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.

This page intentionally left blank.

This page intentionally left blank.

AOC Holdings, Inc.

Tennozu Parkside Building
5-8, Higashishinagawa 2-chome,
Shinagawa-ku, Tokyo 140-0002, Japan
www.aochd.co.jp