Annual Report 2008
Year ended March 31, 2008

Hitz Innovation

Hitachi Zosen Corporation

Hitachi Zosen Corporation
http://www.hitachizosen.co.jp

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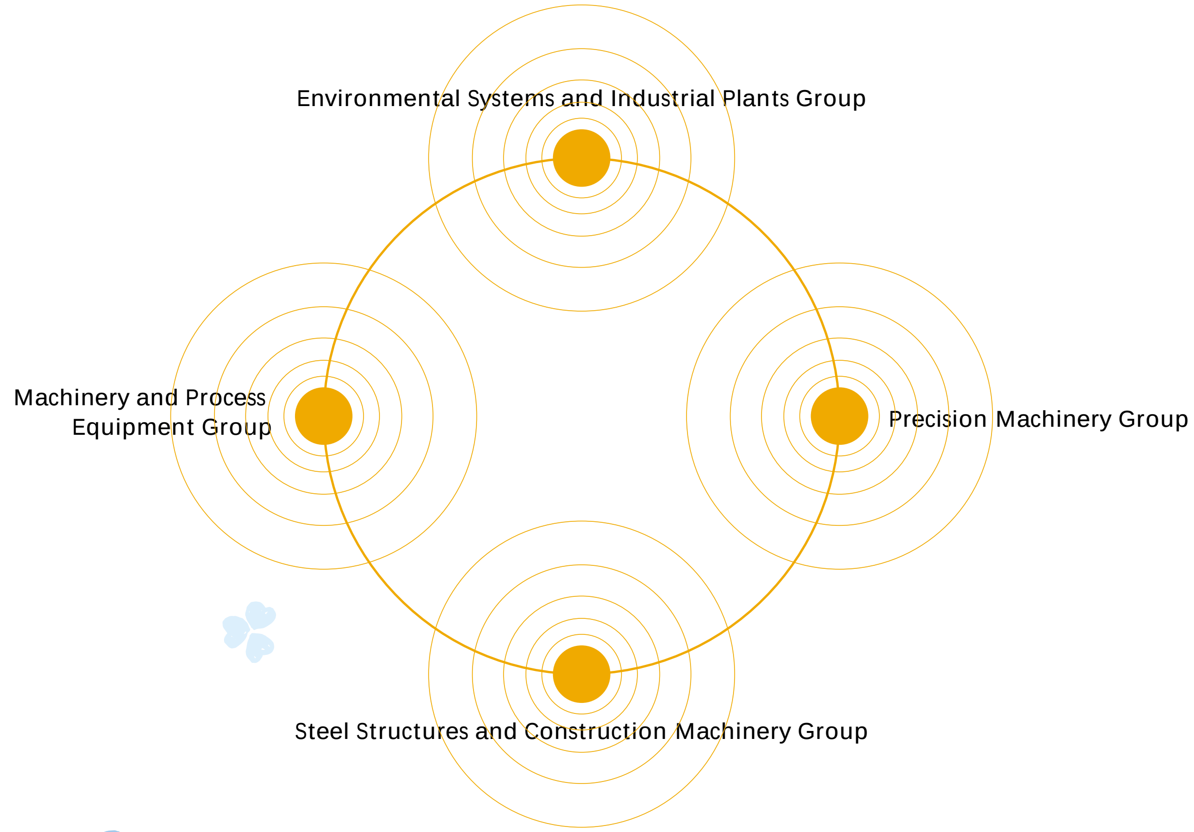
Profile

Our Mission is to Provide Solutions: Contribute to Economic Development and Rising Living Standards around the World and Operate in Harmony with Local Communities and the Environment

Environmental protection, industrial plants, precision machinery, disaster prevention-in each of these fields, the Hitachi Zosen Group is providing more comfort today, and working to create a more affluent tomorrow.
In order to better ensure the achievement of these objectives, Hitachi Zosen Corporation has become an operating holding company engaging in environmental and plant business.
The Hitachi Zosen Group is pursuing high-value-added, total-solution business, striving to maximize the potential of the approximately 100 group companies. Its business domain includes engineering of state-of-the-art environmental plants, creation of information technology-related business and offering of relevant proposals, and provision of services in a range of fields.
Based on the technologies accumulated and cultivated since its founding in 1881, Hitachi Zosen is forging ahead as a technology and business innovator providing integrated products and services. We will never stop pursuing further advancement globally, for today and tomorrow.



Cautionary Statement

Forward-looking statements are based on information currently available to Hitachi Zosen Corporation. Therefore those forward-looking statements include unknown risks and uncertainties. Accordingly, you should note that the actual results could differ materially from those forward-looking statements. Risks and uncertainties that could influence the ultimate outcome include, but are not limited to the economic conditions surrounding Hitachi Zosen Corporation and/or exchange rate fluctuation.

Contents

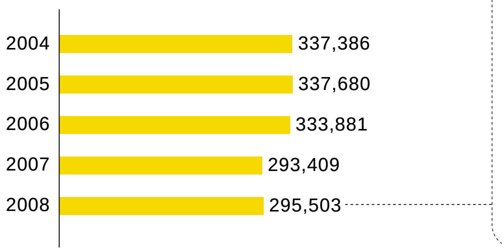
Financial Highlights

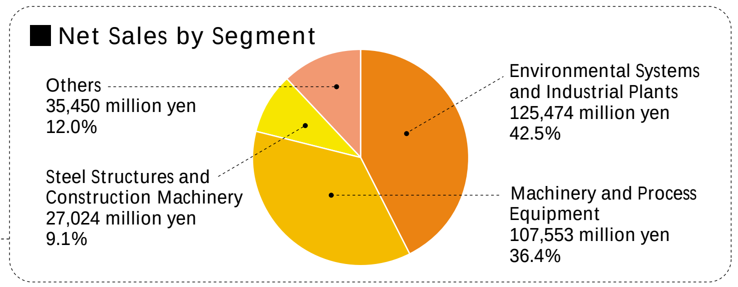
Hitachi Zosen Corporation and consolidated subsidiaries

	Millions except for per share amounts and number of employees					
	Years ended 31st March					
	2004	2005	2006	2007	2008	2008
Net sales	¥ 337,386	¥ 337,680	¥ 333,881	¥ 293,409	¥ 295,503	$ 2,949
Net income (loss)	12,244	1,049	(29,057)	1,034	15,695	156
Net income (loss) per share	24.32	2.08	(56.54)	1.43	19.74	0.20
	As of 31st March					
	2004	2005	2006	2007	2008	2008
Total assets	¥ 400,328	¥ 416,455	¥ 390,206	¥ 365,143	¥ 365,537	$ 3,648
Total net assets	42,530	44,448	24,157	68,652	85,595	854
Number of employees	8,089	8,079	6,941	7,849	7,820	7,820

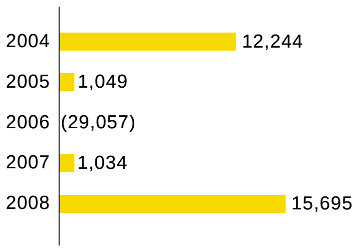
Note: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥118.05 =U.S.$1.00. (See Note 2 of the Notes to the Consolidated Financial Statements.)
2. The computation of net income per share is based on the weighted average number of shares outstanding during each period.
3. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise stockholders' equity as previously defined, plus minority interests and subscription rights.

Net Sales (Millions of yen)

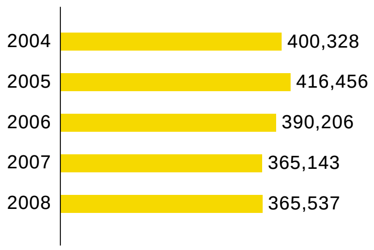




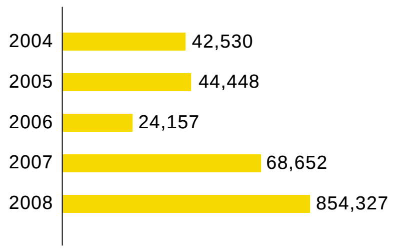
Net Income (Loss) (Millions of yen)



Total Assets (Millions of yen)



Total Net Assets (Millions of yen)



The targets of the medium-term management plan have been completed and innovation is advancing to the second stage

It is our pleasure to report Hitachi Zosen's consolidated performance to our shareholders and other stakeholders for the fiscal year 2008 (from April 1, 2007 through March 31, 2008).

Overview: Market Environment and Results

The economic climate at the start of the fiscal year under review saw the continuation of a phase of mild economic recovery, including an increase of investment in the private sector against a backdrop of improving Japanese corporate profits, etc., and the recovery of personal consumption in association with an improvement in the employment situation. However, in the second half of the fiscal year, the economy was left in a state of uncertainty over the future due to sudden changes in areas such as foreign exchange, share prices and crude oil prices, etc.

In this business environment, the Hitachi Zosen Group pressed ahead with constructing a basis to become a highly profitable company, including the transformation of the business structure from the perspective of selection and concentration of business and the strengthening of the Group's financial standing based on reductions in interest-bearing debts, as the final year of "Hitz Innovation," the 3-year medium-term management plan started in fiscal 2006 (ended 31st March 2006).

While pushing ahead with efforts such as the above, orders during the fiscal year under review finished at ¥337,701 million, in excess of orders during the previous year. This was based on increased orders in the Environmental Systems and Industrial Plants Segment due to new orders for the construction of waste incineration facilities, despite the fact that orders fell in the Steel Structures and Construction Machinery Segment due to the contraction of public investment and the intensified competition, etc. In addition, sales were ¥295,502 million, slightly in excess of sales for the previous year, due to good increases in sales in the Machinery and Process Equipment Segment.

In terms of income and loss, due to factors such as increased margin ratios in the Environmental Systems and Industrial Plants Segment and the Machinery and Process Equipment Segment, and the effects of cost-reductions and fixed cost structure reforms, operating income was ¥10,825 million and ordinary income was ¥7,250 million, meaning the Group was able to produce better results than the previous year.

In addition, the Group posted ¥25,561 million in extraordinary gain, including gain from the disposal of an affiliated company's shares in association with the partial transfer of shares in Universal Shipbuilding Corporation (an equity method affiliate) to JFE Holdings, Inc. However, on the other hand, the Group also posted ¥12,225 million as an extraordinary loss, including the provision for an allowance for losses from lawsuits, in preparation for the event that the company is recognized as having an obligation to pay damages in a civil lawsuit currently under litigation that was brought against the company for supposed violation of antitrust laws in tendering for the construction of a waste incineration facility.

As a result, net income after deducting tax costs and minority interests was ¥15,695 million, significantly in excess of the previous year.

The basic policy of the Group is paying a dividend appropriate with the financial results as well as making efforts to improve the retained earnings necessary for future business development. Although we posted net income in excess of the previous term in the company's non-consolidated results for this year, we are still only partway towards income recovery and need to further strengthen profitability aimed at the securement of the financial resources that will allow us to implement stable and continuous dividends. Consequently, the management reached to the decision that is not the time to pay a year-end dividend this year.

Financial Review

In regard to the financial situation of the Group during the fiscal year under review, consolidated total assets increased ¥394 million in comparison to the end of the previous term to ¥365,536 million as a result of increased cash and deposits due to the partial transfer of shares in Universal Shipbuilding Corporation on the one hand, and decreased investment securities on the other.

Although there was an increase in corporate bonds due to the issue of convertible bonds with stock acquisition rights, debts decreased ¥16,549 million in comparison to the end of the previous term to ¥279,942 million due to factors such as the repayment of long-term and short-term loans.

Net assets increased ¥16,943 million in comparison to the end of the previous year to ¥85,594 million due to factors such as the posting of net income.

With respect to consolidated cash flow, cash flows from operating activities resulted in a decrease in funds of ¥730

million due to an increase in inventory assets and decrease in accrued expenses, despite the recovery of notes and accounts receivable and other positive factors. Cash flows from investment activities resulted in an increase in funds of ¥26,969 million due to the transfer of shares in Universal Shipbuilding Corporation, etc., despite expenditures arising from facility investment. Cash flows from financing activities resulted in a decrease in funds of ¥10,714 million due to the repayment of loans despite proceeds due to the issue of corporate bonds.

As a result of the above, cash and cash equivalents at the end of the year was ¥54,229 million, ¥15,469 million more than that of the previous year.

The State of Completion of the Previous Medium-Term Management Plan "Hitz Innovation"

Aiming at construction of a basis to become a highly profitable company under "Hitz Innovation," the 3-year medium-term management plan that started in fiscal 2006 (ended 31st March 2006), the Group executed "conversion of business structures," "strengthening corporate governance functions," "improving profitability" and "reform of corporate culture."

In regard to these 3 years, in fiscal 2006 (ended 31st March 2006), the first fiscal year of the plan, significant losses were posted in association with drastic structural reforms such as the disposal of employee retirement benefits due to the revision of the employee retirement benefit system, and the disposal of real estate asset impairment to clean out financial risk. Despite this, in fiscal 2007 (ended 31st March 2007) and 2008 (ended 31st March 2008), the Group enhanced net assets by measures such as deficit coverage based on reserve fund reduction and promoting the conversion of convertible bonds with stock acquisition rights, etc., and produced a certain degree of good results in priority measures such as the transformation of the business structure and the strengthening of the Group's financial standing. By doing so, the Group managed to complete the management figures targeted in the medium-term management plan.

Forwarding the New Medium-Term Management Plan, "Hitz Innovation Ⅱ"

As the second stage for carrying on the achievements of the medium-term management plan that started in fiscal 2006, "Hitz Innovation," for completing the construction of a basis to become a highly profitable company and another leap forward and to further develop business, the Group has formulated "Hitz Innovation Ⅱ," a 3-year medium-term management plan that takes fiscal 2009 (ended 31st March 2009) as its first year.

In this plan, the Group has raised the "advance of portfolio management," "new product and business development and expansion of facility investment," the "strengthening of human resource cultivation measures and human resource securement and management," "ongoing strengthening of governance systems," and the "promotion of the sharing of values and transformation of corporate culture" as its 5 priority measures.

Outlook for Performance

As for the outlook for fiscal 2009 (ended 31st March 2009), the first year of the medium-term management plan, "Hitz Innovation Ⅱ," the future of the economy continues to be uncertain, but the Group is targeting consolidated orders of ¥330,000 million, roughly the same as the previous year. Taking into consideration the increases in the Machinery and Process Equipment Segment against a backdrop of good private sector demand, the forecast for consolidated sales is ¥300,000 million, the same as the current year.

In terms of profit, although there will be a stress due to factors such as the steep rise in material prices and the increase of the depreciation burden in association with facility investment in the Machinery and Process Equipment Segment, taking into consideration structural reform in the Steel Structures and Construction Machinery Segment, and the results of reductions in fixed cost, etc., the forecast for consolidated operating income is ¥11,000 million. The forecast for consolidated ordinary income is ¥8,000 million and the forecast for consolidated net income is ¥5,000 million.

