



**CONTRIBUTING TO
A PROSPEROUS FUTURE
WITH OUR TECHNOLOGY**

Hitachi Zosen Corporation
Annual Report 2012

TECHNOLOGY FOR THE EARTH, AND

At the Hitachi Zosen Group, our goal is to leverage the expertise in manufacturing and engineering we have built up during the more than 130 years since the founding of Hitachi Zosen in 1881 to provide ever more advanced products and technologies across the whole range of the Group's business operations. In this way, we hope to provide a more enjoyable life for our customers now, and contribute to a prosperous future.

To realize this goal, in the Hitz Vision new medium-term management plan, commenced in April 2011, we have clearly identified the growth area into which we plan to invest management resources on a priority basis. We have positioned green energy, social infrastructure, and disaster prevention as our business domains, and as our target markets we have positioned overseas operations, notably in emerging nations, as well as leading-edge business fields. We offer high value-added total solutions centered on proposals and construction work in the fields of environmental systems, industrial plants, machinery, process equipment, precision machinery, steel structures, construction machinery and GPS-based marine disaster prevention systems.

Under the banner of the message that we have formulated to mark the 130th anniversary of Hitachi Zosen Corporation – “Technology for People, the Earth, and the Future” – the Hitachi Zosen Group will continue to pursue new technologies that promise to help preserve an abundant natural global environment and build a sound social infrastructure.

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Forward-looking statements: This Annual Report contains forward-looking statements that reflect judgments based on information available at the time of writing. Consequently, such statements are subject to a number of risks reflecting the uncertainties involved in the Company's business environment, and investors are warned that these statements may differ significantly from actual results.

FOR PEOPLE, AND THE FUTURE

Our Business Domains

- Green Energy
- Social Infrastructure and Disaster Prevention

Growth Area

Target Markets

- Newly Developed Countries
- Advanced Business Fields

GREEN ENERGY





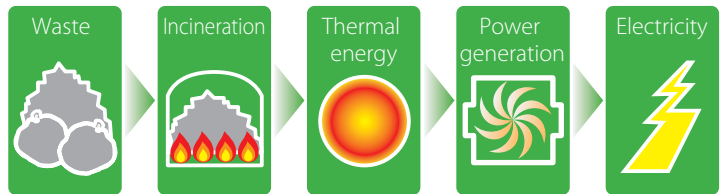
Business Domain No. 1

Green Energy

In the field of Green Energy, the Group is involved in operations to help prevent global warming, promote the effective use of natural resources and energy, and utilize biomass as a renewable energy source, among others. Specifically, we are focusing on EfW (Energy from Waste) technologies to generate electricity from the incineration of waste and thereby help reduce atmospheric CO₂ levels through the use of renewable energy, as well as ethanol dehydration membranes, denitration systems for the removal of NO_x, and SCR (selective catalytic reduction) systems for marine diesel engines. We are also focusing development efforts on laser patterning technology for the creation of equipment for the manufacture of efficient solar cells, and on technology for the realization of an integrated manufacturing system for film-substrate solar cells.

Most notably, the acquisition of AE&E Inova AG (now Hitachi Zosen Inova AG) has bolstered the Group's capabilities in the field of power generation from the incineration of waste (EfW). By combining the Group's EfW operations in Japan, where we enjoy a top-class track record, with the technological expertise and engineering know-how of Inova, which holds the leading market share in Europe, the Group aims to create the world's No. 1 EfW business.

Power generation through EfW also helps reduce CO₂



Higashiyodo plant,
Osaka City (Japan)



Luodai, Chengdu (China)



Riverside (UK)

Power output of Osaka City
Maishima Plant = 32,000 kW



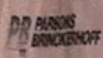
BANGALORE METRO RAIL CORPORATION LTD

First TBM Breakthrough

(Majestic Stn. To Sir M. Visveshwaraya Stn.)



GENERAL CONSULTANTS – RITES · OC · PBI · SYSTRA



SOCIAL INFRASTRUCTURE



RE

Opening ceremony for construction of subway tunnel by Hitachi Zosen shield tunneling machine in Bangalore, India

Business Domain No. 2-1

Social Infrastructure

In the Social Infrastructure field, our principal focus is on the construction of desalination plants for the production of potable water from seawater in regions suffering from chronic water shortages such as the Middle East, or on small islands where rainwater collection is inadequate, as well as on the construction of such infrastructure elements as bridges and railways in emerging nations where the provision of social infrastructure still lags behind, such as in Southeast Asia. In addition, infrastructure elements are rapidly becoming dilapidated in Japan, the USA, and other industrialized countries. We therefore view the market for repair and maintenance work on bridges, floodgates, etc. as a promising growth area, and are putting effort into developing this business.

We are also focusing on the growing market for shield tunneling machines, which are essential in subway construction work. Amid rising concern over environmental issues, public transportation (mass transit) systems are being reappraised for their contribution to reducing CO₂ emissions, and a large number of new subway lines are on the drawing board. Thanks to this, the Group's operations in this field are growing in China, Taiwan, South Korea, Southeast Asia, India, and elsewhere.

Other focuses are food-production and medical equipment, plastic extrusion molding systems for FPD and semiconductor applications, and video-recording systems for production lines to ensure food safety.

Over 1,300 shield tunneling machines delivered for subway work all over the world

We have received an order from Seattle, Washington, for the world's largest (17.45 meter diameter) earth pressure balance (EPB) shield tunneling machine for the city's No. 99 Subway Line. The shield is scheduled to be delivered in April 2013.



Shield tunneling machine for construction of subway line in **Singapore**



Shield tunneling machine for use in construction of tunnel under the Bosphorus Strait in Istanbul, **Turkey**



Shield tunneling machine for construction of subway line in **Taiwan**

DISASTER PREVENTION



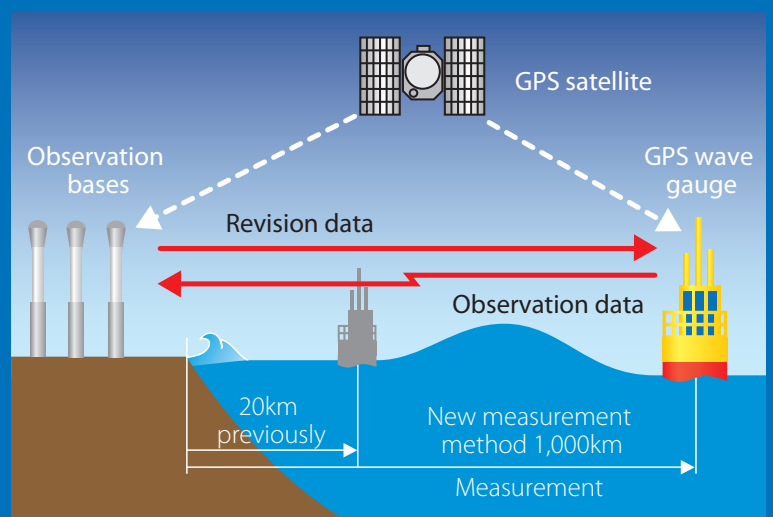
Business Domain No. 2-2

Disaster Prevention

Following the Great East Japan Earthquake of March 2011, awareness of the need for protection against tsunami has come strongly to the fore, and urgent priority is being given to the reconstruction of the devastated region (with a focus on designing communities that are more resistant to earthquakes and tsunami) and to the construction of facilities to prevent or minimize devastation from a potential major earthquake off Japan's eastern and southeastern coasts, which is widely feared to occur in the near future. The Hitachi Zosen Group manufactures equipment to minimize damage from tsunami, such as GPS wave gauges and flap-gate-type wavebreakers, and we intend to strengthen our operations in this field, including the development of new products, with the goal of creating social infrastructure that will help people to live their lives without the fear of such natural disasters.

With regard to our GPS wave gauges, we have developed a method that extends the distance at which high-precision positioning is possible from 20 to 1,000 kilometers offshore, and are pursuing commercialization tests with the aim of locating wave gauges further offshore. In the field of flap-gate-type wavebreakers, we have developed two types, one for installation on the seabed and one for installation onshore, and are currently conducting tests in actual marine conditions. We are actively engaging in the development and popularization of such equipment to protect society from flooding damage caused by tsunami, storm surges, and torrential rainfall.

Tsunami detection systems that contribute to safety and security



The Year in Review

2011 April

- Celebrated 130th anniversary
- Developed zeolite-based CO₂ separation membrane element

May

- Established environmental business company Hitachi Zosen Inova U.S.A. LLC

June

- Developed method for Precise Point Positioning with Ambiguity Resolution (PPP-AR) using GPS
- Developed electron beam sterilization unit for PET beverage bottles



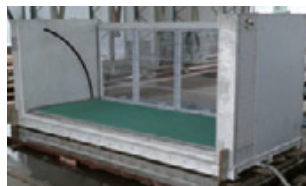
July

- Received order for construction of plant for generation of electric power from combustion of municipal waste in Teesside (northeast England)
- Received prize from the Head of the Industrial Technology and Environment Bureau of METI for development of zeolite membrane dehydration system
- Established and commenced operations at local subsidiary in India — Hitachi Zosen India Private Limited



August

- Completed verification tests on flap-gate-type movable seawall designed for installation on land
- Commenced joint project with universities, public bodies, and other companies to develop technology for recovery of biomass from waste and conversion to ethanol



October

- Received order from City of Seattle, Washington for shield tunneling machine with diameter of 17.45 meters, one of the largest in the world
- Completed Omuta Plant, part of Fukuoka Biohydrogen Project



November

- Unveiled seabed-type flap-gate wave breaker constructed at Shin-Yaizu fishing port in Shizuoka Prefecture
- Made Asia Pacific Solutions Co., Ltd., a Vietnamese CAD/CAE engineering company, into a subsidiary
- Established Hitachi Zosen GPM Technology (Suzhou) Co., Ltd., a joint-venture precision machinery company in China



December

- Vessel put into service employing world's first selective catalytic reduction (SCR) NOx removal system for marine engines compliant with Tier III NOx emission standards

2012 February

- Joint bioethanol verification project commenced by Hitachi Zosen and Sojitz Corp. in China's Heilongjiang Province
- Received order from Municipality of Shanghai for construction of stoker-type waste incineration facility



March

- Established ISGEC Hitachi Zosen Limited, a joint-venture manufacturer of process equipment in India

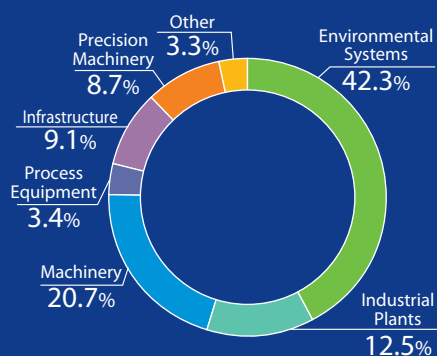
■ Management ■ Environmental Systems Business ■ Industrial Plants Business ■ Machinery Business
■ Process Equipment Business ■ Infrastructure Business ■ Precision Machinery Business

Financial Highlights

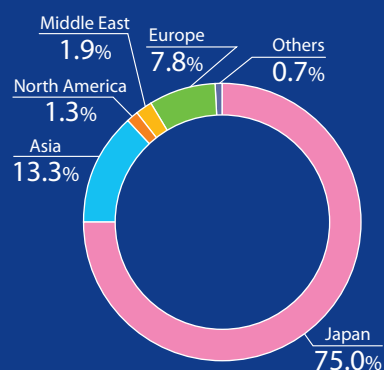
Hitachi Zosen Corporation and consolidated subsidiaries

	FY2010	FY2011	
Orders received	¥246.0 billion	¥289.7 billion	+17.7%
Net sales	¥287.1 billion	¥303.0 billion	+5.5%
Operating income	¥13.3 billion	¥11.3 billion	-14.9%
Net income	¥9.6 billion	¥9.3 billion	-3.7%
Shareholders' equity ratio	22.9%	25.4%	+2.5 points
Cash dividends per share	¥2.00	¥2.00	—

Sales by segment



Sales by region



Seven-Year Summary

Hitachi Zosen Corporation and consolidated subsidiaries

	2005	2006	2007	2008	2009
Operating results					
Orders received	334,664	327,439	337,701	253,141	337,271
Net sales	333,881	293,409	295,503	298,605	273,526
Operating income	2,766	9,919	10,826	11,678	13,557
Net income	(29,057)	1,034	15,695	1,448	7,906

Cash flows

Cash flows from operating activities	16,669	(15,668)	(730)	2,348	5,508
Cash flows from investing activities	12,227	799	26,970	(7,492)	(12,659)
Cash flows from financing activities	309	(17,812)	(10,714)	1,169	8,755
Cash and cash equivalents at end of year	68,323	38,760	54,229	50,095	51,690

Financial position

Net assets	24,157	68,652	85,595	85,843	93,200
Total assets	390,206	365,143	365,537	367,473	349,331
Interest-bearing debt	153,969	111,972	102,284	103,698	112,794

Per share data (yen)

Net income					
Basic	(56.54)	1.43	19.74	1.82	9.95
Diluted	—	—	18.02	1.53	8.38
Net assets	43.18	68.49	89.05	89.05	99.15
Cash dividends	—	—	—	—	2.00

Financial indicators

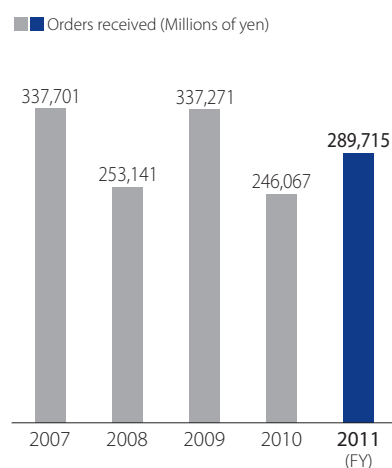
Shareholders' equity ratio (%)	6.2	14.9	19.4	19.3	22.5
ROIC (%)	1.6	6.7	6.8	6.8	7.6
Debt-equity ratio (times)	6.4	2.1	1.4	1.5	1.4

Management plan

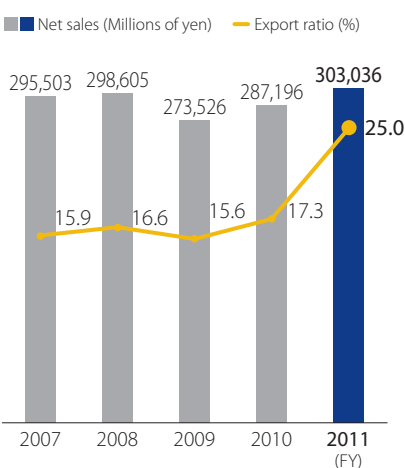
Hitz Innovation
FY2005–FY2007

Hitz Innovation II
FY2008–FY2010

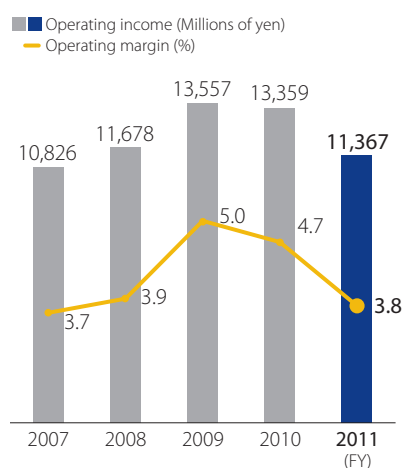
Orders received



Net sales & Export ratio



Operating income & Operating margin

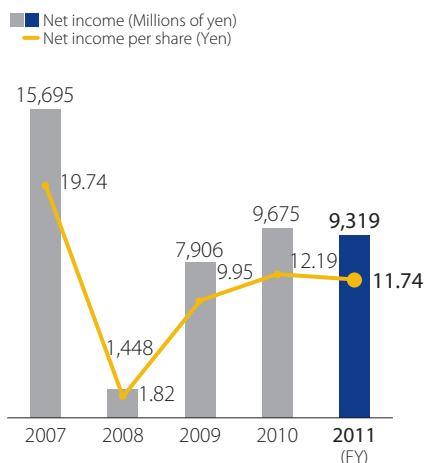


Millions of yen	
2010	2011
246,067	289,715
287,196	303,036
13,359	11,367
9,675	9,319
17,136	14,650
(3,217)	(4,628)
(9,630)	1,083
55,915	66,609
101,969	111,047
380,249	375,788
104,598	107,650
12.19	11.74
10.74	10.67
109.75	120.07
2.00	2.00
22.9	25.4
7.3	5.8
1.2	1.1

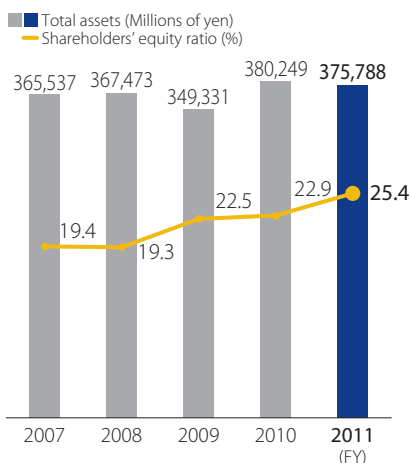
Millions of yen			
	2009	2010	2011
Orders received	337,270	246,067	289,715
Environmental Systems	170,533	94,115	136,893
Industrial Plants	34,029	29,689	35,472
Machinery	43,325	43,141	45,008
Process Equipment	10,418	13,117	11,317
Infrastructure	34,541	33,231	30,065
Precision Machinery	36,179	23,315	21,084
Other	8,245	9,456	9,876
Net sales	273,526	287,196	303,036
Environmental Systems	89,307	93,137	128,132
Industrial Plants	40,986	29,583	37,856
Machinery	54,564	60,910	62,861
Process Equipment	26,951	17,277	10,227
Infrastructure	34,475	38,388	27,552
Precision Machinery	18,956	38,670	26,491
Other	8,287	9,231	9,917
Operating income	13,557	13,359	11,367
Environmental Systems	3,480	5,737	8,438
Industrial Plants	1,296	(2,281)	901
Machinery	2,902	2,995	2,426
Process Equipment	5,173	1,634	(118)
Infrastructure	(162)	1,266	(4,044)
Precision Machinery	251	3,171	2,738
Other	617	837	1,026

Hitz Vision
FY2011–FY2013

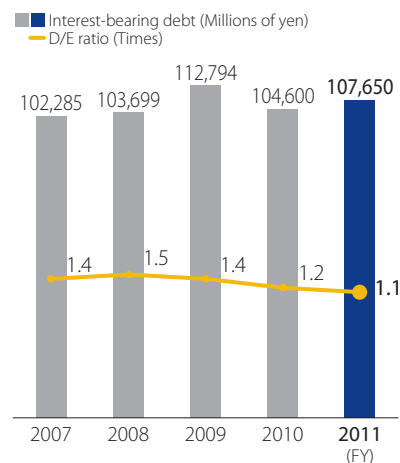
Net income & Net income per share



Total assets & Shareholders' equity ratio



Interest-bearing debt & D/E ratio



To Our Stakeholders

To attain our target under the Hitz 2016 Vision of ¥500 billion in annual sales for fiscal year 2016, and to realize the evolution of Hitachi Zosen as a highly profitable enterprise with public recognition, we drew up a management plan covering the 2011-2013 initial three-year period under the name Hitz Vision, and are working to strengthen the Group's management base.

