



Accounting Period: Abbreviated Financial
March 2006 Results(Consolidated)

(English Translation of "Kessan Tanshin")

May 16, 2006

Listed Company Name: **INPEX Holdings Inc.**

Exchanges Listed: TSE 1

(Teikoku Oil Co., Ltd. Portion)

Securities Code: 1605

Headquarters Location: Tokyo

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

Name and Position of Representative: Naoki Kuroda, President and Representative Director

Name and Position of Contact Person: Shuhei Miyamoto, General Manager Corporate Communications Unit T E L (03) 5448-0205

Date of Board of Directors Meeting: May 16, 2006

Adoption of U.S. GAAP: No

1. March 2006 Consolidated Results (January 1, 2006~March 31, 2006)

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

Fiscal Year to:	Net Sales		Operating Income		Ordinary Income	
	Yen Mln	%	Yen Mln	%	Yen Mln	%
Mar. 2006	27,718	—	9,470	—	12,804	—
Dec. 2005	100,716	19.9	21,077	55.7	22,820	38.1

	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
	Yen Mln	%	Yen	Sen	Yen	Sen	%	%	%
Mar. 2006	6,484	—	21	28	—	—	3.2	4.3	46.2
Dec. 2005	15,485	66.9	50	61	—	—	8.5	8.5	22.7

- (Note) ① Equity in investment returns Mar. 2006 ¥4,067 million Dec. 2005 ¥320 million
 ② Average outstanding shares (consolidated) for the period ended: Mar. 2006 304,709,452 shares Dec. 2005 304,979,500 shares
 ③ Changes in accounting method Yes
 ④ Percentage changes in net sales, operating income, ordinary income and net income are comparisons to the previous period.
 ⑤ As the March 2006 period is a three-month reporting period due to a change in accounting period, there are no comparisons with the previous period.

(2)Consolidated Financial Condition

	Total Assets		Shareholders' Equity	Shareholders' Equity Ratio	Book Value per Share	
	Yen Mln		Yen Mln	%	Yen	Sen
Mar. 2006	308,659		205,256	66.5	673	93
Dec. 2005	293,767		197,216	67.1	646	90

(Note) End of period outstanding shares (Consolidated) Mar. 2006 304,567,933 shares Dec. 2005 304,789,235 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
	Yen Mln	Yen Mln	Yen Mln	Yen Mln
Mar. 2006	9,872	(4,705)	5,480	36,175
Dec. 2005	15,118	(20,287)	7,845	25,545

(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 2 Co.

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

Consolidated (Added) 0 Co. (Removed) 0 Co. Equity Method (Added) 1 Co. (Removed) 0 Co.

1. Group Overview

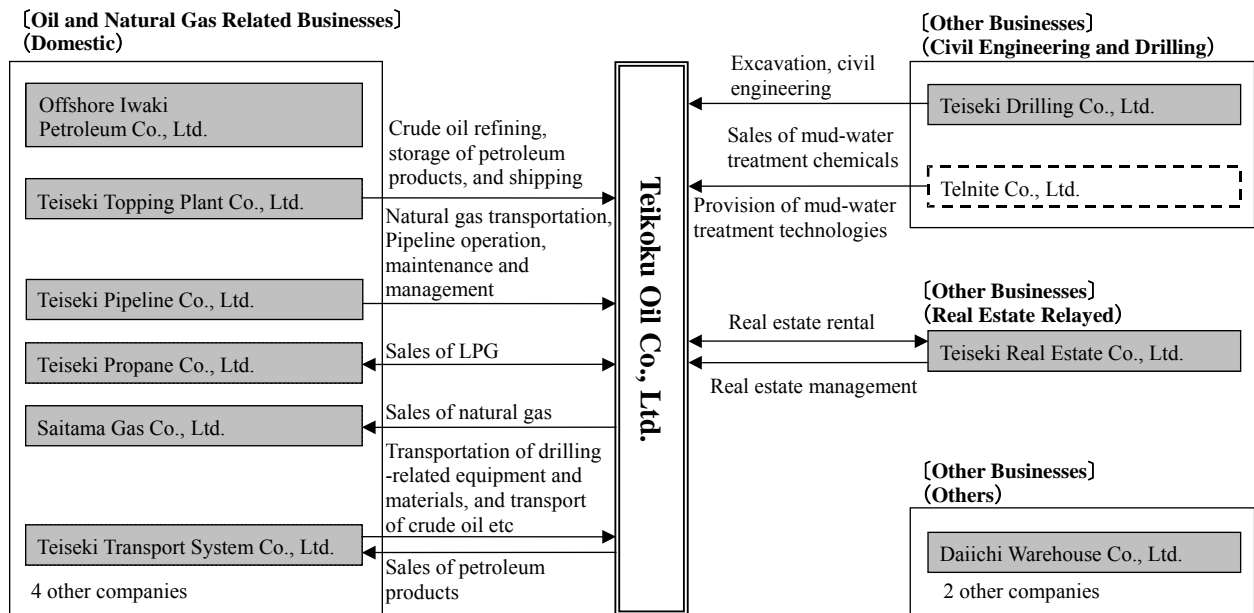
The Teikoku Oil Group (Teikoku Oil Co., Ltd. and its affiliates) consists of Teikoku Oil Co., Ltd., 32 subsidiaries (of which 27 are consolidated) and nine affiliates (of which two are reflected in consolidated accounts under the equity method), whose main business operations and major Group companies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

Segment	Major Businesses	Main Companies	
		Japan	Overseas
Oil and Natural Gas-Related Businesses	Oil and natural gas exploration and development	Japan	*Teikoku Oil Co., Ltd., *Offshore Iwaki Petroleum Co., Ltd.
		Overseas	*Teikoku Oil (Venezuela) Co., Ltd., Teikoku Oil SCT Exploration B.V., Teikoku Oil Libya UK LTD, Teikoku Oil Suez SEJ Co., Ltd. Teikoku Oil Algeria (El Ouar) 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 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 Co., Ltd.
Other Businesses	Civil construction, well drilling, real estate-related businesses, and warehousing services	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.

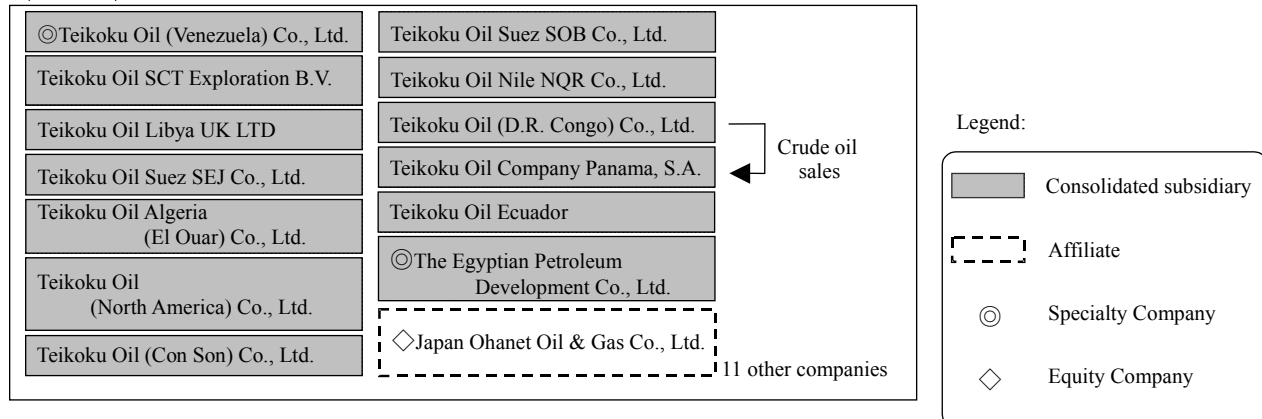
(Notes)

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.



[Oil and Natural Gas Related Businesses] (Overseas)



(Note) The Company has decided to liquidate the consolidated subsidiary Teikoku Oil Suez SEJ Co., Ltd. in April 2006

2. Business Performance and Financial Condition

1. Business Performance

(1) Overview of the special fiscal year ending March 31, 2006

Japan's economy for the period under review continued to consistently recover, supported by strong personal consumption and continued increases in private sector capital expenditures as well as exports.

The oil environment during this period was characterized by continued high levels of international crude oil prices, given increased demand for oil globally, declining spare production capacity in OPEC, and unstable political conditions in oil producing nations. As a result, domestic prices for crude oil and petrochemical products were in a rising trend. On the other hand, while the competitive environment continued to be severe reflecting progress in deregulation and increasing social awareness of the environment, demand continued to increase centering on industrial demand which was aided by the sharp increase in crude oil prices.

Given this 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 business base by increasing capacity at its main Minami Nagaoka gas field, and expanding its pipeline network. Overseas, the Group continued to strategically develop new projects with a particular focus on South and Middle America as well as North Africa.

In addition, with regard to the business integration with INPEX CORPORATION, following the approval of proposals at extraordinary shareholder meetings of both companies on January 31 of this year, a new joint holding company, INPEX Holdings Inc. was established on April 3 as the result of the joint stock transfer.

Net sales for the period were ¥27,718 million, while ordinary income was ¥12,804 million, reflecting equity in earnings of affiliates from the sale of investment securities. Net income for the period was ¥6,484 million due to special losses such as existing investment value as the result of a basic agreement to amend the operating service agreement for a Venezuela project.

