

# Consolidated Financial Results for the First Three Quarters Ended December 31, 2005

February 10, 2006

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

Company Name: Japan Petroleum Exploration Co., Ltd.

(Company Code: 1662, First Section, Tokyo Stock Exchange)

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

President: Yuji Tanahashi

Inquiries: Koichi Shimomura, Manager, Media Relations, Administration Department

TEL: (03) 5461-7413

## 1. Notes Relating to Preparation of Quarterly Financial Statements

(1) Use of simplified accounting procedures: Yes

Income taxes are calculated using an estimated annual income tax rate based on the statutory tax rate.

(2) Changes in accounting treatment from the most recent consolidated fiscal year: No

(3) Changes in scope of consolidation and application of equity method: Yes

Consolidated (Added): 1 company (Excluded): 1 company

Equity-method (Excluded): 1 company

## 2. Consolidated Financial Results for the First Nine Months of Fiscal 2006 (April 1, 2005 – December 31, 2005)

(1) Consolidated Operating Results (Amounts less than one million yen have been omitted)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
FY06 First 3Qs	93,129	26.9	17,476	128.4	22,648	83.7	14,632	68.0
FY05 First 3Qs	73,370	9.4	7,652	(11.0)	12,329	22.0	8,708	22.3
( Ref. )FY05 Full Year	103,150		14,678		19,001		13,234	

	Net Income per Share	Diluted Net Income per Share
	(¥)	(¥)
FY06 First 3Qs	256.01	-
FY05 First 3Qs	152.36	-
( Ref. )FY05 Full Year	230.05	-

(Notes)

1. Percentage figures for net sales, operating income and other items represent changes compared with the corresponding period of the previous fiscal year.
2. Diluted net income per share is not shown because there are no shares with a dilutive effect.

### Qualitative Information Concerning Consolidated Business Performance

For the first nine months of fiscal 2006, ended December 31, 2005, JAPEX reported consolidated net sales of ¥93,129 million, up 26.9%, from the same period of the previous fiscal year. Compared to the same period a year earlier, operating income increased 128.4% to ¥17,476 million, ordinary income increased 83.7% to ¥22,648 million, and net income rose 68.0% to ¥14,632 million.

Below is a summary of operating performance by business division.

#### Oil and Natural Gas Segment

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

This division sells crude oil, natural gas and liquefied natural gas (LNG). This division posted net sales of ¥79,298 million, an increase of 33.5% from the same period of the previous fiscal year, on the back of soaring crude oil prices and higher sales volume of natural gas.

##### (b) Contract Services Division

The Contract Services Division accepts orders mainly for drilling projects and geological and geophysical surveys. Net sales for the period were ¥4,070 million, up 5.6% from the same period of the previous fiscal year.

##### (c) Other Businesses Division

This division mainly carries out the manufacturing and trading of petroleum products such as LPG and fuel oil, the transmission of third-party natural gas and petroleum products, and other miscellaneous consignment orders. Net sales totaled ¥9,760 million, an increase of 6.7% from the same period of the previous fiscal year.

In addition, with Japex Geothermal Kyushu Ltd. having withdrawn from the geothermal energy business in the previous fiscal year, net sales of geothermal energy division, which is not appropriated from this first quarter, decreased ¥979 million from the same period of the previous fiscal year.

(2) Consolidated Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity Ratio per Share
	(¥ million)	(¥ million)	%	(¥)
Dec. 31, 2005	538,584	389,666	72.4	6,817.87
Dec. 31, 2004	368,206	278,812	75.7	4,878.26
(Ref.) Mar. 31, 2005	393,733	293,152	74.5	5,127.67

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at Period-End
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
FY06 First 3Qs	20,396	(17,481)	(2,628)	35,564
FY05 First 3Qs	11,369	(604)	(5,634)	32,937
( Ref. ) FY05 Full Year	21,936	(15,805)	786	34,568

**Qualitative Information Concerning Consolidated Financial Position**

Total assets as of December 31, 2005 stood at ¥538,584 million, an increase of ¥144,851 million from March 31, 2005. This rise was mainly attributable to an increase in unrealized holding gain on securities due to valuation gains on shares of INPEX Corporation. Shareholders' equity rose ¥96,513 million from March 31, 2005, to ¥389,666 million.

As of December 31, 2005, cash and cash equivalents on a consolidated basis stood at ¥35,564 million, an increase of ¥996 million compared with the end of the previous fiscal year.

