Accounting Period: December 2005

Abbreviated Financial Results (Consolidated)

(English Translation of "Kessan Tanshin")
February 15, 2006

Listed Company Name: **Teikoku Oil Co. Ltd.** Exchanges Listed: TSE 1, OSE 1
Securities Code: 1601 Headquarters Location: Tokyo
(URL http://www.teikokuoil.co.jp/)
Name and Position of Representative: Masatoshi Sugioka, President and Representative Director
Name and Position of Contact Person: Seiji Yokoyama, Manager, Legal Section, Administrative Department
Tel.（03）3466－1237
Date of Board of Directors Meeting: February 15, 2006
Name of Parent Company: Nippon Oil Corporation (Securities Code: 5001) Parent share of total voting shares: 20.8%
Adoption of U.S. GAAP: No

1． December 2005 Consolidated Results（From January 1, 2005 to December 31, 2005）

(1) Consolidated Financial Results （Note） Amounts truncated to the nearest million yen

	Net Sales		Operating Income		Ordinary Income	
Fiscal Year to:	Yen Mln	%	Yen Mln	%	Yen Mln	%
Dec. 2005	100,716	19.9	21,077	55.7	22,820	38.1
Dec. 2004	84,032	7.0	13,533	54.9	16,523	48.1

	Net Income		Earnings per Share		Fully Diluted Earnings per Share		Net Income Return on Equity	Ordinary Income Return on Assets	Ordinary Income to Total Sales
Fiscal Year to:	Yen Mln	%	Yen	Sen	Yen	Sen	%	%	%
Dec. 2005	15,485	66.9	50	61	—	—	8.5	8.5	22.7
Dec. 2004	9,276	36.5	30	22	—	—	5.8	7.1	19.7

（Note） ①Equity in investment returns Dec. 2005 ¥320 million Dec. 2004 ¥1,354 million
②Average outstanding shares (consolidated) for the period ended Dec. 2005 304,979,500 shares Dec. 2004 305,292,690 shares
③Changes in accounting method? Yes
④Percentage changes for net sales, operating income, ordinary income and net income are comparisons to the previous fiscal year.

(2) Consolidated Financial Condition

	Total Assets	Shareholders' Equity	Shareholders'Equity Ratio	Book Value per Share	
As of:	Yen Mln	Yen Mln	%	Yen	Sen
Dec. 2005	293,767	197,216	67.1	646	90
Dec. 2004	240,513	165,936	69.0	543	62

（Note） End of period outstanding shares （Consolidated） Dec. 2005 304,789,235 shares Dec. 2004 305,151,378 shares

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	End-of Period Cash and Cash Equivalents
As of:	Yen Mln	Yen Mln	Yen Mln	Yen Mln
Dec. 2005	15,118	△20,287	7,845	25,545
Dec. 2004	19,225	△20,018	△5,824	22,234

(4) Items relating to scope of consolidation and application of equity method accounting

Consolidated Subsidiaries 27 Co. Non-consolidated subsidiaries reflected under the equity method 0 Co. Affiliated companies reflected under the equity method 1 Co.

(5) Changes in scope of consolidation and application of equity method accounting

Consolidated: （Added） 4 Co. （Removed） 2 Co.

２．Consolidated Forecast for the March 2006 Fiscal Year (from January 1, 2006 to March 31, 2006)

	Net Sales	Ordinary Income	Net Income
Full Fiscal Year	Yen Mln 27,600	Yen Mln 14,900	Yen Mln 9,100

(Reference) Forecast net income per share (full fiscal year): ¥29.86

※1. The Company has changed its accounting year from December 31 of every year to March 31 of the following year. The end of the next accounting year is March 31, 2006. As a result, the above forecast represents the forecast for a three-month accounting year (January 1, 2006 to March 31, 2006).

※2. The above forecast is based on information as of the date of this report, while actual results may differ due to various circumstances that were unforeseen at the time of the forecast. In addition, please refer to additional material related to this forecast that is contained in page 11.

※3. Additional information regarding material subsequent events is contained in pages 45~48. The stock of the Company and INPEX Corporation will be jointly transferred to a newly established joint holding company (INPEX Holdings Inc.) from April 3, 2006 (hereafter, the joint holding company) and the companies have signed an agreement to integrate operations that was ratified at an extraordinary shareholders' meeting held on January 31, 2006. After establishment of the joint holding company, the Company plans to announce a new forecast.

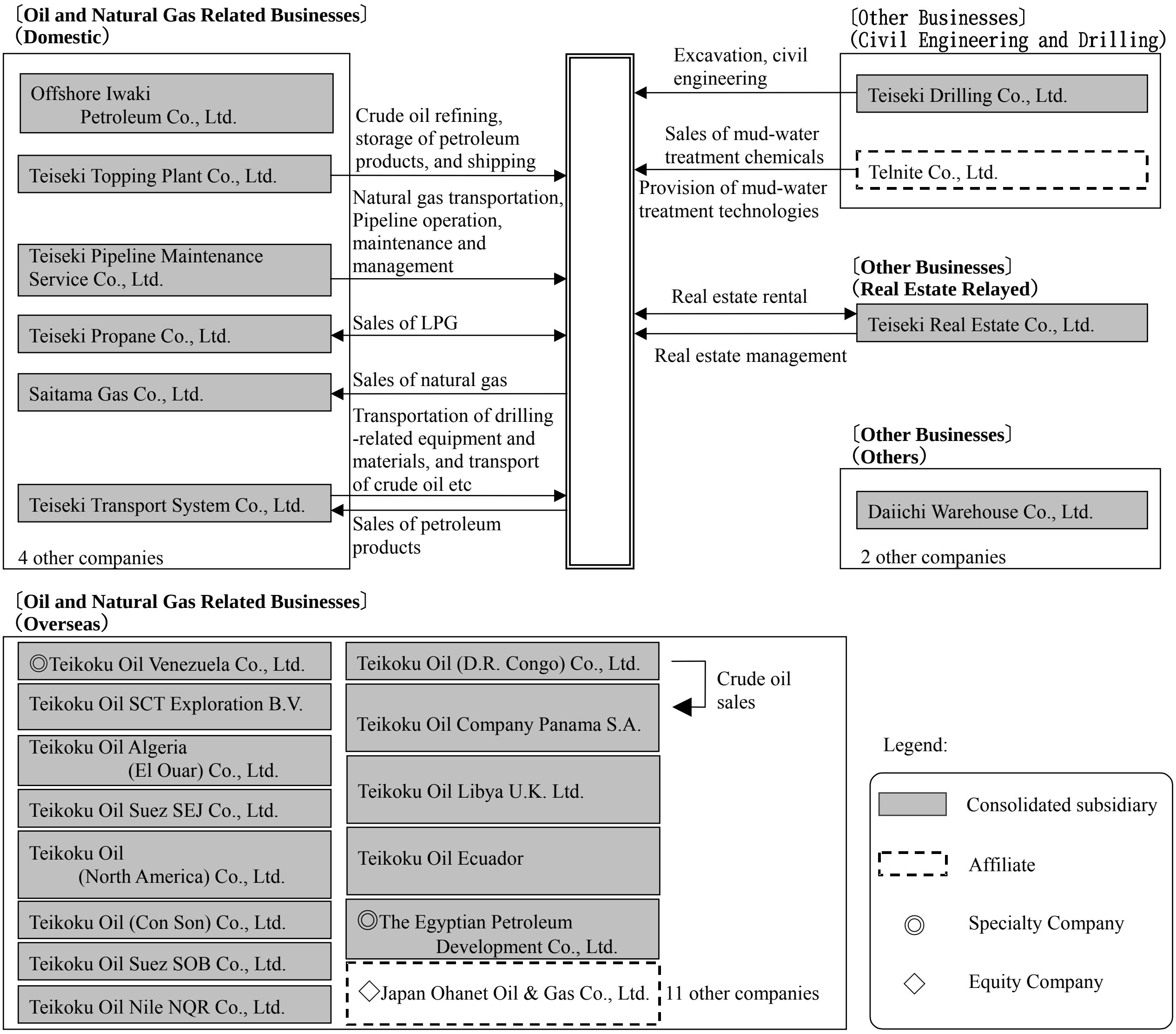
1. Group Overview

The Teikoku Oil Group (Teikoku Oil Co., Ltd. and its affiliates) consists of Teikoku Oil Co., Ltd., 32 subsidiaries (of which 27 are consolidated) and nine affiliates (of which one is reflected in consolidated accounts under the equity method), whose main business operations and major Group companies are grouped into the following areas.

Segment	Major Businesses	Main Companies	
Oil and Natural Gas-Related Businesses	Oil and natural gas exploration and development	Japan	※Parent Company、※Offshore Iwaki Petroleum Co., Ltd.
		Overseas	※ Teikoku Oil (Venezuela) Co., Ltd., Teikoku Oil SCT Exploration B.V., Teikoku Oil Algeria (El Ouar) Co., Ltd., Teikoku Oil Suez SEJ Co., Ltd., Teikoku Oil (North America) Co., Ltd. Teikoku Oil (Con Son) Co., Ltd., Teikoku Oil Suez SOB Co., Ltd., Teikoku Oil Nile NQR Co., Ltd., ※ Teikoku Oil (D.R. Congo) Co., Ltd., Teikoku Oil Libya UK, Ltd., ※ Teikoku Oil Ecuador ※ The Egyptian Petroleum Development Co., Ltd., ※ Japan Ohanet Oil and Gas Co., Ltd.
	Oil refining storage and shipment	Japan	Teiseki Topping Plant. Co., Ltd.
	Natural gas transportation	Japan	Teikoku Oil Co., Ltd., Teiseki Pipeline Maintenance Service Co., Ltd.
	Supply of city gas, sales and transportation of petroleum products	Japan	Teikoku Oil Co., Ltd., Teiseki Propane Co., Ltd., Saitama Gas Co., Ltd., Teiseki Transport System Co., Ltd.
		Overseas	Teikoku Oil Company Panama, S.A.
Other Businesses	Civil construction, well drilling, real estate-related businesses, and warehousing services	Japan	Teiseki Drilling Co., Ltd., Teiseki Real Estate Co., Ltd., Daiichi Warehouse Co., Ltd.

(Notes)
1. Of the major companies listed in the above, Japan Ohanet Oil & Gas is reflected in consolidated accounts under the equity method.
2. Companies marked with an asterisk are engaged in crude oil and natural gas production.

The following is an organizational chart of the relationships within the Teikoku Oil Group.



2. Management Policies

(1) Fundamental Management Policies

The Group's management philosophy and aim is to contribute to an abundant society by providing a stable long-term supply of energy to support everyday life and industry.

The Teikoku Oil Group's strategy for future growth is to continue expanding its domestic natural gas business centering on the abundant reserves of the Minami Nagaoka Gas Field in parallel with a full-fledged development of overseas oil and gas businesses.

On the other hand, there is increasing global competition for the acquisition of natural resources, and the early establishment of a strong financial base is required to ensure the high international competitiveness required for sustainable development.

Recognizing this need, the Company and INPEX Corporation decided on November 5 of last year to integrate the managements of the two groups in order to create a more balanced asset portfolio and a stronger financial base, and through a combination of operating capacity and technological strengths, to establish and even stronger corporate organization and ability to acquire high quality concessions in order to establish a strong market position amidst the international competition. In addition, an extraordinary shareholders' meeting on January 31 of this year resolved to establish a new holding company called "INPEX Holdings Inc." on April 3, 2006 through a stock transfer.

The merger of the Teikoku Oil Group and INPEX Corporation is scheduled to be completed over the next two years on June 2008, when a transfer to the new operating holding company is planned. The two Groups believe the new operating holding company will provide for a greatly expanded presence as an upstream oil and natural gas company, and will provide the opportunity to maximize corporate value.

(2) Basic Policy Regarding Earnings Allocation

The Group intends to provide for a long-term, stable stream of dividends, and will be working to provide future returns to shareholders while taking an integrated view including business performance, financial condition.

On the other hand, the supply of oil and natural gas that is necessary for social activity is a business with a high degree of public utility that requires the establishment of a long-term and stable supply infrastructure. As a result, continuous effort is required to ensure supply sources through exploration activities and to build and expand supply infrastructure. Achieving these priorities requires active and focused investment. While near completing its domestic natural gas supply infrastructure, the Group at the same time will be strategically developing its overseas businesses and making the appropriate investment to strengthen its business base with the aim of providing for future growth, in an effort to ensure and enhance shareholder returns.

(3) Philosophy and Policies Regarding the Lowering of the Minimum Share Trading Unit

While the Company believes that lowering the minimum share trading unit is an effective means to promote individual investor participation in the stock market while at the same time improving the liquidity of an individual stock, it also believes there is no immediate need to implement such measures given the current liquidity condition for the Company's stock.

