

# Consolidated Financial Results for Fiscal Year Ended March 31, 2006

May 15, 2006

Note: The following report is a summary of the Japanese-language original.

Company Name: Japan Petroleum Exploration Co., Ltd.

Stock Listing: Tokyo Stock Exchange

Company Code: 1662

Location of Head Office: Tokyo

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

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Date of the Board of Directors meeting to settle year-end consolidated accounts: May 15, 2006

U.S. GAAP not applied

(Amounts less than one million yen have been omitted)

## 1. Consolidated Results for Fiscal 2006 (April 1, 2005 – March 31, 2006)

### (1) Consolidated Operating Results

	Net Sales		Operating Income		Ordinary Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%
FY2006	138,798	34.6	27,018	84.1	31,190	64.1
FY2005	103,150	6.7	14,678	17.9	19,001	31.3

	Net Income		Net Income per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income-to-Total Assets Ratio	Ordinary Income-to-Net Sales Ratio
	(¥ million)	%	(¥)	(¥)	%	%	%
FY2006	20,216	52.8	352.11	-	6.0	6.7	22.5
FY2005	13,234	32.9	230.05	-	5.4	5.9	18.4

(Notes)

- Equity in net income (loss) of non-consolidated subsidiaries and affiliates: FY2006 (¥587million) FY2005 ¥116 million
- Average number of outstanding shares (Consolidated): FY2006: 57,153,733 shares FY2005: 57,154,118 shares
- Changes in accounting methods: No
- Percentage figures for net sales, operating income and other monetary items represent changes compared with the previous fiscal year.
- Diluted net income per share is not shown because there are no shares with a dilutive effect.

### (2) Consolidated Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	(¥ million)	(¥ million)	%	(¥)
FY2006	532,516	386,222	72.5	6,756.00
FY2005	393,733	293,152	74.5	5,127.67

(Note) Number of shares issued and outstanding (consolidated) at fiscal year-end: FY2006 57,153,686  
FY2005 57,153,822

### (3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at Period-end
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
FY2006	32,850	(20,063)	(6,088)	43,082
FY2005	21,936	(15,805)	786	34,568

### (4) Number of Consolidated Subsidiaries and Affiliates

Consolidated subsidiaries: 17 Non-consolidated subsidiaries accounted for by the equity method: 0 Equity-method subsidiaries: 7

### (5) Changes in Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries (Added): 1 (Excluded): 1 Equity-method affiliates (Added): 0 (Excluded): 2

## 2. Forecasts for Fiscal 2007 (April 1, 2006 – March 31, 2007)

	Net Sales	Ordinary Income	Net Income
	(¥ million)	(¥ million)	(¥ million)
Interim Period	55,216	9,185	6,556
Full Year	123,910	24,920	17,242

(Reference) Estimated net income per share for the year ending March 31, 2007 is ¥301.68.

Note: The above estimates have been made based on information available as of the date of this release. Actual results may differ from these estimates due to a variety of factors. Please refer to the attached materials for more information related to these estimates.

## **II. Management Policies**

### **1. Fundamental Business Policies**

Since its establishment in 1955, Japan Petroleum Exploration Co., Ltd. (JAPEX) has pursued its mission of contributing to Japan's energy supplies by securing reserves and expanding production centered on the exploration, development, and sale of petroleum and natural gas. Guided by this mission, the Company has steadily discovered petroleum and natural gas reserves to result in the business base of today.

In light of its expanding role as a supplier and, consequently, related increases in its responsibility to society with regard to a stable supply, JAPEX Group is actively focused on constructing a new business model that not only relies on expanding reserves but also upgrading and expanding transmission systems for natural gas and other initiatives. As such, the Group aims to move forward as a company with the competitive capabilities required to respond to changes in its operating environment. The section below outlines the Group's business philosophy in this respect.

#### **Taking on the challenge of new energy value creation and increasing corporate value**

- Contribute to the supply of energy through global exploration and production (E&P) activities, and the sale of oil and natural gas.
- Contribute to coexistence between the planet and its population by developing and promoting the use of environment-friendly natural gas.
- Pursue sustainable growth and maximize shareholder value by placing top priority on winning and maintaining the trust of society, customers, shareholders and employees.

