

(Translation)

(Securities Code 7004)

June 5, 2017

Dear Shareholders

Takashi Tanisho, Chairman and President
Hitachi Zosen Corporation
7-89, Nanko-kita 1-chome, Suminoe-ku, Osaka

NOTICE OF THE 120TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 120th Ordinary General Meeting of Shareholders of Hitachi Zosen Corporation (“the Company”). The meeting shall be held as described below.

If you are unable to attend the meeting in person, we kindly ask you to review the “Reference Documents for the General Meeting of Shareholders” (described hereinafter), and exercise your voting rights in writing or via the Internet, etc. by 5:00 p.m. on Wednesday, June 21, 2017 (exercise date). Please refer to “Instructions on Exercising Voting Rights via the Internet” presented on pages 3 and 4.

1. Date and Time: June 22, 2017 (Thursday), 10:00 a.m. (Doors open 9:00 a.m.)

2. Place: Hotel Osaka Bay Tower, 4th Floor, “Bay Tower Hall”
ORC 200, 2-1, Benten 1-chome, Minato-ku, Osaka, Japan

3. Purposes

I. Matters to be Reported:

1. The Business Report, the Consolidated Financial Statements and Non-consolidated Financial Statements for the 120th business year (from April 1, 2016 to March 31, 2017)
2. The Audit Reports of the Accounting Auditor and the Board of Corporate Auditors on the Consolidated Financial Statements for the 120th business year

II. Matters to be Resolved:

- Proposal 1:** Appropriation of Surplus
Proposal 2: Election of Ten (10) Directors
Proposal 3: Election of One (1) Corporate Auditor
Proposal 4: Election of One (1) Substitute Corporate Auditor

4. Matters Decided for Convocation

- (1) If the voting rights are exercised multiple times both in writing and via the Internet:
The exercise of the voting rights via the Internet will be deemed effective.
- (2) If the voting rights are exercised multiple times via the Internet:
The last exercise of the voting rights will be deemed effective. This shall also apply in cases where voting rights are exercised multiple times via PC, smartphone and cellular phone.

* The Consolidated Financial Statements and Non-consolidated Financial Statements provided in the attachment to this Notice are part of the Consolidated Financial Statements and Non-consolidated Financial Statements that have been audited by the Corporate Auditors and the Accounting Auditor. Based on the relevant laws and regulations and Article 15 of the Articles of Incorporation of the Company, the following items are provided on the website of the Company: <http://www.hitachizosen.co.jp/ir/stock/meeting.html> (Japanese only)

- 1) Notes to the Consolidated Financial Statements
- 2) Notes to the Non-consolidated Financial Statements

* Any modification that may be required in the Business Report, the Consolidated Financial Statements or the Non-consolidated Financial Statements, or in the Reference Documents for the General Meeting of Shareholders will be published on the website of the Company: <http://www.hitachizosen.co.jp/ir/stock/meeting.html> (Japanese only)

Instructions on Exercising Voting Rights via the Internet

Voting rights can be exercised via the Internet using a PC, a smartphone or a cellular phone through the website for exercising voting rights designated by the Company (<http://www.evotep.jp/>) (available in Japanese only). The website is not available from 2:00 a.m. to 5:00 a.m. each day.

When exercising your voting rights via the Internet, you must do so before 5:00 p.m. on June 21, 2017 (Wednesday).

How to exercise voting rights via Internet

- (1) To exercise your voting rights via the Internet, you need the “login ID” and “temporary password” stated on the enclosed Voting Right Exercise Form. Please have them ready when exercising your voting rights.
- (2) Please access the website for exercising voting rights designated by the Company (<http://www.evotep.jp/>) via PC, smartphone or cellular phone, and indicate your vote for or against the proposals by following the online instructions.
- (3) Please note that shareholders exercising voting rights via the Internet will be asked to change their “temporary password” on the website for exercising voting rights in order to prevent unauthorized access (identity theft) or alteration of the voting by non-shareholders.

Cautionary matters

- (1) Exercising voting rights via PC or smartphone may not be possible depending on your Internet usage environment, for example if you use a firewall for your Internet connection, if you have anti-virus software installed, if you use a proxy server, or if you are communicating without TLS encryption.
- (2) Any fees for accessing the website for exercising voting rights (Internet connection fees, etc.) shall be borne by the shareholder.

If you have any inquiries, please contact the helpdesk, for which the details are provided below.

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division (helpdesk)
Telephone: 0120-173-027 (toll free and available from 9:00 a.m. to 9:00 p.m.;
within Japan only)

Platform for Exercise of Voting Rights

The Company participates in the Electronic Voting Platform for Institutional Investors managed by ICJ Inc.

For shareholders registered in the name of a custodian trust bank, etc. (including permanent agents), by making prior application for the said platform's use, it is possible to exercise one's voting rights for the Company's General Meeting of Shareholders using the said platform as a method for exercising one's voting rights by electronic method, separate to the exercising of one's voting rights via the Internet mentioned above.

Disclaimer:

These documents have been translated from Japanese originals for reference purposes only.

In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail.

The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translations.

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal 1: Appropriation of Surplus

Our basic policy on distribution of profit is that we provide stable and sustainable dividends based on business results, and enhance retained earnings required for future business development. Retained earnings should be employed for capital investment, research and development (R&D) and business investment, aiming to strengthen our business base and expand business field.


In accordance with the above policy, from the comprehensive perspective of the business results for the current business year and retained earnings for future business development, we hereby propose the year-end dividend for the current business year as follows.


- (i) Dividend to be paid by cash
- (ii) Items concerning allocation of dividend property to shareholders and total amount thereof
Dividend per share of the Company's common stock: 12 yen
Total amount: 2,022,660,348 yen
- (iii) Effective date of commencement of payment: June 23, 2017

Proposal 2: Election of Ten (10) Directors


The term of office of all ten (10) present Directors will expire at the close of this General Meeting of Shareholders. Accordingly, we propose to elect ten (10) Directors.


The candidates for Directors are as follows:


| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|--|---|-------------------------------------|
| 1 | <p><u>Reappointed</u></p>  <p>Takashi Tanisho (February 26, 1949)</p> | <p>April 1973 Joined the Company</p> <p>June 2010 Director, the Company</p> <p>June 2010 Responsible for Precision Machinery Headquarters, General Manager of Precision Machinery Headquarters, and General Manager of Chikkou Works, the Company</p> <p>April 2012 Managing Director, the Company</p> <p>April 2012 Responsible for Business & Product Development Headquarters and Precision Machinery Headquarters, and General Manager of Business & Product Development Headquarters, the Company</p> <p>April 2013 Representative Director, President and Chief Operating Officer, the Company</p> <p>April 2016 Representative Director, President and Chief Executive Officer, the Company</p> <p>April 2017 Representative Director, Chairman and President, the Company (current position)</p> <p><Reasons for nominating the candidate as Director> Mr. Tanisho has been engaged in business operations in departments in charge of R&D and technology, and manufacturing, as well as engaged in management at subsidiaries and affiliates. He has extensive experience and wide-ranging insight into company management. As President and COO since April 2013, President and CEO since April 2016, and Chairman and President since April 2017, he has been working to achieve corporate philosophy of the Company and improve the corporate value of the Hitachi Zosen Group. The Company has determined, based on this experience and track record, that Mr. Tanisho is well-qualified to play a key role in further developing the Hitachi Zosen Group. Thus, once again, the Company has designated Mr. Tanisho as a candidate for Director.</p> | 103,928 |


| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|---|---|-------------------------------------|
| 2 | <p><u>Reappointed</u></p>  <p>Sadao Mino (August 27, 1957)</p> | <p>April 1982 Joined the Company</p> <p>April 2011 Executive Officer, the Company</p> <p>April 2011 General Manager of Environmental Solutions EPC Business Unit, Engineering Headquarters, the Company</p> <p>January 2013 General Manager of Engineering Business Division, Environment, Energy & Plant Headquarters, the Company</p> <p>April 2013 Managing Executive Officer, the Company</p> <p>April 2015 General Manager of Environment Business Headquarters, and Responsible for Architect Supervision Dept. and Quality Assurance Dept., the Company</p> <p>June 2015 Managing Director, the Company</p> <p>April 2017 Representative Director, Executive Vice-President, the Company (current position)</p> <p>April 2017 President's Assistant (Responsible for Production Engineering Dept., Wind Power Business Promotion Office and Functional Materials Business Promotion Office), the Company (current position)</p> | 25,764 |
| | | <p><Reasons for nominating the candidate as Director></p> <p>Mr. Mino has been engaged mainly in engineering activities in the Environmental Systems Business segment of the Company. As General Manager of Environment Business Headquarters since April 2015, he has promoted globalization and business expansion, etc. of the Environment Systems and Industrial Plant Businesses, and now he has extensive experience and wide-ranging insight into company management. Since he took the position of Executive Vice-President in April 2017, he is assisting President and working to achieve corporate philosophy of the Company and improve the corporate value of the Hitachi Zosen Group. Based on this experience and track record, Mr. Mino has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Mino as a candidate for Director.</p> | |


| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|---|--|-------------------------------------|
| 3 | <p><u>Reappointed</u></p>  <p>Toshiyuki Shiraki (June 24, 1958)</p> | <p>April 1984 Joined the Company</p> <p>April 2012 General Manager of Overseas Project Execution Dept., Environmental Systems EPC Business Unit, Environmental Systems & Solutions Division, Engineering Headquarters, the Company</p> <p>January 2013 General Manager of EPC Business Unit, Engineering Business Division, Environment, Energy & Plant Headquarters, the Company</p> <p>April 2013 Executive Officer, the Company</p> <p>April 2015 General Manager of Business Planning Headquarters, the Company</p> <p>April 2016 Managing Executive Officer, the Company</p> <p>April 2016 General Manager of Technology Development Headquarters, and General Manager of Business Planning Headquarters, the Company</p> <p>June 2016 Managing Director, the Company (current position)</p> <p>April 2017 General Manager of Business Planning & Technology Development Headquarters and Responsible for Information and Communication Technology Promotion Headquarters, Architect Supervision Dept. and Quality Assurance Dept., the Company (current position)</p> <p><Reasons for nominating the candidate as Director> Mr. Shiraki has been engaged mainly in engineering, R&D and construction activities and overseas project works in the Environmental Systems Business segment, and has extensive experience in business operations as well as technical skills and specialist capabilities. Currently as the person responsible for the department in charge of technology, including General Manager of Business Planning & Technology Development Headquarters, he is working on planning and development of new products and businesses, and enhancement of technical capabilities. Based on this experience and track record, Mr. Shiraki has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Shiraki as a candidate for Director.</p> | 19,557 |
| 4 | <p><u>Newly appointed</u></p>  <p>Hidenobu Fujii (November 29, 1955)</p> | <p>April 1979 Joined The Sanwa Bank, Limited</p> <p>June 2006 Executive Officer, The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>May 2009 Managing Executive Officer, The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>June 2010 Managing Director, The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>June 2013 President, Mitsubishi UFJ Research and Consulting Co., Ltd.</p> <p><Reasons for nominating the candidate as Director> Mr. Fujii has extensive experience and wide-ranging insight into company management and business operations including service as Managing Director, and President at a major financial institution and a leading think tank. The Company anticipates that, based on this experience and track record, Mr. Fujii will be able to fulfill the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, the Company has designated Mr. Fujii as a candidate for Director.</p> | None |


| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|--|---|-------------------------------------|
| 5 | <div style="border: 1px solid black; padding: 2px; display: inline-block; margin-bottom: 5px;">Newly appointed</div>  Tadashi Shibayama (September 13, 1958) | <p>April 1982 Joined the Company</p> <p>May 1989 Hitachi Zosen Clearing U.S.A. Inc. (Secondment)</p> <p>September 1992 Hitachi Zosen U.S.A. Ltd. (Secondment)</p> <p>October 2007 General Manager of Planning & Development Dept., Business & Product Development Center, the Company</p> <p>April 2012 Executive Officer, the Company</p> <p>April 2012 General Manager of Energy Solution Business Unit, Plant Engineering & Energy Solutions Division, Engineering Headquarters, the Company</p> <p>January 2013 General Manager of Environmental Systems & Plant Sales Division, Environment, Energy & Plant Headquarters, the Company</p> <p>April 2015 Deputy General Manager of Infrastructure Business Headquarters, the Company</p> <p>April 2016 General Manager of Wind Power Business Promotion Office, the Company</p> <p>April 2017 Managing Executive Officer, the Company (current position)</p> <p>April 2017 General Manager of Machinery Business Headquarters, the Company (current position)</p> <p><Reasons for nominating the candidate as Director> Mr. Shibayama has been engaged in operations such as engineering, sales, planning and development, and promotion of new businesses in departments in charge of manufacturing and engineering businesses, planning and R&D, overseas subsidiaries, and others. He has extensive experience and wide-ranging insight into business operations both in Japan and overseas, and human qualities suitable for a member of the management of the Company. The Company anticipates that, based on this experience and track record, Mr. Shibayama will be able to fulfill the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, the Company has designated Mr. Shibayama as a candidate for Director.</p> | 19,100 |

| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|---|---|-------------------------------------|
| 6 | <div data-bbox="341 250 513 277" style="border: 1px solid black; padding: 2px;">Newly appointed</div>  <p data-bbox="357 604 497 689">Kazuhisa Yamamoto (June 1, 1959)</p> | <p data-bbox="564 250 673 277">April 1982</p> <p data-bbox="740 250 944 277">Joined the Company</p> <p data-bbox="564 291 673 318">April 2012</p> <p data-bbox="740 291 1219 416">General Manager of Domestic Project Execution Dept., Environmental Systems EPC Business Unit, Environmental Systems & Solutions Division, Engineering Headquarters, the Company</p> <p data-bbox="564 430 705 456">January 2013</p> <p data-bbox="740 430 1219 586">General Manager of EPC Business Unit (responsible for domestic project) and Environmental System Planning & Engineering Dept., Engineering Business Division, Environment, Energy & Plant Headquarters, the Company</p> <p data-bbox="564 600 673 627">April 2014</p> <p data-bbox="740 600 1056 627">Executive Officer, the Company</p> <p data-bbox="564 640 673 667">April 2015</p> <p data-bbox="740 640 1145 689">General Manager of Environmental EPC Business Unit, the Company</p> <p data-bbox="564 703 673 730">April 2017</p> <p data-bbox="740 703 1161 752">Managing Executive Officer, the Company (current position)</p> <p data-bbox="564 766 673 792">April 2017</p> <p data-bbox="740 766 1203 815">General Manager of Environment Business Headquarters, the Company (current position)</p> <p data-bbox="564 837 896 864">(Significant Concurrent Position)</p> <p data-bbox="564 878 944 904">President, Eco Hitz Nagano Co., Ltd.</p> | 15,300 |
| | | <p data-bbox="564 909 1088 936"><Reasons for nominating the candidate as Director></p> <p data-bbox="564 949 1219 1346">Mr. Yamamoto has been engaged mainly in operations such as design, construction and engineering in the Environmental Systems and Industrial Plant Business segment of the Company. He has extensive experience and wide-ranging insight into management of departments in charge of business operations, improvement of technical capabilities for Energy-from-Waste plants, etc., and human qualities suitable for a member of the management of the Company. The Company anticipates that, based on this experience and track record, Mr. Yamamoto will be able to fulfill the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, the Company has designated Mr. Yamamoto as a candidate for Director.</p> | |

| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|--|--|-------------------------------------|
| 7 | <p>Newly appointed</p>  <p>Tatsuji Kamaya (September 2, 1961)</p> | <p>April 1984 Joined the Company</p> <p>May 1990 Hitachi Zosen Singapore (Pte.) Ltd. (Secondment)</p> <p>March 1994 Finance Dept., the Company</p> <p>April 2012 General Manager of Corporate Planning Dept., the Company</p> <p>April 2014 Executive Officer, the Company</p> <p>April 2015 Deputy General Manager of Environment Business Headquarters, the Company</p> <p>April 2017 Managing Executive Officer, the Company (current position)</p> <p>April 2017 Responsible for General Administration Headquarters, Corporate Planning Headquarters, Procurement Headquarters, and General Manager of Corporate Planning Headquarters, the Company (current position)</p> <p>(Significant Concurrent Positions)</p> <p>President, Ito Country Club Corporation</p> <p>President, Accounting & Finance Corporation</p> <p>President, HITACHI ZOSEN TOURIST Co., Ltd.</p> <p>President, Hitz Holdings U.S.A. Inc.</p> <p><Reasons for nominating the candidate as Director></p> <p>Mr. Kamaya has been engaged mainly in operations such as accounting & finance and corporate planning in departments in charge of administration and business operations, overseas subsidiaries, etc. of the Company. He has extensive experience and wide-ranging insight into the Hitachi Zosen Group's company management, business structure reforms and others, and human qualities suitable for a member of the management of the Company. The Company anticipates that, based on this experience and track record, Mr. Kamaya will be able to fulfill the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, the Company has designated Mr. Kamaya as a candidate for Director.</p> | 13,100 |

| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|---|--|-------------------------------------|
| 8 | <p>Reappointed</p> <p>Candidate for Outside Director</p> <p>Candidate for independent officer</p>  <p>Chiaki Ito (October 10, 1947)</p> <p>Tenure as Outside Director 4 years (at the conclusion of the General Meeting of Shareholders)</p> | <p>April 1970 Joined Fujitsu Limited</p> <p>June 2004 Corporate Executive Vice President and Director, Fujitsu Limited</p> <p>June 2006 Corporate Senior Executive Vice President and Representative Director, Fujitsu Limited</p> <p>June 2008 Vice Chairman and Director, Fujitsu Limited</p> <p>April 2010 Chairman and Representative Director, FUJITSU RESEARCH INSTITUTE</p> <p>June 2012 Senior Executive Advisor, FUJITSU RESEARCH INSTITUTE</p> <p>June 2013 Outside Director, the Company (current position)</p> <p>June 2015 Outside Director, Zensho Holdings Co., Ltd. (current position)</p> <p>June 2015 Outside Director, OBIC Business Consultants Co., Ltd. (current position)</p> <p>(Significant Concurrent Positions) Outside Director, Zensho Holdings Co., Ltd. Outside Director, OBIC Business Consultants Co., Ltd.</p> <p><Reasons for nominating the candidate as Outside Director> Mr. Ito has extensive experience and wide-ranging insight into company management based on his long service as a corporate manager in the information and communication equipment industry, such as engaging in overseas business. As Outside Director, Mr. Ito provides appropriate opinions and advice from an independent standpoint to the Company, which is now promoting stronger corporate governance, the globalization of business, the development of new businesses and new products, and utilization of ICT technology, etc. Since Mr. Ito has fulfilled the role of strengthening supervisory functions regarding business execution, the Company has once again designated Mr. Ito as a candidate for Outside Director.</p> <p><Matters concerning the Independency> Although there is a business relationship between the Company and Fujitsu Limited, where Mr. Ito was formerly engaged in execution of business, the average annual value of transactions between the two companies in the past three business years was less than 0.1% of the Company's net sales, which is very small relative to the scales of business of the Company and Fujitsu Limited. Furthermore, the Company has no business relationships with FUJITSU RESEARCH INSTITUTE, where Mr. Ito was formerly engaged in execution of business. Based on the above facts, the Company has determined that Mr. Ito is independent, and has designated him as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p> | None |

| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|--|---|-------------------------------------|
| 9 | <p>Reappointed</p> <p>Candidate for Outside Director</p> <p>Candidate for independent officer</p>  <p>Kazuko Takamatsu (August 27, 1951)</p> <p>Tenure as Outside Director 2 years (at the conclusion of the General Meeting of Shareholders)</p> | <p>April 1974 Joined Sony Corporation</p> <p>August 2000 Director, Sony Digital Network Applications, Inc.</p> <p>April 2003 Representative Director, Sony Digital Network Applications, Inc.</p> <p>October 2008 VP in charge of Environment, Sony Corporation</p> <p>April 2012 Advisor, YAMAGATA INTECH Corporation</p> <p>April 2013 Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management (current position)</p> <p>May 2015 External Director, Dexerials Corporation (current position)</p> <p>June 2015 Outside Director, the Company (current position)</p> <p>(Significant Concurrent Positions)</p> <p>Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management</p> <p>External Director, Dexerials Corporation</p> <p><Reasons for nominating the candidate as Outside Director></p> <p>Ms. Takamatsu has extensive experience and wide-ranging insight into company management and diversity-focused management. Her experience encompasses working for many years at global companies, as well as service as the Chief Executive of a software development company and as the Executive Director and Secretariat of the Japan Institute for Women's Empowerment & Diversity Management. As Outside Director, Ms. Takamatsu provides appropriate opinions and advice from an independent standpoint to the Company, which is now promoting stronger corporate governance, the globalization of business, diversity-focused management, etc. Since Ms. Takamatsu has fulfilled the role of strengthening supervisory functions regarding business execution, the Company has once again designated Ms. Takamatsu as a candidate for Outside Director.</p> <p><Matters concerning the Independency></p> <p>While there are business relationships including outsourcing between the Company and the Japan Institute for Women's Empowerment & Diversity Management, where Ms. Takamatsu currently serves as Executive Director and Secretariat, the average annual value of transactions between the Company and the Japan Institute for Women's Empowerment & Diversity Management during the past three business years was less than 0.1% of the Company's net sales, which is very small relative to the scales of business of the Company and the Japan Institute for Women's Empowerment & Diversity Management. Moreover, there is no business relationship between the Company and both Sony Corporation and Sony Digital Network Applications, Inc., where Ms. Takamatsu was formerly engaged in execution of business. Based on the above facts, the Company has determined that Ms. Takamatsu is independent, and has designated her as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p> | 1,882 |

| Candidate No. | Name (Date of Birth) | Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---------------|---|---|-------------------------------------|
| 10 | <p>Reappointed</p> <p>Candidate for Outside Director</p> <p>Candidate for independent officer</p>  <p>Richard R. Lury (January 21, 1948)</p> <p>Tenure as Outside Director 1 year (at the conclusion of the General Meeting of Shareholders)</p> | <p>May 1974 Admitted to the bar of the State of New York</p> <p>September 1989 Partner, Kelley Drye & Warren LLP</p> <p>June 2003 Admitted to the bar of the State of New Jersey</p> <p>March 2013 Outside Director, Sanken North America, Inc. (current position)</p> <p>June 2014 Outside Director, Sanken Electric Co., Ltd. (current position)</p> <p>June 2016 Outside Director, the Company (current position)</p> <p>(Significant Concurrent Positions)</p> <p>Attorney-at-law in the United States (State of New York and New Jersey)</p> <p>Outside Director, Sanken Electric Co., Ltd.</p> <p>Outside Director, Sanken North America, Inc.</p> <p><Reasons for nominating the candidate as Outside Director></p> <p>Mr. Lury served as a partner of a major law firm in the United States for many years, and has extensive experience and expertise in international corporate legal matters. As Outside Director, Mr. Lury provides appropriate opinions and advice from an independent standpoint to the Company, which is now promoting stronger corporate governance and the globalization of business, etc. Since Mr. Lury has fulfilled the role of strengthening supervisory functions regarding business execution, the Company has once again designated Mr. Lury as a candidate for Outside Director.</p> <p><Matters concerning the Independency></p> <p>Although a business relationship between the Company and a major law firm in the United States, where Mr. Richard R. Lury served as partner until he retired in January 2015, exists via a Company subsidiary in the United States, more than two years has passed since his retirement. Mr. Lury has concluded a legal advisory contract with the Company subsidiary in the United States since January 2015, but the average annual value of transactions during the past three business years is within the amount allowed under the Criteria for Independence of Outside Officers. Based on the above facts, the Company has determined that Mr. Lury is independent, and has designated him as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p> | None |


Note: The Company has concluded an agreement with Mr. Chiaki Ito, Ms. Kazuko Takamatsu and Mr. Richard R. Lury respectively that limits the maximum amount of their liabilities to the minimum amount stipulated by laws and regulations concerning liability for compensation for damages pursuant to the provisions of Article 423, paragraph 1 of the Companies Act. In the event that their reelection is approved, the Company intends to continue the said agreement.

