CHIYODA

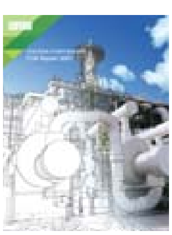
CHIYODA CORPORATION

Annual Report 2007

Fiscal Year Ended March 31, 2007

New Horizons, Infinite Experience

Contents



CSR Report

Chiyoda published an annual environment report until 2005. Since 2006, we have been publishing a Corporate Social Responsibility (CSR) Report that introduces our activities related to the economy, society, energy and the environment.

Website

Previous annual reports, CSR reports and investor relations materials, press releases and other information about Chiyoda are available on our website at

http://www.chiyoda-corp.com/en/

Cover Page

LNG Plant Train 5 for Ras Laffan Liquefied Natural Gas Co., Ltd. (II)
(Photo: Courtesy of RasGas)

Forward-Looking Statements

This annual report contains forward-looking statements about Chiyoda Corporation's outlooks, plans, forecasts, results and other items that may take place in the future. Such statements are based on data available as of June 28, 2007. Unknown risks and other uncertainties that happen in the future may cause our actual results to be different from the forward-looking statements contained in this report. The risks and uncertainties include business and economic conditions, competitive pressure, changes to laws and regulations, addition or elimination of products, exchange rate fluctuation, among many more.

Profile

Since its establishment in 1948, Chiyoda Corporation has engaged in engineering and construction work and services at numerous industrial plants both in Japan and overseas in the fields of oil, natural gas and other energy sources; petrochemicals and chemicals; pharmaceuticals; and general industrial machinery.

Thirty-five years ago in 1972, Chiyoda's founder was already emphasizing that sustainable social development should progress by harmonizing nature and industrial development in a booklet entitled *Legacy for the Twenty-first Century*. We are one of the first companies to state our intention to contribute to sustainable social development through our engineering and technology by providing appropriate solutions to the various energy and environmental issues we currently face, and have been putting those words into action ever since. This booklet is available on our website.

With almost 60 years of technological experience, Chiyoda is working to build on its position as the "Reliability No. 1" project company with a high level of customer and investor trust, not only in terms of technology but also in terms of our people and management. At the same time, we will continue to improve our financial strength and to raise our corporate value.

Corporate Philosophy

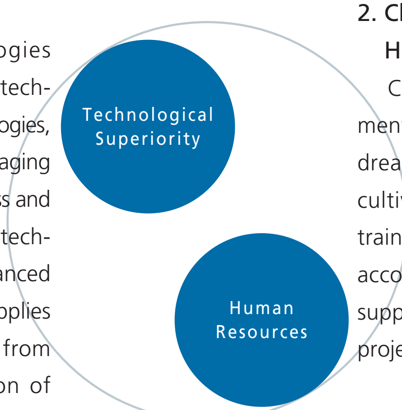
Enhance our business and contribute to the development of a sustainable society as an integrated engineering company through the use of our collective wisdom and painstakingly developed technology.

The Chiyoda Group's Strengths

Superior technologies, including project execution capabilities, and the people that support them

1. Technological Superiority

Chiyoda's core elemental technologies encompass environmentally responsible technologies, catalysts and energy-saving technologies, while execution technologies focus on managing the costs and schedules of projects in progress and ensuring reliable quality. Our execution technologies are supported by the most advanced information technology, which currently applies to our project execution at every stage from design and procurement to construction of ultra-large-scale liquefied natural gas (LNG)* plants and other facilities. This technology is embodied in our integrated project engineering software, "i-Plant 21," which Chiyoda developed and continues to enhance. (Please refer to page 17.)



2. Chiyoda Group Human Resources

Chiyoda is working to create an environment in which our people can make their dreams a reality through engineering. We cultivate professionals through on-the-job training and career development programs according to individual competencies. This supports our ability to successfully execute projects.

* LNG is manufactured by liquefying natural gas. Demand for this clean energy is increasing.

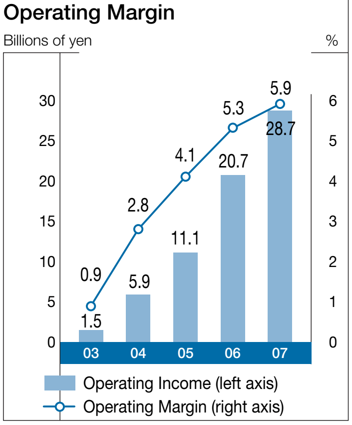
Financial Highlights

Years Ended March 31, 2007, 2006 and 2005

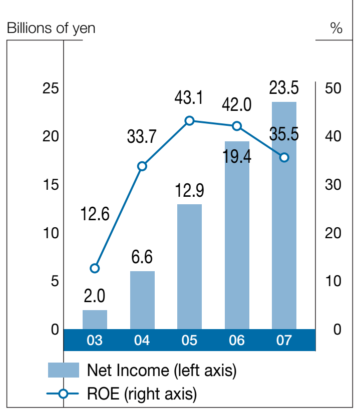
	Millions of yen			Change	Thousands of U.S. dollars
	2007	2006	2005	2007/2006	2007
For the Year					
Revenues	¥484,895	¥390,875	¥267,655	24.1%	$4,109,280
Cost of revenues	445,159	360,322	247,905	23.5	3,772,534
Operating income	28,700	20,729	11,078	38.5	243,220
Income before income taxes and minority interests	37,935	21,906	12,049	73.2	321,483
Net income	23,532	19,400	12,863	21.3	199,424
At Year-End					
Total assets	¥442,953	¥279,721	¥182,893	58.4%	$3,753,839
Total equity	77,415	55,509	36,873	39.5	656,059
Long-term debt	10,067	10,169	215	(1.0)	85,314
Working capital	66,592	51,431	22,231	29.5	564,339
Current ratio (%)	118.9	125.1	115.9	(6.2) points	
Per Common Share (Yen and U.S. dollars)					
Earnings per share (EPS)	¥ 122.41	¥ 101.27	¥ 68.62	20.9%	$ 1.04
Book value per share (BPS)	400.56	288.88	193.22	38.7	3.39
Dividends per share	15.0	10.0	6.0	50.0	0.13
Ratios (%)					
Return on assets (ROA)	10.2%	10.0%	7.1%	0.2 points	
Return on equity (ROE)	35.5	42.0	43.1	(6.5)	

Note: 1. U.S. dollar amounts are translated, for convenience only, at the rate of ¥118 = US$1, the approximate exchange rate at March 31, 2007.
2. Yen amounts are rounded down to the nearest million. U.S. dollar amounts and percentages are rounded to the nearest unit.

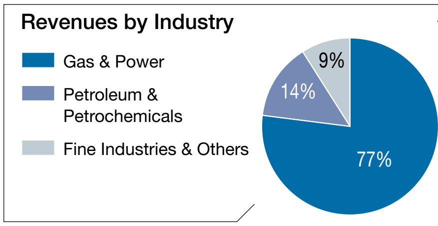
Operating Income and Operating Margin



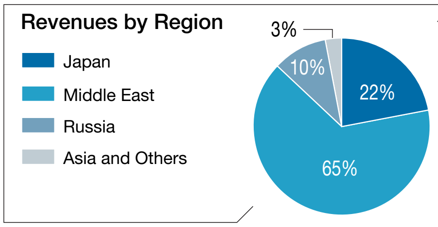
Net Income and ROE



Revenues by Industry



Revenues by Region



Takashi Kubota
President & CEO

Chiyoda Is Stepping Up Its Efforts to Become the "Reliability No. 1" Project Company

The fiscal year ended March 2007 was the second year of Chiyoda's medium-term management plan, Double Step-Up Plan 2008 (DSP 2008). We achieved our targets ahead of schedule by steadily implementing our strategies and initiatives, and revenues and earnings increased for the fourth consecutive fiscal year. In fiscal year 2008, the third year of DSP 2008, we will further promote our Reliability Program and work to strengthen risk management. The entire Group will also work in concert to achieve the twin objectives of being the "Reliability No. 1" project company and a company able to sustain earnings growth.

As President and Chief Executive Officer of Chiyoda Corporation from April 1, 2007, my focus is to accelerate DSP 2008 and the accomplishment of its twin objectives. We will continue our best efforts to meet all stakeholders' expectations, and appreciate your continuing support through fiscal year 2008.

Career Summary

1969: Joined Chiyoda Corporation
1995: Project General Manager, Second Overseas Project Division
1998: Director; General Manager, Asia & Australia Project Division
2001: Managing Director, International Project Operation
2004: Director; Deputy General Manager, Domestic Project Operation
2005: Managing Director, Technology & Engineering
2007: President & CEO

Fiscal Year 2007 Results: Increased Revenues and Earnings

Due to increased energy demand worldwide, aggressive capital investments by the oil, gas and petrochemical industry continued in fiscal year 2007 in both domestic and overseas markets.

In this market environment, Chiyoda was awarded new contracts for two gas processing plant projects in Qatar. At the same time, we successfully completed a large-scale liquefied natural gas (LNG) plant in Qatar with an annual capacity of 4.7 million tons in world-record time. In Japan, our performance exceeded our annual plan for both new contracts and revenues, mainly in the field of oil and petrochemicals.

As a result, revenues and earnings increased for the fourth consecutive fiscal year. The backlog of contracts increased 9.2 percent, or ¥88,141 million, to ¥1,048,679 million. Consolidated revenues increased 24.1 percent, or ¥94,020 million, to ¥484,895 million. Gross profit increased 30.1 percent, or ¥9,183 million, to ¥39,736 million due to the increase in revenues and an increase of 0.4 percentage points in the gross margin. Net income increased 21.3 percent, or ¥4,132 million, to ¥23,532 million.

Fiscal Year 2008 Management Policy: New Horizons, Infinite Experience

We expect to complete construction contracts totaling ¥550 billion in fiscal year 2008, one of the highest levels in our company's history. While executing such a large volume of projects, we will carefully manage various risks, such as the tight market for skilled labor and the difficulties in securing a sufficient number of workers.

Given this environment, I have made "New Horizons, Infinite Experience" our slogan for 2008, under which we will work to strengthen the foundation of our engineering business for the next generation. This slogan implies that we will clear the way to the future for the next generation by using Chiyoda's superior technologies and human resources. The following introduces our three management pillars to accelerate successful completion of DSP 2008 toward sustained growth and future development.

1. Intellectual Property for the Future: Development of Our Business Foundation

To expand our business foundation, we will leverage our intellectual assets, consisting of elemental and project execution technologies. We continue to sell licenses for Chiyoda Thoroughbred 121 (CT-121*) in the United States, and are strengthening sales activities in Europe as well. (Please refer to page 17.) At the same time, a facility in Indonesia started operation as the second commercial plant applying another type of Chiyoda's original desulfurization technologies (CASOX*). Moreover, we plan to support the effective development and exploitation of small and medium-sized gas fields by participating in a national research and development project with our own CO_2 Reforming Catalyst*. In addition, we will begin demonstration testing on actual equipment of a titania catalyst* for applications such as sulfur-free diesel fuel, and plan to complete the construction of the first commercial facility using acetic acid production technology (ACETICA*) in autumn 2007.

In addition, we will continue to develop "i-Plant 21" project engineering software. In executing current ultra-large-scale LNG plant projects, we are gaining valuable experience and project execution technology where "i-Plant 21" has also generated value by increasing the efficiency of procurement, materials and shipping management. (Please refer to page 17.)

2. Environmentally Responsible Technologies: Strengthening Core Businesses

As Chiyoda's founder, Dr. Akiyoshi Tamaki, wrote in *Legacy for the Twenty-first Century*, Chiyoda has never wavered in its commitment to use its technology to contribute to society. Today, this commitment encompasses the broadly recognized concept of corporate social responsibility. Because Chiyoda's petroleum and gas technologies are linked to environmental issues such as CO_2 emissions, protecting nature has long been an important component of Chiyoda's corporate DNA. From this base, we will sow the seeds of our next strategies by promoting clean energy (gas), clean fuel and clean coal technologies, as well as enhancing energy-saving and health and safety technologies.

*Original technologies developed by Chiyoda.

From the above perspectives, we are working on "bottomless" refining technology to produce sulfur-free fuel and clean fuel from heavy oil, as well as using our engineering capabilities at the shut down maintenance (SDM) phase of the refineries, which covers the entire life of the plant. For domestic chemical refinery integration (CRI), which integrates large oil refining facilities with petrochemical plant functions to raise energy efficiency, we are expanding our domestic services to Asia and the Middle East. Another focus is the promotion of clean coal technologies, including power generation and petrochemical raw materials that employ coal gasification. Moreover, in Asia including Japan, Chiyoda will begin offering a low-grade exergy recovery system for which it received the Director-General's Award from the Japanese Agency for Natural Resources and Energy in 2007.

3. People-Oriented Management

Aiming to increase corporate value, Chiyoda is particularly increasing its focus on safety, together with health, the environment and quality. We will also enhance our system of internal controls to comply with the Financial Instruments and Exchange Law ("J-SOX Act") while assiduously implementing CSR-based management by promoting our initiatives that contribute to society, the economy and environmental protection.

Securing and cultivating human resources is a critical issue. The basis of Chiyoda's career development is on-the-job training. We assign new employees to train at overseas construction sites to experience plant engineering as reality, not merely as a plan on the table. Thereafter, three-year term rotated assignments allow each employee to choose to be part of the specialist ranks, or aim for project management, depending on their competencies.

Through all the methods and systems it employs, Chiyoda is preparing an environment in which Chiyoda people can make their dreams a reality through engineering. This is another important component of Chiyoda's corporate DNA.

An Inspired Engineering Company that Makes Dreams into Realities

One of Japan's most pressing tasks will be to ensure its future by using technology to overcome issues such as its dependence on external sources of energy and its aging society. Within this milieu, Chiyoda aims to become an inspired engineering company. Engineering is the key to transforming dreams into realities. Chiyoda is a place where challenging work is a delight and employees have a sense of achievement.

Continuously Enhance Shareholder Value

We intend to continuously enhance shareholder value through improved performance while investing in technologies to create next-generation businesses. In consideration of our current performance, dividends per share for fiscal year 2007 were ¥15.00, an increase of ¥5.00 compared with the previous fiscal year.

"Reliability No. 1, Your Partner for Success" is the Chiyoda Group rallying cry. We look forward to your continued support over the medium-to-long term as we work to further increase shareholder value.

July 2007

Takashi Kubota
President & CEO

Double Step-Up Plan 2008 (DSP 2008): Current Status of the Medium-Term Management Plan

Double Step-Up Plan 2008 (DSP 2008) Progress Report

Aiming to Be the "Reliability No. 1" Project Company and a Company *par excellence* Able to Sustain Earnings Growth

Step up the schedule for DSP 2008 and accelerate implementation of key measures from four perspectives

	Business Strategy	Current Progress
S1 Clients	Build long-term partnerships with clients by promoting Plant Lifecycle Engineering based on superior technologies.	• Further upgrade Reliability Program Engineering criticality study, Uninterrupted start-up
S2 Execution	Further strengthen project execution capabilities by promoting Smart EPC* to utilize the Group's collective strengths.	• Upgrade risk management skills (Cold Eye Review) • Upgrade construction IT and procurement IT • Strengthen Group operations structure (global workforce of 6,300) • Utilize lessons learned / Promote knowledge management
S3 Finance	Establish a consistently sound financial position able to support the creation of next-generation businesses.	• Enrich capital stock • Enhance profitability of license sales and selectively invest in new technologies
S4 Human Resources	Create an energetic organization and refine employee skills.	• BSC: Balanced Score Card Integrated Management • Hire/retain professional personnel

* Engineering, Procurement and Construction (EPC)
In the context of LNG projects, the final contracting phase in the development of the export portion of the LNG chain. The project developer will award EPC contracts for specific phases of the work that define the terms under which the contractor will conduct detailed design, procurement, construction and commissioning of the facilities.

The Chiyoda Group is now executing a medium-term management plan called Double Step-Up Plan 2008 (DSP 2008). Since fiscal year 2006, we have been working to take a double step up with the objectives of being the "Reliability No. 1" project company and an excellent company able to sustain earnings growth.

1. DSP 2008: Steady Progress

Over the two fiscal years that we have been implementing DSP 2008, we have accelerated four key strategies built into DSP 2008 in the areas of clients, execution, finances, and human resources. We are proceeding smoothly and achieving the objectives of our business plan ahead of schedule.

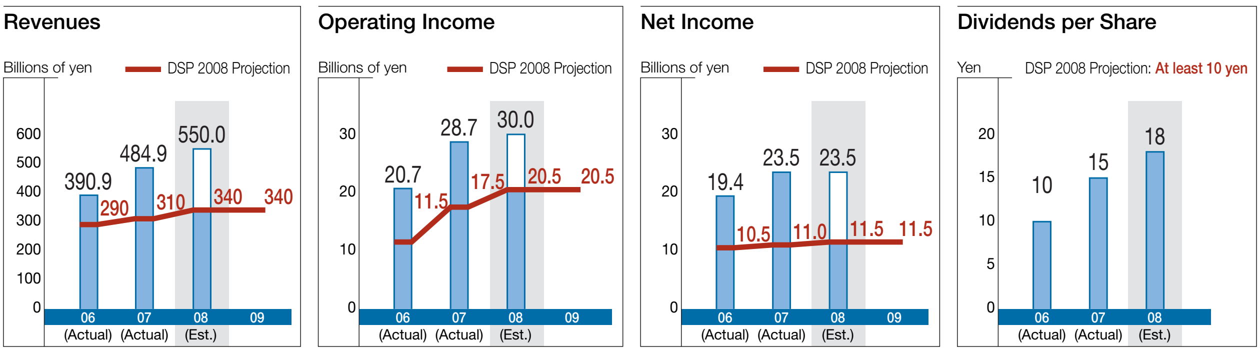
Among other things, our strong emphasis on the Reliability Program is based on a focus on clients. As a result, we achieved a year-end backlog of contracts exceeding ¥1 trillion. The quality and reliability of Chiyoda's work have been highly appreciated by both domestic and overseas customers, which has allowed us to continuously acquire new contracts. In Japan, where we have achieved a high level of customer satisfaction, the amount of new contracts has doubled in three years.