### **2. Fundamental Policy on Dividends**

The Company's basic policy is to sustain stable dividends over the long term. Taking into account the medium and long-term outlook for the business, dividend payments are set based on respect for the return of profits to shareholders. While considering the need to acquire new reserves as an energy company that plays a role in providing stable supplies of petroleum and natural gas, indispensable resources for society, the policy also takes into account the need for retained earnings to finance the acquisition of new reserves and to upgrade and improve transmission systems, primarily pipelines.

### **3. Concept and Policies on Lowering an Investment Unit**

The company deems that lowering an investment unit promotes broader participation of investors from expanded range, including individual investors, in the stock market and that it is an effective measure to improve the liquidity of stocks. To implement such measure, the company takes the stock prices, the circulation situation of stocks and the distribution situation into consideration and will judge it after examining expense to need for and an effect prudentially.

### **4. Medium-term Business Strategy and Critical Issues**

Japan's energy industry is entering an era of full-scale competition, ushered in by rapid deregulation, beginning with revisions to the Gas Business Law and the Electric Utility Law. As such, competition is intensifying almost on a daily basis with the entry of new players into each energy sector.

Specifically, the Gas Business Law was revised in April 2004, thereby further expanding the scope of deregulation. In addition, the Japanese government has introduced the "common carrier" concept in gas transmission. Under this concept, companies, including JAPEX, that possess gas pipelines above a certain capacity are obligated to open their pipelines for third-party access. As a result of these and other developments, the Company's gas business is facing a major turning point.

In the current environment, natural gas, a major earnings base for the JAPEX Group, is drawing significant attention for its clean energy characteristics. Government efforts to bolster environmental measures in the wake of enforcement of the Kyoto Protocols, coupled with activities to tackle global warming on the corporate and individual level, are likely to continue to drive demand for natural gas. This presents opportunities for JAPEX to further develop its natural gas business.

Moreover, the mounting concerns over recent escalation in global fuel prices and supply stability, has underscored the importance of exploration and development operations. Based on recognition that petroleum will continue to play a critical part and the central role as a primary energy source in Japan. JAPEX Group, for its part, will continue to position these activities as key elements of its business base. Accordingly, expanding natural gas sales and maintaining and enlarging reserves of oil and natural gas are critical issues for the Company.

### ***Expanding sales of natural gas and upgrading and expanding the supply system***

To cope with the intensifying competitive environment as well as expand sales of environment-friendly natural gas, the Group is working to construct a natural gas business that seamlessly integrates services and facilities, from upstream (E&P) through mid-stream (transmission and storage) to downstream (supply to large users and local distribution companies, or LDCs).

From this perspective, the Company is stepping up efforts to expand sales of natural gas passing through its Yufutsu-Sapporo and Niigata-Sendai pipelines. Simultaneously, it is working to expand and upgrade its transmission network by constructing a new natural gas pipeline, slated for completion in 2006, between the cities of Shiroishi and Koriyama by branching from its Niigata-Sendai pipeline. Furthermore, the Company has determined to commence a full-scale survey on construction of Sendai-Iwaki subsea gas pipeline to supply natural gas to customers along the southern coastline of Fukushima Prefecture.

JAPEX's LNG Satellite System is designed to serve customers in geographic areas not reached by its pipeline network. LNG is loaded onto tanker trucks and railway tank containers and shipped to the Tohoku, Hokuriku, and Kyushu regions to supply natural gas to a broader base of customers. To expand supply to users within Hokkaido by LNG tank containers from its LNG plant in Yufutsu, which is located in the region, JAPEX is taking steps to augment a liquefaction plant scheduled for completion in fiscal 2008.

Through the ongoing development of its gas operations, JAPEX is targeting natural gas sales volume of 1.7 billion m<sup>3</sup> in fiscal 2008. Moreover, leveraging the Group's upstream division uniqueness, JAPEX is upgrading its natural gas transmission and underground storage network organically linking a range of facilities and services in a drive to put gas operations on a more solid footing.

### ***Conducting efficient E&P and securing new reserves***

With its business centered on E&P, the JAPEX Group continually works to maintain and expand its reserves, and strives to further expand and upgrade its system for providing stable supplies of petroleum and natural gas over the long term. Specifically, to significantly expand cost-competitive domestic reserves, a key source of earnings, the Company is conducting exploration, mainly in Niigata, Akita, and Hokkaido prefectures with the aim of adding substantial new gas reserves. It is also conducting exploration aimed at tapping reserves in areas surrounding existing gas fields. In this way, the Company is able to conduct interlocking, tactical exploration that affords greater efficiencies.

