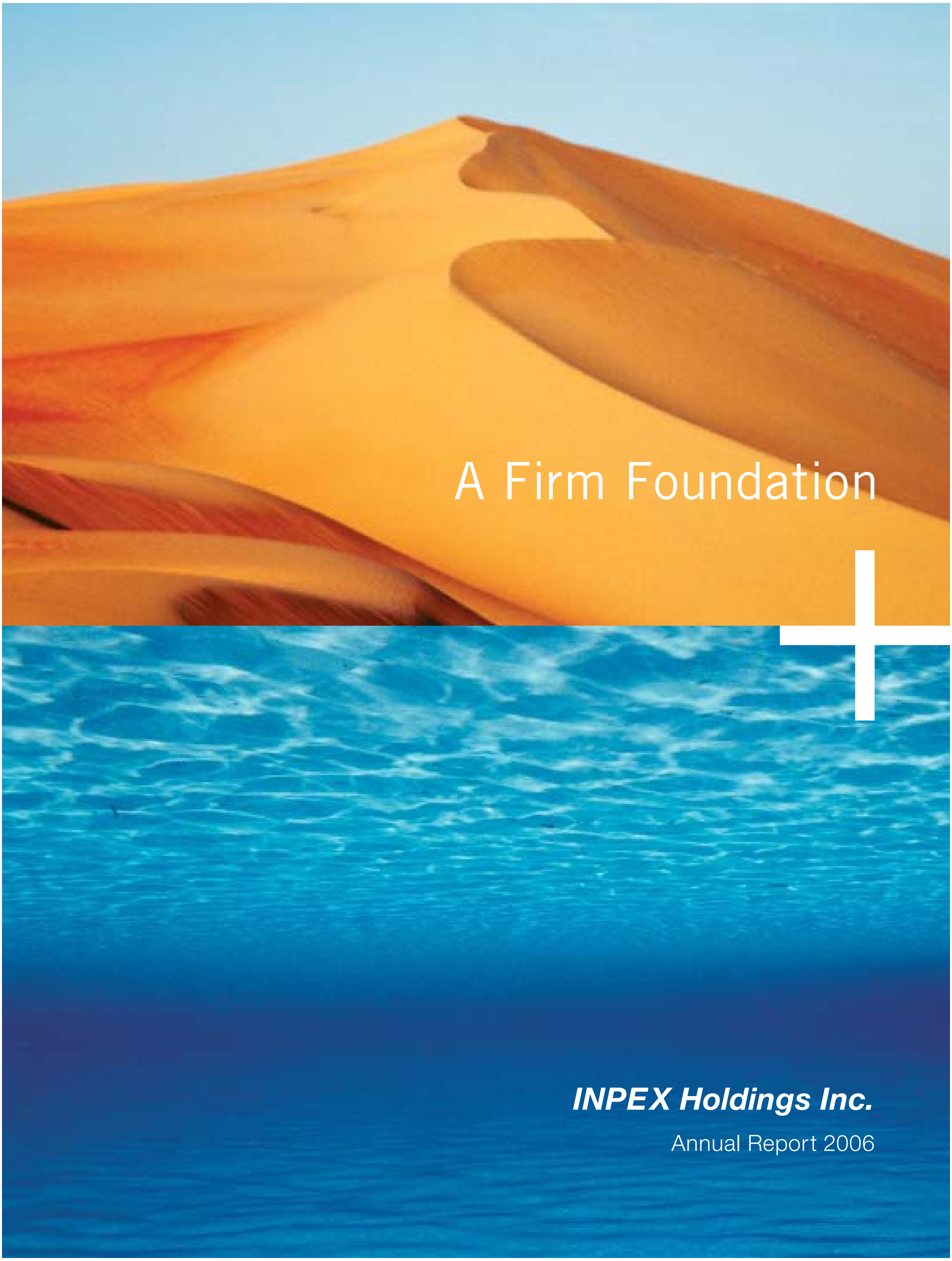


A Firm Foundation

INPEX Holdings Inc.

Annual Report 2006

INPEX CORPORATION and Teikoku Oil Co., Ltd. made a new start as INPEX Holdings Inc. on April 3, 2006.

72 *projects in* **24** *countries*

Proved Reserves

1,775 *MMBOE*

Contents

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking information that reflects the Company's plans and expectations. Such forward-looking information is based on the current assumptions and beliefs of the Company in light of the information currently available to it, and involves known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause the Company's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking information. Such risks and uncertainties include, without limitations, fluctuations in the following:

- the price of and demand for crude oil and natural gas;
- exchange rates; and
- the costs associated with exploration, development, production and other related expenses.

The Company undertakes no obligation to publicly update or revise any information in this annual report (including forward-looking information).

Compound Annual Growth Rate

5.5%

We are currently producing 380 Mboed*, and expect approximately 500 Mboed in the fiscal year ending March 31, 2011, with a high CAGR of 5.5%.

With business operations covering 72 projects in 24 countries, we boast a balanced portfolio in terms of activity area, type of contracts, operating stages and the proportion of crude oil to natural gas.

Reserve Replacement Ratio (RRR)

417%

With our success in exploration, development and asset acquisition, our three-year average RRR, indicating the increase of proved reserves, stood at a lofty 417%, an excellent result in comparison with other oil companies.

We have the largest proved reserves among Japanese companies, and our net probable reserves amount to 1,881 MMboe**, exceeding our net proved reserves. The reserve-production ratio for the proved reserves equates to 12.8 years, or 26.4 years when adding probable reserves. From this, we expect steady increases of production volume and proved reserves over the medium- to long-term.

* Mboed:thousands of barrels of oil equivalent per day
** MMboe:millions of barrels of oil equivalent

Profile

INPEX CORPORATION is a leading Japanese E&P company, the largest in Japan in terms of production and reserve volume. Since its establishment in 1966, INPEX CORPORATION has been steadily developing business overseas for 40 years. Consequently, it possesses highly profitable oil and gas assets in Indonesia, Oceania, the Caspian Sea and the Middle East, and has made considerable achievements on par with mid-size international oil companies.

INPEX CORPORATION

+

TEIKOKU OIL

Teikoku Oil Co., Ltd. is a Japanese pioneer of E&P, having been involved in energy resource development at home and overseas for 65 years since its foundation in 1941. Teikoku Oil supplies natural gas from its Minami-Nagaoka Gas Field, which has Japan's largest gas reserves, through its gas pipeline network to the vast natural gas market of the Kanto region surrounding the Tokyo metropolitan area. Overseas, Teikoku Oil has been successful in the development of oil and gas fields in Latin America and Africa.

Financial Highlights

INPEX CORPORATION

INPEX CORPORATION and Subsidiaries
For the fiscal years ended March 31, 2003, 2004, 2005 and 2006

	Millions of yen				Thousands of U.S. dollars [3]
Years ended March 31,	2003	2004	2005	**2006**	**2006**
Net sales	¥ 201,533	¥218,831	¥478,587	**¥704,235**	**$5,995,020**
Operating income	97,270	93,876	268,663	**426,651**	**3,632,000**
Net income	27,912	34,782	76,494	**103,477**	**880,880**
Cash flows from operating activities	51,282	44,464	131,207	**218,240**	**1,857,836**
Total assets (at period end)	338,747	525,298	779,228	**972,438**	**8,278,182**
Long-term debt (at period end)	46,865	169,307	175,604	**206,537**	**1,758,211**
Net debt (at period end)[1]	(109,691)	42,297	(52,482)	**(89,097)**	**(758,466)**
Shareholders' equity (at period end)	253,570	278,114	411,296	**504,998**	**4,298,953**
	Yen				U.S. dollars
Net income per share	¥47,178.51	¥58,838.76	¥40,255.92	**¥53,814.47**	**$ 458.11**
Net income per share [2]	15,726.17	19,612.92	—	—	—
Cash dividends per share	10,000	10,000	4,000	**5,500**	**46.82**
Cash dividends per share [2]	3,333	3,333	—	—	—

Teikoku Oil Co., Ltd.

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended December 31, 2002, 2003, 2004 and 2005

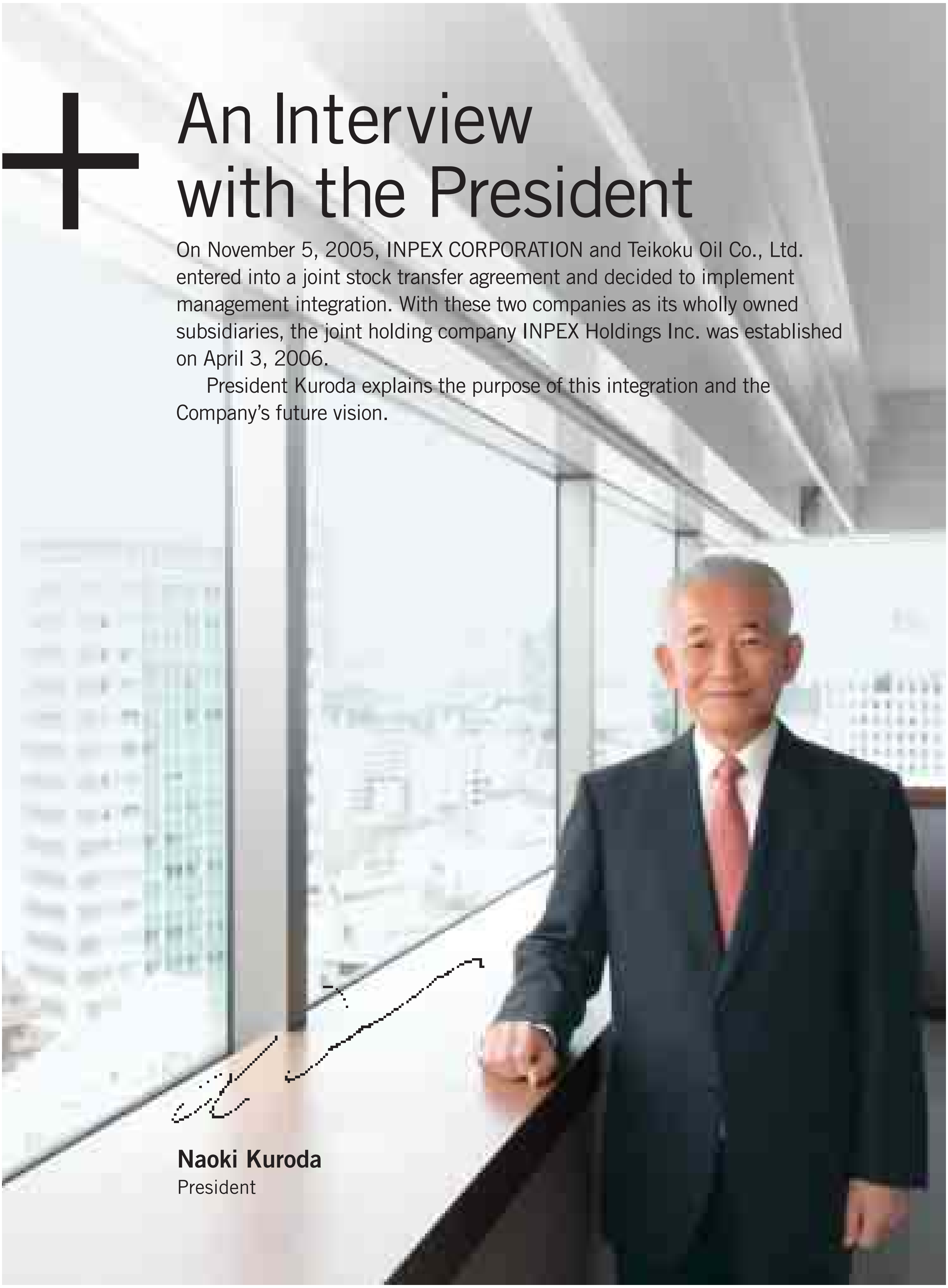
	Millions of yen				Thousands of U.S. dollars [4]
Years ended December 31,	2002	2003	2004	**2005**	**2005**
Net sales	¥ 73,630	¥ 78,498	¥ 84,032	**¥100,716**	**$ 853,525**
Operating income	7,296	8,739	13,533	**21,077**	**178,619**
Net income	5,233	6,796	9,276	**15,485**	**131,229**
Cash flows from operating activities	15,004	19,955	19,225	**15,118**	**128,119**
Total assets (at period end)	203,986	226,280	240,513	**293,767**	**2,489,551**
Long-term debt (at period end)	21,002	17,154	13,529	**23,847**	**202,093**
Net debt (at period end)	(3,122)	(8,267)	(8,828)	**(2,019)**	**(17,110)**
Shareholders' equity (at period end)	135,911	156,463	165,936	**197,216**	**1,671,322**
	Yen				U.S. dollars
Net income per share	¥ 17.11	¥ 22.09	¥ 30.22	**¥ 50.61**	**$ 0.43**
Cash dividends per share	6.0	6.0	7.5	**9.0**	**0.08**

Notes: (1) Net debt = Interest-bearing debt – Cash and cash equivalents – Restricted cash – Other debt securities with determinable market value.
(2) We made a three-for-one stock split of our common stock effective May 18, 2004. The figures are the amounts after the stock split.
(3) The translation of yen amounts into U.S. dollar amounts have been made at the rate of ¥117.47 = U.S.$1.00, the approximate exchange rate on March 31, 2006.
(4) The translation of yen amounts into U.S. dollar amounts have been made at the rate of ¥118 = U.S.$1.00, the approximate exchange rate on December 31, 2005.

An Interview with the President

On November 5, 2005, INPEX CORPORATION and Teikoku Oil Co., Ltd. entered into a joint stock transfer agreement and decided to implement management integration. With these two companies as its wholly owned subsidiaries, the joint holding company INPEX Holdings Inc. was established on April 3, 2006.

President Kuroda explains the purpose of this integration and the Company's future vision.



Naoki Kuroda
President

+Q +A

Please tell us about the background of the business integration between INPEX CORPORATION and Teikoku Oil Co., Ltd.

Against the backdrop of global economic growth led by the United States and China, demand for oil and natural gas has been rapidly increasing in recent years. On the other hand, prices of oil and natural gas are hovering at high levels, reflecting the historical restraint of development investment and the unstable situation in the Middle East. While competition for acquiring resources has become more intense than ever, countries such as China and India are striving to secure upstream assets in the Middle East, Africa and Latin America, and major oil companies are strengthening competitiveness through mergers and acquisitions.

As both INPEX CORPORATION and Teikoku Oil target enhanced corporate value through acquisitions of overseas upstream assets, the immediate establishment of an operational foundation with global competitiveness is crucial in order to ensure sustainable growth in such a competitive global environment. Based on this recognition, INPEX CORPORATION and Teikoku Oil decided to integrate the two companies in order to build a firm position in the global market, by establishing a diversified asset portfolio, reinforcing a solid financial base, concentrating technological capabilities for resource development, and acquiring interests in promising projects.

+Q +A

Please tell us about the expected effects of this integration.

We expect three effects from this business integration. First, our asset portfolio will become more balanced as there is no overlap between the portfolios of INPEX CORPORATION and Teikoku Oil. INPEX CORPORATION has operated primarily in Asia and Oceania, the Middle East and Caspian Sea regions, while Teikoku Oil has developed its business mainly in Japan, Latin America and Africa. Therefore, the upstream assets of each company are highly complementary, and will bring expansion in operating areas and diversify country risk and foreign exchange risk. In addition, the integration will lead to reduction in business risks by a diversified combination of projects with differing risk profiles such as exploration, development and service operations.

The second effect is a strengthened presence as a global company. The combined total oil and gas reserves of the two companies totaled 1,775 million barrels of oil equivalent in proved reserves as of March 31, 2006. Net production volume, which is our net economic take, was approximately 380 thousand barrels of oil equivalent per day. We will be the only company in Japan that can rival mid-size international oil companies in terms of reserves and production volume.

Finally, we expect to enhance our capability and management know-how as an operator. We believe that we will greatly expand technical and operational capabilities for projects as an upstream company by managing domestic and overseas operator projects, as well as integrating advanced, practical technical capabilities with ample experience in evaluating and acquiring promising overseas assets. As a result of integration, the new company will have a technical staff of 700. In addition, we will have the advantage of effectively utilizing and strengthening such operator capabilities and know-how as well as the technical research center to support operating activities. The expanded operator capabilities will be a stronger driving force for implementing our large-scale projects such as Ichthys in Australia and Abadi in Indonesia.

+Q

Based on these effects from integration, what are the management goals in the medium term?

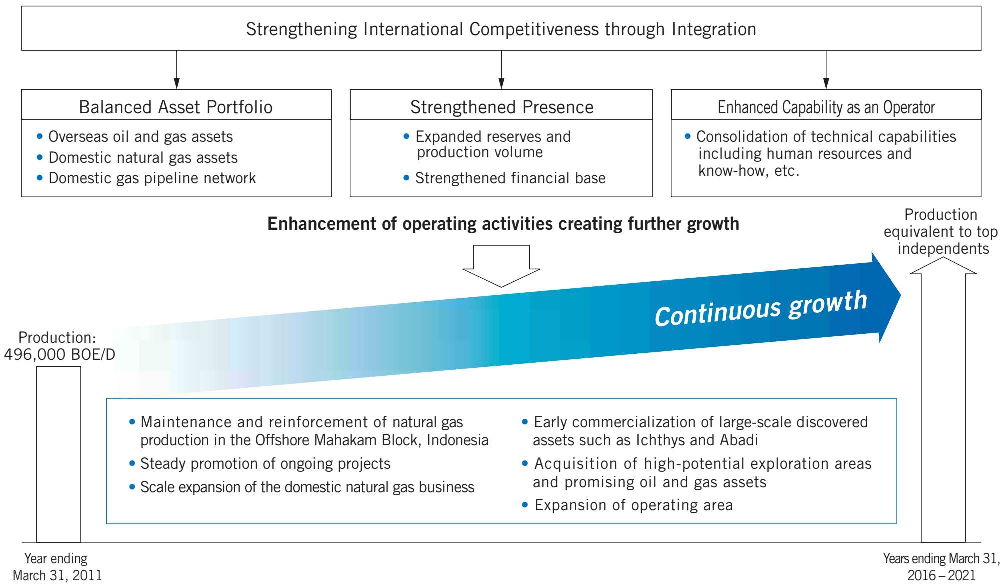
+A

The basic strategy for our business is to secure oil and gas reserves to assure stable income and sustainable growth of corporate value through development, production and sales activities.

Considering that reserves decline as we produce oil and gas, it is indispensable to make new discoveries by exploration activities or to acquire additional reserves by asset purchases in the medium and long terms. We need to aggressively develop business to acquire promising opportunities for assuring working interests for exploration, development and production in highly potential oil and gas fields.

Through this business integration, we will become a leading Japanese oil company that can be favorably compared to global oil companies around the world in terms of a balanced asset portfolio, a strong presence as a powerful global company, and high technical capabilities and management know-how as an operator.

Taking full advantage of this integration, we will strive for early commercial production from discovered large-scale oil and gas fields by enhanced investment for aggressive acquisition of promising oil and gas fields. Through these measures, we are aiming to boost our production volume to the level of a top global independent oil company by the late 2010s. We will make every effort to develop our business in pursuit of further enhancement of corporate value in the medium and long terms.



+Q

The Ichthys Project in Australia is drawing attention as a Japanese company-operated large-scale gas field development project. Please tell us the project outline and its development plan.

+A

In 1998, we won an open bid for and acquired a working interest in the WA-285-P, approximately 200 kilometers offshore of Western Australia. Pursuing exploration activities as an operator, we discovered an exceptionally promising gas and condensate structure, and named it “Ichthys.”

A total of six exploration wells have been drilled in this field, and all have resulted in the discovery of natural gas and condensate. In view of this, we anticipate ample reserves to realize a large-scale development project. We plan to process the natural gas produced in this field and sell it as liquefied natural gas (LNG). Initial LNG production is scheduled to be approximately six million tons annually. In addition to LNG production, approximately 100,000 barrels per day of condensate and LPG will be produced at the peak rate.

We are vigorously engaging in development studies such as engineering work, field date collections, environmental impact assessment, as well as marketing activities in an effort to commence production from mid 2012. In August 2006, we agreed to transfer a portion of our interest in this project to TOTAL, a French oil company. With development technologies and expertise from taking part in a number of LNG projects worldwide, the participation of TOTAL is considered to be a major contribution to the development of Ichthys and the stable production and supply of LNG. This is a first milestone project conducted by a Japanese business enterprise from the development of gas field through production and sale of LNG as an operator. We will make maximum utilization of our enhanced capability as an operator and promote this large-scale LNG project.

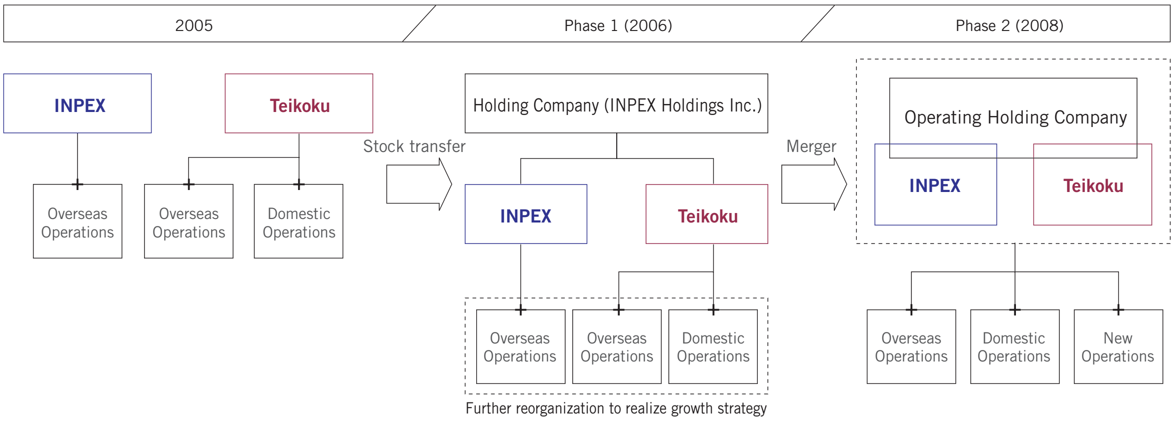
+Q

Please tell us about the process and schedule for the two companies to complete integration.

+A

The management integration schedule is based on the terms of agreement reached in November 2005. The two companies gained approval from their shareholders at extraordinary shareholders' meetings held on January 31, 2006. To this end, the two companies proceeded with the establishment of a joint-holding company as the first phase, and will implement the second phase of fully integrating management under the operating holding company.

The first phase was completed in April 2006 with the establishment of a joint-holding company, INPEX Holdings Inc., through a stock transfer.



One share of the joint-holding company's common shares were allotted in exchange for one share of INPEX CORPORATION's common shares, and 0.00144 of a share was allotted in exchange for one share of Teikoku Oil's common shares. Both INPEX CORPORATION and Teikoku Oil were delisted on March 28, 2006, and the joint-holding company was listed on the First Section of the Tokyo Stock Exchange on April 3, 2006.

At the present stage, the two companies remain independent, but linked by 100% investments from the joint-holding company. Nevertheless, we are facilitating mutual understanding and intelligence sharing on both managerial and working levels through management and technical committees. Furthermore, we are taking initiatives to harmonize the two companies' basic management policies and enhance management power to increase the new holding company's corporate value by capitalizing on the two companies' strengths. We are continuing with measures to take full advantage of the integration by streamlining organization, personnel exchanges, adjustment and planning of strategies in an effort to complete the second phase of the integration in two years. At that stage, the joint-holding company will become an operating holding company, making the two companies completely integrated.

+Q

What message do you have for shareholders?

+A

The INPEX Holdings Group aims to become a comprehensive energy company that can contribute to the development of the Japanese economy and the creation of an affluent society through the stable and efficient supply of core energy. Together with this, we will strive for the assurance of reliable earnings in the medium and long terms, and sustainable growth of corporate value through the prompt realization of business integration and steady implementation of each project.

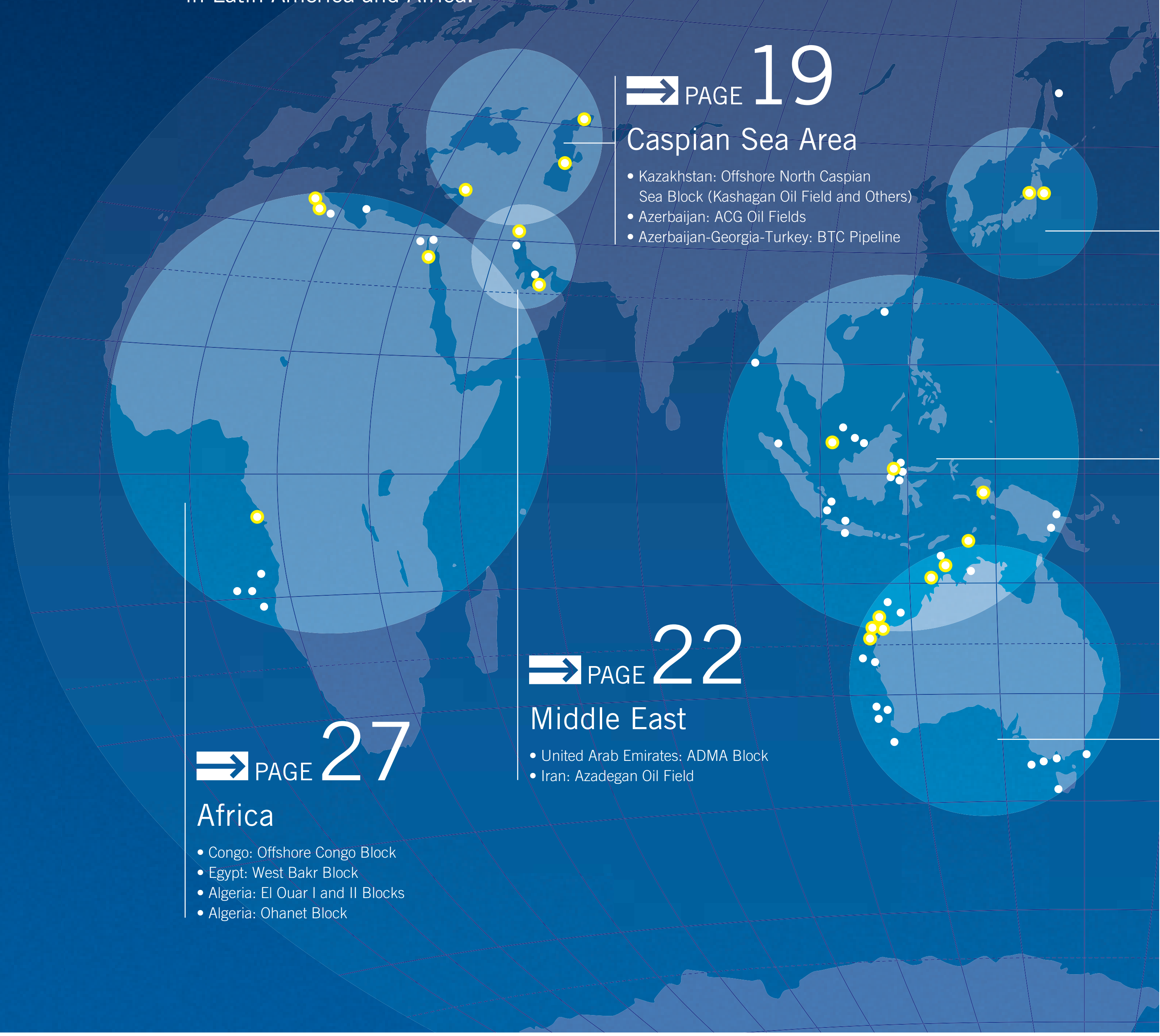
Moreover, in order to promote corporate social responsibility, we will continue to improve our corporate governance and compliance structures, taking all possible measures to ensure safety and security on the operational front, and give due consideration to the harmonious coexistence with the environment and local communities.

We sincerely ask for your continuing support and understanding of the new Group's endeavors.

Worldwide Exploration & Production Activities

Having no overlapping operating areas, the operations of INPEX CORPORATION and Teikoku Oil Co., Ltd. are highly complementary.

INPEX CORPORATION possesses promising large-scale projects primarily in Asia and Oceania, the Middle East and the Caspian Sea regions, while Teikoku Oil undertakes stable business domestically as well as high-potential overseas operations in Latin America and Africa.



