# Consolidated Financial Results for the six months ended September 30, 2006

November 15, 2006

**Note: The following report is an English translation of the Japanese-language original.**

| | | | |
|---|---|---|---|
| Company name | INPEX Holdings Inc. | Stock Exchange on which the Company is listed | Tokyo Stock Exchange |
| Code number | 1605 | Location of the head office | Tokyo |

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

| | |
|---|---|
| Representative | Naoki Kuroda, President |
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| | TEL+81-3-5448-0205 |
| Date of the meeting of the Board of Directors for the six months ended September 30, 2006 financial results | November 15, 2006 |
| Prepared in accordance with accounting principles generally accepted in the United States of America | No |

1. Consolidated Financial Results for the six months ended September 30, 2006 (April 1, 2006-September 30, 2006)

(1) Consolidated operating results

Note: Amounts less than one million yen are rounded off.

| | Net sales | | Operating income | | Ordinary income | |
|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % |
| For the six months ended September 30, 2006 | 500,847 | — | 298,457 | — | 294,029 | — |

| | Net income | | Net income per share—basic | Net income per share—diluted |
|---|---|---|---|---|
| | Million yen | % | Yen | Yen |
| For the six months ended September 30, 2006 | 64,674 | — | 27,647.74 | — |

(Notes)
1. Equity in earnings of affiliates: for the six months ended September 30, 2006, ¥ 778 million
2. Average number of shares issued and outstanding in this period (consolidated): for the six months ended September 30, 2006, 2,339,237 shares
3. Change in accounting policy: No
4. Since consolidated financial results are prepared for the first time for the six months ended September 30, 2006, percentage expressions for the change from the corresponding period of the preceding year are not disclosed.

(2) Consolidated financial position

| | Total assets | Net assets | Net assets excluding minority interests as a percentage of total assets | Net assets excluding minority interests per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of September 30, 2006 | 1,530,943 | 947,949 | 58.8 | 383,912.77 |

Note: Number of shares issued and outstanding at the end of this period (consolidated): as of September 30, 2006, 2,346,637 shares

(3) Consolidated cash flows

Note: Amounts less than one million yen are rounded off.

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of the period |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| For the six months ended September 30, 2006 | 151,444 | (77,290) | 8,843 | 235,335 |

(4) Scope of consolidation and equity method

| | |
|---|---|
| Number of consolidated subsidiaries | 57 Companies |
| Number of unconsolidated subsidiaries accounted for by the equity method | None |
| Number of affiliated companies accounted for by the equity method | 13 Companies |

(5) Changes in scope of consolidation and equity method

| | Increase | Decrease |
|---|---|---|
| Consolidated subsidiaries | 2 companies | None |
| Affiliated companies accounted for by the equity method | None | None |

Note: Since the Company was established on April 3, 2006 as the sole parent company of INPEX CORPORATION and Teikoku Oil Co., Ltd., the above number of companies represents the changes in scope of consolidation and equity method since the establishment of the Company.

## 2. Estimated Consolidated Operating Results for the year ended March 31, 2007 (April 1, 2006–March 31, 2007)

| | Net sales | Ordinary income | Net income |
|---|---|---|---|
| | Million yen | Million yen | Million yen |
| For the year ended March 31, 2007 | 951,000 | 541,000 | 124,000 |

Reference: The forecast of ¥52,841.57 of net income per share for the year ended March 31, 2007, is calculated based on the expected number of shares issued and outstanding of 2,346,637 shares at March 31, 2007.

* The aforementioned forecasts are based on currently available information and contain many uncertainties. Changing business conditions including oil and gas price levels, production and sales plans, projects development schedules, government regulations, financial conditions and regulationship with oil and gas producing countries may cause actual results to differ from the above forecasts. Issues relating to the above forecasts are referred to on page 7 of the accompanying materials.

Average number of shares during this period (after deducting the number of treasury stock)

| | For the six months ended September 30, 2006 |
|---|---|
| Common stock | 2,339,236 shares |
| Common stock equivalent share; Special class share | 1 share |

Number of shares issued and outstanding at the end of this period (after deducting the number of treasury stock)

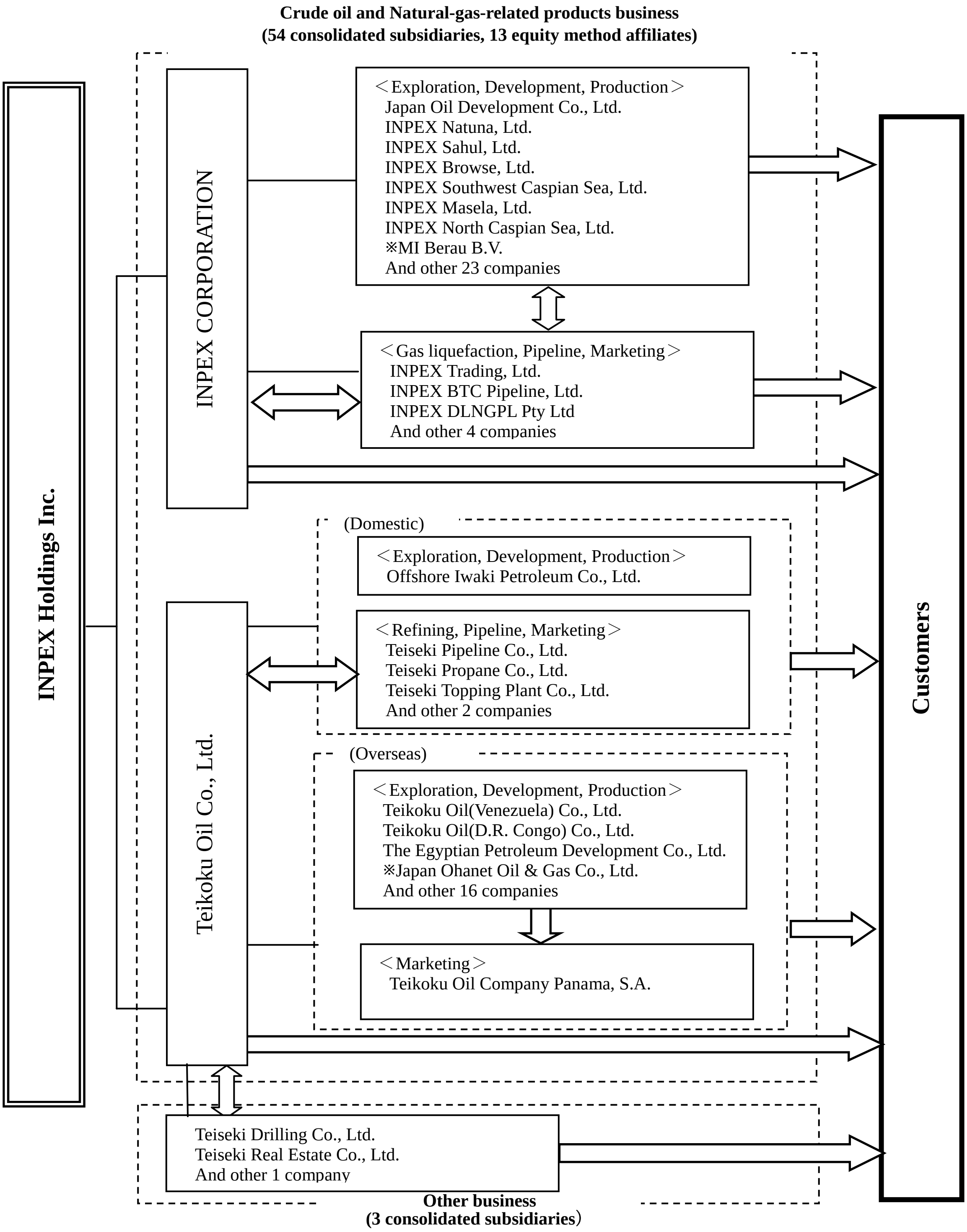
| | For the six months ended September 30, 2006 |
|---|---|
| Common stock | 2,346,636 shares |
| Common stock equivalent share; Special class share | 1 share |

Note: Since shareholder of the special class share is entitled to the same rights as that for shareholders of common stock regarding dividends and the distribution of residual property, the special class share is classified as common stock equivalent share.

## I. Overview of the INPEX Group

The INPEX Holdings Group consists of INPEX Holdings Inc., 62 subsidiaries (including 57 consolidated subsidiaries), 22 affiliates (including 13 equity method affiliates) and their two subsidiaries (as of September 30, 2006). The group primarily engages in the exploration, development, production and sales of crude oil and natural gas in Japan as well as in the Asia, Oceania, the Commonwealth of Australia, Middle East, the coastal states around the Caspian Sea and South America. In addition, we provide loans and investments to companies engaged in the aforementioned activities. Our business segments are crude oil and natural-gas-related products and other business.

The following diagram shows our group's business flow.




Notes: 1. symbol "⇒" indicates products and service flow
2. symbol "※" indicates equity method affiliates, otherwise consolidated subsidiaries

## II Management Policy

1. Management Strategy

On April 3, 2006, INPEX CORPORATION and Teikoku Oil Co., Ltd. integrated their businesses, and established a joint holding company, INPEX Holdings Inc. (the Company). INPEX CORPORATION and Teikoku Oil Co., Ltd. are wholly-owned subsidiaries of the Company. The transition to an operating holding company through merger of the Company and INPEX CORPORATION and Teikoku Oil Co., Ltd. is planed in October 2010 and this will enable us to enhance our corporate management more efficient and agile.

In pursuit of development of petroleum and natural gas which is the fundamental business of the Company, we seek to improve the productivity and profitability of our existing oil and gas fields in Japan and overseas. At the same time, we are working steadily and proactively to commercialize undeveloped oil and gas projects, particularly our operator projects. Furthermore, to ensure sustainable growth from the medium- to long-term perspective, we are leveraging to the maximum our substantially strengthened ability to obtain upstream interests as a consequence of the business integration by building a more balanced asset portfolio, further strengthening our solid financial base, and mobilizing our practical operational and technical capabilities. By maintaining and increasing our reserves and production of petroleum and natural gas, we will endeavor to secure stable profits over the medium to long term and to achieve enhanced corporate value over time.

2. Dividend Policy

In order to secure a stable supply of petroleum and natural gas resources efficiently, the Company aims to expand its operating base. To this end, we are reinforcing investments in exploration and development in Japan and overseas, as well as in maintenance and expansion of the supply infrastructure. The robust financial base of the Company is crucial for maintaining this level of investment. Therefore, our basic policy is to maximize corporate value through ongoing maintenance and enlargement of our reserves and production of petroleum and natural gas, while paying out cash dividends as direct compensation to shareholders, in light of the medium- to long-term prospects for the Company.

With the enactment of the Corporation Law, restrictions on the number of times for paying dividends have been eliminated. However, currently, we do not plan to pay quarterly.

3. Share Trading Unit

In order to improve the liquidity of our shares and to expand the diversity of shareholders participating in the equity market, including individual investors, the Company deems it necessary to establish a fair and stable stock price on the equity market. Although we have no plans to lower our minimum share trading unit for the time being, we carefully review it as necessary in the light of liquidity of shares, trends in transaction volume, and distribution of shareholders.

4. Medium-to Long Term Management Key Initiatives

The key management initiatives for the Company in developing petroleum and natural gas resources is achieving sustainable growth by maintaining and expanding reserves through reinvesting the cash flow obtained from existing oil and gas fields. By combining overseas projects that promise high growth potential due to expansion of reserves with domestic projects without the attendant country risk and foreign currency risk, we are seeking qualitative improvements in our asset portfolio. At the same time, by leveraging our business resources more effectively through an organic linkage of our overseas assets and domestic infrastructure, we aim to further enhance corporate value.

With the tougher conditions associated with acquiring resources overseas, the Company must take the opportunity of business integration to become a more robust enterprise possessing an enhanced ability to acquire interests in promising projects. The foremost management task is to achieve smooth integration of the two companies' organizations, with transition to an operational holding company after two years. As international competition intensifies, this represents the surest path to ensuring long-term growth by building a robust position for the Company.

We will continue to move forward with exploration and development in new and existing projects such as the Masela Block(Abadi) gas project in Indonesia and the WA-285-P (Ichthys) gas and condensate project in Australia, the Abu Dhabi offshore oil fields in the UAE, and the Azadegan field in Iran, Kashagan and ACG fields in the Caspian Sea. Domestically, we are working to increase the scale of our natural gas business by exploiting domestic reserves located close to a strong market and by expanding our natural gas supply infrastructure. This involves plans to build a major pipeline as a substantial reinforcement of supply capacity to the North Kanto region where demand is expected to substantially exceed previous estimates, and where the Company already operates a network of pipelines. Since we anticipate continuous substantial investment in order to achieve the growth strategy of the Company, we must take all possible measures to raise the capital required.

We will undertake operations according to the following policies in order to implement the business strategy of the Company.

(1) Achieve Well Balanced Asset Portfolio

① Regional Diversification

Through business integration, the operating area of the Company has diversified to include Asia, Oceania, the Middle East, the Caspian Sea, Central and South America, and Africa, besides Japan, and the regional balance of our asset portfolio has improved significantly. However, we recognize the need to reduce our dependence on specific regions from the viewpoint of country and operating risks, and we will continue to be proactive in considering investment in other new promising areas.

② Balance between Crude Oil and Gas

In terms of output by products, the share of crude oil is about 60% compared with about 40% for natural gas as a result of business integration.

Since crude oil is a commodity highly sensitive to various factors, the selling price fluctuates in the marketplace. On the other hand, the term of sales contract with customers are for a short period(one year), the required investment for production and transportation facilities is relatively small and the development period is comparatively short compared with the natural gas projects. Accordingly, profitability can be achieved comparatively soon after discovery in the case of oil fields.

Commercial production of natural gas requires substantial investments and a long lead time of preparation for constructing liquefaction plants and pipelines. Because the buyer also must make large investments in LNG receiving facilities, stable and long-term sales contracts are essential. With an assurance of long term LNG supply to the customers, profitability can be maintained.

Regarding a new project, we focus on a balance between crude oil and natural gas to ensure efficient investment with a view to long-term cash flow.

③ Balancing the Project Phases among Exploration, Development and Production

Because crude oil and gas reserves are limited, we continuously seek to acquire new reserves in order to ensure stable profitability. Therefore, we reinvest in exploration to discover new reserves while maintaining our cash flow from production. Projects must be carried out continuously in order to allocate and balance our assets among exploration, development and production stages. To achieve this balance, we invest in exploration and undeveloped oil and gas assets.

④ Enhance Activities and Capabilities as an Operator

In acting as an operator, we face managerial issues such as the difficulty in securing manpower and the heavy burden of financing. However, involvement as an operator also increases our opportunities to obtain new working interests by improving our technical capabilities and winning recognition from oil and gas producing countries and international oil campaniles. The Company is pursuing opportunities to act as operator with the substantially enhanced technical capabilities resulting from business integration, while addressing the effective utilization of management resources.