Furthermore, recognizing the importance of establishing a stable overseas business base from a long-term viewpoint, the Company will work to increase operating efficiency and carry out exploration in areas identified as key geographies. Specifically, the Company aims to increase the efficiency of operations and development at fields where it currently carries out oil and gas production. Moreover, in uncovering new business, the Company seeks to acquire the rights to oil and gas fields that are already on stream, as well as fields that have been discovered but

remain undeveloped, both of which offer relatively low risk and high early returns, with consideration given to the balanced preservation of exploration assets over long-term operating periods. From a part of the Company's move, on Iraq, Japex has stepped up technical cooperation with the Ministry of Oil to establish firm relations with the Ministry and on Libya, the Company has propelled exploration activities in the blocks granted through the tender of October 2005. And further, the Company will continue to secure new projects in its target E&P areas.

### ***Addressing environmental issues***

JAPEX, as a company that supplies environment-friendly natural gas, feels an obligation to contribute to environmental protection. The Company therefore works to increase internal environmental awareness through ongoing use of internal environment management systems (all company sites have acquired ISO 14001 certification), and to reduce the environmental impact of its business activities. At the same time, JAPEX is contributing to environmental activities on the societal level by, among other actions, participating in and funding tree planting programs in Japan and overseas.

In Japan, emissions rights trading and other new environmental businesses are being steadily generated in an effort to help reduce the nation's greenhouse gas levels. For its part, JAPEX will continue pushing ahead with efforts to promote natural gas use from a variety of angles, and appropriately apply Group technologies in the environment business field. To this end, the Company is proactively taking on R&D themes in new fields such as gas-to-liquid technology, which can be used to extract liquid fuel from methane, the main component of natural gas, and technologies for storing carbon dioxide underground.

The JAPEX Group aims to utilize these activities to further strengthen its operating base and enhance its competitiveness as well as bolster operating efficiency. The ultimate goal is to achieve sustainable development and maximize shareholder value.

## **5. Relationships With Parent Company and Others**

JAPEX has no parent company.

### **III. Business Results and Financial Position**

#### **1. Business Results**

##### **(1) Overview of the fiscal year ended March 31, 2005**

In the fiscal year ended March 31, 2006, the Japanese economy moved onto a firm recovery track, with revitalization of capital investment in the corporate sector as a result of improvement of corporate earnings, and with individual consumption maintaining a tendency to steady increase by improvement of employment and household sector.

On the other hand, in the state of petroleum market, from the beginning of the fiscal year international crude oil prices rose steadily and the yen was shifting in a basic tone of depreciation in the currency market, resulting in a sharp rise in prices for domestic crude oil. Meanwhile, due to acceleration in the pace of deregulation, domestic natural gas prices remained still weak for the Company amid escalating competition among energy sectors.

Under these conditions, the JAPEX Group worked to maintain robust pipeline operations with the aim of ensuring stable supplies of affordable and safe energy over the long term. In addition, the Group focused its collective efforts on efficient E&P both in Japan and overseas.

In the fiscal year ended March 31, 2006, consolidated net sales totaled ¥138,796 million, up ¥35,645 million, or 34.6 %, from the previous fiscal year. Driving this growth was the price of crude oil, which stabilized at a high level.

Operating income totaled ¥27,018 million, up ¥12,339 million, or 84.1%, from the previous fiscal year, reflecting increased sales and a full-year contribution of consolidated overseas project companies, which outweighed a higher cost of sales and increased exploration expenses. Ordinary income totaled ¥31,190 million, up ¥12,189 million, or 64.1%, from the previous fiscal year.

As a result, consolidated net income totaled ¥20,216 million, up ¥6,981 million, or 52.8%, from the previous fiscal year.

Base on the above result, the Company plans to pay an annual dividend of ¥40 per share, comprising interim and year-end dividends of ¥15 and ¥25 per share, respectively, for this fiscal year ended March 31, 2006.

Below is a summary of earnings data for each of the Company's business division.

