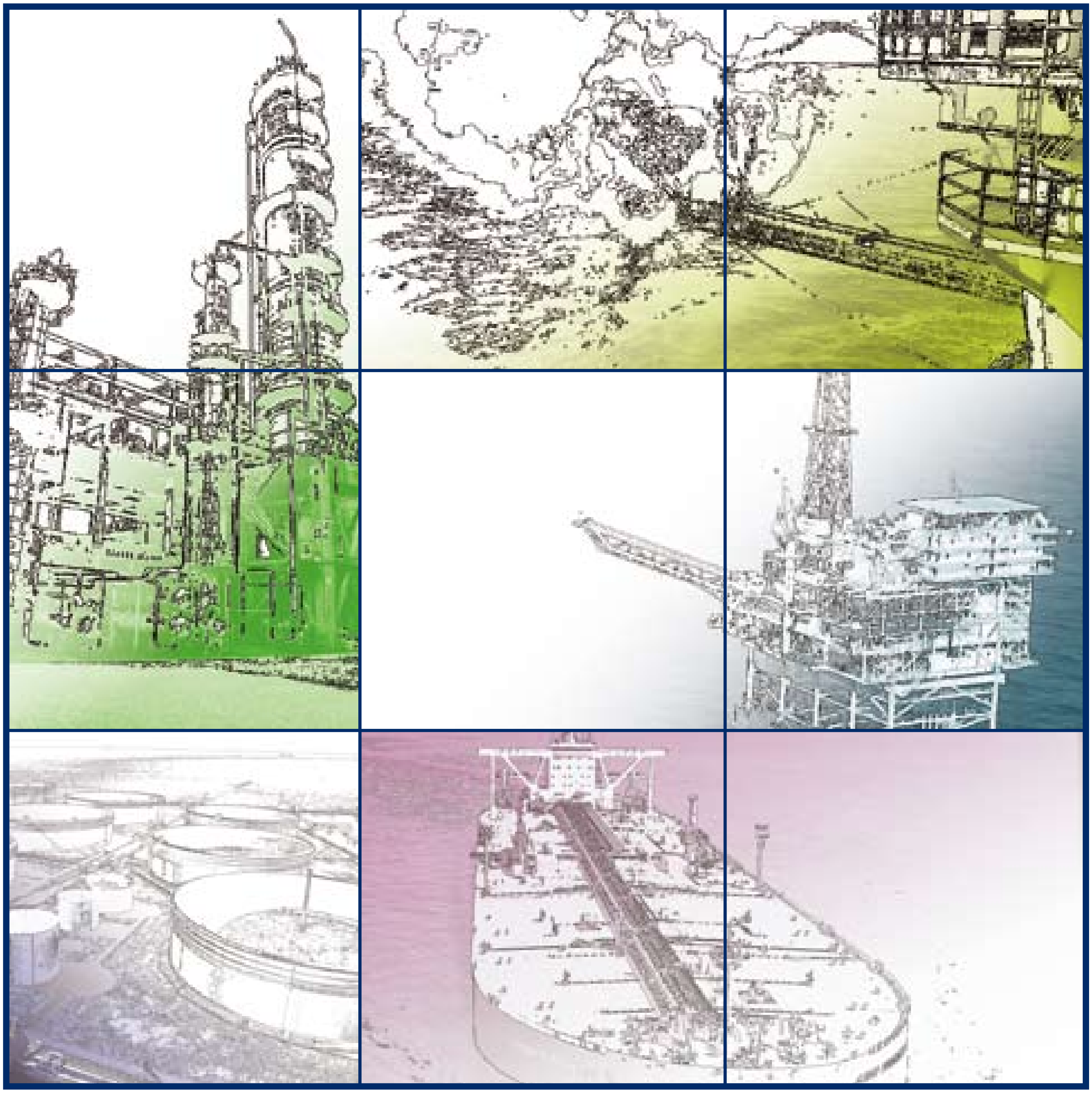
AOC Holdings, Inc.

ANNUAL REPORT 2008

Fiscal year ended March 31, 2008

Reliability In Energy Supply

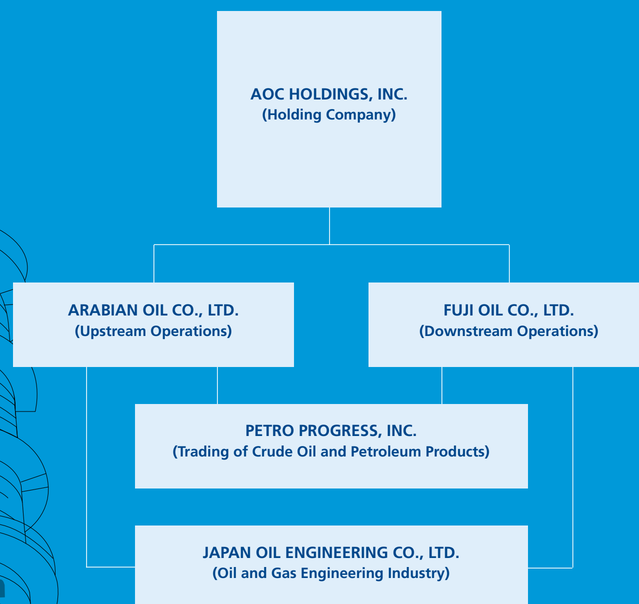


Holdings

Profile

AOC Holdings, Inc., was established in January 2003 as a joint holding company for the Arabian Oil Company, Ltd. (AOC), and the Fuji Oil Company, Ltd. (FOC). These two companies handle upstream and downstream petroleum operations respectively, and form the core of the AOC Holdings Group. Through unified management of these two businesses, AOC Holdings aims to effectively utilize management resources and optimize Groupwide operations. Our fundamental management policy is to maximize corporate value for all stakeholders.

As a comprehensive energy-focused Group, AOC Holdings seeks to fulfill its responsibilities as a corporate citizen by contributing to the future affluence of society and the realization of a safe and comfortable environment. Based on this mission, AOC Holdings provides a stable supply of energy products, including oil, natural gas and petroleum products, which are indispensable to both consumers and industry.



CONTENTS

Cautionary Statement with Regard to Forward-Looking Statements

Certain of the statements made in this annual report are forward-looking statements, which involve certain risks and uncertainties that could cause actual results to differ from those projected. These statements are based on management's assumptions and beliefs in light of the information currently available.

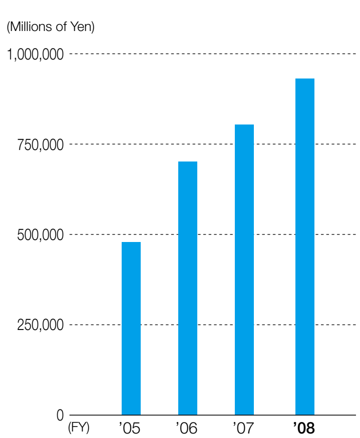
Financial Highlights

(Fiscal years ended March 31)

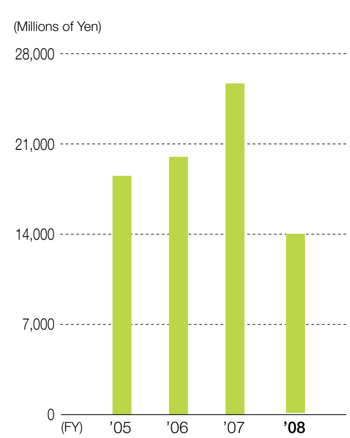
	Millions of Yen				Thousands of U.S. Dollars (Note 1)
	2005	2006	2007	**2008**	**2008**
Net sales	¥477,295	¥701,352	¥801,020	**¥930,738**	**$9,289,729**
Operating income	18,447	19,864	25,616	**13,954**	**139,275**
Income before income taxes	21,418	43,875	27,205	**8,401**	**83,850**
Net income	17,248	34,018	18,999	**4,665**	**46,561**
Capital expenditures	3,986	11,771	26,542	**19,967**	**199,291**
Depreciation and amortization	4,007	4,038	4,580	**6,253**	**62,411**
At year-end:					
Total assets	293,404	349,835	385,431	**451,892**	**4,510,350**
Total shareholders' equity	76,351	120,017	—	**—**	**—**
Total net assets	—	—	143,261	**145,147**	**1,448,717**
Interest-bearing debt	113,419	108,918	136,002	**176,471**	**1,761,363**
(*)	89,901	77,609	82,475	**113,506**	**1,132,907**
Debt–equity ratio (times)	1.49	0.91	0.96	**1.22**	
(*)	1.18	0.65	0.58	**0.78**	
Per share (yen and U.S. dollars):					
Net income	¥255.67	¥484.21	¥247.53	**¥60.41**	**$0.6**
Cash dividends paid	10	15	15	**15**	**0.14**
Number of employees	616	625	629	**609**	

*Excluding borrowings for lending funds under the loan agreement with Kuwait Gulf Oil Company, which is substantially liable for repayment

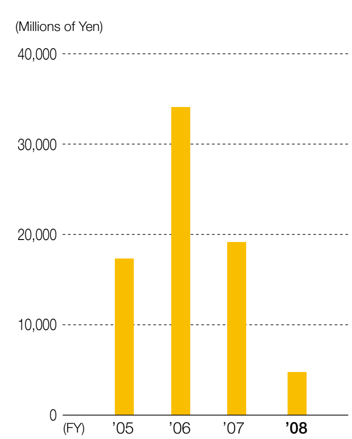
Net sales



Operating income



Net income



To Our Shareholders and Stakeholders

I am pleased to present the results for the fiscal year ended March 31, 2008, in the AOC Holdings Annual Report 2008. In the period under review, by working to expand and strengthen its stable earnings base, the AOC Holdings Group steadfastly strove to fulfill its mission to provide a stable supply of crude oil, natural gas and petroleum products to industry and consumers in Japan. The Group is fully committed to bolstering its earnings potential and maximizing its corporate value through unified efforts to successfully meet the challenges faced by its businesses. In these endeavors, we look forward to the ongoing support and understanding of our shareholders and other stakeholders.

November 2008

Chairman
H. Takeda

President
F. Sekiya

Interview with the President

The upstream operations of AOC and downstream operations of FOC comprise the core businesses of the AOC Holdings Group. Through unified management of these two businesses, AOC Holdings aims to optimize Groupwide operations and maximize corporate value. The Group will continue in its efforts to enhance management efficiency and bolster earnings capabilities.

Q. Please provide an overview of the fiscal year under review, including operating results.

A. Global oil demand remained robust during the year under review, led by such non-OECD countries as China and India. This was despite a slowdown in the United States economy in the second half of the period, primarily owing to the spreading impact of the subprime loan crisis. At the start of the period, the price of West Texas Intermediate (WTI) crude oil fluctuated in the mid-$60 range per barrel, and continued to rise, driven by heightened geopolitical risk in oil-producing countries and tight supply and demand conditions reflecting robust economic growth in emerging economies. From the northern-hemisphere summer onward, crude oil prices rose further as concern over deterioration of the U.S. economy led to a weakening of the U.S. dollar and an influx of speculative funds into the crude oil futures market. In January 2008, the benchmark crude oil price reached $100 per barrel for the first time. Subsequently, although the WTI price temporarily declined to below $90 per barrel, from the second half of February the price once again topped $100, a level at which it remained. The average price of WTI crude oil during the fiscal year under review was approximately $82 per barrel, while Dubai crude oil averaged a price of approximately $77 during the period under review. Both benchmark crudes averaged around $17 higher compared with the previous fiscal year.

