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MITSUI ENGINEERING & SHIPBUILDING CO., LTD.

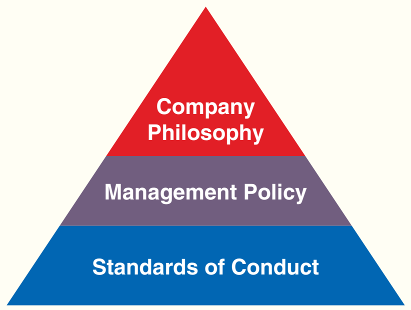
ANNUAL REPORT 2009

April 2008 to March 2009





MITSUI ENGINEERING & SHIPBUILDING CO.,LTD.



Company Philosophy

To continue working as a company trusted by society and individuals through products and services we offer

Management Policy

Build further satisfaction for our customers
Provide safe and effective workplace for employees
Contribute to the development of society
Pursue a profit for the longevity of the company

Standards of Conduct

Think : think it through to the end

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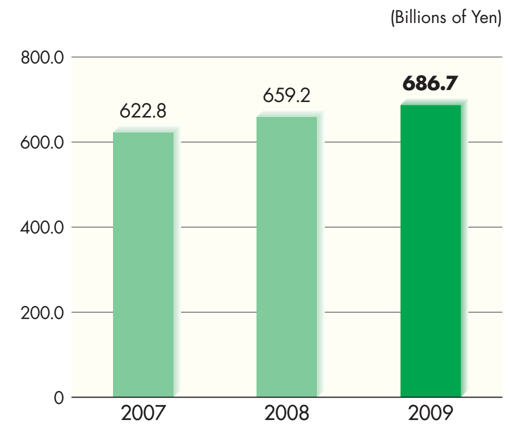
Financial Highlights

	2009	2008	2007	***2009***
Net Sales	**¥ 686,656**	¥ 659,215	¥ 622,800	***$ 6,990,288***
Operating Income (Loss)	**¥ 26,854**	¥ 36,119	¥ 20,713	***$ 273,379***
Net Income (Loss)	**¥ 10,641**	¥ 16,560	¥ 19,416	***$ 108,327***
Net Income (Loss) per Share	**¥ 12.84**	¥ 19.98	¥ 23.42	***$ 0.131***
Dividends per Share	**¥ 4.00**	¥ 4.00	¥ 3.50	***$ 0.041***
Working Capital	**¥ (20,580)**	¥ (15,939)	¥ (10,784)	***$ (209,508)***
Net Assets	**¥ 160,744**	¥ 175,642	¥ 165,824	***$ 1,636,404***

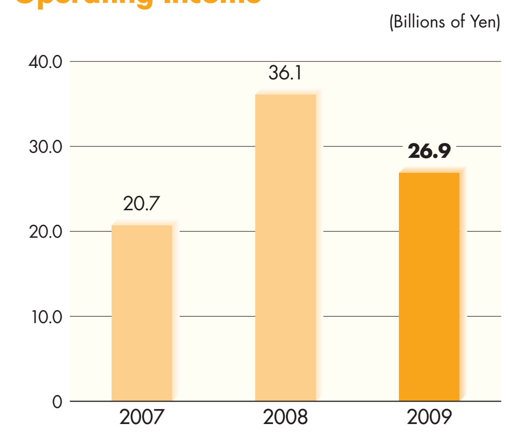
(a) Japanese yen and U.S. dollars are in millions and thousands, respectively, except per share amounts.
(b) The U.S. dollar amounts in this report represent conversions of Japanese yen into the U.S. dollar at the rate of 98.23 to $1 for the convenience of the readers.

The accounts of the Company have been stated herein on the basis of the annual fiscal period ended March 31 of each year, and any references to fiscal years refer to the 12 month periods ended March 31 of the year specified.
The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in Japan.

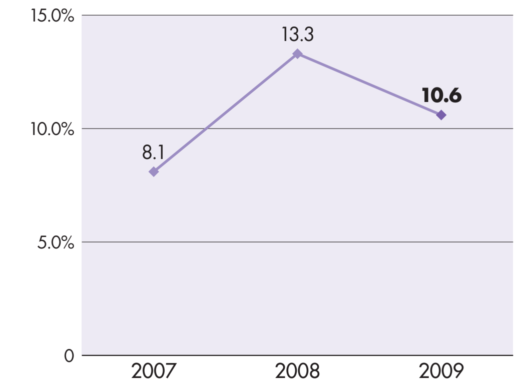
Net Sales



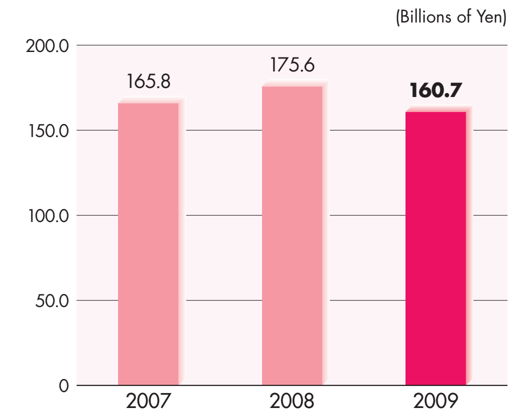
Operating Income



ROIC



Net Assets



Yasuhiko Katoh, President

Outline of Business Activities

Track Record

The credit crunch due to financial crisis originally took place in Europe and the U.S. affected to the actual economy, and the fluctuation of price of crude oil and raw materials, growing yen value, reduction of demand led to the adjustment of production, facility investment and employment, thus the Japanese economy during the term under review experienced extremely severe condition because of worsening corporate profitability and low consumer spending.
Under such circumstances, the Company as a group also faced very severe business environment by such adverse factors as price increase of raw materials and equipment and growing yen value, but took various measures for improvement of profitability, in addition to promotion of improvement of productivity, strengthening the profitability and innovation of business structure.
As a result of our effort, the consolidated amount of orders received maintained high level and came to ¥801.9 billion, ¥3.5 billion decrease from the previous year. The consolidated amount of sales reached the record high and came to ¥686.7 billion, ¥27.4 billion increase from the previous year. Because of price hike of materials and equipment, crane collapse accident, adverse impact to the work progress due to delay of delivery of steel and worsening profitability in certain works carried out during the year, the operating income amounted to ¥26.9 billion, ¥9.3 billion decrease from the previous year. The amount of ordinary income came to ¥23.4 billion, ¥8.8 billion decrease from the previous year. The amount of net income came to ¥10.6 billion, ¥5.9 billion decrease from the previous year due to the extraordinary loss out of revaluation of marketable securities and loss related to lawsuit.

Financial Status

Status of asset

The total assets came to ¥739.3 billion with an increase of ¥27.8 billion. The reasons of increase are Cash and time deposits increase by ¥30.4 billion, Contracts-in-progress increase by ¥20.5 billion as delivery of some construction delayed, Lease assets increase by ¥13.1 billion due to the adoption of Accounting Standard for Lease Transactions, Marketable securities decrease by ¥26.7 billion due to decrease in the market price of the stock, and Short-term loans decrease by ¥14.6 billion due to yen appreciation.

Status of consolidated cash flow

Cash inflow from operating activities came to ¥26.4 billion due to income from net income and increase of trade payables while there was outflow from increase of inventories.
Cash outflow from investing activities came to ¥14.1 billion due to acquisition of assets and disbursement of short-term loans while there was inflow from the sales of assets and subsidiary stock.
Cash inflow from financing activities came to ¥7.9 billion due to increase of interest-bearing debt while there was outflow from payment of dividend and reduction of lease liabilities.
As a result, the cash and cash equivalent balance in this fiscal year came to ¥104.4 billion.

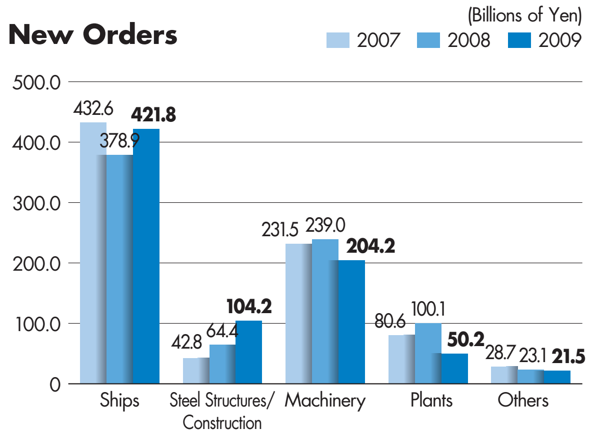
Management Perspective

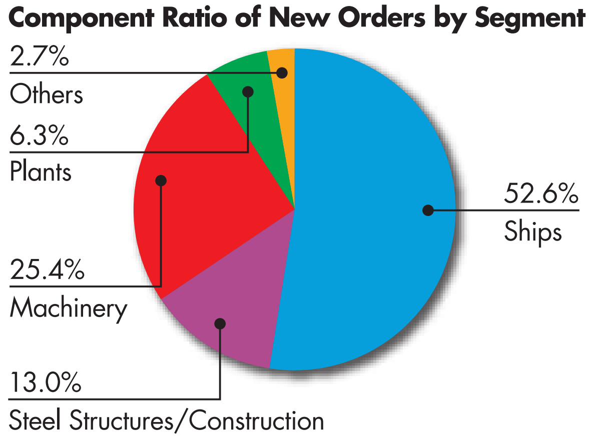
Due to the adverse effect on the actual economy driven by the financial crisis triggered by collapse of financial institutions in the U.S. in September last year, the business environment surrounding the Company is worsening, and the opportunity for receiving the orders is decreasing. While the Company, as a group in whole, has the order backlog in excess of 1,000 billion yen, we aim to carry out quick and prompt actions by the management against rapidly changing circumstances and opaque future prospect.
As a short term measures, we intend to realize further curtailment of expenses by revising investment plan of equipment and research & development, together with aiming maximization of profit utilizing abundant order backlogs.
We also will always carefully watch the changing environment for risk management and pursue the most appropriate allocation of management resources.
On a medium term basis, in accordance with 08 Mid-term Business Plan reflecting the centennial vision, we will make our effort for creating the large-sized new businesses by steadily developing NGH (=Natural Gas Hydrate) related business and others. We also will continue to develop new environment friendly products such as ships realizing curtailment of CO_2 by 30%.

Yasuhiko Katoh, President

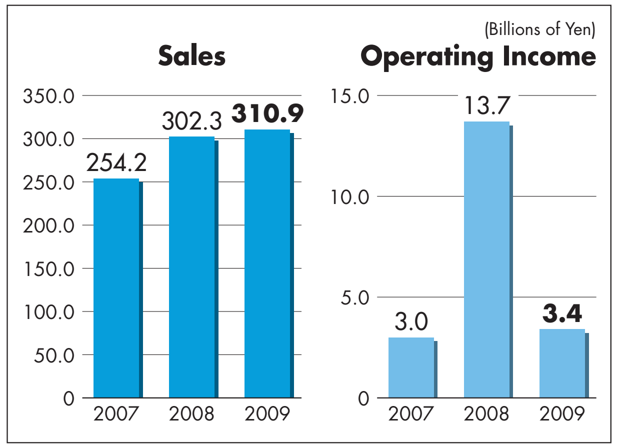
Review of Operations

Division-by-division analysis of the performance





Ships Division



Double Hull VLCC "SHIZUKISAN"

The shipping and shipbuilding market during the early half term of the year was very good, and hire rates of bulk carrier marked its highest in the history in May. However, around the time of Beijing Olympics, it followed the declining trend, particularly since the end of September it became even worse because of financial crisis and credit crunch in the U.S.

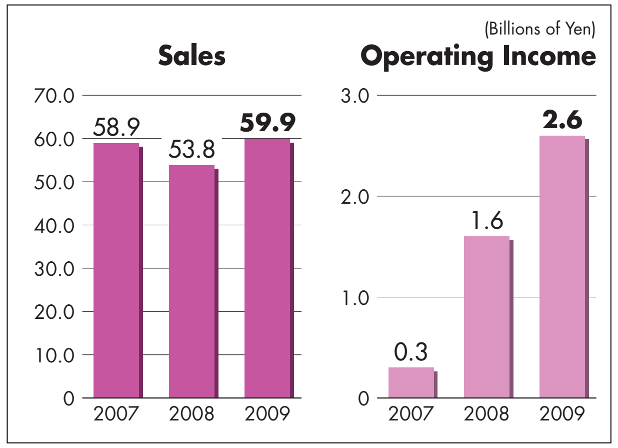
From the beginning of 2009, there has been a sign of recovery of the market from the expectation of resumption of import of ore by China, but full recovery is yet to be seen for some time to come. Bankruptcy of shipyards in Korea and China and the cancellation by ship owners of numerous shipbuilding contracts are reported, and although remedy for recession by respective governments is pursued, the inquiries for orders substantially ceased because of continuously weakening actual economy and opacity in the future prospect.

Under such circumstances, the Company increased the amount of orders received during the first half of the term centering around our hit product 56BC (56,000 dwt. Bulk carrier), and secured the order backlog equivalent to four years work volume, but during the latter half term took stock of the situation.

As to facility investment, the Company initiated dock extension work at our subsidiary, MES Yura Inc. for the improvement of productivity of blocks for ship repairing and new-buildings.

Consolidated amount of orders received came to ¥421.8 billion, ¥42.9 billion increase from the previous year, consisting of bulk carriers, work vessels, FPSO (=Floating Production Storage and Offloading Vessel) and others, and consolidated amount of sales reached to ¥310.9 billion, ¥8.6 billion increase from the previous year, consisting of a LNG carrier, tankers, ore carriers, bulk carriers, FPSO, TLP (=Tension Leg Platform), Reefers, work vessels and others with the operating income of ¥3.4 billion, ¥10.3 billion decrease from the previous year.

Steel Structures/ Construction Division



As for the market condition of container cranes, as the amount of cargoes loaded and unloaded is decreasing influenced by the uncertain financial condition, the demand for loading/unloading facilities at the seaports is decreasing.

Under such circumstances, the number of inquiries for container cranes to the Company also decreased, however we intend secure orders based on the trust by our clients on our products, such as environment friendly cranes.

We also aim to strengthen our competitiveness looking for the time when the market recovers by giving careful attention to the trend of economy and the foreign exchange rate.

Fuel Saving Transtainer Crane

As for the market of bridges, while increase of orders by the government as the means of stimulating the economy is expected, basic trend of decrease of public sector works is continuing and the competition based on the total evaluation system remained severe.