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Caspian Sea Area

- Kazakhstan: Offshore North Caspian Sea Block (Kashagan Oil Field and Others)
- Azerbaijan: ACG Oil Fields
- Azerbaijan-Georgia-Turkey: BTC Pipeline

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Middle East

- United Arab Emirates: ADMA Block
- Iran: Azadegan Oil Field

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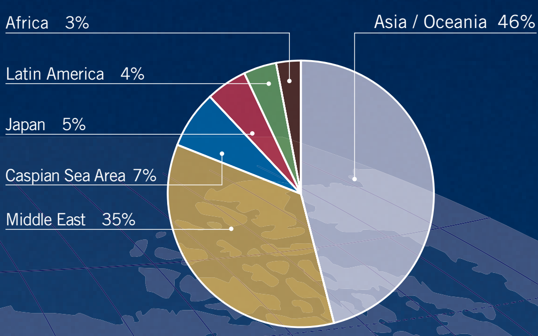
Africa

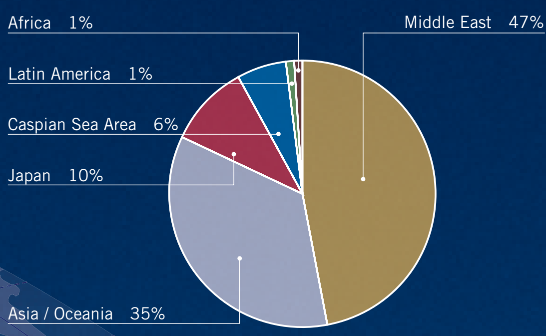
- Congo: Offshore Congo Block
- Egypt: West Bakr Block
- Algeria: El Ouar I and II Blocks
- Algeria: Ohanet Block

Net Production



Total: 380 Mboed

Proved Reserves



Total: 1,775 MMboe

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Japan

- Minami-Nagaoka Gas Field and Others

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Indonesia

- Offshore Mahakam Block and Attaka Unit
- South Natuna Sea Block B
- Masela Block (Abadi)
- Berau Block, Tangguh LNG Project

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Australia & JPDA

- Australia: WA-10-L and Others
- Australia: WA-285-P (Ichthys)
- JPDA03-12, Bayu-Undan Project

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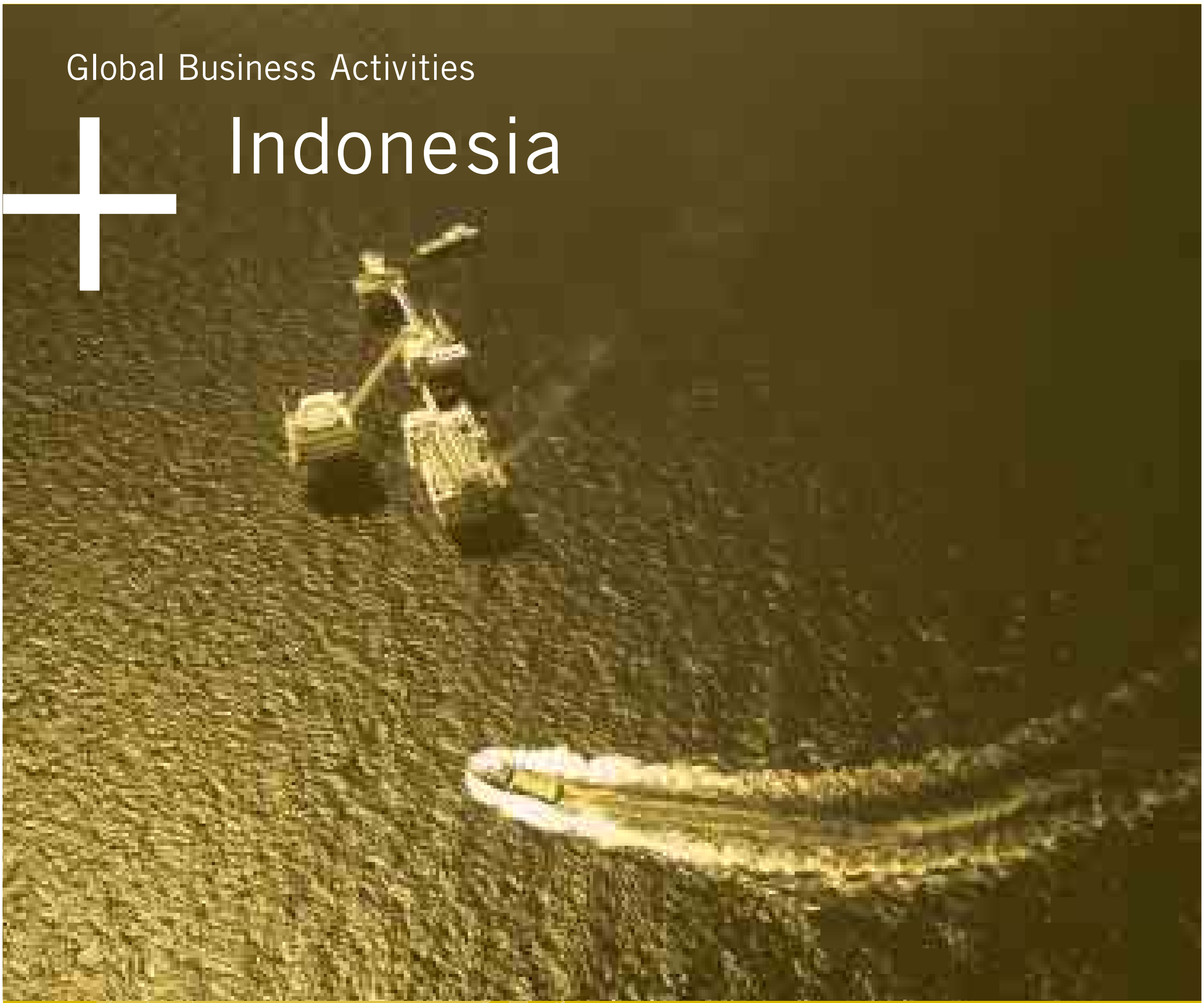
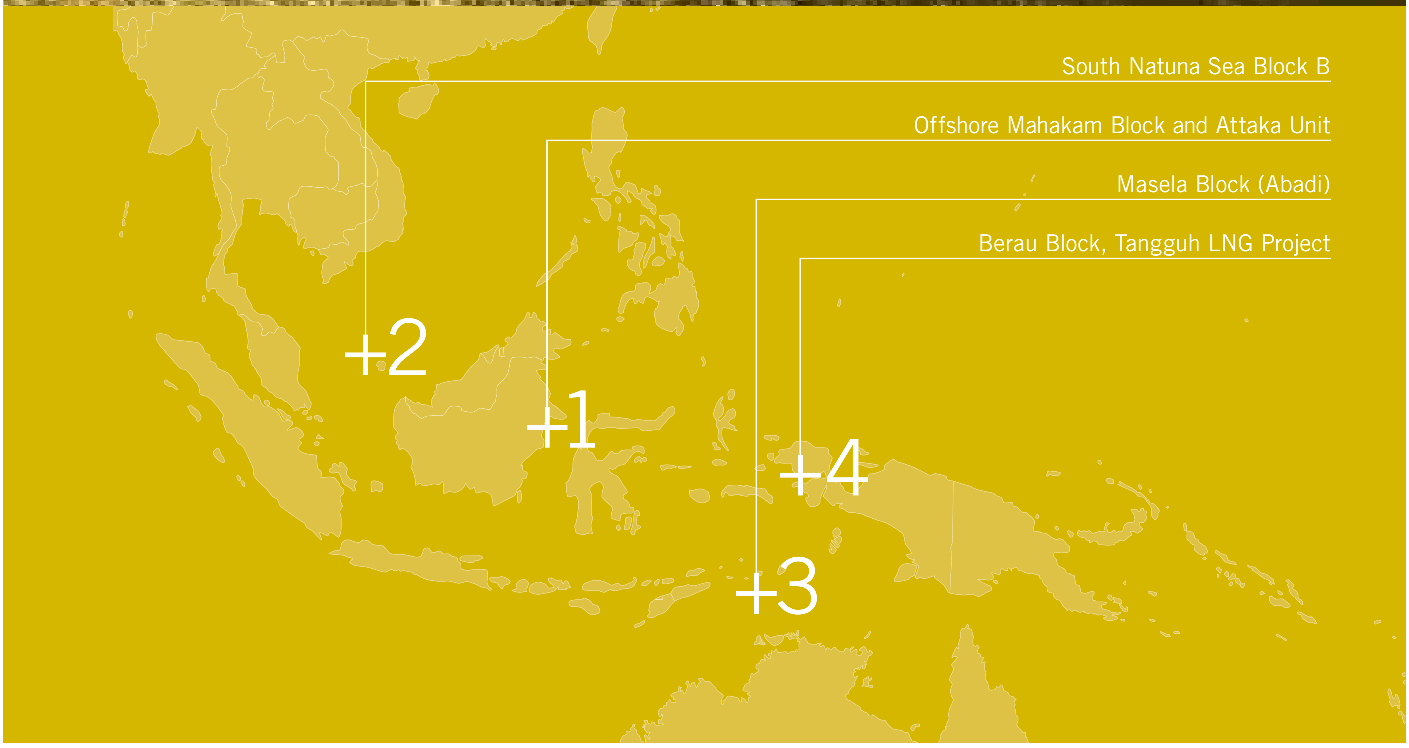
Latin America

- Venezuela: East Guarico Unit and Sanvi-Guere Unit
- Brazil: Frade Block
- Mexico: Cuervito Block and Fronterizo Block

Global Business Activities

Indonesia

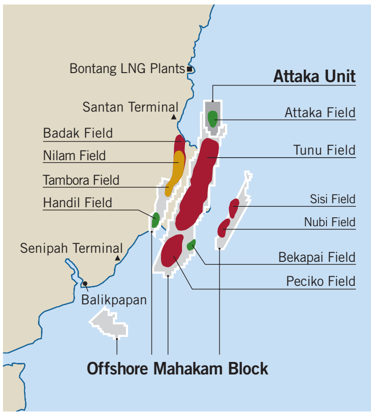




+1 Offshore Mahakam Block and Attaka Unit

Contract Area	Venture Company (est.)	Interest Owned
Offshore Mahakam	INPEX CORPORATION (February 21, 1966)	INPEX CORPORATION 50% *TOTAL 50%
Attaka Unit		INPEX CORPORATION 50% *Chevron 50%

*Operator



Gas field
Oil field
Oil and Gas field

In October 1966, INPEX CORPORATION entered into a production sharing contract (PSC) with the Indonesian government and acquired a 100% working interest in the Offshore Mahakam Block. The Attaka Unit was established in April 1970, with Unocal (now Chevron) holding an equal interest of 50%. Soon after this, the Attaka Field was discovered and the production of crude oil and natural gas commenced in 1972. INPEX farmed out 50% of its working interest in the Offshore Mahakam Block to TOTAL in July 1970. This venture resulted in the successive discoveries of the Bekapai, Handil, Tambora, Tunu and Peciko Fields, all of which continue to produce crude oil and natural gas.

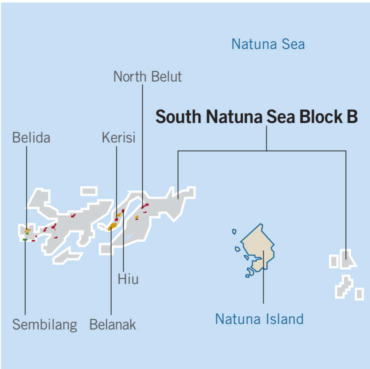
Once produced, crude oil and condensate are shipped by tanker from the Santan and Senipah terminals mainly to petroleum refineries and power companies in Japan. Natural gas is mainly transported to the Bontang LNG Plants, one of the largest facilities of its kind in the world, and shipped to Japan and other countries.

The PSC was extended 20 years through 2017, making the Mahakam Block continue to play as the profit center for the Group's business.

+2 South Natuna Sea Block B

Contract Area	Venture Company (est.)	Interest Owned
South Natuna Sea Block B	INPEX Natuna, Ltd. (September 1, 1978)	INPEX Natuna 35% *ConocoPhillips 40% Chevron 25%

*Operator



Gas field
Oil field
Oil and Gas field

In July 1977, INPEX CORPORATION acquired 17.5% working interest in the South Natuna Sea Block B, which includes the discovered Udang Oil Field. In January 1994, INPEX acquired additional interest in the Block for a total of 35%.

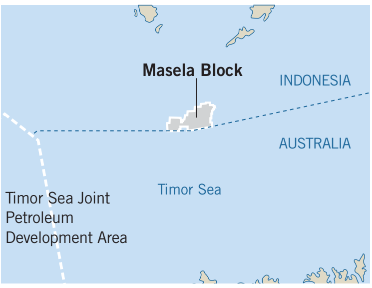
Subsequent to INPEX participation, several new fields were discovered in Block B, including the Hiu, Ikan Pari, North Belut, Belida, Sembilang, and Kerisi Fields, contributing to crude oil production that has continued since 1979. In January 1999, a sales agreement was concluded to deliver gas to Singapore from Block B, the neighboring Natuna Sea Block A and Kakap Block, through the first Indonesian subsea pipeline connecting foreign markets. This pipeline commenced supply in 2001, and the following year saw new gas sales to Malaysia from Block B. Owing to these achievements, the PSC for Block B was extended through 2028.

In December 2004, crude oil and condensate production began at the Belanak Field through a floating production, storage and offloading system (FPSO), one of the largest vessels in the world. INPEX continues to engage in preliminary work including marketing to prepare for LPG production. In addition, INPEX is scheduled to commence production from the Hiu Field in 2006, the Kerisi Field in 2007, and the North Belut Field in 2009.

+3 Masela Block (Abadi)

Contract Area	Venture Company (est.)	Interest Owned
Masela	INPEX Masela,Ltd. (December 2, 1998)	*INPEX Masela 100%

*Operator



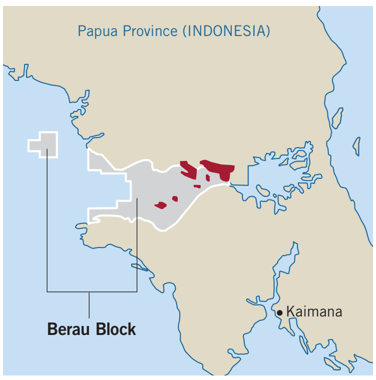
In November 1998, INPEX CORPORATION won an open bid for and acquired a 100% working interest in the Masela Block. Pursuing exploration activities as an operator, INPEX discovered the large-scale gas structure, Abadi, by the first exploration well drilled in the Block in 2000. This represented the first discovery of natural gas in the Indonesian Timor Sea. Subsequently, two appraisal wells drilled in 2002 confirmed the expanse of the Abadi structure, further raising expectations for a substantial volume of gas and condensate reserves.

INPEX will evaluate the reserves by drilling four additional appraisal wells from the end of 2006. Simultaneously, INPEX is devoting itself to development studies for future commercialization by producing LNG as well as new technologies including GTL (gas to liquid) and DME (dimethyl ether, equivalent to LPG).

+4 Berau Block, Tangguh LNG Project

Contract Area	Venture Company (est.)	Interest Owned
Berau	MI Berau B.V. (August 14, 2001)	MI Berau B.V. 22.856% *BP 48% Nippon Oil Exploration (Berau) 17.144% KG Breau 12.0%
Tangguh Unit		MI Berau 16.3% *BP 37.16% CNOOC 16.96% Nippon Oil Exploration (Berau) 12.23% KG Berau 10.00% LNG Japan 7.35%

*Operator

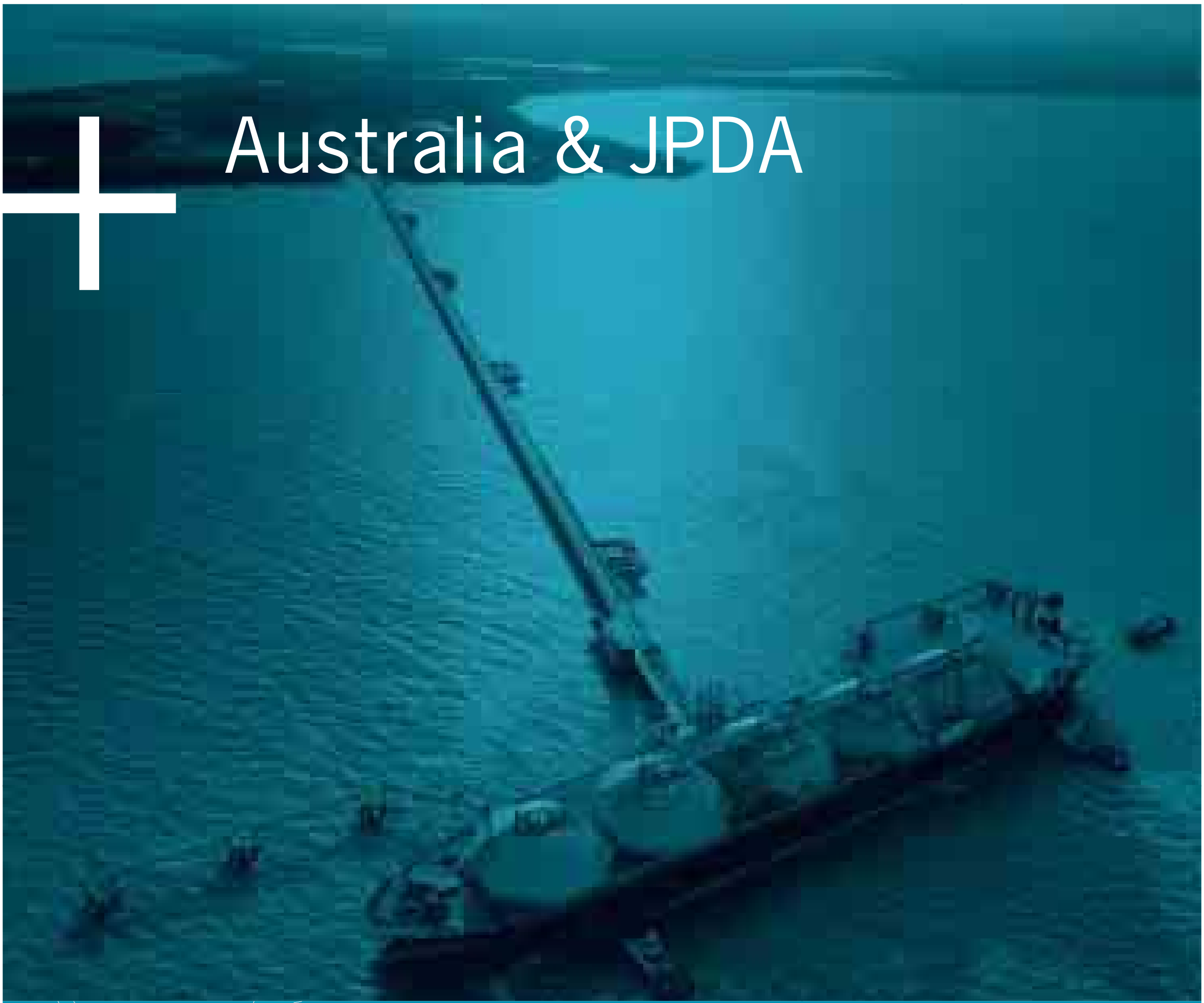


■ Gas field

In October 2001, MI Berau B.V., a joint venture established by INPEX CORPORATION and Mitsubishi Corporation, acquired approximately 22.9% interest in the Berau Block, a hub in the Tangguh LNG Project. MI Berau holds a 16.3% working interest in the Tangguh Unit, an unitized area between the Berau Block, the adjoining Wiriagar Block and the Muturi Block.

Long-term sales agreements have been concluded, stipulating a total supply of 7.6 million tons of LNG to China, South Korea and North America annually. In March 2005, the Indonesian government approved the development plan for the Tangguh LNG Project and extension of the PSC through 2035. Partners of the Project are preparing for the drilling of production wells and constructing LNG plants with production to come on stream at the end of 2008.

Australia & JPDA



+1 WA-10-L and Others

Contract Area	Venture Company (est.)	Interest Owned
WA-10-L	INPEX Alpha, Ltd. (February 17, 1989)	INPEX Alpha 20% *BHPBP 45% ExxonMobil 35%
WA-155-P (Part 1)		INPEX Alpha 28.5% *BHPBP 39.999% Apache 31.501%
WA-155-P (Part 2)		INPEX Alpha 18.67% *Apache 81.33%
WA-12-L (Deep)		INPEX Alpha 18.67% *ExxonMobil 81.33%

*Operator

Oil field

In February 1989, INPEX CORPORATION acquired a 20% working interest in the WA-210-P in offshore Western Australia. As a result of subsequent exploration activities, the Griffin fields were discovered and a production license for four blocks in WA-10-L was granted by the Australian government. Commercial production from these blocks commenced in January 1994. The produced crude oil is processed and stored at the Griffin Venture, an FPSO vessel, and then shipped for sale.

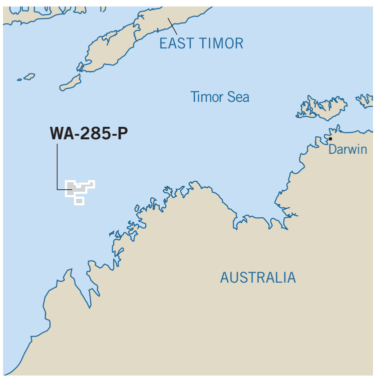
Natural gas is also processed at the Griffin Venture, and is transported for sale through a 70-kilometer subsea pipeline connecting to the onshore trunk pipeline.

In the surrounding area of WA-10-L, INPEX acquired working interests in the WA-155-P (Part II) and WA-12-L (deep) in July 1994, and in the WA-155-P (Part I) in July 1999. The Van Gogh-Vincent and Ravensworth Fields were discovered in the WA-155-P (Part I), and accordingly, feasibility studies for commercial development are currently under way.

+2 WA-285-P (Ichthys)

Contract Area	Venture Company (est.)	Interest Owned
WA-285-P	INPEX Browse, Ltd. (September 1, 1998)	*INPEX Browse 76% TOTAL 24%

*Operator



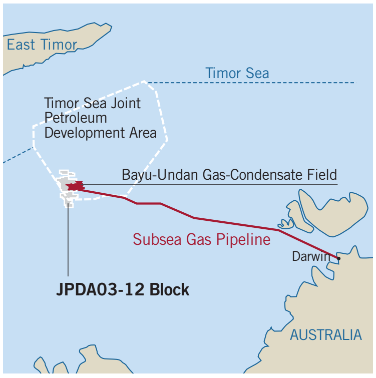
After winning the open bid in August 1998, INPEX CORPORATION acquired a working interest in the WA-285-P in offshore Western Australia. Pursuing exploration activities as an operator, INPEX discovered the highly promising gas and condensate field, Ichthys, in 2000. All six exploratory wells that have successfully discovered natural gas and condensate have demonstrated sufficient reserves for a large-scale gas and condensate project.

INPEX is vigorously engaging in feasibility studies including engineering works, field data collection and environmental impact assessment, as well as gas marketing for commercial production of LNG. As an initial stage, INPEX plans to produce and sell six million tons of LNG per year from mid 2012. In addition to LNG, 100,000 barrels per day of condensate and LPG will be produced at the peak rate.

+3 JPDA03-12, Bayu-Undan Project

Contract Area	Venture Company (est.)	Interest Owned
JPDA03-12	INPEX Sahul, Ltd. (March 30, 1993)	INPEX Sahul 19.0712244% *ConocoPhillips 46.7144238% Santos 19.2663518% Petroz 14.948%
Bayu-Undan Unit		INPEX Sahul 10.527682% *ConocoPhillips 48.466865% Eni 12.038906% Santos 10.635396% Tokyo Timor Sea Resources (Tokyo Electric/Tokyo Gas) 10.079568% Petroz 8.251583%

*Operator



Gas field

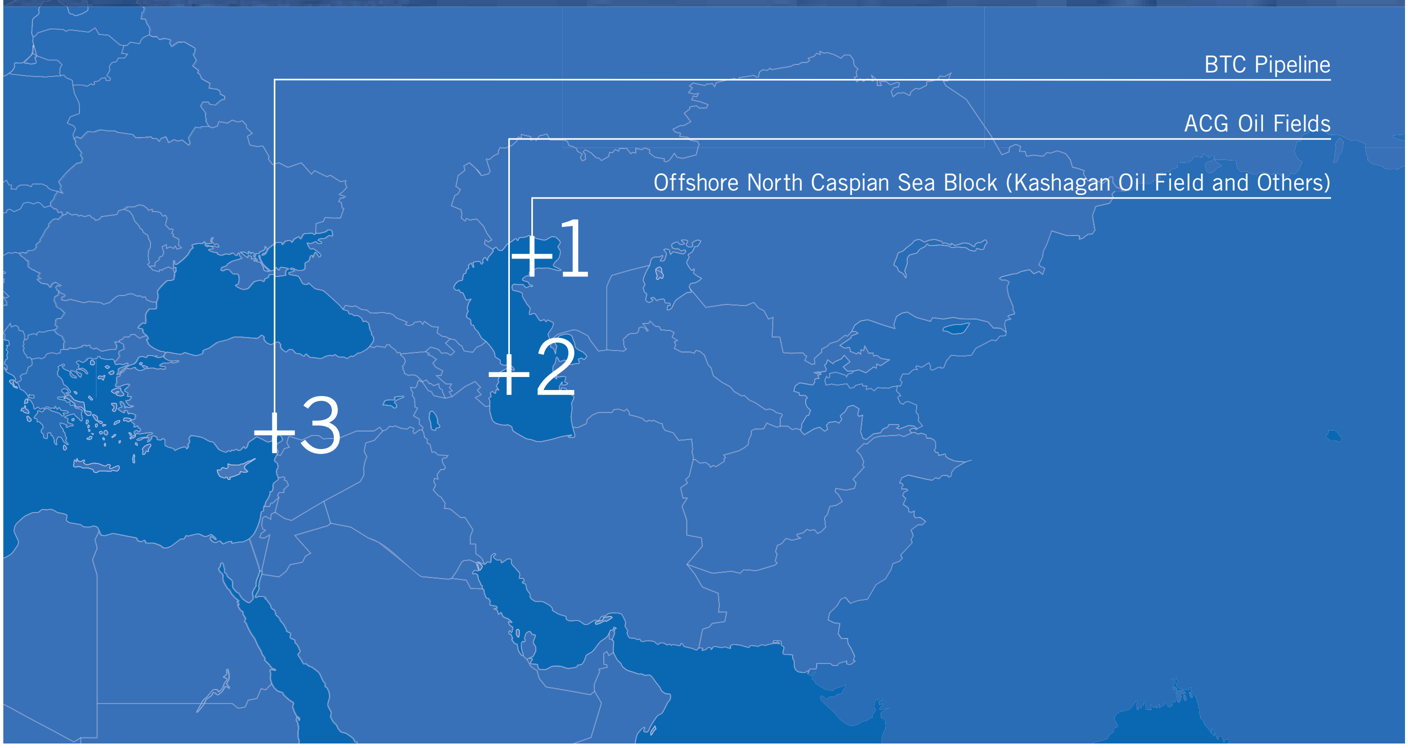
In April 1993, INPEX CORPORATION acquired a working interest in the JPDA03-12, located in the Timor Sea Joint Petroleum Development Area (JPDA).

The exploration in the contract area resulted in the discovery of oil and gas in the Elang, Kakatua, Kakatua North, Bayu-Undan and Hingkip structures. Production began in Elang in July 1999 and in Kakatua and Kakatua North in the following month.

In 1999, the Bayu-Undan Unit was established between JPDA03-12 and JPDA03-13 for the purpose of carrying out the development and production of the Bayu-Undan gas-condensate field, which straddles both contract areas.

In the Bayu-Undan Project, production of condensate and LPG commenced in 2004. As for natural gas production, LNG sales agreements stipulating a total supply of three million tons annually were concluded with Tokyo Electric Power Co., Inc. and Tokyo Gas Co., Ltd. in August 2005, and commercial production of LNG commenced from February 2006.

Caspian Sea Area



+1 Offshore North Caspian Sea Block (Kashagan Oil Field and Others)

Contract Area	Venture Company (est.)	Interest Owned
Offshore North Caspian Sea	INPEX North Caspian Sea, Ltd. (August 6, 1998)	INPEX North Caspian Sea 8.33% *Eni 18.52% ExxonMobil 18.52% Shell 18.52% TOTAL 18.52% ConocoPhillips 9.26% KMG 8.33%

*Operator

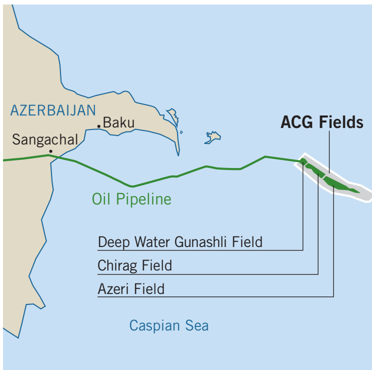
In September 1998, INPEX CORPORATION acquired a working interest of approximately 7.14% in the Offshore North Caspian Sea Block in the territorial waters of the Republic of Kazakhstan. In September 2001, INPEX acquired additional working interests, totaling approximately 8.33%.

The Kashagan Oil Field was discovered by the first exploration well drilled in September 1999, representing the first discovery in the Kazakhstan-controlled area of the Caspian Sea. The Kashagan Oil Field is considered to have great potential to be one of the leading super giant oil fields in the history of global oil field discoveries. The first phase of the development is currently under way with production to come on stream at the end of 2008, and the production level is expected to plateau at 1.2 million barrels per day in 2016. In addition to the Kashagan Oil Field, hydrocarbon reserves were confirmed in four other structures: the Kalamkas, Kashagan Southwest, Aktote, and Kairan. INPEX aims to increase production volume from the Offshore North Caspian Sea Block through appraisal work for these discovered and undeveloped structures along with the development of the Kashagan Oil Field.

+2 ACG Oil Fields

Contract Area	Venture Company (est.)	Interest Owned
ACG Oil Fields	INPEX Southwest Caspian Sea, Ltd. (January 29, 1999)	INPEX Southwest Caspian Sea 10% *BP 34.14% Chevron 10.28% SOCAR 10% Statoil 8.56% ExxonMobil 8% TPAO 6.75% Devon Energy 5.63% Itochu 3.92% Hess 2.72%

*Operator



■ Oil field

In April 2003, INPEX CORPORATION acquired a 10% working interest in the Azeri-Chirag-Gunashli Fields, known as the ACG Oil Fields, located in the South Caspian Sea area of the Republic of Azerbaijan. Crude oil production began in 1997 in the Chirag Field and the Central Azeri and West Azeri Fields commenced crude oil production in February and December 2005, respectively.

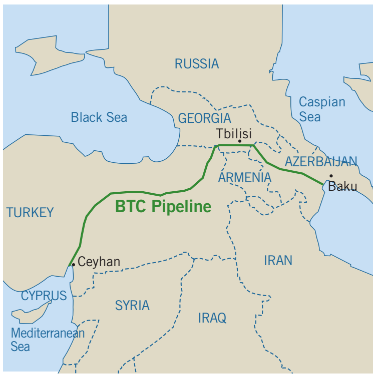
Currently, INPEX is engaged in development work at the East Azeri Field, with the aim of starting production in November 2006, as well as at the Deep Water Gunashli and West Chirag Fields, with the same goal for 2008. All together, the project is expected to increase production in stages, aiming to reach a peak production level of one million barrels per day in 2009.

The crude oil from these fields is being transported to Supsa on the Black Sea along a route running from Baku, Azerbaijan, as well as to Ceyhan, Turkey to the Mediterranean Sea via the mainstay BTC Pipeline, which commenced operations in June 2006.

+3 BTC Pipeline

Contract Area	Venture Company (est.)	Interest Owned
BTC Pipeline	INPEX BTC Pipeline, Ltd. (October 16, 2002)	INPEX BTC Pipeline 2.5% *BP 30.1% SOCAR 25% Chevron 8.9% Statoil 8.71% TPAO 6.53% Eni 5% TOTAL 5% Itochu 3.4% ConocoPhillips 2.5% Hess 2.36%

*Operator

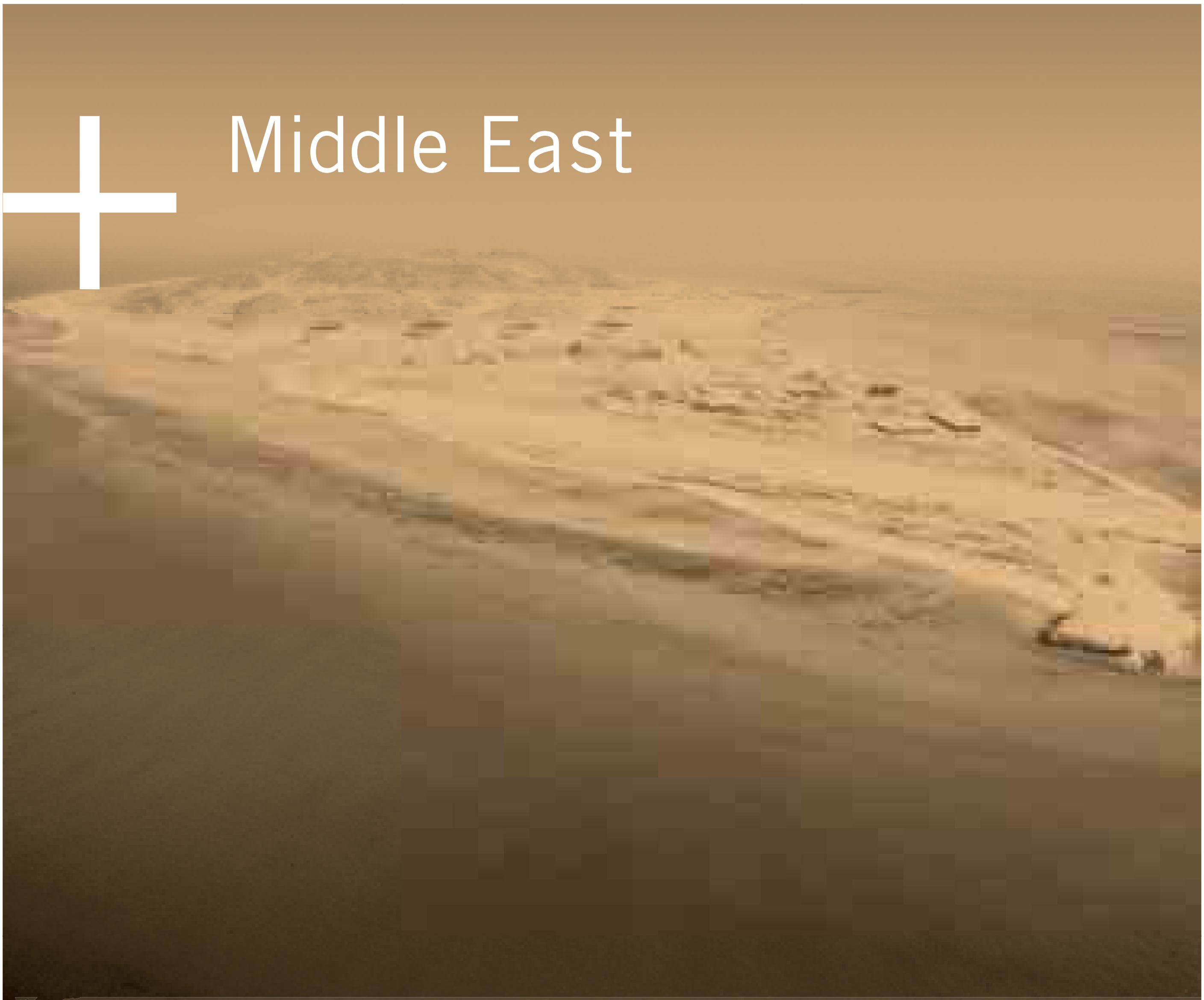


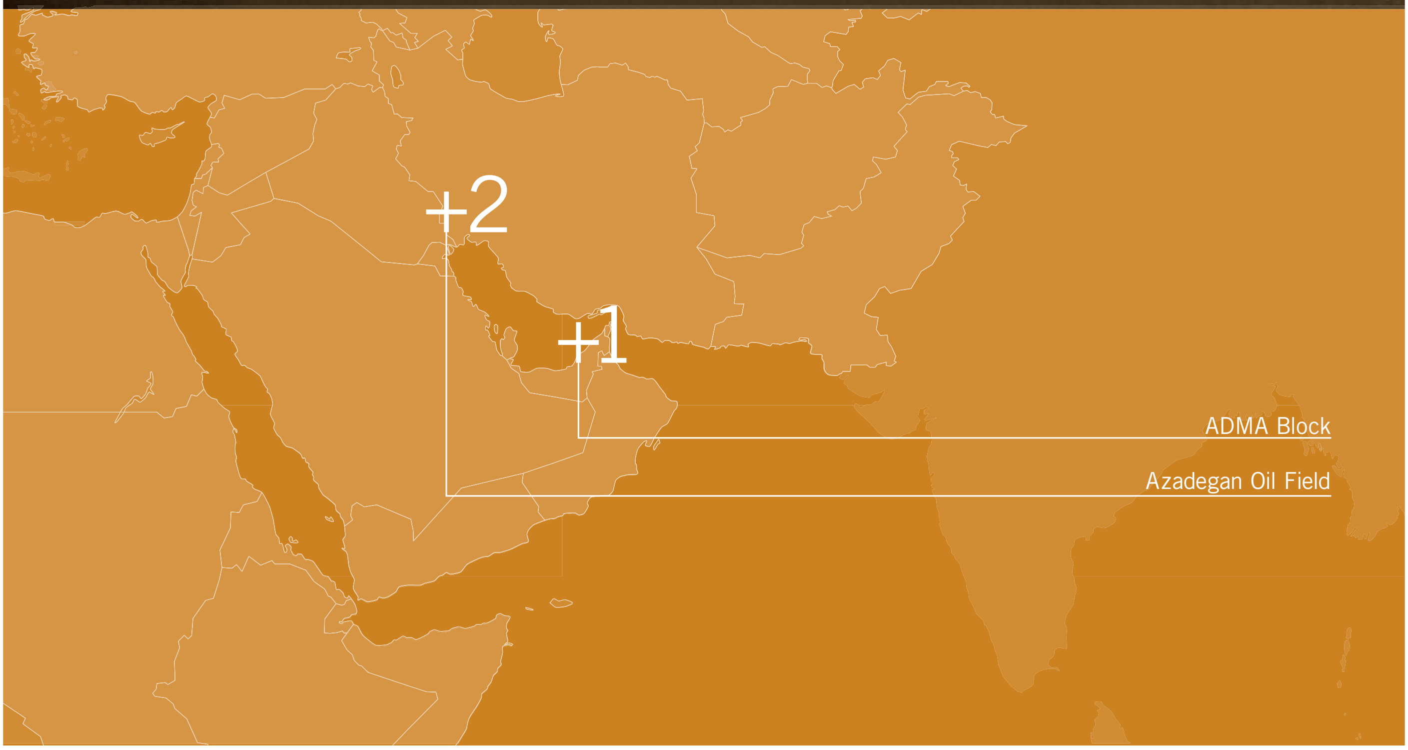
In September 2002, INPEX CORPORATION acquired a 2.5% interest in the BTC Pipeline Project.