In the Japanese domestic market for petroleum products, demand for heavy fuel oil for electric power generation increased owing to the impact of the Chuetsu offshore earthquake in Niigata Prefecture in July 2007, which led to the shutdown of certain nuclear power stations. However, general consumption was further curbed by rising prices and the trend toward conversion to alternative fuels became more pronounced. Overall, fuel oil demand was slightly lower compared with the previous fiscal year. Despite petroleum product price increases driven by rising crude oil prices, the rate of price increases for petroleum products remained slower than the pace at which crude oil prices rose. In the area of petrochemical products, including benzene and xylene, although conditions were favorable in the first half of the period—owing to increasing demand from Asia—rising raw material costs were not fully reflected in product prices, leading to pressure on operating margins.

Under these operating conditions, the AOC Holdings Group posted consolidated net sales amounting to ¥930.7 billion, an increase of 16.2% compared with the previous fiscal year. Ordinary income decreased 57.9%, to ¥11.5 billion, and net income declined 75.4%, to ¥4.7 billion. Factors contributing to this decrease in net income included the posting of a one-off extraordinary loss of ¥2.7 billion related to costs incurred in our loan agreement with Kuwait Gulf Oil Company (KGOC), part of which were deemed irrecoverable.

Q. Please provide a summary of your outlook for the fiscal year ending March 31, 2009.

A. In upstream operations, despite negative impact from the expiry of the technical services agreement with KGOC, AOC is forecast to record a rise in operating income as it expects decrease in exploration costs during the term. In downstream operations, the commencement of production operations by FOC's second fluid catalytic cracking (FCC) unit at its Sodegaura Refinery complex is expected to contribute to increased value added and improved profitability for petroleum pitch. As a result, operating income is expected to increase.

Based on assumptions of an average U.S. dollar exchange rate of ¥106 and an average price for Dubai crude oil of $98 per barrel, the Group's consolidated operating results forecasts for the fiscal year ending March 31, 2009, are as follows. We forecast net sales of ¥1,116.0 billion, operating income of ¥11.5 billion, ordinary income of ¥12.5 billion and net income of ¥6.0 billion. Please note that these forecasts are based on information available at the time the forecasts were made and are therefore subject to fluctuation should circumstances change.

Q. Please outline your current management strategies and near-term business development plans.

A. The Group's medium-term management strategy focuses on three key areas as it develops its businesses—building a stable earnings base, implementing an aggressive investment program and maintaining a sound financial structure. In the upstream business, we are working to expand the scale of business through a sound investment program and implementation of a steadfast strategy, which aims to identify and commercialize new projects with significant potential. In the downstream petroleum business, we are striving to maintain and enhance cost competitiveness and respond to changes in the structure of demand by investing in capacity expansion that enhances our capabilities in light petroleum products and high-value-added products. Furthermore, we are aiming to diversify our customer base and increase sales of petroleum products in the international marketplace. Based on these core strategies, we are carrying out the following program of business development.

In the upstream business, which comprises oil and gas exploration, development and production, our technical services agreement (TSA) with KGOC—an earnings source—expired in January 2008. However, we intend to effectively utilize the Group's considerable human resource assets, particularly our team of over 100 technical staff, including those previously assigned to the TSA. We aim to achieve this by aggressively targeting new upstream projects. Specifically, in June 2008 we received approval from the government of the Arab Republic of Egypt for the development of the Northwest October Block in the Gulf of Suez. We are rapidly proceeding with this development project and aim to commence commercial production during the first half of fiscal 2011, ending March 31, 2011. Furthermore, we intend to maintain steady production at our existing interests in the Gyda oil field located within the Norwegian North Sea. In September 2008, we newly acquired an interest in an exploration license adjacent to our existing producing asset in the Gyda field, and will work toward oil and gas discoveries in this new block. We will proceed with exploration operations and aim to achieve results from exploration during fiscal 2009, ending March 31, 2009. In addition to the two projects outlined above, we are also closely investigating potential new projects, particularly in Egypt, Norway and the Arabian Gulf area.

In the downstream business, which comprises the refining and sale of petroleum products, our business development plans are proceeding substantially according to plan as set out in our Medium-Term Business Plan (fiscal 2008–fiscal 2010), announced during fiscal 2007, ended March 31, 2007. While focusing on the safe and stable operations of our Sodegaura Refinery, we are proceeding with the following measures to respond to a global shift in the demand structure for petroleum products and a declining demand trend for petroleum products in the domestic Japanese market.

In response to weakening demand for heavy fuel oil C used in electric power generation, FOC has expanded its fluid catalytic cracking (FCC) facilities, which can convert low-sulfur fuel oil C that was destined for electric power generation into gasoline and petrochemical feedstocks. The newly completed second FCC unit at the Sodegaura complex commenced operations in March 2008. In response to falling demand for high-sulfur heavy fuel oil C among industrial users, FOC has embarked on a capacity expansion project at its vacuum residue thermal cracking unit (Eureka thermal cracking unit based on FOC's proprietary technology), which is due for completion in June 2009. This facility can convert asphalt—the feedstock used to manufacture high-sulfur heavy fuel oil C—into lighter distillates. We are also implementing a plan to expand gasoline export capacity in response to declining domestic demand for petroleum products. We aim to complete this expansion project in autumn 2008, bolstering gasoline export capacity to one million kiloliters (kl) per year.

Q. Please explain your policies regarding shareholder return.

A. We recognize shareholder return as a key issue for management. Whilst ensuring internal reserves are built up adequately to cater to medium and long-term business development, our basic policy is to strive for the maintenance of stable dividends, after taking into account operating results and our funding balance.

Based on this policy, dividends applicable to the fiscal year under review were ¥15.00 per share. For fiscal 2009, we also plan to pay dividends of ¥15.00 per share.

With regard to internal reserves, while working to maintain a sound financial structure, we intend to implement strategic investments for the purpose of enhancing operating results and creating a stable earnings base as well as enhancing our medium and long-term business foundations. These investments will specifically target the winning of new projects in the upstream business and the rapid commercialization of such projects, and increasing the value-added of products in the downstream business.

Q. Do you have any closing remarks for shareholders and investors?

A. While we anticipate the continuation of a harsh operating environment for the AOC Holdings Group in the near term, we plan to carefully manage the Group's overall operating results and risk exposure. We are committed to achieving further efficiency enhancements in Group management and maximizing the value of the Group for stakeholders.

By providing a stable supply of crude oil, natural gas and petroleum products, AOC Holdings will continue working to fulfill its role as an energy-focused Group and responsibilities as a corporate citizen, thereby contributing to the future affluence of society and the realization of a safe and comfortable environment.

Arabian Oil Co., Ltd. (AOC), is the Group's core entity engaged in the exploration, development and production of crude oil and natural gas. For nearly half a century AOC has contributed to the stability of Japan's energy supply as the first Japanese company to undertake petroleum development overseas. This is a crucial role owing to Japan's relatively poor endowment of energy resources.

AOC entered into concession agreements with the government of Saudi Arabia in 1957 and the government of Kuwait in 1958 for oil rights in the offshore Neutral Zone (now Divided Zone) between the two countries. AOC discovered the Khafji oil field in 1960 and the Hout oil field in 1963.

UPSTREAM OPERATIONS

The concession agreement with Saudi Arabia expired in February 2000, as did the agreement with Kuwait in January 2003. However, AOC continued to participate in oil field operations in the offshore Divided Zone from January 2003 based on a technical services agreement and a crude oil purchasing agreement with Kuwait. The five-year technical services agreement expired in January 2008. AOC now has a long-term crude oil purchasing agreement with the Kuwait Petroleum Corporation (KPC). Based on this agreement, AOC continues to supply crude oil to customers in Japan and other countries.

AOC is also involved in oil and natural gas exploration and development projects in regions outside the Middle East. Currently, AOC is pursuing crude oil production projects in China (South China Sea) and Norway (North Sea).

Khafji-Related Operations

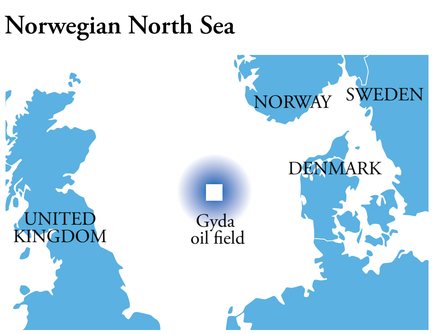
Under a technical services agreement with the Kuwait Gulf Oil Company (KGOC), which took effect in January 2003, AOC dispatched personnel to the Al-Khafji Joint Operations in the Kuwait/Saudi Arabia offshore Divided Zone. The technical services agreement for AOC's participation in this oil operation expired on January 4, 2008. AOC sold crude oil purchased under a long-term crude oil purchasing agreement with KPC to customers in Japan and overseas. A portion of these crude oil sales were conducted through Petro Progress Pte Ltd., which is a Singapore-based member of the AOC Holdings Group.

As a result, segment sales amounted to ¥282.0 billion, an increase compared with the previous fiscal year that was mainly attributable to higher crude oil prices. The segment recorded an operating loss of ¥0.7 billion, largely owing to the expiry of its technical services agreement with KGOC.

Crude Oil Sales Volume (Fiscal years ended March 31)

(Thousands of barrels per day)	2005	2006	2007	**2008**
Khafji crude oil	78.7	93.2	95.2	**89.8**
Hout crude oil	6.0	5.0	5.0	**5.0**

Arabian Gulf



Oil and Gas Exploration, Development and Production

AOC subsidiary New Huanan Oil Development Co., Ltd., undertook the development, production and sale of crude oil from the Lufeng 13-1 oil field located in China's part of the South China Sea. In the Norwegian part of the North Sea, AOC subsidiary Norske AEDC AS carried out the development, production and sale of crude oil from the Gyda oil field.

In its operations in the Gulf of Suez, Egypt, AOC proceeded in drafting a development plan for the Northwest October Block. In the South Zeit Bay Block, AOC was unable to confirm the presence of oil or gas during exploratory drilling. Consequently, AOC surrendered its interest over the South Zeit Bay Block.

Although crude oil prices rose during the period under review, mainly owing to a shutdown for regular maintenance work at certain production facilities, segment sales declined compared with the previous period, to ¥9.6 billion. Operating income amounted to ¥1.3 billion, after incurring exploration expenses totaling ¥2.4 billion.

Egyptian Gulf of Suez

Crude Oil Sales Volume (Fiscal years ended March 31)

(Thousands of barrels per day)	2005	2006	2007	**2008**
Nanhai Medium crude oil	3.6	2.9	3.1	**2.5**
Ekofisk crude oil	0.4	0.7	0.6	**0.5**

Fuji Oil Co., Ltd. (FOC), was established in 1964 through investment by such companies as AOC, Tokyo Electric Power Company, Inc. (TEPCO), and Sumitomo Chemical Co., Ltd. Four years later, in 1968 FOC's refinery complex in Sodegaura, Chiba Prefecture, began supplying TEPCO with heavy fuel oil for electric power generation. It also began supplying naphtha to Sumitomo Chemical as feedstock for petrochemical production and providing petroleum products to Kyodo Oil Co., Ltd. (now Japan Energy Corporation). As an advanced, large-scale facility, the Sodegaura Refinery plays a vital role in supplying petroleum products to the greater Tokyo area, which is a major consuming region. FOC has also expanded its operations to provide petrochemical feedstocks.