⑤ Balancing Contractual Arrangements

We intend to diversify the risk of oil price volatility by balancing contractual arrangements among production sharing contracts, or concession contracts, for which profit is linked to the price of oil, with service contracts, such as buyback or fixed margin contracts, for which profitability is less influenced by oil prices and amounts are fixed.

(2) Investments through Acquisition relative to the Expiration of Working Interests

The production sharing contract for the offshore Mahakam area, which is the Company's major gas production project, expires in 2017. Although we will negotiate to extend the contract, production is expected to decline in the long term as the remaining reserves decline even if the contract is renewed. We intend to maintain and increase production beyond 2017 by acquiring obtaining working interests from other companies or participating in new projects or taking over companies that have substantial production and stable cash flow.

(3) Enlarging the Company's Business Domain through Organic Linkage of Domestic and Foreign Assets

The Company aims to expand operations in the domestic natural gas market, which represents a stable base of earnings that is expected to grow. As well as building a natural gas pipeline network to supply the promising market in the Kanto-Koshinetsu region, we plan to expand production in the key Minami Nagaoka gas field. We also own promising undeveloped assets, primarily natural gas, in Indonesia and Australia, and to ensure their long-term growth, we will consider the possibilities of gas business integration that organically links these overseas gas assets with our domestic infrastructure, in aggressive pursuit of an enlarged business domain.

(4) Strengthening Relationships with Leading Domestic and International Oil and Gas Companies

Developing petroleum and gas involves considerable risks. Large-scale projects in particular require huge investments, presenting an insuperable obstacle for a single company. Typically, several companies form a consortium to share the risk, and this is the case internationally too. The Company plans to expand its business and diversify risk by increasing opportunities for participation in projects through enhanced cooperation with the major international oil companies, the national oil companies of oil and gas producing countries and leading private oil resource developers, trading companies and other energy-related companies.

(5) Promote an Efficient and Transparent Corporate Management

The Company bears the heavy responsibility of assuring a stable supply of energy to Japan in an efficient manner. Consequently, we recognize not only that our corporate social responsibility is increasing but also that it is essential that we exercise sensitivity in conducting business in communities in Japan and around the world. Therefore, we intend to manage our business efficiently and transparently in line with global standards.

(6) Environmental Efforts

Environmental issues, particularly global warming, are a matter of worldwide concern. We make every effort to minimize the effects on surrounding areas when we explore, develop, produce and sell energy resources. Also we are working to reduce our greenhouse gas emission reduction unit, reduce emissions of chemical substances, suppress emissions into the atmosphere and river systems, and to take measures to prevent soil pollution and reduce waste. Combustion of natural gas involves relatively small emissions of $CO_2$ and NOx compared with combustion of other fossil fuels. Positioning natural gas as our core business, we intend to further promote the use of this clean fuel.

(7) Development of New Business

New technologies such as GTL (Gas to Liquids) and DME (Dimethyl Ether) produce synthesizing liquid fuel as oil substitute form by reforming natural gas at normal temperature. Their environmental benefits have attracted attention because the GTL products contain almost no pollutants. As the Company has large reserves of natural gas, we are participating in R&D projects for GTL and DME. Introduction of these new technologies is considered in our plans to develop a new gas fields.

In order to supply energy in a stable and efficient manner and thereby contribute to the good of society, the Company aims to maintain and expand its reserves and production by rapidly achieving synergy through business integration between INPEX and Teikoku Oil. We will seek to allocate our business resources optimally and maintain the soundness of our financial position with a view to securing steady growth.

In addition, to fulfill our corporate social responsibility, we will strengthen corporate governance and compliance, and carry out strict safety management throughout our operations. Recognizing our obligation to protect the environment and to become an integral part of the communities where we operate, we aim to improve our corporate value over the long term.

5. Matters regarding the Parent Company

None applicable.

## Ⅲ Results of Operations and Financial Position

（1） Results for the Six Months Ended September 30, 2006

Effective April 3, 2006 the Company has been established as the joint holding company that owns INPEX CORPORATION and Teikoku Oil Co., Ltd., as wholly-owned subsidiaries. Financial results are not compared with the corresponding period of the previous year since the Company started to compile the consolidated financial results from this period

During the six months ended September 30, 2006, the Japanese economy continued to benefit from a modest recovery. Supported by the steady recovery of the world economy led by the economies of the United States and China, exports and capital investment increased and corporate earnings improved. Although the labor market remained tough, there were signs of improvement and personal consumption was on a moderate upward trend.

Crude oil prices and exchange rates have significant effects on the revenues and expenditures of the INPEX Group. Crude oil prices were volatile during the early part of the six months ended September 30, 2006 due to the decline of OPEC's spare production capacity and the United States' insufficient refining capacity, although the crude oil inventory increased in the United States and the International Energy Agency (IEA) revised downward its forecast of oil demand. Subsequently, affected by several hurricanes that struck the coast of the Gulf of Mexico over the summer, and because these disasters revealed the United States' insufficient refining capacity, oil prices increased sharply and West Texas Intermediate (WTI) crude reached its highest level ever. As a consequence, the average price of our crude oil for the six months ended September 30, 2006 was US$54.00 per bbl, an increase of US$16.83, or 45.3%, from the corresponding period of the previous year. The average gas sales price also increased with the rise of crude oil price.

Meanwhile, the exchange rate of Japanese yen against the U.S. dollar appreciated rapidly from ¥117.47 at the beginning of the six months ended September 30, 2006 to the ¥109 level temporarily after the adoption of a special statement for correction of global imbalance (international income and expenditure disproportion and U.S. current-account deficit) in Washington G7 in April. Thereafter, reflecting the widening gap in interest rates between Japan and the United States being still significant, the Japanese yen against U.S. dollar fell gradually to ¥117.89 as of September 30, 2006, or ¥0.42 lower than that at the beginning of the six months ended September 30, 2006. As a consequence, the average exchange rate for sales of the Company was ¥115.45 per US dollar.

In these business circumstances, for the six months ended September 30, 2006, we had net sales of ¥500,847 million mainly due to the increase of crude oil and natural gas prices and an increase in production volume of crude oil at ACG Oil Fields. Net sales of crude oil and natural gas amounted to ¥316,751 million and ¥170,279 million, respectively.

Cost of sales for the six months ended September 30, 2006 was ¥170,329 million. Exploration expenses were ¥9,366 million mainly due to the exploration activities in Asia-Oceania area. Selling, general and administrative expenses were ¥22,693 million, and operating income was ¥298,457 million.

Other income was ¥11,892 million, and other expenses were ¥16,320 million. As a result, ordinary income for the six months ended September 30, 2006 was ¥294,029 million.

Income taxes-current were ¥232,297 million. As a result, net income for the six months ended September 30, 2006 was ¥64,674 million

With respect to segment information, the oil and natural gas business combined accounts for more than 90% of the aggregate sales and operating income of all segments. Therefore, the business segment information has been omitted.

（2） Financial Position

Consolidated total assets as of September 30, 2006 were ¥1,530,943 million.

Current assets were ¥437,749 million, and fixed assets were ¥1,093,194 million. Total liabilities were ¥582,993 million, net assets were ¥947,949 million, and minority interests in net assets were ¥47,045 million.

As for cash flows during the six months ended September 30, 2006, net cash provided by operating activities was ¥151,444 million. Meanwhile, net cash used in investing activities was ¥77,290 million mainly due to purchase of investment securities and increase in development expenditure for ACG Oil Fields and Kashagan Oil Field. Net cash provided by financing activities was ¥8,843 million. Cash and cash equivalents at the end of the six months ended September 30, 2006 totaled ¥235,335 million reflecting above net increase of ¥84,192 million from ¥151,143 million at the beginning of the six months ended September 30, 2006.

（3） Full-Year Outlook

On a full-year basis, consolidated net sales for the year ending March 31, 2007, are expected to be ¥9,510 billion,

consolidated ordinary income is expected to be ¥5,410 billion, net income for the year ending March 31, 2007, is expected to be ¥1,240 billion.
In these estimates, the crude oil price for the second-half period is assumed to be US$57.5 per barrel (for Brent crude) with the exchange rate of the Japanese yen against the U.S. dollar at ¥110.
Difference from the forecast disclosed on August 9, 2006 is as follows :

(Millions of yen)

| | Net Sales | Ordinary income | Net income |
|---|---|---|---|
| Previous Forecasts: A | 918,000 | 521,000 | 118,000 |
| Revised Forecasts: B | 951,000 | 541,000 | 124,000 |
| Increase (Decrease): B－A | 33,000 | 20,000 | 6,000 |
| Rate of increase (%) | 3.6% | 3.8% | 5.1% |

(4) Business Risk and others

The following is a discussion of principal items that can be considered potential risk factors relating to the INPEX Holdings Group’s business. From the standpoint of information disclosure to investors and shareholders, we also proactively disclose matters that do not necessarily fall within the scope of business risk but that can be considered to have an important bearing on the investment decisions of investors. The following discussion does not completely cover all business risks relating to the INPEX Holdings Group’s business.

Unless stated otherwise, forward-looking statements in the discussion are the judgments of the INPEX Holdings Group as of the date of issuance of this document and are subject to change after such date due to various circumstances, including socioeconomic circumstances.

1. Characteristics of and Risks Associated with the Oil and Natural Gas Development Business

1) Risk of Failure in Exploration, Development, or Production

Payment of compensation is ordinarily necessary to acquire concession interests. Also, surveying and exploratory drilling expenses (exploration expenses) become necessary at the time of exploration activities for the purpose of discovering resources. When resources are discovered, it is necessary to further invest in substantial development expenses according to various conditions, including the recoverable reserves, development costs, and details of agreements with oil-producing countries.

There is, however, no guarantee of discovering resources on a scale that makes possible development and production, the probability of such discoveries has considerably lessened despite various technological advances in recent years, and even when resources are discovered the scale of deposits does not necessarily make commercial production possible. For this reason, the INPEX Holdings Group conservatively recognizes expenses related to exploration investment, maintaining financial soundness by booking 100% as expenses in consolidated accounts in the case of concession agreements（including mining rights in Japan as well as permits, license and lease in overseas） and by booking 100% of exploration project investment as reserves in the case of production sharing agreements. In addition, if there are impossibilities of recovery of development investment in a project, we also book corresponding amount of development expenses as reserves in view of the circumstances in each project.

To increase owned recoverable reserves and production volume, the INPEX Holdings Group always shows interest in promising properties and plans to continue to invest in properties. At the same time, we invest in development, including the acquisition of interests in discovered undeveloped fields and producing fields, so as to maintain overall balance of assets at the exploration, development, and production stages.

Although exploration investment and development investment are necessary to secure the owned reserves essential to the INPEX Holdings Group’s future sustained business development, each type of investment involves technological and economic risks, and failed exploration or development investment could have an adverse affect on the INPEX Holdings Group’s results of operations.

2) Oil, Condensate, LPG and Natural Gas Reserves

①Proved Reserves

The Company commissioned DeGolyer and MacNaughton, an independent oil engineering company of the United States, to assess the proved reserves of the INPEX Holdings Group (the Company and its consolidated subsidiaries and equity-method affiliates). The definition of "proved reserves" evaluated by DeGolyer and MacNaughton is in accordance with United States Securities and Exchange Commission (SEC) Regulation S-X Rule 4-10, which is widely known among U.S. investors: Proved oil and gas reserves are the estimated quantities of oil/gas which can be recovered with reasonable certainty in future years under current economic and operational conditions based on geological and engineering data. The SEC rule separates proved reserves into two categories: proved developed reserves which can be recovered by existing wells and infrastructure, and proved undeveloped reserves which require future development of wells and infrastructure to be recovered.

For reserves to be classified as proved reserves, the SEC rule requires a market and means of economical production, processing, and shipping to exist already or to become available in the near future. Thus, among the various definitions of reserves used in the oil and gas industry, this definition is widely recognized to provide conservative numerical values. However, it is necessary to bear in mind that even though such numerical values are conservative values, and the reserves could vary according to not only production, but also factors including oil and gas prices, invested capital, and the amounts of invested capital recovered and compensation according to contract terms and conditions, and also the proved reserves are not concept guaranteeing that during the future production period the production of all proved reserves is possible.
The proved reserves of crude oil, condensate, LPG and natural gas of the INPEX Holdings Group (the Company and its consolidated subsidiaries and equity-method affiliates) as of March 31, 2006, were as follows.

| | Oil, Condensate and LPG (MMbbls) | Natural Gas (BCF) | （Reference） Oil Equivalent (MMBOE) |
|---|---|---|---|
| INPEX CORPORATION's Group | 1,054 | 3,103 | 1,571 |
| TEIKOKU Oil's Group | 36 | 1,006 | 204 |
| INPEX Holdings' Group Total | 1,090 | 4,109 | 1,775 |

Note : 1 Reserves that is under the process of government approval for interests transfer and assets DeGolyer and MacNaughton did not evaluate are not included
2 INPEX Holdings' Group Total is simple sum of the amounts of INPEX CORPORATION's Group and TEIKOKU Oil's Group.
3 BOE means barrels of oil equivalent**.**

②Probable Reserves

In addition to the assessment of proved reserves on the basis of the SEC rule, the INPEX Holdings Group commissioned DeGolyer and MacNaughton, an independent oil engineering company of the United States, to assess its probable reserves on the basis of guideline which was jointly established by two academic societies: the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). The definition of probable reserves is in accordance with the guideline of the SPE and WPC. Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. When probabilistic methods are used to calculate probable reserves, it is necessary that there be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves. The reserves could vary according to not only production, but also factors including oil and gas prices, invested capital, and the amounts of invested capital recovered and compensation according to contract terms and conditions, and the reserves could increase or decrease as a result. The difference between probable reserves and proved reserves based on the SEC rule is whether at the time of reserves assessment it is recognized that oil or gas can be recovered in the future with high certainty. Probable reserves will be upgraded to proved reserves with the addition of new technical data, under different economic conditions, and with advances in operational conditions. Accordingly, probable reserves are unproved reserves that do not fall under the category of proved reserves, and there is no guarantee that the entire amount of probable reserves will actually be developed and produced in the future.

The probable reserves of crude oil, condensate, and natural gas of the INPEX Holdings Group (the Company and its consolidated subsidiaries and equity-method affiliates) as of March 31, 2006, were as follows.

