AOC Holdings, Inc.

ANNUAL REPORT 2007

Fiscal year ended March 31, 2007



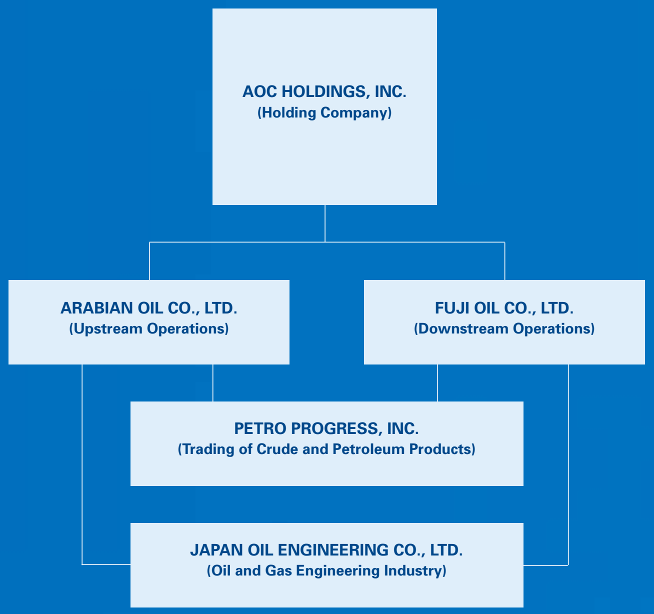




Profile

AOC Holdings, Inc., the administrative head of the AOC Holdings Group, 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 oil operations respectively, and form the core of the Group. By managing these companies efficiently, AOC Holdings aims to optimize management resources to enhance Groupwide operations. In line with this basic management policy, we strive to maximize corporate value for our shareholders, investors, customers and other stakeholders.

The Group works to provide a stable supply of oil, natural gas and petroleum products for industrial as well as residential and commercial use. By achieving this goal, we contribute to the realization of a prosperous society and a comfortable environment.



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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.

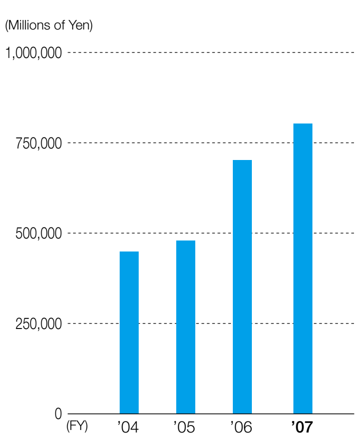
Financial Highlights

(Fiscal years ended March 31)

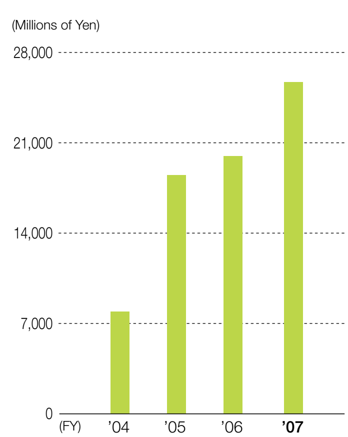
	Millions of Yen				Thousands of U.S. Dollars (Note 1)
	2004	2005	2006	2007	2007
Net sales	¥447,460	¥477,295	¥701,352	**¥801,020**	**$6,785,430**
Operating income	7,820	18,447	19,864	**25,616**	**216,993**
Income before income taxes	6,594	21,418	43,875	**27,205**	**230,453**
Net income	4,402	17,248	34,018	**18,999**	**160,940**
Capital expenditures	1,898	3,986	11,771	**26,542**	**224,837**
Depreciation and amortization	4,930	4,007	4,038	**4,580**	**38,797**
At year-end:					
Total assets	272,075	293,404	349,835	**385,431**	**3,264,981**
Total shareholders' equity	63,255	76,351	120,017	**—**	**—**
Total net assets	—	—	—	**143,261**	**1,213,562**
Interest-bearing debt	115,279	113,419	108,918	**136,002**	**1,152,071**
(*)	98,771	89,901	77,609	**82,475**	**698,645**
Debt–equity ratio (times)	1.82	1.49	0.91	**0.96**	
(*)	1.56	1.18	0.65	**0.58**	
Per share (yen and U.S. dollars):					
Net income	¥65.11	¥255.67	¥484.21	**¥247.53**	**$2.10**
Cash dividends paid	0	10	15	**15**	**0.13**
Number of employees	648	616	625	**629**	

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

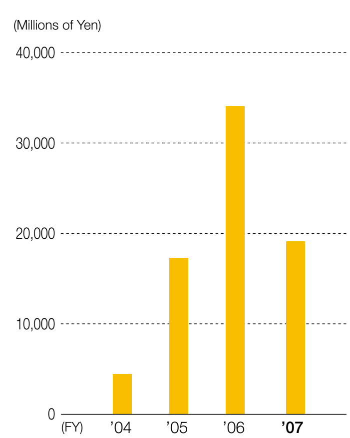
Net sales



Operating income



Net income



Message from the President

Since its establishment in January 2003 by the integration of Arabian Oil Company, Ltd. (AOC), and Fuji Oil Company, Ltd. (FOC), AOC Holdings, Inc. (AOCHD), has retained its core objective of optimizing management of Groupwide operations, ranging from upstream to downstream oil businesses. This policy led to the development of the Group's medium-term management strategy that stresses three key points: a stable base to generate sales and profits, aggressive investment, and maintenance of a sound financial structure. We view these objectives as key to establishing the foundations for sustained growth.

The Year in Review

In fiscal 2007, ended March 31, 2007, global demand for oil was affected by such factors as U.S. economic adjustments and unusually warm winter weather in the northern hemisphere, which curtailed demand. Conversely, Asia-centered economic expansion prompted demand growth, which ultimately expanded 1%, compared with the preceding term. Under these circumstances, the price of West Texas Intermediate crude oil reached a record high of $66 per barrel at the beginning of the fiscal year. Strong economic growth pushed prices higher, establishing a new high of $77 in August. At that point, however, the market began to calm, resulting in an average price of $64 for the fiscal year. In Japan, the economy remained in a recovery phase, prompting demand for petroleum products, but a shift toward the use of gas, coal and other types of fuel, combined with some of the warmest winter weather on record, caused fuel oil demand to decline 5% year-on-year.

In this environment, the Group posted a 14.2% increase in consolidated net sales to ¥801.0 billion. Operating income rose 29.0% to ¥25.6 billion, and ordinary income improved 18.4% to ¥27.4 billion, exceeding initial forecasts. Net income amounted to ¥19.0 billion, a 44.2% drop, reflecting the absence of such factors as a ¥22.9 billion gain on sales of investment securities, which the Group posted in the previous term.

Medium-Term Business Plan

In November 2006, we put in place a new medium-term business plan to guide the Group during the three years from fiscal 2008, ending March 31, 2008 through fiscal 2010, ending March 31, 2010. This plan calls for us to maintain a sound financial structure while investing aggressively in upstream and downstream operations to ensure the ongoing growth of the Group's operations. Specifically, the plan establishes targets of ¥20 billion in ordinary income (excluding inventory valuation gain/loss), total investment of ¥100 billion over the course of this period and a debt-equity ratio of less than 0.8. We are determined to work intently toward these goals.

Q What are some goals of the medium-term business plan for fiscal 2008 through fiscal 2010?

A In upstream oil operations, we plan to invest aggressively in new projects. In downstream operations, we will implement measures to counter the shifting demand structure that is resulting in oversupplies of heavy oil. We will reinforce our sales and profit structure in the process.

Q In upstream operations, you plan to invest heavily in new projects. Could you give some specific examples of projects you are involved in now, as well as future projects?

A AOC subsidiary New Huanan Oil Development Company, Ltd., and Norske AEDC AS are maintaining revenues from their existing business, and in September 2006 an oil-producing field on a development scale was confirmed in the Northwest October Block at the Gulf of Suez in the Arab Republic of Egypt. We are working toward the early development of this field, with the aim of starting production in fiscal 2009.

We also plan to leverage technologies that allow better oil and gas recovery, and we will invest aggressively in new business in the area of heavy distillates, where AOC has solid expertise. In addition, we aim to invest in production and development projects that have a low level of risk and that will allow us to recover our initial investment quickly. These projects will extend our operational base and boost profitability.