**(Cash Flows from Operating Activities)**

Operating activities provided net cash of ¥20,396 million, mainly reflecting cash from income before income taxes of ¥22,582 million.

**(Cash Flows from Investing Activities)**

Investing activities used net cash of ¥17,481 million, primarily attributable to cash of ¥17,134 million used for the purchase of property, plant and equipment.

**(Cash Flows from Financing Activities)**

Financing activities used net cash of ¥2,628 million, reflecting mainly inflows of ¥8,000 million of proceeds from long-term debt and ¥2,774 million of increase in short term loans, and outflows of ¥8,559 million for the repayment of long-term debt, ¥2,129 million for cash dividends paid and ¥2,029 million of payment for capital reduction for minority interests.

**3. Revision of Consolidated Forecast for Fiscal Year 2006(April 1, 2005 – March 31, 2006)**

(Full Year)	Net Sales	Ordinary Income	Net Income
	(¥ million)	(¥ million)	(¥ million)
Previous Forecast: ( A )	122,224	25,028	16,476
Current Forecast: ( B )	132,709	29,661	19,169
Change: ( B – A )	10,485	4,633	2,692
Change (%)	8.6%	18.5%	16.3%
( Ref. ) FY05 Full Year	103,150	19,001	13,234

Estimated net income per share( full year) : ¥335.39

Note: (1) Previous forecast is the one released on November 14, 2005

(2) The above estimates have been made based on information available as of the date of this release. Actual results may differ from these estimates due to a variety of factors.

**Qualitative Information Concerning Forecast**

For the current consolidated forecast for fiscal year 2006 ending March 31, 2006, mainly due to a rise in crude oil prices and higher sales volume of natural gas and trading crude oil, the Company expects net sales to rise ¥10.4 billion, or 8.6% to ¥132.7 billion, ordinary income to increase ¥4.6 billion, or 18.5% to ¥29.6 billion and net income to increase ¥2.6 billion, or 16.3% to ¥19.1 billion, compared with the previous one released on November 14, 2005, respectively.

These forecasts were formulated on the following assumptions :1) 4th quarter's price of US\$55/bbl for imported crude oil and 2) 4th quarter's exchange rate of ¥115/US\$

**( Reference ) : Non-consolidated Forecast for Fiscal Year 2006(April 1,2005 - March 31,2006) - revised**

(Full Year)	Net Sales	Ordinary Income	Net Income	Annual Dividend per Share		
				Interim	Year-end	
	(¥ million)	(¥ million)	(¥ million)	(¥)	(¥)	(¥)
Full Year	91,461	17,993	12,918	15.00	25.00	40.00

Estimated net income per share( full year) : ¥226.02

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

**Revision of Non-consolidated Forecast for Fiscal Year 2006(April 1, 2005 – March 31, 2006)**

(Full Year)	Net Sales	Ordinary Income	Net Income
	(¥ million)	(¥ million)	(¥ million)
Previous Forecast: ( A )	88,535	16,222	11,936
Current Forecast: ( B )	91,461	17,993	12,918
Change: ( B – A )	2,926	1,771	982
Change (%)	3.3%	10.9%	8.2%
( Ref. ) FY05 Full Year	86,669	14,569	10,765

(Attached material)

- . Consolidated Quarterly Balance Sheet for the 3rd Quarter of FY2006
- . Consolidated Statement of Income for the First 3Qs of FY2006
- . Consolidated Statements of Cash Flows for the First 3Qs of FY2006
- . Status of Production and Sales

**.Consolidated Quarterly Balance Sheet for the 3rd Quarter of FY2006**

(¥ million)