The Group intends to execute with certainty all measures based on "Hitz Innovation Ⅱ," the medium-term management plan, and to contribute to the creation of prosperous regional environments and social infrastructure utilizing the manufacturing and engineering which is the core technology of the Group. In addition, by achieving profitability and the target figures given above in all business areas, the Group intends to realize the creation of highly profitable company and the improvement of corporate value of the whole Group.

President

M Furukawa

Chairman

Andoh

Interview with Top Management

Achieving a return to profitability in all business areas and realizing dividends - The most important theme of Hitz Innovation Ⅱ

Minoru Furukawa,
President

The settlement of accounts for fiscal 2008 (ended 31st March 2008) produced results largely according to plan. President Furukawa, what is your own evaluation?

Since the operating income was ¥10.8 billion, I think that we have built the foundations to be able to post operating income of at least ¥10 billion or more from now on. We produced a large net profit by posting extraordinary gains in this settlement of accounts, but what is most important for the Group is, of course, operating income generated by doing business. Up to now, even if we had raised operating income - although operating income in absolute figures was still low - non-operating losses were too big. This time, we have achieved targeted figure from operating income and non-operating losses were also considerably smaller in comparison to what they were last year. That means items such as borrowing have decreased, so the financial standing of the Group has improved. And the fact that operating income has increased means that the selection and concentration of businesses have came into effect steadily. Also, in two business areas - the EPC (Engineering procurement and construction) Division of Environmental Systems & Industrial Plants Group and the Steel Structures Division of Steel Structures & Construction Machinery Group - the Group posted a loss, but the prospect of a return to profitability in these sectors too has also come into sight.

You say "prospect of profitability," but can you be more specific?

We are planning to carry these sectors into profitability during the 3-year period from fiscal 2009 to fiscal 2011. In the EPC Division, we are pushing ahead with a policy of absolutely not taking on orders in deficit by through order management and are also advancing the curtailment of fixed costs. This will take a little time, but I think that we surely can return this sector to profitability in fiscal 2011 (ended 31st March 2011). Over in the Steel Structures Division too, we have operated to this point under a two factory system, with Sakai Works and Mukaishima Works, but in order to cope with the reducing demand, we have converted Sakai Works into an industrial machinery factory and have turned bridge operations into a one factory system at Mukaishima Works. If this goes well, we will be able to reach the break-even point in fiscal 2009 (ended 31st March 2009). I think that we will be able to return this sector to profitability from fiscal 2010 (ended 31st March 2010) at the latest.

In addition, in regard to bridge construction, I think that the issues of maintenance will come to the fore. New bridges will be constructed in future, of course, but the repair and maintenance of bridges will fall under the spotlight more than construction. We are also thus currently making plans to strengthen bridge maintenance operations.

What has been achieved with Hitz-Innovation and what remains to be done?

The conversion to profitability of the EPC Division and the Steel Structures Division remains as issues, but one thing that we have managed to complete is the improvement of the company's financial situation. The ratio of borrowings to equity, in other words, the D/E ratio, has been brought down to 1.4. At the toughest time, this ratio was 6 or 8, so if you consider that kind of difficult situation, I think you will be able to understand the level of improvement. The Group's equity ratio against asset at the end of March 2006 was 6.2%, but at the end of March 2008, this figure had risen to 19.4%. Equity has recovered as far as ¥70.8 billion. In contrast, the balance of debt is ¥102.2 billion so that is why the ratio is 1.4. Now, we are trying to take the level of debt down as far as ¥70 billion eventually under the current medium term business plan. And, since we also want to take equity up to a minimum of ¥100 billion, the D/E ratio will be 0.7 and equity will be greater than borrowings. When we arrive to that point, we will finally be able to be a normal company. I think we have probably managed to take the first step in that direction.

And, two other points I would like to mention here are the removement of the notes on the company as a going concern (events or circumstances creating serious doubts over the assumption of the company as a going concern) from our financial report, and the improvement of our bond rating. Previously, we had obtained a band rating of BB+ from Rating and Investment Information (R&I), but this time we have obtained a rating of BBB- (Rating Outlooks: Stable) from Japan Credit Rating Agency, Ltd. (newly), and moreover, we have managed to obtain an upgraded rating of BBB- (Rating Outlooks: Stable) from R&I. BB level is not yet on investment grade, but BBB level is on investment grade. Although BBB- is the lowest rating in the BBB level, with this improvement, we have finally managed to bring the company's financial situation up to a minimum level. I think this will improve steadily from now on.

Could you tell us more in regard to the selection and concentration of businesses and the transformation of the Group's business structure?

As I also said a little while ago, we will select and concentrate business by increasing our operational capabilities, and although there are still 2 divisions under the recovery, we are taking countermeasures steadily and will definitely convert these operations to positive figures during the current medium-term plan. Also, one other thing that is important as a round up of Hitz Innovation is that from 2007 we have made a big shift towards growth strategy. I think that the results for this shift change will appear from now on.
The growth strategy is the strengthening of manufacturing. For example, HMC (Hitachi Zosen Mechanical Corporation), one of our subsidiaries which manufactures large scale pressure vessels used at crude oil refining plants, has enhanced its production capacity in order to meet the rapid increase of global demand. In addition, shipbuilding is growing globally at the moment and there are suggestions of a shortfall of marine diesel engines. We have also invested in

production capacity enhancement at our subsidiaries Hitachi Zosen Diesel & Engineering Co., Ltd. and IMEX Co., Ltd. for this reason too. We completed the reinforcement of HMC at the end of 2007. Marine engine production capacity enhancement was planned in the Hitz Innovation medium-term plan and we want to have it completed finally in March 2010. The marine engine production capacity of the Hitachi Zosen Group is currently 1-million horsepower, but if we accomplish our plans, a doubled 2-million horsepower production system will be put in place.

Apart from that too, the subsidiary Hitz Hi-Technology Corporation has the top share in lapping plates for use with silicon wafer polishing equipment and is constructing a new plant to meet the market expansion. I think the point is that we have taken a big shift towards growth strategies and facility investment.

Is the Group's intention to push further ahead with that growth strategy reflected in the current medium-term business plan "Hitz Innovation Ⅱ"?

Yes. And the policy that I have put forward for that end is facility investment of ¥30 billion during the period of the current medium-term business plan, enhance facility capacity or increase productivity, and push further ahead with reforms that contribute to the reduction of costs. In addition to that, we will also put effort into engineering. That is because manufacturing as well as engineering is also one of our important business pillars. Consequently, we will make thoroughgoing investments in R&D to discover the next generation of new products and new businesses. Of course, the focuses there will be environment and energy.

Various things were debated at the recent G8 summit held at Toyako in Hokkaido, and we need to reduce CO_2 emissions as soon as possible, in other words, establish technological development that contributes to the realization of a low carbon society. What we are doing in this regard is enhancing technological development in areas such as bio-energy, solar electricity generation and fuel cells. Furthermore, we are working on organic electronics as a new area of business. We are participating in joint R&D which has been recently established with ten companies including consumer electronics manufacturers and one R&D institution. I think it will take time, but we will strengthen such areas of business before it is too late. To that end, we will make investments in development of at least ¥20 billion during the period of this medium-term business plan.

¥30 billion plus ¥20 billion makes ¥50 billion, but if there really is a point to something, we are here prepared to add ¥10 billion or ¥20 billion, so I am telling my people to make proper plans. Up to this point, we have tended to devote ourselves exclusively to protection, but from the latter half of Hitz Innovation, we have shifted to a more aggressive attitude. In Hitz Innovation Ⅱ, we will absolutely make fast and aggressive action. And I think that during the combined 6 year period of these 2 medium-term business plans, we will really become a normal company. As proclaimed in our 2010 vision, all of our existing businesses will achieve profitability during the period of the current medium-term business plan and we will realize the restoration of dividends. This is our most important theme.

I feel something of an unwavering intention, including the revision of the corporate philosophy in the formulation of the current medium-term management plan.

The Group's previous plans tended to have been made only by people in the Corporate Planning Department or the executive director of a business division. That being the case, although our employees have not gone so far as to say the plan has nothing to do with us since it has been made by limited staffs, it has not been possible to wipe such thoughts away entirely among the employees, so this time we wanted to have everybody involved as much as possible. Therefore, the Corporate Planning Department created the broad outline, and we had each business division produce detailed plans based upon that outline. Then we debated matters based on those plans and finally, brought everything together. So, what I am saying to our employees at the moment is that this medium-term plan is one that was created by everybody's intentions and with everybody's participation; in other words, it is a plan you made yourself, so you have to implement it with the consciousness that we can definitely achieve it. Of course, I will bear the final responsibility as president. However, I tell my people that I want everybody to do what they have to do thoroughly.

And the most important thing in this plan is the sharing of a sense of values such as the corporate philosophy. The volume of sales and the height of operating income are nothing more than numerical targets and will come along later. If we do not have the strong intention to see the plan through to the end, we will not get anywhere. The sharing of a sense of values is most important in the sense of confirmation of that intention, so we described the things that all directors and employees should share as "Hitz Value," by summarizing our corporate philosophy, our endeavors and standards of behavior toward the business in a cross-project team formed for this purpose, and then debating upon what that team came up with and making a determination within the management group. Because we started from a review once more of corporate philosophy, this plan is considerably different to those we have had up to this point and everybody is working with the knowledge that if we fail once more with this plan, Hitachi Zosen will disappear.

Could you please give us your thoughts on the numerical targets of the current medium-term plan?

Last year, as a first step towards becoming a highly profitable company, I spoke future of sales plan of ¥150 billion in heavy industry manufacturing operations, ¥150 billion in engineering operations, and ¥50 billion in precision machinery operations, for a total of ¥350 billion in sales, and a minimum operating income of 5%. With the formulation of the current medium-term business plan, we have clarified the direction we need to move to. In other words, we want to achieve at least the operating income of ¥17 billion by 5% of ¥340 billion in sales in the final year of the current medium-term business plan.

Also, against an operating income of ¥17 billion, ordinary income will be ¥16 billion and there will only be ¥1 billion of non-operating losses, so you can read from this that the improvement of the financial situation of the Group will be progressing considerably. If we can do this, it will be the completion of the first step in the true sense. We have finished Hitz-Innovation in fiscal 2008 (ended 31st March 2008) and although the review of the new medium-term plan in fiscal 2009 (ended 31st March 2009) is showing largely sideways movement in comparison to the previous fiscal year. Please think that this is our message showing our determination of accomplishing this as a bottom line. Every company is currently fighting an uphill battle because both steel product and crude oil prices are increasing so corporate goods prices are at a high level and business climate has worsened considerably. However, even if such problems do appear, we cannot turn them into excuses and we will definitely hold onto ¥11 billion in operating income. We intend to try and increase that by even ¥100 or 200 million.

Finally, could you say a word to the company's stakeholders?

The company has gone 10 years without paying a dividend and has caused anxiety and trouble to all of our shareholders and institutional investors. We will achieve the targets announced in the new medium-term business plan and will try as hard as we can to restore the payment of dividends to all of our shareholders as quickly as possible. Therefore, I ask for your unchanging support in the future too.

Now that we have completed the first stage "the construction of a firm foundation basis," we will move forward to the next stage "the materialization" to become a highly profitable company.

The Hitachi Zosen Group has formulated a 3-year medium-term management plan, "Hitz Innovation Ⅱ," which will run from fiscal year 2009 (ending 31st March 2009) to 2011(ending 31st March 2011).

Due to the completion of the previous medium-term management plan, "Hitz Innovation," which ran from fiscal year 2006 (ended 31st March 2006) to 2008 (ended 31st March 2008) aimed at constructing a firm basis to become a highly profitable company, the Group has been able to produce a certain degree of good results in regard to the transformation of the business structure and the strengthening of the Group's financial standing. However, we are conscious that we are still developing in regard to the strengthening of profitability. Accordingly, we will make another leap forward and further develop our businesses, aiming at the realization of a highly profitable company, by promoting and achieving the aims of the medium-term management plan, "Hitz Innovation Ⅱ."

The re-acknowledgment of "Hitz Value" and the determination of the "New Hitz Vision 2010"

In the formulation of "Hitz Innovation Ⅱ," Based on the idea that the sharing of values such as corporate philosophy, etc., would contribute to long-term growth, Hitachi Zosen made an inner discussion about the corporate philosophy, Our endeavors and Standards of Behavior toward the Business established in 1990 and re-acknowledged and defined our corporates' consensus' "Hitz Value."

Based on this "Hitz Value," we have clarified the vision and domains of our medium-term management plan and determined our basic management policy as the "New Hitz Vision 2010."

Please refer to the "Hitz Innovation Ⅱ" chart for the details of "Hitz Value" and "New Hitz Vision 2010."

5 priority measures aimed at achieving the 2011 vision and planned figures

Hitachi Zosen has raised 5 priority measures in its medium-term management plan and aims to realize the "New Hitz Vision 2010" and to achieve the targets planned for fiscal year 2011 (refer to chart) through effective promotion of those measures.

1 Promotion of portfolio management

In the previous medium-term management plan (fiscal year 2006-2008), the Group promoted the transformation of the business structure from the perspective of selection and concentration of business. However, in this medium-term management plan, we will further clarify the businesses and products which we effectively should focus on, and we will invest our resources, so as to expand the businesses and increase profits.

① Growing businesses and products

Desalination plants, diesel engines for ships, process equipment for petrochemical plants, material operations for high-technology industry (lapping plates, silicon wafer polishing equipment, etc.)

② Newly developing businesses and products

New environment related business (biodegradable plastic, ethanol, bio-diesel fuel, etc.), FA equipment, industrial machinery products, precision machinery such as optical film sheet formation machinery, etc.

Progress of the Medium-term Management Plan "Hitz Innovation" and Fiscal 2009 Forecasts

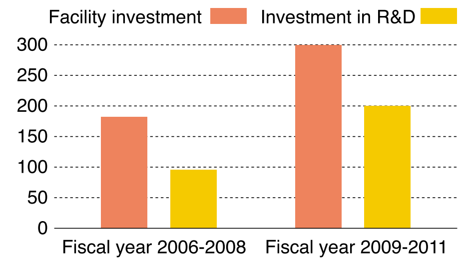
(millions)

Consolidated	Fiscal 2008 HI plan*	Fiscal 2008 Actual result	Fiscal 2008 Comparison	Fiscal 2009 Forecast
Orders	270,000	337,701	67,701	330,000
Sales	270,000	295,502	25,502	300,000
Operating income	8,000	10,825	2,825	11,000
(operating income percentage)	(3.0%)	(3.7%)	(0.7%)	(3.7%)
Ordinary income	5,000	7,250	2,250	8,000
(ordinary income percentage)	(1.9%)	(2.5%)	(0.6%)	(2.7%)
Net income	2,000	15,695	13,695	5,000
(net income percentage)	(0.7%)	(5.3%)	(4.6%)	(1.7%)
Interest-bearing debts	105,000	102,284	▲ 2,716	90,000

*HI Plan = medium-term management plan "Hitz Innovation"

2 New product and business development and expansion of facility investment

The Group will make a total of ¥50 billion worth of R&D and facility investments over 3 years, centered on the strategic business and products positioned in the portfolio to implement a growth strategy for the creation of new businesses and new products, the expansion of existing businesses, and the improvement of profitability, etc.



