JAPEX

Annual Report 2003
Year Ended March 31, 2003

Clean Energy Provider

JAPAN PETROLEUM EXPLORATION CO., LTD.

Financial Highlights

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2002 and 2003

		Millions of yen (except per share data and other data)		Thousands of U.S. dollars (except per share data and other data)
	2003	2002	2001	**2003**
For the year:				
Net sales	**¥ 90,683**	¥ 89,672	¥ 92,795	**$ 755,692**
Operating income	**15,828**	10,988	10,538	**131,900**
Income before income taxes and minority interests	**12,572**	5,588	3,252	**104,767**
Net income	**8,828**	5,200	3,958	**73,567**
Per share data:				
Net income per share	**¥ 153.14**	¥ 363.97	¥ 277.02	**$ 1.276**
Cash dividends per share	**25.00**	100.00	100.00	**0.208**
At year-end:				
Total assets	**¥242,455**	¥239,799	¥256,970	**$2,020,458**
Shareholders' equity	**186,914**	180,339	176,868	**1,557,617**
Other data:				
Number of employees	**1,358**	1,387	1,447	–

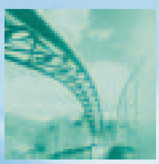
Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120=U.S.$1.00.
2. JAPEX conducted a four-for-one stock split on January 1, 2003.

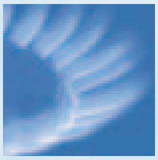
Contents

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.

JAPEX's Vision





JAPEX's management vision is firmly rooted in a guiding principle best described as "Creating New Energy Value and Raising Corporate Value." We achieve this through integrated operations that extend from oil and natural gas exploration and production (E&P) to transport and marketing. JAPEX is working to promote greater use of natural gas, a more environmentally friendly fuel, to help to lessen the burden on the environment, and is using deregulation in the domestic energy industry as an opportunity to expand its business. In this way, JAPEX aims to ensure continuous growth and maximize shareholder value.

To Our Shareholders and the Investing Community

Japan Petroleum Exploration Co., Ltd. (JAPEX) was established in 1955 as a government-sponsored organization to increase Japan's self-sufficiency in energy resources. The organization was later integrated into the Japan National Oil Corporation (JNOC). In 1970, it separated from JNOC and resumed operations as Japan Petroleum Exploration Co., Ltd., a private-sector company. In the last half century, JAPEX has discovered numerous oil and gas fields and put in place its own supply network of natural gas pipelines and other infrastructure. This work has resulted in JAPEX's current business base. Going forward, JAPEX will channel all its efforts into the fulfillment of its corporate mission: to be a dependable supplier of safe and affordable energy.

OUR BUSINESS ACTIVITIES

Our core business is the marketing of oil and natural gas resources acquired through domestic and international E&P activities. The E&P Division accounted for 83% of consolidated net sales in the fiscal year ended March 2003. The production and marketing of domestic oil and natural gas is our primary revenue source. In addition to the oil and gas fields in Akita and Niigata prefectures, we started producing oil and gas at the Yufutsu field (near Tomakomai City, Hokkaido) in 1996, significantly strengthening our business base. Our supply network delivers the oil and gas we produce to oil refineries, local distribution companies (LDCs), electric utilities and major industrial users. JAPEX is enhancing its ability to ensure stable and flexible natural gas deliveries to customers by balancing domestic production with supplies of imported liquefied natural gas (LNG). For customers who are not yet served by the pipeline network, our LNG Satellite System employs tanker trucks and other transportation methods to deliver LNG to customers.

OUR BUSINESS ENVIRONMENT

Natural gas is increasingly in demand as a source of clean energy because the combustion of natural gas releases relatively low levels of carbon dioxide and nitrogen oxides compared to oil and coal. The broad geographic distribution of natural gas sources also makes this resource attractive. This is particularly important for Japan, a country heavily dependent on the Middle East for its energy supplies. In this respect, natural gas should become a key energy source for Japan in the future.

Another important factor in our operating environment is the ongoing deregulation in the domestic electricity and gas markets. In the gas market, deregulation got underway in 1995 with liberalization of rules governing supplies to large-scale customers using more than 2 million cubic meters (M^3) of gas per year. This was followed in 1999 with liberalization for users in the 1 million M^3 range. Deregulation will be extended to eventually include 500,000 M^3 users in 2004 and 100,000 M^3 users in 2007, representing an extremely rapid pace of market liberalization. We see this development as an important business opportunity, and we will roll out an aggressive marketing strategy to tap new demand and expand our customer base.

A visit to the Katakai SK-26D drilling site by President Yuji Tanahashi

A UNIQUE BUSINESS MODEL: GAS INTEGRATION STRATEGY

Deregulation will have profound effects on the industry: electricity and gas utility companies will be encouraged to enter each other's markets, while new players from other industries are also expected to enter the energy market. As a result, revenues from our core product, natural gas, will come under intense competitive pressure. In order to enhance the profitability of our natural gas business in the face of these challenges, we are developing a Gas Integration Strategy. This strategy is designed to boost efficiency by integrating all the operational areas of our natural gas business. Ultimately, we aim to build a unique business model using our existing strengths in technology, our cost-competitiveness, and almost half a century of experience in reliably supplying natural gas to users. Based on our Gas Integration Strategy, we will develop a high added-value natural gas business to compete in the increasingly challenging energy market. This approach will enable us to retain our competitiveness and support a sustained increase in the corporate value of JAPEX.

OUR TECHNOLOGICAL POTENTIAL

JAPEX is committed to developing new technologies. Innovative in-house R&D programs in the areas of gas-to-liquid (GTL) technology and technology for underground gas storage will inject new added-value into our natural gas business and boost profits. We are also currently engaged in a long-term project to extract the potentially vast reserves of offshore methane hydrate in Japanese waters.

Going forward, we will seek to fulfill our social responsibility as an energy provider by meeting the diverse needs of the energy market and offering natural gas to customers in new and innovative ways. Increasing the corporate value of JAPEX will also be key. The continuing support of all our shareholders and investors will be, as ever, an indispensable part of our efforts.

November 2003

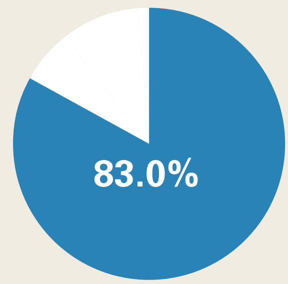
Yuji Tanahashi
President

At a Glance

Composition of Sales for Fiscal Year Ended March 2003

E&P DIVISION

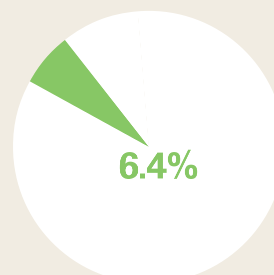
E&P operations are JAPEX's core business. Oil and natural gas produced by JAPEX is sold and delivered to customers using its own supply network. JAPEX is also active in overseas E&P projects through subsidiaries and affiliates. Part of the oil produced by these project companies is brought into Japan by JAPEX for sale to Japanese oil refineries and trading houses.



¥75,281 million

CONTRACT SERVICES DIVISION

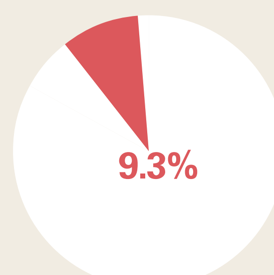
This division leverages specialized know-how in E&P to offer a range of contract services. JAPEX is steadily transferring its expertise to subsidiaries created to specialize in specific technologies. Through these subsidiaries we offer expert technical services, ranging from seismic data acquisition and processing to drilling.