Downstream Operations

Sodegaura Refinery Petroleum Product Sales Volume

(Fiscal years ended March 31)

(Thousands of kiloliters)

	2005	2006	**2007**	**2008**
Gasoline	1,640	1,771	**1,888**	**1,781**
Naphtha	328	347	**489**	**470**
Jet fuel	953	976	**1,246**	**1,294**
Kerosene	438	499	**340**	**311**
Diesel fuel (Gas oil)	1,126	1,119	**1,395**	**1,481**
Heavy fuel oil A	518	580	**334**	**228**
Heavy fuel oil C	1,142	1,178	**726**	**1,402**
Benzene	176	148	**153**	**150**
Xylene	297	283	**311**	**308**
Other	576	523	**557**	**563**
Subtotal	7,193	7,424	**7,439**	**7,992**
Barter deals	1,533	1,333	**1,299**	**917**
Total	8,726	8,757	**8,738**	**8,910**
Of which, for export (excluding bunker fuel)	166	105	**132**	**398**

Petroleum Refining/Sales

In March 2008, FOC completed the construction of a second fluid catalytic cracking (FCC) unit at its Sodegaura Refinery complex as scheduled. The new unit will cater to anticipated shifts in the structure of petroleum product demand while also increasing the refinery's value-added capabilities. The unit commenced production operations in the same month of March 2008. FOC also proceeded with its project to increase capacity at its Eureka thermal cracking unit. This extra capacity is scheduled to come on stream in July 2009.

In October 2007, FOC commissioned Shell Global Solutions to undertake a business improvement review (BIR) of its operations, as it strives to become one of Japan's most competitive petroleum refineries. In line with its corporate social responsibilities to ensure the safety of its operations and optimize its environmental performance, FOC has formulated a basic management policy on safety and the environment. In the area of safety, FOC conducted assessments of the safety of each of its facilities and implemented programs to ensure the safety of each of its work sites. In the area of environmental protection, FOC worked on measures to reduce environmental burden in accordance with its ISO 14001-based environmental management system.

Eureka thermal cracking unit

Meanwhile, Singapore-based subsidiary, Petro Progress Pte Ltd., continued its operations covering the shipping, procurement and sale of crude oil and petroleum products.

As a result, segment sales totaled ¥639.0 billion. Operating income declined to ¥13.4 billion, owing to a number of factors. These included the deterioration of margins for certain petroleum products, additional depreciation expenses owing to changes in the tax system, an increase in maintenance expenses and a decrease in valuation gain for inventory, which had been holding down cost of sales.

New FCC unit

Corporate Governance

AOC Holdings, Inc., has implemented the following internal control system—pursuant to the stipulations of the Corporation Law of Japan—to ensure efficient corporate management and a stringent level of compliance with laws and regulations.

I. System to Ensure Proper Execution of Duties by Directors

The Company shall formulate a Corporate Code of Conduct and make clear its strong commitment to strict compliance with all relevant laws and regulations, both in Japan and in overseas jurisdictions, as well as its Articles of Association and various internal rules. The Board of Directors shall be responsible for making decisions regarding the Company's compliance system and internal control system. This specifically includes the formulation of policies and plans and the execution of such plans.

The Company shall appoint outside directors in order to maintain and enhance the function of the board of directors in supervising directors' execution of duties. In addition, corporate auditors shall audit the directors' execution of duties.

II. System to Ensure Proper Execution of Business Operations

1. System for the storage and management of information

With regard to information relating to the execution of duties by directors, important documents shall be recorded, stored and managed in accordance with internal rules, and such documents shall be available for subsequent inspection as necessary.

2. Risk management system

Risks that may have a significant impact on the Company's management shall be comprehensively recognized and quantified, and a set of rules for managing risk shall be established. A system shall also be developed for risk prevention and reduction during normal business operations. Should an unforeseen or emergency situation arise, a crisis management center shall be rapidly deployed.

3. System to ensure efficient execution of business operations

The Board of Directors shall determine core management policies and important matters relating to management, and shall supervise the directors' execution of duties. The Executive Committee, comprising the full-time directors, full-time corporate auditor and executive officers, shall share information covering all aspects of management and shall undertake resolutions to ensure the efficient execution of business operations, in accordance with decisions of the Board of Directors. Each department and division of the Company shall receive instructions from directors and executive officers and shall carry out business operations efficiently and in accordance with internal rules and shall report the results of their respective operations.

4. System to ensure proper execution of business operations by employees

The Company shall formulate a Corporate Code of Conduct and maintain a thorough level of compliance with all laws and regulations, both in Japan and overseas, as well as its Articles of Association and internal rules. The Company shall also conduct training programs for directors and employees covering compliance issues. The Company shall establish a help line for employees to facilitate the reporting and discussion of matters relating to legal or internal rule violations.

5. System to ensure proper execution of business operations of Group companies

The Company shall establish clear criteria for subsidiaries and affiliates on matters that must be reported to the Company and matters that require approval from the Company. There shall be close liaisons and exchange of information between departments and divisions of the Company and subsidiaries and affiliates. The Company shall maintain thorough control over subsidiaries and affiliates.

6. System to assist corporate auditors' execution of duties

The Company shall establish the Office of Corporate Auditors as a department dedicated to assisting the corporate auditors' in the execution of their duties. The division of duties and operations shall be determined in accordance with the views of the corporate auditors.

7. Independent assistance for corporate auditors

Staff assigned to the Office of Corporate Auditors shall follow the orders and instructions of corporate auditors.

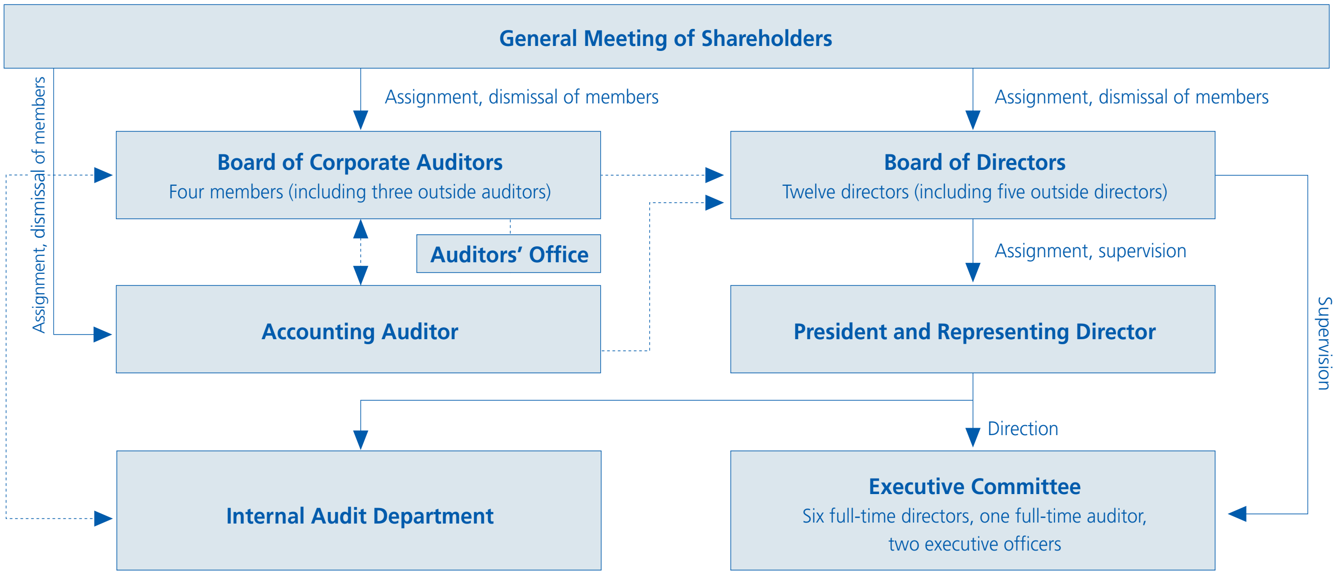
8. System of reporting to corporate auditors

The directors and employees shall provide reports to the corporate auditors on a regular basis as well as when specifically requested by a corporate auditor.

9. Other systems to ensure effective auditing

The directors and corporate auditors shall convene regular meetings to ensure the maintenance of sound communications between them. To ensure that the corporate auditors are able to carry out their duties appropriately, the directors shall cooperate to facilitate the corporate auditors' communication with directors and corporate auditors of subsidiaries and affiliates, information gathering and information exchange, research of major customers and suppliers, and receipt of advice from certified public accountants, attorneys and other outside specialists.

Structure of AOC Holdings' corporate governance



(As of June 26, 2008)

Directors, Auditors and Executive Officers

(As of June 26, 2008)

Chairman

Kuniyasu Takeda

President and Representing Director

Fumio Sekiya

Vice President and Representing Director

Kazutoshi Hoyano

Directors

Toshiyuki Hiroki

Yoshiaki Sekigawa

Taro Shoji

Shigemi Tamura *1

Haruyuki Niimi *2

Hiromasa Yonekura *3

Yahya Jamil Shinawi *4

Nasser Bader Al-Mudhaf *5

Corporate Auditors

Shinichi Ame

Nobuhiko Ishii *6

Koichi Nakanishi

Kuniaki Shirakuma *7

Executive Officers

Yasuo Kiyota

Koichi Sekikawa

*1 Chairman, The Tokyo Electric Power Company, Inc.

*2 Chairman, Showa Shell Sekiyu K.K.

*3 President, Sumitomo Chemical Co., Ltd.

*4 Director General, Eastern Province Branch, Ministry of Petroleum and Mineral Resources, the kingdom of Saudi Arabia

*5 Deputy Managing Director and General Manager, Kuwait Aviation Fueling Co.

*6 Advisor, Oshima Shipbuilding Company, Ltd.

*7 Advisor to the President, Nippon Yusen K.K.

Environmental Conservation Initiatives

Activities at the Sodegaura Refinery

Environmental protection is seen as one of FOC's most vital tasks, and, in line with this philosophy, FOC undertakes a range of initiatives to protect the local environment in which it operates as well as contributes to global environmental protection. Such initiatives are specifically aimed at conserving the world's natural environment, protecting the health of local communities and FOC employees, ensuring the efficient use of energy, reducing waste emissions and increasing the recycling and reuse of resources. FOC has established an environmental management system and has received ISO 14001 certification for such systems. FOC is committed to ongoing environmental activities across its entire organization.

In the area of global warming prevention initiatives, FOC has focused its efforts on such areas as energy conservation, reduction of CO_2 emissions, increasing the efficiency of its facilities, improving the heat recovery ratio of its operations and installing advanced control systems at its facilities. As an example of these efforts, since 2003, FOC has been researching the development of technology to utilize low-grade heat energy that is presently released into the atmosphere. This project aims to facilitate heat exchange among adjacent plants and develop a power generation system by utilizing low-grade waste heat from the refinery's heavy-oil cracking facility. A test operation of the power plant commenced in 2005.

Low-exergy generation system

FOC is also undertaking measures to reduce environmental pollution, prevent water contamination, manage hazardous substances, reduce waste, promote recycling and prevent marine oil spills, thereby helping to reduce the environmental impact of its operations.

