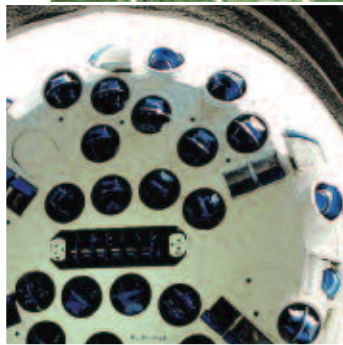
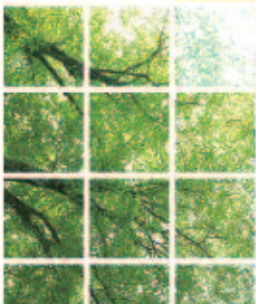


# Investing in the Future



## Investing in the future

We are fully committed to using our superior technologies to create value for people all over the world, and to protecting the environment. In all the businesses we operate, our goal is to realize more comfortable lifestyles today and prosperity into the future.

To achieve these goals, the Hitachi Zosen Group is drawing on its full potential to provide high value-added comprehensive solutions in the fields of environmental systems, industrial plant, machinery, process equipment, precision machinery, steel structures, construction machinery, and marine disaster prevention systems.

Since our founding in 1881, we have been developing a range of technologies and products based on our strengths in manufacturing and engineering. We are committed to preserving the global environment for future generations, and to working as a frontline player to build a society that harmoniously balances the needs of economic development and environmental preservation.

### Forward-looking statements:

This annual report contains forward-looking statements that reflect judgments based on information available at the present time. Such forecasts are thus subject to a number of risks and uncertainties, and investors are advised that actual results may differ widely due to various factors.

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### 03 To Our Stakeholders

### 05 Hitachi Zosen's Core Competencies



### 09

### Interview with the President

President Minoru Furukawa evaluates the Company's business performance for fiscal year 2008 (ended March 31, 2009) along with a report on the progress of the Hitz Innovation II medium-term management plan. President Furukawa then goes on to describe his future vision of Hitachi Zosen Group.



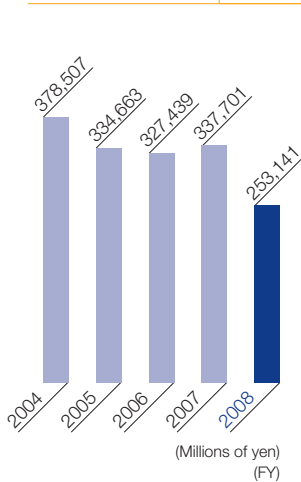
# Financial Highlights

Hitachi Zosen Corporation and consolidated subsidiaries  
Fiscal years\* ended March 31

Fiscal year	Millions of yen					Thousands of U.S. dollars
	2004	2005	2006	2007	2008	2008
<b>Operating results</b>						
Orders received	¥ 378,508	¥ 334,664	¥ 327,439	¥ 337,701	¥ 253,141	\$ 2,577,023
Net sales	337,680	333,881	293,409	295,503	298,605	3,039,855
Operating income	2,735	2,766	9,919	10,826	11,678	118,884
Net income (loss)	1,049	(29,057)	1,034	15,695	1,448	14,741
Net income (loss) per share (yen)						
Basic	2.08	(56.54)	1.43	19.74	1.82	0.02
Diluted	1.95	—	—	18.02	1.53	0.02
<b>Financial position</b>						
Net assets	¥ 44,448	¥ 24,157	¥ 68,652	¥ 85,595	¥ 85,843	\$ 873,898
Total assets	416,456	390,206	365,143	365,537	367,473	3,740,945
Interest-bearing liabilities	172,422	153,968	111,972	102,284	103,516	1,053,812
<b>Selected financial indicators</b>						
Shareholder's equity ratios (%)	10.7	6.2	14.9	19.4	19.3	—
ROIC (%)	1.5	1.6	6.7	6.8	6.8	—
Debt-equity ratio (times)	3.9	6.4	2.1	1.4	1.5	—

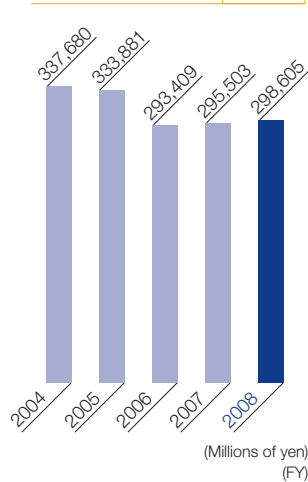
## Orders received

¥253.1 billion **-25.0%**



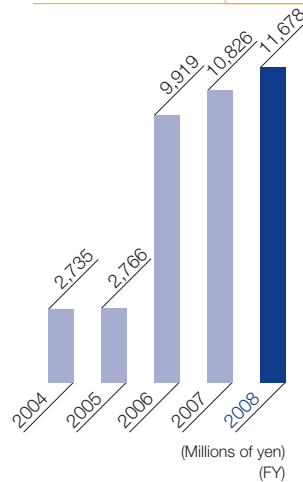
## Net sales

¥298.6 billion **+1.0%**



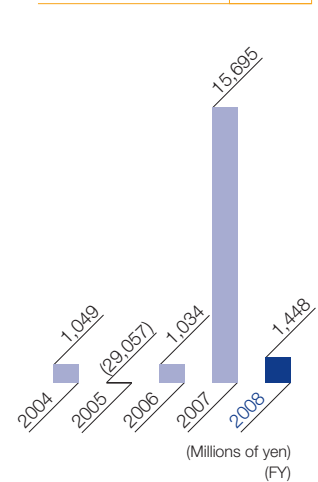
## Operating income

¥11.7 billion **+7.9%**



## Net income (loss)

¥1.4 billion **-90.8%**



\* The Company's fiscal year starts on April 1 and ends on March 31 of the following year.

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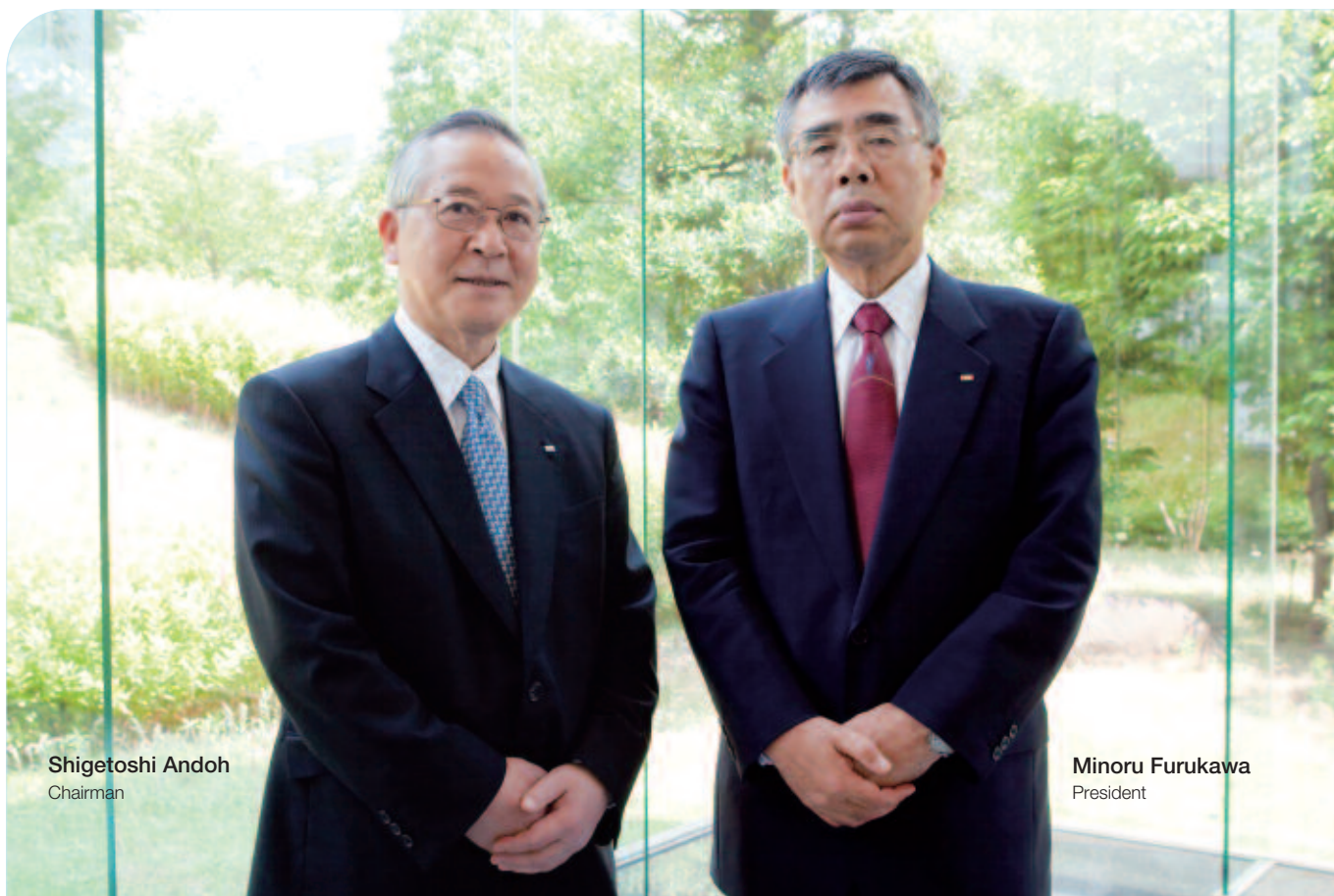
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# To Our Stakeholders



**Shigetoshi Andoh**  
Chairman

**Minoru Furukawa**  
President

The Hitachi Zosen Group has embarked upon a new three-year medium-term management plan from fiscal year 2008 (ended March 31, 2009) called Hitz Innovation II.

This plan encompasses the enhancement of the global environment and the improvement of the social infrastructure by utilizing our unique strengths in manufacturing and engineering. It is aimed at realizing a return to profitability in all business fields, and the resumption of dividend payments by the end of the plan. Our fundamental policy is to establish "Technology-Driven Hitz" as our corporate brand, and to create a corporate culture of constant innovation.

Under this policy, the Hitachi Zosen Group is advancing with determination to implement five key strategies: 1) creation of an optimal business portfolio; 2) development of new products and businesses and expansion of capital investment; 3) effective utilization of human resources while securing and leveraging adequate numbers of qualified new employees; 4) reinforcement of our governance system on an ongoing basis; and 5) sharing of corporate values while revitalizing our corporate culture.

Fiscal year 2008, the first year of the plan, saw a significant worsening of the business environment due to the worldwide economic downturn. Though we were able by and large

to achieve our performance targets, the severity of the business environment prevented us from resuming dividend payments.

There are less than two years left for the completion of our Hitz Innovation II plan. Despite the increasing harshness of the business environment, the Hitachi Zosen Group intends to survive this critical situation through concentrated effort. We plan to resume dividend payments and return all of our operations to profitability. Following this, in our next medium-term plan period, beginning from fiscal year 2011 (ending March 31, 2012), we are aiming for dramatic progress.

To our shareholders and other stakeholders, we would like to urge you to look forward to our coming growth and expansion, while giving us your fullest support and encouragement.

July 2009

Shigetoshi Andoh, Chairman

Minoru Furukawa, President

## Fiscal year 2008 performance report

The following is a report outlining our financial performance for fiscal year 2008 (April 1, 2008 to March 31, 2009), and reporting on the progress of our medium-term management plan to our stakeholders.

### The market environment and our business performance

A high level of private-sector capital investment was maintained in the first half of the reporting period, but in the second half the global economy performed a dramatic downturn. For the Hitachi Zosen Group, the business environment took a considerable turn for the worse, with a sharp decline in private-sector capital investments in line with a substantial deterioration in corporate earnings.

Amid this situation, orders received for fiscal year 2008 amounted to ¥253,141 million, significantly lower than the previous term, due to a decrease in orders received by the Environmental Systems and Industrial Plants, and Machinery and Process Equipment business segments.

Sales amounted to ¥298,605 million, almost the same as for the previous term, thanks to plentiful orders in the previous term and in the first half, which offset the decrease in orders received by the Environmental Systems and Industrial Plants business segments.

Operating income and ordinary income were ¥11,678 million and ¥8,990 million respectively, both figures in excess of the previous term. We posted extraordinary profit in the amount of ¥2,424 million, mainly due to gains on the sale of idle assets, while we posted a total of ¥6,795 million in extraordinary loss, mainly from the provision for an allowance for losses from lawsuits, in preparation for the event that the surcharge payment order from the Japan Fair Trade Commission, which is under hearing procedure, becomes final regarding supposed violation of antitrust laws in tendering for the construction of refuse incineration plants. As a result, net income after deducting tax costs and minority interests was ¥1,448, lower than the previous fiscal year.

To our extreme regret, we forwent the year-end dividends of the fiscal year considering our retained earnings as well as the severity of the current business environment. We are making efforts to enhance profitability in order to resume dividend payments at the earliest opportunities and implement stable and continuous dividends.

### Outlook for fiscal year 2009

With regard to the outlook for fiscal year 2009 (April 1, 2009 to March 31, 2010) we expect the receipt of large-scale orders by the Environmental Systems and Industrial Plants business, as well as a recovery by the Machinery and Process Equipment business. We have therefore set a target for orders received of ¥330,000 million, exceeding the reporting term. Turnover is expected to be on a level nearly equivalent to the reporting term, at ¥300,000 million.

With respect to income and loss, we expect to achieve operating income of ¥10,000 million due to decreased profitability in the Machinery and Process Equipment Segment, mainly influenced by a backdrop in demand for press machines from the automobile industry, despite increased profitability in the Environmental Systems operations and Steel Structures operations. We expect to achieve ordinary income of ¥7,000 million with net income of ¥5,000 million.

### The progress of the Hitz Innovation II, three-year medium-term plan

In the first fiscal year of our Hitz Innovation II medium-term management plan, we failed to reach our targets for orders, net income and interest-bearing debt due to the impacts of the global recession, the posting of extraordinary losses in order to mitigate future potential risks, and the maintenance of a high cash liquidity position in consideration of the weakness of the financial markets. We, however, recognize that "Hitz Innovation II" has been done nearly as planned, as other financial targets were achieved.

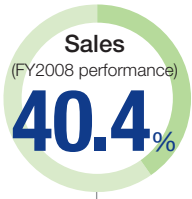
Hitachi Zosen Corporation merged and integrated ten of its main consolidated subsidiaries as of April 1, 2009 in order to realize its expansion into a highly profitable corporation. The implementation of these mergers has accelerated the key strategies of the medium-term plan to secure and develop human resources, reinforce our organization to increase research and development investments, continue reinforcing our governance systems, share corporate values, and realize the revitalization of our corporate culture. Moreover, it is expected to expand our product lineup by a synergic effect and strengthen our purchasing power. Through these efforts, we will be able to strengthen our profitability and expand shareholder's equity, and move ahead for the materialization of stable and continuous payments of dividends.

### Future policy

We have been steadily improving profitability and financial condition through the structural reforms carried out from the previous medium-term management plan (fiscal year 2005 through 2007).

Although the sudden worsening of economy has cast uncertainty over the future of the business environment, we are striving to secure orders, which are the source of profits, and build the business structures that are well-balanced in terms of operations for the public demand and operations for the private demand, domestic business and overseas business, and new construction work and after-sales service (operation and administration, overhaul and repair work, supply of spare parts, etc. after delivery). We will do our utmost to establish a solid business foundation through secure implementation of the priority measures in "Hitz Innovation II".

# Hitachi Zosen's Core Competencies I



## Environmental Systems and Industrial Plants Business

### Highly efficient waste to energy systems



Shinagawa Incineration Plant of Clean Association of Tokyo 23

### Environmental preservation systems

Providing heat-recovery facilities to make the most effective use of the indispensable energy resources bound up in waste materials disposed of as unrecyclable refuse.

### Biomass utilization/ Water treatment/ Soil remediation systems

We are actively involved in the development of a wide range of biomass utilization technologies, which are expected to contribute greatly to preventing global warming. In our technology development for water and sewage treatment and soil remediation, we are making every effort to provide efficient and comprehensive systems from the perspective of a sustainable society in terms of both resources and energy.

### Biomass utilization systems



Bio-ethanol dehydration systems

### Water treatment systems



Aquarium water treatment systems

### AOM (after-service, operation and maintenance) business



Central control office

### Environmental solutions

Offering total solutions for operation and maintenance through exhaustive technical support enabling environmental facilities (primarily refuse incinerator facilities) to work at their maximum capacity.

### Desalination plant



Seawater desalination plant

### Industrial plant

For half a century we have delivered a diverse range of industrial plants to many countries around the world, including chemical, petrochemical, petroleum gas refining, seawater desalination, sulfuric acid, foodstuffs, and de-NOx catalysts.

## Our business is centered on manufacturing and engineering

The corporate mission of the Hitachi Zosen Group is to contribute towards a better future by leveraging our technological expertise to create value of use to society through our technology and our sincerity. We aim to utilize our unique strengths in manufacturing and engineering to enhance the global environment and improve the social infrastructure.

At this moment in time, our aim is to boost our total group capabilities with the focus on our business segments of Environmental Systems and Industrial Plants, Machinery and Process Equipment, and Steel Structures and Construction Machinery. This will allow us to become a highly profitable corporation through the achievement of our Hitz Innovation II, three-year medium-term management plan.

### Bridges



Akashi-Kaikyo Bridge

### Bridges/ Hydraulic gates/ Marine civil engineering

Our bridge-building business spans a hundred years and includes such achievements as the massive Akashi-Kaikyo Bridge (part of the Honshu-Shikoku Bridge Project) and many others. We also supply dams, hydraulic gates for rivers, immersed undersea tunnels, and hybrid caissons and floating wave-absorbing dykes for harbors.

