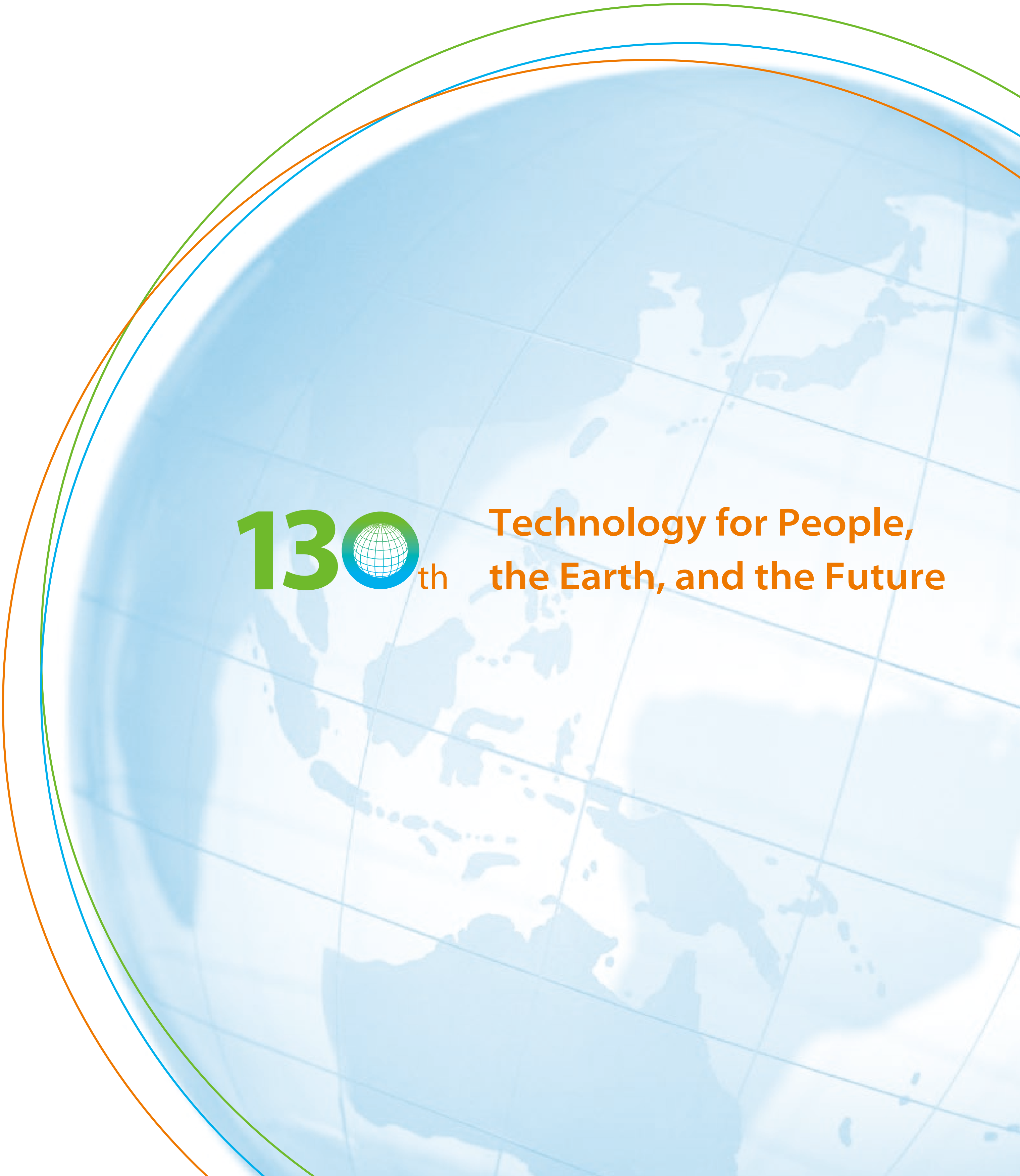
Hitachi Zosen Corporation

Annual Report 2011



130th

Technology for People, the Earth, and the Future

Hitachi Zosen Celebrated its 130th Anniversary

Hitachi Zosen and the Hitachi Zosen Group will research technology that contributes to the enrichment of the global environment and the improvement of the social infrastructure under its corporate slogan of "Technology for the Earth and for People, Now and into the Future," which was established to commemorate its 130th anniversary.

Founding of the former Osaka Iron Works
(wood-block print)

1922 Chikko Works starts operations

1949 Technical Research Institute opens

1944 Kanagawa Works starts operations (closed in 2009)

1911 Innoshima Works starts operations

1943 Mukaishima Works starts operations

1900 Sakurajima Works starts operations (relocated to Ariake Machinery Works in 1997)

1934 The Company makes a new start as Osaka Iron Works incorporated (marking the incorporation of the current Hitachi Zosen Corporation)

1943 Changes name to Hitachi Zosen Corporation

1914 Osaka Iron Works is reorganized as joint-stock company

1907 Opens Tokyo office

1881 E. H. Hunter of Britain founded the Osaka Iron Works (proprietorship)

1880 1890 1900 1910 1920 1930 1940 1950

Osaka Iron Works era (1881-1914)

Osaka Iron Works Ltd. era (1914-1943)

1926
Starts fabricating pylons

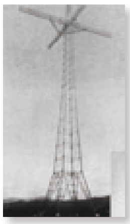
1950
Concludes diesel engine licensing agreement with B&W (currently MAN DIESEL)

1956
Exports first plant since end of World War II

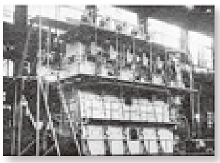
1965
Delivers Japan's first mechanical refuse incineration plant with power generation facility

1967
Starts manufacturing shield tunneling machine

1900
Starts bridge business



1951
Builds first B&W marine diesel engine



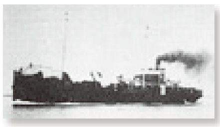
1957
Delivers its first mechanical press machine

1971
Constructs first seawater desalination plant

1973
Develops and delivers world's first 3D transfer press

1960
Concludes licensing agreement for De Roll-type waste incinerator with Von Roll Environmental Technology Ltd. (currently Hitachi Zosen Inova AG)

1908
Builds Japan's first tanker (Tora Maru)



1930
Starts Process Equipment Business

1951
Tanker order received from U.S. customer – first ship export after World War II under private trade

1962
Erects Japan's first suspension bridge using creeper crane construction method

1937
Constructs largest private dock at Innoshima Works

1914
Builds Japan's first Isherwood-type cargo ship

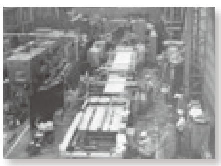
1952
Delivers first emergency diesel engine power generation facility

1962
Concludes licensing agreement for extruders with Reifenhäuser

1974
Delivers first NOx removal system

1957
Concludes diesel engine licensing agreement with Sulzer Ltd. (currently Wärtsilä)

1964
Manufactures Japan's first extruder



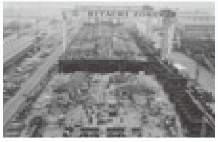
on April 1, 2011.

1997 Ariake Machinery Works starts operations

1991 Ibaraki Works starts operations

1973 Ariake Works starts operations

1971 Maizuru Works starts operations (absorbs Maizuru Heavy Industries Co., Ltd.)



1965 Sakai Works starts operations

1979 Ariake Land Machinery Works starts operations

1981 100th anniversary of founding

2002 Integrates shipbuilding operations with NKK Corporation and launches Universal Shipbuilding Corporation

Begins using “Hitz” as another company name

2009 10 subsidiaries integrated into Hitachi Zosen

2010 Acquires European waste incinerator plant maker (current name: Hitachi Zosen Inova AG)

2011 **130th anniversary of founding**

1960 1970 1980 1990 2000 2010

Hitachi Zosen Corporation era (1943-present)

◆ 1976
Establishes Electronics Division

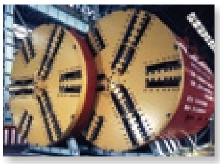
◆ 1983
Constructs world’s largest seawater desalination plant

◆ 1984
Constructs pressure vessel with one of world’s largest diameters

◆ 1984
Installs gas turbine cogeneration facility in Japan

◆ 1985
Delivers one of world’s largest NOx removal system in Japan

◆ 1986
Develops and delivers world’s first crossbar cup feed transfer press



◆ 1987
Completes world’s first multiple-face shield tunneling machine

◆ 1993
Builds of Japan’s first double hull VLCC

◆ 1994
Completes world’s first triple-face shield tunneling machine

◆ 1996
Participates in IPP to supply electricity to power companies

◆ 1997
Constructs one of world’s largest marine diesel engines

◆ 2000
Erects Yumemai Ohashi, world’s first floating swing bridge

◆ 2001
Develops high-definition, long-play hard disk recorder

◆ 2001
Builds Maishima Plant in Osaka City, a high-efficiency waste incineration facility

◆ 2002
Completes construction of its first gasification melting furnace

◆ 2003
Builds Japan’s first and world’s most advanced electronic control marine engine for large vessels

◆ 2005
Enters LCD panel market with development of UF roll

◆ 2005
Builds and begins to operate Japan’s first intermediate processing facility for municipal refuse under PFI legislation

◆ 2006
Builds seawater desalination plant with largest single unit capacity

◆ 2009
Erects Stonecutters Bridge, one of world’s longest cable-stayed bridges

◆ 2009
Delivers one of world’s largest pressure vessels for CTL plants

Profile

We contribute to a prosperous future by leveraging technology to create value useful to society.

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

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

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

The year in review

2010 Apr.

- Completed construction of stoker-type refuse incineration plant in Yamagata City (Gifu Pref.) and commenced operational management of incinerators under 15-year contract

- Order received for stoker-type refuse incineration plant and a recycling facility from Nishi-Harima Environmental Association (Hyogo Pref.)
- Began construction of the first horizontal heat-transfer tube multiple-effect desalination facility at Takahama Nuclear Power Station of The Kansai Electric Power Co., Inc.

May

- Developed flap gate-type seawall designed for installation on land (*neoRiSe*) for protection against tsunami
- Order received from Namyangju, South Korea, for construction of fluidized-bed gasification melting furnace-type incinerator facility

June

- Order received for construction of stoker-type refuse incineration plant from Dalian Teda Environmental Protection Co., Ltd.
- The Company's patented tsunami detection system won an award at the National Commendation for Invention Awards 2010

- Order received from the UAE for desalination plants

July

- Established Zhoushan Nippon Pusnes Ship Machinery Co., Ltd. as a joint venture in China with local company ZHOUSHAN XINXIN CHEMICAL FIBER CO., LTD. for production and sale of deck machinery

Aug.

- Order received from Shanghai Laogang Solid Waste Utilization Co., Ltd. for construction of stoker-type incinerators
- Expanded Nuclear Power Equipment Factory at Ariake Works

Contents

Forward-looking statements:

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

Sep.

- Order received for earth pressure balance shield tunneling machine from Seoul, South Korea for subway construction
- Order received for earth pressure balance shield tunneling machine for LRT (Light Rail Transit) extension in Seattle, U.S.A.
- Order received for two slurry shield tunneling machine for subway system in Bangalore, India

- Order received from Tianjin-Binhai Environmental Industry Development Ltd. in China, for construction of stoker-type incinerators

Oct.

- Created corporate logo and message to celebrate our 130th anniversary
- Order received for construction of the Omuta Plant (part of the Fukuoka Biohydrogen Project), which will produce hydrogen from woody biomass such as forest thinnings

Dec.

- Developed commercial application of marine diesel engine that conforms to the Tier III NOx Emission Standard
- Acquired all shares of AE&E Inova AG (now Hitachi Zosen Inova AG), Europe's leading maker of waste-to-energy facilities (generation of electricity through incineration of urban garbage)
- Received first order from Hong Kong for earth pressure balance shield tunneling machine for construction of Hong Kong Express Railway

2011 Jan.

- Order received for four earth pressure balance shield tunneling machine for construction of subway lines in downtown Singapore
- Completed construction of testing equipment for sealane areas for flap gate-type movable seawall
- Order received for waste-to-energy plants for the Naka-kita Sorachi District Waste Disposal Association, covering Takikawa City and 12 other municipalities in Hokkaido
- Order received from CAGT Engineering (Beijing) Co., Ltd. in China for construction of stoker-type refuse incineration plant In Nanchong, Sichuan

Mar.

- Completed construction of Hitz Skills Training Center
- Order received from Kyushu Regional Development Bureau of MLIT for work on temporary coffering-upstream of Tsuruda Dam in Kagoshima Prefecture

Financial Highlights

Hitachi Zosen Corporation and consolidated subsidiaries

Fiscal year starts on April 1 and ends on March 31 of the following year

	Millions of yen					Thousands of U.S. dollars
Fiscal year	2006	2007	2008	2009	2010	2010
Operating results						
Orders received	327,439	337,701	253,141	337,271	246,067	2,959,314
Net sales	293,409	295,503	298,605	273,526	287,196	3,453,951
Operating income	9,919	10,826	11,678	13,557	13,359	160,661
Net income	1,034	15,695	1,448	7,906	9,675	116,356
Cash flows						
Cash flows from operating activities	(15,668)	(730)	2,348	5,508	17,136	206,085
Cash flows from investing activities	799	26,970	(7,492)	(12,659)	(3,217)	(38,689)
Cash flows from financing activities	(17,812)	(10,714)	1,169	8,755	(9,630)	(115,815)
Cash and cash equivalents at end of year	38,760	54,229	50,095	51,690	55,915	672,459
Financial position						
Net assets	68,652	85,595	85,843	93,200	101,969	1,226,326
Total assets	365,143	365,537	367,473	349,331	380,249	4,573,049
Interest-bearing debt	111,972	102,284	103,698	112,794	104,598	1,257,968
Per share data (yen, U.S. dollars)						
Net income						
Basic	1.43	19.74	1.82	9.95	12.19	0.15
Diluted	—	18.02	1.53	8.38	10.74	0.13
Net assets	68.49	89.05	89.05	99.15	109.75	1.32
Cash dividends	—	—	—	2.00	2.00	0.02
Financial indicators						
Shareholders' equity ratio (%)	14.9	19.4	19.3	22.5	22.9	—
ROIC (%)	6.7	6.8	6.8	7.6	7.3	—
Debt-equity ratio (times)	2.1	1.4	1.5	1.4	1.2	—

Management plan	Hitz Innovation FY2005–FY2007	Hitz Innovation Ⅱ FY2008–FY2010

<Regarding segment changes>

In fiscal year 2010, the Company initiated segment changes based on new accounting standard.

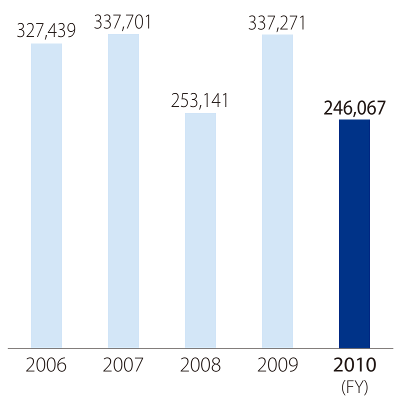
Prior segments		Principal businesses being transferred due to new accounting standard
Environmental Systems and Industrial Plants	Environmental Systems	
	Industrial Plants	
Machinery and Process Equipment	Machinery	Power generation systems
	Process Equipment	
	Precision Machinery	
Steel Structures and Construction Machinery	Steel Structures	
	Construction Machinery	
Other		Electricity power business
		Electronics systems/Control systems
		Marine deck equipment

New segments	
Environmental Systems	
Industrial Plants	Power generation systems, Electricity power business
Machinery	Marine deck equipment
Process Equipment	
Infrastructure	
Precision Machinery	Electronics systems/Control systems
Other	

Orders received

Orders received **¥246.0** billion -27.0%

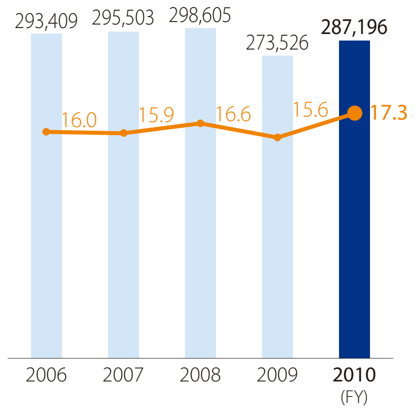
■ Orders received (Millions of yen)



Net sales & Export ratio

Net sales **¥287.1** billion +5.0%

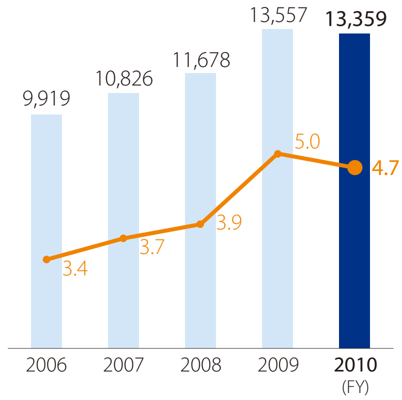
■ Net sales (Millions of yen)
— Export ratio (%)



Operating income & Operating margin

Operating income **¥13.3** billion -1.5%

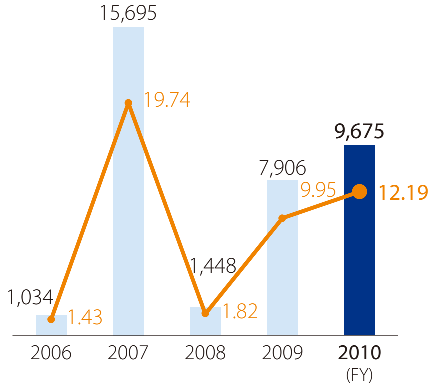
■ Operating income (Millions of yen)
— Operating margin (%)



Net income & Net income per share

Net income **¥9.6** billion +22.4%

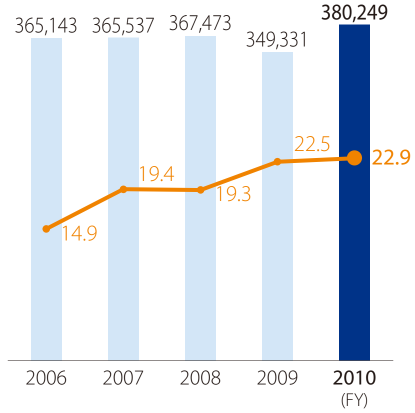
■ Net income (Millions of yen)
— Net income per share (Yen)



Total assets & Shareholders' equity ratio

Total assets **¥380.2** billion +8.9%

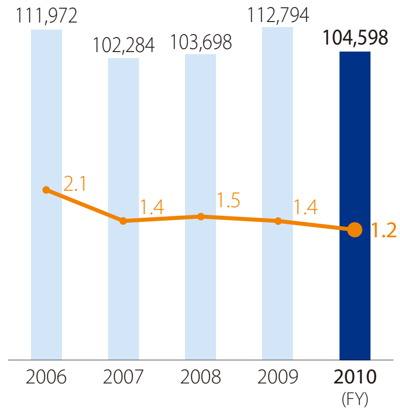
■ Total assets (Millions of yen)
— Shareholders' equity ratio (%)



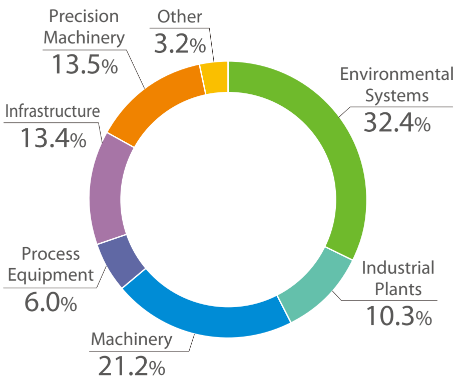
Interest-bearing debt & D/E ratio

Interest-bearing debt **¥104.6** billion -7.3%

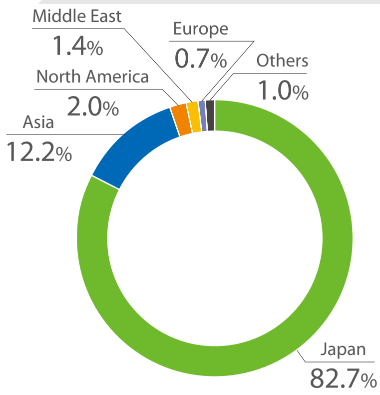
■ Interest-bearing debt (Millions of yen)
— D/E ratio (Times)



Sales by segment



Sales by region



To Our Stakeholders

Firstly, I would like to express my sympathy to the victims of the earthquake and tsunami that devastated the Pacific coast areas of Japan's Tohoku and Kanto regions on March 11 of this year.

We have been involved in the realization of safe social infrastructure and disaster prevention as our principal business area. In view of this, we will do our utmost to help in the reconstruction of areas hit by the earthquake and tsunami, and provide steadfast support for the residents of the communities affected.

The origins of Hitachi Zosen go back to the establishment of Osaka Iron Works in 1881 by the British entrepreneur E. H. Hunter. Since that time, the Company has been involved in the construction and maintenance of social infrastructure, and has made a significant contribution to the development of Japan's industry and economy, and to the creation of a prosperous society. On April 1, 2011 we celebrated our 130th anniversary. During all those years, the Company and the Group have overcome many difficulties to be where they are today, and I would like to take this opportunity to thank our stakeholders, without whose help it would have been impossible.

We have designated 2011, the Company's 130th year, as a new starting point for our growth and development into the future. To mark this, we have drawn up a new vision under the name Hitz 2016 Vision for attainment by fiscal year 2016. And we have also drawn up management plan, under the name Hitz Vision, from FY2011 to FY2013. We will be execution this three-years plan that aim at building a business base for the realization of the Hitz 2016 Vision, laying the cornerstone for the establishment of Hitachi Zosen as a highly profitable company.

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

July 2011

M Furukawa

Minoru Furukawa, Chairman & President

Fiscal year 2010 performance report

The following is a report to the Company's shareholders and other stakeholders outlining our business performance on a consolidated basis for fiscal year 2010 (April 1, 2010 to March 31, 2011), and our vision and our latest management plan.

The market environment and our business performance

Some indications of a recovery were seen in the global economy during fiscal year 2010, against the background of stimulus measures implemented by many governments and growth in the economies of the emerging nations, among other factors. On the other hand, the strong yen caused both exports and production to stall, and the employment situation remained severe. Then, on March 11 Japan was hit by a massive earthquake and tsunami, as a result of which the outlook for the economy remains unclear.

Amid these circumstances, orders received for the 2010 fiscal year by the Process Equipment segment increased over the previous fiscal year, but orders received by the Environmental Systems and Precision Machinery segments declined, pulling down total orders below the level of the previous fiscal year, to ¥246,067 million. Overall sales, however, surpassed the previous year, at ¥287,196 million, due to increased sales by the Machinery and Precision Machinery segments.