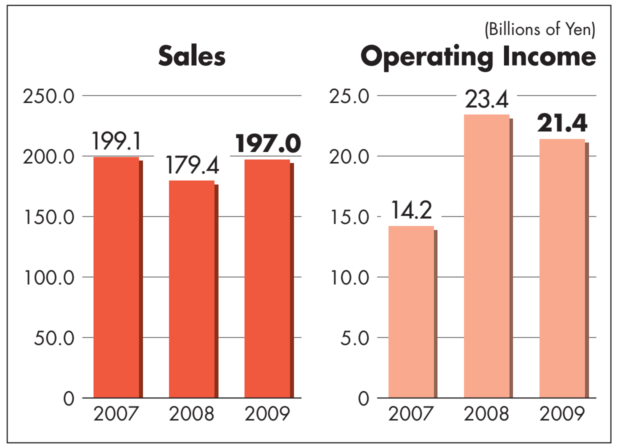
While the prices have been relatively stable by the effect of the lowest price maintenance system, the technical proposal capability is the key for securing orders.

In the meantime, the Company was awarded the 2nd phase work of civil work for thermal power plant in Indonesia following completion of the 1st phase work of the same project in 2007. This is because of the high evaluation for our engineering capability and our previous achievements of local works, and we continue to look for the power plant projects in Southeast Asian countries.

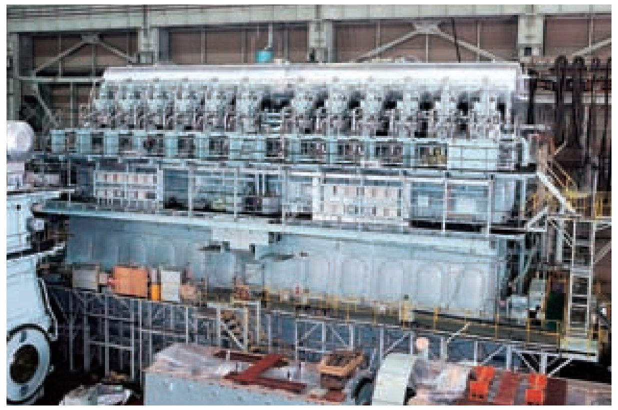
The consolidated amount of orders received came to ¥104.2 billion, ¥39.8 billion increase from the previous term, consisting of container cranes, bridges and others.

The consolidated amount of sales was ¥59.9 billion, ¥6.1 billion increase from the previous term, consisting of container cranes, bridges and others, and the operating income came to ¥2.6 billion, ¥1.0 billion increase from the previous year.

Machinery Division



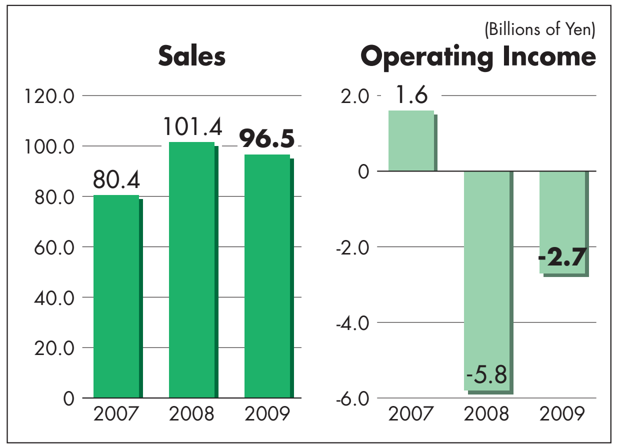
As for marine diesel engines, while there was a cancellation due to recession, because domestic shipbuilders have abundant order backlogs for new buildings, we could secure amount of orders in excess of our business plan.
Also as to production, we will continue to be busy for some time to come with voluminous amount of order backlogs.
In the field of industrial machinery, despite influence of global recession which became apparent in the latter half of the term, and the decreasing amount of orders received due to suspension of projects, we could attain the achievement as planned on the whole term basis because of the good amount of orders for reciprocating compressors for petroleum refinery and petrochemical plants during the first half term.
On the other hand, induction heaters, which are mainly for automobile industry, driven by drastic decline in the amount of cars manufactured, the achievement was far below the figures in our business plan.
As seen, there are variation in the achievement depending on the products, in general, marine diesel engines and industrial machinery, which are the main fields of business of the Company attained the figures in our business plan as aforesaid, we expect high rate of operation on the whole workshop.



Electronically Controlled Diesel Engine (Mitsui-MAN B&W Type)

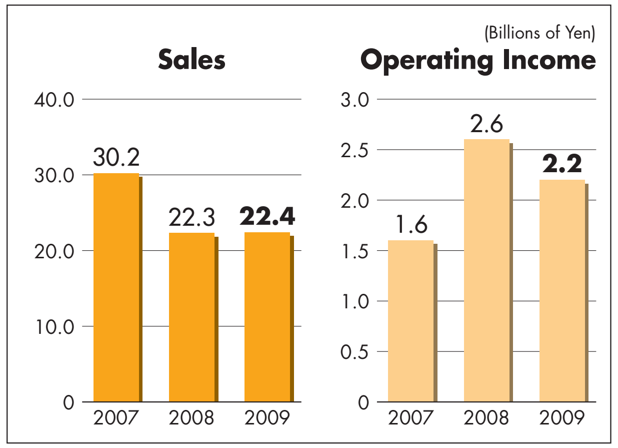
Along with the increase in the sales of the products, LSS (Life-cycle Solution Service and Customer Oriented Service) business, mainly focusing on after sales service was also in expanding trend both in orders and sales as the result of expansion of sales during the last several years, based on the customers retention policy by means of expansion of maintenance service for marine diesel engines and of promotion of comprehensive maintenance contract.
However, tough competition from European products due to low Euro value and slow operation of vessels makes it difficult for us to expect any easy prospect of the future.
As to subsidiaries, Burmeister & Wain Scandinavian Contractors A/S, the Danish corporation extending the engineering business in the field of diesel engine power plant all over the world and domestic subsidiaries, except those engaged in the field of semi-conductors, also attained the business achievement of the business plan.
Consolidated amount of orders received for marine diesel engines, various industrial machineries, after sales service, added by orders received by the orders received by subsidiaries, reached to ¥204.2 billion, ¥34.8 billion decrease from the previous year. The consolidated amount of sales for the division was ¥197.0 billion, ¥17.6 billion increase from the previous year, and the operating income came to ¥21.4 billion, ¥2.0 billion decrease from the previous year.

Plants Division



Motivation to invest in the chemical industry declined led by down-turning chemical product market under sluggish economy in domestic and overseas markets.
On the other hand, inquiries for basic design for the future projects are showing up, and the Company is promoting active sales activity for the projects expected to come up in the 2nd half of the fiscal year 2009.
In the field of environmental equipment, bill of the "Law Concerning Promotion of Bio-Mass Plant" is now under deliberation before the Diet, which we expect would activate projects sponsored by the public sectors, including local governments for Bio-Mass related business and food recycling business undertaken by the Company.
The amount of consolidated orders received was ¥50.2 billion, ¥49.9 billion decrease from the previous year, and consolidated amount of sales was ¥96.5 billion consisting of mono-ethylene glycol, propylene oxide manufacturing plant and others, ¥4.9 billion decrease from the previous year.
The operation resulted in a loss of ¥2.7 billion, ¥3.1 billion improvement from the previous year, despite poor result in the environment equipment business and in the nuclear related business.

Others Division



In other fields, the Company is engaged in development and sales of information system, service business such as warehousing, and other various service business, and the consolidated orders received was ¥21.5 billion, ¥1.6 billion decrease from the previous year, consolidated amount of sales being ¥22.4 billion, ¥0.1 billion increase, and operating income was ¥2.2 billion, ¥0.4 billion decrease from the previous term.

Kiln Type Pyrolysis Gasification & Melting Process "Mitsui recycling 21"

Bio-ethanol Production Plant From High-Yielding Rice

Business Risks

External factors listed below may have negative effects on the business performance, stock price and/or financial status of the Group. Descriptions and estimation of the future are based upon the judgment made by the Group as of this fiscal year end.

Economic Trend

Since the Group is operating various businesses in various parts of the world, there is always an uncertainty incurred by the economic trend of specific product market in the specific part of the world. As examples, ships and marine diesel engine business is affected by shipping market and civil construction and plant business is affected by the capital investment trend and by the public investment trend of the market in and out of Japan.

Country Risk

The Group is not only offering products and services abroad but also contracting the overseas work for construction of chemical plants etc. The business performance and financial status of the Group therefore may be affected by various risks of the destination of the products and services and the country/area where the work is done including political instabilities (war and/or terrorism, etc.), trade sanction out of national conflicts, difference of culture and/or religion, local labor problem, difficulties due to different business practice, restriction of money transfer, unexpected tax and/or customs duty. The Group is working on minimizing such risks by arranging trade insurance and by collecting information from local legal agencies and financial consultants to take best possible countermeasures against them.

Legal Restrictions

The Group always executes every business project in and out of Japan in a law-abiding manner complying rules and regulations of each country, approvals and restrictions by central/local governments. However, if such rules and regulations are modified and/or deleted, or if new legal restrictions are imposed, the result of such modification/deletion and addition may affect the balance sheets and/or statements of income of the Group.

Characteristic Features of the Group

Most of the projects of the Group are executed by job-order basis and there may sometime be a great difference between the estimated cost at the time of contract and the actual cost until completion because of many cost-up elements. Some projects take long time from the contract to the delivery and are subject to change in the social circumstance and a cost change of material and equipment during long 'contract-delivery' period. The Group is working on minimizing such risks by precise quotation of price, securing of stable source of material supply, prompt collection of receivables as well as arranging trade insurance in case of overseas projects. However, if the business circumstances greatly change as mentioned above, the balance sheets and/or statements of income of the Group may also be affected.

Exchange Rate Fluctuation

The Group's orders and/or sales of products and services for overseas including those of oversea subsidiaries amount more than 50% of those of the Group. In order to mitigate the impact of exchange rate fluctuation, the Group is working on minimizing the risk to be appropriate level by raising foreign currency liability, making forward exchange contract and raising foreign currency ration in product cost through increasing oversea procurement. However, orders, sales and profit cannot completely be free from the exchange risk in case of a big fluctuation of exchange rate. In the overseas subsidiaries, however, most of the cost is in foreign currency and the impact of the exchange rate fluctuation on the profitability is generally small.

Purchase Price of Material and Equipment

The Group is operating various kinds of business project for ships, steel structures, machinery and plants, and the scope of purchase of material and equipment necessary for such projects spread across a wide area. As an example, if the price of the steel is increased suddenly or its supply-demand relation becomes suddenly tight, they will bring about the cost increase and/or delay in the construction schedule, which will eventually aggravate the profitability of the Group. The Group is working on minimizing such risks through establishing long-term stable relationship with supplier of materials and equipment and holding close purchase negotiations.

Large Scale Natural Disaster

If the main places of production of the Group (Chiba, Okayama, and Oita Prefectures) are hit by large scale natural disasters such as earthquake, flood and/or typhoons, the damage suffered by the Group is not only of the direct material damage on the production equipment and/or logistic systems but also of indirect damage to the production capability caused by a suspension of production operation and/or lowering down of the operation ratio.

Deferred Tax Accounting and Accounting for Retirement Benefits

As for the deferred tax accounting and the accounting for retirement benefits, the Group makes an assessment of asset and/or debit and credit based upon its forecasts and predictions. Therefore, if the figures as the premises for such forecasts and predictions are changed, or the accounting standard for such assessment is changed, then there may be a possibility that the balance sheets and statements of income of the Group are affected.

Accounting for Impaired Assets

The economic situations and/or management status in the future may cause the impairment of assets and affect the balance sheets and/or statement of income of the Group.

Impact from the Stock Market

If the current market price of marketable securities goes down much lower than the book value and realization of price recovery is not probable, then there is a risk that the appraisal loss will be recorded as the extraordinary loss.

Pending Items

Delivery of Techno Super Liner for Ogasawara Route

The Techno Super Liner for Ogasawara Route that the Company had been constructing in accordance with the Shipbuilding Contract with Techno Seaways Inc. ("TSW") dated January 15, 2003 was successfully completed and all the performance of the ship were confirmed to satisfy the requirement of the Contract Specifications during her sea trials.
Although the contractual delivery date of the ship was October 31, 2005, the Ogasawara Kaiun Co., Ltd ("OKK"), which was the charterer of the ship insisted the termination of a ship charter contract between OKK and TSW and refused to take delivery of the ship, which

eventually made it impossible for the Company to deliver the ship to TSW.
TSW filed a lawsuit against OKK on December 8, 2006, seeking damages resulting from unjust termination of the charter party by OKK.

Research & Development Activities

Our group has established Research & Development Segments to correspond to its five business fields and promotes aggressively the research & development activities leading to the strengthening of competitive edge and the expansion of businesses based upon the core technologies of each business field.
Group's total cost for research and development in this fiscal year is ¥7.1 billion including that of trustee funded research and development amounting to ¥3.3 billion. Major items of research and development of each business field are as follows :

(1) Ships Division

- In line with the increasing awareness for reduction of CO_2 emission, a company-wide development project has been established aiming for a ship with 30% CO_2 emission-reduction while achieving the optimization of ship's operational efficiency in view of ship's performance in actual sea (10-mode index at sea).
- As for fundamental technology for designing more reasonable and reliable ship structures, the accuracy and efficiency of wave load analysis and/or vibration analysis technologies have been enhanced. Concerning CFD (computational fluid dynamics), a new program which can be applied to twin screw ship has been newly developed. We intend to put this technology into practical use in the near future.
- As for under-water equipment, survey equipment for smaller pipes has been newly developed and its on-the-spot inspection was carried out for agricultural water conduit. Four units of next-generation type RTV (remote operated under-water TV robot) have been ordered to us during this fiscal year.
- As for the ballast water treatment equipment, a basic approval for G9 (procedures for approval of ballast water treatment system using active substance) has already been obtained and its land based tests for G8 (guidelines for approval of ballast water control system) were already completed. Application for final G9 approval and G8 ship based tests are now in process. We aim that the type approval of the system be obtained in the fiscal year of 2009.
- Designing of F-LNG (floating type LNG production facility for development of under-water gas filed) was started by a joint collaboration with MODEC Inc., our consolidated subsidiary, and its basic specification has been established. Its initial design will be carried out during the fiscal year of 2009.