### Shield tunneling machines



Shield tunneling machine for Bosphorus Straits

### Construction machinery

We manufacture and sell shield tunneling machines that are indispensable for tunnel construction work for subways, pedestrian subways, sewerage systems and underground streams. We can produce wide-range shield machines with small diameters of less than 2 meters or large diameters surpassing 10 meters, and have delivered to customers in the USA, China, South Korea, Taiwan, Singapore, Thailand, and Turkey as well as in Japan.



## Steel Structures and Construction Machinery Business



## Machinery and Process Equipment Business

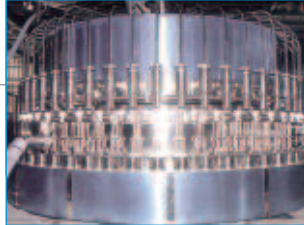
Sales  
(FY2008 performance)  
**36.6%**

### Industrial machinery

Our filling systems for foods and beverages, chemical products and medical products are able to cope with any kind of product, from liquids and viscous substances to powders or dressings with solid contents. In the field of plastics we supply molding systems with countless achievements in extrusion technology from sheets to films, making improvements in multi-functionality, productivity, recyclability and maintenance.

Top: Aseptic filling equipment  
Bottom: Sheet/Film formation lines

#### Foods/Medical machinery



#### Plastic machinery



### Precision machinery

We are involved in the manufacture and engineering of manufacturing devices, equipment and components related to flat-panel displays, solar panels and semiconductors, including organic electroluminescent displays. We also supply products and devices using vacuum equipment, precision instrument carrier devices and applied laser technology.

#### Organic electroluminescence manufacturing device



#### Laser processing unit



#### Marine diesel engine



### Marine diesel engine/ Press machinery

We have gained a strong reputation for our supply of environmentally friendly high-output marine engines utilizing the latest technology to cope with the increasing size of ships and the enforcement of regulations to prevent air pollution. We have established a comprehensive customer support service system for press machine and related systems from the design and manufacture of medium — to super-large-scale equipment to after-sales customer services, gaining a good reputation around the world.

Top: Man B&W 65 ME-C Electronically Controlled Engine  
Bottom: 18,000kN servo press

#### Process equipment



### Process equipment/ Nuclear power equipment

Our process equipment business has established itself as a top-ranked global manufacturer, while our production plants rank as the biggest in the world, able to cope with the manufacture of massive-scale temperature / pressure equipment. In the field of nuclear power equipment we have delivered a wide range of products, including transportation and storage containers for nuclear spent fuel, and radioactive waste incineration and reduction facilities.

#### Equipment for the nuclear fuel cycle



Top: Residual Fluid Catalytic Cracking (RFCC) reactor  
Bottom: Storage container for spent nuclear fuel

#### Press machinery



### Power generation facilities/ New energy

In order to contribute to the prevention of global warming, we provide gas-powered generation systems (including cogeneration systems) employing a diverse range of fuel gases, such as natural gas, biogas and Off-Gas as well as wind power generation systems utilizing natural energy.

#### Power generation facilities



Gas engine

#### GPS Buoy wave/Tsunami/ Tide observation system



### Marine disaster prevention systems

We provide various types of remote monitoring systems for GPS hydrographic observation, monitoring rivers, roads, and harbors, and cracking equipment for bedrock or concrete, by utilizing our creative technology such as satellite global positioning systems and electrical discharge shock breakers.

## Other Businesses

Sales  
(FY2008 performance)  
**12.9%**

## Technologies that help preserve the rich diversity of the natural environment and improve the social infrastructure

The Hitachi Zosen Group utilizes its unique manufacturing and engineering skills to develop new technologies that can help preserve the rich diversity of the global natural environment and improve the social infrastructure. We expect the environment-related business field to become one of the Group's most important new growth drivers. In the following section, we describe our most promising products and systems.

### Environmental preservation

#### Catalysts to reduce atmospheric emissions of nitrogen oxides (NOx)

Nitrogen oxides (NOx) contained in the gases emitted from the chimneys of factories and power stations combine with other substances in the atmosphere under the action of sunlight to cause photochemical smog and acid rain, which have harmful effects on the human body and the plant kingdom.

We have developed catalysts and catalytic systems, which break down NOx contained in emissions into their constituents — nitrogen and water — through reaction with ammonia. We manufacture a wide range of such catalysts and catalytic systems and install them in facilities using boilers, gas turbines, diesel engines, and refuse incinerators. We have delivered 330 such facilities, the majority of which have been installed at more than 150 locations in the United States, China, Taiwan, and the Middle East, in addition to sites in Japan. They are now making a contribution to the prevention of environmental pollution all over the world.



Plant installed De-NOx catalyst

### Energy from refuse

#### Power generation through refuse incineration

High-efficiency power generation through refuse incineration was selected as a priority theme for fiscal year 2009 by the Ministry of the Environment. In 1965, Hitachi Zosen became the first company in Japan to deliver a large-scale incineration facility with in-built electric power generation capability. The Hitachi Zosen Group is a pioneer in Japan in the field of waste incineration facilities with power generation capability, having manufactured the country's first such facility with a minimum effective heat usage ratio of 20% in 1995. This was followed in 1996 by the construction of Japan's first facility with a combined gas-turbine and steam-turbine system fueled by refuse incineration. We have Japan's top record in the handover of such facilities.

We have constructed facilities at 59 locations around Japan, with an aggregate power capacity of 310,000 kilowatts. Of this, 48 facilities (total capacity of 280,000 kilowatts) are currently in operation. Heat produced at generation facilities is used for room heating and swimming pool water heating. Thus, electricity and heat generated by refuse incineration contribute to achieving a reduction in carbon dioxide emissions of around 1.25 million tonnes per annum.



Shinagawa Incineration Plant of Clean Association of Tokyo 23

### Technologies utilizing biomass

#### In-house development of high-performance dehydration membrane for production of dehydrated ethanol fuel

Ethanol fuel is being looked at seriously as an alternative to fossil fuels from the standpoint of reducing atmospheric emissions of carbon dioxide. Worldwide demand for ethanol fuel is currently running at around 50 million kiloliters per year, with both demand and production centered on the United States and Brazil.

We have developed the Hitz Dehydration System (HDS) for the dehydration of ethanol, using our proprietary "Hitz-type zeolite dehydration membrane elements." The first model was delivered in May 2009 to Hokkaido Bio-Ethanol Co., Ltd. This HDS was built to serve as a test plant for a project run by the Ministry of Agriculture, Forestry and Fisheries for the development and verification of a local-area biofuels application model. The HDS facility is the largest such facility employing dehydration membranes in Japan, with an annual capacity of 15,000 kiloliters.

The dehydration capacity of our HDS membranes is at least twice that of conventional membranes, and the system has been designed to be compact and to conserve energy (energy consumption intensity is 20-30% less than adsorption-type systems). During test runs, the HDS has produced ethanol with water content as low as 0.1%.



Bio-ethanol dehydration systems



## Next-generation energy systems

### Integrated production system developed for photovoltaic film

Clean energy sources have the potential to help reduce emissions of carbon dioxide. Photovoltaic cells, in particular, are attracting interest worldwide.

We have developed an integrated system for the manufacture of flexible photovoltaic film, which includes: 1) equipment for formation of high-performance film, 2) equipment for roll-to-roll membrane formation, and 3) equipment for film patterning through lasers. We are currently organizing a mass-production system for these items. The system was developed in response to projections that film substrates would replace glass substrates sometime in the near future, thus greatly expanding demand for such films.



Thin film laser patterning system

#### ◆ Functional film forming system

We have perfected a process for the production of high-performance film at high temperatures that results in film with high transparency, low residual strain, and superior flatness and smoothness. The heart of the system is an elastic metal roll (ultrafine roll) unit that can apply low linear pressure for pressure-forming of thin-film rolls. Additionally, the roll drive mechanism is fitted with super-precision speed reduction gears for low vibration and super-smooth revolution.

#### ◆ Roll-to-roll film deposition system

This unit forms the membrane on top of the heat-resistant sheet that has been formed by the high-performance film-formation equipment through a continuous in-vacuum process. We employed technologies developed for the manufacture of organic electroluminescent displays, such as surface deposition and sputtering technology, as well as valves produced by our wholly-owned subsidiary V TEX Corporation.

#### ◆ Laser patterning system

Our laser patterning system is used for patterning on substrates, such as for flat panel displays and photovoltaic panels. We are able to offer a wide range of models with differing types of lasers. In addition to application to conventional glass substrates, we also offer laser-patterning systems for application to film substrates with consideration given to heat and deflection during the film production process.

## Hitachi Zosen's dedication to excellence in manufacturing and service

### Investments in production facilities for marine diesel engines and shield tunneling machines

In fiscal year 2008 (ended March 31, 2009) and 2009 we have been making active capital investments in our manufacturing capabilities both in Japan and overseas, with the aim of raising our production capacities for marine diesel engines and shield tunneling machines.

In our marine diesel engine operations, we have almost completed the construction of a Groupwide production system (in which our specialized unit for the manufacture of medium-sized diesel engines at our Ariake Works plays a particularly important role), which will double the Group's capacity to 2.3 million horsepower. In March 2009 we set up a joint venture in China under the name of Zhongji Hitachi Diesel Engine Co., Ltd. with the goal of achieving a production capacity of 1.5 million horsepower in five years. We have also been conducting continuous technology development activities aimed at meeting more stringent restrictions on NOx emissions that have recently been introduced.

In the field of shield tunneling machines, in September 2008 we signed a business collaboration agreement with Beijing HuaSuTong Boring Equipment Co., Ltd. (HST) under which we will supply HST with designs, parts, and technical support for shield tunneling machines. Then, in November we completed construction of a dedicated factory in Sakai Works for the manufacture of shield tunneling machines and a wide range of industrial machinery.



Press conference to announce establishment of Chinese joint venture



A shield tunneling machine ordered by a customer in Taiwan

# Interview with the President

The Hitachi Zosen Group is currently conducting initiatives under its Hitz Innovation II medium-term management plan (from fiscal year 2008 ended March 31, 2009 to fiscal year 2010 ending March 31, 2011), whose main themes are bringing all business segments back into the black and resuming dividend payments at an early date.

We asked President Furukawa to comment on progress achieved in realizing the plan's goals during the first year (fiscal year 2008, ended March 31, 2009), as well as growth strategies and his vision of the Company over the long term.

**We aim to mobilize the Group's comprehensive strengths under our new management team, and to raise earning power and bolster the Company's retained earnings so as to realize a resumption of dividend payments as soon as possible.**

Minoru Furukawa  
President



## ■ Business performance in fiscal year 2008

Q1

Could you evaluate the Company's performance for fiscal year 2008, the first year under the current medium-term management plan Hitz Innovation II?

Given the circumstances, our performance for fiscal year 2008 was not too bad, but I had hoped we could do better.

The principal themes of Hitz Innovation II are returning all loss-making operations to the black and resuming dividend payments as soon as possible. In that sense, one could say that the fiscal year 2008 results were unsatisfactory.

On the other hand, Hitachi Zosen succeeded in increasing its operating income to ¥11.6 billion despite facing a global economic downturn comparable only with the Great Depression of the early 1930s. On an absolute scale, we cannot be satisfied with the figure of ¥11.6 billion, but considering the fact that the business environment has deteriorated beyond all our expectations, to surpass the initial target of ¥11.0 billion is proof of the effectiveness of the measures we took to restructure our business portfolio under the previous medium-term management plan, "Hitz Innovation."

Although the Group's operating environment continues to worsen and optimism is unwarranted, I can say that the fiscal year 2008 was a reasonably good start to the Hitz Innovation II three-year plan.

## Which of the Group's operations made the most significant contribution to the increase in operating income?

Q2

The biggest contribution was made by the Process Equipment business, which racked up good results. The reporting term saw the posting of a large amount of sales of large-scale pressure vessels for oil refineries, orders for which had been received in previous terms, and this made a major contribution to profits. Additionally, a reduction in the margin of loss was recorded by the Steel Structures business, which had posted a large amount of loss. This was the result of strict measures to cut costs, as well as the selecting of projects to avoid loss-making orders.

Particularly with regard to turning around loss-making operations, we have been pursuing the reinforcement of our risk management and project management systems as a common theme of both the previous Hitz Innovation plan and the current Hitz Innovation II plan. Thanks to these efforts, we are now in sight of returning all business segments to the black for fiscal year 2009. For fiscal year 2010, the final year under Hitz Innovation II, we have set the goal of 5.0% for the operating profit margin (ratio of operating income to sales) on targets of ¥340 billion in sales, and ¥17 billion in operating income. The elimination of all loss-making operations for fiscal year 2009 will be one of the most important touchstones for realizing our final targets under the plan.

## ■ Progress of Hitz Innovation II

Q3

### Could you please describe the progress that has been made with respect to key strategies under Hitz Innovation II?

With regard to the transformation of the Group's business portfolio, since last year we have been pursuing talks with Shanghai Zhouji (Group) Co., Ltd. on a joint venture in the production of diesel engines for ships, and a company was set up in March 2009. We are currently constructing a diesel engine factory in Zhoushan, Zhejiang Province that will have a capacity of around 1.5 million horsepower-worth of marine diesel engines per annum, and operations are set to start at the end of 2009. The Hitachi Zosen Group's growth strategy has hitherto centered on Japan, but this joint venture opens the way to full-scale development of our business in the Chinese market.

Regarding measures to create new products and businesses and expand capital investment, we took advantage of the conclusion of pilot runs at the high-efficiency evaporation-type desalination plant at our Technical Research Institute in Osaka to construct a new commercial-size test plant. Since we received an order for a desalination plant in Abu Dhabi in 2003, we have not received any new orders. Our aim now is to fully establish the technology for a high-efficiency evaporation-type plant as soon as possible, and we are planning an active marketing campaign to translate it into new orders.

We have also signed a collaboration agreement on shield tunneling machines regarding design work, components supply and technical support with Beijing Huasuitong Boring Equipment Co., Ltd. This move is aimed at strengthening our marketing capability in China in the field of shield tunneling machines, which is expected to show good growth in the near future.

These are just a few of our many achievements in expanding our business sphere and bolstering our capabilities in a wide variety of business fields.

### ■ Earnings trends and plans

(¥ million)	Hitz Innovation			Hitz Innovation II	
	2005	2006	2007	2008	2010 (plan)
Fiscal year	2005	2006	2007	2008	2010 (plan)
Operating income	2,766	9,919	10,826	11,678	17,000
Net income (loss)	(29,057)	1,034	15,695	1,448	9,000
Operating profit margin (%)	0.8	3.4	3.7	3.9	5.0

\*Fiscal year ends on March 31 of the following year.



Hitachi Zosen absorbed ten of its consolidated subsidiaries in April 2009 as part of an ongoing initiative to strengthen its corporate governance system. Could you tell the readers why you decided at this juncture to reorganize the Group's management structure?

Q4

Our main objective is to enable the resumption of dividend payments as soon as possible. We have spun off a number of the Company's operating divisions with the aim of streamlining management and facilitating faster decision-making. However, the result of this process has been to divide up the Group into too many small units. While this produced certain benefits, it made it difficult to effectively coordinate the operations of group members, and led to marked inefficiencies. If we analyze the consolidated sales of approximately ¥300 billion, the parent company accounts for just under ¥100 billion and other Group companies for the remaining ¥200 billion or so. This is an unbalanced structure, and if left uncorrected this would impair the effective implementation of corporate governance and make it impossible to carry out unified strategies. Moreover, to enable the Hitachi Zosen Group to compete effectively with its rivals on the global stage amid the forthcoming period of intense competition, it is essential for the Group's members to come together to pool their resources and coordinate their strategies so as to leverage the advantages that come with the scale of the Group as a whole.

It is for these reasons that we absorbed the ten subsidiaries into the parent company, thereby strengthening its management structure. We plan to realize synergies from this absorption through the creation of a product mix and an R&D system involving horizontal cooperation across different divisions, and to leverage the economies of scale through shared materials procurement, among other measures. I believe the absorption will be beneficial for the Group's long-term growth.

Under the new management system that has now been established, we intend to further strengthen corporate governance and the coordination of strategies, and to increase the Group's profitability and net worth with the goal of resuming dividend payments at the earliest opportunity. Over the longer term, it goes without saying that we firmly intend to pay regular dividends at a stable level.

## ■ The Group's outlook, and the management's future vision

Q5

Could you tell the readers your business performance forecasts for fiscal year 2009, and describe your future business strategies?

Firstly, although we see the Japanese economy as having bottomed out in the Jan.-March quarter of 2009, it is clear that a fully-fledged recovery is still quite some way off, and our management decisions will be based on the assumption that the business environment will remain very severe throughout fiscal year 2009. Our start-of-term forecasts — ¥300 billion in sales, ¥10 billion in operating income, and ¥5 billion in net income — were drawn up on the basis of conservative estimates, and should therefore definitely be achieved.

Regarding our business strategy, over the short term we will be putting our full efforts into achieving our priority targets under the Hitz Innovation II plan, particularly with respect to growth in our priority businesses and products, so as to increase the Group's earnings. Among these targets, a particularly promising area is the solar power generation business, which our Precision Machinery business division is pursuing. We have developed the technology for molding, membrane formation, and thin-film patterning devices, all of which are essential to the photovoltaic cell production process, and we are currently working to create an integrated, start-to-finish production system. The wider use of photovoltaic power generation systems is regarded as the most promising method of reducing mankind's overall carbon dioxide emission levels and realizing a viable next-generation energy source. The market for such products is thus growing rapidly, and we are investing management resources in the further strengthening of our capabilities in this field, with the goal of turning this business into a new major earnings driver.

In the environmental preservation field, we boast one of Japan's leading track records in the manufacture and construction of waste incineration plants. In fact, Hitachi Zosen is one of only a few

companies capable of supplying both main types of incinerator — the stoker-type and the gasification fusion type. We plan to actively develop our waste incineration plants into a viable business, and will also be putting efforts into other new fields including ethanol dehydration systems and nuclear power generation equipment.