The 1,770-kilometer BTC Pipeline, stretching from Baku, Azerbaijan to Ceyhan, Turkey, on the Mediterranean Sea, via Tbilisi, Georgia, with a transport capacity of one million barrels per day, was constructed to transport crude oil produced primarily from the ACG Oil Fields in Azerbaijan. The BTC Pipeline commenced full-fledged operations in June 2006. The Ceyhan marine terminal has seven one-million barrels-capacity crude oil storage tanks and a two-kilometer jetty capable of docking two 300,000-ton-class tankers at the same time.

INPEX is participating in the development of the ACG Oil Fields in Azerbaijan and the Kashagan Oil Field in Kazakhstan, both of which are regarded as super giant oil fields in the world. The completion of the BTC Pipeline enables shipment by large-scale vessels directly from the Mediterranean Sea, thereby avoiding the Turkish straits, which are particularly congested by shipping traffic. This represents a major contribution to the transport of the ever-growing production of crude oil in Azerbaijan and Kazakhstan.

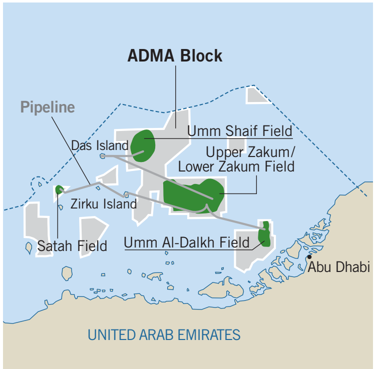
Middle East





+1 ADMA Block

Contract Area	Venture Company (est.)	Interest Owned
Umm Shaif Field/Lower Zakum Field	Japan Oil Development Co., Ltd. (February 22, 1973)	JODCO 12% ADNOC 60% BP 14.67% TOTAL 13.33%
Upper Zakum Field		JODCO 12% ADNOC 60% ExxonMobil 28%
Umm Al-Dalkh Field		JODCO 12% ADNOC 88%
Satah Field		JODCO 40% ADNOC 60%



■ Oil field

In May 2004, INPEX CORPORATION made Japan Oil Development Co., Ltd. (JODCO) a wholly owned subsidiary by acquiring all the shares held by the Japan National Oil Corporation through a share exchange. JODCO was established in 1973 and currently produces crude oil from five fields in the ADMA Block, located in offshore Abu Dhabi, the United Arab Emirates. Production commenced in the Upper Zakum Field, the area's largest oil field, in 1982, and in the Umm Al-Dalkh and Satah Fields, in which JODCO directly took part in development operations, in 1985 and 1987, respectively. These fields have since maintained steady production. Crude oil production has also continued at two existing fields, the Umm Shaif and Lower Zakum, since 1962 and 1967, respectively. The crude oil is transported by subsea pipeline to the islands of either Das or Zirku for shipment.

These five fields are operated by local operating venture companies, ADMA-OPCO and ZADCO. JODCO continuously sends a number of its personnel, primarily engineers, to those companies.

+2 Azadegan Oil Field

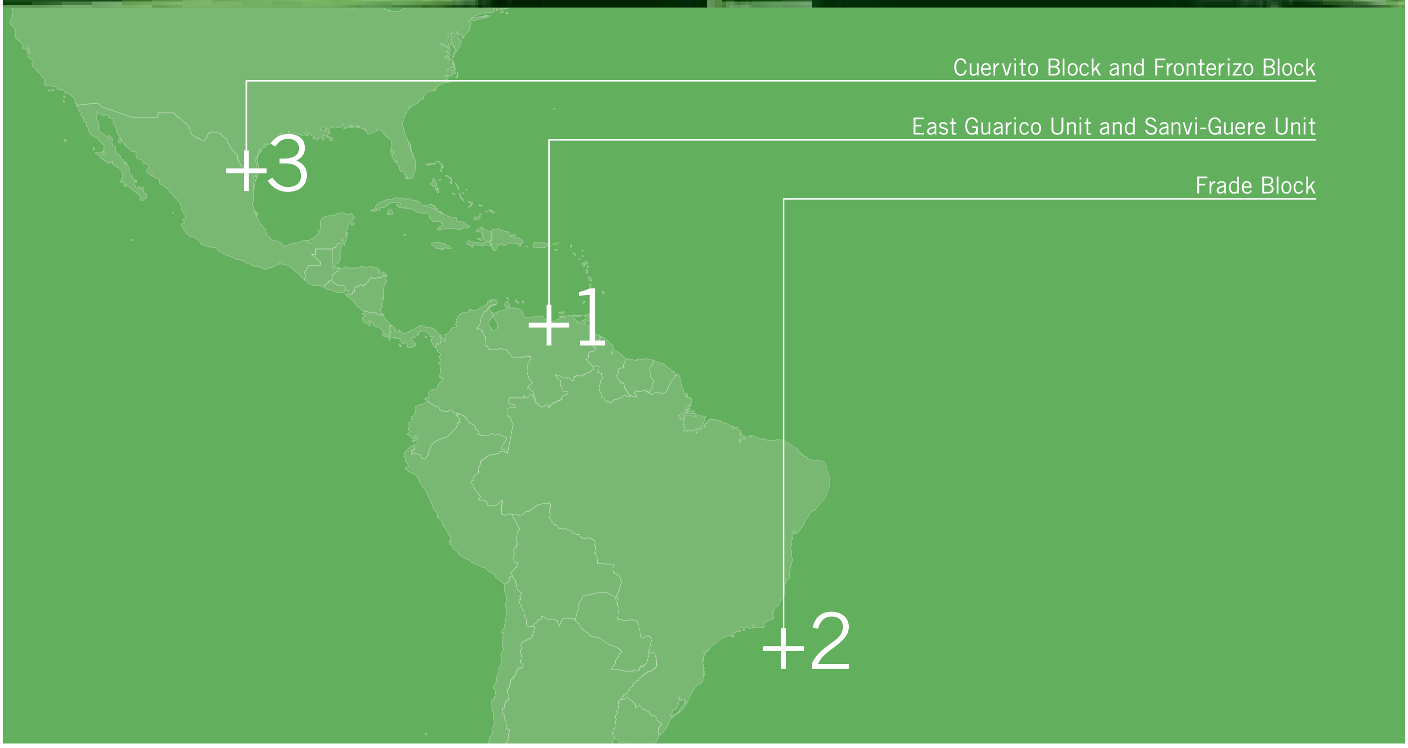
Contract Area	Venture Company (est.)	Interest Owned
Azadegan Oil Field	Azadegan Petroleum Development, Ltd. (February 18, 2004)	*Azadegan Petroleum Development 75% NICO 25%

*Operator

■ Oil field

In February 2004, INPEX CORPORATION entered into a service contract (a so-called "buyback contract") with the National Iranian Oil Company (NIOC) for the integrated appraisal and development operations of the Azadegan Oil Field in the Islamic Republic of Iran, and participated in the project as an operator with a 75% working interest. Under the current plan, oil production from the field is scheduled to reach 150,000 barrels per day in the first stage. In the optional second stage, the production level is expected to increase to 260,000 barrels per day.

Latin America



+1 East Guarico Unit and Sanvi-Guere Unit

Contract Area	Venture Company (est.)	Interest Owned
East Guarico	Teikoku Oil de Venezuela, C.A. (September 19, 1992)	*Teikoku Oil de Venezuela 100%
Sanvi-Guere	Teikoku Oil de Sanvi-Guere, C.A. (March 2, 1994)	*Teikoku Oil de Sanvi-Guere 100%

*Operator

In 1991, the Venezuelan national petroleum company (Petróleos de Venezuela, S.A. [PDVSA]) announced it was opening bidding to foreign companies through international tenders for work to reactivate suspended oil fields and facilitate new petroleum exploration. Teikoku Oil participated in the bidding rounds and was awarded a 100% working interest in a central onshore area, the East Guarico Unit, in July 1992, and the Sanvi-Guere Unit in November 1993. The Company engages in the reactivation of crude oil and natural gas fields, exploration and development activities as an operator, under the Operating Service Agreement (OSA) for each respective unit. The currently existing OSAs for both the East Guarico and Sanvi-Guere Units are to be altered to a joint venture agreement in order to establish separate ventures for crude oil and gas, to be run by PDVSA and the Company. The Company is undergoing necessary procedures for this transition.

+2 Frade Block

Contract Area	Venture Company (est.)	Interest Owned
Frade Block	Frade Japão Petróleo Limitada (FJPL) (July 5, 1999)	FJPL 18.2609% *Chevron 51.7391% Petrobras 30%

*Operator

In July 1999, Frade Japão Petróleo Limitada (FJPL), a joint venture established by INPEX CORPORATION and Sojitz Corporation, acquired a 12.75% working interest in the Frade Block in Brazil's offshore northern Campos Basin. In July 2001, FJPL increased its working interest to 15%, and in June 2006, FJPL's total working interest rose to approximately 18.3% in accordance with contractual agreements.

The Frade Oil Field was already discovered in 1986 and the reserves volume was evaluated by two appraisal wells in 2001, immediately after INPEX's participation in the Block.

In June 2006, the final investment decision was made for the development of the Frade Oil Field, and INPEX is engaging in development and pursuing commercial production in 2009. This project will realize the first ever crude oil production in Brazil by a Japanese enterprise.

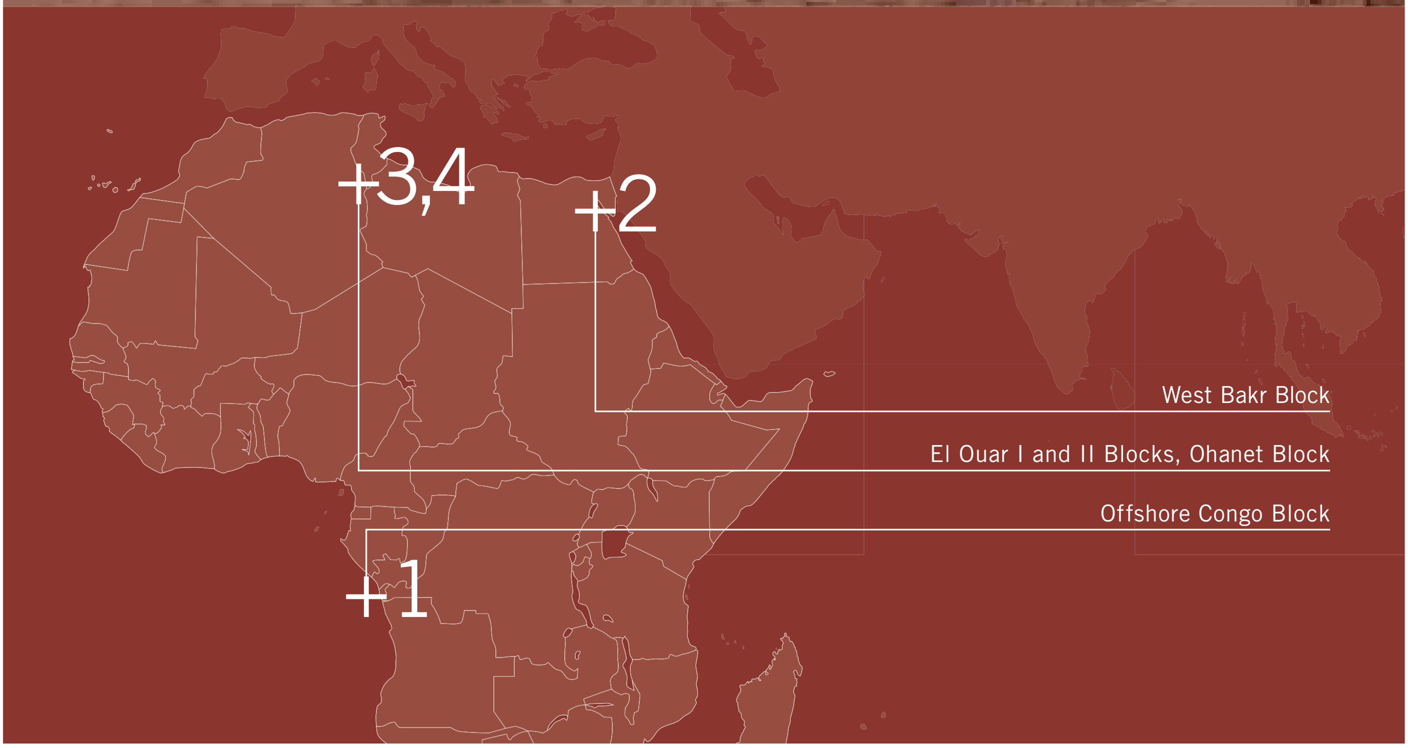
+3 Cuervito and Fronterizo Blocks

Contract Area	Venture Company (est.)	Interest Owned
Cuervito	Teikoku Oil de Burgos, S.A. de C.V. (September 9, 2003)	Teikoku Oil de Burgos 40% *Peterobras 45% Diavaz 15%
Fronterizo		Teikoku Oil de Burgos 40% *Peterobras 45% Diavaz 15%

*Operator

In October 2003, Teikoku Oil won an open bid for and acquired a 40% working interest in the Cuervito Block in the Burgos Basin in northeastern Mexico. The following month, Teikoku Oil also acquired a 40% working interest in the Fronterizo Block, located next to the Cuervito Block. This natural gas development project fosters the redevelopment of gas fields and production operations, based on the Multiple Service Contract. This project represents the first entry by a Japanese enterprise into an oil and natural gas development project in Mexico.

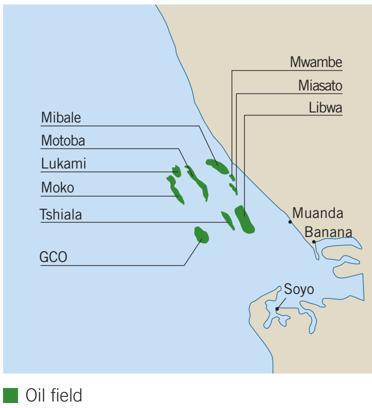
Africa


+3,4
+2
+1
West Bakr Block
El Ouar I and II Blocks, Ohanet Block
Offshore Congo Block

+1 Offshore Congo Block

Contract Area	Venture Company (est.)	Interest Owned
Offshore Congo Block	Teikoku Oil (D.R. Congo) Co., Ltd. (August 1, 1970)	Teikoku Oil (D.R. Congo) 32.28% *Perenco 50% Chevron 17.72%

*Operator



In July 1970, Teikoku Oil acquired a 17.03% working interest and participated in oil exploration and development in the Offshore Congo Block. Additional interest was acquired in July 1972, increasing Teikoku Oil's share to 32.28%. The GCO Field was discovered in 1971, and oil production commenced in 1975. Including the GCO Field, 11 oil fields have been discovered, and cumulative production volume is over 200 million barrels in this block. The Company is engaging in stable production operations from existing oil fields while conducting appraisal work for discovered structures.

+2 West Bakr Block

Contract Area	Venture Company (est.)	Interest Owned
West Bakr	The Egyptian Petroleum Development Co., Ltd. (EPEDECO) (July 17, 1970)	*EPEDECO 100%

*Operator

In June 1975, EPEDECO, a joint venture established by Teikoku Oil, Mitsui and others, acquired a 100% working interest in the West Bakr Block, located in a desert region on the west bank of Egypt's Gulf of Suez, and conducted exploration activities as an operator of the project. As a result, three oil fields were discovered and commercial production has continued since 1980. In addition, a new oil field was discovered through additional exploration work conducted from 1989, with commercial production commencing in 1990.

In July 2005, the contract term was extended through 2020 and the Company maintains stable production operations in existing oil fields while pursuing possibilities for increased production through additional exploration activities.

+3 El Ouar I and II Blocks

Contract Area	Venture Company (est.)	Interest Owned
El Ouar I	Teikoku Oil Algeria Co., Ltd. (December 21, 2001)	Teikoku Oil Algeria 10.29% *Sonatrach 67.33% Eni 22.38%
El Ouar II		Teikoku Oil Algeria 10.29% *Sonatrach 67.33% Eni 22.38%

*Operator

In November 2001, Teikoku Oil acquired a 10.29% working interest in the El Ouar I and II Blocks, located in onshore eastern Algeria. The drilling of exploration wells confirmed the existence of natural gas and condensate in El Ouar I in 1997, and in El Ouar II in 2001. Feasibility studies for commercial development of natural gas are currently under way.

+4 Ohanet Block

Contract Area	Venture Company (est.)	Interest Owned
Ohanet	Japan Ohanet Oil & Gas Co., Ltd. (JOOG)(March 15, 2001)	JOOG 30% *BHPP 45% Woodside 15% Petrofac 10%

*Operator

■ Oil and Gas field

Teikoku Oil has jointly invested in JOOG with Itochu Oil Exploration Co., Ltd. In January 2001, JOOG acquired a 30% working interest in the Ohanet Block in southeast onshore Algeria. Based on a risk service contract, this gas field development project commenced production of natural gas, condensate and LPG in October 2003. This is the first large-scale gas development project in which a Japanese enterprise has participated in Algeria, which boasts one of the largest natural gas reserves in the world.

Japan

* Three Company Cooperative Pipeline (Teikoku Oil, Shizuoka Gas, and Tokyo Gas)

Minami-Nagaoka Gas Field and Domestic Natural Gas Business

Since its founding in 1941, Teikoku Oil Co., Ltd. (“Teikoku”) has promoted exploration and development projects for 65 years both at home and overseas. On the domestic front, Teikoku Oil is currently operating several oil and gas fields in Niigata, Akita, Chiba and Fukushima Prefectures, while also handling the petroleum products business. The discovery of oil and gas fields in the Joetsu area of Niigata Prefecture was a turning point, as Teikoku established Japan’s first long-distance and high-pressure natural gas pipeline from Niigata to Tokyo in 1962, and has since expanded the natural gas supply for both residential and industrial/commercial consumers along the pipeline network. Furthermore, as an entry into a new business field, a gas turbine power generation plant, which can be fueled by either the natural gas or condensate produced at Teikoku’s own gas field, will start commercial operation in 2007.

The backbone of Teikoku’s natural gas business is based on the Minami-Nagaoka Gas Field and trunk pipeline network, and this has already become the “cash engine” for the creation of long-term stable profits. Discovered in 1979, the Minami- Nagaoka Gas Field, located southwest of Nagaoka city, Niigata Prefecture, boasts the largest natural gas reserve in Japan. Its ratio of reserves to production (R/P) well exceeds 30 years, even after over 20 years have passed since the commencement of production, and the proved reserve is expected to increase by 10% or more, given recent successful technological developments. The trunk pipeline network encompassing the Kanto region, along with Yamanashi, Nagano and Niigata Prefectures, connects the Minami-Nagaoka Gas Field with the vast natural gas market of the Tokyo metropolitan area, supplying natural gas to over 30 city gas companies and large-scale industrial consumers along the pipeline.

Natural gas is a clean form of energy with less of an environmental burden when burned than other types of fuel. This drives growing demand for use both as a city gas and as an industrial fuel. Anticipating this trend, Teikoku has been proactively extending pipelines for 10 years, thereby expanding its natural gas supply area. Together with this, Teikoku has made effective marketing efforts that leverage the cost competitiveness of domestic natural gas toward imported LNG, resulting in an annual sales growth rate of 8% on average since 1998.

Teikoku has been vigorously implementing the reinforcement of production facilities in addition to enhancement of pipeline transport capacity, with the aim of shoring up growth. At the Minami-Nagaoka Gas Field, overall output capacity will be boosted approximately 1.5 times by the end of this fiscal year with the establishment of a new gas processing plant. In addition, for the purpose of effectively contending with seasonal demand variations and short-term production shutdowns, Teikoku is proceeding with the reinforcement of output capacity from its nearby underground gas storage by up to 1.5 times. With the total pipeline network reaching 1,300 kilometers in 2007, measures are being considered to further reinforce this infrastructure in order to respond to increasing demand from existing supply areas and neighboring regions.

A substantial change in the operating environment in the last two years is the prolonged trend of escalating crude oil prices, and this has led to an accelerated shift from petroleum fuels to natural gas in terms of cost competitiveness. Teikoku has experienced strong demand for natural gas primarily for industrial use, particularly in the northern Kanto region. The annual sales target of 1,200 million cubic meters for fiscal 2010 will be achieved within this fiscal year, four years ahead of the schedule, and further rapid growth is expected in the coming years. Teikoku has been strategically reducing the price of domestic natural gas in pursuit of maintaining competitiveness amid the progress in deregulation. In the context of soaring crude oil prices in recent years, we will endeavor to gain customers’ understanding of a review of this longstanding pricing policy.

Under these circumstances, LNG will be supplied from a regasification terminal along Japan’s Pacific coast after 2010 to assure a supply source that complements the Minami-Nagaoka Gas Field. Simultaneously, plans are to realize a stable supply and significant improvement in transport capacity, striving for the continuous long-term growth of the domestic natural gas business. As a prospective vision, we will explore a feasible plan for the establishment of a “natural gas value chain” that organically connects the natural gas business infrastructure in Japan with the Group’s overseas natural gas assets, aiming at further improvement of enterprise value.

Corporate Governance

INPEX Holdings recognizes the importance of improving the efficiency and soundness of its management and enforcing compliance in order to continue increasing corporate value and maintain the trust of its stakeholders including shareholders and society at large, and will continue to reinforce corporate governance.

Corporate Governance Structure

Directors and Board of Directors Meeting

The Board of Directors of INPEX Holdings Inc. (the "Company") is composed of 16 members, four of whom are outside directors. The Board of Directors meets once a month and when necessary to discuss and make decisions on important operational matters, and oversees the execution of operations.

Each of the four outside directors ("interlocking directors") has many years of management know-how and experience in the Company's business and is able to offer objective, professional advice regarding operations. For this reason, they were asked to join the Board of Directors to contribute to the development of the Company's business. The four interlocking directors serve concurrently as directors of Japan Petroleum Exploration Co., Ltd., Mitsubishi Corporation, Mitsui Oil Exploration Co., Ltd. and Nippon Oil Corporation ("shareholder corporations"), respectively.

At the same time, however, the shareholder corporations are involved in businesses that overlap with those of the Company. The Company therefore recognizes that it must pay particular attention to corporate governance to avoid conflicts of interest in connection with competition and other matters. To this end, all Company directors, including the interlocking directors, are required to sign a written undertaking to carry out their duties as officers of the Company appropriately and with the highest regard for the importance of such matters as their obligations in connection with non-competitive practices under the Japanese Company Code, the proper manner for dealing with conflict of interest, and confidentiality.

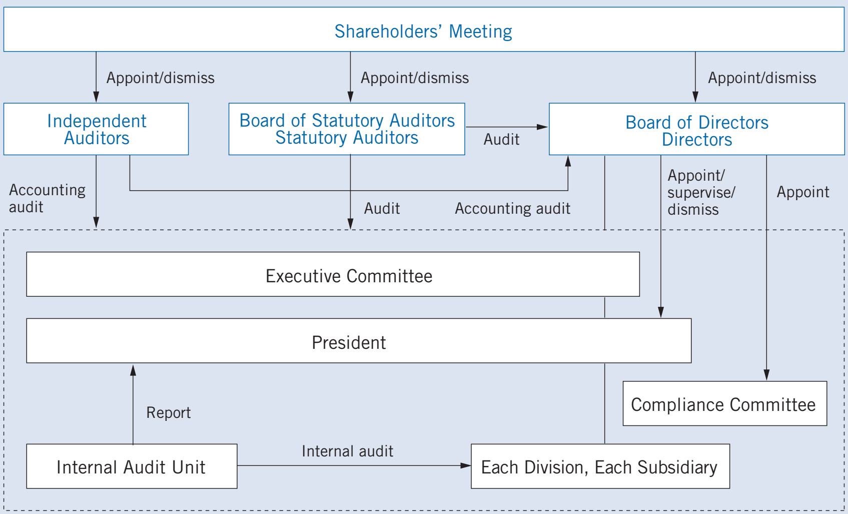
Executive Committee

The Executive Committee has been established to speed up decision-making and resolve matters that do not require a decision by the Board of Directors, and to conduct discussions that facilitate the Board's decisions.

Statutory Auditors and Board of Statutory Auditors

The Company employs a statutory auditor system. The Board of Auditors is composed of four members, including two from outside the Company, who attend meetings of the Board of Directors and Executive Committee, conduct interviews with departments as necessary and audit the execution of duties of directors with regard to overall operations and individual projects based on reports from relevant departments and other information. Statutory auditors also receive reports related to ongoing audits from the independent

Corporate Governance System



auditors and internal audit reports from the Internal Audit Unit.

None of the statutory auditors have any special interests in the Company.

Internal Audit

The Internal Audit Unit was established as an internal audit division independent from business departments and directly responsible to the president, to ensure the appropriateness and efficiency of business activities. The Audit Unit evaluates internal control systems on a group-wide basis. It examines and evaluates the status of management bodies, the efficiency of business operations and other matters, pinpointing problem areas, making necessary reports and conducting follow-up audits to confirm the status of improvements. The Internal Audit Unit also contributes to proper operational management by exchanging opinions with independent and statutory auditors as necessary.

Special Class Share and Corporate Governance

The Company's Articles of Incorporation stipulate that certain major corporate decisions require a resolution by the holder of a special class share in addition to the approval of the shareholders' meeting or Board of Directors. The special class share is issued to the Minister of Economy, Trade and Industry.

Major corporate decisions include the appointment and removal of directors, the disposition of material assets, amendments to the Articles of Incorporation, mergers, share exchange or share transfer, capital reductions and dissolution. Any appointment or removal of directors or merger, share exchange or share transfer requires a resolution by the holder of the special class share, provided 20 percent or more of the voting rights attached to shares of common stock are held by a single non-public entity or a single non-public entity and its joint shareholders.

The Minister of Economy, Trade and Industry announced in its 74th bulletin dated April 3, 2006, the establishment of guidelines for the exercise of the special class shareholder's veto rights (with respect to decisions not approved by a resolution of the special class shareholder). The Minister of Economy, Trade and Industry may veto any one of the aforementioned major corporate decisions only to the extent that it determines a proposed action or transaction (1) will likely result in the Company being managed in a manner inconsistent with its goal of securing a stable energy supply for Japan as a national flag company; (2) will likely adversely affect the goal of efficiently securing a stable energy supply for Japan as a national flag company; or (3) may affect the exercise of voting rights of the special class shareholder.

The exercise of veto rights by the special class shareholder is, therefore, restricted. With the existence of this class of share, however, the Company can minimize the risk of losing management control to foreign-owned concerns and an unsolicited takeover for speculative reasons. Moreover, because the scope of the veto is limited and guidelines have been set for the exercise of veto rights, the special class share is an absolute minimum necessary measure that is highly transparent and does not unjustly impinge on the Company's ability to operate with flexibility and efficiency.

Risk Management and Corporate Ethics

The Company recognizes that two factors are vital to increase corporate value amid drastic changes in its operating environment: forestalling and mitigating losses by properly managing risk inherit in its business operations; and maintaining and strengthening trust with customers, investors and other parties. As such, the Company will strive on an ongoing basis to enhance its risk management.

Compliance is also a vital element of continuous corporate development. The Company will methodically develop its compliance system to ensure strict observance of laws, regulations and corporate ethics.

Information Disclosure

The Company seeks to improve management transparency and accountability by disclosing information in a timely fashion through IR activities directed at shareholders and investors, the shareholders' meeting, its Web site, public relations activities and in other ways, and will constantly strive to enhance these efforts.

Mission, Corporate Social Responsibility Policy & Health, Safety and Environment Policy

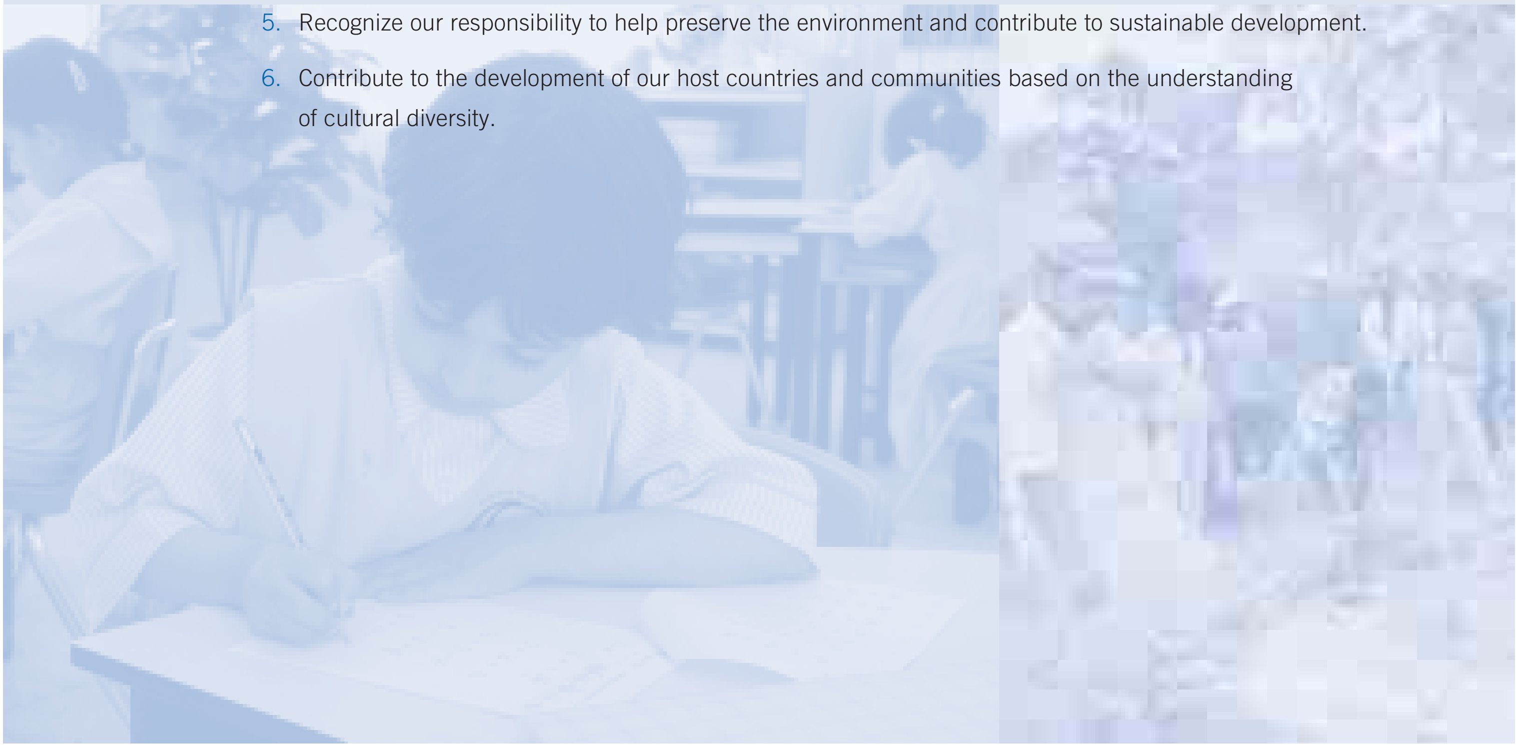
Mission

The mission of INPEX Holdings Group is to provide a stable and efficient supply of energy to our customers by exploring and developing oil and natural gas resources throughout the world. Through its business, we aim to become an integrated energy company, which contributes to our community and makes it more livable and prosperous.

