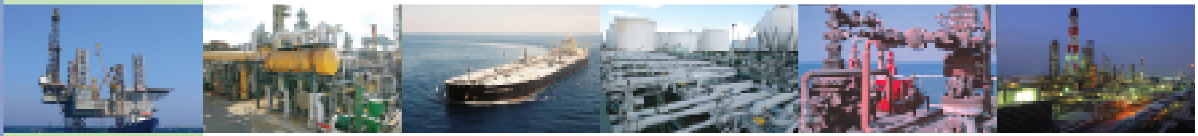
AOC Holdings, Inc.

ANNUAL REPORT 2006

Fiscal year ended March 31, 2006



Upstream Operations

Downstream Operations

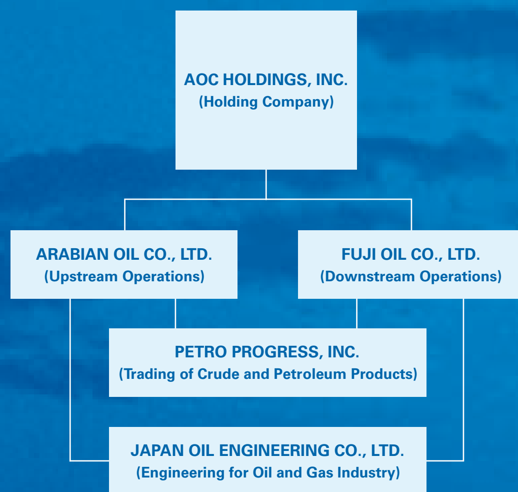
Holdings

Profile

AOC Holdings, Inc., the head of the AOC Holdings Group, was established in January 2003 as a joint holding company for Arabian Oil Company, Ltd. (AOC), and Fuji Oil Company, Ltd. (FOC).

AOC is responsible for the Group's upstream oil operations, while FOC is engaged in the Group's downstream oil operations. These two companies form the core of the Group. Through the centralized management of both operations, we seek to make the most effective use of management resources in pursuit of optimizing operations across the board. This basic management policy enables us to maximize corporate value for our shareholders, investors, customers and other stakeholders.

Going forward, the Group aims to provide a stable supply of essential oil, natural gas and petroleum products for industry as well as everyday life. In this manner, we can contribute to the realization of a prosperous society and a comfortable environment, which we regard as our unrelenting mission.



CONTENTS

Cautionary Statement with Regard to Forward-Looking Statements

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

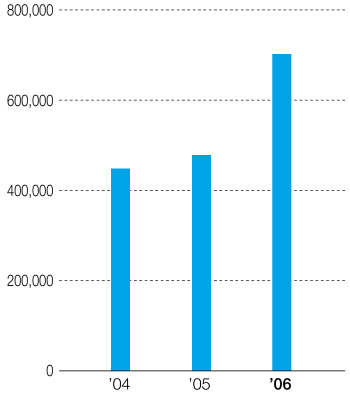
Financial Highlights

(Years ended March 31)

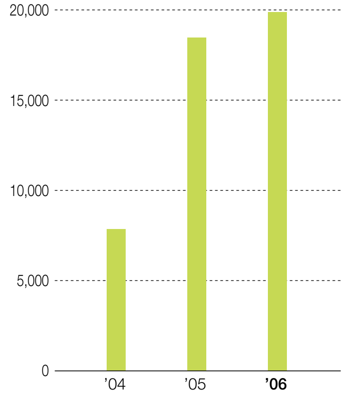
	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2005	2006	2006
For the year:				
Net sales	¥447,460	¥477,295	**¥701,352**	**$5,970,478**
Operating income	7,820	18,447	**19,864**	**169,098**
Income before income taxes	6,594	21,418	**43,875**	**373,500**
Net income	4,402	17,248	**34,018**	**289,589**
Capital expenditures	1,898	3,986	**11,771**	**100,204**
Depreciation and amortization	4,930	4,007	**4,038**	**34,375**
At year-end:				
Total assets	272,075	293,404	**349,835**	**2,978,080**
Total shareholders' equity	63,255	76,351	**120,017**	**1,021,682**
Interest-bearing debt	115,279	113,419	**108,919**	**927,207**
(*)	98,771	89,901	**77,609**	**660,671**
Debt–equity ratio (times)	1.82	1.49	**0.91**	
(*)	1.56	1.18	**0.65**	
Per share (yen and U.S. dollars):				
Net income	¥65.11	¥255.67	**¥484.21**	**$4.12**
Cash dividends paid	0	10	**15**	**0.13**
Number of employees	648	616	**625**	

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

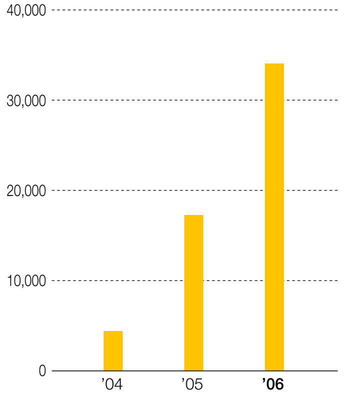
Net sales
(Millions of Yen)



Operating income
(Millions of Yen)



Net income
(Millions of Yen)



Message from the President

Since the inception of AOC Holdings, Inc. (AOCHD), borne from the integration of Arabian Oil Company, Ltd. (AOC), and Fuji Oil Company, Ltd. (FOC), in January 2003, the basic management policy has been to maximize corporate value by optimizing groupwide operations. This entails the centralized management of AOC and FOC, which takes charge of upstream and downstream oil operations, the core business areas of the Group. Based on this precept, the Group constantly strives as a unified whole to increase management efficiency and boost profitability.

The Year in Review

In fiscal 2006, ended March 31, 2006, the price of Dubai crude oil produced in the Middle East remained high, at a year-round average of $53 a barrel. The factors behind this included the steady global demand for oil, the impact of hurricanes in the United States and anxiety over oil supply reliability in the Middle East and Africa.

Although the domestic market for petroleum products was affected by rising crude oil prices, not all of the cost increases in certain products could be incorporated into product prices. Meanwhile, petrochemical feedstock such as benzene and xylene performed well on the back of a solid domestic market and robust demand in Asia.

Under these market conditions, the Group's consolidated results exceeded those of last year despite downward pressure on sales and profits caused by declining capacity utilization at oil refining units of FOC due to regular large-scale maintenance. Consolidated net sales climbed 46.9% year-on-year, to ¥701.4 billion, ordinary income was up 32.1%, to ¥23.2 billion, and net income surged 97.2%, to ¥34.0 billion, as a ¥22.9 billion in gain on sale of investment securities was recorded under other income.

With the objective of further strengthening the business base and financial structure of the Group, AOCHD formed and reinforced relationships with Showa Shell Sekiyu K.K., Sumitomo Chemical Co., Ltd., Nippon Yusen K.K. and Mitsui O.S.K. Lines, Ltd., by third-party allocation of new shares and disposal of treasury stock to these companies in October 2005. Other efforts to enhance our capital standing included the disposal of certain nonbusiness assets.

Medium-term Business Plan

The Group has formulated a three-year medium-term business plan, beginning from fiscal 2006, aimed at stabilizing our profit-making capability, making aggressive investments and maintaining a sound financial structure. Specific targets include securing profit of over ¥20.0 billion as yearly income before taxes, total investment of ¥100.0 billion over the course of this period and a debt–equity ratio of less than 0.8. Energies will be poured into the achievement of these goals.

In upstream oil operations, AOC will continue its Khafji-related businesses while maintaining the production and sales of oil from the South China Sea and the Norwegian North Sea. AOC also aims to expand business through aggressive investment activities, beginning with oil and gas exploration and development in the Northwest October block in the Arab Republic of Egypt, which is currently under way.