Business performance by operating segment was as follows.

[Oil & Gas]

Net sales of mainline natural gas were ¥12,951 million, reflecting the contribution from efforts to increase domestic sales and variable seasonal factors, as sales levels tend to be relatively higher during the winter season.

In terms of crude oil and petroleum products, continued high selling prices from the previous period resulted in crude oil sales of ¥3,995 million and petroleum product sales of ¥9,867 million.

As a result, total sales for the segment were ¥27,392 million, while operating income was ¥9,390 million owing to a decline in domestic exploration activities.

[Others]

In the drilling operations, sales were recorded for geothermal well drilling construction, resulting in total segment sales of ¥325 million and operating income of ¥9 million.

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

① Japan

In addition to favorable sales of the main product of natural gas, selling prices for petroleum products continued at high levels, as was the case the previous fiscal year. As a result, total sales in Japan were ¥23,144 million, while a decline in exploration activities resulted in operating income of ¥7,117 million.

② Africa

Given the continued high level of crude oil prices which continued from the previous period, sales were ¥2,564 million and operating income was ¥2,116 million.

③ Middle and South America

As crude oil prices continued at high levels from the previous period, sales were ¥2,009 million and operating income was ¥198 million.

④ Other Regions

There were no sales or operating expenses recorded from Other Regions for the period.

2. Financial Condition

(1) Balance Sheet Condition

As was the case during the previous period, the Group endeavored to efficiently utilize funding sources within the Group in an effort to maintain a healthy balance sheet during the period in response to a continued high level of fund demand for domestic and overseas operations.

Total assets at the end of the period were ¥14,892 million higher at ¥308,659 million compared to the end of the prior reporting period (end of December 2005). Of this total, current assets increased ¥7,278 million from the end of the prior period to ¥65,864 million. The major reason for this increase were increases in marketable securities and cash on hand and bank deposits. Fixed assets were ¥7,614 million higher than at the end of the prior period at ¥242,794 million. This mainly was due to an increase in the current value of investment securities included in investments and other assets, and an increase in the construction in progress account included under property, plant & equipment given progress in construction to expand production capacity.

Total liabilities increased ¥6,854 million to ¥101,083 million from the end of the previous period, with the main reason for the increase being long-term borrowings for new capital expenditures such as new pipeline construction, and higher valuation differentials on investment securities which resulted in an increase in deferred tax liabilities.

Shareholders' equity increased ¥8,040 million to ¥205,256 million compared to the end of the prior period due to an increase in earnings surplus and an increased valuation differential for other marketable securities.

As a result, shareholders' equity ratio at the end of the period was 66.5% compared to 67.1% at the end of the prior period, and book value per share was ¥673.93 versus ¥646.90 at the end of the previous period.

(2) Cash Flows

Cash and cash equivalents (hereafter, funds) at the end of the period were ¥10,629 million higher at ¥36,175 million compared to the end of the previous period (December 2005).

The status of cash flows from operating, investment and financing activities and the factors affecting each are as follows.

(Cash Flows from Operating Activities)

Cash flows provided from operating activities were ¥9,872 million. The main sources of cash inflows were pretax income of ¥10,216 million and a decrease in accounts receivable of ¥2,690 million.

(Cash Flows from Investing Activities)

Cash flows used in investing activities were ¥4,705 million. This mainly was the result of expenditures of ¥3,545 million to acquire tangible fixed assets, and expenditures of ¥683 million in the exploration and development investment account.

(Cash Flows from Financing Activities)

Cash flows provided by financing activities were ¥5,480 million. The main source of these cash flows was long-term borrowings of ¥7,945 million.

Furthermore, the trend in the Group's cash flow indicators is as follows.

	Dec. 2003	Dec. 2004	Dec. 2005	Mar. 2006
Shareholders' Equity Ratio (%)	69.1	69.0	67.1	66.5
Shareholders' Equity Ratio at Current Market Prices (%)	72.7	72.3	160.2	140.2
Years Needed to Repay Debt (Years)	1.1	0.9	1.9	—
Interest Coverage Ratio (X)	44.0	51.5	22.2	57.3

- (Notes)
- | | |
|-------------------------------------|--------------------------------------------|
| 1. Shareholders' Equity Ratio: | Shareholders' equity/Total assets |
| Current Value Shareholders' Equity: | 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). In addition, the end-of-year stock price used for the current fiscal year is the closing price before the day of delisting.
 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 given in the Consolidated Statements of Cash Flows.
 5. As the March 2006 accounting period is a three-month accounting period due to a change in accounting period, years needed to repay debt has not been included.

3. Business and Other Risks

Regarding risk in the Group's businesses and other risks, the following items may have a material impact 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 as of the end of the accounting period under review and is based on the information available at that time.

(1) Characteristic Risks of the Business

The oil and natural gas exploration activities of the 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 Utility Industry 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 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.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Account	Notes	Consolidated Fiscal Year Ended December 31, 2005		Consolidated Fiscal Year Ended March 31, 2006		Increase/ (decrease)
		Value (¥ Mln)	(%) Total	Value (¥ Mln)	(%) Total	
(Assets)						
I Current Assets						
1. Cash & deposits		13,387		19,268		5,881
2. Notes, accounts receivable		15,921		13,200		(2,721)
3. Marketable securities		9,182		18,332		9,150
4. Inventories		6,330		6,308		(22)
5. Others		13,771		8,762		(5,009)
6. Less: Provisions for doubtful accounts		(6)		(7)		(1)
Total Current Assets		58,586	19.9	65,864	21.3	7,278
II Property, Plant & Equipment						
1. Tangible Assets						
(1) Buildings & structures	*1,2	138,189		138,386		
Cumulative depreciation		58,843	79,346	60,324	78,062	(1,284)
(2) Wells	*1	58,172		58,246		
Cumulative depreciation		57,762	409	58,012	233	(176)
(3) Machinery & vehicles	*1,2,3	88,280		89,072		
Cumulative depreciation		75,986	12,293	76,338	12,734	441
(4) Land	*1,3		8,676		8,698	22
(5) Construction in progress			24,417		26,499	2,082
(6) Others	*1	1,556		1,552		
Cumulative depreciation		1,280	275	1,283	268	(7)
Total Tangible Assets			125,418		126,497	1,079
2. Intangible Assets						
(1) Exploration rights			0		0	—
(2) Others	*2,4		811		1,028	217
Total Intangible Assets			811		1,028	217

Account	Notes	Consolidated Fiscal Year Ended December 31, 2005		Consolidated Fiscal Year Ended March 31, 2006		Increase/ (decrease)
		Value (¥ Mln)	(%) Total	Value (¥ Mln)	(%) Total	Value (¥ Mln)
3. Investments & Long-Term Receivables						
(1) Marketable securities	*1,5	96,025		104,963		8,938
(2) Long-term loans		1,217		1,673		456
(3) Exploration & development investment		3,312		802		(2,510)
(4) Others		11,346		11,311		(35)
(5) Less: Allowance for doubtful receivables		(6)		(23)		(17)
(6) Less: Allowance for exploration & development investment losses		—		(545)		(545)
(7) Less: Allowance for losses on overseas investments		(2,946)		(2,913)		33
Total Investments and Long-Term Receivables		108,949	37.1	115,268	37.4	6,319
Total Property, Plant & Equipment		235,180	80.1	242,794	78.7	7,614
Total Assets		293,767	100.0	308,659	100.0	14,892
(Liabilities)						
I Current Liabilities						
1. Notes & accounts payable		3,006		2,832		(174)
2. Short-term bank loans	*1	5,175		5,448		273
3. Accrued expenses	*1	14,323		12,712		(1,611)
4. Accrued income taxes		2,905		2,290		(615)
5. Others		3,588		4,872		1,284
Total Current Liabilities		28,998	9.9	28,156	9.1	(842)
II Long-Term Liabilities						
1. Long-term debt	*1	23,847		30,519		6,672
2. Deferred tax liabilities		23,277		24,454		1,177
3. Accrued employee retirement benefits		6,491		6,520		29
4. Accrued director retirement compensation		904		879		(25)
5. Accrued cost of abandonment of wells		10,229		9,040		(1,189)
6. Reserves for special repairs		160		160		—
7. Others	*1,4	319		1,352		1,033
Total Long-Term Liabilities		65,230	22.2	72,927	23.6	7,697
Total Liabilities		94,229	32.1	101,083	32.7	6,854

Account	Notes	Consolidated Fiscal Year Ended December 31, 2005			Consolidated Fiscal Year Ended March 31, 2006			Increase/ (decrease)
		Value (¥ Mln)		(%) Total	Value (¥ Mln)		(%) Total	Value (¥ Mln)
(Minority Interests)								
Minority interests in consolidated subsidiaries			2,320	0.8		2,318	0.8	(2)
(Shareholders' Equity)								
I Common stock	*7		19,579	6.7		19,579	6.3	—
II Capital surplus			11,230	3.8		11,222	3.6	(8)
III Retained earnings			127,688	43.5		131,745	42.7	4,057
IV Unrealized holding gains on securities			39,081	13.3		42,286	13.7	3,205
V Translation adjustments			457	0.1		423	0.2	(34)
VI Treasury stock	*8		(820)	(0.3)		—	—	820
Total Shareholders' Equity			197,216	67.1		205,256	66.5	8,040
Total Liabilities, Minority Interests & Shareholders' Equity			293,767	100.0		308,659	100.0	14,892