FOC is working to minimize the environmental impact of the products it produces by responding to customer needs. Specifically, FOC has installed equipment within its facilities in line with the regulatory move toward sulfur-free (10 ppm or less) petroleum products, such as gasoline and diesel. The enhanced refining processes help to reduce the generation of sulfur oxides (SOx), nitrogen oxides (NOx) and particulate matter when products are used. FOC began shipping products that meet the new stringent environmental standards in January 2005, in advance of the introduction of new regulations.

Joint Projects for Environmental Enhancement in Middle East Oil-Producing Countries

AOC is involved in joint projects for enhancing the environment coordinated by Japan and oil-producing countries in the Arabian Gulf region.

Based on the Japan–Kuwait Cooperation on Environmental Issues and Technology Transfer, AOC was commissioned by the government of Japan and the Japan External Trade Organization (JETRO) to collaborate with other Japanese companies in initiatives to improve the marine environment in Kuwait Bay. The core of this project included the environmental rehabilitation of Kuwait Bay, a marine environment real-time monitoring system and technology transfer through training programs. AOC's role includes participation in marine environmental improvement activities, communication and coordination with local government agencies and undertaking public relations and educational programs.

Man-made tidal flats in the Kuwait Bay

AOC Holdings Group Companies

AOC Holdings, Inc.
As of June 26, 2008

	Company	Head office	Capital	Major shareholders	Principal business
Upstream business	Arabian Oil Co., Ltd. (AOC)	Tokyo, Japan	¥13,000 million	AOC Holdings 100%	Exploration, development, production and sale of crude oil and natural gas
Upstream business	Norske AEDC AS	Stavanger, Norway	Nkr 1 million	AOC 100%	Exploration, development, production and sale of oil and natural gas in Norway
Upstream business	New Huanan Oil Development Co., Ltd.	Tokyo, Japan	¥96 million	AOC 83.7% FOC 0.6%	Exploration, development, production and sale of oil and natural gas in China
Downstream business	Fuji Oil Co., Ltd. (FOC)	Tokyo, Japan	¥10,225 million	AOC Holdings 100%	Oil refining and sale of refined products
Downstream business	Petro Progress, Inc.	Tokyo, Japan	¥3,000 million	AOC 50% FOC 50%	Purchasing, marketing, and transportation of crude oil and refined products
Downstream business	Petro Progress Pte Ltd.	Singapore	S$34,000,000	Petro Progress Inc. 100%	Overseas purchasing, marketing and transportation of crude oil and refined products
Downstream business	ARAMO Shipping (Singapore) Pte., Ltd.	Singapore	US$20,742,000	Petro Progress Pte Ltd. 50%	Operation of crude oil tankers
Downstream business	Fuji Tanker Co., Ltd.	Tokyo, Japan	¥50 million	FOC 100%	Chartering and scheduling of oil tankers
Downstream business	Fuji Oil Sales Co., Ltd.	Tokyo, Japan	¥100 million	FOC 100%	Sale of oil products
Downstream business	Fuji Rinkai Co., Ltd.	Chiba, Japan	¥10 million	FOC 70%	Loading and unloading of oil
Other business	Japan Oil Engineering Co., Ltd.	Tokyo, Japan	¥600 million	FOC 50% AOC 49.9%	Engineering and consulting services in upstream and downstream sectors of oil and gas industry
Other business	Tokyo Sekiyu Kogyo K.K.	Tokyo, Japan	¥120 million	AOC 49.8%	Manufacturing, sale and recycling of asphalt mixture

Investor Information

AOC Holdings, Inc.
As of March 31, 2008

Corporate Details

Trade Name:	AOC Holdings, Inc.
Date of Establishment:	January 31, 2003
Paid-in Capital:	¥24,467 million
Total Number of Shares Issued:	78,183,677 shares
Number of Shares Forming a Predetermined Unit:	100 shares
Financial Year:	April 1 to March 31
Stock Exchange:	Shares listed on the Tokyo Stock Exchange
Transfer Agent:	Mizuho Trust & Banking Co., Ltd.
Employees:	30 (AOC Holdings only)
	609 (consolidated)

Principal Shareholders

	Number of shares held (thousands)	Percentage of total shares outstanding (%)
The Tokyo Electric Power Co., Inc.	6,839.9	8.74
Kuwait Petroleum Corporation	5,811.3	7.43
Government of the Kingdom of Saudi Arabia	5,811.3	7.43
Showa Shell Sekiyu K.K.	5,144.0	6.57
Sumitomo Chemical Co., Ltd.	5,051.6	6.46
BBH for Fidelity Low Price Stock Funds	4,140.4	5.29
Nippon Yusen K.K.	2,750.8	3.51
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,530.9	3.23
Japan Trustee Services Bank, Ltd. (Trust Account)	2,117.9	2.70
The Kansai Electric Power Co., Inc.	1,900.0	2.43

Independent Certified Public Accountant

KPMG AZSA & Co.

AOC Holdings, Inc.

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AOC Holdings, Inc.

Financial Section of Annual Report 2008

Fiscal year ended March 31,2008

CONTENTS

KPMG

Independent Auditors' Report

To Board of Directors of
AOC Holdings, Inc.

We have audited the accompanying consolidated balance sheets of AOC Holdings, Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AOC Holdings, Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2 (g) to the consolidated financial statements, accompanying revisions to Japan's Corporate Tax Law, effective from this fiscal year, AOC Holdings, Inc. and its domestic consolidated subsidiaries have changed the method of depreciation for property, plant and equipment purchased on or after April 1, 2007, to the method prescribed by the revised Corporate Tax Law. In addition, effective from this fiscal year, after having depreciated property, plant and equipment purchased before March 31, 2007 up to 5 percent of the acquisition cost based on the prior corporate tax law, AOC Holdings, Inc. and its domestic consolidated subsidiaries depreciate 5 percent of the acquisition cost less the new salvage value of \1(memorandum value), using the straight line method over 5 years, according to the revised corporation tax law.

(2) As discussed in Note 21 to the consolidated financial statements, effective April 1, 2006, AOC Holdings, Inc. changed the segmentation of its business segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 25, 2008

Consolidated Balance Sheets

AOC Holdings, Inc. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Assets			
Current assets:			
Cash and deposits (Note 18)	¥ 31,550	¥ 25,528	$ 314,901
Notes and accounts receivable - trade	97,969	88,666	977,832
Short-term investment securities (Note 3)	1,274	1,536	12,715
Inventories	104,113	78,637	1,039,155
Accounts receivable - other	1,313	792	13,105
Deferred tax assets (Note 7)	938	339	9,362
Other (Notes 6 and 11)	16,609	10,210	165,775
Total current assets	253,770	205,712	2,532,887
Property, plant and equipment (Notes 4 and 5) :			
Buildings and structures (Note 6)	12,926	12,406	129,014
Storage tanks (Note 6)	2,948	3,714	29,424
Machinery, equipment and vehicles (Note 6)	18,992	18,398	189,559
Land (Note 6)	51,359	51,386	512,616
Construction in progress	32,278	18,928	322,167
Other	198	203	1,976
Total property, plant and equipment	118,703	105,038	1,184,778
Intangible assets	1,360	1,742	13,574
Investments and other assets:			
Investment securities (Notes 3 and 6)	12,077	12,258	120,540
Long-term loans receivable (Notes 6 and 11)	54,666	48,750	545,623
Long-term time deposits (Note 6)	7,708	8,610	76,933
Investment for exploration development	2,863	3,032	28,575
Other	1,143	944	11,408
Allowance for doubtful accounts	(401)	(657)	(4,002)
Total investments and other assets	78,057	72,939	779,089
Total assets	¥ 451,892	¥ 385,431	$ 4,510,350

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Liabiliteis, minority interests and shareholders' equity/Net assets			
Current liabilities:			
Accounts payable - trade	¥ 62,082	¥ 45,814	$ 619,642
Short-term loans payable (Note 6)	85,873	47,032	857,101
Current portion of long-term loans payable (Notes 6 and 11)	18,802	19,731	187,663
Accounts payable - other	18,064	14,547	180,297
Excise taxes payable on gasoline and other fuels	17,318	16,901	172,851
Income taxes payable (Note 7)	2,274	3,347	22,696
Provision for loans recievable agreement expense	890	—	8,883
Other (Note 4)	6,284	4,096	62,720
Total current liabilities	211,591	151,472	2,111,897
Noncurrent liabilities:			
Long-term loans payable (Notes 6 and 11)	71,795	69,238	716,588
Deferred tax liabilities (Note 7)	13,047	13,974	130,222
Provision for retirement benefits (Note 8)	4,132	4,122	41,241
Provision for directors' retirement benefits	181	150	1,806
Provision for special repairs	1,692	1,649	16,887
Provision for repairs	2,001	1,198	19,972
Provision for loans receivable agreement expenses	1,806	—	18,025
Negative goodwill	29	61	289
Other	465	303	4,641
Total noncurrent liabilities	95,153	90,698	949,725
Commitments and contingent liabilities (Notes 11 and 12)			
Net assets (Note 10)			
Shareholders' equity:			
Capital stock			
Authorized－200,000,000 shares in 2008 and 2007			
Issued－78,183,677 shares in 2008 and 2007	24,467	24,467	244,206
Capital surplus	57,679	57,679	575,696
Retained earnings	63,299	59,793	631,789
Treasury stock (Note 6)	(1,238)	(1,238)	(12,356)
Total shareholders' equity	144,207	140,701	1,439,335
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	(180)	593	(1,796)
Deferred gains or losses on hedges	(2)	—	(19)
Revaluation reserve for land	2	2	19
Foreign currency translation adjustments	148	785	1,477
Total valuation and translation adjustments	(31)	1,381	(309)
Minority interests	971	1,178	9,691
Total net assets	145,147	143,261	1,448,717
Total liabilities and net assets	¥ 451,892	¥ 385,431	$ 4,510,350

See notes to consolidated financial statements.