As part of the Hitz Vision plan, we are focusing the investment of management resources on two business areas – green energy, and social infrastructure and disaster prevention – in which we plan to grow our earnings. We are currently working to maximally leverage the Group's technological expertise and wide-ranging know-how in these fields to launch new products and aggressively expand the scope of our business operations.

In the field of green energy, in December 2010 we acquired all shares of AE&E Inova AG (now Hitachi Zosen Inova AG), one of Europe's leading suppliers in the field of EfW (Energy from Waste) facilities, making it into a wholly owned subsidiary. Then, in April 2011 we established the subsidiary Hitachi Zosen Inova U.S.A. LLC, and in July we established Hitachi Zosen India Private Limited to cover this business field in India and neighboring countries. With these moves, we have established business bases that will enable us to extend our operations throughout much of the global market, and our first concrete goal is to become the world's No.1 company in the EfW field.

With respect to social infrastructure and disaster prevention, the Group has already built a number of seawater desalination plants, mostly in the Middle East, but economic development in recent years has expanded the number of regions around the world that are suffering from chronic water shortages. For these reasons, we have been forming business partnerships with companies that possess specialist expertise in the handling and processing of water with the aim of offering our customers total solutions to their environmental issues, including the collection and purification of water, refuse processing, atmospheric pollution, and energy conservation.

At the Hitachi Zosen Group, we have set a target of 30% or higher for the percentage of net sales from our overseas operations to total sales. To attain this target, we have been constructing manufacturing and engineering facilities in China, India, Vietnam, and other Asian countries, which engage in a wide variety of operations relating to the Group's products, in addition to the abovementioned EfW businesses. We also dispatch younger staff members to our overseas offices, where they acquire experience in marketing, purchasing, and accounting. This also serves the purpose of fostering human resources with an international perspective, including foreign language ability, knowledge of global economic conditions, and an understanding of various cultures. We intend to pursue further globalization through the continued expansion of our network of overseas business bases and the nurturing of human resources willing and able to take on the challenge of developing new businesses from a global perspective.

July 2012

Minoru Furukawa,
Chairman & President



Fiscal year 2011 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 2011 (April 1, 2011 to March 31, 2012), as well as our vision and latest management plan.

The market environment and our business performance

The outlook for the Japanese economy remained unclear throughout fiscal year 2011. Despite a significant economic stimulus from reconstruction demand in the wake of the devastating earthquake and tsunami of March 11, the economy's recovery was hampered by the prolonged European sovereign debt crisis, fears of a growth slowdown in China, India and other emerging nations, stagnating production activity in Japan against the background of an unstable electric power supply situation, and the continued high level of the yen's exchange rate.

Against this backdrop, total orders received during the reporting term exceeded the previous term's level, at ¥289,714 million, thanks largely to large-scale orders received by the Environmental Systems Business from overseas clients. Overall sales also surpassed the previous year's level, at ¥303,036 million, thanks to the inclusion of Hitachi Zosen Inova AG in the scope of consolidation.

Owing to a deterioration in the profitability of the Infrastructure segment, among other factors, operating income came to ¥11,367 million and ordinary income to ¥10,768 million, both below the previous year's level.

Extraordinary gains were posted in the amount of ¥2,686 million, and extraordinary losses in the amount of ¥1,121 million. As a result, net income after deduction of tax costs and minority interests amounted to ¥9,318 million, which is roughly at the same level as the previous year.

Outlook for fiscal year 2012

The Group's operating environment is expected to remain difficult in fiscal year 2012 (April 1, 2012 to March 31, 2013), but we will put our full efforts into securing and increasing orders.

Factoring in the projected receipt of large-scale orders by the Environmental Systems and Industrial Plants segments, and forecasting an improved orders received environment in the Machinery, Process Equipment, Infrastructure, and Precision Machinery segments, our target for orders received is ¥400,000 million, for a sharp increase over the reporting term. We forecast sales of ¥320,000 million, also in excess of the reporting term's level.

At the earnings level, operating income is forecast to post a year-on-year increase to ¥12,800 million, while both ordinary income and net income should remain flat, at ¥11,000 million and ¥9,000 million, respectively.

Progress toward achievement of a well-balanced business portfolio

Hereunder, I present a description of the state of progress toward achievement of a "well-balanced business portfolio," one of our top-priority policies under the Hitz Vision medium-term management plan.

Firstly, regarding the achievement of a balance between domestic demand and overseas demand, the acquisition of Hitachi Zosen Inova AG pushed up overseas sales to ¥75,700 million in fiscal year 2011, for 25% of total sales. By fiscal year 2016 we aim to have raised this to ¥150,000 million, or 30% of total sales.

Secondly, regarding the balance between new construction work and after-sales service, sales income from after-sales services, etc. in fiscal year 2011 came to ¥120,500 million, for 40% of total sales, and we intend to raise this to ¥250,000 million, amounting to 50% of total sales, by fiscal year 2016.

Thirdly, regarding new businesses and new products, we are investing in development work on a large number of new products, including SCR NOx removal systems for marine engines, with the aim of moving into promising new markets. Our aim is to launch new products and businesses as soon as possible in preparation for reaching our goal of ¥50 billion in annual sales by fiscal year 2016.

In conclusion

On April 1, 2011 we celebrated the 130th anniversary of the founding of Hitachi Zosen. It is entirely thanks to the constant support of our stakeholders that we have been able to reach this historic milestone in spite of many difficulties.

The business environment continues to afford no room for optimism, but by steadily implementing our priority policies under the Hitz Vision medium-term plan, we are confident of attaining our targets for fiscal year 2016 of ¥500,000 million in sales and ¥30,000 million in operating income. Beyond that, together with all the staff and executives of the Group, I pledge our full efforts to realize further growth and development.

From here onward, toward the Group's 150th and 200th anniversaries, we will continue working to implement the Group's corporate mission — to create value useful to society with technology and sincerity to contribute to a prosperous future.

In closing, I ask our shareholders and other stakeholders to give us their continued support and encouragement, and to look forward to the further growth and expansion of the Group.

The Hitachi Zosen Group has completed the first year of its medium-term management plan, Hitz Vision, and has started down a new growth path.

Minoru Furukawa, Chairman & President here explains the initiatives the Group began and developed in fiscal year 2011, and the progress it made in implementing the plan.

Question 1

How was the first year of Hitz Vision, the Group's medium-term management plan?

Answer

In the first year of Hitz Vision, our medium-term management plan, the Group's business environment became extremely tough due to the strength of the yen and the uncertainty about the direction the economy was headed because of the financial crisis in Europe. In particular, the yen significantly appreciated to more than ¥80 to the dollar, which created a very difficult competitive environment for us to win overseas orders and had a severe impact on the Group's results.

Also, on the business front, orders and profits slumped in both the Infrastructure Business, and the Process Equipment Business, which are the Group's core manufacturing operations, with both posting disappointing results. Conversely, the Environmental Systems Business deserves high praise for the major progress it made. It increased both its orders and profits thanks mainly to the addition to the Group's consolidated results of the results of Hitachi Zosen Inova AG (Inova). So I think that this year we have responded to changes in our business environment and have made a significant step forward into the future.

In April 2011, our Group celebrated the 130th anniversary of its founding and I took this as an opportunity to position fiscal year 2011 as our second "foundation" year.

Looking back, from the middle of the 1990s, our consolidated sales began declining each year and in the five years up to fiscal year 2010, our annual

sales were continuously below ¥300 billion. During this time, the Group hammered out a variety of measures to address this decline, including structural reforms such as those to reduce fixed costs, and withdrawing from unprofitable businesses. However, it is only now that we are starting to see the benefits of these measures, and in fiscal year 2011, we once again achieved sales in excess of ¥300 billion. This is why I perceive fiscal year 2011 to be the first year on our road to recovery. I think that it is precisely because we are heading back onto a growth track that it is extremely important that we aim to create a new image for Hitachi Zosen.

We have seen a particularly positive response from our engineering operations, especially from the Environmental Systems Business. It achieved orders totaling ¥136.9 billion in the fiscal year under review, but we expect this to increase by 40-50% in fiscal year 2012 and have forecast orders of ¥200.0 billion. This represents 50% of our total orders. Inova, which was made a consolidated subsidiary in 2010, has been steadily accumulating orders in Europe, and the results of Hitz Vision initiatives are now starting to become clearly visible. In addition to the contribution of Inova, the Environmental Systems Business, particularly its refuse incineration plant operations, has a number of promising projects within Japan, and I think that its orders, sales, and profits will continue to steadily increase. In fiscal year 2011, it accounted for 74% of our operating income and is becoming the main business pillar of our Group.

Results improved and I consider it to be our second "foundation" year, as it is the first year that we are back on a growth track.

Question 2

What is the philosophy behind the Group's long-term vision, Hitz 2016 Vision, and its medium-term management plan, Hitz Vision?

Answer

Here, I would like to talk about our long-term vision and medium-term management plan. As a Group we formulated our long-term vision, Hitz 2016 Vision, to create an image of what we wanted the Hitachi Zosen Group to become by fiscal year 2016. In this vision, we have set goals of increasing our business scale and becoming a highly profitable corporation with a high public profile. Specifically, we are targeting consolidated sales of ¥500 billion and an operating margin of 6% by fiscal year 2016. Also, in each business and for each product model, we are aiming to become a company with the highest earning power in that industry segment. In addition, at the earliest possible stage, we intend to increase our equity ratio to more than 30% and achieve a stable financial structure.

To create the foundations upon which we may realize this long-term vision, we are implementing measures I will now describe

as part of Hitz Vision, which is our three-year medium-term management plan that began in fiscal year 2011. The first is to clarify the growth fields that the Group should focus on. We have positioned as our growth fields the green energy field, which is involved in environmental restoration effective use of natural resources and expanded utilization of renewable energy sources, and the social infrastructure that contributes to realization of a safer society and anti-disaster technology. We are prioritizing the allocation of our management resources into these fields. The next measure is to strengthen our ability to grow our businesses. We are putting in place a system to accelerate the speed of our overseas business development, especially in emerging nations, and we are pushing ahead with the globalization of our business. Moreover, by thoroughly implementing a solutions-based business strategy that takes the customer's perspective and by creating a system for directly connecting development to our businesses, we are strengthening our ability to provide solutions to the problems faced by customers and markets.



By thoroughly implementing a solutions-based business strategy that takes the customer's perspective, we are solving problems for both customers and markets.

Question 3

What can you tell us about the strategy encapsulated in the Hitz Vision?

We are aiming to resolutely achieve our objective of expanding two key domains and thereby achieving steady growth.

Answer

In the Group's business domains, we have clearly defined and positioned our green energy field and our social infrastructure and disaster prevention field and we are expanding our businesses in these domains by leveraging the Group's technological capabilities and expertise. By resolutely pursuing our initial policy of developing these domains into the main pillars of our business, I think we can create a new image for Hitachi Zosen.

Following the Great East Japan Earthquake, we are standing on the brink of a major transition period for energy conditions and

policies both inside and outside of Japan. In order to build a sustainable world by rethinking our plans to utilize nuclear power plants and to reduce CO₂ and by committing to using renewable energy to the greatest possible extent, more importance than ever has come to be placed on implementing policies that incorporate energy saving and energy creation, and also on policies to prevent disasters and maintain social infrastructure to ensure a safe and secure society. We are aiming to be a leading player in both these fields and provide the solutions that are required by the Japanese and global markets; I am convinced that this is the key to the Group achieving growth.

Question 4

What progress is the Group making in these key fields?

Answer

The green energy field

In the green energy field, interest is growing in solving global energy problems, making effective use of resources, and more fully utilizing renewable energy. The Group has prioritized the development of Energy-from-Waste plants, the dehydration system of ethanol using zeolite separation membrane, selective catalytic reduction systems for use in marine diesel engines, equipment and systems to reduce CO₂ and NO_x emissions, and also devices using solar light and solar heat to generate power. Through products such as these we are helping to solve the problems of customers and markets. In particular, Energy-from-Waste plants have grown in importance in the recent harsh electric power-related environment. Centered on the parent company and Inova, the Group is globally developing this business. Inova is the leading waste-incinerator plant maker in Europe, and within the current shift of waste disposal demand from

landfill to incineration that incorporates heat recovery, we are extremely optimistic about our future prospects in this field thanks to our superior technologies and engineering capabilities. We are the leading company in Japan, and also have a strong track record in China, South Korea and Taiwan. Our intent is to leverage this track record and the synergies generated between both companies and develop our "Environmental Hitachi Zosen" strategy to become the globally leading group in this field.

The social infrastructure and disaster prevention field

Reconstruction demand relating to the Great East Japan Earthquake is now being generated in earnest and in this environment, the social infrastructure field, which aims to ensure a stable supply of energy in the future and prevent and mitigate disasters, continues to grow in importance. We have a significant social responsibility to provide

We are expanding our businesses in these fields and pushing ahead with a strategy to become number one in both the green energy field and social infrastructure and disaster prevention field.



our solutions in the social infrastructure and disaster prevention field, which is a main pillar of our business. Going forward, the Group as a whole will be working to provide solutions to these problems and we are focusing our resources on important areas within this field. These include the construction of seawater desalination plants to produce water for domestic use, of bridges and hydraulic gates, of refuse incineration plants in emerging nations, and of shield-tunneling machines used in the construction of subway systems.

In addition, the disaster prevention field has become the focus of considerable attention following the damage caused by the earthquake and tsunami, and we are working hard to realize an offshore tsunami early detection system, a GPS ocean wave meter to help mitigate tsunami damage. We are also working to develop and provide a flap-gate-type movable breakwater as part of tsunami and high-tide countermeasures, and capture some of the demand in the Japanese disaster-prevention market that is forecast to grow even more in the future. We recently completed the development of two types of flap-gate-type breakwater, one installed on the ocean floor and one installed

on land, and we are expecting orders to come primarily from Pacific Ocean nations. In addition, our GPS ocean wave meter was actually used in the 2011 earthquake and wave meter bases are already in place at 15 locations throughout the country. However, to develop the system further we are currently carrying out verification testing at offshore bases that would operate at a distance much further into the ocean than their current position of 20km from land. I believe that these products have an important role to play in the disaster prevention and disaster mitigation field, where people's lives are the number one priority.

Overseas developments

The expansion of our overseas business is also vitally important to the Group's growth. Our target for fiscal year 2016 is sales of ¥500 billion, and we plan for 30% of this to be provided by our overseas business. However, of our total sales of ¥303 billion in fiscal year 2011, only 25%, or ¥75 billion, was provided by our overseas business. In other words, to achieve our goal in the next five years, we must double our overseas sales to ¥150 billion, which probably seems quite an ambitious target. However, Inova is

steadily building a solid track record in the European market. Going forward, we expect its results to further improve as it expands its business in the United States and Asian markets. In addition, in China we have established joint-venture companies for process equipment, water treatment equipment, and precision machinery, and in India we have also established a local company and a joint venture for process equipment. In these ways, we are developing our business not only in Europe and the United States but also in China and India, continuing to develop our overseas manufacturing and engineering bases: that is globalizing our businesses, and developing a business strategy that focuses on increasing sales.

New development projects

In addition to the projects I have just talked about, the Group is also developing a large number of new businesses and product models. We have an unprecedentedly diverse lineup of products to support our goal of entering promising markets. Specifically, in our Precision Machinery Business we have developed a train recorder for railway companies, a food recorder that keeps track of production

processes and can play a role in food safety, and also devices for detecting levels of radiation in food. In addition, we are focusing our energies into a solar power generation-related manufacturing system and other food-related machinery, including a bottle sterilization system using electron beams. We are confident that they will each become growth products.

In addition, we are aiming to utilize our proprietary technologies to capture

recovery demand relating to the Great East Japan Earthquake; namely to meet the growing demand for temporary incinerators to process rubble, for steel stacks for thermal power stations, for bridge construction, and for hydraulic gates and penstocks for hydroelectric power plants.

Question 5

How is the Group strengthening its financial structure and how is it investing for growth?

Answer

The Group is steadily strengthening its financial structure. At the end of the fiscal year under review, our interest-bearing debt totaled ¥107.6 billion, and we had improved our DER to 1.1 times. Our equity ratio at the end of the period was 25.4% and we intend to raise this to over 30% at the earliest opportunity, thereby further strengthening our financial foundations. However, we will continue to search for the optimum moment to make strategic investments in order to achieve future growth, while at the same time striving to maintain a balance in our financial conditions. Toward this, we set the

target in our medium-term management plan of a DER of 1.0 times; but ultimately we consider this to be just one of our financial considerations and I believe that we will continue to look into investment opportunities while maintaining a balance with our interest-bearing debt on a net asset basis. In order to respond to the rapid pace of change in the markets and to sustain our growth strategy in the future, we intend to proactively develop our overseas business and engage in M&As and business tie-ups that will enable us to benefit from synergies.



We are constantly investigating strategic investments at the same time as aiming to maintain a balance in our financial structure.