Description	3rd Q of FY06 As of Dec. 31, 2005	FY05 As of Mar. 31, 2005	Change	3rd Q of FY05 As of Dec. 31, 2004
(Assets)				
Current assets				
1. Cash and deposits	33,677	32,778	898	30,564
2. Notes and accounts receivable	14,366	13,913	453	12,401
3. Marketable securities	3,238	6,688	(3,449)	6,004
4. Inventories	9,391	9,158	233	11,430
5. Other current assets	11,755	8,268	3,487	7,761
Less: Allowance for doubtful receivables	(14)	(17)	3	(14)
Total current assets	72,414	70,788	1,625	68,148
Fixed assets				
1. Property, plant and equipment				
(1) Buildings and structures	43,730	46,023	(2,292)	45,532
(2) Machinery and equipment	28,979	26,320	2,659	26,361
(3) Land	13,087	11,191	1,896	11,351
(4) Other property, plant and equipment	16,766	11,398	5,367	10,908
Total property, plant and equipment	102,564	94,933	7,630	94,154
2. Intangible fixed assets				
	6,075	7,004	(928)	1,749
3. Investments and others				
(1) Investments in securities	353,167	216,467	136,699	199,713
(2) Others	12,618	13,062	(443)	16,015
Less: Allowance for doubtful receivables	(243)	(211)	(31)	(195)
Allowance for losses on overseas investments	(8,012)	(8,312)	299	(11,379)
Total investments and others	357,529	221,005	136,524	204,154
Total fixed assets	466,170	322,944	143,226	300,057
Total assets	538,584	393,733	144,851	368,206
(Liabilities)				
Current liabilities				
1. Notes and accounts payable	3,084	3,047	36	5,901
2. Short-term bank loans	2,932	-	2,932	-
3. Current portion of long-term debt	414	8,973	(8,559)	9,006
4. Other current liabilities	17,645	17,085	560	16,930
Total current liabilities	24,076	29,105	(5,028)	31,837
Long-term liabilities				
1. Long-term debt	15,000	7,000	8,000	414
2. Deferred tax liabilities	93,393	46,213	47,179	38,536
3. Accrued retirement benefits for employees	4,521	3,831	690	4,147
4. Accrued retirement benefits for officers	731	773	(41)	720
5. Accrued estimated cost of abandonment of wells	2,827	2,690	137	2,371
6. Accrual for losses on projects	945	1,688	(742)	2,340
7. Other long-term liabilities	95	77	18	501
Total long-term liabilities	117,516	62,275	55,241	49,032
Total liabilities	141,593	91,380	50,212	80,870
(Minority interests)				
Minority interests in consolidated subsidiaries	7,324	9,199	(1,874)	8,524
(Shareholders' equity)				
Common stock	14,288	14,288	-	14,288
Retained earnings	203,510	191,116	12,393	186,590
Unrealized holding gain on securities	171,464	88,313	83,150	78,055
Translation adjustments	407	(561)	969	(119)
Treasury stock	(4)	(4)	(0)	(3)
Total shareholders' equity	389,666	293,152	96,513	278,812
Total liabilities, minority interests and shareholders' equity	538,584	393,733	144,851	368,206

**. Consolidated Statements of Income for the First 3Qs of FY2006**

(¥ million)

Description	FY06 First 3Qs Apr. – Dec. 2005	FY05 First 3Qs Apr. – Dec. 2004	Change	FY05 Apr. 04 – Mar. 05
Net sales	93,129	73,370	19,759	103,150
Cost of sales	51,303	46,874	4,428	61,046
Gross profit	41,826	26,496	15,330	42,104
Exploration expenses				
1. Exploration expenses	7,511	3,845	3,665	6,445
2. Exploration subsidies	(1,082)	(81)	(1,001)	(317)
Total exploration expense	6,428	3,763	2,664	6,127
Selling, general and administrative expenses	17,921	15,079	2,841	21,298
Operating income	17,476	7,652	9,824	14,678
Non-operating income				
1. Interest income	1,003	883	119	1,164
2. Dividend income	1,605	1,240	365	1,669
3. Equity in profit of non-consolidated subsidiaries and affiliates	594	1,029	(435)	116
4. Reversal of allowance for losses on overseas investments	299	1,194	(894)	1,376
5. Reversal of accrual for losses on projects	740	809	(69)	957
6. Foreign exchange profit	697	-	697	-
7. Other non-operating income	1,079	771	308	1,127
Total non-operating income	6,020	5,929	91	6,411
Non-operating expenses				
1. Interest expense	110	205	(95)	261
2. Loss on sale of securities	20	145	(125)	145
3. Devaluation loss on securities	1	128	(126)	121
4. Provision for accrued estimated cost of abandonment of wells	370	380	(10)	513
5. Other non-operating expenses	345	392	(46)	1,046
Total non-operating expenses	848	1,252	(403)	2,088
Ordinary income	22,648	12,329	10,318	19,001
Extraordinary income				
1. Reversal of allowance for doubtful receivables	2	2	0	-
Extraordinary losses				
1. Loss on disposal of fixed assets	68	637	(568)	665
2. Earthquake disaster recovery expenses	-	55	(55)	206
Income before income taxes and minority interests	22,582	11,638	10,943	18,129
Income taxes	6,798	2,575	4,222	4,270
Minority interests	1,151	354	796	624
Net income	14,632	8,708	5,923	13,234