Another factor contributing to the continued increase in earnings is business process improvement through integrated operation of our group companies. As material and equipment costs rise, Chiyoda's efficient and timely communication with vendors and construction contractors at an earlier stage minimizes risks. Another key factor has been the development of our "i-Plant 21" software. With integrated project engineering systems, we are improving our engineering productivity.

From a financial perspective, Chiyoda increased total equity to ¥77.4 billion as of March 2007 from ¥55.5 billion a year

DSP 2008 FINANCIAL PERFORMANCE TARGETS

(Years ended/ending March 31)



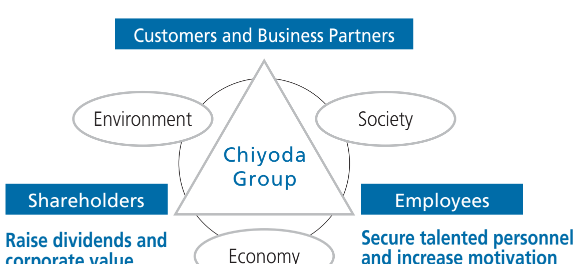
earlier. We are planning to reinforce our financial strength, taking into account our future-oriented investments.

Lastly, we consider human resources the most important area for sustaining our growth. We use our balanced score-card comprehensive management system and continue to make an effort to recruit and cultivate professionals who can drive project execution.

2. Outlook for Fiscal Year 2008: Continued Solid Performance

Chiyoda's primary policies for new contracts in fiscal year 2008 focus on pre-EPC activities such as Front-End Engineering and Design (FEED*) works for overseas projects, which we expect to materialize in subsequent years, and contracts for large-scale domestic projects. Based on these policies, we forecast new contracts totaling ¥250.0 billion. We believe that market conditions will remain firm due to medium- and long-term demand for energy. In fiscal year 2009 and beyond, we are aiming to acquire new contracts that exceed projections for fiscal year 2008.

DSP 2008 targets sustainable satisfaction balanced among our stakeholders, including customers and business partners, shareholders, and employees.



3. Progress of Measures under DSP 2008: Established a Global Organization of 6,300 People and Implemented Measures in Four Strategic Areas

In April 2007, Chiyoda increased its professional work-force by 700 people from a year earlier to establish a 6,300-person global organization in order to cope with the current increased volume of large-scale projects.

Aiming for the DSP 2008 management vision of being the "Reliability No. 1" project company and a company *par excellence* able to sustain earnings growth, the entire Chiyoda Group is working in concert to implement the four perspectives (clients, execution, finance and human resources) of DSP 2008.

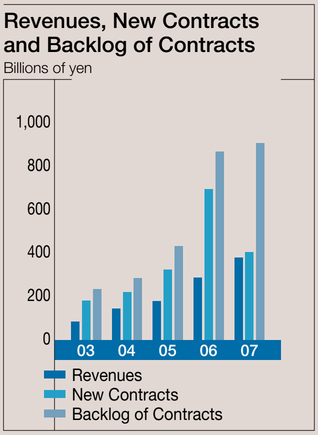
4. Distribution of Earnings

Chiyoda's earnings distribution policy during the term of DSP 2008 is to reflect consolidated performance in distributing earnings while maintaining a balance of satisfaction among all stakeholders, including shareholders, customers, business partners and employees. For fiscal year 2008, we project cash dividends totaling ¥18.00 per share given the status of our progress in executing our medium-term management plan and our expectation that we will achieve its targets.

*Front-End Engineering and Design (FEED)
In the context of LNG projects, generally the second contracting phase in the development of the export portion of the LNG chain. The FEED contract provides the maximum possible definition for the work that the EPC contractor will ultimately perform in order to minimize the possibility of contract cost changes.

Overseas

In fiscal year 2007, new contracts totaled ¥402,409 million on a consolidated basis, remaining at a high level despite a decrease of ¥289,101 million, or 41.8 percent, compared with the previous fiscal year, when Chiyoda had acquired new contracts for large-scale LNG plants one year ahead of schedule, resulting in a record high level of new contracts. Revenues increased ¥92,799 million, or 32.5 percent, to ¥378,345 million and the backlog of contracts increased ¥40,082 million, or 4.6 percent, to a record high ¥903,136 million.



LNG Plant Train 5 for Ras Laffan Liquefied Natural Gas Co., Ltd. (II) (Photos: Courtesy of RasGas)

Market Trends and Results

In overseas markets, natural gas producing nations and energy majors continued to invest vigorously in the gas value chain – development of gas fields, construction of LNG plants, arrangements for LNG carriers and construction of LNG receiving terminals – against a backdrop of continuing growth in global demand for natural gas. Amid these circumstances, Chiyoda received orders for two gas processing plant projects in Qatar thanks to high customer evaluation of its innovative execution approach using Chiyoda's Reliability Program.

As for ongoing projects, in November 2006 Chiyoda completed the 4.7 million tons per annum (mtpa) LNG plant (Train 5) of Ras Laffan Liquefied Natural Gas Co., Ltd. (II) in Qatar. The entire engineering, procurement and construction (EPC) project was completed in a remarkably short period of 28 months from the effective date of the contract. Full-scale field construction also began for three other large-scale LNG plants in Qatar, including two trains each with an annual capacity at the 7.8 million ton level, and a large-scale LNG project in Sakhalin, Russia.

Regional Activities

Asia: New orders included phase 2 construction of storage tanks in Singapore.

Middle East: In Qatar, Chiyoda demonstrated its overwhelming strength by successfully negotiating and securing a series of natural gas and LNG related project contracts. Chiyoda acquired contracts for two large-scale projects – the Al Khaleej Gas Phase 2 project and the Pearl Gas-to-Liquids (GTL) project – by earning strong customer trust in its vast and unparalleled experience and technical capabilities in large-scale plant construction gained through completed and ongoing projects, as well as its wealth of technological expertise that meets specific customer needs.

The Al Khaleej Gas Phase 2 project for ExxonMobil in Qatar is an EPC project. Having already performed front-end engineering and design (FEED) as the joint venture leader, Chiyoda won the Phase 2 contract with French engineering firm Technip. Scheduled for completion in summer 2009, the project is expected to meet Qatar's growing demand for natural gas and establish a solid base for the country's industrial development.

Overseas Contracts

Location	Client	Project	Capacity	Unit	Completion
MAJOR NEW CONTRACTS					
Qatar	ExxonMobil Middle East Gas Marketing Ltd.	Al Khaleej Gas Phase 2 project	1,250*	MMSCFD	2009
Qatar	Qatar Shell GTL Ltd.	Feed gas preparation works of Pearl GTL project	1,600	MMSCFD	2010
Singapore	Vopak Terminal Singapore Pte. Ltd.	Integrated Tank Terminal (Phase 2) (Chiyoda Singapore (Pte) Limited)	165,000	m^3	2007
U.S.A.	Black & Veatch Corporation	Licensing of CT-121 Technology for Flue Gas Desulfurization x2	1,950	MW	2010~
U.S.A.	Southern Company Services, Inc.	Licensing of CT-121 Technology for Flue Gas Desulfurization x2	1,700	MW	2010~
MAJOR BACKLOG OF CONTRACTS					
Qatar	Qatar Liquefied Gas Co., Ltd. (2)	LNG Plant (EPC) (Train 4)	7.8	mtpa	2007
Qatar	Qatar Liquefied Gas Co., Ltd. (2)	LNG Plant (EPC) (Train 5)	7.8	mtpa	2008
Qatar	Ras Laffan Liquefied Natural Gas Co., Ltd. (3)	LNG Plant (EPC) (Train 6)	7.8	mtpa	2008
Qatar	Ras Laffan Liquefied Natural Gas Co., Ltd. (3)	LNG Plant (EPC) (Train 7)	7.8	mtpa	2009
Qatar	Qatar Liquefied Gas Co., Ltd. (3)	LNG Plant (EPC) (Train 6)	7.8	mtpa	2008
Qatar	Qatar Liquefied Gas Co., Ltd. (4)	LNG Plant (EPC) (Train 7)	7.8	mtpa	2009
Russia	Sakhalin Energy Investment Co., Ltd.	LNG Plant (EPC) (Train 1)	4.8	mtpa	2008
Russia	Sakhalin Energy Investment Co., Ltd.	LNG Plant (EPC) (Train 2)	4.8	mtpa	2008
MAJOR COMPLETED CONTRACTS					
Qatar	Ras Laffan Liquefied Natural Gas Co., Ltd. (II)	LNG Plant (EPC) (Train 5)	4.7	mtpa	2006
Qatar	ExxonMobil Middle East Gas Marketing Ltd.	Al Khaleej Gas Phase 1 project	—	—	2006

MMSCFD = Million standard cubic feet per day m^3 = Cubic meters MW = Megawatts mtpa = Million tons per annum

*As sales gas

As leader of a consortium with Hyundai Heavy Industries of South Korea, Chiyoda acquired a contract to provide EPC for the feed gas preparation work of the Pearl GTL project for Royal Dutch Shell in the Ras Laffan Industrial City in Qatar. When completed, this project will be one of the largest GTL plants in the world, with a daily output of 140,000 barrels. Chiyoda is undertaking to construct two world-class gas processing trains with a total processing capacity of 800MMSCFD each (1,600MMSCFD in total; equivalent to annual capacity of 8 million tons of LNG) that will supply feed gas to the core unit of the GTL plant. The project is scheduled for completion at the end of 2010.

Russia and Central Asia: In 2003, Chiyoda signed a contract for two trains of 4.8mtpa LNG plants in Sakhalin, one of the largest in the world. Full-scale construction is under way, with completion scheduled for 2008. Russia has the world's largest natural gas reserves, and this project, the first of its kind in Russia, will be the cornerstone for subsequent natural gas-related projects in this country. The experience gained by the Chiyoda Group through its execution will set the stage for securing more contracts in this country.

Other Regions: In the United States, amid a trend toward stronger environmental regulation, Chiyoda continued marketing activities for its own CT-121 flue gas desulfurization process technology. Unlike EPC, the CT-121 license business entails the supply of technology, thereby providing engineering companies with a low-risk business model for achieving steady earnings. Looking ahead, Chiyoda will use CT-121 and its other technological assets effectively by licensing them to bolster earnings. At the same time, Chiyoda aims to develop a broad range of businesses in response to tightening energy-related regulations for conservation of the global environment.

Strategies and Initiatives for Fiscal Year 2008

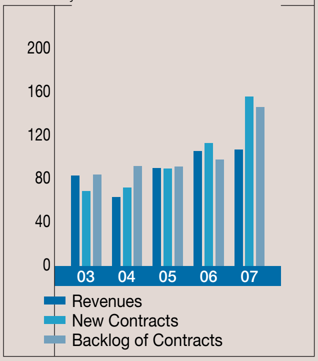
Execution of ongoing projects in fiscal year 2008 will stress the three large-scale LNG projects in Qatar, where onsite construction is reaching its peak, and two large-scale gas processing plant projects for which Chiyoda acquired contracts in fiscal year 2007. In parallel with these efforts, Chiyoda will strategically and selectively pursue new contracts, not only in the field of LNG and gas, but also for petroleum and petrochemical projects such as oil field development, refineries, and production facilities for olefins and other petrochemicals, for which robust investment is expected.

Domestic

Kashima Aromatics Complex
(Photo: Courtesy of
Kashima Aromatics Co., Ltd.)

In fiscal year 2007, new contracts in the domestic market were ¥155,297 million on a consolidated basis, an increase of ¥42,577 million, or 37.8 percent, compared with the previous fiscal year. Revenues increased 1.2 percent to ¥106,550 million. The backlog of contracts also reached a high level, increasing ¥48,058 million, or 49.3 percent, to ¥145,542 million.

Revenues, New Contracts and Backlog of Contracts
Billions of yen



Market Trends and Results

Petroleum

In the petroleum sector, smooth progress of ongoing projects resulted in higher earnings. Due to a strong drive at petroleum companies to invest in facility and expansion to meet market demand, new contracts exceeded initial forecasts, including contracts for new large-scale projects for processing heavy oil and producing feedstock for petrochemicals and petrochemical products.

Public Utilities

In Japan's electric power and gas sector, regulatory boundaries have been removed in areas such as energy supply. In addition, individual and industry-wide efforts to reduce carbon dioxide emissions, together with persistently high prices for crude oil, have caused a shift to LNG as a fuel. These factors have stimulated investment in new construction and expansion of large-scale LNG receiving terminal projects and LNG distribution infrastructure such as satellite terminals. Chiyoda acquired contracts with several customers for such projects.

MDXA Plant
(Photo: Courtesy of Mitsubishi Gas Chemical Company, Inc.)

Petrochemicals and General Chemicals

In the petrochemical sector, the drive to invest was high due to a significant improvement in corporate profits as Japanese chemical companies reflected high crude oil prices in petrochemical product prices. In addition to expansion into China and other Asian markets, a move toward joint investment by chemical and oil companies in petrochemical businesses was evident. In addition, companies aggressively enhanced their development efforts to create competitive original products, including specialty chemicals with added value. Chiyoda unfailingly acquired contracts in fields where it has a technological advantage.

LNG Satellite Terminal (Chiyoda Kosho Co., Ltd.)
(Photo: Courtesy of Furukawa-Sky Aluminum Corp.)

Pharmaceuticals

In the pharmaceutical sector, the drive to invest in production capacity strengthened industrywide among companies of all sizes in response to significant changes. These included industry realignment due to mergers, an increase in integration and efficiency of R&D facilities and plants at all companies, enhancement and acceleration of new product development capability, aggressive activity in contract manufacturing, expansion of domestic market share by overseas companies, and the growth of generic drugs.

Domestic Contracts

Location	Client	Project	Capacity	Unit	Completion
MAJOR NEW CONTRACTS					
Yamaguchi	Seibu Oil Co., Ltd.	CCR Unit	25,000	BPSD	2009
Chiba	Fuji Oil Co., Ltd.	Expansion of No. 7 Naphtha Hydrodesulfurization Plant	21,000	BPSD	2008
Ibaraki	Eisai Co., Ltd.	Expansion of L-2 Unit	—	—	2007
Tochigi	Hisamitsu Pharmaceutical Co., Inc.	Utsunomiya No. 2 Plant	—	—	2007
Shiga	Maruho Co., Ltd.	Hikone Plant, No. 4 Unit (Chiyoda TechnoAce Co., Ltd.)	—	—	2008
MAJOR BACKLOG OF CONTRACTS					
Ibaraki	Kashima Aromatics Co., Ltd.	Aromatics Complex Plant	420,000	TPY	2007
Okayama	Mitsubishi Gas Chemical Company, Inc.	MXDA (m-Xylenediamine) Plant	20,000	TPY	2007
Ehime	Japan Oil, Gas and Metals National Corporation	LPG Underground Storage Terminal in Namikata	—	—	2009
MAJOR COMPLETED CONTRACTS					
Ehime	Taiyo Oil Co., Ltd.	BTX Plant	37,000	BPSD	2006
Kanagawa	Nippon Petroleum Refining Co., Ltd.	Lube Oil/Grease Mixing and Filling Plant	—	—	2006
Kanagawa	Toa Oil Co., Ltd.	Fiscal Year 2006 Regular Maintenance of Mizue Plant (Chiyoda Kosho Co., Ltd.)	—	—	2006

BPSD = Barrels per stream day TPY = Tons per year

With its reliable engineering capabilities, Chiyoda steadily acquired contracts from major customers to provide consulting and validation services to help them meet FDA requirements.

Industrial Machinery

In the field of electronic components for mobile phones, LCDs and plasma televisions, a specialty area of Chiyoda, final product manufacturers delayed investment based on careful market assessment. As a result, projects are in a temporary adjustment phase. However, capital investment in fields such as high-performance film is expected to remain firm over the medium term. Chiyoda continued to secure contracts for new projects because of its accumulated experience and project management capabilities.

Environment

Chiyoda secured contracts for CT-121 flue gas desulfurization projects as a result of high market appraisal for this innovative technology.

Strategies and Initiatives for Fiscal Year 2008

In fiscal year 2008, Chiyoda will continue to take up projects that allow it to leverage its technologies and project management capabilities, and the Company will conduct strategic marketing by concentrating resources on priority areas and offering design proposals at the early stage of such projects. In the domestic market, Chiyoda will work to increase new contracts for the entire Group and improve overall gross profit by promoting marketing that is consistent with Group-wide efforts, with a focus on Plant Lifecycle Engineering.

Projects Logistics

Unhindered procurement of materials and equipment is key to the steady implementation of ongoing plant construction projects. While working to establish and inculcate a culture of safety and to deepen mutual trust with business partners, Chiyoda continues to focus on four priority initiatives: (1) order management; (2) quality control; (3) schedule control; and (4) transport management. By doing so, we aim to provide procurement that contributes to earnings and the realization of our management vision, "Reliability No. 1."