Operating income declined in both the Industrial Plants and Process Equipment segments, but overall operating income came to ¥13,359 million, or approximately the same as the previous term, due to improved profit margins in the Environmental Systems and Infrastructure segments, as well as higher profits in the Precision Machinery segment in line with increased sales. Ordinary income fell below the level of the previous fiscal year, to ¥12,011 million, mainly due to a decline in gains on equity-method investments.

Following amicable settlements relating to certain customers, we posted as extraordinary gains ¥1,162 million in reversal of provisions to a reserve for possible losses from lawsuits to cover future liability claims from customers, following a ruling of violation of antitrust laws in Japan relating to a tender for the construction of refuse incineration plant. We also posted ¥573 million in extraordinary losses resulting from the application of accounting standards for asset retirement obligations. As a result, net income after deducting tax costs and minority interests exceeded the level of the previous fiscal year, at ¥9,675 million.

Outlook for fiscal year 2011

With regard to the outlook for fiscal year 2011 (April 1, 2011 to March 31, 2012), the prospects for the Japanese economy remain unclear, but one positive factor for the Company's order value will be the addition of orders received by Hitachi Zosen Inova AG of Switzerland, which became a wholly owned subsidiary of Hitachi Zosen in December 2010. Moreover, a recovery in orders is expected in the Environmental Systems, Industrial Plants, and Machinery segments, and on this basis we have set a target of ¥370,000 million, exceeding the level of fiscal year 2010. We project sales of ¥310,000 million due to the contribution from Hitachi Zosen Inova AG, as well as a projected increase in sales of refuse incineration plants on the back of an enough order backlog.

Turning to earnings, operating income is forecast to decrease as a result of a decline in sales of the Process Equipment and Precision Machinery segments, but the Industrial Plants segment is expected to return to the black ink with an increase in sales, and total operating income is likely to exceed the fiscal year 2010 level, at ¥14,000 million. Ordinary income is forecast at ¥13,000 million and net income at ¥10,000 million.

Hitz 2016 Vision, and Hitz Vision new management plan

Under the Hitachi Zosen Group's two successive management plans — Hitz Innovation (FY2005-2007) and Hitz Innovation II (FY2008-2010)* — we completed the first stage of our management reform initiative by redesigning our business portfolio and redesigning our business processes with the aim of restructuring our corporate base. During this period we have achieved an adequate degree of success in many aspects of management reform, including strengthening our corporate governance functions, ensuring legal compliance, and promoting a transform the Group's corporate culture. At the same time, we have created new products and started up new business lines, have designed and implemented a superior operational strategy, and have reinforced our system for training human resources.

As a result of these achievements, the Hitachi Zosen Group aims to build on these achievements over the past six years to carry through the second stage of its management reform initiative, enabling the Group's management to respond effectively to the changing business environment and realize sustainable growth and development. To this end, we have drawn up the Hitz 2016 Vision, under which we aim to realize our targets by the end of fiscal year 2016. The first three years of the FY2011-2016 six-year span will be covered by our new management plan dubbed Hitz Vision. This three-year period will be devoted to building the foundations for attainment of our objectives under Hitz 2016 Vision. These objectives are to realize our management target of ¥500 billion in annual sales in fiscal year 2016, and to become a highly profitable enterprise with public recognition.

* Please see P15–16 for an outline of our Hitz 2016 Vision and Hitz Vision.

Top Interview

The Hitachi Zosen Group completed its management plan called Hitz Innovation II on March 31, 2011. Beginning from April 1, 2011, the Group started its new management plan called Hitz Vision, which is based on its Hitz 2016 Vision, its new management roadmap. Below, Chairman and President Minoru Furukawa sums up the Group's previous Hitz Innovation II plan and provides an overview of the plan and strategy behind Hitz 2016 Vision and Hitz Vision.

Q1 Could you give a summary of Hitachi Zosen's achievements under its Hitz Innovation II management plan (fiscal 2008–2010)?

A

Over the past six years the Hitachi Zosen Group has been tackling the first phase of its management reform initiative under two management plans — Hitz Innovation (fiscal 2005–2007) and Hitz Innovation II (fiscal 2008–2010). Through these two plans, we have been working to restructuring our corporate base by means of the redesigning of our business portfolio and business processes.

As a result of our efforts, we had a certain degree of success in strengthening our financial position and raising our earnings capability, and were thus able to resume the payment of dividends in fiscal year 2009, which had been one of our top management priorities. I regard this resumption of dividend payments for the first time in the twelve years since 1997 as the single greatest achievement of Hitz Innovation II, and I believe we now have a financial position that will ensure the continuation of dividend payments for the foreseeable future.

We were unable to reach our initial target of 30% or above for the ratio of shareholders' equity against assets, but we succeeded in eliminating our "negative legacy" of loss-making projects, achieving a shareholders' equity ratio above 20% for two successive terms, at 22.5% for fiscal

Progress made in improving our financial position and strengthening our earning power, and thus restructure the Group's business base

year 2009 and 22.9% for fiscal year 2010. This is certainly not a level to boast about when compared with the average ratio for companies listed on the Tokyo stock exchange, at over 35%. Nevertheless, it represents significant progress for the Company, which suffered a critically low level of shareholders' equity against assets in the fiscal years 1998-2005.

We have also enhanced our earning power. Despite failing to reach our initial target for operating margin of 5%, we recorded 4.9% for fiscal year 2009 and 4.7% for fiscal year 2010. Thus, we maintained the margin above the critical 4.5% line for two straight terms, and remain within range of our 5% target. With respect to the issue of corporate governance, in April 2009 we absorbed ten subsidiaries and integrated their operations into Hitachi Zosen, as a result of which the Company has taken on a stronger leadership role within the Group. With this, we have laid the foundations of an optimal Group structure, and I regard this as a major achievement.

Regarding our numerical targets for the final year of Hitz Innovation II, sales fell short of our initial target of ¥340 billion, at ¥287.2 billion, while operating income was ¥13.4 billion compared with our target of ¥17 billion. Net income, on the other hand, exceeded the target of ¥9 billion, at ¥9.7 billion, due to rigorous risk management and a reduction in costs as a result of the absorption of the ten subsidiaries.

The Hitz Innovation II plan was pursued over a three-year period amid a difficult and ever-changing business environment characterized by a global economic recession sparked by the bankruptcy of Lehman Brothers, as well as the sharp strong yen. Although the plan was not an unqualified success in purely numerical terms, it was extremely valuable in terms of substance, notably the implementation of important measures. I believe that during the period of this three-year plan we made major progress toward our most important objective — restructuring our corporate base.

Q2 Could you describe the Hitz 2016 Vision and your latest management plan, the Hitz Vision?

A

Following our completion of Phase I of our management reform initiative under our two-part Hitz Innovation plan in the fiscal years 2005–2010 period, we are now engaged in Phase II (fiscal 2011–2016). The world is currently going through a period of dramatic change — sometimes referred to as a "paradigm shift" (a change in basic assumptions) — and to ensure that the Hitachi Zosen Group does not lose its direction, we have drawn up a vision for attainment by fiscal year 2016, under the name Hitz 2016 Vision to clarify our management goals over the near future. We have also drawn up the Hitz Vision, a new management plan to guide our actions over the first three-year period of Hitz 2016 Vision, starting in April 2011.

Phase I of our management reform initiative, Hitz Innovation and Hitz Innovation II, was called "management plans," but they were actually corporate restructuring plans. Phase II of our management reform initiative, the Hitz 2016 Vision, has been designed to act as a set of guidelines for our growth strategy. We aim to realize the management goal set out in Phase II — of evolving through operational expansion into a highly profitable company with a public recognition — and to grow our net sales to the ¥500 billion mark.

Aiming to obtain social recognition with highly profitability and net sales of ¥500 billion

Q3 Please describe your business goals under the Hitz 2016 Vision.

A

Under the Hitz 2016 Vision we have set down three goals for attainment by fiscal year 2016. The first is, as I mentioned above, to expand our net sales to ¥500 billion and become a highly profitable company with a social recognition. The second is to become the No. 1 profitability in each of our business segment. The third goal is to raise our shareholders' equity ratio to 30% or higher at the earliest possible opportunity so as to become a company with a solid and healthy financial position. All these benchmarks are essential for a company that wishes to obtain social recognition.

¥500 billion net sales is the minimum acceptable level for fiscal year 2016

The achievement of ¥500 billion in net sales, which we have set out as one of our management goals, may seem an extremely difficult target for the Group, whose net sales over the past five years have never topped the ¥300 billion mark, but we have deliberately set the bar high as we believe that growth is crucial for a business enterprise, and that it is important to aim high. I thus regard ¥500 billion as lying on the minimum acceptable growth line.

In December 2010 Hitachi Zosen acquired all shares of AE&E Inova AG, which was the licensor of the De Roll-type stoker incinerator, and made it into a subsidiary under the name Hitachi Zosen Inova AG. Following this, in April 2011 the Company acquired the environmental business of Unitika Ltd.

As a result of the acquisition of these two businesses, in fiscal year 2013, the final year of the Hitz Vision, we expect to expand our sales in the environmental field by at least ¥70 billion from ¥93.1 billion in fiscal year 2010. That is to say, our marketing horizons have expanded to encompass the entire world thanks to transformation of Inova AG into our subsidiary, and we look forward to considerable synergistic benefits. It would be no exaggeration to say that, through this corporate acquisition, we have opened the way to an increase in our environment-related sales to ¥70 billion and beyond.

To make our envisaged sales growth possible, we must strengthen both our domestic and overseas operations. From this viewpoint, the Group has already established joint venture companies in China in the fields of marine engines and deck machinery, and from here on we plan to expand our sales through the establishment of joint ventures overseas for a further range of products, aiming to raise the ratio of overseas sales to 30% of the total. Under the Hitz 2016 Vision, we will be increasing R&D investments to ¥20 billion per annum by fiscal year 2016 to reinforce our capabilities in the development of new products and new businesses.

We believe that the combination of increased revenues and higher earnings that will result from M&A and the establishment of overseas joint-venture subsidiaries, and the creation of new products and new businesses, should be sufficient to enable us to register ¥500 billion in net sales for fiscal year 2016. So confident are we that we hope to build a business foundation during the three years of the Hitz Vision that will allow us to aim for still-higher targets.

However, ¥500 billion in net sales is simply a round figure that will serve as a stepping stone to yet greater achievements. The ultimate goal of the Hitachi Zosen Group is to achieve constant growth in both sales and earnings so as to meet the expectations of our shareholders and other stakeholders and become an enterprise with social recognition — a company truly needed in society .

Q4 What management measures will you be taking under your present management plan, the Hitz Vision?

A

During the three years of the Hitz Vision, we will be laying the foundations for the achievement of our targets under the Hitz 2016 Vision, and will therefore be taking measures to stimulate innovation in business operations and management.

Regarding innovation of business, we have clearly identified the growth area in which we will implement priority investment of our corporate resources. We have positioned green energy, social infrastructure, and disaster prevention as our business domains, and overseas operations, notably in the emerging nations, as well as advanced business fields, as our target markets. By focusing these growth area, we will strengthen our operational growth, enhance our fundamental earning power, and become the top-earning

We have positioned green energy, social infrastructure, and disaster prevention as our business domains, and will be focusing our investment of management resources on these areas

company in each industry in which we operate.

Regarding strengthening operational growth, we have set up the Global Business Promotion Headquarters, and execute expanding and upgrading our network of overseas business bases, to advance our business on a global scale. We have also established development centers with the goal of moving toward a system where R&D activities directly connect with the individual business, enabling us more easily to offer technological and product solutions that precisely address our customers' issues. Regarding our efforts to enhance the Group's fundamental earnings power, we are seeking a well-balanced business portfolio between domestic and overseas operations, and between new constructions and O&M (operation and maintenance) services. We are focusing particularly on raising the ratio of revenue from O&M services from the current 40% to 50% as a means of strengthening the Group's fundamental earning power.

By realizing a balanced mix of engineering operations, manufacturing operations, and precision machinery operations, we hope to create a more resilient business structure that will be less susceptible to economic fluctuations.

Regarding innovation of management, we will leverage the Group's unique Flat Matrix management system, under which we seek to pursue management from the standpoint of total optimization, to realize faster decision-making, a higher rate of implementation of concrete measures and higher levels of goal attainment. At the same time, we will strengthen our financial position still more with the aim of raising the shareholders' equity ratio to 30% or higher as quickly as possible, and of raising our external credit rating, which currently stands at BBB, to the A class.

Under our Hitz Vision, we will steadily implement these various management measures to attain our numerical targets for the final year of fiscal year 2013, i.e., ¥500 billion in orders received (approximately double the level of fiscal year 2010), ¥400 billion in net sales (up roughly 40% over the fiscal year 2010 level), and operating income of ¥20 billion (up 50%). Expenditures planned over the Hitz Vision three-year period include ¥25 billion in R&D expenses, ¥30 billion in capital investment, and ¥20 billion in expenditures on M&A, etc., for a total of ¥75 billion.

Q5 What priority measures will you be taking in the field of green energy?

A

With respect to green energy, we will be engaging in a wide range of businesses involving environmental restoration, the effective utilization of material resources and energy, and the expansion of the use of renewable energy. Specifically, we will place priority on development in fields that promise to help reduce pollution — Energy-from-Waste, and zeolite-based CO_2 separation membrane element (CO_2 emissions), denitration systems and selective catalytic reduction systems for use in marine diesel engines (removal or reduction of NOx) and electronically controlled marine diesel engines (reduction of CO_2 and NOx). We will also put efforts into further developing our laser patterning technology, which is used in the manufacture of solar cells (essential for the effective utilization of solar power), as well as into achieving technical innovation in integrated production systems for plastic film substrate solar cells.

Aiming to be the world's No. 1 engineering company in the field of refuse incineration

Amid these efforts, the field of refuse incinerators, in which we have been greatly strengthened by the acquisition of Hitachi Zosen Inova AG (Inova AG), is expected to post sharp growth. Until the acquisition of Inova, which had licensed its De Roll-type stoker furnaces to the Hitachi Zosen Group, the Group's marketing area had been somewhat geographically limited, but the acquisition opens up the way to marketing across the entire world. The Energy-from-Waste concept is now being enthusiastically promoted all across the globe, and waste disposal demand is shifting from landfill disposal to incineration, with an emphasis on heat recovery.

From here onward, we anticipate further expansion in the market for waste disposal facilities, and in this situation Hitachi Zosen will develop the markets in Japan and East and Southeast Asia, notably China, while Inova AG will develop the European and American markets. By amalgamating the technological and engineering strengths of the Hitachi Zosen Group, which has the maximum experiences in Japan, and Inova AG, which holds the largest share in the European waste disposal market, we will create the world's No. 1 Energy-from-Waste enterprise.

Q6 Could you tell the readers something about Hitachi Zosen's infrastructure and disaster prevention businesses?

A

In the social infrastructure and disaster prevention fields, we are investing in the reinforcement of business operations that will help realize a safer society. Our main priority areas include the construction of seawater desalination plants to produce water for domestic use in water-poor regions like the Middle East as well as remote islands, and the construction of bridges, hydraulic gate, and refuse incineration plants in emerging nations — particularly Southeast Asia — where the provision of social infrastructure lags behind. We will also be putting effort into acquiring orders for the renovation and maintenance of superannuated infrastructure elements like bridges and hydraulic gate in advanced industrialized countries such as Japan and the United States, as this is another market where future growth is projected.

Focusing on shield tunneling machines, which are vital to subway construction, and disaster prevention fields

Also in the field of social infrastructure provision, we are focusing especially on the growing market for shield tunneling machines, which are essential in subway construction work. Amid rising concern over environmental issues, the effectiveness of public transportation systems in moving large numbers of people while reducing emissions of CO_2 is being reexamined, and against this background many municipalities are planning the construction of new subway lines. We therefore plan to increase our shield tunneling machine marketing activities in China, Taiwan, South Korea, Southeast Asia, and India, amongst other markets.

The massive earthquake and subsequent tsunami that hit Eastern Japan on March 11 of this year caused unparalleled suffering in terms of human lives and loss of property. The Hitachi Zosen Group is involved in the production and construction of products that could help prevent or minimize such tsunami-caused disasters in the future, such as GPS ocean wave meter and flap gate-type breakwater. We will continue to develop new products and contribute to building strong social infrastructure elements. With respect to the GPS ocean wave meter, such gauges are currently positioned about 20 kilometers from the coastline, but we are carrying out tests to verify the possibility of placing them still further out to sea, with the aim of practical using such products.

Q7

Please tell us about your business market strategy.

A

Under our Hitz Vision, we position overseas operations, notably in the emerging nations, and advanced business field as our target markets. We regard the emerging nations as potentially rewarding markets for our products as well as promising locations for our production facilities. China is the largest emerging market, and we plan to set up production facilities there and construct local marketing routes. In the other countries in East and Southeast Asia, we will be bolstering our production capabilities with the goal of producing competitive products there for export to the rest of the world.

We focus the advanced business field, where there are development issues, such as technology, products, and business models or where is about new technologies or new markets. During the previous management plan, the Hitachi Zosen Group strengthened its R&D capabilities in areas that promise to lead to the opening up of new markets in those advanced business field, as a result, we are starting to see the translation of new technologies into actual products with future potential, such as zeolite-based CO_2 separation membrane element, MED (multi-effect desalination) plants, selective catalytic reduction (SCR) systems for use in marine diesel engines, flap gate-type breakwater, and dye-sensitized solar cells. Our R&D efforts are thus steadily bearing fruit.

We will expand our production in emerging nations and market our competitive products all over the world

Q8

What kind of returns can Hitachi Zosen's shareholders look forward to?

A

In the fiscal year 2009 we resumed dividend payments for the first time in the 12 years since 1997. This was implemented not as a onetime event, but in the conviction that we will be able to pay dividends consistently from here on. Our annual dividend payment for fiscal year 2010 was ¥2 per share, the same as in fiscal year 2009. While the amount is still inadequate, our policy for the three-year period of the Hitz Vision is to make continuous dividend payments, but we will also make efforts to raise the per-share dividend. In the near future, we hope to fully materialize the growth strategy that we have adopted with the Hitz Vision, and in tandem with the rise in the Company's share price that we forecast, we aim to meet our shareholders' expectations.

We intend to consistently raise dividends in line with our fundamental policy of stable and continuous dividend payments

Evolution to Highly Profitable Company

The Hitachi Zosen Group has drawn up a vision for achievement by fiscal year 2016, under the name of “Hitz 2016 Vision.” We have also drawn up a management plan covering the first three years (FY2011–2013) of the Hitz 2016 Vision, under the name of “Hitz Vision.”

Over the past six years, under our Hitz Innovation (FY2005–2007) and Hitz Innovation II (FY2008–2010) plans, which were placed as Phase I of the Company’s management reform initiative, we have been tackling the task of restructuring our corporate base by redesigning our business portfolio and rethinking our operational processes. As a result, we achieved a certain degree of success in strengthening our financial position and raising our earnings capability, and were able to resume the payment of dividends in June 2010.

We are now engaged in the Hitz 2016 Vision and Hitz Vision, which are placed as Phase II (fiscal 2011–2016) of our management reform initiative, with the aim of becoming a highly profitable company with public recognition through growth in the scale of our operations.

Hitz 2016 Vision corporate vision

Management targets

1. Raise net sales to ¥500 billion, and become a highly profitable company with public recognition

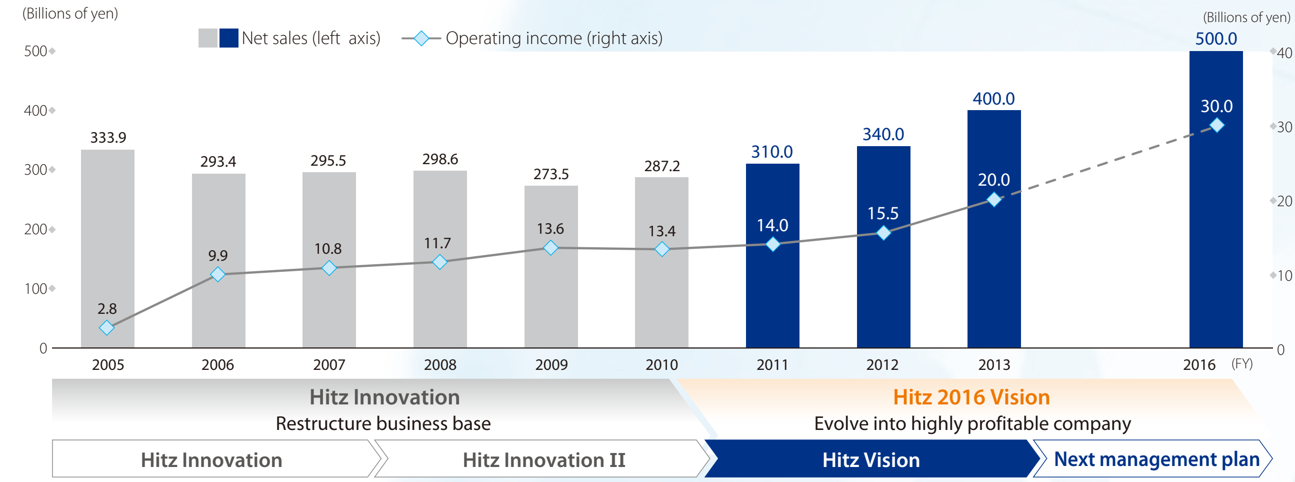
	FY2010 (Results)		FY2016 (Targets)
Net sales	¥287.2 billion	>>>>>	¥500.0 billion
R&D expenses	2.4% (¥7.0 billion)	>>>>>	4% (¥20.0 billion)
Operating margin	4.7% (¥13.4 billion)	>>>>>	6% (¥30.0 billion)

We plan to invest roughly ¥20 billion per annum in research and development for the entire Group, to become the kind of enterprise that can offer technologies, specific products, and solutions that effectively address all issues faced by our customers.