**. Consolidated Statements of Cash Flows for the First 3Qs of FY2006**

(¥ million)

Description	FY06 First 3Qs Apr. – Dec. 2005	FY05 First 3Qs Apr. – Dec. 2004	FY05 Apr. 04 – Mar. 05
Operating activities			
1. Income before income taxes and minority interests	22,582	11,638	18,129
2. Depreciation and amortization	10,344	10,475	14,081
3. Amortization of goodwill	752	-	-
4. Loss on devaluation of marketable securities and investments in securities	1	128	121
5. Increase (decrease) in allowance for doubtful receivables	28	72	90
6. Increase in provision for accrued retirement benefits for employees	690	567	244
7. Increase (decrease) in provision for accrued retirement benefits for officers	(41)	23	76
8. Increase (decrease) in provision for accrued estimated cost of abandonment of wells	88	(62)	(12)
9. Decrease in provision for allowance for losses on overseas investments and accrual for losses on projects	(1,039)	(1,836)	(2,173)
10. Interest and dividend income	(2,608)	(2,124)	(2,833)
11. Interest expense	110	205	261
12. Gain on redemption and sales of marketable securities and investments in securities	(399)	(134)	(239)
13. Loss on redemption and sales of marketable securities and investments in securities	20	232	452
14. Equity in losses (profits) of non-consolidated subsidiaries and affiliates	(594)	(1,029)	(116)
15. Decrease (increase) in notes and accounts receivable	(442)	(375)	(1,823)
16. Decrease (increase) in inventories	(233)	(5,314)	(3,042)
17. Increase (decrease) in notes and accounts payable	300	1,335	152
18. Increase (decrease) in consumption tax payable	(480)	371	783
19. Other, net	(5,181)	604	1,922
Subtotal	23,896	14,776	26,075
20. Payment of debt guarantee	(1,984)	-	-
21. Income taxes (paid) refunded	(1,515)	(3,407)	(4,139)
Net cash provided by operating activities	20,396	11,369	21,936
Investing activities			
1. Investments in time deposits	(105)	(40)	(30)
2. Proceeds from time deposits	455	330	330
3. Payments for purchase of marketable securities	(5,998)	(100)	(100)
4. Proceeds from redemption and sale of marketable securities	10,451	3,637	4,220
5. Additions to property, plant and equipment	(17,134)	(7,061)	(11,978)
6. Proceeds from sales of property, plant and equipment	8	154	550
7. Additions to intangible fixed assets	(486)	(355)	(586)
8. Payments for purchase of investments in securities	(8,277)	(7,531)	(14,588)
9. Proceeds from redemption and sale of investments in securities	2,076	4,111	7,435
10. Payments for purchase of consolidated subsidiary stock accompanied by changes in scope of consolidation	-	-	(2,269)
11. Proceeds from purchase of consolidated subsidiary stock accompanied by changes in scope of consolidation	-	5,103	-
12. Increase in loans receivable	(3,119)	(263)	(1,127)
13. Decrease in loans receivable	2,064	53	186
14. Interest and dividends received	2,547	2,030	2,815
15. Other, net	35	(673)	(662)
Net cash used in investing activities	(17,481)	(604)	(15,805)
Financing activities			
1. Increase(decrease) in short-term bank loans	2,774	(593)	(600)
2. Proceeds from long-term debt	8,000	-	7,000
3. Repayment of long-term debt	(8,559)	(1,864)	(2,311)
4. Purchase of treasury stock	(0)	(2)	(2)
5. Cash dividends paid	(2,129)	(2,829)	(2,854)
6. Dividends paid to minority shareholders	(609)	(192)	(192)
7. Interest paid	(74)	(152)	(252)
8. Payment for capital reduction for minority interests	(2,029)	-	-
Net cash used in financing activities	(2,628)	(5,634)	786
Effect of exchange rate changes on cash and cash equivalents	786	(43)	(199)
Increase (decrease) in cash and cash equivalents	1,072	5,086	6,717
Cash and cash equivalents at beginning of year	34,568	27,851	27,851
Decrease in cash and cash equivalents accompanied by exclusion of consolidation	(76)	-	-
Cash and cash equivalents at period-end	35,564	32,937	34,568