##### **(a) E&P Division**

The E&P division sells crude oil, natural gas and liquefied natural gas (LNG). Net sales totaled ¥117,504 million, up ¥34,537 million, or 41.6%, from the previous fiscal year, reflecting higher crude oil sales on a sharp rise in crude oil prices.

##### **(b) Contract Services Division**

The Contract Services Division accepts orders mainly for drilling projects and geological and geophysical surveys. Net sales totaled ¥7,148 million, up ¥161 million, or 2.3%, from the previous fiscal year.

##### **(c) Other Businesses Division**

This division mainly includes the sale of petroleum products such as LPG and fuel oil, the transmission of third-party gas and petroleum products, and other miscellaneous consignment orders. Net sales totaled ¥14,143 million, up ¥1,765 million, or 14.3%, from the previous fiscal year, reflecting higher sales of petroleum products.

## **(2) Outlook for the fiscal year ending March 31, 2007**

For the fiscal year ending March 31, 2007, the Company expects consolidated net sales to decline ¥14.9 billion, or 10.7%, from this fiscal year to ¥1,239 billion, based mainly on projections for lower sales for trading crude oil.

The Company forecasts that ordinary income will decline ¥6.3 billion, or 20.1%, to ¥24.9 billion due largely to lower sales for overseas crude oil and increased selling, general and administrative (SG&A) expenses. These factors are expected to offset a firm increase in sales of domestically produced natural gas.

The Company expects net income to decline ¥3.0 billion, or 14.7%, to ¥17.2 billion.

These forecasts were formulated on the following assumptions: 1) a price of US\$60/barrel for imported crude oil and 2) an exchange rate of ¥110/US\$.

## **2. Financial Condition**

### **(1) Overview**

#### Balance sheet

Total assets at the end of this fiscal year stood at ¥532,516 million, an increase of ¥138,783 million, or 35.2%, from the previous fiscal year end. This large increase was due chiefly to valuation gains on shares held by JAPEX in INPEX CORPORATION.

Current assets increased ¥7,532 million, or 10.6%, from the previous fiscal year end, mainly due to increase in account receivable and marketable securities.

In fixed assets, property, plant and equipment increased ¥6,178 million, or 6.5%. This increase was mainly due to capital expenditures such as for the acquisition of gas supply facilities from the city of Tsubame, for drilling production well, for construction of the Shiroishi-Koriyama pipeline and for the land acquisition for expansion of the central terminal of the Yurihara oil and gas field.

Intangible fixed assets declined ¥671 million, or 9.6%. This decrease was due to amortization of goodwill booked following the acquisition of additional shares in Canada Oil Sands and other companies.

Investments and others increased ¥125,743 million, or 56.9%. This stemmed from an increase of ¥118,877 million, or 54.9%, in investments in securities mainly due to valuation gains on shares held in INPEX.

Total liabilities rose ¥47,150 million, or 51.6%, to ¥112,969 million. Despite long-term debt and the current portion of long-term debt declined ¥973 million, or 6.1% in total, deferred tax liabilities at the fiscal year-end increased ¥42,343 million, or 91.6% due to recognition of the tax effect on valuation gains on the aforementioned INPEX shares, compared to the end of the previous fiscal year.

Shareholders' equity rose ¥93,070 million, or 31.7%, to ¥386,222 million. Retained earnings rose ¥17,978 million, or 9.4%, to ¥209,095 million, reflecting net income less dividends and other appropriations. Unrealized holding gains on securities rose ¥73,636 million, or 83.4%, to ¥161,949 million due to valuation gains on shares of INPEX.

As a result, the shareholders' equity ratio declined from 74.5% to 72.5%, while shareholders' equity per share increased from ¥5,127.67 to ¥6,756.00.

Credit guarantees for bank loans taken out by affiliated companies and others, treated as contingent liabilities, rose ¥5,548 million, or 24.3%, to ¥28,341 million.

### Cash flows

As of March 31, 2006, cash and cash equivalents totaled ¥43,082 million, up ¥8,514 million, compared to the end of the previous fiscal year. Below is a summary of cash flows of each activity.

Net cash provided by operating activities was ¥32,850 million, an increase of 49.8%, from the previous fiscal year. The main components were ¥31,166 million in income before income taxes and minority interests and ¥13,951 million in depreciation and amortization, which outweighed ¥7,515 million in payment of debt guarantees and ¥4,766 million in increase in notes and accounts receivable.