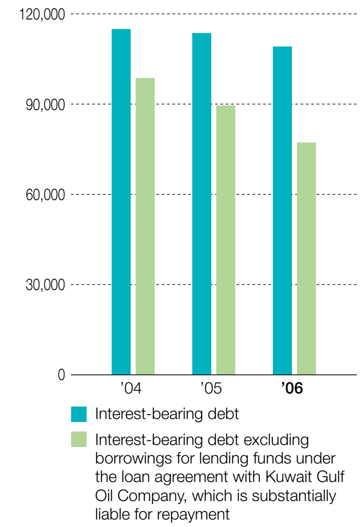
In downstream oil operations, FOC will seek to increase production and sales of petrochemical feedstock, gasoline and jet fuel, in line with a forecast increase in demand, especially in Asia, while a downward trend in domestic demand is expected over the medium to long term. To achieve this, FOC will further strengthen its profit base by improving the added value of petroleum products and maintaining high capacity utilization. To this end, FOC resolved in March 2006 to construct a second fluid catalytic cracking (FCC) unit, which is scheduled to begin operation in April 2008. Moreover, following the business alliance with Showa Shell Sekiyu K.K. last year, AOCHD accepted stock investment from Japan Airlines International Co., Ltd., and Kyushu Oil Co., Ltd., in June 2006, thereby starting new petroleum product dealings. These and other initiatives aim to secure a more diversified buyer composition as well as a stable customer base.

The Group will work to enhance Groupwide performance management and risk management, and to further increase the efficiency of Group management. At the same time, it will strive to maximize corporate value for the benefit of its stakeholders. Through the stable provision of oil, natural gas and petroleum products, the Group is determined to contribute to the realization of a prosperous society and a comfortable environment. The Group will continue to fulfill its social mission as an integrated energy consortium.

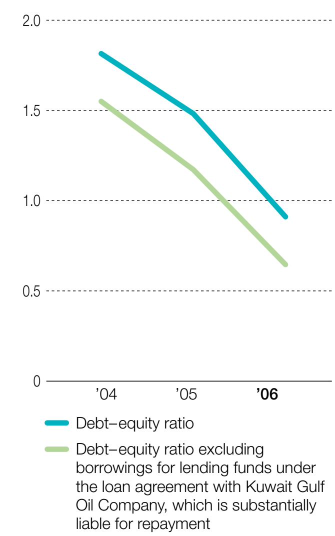
July 2006

Fumio Sekiya
President and Representing Director

Interest-bearing debt
(Millions of Yen)



Debt–equity ratio
(Times)



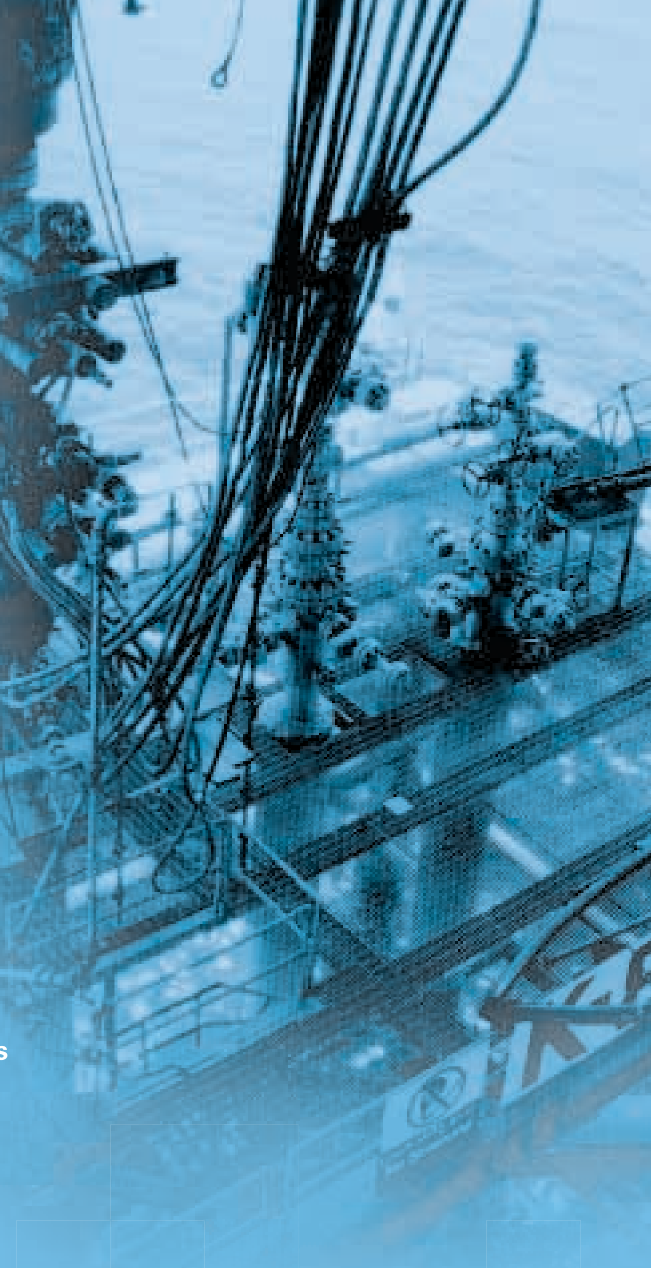
Review of Operations

Arabian Oil Co., Ltd. (AOC), which engages in the exploration, development and production of oil and natural gas, entered into concession agreements with the Saudi government in 1957 and the Kuwaiti government in 1958. Based on these agreements, AOC discovered two oil fields in the offshore Neutral Zone (now "offshore Divided Zone") shared by the two nations—the Khafji oil field in 1960 and the Hout oil field in 1963. Continuing its oil field operations over the ensuing four decades as the first Japanese company in the overseas oil development business, AOC has helped ensure a stable supply of energy to Japan, where natural resources are scarce.

UPSTREAM OPERATIONS

The agreement with the Saudi government expired in February 2000, and the one with the Kuwaiti government expired 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 an oil purchasing agreement with Kuwait.

Areas aside from the Middle East in which AOC conducts exploration and development of oil and natural gas include the South China Sea, the Gulf of Suez and the Norwegian North Sea.



Khafji-Related Operations

Pursuant to a technical services agreement with Kuwait Gulf Oil Company (KGOC), which came into effect in January 2003, AOC continued its involvement in oil operations in the Kuwait/Saudi Arabia offshore Divided Zone during the year by way of dispatching personnel to the Khafji Joint Operations. Oil purchased based on a long-term oil purchasing agreement with Kuwait Petroleum Corporation was sold to customers in Japan and overseas.

As a result, segment sales amounted to ¥145.8 billion and operating income was ¥148 million.

As the current technical services agreement with Kuwait will expire in January 2008, the company plans to begin negotiations toward its renewal.

Crude Oil Sales Volume (Years ended March 31)

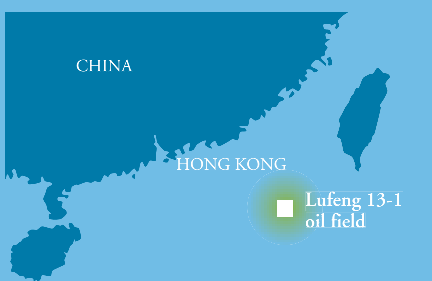
(Thousands of barrels per day)

	2004	2005	**2006**
Khafji crude	93.4	78.7	**93.0**
Hout crude	4.9	6.0	**5.0**

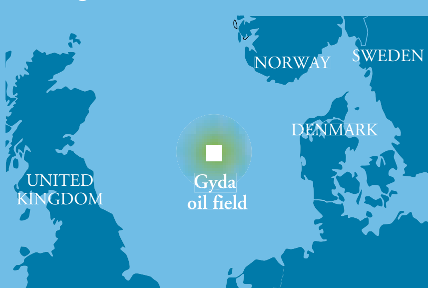
Arabian Gulf

Oil and Gas Exploration, Development and Production

South China Sea



Norwegian North Sea



During the year under review, the development, production and sale of oil were conducted in the Lufeng 13-1 oil field in the South China Sea, in which New Huanan Oil Development Company, Ltd., a subsidiary of AOC, holds a 30% working interest. Operations were also conducted in the Gyda oil field in the Norwegian North Sea, in which another AOC subsidiary, Norske AEDC A/S, holds a 5% working interest. Amid high oil prices, sales in this business segment amounted to ¥7.7 billion, while operating income stood at ¥3.2 billion.