In addition, the Company's stock is scheduled for delisting on March 28, 2006 as the result of the establishment of a joint holding company with INPEX Corporation through a transfer of shares.

(4) Medium- and Long-Term Management Strategies and Issues to Address

The Company's management vision heretofore has been to establish a solid business based on domestic natural gas operations, and to use the abundant cash flow generated from such operations to build overseas operations into the next main business pillar, thereby achieving sustainable growth based on viable domestic and overseas businesses. The Group over the past few years has been continuously preparing the groundwork for this vision by focusing its overseas business development efforts in Middle/South America and North Africa, and is achieving consistent results. Last year, the Company signed an agreement for the transfer of interests for a large, high quality concession in Ecuador in Middle/South America, and won an international public bid for two exploration blocks in Libya, North Africa.

However, given the sharp, long-term rise in crude oil prices, the strengthened competitiveness of major international oil companies as a result of corporate mergers and acquisitions, and the efforts of newly developing nations such as China and India that are seeking to assure supplies of resources as a national strategy given their rapid economic development, overseas competition to acquire upstream assets has become extremely competitive, while contract conditions have become ever more severe. The Company believes that the scheduled management integration with INPEX Corporation from April will be instrumental in the Group's preparations for more intense international competition in the future to acquire upstream assets. As a result, in addition to the issues that the Company has heretofore felt it needed to address, another major issue will be achieving smooth progress in integrating the organizations and business structures of the two companies as they move to establish an operating holding company over the next two years with the aim of ensuring a path for long-term growth after the integration is complete.

On the other hand, in domestic natural gas operations which are the foundation of the Group's business, it is now obvious that previous goals will be reached because of favorable demand growth despite accelerating market competition as the result of deregulation. Since last year, we have established a new goal of 1.2 billion m^3 of natural gas sales by 2010. In addition to achieving this goal and achieving long-term growth, the key issues for the foreseeable future will be consistent progress in establishing natural gas production, supply and transportation infrastructure. Firstly, with regards to production infrastructure, processing capacity will be significantly expanded with the completion of new facilities related to the Minami Nagaoka Gas Field that are currently under construction. In terms of supply infrastructure, the Group is continuing exploration activities in the vicinity of the Minami Nagaoka Gas Field in an effort to expand its natural gas reserves, and plans to introduce LNG from Shizuoka from 2010. In terms of the transportation infrastructure, the Group is expecting to complete the Shizuoka and Minamifuji pipelines within this year in order to supply Shizuoka Gas Co., Ltd. with domestically produced natural gas for a three-year period beginning from 2007. The concentrated expansion of major pipelines that has been underway since 1996 will be completed largely as originally planned in 2007 with the completion of the extension of the Shin Tokyo Line. Going forward, we anticipate that the utilization of these pipelines to consistently expand sales volumes will result in continued cash flow generation.

Moreover, given the extended sharp appreciation of crude oil prices from last year, conversion to natural gas fuel is accelerating as prices for competing petrochemical fuels sharply rise. Because demand along the Group's pipelines in general and in the North Kanto region in particular is increasing more than originally anticipated, a decision was made at the end of last year to begin a joint study of a Gunma interconnection pipeline to connect the Group's Shin Tokyo Line with Tokyo Gas Co., Ltd.'s Kumagaya~Sano pipeline, and to begin advanced construction on a portion of this line. The realization of this plan is expected to result in a significant upward revision in the Group's outlook for gas sales volumes over the medium term. Going forward, the Group aims to utilize its core pipeline network to the fullest extent to maximize the scale of its natural gas business over the longer term.

In overseas operations, while the sharp rise in crude oil prices is producing favorable financial performance, the Group aims to steadily expand its business focusing on its base of operations in Middle/South America and North Africa. In Venezuela which is the core of Middle/South American operations, while the Venezuelan government has indicated its desire to change the Group's operating service contract with the national oil company into a joint venture format, we are conducting negotiations from the standpoint that this represents an opportunity to extend the Group's contract period and to expand the scope of the business. In addition, while government approval for an agreement to transfer interests in Ecuador has been delayed, production volumes have been maintained at favorable levels, and the Group plans to continue pursuing exploration activities aimed at further production increases. In North Africa on the other hand, progress is being seen in projects in Algeria where production is underway and where a shift to the development stage is under study. In addition, two exploration blocks were acquired in Libya last year. As this was the first project in which a Japanese company has participated in Libya, the Group will be doing its utmost to build a business base in this country through its activities as an operator.

Given the solid contribution from the development of such overseas operations, the Group foresees a sharp increase in aggregate domestic and overseas production volumes to over 100,000 barrels of oil equivalent per day. The Group's focus has now shifted toward achieving significant results in its overseas operations regarding reserves and the maintenance and expansion of production, which is the primary objective of any oil and natural gas development company. As previously explained, given the decision to integrate the Group's operations with INPEX Corporation, the Group plans to fully and proactively utilize its experience and practical technical knowledge accumulated as an operator, including cooperating with INPEX for several large-scale operator projects which INPEX aims to move into the development stage.

The Group's aim is to achieve solid growth in order to fulfill its social obligation to provide stable energy supply, by striving to realize integration synergies with INPEX Corporation as early as possible and by emphasizing the optimal allocation of management resources, while at the same time working to maintain a strong financial constitution. In addition, the Group will continue to strengthen corporate governance and to thoroughly implement compliance in order to fulfill its corporate social responsibilities. Moreover, in addition to assuring complete safety from the operational standpoint, which is an integral part of the Group's responsibility to ensure stable supply, the Group is placing special emphasis on working in harmony with the environment and in coexisting with the global society as it strives to continuously improve corporate value.

(5) Basic Philosophy and Policies Regarding Corporate Governance

1. Basic Corporate Governance Philosophy

In order to improve corporate value and continue to earn the trust of its shareholders, customers and society as a whole, the Group is working to improve management efficiency and enhance its financial health while at the same time improving corporate governance in the recognition that thorough compliance is an important management issue.

2. Corporate Governance Policies and Initiatives

・Corporate Organization

The Group's Board of Directors consists of 17 members including one outside director, and in principle meets every month to deliberate and decide on important management issues, while at the same time supervising the executive actions of the managing directors. In addition, the items and important executive actions to be deliberated and decided upon by the Board are discussed at weekly or otherwise appropriately scheduled meetings of executive directors who work to implement these decisions in a timely and appropriate manner.

In addition, the Group has a functionally effective Board of Auditors that consists of four members, including two outside auditors. In addition to attending the Board of Directors meetings and other important corporate meetings, the Auditor Board provides fair and appropriate audits of the Group's major businesses and subsidiaries. Moreover, through Board of Auditor meetings that are held approximately nine times a year and monthly auditor liaison meetings, the auditors seek to improve the effectiveness of the auditing function through the close interchange of opinions.

The Group's accounting firm is Ernst & Young ShinNihon, who provides independent accounting audits. For the period under review, the names of the CPAs providing this service for the Group and their continuous years of contracted service are Hitoshi Terao (2 years), Haruo Senba (12 years) and Kazuhiko Umemura (6 years), while the accounting audit support staff consists of 13 CPAs and seven CPA assistants for a total of 20 staff.

In terms of the coordination between the corporate auditors and accounting auditors, the corporate auditors confirm the annual audit plan and audit areas to be emphasized, witness random audits by the accounting auditors, and regularly exchange opinions with the accounting auditors on a daily basis regarding audit and other regulations, in addition to receiving a complete and detailed account of the Group's finances from the auditors at the end of the interim and year-end accounting periods.

Moreover, the Group's outside director, Mr. Teruo Omori also serves as a representative director for Nippon Oil Exploration Limited and 14 other companies that are involved in the same business as the Group. In addition, the Group has dipatched personnel on assignment and provided debt guarantees to Nippon Oil Exploration in order to promote joint projects. There is however no special conflicts of interest between the outside auditor and the Group.

・Internal Controls and Risk Management

In order to respond to changes in the business environment and to achieve continuous growth, the Group recognizes the importance of appropriately managing the various risks involved with its business activities, and continues to promote risk analysis and the study of countermeasures within each division.

In addition, in order to ensure that the actions of the Group's directors and employees are both highly logical and ethical, the Group has created the "Teikoku Oil Charter of Corporate Behavior" and has established a Compliance Committee which is chaired by the representative director in order to ensure Group-wide compliances with laws and regulations and corporate philosophy. This Committee in principle meets once every three months to deliberate and decide on major compliance-related policies, actions and educational measures, and in the event of a problem, determines an appropriate response and studies such issues as measures to prevent a recurrence.

During the period under review, the Group conducted a compliance survey among its directors and employees and provided feedback on the results, and provided in-house training for directors and managers at each level in an effort to foster greater compliance awareness. In addition, the Group established an external compliance window (lawyer) in September of last year after having already established an internal compliance consultation window.

Moreover, the Group is providing training to promote and establish compliance awareness among all of its Group companies, and has created separate charters for corporate behavior, compliance manuals and a window for compliance-related matters among its major consolidated subsidiaries.

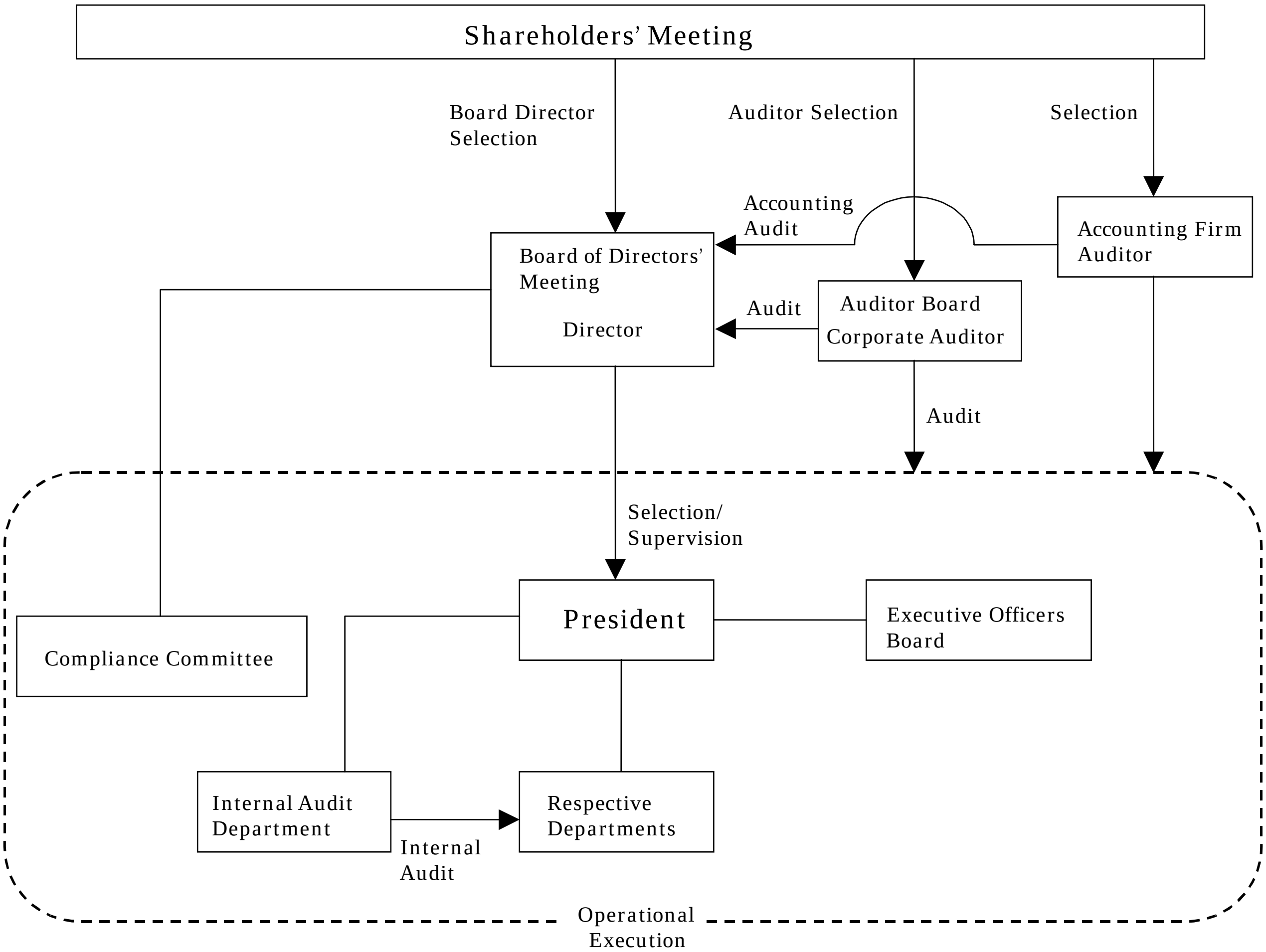
In terms of internal controls, the Group has established an "Internal audit department" with a staff of five that reports directly to the president. This department ensures that effective legal compliance and risk controls are in place through the internal audit over the Group, and provides operational efficiency evaluations, assurance, support and proposals. In addition, the department regularly liaises with the full-time auditors and attends audit committee meetings in an effort to enhance both audit functions.