Proposal 3: Election of One (1) Corporate Auditor

Mr. Makoto Yagi, one of the present Corporate Auditors, will complete his term of office at the close of this General Meeting of Shareholders. Accordingly, we propose to elect one (1) Corporate Auditor.

The Board of Corporate Auditors has approved this proposal.

The candidate for Corporate Auditor is as follows:

| Name (Date of Birth) | Career Summary (Position at the Company and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---|---|---|
| <div data-bbox="188 488 400 517" style="border: 1px solid black; padding: 2px;">Newly appointed</div> <div data-bbox="188 546 400 622" style="border: 1px solid black; padding: 2px; margin-top: 10px;">Candidate for Outside Corporate Auditor</div> <div data-bbox="188 658 400 712" style="border: 1px solid black; padding: 2px; margin-top: 10px;">Candidate for independent officer</div> <div data-bbox="188 757 400 1025" style="text-align: center;">  </div> <div data-bbox="194 1039 400 1099" style="text-align: center;"> <p>Yoshihiro Doi (October 25, 1954)</p> </div> | <p>April 1979 Joined The Kansai Electric Power Co., Inc.</p> <p>June 2006 Executive Officer, The Kansai Electric Power Co., Inc.</p> <p>June 2009 Managing Director, The Kansai Electric Power Co., Inc.</p> <p>June 2013 Director, Managing Executive Officer, The Kansai Electric Power Co., Inc.</p> <p>June 2016 Director, Executive Vice President, The Kansai Electric Power Co., Inc. (current position)</p> <p>(Significant Concurrent Position) Director, Executive Vice President, The Kansai Electric Power Co., Inc.</p> <p><Reasons for nominating the candidate as Corporate Auditor> At a major electric power company, Mr. Doi achieved superior performance as an executive officer and director, and then has been engaged in business operations as Director and Executive Vice President since June 2016. He has extensive experience and wide-ranging insight into company management. The Company anticipates that Mr. Doi will be able to contribute to strengthening its corporate governance and enhancing the auditing system by providing appropriate opinion and advice on the Company's management, business operations and other matters from an independent standpoint as Outside Corporate Auditor. Thus, the Company has designated Mr. Doi as a candidate for Outside Corporate Auditor.</p> <p><Matters concerning the Independency> Although there is a business relationship between the Company and The Kansai Electric Power Co., Inc., where Mr. Doi is currently engaged in execution of business, the average annual value of transactions between the two companies in the past three business years was less than 1% of the Company's net sales, which is very small relative to the scales of business of the Company and The Kansai Electric Power Co., Inc. Based on the above fact, the Company has determined that Mr. Doi is independent, and plans to designate him as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p> | None |

Note: In the event that Mr. Yoshihiro Doi is elected to the office of Corporate Auditor, the Company intends to conclude an agreement with Mr. Doi that limits the maximum amount of his liabilities to the minimum amount stipulated by laws and regulations concerning liability for compensation for damages pursuant to the provisions of Article 423, paragraph 1 of the Companies Act.

Proposal 4: Election of One (1) Substitute Corporate Auditor

In preparation against a situation where the number of Outside Corporate Auditors falls below the statutory required number, we propose to elect one (1) substitute Corporate Auditor.

The election of substitute Corporate Auditor can be nullified before assuming office by resolution of the Board of Directors if the consent of the Board of Corporate Auditors has been obtained.

The Board of Corporate Auditors has approved this proposal.

The candidate for substitute Corporate Auditor is as follows:

| Name (Date of Birth) | Career Summary (Position at the Company and Significant Concurrent Positions) | Number of the Company's Share Owned |
|---|--|---|
| <p>Newly appointed</p> <p>Candidate for Outside Corporate Auditor</p> <p>Candidate for independent officer</p> <p>Candidate for substitute Corporate Auditor</p>  <p>Keiko Kosaka (September 20, 1976)</p> | <p>October 2002 Registered as attorney-at-law</p> <p>October 2002 Joined Irokawa Law Office</p> <p>February 2008 Outside Auditor, KAWAKAMI PAINT MFG.CO., LTD (current position)</p> <p>January 2009 Partner, Irokawa Law Office (current position)</p> <p>June 2016 External Auditor, Nihon Yamamura Glass Co., Ltd. (current position)</p> <p>(Significant Concurrent Positions)</p> <p>Partner, Irokawa Law Office</p> <p>Outside Auditor, KAWAKAMI PAINT MFG.CO., LTD</p> <p>External Auditor, Nihon Yamamura Glass Co., Ltd.</p> <p><Reasons for nominating the candidate as substitute Corporate Auditor></p> <p>Ms. Kosaka has been working as an attorney-at-law for many years, and has extensive experience and expertise in corporate legal matters. The Company has determined that Ms. Kosaka will be able to fulfill duties from an independent standpoint as Outside Corporate Auditor. Thus, the Company has designated Ms. Kosaka as a candidate for substitute Outside Corporate Auditor.</p> <p><Matters concerning the Independency></p> <p>Irokawa Law Office, where Ms. Kosaka currently serves as partner, and the Company have concluded a legal advisory contract, and the average annual value of transactions between the two parties during the past three business years is within the amount allowed under the Criteria for Independence of Outside Officers. Based on the above fact, the Company has determined that Ms. Kosaka is independent, and plans to designate her as an independent officer as prescribed by Tokyo Stock Exchange, Inc. when she assumes the position of Corporate Auditor.</p> | None |

Note: In the event that Ms. Keiko Kosaka assumes the office of Corporate Auditor, the Company intends to conclude an agreement with Ms. Kosaka that limits the maximum amount of her liabilities to the minimum amount stipulated by laws and regulations concerning liability for compensation for damages pursuant to the provisions of Article 423, paragraph 1 of the Companies Act.

(Reference) The Criteria for Independence of Outside Officers

The Company determines that an outside officer is independent if he/she does not fall into any of the following categories.

- One who executes business at a major client of the Company or at a company whose major client is the Company
(* A major client is defined as an entity whose average annual transaction amount with the Company during the past three business years is 2% or more of sales at the Company or the entity.
- One who executes business in an entity that receives a large donation or grant from the Company
(* A large donation or grant is defined as a donation or grant of 10 million yen or more a year, and that accounted for 2% or more of the entity's total annual revenue on average during the past three business years.
- One who is a specialist or a consultant in a legal, accounting, or taxation field, and earns a large amount in addition to officer's remuneration paid by the Company
(* A large amount is defined as 10 million yen or more a year on average for the past three business years.
- A relative within the second degree of kinship with a person who meets any of the categories below.
 - One falling into any of categories 1– 3 above (excluding one that is not material)
 - One who was a Director, an Executive Officer, or an important employee of the Hitachi Zosen Group during the past three years

Business Report

(From April 1, 2016 to March 31, 2017)

I. Matters Concerning the Current Status of the Group

(1) Business Developments and Results

1) Overall summary

Reviewing economic conditions during the current business year, although overall conditions overseas followed a gradual recovery trend due to an economic recovery in the U.S. and a rebound of economic activity in China, etc., the outlook for the global economy remained uncertain, partly because of the issue of the UK's exit from the EU. In Japan, economic activity remains on a moderate recovery track, due to an apparent pick-up in capital investment and improvement in the employment situation.

• Initiatives by the Hitachi Zosen Group (“the Group”)

During the current business year, the final year of “Hitz 2016 Vision,” which was formulated to achieve our desired form in fiscal year 2016 from a long-term perspective, and the “Hitz Vision II” medium-term management plan, launched in fiscal year 2014, the Company, under the three management targets of strengthening profitability, expanding the business scale, and fortifying financial structure, promoted measures such as reinforcing the Machinery and Infrastructure Businesses (Manufacturing Businesses), expanding global business, expanding constantly profitable businesses such as the after-sales service business, and expanding new products and businesses, while focusing on strengthening profitability, which was an issue faced by the Company.