Leveraging the technological expertise, experience and human resource network accumulated through operation of a giant oil field for half a century, AOC continued to focus attention on uncovering new projects during the year. To further strengthen the management foundations of upstream operations, AOC will invest ¥65.0 billion in the three-year period to fiscal 2009 to discover and commercialize new upstream projects.

Crude Oil and Natural Gas Sales Volume (Years ended March 31)

(Crude oil: Thousands of barrels per day)
(Natural gas: Millions of cubic feet per day)

	2004	2005	**2006**
Nanhai medium crude	3.4	3.6	**2.9**
Ekofisk crude	0.5	0.4	**0.7**
Natural gas (U.S. Gulf of Mexico)	12.1	13.6	—

A JAPANESE PIONEER IN THE DEVELOP

As part of these efforts, AOC is 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 aims to begin production of crude oil in the block in the second half of fiscal 2009.

In addition, AOC concluded a memorandum of understanding with the Iraqi Ministry of Oil in June 2005 to assist with oil industry rehabilitation efforts there. Based on the memorandum, AOC formulated a reconstruction plan for oil shipping facilities in southern Iraq. In line with this, a development plan for the Tuba oil field was jointly devised, and Iraqi engineers were given training on techniques and technologies, gaining a great deal of expertise.

Egyptian Gulf of Suez

MENT OF OVERSEAS OIL FIELDS

Fuji Oil Co., Ltd. (FOC), was established in 1964 through investment by such companies as AOC, Tokyo Electric Power (TEPCO), Sumitomo Chemical and Nippon Mining (now, Japan Energy). Four years later, FOC's refinery in Sodegaura, Chiba Prefecture, began supplying heavy fuel oil for electric power generation and naphtha for conversion into petrochemicals at an industrial complex where it is located, and general petroleum products to a nationwide petroleum distributor. The Sodegaura refinery has evolved into an advanced, large-scale facility that fills a vital role in supplying petroleum products to the mass energy-consuming Tokyo metropolitan area. FOC has recently been working at expanding its operations to provide petrochemical feedstock.

DOWNSTREAM OPERATIONS

Sodegaura Refinery Petroleum Product Sales Volume

(Years ended March 31)

(Thousands of kiloliters)

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

During the year under review, FOC continued measures to increase business efficiency and further cut costs.

After establishing an equity and business alliance with Showa Shell Sekiyu K.K. in 2005, FOC began supplying it with petroleum products in October. The Sodegaura refinery made periodic large-scale maintenance of its facilities during the year, bolstering its shipping facilities to boost exports and strengthening equipment to enhance environmental conservation efforts. It also worked to ensure safe and stable operations.

This refinery employs a vacuum residue thermal cracking unit ("Eureka" thermal cracking unit), which effectively converts asphalt into diesel fuel and other clean oil distillates. Compared with other refineries in Japan, the Sodegaura facility handles a substantially larger percentage volume of heavy crude. Consequently, when the differential between heavy and light crude oil prices expanded considerably due to decreased demand for heavy crude oils and increased demand for light crude oils, FOC was able to relatively reduce its feedstock costs. This enabled FOC to strengthen its competitive position on both profit and cost fronts.

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

As a result, segment sales were ¥547.8 billion and operating income was ¥16.5 billion.

With the aim of adding further value to its products in response to expected changes in the demand structure in the foreseeable

Sodegaura Refinery

Location:	Sodegaura, Chiba Prefecture
Area:	1,512,000 m^2
Refining capacity:	192,000 bbl/day
Storage capacity:	2,028,000 kl of crude oil, 1,583,000 kl of petroleum products

"Eureka" thermal cracking unit

The group's co-owned VLCC *ASIAN PROGRESS III*

future, FOC decided to construct a second fluid catalytic cracking (FCC) unit in March 2006. Operations are scheduled to commence in April 2008. The capacity of the second FCC will be 18,000 barrels a day, making a total of 36,000 barrels a day together with the existing FCC.

Research is being made into the feasibility of reinforcing the "Eureka" thermal cracking unit to further increase light oil in FOC's products. These and other initiatives make it possible to lower the production of heavy fuel oil C as much as possible in line with demand forecast, realizing the so-called "bottomless" production system. Creating such a flexible production and supply system is expected to boost profit-earning capability.

FOC entered into new long-term supply contracts with Japan Airlines International Co., Ltd., and Kyushu Oil Co., Ltd., in April 2006. By having diversity in business partners, FOC can create a stable profit structure.

Principal Facilities at the Sodegaura Refinery

	Units	Capacity
Crude distillation unit	2	192,000 b/d
Naphtha hydrotreating unit	1	43,000 b/d
Catalytic reformer	1	28,000 b/d
Iso-siv unit	1	1,900 b/d
Fluid catalytic cracking unit	1	18,000 b/d
Gasoline desulfurization unit	1	13,000 b/d
Alkylation unit	1	4,000 b/d
Middle distillate hydrodesulfurization unit	2	63,500 b/d
Xylene manufacturing unit	1	245,000 t/y
Benzene manufacturing unit	2	175,000 t/y
Vacuum distillation unit	1	55,000 b/d
Vacuum gas oil hydrodesulfurization unit	2	47,000 b/d
Vacuum residue thermal cracking unit ("Eureka" thermal cracking unit)	1	24,000 b/d

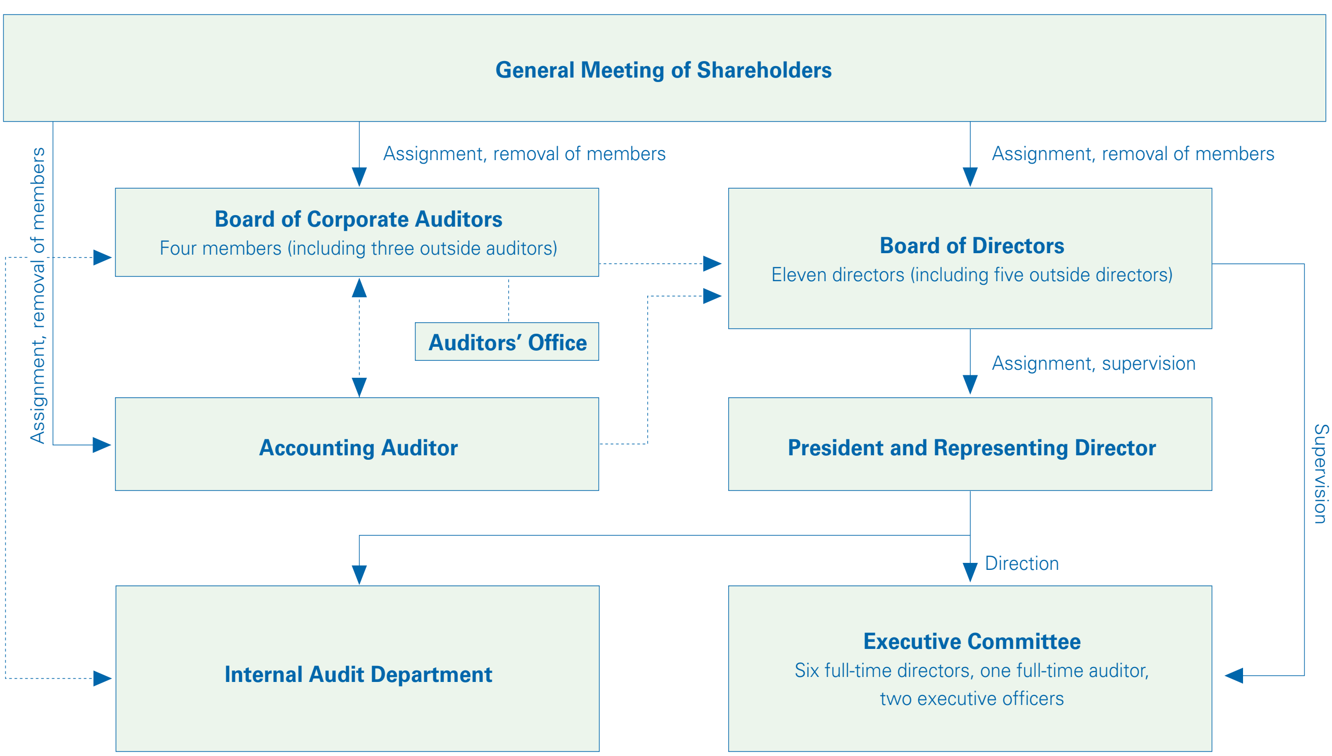
Notes: b/d = barrels per day
t/y = tonnes per year