Question 6

What changes are you making to the Group's management?

We are aiming to decisively reach our targets through a flat matrix management system that takes the optimum perspective of the overall situation.

Answer

To achieve the growth described in Hitz 2016 Vision, our long-term vision, we have left behind conventional organization structures and are working to innovate in our management. We are building equal and mutually beneficial relations between our general divisions (the horizontal aspect), and our business divisions (the vertical aspect), and by aiming to optimize the overall situation we have been creating a horizontally structured Flat Matrix management system. Through this, we aim to decisively achieve our goals by sharing management targets throughout the entire Group, increasing the speed

with which we implement management measures, and making our key measures more substantial and tangible. Also, to improve and develop our existing businesses, we are building a structure under which each business division will be expected to fulfill its own responsibilities, and which enables development of new technologies and products that will generate profits in the future. The planning division and research and development division are working in tandem to simultaneously develop both technologies and businesses, which is enabling the Group as a whole to increase orders and achieve its profit targets.

Question 7

Please tell us about the Group's returns to shareholders.

Answer

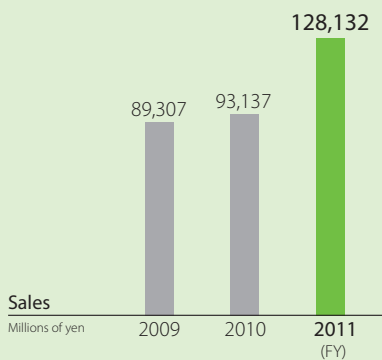
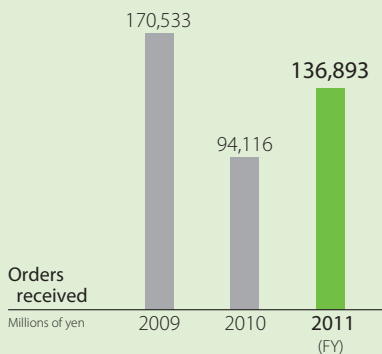
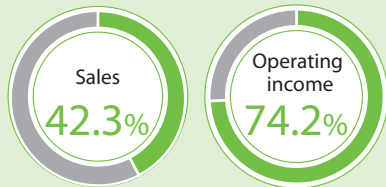
Our basic policy on returning profits to shareholders is to stably and continuously pay dividends in line with our business performance. In addition, we also supplement our retained earnings as needed in order for us to develop our businesses in the future. We aim to achieve a balance between this and returning profits to shareholders, as retained earnings will be used to strengthen our business foundations, such as for capital investment and for R&D, and also for our investments in future growth. In the fiscal year under review, and based on our basic policy I have just described, we will pay a dividend of ¥2 per share, the same as in the previous fiscal year.

We are continuing to steadily execute the business measures set out in the our medium-term management plan

with the goal of achieving growth in terms of both quality and quantity, while also striving to be a corporate group that continues to build strong bonds of trust with all its stakeholders.

Our policy is to continuously and stably pay dividends in accordance with our business performance.

Environmental Systems Business



Orders received	¥136.9 billion (FY2010: ¥94.1 billion)	+45.5% (FY2010: -44.8%)
Sales	¥128.1 billion (FY2010: ¥93.1 billion)	+37.6% (FY2010: +4.3%)
Operating income	¥8.4 billion (FY2010: ¥5.7 billion)	+47.1% (FY2010: +64.9%)

Business overview and outlook for fiscal year 2012

Public investment in environmental systems followed a firm trend during fiscal year 2011, and despite fierce competition to secure orders, sales for the term came to ¥128.1 billion, an increase of ¥35 billion over the previous year, of which the newly consolidated Hitachi Zosen Inova AG accounted for ¥20.7 billion. Operating income rose ¥2.7 billion year on year, to ¥8.4 billion.

These sales break down into an order from the Gotemba City/Oyama Town, Broad-Area Administrative Association, Shizuoka Prefecture for the construction and operation of refuse incineration facilities; a contract signed with Sano City, Tochigi Prefecture for the long-term comprehensive management of the city's Mikamo Clean Center; and an order from Akishima City, Tokyo for operation management of the Environmental Communication Center; in addition to the completion of work on new refuse incineration facilities in Iwata City, Shizuoka Prefecture, and the handover after completion of the Toyonaka City/Itami City Recycling Center at the Toyonaka City/Itami City Cleanland (Osaka Pref./Hyogo Pref.). We also received orders from numerous local governments for maintenance and inspection services, improvement and expansion work, and large-scale repairs on general-purpose waste treatment facilities (and carried out such work), as well as for the management of said facilities.

Against the background of an urgent need to reduce the amount of wreckage and debris left by the March 11 earthquake and tsunami, we constructed a temporary incineration facility in Sendai, concluded a leasing contract for the facility, and have been operating it since October 2011, and we received orders for the construction in other parts of Miyagi Prefecture of temporary facilities for the incineration of wreckage left behind by the earthquake and tsunami. We also received an order from the Southern Sewage Purification Center in Miyagi Prefecture for the reconstruction of a facility for the conversion of sludge into fuel at the center (employing the Hitz Pearl System) that had been damaged by the March 11 tsunami.

Overseas, in Britain and other European countries we received orders for, and completed and handed over, EfW (Energy from Waste) plants, while we also received an order from the Shanghai municipal government for the design and construction of a waste incineration facility together with the supply of equipment.

In fiscal year 2012, we plan to continue conducting activities in support of reconstruction of the region devastated by the March 2011 earthquake and tsunami, including the construction of temporary facilities for the incineration of debris left by the disaster. We will also work to incinerate as much of the debris as possible to facilitate an early recovery by the region. In the field of municipal refuse incineration facilities, we aim to enhance our technical proposal capabilities and strengthen our cost-competitiveness. We will work to secure stable sales by realizing business operations with a high level of continuity through our AOM (after-sales service, operation and maintenance) business, which is based on the concept of stock management*, and our long-term operations business, and will also become actively involved in plans for the construction of facilities for the conversion of sewage sludge into fuel.

Overseas, we intend to pursue a global strategy for our EfW business in collaboration with Hitachi Zosen Inova AG, which became a member of the Hitachi Zosen Group in fiscal year 2010, with the goal of operating in all markets around the world. Specifically, as well as maintaining and if possible increasing our share in the Chinese market, we also plan to develop our EPC business in the Southeast Asian, Indian, and Middle Eastern markets, and to become the world's leading company in the EfW field. In addition to our operations in the Japanese market in the areas of sludge recycling, water and sewage processing, and industrial waste processing, we also plan to enter such water purification and related fields as sewage processing in China, and to expand activities in several Asian countries mainly through Group member Daiki Ataka Engineering Co., Ltd.



Toyonaka City/Itami City Recycling Center



Temporary refuse incineration facility, Sendai

Main business lines

Environmental protection systems

- Energy-from-Waste facilities
Stoker-type incinerators
Gasification and melting furnace
- High-efficiency Energy-from-Waste systems
Super Energy-from-Waste 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 (long-term)
- Remote monitoring support systems

Biomass utilization/Water treatment/ Soil remediation systems

- Biomass utilization systems**
 - Methane fermentation system from waste
 - Biosolids Derived Fuel systems
 - High-speed raw refuse reduction system
- Water treatment systems**
 - Sludge recovery and treatment system
 - Water/sewage treatment system
 - Seawater electrolyzing equipment
- Eco-agricultural systems**

Principal Group companies

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

* "Stock management" is a collective term encompassing technical and management methods for lowering the life cycle costs of waste treatment facilities by enhancing performance levels and prolonging facility service life (cited from "A Guide to the Drafting of Plans for Prolonging the Service Life of Waste Treatment Facilities [section on refuse incineration facilities]" issued by the Ministry of the Environment in March 2010).

Topic

The "EfW Global No.1 Strategy"

Since 1965, when Hitachi Zosen Corporation constructed Japan's first mechanical refuse incineration plant with power generation facility, the Company has delivered a large number of refuse incineration plants. In 2010 we made AE&E Inova AG, which had up to then constructed over 200 refuse incineration plants in Europe, into a subsidiary, producing a combined enterprise with a record of over 400 refuse incineration plants that clearly occupies the leading position in the world in this industry. The continued growth of the global economy is giving rise to serious issues in the fields of energy and the environment, and the construction and operation of EfW plants offers a two-for-one solution to these problems.

Through the construction and operation of EfW plants, Hitachi Zosen aims to help both advanced industrialized countries and developing nations solve their difficulties in securing sufficient landfill sites for municipal refuse as well as problems in such fields as public health and environmental preservation, by promoting the effective use of resources and energy.

To realize this objective, the Company, in collaboration with Hitachi Zosen Inova AG, is pursuing a global EfW operations strategy whose ultimate goal is to establish a leading position in all the world's markets. Specifically, as well as maintaining and if possible increasing our share in the Chinese market, we also plan to develop our EPC business in the Southeast Asian, Indian, Middle Eastern, European, and North American markets to become the world's leading company in the EfW field, with a long-term goal of starting up in the AOM (after-sales service, operation and maintenance) business overseas.

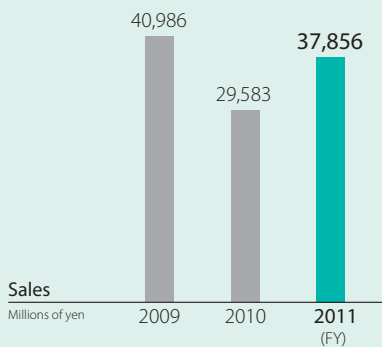
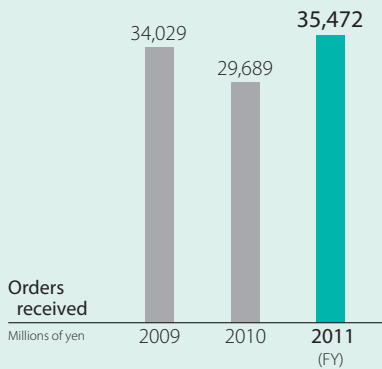
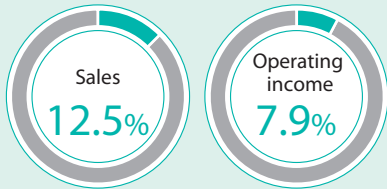
We are therefore drawing up plans for the establishment of overseas business bases to serve as footholds in this endeavor, and as part of this strategy, in fiscal year 2011 we established Hitachi Zosen Inova U.S.A. LLC and Hitachi Zosen India Private Limited, and made the Vietnamese CAD/CAE engineering company Asia Pacific Solutions Co., Ltd. into a subsidiary. In fiscal year 2012, we plan to open a branch office in the Indian city of Hyderabad. By establishing a network for the collection of detailed information on the local situation in each market, we are enhancing the Group's ability to draw up effective proposals, and strengthening its international competitiveness.

Through close collaboration with Hitachi Zosen Inova, we hope to realize synergistic benefits and achieve advances in the development of high-efficiency power generation, among other fields, as well as the development of new technologies.



Riverside (UK)

Industrial Plants Business



Orders received	¥35.5 billion (FY2010: ¥29.7 billion)	+19.5% (FY2010: -12.8%)
Sales	¥37.9 billion (FY2010: ¥29.6 billion)	+28.0% (FY2010: -27.8%)
Operating income	¥0.9 billion (FY2010: ¥-2.2 billion)	— (FY2010: —)

Business overview and outlook for fiscal year 2012

❖ Plants

Despite a partial recovery in private-sector capital investment in the aftermath of the March 2011 earthquake and tsunami, investment moves overall were cautious throughout the reporting term, due to fears of a slowdown in overseas economies and against the backdrop of the strong yen, and the Group's order acquisition environment remained severe. Nevertheless, sales for the term posted a year-on-year increase of ¥8.3 billion, to ¥37.9 billion. Operating income rose ¥3.1 billion year on year, to ¥0.9 billion.

In Japan, we completed construction of the Fukuoka Biohydrogen Project Omuta Plant and handed it over to 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. In addition, we received orders for and carried out renovation and improvement work on various plants in Japan and overseas, and also received orders for NOx removal catalysts.

In fiscal year 2012 we will be handling orders for chemical plants, demand for which is expected to gradually recover, and we plan to involve ourselves in the biomass business, including the production of ethanol fuel, without being constrained by conventional industrial boundaries. We will also be actively involved in the planning of CO₂ reduction projects.

Regarding new fields of activity, we will be developing markets for our Hitz Dehydration System (HDS) by Zeolite Membrane Element, and will be conducting sales promotion initiatives. We will also be working on technology for the mass production and early commercialization of Du Zhong elastomers made using Eucommia gum.

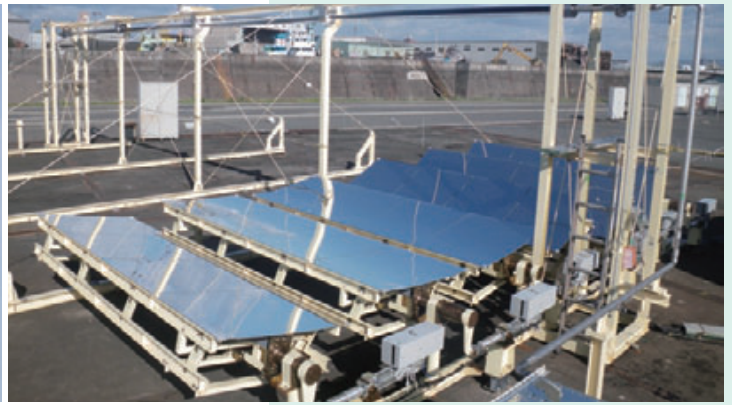
In our desalination business, in addition to marketing our large-scale multi-stage flush (MSF) desalination plants, we hope to leverage our full lineup including multi-effect desalination (MED) plants, and reverse osmosis (RO) types, to enter major markets. In our DeNOx Catalyst and SCR System business, as well as our established line of NOx removal catalyst systems for coal-fired thermal power plants, we have developed a selective catalytic reduction (SCR) NOx removal system for marine engines, the market for which is expected to expand due to enforcement of the Tier III NOx emission standards, and are strengthening our product lineup as well as building new production facilities and expanding existing facilities.



Hitz zeolite dehydration membrane element



Fukuoka biohydrogen project, Omuta plant



Solar thermal power generation demonstration reserve device

❖ Energy business

As was the case with the plants business, private-sector capital investment moves were also cautious in the energy field resulting in a persistently difficult order environment. However, as a result of changes to the market prices of various forms of energy following the Great East Japan Earthquake and fears among companies of an inadequate supply of power from the utilities, we received a number of orders for gas-fired in-house power generation facilities, and these were delivered.

The power generation facilities at the Company's Ibaraki Works suffered damage from the March 11 earthquake, but were soon put back in operation, and we resumed the sale of surplus electric power produced by these generation facilities to the electric power company, thereby helping alleviate the power shortfall. In fiscal year 2012, as part of our efforts to support recovery in the region hit by the March 2011 disaster, we will be doing our bit to alleviate the electric power supply shortfall by manufacturing and delivering distributed-type energy supply facilities and by continuing to produce surplus electric power for outside sale at our Ibaraki Works.

In the field of new products, we plan to conduct verification tests on organic ranking cycle (ORC) technology, solid oxide fuel cells (SOFC), and solar thermal power generation systems, with the waste-heat recovery-based power generation objective of early commercialization.

Topic

Further orders for NOx removal catalysts received for use in Chinese coal-fired power stations

Hitachi Zosen has received an order from the Chinese engineering company, Fujian Longking Co., Ltd. (Longyan City, Fujian Province) for the construction of NOx removal catalyst facilities for Datang Qingyuan Thermal Power Co. Ltd. (Baoding City, Hebei Province, two for 300MW), a member of the Datang Group (Beijing City), one of the five largest power companies in China. We have also received an order from China Datang Technologies & Engineering Co., Ltd. (Beijing), also of the Datang Group, for the construction of NOx removal catalyst facilities for Anhui Huainan Luoneng Power Generation Co. Ltd. (Huainan City, Anhui Province, two for 630MW), making four contracts in the Chinese market in total.

This constitutes the fifth order received by the Company from China, but since delivering our first denitration system to a Japanese customer in 1974, we have delivered over 330 denitration systems to users in the US, China, South Korea, Taiwan, Saudi Arabia, Qatar, and other countries.

Under its 12th five-year plan (2011-2015), China has decisively adopted tougher regulations on emissions of NOx, which is a major cause of atmospheric pollution, and as the country relies heavily on coal-fired power stations for its electricity supply, demand for NOx removal systems is rising rapidly among the major cities in the eastern coastal region. In addition to China, we will also take active steps to meet anticipated growth in demand for NOx removal catalysts in the US, Thailand, the Middle East, and other markets.

Main business lines

Plants

- Seawater desalination plant
- Chemical and petrochemical plants
- Oil and gas plants
- Sulfuric acid plants
- Pharmaceutical plants
- Zeolite membrane dehydration system
- Biodiesel fuel-production facilities
- SCR NOx removal system
- NOx removal catalysts

Power generation facilities/New energy

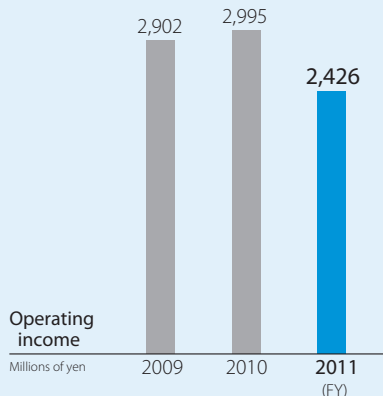
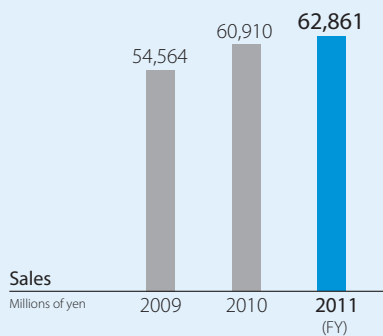
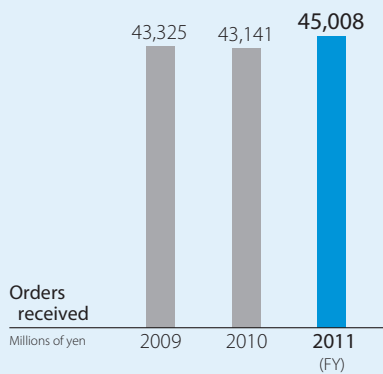
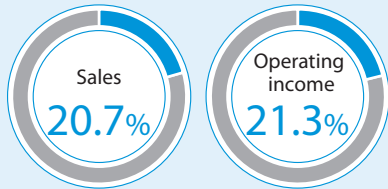
- Gas turbine power generation facilities
- Gas engine power generation facilities
- Diesel engine power generation facilities
- Co-generation systems
- O&M and IPP after-sales service system
- Wind power generation systems
- OCR waste-heat recovery-based power generations
- Industrial solid oxide fuel cells

Electricity power business

Principal Group companies

- Nichizo Tech INC.
- HEC Engineering Corporation
- Hitachi-Zosen Plant Techno-Service Corporation
- Hitachi Zosen Catalyst U.S.A. LLC.
- Hitachi Zosen Composite Materials Co., Ltd.