Q In downstream operations, what exactly are the countermeasures you are planning with regard to the oversupply of heavy oil?

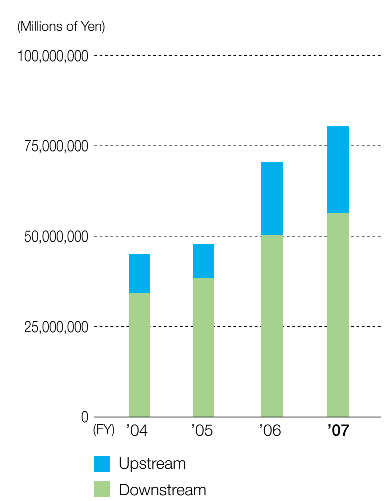
A In Japan, we expect demand for petroleum products to decline, and the demand structure will change as well. We believe demand will fall off most notably for heavier distillates, such as low-sulfur fuel oil C, high-sulfur fuel oil C and fuel oil A. Let me describe some of FOC's measures to address this situation.

First, in response to falling demand for low-sulfur fuel oil C, FOC will expand its fluid catalytic cracking (FCC) facilities, which can convert low-sulfur fuel oil C that was destined for electric power generation into high octane gasoline and petrochemical materials. Construction is now under way, and FOC expects to boost daily production capacity from 18,000 barrels to 36,000 barrels a day by April 2008.

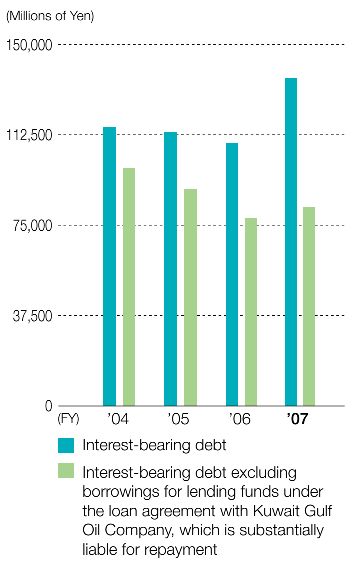
In July 2009, FOC also plans to raise the capacity of its vacuum residue thermal cracking unit ("Eureka" thermal cracking unit) from its current capacity of 24,000 barrels a day to 30,000 barrels. This increase will allow the company to reduce its production of high-sulfur fuel oil C even further, while raising production of lighter distillates.

Responding to oversupplies of fuel oil A, in July 2009, FOC plans to begin

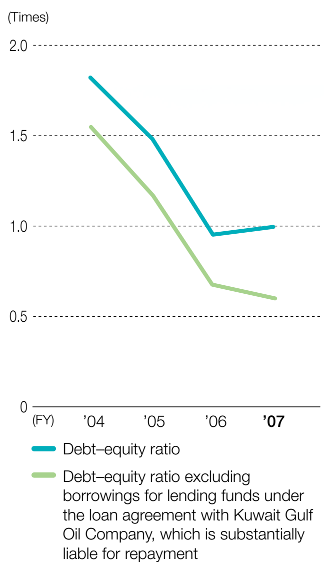
Net Sales



Interest-bearing debt



Debt–equity ratio



operating a new hydrogen production facility. This facility will allow the company to employ the hydrodesulfurization process to convert fuel oil A into lighter products.

By implementing these plans, FOC will shift its production toward even lighter products and increase the value it adds. At the same time, the company will be able to process heavier feedstock grades, which translates to lower crude oil costs and therefore, higher profitability.

Q With a growing price differential between heavy and lighter grades of crude, the Group's refinery business have a relative advantage. Could you provide any details?

A In general, heavier grades can be obtained less expensively than lighter grades. The products that are refined from heavy grades are also less expensive, and demand is sluggish for a relatively high percentage of these products. FOC has a "Eureka" thermal cracking unit that can convert these heavy products to lighter products, such as gasoline and diesel fuel. The company can also process heavier feedstock grades than its competitors, which widens the gap between the cost at which it procures crude oil and the price it is able to obtain from selling refined products. This situation results in higher profitability.

To illustrate, in fiscal 2007, the crude oil that FOC refined had average API gravity of 32.8 degrees while the average gravity of API for refineries throughout Japan was 35.7 degrees.

September 2007

Fumio Sekiya
President and Representing Director

Medium-Term Business Plan

Objective of Medium-Term Business Plan

Profit Target

Ordinary income of ¥15 billion → **¥20 billion**
(excluding inventory valuation gain/loss)

Investment Plan

- A total of more than ¥100 billion, ¥65 billion for upstream business and ¥42 billion for downstream business
- ¥90 billion for the enhancement of competitiveness and increase of profitability

Maintenance of Firm Financial Base

- Maintaining a firm financial base to keep a debt-equity ratio at less than 0.8

Business Plan for Upstream Oil Operations

Existing Business Activities

- Continuing the Al-Khafji Joint Operations-related business activities by renewing the current Technical Service Agreement with Kuwait, which is to expire in January 2008
- Maintaining the existing oil development and production business in the South China Sea and the Norwegian North Sea
- Maximizing oil recovery until February 2009 when the contractual production period of the oilfield expires in the South China Sea

On-going Projects in Commercial Business

- Succeeded in drilling the first exploratory well in September 2006, when it discovered oil at 4,900 barrels per day in the Northwest October Block located in Gulf of Suez, Egypt
- Proceeding drilling of additional wells and construction of production facilities

New Projects

- Acquiring oil and gas interests by placing priority on projects of relatively low risk and early revenue generation, such as those for oil and/or gas production
- Developing "discovered but undeveloped" fields, exploration of areas of high potential for bearing oil and/or gas
- Planning a project with "EUREKA" technology

Business Plan for Downstream Oil Operations

Safe and Stable Operations and Establishment of Optimum Production System

- Ensuring safe and stable operations by renewing aged facilities in a proper and timely manner

Upgrading of Production Facilities for Lighter Grade and Higher Value-Added Products in Response to Change in Demand Structure

- Reinforcing the capacity of the existing "Eureka" thermal cracking unit and vacuum distillation unit to realize the "bottomless operation"

Review of Operations

UPSTREAM OPERATIONS

Arabian Oil Co., Ltd. (AOC), is the Group's core entity involved in the exploration, development and production of oil and natural gas. AOC therefore helps ensure a stable energy supply to small, resource-poor Japan. AOC entered into concession agreements with the government of Saudi Arabia in 1957 and the Kuwaiti government 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. During the nearly half a century that has passed since AOC became the first Japanese company in the overseas oil development business, AOC has produced a total of 3.9 billion barrels of oil, 2.8 billion barrels of which were sent to Japan.

The concession agreement with Saudi Arabia expired in February 2000, as did the agreement with Kuwait in January 2003. Nevertheless, AOC has continued to participate in oil field operations in the offshore Divided Zone since January 2003 based on a technical services agreement and a crude purchasing agreement with Kuwait.

Through subsidiaries, AOC also develops, produces and sells oil and natural gas from areas outside the Middle East. The New Huanan Oil Development Company, Ltd., and Norske AEDC AS conduct these activities in the South China Sea and the Norwegian North Sea, respectively.

Khafji-Related Operations

Based on a technical services agreement with Kuwait Gulf Oil Company (KGOC), during the year AOC continued its involvement in oil operations in the Kuwait/Saudi Arabia offshore Divided Zone by dispatching personnel to the Al-Khafji Joint Operations. Crude oil purchased in accordance with an oil purchase agreement with Kuwait Petroleum Corporation was sold to customers in Japan and overseas.

Consequently, segment sales came to ¥227.5 billion. However, this business posted an operating loss of ¥0.2 billion, owing to a decrease in the number of personnel dispatched under the technical services agreement, compounded by unfavorable crude oil selling conditions.

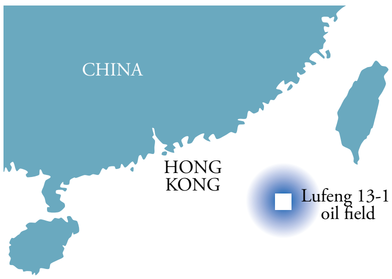
The company aims to renew the technical services agreement with Kuwait as the current contract will expire in January 2008.