Performance in Fiscal Year 2007

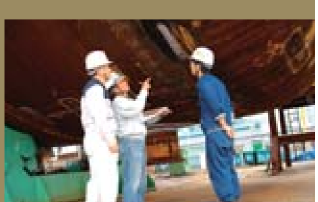
During fiscal year 2007, we continued to handle our ordering operations based on the proposition, implemented in the previous fiscal year, that ordering should contribute to earnings. At the same time, we carried out procurement for timely delivery to construction sites of materials and equipment ordered in the previous fiscal year. We evaluated our overall procurement activities based on indices in more than ten categories, including products subject to delivery delay and the severity of the delay, the ratio of air freight to total transport cost, and the rate of divergence between shipping allocation plans and actual performance. As a result, virtually all our procurement activities proceeded according to plan.

Procurement Risk Factors and Response

Risk factors in the current procurement environment include materials and equipment cost increases, and reduction in quality from suppliers at full capacity due to ongoing projects. We respond to each of these with prudent order management and customer consultation, as well as thorough quality and schedule control based on the abundant manufacturing experience of our seasoned production experts.

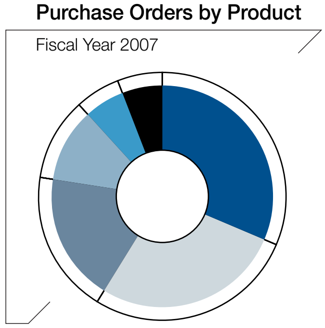
Taking its response to these risk factors into account, the Chiyoda Group offers its customers particular val-

Instruction of improved auto-welding machine operation.

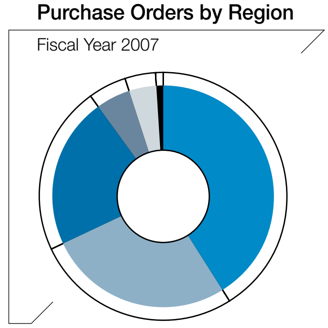


Supervision of the welding of a large-scale reactor.

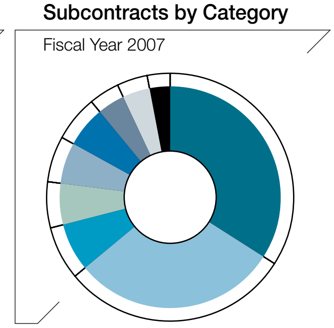
Purchase Orders by Product



Purchase Orders by Region



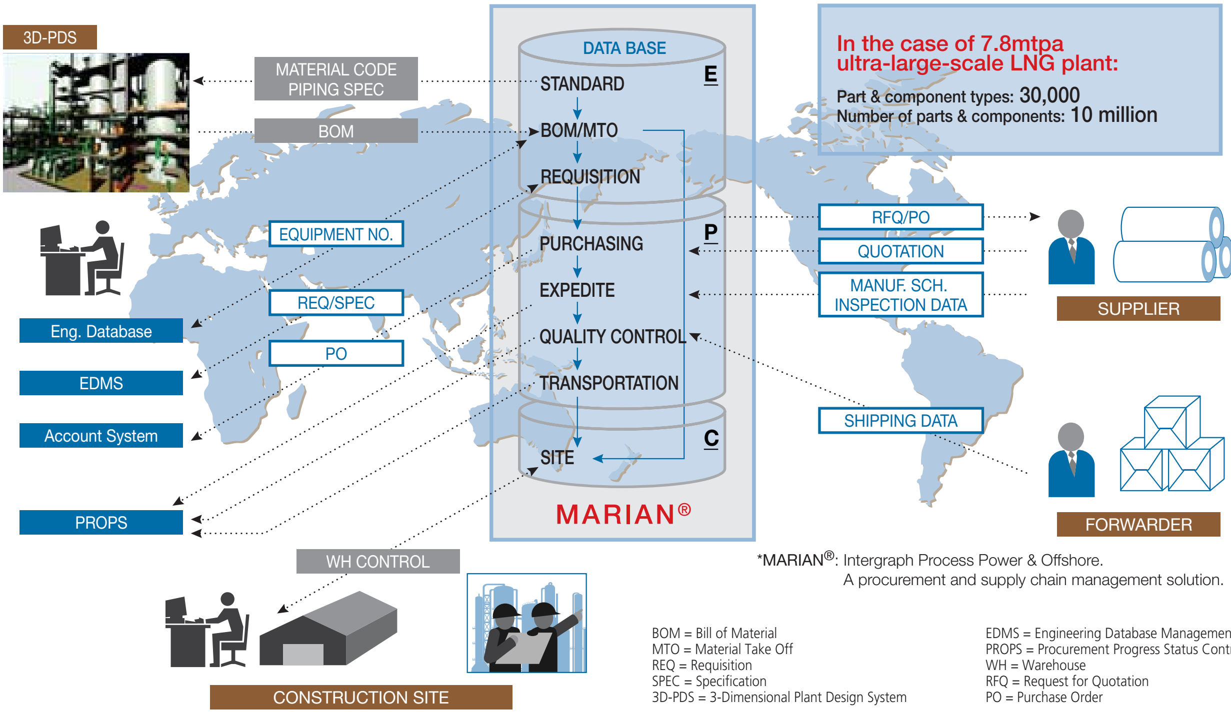
Subcontracts by Category



ue in four areas: (1) price competitiveness (making competitive estimates, ensuring availability, choosing reliable suppliers with dependable prices, delivery and quality, finding unusual price fluctuations, and offering proposals for avoiding risk); (2) formulating cost reduction strategies (supporting project engineers with value-added procurement information); (3) implementing reliable schedule and quality control and transport management; and (4) face-to-face procurement services (listening to the project engineer's requests and responding directly, and providing up-to-date information on procurement status and suppliers). By doing so, we aim to be the number-one procurement service in the industry.

In particular, Chiyoda continues to work to strengthen its competitiveness by using its comprehensive information technology to improve efficiency and reduce costs. One specific example is MARIAN®, which facilitates integrated management structure and implementation from the assembly of design equipment and supplies to site loading and unloading. Another is our contingent procurement management systems for across-the-board supervision of ordering, schedule, budget and procurement man-hour control, and cost management for procurement of materials and equipment.

Enhancing Procurement IT (Overview of MARIAN®*)



*MARIAN®: Intergraph Process Power & Offshore.
A procurement and supply chain management solution.

BOM = Bill of Material
MTO = Material Take Off
REQ = Requisition
SPEC = Specification
3D-PDS = 3-Dimensional Plant Design System

EDMS = Engineering Database Management System
PROPS = Procurement Progress Status Control System
WH = Warehouse
RFQ = Request for Quotation
PO = Purchase Order

Current and Future Initiatives

Part of the Qatar Project will reach its shipping peak during fiscal year 2008. In response, we will continue to strengthen our preventative inspection framework at manufacturers' plants, guided by the two basic premises of more reliable schedule and quality control as we aim to strengthen our "Reliability No. 1" position. In addition, we will make full use of our comprehensive information technology system, including our contingent procurement management systems for delivery of materials and equipment, among other purposes, as we promote stronger competitiveness through improved efficiency and cost reductions.

The Shift to Larger-Scale LNG Plants

The cost of producing, transporting and storing LNG is higher than for other fossil fuels. Efforts to reduce costs through economies of scale have been ongoing.

Commercial LNG production began in 1964, with the development of an LNG plant in Algeria by Sonatrach S.A. Annual production capacity was 400,000 tons. In the 1970s, Chiyoda constructed its first LNG facilities in the U.A.E., Trains 1 and 2 of an LNG plant for Abu Dhabi Gas Liquefaction Company (ADGAS), and each has a production capacity of 1.1 million tons per annum (mtpa). Since then, Chiyoda has been constructing increasingly larger-scale LNG plants. In the 1980s, a 1.75mtpa and a 2.3mtpa plant were constructed at Arun and Bontang in Indonesia. In the 1990s, ADGAS Train 3 in the U.A.E., and Trains 1, 2 and 3 of an LNG plant for Qatar Liquefied Gas Co., Ltd. (Qatargas) were completed, with capacities ranging from 2.0mtpa to 2.5mtpa. The scale of LNG plants has continued to grow in the current decade with the completion of plants for Oman Liquefied Natural Gas LLC (Oman LNG) and Qalhat LNG S.O.A.C. (Qalhat) in Oman, at 3.3mtpa each; Trains 3, 4 and 5 of a plant for Ras Laffan Liquefied Natural Gas Co. Ltd. (RasGas) in Qatar, at 4.7mtpa each; and Trains 1 and 2 of a plant for Sakhalin Energy Investment Co., Ltd. in Sakhalin, Russia, now under construction, at 4.8mtpa each.

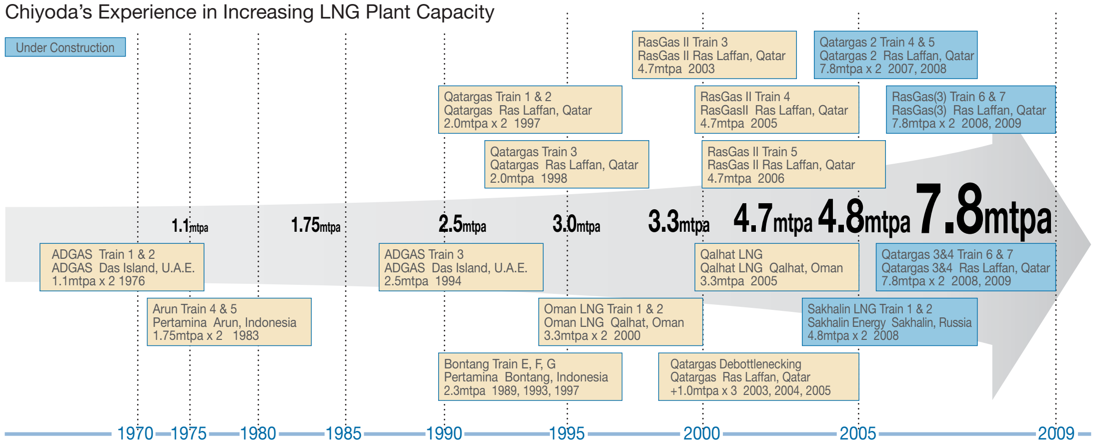
In 2004, Air Products and Chemicals, Inc. (APCI), a major licensor of LNG production processes, announced at the 14th International Conference on Liquefied Natural Gas (LNG 14) that it had developed AP-X, a new process for next-generation large-scale LNG plants that enhances the existing C3-MR process it had been licensing. This development has had a significant impact on LNG production. Qatargas Trains 4 and 5, which Chiyoda is currently constructing in Qatar, both employ the AP-X process. Each has a capacity of 7.8mtpa, a substantial increase in size compared to previous capacities. RasGas Trains 6 and 7 and Qatargas Trains 6 and 7, a series of projects in Qatar which Chiyoda has acquired contracts for and is currently constructing, will also use the AP-X process to achieve the same production capacity of 7.8mtpa.

The Technologies Supporting Large-Scale LNG Plants

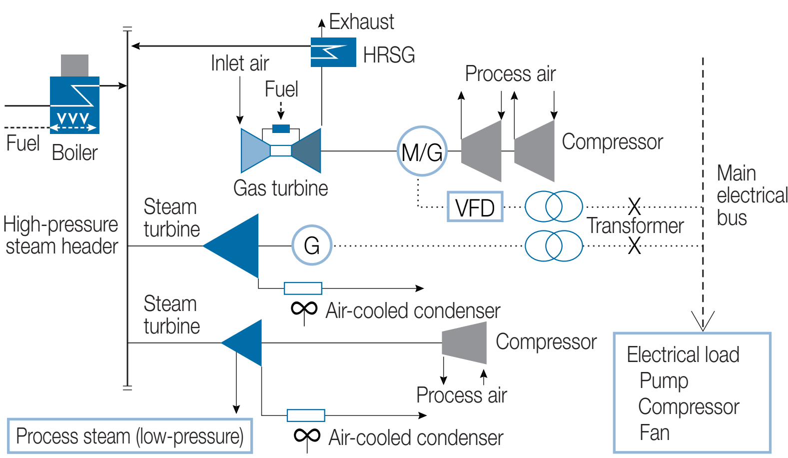
Dynamic Simulation

LNG plant capacity depends on the size of the compressor, its driver and the heat-exchanger. How these units should be configured is a crucial issue in increasing plant size. In conventional engineering, pressure, temperature and duty specifications for main components are based on process design data, with a degree of allowance for predicted off-design performance. However, increasing plant size complicates system configurations. To maintain reliability, dynamic simulation is essential for understanding overall plant behavior during start-up and emergency shutdown and to accurately reflect all design elements such as equipment design conditions, instrumentation plans and safeguard systems.

Chiyoda's Experience in Increasing LNG Plant Capacity

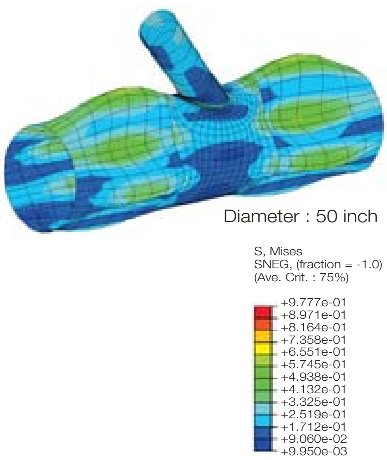


Correlation between Electrical, Steam and Fuel Systems for an LNG Plant



HRSG (heat recovery steam generator) M/G (motor/generator) VFD (variable frequency drive) G (generator)

An Example of Acoustic Fatigue Analysis



Optimizing the Energy Balance

With a capacity of 7.8mtpa, the largest LNG plants in the world require a total of 450MW in electric power as well as the thermal equivalent of 300MW of steam energy. An optimal balance of fuel, electric power and steam energy is therefore extremely important. The diagram above shows the correlation between electric power, steam and fuel systems for a 7.8mtpa LNG plant. In this combined cycle system, three 120MW gas turbines drive the compressor while surplus power runs a generator that supplies power to the electrical system via a variable frequency drive (VFD). Such hybrid facilities incorporate key VFD LNG plant technologies that optimize the balance of mechanical, electrical and steam energy by combining mechanical and electric power. A wide variety of advanced mechanical, electrical, instrumentation, control and other technologies is essential.

The Shift from "Design by Rule" to "Design by Analysis"

In conventional equipment, once machinery, piping and civil and architectural design conditions have been set, certain standards and specifications apply. This concept is called "design by rule." As the scale of plants increases, however, applying existing rules can result in weaknesses or overdesigned components that have a negative impact on other portions of the plant. For this reason, Chiyoda introduced the concept of "design by analysis." For example, as shown above, Chiyoda used acoustic fatigue analysis (the relationship between sound and structure when the safety valve is fully open) to develop a suitable reinforcing design for a large-diameter flare pipe for a 7.8mtpa plant. Large-diameter pipes are extremely heavy, so the distribution of pipe weight must also incorporate a consideration of deformation in concrete beams, which are generally thought to be rigid structures. "Design by analysis," which employs engineering methods backed by advanced analysis technologies, is the foundation of Chiyoda's large-scale LNG plant designs.

Integrated Project Engineering IT Tool

In addition to conventional integrated engineering databases and 3D design, another extremely important factor in ultra-large-scale projects is management of large quantities of equipment and materials such as piping, steel and bulk electrical and instrumentation materials. Chiyoda's original "i-Plant 21" project engineering IT tool plays a key role by linking equipment and materials management with management of design, procurement, onsite construction materials and construction. This series of IT tools, which the Company has been developing since the mid-1990s, and its precise application are what make Chiyoda's ultra-large-scale plant construction work possible.

CO_2 Reforming Technology

This patented technology makes it possible to use natural gas and carbon dioxide to produce the synthesis gas required for GTL technology. Most appealing about this reforming process is its ability to convert carbon dioxide into an energy source. A pilot plant began operating in 2001 in the Yufutsu gas field in Hokkaido, Japan and research at this facility was successfully completed in fiscal 2005. Chiyoda is now making preparations to build a demonstration plant that may lead to the commercialization of this technology.

Pilot Plant at Yufutsu
(Photo: Courtesy of JOGMEC)

Titania Catalyst

Titania catalyst, jointly developed by Chiyoda and French company Axens, has a very high activity for hydrodesulfurization (HDS), enabling production of sulfur-free diesel oil at temperatures around 10-20°C lower than with conventional alumina catalyst. Chiyoda licenses titania catalyst for ultra-deep HDS to Axens and aims to supply it for the treatment of diesel oil to meet the sulfur content regulations that will be enforced globally in years to come. Sulfur-free (less than 10 ppm) regulations for diesel oil came into effect in Japan in 2007. Chiyoda and Axens plan to supply a commercial titania catalyst product globally starting in Europe, where sulfur-free diesel regulations will be implemented in 2009.

Titania Catalyst

Carbon Dioxide Capture Using LNG Cold Energy

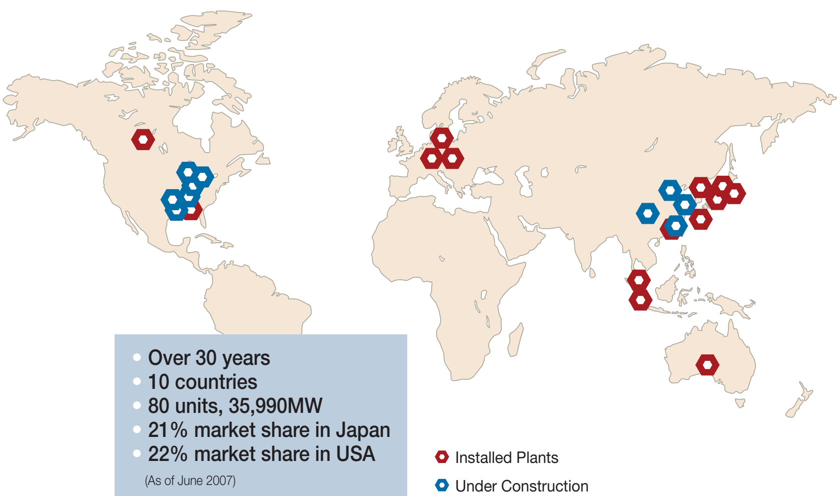
Chiyoda implemented a project for CO_2 separation and integrated utilization of the recovered CO_2, using LNG cold energy, for Nippon Petroleum Refining Co., Ltd. and Mitsubishi Chemical Corporation. This system separates out liquefied carbon dioxide from the refinery off-gas, and uses it as feedstock for petrochemicals production in an integrated way throughout the complex.