In addition, in order for the Group to fulfill its basic obligation to provide a stable source of natural gas supply, an "operational emergency response office" has been established to evaluate operational risks in the Group's current operations and to study appropriate countermeasures. By continuing and strengthening such policies, the Group is endeavoring to further enhance and strengthen legal compliance, thoroughly implement its corporate philosophy, and its internal controls and risk management capabilities.

・Information Disclosure

The Group through its IR activities, shareholder meetings and home page is working for appropriate and timely information disclosure in order to enhance management visibility and accountability, and will continue working for further improvement.

The Group’s Corporate Governance Administrative System is as follows



3. Director Compensation

For the period under review, board director and auditor compensation was as follows.

Director compensation	¥299 million
Auditor compensation	¥51 million

(Note) The above amounts do not include director bonuses, director special service retirement bonuses or compensation for other positions held.

4. Auditor Compensation

Accounting auditor fees paid to Ernst & Young ShinNihon audit corporation for the period under review were as follows.

Fees related to audit certification as per the audit contract.	¥36 million
Other fees	— million

(6) Items Relating to the Parent Company

１． Parent Company Corporate Name, Others

(as of December 31, 2005)

Parent company, others	Affiliation	Percent of voting shares held by parent, others	Exchanges on which the stock of the parent company, others are listed
Nippon Oil Corporation	The listed company is an affiliate of this company.	20.8	Tokyo Stock Exchange, Inc., 1st Section Osaka Securities Exchange Co., Ltd. 1st Section Nagoya Stock Exchange, Inc., 1st Section Fukuoka Stock Exchange Sapporo Stock Exchange

2. Position of the Parent Company and Other Listed Companies in the Group and the Relationship Between Other Listed Companies and the Parent

In February 2000, the Group signed a comprehensive capital participation and business alliance agreement with Nippon Mitsubishi Oil Co. Ltd. (the present Nippon Oil Corporation) and Nippon Oil Exploration Limited. Under this agreement, each Group was to retain autonomous management while through mutual consultations cooperate in pursuing individual business projects.

In addition, one director of Nippon Oil Corporation serves as a part-time director for the Group.

Moreover, following the establishment of a joint holding company by the Group and INPEX Corporation, the above capital participation and business alliance agreement has changed, and the Group, INPEX Corporation and Nippon Oil Corporation have all agreed to expand the cooperative relationship with the new holding company in terms of business development and capital participation.

3. Business Performance and Financial Condition

1. Business Performance

(1) Overview of the Fiscal Year Ended December 31, 2005

Japan’s economy for the fiscal year under review was characterized by a continued mild recovery that was supported by increased private sector capital expenditures, firm personal consumption expenditures and improvement in employment and wages, and a recovery in exports.

In terms of the oil environment, international crude oil prices continue to rise from the beginning of the period and remained at high levels due to rising global demand for oil and declining spare capacity in OPEC, with crude oil prices reaching new historical highs following the large hurricanes in August which damaged U.S. refining facilities. As a result, the trend in domestic prices for crude oil and petrochemical products was also upward. In the domestic gas market on the other hand, competition continued to intensify as a result of deregulation. On the other hand, increasing social awareness about the environment and the sharp rise in crude oil prices supported rising industrial-use demand.

Given the environment, the Teikoku Oil Group continued working to ensure domestic and overseas sources of energy in an effort to provide a long term stable supply of energy as our contribution to an abundant society.

Domestically, in addition to active exploration and development activities and efforts to develop new demand for natural gas, the Group continued working to expand its domestic supply base by increasing capacity at its main

Minami Nagaoka gas field, and to expand its pipeline network. Overseas, the Group endeavored to strategically develop new projects with a particular focus on South and Middle America as well as North Africa.

In terms of net sales for the period, in addition to rising sales volumes of natural gas and crude oil, rising selling prices of crude oil and petrochemical products helped to produce a ¥16,684 million (19.9%) year-on-year increase to ¥100,716 million.

While the cost of sales and selling, general and administrative expenses (S.G. & A.) were higher, the increase in sales resulted in a ¥6,297 million (38.1%) year-on-year rise in ordinary income to ¥22,820 million. Net income for the period, which was also boosted by gains from the sale of investment securities, rose ¥6,209 million (66.9%) to ¥15,485 million

Business performance by operating segment was as follows.

[Oil & Gas]

Net sales for the segment increased ¥16,597 million (20.3%) year-on-year to ¥98,406 million. Broken down by product segments, sales of natural gas, which is the Group's main product, increased ¥3,470 million year-on-year to ¥38,004 million, supported by successful efforts to expand domestic demand, and the recording of the Venezuela operating company from the fiscal year under review.

Crude oil sales increased ¥7,483 million year-on-year to ¥17,702 million aided by newly added sales from the Venezuela operating company and higher product selling prices.

Petrochemical product sales grew ¥4,993 million year-on-year to ¥38,365 million and were boosted by higher product selling prices.

Operating income for the segment, despite a higher cost of sales of oil product purchase and increases in selling, general and administrative expenses, rose ¥7,543 million (57.1%) year-on-year to ¥20,754 million, largely because of the contribution from higher sales values.

[Others]

Net sales for the segment grew ¥88 million (4.0%) year-on-year to ¥2,310 million supported largely by a contribution from the civil engineering business.

Operating income for the segment increased ¥69 million (29.2%) year-on-year to ¥305 million due to improved profitability in the civil engineering and well drilling businesses.

In addition, business performance by geographical region was as follows.

1. Japan

In addition to the success natural gas sales expansion activities, rising petrochemical and other product prices resulted in a ¥7,167 million (9.7%) year-on-year increase in net sales to ¥81,253 million. Operating income for Japan increased ¥2,829 million (31.7%) year-on-year to ¥11,763 million. While oil product purchase increased, the contribution from the growth in sales was much greater.

2. Africa

Rising product selling prices for D.R. Congo operations and newly added full fiscal year sales from The Egyptian Petroleum Development Co., Ltd. supported a ¥2,195 million (22.1%) year-on-year increase in net sales for the region to ¥12,140 million, while operating income for the region increased ¥2,298 million (45.4%) to ¥7,360 million.

3. Middle and South America

Newly added sales from the Venezuela operations contributed to total net sales for the region of ¥7,322 million, and operating income of ¥2,164 million.

4. Other Regions

No sales were recorded for other regions because operations are not yet at the production stage. In terms of earnings, exploration expenses were recorded for Teikoku Oil (Con Son) Co., Ltd., resulting in an operating loss of ¥360 million.

(2) Earnings Distribution

The Group plans to pay ¥1.50 per share more dividends on earnings for the period than in the previous fiscal year, resulting in an interim dividend of ¥4.50 per share, and a year-end dividend of ¥4.50 per share, for a total annual dividend of ¥9.0 per share. This will produce a dividend payout ratio for the fiscal year of 19.6% and a dividend return on shareholders' equity of 1.5%.

(3) Outlook for the Coming Fiscal Year

In conjunction with INPEX Corporation, the company plans to establish a new holding company called INPEX Holdings Inc. through a transfer of stock, and to become a fully owned subsidiary of this new holding company on April 3, 2006. As this new parent holding company's fiscal year-end will be March 31 of the following year, the Group plans to change its fiscal accounting year to March 31, and will propose this change at the regular meeting of its shareholders on March 30, 2006. As a result, the next accounting period will be a transitional accounting period for the next fiscal year that will cover the three month period between January 1, 2006 and March 31, 2006.

In terms of the forecast for the next accounting period, the Group is forecasting net sales of ¥27.6 billion, ordinary income of ¥14.9 billion and net income for the period of ¥9.1 billion. This forecast is based on the assumption that the Group will obtain approval from the Republic of Ecuador government for the operating concession for Teikoku Oil Ecuador at the end of March 2006. The forecast contribution from this project is ordinary income of ¥7.9 billion and net income of ¥5.2 billion.

In addition, the above projections are based on a crude oil price (West Texas Intermediate) of $55/barrel adjusted for pricing differences between grades of oil, and an average exchange rate of ¥115/US$.

2. Financial Condition

(1) Balance Sheet Condition

In order to cope with continued strong fund demand from the previous fiscal year for domestic and overseas business development, the Group is working to efficiently utilize internal funds in order to ensure that its balance sheet condition remains healthy.

Total assets at the end of the period under review were ¥53,254 million higher than at the end of the previous fiscal year, at ¥293, 767 million. Of this total, current assets were ¥12,928 million higher at ¥58,586 million. The major reasons for this increase included an increase in marketable securities, and higher accounts receivable that were the result of the growth in sales. Fixed assets were ¥40,326 million higher than at the end of the previous fiscal year at ¥235,180 million, largely reflecting an increase in valuation gains on marketable securities included in investments and other assets, and an increase in the construction in progress account due to progress in new pipeline construction.

Total liabilities increased ¥21,804 million over the end of the previous fiscal year to ¥94,229 million. This increase was largely due to an increase in deferred tax assets related to the increase in valuation gains for marketable securities, and an increase in long-term borrowings to fund capital expenditures including new pipeline construction. Shareholders' equity was ¥31,280 million higher than at the end of the previous fiscal year at ¥197,216 million, reflecting valuation differentials on other marketable securities and an increase in retained earnings.

As a result of the above, the shareholders' equity ratio was changed from 69.0% at the end of the previous fiscal year to 67.1%, while book value per share increased from ¥543.62 per share to ¥646.90 per share.

(2) Cash Flows

Cash and cash equivalents at the end of the period under review (hereafter, funds) increased by ¥3,311 million over the end of the previous fiscal year to ¥25,545 million. Factors affecting operating, investing and financing cash flow were as follows.

(Cash Flows from Operating Activities)

Cash flows provided from operating activities were ¥15,118 million (and ¥4,107 million lower than in the previous fiscal year). Major sources of cash inflow included pretax income of ¥26,122 million, and depreciation expenses of ¥8,962 million.

(Cash Flows from Investing Activities)

Cash flows used in investing activities were ¥20,287 million (and ¥269 million higher than in the previous fiscal year). The major uses of cash included expenditures of ¥19,980 million for acquisitions of fixed assets related to new pipeline construction and expenditures of ¥3,083 million in the exploration and development investment account.

(Cash Flows from Financing Activities)

Cash flows provided by financing activities were ¥7,845 million (versus a ¥5,824 million cash outflow in the previous fiscal year), mainly reflecting an inflow of ¥14,860 million from long-term borrowings.

Furthermore, the trend in Teikoku Oil Group cash flow indicators is as follows.

Fiscal Years Ended December 31	2002	2003	2004	2005
Shareholders'Equity Ratio（%）	66.6	69.1	69.0	67.1
Shareholders' Equity Ratio at Current Market Prices（%）	71.0	72.7	72.3	160.2
Years Needed to Repay Debt (Years)	1.7	1.1	0.9	1.9
Interest Coverage Ratio（X）	29.8	44.0	51.5	22.2

(Note)

1. Shareholders' Equity Ratio: Shareholders' equity/Total assets
   Current Value Shareholders' Equity Ratio: Current market capitalization/Total assets
   Years Needed to Repay Debt: Interest-bearing debt/operating cash flow
   Interest Coverage Ratio: Operating cash flow/Interest paid
2. All indicators are calculated based on consolidated financial statement amounts.
3. Stock market capitalization is calculated using end of period stock price X end of period outstanding shares (excluding treasury stock).
4. Operating cash flow used is the amount of operating cash flows as given in the Consolidated Statements of Cash Flows. Interest-bearing debt includes all of the debt that is recorded on the Consolidated Balance Sheets for which interest is paid. In addition, the amount of interest paid used is as given in the Consolidated Statements of Cash Flows.

3. Business and Other Risks

Regarding risk in the Teikoku Oil Group businesses and other risks, the following items may have a material influence on investor decisions. In addition, while the following contains items that refer to the future, the description of such items is based on the Group's assessment at the end of the accounting period under review and based on the information available at that time.

(1) Characteristic Risks of the Business

The oil and natural gas exploration activities of the Teikoku Oil Group normally involve a significant amount of investment and long periods of time between project start and the recovery of capital invested. In addition, the business involves the characteristic risk of all exploration and production operations in that there is no guarantee that the resources found will be of sufficient scale to be commercially developed, and moreover that the probability of such a discovery is low. After commercialization, there is also the risk that fluctuations in crude oil prices, exchange rates and other market prices could lead to changes in the operating environment such as increased investment, increased operating expenses that reduce expected returns, which could have a negative impact on the Group's financial performance.