Although a gas and condensate structure has been discovered at the WA-285-P Block off the coast of Western Australia and a gas structure has been discovered in the Masela Block in the Timor Sea off the coast of Indonesia, both of which are properties in which the INPEX Holdings Group holds interest, plans to assess and develop reserves for both properties are currently under consideration, and at this time reserves in these properties are not included in either proved reserves or probable reserves. It is possible that those reserves will be included in proved reserves or probable reserves in the future at the stage when specific development plans have been decided and a gas sales plan is certain.

| | Oil, Condensate and LPG (MMbbls) | Natural Gas (BCF) | （Reference） Oil Equivalent (MMBOE) |
|---|---|---|---|
| INPEX CORPORATION's Group | 1,481 | 2,074 | 1,827 |
| TEIKOKU Oil's Group | 12 | 250 | 54 |
| INPEX Holdings' Group Total | 1,493 | 2,324 | 1,881 |

（注） 1 Reserves that is under the process of government approval for interests transfer and assets DeGolyer and MacNaughton did not evaluate are not included

2 INPEX Holdings' Group Total is simple sum of the amounts of INPEX CORPORATION's Group and TEIKOKU Oil's Group.

3 BOE means barrels of oil equivalent**.**

③Possibility of Change in Reserves

The assessment of reserves takes the form of numerical values assessed on the basis of geological and engineering data from oil and gas strata available at the time of the assessment, the maturity of development plans, market conditions, and other factors. The assessment could be reviewed in the future on the basis of newly obtained geological and engineering data as production and operation progresses, and the reserves could increase or decrease as a result. Also, with regard to reserves based on production sharing agreements, quantities calculated on the basis of economic interests in those agreements could vary not only according to production, but also according to factors including oil and gas prices, invested capital, and the amounts of invested capital recovered and compensation according to contract terms and conditions, and the reserves could increase or decrease as a result. In this way, the assessed values of reserves could change greatly according to various data, assumptions, and other factors.

3) The period from exploration to sales is highly capital intensive and funds cannot be recouped for a long time

Considerable expenses and time are required for exploration activities. Even when promising resources are discovered through exploration, substantial expenses including production facilities construction costs and an extended period of time are necessary at the development stage leading up to production. For this reason, a long period of ten years or more is required from the time of exploration and development investment until the recovery of funds through production and sales. Following the discovery of resources, in the development process leading up to production and the commencement of sales the occurrence of events such as delay of development schedule or the loss of the economic viability of the properties in question due to factors such as unanticipated problems related to geological conditions or fluctuations in the price of oil or gas, fluctuations in foreign exchange rates, or other changes in the socioeconomic environment including escalating price of equipment and materials could have an adverse affect on the INPEX Holdings Group's results of operations.

4) Operatorship

In the oil and natural gas development business, companies frequently form business partnerships for the purpose of distribution of risk and financial burden. In such partnerships, one of the companies becomes an operator that performs the actual work and bears the responsibility for operation on behalf of the partners. The companies other than the operator, in the capacity of non-operators, participate in the business by providing a predetermined amount of funds and either carefully examining the exploration and development plan devised and implemented by the operator or participating in some operations.

INPEX Holdings Inc. is a joint holding company established by INPEX CORPORATION and Teikoku Oil Co., Ltd on April 3, 2006 through stock transfer of. Owing to its historical experience of having done business as a non-operator, primarily for the Offshore Mahakam Block off the coast of the Republic of Indonesia, the INPEX

CORPORATION Group currently entrusts the greater portion of the operation of the oil and gas fields in which it currently has interests to international oil majors and other third-party operators. At the same time, however, we have accumulated expertise as an operator and enhanced our technological capabilities by having successfully engaged in exploration projects as an operator for the Masela Block in Indonesia and the WA-285-P Block in the Commonwealth of Australia and by having absorbed Japan Oil Development Co., Ltd., which has experience in operation. On the other hand, Teikoku Oil Co., Ltd. has a long experience as operator in domestic fields and overseas fields such as Venezuela and other countries and has high technical capability and know-how based on such operational experiences.

INPEX Holdings Group will plan to execute operator projects while taking into consideration our business resources and the balance between operator and non-operator projects based on the technical capability considerably enhanced by the business integration. We believe that by engaging the services of specialty subcontractors and highly experienced external consultants, a practice similar to that engaged in by foreign oil companies including the majors, it will be possible to execute business appropriately as an operator.

Engaging in project coordination as an operator will contribute to the expansion of concession interest acquisition opportunities through enhancement of technological capabilities and greater presence in oil-producing countries and the industry. At the same time, however, risks such as constraints on the recruitment of personnel who have specialized operations skills and a relative increase in financial burden exist. Inability to cope appropriately with such risks in the capacity of an operator could have an adverse affect on the INPEX Holdings Group's results of operations.

5) Partnership

In the oil and natural gas development business, Japanese and foreign companies compete to acquire concession interests in negotiations or tenders with oil producing countries. On the other hand, the previously mentioned partnerships in which several companies engage in joint business for the purpose of diversification of risk and financial burden are increasing in number. In such cases, the partners generally enter into a joint operating agreement among themselves to decide the decision-making procedure for execution of the partnership's joint business or to decide on an operator to conduct business on their behalf. As a company that is a partner in one property in which the INPEX Holdings Group is engaged in joint business may become a competitor in the acquisition of other property rights, even though the relationship with the partner may be good.

At times joint operation agreements contain preemption rights provisions. When a joint operation agreement contains such a provision, in the event that the owner of a working interest attempts to transfer its working interest to a third party, the partners may claim the right to purchase the working interest on the same terms and conditions as those agreed with the third party. Furthermore, although preemption rights provisions customarily apply not only to the direct transfer of working interests but also some joint operating agreements contain preemption rights provisions stipulating that in certain cases even the issuance or transfer of shares in the owner of the working interest or its parent company (including parent company of the parent company, same meaning below) triggers preemption rights. With respect to the joint operating agreements with preemption rights provisions to which the INPEX Holdings Group is a party, we have determined that there are no transactions in which we are involved for which the preemption rights of partners are exercisable. It is possible, however, that in cases where we acquire a partner's working interest, shares of common stock of a project company that directly holds a working interest, or shares of common stock of its parent company, or where shares of common stock of such project company or shares of common stock of its parent company are transferred or issued to a third party, or in cases company reorganization, other partners may claim that they are entitled to exercise preemption rights with respect to that working interest. The raising of such a claim may have a material negative impact on the price of our common shares. Furthermore, should partners prevail in such a claim, we may not be able to acquire the working interest as planned or, in the case of a transfer or issue of shares of common stock of a project company through which we hold a working interest or shares of common stock of its parent company, the project company may be forced to transfer the working interest to those partners.

6) Disaster and Accident Risks

Oil and gas field operation entails the risk of operational accidents, disasters and others occurred in the process of exploration, development production, transportation and others. Should such an accident, disaster and others occur, risk is not limited to the occurrence of costs excluding compensation covered by insurance due to facilities damage, but includes the risk of a major accident involving loss of life, and a cost burden for recovery or opportunity loss from the interruption of operations could occur.

With regard to environmental problems, soil contamination, air pollution, and freshwater and seawater pollution are possible. The INPEX Holdings Group established "Health, Safety and Environment Policy", and as a matter of course obeys the environmental laws, regulations, and standards of the countries in which we operate and exercises due consideration concerning the environment in the conduct of business based on our independent guideline. Nevertheless, in the event of an operating accident or disaster that for some reason exerts a deleterious impact on the environment, a cost burden for recovery or loss from the interruption of operations could occur. Furthermore, in the event of changes to or the strengthening of the environmental laws, regulations, and standards of the countries in which we operate, it may be necessary for the INPEX Holdings Group to devise additional measures, and an associated cost burden could occur.

Although we maintain accident insurance covering the conduct of operations, in any event, should such accident or disaster be attributable to intention or negligence on the part of the INPEX Holdings Group, the occurrence of a cost burden could have an adverse affect on financial results. Also, such accident or trouble would result in receiving administrative punishment or result in damage to the INPEX Holdings Group's credibility and reputation as an oil and gas field development company and could have an adverse affect on future business activities.

2. The Affect of Fluctuations in Crude Oil Prices, Natural Gas Prices, Foreign Exchange, and Interest Rates on Financial Results

1) The Affect of Fluctuations in Crude Oil Prices and Natural Gas Prices on Financial Results

Crude oil prices and large portion of natural gas prices in overseas businesses are determined according to international market conditions, and those prices fluctuate markedly in response to the influence of global or local supply and demand. The INPEX Holdings Group's sales and profits are subject to the effects of such price fluctuations. Those effects are highly complex and are caused by the following factors.

①Although large portion of natural gas selling prices in overseas businesses are linked to crude oil pries, they are not in direct proportion to crude oil prices.

②Because sales and profits are determined on the basis of crude oil prices and natural gas prices at the time sales are booked, actual crude oil transaction prices and the average oil price during the accounting period do not necessarily correspond. For the domestic natural gas businesses, large portion of sales prices are fixed prices based on one-year contracts in our fiscal year. Decline of competitive energy prices such as LNG prices could be pressure of price cutting on our natural gas prices and could have an adverse affect on the INPEX Holdings Group's results of operations.

2) The Affect of Fluctuations in Exchange Rates on Financial Results

As the most of INPEX Holdings Group's business is exploration and development operations conducted overseas, associated revenues (sales) and expenditures (cost) are denominated in foreign currencies, and profit and loss is subject to the effects of the foreign exchange market. At times of yen appreciation, yen-denominated sales and profits decrease. Conversely, at times of yen depreciation, yen-denominated sales and profits increase. On the other hand, when borrowing necessary funds, the Company borrows in foreign currencies. At times of yen appreciation, a foreign exchange gain on foreign-currency denominated borrowings is realized as a result of fiscal year-end conversion; at times of yen depreciation a foreign exchange loss is incurred. For this reason, the exchange risk associated with the above business is diminished and the impact of fluctuations in exchange rates on profit and loss tends to be mitigated.

3) The Affect of Fluctuations in Interest Rates on Financial Results

The INPEX Holdings Group raises a portion of the funds necessary for exploration and development operations by means of borrowings. Large portion of those borrowings are variable-rate, long-term borrowings based on the U.S. dollar six months LIBOR rate. Accordingly, the Company's profits are subject to the influence of fluctuations in U.S. dollar interest rates.

3. Overseas Business Activities and Country Risk

The INPEX Holdings Group engages in large number of oil and natural gas development overseas. Because the INPEX Holdings Group's business activities, including the acquisition of property interests, is conducted on the basis of agreements with the governments of oil-producing countries and other entities, change in the political, economic, and social circumstances in those oil-producing countries or neighboring countries (including government involvement, stage of economic development, economic growth rate, capital reinvestment, resource allocation, government control of foreign exchange or foreign remittances, and the international balance of payments), the application of OPEC production restrictions in OPEC member countries or change in the legal systems of those countries (including the establishment or abolition of laws or regulations and changes in their interpretation or enforcement) could have a significant impact on the INPEX Holdings Group's business or results of operations excluding compensation covered by insurance.

4. Reliance on Specific Geographical Areas or Properties

1) Production Volume

The INPEX Holdings Group engages in stable production of crude oil and natural gas in the Offshore Mahakam Block (including the Attaka Unit) off the coast of Indonesia, the ADMA Block in the United Arab Emirates and Minami Nagaoka Gas Field in Japan. In the six month ended September 30, 2006, the Asia and Oceania regions including Japan, the Group's core geographical business area, accounted for about 51% of the INPEX Holdings Group's production volume, and the Middle East accounts for about 35%.

Although heretofore the INPEX CORPORATION Group has done business with Indonesia and Australia as core geographical business areas and targeted geographical areas including the Middle East and the Caspian Sea coastal area. On the other hand, Teikoku Oil Group has done business domestic natural gas business centered on Minami Nagaoka Gas Field and overseas business in Latin America and others. We made better balanced portfolio possible through the business integration and plan to continue to strive to construct a more geographically balanced global portfolio.

However, the current state of affairs is such that the INPEX Holdings Group relies heavily on specific geographical areas and properties for its production volume, and the occurrence in these properties of an operational problem or difficulty could have an adverse affect on the Group's results of operations.

2) Principal Business Areas and Contract Expiration Dates

In the agreements that govern property interests, prerequisites for the INPEX Holdings Group's overseas business activities, expiration dates are customarily stipulated. Although March 30, 1997, was the initial contract expiration date in the production sharing agreement for the Offshore Mahakam Block off the coast of Indonesia, the INPEX Holdings Group's principal geographical business area, an extension was approved in 1991, and the current expiration date is December 31, 2017. On the basis of the concession agreement for the ADMA Block, the concession expiration date is March 8, 2018. Although the INPEX Holdings Group plans to make efforts together with partners to further extend these agreements, inability to re-extend the agreements or unfavorable contract terms and conditions at the time of re-extension could have an adverse affect on the Group's business or results of operations.

Even should the agreements be re-extended, we anticipate that remaining recoverable reserves will have decreased at the time of re-extension. Although the INPEX Holdings Group is striving to acquire interests that can substitute for these properties, failure to acquire properties to fully substitute for these properties could have an adverse affect on the Group's results of operations. Also, as a rule, when there has been a major breach of contract on the part of one party, it is customary for the other party to have the right to cancel the agreement before the expiration date. The agreements for properties in these principal geographical business areas contain similar provisions. The INPEX Holdings Group has never experienced early cancellation of an agreement due to breach of contract and we do not anticipate such an occurrence in the future. Nevertheless, a major breach of contract on the part of a party to an agreement could result in cancellation of an agreement before the expiration date. And in the overseas natural gas development and production activities, in many cases we are selling and supplying natural gas based on long term sales and supply contracts in which expiration dates are stipulated. We plan to make efforts to extend or re-extend with partners by the expiration date. Nevertheless, inability to extend the contracts or in the cases that extension are made but its sales and supply volumes are reduced, could have an adverse affect on the Group's business or results of operations.

5. Production Sharing Agreements

1) Contents of Production Sharing Agreements

INPEX Holdings Group has entered into production sharing agreements with countries includes Indonesia and Caspian Sea coastal area. In the case of the Republic of Indonesia, where the INPEX Holdings Group has entered into many agreements, by entering into production sharing agreements with Pertamina, a company that holds mining rights, the INPEX Holdings Group has acquired rights to explore and develop oil and natural gas in those properties. Owing to the enactment of a new law that went into effect on November 23, 2001, Pertamina's exclusive ownership of property interests was dissolved and it was decided that agreements would be concluded with BPMIGAS (a government enforcement body that supervises and regulates oil and natural gas upstream operations), a government organization directly under the control of the president of Indonesia. We are engaged in procedures to convert existing agreements so as to make BPMIGA the Indonesian party to the agreements.

Production sharing agreements are agreements by which one or several oil and natural gas development companies serve as contractors that undertake at their own expense exploration and development work from the governments of oil-producing companies or national oil companies and as cost recovery and compensation receive production from the projects. That is to say, when exploration and development work results in the production of oil or natural gas, the contractors recover the exploration and development costs they incurred by means of a share of the production. The remaining production (crude oil and gas) is allocated among the oil-producing country or national oil company and the contractors according to fixed allocation ratios. (The contactors' share of production after cost recovery is called "profit crude oil and gas." In the case of natural gas, as sales are conducted by the Republic of Indonesia, the contractors receive cost recovery and profit gas in the form of cash.) On the other hand, in cases when exploration fails and production is not realized, the contractors cannot recover their invested funds.