3 Strengthening of human resource cultivation measures and human resource securement and management

① Human resource cultivation

The Group will create career plans that clarify the ideal employee profiles and promote long-term human resource cultivation measures with an emphasis on middle-layer engineers.

- Formulation and execution of training programs in accordance with individual's career plans
- Implementation of planned rotation

② Human resource securement and management

Securement and management of human resources in which adopts to Japan's dwindling birthrate and aging population and the diversification of society.

- Strengthening of employing new graduates and mid-career recruiters
- Positive employment of female employee, use of the elderly (rehiring of retired workers), use of foreigners
- Promotion of the optimal deployment among the Group and divisions using human resource recruitment systems, free agent systems and self-application systems

4 Ongoing strengthening of governance systems

From the previous medium-term management plan, Hitachi Zosen has been focusing on the following measures and has obtained a certain level of results. Therefore, the Group will continue to work on and further strengthen these measures.

- Thorough elimination of various risks at the time of signing contracts
- Strengthening of profit follow-up and project management
- Thorough implementation of compliance

5 Promotion of the sharing of values and transformation of the corporate culture

① All directors and employees working in the Hitachi Zosen Group will widely share the corporate philosophy, Our endeavors and Standards of Behavior toward the Business redefined as "Hitz Value," strive towards the further improvement of the Group's technological capabilities and social contributions through corporate activities and aim to establish the Hitz corporate brand "Hitz of Technology."

② The Group has diffused the "reform of corporate culture" through related activities. Further in the future, each and every director and employee will adapt to change themselves according to the then existing environment and aim to establish a culture of voluntary innovation.

Hitz Value

Aim to be a corporate group that contributes to society while sharing corporate ethic

Corporate philosophy

We create value useful to society with technology and sincerity to contribute to a prosperous future.

Our endeavors

1. Improvement of customer satisfaction
2. Emphasis on the job satisfaction of employees
3. Coexistence with the global environment
4. Sensing change and moving in advance change
5. Emphasis on creative technology
6. Thorough implementation of compliance

Standards of behavior toward business

1. Communicate with sincerity
2. Learn widely, think deeply
3. Take on challenges relentlessly

New Hitz Vision 2011

We have clarified the vision, domain and basic management policy based on "Hitz Value."

Medium-term vision

An energetic group where our people and business grow

Domains

The creation of a prosperous global environment and social infrastructure utilizing the capability of "manufacturing and engineering"

Basic management policy

1. The Group aims at business development utilizing the characteristics of "manufacturing and engineering" to achieve profitability in all business areas and resume dividend payments.
2. The Group will strengthen the technological and quality capabilities, the basics of a manufacturer, and develop business strategies that anticipate changes in the market environment to entrench the "Hitz of Technology" corporate brand.
3. The Group will emphasize the improvement of customer satisfaction and employee satisfaction and aim a culture that continues to reform constantly by forming an organization that communicates and learns with sincerity.
4. Create a company where compliance is implemented continuously and thoroughly and governance functions work.

[Priority measures]

1. Promotion of portfolio management
2. New product and business development and expansion of facility investment
3. Strengthening of human resource cultivation measures and human resource securement and management
4. Ongoing strengthening of governance systems
5. Promotion of the sharing of values and transformation of the corporate culture

Fiscal year 2011 Targets (ending 31st March 2011)

Sales	¥340,000 million
Operating income	¥17,000 million
(operating income percentage)	(5.0%)
Ordinary income	¥16,000 million
(ordinary income percentage)	(4.7%)
Net income	¥9,000 million
ROIC (*1)	12% or higher
Balance of interest-bearing debts	No more than ¥70,000 million
Capital adequacy percentage	30% or higher (*2)

*1 ROIC (Return on investment capital) = operating income / investment capital

*2 A capital adequacy percentage of 30% or higher is a target value.

The selection and concentration of business and structural reform are advancing steadily

The Hitachi Zosen Group included 94 companies as of the end of March 2008. These companies are divided into the 4 business divisions of "environmental systems and industrial plants," "machinery and process equipment," "steel structures and construction machinery," and "others," and cover a wide variety of operations.

In fiscal 2008, "manufacturing companies" such as Hitachi Zosen Mechanical Corporation, which works on process equipment for use at oil refineries and petrochemical plants, Hitachi Zosen Fukui Corporation, which handles various types of press machinery and FA systems for the automobile industry, and Hitachi Zosen Diesel & Engineering Co., Ltd and IMEX Co., Ltd, which work on marine diesel engines, as well as the "precision machinery company" Hitz Sanki Techno Corporation, which produces optical film manufacturing equipment, all continued to maintain their good performances from the previous year and produced strong results.

We believe that these businesses will continue to perform strongly from fiscal 2009 onwards too. Following the process machinery manufacturing plant of Hitachi Zosen Mechanical Corporation, which was completed at the Ariake Works of Hitachi Zosen and started operation in fiscal 2008, we are currently constructing a new facility for Hitachi Zosen Diesel & Engineering Co., Ltd in order to establish an increased production system for marine diesel engines. We are also currently constructing a specialist plant at the Sakai Works of Hitachi Zosen for the production machinery manufacturing of Hitz Machinery Corporation, which was established in April this year by the merger of 3 subsidiaries. Completion of the plant is planned for November 2008.

In this way, we are pushing ahead positively with facility investment, aiming at strengthening our production capabilities and increasing production efficiency in areas where we anticipate stability and growth for orders and income.

On the other hand, the situation in steel structures related business continues to be difficult due to the contraction of public investment and the intensification of order competition. However, the results of drastic structural reforms are beginning to appear and results are continuing to recover steadily.

From now on, the Hitachi Zosen Group will promote the cultivation and enhancement of human resources and the strengthening of development capabilities, etc., and will aim at investing management resources in businesses where market expansion is anticipated and in products developed in new business areas to "realize a highly profitable company."

Environmental Systems and Industrial Plants Business

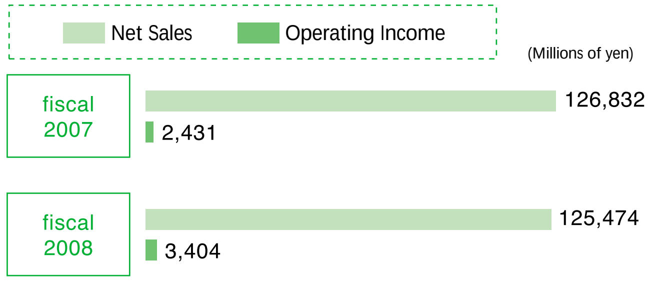
In fiscal 2008, sales in this business division were ¥125,474 million, a decrease of 1.1% in comparison to the previous term. However, operating profit increased 40.0% to ¥3,404 million over the previous term due to the improvement of profit margins in environmental systems business.

Environmental Protection systems
- Municipal refuse heat recovery (incineration) facilities
  Stoker-type incinerators
  Hitz super stoker
  Gasification and melting furnace
- Highly efficient waste to energy systems
- Industrial waste treatment facilities
- Recycling and sorting facilities
- Flue gas treatment equipment
- Ash treatment equipment
- AOM business
- PFI/PEPO business
- Remote monitoring systems
- Biomass utilization technologies
- Water treatment systems
- 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


Refuse incineration facility in Kimotsuki District


Acetate tow manufacturing plant



Machinery and Process Equipment Business

Following on from last year, this business division continued to perform strongly in fiscal 2007, supported by solid private sector demand. As a result, sales increased 4.8% in comparison to the previous term to finish at ¥107,553 million, and operating profit also increased, by 20.1% on the same base to finish at ¥9,832 million.

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

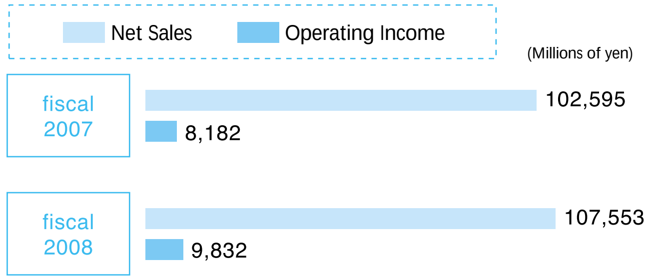
Process equipment and nuclear power equipment
- Process equipment
  Heat exchangers, pressure containers
- Nuclear fuel recycling related equipment
- Radioactive waste incineration and reduction facilities

Prime Movers and press machinery
- Marine diesel engines
- Press machines

Power generation facilities and new energy
- Gas turbine power generation facilities
- Gas engine power generation facilities
- Diesel engine power generation facilities
- Cogeneration systems
- Wind power generation systems


Wärtsilä type marine engine


Large servo press



Steel Structures and Construction Machinery Business

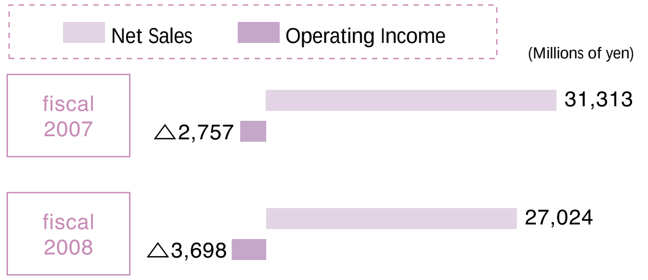
The difficult situation in this business sector continued in fiscal 2008 due to the stagnation of public investment, etc. Results for both sales and operating losses were worse than for the previous term at ¥27,024 million (down 13.6% in comparison to the previous term) and ¥3,698 million (up 34.1% in comparison to the previous term) respectively.

Bridges, Hydraulic gates and Marine Civil Engineering
- Bridges
- Hydraulic gates
- Water 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


Construction of the upper section of Okawa bridge for Kyoto Prefecture


Shield tunneling machine for America



Other Businesses

Sales in this business sector in fiscal 2008 finished at ¥35,450 million, an increase of 8.5% in comparison to the previous term, but operating profit decreased 37.5% year on year to finish at ¥1,287 million.

Marine and disaster prevention systems
- GPS buoy wave-tsunami tide observation systems
- Remote monitoring systems
- Movable watertight boards
- Electric Discharge shock breaker

Electronics and control systems

High precision positioning information systems

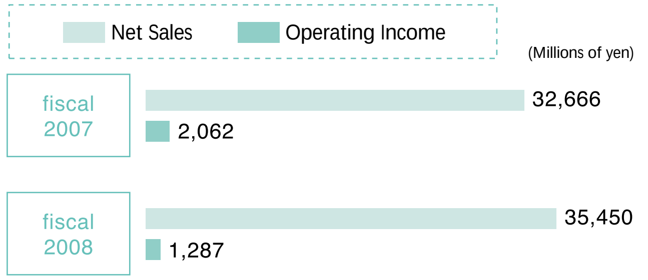
Slurry ice-making systems

Deck machinery

Electricity Power business


Compact image-recording device


Small standard machine for slurry ice manufacture



Environmental Systems and Industrial Plants Business

Refuse incineration facility in Kimotsuki District

Acetate tow manufacturing plant

Environmental Systems Area

Hitachi Zosen specializes in engineering business such as environmental systems and industrial plants (electricity generation, desalination, chemicals), etc. The difficult situation for orders in the environmental systems area has continued, including the overall contraction of public construction work. However, in this situation, the company received orders for refuse incineration facilities from Yamagata City, Gifu Prefecture and Iwata City, Shizuoka Prefecture and for repair and maintenance work on general waste processing facilities from local authorities, etc., and also completed and handed over a recycling center to Suo Oshima Town, Yamaguchi Prefecture. Apart from this, overseas, the company received an order for an urban waste incineration facility from Iksan City in Korea. In addition, in management work and operational control work for waste processing facilities, the company completed and handed over a gasification melting furnace and recycling center for the Kimotsuki Region General Waste Management Association, Kagoshima Prefecture and also received an order for the operational management of these facilities. Apart from that, the company has concluded several contracts for operational management work with various regional authorities. Elsewhere, the company is also working positively on new areas of business such as bioethanol and biodiesel related operations, etc., and received an order from Miyagi Prefecture for the construction of a sewage sludge fuel conversion facility using the "Hitz Pearl System", which manufactures coal substitute fuel from sewage sludge.

Hitachi Zosen ranks in the top class in the industry for deliveries of waste processing facilities and against the backdrop of its prodigious results, superior technological capabilities and facility management business methods, is focusing on environmental solutions business such as PFI business, long-term facility management business and AOM (After-service Operation and Maintenance).

Industrial Plant Area

While the order environment is progressing strongly in the area of industrial plants, the company received an order for an MMA (methyl methacrylate) monomer plant for Thailand and also completed and handed over an acetate tow manufacturing plant to a domestic chemical company and light oil deep desulphurization equipment to an oil company. In addition, Hitachi Zosen also received orders for and delivered various types of plant facilities and NOx removal catalysts to domestic chemical companies and oil refining companies. Among its overseas projects, the company has received several orders from North America and the Middle East for NOx removal catalysts. In a situation where environmental pollution is seen as a problem on a global scale, the company will continue to expand its sales routes into North America, the Middle East and East Asia, etc. Furthermore, demand for new large-scale desalination facilities is also increasing year on year and the company is taking on this challenge positively.

Hitz pearl system

Machinery and Process Equipment Business

Thin film laser patterning equipment

Wärtsilä type marine engine

Methanol reactor

Large servo press

Precision Machinery Area

Continuing from last year, needs are accelerating in the semiconductor related industries in association with the expansion of consumer demand for things such as PCs, digital household appliances and mobile phones, etc, due to the increasingly large quantities of memory such as DRAM that these products use and the expansion in their ranges of application. However, due to the sudden drop in memory prices, new facility investment has stalled. In the FPD related industries, facility investment has entered a phase of adjustment as a consequence of the deceleration of large investment in the Asian region, and the industry has experience negative growth. However, the order environment improved in the second half of the year. Against the backdrop of the recovering FPD industry situation, we have been making an effort in the precision machinery business of the Hitz High-Technology Corporation to expand orders for products such as G10 generation-capable CF corrective polishing equipment, etc. In addition, the Wakasa Works of the Materials Division of the Hitz High-Technology Corporation, which started operations in July last year, has acquired ISO9001 accreditation and is aiming for significant expansion of the market for lapping plates.

We have made efforts to increase orders from the solar battery industry, which is continuing its rapid growth, including the laser processing equipment of Hitachi Zosen, the carrier devices and film-forming devices of Hitz High-Technology Corporation, and the vacuum valves of V-Tex Corporation.

Furthermore, Hitachi Zosen has developed new G5 generation-capable equipment with "thin-film laser patterning equipment" that forms circuits on solar batteries and liquid crystal panel substrates. From now on, we will aim at order expansion centered on laser processing equipment for use with thin film-related and CIS-related solar batteries, which are expected to grow in size.