In order to mitigate these risks, the Group's investment allocations in the exploration and development business are managed within levels that do not pose a serious risk to its financial health. At the same time, the Group endeavors to minimize this risk by improving its technological and project evaluation capabilities and seeking to participate in different types of projects in order to create an optimal business portfolio.

(2) Country Risk

The Group's overseas oil and natural gas resource development activities are often in regions that present a high degree of country risk, and changes in the respective countries' political, economic, policy, legal and tax regimes could have a potential impact on the Group's overseas operations.

Currently, the Group's strategic regional focus is on Middle/South America and North Africa, and the Group is working to strengthen its ability to analyze and respond to potential risks through increased understanding, knowledge and experience in these regions. In addition, the Group is working to further minimize risk by combining different types of businesses and by forming partnerships with companies having a well-established track record in that region.

(3) Oil Price, Exchange Rate and LNG Price Fluctuations

As the Group sells crude oil and petrochemical products both in Japan and in overseas markets, fluctuations in crude oil prices and exchange rates can have an impact on the Group's financial performance. In natural gas sales, price fluctuations in LNG and competing energy prices can exert downward pressure on selling prices and therefore impact the Group's financial performance. Moreover, as the majority of natural gas sold in the Japanese market is sold under contracts with fixed selling prices for the full fiscal year (from April to March of the following year), the impact of temporary fluctuations in market prices is minimal.

(4) Natural Gas Demand Fluctuations

Consumer demand for natural gas, which is a major product for the Group, is easily affected by changes in weather conditions such as temperature and humidity. In addition, the growth in recent years of industrial demand could be negatively affected by restructuring among corporate customers, which would lead to significant changes in demand and as a result have a significant impact on the Group's financial performance.

(5) Changes in the Market Environment Caused by Deregulation

Competition in the domestic natural gas business is intensifying given the liberalization of energy markets and the entry of new competitors crossing traditional business domains in electric power, gas and oil. In addition, the ratification of the amended Gas Business Law in April 2004 requires that "gas pipeline operators" to provide contracted supply has made the operating environment more competitive. As a result, the Group is facing increased price competition for not only new customers, but also for existing customers. Such changes in the market environment could have a material impact on the Group's financial performance.

In response, the Group is working to enhance its superior market position by more effectively utilizing its natural gas reserves to improve price competitiveness.

(6) Natural Disasters and Accidents

The Group's excavation, oil and natural gas development, production and transportation activities incur operational accident and natural disaster risks that are inherent to the nature of the mining business. In addition, the occurrence of a large natural disaster or an accident could not only cause direct losses, but also potentially result in compensation being paid to third parties, administrative penalties and/or loss of reputation or other intangible losses.

The Teikoku Oil Group is working to mitigate such risk by strengthening everyday safety and compliance, has established crisis management procedures, and is maintaining sufficient amounts of insurance to cover such contingencies.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Account	Notes	Consolidated Fiscal Year Ended December 31, 2004 Value（¥ Mln）		(%) Total	Consolidated Fiscal Year Ended December 31, 2005 Value（¥ Mln）		(%) Total	YoY Change Value (¥ Mln)
(Assets)								
I Current Assets								
1．Cash & deposits			14,738			13,387		△1,351
2．Notes, accounts receivable			12,393			15,921		3,528
3．Marketable securities			4,431			9,182		4,751
4．Inventories			5,514			6,330		816
5．Others			8,590			13,771		5,181
6．Less: Allowances for doubtful receivables			△10			△6		4
Total Current Assets			45,658	19.0		58,586	19.9	12,928
II Property, Plant & Equipment								
1．Tangible assets								
(1) Buildings & structures	*1,2	132,709			138,189			
Cumulative depreciation		52,945	79,763		58,843	79,346		△417
(2) Wells	*1	58,029			58,172			
Cumulative depreciation		56,900	1,129		57,762	409		△720
(3) Machinery & Vehicles	*1,2,3	87,537			88,280			
Cumulative depreciation		74,891	12,645		75,986	12,293		△352
(4) Land	*1,3		8,644			8,676		32
(5) Construction in progress			11,743			24,417		12,674
(6) Others	*1	1,530			1,556			
Cumulative depreciation		1,236	293		1,280	275		△18
Total tangible assets			114,220	47.5		125,418	42.7	11,198
2．Intangible assets								
(1) Exploration rights			3			0		△3
(2) Others	*2,4		773			811		38
Total Intangible Assets			776	0.3		811	0.3	35

Account	Notes	Consolidated Fiscal Year Ended December 31, 2004 Value (¥ Mln)		(%) Total	Consolidated Fiscal Year Ended December 31, 2005 Value (¥ Mln)		(%) Total	YoY Change Value (¥ Mln)
3. Investments & Long-Term Receivables								
(1) Marketable securities	*1,5		68,381			96,025		27,644
(2) Long-term loans			718			1,217		499
(3) Exploration & development investment			2,582			3,312		730
(4) Others			10,436			11,346		910
(5) Less: Allowance for doubtful receivables			△5			△6		△1
(6) Less: Allowances for losses on overseas investments			△2,253			△2,946		△693
Total Investments & Long-Term Receivables			79,858	33.2		108,949	37.1	29,091
Total Property, Plant & Equipment			194,854	81.0		235,180	80.1	40,326
Total Assets			240,513	100.0		293,767	100.0	53,254
(Liabilities)								
I Current Liabilities								
1. Notes & accounts payable			2,486			3,006		520
2. Short-term bank loans	*1		4,406			5,175		769
3. Accrued expenses	*1		14,211			14,323		112
4. Accrued income taxes			2,834			2,905		71
5. Others			3,500			3,588		88
Total Current Liabilities			27,439	11.4		28,998	9.9	1,559
II Long-Term Liabilities								
1. Long-term debt	*1		13,529			23,847		10,318
2. Deferred tax liabilities			12,611			23,277		10,666
3. Accrued employee retirement benefits			6,466			6,491		25
4. Accrued director retirement compensation			1,172			904		△268
5. Accrued cost of abandonment of wells			9,611			10,229		618
6. Reserves for special repairs			151			160		9
7. Others	*1		1,443			319		△1,124
Total Long-Term Liabilities			44,986	18.7		65,230	22.2	20,244
Total Liabilities			72,425	30.1		94,229	32.1	21,804

		Consolidated Fiscal Year Ended December 31, 2004		Consolidated Fiscal Year Ended December 31, 2005		YoY Change
Account	Notes	Value（¥ Mln）	(%) Total	Value（¥ Mln）	(%) Total	Value (¥ Mln)
(Minority Interests)						
Minority interests in consolidated subsidiaries		2,150	0.9	2,320	0.8	170
(Shareholders' Equity)						
I Common stock	*7	19,579	8.2	19,579	6.7	—
II Capital surplus		11,225	4.7	11,230	3.8	5
III Retained earnings		114,999	47.8	127,688	43.5	12,689
IV Unrealized holdings gains on securities		20,533	8.5	39,081	13.3	18,548
V Translation adjustments		78	0.0	457	0.1	379
VI Treasury stock	*8	△479	△0.2	△820	△0.3	△341
Total Shareholders' Equity		165,936	69.0	197,216	67.1	31,280
Total Liabilities & Shareholders' Equity		240,513	100.0	293,767	100.0	53,254

(2) Consolidated Statements of Income

Account	Notes	Consolidated Fiscal Year Ended December 31, 2004 Value (¥ Mln)		(%) Total	Consolidated Fiscal Year Ended December 31, 2005 Value (¥ Mln)		(%) Total	YoY Change Value (¥ Mln)
I Net Sales			84,032	100.0		100,716	100.0	16,684
II Cost of Sales			48,455	57.7		55,473	55.1	7,018
Gross Profit			35,576	42.3		45,243	44.9	9,667
III Exploration Expenses								
1. Exploration expenses		4,469			4,268			
2. Exploration subsidies		△129	4,339	5.1	△170	4,097	4.1	△242
IV Selling, General & Administrative Expenses	*1,2		17,703	21.1		20,068	19.9	2,365
Operating Income			13,533	16.1		21,077	20.9	7,544
V Other Income								
1. Interest income		189			253			
2. Dividend income		574			736			
3. Oil & gas royalties		584			721			
4. Rental income		417			480			
5. Equity in earnings of affiliates		1,354			320			
6. Foreign exchange gains		264			482			
7. Miscellaneous income		469	3,854	4.6	605	3,600	3.6	△254
VI Other expenses								
1. Interest expenses		368			608			
2. Provision for losses on overseas investments reserve		—			928			
3. Provision for exploration reserves		146			95			
4. Valuation losses on marketable securities		124			—			
5. Cost of rental income		95			93			
6. Miscellaneous losses		129	864	1.0	131	1,857	1.8	993
Ordinary Income			16,523	19.7		22,820	22.7	6,297

		Consolidated Fiscal Year Ended December 31, 2004			Consolidated Fiscal Year Ended December 31, 2005			YoY Change
Account	Notes	Value（¥ Mln）		(%) Total	Value（¥ Mln）		(%) Total	Value (¥ Mln)
VII Extraordinary Income								
1．Gain on the sale of fixed assets	*3	138			146			
2．Gain on the sale of marketable securities		—			3,430			
3．Reversals of provisions for bad debt reserves		14	153	0.2	1	3,578	3.5	3,425
VIII Extraordinary Losses								
1．Impairment Losses	*4	—	—	—	275	275	0.3	275
Income Before Income Taxes and Minority Interests			16,676	19.9		26,122	25.9	9,446
Corporate & local taxes		7,360			10,086			
Tax adjustments		△581	6,778	8.1	264	10,350	10.2	3,572
Minority interests in earnings of consolidated subsidiaries			621	0.8		287	0.3	△334
Net Income for the Period			9,276	11.0		15,485	15.4	6,209

(3) Consolidated Statements of Shareholders' Equity

Account	Notes	Consolidated Fiscal Year Ended December 31, 2004 Value (¥ Mln)		Consolidated Fiscal Year Ended December 31, 2005 Value (¥ Mln)		YoY Change Value (¥ Mln)
(Capital Surplus)						
I Beginning of the period balance			11,222		11,225	3
II Increase during the year						
1. Profit from the sale of treasury stock		2	2	5	5	3
III End of year balance			11,225		11,230	5
(Retained Earnings)						
I Beginning of the period balance			107,735		114,999	7,264
II Increase during the year						
1. Net income for the period		9,276	9,276	15,485	15,485	6,209
III Decrease in retained earnings						
1. Dividends paid		1,832		2,745		
2. Director bonuses		50		50		
(Auditor portion)		(6)		(6)		
3. Adjustment for affiliate inclusion in equity method of accounting		130	2,012	—	2,795	783
IV End of period balance			114,999		127,688	12,689

(4) Consolidated Statements of Cash Flows

Account	Notes	Consolidated Fiscal Year Ended December 31, 2004 Value (¥ Mln)	Consolidated Fiscal Year Ended December 31, 2005 Value (¥ Mln)	YoY Change Value (¥ Mln)
I Cash Flows from Operating Activities				
Income before income taxes and minority interests		16,676	26,122	9,446
Depreciation expenses		10,160	8,962	△1,198
Impairment losses		—	275	275
Loss on devaluation of marketable securities		124	—	△124
Increase ((△) decrease) in accrued retirement benefits		△183	10	193
Increase ((△) decrease) in other reserves		197	1,029	832
Interest and dividend income		△764	△990	△226
Interest expenses		368	608	240
Loss ((△) gain) on equity in earnings of affiliates		△1,354	△320	1,034
Loss ((△) gain) on the sale of marketable securities		29	△3,430	△3,459
Gain on the sale of fixed assets		△138	△146	△8
Decrease ((△) increase) in notes and accounts payable		△1,620	△3,119	△1,499
Recovery of investments in exploration		454	2,866	2,412
Decrease ((△) increase) in inventories		△78	△690	△612
Decrease ((△) increase) in other operating assets		1,004	51	△953
Increase ((△) decrease) in other current liabilities		82	290	208
Increase ((△) decrease) in deferred taxes		157	△229	△386
Increase ((△) decrease) in other operating liabilities		430	177	△253
Bonuses to directors and statutory auditors		△50	△50	—
Others		△814	△6,566	△5,752
Subtotal		24,682	24,853	171
Interest and dividends received		820	990	170
Interest paid		△373	△679	△306
Corporate & local taxes paid		△5,903	△10,045	△4,142
Net Cash Provided by Operating Activities		19,225	15,118	△4,107