2) Accounting Treatment of Production Sharing Agreements

When the INPEX Holdings Group owns property interest under production sharing agreements, as mentioned above, in the role of contractor it invests technology and funds in the exploration and development of the property, recovers the invested operation costs from the production produced, and as compensation receives a share of the remaining production after recovery of operation costs. Operation costs invested on the basis of production sharing agreements are recorded on the balance sheet as assets for which future recovery is anticipated under the balance sheet item "Recoverable accounts under production sharing." After the start of production, operation cost amounts recovered on the basis of those agreements are deducted from this balance sheet item.

As production received under production sharing agreements is divided into the operation cost recovery portion and the compensation portion, the method of calculating cost of sales is also distinctive. That is to say, the full amount of production received is temporarily charged to cost of sales as the cost of received production, subsequently the amount of the compensation portion is calculated after the fact, and this amount is booked as an adjustment item to cost of sales ("Free of charge production allocated"). Consequently, only the operation cost recovery portion of production after deduction of the compensation portion is booked as cost of sales.

6. Natural Gas Business in Japan

1) Fluctuations in natural gas demand in Japan

Demand of natural gas in domestic market which is our main products in our domestic business could decrease according to climate condition as for consumer use which is susceptible to air and water temperature, and by weakness of price competitiveness accompanied by substantial drop of crude oil price as for industrial use, and could have an adverse affect on the Group's results of operations.

2) Change in natural gas market circumstances according to easing of regulation in Japan

Market competition has been intensive by competition beyond segments such as electricity, natural gas, oil and other energy according to easing of regulation in domestic energy market as well as entering into the market from different industries. Our group's Teikoku Oil Co., Ltd. has been obligated as "Gas Pipeline Career" according to enforcement of "Revision to Gas Industry Law", competitiveness become more intensive. For this reason, price competition could be more intense, and other competition could be expected in maintaining existing customers as well as new customers and such change of market circumstances could have an adverse affect on the Group's results of operations.

7. Azadegan Oil Field Development Project

1) Overview of the Azadegan Oil Field Development Project

On February 18, 2004, the Company signed a service contract with the National Iranian Oil Company and its subsidiary Naftiran Intertrade Co. Ltd. (NICO) for the integrated appraisal and development operations of the Azadegan Oil Field in the Islamic Republic of Iran. The Azadegan Oil Field, located about 80 kilometers south of Ahvaz, the capital of Khuzestan Province in Iran, was discovered in 1999. Although various preliminary work preceding full-scale development investment such as mine clearance has been conducted by Iranian side, due to unexpected delay of the demining operation and significant change in economical environment, we mutually agreed with Iran in principle on the following operating framework of appraisal and development operations of the Azadegan Oil Field, and we continue discussions in details based on the agreement.

① Our subsidiary, Azadegan Petroleum Development, Ltd. will reduce its participating interest from 75% to 10% and remains as a contractor under the service contract (Buy-buck Contract) and support continuously development of the Azadegan Oil Field.

② Operatorship will be transferred to NICO with the change of participating interest.

At the time of signing of the contract plan of the Azadegan Oil Field Development Project is divided into two stages. In the first development stage it was planned to begin test production of 50,000 barrels per day from 2008 or 2009 and to produce 150,000 barrels per day. In the event that the project shifts to the second development stage, additional production of 110,000 barrels per day, and total production is expected to reach 260,000 barrels per day. However, it is expected that the timing of production start of the first development phase will be delay because of full-scale development investment has not been executed due to delay of preliminary work and the change of operating framework. Although the basic agreement stated above could reduce investment burden and risk, as is the case with other oil and natural gas development projects, there is no guarantee that this project will be executed according to plan or that the investment can be recovered.

2) Impact of the Iran Sanctions Act 1996 of the United States

The Iran Sanctions Act 1996 (former The Iran and Libya Sanctions Act 1996) is a law of the United States enacted for the purpose of deterring the acquisition of weapons of mass destruction and support for international terrorism on the part of Iran. The law stipulates that two or more of the six sanctions below be applied to any person, without distinction between U.S. and non-U.S. entities, who has made an investment of U.S.$20 million or more in any twelve-month period and who the president of the United States determines has "directly and significantly contributed to the enhancement of Iran's ability to develop petroleum resources."

①The prohibition of export assistance to any sanctioned person from the Export-Import Bank of the United States

②The prohibition of the issuance of export licenses to any sanctioned person by the U.S. government

③The prohibition of loans of U.S.$10 million or more in any twelve-month period to any sanctioned person by U.S. financial institutions

④If a sanctioned person is a financial institution, the prohibition of designation as a primary dealer of U.S. government bonds

⑤The prohibition of procurement of goods or services from any sanctioned person on the part of the U.S. government

⑥The imposition of import restrictions with respect to any sanctioned person on the basis of the International Emergency Economic Powers Act of the United States

Sanctions under this law have never been applied to any non-U.S. oil company that has investments in oil resource development in Iran. Also, although extraterritorial application of the laws of a country on other countries is not internationally recognized, it is not possible at this time to predict whether in the future the U.S. government will apply the act to the Azadegan Oil Field Development Project. In the event that the U.S. government decided to apply sanctions under the act to this project, this could have a direct adverse impact on the project and the implementation of the Company's other projects.

8. Japan Oil Development Co., Ltd. (JODCO)

The preferential treatment in royalties, taxes, and other financial conditions that JODCO had in the past received from Abu Dhabi Emirate of the United Arab Emirates with respect to the Upper Zakum Oil Field has been discontinued in stages from 2004 to 2006 and was changed to a fixed margin scheme form January 1, 2006. Although the Company believes that it can expect to record a certain level of profits each fiscal year from JODCO according to the production volume even after the discontinuation of preferential treatment, JODCO's profit will decrease compared to before the discontinuation of preferential treatment.

9. Relationship with the Government of Japan

1) The Company's Relationship with the Government of Japan

Although the government of Japan (the Minister of Economy, Trade and Industry) holds the common shares of the Company's stock (29.35% of common shares issued) and a special class share as of the date of issuance of this document, the Company has autonomously exercised business judgment as a private corporation and there is no control relationship by the dispatch of officers or other means between the Company and the government of Japan or JOGMEC. We believe that no such relationship will occur in the future.

Furthermore, there is no concurrent posting or secondment to the Company of officers or employees of the government of Japan.

3) Ownership and Sale of the Company's Shares by the Minister of Economy, Trade and Industry

The Minister of Economy, Trade and Industry holds about 29.35% of the shares of the common stock issued by the Company. For this reason, it is possible that in the future the Minister of Economy, Trade and Industry, in accordance with the purport of the above Report, may sell off the Company’s shares in Japan or overseas in an additional offering after listing or by other means. This could have an impact on the market price of the Company’s shares.

The Minister of Economy, Trade and Industry holds one share of the Company’s special class share. The Minister of Economy, Trade and Industry, the holder of the special class share, has veto rights over certain resolutions of the Company’s general shareholders’ meetings and meetings of the Board of Directors. For details on the special class share, refer to the section “11 Special-Class Share” below.

10. Treatment of share of the Group’ project company owned by Japanese government and JOGMEC

1) Treatment of share of the Group’ project company owned by JNOC

With regard to the liquidation and disposition of the oil resource development-related assets owned by JNOC, which was dissolved on April 1, 2005, the Policies Regarding the Disposal of Development-Related Assets Held by Japan National Oil Corporation (hereinafter the “Report”) was announced on March 18, 2003 by the Japan National Oil Corporation Asset Evaluation and Liquidation Deliberation Subcommittee of the Advisory Committee on Energy and Natural Resources, an advisory body of the Ministry of Economy and Industry.

In the Report, our group company, INPEX CORPORATION, was identified as a company that should comprise part of a core enterprise and is expected to play a role in the efficient realization of a stable supply of energy for Japan through involvement in a national flag company. In response to the Report, through involvement in a national flag company INPEX CORPORATION has sought to promote the efficient realization of a stable supply of energy for Japan while taking advantage of synergy with active resource diplomacy on the part of the government of Japan and obtaining strategic support from JOGMEC and has aimed to maximize shareholder value by engaging in highly transparent and efficient business operations.

As a result, with regard to integration by means of transfer of shares held by JNOC proposed in the Report, INPEX CORPORATION and JNOC reached agreement on details including the project companies subject to the integration and shareholding ratios by way of the Basic Agreement Concerning the Integration of Assets Held by Japan National Oil Corporation into INPEX CORPORATION of February 5, 2004 (hereinafter the “Basic Agreement”). On March 29, 2004, the Company and JNOC entered into related contracts including the Basic Contract Concerning the Integration of Assets Held by Japan National Oil Corporation into INPEX CORPORATION (hereinafter the “Basic Contract”).

INPEX CORPORATION accomplished integrations of Japan Oil Development Co., Ltd. (JODCO), INPEX Java Ltd. (hereinafter “INPEX Java”) and INPEX ABK, Ltd. (hereinafter “INPEX ABK”) which is three of four companies covered by the Basic Agreement. INPEX Southwest Caspian Sea Ltd. (hereinafter “INPEX Southwest Caspian”) would become a wholly-owned subsidiary of the Company by means of a exchange of stock and procedures were undertaken, the share exchange contract was invalidated owing to failure to accomplish the terms and conditions of the share exchange contract and the planned share exchange was cancelled and, attendant on the dissolution of JNOC on April 1, 2005, the Minister of Economy, Trade and Industry succeeded to the INPEX Southwest Caspian shares held by JNOC. The future treatment of these shares is undecided and acquisition of INPEX Southwest Caspian shares could be unavailable.

The treatment of Sakhalin Oil and Gas Development Co., Ltd., INPEX Offshore North Campos, Ltd., INPEX North Makassar, Ltd., INPEX Masela, Ltd., and INPEX North Caspian Sea, Ltd. was agreed between INPEX CORPORATION and JNOC in the Basic Agreement of February 5, 2004. Regarding the treatment of shares of Sakhalin Oil and Gas Development, refer to the section “2) Treatment of shares of Sakhalin Oil and Gas Development owned by Japanese Government” below. With regard to the transfer to INPEX CORPORATION of the shares in the above project companies other than SODECO, it was decided that the shares are to be transferred for cash compensation as soon as prerequisites such as the consents of the oil-producing country and joint venture partners and the possibility of appropriate asset evaluations are in place. However, the transfer of shares in the above companies has not been decided and the shares in the above project companies were succeeded to the Japan Oil Gas and Metals National Corporation (hereinafter “JOGMEC”) on the dissolution of

JNOC on April 1, 2005, except shares related to INPEX North Makassar, Ltd. to which the Minister of Economy, Trade and Industry succeeded. JOGMEC states on their "the medium-term objective" and "the medium-term plan" that the shares succeeded by JNOC will be disposed through the appropriate manner, however, the timing and manners of the disposal has not been decided and it is possible that INPEX CORPORATION will be unable to acquire the shares.

2) Treatment of the shares of Sakhalin Oil and Gas Development owned by Japanese Government

The Minister of Economy, Trade and Industry owns 50% shares of Sakhalin Oil and Gas Development (SODECO). SODECO was established in 1995 to engage in an oil and natural gas exploration and development project located at the northeast continental shelf off Sakhalin Island. SODECO owns a 30.0% interest in the Sakhalin-1 Project, of which ExxonMobil of the Unites States is the operator. This project is currently in Phase 1 development operations for the purpose of pre-production of crude oil and natural gas, and the production was started on October, 2005. Furthermore, there is a plan for additional development operations (Phase 2) for the purpose of the full-scale production of natural gas. INPEX CORPORATION holds about 4.3% and TEIKOKU Oil holds about 1.44%of SODECO shares issued and outstanding respectively.

In the previously mentioned Report, SODECO, along with INPEX CORPORATION and JODCO, has been identified as a company that should comprise part of a core enterprise for Japan's oil and natural gas development industry. In accordance with the Report, it is assumed that private-sector shareholders, including INPEX CORPORATION will acquire shares of SODECO issued and outstanding to which the Minister of Economy, Trade and Industry succeeded that were previously held by JNOC (50.0%). INPEX CORPORATION plans to hold a maximum of 33% of the SODECO shares issued and outstanding of common stock. In the event that the consent of SODECO's joint-venture partners, the relevant Russian government entity, or other parties is necessary for the acquisition of the shares, obtaining the consent is a prerequisite for acquisition. In addition, it will be necessary to reach agreement on the shareholder composition for SODECO, the share transfer price, and other matters.

In the event that the additional acquisition of the SODECO shares is realized, the INPEX Holdings Group will hold a substantial ownership interest in oil and natural gas assets in Russia, as well as in Asia and Oceania, the Middle East, Caspian Sea coastal area and other regions, and we expect the acquisition to contribute to the achievement of a more balanced overseas asset portfolio for the INPEX Holdings Group.

However, at this time it is undecided whether agreement concerning acquisition of the shares with the Minister of Economy, Trade and Industry will be reached as anticipated and whether the acquisition of the shares from the Minister of Economy, Trade and Industry will be realized. Also, even in the event that the acquisition is realized, the specifics and time of acquisition are undecided and the acquisition by INPEX CORPORATION could be unavailable.

11. Special-Class Share

1) Overview of the Special-Class Share

① Reason for the Introduction

The Company was established as the holding company through the stock transfer between INPEX CORPORATION and Teikoku Oil Co., Ltd. on April 3, 2006. Along with this, classified share originally issued by INPEX CORPORATION was transferred and at the same time the Company issued same contents of a classified share (hereinafter the "special-class share") to the Minister of Economy, Trade and Industry. The classified share originally issued by INPEX CORPORATION was minimally required measure to eliminate the possibility of the management of the core enterprise being subject to control by foreign capital while not unreasonably impeding the efficiency and flexibility of management of the core enterprise based on the concept in the Report discussed in the section "Treatment of share of the Group' project company owned by Japanese government and JOGMEC" above that INPEX CORPORATION is identified as a company that should comprise part of a core enterprise for Japan's oil and natural gas development industry and is expected to play a role in the efficient realization of a stable supply of energy for Japan through involvement in a national flag company. From this perspective and on the basis of the Report, the Company issued the special class share because it can be considered an effective means of preventing risks such as a speculative hostile takeover.

② Shareholders' Meeting Resolutions, Dividends, Distribution of Residual Assets, and Redemption

Unless otherwise provided by laws or ordinances, the special class share does not have any voting rights at the Company's general shareholders' meetings. The special class share will receive the same amount of dividends, interim dividends, and distributions of residual assets as common stock. The special-class share will be redeemed by resolution of the Board of Directors of the Company if the holder of special class share requests redemption or the special-class share is transferred to a party other than the government of Japan or an independent administrative body that is fully funded by the government of Japan.