Net cash used in investing activities amounted to ¥20,063 million, an increase of 26.9%, from the previous fiscal year. The main uses were ¥21,042 million in additions to property, plant and equipment and in others.

Net cash used in financing activities amounted to ¥6,088 million. This was mainly attributable to ¥8,973 million in the repayment of long-term debt, ¥2,142 in dividend payments, and ¥2,029 in payment of capital reduction for minority interests, while cash increased due to ¥8,000 million in proceeds from long-term debt.

### (2) Tend of Cash Flow Indicators

Fiscal Years Ended March 31	2002	2003	2004	2005	2006
Shareholders' equity ratio (%)	75.2	77.1	79.3	74.5	72.5
Shareholders' equity ratio on mark-to-market basis (%)	-	-	96.4	63.6	78.9
Debt repayment period (years)	1.2	0.7	0.5	0.7	0.5
Interest coverage ratio (times)	12.5	34.5	60.3	86.8	188.1

Notes:

Shareholders' equity ratio: Shareholders' equity/total assets

Shareholders' equity ratio on mark-to-market basis: Total market capitalization/total assets

Debt repayment period: Interest-bearing debt/net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/interest paid

\* JAPEX listed on the Tokyo Stock Exchange on December 10, 2003.

\* The above indicators are calculated based on consolidated financial figures.

\* Total market capitalization is calculated using the closing stock price at the end of the term multiplied by the number of shares outstanding at the end of the term (excluding treasury stock).

\* Net cash flow from operating activities is that shown on the statement of consolidated cash flows. Interest-bearing debt is all debt subject to interest payments within liabilities shown on the consolidated balance sheets. Interest paid is that shown on the consolidated statement of cash flows.

### **3. Risk Factors**

The following are a few of the range of different factors that could potentially impact the operating results of the JAPEX Group. Please be aware that factors with the potential to affect business performance are not limited to those discussed below.

#### **① Risks associated with business operations**

The exploration stage of business operations is inherently highly risky. These operations require substantial investments and extended timeframes to conduct activities beginning with initial surveys and including exploration work to the discovery of resources. Furthermore, there are no assurances that oil or gas will be found. Substantial investments are also required to commercialize newly found reserves, as JAPEX must drill development wells and construct production and transmission facilities. Due to these factors, long lead times are typically required from the start of a particular project until an investment can be recovered and earnings generated. During this period, the operating environment can undergo any number of changes that may make it difficult to achieve the original investment goals of the project.

#### **② Factors causing volatility in crude oil sales**

JAPEX markets crude oil at international prices. Consequently, the price at which the Company sells crude oil is affected by market trend, such as the level of output set by OPEC and trends in the international balance of supply and demand, as well as fluctuations in exchange rates. To reduce associated risks, the Company engages in crude oil swap transactions, although this approach does not entirely eliminate all associated risks.

#### **③ Factors causing volatility in natural gas sales**

Selling prices for natural gas are normally set based on fixed contracts with customers and denominated in yen. As such, prices are not affected by short-term fluctuations in prices for internationally traded natural gas or exchange rates. However, volumes of gas sales to local distribution companies (LDCs) do exhibit seasonality, that is, lower demand in the summer and higher demand in the winter. In addition, sales volume declines during warm winters. Furthermore, over the longer term, the deregulation of Japan's energy markets and other factors carries the risk of lower unit selling prices and lower sales volumes of natural gas.