As for Hitz Sanki Techno Corporation, the flexible metal press roll (UF roll) that the company developed has performed well and orders and deliveries of various types of plastic extrusion molding equipment for chemical companies and the like in Japan and overseas have been excellent. The company has also received orders for and delivered various types of filling equipment for domestic food manufacturers and filling and sealing equipment for pharmaceutical companies.

In the precision machinery area from now on, we will fuse the technology and human resources of the company, Hitz High-Technology Corporation, which works on cast and wrought products, FPD-related devices, semiconductor-related equipment and vacuum equipment, etc., V-Tex Corporation, which handles vacuum valves and equipment, and Ultra Finish Technology Co., Ltd, which has electrolytic compound polishing technology, and Hitz Sanki Techno, with its IT and liquid crystal related plastic extrusion molding systems. By doing so, we will exhibit the maximum effect of group synergies to promote the development of organic EL manufacturing equipment, laser-related processing equipment, and vacuum film-forming devices, and will establish precision machinery operations as the third business pillar of the Hitz Hitachi Zosen Group.

Marine Engines Area

The first Wärtsilä-type RT-flex electronically controlled engine was completed at Hitachi Zosen Diesel & Engineering Co., Ltd in May 2008. This engine is an environmentally responsive type that has realized electronically based flexible running control as well as low NOx, low fuel and low smoke emissions. In addition, Hitachi Zosen Diesel & Engineering Co., Ltd is the only double licensee in Japan for both Wärtsilä-type and MAN B&W-type electronically controlled marine engines and was the first company in Japan to complete an electronically controlled engine of the MAN B&W type as well.

Furthermore, a medium-sized engine works is currently under construction at Hitachi Zosen Diesel & Engineering Co., Ltd, aiming at operation in March 2009. The company has introduced the "tact system" for this plant, which divides the production process into fixed stages and transfers work to the subsequent process upon completion of a stage.

In future too, Hitachi Zosen Diesel & Engineering Co., Ltd will take advantage of its technological superiority by working on both types of electronically controlled engine and will respond to the diversified needs of customers and also meet expanding supply requests by increasing production capacity.

Process Equipment and Nuclear Power Equipment Area

Hitachi Zosen Mechanical Corporation received the orders of Desulfurization Reactors for North American client, Fluid Catalytic Cracking Unit and Continuous Catalytic Reforming Reactor for Japanese client, Fertilizer equipments as well as Methanol Reactor for Southeast Asia or South American Plant Owners, also received Storage Canisters for United States.

The positive market demand of Desulfurization Reactors because of planning of various Heavy Oil Up-grader projects in the world wide, Fertilizer equipments because of planning of various Fertilizer Plants in Middle East and CIS are expected in fiscal year 2008. In addition, the stable market demand of Storage Canister is also expected for the United States. Therefore, the continuous growth of order income value is expected.

Moreover, the new factory equipped with 700tons overhead crane is completed in October 2007 which is well in operation to support production increase by well productivity.

Press Machines Area

The orders for and sales of press machine manufactured by Hitachi Zosen Fukui Corporation (H&F) are keeping good performance because of the continued investment by automobile manufacturers. In this situation, H&F delivered "large servo press machine" this year again.

The environment surrounding H&F have been difficult from this year fore-end, due to the rising price of steel products, transportation cost, subcontract cost and tough competition caused by the capacity expansion of competitors.

Regarding strengthening merchantability, H&F will enhance competitive force of servo press by completion of "servo cushion" which is now under development, and promote the application of "laser technology" for other business areas, and so on.

Regarding cost reductions, H&F will promote the high efficient production system, by carrying forward standardization of designing, CAD/CAM, and installation of large NC machines. In addition, H&F will deepen its cooperation with Shieh Yih Machinery Industry Co., Ltd., a Taiwanese press manufacturer, and promote coordination of press block production.

Electricity Generation Area

In the energy sector, the company is focusing on orders for land-based electricity generation facilities (diesel engines, gas engines, gas turbines, wind-powered electricity generators, etc), but is facing a struggle against the headwind of high fuel prices. On the other hand, AOM business for electricity generation facilities and electricity wholesaling operations are performing well. In fiscal 2008, the company will aim at orders for electricity generation facilities, focusing on large-scale, highly efficient gas engines.

Steel Structures and Construction Machinery Business

Construction of the upper section of Okawa bridge for Kyoto Prefecture

Shield tunneling machine for America

Steel Structures Area

Although there were signs of improvement in terms of orders in the steel structures area in fiscal 2007 due to factors such as the settling down of order prices because of the reform of the tendering system of the Ministry of Land, Infrastructure, Transport and Tourism, the situation continued to be difficult in terms of profit under the impact of orders received prior to fiscal 2006.

Under such circumstances, Hitachi Zosen Steel Structures Corporation received an order from the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism for the construction of a multilevel intersection at Tonya-machi on Route 4, using the company's fast construction technology for multi-level intersections that enables significant reductions in construction times. Apart from this, the company received orders for and delivered bridges, floodgates, marine structures and other buildings and structures from the Ministry of Land, Infrastructure, Transport and Tourism, various local authorities, various freeway companies, electricity generation companies and construction companies.

In addition, as part of the rationalization measures of Hitachi Zosen Steel Structures Corporation, the company absorbed its subsidiary Hitachi Zosen Steel Structures Engineering Corporation on December 1, 2007.

In fiscal 2008, Hitachi Zosen Steel Structures Corporation will realize a significant improvement in profits due to a significant reduction in fixed costs, the improvement of efficiency, and general cost reductions arising from the concentration of bridge manufacturing operations at Mukaishima Works, etc., as well as the positive expansion of the company's bridge maintenance business and chimney business, etc.

Construction Machinery Business

Domestically, the difficult order environment continued while public investment related business performed weakly. However, the company received orders for and delivered various types of shield tunneling units for use in underground railways and sewerage systems. These included special structure shield tunneling units such as T-shaped connection shields, underground docking shields, compact shields and stainless steel plate shields, etc. These results indicate the strength of the company's technological potential.

For customers overseas, the company received several orders for and delivered shield-tunneling units for use in underground railways in Taiwan and Singapore. Based on the fact that domestic demand is growing at a sluggish pace, in future, the company will focus its efforts positively on the expansion of orders for overseas customers. While on the one hand maintaining and developing good relations with existing customers, on the other hand, the company will further promote global development, starting with new expansion into China and India, which are promising markets for the future, including potential demand.

Furthermore, Hitz Machinery Corporation will transfer its manufacturing plant for shield-tunneling units from Kanagawa to Sakai in October 2008, aiming at further improvement of production efficiency based on a product mix including various types of industrial devices and steel structure products. In combination with this transfer, the company will construct a large new building and upgrade its machinery and equipment.

The company's shield tunneling unit business will continue to expand and develop more and more in the future due to the implementation of measures like those described above and the steady results arising from them.

Other Businesses

Compact image-recording device

Seillac TS

Nippon GPS Solutions Corporation

Mooring winch

Small standard machine for slurry ice manufacture

Steel Structures Area

In the electronics and control area, Nichizou Electronic Control Corporation was affected by the downward correction in semiconductor investment, but results started to appear in applications of its specialty imaging and video products and in automobile products. The company will emphasize the expansion of these areas in fiscal 2008. Seillac Co., Ltd, which works on electronic devices for broadcasting, etc., was able to obtain a foothold in the market for TS (transport stream) adapters, the central technology of digital broadcasting.

In addition, orders from government offices for quasi-zenith satellite system use, etc., have performed well at Nippon GPS Solutions Corporation and Nippon GPS Data Services Corporation, companies that work on GPS based information systems and data transmission. In fiscal 2008, the companies are aiming at entry into precision measurement for private customers, centering on electronic reference point business.

In machinery and equipment-related business, Nippon Pusnes Co., Ltd, which works on marine deck machinery such as winches, etc., increased orders because of flourishing new shipbuilding demand, and was also able to enhance its production system, including the completion of a new coating factory. In fiscal 2008, the company will strengthen the foundations of its business aimed at the rapidly growing Asian market.

As machinery and equipment directly connected to people's lives, the group has the ice-making equipment of Slurry 21 Co., Ltd. Because it is possible with this equipment to manufacture round-shaped slurry ice from seawater, inquiries for the storage and transport of fresh fish and vegetables are increasing steadily. In fiscal 2008, including ice sales based on collaboration with customers, the company will take up the challenge of expanding orders for products such as the small-scale standard unit that it released this year.

Technology Development in the Hitachi Zosen Group

Results for Fiscal 2008

The Hitachi Zosen Group implemented 71 development projects in fiscal 2008, including the improvement and development of products and technologies, and the creation of new business and new products, etc., mainly in the areas of environmental systems and industrial plants, manufacturing and precision machinery. The Group was able to produce results roughly in line with targets.

In the environmental systems and industrial plants area, Hitachi Zosen was able to receive orders for the first models in the development of both equipment for the manufacture of biosolids fuel from sewage sludge (Pearl System) and equipment for the dehydration of bioethanol. In addition, the company also pursued development projects such as a verification test for a new form of fire grate for stoker furnaces, stable waste supply control for gasification melting furnaces, and adaptation to the JIS for ash melt slag, etc.

In the manufacturing area, development was undertaken at Hitachi Zosen Mechanical Corporation connected to the improvement of production technology for pressurized containers and casks for use in nuclear power operations. In the area of food contaminant identification equipment at MTEC Corporation, the company made further improvements to its image processing capabilities to respond to orders.

In the area of precision machinery, Hitachi Zosen undertook the development of size increases for thin-film laser processing equipment for use with flat panels and V-Tex Corporation undertook development aimed at internal production of vacuum valve controllers.

Bioethanol dehydration equipment

Enlarged image

Module side view

Fiscal 2009 Plan

Following on from fiscal 2008, in fiscal 2009, the Hitachi Zosen Group will focus on the areas of environmental systems and industrial plants, manufacturing, and precision machinery and promote development based on "Hitz Innovation Ⅱ", the new medium-term business plan.

In the area of environmental systems and industrial plants, Hitachi Zosen will promote the completion of gasification melting and long-life technology for waste, and development in response to orders for biodiesel fuel manufacturing plants. In the desalination equipment related area, the company will work on the completion of MSF upsizing and the production of MED verification machinery.

In the manufacturing area, centered on Hitachi Zosen Mechanical Corporation, the Group will expand products that apply laser welding. In addition, in the precision machinery area, Hitachi Zosen will start development related to the upsizing of organic EL deposition equipment systems in a national project, and at Hitz Sanki Techno Corporation, we will pursue the development of functional film formation equipment capable of handling a wide variety of materials. Moreover, at Hitachi Zosen, we will advance the development of carbon nano tube manufacturing and products that put this to practical use as future technology.

Food contaminant detection equipment

The Basic Intellectual Property Policy of Hitachi Zosen Group

Hitachi Zosen conducts the intellectual property activities aiming at optimization of Hitachi Zosen Group Business Activity overall with the unity management of the three issues of "Business Strategy"(How to advance our business), "Research and Development Strategy"(What technology should be established to carry out our business strategy), and "Intellectual Property Strategy"(How to protect the business with the intellectual property rights).

The Concept of Medium-Term Intellectual Property Activities

Inventions are applied and protected by the patent rights through the intellectual property activities based on the slogan of "Research and development start from patent applications". Hitachi Zosen's Businesses are extending widely and stably by analyzing technology map and patent map and knowing strong areas or weak areas of patent portfolio, aiming at making the company's intellectual property stronger. The basic attitude is to discover and create inventions, to cultivate inventions into intellectual property rights, and to manage the patent bundle rights as business weapons. Intellectual property education and exchange program are being developed in Hitachi Zosen Group in order to establish the right mind for patent.

Intellectual property activities are managed strategically in Hitachi Zosen Group to make the rights contribute to business support and to use the rights effectively for the business.

Intellectual Property Managing

Intellectual Property Group in Legal & Intellectual Department is managing intellectual property in Hitachi Zosen Group.

Intellectual property at group companies is basically controlled by the policy of each company. However, the Legal & Intellectual Department of Hitachi Zosen supervisory works for Hitachi Zosen Group overall and manages intellectual property activities including patent application, request for invalidation trials and intellectual property dispute.

A patent manager and 3 patent leaders in research and development division and 8 patent managers in business divisions are conducting patent application promotion activities.

And Hitachi Zosen has established in its regulations an application award, a registration award and an invention implementation award as compensation for inventions and as incentives to make inventions. The regulation is made amendment in combination with legal revisions and changes in socioeconomic conditions and was significantly changed in 2002 to the current form.

Hitachi Zosen introduced a patent managing computer system in 2000 for efficient work process and replaced it with the latest version in 2007. Hitachi Zosen's patents are now completely managed with electronic data.

Now the number of patents owned at the end of 2007 was 758 in Japan and 83 overseas.

○ Trends in the numbers of patents

1. Efforts to protect the environment

Hitachi Zosen's fundamental policy is to always harmonize with the earth in every business area. To embody its efforts on environmental matters, the Company formulated some basic policies to protect the environment in 1992. These policies state that "the Company recognizes its responsibilities as a good corporate citizen and proactively solves environmental issues on a global basis; and endeavors to promote environment protection based on the understanding that the protection of nature and 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, the Company is now implementing global environment protection activities, such as protecting the ozone layer, preventing global warming, and reducing and recycling waste, in addition to conventional activities. Each office and work has set targets based on this promotion plan, and is striving to protect and preserve the environment. Since 1994, the Company has audited offices concerning environment protection once a year, according to internal audit standards which include the provision of global environment protection.

2. Promoting environmental management systems

In March 1998, Maizuru Works became Japan's first shipbuilder to obtain ISO14001 certification. Since then, six domestic works, one district and three divisions, excluding Kanagawa Works, have acquired the certification. The Company will continuously improve environmental management systems so that it can implement appropriate measures against risks associated with the environment.

Medium- and long-term targets

Item	Purpose	Targets	Fiscal year achieving targets	Result for fiscal 2007
Reduction of energy consumption	Suppression of carbon dioxide emission	Reduce energy consumption rate by 6% compared with fiscal 1990 levels	2010	Increased by 12.5%
Reduction of waste materials	Suppression of waste discharge	Reduce total waste discharge rate by 10% from fiscal 2000 levels	2010	Increased by 59%
	Suppression of landfill disposal quantity	Reduce total landfill disposal quantity by 40% compared with fiscal 1999 levels	2010	Increased by 1%

3. Promoting global environment protection and saving of energy and natural resources

As part of its efforts to reduce the use of ozone-depleting substances, the Company discontinued the use of specified chlorofluorocarbons and trichloroethane for washing in 1995, and specific halons in extinguishants in 2002. As for energy saving, by 2010 we aim to reduce carbon dioxide emissions to 6% below 1990 levels. To achieve this, we are improving operational processes, introducing energy-saving transformers and compressors, using energy-saving equipment such as energy-saving inverter fluorescent lights, as well as setting and observing standards for air conditioning temperatures.