CO_2 and Cold Energy Recovery Unit
(Photo: Courtesy of Nippon Petroleum Refining Co., Ltd. and Mitsubishi Chemical Corporation)

Flue Gas Desulfurization (FGD)

Chiyoda Thoroughbred 121 (CT-121) FGD process is a unique technology using the wet limestone-gypsum method for the highly efficient removal of SOx. It is currently in use at more than 80 generating units in Japan and overseas. To date more than 30 licenses were granted, primarily for coal-fired power stations in the United States.

CT-121 Experience

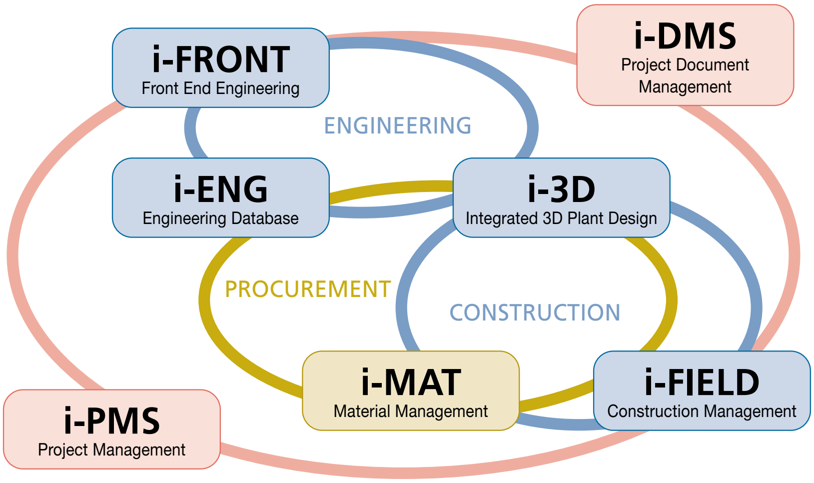


- Over 30 years
- 10 countries
- 80 units, 35,990MW
- 21% market share in Japan
- 22% market share in USA

(As of June 2007)

i-Plant 21

i-Plant 21 is an integrated and intelligent project engineering system for execution throughout the whole project lifecycle. It provides a uniform platform to realize project engineering with high quality, low cost and limited schedule. The chart shows the concept for i-Plant 21, which consists of seven major sub-systems covering front-end engineering to plant completion. It is integrated electronically and utilizes standardized data and work-flow. The seven major sub-systems are i-FRONT, i-ENG, i-3D, i-MAT, i-FIELD, i-PMS and i-DMS.



Board of Directors, Corporate Auditors and Executive Officers (Fiscal Year 2008)

Board of Directors


Chairman of the Board
Nobuo Seki


President & CEO
Takashi Kubota*


EVP, CSR
Nobuyasu Kamei*


EVP, Corporate Management & Finance and CFO
Hiroshi Shibata*


SMD, International Project Operation
Madoka Koda*


MD, Projects Logistics
Atsuo Minamoto


MD, Technology & Engineering
Sumio Nakashima


MD, Domestic Project Operation
Satoru Yokoi


MD, International Project Operation
Hiroshi Ogawa

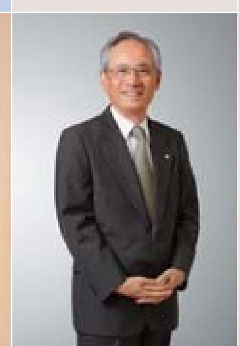
Note: All members of the Board of Directors serve concurrently as Executive Officers

* Representative Director & Member of Executive Committee

Corporate Auditors


Akira Kadoyama


Hiroshi Ida**


Hideaki Fujioka**


Yukihiro Imadegawa**

**Outside Corporate Auditor

(As of July 1, 2007)

Executive Officers

SEO, Corporate Strategy
Fumio Nagata

SEO, Corporate Management & Finance
Takaharu Saegusa

SEO, General Manager, Project Management Administration Division
Masahiko Mochizuki

SEO, General Manager, Russia Project Division, Project Director of SEG Team
Hideo Kobayashi

EO, Executive Assistant to International Project Operation
Hidehiro Shinohara

EO, Technology & Engineering
Takeo Kawase

EO, General Manager, Petroleum & Chemical Project Division
Tsuyoshi Kakizaki

EO, Executive Assistant to International Project Operation, Senior Site Manager of RGX6 Team
Wataru Shimono

EO, International Project Operation, General Manager, Qatar Project Division 2, Project Director of RGX5 Team & RGX6 Team
Osamu Imahara

EO, International Project Operation
Hiroshi Shimada

Abbreviations:
EVP: Executive Vice President
SMD: Senior Managing Director
MD: Managing Director
SEO: Senior Executive Officer
EO: Executive Officer

EO, Domestic Project Operation, General Manager, Domestic Business Development Operation
Eisaku Yamashita

EO, General Manager, Administration & Personnel Division
Toshiyuki Ohnuma

EO, Deputy Project Director of SEG Team
Koichi Shirakawa

EO, Projects Logistics
Takao Kamiji

EO, General Manager, Finance Division
Katsutoshi Kimura

The Chiyoda Group believes that CSR-oriented management that earns the support and trust of all its stakeholders, including shareholders, customers, and employees, is the basis of its corporate activities. We are aiming for sustainable growth while addressing ongoing management reinforcement and operations safety, and ensuring transparency. As it accomplishes its medium-term management plan "Double Step-Up Plan 2008," Chiyoda is also committed to the core management issues of continuously enhancing corporate governance and upgrading and bolstering its internal control system.

Initiatives to Enhance Corporate Governance

To ensure accurate execution of its operations, Chiyoda has adopted the executive officer system to separate the functions of directors, who are responsible for management supervision, from those of the executive officers, who are responsible for the execution of business operations.

The Board of Directors is composed of eight directors, including four representative directors. The Board supervises the execution of business activities by the executive officers and makes decisions on management policies and the execution of business activities. Some authority has been transferred to the Executive Committee to expedite decision making about business activities and to respond appropriately to rapidly changing social and economic conditions.

The Executive Committee, made up of the four representative directors, handles some decision making about business execution and examines matters before they are submitted for the resolution of the Board of Directors. In principle, the Executive Committee meets every week, and met 50 times in fiscal year 2007.

The executive officers regularly report to the directors on the status of business execution in their respective areas of authority at the Board of Directors meeting.

Chiyoda has also adopted the corporate auditor system. The Corporate Auditors Committee is made up of four members, including two full-time corporate auditors, and three of the members are outside corporate auditors. The independent auditors work closely with the corporate auditors and hold regular meetings where they report to the Corporate Auditors Committee, such as meetings on the annual audit plan and the fiscal year-end audit.

The corporate auditors attend meetings of the Board of Directors, the Executive Committee and the executive officers, as well as other important meetings. They express their opinion on the directors' execution of their duties from an auditing point of view as to whether there has been any wrongdoing, violations of the law or the Company's articles of incorporation, or management decisions that run counter to good faith management principles.

The outside corporate auditors attend meetings of the Board of Directors, the Corporate Auditors Committee, and the executive officers. The Board of Directors and the Corporate Auditors Committee meet monthly; each outside corporate officer attended more than 90 percent of these meetings in fiscal year 2007.

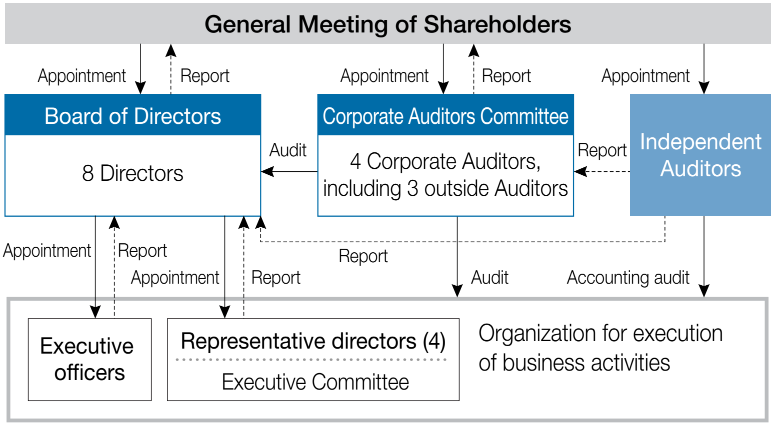
Incentives for Directors

Chiyoda offers incentives through its performance-linked compensation system, introduced in 2006.

To increase incentives to further raise company results based on our management policies, we operate the performance-linked compensation system within one percent of consolidated net income, with an upper limit of ¥200 million annually.

Chiyoda's Corporate Governance System

(Fiscal Year 2007)



Compensation for Directors and Corporate Auditors

A breakdown of compensation made to directors and corporate auditors in fiscal year 2007 is shown below.

(Millions of Yen)

	Number	Basic Compensation	Performance-linked Compensation
Directors	8	196	34
Corporate Auditors	4	48	—

Notes: 1. The total amount of compensation was ¥285 million for directors and ¥57 million for corporate auditors. The total amount of compensation for the three outside corporate auditors was ¥34 million. The total amount of compensation includes the cost of a reserve for retirement benefits for directors and corporate auditors.
2. The compensation limit for directors, excluding the portion paid as salary to directors holding concurrent positions as employees of the Company, was ¥25 million per month, pursuant to a resolution of the 73rd Ordinary General Meeting of Shareholders on June 28, 2001. The compensation limit for corporate auditors was ¥7 million per month, pursuant to a resolution of the 67th Ordinary General Meeting of Shareholders on June 29, 1995.
3. Performance-linked compensation is maintained within one percent of consolidated net income, with a limit of ¥200 million annually, pursuant to a resolution of the 78th Ordinary General Meeting of Shareholders on June 22, 2006.

Internal Control System

Chiyoda is continuously improving its internal control system by ensuring reliability in financial reporting, compliance with laws and regulations and effective and efficient business operations by managing various risks. Specifically, the Company implements measures under the framework outlined below.

Internal Control Steering Committee

The Company established the Internal Control Steering Committee in May 2006 to strengthen its internal control system. The committee is composed of the heads of divisions related to internal control and chaired by the manager of the Operational Auditing Office. The committee members exchange information concerning internal control areas and coordinate internal control activities in each department for more effective and efficient business operations under an appropriate internal control system. When necessary, the committee offers proposals on the internal control system to the Executive Committee.

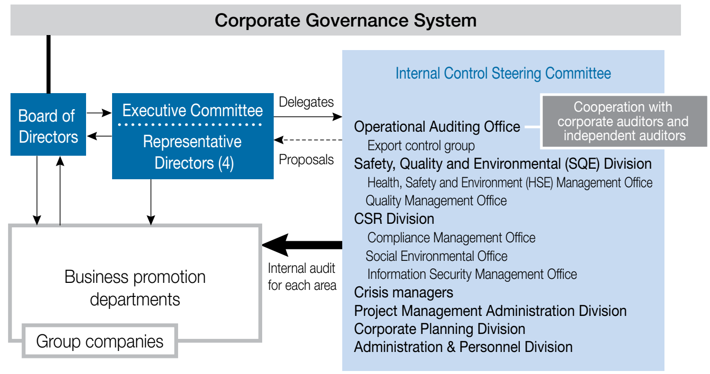
Ensuring Reliability in Financial Reporting

The Operational Auditing Office, established in April 2005, supports the establishment of the internal control system in the Chiyoda Group to fulfill requirements of the Financial Instruments and Exchange Law that will take effect in March 2009.

It also plans and implements audits of the entire Group from an independent perspective based on both the overall structure and the basic elements of control.

The Operational Auditing Office reports on internal controls to the Executive Committee as well as to the President and CEO for self-evaluation of the internal control system.

Chiyoda's Internal Control System



Compliance

We have instituted the Chiyoda Group Code of Behavior and ensure that all officers and employees are familiar with it. Also, we set company rules as needed, ensure respect for the laws, regulations and corporate standards, and work to promote legal and fair business activities.

In addition, to develop a control environment by cohesively promoting management that stresses CSR at the corporate level, we have established the CSR Division. It oversees the Compliance Management Office, Social Environmental Office and Information Security Management Office.

In order to strengthen CSR and compliance systems in line with the parent company, Chiyoda also works in collaboration with its domestic subsidiaries to build CSR and compliance management structures appropriate to each company's type of operations. To increase the effectiveness of these structures, Chiyoda also takes measures such as establishing a compliance counseling and reporting system shared by the subsidiaries and the parent company.

We have also established the Safety, Quality and Environmental (SQE) Division to address the risks involved in compliance in areas including occupational safety and hygiene, environment and product quality. This Division undertakes such activities as creating manuals, promoting familiarity with relevant information, and conducting training and accident/disaster prevention activities.

In particular, we recognize that, in addition to fulfilling legal responsibilities, maintaining or improving the safety and health of all personnel is an essential requirement for plant construction that leads to a high level of customer satisfaction, which is the basis of our corporate development.

Risk Management

The Chiyoda Group works to enhance the structure and operation of its risk management system in order to handle the various risks of corporate management and business operation and to carry out business activities smoothly on an ongoing basis.

Group Risk Management

Based on Chiyoda's risk management system and related manual, risk managers and crisis managers have been appointed to carry out day-to-day preventative management as well as to deal with any incidents and minimize their consequences.

Project Risk Management

Business at the Chiyoda Group involves the concurrent execution of numerous projects. Because of this, it is crucial to predict and address the various risks involved in executing business as much as possible. Otherwise, business operation in general would be directly and substantially affected by a lack of reliable risk management for each project. It is also important to ensure that the entire company addresses and limits the effect of risks in the event they materialize and threaten project execution.

We manage the risk involved in accepting and executing projects through a system of self controls that includes the Take-up Review Committee, the Price Estimate Policy Evaluation Committee and the Proposal Review Board. In addition, we have also established the Project Management Administration Division, which conducts risk management of project execution plans by assuming an internal control function through project audits and the Chiyoda Group's original Cold Eye Review System.

Cold Eye Review System

- Project divisions and others in charge of executing projects clarify and address their own risks ahead of time, but tend to focus on project execution itself and may often miss future risks.
- At this point, an administrative department not directly involved in project execution completes an objective third-party (cold eye) check, then uses that result and response to guide and advise the project team.
- The result of the check is reported to the management team, which gives instruction as necessary. This series of activities is referred to as the Cold Eye Review System.

A cold eye review ensures that a project is in as sound a state as possible by means of risk analysis based on consistent monitoring from the pre-order stage, through studies at the start of preparation of estimates or before submission of bids to the implementation stage, followed by regular audits and the Milestone Gate Monitoring System* at every stage of the project. The Chiyoda Group works to strengthen its internal control system and ensure transparency through risk countermeasures by the departments that execute these projects and a system of double-checks by administrative departments.

* Milestone Gate Monitoring System: Support and advice given at each stage of project execution.

Information Management

Chiyoda stores and manages business documents and other information in accordance with document handling regulations and other internal policies.

For information security management, the Chiyoda Group manages information assets appropriately according to the Chiyoda Information Security Management System, which complies with international information security management system standards.

Group Management

To ensure appropriate business operations are applied for the entire Chiyoda Group, we follow a policy of creating internal control systems for significant Group companies that are consistent throughout the Group, based on harmonizing their approaches with that of the parent company.

Specifically, we establish organizations that function as internal control committees, which respond to the type of operation of each respective company, and work to promote self-control systems, regularly evaluating the documentation and status of maintenance and operations of business flow and risk management. The Group Corporate Management Division manages and maintains an understanding of overall Group management and the Operational Auditing Office takes overall responsibility for internal auditing, which is conducted based on a harmonized approach with the parent company.

Cooperation with Audits by Corporate Auditors

The Corporate Auditors Committee designates that directors or employees report to the corporate auditors concerning the activities of departments related to internal control of the Chiyoda Group, regularly or as important matters occur.

In addition, the representative directors regularly meet with corporate auditors to confirm the effectiveness of corporate auditors' audits. At such meetings they also discuss the reports of directors and employees to the corporate auditors as well as cooperation between the corporate auditors and the Operational Auditing Office.

Corporate Social Responsibility (CSR)

Our Corporate Social Responsibility (CSR) is to realize the Chiyoda Corporate Philosophy.

Chiyoda Corporate Philosophy

Enhance our business and contribute to the development of a sustainable society as an integrated engineering company through the use of our collective wisdom and painstakingly developed technology.

Chiyoda Group CSR Vision

As an integrated engineering company, the Chiyoda Group pledges to constantly strive to increase its corporate value and earn the trust and understanding of all stakeholders by adhering to the following principles.

1. A Reliable Company
2. Environmental Initiatives
3. Social Contributions through Business Activities
4. Respect for Human Rights
5. Commitment to Fairness

Efforts for Stakeholders

- **For customers**: Conduct customer satisfaction surveys
- **For shareholders**: Participate in conferences with overseas investors and hold meetings by telephone
- **For local communities**: Provide internships and local clean-up activities as well as promote employment opportunities
- **For business partners and related companies**: Establish mutually fair collaboration
- **For employees**: Conduct employee satisfaction surveys

Wind Power Generation Facility at Koyasu Office & Research Park

Contribution to Global Environment and Society

We have established the Corporate Environmental Policy, and have addressed global environment problems through our activities:

- Develop original technologies such as CO_2 reforming for synthesis gas production in the GTL process, flue gas desulfurization technologies, and titania-based catalyst for ultra-deep desulfurization of diesel oil, etc., as explained on pages 16 and 17.
- Provide advanced engineering solutions to increase supplies of LNG, which represents a cleaner energy source than other major energy sources, using the expertise accumulated at our LNG plant projects shown on page 14.
- Install energy-saving facilities at our offices such as bio-fueled cogeneration and wind power generation.