Corporate Governance

The AOC Holdings Group considers the establishment of corporate governance to be the most important task in maximizing corporate value for stakeholders. With this in mind, the 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:



Directors, Auditors and Executive Officers
(As of June 30, 2006)

President and Representing Director
Fumio Sekiya

Senior Managing Director and Representing Director
Masato Ono

Directors
Yasubumi Shima

Junichiro Asano

Toshiyuki Hiroki

Toshio Mori

Shigemi Tamura
(Chairman, The Tokyo Electric Power Company, Incorporated)

Usama Trabulsi
(Chief Financial Controller, Ministry of Petroleum and Mineral Resources, Saudi Arabia)

Issa Own
(Undersecretary, Ministry of Energy, Kuwait)

Haruyuki Niimi
(Chairman, Showa Shell Sekiyu K.K.)

Hiromasa Yonekura
(President, Sumitomo Chemical Company, Ltd.)

Corporate Auditors
Shinichi Ame

Takao Kusakari
(Chairman, Nippon Yusen K.K.)

Nobuhiko Ishii
(Advisor, Oshima Shipbuilding Company, Ltd.)

Koichi Nakanishi

Managing Executive Officer
Toshiro Tateishi

Executive Officer
Keijin Okawa

Internal Control System

For the purpose of securing an internal control system, the Group 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. System to secure proper execution of duties by directors

2. System to secure proper business operations of the Group

- System concerning storage/management of information
- System concerning risk management
- System concerning effective execution of duties
- System to secure proper execution of duties by employees
- System to secure proper execution of duties at the corporate group
- System to assist corporate auditors’ duties
- Matters concerning independence of personnel assisting corporate auditors
- System concerning reports to corporate auditors
- Other systems to secure 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, FOC 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, FOC 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 complex, and to implement a power generation system by effectively using low-grade waste heat from heavy oil cracking facilities. Experimental operation 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.

Furthermore, FOC supplies products that generate very little environmental burden during usage to meet customers' quality demands. Ahead of legislative requirements, FOC instituted processing equipment to minimize sulfur oxide, nitrogen oxide and particulate matter, and has been producing sulfur-free diesel fuel and gasoline (sulfur content under 10 parts per million (ppm)) since January 2005.

Effective Use of Low-Grade Heat Energy
Heat exchanger for mutual exchange of heat energy between factories

Joining in the Environmental Improvement Initiatives of Middle Eastern Oil-Producing Nations

AOC cooperates with environmental efforts involving both Japan and Middle Eastern oil-producing nations, such as the Initiative for Japan–Kuwait Cooperation on Environmental Issues & Technology Transfer. Based on this initiative, under the auspices of the Japanese government and the Japan External Trade Organization (JETRO), AOC cooperates with other Japanese companies on various programs to improve the marine environment around the Gulf of Kuwait. These efforts include cleaning up tidal wetlands, a marine environment real-time monitoring system and technology transfer through personnel training.

Under the guidance of the Ministry of Economy, Trade and Industry, AOC joined cooperative activities to address water resource issues in Middle Eastern oil-producing nations. AOC has thus been offering its technical expertise and participating in technology cooperation activities as a member of the Cooperation Committee on Water Resources in the Middle East.

Financial Section

CONTENTS

Consolidated Balance Sheets

AOC Holdings, Inc. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets:			
Cash on hand and in banks (Notes 6 and 16)	¥ 21,808	¥ 23,096	$ 185,647
Trade notes and accounts receivable	98,689	53,708	840,121
Marketable securities (Note 3)	9,252	6,993	78,761
Inventories	71,324	54,840	607,168
Other receivables (Note 11)	4,643	6,842	39,525
Deferred tax assets (Note 7)	588	2,556	5,006
Others	11,121	5,943	94,662
Allowance for doubtful accounts	(1)	—	(9)
Total current assets	217,427	153,982	1,850,915
Property, plant and equipment (Notes 4 and 6):			
Buildings and structures	12,294	12,286	104,657
Storage tanks	4,004	4,379	34,085
Machinery, equipment and vehicles	17,548	12,185	149,383
Land	51,403	51,578	437,584
Construction in progress	673	420	5,729
Others	203	202	1,728
Total property, plant and equipment	86,128	81,053	733,191
Intangible assets	1,551	1,328	13,203
Investments and other assets:			
Investment securities (Notes 3 and 6)	8,490	25,884	72,274
Long-term loans receivable (Note 11)	27,891	24,453	237,431
Long-term deposits (Note 6)	8,239	6,871	70,137
Other assets	764	607	6,504
Allowance for doubtful accounts	(657)	(778)	(5,593)
Total investments and other assets	44,727	57,039	380,753
Total assets	¥ 349,835	¥ 293,404	$ 2,978,080

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Trade payables	¥ 47,459	¥ 21,467	$ 404,010
Short-term borrowings (Notes 6)	33,043	36,688	281,289
Current portion of long-term debt (Notes 6 and 11)	19,244	19,235	163,821
Other payables	17,944	19,495	152,754
Excise taxes payable on gasoline and other fuels	19,131	16,817	162,859
Accrued income taxes (Note 7)	4,919	4,191	41,875
Other current liabilities	9,973	12,346	84,898
Total current liabilities	151,717	130,242	1,291,538
Long-term liabilities:			
Long-term debt (Notes 6 and 11)	56,631	57,496	482,089
Deferred tax liabilities (Note 7)	14,327	19,879	121,963
Accrued retirement benefits for employees (Note 8)	3,947	3,760	33,600
Accrued retirement benefits for directors and corporate auditors	116	74	987
Special reserve for repairs	1,735	1,850	14,770
Reserve for repairs	—	2,325	—
Negative goodwill on consolidation	93	125	792
Other long-term liabilities	250	217	2,128
Total long-term liabilities	77,102	85,729	656,355
Minority interests	998	1,080	8,496
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 and 73,587,377 shares in 2005	24,467	20,000	208,283
Capital surplus	56,355	48,634	479,740
Retained earnings	41,921	8,563	356,866
Unrealized gain on revaluation of land	2	6	17
Unrealized holding gains on securities	590	9,278	5,023
Foreign currency translation adjustments	526	27	4,478
Less treasury stock, at cost (Note 6)	(3,847)	(10,158)	(32,749)
Total shareholders' equity	120,017	76,351	1,021,682
Total liabilities, minority interests and shareholders' equity	¥ 349,835	¥ 293,404	$ 2,978,080

See notes to consolidated financial statements.