Looking at the present business environment, we feel the need to retain as much liquidity in hand as possible. Having said that, at this point in time, whether we make an appropriate investment or not will determine the fortunes of the Group ten or twenty years ahead. It is vital that we make efficient use of the ¥30 billion in capital investment and ¥20 billion in R&D expenditures that we plan to spend as the necessary funding to realize growth under our Hitz Innovation II plan. We must realize as many strong-selling new products and profitable new businesses as we can in order to fuel the future growth of the Group.

### What is your long-term vision for the Hitachi Zosen Group?

Q6

The Group is still in the midst of restructuring its business portfolio, but we can already state clearly that our aim is to grow the Group into a unique presence in the fields of environmental preservation and energy solutions. Mention of the words “environment” and “energy” with respect to Hitachi Zosen will no doubt call to mind our achievements in waste incineration and photovoltaic power generation, as well as biofuels. However, one of our most notable achievements has been to reduce fuel consumption and CO<sub>2</sub> emissions by marine diesel engines through the standard use of a high-efficiency electronically controlled engine system. With regard to bridges, although new bridges will inevitably be required, if we could continue the appropriate maintenance of bridges, this would allow their useful lives to be extended well beyond 100 years, and up to 200 years in some cases. The longer lives of bridges will make a significant contribution to lowering to the levels of CO<sub>2</sub> emissions from construction.

In these ways, we are endeavoring to ensure that environmental considerations are incorporated into all products supplied by the Group. We intend to leverage our proprietary technologies and practice management founded on integrity to help tackle global warming, which is the most serious problem facing all of mankind. By offering products and services that meet society’s needs, we will live up to our corporate mission by helping to build a prosperous and healthy society in the future.



**Our long-term goal is to become a corporate group with a strong and unique presence in the fields of environmental and energy solutions.**

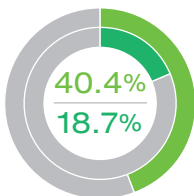
# Review of Operations

Sales/ Operating income  
(contribution to total)

Main business lines

Principal group companies

## Environmental Systems and Industrial Plants Business



- Sales
- Operating income

### Environmental protection systems

- Municipal refuse heat recovery (incineration) facilities
- Stoker-type incinerators
- Hitz super stoker
- Gasification and melting furnace
- Highly efficiency waste-to-energy systems
- Gas turbine combined power generation system
- RDF-to-energy power generation system
- Industrial waste treatment facilities
- Recycling and sorting facilities
- Flue gas treatment equipment
- Ash treatment equipment
- AOM business
- PFI/PEPO business
- Remote monitoring control systems

### Biomass utilization technologies

- Methane fermentation system
- System of producing fuel from sewage sludge
- Ethanol dehydration system
- Raw garbage high-speed volume reduction system

- Biodiesel fuel
- Biomass gasification

### Water treatment systems

- Resource recycling system for excess sludge
- Water-treatment system (tap water/waste water)
- Desalination systems (including seawater)

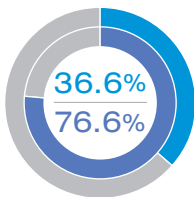
### Soil remediation systems

### Plants

- Desalination plants
- Chemical and petrochemical plants
- Oil and gas plants
- Desulfurization plants
- Catalysts
- Sulphuric acid plants
- Pharmaceutical plants
- Ammonia absorption refrigerators

- Daiki Ataka Engineering Co., Ltd.
- Nichizo Tech INC.
- SN Environment Technology Co., Ltd.
- HEC Engineering Corporation
- Hitz Environment Takamatsu Co., Ltd.
- Shikoku Environment Service Co., Ltd.
- Kashiwa Environment Technology Co., Ltd.
- Kurashiki Environment Technology Co., Ltd.
- Ecomanage Corporation

## Machinery and Process Equipment Business



- Sales
- Operating income

### Precision machinery

- Organic EL display manufacturing equipment
- Vacuum equipment and vacuum machinery
- FPD related manufacturing systems
- Laser technology
- Polishing equipment
- Electrolytic compound polishing equipment

### Industrial machinery

- Food machinery
- Pharmaceutical machinery
- Plastic machinery

### Process equipment / Nuclear power equipment

- Process equipment
- Pressure vessels, heat exchangers, mixing vessels, driers

- Nuclear fuel recycling related equipment
- Transportation containers, storage cask, storage facilities
- Radioactive waste incineration and reduction facilities

### Prime movers / Press machinery

- Marine diesel engines
- Press machines

### Power generation facilities / New energy

- Gas turbine power generation facilities
- Gas engine power generation facilities
- Diesel engine power generation facilities
- Cogeneration systems
- Wind power generation systems
- Water electrolysis hydrogen generator
- Fuel cell

- V TEX Corporation
- Ultra Finish Technology Co., Ltd.
- Hitachi Zosen Fukui Corporation
- IMEX Co., Ltd.
- Hitachi-Zosen Plant Techno-Service Corporation

## Steel Structures and Construction Machinery Business



- Sales
- Operating loss

### Bridges / Hydraulic gates / Marine Civil Engineering

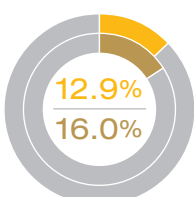
- Bridges
- Hydraulic gates
- Penstocks
- Dam site inspection equipment
- Floating bridges
- Immersed tunnels
- Floating structures
- Hybrid caissons
- Steel caissons
- Artificial ground
- Steel stacks

### Construction machinery

- Shield tunneling machines
- Tunnel boring machines

- Promotec Corporation

## Other Businesses



- Sales
- Operating income

### Marine / Disaster prevention systems

- GPS ocean wave meter and tsunami meter
- GPS data delivery service
- Tsunami and high tide disaster prevention stations
- Remote monitoring system
- Automation system for the Inland lock gate
- Automation system for the tide board
- GPS continuous monitoring system
- Marine & disaster prevention systems, environmental monitoring system
- Electric discharge shock breaker

### Electronics systems / Control systems

### High precision positioning information systems

### Slurry ice-making systems

### Deck machinery

### Electricity power business

- Ohnami Corporaiton
- Nippon GPS Solutions Corporation
- Nippon GPS Data Service Corporation
- Seillac Co., Ltd.
- Slurry-21 Co., Ltd.
- Nippon Pusnes Co., Ltd.
- CASTING & FORGING Co., Ltd.





## Environmental Systems and Industrial Plants Business

Sales **¥120.7** billion      Operating income **¥2.2** billion

### Business overview and future tasks

#### Environmental systems

There has been an overall contraction in public construction work, reflecting the pressure on municipal governments to curb spending. Although orders remained at a low level amid persistent harsh business conditions, we received an order for the construction of a waste recycling facility as part of the Kankyo Communications Center project for Akishima City (Tokyo), and an industrial waste incinerator for General Ecology Co., Ltd. We have also received numerous orders from local governments for maintenance and inspection of municipal refuse incineration facilities, and repair work, as well as operation and management services.

In the new field of biomass-related businesses, we completed the construction of facilities for Hokunetsu Corporation to realize conversion of the boiler from lamp oil fuel to natural gas and the introduction of wood biomass fuel as a countermeasure to reduce CO<sub>2</sub> emissions. We also completed construction of a sewage sludge conversion facility for Miyagi Prefecture. This facility uses the "Hitz Pearl System (organic sludge dry granulation system)," which manufactures coal substitute fuel from sewage sludge. We handed over this facility to the prefecture, and received an order for its operation and management.

Hitachi Zosen ranks in the top class in the industry for deliveries of waste treatment facilities, and leveraging its extensive experience, superior technological capabilities and facility management skills, is focusing on the environmental solutions business including PFI (private finance initiative) business, the long-term facility operation and management business, and AOM (after-service, operation and maintenance).

#### Industrial plants

As a result of the rapid economic downturn, companies are delaying or postponing plant and equipment investments. Against this backdrop, we completed construction and turned over an acetylcellulose manufacturing plant to a Japanese chemical company. We received orders for and carried out the refurbishment and renovation of various types of plant facilities, and delivered NOx removal catalysts to customers in Japan and overseas.

We have also received several orders for NOx removal catalysts from North America and the Middle East, and demand for this product is expected to rise as global warming countermeasures become an increasingly higher priority. With this in mind, we intend to expand our sales channels in North America, the Middle East and East Asia.

Demand for desalination plants has temporarily contracted as a result of the global recession. Viewed from a long-term perspective, however, global demand for water resources is expected to grow. We will make active efforts to meet this growing demand by expanding our lineup of equipment models.

### Topics

#### Order received from Akishima City for the Kankyo Communication Center project

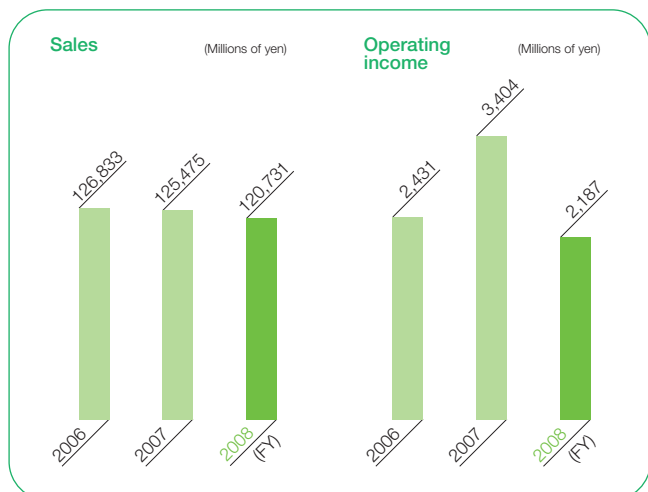
In December 2008 we received an order from the municipal authorities of Akishima City, Tokyo for the city's Kankyo Communication Center project, which will consist of a Recycling Building and a Plaza Building. We received an order for the design and construction of the Recycling Building, and for the design of the Plaza Building. We are also scheduled to sign a contract with Akishima City for the operation and management service of the Center for a five-year period after completion of the Recycling Building.

The Recycling Building will have facilities for the intermediate processing (crushing and shredding, sorting, and compression) of domestic bulky waste, nonburnables, plastics, glass bottles and jars, metal cans, and plastic bottles, to facilitate their recycling. Processing capacity will be approximately 36 tonnes per day.

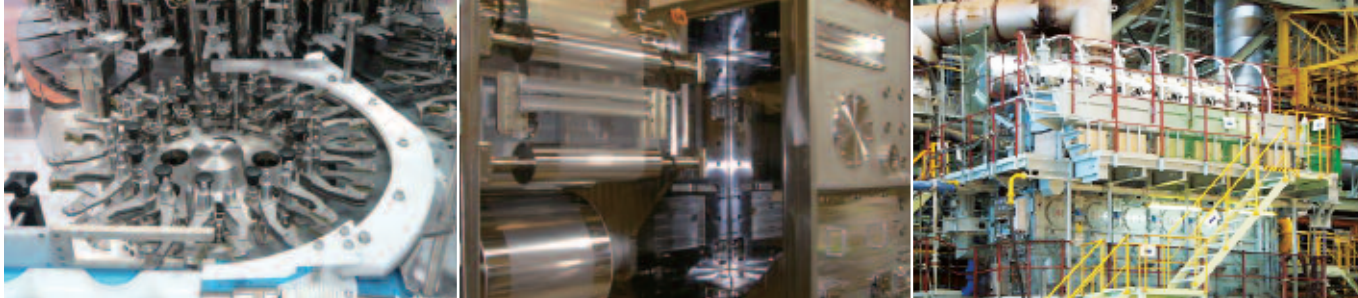
The Plaza Building will be used to exhibit and sell repaired or otherwise recycled reusable bulky waste products that have been delivered to the Center. In addition, the staff at the Center will gather data on recycling, waste reduction, and other environmental activities in Akishima City, and will publicize information on these issues among the city's residents to raise environmental interest and promote more active recycling and reuse efforts.

#### Overview of project

Akishima City Kankyo Communication Center  
Construction period: Dec. 2008-March 2011



\*Fiscal years ended March 31 of the following year.



## Machinery and Process Equipment Business

Sales **¥109.2** billion      Operating income **¥8.9** billion

### Business overview and future tasks

#### Precision machinery

Demand was relatively strong in the first six months of the reporting term, principally from the liquid crystal and semiconductor manufacturing industries. However, there was a rapid slowdown in demand during the second six months as a result of the worldwide economic downturn.

Against this backdrop, we focused on the supply of laser patterning equipment, film deposition devices and transfer devices for the solar battery industry, which is expected to show major growth in the future. Leveraging our expertise in film technologies, we developed a comprehensive production system consisting of molding equipment (functional film forming system), film forming devices (roll-to-roll film deposition system), and patterning equipment (laser patterning system) for the production of solar batteries using film materials. We will make utmost efforts to increase orders for these production systems in the future. The core of these functional film forming devices consists of our unique elastic metal roll (UF roll) units. This unit has been recognized for its effectiveness with high heat-resistance and high-performance films. We plan to expand the scope of our sales activities for this product beyond the solar battery industry, to the automobile industry and laminating machines for general-purpose applications.

In food product and medical machinery, we are focusing on expanding sales of multi-handling filling equipment for producers of alcohol and seasonings, who handle numerous product varieties in the production process. For other food industries, we are aiming to increase sales of image sensors used for product screening, equipment for filling infusion bags, and dialyzer manufacturing devices for the pharmaceuticals industry.

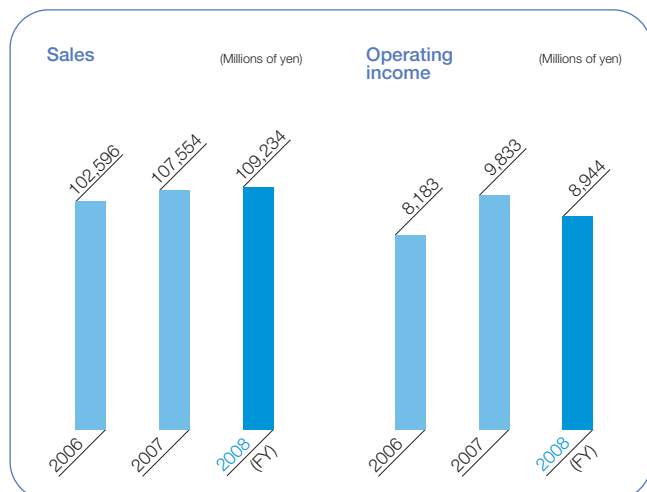
With regard to other precision machinery, we provide systematic machinery (vacuum machines, FPDs (flat panel displays) related systems, and organic electroluminescent (EL) display production systems) and various types of casting and forging products, such as lapping plates. In the precision machinery area, we plan to fuse the technology and human resources of Group companies including V Tex Corporation, which handles vacuum valves and equipment, and Ultra Finish Technology Co., Ltd., specializing in electrolytic composite polishing technology, to maximize synergies and expand this business segment. Our aim is to achieve total sales of ¥50 billion for the precision equipment business at an early date.

#### Marine diesel engines

Market demand was strong in this field in the first six months of the reporting period. However, from September onward demand declined dramatically as a result of the global recession. Against this backdrop, we received many orders from Japan and overseas for diesel engines, and made a large number of deliveries to customers. As of the end of March 2009, we had a large backlog of orders for a two-year period.

In March 2009 we established a joint venture with the Shanghai Zhouji Group Co., Ltd., in Zhoushan, Zhejiang Province, to produce marine diesel engines. Through this move, we aim to pursue full-scale expansion of our marine diesel engines business in the Chinese market. We are aiming to expand our domestic production capacity for marine diesel engines to 2.3 million horsepower-worth per annum, nearly twice the current capacity. The construction of the new factory specializing in the manufacture of medium-scale marine engines on the premises of our Ariake Works has been under construction and the full-scale operations of the new factory are scheduled to begin in May 2010.

We are the only company in Japan that is a double licensee of both Wärtsilä-type and MAN B&W-type marine diesel engines. We aim to leverage our technological superiority, which enables us to manufacture both types of electronically controlled diesel engines and meet the diversifying needs of our customers while also responding to the growing demand for these engines.



\*Fiscal years ended March 31 of the following year.



## Process equipment

Orders remained at a low level, especially in North America, but we received orders for fertilizer plant equipment from the Middle East and southeast Asia, and for reactors from North America and Southeast Asia. We delivered various types of reactors to customers in North and South America, as well as large heat exchangers to customers in Southeast Asia.

In nuclear power equipment, we have received many orders for spent nuclear fuel transport casks and storage canisters, against a backdrop of rising demand in the U.S. resulting from the extended operation of nuclear power plants. Consequently, the backlog of orders remains at a high level.

We are one of the world's top makers of large-scale pressure vessels. In process equipment, orders are expected for fertilizer plant-related vessels in fiscal year 2009 (ending March 31, 2010) thanks to ongoing demand from the Middle East and CIS. With regard to nuclear power equipment, there is a stable market demand for casks and canisters in the U.S. Thus, we expect a continuous growth in orders. We have signed licensing agreements with Kimura Chemical Plants Co., Ltd. and NAC International to supply them with neutron shield materials for use in casks.

## Press machinery

Automobile manufacturers, which are our main customers in the press machinery business, have postponed or frozen their capital investments due to a significant decrease in vehicle unit sales. This has caused a sharp deterioration in orders received by our press machinery business. In fiscal year 2008 we manufactured a test model servo-press machine, and conducted verification tests to enhance its performance. In April 2009, together with a famous automobile manufacturer, we carried out a performance evaluation of stamping dies that are used for automobile production and our servo-press machine was evaluated as meeting the world's highest standards.

On April 1, 2009 our subsidiary Hitachi Zosen Fukui Corporation, which is engaged in the press machinery business, acquired all equity shares of ROSECC Co., Ltd., which manufactures cutting equipment for the production of automobile interior parts that combines a water-jet system with industrial robots. We will endeavor to realize synergy with ROSECC in both marketing and technology.