Corporate Social Responsibility Policy

INPEX Holdings Group conducts our business efficiently and proactively with a long-term perspective. Guided by the leadership of the top management, we are committed to fulfilling our corporate social responsibilities. Our key principles include:

1. Deliver energy in a safe, efficient and reliable manner.
2. Comply with laws, rules and regulations and adhere to ethical business conducts.
3. Communicate timely and openly with shareholders, employees, customers, business partners and other stakeholders.
4. Value the individuality of our employees, secure a safe, healthy and worker-friendly environment, and provide opportunities for career development.
5. Recognize our responsibility to help preserve the environment and contribute to sustainable development.
6. Contribute to the development of our host countries and communities based on the understanding of cultural diversity.

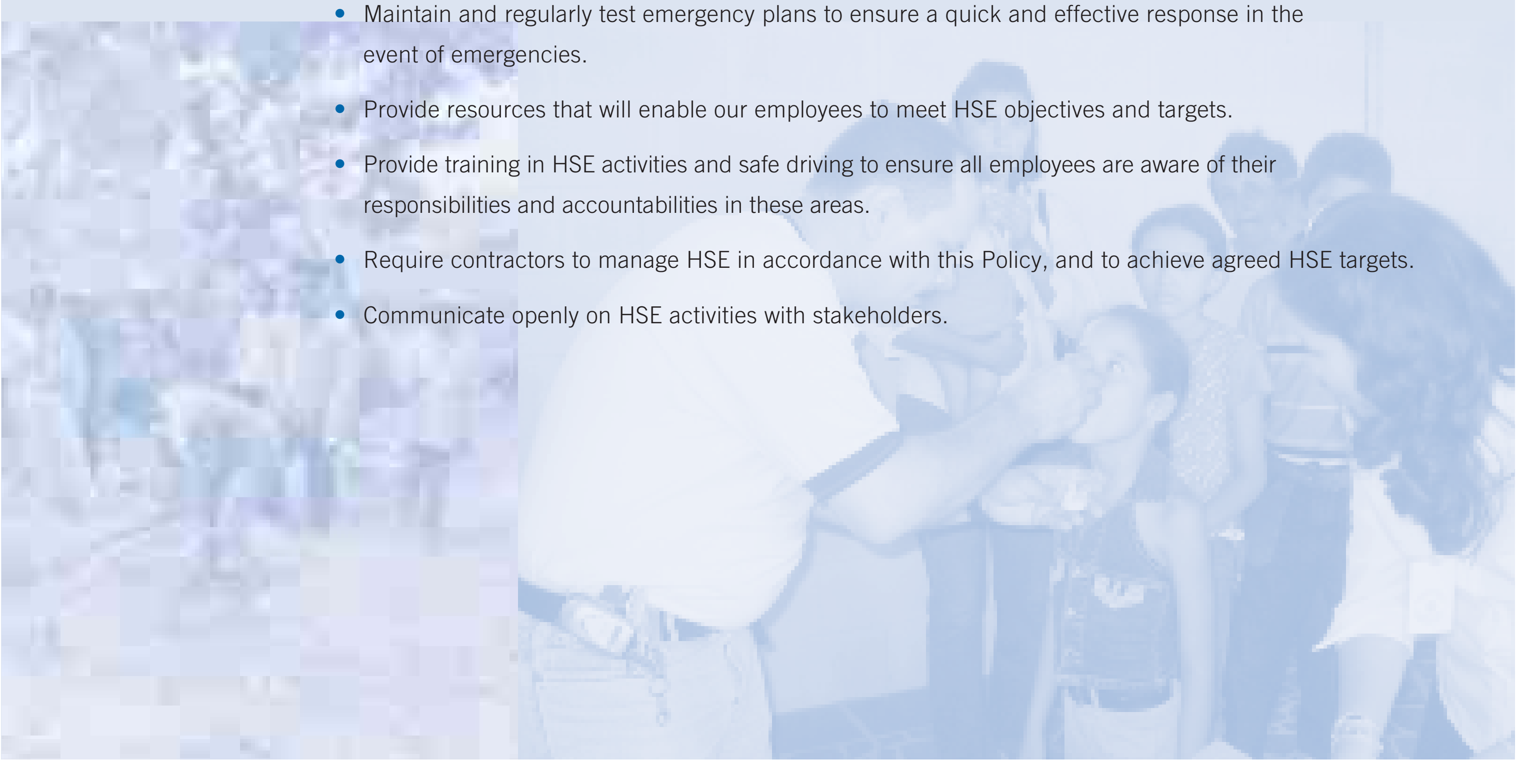


Health, Safety and Environment Policy

INPEX Holdings Group is a global, independent energy company and our vision is to provide a stable and efficient supply of energy to our customers. We recognize our responsibility to sustainable development and, in this regard, we aim to protect the health and safety of all those associated with our business activities and to minimize adverse impacts on the environment.

To accomplish this, we will:

- Comply with all applicable HSE laws and regulations, and apply our standards where laws and regulations do not exist or are considered insufficient.
- Implement and maintain HSE management systems, and perform regular audits of legal compliance and progress of our HSE activities to achieve continuous improvement in our HSE performance.
- Identify and assess health and safety hazards and eliminate or, if not possible, reduce risks to as low as reasonably practicable to prevent incidents.
- Conduct environmental assessments and promote efficient energy consumption to reduce adverse environmental impacts.
- Maintain and regularly test emergency plans to ensure a quick and effective response in the event of emergencies.
- Provide resources that will enable our employees to meet HSE objectives and targets.
- Provide training in HSE activities and safe driving to ensure all employees are aware of their responsibilities and accountabilities in these areas.
- Require contractors to manage HSE in accordance with this Policy, and to achieve agreed HSE targets.
- Communicate openly on HSE activities with stakeholders.



Management Team

1 Representative Director and Chairman
Kunihiko Matsuo

2 Representative Director
Akira Isono

3 Representative Director
Masatoshi Sugioka

4 Representative Director and President
Naoki Kuroda

5 Director
Hisatake Matsuno

6 Director
Katsujiro Kida

7 Director
Mutsuhisa Fujii

8 Director
Takeshi Maki

9 Director
Seiji Yui

10 Director
Masaharu Sano

11 Director
Akinori Sakamoto

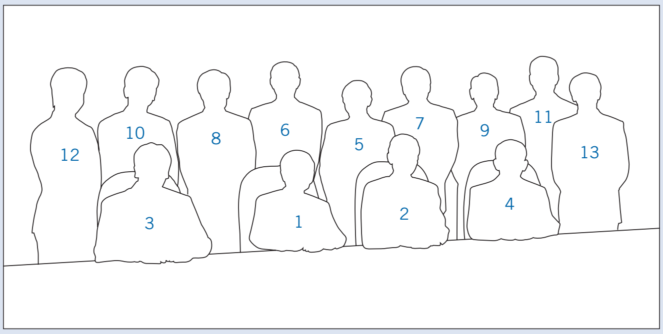
12 Director
Seiya Ito

13 Statutory Auditor
Shigeru Hayashi

Directors (Outside)
Kazuo Wakasugi
Hisanori Yoshimura
Junji Sato
Shigeo Hirai

Statutory Auditors (Adjunct)
Hiroshi Sato*
Tohru Tsuji*
Michihisa Shinagawa

*Outside Auditor



INPEX
Financial Section

Contents

INPEX
TEIKOKU
DATA

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

In spite of the continued upward trend in crude oil and natural gas prices, the Japanese economy continued to benefit from a modest recovery during the year under review. Supported by global economic growth primarily in the United States and China, exports and capital investment increased and corporate earnings improved. There were signs of a moderate upward trend in the Japanese economy with increased personal consumption and improved employment rates.

Crude oil prices have a significant impact on the business performance of the INPEX Group. Demand for petroleum increased due to the sustained strength of the US economy, as well as the rapid growth in China and India. Crude oil prices rose due to a change in the fundamentals, notably a decline in production capacity in OPEC countries. Other factors including increased geopolitical risk and speculative dealing in oil futures market also played a role. Furthermore, the hurricanes that struck the United States revealed a bottleneck in its refining capacity, with the result that the average price of West Texas Intermediate (WTI) crude oil, which stood at US$53.25 per bbl in the first quarter of the fiscal year, rose to US$70.85 per bbl at one point on August 30, 2005. Thereafter, the price fell to around US$56 per bbl toward the end of the year, but trended upward again from January 2006 due to increased geopolitical risk and other factors, and the closing price of near-term futures of WTI remained high at US$66.63 per bbl at the end of the fiscal year. As a consequence, the average sales price of the Company's crude oil for the fiscal year was US$55.77 per bbl, an increase of US$15.84, or 39.7%, from the previous fiscal year.

Meanwhile, reflecting the widening gap in interest rates between Japan and the United States due to continuous rises in interest rates in the United States, the exchange rate of the Japanese yen against the U.S. dollar fell gradually from ¥107.41 at the beginning of the fiscal year, exceeding the ¥120 mark in December 2005. Thereafter, the yen rose slightly on speculation of a rate-rise with the end of quantitative easing in Japan, and at the end of the year under review it stood at ¥117.47, or ¥10.06 lower than at the end of the previous year. As a consequence, the average exchange rate for sales of the Company was ¥113.56 per US dollar, which represents yen depreciation of ¥6.18 or 5.8% from the previous year.

Until the year ended March 31, 2005, for the purpose of consolidating INPEX Southwest Caspian Sea, Ltd. and INPEX North Caspian Sea, Ltd., the fiscal year of these two subsidiaries, i.e., December 31, was used by the Company. Effective April 1, 2005, the Company began to use their financial statements prepared for consolidation purpose as of March 31, the consolidation closing date. As a result, these two subsidiaries had 15 months from January 1, 2005 to March 31, 2006. This change was made in order to establish a better presentation of the Company's consolidated financial results, considering the increasing materiality of these two subsidiaries.

For the year ended March 31, 2006, we had net sales of ¥704.2 billion and net income of ¥103.5 billion. Net sales of crude oil and natural gas amounted to ¥462.7 billion and ¥241.5 billion, respectively. Results for net sales and net income were historical highs due to the increase of crude oil prices.

As of March 31, 2006, our total net proved reserves were approximately 1,571 MMboe, and for the year ended March 31, 2006, our net annual production was 336.0 Mboe per day. Net proved reserves were comprised of 1,053.9 MMbbls of crude oil, condensate and LPG, and 3,102.5 Bcf of natural gas as of March 31, 2006. Approximately 24.8% of such reserves were classified as net proved undeveloped reserves. Net production for the year ended March 31, 2006 averaged 204.7 Mbbls per day of crude oil, condensate and LPG, and 787.8 MMcf per day of natural gas.

Factors Affecting Our Results of Operations

A number of factors affect our results of operations, including the following:

- crude oil and natural gas prices;
- our crude oil and natural gas sales volumes;
- level of exploration activities;
- fluctuation in exchange rates between the U.S. dollar and Japanese yen;
- fluctuation in interest rates; and
- corporate taxes imposed on us outside Japan.

Crude Oil and Natural Gas Prices

While we negotiate sales prices for crude oil and condensate with customers, those prices generally take into account official prices, which are determined by governmental authorities in their respective oil producing regions, which fluctuate generally in line with the fluctuation in international crude oil prices. Sales contracts for crude oil are generally one-year contracts but also include spot contracts. In both cases, sales prices are those at the time of sale and thus fluctuate.

For our natural gas, which is currently mostly produced in Indonesia, the selling price is determined based on the Indonesian Crude Price, or ICP, pursuant to each sales contract. Sales contracts for natural gas are long-term contracts, typically lasting over 10 years. Typically, natural gas sales prices move in conjunction with crude oil prices.

As mentioned above, we are exposed to fluctuations in prices of crude oil and natural gas, which are determined by reference to international market prices. International oil and gas prices are volatile and are influenced by global as well as regional supply and demand conditions. This volatility has a significant effect on our net sales and net income.

The effect of price changes on our sales and net income is highly complex. For example:

- natural gas sales prices move together with crude oil prices; however, movements in sales prices of natural gas are not directly proportional to those of crude oil prices; and
- since sales and net income are determined by the prices as of the dates on which sales are recorded, the actual transaction price does not match the average price of the period.

Our Crude Oil and Natural Gas Sales Volumes

Our crude oil and natural gas sales volumes depend primarily on the level of proved and developed reserves in the projects in which we participate, and market demand for crude oil and natural gas. The level of proved and developed reserves is affected by such factors as speed at which successful exploration and development moves to production and speed at which we produce crude oil and natural gas, the extent to which we acquire additional producing reserves, our own as well as our partners' expertise in recovery from reserves, and expiration and extension of the terms of the contracts under which we produce crude oil and natural gas. As described below in "Our Method of Accounting for Types of Arrangements, " our sales volumes under production sharing contracts depend on not only production levels but also on the price of crude oil and natural gas, cost recovery and equity portion.

Level of Exploration Activities

Due to our policy of expensing exploration costs or, in the case of production sharing contracts, providing a full allowance for recoverable costs incurred in the exploration phase, an increase in our level of participation in exploration phase projects has a more immediate negative impact on our results of operations than would be the case if such costs were accounted for using the successful efforts or full cost method of accounting under U.S. GAAP.

Fluctuation in Exchange Rates Between the U.S. Dollar and Japanese Yen

Because our sales of crude oil and natural gas, most of our expenses and a substantial portion of our debt are denominated in U.S. dollars, our net income, which is denominated in Japanese yen, is affected by fluctuations in the exchange rate between these currencies. Appreciation of the Japanese yen against the U.S. dollar negatively impacts our sales and related earnings, while a depreciation of the Japanese yen against the U.S. dollar has the opposite effect. However, as a substantial portion of our long-term debt is denominated in U.S. dollars, revaluation of such long-term debt at the end of each period results in a foreign exchange gain if the Japanese yen appreciates against the U.S. dollar, while a depreciation of the Japanese yen against the U.S. dollar has opposite effect. As a result, these positive and negative effects cancel out each other.

Fluctuation in Interest Rates

We fund certain exploration and development projects with long-term loans. A substantial portion of our long-term debt has floating interest rates that are determined by reference to the 6-month London Interbank Offered Rate in U.S. dollars. Accordingly, we are exposed to fluctuation in interest rates in U.S. dollars.

Corporate Taxes Imposed on Us Outside Japan

We conduct all operations outside Japan, and most of corporate taxes are paid overseas. With respect to the overseas taxes, expenses incurred in Japan are not deductible in general. Such domestic expenses include those relating to administrative expenses at our headquarters, foreign exchange losses and the provision of various types of allowances. When such domestic expenses increase, pre-tax income recorded in our consolidated statement of income decreases, but corporate taxes we pay overseas do not decrease, thereby increasing our effective tax rate.

Indonesia imposes corporate taxes on oil and gas operations on a PSC basis and does not permit the aggregating of expenses from different PSCs for tax purposes. Thus, even if our exploration activities in Indonesia expand and related expenses increase with respect to one PSC, we cannot deduct such expenses from taxable income attributable to another PSC in that country.

In the United Arab Emirates, a substantial portion of our crude oil production is subject to a fixed margin regime, limiting our sensitivity to changes in oil prices. In addition, corporate tax rates and others applicable to another substantial portion of our crude oil production at the ADMA Block in the Upper Zakum Fields were changed from 2004, and result in that portion becoming subject to a fixed margin regime from 2006.

Our Method of Accounting for Types of Arrangements

Currently, we have mainly entered into two types of arrangements in connection with these activities: PSCs and concession agreements. For the year ended March 31, 2006, approximately 60% of our net sales were attributable to sales under PSCs and approximately 40% were under concession agreements.

Production Sharing Contracts

Cost Recovery and Production Sharing

The allocation of crude oil and natural gas production among the host country's government (or government entity) and contractors (including ourselves) must first be determined under PSCs.

Different PSCs provide for different formulas for allocating oil and gas production among the host country's government and contractors. The following discussion is based on one type of PSC arrangement that applies to projects in Indonesia. Under that type of PSC, at the end of each fiscal year, total production for that year is allocated to:

(1) "first tranche petroleum," which is a prescribed portion of total production allocated between the host country's government and the contractors pursuant to prescribed percentages;

(2) "cost recovery portion," which is the oil and gas equivalent, determined based upon the current unit price of crude oil and natural gas, of (i) non-capital expenditures incurred for production during the current period and (ii) scheduled depreciation of the capital expenditures for the current period, as calculated under the PSC, and which is allocated only to the contractors; because the oil and gas equivalent is determined based upon the current unit price, as the unit price of crude oil and natural gas increases, the volume of oil and gas comprising the "cost recovery portion" decreases while that of the "equity portion" (explained below) increases; and if the actual production for the year is not enough to cover the entire quantity of the oil and gas equivalent so calculated, the "cost recovery portion" will be reduced to the extent it is covered by the actual production, and the quantity not so covered is carried forward to the succeeding year in accordance with the relevant PSC; and

(3) "equity portion," which represents the residual and is allocated between the host country's government and the contractors pursuant to prescribed percentages.

For purposes of our statements of income, we record:

- as net sales, our share of total sales relating to crude oil and natural gas production that are allocated to contractors, and
- as cost of sales, a portion of "Recoverable account under production sharing" that is recovered through the allocation of our share of the "cost recovery portion."

Recoverable Costs under PSCs

Exploration Costs

Our share of all recoverable exploration costs incurred under the terms of the relevant PSC is capitalized under "Recoverable accounts under production sharing."

Development Costs
We record our share of all recoverable expenditures under the terms of the relevant PSC under "Recoverable accounts under production sharing."

Production Costs
During the production phase, operating costs incurred for production are initially included under "Recoverable accounts under production sharing" if such costs are recoverable under the relevant PSC.

Administrative Expenses
Administrative expenses are recorded under "Recoverable accounts under production sharing" if such expenses are recoverable under the relevant PSC.

As explained above under "Cost Recovery and Production Sharing," such expenses are recovered as capital or non-capital expenditures.

Non-recoverable Costs under PSCs

Acquisition Costs
For projects under PSCs that are entirely in the exploration phase, we expense costs relating to the acquisition of rights to explore, develop and produce, or "Exploration and development rights," as they are incurred. When we acquire rights to projects which are already in the development or production phase, we record the acquisition expenditures or costs under "Exploration and development rights" in our consolidated balance sheets, which are amortized under the unit-of-production method. Generally, cost recovery provisions under PSCs do not cover such expenditures or costs.

Interest on Loans
We expense interest on loans we obtain for PSC projects.

Concession Agreements

Acquisition Costs
We account for acquisition costs related to projects under concession agreements, or "Mining rights" in the same manner as those related to projects under PSCs, as described above.

Exploration Costs
Our share of costs incurred for exploration is expensed as incurred.

Development Costs
Our share of costs related to mining facilities is capitalized under "Tangible fixed assets" in the balance sheets. We depreciate the tangible fixed assets primarily under the unit-of-production method during our production. Such depreciation expenses constitute cost of sales.

Production Costs
During the production phase, our share of operating costs is included in cost of sales.

Administrative Expenses
Our share of administrative expenses is expensed as incurred.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with Japanese GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates, judgments and assumptions.

An accounting estimate in our consolidated financial statements is a critical accounting estimate if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if the presentation of our financial condition or results of operations are materially affected either by different estimates that we reasonably could have used in the current period, or by changes in the accounting estimates that are reasonably likely to occur from period to period. We have identified the following critical accounting estimates with respect to our financial presentation:

Allowance for Recoverable Accounts under Production Sharing

We capitalize expenditures made during the exploration, development and production phases under PSCs as "Recoverable accounts under production sharing," if they are recoverable under the relevant PSC. During the exploration phase prior to obtaining governmental approval for development, in light of the significant uncertainty involved in the exploration activities for such projects, a reserve in equal amounts to exploration costs is provided for as "Allowance for recoverable accounts under production sharing," which is a reserve account for potential losses from unsuccessful exploration. Once governmental approval for development of a field in a contract area is received, reserves for exploration costs incurred thereafter in the same contract area are not provided in principle. Generally, this allowance continues to remain unchanged in our balance sheet until the allowance balance exceeds the remaining balance of exploration cost previously capitalized during the exploration phase under "Recoverable accounts under production sharing," at which point the excess of the allowance balance is reversed to income in the statements of income. After governmental approval for development of a field in a contract area, in light of the uncertainly, a reserve is provided for probable losses on development activities individually estimated for each project as "Allowance for recoverable accounts under production sharing." While we believe that the assessment and estimates are reasonable, future changes in the actual situation of projects may affect future results of operations.

Unit-of-production Method

Mining facilities, mining rights and exploration and development rights when such rights are acquired during the production phase are amortized by the unit-of-production method. The unit-of-production method requires a significant estimate as to the proved reserve quantities. While we believe that our proved reserve estimates are appropriate, changes in the estimates of the proved reserves may significantly affect future results of operations.

Liabilities for Site Restoration and Decommissioning Costs

We recognize liabilities for the expected amount of future decommissioning costs based on the future decommissioning plan. While we believe that the assessment and estimates are reasonable, future changes in the decommissioning plan may affect future results of operations.

Liabilities for Losses on Development Activities

We recognize liabilities for the amount of provable losses on oil and natural gas development activities which are estimated individually for each project, such as delays in development. While we believe that the assessment and estimates are reasonable, future changes in the actual situation of projects may affect future results of operations.

Allowance for Investments in Exploration Companies

We have made investments in companies that are engaged in oil and gas activities, and have provided an allowance for probable losses on such investments at an estimated amount based on the net assets of the investees. While we believe that the assessment and estimates are reasonable, future changes in the actual production volume, prices and foreign exchange rates may affect future results of operations.

Deferred Tax Assets

We record deferred tax assets for temporary differences (including net operating loss carry-forwards) arising mainly from the write-down of investments in related parties and revaluation of land. Valuation allowances are provided when we believe that it is more likely than not that assets will not be realized. Also, we take into account the effect of foreign tax credits in the calculation of valuation allowances. Realization of deferred tax assets is principally dependent on our generating sufficient taxable income based on available evidence. If future taxable income is lower than expected due to market conditions, foreign exchange rates or poor operating results, adjustments may be required.

Retirement Benefits for Employees

The Japanese accounting standard "Accounting for Retirement Benefits" requires the recognition of retirement costs and related liabilities based on the actuarially determined present value of retirement benefit obligations by the projected unit credit method. However, a company is permitted to use a simplified method to account for its retirement costs and related liabilities if the number of its employees is less than 300. We do not have any retirement benefit plan that individually covers more than 300 employees. Because of this, we use the simplified method and provide an accrual for retirement benefits at the amount which would be required to be paid to all active employees as if they voluntarily terminated their employment as of the balance sheet date. Accordingly, if our retirement costs and related liabilities had been recognized based on the actuarially determined present value of the retirement benefit obligations by the projected unit credit method, different retirement costs and liabilities would have been reported.

Historical Results of Operations

The following table shows certain consolidated income statement data derived from our audited consolidated financial statements:

(Millions of yen, except percentages)

Years ended March 31,	2005		2006	
Net sales	¥478,587	100.0%	**¥704,235**	**100.0%**
Cost of sales	197,094	41.2	**257,904**	**36.6**
Gross profit	281,493	58.8	**446,331**	**63.4**
Exploration expenses	2,474	0.5	**5,521**	**0.8**
Selling, general and administrative expenses	8,718	1.8	**10,211**	**1.4**
Depreciation and amortization	1,638	0.4	**3,948**	**0.6**
Operating income	268,663	56.1	**426,651**	**60.6**
Other income:				
Interest income	4,060	0.9	**9,742**	**1.4**
Equity in earnings of affiliates	—	—	**1,347**	**0.2**
Other	678	0.1	**1,183**	**0.1**
	4,738	1.0	**12,272**	**1.7**
Other expenses:				
Interest expense	2,984	0.6	**9,033**	**1.3**
Equity in losses of affiliates	1,583	0.3	**—**	**—**
Provision for allowance for recoverable accounts under production sharing	518	0.1	**3,642**	**0.5**
Amortization of exploration and development rights	1,607	0.3	**405**	**0.1**
Provision for site restoration and decommissioning costs	—	—	**1,584**	**0.2**
Provision for losses on development activities	—	—	**1,982**	**0.3**
Provision for doubtful accounts	—	—	**2,311**	**0.3**
Amortization of goodwill	2,784	0.6	**—**	**—**
Foreign exchange loss	2,859	0.6	**12,418**	**1.8**
Other	2,434	0.6	**4,008**	**0.5**
	14,769	3.1	**35,383**	**5.0**
Income before income taxes and minority interests	258,632	54.0	**403,540**	**57.3**
Income taxes	182,607	38.1	**298,657**	**42.4**
Minority interests	(469)	(0.1)	**1,406**	**0.2**
Net income	¥ 76,494	16.0%	**¥103,477**	**14.7%**

Net Sales

Net sales increased ¥225.6 billion, or 47.1%, to ¥704.2 billion for the year ended March 31, 2006 from ¥478.6 billion for the year ended March 31, 2005. Of this figure, consolidated net sales of crude oil increased ¥169.5 billion, or 57.8%, to ¥462.7 billion from ¥293.2 billion for the year ended March 31, 2005. Consolidated net sales of natural gas increased ¥56.1 billion, or 30.3%, to ¥241.5 billion from ¥185.4 billion for the year ended March 31, 2005.

The increase in consolidated net sales of crude oil and natural gas was mainly due to the net effect of the following factors: while our sales volume of natural gas decreased 4.5%, our sales volume of crude oil increased 4,641 thousand bbls, or 6.8%, to 72,521 thousand bbls, which reflects an increase in production volume of crude oil at the ACG Oil Fields and ADMA Block, resulting in an increase of net sales in amount of ¥11.5 billion; there was a positive impact on net sales in amount of ¥175.8 billion, since the increase in the Company's average sales price of crude oil for the year ended March 31, 2006 was US$55.77 per bbl, a US$15.84 or 39.7% increase over the previous year, and the average sales price of natural gas also increased 29.3%; and of ¥38.3 billion since the average exchange rate for the Company's net sales during the year ended March 31, 2006 was ¥113.56 per U.S. dollar, a ¥6.18 per U.S. dollar, or 5.8% yen depreciation against the U.S. dollar.

Cost of Sales

Cost of sales increased ¥60.8 billion, or 30.9%, to ¥257.9 billion for the year ended March 31, 2006 from ¥197.1 billion for the year ended March 31, 2005.

This was primarily due to an increase in royalties associated with higher sales at the ADMA Block, an increase in investment in development and production at the Offshore Mahakam Block, and an increase in the recovery of the investment associated with higher sales from the ACG Oil Fields.

Exploration Expenses

Exploration expenses increased by ¥3.0 billion, or 123.2%, to ¥5.5 billion for the year ended March 31, 2006 from ¥2.5 billion for the year ended March 31, 2005. This increase was primarily due to increased exploration activity at the WA-285P (Ichthys) Block in Australia.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥1.5 billion, or 17.1%, to ¥10.2 billion for the year ended March 31, 2006 from ¥8.7 billion for the year ended March 31, 2005. This was primarily due to an increase in transportation costs at the ACG Oil Fields.

Depreciation and Amortization

Depreciation and Amortization increased by ¥2.3 billion, or 141.0%, to ¥3.9 billion for the year ended March 31, 2006 from ¥1.6 billion for the year ended March 31, 2005. This was primarily due to an increase in amortization of exploration and development rights which belong to INPEX Southwest Caspian Sea, Ltd.

Under our accounting for PSCs, capitalized costs included in "Recoverable accounts under production sharing" are reflected in cost of goods sold at the time of recovery, and thus we do not have substantial amount of depreciation or amortization of fixed assets.

Other Income

Other income increased ¥7.6 billion, or 159.0%, to ¥12.3 billion for the year ended March 31, 2006 from ¥4.7 billion for the year ended March 31, 2005. This was primarily due to an increase in interest income of ¥5.7 billion and accounting for equity in earnings of affiliates of ¥1.3 billion.

Other Expenses

Other expenses increased ¥20.6 billion, or 139.6% to ¥35.4 billion for the year ended March 31, 2006 from ¥14.8 billion for the year ended March 31, 2005. This was mainly due to an increase in foreign exchange loss of ¥9.6 billion, an increase in interest expenses of ¥6.0 billion and an increase in provision for allowance for recoverable accounts under production sharing of ¥3.1 billion.

Income Taxes

Income taxes for the year ended March 31, 2006 increased ¥116.1 billion, or 63.6%, to ¥298.7 billion from ¥182.6 billion for the year ended March 31, 2005 due to increased sales in a region where a high tax burden was imposed.

The effective income tax rate for the year ended March 31, 2006 was 74% compared to 71% for the year ended March 31, 2005.

As explained in "Factors Affecting Our Results of Operations—Corporate Taxes Imposed on Us Outside Japan," the fact that most of the Company's corporate taxes are paid overseas and administrative expenses incurred in Japan are not deductible for such taxes results in a high effective income tax rate.

Minority Interests

Minority interests for the year ended March 31, 2006 reflected a net profit of ¥1.4 billion from a net loss of ¥0.5 billion for the year ended March 31, 2005.

Net Income

As a result of the foregoing factors, net income increased ¥27.0 billion, or 35.3%, to ¥103.5 billion for the year ended March 31, 2006 from ¥76.5 billion for the year ended March 31, 2005.

Investment and Funding

Our Investments for Crude Oil and Natural Gas Projects

In order to maintain stable earnings, we need to continuously explore for new reserves of crude oil and natural gas, develop, produce and distribute.

The following information, which includes the breakdown of our investments among exploration expenditures, development expenditures and operating expenses, has been prepared based on available data in the reports provided by operators. The definition of each item is as follows:

- Exploration expenditures include exploration drilling, and geological and geophysical studies. If the project (contract area) is entirely in the exploration phase, administrative costs, such as personnel costs and office operations costs in the country where the relevant project is conducted, are included in this category.
- Development expenditures include development drilling and production facilities.
- Operating expenses include well operations, maintenance, and supervision of production activities. Administrative expenses in the project (contract area) where there is a producing field and/or a field of which governmental approval for development has been received, are included in this category.

Our definition of exploration and development expenditures and the basis of preparation of the following table are different from those required under the Statement of Financial Accounting Standard No. 69, "Disclosure about Oil and Gas Producing Activities," or SFAS 69. Such differences include, but are not limited to, the following:

- Our expenditures reflected in the table are on a cash-call basis as to joint ventures for PSCs where we are not an operator, while SFAS 69 requires that expenditures be recorded on an accrual basis.
- We prepared the table based on definitions in the reports from operators. These definitions may not be consistent with that of SFAS 69.
- SFAS 69 requires that administrative costs not directly related to exploration and development activities be excluded from exploration and development expenditures. However, administrative costs are not necessarily excluded from those expenditures.

The table below shows our expenditures for the years ended March 31, 2005 and 2006:

(Millions of yen, except percentages)

Years ended March 31,	2005		2006	
Exploration	¥ 4,220	2.4%	**¥ 8,369**	**3.6%**
Development	113,406	65.7	**167,611**	**72.0**
Subtotal	117,626	68.1	**175,980**	**75.6**
Operating expenses	55,009	31.9	**56,747**	**24.4**
Total	¥172,635	100.0%	**¥232,727**	**100.0%**

The table below shows our exploration and development expenditures for the years ended March 31, 2005 and 2006 by geographical region:

(Millions of yen, except percentages)

Years ended March 31,	2005		2006	
Asia and Oceania	¥ 66,643	56.6%	**¥ 89,756**	**51.0%**
Middle East	8,543	7.3	**12,911**	**7.3**
Caspian Sea area and others	42,440	36.1	**73,313**	**41.7**
Total	¥117,626	100.0%	**¥175,980**	**100.0%**

The table below shows our operating expenses for the years ended March 31, 2005 and 2006 by geographical region:

(Millions of yen, except percentages)

Years ended March 31,	2005		2006	
Asia and Oceania	¥42,975	78.1%	**¥40,466**	**71.3%**
Middle East	10,710	19.5	**12,978**	**22.9**
Caspian Sea area and others	1,324	2.4	**3,303**	**5.8**
Total	¥55,009	100.0%	**¥56,747**	**100.0%**

Our expenditures increased by ¥60.1 billion, or 34.8%, to ¥232.7 billion for the year ended March 31, 2006 from ¥172.6 billion for the year ended March 31, 2005. This was primarily due to increases in development expenditures at the Kashagan Oil Field, ACG Oil Fields in the Caspian Sea area and the Offshore Mahakam Block in the Asia and Oceania region.