Consolidated Statements of Income

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 20)	¥ 701,352	¥ 477,295	$ 5,970,478
Cost of sales (Note 18)	675,817	453,777	5,753,103
Gross profit	25,534	23,518	217,366
Exploration costs	393	—	3,346
Selling, general and administrative expenses (Note 18)	5,276	5,071	44,914
Operating income	19,864	18,447	169,098
Other income (expenses):			
Interest and dividend income	1,535	671	13,067
Exchange gain (loss), net	3,409	490	29,020
Equity in earnings of non-consolidated subsidiaries and affiliates	2,081	355	17,715
Gain on sales of investment securities	22,893	6,072	194,884
Interest expense	(4,095)	(2,621)	(34,860)
Loss on disposal of fixed assets	(429)	(327)	(3,652)
Special retirement benefit expenses	(73)	(740)	(621)
Business integration costs	—	(370)	—
Loss on termination of a concession agreement (Note 14)	(1,638)	—	(13,944)
Other, net	(330)	(588)	(2,809)
	24,012	2,972	204,410
Income before income taxes and minority interests	43,875	21,418	373,500
Income taxes (Note 7):			
Current	7,142	5,088	60,799
Deferred	2,343	(1,036)	19,946
	9,485	4,052	80,744
Minority interests	370	117	3,150
Net income	¥ 34,018	¥ 17,248	$ 289,589

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

		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, 2004	73,587,377	¥ 20,000	¥ 45,728	¥ (8,684)	¥ 2	¥ 10,143	¥ (417)	¥ (3,518)
Net income	—	—	—	17,248	—	—	—	—
Gain on sales of treasury stock	—	—	2,905	—	—	—	—	—
Net change in unrealized gain on revaluation of land	—	—	—	—	4	—	—	—
Net change in unrealized holding gains on securities	—	—	—	—	—	(865)	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	444	—
Net increase in treasury stock	—	—	—	—	—	—	—	(6,640)
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 a consolidated subsidiary and 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)

		Thousands of U.S. dollars (Note 1)							
	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	$170,256	$414,012	$ 72,895	$ 51	$ 78,982	$ 230	$(86,473)
Net income	—	—	—	289,589	—	—	—	—
Cash dividends paid	—	—	—	(5,584)	—	—	—	—
Capital increase	4,596,300	38,027	38,027	—	—	—	—	—
Gain on sales of treasury stock	—	—	27,701	—	—	—	—	—
Decrease resulting from a merger of a consolidated subsidiary and an unconsolidated subsidiary	—	—	—	(34)	—	—	—	—
Net change in unrealized gain on revaluation of land	—	—	—	—	(34)	—	—	—
Net change in unrealized holding gains on securities	—	—	—	—	—	(73,959)	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	4,248	—
Net decrease in treasury stock	—	—	—	—	—	—	—	53,724
Balance at March 31, 2006	78,183,677	$208,283	$479,740	$356,866	$ 17	$ 5,023	$ 4,478	$(32,749)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 43,875	¥ 21,418	$ 373,500
Depreciation and amortization	4,038	4,007	34,375
Increase (decrease) in reserve for repairs	(2,325)	1,488	(19,792)
Increase in accrued retirement benefits for employees	186	392	1,583
Decrease in allowance for doubtful accounts	(122)	(14)	(1,039)
Decrease in special reserve for repairs	(115)	(476)	(979)
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	42	(153)	358
Interest and dividend income	(1,536)	(671)	(13,076)
Interest expense	4,095	2,621	34,860
Equity in earnings of non-consolidated subsidiaries and affiliates	(2,081)	(355)	(17,715)
Gain on sales of investment securities	(22,893)	(6,072)	(194,884)
Loss on disposal of fixed assets	429	327	3,652
Loss on termination of a concession agreement	1,638	—	13,944
Loss on impairment	—	91	—
Gain on sale of mineral interests in properties	—	(547)	—
Loss on valuation of golf membership	—	36	—
Special severance benefits	73	405	621
Decrease (increase) in trade receivables	(43,934)	5,638	(374,002)
Increase in inventories	(16,483)	(17,344)	(140,317)
Increase (decrease) in trade payables	25,146	(2,343)	214,063
Increase in excise taxes payable on gasoline and other fuels	2,313	219	19,690
Other	(3,913)	8,834	(33,311)
Subtotal	(11,563)	17,502	(98,434)
Interest and dividends received	1,343	698	11,433
Interest paid	(3,861)	(2,507)	(32,868)
Income taxes paid	(6,686)	(2,298)	(56,917)
Special severance benefits paid	(183)	(295)	(1,558)
Payment related to termination of a concession agreement	(2,832)	—	(24,108)
Other	—	(742)	—
Net cash provided by (used in) operating activities	¥ (23,784)	¥ 12,357	$ (202,469)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from investing activities:			
Increase in time deposits	(8,940)	(8,979)	(76,105)
Repayment of time deposits	7,916	5,981	67,387
Purchase of investment securities	(205)	(190)	(1,745)
Proceeds from sales of investment securities	27,639	9,254	235,286
Proceeds from redemption of investment securities	349	799	2,971
Purchase of property, plant and equipment	(9,431)	(2,302)	(80,284)
Proceeds from sales of property, plant and equipment	175	0	1,490
Purchase of intangible assets	(244)	(102)	(2,077)
Purchase of shares of a subsidiary resulting in change in consolidation scope	—	(2,410)	—
Increase in long-term loans receivable	(11,100)	(7,799)	(94,492)
Proceeds from collection of long-term loans receivable	7,370	8	62,739
Proceeds from sale of shares in a subsidiary	—	1,496	—
Proceeds from sale of mineral interests in properties	—	1,680	—
Other	(131)	127	(1,115)
Net cash provided by (used in) investing activities	13,396	(2,435)	114,038
Cash flows from financing activities:			
Net decrease in short-term borrowings	(3,648)	(569)	(31,055)
Proceeds from long-term debt	16,062	16,582	136,733
Repayment of long-term debt	(19,476)	(18,209)	(165,796)
Purchase of treasury stock	(0)	(8,792)	(0)
Proceeds from sales of treasury stock	9,564	5,015	81,417
Dividends paid	(653)	—	(5,559)
Proceeds from issuance of shares	8,935	—	76,062
Payment to minority shareholders due to capital reduction	(164)	—	(1,396)
Dividends paid to minority shareholders	(282)	—	(2,401)
Net cash provided by (used in) financing activities	10,336	(5,974)	87,988
Effect of exchange rate changes on cash and cash equivalents	993	144	8,453
Net increase in cash and cash equivalents	941	4,091	8,011
Cash and cash equivalents at beginning of year	29,989	22,127	255,291
Increase in cash and cash equivalents resulting from a newly consolidated subsidiary	—	3,811	—
Decrease in cash and cash equivalents resulting from deconsolidation	—	(40)	—
Increase in cash and cash equivalents resulting from a merger of a non-consolidated subsidiary	95	—	809
Cash and cash equivalents at end of year	¥ 31,027	¥ 29,989	$ 264,127

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

AOC Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

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 compiled 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.

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 (in both 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 ¥117.47 = U.S.$1.00, the approximate rate of exchange on March 31, 2006. This translation should not be construed as representations 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 and ten significant subsidiaries (the "Subsidiaries") as of March 31, 2006 and 2005, respectively. Consolidated subsidiaries as of March 31, 2006, 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.

New Huanan Oil Development Co., Ltd., which was an affiliate accounted for by the equity method as of March 31, 2004, was newly consolidated during the year ended March 31, 2005, due to the acquisition of additional shares. AEDC (USA) Inc., which was a consolidated subsidiary as of March 31, 2004, was excluded from the consolidation due to the sale of the shares owned by Arabian Oil Co., Ltd., during the year ended March 31, 2005.

Arabian Oil Company (Cayman) Ltd., which was a consolidated subsidiary as of March 31, 2005, was excluded from the consolidation due to its liquidation in March 2006.

Nine other subsidiaries in 2006 and five subsidiaries in 2005 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., Arabian Oil Company (Cayman) 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, except for Arabian Oil Company (Cayman) Ltd., whose accounts were prepared on a pro forma basis as of March 31, 2005.

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 2006 and a non-consolidated subsidiary and two affiliates in 2005.

Non-consolidated subsidiaries and affiliates accounted for by the equity method as of March 31, 2006 were as follows.