¥5,815 million

OTHER BUSINESSES DIVISION

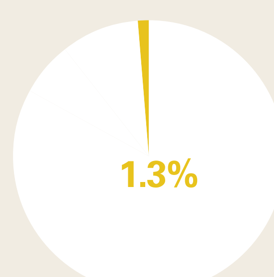
This division is involved in the transmission of third-party gas through JAPEX's pipeline network, the processing of oil and gas into liquefied petroleum gas (LPG), fuel oil and other products, and the manufacturing and trading of a variety of petrochemical products.



¥8,390 million

GEOTHERMAL ENERGY BUSINESS

JAPEX established a wholly owned subsidiary in 1988 to diversify into the geothermal energy business. Since 1995, the division has supplied steam generated with geothermal energy at Ibusuki County in Kagoshima Prefecture to electric power utilities. This division also engages in consignment research into the development of geothermal technologies.



¥1,196 million

Exploration and Production (E&P)

Our Strengths — Oil and Gas Reserves

Highly cost-competitive natural gas extracted from our own fields is our main source of revenues, allowing us to further develop our business. This fact alone means we place importance on expanding our reserves through continuous exploration activities.

DOMESTIC E&P ACTIVITIES

Although oil and natural gas exploration entails considerable risks, our leading technological capabilities in the domestic field have led to consistent success in the discovery of new reserves. Our strength literally lies in the oil and gas reserves we have discovered and developed. Successes have included the Yufutsu field in Hokkaido, which we discovered in 1989 and brought on stream in 1996. This field led to a significant increase in JAPEX's estimated recoverable reserves. We are now steadily increasing output from our 17 domestic oil and gas fields.

Taking full advantage of our competitive strengths, we will conduct ongoing and systematic exploration activities going forward. These activities will be focused on expanding existing oil and gas fields in Akita, Niigata and onshore Hokkaido. Efforts to discover new oil and gas reserves will target the seas off southern Hokkaido, the Sanriku coast*, and other promising areas.

*Northeastern coast of Japan's main island, Honshu.

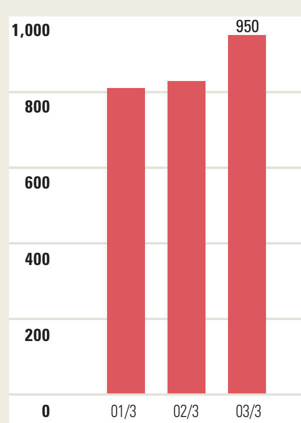
OVERSEAS E&P ACTIVITIES

Overseas, JAPEX is participating in a number of E&P projects to as it pursues business opportunities in an international context. Our overseas operations are underpinned by a project company structure, whereby JAPEX sets up and invests in special purpose companies responsible for individual projects. Investments are recouped in the form of dividend income generated by these project companies. Currently, JAPEX project companies are participating in oil and gas production operations in Indonesia, China and the United States. In Russia, Sakhalin Oil and Gas Development Co., Ltd. (SODECO), in which JAPEX is a major shareholder, is responsible for driving forward the Sakhalin I Project. This project is now under development and the first oil is expected to come on stream by the end of 2005.

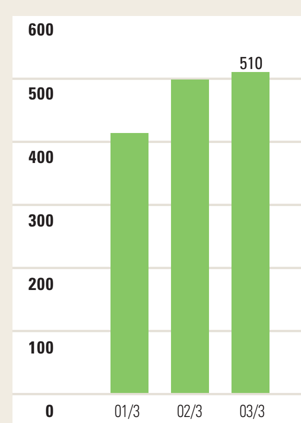
JAPEX is reviewing its overseas strategy to optimize its E&P portfolio, while at the same time concentrating management resources in selected geographic areas. These measures will accelerate the recovery of investments and enhance returns in the overseas business.

NATURAL GAS AND CRUDE OIL PRODUCTION

Natural Gas
(Millions of cubic meters per year)



Crude Oil
(Thousands of kiloliters per year)



The JAPEX Supply Network

Building a More Extensive and Efficient Network

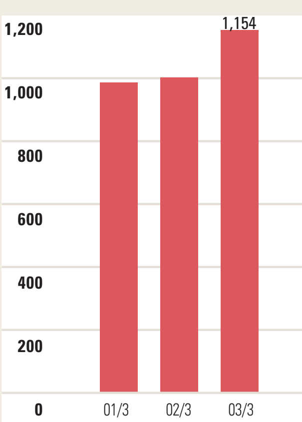
With our Gas Integration Strategy, we have created a wide-area natural gas marketing structure by building a transport network based on multiple supply channels.

LINKING GAS SUPPLY SOURCES WITH OUR GAS DISTRIBUTION NETWORK

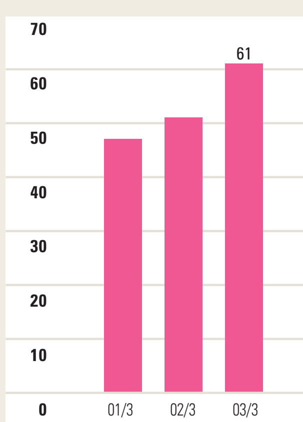
As a company developing a wide-area natural gas marketing approach, we see our gas pipeline network as a vital strategic resource. Our efforts to expand the network reflect this approach. In addition to the pipeline networks in the Akita and Niigata areas, we have built two major high-pressure gas trunk lines — Niigata-Sendai and Yufutsu-Sapporo. The total length of our pipeline network, if we include oil pipelines, now exceeds 1,000km. With our pipeline network in the Niigata region directly linked to an LNG receiving terminal, we can guarantee long-term stable energy supplies by flexibly responding to demand with gas produced at our own multiple domestic fields or with imported LNG supplies.

SALES VOLUME OF NATURAL GAS AND LNG

Natural Gas
(Millions of cubic meters per year)



LNG
(Thousands of tons per year)



EXPANDING OUR PIPELINE NETWORK

JAPEX is participating in the Sakhalin Pipeline Project, a strategic initiative to build an international pipeline to supply natural gas to Japan from the extensive gas fields to be developed in the Sakhalin I Project. Longer-term plans envision linking this international pipeline with our own oil and gas fields in Japan, our pipeline network and LNG receiving terminals, thus creating a wide-area supply network capable of covering all of eastern Japan including Hokkaido.