2. Become the No. 1 profitability in each business segments

3. Achieve shareholders’ equity ratio of 30% or higher by FY2013, to become a company with a solid financial position

Targets



(Billions of yen)	FY2010	Hitz Vision FY2011	Hitz Vision FY2012	Hitz Vision FY2013	Hitz 2016 Vision FY2016
Orders received	246.0	370.0	440.0	500.0	600.0
Net sales	287.2	310.0	340.0	400.0	500.0
Operating income	13.4	14.0	15.5	20.0	30.0
Operating margin	4.7%	4.5%	4.6%	5.0%	6.0%
Net income	9.7	10.0	10.5	11.5	15.0
Interest-bearing debt	104.6	114.4	100.0	100.0	Under 100.0
Shareholders’ equity ratio	22.9%	24.2%	29.1%	30.0%	Over 30%

with Public Recognition

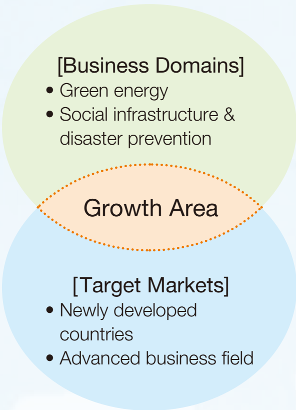
New management plan – Hitz Vision

1. Business innovation

Define growth area

[Business Domains]

- Green energy
  Businesses involved in environmental restoration, effective use of natural resources and expanded utilization of renewable energy sources
- Social infrastructure and disaster prevention
  Businesses involved in social infrastructure that contribute to realization of safer society and anti-disaster technology



[Target Markets]

- Business targeted at overseas clients, particularly in newly developed countries
- Advanced business field where there are developmental issues in technologies, product or business models or where technology or market is new.

Strengthen the growth area

- Establish Global Business Promotion Headquarters and expand business network overseas to enhance global operations
- Establish Development Centers in each business division to evolve into a development system directly connected with the individual business, enabling us to offer technologies, products, and solutions that address our customers' concerns

Enhance fundamental profitability

- Realize well-balanced business portfolio between domestic and overseas demands, and between new construction and O&M (operation and maintenance). Special focus on raising percentage of total earnings from O&M to 50% to strengthen basic profitability. Achieve good balance among engineering operation, manufacturing operation and precision machinery operations, to create a resilient business structure that will be less susceptible to economic fluctuations.

Pursuing business strategy to realize No. 1 profitability in each business segment

- Create business strategy that aims at innovation in business models with focus on offering value to the customer
- Management monitors the progress of business strategy as well as concrete measures to realize it, to reinforce the PDCA cycle

2. Management innovation

Hitachi Zosen's unique flat matrix management system

- Through promotion of flat matrix management system, we will ...
  1. Speed up management measures
  2. Raise effectiveness of specific measures
  3. Realize higher-level attainment of goals

What is "flat matrix management"?

▶ Creation of collaborative relationship between the Head Office and each business division on an equal footing = "flat"

▶ Operation of support and governance functions by the Head Office for each business division = "matrix"

▶ Active and flexible transfer of staff among the Head Office, each business division, and other companies involved, allowing all parties to share common management objectives = "flat matrix structure"

Further strengthen financial position

- Raise shareholders' equity ratio to 30% by FY2013, through higher asset efficiency, improved profits, etc.
- Aim to improve credit ratings (currently BBB) to the A class

Lay groundwork for future earnings by developing new businesses and opening up new fields

- Business and Product Development Headquarters keep in close touch with the Development Center in each business division, and focus efforts on the development of new businesses and new technologies that promise good earnings in the future.
- The Planning Division and the Business and Product Development Headquarters collaborate, simultaneously moving forward with technology development and business development.

Achieving further transform in corporate culture, and training human resources

- We will make unending efforts to transform our corporate culture so as to thoroughly entrench a growth orientation in the Company.
- To foster human resources capable of an independent-minded approach to their work, we will encourage staff to draw up career plans, and to pursue career moves in a planned manner.

3. Investment of management resources

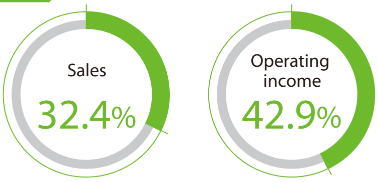
We will increase expenditure on R&D, capital investment, M&As and so on over the three-year period of the Hitz Vision to a total of ¥75 billion.

Hitz Vision (FY2011 – FY2013)	
R&D expenses	¥25 billion
Capital expenses	30 billion
M&A etc.	20 billion
Total	75 billion

Review of Operations

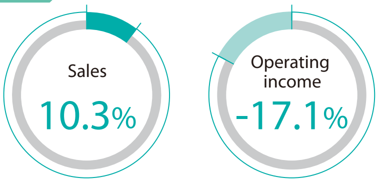
(Millions of yen)

Environmental Systems



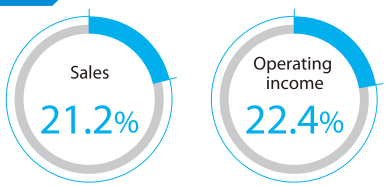
	2009	2010	Change
Orders received	170,533	**94,115**	-44.8%
Sales	89,307	**93,137**	+4.3%
Operating income	3,480	**5,737**	+64.9%

Industrial Plants



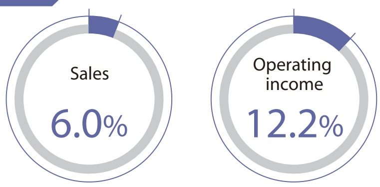
	2009	2010	Change
Orders received	34,029	**29,689**	-12.8%
Sales	40,986	**29,583**	-27.8%
Operating income (loss)	1,296	**(2,281)**	—

Machinery



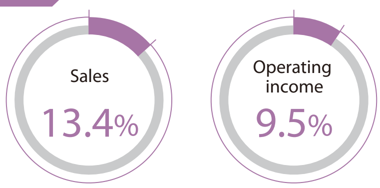
	2009	2010	Change
Orders received	43,325	**43,141**	-0.4%
Sales	54,564	**60,910**	+11.6%
Operating income	2,902	**2,995**	+3.2%

Process Equipment



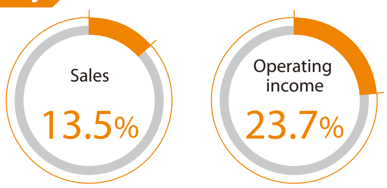
	2009	2010	Change
Orders received	10,418	**13,117**	+25.9%
Sales	26,951	**17,277**	-35.9%
Operating income	5,173	**1,634**	-68.4%

Infrastructure



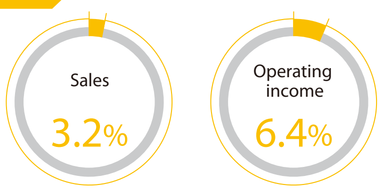
	2009	2010	Change
Orders received	34,541	**33,231**	-3.8%
Sales	34,475	**38,388**	+11.3%
Operating income (loss)	(162)	**1,266**	—

Precision Machinery



	2009	2010	Change
Orders received	36,179	**23,315**	-35.6%
Sales	18,956	**38,670**	+104.0%
Operating income	251	**3,171**	+1,162.9%

Other



	2009	2010	Change
Orders received	8,245	**9,456**	+14.7%
Sales	8,287	**9,231**	+11.4%
Operating income	617	**837**	+35.5%

Environmental Systems Business

Business overview and outlook for fiscal year 2011

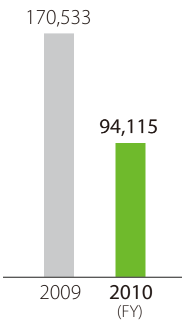
Amid a pick-up in public investment in environmental systems, we recorded sales of ¥93.1 billion in fiscal year 2010, an increase of ¥3.8 billion over the previous year, while operating income rose ¥2.3 billion year on year to ¥5.7 billion. These sales break down into an order for the construction of domestic refuse incineration plants for the Naka-Kita Sorachi Waste Disposal Association in Hokkaido, a contract with Ichinomiya City (Aichi) for the maintenance and operation of the city's Recycling Center, a contract with Iwata City (Shizuoka) for the operation and management of the city's Clean Center (a waste disposal center), and an order from the Hoku Netsu Corporation of Hokkaido for remodeling work on a forest thinnings biomass system. We also completed improvement work on an Environment Communication Center for Akishima City (Tokyo) and handed it over to the city. In addition, we received numerous orders from local authorities for the inspection, maintenance, repair and improvement of domestic waste treatment facilities, as well as facility operation and management.

In China, we received orders from the cities of Shanghai, Tianjin, Dalian (Liaoning Province), and Nanchong (Sichuan Province) for the design of municipal waste incineration facilities, equipment supply, and installation at site.

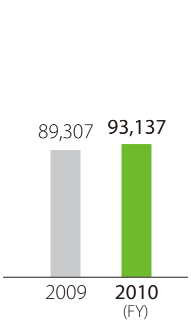
In fiscal year 2011 we will be doing our utmost to assist reconstruction efforts in the regions devastated by the earthquake and tsunami of March 11. We will also focus efforts on strengthening our technological proposal capabilities in the design of municipal waste incineration facilities, as well as our price-competitiveness in this area, with the goal of expanding the number of our contracts for long-term operation of such facilities, so as to secure stable revenues.

To strengthen its environment systems business, on April 1, 2011 the Hitachi Zosen Group took over the environmental businesses of Unitika Ltd. Among the business operations transferred to Hitachi Zosen were two companies involved in waste treatment facilities — SN Environment Technology Co., Ltd. and Kansai Services Co., Ltd. (both of which became wholly owned subsidiaries of Hitachi Zosen) — and two companies involved in water treatment facilities (including chelating agent operations) — Daiki Ataka Engineering Co., Ltd. and Ataka Maintenance Co., Ltd. (a wholly owned subsidiary of Daiki Ataka Eng.).

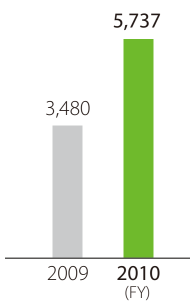
Orders received (Millions of yen)



Sales (Millions of yen)



Operating income (Millions of yen)



Main business lines

Environmental protection systems

- Municipal refuse heat recovery (incineration) facilities
  Stoker-type incinerators
  Hitz superstoker
  Gasification and melting furnace
- High-efficiency waste-to-energy systems
  Super waste-to-energy systems
  RDF power generation systems
- Industrial waste treatment facilities
- Recycling and sorting facilities
- Flue gas treatment equipment
- Ash treatment equipment

Environmental solutions

- AOM (after-sales service, operation and maintenance) business
- PFI/DBO business
- Remote monitoring systems

Biomass utilization/Water treatment/Soil remediation systems

Biomass utilization systems
- Methane fermentation system
- Biosolids Derived Fuel systems
- Bioethanol dehydration systems
- High-speed raw refuse reduction system
- Biodiesel fuel production systems
- Biomass gasification

Water treatment systems
- Sludge recovery and treatment system
- Water/sewage treatment system
- Sea water electrolyzing equipment

Soil remediation systems

Principal Group companies

- Daiki Ataka Engineering Co., Ltd.
- Hitachi Zosen Inova AG
- SN Environment Technology Co., Ltd.
- Nisshin Service
- Kansai Services
- Ecomanage Corporation

The recent incorporation of Hitachi Zosen Inova AG into the Group is part of our global strategy for the Energy-from-Waste (EfW) business. Hitachi Zosen Inova AG aims to become the number one EfW business in Europe, while Hitachi Zosen Corporation has set its sights on becoming the number one EfW business in Japan, China, North American and the world.

Photo: Higashiyodo Plant in Osaka City (above)
Clean Center in Gifu Yamagata City

Topic

One of Europe's top municipal refuse incineration plant makers becomes subsidiary

Hitachi Zosen acquires all shares of AE&E Inova AG

On December 20, 2010, Hitachi Zosen acquired all shares of AE&E Inova AG (name changed to Hitachi Zosen Inova AG in February, 2011) and made it into a subsidiary. Inova AG is one of Europe's leading designers and makers of municipal refuse incineration plants, and in 1960 Hitachi Zosen licensed-in De Roll-type waste incinerator technology from its predecessor, Von Roll Environmental Technology Ltd.

Currently, the Hitachi Zosen Group is accelerating the overseas expansion of its waste treatment facilities business, especially in Asia. However, with demand shifting to incineration disposal that emphasizes heat recovery from reclaimed disposal sites in Europe, further growth can be expected in the waste treatment facilities market. In April, we received our fourth PFI Energy-from-Waste plant construction order from the United Kingdom.

Under these conditions, we have secured the European market by making AE&E Inova AG a subsidiary and can now expand our business presence with an eye on the global market. Further, the technological and engineering capabilities of Inova AG are expected to contribute in a major way to the development of the Hitachi Zosen Group's environmental business due to potential synergistic effects with Hitachi Zosen's technology developed over many years.

Company outline

Name	Hitachi Zosen Inova AG
Address	Hardturmstrasse 127, 8005 Zurich, Switzerland
Representative	Georg Silbermann (CEO)
Main business	Design, manufacture, sales, maintenance, and operation of waste incineration facilities
Paid-in-capital	CHF 40,000,000
Established	June 22, 1995

Industrial Plants Business

Business overview and outlook for fiscal year 2011

Plants

Private-sector capital investment plans failed to recover during the reporting period, owing to the sluggish state of the economy. As a result, the Company's sales in this segment for fiscal year 2010 decreased by ¥11.4 billion year on year, to ¥29.6 billion, while operating income shrank by ¥3.6 billion to ¥2.3 billion. Amid this market environment, we received an order from the United Arab Emirates for a seawater desalination plant, and an order from IDEX Eco Energy Co., Ltd. — the first company in the world to construct a business-use plant for the production of hydrogen from wood biomass — for the construction of the Fukuoka Biohydrogen Project Omuta Plant. We also received orders from customers in Japan and overseas for renovation or remodeling work on a number of types of plant, and for NOx removal catalysts and other products.

Our plans for fiscal year 2011 include a focus on expanding our marketing, both in Japan and overseas, of our ethanol dehydration membranes (anhydrous ethanol production), which contribute to CO_2 reduction. In our desalination business, we hope to leverage our full lineup of desalination plants — multi-stage flush (MSF), multi-effect desalination (MED), and reverse osmosis (RO) types — to receive large-scale orders. In our denitration business, which develops effective methods for NOx removal, in addition to the sale of denitration systems, we have developed selective catalytic reduction systems for marine engines, and are currently working to enhance our product lineup in this field.

Energy business

Although private-sector capital investment remained low-key due to the sluggish economy, we received a large number of orders from existing customers for various after-sales services on electric power generation facilities, including inspection and maintenance, as well as upgrading work. Our Ibaraki electric power generation plant also sold surplus electric power produced by its in-house generation facilities to the utilities company.

In fiscal year 2011 we will be doing our utmost to assist reconstruction efforts in the regions devastated by the earthquake and tsunami of March 11. We will meet demand for distributed energy supply facilities, and at the same time will focus our efforts on development and operational expansion in the new business fields of organic Rankine cycle technology and solid oxide fuel cells.

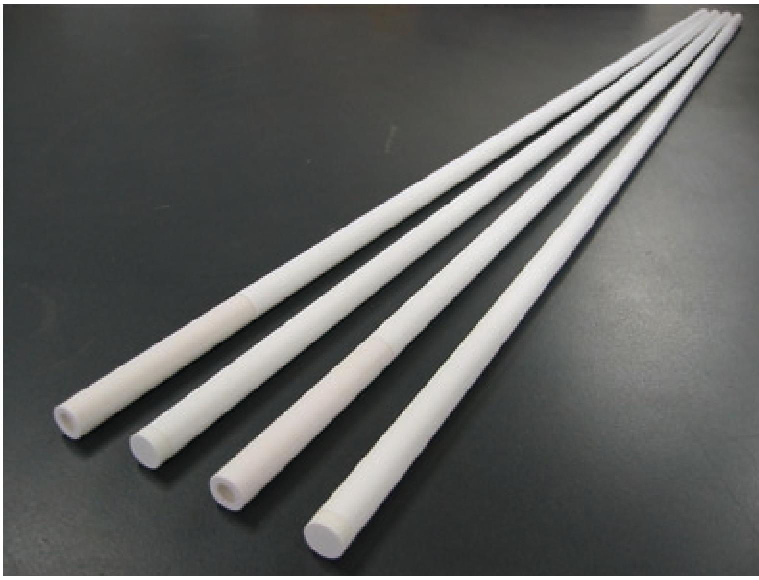
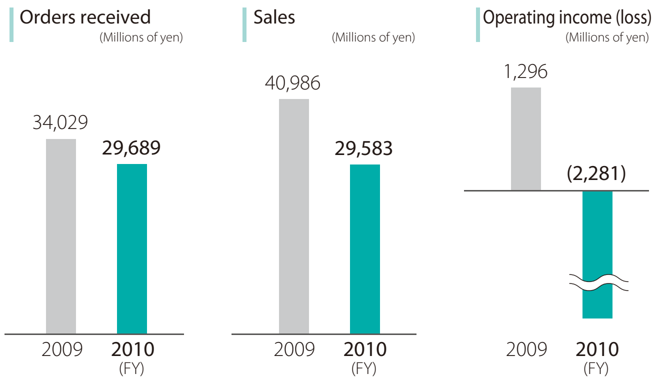


Photo: Ibaraki electric power generation plant (above)
Hitz zeolite dehydration membrane element



Main business lines

Plants

- Seawater desalination plant
- Chemical and petrochemical plants
- Oil and gas plants
- SCR NOx removal system
- NOx removal catalysts
- Sulfuric acid plants
- Pharmaceutical plants

Power generation facilities/New energy

- Gas turbine power generation facilities
- Gas engine power generation facilities
- Diesel engine power generation facilities
- Co-generation systems
- Wind power generation systems
- Water electrolytic hydrogen generation systems
- Fuel cells

Electricity power business

Principal Group companies

- Nichizo Tech INC.
- HEC Engineering Corporation
- Hitachi-Zosen Plant Techno-Service Corporation

Machinery Business

Business overview and outlook for fiscal year 2011

Photo: Electronically controlled engine (above)
Tandem press line for Thailand

◆ Marine diesel engines

The business environment remained difficult in fiscal year 2010 as the economy failed to fully recover from the recession that has been ongoing since the bankruptcy of Lehman Brothers in late 2008. However, we expect conditions to start on a recovery trend in the near future, and in particular we hope to take advantage of expanding demand in China, which is now the world's leading shipbuilding nation. We intend to meet that demand and achieve business expansion through OEM component supply via our joint-venture subsidiaries in China.

We recently developed a high-temperature, high-pressure selective catalytic reduction (SCR) system for use in marine diesel engines, which reduces nitrogen oxide (NOx) emissions to below the maximum stipulated by the International Maritime Organization. In cooperation with Nissho Shipping Co., Ltd., Naikai Zosen Corporation has built diesel engines fitted with this SCR system, and is scheduled to install them in a ship in service this autumn. We plan to continue development work on the system in tandem with practical testing.

Hitachi Zosen Corporation, together with Nippon Pusnes Co., Ltd. and the local company ZHOUSHAN XINXIN CHEMICAL FIBER CO., LTD., has established a three-way joint venture company in China for the manufacture and sale of deck machinery. The company received operating approval from the Chinese authorities in June 2010 and commenced production. Our plans include further expansion of our marine equipment business in the Chinese market.

◆ Press machines

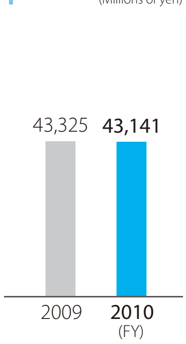
In Japan, the termination of the government's subsidy scheme to encourage the purchase of eco-friendly vehicles and the appreciation of the yen caused Japanese automakers, our main customers, to suffer difficult operating conditions during the reporting term. However, the automakers' business performance gradually recovered overall due to rising demand, particularly in emerging markets.

Against this backdrop, we worked to achieve our goals of securing orders, cutting costs, enhancing our sales capability for overseas projects and improving product appeal. Thanks to a steady capital investment trend by the automakers, especially in emerging countries, our press machines business recorded a sharp 78.9% year-on-year growth in sales, to ¥12,837 million.

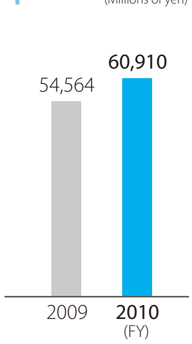
Despite continued severe sales price pressure, due to cost-cutting efforts, we were able to post operating income of ¥112 million, a major turnaround from the ¥1,593 million operating loss recorded in the previous term.

In fiscal year 2011, customer demand is expected to steadily increase, especially in emerging countries. We plan to develop and supply products that precisely meet market needs, and to carry out strict cost-cutting measures. We forecast net sales of ¥18,000 million (up 40.2% year on year) and operating income of ¥460 million (up 310.3%) for the press machines business.

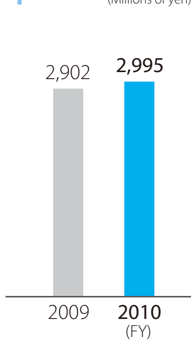
Orders received
(Millions of yen)



Sales
(Millions of yen)



Operating income
(Millions of yen)



Main business lines

Marine diesel engines	Press machines	Other	Principal Group companies
• Marine diesel engines	• Press machines	• Slurry ice manufacturing systems • Deck machinery	• Hitachi Zosen Fukui Corporation • IMEX Co., Ltd. • Nippon Pusnes Co., Ltd. • Zhenjiang Zhong Chuan Hitachi Zosen Machinery Co., Ltd. • Zhongji Hitachi Zosen Diesel Engine Co., Ltd. • Zhoushan Nippon Pusnes Ship Machinery Co., Ltd.

Process Equipment Business

Business overview and outlook for fiscal year 2011

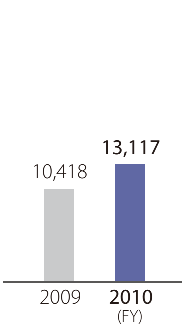
Our process equipment business failed to achieve a fully fledged recovery in fiscal year 2010, as the market contracted rapidly and competition intensified as a result of the yen's appreciation. The environment for orders was thus severe. Against this backdrop, we won orders for pressure vessels for use in fertilizer plants and oil refineries, as well as for various types of process equipment for plants both in Japan and overseas.

Demand for fertilizer plants is expected to grow as a result of the current worldwide food shortages, and the need to diversify fossil fuel sources is likely to stimulate increased demand for gas liquefaction and coal liquefaction plants. Equipment scales are also expected to increase as customers seek greater production efficiency. Consequently, to meet such needs we are focusing efforts on developing more advanced technologies for both manufacturing and installation. We plan to open up new markets for our products in India and South America through collaboration with overseas manufacturers as well as through the establishment of our own business bases in those markets. India will be a particular focus of our efforts, and we aim to expand our sales there through the establishment of a local subsidiary.

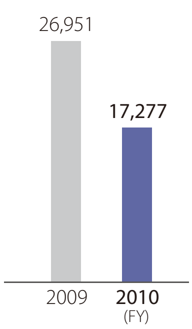
In the field of equipment for use in nuclear power, we received orders for and delivered storage canisters for spent nuclear fuel (to the United States) and casks for the transportation and storage of spent nuclear fuel (Japanese electric power companies), among other products.