Machinery Business



Orders received	¥45.0 billion (FY2010: ¥43.1 billion)	+4.3% (FY2010: -0.4%)
Sales	¥62.9 billion (FY2010: ¥60.9 billion)	+3.2% (FY2010: +11.6%)
Operating income	¥2.4 billion (FY2010: ¥3.0 billion)	-19% (FY2010: +3.2%)

Business overview and outlook for fiscal year 2012

❖ Marine diesel engines

In fiscal year 2011, despite a difficult business environment caused by the sluggish state of the shipbuilding industry, we nonetheless received orders for and made deliveries of marine diesel engines and deck machinery for shipyards both in Japan and overseas. No recovery is expected in this sector for some time to come, but we plan to make preparations for a future resurgence in this market. In particular, we intend to use our Chinese joint-venture company – Zhongji Hitachi Zosen Diesel Engine Co., Ltd. (ZHD) – as a base for OEM supply contracts and parts supply to China, which is now the world's leading shipbuilding nation. In this way, we will endeavor to boost demand and expand our business.

Hitachi Zosen recently developed a selective catalytic reduction (SCR) NOx removal system for marine engines compliant with the Tier III NOx emission standards promulgated by the International Maritime Organization, and became the first company in the industry to receive a certificate from Nippon Kaiji Kyokai (a ship classification society). In November 2011, a diesel engine equipped with this SCR system was fitted to a newly constructed ship by JX Shipping Co., Ltd. (formerly Nissho Shipping Co., Ltd.). From here onward, we plan to conduct extensive and long-term tests – both on the high seas and in ports and harbors – on the reliability of this system as well as the soundness of the catalysts employed, with the aim of further lowering NOx levels.

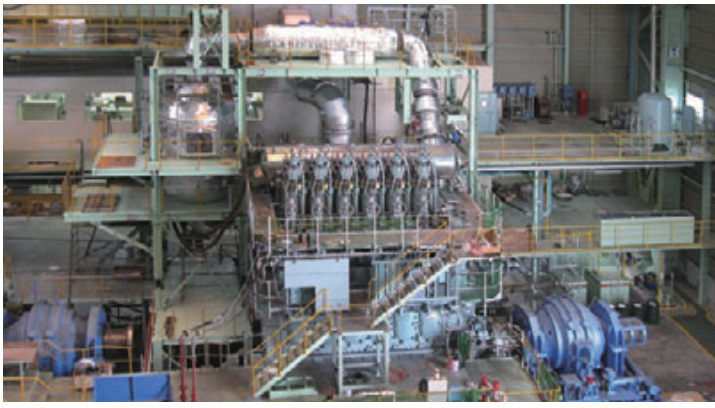
In the field of deck machinery, Zhoushan Nippon Pusnes Ship Machinery Co., Ltd. (ZNP), based on its OEM track record for Nippon Pusnes Co., Ltd., received its first orders for electric-powered deck machinery directly from users. Building on this opportunity, ZNP is working to develop products by anticipating its users' needs, with the aim of expanding orders.

The shipbuilding market is expected to have to deal with increasingly strict environmental regulations over the next few years. By combining new methods of reducing fuel consumption with technology targeted at the protection of the environment, we plan to develop SCR and ORC units for use onboard ships, and to offer users a comprehensive "ship components" business including deck machinery and peripheral products as well as full after-sales services.

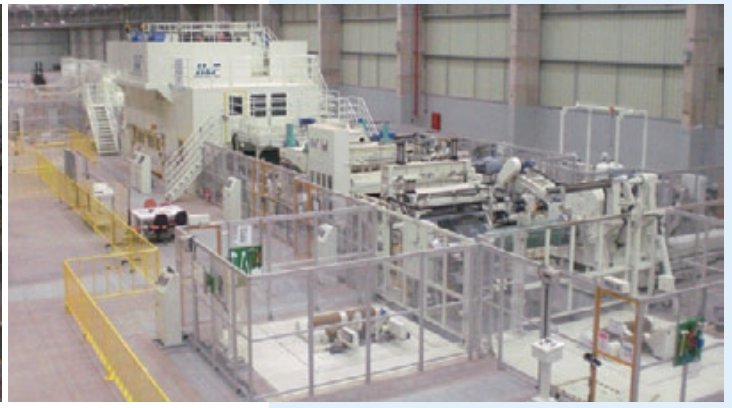
❖ Press machines

The automotive industry, which is the principal user of our press machines business, continues to recover from the damage inflicted in 2011 by the earthquake and tsunami in Japan as well as the floods in Thailand, but the situation leaves no room for optimism in view of the deteriorating Western European market and weak demand in Japan.

Amid these circumstances, for 2011 we set ourselves the four objectives of acquiring sufficient orders, securing adequate earnings, further pursuing globalization, and offering products that meet the market's needs. As a result of our earnest efforts in this regard, and supported by the automakers' vigorous capital investment initiatives, principally in the emerging markets, we succeeded in posting sales of ¥18,208 million, for a sharp year-on-year increase of 41.8%. Earnings rose in tandem with the sales growth, with operating income surging 529.6% year on year, to ¥705 million.



Marine diesel engine fitted with SCR system



Servo-blanking press line for delivery to Brazil

Main business lines

Marine diesel engines

- Marine diesel engines

Press machines

- Press machines

Other

- Slurry ice manufacturing systems
- Deck machinery

Principal Group companies

- 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.

In fiscal year 2012 we expect capital investment to continue following a robust trend for some time to come, centered on the emerging markets. By working to rigorously hold down costs, and by closely monitoring market needs so as to swiftly develop and offer products that meet those needs, we hope to record sales of ¥23,500 million (up 29.1% year on year) and operating income of ¥2,410 million (up 241.4% year on year).

Topic

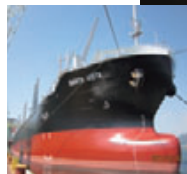
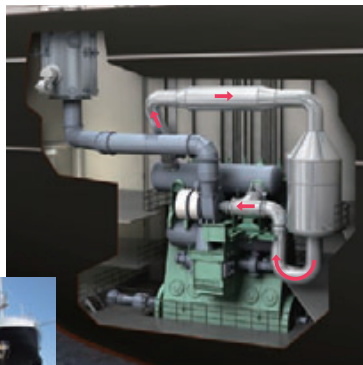
Launching of world's first ship powered by diesel engines fitted with SCR denitration system compliant with Tier III NOx emission standards

— Receives certificate from Nippon Kaiji Kyokai —

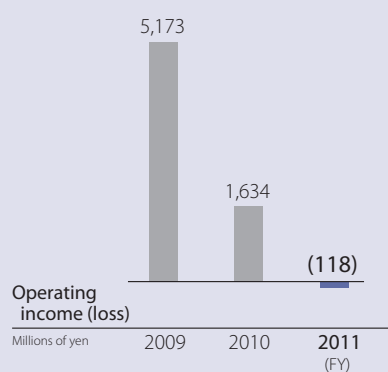
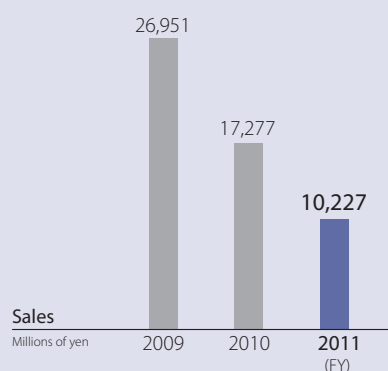
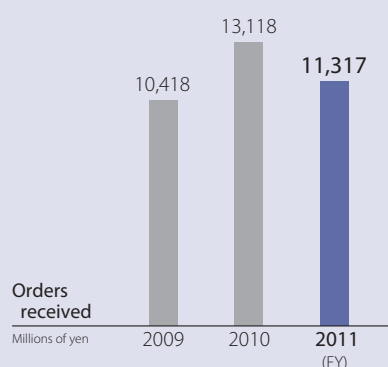
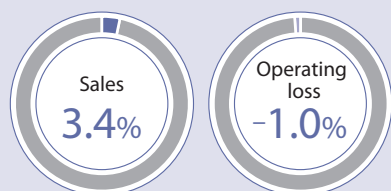
Hitachi Zosen has become the first company in Japan to receive a certificate from Nippon Kaiji Kyokai (a ship classification society) for its in-house-developed selective catalytic reduction (SCR) NOx removal system for marine engines compliant with the Tier III NOx emission standards. A ship fitted with diesel engines (Hitachi Zosen B&W 6S46MC-C engines) incorporating this system, built by Naikai Zosen Corporation, was recently launched by JX Shipping Co., Ltd. (formerly Nissho Shipping Co., Ltd.).

This ship is the world's first vessel to be fitted with an SCR NOx removal system compliant with the Tier III NOx emission standards. We conducted verification tests on shore and received the certification prior to launching.

This SCR system is a high-temperature type fitted at the pre-turbocharger stage, and is notable for its compactness and low CO₂ emission level. We have conducted verification testing on shore and during sea trials on the engine controls necessary for the proper operation of the SCR system, as well as on the operation of the SCR system itself, and have confirmed the system's denitration performance among numerous other functions. With the collaboration of JX Shipping Co., Ltd., we plan to conduct long-term tests – both on the high seas and in ports and harbors – on the reliability of this system, as well as the soundness of the catalysts employed.



Process Equipment Business



Orders received	¥11.3 billion (FY2010: ¥13.1 billion)	-13.7% (FY2010: +25.9%)
Sales	¥10.2 billion (FY2010: ¥17.3 billion)	-40.8% (FY2010: -35.9%)
Operating loss	-¥0.1 billion (FY2010: ¥1.6 billion)	— (FY2010: -68.4%)

Business overview and outlook for fiscal year 2012

In fiscal year 2011 the Group experienced stiffer competition against the backdrop of the yen's appreciation and the rise of powerful overseas competitors. Nevertheless, we succeeded in acquiring orders for pressure vessels from customers in South America, Russia, South Africa, and Southeast Asia, and we also received orders for and delivered a variety of process equipment for plants. In India we established a joint venture with ISGEC Heavy Engineering Ltd., and set up a joint production system between ISGEC and our Ariake Works. We also established a joint venture with Nagaoka Co., Ltd. in the Chinese city of Dalian, mainly for the manufacture of special internal structures for process equipment.

From here on, we plan to leverage the marketing networks of our partners in these joint ventures to meet user needs in the global market, to actively develop our operations in the Indian and Chinese markets, and to focus efforts on the development of products employing new materials.

Meanwhile, in the field of equipment for use in the nuclear power sector, from the United States we will aggressively secure orders for and deliver storage casks and canisters for spent nuclear fuel not only in Japan, but also overseas.

Moving forward, in Japan we will be focusing efforts on acquiring orders for containers related to recovery from the earthquake disaster, and will also be active in overseas markets for nuclear power equipment.



ISGEC Hitachi Zosen Limited

Main business lines

Process equipment

- Pressure vessels
- Mixing vessels
- Driers
- Heat exchangers

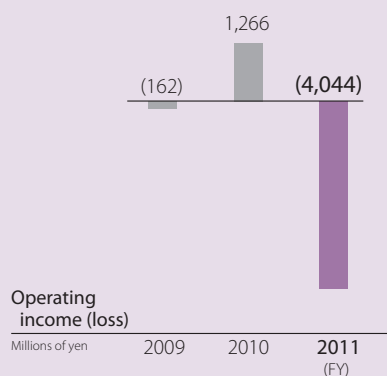
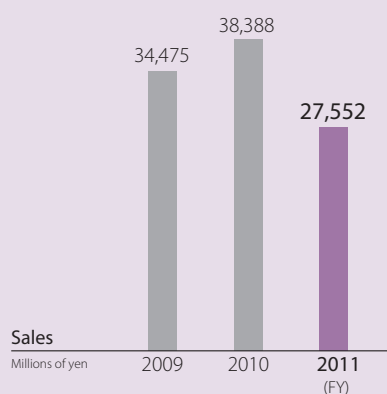
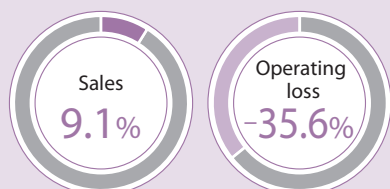
Nuclear power equipment

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

Principal Group companies

- ISGEC Hitachi Zosen Limited
- OCL Corporation
- Nagaoka Hitachi Zosen Equipment (Dalian) Co., Ltd.

Infrastructure Business



Orders received	¥30.1 billion (FY2010: ¥33.2 billion)	-9.5% (FY2010: -3.8%)
Sales	¥27.6 billion (FY2010: ¥38.4 billion)	-28.2% (FY2010: +11.3%)
Operating loss	-¥4.0 billion (FY2010: ¥1.3 billion)	— (FY2010: —)

Business overview and outlook for fiscal year 2012

❖ Steel structures

The Group faced difficult business conditions throughout fiscal year 2011, with fierce competition for orders against the background of cutbacks in public works spending. We received the following large orders during the term: an order from the Hokkaido Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) for work on the superstructure portion of the RA bridge – part of the Sapporo Ohashi Bridge; an order from the West Nippon Expressway Company Ltd. for the construction of the steel superstructure of the Junction C ramp on the Nishi Meihan Expressway; an order from the East Nippon Expressway Company Ltd. for reinforcement work on the Katashina-gawa Bridge (part of the Kan-Etsu Expressway); and an order from the Tohoku Regional Development Bureau for construction of a water-intake gate on the Tsugaru Dam. We also received orders from electric power companies for emergency repair and reinforcement work on chimneys damaged by the March 2011 earthquake and tsunami, and for the construction of seagates to protect against tsunami and storm surges. In addition, we received a large number of orders from the MLIT, local governments, expressway companies, and electric power companies for bridges, hydraulic gates, stacks, marine structures, and others, and we constructed and handed over these items.

With respect to disaster-prevention operations, we completed verification testing on our newly developed neoRiSe mini land-mounted flap-gate-type seawall system, and are currently conducting tests on our movable flap-gate-type breakwater system installed on the seabed. In the near future, in addition to continuing our efforts to protect against natural disasters in and around Japan's harbors, we plan to increase our earnings through the expansion of our infrastructure maintenance operations.

❖ Construction machinery

The environment for orders remained difficult in Japan against the backdrop of sluggish public works investment. Our overseas business, however, saw a series of large-scale projects, to which we responded with aggressive marketing efforts. As a result, we received an order for the world's largest shield tunneling machine (17.45 meters in diameter) for the construction of an underground tunnel in Seattle, and an order for a second shield tunneling machine for the Hong Kong super-express railway. Overall orders, including those from users in Japan, held firm from the previous year.

While meeting the whole range of user needs for shield tunneling machines here in Japan, we will also aggressively engage in infrastructure-related operations in the growing Chinese and Southeast Asian markets, and in other emerging markets.

❖ Marine disaster prevention systems business

Hitachi Zosen has developed a wave gauge employing the Global Positioning System (GPS) that enables real-time detection of changes in the sea level resulting from waves, including tsunami, and these are being used by the MLIT for the detection of tsunami. These GPS gauges proved their worth on the occasion of the 2011 earthquake off the Pacific coast of Tohoku, when gauges positioned 20 kilometers offshore detected and reported the tsunami. Thanks to this, the Meteorological Agency was able to issue an early warning that no doubt helped save many lives.



Tokyo Gate Bridge



Shield tunneling machine for Hong Kong super-express railway tunnel

The Company has also developed a real-time method of ultra-long-distance Precise Point Positioning with Ambiguity Resolution (PPP-AR) that has extended the distance at which high-precision positioning is possible from 20 to 1,000 kilometers offshore. In the near future, we plan to apply this positioning system to our GPS wave gauges to make possible still earlier detection of tsunami in the seas surrounding Japan, and by so doing, to contribute to the realization of a safer society.

Topic

Progress Report on Testing of movable flap-gate-type breakwater

To protect against tsunami and storm surges, and to minimize inundation due to flooding caused by heavy localized rain, Hitachi Zosen has developed a flap-gate-type form of wave-breaker that rises into place when water pressure exceeds the prescribed limit. This facility is available in two types: one for installation on the seabed and one for installation on land. The most notable feature of this facility is that the power used to raise the water barrier consists of the force and pressure exerted by the tsunami, storm surges, or floodwaters themselves. The operation of the facility in an emergency thus does not have to rely on a supply of electric power, or on manual effort. It has the advantages of being safer to operate and of reducing the burden on personnel in emergencies.

Hitachi Zosen, in collaboration with Toyo Construction Co., Ltd. and Penta-Ocean Construction Co., Ltd., is currently conducting tests on movable flap-gate-type breakwater systems installed on the seabed in actual marine conditions. The tests have been carried out for over one year since the completion of the test model in March 2011, and we have accumulated a large volume of test data.

We are currently conducting tests on long-term submergence of the tsunami and storm-surge breakwater, starting in December 2011 and scheduled to last until December 2012, and we have not yet tested the unit's surfacing operation. The unit is being monitored on a 24-hour basis to confirm that it can maintain the required configuration in a submerged state. We test the raising and lowering of the breakwater once every three months, and this operation was last carried out in May 2012 and is scheduled again in August and November.