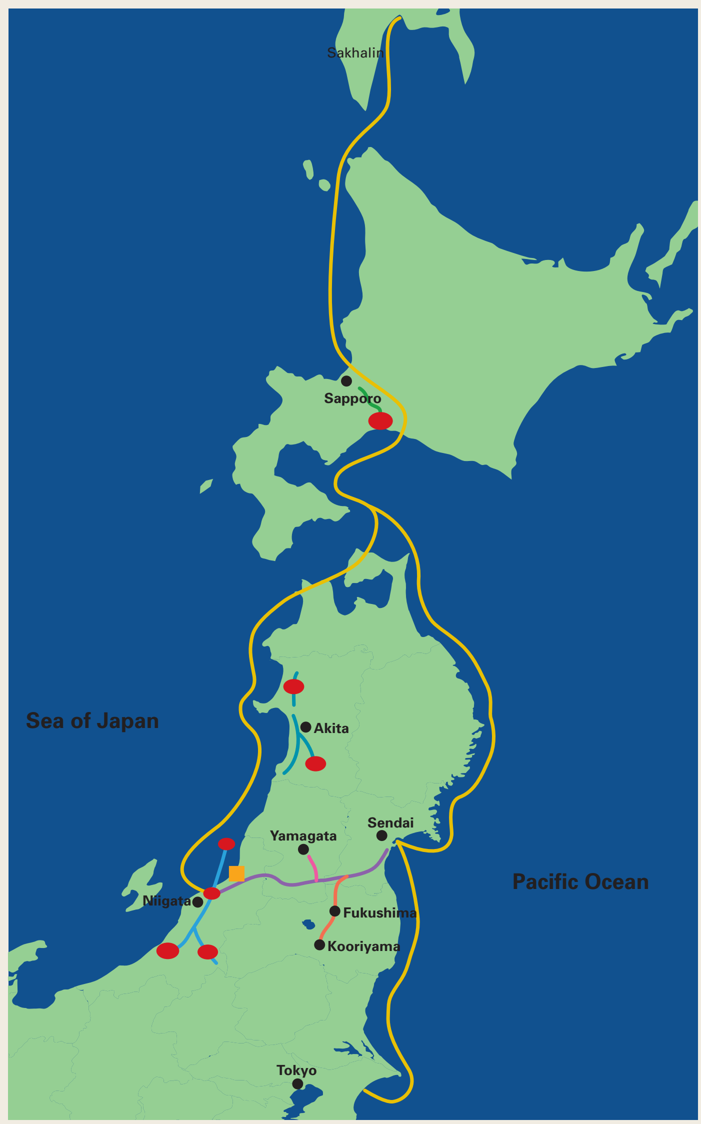
SUPPLYING GAS TO AREAS OUTSIDE THE REACH OF PIPELINES

JAPEX's LNG Satellite System is designed to serve customers in geographic areas outside our pipeline network. LNG is loaded onto tanker trucks at receiving terminals for transportation to customers, where it is re-gasified at mini-gasification units called "satellite terminals." JAPEX has been providing natural gas to LDCs since 1984 with this unique system. JAPEX made a further improvement to this system by introducing a railroad transportation mode in March 2000, thus substantially reducing logistics costs and reaching customers in more distant areas. Using this method, we have been able to expand the coverage of our LNG Satellite System from the existing range of 250km~300km. This now allows us to supply LDCs in Ishikawa Prefecture, 370km from the LNG receiving terminal in Niigata Prefecture.

JAPAN'S FIRST LNG PLANT

Until recently, JAPEX's LNG Satellite System was exclusively based on the road and rail transport of imported LNG. To enhance this system, we built Japan's first gas liquefaction plant at our Yufutsu field, and integrated it with local rail networks. This facility enables us to supply natural gas to customers throughout Hokkaido, an area not served by a local LNG receiving terminal. Supplies to Asahikawa commenced in October 2003, with plans to begin supplying Obihiro and Kushiro from 2007. Going forward, we will further expand coverage, centered on demand from LDCs operating in Hokkaido.

JAPEX NATURAL GAS PIPELINE NETWORK



MAP LEGEND

- Yufutsu–Sapporo pipeline
- Akita pipeline network
- Niigata pipeline network
- Niigata–Sendai pipeline network
- Yamagata pipeline (project)
- Fukushima/Kooriyama pipeline (project)
- Sakhalin pipeline (project)
- LNG receiving terminal
- JAPEX's primary oil and gas fields

Research and Development

New Technologies — Opening Up New Frontiers

At JAPEX, we develop and utilize leading-edge technology with a view to meeting future energy demand. We are actively involved in a range of R&D areas, including Gas to Liquid (GTL) technology, which has already entered the certification stage, and technology for the effective exploitation of methane hydrate, seen as promising new energy source.

GTL: CLEAN ENERGY

GTL is a technology for synthesizing liquid fuel from natural gas. Liquid fuels synthesized using the GTL process are free of pollutants, earning them interest from the industry as a potential clean energy source. GTL technology is also seen as a promising option for effectively using natural gas resources, as it makes possible the commercial exploitation of small and medium-scale gas fields. JAPEX is currently working with the Japan National Oil Corporation (JNOC) on GTL technology, which is now being tested in a pilot plant at our Yufutsu field.

NEARSHORE METHANE HYDRATE DISTRIBUTION IN SEAS CLOSE TO JAPAN

METHANE HYDRATE

A Potential New Energy Source

Methane hydrate is a sherbet-like solid formed by methane gas captured inside water molecules, and is usually found embedded in a shallow layer below the seabed at a water depth of over 500 meters or in permafrost layers. Offshore reserves in Japan's territorial waters could be as much as the equivalent of more than 100 years of natural gas consumption in Japan. Hopes are high that these reserves of methane hydrate could significantly enhance Japan's energy self-sufficiency.

Progress Toward Commercial Exploitation

The recovery of methane hydrate poses technical challenges that have yet to be resolved. Recognizing the potential of methane hydrate, JAPEX has been actively involved in the development of technology designed to overcome these challenges, playing a central role in joint research carried out between fiscal 1995 and fiscal 1999 with JNOC and a number of private-sector companies. In fiscal 1999, JAPEX became the first company in Japan to successfully drill and core a methane hydrate layer in domestic waters. In fiscal 2001, we began full-scale joint research into possible uses for methane hydrate with a number of public and private agencies. This research will include the start of drilling and survey activities off the east coast of Japan's Tokai region in January 2004, with JAPEX expected to be selected as the operator. Using our reservoir of technological skills and our years of experience in the energy field, we plan to form the nucleus of research and development into methane hydrate in Japan.

Five-Year Summary

	Millions of yen (except per share data and other data)				
	Consolidated			Non-Consolidated	
Years ended March 31	**2003**	2002	2001	2000	1999
For the year:					
Net sales	**¥ 90,683**	¥ 89,672	¥ 92,795	¥ 75,027	¥ 68,280
Cost of sales	**52,288**	56,220	59,138	48,947	44,544
Exploration expenses	**3,113**	3,674	4,344	3,957	5,350
Selling, general and administrative expenses	**19,452**	18,788	18,774	15,739	14,659
Operating income	**15,828**	10,988	10,538	6,383	3,726
Net income	**8,828**	5,200	3,958	1,361	1,646
Capital expenditures	**11,806**	7,245	2,903	1,709	2,561
Depreciation and amortization	**9,817**	9,523	9,601	7,505	8,005
Per share data:					
Net assets per share	**¥3,268.99**	¥12,621.10	¥12,378.21	¥11,351.45	¥11,360.38
Net income per share	**153.14**	363.97	277.02	95.26	115.24
Cash dividends per share	**25.00**	100.00	100.00	100.00	100.00
At year-end:					
Total assets	**¥ 242,455**	¥ 239,799	¥ 256,970	¥ 222,090	¥ 225,416
Shareholders' equity	**186,914**	180,339	176,868	162,197	162,325
Other data:					
Number of employees	**1,358**	1,387	1,447	773	1,193

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

Although the Japanese economy showed some signs of picking up in the fiscal year ended March 31, 2003, growth remained stagnant at best. Geopolitical instability contributed to an uncertain outlook, compounding persistently difficult economic conditions.

In the crude oil market, steady increases in international crude oil prices translated into healthy prices for domestic crude oil, despite a stronger yen. The market for domestic natural gas, however, was more challenging, as liberalization in the energy market led to intensifying competition. As a result, JAPEX continued to experience a difficult operating environment in the year under review.