In the aftermath of the Great East Japan Earthquake, in the event that we receive urgent requests from the Japanese government or the power companies in relation to reconstruction work in the disaster-hit region, it goes without saying that we will assign such requests top priority, and respond to them with our full efforts as part of the Company's public mission.

Orders received (Millions of yen)



Sales (Millions of yen)



Operating income (Millions of yen)

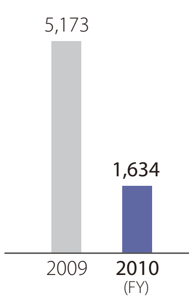


Photo: Spent nuclear fuel storage casks (above)
CTL reactor

Main business lines

Process equipment

- Heat exchangers
- Pressure vessels
- Mixing vessels
- Driers

Nuclear power equipment

- Nuclear fuel cycling-related equipment
  Transportation casks, storage casks, storage facilities
- Radioactive waste incineration and reduction facilities

Principal Group companies

- OCL Corporation

Infrastructure Business

Business overview and outlook for fiscal year 2011

◆ Steel structures

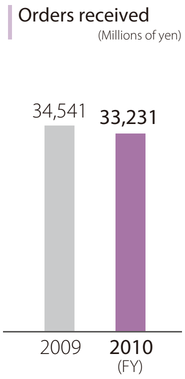
The environment for new bridge construction orders became still more severe in fiscal year 2010, but earnings improved significantly over the previous year thanks to the receipt of orders for maintenance work on existing bridges.

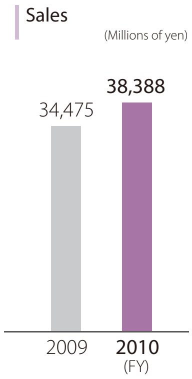
During fiscal year 2010 we received orders for work on the Irome River elevated portions of the Tokai Kanjo Expressway from the Chubu Regional Bureau under the Ministry of Land, Infrastructure and Transport (MLIT), and an order from the Hiroshima prefectural government for seismic retrofitting work on bridge superstructures. We also received further orders, following on from the previous year, for construction work on embedded steel plate cells, which will be used in seismic retrofitting work on Yokohama City's Minami Honmoku Pier. From electric power companies we received orders for the construction of steel stacks and for seismic retrofitting work. Orders were received from the MLIT, a number of local authorities, expressway companies, electric power companies, and construction companies for bridges, hydraulic gates, marine structures, steel stacks, and other structures.

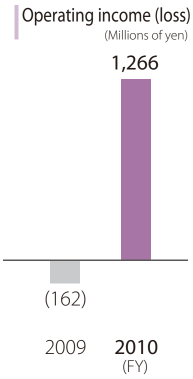
Particularly notable was our receipt of a large-scale order from the Kyushu Regional Bureau of the MLIT for the construction of temporary closing facilities for dam redevelopment upstream of the Tsuruda Dam in Kagoshima Prefecture. Temporary closing facilities are structures that create a work-space on the lakeside of a dam (without having to drain the reservoir), enabling excavation work to be conducted on the body of the dam. Such structures greatly facilitate the performance of redevelopment work on existing dams.

During the reporting term, we developed equipment for testing our flap gate-type movable seawall — designed to protect against high tides and tsunami — in actual marine conditions. We are currently conducting tests in actual marine conditions at Yaizu Port, and plan to begin public testing within this year.

We will continue our active efforts to contribute to protection against natural disasters in and around Japan's harbors, and look forward to securing steady earnings through the expansion of our infrastructure maintenance operations.







Main business lines

Bridges/Hydraulic gates/ Marine civil engineering

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

Construction machinery

- Shield tunneling machines
- Tunnel boring machines

Marine disaster prevention systems

- GPS buoy wave/tsunami/tide observation system
- GPS image transmission services
- Tsunami and high tide disaster prevention stations
- Remote monitoring systems
- Automatic gate operation and driving systems
- Movable watertight boards
- GPS continuous monitoring systems
- Marine, disaster-prevention and environmental monitoring systems
- Electrical discharge impulse crushing systems

Principal Group companies

- Promotec Corporation

◆ Construction machinery

Amid sluggish public investment in our field of business, the environment for orders remained difficult in Japan. Overseas, however, we continued to be involved in large-scale projects, and implemented aggressive marketing campaigns in the emerging markets, where economic growth continues unabated, notably Southeast Asia, Hong Kong, and India. As a result, we received orders for shield tunneling machines from India, Hong Kong, Korea, and North America. Total orders received, including from customers in Japan, recorded an increase of 13% over the previous business term.

We increased the production capacity of our Sakai Works to cope with strong demand from the domestic and overseas markets, and set up a three-factory production system with the Sakai Works, the Ariake Works, and one of our consolidated subsidiary works.

Looking ahead, we will meet demand for our shield tunneling machines in the Japanese market and press forward with aggressive operations overseas to meet the demand for infrastructure businesses in the expanding emerging markets.

◆ GPS-related business

Hitachi Zosen has received an award for invention from the Japan Institute of Invention and Innovation for its development of a tsunami detection system utilizing a wave gauge that employs the Global Positioning System (GPS). The use of GPS enables real-time detection of changes in sea level, allowing tsunami to be detected while they are still well offshore. This system has been incorporated into the GPS wave gauges ordered by the Tohoku Regional Bureau of the MLIT in fiscal year 2010 from Toyo Construction Co., Ltd.

GPS wave gauges were used by the Meteorological Agency to give warnings of the arrival on the coast of Japan of tsunami resulting from the Great East Japan Earthquake on March 11 of this year.

We received and completed an order for installation of our GPS-based wave gauges for Kuroshio Bokujo floating artificial fishing reef, in Kochi Prefecture. As a result, we can look forward not only to improving the marine resources environment, but also to raising the productivity of Japan's fishing industry.

To develop new satellite positioning technologies and services employing the proposed Quasi-Zenith Satellite System (QZSS), we have made proposals to the Geospatial Information Authority of Japan and the Japan Meteorological Agency for the upgrading of existing systems. The use of satellite positioning services is expected to take off when the QZSS comes into operation, and we at Hitachi Zosen intend to be at the forefront in the development of this new technology.

Photo: From top
Shield tunneling machine
Steel plate cells
Flap gate-type breakwater
GPS buoy wave/tsunami/tide observation system

Precision Machinery Business

Business overview and outlook for fiscal year 2011

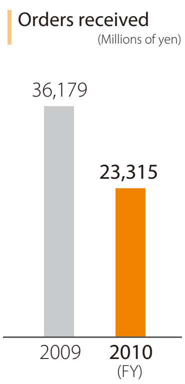
In fiscal year 2010 the Precision Machinery business recorded sales of ¥38.7 billion, up ¥19.7 billion from the previous year, and operating income of ¥3.2 billion, up ¥2.9 billion. This performance came against the background of rising international interest in measures to realize sustainable energy, which led to considerable capital investment in solar panels and a recovery by the LCD industry.

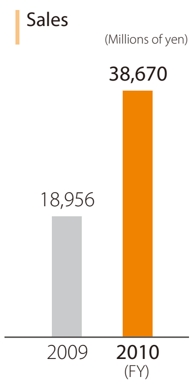
In fiscal year 2011 we expect a year-on-year decline of ¥9.7 billion in sales, to ¥29.0 billion, and a decline of ¥5.7 billion in operating income, to ¥2.6 billion. This will be a reaction to the posting of sales through the percentage-of-completion method for the previous business year, resulting from large-scale orders for the installation of solar panel facilities. Although the prospects for the Japanese economy remain unclear, Hitachi Zosen is steadily building up a solid customer base among food processing companies and railway companies for its image and video recording systems. In the Chinese market, meanwhile, demand is growing for lapping plates, LCDs and solar panel manufacture, and we are taking aggressive action to ensure an expansion of this business, including overseas development.

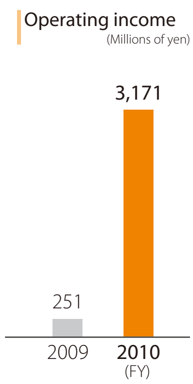
◆ Plastic machinery

A recovery was seen in certain market sectors during fiscal year 2010 thanks to the government's introduction of the electrical appliance eco-points system to stimulate consumption, but capital investment levels were generally low across the industry, and the environment for orders was severe.

Overseas, however, demand rose, particularly in the LCD and solar panel markets, and capital investment remained especially vigorous in China, Taiwan, and South Korea.







In these circumstances, on the Japanese market we are enjoying steady deliveries of manufacturing equipment for optical films and sheets, such as brightness-enhancing films used in the production of LCDs. In the foodstuffs packaging market, we made deliveries to new users of equipment for the manufacture of gas-barrier-type multilayered sheets used to maintain food flavor and freshness.

On overseas markets, we received orders for manufacturing equipment for backlights and front panels for LCDs, and were able to improve our track record of deliveries to overseas users.

From here onward, we aim to promote an expansion of our business on overseas markets by publicizing our track record in the domestic LCD market. In addition, as a means of enhancing our earnings, we will also make efforts to secure increased orders for our equipment used in the manufacture of high-performance functional films such as ultra-thin optical films, separator films for lithium-ion batteries, and flexible films used in solar panels.

◆ System machinery

In the system machinery field, we project continued expansion in demand in the areas of sustainable energy and energy conservation, which have recently been the focus of interest, and we will aim to achieve sustained growth by anticipating user needs, enabling us to supply products that distance us from our competitors.

Against this backdrop, the large-scale installation work on solar panel facilities that we performed in the previous year made a major contribution to sales for fiscal year 2010, and we hope to leverage this track record to secure increased orders in the near future.

Organic light-emitting diodes (OLEDs) are currently attracting attention as a promising high-efficiency next-generation light source alongside inorganic LEDs, and we are planning to develop these products into a commercial business. Aiming to realize high productivity and low production costs, we are actively investing in this field with the aim of leveraging our creativity in device applications to develop technologies for OLEDs and large-scale OLED displays, as well as peripheral equipment.

The leading beverage makers are also seeking to reduce the environmental burden of their operations and introduce energy conservation measures. We see this new demand as an opportunity to post growth, and are aiming at the early establishment of a bottle sterilization system using electron beams as a promising alternative to conventional sterilization methods employing chemical agents. We also aim to expand orders from food processing companies and pharmaceutical companies.

Main business lines

Precision machinery	Industrial machinery	Electronics systems/Control systems	Principal Group companies
• OLED production systems • Vacuum equipment • FPD manufacturing-related systems • Laser patterning equipment • Polishing equipment • Electrolytic compound polishing equipment	• Food machinery • Pharmaceutical machinery • Plastic machinery	• Image and video technologies • Various control systems • Board computers	• V TEX Corporation • Ultra Finish Technology Co., Ltd. • Nippon GPS Data Service Corporation

◆ Electronic control equipment

The environment for orders for our printed circuit board (PCB) and electronic unit products made a turnaround for the better in fiscal year 2010, thanks to a recovery from the latter half of fiscal year 2009 in the areas of semiconductors and IT-related fields, as well as good business performances by social infrastructure-related companies overseas. This helped to push up our earnings in this segment.

In a continuation of the previous year's performance, we once again enjoyed increased inquiries in the field of image and video recording systems. Thanks to our continued vigorous marketing efforts targeted particularly at food processing and railway companies, we succeeded in raising our corporate profile in these industries. Awareness is growing in the food processing industry of the need to ensure food safety by protecting against the malicious introduction of poisons or contaminants into food. A number of companies have newly entered this field, and a market is in the process of formation.

As a pioneer in the development and sale of video-recording systems for the food processing industry, under our product name of *Shokureko*, we plan to continue launching new products on the market that will effectively address the concerns of our customers in the food processing industry, and have good hopes of expanding our orders received. At the same time, to address the recent concerns over shortages of electric power supply, we are developing package solutions incorporating solar power generation and functions enabling easy visualization of electricity consumption.

In the railway/transportation business that we took over in 2010, we have been receiving a growing number of inquiries relating to rolling stock operational safety, and have high hopes of securing orders for our products.

◆ Materials business

Sales of lapping plates — our mainline products in this segment — had been sluggish since the bankruptcy of Lehman Brothers in 2008, but this factor weakened in fiscal year 2010, and orders received in the first half of the term were in line with our expectations. In the second half of the term, orders from makers of silicon wafers declined, but sapphire wafers for LED manufacture were in great demand, and we look forward to growth in this sector.

With regard to our planned measures, we will work to expand sales of lapping plates in sapphire wafers and silicon carbide as a next-generation market for LED use, and will work to expand our share of the domestic market.

We intend to conduct aggressive marketing in the fast-growing Asian markets, particularly China, and also hope to acquire increased orders for materials in the environmental and renewable energy fields. One new business field that we are tackling vigorously is components for wind-power generators. At the same time, we seek to secure improved earnings through rigorous cost-cutting in our manufacturing operations, a complete overhaul of our production system, and measures to raise our machinery capacity utilization rate.

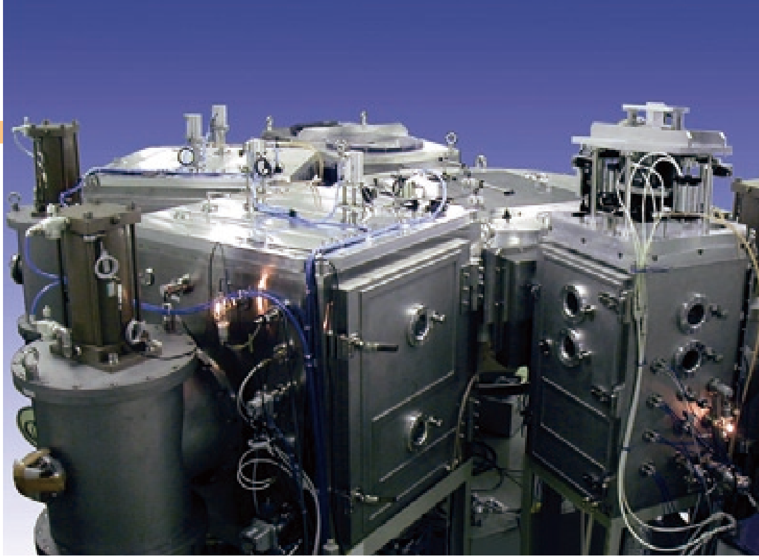


Photo: From top
OLED production systems
Roll to roll continuous membrane formation equipment
Stationary digital recorder
Thin film laser patterning system

Research & Development

Basic policy and technology development system

In line with its development strategy based on its management plan, the Hitachi Zosen Group pursues the improvement and upgrading of existing products and the development of new businesses and new products, principally in the Group's operating fields of environmental systems, industrial plants, machinery, process equipment, infrastructure, and precision machinery.

In April 2011 the Group adopted a new development structure. Two departments are belonging to the Business and Product Development Headquarters, which oversees development activities throughout the Group. These are the existing Technical Research Institute, which is responsible for the development of product elemental technologies and production technologies as well as future core technologies, and the Product Development Planning Department, which is set up in April of this year and is charged with the centralized supervision of research activities across the entire Group, and also has responsibility for drafting development strategies. We have also set up Headquarters Development Centers in the Engineering Headquarters, the Machinery & Infrastructure Headquarters, and the Precision Machinery Headquarters. Under this new development structure, we will work to strengthen collaboration between our operating and marketing divisions, and will pursue development aimed at the early commercialization of newly developed products.

Achievements in fiscal year 2010

Our development staff handled 107 themes in fiscal year 2010, and achievements were roughly in line with the targets.

In the environmental and industrial plants business area, as part of our efforts to contribute to the fight against global warming, we pursued development work on the use of stoker-type furnaces as part of high-efficiency systems for the generation of electricity from waste incineration (WtE), and on selective non-catalytic reduction systems (SNCR) for NOx removal, as well as development aimed at lengthening the useful life of parts and materials, such as fire-resistant construction for melting furnaces and building up the thickness of boiler-use water pipes.

We constructed demonstration equipment for testing vapor compression MED (multi-effect desalination) plants and confirmed that performance was as per specifications. In addition, as a contribution to the achievement of a low-carbon society, we developed an ethanol fuel (biofuel) production plant and films for the dehydration of ethanol.

In the machinery, process equipment, and infrastructure business areas, we conducted development of emissions control devices for marine diesel engines, and began work on construction of a test engine. We also expanded the application of laser welding technology to a wider range of products, achieving a sharp improvement in product quality and productivity. We also carried out development aimed at improving our production technology, such as a method for elucidating residual stress distribution and hydrogen diffusion in the welding of thick plates. In anti-disaster infrastructure elements, we completed construction of a test seabed-type flap gate wave breaker to reduce damage from tsunami and storm surges, and developed new applications for our electrical discharge impulse fracturing method.

In the precision machinery business area, we continued to pursue development of an integrated manufacturing system for solar cells, covering everything from film formation through patterning to inspection, as well as laser precision patterning equipment. In development in the field of OLED display manufacturing equipment, we continued to take part in a NEDO project aimed at the development of large-scale OLED film-forming equipment, and completed a commercial model of a film-deposition device for small to medium-sized displays.

We also conducted research in leading-edge technology areas, such as carbon nanotubes, all solid-type lithium-ion batteries, and duzhong elastomers made using Eucommia gum.

Plans for fiscal year 2011

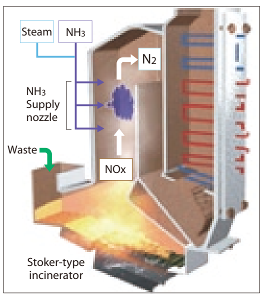
Regarding development activities in fiscal year 2011 (ending March 31, 2012), in principle we will maintain our fiscal year 2010 policies and areas of focus.

In the environmental and industrial plant business areas, we plan to develop more advanced high-efficiency waste-to-energy systems, and will press forward with the development of production processes for ethanol fuel and dehydration films, as well as developing new applications for these products.

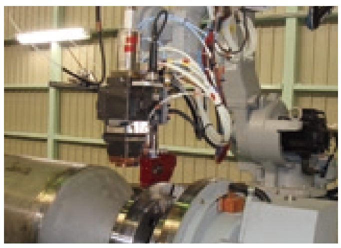
In the machinery, process equipment, and infrastructure business areas, we will expand the number of products for application of laser welding and robot welding, and will conducts tests on the operation of our seabed-type flap gate wavebreaker for protection against tsunami and storm surges.

In the precision machinery business area, we will continue development work on high-performance film-forming technologies in the field of solar cells, and on film-deposition devices for OLED displays as part of the NEDO project.

We will continue our research and development work in leading-edge technology areas, centered on applications for carbon nanotubes and ethanol fuel.



Selective non-catalytic reduction system (SNCR) fitted with automatic switching system for point-of-supply of ammonia



Welding using lasers

Intellectual Property Management

Basic policy of the Hitachi Zosen Group

Hitachi Zosen Corporation's intellectual property strategy supports the Company's long-term management and business strategy, and is in close conformity with its research and development strategy. We seek actively to acquire industrial property rights in fields we are strategically developing, to contribute to the efficient pursuit of our business goals. We also set the direction of technological development targeted by our research and development strategy, and invest resources from the Intellectual Property section on a priority basis in key development projects so as to protect our proprietary technologies and further expand the fields in which we possess unrivalled technological superiority.

We also provide guidance to the managements of all other members of the Hitachi Zosen Group and affiliated companies in respect to the ethical pursuit and protection of patent rights, to enable intellectual property management in conformity with our business philosophy.

Medium-term intellectual property activities

Patent applications and related activities conducted by Hitachi Zosen's Business and Product Development Headquarters are based on the principle that "all research starts with the acquisition of a patent." Our researchers work to discover new ideas and uncover practical applications for them, and then to ensure that application is made for a patent on the invention that is invulnerable to challenge. Using intellectual property tools known as "technology maps" and "patent maps" to visually represent related patent information, we analyze the areas in which we are weak and those in which we are strong in terms of patent rights. This analysis is then used to maintain our position in our areas of strength while strengthening our position in areas of weakness.

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

Management of intellectual property rights

The management of Hitachi Zosen's intellectual property rights is carried out by specialist units dedicated to that task. In line with the emphasis placed by the Hitachi Zosen Group on the autonomy of individual companies, the management of the intellectual property of Group members and affiliated companies is, wherever possible, carried out by the companies themselves. When necessary, however, the staff of the Company's Legal and Intellectual Property Department work together with our subsidiaries and affiliates on applications for patents, utility model patents, designs, and trademarks, as well as to resolve potential or actual litigation issues. As of the end of fiscal year 2010, neither Hitachi Zosen Corporation nor any member of the Group was involved in litigation relating to the violation of intellectual property rights.

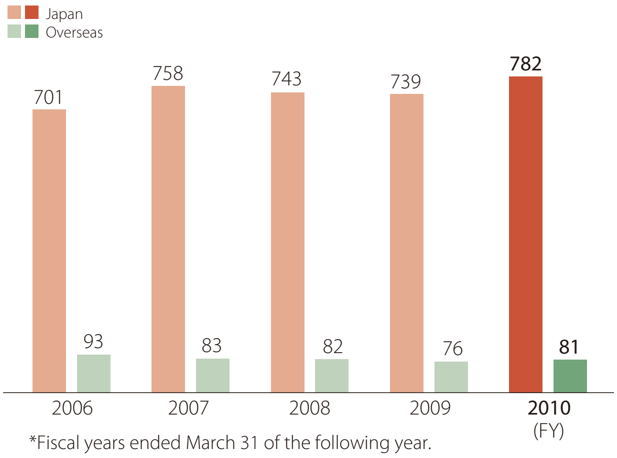
At specialist units dedicated to management of intellectual property, we have 14 "patent managers" working at our Business & Product Development Headquarters and the separate business divisions. In addition, eight "patent leaders" have been appointed. Specialist staff at the Legal and Intellectual Property Department work together with the patent managers and patent leaders to discover patent possibilities and applications for the Company's research findings (i.e., potential inventions) and take them to the patent application stage.

To encourage staff to do the work required to discover valuable new technologies and processes, and to reward them when they are successful, we have laid down regulations governing the patent application process, and have stipulated criteria for judging the originality and value of inventions. Monetary rewards are given to inventors when patent application, registration and practical application occurs. To preclude dissatisfaction with the rewards process, rewards for practical application are based on a fair and impartial evaluation process, and payments to the inventors continue after they have retired from the Company.

Outstanding inventions owned by Hitachi Zosen Corporation are also awarded prizes by outside agencies. Patent No. 3746412 relating to plastic waste sorting equipment received the 2010 Osaka Outstanding Invention Award, while Patent No. 3088119 relating to a machine for automatically washing and delivering plastic bags was a recipient of the 2010 Kinki Regional Invention Awards.

As of the end of fiscal year 2010 (ended March 31, 2011), Hitachi Zosen Corporation held 782 patents in Japan and 81 overseas. It also held 32 design rights in Japan, as well as 114 trademark rights in Japan and 25 overseas.