## . Consolidated Financial Statements

### 1 . Consolidated Balance Sheets

Description	(As of March 31, 2005)		(As of March 31, 2006)	
	Amount (¥ million)	( % )	Amount (¥ million)	( % )
(Assets)				
Current assets				
1 . Cash and deposits	32,778		29,639	
2 . Notes and accounts receivable	13,913		18,713	
3 . Marketable securities	6,688		15,966	
4 . Inventories	9,158		8,794	
5 . Deferred income taxes	706		837	
6 . Other current assets	7,561		4,389	
Less: Allowance for doubtful receivables	(17)		(19)	
Total current assets	70,788	18.0	78,321	14.7
Fixed assets				
1 . Property, plant and equipment				
(1) Buildings and structures	113,155		116,219	
Accumulated depreciation	67,132	46,023	73,319	42,899
(2) Wells	31,401		37,012	
Accumulated depreciation	25,282	6,118	29,251	7,760
(3) Machinery and equipment	64,095		68,561	
Accumulated depreciation	37,775	26,320	40,274	28,286
(4) Land		11,191		13,131
(5) Construction in progress		2,536		6,396
(6) Other property, plant and equipment	10,467		10,906	
Accumulated depreciation	7,723	2,743	8,269	2,637
Property, plant and equipment, net		94,933		101,112
2 . Intangible fixed assets				
(1) Goodwill		5,082		4,132
(2) Others		1,922		2,200
Total intangible fixed assets		7,004		6,333
3 . Investments and others				
(1) Investments in securities		216,467		335,345
(2) Long-term loans receivable		2,366		1,827
(3) Long-term account receivable		-		9,351
(4) Deferred tax assets		457		432
(5) Others		10,238		9,008
Less: Allowance for doubtful receivables		(211)		(120)
Allowance for losses on overseas investments		(8,312)		(9,095)
Total investments and others		221,005	56.1	346,749
Total fixed assets		322,944	82.0	454,195
Total assets		393,733	100.0	532,516

Description	(As of March 31, 2005)		(As of March 31, 2006)	
	Amount (¥ million)	( % )	Amount (¥ million)	( % )
(Liabilities)				
Current liabilities				
1 . Notes and accounts payable	3,047		8,195	
2 . Current portion of long-term debt	8,973		-	
3 . Income taxes payable	992		6,208	
4 . Other current liabilities	16,092		11,157	
Total current liabilities	29,105	7.4	25,561	4.8
Long-term liabilities				
1 . Long-term debt	7,000		15,000	
2 . Deferred tax liabilities	46,213		88,556	
3 . Accrued retirement benefits for employees	3,831		4,735	
4 . Accrued retirement benefits for officers	773		761	
5 . Accrued estimated cost of abandonment of wells	2,690		2,943	
6 . Accrual for losses on projects	1,688		871	
7 . Other long-term liabilities	77		100	
Total long-term liabilities	62,275	15.8	112,969	21.2
Total liabilities	91,380	23.2	138,531	26.0
(Minority interests)				
Minority interests in consolidated subsidiaries	9,199	2.3	7,762	1.5
(Shareholders' equity)				
Common stock	14,288	3.6	14,288	2.7
Retained earnings	191,116	48.6	209,095	39.2
Unrealized holding gains on securities	88,313	22.4	161,949	30.4
Translation adjustments	(561)	(0.1)	894	0.2
Treasury stock	(4)	(0.0)	(4)	(0.0)
Total shareholders' equity	293,152	74.5	386,222	72.5
Total liabilities, minority interests and shareholders' equity	393,733	100.0	532,516	100.0

2 . Consolidated Statements of Income

Description	FY2005 (Apr. 1, 2004 – Mar. 31, 2005)		FY2006 (Apr. 1, 2005 – Mar. 31, 2006)			
	Amount (¥ million)	( % )	Amount (¥ million)	( % )		
Net sales		103,150	100.0	138,796	100.0	
Cost of sales		61,046	59.2	77,433	55.8	
Gross profit		42,104	40.8	61,362	44.2	
Exploration expenses						
1 . Exploration expenses	6,445		10,800			
2 . Exploration subsidies	(317)	6,127	5.9	(1,122)	9,677	6.9
Selling, general and administrative expenses		21,298	20.7	24,666	17.8	
Operating income		14,678	14.2	27,018	19.5	
Non-operating income						
1 . Interest income	1,164		1,367			
2 . Dividend income	1,669		2,548			
3 . Gain on sale of securities	148		222			
4 . Equity in profit of non-consolidated subsidiaries and affiliates	116		-			
5 . Reversal of allowance for losses on overseas investments	1,376		-			
6 . Reversal of accrual for losses on projects	957		814			
7 . Exchange gains	-		847			
8 . Other non-operating income	978	6,411	6.2	1,426	7,226	5.2
Non-operating expenses						
1 . Interest expense	261		144			
2 . Loss on sale of securities	145		93			
3 . Loss on redemption of securities	306		0			
4 . Devaluation loss on securities	121		1			
5 . Equity in losses of non-consolidated subsidiaries and affiliates	-		587			
6 . Provision for accrued estimated cost of abandonment of wells	513		522			
7 . Provision for allowance for losses on overseas investments	-		784			
8 . Other non-operating expenses	739	2,088	2.0	919	3,054	2.2
Ordinary income		19,001	18.4	31,190	22.5	
Extraordinary gains						
1 . Reversal of allowance for doubtful receivables	-	-	-	77	77	0.1
Extraordinary losses						
1 . Loss on disposal of fixed assets	665		101			
2 . Earthquake disaster recovery expenses	206	871	0.8	-	101	0.1
Income before income taxes and minority interests		18,129	17.6	31,166	22.5	
Current income taxes	1,801		8,845			
Deferred income taxes	2,469	4,270	4.2	448	9,294	6.7
Minority interests		624	0.6	1,655	1.2	
Net income		13,234	12.8	20,216	14.6	