The cost for Research & Development involved in this division is ¥0.98 billion.

(2) Steel Structures / Construction Division

- As for construction of bridges and steel structure, various construction methods are now being developed in order to meet technology-oriented market trend. We have developed MD Bridge, which is a steel-concrete composite bridge suitable for short or medium span bridges. This MD Bridge is already put into market. We are also developing the technology for new type of bridge with medium or long span taking fatigue of steel deck slab into consideration. Furthermore, various technologies are being developed for erection, repair and reinforcement of bridges.
- As for coastal development, we have tackled the reassessment of construction technology of hybrid caisson, of which increasing demand is foreseen, for easier construction erection methods. Some of such technology is already put into practical construction work.
- As for transport and logistics facilities, the development of environment-friendly energy-saving Transtainer Crane (rubber tired gantry crane) has been completed and its registration of trademark "MESecoTT" was also completed. During this fiscal year, we have received 13 sets of hybrid type of this Transtainer Crane and 6 units of 4 speed engine control type at lower cost version, which is also our new developed product. We also developed and delivered 2 units of outside power supply type of electrified Transtainer Crane. Research and development work for hybrid type for further fuel saving and for new effective anti-sway device with higher lifting range are now in process. Server-based computing type YP (yard planning system) has also been developed for CTMS (container terminal management system).
- As for windmill tower construction, orders for construction including its tower's earthquake resistant design are placed. Based upon the lessons and reflections from the collapse of foundation of windmill in Japan, which was constructed by other company, we have obtained a patent for reinforcement arrangement for concrete foundation with un-bond anchor bolt system.
- PACECO CORP., our consolidated subsidiary, is now developing the next-generation type high efficient container handling equipment, cargo handling system, container cargo security inspection system, and high efficient container terminal system of state-of-the-art IT technology. During this fiscal year, we have received 6 units of electrifying device for yard crane, which we have developed as environment-friendly cargo handling equipment in the container yard.

The cost for Research & Development involved in this division is ¥0.08 billion.

(3) Machinery Division

- In relation to the main products, we are promoting following technical development items.
  In the field of the gas engine, we are working on improving engine performance and reliability, to enhance the value of the gas engine, which can achieve high efficiency power generation using clean gas.
  In the field of the marine engine, we are working on improving combustion performance by using the electronically controlled engine and on reducing emission of exhaust gas through NOx reduction system (DeNOx) and SOx reduction system (DeSOx), while we are progressing in coping with IMO (International Maritime Organization) regulation about NOx and SOx. And also, in view of CO_2 reduction, we are working on more effective use of energy by using several kinds of waste heat recovery systems.
- As for advanced machinery, in order to meet large scale substrate, we have completed the development of compact and light weigh ion implanter of next-generation type and its demonstration was started to customers. Research is being continued to enhance the performance of ion sourcing including its life extension.
  The demonstration of ALD (Atomic Layer Deposition) equipment, whose development has been continued for a long time, was started to customers, and a conspicuous superiority was confirmed in some applications. The commercialization of the ALD reactor for practical use is now promoted in earnest. In addition,

we are developing silicon micro crystalline layer system in collaboration with a customer, which is expected to pave the way for high-speed display of crystal liquid TV and/or stable manufacturing of solar cell panel.

- As for renewable energy field, we look at the utilization of solar heat in the high temperature sunbelt zone in the desert which is now gathering attention, and are making a joint work with Tokyo Institutes of Technology to research and develop the beam-down type solar heat power generation project which is carried out jointly by MASDAR of United Arab Emirates and Cosmo Oil Co., Ltd. Development of a new solar light reflection device, which is the main component of the plant, is carried out by deepening existing technology, and a highly efficient product solar light receiver using a molten salt is now under study.
- In relation to ICT, we developed cylinder pressure analyzer and electronic cylinder gauge system for customers of e-GICS (marine diesel engine performance and maintenance diagnosis service system through internet).
  And also we developed the data interface between e-GICS and Ship Performance Analysis System for Ship Operation Support Portal Site of Maritime Solutions.
  In addition, we developed a prototype monitoring system for on board diesel engine exhaust (NOx, SOx and CO_2) with measurement equipment using QCL (Quantum Cascade Laser) technology to correspond to IMO regulation as a service function of e-GICS W (a remote maintenance service system for both marine diesel engine and generator engine in one portal).
- In relation to the Ship Operation Support Portal Site of Maritime Solutions, we developed motion picture transmission system assuming broadband connection at sea. We also developed system to monitor the ship's motion and ocean wave as an expanded function of the Ship Performance Analysis System. In addition, we will develop the system to find the best navigational route by using the navigation analysis data of the Ship Performance Analysis System.

The cost for Research & Development involved in this division is ¥1.2 billion.

(4) Plant Business

- In relation to Environment and Energy, we continuously worked on substantive tests for 2 tons per day of bio ethanol production from the cellulose with NEDO (New Energy and Industrial Technology Development Organization). As the development is reaching the final stage, we collected process data of various cellulose and promoted optimization of the system for commercialization.
- In relation to recycle of wastes, we propose recycling-oriented society with biomass town concept for prevention of global warming.
  With regard to the process of recycled feed production from distillation residue of spirituous liquor, Shochu, we work on cost reduction and improvement of the quality with the government and university researches under the policy of improving food self-sufficiency ratio of Japan.

The cost for Research & Development involved in this division is ¥0.2 billion.

(5) Other divisions

- Our company-wide task force has been developing an advanced production process of NGH (Natural Gas Hydrate) with an emphasis on the technology for increasing the production speed and seeking a more compact system as a whole, while developing storage tank and high-efficiency re-gasification system. With support from JRTT (Japan Railway Construction, Transportation and Technology Agency), we have completed a series of tests of the cargo hold modeling and unloading system for NGH carrier, and now we are working with International Maritime Organization (IMO) toward the establishment of its international safety standard.
  Regarding NGH production demonstration plant (5 tons per day) built in the Yanai Power Station, The Chugoku Electric Power Co., Inc., we are carrying out the NGH land transportation demonstration project this year, which is sponsored by NEDO (New Energy and Industrial Technology Development Organization). Toward its commercialization, we have been closely cooperating with NGH Japan Co., Ltd., whose co-shareholder is Mitsui & Co., Ltd. As the latest achievement, we recently completed the feasibility study of NGH supply chain including a plan for the pilot plant. This study was conducted by a study group composed of nine Japanese leading companies including E&P, shipping and gas and electric power companies, with financial support given by JOGMEC (Japan Oil, Gas and Metals National Corporation). In parallel with this, we have been continuously discussing possibilities of NGH commercialization with major oversea oil and gas companies.
- LiFePO4 (Lithium Iron Phosphate) is a promising cathode material for next-generation Lithium-Ion Battery: It is currently engaging technical evaluation of a pilot plant to better understand the method for mass production. A semi commercial plant is now under construction to meet the growing demand sample evaluation.
- In relation to demonstration of bio ethanol production, we completed the construction of a production plant of bio-ethanol for JA Zen-Noh (National Federation of Agricultural Corporative Association, Japan). The plant is producing 1,000 kl of ethanol per year from high-yielding rice in Niigata, Japan and was the result of a combined research and feasibility study on high performance bio-ethanol production system with high-yielding rice.
  Furthermore, we have conducted an application test and collected data for a pilot plant test by high performance continuous fermentation process using yeast with high flocculation characteristics and ethanol tolerance for various kind of raw material.
- Mitsui Zosen Systems Research Inc. (MSR), a consolidated subsidiary of MES, has developed a new general-purpose and industrial use PC Board, considering environmental needs and is planning to apply them for systems which operate under severe surroundings for terminal computer used in vehicle, factory, or others.
  MSR is now developing web-based pre-production support system for component-assembly makers, which is useful for quantitative analysis of the site. MSR also continues to improve its Original Products TIME-3 Time Management System and MiTOX MITSUI Toxicological Data Processing System to increase their competitiveness.
  As for the Marine remote control systems, MSR is focusing on the renewal and the development for the future generation of the Engine Maneuvering Systems for the MC type Diesel Engine. At the same time, MSR keeps promoting the upgrade in the Electronic control systems for the fuel-saving and emission control Diesel Engine introduced from MAN DIESEL A/S.

The cost for Research & Development involved in this division is ¥4.6 billion.

Consolidated Balance Sheets

As of March 31, 2009 and 2008

ASSETS

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Current Assets			
Cash and time deposits (Notes 1(r), 4)	¥ 84,323	¥ 53,907	$ 858,424
Marketable securities (Note 2)	2,409	6,470	24,524
Receivables			
Trade	133,390	128,358	1,357,936
Other	9,430	12,338	95,999
Less allowance for doubtful receivables	(526)	(231)	(5,355)
Merchandise and finished goods	3,094	2,254	31,498
Raw materials and supplies	5,173	4,987	52,662
Partly-finished work	109,675	89,126	1,116,512
Deferred tax assets (Note 10)	14,270	10,790	145,271
Short-term loans	51,710	64,304	526,418
Other current assets	19,034	21,217	193,770
Total current assets	431,982	393,520	4,397,659
Property, Plant and Equipment (Note 4)			
Land (Note 1(p))	118,244	118,638	1,203,746
Buildings and structures	119,438	120,090	1,215,901
Machinery and equipment	145,878	146,408	1,485,066
Lease assets	16,297	—	165,907
Construction in progress	7,247	3,140	73,776
	407,104	388,276	4,144,396
Less accumulated depreciation	(198,694)	(195,526)	(2,022,743)
Net property, plant and equipment	208,410	192,750	2,121,653
Intangible Assets	12,255	16,057	124,758
Investments, Long-term Loans and Other Assets			
Investments securities (Notes 2, 3, and 4)	41,994	68,657	427,506
Long-term loans	14,078	16,083	143,317
Deferred tax assets (Note 10)	21,188	18,751	215,698
Other (Note 3)	10,211	6,731	103,950
Less allowance for doubtful receivables	(816)	(1,004)	(8,307)
Total investments, long-term loans and other assets	86,655	109,218	882,164
Total assets	¥ 739,302	¥ 711,545	$7,526,234

LIABILITIES AND NET ASSETS

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Current Liabilities			
Short-term borrowings (Notes 4 and 5)	¥ 50,118	¥ 32,567	$ 510,211
Current portion of long-term indebtedness (Note 6)	33,221	37,791	338,196
Lease obligations	2,447	—	24,911
Trade payables	181,253	153,999	1,845,190
Advances from customers	133,105	130,391	1,355,034
Accrued expenses	19,895	19,006	202,535
Accrued income taxes (Note 10)	3,174	8,255	32,312
Deferred tax liabilities (Note 10)	846	761	8,612
Provision for losses on construction contracts	5,146	5,199	52,387
Provision for product warranty	7,637	6,332	77,746
Other current liabilities	15,720	15,158	160,033
Total current liabilities	452,562	409,459	4,607,167
Long-term Liabilities			
Long-term indebtedness (Notes 4 and 6)	70,158	78,490	714,222
Lease obligations	11,880	—	120,941
Liability for severance and retirement benefits			
For employees (Note 9)	3,596	6,520	36,608
For directors and corporate auditors	845	958	8,602
Deferred tax liabilities			
On reevaluation reserve for land (Note 1(p))	34,479	34,840	351,003
Other (Note 10)	1,040	2,181	10,587
Other long-term liabilities	3,998	3,455	40,700
Total long-term liabilities	125,996	126,444	1,282,663
Contingent Liabilities (Note 11)			
Net Assets (Note 8)			
Common stock			
Authorized - 1,500,000,000 shares			
Issued - 830,987,176 shares	44,385	44,385	451,848
Capital Surplus	18,178	18,195	185,055
Retained earnings	59,005	52,332	600,682
Treasury stock	(564)	(567)	(5,742)
Net unrealized holding gains on securities (Note 2)	851	9,416	8,663
Unrealized gains (losses) on hedging derivatives, net of tax	239	2,674	2,433
Reevaluation reserve for land, net of tax (Note 1(p))	24,675	25,194	251,196
Foreign currency translation adjustments	(6,223)	(301)	(63,351)
Minority interests in consolidated subsidiaries	20,198	24,314	205,620
Total net assets	160,744	175,642	1,636,404
Total liabilities and net assets	¥ 739,302	¥ 711,545	$7,526,234

The accompanying notes to the consolidated financial statements are an integral part of these balance sheets.