Recent patents granted



*Fiscal years ended March 31 of the following year.

Corporate Governance and Compliance

Recognizing that enhancement of corporate governance is one of our top-priority management issues to ensure corporate soundness, transparency and efficiency, increase enterprise value, and fulfill the Company's responsibilities as a good corporate citizen, we are working to establish a framework that enables effective corporate governance. Additionally, to further reinforce our internal control system, we have drawn up a Basic Policy for Internal Control, on the basis of which we aim to improve the effectiveness of our corporate governance and raise our enterprise value.

Corporate governance system

Our principal management decision-making bodies consist of the Board of Directors and the Management Strategy Committee. In addition to dealing with issues stipulated by the law, the Board of Directors decides upon important matters such as basic management policies, and oversees the execution of operations. The Management Strategy Committee, which comprises top management personnel, conducts thorough discussion of basic strategies and important matters. This system facilitates appropriate management decisions.

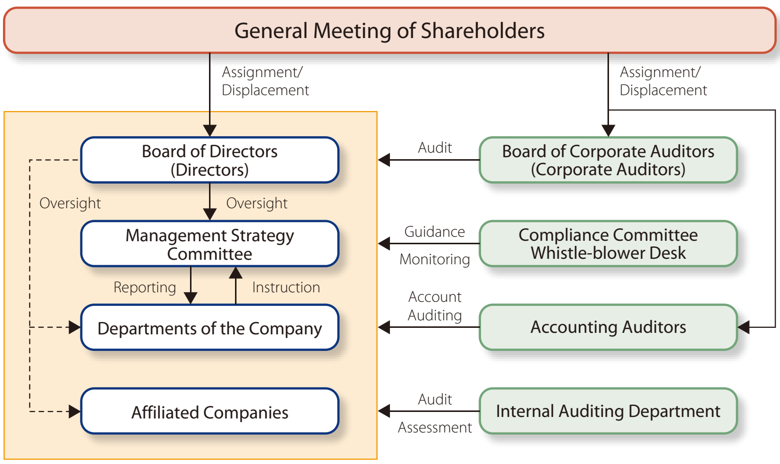
As members of the Board of Directors, directors are responsible for management decision-making and oversight, and as managing and supervising executives who also share responsibilities for the execution of business, they instruct, lead and supervise the divisions in charge. The Company has also adopted an executive officer system, which is aimed at striking a balance between strengthening the supervision function performed by the directors and facilitating the swift and appropriate execution of business. To achieve this objective, some of the business execution functions performed by directors are delegated to executive officers. As of July 2011, there are 10 directors and 12 executive officers.

Auditing functions are performed by the Board of Auditors, comprising one full-time corporate auditor and three part-time corporate auditors (of whom two are outside auditors) as of July 2011. Corporate auditors attend meetings of the Board of Directors regularly and other meetings as needed, and implement audits of management from a neutral, objective standpoint under a system in which they can fully audit the execution of operations of directors and other high-ranking executives. In addition to the corporate auditors (Board of Auditors), we have set up an Internal Auditing Department as a division responsible for internal audits. The Internal Auditing Group within the department implements ongoing internal audits related to matters such as finance and accounting, internal controls and procedures, business risks, and compliance across all management activities. At the same time, the Internal Control Group within the Internal Auditing Department makes assessments of internal controls on financial reporting in line with the stipulations of the Financial Instruments and Exchange Act, aiming to improve internal control functions through the exchange of information with the corporate auditors at appropriate times.

Compliance system

We are working proactively to strengthen our compliance management as a priority management issue in order to manage the Company in conformity with laws and regulations and corporate ethics, and fulfill our social responsibilities.

We have established a Compliance Committee, with the representative director serving as chairman. Under this committee, surveys and verifications of all corporate activities are conducted regularly from the legal and corporate ethical standpoints. Furthermore, the Hitachi Zosen Group has established the "Hitachi Zosen Group Ethical Behavior Charter" as an ethical behavior guidelines to be observed by all the directors and employees of the Group. By educating all directors and employees, the Group is aiming to improve awareness of legal compliance and promote the maintenance of a high standard of corporate ethics. At the same time we have established a whistle-blowing system to enable employees to consult with/report to an external consultant so that we can promptly and effectively prevent, detect, and address any legal violations.



Board of Directors, Corporate Auditors and Executive Officers

(As of June 25, 2011)

Representative Director
Chairman & President
Minoru Furukawa

Vice Chairman
Shunsaku Yahata

Representative Director
Executive Vice President
Koichiro Anzai

Managing Director
Akifumi Mitani

Managing Director
Hisao Matsuwake

Managing Director
Seiichiro Tsurisaki

Director
Toru Shimizu

Director
Takashi Tanisho

Director
Kenji Sawada

Director
Masayuki Morikata

Full-time Corporate Auditor
Motohiro Fujii

Corporate Auditor
Sakae Kanno

Corporate Auditor
Junnosuke Ban

Corporate Auditor
Hiromitsu Miyasaka

Managing Executive Officer
Shosaku Umezawa

Managing Executive Officer
Toru Yoshioka

Managing Executive Officer
Koji Abo

Executive Officer
Masahiro Sakai

Executive Officer
Ryoji Kasumoto

Executive Officer
Wataru Kobashi

Executive Officer
Nobuyoshi Mori

Executive Officer
Masayuki Tanigawa

Executive Officer
Shoichi Momose

Executive Officer
Yutaka Masumizu

Executive Officer
Takashi Mishima

Executive Officer
Sadao Mino

Tackling Environmental Issues

Hitachi Zosen positions the achievement of harmony between its activities and the global natural environment as a linchpin of its business across all operational segments. In 1992, we formulated a number of basic environmental protection policies to embody our efforts on environmental issues. These policies include the statement that: “The Company recognizes its responsibilities as a good corporate citizen and proactively solves environmental issues on a global basis. It endeavors to promote environmental protection based on the understanding that the protection of nature and the living environments of local communities are corporate social responsibilities.”

In line with this basic policy, in 1993 our Environmental Protection Committee drew up the Environmental Protection Promotion Plan, which, in addition to the global environmental activities we had already been carrying out, called for the strengthening of environmental management systems, the promotion of global environmental protection, energy conservation, and conservation of natural resources, as well as increased efforts toward communication in the field of global environmental protection. The staff at all our business premises drew up targets under this promotion plan and commenced activities aimed at protecting and preserving the natural environment.

Promoting environmental management systems

In March 1998 the Company’s Maizuru Works became Japan’s first shipyard to obtain ISO 14001 certification for environmental management systems. Since then, seven of the Company’s workplaces in Japan and three offices have acquired this certification. We plan to continue improving our environmental management systems to ensure appropriate countermeasures against environmental risks.

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

The Company’s energy conservation measures include the adoption of improved operational methods as well as energy-saving equipment such as transformers and compressors, and the setting of stricter temperature standards for heating and air-conditioning so as to help reduce atmospheric CO_2 levels. We installed a 100kW-class solar power generation system at our Ariake Works in FY2010, and in FY2011 we plan to install a system with an output of 120kW at our Chikko Works and a 70kW system at our Maizuru Works. This will be followed by a 510kW system at Maizuru in FY2012 for a total of 800kW. We also plan to replace all lighting fixtures in existing office buildings with LED lights by the end of fiscal year 2012.

Regarding our efforts to reduce waste volumes and recycle waste material wherever possible, we are taking a number of steps to cut back on waste generated, and are also implementing strict waste management and separate collection of recyclable and non-recyclable waste, to reduce landfill waste.

We are working to ensure that 100% of scrap metal is recycled, and are also promoting a higher recycling rate for waste paper and the conversion of waste oil into fuel. We also recycle waste wood materials into litter for livestock rearing, flux into roadbed materials, and shotblast waste sand into raw material for cement.

Promoting communication on environmental protection

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

Regarding the management of chemical substances, we employ PRTRs to maintain an accurate grasp of the volumes of all chemical substances emitted, generated, or transported. We have drawn up the “Voluntary Management Plan for Chemical Substances,” under which we manage such substances appropriately while taking steps to reduce their amount.

Achievements under the Hitachi Zosen Environmental Protection Promotion Plan

◎ Fully on target ○ Partially on target △ Short of target

Measures		Medium-term target	Results in fiscal year 2010	Evaluation
Environmental management	Adoption of environmental management systems	• Acquisition of ISO 14001 for all places of business • Implementation of environmental audits	• Implemented environmental audits on Company factories via dedicated local community environment protection committee • Internal audits of factories and offices conducted by Internal Auditing Officer • External environment audit conducted by third-party institution	◎
	Promote “Green Purchasing”	—	• Joined Green Purchasing Network with aim of purchasing products with as little environmental burden as possible • Promoted central purchasing of eco-friendly products via the Internet	◎
Reducing environmental burden of business activities	Restrictions on use of ozone-depleting substances	Proper disposal of chlorofluorocarbon equipments according to Law on Collection of Chlorofluorocarbon of Special Products and Their Destruction	• Upgraded chlorofluorocarbon equipments	◎
	Reducing CO_2 emissions	Reduction in average emissions of CO_2 over the five years from FY2008 to FY2012 to 94% of FY1990 level	Increased by 46.7% over medium-term target Medium-term target: 29,535 ton CO_2 FY2010: 43,340 ton CO_2	△
	Reducing waste generated	Reduction of FY2010 amount to 90% of FY2000 level	Increased by 28.4% over FY2000 level FY2000: 9,198 ton FY2010: 11,810 ton	△
	Reducing landfill waste	Reduction of FY2010 amount to 60% of FY1999 level	Decreased by 23.1% over FY1999 level FY1999: 1,019 ton FY2010: 784 ton	△
Contribution to local environmental protection	Achieve full environmental protection at work places	—	• Complied with stipulations of environmental protection legislation • Carried out environmental measures in line with agreements with local communities, or independently by our factories/offices	◎
	Contribute to local communities	—	Participated in environmental protection campaigns by government bodies, local communities, etc.	◎

Financial Section

Consolidated Balance Sheets

Hitachi Zosen Corporation and Consolidated Subsidiaries
At March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
ASSETS			
Current assets:			
Cash and time deposits (Notes 5 and 12)	¥ 55,826	¥ 57,692	$ 693,830
Receivables:			
Trade notes and accounts:			
Nonconsolidated subsidiaries and affiliates	3,599	5,195	62,477
Other	87,991	109,344	1,315,021
Other	3,917	6,156	74,035
Allowance for doubtful receivables	(591)	(726)	(8,731)
	94,916	119,969	1,442,802
Marketable securities (Note 3)	44	34	409
Inventories (Note 4)	32,824	24,938	299,916
Deferred tax assets (Note 17)	4,138	4,468	53,734
Prepaid expenses and other current assets (Note 5)	3,253	9,290	111,726
Total current assets	191,001	216,391	2,602,417
Property, plant and equipment, at cost (Note 5):			
Land (Notes 7 and 20)	71,303	71,270	857,126
Buildings and structures (Note 20)	70,336	72,329	869,862
Machinery and equipment	89,629	89,842	1,080,481
Lease assets (Note 13)	428	505	6,073
Construction in progress	731	467	5,616
	232,427	234,413	2,819,158
Less accumulated depreciation	(100,337)	(104,682)	(1,258,954)
Property, plant and equipment, net	132,090	129,731	1,560,204
Intangible assets:			
Goodwill	—	663	7,973
Other intangible assets	1,644	1,760	21,167
Total intangible assets	1,644	2,423	29,140
Investments and other noncurrent assets:			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	14,141	17,516	210,655
Investments in securities (Notes 3 and 5)	6,448	6,175	74,263
Long-term loans receivable (Note 5)	109	113	1,359
Deferred tax assets (Note 20)	1,136	1,685	20,265
Other investments and noncurrent assets (Note 5)	3,805	7,767	93,410
Allowance for doubtful receivables	(1,316)	(1,678)	(20,180)
Total investments and other noncurrent assets	24,323	31,578	379,772
Deferred assets	273	126	1,516
Total assets	¥349,331	¥380,249	$4,573,049

See the accompanying Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	¥ 300	¥ 493	$ 5,929
Other	52,822	73,474	883,632
Short-term loans (Note 5)	10,946	8,780	105,592
Current portion of long-term debt (Note 5)	32,398	24,258	291,738
Accrued expenses	28,601	30,474	366,494
Accrued income taxes	882	2,066	24,847
Advances received on work in progress	23,296	21,950	263,981
Reserve for directors' and corporate auditors' bonuses	75	74	890
Reserve for product warranty	4,170	6,399	76,957
Reserve for losses on construction contracts	3,551	8,101	97,426
Reserve for losses from lawsuits	11,869	9,457	113,734
Other current liabilities	7,060	7,965	95,791
Total current liabilities	175,970	193,491	2,327,011
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	69,020	71,150	855,683
Asset retirement obligations (Note 19)	—	853	10,259
Deferred tax liabilities (Note 17)	1,723	2,884	34,684
Employees' severance and retirement benefits (Note 16)	7,431	8,177	98,340
Directors' and corporate auditors' severance and retirement benefits	677	699	8,407
Negative goodwill	439	80	962
Other noncurrent liabilities (Note 5)	871	946	11,377
Total long-term liabilities	80,161	84,789	1,019,712
Total liabilities	256,131	278,280	3,346,723
CONTINGENT LIABILITIES (Note 6)			
NET ASSETS (Note 8):			
Common stock			
Authorized — 2,000,000,000 shares			
Issued — 796,073,282 shares at March 31, 2010 and 2011	45,442	45,442	546,506
Capital surplus	5,974	5,974	71,846
Retained earnings	28,587	36,640	440,649
Treasury stock, at cost — 2,081,269 shares in 2010			
— 2,195,156 shares in 2011	(267)	(281)	(3,379)
Net unrealized holding losses on securities	(90)	(249)	(2,995)
Net unrealized holding gains (losses) on hedging derivatives	(463)	224	2,694
Land revaluation difference (Note 7)	(140)	(106)	(1,275)
Foreign currency translation adjustments	(316)	(512)	(6,157)
Subscription rights to shares	1	1	12
Minority interests in consolidated subsidiaries	14,472	14,836	178,425
Total net assets	93,200	101,969	1,226,326
Total liabilities and net assets	¥349,331	¥380,249	$4,573,049

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Net sales	¥273,526	¥287,196	$3,453,951
Cost of sales (Note 9)	230,896	240,715	2,894,949
Gross profit	42,630	46,481	559,002
Selling, general and administrative expenses	29,073	33,122	398,341
Operating income	13,557	13,359	160,661
Other income (expenses):			
Interest and dividend income	224	181	2,177
Interest expense	(1,479)	(1,464)	(17,607)
Foreign exchange loss	(156)	(597)	(7,180)
Equity in net income of nonconsolidated subsidiaries and affiliates	3,688	2,954	35,526
Reversal of allowance for losses from lawsuits	—	1,162	13,975
Provision for allowance for losses from lawsuits (Note 10)	(6,175)	—	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(573)	(6,891)
Other, net	234	(2,422)	(29,128)
Total other expenses	(3,664)	(759)	(9,128)
Income before income taxes and minority interests	9,893	12,600	151,533
Income taxes (Note 17)			
Current	1,245	2,402	28,887
Deferred	1,077	(113)	(1,359)
Income before minority interests	7,571	10,311	124,005
Minority interests in net income of consolidated subsidiaries	(335)	636	7,649
Net income	¥ 7,906	¥ 9,675	$ 116,356

	Yen		U.S. dollars (Note 1)
	2010	2011	2011
Amounts per share (Note 2)			
Net income — basic	¥9.95	¥12.19	$0.15
Net income — diluted	8.38	10.74	0.13
Cash dividends	2.00	2.00	0.02

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Income before minority interests	¥7,571	¥10,311	$124,005
Other comprehensive income			
Net unrealized holding gains (losses) on securities	293	(173)	(2,081)
Net unrealized holding gains (losses) on hedging derivatives	(218)	782	9,405
Foreign currency translation adjustments	(15)	(59)	(710)
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method	151	(232)	(2,790)
Total other comprehensive income	211	318	3,824
Total comprehensive income	¥7,782	¥10,629	$127,829
Comprehensive income (loss) attributable to			
Owners of the parent	8,061	10,007	120,349
Minority interests	(279)	622	7,480

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Common stock:			
Balance at beginning of year	¥45,442	¥45,442	$546,506
Balance at end of year	¥45,442	¥45,442	$546,506
Capital surplus:			
Balance at beginning of year	¥ 5,974	¥ 5,974	$ 71,846
Treasury stock purchased, net	(0)	(0)	(0)
Balance at end of year	¥ 5,974	¥ 5,974	$ 71,846
Retained earnings:			
Balance at beginning of year	¥20,708	¥28,587	$343,800
Cash dividends	—	(1,588)	(19,098)
Net income	7,906	9,675	116,356
Decrease due to inclusion of affiliates	(11)	—	—
Reversal of land revaluation difference	(16)	(34)	(409)
Balance at end of year	¥28,587	¥36,640	$440,649
Treasury stock (Note 11)**:**			
Balance at beginning of year	¥ (186)	¥ (267)	$ (3,211)
Treasury stock purchased, net	(81)	(14)	(168)
Balance at end of year	¥ (267)	¥ (281)	$ (3,379)
Net unrealized holding gains (losses) on securities:			
Balance at beginning of year	¥ (377)	¥ (90)	$ (1,083)
Other	287	(159)	(1,912)
Balance at end of year	¥ (90)	¥ (249)	$ (2,995)
Net unrealized holding gains (losses) on hedging derivatives:			
Balance at beginning of year	¥ (403)	¥ (463)	$ (5,568)
Other	(60)	687	8,262
Balance at end of year	¥ (463)	¥ 224	$ 2,694
Land revaluation difference (Note 7)**:**			
Balance at beginning of year	¥ (156)	¥ (140)	$ (1,684)
Reversal of land revaluation difference	16	34	409
Balance at end of year	¥ (140)	¥ (106)	$ (1,275)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (245)	¥ (316)	$ (3,800)
Other	(71)	(196)	(2,357)
Balance at end of year	¥ (316)	¥ (512)	$ (6,157)
Subscription rights to shares:			
Balance at beginning of year	¥ —	¥ 1	$ 12
Other	1	—	—
Balance at end of year	¥ 1	¥ 1	$ 12
Minority interests in consolidated subsidiaries:			
Balance at beginning of year	¥15,086	¥14,472	$174,047
Other	(614)	364	4,378
Balance at end of year	¥14,472	¥14,836	$178,425

	Shares	
	2010	2011
Number of shares of common stock:		
Balance at beginning of year	796,073,282	796,073,282
Balance at end of year	796,073,282	796,073,282

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,893	¥12,600	$151,533
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	8,480	8,678	104,366
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	573	6,891
Increase (decrease) in allowance for doubtful receivables	(389)	497	5,977
Increase in employees' severance and retirement benefits	488	704	8,467
Increase in reserve for losses on construction contracts	1,061	4,532	54,504
Decrease in reserve for losses from lawsuits	(2,045)	(2,412)	(29,008)
Interest and dividend income	(224)	(181)	(2,177)
Interest expense	1,479	1,464	17,607
Equity in net income of nonconsolidated subsidiaries and affiliates	(3,688)	(2,954)	(35,526)
Gain on sale of investments in securities	(82)	(1)	(12)
Loss on devaluation of investments in securities	2	136	1,636
Loss on disposal of fixed assets	329	187	2,249
Decrease (increase) in trade receivables	5,168	(10,628)	(127,817)
Decrease in inventories	13,719	8,319	100,048
Decrease (increase) in other current assets	6,482	(5,618)	(67,565)
Increase (decrease) in trade payables	(18,012)	4,844	58,256
Increase (decrease) in accrued expenses	(1,900)	448	5,388
Decrease in advances received	(7,493)	(2,579)	(31,016)
Increase (decrease) in other current liabilities	(4,733)	794	9,549
Other	224	461	5,544
Subtotal	8,759	19,864	238,894
Interest and dividends received	579	292	3,512
Interest paid	(1,575)	(1,452)	(17,463)
Income taxes paid	(2,255)	(1,568)	(18,858)
Net cash and cash equivalents provided by operating activities	5,508	17,136	206,085
Cash flows from investing activities:			
Increase in time deposits	(4,360)	(6,953)	(83,620)
Decrease in time deposits	1,188	9,445	113,590
Purchase of property, plant and equipment	(7,783)	(7,734)	(93,013)
Proceeds from sales of property, plant and equipment	553	161	1,936
Purchase of intangible assets	(341)	(410)	(4,931)
Purchase of investments in securities	(1,374)	(39)	(469)
Proceeds from sales of investments in securities	559	22	265
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	2,484	29,874
Other	(1,101)	(193)	(2,321)
Net cash and cash equivalents used in investing activities	(12,659)	(3,217)	(38,689)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Cash flows from financing activities:			
Decrease in short-term loans and debt, net	(3,555)	**(2,166)**	**(26,050)**
Proceeds from long-term debt	31,400	**27,100**	**325,917**
Payment of long-term debt	(16,008)	**(18,256)**	**(219,555)**
Redemption of bonds	(700)	**(14,710)**	**(176,909)**
Cash dividends paid	—	**(1,588)**	**(19,098)**
Payments for retirement of bonds by purchase	(2,375)	**—**	**0**
Other	(7)	**(10)**	**(120)**
Net cash and cash equivalents provided by (used in) financing activities	8,755	**(9,630)**	**(115,815)**
Effect of exchange rate changes on cash and cash equivalents	(9)	**(64)**	**(769)**
Net increase in cash and cash equivalents	1,595	**4,225**	**50,812**
Cash and cash equivalents at beginning of year	50,095	**51,690**	**621,647**
Cash and cash equivalents at end of year (Note 12)	¥51,690	**¥55,915**	**$672,459**

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2, the accounts of consolidated overseas subsidiaries for the year ended March 31, 2011 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S. $1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

a) Consolidation

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

The consolidated financial statements consist of the accounts of the Company and its sixty-three significant subsidiaries (sixty-one in the year ended March 31, 2010) that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in one nonconsolidated subsidiary (one in the year ended March 31, 2010) and thirteen affiliates (eleven in the year ended March 31, 2010) are accounted for by the equity method.

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

The consolidated financial statements include the accounts of seven consolidated subsidiaries (five in the year ended March 31, 2010) the fiscal year-end of which is December 31. Appropriate adjustments were made for significant transactions during the period from December 31 to March 31, the date of the consolidated financial statements.

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

b) Cash Flow Statements

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

c) Translation of Foreign Currencies

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

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

d) Revenue Recognition

For construction for which the portion completed by the end of the fiscal year can be determined with certainty, the Companies record revenues by the percentage of completion method (the progress of work is measured by the percentage of cost method). For other construction, the Companies record revenues at the time of delivery using the completed contract method.