Consolidated Statements of Income

AOC Holdings, Inc. and Conslidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net sales (Note 21)	¥ 930,738	¥ 801,020	$ 9,289,729
Cost of sales (Note 19)	908,742	770,590	9,070,186
Gross profit	21,995	30,430	219,532
Exploration expenses	2,438	—	24,333
Selling, general and administrative expenses (Note 19)	5,602	4,813	55,913
Operating income	13,954	25,616	139,275
Non-operating income (expenses):			
Interest and dividends income	4,479	3,129	44,705
Foreign exchange gains	431	2,607	4,301
Equity in earnings of affiliates	583	1,863	5,818
Gain on termination of a concession agreement (Note 13)	267	—	2,664
Interest expenses	(7,675)	(5,770)	(76,604)
Loss on retirement of noncurrent assets	(699)	(301)	(6,976)
Loss on sales of noncurrent assets	(12)	—	(119)
Impairment loss (Note 5)	–	(27)	—
Provision for loans receivable agreement expenses	(2,697)	—	(26,918)
Other, net	(231)	86	(2,305)
	(5,554)	1,588	(55,434)
Income before income taxes	8,401	27,205	83,850
Income taxes (Note 7):			
Income taxes - current	4,484	7,749	44,754
Income taxes - deferred	(1,111)	(146)	(11,088)
	3,373	7,602	33,666
Minority interests in income	363	604	3,623
Net income	¥ 4,665	¥ 18,999	$ 46,561

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

AOC Holdings, Inc. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of Yen					
	Shareholders' equity					
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stcok	Total shareholders' equity
Net assets at March 31, 2006	78,183,677	¥ 24,467	¥ 56,355	¥ 41,921	¥ (3,847)	¥ 118,897
Dividends from surplus				(1,127)		(1,127)
Net income				18,999		18,999
Purchase of treasury stock					(0)	(0)
Disposal of treasury stock			1,323		2,609	3,932
Net changes of items other than shareholders' equity						
Total changes of items during the period		—	1,323	17,871	2,609	21,804
Net assets at March 31, 2007	78,183,677	¥ 24,467	¥ 57,679	¥ 59,793	¥ (1,238)	¥ 140,701
Dividends from surplus				(1,158)		(1,158)
Net income				4,665		4,665
Purchase of treasury stock					(0)	(0)
Net changes of items other than shareholders' equity						
Total changes of items during the period		—	—	3,506	(0)	3,506
Balance at March 31, 2008	78,183,677	¥ 24,467	¥ 57,679	¥ 63,299	¥ (1,238)	¥ 144,207

	Millions of Yen						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Net assets at March 31, 2006	¥ 590	—	¥ 2	¥ 526	¥ 1,120	¥ 998	¥ 121,015
Dividends from surplus							(1,127)
Net income							18,999
Purchase of treasury stock							(0)
Disposal of treasury stock							3,932
Net changes of items other than shareholders' equity	2	—		258	261	179	441
Total changes of items during the period	2	—	2	258	261	179	22,245
Net assets at March 31, 2007	¥ 593	—	¥ 2	¥ 785	¥ 1,381	¥ 1,178	¥ 143,261
Dividends from surplus							(1,158)
Net income							4,665
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	(774)	(2)		(636)	(1,413)	(206)	(1,619)
Total changes of items during the period	(774)	(2)	—	(636)	(1,413)	(206)	1,886
Balance at March 31, 2008	¥ (180)	¥ (2)	¥ 2	¥ 148	(31)	¥ 971	¥ 145,147

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)					
		Shareholders' equity				
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stcok	Total shareholders' equity
Net assets at March 31, 2007	78,183,677	$ 244,206	$ 575,696	$ 596,796	$ (12,356)	$ 1,404,341
Dividends from surplus				(11,558)		(11,558)
Net income				46,561		46,561
Purchase of treasury stock					(0)	(0)
Net changes of items other than shareholders' equity						
Total changes of items during the period		—	—	34,993	(0)	34,993
Balance at March 31, 2008	78,183,677	$ 244,206	$ 575,696	$ 631,789	$ (12,356)	$ 1,439,335

	Thousands of U.S. dollars (Note 1)						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Net assets at March 31, 2007	$ 5,918	−	$ 19	$ 7,835	$ 13,783	$ 11,757	$ 1,429,893
Dividends from surplus							(11,558)
Net income							46,561
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	(7,725)	(19)		(6,347)	(14,103)	(2,056)	(16,159)
Total changes of items during the period	(7,725)	(19)	—	(6,347)	(14,103)	(2,056)	18,824
Balance at March 31, 2008	$ (1,796)	$ (19)	$ 19	$ 1,477	$ (309)	$ 9,691	$ 1,448,717

See note to consolidated financial statements.

Consolidated Statements of Cash Flows

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net cash provided by (used in) operating activities:			
Income before income taxes	¥ 8,401	¥ 27,205	$ 83,850
Depreciation and amortization	6,253	4,580	62,411
Increase in provision for repairs	803	1,198	8,014
Increase in provision for retirement benefits	10	175	99
Increase (decrease) in allowance for doubtful accounts	1	(1)	9
Increase (decrease) in provision for special repairs	43	(85)	429
Increase in provision for directors' retirement benefits	31	33	309
Increase in provision for loans receivable agreement expenses	2,697	—	26,918
Interest and dividends income	(4,480)	(3,129)	(44,715)
Interest expenses	7,675	5,770	76,604
Equity in earnings of affiliates	(583)	(1,863)	(5,818)
Loss on retirement of noncurrent assets	699	301	6,976
Gain on termination of concession agreement	(267)	—	(2,664)
Impairment loss	—	27	–
Gain on sales of golf club memberships	—	(59)	–
Decrease (increase) in notes and accounts receivable - trade	(9,281)	10,117	(92,633)
Increase in inventories	(25,468)	(7,307)	(254,197)
Increase (decrease) in notes and accounts payable - trade	16,268	(1,709)	162,371
Increase (decrease) in excise taxes payable on gasoline and other fuels	416	(2,229)	4,152
Other, net	2,010	(2,072)	20,061
Subtotal	5,231	30,950	52,210
Interest and dividends income received	4,584	2,733	45,753
Interest expenses paid	(7,585)	(5,349)	(75,706)
Income taxes paid	(6,436)	(9,102)	(64,237)
Income taxes refund	123	1,153	1,227
Payment for termination of a concession agreement	—	(2,477)	–
Net cash provided by (used in) operating activities	(4,082)	17,907	(40,742)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net cash provided by (used in) investment activities:			
Payments into time deposits	(13,737)	(17,362)	(137,109)
Proceeds from withdrawal of time deposits	14,230	17,028	142,030
Purchase of investment securities	(1,000)	(2,001)	(9,981)
Proceeds from redemption of securities	1,300	8,991	12,975
Purchase of short-term investment securities	(1,000)	(10,291)	(9,981)
Purchase of property, plant and equipment	(16,797)	(22,921)	(167,651)
Proceeds from sales of property, plant and equipment	2	0	19
Purchase of intangible assets	(415)	(1,138)	(4,142)
Payments of long-term loans receivable	(26,018)	(26,773)	(259,686)
Collection of long-term loans receivable	6,469	5,448	64,567
Payments for investment for exploration development	(329)	(3,005)	(3,283)
Other, net	(185)	(415)	(1,846)
Net cash used in investment activities	(37,482)	(52,439)	(374,109)
Net cash provided by (used in) financing activities:			
Net increase in short-term loans payable	38,832	13,988	387,583
Proceeds from long-term loans payable	31,814	31,969	317,536
Repayment of long-term loans payable	(19,671)	(19,224)	(196,336)
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	—	3,932	−
Cash dividends paid	(1,155)	(1,124)	(11,528)
Cash dividends paid to minority shareholders due to capital reduction	(94)	(122)	(938)
Cash dividends paid to minority shareholders	(377)	(302)	(3,762)
Net cash provided by financing activities	49,348	29,117	492,544
Effect of exchange rate change on cash and cash equivalents	(1,722)	137	(17,187)
Net increase (decrease) in cash and cash equivalents	6,060	(5,277)	60,485
Cash and cash equivalents at beginning of year (Note 18)	25,749	31,027	257,001
Cash and cash equivalents at end of year (Note 18)	¥ 31,810	¥ 25,749	$ 317,496

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

AOC Holdings, Inc. and Consolidated Subsidiaries

As of March 31, 2008 and 2007

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by AOC Holdings, Inc. (the “Company”) and its domestic and foreign subsidiaries (the “Companies”), and are complied from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law. The Company and its domestic subsidiaries maintain their accounting records in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”) and foreign subsidiaries maintain their accounting records in conformity with accounting principles and practices of their respective country of domicile, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

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

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at the rate of ¥100.19 = U.S.$1.00, the approximate rate of exchange on March 31, 2008. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its nine significant subsidiaries (the “Subsidiaries”) as of March 31, 2008 and 2007. Consolidated subsidiaries as of March 31, 2008 were as follows:

- Arabian Oil Co., Ltd.
- Fuji Oil Co., Ltd.
- Fuji Oil Sales Co., Ltd.
- Fuji Tanker Co., Ltd
- Fuji Rinkai Co., Ltd.
- Norske AEDC AS
- Petro Progress, Inc.
- Petro Progress Pte Ltd.
- New Huanan Oil Development Co., Ltd.

Eight other subsidiaries in 2008 and 2007 are excluded from the scope of consolidation because they are less material in terms of total assets, net sales, net income (loss) and retained earnings and do not have a material effect on the consolidated financial statements as a whole.

Petro Progress Pte Ltd., Norske AEDC AS and New Huanan Oil Development Co., Ltd., have a fiscal year-end of December 31. The consolidated financial statements incorporate the accounts of the above companies for the fiscal year ended December 31 with adjustments for significant transactions arising after year-end.

All significant intercompany accounts and transactions have been eliminated on consolidation.

The difference between the cost and underlying net equity at acquisition of investments in subsidiaries and affiliates accounted for by the equity method is allocated to identifiable assets and liabilities based on fair market value at the date of acquisition. The unallocated portion of the difference, which is recognized as goodwill or negative goodwill, is being equally amortized over a period of 10 years by the straight-line method.

(b) Equity method

The equity method was applied to the investments in two non-consolidated subsidiaries and an affiliate in 2008 and 2007.

Non-consolidated subsidiaries and an affiliate accounted for by the equity method as of March 31, 2008 and 2007 were as follows:

Non-consolidated subsidiaries accounted for by the equity method:

- Japan Oil Engineering Co., Ltd.
- Tokyo Sekiyu Kogyo Co., Ltd.

An affiliate accounted for by the equity method:

- Aramo Shipping (Singapore) Pte Ltd.

Investment securities (equity) in other non-consolidated subsidiaries and affiliates (eight companies in 2008 and 2007) are not accounted for by the equity method, but stated at cost, because the corresponding amounts of net income (loss) and retained earnings are immaterial and do not have a material effect on the consolidated financial statements as a whole.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash equivalents include all highly liquid debt instruments with an original maturity of three months or less.

(d) Short-term investment securities and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified as either held-to-maturity securities or available-for-sale securities. Held-to-maturity securities are carried at amortized cost. Short-term investment securities classified as available-for-sale securities are carried at fair value with any changes in valuation difference on available-for-sale securities, net of taxes, included directly in valuation and translation adjustments under net assets at March 31, 2008 and 2007. The cost of marketable available-for-sale securities sold is calculated by the moving-average method. Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average-method.

(e) Inventories

Finished goods, semi-finished goods and crude oil are stated at cost determined by the gross average method. Goods in transit are stated at cost determined by the specific identification method and stored goods are stated at cost determined by the moving average method.

(f) Impairment of long-lived assets

Long-lived assets, such as property, plant, and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(g) Depreciation and amortization

Depreciation of manufacturing plant equipment for petrochemical products and in-house power generating equipment is calculated principally by the declining-balance method and depreciation of other property, plant and equipment is calculated principally by the straight-line method, except for a consolidated subsidiary using the declining-balance method, based on the estimated useful lives of the respective assets. In addition, certain foreign consolidated subsidiaries are using the unit-of-production method for certain assets. The useful lives of major property, plant and equipment are summarized as follows:

■ Buildings and structures	2 to 60 years
■ Storage tanks	10 to 15 years
■ Machinery, equipment and vehicles	2 to 15 years

Intangible assets, except for mineral rights which are amortized by the unit-of-production method, are amortized by the straight-line method over their respective estimated useful lives. Software intended for internal use is amortized by the straight-line method over an estimated useful life of five years.

Accompanying revisions to Japan's Corporate Tax Law (as contained in the Law Revising a Portion of the Income Tax Law, March 30, 2007, Law No. 6, and the Ordinance Revising a Portion of the Enforcement Regulations for the Income Tax Law, March 30, 2007, Ordinance No. 83), effective from this fiscal year, the Company and its domestic consolidated subsidiaries have changed the method of depreciation for property, plant and equipment purchased on or after April 1, 2007, to the method prescribed by the revised Corporate Tax Law. As a result of this change, operating income and income before income taxes decreased by ¥41 million ($409 thousand) for the year ended March 31, 2008.

