Engineering Co., Ltd. | Onshore drilling and engineering services | 300 | 100.00 |
| JAPEX SKS Corporation | Manufacture and sale of petroleum products, real estate management | 90 | 100.00 |
| North Japan Oil Co., Ltd. | Refinement, processing and sale of crude oil | 80 | 100.00 |
| Japex Geothermal Kyushu Ltd. | Supply of steam for power generation in Kagoshima Prefecture | 6,380 | 100.00 |
| Shirone Gas Co., Ltd. | Production, supply and sale of gas in Shirone City, Niigata Prefecture and other areas | 700 | 100.00 |
| Japex Pipeline Ltd. | Maintenance and management of pipelines | 80 | 100.00 |
| JGI, Inc. | Seismic data acquisition and processing services | 2,100 | 100.00 |
| Geophysical Surveying Co., Ltd. | Electrical well logging and mud logging services | 446 | 100.00 |
| JAPEX (U.S.) Corp. | An investor in the Malaysia LNG III Project | 97,500 (Thousands of U.S. dollars) | 100.00 |
| North Japan Security Service Co., Ltd. | Security services | 30 | 86.67 |
| Japex New Nanhai Ltd. | Production of petroleum in the South China Sea | 3,100 | 82.00 |
| Japex Offshore Ltd. | Exploration and production of petroleum on the continental shelf of the Sea of Japan | 5,963 | 67.70 |
| Japex Gulf Producing Corp. | Production of petroleum in the Gulf of Mexico | 16,400 (Thousands of U.S. dollars) | 50.00 |

| MAJOR AFFILIATES | MAJOR BUSINESS ACTIVITIES | PAID-IN CAPITAL (MILLIONS OF YEN) | VOTING RIGHTS (%) |
|---|---|---|---|
| Japan Sakhalin Pipeline Co., Ltd. | Promotion of Sakhalin Pipeline Project | 2,530 | 45.00 |
| TOHOKU NATURAL GAS Co., Inc. | Marketing of natural gas in Japan's Tohoku region | 300 | 45.00 |
| JJI S&N B.V. | Development and production of petroleum in the Persian Gulf, off Iran | 35,301 (Thousands of euro) | 41.67 |
| TELNITE CO., LTD. | Manufacture and sales of drilling mud | 98 | 39.80 |
| Universe Gas & Oil Company, Inc. | Production of petroleum in Eastern Kalimantan, Indonesia | 9,443 | 33.43 |
| Japan Drilling Co., Ltd. | Offshore drilling service | 4,000 | 33.25 |
| Jawa Oil Co., Ltd. | Provide loans to Indonesia's state-run Pertamina | 6,200 | 17.50 |

# Corporate Profile

## Directors and Auditors (As of June 24, 2004)

| | |
|---|---|
| Chairman | Kazuo Wakasugi |
| President | Yuji Tanahashi |
| Executive Vice Presidents | Fumio Okabe<br>Ryoichi Ono |
| Senior Managing Directors | Tetsuo Awano<br>Tadashi Sagai |
| Managing Directors | Yasuhiko Wada<br>Mineo Kinoshita<br>Tadatsuna Koda<br>Kenkoh Morita<br>Tsuyoshi Minowa |
| Directors | Katsuo Suzuki<br>Toshihiro Ohara<br>Hiroshi Sato<br>Nobuzo Ichikawa<br>Masaki Hattori<br>Shoichi Ishii<br>Norihiko Sawara<br>Chikao Yoshida |
| Corporate Auditors | Sadahiko Koizumi<br>Hisashi Okada<br>Masahiko Kadotani<br>Isao Yokoto |

## Corporate Overview (As of March 31, 2004)

| | |
|---|---|
| Company Name<br>(Abbreviation: JAPEX) | Japan Petroleum Exploration Co., Ltd. |
| Service Logo | JAPEX |
| Establishment | April 1, 1970 |
| Paid-in Capital | 14,288,694 thousand yen |
| Fiscal Year-End | March 31 |
| Main Offices | Headquarters (see below), Sapporo, Akita, Nagaoka, Research Center (Chiba), London, Houston, Jakarta, Beijing |
| Headquarters | NYK Tennoz Bldg., 2-2-20 Higashi-Shinagawa, Shinagawa-ku, Tokyo 140-0002, Japan<br>Phone: +81-3-5461-7300<br>Facsimile: +81-3-5461-7400<br>URL: http://www.japex.co.jp |

## Stock Information (As of March 31, 2004)

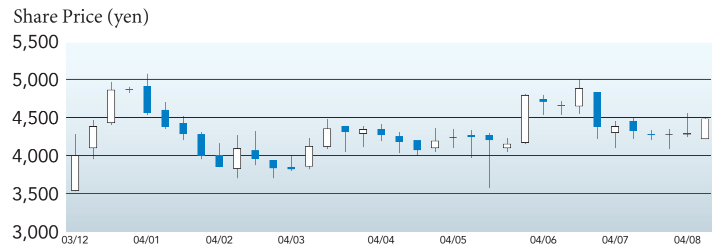
| | |
|---|---|
| Exchange Listing | Tokyo Stock Exchange, First Section<br>(Securities Code Number: 1662) |
| Common Stock | Authorized: 120,000,000 shares<br>Issued: 57,154,776 shares |
| Number of Shareholders | 8,532 |

### Major Shareholders

| Shareholders | Shares | Voting Rights (%) |
|---|---|---|
| Japan National Oil Corporation | 28,543,724 | 49.94 |
| TEIKOKU OIL CO., LTD. | 2,847,612 | 4.98 |
| Japan Trustee Services Bank, Ltd. | 2,138,400 | 3.74 |
| JFE Engineering Corporation | 1,848,012 | 3.23 |
| The Master Trust Bank of Japan, Ltd. | 1,195,200 | 2.09 |
| Mizuho Corporate Bank, Ltd. | 920,152 | 1.61 |
| Nippon Petroleum Refining Co., Ltd. | 872,456 | 1.53 |
| Goldman Sachs International | 831,200 | 1.45 |
| Nippon Oil Corporation | 763,400 | 1.34 |
| ITOCHU Corporation | 698,000 | 1.22 |

| | |
|---|---|
| Transfer Agent and Registrar Inquiries | Mizuho Trust & Banking Co., Ltd.<br>17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722, Japan<br>Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Division<br>Phone: +81-3-5213-5213 |

## Share Price Fluctuations




JAPAN PETROLEUM EXPLORATION CO., LTD.

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