Operating Results

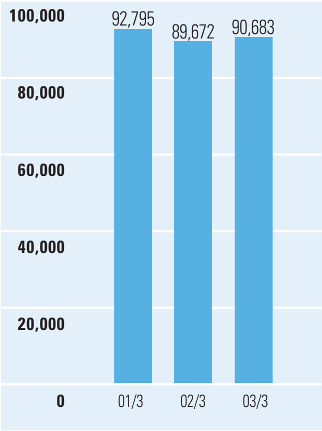
Despite declines in sales volume of overseas crude and consignment orders for exploration drilling, net sales grew 1.1% to ¥90,683 million on the back of rising crude oil prices and an increase in sales volume of domestic oil and gas. Sales of natural gas stood out, rising 15.2% to 1,154 million M^3. This increase was mainly attributable to consistently strong sales volumes for natural gas in Hokkaido, growing supplies to large industrial users, and healthy demand from power generation utilities.

Operating income jumped 44.0% year on year to ¥15,828 million. This increase was the net result of rising sales of domestic oil and gas, lower costs in the contract services and other factors. JAPEX also posted a significant increase in net income, climbing 69.8% to ¥8,828 million. Part of this rise was attributable to extraordinary losses related to a geothermal energy project recorded until the previous fiscal year that were no longer a factor in the year under review. As a result, net income per share was ¥153.14 and ROE was 4.8%.

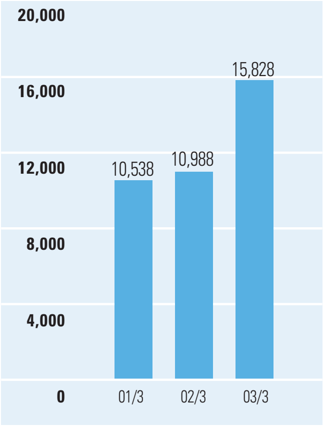
Accounting Policies Related to Exploration Investment

In order to maintain and increase the level of the company's oil and gas reserves, JAPEX is committed to continuing an aggressive exploration program at home and abroad, financed through profits from the sale of oil and natural gas. Domestic exploration expenditure is charged to income as incurred, while the cost of overseas exploration represents investments in project companies. JAPEX covers these investments by providing an allowance for losses on overseas investments at the time such investments are made. These accounting policies assure that the company's finances remain sound.

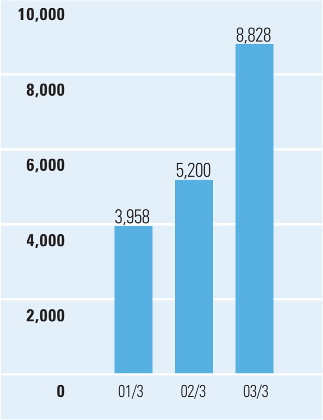
Net sales
(Millions of yen)



Operating income
(Millions of yen)



Net income
(Millions of yen)



REVIEW OF OPERATIONS BY SEGMENT

JAPEX and its consolidated subsidiaries are primarily engaged in business in two segments: oil and natural gas, and geothermal energy. Operations in the oil and natural gas segment include E&P operations, contract services, and other businesses. Operations in the geothermal segment are confined to geothermal energy development.

Oil and Natural Gas Segment

E&P Division

The sale of crude oil, natural gas and LNG are the principal sources of divisional revenue. Divisional sales totaled ¥75,281 million, an increase of ¥3,488 million, or 4.9%, from the previous fiscal year. This rise was achieved on the back of rising crude oil prices and an increase in sales volume of both domestic crude oil and natural gas, which more than offset a decline in sales volume of overseas crude oil.

Contract Services Division

Drilling, seismic data acquisition and processing are the principal revenue sources in this division. Revenue fell by ¥1,877 million, or 24.4% year on year to ¥5,815 million, reflecting a decline in government orders for exploration drilling.

Other Businesses Division

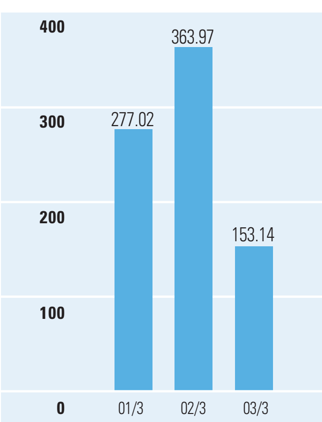
The Other Businesses Division mainly includes the manufacturing and trading of products such as LPG and fuel oil, the transmission of third-party gas, and other miscellaneous consignment orders. Sales, affected by a decline in miscellaneous consignment orders, fell ¥333 million, or 3.8% year on year, to ¥8,390 million.

Geothermal Energy Segment

Geothermal Energy Business

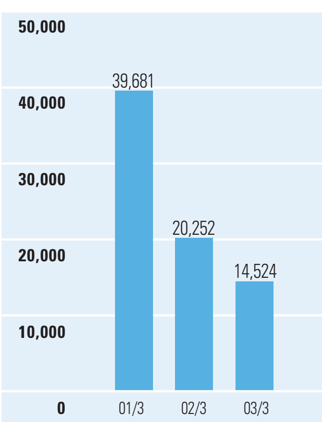
The core businesses in this division are the sales of steam for electric power generation, and consigned R&D in the field of geothermal energy. Divisional sales fell ¥267 million, or 18.2% year on year, to ¥1,196 million, due mainly to lower sales volumes of steam for electric power plants.

Net income per share
(Yen)

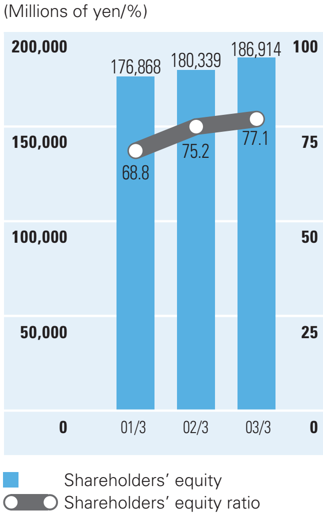


Note: JAPEX conducted a four-for-one stock split on January 1, 2003.

Interest-bearing debt
(Millions of yen)



Shareholders' equity/ Shareholders' equity ratio
(Millions of yen/%)



FINANCIAL POSITION AND CASH FLOW

Financial Position

Total assets at the end of the fiscal year stood at ¥242,455 million, an increase of ¥2,656 million, or 1.1%, from a year earlier.

Property, Plant and Equipment

Property, plant and equipment increased ¥1,701 million or 1.8%, to ¥95,261 million. This primarily reflected depreciation of fixed assets and capital investment during the period totaling ¥11,806 million. Capital investment was mainly made to upgrade production facilities at the Yufutsu field.

Interest-Bearing Debt

Interest-bearing debt at the end of the fiscal year totaled ¥14,524 million, representing a decrease of ¥5,727 million, or 28.2%, from a year ago. This reflected progress in repaying long-term debt related to capital investment projects.

Shareholders' Equity

JAPEX has focused on strengthening its financial position in order to finance projects with internal funds and to reinforce operations by enhancing management efficiency. Shareholders' equity at the fiscal year-end totaled ¥186,914 million, while the shareholders' equity ratio rose 1.9 points to 77.1%.

Cash Flows

At the end of the year under review, cash and cash equivalents on a consolidated basis stood at ¥23,866 million, an increase of ¥1,273 million, or 5.6%.

Cash flows from operating activities

Net cash provided by operating activities was ¥21,619 million, an increase of ¥4,611 million from the previous fiscal year. The main components were a rise in net income before income taxes of ¥6,983 million and a rise in accounts payable of ¥1,654 million, offset by an increase in notes and accounts receivable of ¥1,172 million.