Effective from this fiscal year, after having depreciated property, plant and equipment purchased before March 31, 2007 up to 5 percent of the acquisition cost based on the prior corporate tax law, the Company and its domestic consolidated subsidiaries depreciate 5 percent of the acquisition cost less the new salvage value of ¥1 (memorandum value), using the straight line method over 5 years, according to the revised corporate tax law . The effect of this change was to decrease operating income and income before income taxes by ¥1,670 million ($16,668 thousand) for the year ended March 31, 2008.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables.

(i) Provision for repairs

The provision for repairs is provided at an amount equivalent to the estimated amount of statutory periodical maintenance expenses for machinery and equipment.

(j) Provision for special repairs

The provision for special repairs is provided at an amount determined based on the historical experience with respect to the periodical inspection and maintenance expenses for storage tanks required by the Fire Defense Law and for vessels required by the Vessel Safety Law.

(k) Provision for loans receivable agreement expenses

The technical services agreement between Arabian Oil Co., Ltd. a wholly-owned subsidiary, and Kuwait Gulf Oil Company (KGOC) expired on January 4, 2008. This agreement constituted a part of the agreement structure with Kuwait, replacing the old concession agreement. Provision for loans receivable agreement expenses is provided for a part of the loans agreement expenses of ¥2,697 million ($26,918 thousand) relating to the Kuwait contracts, deemed irrecoverable due to the expiration of the technical service agreement.

(l) Provision for retirement benefits

Certain consolidated subsidiaries provide for employees' retirement benefits principally by basing calculations on the estimated present value of benefit obligations and the estimated fair value of plan assets as of the balance sheet date.

Prior service costs are amortized by the straight-line method over a certain period (10 years) within the average remaining years of service of the eligible employees.

Actuarial gains and losses are amortized from the year following the year in which the gain or loss is incurred by the straight-line method over a certain period (10yeas) within the average remaining years of service of the eligible employees.

(m) Provision for directors' retirement benefits

Provision for directors' retirement benefits of the Companies is estimated based on the amount calculated in accordance with internal rules.

(n) Leases

Finance leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases.

(o) Exploration expenses

The expenditures incurred in connection with the exploration activities for crude oil and natural gas are charged to income and separately disclosed under "Exploration expenses" in the accompanying consolidated statements of income.

(p) Derivatives and hedge accounting

Derivatives are principally stated at fair value. If certain hedging criteria are met, the gain or loss on a derivative designated as a hedging instrument is deferred until the hedged item is settled. Alternatively, foreign currency denominated receivables and payables hedged by forward exchange contracts are translated at the respective forward contract rates. Furthermore, if certain criteria are met, an interest rate swap qualified for hedge accounting is not stated at fair value but the net settlement of interest under such an interest swap is reported as a component of interest on related hedged assets or liabilities.

(q) Income taxes

Deferred tax assets and liabilities are recognized for expected future tax consequences attributable to temporary difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred income tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company and its domestic subsidiaries adopt a consolidated tax filing system.

(r) Foreign currency translation

All receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, except for foreign-currency-denominated payables hedged by forward exchange contracts as noted above. Income and expenses in foreign currencies are translated at the rates prevailing at the time of the transactions. The resulting exchange gains or losses are credited or changed to income as incurred.

Financial statements of foreign subsidiaries and affiliates are translated into Japanese yen at the balance sheet exchange rates for all assets and liabilities, at historical exchange rates for shareholders' equity and average exchange rates during the year for all income and expense accounts. Foreign currency translation adjustments resulting from the above translation procedures are reported as a component of "Valuation and translation adjustments" under net assets.

(s) Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

(t) Investment for exploration development

Investment for exploration development includes the expenditures incurred after oil and gas were found and the future commercial production was considered to be feasible as a result of searching activities for crude oil and the natural gas.

3. Short-term investment Securities and Investment Securities

Short-term investment securities and investment securities classified as available-for-sale securities as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Carrying value	Valuation difference	Acquisition cost	Carrying value	Valuation difference
	2008					
Securities with carrying value exceeding acquisition cost: Equity securities	¥ 469	¥ 696	¥ 227	$ 4,681	$ 6,946	$ 2,265
Securities with carrying value not exceeding acquisition cost: Equity securities	2,999	2,193	(805)	29,933	21,888	(8,034)
Total	¥ 3,468	¥ 2,890	¥ (578)	$ 34,614	$ 28,845	$ (5,769)

	Millions of yen		
	Acquisition cost	Carrying value	Valuation difference
	2007		
Securities with carrying value exceeding acquisition cost: Equity securities	¥ 2,467	¥ 3,132	¥ 664
Securities with carrying value not exceeding acquisition cost: Equity securities	—	—	—
Total	¥ 2,467	¥ 3,132	¥ 664

Held-to-maturity securities which had readily determinable fair value as of March 31, 2007 is as follows:

	Millions of yen		
	Carrying value	Fair value	Valuation difference
Corporate bonds	¥ 300	¥ 300	(0)

There are no held-to-maturity securities which had readily determinable fair value as of March 31, 2008.

Available-for-sale securities sold during the year ended March 31, 2007 is summarized as follows:

	Millions of yen
	2007
Proceeds from sales of equity securities	¥ 0
Gain on sales	—
Loss on sales	0

There are no available-for-sale securities sold during the year ended March 31, 2008.

The carrying value of securities which did not have a readily determinable fair value as of March 31, 2008 and

2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Held-to maturity securities:			
Municipal bonds	¥ 24	¥ 29	$ 239
Foreign bonds	1,000	1,000	9,981
	¥ 1,024	¥ 1,029	$ 10,220
Available-for-sale securities:			
Unlisted stocks	¥ 538	¥ 548	$ 5,369
Other, including Money Market Funds	270	230	2,694
	¥ 808	¥ 778	$ 8,064

The schedule of the contractual maturities of held-to-maturity securities as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
	2008			
Foreign bonds	¥ 1,000	¥ —	¥ —	¥ —
Municipal bonds	4	19	—	—
Total	¥ 1,004	¥ 19	¥ —	¥ —

	Thousands of U.S. dollars (Note 1)			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
	2008			
Foreign bonds	$ 9,981	$ —	$ —	$ —
Municipal bonds	39	189	—	—
Total	$ 10,020	$ 189	$ —	$ —

	Millions of yen			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
	2007			
Corporate bonds	¥ 300	¥ —	¥ —	¥ —
Foreign bonds	1,000	—	—	—
Municipal bonds	4	19	4	—
Total	¥ 1,305	¥ 19	¥ 4	¥ —

4. Property, Plant and Equipment

Accumulated depreciation

Property, plant and equipment are stated at cost less accumulated depreciation in the accompanying consolidated balance sheets. The accumulated depreciation for the years ended March 31, 2008 and 2007 was ¥213,929 million ($2,135,233 thousand) and ¥208,990 million, respectively.

Deferred gain on national subsidies and insurance claims

Deferred gain on national subsidies and insurance claims is directly deducted from the acquisition cost of the related machinery, equipment and vehicles in the accompanying consolidated balance sheets as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Gain on national subsidies	¥	196	¥	196	$	1,956
Gain on insurance claims	¥	128	¥	128	$	1,277

5. Impairment of Noncurrent Assets

The Companies recorded a loss on impairment for the following assets for the year ended March 31, 2007:

Type of assets: Land, buildings and others for rent as a gas station

Location: Utsunomiya city, Tochigi Prefecture

The Companies reviewed noncurrent assets for impairment by grouping the assets in income-generating.

Regarding the above assets, the existing rent agreement will expire in May, 2007. As the Companies does not intend to use these assets in the future and the price of land is continuously declining, the book value was reduced to the recoverable amount. As a result, a loss in the amount of ¥27 million is recorded as a loss on impairment of noncurrent assets under other expenses in the accompanying consolidated statements of income.

The recoverable amount of the above assets is principally measured by the net selling price and the value of the land is assessed based on the appraisal value by the independent real estate appraiser.

The Company recorded no impairment loss for the year ended March 31, 2008.

6. Short-term Loans Payable and Long-term Loans Payable

Short-term loans payable and long-term loans payable as of March 31, 2008 and 2007 and the weighted average interest rates on the loans payable outstanding as of March 31, 2008 are as follow:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Short-term loans payable– 2.2%	¥	85,873	¥	47,032	$	857,101
Current portion of long-term loans payable– 3.9%		18,802		19,731		187,663
Long-term loans payable, maturing in 2008-2016 – 4.6%		71,795		69,238		716,588
Total	¥	176,471	¥	136,002	$	1,761,353

Annual maturities of the long-term loans payable are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008			
Year ending March 31,				
2009	¥	18,802	$	187,663
2010		21,534		214,931
2011		17,236		172,033
2012		13,472		134,464
2013 and thereafter		19,550		195,129

Pledged Assets

The following assets are pledged as collateral for long-term loans payable and other current liabilities amounting to

¥90,115 million ($899,441 thousand) and ¥86,365 million, including current portion of ¥17,608 million ($175,746 thousand) and ¥17,733 million as of March 31, 2008 and 2007, respectively.

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Investment securities	¥	846	¥	1,205	$	8,443
Long-term deposits		6,924		7,176		69,108
Treasury stock		1,208		1,208		12,057
Building and structures		9,213		9,387		91,955
Storage tanks		2,948		3,714		29,424
Machinery, equipment and vehicles		18,871		18,274		188,352
Land		48,952		48,952		488,591
Short-term loans		9,522		6,275		95,039
Long-term loans receivable		53,443		47,250		533,416
Other current assets		848		748		8,463
Total carrying value of pledged assets	¥	152,779	¥	144,192	$	1,524,892

As of March 31, 2008 and 2007, in addition to the above pledged assets, long-term deposits of ¥783 million ($7,815 thousand) and ¥1,434 million, respectively were pledged to guarantee the investment obligation for an oil exploration project in Egypt by Arabian Oil Co., Ltd.

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise, and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of 40.4% for the years ended March 31, 2008 and 2007. The Company and six domestic subsidiaries adopt a consolidated tax filing system. Income taxes also include foreign income taxes.

The significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Deferred tax assets:						
Provision for retirement benefits	¥	1,500	¥	1,443	$	14,971
Provision for loans receivable agreement fee		1,089		—		10,869
Gain on sale of land		—		775		—
Foreign income taxes		369		276		3,683
Provision for repairs		776		483		7,745
Provision for special repairs		242		259		2,415
Depreciation		643		573		6,417
Valuation difference on available-for-sale securities		435		—		4,341
Other		1,037		1,574		10,350
Subtotal		6,096		5,387		60,844
Valuation allowance		(2,991)		(3,985)		(29,853)
Total deferred tax assets		3,104		1,402		30,981
Deferred tax liabilities:						
Valuation difference on available-for-sale securities		—		(37)		—
Valuation difference of assets of consolidated subsidiaries		(11,949)		(11,949)		(119,263)
Retained earnings of foreign subsidiaries		(2,603)		(2,490)		(25,980)
Other		(660)		(558)		(6,587)
Total deferred tax liabilities		(15,213)		(15,036)		(151,841)
Net deferred tax liabilities	¥	(12,108)	¥	(13,634)	$	(120,850)

The above net deferred tax liabilities are recorded under the following accounts in the accompanying consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current assets – Deferred tax assets	¥ 938	¥ 339	$ 9,362
Long-term liabilities – Deferred tax liabilities	13,047	13,974	130,222

Reconciliation between the statutory income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2008 and 2007 is as follows:

	2008	2007
Statutory income tax rate	40.4%	40.4%
Movement in valuation allowance	(8.3)	(10.7)
Adjustment on foreign income	9.2	—
Equity in earnings of affiliates	(0.6)	—
Dividend income	(1.0)	—
Foreign income taxes	—	0.4
Loss on sales of the Company’s shares held by subsidiaries	—	(2.0)
Other	0.4	(0.2)
Effective income tax rate	40.1%	27.9%

8. Provision for Retirement Benefits

As of March 31, 2008 and 2007, four consolidated subsidiaries had defined benefit retirement plans. The plans consist of tax-qualified pension plans, mutual aid plans for small and medium size companies and lump-sum severance plans, which cover substantially all employees who are entitled upon retirement to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rate of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the defined benefit retirement plans and the amounts recognized in the consolidated balance sheets as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Retirement benefit obligation	¥ (6,066)	¥ (6,047)	$ (60,544)
Fair value of plan assets	2,004	2,224	20,001
Unfunded retirement benefit obligation	(4,062)	(3,822)	(40,542)
Unrecognized actuarial loss	324	67	3,233
Net retirement benefit obligation	(3,737)	(3,755)	(37,299)
Prepaid pension expenses	394	367	3,932
Accrued retirement benefits	¥ (4,132)	¥ (4,122)	$ (41,241)

For the years ended March 31, 2008 and 2007, three of the consolidated subsidiaries adopted a simplified method in computing their retirement benefit obligations as permitted by accounting principles and practices generally accepted in Japan.

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Service cost	¥ 268	¥ 246	$ 2,674
Interest cost	108	105	1,077
Expected return on plan assets	(34)	(31)	(339)
Amortization of actuarial loss	51	57	509
Total	¥ 394	¥ 377	$ 3,932

Retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are included in service cost.

The assumptions used in accounting for the plan not accounted for by the simplified method were as follows:

	2008	2007
Allocation of estimated amount of retirement benefits	Allocated to each period by the straight-line method	Allocated to each period by the straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.6%	1.6%
Amortization periods for unrealized actuarial gain or loss	10 years	10 years
Amortization periods for prior service costs	10 years	—

9. Derivative Instruments and Hedging Activities

Two consolidated subsidiaries enter into derivative transactions, such as foreign exchange forward contracts, foreign currency options, interest rate swaps, and commodity swaps. Foreign exchange forward contracts and foreign currency options are utilized to reduce the risk of changes in foreign exchange rates for import transactions and export transactions in the normal course of business. Commodity swaps are utilized to manage the market risk associated with forecasted transactions of crude oil and product. Interest rate swaps are utilized to convert variable interest rates on loans payable to fixed interest rates for 3 to 5 years.

As described in Note 2 (p), the subsidiaries apply hedge accounting for such hedging activities utilizing derivatives if certain hedge criteria are met, which includes an assessment of hedge effectiveness at inception of the hedge and on an ongoing basis.

Approval of the management of the subsidiaries is required before derivative transactions are executed by the respective finance department of the subsidiaries. The management of the subsidiaries considers that the credit risks related to derivative transactions are remote because the counterparties are restricted to credit-worthy financial institutions.

10. Net assets

The Japanese Corporate Law (the “Law”) became effective on May 1, 2006, replacing the Japanese Commercial Code (“the Code”). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Law, the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10%

of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Both of these appropriations generally require a resolution of the shareholders' meeting.

All additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 25, 2008, the shareholders approved cash dividends amounting to ¥1,158 million ($11,558 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

Treasury stock

The number of treasury stock owned by the Companies as of March 31, 2008 and 2007 were 965,848 and 965,541 capital stock shares respectively. During prior fiscal year, the Company sold treasury stock to Japan Airlines International Co., Ltd., and Kyushu Oil Co., Ltd., 1,034 thousand shares and 1,000 thousand shares, respectively.

11. Loan Commitment Agreement

As a creditor:

Arabian Oil Co., Ltd. ("AOC"), a consolidated subsidiary, has entered into a loan commitment agreement with Kuwait Gulf Oil Company ("KGOC"). The outstanding balance of the loan commitment as of March 31, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Total commitments available	¥ 75,142	¥ 88,537	$ 749,995
Amount utilized	75,142	61,598	749,995
Balance available	¥ —	¥ 26,939	$ —

As a debtor:

AOC entered into loan commitment agreements with eight banks aggregating ¥75,142 millions ($749,995 thousand) and ¥88,537 million as of March 31, 2008 and 2007, respectively, to cover the loan commitments granted to KGOC as noted above. In addition, Fuji Oil Co., Ltd., a consolidated subsidiary, entered into loan commitment agreements with ten banks aggregating ¥45,000 million ($449,146 thousand), ¥30,000 million of which is restricted to the import usance loans payable, and ¥40,000 million as of March 31, 2008 and 2007, respectively, to finance working capital requirements. The outstanding balance of such loan commitments as of March 31, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Total commitments available	¥ 120,142	¥ 128,537	$ 1,199,141
Amount utilized	100,359	61,598	1,001,686
Balance available	¥ 19,783	¥ 66,939	$ 197,454

12. Contingent Liabilities

The Companies had the following guarantees of liabilities as of March 31, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
As guarantors of indebtedness of :			
Employees (for home purchase)	¥ 319	¥ 420	$ 3,183

13. Treatment of Domestic Assets in Japan on Termination of Concession Agreement with Government of Kuwait

Arabian Oil Co., Ltd. (“AOC”), a wholly-owned subsidiary, reached an agreement with the Government of Kuwait regarding the treatment of assets located in Japan and expenditures for construction in progress in Kuwait as of January 4, 2003 on termination concession agreement and the final settlement was completed in January 2008. AOC consequently recorded a gain of ¥267 million ($2,664 thousand) on termination of concession agreement for the year ended March 31, 2008.

14. Expiration of the Production Sharing Agreement of New Huanan Oil Development Co., Ltd.

New Huanan Oil Development Co, Ltd., a subsidiary of the Arabian Oil Company., Ltd. has a production sharing agreement with China National Offshore Oil Corporation and continues to produce at the Lufeng 13-1 oil field in the South China Sea. This agreement will expire in February 2009.

15. Termination of the Technical Services Agreement with KGOC

The technical services agreement between Arabian Oil Co., Ltd., a wholly-owned subsidiary and Kuwait Gulf Oil Company (KGOC) expired on January 4, 2008. This agreement constituted a part of the agreement structure with Kuwait, replacing the old concession agreement. Provision for loans receivable agreement expenses is provided for a part of the loan agreement expense of ¥2,697 million ($26,918 thousand) relating to the Kuwait contracts, deemed irrecoverable due to the expiration of the technical service agreement.

16. Market International Commercial Arbitration with Kuwait Petroleum Corporation (KPC)

In December 2007, Kuwait Petroleum Corporation (KPC) filed the request of arbitration to the London Court of International Arbitration (LCIA) regarding the default of minimum purchase quantity requirements by Arabian Oil Co., Ltd. in the oil purchase agreement between the Arabian Oil Co., Ltd. and Kuwait Petroleum Corporation. Arabian Oil Co., Ltd. filed a response of no default to LCIA and the matter is still in arbitration.

17. Leases

The following pro forma amounts represent the acquisition costs, accumulate depreciation and net book value of leased assets as of March 31, 2008 and 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases as allowed under Japanese GAAP.

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Acquisition costs:						
Machinery, equipment and vehicles	¥	40	¥	32	$	399
Other		328		339		3,273
	¥	368	¥	371	$	3,673
Accumulated depreciation:						
Machinery, equipment and vehicles	¥	17	¥	7	$	169
Other		183		151		1,826
	¥	201	¥	159	$	2,006
Net book value:						
Machinery, equipment and vehicles	¥	23	¥	24	$	229
Other		144		188		1,437
	¥	167	¥	212	$	1,666

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements and the related depreciation expense for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Lease payments	¥	86	¥	73	$	858
Depreciation expense		86		73		858

Depreciation expense is computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum lease payments as of March 31, 2008 and 2007 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2008		2007		2008	
Due within one year	¥	71	¥	81	$	708
Due after one year		96		131		958
Total	¥	167	¥	212	$	1,666

18. Cash and Cash Equivalents

Reconciliation of “Cash and cash equivalents” in the consolidated statements of cash flows and “Cash and deposits” in the consolidated balance sheets as of March 31, 2008 and 2007, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash and deposits	¥ 31,550	¥ 25,528	$ 314,901
Short-term investment securities	1,274	1,536	12,715
Subtotal	32,825	27,064	327,627
Time deposits maturing over three months	(10)	(10)	(99)
Debt securities maturing over three months	(1,004)	(1,305)	(10,020)
Cash and cash equivalents	¥ 31,810	¥ 25,749	$ 317,496

19. Research and Development Expenses

Research and development expenses are expensed as incurred. Research and development expenses included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2008 and 2007 amounted to ¥37 million ($369 thousand) and ¥27 million, respectively.

20. Per Share Data

	Yen		U.S. dollars (Note 1)
	2008	2007	2008
Net assets per share	¥ 1,867.13	¥ 1,840.02	$ 18.63
Basic net income per share	60.41	247.53	0.60
Cash dividends per share attributable to the year	15.00	15.00	0.14

Net assets per share is computed based on the net assets available for distribution to the shareholders of capital stock and the number of shares of capital stock outstanding at the year end.

Basic net income per share is computed based on the net income available for distribution to shareholders of capital stock and the weighted-average number of shares of capital stock outstanding during the year. Diluted net income per share has been omitted because no potentially dilutive instruments were outstanding during the years ended March 31, 2008 and 2007.

Cash dividends per share represent the cash dividends declared as applicable to the respective years, including dividends to be paid after the end of the year.