(2) Consolidated Statements of Income

Account	Notes	Consolidated Fiscal Year Ended December 31, 2005			Consolidated Fiscal Year Ended March 31, 2006		
		Value (¥ Mln)		(%) Total	Value (¥ Mln)		(%) Total
I Net Sales			100,716	100.0		27,718	100.0
II Cost of Sales			55,473	55.1		12,807	46.2
Gross Profit			45,243	44.9		14,910	53.8
III Exploration Expenses							
1. Exploration expenses		4,268			742		
2. Exploration subsidies		(170)	4,097	4.1	(1)	740	2.7
IV Selling, General & Administrative Expenses	*1,2		20,068	19.9		4,699	16.9
Operating Income			21,077	20.9		9,470	34.2
V Other Income							
1. Interest income		253			122		
2. Dividend income		736			348		
3. Oil & gas royalties		721			209		
4. Equity in earnings of affiliates		320			4,067		
5. Reversal of allowance for losses on overseas investment		—			32		
6. Rental income		480			117		
7. Foreign exchange gains		482			—		
8. Miscellaneous income		605	3,600	3.6	352	5,249	18.9
VI Other Expenses							
1. Interest expenses		608			135		
2. Amortization of exploration & development rights		—			1,067		
3. Allowance for exploration & development investment losses		—			545		
4. Allowance for losses on overseas investment		928			—		
5. Allowance for cost of abandonment of wells		95			8		
6. Cost of rental income		93			48		
7. Foreign exchange loss		—			7		
8. Miscellaneous losses		131	1,857	1.8	101	1,915	6.9
Ordinary Income			22,820	22.7		12,804	46.2

Account	Notes	Consolidated Fiscal Year Ended December 31, 2005			Consolidated Fiscal Year Ended March 31, 2006		
		Value (¥ Mln)		(%) Total	Value (¥ Mln)		(%) Total
VII Extraordinary Income							
1. Gain on the sale of fixed assets	*3	146			—		
2. Gain on the sale of marketable securities		3,430			—		
3. Reversal of allowance for doubtful receivables		1	3,578	3.5	—	—	—
VIII Extraordinary Losses							
1. Losses on overseas operations	*4	—			2,587		
2. Impairment losses	*5	275	275	0.3	—	2,587	9.3
Income Before Income Taxes and Minority Interests			26,122	25.9		10,216	36.9
Corporate & local taxes		10,086			4,485		
Tax adjustments		264	10,350	10.2	(753)	3,731	13.5
Minority interests in earnings of consolidated subsidiaries			287	0.3		—	—
Net Income for the Period			15,485	15.4		6,484	23.4

(3) Consolidated Statements of Shareholders' Equity

Account	Notes	Consolidated Fiscal Year Ended December 31, 2005		Consolidated Fiscal Year Ended March 31, 2006	
		Value (¥ Mln)		Value (¥ Mln)	
(Capital Surplus)					
I Beginning of period balance			11,225		11,230
II Increase during the year					
1. Profit from the sale of treasury stock		5	5	2	2
III Decrease during the year					
1. Retirement of treasury stock		—	—	10	10
IV End of year balance			11,230		11,222
(Retained Earnings)					
I Beginning of period balance			114,999		127,688
II Increase during the year					
1. Net income for the period		15,485		6,484	
2. Increase in equity of retained earnings of affiliates		—	15,485	146	6,631
III Decrease during the year					
1. Dividends paid		2,745		1,371	
2. Director bonuses		50		50	
(Auditor portion)		(6)		(6)	
3. Retirement of treasury stock		—	2,795	1,153	2,575
IV End of period balance			127,688		131,745

(4) Consolidated Statement of Cash Flows

		Consolidated Fiscal Year Ended December 31, 2005	Consolidated Fiscal Year Ended March 31, 2006
Account	Notes	Value (¥ Mln)	Value (¥ Mln)
I Cash Flows from Operating Activities			
Income before income taxes and minority interests		26,122	10,216
Depreciation expenses		8,962	2,187
Losses on overseas operations		—	2,587
Impairment losses		275	—
Increase (decrease) in accrued retirement benefits		10	29
Increase (decrease) in provision for exploration & development investment losses		—	545
Increase (decrease) in other reserves		1,029	(24)
Interest and dividend income		(990)	(470)
Interest expenses		608	135
Loss (gain) on equity in earnings of affiliates		(320)	(4,067)
Loss (gain) on the sale of marketable securities		(3,430)	—
Gain on the sale of fixed assets		(146)	—
Decrease (increase) in notes and accounts receivable		(3,119)	2,690
Recovery of exploration & development investment		2,866	200
Decrease (increase) in inventories		(690)	16
Decrease (increase) in other operating assets		51	185
Increase (decrease) accounts payable		290	(59)
Increase (decrease) in deferred taxes		(229)	143
Increase (decrease) in other operating liabilities		177	(1,386)
Bonuses to directors and statutory auditors		(50)	(50)
Others		(6,566)	1,885
Subtotal		24,853	14,765
Interest and dividends received		990	630
Interest paid		(679)	(172)
Corporate and local taxes paid		(10,045)	(5,350)
Net Cash Provided by Operating Activities		15,118	9,872

		Consolidated Fiscal Year Ended December 31, 2005	Consolidated Fiscal Year Ended March 31, 2006
Account	Notes	Value (¥ Mln)	Value (¥ Mln)
II Cash Flows from Investing Activities			
Decrease in time deposits		(2,197)	(1,001)
Redemption of time deposits		2,223	1,116
Purchases of marketable securities		(2,749)	(1,499)
Redemptions and sales of marketable securities		2,256	1,499
Decrease (increase) in short-term loans		(65)	70
Additions to property, plant and equipment		(19,980)	(3,545)
Proceeds from the sale of property, plant and equipment		222	13
Additions to intangible fixed assets		(93)	(299)
Purchases of investment securities		(1,484)	(296)
Redemptions and sales of investment securities		5,898	373
Purchases of stock in subsidiaries		(107)	—
Long-term loans		(973)	(550)
Recovery of long-term loans		429	94
Payments for exploration & development investments		(3,083)	(683)
Others		(580)	2
Net Cash Provided by Investing Activities		(20,287)	(4,705)
III Cash Flows from Financing Activities			
Increase (decrease) in short-term bank loans		(80)	—
Proceeds from long-term debt		14,860	7,945
Repayment of long-term debt		(3,866)	(986)
Net purchases of treasury stock		(336)	(340)
Dividends paid		(2,729)	(1,137)
Dividends paid to minority shareholders		(2)	—
Net Cash Provided by Financing Activities		7,845	5,480
IV Effect of exchange rate changes on cash		632	(17)
V Net increase (decrease) in cash and cash equivalents		3,309	10,629
VI Cash and cash equivalents at the beginning of the period		22,234	25,545
VII Increase in cash arising from the inclusion of subsidiaries in consolidation		1	—
VIII Cash and cash equivalents at the end of the period	* 1	25,545	36,175

Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>1. Items related to scope of consolidation</p> <p>(1) Number of consolidated subsidiaries: 27</p> <p>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 NQR Co., Ltd. were included in the scope of consolidation in the fiscal year.</p> <p>Teikoku Oil Libya UK LTD was included in the scope of consolidation from the fiscal year because of its increasing importance.</p> <p>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.</p> <p>Teikoku Oil Suez KEZ Co., Ltd. was excluded from consolidation in the fiscal year because the company was liquidated.</p> <p>(2) Names of Major Non-Consolidated Subsidiaries</p> <p>Major non-consolidated subsidiaries:</p> <p>- Sakata Natural Gas Co., Ltd., Teikoku Oil de Blugos, S.A. de C.V.</p> <p>(Reason for exclusion from consolidation)</p> <p>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.</p> <p>2. Items concerning scope of equity method accounting</p> <p>(1) Affiliated companies recorded under the equity method:</p> <p>1 Company</p> <p>Company Name</p> <p>Japan Ohanet Oil & Gas Co., Ltd.</p> <p>(2) Names of major non-consolidated subsidiaries not accounted for under the equity method.</p> <p>- Sakata Natural Gas Co., Ltd., Teikoku Oil de Blugos, S.A. de C.V.</p> <p>(Reason for the exclusion from equity method accounting)</p> <p>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.</p>	<p>1. Items related to scope of consolidation</p> <p>(1) Number of consolidated subsidiaries: 27</p> <p>As the names of major subsidiaries are contained in the “1. Group Overview” section, they are omitted here.</p> <p>(2) Names of Major Non-Consolidated Subsidiaries</p> <p>Major non-consolidated subsidiaries:</p> <p>- Sakata Natural Gas Co., Ltd., Teikoku Oil de Blugos, S.A. de C.V.</p> <p>(Reason for exclusion from consolidation)</p> <p style="text-align: center;">Same as left</p> <p>2. Items concerning scope of equity method accounting</p> <p>(1) Affiliated companies recorded under the equity method:</p> <p>2 Companies</p> <p>Company Names</p> <p>Japan Ohanet Oil & Gas Co., Ltd. Dai-ichi Petroleum Development Co., Ltd.</p> <p>Due to the growing importance of Dai-ichi Petroleum Development Co., Ltd., the company was included in consolidated accounts under the equity method from the current fiscal year.</p> <p>(2) Names of major non-consolidated subsidiaries not accounted for under the equity method.</p> <p style="text-align: center;">Same as left</p> <p>(Reason for the exclusion from equity method accounting)</p> <p style="text-align: center;">Same as left</p>

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
(3) _____	(3) The accounting year used for all companies reflected under the equity method is December 31 of each year. In addition, while the financial statements of each company are used in the preparation of consolidated financial statements for each year, adjustments have been made for important transactions between the subsidiary reporting date and the reporting date for consolidated accounts.