Moreover, in February 2017, the Company acquired shares of Osmoflo Holdings Pty Ltd in Australia, which engages in the design, manufacture, sale, and operation, etc. of desalination plants and industrial water treatment systems, to convert it into a subsidiary in order to accelerate further growth of the priority field, which is the environment and green energy field, as well as the expansion of global business. Furthermore, in the same month, the Company converted Hitachi Zosen Fukui Corporation, a major subsidiary in the Machinery Business, into a wholly-owned subsidiary, in order to strengthen the manufacturing business and expand the global business.

- Status of orders, sales, and profit/loss

Total order intake for the current business year fell below the previous business year at 398.94 billion yen, due mainly to a decrease in orders of the Environmental Systems and Industrial Plants Business. On the other hand, net sales increased from the previous business year to 399.33 billion yen, due to increased sales of the Environmental Systems and Industrial Plants Business.

In terms of profit and loss, operating income decreased from the previous business year to 14.94 billion yen, due to a decreased contribution from the Environmental Systems and Industrial Plants Business, despite an increased contribution from the Machinery Business and Infrastructure Business. Ordinary income also decreased compared to the previous business year to 11.22 billion yen, partly because liquidated damages at overseas subsidiaries were posted under non-operating expenses. Profit attributable to shareholders of Hitachi Zosen remained almost the same as the previous business year at 5.86 billion yen, due to the recording of a gain on sales of non-current assets under extraordinary income, in spite of a loss on overseas business recorded as an extraordinary loss.

| | |
|--|---|
| Order intake | ¥398.9 billion (down 8.4% year on year) |
| Net sales | ¥399.3 billion (up 3.2% year on year) |
| Operating income | ¥14.9 billion (down 1.1% year on year) |
| Ordinary income | ¥11.2 billion (down 8.5% year on year) |
| Profit attributable to shareholders of Hitachi Zosen | ¥5.8 billion (up 0.3% year on year) |

2) Summary by business segments

Environmental Systems and Industrial Plants

Major Lines of Business

Energy-from-Waste (EfW) plant, Recycling systems, Water and sludge treatment facilities, Energy systems (Power generation facilities), Biomass utilization system, Desalination plants and other plants, IPP (Independent Power Producer) business

(Billions of yen)

| Business segment | Order intake | | Net sales | | Operating income | |
|---|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Previous business year | Current business year | Previous business year | Current business year | Previous business year | Current business year |
| Environmental Systems and Industrial Plants | 283.68 | 240.57 | 241.62 | 254.61 | 14.81 | 11.31 |



Fujimino-Miyoshi Environment Center
(Saitama Prefecture)



The Group's first EfW plant in Poland

Total order intake decreased from the previous business year by 43.10 billion yen to 240.57 billion yen, due to the delay in receipt of order, etc., while orders were received in Japan for the construction and operation of an Energy-from-Waste (EfW) plant for Asakawa River Environment Association in Tokyo and a waste incineration plant in Otsu City, Shiga prefecture, etc., and orders were received from overseas, including several orders from the U.K.

Net sales increased from the previous business year by 12.98 billion yen to 254.61 billion yen due to completion of the construction of the Fujimino-Miyoshi Environment Center in Japan, and overseas with the completion of an EfW plant in Poland and progress in construction of a large-scale desalination plant in Qatar.

Operating income decreased from the previous business year by 3.50 billion yen to 11.31 billion yen, due to a decline in highly profitable construction projects, etc.

Machinery

Major Lines of Business

Marine diesel engines, Deck machinery, Press machines, Boilers, NOx removal catalysts, Pressure vessels and other process equipment, Nuclear power generation-related equipment, Plastic machinery, Food machinery, Pharmaceutical machinery, Precision machinery, Electronics systems, Control systems

(Billions of yen)

| Business segment | Order intake | | Net sales | | Operating income | |
|------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Previous business year | Current business year | Previous business year | Current business year | Previous business year | Current business year |
| Machinery | 107.17 | 106.93 | 104.48 | 103.72 | (0.86) | 2.20 |



Nuclear spent fuels storage vessels (56 canisters) for the U.S. Department of Energy's project to close down reprocessing plants



Filling system for amazake sweet fermented rice drink with a magnet-driven shutter-nozzle (newly developed)

Total order intake decreased from the previous business year by 0.24 billion yen to 106.93 billion yen, due to a decrease in orders received for marine diesel engines, despite the first order for marine high-pressure SCR systems and increased orders received for precision machinery.

Net sales decreased from the previous business year by 0.76 billion yen to 103.72 billion yen due to change in timing of sales recognition of large orders, etc. despite having sold various press machines for automobile manufacturers, marine diesel engines for domestic and overseas shipyards, and nuclear spent fuels storage vessels for the U.S., etc.

Operating income improved from the previous business year by 3.06 billion yen to 2.20 billion yen, due to the promotion of structural reforms in Marine Diesel Engines Business, Precision Machinery Business, and overseas subsidiaries.

Infrastructure

Major Lines of Business

Bridges, Hydraulic gates, Steel stacks, Marine civil engineering, Shield tunneling machines, Disaster prevention systems

(Billions of yen)

| Business segment | Order intake | | Net sales | | Operating income | |
|------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Previous business year | Current business year | Previous business year | Current business year | Previous business year | Current business year |
| Infrastructure | 34.56 | 33.24 | 30.83 | 29.23 | 0.43 | 0.99 |



Shield tunneling machines for Yokohama Ring Expressway North-West Line (diameter 12.64 m)



Yogegawa Elevated Bridge

Total order intake decreased from the previous business year by 1.31 billion yen to 33.24 billion yen, although many orders were received for bridge restoration and reinforcement works, shield tunneling machines, and land-mounted movable flap-gate type seawall systems, etc. from the Ministry of Land, Infrastructure, Transport and Tourism, local governments, and general contractors.

Net sales decreased from the previous business year by 1.59 billion yen to 29.23 billion yen, due to a decrease in large-scale projects.

Operating income increased from the previous business year by 0.56 billion yen to 0.99 billion yen, due to improved profitability achieved by promoting cost reductions in individual projects.

Others

Major Lines of Business

Transportation, Warehousing, Port cargo handling

Total order intake increased from the previous business year by 8.16 billion yen to 18.18 billion yen, while net sales increased 1.66 billion yen to 11.76 billion yen. On the other hand, operating income decreased from the previous business year by 0.35 billion yen to 0.39 billion yen.

Hitz Topics

Received First Order for SCR Systems of Marine Engines

Having been developing SCR systems, which are devices that remove NOx from exhaust gases, of marine engines to comply with Tier III NOx emission standards of the International Maritime Organization, the Company received its first orders for two systems from Dalian Marine Diesel Co., Ltd., a major Chinese manufacturer of large marine diesel engines, and one marine engine equipped with the system from SUMITOMO HEAVY INDUSTRIES MARINE & ENGINEERING Co., Ltd.

As these orders show that our SCR systems of marine engines are highly regarded by environmentally conscious shipyards and ship-owners as measures to comply with Tier III NOx emission standards, we will continue our efforts to diffuse SCR systems of marine engines.



SCR system of marine engines

Introduction to Our Award-winning Products

Our following products received awards from various organizations during the fiscal year 2016.

“Urban Oil Field” Exploration Project Received the Good Design Award

The Good Design Award 2016 was given to the Urban Oil Field Exploration Project, jointly implemented by the Company, Kyoto City, and Kumamoto University, which produces bioethanol from garbage and waste paper. The award was given because of the highly evaluated concept of collecting useful resources in the form of bioethanol through the saccharification and fermentation of garbage and waste paper, which were previously incinerated as garbage.



Bioethanol producing plant in “Urban Oil Field” Exploration Project

“neo RiSe®” Received the Infrastructure Technology Development Award Excellence Prize

The 18th Infrastructure Technology Development Award Excellence Prize was given to flap-gate type land-lock “neo RiSe®”, which prevents inundation damage by utilizing the inherent force of natural events, such as tsunamis and storm surges, to the maximum extent. Among a wide range of new technologies in the construction industry, this award is given to especially excellent technologies by the Minister of Land, Infrastructure, Transport and Tourism.