## Electricity generation facilities

In the Energy sector, we are concentrating on orders for land-based electricity generation facilities (diesel engines, gas engines, gas turbines, wind power generators, etc.). However, the impact of the global economic downturn has weakened demand in the Japanese market. Nonetheless, potential demand remains strong for the cogeneration business, as factories and buildings are being required to save energy, reduce CO<sub>2</sub> emissions and implement environmental preservation measures. In addition, Russia's Sakhalin II project for gas and oil development has recently started up, Japan's concerns about a natural gas shortage are being alleviated, and a decline in gas prices is being forecast. Against this backdrop, we will make active efforts to support the smooth introduction of cogeneration systems by end-users.

## Topics

### Order received from the U.S. for 20 new-type spent nuclear fuel storage canisters

In February 2009 we received an order for 20 MAGNASTOR canisters for the storage of spent nuclear fuel from NAC International of Georgia in the United States.

MAGNASTOR, a new-type canister with high storage capacity, was developed by NAC International for the storage and transport of spent nuclear fuel. Each canister is designed to store 37 Pressurized Water Reactor (PWR) fuel assemblies or 87 Boiling Water Reactor (BWR) fuel assemblies. NAC International had already obtained approval for the design from the U.S. Nuclear Regulatory Commission (NRC) in February.

We will deliver the completed canisters to McGuire Nuclear Station in North Carolina, which is operated by Duke Energy Corporation. Delivery of eight canisters is scheduled for 2010 and twelve for 2012.

We have now delivered more than 300 casks and canisters for the storage and transport of spent nuclear fuel to customers in Japan, the United States, and Europe. As the generation of electricity through nuclear power involves no emissions of greenhouse gases, demand is growing on a worldwide scale in view of energy security considerations. Such casks and canisters are essential to the operation of nuclear power stations, and we are putting efforts into the development and sale of still more advanced products in this field.





## Steel Structures and Construction Machinery Business

Sales **¥30.1** billion      Operating loss **¥1.3** billion

### Business overview and future tasks

#### Steel structures

Order prices were revised upward as a result of the adoption of a comprehensive bid evaluation method which takes into consideration technological capabilities, product quality and credit worthiness, etc. Although the profitability of new orders improved substantially over the previous fiscal year, it was not sufficient to offset the poor profitability of the orders we received in the past. As a result, business conditions remained severe.

Amid this operating environment, in Japan we received an order from the Ministry of Land, Infrastructure, Transport and Tourism. The order is for the construction of the upper steel portion of the Maidehiitsu bridge overpass of Route 23 in Mie Prefecture. We received an order from the Hanshin Expressway Co., Ltd. for the reinforcement of a large-span bridge to make it earthquake resistant. Apart from this, we received orders for bridges, hydraulic gates, marine structures, other buildings and structures, and steel stacks from the Ministry, as well as various local authorities, expressway companies, electricity generation companies and construction companies. We have been able to achieve large reductions in fixed costs by concentrating bridge construction operations at the Mukaishima Works.

In April 2009, the bridge deck closure ceremony was held for the Stonecutters Bridge, in Hong Kong, which will be one of the longest span cable-stay bridges in the world, with completion scheduled for September.

In fiscal year 2009 (ending March 31, 2010), we will work to achieve differentiation from our competitors by focusing on quality and improving our technology proposal capabilities. We will simultaneously pursue further cost reductions, while actively expanding our bridge maintenance business and our steel stacks business, to realize a further substantial improvement in profitability.

#### Construction machinery

Domestically, the difficult environment for orders persisted amid sluggishness in public-sector investment. However, we received and filled orders in Japan and overseas for shield tunneling machines, including equipment for subway tunnel construction in Taiwan and Singapore.

In November 2008, we completed construction of a new factory for producing industrial machinery on the premises of our Sakai Works. In the future, we will work to expand business and boost competitiveness, with the new plant serving as a major base for shield tunneling machines and other industrial machinery products.

With regard to expansion of business with overseas customers, we signed an agreement for collaboration with Beijing Huasuitong Boring Equipment Co., Ltd. (HST), in September 2008 with the aim of strengthening our business in the Chinese market.

In the future, in addition to focusing on the Japanese market, we will work to expand sales of shield tunneling machines in promising overseas markets such as China, Southeast Asia, and India.

### Topics

#### Business collaboration with shield tunneling machine sales company in China

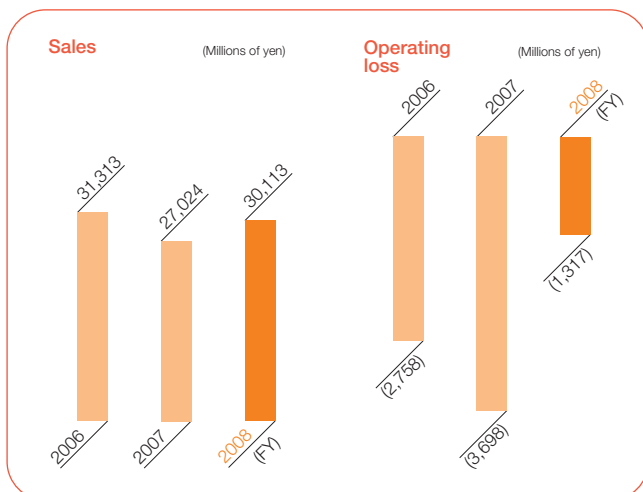
In September 2008 Hitachi Zosen Corporation signed a business collaboration agreement with the Chinese company Beijing Huasuitong Boring Equipment Co., Ltd. (HST), a shield tunneling machine sales company located in Beijing. Hitachi Zosen agreed to supply HST with designs, parts, and technical support for shield tunneling machines manufactured by the Company. Hitachi Zosen has already delivered a total of approximately 1,200 shield tunneling machines, mainly to customers in Japan. This figure includes about 100 machines for overseas customers in the U.S., China, South Korea, Taiwan, Thailand, Singapore, Turkey, and elsewhere. Two machines have been delivered to Chinese customers, and from here on we plan to expand our business in China through the supply of designs and components. Under the agreement with HST, the Company will provide the Chinese partner with support for its marketing and manufacturing operations, and it is expected that this arrangement will help strengthen the Company's shield tunneling machine business in the Chinese market.

##### Overview of HST

Established: May 2006

Nature of business: Sale of shield tunneling machines

Paid-in capital: Approx. ¥300 million (converted to Japanese yen)



\*Fiscal years ended March 31 of the following year.



## Other Businesses

Sales ¥**38.5** billion      Operating income ¥**1.9** billion

### Business overview and future tasks

#### Other businesses

In electronics and controls, Nichizou Electronic & Control Corporation received and filled orders for food recorders (imaging systems for production lines) to ensure the traceability of food products, and digital high-speed recorders (driving recorders and train recorders for recording the driving conditions of cars and trains). On April 1, 2009, this company was merged with Hitachi Zosen. From fiscal year 2009 (ending March 31, 2010), this company has thus become a member of the Precision Machinery Headquarters, and will work to maximize synergies with the other divisions.

Seillac Co., Ltd., which makes electronic devices for broadcasting, received orders for TS (transport stream) adapters, and digital tuners, core components in digital broadcasting systems.

In the machinery and equipment-related business, Nippon Pusnes Co., Ltd., which makes marine deck machinery such as winches, increased orders and revenue. The company completed construction of a new coating factory, leading to the enhancement of its production system.

Slurry-21 Co., Ltd., a producer of ice-making equipment, is working to increase sales of slurry ice-making machines to fishery associations and marine product processing companies. With this equipment it is possible to produce slurry ice in a round form from seawater. The slurry has been well received by customers, as the round ice balls are less likely to scratch the skin of the fish, and this system is thus superior in terms of hygienic considerations.

#### Topics

##### Hitachi Zosen transfers electric discharge shock breaker operations from subsidiary to its Marine Disaster Prevention Systems Division

With effect from April 2008 the electric discharge shock breaker operations carried out by Hitachi Zosen subsidiary Hitachi Zosen Steel Structures Co., Ltd. has been transferred to the Marine Disaster Prevention Systems Division of Hitachi Zosen Corporation, to facilitate further business expansion.

The technology at the core of this business is the use of high-voltage electricity discharges to cause shocks that fracture concrete or rock. This proprietary method, which fractures concrete or rock using low frequency sound and vibrations, has the advantage of operating with little noise or vibration pollution to nearby residents. In addition to its use in breaking up extremely hard rock beds where tunneling machinery cannot be used, it also has the merit of ease of use in cramped conditions where it is difficult to employ heavy machinery. This technology is expected to become used in a wide range of fields, including environmental preservation projects.

From here onward, we plan to apply this special safe, clean fracturing technology primarily to the building demolition field.



Electrical discharge shock breaker operations



\*Fiscal years ended March 31 of the following year.

# Technology Development

## Results for fiscal year 2008

In line with our medium-term management plan “Hitz Innovation II,” our development activities in fiscal year 2008 (ended March 31, 2009) centered on our Environmental Systems and Industrial Plants business, Machinery and Process Equipment business, the Precision Machinery business. Development activities focused on 70 themes, including the improvement and upgrading of existing products, as well as new business development and new product development. Nearly all our targets were met.

With regard to the structure of our research and development activities, the Business Promotion & Product Development Center has been positioned as the development base for the Hitachi Zosen Group. Research and development activities are being pursued in collaboration with the business departments of the parent company and the design and development divisions at Group companies.

The Environmental Systems and Industrial Plants business achieved the continuous stable operation of a gasification fusion furnace for more than six months, which enabled us to conduct heat-resistance testing of an ash-melting furnace and test the durability of a new type of fire grate for our stoker-fired furnace. In addition, we delivered our first models of the ethanol dehydration system and a system for producing fuel from sewage sludge (Hitz Pearl System). We also created a large-scale biodiesel fuel production system and realized a continuous production process, as well as developing new desalination processes for our vapor compression multi-effect distillation (MED) system which efficiently produces fresh water, and our NOx removal catalysts.

In the Machinery and Process Equipment business, and Precision Machinery business we worked on the development of manufacturing technology for pressure vessels and casks for nuclear spent fuel.

In the Precision Machinery business, we took part in a NEDO project aimed at the development of large-scale organic EL deposition equipment. In addition, we developed numerous models of production equipment for functional film, accommodating specific

functions. V Tex Corporation introduced improvements to the performance of vacuum valve controllers.

In the Steel Structures and Construction Machinery business, we worked on improving our breaker systems using the electrical discharge shock method, and tested a model of a flap gate as protection against tsunami (tidal waves) and high tides.

In addition, we undertook research on product component technologies and production technologies. We also conducted research into up-and-coming fields, such as carbon nanotubes and bioelastomers, and will continue this research during the next fiscal year.

## Plans for fiscal year 2009

Regarding development activities in fiscal year 2009 (ending March 31, 2010), in principle we will maintain our fiscal year 2008 policies and areas of focus.

In the Environmental Systems and Industrial Plants business, we aim to complete technology for extending the lifespan of gasification fusion furnaces, and make progress in the development of production technology for biodiesel fuels and ethanol. In the area of desalination, we expect to make progress in the development of the MED (multi-effect distillation) system for commercial operation.

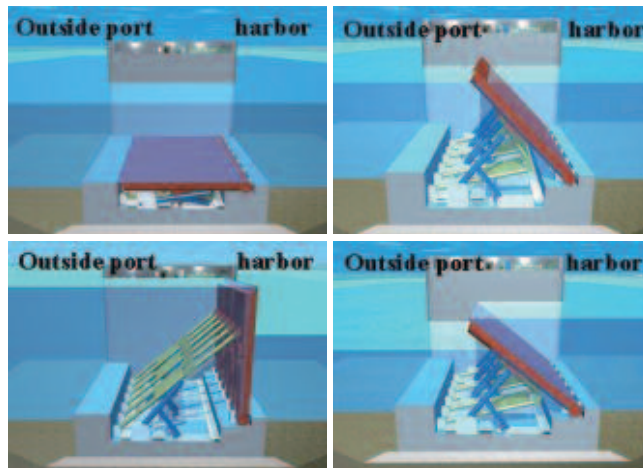
In the Machinery and Process Equipment business, we are broadening applications for laser welding as part of our policy fostering innovations in production technology.

In the Precision Machinery business, we will continue development of organic EL deposition equipment as part of a NEDO project. With regard to functional film manufacturing, we will make improvements to our film forming machine with elastic metal roll (UF roll) for molding, and develop a roll-to-roll deposition device.

In the Steel Structures and Construction Machinery business, we will continue development of a test model flap gate as protection against tsunami (tidal waves) and high tides.



Continuous production system for biodiesel fuel



Flap gate movable breakwater (artist impression)



# Intellectual Property Activity Report

## The basic intellectual property policy

The intellectual property strategy of Hitachi Zosen Corporation involves the pursuit of intellectual property activities that support long-term business strategy and conform to our aims in the field of research and development strategy. In other words, we seek actively to acquire industrial property rights that will make a strategic contribution to the efficient pursuit of our business goals. We also attempt to estimate the direction that will be taken by the technological developments targeted by our research and development strategy, and we invest management resources on a priority basis in the development of intellectual property so as to protect proprietary technological know-how and widen further the fields in which we possess unrivalled technological superiority.

In addition, Hitachi Zosen Corporation provides guidance to the managements of all other members of the Hitachi Zosen Group in respect to the ethical pursuit and protection of patent rights, so as to realize Groupwide intellectual property management that is in conformity with our business philosophy.

## Medium-term intellectual property activities

Patent applications and related activities conducted by Hitachi Zosen's Business & Product Development Center, are motivated by the basic principle that "all research starts with the acquisition of a patent." Our researchers work to discover new ideas and uncover practical applications for them, and then to ensure that application is made for a patent on the invention without any leakage. Using "technology maps" and "patent maps" to visually represent related patent information, we analyze the areas in which we are weak and those in which we are strong in terms of patent rights. This analysis is then used to develop strategies to realize a stronger position in our areas of weakness, and to maintain our position in our areas of strength.

Our aim is to acquire patent rights through fair means, and to apply those rights over an appropriate area of business operations. We follow an ethical patent acquisition and protection policy to facilitate fair competition through mutual respect for patent rights. The intellectual property rights help to support and protect our business operations, and to assure us of business continuity.

## Management of intellectual property rights

We have established specialist units dedicated to the management of the Hitachi Zosen Group's intellectual property. In principle, management of the intellectual property rights of subsidiaries in the Group and of affiliated companies is carried out by the companies themselves in order to emphasize the independence of the management of each company. However, our staff working on intellectual property rights provide assistance to these companies where necessary in matters such as patent applications, utility model applications, and applications for designs and trademarks, as well as possible litigation. As of the end of fiscal

year 2008 (ended March 31, 2009), neither Hitachi Zosen Corporation nor any Group companies were involved in litigation relating to infringement of intellectual property rights.

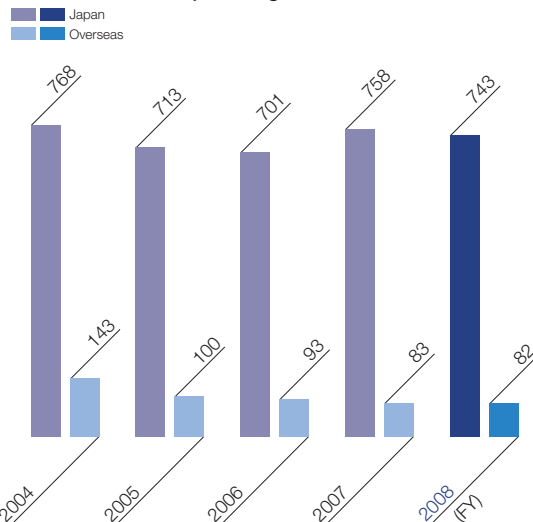
We have 13 patent managers working at our Business & Product Development Center and the separate business divisions. In addition, "12 patent leaders" have been appointed (3 at the Business & Product Development Center and 9 at some of the business divisions). Specialist staff at The Legal and Intellectual Property Department work staff together with the patent managers and patent leaders to discover patent possibilities and applications for the Company's research findings (i.e., potential inventions) and take them to the patent application stage.

To encourage staff to do the work required to discover valuable new technologies and processes, and to reward them when they are successful, we have laid down regulations governing the patent application process, and have stipulated criteria for judging the originality and value of inventions and for rewarding those to whom the invention is credited. One-time payments are made to the inventors at the patent application, patent registration, stages. Rewards for practical application are based on a fair and impartial evaluation process that takes into account the market value of the invention. Rewards for practical application are paid regardless of whether or not the inventor has already retired, thus avoiding any disputes regarding the monetary value of the invention.

In the year of 2000 we adopted a new patent management system to improve administrative efficiency, and in 2007 we replaced it with a new system that enables us to digitally record and manage data relating to all the Group's patent applications and patents granted both in the past and currently, in Japan and overseas.

As of the end of fiscal year 2008, Hitachi Zosen Corporation holds 743 patents in Japan and 82 overseas.

Recent numbers of patents granted



\*Fiscal years ended March 31 of the following year.

# Corporate Governance and Compliance

We are pushing ahead to establish a framework that enables efficient corporate governance, as we recognize that enhancement of corporate governance is one of our top priority management issues to ensure corporate soundness, transparency and efficiency, increase corporate value, and fulfill the Company's responsibilities as a good corporate citizen.

Furthermore, in order to strengthen the internal control system still further we have drawn up a Basic Policy for Internal Control, and are aiming to improve the effectiveness of corporate governance and raise corporate value based on this policy.

Our principal management decision-making bodies consist of the Board of Directors and the Management Strategy Committee.

## Corporate governance system

The Board of Directors decides upon important matters such as basic management policies, and oversees the execution of operations. The Management Strategy Committee, which consists of top management personnel, conducts thorough discussion of basic strategies and important matters. This system facilitates appropriate management decisions.