Non-consolidated subsidiaries accounted for by the equity method:

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

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 (nine companies in 2006 and eight companies in 2005) 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 holding gain or loss, net of applicable income taxes, included directly in shareholders' equity. 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, semifinished 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 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 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.

The transitional difference (¥746 million) on the initial application of the new accounting standard for retirement benefits with effect from April 1, 2000, was amortized over five years ended March 31, 2005.

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 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 the 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 assets will not be realized.

Effective from the year ended March 31, 2005, the Company and six domestic subsidiaries adopted 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 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 separate component of "Shareholders' equity" in the consolidated balance sheets.

(r) Reclassifications

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

3. Marketable Securities and Investment Securities

Marketable securities and investment securities classified as available-for-sale securities as of March 31, 2006 and 2005, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
			2006			
Securities with carrying value exceeding acquisition cost:						
Equity securities	¥ 466	¥ 1,126	¥ 659	$ 3,967	$ 9,585	$ 5,610
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	466	1,126	659	3,967	9,585	5,610
Securities with carrying value not exceeding acquisition cost:						
Equity securities	—	—	—	—	—	—
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	¥ 466	¥ 1,126	¥ 659	$ 3,967	$ 9,585	$ 5,610

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
		2005	
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 5,538	¥ 20,774	¥ 15,235
Debt securities	—	—	—
Other	—	—	—
Subtotal	5,538	20,774	15,235
Securities with carrying value not exceeding acquisition cost			
Equity securities	—	—	—
Debt securities	—	—	—
Other	1,791	1,791	—
Subtotal	1,791	1,791	—
Total	¥ 7,330	¥ 22,566	¥ 15,235

Available-for-sale securities sold during the years ended March 31, 2006 and 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Proceeds from sales of equity securities	¥ 27,639	¥ 9,002	$ 235,286
Gain on sales	22,893	6,072	194,884
Loss on sales	0	28	0

The carrying value of securities which did not have a readily determinable fair value as of March 31, 2006 and 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Held-to-maturity securities:			
Commercial paper	¥ 8,997	¥ 4,999	$ 76,590
Municipal bonds	34	39	289
Available-for-sale securities:			
Unlisted stocks	550	693	4,682
Other, including money market funds	255	202	2,171

The schedule of the contractual maturities of held-to-maturity securities as of March 31, 2006 and 2005, 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
		2006		
Commercial paper	¥ 8,997	¥ —	¥ —	¥ —
Municipal bonds	4	19	9	—
Total	¥ 9,002	¥ 19	¥ 9	¥ —

	Thousands of U.S. dollars			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
	2006			
Commercial paper	$ 76,590	$ —	$ —	$ —
Municipal bonds	34	162	77	—
Total	$ 76,632	$ 162	$ 77	$ —

	Millions of yen			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
	2005			
Commercial paper	¥ 4,999	¥ —	¥ —	¥ —
Municipal bonds	4	19	14	—
Total	¥ 5,004	¥ 19	¥ 14	¥ —

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 as of March 31, 2006 and 2005, was ¥204,815 million ($1,743,552 thousand) and ¥203,976 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)
	2006	2005	2006
Gain on national subsidies	¥ 178	¥ 134	$ 1,515
Gain on insurance claims	128	129	1,090

5. Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Deliberation Council issued “Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” and on October 31, 2003, the Accounting Standard Board of Japan issued “Guidance for Application of the Accounting Standard for Impairment of Fixed Assets.” The Company and its domestic subsidiaries adopted this standard with effect from the year ended March 31, 2005. In accordance with the standard, the Company and its domestic subsidiaries reviewed fixed assets for impairment by grouping the assets in income-generating units and, as a result, recognized an impairment loss on idle land for which there was an indication of a significant decline in the fair value against its book value based on an independent appraisal. In accordance with Japanese GAAP, the adoption of this new accounting standard is treated as an accounting change. As a result of this adoption, income before income taxes and minority interests decreased by ¥91 million for the year ended March 31, 2005.

6. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt as of March 31, 2006 and 2005, and the weighted-average interest rates on the borrowings outstanding as of March 31, 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Short-term borrowings—2.6%	¥ 33,043	¥ 36,688	$ 281,289
Current portion of long-term debt—3.0%	19,244	19,235	163,821
Long-term debt, maturing from 2007 to 2015—3.6%	56,631	57,496	482,089
Total	¥ 108,919	¥ 113,419	$ 927,207

Annual maturities of long-term debt are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	
Year ending March 31,		
2007	¥ 19,244	$ 163,821
2008	18,920	161,062
2009	14,514	123,555
2010	11,493	97,838
2011 and thereafter	11,704	99,634

Pledged assets

The following assets are pledged as collateral for long-term debt amounting to ¥61,782 million ($525,939 thousand) and ¥58,963 million, including current portion of ¥13,891 million ($118,251 thousand) and ¥13,408 million, as of March 31, 2006 and 2005, respectively.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash on hand and in banks	¥ 4,699	¥ 4,172	$ 40,002
Investment securities	1,268	1,024	10,794
Long-term deposits	2,013	2,699	17,136
Treasury stock	682	682	5,806
Buildings and structures	9,536	9,721	81,178
Storage tanks	4,004	4,379	34,085
Machinery, equipment and vehicles	17,466	12,086	148,685
Land	48,952	49,184	416,719
Total carrying value of pledged assets	¥ 88,623	¥ 83,951	$ 754,431

As of March 31, 2006, in addition to the above pledged assets, long-term deposits of ¥1,527 million ($13,000 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, 2006 and 2005. Effective from the year ended March 31, 2005, the Company and six domestic subsidiaries adopted 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, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Deferred tax assets:			
Tax loss carryforwards	¥ 2,450	¥ 12,959	$ 20,856
Loss on devaluation of investment securities	—	2,038	—
Accrued retirement benefits	1,281	1,217	10,905
Gain on sale of land	775	775	6,597
Foreign income taxes	405	454	3,448
Special reserve for repairs	—	870	—
Other	2,564	2,513	21,827
Subtotal	7,477	20,829	63,650
Valuation allowance	(6,889)	(18,272)	(58,645)
Total deferred tax assets	588	2,556	5,006
Deferred tax liabilities:			
Unrealized holding gains on securities	(74)	(6,774)	(630)
Unrealized gain on revaluation of assets of consolidated subsidiaries	(11,949)	(11,949)	(101,720)
Undistributed earnings of foreign subsidiaries	(1,852)	(1,068)	(15,766)
Other	(451)	(86)	(3,839)
Total deferred tax liabilities	(14,327)	(19,879)	(121,963)
Net deferred tax liabilities	¥ (13,738)	¥ (17,322)	$ (116,949)

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets—Deferred tax assets	¥ 588	¥ 2,556	$ 5,006
Long-term liabilities—Deferred tax liabilities	14,327	19,879	121,963

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, 2006 and 2005, is as follows:

	2006	2005
Statutory income tax rate	40.4%	40.4%
Movement in valuation allowance	(17.6)	(28.7)
Prior year's foreign income taxes	—	2.7
Foreign income taxes	2.8	—
Equity in earnings of non-consolidated subsidiaries and affiliates	—	(0.7)
Gain (loss) on sales of the Company's shares held by subsidiaries	(3.1)	5.2
Other	(0.9)	0.0
Effective income tax rate	21.6%	18.9%

8. Accrued Retirement Benefits for Employees

As of March 31, 2006 and 2005, four consolidated subsidiaries operated defined benefit retirement plans. The plans consist of tax-qualified pension plans, mutual aid plans for small and medium-sized 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 retirement benefit plans and the amounts recognized in the consolidated balance sheets as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Retirement benefit obligation	¥ (5,892)	¥ (5,678)	$ (50,157)
Fair value of plan assets	2,089	1,708	17,783
Unfunded retirement benefit obligation	(3,802)	(3,970)	(32,366)
Unrecognized plan assets	—	(187)	—
Unrecognized actuarial loss	183	722	1,558
Net retirement benefit obligation	(3,618)	(3,435)	(30,799)
Prepaid pension expenses	328	324	2,792
Accrued retirement benefits	¥ (3,947)	¥ (3,760)	$ (33,600)