Consolidated Statements of Income

For the Years Ended March 31, 2009 and 2008

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Net Sales (Note 1(c))	**¥ 686,656**	¥ 659,215	***$6,990,288***
Cost of Sales (Note 1(g),(h))	**617,088**	581,749	***6,282,073***
Gross profit	**69,568**	77,466	***708,215***
Selling, General and Administrative Expenses (Note 1(g))	**42,714**	41,347	***434,836***
Operating income	**26,854**	36,119	***273,379***
Other Income (Expenses)			
Interest and dividend income	**4,684**	5,646	***47,684***
Interest expense	**(3,587)**	(6,472)	***(36,516)***
Foreign exchange losses	**(2,426)**	(840)	***(24,697)***
Losses on sales of marketable securities, net (Note 2)	**(196)**	(50)	***(1,995)***
Gains on sales of investment securities	**1**	834	***10***
Gains on disposition of property, plant and equipment, net	**4,414**	157	***44,935***
Equity in earnings of unconsolidated subsidiaries and affiliates	**1,261**	503	***12,837***
Losses on valuation of investment securities (Note 2)	**(7,486)**	(351)	***(76,209)***
Amortization of net transition obligation (Note 9)	**(1,964)**	(1,964)	***(19,994)***
Gain on change in equity	**10**	—	***102***
Loss on impairment of fixed assets (Note 12)	**(218)**	(2,440)	***(2,219)***
Loss on valuation of inventories	**(85)**	—	***(865)***
Loss on disaster	**(577)**	—	***(5,874)***
Loss on litigation	**(1,035)**	—	***(10,537)***
Governmental subsidy	**—**	2,008	—
Losses on reduction of book value of property, plant and equipment	**—**	(2,008)	—
Gains on reversion of securities from employees' retirement benefit trust	**—**	2,711	—
Reversal of provision for losses for subsidiaries	**—**	149	—
Losses on reversal of selling, general and administrative expenses capitalized as contracts-in-progress in inventories (Note 1(g))	**—**	(1,869)	—
Environmental preservation cost	**—**	(1,123)	—
Other, net	**(1,210)**	(709)	***(12,318)***
Total	**(8,414)**	(5,818)	***(85,656)***
Income Before Income Taxes and Minority Interests	**18,440**	30,301	***187,723***
Income Taxes (Note 10)			
Current	**6,712**	12,896	***68,329***
Deferred	**808**	(884)	***8,225***
	7,520	12,012	***76,554***
Income Before Minority Interests	**10,920**	18,289	***111,167***
Minority Interests	**279**	1,729	***2,840***
Net Income	**¥ 10,641**	¥ 16,560	***$ 108,327***

	Japanese Yen		*U.S. Dollars*
	2009	2008	***2009***
Amounts Per Share of Common Stock (Note 8)			
Net income	**¥ 12.84**	¥ 19.98	***$ 0.131***
Dividends, applicable to the year	**¥ 4.00**	¥ 4.00	***$ 0.041***

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the Year ended March 31, 2009 and 2008

	Thousands	Japanese Yen (Millions)									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives, net of tax	Reevaluation reserve for land, net of tax	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total
Balance as of March 31, 2007	830,987	44,385	18,187	38,696	(363)	15,902	(968)	25,194	798	23,993	165,824
Cash dividends paid				(2,903)							(2,903)
Net income				16,560							16,560
Purchases of treasury stock					(216)						(216)
Sales of treasury stock			8		12						20
Unrealized losses on derivatives instruments				(79)							(79)
Others				58							58
Net changes during the year						(6,486)	3,642		(1,099)	321	(3,622)
Balance as of March 31, 2008	**830,987**	**¥ 44,385**	**¥ 18,195**	**¥ 52,332**	**¥ (567)**	**¥ 9,416**	**¥ 2,674**	**¥ 25,194**	**¥ (301)**	**¥ 24,314**	**¥ 175,642**
Effect of changes in accounting policies applied to foreign subsidiaries				(788)							(788)
Cash dividends paid				(3,316)							(3,316)
Net income				10641							10,641
Purchases of treasury stock					(103)						(103)
Sales of treasury stock			(17)	(7)	106						82
Transfer from reevaluation reserve for land, net of tax				519							519
Unrealized losses on derivatives instruments				(260)							(260)
Others				(116)							(116)
Net changes during the year						(8,565)	(2,435)	(519)	(5,922)	(4,116)	(21,557)
Balance as of March 31, 2009	**830,987**	**¥ 44,385**	**¥ 18,178**	**¥ 59,005**	**¥ (564)**	**¥ 851**	**¥ 239**	**¥ 24,675**	**¥ (6,223)**	**¥ 20,198**	**¥ 160,744**

	Thousands	*U.S. Dollars (Thousands)*									
	Number of shares of common stock	*Common stock*	*Capital surplus*	*Retained earnings*	*Treasury stock*	*Net unrealized holding gains (losses) on securities*	*Unrealized gains (losses) on hedging derivatives, net of tax*	*Reevaluation reserve for land, net of tax*	*Foreign currency translation adjustments*	*Minority interests in consolidated subsidiaries*	*Total*
Net assets as of April 1, 2008	***830,987***	***$ 451,848***	***$ 185,228***	***$ 532,750***	***$ (5,772)***	***$ 95,856***	***$ 27,222***	***$ 256,480***	***$ (3,064)***	***$ 247,521***	***$1,788,069***
Effect of changes in accounting policies applied to foreign subsidiaries				*(8,022)*							*(8,022)*
Cash dividends paid				*(33,758)*							*(33,758)*
Net income				*108,327*							*108,327*
Purchases of treasury stock					*(1,049)*						*(1,049)*
Sales of treasury stock			*(173)*	*(71)*	*1,079*						*835*
Transfer from reevaluation reserve for land, net of tax				*5,284*							*5,284*
Unrealized losses on derivatives instruments				*(2,647)*							*(2,647)*
Others				*(1,181)*							*(1,181)*
Net changes during the year						*(87,193)*	*(24,789)*	*(5,284)*	*(60,287)*	*(41,901)*	*(219,454)*
Balance as of March 31, 2009	***830,987***	***$ 451,848***	***$ 185,055***	***$ 600,682***	***$ (5,742)***	***$ 8,663***	***$ 2,433***	***$ 251,196***	***$ (63,351)***	***$ 205,620***	***$1,636,404***

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2009 and 2008

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Cash Flows from Operating Activities :			
Income before income taxes and minority interests	¥ 18,440	¥ 30,301	$ 187,723
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities —			
Depreciation and amortization	13,692	10,623	139,387
Losses on impairment of fixed assets	218	2,440	2,219
Amortization of goodwill	698	537	7,106
Reversal of allowance for doubtful receivables	111	43	1,130
Reversal of liability for severance and retirement benefits	(2,601)	(6,478)	(26,479)
Increase in prepaid pension costs	(2,371)	—	(24,137)
Interest and dividend income	(4,684)	(5,646)	(47,684)
Interest expense	3,587	6,472	36,516
Foreign currency exchange loss (gain), net	1,326	(955)	13,499
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,261)	(503)	(12,837)
Losses on sales of marketable securities	196	50	1,995
Gains on sales of investment securities	(1)	(834)	(10)
Losses on valuation of investment securities	7,486	351	76,209
Gains on disposition of property, plant and equipment	(4,414)	(157)	(44,935)
Losses on reduction of book value of property, plant and equipment	—	2,008	—
Loss on disaster	577	—	5,874
Gain on change in equity	(10)	—	(102)
Loss on litigation	1,035	—	10,536
Reversal of provision for losses on reevaluation of affiliates	—	(149)	—
Changes in assets and liabilities :			
Decrease (increase) in			
Trade receivables	(5,103)	22,262	(51,950)
Inventories	(22,299)	(8,436)	(227,008)
Other assets	(5,857)	(4,859)	(59,625)
Increase (decrease) in			
Trade payables	34,607	10,564	352,306
Other liabilities	3,871	2,876	39,408
Other, net	2,025	819	20,615
	39,268	61,329	399,756
Interest received	4,275	5,857	43,520
Interest paid	(3,929)	(6,590)	(39,998)
Payments for loss on disaster	(577)	—	(5,874)
Payments for loss on litigation	(969)	—	(9,865)
Income taxes paid	(11,707)	(12,258)	(119,179)
Net cash provided by operating activities	26,361	48,338	268,360

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Cash Flows from Investing Activities :			
Increase in time deposits	¥ (2,130)	¥ (142)	$ (21,684)
Purchases of marketable securities	(116)	(2,337)	(1,181)
Proceeds from sales of marketable securities	81	741	825
Capital expenditure	(18,267)	(13,616)	(185,962)
Proceeds from sales of property, plant and equipment	6,957	2,733	70,824
Purchases of investment securities	(920)	(2,232)	(9,366)
Proceeds from sales of investment securities	1,038	1,569	10,567
Purchase of a subsidiary	(698)	(5,762)	(7,106)
Purchase of subsidiaries with alteration of scope of consolidation	—	(169)	—
Proceeds from sales of investment in consolidated subsidiaries in the previous fiscal year	3,000	7,000	30,541
Proceeds from capital reduction in affiliate	1,678	—	17,082
Disbursement of long-term loans receivable	(33,778)	(48,215)	(343,866)
Collection of long-term loans receivable	28,907	42,174	294,279
Other, net	123	216	1,252
Net cash used in investing activities	(14,125)	(18,040)	(143,795)
Cash Flows from Financing Activities :			
Increase (decrease) in short-term borrowings	23,018	(14,815)	234,328
Proceeds from long-term indebtedness	32,261	23,275	328,423
Repayment of long-term indebtedness	(41,002)	(40,942)	(417,408)
Repayments of lease obligations	(2,406)	—	(24,494)
Repayment on bonds	(120)	(1,250)	(1,222)
Purchases of treasury stock	(103)	(216)	(1,049)
Cash dividends	(3,318)	(2,891)	(33,778)
Cash dividends paid to minority interests	(419)	(516)	(4,265)
Proceeds from stock issuance to minority shareholders	81	—	825
Other, net	(90)	395	(916)
Net cash used in financing activities	7,902	(36,960)	80,444
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(5,138)	(953)	(52,306)
Net Increase in Cash and Cash Equivalents	15,000	(7,615)	152,703
Increase of Cash and Cash Equivalents of Certain Companies Consolidated Commencing in fiscal 2008 and 2007	32	495	326
Cash and Cash Equivalents at Beginning of Year	89,401	96,521	910,119
Cash and Cash Equivalents at End of Year (Note 1(r))	¥ 104,433	¥ 89,401	$1,063,148

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Significant Accounting and Reporting Policies

The following is a summary of the significant accounting and reporting policies adopted by Mitsui Engineering & Shipbuilding Co., Ltd. (the "Company") and its consolidated subsidiaries in the preparation of the accompanying consolidated financial statements.

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Mitsui Engineering & Shipbuilding Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the "Japanese Financial Instruments and Exchange Act" 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 Finance Bureau of the Ministry of Finance as required by the "Financial Instruments and Exchange Act". 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 Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98.23 to U.S. $1. The convenience 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.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all material subsidiaries, over which the Company has power of control through majority voting rights or existence of certain conditions requiring control by the Company.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

The assets and liabilities of the consolidated subsidiaries, including the portion attributable to minority shareholders, were evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by the equity method.

Goodwill is generally amortized using the straight-line method over 5 years; however, reasonable assessment may determine a certain period of time.

Fiscal years of some consolidated subsidiaries end on the 31st of December. The Company consolidates these subsidiaries' financial statements as of each subsidiary's latest fiscal year and significant transactions occurred between each subsidiary's fiscal year-end and the Company's fiscal year-end are adjusted on consolidation.

(c) Revenue Recognition

Revenues and gross profits on contracts are primarily accounted for by the completed-contract method.

Under this method, the revenue and the cost of sales applicable to each contract are not recorded until construction is completed and delivery is made to the customer.

Revenues and costs of sales on long-term contracts of a duration in excess of one year and an amount in excess of ¥1 billion are recognized by the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total construction costs.

Revenues and costs of sales on finance lease transactions are recognized when lease payments are received.

(d) Securities

The Company and its consolidated domestic subsidiaries examined the intent of holding each security and classified those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Company and its consolidated domestic subsidiaries did not have trading securities or held-to-maturity debt securities.

Equity securities issued by unconsolidated subsidiaries and affiliated companies, which are not 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. Fair market value is calculated using mainly the average price of securities over one month before the consolidated balance sheet date.

Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for by the equity method, and available-for-sale securities decline 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 values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Derivative Transaction and Hedge Accounting

Japanese accounting standard for financial instruments requires the Company and consolidated domestic subsidiaries to measure derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the instruments are applied to hedged items.

In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedging items are accounted for in the following manner.

1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,
   a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the statement of income of the fiscal year in which such contracts are entered into, and
   b) the difference between the Japanese yen amount converted by the contracted forward foreign exchange rate and the Japanese yen amount by spot rate at the trade date of the contract is allocated to every fiscal period over the term of the contract.

2) If forward foreign exchange contracts are entered into to hedge a future transaction (be contracted but not stated in financial statements) denominated in foreign currency, recognition of gains and losses resulting from fair value of the forward foreign exchange contracts are deferred until the contracts are applied to the hedged item.

Also, 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 contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was allocated.

(f) Allowance for Doubtful Receivables

The Company and its consolidated domestic subsidiaries adopt the policy of providing allowance for doubtful receivables in an amount sufficient to cover possible losses on collection by estimating amounts for certain identified accounts and applying a percentage based on collection experience to the remaining accounts.

(g) Inventories

Merchandise, finished goods, raw materials and supplies are stated at cost determined mainly by the moving-average method (except steels for new shipbuilding, which are by identified cost method) (Balance sheet value reflects downturn in profitability). Partly-finished work is stated using identified cost method (Balance sheet value reflects downturn in profitability). Construction costs, which are accumulated in inventory, consist of direct materials, labor, other items directly attributable to each contract and an allocable portion of general manufacturing and construction overheads.

(Change of Accounting Policy)
Effective from the year ended March 31, 2009, the Company and the consolidated domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No.9 issued by the Accounting Standards Board of Japan on July 5, 2006). Merchandise, finished goods, raw materials and supplies are stated at cost determined mainly by the moving-average method (Balance sheet value reflects downturn in profitability). Partly-finished work is stated using identified cost method (Balance sheet value reflects downturn in profitability). According to the change, Operating Income decreased by ¥186 million (*$1,894 thousand*) and Income Before Income Taxes and Minority Interests decreased by ¥271 million (*$2,759 thousand*). The impact on segment information is described in the corresponding pages.

(Change of Accounting Policy)
The Company had allocated the portion of Selling, General and Administrative Expenses excluding the expenses of management staffs to the partly-finished work in inventories in order to express the appropriate matching costs and revenues for the long-term construction. Effective from the year ended March 31, 2008, the Company changed the accounting policy to be expensed as incurred. This change is due to decrease of the long-term constructions which are not applicable to the percentage-of-completion method, as the result of the expansion of the scope of the long-term constructions accounted for by the percentage-of-completion method and decrease in the large size of the constructions. According to the change, Selling, General and Administrative Expenses decreased by ¥286 million, Operating Income increased by ¥286 million and Income Before Income Taxes and Minority Interests decreased by ¥1,582 million compared to the previous method.

(h) Property, Plant and Equipment and Depreciation
Property, plant and equipment are stated at cost except for land of the Company used for business operations, which has been revaluated (Note 1(p)). Depreciation of plant and equipment is mainly computed using the declining-balance method over their estimated useful lives. Buildings, acquired on and after April 1, 1998, are depreciated using the straight-line method. Effective rates of depreciation for the years ended March 31, 2009 and 2008 were summarized below : —

	Years ended March 31,	
	2009	2008
Buildings and structures	**7.0%**	6.3%
Machinery and equipment	**17.5%**	17.9%

The rates of depreciation shown above are based on estimated useful lives of 3 to 50 years for buildings and structures and 2 to 17 years for machinery and equipment.

Ordinary maintenance and repairs are charged to the profit and loss account as incurred. Major replacements and improvements are capitalized.

(Change of Accounting Policy)
Effective from the year ended March 31, 2009, the Company and the consolidated domestic subsidiaries changed the estimated useful lives for Machinery in accordance with the Corporation Tax Law of Japan. According to the change, Operating Income and Income Before Income Taxes and Minority Interests decreased by ¥82 million (*$835 thousand*). The impact on segment information is described in the corresponding pages.