Apart from the above, we contribute to society by:

- Localizing plant construction operations, thus transferring know-how and creating jobs in the communities where we build plants.

Note: For details, please refer to the CSR Report.

Six-Year Summary of Selected Financial Data

	Millions of yen						Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2002	2007
For the Year							
Revenues	¥484,895	¥390,875	¥267,655	¥206,817	¥166,367	¥141,387	$4,109,280
Cost of revenues	445,159	360,322	247,905	192,710	155,924	136,762	3,772,534
Operating income (loss)	28,700	20,729	11,078	5,881	1,548	(5,202)	243,220
Income before income taxes and minority interests	37,935	21,906	12,049	5,370	2,509	1,861	321,483
Net income	23,532	19,400	12,863	6,647	2,000	121	199,424
At Year-End							
Total assets	¥442,953	¥279,721	¥182,893	¥142,860	¥120,297	¥129,314	$3,753,839
Total equity	77,415	55,509	36,873	22,767	16,670	15,103	656,059
Long-term debt	10,067	10,169	215	10,316	10,422	10,672	85,314
Working capital	66,592	51,431	22,231	15,719	7,526	1,387	564,339
Current ratio (%)	118.9	125.1	115.9	115.0	108.4	101.4	
Per Common Share (Yen and U.S. Dollars)							
Earnings per share (EPS)	¥122.41	¥101.27	¥ 68.62	¥ 35.91	¥10.79	¥ 0.65	$1.04
Book value per share (BPS)	400.56	288.88	193.22	123.04	90.01	81.47	3.39
Dividends per share	15.0	10.0	6.0	—	—	—	0.13
Other Statistics							
Revenues per employee	¥170.7	¥150.5	¥110.1	¥84.3	¥66.0	¥51.9	$1,446.6
Ratios (%)							
Return on assets (ROA)	10.2%	10.0%	7.1%	4.8%	1.9%	(2.5)%	
Return on equity (ROE)	35.5	42.0	43.1	33.7	12.6	0.8	

Notes: 1. U.S. dollar amounts are translated, for convenience only, at the rate of ¥118 = US$1, the approximate exchange rate at March 31, 2007.
2. Yen amounts are rounded down to the nearest million. U.S. dollar amounts and percentages are rounded to the nearest unit.

Review of Operating Results

Summary

During fiscal year 2007, the year ended March 31, 2007, the overseas plant market drew strength from expanding energy demand worldwide and continued aggressive investment in the gas value chain by gas-producing countries and Energy Majors. As a result, new contracts and ongoing projects remained strong for the Chiyoda Group.

In Japan, new contracts and revenues for the Chiyoda Group exceeded projections, centered on the petroleum and petrochemical sectors, because of energetic capital investment by companies in those sectors.

Although new contracts decreased 30.7 percent compared with the previous fiscal year to ¥557,707 million, revenues increased 24.1 percent compared with the previous fiscal year to ¥484,895 million, primarily because major ongoing projects got fully under way. Operating income increased 38.5 percent year-on-year to ¥28,700 million as the gross profit margin increased and the ratio of selling, general and administrative (SG&A) expenses to revenues improved. Income before income taxes and minority interests increased 73.2 percent year-on-year to ¥37,935 million due to various factors including an increase in interest income from an increase in jointly controlled assets of joint venture. Net income increased 21.3 percent compared with the previous fiscal year to ¥23,532 million.

New Contracts and Revenues

New contracts decreased 30.7 percent compared with the previous fiscal year to ¥557,707 million. New contracts overseas decreased 41.8 percent year-on-year to ¥402,409 million, and new contracts in Japan increased 37.8 percent year-on-year to ¥155,297 million. Revenues increased 24.1 percent compared with the previous fiscal year to ¥484,895 million. Overseas revenues increased 32.5 percent year-on-year to ¥378,345 million, and revenues in Japan increased 1.2 percent year-on-year to ¥106,550 million.

The following is a summary of engineering operations, which account for nearly all of the Chiyoda Group's activities.

Power and Gas

The investment environment was favorable because of strong demand for gas, with new contracts for two large-scale gas processing plants in Qatar and new large-scale projects in Japan. The Chiyoda Group completed a large-scale plant in Qatar in a short time and began full-scale construction at projects in Qatar and Sakhalin. As a result, although new contracts decreased 39.2 percent compared with the previous fiscal year to ¥420,797 million, revenues increased 30.6 percent year-on-year to ¥371,574 million.

Petroleum, Petrochemicals and Gas Chemicals

In the petroleum sector, new contracts and revenues remained steady. In the petrochemical sector, new contracts for chemical refinery integration increased. New contracts increased 16.2 percent compared with the previous fiscal year to ¥85,773 million, and revenues increased 12.9 percent year-on-year to ¥69,629 million.

General Chemicals and Industrial Machinery

The general chemicals sector was more willing to make capital investments due to factors including industry reorganization and structural reform. In the industrial machinery sector, capital investment remained solid. New contracts increased 25.6 percent compared with the previous fiscal year to ¥33,258 million, and revenues decreased 2.5 percent year-on-year to ¥31,090 million.

Environment and Others

In the environment sector, Chiyoda's internally developed flue gas desulfurization process, CT-121, continued to contribute to revenues. As a result of this and other factors, new contracts increased 55.5 percent compared with the previous fiscal year to ¥11,091 million, while revenues decreased 27.9 percent year-on-year to ¥5,815 million.

Gross Profit

Gross profit increased 30.1 percent compared with the previous fiscal year to ¥39,736 million. Primary factors included the increase in revenues and improvement in the gross profit margin, which rose 0.4 percentage points to 8.2 percent from 7.8 percent for the previous fiscal year.

SG&A Expenses and Operating Income

SG&A expenses increased 12.3 percent compared with the previous fiscal year to ¥11,036 million. Factors included an increase of ¥497 million in personnel expenses and an increase of ¥393 million in research and development expenses. However, greater efficiency among administrative divisions supported an improvement of 0.2 percentage points in the ratio of SG&A expenses to revenues to 2.3 percent from 2.5 percent for the previous fiscal year.

As a result of the above, operating income increased 38.5 percent compared with the previous fiscal year to ¥28,700 million because of higher revenues and improvements in the gross profit margin and in the ratio of SG&A expenses to revenues. The operating margin increased 0.6 percentage points to 5.9 percent from 5.3 percent for the previous fiscal year.

Other Income (Expenses) and Income before Income Taxes and Minority Interests

Other income – net improved to ¥9,235 million from ¥1,177 million for the previous fiscal year. Interest and dividend income increased to ¥8,511 million from ¥2,668 million for the previous fiscal year because of increased interest income from jointly controlled assets of joint venture. Net financial income, calculated as interest and dividend income less interest expense, therefore increased to ¥8,201 million from ¥2,366 million for the previous fiscal year. Equity in earnings of associated companies increased to ¥375 million from ¥193 million for the previous fiscal year. Foreign exchange loss increased to ¥629 million from ¥174 million for the previous fiscal year because the approximate exchange rate of ¥118 to US$1 as of March 31, 2007 represented a depreciation of ¥1 from a year earlier and because of hedging costs for comprehensive forward foreign exchange contracts. However, loss on partial termination of a defined benefit pension plan totaling ¥1,995 million in the previous fiscal year did not recur.

As a result, income before income taxes and minority interests increased 73.2 percent compared with the previous fiscal year to ¥37,935 million.

Income Taxes and Net Income

Current income taxes increased 262.0 percent compared with the previous fiscal year to ¥16,209 million, primarily because of the increase in income before income taxes and minority interests. Deferred income taxes decreased to ¥1,866 million because deferred tax assets were reassessed and recalculated to determine the amount that is likely to be recovered based on projected taxable earnings in the three-year period ending March 2010. Income taxes net of deferrals therefore increased to ¥14,343 million.

As a result of the above, net income increased 21.3 percent compared with the previous fiscal year to ¥23,532 million. Net income per share increased to ¥122.41 from ¥101.27 for the previous fiscal year.

Results by Geographic Segment

Revenues by geographic segment exclude intersegment revenues.

In Japan, the Chiyoda Group's backlog of contracts was strong, and revenues increased 25.9 percent compared with the previous fiscal year to ¥476,813 million. Operating income increased 29.0 percent year-on-year to ¥28,191 million.

In Asia, revenues decreased 33.7 percent compared with the previous fiscal year to ¥8,082 million. Operating income totaled ¥507 million, compared to an operating loss totaling ¥1,051 million for the previous fiscal year.

In North America, all revenues were eliminated upon consolidation, centered on intra-Group support including communication among sales operations. Operating income totaled ¥2 million, compared to a marginal operating loss in the previous year, mainly because of the small scale of activities.

In other regions, the Chiyoda Group operated with only personnel needed for communication. All revenues were eliminated upon consolidation. There was no operating income, compared to an operating loss of ¥17 million for the previous fiscal year.

Research and Development Activities

Chiyoda Corporation and Chiyoda Advanced Solutions Corporation undertake research and development activities for the Chiyoda Group. They work in the three main areas of (1) energy and the environment; (2) new chemical sectors; and (3) stronger engineering capabilities, with the objective of developing products and technologies that contribute in ways such as uncovering business, promoting contracts, increasing added value and establishing technological advantages.

The Chiyoda Group employs approximately 50 research and development staff, primarily at its Research and Development Center. Research and development expenses (excluding consumption taxes) increased 48.5 percent compared with the previous fiscal year to ¥1,204 million.

Dividend Policy

The Chiyoda Group works to consistently develop itself and create next-generation businesses as a growing, profitable company. The Chiyoda Group also works constantly to maintain a strong financial structure by adding to internal reserves while considering shareholder returns in paying dividends.

The Chiyoda Group paid cash dividends totaling ¥15.00 per share for the year ended March 2007. Moreover, the Chiyoda Group expects to pay cash dividends totaling ¥18.00 per share for the year ending March 2008.

Sources of Capital and Liquidity

Capital Requirements and Financial Policy

Costs associated with domestic and overseas plant construction orders represent the Chiyoda Group's primary capital requirement. SG&A expenses are another major capital requirement, including personnel expenses such as employee salaries and benefits, and subcontracting expenses. Personnel expenses associated with employees engaged in research and development are the primary component of the Chiyoda Group's research and development expenses.

The Chiyoda Group currently funds working capital, capital expenditures and other capital requirements using internal capital resources and external borrowings. The Chiyoda Group has prepared for future working capital requirements by establishing a short-term committed line of credit totaling ¥15.0 billion.

Moreover, the Chiyoda Group expects to deploy internal capital resources to fund planned capital expenditures related to investment in information technology.

At present, the Chiyoda Group believes that its new contract performance, financial position, ability to generate cash from operating activities and unused portion of the short-term committed line of credit will provide sufficient access to the capital required to fund growth.

Cash Flow

Net cash provided by operating activities increased to ¥35,532 million from ¥5,237 million for the previous fiscal year. Increase in jointly controlled assets of joint venture used cash totaling ¥124,724 million, a significant increase from the previous fiscal year as a result of an increase in large-scale joint venture projects. However, income before income taxes and minority interests increased to ¥37,935 million, and depreciation and amortization totaled ¥1,507 million. Moreover, changes in working capital (represented by the sum of decrease in trade notes and accounts receivable, and costs and estimated earnings on long-term construction contracts; increase in costs of construction contracts in progress; increase in trade notes and accounts payable; and increase in advance receipts on construction contracts) provided cash totaling ¥129,445 million.

Jointly controlled assets of joint venture mainly represents the Chiyoda Group's share of cash and cash equivalents at joint ventures. Net cash provided by operating activities prior to adjustment for jointly controlled assets of joint venture was ¥160,256 million.

Net cash used in investing activities totaled ¥3,458 million. In the previous fiscal year, investing activities provided net cash totaling ¥1,052 million. Proceeds from collections of long-term loans decreased to ¥610 million from ¥3,341 million in the previous fiscal year, while payments for purchase of investment securities increased to ¥2,419 million from ¥1,273 million for the previous fiscal year. Capital expenditures for IT-related software and other investments, calculated as the sum of purchases of property, plant and equipment and purchase of intangible assets, totaled ¥1,780 million, compared to ¥1,855 million for the previous fiscal year.

Net cash used in financing activities increased to ¥2,191 million from ¥1,338 million for the previous fiscal year. Factors included the use of cash totaling ¥1,915 million for payment of cash dividends in reflection of solid results in the previous fiscal year.

As a result of the above, cash and cash equivalents at the end of the year increased by ¥30,173 million from a year earlier to ¥77,052 million.

Assets, Liabilities and Equity

Total assets increased 58.4 percent from a year earlier to ¥442,953 million. Current assets increased 62.9 percent from a year earlier to ¥418,037 million. Factors included an increase in jointly controlled assets of joint venture as a result of an increase in large-scale joint venture projects, and the increase in cash and cash equivalents as a result of the improvement in net cash provided by operating activities. Net property, plant and equipment increased 5.4 percent from a year earlier to ¥7,465 million, primarily reflecting IT-related capital investment. Investments and other assets increased 9.0 percent from a year earlier to ¥17,451 million, primarily reflecting an increase in investment securities.

Current liabilities increased 71.3 percent from a year earlier to ¥351,445 million. Factors included an increase of ¥129,839 million in advance receipts on construction contracts to ¥231,818 million. Moreover, notes and accounts payable – trade increased ¥911 million from a year earlier to ¥86,813 million, and income taxes payable increased ¥9,081 million from a year earlier to ¥13,071 million. Non-current liabilities decreased 24.6 percent from a year earlier to ¥14,093 million. Factors included a decrease in liability for retirement benefits of ¥6,116 million from a year earlier to ¥2,277 million. Interest-bearing liabilities, calculated as the sum of the current portion of long-term debt and long-term debt, decreased 0.5 percent from a year earlier to ¥10,164 million.

Total equity increased 39.5 percent from a year earlier to ¥77,415 million. A primary factor was an increase of ¥21,521 million in retained earnings as a result of the increase in net income. As of March 31, 2007, the ratio of total equity to total assets decreased 2.3 percentage points from a year earlier to 17.5 percent.

Outlook for the Year Ending March 31, 2008

The Chiyoda Group will work to balance the execution of ongoing projects with efforts to obtain new contracts for projects in which the Chiyoda Group can exercise its technological excellence.

Among ongoing projects, the Chiyoda Group aims to counter rising material costs and a shortage of construction workers to move forward as planned with three ultra-large-scale LNG projects in Qatar. We will also work to steadily execute other projects in Japan and overseas.

Given these conditions, and assuming an exchange rate of ¥115 to US$1, for the year ending March 31, 2008 the Chiyoda Group projects consolidated new contracts of ¥250,000 million, consolidated revenues of ¥550,000 million, consolidated ordinary income of ¥38,500 million, and consolidated net income of ¥23,500 million.

Business Risks and Other Risks

Primary issues that could affect investor decisions regarding investment risk, such as material issues related to the Chiyoda Group's financial position, performance and cash flow and the Chiyoda Group's response to such issues, include but are not limited to the issues outlined below. The Chiyoda Group recognizes the potential occurrence of these risks and works to avoid them to the maximum extent possible. The Chiyoda Group also moves to respond as quickly as possible to minimize the impact of issues that present risks when they occur.

As of June 28, 2007, Chiyoda Group management acknowledges the issues that may present risks in the future outlined below and has made them the focus of risk management.

Changes in Exchange Rates

In overseas construction projects, construction payments are often in different currencies than payments for vendors and / or subcontractors. Foreign currency exchange rates may therefore affect the financial results of the projects. The Chiyoda Group works to avoid and minimize such foreign currency fluctuation risks by using forward foreign exchange contracts and matching planned outlays in multiple currencies with construction payments and receivables.

Rising Equipment and Resource Prices and Material Shortages

Plant construction entails a time lag between estimates and bids and orders for equipment, resources, materials and subcontracted construction. Consequently, actual prices for equipment and materials may exceed those projected in estimates and bids. Moreover, restricted supplies of metals such as copper, nickel, aluminum and zinc may cause problems including delays in the delivery and mobilization of equipment and materials. Resulting delays in the progress of construction projects could affect the Chiyoda Group's results.

The Chiyoda Group works to avoid and minimize these risks to the best of its ability by diversifying procurement in ways such as using multiple suppliers in various regions worldwide, considering bundled purchases, ordering equipment and materials at an early stage, and structuring cooperative relationships with suppliers.

Shortages of Construction Workers and Increased Subcontractor Expenses

Plant construction entails a time lag between estimates and bids and orders for subcontracting. Large-scale construction projects can magnify the impact of such time lag, which may result in labor costs that exceed those projected in estimates and bids. In particular, lack of qualified, skilled workers may require countermeasures that increase costs.

The Chiyoda Group works to minimize the impact of these issues by structuring cooperative relationships with qualified construction companies, deploying personnel skilled in various professions from various regions around the world, and improving the skills of construction workers at each job site.

Terrorism, Conflicts in Neighboring Countries, Strikes, Anarchy and Natural Disasters

Terrorism or conflicts anywhere in the world may cause direct losses, delays in procuring or delivering materials and equipment, threats to the safety of workers on site, cessation of construction work, and other problems at construction sites in Japan and overseas. Such incidents could result in losses and expenses that the Chiyoda Group could not pass on to clients, which could affect the Chiyoda Group's performance.