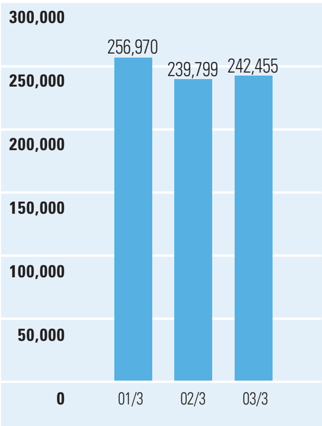
Cash flows from investing activities

Net cash used in investing activities amounted to ¥11,915 million, a decrease of ¥5,133 million. This mainly reflected a decline of ¥10,055 million in net payments for marketable and investment securities, offset in part by an increase of ¥5,727 million in payments for the acquisition of property, plant and equipment.

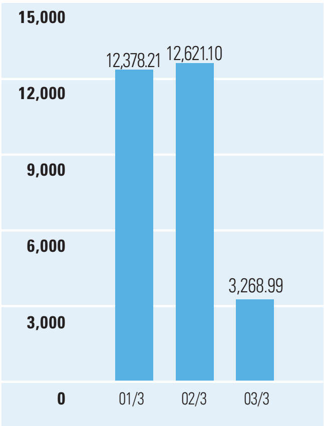
Cash flows from financing activities

Net cash used in financing activities fell by ¥14,303 million to ¥7,981 million. This mainly reflected a ¥10,000 million cash outflow for a corporate bond redemption in the previous year that was not a factor in the year under review.

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 business performance. The following is a discussion of important factors that must be recognized.

Risks Unique to the Natural Resources Development Business

Lead times from launching a project to recovering investments and finally generating profit tend to be very long in the natural resources development business. 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 Oil and Natural Gas Sales

JAPEX markets crude oil in Japan at international prices, notwithstanding whether it is produced locally or imported. Consequently, the price at which we sell 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 does not ordinarily hedge the risk of changes in crude oil prices in view of the costs involved. Although crude oil prices slip when the yen appreciates against the U.S. dollar, a stronger yen also has a positive impact as it drives down the cost of overseas investments. Since this reduces our net risk exposure to currency risk, JAPEX does not normally use currency futures and other derivatives to reduce exposure.

On the other hand, JAPEX's natural gas supply contracts with customers are usually yen-denominated fixed price annual contracts. While this eliminates short-term risks arising from factors such as changes in foreign exchange rates, it does oblige JAPEX to contend with seasonal fluctuations in demand. Normally, in the case of city gas utilities, demand peaks in winter and eases during the summer months. Moreover, abnormal weather conditions, such as a relatively warm winter, tend to affect sales volumes. Finally, a more long-term risk is the possible decline in the price and volume of natural gas sales associated with the liberalization of the domestic energy market.

Marketing System 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 purchase from JAPEX. Demand for JAPEX products may decline or prices may come under pressure if customer consumption drops or if our customers switch to other suppliers.

Procurement Risk

From March 2003, JAPEX began importing Malaysian LNG. As part of its contract commitments, JAPEX is obliged to purchase Malaysian LNG over the long-term. The contract also includes a take-or-pay clause. Consequently, there is a risk that JAPEX will have to continue procuring a fixed amount of LNG despite a possible future decline in its natural gas sales volume. Moreover, the price of LNG is affected by crude oil prices and foreign exchange rates. Consequently, JAPEX's profits may be squeezed unless it is able to pass on any increases in procurement prices to its customers in the form of higher sales prices.

Impact of Liberalization in the Domestic Energy Market

A number of deregulatory measures have been introduced in the domestic power generation and gas sectors in Japan with the aim of encouraging more competitive practices. JAPEX believes this wave of liberalization will energize the entire Japanese gas market and encourage greater demand for natural gas. It will also permit greater flexibility in our marketing structure, giving us the ability to expand into new business areas and grow our customer base. Liberalization 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.

Consolidated Balance Sheets

Japan Petroleum Exploration Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents	**¥ 23,866**	¥ 22,592	**$ 198,883**
Time deposits	**5**	1,034	**42**
Marketable securities (Note 4)	**4,722**	4,255	**39,350**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**315**	219	**2,625**
Trade	**11,431**	10,359	**95,258**
Less: Allowance for doubtful receivables	**(31)**	(95)	**(258)**
	11,715	10,484	**97,625**
Inventories (Note 5)	**8,785**	6,524	**73,208**
Other current assets	**5,556**	6,581	**46,300**
Total current assets	**54,650**	51,473	**455,417**
Investments and long-term loans receivable:			
Investments in securities (Notes 4, 6 and 7)	**87,778**	88,340	**731,483**
Less: Allowance for losses on overseas investments (Note 6)	**(16,659)**	(16,508)	**(138,825)**
	71,119	71,832	**592,658**
Long-term loans receivable	**3,320**	3,171	**27,667**
Total investments and long-term loans receivable	**74,440**	75,003	**620,333**
Property, plant and equipment (Note 7):			
Land	**12,011**	11,943	**100,092**
Buildings and structures	**121,431**	120,475	**1,011,925**
Wells	**26,792**	27,389	**223,267**
Machinery and equipment	**47,363**	44,676	**394,692**
Other property, plant and equipment	**17,807**	13,370	**148,392**
	225,405	217,856	**1,878,375**
Less: Accumulated depreciation	**(130,144)**	(124,295)	**(1,084,533)**
Property, plant and equipment, net	**95,261**	93,560	**793,842**
Other assets	**18,104**	19,761	**150,867**
Total assets	**¥ 242,455**	¥ 239,799	**$ 2,020,458**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 3) 2003
Current liabilities:			
Short-term bank loans (Note 7)	¥ 900	¥ 250	$ 7,500
Current portion of long-term debt (Note 7)	2,315	4,622	19,292
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	404	1,379	3,367
Trade	5,071	3,019	42,258
	5,476	4,398	45,633
Accrued income taxes (Note 8)	840	340	7,000
Other current liabilities	8,655	7,829	72,125
Total current liabilities	18,186	17,441	151,550
Long-term liabilities:			
Long-term debt (Note 7)	11,309	15,379	94,242
Accrued retirement benefits for employees (Note 9)	3,276	3,470	27,300
Accrued estimated cost of abandonment of wells	3,122	3,205	26,017
Accrual for losses on projects	11,480	11,502	95,667
Other long-term liabilities	2,765	2,978	23,042
Total long-term liabilities	31,954	36,535	266,283
Minority interests in consolidated subsidiaries	5,400	5,482	45,000
Shareholders' equity:			
Common stock:			
Authorized —120,000,000 shares			
Issued — 57,154,776 shares	14,288	14,288	119,067
Retained earnings (Notes 10 and 18)	172,370	165,042	1,436,417
Unrealized holding gain on securities	2,304	2,484	19,200
Translation adjustments	(2,048)	(1,475)	(17,067)
Total shareholders' equity	186,914	180,339	1,557,617
Contingent liabilities (Note 14)			
Total liabilities and shareholders' equity	¥242,455	¥239,799	$2,020,458