(Change of Accounting Policy)
Effective from the year ended March 31, 2008, the Company and the consolidated domestic subsidiaries changed the depreciation method of newly acquired Tangible Assets after April 1, 2007 in accordance with the Corporation Tax Law of Japan. According to the change, Operating Income and Income Before Income Taxes and Minority Interests decreased by ¥188 million.
In accordance with the amendments, the Company and the consolidated domestic subsidiaries have depreciated the difference between memorandum amounts and 5% of acquired amount of assets acquired before April 1, 2007 equally over the 5 years from the consolidated accounting period after the period in which the Company completed the depreciation for 95% of acquired amount. According to the change, Operating Income and Income Before Income Taxes and Minority Interests decreased by ¥795 million.

(i) Software Costs
Software costs included in intangible assets are depreciated using the straight-line method over the estimated useful life (5 years).

(j) Employees' Severance and Retirement Benefits
The Company and its consolidated domestic subsidiaries provide two types of employees' severance and retirement benefit plans: unfunded termination and retirement allowance plans and funded non-contributory pension plans. Under the plans, employees whose employment is terminated or who retire are entitled to benefits which are, in general, determined on the basis of length of service and current basic salary at the time of termination or retirement.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries recognize the liabilities for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the pension assets as of each balance sheet date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥28,905 million. The net transition obligation has been recognized in expenses in equal amounts primarily over 15 years commencing with the year ended March 31, 2001. Prior service costs for the year ended March 31, 2009 are recognized in the consolidated statements of income using the straight-line method within the average of the estimated remaining service lives (1 year or 5 years). Actuarial gains and losses are recognized in the consolidated statements of income using the straight-line method within the average of the estimated remaining service lives (5 years or 10 years) commencing with the following period. As the fair value of pension assets exceeds the liability for employees' severance and retirement benefits after deduction of both remaining net transition obligation and the actuarial gains and losses which have not been recognized yet, the amount in excess of the liability is recorded as prepaid pension costs and stated as a part of "others" of "investments, long-term loans and other assets" in the balance sheet.

(k) Liabilities for Severance and Retirement Benefits for Directors and Corporate Auditors
Subject to shareholders' approval, directors and corporate auditors customarily receive lump-sum payments upon retirement under an unfunded retirement allowances plan.

The Company and its consolidated domestic subsidiaries recorded estimated termination and retirement allowances at amounts equal to 100% of the amounts payable assuming all directors and corporate auditors had terminated as of each balance sheet date.

(l) Translation of Foreign Currency Accounts
Under Japanese accounting standard for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included in the current statements of income.

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at each balance sheet date, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are also translated at the exchange rates in effect at each balance sheet date.

(m) Provision for Losses on Construction Contracts
Provision for losses on construction contracts is provided based on an estimate of the total losses which can probably occur for the next fiscal year and beyond with respect to construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

(n) Provision for Product Warranty
Provision for product warranty for ships and other products is provided based on the estimated amounts calculated by using mainly the average proportion of product warranties against sales amounts for past two years.

(o) Income Taxes
The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(p) Reevaluation Reserve for Land
The Company and a domestic consolidated subsidiary reevaluated the land used for business operations based on real estate tax value on March 31, 2000 and March 31, 2002, respectively, in accordance with Enforcement Ordinance for the Law Concerning Reevaluation Reserve for Land (the "Law") effective March 31, 1998. The related unrealized gain, net of income taxes, was recorded as "reevaluation reserve for land" in net assets and the deferred income tax effects were recorded as deferred tax liabilities on "reevaluation reserve for land" in long-term liabilities. The reevaluation reserve for land in net assets is not included for computation of dividends under the Law.

According to the Law, the Company and a domestic consolidated subsidiary are not permitted to reevaluate the land at any time after the above reevaluation even in cases where the fair value of the land declines. Such unrecorded reevaluation loss is ¥39,968 million (*$406,882 thousand*) and ¥38,899 million as of March 31, 2009 and 2008.

(q) Research and Development
Costs relating to research and development activities are charged to the profit and loss account as incurred. The amounts for the years ended March 31, 2009 and 2008 were ¥3,806 million (*$38,746 thousand*) and ¥2,396 million, respectively.

(r) Cash Flow Statement
In preparing the consolidated statements of cash flows, cash on hand, readily available deposits including short-term loans, and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2009 and 2008 were as follows : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Cash and time deposits	**¥ 84,323**	¥ 53,907	***$ 858,424***
Time deposits with maturities exceeding 3 months	**(2,882)**	(770)	***(29,339)***
Cash equivalents included in marketable securities	**—**	3,300	***—***
Cash equivalents included in short-term loans (other current assets)	**22,992**	32,964	***234,063***
Cash and cash equivalents	**¥ 104,433**	¥ 89,401	***$1,063,148***

(s) Finance Lease Transactions without Transfer of Ownership
(Change of Accounting Policy)
Until the year ended March 31, 2008, finance lease transactions, other than those that transfer ownership of the leased property to the lessee, were accounted for in the same way as operating lease transactions.
Effective from the year ended March 31, 2009, the Company and the consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No.13 issued by the Business Accounting Council on June 17,

1993, revised by the Accounting Standards Board of Japan on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No.16 issued by JICPA Accounting System Committee on January 18, 1994, revised by the Accounting Standards Board of Japan on March 30, 2007).

Lessee :
The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period. The residual value is the guaranteed residual value in case such value is set forth in the lease contract but otherwise is zero value. The impact on Operating Income and Income Before Income Taxes and Minority Interests is immaterial.

Lessor :
Revenues and costs of sales on finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are recognized when lease payments are received. The impact on Operating Income and Income Before Income Taxes and Minority Interests is immaterial.

(t) Accounting Standard for Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
Effective from the year ended March 31, 2009, the Company and the consolidated subsidiaries adopted the new accounting standard, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No.18 issued by the Accounting Standards Board of Japan on May 17, 2006). Due to this change, the Retained earnings of beginning of the year decreased by ¥788 million (*$8,022 thousand*) and Operating Income and Income Before Income Taxes and Minority Interests decreased by ¥235 million (*$2,392 thousand*). The impact on segment information is described in the corresponding pages.

(u) Reclassifications
Certain reclassifications have been made to the previously reported fiscal year 2007 amounts to conform to fiscal year 2008 presentation. These reclassifications had no effect on previously reported net income or net assets.

2. Marketable Securities and Investment Securities

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

	Japanese Yen (millions)		
2009 : Available-for-sale securities :	Acquisition cost	Book value	Differences
Securities with book values exceeding acquisition costs :			
Equity securities	**¥ 7,971**	**¥ 11,599**	**¥ 3,628**
Sub Total	**¥ 7,971**	**¥ 11,599**	**¥ 3,628**
Securities with book values not exceeding acquisition costs :			
Equity securities	**¥ 15,765**	**¥ 13,899**	**¥ (1,866)**
Sub Total	**¥ 15,765**	**¥ 13,899**	**¥ (1,866)**
Total	**¥ 23,736**	**¥ 25,498**	**¥ 1,762**

	Japanese Yen (millions)		
2008 : Available-for-sale securities :	Acquisition cost	Book value	Differences
Securities with book values exceeding acquisition costs :			
Equity securities	¥ 14,790	¥ 32,966	¥ 18,176
Sub Total	¥ 14,790	¥ 32,966	¥ 18,176
Securities with book values not exceeding acquisition costs :			
Equity securities	¥ 13,948	¥ 11,816	¥ (2,132)
Bonds	¥ 4,170	¥ 4,169	¥ (1)
Sub Total	¥ 18,118	¥ 15,985	¥ (2,133)
Total	¥ 32,908	¥ 48,951	¥ 16,043

	U.S. Dollars (thousands)		
***2009 :** Available-for-sale securities :*	*Acquisition cost*	*Book value*	*Differences*
Securities with book values exceeding acquisition costs :			
Equity securities	***$ 81,146***	***$ 118,080***	***$ 36,934***
Sub Total	***$ 81,146***	***$ 118,080***	***$ 36,934***
Securities with book values not exceeding acquisition costs :			
Equity securities	***$ 160,491***	***$ 141,494***	***$ (18,997)***
Sub Total	***$ 160,491***	***$ 141,494***	***$ (18,997)***
Total	***$ 241,637***	***$ 259,574***	***$ (17,937)***

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

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
Available-for-sale securities :	**2009**	2008	***2009***
Unlisted equity securities	**¥ 3,852**	¥ 4,368	***$ 39,214***
Negotiable certificate of deposit	**—**	3,300	***—***
Others	**6**	4	***61***
Total	**¥ 3,858**	¥ 7,672	***$ 39,275***

(c) The maturities of available-for-sale securities with maturities as of March 31, 2009 and 2008 were as follows : —

	Japanese Yen (millions)				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities : Interest bearing bonds and others —					
2009	**¥ 2**	**¥ 3**	**—**	**—**	**¥ 5**
2008	¥ 4,300	¥ 3	—	—	¥ 4,303

	U.S. Dollars (thousands)				
	Within one year	*Over one year but within five years*	*Over five years but within ten years*	*Over ten years*	*Total*
Available-for-sale securities : Interest bearing bonds and others —					
2009	***$ 20***	***$ 31***	***—***	***—***	***$ 51***

(d) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were as follows : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Proceeds from sales of available-for-sale securities	**¥ 3**	¥ 2,310	***$ 31***
Realized gains on sales of available-for-sale securities	**1**	835	***10***
Realized losses on sales of available-for-sale securities	**—**	(51)	***—***

3. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2009 and 2008 were ¥15,046 million (*$153,171 thousand*) and ¥18,504 million, respectively, and investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2009 and 2008 were ¥2,358 million (*$24,005 thousand*) and ¥1,837 million, respectively.

4. Pledged Assets

Assets pledged as collateral for short-term borrowings and long-term indebtedness as of March 31, 2009 and 2008 were as follows : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Land	**¥ 30,003**	¥ 29,963	***$ 305,436***
Buildings and structures	**3,281**	3,366	***33,401***
Machinery and equipment	**5,209**	6,104	***53,029***
Investment securities	**14**	1,665	***143***
Time deposits	**285**	446	***2,901***
	¥ 38,792	¥ 41,544	***$ 394,910***

Short-term borrowings and long-term indebtedness secured by the above pledged assets as of March 31, 2009 and 2008 were as follows : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Short-term borrowings	**¥ 2,868**	¥ 2,958	***$ 29,197***
Long-term loan payable	**7,301**	8,817	***74,325***
Bonds	**300**	420	***3,054***
	¥ 10,469	¥ 12,195	***$ 106,576***

5. Short-Term Borrowings

Short-term borrowings represent notes payable to banks due within twelve months bearing an average interest rate of 2.3% and 4.6% as of March 31, 2009 and 2008, respectively.

6. Long-Term Indebtedness

Long-term indebtedness as of March 31, 2009 and 2008 is summarized below : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Secured by mortgages on plant and equipment —			
1.3% bonds, due September 30, 2011	**¥ 300**	¥ —	***$ 3,054***
0.9% to 2.3% loans from Japanese banks, due on various dates through 2014	**7,302**	8,770	***74,336***
Secured by installment contract receivables —			
2.1% to 2.2% loans from Japanese banks due on various dates through 2010	**1,237**	2,407	***12,593***
Secured by marketable equity securities —			
2.0% loans from Japanese insurance companies and banks, due on various dates through 2008	**—**	47	***—***
Unsecured or non-guaranteed —			
0.6% bonds, due April 20, 2009	**220**	220	***2,239***
2.0% bonds, due June 3, 2011	**10,000**	10,000	***101,802***
1.3% bonds, due September 30, 2011	**—**	420	***—***
2.3% bonds, due June 5, 2012	**5,000**	5,000	***50,901***
0.8% to 5.0% loans from Japanese banks, insurance companies and trading companies due on various dates through 2023	**79,320**	89,417	***807,493***
	103,379	116,281	***1,052,418***
Less: Current portion included in current liabilities	**(33,221)**	(37,791)	***(338,196)***
	¥ 70,158	¥ 78,490	***$ 714,222***

The aggregate annual maturities of long-term indebtedness are summarized below : —

Year ended March 31,	Japanese Yen (millions)	*U.S. Dollars (thousands)*
2010	¥ 33,221	*$ 338,196*
2011	25,086	*255,380*
2012	19,648	*200,020*
2013	11,973	*121,888*
2014 and thereafter	13,451	*136,934*
	¥ 103,379	*$ 1,052,418*

7. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at the Company and its consolidated subsidiaries as of March 31, 2009 was as follows : —

	Japanese Yen (millions)	*U.S. Dollars (thousands)*
Total overdraft facilities and lending commitments	¥ 46,474	*$ 473,114*
Less amounts currently executed	7,669	*78,072*
Unexecuted balance	¥ 38,805	*$ 395,042*

8. Net Assets and Per Share Data

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 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 Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution in the shareholders' meeting or could be capitalized by a resolution in the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the annual shareholders' meeting held on June 26, 2009, the shareholders approved cash dividends amounting to ¥3,316 million (*$33,758 thousand*). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. This type of appropriations is recognized in the period in which they are approved by the shareholders.

Net income per share is based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share is not presented since the Company has no securities with dilutive effect. Cash dividends per share represent the cash dividends declared applicable to the respective year.

9. Liability for Severance and Retirement Benefits

The liabilities for severance and retirement benefits for employees included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 consisted of the following : —

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Projected benefit obligation	**¥ 60,065**	¥ 64,584	***$ 611,473***
Less fair value of pension assets	**(2,084)**	(2,260)	***(21,215)***
Less fair value of trust for employees' retirement benefit	**(32,737)**	(64,692)	***(333,269)***
Unrecognized prior service costs	**2**	—	***20***
Unrecognized actuarial differences	**(12,271)**	22,602	***(124,921)***
Less unrecognized net transition obligation	**(11,750)**	(13,714)	***(119,617)***
Prepaid pension costs	**2,371**	—	***24,137***
Liability for severance and retirement benefits for employees	**¥ 3,596**	¥ 6,520	***$ 36,608***

Some consolidated domestic subsidiaries have adopted a "simpler method" to calculate liability for severance and retirement benefits for employees and a number of overseas-consolidated subsidiaries also adopt defined contribution pension plans.