Account	Notes	Consolidated Fiscal Year Ended December 31, 2004 Value（¥ Mln）	Consolidated Fiscal Year Ended December 31, 2005 Value（¥ Mln）	YoY Change Value (¥ Mln)
II Cash Flows From Investing Activities				
Decrease in time deposits		△9,037	△2,197	6,840
Redemption of time deposits		6,945	2,223	△4,722
Purchases of marketable securities		△3,504	△2,749	755
Redemptions & sales of marketable securities		6,242	2,256	△3,986
Decrease（(△) increase）in short-term loans		0	△65	△65
Additions to property, plant & equipment		△15,964	△19,980	△4,016
Proceeds from the sale of property, plant & equipment		156	222	66
Additions to intangible fixed assets		△136	△93	43
Purchases of investment securities		△2,096	△1,484	612
Redemptions & sales of investment securities		85	5,898	5,813
Purchases of stock in subsidiaries		△2,421	△107	2,314
Acquisitions of stock in subsidiaries resulting in changes in the scope of consolidation	* 2	618	—	△618
Long-term loans		△572	△973	△401
Recovery of long-term loans		98	429	331
Payments for oil & gas investments		△56	△3,083	△3,027
Others		△375	△580	△205
Net Cash Provided by Investing Activities		△20,018	△20,287	△269
III Cash Flows from Financing Activities				
Increase（(△) decrease）in short-term bank loans		15	△80	△95
Proceeds from long-term debt		260	14,860	14,600
Repayment of long-term debt		△4,050	△3,866	184
Net purchases and sales of treasury stock		△136	△336	△200
Dividends paid		△1,823	△2,729	△906
Dividends paid to minority shareholders of subsidiaries		△89	△2	87
Net Cash Provided by Financing Activities		△5,824	7,845	13,669
IV Effect of exchange rate changes on cash		16	632	616
V Net increase ((△) decrease) in cash and cash equivalents		△6,601	3,309	9,910
VI Cash and cash equivalents at the beginning of the period		28,789	22,234	△6,555
VII Increase in cash arising from inclusion of subsidiaries in consolidation		46	1	△45

VIII Cash and Cash Equivalents at the End of the Period	*1	22,234	25,545	3,311

Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
1. Items related to scope of consolidation (1) Number of consolidated subsidiaries: 25 The names of major subsidiaries consolidated are contained in the “1. Group Overview” section. In addition, due to the establishment of Teikoku Oil (Con Son) and the increase in equity held in The Egyptian Petroleum Development Co. Ltd. due to the acquisition of additional stock, both companies were included in the scope of consolidation in the fiscal year. Due to the increased importance of Teikoku Oil (North America) Co., Ltd. Teikoku Gas Venezuela C.A., both companies were included in the scope of consolidation in the fiscal year. In addition, Teikoku Oil (Venezuela) Co., Ltd. And Teikoku Oil (Sanvi-Guere) Co., Ltd. Were also included in the scope of consolidation from the fiscal year due to increased equity in these companies from the acquisition of additional stock. As a result, the three subsidiaries of the above two companies, i.e., Teikoku Oil Venezuela C.A. and Teikoku Oil Sanvi-Guere C.A. and Teikoku Oil Venezuela B.V. were also included in the scope of consolidation in the fiscal year.	1. Items related to scope of consolidation (1) Number of consolidated subsidiaries: 27 The names of major subsidiaries consolidated are contained in the “1. Group Overview” section. In addition, the newly established Teikoku Oil Ecuador, Teikoku Oil Suez SOB Co., Ltd. and Teikoku Oil Nile Co., Ltd. were included in the scope of consolidation in the fiscal year. Teikoku Oil Libya U.K. Ltd. was included in the scope of consolidation from the fiscal year because of its increasing importance. In addition, Teikoku Oil (Sanvi-Guere) Co., Ltd. was excluded from consolidation because of a merger with Teikoku Oil (Venezuela) Co., Ltd. on June 1, 2005. Teikoku Oil Suez KEZ Co., Ltd. was excluded from consolidation in the fiscal year because the company was liquidated.
(2) Names of Major Non-Consolidated Subsidiaries Major non-consolidated subsidiaries: - Sakata Natural Gas Co., Ltd., Teikoku Oil de Blugos, S.A. de C.V. (Reason for exclusion from consolidation) Both these non-consolidated subsidiaries small in size, and total assets, net sales and net income (the equity portion) as well as earnings surplus (the equity portion) would not have a significant impact on the Group’s consolidated financial statements.	(2) Names of Major Non-Consolidated Subsidiaries Major non-consolidated subsidiaries -Sakata Natural Gas Co., Ltd., Teikoku Oil de Blugos, S.A. de C.V. (Reason for exclusion from consolidation) Same as left
2. Items concerning scope of equity method accounting (1) Affiliated companies recorded under the equity method -Company Name: Japan Ohanet Oil & Gas Co., Ltd. The proportion of equity held in Japan Ohanet Oil & Gas Co., Ltd. was included in consolidated accounts from the fiscal year due to its increased importance. In addition, Teikoku Oil (Venezuela) Co., Ltd. and Teikoku Oil (Sanvi-Guere) Co., Ltd. which were previously included under equity method accounting were fully consolidated from the fiscal year because of their increasing importance.	2. Items concerning scope of equity method accounting (1) Affiliated companies recorded under the equity method

(2) Names of major non-consolidated subsidiaries not accounted for under the equity method. - Sakata Natural Gas Co., Ltd., Teikoku Oil de Blugos, S.A. de C.V. (Reason for the exclusion from equity method accounting) The companies not reflected under the equity method in consolidated accounts because the total value of both net income (the equity portion) and earnings surpluses (the equity portion) does not have a significant impact on consolidated financial statements.	(2) Names of major non-consolidated subsidiaries not accounted for under the equity method. Same as left (Reason for the exclusion from equity method accounting) Same as left

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
3. Items concerning the business accounting year for consolidated subsidiaries. The accounting years for consolidated subsidiaries are all the same as the Company's. 4. Items concerning accounting standards (1) Valuation standards and methodologies for major assets. 1. Marketable securities Other marketable securities (With current market values) Current value method is used based on the market price as of the date of accounts (valuation differentials are reflected under the total value inclusion in shareholders' equity method, while liquidation cost is based on the moving average method). (Without current market values) Valued at cost using the moving average method. 2. Inventories Products ....Are primarily valued using the moving average cost method. Supplies……………Moving average cost method Unfinished Construction Costs Valued by the individual cost method. (2) Depreciation methods for major depreciable assets 1. Tangible assets Main method used is straight line depreciation. In addition, useful life is as prescribed in the corporate tax law, while well and some machinery (offshore platforms and related facilities) is depreciated based on the actual remaining balance (0). 2. Intangible assets Straight line depreciation is used. In addition, years of useful life is as prescribed in corporate tax law, while software used for internal purposes is depreciated based on a useful life for internal purposes of five years. (3) Standards for important allowances 1. Allowances for bad debts In order to provide reserves for bad debts, amount irrecoverable is estimated based on historical default ratios for general debts and an assessment of the possibility of recovery for each debt. 2. Allowance for loss on overseas investments Allowance for losses on overseas investments is provided for possible losses arising from investments in the development of natural resources at an amount determined by the condition of the assets of the investees and certain other factors.	3. Items concerning the business accounting year for consolidated subsidiaries. Same as left 4. Items concerning accounting standards (1) Valuation standards and methodologies for major assets. 1. Marketable securities Other marketable securities (With current market values) Same as left (Without current market values) Same as left 2. Inventories Products……Same as left Supplies…… Same as left Unfinished Construction Costs……Same as left (2) Depreciation methods for major depreciable assets 1. Tangible assets Same as left 2. Intangible assets Same as left (3) Standards for important allowances 1. Allowances for bad debts Same as left 2. Allowance for loss on overseas investments Same as left

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
3. Retirement allowances Employee retirement allowances are calculated based on the retirement benefit obligation and the estimated value of pension plan assets at the end of the accounting period. Actuarial gains or losses are amortized in the year following the year in which the gain or loss is recognized by the straight line method over a 10-year period that is shorter than the average remaining employee years of service.	3. Retirement allowances Same as left
4. Director retirement compensation reserves The Company has made provisions for the estimated amount of director retirement compensation at the end of the period.	4. Director retirement compensation reserves Same as left
5. Allowances for estimated cost of abandoned wells. The accrued costs incurred when wells are abandoned are allocated for the period based on plans for the abandonment of such wells.	5. Allowances for estimated cost of abandoned wells. Same as left
(4) Standards for conversion of foreign currency-denominated assets and liabilities into Yen Foreign currency-denominated monetary liabilities are converted into Yen at the prevailing exchange rate as of the date of accounts, and the resulting losses or gains are reflected in the statements of income. In addition, income and expenses for the assets and liabilities of overseas subsidiaries are converted into Yen at the prevailing exchange rate as of the date of consolidated accounts, with the resulting losses or gains being reflected in shareholders' equity under the foreign exchange translation adjustments account, or in minority interests in earnings of consolidated subsidiaries.	(4) Standards for conversion of foreign currency-denominated assets and liabilities into Yen Foreign currency-denominated monetary liabilities are converted into Yen at the prevailing exchange rate as of the date of accounts, and the resulting losses or gains are reflected in the statements of income. In addition, income and expenses for the assets and liabilities of overseas subsidiaries are converted into Yen at the prevailing exchange rate as of the date of consolidated accounts, with the resulting losses or gains being reflected in shareholders' equity under the foreign exchange translation adjustments account, or in minority interests in earnings of consolidated subsidiaries. (Change in accounting method) From the current financial year, the conversion rate for translation of consolidated overseas subsidiary revenues and expenses into Yen has been changed from a the prevailing exchange rate as of the date of consolidated accounts to the average exchange rate for the accounting period. Given the growing importance of overseas subsidiaries, this change has been made to better reflect actual revenue and expense flows during the fiscal year. As a result, reported ordinary income and income before taxes and others was ¥117 million less than under the prior conversion method. In addition, the impact by segment is described in the (Segment Information) section of this report.

(5) Accounting methods for major lease transactions Finance leases transactions where ownership is not transferred to the lessee are accounted for in the same manner as regular lease transactions.	(5) Accounting methods for major lease transactions Same as left

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
(6) Accounting methods for major hedge transactions 1. Hedge accounting methods Special accounting is applied to interest rate swaps 2. Method of hedging and object of the hedge Hedge method: Interest rate swap transactions Object of the Hedge: Interest payments on borrowings 3. Hedging policy The nominal amount of the derivative transaction is limited to within the scope of actual demand, and the Company does not engage in speculative derivative transactions. 4. Hedge effectiveness assessment method As these interest rate swaps meet the requirements for special hedge accounting, the Company does not perform hedge effectiveness assessment.	(6) Accounting methods for major hedge transactions 1. Hedge accounting methods Same as left 2. Method of hedging and object of the hedge Hedge method: Same as left Object of the Hedge: Same as left 3. Hedging policy Same as left 4. Hedge effectiveness assessment method Same as left
(7) Other items important to the preparation of consolidated financial statements 1. Treatment of consumption tax Accounting treatment of consumption tax shows sales amounts net of consumption tax. 2. Exploration investment accounting method Expenditures related to exploration and development under oil contracts are capitalized and recovered in accordance with the terms of each contract once production begins.	(7) Other items important to the preparation of consolidated financial statements 1. Treatment of consumption tax Same as left 2. Exploration investment accounting method Same as left
5. Items relating to the valuation of consolidated subsidiary assets and liabilities The complete current value method is used in valuing consolidated subsidiary assets and liabilities.	5. Items relating to the valuation of consolidated subsidiary assets and liabilities Same as left
6. Items related to amortization in the consolidated adjustment account Items in the consolidated adjustment account are amortized uniformly in accordance with the reason for the adjustment within a 20 year period.	6. Items related to amortization in the consolidated adjustment account Same as left
7. Items related to method of treatment of appropriated earnings The Consolidated Statements of Earnings Surplus is prepared based on consolidated Group earnings appropriations realized during the fiscal year.	7. Items related to method of treatment of appropriated earnings Same as left
8. Scope of funds covered in the Consolidated Statements of Cash Flows The scope of funds (cash and cash equivalents) covered in the Consolidated Statements of Cash Flows includes cash on hand and deposits that are easily convertible into cash, and short-term investments with minimal price fluctuation risk that are redeemable within three months of the date of acquisition.	8. Scope of funds covered in the Consolidated Statements of Cash Flows Same as left

Changes in Significant Items Used in the Preparation of Consolidated Financial Statements

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
———	(Accounting standards for asset impairment accounting) As accounting standards for asset impairment accounting became applicable for the preparation of consolidated financial statements from the fiscal year ending March 31, 2004 in accordance with (“Opinion Letter on the Establishment of Standards for the Impairment of Fixed Assets” Business Accounting Council August 9, 2002) and (Corporate Accounting Standards Application Guidelines Number 6, October 31, 2003), the Company has applied these accounting standards and guidelines from the current fiscal year. As a result, income before taxes and other adjustments was ¥275 million lower. For the impact by segment, please refer to the “Segment Information” section of this report. Moreover, the cumulative amount of asset impairment has been deducted from affected assets after implementation in the consolidated financial statements.