Crude Oil Sales Volume (Fiscal years ended March 31)

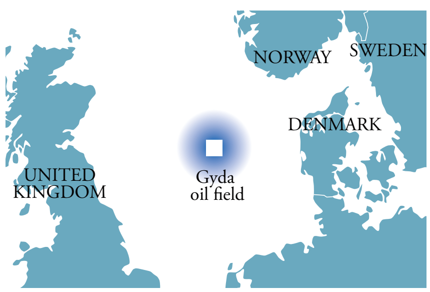
(Thousands of barrels per day)	2004	2005	2006	**2007**
Khafji crude oil	93.4	78.7	93.2	**95.2**
Hout crude oil	4.9	6.0	5.0	**5.0**

Arabian Gulf

South China Sea



Norwegian North Sea



Oil and Gas Exploration, Development and Production

During the year, the New Huanan Oil Development Company, Ltd., continued the development, production and sale of Nanhai Medium crude oil from the Lufeng 13-1 oil field in the South China Sea, and Norske AEDC AS conducted these activities for Ekofisk crude oil in the Gyda oil field in the Norwegian North Sea.

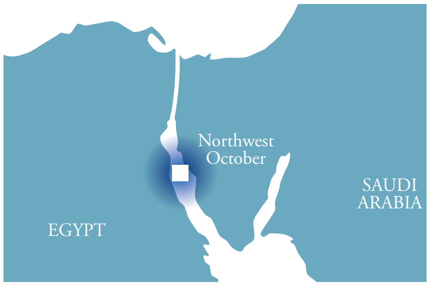
Pushing forward with exploration activities in the Northwest October Block in the Gulf of Suez, Egypt, based on a production sharing agreement with the Egyptian government and Egyptian General Petroleum Corporation concluded in July 2005, AOC confirmed an oil field capable of producing 4,900 barrels per day in September 2006. The company plans to begin production at

this field within fiscal 2009, ending March 31, 2009.

In addition, in October 2006, AOC renewed and extended a memorandum of understanding for one year with the Iraqi Ministry of Oil to assist with oil industry rehabilitation efforts there.

During the year, segment sales and operating income came to ¥10.3 billion and ¥6.1 billion respectively. These are attributed to higher crude oil prices during the period.

Egyptian Gulf of Suez



Crude Oil Sales Volume (Fiscal years ended March 31)

(Thousands of barrels per day)	2004	2005	2006	**2007**
Nanhai Medium crude oil	3.4	3.6	2.9	**3.1**
Ekofisk crude oil	0.5	0.4	0.7	**0.6**

Fuji Oil Co., Ltd. (FOC), was established in 1964 through investment by such companies as AOC, The Tokyo Electric Power Company, Inc. (TEPCO), and Sumitomo Chemical Co., Ltd. Four years later, FOC's refinery complex in Sodegaura, Chiba Prefecture, began supplying TEPCO with fuel oil for electric power generation, providing Sumitomo Chemical with naphtha for conversion into petrochemicals at an industrial complex where the refinery is located, and delivering petroleum products to Kyodo Oil Co., Ltd. (now, Japan Energy Corporation). The Sodegaura refinery has evolved into an advanced, large-scale facility that fills a vital role in supplying petroleum products to the adjacent mass energy-consuming Tokyo metropolitan area. 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)

	2004	2005	2006	**2007**
Gasoline	1,630	1,640	1,771	**1,888**
Naphtha	289	328	347	**489**
Jet fuel	1,008	953	976	**1,246**
Kerosene	422	438	499	**340**
Diesel fuel (Gas oil)	1,356	1,126	1,119	**1,395**
Heavy fuel oil A	452	518	580	**334**
Heavy fuel oil C	1,383	1,142	1,178	**726**
Benzene	148	176	148	**153**
Xylene	279	297	283	**311**
Crude oil for burning	50	—	—	**—**
Other	564	576	523	**557**
Subtotal	7,582	7,193	7,424	**7,439**
Barter deals	1,033	1,533	1,333	**1,299**
Total	8,616	8,726	8,757	**8,738**
Of which, for export (excluding bunker fuel)	295	166	105	**132**

Petroleum Refining/Sales

Based on an equity and business alliance with Showa Shell Sekiyu K.K., FOC began full-scale operations to supply the company with petroleum products during the year under review, making Showa Shell Sekiyu a major customer for ordinary petroleum products. FOC also began supplying products to Japan Airlines International Co., Ltd., and Kyushu Oil Co., Ltd., in the same fiscal year.

In order to cope with further shifts in the product demand structure, FOC started construction of a second Fluid Catalytic Cracking (FCC) unit at its Sodegaura refinery in October 2006. The unit is slated to commence operations in April 2008. In March 2007, the company also resolved to allocate capital investment to expand its "Eureka" thermal cracking unit. The additional capacity of this unit, which can convert asphalt into diesel fuel and other clean oil distillates, is scheduled to come on line in July 2009. These initiatives should counter the buildup of heavy fuel oil surpluses and contribute to the offering of higher-value-added products.

From an environmental perspective, FOC has implemented energy conservation and waste reduction activities in line with the ISO 14001 system to lower the environmental impact

"Eureka" thermal cracking unit

New FCC unit (under construction)

of its refinery. In addition, during the year, the multiple-plant low-grade exergy recovery system that FOC and the nearby Chiba plant of Sumitomo Chemical Co., Ltd., use to share energy, won the Agency for Natural Resources and Energy Director-General's Award at the Energy Conserving Machinery Awards sponsored by the Japan Machinery Federation.

Meanwhile, Singapore-based Petro Progress Pte., Ltd., conducted business activities in Southeast Asia that included the shipping, procurement and sale of crude oil and petroleum products.

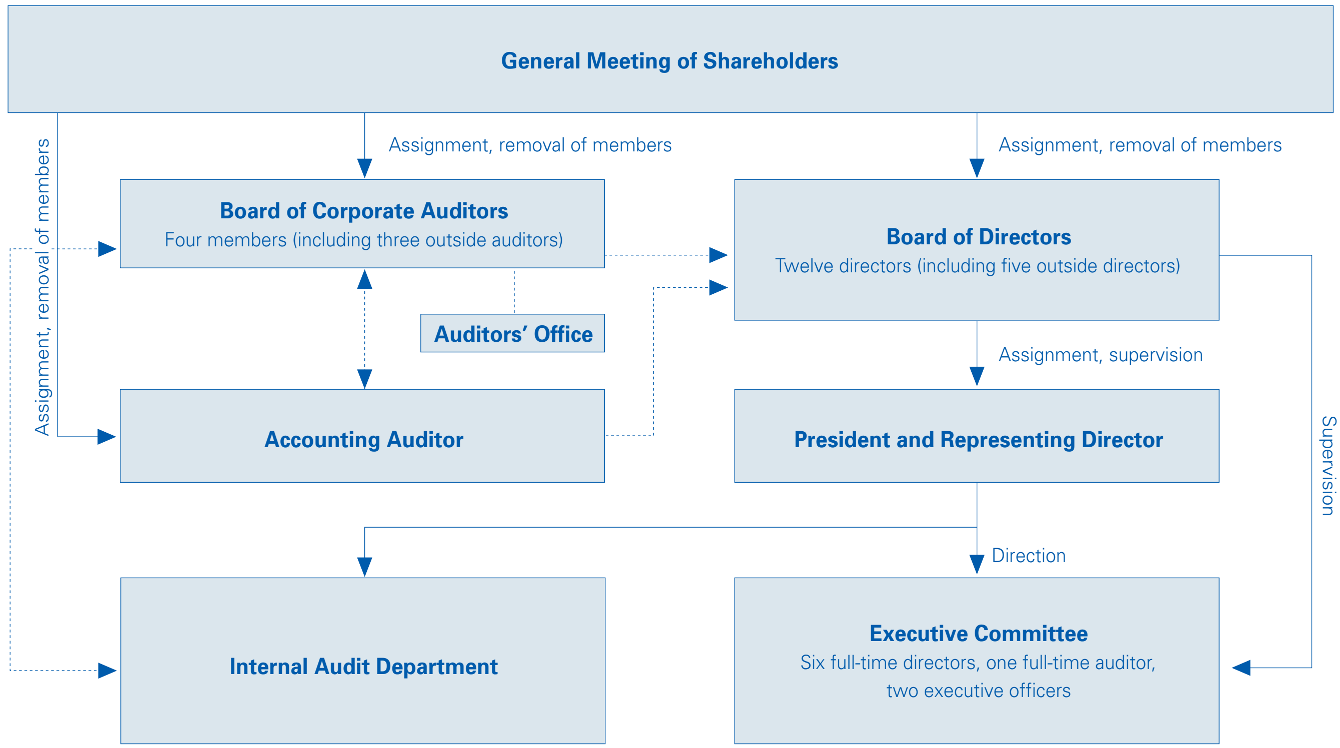
During the year under review, segment sales came to ¥563.2 billion. In the same term, petrochemical product prices were firm, and the segment continued to process crude oil steadily with high facility operating ratios. In addition, the price differential between heavy and light crude continued to widen from the preceding year, and the relative cost of processing decreased. Furthermore, rising crude oil prices reduced the relative value of inventory product acquired previously, and the cost of sales was decreased. As a result, operating income came to ¥19.7 billion.