③ Relationship between Veto Rights in the Articles of Incorporation and the Guidelines

As mentioned below, as provided in the Company's Articles of Incorporation, the special-class share is vested with veto rights over resolutions of the Company's general shareholders' meetings and other matters. The Minister of Economy, Trade and Industry, holder of the special-class share, has established guidelines to serve as criteria for the exercise of the veto rights. For contents the guidelines, refer to the section "2) Veto Rights of the Holder of Special-Class Share and Guidelines for the Exercise of the Veto Rights ② Criteria for the Exercise of Veto Rights Provided in the Guidelines" below.

2) Veto Rights of the Holder of Special-Class Share and Guidelines for the Exercise of the Veto Rights

① Details of Veto Rights in the Articles of Incorporation

The Articles of Incorporation of the Company provide that an approval resolution of the meeting of the holder of special-class share is necessary in addition to resolutions of the Company's general shareholders' meetings and resolutions of meetings of the Board of Directors for the decision on certain important matters in connection with management of the Company. Accordingly, the Minister of Economy, Trade and Industry, the holder of the special class share, has veto rights over these important matters as the holder of the special-class share. Matters over which the holder of the special class share could exercise veto rights are as follows.

(a) Appointment and Removal of Directors

A resolution of a meeting of the holder of the special class share is required for the appointment or removal of a director of the Company if, at the time of a resolution of a meeting of the common shareholders of the Company for the election or removal of such director, 20% or more of the voting rights of such shareholders of common shares is held by a single shareholder other than the government of Japan, JNOC, or an independent administrative body that is fully funded by the government of Japan (hereinafter "Public Entity") or jointly held by such single shareholder and a "joint shareholder" as defined in the Articles of Incorporation of the Company (such independent shareholder or joint shareholder shall hereinafter be referred to as a "Non-Public Entity") (provided, however, that, in accordance with (d) below, this does not apply to any appointment or removal of a director stipulated in a contract concerning a merger, share exchange or share transfer set out in (d) below).

The Articles of Incorporation of the Company contains provisions that stipulate whether, in a given instance, a Non-Public Entity is deemed to hold or not hold 20% or more of the voting rights of the shareholders of common stock of the Company.

(b) Disposition of Material Assets

A resolution of a meeting of the holder of the special class share is required for the disposition of any material assets of the Company or the Company's subsidiaries. (The term "disposition of material assets" means any disposition comprising 20% or more of the total assets set out in the most recent audited consolidated financial statements of the Company or where a sale of such assets is 20% or more of the total consolidated sales set out in the most recent consolidated financial statements of the Company).

(c) Amendments to the Articles of Incorporation

A resolution of a meeting of the holder of the special class share is required for any amendment to the Articles of Incorporation concerning (i) change in the objectives of the Company or (ii) granting voting rights to any shares other than the common shares of the Company (except for the voting rights at meetings of the holder of the special class share already granted to the special class share).

(d) Integration

A resolution of a meeting of the holder of the special class share is required for (i) any merger where the Company becomes the dissolved company, or any merger where the Company becomes the surviving company and 20% or more of the voting rights of all the shareholders of common shares of the Company are held by a Non-Public Entity at the time such merger is complete, (ii) any share exchange where the Company becomes a wholly-owned subsidiary, or any share exchange where the Company becomes a parent company owning 100% of the shares of and 20% or more of the voting rights of all the shareholders of common stock of the Company are held by a Non-Public Entity at the time such share exchange is complete, or (iii) any share transfer where classified stock of the new holding company with the same rights as those held by the holder of the special class share of the Company under the Articles of Incorporation of the Company are not granted to the holder of the special class share of the Company, or any share transfer approved and resolved by a meeting of the common shareholders of the Company where classified stock of the new holding company with the same rights as those held by the holder of the special class share of the Company under the Articles of Incorporation of the Company is granted to the holder of special class share of the Company but 20% or more of the voting rights of all the shareholders of common shares of such new holding company are held by a Non-Public Entity at the time such share transfer is complete.

With respect to (i) through (iii) above, the Articles of Incorporation of the Company contains provisions that stipulate whether, in a given instance, a Non-Public Entity is deemed to hold or not hold 20% or more of the voting rights of all the shareholders of common stock of the Company or the new holding company.

(e) Capital Reduction

A resolution of a meeting of the holder of the special class share is required for any reduction of the Company's capital in order to repay funds to shareholders of the Company.

(f) Dissolution

A resolution of a meeting of the holder of the special class share is required for dissolution of the Company by resolution of a meeting of the common shareholders.

② Criteria for the Exercise of Veto Rights Provided in the Guidelines

Guidelines concerning the exercise of the said veto rights have been established in a Ministry of Economy, Trade and Industry Notice (No. 74, 2006) (hereinafter the "Notice"). The guidelines stipulate the exercise of veto rights only in the following specific cases.

- When resolutions pertaining to ① (a) Appointment or Removal of Directors and (d) Integration above are not voted down and it is judged that the probability is high that the Company will engage in management inconsistent with the role that a core company should perform in the efficient realization of a stable supply of energy for Japan.
- When resolutions pertaining to ① (b) Disposition of Material Assets above, in the case that the intended disposition is that of oil or combustible natural gas exploration or extraction rights or rights similar thereto or of shares or ownership interest in an INPEX subsidiary whose principal assets are the said rights are not voted down and it is judged that the probability is high that the Company will engage in management inconsistent with the role that a core company should perform in the efficient realization of a stable supply of energy for Japan.
- When resolutions pertaining to ① (c) Amendments to the Articles of Incorporation (i) change in the objectives of the Company, (e) Capital Reduction, or (f) Dissolution above are not voted down and it is judged that the probability is high that the Company will engage in management inconsistent with the role that a core company should perform in the efficient realization of a stable supply of energy for Japan.
- When resolutions pertaining to① (c) Amendments to the Articles of Incorporation (ii) granting voting rights to any shares other than the common shares of the Company above are not voted down and could have an effect on the exercise of the voting rights of the special class share.

It is provided that the above guidelines shall not apply in the event that the Ministry of Economy, Trade and Industry changes the Notice in the light of energy policy.

3) Risk in Connection with the Special Class Share

Although the special class share was issued as a highly transparent, minimally required measure to eliminate the possibility of management being subject to control by foreign capital while not unreasonably impeding the efficiency and flexibility of management, anticipated risks in connection with the special class share include the following.

① Possibility of Conflict of Interest between National Policy and the Company and Its Common Shareholders

It is conceivable that the Minister of Economy, Trade and Industry could exercise the veto rights in accordance with the above guidelines provided in the Notice. As the guidelines have been provided from the standpoint of the efficient realization of a stable supply of energy for Japan, it is possible that the exercise of the veto rights by the Minister of Economy, Trade and Industry could conflict with the interest of other shareholders who hold the Company's common shares. Also, it is possible that the above guidelines could be changed in the light of energy policy.

② Impact of the Exercise of Veto Rights on the Price of Shares of Common Stock

As mentioned above, as the special class share has the veto rights over certain important matters in connection with the management of the Company, the actual exercise of the veto rights over a certain matter could have an impact on the price of the Company's shares of common stock.

③ Impact on the Company’s Degree of Freedom in Management and Business Judgment

As the Minister of Economy, Trade and Industry holds the special class share having the previously mentioned veto rights, the Company needs a resolution of the meeting of the holder of the special class share concerning the above matters. For this reason, the Company’s degree of freedom in management in those matters is restricted by the judgment of the Minister of Economy, Trade and Industry. Also, attendant on the need for a resolution of the meeting of the holder of the special class share concerning the above matters, a certain period of time is required for procedures such as the convening and holding of meetings and resolutions and for the processing of formal objections, if necessary.

12. Concurrently Serving Outside Directors

The Company's Board is made up of 16 directors, 4 of whom are outside directors.

As business experts with extensive knowledge and experience in the Company’s business fields, these four outside directors are asked to express opinions on management of essential the Company’s businesses that contribute to its development from both specialist and objective perspectives.

Each of these four outside directors serve concurrently as directors of Japan Petroleum Exploration Co., Ltd., Mitsubishi Corporation, Mitsui Oil Exploration Co. and Nippon Oil Corporation, which are corporate shareholders of the Company. The business fields of the previously mentioned corporate shareholders include overseas upstream businesses. Therefore they might compete against the INPEX Holdings Group occasionally. For this reason, the Company recognizes the need to abide by special corporate governance measures with respect to the possibility of conflicts of interest. To this end the Company received from each of the Company’s directors, including outside directors a written undertaking relating to such matters as non-competition practices, proper treatment for transactions giving rise to a conflict of interest and unauthorized information disclosure. This reflects the importance of precisely carrying out their duties as directors with a high level of awareness of such matters.

# Ⅳ Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated balance sheet

(Millions of yen)

| Accounts | As of September 30, 2006 | |
|---|---|---|
| | Amounts | Ratio |
| | | % |
| (Assets) | | |
| Ⅰ Current assets | | |
| 1 Cash and deposits *2 | 191,414 | |
| 2 Accounts receivable-trade | 79,291 | |
| 3 Marketable securities | 84,778 | |
| 4 Inventories | 11,936 | |
| 5 Other | 70,333 | |
| Less allowance for doubtful accounts | (5) | |
| Total current assets | 437,749 | 28.6 |
| Ⅱ Fixed assets | | |
| 1Tangible fixed assets *1,2 | | |
| (1) Buildings and structures | 82,422 | |
| (2) Other | 131,722 | |
| Total tangible fixed assets | 214,144 | 14.0 |
| 2 Intangible assets | | |
| (1) Goodwill | 135,582 | |
| (2) Exploration and development rights | 129,407 | |
| (3) Other | 6,683 | |
| Total intangible assets | 271,674 | 17.7 |
| 3 Investments and other assets | | |
| (1) Investment securities *2 | 314,814 | |
| (2) Recoverable accounts under production sharing | 308,434 | |
| (3) Other | 42,346 | |
| Less allowance for doubtful accounts | (2,347) | |
| Less allowance for recoverable accounts under production sharing | (47,611) | |
| Less allowance for investments in exploration | (8,260) | |
| Total investments and other assets | 607,375 | 39.7 |
| Total fixed assets | 1,093,194 | 71.4 |
| Total assets | 1,530,943 | 100.0 |

(Millions of yen)

| Accounts | | As of September 30, 2006 | |
|---|---|---|---|
| | | Amounts | Ratio |
| | | | % |
| (Liabilities) | | | |
| Ⅰ Current liabilities | | | |
| 1 Accounts payable-trade | | 26,964 | |
| 2 Short-term loans | *2 | 28,737 | |
| 3 Income taxes payable | | 110,145 | |
| 4 Provision for exploration projects | | 7,337 | |
| 5 Accrued bonuses to officers | | 51 | |
| 6 Other | *2 | 86,213 | |
| Total current liabilities | | 259,449 | 17.0 |
| Ⅱ Long-term liabilities | | | |
| 1 Long-term debt | *2 | 237,845 | |
| 2 Accrued retirement benefits to employees | | 8,651 | |
| 3 Accrued retirement benefits to officers | | 1,545 | |
| 4 Liabilities for site restoration and decommissioning costs | | 11,749 | |
| 5 Liabilities for losses on development activities | | 1,962 | |
| 6 Accrued special repair and maintenance | | 169 | |
| 7 Other | *2 | 61,619 | |
| Total long-term liabilities | | 323,544 | 21.1 |
| Total liabilities | | 582,993 | 38.1 |
| (Net assets) | | | |
| Ⅰ Shareholders' equity | | | |
| 1 Common stock | | 30,000 | 1.9 |
| 2 Capital surplus | | 417,514 | 27.3 |
| 3 Retained earnings | | 469,703 | 30.7 |
| 4 Treasury stock | | (10,625) | (0.7) |
| Total shareholders' equity | | 906,592 | 59.2 |
| Ⅱ Valuation, translation adjustments and others | | | |
| 1 Unrealized holding loss on securities | | (6,125) | (0.4) |
| 2 Unrealized gain from hedging instruments | | 28 | 0.0 |
| 3 Translation adjustments | | 408 | 0.0 |
| Total valuation, translation adjustments and others | | (5,688) | (0.4) |
| Ⅲ Minority interests | | 47,045 | 3.1 |
| Total net assets | | 947,949 | 61.9 |
| Total liabilities and net assets | | 1,530,943 | 100.0 |

2) Consolidated statement of income

(Millions of yen)

| Accounts | For the six months ended September 30, 2006 | |
|---|---|---|
| | Amounts | Ratio |
| | | % |
| Ⅰ Net sales | 500,847 | 100.0 |
| Ⅱ Cost of sales | 170,329 | 34.0 |
| Gross profit | 330,517 | 66.0 |
| Ⅲ Exploration expenses | 9,366 | 1.9 |
| 1 Exploration expenses | 9,429 | |
| 2 Exploration subsidies | (63) | |
| Ⅳ Selling, general and administrative expenses *1 | 22,693 | 4.5 |
| Operating income | 298,457 | 59.6 |
| Ⅴ Other income | 11,892 | 2.4 |
| 1 Interest income | 6,079 | |
| 2 Dividend income | 1,191 | |
| 3 Equity in earnings of affiliates | 778 | |
| 4 Foreign exchange gain | 1,473 | |
| 5 Other | 2,369 | |
| Ⅵ Other expenses | 16,320 | 3.3 |
| 1 Interest expense | 5,906 | |
| 2 Provision for allowance for recoverable accounts under production sharing | 1,799 | |
| 3 Provision for exploration projects | 2,672 | |
| 4 Other | 5,942 | |
| Ordinary income | 294,029 | 58.7 |
| Income before income taxes and minority interests | 294,029 | 58.7 |
| Income taxes-current | 232,297 | |
| Income taxes-deferred | (8,778) | |
| Minority interests | 5,835 | 1.2 |
| Net income | 64,674 | 12.9 |

3) Consolidated statement of changes in net assets

For the six months ended September 30, 2006

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2006 | — | — | — | — | — |
| Changes during the period | | | | | |
| Increase (decrease) due to joint stock transfer | 30,000 | 415,892 | 415,734 | (19,641) | 841,985 |
| Cash dividends paid | | | (10,559) | | (10,559) |
| Bonuses to officers | | | (146) | | (146) |
| Net income | | | 64,674 | | 64,674 |
| Purchase of treasury stock | | | | (1,338) | (1,338) |
| Disposal of treasury stock | | 1,622 | | 10,354 | 11,976 |
| Other changes in items other than those in shareholders' equity (net) | | | | | |
| Total changes during the period | 30,000 | 417,514 | 469,703 | (10,625) | 906,592 |
| Balance as of September 30, 2006 | 30,000 | 417,514 | 469,703 | (10,625) | 906,592 |

| | Valuation, translation adjustments and others | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Unrealized holding loss on securities | Unrealized gain from hedging instruments | Translation adjustments | Total valuation, translation adjustments and others | | |
| Balance as of March 31, 2006 | — | — | — | — | — | — |
| Changes during the period | | | | | | |
| Increase (decrease) due to joint stock transfer | (5,723) | | 1,117 | (4,605) | 39,921 | 877,300 |
| Cash dividends paid | | | | | | (10,559) |
| Bonuses to officers | | | | | | (146) |
| Net income | | | | | | 64,674 |
| Purchase of treasury stock | | | | | | (1,338) |
| Disposal of treasury stock | | | | | | 11,976 |
| Other changes in items other than those in shareholders' equity (net) | (402) | 28 | (709) | (1,083) | 7,124 | 6,041 |
| Total changes during the period | (6,125) | 28 | 408 | (5,688) | 47,045 | 947,949 |
| Balance as of September 30, 2006 | (6,125) | 28 | 408 | (5,688) | 47,045 | 947,949 |