Changes in the Method of Presentation

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
(Consolidated Statements of Income) Non-operating expenses recorded in the previous fiscal year as “miscellaneous losses” under “cost of rental revenues” has been listed separately in the current fiscal year because these expenses have exceeded 10/100th of total non-operating expenses. In addition, “rental revenue cost” for the current fiscal year was ¥1 million.	———

Notes to the Consolidated Financial Statements
(Consolidated Balance Sheet Items)

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
*1. Assets provided as collateral and collateral-backed debt is as follows.	*1. 1. Assets provided as collateral and collateral-backed debt is as follows.

Previous Consolidated Fiscal Year

(Collateralized Assets)	(¥ Mln)	(¥ Mln)
Buildings & constructions	2,100	(1,474)
Wells	557	(557)
Machinery & vehicles	5,346	(5,346)
Land	316	(74)
Others (tangible fixed assets)	0	(0)
Investment securities	10,713	(—)
Total	19,034	(7,453)

(Debt Guarantees)	(¥ Mln)	(¥ Mln)
Short-term borrowings	95	(—)
Accrued amounts payable	5,107	(4,862)
Long-term borrowings	9,874	(8,813)
(Amounts due in one year)		
Others (long-term debt)	16	(—)
Total	15,094	(13,676)

* Amounts in parenthesis () above represent foundation collateral and liabilities.

*2. Cumulative book entry shrunken asset value due to construction burden payments and others was ¥1,367 million for machinery and constructions, ¥228 million for machinery and vehicles and ¥1 million for others (intangible assets).

*3. Due to the application of the expropriation of land method for this accounting year, the acquisition cost of tangible fixed assets excluding shrunken asset value for land was ¥13 million.

*4. "Other" intangible assets include ¥47 million recorded in the consolidated adjustment account.

*5. Investment securities (stocks) for non-consolidated subsidiaries and affiliates was ¥3,374 million.

6. The following debt guarantees represent contingent liabilities

	(¥ Mln)
Japan Ohanet Oil & Gas Co., Ltd.	3,108
Nisseki Malaysia Oil Development Co., Ltd.	2,063
Nisseki Sarawak Oil Development Co., Ltd.	1,354
Sakhalin Oil and Gas Development Co., Ltd.	1,005
Sakata Natural Gas Co., Ltd.	100
Employees (housing loans)	732
Total	8,364

*7. The total number of issued and outstanding shares is 306,130,000 shares.

Current Consolidated Fiscal Year

(Collateralized Assets)	(¥ Mln)	(¥ Mln)
Buildings & constructions	2,035	(1,459)
Wells	190	(190)
Machinery & vehicles	5,160	(5,160)
Land	316	(74)
Others (tangible fixed assets)	0	(0)
Investment securities	9,967	(—)
Total	17,671	(6,886)

(Debt Guarantees)	(¥ Mln)	(¥ Mln)
Short-term borrowings	95	(—)
Accrued amounts payable	5,633	(5,331)
Long-term borrowings	13,037	(12,179)
(Amounts due in one year)		
Others (long-term debt)	16	(—)
Total	18,783	(17,511)

* Amounts in parenthesis () above represent foundation collateral and liabilities.

*2. Cumulative book entry shrunken asset value due to construction burden payments and others was ¥1,367 million for machinery and constructions, ¥228 million for machinery and vehicles and ¥1 million for others (intangible assets).

*3. Due to the application of the expropriation of land method for this accounting year, the acquisition cost of tangible fixed assets excluding shrunken asset value for land was ¥24 million and for machinery and vehicles was ¥36 million.

*4. "Other" intangible assets include ¥56 million recorded in the consolidated adjustment account.

*5. Investment securities (stocks) for non-consolidated subsidiaries and affiliates was ¥4,039 million.

6. The following debt guarantees represent contingent liabilities

Debt guarantees for bank loans to companies other than consolidated subsidiaries

	(¥ Mln)
Japan Ohanet Oil & Gas Co., Ltd.	2,814
Nisseki Malaysia Oil Development Co., Ltd.	2,187
Nisseki Sarawak Oil Development Co., Ltd.	947
Sakhalin Oil and Gas Development Co., Ltd.	573
Sakata Natural Gas Co., Ltd.	460
Employees (housing loans)	624
Total	7,608

*7. The total number of issued and outstanding shares is 306,130,000 shares

*８． The number of shares held as treasury stock by the company is 978,622 shares	*８． The number of shares held as treasury stock by the company is 1,340,765 shares.

(Consolidated Statements of Income Items)

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
*1． The major expense items and amounts included in sales, general and administrative expense (S.G. & A.) are as follows.	*1． The major expense items and amounts included in sales, general and administrative expense (S.G. & A.) are as follows.
(¥ Mln)	(¥ Mln)
Personnel expenses 4,656	Personnel expenses 5,076
Retirement allowance expenses 271	Retirement allowance expenses 298
Additions to director retirement compensation reserves 176	Additions to director retirement compensation reserves 168
Depreciation 5,944	Depreciation 6,186
*2． Total research and development expenditures	*2． Total research and development expenditures
(¥ Mln)	(¥ Mln)
R&D expenses included in S.G. & A. 96	R&D expenses included in S.G. & A. 85
*3． Details concerning the sale of fixed assets are as follows.	*3． Details concerning the sale of fixed assets are as follows.
(¥ Mln)	(¥ Mln)
Land 138	Land 146
*4． ――――	*4． Impairment Losses Impairment losses were recorded on the following assets for the current fiscal year.

(¥ Mln)

Location	Use	Type	Impairment Loss
Showamachi Nakahoma Gun, Yamanashi Prefecture and one other property	Idle asset	Land	275

The Teikoku Oil Group groups its operating assets into classifications according to management accounting that seeks to identify revenues and expenditures, and ranks those assets not directly connected with rental assets or related to operations as idle assets.

While there is no evidence of asset impairment in operating assets, as the above-listed asset is idle and there are no specific plans for its future use at this time, the book value as recorded in the consolidated financial statements has been reduced to estimated recoverable value, with the amount of reduction being recorded as an impairment loss (¥275 million).

In addition, the recoverable value of the idle asset in terms of net liquidation value has been calculated based on recent tax-appraised values for fixed assets.

(Consolidated Statements of Cash Flows Related)

<table>
<tr><th>Previous Consolidated Fiscal Year
(from January 1, 2004 to December 31, 2004)</th><th>Current Consolidated Fiscal Year
(from January 1, 2005 to December 31, 2005)</th></tr>
<tr><td>*1. Amounts and relationship between end of period cash and cash equivalents and Consolidated Balance Sheets
(As of December 31, 2004
(¥ Mln)

Cash & deposits 14,738
Time deposits and others deposited for longer than three months △1,681
Marketable securities (money management funds, others) 2,780
Other current assets (short-term bonds with repurchase agreements) 6,396
Cash & Cash Equivalents 22,234</td><td>*1. Amounts and relationship between end of period cash and cash equivalents and Consolidated Balance Sheets
(As of December 31, 2004)
(¥ Mln)

Cash & deposits 13,387
Time deposits and others deposited for longer than three months △1,673
Marketable securities (money management funds, others) 7,032
Other current assets (short-term bonds with repurchase agreements) 6,799
Cash & Cash Equivalents 25,545</td></tr>
<tr><td>*2. Major details of assets and liabilities of subsidiaries newly consolidated because of the acquisition of stock.
The details and relationship between assets and liabilities, stock acquisition prices and income related to the acquisition (net value) due to the acquisition of additional stock in four subsidiaries, which resulted in the consolidation of four companies– including Egyptian Petroleum Development Co., Ltd. which was upgraded from an affiliate to a consolidated subsidiary, and Teikoku Oil Venezuela Co., Ltd. which was upgraded from being reflected under the equity method to a fully consolidated subsidiary–is as follows.
(¥ Mln)

Current assets 8,402
Fixed assets 3,432
Consolidation adjustment account 987
Current liabilities △1,420
Long-term liabilities △1,548
Minority interests △1,963
Subtotal 7,889
Amounts acquired prior to consolidation △377
Book value after applying equity accounting △3,138
Less: Acquisition cost of newly consolidated subsidiaries 4,372
Cash & cash equivalents of newly consolidated subsidiaries 4,991
Less: Income from acquisition of newly consolidated subsidiaries 618</td><td>*2. ――――――</td></tr>
</table>

(Lease Transactions Related)

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)

Finance leases other than those where ownership is transferred to the lessee.

1. Equivalent acquisition value of leased assets, equivalent accumulated depreciation, and end of period equivalent amounts outstanding

	Equivalent Acquisition Price (¥ Mln)	Equivalent Accumulated Depreciation (¥ Mln)	End of Period Equivalent Amounts Outstanding (¥ Mln)
Buildings and structures	46	17	28
Machinery & vehicles	130	92	38
Other tangible fixed assets	592	240	351
Total	768	350	418

(Note) Calculation method used for equivalent acquisition price is interest paid method, as the outstanding amount of unexpired lease payments is low compared to the outstanding amount of tangible fixed assets at the end of the period.

2．Equivalent outstanding unexpired lease payments

(¥ Mln)

Within one year	129
Over one year	289
Total	418

(Note) Calculation method used for equivalent acquisition price is interest paid method, as the outstanding amount of unexpired lease payments is low compared to the outstanding amount of tangible fixed assets at the end of the period.

3．Equivalent lease payment and depreciation expenses

(¥ Mln)

Lease payment	144
Equivalent depreciation expense	144

4．Calculation method for equivalent depreciation amount.
Straight line depreciation method is used assuming the lease period as the useful years of life, with a residual value of zero.

Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)

Finance leases other than those where ownership is transferred to the lessee.

1. Equivalent acquisition value of leased assets, equivalent accumulated depreciation, and end of period equivalent amounts outstanding

	Equivalent Acquisition Price (¥ Mln)	Equivalent Accumulated Depreciation (¥ Mln)	End of Period Equivalent Amounts Outstanding (¥ Mln)
Buildings and structures	46	29	16
Machinery & vehicles	66	25	41
Other tangible fixed assets	725	351	374
Total	838	405	432

(Note) Same as left

2．Equivalent outstanding unexpired lease payments

(¥ Mln)

Within one year	149
Over one year	282
Total	432

(Note) Same as left

3．Equivalent lease payment and depreciation expenses

(¥ Mln)

Lease payment	155
Equivalent depreciation expense	155

4．Calculation method for equivalent depreciation amount.
Same as left

(Marketable Securities Related)

1. Other marketable securities with current market values

	Instrument	Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)			Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)		
		Acquisition Cost (¥ Mln)	Book Value (¥ Mln)	Differential (¥ Mln)	Acquisition Cost (¥ Mln)	Book Value (¥ Mln)	Differential (¥ Mln)
Securities whose book value is more than acquisition cost	(1) Stocks	21,062	53,701	32,638	18,871	80,208	61,336
	(2) Bonds						
	1. JGBs, Regional Bonds	1,049	1,065	15	—	—	—
	2. Corporate Bonds	300	301	0	258	269	11
	3. Others	149	149	0	1,554	1,554	0
	(3) Others	—	—	—	1	1	0
	Subtotal	22,563	55,218	32,654	20,686	82,035	61,348
Securities whose book value is less than acquisition cost	(1) Stocks	1,014	683	△331	997	897	△100
	(2) Bonds						
	1. JGBs, Regional Bonds	30	30	△0	1,382	1,372	△9
	2. Corporate Bonds	415	415	△0	500	500	△0
	3. Others	1,599	1,599	△0	5,140	5,139	△1
	(3) Others	—	—	—	—	—	—
	Subtotal	3,061	2,729	△332	8,021	7,910	△111
Total		25,624	57,947	32,322	28,708	89,945	61,237

2. Other marketable securities liquidated in the previous or the current fiscal year.

Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004			Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)		
Amount Sold (¥ Mln)	Total Gain (¥ Mln)	Total Loss (¥ Mln)	Amount Sold (¥ Mln)	Total Gain (¥ Mln)	Total Loss (¥ Mln)
84	0	△30	5,584	3,430	—

３．Details of marketable securities with no current market value

Instrument	Previous Fiscal Year to December 31, 2004	Current Fiscal Year to December 31, 2005
	Amount in Consolidated Financial Statements (¥ Mln)	Amount in Consolidated Financial Statements (¥ Mln)
Other Marketable Securities		
Bond investment trust beneficiary certificates	2,065	2,015
Non-listed stocks, investments	9,425	9,207

4．Scheduled redemption of other marketable securities with maturation dates.