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)																																																																																				
<p>3. Items concerning the business accounting year for consolidated subsidiaries. The accounting years for consolidated subsidiaries are all the same as the Company's.</p>	<p>3. Items concerning the business accounting year for consolidated subsidiaries. The end of fiscal year accounting dates for consolidated subsidiaries are as follows.</p> <table border="1" data-bbox="767 398 1441 1581"> <thead> <tr> <th data-bbox="774 398 1177 506">Company Name</th> <th data-bbox="1177 398 1347 506">End of Accounting Year</th> <th data-bbox="1347 398 1441 506">Note</th> </tr> </thead> <tbody> <tr><td data-bbox="774 506 1177 539">Teikoku Oil (Venezuela) Co., Ltd.</td><td data-bbox="1177 506 1347 539">Dec. 31</td><td data-bbox="1347 506 1441 539">2</td></tr> <tr><td data-bbox="774 539 1177 573">Teikoku Oil SCT Exploration B.V.</td><td data-bbox="1177 539 1347 573">Dec. 31</td><td data-bbox="1347 539 1441 573">1</td></tr> <tr><td data-bbox="774 573 1177 607">Teikoku Oil Libiya UK LTD</td><td data-bbox="1177 573 1347 607">Dec. 31</td><td data-bbox="1347 573 1441 607">1</td></tr> <tr><td data-bbox="774 607 1177 640">Teikoku Oil Suez SEJ Co., Ltd.</td><td data-bbox="1177 607 1347 640">Dec. 31</td><td data-bbox="1347 607 1441 640">1</td></tr> <tr><td data-bbox="774 640 1177 719">Teikoku Oil Algeria(El Ouar) Co., Ltd.</td><td data-bbox="1177 640 1347 719">Dec. 31</td><td data-bbox="1347 640 1441 719">1</td></tr> <tr><td data-bbox="774 719 1177 797">Teikoku Oil (North America) Co., Ltd.</td><td data-bbox="1177 719 1347 797">Dec. 31</td><td data-bbox="1347 719 1441 797">1</td></tr> <tr><td data-bbox="774 797 1177 831">Teikoku Oil Algeria Co., Ltd.</td><td data-bbox="1177 797 1347 831">Dec. 31</td><td data-bbox="1347 797 1441 831">1</td></tr> <tr><td data-bbox="774 831 1177 864">Teikoku Oil (Con Son) Co., Ltd.</td><td data-bbox="1177 831 1347 864">Dec. 31</td><td data-bbox="1347 831 1441 864">1</td></tr> <tr><td data-bbox="774 864 1177 898">Teikoku Oil Suez SOB Co., Ltd.</td><td data-bbox="1177 864 1347 898">Dec. 31</td><td data-bbox="1347 864 1441 898">1</td></tr> <tr><td data-bbox="774 898 1177 931">Teiseki Drilling Co., Ltd.</td><td data-bbox="1177 898 1347 931">Mar. 31</td><td data-bbox="1347 898 1441 931">3</td></tr> <tr><td data-bbox="774 931 1177 965">Teiseki Real Estate Co., Ltd.</td><td data-bbox="1177 931 1347 965">Dec. 31</td><td data-bbox="1347 931 1441 965">1</td></tr> <tr><td data-bbox="774 965 1177 999">Teiseki Pipeline Co., Ltd.</td><td data-bbox="1177 965 1347 999">Mar. 31</td><td data-bbox="1347 965 1441 999">3</td></tr> <tr><td data-bbox="774 999 1177 1032">Teiseki Propane Co., Ltd.</td><td data-bbox="1177 999 1347 1032">Dec. 31</td><td data-bbox="1347 999 1441 1032">1</td></tr> <tr><td data-bbox="774 1032 1177 1066">Teiseki Topping Plant Co., Ltd.</td><td data-bbox="1177 1032 1347 1066">Mar. 31</td><td data-bbox="1347 1032 1441 1066">3</td></tr> <tr><td data-bbox="774 1066 1177 1099">Teikoku Oil Nile NQR Co., Ltd.</td><td data-bbox="1177 1066 1347 1099">Dec. 31</td><td data-bbox="1347 1066 1441 1099">1</td></tr> <tr><td data-bbox="774 1099 1177 1133">Teikoku Oil (D.R. Congo) Co., Ltd.</td><td data-bbox="1177 1099 1347 1133">Dec. 31</td><td data-bbox="1347 1099 1441 1133">2</td></tr> <tr><td data-bbox="774 1133 1177 1167">Offshore Iwaki Petroleum Co., Ltd.</td><td data-bbox="1177 1133 1347 1167">Dec. 31</td><td data-bbox="1347 1133 1441 1167">2</td></tr> <tr><td data-bbox="774 1167 1177 1200">Teikoku Oil Ecuador</td><td data-bbox="1177 1167 1347 1200">Dec. 31</td><td data-bbox="1347 1167 1441 1200">2</td></tr> <tr><td data-bbox="774 1200 1177 1234">Teikoku Oil Company Panama, S.A.</td><td data-bbox="1177 1200 1347 1234">Dec. 31</td><td data-bbox="1347 1200 1441 1234">2</td></tr> <tr><td data-bbox="774 1234 1177 1267">Saitama Gas Co., Ltd.</td><td data-bbox="1177 1234 1347 1267">Dec. 31</td><td data-bbox="1347 1234 1441 1267">1</td></tr> <tr><td data-bbox="774 1267 1177 1301">The Egyptian Petroleum Co., Ltd.</td><td data-bbox="1177 1267 1347 1301">Dec. 31</td><td data-bbox="1347 1267 1441 1301">1</td></tr> <tr><td data-bbox="774 1301 1177 1335">Teiseki Transport System Co., Ltd.</td><td data-bbox="1177 1301 1347 1335">Dec. 31</td><td data-bbox="1347 1301 1441 1335">1</td></tr> <tr><td data-bbox="774 1335 1177 1368">Teikoku Oil de Venezuela, C.A.</td><td data-bbox="1177 1335 1347 1368">Dec. 31</td><td data-bbox="1347 1335 1441 1368">2</td></tr> <tr><td data-bbox="774 1368 1177 1402">Teikoku Oil Venezuela, B.V.</td><td data-bbox="1177 1368 1347 1402">Dec. 31</td><td data-bbox="1347 1368 1441 1402">2</td></tr> <tr><td data-bbox="774 1402 1177 1435">Teikoku Oil de Sanvi-Guere, C.A.</td><td data-bbox="1177 1402 1347 1435">Dec. 31</td><td data-bbox="1347 1402 1441 1435">2</td></tr> <tr><td data-bbox="774 1435 1177 1469">Teikoku Gas Venezuela, C.A.</td><td data-bbox="1177 1435 1347 1469">Dec. 31</td><td data-bbox="1347 1435 1441 1469">1</td></tr> <tr><td data-bbox="774 1469 1177 1503">Daiichi Warehouse Co., Ltd.</td><td data-bbox="1177 1469 1347 1503">Dec. 31</td><td data-bbox="1347 1469 1441 1503">1</td></tr> </tbody> </table> <p data-bbox="778 1615 1455 1749">Note 1: Subsidiary financial statements as of the reporting date (excluding income statements) are used. However, adjustments have been made for important transactions between the subsidiary reporting date and the reporting date for consolidated accounts</p> <p data-bbox="778 1749 1455 1861">Note 2: Provisional accounts are prepared as of the consolidated reporting date. In addition, financial statements for the period from Jan. 1, 2006 to March 31, 2006 have been used because of the change in the Company's accounting period.</p> <p data-bbox="778 1861 1455 1928">Note 3: The Company's accounting period has been changed from December 31 of each year to March 31 of the following year from the current fiscal year.</p>	Company Name	End of Accounting Year	Note	Teikoku Oil (Venezuela) Co., Ltd.	Dec. 31	2	Teikoku Oil SCT Exploration B.V.	Dec. 31	1	Teikoku Oil Libiya UK LTD	Dec. 31	1	Teikoku Oil Suez SEJ Co., Ltd.	Dec. 31	1	Teikoku Oil Algeria(El Ouar) Co., Ltd.	Dec. 31	1	Teikoku Oil (North America) Co., Ltd.	Dec. 31	1	Teikoku Oil Algeria Co., Ltd.	Dec. 31	1	Teikoku Oil (Con Son) Co., Ltd.	Dec. 31	1	Teikoku Oil Suez SOB Co., Ltd.	Dec. 31	1	Teiseki Drilling Co., Ltd.	Mar. 31	3	Teiseki Real Estate Co., Ltd.	Dec. 31	1	Teiseki Pipeline Co., Ltd.	Mar. 31	3	Teiseki Propane Co., Ltd.	Dec. 31	1	Teiseki Topping Plant Co., Ltd.	Mar. 31	3	Teikoku Oil Nile NQR Co., Ltd.	Dec. 31	1	Teikoku Oil (D.R. Congo) Co., Ltd.	Dec. 31	2	Offshore Iwaki Petroleum Co., Ltd.	Dec. 31	2	Teikoku Oil Ecuador	Dec. 31	2	Teikoku Oil Company Panama, S.A.	Dec. 31	2	Saitama Gas Co., Ltd.	Dec. 31	1	The Egyptian Petroleum Co., Ltd.	Dec. 31	1	Teiseki Transport System Co., Ltd.	Dec. 31	1	Teikoku Oil de Venezuela, C.A.	Dec. 31	2	Teikoku Oil Venezuela, B.V.	Dec. 31	2	Teikoku Oil de Sanvi-Guere, C.A.	Dec. 31	2	Teikoku Gas Venezuela, C.A.	Dec. 31	1	Daiichi Warehouse Co., Ltd.	Dec. 31	1
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Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>4. Items concerning accounting standards</p> <p>(1) Valuation standards and methodologies for major assets.</p> <p>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.</p> <p>② Inventories ProductsAre primarily valued using the moving average cost method. Supplies.....Moving average cost method Unfinished Construction Costs Valued by the individual cost method</p> <p>(2) Depreciation methods for major depreciable assets</p> <p>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).</p> <p>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.</p>	<p>4. Items concerning accounting standards</p> <p>(1) Valuation standards and methodologies for major assets.</p> <p>① Marketable securities Other marketable securities (With current market values) Same as left (Without current market values) Same as left</p> <p>② Inventories Products.....Same as left Supplies.....Same as left Unfinished Construction Costs..... Same as left</p> <p>(2) Depreciation methods for major depreciable assets</p> <p>① Tangible assets Same as left</p> <p>② Intangible assets Straight line depreciation is mainly used. In addition, useful life is as prescribed in corporate tax law, while software for internal purposes is depreciated based on a useful life for internal purposes of five years. In addition, for exploration and development rights at the prospecting stage, expenditures are expensed in the accounting year incurred, while those at the production stage are expensed in accordance with production volume.</p> <p>(Change in accounting method) Expenditures for the acquisition of rights for exploration have heretofore been expensed as exploration expenses, but from the current fiscal year have been recorded as exploration and development rights, and expensed in total as other expenses. This change was implemented to standardize accounting with INPEX CORPORATION in preparation for the establishment of INPEX Holdings Inc. as the joint holding company for both companies.</p>