We set the 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 decrease to 10% below 2000 levels by 2010. Further, with the aim of reducing landfill to 40% below 1999 levels by 2010.

As for recycling, 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.

4. Managing chemical substances

The Company fully comprehends the issues regarding exhaust gases and the quantity of chemical substances that are moved in accordance with the PRTR method; and manages such substances appropriately, while reducing their amount under the newly formulated "Voluntary Management Plan for Chemical Substances."

5. Promoting communication on environment protection

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

The Company is pushing ahead to establish a framework that enables efficient corporate governance, as it recognizes that enhancement of corporate governance is one of its top priority management issues to ensure corporate soundness, transparency and efficiency, increase corporate value, and coexist with the society as a good corporate citizen.

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

As the management decision making bodies, we have the Board of Directors and Management Strategy Committee.

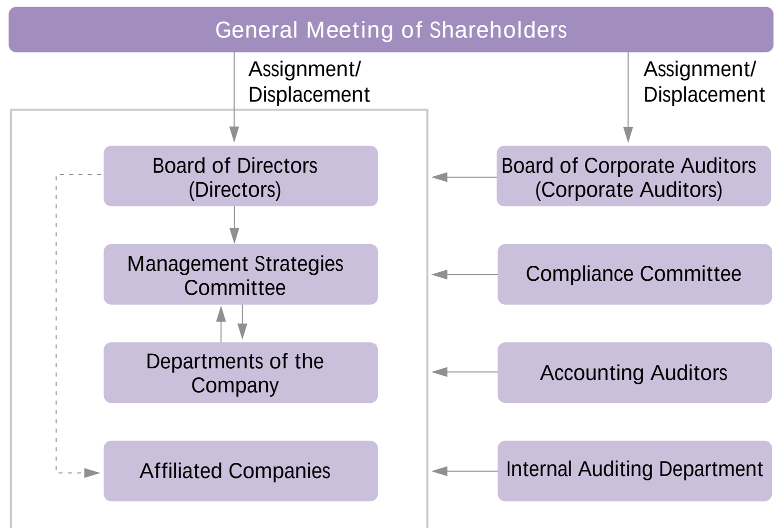
The Board of Directors decides upon important matters such as the basic policy for management and oversees the execution of operations. In addition, the Management Strategy Committee, which is composed of top management personnel, conduct thorough discussion of basic strategies and important matters. This system leads to appropriate management decisions.

As members of the Board of Directors, the 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 are also in the position of division managers take partial charge of the execution of business and Executive Officers execute the operation of the division in charge under the control and supervision of the Representative Director. The status of execution of the operation is reported as appropriate to, and supervised by, the Board of Directors, etc. As of July 2008, there are 10 Directors and 5 Executive Officers.

For auditing functions, the company has a Board of Auditors comprising 1 Full-time Corporate Auditor and 3 Part-time Corporate Auditors (including 2 outside auditors) as of July 2008. Corporate Auditors attend the Board of Directors regularly and other meetings as needed, and implement audits of management from a neutral, objective standpoint with a system under which they can fully audit the execution of operations of Directors, etc. In addition to the Corporate Auditors (Board of Auditors), the company has established an Internal Auditing Department as a division responsible for internal audits of the company. The Internal Auditing 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. Along with providing specific advice for the improvement of work, the department aims at the improvement of internal control functions by also exchanging information with the Corporate Auditors at appropriate times.

In addition to the above, we are working proactively on strengthening compliance management as one of the important issues for management in order to conduct management in conformance with laws and regulations and corporate ethics and fulfill the company's social responsibilities.

The company has established a Compliance Committee with the Representative Director serving as the Committee Head. 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 Behaviour Charter" as an ethical behaviour guideline for all of the directors and employees of the company group to observe. By educating all directors and employees, the group is aiming at the improvement of consciousness of compliance and thoroughgoing observation of corporate ethics.



2008 Financial Section

KPMG

Independent Auditors' Report

To the Shareholders and 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, 2007 and 2008, and the related consolidated statements of operations, 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, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. Effective April 1, 2006, Hitachi Zosen Corporation and its consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet and new accounting standards for business combinations and business divestitures.

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

Osaka, Japan
June 26, 2008

KPMG AZSA & Co.

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.

Financial Section

CONSOLIDATED BALANCE SHEETS

Hitachi Zosen Corporation and Consolidated Subsidiaries
At March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
ASSETS			
Current assets:			
Cash and time deposits *(Notes 5 and 18)*	¥ 39,945	¥ 55,678	$ 555,724
Receivables:			
Trade notes and accounts:			
Nonconsolidated subsidiaries and affiliates	4,582	2,476	24,713
Other	95,977	91,829	916,549
Other *(Note 5)*	3,767	5,030	50,204
Allowance for doubtful receivables	(931)	(671)	(6,697)
	103,395	98,664	984,769
Marketable securities *(Note 3)*	233	207	2,066
Inventories *(Note 4)*	42,143	48,367	482,753
Deferred tax assets *(Note 22)*	4,600	3,413	34,065
Prepaid expenses and other current assets	6,271	5,223	52,131
Total current assets	196,587	211,552	2,111,508
Property, plant and equipment, at cost *(Note 5)*:			
Land *(Note 7)*	75,121	73,680	735,403
Buildings and structures	66,364	67,391	672,632
Machinery and equipment	75,835	79,044	788,941
Construction in progress	729	1,562	15,590
	218,049	221,677	2,212,566
Less accumulated depreciation	(87,107)	(91,141)	(909,682)
Property, plant and equipment, net	130,942	130,536	1,302,884
Intangible assets	2,256	1,802	17,986
Investments and other noncurrent assets:			
Investments in nonconsolidated subsidiaries and affiliates *(Notes 3 and 5)*	23,932	10,224	102,046
Investments in securities *(Notes 3 and 5)*	7,158	6,697	66,843
Long-term loans receivable *(Note 5)*	144	127	1,268
Deferred tax assets *(Note 22)*	1,072	1,334	13,315
Other investments and noncurrent assets *(Note 5)*	4,323	3,833	38,257
Allowance for doubtful receivables	(1,271)	(1,315)	(13,125)
Total investments and other noncurrent assets	35,358	20,900	208,604
Deferred assets	–	747	7,456
Total assets	¥ 365,143	¥ 365,537	$ 3,648,438

See the accompanying Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
LIABILITIES			
Current liabilities:			
Short-term loans *(Note 5)*	¥ 37,001	¥ 16,461	$ 164,298
Current portion of long-term debt *(Note 5)*	15,970	12,642	126,180
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	1,688	163	1,627
Other	68,114	69,569	694,371
Advances received on work in progress	30,111	27,493	274,409
Accrued income taxes	2,268	2,384	23,795
Reserve for product warranty	2,612	3,173	31,670
Reserve for losses on construction contracts	2,782	3,576	35,692
Reserve for losses from lawsuits	1,859	9,036	90,189
Reserve for factory relocation expense	–	867	8,653
Accrued expenses	42,050	36,593	365,236
Other current liabilities	19,068	14,385	143,577
Total current liabilities	223,523	196,342	1,959,697
Long-term liabilities:			
Long-term debt, less current portion *(Note 5)*	59,002	73,182	730,432
Employees' retirement benefits *(Note 21)*	5,606	6,091	60,795
Deferred tax liabilities *(Note 22)*	1,779	1,980	19,762
Negative goodwill	1,295	1,048	10,460
Other noncurrent liabilities	5,286	1,299	12,965
Total long-term liabilities	72,968	83,600	834,414
Total liabilities	296,491	279,942	2,794,111
CONTINGENT LIABILITIES *(Note 6)*			
NET ASSETS: *(Note 8)*			
Common stock			
Authorized —2,000,000,000 shares			
Issued —796,073,282 shares at March 31, 2007 and 2008	45,442	45,442	453,558
Capital surplus	20,291	5,975	59,637
Retained earnings (deficit)	(10,750)	19,262	192,255
Treasury stock, at cost —1,031,935 shares in 2007			
—1,191,622 shares in 2008	(128)	(160)	(1,597)
Net unrealized holding gains on securities	609	108	1,078
Net unrealized holding gains (losses) on hedging derivatives	(806)	482	4,811
Land revaluation difference *(Note 7)*	(156)	(156)	(1,557)
Foreign currency translation adjustments	(51)	(168)	(1,677)
Minority interests in consolidated subsidiaries	14,201	14,810	147,819
Total net assets	68,652	85,595	854,327
Total liabilities and net assets	¥ 365,143	¥ 365,537	$ 3,648,438

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Net sales	¥ 293,409	¥ 295,503	$ 2,949,426
Cost of sales	256,941	255,552	2,550,674
Gross profit	36,468	39,951	398,752
Selling, general and administrative expenses	26,549	29,125	290,697
Operating income	9,919	10,826	108,055
Other income (expenses):			
Interest and dividend income	784	260	2,595
Interest expense	(2,465)	(2,549)	(25,442)
Foreign exchange loss	(589)	(436)	(4,352)
Equity in net loss of nonconsolidated subsidiaries and affiliates	(2,168)	(428)	(4,272)
Gain on sale of investments in consolidated subsidiaries and an affiliate *(Note 9)*	1,111	21,373	213,325
Gain on discharge of indebtedness *(Note 10)*	–	3,196	31,900
Gain on sale of property *(Note 11)*	–	992	9,901
Gain on sale of investments in securities *(Note 12)*	1,238	–	–
Reversal of allowance for doubtful receivables	767	–	–
Provision for allowance for losses from lawsuits *(Note 13)*	(1,859)	(9,118)	(91,007)
Impairment losses *(Note 14)*	–	(1,797)	(17,936)
Factory relocation expense *(Note 15)*	–	(1,039)	(10,370)
Loss on devaluation of software	–	(271)	(2,705)
Surcharges and penalties *(Note 16)*	(1,621)	–	–
Fines	(440)	–	–
Other, net	(1,168)	(422)	(4,212)
Total other income (expenses)	(6,410)	9,761	97,425
Income before income taxes and minority interests	3,509	20,587	205,480
Income taxes - current *(Note 22)*	2,567	3,235	32,289
Income taxes - deferred *(Note 22)*	(486)	474	4,731
Income before minority interests	1,428	16,878	168,460
Minority interests in net income of consolidated subsidiaries	394	1,183	11,808
Net income	¥ 1,034	¥ 15,695	$ 156,652

Amounts per share	Yen		U.S. dollars (Note 1)
Net income - basic	¥ 1.43	¥ 19.74	$ 0.20
Net income - diluted	–	¥ 18.02	$ 0.18
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, 2007 and 2008

	Thousands	Millions of yen 2007								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings (deficit)	Treasury stock (Note 17)	Net unrealized holding gains on securities	Net unrealized holding losses on hedging derivatives	Land revaluation difference	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
Shareholders' equity at March 31, 2006 as previously reported	560,331	¥ 30,356	¥ 5,376	¥ (11,992)	¥ (108)	¥ 825	¥ –	¥ (149)	¥ (151)	¥ –
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006	–	–	–	–	–	–	–	–	–	8,362
Net assets at April 1, 2006	560,331	¥ 30,356	¥ 5,376	¥ (11,992)	¥ (108)	¥ 825	¥ –	¥ (149)	¥ (151)	¥ 8,362
Net income	–	–	–	1,034	–	–	–	–	–	–
Common stock issued on exercise of stock purchase warrants	235,742	15,086	14,914	–	–	–	–	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(94)	–	–	–	–	–	–
Increase due to consolidation of additional subsidiaries	–	–	–	122	–	–	–	–	–	–
Increase due to merger of an affiliate	–	–	–	180	–	–	–	–	–	–
Treasury stock purchased, net	–	–	1	–	(20)	–	–	–	–	–
Other	–	–	–	–	–	(216)	(806)	(7)	100	5,839
Balance at end of year	796,073	¥ 45,442	¥ 20,291	¥ (10,750)	¥ (128)	¥ 609	¥ (806)	¥ (156)	¥ (51)	¥ 14,201

	Thousands	Millions of yen 2008								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings (deficit)	Treasury stock (Note 17)	Net unrealized holding gains on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
Balance at March 31, 2007	796,073	¥ 45,442	¥ 20,291	¥ (10,750)	¥ (128)	¥ 609	¥ (806)	¥ (156)	¥ (51)	¥ 14,201
Transfer from capital surplus to accumulated deficit	–	–	(14,316)	14,316	–	–	–	–	–	–
Net income	–	–	–	15,695	–	–	–	–	–	–
Increase due to consolidation of additional subsidiaries	–	–	–	1	–	–	–	–	–	–
Treasury stock purchased, net	–	–	0	–	(32)	–	–	–	–	–
Other	–	–	–	–	–	(501)	1,288	–	(117)	609
Balance at March 31, 2008	796,073	¥ 45,442	¥ 5,975	¥ 19,262	¥ (160)	¥ 108	¥ 482	¥ (156)	¥ (168)	¥ 14,810

	Thousands of U.S. dollars (Note 1) 2008								
	Common stock	Capital surplus	Retained earnings (deficit)	Treasury stock (Note 17)	Net unrealized holding gains on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
Balance at March 31, 2007	$ 453,558	$ 202,525	$ (107,296)	$ (1,278)	$ 6,078	$ (8,045)	$ (1,557)	$ (509)	$ 141,741
Transfer from capital surplus to accumulated deficit	–	(142,889)	142,889	–	–	–	–	–	–
Net income	–	–	156,652	–	–	–	–	–	–
Increase due to consolidation of additional subsidiaries	–	–	10	–	–	–	–	–	–
Treasury stock purchased, net	–	1	–	(319)	–	–	–	–	–
Other	–	–	–	–	(5,000)	12,856	–	(1,168)	6,078
Balance at March 31, 2008	$ 453,558	$ 59,637	$ 192,255	$ (1,597)	$ 1,078	$ 4,811	$ (1,557)	$ (1,677)	$ 147,819