### 3 . Consolidated Statements of Shareholders' Equity

	FY2005 (Apr. 1, 2004 – Mar. 31, 2005)		FY2006 (Apr. 1, 2005 – Mar. 31, 2006)	
Description	Amount (¥ million)		Amount (¥ million)	
Retained earnings				
Balance at beginning of year		180,826		191,116
Add:				
1 . Net income	13,234	13,234	20,216	20,216
Deduct:				
1 . Cash dividends paid	2,857		2,143	
2 . Bonuses to officers (of which to auditors)	86 (3)		95 (3)	
3 . Effect of change in scope of consolidation	-	2,944	0	2,238
Balance at end of year		191,116		209,095

#### 4 . Consolidated Statements of Cash Flows

	FY2005 (Apr. 1, 2004 – Mar. 31, 2005)	FY2006 (Apr. 1, 2005 – Mar. 31, 2006)
Description	Amount (¥ million)	Amount (¥ million)
<b>Operating activities</b>		
Income before income taxes and minority interests	18,129	31,166
Depreciation and amortization	14,081	13,951
Amortization of goodwill	-	946
Loss on devaluation of marketable securities and investments in securities	121	1
Increase (decrease) in allowance for doubtful receivables	90	(89)
Increase in provision for accrued retirement benefits for employees	244	903
Increase in provision for accrued retirement benefits for officers	76	(11)
Decrease in provision for accrued estimated cost of abandonment of wells	(12)	97
Decrease in provision for allowance for losses on overseas investments and accrual for losses on projects	(2,173)	(30)
Interest and dividend income	(2,833)	(3,916)
Interest expense	261	144
Gain on redemption and sales of marketable securities and investments in securities	(239)	(428)
Loss on redemption and sales of marketable securities and investments in securities	452	94
Equity in losses (gains) of unconsolidated subsidiaries and affiliates	(116)	587
Decrease (increase) in notes and accounts receivable	(1,823)	(4,766)
Decrease (increase) in inventories	(3,042)	363
Increase (decrease) in notes and accounts payable	152	6,260
Increase (decrease) in consumption tax payable	783	(322)
Other, net	1,922	(2,151)
Subtotal	26,075	42,799
Payments of debt guarantee	-	(7,515)
Income taxes paid	(4,139)	(2,432)
<b>Net cash provided by operating activities</b>	<b>21,936</b>	<b>32,850</b>
<b>Investing activities</b>		
Investments in time deposits	(30)	(1,302)
Proceeds from time deposits	330	561
Payments for purchase of marketable securities	(100)	(5,998)
Proceeds from redemption and sale of marketable securities	4,220	10,536
Additions to property, plant and equipment	(11,978)	(21,042)
Proceeds from sales of property, plant and equipment	550	79
Additions to intangible fixed assets	(586)	(743)
Payments for purchase of investments in securities	(14,588)	(11,819)
Proceeds from redemption and sale of investments in securities	7,435	5,792
Payments for purchase of consolidated subsidiary stock accompanying changes in scope of consolidation	(2,269)	-
Increase in loans receivable	(1,127)	(3,128)
Decrease in loans receivable	186	2,353
Interest and dividends received	2,815	4,124
Other, net	(662)	523
<b>Net cash used in investing activities</b>	<b>(15,805)</b>	<b>(20,063)</b>
<b>Financing activities</b>		
Decrease in short-term bank loans	(600)	(158)
Proceeds from long-term debt	7,000	8,000
Repayment of long-term debt	(2,311)	(8,973)
Purchase of treasury stock	(2)	(0)
Cash dividends paid	(2,854)	(2,142)
Dividends paid to minority shareholders	(192)	(609)
Interest paid	(252)	(174)
Payment of capital reduction for minority interests	-	(2,029)
<b>Net cash provided by (used in) financing activities</b>	<b>786</b>	<b>(6,088)</b>
Effect of exchange rate changes on cash and cash equivalents	(199)	1,020
<b>Increase in cash and cash equivalents</b>	<b>6,717</b>	<b>7,720</b>
Cash and cash equivalents at beginning of the period	27,851	34,568
Increase in cash and cash equivalents due to merger	-	870
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	-	(76)
<b>Cash and cash equivalents at the period-end</b>	<b>34,568</b>	<b>43,082</b>