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(3) Standards for important allowances</p> <p>① Allowance for doubtful receivables 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.</p> <p>② _____</p> <p>③ Allowance for losses 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.</p>	<p>As a result, compared to the previous accounting method, reported operating income has increased ¥1,067 million, while there is no impact on ordinary or net income.</p> <p>In addition, the impact on each segment is contained in the (Segment Information) section.</p> <p>(3) Standards for important allowances</p> <p>① Allowance for doubtful receivables Same as left</p> <p>② Allowance for Exploration & Development Investment Losses In order to provide for losses in subsidiary company exploration & development investment accounts, an allowance is allocated and recorded according to the recoverable amount of each project.</p> <p>(Change in Accounting Method) Investments in operations at the exploration stage have heretofore been recorded as exploration expenses, but from the current fiscal year, recoverable business expenses based on production sharing contracts have been recorded in the exploration and development investment account, and an allowance for exploration and development investment losses has been recorded as other expenses.</p> <p>This change was made in order to standardize accounting methods with INPEX CORPORATION in preparation for including both companies as subsidiaries under the new INPEX Holdings Inc. joint holding company.</p> <p>As a result, while reporting operating income is ¥545 million higher than under the previous accounting method, there is no impact on ordinary income and net income.</p> <p>In addition, the impact on each segment is explained in the (Segment Information) section.</p> <p>③ Allowance for losses on overseas investments Same as left</p>

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>④ 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.</p> <p>⑤ Director retirement compensation reserves The Company has made provisions for the estimated amount of director retirement compensation at the end of the period.</p> <p>⑥ Accrued cost of abandonment of wells. The accrued costs incurred when wells are abandoned are allocated for the period based on plans for the abandonment of such wells.</p> <p>(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.</p> <p>(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.</p>	<p>④ Retirement allowances Same as left</p> <p>⑤ Director retirement compensation reserves Same as left</p> <p>⑥ Accrued cost of abandonment of wells. Same as left</p> <p>(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.</p>

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(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.</p> <p>(6) Accounting methods for major hedge transactions</p> <p>① Hedge accounting methods Special accounting is applied to interest rate swaps</p> <p>② Method of hedging and object of the hedge Hedge method: Interest rate swap transactions Object of the Hedge: Interest payments on borrowings</p> <p>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.</p> <p>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.</p> <p>(7) Other items important to the preparation of consolidated financial statements</p> <p>① Treatment of consumption tax Accounting treatment of consumption tax shows sales amounts net of consumption tax.</p> <p>② Exploration and development investment accounting method Expenditures related to exploration and development under oil and gas contracts are capitalized and recovered in accordance with the terms of each contract once production begins.</p>	<p>(5) Accounting methods for major lease transactions Same as left</p> <p>(6) Accounting methods for major hedge transactions</p> <p>① Hedge accounting methods Same as left</p> <p>② Method of hedging and object of the hedge Hedge method: Same as left Object of the Hedge: Same as left</p> <p>③ Hedging policy Same as left</p> <p>④ Hedge effectiveness assessment method Same as left</p> <p>(7) Other items important to the preparation of consolidated financial statements</p> <p>① Treatment of consumption tax Same as left</p> <p>② Exploration and development investment accounting method Same as left</p>

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>9. _____</p>	<p>5. Items relating to the valuation of consolidated subsidiary assets and liabilities Same as left</p> <p>6. Items related to amortization in the consolidated adjustment account Same as left</p> <p>7. Items related to method of treatment of appropriated earnings Same as left</p> <p>8. Scope of funds covered in the Consolidated Statements of Cash Flows Same as left</p> <p>9. Items related to a change in accounting period A resolution at a regularly scheduled meeting of shareholders on March 30, 2006 resolved to partially amend the Company's corporate charter in order to change the fiscal accounting period from December 31 of every year to March 31 of the following year. The reason for the change was to standardize the Company's accounting year with that of INPEX Holdings Inc., the new joint holding company, in order to allow for more effective business development and general management, including the creation of management plans, business performance monitoring, and preparation of consolidated accounts.</p> <p>As a result, the current fiscal year represents a special accounting period covering the period between January 1, 2006 and March 31, 2006.</p>

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

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(Accounting standards for asset impairment accounting)</p> <p>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.</p> <p>For the impact by segment, please refer to the “Segment Information” section of this report.</p> <p>Moreover, the cumulative amount of asset impairment has been deducted from affected assets after implementation in the consolidated financial statements.</p>	<p style="text-align: center;">—————</p>

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

Previous Consolidated Fiscal Year (as of December 31, 2005)			Current Consolidated Fiscal Year (as of March 31, 2006)		
*1. Assets provided as collateral and collateral-backed debt are as follows.			*1. Assets provided as collateral and collateral-backed debt are as follows		
(Collateralized Assets)	(¥ Mln)	(¥ Mln)	(Collateralized Assets)	(¥ Mln)	(¥ Mln)
Buildings & structures	2,035	(1,459)	Buildings & structures	2,107	(1,534)
Wells	190	(190)	Wells	133	(133)
Machinery & vehicles	5,160	(5,160)	Machinery & vehicles	5,290	(5,290)
Land	316	(74)	Land	316	(74)
Others (tangible fixed assets)	0	(0)	Others (tangible fixed assets)	0	(0)
Investment securities	9,967	(—)	Investment securities	10,254	(—)
Total	17,671	(6,886)	Total	18,102	(7,033)
(Debt Guarantees)	(¥ Mln)	(¥ Mln)	(Debt Guarantees)	(¥ Mln)	(¥ Mln)
Short-term borrowings	95	(—)	Short-term borrowings	95	(—)
Accrued amounts payable	5,633	(5,331)	Accrued amounts payable	3,904	(3,585)
Long-term borrowings	13,037	(12,179)	Long-term borrowings	17,127	(16,273)
(Amounts due in one year)			(Amounts due in one year)		
Others (long-term liabilities)	16	(—)	Others (long-term liabilities)	16	(—)
Total	18,783	(17,511)	Total	21,144	(19,858)
* Amounts in parenthesis () above represent foundation collateral and liabilities.			* 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 buildings and constructions, ¥228 million for machinery and vehicles, and ¥1 million for others (intangible assets).			*2. Cumulative book entry shrunken asset value due to construction burden payments and others was ¥1,374 million for buildings and constructions, ¥291 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.			*3. _____		
*4. “Other” intangible assets include ¥56 million recorded in the consolidated adjustment account.			*4. “Other” long-term liabilities include ¥1,035 million recorded in the consolidated adjustment account.		
*5. Investment securities (stocks) for non-consolidated subsidiaries and affiliates were ¥4,039 million.			*5. Investment securities (stocks) for non-consolidated subsidiaries and affiliates were ¥8,211 million.		
6. The following debt guarantees represent contingent liabilities			6. The following debt guarantees represent contingent liabilities		
	(¥ Mln)			(¥ Mln)	
Japan Ohanet Oil & Gas Co., Ltd.	2,814		Japan Ohanet Oil & Gas Co., Ltd.	2,450	
Sakhalin Oil & Gas Development Co., Ltd.	2,187		Sakhalin Oil & Gas Development Co., Ltd.	2,362	
Nisseki Malaysia Oil Development Co., Ltd.	947		Nisseki Malaysia Oil Development Co., Ltd.	884	
Nisseki Sarawak Oil Development Co., Ltd.	573		Nisseki Sarawak Oil Development Co., Ltd.	475	
Sakata Natural Gas Co., Ltd.	460		Sakata Natural Gas Co., Ltd.	436	
Employees (housing loans)	624		Employees (housing loans)	594	
Total	7,608		Total	7,202	
*7. The total number of outstanding common shares is 306,130,000 shares.			*7. The total number of outstanding common shares is 304,567,933 shares.		
*8. The number of common shares held as treasury stock is 1,340,765 shares.			*8. _____		