We are currently utilizing the insights we have gained through the development of our movable flap-gate-type breakwater system installed on the seabed and developed the neo RiSe, land-mounted flap-gate seawall system. Medium-sized to large types are available under the product name "neo RiSe," and small types under the name "neo RiSe mini." We manufactured a test model of the "neo RiSe mini" in fiscal year 2011 (2.7m in width by 1.0m in height) and conducted durability tests under practical field conditions for three months. We have connected such a "neo RiSe mini" test model to a water-flow tank at our Sakai Works, and have confirmed that the model performs correctly, rising to the desired position as a result of the water-flow pressure.



neo RiSe mini demonstration device

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

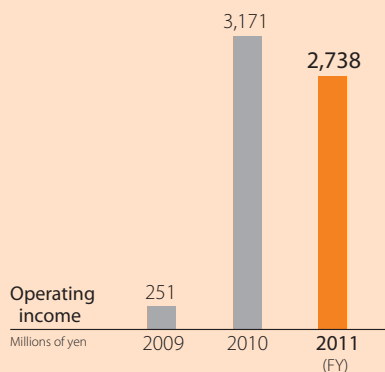
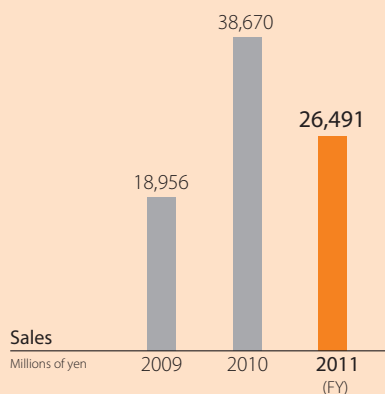
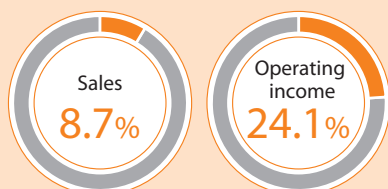
Marine disaster prevention systems

- 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

Precision Machinery Business



Orders received	¥21.1 billion (FY2010: ¥23.3 billion)	-9.6% (FY2010: -35.6%)
Sales	¥26.5 billion (FY2010: ¥38.7 billion)	-31.5% (FY2010: +104.0%)
Operating income	¥2.7 billion (FY2010: ¥3.2 billion)	-13.6% (FY2010: +1,162.9%)

Business overview and outlook for fiscal year 2012

In fiscal year 2011 the Precision Machinery Business recorded sales of ¥26.5 billion, down ¥12.1 billion from the previous year, and operating income of ¥2.7 billion, down ¥0.5 billion. This performance is attributable to inventory adjustments by the LCD industry and a steep fall in solar panel market prices, which resulted in lackluster capital investment in our mainline products – plastic extrusion molding systems and solar panel production lines.

For fiscal year 2012 we project sales of ¥27.0 billion, up ¥0.5 billion year on year, and operating income of ¥2.1 billion, down ¥0.6 billion. The yen's exchange rate is expected to remain high, and the outlook for the Japanese economy is unclear, but growth is foreseen in overseas demand for OLEDs, films, medical equipment, and lapping plates. In October 2011 we established a joint venture – Hitachi Zosen GPM Technology (Suzhou) Co., Ltd. – in the Chinese city of Suzhou, as a foothold for entry into the Chinese market and as part of our larger plans to accelerate the expansion of our operations overseas.

❖ System machinery

In the field of system machinery in fiscal year 2011, the Group's user industries in Japan saw a contraction in investment as a result of inventory adjustments in LCDs and solar power cells, but in China, capital investment in this industry was active. Amid this situation, in addition to receiving orders for large-scale construction work relating to LCDs, we received orders for equipment for the mass production of OLEDs, which are being touted as the next-generation form of lighting.

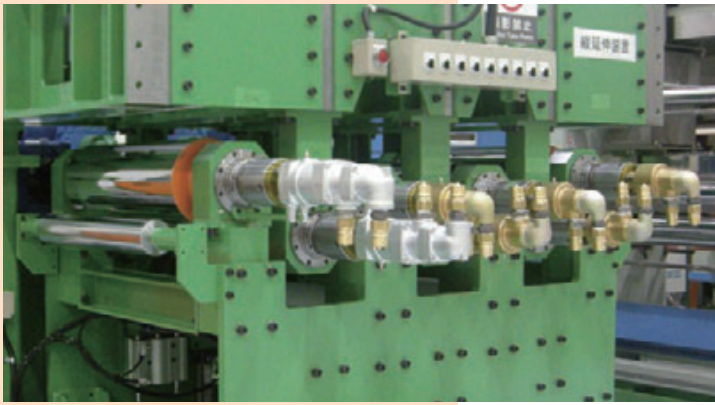
In the foodstuffs and pharmaceuticals industries, investment in new facilities was at a low ebb during the reporting term, but we nonetheless secured orders for food-filling systems which have the capability to handle limited production of diversified products, mainly for liquor and sauces, etc., which is one of the Company's areas of strength, as well as orders for pharmaceutical bagging units. The market for OLED displays is expected to record further growth in fiscal year 2012, and we intend to work to meet user demands for the mass production of large substrates and to develop models with higher performance, with the goal of seeking increased orders in both the Japanese and overseas markets. The business environment for solar cell manufacturing equipment is forecast to remain difficult, but we plan to continue aggressive marketing efforts in Japan and overseas, centered on technology proposal-type marketing, while keeping a close eye on trends among the world's solar panel makers.

In the fields of foodstuffs and pharmaceuticals, we will work to fully establish our PET bottle aseptic filling system employing electron beams, which has the advantage of placing a lighter burden on the environment, and hope to secure orders from makers of beverages and pharmaceuticals for high value-added sterilizer and filling units. We are looking to sell our electron beam sterilizer and aseptic filling units in overseas markets, and expect them to attract a growing number of orders and contribute to higher earnings.

New initiatives include new products in our lineup of radiation meters for testing the radioactivity levels of agricultural produce, in response to the growing concern over food safety. We plan to develop new applications for these products in the foodstuffs field, and project a strong growth in sales.

❖ Plastic machinery

In fiscal year 2011, we encountered difficult operating conditions including in the LCD industry.



Stretch film testing unit



Electron beam sterilizer and filling unit

Main business lines

Precision machinery

- OLED production systems
- Vacuum equipment
- FPD manufacturing-related systems
- Laser patterning equipment
- Polishing equipment
- Electrolytic compound polishing equipment

Industrial machinery

- Food machinery
- Pharmaceutical machinery
- Plastic machinery

Electronics systems/Control systems

- Image and video technologies
- Various control systems
- Board computers

As a result, many customers postponed or froze their capital investment plans, and the environment for orders was particularly severe in the Japan market. Although overseas markets are currently recovering, capital investment is following a downward trend in the LCD and solar panel industries due to the effects of the sharp slowdown in Chinese demand.

In the stretch film market, expansion is being seen in demand for manufacturing facilities for separator film for automotive-use lithium-ion batteries.

Amid this situation, in fiscal year 2011 we received orders from overseas for several manufacturing lines for LCD light-guide panels, thus helping us to raise the Group's profile in overseas markets.

In the stretch film market, in which we have not hitherto participated, we have received orders for two machine direction stretcher film manufacturing lines, giving us a foothold in this industry. We have also completed a stretch film testing unit enabling us to rapidly expand our product lineup and put in place an organizational system to effectively respond to the demands of new customers.

In fiscal year 2012 we plan to mount aggressive marketing campaigns in overseas markets, building on our track record in the LCD market. At the same time, we will work to enhance our earnings through an expansion in orders for our high-performance film manufacturing equipment, which realizes production of ultrathin films that combine our superior proprietary technologies in elastic rolls and stretch film manufacturing.

❖ Electronic control equipment

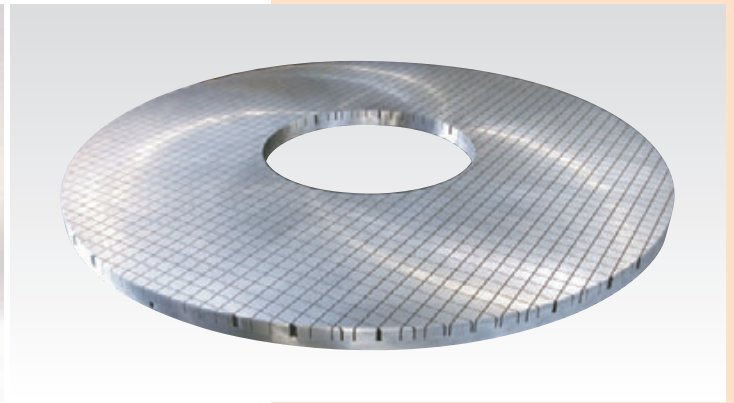
In the second half of fiscal year 2011 we experienced an extremely severe environment for orders owing to the financial crisis in the EU and the Chinese economic slowdown. Amid these circumstances, earnings in the semiconductor and railway industry fields for the term exceeded our projections despite a decline in sales. While there are signs of a recovery in fiscal year 2012, the first half of the term is likely to remain difficult as far as orders are concerned, but we will work to expand our lineup of strategic products centered on imaging technology.

Through activities under the Global Food Safety Initiative, managed by The Consumer Goods Forum and participated in by the world's leading retailers, we are working to achieve increased public recognition for our video recording systems for the food processing industry, and to create new markets. We are also pursuing active marketing of our train event recorders, also known as On-Train Monitoring Recorders (OTMR), and are eyeing sales possibilities in overseas markets. In the field of renewable energy sources, which has come back into the spotlight since the March 2011 disaster, we have also begun development work on microgrid systems (distributed power generation). We plan to conduct verification testing at our Control Equipment Center, completed in April 2012, with the goal of commercialization within 2-3 years. In the field of solar panels, we plan to leverage our development of imaging test units to acquire orders for testing equipment in the foodstuffs and construction materials industries, and will be working to realize higher product unit prices.

In the broadcasting and printer business formerly operated by subsidiary company SEILLAC Co., Ltd., which was absorbed by the Company in fiscal year 2011, we are now enjoying the benefits of this business integration, and in the near future we plan to develop a vehicle-mounted TCP/IP unit, aiming at operational expansion and growth in our global market share through conformity with overseas standards.



Video-recording system for the food processing industry



Lapping plates

❖ Materials business

Orders for lapping plates, our mainline products in this segment, were adversely impacted in the first half of fiscal year 2011 by the termination of operations at many of our customers' plants due to the earthquake and tsunami on March 11. Then, just as we were seeing a recovery in orders in the second half, the major floods in Thailand once again brought production activity at users' plants to a stop, with some plants being permanently closed, and orders once again slumped. In the end, orders for the term as a whole fell below our initial projections.

In other materials operations, we established a supply system for fire grate materials, and developed highly abrasion-resistant materials.

Looking ahead, we intend to conduct aggressive marketing in Asian markets, particularly China, and will focus on seeking increased orders for materials in the environmental and renewable energy fields. In the renewable energy field, we are working to develop specialty material technologies for use in wind-powered electricity generation. We intend to actively invest in technology and manufacturing in this field, where there is a promise of strong market growth.

Principal Group companies

- V TEX Corporation
- Ultra Finish Technology Co., Ltd.
- Nippon GPS Data Service Corporation
- Hitachi Zosen GPM Technology (Suzhou) Co., Ltd.

Topic

Belt-conveyor-type radiological inspection device, ASUKA HTX-100 – providing faster and safer testing of food radiation levels

The need for radiation-level testing of agricultural produce has risen sharply in the wake of the Fukushima Daiichi nuclear accident, and allowable radiation levels in foods were further lowered in April of this year with the revision of Japan's Food Sanitation Law.

Hitachi Zosen and Techno X Co., Ltd. have jointly developed the ASUKA HTX-100 belt-conveyor-type radiological inspection device, which can continuously measure the level of radiocesium contained in foods. This system takes only 15 seconds to measure the amount of radiocesium in a bag of rice, allowing fast and continuous inspection.

Techno X Co., Ltd. has an excellent track record in the supply of radiocesium detection devices to food processing companies.

By combining this company's expertise with Hitachi Zosen's know-how in the fields of embedding and manufacturing technology, as well as pharmaceutical and foodstuff plant management, we have succeeded in developing an integrated system that enables the handling and inspection of bags of rice from start to finish.



Research & Development

Basic policy and technology development system

At the Hitachi Zosen Group, in line with our development strategy based on Hitz Vision, our current management plan, we pursue the development of new businesses and new products, and the improvement and upgrading of existing products, principally in the operating fields of environmental systems, industrial plants, machinery, process equipment, infrastructure, and precision machinery.

The Hitachi Zosen Group's development structure consists of the Business and Product Development Headquarters, which draws up development strategies for the entire Group, the Product Development Planning Department, which undertakes central supervision of the appropriation of funds and personnel for development activities, and the Technical Research Institute, which is responsible for the development of product elemental strategies and future core technologies. In addition, to facilitate the commercial application of themes right from the development stage, we have also set up Headquarters Development Centers in the Engineering Headquarters, the Machinery & Infrastructure Headquarters, and the Precision Machinery Headquarters. These development units work in close collaboration with design and marketing divisions as well as with other corporate members of the Group to realize the early commercialization of newly developed products, and the development of new products and technologies.

Achievements in fiscal year 2011

Our development staff handled 125 themes in fiscal year 2011, and achievements were roughly in line with the targets.

In the environmental and industrial plants area, as part of our efforts to combat global warming, we developed a high-performance exhaust gas treatment system employing the dry-type desalination method, as well as a high-efficiency Energy-from-Waste system and a stoker-type furnace compliant with low-emission standards, and carried out verification testing on a plant for producing ethanol (biofuel) from waste. We also conducted testing to confirm the durability of our vapor-compression MED (multi-effect desalination) seawater desalination equipment, and plans for commercialization are on the drawing board. Efforts were also made to develop inorganic membranes, such as high-efficiency anhydrous membranes and CO₂ separation membranes.



High-performance exhaust gas control system



MED seawater desalination equipment (demonstration model)

In the machinery, process equipment, and infrastructure business areas, we pursued development work on emission control devices for marine diesel engines, as well as electricity generation equipment employing waste heat recovery through the Organic Rankine Cycle, and in parallel with this we completed construction of a multi-purpose test engine.

We accelerated our development work in the application of laser welding technology for higher productivity, and made improvements to our technology for the welding and heat treatment of high-strength

steel plates for pressure vessels. In the field of testing, we conducted public verification tests on our seabed-type flap-gate wave breaker constructed at Yaizu Port for protection against tsunami and storm surges, and tested our shield tunneling machines for compliance with specific user requirements. We also made progress in the development of anti-disaster and high-precision positioning devices employing GPS.

In the precision machinery business area, we continued our high-level development work on an integrated production system for solar cells, covering everything from film formation through patterning to inspection. In the field of organic light-emitting displays (OLED), we



Landslide monitoring system employing GPS high-precision positioning devices

continued to participate in a project led by NEDO (the New Energy and Industrial Technology Development Organization, an independent administrative agency), and we completed commercial development of a surface-deposition unit for film formation (roll-to-roll machine) and received our first order for this product.

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

Plans for fiscal year 2012

The Group's development activities in fiscal year 2012 (ending March 31, 2013) will focus principally on the continued pursuit of the themes tackled in fiscal year 2011.

In the environment and industrial plant business areas, we will continue our development of high-efficiency Energy-from-Waste systems and ethanol fuel production equipment, while developing new technologies for use in MED (multi-effect desalination) seawater desalination equipment to differentiate the Group's products in the marketplace. We will also work to expand the field of application of inorganic membranes and establish mass-production methods for these products.

In the machinery, process equipment, and infrastructure business areas, we plan to conduct verification tests on gas emission control devices for marine diesel engines, and in the field of disaster prevention, we will continue our development of flap-gate wave breakers erected on land for protection against tsunami and storm surges, as well as GPS ocean wave meters located 50-100 kilometers from the coastal base stations, and will seek orders for our newly developed products. In the precision machinery business area, we will conduct development work on sterilization systems employing electron beams for beverage-use PET bottles, sophisticated solar cell production equipment, and OLED film-forming equipment, including the NEDO-led project.

We plan to continue our development work in leading-edge technologies, including the establishment of mass-production methods for carbon nanotubes, all-solid-type lithium-ion batteries, and duzhong elastomers made using Eucommia gum.

Intellectual Property Management

Basic policy of the Hitachi Zosen Group

The intellectual property strategy of Hitachi Zosen Corporation supports the Company's management business strategy, which was drawn up in line with its business philosophy, and is in close conformity with its research and development strategy. That is to say, we seek actively to acquire industrial property rights in fields that 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 acquisition of patents with strategic significance, and carry out other intellectual property management activities to enhance synergy between the operations of Group companies.

Medium-term intellectual property activities

Patent applications and related activities conducted by Hitachi Zosen's Business & 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 and if possible further enhance our position in our areas of strength, while reinforcing 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. The Company's Legal & Intellectual Property Department serves as the governance center for the management of intellectual property by the entire Hitachi Zosen Group, working to maintain rights with respect to patents held by us in conformity with our operational and development strategies, promoting the effective employment of such patents, and drawing up policies to be followed in applying for patents overseas in response to the growth of the Company's overseas operations.

As of the end of fiscal year 2011, neither Hitachi Zosen Corporation nor any member of the Group was involved in litigation relating to the violation of intellectual property rights.