Corporate Governance

AOC Holdings, Inc., considers the establishment of corporate governance to be the most important task in maximizing corporate value for stakeholders. With this in mind, the AOC Holdings Group has established a Code of Conduct and aims to become a corporation that earns the trust and support of the public. The Code covers seven key areas of operations:

- Stable supply of energy resources to Japan
- Maintenance of health, safety and environment
- Contribution to the local and international community
- Compliance with laws, regulations, rules and ethics
- Disclosure and accountability
- Fair treatment of employees and human resources development
- Risk management and adequate and prompt solutions for problems

The structure of AOC Holdings' corporate governance is summarized as follows:



(As of June 27, 2007)

Directors, Auditors and Executive Officers

(As of June 27, 2007)

President and Representing Director

Fumio Sekiya

Senior Managing Director and Representing Director

Masato Ono

Directors

Toshiyuki Hiroki
Toshio Mori
Yoshiaki Sekigawa
Shigemi Tamura *1
Haruyuki Niimi *2
Hiromasa Yonekura *3
Keiichi Konaga
Toshio Shimizui
Yahya Jamil Shinawi *4
Nasser Bader Al-Mudhaf *5

Corporate Auditors

Shinichi Ame
Nobuhiko Ishii *6
Koichi Nakanishi
Kuniaki Shirakuma *7

Executive Officers

Keijin Okawa
Yasuo Kiyota

*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, Parliament, Government & Media Relations, Kuwait Petroleum Corporation, the State of Kuwait
*6 Advisor, Oshima Shipbuilding Company, Ltd.
*7 Advisor to the President, Nippon Yusen K.K.

Internal Control System

For the purpose of securing an internal control system, AOC Holdings, Inc., resolved a fundamental policy for the establishment of such a system in line with the provision of the Corporation Law. The policy covers the following items:

1. Ensuring the appropriate execution of duties by directors
2. Overseeing appropriate business operations of the Company by implementing the following systems:
   - System concerning the preservation and management of information
   - System concerning risk management
   - System concerning effective execution of duties
   - System to ensure appropriate business conduct of employees
   - System to guarantee appropriate conduct across the board
   - System to support the duties of corporate auditors
   - Independence of personnel assisting corporate auditors
   - System concerning reporting to corporate auditors
   - Other systems to ensure effective audits

Environmental Conservation Initiatives

Activities at the Sodegaura Refinery

FOC considers conserving the environment in the region where it operates—and the world in general—as one of its most important tasks. For this reason, the company takes independent initiatives to ensure global environmental conservation, the health of local citizens and employees, the efficient use of energy, waste reduction and recycling. Other environmental activities include the establishment of an environmental management system and the attainment of ISO 14001 certification.

As for measures to curb global warming, the company focuses efforts on energy conservation, working to reduce carbon dioxide emissions, raise facility efficiency, improve the heat recovery ratio and employ advanced controls to save energy. For example, since 2003, FOC has been researching the development of technology to utilize low-grade heat energy that was previously emitted into the air. The goal is to promote the mutual exchange of heat energy between adjacent factories in the same industrial area, and to implement a power generation system by effectively using low-grade waste heat from heavy oil cracking facilities. Experimental operations of the power generation plant began in 2005.

FOC is also seeking to reduce the burden on the environment through measures to counter atmospheric pollution and water contamination, control the emissions of chemical substances, reduce waste, promote recycling and prevent marine oil spills.

As a result, the energy reduction is 10,500 kiloliters per year on a crude oil equivalent basis, or a reduction of 28,000 tons of CO_2 per year.

Moreover, FOC, Sumitomo Chemical Co., Ltd., and Chiyoda Corporation received the Agency for Natural Resources and Energy Director-General's Award from the Japan Machinery Federation for our fiscal 2006 use of an energy-saving multiplant low-exergy usage system. We won the award for our cooperative efforts to reduce energy consumption through the sharing of heat among plants.

Low-exergy generation system

Cooperation Project for Improvement of Environment in the Middle East Oil Producing Country

AOC has participated in an environment improvement cooperation project in the Gulf of the Middle East.

Based on the Initiatives for Japan-Kuwait Cooperation on Environmental Issues and Technology Transfer, AOC cooperates with other Japanese companies on the model project for the environmental rehabilitation and conservation of the Kuwait Bay entrusted by Japan External Trade Organization (JETRO). This research and study project is comprised of water quality improvement using tidal flats, marine environment real-time monitoring system and technology transfer through training programs.

Man-made tidal flats in the Kuwait Bay

Financial Section

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Consolidated Balance Sheets

AOC Holdings, Inc. and Consolidated Subsidiaries
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Assets			
Current assets:			
Cash on hand and in banks (Note 15)	¥ 25,528	¥ 21,808	$ 216,247
Trade notes and accounts receivable	88,666	98,689	751,089
Marketable securities (Note 3)	1,536	9,252	13,011
Inventories	78,637	71,324	666,133
Other receivables	792	4,643	6,709
Deferred tax assets (Note 7)	339	588	2,872
Other current assets (Notes 6 and 11)	10,210	11,121	86,489
Allowance for doubtful accounts	—	(1)	—
Total current assets	205,712	217,427	1,742,584
Property, plant and equipment (Notes 4 and 5):			
Buildings and structures (Note 6)	12,406	12,294	105,091
Storage tanks (Note 6)	3,714	4,004	31,461
Machinery, equipment and vehicles (Note 6)	18,398	17,548	155,849
Land (Note 6)	51,386	51,403	435,290
Construction in progress	18,928	673	160,339
Others	203	203	1,720
Total property, plant and equipment	105,038	86,128	889,776
Intangible assets	1,742	1,551	14,756
Investments and other assets:			
Investment securities (Notes 3 and 6)	12,258	8,490	103,837
Long-term loans receivable (Notes 6 and 11)	48,750	27,891	412,961
Long-term deposits (Note 6)	8,610	8,239	72,935
Investment for exploration development	3,032	—	25,684
Other assets	944	764	7,997
Allowance for doubtful accounts	(657)	(657)	(5,565)
Total investments and other assets	72,939	44,727	617,865
Total assets	¥ 385,431	¥ 349,835	$ 3,264,981