Consolidated Statements of Income and Retained Earnings

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
Net sales	¥ 90,683	¥ 89,672	$ 755,692
Cost of sales (Note 12)	52,288	56,220	435,733
Gross profit	38,394	33,452	319,950
Exploration expenses (Note 12)	3,113	3,674	25,942
Selling, general and administrative expenses (Note 12)	19,452	18,788	162,100
Operating income	15,828	10,988	131,900
Other income (expenses):			
Interest and dividend income	2,681	2,947	22,342
Interest expense	(590)	(942)	(4,917)
Gain on sales of marketable securities	88	130	733
Equity in losses of unconsolidated subsidiaries and affiliates	(722)	(394)	(6,017)
Loss on sales of marketable securities	(295)	(431)	(2,458)
Provision for allowance for losses on overseas investments	(151)	(1,280)	(1,258)
Provision for accrued estimated cost of abandonment of wells	(986)	(885)	(8,217)
Provision for losses on projects	(821)	(2,951)	(6,842)
Devaluation loss on securities	(2,236)	–	(18,633)
Storage of crude oil	–	(964)	–
Amortization of exploration rights	–	(2)	–
Amortization of recoverable accounts under production sharing	–	(317)	–
Loss on disposal of fixed assets	(262)	–	(2,183)
Other, net	41	(307)	342
	(3,256)	(5,399)	(27,133)
Income before income taxes and minority interests	12,572	5,588	104,767
Income taxes (Note 8):			
Current	1,654	559	13,783
Deferred	1,916	(76)	15,967
	3,571	483	29,758
Income before minority interests	9,001	5,105	75,008
Minority interests	(172)	95	(1,433)
Net income (Note 17)	8,828	5,200	73,567
Retained earnings at beginning of year	165,042	161,410	1,375,350
Adjustment for inclusion in or exclusion from consolidation	0	(59)	0
Appropriations:			
Cash dividends paid	(1,428)	(1,428)	(11,900)
Bonuses to directors and statutory auditors	(72)	(80)	(600)
Retained earnings at end of year (Note 18)	¥172,370	¥165,042	$1,436,417

	Yen		U.S. dollars (Note 3)
	2003	2002	2003
Amounts per share:			
Net income	¥153.14	¥363.97	$1.276
Cash dividends	25.00	100.00	0.208

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
Operating activities:			
Income before income taxes and minority interests	¥ 12,572	¥ 5,588	$104,767
Depreciation and amortization	9,817	9,523	81,808
Loss on devaluation of marketable securities and investments in securities	2,236	236	18,633
Amortization of exploration rights	–	5	–
Provision for accrued retirement benefits, less payments	(188)	(299)	(1,567)
Provision for accrued estimated cost of abandonment of wells, less payments	(25)	438	(208)
Provision for allowance for losses on overseas investments and accrual for losses on projects	132	2,971	1,100
Other provisions	(133)	(108)	(1,108)
Interest and dividend income	(2,681)	(3,094)	(22,342)
Interest expense	590	942	4,917
Gain on sales of marketable securities and investments in securities	(108)	(131)	(900)
Loss on sales of marketable securities and investments in securities	295	448	2,458
Gain on sales of property, plant and equipment	–	(0)	–
Equity in losses of unconsolidated subsidiaries and affiliates	722	394	6,017
(Increase) decrease in notes and accounts receivable	(1,172)	3,447	(9,767)
(Increase) decrease in inventories	(2,261)	596	(18,842)
Decrease in recoverable accounts under production sharing	–	760	–
Increase (decrease) in notes and accounts payable	1,654	(505)	13,783
Increase (decrease) increase in consumption tax payable	259	(829)	2,158
Other, net	(305)	(323)	(2,542)
Subtotal	21,405	20,062	178,375
Income taxes refunded (paid)	214	(3,054)	1,783
Net cash provided by operating activities	21,619	17,007	180,158
Investing activities:			
Decrease (increase) in time deposits	1,004	(639)	8,367
Decrease in marketable securities	6,436	2,070	53,633
Additions to property, plant and equipment	(11,908)	(6,180)	(99,233)
Proceeds from sales of property, plant and equipment	8	19	67
Additions to intangible fixed assets	(94)	(179)	(783)
Proceeds from capital reduction by affiliates	–	728	–
Increase in investments in securities	(9,661)	(15,349)	(80,508)
Increase in loans receivable	(375)	(110)	(3,125)
Increase in money trusts	–	(716)	–
Interest and dividends received	2,651	3,385	22,092
Other, net	21	(74)	175
Net cash (used in) provided by investing activities	(11,915)	(17,048)	(99,292)
Financing activities:			
Increase (decrease) in short-term bank loans	650	(764)	5,417
Proceeds from long-term debt	–	2	–
Repayment of long-term debt	(6,377)	(18,539)	(53,142)
Payments from minority interests	–	12	–
Cash dividends paid	(1,626)	(1,630)	(13,550)
Interest paid	(627)	(1,364)	(5,225)
Net cash used in financing activities	(7,981)	(22,284)	(66,508)
Effect of exchange rate changes on cash and cash equivalents	(270)	254	(2,250)
Cash and cash equivalents at beginning of year	22,592	45,060	188,267
Decrease in cash and cash equivalents arising from inclusion in or exclusion from consolidation	(179)	(397)	(1,492)
Cash and cash equivalents at end of year	¥ 23,866	¥ 22,592	$198,883

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

1. BASIS OF PREPARATION

Japan Petroleum Exploration Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices 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 in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As permitted by the regulations under the Securities and Exchange Law of Japan, amounts 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.

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 substantial 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 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.

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. 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 determined primarily 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 and of one foreign consolidated subsidiary is computed by the straight-line method and the percentage of production method, respectively. The useful lives of property, plant and equipment is 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 within 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. The provision for retirement benefits for these officers is 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 ¥120=U.S.$1.00, the approximate rate of exchange in effect on March 31, 2003. 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, 2003 and 2002 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2003	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 2,690	¥ 5,911	¥ 3,221	$ 22,417	$ 49,258	$ 26,842
Bonds:						
Government bonds	6,760	7,723	963	56,333	64,358	8,025
Corporate bonds	6,710	6,942	231	55,917	57,850	1,925
Other debt securities	11,118	11,408	290	92,650	95,067	2,417
Others	6,047	6,310	263	50,392	52,583	2,192
Subtotal	33,326	38,297	4,970	277,717	319,142	41,417
Securities whose acquisition cost exceeds or is equal to their carrying value:						
Stock	5,304	4,862	(441)	44,200	40,517	(3,675)
Bonds:						
Government bonds	918	906	(12)	7,650	7,550	(100)
Corporate bonds	963	943	(20)	8,025	7,858	(167)
Other debt securities	12,885	12,445	(440)	107,375	103,708	(3,667)
Others	3,899	3,566	(332)	32,492	29,717	(2,767)
Subtotal	23,971	22,724	(1,247)	199,758	189,367	(10,392)
Total	¥57,298	¥61,021	¥ 3,723	$477,483	$508,508	$ 31,025

Acquisition cost in the table above represents the book value after the devaluation of certain securities. Loss on devaluation of marketable securities for the year ended March 31, 2003 amounted to ¥2,236 million ($18,633 thousand).

	Millions of yen		
March 31, 2002	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 3,047	¥ 6,876	¥ 3,828
Bonds:			
Government bonds	5,969	6,973	1,004
Corporate bonds	5,090	5,272	182
Other debt securities	13,123	13,319	196
Others	7,561	8,356	795
Subtotal	34,792	40,798	6,006
Securities whose acquisition cost exceeds or is equal to their carrying value:			
Stock	6,149	5,231	(917)
Bonds:			
Government bonds	1,482	1,395	(87)
Corporate bonds	4,148	4,060	(88)
Other debt securities	12,752	12,117	(634)
Others	3,500	3,120	(379)
Subtotal	28,033	25,926	(2,107)
Total	¥62,825	¥66,724	¥ 3,899

(b) Sales of securities classified as other securities amounted to ¥3,232 million ($26,933 thousand) with aggregate gain and loss of ¥88 million ($733 thousand) and ¥295 million ($2,458 thousand), respectively, for the year ended March 31, 2003.