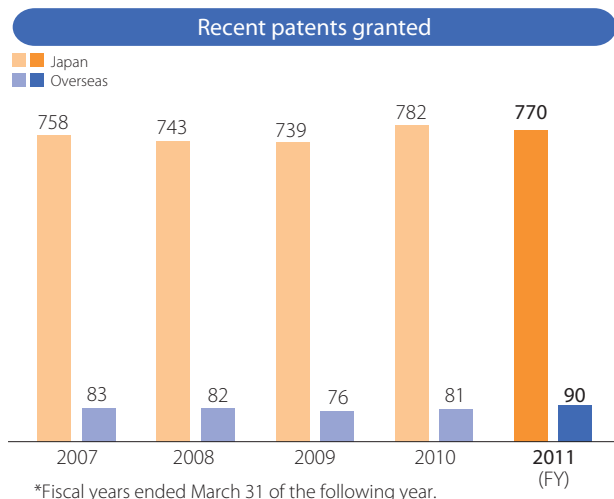
At specialist units dedicated to management of intellectual property, we have 14 "patent managers" working at our Business & Product Development Headquarters and the separate business divisions. In addition, three "patent leaders" have been appointed at the Business & Product Development Headquarters and eight "patent leaders" at the separate business divisions. Specialist staff at the Legal & 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. 4698200, relating to laser processing methods and laser processing equipment, received the 2011 Osaka Outstanding Invention Award, while patent No. 3746412, relating to a plastic sorting machine employing static electricity, was a recipient of the 2011 Kinki Regional Invention Awards and the Chairman's Award of the Osaka Institute of Invention and Innovation.

As of the end of fiscal year 2011 (ended March 31, 2012), Hitachi Zosen Corporation held 770 patents in Japan and 90 overseas. It also held 52 design rights in Japan, as well as 133 trademark rights in Japan and 17 overseas.



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.

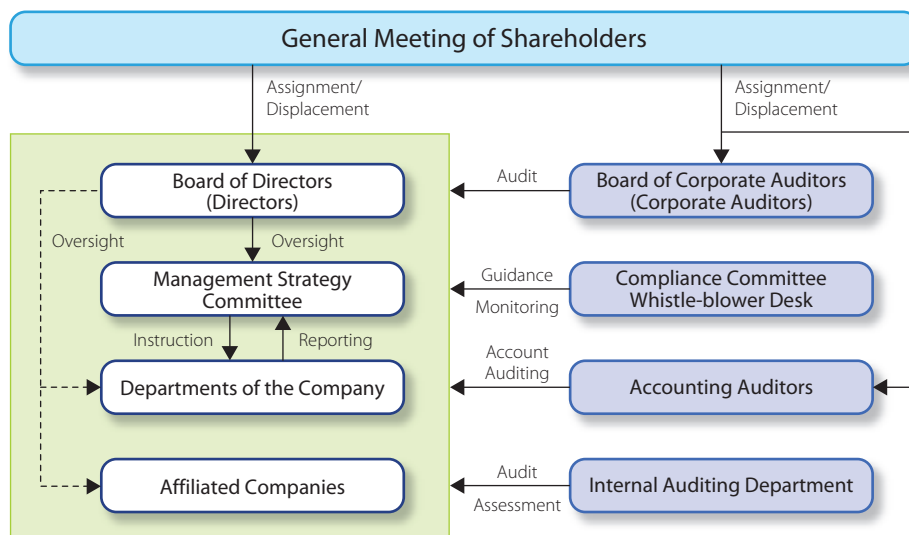
As members of the Board of Directors, directors are responsible for management decision-making and oversight, and as managing and supervising executives who also share responsibilities for the execution of business, they instruct, lead and supervise the divisions in charge. The Company has also adopted 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 2012, there are 10 directors and 11 executive officers.

Auditing functions are performed by the Board of Corporate Auditors, comprising two full-time corporate auditors and two part-time outside corporate auditors as of July 2012. 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 (the Board of Corporate 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 "Hitz Group Charter of Ethical Behavior" as 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 whistleblowing 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 22, 2012)



Representative Director
Chairman & President
Minoru Furukawa



Vice Chairman
Shunsaku Yahata



Managing Director
Hisao Matsuwake



Managing Director
Seiichiro Tsurisaki



Managing Director
Takashi Tanisho



Managing Director
Masayuki Morikata



Managing Director
Koji Abo



Director
Toru Shimizu



Director
Kenji Sawada



Director
Wataru Kobashi



Full-time Corporate Auditor
Motohiro Fujii



Full-time Corporate Auditor
Masamichi Tokuhira



Corporate Auditor
Sakae Kanno



Corporate Auditor
Junnosuke Ban



Managing Executive Officer
Toru Yoshioka



Managing Executive Officer
Masahiro Sakai



Executive Officer
Nobuyoshi Mori



Executive Officer
Masayuki Tanigawa



Executive Officer
Yutaka Masumizu



Executive Officer
Takashi Mishima



Executive Officer
Sadao Mino



Executive Officer
Masanori Shimasaki



Executive Officer
Kazuo Ieyama



Executive Officer
Shoichi Morimoto



Executive Officer
Tadashi Shibayama

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 CO₂ levels. We installed a 100kW-class solar power generation system at our Ariake Works in fiscal year 2010, and in fiscal year 2011 we plan to install a system with an output of 120kW at our Chikko Works and a 70kW system at our Maizuru Works. 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 2011	Evaluation
Environmental management	Adoption of environmental management systems	<ul style="list-style-type: none"> Acquisition of ISO 14001 for all places of business Implementation of environmental audits 	<ul style="list-style-type: none"> 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"	—	<ul style="list-style-type: none"> 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 equipment according to Law on Collection of Chlorofluorocarbon of Special Products and Their Destruction	<ul style="list-style-type: none"> Upgraded chlorofluorocarbon equipment 	◎
	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 36.6% over medium-term target Medium-term target: 29,535 ton CO ₂ FY2011: 40,331 ton CO ₂	△
	Reducing waste generated (excluding valuable materials)	Reduction of FY2015 amount to 90% of FY2000 level	Decreased by 96.3% of FY2000 level FY2000: 3,856 tons FY2011: 3,714 tons	◎
	Reducing landfill waste	Reduction of FY2015 amount to 35% of FY2000 level	Decreased by 54.1% of FY2000 level FY2000: 942 tons FY2011: 510 tons	◎
Contribution to local environmental protection	Achieve full environmental protection at workplaces	—	<ul style="list-style-type: none"> 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

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Consolidated Balance Sheets

Hitachi Zosen Corporation and Consolidated Subsidiaries
At March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
ASSETS			
Current assets:			
Cash and time deposits (Notes 5 and 14)	¥ 57,692	¥ 68,947	\$ 838,873
Receivables:			
Trade notes and accounts:			
Nonconsolidated subsidiaries and affiliates	5,195	4,263	51,868
Other	109,344	104,690	1,273,756
Other	6,156	5,180	63,025
Allowance for doubtful receivables	(726)	(1,183)	(14,394)
	119,969	112,950	1,374,255
Marketable securities (Notes 3 and 5)	34	38	462
Inventories (Note 4)	24,938	23,316	283,684
Deferred tax assets (Note 19)	4,468	4,588	55,822
Prepaid expenses and other current assets (Note 5)	9,290	3,832	46,624
Total current assets	216,391	213,671	2,599,720
Property, plant and equipment, at cost (Note 5):			
Land (Notes 7 and 21)	71,270	69,383	844,178
Buildings and structures (Note 21)	72,329	73,456	893,734
Machinery and equipment	89,842	90,194	1,097,384
Lease assets (Note 15)	505	862	10,488
Construction in progress	467	2,395	29,140
	234,413	236,290	2,874,924
Less accumulated depreciation	(104,682)	(108,997)	(1,326,159)
Property, plant and equipment, net	129,731	127,293	1,548,765
Intangible assets:			
Goodwill	663	580	7,057
Other intangible assets	1,760	2,028	24,674
Total intangible assets	2,423	2,608	31,731
Investments and other noncurrent assets:			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	17,516	17,904	217,837
Investments in securities (Notes 3 and 5)	6,175	5,249	63,864
Long-term loans receivable (Note 5)	113	105	1,277
Deferred tax assets (Note 19)	1,685	777	9,454
Other investments and noncurrent assets (Note 5)	7,767	9,487	115,428
Allowance for doubtful receivables	(1,678)	(1,348)	(16,401)
Total investments and other noncurrent assets	31,578	32,174	391,459
Deferred assets	126	42	511
Total assets	¥380,249	¥375,788	\$4,572,186

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Hitachi Zosen Corporation and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Net sales	¥287,196	¥303,036	\$3,687,018
Cost of sales (Note 9)	240,715	252,892	3,076,919
Gross profit	46,481	50,144	610,099
Selling, general and administrative expenses	33,122	38,777	471,797
Operating income	13,359	11,367	138,302
Other income (expenses):			
Interest and dividend income	181	324	3,942
Interest expense	(1,464)	(1,533)	(18,652)
Foreign exchange loss	(597)	(437)	(5,317)
Equity in net income of nonconsolidated subsidiaries and affiliates	2,954	733	8,918
Gain on sale of property (Note 10)	—	1,629	19,820
Reversal of allowance for losses from lawsuits	1,162	1,058	12,873
Gain on insurance adjustment	24	554	6,740
Gain on negative goodwill	—	458	5,572
Compensation for damage (Note 11)	—	(592)	(7,203)
Loss on devaluation of investments in securities	—	(529)	(6,436)
Loss on adjustment for changes of accounting standard for asset retirement obligations	(573)	—	—
Other, net	(2,446)	(698)	(8,492)
Total other expenses	(759)	967	11,765
Income before income taxes and minority interests	12,600	12,334	150,067
Income taxes (Note 19)			
Current	2,402	2,594	31,561
Deferred	(113)	(627)	(7,629)
Income before minority interests	10,311	10,367	126,135
Minority interests in net income of consolidated subsidiaries	636	1,048	12,751
Net income	¥ 9,675	¥ 9,319	\$ 113,384

	Yen		U.S. dollars (Note 1)
	2011	2012	2012
Amounts per share (Note 2)			
Net income — basic	¥12.19	¥11.74	\$0.14
Net income — diluted	10.74	10.67	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
Years Ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Income before minority interests	¥10,311	¥10,367	\$126,135
Other comprehensive income			
Net unrealized holding gains (losses) on securities	(173)	328	3,991
Net unrealized holding gains (losses) on hedging derivatives	782	(460)	(5,597)
Pension obligation adjustments of overseas subsidiaries	—	880	10,707
Foreign currency translation adjustments	(59)	(343)	(4,173)
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method	(232)	(28)	(341)
Total other comprehensive income (Note 12)	318	377	4,587
Total comprehensive income	¥10,629	¥10,744	\$130,722
Comprehensive income attributable to			
Owners of the parent	10,007	9,756	118,701
Minority interests	622	988	12,021

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Hitachi Zosen Corporation and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Common stock:			
Balance at beginning of year	¥45,442	¥45,442	\$552,890
Balance at end of year	¥45,442	¥45,442	\$552,890
Capital surplus:			
Balance at beginning of year	¥ 5,974	¥ 5,974	\$ 72,685
Treasury stock purchased, net	(0)	(0)	(0)
Balance at end of year	¥ 5,974	¥ 5,974	\$ 72,685
Retained earnings:			
Balance at beginning of year	¥28,587	¥36,640	\$445,796
Cash dividends	(1,588)	(1,588)	(19,321)
Net income	9,675	9,319	113,384
Increase due to consolidation of additional subsidiaries	—	22	267
Reversal of land revaluation difference	(34)	(37)	(450)
Balance at end of year	¥36,640	¥44,356	\$539,676
Treasury stock (Note 13):			
Balance at beginning of year	¥ (267)	¥ (281)	\$ (3,419)
Treasury stock disposed	0	0	0
Treasury stock purchased	(14)	(5)	(61)
Balance at end of year	¥ (281)	¥ (286)	\$ (3,480)
Net unrealized holding gains (losses) on securities:			
Balance at beginning of year	¥ (90)	¥ (249)	\$ (3,030)
Other	(159)	322	3,918
Balance at end of year	¥ (249)	¥ 73	\$ 888
Net unrealized holding gains (losses) on hedging derivatives:			
Balance at beginning of year	¥ (463)	¥ 224	\$ 2,726
Other	687	(466)	(5,670)
Balance at end of year	¥ 224	¥ (242)	\$ (2,944)
Pension obligation adjustments of overseas subsidiaries			
Balance at beginning of year	¥ —	¥ —	\$ —
Other	—	880	10,707
Balance at end of year	¥ —	¥ 880	\$ 10,707
Land revaluation difference (Note 7):			
Balance at beginning of year	¥ (140)	¥ (106)	\$ (1,290)
Reversal of land revaluation difference	34	82	998
Balance at end of year	¥ (106)	¥ (24)	\$ (292)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (316)	¥ (512)	\$ (6,230)
Other	(196)	(343)	(4,173)
Balance at end of year	¥ (512)	¥ (855)	\$ (10,403)
Subscription rights to shares:			
Balance at beginning of year	¥ 1	¥ 1	\$ 12
Balance at end of year	¥ 1	¥ 1	\$ 12
Minority interests in consolidated subsidiaries:			
Balance at beginning of year	¥14,472	¥14,836	\$180,509
Other	364	892	10,853
Balance at end of year	¥14,836	¥15,728	\$191,362
		Shares	
	2011	2012	
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
Years Ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥12,600	¥12,334	\$150,067
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	8,678	8,389	102,068
Loss on adjustment for changes of accounting standard for asset retirement obligations	573	—	—
Increase in allowance for doubtful receivables	497	127	1,545
Increase in employees' severance and retirement benefits	704	1,026	12,483
Increase in reserve for losses on construction contracts	4,532	483	5,877
Decrease in reserve for losses from lawsuits	(2,412)	(9,457)	(115,063)
Interest and dividend income	(181)	(324)	(3,942)
Interest expense	1,464	1,533	18,652
Equity in net income of nonconsolidated subsidiaries and affiliates	(2,954)	(733)	(8,918)
Gain on sale of investments in securities	(1)	—	—
Loss on devaluation of investments in securities	136	529	6,436
Loss on disposal of fixed assets	187	285	3,468
Decrease (increase) in trade receivables	(10,628)	5,805	70,629
Decrease in inventories	8,319	2,054	24,991
Decrease (increase) in other current assets	(5,618)	6,802	82,759
Increase (decrease) in trade payables	4,844	(14,287)	(173,829)
Increase in accrued expenses	448	9,105	110,780
Decrease in advances received	(2,579)	(6,233)	(75,837)
Increase in other current liabilities	794	4,426	53,851
Other	461	(3,052)	(37,133)
Subtotal	19,864	18,812	228,884
Interest and dividends received	292	439	5,341
Interest paid	(1,452)	(1,543)	(18,773)
Income taxes paid	(1,568)	(3,058)	(37,206)
Net cash and cash equivalents provided by operating activities	17,136	14,650	178,246
Cash flows from investing activities:			
Increase in time deposits	(6,953)	(4,345)	(52,865)
Decrease in time deposits	9,445	3,945	47,999
Purchase of property, plant and equipment	(7,734)	(8,150)	(99,161)
Proceeds from sales of property, plant and equipment	161	3,729	45,370
Purchase of intangible assets	(410)	(610)	(7,422)
Purchase of investments in securities	(39)	(531)	(6,461)
Proceeds from sales and redemption of investments in securities	22	862	10,488
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	2,484	97	1,180
Other	(193)	375	4,563
Net cash and cash equivalents used in investing activities	(3,217)	(4,628)	(56,309)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Cash flows from financing activities:			
Decrease in short-term borrowings, net	(2,166)	(2,305)	(28,045)
Proceeds from long-term debt	27,100	29,371	357,355
Payment of long-term debt	(18,256)	(24,139)	(293,697)
Redemption of bonds	(14,710)	(300)	(3,650)
Cash dividends paid	(1,588)	(1,588)	(19,321)
Other	(10)	44	535
Net cash and cash equivalents provided by (used in) financing activities	(9,630)	1,083	13,177
Effect of exchange rate changes on cash and cash equivalents	(64)	(438)	(5,329)
Net increase in cash and cash equivalents	4,225	10,667	129,785
Cash and cash equivalents at beginning of year	51,690	55,915	680,314
Cash and cash equivalents of newly consolidated subsidiaries, at beginning of year	—	27	328
Cash and cash equivalents at end of year (Note 14)	¥55,915	¥66,609	\$810,427

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, 2012 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, 2012, which was ¥82.19 to U.S. \$1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

a) Consolidation

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

The consolidated financial statements consist of the accounts of the Company and its sixty-seven significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in one nonconsolidated subsidiary and eleven affiliates are accounted for by the equity method.

The consolidated financial statements include the accounts of thirteen consolidated subsidiaries the fiscal year-end of which is

December 31. Appropriate adjustments were made for significant transactions during the period from December 31 to March 31, the date of the consolidated financial statements.

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.

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 borrowings 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 and expected 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 ¥7,023 million and ¥6,805 million (\$82,796 thousand) for the years ended March 31, 2011 and 2012, 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 have 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 Accounting Changes and Error Corrections

The Companies adopted the new accounting standard, "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24 issued by the Accounting Standards Board of Japan on December 4, 2009) and the implementation guidance, "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24 issued by the Accounting Standards Board of Japan on December 4, 2009) for accounting changes and corrections of prior period errors which are made after the beginning of the year ended March 31, 2012.

w) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2011 to conform to the fiscal year ended March 31, 2012 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, 2011 and 2012:

(1) Trading securities:

At March 31, 2011

	Millions of yen
Amount for the year of net unrealized losses included in the statements of income	¥(3)

At March 31, 2012

	Millions of yen	Thousands of U.S. dollars
Amount for the year of net unrealized gains included in the statements of income	¥0	\$0

(2) Held-to-maturity debt securities:

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, 2012

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥ 5	¥ 5	¥ 0
Others	14	16	2

Securities with available fair values exceeding book values:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	\$ 61	\$ 61	\$ 0
Others	170	195	25

(3) Available-for-sale securities:

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, 2012

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥1,193	¥1,023	¥170
Others	56	33	23
Total	¥1,249	¥1,056	¥193

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥154	¥191	¥(37)
Others	37	41	(4)
Total	¥191	¥232	¥(41)

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$14,515	\$12,447	\$2,068
Others	681	401	280
Total	\$15,196	\$12,848	\$2,348

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$1,874	\$2,324	\$(450)
Others	450	499	(49)
Total	\$2,324	\$2,823	\$(499)

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. As a result, 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, 2011 was as follows:

Year ended 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)

c) Impairment of securities

For the year ended March 31, 2012, the Companies recognized losses from impairment of investments in securities (available-for-sale securities) in the amount of ¥529 million (\$6,436 thousand).