(Consolidated Statements of Income Items)

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)																																																				
<p>*1. The major expense items and amounts included in sales, general and administrative expenses are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> <tr> <td>Personnel expenses</td> <td style="text-align: right;">5,076</td> </tr> <tr> <td>Retirement allowance expenses</td> <td style="text-align: right;">298</td> </tr> <tr> <td>Additions to director retirement compensation reserves</td> <td style="text-align: right;">168</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">6,186</td> </tr> </table> <p>*2. Total research and development expenditures</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> <tr> <td>R&D expenses included in S.G. & A.</td> <td style="text-align: right;">85</td> </tr> </table> <p>*3. Details concerning the sale of fixed assets are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> <tr> <td>Land</td> <td style="text-align: right;">146</td> </tr> </table> <p>*4. _____</p>		(¥ Mln)	Personnel expenses	5,076	Retirement allowance expenses	298	Additions to director retirement compensation reserves	168	Depreciation	6,186		(¥ Mln)	R&D expenses included in S.G. & A.	85		(¥ Mln)	Land	146	<p>*1. The major expense items and amounts included in sales, general and administrative expenses are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> <tr> <td>Personnel expenses</td> <td style="text-align: right;">1,024</td> </tr> <tr> <td>Retirement allowance expenses</td> <td style="text-align: right;">47</td> </tr> <tr> <td>Additions to director retirement compensation reserves</td> <td style="text-align: right;">32</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">1,525</td> </tr> </table> <p>*2. Total research and development expenditures</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> <tr> <td>R&D expenses included in S.G. & A</td> <td style="text-align: right;">28</td> </tr> </table> <p>*3. _____</p> <p>*4. Losses on overseas operations were recorded due to a change in the contract conditions for a consolidated subsidiary operating in the Bolivarian Republic of Venezuela.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> <tr> <td>Impairment losses (Note)</td> <td style="text-align: right;">1,094</td> </tr> <tr> <td>Evaluation losses of exploration & development investment</td> <td style="text-align: right;">2,685</td> </tr> <tr> <td>Reversal of accrued cost of abandonment of wells</td> <td style="text-align: right;">(1,192)</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">2,587</td> </tr> </table> <p>(Note) Impairment losses were recorded on the following assets for the current fiscal year as losses on overseas operations.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ Mln)</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: center;">Location</th> <th style="text-align: center;">Use</th> <th style="text-align: center;">Type</th> <th style="text-align: center;">Impairment Loss</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Bolivarian Republic of Venezuela</td> <td style="text-align: center;">Business Assets</td> <td style="text-align: center;">Consolidation Adjustment Account</td> <td style="text-align: center;">1,094</td> </tr> </tbody> </table>		(¥ Mln)	Personnel expenses	1,024	Retirement allowance expenses	47	Additions to director retirement compensation reserves	32	Depreciation	1,525		(¥ Mln)	R&D expenses included in S.G. & A	28		(¥ Mln)	Impairment losses (Note)	1,094	Evaluation losses of exploration & development investment	2,685	Reversal of accrued cost of abandonment of wells	(1,192)	Total	2,587		(¥ Mln)	Location	Use	Type	Impairment Loss	Bolivarian Republic of Venezuela	Business Assets	Consolidation Adjustment Account	1,094
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Previous Consolidated Fiscal Year
(from January 1, 2005 to December 31, 2005)

Current Consolidated Fiscal Year
(from January 1, 2006 to March 31, 2006)

*5. Impairment Losses

Impairment losses were recorded on the following assets for the previous fiscal year.

(¥ Mln)

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

The Group segregates 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.

The Group segregates 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.

Due to the losses on overseas operations because of a change in the contract conditions for a consolidated subsidiary operating in the Bolivarian Republic of Venezuela, and as a result of an analysis of the investment impact of a development which is a factor contributing to a change in the consolidation adjustment account, this effect has been negated. As a result, an impairment loss (¥1,094 million) on the total outstanding amount at the end of the current consolidated fiscal year.

*5.

(Consolidated Statements of Cash Flow Related)

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)																				
<p>*1. Amounts and relationship between end of period cash and cash equivalents and Consolidated Balance Sheets (As of December 31, 2005) (¥ Mln)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash & deposits</td> <td style="text-align: right;">13,387</td> </tr> <tr> <td>Time deposits and others deposited for more than three months</td> <td style="text-align: right;">(1,673)</td> </tr> <tr> <td>Marketable securities (money management funds, others)</td> <td style="text-align: right;">7,032</td> </tr> <tr> <td>Other current assets (short-term bonds with repurchase agreements)</td> <td style="text-align: right;">6,799</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash & Cash Equivalents</td> <td style="text-align: right; border-top: 1px solid black;">25,545</td> </tr> </table>	Cash & deposits	13,387	Time deposits and others deposited for more 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	<p>*1. Amounts and relationship between end of period cash and cash equivalents and Consolidated Balance Sheets (As of March 31, 2006) (¥ Mln)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash & deposits</td> <td style="text-align: right;">19,268</td> </tr> <tr> <td>Time deposits and others deposited for more than three months</td> <td style="text-align: right;">(1,557)</td> </tr> <tr> <td>Marketable securities (money management funds, others)</td> <td style="text-align: right;">16,182</td> </tr> <tr> <td>Other current assets (short-term bonds with repurchase agreements, other)</td> <td style="text-align: right;">2,281</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash & Cash Equivalents</td> <td style="text-align: right; border-top: 1px solid black;">36,175</td> </tr> </table>	Cash & deposits	19,268	Time deposits and others deposited for more than three months	(1,557)	Marketable securities (money management funds, others)	16,182	Other current assets (short-term bonds with repurchase agreements, other)	2,281	Cash & Cash Equivalents	36,175
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(Lease Transactions Related)

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)				Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)			
Finance leases other than those where ownership is transferred to the lessee.				Finance leases other than those where ownership is transferred to the lessee.			
1. Equivalent acquisition value of the leased assets, equivalent accumulated depreciation, and end of period equivalent amounts outstanding.				1. Equivalent acquisition value of the 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)		Equivalent Acquisition Price (¥ Mln)	Equivalent Accumulated Depreciation (¥ Mln)	End of Period Equivalent Amounts Outstanding (¥ Mln)
Buildings & structures	46	29	16	Buildings & structures	46	32	13
Machinery & vehicles	66	25	41	Machinery & vehicles	77	27	49
Other tangible fixed assets	725	351	374	Other tangible fixed assets	748	360	387
Total	838	405	432	Total	872	420	451
(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.				(Note) Same as left			
2. Equivalent outstanding unexpired lease payments (¥ Mln)				2. Equivalent outstanding unexpired lease payments (¥ Mln)			
Within one year 149				Within one year 156			
Over one year 282				Over one year 294			
Total 432				Total 451			
(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.				(Note) Same as left			
3. Equivalent lease payment and depreciation expenses (¥ Mln)				3. Equivalent lease payment and depreciation expenses (¥ Mln)			
Lease payment 155				Lease payment 36			
Equivalent depreciation expense 155				Equivalent depreciation expense 36			
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.				4. Calculation method for equivalent depreciation amount. Same as left			

(Marketable Securities Related)

1. Other marketable securities with current market values

	Instrument	Previous Consolidated Fiscal Year (as of December 31, 2005)			Current Consolidated Fiscal Year (as of March 31, 2006)		
		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	18,871	80,208	61,336	19,869	86,071	66,201
	(2) Bonds						
	① JGBs, Regional bonds	—	—	—	—	—	—
	② Corporate bonds	258	269	11	425	435	9
	③ Others	1,554	1,554	0	2,998	2,999	0
	(3) Others	1	1	0	369	370	1
	Subtotal	20,686	82,035	61,348	23,663	89,876	66,212
Securities whose book value is less than acquisition cost	(1) Stocks	997	897	(100)	—	—	—
	(2) Bonds						
	① JGBs, Regional bonds	1,382	1,372	(9)	1,022	1,007	(15)
	② Corporate bonds	500	500	(0)	500	500	(0)
	③ Others	5,140	5,139	(1)	12,677	12,677	(0)
	(3) Others	—	—	—	—	—	—
	Subtotal	8,021	7,910	(111)	14,200	14,184	(16)
Total		28,708	89,945	61,237	37,864	104,061	66,196

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

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)			Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)		
Amount Sold (¥ Mln)	Total Gain (¥ Mln)	Total Loss (¥ Mln)	Amount Sold (¥ Mln)	Total Gain (¥ Mln)	Total Loss (¥ Mln)
5,584	3,430	—	—	—	—