For the years ended March 31, 2006 and 2005, 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, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Service cost	¥ 262	¥ 617	$ 2,230
Interest cost	101	104	860
Expected return on plan assets	(25)	(23)	(213)
Amortization of transitional difference	—	131	—
Amortization of actuarial loss	84	85	715
Special retirement benefits paid	73	172	621
Total	¥ 495	¥ 1,086	$ 4,214

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:

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.6%	1.6%
Amortization periods for unrealized actuarial gains or losses	10 years	10 years
Amortization periods for transitional differences	N/A	5 years

A consolidated subsidiary adopted "Partial Amendment to the Accounting Standard for Retirement Benefits" (Accounting Standard No. 3) released on March 16, 2005, and "Implementation Guidance concerning the Partial Amendment to the Accounting Standard for Retirement Benefits" (Implementation Guidance on Accounting Standard No. 7 released on March 16, 2005) for the year ended March 31, 2006. According to the amendment, the excess of plan assets over the projected benefit obligations is credited to retirement benefit expenses over a certain period. As a result, gross profit increased by ¥12 million ($102 thousand) and operating income and income before income taxes and minority interests increased by ¥17 million ($145 thousand) for the year ended March 31, 2006.

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 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 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 three to five 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. Shareholders' Equity

Premium on common stock, capital surplus, legal earnings reserve and cash dividends

Under the Commercial Code of Japan (the "Commercial Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distribution by resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

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 the Commercial Code.

Appropriation of retained earnings

Under the Commercial Code, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for the period do not, therefore, reflect such appropriations.

Treasury stock

The number of treasury stock owned by the Companies as of March 31, 2006 and 2005, was 3,000,061 and 7,920,120 common stock, respectively.

Reduction of additional paid-in capital of the Company

The Board of Directors of the Company resolved to reduce additional paid-in capital by ¥24,638 million, to ¥5,000 million, on May 27, 2004, and the proposal was approved by the general shareholders' meeting held on June 29, 2004. Consequently, the reduction in additional paid-in capital was transferred to other capital surplus, which is available for distribution by resolution of the shareholders.

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, 2006 and 2005, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Total commitments available	¥ 88,102	¥ 80,542	$ 750,000
Amount utilized	34,418	23,518	292,994
Balance available	¥ 53,683	¥ 57,024	$ 456,993

As a debtor:

AOC has entered into loan commitment agreements with eight banks (nine banks in 2005) aggregating ¥88,102 million ($749,996 thousand) and ¥80,542 million as of March 31, 2006 and 2005, 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 and nine banks aggregating ¥15,000 million ($127,692 thousand) and ¥10,000 million as of March 31, 2006 and 2005, respectively, to finance working capital requirements. The outstanding balance of such loan commitments as of March 31, 2006 and 2005, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Total commitments available	¥ 103,102	¥ 90,542	$ 877,688
Amount utilized	34,418	23,518	292,994
Balance available	¥ 68,683	¥ 67,024	$ 584,685

12. Contingent Liabilities

The Companies made the following guarantees of liabilities as of March 31, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
As guarantors of indebtedness of:			
Employees (for home purchase)	¥ 511	¥ 627	$ 4,350

13. Request for Buy Out of Fuji Oil Co., Ltd. ("FOC"), Shares

FOC, a consolidated subsidiary, was requested to buy out 5,434,000 of its shares from its former shareholders who rejected FOC's proposed restructuring plan at the shareholders' meeting held in December 2002. As the price of the shares was not agreed between FOC and the former shareholders, the former shareholders filed a claim to the Tokyo District Court in 2003 requesting the court to determine the price. In February 2005, the Court proposed a price of ¥1,618 per share and FOC reached an amicable settlement with the former shareholders and purchased the 5,434,000 shares at the proposed price per share.

14. Treatment of Domestic Assets in Japan on Termination of Concession Agreements with the Governments of Kuwait and Saudi Arabia

Arabian Oil Co., Ltd. (“AOC”), a consolidated subsidiary terminated its concession agreements with the governments of Kuwait and Saudi Arabia in January 2003 and February 2000, respectively.

The treatment of assets located in Japan and expenditures for the construction in progress in Kuwait as of January 4, 2003, are under discussion with the government of Kuwait. 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 ($13,944 thousand) on termination of the concession agreement during the year ended March 31, 2006. Discussions with the government of Kuwait are ongoing.

15. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2006 and 2005, 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)
	2006	2005	2006
Acquisition costs:			
Machinery, equipment and vehicles	¥ 15	¥ 12	$ 128
Other	335	238	2,852
	¥ 350	¥ 250	$ 2,979
Accumulated depreciation:			
Machinery, equipment and vehicles	¥ 8	¥ 5	$ 68
Other	156	140	1,328
	¥ 164	¥ 145	$ 1,396
Net book value:			
Machinery, equipment and vehicles	¥ 7	¥ 7	$ 60
Other	178	97	1,515
	¥ 185	¥ 105	$ 1,575

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements and the related pro forma depreciation expense for the years ended March 31, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Lease payments	¥ 61	¥ 51	$ 519
Depreciation expense	61	51	519

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, 2006 and 2005, for finance leases currently accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Due within one year	¥ 66	¥ 42	$ 562
Due after one year	119	62	1,013
Total	¥ 185	¥ 105	$ 1,575

16. 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, 2006 and 2005, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash on hand and in banks	¥ 21,808	¥ 23,096	$ 185,647
Marketable securities	9,252	6,993	78,761
Subtotal	31,061	30,090	264,416
Time deposits maturing over three months	(34)	(100)	(289)
Cash and cash equivalents	¥ 31,027	¥ 29,989	$ 264,127

17. Additional Cash Flow Information

The components of assets and liabilities resulting from new consolidation of New Huanan Oil Development Co., Ltd. and reconciliation between acquisition value and payment for purchase of the shares are as follows:

	Millions of yen
Current assets	¥ 4,442
Fixed assets	997
Current liabilities	(309)
Goodwill on consolidation	(154)
Minority interests	(836)
Acquisition value of shares	4,138
Prior year's acquisition value	(1,728)
Payment during the 2005 fiscal year	2,410
Increase in cash and cash equivalents due to cash held by a newly consolidated subsidiary	3,811
Net increase in cash and cash equivalents	¥ 1,401

Major assets and liabilities of a company excluded from consolidation due to sales of shares during the year ended March 31, 2005, are as follows:

AEDC (USA) Inc.	Millions of yen
As of January 31	2005
Current assets	¥ 442
Fixed assets	1,056
Current liabilities	(429)

18. 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, 2006 and 2005, amounted to ¥588 million ($5,006 thousand) and ¥458 million, respectively.

19. Per Share Data

	Yen		U.S. dollars
	2006	2005	2006
Net assets per share	¥ 1,596.32	¥ 1,162.70	$ 13.59
Basic net income per share	484.21	255.67	4.12

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, 2006 and 2005.