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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,509	¥ 20,587	$ 205,480
Depreciation	6,409	7,031	70,177
Impairment losses	–	1,797	17,936
Decrease in allowance for doubtful receivables	(5,034)	(216)	(2,156)
Increase (decrease) in employees' retirement benefits	(102)	485	4,841
Increase in reserve for losses on construction contracts	571	794	7,925
Increase in reserve for losses from lawsuits	1,859	7,177	71,634
Increase in reserve for factory relocation expense	–	867	8,654
Interest and dividend income	(784)	(260)	(2,595)
Interest expense	2,465	2,549	25,442
Equity in net loss of nonconsolidated subsidiaries and affiliates	2,168	428	4,272
Gain on sale of property, plant and equipment	(41)	(992)	(9,901)
Gain on sale of investments in consolidated subsidiaries and an affiliate	(1,111)	(21,373)	(213,325)
Gain on sale of investments in securities	(1,331)	(243)	(2,426)
Loss on devaluation of investments in securities	88	240	2,395
Loss on disposal of fixed assets	436	282	2,815
Loss on devaluation of software	–	271	2,705
Decrease in trade receivables	15,154	6,263	62,511
Increase in inventories	(5,686)	(6,224)	(62,122)
Decrease (increase) in other current assets	1,378	(1,427)	(14,243)
Decrease in trade payables	(9,355)	(70)	(699)
Decrease in accrued expenses	(5,186)	(5,508)	(54,977)
Decrease in advances received	(2,155)	(2,618)	(26,130)
Increase (decrease) in other current liabilities	3,260	(4,120)	(41,122)
Other	2,771	(1,150)	(11,478)
Subtotal	9,283	4,570	45,613
Interest and dividends received	1,045	332	3,314
Interest paid	(2,418)	(2,512)	(25,072)
Employees' retirement benefits paid	(21,371)	–	–
Income taxes paid	(2,207)	(3,120)	(31,141)
Net cash and cash equivalents used in operating activities	(15,668)	(730)	(7,286)
Cash flows from investing activities:			
Purchase of securities	(0)	–	–
Proceeds from sales of securities	161	73	729
Purchase of property, plant and equipment	(4,785)	(11,494)	(114,722)
Proceeds from sales of property, plant and equipment	184	4,485	44,765
Purchase of intangible assets	(506)	(495)	(4,941)
Purchase of investments in securities	(410)	(779)	(7,775)
Proceeds from sales of investments in securities	3,491	35,269	352,021
Proceeds from sales of a part of an investment in a consolidated subsidiary	1,464	–	–
Net increase by sales of subsidiaries' stock resulting in changes in scope of consolidation	1,201	–	–
Other	(1)	(89)	(888)
Net cash and cash equivalents provided by investing activities	799	26,970	269,189

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Cash flows from financing activities:			
Decrease in short-term loans and debt, net	¥ (15,754)	¥ (20,540)	$ (205,011)
Proceeds from long-term debt	21,879	12,670	126,460
Payment of long-term debt	(25,554)	(32,144)	(320,830)
Proceeds from issuance of bonds	1,500	31,360	313,005
Redemption of bonds	(700)	(1,780)	(17,766)
Paid-in capital from minority interests	976	–	–
Other	(159)	(280)	(2,795)
Net cash and cash equivalents used in financing activities	(17,812)	(10,714)	(106,937)
Effect of exchange rate changes on cash and cash equivalents	35	(71)	(709)
Net increase (decrease) in cash and cash equivalents	(32,646)	15,455	154,257
Cash and cash equivalents at beginning of year	68,323	38,760	386,865
Cash and cash equivalents of newly consolidated subsidiaries, at beginning of year	2,097	14	140
Net increase in cash and cash equivalents with consolidated subsidiary's merger	986	–	–
Cash and cash equivalents at end of year *(Note 18)*	¥ 38,760	¥ 54,229	$ 541,262

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

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.$1.00. The translations should not be construed as representations that 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 seventy-one (seventy-three in the year ended March 31, 2007) significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in one (two in the year ended March 31, 2007) nonconsolidated subsidiaries and nine (nine in the year ended March 31, 2007) 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, 2007) 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 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 consolidated subsidiaries.

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 the evaluation of each customer's financial condition and the 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 operations 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 cost of contracts. The accumulated production cost includes direct production costs, factory and engineering overhead and other costs incurred.

Raw materials and supplies are stated at cost, which is generally determined by the specific identification method or the moving average method, but not to exceed market value.

i) Depreciation and Amortization

Depreciation 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 ($1,417 thousand) 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, operating income and income before income taxes and minority interests were ¥241 million ($2,405 thousand) less than they would have been with the previous method.

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

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 is applied and the difference between issue price and face value, ¥857 million ($8,554 thousand), is 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 ($7,456 thousand) 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 ¥2,695 million and ¥3,083 million ($30,772 thousand) for the years ended March 31, 2007 and 2008, 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.

s) Accounting for Leases

Finance leases 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.

t) 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.

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

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

The consolidated balance sheet as of March 31, 2007, prepared in accordance with the New Accounting Standards, comprises three sections, which are the assets, liabilities and net assets sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains (losses) on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the noncurrent liabilities and the shareholders' equity sections.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥55,256 million would have been presented.

v) Accounting Standard for Statement of Changes in Net Assets

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

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

w) Business Combinations

Effective from the year ended March 31, 2007, the Company adopted "Accounting Standard for Business Combinations" (issued by the Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005) and "Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10 issued by the Accounting Standards Board of Japan on December 22, 2006).

x) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2007 to conform to the fiscal year ended March 31, 2008 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, 2007 and 2008:

(1) Trading securities:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Book value (fair value)	¥ 160	¥ 143	$ 1,427
Amount for the year of net unrealized gains (losses) included in the statements of operations	0	(17)	(170)

(2) Held-to-maturity debt securities:

At March 31, 2007

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥ 862	¥ 866	¥ 4

Other securities:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥ 14	¥ 14	¥ (0)

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, 2008

Securities with available fair values exceeding book values:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	$ 8,653	$ 8,813	$ 160

Other securities:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	$ 100	$ 100	$ –

(3) Available-for-sale securities:

At March 31, 2007

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

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 743	¥ 1,566	¥ 823
Others	43	83	40
Total	¥ 786	¥ 1,649	¥ 863

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

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1	¥ 1	¥ (0)
Bond	1	1	–
Total	¥ 2	¥ 2	¥ (0)

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, 2008

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

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	$ 9,801	$ 12,117	$ 2,316
Others	220	549	329
Total	$ 10,021	$ 12,666	$ 2,645

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

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,565	¥ 2,116	¥ (449)
Bond	10	10	–
Others	30	30	(0)
Total	¥ 2,605	¥ 2,156	¥ (449)

b) The following table summarizes book values of securities with no available fair values as of March 31, 2007 and 2008:

Available-for-sale securities:

Type	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2007	2008	2008
Non-listed equity securities	¥ 4,389	¥ 4,208	$ 42,000
Loan trusts	145	72	719

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

At March 31, 2007

	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	¥ 4	¥ 870
Other bonds	73	109	20	–
Total	¥ 73	¥ 112	¥ 24	¥ 870

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, 2008

	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	$ 10	$ 30	$ 30	$ 8,684
Other bonds	629	379	–	–
Total	$ 629	$ 409	$ 30	$ 8,684

d) Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥3,491 million, and the related gains and losses amounted to ¥1,450 million and ¥119 million, respectively.
Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥351 million ($3,503 thousand), and the related gains and losses amounted to ¥243 million ($2,426 thousand) and ¥0 million ($0 thousand), respectively.

4. Inventories

Inventories at March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Work in progress	¥ 38,111	¥ 44,097	$ 440,134
Raw materials and supplies	4,032	4,270	42,619
Total	¥ 42,143	¥ 48,367	$ 482,753

5. Short-term Loans and Long-term Debt

Short-term loans that represented bank loans bearing average interest rates of 1.85 percent and 1.80 percent as of March 31, 2007 and 2008, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Secured (or partly secured)	¥ 6,285	¥ 2,614	$ 26,091
Unsecured	30,716	13,847	138,207
Total	¥ 37,001	¥ 16,461	$ 164,298

Long-term debt at March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
0.4 percent to 3.6 percent loans from banks and other financial institutions, due through 2022:			
Secured (or partly secured)	¥ 28,273	¥ 23,562	$ 235,173
Unsecured	42,119	27,356	273,041
0.00 percent convertible bonds due 2010	–	16,398	163,669
1.50 percent convertible bonds due 2012	–	15,408	153,788
0.57 percent straight bonds due 2010	1,400	1,000	9,981
1.15 percent straight bonds due 2011	1,500	1,200	11,977
0.81 to 2.31 percent straight bonds due 2007 to 2011			
Secured (or partly secured)	600	600	5,989
Unsecured	1,080	300	2,994
Less: current portion included in current liabilities	(15,970)	(12,642)	(126,180)
Total	¥ 59,002	¥ 73,182	$ 730,432

The convertible bonds due 2010 and 2012 as of March 31, 2008 were convertible into shares of common stock at the option of the holders at prices of ¥206 ($2.06) or ¥215 ($2.15) per share. The conversion prices are subject to adjustments under specified conditions.

The following assets were pledged as collateral mainly for secured long-term debt of ¥28,273 million at March 31, 2007 and ¥26,176 million ($261,263 thousand) at March 31, 2008:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash and time deposits	¥ 653	¥ 662	$ 6,607
Other receivables	1,360	–	–
Investments in nonconsolidated subsidiaries and affiliates	452	451	4,502
Investments in securities	789	876	8,743
Property, plant and equipment (at net book value)	52,562	32,075	320,142
Long-term loans receivable	54	50	499
Other investments and noncurrent assets	4	4	40
Total	¥ 55,874	¥ 34,118	$ 340,533

The aggregate annual maturities of long-term debt outstanding at March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 15,372	$ 153,428
2011	28,046	279,928
2012	5,353	53,429
2013	18,881	188,452
2014 and thereafter	5,530	55,195
Total	¥ 73,182	$ 730,432

6. Contingent Liabilities

Contingent liabilities at March 31, 2007and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Notes receivable discounted	¥ 201	¥ 29	$ 289
Notes receivable endorsed	245	243	2,425
Guarantees of bank loans and other indebtedness	197	764	7,626
Total	¥ 643	¥ 1,036	$ 10,340

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 ¥191 million and ¥173 million ($1,728 thousand) lower than the revalued book amount at March 31, 2007 and 2008, respectively.

8. Net Assets

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

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

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

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

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

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the annual shareholders' meeting held on June 27, 2007, the shareholders resolved not to issue a dividend.

9. Gain on Sale of Investments in Consolidated Subsidiaries and an Affiliate

Gain on sale of investments in consolidated subsidiaries for the year ended March 31, 2007 resulted mainly from the sale of stock of consolidated subsidiaries Hitachi Zosen Fukui Corporation and NH Parking Systems Co., Ltd. to third parties.

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.

10. 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.

11. 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.

12. Gain on Sale of Investments in Securities

Gain on sale of investments in securities for the year ended March 31, 2007 resulted mainly from the sale of stock of Universal Studios Japan to a third party.

13. Provision for Allowance for Losses from Lawsuits

Provision for allowance for losses from lawsuits is recorded based on the estimation of 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 amounts and recognized impairment losses of ¥1,797 million ($17,936 thousand) 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 are 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

	Thousands of U.S. dollars			
	Buildings and structures	Land	Others	Total
Mukaishima Higashi Works	$ 2,685	$ 7,146	$ –	$ 9,831
Ito Country Club	6,767	1,338	0	8,105
Total	$ 9,452	$ 8,484	$ 0	$ 17,936

The recoverable amounts for the Ito Country Club and the Mukaishima Higashi Works are 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%.

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. Surcharges and Penalties

Surcharges and penalties are recorded for violation of the antitrust law concerning the construction of water gates and human-waste treatment plants for the year ended March 31, 2007.

17. Treasury Stock

Treasury Stock for the years ended March 31, 2007 and 2008 consisted of the following:

For the year ended March 31, 2007

Number of shares of common stock	*Thousands*
At March 31, 2006	882
Increase	161
Decrease	(11)
At March 31, 2007	1,032

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

18. Cash Flow Information

a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows, and cash and time deposits in the consolidated balance sheets at March 31, 2007 and 2008 were reconciled as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2007	2008	2008
Cash and time deposits in the balance sheets	¥ 39,945	¥ 55,678	$ 555,724
Time deposits with maturities over three months	(1,185)	(1,449)	(14,462)
Cash and cash equivalents in cash flow statements	¥ 38,760	¥ 54,229	$ 541,262

b) Other

Assets and liabilities of a newly consolidated subsidiary, HS Development Ltd., on April 1, 2006 were as follows:

	Millions of yen
Current assets	¥ 62
Fixed assets	4,271
Total	¥ 4,333
Current liabilities	¥ 422
Fixed liabilities	3,900
Total	¥ 4,322

Assets and liabilities inherited through the merger with Daiki Engineering Co., Ltd. on September 30, 2006 were as follows:

	Millions of yen
Current assets	¥ 4,495
Fixed assets	7,152
Total	¥ 11,647
Current liabilities	¥ 4,424
Fixed liabilities	3,658
Total	¥ 8,082

Assets and liabilities of a consolidated subsidiary, Tahara Machinery Ltd., sold to a third party on September 30, 2006 were as follows:

	Millions of yen
Current assets	¥ 676
Fixed assets	704
Total	¥ 1,380
Current liabilities	¥ 829
Fixed liabilities	89
Total	¥ 918

Exercise of stock purchase warrants

	Millions of yen
	2007
Increase in common stock resulting from exercise of stock purchase warrants	¥ 15,086
Increase in capital surplus resulting from exercise of stock purchase warrants	14,914
Decrease in bonds resulting from exercise of stock purchase warrants	¥ 30,000

19. Lease Information

a) Finance leases as lessee

The original lease obligations, the payments to date, and the payments remaining for assets which were leased from other parties as of March 31, 2007 and 2008 were as follows:

At March 31, 2007:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥ 1,447	¥ 838	¥ 609
Software	189	94	95
Total	¥ 1,636	¥ 932	¥ 704

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, 2008:

	Thousands of U.S. dollars		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	$ 21,948	$ 10,999	$ 10,949
Software	3,174	1,307	1,867
Total	$ 25,122	$ 12,306	$ 12,816

Lease payments for the above finance leases for the years ended March 31, 2007 and 2008 were ¥268 million and ¥389 million ($3,883 thousand), respectively.

Future minimum payments, including finance charges, for finance leases at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Payments due within one year	¥ 243	¥ 390	$ 3,893
Payments due after one year	556	975	9,731
Total	¥ 799	¥ 1,365	$ 13,624

b) Operating leases as lessee

Future minimum payments for operating leases at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Payments due within one year	¥ 10	¥ 45	$ 449
Payments due after one year	37	146	1,457
Total	¥ 47	¥ 191	$ 1,906

c) Finance leases as lessor

The cost, accumulated depreciation, and remaining book value of assets which were leased to other parties as of March 31, 2007 and 2008 were as follows:

At March 31, 2007:

	Millions of yen		
	Cost	Accumulated depreciation	Remaining book value
Machinery, equipment and vehicles	¥ 764	¥ 614	¥ 150
Software	108	70	38
Total	¥ 872	¥ 684	¥ 188

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

At March 31, 2008:

	Thousands of U.S. dollars		
	Cost	Accumulated depreciation	Remaining book value
Machinery, equipment and vehicles	$ 6,877	$ 5,340	$ 1,537
Software	469	319	150
Total	$ 7,346	$ 5,659	$ 1,687

Lease payments for finance leases received for the years ended March 31, 2007 and 2008 were ¥97 million and ¥78 million ($779 thousand), respectively.

Depreciation for the years ended March 31, 2007 and 2008 was ¥68 million and ¥63 million ($629 thousand), respectively.