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2009 and 2008 were comprised of the following : —

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Service costs – benefits earned during the year	**¥ 2,539**	¥ 2,476	***$ 25,847***
Interest costs on projected benefit obligation	**1,185**	1,245	***12,064***
Expected return on pension assets	**(3)**	(5)	***(31)***
Amortization of prior service cost	**348**	—	***3,543***
Amortization of actuarial differences	**(3,512)**	(5,334)	***(35,753)***
Amortization of net transition obligation	**1,964**	1,964	***19,994***
Contribution to the defined contribution pension plans	**29**	28	***295***
Severance and retirement benefit expenses	**¥ 2,550**	¥ 374	***$ 25,959***

The severance and retirement benefit expenses of the consolidated subsidiaries that have adopted simpler method are included in "service costs – benefits earned during the year".

The discount rate used for the years ended March 31, 2009 and 2008 was 2.0%. The estimated amounts of all retirement benefits to be paid at the future retirement date are allocated equally to each service year using the estimated number of total service years.

10. Income Taxes

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 41% for the years ended March 31, 2009 and 2008.

Since the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2009 and 2008 differed from the statutory tax rate by less than 5%, disclosure of reconciliation between these tax rates is omitted.

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

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Deferred tax assets :			
Retirement benefits	**¥ 10,656**	¥ 12,324	***$ 108,480***
Unrealized inter-company profit	**8,786**	8,156	***89,443***
Tax loss carry forward	**5,985**	2,670	***60,928***
Losses on reevaluation of inventories	**5,347**	4,590	***54,434***
Accrued expenses	**3,475**	4,243	***35,376***
Provision for product warranty	**2,974**	2,326	***30,276***
Provision for losses on construction contracts	**1,998**	2,118	***20,340***
Allowance for doubtful receivables	**1,332**	1,289	***13,560***
Losses on reevaluation of marketable and investment securities	**1,010**	1,125	***10,282***
Losses on progress basis contract	**305**	1,334	***3,105***
Others	**2,782**	3,530	***28,321***
Total deferred tax assets	**44,650**	43,705	***454,545***
Valuation allowance	**(6,286)**	(5,815)	***(63,993)***
Net deferred tax assets	**38,364**	37,890	***390,552***
Deferred tax liabilities :			
Net unrealized holding gains on securities	**(670)**	(6,526)	***(6,821)***
Accelerated depreciation on fixed assets	**(1,410)**	(1,578)	***(14,354)***
Unrealized losses on hedging derivatives	**(148)**	(1,899)	***(1,507)***
Reserve for advanced depreciation of noncurrent assets	**(444)**	—	***(4,520)***
Reserve for special account for advanced depreciation of noncurrent assets	**(1,692)**	—	***(17,225)***
Others	**(428)**	(1,288)	***(4,357)***
Total deferred tax liabilities	**(4,792)**	(11,291)	***(48,784)***
Net deferred tax assets	**¥ 33,572**	¥ 26,599	***$ 341,768***

11. Commitments and Contingent Liabilities

Under the capital expenditure program as of March 31, 2009, it is estimated that expenditure of approximately ¥13,500 million (*$137,433 thousand*) will be made during the period ending March 31, 2010.

As of March 31, 2009 and 2008 the Company and its consolidated subsidiaries were contingently liable for the following : —

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2009	2008	***2009***
Guarantees of bank loans and other indebtedness	**¥ 49,674**	¥ 17,964	***$ 505,691***
Trade notes receivable discounted	**300**	652	***3,054***

12. Losses on Impairment on fixed assets

The Company and its consolidated subsidiaries adopted the accounting standard for impairment of fixed assets. The loss on impairment of fixed assets for the year ended March 31, 2009 and 2008 were comprised of the following.

2009

Location : Oita City, Oita Prefecture,
Major use : Idle assets
Asset category : Land
Amount : ¥218 million (*$2,219 thousand*)

2008

Location : LANGSA field North of SUMATRA Island, Indonesia
Major use : Mining right
Asset category : Intangible asset
Amount : ¥2,065 million

Location : Nangoku City, Kochi Prefecture, etc.
Major use : Idle assets
Asset category : Land etc.
Amount : ¥375 million

The Company and its consolidated subsidiaries have grouped their fixed assets into industry segments. Idle fixed assets are assessed individually. In addition, FPSO/FSOs (Machinery and equipment) and Mining Rights, which are considered the smallest independent cash generating units, are grouped by individual assets.

MODEC PRODUCTION (LANGSA) PTE, LTD. ("MPL"), a consolidated overseas subsidiary, owns shares in the mining rights of the LANGSA field. In 2007, MEDCO MOECO LANGSA LTD., the operator of the oilfield, drilled new oil wells in the field aiming for higher production levels. However, the resulting production has not met expectations, and as the outlook of future production is unclear, MPL reduced the carrying amount of the mining rights to the recoverable amount and recognized the reduced value as impairment loss of ¥2,065 million (*$20,611 thousand*) for the year ended December 31, 2007.

MPL measured the value in use as the recoverable amount, calculated by discounting future cash flows at the interest rate of 5.33%

Because the market value of some idle assets declined, the Company and its consolidated subsidiaries reduced the book value of such assets to recoverable amounts. The recoverable amounts of idle assets are their net realizable values based on amounts determined by valuations made in accordance with publicly-assessed land values.

13. Leases

(Change of Accounting Policy)
Until the year ended March 31, 2008, finance lease transactions, other than those that transfer ownership of the leased property to the lessee, were accounted for in the same way as operating lease transactions.
Effective from the year ended March 31, 2009, the Company and the consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No.13 issued by the Business Accounting Council on June 17, 1993, revised by the Accounting Standards Board of Japan on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No.16 issued by JICPA Accounting System Committee on January 18, 1994, revised by the Accounting Standards Board of Japan on March 30, 2007).

(a) Lessee

i) Information on the "as if capitalized" basis of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation equivalent of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2008 was as follows : —

	Japanese Yen (millions)		
2008 :	Machinery and equipment	Intangible assets	Total
Acquisition cost	¥ 11,470	¥ 77	¥ 11,547
Accumulated depreciation	(2,926)	(37)	(2,963)
Net leased property	¥ 8,544	¥ 40	¥ 8,584

ii) Obligations under finance leases : —

	Japanese Yen (millions)
	2008
Due within one year	¥ 1,267
Due after one year	7,317
Total	¥ 8,584

Acquisition cost and obligations under finance leases are computed using the inclusive-of-interest method.

iii) Annual lease payments and depreciation equivalent : —

	Japanese Yen (millions)
	2008
Annual lease payments	¥ 1,063
Depreciation equivalent	1,063

Depreciation equivalent is computed by a straight-line method over the lease period with no residual value.

iv) Unexpired lease payments of operating lease transactions as of March 31, 2009 and 2008 were as follows : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Due within one year	**¥ 1,479**	¥ 412	***$ 15,056***
Due after one year	**4,600**	782	***46,829***
Total	**¥ 6,079**	¥ 1,194	***$ 61,885***

(b) Lessor

i) Information on the leased property such as acquisition cost, accumulated depreciation, future lease receivables and depreciation that do not transfer ownership of the leased property to the lessee for the year ended March 31, 2008 was as follows : —

	Japanese Yen (millions)	
2008 :	Machinery and equipment	Total
Acquisition cost	¥ 235	¥ 235
Accumulated depreciation	(159)	(159)
Net leased property	¥ 76	¥ 76

ii) Future lease receivables : —

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Due within one year	**¥ 1,163**	¥ 43	***$ 11,840***
Due after one year	**4,136**	52	***42,105***
Total	**¥ 5,299**	¥ 95	***$ 53,945***

Future lease receivables are computed using the inclusive-of-interest method.

iii) Annual lease income and depreciation : —

	Japanese Yen (millions)
	2008
Annual lease income	¥ 43
Depreciation equivalent	34

iv) Breakdown of lease investment assets

	Japanese Yen (millions)		*U.S. Dollars (thousands)*
	2009	2008	***2009***
Lease payments receivable	**¥ 379**	¥ —	***$ 3,859***
The residual value	**4**	—	***40***
The amount of receipt interest equivalency	**(8)**	—	***(81)***
Lease investment assets	**¥ 375**	¥ —	***$ 3,818***

v) The aggregate annual collection of lease investment assets are summarized below

Year ended March 31,	Japanese Yen (millions)	*U.S. Dollars (thousands)*
2010	¥ 111	*$ 1,130*
2011	79	*804*
2012	59	*601*
2013	43	*438*
2014 and thereafter	87	*886*
	¥ 379	*$ 3,859*

14. Derivative Transactions of the Company and its Consolidated Subsidiaries

The Company and its consolidated subsidiaries utilize forward foreign exchange contracts in order to hedge currency fluctuation risks arising from export of products in addition to hedging through increases in overseas production and overseas procurement of materials.

The Company and its consolidated subsidiaries also utilize interest rate swaps as derivative transactions in order to hedge interest rate risks of available bonds and loans payable.

As the derivative transactions are made solely with leading financial institutions, the Company and its consolidated subsidiaries do not expect any credit risks.

The Company and its consolidated domestic subsidiaries are subject to the internal regulations for derivatives, which stipulate the policy, objective, scope, organization, procedures, and financial institutions to deal with, and have a reporting system for derivative transactions reflecting proper internal control functions.

The following summarizes hedging derivative financial instruments used and items hedged :

Hedging instruments :	**Hedged items :**
Forward foreign exchange contracts	Foreign currency receivables and payables including future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Loans payable

The Company and its consolidated subsidiaries evaluate hedge effectiveness by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items with the corresponding changes in the hedging derivative instruments.

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

	Japanese Yen (millions)			
	Notional amount			
2009 :	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives :				
Forward contracts :				
To buy Singapore dollars	**¥ 16,216**	**¥ 3,724**	**¥ 16,117**	**¥ (99)**
U.S. dollars	**4,212**	**—**	**4,182**	**(30)**
Norwegian krone	**1,079**	**—**	**1,067**	**(12)**
Euro	**12**	**—**	**12**	**(0)**
To sell U.S. dollars	**10,147**	**—**	**9,477**	**670**
Currency option contract				
Buying ; Call option	**3,803**	**219**	**54**	**54**
Selling ; Put option	**1,901**	**109**	**(304)**	**(304)**
	¥ 37,370	**¥ 4,052**	**¥ 30,605**	**¥ 279**
Interest rate swap				
To receive float, pay fix	**¥ 391**	**¥ 391**	**¥ (19)**	**¥ (19)**
	¥ 391	**¥ 391**	**¥ (19)**	**¥ (19)**

	Japanese Yen (millions)			
	Notional amount			
2008 :	Total	Due after one year	Market value	Unrealized gain (loss)
Currency related derivatives :				
Forward contracts :				
To sell U.S. dollars	¥ 15,667	¥ —	¥ 16,131	¥ (464)
To buy Singapore dollars	163	163	149	(14)
Currency option contract				
Buying ; Call option	2,301	230	41	41
Selling ; Put option	1,180	115	(46)	(46)
	¥ 19,311	¥ 508	¥ 16,275	¥ (483)
Interest rate swap				
To receive float, pay fix	¥ 391	¥ 391	¥ (16)	¥ (16)
	¥ 391	¥ 391	¥ (16)	¥ (16)

	U.S. Dollars (thousands)			
	Notional amount			
2009 :	*Total*	*Due after one year*	*Market value*	*Unrealized gain (loss)*
Currency related derivatives :				
Forward contracts :				
To buy Singapore dollars	***$ 165,082***	***$ 37,911***	***$ 164,074***	***$ (1,008)***
U.S. dollars	***42,879***	***—***	***42,574***	***(305)***
Norwegian krone	***10,984***	***—***	***10,862***	***(122)***
Euro	***122***	***—***	***122***	***(0)***
To sell U.S. dollars	***103,298***	***—***	***96,478***	***6,820***
Currency option contract				
Buying ; Call option	***38,715***	***2,229***	***550***	***550***
Selling ; Put option	***19,353***	***1,110***	***(3,095)***	***(3,095)***
	$ 380,433	***$ 41,250***	***$ 311,565***	***$ 2,840***
Interest rate swap				
To receive float, pay fix	***$ 3,980***	***$ 3,980***	***$ (193)***	***$ (193)***
	$ 3,980	***$ 3,980***	***$ (193)***	***$ (193)***

15. Segment Information

The Company and its consolidated subsidiaries are classified into five segments: Ships, Steel structures/construction, Machinery, Plants and Others.

Ships : This division builds and repairs various types of ships and offshore development equipment; Bulk carriers, Ore carriers, Crude oil tankers, LNG carriers, Reefers, Containers carriers, Naval ships, Patrol vessels, Research vessels, Training vessels, Work vessels, Floating Production, Storage and Offloading systems (FPSOs), Unmanned underwater vehicles (ROVs, AUVs), and other ships.

Steel structures/construction : This division builds Bridges, Building steel frames, Storage tanks, Hybrid floating structures, Container cranes, Container terminal management systems and others.

Machinery : This division manufactures Marine and land diesel engines, Diesel power plants, Gas turbine co-generation systems, Gas engines, Boilers, Process compressors, Steam turbine generators, BF top pressure recovery turbine generators, Towers and Vessels, Heat exchangers, Induction heaters, related machineries for semiconductor and liquid crystal and other machineries.

Plants : This division undertakes all kinds of services of engineering, manufacturing, procurement, construction, operation and maintenance for Petrochemical plants, Chemical fiber plants, Synthetic resin plants, Oil refining plants, Inorganic and fertilizer plants, Garbage disposal plants, Water treatment plants, Flue gas treatment plants, Resources recycling plants, Nuclear fuel cycle, Spent fuel casks and other plants.

Others : This division undertakes IT-related activities and others.