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Liabilities, minority interests and shareholders' equity/Net assets			
Current liabilities:			
Trade payables	¥ 45,814	¥ 47,459	$ 388,090
Short-term borrowings (Note 6)	47,032	33,043	398,407
Current portion of long-term debt (Notes 6 and 11)	19,731	19,244	167,141
Other payables	14,547	17,944	123,227
Excise taxes payable on gasoline and other fuels	16,901	19,131	143,168
Accrued income taxes (Note 7)	3,347	4,919	28,352
Other current liabilities	4,096	9,973	34,697
Total current liabilities	151,472	151,717	1,283,117
Long-term liabilities:			
Long-term debt (Notes 6 and 11)	69,238	56,631	586,514
Deferred tax liabilities (Note 7)	13,974	14,327	118,374
Accrued retirement benefits for employees (Note 8)	4,122	3,947	34,917
Accrued retirement benefits for directors and corporate auditors	150	116	1,271
Special reserve for repairs	1,649	1,735	13,969
Reserve for repairs	1,198	—	10,148
Negative goodwill on consolidation	61	93	517
Other long-term liabilities	303	250	2,567
Total long-term liabilities	90,698	77,102	768,302
Minority interests	—	998	—
Commitments and contingent liabilities (Notes 11 and 12)			
Shareholders' equity (Note 10):			
Common stock			
Authorized—200,000,000 shares			
Issued—78,183,677 shares in 2006	—	24,467	—
Capital surplus	—	56,355	—
Retained earnings	—	41,921	—
Unrealized gain on revaluation of land	—	2	—
Unrealized holding gains on securities	—	590	—
Foreign currency translation adjustments	—	526	—
Less treasury stock, at cost (Note 6)	—	(3,847)	—
Total shareholders' equity	—	120,017	—
Total liabilities, minority interests and shareholders' equity	—	¥ 349,835	—
Net assets (Note 10)			
Shareholders' equity:			
Common stock			
Authorized—200,000,000 shares			
Issued—78,183,677 shares in 2007	24,467	—	207,260
Capital surplus	57,679	—	488,598
Retained earnings	59,793	—	506,506
Less treasury stock, at cost (Note 6)	(1,238)	—	(10,487)
Total shareholders' equity	140,701	—	1,191,876
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes	593	—	5,023
Unrealized gain on revaluation of land, net of taxes	2	—	17
Foreign currency translation adjustments	785	—	6,650
Total valuation and translation adjustments	1,381	—	11,698
Minority interests	1,178	—	9,979
Total net assets	143,261	—	1,213,562
Total liabilities and net assets	¥ 385,431	—	$ 3,264,981

See notes to consolidated financial statements.

Consolidated Statements of Income

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales (Note 18)	¥ 801,020	¥ 701,352	$ 6,785,430
Cost of sales (Note 16)	770,590	675,817	6,527,658
Gross profit	30,430	25,534	257,772
Exploration costs	—	393	—
Selling, general and administrative expenses (Note 16)	4,813	5,276	40,771
Operating income	25,616	19,864	216,993
Other income (expenses):			
Interest and dividend income	3,129	1,535	26,506
Exchange gain (loss), net	2,607	3,409	22,084
Equity in earnings of a non-consolidated subsidiary and affiliates	1,863	2,081	15,781
Gain on sales of investment securities (Note 3)	—	22,893	—
Interest expense	(5,770)	(4,095)	(48,878)
Loss on disposal of fixed assets	(301)	(429)	(2,550)
Loss on impairment of fixed assets (Note 5)	(27)	—	(229)
Special retirement benefit expenses (Note 8)	—	(73)	—
Loss on termination of a concession agreement (Note 13)	—	(1,638)	—
Other, net	86	330	729
	1,588	24,012	13,452
Income before income taxes and minority interests	27,205	43,875	230,453
Income taxes (Note 7):			
Current	7,749	7,142	65,642
Deferred	(146)	2,343	(1,237)
	7,602	9,485	64,396
Minority interests	604	370	5,116
Net income	¥ 18,999	¥ 34,018	$ 160,940

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

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

	Millions of yen					
		Shareholders' equity				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Shareholders' equity at March 31, 2006 as previously reported	78,183,677	¥ 24,467	¥ 56,355	¥ 41,921	¥ (3,847)	¥ 118,897
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance at April 1, 2006						
Net assets at April 1, 2006	78,183,677	¥ 24,467	¥ 56,355	¥ 41,921	¥ (3,847)	¥ 118,897
Cash dividends paid				(1,127)		(1,127)
Net income				18,999		18,999
Acquisition of treasury stock					(0)	(0)
Sale of treasury stock			1,323		2,609	3,932
Net changes during the year other than shareholders' equity						
Net changes during the year		—	1,323	17,871	2,609	21,804
Balance at March 31, 2007	78,183,677	¥ 24,467	¥ 57,679	¥ 59,793	¥ (1,238)	¥ 140,701

	Millions of yen					
	Valuation and translation adjustments					
	Unrealized gains on securities, net of taxes	Unrealized gain on revaluation of land, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Shareholders' equity at March 31, 2006 as previously reported	¥ 590	¥ 2	¥ 526	¥ 1,120	—	¥ 120,017
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance at April 1, 2006					998	998
Net assets at April 1, 2006	¥ 590	¥ 2	¥ 526	¥ 1,120	¥ 998	¥ 121,015
Cash dividends paid						(1,127)
Net income						18,999
Acquisition of treasury stock						(0)
Sale of treasury stock						3,932
Net changes during the year other than shareholders' equity	2		258	261	179	441
Net changes during the year	2	—	258	261	179	22,245
Balance at March 31, 2007	¥ 593	¥ 2	¥ 785	¥ 1,381	¥ 1,178	¥ 143,261

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)					
		Shareholders' equity				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Shareholders' equity at March 31, 2006 as previously reported	78,183,677	$ 207,260	$ 477,382	$ 355,112	$ (32,588)	$1,007,175
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance at April 1, 2006						
Net assets at April 1, 2006	78,183,677	$ 207,260	$ 477,382	$ 355,112	$ (32,588)	$1,007,175
Cash dividends paid				(9,547)		(9,547)
Net income				160,940		160,940
Acquisition of treasury stock					(0)	(0)
Sale of treasury stock			11,207		22,101	33,308
Net changes during the year other than shareholders' equity						
Net changes during the year		—	11,207	151,385	22,101	184,701
Balance at March 31, 2007	78,183,677	$ 207,260	$ 488,598	$ 506,506	$ (10,487)	$1,191,876

	Thousands of U.S. dollars (Note 1)					
	Valuation and translation adjustments					
	Unrealized gains on securities, net of taxes	Unrealized gain on revaluation of land, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Shareholders' equity at March 31, 2006 as previously reported	$ 4,998	$ 17	$ 4,456	$ 9,488	—	$1,016,662
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance at April 1, 2006					8,454	8,454
Net assets at April 1, 2006	$ 4,998	$ 17	$ 4,456	$ 9,488	$ 8,454	$1,025,116
Cash dividends paid						(9,547)
Net income						160,940
Acquisition of treasury stock						(0)
Sale of treasury stock						33,308
Net changes during the year other than shareholders' equity	17		2,186	2,211	1,516	3,736
Net changes during the year	17	—	2,186	2,211	1,516	188,437
Balance at March 31, 2007	$ 5,023	$ 17	$ 6,650	$ 11,698	$ 9,979	$1,213,562

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

AOC Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2006

		Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of land	Unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	73,587,377	¥ 20,000	¥ 48,634	¥ 8,563	¥ 6	¥ 9,278	¥ 27	¥(10,158)
Net income	—	—	—	34,018	—	—	—	—
Cash dividends paid	—	—	—	(656)	—	—	—	—
Capital increase	4,596,300	4,467	4,467	—	—	—	—	—
Gain on sales of treasury stock	—	—	3,254	—	—	—	—	—
Decrease resulting from a merger of an unconsolidated subsidiary	—	—	—	(4)	—	—	—	—
Net change in unrealized gain on revaluation of land	—	—	—	—	(4)	—	—	—
Net change in unrealized holding gains on securities	—	—	—	—	—	(8,688)	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	499	—
Net decrease in treasury stock	—	—	—	—	—	—	—	6,311
Balance at March 31, 2006	78,183,677	¥ 24,467	¥ 56,355	¥ 41,921	¥ 2	¥ 590	¥ 526	¥ (3,847)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 27,205	¥ 43,875	$ 230,453
Depreciation and amortization	4,580	4,038	38,797
Increase (decrease) in reserve for repairs	1,198	(2,325)	10,148
Increase in accrued retirement benefits for employees	175	186	1,482
Decrease in allowance for doubtful accounts	(1)	(122)	(8)
Decrease in special reserve for repairs	(85)	(115)	(720)
Increase in accrued retirement benefits for directors and corporate auditors	33	42	280
Interest and dividend income	(3,129)	(1,536)	(26,506)
Interest expense	5,770	4,095	48,878
Equity in earnings of a non-consolidated subsidiary and affiliates	(1,863)	(2,081)	(15,781)
Gain on sales of investment securities	—	(22,893)	—
Loss on disposal of fixed assets	301	429	2,550
Loss on termination of a concession agreement	—	1,638	—
Loss on impairment of fixed assets	27	—	229
Gain on sales of golf membership	(59)	—	(500)
Special severance benefits	—	73	—
Decrease (increase) in trade receivables	10,117	(43,934)	85,701
Increase in inventories	(7,307)	(16,483)	(61,898)
Increase (decrease) in trade payables	(1,709)	25,146	(14,477)
Increase (decrease) in excise taxes payable on gasoline and other fuels	(2,229)	2,313	(18,882)
Other	(2,072)	(3,913)	(17,552)
Subtotal	30,950	(11,563)	262,177
Interest and dividends received	2,733	1,343	23,151
Interest paid	(5,349)	(3,861)	(45,311)
Income taxes paid	(9,102)	(6,686)	(77,103)
Income taxes refund	1,153	—	9,767
Special severance benefits paid	—	(183)	—
Payment related to termination of a concession agreement	(2,477)	(2,832)	(20,983)
Net cash provided by (used in) operating activities	17,907	(23,784)	151,690