4) Consolidated statement of cash flows

(Millions of yen)

| Accounts | For the six months ended September 30, 2006<br>Amounts |
|---|---|
| I Cash flows from operating activities | |
| Income before income taxes and minority interests | 294,029 |
| Depreciation and amortization | 12,546 |
| Amortization of goodwill | 3,501 |
| Provision for allowance for recoverable accounts under production sharing | 2,518 |
| Provision for exploration projects | 3,504 |
| Provision for accrued retirement benefits to employee | 1,124 |
| Provision for site restoration and decommissioning costs | 1,041 |
| Other provisions | (483) |
| Interest and dividend income | (7,271) |
| Interest expense | 5,906 |
| Foreign exchange gain | (670) |
| Equity in earnings of affiliates | (778) |
| Loss on the sale of investment securities | 1,604 |
| Accounts receivable | (7,698) |
| Recovery of recoverable accounts under production sharing (capital expenditure) | 55,848 |
| Recoverable accounts under production sharing (operating expenditures) | (13,616) |
| Inventories | (2,489) |
| Accounts payable | 4,296 |
| Other | 3,468 |
| Subtotal | 356,382 |
| Interest and dividends received | 7,352 |
| Interest paid | (5,446) |
| Income taxes paid | (206,843) |
| Net cash provided by operating activities | 151,444 |

(Millions of yen)

| Accounts | For the six months ended September 30, 2006 |
|---|---|
| | Amounts |
| Ⅱ Cash flows from investing activities | |
| Increase in time deposits | (279) |
| Decrease in time deposits | 1,278 |
| Purchase of marketable securities | (149) |
| Proceeds from sales of marketable securities | 13,643 |
| Purchase of tangible fixed assets | (17,591) |
| Proceeds from sales of tangible fixed assets | 137 |
| Purchase of intangible assets | (975) |
| Purchase of investment securities | (47,211) |
| Proceeds from sales of investment securities | 26,283 |
| Investment in recoverable accounts under production sharing (capital expenditures) | (55,660) |
| Decrease in short-term loans receivable | 2,134 |
| Long-term loans made | (524) |
| Collection of long-term loans receivable | 529 |
| Other | 1,095 |
| Net cash used in investing activities | (77,290) |
| Ⅲ Cash flows from financing activities | |
| Decrease in short-term loans | (115) |
| Proceeds from long-term debt | 16,909 |
| Repayment of long-term debt | (7,281) |
| Proceeds from minority interests for additional shares | 1,615 |
| Purchase of treasury stock | (857) |
| Proceeds from sales of treasury stock | 11,549 |
| Cash dividends paid | (10,787) |
| Dividends paid to minority shareholders | (81) |
| Stock transfer payment | (867) |
| Restricted cash deposit | (1,240) |
| Net cash provided by financing activities | 8,843 |
| Ⅳ Effect of exchange rate changes on cash and cash equivalents | 1,194 |
| Ⅴ Net increase in cash and cash equivalents | 84,192 |
| Ⅵ Cash and cash equivalents at beginning of the period | 151,143 |
| Ⅶ Cash and cash equivalents at end of the period | 235,335 |

Basic of Presenting Consolidated Financial Statements

| For the six months ended September 30, 2006 |
|---|
| 1.Scope of consolidation<br>Number of consolidated subsidiaries: 57<br><br>Names of major subsidiaries;<br>INPEX CORPORATION, Teikoku Oil Co., Ltd., Japan Oil Development Co., Ltd., INPEX Natuna, Ltd., INPEX Sahul, Ltd., Teikoku Oil D.R. Congo, Co., Ltd., INPEX Southwest Caspian Sea, Ltd., INPEX North Caspian Sea, Ltd., INPEX Browse, Ltd., INPEX Masela, Ltd.<br><br>During this period:<br>Number of new companies included in consolidated subsidiaries: 2<br><br>Details for the above changes:<br>INPEX Offshore Northeast Java, Ltd., and Teikoku Oil and Gas Venezuela, C. A. have been included due to establishment of the companies.<br><br>Names of major unconsolidated subsidiaries:<br>Sakata Natural Gas, Co., Ltd., Teikoku Oil de Burgos, S.A. de C. V.<br><br>(Reason for exclusion from consolidation)<br>Those companies are not consolidated because their total assets, total net sales, total net income (the equity portion) and total retained earnings (the equity portion) do not have significant impact on the consolidated financial statements. |
| 2. Application of equity method<br>Unconsolidated subsidiary accounted for by the equity method:<br>None<br><br>Number of affiliates accounted for by the equity method: 13<br><br>Names of major affiliates:<br>MI Berau B.V., Angola Japan Oil Co., Ltd., Japan Ohanet Oil & Gas Co., Ltd., ALBACORA JAPAO PETROLEO LTDA, INPEX Offshore North Campos, Ltd.<br><br>Names of major affiliates not accounted for by the equity method:<br>Sakata Natural Gas, Co., Ltd., Teikoku Oil de Burgos, S.A. de C.V., Telnite Co., Ltd., Tangguh project management Co., Ltd.<br><br>(Reason for not applying the equity method)<br>Subsidiaries and affiliates are not accounted for by the equity method because their total net income (the equity portion) and total retained earnings (the equity portion) do not have significant impact on the consolidated financial statements.<br><br>Procedures for application of the equity method:<br><br>Regarding affiliates accounted for by the equity method having a different closing date from the consolidated closing date, the Company used the financial statements of each company prepared as of their closing date. For certain companies, however, the Company used financial statements prepared for consolidation purposes as of the consolidated closing date. |

| For the six months ended September 30, 2006 |
|---|
| 3. Closing dates for the fiscal year of consolidated subsidiaries<br><br>For the 36 companies for which the closing date differed from the consolidated closing date, including, but not limited to, INPEX Sahul, Ltd., INPEX Browse, Ltd., and INPEX Masela, Ltd. we used the financial statements for the six months ended June 30. However, the necessary adjustment have been made to the financial statements of those companies to reflect any significant transactions made between the Company's closing date and those of the consolidated subsidiaries.<br>For the 11 companies including, but not limited, Japan Oil Development, Co., Ltd., Teikoku Oil D.R. Congo, Co., Ltd., INPEX Southwest Caspian Sea, Ltd., and INPEX North Caspian Sea, Ltd., we used financial statements for the six months ended the consolidated closing date even though their closing date is June 30. |
| 4. Accounting policies<br>1) Valuation method for significant assets<br>(a) Securities<br>Other securities<br>With a determinable market value<br>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, primarily included directly in net assets. Cost of securities sold is determined by the moving-average method.<br><br>Without a determinable market value<br>Other securities without a determinable market value are stated at cost determined by the moving-average method.<br><br>(b) Inventories<br>Products<br>Carried mainly at the lower of cost or market, cost being determined by the moving-average method<br>Supplies<br>Carried mainly at cost, determined by the moving-average method<br>Work in process<br>Carried at cost, determined by the individual cost basis<br><br>2) Depreciation method of significant depreciable assets<br>(a) Tangible fixed assets<br>Depreciation of mining facilities is mainly computed by the unit-of-production method. For other tangible fixed assets, straight-line method of depreciation is applied.<br>Useful life and residual value are determined as prescribed in the corporate tax law, while wells and certain machinery (offshore platform and related facilities) are depreciated to the expected residual value (zero). |

| For the six months ended September 30, 2006 |
|---|
| (b) Intangible assets<br>Exploration and development rights<br>Exploration and development rights at the exploration stage are fully amortized in the consolidated fiscal year. Such rights which are at the production stage are amortized by the unit-of-production method.<br>Mining rights<br>Mining rights are mainly amortized by the unit-of-production method.<br>Other<br>Other intangible assets are mainly amortized by the straight-line method using the useful lives and residual value of the respective assets as prescribed by the corporate tax law.<br>Software for internal use is being amortized over five years.<br><br>3) Basis for significant allowances<br>(a) Allowance for doubtful accounts<br>The allowance for doubtful accounts 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.<br>(b) Allowance for recoverable accounts under production sharing<br>The allowance for recoverable accounts under production sharing is provided for probable losses on specific investments made under production sharing contracts. |

| For the six months ended<br>September 30, 2006 |
|---|

(c) 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.

(d) Provision for exploration projects
The provision for exploration projects is provided for future expenditures of consolidated subsidiaries at exploration stage based on schedule of investments in exploration.

(e) Accrued bonuses to officers
Accrued bonuses to officers are provided at expected payment amount.

(f) Accrued retirement benefits to employees
Accrued retirement benefits to employees are provided at the amount calculated based on the expected retirement benefit obligation and the estimated value of pension plan assets at the end of this period. Because certain subsidiaries are classified as small enterprises, we employ a simplified method (at the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) for the calculation of the retirement benefit obligation of the subsidiaries.

(g) Accrued retirement benefits to officers
Accrued retirement benefits to officers are stated at the amount which would be required to be paid if all officers voluntarily terminated their services as of the balance sheet date based on their respective internal rules.

(h) Liabilities for site restoration and decommissioning costs
Liabilities for site restoration and decommissioning costs are provided for expected future costs for site restoration and decommissioning.

(i) 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.

(j) Accrued special repair and maintenance
Accrued special repair and maintenance are provided for planned major repair and maintenance activities on tanks in certain subsidiaries at the amount being accumulated through the next activity.

4) Translation of consolidated subsidiaries' significant assets and liabilities denominated in foreign currencies into yen in preparation of the consolidated financial statements
Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. 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 average rates of exchange during the period. The balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date. Translation adjustments are presented as a component of net assets and minority interests.

5) Accounting for important leases
Non-cancelable finance 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.

6) Accounting for major hedge transactions

(a) Hedge accounting

Simplified accounting method is applied to interest rate swaps. For certain equity accounted companies, deferred hedge accounting is adopted.

(b) Hedging instruments and hedged items

Hedge instruments: Interest rate swap transactions

Hedged items: Interest payments on borrowings

(c) Hedging policy

The nominal amount of the derivative transaction is limited to within the scope of actual demand, and the Company does not engage in speculative derivative transactions.

(d) Hedge effectiveness assessment method

Since simplified accounting method is applied, the Company does not perform hedge effectiveness assessment.

7) Other items important to the preparation of the consolidated financial statements

(a) Consumption tax

Transactions subject to the consumption tax are recorded at amounts exclusive of the consumption tax.

(b) Recoverable accounts under production sharing

Cash investments made by the Company during exploration, development and production phases under a production sharing contract 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.

5 Scope of cash and cash equivalents in consolidated statement of cash flow

Cash (cash and cash equivalents) in the consolidated statement of cash flow consisted of cash on hand, cash in banks which can be withdrawn on demand, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

Notes

(Consolidated balance sheet)

As of September 30, 2006

*1 Accumulated depreciation

Accumulated depreciation of tangible fixed assets is ¥441,328 million.

*2. Assets provided as collateral and collateral-backed debt are as follows

| (Collateralized Assets) | | Millions of yen |
|---|---|---|
| Cash and deposit | 10,640 | (—) |
| Buildings and structures | 2,038 | (1,490) |
| Others (tangible fixed assets) | 6,753 | (5,587) |
| Investment securities | 9,068 | (—) |
| Total | 28,500 | (7,078) |

| (Debt Guarantees) | | |
|---|---|---|
| Short-term loans | 80 | (—) |
| Others (current liabilities) | 5,606 | (5,277) |
| Long-term debt | 111,724 | (15,460) |
| Others (long-term liabilities) | 16 | (—) |
| Guarantee obligations | 19,688 | (—) |
| Total | 137,115 | (20,737) |

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

In addition, investment securities of ¥6,959 million are pledged as collateral for the BTC pipeline project financing.

3 Contingent liabilities

The Company and its consolidated subsidiaries are contingently liable as guarantors of indebtedness of the following companies:

| | Millions of yen |
|---|---|
| Sakhalin Oil and Gas Development Co., Ltd. | 11,247 |
| Tangguh Trustee* | 10,755 |
| Japan Ohanet Oil & Gas Co., Ltd. | 2,108 |
| ALBACORA JAPAO PETROLEO LIMITADA | 1,959 |
| Nippon Oil Exploration (Malaysia) Limited. | 828 |
| Sakata Natural Gas Co., Ltd. | 738 |
| Nippon Oil Exploration (Sarawak) Limited. | 381 |
| Employees (housing loans) | 559 |
| Total | 28,577 |

*Debt for investment funds of Tangguh LNG project through MI Berau B. V.

In addition, INPEX BTC Pipeline, Ltd., a consolidated subsidiary, is contingently liable as guarantor of indebtedness of BTC Pipeline Project Finance in the amount of ¥7,053 million until BTC Pipeline project completion (guarantee for completion).

(Consolidated statement of income)

| For the six months ended September 30, 2006 | |
|---|---|
| *1. Major accounts included in selling, general and administrative expenses are as follows; | |
| | Millions of yen |
| Personnel expenses | 5,510 |
| (Including provision for accrued retirement benefits to officers | 181) |
| (Including provision for accrued retirement benefits to employees | 260) |
| (Including provision for accrued bonuses to officers | 51) |
| Freight expenses | 3,146 |
| Depreciation expenses | 5,769 |
| Amortization of goodwill | 3,501 |

(Consolidated statement of changes in net assets)

For the six months ended September 30, 2006

1. Type and number of shares issued and outstanding and treasury stock (Shares)

| | Balance as of March 31, 2006 | Increase | Decrease | Balance as of September 30, 2006 |
|---|---|---|---|---|
| Number of shares | | | | |
| Common stock | — | 2,358,409 | — | 2,358,409 |
| Special class share | — | 1 | — | 1 |
| Total | — | 2,358,410 | — | 2,358,410 |
| Treasury stock | | | | |
| Common stock | — | 23,274 | 11,502 | 11,772 |
| Total | — | 23,274 | 11,502 | 11,772 |

Notes

1: Increase in common stock by 2,358,409 shares and special class by share 1 share are due to the establishment of the Company through stock transfers.

2: Increase in treasury stock of common stock by 23,274 shares is due to increase in consolidated subsidiarys' stock through stock transfer by 22,001 shares and purchase of 1,272 shares of odd lot stock.

3: Decrease in treasury stock of common stock by 11,502 shares is due to decrease in sales of consolidated subsidiary's common stocks 11,000 shares and decrease in sales odd lot stocks 502 shares.