Instrument	Fiscal Year to December 31, 2004				Fiscal Year to December 31, 2005			
	Within 1 Year	1~5 Years	5~10 Years	Over 10 Years	Within 1 Year	1~5 Years	5~10 Years	Over 10 Years
Bonds								
(1) JGBs, Regional Bonds	314	781	—	—	372	1,000	—	—
(2) Corporate Bonds	616	100	—	—	600	169	—	—
(3) Others	1,749	—	—	—	6,664	—	30	—
Total	2,681	881	—	—	7,637	1,169	30	—

(Derivatives Transactions Related)

1. Items relating to status of transactions

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
(1) Details of transaction and objective The Group engages in interest rate swaps and uses hedge accounting to mitigate the risk of interest rate market fluctuations.	(1) Details of transaction and objective Same as left
(2) Policy toward engaging in said transactions The maximum value of the Group's derivative transactions is limited to within the scope of actual demand, and its policy is to not engage in speculative transactions that are highly leveraged.	(2) Policy toward engaging in said transactions Same as left
(3) Amount of risk in said transactions As the Group's derivative contract counterparties are all domestic banks with high credit standings, it believes that counterparty default risk is minimal.	(3) Amount of risk in said transactions Same as left
(4) Risk management of said transactions The execution and control of derivatives transactions is based on internal company regulations, and is handled by the responsible department based on the approval of the responsible director.	(4) Risk management of said transactions Same as left

2. Items related to the timing of transactions

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
As derivatives accounting is applied to all of the derivative transactions used by the Group, items related to timing have been excluded from this report.	Same as left

(Retirement Benefits Related)

1.Overview of the system used for retirement benefits.

The Company and its consolidated subsidiaries have established a qualified retirement pension system and a lump-sum retirement payment system as its defined benefit retirement program.
In addition, some of the Group's consolidated subsidiaries are members of the Welfare Pension System (comprehensive establishment type).

2. Items related to pension benefit obligations

	Fiscal Year to December 31, 2004	Fiscal Year to December 31, 2005
(1) Pension benefit obligations (¥ Mln)	△13,259	△13,169
(2) Pension assets (¥ Mln)	7,216	7,337
(3) Under-funded benefit obligations (¥ Mln) ((1)+(2))	△6,042	△5,832
(4) Unrecognized actuarial differences (¥ Mln)	△423	△658
(5) Pension benefit reserves (¥ Mln) ((3)+(4))	△6,466	△6,491

(Notes)
1. An abbreviated method has been used to calculate retirement benefit obligations for consolidated subsidiaries.
2. In addition to the above pension assets included in the above, a portion of the Company's consolidated subsidiaries have pension assets under the comprehensive establishment type Welfare Pension System of ¥433 million for the current fiscal year and ¥395 million for the previous fiscal year.

3. Items related to retirement benefit expenses

	Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
(1) Service expenses (¥ Mln)	576	629
(2) Interest expenses (¥ Mln)	253	246
(3) Expected returns (¥ Mln)	△35	△105
(4) Amortization expense for actuarial differences (¥ Mln)	△21	△41
(5) Pension benefit expenses (¥ Mln) ((1)+(2)+(3)+(4))	773	729

(Note) Pension benefit expenses for consolidated subsidiaries calculated by the abbreviated method are contained in (1) services expenses.

4. Basic assumptions used in the calculation of retirement benefit obligations

	Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
(1) Periodic dividend method used to project benefit obligations	Fixed amount for the period	Same as left
(2) Discount rate (%)	2.0	2.0
(3) Expected investment rate of return (%)	0.5	1.5
(4) Period for amortization of actuarial differences (Years)	10	10
	(Expensed by the straight line method from the fiscal year after the differences occur)	Same as left

(Tax Effective Accounting Related)

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)

1. Breakdown of deferred tax assets and deferred tax liabilities by major reason for occurrence.

	(¥ Mln)
Deferred Tax Assets	
Deferred foreign tax exemptions	4,620
Reserves in excess of allowable foreign investment and other loss reserves	3,628
Depreciation in excess of allowable amount	3,069
Pension benefit reserves in excess of allowable amount	2,120
Foreign exchange loss reserves	1,032
Reserves for exploration expenses	974
Valuation losses on marketable securities	776
Unrealized gains on fixed and other assets	606
Valuation losses on exploration and development account	559
Deferred losses for tax purposes	498
Director retirement compensation reserves	399
Asset shrinkage losses from construction burden charges	394
Others	1,347
Deferred Tax Assets Subtotal	20,027
Assessed Reserves	△12,715
Total Deferred Tax Assets	7,311
Deferred Tax Liabilities	
Exploration reserves	△4,358
Special depreciation reserves	△1,257
Asset shrinkage reserves	△414
Overseas investment loss reserves	△287
Valuation differential for other securities	△11,788
Others	△100
Total Deferred Liabilities	△18,207
Total Net Deferred Liabilities	△10,896

(Note) Net deferred liabilities include the following items that are reflected in the consolidated balance sheets.

Current liabilities-Other	353
Fixed assets-Investments, other assets	1,366
Current liabilities-Other	△4
Long-term liabilities-Deferred tax liabilities	△12,611

Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)

1. Breakdown of deferred tax assets and deferred tax liabilities by major reason for occurrence.

	(¥ Mln)
Deferred Tax Assets	
Deferred foreign tax exemptions	6,065
Reserves in excess of allowable foreign investment and other loss reserves	4,272
Depreciation in excess of allowable amount	2,507
Pension benefit reserves in excess of allowable amount	2,206
Reserves for exploration expenses	1,148
Valuation losses on marketable securities	700
Unrealized gains on fixed and other assets	621
Deferred losses for tax purposes	405
Asset shrinkage losses from construction burden charges	363
Valuation losses on exploration and development account	330
Director retirement compensation reserves	297
Others	1,418
Deferred Tax Assets Subtotal	20,338
Assessed Reserves	△13,421
Assessed Reserves	6,916
Total Deferred Tax Assets	
Deferred Tax Liabilities	△4,673
Exploration reserves	△1,052
Special depreciation reserves	△464
Asset shrinkage reserves	△287
Overseas investment loss reserves	△22,145
Valuation differential for other securities	△223
Others	△28,846
Total Deferred Liabilities	△21,930

(Note) Net deferred liabilities include the following items that are reflected in the consolidated balance sheets.

Current liabilities-Other	318
Fixed assets-Investments, other assets	1,034
Current liabilities-Other	△5
Long-term liabilities-Deferred tax liabilities	△23,277

Previous Consolidated Fiscal Year (from January 1, 2004 to December 31, 2004)	Current Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)
2. The major reasons for the difference, if such differentials exist, between legally determined effective tax rate and the effective corporate tax rate after effective tax accounting is applied are as follows.	2. The major reasons for the difference, if such differentials exist, between legally determined effective tax rate and the effective corporate tax rate after effective tax accounting is applied are as follows.

Previous Consolidated Fiscal Year

	(%)
Statutory tax rate	36.1
(Adjusted)	
Expense accounts permanently not included as losses	0.6
Dividends received and others permanently not included in profits	△0.6
Foreign taxes	26.6
Exploration tax exemptions	△9.4
Foreign tax credits	△12.2
Equity in investment losses	△2.9
Fluctuations in assessed reserves	2.3
Others	0.1
Effective tax rate after application of tax effective accounting	40.6

Current Consolidated Fiscal Year

	(%)
Statutory tax rate	36.1
(Adjusted)	
Expense accounts permanently not included as losses	0.3
Dividends received and others permanently not included in profits	△2.6
Foreign taxes	23.1
Exploration tax exemptions	△5.5
Foreign tax credits	△8.5
Equity in Investment losses	△0.4
Fluctuations in assessed reserves	0.8
Tax rate differential between consolidated subsidiaries	△3.1
Others	△0.6
Effective tax rate after application of tax effective accounting	39.6

（Segment Information）

a. Segment Information by Type of Business

Previous consolidated fiscal year (from January 1, 2004 to December 31, 2004)

	Oil & Natural Gas Business (¥ Mln)	Other Businesses (¥ Mln)	Total (¥ Mln)	Eliminations, or Corporate Assets (¥ Mln)	Consolidated (¥ Mln)
Ⅰ Sales and Operating Income					
Net Sales					
(1) Sales to Outside Customers	81,809	2,222	84,032	—	84,032
(2) Intra segment sales and transfers	23	602	626	(626)	—
Total	81,833	2,825	84,658	(626)	84,032
Operating Expenses	68,622	2,588	71,211	(712)	70,498
Operating Income	13,211	236	13,447	85	13,533
Ⅱ Assets, Depreciation and Capital Expenditures					
Assets	234,784	6,688	241,473	(960)	240,513
Depreciation	10,008	181	10,189	(29)	10,160
Capital Expenditures	20,814	23	20,837	(10)	20,827

(Notes)

1. Business segments listed above are those used for internal control purposes.
2. The main products and business activities in each business segment include;
   (1) Oil and Natural Gas related businesses: Natural gas, liquefied oil gas, crude oil, petroleum products, iodine, oil refining, natural gas transportation, petroleum product and others transportation and storage.
   (2) Other businesses: Real estate rental, maintenance and sales, civil engineering and drilling construction, warehousing.

Current consolidated fiscal year (from January 1, 2005 to December 31, 2005)

	Oil & Natural Gas Business (¥ Mln)	Other Businesses (¥ Mln)	Total (¥ Mln)	Eliminations, or Corporate Assets (¥ Mln)	Consolidated (¥ Mln)
Ⅰ Sales and Operating Income					
Net Sales					
(1) Sales to Outside Customers	98,406	2,310	100,716	—	100,716
(2) Intra Segment Sales and Transfers	16	655	672	(672)	—
Total	98,422	2,965	101,388	(672)	100,716
Operating Expenses	77,667	2,660	80,328	(689)	79,639
Operating Income	20,754	305	21,060	17	21,077
Ⅱ Assets, Depreciation, Impairment Losses and Capital Expenditures					
Assets	288,093	6,935	295,029	(1,262)	293,767
Depreciation	8,803	177	8,981	(18)	8,962
Impairment Losses	275	—	275	—	275
Capital Expenditures	20,483	212	20,696	(53)	20,643

(Notes)

1. Business segments listed above are those used for internal control purposes.
2. The main products and business activities in each business segment include;

   - Oil and Natural Gas related businesses: Natural gas, liquefied oil gas, crude oil, petroleum products, iodine, oil refining, natural gas transportation, petroleum product and others transportation and storage.

   - Other businesses: Real estate rental, maintenance and sales, civil engineering and drilling construction, warehousing.

3. Items related to accounting standards, as explained in "(4) Standards for conversion of foreign currency-denominated assets and liabilities into Yen (Changes in Accounting Methods), Yen equivalent amounts for overseas income and expenses have been converted at average exchange rates during the period from the current fiscal year. As a result, compared to the previous translation method, the difference in sales to outside customers for the "oil and natural gas business" is ¥1,210 million, operating income is ¥841 million, depreciation expenses are ¥2 million and capital expenditures are ¥1 million smaller. In addition, this change foreign exchange translation method does not affect segment information for the "other businesses".

b. Segment Information by Geographical Area

Previous consolidated fiscal year (from January 1, 2004 to December 31, 2004)

	Japan (¥ Mln)	Africa (¥ Mln)	Middle/South America (¥ Mln)	Other Regions (¥ Mln)	Total (¥ Mln)	Eliminations or Corporate Assets (¥ Mln)	Consolidated (¥ Mln)
I Sales and Operating Income							
Net Sales							
(1) Sales to Outside Customers	74,086	9,945	—	—	84,032	—	84,032
(2) Intra Segment Sales and Transfers	—	—	—	—	—	—	—
Total	74,086	9,945	—	—	84,032	—	84,032
Operating Expenses	65,152	4,883	—	462	70,498	0	70,498
Operating Income ((△)Operating Loss)	8,934	5,062	—	△462	13,533	(0)	13,533
II Assets	216,922	15,265	9,543	101	241,833	(1,320)	240,513

(Notes)

1. Countries and regions are grouped together according to geographical proximity.
2. The countries and regions other than Japan consist of the following

   (1) Africa…..The Democratic Republic of Congo, Egypt, United Arab Emirates, The People's Democratic Republic of Algeria.
   (2) Middle/South America…….Bolivarian Republic of Venezuela
   (3) Other regions………..United States of America, Socialist Republic of Viet Nam

Current consolidated fiscal year (from January 1, 2005 to December 31, 2005)

	Japan (¥ Mln)	Africa (¥ Mln)	Middle/South America (¥ Mln)	Other Regions (¥ Mln)	Total (¥ Mln)	Eliminations or Corporate Assets (¥ Mln)	Consolidated (¥ Mln)
I Sales and Operating Income							
Net Sales							
(1) Sales to Outside Customers	81,253	12,140	7,322	—	100,716	—	100,716
(2) Intra Segment Sales and Transfers	0	—	—	—	0	(0)	—
Total	81,254	12,140	7,322	—	100,717	(0)	100,716
Operating Expenses	69,490	4,779	5,157	360	79,788	(149)	79,639
Operating Income ((△)Operating Loss)	11,763	7,360	2,164	△360	20,928	148	21,077

II Assets	265,071	13,379	16,269	173	294,894	(1,127)	293,767

(Notes)

1. Countries and regions are grouped together according to geographical proximity.
2. The countries and regions other than Japan consist of the following

Africa…..The Democratic Republic of Congo, Egypt, United Arab Emirates, The People's Democratic Republic of Algeria.
Middle/South America…….Bolivarian Republic of Venezuela
Other regions………..United States of America, Socialist Republic of Viet Nam

Items related to accounting standards, as explained in "(4) Standards for conversion of foreign currency-denominated assets and liabilities into Yen (Changes in Accounting Methods), Yen equivalent amounts for overseas income and expenses have been converted at average exchange rates during the period from the current fiscal year. As a result, compared to the previous translation method, external sales to customers for "Africa" were ¥691 million and to "Middle/South America" were ¥518 million lower, while operating income for "Africa" was ¥690 million and for "Middle/South America" was ¥151 million lower. In addition, this change in foreign exchange translation method does not affect segment information for "Japan" and "Other Regions".

c. Overseas Sales

Previous consolidated fiscal year (from January 1, 2004 to December 31, 2004)

	North America	Other Regions	Total
I Overseas Sales（¥ Mln）	9,270	1,379	10,650
II Total Consolidated Sales（¥ MLn）	—	—	84,032
III Percent of Overseas Sales to Total Consolidated Sales（%）	11.0	1.6	12.7

(Notes)

1. Countries and regions have been grouped together by geographical proximity.
2. The breakdown of these groupings by country and region is as follows.