For the year ended March 31, 2002, sales of securities classified as other securities amounted to ¥744 million with aggregate gain and loss of ¥130 million and ¥431 million, respectively.

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

	Millions of yen				Thousands of U.S. dollars			
March 31, 2003	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:								
Government bonds	¥ 117	¥ 3,014	¥ 3,503	¥1,793	$ 975	$ 25,117	$ 29,192	$14,942
Corporate bonds	2,181	3,956	1,209	537	18,175	32,967	10,075	4,475
Other debt securities	2,192	5,524	8,776	6,084	18,267	46,033	73,133	50,700
Others	231	300	881	–	1,925	2,500	7,342	–
Total	¥4,722	¥12,797	¥14,371	¥8,415	$39,350	$106,642	$119,758	$70,125

5. INVENTORIES

Inventories at March 31, 2003 and 2002 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise and finished products	¥4,188	¥4,224	$34,900
Raw materials and supplies	3,922	2,178	32,683
Construction projects in progress	674	121	5,617
	¥8,785	¥6,524	$73,208

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, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unconsolidated subsidiaries and affiliates	¥ 17,040	¥ 14,955	$142,000
Less: Allowance for losses on overseas investments	(5,941)	(6,075)	(49,508)
	11,099	8,879	92,492
Other securities:			
Listed stocks	7,974	9,343	66,450
Unlisted stocks and other	62,763	64,041	523,025
Less: Allowance for losses on overseas investments	(10,717)	(10,432)	(89,308)
	60,020	62,952	500,167
	¥ 71,119	¥ 71,832	$592,658

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, 2003 and 2002 were approximately 0.75% and 0.29%, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks and others, at interest rates ranging from 1.37% to 4.65%:			
Secured	¥ 4,910	¥ 8,138	$ 40,917
Unsecured	8,714	11,864	72,617
	13,624	20,002	113,533
Less: Current portion	(2,315)	(4,622)	(19,292)
	¥11,309	¥15,379	$ 94,242

Assets pledged as collateral for long-term debt and other liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Investments in securities	**¥ 0**	¥ 5	**$ 0**
Property, plant and equipment — at net book value	**10,387**	11,731	**86,558**
	¥10,387	¥11,736	**$86,558**

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥ 2,315	$ 19,292
2005	2,306	19,217
2006 and after	9,003	75,025
	¥13,624	$113,533

8. INCOME TAXES

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 36.2% for 2003 and 2002. Income taxes of the foreign consolidated subsidiaries are based principally on the tax rates applicable in their countries of incorporation.

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

	2003	2002
Statutory tax rate	**36.2%**	36.2%
Effect of:		
Net loss carryforward of consolidated subsidiaries	**(0.2)**	(4.7)
Exploration cost deducted for income tax purposes	**(6.4)**	(17.2)
Expenses not deductible for income tax purposes	**1.2**	2.7
Dividend income deductible for income tax purposes	**(1.4)**	(6.8)
Other, net	**(1.0)**	(1.6)
Effective tax rates	**28.4%**	8.6%

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Allowance for losses on overseas investments	¥ 2,998	¥ 2,988	$ 24,983
Accrual for losses on projects	6,605	8,319	55,042
Net loss carryforward	3,292	3,185	27,433
Accrued retirement benefits for employees	1,180	1,047	9,833
Accrued retirement benefits for officers	227	243	1,892
Accrued estimated cost of abandonment of wells	924	932	7,700
Finished products	1,023	1,025	8,525
Other	3,554	3,026	29,617
	19,807	20,769	165,058
Valuation allowance	(4,214)	(4,391)	(35,117)
Total deferred tax assets	15,592	16,378	129,933
Deferred tax liabilities:			
Reserve for exploration	(6,478)	(5,329)	(53,983)
Unrealized holding gain on securities	(1,348)	(1,412)	(11,233)
Reserve for advanced depreciation of fixed assets	(157)	(173)	(1,308)
Other	(46)	(46)	(383)
Total deferred tax liabilities	(8,031)	(6,961)	(66,925)
Net deferred tax assets	¥ 7,561	¥ 9,416	$ 63,008

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 foreign subsidiaries also have defined benefit 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, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Retirement benefit obligation	¥(13,923)	¥(13,447)	$(116,025)
Plan assets at fair value	6,873	7,810	57,275
Unfunded retirement benefit obligation	(7,049)	(5,637)	(58,742)
Unrecognized actuarial loss	3,769	2,161	31,408
Unrecognized prior service cost	3	4	25
Accrued retirement benefits for employees	¥ (3,276)	¥ (3,470)	$ (27,300)

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 623	¥ 668	$ 5,192
Interest cost	326	335	2,717
Expected return on plan assets	(239)	(254)	(1,992)
Amortization of actuarial loss (gain)	236	182	1,967
Amortization of prior service cost	0	0	0
Total	¥ 947	¥ 933	$ 7,892

The assumptions used in accounting for the above plans as of March 31, 2003 and 2002 were as follows:

	2003	2002
Discount rates	Mainly 2.0%	Mainly 2.5%
Expected rates of return on plan assets	Mainly 3.0%	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 ($29,767 thousand) and ¥3,462 million as of March 31, 2003 and 2002, respectively.

11. DEPRECIATION

Depreciation of property, plant and equipment charged to income for the years ended March 31, 2003 and 2002 amounted to ¥9,381 million ($78,175 thousand) and ¥9,105 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, 2003 and 2002 were ¥359 million ($2,992 thousand) and ¥318 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, 2003 and 2002, 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
	2003	2002	2003
Acquisition costs:			
Machinery and equipment	¥ 438	¥ 353	$3,650
Other	729	1,046	6,075
	¥1,168	¥1,399	$9,733
Accumulated depreciation:			
Machinery and equipment	¥ 220	¥ 223	$1,833
Other	447	598	3,725
	¥ 667	¥ 821	$5,558
Net book value:			
Machinery and equipment	¥ 218	¥ 129	$1,817
Other	281	448	2,342
	¥ 500	¥ 578	$4,167

Lease payments relating to finance leases accounted for as operating leases amounted to ¥315 million ($2,625 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, 2003 and 2002, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥207	$1,725
2005 and thereafter	292	2,433
	¥500	$4,167

14. CONTINGENT LIABILITIES

At March 31, 2003, 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	¥ 6,605	$ 55,042
Employees	2,626	21,883
Others	4,789	39,908
	¥14,021	$116,842

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, 2003 and 2002, 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, 2003 and 2002.

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, 2003 and 2002 are summarized as follows:

	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**
	Thousands of U.S. dollars				
Overseas sales	**$94,550**	**$22,683**	**$28,700**	**$2,842**	**$148,792**
Consolidated net sales					**$755,692**
Overseas sales as a percentage of consolidated net sales	**12.51%**	**3.00%**	**3.80%**	**0.38%**	**19.69%**

	Millions of yen				
Year ended March 31, 2002	Southeast Asia	Middle East	East Asia	Other Area	Total
Overseas sales	¥10,437	¥5,608	¥3,942	¥1,121	¥21,110
Consolidated net sales					¥89,672
Overseas sales as a percentage of consolidated net sales	11.64%	6.25%	4.40%	1.25%	23.54%

16. DERIVATIVE TRANSACTIONS

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations in interest rates and foreign currency exchange rates, 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, 2003 and 2002.