3. Details of marketable securities with no current market value

Instrument	Previous Consolidated Fiscal Year (as of December 31, 2006)	Current Consolidated Fiscal Year (as of March 31, 2006)
	Amount in Consolidated Financial Statements (¥ Mln)	Amount in Consolidated Financial Statements (¥ Mln)
Other marketable securities		
Bond investment trust beneficiary certificates	2,015	1,815
Non-listed stocks, investments	9,207	9,207

4. Scheduled redemption of other marketable securities with maturation dates

Instrument	Previous Consolidated Fiscal Year (as of December 31, 2005)				Current Consolidated Fiscal Year (as of March 31, 2006)			
	Within 1 Year (¥ Mln)	1~5 Years (¥ Mln)	5~10 Years (¥ Mln)	Over 10 Years (¥Mln)	Within 1 Year (¥ Mln)	1~5 Years (¥ Mln)	5~10 Years (¥ Mln)	Over 10 Years (¥Mln)
Bonds								
(1) JGBs, Regional bonds	372	1,000	—	—	17	989	—	—
(2) Corporate bonds	600	169	—	—	600	334	—	—
(3) Others	6,664	—	30	—	15,645	—	30	—
Total	7,637	1,169	30	—	16,263	1,324	30	—

(Derivative Transactions Related)

1. Items relating to status of transactions

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	<p>(1) Details of transaction and objective Same as left</p> <p>(2) Policy toward engaging in said transactions Same as left</p> <p>(3) Amount of risk in said transactions Same as left</p> <p>(4) Risk management of said transactions Same as left</p>

2. Items related to timing of transactions

Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
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 subsidiaries have established a qualified retirement pension system and a lump-sum retirement payment system as a 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

	Previous Consolidated Fiscal Year (as of December 31, 2005)	Current Consolidated Fiscal Year (as of March 31, 2006)
(1) Pension benefit obligations (¥ Mln)	(13,169)	(13,083)
(2) Pension assets (¥ Mln)	7,337	7,276
(3) Under-funded benefit obligations (¥ Mln) ((1)+(2))	(5,832)	(5,807)
(4) Unrecognized actuarial differences (¥ Mln)	(658)	(713)
(5) Pension benefit reserves (¥ Mln) ((3)+(4))	(6,491)	(6,520)

(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 ¥433 million for the previous fiscal year.

3. Items related to retirement benefit expenses

	Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
(1) Service expenses (¥ Mln)	629	120
(2) Interest expenses (¥ Mln)	246	60
(3) Expected returns (¥ Mln)	(105)	(26)
(4) Amortization expense for actuarial differences (¥ Mln)	(41)	(17)
(5) Pension benefit expenses (¥ Mln) ((1)+(2)+(3)+(4))	729	137

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

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

	Previous Consolidated Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Consolidated Fiscal Year (from January 1, 2006 to March 31, 2006)
(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 (%)	1.5	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 (as of December 31, 2005)	Current Consolidated Fiscal Year (as of March 31, 2006)
1. Breakdown of deferred tax assets and deferred tax liabilities by major reason of occurrence.	1. Breakdown of deferred tax assets and deferred tax liabilities by major reason of occurrence.
Deferred Tax Assets (¥ Mln)	Deferred Tax Assets (¥ Mln)
Deferred foreign tax exemptions	Deferred foreign tax exemptions
6,065	7,149
Reserves in excess of allowable foreign investment and other loss reserves	Reserves in excess of allowable foreign investment and other loss reserves
4,272	4,465
Depreciation in excess of allowable amount	Depreciation in excess of allowable amount
2,507	2,354
Pension benefit reserves in excess of allowable amount	Pension benefit reserves in excess of allowable amount
2,206	2,251
Accrued cost of abandonment of wells	Accrued cost of abandonment of wells
1,148	1,142
Valuation losses on marketable securities	Valuation losses on marketable securities
700	695
Unrealized gains on fixed and other assets	Unrealized gains on fixed and other assets
621	621
Deferred losses for tax purposes	Deferred losses for tax purposes
405	405
Asset shrinkage losses from construction burden charges	Unaccounted for losses on bonus reserves
363	372
Valuation losses on exploration and development investment	Asset shrinkage losses from construction burden charges
330	355
Director retirement compensation reserves	Valuation losses on exploration and development investment
297	330
Others	Director retirement compensation reserves
1,418	288
Deferred Tax Assets Subtotal	Others
20,338	827
Assessed Reserves	Deferred Tax Assets Subtotal
(13,421)	21,260
Total Deferred Tax Assets	Assessed Reserves
6,916	(13,501)
Deferred Tax Liabilities	Total Deferred Tax Assets
Exploration reserves	7,758
(4,673)	Deferred Tax Liabilities
Special depreciation reserves	Exploration reserves
(1,052)	(4,824)
Asset shrinkage reserves	Special depreciation reserves
(464)	(999)
Overseas investment loss reserves	Asset shrinkage reserves
(287)	(463)
Valuation differential for other securities	Overseas investment loss reserve
(22,145)	(276)
Others	Valuation differential for other securities
(223)	(23,901)
Total Deferred Tax Liabilities	Others
(28,846)	(195)
Total Net Deferred Tax Liabilities	Total Deferred Tax Liabilities
(21,930)	(30,661)
	Total Net Deferred Tax Liabilities
	(22,903)

Previous Consolidated Fiscal Year (as of December 31, 2005)	Current Consolidated Fiscal Year (as of March 31, 2006)
(Note) Net deferred liabilities include the following items that are reflected in the consolidated balance sheets.	(Note) Net deferred liabilities include the following items that are reflected in the consolidated balance sheets.
Current assets-Other 318	Current assets-Other 538
Fixed assets-Investment, other assets 1,034	Fixed assets-Investment, other assets 1,012
Current liabilities-Other (5)	Current liabilities-Other —
Long-term liabilities-Deferred tax liabilities (23,277)	Long-term liabilities-Deferred tax liabilities (24,454)
2. The major reasons, 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, 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.
(%)	(%)
Statutory tax rate 36.1	Statutory tax rate 36.1
(Adjustments)	(Adjustments)
Expense accounts permanently not included as losses 0.3	Expense accounts permanently not included as losses 0.2
Dividends received and others permanently not included in profits (2.6)	Dividends received and others permanently not included in profits 0.5
Foreign taxes 23.1	Foreign taxes 16.8
Exploration tax exemptions (5.5)	Exploration tax exemptions (2.2)
Foreign tax credits (8.5)	Foreign tax credits (7.5)
Equity in earnings of affiliates (0.4)	Equity in earnings of affiliates (14.4)
Fluctuations in assessed reserves 0.8	Amortization of the consolidated adjustment account for the period 3.9
Tax rate differential between consolidated subsidiaries (3.1)	Fluctuations in assessed reserves 0.6
Others (0.6)	Tax rate differential between consolidated subsidiaries 1.9
Effective tax rate after application of tax effective accounting <u>39.6</u>	Others <u>0.6</u>
	Effective tax rate after application of tax effective accounting <u>36.5</u>

(Segment Information)

a. Segment Information by Type of Business

Previous 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 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)

- Business segments listed above are those used for internal control purposes.
- 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.
- Items related to the change in accounting method are contained in “(4) Accounting standards for the conversion of foreign currency-denominated assets and liabilities into Yen (changes in accounting treatment)”, and revenues and expenses of existing overseas subsidiaries have been converted at average exchange rates for the period from the consolidated fiscal year under review. As a result, compared to the previous accounting method, sales to outside customers for “Oil & Natural Gas Businesses” were ¥1,210 million lower, while operating income was ¥841 million lower, depreciation expenses were ¥2 million lower and capital expenditures were ¥1 million lower. Moreover, these changes had no impact on the segment information for “Other Businesses”.

Current consolidated fiscal year (from January 1, 2006 to March 31, 2006)

	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	27,392	325	27,718	—	27,718
(2) Intra segment sales and transfers	—	37	37	(37)	—
Total	27,392	363	27,755	(37)	27,718
Operating Expenses	18,002	354	18,356	(108)	18,247
Operating Income	9,390	9	9,399	71	9,470
II Assets, Depreciation, Impairment and Capital Expenditures					
Assets	302,914	6,979	309,893	(1,234)	308,659
Depreciation	2,189	3	2,192	(4)	2,187
Impairment losses	1,094	—	1,094	—	1,094
Capital expenditures	3,328	—	3,328	—	3,328

(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.
3. Items related to the change in accounting method are contained in “(2) depreciation methods for major depreciable assets” and “(3) standards for the recording of major reserves”. From the consolidated accounting period under review, amortization of exploration & development rights and allowances for exploration & development investment reserves have been recorded on other expenses. As a result, compared to the previous accounting method, operating income in “Oil & Natural Gas Businesses” is ¥1,613 million higher. Moreover, these changes had no impact on the segment information for “Other Businesses”

b. Segment Information by Geographical Area

Previous 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
 - (1) Africa..... The Democratic Republic of Congo, Arab Republic of Egypt, The People's Democratic Republic of Algeria, The Great Socialist People's Libyan Arab Jamahiriya
 - (2) Middle/South America.....Bolivarian Republic of Venezuela, Republic of Ecuador
 - (3) Other regions.....United States of America, Socialist Republic of Viet Nam
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, 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".