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from investing activities:			
Increase in time deposits	(17,362)	(8,940)	(147,073)
Repayment of time deposits	17,028	7,916	144,244
Purchase of investment securities	(2,001)	(205)	(16,950)
Proceeds from sales of investment securities	—	27,639	—
Proceeds from redemption of investment securities	—	349	—
Proceeds from redemption of commercial paper	8,991	—	76,163
Purchase of marketable securities	(10,291)	—	(87,175)
Purchase of property, plant and equipment	(22,921)	(9,431)	(194,163)
Proceeds from sales of property, plant and equipment	0	175	0
Purchase of intangible assets	(1,138)	(244)	(9,640)
Increase in long-term loans receivable	(26,773)	(11,100)	(226,794)
Proceeds from collection of long-term loans receivable	5,448	7,370	46,150
Payment for investment for exploration development	(3,005)	—	(25,455)
Other	(415)	(131)	(3,515)
Net cash provided by (used in) investing activities	(52,439)	13,396	(444,210)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	13,988	(3,648)	118,492
Proceeds from long-term debt	31,969	16,062	270,809
Repayment of long-term debt	(19,224)	(19,476)	(162,846)
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	3,932	9,564	33,308
Dividends paid	(1,124)	(653)	(9,521)
Proceeds from issuance of shares	—	8,935	—
Payment to minority shareholders due to capital reduction	(122)	(164)	(1,033)
Dividends paid to minority shareholders	(302)	(282)	(2,558)
Net cash provided by financing activities	29,117	10,336	246,650
Effect of exchange rate changes on cash and cash equivalents	137	993	1,161
Net change in cash and cash equivalents	(5,277)	941	(44,701)
Cash and cash equivalents at beginning of year (Note 15)	31,027	29,989	262,829
Increase in cash and cash equivalents resulting from a merger of a non-consolidated subsidiary	—	95	—
Cash and cash equivalents at end of year (Note 15)	¥ 25,749	¥ 31,027	$ 218,119

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

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 Securities and Exchange Law of Japan. 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 (with certain expanded disclosure and the inclusion of the consolidated statement of shareholders' equity for 2006) 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 Securities 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.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (s), is presented with the consolidated balance sheets as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (t), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

As permitted by the Securities and Exchange Law of Japan, 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 ¥118.05 = U.S.$1.00, the approximate rate of exchange on March 31, 2007. 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, 2007 and 2006. Consolidated subsidiaries as of March 31, 2007 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 A/S
- Petro Progress, Inc.
- Petro Progress Pte Ltd.
- New Huanan Oil Development Co., Ltd.

Eight other subsidiaries in 2007 and nine subsidiaries in 2006 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 A/S 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 2007 and 2006.

Non-consolidated subsidiaries and an affiliate accounted for by the equity method as of March 31, 2007 and 2006 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.

Tokyo Sekiyu Kogyo Co., Ltd., became a subsidiary from an affiliate as of March 31, 2006, since Arabian Oil Co., Ltd., which is a wholly owned subsidiary of the Company, indirectly acquired additional shares in this company.

Investment securities (equity) in other non-consolidated subsidiaries and affiliates (eight companies in 2007 and nine companies in 2006) 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) Marketable 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. Marketable securities classified as available-for-sale securities are carried at fair value with any changes in unrealized gains or losses on securities, net of taxes, included directly in valuation and translation adjustments under net assets at March 31, 2007 and directly in shareholders' equity at March 31, 2006. 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 weighted 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.

(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) Reserve for repairs

The reserve for repairs is provided at an amount equivalent to the estimated amount of statutory periodical maintenance expenses for machinery and equipment. There was no reserve outstanding as of March 31, 2006, since the Companies performed periodical repairs and maintenance during the year ended March 31, 2006.

(j) Special reserve for repairs

The special reserve for 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) Accrued retirement benefits for employees

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.

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 the average remaining years of service of the eligible employees.

(l) Accrued retirement benefits for directors and corporate auditors

Accrued retirement benefits for directors and corporate auditors of the Companies are estimated based on the amount calculated in accordance with internal rules.

(m) Leases

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

(n) Exploration costs

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

(o) 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 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.

(p) Income taxes

Deferred tax assets and liabilities are recognized for expected future tax consequences attributable to temporary differences 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.

(q) 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 charged 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 at March 31, 2007 and as a separate component of "Shareholders' equity" at March 31, 2006 in the accompanying consolidated balance sheets.

(r) Reclassifications

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

(s) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

The consolidated balance sheets as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheets as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following item is presented differently at March 31, 2007 compared to March 31, 2006. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statements of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥142,083 million ($1,203,583 thousand) would have been presented.

(t) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

(u) 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 natural gas.

3. Marketable Securities and Investment Securities

Marketable securities and investment securities classified as available-for-sale securities as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
	2007					
Securities with carrying value exceeding acquisition cost:						
Equity securities	¥ 2,467	¥ 3,132	¥ 664	$ 20,898	$ 26,531	$ 5,625
Total	¥ 2,467	¥ 3,132	¥ 664	$ 20,898	$ 26,531	$ 5,625

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
	2006		
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 466	¥ 1,126	¥ 659
Total	¥ 466	¥ 1,126	¥ 659

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

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Corporate bonds	¥ 300	¥ 300	¥ (0)	$ 2,541	$ 2,541	$ (0)

Available-for-sale securities sold during the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Proceeds from sales of equity securities	¥ 0	¥ 27,639	$ 0
Gain on sales	—	22,893	—
Loss on sales	0	0	0

The carrying value of securities which did not have a readily determinable fair value as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Held-to-maturity securities:			
Commercial paper	¥ —	¥ 8,997	$ —
Municipal bonds	29	34	246
Foreign bonds	1,000	—	8,471
	¥ 1,029	¥ 9,031	$ 8,717
Available-for-sale securities:			
Unlisted stocks	¥ 548	¥ 550	$ 4,642
Other, including Money Market Funds	230	255	1,948
	¥ 778	¥ 805	$ 6,590

The schedule of the contractual maturities of held-to-maturity securities as of March 31, 2007 and 2006 is summarized as follows:

	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	¥ —

	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
	2007			
Corporate bonds	$ 2,541	$ —	$ —	$ —
Foreign bonds	8,471	—	—	—
Municipal bonds	34	161	34	—
Total	$ 11,055	$ 161	$ 34	$ —

	Millions of yen			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
	2006			
Commercial paper	¥ 8,997	¥ —	¥ —	¥ —
Municipal bonds	4	19	9	—
Total	¥ 9,002	¥ 19	¥ 9	¥ —

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, 2007 and 2006 was ¥208,990 million ($1,770,352 thousand) and ¥204,815 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)
	2007	2006	2007
Gain on national subsidies	¥ 196	¥ 178	$ 1,660
Gain on insurance claims	128	128	1,084

5. Impairment of Fixed 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 fixed 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 ($229 thousand) is recorded as a loss on impairment of fixed 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.

6. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt as of March 31, 2007 and 2006 and the weighted average interest rates on the borrowings outstanding as of March 31, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Short-term borrowings—3.4%	¥ 47,032	¥ 33,043	$ 398,407
Current portion of long-term debt—3.5%	19,731	19,244	167,141
Long-term debt, maturing in 2008-2016—4.7%	69,238	56,631	586,514
Total	¥ 136,002	¥ 108,919	$ 1,152,071

Annual maturities of the long-term debt are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	
Year ending March 31,		
2008	¥ 19,731	$ 167,141
2009	19,798	167,709
2010	17,877	151,436
2011	13,107	111,029
2012 and thereafter	18,455	156,332

Pledged Assets

The following assets are pledged as collateral for long-term debt and other current liabilities amounting to ¥86,365 million ($731,597 thousand) and ¥68,502 million, including current portion of ¥17,733 million ($150,216 thousand) and ¥14,876 million, as of March 31, 2007 and 2006, respectively.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Investment securities	¥ 1,205	¥ 1,241	$ 10,208
Long-term deposits	7,176	6,712	60,788
Treasury stock	1,208	682	10,233
Buildings and structures	9,387	9,536	79,517
Storage tanks	3,714	4,004	31,461
Machinery, equipment and vehicles	18,274	17,466	154,799
Land	48,952	48,952	414,672
Short-term loans	6,275	4,924	53,155
Long-term loans receivable	47,250	26,386	400,254
Other current assets	748	385	6,336
Total carrying value of pledged assets	¥ 144,192	¥ 120,291	$ 1,221,449

As of March 31, 2007, in addition to the above pledged assets, long-term deposits of ¥1,434 million ($12,147 thousand) 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, 2007 and 2006. 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Deferred tax assets:			
Tax loss carryforwards	¥ —	¥ 2,450	$ —
Accrued retirement benefits	1,443	1,281	12,224
Gain on sale of land	775	775	6,565
Foreign income taxes	276	405	2,338
Reserve for repairs	483	—	4,091
Special reserve for repairs	259	—	2,194
Depreciation	573	—	4,854
Other	1,574	2,564	13,333
Subtotal	5,387	7,477	45,633
Valuation allowance	(3,985)	(6,889)	(33,757)
Total deferred tax assets	1,402	588	11,876
Deferred tax liabilities:			
Unrealized holding gains on securities	(37)	(74)	(313)
Unrealized gain on revaluation of assets of consolidated subsidiaries	(11,949)	(11,949)	(101,220)
Undistributed earnings of foreign subsidiaries	(2,490)	(1,852)	(21,093)
Other	(558)	(451)	(4,727)
Total deferred tax liabilities	(15,036)	(14,327)	(127,370)
Net deferred tax liabilities	¥ (13,634)	¥ (13,738)	$ (115,493)

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)
	2007	2006	2007
Current assets—Deferred tax assets	¥ 339	¥ 588	$ 2,872
Long-term liabilities—Deferred tax liabilities	13,974	14,327	118,374

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, 2007 and 2006 is as follows:

	2007	2006
Statutory income tax rate	40.4%	40.4%
Movement in valuation allowance	(10.7)	(17.6)
Foreign income taxes	0.4	2.8
Loss on sales of the Company's shares held by subsidiaries	(2.0)	(3.1)
Other	(0.2)	(0.9)
Effective income tax rate	27.9%	21.6%

8. Accrued Retirement Benefits for Employees

As of March 31, 2007 and 2006, 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, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Retirement benefit obligation	¥ (6,047)	¥ (5,892)	$ (51,224)
Fair value of plan assets	2,224	2,089	18,839
Unfunded retirement benefit obligation	(3,822)	(3,802)	(32,376)
Unrecognized actuarial loss	67	183	568
Net retirement benefit obligation	(3,755)	(3,618)	(31,809)
Prepaid pension expenses	367	328	3,109
Accrued retirement benefits	¥ (4,122)	¥ (3,947)	$ (34,917)

For the years ended March 31, 2007 and 2006, 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, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Service cost	¥ 246	¥ 262	$ 2,084
Interest cost	105	101	889
Expected return on plan assets	(31)	(25)	(263)
Amortization of actuarial loss	57	84	483
Special retirement benefits paid	—	73	—
Total	¥ 377	¥ 495	$ 3,194

Retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are included in service cost. Special retirement benefits paid are recorded under “Other expenses” in the accompanying consolidated statements of income.

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

	2007	2006
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

9. Derivative Instruments and Hedging Activities

Three consolidated subsidiaries enter into derivative transactions, such as foreign exchange forward contracts, foreign currency options, interest rate swaps, commodity floor options, commodity collar options 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 in the normal course of business. Commodity collar options, commodity floor options and commodity swaps are utilized to manage the market risk associated with forecasted transactions of crude oil. Interest rate swaps are utilized to convert variable interest rates on borrowings to fixed interest rates for 3 to 5 years.

As described in Note 2 (o), 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 Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common 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 common 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.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, 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 27, 2007, the shareholders approved cash dividends amounting to ¥1,158 million ($9,809 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. 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, 2007 and 2006 were 965,541 and 3,000,061 common stock shares, respectively. During this 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 Agreements

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, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Total commitments available	¥ 88,537	¥ 88,102	$ 749,996
Amount utilized	61,598	34,418	521,796
Balance available	¥ 26,939	¥ 53,683	$ 228,200

As a debtor:

AOC entered into loan commitment agreements with eight banks aggregating ¥88,537 million ($749,996 thousand) and ¥88,102 million as of March 31, 2007 and 2006, 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 ¥40,000 million ($338,839 thousand), ¥25,000 million of which is restricted to the import usance borrowings, and ¥15,000 million as of March 31, 2007 and 2006, respectively, to finance working capital requirements. The outstanding balance of such loan commitments as of March 31, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Total commitments available	¥ 128,537	¥ 103,102	$ 1,088,835
Amount utilized	61,598	34,418	521,796
Balance available	¥ 66,939	¥ 68,683	$ 567,039

12. Contingent Liabilities

The Companies had the following guarantees of liabilities as of March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
As guarantors of indebtedness of:			
Employees (for home purchase)	¥ 420	¥ 511	$ 3,558

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

Arabian Oil Co., Ltd. ("AOC"), a consolidated subsidiary, reached an agreement with the Government of Kuwait for the most part regarding the treatment of assets located in Japan and expenditures for the construction in progress in Kuwait as of January 4, 2003 and the tentative settlement was completed in December, 2006. AOC reached an agreement on the treatment of assets located in Japan with the Government of Saudi Arabia and consequently recorded a loss of ¥1,638 million on termination of concession agreement for the year ended March 31, 2006.

14. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2007 and 2006, 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)
	2007	2006	2007
Acquisition costs:			
Machinery, equipment and vehicles	¥ 32	¥ 15	$ 271
Other	339	335	2,872
	¥ 371	¥ 350	$ 3,143
Accumulated depreciation:			
Machinery, equipment and vehicles	¥ 7	¥ 8	$ 59
Other	151	156	1,279
	¥ 159	¥ 164	$ 1,347
Net book value:			
Machinery, equipment and vehicles	¥ 24	¥ 7	$ 203
Other	188	178	1,593
	¥ 212	¥ 185	$ 1,796

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, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Lease payments	¥ 73	¥ 61	$ 618
Depreciation expense	73	61	618

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, 2007 and 2006 for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Due within one year	¥ 81	¥ 66	$ 686
Due after one year	131	119	1,110
Total	¥ 212	¥ 185	$ 1,796

15. Cash and Cash Equivalents

Reconciliation of "Cash and cash equivalents" in the consolidated statements of cash flows and "Cash on hand and in banks" in the consolidated balance sheets as of March 31, 2007 and 2006, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash on hand and in banks	¥ 25,528	¥ 21,808	$ 216,247
Marketable securities	1,536	9,252	13,011
Subtotal	27,064	31,061	229,259
Time deposits maturing over three months	(10)	(34)	(85)
Debt securities maturing over three months	(1,305)	—	(11,055)
Cash and cash equivalents	¥ 25,749	¥ 31,027	$ 218,119

16. Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2007 and 2006 amounted to ¥27 million ($229 thousand) and ¥588 million, respectively.

17. Per Share Data

	Millions of yen		U.S. dollars
	2007	2006	2007
Net assets per share	¥ 1,840.02	¥ 1,596.32	$ 15.59
Basic net income per share	247.53	484.21	2.10

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

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common 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, 2007 and 2006.