Our Expenditures for Acquisitions of Crude Oil and Natural Gas Projects

The table below shows our expenditures for acquisitions of oil and gas properties for the years ended March 31, 2005 and 2006 by geographical region. Expenditures for acquisitions include acquisition cost of mining rights, exploration and development rights, and signing bonuses as well as the acquired tangible fixed assets and recoverable accounts under production sharing due to acquisitions.

(Millions of yen, except percentages)

Years ended March 31,	2005		2006	
Asia and Oceania	¥ 716	1.4%	**¥112**	**27.7%**
Middle East	50,517	96.9	—	—
Caspian Sea area and others	891	1.7	**293**	**72.3**
Total	¥52,124	100.0%	**¥405**	**100.0%**

Our expenditures for acquisitions decreased by ¥51.7 billion to ¥0.4 billion for the year ended March 31, 2006 from ¥52.1 billion for the year ended March 31, 2005. This was primarily due to the acquisition of the ADMA Block in the Middle East region during the year ended March 31, 2005.

Analysis of Recoverable Accounts under Production Sharing

With respect to projects under PSCs, our share of costs arising during the exploration, development and production phases are capitalized under "Recoverable accounts under production sharing." The following table shows changes in the balance of "Recoverable accounts under production sharing" during the years ended March 31, 2005 and 2006:

(Millions of yen)

Recoverable accounts under production sharing		Year ended March 31, 2005	2006
Balance at beginning of period		¥208,768	**¥239,619**
Add:	Exploration costs	1,743	**2,813**
	Development costs	101,416	**155,086**
	Operating expenses	41,909	**41,377**
	Other	—	**3,341**
Less:	Cost recovery—capital expenditures	38,375	**62,331**
	Cost recovery—non-capital expenditures	72,111	**84,997**
	Other	3,731	**635**
Balance at end of period		¥239,619	**¥294,273**
Allowance for recoverable accounts under production sharing at end of period		¥ (41,518)	**¥ (44,547)**

"Cost recovery—non-capital expenditures" are generally higher than "operating expenses" because some of the exploration costs and development costs that are recoverable in the fiscal year when such costs are incurred are included in addition to operating expenses.

Compared with the year ended March 31, 2005, exploration costs for the year ended March 31, 2006 increased primarily due to the increase at the Masela Block.

Development costs increased reflecting increases in development expenditures at the Kashagan Oil Field, ACG Oil Fields and Offshore Mahakam Block.

Operating expenses for the year ended March 31, 2006 remained on par with results from the year ended March 31, 2005.

Other costs increased due to reclassification of certain recoverable costs invested by March 31, 2005 to recoverable accounts under production sharing from other investment.

Cost recovery during the year ended March 31, 2006 primarily consisted of cost recovery at the Offshore Mahakam Block, South Natuna Sea Block B and ACG Oil Fields. This increase reflected increased cost recovery from the Offshore Mahakam Block and ACG Oil Fields.

A substantial portion of the amount under "Less: Other" for the year ended March 31, 2006 related to reductions in the balance of recoverable accounts under production sharing with respect to fields being closed.

Liquidity and Our Funding Sources

Our policy is to maintain sufficient cash on hand at any given time to fund expenditures for existing and new crude oil and natural gas projects in a timely manner and to provide for any steep decline of oil and gas prices. For this purpose, our cash management policy is to invest excess cash in low-risk and liquid financial instruments. It is our strategy to improve capital efficiency in the long term by business expansion while maintaining a sound financial position with sufficient cash on hand.

Our primary sources of funding are cash on hand and many other sources. We fund oil and gas projects which are in the exploration phase with cash on hand and equity investments from outsiders, and oil and gas projects which are in the development phase with cash on hand and/or long-term loans. JBIC and Japanese commercial banks have been providing such long-term loans. Certain aggregate outstanding principal amounts of our long-term debt have been guaranteed by JOGMEC.

We are required to maintain for JBIC cash collateral generally equivalent to six months' debt service in a reserve account.

We are considering to diversify financing sources in the future using non-recourse project financing, arrangement, issuance of bonds and equity financing.

Maturities of Long-term Debt

The following table summarizes the maturities of our outstanding long-term debt as of March 31, 2006:

(Millions of yen and U.S. dollar)

	Long-term debt denominated in		
Years ending March 31,	U.S. dollars	Yen	Total yen equivalent
2007	$ 117.1	¥ —	¥ 13,756
2008	371.1	—	43,594
2009	120.0	—	14,096
2010	120.0	—	14,096
2011	120.0	—	14,096
2012 and thereafter	814.8	24,945	120,655
Total	$1,663.0	¥24,945	¥220,293

Historical Cash Flows

The following table summarizes our historical cash flows for the years ended March 31, 2005 and 2006:

(Millions of yen)

Year ended March 31,	2005	**2006**
Net cash provided by operating activities	¥ 131,207	**¥ 218,240**
Net cash used in investing activities	(119,956)	**(252,400)**
Net cash provided by financing activities	9,791	**14,351**
Cash and cash equivalents at end of period	128,375	**114,968**

Cash Provided by Operating Activities

Cash provided by operating activities increased ¥87.0 billion to ¥218.2 billion for the year ended March 31, 2006 from ¥131.2 billion for the year ended March 31, 2005. This increase was primarily due to an increase of income before income taxes and minority interests because of the rise in crude oil and natural gas prices.

Cash Used in Investing Activities

Cash used in investing activities increased ¥132.4 billion to ¥252.4 billion for the year ended March 31, 2006 from ¥120.0 billion for the year ended March 31, 2005. This increase was due to acquisition of investment securities and an increase in development expenditures for the ACG Oil Fields and Kashagan Oil Field.

Cash Provided by Financing Activities

Cash provided by financing activities increased ¥4.6 billion to ¥14.4 billion for the year ended March 31, 2006 from ¥9.8 billion for the year ended March 31, 2005. This increase was primarily due to long-term borrowing from JBIC for development of the Kashagan Oil Field.

INPEX
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Consolidated Balance Sheets

INPEX CORPORATION and Subsidiaries
As of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2005	**2006**	**2006**
Current assets:			
Cash and cash equivalents	¥ 128,375	**¥ 114,968**	**$ 978,701**
Accounts receivable—trade	53,339	**60,098**	**511,603**
Marketable securities (Note 4)	18,391	**21,518**	**183,179**
Inventories	1,282	**3,134**	**26,679**
Deferred tax assets (Note 6)	23	**3,449**	**29,361**
Other current assets (Note 5)	37,010	**54,407**	**463,156**
	238,420	**257,574**	**2,192,679**
Tangible fixed assets:			
Buildings and structures	21,670	**21,746**	**185,120**
Wells	98,942	**104,474**	**889,367**
Machinery, equipment, and vehicles	153,318	**160,744**	**1,368,383**
Land	4,002	**4,002**	**34,068**
Other	12,046	**10,315**	**87,810**
	289,978	**301,281**	**2,564,748**
Less accumulated depreciation and amortization	(221,717)	**(236,061)**	**(2,009,542)**
	68,261	**65,220**	**555,206**
Intangible assets:			
Exploration and development rights	133,106	**131,650**	**1,120,712**
Mining rights	5,381	**4,857**	**41,347**
Other	144	**250**	**2,128**
	138,631	**136,757**	**1,164,187**
Investments and other assets:			
Recoverable accounts under production sharing	239,619	**294,273**	**2,505,090**
Less allowance for recoverable accounts under production sharing	(41,518)	**(44,547)**	**(379,220)**
	198,101	**249,726**	**2,125,870**
Investment securities (Notes 4 and 5)	118,355	**236,967**	**2,017,256**
Long-term loans receivable	114	**1,734**	**14,761**
Deferred tax assets (Note 6)	2,208	**10,271**	**87,435**
Other investments	20,901	**22,417**	**190,832**
Less allowance for doubtful accounts	(661)	**(2,946)**	**(25,079)**
Less allowance for investments in exploration	(5,102)	**(5,282)**	**(44,965)**
	333,916	**512,887**	**4,366,110**
Total assets	¥ 779,228	**¥ 972,438**	**$ 8,278,182**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current liabilities:			
Accounts payable—trade	¥ 20,130	**¥ 20,160**	**$ 171,618**
Current portion of long-term debt (Note 5)	2,263	**13,756**	**117,102**
Income taxes payable (Note 6)	49,938	**83,060**	**707,074**
Other current liabilities	50,579	**62,625**	**533,115**
	122,910	**179,601**	**1,528,909**
Long-term liabilities:			
Long-term debt (Note 5)	175,604	**206,537**	**1,758,211**
Deferred tax liabilities (Note 6)	25,815	**22,948**	**195,352**
Accrued employees' retirement benefits	1,504	**1,719**	**14,634**
Accrued officers' retirement benefits	594	**651**	**5,542**
Liabilities for site restoration and decommissioning costs	—	**1,666**	**14,182**
Liabilities for losses on development activities	—	**1,982**	**16,872**
Other	6,222	**14,733**	**125,419**
	209,739	**250,236**	**2,130,212**
Total liabilities	332,649	**429,837**	**3,659,121**
Minority interests in consolidated subsidiaries	35,283	**37,603**	**320,108**
Shareholders' equity (Note 7):			
Capital stock:	29,460	**29,460**	**250,787**
Authorized: 2005 — 2,356,801 shares			
2006 — 2,356,799.56 shares			
Issued: 2005 — 1,919,833.75 shares			
2006 — 1,919,832.31 shares			
Additional paid-in capital	62,403	**62,403**	**531,225**
Retained earnings	320,090	**415,734**	**3,539,065**
Unrealized holding gain (loss) on securities	375	**(3,717)**	**(31,642)**
Translation adjustments	(1,031)	**1,118**	**9,518**
Less: Treasury stock: 2005 — 1 share	(1)	**—**	**—**
Total shareholders' equity	411,296	**504,998**	**4,298,953**
Contingent liabilities (Note 12)			
Total liabilities and shareholders' equity	¥779,228	**¥972,438**	**$8,278,182**

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Consolidated Statements of Income

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2005	**2006**	**2006**
Net sales	¥218,831	¥478,587	**¥704,235**	**$5,995,020**
Cost of sales	105,759	197,094	**257,904**	**2,195,488**
Gross profit	113,072	281,493	**446,331**	**3,799,532**
Exploration expenses	11,552	2,474	**5,521**	**46,999**
Selling, general and administrative expenses (Notes 10 and 11)	5,314	8,718	**10,211**	**86,924**
Depreciation and amortization	2,330	1,638	**3,948**	**33,609**
Operating income	93,876	268,663	**426,651**	**3,632,000**
Other income:				
Interest income	1,575	4,060	**9,742**	**82,932**
Foreign exchange gain	10,761	—	**—**	**—**
Gain on sales of mining rights	1,497	—	**—**	**—**
Equity in earnings of affiliates	453	—	**1,347**	**11,467**
Other	1,217	678	**1,183**	**10,070**
	15,503	4,738	**12,272**	**104,469**
Other expenses:				
Interest expense	1,817	2,984	**9,033**	**76,896**
Equity in losses of affiliates	—	1,583	**—**	**—**
Provision for allowance for recoverable accounts under production sharing	10,057	518	**3,642**	**31,004**
Amortization of exploration and development rights	746	1,607	**405**	**3,448**
Provision for site restoration and decommissioning costs	—	—	**1,584**	**13,484**
Provision for losses on development activities	—	—	**1,982**	**16,872**
Provision for doubtful accounts	—	—	**2,311**	**19,673**
Amortization of goodwill	—	2,784	**—**	**—**
Foreign exchange loss	—	2,859	**12,418**	**105,712**
Other	1,986	2,434	**4,008**	**34,120**
	14,606	14,769	**35,383**	**301,209**
Income before income taxes and minority interests	94,773	258,632	**403,540**	**3,435,260**
Income taxes (Note 6):				
Current	55,081	187,405	**312,519**	**2,660,416**
Deferred	5,237	(4,798)	**(13,862)**	**(118,005)**
	60,318	182,607	**298,657**	**2,542,411**
Minority interests	(327)	(469)	**1,406**	**11,969**
Net income (Note 8)	¥ 34,782	¥ 76,494	**¥103,477**	**$ 880,880**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2004, 2005 and 2006

Millions of yen

	Capital stock	Additional paid-in capital	Retained earnings	Unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2003	¥29,460	¥ —	¥220,853	¥ 410	¥ 2,847	¥—	¥253,570
Net income	—	—	34,782	—	—	—	34,782
Cash dividends paid	—	—	(5,892)	—	—	—	(5,892)
Bonuses to directors and statutory auditors	—	—	(115)	—	—	—	(115)
Unrealized holding loss on securities	—	—	—	(256)	—	—	(256)
Translation adjustments	—	—	—	—	(3,975)	—	(3,975)
Balance at March 31, 2004	29,460	—	249,628	154	(1,128)	—	278,114
Purchase of treasury stock	—	—	—	—	—	(1)	(1)
Increase due to share exchange transaction	—	62,403	—	—	—	—	62,403
Net income	—	—	76,494	—	—	—	76,494
Cash dividends paid	—	—	(5,892)	—	—	—	(5,892)
Bonuses to directors and statutory auditors	—	—	(140)	—	—	—	(140)
Unrealized holding gain on securities	—	—	—	221	—	—	221
Translation adjustments	—	—	—	—	97	—	97
Balance at March 31, 2005	**29,460**	**62,403**	**320,090**	**375**	**(1,031)**	**(1)**	**411,296**
Net income	**—**	**—**	**103,477**	**—**	**—**	**—**	**103,477**
Cash dividends paid	**—**	**—**	**(7,679)**	**—**	**—**	**—**	**(7,679)**
Bonuses to directors and statutory auditors	**—**	**—**	**(153)**	**—**	**—**	**—**	**(153)**
Unrealized holding loss on securities	**—**	**—**	**—**	**(4,092)**	**—**	**—**	**(4,092)**
Translation adjustments	**—**	**—**	**—**	**—**	**2,149**	**—**	**2,149**
Retirement of treasury stock	**—**	**—**	**(1)**	**—**	**—**	**1**	**—**
Balance at March 31, 2006	**¥29,460**	**¥62,403**	**¥415,734**	**¥(3,717)**	**¥ 1,118**	**¥—**	**¥504,998**

Thousands of U.S. dollars (Note 3)

	Capital stock	Additional paid-in capital	Retained earnings	Unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2005	**$250,787**	**$531,225**	**$2,724,866**	**$ 3,192**	**$(8,776)**	**$(9)**	**$3,501,285**
Net income	**—**	**—**	**880,880**	**—**	**—**	**—**	**880,880**
Cash dividends paid	**—**	**—**	**(65,370)**	**—**	**—**	**—**	**(65,370)**
Bonuses to directors and statutory auditors	**—**	**—**	**(1,302)**	**—**	**—**	**—**	**(1,302)**
Unrealized holding loss on securities	**—**	**—**	**—**	**(34,834)**	**—**	**—**	**(34,834)**
Translation adjustments	**—**	**—**	**—**	**—**	**18,294**	**—**	**18,294**
Retirement of treasury stock	**—**	**—**	**(9)**	**—**	**—**	**9**	**—**
Balance at March 31, 2006	**$250,787**	**$531,225**	**$3,539,065**	**$(31,642)**	**$ 9,518**	**$—**	**$4,298,953**

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

INPEX CORPORATION and Subsidiaries
For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2005	**2006**	**2006**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 94,773	¥ 258,632	**¥ 403,540**	**$ 3,435,260**
Depreciation and amortization	4,049	12,960	**16,065**	**136,758**
Amortization of goodwill	169	2,868	**—**	**—**
Provision for allowance for doubtful accounts	123	480	**2,284**	**19,443**
Provision for allowance for (reversal of) recoverable accounts under production sharing	11,284	573	**3,665**	**31,199**
Provision for accrued retirement benefits	(141)	204	**272**	**2,316**
Provision for losses on development activities	—	—	**1,982**	**16,872**
Provision for site restoration and decommissioning costs	—	—	**1,584**	**13,484**
Interest and dividend income	(1,711)	(4,204)	**(10,035)**	**(85,426)**
Interest expense	1,816	2,984	**9,033**	**76,896**
Foreign exchange loss (gain)	(11,980)	(474)	**11,031**	**93,905**
Equity in (earnings) losses of affiliates	(452)	1,583	**(1,347)**	**(11,467)**
Gain on sales of mining rights	(1,497)	—	**—**	**—**
Accounts receivable	(2,521)	(20,807)	**(6,758)**	**(57,530)**
Recovery of recoverable accounts under production sharing (capital expenditures)	21,744	38,375	**62,331**	**530,612**
Recoverable accounts under production sharing (operating expenditures)	(13,828)	(7,721)	**(4,869)**	**(41,449)**
Inventories	480	(389)	**(1,853)**	**(15,774)**
Accounts payable—trade	(266)	7,045	**30**	**255**
Other receivables	(389)	(15,004)	**(12,865)**	**(109,517)**
Accounts payable—other	541	14,486	**19,750**	**168,128**
Long-term accounts payable	(741)	1,728	**4,604**	**39,193**
Advance payments received	(2,160)	3,315	**(5,494)**	**(46,769)**
Bonuses to directors and statutory auditors	(114)	(142)	**(155)**	**(1,319)**
Other	(831)	311	**952**	**8,105**
Subtotal	98,348	296,803	**493,747**	**4,203,175**
Interest and dividends received	2,471	4,832	**10,127**	**86,209**
Interest paid	(1,322)	(2,596)	**(8,102)**	**(68,971)**
Income taxes paid	(55,033)	(167,832)	**(277,532)**	**(2,362,577)**
Net cash provided by operating activities	44,464	131,207	**218,240**	**1,857,836**
Cash flows from investing activities:				
Proceeds from sales of marketable securities	20,707	18,896	**18,300**	**155,784**
Purchases of tangible fixed assets	(8,920)	(11,117)	**(9,091)**	**(77,390)**
Proceeds from sales of tangible fixed assets	22	352	**9**	**77**
Purchases of investment securities	(19,661)	(63,754)	**(144,693)**	**(1,231,744)**
Proceeds from sales of investment securities	3,685	5,043	**2,247**	**19,128**
Investment in recoverable accounts under production sharing	(58,997)	(65,236)	**(109,411)**	**(931,395)**
Increase in short-term loans receivable	—	—	**(4,236)**	**(36,060)**
Long-term loan made	—	—	**(1,645)**	**(14,004)**
Additional acquisition of shares of consolidated subsidiary	(633)	—	**—**	**—**
Purchase of mining rights (Note 13)	(163,511)	—	**—**	**—**
Proceeds from sales of mining rights (Note 13)	3,052	—	**—**	**—**
Proceeds from purchase of subsidiaries' stock resulting in changes in the scope of consolidation (Note 13)	3,992	—	**—**	**—**
Other	2,143	(4,140)	**(3,880)**	**(33,030)**
Net cash used in investing activities	(218,121)	(119,956)	**(252,400)**	**(2,148,634)**
Cash flows from financing activities:				
Proceeds from long-term debt	136,028	15,611	**49,431**	**420,797**
Repayment of long-term debt	(195)	(2,282)	**(27,231)**	**(231,812)**
Proceeds from minority interests for additional shares	30,320	1,488	**1,109**	**9,441**
Cash dividends paid	(5,892)	(5,892)	**(7,679)**	**(65,370)**
Cash dividends paid to minority shareholders	—	(79)	**(79)**	**(673)**
Restricted cash deposited	(9,140)	—	**(1,200)**	**(10,215)**
Proceeds from refund of restricted cash	—	940	**—**	**—**
Other	(1)	5	**—**	**—**
Net cash provided by financing activities	151,120	9,791	**14,351**	**122,168**
Effect of exchange rate changes on cash and cash equivalents	(1,295)	(3,143)	**6,402**	**54,499**
Net (decrease) increase in cash and cash equivalents	(23,832)	17,899	**(13,407)**	**(114,131)**
Cash and cash equivalents at beginning of year	78,414	54,582	**128,375**	**1,092,832**
Increase in cash and cash equivalents due to a share exchange transaction (Note 13)	—	55,894	**—**	**—**
Cash and cash equivalents at end of year	¥ 54,582	¥ 128,375	**¥ 114,968**	**$ 978,701**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

INPEX CORPORATION and Subsidiaries

1 BASIS OF PRESENTATION

INPEX CORPORATION (the "Company") is primarily engaged in the exploration, development and production of natural gas and crude oil.

The Company and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which may differ in certain material respects from accounting principles generally accepted in the United States of America, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation and accounting for investments in affiliates

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

Most of the Company's subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differ from that of the Company; however, the significant effect of the difference in fiscal periods has been properly adjusted in consolidation. The financial statements of Japan Oil Development Co., Ltd., whose fiscal periods ended December 31, were prepared for consolidation purpose as of the consolidated closing date.

Until the year ended March 31, 2005, INPEX Southwest Caspian Sea, Ltd. and INPEX North Caspian Sea, Ltd. were consolidated on the basis of fiscal periods ended December 31, which differ from that of the Company. Commencing in the year ended March 31, 2006, however, due to the increase in their materiality, their financial statements prepared for consolidation purpose as of the consolidation closing date have been used. Accordingly, the consolidated operating results for the year ended March 31, 2006 included operating results for 15 months from January 1, 2005 to March 31, 2006 for those consolidated subsidiaries. The effect of this change on the consolidated statement of operations was to increase net sales by ¥22,295 million ($189,793 thousand), operating income by ¥9,548 million ($81,280 thousand), income before income taxes and minority interests by ¥9,788 million ($83,323 thousand), and net income by ¥2,885 million ($24,559 thousand), for the year ended March 31, 2006 compared with the corresponding amounts which would have been recorded if the previous method had been followed. The excess of cost over underlying net assets at fair value as of their dates of acquisition is amortized over a period of less than 20 years on a straight-line basis. In the year ended March 31, 2005, the goodwill previously recorded was fully written off because the analysis of subsequent investment results of goodwill revealed that the goodwill has no future value.

(b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Except for the components of shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as components of shareholders' equity and minority interests in the accompanying consolidated financial statements.

(d) Securities

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

(e) Inventories

Inventories are mainly stated at cost determined by the average method.

(f) Allowance for doubtful accounts

The allowance for doubtful receivables is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(g) Recoverable accounts under production sharing and related allowance

Cash investments made by the Company during exploration, development and production phases under a production sharing contract and a service contract (buyback arrangement) are recorded as "Recoverable accounts under production sharing" so long as they are recoverable under the terms of the relevant contract. When the Company receives the natural gas and crude oil in accordance with the contract, an amount corresponding to the purchase costs of the products (i.e., a cost recovery portion of the investments) is released from this account.

Because these investments are recoverable only where commercial oil or gas is discovered, an allowance for recoverable accounts under production sharing is provided for probable losses on investments made during the exploration phase under production sharing contracts arising from the failure to discover commercial oil and gas. This allowance is stated at an amount based on an assessment of the recoverability of the investment in each respective project.

(h) Allowance for investments in exploration

The allowance for investments in exploration is provided for future potential losses on investments in exploration companies at an estimated amount based on the net assets of the investees.

(i) Tangible fixed assets

Depreciation of mining facilities is mainly computed by the unit-of-production method.

Depreciation of other tangible fixed assets is determined primarily by the declining-balance method, except for the buildings acquired on and after April 1, 1998, on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets.

(j) Intangible fixed assets

Exploration and development rights at the exploration stage are fully amortized in the year such rights are acquired and those at the production stage are amortized by the unit-of-production method.

Mining rights are amortized by the unit-of-production method.

Capitalized computer software costs are being amortized over a period of five years.

Other intangible fixed assets are amortized by the straight-line method.

(k) Accrued retirement benefits

The Company and most of its subsidiaries have defined benefit plans, i.e., lump-sum payment plans and/or multi-employer pension fund plans, covering substantially all employees, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Accrued retirement benefits for employees are provided at the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(l) Liabilities for site restoration and decommissioning costs

Liabilities for site restoration and decommissioning costs are provided for expected future costs for decommissioning oil and gas production facilities, related pipelines and wells.

Until the year ended March 31, 2005, the cost of decommissioning oil and gas production facilities, related pipelines and wells was recognized as expense on a cash basis. Effective the year ended March 31, 2006, the Company changed its accounting policy to recognize liabilities for the estimated amount of future decommissioning costs because such costs estimated based on the future decommissioning plans are expected to be material. The effect of this change was to decrease income before income taxes and minority interests by ¥1,584 million ($13,484 thousand).

(m) Liabilities for losses on development activities

Liabilities for losses on development activities are provided for provable losses on oil and natural gas development activities individually estimated for each project.

The Company commenced to record such liabilities effective the year ended March 31, 2006, considering changes in the situation of projects such as delay in development.

(n) Leases

Non-cancelable leases are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(o) Research and development expenses

Research and development expenses are charged to income as incurred.

(p) Income taxes

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

(q) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Notes 7 and 15.

(r) Adoption of new accounting standard

Effective April 1, 2005, the Company has adopted a new accounting standard for the impairment of fixed assets.

3 U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥117.47 = US$1.00, the approximate rate of exchange in effect on March 31, 2006. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

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4 SECURITIES

a) Information regarding other securities with determinable market value as of March 31, 2005 and 2006 is as follows:

March 31, 2005	Millions of yen Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities whose fair value exceeds their acquisition cost:			
Stock	¥ 287	¥ 392	¥105
Debt securities	76,227	76,527	300
Other	500	863	363
Subtotal	77,014	77,782	768
Securities whose acquisition cost exceeds their fair value:			
Debt securities	17,266	17,247	(19)
Subtotal	17,266	17,247	(19)
Total	¥94,280	¥95,029	¥749

March 31, 2006	Millions of yen Acquisition cost	Carrying value	Gross unrealized gains (losses)	Thousands of U.S. dollars Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities whose fair value exceeds their acquisition cost:						
Stock	**¥ 19,907**	**¥ 22,187**	**¥ 2,280**	**$ 169,465**	**$ 188,874**	**$ 19,409**
Debt securities	**17,214**	**17,246**	**32**	**146,540**	**146,812**	**272**
Other	**500**	**1,139**	**639**	**4,256**	**9,696**	**5,440**
Subtotal	**37,621**	**40,572**	**2,951**	**320,261**	**345,382**	**25,121**
Securities whose acquisition cost exceeds their fair value:						
Debt securities	**173,992**	**167,777**	**(6,215)**	**1,481,161**	**1,428,254**	**(52,907)**
Subtotal	**173,992**	**167,777**	**(6,215)**	**1,481,161**	**1,428,254**	**(52,907)**
Total	**¥211,613**	**¥208,349**	**¥(3,264)**	**$1,801,422**	**$1,773,636**	**$(27,786)**

b) Information regarding sales of securities classified as other securities for the years ended March 31, 2004, 2005 and 2006 is as follows:

Year ended March 31,	Millions of yen 2004	2005	**2006**	Thousands of U.S. dollars **2006**
Proceeds from sales	¥24,391	¥23,939	**¥20,547**	**$174,913**
Gain on sales	63	—	—	—
Loss on sales	—	—	**141**	**1,200**

c) The components of other securities without a determinable market value at March 31, 2005 and 2006 are summarized as follows:

Year ended March 31,	Millions of yen 2005	**2006**	Thousands of U.S. dollars **2006**
Other securities:			
Unlisted securities*	¥23,493	**¥27,528**	**$234,341**
Total	¥23,493	**¥27,528**	**$234,341**

*An allowance is provided for investments in exploration companies at an estimated amount based on the financial position of the investees.

d) The redemption schedule for securities with maturity dates classified as other securities at March 31, 2006 is as follows:

March 31, 2006	Millions of yen: 1 year or less	Millions of yen: More than 1 year but less than 5 years	Millions of yen: More than 5 years but less than 10 years	Millions of yen: More than 10 years	Thousands of U.S. dollars: 1 year or less	Thousands of U.S. dollars: More than 1 year but less than 5 years	Thousands of U.S. dollars: More than 5 years but less than 10 years	Thousands of U.S. dollars: More than 10 years
Debt securities:								
Public bonds	**¥17,500**	**¥80,441**	**¥1,946**	**¥81,118**	**$148,974**	**$684,779**	**$16,566**	**$690,542**
Corporate bonds	**4,018**	—	—	—	**34,205**	—	—	—
Total	**¥21,518**	**¥80,441**	**¥1,946**	**¥81,118**	**$183,179**	**$684,779**	**$16,566**	**$690,542**

5 LONG-TERM DEBT

Long-term debt at March 31, 2005 and 2006 consisted of the following:

March 31,	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
Loans from banks and others, at interest rates ranging from 1.420% to 5.880%, due through 2019:	¥177,867	**¥220,293**	**$1,875,313**
Less: Current portion	2,263	**13,756**	**117,102**
	¥175,604	**¥206,537**	**$1,758,211**

Assets pledged at March 31, 2005 and 2006 were as follows:

March 31,	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
Other current assets (restricted cash)	¥ 8,200	**¥ 9,400**	**$ 80,020**
Investment securities	2,636	**5,103**	**43,441**
Total	¥10,836	**¥14,503**	**$123,461**

The above assets were pledged against the following liabilities:

March 31,	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
Long-term debt	¥92,597	**¥94,070**	**$800,800**
Guarantee obligation	8,462	**7,663**	**65,234**

The aggregate annual maturities of long-term borrowings subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 13,756	$ 117,102
2008	43,594	371,107
2009	14,096	119,997
2010	14,096	119,997
2011	14,096	119,997
2012 and thereafter	¥120,655	$1,027,113
Total	¥220,293	$1,875,313

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6 INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 36.2% in 2004, 2005 and 2006.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004, 2005 and 2006 differ from the statutory tax rate for the following reasons:

Year ended March 31,	2004	2005	**2006**
Statutory tax rate	36.2%	36.2%	**36.2%**
Effect of:			
Permanent differences	0.1	—	**(0.1)**
Change in valuation allowance	0.7	3.3	**3.6**
Foreign tax credits	(29.5)	(15.3)	**(16.2)**
Foreign taxes	54.0	70.4	**71.7**
Equity in earnings of affiliates	(0.6)	(0.6)	**(0.3)**
Adjustment of deducted amounts of foreign taxes	—	(19.4)	**(17.5)**
Operating losses used during this fiscal year	—	(4.4)	**(3.5)**
Other	2.7	0.4	**0.1**
Effective tax rates	63.6%	70.6%	**74.0%**

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2005	**2006**	**2006**
Deferred tax assets:			
Investments in related parties	¥ 28,077	**¥ 32,851**	**$ 279,654**
Loss on revaluation of land	4,543	**4,543**	**38,674**
Accounts payable—other	—	**5,381**	**45,807**
Recoverable accounts under production sharing (Foreign taxes)	7,123	**10,988**	**93,539**
Allowance for investments in exploration	3,277	**1,913**	**16,285**
Foreign taxes payable	13,038	**23,107**	**196,706**
Net operating loss	16,248	**3,622**	**30,833**
Accumulated amortization of tangible fixed assets	1,012	**1,339**	**11,399**
Accrued retirement benefits	726	**814**	**6,929**
Translation differences of asset and liabilities denominated in foreign currencies	6,732	**7,263**	**61,829**
Other	5,180	**3,692**	**31,429**
Total gross deferred tax assets	85,956	**95,513**	**813,084**
Valuation allowance	(76,712)	**(79,472)**	**(676,530)**
Total deferred tax assets	9,244	**16,041**	**136,554**
Deferred tax liabilities:			
Foreign taxes	26,014	**24,076**	**204,954**
Translation differences of asset and liabilities denominated in foreign currencies	5,049	—	—
Other	3,792	**3,632**	**30,919**
Total deferred tax liabilities	34,855	**27,708**	**235,873**
Net deferred tax liabilities	¥ 25,611	**¥ 11,667**	**$ 99,319**

7 SHAREHOLDERS' EQUITY

As of March 31, 2006, the total number of the Company's shares issued consisted of 1,919,831.31 shares of common stock and one special class share. The special class share has no voting rights at the common shareholders meeting, but the ownership of the special class share gives its holder a veto right over the following certain important matters by imposing the requirement to obtain a class vote. However, requirements stipulated in the Articles of Incorporation are necessary in the case of the appointment and removal of directors, disposition of important assets or the exercise of the veto;

- Appointment and removal of directors
- Disposition of all or part of the material assets
- Amendments to the Article of Incorporation with respect to (i) the purpose of the Company's business and (ii) the granting of voting rights to the Company's shares other than common stock
- Mergers, share exchange or share transfer
- Capital reduction
- Dissolution

The special class share will be redeemed upon request by the relevant special class shareholder.

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the capital stock account. The legal reserve amounted to ¥7,365 million and ¥7,365 million ($62,697 thousand), respectively, at March 31, 2005 and 2006.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors. The Code also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of capital stock, the excess may be distributed to the shareholders either as a return of capital or as dividends, subject to the approval of the shareholders.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distribution of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of shareholders, or the Board of Directors if certain conditions are met.