As members of the Board of Directors, directors are responsible for management decision-making and oversight, and as managing and supervising executives assisting the representative director, they instruct, lead and supervise the divisions in charge. Furthermore, in accordance with the basic policy for management, directors who also hold the position of division manager take partial charge of the execution of business, while executive officers execute the operation of the division for which they are responsible, under the control and supervision of the representative director. The status of execution of operations is reported as appropriate to, and supervised by, the Board of Directors. As of July 2009 there are 10 directors and 12 executive officers.

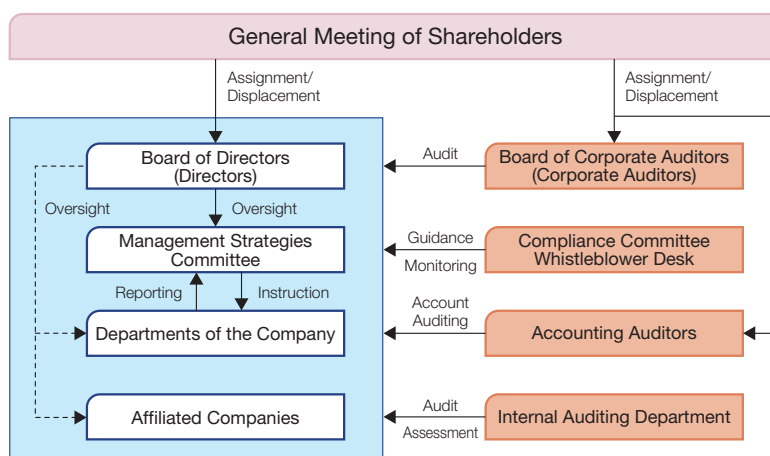
Auditing functions are performed by the Board of Auditors, comprising 1 full-time corporate auditor and 3 part-time corporate auditors (including 2 outside auditors) as of July 2009. Corporate auditors attend meetings of the Board of Directors regularly and other meetings as needed, and implement audits of management from a neutral, objective standpoint under a system in which they can fully audit the execution of operations of directors and other high-ranking executives. In addition to the Corporate Auditors (Board of Auditors), we have set up an Internal Auditing Department as a division responsible for internal audits. The

Internal Auditing Group within the department implements ongoing internal audits related to matters such as finance and accounting, internal controls and procedures, business risk and compliance across all management activities. At the same time, the Internal Control Group within the Internal Auditing Department makes assessments of internal controls on financial reporting in line with the stipulations of the Financial Instruments and Exchange Act, aiming at the improvement of internal control functions through the exchange of information with the Corporate Auditors at appropriate times.

## Compliance system

We are working proactively on strengthening compliance management as a priority management issue in order to conduct management in conformity with laws and regulations and corporate ethics, and fulfill the Company's social responsibilities.

We have established a Compliance Committee, with the representative director serving as chairman. Under this committee, surveys and verifications of all corporate activities are conducted regularly from the legal and corporate ethical standpoints. Furthermore, the Hitachi Zosen Group has established the "Hitachi Zosen Group Ethical Behavior Charter" as an ethical behavior guideline for all of the directors and employees of the Group to observe. By educating all directors and employees, the Group is aiming to improve awareness of legal compliance and promote the maintenance of a high standard of corporate ethics.



# Board of Directors, Corporate Auditors and Executive Officers

(As of June 25, 2009)



Chairman of the Board  
**Shigetoshi Andoh**



President / Representative Director  
**Minoru Furukawa**



Senior Managing Director  
**Koichiro Anzai**



Managing Director  
**Motohiro Fujii**



Managing Director  
**Akifumi Mitani**



Managing Director  
**Masaharu Furutera**



Managing Director  
**Yasuo Ogawa**



Managing Director  
**Hisao Matsuwake**



Director  
**Seiichiro Tsurisaki**



Director  
**Yuichi Hayakata**



Full-time Corporate Auditor  
**Hiromitsu Miyasaka**



Corporate Auditor  
**Sakae Kanno**



Corporate Auditor  
**Junnosuke Ban**



Corporate Auditor  
**Tadao Shimauchi**



Managing Executive Officer  
**Shizuo Honda**



Managing Executive Officer  
**Hisao Nishina**



Executive Officer  
**Shosaku Umezawa**



Executive Officer  
**Takio Sassa**



Executive Officer  
**Toru Yoshioka**



Executive Officer  
**Toru Shimizu**



Executive Officer  
**Masato Kubo**



Executive Officer  
**Takashi Tanisho**



Executive Officer  
**Kenji Sawada**



Executive Officer  
**Koji Abo**



Executive Officer  
**Masayuki Morikata**



Executive Officer  
**Masahiro Sakai**



# Tackling Environmental Issues

## Efforts to protect the environment

Hitachi Zosen's fundamental policy is to achieve a constant state of harmony between its business operations in every area and the needs of the natural environment. To embody our efforts on environmental issues, we formulated a number of basic environmental protection policies in 1992. These policies include the statement that: "The Company recognizes its responsibilities as a good corporate citizen and proactively solves environmental issues on a global basis. It endeavors to promote environmental protection based on the understanding that the protection of nature and the living environments of local communities are corporate social responsibilities." In 1993, the Company's Environmental Protection Promotion Committee drew up an environmental protection promotion plan based on these basic policies. With this plan, we are now implementing global environmental protection activities, such as protecting the ozone layer, mitigation of global warming, and reducing and recycling waste, in addition to conventional activities. Each office and work-place has set targets based on this promotion plan, and the staff at each location are striving to preserve the environment. Since 1994, we have audited offices concerning environmental protection once a year, according to internal audit standards which include the provision of global environment protection.

## Promoting environmental management systems

In March 1998, Hitachi Zosen's Maizuru Works became Japan's first shipyard to obtain ISO14001 certification. Since then, six domestic workplaces, one district and three divisions, have acquired the certification. We plan to continuously improve our environmental management systems so that we can implement appropriate countermeasures against risks associated with the environment.

## Promoting global environmental protection and the conservation of energy and natural resources

As part of its efforts to reduce the use of ozone-depleting substances, we discontinued the use of specified chlorofluorocarbons and trichloroethane for washing in 1995, and of specific

halons in extinguishants in 2002, and we aim to reduce CO<sub>2</sub> emissions to 6% below the level for the base year of fiscal year 1990 (ended March 31, 1991) as an annual average figure over the fiscal year 2008-2012 five-year period. To achieve this, we are improving operational processes, introducing energy-saving transformers and compressors, using energy-saving equipment such as inverter fluorescent lights, as well as setting and observing standards for air conditioning temperatures.

We set a target of cutting the discharge of waste from 1991 levels by 15% by 2000, which we achieved in 1999. A new goal was set in 2000 to cut the level further to 10% below 2000 levels by 2010, with the aim of reducing landfill to 40% below 1999 levels by 2010.

We are stepping up our efforts to recycle all scrap metal, use waste paper as materials for recycled paper, and turn waste oil into fuel. We are also recycling scrap wood into litter for livestock, flux into roadbed materials, and shotblast waste sand into cement materials.

## Managing chemical substances

We fully comprehend the issues regarding exhaust gases and the quantity of chemical substances that are moved in accordance with the PRTR method, and we manages such substance appropriately, while taking steps to reduce their amount under the newly formulated "Voluntary Management Plan for Chemical Substances."

## Promoting communication on environmental protection

We have actively disclosed the contents of our efforts on global environmental protection and local environmental preservation, and have published an environmental report every year since 2002. We also cooperate with local governments and communities on various activities for promoting environmental protection (such as local recycling and tree-planting campaigns) and participate in such activities. Furthermore, we join hands with organizations involved in environmental protection, and exchange activities and information with them.

Medium- and long-term targets

Item	Purpose	Targets	Fiscal year for achieving targets	Result for fiscal year 2008
Reduction of energy consumption	Suppression of CO <sub>2</sub>	Reduce energy consumption rate by 6% compared with fiscal year 1990 levels	2012 Annual average for fiscal year 2008-12	Increased by 55%
Reduction of waste materials	Suppression of waste discharge	Reduce total waste discharge rate by 10% from fiscal year 2000 levels	2010	Increased by 29%
	Suppression of landfill disposal quantity	Reduce total landfill disposal quantity by 40% compared with fiscal year 1999 levels	2010	Increased by 37%

\*Fiscal year ends on March 31 of the following year.



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# Financial Section

## Consolidated Balance Sheets

Hitachi Zosen Corporation and Consolidated Subsidiaries  
At March 31, 2008 and 2009

	¥ Millions of yen		\$ Thousands of U.S. dollars (Note 1)
	2008	2009	2009
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 5 and 17)	¥ 55,678	¥ 51,306	\$ 522,305
Receivables:			
Trade notes and accounts:			
Nonconsolidated subsidiaries and affiliates	2,476	4,259	43,358
Other	91,829	92,326	939,896
Other	5,030	5,751	58,546
Allowance for doubtful receivables	(671)	(820)	(8,348)
	98,664	101,516	1,033,452
Marketable securities (Note 3)	207	86	875
Inventories (Note 4)	48,367	46,432	472,687
Deferred tax assets (Note 21)	3,413	4,482	45,628
Prepaid expenses and other current assets (Note 5)	5,223	8,391	85,422
<b>Total current assets</b>	<b>211,552</b>	<b>212,213</b>	<b>2,160,369</b>
<b>Property, plant and equipment, at cost (Note 5):</b>			
Land (Note 7)	73,680	71,232	725,155
Buildings and structures	67,391	72,738	740,487
Machinery and equipment	79,044	81,670	831,416
Lease (Note 18)	—	144	1,466
Construction in progress	1,562	1,596	16,247
	221,677	227,380	2,314,771
Less accumulated depreciation	(91,141)	(94,103)	(957,986)
<b>Property, plant and equipment, net</b>	<b>130,536</b>	<b>133,277</b>	<b>1,356,785</b>
<b>Intangible assets</b>	<b>1,802</b>	<b>1,622</b>	<b>16,512</b>
<b>Investments and other noncurrent assets:</b>			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	10,224	9,498	96,691
Investments in securities (Notes 3 and 5)	6,697	6,312	64,257
Long-term loans receivable (Note 5)	127	144	1,466
Deferred tax assets (Note 21)	1,334	1,774	18,060
Other investments and noncurrent assets (Note 5)	3,833	3,584	36,486
Allowance for doubtful receivables	(1,315)	(1,467)	(14,934)
<b>Total investments and other noncurrent assets</b>	<b>20,900</b>	<b>19,845</b>	<b>202,026</b>
<b>Deferred assets</b>	<b>747</b>	<b>516</b>	<b>5,253</b>
<b>Total assets</b>	<b>¥365,537</b>	<b>¥367,473</b>	<b>\$3,740,945</b>

See the accompanying Notes to the Consolidated Financial Statements.



¥ Millions of yen

Thousands of  
U.S. dollars  
(Note 1)

	2008	2009	2009
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Short-term loans (Note 5)	¥ 16,461	¥ 14,200	\$ 144,559
Current portion of long-term debt (Note 5)	12,642	15,598	158,791
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	163	388	3,950
Other	69,569	71,378	726,641
Advances received on work in progress	27,493	30,789	313,438
Accrued income taxes	2,384	1,885	19,190
Reserve for product warranty	3,173	5,342	54,382
Reserve for losses on construction contracts	3,576	2,490	25,349
Reserve for losses from lawsuits	9,036	13,914	141,647
Reserve for factory relocation expense	867	—	—
Accrued expenses	36,593	30,647	311,992
Other current liabilities	14,385	10,574	107,645
<b>Total current liabilities</b>	<b>196,342</b>	<b>197,205</b>	<b>2,007,584</b>
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 5)	73,182	73,720	750,484
Employees' retirement benefits (Note 20)	6,091	6,943	70,681
Deferred tax liabilities (Note 21)	1,980	1,563	15,912
Negative goodwill	1,048	898	9,142
Other noncurrent liabilities (Note 5)	1,299	1,301	13,244
<b>Total long-term liabilities</b>	<b>83,600</b>	<b>84,425</b>	<b>859,463</b>
<b>Total liabilities</b>	<b>279,942</b>	<b>281,630</b>	<b>2,867,047</b>
<b>Contingent liabilities (Note 6)</b>			
<b>Net assets (Note 8):</b>			
Common stock			
Authorized — 2,000,000,000 shares			
Issued — 796,073,282 shares at March 31, 2008 and 2009	45,442	45,442	462,608
Capital surplus	5,975	5,974	60,817
Retained earnings	19,262	20,708	210,811
Treasury stock, at cost — 1,191,622 shares in 2008			
— 1,448,905 shares in 2009	(160)	(186)	(1,893)
Net unrealized holding gains (losses) on securities	108	(377)	(3,838)
Net unrealized holding gains (losses) on hedging derivatives	482	(403)	(4,103)
Land revaluation difference (Note 7)	(156)	(156)	(1,588)
Foreign currency translation adjustments	(168)	(245)	(2,494)
Minority interests in consolidated subsidiaries	14,810	15,086	153,578
<b>Total net assets</b>	<b>85,595</b>	<b>85,843</b>	<b>873,898</b>
<b>Total liabilities and net assets</b>	<b>¥365,537</b>	<b>¥367,473</b>	<b>\$3,740,945</b>

See the accompanying Notes to the Consolidated Financial Statements.

## Consolidated Statements of Income

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2008 and 2009

	¥ Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2009	2009
Net sales	¥295,503	¥298,605	\$3,039,855
Cost of sales	255,552	255,554	2,601,588
Gross profit	39,951	43,051	438,267
Selling, general and administrative expenses	29,125	31,373	319,383
Operating income	10,826	11,678	118,884
Other income (expenses):			
Interest and dividend income	260	302	3,074
Interest expense	(2,549)	(1,732)	(17,632)
Foreign exchange loss	(436)	(12)	(122)
Equity in net income (loss) of nonconsolidated subsidiaries and affiliates	(428)	62	631
Gain on sale of property (Note 9)	992	1,603	16,319
Reversal of allowance for losses from lawsuits (Note 10)	—	822	8,368
Gain on sale of investments in an affiliate (Note 11)	21,373	—	—
Gain on discharge of indebtedness (Note 12)	3,196	—	—
Provision for allowance for losses from lawsuits (Note 13)	(9,118)	(5,700)	(58,027)
Impairment losses (Note 14)	(1,797)	(1,096)	(11,157)
Factory relocation expense (Note 15)	(1,039)	—	—
Loss on devaluation of software	(271)	—	—
Other, net	(422)	(1,308)	(13,316)
Total other income (expenses)	9,761	(7,059)	(71,862)
Income before income taxes and minority interests	20,587	4,619	47,022
Income taxes - current (Note 21)	3,235	3,374	34,347
Income taxes - deferred (Note 21)	474	(1,284)	(13,071)
Income before minority interests	16,878	2,529	25,746
Minority interests in net income of consolidated subsidiaries	1,183	1,081	11,005
Net income	¥ 15,695	¥ 1,448	\$ 14,741

	¥ Yen		U.S. dollars (Note 1)
	2008	2009	2009
Amounts per share			
Net income - basic	¥19.74	¥1.82	\$0.02
Net income - diluted	¥18.02	¥1.53	\$0.02
Cash dividends	—	—	—

See the accompanying Notes to the Consolidated Financial Statements.

## Consolidated Statements of Changes in Net Assets

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2008 and 2009

	¥ Millions of yen		\$ Thousands of U.S. dollars (Note 1)
	2008	2009	2009
<b>Common stock:</b>			
Balance at beginning of year	¥ 45,442	¥45,442	\$462,608
Balance at end of year	¥ 45,442	¥45,442	\$462,608
<b>Capital surplus:</b>			
Balance at beginning of year	¥ 20,291	¥ 5,975	\$ 60,827
Transfer from capital surplus to accumulated deficit	(14,316)	—	—
Treasury stock purchased, net	0	(1)	(10)
Balance at end of year	¥ 5,975	¥ 5,974	\$ 60,817
<b>Retained earnings (deficit):</b>			
Balance at beginning of year	¥(10,750)	¥19,262	\$196,091
Transfer from capital surplus to accumulated deficit	14,316	—	—
Net income	15,695	1,448	14,741
Increase due to consolidation of additional subsidiaries	1	(2)	(21)
Balance at end of year	¥ 19,262	¥20,708	\$210,811
<b>Treasury stock (Note 16):</b>			
Balance at beginning of year	¥ (128)	¥ (160)	\$ (1,629)
Treasury stock purchased, net	(32)	(26)	(264)
Balance at end of year	¥ (160)	¥ (186)	\$ (1,893)
<b>Net unrealized holding gains (losses) on securities:</b>			
Balance at beginning of year	¥ 609	¥ 108	\$ 1,099
Other	(501)	(485)	(4,937)
Balance at end of year	¥ 108	¥ (377)	\$ (3,838)
<b>Net unrealized holding gains (losses) on hedging derivatives:</b>			
Balance at beginning of year	¥ (806)	¥ 482	\$ 4,907
Other	1,288	(885)	(9,010)
Balance at end of year	¥ 482	¥ (403)	\$ (4,103)
<b>Land revaluation difference (Note 7):</b>			
Balance at beginning of year	¥ (156)	¥ (156)	\$ (1,588)
Balance at end of year	¥ (156)	¥ (156)	\$ (1,588)
<b>Foreign currency translation adjustments:</b>			
Balance at beginning of year	¥ (51)	¥ (168)	\$ (1,710)
Other	(117)	(77)	(784)
Balance at end of year	¥ (168)	¥ (245)	\$ (2,494)
<b>Minority interests in consolidated subsidiaries:</b>			
Balance at beginning of year	¥ 14,201	¥14,810	\$150,768
Other	609	276	2,810
Balance at end of year	¥ 14,810	¥15,086	\$153,578
	Shares		
	2008	2009	
<b>Number of shares of common stock:</b>			
Balance at beginning of year	796,073,282	796,073,282	
Balance at end of year	796,073,282	796,073,282	

See the accompanying Notes to the Consolidated Financial Statements.