20. Segment Information

Business segments

Business segment information for the Companies as of and for the years ended March 31, 2006 and 2005, is 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	¥ 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 amortization 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

	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	Thousands of U.S. dollars					
	2006					
I. Sales and operating income						
Sales to third parties	$1,241,483	$ 65,532	$4,663,454	$5,970,478	$ —	$5,970,478
Intersegment sales	510,003	—	128	510,130	(510,130)	—
Total sales	1,751,485	65,532	4,663,582	6,480,608	(510,130)	5,970,478
Operating expenses	1,750,226	37,899	4,523,538	6,311,671	(510,292)	5,801,371
Operating income	$ 1,260	$ 27,624	$ 140,044	$ 168,937	$ 162	$ 169,098
II. Assets, depreciation and amortization and capital expenditures						
Total assets	$ 721,444	$ 81,365	$2,241,228	$3,044,045	$ (65,957)	$2,978,080
Depreciation	9	5,584	28,535	34,136	128	34,273
Capital expenditures	111	7,781	92,253	100,145	51	100,204

	Khafji-related	Oil/gas exploration and production	Oil refinery and sales	Total	Eliminations and corporate	Consolidated
	Millions of yen					
	2005					
I. Sales and operating income						
Sales to third parties	¥ 89,483	¥ 6,359	¥ 381,453	¥ 477,295	¥ —	¥ 477,295
Intersegment sales	30,178	—	3,610	33,789	(33,789)	—
Total sales	119,661	6,359	385,064	511,085	(33,789)	477,295
Operating expenses	118,893	3,652	370,155	492,702	(33,853)	458,848
Operating income	¥ 768	¥ 2,706	¥ 14,908	¥ 18,383	¥ 64	¥ 18,447
II. Assets, depreciation and amortization and capital expenditures						
Total assets	¥ 63,408	¥ 9,151	¥ 242,543	¥ 315,104	¥ (21,700)	¥ 293,404
Depreciation	3	1,116	2,863	3,983	12	3,995
Loss on impairment	—	—	91	91	—	91
Capital expenditures	—	266	3,719	3,986	—	3,986

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 and sales: Crude oil, petrochemical products (gasoline, naphtha, etc.)

3. Non-allocable operating expenses (¥1,024 million in 2006 and ¥885 million in 2005) included in "Eliminations and corporate" are mainly administrative expenses related to the corporate general affairs function of the parent company (¥1,943 million in 2006 and ¥1,205 million in 2005).

4. Corporate assets included in "Eliminations and corporate" mainly consist of surplus funds, including cash on hand and in banks of the parent company.

5. For the year ended March 31, 2005, the oil/gas exploration and production segment includes net sales, operating expenses and operating income amounting to ¥3,527 million, ¥1,620 million and ¥1,907 million, respectively, of New Huanan Oil Development Co., Ltd. (NHODC), which was newly consolidated due to the acquisition of additional shares.

Geographical segments

Geographical segment information for the Companies for the years ended March 31, 2006 and 2005, is summarized as follows:

	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

	Thousands of U.S. dollars							
	Japan	Asia	Middle East	America	Europe	Total	Eliminations and corporate	Consolidated
	2006							
I. Sales and operating income								
Sales to third parties	$5,222,874	$ 705,738	$ 28,126	$ —	$ 13,723	$5,970,478	$ —	$5,970,478
Intersegment sales	589,563	2,389,657	—	—	—	2,979,220	(2,979,220)	—
Total sales	5,812,437	3,095,403	28,126	—	13,723	8,949,698	(2,979,220)	5,970,478
Operating expenses	5,680,489	3,066,936	15,119	17	9,262	8,771,848	(2,970,469)	5,801,371
Operating income	$ 131,949	$ 28,458	$ 13,008	$ (17)	$ 4,452	$ 177,850	$ (8,751)	$ 169,098
II. Assets	$2,890,576	$ 293,019	$ 22,831	$ —	$ 21,222	$3,227,675	$ (249,596)	$2,978,080

	Millions of yen							
	Japan	Asia	Middle East	America	Europe	Total	Eliminations and corporate	Consolidated
	2005							
I. Sales and operating income								
Sales to third parties	¥ 451,709	¥ 19,554	¥ 3,200	¥ 2,095	¥ 735	¥ 477,295	¥ —	¥ 477,295
Intersegment sales	33,584	177,206	—	3,595	—	214,386	(214,386)	—
Total sales	485,294	196,761	3,200	5,691	735	691,682	(214,386)	477,295
Operating expenses	470,441	194,852	1,440	4,915	713	672,364	(213,516)	458,848
Operating income	¥ 14,852	¥ 1,908	¥ 1,759	¥ 775	¥ 21	¥ 19,317	¥ (870)	¥ 18,447
II. Assets	¥ 309,180	¥ 23,614	¥ 1,957	¥ 2,542	¥ 2,064	¥ 339,360	¥ (45,955)	¥ 293,404

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 (in 2006 only)
(3) America: U.S.A. (in 2005 only), Cayman Islands
(4) Europe: Norway
4. Non-allocable operating expenses (¥1,024 million in 2006 and ¥885 million in 2005) included in "Eliminations and corporate" are mainly administrative expenses related to the corporate general affairs function of the parent company.
5. Corporate assets (¥1,943 million in 2006 and ¥1,205 million in 2005) included in "Eliminations and corporate" mainly consist of surplus funds, including cash on hand in banks of the parent company.
6. For the year ended March 31, 2006, net sales and other items of America decreased since AEDC (USA) Inc. was excluded from consolidation following sale of the shares held by AOC.
7. Asia includes net sales (¥3,527 million), operating expenses (¥1,620 million) and operating income (¥1,907 million) of New Huanan Oil Development Co., Ltd., which was newly consolidated due to the acquisition of additional shares during the year ended March 31, 2005.

Overseas sales

Overseas sales information for the Companies for the years ended March 31, 2006 and 2005, is summarized as follows:

	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%

	Thousands of U.S. dollars			
	Asia	Middle East	Others	Total
	2006			
Overseas net sales	$ 1,185,418	$ 28,126	$ 25,317	$ 1,238,869
Consolidated net sales	—	—	—	5,970,478
Overseas net sales as a percentage of total consolidated net sales	19.85%	0.47%	0.42%	20.75%

	Millions of yen			
	Asia	Middle East	Others	Total
	2005			
Overseas net sales	¥ 52,895	¥ 3,200	¥ 3,415	¥ 59,511
Consolidated net sales	—	—	—	477,295
Overseas net sales as a percentage of total consolidated net sales	11.08%	0.67%	0.72%	12.47%

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 (in 2006 only)
(2) Middle East: Kuwait, Saudi Arabia
(3) Others: U.S.A., Norway (in 2006 only)
3. Overseas net sales are net sales of the consolidated subsidiaries in countries and regions outside Japan.
4. Asia includes net sales (¥3,527 million) of New Huanan Oil Development Co., Ltd., which was newly consolidated due to the acquisition of additional shares during the year ended March 31, 2005.

21. Subsequent Events

The Company sold treasury stock as follows based on the resolution of the Board of Directors' meeting held on June 1, 2006:

a. Number of treasury stock sold: 2,034 thousand common stock

b. Selling price: ¥1,933 ($16.46) per share

c. Aggregate value of sales proceeds: ¥3,932 million ($33,472 thousand)

d. Payment due: June 23, 2006

e. Buyers:

	Japan Airlines International Co., Ltd.	1,034 thousand shares
	Kyushu Oil Co., Ltd.	1,000 thousand shares
	Total	2,034 thousand shares

f. Method of determining the selling price: The selling price (¥1,933) was computed by multiplying the average closing price of the Company's shares on the Tokyo Stock Exchange for one month preceding the resolution date of the Board of Directors' meeting (May 1, 2006, through May 31, 2006) by 0.9.

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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AOC Holdings, Inc., and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 5 to the consolidated financial statements, effective April 1, 2004, AOC Holdings, Inc. and consolidated domestic subsidiaries adopted early the new accounting standards for impairment of fixed assets.
(2) As discussed in Note 21 to the consolidated financial statements, AOC Holdings, Inc. sold treasury stock.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 28, 2006

AOC Holdings Group Companies

AOC Holdings, Inc.
As of June 30, 2006

	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, 2006

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:	36 (AOC Holdings only) 625 (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)	2,180.7	2.78
The Kansai Electric Power Co., Inc.	1,900.0	2.43
Japan Trustee Services Bank, Ltd. (Trust Account)	1,795.7	2.29
Nippon Steel Corporation	1,250.0	1.59

Independent Certified Public Accountant

KPMG AZSA & Co.

AOC Holdings, Inc.

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