Industry segment information for the years ended March 31, 2009 and 2008 were as follows : —

2009 :	Japanese Yen (millions)							
	Ships	Steel structures/ construction	Machinery	Plants	Others	Total	Corporate and Elimination	Consolidated
Net Sales :								
Outside customers	**¥310,860**	**¥ 59,878**	**¥197,041**	**¥ 96,503**	**¥ 22,374**	**¥686,656**	**¥ —**	**¥686,656**
Inter segment	**377**	**1,005**	**8,168**	**1,105**	**1,688**	**12,343**	**(12,343)**	**—**
Total	**311,237**	**60,883**	**205,209**	**97,608**	**24,062**	**698,999**	**(12,343)**	**686,656**
Operating expenses	**307,827**	**58,241**	**183,856**	**100,334**	**21,846**	**672,104**	**(12,302)**	**659,802**
Operating income (loss)	**¥ 3,410**	**¥ 2,642**	**¥ 21,353**	**¥ (2,726)**	**¥ 2,216**	**¥ 26,895**	**¥ (41)**	**¥ 26,854**
Assets	**¥310,295**	**¥ 54,056**	**¥153,353**	**¥ 33,206**	**¥ 50,412**	**¥601,322**	**¥137,980**	**¥739,302**
Depreciation	**¥ 5,697**	**¥ 969**	**¥ 4,444**	**¥ 330**	**¥ 1,127**	**¥ 12,567**	**¥ 1,125**	**¥ 13,692**
Losses on impairment of property, plant and equipment	**—**	**—**	**—**	**—**	**—**	**—**	**¥ 218**	**¥ 218**
Capital expenditure	**¥ 8,593**	**¥ 1,934**	**¥ 4,534**	**¥ 385**	**¥ 55**	**¥ 15,501**	**¥ 2,766**	**¥ 18,267**

2008 :	Japanese Yen (millions)							
	Ships	Steel structures/ construction	Machinery	Plants	Others	Total	Corporate and Elimination	Consolidated
Net Sales :								
Outside customers	¥302,338	¥ 53,788	¥179,401	¥101,409	¥ 22,279	¥659,215	¥ —	¥659,215
Inter segment	651	965	11,440	2,059	2,109	17,224	(17,224)	—
Total	302,989	54,753	190,841	103,468	24,388	676,439	(17,224)	659,215
Operating expenses	289,260	53,191	167,487	109,289	21,824	641,051	(17,955)	623,096
Operating income (loss)	¥ 13,729	¥ 1,562	¥ 23,354	¥ (5,821)	¥ 2,564	¥ 35,388	¥ 731	¥ 36,119
Assets	¥280,876	¥ 46,326	¥133,924	¥ 35,535	¥ 50,860	¥547,521	¥164,024	¥711,545
Depreciation	¥ 4,703	¥ 665	¥ 3,341	¥ 255	¥ 805	¥ 9,769	¥ 854	¥ 10,623
Losses on impairment of property, plant and equipment	¥ 2,073	—	¥ 319	—	—	¥ 2,392	¥ 48	¥ 2,440
Capital expenditure	¥ 6,127	¥ 1,221	¥ 2,429	¥ 360	¥ 1,856	¥ 11,993	¥ 1,623	¥ 13,616

2009 :	*U.S. Dollars (thousands)*							
	Ships	*Steel structures/ construction*	*Machinery*	*Plants*	*Others*	*Total*	*Corporate and Elimination*	*Consolidated*
Net Sales :								
Outside customers	***$3,164,614***	***$ 609,569***	***$2,005,915***	***$ 982,419***	***$ 227,771***	***$6,990,288***	***$ —***	***$6,990,288***
Inter segment	***3,838***	***10,231***	***83,152***	***11,249***	***17,184***	***125,654***	***(125,654)***	***—***
Total	***3,168,452***	***619,800***	***2,089,067***	***993,668***	***244,955***	***7,115,942***	***(125,654)***	***6,990,288***
Operating expenses	***3,133,737***	***592,905***	***1,871,689***	***1,021,419***	***222,396***	***6,842,146***	***(125,237)***	***6,716,909***
Operating income (loss)	***$ 34,715***	***$ 26,895***	***$ 217,378***	***$ (27,751)***	***$ 22,559***	***$ 273,796***	***$ (417)***	***$ 273,379***
Assets	***$3,158,862***	***$ 550,300***	***$1,561,163***	***$ 338,043***	***$ 513,204***	***$6,121,572***	***$1,404,662***	***$7,526,234***
Depreciation	***$ 57,996***	***$ 9,865***	***$ 45,241***	***$ 3,359***	***$ 11,473***	***$ 127,934***	***$ 11,453***	***$ 139,387***
Losses on impairment of property, plant and equipment	***—***	***—***	***—***	***—***	***—***	***—***	***$ 2,219***	***$ 2,219***
Capital expenditure	***$ 87,478***	***$ 19,689***	***$ 46,157***	***$ 3,919***	***$ 560***	***$ 157,803***	***$ 28,159***	***$ 185,962***

(Change of Accounting Policy)
Effective from the year ended March 31, 2009, the company adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Note 1(g)). The impact on each segment was as follows.

2009 :	Japanese Yen (millions)							
	Ships	Steel structures/ construction	Machinery	Plants	Others	Total	Corporate and Elimination	Consolidated
Decrease Operating Income	**¥ (106)**	**¥ (0)**	**¥ (26)**	**¥ (54)**	**—**	**¥ (186)**	**—**	**¥ (186)**

2009 :	*U.S. Dollars (thousands)*							
	Ships	*Steel structures/ construction*	*Machinery*	*Plants*	*Others*	*Total*	*Corporate and Elimination*	*Consolidated*
Decrease Operating Income	***$ (1,079)***	***$ (0)***	***$ (265)***	***$ (550)***	***—***	***$ (1,894)***	***—***	***$ (1,894)***

Effective from the year ended March 31, 2009, the company changed the estimated useful lives for Machinery (Note 1(h)). The impact on each segment was as follows.

2009 :	Japanese Yen (millions)							
	Ships	Steel structures/ construction	Machinery	Plants	Others	Total	Corporate and Elimination	Consolidated
Increase (decrease) Operating Expenses	**¥ 147**	**¥ 40**	**¥ (19)**	**¥ (11)**	**¥ 0**	**¥ 157**	**¥ (75)**	**¥ 82**
Increase (decrease) Operating Income	**(147)**	**(40)**	**19**	**11**	**(0)**	**(157)**	**75**	**(82)**

2009 :	*U.S. Dollars (thousands)*							
	Ships	*Steel structures/ construction*	*Machinery*	*Plants*	*Others*	*Total*	*Corporate and Elimination*	*Consolidated*
Increase (decrease) Operating Expenses	***$ 1,497***	***$ 407***	***$ (193)***	***$ (112)***	***$ 0***	***$ 1,599***	***$ (764)***	***$ 835***
Increase (decrease) Operating Income	***(1,497)***	***(407)***	***193***	***112***	***(0)***	***(1,599)***	***764***	***(835)***

Effective from the year ended March 31, 2009, the company adopted the new accounting standard, "Practical Solution on Unification of Accounting Policies Applied to foreign Subsidiaries for Consolidated Financial Statements" (Note 1(t)). According to the new accounting policy, Operating Income decreased by ¥235 million (*$2,392 thousand*) on the Ships segment.

Geographical segment information by area for the years ended March 31, 2009 and 2008 were as follows : —

2009 :	Japanese Yen (millions)							
	Japan	Asia	Europe	North America	Others	Total	Corporate and Elimination	Consolidated
Net Sales :								
Outside customers	**¥531,804**	**¥ 20,849**	**¥ 38,417**	**¥ 92,898**	**¥ 2,688**	**¥686,656**	**¥ —**	**¥686,656**
Inter segment	**12,240**	**2,356**	**1,024**	**6,925**	**1,651**	**24,196**	**(24,196)**	**—**
Total	**544,044**	**23,205**	**39,441**	**99,823**	**4,339**	**710,852**	**(24,196)**	**686,656**
Operating expenses	**521,232**	**22,043**	**36,315**	**99,944**	**3,934**	**683,468**	**(23,666)**	**659,802**
Operating income (loss)	**¥ 22,812**	**¥ 1,162**	**¥ 3,126**	**¥ (121)**	**¥ 405**	**¥ 27,384**	**¥ (530)**	**¥ 26,854**
Assets	**¥510,056**	**¥ 17,151**	**¥ 20,777**	**¥ 66,539**	**¥ 10,608**	**¥625,131**	**¥114,171**	**¥739,302**

2008 :	Japanese Yen (millions)							
	Japan	Asia	Europe	North America	Others	Total	Corporate and Elimination	Consolidated
Net Sales :								
Outside customers	¥534,778	¥ 19,147	¥ 21,868	¥ 81,150	¥ 2,272	¥659,215	¥ —	¥659,215
Inter segment	8,537	1,883	4,397	8,447	2,132	25,396	(25,396)	—
Total	543,315	21,030	26,265	89,597	4,404	684,611	(25,396)	659,215
Operating expenses	512,596	19,675	24,754	88,197	3,906	649,128	(26,032)	623,096
Operating income	¥ 30,719	¥ 1,355	¥ 1,511	¥ 1,400	¥ 498	¥ 35,483	¥ 636	¥ 36,119
Assets	¥458,017	¥ 20,332	¥ 36,099	¥ 46,107	¥ 14,444	¥574,999	¥136,546	¥711,545

2009 :	*U.S. Dollars (thousands)*							
	Japan	*Asia*	*Europe*	*North America*	*Others*	*Total*	*Corporate and Elimination*	*Consolidated*
Net Sales :								
Outside customers	***$5,413,866***	***$ 212,247***	***$ 391,092***	***$ 945,719***	***$ 27,364***	***$6,990,288***	***$ —***	***$6,990,288***
Inter segment	***124,606***	***23,985***	***10,425***	***70,498***	***16,806***	***246,320***	***(246,320)***	***—***
Total	***5,538,472***	***236,232***	***401,517***	***1,016,217***	***44,170***	***7,236,608***	***(246,320)***	***6,990,288***
Operating expenses	***5,306,240***	***224,402***	***369,693***	***1,017,449***	***40,049***	***6,957,833***	***(240,924)***	***6,716,909***
Operating income	***$ 232,232***	***$ 11,830***	***$ 31,824***	***$ (1,232)***	***$ 4,121***	***$ 278,775***	***$ (5,396)***	***$ 273,379***
Assets	***$5,192,467***	***$ 174,601***	***$ 211,514***	***$ 677,380***	***$ 107,991***	***$6,363,953***	***$1,162,281***	***$7,526,234***

(Change of Accounting Policy)
Effective from the year ended March 31, 2009, the company adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Note 1(g)). According to the new accounting policy, Operating Income decreased by ¥186 million (*$1,894 thousand*) on the Japan segment.

Effective from the year ended March 31, 2009, the company changed the depreciation method of Machinery (Note 1(h)). According to the new accounting policy, Cost of Sales decreased and Operating Income decreased by ¥82 million (*$835 thousand*) on the Japan segment.

Effective from the year ended March 31, 2009, the company adopted the new accounting standard, "Practical Solution on Unification of Accounting Policies Applied to foreign Subsidiaries for Consolidated Financial Statements" (Note 1(t)). According to the new accounting policy ,Operating Income decreased by ¥235 million (*$2,392 thousand*) on the North America segment.

The overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows : —

2009 :	Japanese Yen (millions)				
	Asia	Middle East	Central and South America	Other	Total
Overseas net sales	**¥ 132,926**	**¥ 23,723**	**¥ 120,992**	**¥ 153,946**	**¥ 431,587**
Consolidated net sales					**¥ 686,656**
The ratio of consolidated net sales	**19.4%**	**3.5%**	**17.6%**	**22.4%**	**62.9%**

2008 :	Japanese Yen (millions)				
	Asia	Middle East	Central and South America	Other	Total
Overseas net sales	¥ 94,108	¥ 51,849	¥ 144,474	¥ 127,450	¥ 417,881
Consolidated net sales					¥ 659,215
The ratio of consolidated net sales	14.3%	7.9%	21.9%	19.3%	63.4%

2009 :	*U.S. Dollars (thousands)*				
	Asia	*Middle East*	*Central and South America*	*Other*	*Total*
Overseas net sales	***$1,353,212***	***$ 241,505***	***$1,231,721***	***$1,567,199***	***$4,393,637***
Consolidated net sales					***$6,990,288***
The ratio of consolidated net sales	***19.4%***	***3.5%***	***17.6%***	***22.4%***	***62.9%***

Independent Auditors' Report

To the Shareholders and Board of Directors of Mitsui Engineering & Shipbuilding Co., Ltd

We have audited the accompanying consolidated balance sheets of Mitsui Engineering & Shipbuilding Co., Ltd. ("the Company") and consolidated subsidiaries as of March 31, 2009 and 2008, the related consolidated statements of income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the years then ended March 31, 2009 and 2008, 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 financial position of the Company and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following :
(1) As discussed in Note 1(g) to the consolidated financial statements, effective from the year ended March 31, 2008, the Company changed the accounting policy in the portion of Selling, General and Administrative Expenses.
(2) As discussed in Note 1(s) to the consolidated financial statements, effective from the year ended March 31, 2009, the Company and the consolidated subsidiaries adopted the new accounting standard for the Lease Transactions.
(3) As discussed in Note 1(t) to the consolidated financial statements, effective from the year ended March 31, 2009, the Company and the consolidated subsidiaries adopted the new accounting standard for the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts in to U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.

Tokyo, Japan
June 26, 2009

KPMG AZSA & Co.

KPMG AZSA & CO.

Directors and Their Areas of Responsibility

Representative Directors

Takao Motoyama	Chairman / Representative Director
Yasuhiko Katoh	President / Representative Director
Makoto Sakurai	Vice President / Representative Director Assists president, administers corporate management, corporate auditing, export control, CCO* and CPO*.

*Remarks CCO : Chief Compliance Officer
CPO : Chief Privacy Officer

Managing Directors

Yutaka Raijo	In charge of procurement, environment & safety control and workshop	**Ryoichi Jinkawa**	General Manager of Business Development & Innovation Hq.
Norio Nagata	General Manager of Ship & Ocean Project Hq.	**Takao Tanaka**	General Manager of Machinery & Systems Hq.
Kazuo Masuyama	In charge of corporate planning	**Kazuki Yashiki**	General Manager of Steel Structure & Logistic System Hq.

Directors

Shunichi Yamashita	General Manager of Plant & Environment Hq.	**Akinori Matsuda**	Deputy General Manager of Ship & Ocean Project Hq., General Manager of Chiba Works
Toshiro Miyazaki	In charge of finance & accounting, IR and Public Relations	**Yoshihisa Kitajima**	General Manager of Tamano Works
Masafumi Okada	General Manager of Corporate Marketing & Business Coordination Hq.	**Takaki Yamamoto**	In charge of general affairs and personnel management, General Manager of General Affairs Dept.
Yasuo Irie	General Manager of Research & Development Hq.		