## .Status of Production and Sales

### 1 . Production

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

Division	Product	FY06 First 3Qs Apr. 1 – Dec. 31, 2005	FY05 First 3Qs Apr. 1 – Dec. 31, 2004	(Ref.) FY05 Apr. 1, 2004 – Mar. 31, 2005
E&P	Crude oil	586,415 <sup>kl</sup> (123,449)	462,779 <sup>kl</sup> (53,985)	696,814 <sup>kl</sup> ( 101,436 )
	Natural gas	902,777 <sup>thousand m<sup>3</sup></sup> (47,769)	742,321 <sup>thousand m<sup>3</sup></sup> (2,032)	1,091,902 <sup>thousand m<sup>3</sup></sup> ( 2,904 )
	L N G	18,729 <sup>t</sup>	14,181 <sup>t</sup>	19,771 <sup>t</sup>
	Bitumen	339,317 <sup>kl</sup> (339,317)	-	-
Other Businesses	L P G	7,911 <sup>t</sup>	7,112 <sup>t</sup>	10,338 <sup>t</sup>
	Fuel oil, etc.	40,713 <sup>kl</sup>	35,080 <sup>kl</sup>	49,751 <sup>kl</sup>

( Notes )

1. The figures in parentheses in E&P represent overseas production and are included in the total.
2. Part of the oil production volume is used as a feedstock for LPG, fuel oil and other products.
3. Part of the natural gas production volume is used as a feedstock for LNG, LPG and other energies.
4. Bitumen is a heavy oil extracted from oil sands.

#### (2) Geothermal Energy Segment

Division	Product	FY06 First 3Qs Apr. 1 – Dec. 31, 2005	FY05 First 3Qs Apr. 1 – Dec. 31, 2004	(Ref.) FY05 Apr. 1, 2003 – Mar. 31, 2005
Geothermal Energy	Steam	- <sup>t</sup>	767,264 <sup>t</sup>	863,241 <sup>t</sup>

(Note)

- 1.No steam production has been made from the first quarter ended June 30, 2005, reflecting the withdrawal of Japex Geothermal Kyushu Ltd. from the geothermal energy business in the previous fiscal year.

## 2 . Sales

### (1) Oil and Natural Gas Segment

Division	Product	FY06 First 3Qs Apr. 1 – Dec. 31, 2005		FY05 First 3Qs Apr.1 – Dec. 31, 2004		( Ref. ) FY05 Apr. 1, 2003- Mar. 31, 2005	
		Volume	Amount	Volume	Amount	Volume	Amount
E&P	Crude Oil	kl 1,021,993	(¥ million) 41,047	kl 1,087,755	(¥ million) 29,551	kl 1,380,337	(¥ million) 38,211
	Natural Gas	thousand m <sup>3</sup> 974,245	29,284	thousand m <sup>3</sup> 873,617	26,422	thousand m <sup>3</sup> 1,276,887	39,867
	L N G	t 82,308	4,098	t 68,791	3,415	t 98,825	4,888
	Bitumen	kl 338,181	4,868	kl -	-	kl -	-
Subtotal		-	79,298	-	59,388	-	82,966
Contract services		-	4,070	-	3,854	-	6,987
	Subtotal	-	4,070	-	3,854	-	6,987
Other Businesses	L P G	t 18,964	(¥ million) 1,175	t 21,772	(¥ million) 1,126	t 30,781	(¥ million) 1,622
	Fuel oil, etc	kl 73,388	4,117	kl 66,926	2,993	kl 94,430	4,202
	Others	-	4,467	-	5,026	-	6,553
	Subtotal	-	9,760	-	9,147	-	12,378
Total		-	93,129	-	72,390	-	102,332

### (2) Geothermal Energy Segment

Division	Product	FY05 First 3Qs Apr. 1 – Dec. 31, 2004		FY04 First 3Qs Apr. 1 – Dec. 31, 2003		( Ref. ) FY04 Apr. 1, 2003 - Mar. 31, 2004	
		Volume	Amount	Volume	Amount	Volume	Amount
Geothermal Energy	Steam	t -	(¥ million) -	t 722,926	(¥ million) 979	t 813,999	(¥ million) 818
Total		-	-	-	979	-	818

( Notes )

- Others in Other Businesses include revenue from the transmission of third-party gas through JAPEX's pipeline network and sales commissions.
- No steam product sales has been made from the first quarter ended June 30, 2005, reflecting the withdrawal of Japex Geothermal Kyushu Ltd. from the geothermal energy business in the previous fiscal year.
- Each amount of money in the tables does not include consumption tax.