## Consolidated Statements of Cash Flows

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2008 and 2009

	¥ Millions of yen		\$ Thousands of U.S. dollars (Note 1)
	2008	2009	2009
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥20,587	¥ 4,619	\$ 47,022
Depreciation	7,031	7,638	77,756
Impairment losses	1,797	1,096	11,157
Increase (decrease) in allowance for doubtful receivables	(216)	301	3,064
Increase in employees' retirement benefits	485	863	8,786
Increase (decrease) in reserve for losses on construction contracts	794	(1,086)	(11,056)
Increase in reserve for losses from lawsuits	7,177	4,878	49,659
Increase (decrease) in reserve for factory relocation expense	867	(867)	(8,826)
Interest and dividend income	(260)	(302)	(3,074)
Interest expense	2,549	1,732	17,632
Equity in net income (loss) of nonconsolidated subsidiaries and affiliates	428	(62)	(631)
Gain on sale of property, plant and equipment	(992)	(1,603)	(16,319)
Gain on sale of investments in an affiliate	(21,373)	—	—
Gain on sale of investments in securities	(243)	(126)	(1,283)
Loss on devaluation of investments in securities	240	403	4,103
Loss on disposal of fixed assets	282	531	5,406
Loss on devaluation of software	271	—	—
Decrease (increase) in trade receivables	6,263	(2,358)	(24,005)
Decrease (increase) in inventories	(6,224)	1,933	19,678
Increase in other current assets	(1,427)	(3,524)	(35,875)
Increase (decrease) in trade payables	(70)	1,296	13,194
Decrease in accrued expenses	(5,508)	(6,036)	(61,448)
Increase (decrease) in advances received	(2,618)	3,296	33,554
Decrease in other current liabilities	(4,120)	(3,498)	(35,610)
Other	(1,150)	(1,747)	(17,785)
Subtotal	4,570	7,377	75,099
Interest and dividends received	332	487	4,958
Interest paid	(2,512)	(1,643)	(16,726)
Income taxes paid	(3,120)	(3,873)	(39,428)
<b>Net cash and cash equivalents provided by (used in) operating activities</b>	<b>(730)</b>	<b>2,348</b>	<b>23,903</b>
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(1,738)	(5,498)	(55,971)
Decrease in time deposits	1,475	5,742	58,455
Purchase of property, plant and equipment	(11,494)	(11,505)	(117,123)
Proceeds from sales of property, plant and equipment	4,485	4,058	41,311
Purchase of intangible assets	(495)	(270)	(2,749)
Purchase of investments in securities	(779)	(545)	(5,548)
Proceeds from sales of investments in securities	35,269	518	5,273
Other	247	8	82
<b>Net cash and cash equivalents provided by (used in) investing activities</b>	<b>26,970</b>	<b>(7,492)</b>	<b>(76,270)</b>

¥ Millions of yen

Thousands of  
U.S. dollars  
(Note 1)

	2008	2009	2009
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans and debt, net	(20,540)	(2,261)	(23,017)
Proceeds from long-term debt	12,670	21,950	223,455
Payment of long-term debt	(32,144)	(17,522)	(178,377)
Proceeds from issuance of bonds	31,360	—	—
Redemption of bonds	(1,780)	(700)	(7,126)
Other	(280)	(298)	(3,034)
<b>Net cash and cash equivalents provided by (used in) financing activities</b>	<b>(10,714)</b>	<b>1,169</b>	<b>11,901</b>
Effect of exchange rate changes on cash and cash equivalents	(71)	(109)	(1,109)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>15,455</b>	<b>(4,084)</b>	<b>(41,575)</b>
Cash and cash equivalents at beginning of year	38,760	54,229	552,061
Cash and cash equivalents of newly consolidated subsidiaries, at beginning of year	14	—	—
<b>Net decrease in cash and cash equivalents with exclusion of a consolidated subsidiary</b>	<b>—</b>	<b>(50)</b>	<b>(509)</b>
<b>Cash and cash equivalents at end of year (Note 17)</b>	<b>¥ 54,229</b>	<b>¥50,095</b>	<b>\$509,977</b>

See the accompanying Notes to the Consolidated Financial Statements.

## Notes to the Consolidated Financial Statements

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Hitachi Zosen Corporation ("the Company") and its consolidated subsidiaries (together, "the Companies") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2, the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98.23 to U.S.\$1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### 2. Significant Accounting Policies

#### a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

The consolidated financial statements consist of the accounts of the Company and its sixty-seven (seventy-one in the year ended March 31, 2008) significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in one (one in the year ended March 31, 2008) nonconsolidated subsidiary and nine (nine in the year ended March 31, 2008) affiliates are accounted for by the equity method.

The difference between the cost of investments in and the value of the net assets of acquired subsidiaries and affiliates are primarily amortized using the straight-line method over 5 years.

The consolidated financial statements include the accounts of five (five in the year ended March 31, 2008) consolidated subsidiaries the fiscal year-end of which is December 31. Appropriate adjustments were made for significant transactions during the period from December 31 to March 31, the date of the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

#### b) Cash Flow Statements

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and highly liquid debt investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### c) Translation of Foreign Currencies

Foreign currency monetary assets and liabilities are translated into Japanese yen at the year-end rates, and the resulting translation gains or losses are included in the current statement of operations.

Assets and liabilities of the consolidated overseas subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each fiscal year. Revenue and expenses are translated at the average rates of exchange for the respective years. The resulting foreign currency translation adjustments are shown as a separate component of net assets, net of minority interests in the consolidated balance sheets.

#### d) Revenue Recognition

The Companies principally record revenues at the time of delivery using the completed contract method. However, the Company records revenues using the percentage of completion method for major contracts of ¥500 million or more that last over one year, and certain consolidated subsidiaries record revenues using the percentage of completion method for large-scale contracts lasting over one year.

#### e) Allowance for Doubtful Receivables

For receivables from insolvent customers who are undergoing bankruptcy or other collection proceedings or who are in a similar financial condition, the allowance for doubtful accounts is provided based on an evaluation of each customer's financial condition and an estimation of recoverable amounts due to the existence of security interests or guarantees.

For other receivables, the allowance for doubtful receivables is provided based on the Companies' actual rate of bad debts in the past.

## f) Securities

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized holding gains and unrealized holding losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair market value which are classified as available-for-sale securities are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by nonconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by nonconsolidated subsidiaries or affiliated companies not on the equity method is not readily available, such securities are written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

## g) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

### (1) Hedge accounting

The Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

### (2) Hedging instruments and hedged items

Hedging instruments: Interest rate swap contracts  
Hedged items: Interest on loans and bonds payable

Hedging instruments: Forward foreign currency exchange contracts and other derivatives  
Hedged items: Trade receivables and expected trade receivables denominated in foreign currencies from exports of products, trade payables denominated in foreign currencies from imports of materials

### (3) Hedging policy

The Companies use derivative financial instruments to hedge future risks of interest rate fluctuations and future risks of foreign exchange fluctuations in accordance with their internal policies and procedures.

### (4) Evaluation of hedge effectiveness

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows and foreign currency exchange or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

### (5) Control over use of derivatives

When the accounting sections of group companies use derivatives, they follow the group companies' administration rules, which the Board of Directors of the Company has approved to control the risks of using derivatives.

## h) Inventories

Work in progress is composed of the accumulated production costs of contracts. The accumulated production costs include direct production costs, factory and engineering overhead and other costs incurred. And it is stated at the lower of the accumulated production costs of contracts or net realizable value at the end of the fiscal year.

Raw materials and supplies are stated at the lower of the costs, which are generally determined by the specific identification method or the moving average method or net realizable value at the end of the fiscal year.

Effective from the year ended March 31, 2009, the Companies adopted the standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). As a result, operating income and income before income taxes and minority interests were ¥389 million (\$3,960 thousand) less, respectively, than they would have been with the previous method. The effects on segment information are described in Note 22.

## i) Depreciation and Amortization

Depreciation, except leased assets, is computed, with minor exceptions, by the declining balance method. However, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Effective from the year ended March 31, 2008, the Companies changed the depreciation method for property, plant and equipment acquired after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. As a result, operating income and income before income taxes and minority interests were ¥142 million less than they would have been with the previous method.

The Companies applied the pre-revised depreciation method for property, plant and equipment acquired before April 1, 2007. Among these, property, plant and equipment for which the allowance limit on the depreciable amount has been reached are to be depreciated evenly over five years beginning from the following fiscal year. As a result, for the year ended March 31, 2008,



operating income and income before income taxes and minority interests were ¥241 million less than they would have been with the previous method.

Effective from the year ended March 31, 2009, the Company and some consolidated subsidiaries changed the period of depreciation for machinery in accordance with the revised Corporate Tax Law of Japan. As a result, for the year ended March 31, 2009, operating income and income before income taxes and minority interests were ¥280 million (\$2,850 thousand) less than they would have been with the previous method.

Amortization of intangible assets, except leased assets, is computed on the straight-line method based on the useful life of the asset.

Depreciation for leased assets is computed on the straight-line method over the term of the lease to the residual value of zero. Finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same method as operating leases under Japanese GAAP.

#### **j) Software Costs**

The Companies include internal use software in intangible assets and depreciate it using the straight-line method over the estimated useful life of five years.

#### **k) Deferred Assets**

Bond issue expenses are amortized on the straight-line method over the repayment period of the bond.

Effective from the year ended March 31, 2008, bond issue expenses are recorded as deferred assets and amortized on the straight-line method over the repayment period of the bond. Prior to this change, bond issue expenses were charged to expenses in the year incurred.

The Companies changed this accounting treatment in order to distribute the cost of raising funds more reasonably and make the periodical accounting of profit and loss more accurate. Bond issue expenses have become large sums, the effects of which extend over the repayment period of the bond. The amortized cost method was applied and the difference between issue price and face value, ¥857 million was recorded in earnings for the repayment period. As a result, for the year ended March 31, 2008, income before income taxes and minority interests was ¥747 million more than it would have been with the previous method.

#### **l) Reserve for Product Warranty**

The reserve for product warranty, which is based on the experience of the past two years, is provided to cover possible warranty costs incurred after delivery or completion of construction.

#### **m) Reserve for Losses on Construction Contracts**

To provide for losses on construction contracts, the Companies record an estimated amount at the end of the fiscal year.

#### **n) Reserve for Losses from Lawsuits**

To provide for future potential losses from lawsuits, the Companies record a reasonably estimated amount.

#### **o) Reserve for Factory Relocation Expense**

To provide a reserve for factory relocation expense, the Companies record a reasonably estimated amount.

#### **p) Employees' Severance and Retirement Benefits**

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded noncontributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service years commencing with the following period.

Effective from the year ended March 31, 2008, the Company and some consolidated subsidiaries introduced new post-employment benefit plans, including defined contribution pension plans.

#### **q) Research and Development Expenses**

Research and development expenses are charged to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥3,083 million and ¥4,502 million (\$45,831 thousand) for the years ended March 31, 2008 and 2009, respectively.

#### **r) Income Taxes**

The provision for income taxes is based on income for financial statement purposes. Deferred income taxes are recognized for loss carryforwards and temporary differences between financial and tax reporting purposes. Income taxes comprise corporation tax, enterprise tax, and prefectural and municipal inhabitants taxes.

The Company and some of the consolidated subsidiaries adopted the Japanese tax regulations allowing the Company to file a consolidated taxation system.

#### **s) Amounts Per Share**

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is computed based on the weighted average number of shares after consideration of the dilutive effect of the shares of common stock issuable upon the exercise of stock purchase warrants.

### t) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective from the year ended March 31, 2009, the Companies adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). The adoption of this Task Force No. 18 had no effect on the consolidated financial statements for the year ended March 31, 2009.

### u) Accounting Standard for Lease Transactions as Lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions had been accounted for in the same manner as operating leases under Japanese GAAP.

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007) and the implementation guidance, "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007). The new accounting standards require that all finance lease transactions be treated as capital leases. Finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases under Japanese GAAP. This adoption had no effect on gain or loss for the year ended March 31, 2009.

### v) Accounting Standard for Lease Transactions as Lessor

Finance leases which do not transfer ownership and do not have bargain purchase provisions had been accounted for in the same manner as operating leases under Japanese GAAP.

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007) and the implementation guidance, "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007). The new accounting standards require that all finance lease transactions be treated as capital leases. This adoption had no material effect on gain or loss for the year ended March 31, 2009. A consolidated subsidiary continues to account for finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions in the same manner as operating leases under Japanese GAAP.

### w) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2008 to conform to the fiscal year ended March 31, 2009 presentation. These reclassifications had no effect on previously reported net income or total net assets.

## 3. Securities

a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2008 and 2009:

### (1) Trading securities:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Book value (fair value)	¥143	¥ 74	\$ 753
Amount for the year of net unrealized losses included in the statements of income	(17)	(16)	(163)

### (2) Held-to-maturity debt securities:

At March 31, 2008

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥867	¥883	¥16

Other securities:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥10	¥10	¥—

At March 31, 2009

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥865	¥880	¥15

At March 31, 2009

Securities with available fair values exceeding book values:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	\$8,806	\$8,959	\$153

### (3) Available-for-sale securities:

At March 31, 2008

Securities with book values (fair values) exceeding acquisition costs:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 982	¥1,214	¥232
Others	22	55	33
Total	¥1,004	¥1,269	¥265

Securities with book values (fair values) not exceeding acquisition costs:

Millions of yen			
	Acquisition cost	Book value	Difference
Equity securities	¥257	¥212	¥(45)
Bond	1	1	—
Others	3	3	(0)
Total	¥261	¥216	¥(45)

At March 31, 2009

Securities with book values (fair values) exceeding acquisition costs:

Millions of yen			
	Acquisition cost	Book value	Difference
Equity securities	¥142	¥197	¥55
Bond	6	9	3
Others	9	15	6
Total	¥157	¥221	¥64

Securities with book values (fair values) not exceeding acquisition costs:

Millions of yen			
	Acquisition cost	Book value	Difference
Equity securities	¥1,480	¥1,045	¥(435)
Bond	1	1	—
Others	11	9	(2)
Total	¥1,492	¥1,055	¥(437)

At March 31, 2009

Securities with book values (fair values) exceeding acquisition costs:

Thousands of U.S. dollars			
	Acquisition cost	Book value	Difference
Equity securities	\$1,445	\$2,005	\$560
Bond	61	92	31
Others	92	153	61
Total	\$1,598	\$2,250	\$652

Securities with book values (fair values) not exceeding acquisition costs:

Thousands of U.S. dollars			
	Acquisition cost	Book value	Difference
Equity securities	\$15,067	\$10,638	\$(4,429)
Bond	10	10	—
Others	112	92	(20)
Total	\$15,189	\$10,740	\$(4,449)

b) The following table summarizes book values of securities with no available fair values as of March 31, 2008 and 2009:

Available-for-sale securities:

Type	Millions of yen		Thousands of U.S. dollars
	2008	2009	Book value
Non-listed equity securities	¥4,208	¥4,155	\$42,299
Loan trusts	72	10	102
Investment securities in independent administrative entities	19	19	193

c) Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

At March 31, 2008

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds	¥ 1	¥ 3	¥ 3	¥870
Other bonds	63	38	—	—
Total	¥64	¥41	¥ 3	¥870

At March 31, 2009

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds	¥ —	¥ 3	¥ 3	¥860
Other bonds	12	13	—	—
Total	¥12	¥16	¥ 3	¥860

At March 31, 2009

	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds	\$ —	\$ 31	\$31	\$8,755
Other bonds	122	132	—	—
Total	\$122	\$163	\$31	\$8,755

d) Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥351 million, and the related gains and losses amounted to ¥243 million and ¥0 million, respectively.

Total sales of available-for-sale securities in the year ended March 31, 2009 amounted to ¥60 million (\$611 thousand), and the related gains and losses amounted to ¥1 million (\$10 thousand) and ¥0 million (\$0 thousand), respectively.

#### 4. Inventories

Inventories at March 31, 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Merchandise and finished goods	¥ 495	¥ 550	\$ 5,599
Work in progress	44,097	41,992	427,487
Raw materials and supplies	3,775	3,890	39,601
Total	¥48,367	¥46,432	\$472,687

#### 5. Short-term Loans and Long-term Debt

Short-term loans that represented bank loans bearing average interest rates of 1.80 percent and 1.41 percent as of March 31, 2008 and 2009, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Secured (or partly secured)	¥ 2,614	¥ 2,414	\$ 24,575
Unsecured	13,847	11,786	119,984
Total	¥16,461	¥14,200	\$144,559

Long-term debt at March 31, 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
0.61 percent to 3.99 percent loans from banks and other financial institutions, due through 2022:			
Secured (or partly secured)	¥23,562	¥15,146	\$154,189
Unsecured	27,356	40,199	409,234
0.00 percent convertible bonds due 2010	16,398	16,239	165,316
1.50 percent convertible bonds due 2012	15,408	15,333	156,093
0.57 percent straight bonds due 2010	1,000	600	6,108
1.15 percent straight bonds due 2011	1,200	900	9,162
0.96 to 1.65 percent straight bonds due 2009 to 2011:			
Secured (or partly secured)	600	600	6,108
Unsecured	300	300	3,054
Others	—	144	1,466
Less current portion included in current liabilities	(12,642)	(15,598)	(158,791)
Total	¥73,182	¥73,863	\$751,939

As of March 31, 2009, the convertible bonds due in 2010 and 2012 were convertible into shares of common stock at the option of the holders of the bonds at the price of ¥206 and ¥215 per share, respectively. The conversion prices are subject to adjustments under specified conditions.