(1) North America……………..United States of America
(2) Other Regions………………Africa, Europe, Asia, Oceania

Overseas sales represent sales by the Company or its subsidiaries outside of Japan in other countries or regions.

Current consolidated fiscal year (from January 1, 2004 to December 31, 2004)

	North America	Other Regions	Total
I Overseas Sales（¥ Mln）	10,052	10,228	20,281
II Total Consolidated Sales（¥ MLn）	—	—	100,716
III Percent of Overseas Sales to Total Consolidated Sales (%)	10.0	10.2	20.1

(Notes)

1. Countries and regions have been grouped together by geographical proximity.
2. The breakdown of these groupings by country and region is as follows.

(3) North America……………..United States of America
(4) Other Regions………………Africa, Europe, Asia, Oceania

3. Overseas sales represent sales by the Company or its subsidiaries outside of Japan in other countries or regions.

Items related to accounting standards, as explained in "(4) Standards for conversion of foreign currency-denominated assets and liabilities into Yen (Changes in Accounting Methods), Yen equivalent amounts for overseas income and expenses have been converted at average exchange rates during the period from the current fiscal year. As a result, compared to the previous translation method, overseas sales to "North America" were ¥691 million and to "Other Regions" were ¥518 million lower.

(Transactions with Related Parties)

Previous fiscal year (from January 1, 2004 to December 31, 2004)

1． Subsidiaries, Others

Relationship	Co. Name	Address	Capital or Invested Funds (¥ Mln)	Nature of Business or Job	Share of voting stock	Nature of Relationship		Nature of Transaction	Value of Transaction (¥ Mln)	Items	Balance at the End of the Period (¥ Mln)
						Shared directors, others	Business Relationship				
Affiliate	Japan Ohanet Oil & Gas Co., Ltd.	Minato-ku, Tokyo	6,400	Gas Field Development	Direct 15%	Three shared	Debt Guarantee	Debt Guarantee	3,108	－	－

(Note)

Debt guarantees for Japan Ohanet Oil & Gas Co., Ltd. represents a guarantee for a loan from the Japan Bank for International Cooperation.

Current fiscal year (from January 1, 2005 to December 31, 2005)

*There are no items to report.

（Per Share Information）

Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)
Book Value per Share ¥543.62 Net Income per Share ¥30.22 In addition, fully diluted net income per share has not been recorded, as there is no potential dilution.	Book Value per Share ¥646.90 Net Income per Share ¥50.61 In addition, fully diluted net income per share has not been recorded, as there is no potential dilution.

（Note）(Note) The basis for calculating net income per share is as follows.

	Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)
Net income for the period (¥ Mln)	9,276	15,485
Amount not available to common shareholders (¥ Mln)	50	50
(of which is earnings appropriation for directors' bonuses)	(50)	(50)
Amount available to common shareholders (¥ Mln)	9,226	15,435
Average outstanding shares during the period (000 shares)	305,292	304,979

(Important Subsequent Events)

Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)
Establishment of a subsidiary In addition to establishing a subsidiary named Teikoku Oil Ecuador, through which the Company has a concluded a contract to acquire a 40% participating interest in an oil exploration project in the Oriente Basin in Eastern Ecuador on January 24, 2005. This contract is expected to be formally effective following the approval of the Ecuador government. The details of the company which is to be the main operator are as follows Overview of the New Company (1) Company name: Teikoku Oil Ecuador (2) Representative: (3) Date established: January 11, 2005 (4) Nature of Business: Oil exploration, development, production and sales in the eastern area of the Republic of Ecuador. (5) Paid-in Capital: US$10,000 (6) Share of voting rights: 100%	Establishment of a complete parent company The Company and INPEX Corporation (hereafter, INPEX) on November 5, 2005 have jointly established INPEX Holdings Co., Ltd. (hereafter, joint holding company) through the transfer of shares, and will submit a proposal at respective extraordinary shareholder meetings to be held on January 31, 2006 to integrate the managements of INPEX and the Company. The following is a summary of this management integration. 1. Aim of the Integration The Company and INPEX, in creating a better balanced asset portfolio, further strengthening balance sheet position, and melding technological capabilities for natural resource development in order to create an even stronger corporate organization with promising concession acquisition capabilities, have agreed on a management integration to build a stronger market position in the face of international competition. 2. Details of the stock transfer (1) Type and number of shares to be issued with the transfer of stock to the joint holding company. The type and number of shares to be issued by the joint holding company in lieu of the transfer of shares will be 2,360,659.95 common shares and one shell stock. However, if there is a retirement by the Company or INPEX of treasury stock up to the day prior to the time of share transfer, the number of common shares issued by the joint holding company is to be reduced by an equivalent number of shares. In addition, the joint holding company will adopt the odd lot share system. (2) Allocation to the Company's and INPEX's shareholders With the transfer of shares, the joint holding company, based on the last shareholders' register (including the names of actual shareholders, hereafter, the same), shall allocate shares of the joint stock company to the Company's and INPEX's shareholders as listed or registered in the following ratios. 1. Holders of Teikoku Oil Co., Ltd. shares will receive 0.00144 shares in the joint holding company for every one share held in the Company. 2. Holders of INPEX Corporation shares will receive one share for every one INPEX share held. 3. Holders of INPEX shell stocks will receive one share in the joint holding company for every shell-type stock held in INPEX. In addition, the Company has adopted a round lot trading unit system of 1,000 shares per trading unit, while INPEX has adopted an odd lot trading unit system.

Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)
	(3) Retirement of Treasury Stock The Company and INPEX, up until the day of the stock transfer and at an appropriate time, intend to retire all treasury stock held in accordance with Commercial Code regulations. (4) Stock Transfer Payments (Money to be paid to shareholders) With the transfer of shares, the joint stock holding company, based on the last shareholder register as of the date before the stock transfer, will pay listed and registered shareholders in the Company the equivalent of dividends on earnings of ¥3 per common share held within a period of three months after the stock transfer as payment for the stock transfer. However, this stock transfer payment could change as the result of negotiations between the Company and INPEX regarding to the state of the Company's assets and liabilities, changes in the economic environment or other contingencies. (5) Timing of the Stock Transfer The stock transfer is to be effected on April 3, 2006, which is expected to be the same day that the joint stock holding company is established and applies for registration. However, the timing of this transfer is subject to change if required because of application procedures for the stock transfers or other reasons, based on negotiations between the Company and INPEX. (6) Upper Limit to Dividends on Earnings Until the Stock Transfer Date (including the coming of the dividend payment reference date before the stock transfer date and dividends paid after the stock transfer date). 1. The Company shall pay to its shareholders and registered beneficial owners based on its last shareholder register as of December 31, 2005, a dividend on common shares a dividend of ¥4.50 per share, for a maximum total dividend value of ¥1,372.504 million, as dividends on earnings. 2. INPEX shall pay its shareholders and registered beneficial owners based on its last shareholder register as of March 31, 2006, a ¥5,500 per share dividend on shell stocks and common shares for a maximum total dividend value of ¥10,559.081 million, as dividends on earnings.

	(7) Shell Stocks Issued by the Joint Holding Company The joint holding company will issue one shell stock that has rights equal to the one shell stock issued by INPEX under its corporate charter, and will allocate this stock to the Minister of the Ministry of Economy Trade and Industry. In addition, the joint holding company's corporate charter is to contain a provision that requires shareholder review, Board of Director deliberation as well as deliberation by a meeting of shell stock holders for decisions on important management matters (election of directors, liquidation of key assets, changes in the corporate charter, mergers, capital reductions, or liquidation).

Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)
	3. Overview of the Joint Holding Company (1) Japanese name: Kokusai Sekiyu Kaihatsu Teiseki Holdings Co., Ltd. English name: INPEX Holdings Co., Ltd. (2) Business Operations: To manage and oversee the operations of umbrella companies. (3) Headquarters Location: 4-1-18 Ebisu, Shibuya-ku, Tokyo (where INPEX Corporation's offices are currently located). (4) Paid-In Capital: ¥30.0 billion (5) End of accounting year: March 31 of the following calendar year. 4. Overview of INPEX Corporation (1) Major business lines: Oil, natural gas exploration, development, production, sales and investment in companies that are involved in these businesses. (2) Headquarters Location: 4-1-18 Ebisu, Shibuya-ku, Tokyo (3) Representative: Naoki Kuroda, President (4) Paid-in Capital: ¥29,460 million (as of March 31, 2005) (5) Total Outstanding Shares Common stock: 1,919,832.75 shares Shell stock: 1 share (6) Total Assets: (Consolidated) ¥779,227 million (as of March 31, 2005) (7) End of Accounting Year March 31 of following calendar year (8) Total Sales (Consolidated) ¥478,586 million (as of March 31, 2005) (9) Net Income (Consolidated) ¥76,493 million (as of March 31, 2005)

5. Status of Production, Orders Received and Sales

(1) Production

Business Segment Name		Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)	Increase/Decrease
Oil and natural gas related businesses	Natural Gas	857 mm m³	1,618 mm m³	761 mm m³
	Liquefied Petroleum Gas	3,997 t	4,288 t	291 t
	Crude Oil	3,614 thou bbl	4,986 thou bbl	1,372 thou bbl
	Petroleum Products	250 thou kl	249 thou kl	△1 thou kl
	Iodine	520 t	526 t	6 t

(Notes)

1. Production excludes depletion and in-house consumption.
2. Production volumes for natural gas and oil for the current fiscal year includes overseas operating service agreements.
3. A portion of crude oil production volume is used as fuel for liquefied petroleum gas and petroleum products.
4. Liquefied petroleum gas and petroleum products are produced on consignment by Teiseki Topping Plant Co., Ltd., a consolidated subsidiary.
5. Iodine is refined on consignment by another company.
6. Volumes less than round numbers are rounded upward from five.

(2) Orders

Business Segment Name		Fiscal Year to December 2004 (from January 1, 2004 to December 31, 2004)	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)	Increase/Decrease
		¥ Mln	¥ Mln	¥ Mln
Other Businesses	Orders Received	940	752	△188
	Order Backlog	24	471	447

(Notes)

1. Production for the oil and natural gas related businesses is not based on orders.
2. Values given do not include value-added tax.

(3) Sales

Business Segment Name		Fiscal Year to December 31, 2004		Fiscal Year to December 31, 2005		Increase/Decrease	
		Volume	Value	Volume	Value	Volume	Value
			¥ Mln		¥ Mln		¥ Mln
Oil and Natural Gas Businesses	Natural Gas	942 mm m³	34,534	1,685 mm m³	38,004	743 mm m³	3,470
	Liquefied Petroleum Gas	21,378 t	1,957	23,843 t	2,280	2,465 t	323
	Crude Oil	2,847 thou bbl	10,219	3,779 thou bbl	17,702	932 thou bbl	7,483
	Petroleum Products	593 thou kl	33,372	621 thou kl	38,365	28 thou kl	4,993
	Iodine	545 t	704	542 t	818	△3 t	114
	Others	—	1,021	—	1,234	—	213
	Subtotal	—	81,809	—	98,406	—	16,597
Other Businesses		—	2,222	—	2,310	—	88
Total		—	84,032	—	100,716	—	16,684

(Notes)

1. Totals for the current fiscal year for natural gas and oil include volumes produced and compensation under overseas operating services agreements.
2. Stated values do not include value-added taxes.
3. Volumes less than rounded numbers are rounded upward from five.