Future minimum payments to be received, including finance charges, for finance leases at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Payments due within one year	¥ 86	¥ 79	$ 788
Payments due after one year	228	219	2,186
Total	¥ 314	¥ 298	$ 2,974

The remaining book values of future minimum payments to be received concerning a sublet lease transaction at March 31, 2007 and 2008 were ¥114 million and ¥97 million ($968 thousand), respectively. Of the future minimum payments at March 31, 2007 and 2008, those payments due within one year amounted to ¥16 million and ¥17 million ($170 thousand), respectively.

The remaining book values of future minimum payments as lessee at March 31, 2007 and 2008 were almost the same and were included in the above table of operating leases as lessee.

20. 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, 2007 and 2008 for derivative transactions for which hedge accounting had not been applied.

At March 31, 2007:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥ 1,714	¥ –	¥ 1,802	¥ (88)
Purchase				
Euro	29	–	31	2
Total	¥ 1,743	¥ –	¥ 1,833	¥ (86)
Interest related derivatives:				
Interest rate swap:				
To receive floating, pay fixed	¥ 3,000	¥ –	¥ (28)	¥ (28)
To receive fixed, pay floating	–	–	–	–
Total	¥ 3,000	¥ –	¥ (28)	¥ (28)

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
Purchase				
Euro	–	–	–	–
Total	¥ 865	¥ –	¥ 797	¥ 68

At March 31, 2008:

	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	$ 8,634	$ –	$ 7,955	$ 679
Purchase				
Euro	–	–	–	–
Total	$ 8,634	$ –	$ 7,955	$ 679

21. 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 plan.

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 plan.

The following table sets forth the composition of the liabilities recorded in the balance sheets for the Companies' retirement plans at March 31, 2007 and 2008.

	Millions of yen		*Thousands of U.S. dollars*
	2007	2008	2008
Projected benefit obligation	¥ 12,843	¥ 13,563	$135,373
Less fair value of pension assets	(6,557)	(6,193)	(61,813)
Funded status:			
Benefit obligation in excess of plan assets	6,286	7,370	73,560
Unrecognized actuarial differences	715	1,384	13,813
Total	5,571	5,986	59,747
Deferred benefit expenses	(35)	(105)	(1,048)
Retirement and severance benefits in the consolidated balance sheets	¥ 5,606	¥ 6,091	$ 60,795

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, 2007 and 2008.

	Millions of yen		*Thousands of U.S. dollars*
	2007	2008	2008
Service cost – benefits earned during the year	¥ 1,753	¥ 1,653	$ 16,498
Interest cost on projected benefit obligation	201	215	2,146
Expected return on plan assets	(90)	(104)	(1,038)
Amortization of net transition obligation	–	–	–
Amortization of actuarial differences	139	123	1,228
Severance and retirement benefit expenses	¥ 2,003	¥ 1,887	$ 18,834

Note: Contributions of employees to the funded pension plans are not included in service cost.
For the year ended March 31, 2007, the Companies made additional payments for retirement benefits of ¥3 million, which were recognized in expenses but were not included in the above table.
For the year ended March 31, 2008, the Companies made additional payments for retirement benefits in the amount of ¥33 million ($329 thousand) and contributions to the defined contribution pension plans in the amount of ¥679 million ($6,777 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, 2007 and 2008 were as follows:

	2007	2008
Method of attributing benefits to periods of service	Straight–line method	Straight–line method
Discount rate	1.5% to 2.5%	1.5% to 2.5%
Long-term rate of return on fund assets	1.0% to 2.5 %	1.0% to 2.5 %
Amortization period for actuarial differences (within the remaining average term of employees' service)	5 to 12 years	5 to 12 years

22. 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, 2007 and 2008, 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, 2007 and 2008 were as follows:

	2007	2008
Statutory tax rate	40.6%	40.6%
Nondeductible expenses	13.8	2.3
Nontaxable dividend income	(19.2)	(7.3)
Fluctuation in deferred tax assets valuation allowance account	(51.2)	(23.8)
Equity in net loss of nonconsolidated subsidiaries and affiliates	25.1	–
Elimination of dividend income	20.6	4.9
Elimination of gain on sale of investments in securities	9.2	–
Prefectural and municipal inhabitants taxes	4.4	–
Influence of introducing a consolidated tax payment system	10.3	–
Other	5.7	1.3
Effective tax rate	59.3%	18.0%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2007	2008	2008
Deferred tax assets:			
Tax loss carryforwards	¥ 19,040	¥ 10,679	$ 106,587
Impairment losses	9,124	8,776	87,594
Loss from lawsuits	755	3,669	36,620
Employees' retirement benefits	2,521	2,766	27,608
Allowance for doubtful receivables	857	1,193	11,907
Research and development expenses	190	257	2,565
Loss on devaluation of securities	337	231	2,306
Loss on work in progress	303	–	–
Other reserves	3,898	5,118	51,083
Other	1,674	1,382	13,794
Total deferred tax assets	38,699	34,071	340,064
Valuation allowance	(31,967)	(28,540)	(284,859)
Deferred tax assets, net	6,732	5,531	55,205
Deferred tax liabilities:			
Land valuation difference	(1,594)	(1,635)	(16,319)
Reserve for compressed entry	(736)	(778)	(7,765)
Net unrealized holding gains on securities	(277)	(199)	(1,986)
Reserve for replacement of property	(156)	(150)	(1,497)
Reserve for separate account for compressed entry	(63)	–	–
Other	(13)	(2)	(20)
Total deferred tax liabilities	(2,839)	(2,764)	(27,587)
Net deferred tax assets	¥ 3,893	¥ 2,767	$ 27,618

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

	Millions of yen		*Thousands of U.S. dollars*
	2007	2008	2008
Current assets	¥ 4,600	¥ 3,413	$ 34,065
Investments and other noncurrent assets	1,072	1,334	13,315
Long-term liabilities	(1,779)	(1,980)	(19,762)
Net deferred tax assets	¥ 3,893	¥ 2,767	$ 27,618

23. 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 machineries.

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

2007	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	¥ 126,833	¥ 102,596	¥ 31,313	¥ 32,667	¥ 293,409	¥ –	¥ 293,409
Intersegment	1,258	155	218	2,271	3,902	(3,902)	–
Total	128,091	102,751	31,531	34,938	297,311	(3,902)	293,409
Cost and expenses	125,660	94,568	34,289	32,831	287,348	(3,858)	283,490
Operating income (loss)	¥ 2,431	¥ 8,183	¥ (2,758)	¥ 2,107	¥ 9,963	¥ (44)	¥ 9,919
Assets	¥ 84,014	¥ 119,251	¥ 49,887	¥ 60,610	¥ 313,762	¥ 51,381	¥ 365,143
Depreciation	¥ 900	¥ 3,124	¥ 782	¥ 1,301	¥ 6,107	¥ 302	¥ 6,409
Capital expenditure	¥ 417	¥ 3,060	¥ 404	¥ 1,342	¥ 5,223	¥ 68	¥ 5,291

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)	–
Total	128,316	107,704	27,205	39,147	302,372	(6,869)	295,503
Cost and expenses	124,912	97,871	30,903	37,762	291,448	(6,771)	284,677
Operating income (loss)	¥ 3,404	¥ 9,833	¥ (3,698)	¥ 1,385	¥ 10,924	¥ (98)	¥ 10,826
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

Thousands of U.S. dollars

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	$ 1,252,371	$ 1,073,500	$ 269,727	$ 353,828	$ 2,949,426	$ –	$ 2,949,426
Intersegment	28,356	1,497	1,807	36,900	68,560	(68,560)	–
Total	1,280,727	1,074,997	271,534	390,728	3,017,986	(68,560)	2,949,426
Cost and expenses	1,246,752	976,853	308,444	376,904	2,908,953	(67,582)	2,841,371
Operating income (loss)	$ 33,975	$ 98,144	$ (36,910)	$ 13,824	$ 109,033	$ (978)	$ 108,055
Assets	$ 837,439	$ 1,266,733	$ 440,134	$ 463,100	$ 3,007,406	$ 641,032	$ 3,648,438
Depreciation	$ 9,732	$ 35,602	$ 7,436	$ 14,163	$ 66,933	$ 3,244	$ 70,177
Impairment losses	$ –	$ –	$ 9,831	$ 8,105	$ 17,936	$ –	$ 17,936
Capital expenditure	$ 10,889	$ 74,778	$ 11,578	$ 21,160	$ 118,405	$ 1,258	$ 119,663

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, 2007 and 2008 were ¥51,874 million and ¥64,437 million ($643,148 thousand), respectively.

Geographic segment information is not shown because domestic net sales, including export sales from Japan, for the years ended March 31, 2007 and 2008 and the related assets at March 31, 2007 and 2008 were more than 90% of the respective consolidated net sales and assets.

Overseas sales by region for the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Asia	¥ 36,000	¥ 35,129	$ 350,624
Central and South America	872	931	9,292
Europe	3,131	5,053	50,434
Other	6,849	5,940	59,288
Total	¥ 46,852	¥ 47,053	$ 469,638

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

24. Related Party Transactions

The Company paid a fee for legal advice to the statutory auditor, Junnosuke Ban, in the amount of ¥2 million for the year ended March 31, 2007 and ¥6 million ($60 thousand) for the year ended March 31, 2008, respectively.

25. Business Combinations

A consolidated subsidiary, Ataka Construction and Engineering Co., Ltd., has acquired the Company's affiliate for the year ended March 31, 2007 and has used the purchase method of accounting for such an acquisition.

a) Summary information about the business combination was as follows:

Name of an acquired company	Daiki Engineering Co., Ltd.
Business contents of the acquired company	Environment maintenance equipments, industrial machineries, etc
Purpose	This business combination unified the business network and technology that will make it possible to spread existing business and seize an opportunity to develop new business. Furthermore, it will promote management efficiency, reduce procurement cost and strengthen development power. Also for the Companies, this will enable them to expand and strengthen their environmental business.
Date	October 1, 2006
Legal form	Ataka Construction & Engineering Co., Ltd. merged with Daiki Engineering Co., Ltd., and Daiki Engineering Co., Ltd. was dissolved.
New name	Daiki Ataka Engineering Co., Ltd.

b) Purchase price

	Millions of yen
Stock price of Ataka Construction and Engineering Co., Ltd.	¥ 2,526
Expenses needed directly	33
Total	¥ 2,559

c) Exchange ratio and number of issued stock

One common stock of Ataka Construction and Engineering Co., Ltd. equaled 0.52 common stock of Daiki Engineering Co., Ltd., and the number of shares of Ataka Construction and Engineering Co., Ltd. stock issued was 5,188,189.

d) Goodwill (negative goodwill)

Negative goodwill in the amount of ¥1,005 million resulted because the market value of the net assets exceeded the purchase price. The negative goodwill is being amortized over 5 years.

e) The assets and liabilities of the acquired company at October 1, 2006 were as follows:

Assets

	Millions of yen
Current assets	¥ 4,495
Fixed assets	7,152
Total	¥ 11,647

Liabilities

	Millions of yen
Current liabilities	¥ 4,424
Fixed liabilities	3,658
Total	¥ 8,082

Board of Directors and Board of Corporate Auditors (as of June 27, 2008)

Chairman of the Board
Shigetoshi Andoh

President ★
Minoru Furukawa

Senior Managing Director
Koichiro Anzai

Managing Director
Motohiro Fujii

Managing Director
Akifumi Mitani

Managing Director
Masaharu Furutera

Managing Director
Yasuo Ogawa

Director
Hisao Matsuwake

Director
Yuichi Hayakata

Director
Seiichiro Tsurisaki

Full-time Corporate Auditor
Hiromitsu Miyasaka

Corporate Auditor
Sakae Kanno

Corporate Auditor
Junnosuke Ban

Corporate Auditor
Tadao Shimauchi

Managing Executive Officer
Shizuo Honda

Executive Officer
Shosaku Umezawa

Executive Officer
Takio Sassa

Executive Officer
Toru Yoshioka

Executive Officer
Toru Shimizu

★Representative Director

Corporate Chronology

Osaka Iron Works (Hitachi Zosen's predecessor) era

1881 Osaka Iron Works (Hitachi Zosen's predecessor) is founded by E. H. Hunter.
1900 Sakurajima Works starts operations. (Relocated to the Ariake Machinery Works in September 1997.)
1907 Tokyo liaison office is opened.
1911 Innoshima Works starts operations.

Old Osaka Iron Works Ltd. era

1914 Osaka Iron Works is reorganized as a joint-stock company.
1922 Chikko Works starts operations.
1927 *Dojima Ohashi*, an arch bridge, and other structures are completed in succession for the municipal government of Osaka.

New Osaka Iron Works Ltd. era

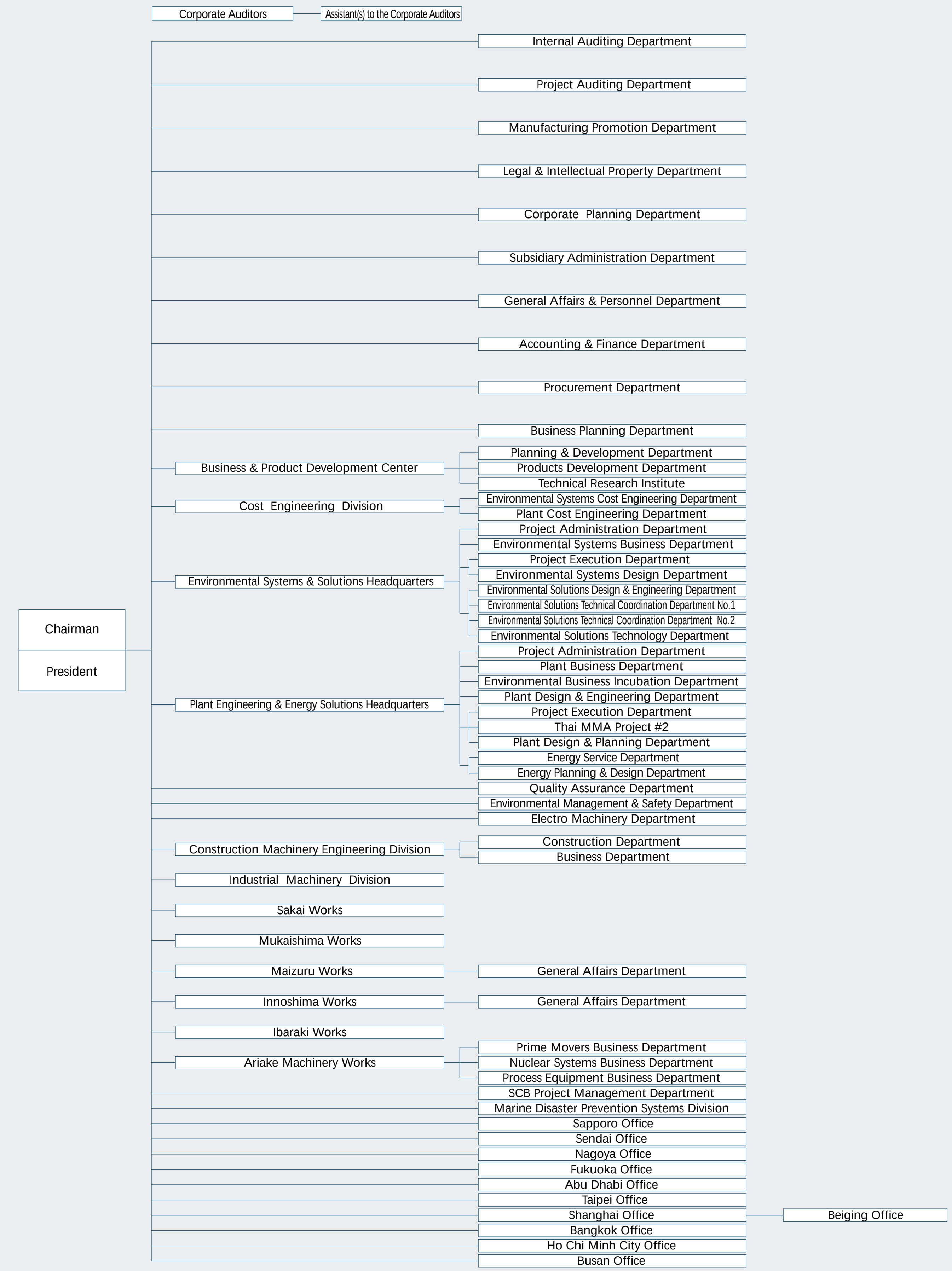
1934 The company makes a new start as Osaka Iron Works Incorporated (marking the incorporation of the current Hitachi Zosen Corporation).
1937 *Osaka Tekko*, a technical journal, is inaugurated.
1940 A 5,000-ton hydraulic press is completed for Hitachi, Ltd.