The Chiyoda Group has structured a threat management system that includes cooperation with clients and other related parties to support rapid initial response should such issues occur.

Plant Accidents

Serious accidents including explosions or fire may occur due to various causes at plants that the Chiyoda Group is constructing or has completed. The Chiyoda Group could be judged responsible for such accidents, which could impact the Chiyoda Group's performance.

The Chiyoda Group works to avoid or minimize this risk in ways such as taking all possible measures to preclude the occurrence of accidents, including quality control and safety management. Other countermeasures include maintaining appropriate insurance coverage and negotiating contracts that rationally allocate client responsibility for damages.

Global Network

(As of July 1, 2007)

Head Office

Yokohama Head Office
12-1, Tsurumichuo 2-chome, Tsurumi-ku
Yokohama 230-8601, Japan
Tel: (81) 45-521-1231
Fax: (81) 45-503-0200

Koyasu Office & Research Park
13, Moriya-cho 3-chome, Kanagawa-ku
Yokohama 221-0022, Japan
Tel: (81) 45-441-1268
Fax: (81) 45-441-1297
Research & Development Center
Tel: (81) 45-441-9132
Fax: (81) 45-441-9728

Osaka Office
14-10, Nishinakajima 5-chome, Yodogawa-ku
Osaka 532-001, Japan
Tel: (81) 6-6390-3411
Fax: (81) 6-6889-5101

Overseas Offices

Abu Dhabi Office
Clock Tower Bldg. Al Najda Street
Abu Dhabi, U.A.E., P.O. Box 43928
Tel: (971) 2-671-7161
Fax: (971) 2-671-7162

Beijing Office
Room No. 1028, China World Tower 1,
Jianguomenwai Street, Beijing, 100004,
China
Tel: (86) 10-6505-2678
Fax: (86) 10-6505-1118

Jakarta Office
9th Floor, MidPlaza Bldg. Jalan Jenderal
Sudirman Kav. 10-11 Jakarta, 10220,
Indonesia
Tel: (62) 21-570-7579
Fax: (62) 21-570-6276

Korea Representative Office
1358-8, Tal-dong Nam-ku Ulsan, Korea
Tel: (82) 52-256-5721/5722
Fax: (82) 52-256-5723

Middle East Headquarters Doha Office
Al Mana Tower Airport Road, Doha Qatar,
P.O. Box 20243
Tel: (974) 4622-875/6
Fax: (974) 4622-716

Milan Representative Office
Viale Della Liberazione 18, 20124 Milan, Italy
Tel: (39) 02-303517-111
Fax: (39) 02-303517-35

Singapore Human Resources Office
10 Anson Road, #03-02, International Plaza,
Singapore 079903
Tel: (65) 6324-0080
Fax: (65) 6324-0090

The Hague Representative Office
Parkstraat 83, 2514 JG
The Hague, The Netherlands
Tel: (31) 70-385-9453
Fax: (31) 70-346-3779

Major Subsidiaries & Affiliated Companies

Overseas

Engineering Business

Chiyoda Corporation (Shanghai)
29F-Room E, Pufa Tower, No. 588,
Pudong Rd. (S), Pudong New Area,
Shanghai 200120, China
Tel: (86) 21-5877-6266
Fax: (86) 21-5877-6366

Chiyoda International Corporation
Services: Business activities in the U.S.A.
1177 West Loop South, Suite 680
Houston, TX 77027, U.S.A.
Tel: (1) 713-965-9005
Fax: (1) 713-965-0075

Chiyoda Malaysia Sdn. Bhd.
Services: Design and construction for orders received in Malaysia
15th Floor, Menara Maxisegar Jalan Pandan
Indah, 4/2 Pandan Indah, 55100
Kuala Lumpur, Malaysia
Tel: (60) 3-4297-0988
Fax: (60) 3-4297-0800
URL: http://www.chiyoda.com.my/

Chiyoda Nigeria Limited
Services: Construction of industrial facilities in Nigeria

Abuja Office
C/O Peniel Apartments Room No. B2C Plot 171,
IBB Way, Adetokunbo Ademola Crescent,
Wuse I I, Abuja, Nigeria
Tel: (234) 9-4130961
Fax: (234) 9-4130961

Lagos Office
Lindev Plaza 1st Floor
16, Amodu Ojikutu Street
Off Bishop Oluwole Street, Victoria Island,
Lagos, Nigeria
Tel: (234) 1-2613291/2612565/4627238
Fax: (234) 1-2612565

Chiyoda & Public Works Co., Ltd.
Services: Industrial design and construction for orders received in Myanmar
SEDONA HOTEL Room 307 ~ 309 No. 1,
Kaba Aye Pagoda Road, Yankin Township,
Yangon, Myanmar
Tel: (95) 1-545605
Fax: (95) 1-545227

Chiyoda Petrostar Ltd.
Services: Design and construction of industrial facilities for orders received in Saudi Arabia

Al-Khobar Office
P.O. Box 31707, Al-Khobar 31952
The Kingdom of Saudi Arabia
Tel: (966) 3-864-0839
Fax: (966) 3-864-0986

Jeddah Head Office
P.O. Box 6188, Jeddah 21442
The Kingdom of Saudi Arabia
Tel: (966) 2-647-0558
Fax: (966) 2-647-1908
Tlx: 601062 MOTSIM

Chiyoda Philippines Corporation
Services: Design services related to overseas projects
Chiyoda Bldg. Meralco Avenue Corner,
General Araneta Street, San Antonio,
Pasig City, Metro Manila, Philippines
Tel: (63) 2-636-1001/8
Fax: (63) 2-636-1013/1023
URL: http://www.chiyodaphil.com.ph

Chiyoda Singapore (Pte) Limited
Services: Design and construction of industrial facilities
14 International Business Park Jurong East,
Singapore 609922
Tel: (65) 6563-3488
Fax: (65) 6567-5231
URL: http://www.chiyoda.com.sg/

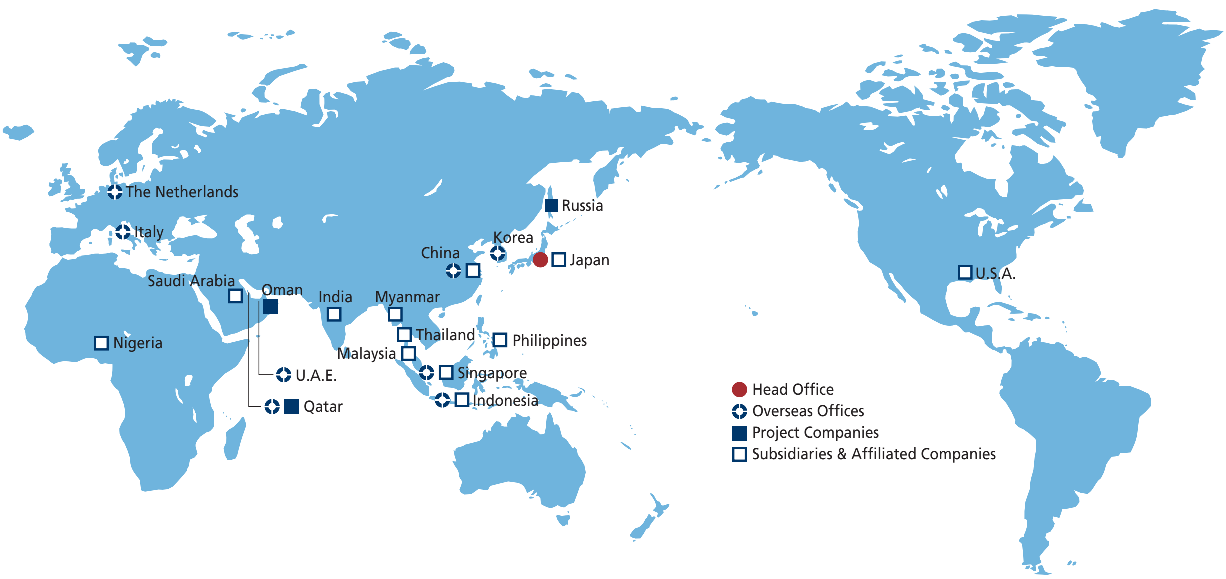
Chiyoda (Thailand) Limited
140/39 ITF Tower II, Suite H 18th Floor,
Silom Road, Kwaeng Suriyawong,
Khet Bangrak, Bangkok 10500, Thailand
Tel: (66) 2-231-6258/6259
Fax: (66) 2-231-6260

L&T-Chiyoda Limited
Services: Design services related to overseas projects
B.P. Estate, National Highway No. 8, Chhani
Baroda-391740, Gujarat State, India
Tel: (91) 265-2771003/2772855
Fax: (91) 265-2774985

PT. Chiyoda International Indonesia
Services: Construction of industrial facilities in Indonesia
MENARA HIJAU, 10th Floor Suite 1001 Jl.
Mt. Haryono Kav. 33 Jakarta Selatan 12770,
Indonesia
Tel: (62) 21-798-4680
Fax: (62) 21-798-6174

Project Companies

Oman, Qatar, Russia



Domestic

Major Subsidiaries & Affiliated Companies

Domestic

Engineering Business

Chiyoda Advanced Solutions Corporation
Services: Advanced engineering consulting
1-25, Shinurashima-cho 1-chome
Kanagawa-ku, Yokohama 221-0031, Japan
Tel: (81) 45-441-1260
Fax: (81) 45-441-1264
URL: http://www.chiyoda-as.co.jp/

Chiyoda Keiso Co., Ltd.
Services: Electrical and instrumentation design, construction services
13, Moriya-cho 3-chome, Kanagawa-ku
Yokohama 221-0022, Japan
Tel: (81) 45-441-1433
Fax: (81) 45-441-1434
URL: http://www.ckc.chiyoda.co.jp/

Chiyoda Kosho Co., Ltd.
Services: Domestic construction and maintenance
34-26, Tsurumichuo 4-chome, Tsurumi-ku
Yokohama 230-0051, Japan
Tel: (81) 45-506-7662
Fax: (81) 45-506-7667
URL: http://www.cks-ykh.co.jp/

Chiyoda TechnoAce Co., Ltd.
Services: Pharmaceuticals, civil engineering construction for domestic oil facilities
13, Moriya-cho 3-chome, Kanagawa-ku
Yokohama 221-0022, Japan
Tel: (81) 45-441-9600
Fax: (81) 45-450-5236
URL: http://www.cta.chiyoda.co.jp/

Chiyoda U-Tech Co., Ltd.
Services: Consulting and human resources placement services
15-19, Tsurumichuo 2-chome, Tsurumi-ku
Yokohama 230-0051, Japan
Tel: (81) 45-502-7618
Fax: (81) 45-503-5399
URL: http://www.utc-yokohama.com/

Other Businesses

Arrow Business Consulting Corporation
Services: Consulting services for finance and accounting
32-1, Tsurumichuo 4-chome, Tsurumi-ku
Yokohama 230-0051, Japan
Tel: (81) 45-502-5774
Fax: (81) 45-502-5753

Arrowhead International Corporation
Services: Travel services, shipping and air freight agent
7-8, Shibakoen 1-chome, Minato-ku
Tokyo 105-0011, Japan
Tel: (81) 3-5470-0880
Fax: (81) 3-5470-0890
URL: http://www.arrowhead.co.jp/

Arrow Mates Co., Ltd.
Services: Placement of technicians and office staff; educational research, re-employment support and administrative, personnel and procurement services
43, Hon-cho 4-chome, Naka-ku
Yokohama 231-0005, Japan
Tel: (81) 45-662-1126
Fax: (81) 45-662-1173
URL: http://www.arrowmates.co.jp/

IT Engineering Limited
Services: Business and system development, computer management, information management
1-25, Shinurashima-cho 1-chome, Kanagawa-ku
Yokohama 221-0031, Japan
Tel: (81) 45-441-9123
Fax: (81) 45-441-1466
URL: http://www.ite.co.jp/

Corporate Information

(As of March 31, 2007)

Chiyoda Corporation

Head Office:
12-1, Tsurumichuo 2-chome Tsurumi-ku
Yokohama 230-8601, Japan
Tel: (81) 45-521-1231
Fax: (81) 45-503-0200

Established:
January 20, 1948

Paid-in Capital:
¥12,928 million

Number of Employees:
1,222 (Non-Consolidated)
2,947 (Consolidated)

Annual Fiscal Close:
March 31

Shareholders' Meeting:
June

Number of Shares per Unit:
1,000

Stock Code:
ISIN: JP3528600004
SEDOL 1:6191704 JP
TSE: 6366

Transfer Agent of Common Stock:
Mitsubishi UFJ Trust and Banking Corporation
1-4-5 Marunouchi, Chiyoda-ku, Tokyo

Authorized Shares:
650,000,000

Capital Stock Issued:
193,125,529

Number of Shareholders:
12,461

URL:
http://www.chiyoda-corp.com

(As of July 1, 2007)

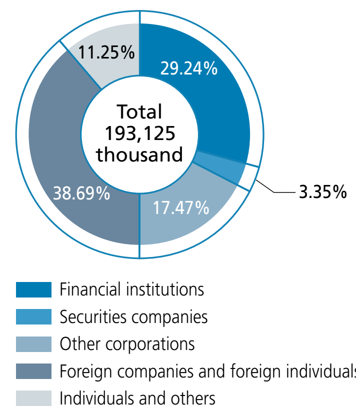
ORGANIZATIONAL CHART

- Shareholders' Meeting — Corporate Auditors Committee
- Board of Directors
- Executive Committee
  - SQE Division
  - CSR Division
  - Operational Auditing Office
  - Corporate Management & Finance
    - Corporate Planning Division
    - Administration & Personnel Division
    - Finance Division
    - Project Management Administration Division
  - Technology & Engineering
    - Research Institute of Technology Innovation & Strategy
    - Technology Planning Division
    - Process Technology Division
    - Engineering Division
  - Projects Logistics
    - Procurement Division
  - International Project Operation
    - Petroleum & Chemical Project Division
    - Gas Value Chain Project Division
    - Qatar Project Division 1
    - Qatar Project Division 2
    - Russia Project Division
    - Project Service Division
    - Construction Division
    - International Business Development
      - International Business Development Division 1
      - International Business Development Division 2
      - International Business Development Division 3
  - Domestic Project Operation
    - Domestic Business Development Operation
    - Domestic Projects - Oil & Petrochemical
    - Domestic Projects - Pharmaceutical/Fine/Energy Industries
    - Domestic Projects - Liquefied Gas Terminal

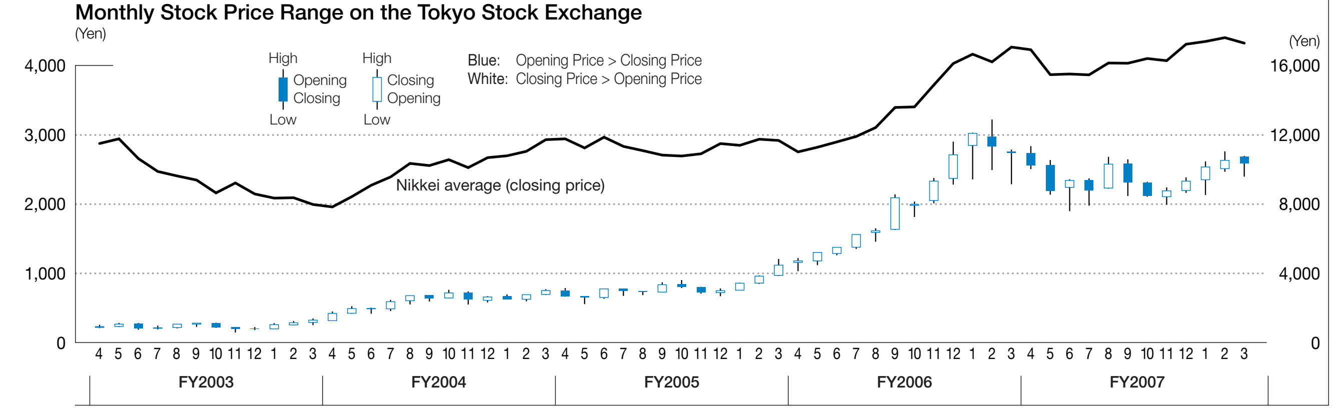
MAJOR SHAREHOLDERS

	Number of shares	Percentage of total (%)
Mitsubishi Corporation	19,851,220	10.27
Mitsubishi UFJ Trust and Banking Corporation	9,034,000	4.67
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,033,925	4.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,862,000	4.58
Japan Trustee Services Bank, Ltd. (Trust Account)	8,745,000	4.52
State Street Bank and Trust Company 505103	7,253,899	3.75
State Street Bank and Trust Company	5,795,749	3.00
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,760,844	1.42
BNP PARIBAS Securities (Japan) Limited	2,756,000	1.42
Meiji Yasuda Life Insurance Company	2,549,960	1.32