2. Share subscription rights

None

3. Dividends

Cash dividends paid

| Resolution | Type of share | Cash dividends paid (Millions of yen) | Dividends per share (Yen) | Cut off date | Effective date |
|---|---|---|---|---|---|
| General meeting of shareholders held on June 27, 2006 | Common stock | 10,559 | 5,500 | March 31, 2006 | June 27, 2006 |
| | Special class share | 0 | 5,500 | March 31, 2006 | June 27, 2006 |

Note: Since the Company was established on April 3, 2006 through the stock transfer, cash dividends paid above represent amounts which were resolved on June 27, 2006 at general shareholders' meeting of INPEX CORPORATION which became a wholly-owned subsidiary of the Company.

(Consolidated statement of cash flows)

| For the six months ended September 30, 2006 | |
|---|---|
| Cash and cash equivalents at the end of the period are reconciled to the account reported in the consolidated balance sheet as follows: | |
| | Millions of yen |
| Cash and deposits | 191,414 |
| Time deposits pledged | (10,640) |
| Time deposits for more than three months and others | (575) |
| Marketable securities (commercial paper, others) | 53,136 |
| Other current assets (short-term bonds with repurchase agreements, others) | 1,999 |
| Cash and cash equivalents | 235,335 |

(Segment information)

## 1. Business segment information

For the six months ended September 30, 2006

Segment information by business has been omitted because the crude oil and natural gas business accounts for more than 90% of total sales and operating income.

## 2. Geographical segment information

For the six months ended September 30, 2006 (Millions of yen)

| | Japan | Asia - Oceania | NIS | Middle East - Africa | Americas | Total | Eliminations and other | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Sales to third parties | 33,559 | 196,631 | 62,496 | 208,158 | — | 500,847 | — | 500,847 |
| (2) Intercompany sales and transfers between segments | — | — | — | — | — | — | — | — |
| Total | 33,559 | 196,631 | 62,496 | 208,158 | — | 500,847 | — | 500,847 |
| Operating expenses | 25,725 | 73,239 | 38,853 | 61,045 | 274 | 199,138 | 3,251 | 202,390 |
| Operating income (loss) | 7,834 | 123,391 | 23,643 | 147,113 | (274) | 301,708 | (3,251) | 298,457 |

Notes: 1. Countries and areas are segmented based on their geographic proximity and their mutual operational relationships.

2. Major countries and areas that belong to segments are as follows:

(1) Asia - Oceania･･･････Indonesia, Australia, East Timor, Vietnam

(2) NIS････････････････Azerbaijan, Kazakhstan

(3) Middle East - Africa･･･UAE, D.R. Congo, Iran, Libya, Egypt, Algeria

(4) Americas････････････Venezuela, Ecuador, USA

3. Unallocated operating expenses included in “Eliminations and other” of ¥4,776 million under the operating expenses are mainly amortization of goodwill and general administrative expenses.

## 3. Overseas sales

For the six months ended September 30, 2006

| | Asia - Oceania | Other | Total |
|---|---|---|---|
| I. Overseas sales (Millions of yen) | 163,939 | 22,783 | 186,722 |
| II. Consolidated sales (Millions of yen) | | | 500,847 |
| III. Overseas sales as a percentage of consolidated sales (%) | 32.7 | 4.6 | 37.3 |

Notes: 1. Countries and areas are segmented based on their geographic proximity.

2. Major countries and areas that belong to segments other than Japan are as follows:

(1) Asia-Oceania･････････Korea, Taiwan, Indonesia, Singapore, Thailand, China, Malaysia, Philippines

(2) Other･･･････････････USA, Italy

3. Overseas sales consist of export sales of the Company and its domestic consolidated companies and sales (other than exports to Japan) of its foreign consolidated subsidiaries.

(Leases)

| For the six months ended September 30, 2006 |
|---|
| Financing leases except for these which stipulate the transfer of ownership of the leased assets to the lessees. |

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

(Millions of yen)

| | Equivalent Acquisition Price | Equivalent Accumulated Depreciation | End of Period Equivalent Amounts Outstanding |
|---|---|---|---|
| Buildings and structures | 46 | 37 | 8 |
| Other tangible fixed assets | 956 | 458 | 497 |
| Total | 1,002 | 496 | 505 |

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

2. Equivalent outstanding unexpired lease payments

(Millions of yen)

| | |
|---|---|
| Within one year | 171 |
| Over one year | 333 |
| Total | 505 |

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

3. Equivalent lease payment and depreciation expenses

(Millions of yen)

| | |
|---|---|
| Lease payment | 90 |
| Equivalent depreciation expense | 90 |

4. Calculation method for equivalent depreciation amount.

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

(Securities)

1 Other securities with determinable market value

(Millions of yen)

| Type of securities | As of September 30, 2006 | | |
|---|---|---|---|
| Other securities | Acquisition cost | Carrying value | Unrealized gain (loss) |
| (1) Stocks | 100,993 | 95,602 | (5,390) |
| (2) Bonds | | | |
| National and local government bonds | 175,287 | 172,283 | (3,004) |
| Corporate bonds | 2,324 | 2,340 | 16 |
| Other | 50,927 | 50,925 | (2) |
| (3) Other | 4,319 | 4,547 | 228 |
| Total | 333,852 | 325,700 | (8,152) |

2 Other securities without a determinable market value

(Millions of yen)

| Classification | As of September 30, 2006 |
|---|---|
| Other securities | Carrying value |
| Trust beneficiary certificates | 2,216 |
| Unlisted stocks | 38,551 |

(Note): An allowance for investments is provided for investments in exploration companies included in unlisted stocks above at an estimated amount based on the financial conditions of the investees.

(Derivatives)

As of September 30, 2006

Derivatives has been omitted because a hedge accounting is applied to all derivative transactions.

(Business integration through purchase accounting method)
For the six months ended September 30, 2006

The Company has been established as the joint holding company that owns INPEX CORPORATION (hereafter "INPEX") and Teikoku Oil Co., Ltd., (hereafter "Teikoku") as wholly-owned subsidiaries, according to business integration by stock transfer on April 3, 2006. The purchase accounting method was applied for this transaction. INPEX was treated as an acquiring company and Teikoku as acquired company based on ratio of voting rights.

1. Name and main business of acquired company
   (1) Name of acquired company
   Teikoku Oil Co., Ltd.
   (2) Main business of acquired company
   Exploration, development, production and distribution of crude oil and natural gas
   (3) Major purpose of integration
   To establish a firm position in the global market, by establishing a well-balanced asset portfolio, reinforcing a solid financial base, and concentrating technological capabilities for resource development
   (4) Date of integration
   April 3, 2006
   (5) Legal formalities of business integration
   Establishment of the joint holding company through a stock transfer
   (6) Name after integration
   INPEX Holdings Inc.
   (7) Acquired ratio of the voting rights
   100%

2. Period of acquired company's financial results included in the consolidated financial statements
   From April 1, 2006 to September 30, 2006

3. Acquisition cost and details of acquired company
   Acquisition cost of acquired company is ¥355,756 million. Details of acquisition cost consists of the fair value of acquiring company's stock in amount of ¥354,897 million that deemed to be issued to acquired company's shareholders and expenses of the acquisition in amount of ¥859 million.

4. Stock transfer ratio for the acquisition and other related information
   (1) Stock transfer ratio

| | INPEX | Teikoku |
|---|---|---|
| Stock transfer ratio | 1 | 0.00144 |

   (2) Calculation of the stock transfer ratio
   INPEX appointed J.P. Morgan Securities Asia Pte. Limited and Teikoku appointed Goldman Sachs (Japan) Ltd. as their financial advisors in relation to this transaction. The financial advisors analyzed the share price movements of the both companies, discounted cash flow (DCF) / net asset value (NAV) analysis and contribution analysis etc. in considering the stock transfer ratio. The stock transfer ratio was determined through discussion and negotiation by both companies taking into consideration the analysis and advice of their financial advisors and other various factors.
   (3) Share allocation and estimated value
   Based on the above stock transfer ratio, 438,577.82 shares were allotted to Teikoku's shareholders since 0.00144 share of the Company's common share was allotted in exchange for 1 share of Teikoku's common share. Because the Company's stock did not exist on the date of public announcement on the stock transfer agreement, the Company's stock was valuated at ¥809,200 which represents average stock price of acquiring company for the 5 days commencing on 5 days before main terms and conditions of business integration were agreed with and announced to public.

5. Goodwill

(1)Amount of goodwill

¥139,058 million

(2)Reason for goodwill revealed

The investment balance between acquisition cost of acquired company and amount distributed to identifiable assets and liabilities revealed by overall value that was valuated mining rights, production assets, development and operating technology, sales-use assets such as pipelines network, buyers, suppliers, and other factors totally.

(3)Method and period of amortization

Straight-line method over 20 years

6. Acquired assets and liabilities on the date of integration

| | (Millions of yen) |
|---|---|
| Current assets | 65,864 |
| Fixed assets | 397,885 |
| Total assets | 463,750 |
| Current liabilities | 28,156 |
| Long-term liabilities | 77,519 |
| Total liabilities | 105,675 |
| (Reference); Minority interests | 2,318 |

(Per share information)

| For the six months ended September 30, 2006 | |
|---|---|
| Net assets per share | ¥383,912.77 |
| Net income per share | ¥27,647.74 |

Notes: 1. Diluted net income per share is not presented because there are no dilutive potential of shares of common stock.
2. Net income per share is calculated based on the following:

| | For the six months ended September 30, 2006 |
|---|---|
| Net income (Millions of yen) | 64,674 |
| Amount not attributable to common stockholders (Millions of yen) | — |
| Net income attributable to common stockholders (Millions of yen) | 64,674 |
| Average number of shares (shares) | 2,339,237 |
| Common stock | 2,339,236 |
| Common stock equivalent share; Special class share | 1 |

(Significant subsequent events)

| For the six months ended September 30, 2006 |
|---|
| 1. Transfer of interest by INPEX Browse, Ltd.<br>INPEX Browse, Ltd., a consolidated subsidiary of the Company, has agreed on August 28, 2006 to transfer its 24% of participating interest in WA-285-P in the State of Western Australia in the Commonwealth of Australia in which INPEX Browse, Ltd. is pursuing exploration activities (100% participating interest), to TOTAL E&P Australia. This transfer of the participating interest will become effective 5 days after the approval by the Australian government.<br><br>2. Basic agreement on Azadegan oil field in the Islamic Republic of Iran<br>Azadegan Petroleum Development, Ltd., a consolidated subsidiary of the Company, which holds 75% participating interest in Azadegan oil field has agreed with National Iranian Oil Company (NIOC, oil company run by the Iranian government) on the following basic terms and conditions and in process of discussion for further details:<br>(1) Azadegan Petroleum Development, Ltd. and Naftiran Intertrade Co. Ltd. (NICO, subsidiary of NIOC) continue to contribute to the development of the Azadegan oil field as contractors based on the service contract (buyback contract).<br>(2) Azadegan Petroleum Development, Ltd. will hold 10% of participating interest, and transfer the rest of its participating interest (65%) to NICO.<br>(3) NICO becomes a operator based on the change of the participating interest share. |

## Ⅴ Actual production, orders received and actual sales

(1) Actual production

The following table shows actual production by business segment in each period.

| Business segment | Category | For the six months ended September 30, 2006 |
|---|---|---|
| Crude oil and natural gas | Crude oil | 43 millions barrels (237 thousands barrels per day) |
| | Natural gas | 182 billions CF (997 millions CF per day) |
| | Sub total | 74 millions BOE (403 thousands BOE per day) |
| | Petroleum Products | 133 thousands kl |
| | Iodine | 257 tons |

Notes: 1. The amount of LPG produced abroad is included in 'Crude oil'. On the other hand, the amount of LPG produced in the domestic refinery is included in 'Petroleum Products'.
2. A portion of crude oil production volume is consumed as fuel for petroleum products.
3. The production by the Company's affiliates accounted for by the equity method is included in the figures above. Also, the production is a result for the six months ended 30 September regardless of a closing date on the basis of fiscal periods of its subsidiaries or affiliates.
4. The production volume of crude oil and natural gas under the production sharing contracts entered by INPEX Holdings Group corresponds to the net economic take of our group.
Figures calculated by multiplying the gross production volume by our company's interest share are 53 millions barrels (289 thousands barrels per day) of crude oil, 328 billions CF (1,795 millions CF per day) of natural gas, and in total 108 millions BOE (588 thousands BOE per day).
5. BOE means barrels of oil equivalent.
6. Iodine is refined on consignment by another company.
7. Figures are rounded to nearest whole number.

(2) Orders received

This information is not disclosed since the amount of orders received accounted for a minor portion of total sales. In addition, there is no production for orders received in crude oil and natural gas business.