Corporate Auditors

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Network

Major Subsidiary Companies & Affiliates

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Phone : 81-3-6203-0200
Fax : 81-3-5512-1600
• Turnkey EPCI activities and lease-operate contracts for FPSOs, FSOs and TLPs

Niigata Shipbuilding & Repair, Inc.
4-3776, Irifune-cho, Niigata 951-8011
Phone : 81-25-222-6121
Fax : 81-25-223-7621
• Design, construction and repairing of ships and Manufacturing of steel structures

Shikoku Dockyard Co., Ltd.
3-23, Asahimachi 1-chome, Takamatsu, Kagawa 760-0065
Phone : 81-87-851-9021
Fax : 81-87-851-9373
• Building and repairing of ships, manufacturing of steel structures

Akishima Laboratories (Mitsui Zosen) Inc.
1-50, Tsutsujigaoka 1-chome, Akishima, Tokyo 196-0012
Phone : 81-42-545-3111
Fax : 81-42-546-3570
• Research and development of ships/ocean and advanced engineering, consulting; Manufacture and sale of related software and hardware

M.E.S. Tokki Co., Ltd.
13th Floor, 5-7, Kameido 1-chome, Koto-ku, Tokyo 136-0071
Phone : 81-3-5626-7295
Fax : 81-3-5626-7298
• Designing of naval ships and their related machinery; Maintenance of training facilities for naval ships and their related machinery; Delivery of defence equipment and parts, and Business support for the Defence Agency

Sanzo Enterprise Co., Ltd.
17-8, Ginza 7-chome, Chuo-ku, Tokyo 104-0061
Phone : 81-3-3544-3795
Fax : 81-3-3544-3933
• Sale and leasing of ships and various machinery and systems

Sanzo Marine & Manufacturing Technology Inc.
1-1, Tama 3-chome, Tamano, Okayama 706-8651
Phone : 81-863-23-2675
Fax : 81-863-23-2797
• Manufacture of pipes, structures and marine parts, maintenance services for shop and facilities for machinery, manufacturing of electronic parts

MES Yura Inc.
193-13, Ajiro, Yuracho, Hidaka-gun, Wakayama 649-1112
Phone : 81-738-65-1111
Fax : 81-738-65-2054
• Repairing of ships

Mitsui Zosen Chiba Kiko Engineering Inc.
1, Yawatakaigandori, Ichihara, Chiba 290-8531
Phone : 81-436-41-5811
Fax : 81-436-43-9525
• Design, machining and assembly of hull members, steel structures, piping-related machines, maintenance services for shop and facilities for machinery

Steel Structure & Logistic Systems Headquarters

Mitsui Zosen Steel Construction Co., Ltd.
4-6, Nishikasai 8-chome, Edogawa-ku, Tokyo 134-0088
Phone : 81-3-3675-2644
Fax : 81-3-3675-2665
• Design, manufacture, assembly, installation of bridges, water gates and other steel structures, building structures, pneumatic mad/soil transportation systems, coastal structures, cranes and other material handling machinery; Investigation, inspection, diagnosis, repair, modification and supervising of the above mentioned products

DPS Bridge Works Co., Ltd.
16-6, Kitaotsuka 1-chome, Toshima-ku, Tokyo 170-0004
Phone : 81-3-3918-6171
Fax : 81-3-3915-8474
• Design, production and sale of prestressed concrete products, and general civil and architectural construction; Design, manufacturing and sale of precast products using cementitious materials and other similar works

Machinery & Systems Headquarters

Mitsui Zosen Machinery & Service, Inc.
7, Konya-cho, Kanda, Chiyoda-ku, Tokyo 101-0035
Phone : 81-3-6806-1075
Fax : 81-3-5294-1121
• Sale of highspeed diesel engines, design and production of related machinery for the above, environment, fishery, and cooling machinery

Uno Kogyo Co., Ltd.
6-1, Tamahara 3-chome, Tamano, Okayama 706-0014
Phone : 81-863-31-1422
Fax : 81-863-32-3819
• Production and sales of expansion/construction pipe joints and production of machine parts

G·I·D Corporation
1, Yawatakaigandori, Ichihara, Chiba 290-8531
Phone : 81-436-42-5830
Fax : 81-436-42-5833
• Operation, maintenance and management of gas injection diesel power plant in Chiba Works and ADD power plant in Tamano Works

ADMAP Inc.
16-2, Tamahara 3-chome, Tamano, Okayama 706-0014
Phone : 81-863-31-9633
Fax : 81-863-32-2078
• Manufacture and sale of silicon-carbide made semi-conductor wafer and parts for semi-conductor manufacturing equipment

MES Techno Service Co., Ltd.
1-1, Tama 3-chome, Tamano, Okayama 706-8651
Phone : 81-863-23-2391
Fax : 81-863-23-2755
• Engineering and maintenance services for diesel engine, gas turbine, rotary machinery, boiler, industrial machinery, transporter, etc.

ADD Inc.
3-25, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-0013
Phone : 81-3-3578-1182
Fax : 81-3-3436-7335
• Research and development of marine and land use diesel engines and internal combustion engines

Sanzo Manufacturing & Construction Co., Ltd.
1, Nishinosu, Oita 870-0902
Phone : 81-97-558-3339
Fax : 81-97-558-3337
• Manufacture and processing of industrial facilities, machinery and parts

Mitsui Meehanite Metal Co., Ltd.
111, Kaminokawa, Okamachi, Okazaki, Aichi 444-0005
Phone : 81-564-55-6638
Fax : 81-564-55-0369
• Production, processing, import and sale of cast goods

GaSonics Co., Ltd.
32-6, Yokoyama 3-chome, Sagamihara, Kanagawa 229-1122
Phone : 81-42-860-7930
Fax : 81-42-755-4260
• Development, design and manufacturing of equipments for anneal and/or deposition process used in Thin Film Transistor for Flat Panel Display

MES AFTY Corporation
35-2, Hyouei 2-chome, Hachioji, Tokyo 192-0918
Phone : 81-42-632-8840
Fax : 81-42-632-8841
• Manufacturing, inspection, installation and maintenance of equipments for deposition and processing of thin films related to electric and electronic devices

Plant & Environment Headquarters

Mitsui Zosen Plant Engineering Inc.
4-6, Nishikasai 8-chome, Edogawa-ku, Tokyo 134-0088
Phone : 81-3-3675-4691
Fax : 81-3-3675-4697
• Engineering and construction of plants for use in many areas

Mitsui Zosen Environment Engineering Corporation
4-6, Nishikasai 8-chome, Edogawa-ku, Tokyo 134-0088
Phone : 81-3-3675-2038
Fax : 81-3-3675-2504
• Engineering, construction, operation, repair and maintenance of environmental preservations facilities

Sanzo Yuki Recycle K. K.
45-53, Nakanuma-cho, Higashi-ku, Sapporo, Hokkaido 007-0890
Phone : 81-11-792-3310
Fax : 81-11-792-3316
• Managing of kitchen garbage recycling plant and sale of its products, cattle feed and fertilizer

Hamamatsu Green Wave Co.,Ltd.
326-4, Tamachi, Nakaku, Hamamatsu, Shizuoka 430-0944
Phone : 81-53-451-2301
Fax : 81-53-451-2302
• Hamamatsu western garbage incineration plant, swimming pool (ToBiO) operation and maintenance manegement business

Major Subsidiary Companies & Affiliates

General Management Division

Mitsui Zosen System Research Inc.
3-D9, Nakase 1-chome, Mihama-ku, Chiba 261-8501
Phone : 81-43-274-6162
Fax : 81-43-274-6160
• Development and design of computer software packages and development, production and sales of computer peripherals

Sanzo Kosan Co., Ltd.
13th Floor, 5-7, Kameido 1-chome, Koto-ku, Tokyo 136-0071
Phone : 81-3-5626-7285
Fax : 81-3-5626-7349
• Running of construction, sale of houses, real estate, insurance agency activities and freighting

Sanko Logistics Co., Ltd.
South Side Office 2F, Ooi Sea Cargo Shed (Warehouse No.5) 4-1, Tokai 5-chome, Ota-ku, Tokyo 143-0001
Phone : 81-3-5755-7035
Fax : 81-3-5755-7094
• General management of buildings, running of logistic business, management of sushi restaurant "Kihachi"

Sanzo Business Creative Co., Ltd.
13th Floor, 5-7, Kameido 1-chome, Koto-ku, Tokyo 136-0071
Phone : 81-3-5626-7112
Fax : 81-3-5626-7594
• Copy and printing, on-demand printing, digitization of documents, sale and leasing of copy machine/office appliance, manpower dispatching and job-search service, translation and training seminar, over-all personnel service, traveling service

Tamano Engineering Co., Ltd.
1-1, Tama 3-chome, Tamano, Okayama 706-8651
Phone : 81-863-31-3280
Fax : 81-863-31-3279
• Making of design drawings of ships, ship machinery, land machinery and systems, plant engineering, etc.

MES Testing & Research Center Co., Ltd.
1-1, Tama 3-chome, Tamano, Okayama 706-8651
Phone : 81-863-23-2620
Fax : 81-863-23-2622
• Testing/examination, including materials analysis and non-destructive testing; Engineering of testing instruments; Environmental measurement

Sanyu Real Estate Co., Ltd.
11-1, Tama 2-chome, Tamano, Okayama 706-0012
Phone : 81-863-31-3366
Fax : 81-863-32-4466
• Running of construction, real estate, catering, sale and maintenance of cars, gas station, traveling agency, driving schools and security guard, man-power supply and golf course

Green Power Ichihara Co., Ltd.
1, Yawatakaigandori, Ichihara, Chiba 290-8531
Phone : 81-436-41-1220
Fax : 81-436-41-1292
• Supply of electric power and utilization of recyclable resources exhausted from combustion facilities

NGH Japan Co., Ltd.
3-16, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027
Phone : 81-3-5202-3980
Fax : 81-3-5202-3989
• Feasibility study of a series of natural gas hydrate (NGH) business including production, transportation, re-gasification and sales of NGH

Overseas

Ship & Ocean Project Headquarters

MODEC International, Inc.
14741 Yorktown Plaza Drive, Houston, Texas, 77040 U.S.A.
Phone : 1-281-529-8100
Fax : 1-281-529-8102
• Supplier of floating production facilities (FPSO, PSO, TLP and Semisubmersibles), project management, engineering, procurement, construction, installation and operation services

Shanghai Hudong Sanzo Marine Machinery Co., Ltd.
2789 Pudong Dadao Shanghai 200129, P.R. China, 12F 1204Rm, Donghua Science & Technology Mansion
Phone : 86-21-5871-3610
Fax : 86-21-5850-3900
• Design, engineering and procurement of materials for ships

Steel Structure & Logistic Systems Headquarters

Mitsui Thanglong Steel Construction Company Ltd.
Xam Duong Village, Ninh So Commune, Thuong Tin District, Ha Tay Province, Socialist Republic of Vietnam
Phone : 84-4-3686-0112
Fax : 84-4-3686-0107
• Production and sale of steel structures (bridges, pipes, frames, crane girders, etc.)

Paceco Corp.
25503 Whitesell Street Hayward, CA94545-3614, U.S.A.
Phone : 1-510-264-9288
Fax : 1-510-264-9280
• Maintenance of Paceco crane trade marks, development, engineering and sales of Paceco cranes

Paceco Espana S.A.
Avda, Alberto Alcocer, 46 B-2nd floor Madrid, 28016, Spain
Phone : 34-91-761-9700
Fax : 34-91-457-9095
• Sales, after service for and engineering of various material handling machinery and the systems

Machinery & Systems Headquarters

Burmeister & Wain Scandinavian Contractor A/S
Gydevang 35, P.O. Box 235, DK-3450 Allerod, Denmark
Phone : 45-48-140022
Fax : 45-48-140150
• Engineering, installation, rehabilitation and operation of diesel power plant

MITSUIZOSEN Technoservice Singapore Pte. Ltd.
192, Pandan Loop #04-29 Pantech Industrial Complex, Singapore 128381
Phone : 65-6777-1677
Fax : 65-6773-3677
• After-sales and maintenance servicing of marine equipment, plant machinery, cranes, etc.

MITSUIZOSEN Technoservice Hongkong Ltd.
Unit Nos. 1309-1312, Level 13, Metro Plaza, Tower 1, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong
Phone : 852-2610-1282
Fax : 852-2610-1220
• After-sales and maintenance servicing of marine equipment, plant machinery, cranes, etc.

MITSUIZOSEN Technoservice Taiwan Co., Ltd.
8 Ming-Chuan 2nd road, 14F-2 Chien-Chen District, Kaohsiung, Taiwan R.O.C.
Phone : 886-7-331-2801
Fax : 886-7-332-2218
• After-sales and maintenance servicing of marine equipment, plant machinery, cranes, etc.

MES Technoservice (Shanghai) Co., Ltd.
Jiaxing Building 21st Floor, Dongfang Road 877, Pudong Shanghai 200122, People's Republic of China
Phone : 86-21-61940144
Fax : 86-21-61940155
• After-sales and maintenance servicing of marine equipment, plant machinery, cranes, etc.

Colombo Power (Private) Limited
103/8 Galle Road, Colombo 3, Sri Lanka
Phone : 94-114-721666
Fax : 94-114-721424
• Independent Power Producer with a diesel power barge for Ceylon Electricity Board

CSSC-MES Diesel Co., Ltd.
No.6 Xinyuan Rd. (S), Lingang, Shanghai, China
Phone : 86-21-61188099
Fax : 86-21-61188088
• Manufacturing and Sale of Marine Diesel Engines

Plant & Environment Headquarters

Engineers and Constructors International, Inc.
Address-1 (Baton Rouge, Louisiana) 14701 St. Mary's Lane #280, Houston, Texas 77079, U.S.A.
Phone : 1-225-293-7768
Fax : 1-225-292-8364
Address-2 (Houston, Texas-MES Representative Office) 14701 St. Mary's Lane #280, Houston, TX 77079 U.S.A.
Phone : 1-281-584-9393
Fax : 1-281-497-3614
• Engineering and construction of chemical plants and procurement of materials for them

DASH Engineering Philippines Inc.
8th Flr., PIPC Engineering Sciences Bldg. Jose Ma. Del mar Ave., Asiatown IT Park, Lahug, Cebu City 6000, Philippines
Phone : 63-32-234-2351
Fax : 63-32-234-2340
• Design of chemical plants and environmental apparatuses

MES Mitr Project Services Co., Ltd.
22nd flr. U.M. Tower, 9 Ramkhamhaeng Road Suanluang, Bangkok, 10250 Thailand
Phone : 66-2717-3051/4
Fax : 66-2717-3050
• Design, production, engineering procurement and construction of materials and equipment for chemical plants