“neo RiSe®” is a new type of disaster-prevention equipment for tsunamis and storm surges, with its most significant characteristic being that it is able to close without power or manual operation.



“neo RiSe®” for MLIT Shikoku Regional Development Bureau

Acquisition of Osmoflo Holdings

In February, 2017, the Company acquired shares of Osmoflo Holdings Pty Ltd, which is engaged in the water business using membrane technologies including reverse osmosis membranes (RO membranes), and converted it into a subsidiary. Osmoflo group is engaged in the engineering business for desalination and industrial water treatment systems, providing services in many countries around the world.

The Company will continue working to expand business in the desalination and industrial water treatment business in overseas markets, including the Middle East by integrating Osmoflo group's reverse osmosis technology with the Company's plant engineering technology.



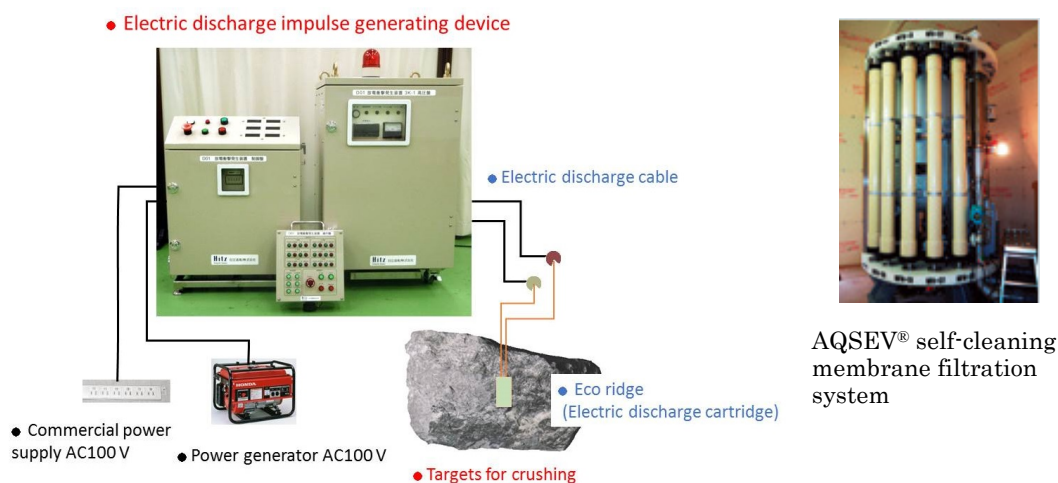
Reverse osmosis membranes (RO membranes)

The Group's Technologies Contributed to Recovery from Natural Disasters

The Electric Discharge Impulse Crushing System of the Group company NICHIZO TECH INC. crushes bedrocks and concrete using electric power and specially formulated chemicals, with its characteristics of low noise, low vibration, and safety. The system was adopted in disaster-stricken areas affected by the Kumamoto Earthquake, which occurred in April 2016, to remove rocks and stones in confined places where heavy machines could not enter, with significant achievements.

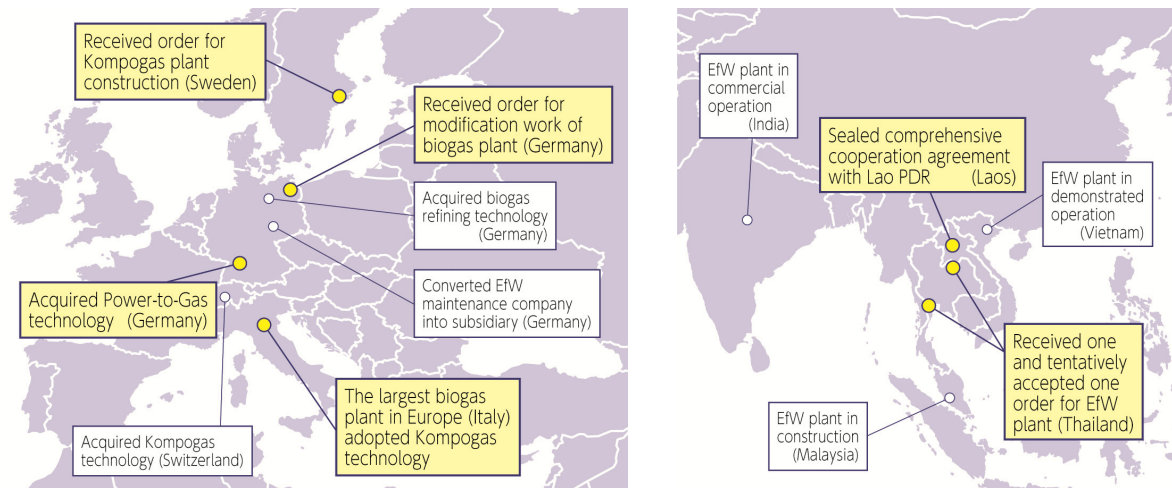
Moreover, in Shikaoi town, Kato-gun, Hokkaido, where it was difficult to supply drinking water from Lake Shikaribetsu due to impurities caused by a record-breaking severe rainstorm, we contributed to securing drinking water by supporting water supplies with our AQSEV® self-cleaning membrane filtration system.

Going forward, we will continue contributing to the creation of a safe and secure society using technologies of the Group to recover from natural disasters.



Electric Discharge Impulse Crushing System

■ : New in fiscal year 2016



Steady Expansion of Overseas Environmental Systems Business

The Group has endeavored to expand its global business as a priority measure under the “Hitz Vision II” medium-term management plan.

Supported by a track record of receiving orders for Energy-from-Waste (EfW) plants in Vietnam, India and Malaysia, the Company received its first order in Thailand in fiscal year 2016.

In Europe, the Group entered the biogas field and saw some results that will lead to expansion of business areas. This included Hitachi Zosen Inova AG (Switzerland), which is engaged in the business of designing, constructing, etc. EfW plants, receiving an order for Kompogas* plant construction in Sweden, and Hitachi Zosen Inova AG’s subsidiary Hitachi Zosen Inova BioMethan GmbH (Germany) receiving an order for biogas plant modification work in Germany.

In the midst of increasing awareness of the environment globally, the Group will promote its strategy of becoming a world leader in the environment business, by actively expanding businesses focusing on Southeast Asia and Europe.

*Kompogas®: One of the typical processes of methane fermentation. This system generates biogas through microbial action from organic waste such as raw garbage, and turns the waste into compost at the same time.

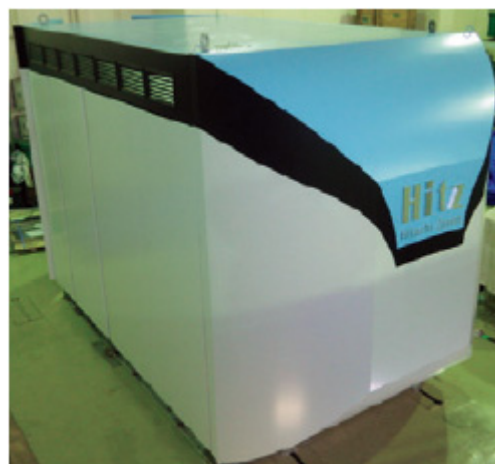
New Technologies & New Fields

NEW 1 Demonstration Project of SOFC for Commercial/Industrial Usage

The solid oxide fuel cell (SOFC) power generation device for commercial and industrial usage generates electric power using hydrogen generated by reforming and decomposing town gas, etc. It has the characteristics of being energy-saving and very environmentally-friendly.

Having developed this device with support from NEDO*, the Company decided to demonstrate its continuous operation under an actual loading environment at two locations in Osaka Prefecture, by participating in the H₂Osaka Vision Promotion Conference, which is a joint initiative of Osaka Prefecture and Osaka City to create advanced hydrogen projects. The Company aims to launch it in the market in fiscal year 2017, targeting food supermarkets, convenience stores, office buildings, and apartments, etc. after verifying safety and reliability through this demonstration.