4. Inventories

Inventories at March 31, 2011 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Merchandise and finished goods	¥ 423	¥ 875	\$ 10,646
Work in progress	20,779	18,494	225,015
Raw materials and supplies	3,736	3,947	48,023
Total	¥24,938	¥23,316	\$283,684

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, 2011 and 2012 were ¥819 million and ¥1,178 million (\$14,333 thousand), respectively, all of which represented work in progress.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings that represented bank borrowings bearing average interest rates of 1.02 percent and 0.92 percent as of March 31, 2011 and 2012, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Secured (or partly secured)	¥1,500	¥ 200	\$ 2,433
Unsecured	7,280	6,551	79,706
Total	¥8,780	¥6,751	\$82,139

Long-term debt at March 31, 2011 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
1.20 percent to 2.35 percent borrowings from banks and other financial institutions, due through 2022:			
Secured (or partly secured)	¥12,284	¥ 6,944	\$ 84,487
Unsecured	67,641	78,214	951,624
1.50 percent convertible bonds due 2012	15,183	15,108	183,818
1.15 percent straight bonds due 2011	300	—	—
Others	292	442	5,378
Less current portion included in current liabilities	(24,258)	(40,923)	(497,907)
Total	¥71,442	¥59,785	\$727,400

As of March 31, 2012, 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 ¥12,284 million at March 31, 2011 and ¥6,944 million (\$84,487 thousand) at March 31, 2012:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Cash and time deposits	¥ 155	¥ 18	\$ 219
Securities	1	—	—
Prepaid expenses and other current assets	46	429	5,220
Property, plant and equipment (at net book value)	20,693	20,375	247,901
Investments in nonconsolidated subsidiaries and affiliates	2,163	2,325	28,288
Investments in securities	16	59	718
Long-term loans receivable	78	70	852
Other investments and noncurrent assets	4	2,044	24,869
Total	¥23,156	¥25,320	\$308,067

The aggregate annual maturities of long-term debt outstanding at March 31, 2012 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥26,503	\$322,460
2015	16,295	198,260
2016	9,198	111,911
2017	7,450	90,644
2018 and thereafter	339	4,125
Total	¥59,785	\$727,400

6. Contingent Liabilities

Contingent liabilities at March 31, 2011 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Notes receivable endorsed	¥227	¥315	\$3,833
Guarantees of bank borrowings and other indebtedness	59	42	511
Total	¥286	¥357	\$4,344

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 ¥101 million and ¥103 million (\$1,253 thousand) lower than the revalued book amount at March 31, 2011 and 2012, 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 22, 2012, the shareholders approved cash dividends of ¥1,588 million (\$19,321 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2012. 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 ¥8,906 million and ¥5,447 million (\$66,273 thousand) for the years ended March 31, 2011 and 2012, respectively.

10. Gain on Sale of Property

Gain on sale of property resulted from the sale of the land of the former Kanagawa works.

11. Compensation for Damage

Compensation for damage resulted from the penalty for the late delivery in connection with the construction of waste incineration plant overseas.

12. Comprehensive Income Information

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Net unrealized holding gains (losses) on securities		
Increase (decrease) during the year	¥ (200)	\$ (2,433)
Reclassification adjustments	526	6,400
Sub-total before tax	326	3,967
Tax benefit (expense)	2	24
Sub-total net of tax	328	3,991
Net unrealized holding gains (losses) on hedging derivatives		
Increase (decrease) during the year	¥ (104)	\$ (1,265)
Reclassification adjustments	(398)	(4,843)
Sub-total before tax	(502)	(6,108)
Tax benefit (expense)	42	511
Sub-total net of tax	(460)	(5,597)
Pension obligations adjustments of overseas subsidiaries		
Increase (decrease) during the year	¥1,112	\$13,530
Reclassification adjustments		
Sub-total before tax		
Tax benefit (expense)	(232)	(2,823)
Sub-total net of tax	880	10,707
Foreign currency translation adjustments		
Increase (decrease) during the year	¥ (343)	\$ (4,173)
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method		
Increase (decrease) during the year	¥ (28)	\$ (341)
Total other comprehensive income	¥ 377	\$ 4,587

13. Treasury Stock

Treasury stock for the years ended March 31, 2011 and 2012 consisted of the following:

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

Year ended March 31, 2012

Number of shares of common stock	Thousands
At March 31, 2011	2,195
Increase	36
Decrease	(0)
At March 31, 2012	2,231

14. 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, 2011 and 2012 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Cash and time deposits in the balance sheets	¥57,692	¥68,947	\$838,873
Time deposits with maturities over three months	(1,777)	(2,343)	(28,507)
Security	—	5	61
Cash and cash equivalents in cash flow statements	¥55,915	¥66,609	\$810,427

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
Current assets	¥22,932
Fixed assets	5,026
Total	¥27,958
Current liabilities	¥22,795
Fixed liabilities	925
Total	¥23,720

15. Lease Information

a) Finance Leases as Lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions at March 31, 2011 and 2012 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, 2011 and 2012 were as follows:

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, 2012:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥ 938	¥ 827	¥111
Software	185	174	11
Total	¥1,123	¥1,001	¥122

	Thousands of U.S. dollars		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	\$11,412	\$10,062	\$1,350
Software	2,251	2,117	134
Total	\$13,663	\$12,179	\$1,484

Lease payments for the above finance leases for the years ended March 31, 2011 and 2012 were ¥251 million and ¥195 million (\$2,373 thousand), respectively.

Future minimum payments, including finance charges, for finance leases at March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Payments due within one year	¥214	¥116	\$1,411
Payments due after one year	141	29	353
Total	¥355	¥145	\$1,764

b) Operating Leases as Lessee

Future minimum payments for operating leases at March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Payments due within one year	¥ 366	¥ 372	\$ 4,526
Payments due after one year	2,963	2,584	31,439
Total	¥3,329	¥2,956	\$35,965

c) Finance Leases as Lessor

Lease investment assets

Current assets as of March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Lease payments receivables	¥144	¥132	\$1,606
Interest	(8)	(7)	(85)
Total	¥136	¥125	\$1,521

Lease investment assets receivables after March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Within one year	¥50	¥52	\$633
Over one year but within two years	44	36	438
Over two years but within three years	26	27	329
Over three years but within four years	17	14	170
Over four years but within five years	6	2	24
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, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Payments due within one year	¥17	¥17	\$207
Payments due after one year	29	12	146
Total	¥46	¥29	\$353

The remaining book values of future minimum payments to be received concerning a sublet lease transaction at March 31, 2011 and 2012 were ¥46 million and ¥29 million (\$353 thousand), respectively. Of the future minimum payments at March 31, 2011 and 2012, those payments due within one year amounted to ¥17 million and ¥17 million (\$207 thousand), respectively.

The remaining book values of future minimum payments as lessee at March 31, 2011 and 2012 were almost the same and were included in the above table of finance leases as lessee.

16. Financial Instruments

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 borrowings and the issuance of corporate bonds. The Companies invest temporary surplus funds in highly secure financial assets, and obtain working capital mainly through bank borrowings. 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.

Borrowings and corporate bonds are mainly for the purpose of raising funds for capital investment and research and development plans. The longest due date is 10 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 borrowings. 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 customer 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 utilize mainly 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 borrowings. 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 regularly 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 17, "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 years ended March 31, 2011 and 2012 were as follows. Financial instruments in which the fair value was considered to be extremely difficult to determine were not included in the tables below.

At March 31, 2011:

	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 borrowings	(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.

At March 31, 2012:

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 68,947	¥ 68,947	¥ —
(2) Trade notes and accounts	108,953		
Allowance for doubtful receivables *1	(273)		
	108,680	108,676	(4)
(3) Securities and investment securities	4,988	3,831	(1,157)
(4) Long-term loans receivable	105		
Allowance for doubtful receivables *1	(2)		
	103	104	1
Total assets	¥ 182,718	¥ 181,558	¥(1,160)
(1) Notes and accounts payable	(59,802)	(59,802)	—
(2) Short-term borrowings	(6,751)	(6,751)	—
(3) Current portion of long-term debt	(40,923)	(40,983)	(60)
(4) Accrued expenses	(39,621)	(39,621)	—
(5) Accrued income taxes	(1,614)	(1,614)	—
(6) Long-term debt, less current portion	(59,343)	(59,447)	(104)
Total liabilities	¥(208,054)	¥(208,218)	¥ (164)
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(291)	(291)	—
Derivative transactions for which hedge accounting has been applied	115	115	—
Total derivative transactions	¥ (176)	¥ (176)	¥ —

*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	\$ 838,873	\$ 838,873	\$ —
(2) Trade notes and accounts	1,325,624		
Allowance for doubtful receivables *1	(3,322)		
	1,322,302	1,322,253	(49)
(3) Securities and investment securities	60,689	46,612	(14,077)
(4) Long-term loans receivable	1,277		
Allowance for doubtful receivables *1	(24)		
	1,253	1,265	12
Total assets	\$ 2,223,117	\$ 2,209,003	\$(14,114)
(1) Notes and accounts payable	(727,606)	(727,606)	—
(2) Short-term borrowings	(82,139)	(82,139)	—
(3) Current portion of long-term debt	(497,907)	(498,637)	(730)
(4) Accrued expenses	(482,066)	(482,066)	—
(5) Accrued income taxes	(19,637)	(19,637)	—
(6) Long-term debt, less current portion	(722,022)	(723,288)	(1,266)
Total liabilities	\$(2,531,377)	\$(2,533,373)	\$ (1,996)
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(3,541)	(3,541)	—
Derivative transactions for which hedge accounting has been applied	1,399	1,399	—
Total derivative transactions	\$ (2,142)	\$ (2,142)	\$ —

*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 borrowings, (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 consists 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 debt was stated at the present value using the total amount of the principal and interest discounted by the interest rate as if the borrowings would be newly executed.

Derivative transactions

See Note 17, "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	2012	2012
Stock of consolidated subsidiaries and affiliates	¥14,258	¥14,408	\$175,301
Non-listed equity securities, etc.	3,678	3,795	46,174

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

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

At March 31, 2011:

	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

At March 31, 2012:

	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	¥ 68,947	¥ —	¥ —	¥ —
Trade notes and accounts	108,861	92	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	—	5	—	—
(2) Others	—	—	17	—
Available-for-sale securities with maturities				
(1) Others	5	46	15	—
Long-term loans receivable	—	68	37	—
Total	¥177,813	¥211	¥69	¥—

	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	\$ 838,873	\$ —	\$ —	\$—
Trade notes and accounts	1,324,504	1,120	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	—	61	—	—
(2) Others	—	—	207	—
Available-for-sale securities with maturities				
(1) Others	61	560	183	—
Long-term loans receivable	—	827	450	—
Total	\$2,163,438	\$2,568	\$840	\$—

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

17. 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, 2011 and 2012 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, 2012:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥2,430	¥ —	¥(112)	¥(112)
Euro	1,457	—	5	5
Swedish krone	43	—	(0)	(0)
Norwegian krone	298	—	(1)	(1)
Purchase				
U.S. dollars	718	438	(177)	(177)
Euro	538	—	(6)	(6)
Norwegian krone	299	—	—	—
Total	¥5,783	¥438	¥(291)	¥(291)

Note. The market value of forward foreign exchange contracts is calculated using the forward exchange rate.

	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	\$29,565	\$ —	\$(1,363)	\$(1,363)
Euro	17,727	—	61	61
Swedish krone	523	—	(0)	(0)
Norwegian krone	3,626	—	(12)	(12)
Purchase				
U.S. dollars	8,736	5,329	(2,154)	(2,154)
Euro	6,546	—	(73)	(73)
Norwegian krone	3,638	—	—	—
Total	\$70,361	\$5,329	\$(3,541)	\$(3,541)

Note. The market value of forward foreign exchange contracts is calculated using the forward exchange rate.

The following tables summarize market value information as of March 31, 2011 and 2012 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.

At March 31, 2012:

	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	¥ 6,475	¥ —	¥(167)
Euro	Trade receivable	5,100	3,801	227
GBP	Trade receivable	6	—	(1)
Thai baht	Trade receivable	1,021	—	(80)
Purchase				
U.S. dollars	Trade payable	115	—	2
Euro	Trade payable	2,828	1,330	131
INR	Trade payable	592	—	3
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	132	—	—
Thai baht	Trade receivable	21	—	—
Total		¥16,290	¥5,131	¥ 115

*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 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 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	\$ 78,781	\$ —	\$(2,032)
Euro	Trade receivable	62,051	46,247	2,762
GBP	Trade receivable	73	—	(12)
Thai baht	Trade receivable	12,422	—	(973)
Purchase				
U.S. dollars	Trade payable	1,399	—	24
Euro	Trade payable	34,408	16,182	1,594
INR	Trade payable	7,203	—	36
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	1,606	—	—
Thai baht	Trade receivable	256	—	—
Total		\$198,199	\$62,429	\$ 1,399

*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 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 as hedged items.

b) Interest Related Derivatives

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 borrowings	¥37,674	¥27,354	¥—

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, 2012:

Exceptional treatment:	Hedged items	Millions of yen		
		Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term borrowings	¥42,854	¥31,648	¥—

Exceptional treatment:	Hedged items	Thousands of U.S. dollars		
		Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term borrowings	\$521,402	\$385,059	\$—

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.

18. 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. 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, 2011 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Projected benefit obligation	¥27,343	¥27,916	\$339,652
Less fair value of pension assets	(19,258)	(17,393)	(211,619)
Funded status:			
Benefit obligation in excess of plan assets	8,085	10,523	128,033
Unrecognized actuarial differences	*1 (3,398)	(4,647)	(56,540)
Unrecognized past service cost	(116)	(84)	(1,022)
Total	4,571	5,792	70,471
Deferred benefit expenses	3,606	3,436	41,805
Retirement and severance benefits in the consolidated balance sheets	¥ 8,177	¥ 9,228	\$112,276

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) was 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, 2011 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Service cost — benefits earned during the year	¥1,735	¥1,933	\$23,519
Interest cost on projected benefit obligation	228	605	7,361
Expected return on plan assets	—	(682)	(8,298)
Amortization of actuarial differences	497	709	8,626
Amortization of past service cost	3	16	195
Severance and retirement benefit expenses	¥2,463	¥2,581	\$31,403

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

For the year ended March 31, 2011 and 2012, the Companies made contributions to the defined contribution pension plans in the amount of ¥930 million and ¥1,091 million (\$13,274 thousand), respectively, 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, 2011 and 2012 were as follows:

	2011	2012
Method of attributing benefits to periods of service	Straight-line method	Straight-line method
Discount rate	1.4% to 2.75%	1.2% to 2.5%
Long-term rate of return on fund assets	0.0% to 4.75%	0.0% to 4.5%
Amortization period for past service cost (within the remaining average term of employees' service)	5 to 12 years	1 to 12 years
Amortization period for actuarial differences (within the remaining average term of employees' service)	5 to 12 years	5 to 12 years

19. 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, 2011 and 2012.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2011 and 2012 were as follows:

	2011	2012
Statutory tax rate	40.6%	40.6%
Nondeductible expenses	1.9	2.0
Nontaxable dividend income	(6.1)	(4.3)
Fluctuation in deferred tax assets valuation allowance account	(14.4)	(24.9)
Elimination of dividend income	4.8	3.8
Equity in net income of nonconsolidated subsidiaries and affiliates	(9.7)	(2.6)
Other	1.0	1.4
Effective tax rate	18.1%	16.0%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Deferred tax assets:			
Impairment loss	¥ 7,396	¥ 6,459	\$ 78,586
Tax loss carryforwards	5,295	4,030	49,033
Employees' retirement benefits	3,569	3,504	42,633
Allowance for doubtful receivables	971	960	11,680
Research and development expenses	1,293	937	11,401
Loss on devaluation of securities	246	580	7,057
Loss from lawsuits	1,850	—	—
Other reserves	7,357	7,442	90,546
Other	3,953	3,571	43,448
Total deferred tax assets	31,930	27,483	334,384
Valuation allowance	(25,075)	(20,723)	(252,136)
Deferred tax assets, net	6,855	6,760	82,248
Deferred tax liabilities:			
Land valuation difference	(1,694)	(1,491)	(18,141)
Prepaid pension benefit expenses	(749)	(620)	(7,543)
Reserve for compressed entry	(725)	(624)	(7,592)
Net unrealized holding gains on securities	(140)	(115)	(1,399)
Reserve for replacement of property	(136)	(93)	(1,132)
Other	(142)	(124)	(1,509)
Total deferred tax liabilities	(3,586)	(3,067)	(37,316)
Net deferred tax assets	¥ 3,269	¥ 3,693	\$ 44,932

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

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Current assets	¥4,468	¥4,588	\$55,822
Investments and other noncurrent assets	1,685	777	9,454
Long-term liabilities	(2,884)	(1,672)	(20,343)
Net deferred tax assets	¥3,269	¥3,693	\$44,933

20. Asset Retirement Obligations

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 certain 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.

Year ended March 31, 2011 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Balance at the beginning of the fiscal year *1	¥838	¥853	\$10,378
Increase in purchase of property, plant and equipment	6	63	767
Adjustment with passing of time	8	9	109
Decrease in performance of asset retirement obligations	(3)	(0)	0
Other	4	—	—
Balance at the end of the fiscal year	¥853	¥925	\$11,254

*1 The balance of asset retirement obligations at the beginning for the year ended March 31, 2011 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).

21. Investment and Rental Property

The Company and some consolidated subsidiaries own rental property and idle land in Osaka and other areas. For the years ended March 31, 2011 and 2012, rental income was ¥755 million and ¥738 million (\$8,979 thousand), respectively. 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 the corresponding fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Book value			
Balance at the beginning of the fiscal year	¥27,317	¥27,245	\$331,488
Decrease for this fiscal year, net	(72)	(2,157)	(26,244)
Balance at the end of the fiscal year	¥27,245	¥25,088	\$305,244
Fair value			
At the end of the fiscal year	¥26,497	¥20,647	\$251,211

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

For the fiscal year ended March 31, 2011, a net decrease by ¥72 million was attributable mainly to an increase by ¥85 million that resulted from acquisition of property and a decrease by ¥198 million that resulted from depreciation. For the fiscal year ended March 31, 2012, a net decrease by ¥2,157 million (\$26,244 thousand) was due mainly to sale of idle land in the amount of ¥1,880 million (\$22,874 thousand).