As Hitachi Zosen Corporation

1943 The name is changed to Hitachi Zosen Corporation.
Mukaishima Works starts operations.
1944 Kanagawa Works starts operations.
1948 *Hitachi Zosen Technical Review* is inaugurated.
1949 Technical Research Institute is opened.
1950 A technological tie-up for B&W type diesel engines is concluded.
1956 Branch offices are opened in London and New York.
1960 A technological tie-up is concluded with Von Roll Environmental Technology Ltd. of Switzerland for a De Roll type refuse incineration plant.
1965 De Roll type refuse incineration plant is completed for the municipal government of Osaka (the first plant of its type manufactured in Japan).
Sakai Works starts operations.
1968 A minister of Transport prize is received for the HIZAC system (followed by an Okochi award in following year).
1971 Maizuru Works starts operations.
1973 Ariake Works starts operations.
1979 Ariake Land Machinery Works starts operations.
1981 Hitachi Zosen celebrates its 100th anniversary.
1982 The world's largest low-fuel-consumption B&W diesel engine (47,520 HP) is completed.
1983 A very large desalination plant is completed for Saudi Arabia.
A slurry shield tunneling machine with the world's largest diameter (11.22 m) is completed for the municipal government of Osaka.
1985 An order for a continuous casting plant is received from Shanghai Baoshan Iron & Steel Complex in China.
1987 A multiple-face shield tunneling machine, the world's first, is completed.
1994 The world's first triple-face shield tunneling machine is completed.
1996 A refuse incineration plant is completed in the eastern district of Saitama Prefecture and receives MITI Minister prize for Excellent Environmental Equipment.
Electric power supply business is inaugurated.
Japan's first super refuse-fired power generation plant comes on stream.
1997 Ariake Machinery Works starts operations.
1999 HITACHI ZOSEN FUKUI CORPORATION and Hitachi Zosen Diesel & Engineering Co., Ltd. are established.
2000 An order received for the No. 1 gasification melting furnace.
Towing and installation of the world's first floating swing bridge is completed.
2002 The Basic Agreement on Consolidation of Shipbuilding Operations is concluded with NKK Corp., and the shipbuilding operation is transferred to Universal Shipbuilding Corporation on October 1.
Acquired HEC Corporation.
2003 Became the first Japanese company to be contracted to undertake non-industrial waste treatment projects under PFI legislation.
2004 Kyoto Municipal Waste Edible Oil Fuel Production Facility is completed with the greatest manufacturing capacity in Japan.
An order received for No. 1 High-function fluid ice maker.
2005 Completed refuse incineration facilities for Odate City, Akita Prefecture, the first intermediate processing operation of municipal waste in Japan.
2008 Construction of new factory in Sakai area for extension of industrial machinery and shield tunneling machinery production

Organization

(as of October 1, 2008)



Investor Information (On a nonconsolidated basis, as of March 31, 2008)

Date of establishment
April 1, 1881

Paid-in capital
45,442,365,005 yen

Number of employees
1,034

Consolidated number of employees
7,820

Consolidated subsidiaries
71

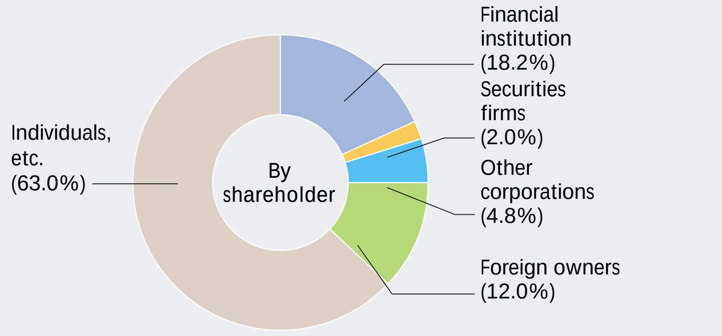
Common Stock

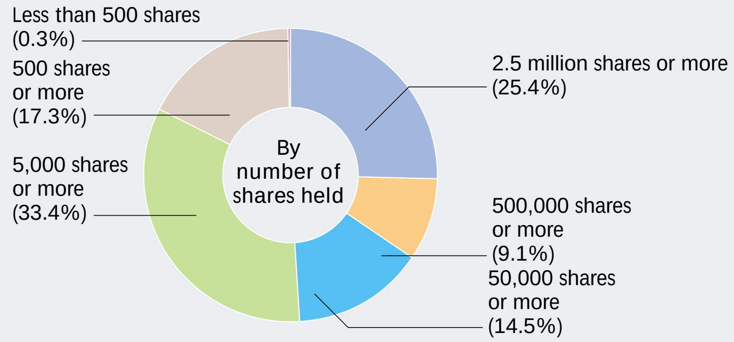
Authorized:	2,000,000,000
Issued and outstanding:	796,073,282
Number of shareholders:	144,324

Major Shareholders

The Bank of Tokyo-Mitsubishi UFJ, Ltd
Citibank Hong Kong PBG Clients Hong Kong
The Master Trust Bank of Japan, Ltd. (trust account)
Japan Trustee Services Bank Limited (trust account)
Sompo Japan Insurance Inc.
Nippon Life Insurance Company
Mitsubishi UFJ Trust and Banking Corporation (trust account)
Morgan Stanley and Company International PLC
BNP Paribas Private Bank Hong Kong Branch
Hitachi Ltd

Shareholders by Category





Transfer agent for common stock:
Mitsubishi UFJ Trust and Banking Corporation
1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Stock exchange listings:
Tokyo, Osaka stock exchanges
(#7004)

Independent accountants:
KPMG AZSA & Co.

General meeting of shareholders:
The General Meeting of Shareholders is held in June in Osaka

Stock price range in fiscal 2007:
High ¥266 (in June 2007)
Low ¥ 95 (in March 2008)

Network

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, 26-3,
Minami-Ohi 6-chome, Shinagawa-ku, Tokyo
140-0013, Japan
Phone: +81-3-6404-0800
Facsimile: +81-3-6404-0809
(Export business departments are situated in this office)

Business Promotion & Product Development Center
2-11, Funamachi 2-chome, Taisho-ku, Osaka
551-0022, Japan
Phone: +81-6-6551-9101
Facsimile: +81-6-6551-9642

Domestic Office

Sapporo Office
1-2, Nishi 5-chome, Kita 4-jo, Chuo-ku,
Sapporo 060-0004, Japan
Phone: +81-11-231-2215
Facsimile: +81-11-231-2419

Sendai Office
2-21, Chuo 3-chome, Aoba-ku, Sendai,
Miyagi 980-0021, Japan
Phone: +81-22-712-6066
Facsimile: +81-22-712-6070

Nagoya Office
8-10, Meieki 4-chome, Nakamura-ku,
Nagoya 450-0002, Japan
Phone: +81-52-581-0161
Facsimile: +81-52-581-6371

Fukuoka Office
2-1, Hakata-ekimae 3-chome, Hakata-ku,
Fukuoka 812-0011, Japan
Phone: +81-92-441-1644
Facsimile: +81-92-441-1983

Okinawa Office
7-1, Kumoji 1-chome, Naha, Okinawa
900-0015, Japan
Phone: +81-98-861-1090
Facsimile: +81-98-861-1091

Works

Sakai Works
5-1, Chikko-shinmachi 1-cho, Nishi-ku,
Sakai, Osaka 592-8331, Japan
Phone: +81-72-243-6801
Facsimile: +81-72-243-6839

Mukaishima Works
14755, Mukaihigashi-cho, Onomichi,
Hiroshima 722-0062, Japan
Phone: +81-848-44-1111
Facsimile: +81-848-44-1518

Maizuru Works
1180, Amarube-shimo, Maizuru,
Kyoto 625-8501, Japan
Phone: +81-773-62-8925
Facsimile: +81-773-62-4450

Innoshima Works
2477-16, Innoshimahabu-cho, Onomichi,
Hiroshima 722-2323, Japan
Phone: +81-845-22-1200
Facsimile: +81-845-22-0383

Ibaraki Works
4, Kogyo-danchi, Hitachinomiya,
Ibaraki 319-2134, Japan
Phone: +81-295-53-5730
Facsimile: +81-295-52-4797

Ariake Machinery Works
1, Ariake, Nagasu-machi, Tamana-gun,
Kumamoto 869-0113, Japan
Phone: +81-968-78-2155
Facsimile: +81-968-78-7031

Overseas Office

Abu Dhabi Office
Khalifa Street, Bin Hamoodah Tower, 9th floor, 904 P.O. Box203, Abu Dhabi, United Arab Emirates
Phone: +971-2-6276-180
Facsimile: +971-2-6276-181

Taipei Office
Room 902, Chia Hsing Building, 96 Sec. 2,
Chung Shan N. Rd., Taipei 10449, Taiwan
Phone: +886-2-2568-2022
Facsimile: +886-2-2568-2030

Shanghai Office
Room No. 9004, Zhongrong Plaza No. 1088
Pudong South Road, Pudong New Area,
Shanghai 200120, The People's Republic of China
Phone: +86-21-6887-2525
Facsimile: +86-21-6887-2838

Beijing Office
Room No. 1417, Beijing Fortune Building, 5,
Dong San Huan Bei Lu, Chao Yang Qu,
Beijing 100004, The People's Republic of China
Phone: +86-10-6590-8481
Facsimile: +86-10-6590-8483

Bangkok Office
BB Building 19th Floor Room No. 1911, 54
Sukhumvit 21 (Asoke) Road, Kwaeng Klong
Torey Nua, Khet Wattana, Bangkok 10110,
Thailand
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Facsimile: +66-2259-4833

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8th Floor, PDD Building, 162 Pasteur Street,
District 1, Ho Chi Minh City, Vietnam
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Facsimile: +84-8-822-8635

Busan Office
Jung Seok Bldg, #1203, 89-14, 4-Ga,
Chungang-Dong, Chung-Ku, Busan
600-014, Korea
Phone: +82-51-464-6796
Facsimile: +82-51-464-6878

The Hitachi Zosen Group

Major Overseas Subsidiaries

HITACHI ZOSEN EUROPE LTD.
5th Floor, 107 Cannon Street,
London EC4N 5AF, U.K.
Phone: +44-20-7929-2099
Facsimile: +44-20-7929-1803
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,
14th 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, The People's Republic of China
Phone: +86-511-5338108
Facsimile: +86-511-5338113
Production and sales of diesel engine components, parts of various machines, and steel structures; offering of consulting services regarding related technologies

Taiwan Hitz Hi-Technology Corporation
2F, No. 586, Section 2 Wenxin Road, Xitun
District, Taichung City 407, Taiwan (R.O.C)
Phone: +886-4-2130-9777
Facsimile: +886-4-2310-9779
Procurement and sales in Taiwan of equipment related to flat panel displays; import sales, manufacturing, installation, maintenance, and aftersales service

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 sales of environmental systems, industrial equipment & facilities

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

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

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" structures

Hitachi Zosen Steel Structures Corporation
5-1, Chikko-shinmachi 1-cho, Nishi-ku,
Sakai, Osaka 592-8331, Japan
Phone: +81-72-243-6801
Facsimile: +81-72-243-6839
Design, fabrication, provisional assembling, painting, installation and erection of iron and steel structures such as bridges, hydraulic gates, building structures, offshore structures, and logistics facilities

IMEX CO., LTD.
2477-16, 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 FUKUI CORPORATION
8-28, Jiyugaoka, 1-chome, Awara,
Fukui 919-0695, Japan
Phone: +81-776-73-1220
Facsimile: +81-776-73-3055
Manufacture, sales, and aftersales service of press machines, automation equipment, and electronic controllers

Hitachi Zosen Diesel & Engineering Co., Ltd.
1, Ariake, Nagasu-machi, Tamana-gun,
Kumamoto 869-0193, Japan
Phone: +81-968-78-2155
Facsimile: +81-968-78-7031
Design and manufacture of motors and turbines for marine and terrestrial applications; supply of motor parts and servicing

Hitz Sanki Techno Corporation
2-11, Funamachi, 2-chome, Taisho-ku,
Osaka 551-0022, Japan
Phone: +81-6-6555-9877
Facsimile: +81-6-6555-0269
Design, manufacture, installation and maintenance of food machinery, pharmaceutical machinery, plastic extruders, thermoforming machines, and other devices

Hitachi Zosen Mechanical Corporation
1, Ariake, Nagasu-machi, Tamana-gun,
Kumamoto 869-0113, Japan
Phone: +81-968-78-5221
Facsimile: +81-968-78-4416
Design and construction of towers for plants in the chemical, fertilizer, petroleum, gas, water desalination, energy and environmental industries; design and construction of specialized large heat exchangers and equipment for nuclear power plants

Hitz Machinery Corporation
5-1, Chikko-shinmachi 1-cho, Nishi-ku,
Sakai, Osaka 592-8331, Japan
Phone: +81-72-243-7011
Facsimile: +81-72-243-7075
Design and manufacture of construction machinery such as shield tunneling machines as well as steel pipe and logistics equipment

Hitz Hi-Technology Corporation
1180, Amarube-shimo, Maizuru,
Kyoto 625-8501, Japan
Phone: +81-773-62-8925
Facsimile: +81-773-62-4450
Design, manufacture and sales of various precision equipment, vacuum units and automation equipment; manufacture and sales of cast and forged products