## V. Status of Production and Sales

### 1. Production

#### (1) Oil and Natural Gas Segment

Division	Product	FY 2005 (Apr. 1, 2004 – March 31, 2005)	FY2006 (Apr. 1, 2005 – Mar. 31, 2006)
E&P	Crude oil	696,814 kl (101,436)	805,612 kl (164,842)
	Natural gas	1,091,902 thousand m <sup>3</sup> (2,904)	1,279,066 thousand m <sup>3</sup> (62,335)
	LNG	19,771 t	25,901 t
	Bitumen	-	449,785 kl (449,785)
Other Businesses	LPG	10,338 t	10,737 t
	Fuel oil, etc.	49,751 kl	55,719 kl

#### (2) Geothermal Energy Segment

Division	Product	FY 2005 (Apr. 1, 2004 – Mar. 31, 2005)	FY2006 (Apr. 1, 2005 – Mar. 31, 2006)
Geothermal Energy	Steam	863,241 t	-

#### (Notes)

1. The figures in parentheses in E&P represent overseas production and are included in the total.
2. Part of the oil production volume is used as a feedstock for LPG, fuel oil and other products.
3. Part of the natural gas production volume is used as a feedstock for LNG, LPG and other energies.
4. Bitumen is heavy oil extracted from oil sands.
5. No steam production was made since this fiscal year due to that Japex Geothermal Kyushu Ltd. assigned its geothermal business to Kyushu Electric Power Co., Inc. in the previous fiscal year.

## 2. Sales

### (1) Oil and Natural Gas Segment

Division	Product	FY 2005 (Apr. 1, 2004 – Mar. 31, 2005)		FY2006 (Apr. 1, 2005 – Mar. 31, 2006)	
		Volume	Amount	Volume	Amount
E&P	Crude oil	kl 1,380,337	(¥ million) 38,211	kl 1,485,849	(¥ million) 61,185
	Natural gas	thousand m <sup>3</sup> 1,276,887	39,867	thousand m <sup>3</sup> 1,413,717	43,539
	LNG	t 98,825	4,888	t 124,736	6,252
	Bitumen	kl -	-	kl 448,951	6,526
	Subtotal	-	82,966	-	117,504
Contract Services		-	6,987	-	7,148
	Subtotal	-	6,987	-	7,148
Other Businesses	LPG	t 30,781	(¥ million) 1,622	t 26,234	(¥ million) 1,755
	Fuel oil, etc.	kl 94,430	4,202	kl 102,125	5,934
	Others	-	6,553	-	6,453
	Subtotal	-	12,378	-	14,143
	Total	-	102,332	-	138,796

### (2) Geothermal Energy Segment

Division	Product	FY 2005 (Apr. 1, 2004 – Mar. 31, 2005)		FY2006 (Apr. 1, 2005 – Mar. 31, 2006)	
		Volume	Amount	Volume	Amount
Geothermal Energy	Steam	t 813,999	(¥ million) 818	t -	(¥ million) -
	Total	-	818	-	-

#### (Notes)

- Others in Other Businesses includes revenue from the transmission of third-party gas through JAPEX's pipeline network and sales commissions.
- No steam sales was made since this fiscal year due to that Japex Geothermal Kyushu Ltd. assigned its geothermal business to Kyushu Electric Power Co., Inc. in the previous fiscal year.
- Monetary amounts in the table do not include consumption tax.