Until the year ended March 31, 2009, the Company had recorded revenues and costs of sales on long-term contracts of a duration in excess of one year and an amount in excess of ¥500 million (certain consolidated subsidiaries used other revenue amounts), primarily by the percentage of completion method, measured by the percentage of costs incurred to date to the estimated total construction costs, and had recorded revenues and costs of sales on other contracts by the completed contract method.

Effective from the year ended March 31, 2010, the Companies adopted the new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and the implementation guidance, "Guidance on Accounting Standard for Construction Contracts" (Guidance No. 18 issued by the Accounting Standards Board of Japan on December 27, 2007). Revenues and costs of sales on construction for which the portion completed by the end of the fiscal year can be determined with certainty are recognized by the percentage of completion method (the progress of work is measured by the percentage of cost method). Revenues and costs of sales on other construction are recorded by the completed contract method. As a result, for the year ended March 31, 2010, net sales were ¥6,671 million more, and operating income and income before income taxes and minority interests were both ¥777 million more than they would have been with the previous method.

e) Allowance for Doubtful Receivables

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

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

f) Securities

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

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

g) Derivatives and Hedge Accounting

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

(1) Hedge accounting

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

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

(2) Hedging instruments and hedged items

Hedging instruments:	Interest rate swap contracts
Hedged items:	Interest on loans and bonds payable
Hedging instruments:	Forward foreign exchange contracts and other derivatives
Hedged items:	Trade receivables and expected trade receivables denominated in foreign currencies from exports of products, trade payables denominated in foreign currencies from imports of materials

(3) Hedging policy

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

(4) Evaluation of hedge effectiveness

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

(5) Control over use of derivatives

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

h) Inventories

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

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

i) Depreciation and Amortization

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

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

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

j) Software Costs

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

k) Goodwill

Goodwill is amortized on the straight-line method over five years.

l) Deferred Assets

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

m) Reserve for Directors' and Corporate Auditors' Bonuses

To provide for payment of bonuses to directors and corporate auditors, the Companies record an estimated amount at the end of the fiscal year.

n) Reserve for Product Warranty

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

o) Reserve for Losses on Construction Contracts

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

p) Reserve for Losses from Lawsuits

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

q) Employees' Severance and Retirement Benefits

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

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

r) Directors' and Corporate Auditors' Severance and Retirement Benefits

To provide for payment of retirement benefits to directors and corporate auditors, the Companies record the required amount, based on internal regulations for retirement benefits for directors and corporate auditors at the end of the fiscal year.

s) Research and Development Expenses

Research and development expenses are charged to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥4,532 million and ¥7,014 million ($84,354 thousand) for the years ended March 31, 2010 and 2011, respectively.

t) Income Taxes

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

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

u) Amounts Per Share

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

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

v) Accounting Standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Companies adopted the new accounting standard, "Asset Retirement Obligations" (Statement No. 18 issued by the Accounting Standards Board of Japan on March 31, 2008) and the implementation guidance, "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21 issued by the Accounting Standards Board of Japan on March 31, 2008).

As a result, for the year ended March 31, 2011, operating income was ¥58 million ($698 thousand) less, and income before income taxes was ¥631 million ($7,589 thousand) less than the amounts that would have been reported without the new standard. The change in Asset Retirement Obligations by this adoption amounted to ¥838 million ($10,078 thousand).

w) Accounting Standard for Equity Method of Accounting for Investments

Effective from the year ended March 31, 2011, the Companies adopted the new accounting standard, "Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16 issued by the Accounting Standards Board of Japan on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Task Force No. 24 issued by the Accounting Standards Board of Japan on March 10, 2008). This adoption had no effect on income before income taxes for the year ended March 31, 2011.

x) Accounting Standard for Business Combinations

Effective from the year ended March 31, 2011, the Companies adopted the new accounting standard, "Accounting Standard for Business Combinations" (Statement No. 21 issued by the Accounting Standards Board of Japan on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (Statement No. 22 issued by the Accounting Standards Board of Japan on December 26, 2008), "Partial amendments to Accounting Standard for Research and Development Costs" (Statement No. 23 issued by the Accounting Standards Board of Japan on December 26, 2008), "Accounting Standard for Business Divestitures" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16 issued by the Accounting Standards Board of Japan on December 26, 2008) and the implementation guidance, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10 issued by the Accounting Standards Board of Japan on December 26, 2008).

y) Accounting Standard for Presentation of Comprehensive Income

Effective from the year ended March 31, 2011, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Comprehensive Income" (Statement No. 25 issued by the Accounting Standards Board of Japan on June 30, 2010). The Companies have presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

z) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2010 to conform to the fiscal year ended March 31, 2011 presentation. These reclassifications had no effect on previously reported net loss or total shareholders' equity.

3. Securities

a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2010 and 2011:

(1) Trading securities:

At March 31, 2010

	Millions of yen
Amount for the year of net unrealized gains included in the statements of income	¥9

At March 31, 2011

	Millions of yen	Thousands of U.S. dollars
Amount for the year of net unrealized losses included in the statements of income	**¥(3)**	**$(36)**

(2) Held-to-maturity debt securities:

At March 31, 2010

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥865	¥877	¥12
Others	15	16	1

At March 31, 2011

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	**¥866**	**¥868**	**¥2**
Others	**14**	**15**	**1**

At March 31, 2011

Securities with available fair values exceeding book values:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	**$10,415**	**$10,439**	**$24**
Others	**168**	**180**	**12**

(3) Available-for-sale securities:

At March 31, 2010

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥757	¥539	¥218
Others	72	51	21
Total	¥829	¥590	¥239

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥965	¥1,192	¥(227)
Others	9	10	(1)
Total	¥974	¥1,202	¥(228)

At March 31, 2011

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥771	¥577	¥194
Others	65	39	26
Total	¥836	¥616	¥220

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥773	¥1,161	¥(388)
Others	9	10	(1)
Total	¥782	¥1,171	¥(389)

At March 31, 2011

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	$ 9,272	$6,939	$2,333
Others	782	469	313
Total	$10,054	$7,408	$2,646

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	$9,297	$13,963	$(4,666)
Others	108	120	(12)
Total	$9,405	$14,083	$(4,678)

Note: As to non-listed equity securities, there was no available fair market price and it was considered to be extremely difficult to determine fair value, so these securities were not included in the table of (3) Available-for-sale securities.

b) Sales of available-for-sale securities in the year ended March 31, 2010 and 2011 were as follows:

At March 31, 2010

	Millions of yen		
	Sales	Gains on sales	Losses on sales
Equity securities	¥538	¥93	¥(15)
Others	21	5	(1)
Total	¥559	¥98	¥(16)

At March 31, 2011

	Millions of yen		
	Sales	Gains on sales	Losses on sales
Equity securities	¥ 8	¥1	¥(0)
Others	12	1	—
Total	¥20	¥2	¥(0)

At March 31, 2011

	Thousands of U.S. dollars		
	Sales	Gains on sales	Losses on sales
Equity securities	$ 96	$12	$(0)
Others	145	12	—
Total	$241	$24	$(0)

4. Inventories

Inventories at March 31, 2010 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Merchandise and finished goods	¥ 432	¥ 423	$ 5,087
Work in progress	28,689	20,779	249,898
Raw materials and supplies	3,703	3,736	44,931
Total	¥32,824	¥24,938	$299,916

Inventories for construction contracts expected losses and a reserve for losses on construction contracts were not offset but individually reported.

The corresponding amounts of inventories for the reserve for losses on construction contracts at March 31, 2010 and 2011 were ¥511 million and ¥819 million ($9,850 thousand), respectively, all of which represented work in progress.

5. Short-term Loans and Long-term Debt

Short-term loans that represented bank loans bearing average interest rates of 1.22 percent and 1.02 percent as of March 31, 2010 and 2011, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Secured (or partly secured)	¥ 2,464	¥1,500	$ 18,040
Unsecured	8,482	7,280	87,552
Total	¥10,946	¥8,780	$105,592

Long-term debt at March 31, 2010 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
1.20 percent to 2.88 percent loans from banks and other financial institutions, due through 2022:			
Secured (or partly secured)	¥14,680	¥12,284	$147,733
Unsecured	56,402	67,641	813,481
0.00 percent convertible bonds due 2010	13,678	—	—
1.50 percent convertible bonds due 2012	15,258	15,183	182,598
0.57 percent straight bonds due 2010	200	—	—
1.15 percent straight bonds due 2011	600	300	3,608
0.69 to 1.65 percent straight bonds due 2011			
Secured (or partly secured)	600	—	—
Unsecured	—	—	—
Others	331	292	3,512
Less current portion included in current liabilities	(32,398)	(24,258)	(291,738)
Total	¥69,351	¥71,442	$859,194

As of March 31, 2011, the convertible bonds due in 2012 were convertible into shares of common stock at the option of the holders of the bonds at the price of ¥172 per share. The conversion prices are subject to adjustments under specified conditions.

The following assets were pledged as collateral mainly for secured long-term debt of ¥15,280 million at March 31, 2010 and ¥12,284 million ($147,733 thousand) at March 31, 2011:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Cash and time deposits	¥ 21	¥ 155	$ 1,864
Securities	—	1	12
Prepaid expenses and other current assets	479	46	553
Property, plant and equipment (at net book value)	21,029	20,693	248,864
Investments in nonconsolidated subsidiaries and affiliates	1,709	2,163	26,013
Investments in securities	17	16	193
Long-term loans receivable	83	78	938
Other investments and noncurrent assets	4	4	48
Total	¥23,342	¥23,156	$278,485

The aggregate annual maturities of long-term debt outstanding at March 31, 2011 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥37,137	$446,627
2014	22,359	268,899
2015	7,261	87,324
2016	4,331	52,087
2017 and thereafter	354	4,257
Total	¥71,442	$859,194

6. Contingent Liabilities

Contingent liabilities at March 31, 2010 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Export notes receivable discounted	¥ 25	¥ —	$ —
Notes receivable endorsed	184	227	2,730
Guarantees of bank loans and other indebtedness	79	59	710
Total	¥288	¥286	$3,440

7. Land Revaluation Difference

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

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

The market value of the land was ¥86 million and ¥101 million ($1,215 thousand) lower than the revalued book amount at March 31, 2010 and 2011, respectively.

8. Net Assets

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

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

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

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

At the annual shareholders' meeting held on June 23, 2011, the shareholders approved cash dividends of ¥1,588 million ($19,098 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2011. This type of appropriation is recognized in the period in which it is approved by the shareholders.

9. Provision for Losses on Construction Contracts Included in Cost of Sales

Provision for losses on construction contracts included in cost of sales was ¥3,482 million and ¥8,906 million ($107,108 thousand) for the years ended March 31, 2010 and 2011, respectively.

10. Provision for Allowance for Losses from Lawsuits

Provision for allowance for losses from lawsuits for the year ended March 31, 2010 was recorded based on the estimation of the indemnity and interest arising from citizens' and purchasers' lawsuits in connection with the construction of waste incineration plants.

11. Treasury Stock

Treasury stock for the years ended March 31, 2010 and 2011 consisted of the following:

For the year ended March 31, 2010

Number of shares of common stock	Thousands
At March 31, 2009	1,449
Increase	642
Decrease	(10)
At March 31, 2010	2,081

For the year ended March 31, 2011

Number of shares of common stock	Thousands
At March 31, 2010	2,081
Increase	**119**
Decrease	**(5)**
At March 31, 2011	**2,195**

12. Cash Flow Information

a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets at March 31, 2010 and 2011 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Cash and time deposits in the balance sheets	¥55,826	**¥57,692**	**$693,830**
Time deposits with maturities over three months	(4,136)	**(1,777)**	**(21,371)**
Cash and cash equivalents in cash flow statements	¥51,690	**¥55,915**	**$672,459**

b) Other

The assets and liabilities of a newly consolidated subsidiary, Hitachi Zosen Inova AG, on March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥22,932**	**$275,791**
Fixed assets	**5,026**	**60,445**
Total	**¥27,958**	**$336,236**
Current liabilities	**¥22,795**	**$274,143**
Fixed liabilities	**925**	**11,125**
Total	**¥23,720**	**$285,268**

13. Lease Information

a) Finance leases as lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions at March 31, 2010 and 2011 consisted of leases for productive facilities for the machinery and process equipment segment (machinery, equipment and vehicles) and software.

Depreciation was as described in Note 2 i), "Significant Accounting Policies-Depreciation and Amortization."

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

The original lease obligations, the payments to date, and the payments remaining for assets which were leased from other parties as of March 31, 2010 and 2011 were as follows:

At March 31, 2010:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥1,459	¥ 978	¥481
Software	254	167	87
Total	¥1,713	¥1,145	¥568

At March 31, 2011:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥1,295	¥1,023	¥272
Software	220	175	45
Total	¥1,515	¥1,198	¥317

At March 31, 2011:

	Thousands of U.S. dollars		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	$15,574	$12,303	$3,271
Software	2,646	2,105	541
Total	$18,220	$14,408	$3,812

Lease payments for the above finance leases for the years ended March 31, 2010 and 2011 were ¥334 million and ¥251 million ($3,019 thousand), respectively.

Future minimum payments, including finance charges, for finance leases at March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Payments due within one year	¥267	¥214	$2,573
Payments due after one year	353	141	1,696
Total	¥620	¥355	$4,269

b) Operating leases as lessee

Future minimum payments for operating leases at March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Payments due within one year	¥ 40	¥ 366	$ 4,402
Payments due after one year	235	2,963	35,634
Total	¥275	¥3,329	$40,036

c) Finance leases as lessor

Lease investment assets

Current assets as of March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Lease payments receivables	¥147	¥144	$1,732
Interest	(8)	(8)	(96)
Total	¥139	¥136	$1,636

Lease investment assets receivables after March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Within one year	¥53	¥50	$601
Over one year but within two years	44	44	529
Over two years but within three years	34	26	313
Over three years but within four years	13	17	204
Over four years but within five years	3	6	72
Over five years	—	—	—

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

Future minimum payments to be received, including finance charges, for finance leases at March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Payments due within one year	¥17	¥17	$204
Payments due after one year	46	29	349
Total	¥63	¥46	$553

The remaining book values of future minimum payments to be received concerning a sublet lease transaction at March 31, 2010 and 2011 were ¥63 million and ¥46 million ($553 thousand), respectively. Of the future minimum payments at March 31, 2010 and 2011, those payments due within one year amounted to ¥17 million and ¥17 million ($204 thousand), respectively.

The remaining book values of future minimum payments as lessee at March 31, 2010 and 2011 were almost the same and were included in the above table of finance leases as lessee.

14. Financial Instruments

Year ended March 31, 2010:

a) Articles concerning status of financial instruments

(1) Policies for financial instruments

The Companies raise necessary funds for capital investment and research and development plans mainly through bank loans and the issuance of corporate bonds. The Companies invest temporary surplus funds in highly-secure financial assets, and obtain working capital mainly through bank loans. The Companies utilize derivative financial instruments not for speculation but for hedging purposes only.

(2) Substances and risks of financial instruments

Trade and other receivables are exposed to credit risks of customers. Since the Companies operate internationally, foreign currency net cash inflows are exposed to currency fluctuation risks. Forward foreign exchange contracts are used principally to hedge these risks.

Securities and investment securities, mainly held-to-maturity debt securities and the securities of companies with which the Companies have business relationships, are exposed to market fluctuation risks. The Companies have long-term loans with the companies with which the Companies have business relationships.

Almost of the trade payables are due within six months. Foreign currency trade payables are exposed to currency fluctuation risks, but these trade payables are controlled not to exceed the cash inflows of the same foreign currencies.

Loans and corporate bonds are mainly for the purpose of raising funds for capital investment and research and development plans. The longest due date is 12 years after the fiscal year end. Some of the items are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward foreign exchange contracts and currency option contracts made for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables and interest rate swap contracts for the purpose of hedging interest rate fluctuation risks arising from long-term loans. As to the hedging derivative financial instruments used and items hedged, hedging policy and the method of evaluating hedge effectiveness are described in Note 2 g), "Significant Accounting Policies-Derivatives and Hedge Accounting."

(3) Managing of financial instruments

i) Management of credit risks (risk of customers default)

The financial department of the Company is subject to internal regulations for the management of trade receivables and long-term loans. To reduce the risk of default associated with these instruments, the Company endeavors to research credit standing, monitor the dues and balances by customer at regular intervals through each sales and business administration division of each department and recognize early signs of deterioration in the financial status of its customers. The consolidated subsidiaries are subject to internal regulations for similar management.

Held-to-maturity debt securities are limited to top-ranked securities so as to minimize credit risks.

As to derivative transactions, the Companies deal solely with financial institutions to raise funds and top-ranked financial institutions to reduce credit risks.

ii) Management of market risks
(risks of exchange rate or interest rate fluctuation)

The Company and some consolidated subsidiaries mainly utilize forward foreign exchange contracts and currency option contracts for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables and prospective transactions that are highly expected to occur, which are categorized by the type of currency and the monthly due date. The Company utilizes interest rate swap contracts for the purpose of hedging interest rate fluctuation risks arising from long-term loans. Some consolidated subsidiaries utilize currency swap contracts for the purpose of hedging currency fluctuation risks arising from foreign currency payables from the continuous import of materials.

As to securities and investment securities, the Companies endeavor to regularly monitor fair market value and evaluate the financial status of issuing companies that are important customers. For other than held-to-maturity debt securities, the Companies continuously examine whether the holding position is proper or not while taking relationships with the issuing companies into consideration.

As to derivative transactions, the Company is subject to internal regulations to administer derivative transactions that provide for trading authority and limit maximum amounts, and approves basic policies annually at its management strategy conference. The Company's financial department engages in transactions, records them, and monitors the balances. The results of the transactions are reported regularly in its management strategy conference. The consolidated subsidiaries manage derivatives in a similar way.

iii) Management of liquidity risks of raising funds (risk of default)

The financial department of the Company makes finance plans and updates them based on finance reports from each department. The consolidated subsidiaries manage in a similar way.

(4) Supplementary explanation about fair value of financial instruments

Fair values of financial instruments include not only fair market values based on market prices but also reasonably estimated values if market prices are not available. Reasonably estimated fair values may fluctuate because the values depend on estimations based on certain variable assumptions. The contract amounts of derivative transactions of the following Note 15, "Derivative Transactions," do not show the market risks of the derivatives.

b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts and fair values of financial instruments, and the difference between them for the year ended March 31, 2010 were as follows. Financial instruments in which the fair value was considered to be extremely difficult to determine were not included in the list below.

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 55,826	¥ 55,826	¥ —
(2) Trade notes and accounts	91,590		
Allowance for doubtful receivables *1	(321)		
	91,269	91,250	(19)
(3) Securities and investment securities	5,294	4,925	(369)
(4) Long-term loans receivable	109		
Allowance for doubtful receivables *1	(7)		
	102	98	(4)
Total assets	¥152,491	¥152,099	¥ (392)
(1) Notes and accounts payable	(53,122)	(53,122)	—
(2) Short-term loans	(10,946)	(10,946)	—
(3) Current portion of long-term debt	(32,398)	(32,667)	(269)
(4) Accrued expenses	(28,601)	(28,601)	—
(5) Accrued income taxes	(882)	(882)	—
(6) Long-term debt, less current portion	(69,020)	(69,820)	(800)
Total liabilities	¥(194,969)	¥(196,038)	¥(1,069)
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	34	34	—
Derivative transactions for which hedge accounting has been applied	(598)	(598)	—
Total derivative transactions	¥ (564)	¥ (564)	¥ —

*1 Allowance for doubtful receivables was deducted from trade notes and accounts and long-term loans receivable.

*2 Liabilities were indicated in parenthesis ( ). Assets and liabilities arising from derivative transactions were offset and indicated by parenthesis ( ) when the offset amount was a liability.

Note 1: Articles concerning the calculation method for fair value, marketable securities and derivative transactions.

Assets

(1) Cash and time deposits

These instruments were settled within the short-term and fair value was roughly equal to book value. Therefore, the fair value was stated at book value.

(2) Trade notes and accounts

For the instruments settled within the short-term, fair value was roughly equal to book value. Therefore, the fair value was stated at book value. For the instruments settled over the long-term, fair value was stated at the present value using future cash flows discounted by the premium-added rate on the proper index such as the yield on the government bonds.

(3) Securities and investment securities

Fair value was based on the market prices on the stock exchange for equity instruments and on the prices obtained from the financial institutions for certain debt instruments. Securities classified by intent for which they are held were summarized in the table of Note 3, "Securities."

(4) Long-term loans receivable

The fair value of these accounts was stated at the present value using future cash flows discounted by the premium-added rate on the proper index such as the yield on the government bonds.

Liabilities

(1) Notes and accounts payable, (2) Short-term loans, (4) Accrued expenses and (5) Accrued income taxes

These instruments were settled within the short-term and fair value was roughly equal to book value. Therefore, the fair value was stated at book value.

(3) Current portion of long-term debt and (6) Long-term debt, less current portion

The fair value of bonds consist of both fair value based on fair market value and the present value using the total amount of the principal and interest discounted by the interest rate that reflected the bond's remaining period and the credit risks.

The fair value of loans was stated at the present value using the total amount of the principal and interest discounted by the interest rate as if the loans would be newly executed.

Derivative transactions

See Note 15, "Derivative Transactions."

Note 2: Financial instruments in which the fair value was considered to be extremely difficult to determine were as follows:

	Millions of yen
	2010
Stock of consolidated subsidiaries and affiliates	¥11,565
Non-listed equity securities, etc.	3,772

As to these financial instruments, there was no available fair market price and it was considered to be extremely difficult to determine fair value, so these financial instruments were not included in "(3) Securities and investment securities."

Note 3: The expected redemption amount of monetary credit and securities with a maturity date after the consolidated fiscal year-end were as follows:

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 55,826	¥ —	¥—	¥ —
Trade notes and accounts	91,120	470	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	—	4	1	860
(2) Others	—	—	20	—
Available-for-sale securities with maturities				
(1) Others	7	35	19	—
Long-term loans receivable	—	58	39	12
Total	¥146,953	¥567	¥79	¥872

Note 4: The expected redemption amount of bonds, long-term debt after the consolidated fiscal year-end are described in Note 5, "Short-term Loans and Long-term Debt."

Effective from the year ended March 31, 2010, the Companies adopted the new accounting standard, "Accounting Standard for Financial Instruments" (Statement No. 10 issued by the Accounting Standards Board of Japan on March 10, 2008) and the implementation guidance, "Guidance on Disclosures about Fair Value of Financial instruments" (Guidance No. 19 issued by the Accounting Standards Board of Japan on March 10, 2008).