17. AMOUNTS PER SHARE

Until the year ended March 31, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of operations and the weighted average number of shares of common stock outstanding during each year, and amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, net income per share for the year ended March 31, 2003 was 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, and net assets per share at March 31, 2003 was computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end. If the new method of computation had been applied for the year ended March 31, 2002, net income per share and net assets per share would have been ¥358.92 and ¥12,616.05, respectively.

The Company made a four-for-one stock split on January 1, 2003. Had this stock split been made on April 1, 2001, net income per share for the year ended March 31, 2002 and net assets per share at March 31, 2002 would have been ¥89.73 and ¥3,154.01, respectively.

No diluted net income per share is presented for the years ended March 31, 2003 and 2002 because the potential stock does not exist.

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

	Yen		U.S. dollars
	2003	2002	**2003**
Net income	**¥ 153.14**	¥ 363.97	**$ 1.276**
Net assets	**3,268.99**	12,621.10	**27.242**
Cash dividends applicable to the year	**25.00**	100.00	**0.208**

18. SUBSEQUENT EVENT

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, 2003, were approved at a shareholders' meeting held on June 24, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥25=$0.208 per share)	**¥1,428**	**$11,900**
Bonuses to directors and statutory auditors	**72**	**600**

Report of Independent Auditors

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, 2003 and 2002, and the related consolidated statements of income and retained earnings, 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 independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

November 4, 2003

Shin Nihon & Co.

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Japan Petroleum Exploration Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Principal Subsidiaries and Affiliates

Major Subsidiaries	Major business activities
Akita Natural Gas Pipeline Co., Ltd.	Transport of natural gas via pipelines in Akita Prefecture
JAPEX SKS Corporation	Manufacture and sale of petroleum products, real estate management
SK Engineering Co., Ltd.	Onshore drilling and engineering services
North Japan Oil Co., Ltd.	Refinement, processing and sale of crude oil
Japex Pipeline Ltd.	Maintenance and management of pipelines
JGI, Inc.	Seismic data acquisition and processing services
Geophysical Surveying Co., Ltd.	Electrical well logging and mud logging services
Japex Geothermal Kyushu Ltd.	Supply of steam for power generation in Kagoshima Prefecture
North Japan Security Service Co., Ltd.	Security services
Japex Offshore Ltd.	Exploration and production of petroleum on the continental shelf of the Sea of Japan
JAPEX (U.S.) Corp.	Production of petroleum in the U.S.
Japex Gulf Producing Corp.	Production of petroleum in the Gulf of Mexico

Major Affiliates	Major business activities
Japan Sakhalin Pipeline Co., Ltd.	Promotion of Sakhalin Pipeline project
TOHOKU NATURAL GAS Co., Inc.	Marketing of natural gas in Japan's Tohoku region
JJI S&N B.V.	Development and production of petroleum in the Persian Gulf, off Iran
TELNITE CO., LTD.	Manufacture and sales of drilling mud
Japan Drilling Co., Ltd.	Offshore drilling service
Universe Gas & Oil Company, Inc.	Production of petroleum in Eastern Kalimantan, Indonesia
Japex New Nanhai Ltd.	Production of petroleum in the South China Sea
Jawa Oil Co., Ltd.	Provide loans to Indonesia's state-run Pertamina

Corporate Profile

Directors and Auditors

Chairman	Kazuo Wakasugi	Directors	Katsuo Suzuki
President	Yuji Tanahashi		Toshihiro Ohara
Executive Vice Presidents	Takeshi Yoshii		Hiroshi Sato
	Fumio Okabe		Nobuzo Ichikawa
Senior Managing Director	Ryoichi Ono		Masaki Hattori
Managing Directors	Tetsuo Awano		Shoichi Ishii
	Yasuhiko Wada	Corporate Auditors	Sadahiro Koizumi
	Mineo Kinoshita		Hisashi Okada
	Tadatsuna Koda		Masahiko Kadotani
	Kenkoh Morita		Isao Yokoto
	Tadashi Sagai		
	Tsuyoshi Minowa		

(As of October 31, 2003)

Company Name Japan Petroleum Exploration Co., Ltd. (Abbreviation: JAPEX)

Service Logo JAPEX

Establishment April 1, 1970

Paid-in Capital 14,288 million yen

Fiscal Year-end March 31

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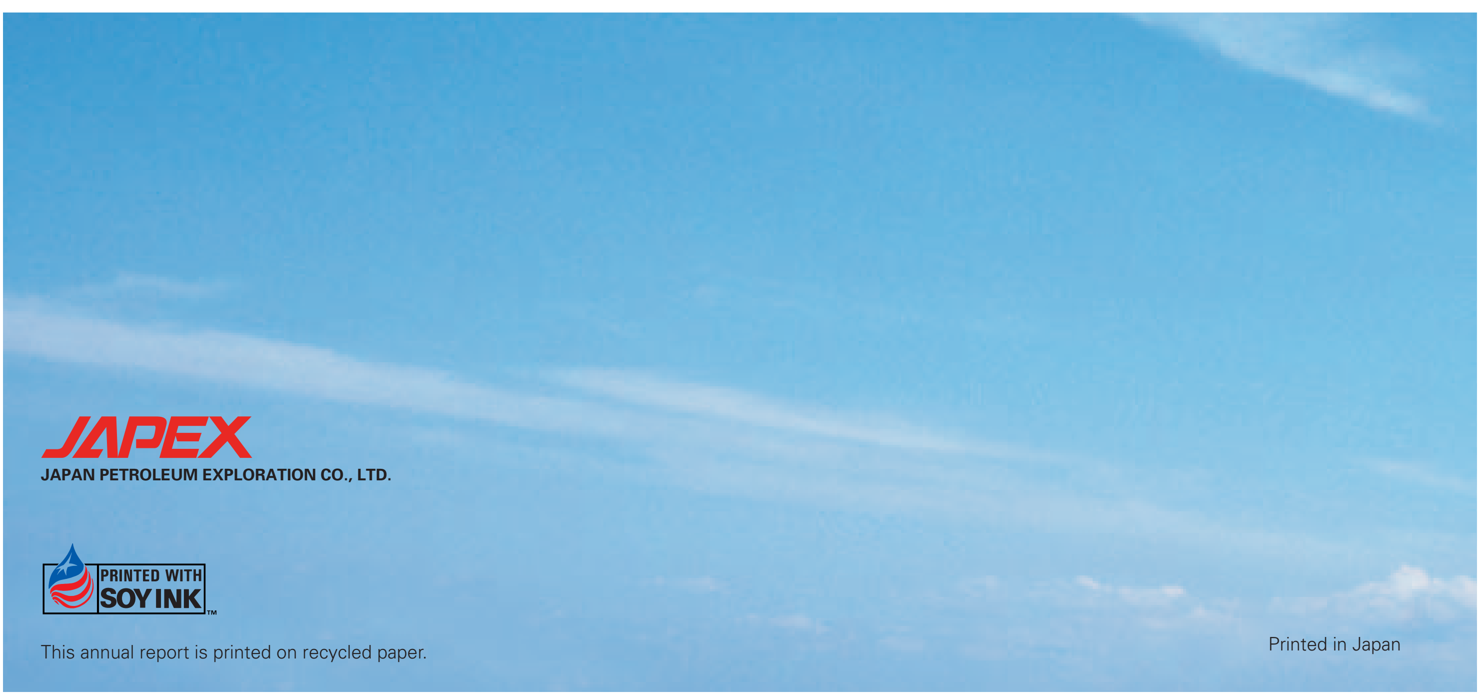

JAPAN PETROLEUM EXPLORATION CO., LTD.

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