*NEDO: New Energy and Industrial Technology Development Organization



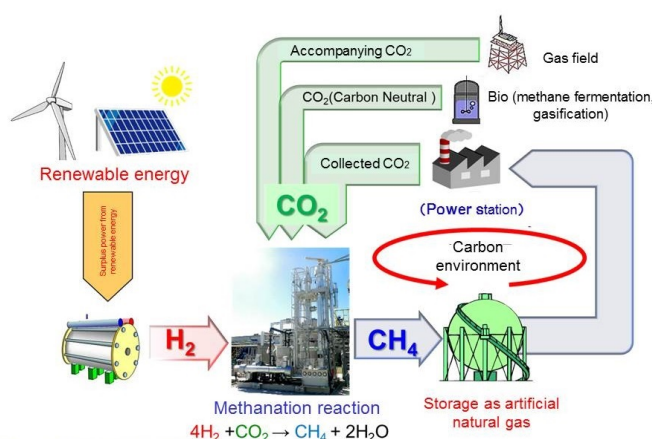
20 kW class SOFC system

NEW 2 Towards Commercialization of a Power to Gas System

Power to Gas (PtG) system is a technology that stores and uses electric power, which is gained primarily through wind and solar power generation, by converting it into a gaseous fuel, such as hydrogen and methane, using water electrolysis.

Fiscal year 2016 saw the adoption of a joint proposal for a PtG system by the Company and The Japan Steel Works, LTD. under the Technology Development Project for Establishing Hydrogen Society/Hydrogen Energy System Technology invited publicly by NEDO. Moreover, we established the Carbon Capture & Reuse (CCR) research group with The University of Tokyo and three other partners, aiming for an effective carbon neutral solution by converting carbon dioxide into methane.

By commercializing the PtG system, we will focus on constructing new energy supply systems to realize a low carbon society.



Carbon-neutral countermeasures

(2) Capital Investment

In the current business year, the Group carried out total capital investments of 8,174 million yen, mainly consisting of rationalization investment for improving productivity, capital investment for developing and commercializing new products and businesses, and capital investment for strengthening production capacity.

- Major capital investment by business segment

(Millions of yen)

| Business Segment | Amount | Summary of Investment |
|---|--------|---|
| Environmental Systems and Industrial Plants | 2,257 | Construction of a biogas power plant, Introduction of a comprehensive operation support system for an EfW plant |
| Machinery | 2,912 | Introduction of equipment for marine dual fuel engines, Development of buildings upon consolidation of works |
| Infrastructure | 784 | Upgrading production facilities for steel structures |
| Others/ Company-wide | 2,220 | Upgrading the main wastewater pump of work's dock and air-conditioners of the head office |
| Total | 8,174 | |

(Note) Capital investment not attributable to any business segment is included under Other Businesses.

(3) Funds Procurement

In the current business year, 26,300 million yen was financed through long-term and short-term borrowings primarily for the purpose of appropriating funds for future working capital and for business investment.

(4) Trends in Assets and Profit and Loss

(Millions of yen)

| | FY 2013 (117th Business Year) | FY 2014 (118th Business Year) | FY 2015 (119th Business Year) | FY 2016 (120th Business Year) |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Order intake | 328,433 | 452,757 | 435,435 | 398,943 |
| Net sales | 333,433 | 359,332 | 387,043 | 399,331 |
| Operating income | 7,878 | 12,818 | 15,112 | 14,947 |
| Ordinary income | 6,220 | 7,568 | 12,272 | 11,225 |
| Profit attributable to shareholders of Hitachi Zosen | 3,719 | 5,100 | 5,848 | 5,864 |
| Net income per share (Yen) | 23.77 | 30.52 | 34.96 | 34.79 |
| Total assets | 379,414 | 408,803 | 401,648 | 393,474 |

(Notes) 1. Effective from the fiscal year 2015 (119th business year), the Company has applied the "Accounting Standard for Business Combinations" (ASBJ (Accounting Standards Board of Japan) Statement No. 21, September 13, 2013), etc., and former accounting item "net income" is now presented as "profit attributable to shareholders of Hitachi Zosen."

2. The Company conducted a share consolidation of common stock with a ratio of five shares to one share on October 1, 2013. Accordingly, net income per share for the fiscal year 2013 (117th business year) is calculated with assumption that the share consolidation was conducted at the beginning of the business year.

(5) Issues to be Addressed

■ Medium- to Long-term Management Strategy

To achieve the management targets, under the long-term vision “Hitz 2016 Vision” formulated in 2011, of strengthening profitability, expanding the business scale, and fortifying financial structure, the Group has endeavored to expand its global business, constantly profitable businesses, and new products and businesses under the medium-term management plans “Hitz Vision” and “Hitz Vision II.”

As a result, while achieving some results in expanding the business scale, we were unable to achieve satisfactory results in strengthening profitability and fortifying financial structure. Having analyzed the reasons to confirm the issues to be tackled by the Group going forward, we launched the new long-term vision “Hitz 2030 Vision” and new medium-term management plan “Change & Growth” from the current fiscal year.

■ Long-term Vision “Hitz 2030 Vision”

By the year 2030 when the Company celebrates its 150th anniversary, the Group will strive to become a company with social presence combining profitability and soundness by obtaining confidence of all stakeholders as a “solution provider for establishment of recycling society” which contributes to maintaining and improving the environmental system of the whole society.

■ New Medium-term Management Plan “Change & Growth” (FY2017 - FY2019)

As a first step to realize “Hitz 2030 Vision,” the Company will develop business foundation over three years under the new medium-term management plan “Change & Growth.” The following are its basic strategies and priority measures:

1. Restructuring Business Foundation and Improving Productivity

1) Expanding business areas (value chains)

We will enhance profitability by expanding value chains in all our engineering and manufacturing businesses not only to conventional design, manufacturing, and construction but also to business planning and service businesses, as well as business investments and other areas.

2) Using ICT

We will introduce ICT and robots to increase productivity in manufacturing and design divisions and also in divisions for indirect works. As part of expanding the AOM* business, we will endeavor to extend the deployment of our remote-monitoring services to other business (shield tunneling machines, marine engines, etc.), and use Big Data to reliably operate plants including waste incineration plants.

* AOM: After-sales service, operation and maintenance

3) Reinforcing the structure of risk management

We will proceed with reinforcing our risk management for M&A and order intakes, and strengthen our quality control systems to reduce technical issues.

4) Confirming and promoting measures to improve profitability

We will make each product highly profitable by analyzing the external environment and by strengthening the internal resources to enact robust measures (establishing technical advantages, offering more solutions, new products, standardization and cost reduction, etc.)

5) Reinforcing the Group’s financial position and expanding growth investment capacity

We will fortify our financial structure and aim to earn a higher credit rating by implementing our medium-term management plan to secure profits and by executing the subordinated loans. At the same time, we will seek to expand our reserves for making

growth investments and to reinforce our ability to withstand risks.

2. Maximizing Group Comprehensive Strengths

1) Strengthen Group strategies

We will divide the Company and its Group companies into multiple business clusters by business fields and aim to maximize group synergies.

2) Emphasize consolidated business management

We will strengthen our capacity to secure orders and manage revenues on a consolidated basis.

3. Promoting Portfolio Management

We will rank all the Group's businesses by portfolio, pursuing a "selection and focus" approach, and ensure that we focus the management resources on growing fields. For non-performing businesses, we will develop scenarios for making them highly profitable, and take steps to turn the businesses around. Furthermore, we will invest actively in personnel development, seeking to raise the level of our business foundation.

The Group will strive to strengthen profitability and expand the business scale by implementing the above priority measures to resolve the issues from "Hitz Vision II" and develop the business foundation for 2030.

Moreover, in order to deal with the ever-changing management environment, globalized business activities, and increased and diversified management risks due to the expanded business scale, we will continue to thoroughly implement compliance, strengthen governance systems, and promote diversity management, while striving to eliminate disasters through thorough safety management.