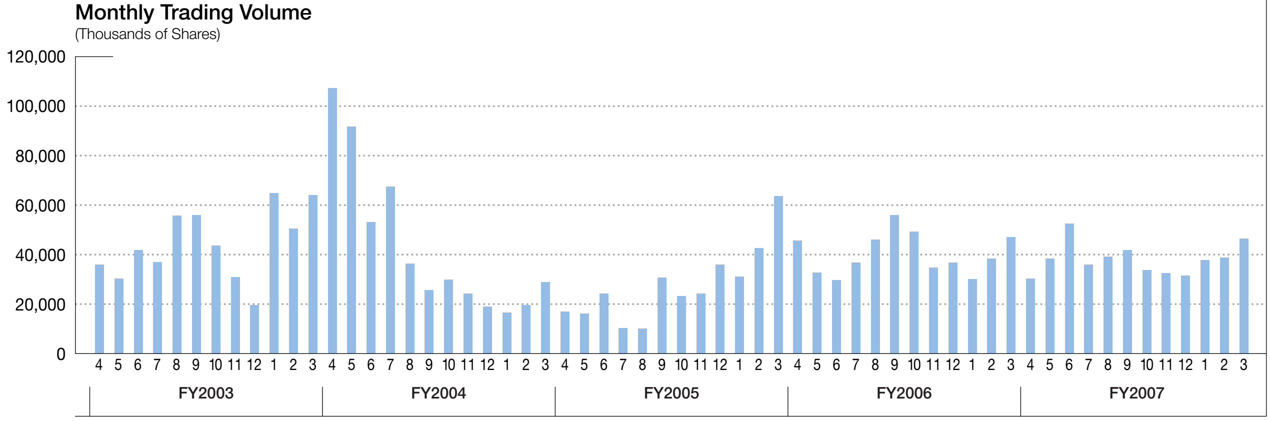
Breakdown by Shareholder



Monthly Stock Price Range on the Tokyo Stock Exchange



Monthly Trading Volume



CHIYODA CORPORATION

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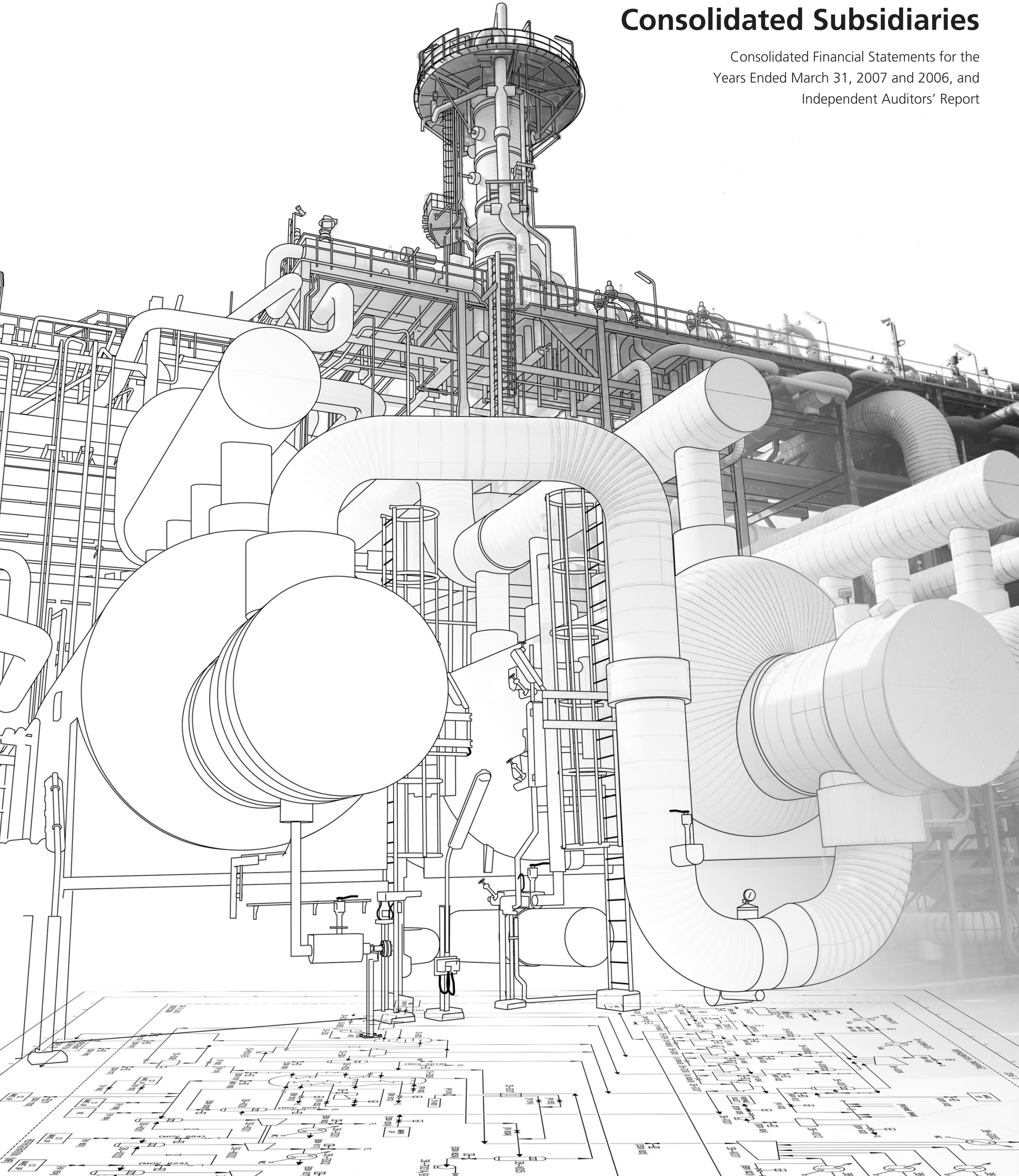
Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Financial Statements for the
Years Ended March 31, 2007 and 2006, and
Independent Auditors' Report



Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2007 and 2006

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT ASSETS:			
Cash and cash equivalents	¥ 77,052	¥ 46,879	$ 652,983
Time deposits	125	155	1,059
Notes and accounts receivable—trade (Note 3)	23,816	36,988	201,831
Allowance for doubtful accounts	(41)	(168)	(347)
Costs and estimated earnings on long-term construction contracts (Note 4)	14,843	9,989	125,788
Costs of construction contracts in process	27,656	17,923	234,373
Accounts receivable—other (Note 3)	9,199	9,207	77,958
Jointly controlled assets of joint venture	256,061	131,337	2,170,008
Deferred tax assets (Note 13)	5,884	1,751	49,864
Prepaid expenses and other	3,442	2,562	29,169
Total current assets	418,037	256,623	3,542,686
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 9):			
Land	1,835	1,853	15,551
Buildings and structures	6,616	6,454	56,068
Machinery and equipment	1,163	817	9,856
Tools, furniture and fixtures	5,544	5,249	46,983
Total	15,158	14,373	128,458
Accumulated depreciation	(7,693)	(7,288)	(65,195)
Net property, plant and equipment	7,465	7,085	63,263
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	5,345	2,798	45,297
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 6)	3,411	3,216	28,907
Software	3,286	3,099	27,847
Deferred tax assets (Note 13)	2,057	4,158	17,432
Other assets (Note 8)	3,892	4,212	32,983
Allowance for doubtful accounts	(540)	(1,470)	(4,576)
Total investments and other assets	17,451	16,013	147,890
TOTAL	¥442,953	¥279,721	$3,753,839

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 9)	¥ 97	¥ 47	$ 822
Notes and accounts payable—trade (Note 3)	86,813	85,902	735,703
Advance receipts on construction contracts	231,818	101,979	1,964,559
Income taxes payable	13,071	3,990	110,771
Deposits received	4,783	864	40,534
Allowance for warranty costs for completed works	1,582	1,871	13,407
Allowance for losses on construction contracts	10	146	85
Accrued expenses and other (Note 13)	13,271	10,393	112,466
Total current liabilities	351,445	205,192	2,978,347
NON-CURRENT LIABILITIES:			
Long-term debt (Note 9)	10,067	10,169	85,314
Liability for retirement benefits (Note 10)	2,277	8,393	19,297
Other liabilities (Note 13)	1,749	136	14,822
Total non-current liabilities	14,093	18,698	119,433
MINORITY INTERESTS		322	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 3, 15, 16 and 17)			
EQUITY (Notes 11, 16 and 19):			
Common stock—authorized, 570,000 thousand shares; issued, 193,126 thousand shares in 2007 and 192,894 thousand shares in 2006	12,928	12,901	109,559
Preferred stock—authorized, 80,000 thousand shares			
Capital surplus	6,712	6,685	56,881
Retained earnings	58,398	36,877	494,898
Unrealized gain on available-for-sale securities	248	45	2,102
Deferred loss on derivatives under hedge accounting	(408)		(3,458)
Foreign currency translation adjustments	50	(323)	424
Treasury stock—at cost, 837 thousand shares in 2007 and 742 thousand shares in 2006	(905)	(676)	(7,669)
Total	77,023	55,509	652,737
Minority interests	392		3,322
Total equity	77,415	55,509	656,059
TOTAL	¥442,953	¥279,721	$3,753,839

Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
REVENUE (Notes 1, 3 and 4)	¥484,895	¥390,875	$4,109,280
COST OF REVENUE (Notes 1, 3 and 4)	445,159	360,322	3,772,534
Gross profit	39,736	30,553	336,746
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 3 and 14)	11,036	9,824	93,526
Operating income	28,700	20,729	243,220
OTHER INCOME (EXPENSES):			
Interest and dividend income	8,511	2,668	72,127
Interest expense	(310)	(302)	(2,627)
Equity in earnings of associated companies	375	193	3,178
Foreign exchange loss	(629)	(174)	(5,331)
Loss on a partial termination of a defined benefit pension plan (Note 10)		(1,995)	
Reversal of allowance for doubtful accounts	742	1,367	6,288
Reversal of allowance for investment loss	263		2,229
Project settlement money		(469)	
Loss on impairment of long-lived assets (Note 7)		(128)	
Other—net	283	17	2,399
Other income—net	9,235	1,177	78,263
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	37,935	21,906	321,483
INCOME TAXES (Note 13):			
Current	16,209	4,478	137,364
Deferred	(1,866)	(2,011)	(15,813)
Total	14,343	2,467	121,551
MINORITY INTERESTS IN NET INCOME	60	39	508
NET INCOME	¥ 23,532	¥ 19,400	$ 199,424

Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Yen		U.S. Dollars
	2007	2006	2007
PER SHARE OF COMMON STOCK (Notes 2.t and 18):			
Basic net income	¥122.41	¥101.27	$1.04
Diluted net income	122.28	100.80	1.04
Cash dividends applicable to the year	15.00	10.00	0.13

See notes to consolidated financial statements.

Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2007 and 2006

	Thousands Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings
BALANCE, APRIL 1, 2005	190,837	¥12,722	¥6,507	¥18,622
Net income				19,400
Issuance of common stock by stock option plan (Notes 11 and 12)	1,533	179	178	
Repurchase of treasury stock	(218)			
Cash dividends, ¥6.00 per share				(1,145)
Net increase in unrealized gain on available-for-sale securities				
Net change in foreign currency translation adjustments				
BALANCE, MARCH 31, 2006	192,152	12,901	6,685	36,877
Reclassified balance as of March 31, 2006 (Note 2.l)				
Net income				23,532
Issuance of common stock by stock option plan (Notes 11 and 12)	232	27	27	
Repurchase of treasury stock	(95)			
Cash dividends, ¥10.00 per share				(1,922)
Decrease in retained earnings due to exclusion from consolidation of consolidated subsidiaries				(89)
Net change in the year				
BALANCE, MARCH 31, 2007	192,289	¥12,928	¥6,712	¥58,398

Millions of Yen						
Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
¥ 32		¥(759)	¥(251)	¥36,873		¥36,873
				19,400		19,400
				357		357
			(425)	(425)		(425)
				(1,145)		(1,145)
13				13		13
		436		436		436
45		(323)	(676)	55,509		55,509
					¥322	322
				23,532		23,532
				54		54
			(229)	(229)		(229)
				(1,922)		(1,922)
				(89)		(89)
203	¥(408)	373		168	70	238
¥248	¥(408)	¥ 50	¥(905)	¥77,023	¥392	¥77,415

Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2007 and 2006

	Common Stock	Capital Surplus	Retained Earnings
BALANCE, MARCH 31, 2006	$109,330	$56,652	$312,517
Reclassified balance as of March 31, 2006 (Note 2.l)			
Net income			199,424
Issuance of common stock by stock option plan (Notes 11 and 12)	229	229	
Repurchase of treasury stock			
Cash dividends, $0.08 per share			(16,288)
Decrease in retained earnings due to exclusion from consolidation of consolidated subsidiaries			(755)
Net change in the year			
BALANCE, MARCH 31, 2007	$109,559	$56,881	$494,898

See notes to consolidated financial statements.

Thousands of U.S. Dollars (Note 1)						
Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
$ 382		$(2,737)	$(5,728)	$470,416		$470,416
					$2,729	2,729
				199,424		199,424
				458		458
			(1,941)	(1,941)		(1,941)
				(16,288)		(16,288)
				(755)		(755)
1,720	$(3,458)	3,161		1,423	593	2,016
$2,102	$(3,458)	$ 424	$(7,669)	$652,737	$3,322	$656,059

Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 37,935	¥21,906	$ 321,483
Adjustments for:			
Income taxes paid	(6,492)	(944)	(55,017)
Payment of project settlement money	(469)		(3,975)
Loss on impairment of long-lived assets		128	
Depreciation and amortization	1,507	1,469	12,771
Reversal of allowance for doubtful accounts—net	(1,057)	(1,355)	(8,958)
(Reversal of) provision for warranty costs for completed works	(305)	1,104	(2,585)
Provision for retirement benefits—net	(6,116)	805	(51,831)
Foreign exchange gain—net	(74)	(236)	(627)
Equity in earnings of associated companies	(375)	(193)	(3,178)
Loss on a partial termination of a defined benefit pension plan		1,995	
Project settlement money		469	
Changes in operating assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable, and costs and estimated earnings on long-term construction contracts	8,485	(9,101)	71,907
(Increase) decrease in costs of construction contracts in process	(9,729)	7,095	(82,449)
Increase in jointly controlled asset of joint venture	(124,724)	(81,383)	(1,056,983)
Increase in interest and dividend receivable	(8,175)	(2,346)	(69,280)
Increase in trade notes and accounts payable	947	11,122	8,025
Increase in advance receipts on construction contracts	129,742	57,480	1,099,508
Increase (decrease) in deposits received	3,919	(1,753)	33,212
Increase in accrued liability of a defined contribution pension plan	2,445		20,720
Other—net	8,068	(1,025)	68,376
Total adjustments	(2,403)	(16,669)	(20,364)
Net cash provided by operating activities—(Forward)	¥ 35,532	¥ 5,237	$ 301,119

Chiyoda Corporation and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Net cash provided by operating activities—(Forward)	¥35,532	¥ 5,237	$301,119
INVESTING ACTIVITIES:			
Proceeds from refunds of fixed deposits	31	704	263
Payments for purchase of investment securities	(2,419)	(1,273)	(20,500)
Proceeds from sales of investment securities	32	148	271
Purchases of property, plant and equipment	(460)	(619)	(3,898)
Purchase of intangible assets	(1,320)	(1,236)	(11,186)
Disbursements for originating long-term loans	(15)	(34)	(127)
Proceeds from collections of long-term loans	610	3,341	5,169
Other—net	83	21	703
Net cash (used in) provided by investing activities	(3,458)	1,052	(29,305)
FINANCING ACTIVITIES:			
Proceeds from long-term debt		10,000	
Repayments of long-term debt	(47)	(10,102)	(398)
Proceeds from issuance of common stock	54	357	458
Payment of cash dividends	(1,915)	(1,140)	(16,229)
Payment of cash dividends to minority shareholders	(54)	(36)	(458)
Other—net	(229)	(417)	(1,941)
Net cash used in financing activities	(2,191)	(1,338)	(18,568)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	357	334	3,025
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,240	5,285	256,271
CASH AND CASH EQUIVALENTS OF EXCLUSION OF CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	(67)		(568)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	46,879	41,594	397,280
CASH AND CASH EQUIVALENTS, END OF YEAR	¥77,052	¥46,879	$652,983

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2006 financial statements in order for them to conform to classifications and presentations used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Chiyoda Corporation (the "Company") is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to $1, the approximate rate of exchange at March 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Construction contracts and cost of construction contracts, presented in the 2006, are presented as revenue and cost of revenue from the 2007 consolidated statements of income, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation***—The consolidated financial statements for the year ended March 31, 2007 include the accounts of the Company and its 17 significant (18 in 2006) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, has a control over operations are fully consolidated and those companies over which the Group has a significant influence are accounted for by the equity method.

Investments in 5 associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the fair value of the net assets at the respective dates of acquisition, was charged to income at the time of acquisition as the amount involved was not material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Revenue***—Revenues on construction contracts greater than ¥100 million and having a construction duration of exceeding one year are recognized on the percentage-of-completion method based on the ratio of costs incurred to total estimated costs. Under this method, related costs and estimated earnings in excess of progress billings are presented as a current asset.

Unbilled costs on the other contracts, which are accounted for by the completed-contract method, are stated as cost of construction contracts in process.

Payments received in excess of costs and estimated earnings on the contracts, which are accounted for by the percentage-of-completion method, and payments received on the other contracts are presented as current liabilities.

Costs of preparation work for unsuccessful proposals and other projects which are not realized are charged to income and are included in costs of revenue.

c. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months of the date of acquisition.

d. ***Investment Securities***—All marketable securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable securities are reduced to net realizable value by a charge to income.

e. ***Allowance for Doubtful Accounts***—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of estimated losses on the receivables outstanding.

f. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method, except for buildings owned by the Company, at rates based on the estimated useful lives of the assets. The range of useful lives is from 11 to 57 years for buildings and structures, from 4 to 13 years for machinery and equipment and from 2 to 15 years for tools, furniture and fixtures.

g. ***Long-lived Assets***—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the ASBJ issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004. The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Other Assets***—Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over their estimated useful lives. Software for internal use is amortized on a straight-line basis over its estimated useful life (5 years at the maximum).

i. ***Allowance for Warranty Costs for Completed Works***—The allowance for warranty costs for completed works is provided at the amount of warranty costs based on past rate experience.

j. ***Allowance for Losses on Construction Contracts***—The allowance for losses on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress.

k. ***Retirement Benefits***—Employees of the Company are, under most circumstances, entitled to payments of the defined contribution pension plan and the qualified defined benefit pension plan. The Company's certain consolidated subsidiaries are, under most circumstances, entitled to certain lump-sum severance payments and pension payments.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥12,123 million, determined as of April 1, 2000, had been amortized and charged to income using a 15 years straight-line amortization period and presented as an operating expense in the consolidated statements of income up to the year ended March 31, 2006.