8 AMOUNTS PER SHARE

	Yen			U.S. dollars
Year ended March 31,	2004	2005	**2006**	**2006**
Net income	¥ 58,838.76	¥ 40,255.92	**¥ 53,814.47**	**$ 458.11**
Cash dividends	10,000.00	4,000.00	**5,500.00**	**46.82**
Net assets	471,826.00	214,163.98	**262,966.53**	**2,238.58**

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

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

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

The Company made a three-for-one stock split of the Company's common stock effective May 18, 2004 that resulted in an increase of 1,279,888.50 shares of the Company's common stock.

Had this stock split been made as of April 1, 2003, amounts per share information for the year ended March 31 2004 would have been as follows:

Year ended March 31,	Yen 2004
Net income	¥ 19,612.92
Cash dividends	3,333.33
Net assets	157,275.33

9 DERIVATIVES

(a) Hedging policies

During the year ended March 31, 2006, the Company has entered into forward foreign exchange contracts in order to reduce its exposure to foreign currency risk from its assets and liabilities denominated in foreign currencies. The Company does not engage in derivative transaction for trading purposes. Also, Nominal amounts for transactions are limited to amounts of assets and liabilities at market risk.

(b) Credit risk

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

(c) Risk management

The execution and control of derivative transactions are based on internal rules. All transactions are reported to director in charge on timely basis and confirmations of transactions are obtained from counterparties on a regular basis.

(d) Fair value of derivatives

No derivatives positions remained outstanding at March 31, 2005 or 2006.

10 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses amounted to ¥56 million, ¥53 million and ¥51 million ($434 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

11 RETIREMENT BENEFIT EXPENSES

Retirement benefit expenses for employees amounted to ¥103 million, ¥220 million and ¥308 million ($2,622 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

12 CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of affiliates in the aggregate amount of ¥9,323 million ($79,365 thousand).

In addition, INPEX BTC Pipeline, Ltd. a consolidated subsidiary, was contingently liable as guarantor of indebtedness of BTC Pipeline Project Finance in the amount of ¥7,207 million ($61,040 thousand) at December 31, 2005.

13 SUPPLEMENTARY CASH FLOW INFORMATION

a) Following are the assets and liabilities of INPEX Jawa and its subsidiary which became consolidated subsidiaries during the year ended March 31, 2004 following the acquisition of their stock:

March 31, 2004	Millions of yen
Current assets	¥ 13,916
Long-term assets	2,539
Current liabilities	(34)
Minority interests	(2,526)
Minority interests in consolidated subsidiaries	(5,126)
Purchase of stock	8,769
Cash and cash equivalents held by subsidiaries	(12,761)
Net proceeds	¥ 3,992

b) Summary of the increase in assets and liabilities following the acquisition of interests by INPEX Southwest Caspian Sea, Ltd. during the year ended March 31, 2004 is as follows:

March 31, 2004	Millions of yen
Current assets	¥ 5
Long-term liabilities	164,494
Current liabilities	(988)
Purchase of mining rights	¥(163,511)

c) Summary of the decrease in assets and liabilities following the sales of interests by INPEX Sahul, Ltd. during the year ended March 31, 2004 is as follows:

March 31, 2004	Millions of yen
Current assets	¥ 21
Long-term liabilities	1,737
Current liabilities	(203)
Net assets of business sold	1,555
Gain on sales of mining rights	1,497
Proceeds from sales of mining rights	¥3,052

d) Following are the assets and liabilities of Japan Oil Development Co., Ltd. which became a consolidated subsidiary during the year ended March 31, 2005 due to a share exchange transaction:

March 31, 2005	Millions of yen
Current assets	¥ 79,502
Long-term assets	53,682
Total assets	133,184
Current liabilities	46,146
Long-term liabilities	24,635
Total liabilities	¥ 70,781

e) Significant non-cash transaction: Increase in paid-in capital in the amount of ¥62,403 million due to the share exchange transaction during the year ended March 31, 2005.

14 SEGMENT INFORMATION

The Company and its subsidiaries are primarily engaged in the joint exploration, development and production of natural gas and crude oil in Indonesia, the Middle East, Oceania, the Caspian Sea and certain other areas. As net sales, operating income and total assets of the oil and natural gas business constituted more than 90% of the consolidated totals for the years ended March 31, 2004, 2005 and 2006, the disclosure of business segment information has been omitted.

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2004, 2005 and 2006 is summarized as follows:

Millions of yen

Year ended March 31, 2004	Asia-Oceania (a)	NIS (b)	Other (c)	Total	Eliminations	Consolidated
Sales to third parties	¥211,422	¥ —	¥7,409	¥218,831	¥ —	¥218,831
Intergroup sales and transfers	—	6,506	—	6,506	(6,506)	—
Total sales	211,422	6,506	7,409	225,337	(6,506)	218,831
Operating expenses	121,426	4,754	5,440	131,620	(6,665)	124,955
Operating income	¥ 89,996	¥ 1,752	¥1,969	¥ 93,717	¥ 159	¥ 93,876
Total assets	¥214,325	¥191,697	¥6,412	¥412,434	¥112,864	¥525,298

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) NIS: Kazakhstan, Azerbaijan
(c) Other: UAE, Iran

Millions of yen

Year ended March 31, 2005	Asia-Oceania (a)	NIS (b)	Middle East (c)	Other (d)	Total	Eliminations	Consolidated
Sales to third parties	¥287,185	¥ —	¥191,402	¥ —	¥478,587	¥ —	¥478,587
Intergroup sales and transfers	—	20,900	414	—	21,314	(21,314)	—
Total sales	287,185	20,900	191,816	—	499,901	(21,314)	478,587
Operating expenses	150,825	16,472	63,977	3	231,277	(21,353)	209,924
Operating income	¥136,360	¥ 4,428	¥127,839	¥ (3)	¥268,624	¥ 39	¥268,663
Total assets	¥236,647	¥223,532	¥179,413	¥4,228	¥643,820	¥135,408	¥779,228

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) NIS: Kazakhstan, Azerbaijan
(c) Middle East: UAE, Iran
(d) Other: Angola, Brazil

Millions of yen

Year ended March 31, 2006	Asia-Oceania (a)	NIS (b)	Middle East (c)	Other (d)	Total	Eliminations	Consolidated
Sales to third parties	**¥339,524**	**¥ 63,767**	**¥300,944**	**¥ —**	**¥704,235**	**¥ —**	**¥704,235**
Intergroup sales and transfers	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**339,524**	**63,767**	**300,944**	**—**	**704,235**	**—**	**704,235**
Operating expenses	**146,747**	**40,200**	**90,738**	**4**	**277,689**	**(105)**	**277,584**
Operating income	**¥192,777**	**¥ 23,567**	**¥210,206**	**¥ (4)**	**¥426,546**	**¥ 105**	**¥426,651**
Total assets	**¥244,575**	**¥290,996**	**¥239,214**	**¥4,744**	**¥779,529**	**¥192,909**	**¥972,438**

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) NIS: Kazakhstan, Azerbaijan
(c) Middle East: UAE, Iran
(d) Other: Angola, Brazil, Libya

Year ended March 31, 2006	Asia-Oceania (a)	NIS (b)	Middle East (c)	Other (d)	Total	Eliminations	Consolidated
	Thousands of U.S. dollars						
Sales to third parties	$2,890,304	$ 542,836	$2,561,880	$ —	$5,995,020	$ —	$5,995,020
Intergroup sales and transfers	—	—	—	—	—	—	—
Total sales	2,890,304	542,836	2,561,880	—	5,995,020	—	5,995,020
Operating expenses	1,249,230	342,215	772,436	33	2,363,914	(894)	2,363,020
Operating income	$1,641,074	$ 200,621	$1,789,444	$ (33)	$3,631,106	$ 894	$3,632,000
Total assets	$2,082,021	$2,477,194	$2,036,384	$40,385	$6,635,984	$1,642,198	$8,278,182

(a) Asia-Oceania: Indonesia, Australia, East Timor
(b) NIS: Kazakhstan, Azerbaijan
(c) Middle East: UAE, Iran
(d) Other: Angola, Brazil, Libya

The geographical segment information for the Company and its subsidiaries has been reflected in the regions based on the location of operations. Since INPEX Trading, Ltd., a subsidiary of the Company, which is engaged in purchase and sale of crude oil price of the Company and consolidated subsidiaries, does not deal in oil productions activities, operating results of INPEX Trading, Ltd. had been reflected in Asia-Oceania segment where substantially all of its oil for trading are provided until the year ended March 31, 2005. Effective April 1, 2005, operating results and assets of INPEX Trading, Ltd. have been reflected in the segments based on the location of the Company and consolidated subsidiaries which INPEX Trading, Ltd. purchase the crude oil.

As a result, there were no intercompany sales and transfers between segments since all intercompany sales are recorded within the same segment. The effect of this change on the geographical segment information for the years ended March 31, 2005 and 2004 was immaterial.

Overseas sales

Overseas sales, which include sales (other than exports to Japan) of its overseas subsidiaries, for the years ended March 31, 2004, 2005 and 2006 are summarized as follows:

Year ended March 31, 2004	Asia (a)	Other (b)	Total
	Millions of yen		
Overseas sales	¥58,089	¥6,257	¥ 64,346
Consolidated net sales			218,831
Overseas sales as a percentage of consolidated net sales	26.5%	2.9%	29.4%

(a) Asia: Korea, Taiwan, Indonesia, Singapore
(b) Other: Australia

Year ended March 31, 2005	Asia (a)	Other (b)	Total
	Millions of yen		
Overseas sales	¥167,741	¥11,299	¥179,040
Consolidated net sales			478,587
Overseas sales as a percentage of consolidated net sales	35.0%	2.4%	37.4%

(a) Asia: Korea, Taiwan, Indonesia, Singapore, Thailand, China
(b) Other: Australia

Year ended March 31, 2006	Asia (a)	Other (b)	Total	Asia (a)	Other (b)	Total
	Millions of yen			Thousands of U.S. dollars		
Overseas sales	¥249,027	¥45,961	¥294,988	$2,119,920	$391,257	$2,511,177
Consolidated net sales			704,235			5,995,020
Overseas sales as a percentage of consolidated net sales	35.4%	6.5%	41.9%	35.4%	6.5%	41.9%

(a) Asia: Korea, Taiwan, Indonesia, Singapore, Thailand, China, Malaysia
(b) Other: Australia, Italy

15 SUBSEQUENT EVENTS

(a) The Company and Teikoku Oil Co., Ltd. reached agreement on the integration of the two companies and signed a joint stock transfer agreement on November 5, 2005. After approval of "Establishment of the Parent Company through a Stock Transfer" at their respective extraordinary shareholders' meetings and a Special Class Shareholder's meeting, all held on January 31, 2006, INPEX Holdings Inc. was established as the sole parent company on April 3, 2006. Accordingly, the Company became a wholly-owned subsidiary of INPEX Holdings Inc.

An overview of the parent company is summarized as follows:
(As of April 3, 2006)

Company's name:	INPEX Holdings Inc.
Company's headquarters:	4-1-18 Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan
Date of establishment:	April 3, 2006
Main business:	Management and administration of subsidiaries and group companies
Capital:	¥30 billion
Representative Director and President:	Naoki Kuroda

(b) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a general meeting of the shareholders held on June 27, 2006.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5,500 = $46.82 per share)	**¥10,559**	**$89,887**
Bonuses to directors and statutory auditors	**98**	**834**

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

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Report of Independent Auditors

The Board of Directors and Shareholders
INPEX CORPORATION

We have audited the accompanying consolidated balance sheets of INPEX CORPORATION and subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of INPEX CORPORATION and subsidiaries at March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 2(1), effective April 1, 2005, the Company changed its method of accounting for site restoration and decommissioning costs.
2. As described in Note 15(a), on April 3, 2006, the Company became a wholly-owned subsidiary of INPEX Holdings Inc., which was established in accordance with a joint stock transfer agreement between the Company and Teikoku Oil Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon

Tokyo, Japan
June 27, 2006

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* Due to the change of Teikoku Oil's accounting period to reflect the fiscal year ended March 31, 2006, financial information was readjusted using the Company's quarterly earnings report for January 1, 2006 through March 31, 2006.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetical computation only, at the rate of ¥117=U.S.$1.00, the approximate rate of exchange on March 31, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollar at that or any other rate.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Analysis of Results of Operations

Scope of Consolidation

In terms of the scope of consolidation for the fiscal year ended December 31, 2005, 27 subsidiaries were fully consolidated (an increase of two consolidated subsidiaries from the previous year), while equity in one affiliate was accounted for under the equity method (remaining the same as the previous fiscal year).

The newly consolidated subsidiaries included Teikoku Oil Ecuador, Teikoku Oil Suez SOB, Teikoku Oil Nile NQR, and Teikoku Oil Libya UK Ltd. Meanwhile, Teikoku Oil (Sanvi-Guere) and Teikoku Oil Suez KEZ were excluded from the scope of consolidation due to the merger with Teikoku Oil (Venezuela) and the completion of liquidation, respectively.

Impact on Results from the Purchase of Stock Owned by Japan National Oil Corporation

Teikoku Oil acquired stocks held by Japan National Oil Corporation in Egyptian Petroleum Development, Teikoku Oil (Venezuela), Teikoku Oil (Sanvi-Guere) and Teikoku Oil (D.R. Congo) in the previous fiscal year. Due to the timing of these purchases, the impact on consolidated results is described as follows.

The purchase date of the stock in Egyptian Petroleum Development was considered as the first day of the second half of Teikoku Oil's fiscal accounting year (July 1, 2004) for accounting purposes, meaning that the financial contribution of this subsidiary was reflected in the second half of the previous fiscal year. As the effective accounting date for the purchase of Teikoku Oil (Venezuela), Teikoku Oil (Sanvi-Guere) and Teikoku Oil (D.R. Congo) stock was the fiscal year-end of December 31, 2004, these transactions impacted consolidated results of operations from the fiscal year ended December 31, 2005. There was no stock purchase from Japan National Oil Corporation during the fiscal year under review.

Financial Results

Consolidated net sales for the period increased by ¥16,684 million (+19.9% YoY) to ¥100,716 million. Operating income jumped ¥7,544 million (+55.7%) to ¥21,077 million, while income before income taxes and minority interests surged ¥9,446 million (+56.6%) to ¥26,122 million. Net income increased ¥6,209 million (+66.9%) to ¥15,485 million.

Net Sales

By segment, consolidated sales in the Oil and Gas Business grew by ¥16,597 million (+20.3% YoY) to ¥98,406 million, while sales in Other Businesses edged up ¥88 million (+4.0%) to ¥2,310 million.

(A) Natural Gas

The sales volume of natural gas increased by 743 MM m^3 year on year to 1,685 MM m^3, while sales value climbed by ¥3,470 million to ¥38,004 million. Sales by major company were as follows.

Teikoku Oil's sales volume grew by 64 MM m^3 to 902 MM m^3, with city gas companies accounting for 43 MM m^3 and direct sales to factories and other users accounting for 21 MM m^3. Despite the decrease in sales volume due to the discontinuation of supply to Tokyo Gas' Utsunomiya branch in October 2004, the Company's efforts toward sales expansion and shifting demand from other fuels to the Company's natural gas, due to high crude oil prices, contributed to the result.

Teikoku Oil included the sales of its Venezuela project subsidiaries in the consolidated financial statements from the fiscal year under review, including revenues based on the operating service agreements for the reactivation of oil and gas fields in Venezuela. Natural gas consolidated sales volume during the fiscal year totaled 682 MM m^3, and net sales amounted to ¥2,075 million.

Consolidated average unit prices excluding Venezuela project subsidiaries declined by ¥0.85 per cubic meters, reflecting a normal review of unit pricing and larger growth in sales to large-volume users. In addition, as unit prices for Teikoku Oil are fixed annually in individual contract negotiations with users, there is no short-term impact from market or exchange rate fluctuations.

(B) Oil

Consolidated oil sales improved by 932 Mbbls to 3,779 Mbbls, resulting in a sales value increase of ¥7,483 million to ¥17,702 million. Sales volume was down by 702 Mbbls to 1,724 Mbbls due to a decrease in Teikoku Oil (D.R. Congo) tanker shipments of two tankers to a total of five. Meanwhile, Egyptian Petroleum Development recorded a full year of sales, recording an increase of 374 Mbbls to 726 Mbbls. Furthermore, sales volume of Venezuelan project subsidiaries, which were included in the Company's scope of consolidation from the fiscal year under review, stood at 1,267 Mbbls.

The average unit price per barrel sold was US$51.36 for Teikoku Oil (D.R. Congo), up US$15.74 from the previous fiscal year, US$29.35 for Egyptian Petroleum Development, up US$4.61, and US$35.64 per barrel for Venezuela project subsidiaries.

(C) Other Oil and Gas Businesses

Consolidated petroleum product sales volume climbed 28 Mkl to 621 Mkl. In addition to this, sales value grew year on year, increasing net sales by ¥4,993 million to ¥38,365 million. Sales of LPG grew by ¥323 million to ¥2,280 million, owing to an increase both in sales volume and sales price. Sales of iodine rose ¥114 million to ¥818 million, due to increased selling prices despite a decline in sales volume.

Overall sales in Other Oil and Gas Businesses improved by ¥213 million to ¥1,234 million from the previous fiscal year, due to sales recorded in other services and products including petroleum product storage, inbound and outbound shipping, transportation, and instrument sales.

(D) Other Businesses

Other Businesses consist of real estate rental, management and transactions, civil engineering and well drilling, and warehousing. Consolidated sales in this segment grew by ¥88 million to ¥2,310 million, primarily owing to an increase in orders received for civil engineering.

Operating Expenses and Operating Income

Cost of sales increased by ¥7,018 million to ¥55,473 million, reflecting the cost of sales from the Venezuela project subsidiaries and increased purchases of petroleum products and crude oil due to high crude oil prices.

Exploration expenses decreased ¥242 million from the previous fiscal year to ¥4,097 million. Domestic exploration expenses excluding exploration subsidies were down by ¥581 million to ¥2,904 million, and overseas exploration expenses for consolidated subsidiaries rose ¥340 million to ¥1,193 million. Because exploration investment including geological surveys, geophysical surveys, test well drilling and other costs for oil and gas exploration involves a degree of risk, these costs are expensed in the accounting year that the work is initiated.

Selling, general and administrative expenses climbed ¥2,365 million to ¥20,068 million. This resulted from expenses for the Venezuela project subsidiaries, which were recorded in the consolidated financial statements, as well as an increase in depreciation expenses related to the Ryomo Line and Iruma Line.

As a result, operating income increased by ¥7,544 million (+55.7%) to ¥21,077 million.

Other Non-Operating and Pretax Income

Net non-operating income (non-operating income minus non-operating expenses) totaled ¥5,045 million, an increase of ¥1,903 million compared to the previous fiscal year. The principal components of this result were a ¥3,430 million gain on sales of investments in securities. Meanwhile, there was a ¥1,034 million decline in equity in earnings of affiliates, reflecting the inclusion of the Venezuela project subsidiaries into the scope of consolidation from the fiscal year under review, and a ¥1,127 million increase in allowance for losses on overseas investment (a ¥199 million reversal compared to the previous fiscal year) due to the successful bid for the Moruy II Block in the Gulf of Venezuela. Additionally, there was ¥275 million in impairment losses for two idle assets (land), owing to the application of asset impairment accounting from the fiscal year under review.

As a result, income before income taxes and minority interests surged ¥9,446 million (+56.6%) to ¥26,122 million.

Corporate Taxes and Net Income for the Period

Income taxes rose by ¥2,726 million year on year to ¥10,086 million, owing to an increase in revenues from Teikoku Oil and Teikoku Oil (D.R. Congo).

Adjustment for income taxes and minority interests was up by ¥845 million to ¥264 million, reflecting an increase in allowance for losses on overseas investment.

As a result, net income for the period jumped ¥6,209 million (+66.9%) to ¥15,485 million.

Capital Expenditures and Depreciation

Capital expenditures during the fiscal year under review declined by ¥184 million to ¥20,643 million, mainly due to construction for natural gas pipelines including the Shizuoka Line, and reinforcement of production facilities. Depreciation expenses were down by ¥1,198 million to ¥8,962 million, primarily reflecting a decrease in depreciation expenses for wells of Teikoku Oil (D.R. Congo) and offshore platforms of Offshore Iwaki Petroleum despite an increase in depreciation expenses for the Company's pipelines.

Analysis of Financial Position

Balance Sheet Analysis

Total consolidated assets at the end of the fiscal year grew by ¥53,254 million to ¥293,767 million. Current assets increased ¥12,928 million to ¥58,586 million, primarily due to an increase in marketable securities and accounts receivable from increased net sales. Investments and long-term receivables climbed ¥28,180 million to ¥97,602 million, mainly reflecting an increase in the current market value of investment securities. Property, plant and equipment climbed ¥11,198 million to ¥125,418 million, reflecting an increase in construction in progress due to the construction of new pipelines and other capital expenditures.

Total liabilities climbed ¥21,804 million to ¥94,229 million, owing to an increase in deferred tax liabilities along with increased current market value of investment securities, and long-term debt for capital expenditures including new pipelines.

Total shareholders' equity improved ¥31,280 million to ¥197,216 million, reflecting an increase in unrealized holding gains on securities and retained earnings.

During the fiscal year under review, Teikoku Oil vigorously engaged in reinforcement of its business foundation both in Japan and overseas: The Company participated in the second offshore exploration bidding round in the Bolivarian Republic of

Venezuela, and confirmed the successful bid of the Moruy II Block in the Gulf of Venezuela, while expanding new pipeline networks in Japan. In response to this active fund demand, the Company worked to improve the efficiency of funds available within the Group, including the recovery of ¥3,000 million from Offshore Iwaki Petroleum and ¥2,041 million from Teikoku Oil (D.R. Congo) in dividends. Nevertheless, the Company implemented debt financing of ¥14,860 million due to the concentration of payments for capital expenditures. Consequently, long-term borrowings at the end of the fiscal year climbed ¥10,318 million to ¥23,847 million.

Based on these results, the equity ratio edged down to 67.1%, from 69.0% in the previous fiscal year. Teikoku Oil regards this change to be within the range of financial soundness.

Cash Flow Analysis

Cash and cash equivalents at the end of the fiscal year rose ¥3,311 million year on year to ¥25,545 million.

Net cash from operating activities totaled a positive ¥15,118 million for the fiscal year, while the purchase of tangible fixed assets resulted in a net cash outflow from investing activities of ¥20,287 million. Consequently, these results combined for a free cash flow (the sum of cash flows in operating and investing activities) deficit of ¥5,169 million. In addition, implementing long-term borrowings resulted in a net cash inflow in financing activities of ¥7,845 million.

As described above, the net cash decrease in the fiscal year under review was the result of concentrated capital expenditures. The Company believes that its cash flow position will improve as pipelines currently under construction commence operations and expand its market for natural gas.

Financial Policies

As an oil and gas development company, Teikoku Oil is working to expand and reproduce its domestic and overseas reserves and will establish and expand its infrastructure to efficiently produce and market the reserves it acquires. The Company believes the salient characteristics of its business is the length of time it takes from the initiation to completion of projects, while it foresees growing competition in the future between energy domains. In order to increase its competitiveness in the business environs where it operates, the Company believes it is important to build a solid financial structure and maintain its financial soundness.

In addition, in order to ensure its future ability to maintain exploration activities, the Company continues to add to its reserves for exploration, while also allocating funds to its allowance for losses on overseas investments, accruals for the estimated cost of abandoned wells and other reserves in order to be well prepared for unavoidable future expenses.

Items above that refer to future are based on the Group's own assessment as of the end of the period under review.

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Consolidated Balance Sheets

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries
Fiscal years ended December 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2004	**2005**	**2005**
Current assets:			
Cash and cash equivalents	¥ 22,234	**¥ 25,545**	**$ 216,483**
Time deposits	1,681	**1,673**	**14,178**
Marketable securities (Note 5)	1,651	**2,149**	**18,212**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	16	**13**	**110**
Trade	12,377	**15,907**	**134,805**
Less: Allowance for doubtful receivables	(10)	**(6)**	**(51)**
	12,383	**15,914**	**134,864**
Inventories (Note 6)	5,514	**6,330**	**53,644**
Other current assets	2,193	**6,972**	**59,085**
Total current assets	45,658	**58,586**	**496,492**
Investments and long-term receivables:			
Investments in securities (Notes 5, 7 and 8)	68,381	**96,025**	**813,771**
Less: Allowance for losses on overseas investments (Note 7)	(2,253)	**(2,946)**	**(24,966)**
	66,127	**93,079**	**788,805**
Oil and gas investments	2,582	**3,312**	**28,068**
Other long-term receivables	712	**1,211**	**10,263**
Total investments and long-term receivables	69,422	**97,602**	**827,136**
Property, plant and equipment (Note 8):			
Land	8,644	**8,676**	**73,525**
Buildings and structures	132,709	**138,189**	**1,171,093**
Wells	58,029	**58,172**	**492,983**
Machinery and equipment	89,067	**89,837**	**761,331**
Construction in progress	11,743	**24,417**	**206,924**
	300,194	**319,292**	**2,705,864**
Less: Accumulated depreciation	(185,974)	**(193,873)**	**(1,642,992)**
Property, plant and equipment, net	114,220	**125,418**	**1,062,864**
Other assets	11,212	**12,158**	**103,034**
Total assets	¥ 240,513	**¥ 293,767**	**$ 2,489,551**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2005	Thousands of U.S. dollars (Note 3) 2005
Current liabilities:			
Short-term bank loans (Note 8)	¥ 575	**¥ 495**	**$ 4,195**
Current portion of long-term debt (Note 8)	3,831	**4,680**	**39,661**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	65	**151**	**1,280**
Trade	2,420	**2,854**	**24,186**
Other	14,211	**14,323**	**121,381**
	16,698	**17,329**	**146,856**
Accrued income taxes (Note 9)	2,834	**2,905**	**24,619**
Accrued expenses	1,781	**2,075**	**17,585**
Other current liabilities	1,718	**1,513**	**12,822**
Total current liabilities	27,439	**28,998**	**245,746**
Long-term liabilities:			
Long-term debt (Note 8)	13,529	**23,847**	**202,093**
Accrued retirement benefits for employees (Note 10)	6,466	**6,491**	**55,008**
Accrued estimated cost of abandonment of wells	9,611	**10,229**	**86,686**
Deferred tax liabilities (Note 9)	12,611	**23,277**	**197,263**
Other long-term liabilities	2,766	**1,384**	**11,729**
Total long-term liabilities	44,986	**65,230**	**552,797**
Minority interests in consolidated subsidiaries	2,150	**2,320**	**19,661**
Shareholders' equity (Notes 11 and 17)**:**			
Common stock:			
Authorized—800,000,000 shares			
Issued —306,130,000 shares	19,579	**19,579**	**165,924**
Capital surplus	11,225	**11,230**	**95,169**
Retained earnings	114,999	**127,688**	**1,082,102**
Unrealized holding gain on securities, net of deferred income taxes	20,533	**39,081**	**331,195**
Translation adjustments	78	**457**	**3,873**
	166,415	**198,037**	**1,678,280**
Less: Treasury stock, at cost; 978,622 shares in 2004 and 1,340,765 shares in 2005	(479)	**(820)**	**(6,949)**
Total shareholders' equity	165,936	**197,216**	**1,671,322**
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	¥240,513	**¥293,767**	**$2,489,551**

Consolidated Statements of Income

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries
Fiscal years ended December 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	**2005**	**2005**
Net sales	¥84,032	**¥100,716**	**$853,525**
Cost of sales	48,455	**55,473**	**470,110**
Gross profit	35,576	**45,243**	**383,415**
Exploration expenses	4,339	**4,097**	**34,720**
Selling, general and administrative expenses (Note 13)	17,703	**20,068**	**170,068**
Operating income	13,533	**21,077**	**178,619**
Other income (expenses):			
Interest and dividend income	764	**990**	**8,390**
Equity in earnings of affiliates	1,354	**320**	**2,712**
Interest expense	(368)	**(608)**	**(5,153)**
Impairment losses (Note 4)	—	**(275)**	**(2,331)**
Gain on sales of investments in securities	—	**3,430**	**29,068**
Other, net	1,392	**1,189**	**10,076**
	3,142	**5,045**	**42,754**
Income before income taxes and minority interests	16,676	**26,122**	**221,373**
Income taxes (Note 9):			
Current	7,360	**10,086**	**85,475**
Deferred	(581)	**264**	**2,237**
	6,778	**10,350**	**87,712**
Income before minority interests	9,897	**15,772**	**133,661**
Minority interests in earnings of consolidated subsidiaries	(621)	**(287)**	**(2,432)**
Net income	¥ 9,276	**¥ 15,485**	**$131,229**

	Yen		U.S. dollars (Note 3)
	2004	**2005**	**2005**
Amounts per share:			
Net income	¥ 30.22	**¥ 50.61**	**$ 0.43**
Cash dividends	7.5	**9.0**	**0.08**

See notes to consolidated financial statements.

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Consolidated Statements of Shareholders' Equity

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries
Fiscal years ended December 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Common stock			
Beginning of year	¥ 19,579	¥ 19,579	$ 165,924
End of year	¥ 19,579	¥ 19,579	$ 165,924
Capital surplus			
Beginning of year	¥ 11,222	¥ 11,225	$ 95,127
Profit on sales of treasury stock	2	5	42
End of year	¥ 11,225	¥ 11,230	$ 95,169
Retained earnings			
Beginning of year	¥107,735	¥114,999	$ 974,568
Net income for the year	9,276	15,485	131,229
Cash dividends paid	(1,832)	(2,745)	(23,263)
Bonuses to directors and statutory auditors	(50)	(50)	(424)
Adjustment for inclusion in consolidation or equity method of accounting	(130)	—	—
End of year	¥114,999	¥127,688	$1,082,102
Unrealized holding gain on securities			
Beginning of year	¥ 18,205	¥ 20,533	$ 174,008
Net change during the year	2,327	18,548	157,186
End of year	¥ 20,533	¥ 39,081	$ 331,195
Translation adjustments			
Beginning of year	¥ 60	¥ 78	$ 661
Net change during the year	17	378	3,203
End of year	¥ 78	¥ 457	$ 3,873
Treasury stock			
Beginning of year	¥ (340)	¥ (479)	$ (4,059)
Net change during the year	(138)	(341)	(2,890)
End of year	¥ (479)	¥ (820)	$ (6,949)

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries
Fiscal years ended December 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Operating activities			
Income before income taxes and minority interests	¥ 16,676	**¥ 26,122**	**$ 221,373**
Depreciation and amortization	10,160	**8,962**	**75,949**
Loss on devaluation of investments in securities	124	**—**	**—**
Impairment losses	—	**275**	**2,331**
Increase (decrease) in accrued retirement benefit	(183)	**10**	**85**
Increase in accrued estimated cost of abandonment of wells	246	**444**	**3,763**
Increase (decrease) in allowance for losses on overseas investments	(199)	**846**	**7,169**
Other provision	150	**(261)**	**(2,212)**
Interest and dividend income	(764)	**(990)**	**(8,390)**
Interest expense	368	**608**	**5,153**
Equity in earnings of affiliates	(1,354)	**(320)**	**(2,712)**
(Gain) loss on sales of investments in securities	29	**(3,430)**	**(29,068)**
Gain on sales of property, plants and equipment	(138)	**(146)**	**(1,237)**
Increase in notes and accounts receivable	(1,620)	**(3,119)**	**(26,432)**
Increase in inventories	(78)	**(690)**	**(5,847)**
Decrease in other current assets	1,004	**51**	**432**
Increase in notes and accounts payable	82	**290**	**2,458**
(Decrease) increase consumption taxes payable	157	**(229)**	**(1,941)**
Increase in other current liabilities	430	**177**	**1,500**
Bonuses to directors and statutory auditors	(50)	**(50)**	**(424)**
Recovery of oil and gas investments	454	**2,866**	**24,288**
Other, net	(814)	**(6,566)**	**(55,644)**
Subtotal	24,682	**24,853**	**210,619**
Interest and dividend received	820	**990**	**8,390**
Interest paid	(373)	**(679)**	**(5,754)**
Income taxes paid	(5,903)	**(10,045)**	**(85,127)**
Net cash provided by operating activities	19,225	**15,118**	**128,119**
Investing activities			
Decrease (increase) in time deposits	(2,091)	**25**	**212**
(Increase) decrease in marketable securities	2,737	**(493)**	**(4,178)**
(Increase) decrease in short-term receivables	0	**(65)**	**(551)**
Additions to property, plant and equipment	(15,964)	**(19,980)**	**(169,322)**
Proceeds from sales of property, plant and equipment	156	**222**	**1,881**
Additions to intangible fixed assets	(136)	**(93)**	**(788)**
Decrease (increase) in investments in securities	(2,011)	**4,414**	**37,407**
Increase in other long-term receivables	(474)	**(543)**	**(4,602)**
Acquisition of subsidiaries stock resulting	(2,421)	**(107)**	**(907)**
Acquisition of subsidiaries stock resulting in changes in scope of consolidation	618	**—**	**—**
Payments of oil and gas investments	(56)	**(3,083)**	**(26,127)**
Other, net	(375)	**(580)**	**(4,915)**
Net cash used in investing activities	(20,018)	**(20,287)**	**(171,924)**
Financing activities			
(Decrease) increase in short-term bank loans	15	**(80)**	**(678)**
Proceeds from long-term debt	260	**14,860**	**125,932**
Repayment of long-term debt	(4,050)	**(3,866)**	**(32,763)**
Cash dividends paid	(1,912)	**(2,732)**	**(23,153)**
Other, net	(136)	**(336)**	**(2,847)**
Net cash provided by financing activities	(5,824)	**7,845**	**66,483**
Effect of exchange rate changes on cash	16	**632**	**5,356**
Net increase (decrease) in cash and cash equivalents	(6,601)	**3,309**	**28,042**
Cash and cash equivalents at beginning of year	28,789	**22,234**	**188,424**
Increase arising from inclusion of subsidiaries in consolidation	46	**1**	**8**
Cash and cash equivalents at end of year	¥ 22,234	**¥ 25,545**	**$ 216,483**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries
December 31, 2005

1 Basis of Preparation

The accompanying consolidated financial statements of Teikoku Oil Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries, in conformity with those of their countries of domicile, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

2 Significant Accounting Policies

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

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

The excess cost over underlying net equity at fair value of investments in consolidated subsidiaries and in companies accounted for by the equity method is being amortized by the straight-line method over a period no more than 20 years.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost or less. Where there has been permanent impairment in the value of such investments, the Company has written down its investments to reflect such impairment.