Year ended March 31, 2011:

a) Articles concerning status of financial instruments

(1) Policies for financial instruments

The Companies raise necessary funds for capital investment and research and development plans mainly through bank loans and the issuance of corporate bonds. The Companies invest temporary surplus funds in highly-secure financial assets, and obtain working capital mainly through bank loans. The Companies utilize derivative financial instruments not for speculation but for hedging purposes only.

(2) Substances and risks of financial instruments

Trade and other receivables are exposed to credit risks of customers. Since the Companies operate internationally, foreign currency net cash inflows are exposed to currency fluctuation risks. Forward foreign exchange contracts are used principally to hedge these risks.

Securities and investment securities, mainly held-to-maturity debt securities and the securities of companies with which the Companies have business relationships, are exposed to market fluctuation risks. The Companies have long-term loans with the companies with which the Companies have business relationships.

Almost of the trade payables are due within six months. Foreign currency trade payables are exposed to currency fluctuation risks, but these trade payables are controlled not to exceed the cash inflows of the same foreign currencies.

Loans and corporate bonds are mainly for the purpose of raising funds for capital investment and research and development plans. The longest due date is 11 years after the fiscal year end. Some of the items are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward foreign exchange contracts and currency option contracts made for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables and interest rate swap contracts for the purpose of hedging interest rate fluctuation risks arising from long-term loans. As to the hedging derivative financial instruments used and items hedged, hedging policy and the method of evaluating hedge effectiveness are described in Note 2 g), "Significant Accounting Policies-Derivatives and Hedge Accounting."

(3) Managing of financial instruments

i) Management of credit risks (risk of customers default)

The financial department of the Company is subject to internal regulations for the management of trade receivables and long-term loans. To reduce the risk of default associated with these instruments, the Company endeavors to research credit standing, monitor the dues and balances by customer at regular intervals through each sales and business administration division of each department and recognize early signs of deterioration in the financial status of its customers. The consolidated subsidiaries are subject to internal regulations for similar management.

Held-to-maturity debt securities are limited to top-ranked securities so as to minimize credit risks.

As to derivative transactions, the Companies deal solely with financial institutions to raise funds and top-ranked financial institutions to reduce credit risks.

ii) Management of market risks
(risks of exchange rate or interest rate fluctuation)

The Company and some consolidated subsidiaries mainly utilize forward foreign exchange contracts and currency option contracts for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables and prospective transactions that are highly expected to occur, which are categorized by the type of currency and the monthly due date. The Company utilizes interest rate swap contracts for the purpose of hedging interest rate fluctuation risks arising from long-term loans. Some consolidated subsidiaries utilize currency swap contracts for the purpose of hedging currency fluctuation risks arising from foreign currency payables from the continuous import of materials.

As to securities and investment securities, the Companies endeavor to regularly monitor fair market value and evaluate the financial status of issuing companies that are important customers. For other than held-to-maturity debt securities, the Companies continuously examine whether the holding position is proper or not while taking relationships with the issuing companies into consideration.

As to derivative transactions, the Company is subject to internal regulations to administer derivative transactions that provide for trading authority and limit maximum amounts, and approves basic policies annually at its management strategy conference. The Company's financial department engages in transactions, records them, and monitors the balances. The results of the transactions are reported regularly in its management strategy conference. The consolidated subsidiaries manage derivatives in a similar way.

iii) Management of liquidity risks of raising funds (risk of default)

The financial department of the Company makes finance plans and updates them based on finance reports from each department. The consolidated subsidiaries manage in a similar way.

(4) Supplementary explanation about fair value of financial instruments

Fair values of financial instruments include not only fair market values based on market prices but also reasonably estimated values if market prices are not available. Reasonably estimated fair values may fluctuate because the values depend on estimations based on certain variable assumptions. The contract amounts of derivative transactions of the following Note 15, "Derivative Transactions," do not show the market risks of the derivatives.

b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts and fair values of financial instruments, and the difference between them for the year ended March 31, 2011 were as follows. Financial instruments in which the fair value was considered to be extremely difficult to determine were not included in the list below.

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 57,692	¥ 57,692	¥ —
(2) Trade notes and accounts	114,539		
Allowance for doubtful receivables *1	(321)		
	114,218	114,209	(9)
(3) Securities and investment securities	5,788	5,100	(688)
(4) Long-term loans receivable	113		
Allowance for doubtful receivables *1	(4)		
	109	108	(1)
Total assets	¥ 177,807	¥ 177,109	¥(698)
(1) Notes and accounts payable	(73,966)	(73,966)	—
(2) Short-term loans	(8,780)	(8,780)	—
(3) Current portion of long-term debt	(24,258)	(24,303)	(45)
(4) Accrued expenses	(30,474)	(30,474)	—
(5) Accrued income taxes	(2,066)	(2,066)	—
(6) Long-term debt, less current portion	(71,151)	(71,759)	(608)
Total liabilities	¥(210,695)	¥(211,348)	¥(653)
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(355)	(355)	—
Derivative transactions for which hedge accounting has been applied	607	607	—
Total derivative transactions	¥ 252	¥ 252	¥ —

*1 Allowance for doubtful receivables was deducted from trade notes and accounts and long-term loans receivable.

*2 Liabilities were indicated in parenthesis ( ). Assets and liabilities arising from derivative transactions were offset and indicated by parenthesis ( ) when the offset amount was a liability.

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Cash and time deposits	$ 693,830	$ 693,830	$ –
(2) Trade notes and accounts	1,377,498		
Allowance for doubtful receivables *1	(3,860)		
	1,373,638	1,373,530	(108)
(3) Securities and investment securities	69,609	61,335	(8,274)
(4) Long-term loans receivable	1,359		
Allowance for doubtful receivables *1	(48)		
	1,311	1,299	(12)
Total assets	$2,138,388	$2,129,994	$(8,394)
(1) Notes and accounts payable	(889,549)	(889,549)	–
(2) Short-term loans	(105,592)	(105,592)	–
(3) Current portion of long-term debt	(291,738)	(292,279)	(541)
(4) Accrued expenses	(366,494)	(366,494)	–
(5) Accrued income taxes	(24,847)	(24,847)	–
(6) Long-term debt, less current portion	(855,695)	(863,007)	(7,312)
Total liabilities	$(2,533,915)	$(2,541,768)	$(7,853)
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(4,269)	(4,269)	–
Derivative transactions for which hedge accounting has been applied	7,300	7,300	–
Total derivative transactions	$ 3,031	$ 3,031	$ –

*1 Allowance for doubtful receivables was deducted from trade notes and accounts and long-term loans receivable.

*2 Liabilities were indicated in parenthesis ( ). Assets and liabilities arising from derivative transactions were offset and indicated by parenthesis ( ) when the offset amount was a liability.

Note 1: Articles concerning the calculation method for fair value, marketable securities and derivative transactions.

Assets

(1) Cash and time deposits

These instruments were settled within the short-term and fair value was roughly equal to book value. Therefore, the fair value was stated at book value.

(2) Trade notes and accounts

For the instruments settled within the short-term, fair value was roughly equal to book value. Therefore, the fair value was stated at book value. For the instruments settled over the long-term, fair value was stated at the present value using future cash flows discounted by the premium-added rate on the proper index such as the yield on the government bonds.

(3) Securities and investment securities

Fair value was based on the market prices on the stock exchange for equity instruments and on the prices obtained from the financial institutions for certain debt instruments. Securities classified by intent for which they are held were summarized in the table of Note 3, "Securities."

(4) Long-term loans receivable

The fair value of these accounts was stated at the present value using future cash flows discounted by the premium-added rate on the proper index such as the yield on the government bonds.

Liabilities

(1) Notes and accounts payable, (2) Short-term loans, (4) Accrued expenses and (5) Accrued income taxes

These instruments were settled within the short-term and fair value was roughly equal to book value. Therefore, the fair value was stated at book value.

(3) Current portion of long-term debt and (6) Long-term debt, less current portion

The fair value of bonds consist of both fair value based on fair market value and the present value using the total amount of the principal and interest discounted by the interest rate that reflected the bond's remaining period and the credit risks.

The fair value of loans was stated at the present value using the total amount of the principal and interest discounted by the interest rate as if the loans would be newly executed.

Derivative transactions

See Note 15, "Derivative Transactions."

Note 2: Financial instruments in which the fair value was considered to be extremely difficult to determine were as follows:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Stock of consolidated subsidiaries and affiliates	¥14,258	$171,473
Non-listed equity securities, etc.	3,678	44,233

As to these financial instruments, there was no available fair market price and it was considered to be extremely difficult to determine fair value, so these financial instruments were not included in "(3) Securities and investment securities."

Note 3: The expected redemption amount of monetary credit and securities with a maturity date after the consolidated fiscal year-end were as follows:

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 57,692	¥ —	¥ —	¥ —
Trade notes and accounts	114,258	281	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	1	5	—	860
(2) Others	—	—	18	—
Available-for-sale securities with maturities				
(1) Others	—	40	17	—
Long-term loans receivable	—	67	41	4
Total	¥171,951	¥393	¥76	¥864

	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	$ 693,831	$ —	$ —	$ —
Trade notes and accounts	1,374,119	3,379	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	12	60	—	10,343
(2) Others	—	—	217	—
Available-for-sale securities with maturities				
(1) Others	—	481	204	—
Long-term loans receivable	—	806	493	48
Total	$2,067,962	$4,726	$914	$10,391

Note 4: The expected redemption amount of bonds, long-term debt after the consolidated fiscal year-end are described in Note 5, "Short-term Loans and Long-term Debt."

15. Derivative Transactions

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

The following tables summarize market value information as of March 31, 2010 for derivative transactions for which hedge accounting had not been applied.

a) Currency related derivatives

At March 31, 2010:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥652	¥—	¥47	¥47
Purchase				
U.S. dollars	90	—	3	3
Euro	52	—	(1)	(1)
Currency swap contracts:				
Type of contracts:				
Purchase				
U.S. dollars	160	93	(15)	(15)
Total	¥954	¥93	¥34	¥34

Note: The market value of forward foreign exchange contracts is calculated using the forward exchange rate. The market value of currency swap contracts is calculated based on the prices provided by the financial institutions.

The following tables summarize market value information as of March 31, 2011 for derivative transactions for which hedge accounting had not been applied.

a) Currency related derivatives

At March 31, 2011:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥ 422	¥ —	¥ 15	¥ 15
Euro	731	—	(1)	(1)
Swedish krone	48	—	0	0
Norwegian krone	2,983	—	(54)	(54)
Purchase				
U.S. dollars	1,236	717	(310)	(310)
Euro	3,036	—	—	—
Norwegian krone	174	—	8	8
Currency swap contracts:				
Type of contracts:				
Purchase				
U.S. dollars	92	59	(13)	(13)
Total	¥8,722	¥776	¥(355)	¥(355)

Note: The market value of forward foreign exchange contracts is calculated using the forward exchange rate. The market value of currency swap contracts is calculated based on the prices provided by the financial institutions.

At March 31, 2011:

	Thousands of U.S. dollars			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	$ 5,075	$ —	$ 180	$ 180
Euro	8,791	—	(12)	(12)
Swedish krone	577	—	0	0
Norwegian krone	35,875	—	(649)	(649)
Purchase				
U.S. dollars	14,865	8,623	(3,728)	(3,728)
Euro	36,512	—	—	—
Norwegian krone	2,093	—	96	96
Currency swap contracts:				
Type of contracts:				
Purchase				
U.S. dollars	1,107	710	(156)	(156)
Total	$104,895	$9,333	$(4,269)	$(4,269)

Note: The market value of forward foreign exchange contracts is calculated using the forward exchange rate. The market value of currency swap contracts is calculated based on the prices provided by the financial institutions.

The following tables summarize market value information as of March 31, 2010 for derivative transactions for which hedge accounting had been applied.

a) Currency related derivatives

At March 31, 2010:

		Millions of yen		
	Hedged items	Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	¥ 6,751	¥ —	¥ 87
Euro	Trade receivable	29	—	1
Purchase				
U.S. dollars	Trade payable	1,953	1,882	(314)
Euro	Trade payable	3,675	—	(371)
GBP	Trade payable	60	—	(1)
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	2,816	—	—
GBP	Trade receivable	5	—	—
Purchase				
Euro	Trade payable	318	—	—
Total		¥15,607	¥1,882	¥(598)

*1 The market value of forward foreign exchange contracts is calculated based on the prices provided by the financial institutions.

*2 For certain trade receivables and trade payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuation risks, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payables as hedged items.

The following tables summarize market value information as of March 31, 2011 for derivative transactions for which hedge accounting had been applied.

a) Currency related derivatives

At March 31, 2011:

	Hedged items	Millions of yen Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	¥1,902	¥ 184	¥141
Euro	Trade receivable	2,696	1,122	423
Thai baht	Trade receivable	6	—	(0)
Purchase				
U.S. dollars	Trade payable	838	81	23
Euro	Trade payable	1,940	450	19
GBP	Trade payable	26	—	1
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	1,734	—	—
Thai baht	Trade receivable	27	—	—
Purchase				
Euro	Trade payable	292	—	—
Total		¥9,461	¥1,837	¥607

*1 The market value of forward foreign exchange contracts is calculated based on the prices provided by the financial institutions.

*2 For certain trade receivables and trade payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuation risks, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payables as hedged items.

	Hedged items	Thousands of U.S. dollars Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	$ 22,874	$ 2,213	$1,696
Euro	Trade receivable	32,423	13,494	5,087
Thai baht	Trade receivable	72	—	(0)
Purchase				
U.S. dollars	Trade payable	10,078	974	277
Euro	Trade payable	23,331	5,412	228
GBP	Trade payable	313	—	12
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	20,854	—	—
Thai baht	Trade receivable	325	—	—
Purchase				
Euro	Trade payable	3,512	—	—
Total		$113,782	$22,093	$7,300

*1 The market value of forward foreign exchange contracts is calculated based on the prices provided by the financial institutions.

*2 For certain trade receivables and trade payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuation risks, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payables as hedged items.

b) Interest related derivatives

At March 31, 2010:

Exceptional treatment:	Hedged items	Millions of yen Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term loans	¥20,072	¥15,194	¥—

Note: As interest rate swap contracts subject to exceptional treatment for interest rate swap contracts are accounted for as a single item with the underlying long-term debt, which are hedged items, their market value is included in that of the long-term debt.

At March 31, 2011:

Exceptional treatment:	Hedged items	Millions of yen Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term loans	¥37,674	¥27,354	¥—

Exceptional treatment:	Hedged items	Notional amount (Thousands of U.S. dollars)	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	**Long-term loans**	**$453,085**	**$328,972**	**$—**

Note: As interest rate swap contracts subject to exceptional treatment for interest rate swap contracts are accounted for as a single item with the underlying long-term debt, which are hedged items, their market value is included in that of the long-term debt.

16. Severance and Retirement Benefits

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

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

The following table sets forth the composition of the liabilities recorded in the balance sheets for the Companies' retirement plans at March 31, 2010 and 2011.

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Projected benefit obligation	¥14,913	**¥27,343**	**$328,840**
Less fair value of pension assets	(5,857)	**(19,258)**	**(231,606)**
Funded status:			
Benefit obligation in excess of plan assets	9,056	**8,085**	**97,234**
Unrecognized actuarial differences	(1,708)	*1 **(3,398)**	*1 **(40,866)**
Unrecognized past service cost	—	**(116)**	**(1,395)**
Total	7,348	**4,571**	**54,973**
Deferred benefit expenses	83	**3,606**	**43,367**
Retirement and severance benefits in the consolidated balance sheets	¥ 7,431	**¥ 8,177**	**$ 98,340**

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

*1 The fair value of pension assets from the overseas subsidiary which is limited by the accounting standard, "Employee Benefits" (International Accounting Standard 19 issued by the International Accounting Standards Board) is included in the amount of unrecognized actuarial differences at March 31, 2011.

Severance and pension costs of the Companies included the following components for the years ended March 31, 2010 and 2011.

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Service cost — benefits earned during the year	¥1,560	**¥1,735**	**$20,866**
Interest cost on projected benefit obligation	247	**228**	**2,742**
Expected return on plan assets	—	**—**	**—**
Amortization of actuarial differences	504	**497**	**5,977**
Amortization of past service cost	—	**3**	**36**
Severance and retirement benefit expenses	¥2,311	**¥2,463**	**$29,621**

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

For the year ended March 31, 2010, the Companies made contributions to the defined contribution pension plans in the amount of ¥755 million, which were recognized in expenses but were not included in the above table.

For the year ended March 31, 2011, the Companies made contributions to the defined contribution pension plans in the amount of ¥930 million ($11,185 thousand), which were recognized in expenses but were not included in the above table.

Assumptions used in accounting for the retirement benefit plans for the years ended March 31, 2010 and 2011 were as follows:

	2010	**2011**
Method of attributing benefits to periods of service	Straight-line method	**Straight-line method**
Discount rate	1.5% to 2.5%	**1.4% to 2.75%**
Long-term rate of return on fund assets	0.0%	**0.0% to 4.75%**
Amortization of past service cost	—	**5 to 12 years**
Amortization period for actuarial differences (within the remaining average term of employees' service)	5 to 12 years	**5 to 12 years**

17. Income Taxes

The Companies are subject to a number of income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 40.6% for both the years ended March 31, 2010 and 2011.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2010 and 2011 were as follows:

	2010	2011
Statutory tax rate	40.6%	**40.6%**
Nondeductible expenses	0.2	**1.9**
Nontaxable dividend income	(5.0)	**(6.1)**
Fluctuation in deferred tax assets valuation allowance account	(6.8)	**(14.4)**
Elimination of dividend income	5.7	**4.8**
Equity in net income of nonconsolidated subsidiaries and affiliates	(15.2)	**(9.7)**
Other	4.0	**1.0**
Effective tax rate	23.5%	**18.1%**

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Deferred tax assets:			
Impairment loss	¥ 7,289	**¥ 7,396**	**$ 88,948**
Tax loss carryforwards	10,617	**5,295**	**63,680**
Employees' retirement benefits	3,239	**3,569**	**42,922**
Loss from lawsuits	2,829	**1,850**	**22,249**
Research and development expenses	658	**1,293**	**15,550**
Allowance for doubtful receivables	432	**971**	**11,678**
Loss on devaluation of securities	441	**246**	**2,958**
Other reserves	5,290	**7,357**	**88,479**
Other	2,481	**3,953**	**47,541**
Total deferred tax assets	33,276	**31,930**	**384,005**
Valuation allowance	(27,270)	**(25,075)**	**(301,564)**
Deferred tax assets, net	6,006	**6,855**	**82,441**
Deferred tax liabilities:			
Land valuation difference	(1,532)	**(1,694)**	**(20,373)**
Prepaid pension benefit expenses	—	**(749)**	**(9,008)**
Reserve for compressed entry	(746)	**(725)**	**(8,719)**
Net unrealized holding gains on securities	(34)	**(140)**	**(1,684)**
Reserve for replacement of property	(140)	**(136)**	**(1,635)**
Other	(3)	**(142)**	**(1,708)**
Total deferred tax liabilities	(2,455)	**(3,586)**	**(43,127)**
Net deferred tax assets	¥ 3,551	**¥ 3,269**	**$ 39,314**

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

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Current assets	¥4,138	**¥4,468**	**$53,734**
Investments and other noncurrent assets	1,136	**1,685**	**20,264**
Long-term liabilities	(1,723)	**(2,884)**	**(34,684)**
Net deferred tax assets	¥3,551	**¥3,269**	**$39,314**

18. Business Combinations

The Company has acquired AE&E Inova AG for this fiscal year.

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

Name of acquired company	Hitachi Zosen Inova AG (The company name was changed from AE&E Inova AG)
Business of acquired company	Design, manufacture, sale, maintenance and operation of waste power generation facilities
Purpose	Taking control of Hitachi Zosen Inova AG will enable the Companies to accelerate waste disposal facilities business overseas, not only in European market but also in global market.
Acquisition date	December 20, 2010
Legal form of acquisition	Acquisition of shares for cash consideration
Ratio of voting rights acquired	100.0%

b) Acquisition costs

	Millions of yen	Thousands of U.S. dollars
Common stock	**¥ 26**	**$ 313**
Expenses arising directly from the acquisition	**390**	**4,690**
Additional capital injection	**4,494**	**54,047**
Total	**¥4,910**	**$59,050**

c) Goodwill

Goodwill in the amount of ¥663 million ($7,973 thousand) comprised mainly the advisory fee, etc., arising directly from the acquisition. The goodwill is amortized over five years.

d) The assets and liabilities of the acquired company at December 20, 2010 were as follows:

Assets

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥22,932**	**$275,791**
Fixed assets	**5,026**	**60,445**
Total	**¥27,958**	**$336,236**

Liabilities

	Millions of yen	Thousands of U.S. dollars
Current liabilities	**¥22,795**	**$274,143**
Total	**¥23,720**	**$285,268**

19. Asset Retirement Obligations

Year ended March 31, 2011:

a) General information about asset retirement obligations

The Company and some consolidated subsidiaries have recognized asset retirement obligations associated with the removal of asbestos and other harmful substances in the some works and the restoration under real estate rental agreements.

b) Basis of measurement for asset retirement obligations

The asset retirement obligations are calculated based on the estimated period of use, which is the remaining period of depreciation of the target assets, and discounted by the yield in circulation on government bonds according to the remaining number of years.

For the year ended March 31, 2011:

	Millions of yen	Thousands of U.S. dollars
Balance at the beginning of the fiscal year *1	**¥838**	**$10,078**
Increase in purchase of property, plant and equipment	6	72
Adjustments with passing of time	8	97
Decrease in performance of Asset Retirement Obligations	(3)	(36)
Other	4	48
Balance at the end of the fiscal year	**¥853**	**$10,259**

*1 The balance of asset retirement obligations at the beginning of the fiscal year was determined based on the guidance set forth in "Accounting Standards for Asset Retirement Obligations" (Statement No. 18 issued by the Accounting Standards Board of Japan on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21 issued by the Accounting Standards Board of Japan on March 31, 2008).

20. Investment and Rental Property

The Company and some consolidated subsidiaries own rental property and idle lands in Osaka and other areas. Rental income was ¥726 million for the year ended March 31, 2010 (Rental income and rental expenses were counterbalanced and described mainly in other income and expenses).

Book value of investment and rental property stated in the consolidated balance sheet, the relative increase or decrease for this fiscal year and corresponding fair value were as follows:

Millions of yen			
Book value			Fair value
Year ended March 31, 2009	Increase or decrease	Year ended March 31, 2010	Year ended March 31, 2010
¥27,410	¥(93)	¥27,317	¥26,647

Note: Book value stated in the consolidated balance sheet was net of accumulated depreciation.

Within the movement of rental property in this fiscal year, an increase in rental property by ¥246 million resulted mainly from acquisition of property, and a decrease in rental property by ¥224 million resulted mainly from depreciation.