The following assets were pledged as collateral mainly for secured long-term debt of ¥24,162 million at March 31, 2008 and ¥15,746 million (\$160,297 thousand) at March 31, 2009:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Cash and time deposits	¥ 662	¥ 22	\$ 224
Prepaid expenses and other current assets	—	595	6,057
Investments in nonconsolidated subsidiaries and affiliates	876	1,081	11,005
Investments in securities	451	121	1,232
Property, plant and equipment (at net book value)	32,075	27,430	279,242
Long-term loans receivable	50	106	1,079
Other investments and noncurrent assets	4	4	41
Total	¥34,118	¥29,359	\$298,880

The aggregate annual maturities of long-term debt outstanding at March 31, 2009 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥28,513	\$290,268
2012	12,826	130,571
2013	19,148	194,930
2014	11,889	121,032
2015 and thereafter	1,487	15,138
Total	¥73,863	\$751,939

#### 6. Contingent Liabilities

Contingent liabilities at March 31, 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Notes receivable discounted	¥ 29	¥ —	\$ —
Notes receivable endorsed	243	219	2,229
Guarantees of bank loans and other indebtedness	764	913	9,295
Total	¥1,036	¥1,132	\$11,524

#### 7. Land Revaluation Difference

Land for operations was revalued by consolidated subsidiaries in accordance with the Land Revaluation Law in the year ended March 31, 2000. The revaluation amount is shown as a separate component of net assets.

At October 1, 2002, the Company merged with HEC Corporation, which was a consolidated subsidiary, and succeeded to the land revaluation difference.

The market value of the land was ¥173 million and ¥158 million (\$1,608 thousand) lower than the revalued book amount at March 31, 2008 and 2009, respectively.



## 8. Net Assets

Under the Japanese Corporation Law ("the law") 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.

In cases where 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.

Additional paid-in-capital and legal earnings reserve may not be distributed as dividends. However, 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 nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 25, 2009, the shareholders resolved not to issue a dividend.

## 9. Gain on Sale of Property

Gain on sale of property for the year ended March 31, 2008 resulted from the sale of a portion of the land of the Kanagawa works.

Gain on sale of property for the year ended March 31, 2009 resulted from the sale of a portion of the land of the Kanagawa works and the Kawachinagano Company Housing.

## 10. Reversal of allowance for losses from lawsuits

Reversal of allowance for losses from lawsuits resulted from the settlement of pending citizens' lawsuits in connection with the construction of waste incineration plants.

## 11. Gain on Sale of Investments in an Affiliate

Gain on sale of investments in an affiliate for the year ended March 31, 2008 resulted from the sale of stock of Universal Shipbuilding Corporation to a third party.

## 12. Gain on Discharge of Indebtedness

Gain on discharge of indebtedness for the year ended March 31, 2008 resulted when a consolidated subsidiary, Ito Country Club Co., Ltd., requested and received approval from the Tokyo District Court for its rehabilitation plan, which included the discharge of indebtedness.

## 13. Provision for Allowance for Losses from Lawsuits

Provision for allowance for losses from lawsuits for the year ended March 31, 2008 was recorded based on the estimation of the indemnity and interest arising from citizens' lawsuits in connection with the construction of waste incineration plants.

Provision for allowance for losses from lawsuits for the year ended March 31, 2009 was recorded based on the estimation of surcharges for violation of the antitrust law and the indemnity and interest arising from citizens' lawsuits in connection with the construction of waste incineration plants.

## 14. Impairment Losses

The groups of assets for which the Companies recognized impairment losses in the year ended March 31, 2008, were as follows:

Location	Use	Type of Assets
Mukaishima Higashi Works (Onomichi-city, Hiroshima Prefecture)	Mainly production facilities for steel structures	Land, buildings and structures
Ito Country Club (Ito-city, Shizuoka Prefecture)	Golf course	Land, buildings, structures and others

The Companies grouped their assets based mainly on divisions and works. The Companies also grouped their assets for sale individually.

The Companies reduced the book value of each group of assets to the recoverable amount and recognized impairment losses of ¥1,797 million because the Ito Country Club had become insolvent due to a decrease in the number of guests and revenues per player and filed a petition for commencement of civil rehabilitation proceedings with the Tokyo District Court, the plan for which was approved by the court and creditors, and the steel structure business of the Mukaishima Higashi Works had decreased.

Impairment losses were as follows:

	Millions of yen			
	Buildings and structures	Land	Others	Total
Mukaishima Higashi Works	¥269	¥716	¥—	¥ 985
Ito Country Club	678	134	0	812
Total	¥947	¥850	¥ 0	¥1,797

The recoverable amounts for the Ito Country Club and the Mukaishima Higashi Works were the present values of the expected cash flows from the on-going utilization and subsequent disposition of the assets using a discount rate of 6%.

The asset for which the Companies recognized impairment losses in the year ended March 31, 2009, was as follows:

Location	Use	Type of Assets
V TEX Corporation Tokai Works (Hitachinaka-city, Ibaraki Prefecture)	Mainly production facilities for precision machinery	Land

The Companies grouped their assets based mainly on divisions and works. The Companies also grouped their assets for sale individually.

The Companies reduced the book value of the asset to the recoverable amount and recognized impairment loss of ¥1,096 million (\$11,157 thousand) because the V TEX Corporation had been affected by the deteriorating semiconductor market and its orders for a part model of precision machinery sharply decreased.

Impairment loss was as follows:

	Millions of yen	Thousands of U.S. dollars
	Land	Land
V TEX Corporation Tokai Works	¥1,096	\$11,157

The recoverable amount for the V TEX Corporation Tokai Works was the present value of the expected cash flow from the on-going utilization and subsequent disposition of the asset using a discount rate of 6%.

## 15. Factory Relocation Expense

Factory relocation expense for the year ended March 31, 2008 consisted of the relocation and maintenance expenses and losses from the disposal of assets related to certain consolidated subsidiaries being relocated to the Sakai works.

## 16. Treasury Stock

Treasury stock for the years ended March 31, 2008 and 2009 consisted of the following:

For the year ended March 31, 2008

Number of shares of common stock	Thousands
At March 31, 2007	1,032
Increase	175
Decrease	(15)
At March 31, 2008	1,192

For the year ended March 31, 2009

Number of shares of common stock	Thousands
At March 31, 2008	1,192
Increase	285
Decrease	(28)
At March 31, 2009	1,449

## 17. Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows, and cash and time deposits in the consolidated balance sheets at March 31, 2008 and 2009 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Cash and time deposits in the balance sheets	¥55,678	¥51,306	\$522,305
Time deposits with maturities over three months	(1,449)	(1,211)	(12,328)
Cash and cash equivalents in cash flow statements	¥54,229	¥50,095	\$509,977

## 18. Lease Information

### a) Finance leases as lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions at March 31, 2009 consisted of productive facilities for the machinery and process equipment segment (machinery, equipment and vehicles) and software.

Depreciation was as described in Significant Accounting Policies 2 i) Depreciation and Amortization.

Finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same method as operating leases under Japanese GAAP.

The original lease obligations, the payments to date, and the payments remaining for assets which were leased from other parties as of March 31, 2008 and 2009 were as follows:

At March 31, 2008:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥2,199	¥1,102	¥1,097
Software	318	131	187
Total	¥2,517	¥1,233	¥1,284

At March 31, 2009:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥1,863	¥1,095	¥768
Software	291	157	134
Total	¥2,154	¥1,252	¥902

At March 31, 2009:

	Thousands of U.S. dollars		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	\$18,966	\$11,147	\$7,819
Software	2,962	1,598	1,364
Total	\$21,928	\$12,745	\$9,183

Lease payments for the above finance leases for the years ended March 31, 2008 and 2009 were ¥389 million and ¥383 million (\$3,899 thousand), respectively.

Future minimum payments, including finance charges, for finance leases at March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Payments due within one year	¥ 390	¥327	\$3,329
Payments due after one year	975	642	6,536
Total	¥1,365	¥969	\$9,865

### b) Operating leases as lessee

Future minimum payments for operating leases at March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Payments due within one year	¥ 45	¥ 36	\$ 366
Payments due after one year	146	83	845
Total	¥191	¥119	\$1,211

### c) Finance leases as lessor

Lease investment assets

Current assets as of March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Lease payments receivables	¥171	\$1,741
Interest	(10)	(102)
Total	¥161	\$1,639

Lease investment assets receivables after March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Within one year	¥55	\$560
Over one year but within two years	46	468
Over two years but within three years	37	377
Over three years but within four years	26	265
Over four years but within five years	7	71
Over five years	0	0

For some consolidated subsidiaries, finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same method as operating leases under Japanese GAAP.

The cost, accumulated depreciation, and remaining book value of assets which were leased to other parties as of March 31, 2008 were as follows:

At March 31, 2008:

	Millions of yen		
	Cost	Accumulated depreciation	Remaining book value
Machinery, equipment and vehicles	¥689	¥535	¥154
Software	47	32	15
Total	¥736	¥567	¥169

Lease payments for finance leases received for the years ended March 31, 2008 and 2009 were ¥78 million and ¥3 million (\$31 thousand), respectively.

Depreciation for the years ended March 31, 2008 and 2009 was ¥63 million and ¥2 million (\$20 thousand), respectively.

Future minimum payments to be received, including finance charges, for finance leases at March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Payments due within one year	¥ 79	¥17	\$173
Payments due after one year	219	63	641
Total	¥298	¥80	\$814

The remaining book values of future minimum payments to be received concerning a sublet lease transaction at March 31, 2008 and 2009 were ¥97 million and ¥80 million (\$814 thousand), respectively. Of the future minimum payments at March 31, 2008 and 2009, those payments due within one year amounted to ¥17 million and ¥17 million (\$173 thousand), respectively.

The remaining book values of future minimum payments as lessee at March 31, 2008 and 2009 were almost the same and were included in the above table of finance leases as lessee.

### 19. Derivative Transactions

The Company enters into forward foreign currency exchange and interest swap transactions. Forward foreign currency exchange transactions are used to reduce the risk of fluctuations in future foreign currency exchange rates with respect to the difference between the foreign trade order balances and the future payments for foreign procurement. Interest swap transactions are used to avoid the risk of rising interest rates.

The following tables summarize market value information as of March 31, 2008 and 2009 for derivative transactions for which hedge accounting had not been applied.

At March 31, 2008:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥865	¥—	¥797	¥68

At March 31, 2009:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥ 795	¥—	¥ 781	¥14
Euro	189	—	194	(5)
Purchase				
U.S. dollars	272	—	297	25
Euro	401	—	338	(63)
Total	¥1,657	¥—	¥1,610	(29)

At March 31, 2009:

	Thousands of U.S. dollars			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	\$ 8,093	\$—	\$ 7,951	\$ 142
Euro	1,924	—	1,975	(51)
Purchase				
U.S. dollars	2,769	—	3,023	254
Euro	4,082	—	3,441	(641)
Total	\$16,868	\$—	\$16,390	\$(296)



## 20. Retirement and Severance Benefits

The Companies provide post-employment benefit plans, including unfunded lump-sum payment plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. Some consolidated subsidiaries provide funded noncontributory pension plans in addition to unfunded lump-sum payment plans. The Company and some consolidated subsidiaries provide defined contribution pension plans in addition to defined benefit pension plans.

The Companies occasionally make additional payments to employees for special retirement benefits.

Effective from the year ended March 31, 2008, the Company and some consolidated subsidiaries introduced new post-employment benefit plans, including defined contribution pension plans.

The following table sets forth the composition of the liabilities recorded in the balance sheets for the Companies' retirement plans at March 31, 2008 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Projected benefit obligation	¥13,563	¥14,566	\$148,284
Less fair value of pension assets	(6,193)	(5,373)	(54,698)
Funded status:			
Benefit obligation in excess of plan assets	7,370	9,193	93,586
Unrecognized actuarial differences	(1,384)	(2,406)	(24,493)
Total	5,986	6,787	69,093
Deferred benefit expenses	105	156	1,588
Retirement and severance benefits in the consolidated balance sheets	¥ 6,091	¥ 6,943	\$ 70,681

Note: Some consolidated subsidiaries have adopted the allowed alternative treatment of the accounting standards for retirement benefits for small business entities.

Severance and pension costs of the Companies included the following components for the years ended March 31, 2008 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Service cost — benefits earned during the year	¥1,653	¥1,761	\$17,927
Interest cost on projected benefit obligation	215	223	2,270
Expected return on plan assets	(104)	(96)	(977)
Amortization of actuarial differences	123	262	2,667
Severance and retirement benefit expenses	¥1,887	¥2,150	\$21,887

Note: Contributions of employees to the funded pension plans are not included in service cost.

For the year ended March 31, 2008, the Companies made additional payments for retirement benefits in the amount of ¥33 million and contributions to the defined contribution pension plans in the amount of ¥679 million, which were recognized in expenses but were not included in the above table.

For the year ended March 31, 2009, the Companies made additional payments for retirement benefits in the amount of ¥6 million (\$61 thousand) and contributions to the defined contribution pension plans in the amount of ¥668 million (\$6,800 thousand), which were recognized in expenses but were not included in the above table.

Assumptions used in accounting for the retirement benefit plans for the years ended March 31, 2008 and 2009 were as follows:

	2008	2009
Method of attributing benefits to periods of service	Straight-line method	<b>Straight-line method</b>
Discount rate	1.5% to 2.5%	<b>1.5% to 2.5%</b>
Long-term rate of return on fund assets	1.0% to 2.5%	<b>1.0% to 2.5%</b>
Amortization period for actuarial differences (within the remaining average term of employees' service)	5 to 12 years	<b>5 to 12 years</b>

## 21. Income Taxes

The Companies are subject to a number of income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 40.6% for the year ended March 31, 2008 and 2009, respectively.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2008 and 2009 were as follows:

	2008	2009
Statutory tax rate	40.6%	40.6%
Nondeductible expenses	2.3	(0.2)
Nontaxable dividend income	(7.3)	(32.6)
Fluctuation in deferred tax assets valuation allowance account	(23.8)	3.2
Elimination of dividend income	4.9	34.7
Other	1.3	(0.5)
Effective tax rate	18.0%	45.2%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Deferred tax assets:			
Tax loss carryforwards	¥10,679	¥ 9,778	\$ 99,542
Impairment losses	8,776	6,817	69,398
Loss from lawsuits	3,669	3,659	37,249
Employees' retirement benefits	2,766	2,927	29,798
Allowance for doubtful receivables	1,193	1,275	12,980
Research and development expenses	257	582	5,925
Loss on devaluation of securities	231	228	2,321
Other reserves	5,118	5,274	53,690
Other	1,382	2,309	23,506
Total deferred tax assets	34,071	32,849	334,409
Valuation allowance	(28,540)	(25,552)	(260,124)
Deferred tax assets, net	5,531	7,297	74,285
Deferred tax liabilities:			
Land valuation difference	(1,635)	(1,693)	(17,235)
Reserve for compressed entry	(778)	(758)	(7,717)
Reserve for replacement of property	(150)	(145)	(1,476)
Net unrealized holding gains on securities	(199)	(6)	(61)
Other	(2)	(2)	(20)
Total deferred tax liabilities	(2,764)	(2,604)	(26,509)
Net deferred tax assets	¥ 2,767	¥ 4,693	\$ 47,776

Net deferred tax assets were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current assets	¥3,413	¥4,482	\$45,628
Investments and other noncurrent assets	1,334	1,774	18,060
Long-term liabilities	(1,980)	(1,563)	(15,912)
Net deferred tax assets	¥2,767	¥4,693	\$47,776

## 22. Segment Information

The Companies' operations are classified into four business segments as follows:

Operations in the environmental systems and industrial plants segment include the production of refuse incineration plants and industrial plants.

Operations in the machinery and process equipment segment include the production of iron and steel manufacturing machinery, pressing machinery, diesel engines, turbines, boilers, plant equipment and precision machinery.

Operations in the steel structures and construction machinery segment include bridge construction, water gates, and shield tunneling machines.

Operations in the other businesses segment include the production of electronic equipment and high-precision positioning information systems.