The Company implemented a defined contribution pension plan and a reformed qualified benefit pension plan as of April 1, 2006. The transitional obligation of ¥5,696 million ($48,271 thousand), recalculated as of April 1, 2006 due to this implementation, is being amortized and charged to income in 15 years straight-line amortization method and presented as an operating expense in the consolidated statement of income for the year ended March 31, 2007.

Retirement benefits to directors, officers and corporate auditors are provided at the amount which would be required if all directors, officers and corporate auditors terminated at the end of each period.

l. ***Presentation of Equity***—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

m. ***Research and Development Costs***—Research and development costs are charged to income when incurred.

n. ***Leases***—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

o. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group has filed a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

p. ***Appropriations of Retained Earnings***—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

q. ***Foreign Currency Transactions***—Both short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the balance sheet date.

However, short-term and long-term receivables and payables covered by forward exchange contracts are translated at the contract rates.

Any differences between the foreign exchange contract rates and historical rates resulting from the translation of receivables and payables are recognized as income or expense over the lives of the related contracts.

r. ***Foreign Currency Financial Statements***—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were shown as a separate component of equity as "Foreign currency translation adjustments."

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of balance sheet date.

s. ***Derivative Financial Instruments***—The Company uses a variety of derivative financial instruments, including foreign currency forward exchange contracts as a means of hedging exposure to foreign currency risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting, because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward exchange contracts are utilized to hedge foreign exchange risks. Certain assets and liabilities on construction contracts denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

t. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

u. ***New Accounting Pronouncements***

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases

(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Significant transactions with and balances due from/(to) unconsolidated subsidiaries and associated companies are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
Transactions for the Year Ended March 31	2007	2006	2007
Revenue	¥ 8	¥ 6	$ 68
Cost of revenue	(4,919)	(4,657)	(41,686)
Selling, general and administrative expenses	(1,690)	(1,556)	(14,322)
Balances at March 31			
Notes and accounts receivable—trade		1	
Accounts receivable—other	2	5	17
Notes and accounts payable—trade	(470)	(532)	(3,983)

The Company has guaranteed the indebtedness of certain unconsolidated subsidiaries and associated companies in the amount of ¥370 million ($3,136 thousand) and ¥1,103 million at March 31, 2007 and 2006, respectively.

4. REVENUE

Costs and estimated earnings recognized with respect to revenue which is accounted for by the percentage-of-completion method at March 31, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Costs and estimated earnings	¥727,700	¥388,927	$6,166,949
Amounts billed	(712,857)	(378,938)	(6,041,161)
Net	¥ 14,843	¥ 9,989	$ 125,788

5. INVESTMENT SECURITIES

Investment securities at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Equity securities	¥5,345	¥2,798	$45,297

The carrying amounts and aggregate fair values of investment securities with readily determinable fair values at March 31, 2007 and 2006, were as follows:

	Millions of Yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	¥3,557	¥778	¥361	¥3,974
March 31, 2006				
Available-for-sale—Equity securities	1,208	114	27	1,295

	Thousands of U.S. Dollars			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	$30,144	$6,593	$3,059	$33,678

Available-for-sale securities whose fair value is not readily determinable at March 31, 2007 and 2006, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Equity securities	¥1,371	¥1,503	$11,619

Proceeds from sales of available-for-sale securities for the year ended March 31, 2007, were ¥32 million ($271 thousand). Gross realized gains on these sales, computed on the moving average cost basis, were ¥17 million ($144 thousand) for the year ended March 31, 2007.

Proceeds from sales of available-for-sale securities for the year ended March 31, 2006, were ¥20 million and gross realized gains on these sales, computed on the moving average cost basis, were ¥14 million for the year ended March 31, 2006.

6. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investments	¥3,395	¥2,903	$28,771
Allowance for investment loss		(263)	
Advances	16	576	136
Total	¥3,411	¥3,216	$28,907

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥128 million as other expense for certain asset used for business due to continuous decline in land prices and other reasons. The recoverable amount was measured at its net selling price by referring to the published land evaluation prices.

8. LONG-TERM RECEIVABLES

Long-term receivables included in other assets in the amount of ¥560 million at March 31, 2006 from KAFCO Japan Investment Co., Ltd. who partially owns Karunaphuli Fertilizer Company Limited, a Bangladesh company, have been fully collected by March 31, 2007.

9. LONG-TERM DEBT

Long-term debt at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Long-term loans from banks, maturing serially through 2011, with interest rates ranging from 1.9% to 5.8% at 2007 and 2006:			
Collateralized	¥ 164	¥ 216	$ 1,390
Uncollateralized	10,000	10,000	84,746
Total	10,164	10,216	86,136
Less current portion	(97)	(47)	(822)
Long-term debt, less current portion	¥10,067	¥10,169	$85,314

Subordinated loans in the amount of ¥10,000 million ($84,746 thousand) from The Bank of Tokyo-Mitsubishi UFJ, Ltd. were included in 'Uncollateralized' at March 31, 2007 and 2006.

Annual maturities of long-term debt at March 31, 2007, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 97	$ 822
2009	10,045	85,127
2010	18	153
2011	4	34
Total	¥10,164	$86,136

Commitment-line contracts at March 31, 2007, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Commitment-line contracts	¥15,000	$127,119
Unused commitments	¥15,000	$127,119

The following assets were pledged as collateral for long-term debt at March 31, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 695	$ 5,890
Buildings and structures—net of accumulated depreciation	613	5,195
Total	¥1,308	$11,085

10. RETIREMENT BENEFITS

Employees of the Company are, under most circumstances, entitled to payments of the defined contribution pension plan and the qualified defined benefit pension plan.

The Company's certain consolidated subsidiaries are, under most circumstances, entitled to certain lump-sum severance payments and pension payments.

Liability for retirement benefits includes retirement benefits to directors, officers and corporate auditors in the amount of ¥487 million ($4,127 thousand) and ¥431 million for the years ended March 31, 2007 and 2006, respectively. The retirement benefits to directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥27,812	¥31,865	$235,695
Fair value of plan assets	(21,454)	(17,718)	(181,814)
Unrecognized transitional obligation	(4,922)	(7,276)	(41,712)
Unrecognized actuarial loss	(1,299)	(2,644)	(11,008)
Unrecognized prior service cost	1,557	1,734	13,195
Net accrued pension liabilities	1,694	5,961	14,356
Prepaid pension cost	96	6	814
Loss on a partial termination of defined benefit pension plan		1,995	
Liability for employees' retirement benefits	¥ 1,790	¥ 7,962	$ 15,170

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 702	¥ 813	$ 5,949
Interest cost	375	465	3,178
Expected return on plan assets	(356)	(217)	(3,017)
Amortization of transitional obligation	615	808	5,212
Recognized actuarial loss	342	646	2,898
Amortization of prior service cost	(176)	(29)	(1,491)
Subtotal	1,502	2,486	12,729
Loss on a partial termination of defined benefit pension plan		1,995	
Payment to defined contribution pension trust	168		1,424
Net periodic benefit costs	¥1,670	¥4,481	$14,153

Assumptions used for the years ended March 31, 2007 and 2006, are set forth as follows:

	2007	2006
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	2.2%	1.5%
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	15 years	15 years
Amortization period of prior service cost	10 years	10 years

11. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million ($25 thousand).

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. STOCK OPTION

The stock option outstanding as of March 31, 2007 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	8 directors 8 officers 623 employees	7,896,000 shares	June 27, 2002	¥233 ($1.97)	From July 1, 2004 to June 30, 2009

The stock option activity is as follows:

	2002 Stock Option (Shares)
For the Year Ended March 31, 2006	
Vested:	
March 31, 2005—outstanding	1,888,000
Exercised	1,533,000
March 31, 2006—outstanding	355,000

For the Year Ended March 31, 2007	2002 Stock Option (Shares)
Vested:	
March 31, 2006—outstanding	355,000
Exercised	232,000
March 31, 2007—outstanding	123,000

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Cost of revenue	¥ 4,261	¥ 3,974	$36,110
Retirement benefits	718	3,226	6,085
Allowance for employees' bonus	1,995	1,553	16,907
Allowance for doubtful accounts	192	511	1,627
Loss on write-down of property, plant and equipment	578	707	4,898
Other	3,658	2,442	31,000
Less valuation allowance	(439)	(828)	(3,720)
Total	10,963	11,585	92,907
Deferred tax liabilities	3,035	5,678	25,721
Net deferred tax assets	¥ 7,928	¥ 5,907	$67,186

Net deferred tax assets as of March 31, 2007 and 2006 were recorded in the accompanying consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets—current assets	¥5,884	¥1,751	$49,864
Deferred tax assets—investments and other assets	2,057	4,158	17,432
Accrued expenses and other (deferred tax liabilities—current liabilities)		(2)	
Other liabilities (deferred tax liabilities—non-current liabilities)	(13)		(110)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2006, is as follows:

	2007	2006
Normal effective statutory tax rate	41%	41%
Expenses not deductible for income tax purposes	1	1
Tax credit		(1)
Decrease in valuation allowance for deferred tax assets	(1)	(30)
Lower income tax rates applicable to income		(1)
Lower tax basis of enterprise tax	(2)	
Other—net	(1)	1
Actual effective tax rate	38%	11%

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,204 million ($10,203 thousand) and ¥811 million for the years ended March 31, 2007 and 2006, respectively.

15. LEASES

The Company and a subsidiary lease certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥182 million ($1,542 thousand) and ¥250 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information for leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006, was as follows:

Year Ended March 31, 2007

	As Lessee					
	Millions of Yen			Thousands of U.S. Dollars		
	Tools, Furniture and Fixtures	Other	Total	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	¥638	¥161	¥799	$5,407	$1,364	$6,771
Accumulated depreciation	317	84	401	2,687	711	3,398
Net leased property	¥321	¥ 77	¥398	$2,720	$ 653	$3,373

	Millions of Yen	Thousands of U.S. Dollars
	Obligations under Finance Lease (As Lessee)	Obligations under Finance Lease (As Lessee)
Due within one year	¥157	$1,331
Due after one year	241	2,042
Total	¥398	$3,373

Year Ended March 31, 2006

	Millions of Yen		
	As Lessee		
	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	¥657	¥127	¥784
Accumulated depreciation	307	59	366
Net leased property	¥350	¥ 68	¥418

	Millions of Yen
	Obligations under Finance Lease (As Lessee)
Due within one year	¥163
Due after one year	255
Total	¥418

Depreciation expense as lessee, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥182 million ($1,542 thousand) and ¥250 million for the years ended March 31, 2007 and 2006, respectively.

The amounts of unearned lease income and obligations, acquisition cost and depreciation under finance leases include the imputed interest income portion and interest expense portion, respectively.

16. DERIVATIVES

The Company enters into foreign currency forward exchange contracts to hedge foreign exchange risk associated with certain assets and liabilities on construction contracts denominated in foreign currencies. It is the Company's policy to use derivatives only for the purpose of reducing foreign exchange risks associated with such assets or liabilities. The Company does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the executive committee and the execution and control of derivatives are controlled by the Company's financing department. The hedging effectiveness in reducing foreign exchange risks is periodically assessed and reported to the Company's accounting department and executive officers.

The Company had the following foreign currency forward exchange contracts outstanding at March 31, 2007 and 2006.

	Millions of Yen			Thousands of U.S. Dollars		
	2007			2007		
	Contract Amount	Fair Value	Unrealized Gain	Contract Amount	Fair Value	Unrealized Gain
Buying:						
U.S.$	¥ 213	¥ 221	¥8	$ 1,805	$ 1,873	$68
Euro	13	14	1	110	119	9
Selling U.S.$	12,315	12,313	2	104,364	104,347	17

	Millions of Yen		
	2006		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Buying:			
U.S.$	¥ 1	¥ 1	
Euro	10	11	¥1
Selling U.S.$	14,507	14,511	(4)

Derivative contracts which qualify for hedge accounting for the years ended March 31, 2007 and 2006, are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

17. CONTINGENT LIABILITIES

At March 31, 2007, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items for bank loans	¥1,026	$ 8,695

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥23,532	192,234	¥122.41	$1.04
Effect of dilutive securities—Stock option		202		
Diluted EPS—Net income for computation	¥23,532	192,436	¥122.28	$1.04
Year Ended March 31, 2006				
Basic EPS—Net income available to common shareholders	¥19,400	191,558	¥101.27	
Effect of dilutive securities—Stock option		902		
Diluted EPS—Net income for computation	¥19,400	192,460	¥100.80	

19. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2007 was approved at the Company's shareholders meeting held on June 21, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15.00 ($0.13) per share	¥2,884	$24,441

20. SEGMENT INFORMATION

Information about geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2007 and 2006, was as follows:

(1) Geographical Segments

	Millions of Yen						
Year Ended March 31, 2007	Japan	Asia	North America	Other	Subtotal	Eliminations (Corporate)	Consolidated
Revenue:							
Outside customers	¥476,813	¥8,082			¥484,895		¥484,895
Intersegment		1,708	¥ 38	¥ 27	1,773	¥(1,773)	
Total	476,813	9,790	38	27	486,668	(1,773)	484,895
Operating expenses	448,622	9,283	36	27	457,968	(1,773)	456,195
Operating income	¥ 28,191	¥ 507	¥ 2		¥ 28,700		¥ 28,700
Assets	¥436,171	¥7,095	¥689	¥148	¥444,103	¥(1,150)	¥442,953

Year Ended March 31, 2007	Thousands of U.S. Dollars						
	Japan	Asia	North America	Other	Subtotal	Eliminations (Corporate)	Consolidated
Revenue:							
Outside customers	$4,040,788	$68,492			$4,109,280		$4,109,280
Intersegment		14,474	$ 322	$ 229	15,025	$(15,025)	
Total	4,040,788	82,966	322	229	4,124,305	(15,025)	4,109,280
Operating expenses	3,801,882	78,669	305	229	3,881,085	(15,025)	3,866,060
Operating income	$ 238,906	$ 4,297	$ 17		$ 243,220		$ 243,220
Assets	$3,696,365	$60,127	$5,839	$1,254	$3,763,585	$ (9,746)	$3,753,839

Year Ended March 31, 2006	Millions of Yen						
	Japan	Asia	North America	Other	Subtotal	Eliminations (Corporate)	Consolidated
Revenue:							
Outside customers	¥378,694	¥12,181			¥390,875		¥390,875
Intersegment	992	918	¥ 35		1,945	¥(1,945)	
Total	379,686	13,099	35		392,820	(1,945)	390,875
Operating expenses	357,826	14,150	36	¥ 17	372,029	(1,883)	370,146
Operating income (loss)	¥ 21,860	¥ (1,051)	¥ (1)	¥ (17)	¥ 20,791	¥ (62)	¥ 20,729
Assets	¥272,424	¥ 7,663	¥654	¥146	¥280,887	¥(1,166)	¥279,721

Notes: 1. The Company and consolidated subsidiaries operate within four geographic segments based on the countries where the companies are located.

The segments consisted of the following countries in 2007 and 2006:

Asia:	Indonesia, Singapore, Philippines, Myanmar, Malaysia and Thailand
North America:	United States of America
Other:	Nigeria

2. Corporate assets mainly consist of long-term loans and investment securities of the Company. Corporate assets as of March 31, 2007 and 2006 were ¥2,130 million ($18,051 thousand) and ¥2,069 million, respectively.

(2) Sales to Foreign Customers

Year Ended March 31, 2007	Millions of Yen				
	Asia	The Middle and Near East	Russia and Central Asia	Other	Total
Overseas sales (A)	¥11,187	¥316,649	¥49,275	¥1,234	¥378,345
Consolidated sales (B)					484,895
(A)/(B)	2.31%	65.30%	10.16%	0.26%	78.03%

Year Ended March 31, 2007	Thousands of U.S. Dollars				
	Asia	The Middle and Near East	Russia and Central Asia	Other	Total
Overseas sales (A)	$94,805	$2,683,466	$417,585	$10,458	$3,206,314
Consolidated sales (B)					4,109,280
(A)/(B)	2.31%	65.30%	10.16%	0.26%	78.03%

Year Ended March 31, 2006	Millions of Yen				
	Asia	The Middle and Near East	Russia and Central Asia	Other	Total
Overseas sales (A)	¥29,651	¥198,070	¥56,099	¥1,726	¥285,546
Consolidated sales (B)					390,875
(A)/(B)	7.59%	50.67%	14.35%	0.44%	73.05%

Note: The Company and consolidated subsidiaries are summarized into four segments by geographic area based on the countries where the companies are located.

The segments consisted of the following countries in 2007 and 2006:

Asia:	China, Singapore, Taiwan and others
The Middle and Near East:	Qatar, UAE, Saudi Arabia, Iran and others
Russia and Central Asia:	Russia
Other:	United States of America and others

The Company and its consolidated subsidiaries operate predominantly in the engineering business, while certain subsidiaries operate in leasing and software producing businesses which are minor in relation to the total business. Accordingly, the presentation of industry segment information is not required under Japanese accounting standards.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Chiyoda Corporation:

We have audited the accompanying consolidated balance sheets of Chiyoda Corporation (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chiyoda Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 21, 2007

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