(b) Foreign currency translation

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

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

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

Effective the year ended December 31, 2005, the Company and its consolidated subsidiaries have adopted the average rates for the revenue and expense of the foreign subsidiaries. As a result of the adoption, income before income taxes and minority interests decreased by ¥117 million ($992 thousand) for the year ended December 31, 2005 as compared with amount which are translated at the previous rates, the exchange rate at the balance sheet date.

The effect of the above changes on segment information is explained in Note 16.

(c) Cash equivalents

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

(d) Securities

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

(e) Inventories

Finished products are mainly stated at the lower of cost or market, cost being determined by the moving average method. Other inventories are stated at cost determined by the moving average method except for construction projects in progress which are determined by the specific identification method.

(f) The accounting procedure of the account of oil and gas investments

Expenditures relating to exploration and development under certain agreements are capitalized as assets and recovered in accordance with the terms of the respective agreements.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost.

Depreciation is mainly computed by the straight-line method over the estimated useful lives of the respective assets. Significant renewals and improvements are capitalized at cost. Maintenance and repairs are charged to income.

(h) Leases

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

(i) Retirement benefits

Accrued retirement benefits for employees are provided principally at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet dates, as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 10 years which is shorter than the average remaining years of service of the employees.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement allowances plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(j) Income taxes

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

(k) Accrued estimated cost of abandonment of wells

The accrued estimated cost of abandonment of wells is provided to cover the costs to be incurred upon the abandonment of wells at an estimated amount allocated over a scheduled period based on the Company's or consolidated subsidiaries' plans for the abandonment of such wells.

(l) 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 Company with reference to the net worth of the investees and certain other factors.

(m) Research and development costs

Research and development costs are charged to income when incurred.

(n) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See Note 17.)

3 U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetical computation only, at the rate of ¥118=U.S.$1.00, the approximate rate of exchange on December 31, 2005. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4 Accounting Change

Effective January 1, 2005, the Company and its consolidated subsidiaries have adopted a new accounting standard for impairment of fixed assets as the adoption of the standards was permitted from the fiscal year ended March 31, 2004.

The effect of the adoption of this new standard resulted decrease to income before income taxes and minority interests by ¥275 million ($2,331 thousand) for the year ended December 31.

5 Securities

(a) Information regarding marketable securities classified as other securities as of December 31, 2004 and 2005 is as follows:

	Millions of yen		
December 31, 2004	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥21,062	¥53,701	¥32,638
Bonds:			
Government bonds	1,049	1,065	15
Corporate bonds	300	301	0
Other debt securities	149	149	0
Others	—	—	—
Subtotal	22,563	55,218	32,654
Securities whose acquisition cost exceeds their carrying value:			
Stock	1,014	683	(331)
Bonds:			
Government bonds	30	30	(0)
Corporate bonds	415	415	(0)
Other debt securities	1,599	1,599	(0)
Others	—	—	—
Subtotal	3,061	2,729	(332)
Total	¥25,624	¥57,947	¥32,322

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December 31, 2005	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)	Thousands of U.S. dollars Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥18,871	¥80,208	¥61,336	$159,924	$679,729	$519,797
Bonds:						
Government bonds	—	—	—	—	—	—
Corporate bonds	258	269	11	2,186	2,280	93
Other debt securities	1,554	1,554	0	13,169	13,169	0
Others	1	1	0	8	8	0
Subtotal	20,686	82,035	61,348	175,305	695,212	519,898
Securities whose acquisition cost exceeds their carrying value:						
Stock	997	897	(100)	8,449	7,602	(847)
Bonds:						
Government bonds	1,382	1,372	(9)	11,712	11,627	(76)
Corporate bonds	500	500	(0)	4,237	4,237	(0)
Other debt securities	5,140	5,139	(1)	43,559	43,551	(8)
Others	—	—	—	—	—	—
Subtotal	8,021	7,910	(111)	67,975	67,034	(941)
Total	¥28,708	¥89,945	¥61,237	$243,288	$762,246	$518,958

(b) Information regarding sales of securities classified as other securities for the years ended December 31, 2004 and 2005 is as follows:

	Millions of yen 2004	2005	Thousands of U.S. dollars 2005
Proceeds from sales	¥ 84	¥5,584	$47,322
Gain on sales	0	3,430	29,068
Loss on sales	(30)	—	—

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

December 31, 2005	Millions of yen Due in one year or less	Due after one year through five years	Due after five years	Thousands of U.S. dollars Due in one year or less	Due after one year through five years	Due after five years
Government bonds	¥ 372	¥1,000	¥—	$ 3,153	$8,475	$ —
Corporate bonds	600	169	—	5,085	1,432	—
Other debt securities	6,664	—	30	56,475	—	254
Total	¥7,637	¥1,169	¥30	$64,720	$9,907	$254

6 Inventories

Inventories at December 31, 2004 and 2005 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Merchandise and finished products	¥2,553	**¥2,724**	**$23,085**
Work in progress	451	**969**	**8,212**
Real estate for sale	263	**9**	**76**
Raw materials and supplies	2,246	**2,626**	**22,254**
	¥5,514	**¥6,330**	**$53,644**

7 Investments in Securities and Allowance for Losses on Overseas Investments

Investments in securities and allowance for losses on overseas investments at December 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Unconsolidated subsidiaries and affiliates	¥ 3,374	**¥ 4,039**	**$ 34,229**
Less: Allowance for losses on overseas investments	(2,253)	**(0)**	**(0)**
	1,120	**4,039**	**34,229**
Other securities:			
Listed stocks	54,384	**81,106**	**687,339**
Marketable debt securities	1,196	**1,672**	**14,169**
Unlisted stocks and other	9,425	**9,207**	**78,025**
Less: Allowance for losses on overseas investments	—	**(1,745)**	**(14,788)**
	65,006	**90,241**	**764,754**
	¥66,127	**¥94,280**	**$798,983**

8 Short-Term Loans and Long-Term Debt

Short-term bank loans are principally unsecured and generally represent notes. The weighted average interest rates for the years ended December 31, 2004 and 2005 were approximately 1.48% and 1.03%, respectively.

Long-term debt at December 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Loans from banks and others, at interest rates ranging from 0.84% to 5.02%, due through 2016:			
Secured	¥ 9,874	**¥13,037**	**$110,483**
Unsecured	7,485	**15,489**	**131,263**
	17,360	**28,527**	**241,754**
Less: Current portion	(3,831)	**(4,680)**	**(39,661)**
	¥13,529	**¥23,847**	**$202,093**

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Assets pledged as collateral for long-term debt and other liabilities at December 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Investments in securities	¥10,713	**¥ 9,967**	**$ 84,466**
Property, plant and equipment—at net book value	8,321	**7,703**	**65,280**
	¥19,034	**¥17,671**	**$149,754**

Aggregate annual maturities of long-term debt subsequent to December 31, 2005 are as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 4,680	$ 39,661
2007	5,182	43,915
2008	4,640	39,322
2009	3,586	30,390
2010 and thereafter	10,437	88,449
	¥28,527	$241,754

9 Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 36.1% for 2004 and 2005.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2004 and 2005 differ from the statutory tax rate for the following reasons:

	2004	2005
Statutory tax rate	36.1%	**36.1%**
Effect of:		
Foreign tax	26.6	**23.1**
Exploration cost deducted for income tax purposes	(9.4)	**(5.5)**
Expenses not deductible for income tax purposes	0.6	**0.3**
Dividend income deductible for income tax purposes	(0.6)	**(2.6)**
Foreign tax credit	(12.2)	**(8.5)**
Equity in earnings of affiliates	(2.9)	**(0.4)**
Changes in valuation allowance	2.3	**0.8**
Different tax rates applied to income of foreign subsidiaries	—	**(3.1)**
Other, net	0.1	**(0.6)**
Effective tax rate	40.6%	**39.6%**

The significant components of deferred tax assets and liabilities at December 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Allowance for losses on overseas investments	¥ 3,628	¥ 4,272	$ 36,203
Depreciation	3,069	2,507	21,246
Foreign tax credit carryforward	4,620	6,065	51,398
Accrued severance benefits	2,519	2,503	21,212
Loss on devaluation of investments in securities	776	700	5,932
Accrued estimated cost of abandonment of wells	974	1,148	9,729
Property, plant and equipment	606	621	5,263
Net operating loss carryforward	498	405	3,432
Advanced depreciation of fixed assets	394	363	3,076
Foreign exchange loss	1,032	—	—
Loss on revaluation of exploration, investment and development	559	330	2,797
Other	1,347	1,418	12,017
Subtotal	20,027	20,338	172,356
Valuation allowance	(12,715)	(13,421)	(113,737)
Total deferred tax assets	7,311	6,916	58,610
Deferred tax liabilities:			
Reserve for exploration	4,358	4,673	39,602
Reserve for special depreciation	1,257	1,052	8,915
Reserve for advanced depreciation of fixed assets	414	464	3,932
Reserve for losses on overseas investments	287	287	2,432
Unrealized holding gains on securities	11,788	22,145	187,669
Other	100	223	1,890
Total deferred tax liabilities	18,207	28,846	244,458
Net deferred tax liabilities	¥ 10,896	¥ 21,930	$ 185,847

10 Retirement Benefit Plans

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of December 31, 2004 and 2005 for the Company's and the subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
December 31,	2004	2005	2005
Retirement benefit obligation	¥(13,259)	¥(13,169)	$(111,602)
Plan assets at fair value	7,216	7,337	62,178
Unfunded retirement benefit obligation	(6,042)	(5,832)	(49,424)
Unrecognized actuarial gain or loss	(423)	(658)	(5,576)
Accrued retirement benefits for employees	¥ (6,466)	¥ (6,491)	$ (55,008)

The components of retirement benefit expenses for the years ended December 31, 2004 and 2005 are outlined as follows:

Year ended December 31,	Millions of yen 2004	Millions of yen 2005	Thousands of U.S. dollars 2005
Service cost	¥576	**¥ 629**	**$5,331**
Interest cost	253	**246**	**2,085**
Expected return on plan assets	(35)	**(105)**	**(890)**
Amortization of actuarial gain or loss	(21)	**(41)**	**(347)**
Total	¥773	**¥ 729**	**$6,178**

The assumptions used in accounting for the above plans were as follows:

December 31,	2004	2005
Discount rates	2.0%	**2.0%**
Expected return on plan assets	0.5%	**1.5%**

11 Capital Surplus and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve which is included in retained earnings. This reserve amounted to ¥3,401 million ($28,822 thousand) as of December 31, 2004 and 2005. The Code provides that neither capital surplus nor the legal reserve is, in principle, available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code, however, does provide that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

12 Depreciation and Amortization

Depreciation and amortization of property, plant and equipment and other assets charged to income for the years ended December 31, 2004 and 2005 amounted to ¥10,160 million and ¥8,962 million ($75,949 thousand), respectively.

13 Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended December 31, 2004 and 2005 were ¥96 million and ¥85 million ($720 thousand), respectively.

14 Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of December 31, 2004 and 2005 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2004	**2005**	**2005**
Acquisition costs:			
Equipment and others	¥768	**¥838**	**$7,102**
	¥768	**¥838**	**$7,102**
Accumulated depreciation:			
Equipment and others	¥350	**¥405**	**$3,432**
	¥350	**¥405**	**$3,432**
Net book value:			
Equipment and others	¥418	**¥432**	**$3,661**
	¥418	**¥432**	**$3,661**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥144 million and ¥155 million ($1,314 thousand), which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended December 31, 2004 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2005 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2006	¥149	$1,263
2007 and thereafter	282	2,390
	¥432	$3,661

15 Contingent Liabilities

At December 31, 2005, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of others	¥7,608	$64,475

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16 Segment Information

(a) Business segments

The Company and its consolidated subsidiaries are primarily engaged in the oil and gas business. The oil and gas segment comprises natural gas, liquid petroleum gas, crude oil, petroleum products, iodine, petrochemical refining, and the transportation of natural gas and petroleum products; and the other segment comprises real estate leasing and management, drilling wells and warehousing.

The business segment information for the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2005 is outlined as follows:

Millions of yen

2004:	Oil and Gas	Other	Total	Eliminations and other	Consolidated
I. Sales and operating income					
Sales to third parties	¥ 81,809	¥2,222	¥ 84,032	¥ —	¥ 84,032
Intergroup sales and transfers	23	602	626	(626)	—
Total sales	81,833	2,825	84,658	(626)	84,032
Operating expenses	68,622	2,588	71,211	(712)	70,498
Operating income	¥ 13,211	¥ 236	¥ 13,447	¥ 85	¥ 13,533
II. Assets, depreciation and capital expenditures					
Total assets	¥234,784	¥6,688	¥241,473	¥ (960)	¥240,513
Depreciation and amortization	10,008	181	10,189	(29)	10,160
Capital expenditures	20,814	23	20,837	(10)	20,827

Millions of yen

2005:	Oil and Gas	Other	Total	Eliminations and other	Consolidated
I. Sales and operating income					
Sales to third parties	**¥ 98,406**	**¥2,310**	**¥100,716**	**¥ —**	**¥100,716**
Intergroup sales and transfers	**16**	**655**	**672**	**(672)**	**—**
Total sales	**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					
Total assets	**¥288,093**	**¥6,935**	**¥295,029**	**¥(1,262)**	**¥293,767**
Depreciation and amortization	**8,803**	**177**	**8,981**	**(18)**	**8,962**
Impairment losses	**275**	**—**	**275**	**—**	**275**
Capital expenditures	**20,483**	**212**	**20,696**	**(53)**	**20,643**

2005:	Oil and Gas	Other	Total	Eliminations and other	Consolidated
	Thousands of U.S. dollars				
I. Sales and operating income					
Sales to third parties	$ 833,949	$19,576	$ 853,525	$ —	$ 853,525
Intergroup sales and transfers	136	5,551	5,695	(5,695)	—
Total sales	834,085	25,127	859,220	(5,695)	853,525
Operating expenses	658,195	22,542	680,746	(5,839)	674,907
Operating income	$ 175,881	$ 2,585	$ 178,475	$ 144	$ 178,619
II. Assets, depreciation and capital expenditures					
Total assets	$2,441,466	$58,771	$2,500,246	$(10,695)	$2,489,551
Depreciation and amortization	74,602	1,500	76,110	(153)	75,949
Impairment losses	2,331	—	2,331	—	2,331
Capital expenditures	173,585	1,797	175,390	(449)	174,941

As described in Note 2 (b), the Company has adopted the average rates for the revenue and expense of the foreign subsidiaries effective the year ended December 31, 2005.

As a result of the adoption, sales to third parties, operating income, depreciation and amortization, capital expenditures for the “Oil and Gas” segment decreased by ¥1,210 million ($10,254 thousand), ¥841 million ($7,127 thousand), ¥2 million ($17 thousand) and ¥1 million ($8 thousand), respectively, for the year ended December 31, 2005 as compared with amount which are translated at the previous rates.

(b) Geographical areas

The geographical areas segment information for the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2005 is outlined as follows:

2004:	Japan	Africa	Central and South America	Other	Total	Eliminations and other	Consolidated
	Millions of yen						
Sales to third parties	¥ 74,086	¥ 9,945	¥ —	¥ —	¥ 84,032	¥ —	¥ 84,032
Interarea sales and transfers	—	—	—	—	—	—	—
Total	74,086	9,945	—	—	84,032	—	84,032
Operating expenses	65,152	4,883	—	462	70,498	0	70,498
Operating income (loss)	¥ 8,934	¥ 5,062	¥ —	¥(462)	¥ 13,533	¥ (0)	¥ 13,533
Total assets	¥216,922	¥15,265	¥ 9,543	¥ 101	¥241,833	¥(1,320)	¥240,513

2005:	Japan	Africa	Central and South America	Other	Total	Eliminations and other	Consolidated
	Millions of yen						
Sales to third parties	¥ 81,253	¥12,140	¥ 7,322	¥ —	¥100,716	¥ —	¥100,716
Interarea 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 (loss)	¥ 11,763	¥ 7,360	¥ 2,164	¥(360)	¥ 20,928	¥ 148	¥ 21,077
Total assets	¥265,071	¥13,379	¥16,269	¥ 173	¥294,894	¥(1,127)	¥293,767

2005:	Japan	Africa	Central and South America	Other	Total	Eliminations and other	Consolidated
	Thousands of U.S. dollars						
Sales to third parties	$ 688,585	$102,881	$ 62,051	$ —	$ 853,525	$ —	$ 853,525
Interarea sales and transfers	0	—	—	—	0	(0)	—
Total	688,593	102,881	62,051	—	853,534	(0)	853,525
Operating expenses	588,898	40,500	43,703	3,051	676,169	(1,263)	674,907
Operating income (loss)	$ 99,686	$ 62,373	$ 18,339	$(3,051)	$ 177,356	$ 1,254	$ 178,619
Total assets	$2,246,364	$113,381	$137,873	$ 1,466	$2,499,102	$(9,551)	$2,489,551

As described in Note 2 (b), the Company has adopted the average rates for the revenue and expense of the foreign subsidiaries effective the year ended December 31, 2005.

As a result of the adoption, sales to third parties for the “Africa” segment and “Central and South America” segment decreased by ¥691 million ($5,856 thousand) and ¥518 million ($4,390 thousand), and operating income for the “Africa” segment and “Central and South America” segment decreased by ¥690 million ($5,847 thousand) and ¥151 million ($1,280 thousand), respectively, for the year ended December 31, 2005 as compared with amounts translated at the previous rates.

(c) Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries, and sales (other than exports to Japan) of its foreign consolidated subsidiaries for the years ended December 31, 2004 and 2005 are outlined as follows:

Year ended December 31, 2004	North America	Other	Total
	Millions of yen		
Overseas sales	¥9,270	¥1,379	¥10,650
Consolidated net sales			84,032
Overseas sales as a percentage of consolidated net sales	11.0%	1.6%	12.7%

Year ended December 31, 2005	North America	Other	Total	North America	Other	Total
	Millions of yen			Thousands of U.S. dollars		
Overseas sales	¥10,052	¥10,228	¥ 20,281	$85,186	$86,678	$171,873
Consolidated net sales			100,716			853,525
Overseas sales as a percentage of consolidated net sales	10.0%	10.2%	20.1%	10.0%	10.2%	20.1%

As described in Note 2 (b), the Company has adopted the average rates for the revenue and expense of the foreign subsidiaries effective the year ended December 31, 2005.

As a result of the adoption, overseas sales for the “North America” segment and “Other” segment, decreased by ¥691 million ($5,856 thousand) and ¥518 million ($4,390 thousand), respectively, for the year ended December 31, 2005 as compared with amounts translated at the previous rates.

17 Subsequent Events

(a) Appropriations of retained earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2005, were approved at a shareholders' meeting held on March 30, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.50=$0.04 per share)	¥1,371	$11,619
Bonuses to directors and statutory auditors	50	424

(b) Conclusion of a Joint Stock Transfer Agreement

The Company and INPEX CORPORATION (hereinafter "INPEX") have reached a final agreement on the integration of the two companies, and resolved at the respective meetings of Board of Directors held on November 5, 2005 to sign a "Joint Stock Transfer Agreement." The shareholders approved it at extraordinary shareholders' meetings on January 31, 2006. The two companies will establish a joint-holding company, "INPEX Holdings Inc." (hereinafter "joint-holding company") on April 3, 2006, by transferring their respective stock to such holding company.

1. Purpose of integration

The Company and INPEX have decided to integrate the two companies in order to establish a firm position in the global market by having stronger corporate power and capability of acquiring interests in promising projects through establishing a diversified asset portfolio, reinforcing a solid financial base and concentrating technological capabilities for resource development.

2. Summary of the integration

(1) Type and number of shares to be issued by the joint-holding company

With the stock transfer, the joint-holding company will issue 2,360,659.95 common shares and 1 special class share. However, if the Company and INPEX retire their treasury stocks prior to the date of stock transfer, the number of common shares to be issued will be reduced by the number of the shares to be allotted in exchange for the shares retired by both the Company and INPEX. In addition, the joint-holding company will employ the odd lot share method.

(2) Share allocation to shareholders of the Company and INPEX

Shareholders listed or recorded in the final shareholders' register of the Company and INPEX on the day before the stock transfer date will be allotted the joint-holding company's common shares based on the below stock transfer ratio.

1) 0.00144 share of the joint-holding company's common share will be allotted in exchange for 1 share of Company's common share.
2) 1 share of the joint-holding company's common shares will be allotted in exchange or 1 share of the INPEX's common share.
3) 1 share of the joint-holding company's "special class share" will be allocated for 1 share of the INPEX's special class share.

Note: INPEX employs the odd lot share method, and the Company employs the stock unit method at 1,000 shares per unit.

(3) Retirement of the treasury stocks

Both the Company and INPEX will retire all of their then existing treasury stock at an appropriate day pursuant to the Japanese Commercial Code prior to the date of stock transfer.

(4) Stock transfer payments

Shareholders and registered pledges listed or recorded in the final shareholders' register of the Company on the day before the stock transfer date will receive a stock transfer payment of ¥3 for each common share in the Company within three months of the stock transfer date, in place of a dividend. However, the amounts of stock transfer payments may be changed upon consultation between the Company and INPEX in light of the circumstances, including the condition of assets and liabilities of the Company, changes in general economic conditions and others.

(5) Date of stock transfer

Date of stock transfer/establishment of joint-holding company is scheduled for April 3, 2006.

Should unavoidable circumstances requiring a change in schedule arise, this timetable will be subject to change following consultation between the two companies.

(6) Dividend limits until the stock transfer date

1) The Company will be able to pay dividends on profits up to ¥4.50 per common share, or to a total of ¥1,372,504,000 to shareholders and registered pledges listed or recorded in the final shareholder's register on December 31, 2005.

2) INPEX will be able to pay dividends on profits up to ¥5,500 per common share and per special class share, or to a total of ¥10,559,081,000 to shareholders and registered pledges listed or recorded in the final shareholders' register on March 31, 2006.

(7) A special class share to be issued by the joint-holding company

The joint-holding company should issue a special class share with the equal right as the one issued by INPEX based on its articles of incorporation, and allocate the share to the minister of economy, trade and industry.

The articles of incorporation of the Company provides that decisions on the following material matters (appointment and removal of directors, disposition of all or part of the important assets, amendment of the articles incorporation, mergers, share exchange, share transfer, capital reduction and dissolution) concerning the management of the joint-holding company require a resolution of a meeting of the special class shareholder in addition to a resolution of a meeting of common shareholders of the joint-holding company or a meeting of the Board of Directors.

3. Profile of the joint-holding company

(1) Company name
INPEX Holdings Inc. (Japanese name: Kokusai Sekiyu Kaihatsu Teiseki Holdings Kabushiki Kaisha)

(2) Business description
INPEX Holdings Inc. will be engaged in the management of the new corporate group and its subsidiaries.

(3) Company headquarters
4-1-18 Ebisu, Shibuya-ku, Tokyo, 105-0013, Japan (INPEX's current headquarters)

(4) Capital
¥30 billion

(5) Fiscal year end
March 31

4. Company profiles of INPEX

(1) Main business
Exploration, development, production, sales of crude oil and natural gas, loans and investments to companies engaged in the aforementioned activities

(2) Headquarters
4-1-18, Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan

(3) Representative
Naoki Kuroda, President & Representative Director

(4) Capital
¥29,460 million (as of March 31, 2005)

(5) Shares outstanding (as of March 31, 2005)

Per common share	1,919,832.75
Per special class share	1

(6) Total assets (consolidated basis)
¥779,228 million (as of March 31, 2005)

(7) Fiscal year end
March 31

(8) Net sales (consolidated basis)
¥478,587 million (as of March 31, 2005)

(9) Net income (consolidated basis)
¥76,494 million (as of March 31, 2005)

(c) Retirement of treasury stocks

Because of the approval of the joint stock transfer with INPEX at the extraordinary shareholders' meeting held on January 31, 2006, retirement of treasury stocks pursuant to Article 212 of the Commercial Code of Japan was authorized by a board resolution at the meeting held on March 30, 2006. The details are as follows:

1. Way of retirement	reduce capital surplus and retained earnings
2. Type of retired stocks	common stock
3. Number of retired stocks	1,562,067
4. Amount of retirement	¥1,164 million
5. Date of retirement	March 31, 2006
6. Number of issued stocks after retirement	304,567,933

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
Teikoku Oil Co., Ltd.

We have audited the accompanying consolidated balance sheets of Teikoku Oil Co., Ltd. and consolidated subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teikoku Oil Co., Ltd. and consolidated subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young Shin Nihon

March 31, 2006

[For reference]

Consolidated Balance Sheets

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Consolidated Fiscal Year Ended December 31, 2005	**Consolidated Fiscal Period Ended March 31, 2006**	**Consolidated Fiscal Period Ended March 31, 2006**
ASSETS			
Current Assets			
Cash & deposits	¥ 13,387	**¥ 19,268**	**$ 164,684**
Notes, accounts receivable	15,921	**13,200**	**112,821**
Marketable securities	9,182	**18,332**	**156,684**
Inventories	6,330	**6,308**	**53,915**
Others	13,771	**8,762**	**74,889**
Less: Provisions for doubtful accounts	(6)	**(7)**	**(60)**
Total Current Assets	58,586	**65,864**	**562,940**
Property, Plant & Equipment			
Tangible Assets			
Buildings & structures	79,346	**78,062**	**667,197**
Wells	409	**233**	**1,991**
Machinery & vehicles	12,293	**12,734**	**108,838**
Land	8,676	**8,698**	**74,342**
Construction in progress	24,417	**26,499**	**226,487**
Others	275	**268**	**2,291**
Total Tangible Assets	125,418	**126,497**	**1,081,171**
Intangible Assets			
Exploration rights	0	**0**	**0**
Others	811	**1,028**	**8,786**
Total Intangible Assets	811	**1,028**	**8,786**
Investments & Long-Term Receivables			
Marketable securities	96,025	**104,963**	**897,120**
Long-term loans	1,217	**1,673**	**14,299**
Exploration & development investment	3,312	**802**	**6,855**
Others	11,346	**11,311**	**96,675**
Less: Allowance for doubtful receivables	(6)	**(23)**	**(197)**
Less: Allowance for exploration & development investment losses	—	**(545)**	**(4,658)**
Less: Allowance for losses on overseas investments	(2,946)	**(2,913)**	**(24,897)**
Total Investments and Long-Term Receivables	108,949	**115,268**	**985,197**
Total Property, Plant & Equipment	235,180	**242,794**	**2,075,162**
Total Assets	¥293,767	**¥308,659**	**$2,638,111**
LIABILITIES			
Current Liabilities			
Notes & accounts payable	¥ 3,006	**¥ 2,832**	**$ 24,205**
Short-term bank loans	5,175	**5,448**	**46,564**
Accrued expenses	14,323	**12,712**	**108,650**
Accrued income taxes	2,905	**2,290**	**19,573**
Others	3,588	**4,872**	**41,641**
Total Current Liabilities	28,998	**28,156**	**240,650**
Long-Term Liabilities			
Long-term debt	23,847	**30,519**	**260,846**
Deferred tax liabilities	23,277	**24,454**	**209,009**
Accrued employee retirement benefits	6,491	**6,520**	**55,726**
Accrued director retirement compensation	904	**879**	**7,513**
Accrued cost of abandonment of wells	10,229	**9,040**	**77,265**
Reserves for special repairs	160	**160**	**1,368**
Others	319	**1,352**	**11,556**
Total Long-Term Liabilities	65,230	**72,927**	**623,308**
Total Liabilities	94,229	**101,083**	**863,957**
MINORITY INTERESTS			
Minority interests in consolidated subsidiaries	2,320	**2,318**	**19,812**
SHAREHOLDERS' EQUITY			
Common stock	19,579	**19,579**	**167,342**
Capital surplus	11,230	**11,222**	**95,915**
Retained earnings	127,688	**131,745**	**1,126,026**
Unrealized holding gains on securities	39,081	**42,286**	**361,419**
Translation adjustments	457	**423**	**3,615**
Treasury stock	(820)	**—**	**—**
Total Shareholders' Equity	197,216	**205,256**	**1,754,325**
Total Liabilities, Minority Interests & Shareholders' Equity	¥293,767	**¥308,659**	**$2,638,111**

[For reference]

Consolidated Statements of Income

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Consolidated Fiscal Year Ended December 31, 2005	**Consolidated Fiscal Period Ended March 31, 2006**	**Consolidated Fiscal Period Ended March 31, 2006**
Net Sales	¥100,716	**¥27,718**	**$236,906**
Cost of Sales	55,473	**12,807**	**109,462**
Gross Profit	45,243	**14,910**	**127,436**
Exploration Expenses			
Exploration expenses	4,268	**742**	**6,342**
Exploration subsidies	(170)	**(1)**	**(9)**
Selling, General & Administrative Expenses	20,068	**4,699**	**40,162**
Operating Income	21,077	**9,470**	**80,940**
Other Income			
Interest income	253	**122**	**1,043**
Dividend income	736	**348**	**2,974**
Oil & gas royalties	721	**209**	**1,786**
Equity in earnings of affiliates	320	**4,067**	**34,761**
Reversal of allowance for losses on overseas investment	—	**32**	**274**
Rental income	480	**117**	**1,000**
Foreign exchange gains	482	**—**	**—**
Miscellaneous income	605	**352**	**3,009**
Other Expenses			
Interest expenses	608	**135**	**1,154**
Amortization of exploration & development rights	—	**1,067**	**9,120**
Allowance for exploration & development investment losses	—	**545**	**4,658**
Allowance for losses on overseas investment	928	**—**	**—**
Allowance for cost of abandonment of wells	95	**8**	**68**
Cost of rental income	93	**48**	**410**
Foreign exchange loss	—	**7**	**60**
Miscellaneous losses	131	**101**	**863**
Ordinary Income	22,820	**12,804**	**109,436**
Extraordinary Income			
Gain on the sale of fixed assets	146	**—**	**—**
Gain on the sale of investment in securities	3,430	**—**	**—**
Reversal of allowance for doubtful receivables	1	**—**	**—**
Extraordinary Losses			
Losses on overseas operations	—	**2,587**	**22,111**
Impairment losses	275	**—**	**—**
Income Before Income Taxes and Minority Interests	26,122	**10,216**	**87,316**
Corporate & local taxes	10,086	**4,485**	**38,333**
Tax adjustments	264	**(753)**	**(6,436)**
Minority interests in earnings of consolidated subsidiaries	(287)	**—**	**—**
Net Income for the Period	¥ 15,485	**¥ 6,484**	**$ 55,419**

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[For reference]

Consolidated Statements of Shareholders' Equity

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Consolidated Fiscal Year Ended December 31, 2005	**Consolidated Fiscal Period Ended March 31, 2006**	**Consolidated Fiscal Period Ended March 31, 2006**
Capital Surplus			
Beginning of period balance	¥ 11,225	**¥ 11,230**	**$ 95,983**
Increase during the year			
Profit from the sale of treasury stock	5	**2**	**17**
Decrease during the year			
Retirement of treasury stock	—	**(10)**	**(85)**
End of year balance	¥ 11,230	**¥ 11,222**	**$ 95,915**
Retained Earnings			
Beginning of period balance	114,999	**127,688**	**1,091,350**
Increase during the year			
Net income for the period	15,485	**6,484**	**55,419**
Increase in equity of retained earnings of affiliates	—	**146**	**1,248**
Decrease during the year			
Dividends paid	(2,745)	**(1,371)**	**(11,718)**
Director bonuses	(50)	**(50)**	**(427)**
Auditor portion	(6)	**(6)**	**(51)**
Retirement of treasury stock	—	**(1,153)**	**9,855)**
End of period balance	¥127,688	**¥131,745**	**$1,126,026**