Current consolidated fiscal year (from January 1, 2006 to March 31, 2006)

	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	23,144	2,564	2,009	—	27,718	—	27,718
(2) Intra Segment Sales and Transfers	—	—	—	—	—	—	—
Total	23,144	2,564	2,009	—	27,718	—	27,718
Operating Expenses	16,027	447	1,811	—	18,286	(38)	18,247
Operating Income	7,117	2,116	198	—	9,431	38	9,470
II Assets	284,082	11,385	13,382	173	309,023	(364)	308,659

(Notes)

1. Countries and regions are grouped together according to geographical proximity.
2. Countries and regions are grouped together according to geographical proximity.
 - (1) Africa..... The Democratic Republic of Congo, Arab Republic of Egypt, The People's Democratic Republic of Algeria, The Great Socialist People's Libyan Arab Jamahiriya
 - (2) Middle/South America.....Bolivarian Republic of Venezuela, Republic of Ecuador
 - (3) Other regions.....United States of America, Socialist Republic of Viet Nam
3. Items related to the change in accounting method are contained in "(2) depreciation methods for major depreciable assets" "(3) standards for the recording of major reserves". From the consolidated accounting period under review, amortization of exploration & development rights and allowances for exploration & development investment reserves have been recorded on other expenses. As a result, compared to the previous accounting method, operating income for the "Africa" segment is ¥1,613 million higher. Moreover, the "Japan", "Middle/South America" and "Other Regions" segments have not been affected by these changes.

c. Overseas Sales

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

	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.
 - (1) North America.....United States of America
 - (2) Other Regions.....Middle/South America, Africa, Europe, Asia, Oceania
3. Overseas sales represent sales by the Company or its subsidiaries outside of Japan in other countries or regions.
4. 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.

Current consolidated fiscal year (from January 1, 2006 to March 31, 2006)

	North America	Other Regions	Total
I Overseas sales (¥ Mln)	2,655	2,120	4,775
II Total Consolidated Sales (¥ Mln)	—	—	27,718
III Percent of Overseas Sales to Total Consolidated Sales (%)	9.6	7.6	17.2

(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.....Middle/South America, Europe, Asia, Oceania
3. Overseas sales represent sales by the Company or its subsidiaries outside of Japan in other countries or regions.

(Transactions with Related Parties)

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

-There are no items to report

Current consolidated fiscal year (from January 1, 2006 to March 31, 2006)

-There are no items to report

(Per Share Information)

Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)		Fiscal Year to March 2006 (from January 1, 2006 to March 31, 2006)	
Book Value per Share	¥646.90	Book Value per Share	¥673.93
Net Income per Share	¥50.61	Net Income per Share	¥21.28
In addition, full diluted net income per share has not been recorded, as there is no potential dilution.		In addition, full diluted net income per share has not been recorded, as there is no potential dilution.	

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

	Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)	Fiscal Year to March 2006 (from January 1, 2006 to March 31, 2006)
Net income for the period (¥ Mln)	15,485	6,484
Amount not available to common shareholders (¥ Mln)	50	—
(of which earnings appropriation for directors' bonuses)	(50)	(—)
Amount available to common shareholders (¥ Mln)	15,435	6,484
Average outstanding shares during the period (Thousands of shares)	304,979	304,709

(Important Subsequent Events)

Previous Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(Establishment of a complete holding company) The Company and INPEX CORPORATION (hereafter, INPEX) on November 5, 2005 have jointly established INPEX Holdings Inc. (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.</p> <p>The following is a summary of this management integration.</p> <p>1. Aim of the Integration</p> <p>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.</p> <p>2. Details of the stock transfer</p> <p>(1) Type and number of shares to be issued with the transfer of stock to the joint holding company.</p> <p>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.</p> <p>In addition, the joint holding company will adopt the odd lot share system.</p> <p>(2) Allocation to the Company's and INPEX's shareholders</p> <p>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.</p> <p>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.</p> <p>② Holders of INPEX Corporation shares will receive one share for every one INPEX share held.</p>	<p>(Establishment of a complete holding company) In preparation for business integration, the Company and INPEX CORPORATION separately held extraordinary shareholders' meetings on January 31, 2006 to approve the integration, and jointly transferred stock into a new joint holding company called INPEX Holdings Inc. which was established on April 3, 2006.</p> <p>Overview of the Joint Holding Company</p> <p>(1) Registered name: Kokusai Sekiyu Kaihatsu Teiseki Holdings Co., Ltd. English name: INPEX Holdings Inc.</p> <p>(2) Headquarters Location: 4-1-18 Ebisu, Shibuya-ku, Tokyo</p> <p>(3) Representative Naoki Kuroda, President and Representative Director</p> <p>(4) Paid-In Capital: ¥30.0 billion</p> <p>(5) Major business activities To manage and oversee the businesses of the Group and subsidiary companies in the Group and related operations.</p> <p>(6) Date established April 3, 2006</p>

Previous Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>③ Holders of INPEX shell stocks will receive one share in the joint holding company for every shell-type stock held in INPEX.</p> <p>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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	

Previous Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(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).</p> <p>①The 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.</p> <p>②INPEX 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.</p> <p>(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).</p>	

Previous Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>3. Overview of the Joint Holding Company</p> <p>(1) Japanese name: Kokusai Sekiyu Kaihatsu Teiseki Holdings Co., Ltd. English name: INPEX Holdings Inc.</p> <p>(2) Business Operations: To manage and oversee the operations of umbrella companies.</p> <p>(3) Headquarters Location: 4-1-18 Ebisu, Shibuya-ku, Tokyo (where INPEX Corporation's offices are currently located).</p> <p>(4) Paid-In Capital: ¥30.0 billion</p> <p>(5) End of accounting year: March 31 of the following calendar year.</p> <p>4. Overview of INPEX Corporation</p> <p>(1) Major business lines: Oil, natural gas exploration, development, production, sales and investment in companies that are involved in these businesses.</p> <p>(2) Headquarters Location: 4-1-18 Ebisu, Shibuya-ku, Tokyo</p> <p>(3) Representative: Naoki Kuroda, President</p> <p>(4) Paid-in Capital: ¥29,460 million (as of March 31, 2005)</p> <p>(5) Total Outstanding Shares (as of March 31, 2005) Common stock: 1,919,832.75 shares Shell stock: 1 share</p> <p>(6) Total Assets: (Consolidated) ¥779,227 million (as of March 31, 2005)</p> <p>(7) End of Accounting Year March 31 of following calendar year</p> <p>(8) Total Sales (Consolidated) ¥478,586 million (from April 1, 2004 to March 31, 2005)</p> <p>(9) Net Income (Consolidated) ¥76,493 million (from April 1, 2004 to March 31, 2005)</p>	

Previous Fiscal Year (from January 1, 2005 to December 31, 2005)	Current Fiscal Year (from January 1, 2006 to March 31, 2006)
<p>(Retirement of Treasury Stock)</p> <p>The Company, as a result of the joint transfer of shares with INPEX that was approved at an extraordinary meeting of shareholders on January 31, 2006 to establish a complete parent company, the Company's board of directors at a meeting held on March 30, 2006 approved a resolution to retire treasury stock in accordance with Article 212 of the Commercial Code as follows.</p> <ol style="list-style-type: none"> 1. Method of Retirement: Reduction of capital surplus and retained earnings. 2. Type of stocks to be retired: Common stock 3. Number of stocks retired: 1,562,067 shares 4. Total value of stock retired: ¥1,164 million 5. Date retired: March 31, 2006 6. Outstanding shares after retirement: 304, 567,933 shares 	

4. Status of Production, Orders Received and Sales

(1) Production

Business Segment Name		Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)	Fiscal Year to March 2006 (from January 1, 2006 to March 31, 2006)
Oil and natural gas related businesses	Natural Gas	1,618 mm m ³	507 mm m ³
	Liquefied Petroleum Gas	4,288 t	1,328 t
	Crude Oil	4,986 thou bbl	1,123 thou bbl
	Petroleum Products	249 thou kl	65 thou kl
	Iodine	526 t	138 t

(Notes)

1. Production excludes depletion and in-house consumption.
2. Production volumes for natural gas and oil 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 2005 (from January 1, 2005 to December 31, 2005)	Fiscal Year to March 2006 (from January 1, 2006 to March 31, 2006)
Other Businesses	Orders Received	¥ Mln 752	¥ Mln 313
	Order Backlog	471	378

(Notes)

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

(3) Sales

Business Segment Name		Fiscal Year to December 2005 (from January 1, 2005 to December 31, 2005)		Fiscal Year to March 2006 (from January 1, 2006 to March 31, 2006)	
		Volume	Value	Volume	Value
Oil and Natural Gas Businesses	Natural Gas	1,685 mm m ³	¥ Mln 38,004	545 mm m ³	¥ Mln 12,951
	Liquefied Petroleum Gas	23,843 t	2,280	3,055 t	235
	Crude Oil	3,779 thou bbl	17,702	700 thou bbl	3,995
	Petroleum Products	621 thou kl	38,365	157 thou kl	9,867
	Iodine	542 t	818	116 t	202
	Others	—	1,234	—	140
	Subtotal	—	98,406	—	27,392
Other Businesses	—	2,310	—	325	
Total		—	100,716	—	27,718

(Notes)

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