Information by business segment of the Companies was as follows:

Millions of yen							
2008							
	Environmental systems and industrial plants	Machinery and process equipment	Steel structures and construction machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales							
Outside customers	¥125,475	¥107,554	¥27,024	¥35,450	¥295,503	¥ —	¥295,503
Intersegment	2,841	150	181	3,697	6,869	(6,869)	—
<b>Total</b>	<b>128,316</b>	<b>107,704</b>	<b>27,205</b>	<b>39,147</b>	<b>302,372</b>	<b>(6,869)</b>	<b>295,503</b>
Cost and expenses	124,912	97,871	30,903	37,762	291,448	(6,771)	284,677
<b>Operating income (loss)</b>	<b>¥ 3,404</b>	<b>¥ 9,833</b>	<b>¥ (3,698)</b>	<b>¥ 1,385</b>	<b>¥ 10,924</b>	<b>¥ (98)</b>	<b>¥ 10,826</b>
Assets	¥ 83,903	¥126,914	¥44,097	¥46,398	¥301,312	¥64,225	¥365,537
Depreciation	¥ 975	¥ 3,567	¥ 745	¥ 1,419	¥ 6,706	¥ 325	¥ 7,031
Impairment losses	¥ —	¥ —	¥ 985	¥ 812	¥ 1,797	¥ —	¥ 1,797
Capital expenditure	¥ 1,091	¥ 7,492	¥ 1,160	¥ 2,120	¥ 11,863	¥ 126	¥ 11,989

Millions of yen							
2009							
	Environmental systems and industrial plants	Machinery and process equipment	Steel structures and construction machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales							
Outside customers	¥120,731	¥109,234	¥30,113	¥38,527	¥298,605	¥ —	¥298,605
Intersegment	1,694	34	347	3,654	5,729	(5,729)	—
<b>Total</b>	<b>122,425</b>	<b>109,268</b>	<b>30,460</b>	<b>42,181</b>	<b>304,334</b>	<b>(5,729)</b>	<b>298,605</b>
Cost and expenses	120,238	100,324	31,777	40,287	292,626	(5,699)	286,927
<b>Operating income (loss)</b>	<b>¥ 2,187</b>	<b>¥ 8,944</b>	<b>¥ (1,317)</b>	<b>¥ 1,894</b>	<b>¥ 11,708</b>	<b>¥ (30)</b>	<b>¥ 11,678</b>
Assets	¥ 89,151	¥124,254	¥40,272	¥47,396	¥301,073	¥66,400	¥367,473
Depreciation	¥ 1,076	¥ 4,772	¥ 406	¥ 949	¥ 7,203	¥ 435	¥ 7,638
Impairment losses	¥ —	¥ 1,096	¥ —	¥ —	¥ 1,096	¥ —	¥ 1,096
Capital expenditure	¥ 760	¥ 11,261	¥ 737	¥ 1,515	¥ 14,273	¥ 171	¥ 14,444

Thousands of U.S. dollars

	2009						Eliminations and corporate	Consolidated
	Environmental systems and industrial plants	Machinery and process equipment	Steel structures and construction machinery	Other businesses	Total			
Net Sales								
Outside customers	\$1,229,064	\$1,112,023	\$306,556	\$392,212	\$3,039,855	\$ —	\$3,039,855	
Intersegment	17,245	346	3,533	37,198	58,322	(58,322)	—	
<b>Total</b>	<b>1,246,309</b>	<b>1,112,369</b>	<b>310,089</b>	<b>429,410</b>	<b>3,098,177</b>	<b>(58,322)</b>	<b>3,039,855</b>	
Cost and expenses	1,224,045	1,021,318	323,496	410,129	2,978,988	(58,017)	2,920,971	
<b>Operating income (loss)</b>	<b>\$ 22,264</b>	<b>\$ 91,051</b>	<b>\$ (13,407)</b>	<b>\$ 19,281</b>	<b>\$ 119,189</b>	<b>\$ (305)</b>	<b>\$ 118,884</b>	
Assets	\$ 907,574	\$1,264,929	\$409,977	\$482,500	\$3,064,980	\$675,965	\$3,740,945	
Depreciation	\$ 10,954	\$ 48,580	\$ 4,133	\$ 9,661	\$ 73,328	\$ 4,428	\$ 77,756	
Impairment losses	\$ —	\$ 11,157	\$ —	\$ —	\$ 11,157	\$ —	\$ 11,157	
Capital expenditure	\$ 7,737	\$ 114,639	\$ 7,503	\$ 15,423	\$ 145,302	\$ 1,741	\$ 147,043	

Corporate amounts are mainly the common accounts of the head office, which cannot be allotted to each segment. Corporate assets, which include mainly cash, time deposits and securities, at March 31, 2008 and 2009 were ¥64,437 million and ¥66,329 million (\$675,242 thousand), respectively.

As described in Significant Accounting Policies 2 h) Inventories, effective from the year ended March 31, 2009, the Companies adopted the standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). As a result, operating income was ¥3 million (\$30 thousand) less in the environmental systems and industrial plants segment, ¥355 million (\$3,614 thousand) less in the machinery and process equipment segment and ¥21 million (\$214 thousand) less in the other businesses segment, than they would have been with the previous method, and operating loss was ¥10 million (\$102 thousand) more in the steel structures and construction machinery segment than it would have been with the previous method.

Geographic segment information is not shown because domestic net sales, including export sales from Japan, for the years ended March 31, 2008 and 2009 and the related assets at March 31, 2008 and 2009 were more than 90% of the respective consolidated net sales and assets.

Overseas sales by region for the years ended March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Asia	¥35,129	¥34,499	\$351,206
Central and South America	931	3,143	31,996
Europe	5,053	3,375	34,358
Other	5,940	8,544	86,980
<b>Total</b>	<b>¥47,053</b>	<b>¥49,561</b>	<b>\$504,540</b>

Overseas sales include overseas subsidiaries' sales to overseas third parties as well as the Company's and domestic subsidiaries' export sales to third parties.

Note: The main countries and areas included in each segment were as follows:

Asia	Korea, China, Taiwan, Thailand, Singapore, United Arab Emirates, Saudi Arabia, Hong Kong, India and Qatar
Central and South America	Brazil
Europe	England, France, and Germany
Other	America



### 23. Related Party Information

The Company paid a fee for legal advice to the statutory auditor, Junnosuke Ban, in the amount of ¥6 million for the year ended March 31, 2008.

Year ended March 31, 2009:

Attribute	Name	Domicile	Capitalization (millions of yen)	Nature of operations	Equity ownership by the company	Relationship	Nature of transaction	Trading Amount (millions of yen)	Account	Balance at year end (millions of yen)
Affiliate	Naikai Zosen Corporation	Onomichi city, Hiroshima Prefecture	¥1,200	Manufacturing	19.9% directory 0.4% indirectory	Accept on operations	Purchasing of materials	¥8,112	Advanced paid	¥3,158

This related party transaction took place on terms similar to those with third parties.

Effective from the year ended March 31, 2009, the Companies adopted the standard, "Accounting Standard for Related Party Disclosures" (Statement No. 11 issued by the Accounting Standards Board of Japan on October 17, 2006) and the implementation guidance, "Guidance on Accounting Standard for Related Party Disclosures" (Guidance No. 13 issued by the Accounting Standards Board of Japan on October 17, 2006).

This adoption did not require any changes in disclosure for the year ended March 31, 2009.

The significant affiliate companies were Steel Plantech Corporation and Universal Shipbuilding Corporation for the year ended March 31, 2009.

Summarized financial statements of them were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets total	¥181,542	\$1,848,132
Fixed assets total	82,775	842,665
Current liabilities total	200,249	2,038,573
Long-term liabilities total	13,513	137,565
Net assets total	50,555	514,659
Net sales	¥231,019	\$2,351,817
Loss before income taxes and minority interests	(5,568)	(56,683)
Net loss	(3,416)	(34,776)



## Independent Auditors' Report

To the Board of Directors of Hitachi Zosen Corporation:

We have audited the accompanying consolidated balance sheets of Hitachi Zosen Corporation and consolidated subsidiaries as of March 31, 2008 and 2009, and the related consolidated statements of income, changes in net assets 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 Hitachi Zosen Corporation and consolidated subsidiaries as of March 31, 2008 and 2009, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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.*

Osaka, Japan  
June 25, 2009

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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Brokerage and sales of ships, offshore equipment, plants, industrial machinery and steel structures for overseas markets; acting as an intermediary for the remodeling, repair and chartering of ships

### Hitachi Zosen U.S.A. Ltd.

2 Grand Central Tower, 140 East 45th Street,  
17th Floor, New York, NY 10017, U.S.A.  
Phone: +1-212-883-9060  
Facsimile: +1-212-883-9064  
Brokerage and sales of plants and machinery etc.; conducting surveys and gathering information on new products and technologies

### Zhenjiang Zhengmao Hitachi Zosen Machinery Co., Ltd.

250 Guantang Qiao Road, Zhenjiang Jiangsu,  
China  
Phone: +86-511-85338108  
Facsimile: +86-511-85338113  
Production and sales of diesel engine components, parts of various machines, and steel structures; offering of consulting services regarding related technologies

### Zhongji Hitachi Zosen Diesel Engine Co., Ltd.

Xingang Industrial Base, Economic Development  
Zone, Zhoushan, Zhejiang Province, China  
Phone: +86-580-6-2015  
Facsimile: +86-580-6-2003  
Design, manufacture, sale and after-sales servicing of marine engines, diesel engines for power generation, and various equipment for environmental protection purposes

## Major subsidiaries

### Daiki Ataka Engineering Co., Ltd.

16-1, Shimbashi 2-chome, Minato-ku,  
Tokyo 105-0004, Japan  
Phone: +81-3-3503-4335  
Facsimile: +81-3-3501-2108  
Design, construction, production and sale of environment protection systems and facilities, and industrial equipment

### NICHIZO TECH INC.

2-15-26, Tsuru-machi, Taisho-ku,  
Osaka 551-0023, Japan  
Phone: +81-6-6555-7050  
Facsimile: +81-6-6555-7061  
Technical consulting, engineering and maintenance

### SN Environment Technology Co., Ltd.

1-7-89, Nankokita, Suminoe-ku,  
Osaka 559-8559, Japan  
Phone: +81-6-6569-7070  
Facsimile: +81-6-6569-7080  
Design, construction, operation and maintenance of refuse incineration facilities, and environment protection facilities, after-sales service, maintenance of various plants

### V TEX Corporation

6-28-11, Minami-Ohi, Shinagawa-ku,  
Tokyo 140-0013, Japan  
Phone: +81-3-3765-4167  
Facsimile: +81-3-3765-4168  
Manufacture and distribution of pulps and rupture discs for high vacuum plants, super-high vacuum (semiconductors, liquid-crystal and radiation facilities) plants, fire power plants, nuclear power plants and synthetic plants

### ULTRA FINISH TECHNOLOGY CO., LTD.

1-1-1, Heisei-cho, Yokosuka,  
Kanagawa 238-0013, Japan  
Phone: +81-46-828-5050  
Facsimile: +81-46-828-5052  
Accepting orders for the grinding of semiconductor manufacturing equipment, peripheral devices, petrochemistry plants and medical machinery, etc.

### HITACHI ZOSEN FUKUI CORPORATION

1-8-28, Jiyugaoka, Awara,  
Fukui 919-0695, Japan  
Phone: +81-776-73-1220  
Facsimile: +81-776-73-3055  
Manufacture, sales, and after-sales service of press machinery, automation equipment, and electronical controllers

### IMEX CO., LTD.

2293-1, Innoshimahabu-cho, Onomichi,  
Hiroshima 722-2323, Japan  
Phone: +81-845-22-6411  
Facsimile: +81-845-22-6455  
Manufacture, installation and repair of boilers, diesel engines, and other devices

### HITACHI-ZOSEN PLANT TECHNO-SERVICE CORPORATION

2-6-33, Edobori, Nishi-ku,  
Osaka 550-0002, Japan  
Phone: +81-6-6225-9798  
Facsimile: +81-6-6225-9771  
After-sales service and sale of components for plant and equipment; engineering services; design of industrial machinery

### JP Steel Plantech Co.

3-1, Kinko-cho, Kanagawa-ku, Yokohama,  
Kanagawa 221-0056, Japan  
Phone: +81-45-440-5900  
Facsimile: +81-45-440-5841  
Distribution and engineering services of iron-making facilities

### OCL Corporation

2-11-6, Nishi-shimbashi, Minato-ku,  
Tokyo 105-0003, Japan  
Phone: +81-3-3502-0126  
Facsimile: +81-3-3502-0129  
Design, manufacture, distribution, maintenance, retention and leasing of containers and related-equipment for transportation storage, and waste of radioactive ingredients

### HITACHI ZOSEN HANDLING SYSTEM Co., Ltd.

14755, Mukaihigashi-cho, Onomichi,  
Hiroshima 722-0062, Japan  
Phone: +81-848-44-1104  
Facsimile: +81-848-45-2979  
Manufacture, distribution and operation of logistic equipment  
Technical service, maintenance and steel structure/construction work and engineering

### OHNAMI CORPORATION

2-6-33, Edobori, Nishi-ku,  
Osaka 550-0002, Japan  
Phone: +81-6-6445-0073  
Facsimile: +81-6-6445-9431  
Warehousing, port cargo handling, transport, construction, packing, customers clearing, car maintenance

### SLURRY-21 Co., Ltd.

6-26-3, Minami-Ohi, Shinagawa-ku,  
Tokyo 140-0013, Japan  
Phone: +81-3-6404-0136  
Facsimile: +81-3-3761-6927  
Manufacture, distribution, lease, repair and maintenance of ice makers and parts

### NIPPON PUSNES CO., LTD.

2-37-4, Nihonbashi-hamacho, Chuo-ku,  
Tokyo 103-0007, Japan  
Phone: +81-3-3669-0471  
Facsimile: +81-3-3669-7985  
Design, manufacture and distribution of marine deck equipment, marine structure and various equipment

### Universal Shipbuilding Corporation

1310, Omiya-cho, Saiwai-ku, Kawasaki,  
Kanagawa 212-8554, Japan  
Phone: +81-44-543-2700  
Facsimile: +81-44-543-2710  
Design, manufacture, sales, and repair of ships; design, manufacture, and sales of steel structures such as floating petroleum storage tanks and "Megafloat" structure

### NAIKAI ZOSEN CORPORATION

226-6, Sawa, Setoda-cho, Onomichi,  
Hiroshima 722-2493, Japan  
Phone: +81-845-27-2111  
Facsimile: +81-845-27-2895  
Shipbuilding, repair and dismantling of ships; manufacturing and repair of marine machinery; hotel management; and other businesses







# Investor Information

(As of March 31, 2009)

## Corporate data

Date of establishment:	April 1, 1881
Paid-in capital:	45,442,365,005 yen
Number of employees (consolidated):	7,989
Number of employees (non-consolidated):	1,082
Consolidated subsidiaries:	67

## Stock data

Number of shares authorized:	2,000,000,000
Number of shares issued:	796,073,282
Number of shareholders:	137,805

## Major shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Equity stake* (%)
Japan Trustee Services Bank, Ltd. (trust account 4G)	42,001	5.3
Citibank Hong Kong PBG Clients Hong Kong	30,191	3.8
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,749	3.1
Japan Trustee Services Bank, Ltd. (trust account)	19,210	2.4
The Master Trust Bank of Japan, Ltd. (trust account)	19,125	2.4
Sompo Japan Insurance Inc.	13,000	1.6
Trust and Custody Services Bank, Ltd. (pension trust account)	10,398	1.3
Nippon Life Insurance Company	8,514	1.1
Hitachi Ltd.	5,900	0.7
Tokio Marine and Nichido Fire Insurance Co., Ltd.	5,427	0.7

\*Percentage of issued shares excluding treasury shares

## Shareholders information

Business year: April 1 to March 31

Annual General Meeting of Shareholders: Late June

Final date for voting right registration: March 31

Dividend record date (term-end): March 31

Dividend record date (interim): September 30

Public notices:

via Company's website (from June 25, 2009)

<http://www.hitachizosen.co.jp/>

Share trading unit: 500 shares

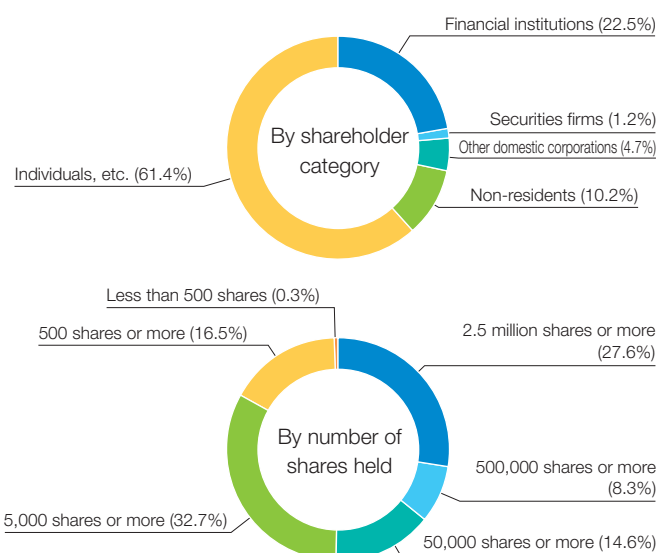
Shareholder registry administrator:

Mitsubishi UFJ Trust and Banking Corporation

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

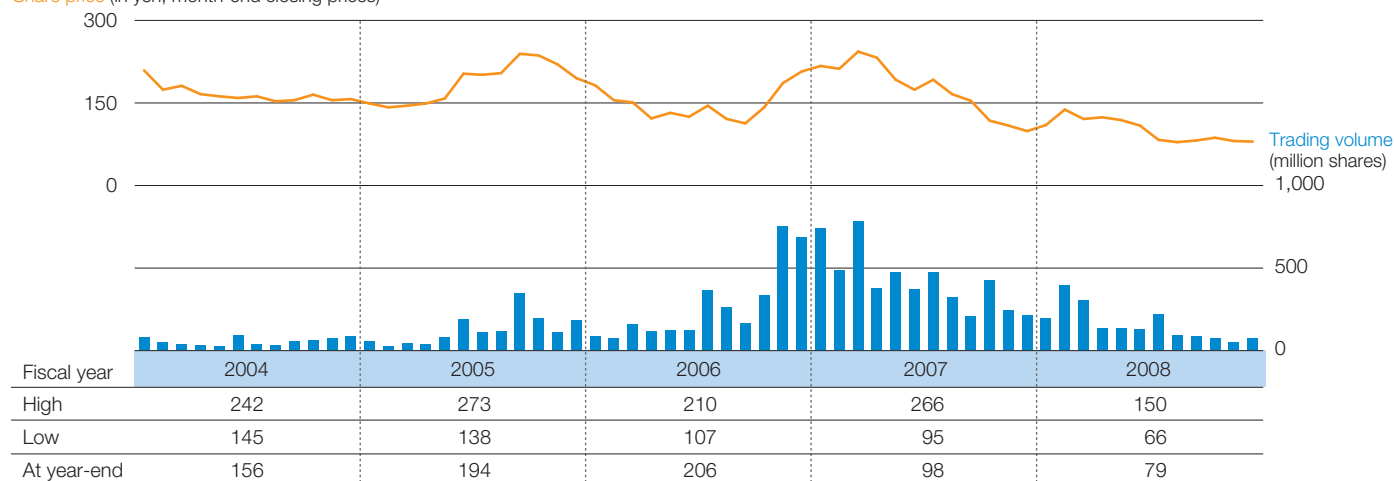
Stock listing: Tokyo Stock Exchange, Osaka Securities Exchange

## Distribution of shareholdings



## Share price and trading volume

Share price (in yen, month-end closing prices)



\*Fiscal years ended March 31 of the following year

# Hitachi Zosen Corporation

## Head Office

7-89, Nanko-kita 1-chome, Suminoe-ku, Osaka 559-8559, Japan  
Phone: +81-6-6569-0001 Facsimile: +81-6-6569-0002

## Tokyo Head Office

15th Floor, Omori Bellport D-Wing, 26-3, Minami-Ohi 6-chome, Shinagawa-ku,  
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