21. Segment Information

Business segments

Business segment information for the Companies as of and for the years ended march 31, 2008 and 2007 is summarized as follows:

	Millions of yen					
	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	2008					
I.Sales and operating income						
Sales to third parties	¥ 282,041	¥ 9,658	¥ 639,038	¥ 930,738	¥ —	¥ 930,738
Intersegment sales	8,192	—	—	8,192	(8,192)	—
Total sales	290,234	9,658	639,038	938,931	(8,192)	930,738
Operating expenses	290,944	8,324	625,614	924,883	(8,099)	916,783
Operating income	¥ (710)	¥ 1,334	¥ 13,423	¥ 14,047	¥ (92)	¥ 13,954
II.Assets, depreciation and capital expenditures						
Total assets	¥ 114,188	¥ 13,799	¥ 327,025	¥ 455,013	¥ (3,121)	¥ 451,892
Depreciation	12	747	5,456	6,216	36	6,253
Capital expenditures	82	1,065	18,682	19,830	137	19,967

	Thousands of U.S. dollars (Note 1)					
	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	2008					
I.Sales and operating income						
Sales to third parties	$ 2,815,061	$ 96,396	$ 6,378,261	$ 9,289,729	$ —	$ 9,289,729
Intersegment sales	81,764	—	—	81,764	(81,764)	—
Total sales	2,896,836	96,396	6,378,261	9,371,504	(81,764)	9,289,729
Operating expenses	2,903,922	83,082	6,244,275	9,231,290	(80,836)	9,150,444
Operating income	$ (7,086)	$ 13,314	$ 133,975	$ 140,203	$ (918)	$ 139,275
II.Assets, depreciation and capital expenditures						
Total assets	$ 1,139,714	$ 137,728	$ 3,264,048	$ 4,541,501	$ (31,150)	$ 4,510,350
Depreciation	119	7,455	54,456	62,042	359	62,411
Capital expenditures	818	10,629	186,465	197,923	1,367	199,291

	Millions of yen					
	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	2007					
I.Sales and operating income						
Sales to third parties	¥ 227,510	¥ 10,322	¥ 563,187	¥ 801,020	¥ —	¥ 801,020
Intersegment sales	14,945	—	3	14,949	(14,949)	—
Total sales	242,456	10,322	563,191	815,970	(14,949)	801,020
Operating expenses	242,650	4,197	543,465	790,313	(14,909)	775,403
Operating income	¥ (194)	¥ 6,124	¥ 19,725	¥ 25,656	¥ (39)	¥ 25,616
II.Assets, depreciation and capital expenditures						
Total assets	¥ 105,990	¥ 13,956	¥ 279,849	¥ 399,796	¥ (14,364)	¥ 385,431
Depreciation	7	1,080	3,463	4,550	16	4,567
Impairment loss	—	—	27	27	—	27
Capital expenditures	24	4,177	22,318	26,521	21	26,542

Notes :1. Businesses are classified considering the business structure and product and service lines.

2. Main products and services in each business segment are as follows:
Khafji-related: Dispatch of engineers, Khafji crude oil, Hout crude oil
Oil/gas exploration and production: Natural gas, natural gas liquid, crude oil
Oil refinery, transportation and sales; Crude oil, petrochemical products (gasoline, naphtha, etc.)

3. Non-allocable operating expenses (¥893 million in 2008) included in "Eliminations and corporate" are mainly administrative expenses related to the corporate general affairs function of the parent company.

4. Corporate assets (¥4,292 million in 2008) included in "Eliminations and corporate" mainly consist of surplus funds, including cash and deposits and investment securities of the parent company.

5. Change in accounting policies
(Fiscal 2008)
Change in depreciation methods used for property, plant and equipment
As discussed in the Summary of Significant Accounting Policies, effective from this fiscal year, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised corporate tax law. As a result of this change, operating expenses increased by ¥41 million for Oil Refinery and Sales, and operating, income decreased by the same amount.
(Fiscal 2007)
In the previous fiscal year, sales related to Khafji crude oil, which is distributed by Arabian Oil Co., Ltd., through Petro Progress Pte Ltd., were included in "Oil refinery and sales" using the ultimate distributors to the customers as the basis. However, effective current fiscal year, such sales are included in "Khafji related" since such sales are substantially consignment sales and the volume of the transactions are increasing. The impacts on the sales and assets for the previous fiscal year were ¥46,816 million and ¥6,024 million, respectively, if the new business segmentation had been applied in the previous fiscal year. The effect of amount to the operating income of each segment was immaterial.

6. Additional information
Accounting for residual value of property, plant and equipment
As discussed in the Summary of Significant Accounting Policies, effective from this fiscal year, after having depreciated property, plant and equipment acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior corporate tax law, the Company and its domestic consolidated subsidiaries depreciate 5 percent of the remaining acquisition cost less minimum salvage value, using a straight line method over 5 years and booked as depreciation expense, according to the corporation tax law as revised. As a result of this change, operating expenses increased by ¥1,670 million for Oil Refinery and Sales, and operating income decreased by the same amount.

7. Technical services agreement with Kuwait Gulf Oil Company (KGOC)
The technical services agreement between Arabian Oil Co., Ltd., a wholly-owned subsidiary, and Kuwait Gulf Oil Company (KGOC) expired on January 4, 2008.
In business segment "Khafji-related", total sales and operating income related to this agreement were ¥1,851 million and ¥1,050 million, respectively, in the current fiscal year.

8. New Huanan Oil Development Co., Ltd., the subsidiary of the Arabian Oil Co., Ltd. has a production sharing agreement with China National Offshore Oil Corporation and continues to produce at of the Lufeng 13-1 oil field in the South China Sea. This agreement will expire in February 2009. The operating result of New Huanan Oil Development Co., Ltd. is included in the business segment of "Oil/gas exploration and production", and its total sales and operating income were ¥7,158 million and ¥3,369 million, respectively, in the current fiscal year.

Geographical segments

Geographical segment information for the Companies for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen						
	Japan	Asia	Middle East	Europe	Total	Eliminations and corporate	Consolidated
	2008						
I.Sales and operating income							
Sales to third parties	¥ 871,635	¥ 55,718	¥ 1,851	¥ 1,532	¥ 930,738	¥ —	¥ 930,738
Intersegment sales	39,506	455,411	—	967	495,884	(495,884)	—
Total sales	911,141	511,130	1,851	2,499	1,426,623	(495,884)	930,738
Operating expenses	900,991	506,247	3,239	2,097	1,412,575	(495,791)	916,783
Operating income	¥ 10,150	¥ 4,882	¥ (1,387)	¥ 402	¥ 14,047	¥ (92)	¥ 13,954
II.Assets	¥ 420,924	¥ 73,441	¥ 5,887	¥ 3,541	¥ 503,793	¥ (51,901)	¥ 451,892

	Thousands of U.S. dollars (Note 1)						
	Japan	Asia	Middle East	Europe	Total	Eliminations and corporate	Consolidated
	2008						
I.Sales and operating income							
Sales to third parties	$ 8,699,820	$ 556,123	$ 18,474	$ 15,290	$9,289,729	$ —	$ 9,289,729
Intersegment sales	394,310	4,545,473	—	9,651	4,949,436	(4,949,436)	—
Total sales	9,094,131	5,101,606	18,474	24,942	14,239,175	(4,949,436)	9,289,729
Operating expenses	8,992,823	5,052,869	32,328	20,930	14,098,961	(4,948,507)	9,150,444
Operating income	$ 101,307	$ 48,727	$ (13,843)	$ 4,012	$ 140,203	$ (918)	$ 139,275
II.Assets	$ 4,201,257	$ 733,017	$ 58,758	$ 35,342	$5,028,376	$(518,025)	$ 4,510,350

	Millions of yen						
	Japan	Asia	Middle East	Europe	Total	Eliminations and corporate	Consolidated
	2007						
I.Sales and operating income							
Sales to third parties	¥ 659,074	¥ 137,345	¥ 2,787	¥ 1,812	¥ 801,020	¥ —	¥ 801,020
Intersegment sales	113,116	328,637	—	—	441,753	(441,753)	—
Total sales	772,191	465,982	2,787	1,812	1,242,774	(441,753)	801,020
Operating expenses	754,179	459,786	1,085	1,170	1,216,222	(440,818)	775,403
Operating income	¥ 18,012	¥ 6,195	1,702	¥ 641	¥ 26,552	¥ (935)	¥ 25,616
II.Assets	¥ 344,695	¥ 56,986	¥ 6,422	¥ 2,853	¥ 401,958	¥ (25,527)	¥ 385,431

Notes: 1. The geographical segments are determined based on the location where the sales are recorded.

2. Countries and regions are classified on the basis of geographic proximity.

3. Principal countries included in each geographic segment are as follows:

(1)Asia Singapore, People's Republic of China

(2)Middle Ease Kuwait, Saudi Arabia, Egypt

(3)Europe Norway

4. Non-allocable operating expenses (¥893 million in 2008) included in "Eliminations and corporate" are mainly administrative expenses related to the corporate general affairs function of the parent company.

5. Corporate assets (¥4,292 million in 2008) included in "Eliminations and corporate" mainly consist of surplus funds, including cash and deposits and investment securities of the parent company.

6. Change in accounting policies

(Fiscal 2008)

Change in depreciation methods used for property, plant and equipment

As discussed in the Summary of Significant Accounting Policies, effective from this fiscal year, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, *2007 in accordance with the revised corporate tax law. As a result of this change, operating expense increased by ¥41 million for "Japan", and operating income decreased by the same amount.*

(Fiscal 2007)

In the previous fiscal year, sales related to Khafji crude oil, which is distributed by Arabian Oil Co., Ltd., through Petro Progress Pte Ltd., were included in "Oil refinery and sales" using the ultimate distributors to the customers as the basis. However, effective current fiscal year, such sales are included in "Khafji related" since such sales are substantially consignment sales and the volume of the transactions are increasing. The impacts on the sales and assets for the previous fiscal year were ¥46,816 million and ¥6,024 million, respectively, if the new business segmentation had been applied in the previous fiscal year. The effect of amount to the operating income of each segment was immaterial.

7. Additional information

Accounting for residual value of property, plant and equipment

As discussed in the Summary of Significant Accounting Policies, effective from this fiscal year, after having depreciated property, plant and equipment acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior corporate tax law, the Company and its domestic consolidated subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using a straight line method over 5 years and booked as depreciation expense, according to the corporation tax law as revised. As a result of this change, operating expense increased by ¥1,670 million for "Japan", and operating income decreased by the same amount.

8. The technical services agreement with Kuwait Gulf Oil Company (KGOC)

The technical services agreement between Arabian Oil Co., Ltd., a wholly-owned subsidiary, and Kuwait Gulf Oil Company (KGOC) expired on January 4, 2008.

In geographical segment "Middle east", total sales and operating income related to this agreement were ¥1,851 million yen and ¥1,050 million yen, respectively, in the current fiscal year.

9. New Huanan Oil Development Co., Ltd., a subsidiary of the Arabian Oil Co., Ltd. has a production sharing agreement with China National Offshore Oil Corporation and continues to produce at the Lufeng 13-1 oil field in the South China Sea. This agreement will expire in February 2009. The operating result of New Huanan Oil Development Co., Ltd. is included in geographical segment "Asia", and its total sales and operating income were ¥7,158 million yen and ¥3,369 million yen, respectively, in the current fiscal year.

Overseas sales

Overseas sales information for the Companies for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen			
	Asia	Middle East	Others	Total
	2008			
Overseas net sales	¥ 231,549	¥ 1,851	¥ 3,753	¥ 237,155
Consolidated net sales	—	—	—	930,738
Overseas net sales as a percentage of total consolidated net sales	24.88%	0.20%	0.40%	25.48%

	Thousands of U.S. dollars (Note 1)			
	Asia	Middle East	Others	Total
	2008			
Overseas net sales	$ 2,311,098	$ 18,474	$ 37,458	$ 2,367,052
Consolidated net sales	—	—	—	9,289,729
Overseas net sales as a percentage of total consolidated net sales	24.88%	0.20%	0.40%	25.48%

	Millions of yen			
	Asia	Middle East	Others	Total
	2007			
Overseas net sales	¥ 204,027	¥ 2,787	¥ 2,684	¥ 209,499
Consolidated net sales	—	—	—	801,020
Overseas net sales as a percentage of total consolidated net sales	25.47%	0.35%	0.34%	26.15%

Notes: 1. Regions. are classified on the basis of geographic proximity.

2. Principal countries included in each geographic segment are as follows:

(1)Asia Korea, Taiwan, India

(2)Middle Ease Kuwait, Saudi Arabia

(3)Others U.S.A., Norway

3. Overseas net sales are net sales of the consolidated subsidiaries in countries and regions outside Japan.

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