The fair value of major property at the end of the fiscal year was measured based on values in the appraisal reports prepared by external real estate appraisers. The fair value of other property was measured based on certain assessed values or indicators which could be considered to properly reflect the market price.

22. Segment Information

a) Reportable Segments

(1) General information about reportable segments

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

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 income 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 income 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 income or loss, segment assets and other material items

Information by reported segment of the Companies was as follows:

	Millions of yen									
	2011									Eliminations and corporate
	Environmental systems	Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total		
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

Millions of yen										
2012										
	Environmental systems	Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales										
Outside customers	¥128,132	¥37,856	¥62,861	¥10,277	¥27,552	¥26,491	¥ 9,917	¥303,036	¥ —	¥303,036
Intersegment	200	229	298	987	721	885	3,886	7,206	(7,206)	—
Total	128,332	38,085	63,159	11,214	28,273	27,376	13,803	310,242	(7,206)	303,036
Segment income (loss)	¥ 8,438	¥ 901	¥ 2,426	¥ (118)	¥ (4,044)	¥ 2,738	¥ 1,035	¥ 11,376	¥ (9)	¥ 11,367
Segment assets	¥ 94,840	¥31,617	¥57,884	¥13,400	¥45,717	¥23,242	¥49,685	¥316,385	¥59,403	¥375,788
Others										
Depreciation	¥ 1,033	¥ 1,380	¥ 1,936	¥ 1,053	¥ 1,341	¥ 582	¥ 1,064	¥ 8,389	¥ —	¥ 8,389
Increase in assets and intangible assets	¥ 1,288	¥ 877	¥ 1,492	¥ 457	¥ 666	¥ 2,717	¥ 1,094	¥ 8,591	¥ —	¥ 8,591

Thousands of U.S. dollars										
2012										
	Environmental systems	Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales										
Outside customers	\$1,558,974	\$460,592	\$764,825	\$124,431	\$335,223	\$322,314	\$120,659	\$3,687,018	\$ —	\$3,687,018
Intersegment	2,433	2,786	3,626	12,009	8,772	10,768	47,281	87,675	(87,675)	—
Total	1,561,407	463,378	768,451	136,440	343,995	333,082	167,940	3,774,693	(87,675)	3,687,018
Segment income (loss)	\$ 102,665	\$ 10,962	\$ 29,517	\$ (1,436)	\$ (49,203)	\$ 33,313	\$ 12,593	\$ 138,411	\$ (109)	\$ 138,302
Segment assets	\$1,153,912	\$384,682	\$704,270	\$163,037	\$556,235	\$282,784	\$604,514	\$3,849,434	\$722,752	\$4,572,186
Others										
Depreciation	\$ 12,568	\$ 16,790	\$ 23,555	\$ 12,812	\$ 16,316	\$ 7,081	\$ 12,946	\$ 102,068	\$ —	\$ 102,068
Increase in assets and intangible assets	\$ 15,671	\$ 10,670	\$ 18,153	\$ 5,560	\$ 8,103	\$ 33,058	\$ 13,311	\$ 104,526	\$ —	\$ 104,526

The amounts of segment income 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, 2011 and 2012 were ¥55,200 million and ¥59,657 million (\$725,843 thousand), respectively.

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, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Japan	¥237,561	¥227,307	\$2,765,628
Asia	35,140	40,185	488,928
North America	5,640	3,921	47,707
Middle East	4,099	5,859	71,286
Europe	2,000	23,657	287,833
Other	2,756	2,107	25,636
Total	¥287,196	¥303,036	\$3,687,018

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.

23. Related Party Information

Year ended March 31, 2011:

Attribute	Name	Domicile	Capitalization	Nature of operations	Equity ownership by the Company	Relationship	Nature of transaction	Trading amount	Account	Balance at year end
Affiliate	Naikai Zosen Corporation	Onomichi City, Hiroshima Prefecture	¥1,200 million	Manufacturing	39.5% direct 0.4% indirect	Materials purchase acceptance	Purchase of materials	¥6,090 million	Advances paid	¥2,270 million

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

Year ended March 31, 2012:

Attribute	Name	Domicile	Capitalization	Nature of operations	Equity ownership by the Company	Relationship	Nature of transaction	Trading amount	Account	Balance at year end
Affiliate	Naikai Zosen Corporation	Onomichi City, Hiroshima Prefecture	¥1,200 million (\$14,600 thousand)	Manufacturing	39.5% direct 0.5% indirect	Materials purchase acceptance	Purchase of materials	¥6,763 million (\$82,285 thousand)	Advances paid	¥1,846 million (\$22,460 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
Total current assets	¥119,554
Total fixed assets	94,419
Total current liabilities	118,427
Total long-term liabilities	20,489
Total net assets	75,057
Net sales	¥253,143
Income before income taxes and minority interests	23,392
Net income	13,539

The significant affiliated company was Universal Shipbuilding Corporation for the year ended March 31, 2012.

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

	Millions of yen	Thousands of U.S. dollars
Total current assets	¥104,432	\$1,270,617
Total fixed assets	81,395	990,327
Total current liabilities	99,201	1,206,972
Total long-term liabilities	10,988	133,690
Total net assets	75,638	920,282
Net sales	¥214,632	\$2,611,413
Income before income taxes and minority interests	15,679	190,765
Net income	8,523	103,699



Independent Auditor's Report

To the Board of Directors of Hitachi Zosen Corporation:

We have audited the accompanying consolidated financial statements of Hitachi Zosen Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hitachi Zosen Corporation and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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

July 20, 2012
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Group Companies

Head Office

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

Tokyo Head Office

15th Floor, Omori Bellport D-Wing
26-3, Minami-Ohi 6-chome, Shinagawa-ku,
Tokyo 140-0013, Japan
Phone: +81-3-6404-0800
Facsimile: +81-3-6404-0809
(Export business departments are situated in this office)

Business & Product Development Headquarters

2-11, Funamachi 2-chome, Taisho-ku,
Osaka 551-0022, Japan
Phone: +81-6-6551-9101
Facsimile: +81-6-6551-9642

Domestic offices

Sapporo Office

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

Sendai Office

6-35, Chuo 1-chome, Aoba-ku, Sendai,
Miyagi 980-0021, Japan
Phone: +81-22-712-6066
Facsimile: +81-22-712-6070

Nagoya Office

24-30, Meieki-minami 1-chome,
Nakamura-ku, Nagoya,
Aichi 450-0003, Japan
Phone: +81-52-581-0161
Facsimile: +81-52-581-6371

Hiroshima Office

13-14, Nobori-cho, Naka-ku,
Hiroshima 730-0016, Japan
Phone: +81-82-227-1950
Facsimile: +81-82-227-1953

Fukuoka Office

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

Kumamoto Office

7-32, Kamitori-cho, Chuo-ku,
Kumamoto 860-0845, Japan
Phone: +81-96-324-5107
Facsimile: +81-96-352-8173

Okinawa Office

7-1, Kumoji 1-chome, Naha,
Okinawa 900-0015, Japan
Phone: +81-98-861-1092
Facsimile: +81-98-869-1094

Works

Ariake Works

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

Mukaishima Works

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

Innoshima Works

2477-16, Innoshimahabu-cho, Onomichi,
Hiroshima 722-2323, Japan
Phone: +81-845-22-1200
Facsimile: +81-845-22-6455

Sakai Works

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

Chikko Works

2-11, Funamachi 2-chome, Taisho-ku,
Osaka 551-0022, Japan
Phone: +81-6-6551-2264
Facsimile: +81-6-6551-9642

Maizuru Works

1180, Amarube-shimo, Maizuru,
Kyoto 625-8501, Japan
Phone: +81-773-62-8925
Facsimile: +81-773-62-8827

Ibaraki Works

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

Overseas offices

Abu Dhabi Branch

Khalifa Street, Bin Hamoodah Tower,
9th floor, 904 P.O. Box 203, Abu Dhabi,
United Arab Emirates
Phone: +971-2-6276-180
Facsimile: +971-2-6276-181

Taipei Branch

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

Shanghai Office

37th Floor, Hang Seng Bank Tower,
1000 Lujiazui Ring Road, Pudong New Area,
Shanghai 200120, China
Phone: +86-21-6887-2525
Facsimile: +86-21-6887-2838

Beijing Office

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

Bangkok Office

BB Building 19th Floor Room No. 1911,
54 Sukhumvit 21 (Asoke) Road,
Kwaeng Klong Torey Nua, Khet Wattana,
Bangkok 10110, Thailand
Phone: +66-2259-4831/4832
Facsimile: +66-2259-4833

Ho Chi Minh City Office

8th Floor, PDD Building, 162 Pasteur Street,
District 1, Ho Chi Minh City, Vietnam
Phone: +84-8-3822-8636
Facsimile: +84-8-3822-8635

Seoul Branch

Room 501, #45, Mapo-daero, Mapo-gu,
Seoul 121-716, Korea
Phone: +82-2-702-6796
Facsimile: +82-2-702-6798

Singapore Branch

41 Science Park Road, #01-24/25 (Lobby D),
The Gemini, Singapore Science Park II,
Singapore 117610
Phone: +65-6773-6833
Facsimile: +65-6773-6433

HITACHI ZOSEN EUROPE LTD.

5th Floor, 107 Cannon Street,
London EC4N 5AF, U.K.
Phone: +44-20-7929-2099
Facsimile: +44-20-7929-1803
Brokerage and sales of ships, offshore
equipment, plants, industrial machinery and
steel structures for overseas markets; acting as
an intermediary for the remodeling, repair and
chartering of ships

Hitachi Zosen U.S.A. Ltd.

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

Hitachi Zosen India Private Limited

503, 5th Floor, Vatika City Point,
Mehrauli Gurgaon Road, Gurgaon-122002,
Haryana, India
Phone: +91-124-486-1760
Facsimile: +91-124-486-1761

Hitachi Zosen India Private Limited Hyderabad Branch

8-6-685/1/1A, 4th Floor, Road No.12,
Banjara Hills, Hyderabad, 500034, A.P. India
Phone: +91-40-2333-4241
Facsimile: +91-40-2333-4240

Major overseas subsidiaries

Hitachi Zosen CATALYST U.S.A. LLC.

207 Lonnie E. Crawford Boulevard, Scottsboro,
Alabama 35769, U.S.A.
Phone: +1-256-575-0515
Facsimile: +1-256-575-0519
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.

302 Research Drive, Suite 300, Norcross,
GA 30092
Phone: +1-678-987-2501
Facsimile: +1-678-987-2599
Energy-from-Waste plant business in the US

Zhenjiang Zhong Chuan Hitachi Zosen Machinery Co., Ltd.

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

Zhongji Hitachi Zosen Diesel Engine Co., Ltd.

Xingang Industrial Base, Economic
Development Zone, Zhoushan, Zhejiang
Province, China
Phone: +86-580-806-2015
Facsimile: +86-580-806-2003
Design, manufacture, sale and after-sales
servicing of marine engines, diesel engines for
power generation, and various equipment for
environmental protection purposes

Zhoushan Nippon Pusnes Ship Machinery Co., Ltd.

Dongshazhen Industrial Park, Daishan,
Zhoushan, Zhejiang Province, China
Phone: +86-580-7070001
Facsimile: +86-580-7070002
Manufacture and marketing of marine deck
machinery

Major subsidiaries

Daiki Ataka Engineering Co., Ltd.

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

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

Asia Pacific Solutions Co., Ltd

Unit1201,12thFloor,Sailing Tower 111A Pasteur
Street,District1, Ho Chi Minh City, Vietnam
Phone: +84-8-3825-1040
Facsimile: +84-8-3825-1041
Engineering system development,
IT support services

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
plants 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
electrical controllers

IMEX CO., LTD.

2293-1, Innoshimababu-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 structures and various
equipment

ISGEC Hitachi Zosen Limited

RADAUR ROAD, YAMUNA NAGAR-135001,
Haryana, India
Phone: +91-1732-307611
Facsimile: +91-1732-250991
Manufacture and sale of process 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.

Hitachi Zosen GPM Technology (Suzhou) Co., Ltd.

130, No.3 Building, 209, Zhuyuan Road,
(CSZIP) Gaoxin District 215011 Suzhou, China
Phone: +86-512-6832-1458
Facsimile: +86-512-6832-1468
Manufacture and sale of plastic machinery,
food and pharmaceutical machinery

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 "Mega float" 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

Hitachi Zosen Yangling Co., Ltd.

Room 205, Business Square 2 F, No.1
Zhanguanxi Road, Yang Ling, Shaanxi, China

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 Aikawa 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	• Japan's first Western-style whaling ship, the No. 2 Hoge 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	• <i>Osaka Tekko</i> , 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	• <i>Hitachi Zosen Technical Review</i> 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 the 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. • Establishes local subsidiary in India. • Establishes a joint-venture precision machinery company in China. • Vessel put into service employing world's first selective catalytic reduction (SCR) NOx removal system for marine engines compliant with IMO Tier III NOx emission standards.
2012	• Established a joint-venture manufacturer of process equipment in India.

Investor Information

(As of March 31, 2012)

Corporate data

Date of establishment:	April 1, 1881
Paid-in capital:	45,442,365,005 yen
Number of employees (consolidated):	8,846
Number of employees (non-consolidated):	3,062
Consolidated subsidiaries:	67

Stock data

Number of shares authorized:	2,000,000,000
Number of shares issued:	796,073,282
Number of shareholders:	111,578

Major shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Equity stake* (%)
The Master Trust Bank of Japan, Ltd. (trust account)	44,432	5.6
Japan Trustee Services Bank, Ltd. (trust account)	39,799	5.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,749	3.1
Japan Trustee Services Bank, Ltd. (trust account 9)	24,073	3.0
Sompo Japan Insurance Inc.	13,000	1.6
The Nomura Trust and Banking Co., Ltd. (trust account)	9,423	1.2
Nippon Life Insurance Company	8,514	1.1
HYATT	7,469	0.9
Trust and Custody Services Bank, Ltd. (pension trust account)	7,399	0.9
Japan Trustee Services Bank, Ltd. (trust account 1)	6,334	0.8

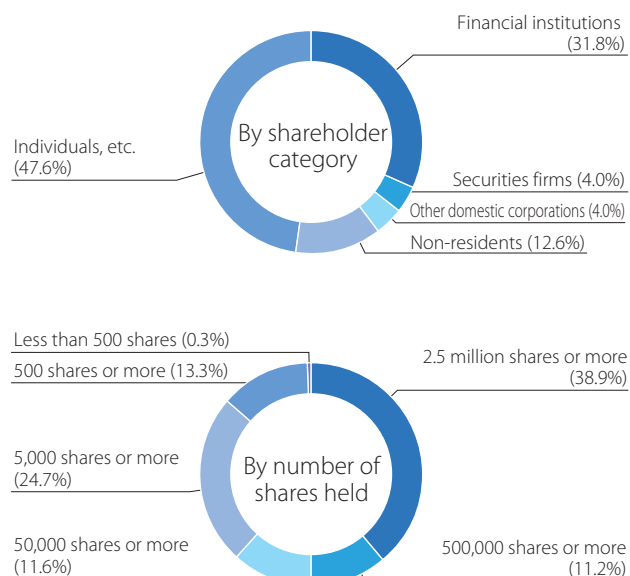
*Percentage of issued shares excluding treasury shares.

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/

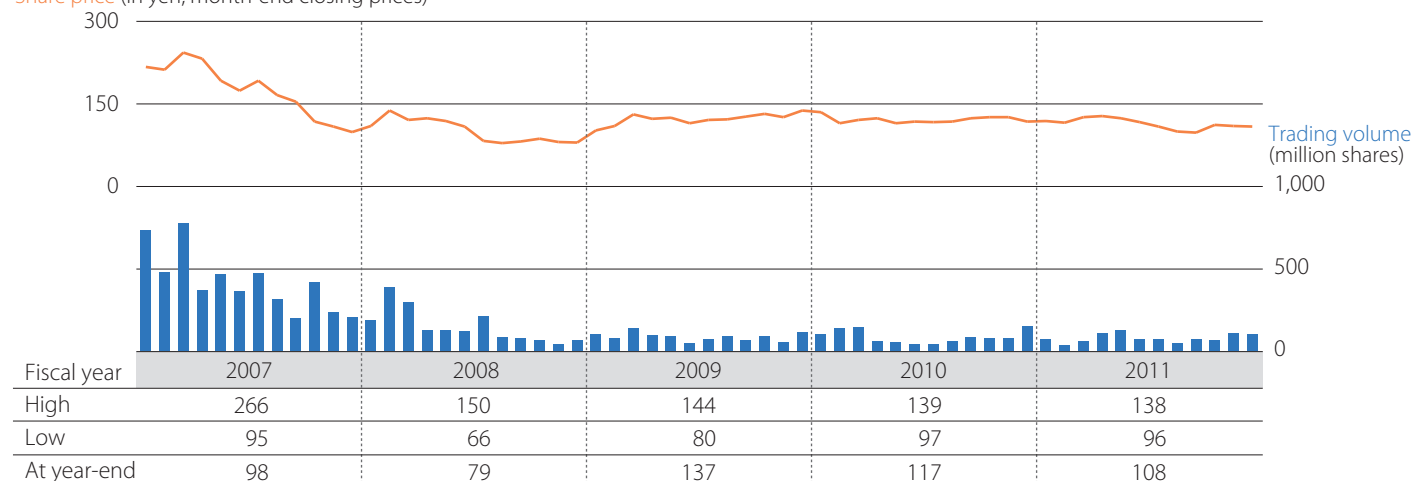
Share trading unit: 500 shares
Shareholder registry administrator:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Stock listing: Tokyo Stock Exchange, Osaka Securities Exchange

Distribution of shareholdings



Share price and trading volume

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



*Fiscal years ended March 31 of the following year.

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