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TEIKOKU

DATA

[For reference]

Consolidated Statement of Cash Flows

Teikoku Oil Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Consolidated Fiscal Year Ended December 31, 2005	**Consolidated Fiscal Period Ended March 31, 2006**	**Consolidated Fiscal Period Ended March 31, 2006**
Cash Flows from Operating Activities			
Income before income taxes and minority interests	¥ 26,122	**¥10,216**	**$ 87,316**
Depreciation expenses	8,962	**2,187**	**18,692**
Losses on overseas operations	—	**2,587**	**22,111**
Impairment losses	275	**—**	**—**
Increase (decrease) in accrued retirement benefits	10	**29**	**248**
Increase (decrease) in provision for exploration & development investment losses	—	**545**	**4,658**
Increase (decrease) in other reserves	1,029	**(24)**	**(205)**
Interest and dividend income	(990)	**(470)**	**(4,017)**
Interest expenses	608	**135**	**1,154**
Loss (gain) on equity in earnings of affiliates	(320)	**(4,067)**	**(34,761)**
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**	**22,991**
Recovery of exploration & development investment	2,866	**200**	**1,709**
Decrease (increase) in inventories	(690)	**16**	**137**
Decrease (increase) in other operating assets	51	**185**	**1,581**
Increase (decrease) accounts payable	290	**(59)**	**(504)**
Increase (decrease) in deferred taxes	(229)	**143**	**1,222**
Increase (decrease) in other operating liabilities	177	**(1,386)**	**(11,846)**
Bonuses to directors and statutory auditors	(50)	**(50)**	**(427)**
Others	(6,566)	**1,885**	**16,111**
Subtotal	24,853	**14,765**	**126,197**
Interest and dividends received	990	**630**	**5,385**
Interest paid	(679)	**(172)**	**(1,470)**
Corporate and local taxes paid	(10,045)	**(5,350)**	**(45,726)**
Net Cash Provided by Operating Activities	15,118	**9,872**	**84,376**
Cash Flows from Investing Activities			
Decrease in time deposits	(2,197)	**(1,001)**	**(8,556)**
Redemption of time deposits	2,223	**1,116**	**9,538**
Purchases of investment securities	(2,749)	**(1,499)**	**(12,812)**
Redemptions and sales of marketable securities	2,256	**1,499**	**12,812**
Decrease (increase) in short-term loans	(65)	**70**	**598**
Additions to property, plant and equipment	(19,980)	**(3,545)**	**(30,299)**
Proceeds from the sale of property, plant and equipment	222	**13**	**111**
Additions to intangible fixed assets	(93)	**(299)**	**(2,556)**
Purchases of investment securities	(1,484)	**(296)**	**(2,530)**
Redemptions and sales of investment securities	5,898	**373**	**3,188**
Purchases of stock in subsidiaries	(107)	**—**	**—**
Long-term loans	(973)	**(550)**	**(4,701)**
Recovery of long-term loans	429	**94**	**803**
Payments for exploration & development investments	(3,083)	**(683)**	**(5,838)**
Others	(580)	**2**	**17**
Net Cash Provided by Investing Activities	(20,287)	**(4,705)**	**(40,214)**
Cash Flows from Financing Activities			
Increase (decrease) in short-term bank loans	(80)	**—**	**—**
Proceeds from long-term debt	14,860	**7,945**	**67,906**
Repayment of long-term debt	(3,866)	**(986)**	**(8,427)**
Net purchases of treasury stock	(336)	**(340)**	**(2,906)**
Dividends paid	(2,729)	**(1,137)**	**(9,718)**
Dividends paid to minority shareholders	(2)	**—**	**—**
Net Cash Provided by Financing Activities	7,845	**5,480**	**46,838**
Effect of exchange rate changes on cash	632	**(17)**	**(145)**
Net increase (decrease) in cash and cash equivalents	3,309	**10,629**	**90,846**
Cash and cash equivalents at the beginning of the period	22,234	**25,545**	**218,333**
Increase in cash arising from the inclusion of subsidiaries in consolidation	1	**—**	**—**
Cash and cash equivalents at the end of the period	¥ 25,545	**¥36,175**	**$309,188**

INPEX Holdings Inc. Operating Data and Corporate Information

Contents

Reserves and Production Volume of Oil and Gas

1 Oil and Gas Reserves

Definition of Proved Reserves and Probable Reserves

Aiming to make an objective and rational evaluation, INPEX Holdings commissioned DeGolyer and MacNaughton, an independent petroleum engineering consultant in the United States, to assess the proved reserves of both the INPEX Group and the Teikoku Oil Group as of March 31, 2006. Simultaneously, the assessment was conducted for the INPEX Group's proved reserves as of March 31, 2003, 2004 and 2005. The definition of proved reserves evaluated by DeGolyer and MacNaughton is based on the U.S. Securities and Exchange Commission's Regulation S-X, Rule 4-10, which is widely known among U.S. investors. Proved oil and gas reserves are estimated quantities that geological and engineering data can demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, as of the date such an estimate is made.

According to SEC Standards, proved reserves are defined according to two categories: "Proved developed reserves" can be expected to be recovered from existing wells with existing equipment and operating methods, and "proved undeveloped reserves" can be expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. To be defined as "proved reserves" assumes the existence of a marketable and economic means of recovery, process and shipment, or the certainty to gain such means in the short term. To that end, this definition is widely regarded as being conservative. Nevertheless, the strictness of the definition does not imply any guarantee of the production of total reserves during a future production period.

In addition to the assessment of proved reserves based on SEC Standards, INPEX Holdings also commissioned DeGolyer and MacNaughton to assess its probable reserves based on indicators established by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). Probable reserves, as defined by SPE and WPC, are unproved reserves that are more likely than not to be recoverable based on analyses of geological and engineering data. In this context, when probabilistic methods are employed, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved and probable reserves. The difference between this definition and the definition of proved reserves based on SEC standards is the degree of certainty that oil and gas can be recovered. Probable reserves can be upgraded to proved reserves after the addition of new technical data, under different economical conditions, and with advances in operational conditions. Therefore, probable reserves are actually potential reserves that do not fall under the category of proved reserves, and offer no guarantee of the production of total reserves during a future production period.

Since INPEX Holdings was established on April 3, 2006, the INPEX Group and the Teikoku Oil Group received their respective assessment reports from DeGolyer and MacNaughton for the reserves as of March 31, 2006. Accordingly, proved reserves, probable reserves, production volume and other related data are listed by each Group.

Proved Reserves

The following charts list proved reserves of crude oil, condensate, LPG and natural gas as of their respective dates. Disclosure items of proved reserves are based on the U.S. Statement of Financial Accounting Standards No. 69.

INPEX Group

	Asia and Oceania		Middle East		Caspian Sea Area and Others		Subtotal		Interest in Reserves Held by Equity-Method Affiliates		Total	
	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)
Proved developed and undeveloped reserves												
As of March 31, 2003	143.0	3,363.1	15.3	—	—	—	158.2	3,363.1	8.2	4.3	166.4	3,367.4
Extensions and discoveries	32.0	177.7	—	—	—	—	32.0	177.7	—	—	32.0	177.7
Acquisition and sales	12.7	34.1	—	—	177.9	—	190.6	34.1	(2.2)	(24.6)	188.4	9.5
Revision of previous estimates	(4.4)	424.2	0.2	—	1.6	—	(2.6)	424.2	(2.9)	22.0	(5.5)	446.2
Interim production	(15.4)	(295.6)	(1.7)	—	(3.7)	—	(20.8)	(295.6)	(1.0)	(1.7)	(21.8)	(297.3)
As of March 31, 2004	167.8	3,703.5	13.8	—	175.8 *1	—	357.4	3,703.5	2.1	—	359.5	3,703.5
As of March 31, 2004	167.8	3,703.5	13.8	—	175.8 *1	—	357.4	3,703.5	2.1	—	359.5	3,703.5
Extensions and discoveries	—	31.7	—	—	—	—	—	31.7	1.8	449.6	1.8	481.3
Acquisition and sales	—	—	361.1	—	—	—	361.1	—	308.3	—	669.4	—
Revision of previous estimates	(0.6)	(127.7)	(0.3)	—	(40.2)	—	(41.1)	(127.7)	(0.4)	—	(41.4)	(127.7)
Interim production	(18.9)	(300.6)	(26.3)	—	(4.4)	—	(49.6)	(300.6)	(20.6)	—	(70.2)	(300.6)
As of March 31, 2005	148.4	3,307.0	348.3	—	131.2 *1	—	627.9	3,307.0	291.2	449.6	919.0	3,756.5
As of March 31, 2005	148.4	3,307.0	348.3	—	131.2 *1	—	627.9	3,307.0	291.2	449.6	919.0	3,756.5
Extensions and discoveries	—	—	—	—	—	—	—	—	—	—	—	—
Acquisition and sales	—	—	—	—	—	—	—	—	—	—	—	—
Revision of previous estimates	(27.3)	(364.0)	206.4	—	(5.0)	—	174.1	(364.0)	35.6	(2.5)	209.7	(366.4)
Interim production	(16.3)	(287.6)	(26.6)	—	(9.9)	—	(52.8)	(287.6)	(22.0)	—	(74.8)	(287.6)
As of March 31, 2006	104.7	2,655.4	528.2	—	116.3 *1	—	749.2	2,655.4	304.7	447.1	1,053.9	3,102.5
Proved developed reserves												
As of March 31, 2006	65.7	1,447.6	527.4	—	44.1	—	637.2	1,447.6	303.3	—	940.4	1,447.6

Teikoku Oil Group

	Asia and Oceania		Middle East		Caspian Sea Area and Others		Subtotal		Interest in Reserves Held by Equity-Method Affiliates		Total	
	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)	Crude oil (MMbbls)	Gas (Bcf)
Proved developed and undeveloped reserves												
As of March 31, 2006	22	886	—	—	14	120	36	1,006	—	—	36	1,006
Proved developed reserves												
As of March 31, 2006	21	825	—	—	14	108	35	933	—	—	35	933

Notes: 1. Includes reserves attributable to a consolidated subsidiary in which there is a 49% minority interest.
2. MMbbls: Millions of barrels
3. Bcf: Billions of cubic feet
4. Crude oil includes condensate and LPG

Standardized Measure of Discounted Future Net Cash Flows and Changes Relating to Proved Oil and Gas Reserves

In calculating the standardized measure of discounted future net cash flows, year-end constant price and cost assumptions are applied to our estimated annual future production from proved reserves to determine future cash inflows. Future development costs are estimated based upon constant price assumptions and assume the continuation of existing economic, operating, and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimated future pretax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount is computed by application of a 10% discount factor to the estimated future net cash flows.

We believe that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary, and prices change constantly from year-end levels. Disclosure items are based on the U.S. statement of Financial Accounting Standards No. 69. We use the exchange rates of ¥107.41 and ¥117.47=US$1.00 as of March 31, 2005 and 2006, respectively.

INPEX Group

As of March 31, 2005 — Millions of yen

Consolidated subsidiaries	Total	Asia and Oceania	Middle East	Caspian Sea Area and Others
Future cash inflows	¥ 5,100,161	¥2,618,749	¥ 1,766,276	¥ 715,136
Future production and development costs	(1,655,890)	(899,958)	(575,188)	(180,744)
Future income tax expenses	(1,961,637)	(755,382)	(1,083,213)	(123,042)
Future net cash flows	1,482,634	963,409	107,875	411,350
10% annual discount for estimated timing of cash flows	(645,170)	(413,660)	(50,866)	(180,644)
Standardized measure of discounted future net cash flows	837,464	549,749	57,009	230,706*
Share of equity method investees' standardized measure of discounted future net cash flows	35,733	17,267	17,754	712

Notes: Includes ¥230,706 million attributable to a consolidated subsidiary in which there is a 49% minority interest.

As of March 31, 2006 — Millions of yen

Consolidated subsidiaries	Total	Asia and Oceania	Middle East	Caspian Sea Area and Others
Future cash inflows	¥ 7,194,320	¥2,767,694	¥ 3,603,192	¥ 823,434
Future production and development costs	(2,127,421)	(870,423)	(1,086,127)	(170,871)
Future income tax expenses	(3,364,682)	(841,928)	(2,374,034)	(148,720)
Future net cash flows	1,702,217	1,055,343	143,031	503,843
10% annual discount for estimated timing of cash flows	(695,748)	(415,410)	(82,735)	(197,603)
Standardized measure of discounted future net cash flows	1,006,469	639,933	60,296	306,240*
Share of equity method investees' standardized measure of discounted future net cash flows	49,263	25,619	21,904	1,740

Notes: Includes ¥306,240 million attributable to a consolidated subsidiary in which there is a 49% minority interest.

As of March 31, 2006 — Millions of yen

Consolidated subsidiaries	Total	Asia and Oceania	Middle East	Caspian Sea Area and Others
Standardized measure, beginning of period	¥ 837,464	¥ 549,749	¥ 57,009	¥230,706
Changes resulting from:				
Sales and transfers of oil and gas produced, net of production costs	(278,021)	(177,630)	(73,434)	(26,957)
Net change in prices, and production costs	398,010	177,041	150,082	70,887
Changes in estimated development costs	79,153	80,211	(23,147)	22,089
Revisions of previous quantity estimates	221,444	(139,481)	396,873	(35,948)
Accretion of discount	193,215	97,401	64,895	30,919
Net change in income taxes	(413,857)	(33,000)	(368,473)	(12,384)
Other	(30,939)	85,642	(143,509)	26,928
Standardized measure, end of period	1,006,469	639,933	60,296	306,240

Teikoku Oil Group

As of March 31, 2006 — Millions of yen

Consolidated subsidiaries	Total	Asia and Oceania	Middle East	Caspian Sea Area and Others
Future cash inflows	¥ 965,784	¥ 848,888	¥ —	¥116,896
Future production and development costs	(221,843)	(164,669)	—	(57,174)
Future income tax expenses	(120,929)	(109,778)	—	(11,152)
Future net cash flows	623,012	574,441	—	48,571
10% annual discount for estimated timing of cash flows	(343,706)	(326,735)	—	(16,972)
Standardized measure of discounted future net cash flows	279,305	247,706	—	31,599
Share of equity method investees' standardized measure of discounted future net cash flows	—	—	—	—

Probable Reserves as of March 31, 2006

The following charts list probable reserves of crude oil, condensate, LPG and natural gas.

INPEX Group

As of March 31, 2006	Asia and Oceania	Middle East	Caspian Sea Area and Others	Subtotal	Interest in Reserves Held by Equity-Method Affiliates	Total
Crude oil, condensate and LPG (MMbbls)	67	495	462	1,025	456	1,481
Natural gas (Bcf)	1,810	—	123	1,932	142	2,074

Teikoku Oil Group

As of March 31, 2006	Asia and Oceania	Middle East	Caspian Sea Area and Others	Subtotal	Interest in Reserves Held by Equity-Method Affiliates	Total
Crude oil, condensate and LPG (MMbbls)	5	—	7	12	—	12
Natural gas (Bcf)	184	—	66	250	—	250

Note: 1. MMbbls: Millions of barrels
2. Bcf: Billions of cubic feet

2 Oil and Gas Production

The following chart lists average daily production for crude oil, natural gas, and the total of crude oil and natural gas by region. The proportional interests in production by our equity-method affiliates are not broken down by geographical regions.

INPEX Group

Fiscal year ended March 31	2004	2005	**2006**
Crude oil (Thousands of barrels per day)			
Asia and Oceania	42.3	51.5	**44.7**
Middle East	4.7	72.2	**72.7**
Caspian Sea Area and Others	10.1	12.1	**27.1**
Subtotal	57.0	135.8	**144.5**
Proportional interest in production by equity-method affiliates	2.7	56.8	**60.2**
Total	59.8	192.6	**204.7**
Annual production (Millions of barrels)	21.8	70.3	**74.7**
Natural gas (Millions of cubic feet per day)			
Asia and Oceania	809.9	823.5	**787.8**
Middle East	—	—	**—**
Caspian Sea Area and Others	—	—	**—**
Subtotal	809.9	823.5	**787.8**
Proportional interest in production by equity-method affiliates	4.6	—	**—**
Total	814.5	823.5	**787.8**
Annual production (Billions of cubic feet)	297.3	300.6	**287.6**
Crude oil and natural gas (Thousands of barrels of oil equivalent per day)			
Asia and Oceania	177.3	188.8	**176.1**
Middle East	4.7	72.2	**72.7**
Caspian Sea Area and Others	10.1	12.1	**27.1**
Subtotal	192.0	273.0	**275.8**
Proportional interest in production by equity-method affiliates	3.5	56.8	**60.2**
Total	195.5	329.8	**336.0**
Annual production (Millions of barrels of oil equivalent)	71.4	120.4	**122.7**

Notes: Crude oil includes condensate and LPG.
JODCO's net production includes royalties.

Teikoku Oil Group

Fiscal year ended December 31	2004	**2005**
Crude oil (Thousands of barrels per day)		
Asia and Oceania	3.0	**3.2**
Middle East	—	—
Caspian Sea Area and Others	11.0	**10.5**
Subtotal	14.0	**13.7**
Proportional interest in production by equity-method affiliates	1.3	**1.6**
Total	15.3	**15.3**
Annual production (Millions of barrels)	5.6	**5.6**
Natural gas (Millions of cubic feet per day)		
Asia and Oceania	90.8	**97.8**
Middle East	—	—
Caspian Sea Area and Others	69.2	**71.2**
Subtotal	160.0	**169.0**
Proportional interest in production by equity-method affiliates	—	—
Total	160.0	**169.0**
Annual production (Billions of cubic feet)	58.4	**61.7**
Crude oil and natural gas (Thousands of barrels of oil equivalent per day)		
Asia and Oceania	18.1	**19.5**
Middle East	—	—
Caspian Sea Area and Others	22.5	**22.4**
Subtotal	40.7	**41.8**
Proportional interest in production by equity-method affiliates	1.3	**1.6**
Total	42.0	**43.5**
Annual production (Millions of barrels of oil equivalent)	15.3	**15.9**

Note: Crude oil includes condensate and LPG.

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DATA

Subsidiaries and Affiliates

As of March 31, 2006

Consolidated Subsidiaries

INPEX CORPORATION

Company Name	Issued Capital (thousand)	Voting rights held by us (%)	Main business
INPEX Natuna, Ltd.	¥5,000,000	100.00%	Exploration, development, production and sales of oil and natural gas in South Natuna Sea Block B, Indonesia
INPEX Offshore North Mahakam, Ltd.	¥3,300,000	100.00%	Exploration of oil and natural gas in East Kalimantan Block in Offshore East Kalimantan, Indonesia
INPEX Offshore South Sulawesi Ltd.	¥1,345,000	100.00%	Being dissolved
INPEX Tengah, Ltd.	¥1,020,000	100.00%	Exploration, development, production and sales of oil and natural gas in Tengah Block in Offshore East Kalimantan, Indonesia
INPEX North Natuna, Ltd.	¥1,020,000	100.00%	Being dissolved
INPEX Offshore Northeast Mahakam,Ltd.	¥973,000	100.00%	Exploration of oil and natural gas in Saliki Block in Offshore East Kalimantan, Indonesia
INPEX West Arguni, Ltd.	¥577,000	100.00%	Being dissolved
INPEX East Arguni, Ltd.	¥268,000	100.00%	Being dissolved
INPEX Jawa, Ltd.	¥4,804,000	83.50%	Exploration, development, production and sales of oil and natural gas in Offshore Northwest Java Block, Indonesia
INPEX Sumatra, Ltd.	¥400,000	100.00%	Exploration, development, production and sales of oil and natural gas in Offshore Southeast Sumatra Block, Indonesia
INPEX North Makassar, Ltd.	¥3,243,000	54.18%	Being dissolved
INPEX Masela, Ltd.	¥14,753,000	52.31%	Exploration and development of oil and natural gas in Masela Block, Indonesia
INPEX Browse, Ltd.	¥22,240,000	100.00%	Exploration and development of oil and natural gas in WA-285-P Block, Australia
INPEX Alpha, Ltd.	¥3,814,000	100.00%	Exploration, development, production and sales of oil and natural gas in WA-10-L Block, Australia
INPEX DLNGPL Pty Ltd	A$63,241	100.00%	Investment in LNG plant operating company and operation of pipeline businesses
INPEX Sahul, Ltd.	¥4,600,000	100.00%	Exploration, development, production and sales of oil and natural gas in JPDA03-12 Block in the Timor Sea JPDA
INPEX Timor Sea, Ltd.	¥2,722,000	100.00%	Exploration and development of oil and natural gas in JPDA03-01 Block in the Timor Sea JPDA
INPEX BTC Pipeline, Ltd.	US$53,300	100.00%	Investment in pipeline construction company
INPEX Southwest Caspian Sea, Ltd.	¥53,594,000	51.00%	Exploration, development, production and sales of oil in ACG Oil Fields, Azerbaijan
INPEX North Caspian Sea, Ltd.	¥46,780,000	45.00%	Exploration and development of oil and natural gas in Offshore North Caspian Sea Block, Kazakhstan
Japan Oil Development Co., Ltd.	¥18,800,000	100.00%	Exploration, development, production and sales of oil in ADMA Block, United Arab Emirates
Azadegan Petroleum Development, Ltd.	¥7,950,000	100.00%	Appraisal and development of Azadegan Oil Field, Iran
INPEX ABK, Ltd.	¥2,500,000	95.00%	Exploration, development, production and sales of oil in Abu Al Bukhoosh Block, United Arab Emirates
INPEX Libya, Ltd.	¥180,000	100.00%	Exploration of oil and natural gas in the 42-2 & 4 Block in the Great Socialist People's Libyan Arab Jamahiriya
INPEX Services, Ltd.	¥65,000	100.00%	Management of owned properties and facilities
INPEX Trading, Ltd.	¥50,000	100.00%	Sales, agency, and brokerage of crude oil and market research and sales planning in connection with oil and natural gas sales

Teikoku Oil Co., Ltd.

Company Name	Issued Capital (thousand)	Voting rights held by us (%)	Main business
Teikoku Oil (Con Son) Co., Ltd.	¥200,000	100.00%	Exploration and development of oil in the southern offshore of the Socialist Republic of Vietnam
Teikoku Oil (Venezuela) Co., Ltd.	¥8,189,000	100.00%	Reactivation of oil and gas fields, exploration and development of new fields based on the Operating Service Agreement in the East Guarico Unit and Sanvi-Guere Unit, the Bolivarian Republic of Venezuela
Teikoku Oil SCT Exploration B.V.	€10,200	100.00%	Exploration and development of natural gas in the San Carlos and Tinaco blocks in the Bolivarian Republic of Venezuela
Teikoku Oil (North America) Co., Ltd.	US$4,303	100.00%	Exploration and development of oil in the United States of America
Teikoku Oil Ecuador	US$36	100.00%	Exploration, development and production of oil in the eastern onshore of the Republic of Ecuador
Teikoku Oil Venezuela, B.V.	€18	100.00%	Financing for reactivation, new exploration and development of oil and gas fields in the Bolivarian Republic of Venezuela
Teikoku Oil de Venezuela, C.A.	Bs 2,000	100.00%	Reactivation of oil and gas fields, exploration and development of new fields based on the Operating Service Agreement in the East Guarico Unit, the Bolivarian Republic of Venezuela
Teikoku Oil de Sanvi-Guere, C.A.	Bs 2,000	100.00%	Reactivation of oil and gas fields, exploration and development of new fields based on the Operating Service Agreement in the Sanvi-Guere Unit, the Bolivarian Republic of Venezuela
Teikoku Gas Venezuela, C.A.	Bs 2,000	100.00%	Exploration and development of natural gas in the San Carlos and Tinaco Blocks in the Bolivarian Republic of Venezuela
Teikoku Oil Libya UK Ltd	US$11,055	100.00%	Exploration and development of oil in the western onshore of the Great Socialist People's Libyan Arab Jamahiriya
Teikoku Oil Suez SEJ Co., Ltd.	¥785,500	100.00%	Exploration and development of oil in the Gulf of Suez, the Arab Republic of Egypt
Teikoku Oil Algeria Co., Ltd. (El Ouar)	¥708,500	100.00%	Exploration and development of oil and natural gas in the eastern onshore of the People's Democratic Republic of Algeria
Teikoku Oil Algeria Co., Ltd.	¥337,500	100.00%	Being dissolved
Teikoku Oil Suez SOB Co., Ltd.	¥146,000	100.00%	Exploration and development of oil in the Gulf of Suez, the Arab Republic of Egypt
Teikoku Oil Nile NQR Co., Ltd.	¥37,000	100.00%	Exploration and development of oil in western desert of the Arab Republic of Egypt
Teikoku Oil (D.R. Congo) Co., Ltd.	¥10,000	100.00%	Exploration, development, production and sales of oil in the Democratic Republic of the Congo
Teikoku Oil Company Panama, S.A.	US$10	100.00%	Sales of crude oil developed overseas
The Egyptian Petroleum Development Co., Ltd.	¥10,722,000	45.73%	Exploration, development, production and sales of oil in the West Bakr Block of the Arab Republic of Egypt
Teiseki Drilling Co., Ltd.	¥100,000	100.00%	Geothermal production wells, crust activity observation wells, wells for hot springs, civil engineering
Teiseki Real Estate Co., Ltd.	¥100,000	100.00%	Real estate rental, management and insurance agency services
Teiseki Pipeline Co., Ltd.	¥100,000	100.00%	Natural gas transportation, pipeline operation, maintenance and management
Teiseki Propane Co., Ltd.	¥80,000	100.00%	Sales of LPG and petroleum products
Teiseki Topping Plant Co., Ltd.	¥70,000	100.00%	Petroleum refining related production, storage and shipment of petroleum products

Offshore Iwaki Petroleum Co., Ltd.	¥10,000	100.00%	Supply of natural gas to Tokyo Electric Power Co., Inc.'s Hirono thermal power station
Teiseki Transport System Co., Ltd.	¥10,000	100.00%	Equipment and materials shipping, transport and sales of petrochemical products
Daiichi Warehouse Co., Ltd.	¥100,000	94.00%	Warehousing services
Saitama Gas Co., Ltd.	¥60,000	62.00%	City gas, LPG sales

Affiliates under Equity Method

INPEX CORPORATION

Company Name	Issued Capital (thousand)	Voting rights held by us (%)	Main business
MI Berau B.V.	€656,279	44.00%	Exploration, development, production and sales of natural gas in Berau Block in Papua, Indonesia
Bontang Train G Project Finance, Ltd.	¥50,000	40.00%	Financing for construction of LNG production facility in Bontang Area in East Kalimantan, Indonesia
Bontang LNG Train H Investment, Ltd.	¥50,000	40.00%	Financing for construction of LNG production facility in Bontang Area in East Kalimantan, Indonesia
Project Finance BLRE, Ltd.	¥20,000	30.00%	Financing for repayment of LNG production facility in Bontang Area in East Kalimantan, Indonesia
BP-Japan Oil Development Company Ltd.	£50	45.00%	Financing for oil exploration and development projects conducted by Abu Dhabi Marine Areas Ltd.
JJI S&N B.V.	€37,868	25.00%	Development and production of oil and natural gas in Offshore Soroosh Field, Iran
AJOCO Exploration Co., Ltd.	¥6,400,000	25.00%	Exploration, development, production and sales of oil in Offshore 3/85 Block, Angola
AJOCO' 91 Exploration Co., Ltd.	¥2,996,000	25.00%	Exploration, development, production and sales of oil in Offshore 3/91 Block, Angola
Angola Japan Oil Co., Ltd.	¥8,000,000	19.60%	Exploration, development, production and sales of oil in Offshore 3/05 Block, Angola
Albacora Japão Petróleo Limitada	R$6,525	50.00%	Lease of production facilities in Albacora Block in Offshore North Campos, Brazil
INPEX Offshore North Campos, Ltd.	¥6,152,000	37.50%	Financing for oil and natural gas exploration and development projects conducted by Frade Japão Petróleo Limitada

Teikoku Oil Co., Ltd.

Company Name	Issued Capital (thousand)	Voting rights held by us (%)	Main business
Dai-ichi Oil Development Co.,Ltd.	¥100,000	32.10%	Exploration, development, production and sales of oil and natural gas, and investment and loans for businesses related to such projects
Japan Ohanet Oil & Gas Co., Ltd.	¥6,400,000	15.00%	Development and production of natural gas in the southeastern onshore of the People's Democratic Republic of Algeria

Corporate Data

■ Company Name
INPEX Holdings Inc.

■ Established
April 3, 2006

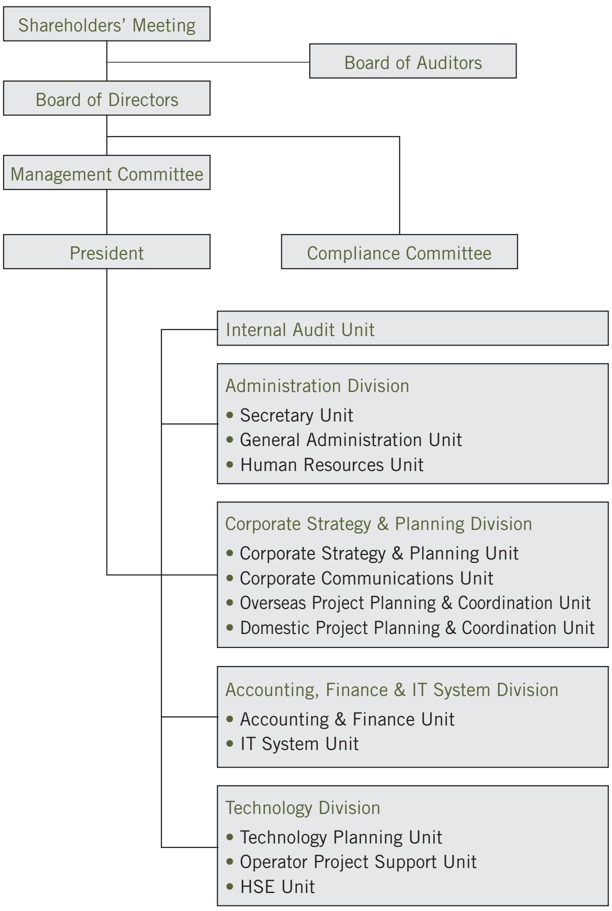
■ Capital
¥30 billion (As of April 3, 2006)

■ Company Headquarters
4-1-18 Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan

■ Number of Employees (Consolidated)
1,710 (As of April 3, 2006)

■ Main Business
Management of subsidiaries and group companies engaged in surveys, exploration, development and production of oil, natural gas and other energy resources.

■ Organization Chart



Stock Information

(As of April 3, 2006)

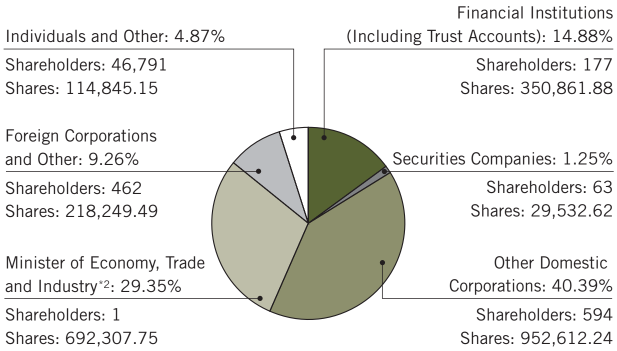
■ Share Data

Authorized Shares
9,000,000 common shares
1 special class share

Number of Shareholders / Issued and Outstanding Shares
Common shares: 48,088 shareholders / 2,358,409.13 shares
Special class share*: 1 shareholder (Minister of Economy, Trade and Industry) /1 share

Note: The Company's Articles of Incorporation stipulate that certain major corporate decisions require a resolution by the holder of the special class share in addition to the approval of the shareholders' meeting or Board of Directors.

■ Shareholding by Shareholder Type*1



Notes: 1. Shareholding ratios are for all issued and outstanding shares
2. Excludes one special class share

■ Major Shareholders (Common Shares)

Name	Number of Shares	Holding (%)
Minister of Economy, Trade and Industry	692,307.75	29.35
Japan Petroleum Exploration Co., Ltd.	267,232.68	11.33
Mitsubishi Corporation	193,460.40	8.20
Mitsui Oil Exploration Co., Ltd.	176,760.00	7.49
Nippon Oil Corporation	89,919.06	3.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	81,330.44	3.45
Japan Trustee Services Bank, Ltd. (Trust Account)	72,547.24	3.08
Sumitomo Corporation	46,878.00	1.99
Marubeni Corporation	46,446.00	1.97
JFE Steel Corporation	29,460.00	1.25

INPEX Holdings Inc.

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