(3) Actual sales

a) We take back the full amount of crude oil produced under production sharing contracts, and primarily sell it to Japanese refineries. We sell natural gas produced in Indonesia in the form of LNG to Japanese power companies and city gas companies through PERTAMINA and also sell a part to customers in South Korea, Taiwan and other countries. In addition, we sell natural gas produced in Japan to customers using our pipeline.

b) Sales by classification during each period were as follows:

| Business segment | Category | For the six months ended September 30, 2006 | | |
|---|---|---|---|---|
| | | Sales volume of oversea production | Sales volume of domestic production | Net sales (Millions of yen) |
| Crude oil and natural gas businesses | Crude oil | 41 millions barrels | 5,976 kl | 316,751 |
| | Natural gas | 160 billions CF | 530 millions $m^3$ | 170,279 |
| | | LPG: 624 thousands barrels | LPG: 6,438 tons | |
| | Others | | | 12,389 |
| | Subtotal | | | 499,420 |
| Other businesses | | | | 1,426 |
| Total | | | | 500,847 |

Notes: 1. The above amounts do not include the related consumption tax.
2. The Company's subsidiaries of which closing date for fiscal year is December 31 are principally consolidated their operating result for the six months ended June 30 except those subsidiaries prepared their financial statement for consolidation purpose as of the consolidation closing date. However, the significant effects of the difference in fiscal periods were properly adjusted in consolidation.
3. Sales volumes are rounded to nearest whole number.
4. Sales for major customer are as follows:

| Customer | For the six months ended September 30, 2006 | |
|---|---|---|
| | Amount (Millions of yen) | Ratio (%) |
| PERTAMINA | 146,695 | 29.3 |

[Supplemental materials]

1. Condensed Consolidated Balance Sheets of INPEX CORPORATION and Teikoku Oil Co., Ltd.

(Millions of yen)

| Accounts | INPEX CORPORATION (Consolidated) As of September 30, 2006 Amounts | Teikoku Oil Co., Ltd. (Consolidated) As of September 30, 2006 Amounts |
|---|---|---|
| (Assets) | | |
| Ⅰ Current assets | | |
| 1 Cash and deposits | 169,272 | 21,690 |
| 2 Accounts receivable-trade | 67,874 | 13,050 |
| 3 Marketable securities | 71,472 | 13,305 |
| 4 Other | 74,442 | 18,933 |
| Total current assets | 383,061 | 66,980 |
| Ⅱ Fixed assets | | |
| 1 Tangible fixed assets | 62,370 | 135,832 |
| 2 Intangible assets | 134,199 | 1,892 |
| 3 Investments and other assets | | |
| (1) Investment securities | 215,153 | 99,661 |
| (2) Recoverable accounts under production sharing | 307,339 | 1,094 |
| (3) Other | 26,909 | 13,393 |
| Less allowance for recoverable accounts under production sharing | (46,758) | (853) |
| Less allowance for investments in exploration | (5,326) | (2,804) |
| Total investments and other assets | 497,316 | 110,491 |
| Total fixed assets | 693,886 | 248,217 |
| Total assets | 1,076,948 | 315,197 |
| (Liabilities) | | |
| Ⅰ Current liabilities | | |
| 1 Accounts payable | 23,319 | 4,472 |
| 2 Short-term loans and current portion of long-term debt | 22,761 | 5,975 |
| 3 Income taxes payable | 105,578 | 4,523 |
| 4 Other | 73,046 | 19,608 |
| Total current liabilities | 224,706 | 34,579 |
| Ⅱ Long-term liabilities | | |
| 1 Long-term debt | 207,051 | 30,794 |
| 2 Other | 39,717 | 41,294 |
| Total long-term liabilities | 246,768 | 72,089 |
| Total liabilities | 471,475 | 106,669 |
| (Net assets) | | |
| Ⅰ Shareholders' equity | | |
| 1 Common stock | 29,460 | 19,579 |
| 2 Additional paid-in capital | 62,402 | 11,222 |
| 3 Retained earnings | 470,166 | 136,627 |
| Total Shareholders' equity | 562,029 | 167,429 |
| Ⅱ Valuation, translation adjustments and others | | |
| 1 Unrealized holding gain (loss) on securities | (1,867) | 38,504 |
| 2 Unrealized gain from hedging instruments | — | 28 |
| 3 Translation adjustments | 473 | 358 |
| Total valuation, translation adjustments and others | (1,394) | 38,891 |
| Ⅲ Minority interests | 44,837 | 2,208 |
| Total net assets | 605,472 | 208,528 |
| Total liabilities and net assets | 1,076,948 | 315,197 |

2. Condensed Consolidated Statements of Income of INPEX CORPORATION and Teikoku Oil Co., Ltd.

(Millions of yen)

| Accounts | INPEX CORPORATION (Consolidated) For the six months ended September 30, 2006 | Teikoku Oil Co., Ltd. (Consolidated) For the six months ended September 30, 2006 |
|---|---|---|
| | Amounts | Amounts |
| Ⅰ Net sales | 457,769 | 53,435 |
| Ⅱ Cost of sales | 152,490 | 28,176 |
| Gross profit | 305,279 | 25,259 |
| Ⅲ Exploration expenses | 9,126 | 239 |
| Ⅳ Selling, general and administrative expenses | 9,047 | 10,456 |
| Operating income | 287,106 | 14,563 |
| Ⅴ Other income | 11,370 | 2,497 |
| 1 Interest income | 5,847 | 234 |
| 2 Dividend income | 365 | 871 |
| 3 Equity in earnings of affiliates | 603 | 174 |
| 4 Foreign exchange gain | 1,418 | 54 |
| 5 Other | 3,135 | 1,160 |
| Ⅵ Other expenses | 12,691 | 3,378 |
| 1 Interest expense | 5,485 | 420 |
| 2 Provision for allowance for recoverable accounts under production sharing | 1,510 | 289 |
| 3 Provision for exploration projects | 1,430 | 1,241 |
| 4 Other | 4,265 | 1,426 |
| Ordinary income | 285,784 | 13,681 |
| Income before income taxes and minority interests | 285,784 | 13,681 |
| Income taxes-current | 223,442 | 8,868 |
| Income taxes-deferred | (8,467) | (231) |
| Minority interests | 5,673 | 162 |
| Net income | 65,137 | 4,882 |

## Non-Consolidated Financial Results for the six months ended September 30, 2006

November 15, 2006

**Note: The following report is an English translation of the Japanese-language original.**

| | | | |
|---|---|---|---|
| Company name | INPEX Holdings Inc. | Stock Exchange on which the Company is listed | Tokyo Stock Exchange |
| Code number | 1605 | Location of the head office | Tokyo |

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

| | |
|---|---|
| Representative | Naoki Kuroda, President |
| Contact person | Syuhei Miyamoto, General Manager, Corporate Communications Unit.<br>TEL +81-3-5448-0205 |

| | | | |
|---|---|---|---|
| Date of the meeting of the Board of Directors for the six months ended September 30, 2006 financial results | November 15, 2006 | Starting date for the interim dividend payment | — |
| Shares constituting one unit | No | | |

1. Financial Results for the six months ended September 30, 2006 (April 3, 2006–September 30, 2006)

(1) Operating results

Note: Amounts less than million yen are rounded off.

| | Operating revenues | | Operating income | | Ordinary income | |
|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| For the six months ended September 30, 2006 | 1,194 | — | 249 | — | (5) | — |

| | Net income | | Net income per share |
|---|---|---|---|
| | Millions of yen | % | Yen |
| For the six months ended September 30, 2006 | (18) | — | (7.67) |

Notes:
1. Average number of shares issued and outstanding for the six months ended September 30, 2006, 2,358,096 shares.
2. Change in accounting policy: No.
3. Since non-consolidated financial results are prepared for the first time for the six months ended September 30, 2006, percentage expressions for the change from the corresponding period of the preceding year are not disclosed.

(2) Financial position

Note: Amounts less than million yen are rounded off

| | Total assets | Net assets | Net assets as a percentage of total assets | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| As of September 30, 2006 | 794,855 | 792,117 | 99.7 | 335,978.92 |

Notes: 1. Number of shares issued and outstanding at the end of the period: as of September 30, 2006, 2,357,639 shares
2 Number of treasury stock at the end of the period: as of September 30, 2006, 770 shares

2. Estimated Operating Results for the year ended March 31, 2007 (April 3, 2006–March 31, 2007)

| | Net sales | Ordinary income | Net income |
|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen |
| For the year ended March 31, 2007 | 32,500 | 30,000 | 30,000 |

Reference: The forecast of ¥12,724.59 of net income per share for the year ended March 31, 2007, is calculated based on the expected number of shares issued and outstanding of 2,357,639 at March 31, 2007.

(2) Dividends

| Cash dividends | Cash dividends per share (Yen) | | |
|---|---|---|---|
| For the year ended | Interim | Year-end | Annual |
| March 31, 2007 (actual) | 0.00 | — | 6,250.00 |
| March 31, 2007 (estimated) | — | 6,250.00 | |

* The aforementioned forecasts are based on currently available information and contain many uncertainties. Actual results may differ from the above forecasts due to changes in business conditions.

Average number of shares during this period (after deducting the number of treasury stock)

| | For the six months ended September 30, 2006 |
|---|---|
| Common stock | 2,358,095 shares |
| Common stock equivalent share; Special class share | 1 share |

Number of shares issued and outstanding at the end of this period (after deducting the number of treasury stock)

| | For the six months ended September 30, 2006 |
|---|---|
| Common stock | 2,357,638 shares |
| Common stock equivalent share; Special class share | 1 share |

Note: Since shareholder of the special class share is entitled to the same rights as that for shareholders of common stock regarding dividends and the distribution of residual property, the special class share is classified as common stock equivalent share.

## Ⅵ Non-consolidated financial statements

(1) Financial statements

1) Non-consolidated balance sheet

(Millions of yen)

| Accounts | As of September 30, 2006 | |
|---|---|---|
| | Amounts | Ratio |
| | | % |
| (Assets) | | |
| Ⅰ Current assets | | |
| 1 Cash and deposits | 452 | |
| 2 Other | 5 | |
| Total current assets | 458 | 0.1 |
| Ⅱ Fixed assets | | |
| 1 Investments and other assets | | |
| (1) Investments in stock of subsidiaries and affiliates | 793,906 | |
| (2) Other | 491 | |
| Total investments and other assets | 794,397 | 99.9 |
| Total fixed assets | 794,397 | 99.9 |
| Total assets | 794,855 | 100.0 |

(Millions of yen)

| Accounts | As of September 30, 2006 | |
|---|---|---|
| | Amounts | Ratio |
| | | % |
| (Liabilities) | | |
| Ⅰ Current liabilities | | |
| 1 Short-term loans | 2,400 | |
| 2 Accrued bonuses to officers | 27 | |
| 3 Other *1 | 251 | |
| Total current liabilities | 2,679 | 0.3 |
| Ⅱ Long-term liabilities | | |
| 1 Accrued retirement benefits to officers | 59 | |
| Total long-term liabilities | 59 | 0.0 |
| Total liabilities | 2,738 | 0.3 |
| (Net assets) | | |
| Ⅰ Shareholders' equity | | |
| 1 Common stock | 30,000 | 3.8 |
| 2 Capital surplus | | |
| (1) Capital reserve | 762,992 | |
| Total capital surplus | 762,992 | 96.0 |
| 3 Retained earnings | | |
| (1)Other retained earnings | | |
| Unappropriated retained earnings | (71) | |
| Total retained earnings | (71) | (0.0) |
| 4 Treasury stock | (803) | (0.1) |
| Total shareholders' equity | 792,117 | 99.7 |
| Total net assets | 792,117 | 99.7 |
| Total liabilities and net assets | 794,855 | 100.0 |

2) Non-consolidated statement of income

(Millions of yen)

| Accounts | For the six months ended September 30, 2006 | |
|---|---|---|
| | Amounts | Ratio |
| | | % |
| Ⅰ Operating revenues | 1,194 | 100.0 |
| Ⅱ General and administrative expenses | 944 | 79.1 |
| Operating income | 249 | 20.9 |
| Ⅲ Other income | 0 | 0.0 |
| Ⅳ Other expenses *1 | 255 | 21.4 |
| Ordinary loss | 5 | (0.5) |
| Loss before income taxes | 5 | (0.5) |
| Income taxes—current | 40 | |
| Income taxes—deferred | (28) | |
| Net loss | 18 | (1.5) |

3) Non-consolidated statement of changes in net assets

For the six months ended September 30, 2006

(Millions of yen)

| | Shareholders' equity | | | | | Total net assets |
|---|---|---|---|---|---|---|
| | | Capital surplus | Retained earnings | | | |
| | | | Other retained earnings | | | |
| | Common stock | Capital reserve | Unappropriated retained earnings | Treasury stock | Total shareholders' equity | |
| Balance at end of prior fiscal year | — | — | — | — | — | — |
| Changes during the period | | | | | | |
| Establishment of the Company through the stock transfer | 30,000 | 762,992 | — | — | 792,992 | 792,992 |
| Net loss | — | — | (18) | — | (18) | (18) |
| Purchase of treasury stock | — | — | — | (1,338) | (1,338) | (1,338) |
| Disposal of treasury stock | — | — | (53) | 534 | 481 | 481 |
| Total changes during the period | 30,000 | 762,992 | (71) | (803) | 792,117 | 792,117 |
| Balance at September 30, 2006 | 30,000 | 762,992 | (71) | (803) | 792,117 | 792,117 |

Basic of presenting financial statements

| For the six months ended<br>September 30, 2006 |
|---|
| 1. Valuation method for significant assets<br>Securities<br>Investments in subsidiaries and affiliates<br>Securities of investments in subsidiaries and affiliates are stated at cost determined by the moving average method. |
| 2. Basis for significant allowances<br>(a) Accrued bonuses to officers<br>Accrued bonuses to officers are provided at expected payment amounts.<br>(b) Accrued retirement benefits to officers<br>Accrued retirement benefits to officers are stated at the amount which would be required to be paid if all officers voluntarily terminated their services as of the balance sheet date based on their respective internal rules. |
| 3. Other items important to the preparation of consolidated financial statements<br>Consumption tax<br>Transactions subject to the consumption tax are recorded at amounts exclusive of the consumption tax. |

## Notes

(Non-consolidated balance sheet)

| As of September 30, 2006 |
|---|
| *1. Consumption tax<br>The suspense payments and the suspense receipts for the consumption tax are offset each other. The net amount, not deemed to be significant, is included in “Other” in current liabilities. |

(Non-consolidated statement of income)

| For the six months ended September 30, 2006 |
|---|
| *1. Operating expenses of:<br>Amortization of start-up costs ¥249 million |

### (Non-consolidated statement of changes in net assets)

For the six months ended September 30, 2006

Type and number of shares issued and outstanding and treasury stock

(Shares)

| | Balance as of March 31, 2006 | Increase | Decrease | Balance as of September 30, 2006 |
|---|---|---|---|---|
| Treasury stock | | | | |
| Common stock | — | 1,272 | 502 | 770 |
| Total | — | 1,272 | 502 | 770 |

(notes)

1: Increase in treasury common stocks by 1,272 shares is due to acceptance of purchasing odd lot stocks from odd lot stockholders.

2: Decrease in common stocks by 502 shares is due to acceptance of selling odd lot stocks to odd lot stockholders.

## (Leases)

For the six months ended September 30, 2006

Not applicable

## (Securities)

As of September 30, 2006

No investments in subsidiaries and affiliates with determinable fair market values

## (Business integration)

For the six months ended September 30, 2006

The Company has been established as the joint holding company that owns INPEX CORPORATION (hereafter "INPEX") and Teikoku Oil Co., Ltd., (hereafter "Teikoku") as wholly-owned subsidiaries, according to business integration by stock transfer on April 3, 2006. The purchase accounting method was applied f
or this transaction. INPEX was treated as an acquiring company and Teikoku as acquired company based on ratio of voting rights.

(1) Name of acquired company
Note has been omitted since this information is disclosed in notes to the consolidated financial statements.

(2) Acquisition cost and details of acquired company
Acquisition cost of acquired company is ¥354,897 million. Detail of acquisition cost consists of the fair value of acquiring company's stock that deemed to be issued to acquired company's shareholders.

(3) Stock transfer ratio for the acquisition
Note has been omitted since this information is disclosed in notes to the consolidated financial statements.

(Per share information)

| For the six months ended September 30, 2006 | |
|---|---|
| Net assets per share | ¥335,978.92 |
| Net loss per share | ¥7.67 |

(Notes) 1. Diluted net income per share is not presented because there are no dilutive potential of shares of common stock.

2. Net loss per share information is calculated based on the following:

| | For the six months ended September 30, 2006 |
|---|---|
| Net loss for the period (Millions of yen) | 18 |
| Amount not attributable to common stockholders (Millions of yen) | — |
| Net loss attributable to common stockholders (Millions of yen) | 18 |
| Average number of shares (shares)<br>Common stock<br>Common stock equivalent share; Special class share | 2,358,096<br>2,358,095<br>1 |

(Significant subsequent events)

None