The fair values of major property at the end of the fiscal year were measured based on values in the appraisal reports prepared by external real estate appraisers.

The fair values of other property were measured based on certain assessed values or indicators which could be considered to be properly reflected in the market price.

Effective from the year ended March 31, 2010, the Companies adopted the new accounting standard, "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (Statement No. 20 issued by the Accounting Standards Board of Japan on November 28, 2008) and the implementation guidance, "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (Guidance No. 23 issued by the Accounting Standards Board of Japan on November 28, 2008).

The Company and some consolidated subsidiaries own rental property and idle lands in Osaka and other areas. Rental income was ¥755 million ($9,080 thousand) for the year ended March 31, 2011 (Rental income and rental expenses were counterbalanced and described mainly in other income and expenses).

Book value of investment and rental property stated in the consolidated balance sheet, the relative increase or decrease for this fiscal year and corresponding fair value were as follows:

Millions of yen			
Book value			Fair value
Year ended March 31, 2010	Increase or decrease	Year ended March 31, 2011	Year ended March 31, 2011
¥27,317	**¥(72)**	**¥27,245**	**¥26,497**

Thousands of U.S. dollars			
Book value			Fair value
Year ended March 31, 2010	Increase or decrease	Year ended March 31, 2011	Year ended March 31, 2011
$328,527	**$(866)**	**$327,661**	**$318,665**

Note: Book value stated in the consolidated balance sheet was net of accumulated depreciation.

Within the movement of rental property in this fiscal year, an increase in rental property by ¥85 million ($1,022 thousand) resulted mainly from acquisition of property, and a decrease in rental property by ¥198 million ($2,381 thousand) resulted mainly from depreciation.

The fair values of major property at the end of the fiscal year were measured based on values in the appraisal reports prepared by external real estate appraisers.

The fair values of other property were measured based on certain assessed values or indicators which could be considered to be properly reflected in the market price.

21. Segment Information

a) Reportable segments

(1) General information about reportable segments

The Company reports segments based on the organization into which the Board of Directors has classified the active conducting of business in order to evaluate performance.

The Company has set up the head offices according to products and services. Each head office has drafted strategies for handling products and services and has developed the active conducting of business.

The Companies' operations are classified into seven reportable segments as follows:

Operations in the environmental systems segment include the production of environmental protection systems and water treatment systems.

Operations in the industrial plants segment include the production of desalination and potabilization plants and chemical plants.

Operations in the machinery segment include the production of marine diesel engines and boilers.

Operations in the process equipment segment include the production of process equipment and nuclear equipment.

Operations in the infrastructure segment include bridge construction, water gates and shield tunneling machines.

Operations in the precision machinery segment include the production of plastic machinery and material business.

Operations in the other businesses segment include transportation business and warehousing business.

(2) Basis of measurement for reported segment profit or loss, segment assets and other material items

There was no significant change in the account processing method for reported business segments in this fiscal year.

The amounts of reported segment profit or loss are based on operating income.

Intersegment sales, operating revenue and transfers are made with reference to prevailing market prices.

(3) Information about reported segment profit or loss, segment assets and other material items

Information by reported segment of the Companies was as follows:

	Millions of yen									
	2010									
	Environmental systems	Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales										
Outside customers	¥89,307	¥40,986	¥54,564	¥26,951	¥34,475	¥18,956	¥ 8,287	¥273,526	¥ —	¥273,526
Intersegment	483	425	257	53	999	639	2,603	5,459	(5,459)	—
Total	89,790	41,411	54,821	27,004	35,474	19,595	10,890	278,985	(5,459)	273,526
Segment income (loss)	¥ 3,480	¥ 1,296	¥ 2,902	¥ 5,173	¥ (162)	¥ 251	¥ 664	¥ 13,604	¥ (47)	¥ 13,557
Segment assets	¥69,443	¥27,316	¥62,715	¥18,371	¥43,103	¥22,733	¥46,812	¥290,493	¥58,837	¥349,331
Others										
Depreciation	¥ 693	¥ 1,382	¥ 2,316	¥ 1,087	¥ 1,374	¥ 907	¥ 721	¥ 8,480	¥ —	¥ 8,480
Increase in assets and intangible assets	¥ 956	¥ 454	¥ 2,504	¥ 956	¥ 884	¥ 716	¥ 732	¥ 7,202	¥ —	¥ 7,202

	Millions of yen									
	2011									
	Environmental systems	Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales										
Outside customers	¥93,137	¥29,583	¥60,910	¥17,277	¥38,388	¥38,670	¥ 9,231	¥287,196	¥ —	¥287,196
Intersegment	104	233	349	262	971	786	3,114	5,819	(5,819)	—
Total	93,241	29,816	61,259	17,539	39,359	39,456	12,345	293,015	(5,819)	287,196
Segment income (loss)	¥ 5,737	¥ (2,281)	¥ 2,995	¥ 1,634	¥ 1,266	¥ 3,171	¥ 868	¥ 13,390	¥ (31)	¥ 13,359
Segment assets	¥99,518	¥27,130	¥64,631	¥18,829	¥43,895	¥23,286	¥48,025	¥325,314	¥54,935	¥380,249
Others										
Depreciation	¥ 820	¥ 1,463	¥ 2,228	¥ 1,128	¥ 1,426	¥ 901	¥ 712	¥ 8,678	¥ —	¥ 8,678
Increase in assets and intangible assets	¥ 435	¥ 491	¥ 2,339	¥ 1,057	¥ 976	¥ 799	¥ 578	¥ 6,675	¥ —	¥ 6,675

	Thousands of U.S. dollars									
	2011									
	Environmental systems	Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales										
Outside customers	$1,120,108	$355,779	$732,532	$207,781	$461,671	$465,063	$111,017	$3,453,951	$ —	$3,453,951
Intersegment	1,251	2,802	4,197	3,151	11,678	9,453	37,450	69,982	(69,982)	—
Total	1,121,359	358,581	736,729	210,932	473,349	474,516	148,467	3,523,933	(69,982)	3,453,951
Segment income (loss)	$ 68,996	$ (27,432)	$ 36,019	$ 19,651	$ 15,225	$ 38,136	$ 10,439	$ 161,034	$ (373)	$ 160,661
Segment assets	$1,196,849	$326,278	$777,282	$226,446	$527,901	$280,048	$577,571	$3,912,375	$660,674	$4,573,049
Others										
Depreciation	$ 9,861	$ 17,595	$ 26,795	$ 13,566	$ 17,150	$ 10,836	$ 8,563	$ 104,366	$ —	$ 104,366
Increase in assets and intangible assets	$ 5,232	$ 5,905	$ 28,130	$ 12,712	$ 11,738	$ 9,609	$ 6,951	$ 80,277	$ —	$ 80,277

The amounts of segment profit or loss are adjusted to operating income in the Consolidated Statements of Income.

Corporate amounts are mainly the common accounts of the head office, which cannot be allotted to each segment. Corporate assets, which include mainly cash, time deposits and securities at March 31, 2010 and 2011 were ¥58,944 million and ¥55,200 million ($663,860 thousand), respectively.

Effective from the year ended March 31, 2011, the Companies adopted the new accounting standard, “Accounting Standard for Disclosures about “Segments of an Enterprise and Related Information” (Statement No. 17 issued by the Accounting Standards Board of Japan on March 27, 2009) and the implementation guidance, “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (Guidance No. 20 issued by the Accounting Standards Board of Japan on March 21, 2008).

b) Related Information

(1) Information about products and services

Information about products and services is not shown because the classification of products and services is the same for the classification of reported segments.

(2) Information about geographic areas

Sales by region for the years ended March 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Japan	¥230,753	¥237,561	$2,857,018
Asia	20,509	35,140	422,610
North America	9,086	5,640	67,829
Middle East	4,841	4,099	49,296
Europe	1,247	2,000	24,053
Other	7,090	2,756	33,145
Total	¥273,526	¥287,196	$3,453,951

Information about tangible fixed assets by region is not shown because tangible fixed assets in Japan were more than 90% of the amounts of tangible fixed assets in the Consolidated Balance Sheets.

(3) Information about major customers

Information about major customers is not shown because there are no sales from transactions with a single external customer that amounted to 10% or more of sales in the Consolidated Statements of Income.

22. Related Party Information

Year ended March 31, 2010:

Attribute	Name	Domicile	Capitalization	Nature of operations	Equity ownership by the company	Relation-ship	Nature of transaction	Trading amount	Account	Balance at year end
Affiliate	Naikai Zosen Corporation	Onomichi City, Hiroshima Prefecture	¥1,200 million	Manu-facturing	39.5% direct 0.4% indirect	Materials purchase acceptance	Purchase of materials	¥6,239 million	Advances paid	¥1,422 million

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

The significant affiliate companies were Naikai Zosen Corporation, Steel Plantech Corporation and Universal Shipbuilding Corporation for the year ended March 31, 2010.

A summary of the financial statements of the significant affiliates was as follows:

	Millions of yen
Total current assets	¥146,345
Total fixed assets	97,545
Total current liabilities	149,925
Total long-term liabilities	19,411
Total net assets	74,554
Net sales	¥395,514
Income before income taxes and minority interests	34,015
Net income	20,244

Year ended March 31, 2011:

Attribute	Name	Domicile	Capitalization	Nature of operations	Equity ownership by the company	Relation-ship	Nature of transaction	Trading amount	Account	Balance at year end
Affiliate	Naikai Zosen Corporation	Onomichi City, Hiroshima Prefecture	¥1,200 million ($12,898 thousand)	Manu-facturing	39.5% direct 0.4% indirect	Materials purchase acceptance	Purchase of materials	¥6,090 million ($73,241 thousand)	Advances paid	¥2,270 million ($27,300 thousand)

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

The significant affiliated companies were Naikai Zosen Corporation and Universal Shipbuilding Corporation for the year ended March 31, 2011.

A summary of the financial statements of the significant affiliates was as follows:

	Millions of yen	Thousands of U.S. dollars
Total current assets	¥119,554	$1,437,811
Total fixed assets	94,419	1,135,526
Total current liabilities	118,427	1,424,257
Total long-term liabilities	20,489	246,410
Total net assets	75,057	902,670
Net sales	¥253,143	$3,044,414
Income before income taxes and minority interests	23,392	281,323
Net income	13,539	162,826

KPMG

Independent Auditors' Report

To the Board of Directors of Hitachi Zosen Corporation:

We have audited the accompanying consolidated balance sheets of Hitachi Zosen Corporation and consolidated subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Zosen Corporation and consolidated subsidiaries as of March 31, 2010 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Osaka, Japan
June 23, 2011

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Facsimile: +44-20-7929-1803
Brokerage and sales of ships, offshore equipment, plants, industrial machinery and steel structures for overseas markets; acting as an intermediary for the remodeling, repair and chartering of ships

Hitachi Zosen U.S.A. Ltd.
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Brokerage and sales of plants and machinery, etc.; conducting surveys and gathering information on new products and technologies

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Manufacture of NOx removal catalysts

Hitachi Zosen Inova AG
Hardturmstrasse 127, 8005 Zurich, Switzerland
Phone: +41-44-277-1111
Facsimile: +41-44-277-1313
Design, construction, marketing, maintenance and operation of Energy-from-Waste plants

Hitachi Zosen Inova U.S.A. LLC
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Energy-from-Waste plant business in the US

Zhenjiang Zhong Chuan Hitachi Zosen Machinery Co., Ltd.
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Design, manufacture, sale and after-sales servicing of marine engines, diesel engines for power generation, and various equipment for environmental protection purposes

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

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

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

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

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

IMEX CO., LTD.
2293-1, Innoshimahabu-cho, Onomichi,
Hiroshima 722-2393, Japan
Phone: +81-845-22-6411
Facsimile: +81-845-22-6455
Manufacture, installation and repair of boilers, diesel engines, and other devices

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

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

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

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

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

SLURRY-21 Co., Ltd.
6-26-3, Minami-Ohi, Shinagawa-ku,
Tokyo 140-0013, Japan
Phone: +81-3-6404-0136
Facsimile: +81-3-3761-6927
Manufacture, distribution, lease, repair and maintenance of ice makers and parts

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

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

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

HITACHI ZOSEN HANDLING SYSTEM Co., Ltd.
14755, Mukaihigashi-cho, Onomichi,
Hiroshima 722-0062, Japan
Phone: +81-848-44-1104
Facsimile: +81-848-45-2979
Manufacture, distribution and operation of logistics equipment; technical service, maintenance and steel structure/construction work and engineering

Company History

Osaka Iron Works (proprietorship, the predecessor of Hitachi Zosen) era

1881	• E. H. Hunter, of Britain, founded the Osaka Iron Works (proprietorship) on the Ajikawa riverbank, Osaka.
1882	• The Hatsu Maru (14GT wooden ship), the first new ship, is constructed.
1890	• Kumagawa Maru, Japan's first steel-hulled ship, is built for Osaka Shosen (now Mitsui O.S.K. Lines).
1900	• Sakurajima Works starts operations (relocated to the Ariake Machinery Works in September 1997).
1907	• The Japan's first Western-style whaling ship, the No. 2 Hogei Maru, is constructed. • Tokyo liaison office is opened.
1908	• Japan's first tanker, the Tora Maru is constructed.
1911	• Innoshima Works starts operations.

Old Osaka Iron Works Ltd. era

1914	• Osaka Iron Works is reorganized as a joint-stock company.
1922	• Chikko Works starts operations.
1927	• Dojima Ohashi, an arch bridge, and other structures are completed in succession for the municipal government of Osaka.
1930	• The Heiyo Maru and Heian Maru large-scale cargo and passenger ships for Nippon Yusen K.K. are constructed (these ships established a new record for river launches in Japan).

New Osaka Iron Works Ltd. era

1934	• The Company makes a new start as Osaka Iron Works incorporated (marking the incorporation of the current Hitachi Zosen Corporation).
1937	• *Osaka Tekko*, a technical journal, is inaugurated.

As Hitachi Zosen Corporation

1943	• The name is changed to Hitachi Zosen Corporation. • Mukaishima Works starts operations.
1944	• Kanagawa Works starts operations.
1948	• *Hitachi Zosen Technical Review* is inaugurated.
1949	• Technical Research Institute is opened. • The first whaling ship is constructed for Norway following World War II as a result of government trade.
1950	• A technological tie-up for B&W-type diesel engines is concluded.
1951	• An order is received for a tanker from a customer in United States — the first order received under the private trade program to export a ship after the end of World War II. • The first B&W marine diesel engine is completed.
1956	• Offices are opened in London and New York.
1960	• A technological tie-up is concluded with Von Roll Environmental Technology Ltd. of Switzerland for a De Roll-type refuse incineration plant.
1965	• A De Roll-type refuse incineration plant is completed for the municipal government of Osaka (the first mechanical incineration plant with power generation facility manufactured in Japan). • Sakai Works starts operations.
1966	• Sakurajima Works restarts as a specialized plant for land machinery.
1969	• A number of orders are completed for De Roll-type refuse incineration plants for Tokyo Metropolis.
1971	• Maizuru Works starts operations.
1972	• Orders are received for two cargo ships for China.
1973	• Ariake Works starts operations.
1977	• Construction is completed for a 500,000-ton tanker for Esso.
1979	• Ariake Land Machinery Works starts operations.
1981	• Hitachi Zosen celebrates its 100th anniversary.
1987	• The world's first multiple-face shield tunneling machine is completed.
1990	• Construction of ultra-large steel mill plants is completed for Baoshan Iron and Steel of China and Sicartsa Steel Mill in Mexico.
1993	• Construction of Japan's first double-hull VLCC is completed. • Sakai Works starts operation as a specialized plant for steel structures. • Slurry-shield tunnel boring machine (with one of the world's largest diameters of 14.14m) is produced.
1994	• The world's first triple-face shield tunneling machine is completed.
1996	• A refuse incineration plant for the Clean Association of Eastern Saitama District receives MITI (now METI) Minister prize for excellent environmental equipment. • Electric power supply business is inaugurated. • Japan's first super refuse-fired power generation plant comes on stream.
1997	• An order is received for the world's first fifth-generation semisub rig. • Sakurajima Works is closed, and facilities are transferred to Ariake Works; Ariake Machinery Works starts operations. • The first B&W marine diesel engine (74,640 hp) is completed (one of the world's largest).
2000	• An order is received for the No. 1 gasification melting furnace. • Yumemai Ohashi, the world's first floating swing bridge is constructed. • 8,000 hours of continuous operations are achieved by refuse incineration plant delivered for Taiwan.
2001	• A large-scale desalination plant is constructed in Saudi Arabia.
2002	• The Basic Agreement on Consolidation of Shipbuilding Operations is concluded with NKK Corp (now JFE Steel corporation). • The shipbuilding operation is transferred to Universal Shipbuilding Corporation on October 1. • The Hitz brand name goes into use as of October 1. • HEC Corporation is acquired.
2003	• The world's most advanced electronic control marine engine for large vessels is produced. • A desalination plant is constructed for Oman.
2004	• An order is received (as member of international consortium) for Stonecutters Bridge — the world's second-longest cable-stayed bridge — for Hong Kong. • Kyoto Municipal Waste Edible Oil Fuel Production Facility is completed with the greatest manufacturing capacity in Japan.
2005	• Refuse incineration plant is constructed for Odate City (the first intermediate processing operation of municipal refuse in Japan under PFI legislation).
2006	• A desalination plant is constructed in Abu Dhabi.
2007	• One of Japan's largest gasification melting furnaces is completed for Toyoda City. • An order is received from South Africa for one of the world's largest coal-to-liquids (CTL) reactors.
2008	• A new factory is constructed in Sakai Works for extension of industrial machinery and shield tunneling machinery production.
2009	• Ten Group companies are absorbed. • Completed a new plant for manufacture of medium-sized diesel engines at Ariake Works. • Launched a joint venture in China for manufacture of marine diesel engines.
2010	• Launched a joint venture in China for manufacture of marine deck machinery. • Acquired European refuse incineration plant maker (current name: Hitachi Zosen Inova AG).
2011	• Hitachi Zosen celebrates its 130th anniversary.

Investor Information

(As of March 31, 2011)

Corporate data

Date of establishment:	April 1, 1881
Paid-in capital:	45,442,365,005 yen
Number of employees (consolidated):	8,528
Number of employees (non-consolidated):	2,981
Consolidated subsidiaries:	63

Stock data

Number of shares authorized:	2,000,000,000
Number of shares issued:	796,073,282
Number of shareholders:	115,724

Major shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Equity stake* (%)
Japan Trustee Services Bank, Ltd. (trust account)	41,296	5.2
The Master Trust Bank of Japan, Ltd. (trust account)	33,521	4.2
Citibank Hong Kong PBG Clients Hong Kong	30,402	3.8
Japan Trustee Services Bank, Ltd. (trust account 9)	25,374	3.2
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,749	3.1
Sompo Japan Insurance Inc.	13,000	1.6
Trust and Custody Services Bank, Ltd. (pension trust account)	10,678	1.3
Juniper	9,579	1.2
Nippon Life Insurance Company	8,514	1.1
Nomura Asset Management U.K. Limited Sub A/C Evergreen Nominees Ltd.	7,111	0.9

*Percentage of issued shares excluding treasury shares.

Shareholders information

Business year: April 1 to March 31

Annual General Meeting of Shareholders: Late June
Final date for voting right registration: March 31

Dividend record date (term-end): March 31
Dividend record date (interim): September 30

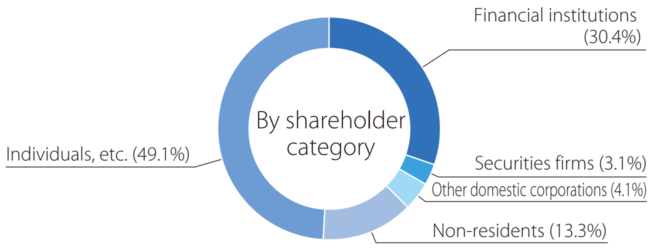
Public notices:
via Company's website
http://www.hitachizosen.co.jp/

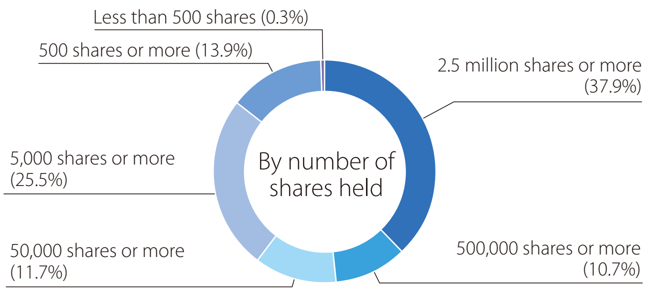
Share trading unit: 500 shares

Shareholder registry administrator:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

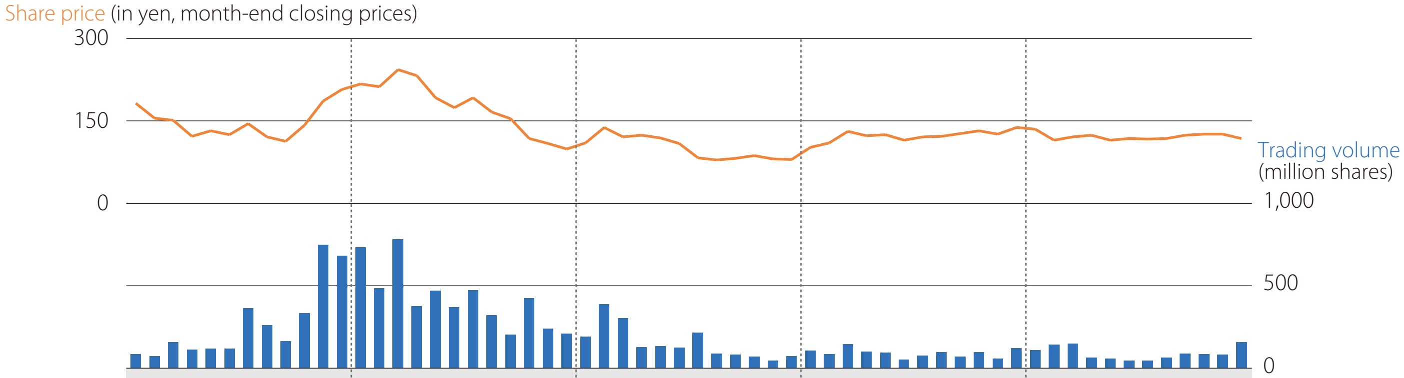
Stock listing: Tokyo Stock Exchange, Osaka Securities Exchange

Distribution of shareholdings





Share price and trading volume



Fiscal year	2006	2007	2008	2009	2010
High	210	266	150	144	139
Low	107	95	66	80	97
At year-end	206	98	79	137	117

*Fiscal years ended March 31 of the following year.

Hitachi Zosen Corporation

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