18. Segment Information

Business segments

Business segment information for the Companies as of and for the years ended March 31, 2007 and 2006 is summarized as follows:

	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, loss on impairment of fixed assets 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
Loss on impairment of fixed assets	—	—	27	27	—	27
Capital expenditures	24	4,177	22,318	26,521	21	26,542

	Thousands of U.S. dollars (Note 1)					
	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	$1,927,234	$ 87,438	$4,770,750	$6,785,430	$ —	$6,785,430
Intersegment sales	126,599	—	25	126,633	(126,633)	—
Total sales	2,053,842	87,438	4,770,784	6,912,071	(126,633)	6,785,430
Operating expenses	2,055,485	35,553	4,603,685	6,694,731	(126,294)	6,568,429
Operating income	$ (1,643)	$ 51,876	$ 167,090	$ 217,332	$ 330	$ 216,993
II. Assets, depreciation and capital expenditures						
Total assets	$ 897,840	$ 118,221	$2,370,597	$3,386,667	$ (121,677)	$3,264,981
Depreciation	59	9,149	29,335	38,543	136	38,687
Loss on impairment of fixed assets	—	—	229	229	—	229
Capital expenditures	203	35,383	189,055	224,659	178	224,837

	Millions of yen					
	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	2006					
I. Sales and operating income						
Sales to third parties	¥ 145,837	¥ 7,698	¥ 547,816	¥ 701,352	¥ —	¥ 701,352
Intersegment sales	59,910	—	15	59,925	(59,925)	—
Total sales	205,747	7,698	547,831	761,277	(59,925)	701,352
Operating expenses	205,599	4,452	531,380	741,432	(59,944)	681,487
Operating income	¥ 148	¥ 3,245	¥ 16,451	¥ 19,845	¥ 19	¥ 19,864
II. Assets, depreciation and capital expenditures						
Total assets	¥ 84,748	¥ 9,558	¥ 263,277	¥ 357,584	¥ (7,748)	¥ 349,835
Depreciation	1	656	3,352	4,010	15	4,026
Capital expenditures	13	914	10,837	11,764	6	11,771

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 (¥935 million in 2007 and ¥1,024 million in 2006) included in "Eliminations and corporate" are mainly administrative expenses related to the corporate general affairs function of the parent company.

4. Corporate assets (¥2,846 million in 2007 and ¥1,943 million in 2006) included in "Eliminations and corporate" mainly consist of surplus funds, including cash on hand and in banks and investment securities (in 2007 only) of the parent company.

5. 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.

If the new business segmentation had been applied in the previous fiscal year, business segment information would be summarized as follows:

	Millions of yen					
	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	2006					
I. Sales and operating income						
Sales to third parties	¥ 192,653	¥ 7,698	¥ 500,999	¥ 701,352	¥ —	¥ 701,352
Intersegment sales	13,093	—	15	13,108	(13,108)	—
Total sales	205,747	7,698	501,014	714,460	(13,108)	701,352
Operating expenses	205,599	4,452	484,563	694,615	(13,128)	681,487
Operating income	¥ 148	¥ 3,245	¥ 16,451	¥ 19,845	¥ 19	¥ 19,864
II. Assets, depreciation and capital expenditures						
Total assets	¥ 90,772	¥ 9,558	¥ 257,253	¥ 357,584	¥ (7,748)	¥ 349,835
Depreciation	1	656	3,352	4,010	15	4,026
Capital expenditures	13	914	10,837	11,764	6	11,771

Geographical segments

Geographical segment information for the Companies for the years ended March 31, 2007 and 2006 is summarized as follows:

	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	¥ 410,958	¥ (25,527)	¥ 385,431

	Thousands of U.S. dollars (Note 1)						
	Japan	Asia	Middle East	Europe	Total	Eliminations and corporate	Consolidated
	2007						
I. Sales and operating income							
Sales to third parties	$5,583,007	$1,163,448	$ 23,609	$ 15,349	$ 6,785,430	$ —	$6,785,430
Intersegment sales	958,204	2,783,880	—	—	3,742,084	(3,742,084)	—
Total sales	6,541,220	3,947,327	23,609	15,349	10,527,522	(3,742,084)	6,785,430
Operating expenses	6,388,640	3,894,841	9,191	9,911	10,302,601	(3,734,163)	6,568,429
Operating income	$ 152,579	$ 52,478	$ 14,418	$ 5,430	$ 224,922	$ (7,920)	$ 216,993
II. Assets	$2,919,907	$ 482,728	$ 54,401	$ 24,168	$ 3,481,220	$ (216,239)	$3,264,981

	Millions of yen							
	Japan	Asia	Middle East	America	Europe	Total	Eliminations and corporate	Consolidated
	2006							
I. Sales and operating income								
Sales to third parties	¥ 613,531	¥ 82,903	¥ 3,304	¥ —	¥ 1,612	¥ 701,352	¥ —	¥ 701,352
Intersegment sales	69,256	280,713	—	—	—	349,969	(349,969)	—
Total sales	682,787	363,617	3,304	—	1,612	1,051,321	(349,969)	701,352
Operating expenses	667,287	360,273	1,776	2	1,088	1,030,429	(348,941)	681,487
Operating income	¥ 15,500	¥ 3,343	¥ 1,528	¥ (2)	¥ 523	¥ 20,892	¥ (1,028)	¥ 19,864
II. Assets	¥ 339,556	¥ 34,421	¥ 2,682	¥ —	¥ 2,493	¥ 379,155	¥ (29,320)	¥ 349,835

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 East Kuwait, Saudi Arabia, Egypt
(3) America Cayman Islands
(4) Europe Norway
4. Non-allocable operating expenses (¥935 million in 2007 and ¥1,024 million in 2006) included in "Eliminations and corporate" are mainly administrative expenses related to the corporate general affairs function of the parent company.
5. Corporate assets (¥2,846 million in 2007 and ¥1,943 million in 2006) included in "Eliminations and corporate" mainly consist of surplus funds, including cash on hand in banks and investment securities (in 2007 only) of the parent company.
6. Since Arabian Oil Company (Cayman) Ltd., was dissolved on March 31, 2006, the segment of America (Cayman Islands) was deleted for the current fiscal year.

Overseas sales

Oversea sales information for the Companies for the years ended March 31, 2007 and 2006 is summarized as follows:

	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%

	Thousands of U.S. dollars (Note 1)			
	Asia	Middle East	Others	Total
	2007			
Overseas net sales	$ 1,728,310	$ 23,609	$ 22,736	$ 1,774,663
Consolidated net sales	—	—	—	6,785,430
Overseas net sales as a percentage of total consolidated net sales	25.47%	0.35%	0.34%	26.15%

	Millions of yen			
	Asia	Middle East	Others	Total
	2006			
Overseas net sales	¥ 139,251	¥ 3,304	¥ 2,974	¥ 145,530
Consolidated net sales	—	—	—	701,352
Overseas net sales as a percentage of total consolidated net sales	19.85%	0.47%	0.42%	20.75%

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 East 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.

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, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, 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, 2007 and 2006, 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:
As discussed in Note 18 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, 2007 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 27, 2007

AOC Holdings Group Companies

AOC Holdings, Inc.
As of June 30, 2007

	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
	Norske AEDC A/S	Stavanger, Norway	Nkr1 million	AOC 100%	Exploration, development, production and sale of oil and natural gas in Norway
	New Huanan Oil Development Co., Ltd.	Tokyo, Japan	¥1,200 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
	Petro Progress, Inc.	Tokyo, Japan	¥3,000 million	AOC 50% FOC 50%	Purchasing, marketing, and transportation of crude oil and refined products
	Petro Progress Pte., Ltd.	Singapore	S$34,000,000	Petro Progress Inc. 100%	Overseas purchasing, marketing and transportation of crude oil and refined products
	ARAMO Shipping (Singapore) Pte., Ltd.	Singapore	US$20,742,000	Petro Progress Pte., Ltd. 50%	Operation of crude oil tankers
	Fuji Tanker Co., Ltd.	Tokyo, Japan	¥50 million	FOC 100%	Chartering and scheduling of oil tankers
	Fuji Oil Sales Co., Ltd.	Tokyo, Japan	¥100 million	FOC 100%	Sales of oil products
	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
	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, 2007

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 Tokyo Stock Exchange
Transfer Agent:	Mizuho Trust & Banking Co., Ltd.
Employees:	40 (AOC Holdings only)
	629 (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
Nippon Yusen K.K.	2,750.8	3.51
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,492.0	3.18
Japan Trustee Services Bank, Ltd. (Trust Account)	1,935.7	2.47
The Kansai Electric Power Co., Inc.	1,900.0	2.43
Nippon Steel Corporation	1,250.0	1.59

Independent Certified Public Accountant

KPMG AZSA & Co.

AOC Holdings, Inc.

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