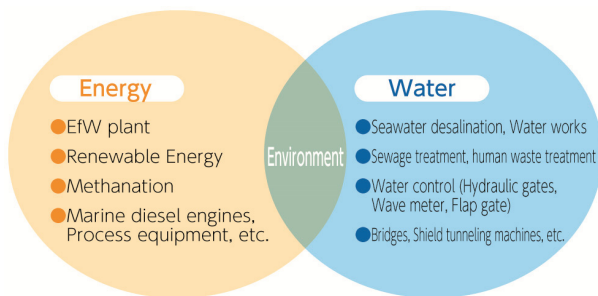
We would like to sincerely request our shareholders to understand the management policy of the Group and ask for your continued support and cooperation going forward.

Hitz 2030 Vision

Direction of Business

Transformation to Solution Provider for
Establishment of Recycling Society

- Core business areas



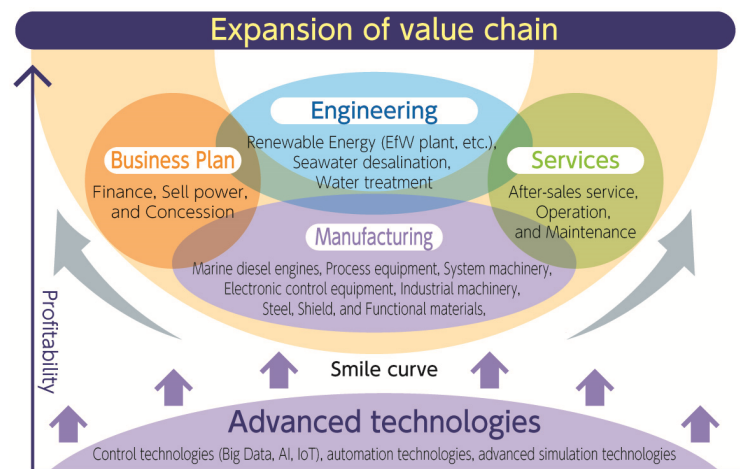
Numerical Targets

The following numerical targets are established to become a highly profitable company with social presence

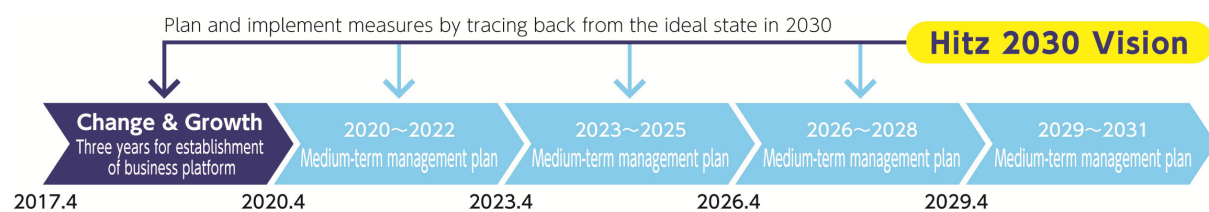
| | FY 2016 (Actual) | FY 2030 |
|------------------------|---------------------|-------------|
| Net sales | ¥399.3 billion | ¥1 trillion |
| Operating income ratio | 3.7% | 10% |
| Overseas sales ratio | 32.8% | 50% |
| Equity ratio | 29.4% | 40% |

Initiatives to Realize our Vision

- (1) Expand our value chain
- (2) Upgrade existing technologies
- (3) Create new products and new businesses
- (4) Promote globalization
- (5) Promote diversity management



New medium-term management plan “Change & Growth” (FY 2017 to FY 2019)



Basic Strategy

| Basic Strategy (1) | Basic Strategy (2) | Basic Strategy (3) |
|---|---|--|
| Restructuring business foundation and improving productivity | Maximizing Group Comprehensive Strengths | Promoting portfolio management |
| <ol style="list-style-type: none"> 1. Expanding business areas 2. Using ICT 3. Reinforcing the structure of risk management 4. Confirming and promoting measures to improve profitability 5. Reinforcing the Group's financial position and expanding growth investment capacity | <ol style="list-style-type: none"> 1. Exercising synergies by formulating business clusters 2. Emphasizing consolidated business management 3. Developing human resources through rotation | <ol style="list-style-type: none"> 1. Clarifying the positioning of the businesses through portfolio management 2. Prioritizing the allocation of management resources to expanding businesses and new businesses 3. Examining and assessing stagnant products for rehabilitation |

Numerical Targets

| | FY 2016 (Actual) | FY 2019 |
|---|----------------------|----------------------|
| Order Intake | ¥398.9 billion | ¥460.0 billion |
| Net Sales | ¥399.3 billion | ¥430.0 billion |
| Operating income (Operating income ratio) | ¥14.9 billion (3.7%) | ¥20.5 billion (4.8%) |
| ROE | 5.1% | 7.7% |

Investment Size of Business Resources

| | Hitz Vision II Amount for 3 years | Change & Growth Amount for 3 years |
|-----------------------------|--------------------------------------|---------------------------------------|
| R&D expenses | ¥19.6 billion | ¥30.0 billion |
| Capital investment expenses | ¥28.0 billion | ¥40.0 billion |
| M&A, etc. | ¥20.6 billion | ¥30.0 billion |
| Total | ¥68.2 billion | ¥100.0 billion |

Investment Policy

R&D expenses: Prioritized investment on themes that contribute to expanding business areas and specifying measures to improve profitability

Capital investment expenses:

- 1) Prioritized investment on themes that contribute to improving productivity
- 2) Prioritized investment on themes that contribute to expanding business areas (commercialization of new products)

(6) Significant Parent Company and Subsidiaries (As of March 31, 2017)

1) Parent company

The Company does not have a parent company.

2) Significant subsidiaries

| Name of Company | Amount of Capital | Holding Ratio (Direct) (%) | Major Lines of Business |
|-------------------------------------|-------------------|----------------------------|---|
| IMEX Co., Ltd. | ¥1,484 million | 100.0 | Design, manufacture and sale of boilers, pressure vessels, diesel engines, industrial machinery, and steel structures |
| NICHIZO TECH INC. | ¥1,242 million | 100.0 | Comprehensive examination, maintenance, checking and repair of products made of steel, concrete, etc., various types of plant equipment, piping equipment, etc., and design, creation, and on-site construction of chemical plants, industrial machinery and nuclear power generation-related equipment |
| Hitachi Zosen Fukui Corporation | ¥1,055 million | 100.0 | Manufacture and sale of various types of presses, chemical machinery, conveyance machinery, and electronic control machinery and equipment |
| OHNAMI CORPORATION | ¥525 million | 100.0 | Warehousing and port loading and unloading, inland transportation, marine transportation, and construction |
| SN Environment Technology Co., Ltd. | ¥200 million | 100.0 | Design, construction, operation, maintenance and management of Energy-from-Waste (EfW) plants and recycling systems, Maintenance and management of various types of plant |
| Hitz Environment Service Co., Ltd. | ¥100 million | 100.0 | Operation and maintenance of Energy-from-Waste (EfW) plants and recycling systems |
| Hitachi Zosen Inova AG | CHF40 million | 100.0 | Design, creation, sale, maintenance and operation of Energy-from-Waste (EfW) plants and recycling systems |
| NAC International Inc. | USD43 million | - | Design, transport and consulting related to the storage and transportation of spent nuclear fuel control equipment |

| Name of Company | Amount of Capital | Holding Ratio (Direct) (%) | Major Lines of Business |
|--------------------------|-------------------|----------------------------|---|
| Osmoflo Holdings Pty Ltd | AUD53 million | 70.0 | Design, manufacture, sale, and operation of desalination and industrial water treatment systems |

- (Notes) 1. There are 109 consolidated subsidiaries, including the nine significant subsidiaries mentioned above, and 12 equity method companies.
2. Effective February 2, 2017, Hitachi Zosen Fukui Corporation became a wholly-owned subsidiary of the Company.
3. NAC International Inc. is a wholly-owned subsidiary of Hitz Holdings U.S.A. Inc., a holding company in the United States that is wholly-owned by the Company.
4. On February 14, 2017, the Company converted Osmoflo Holdings Pty Ltd into a subsidiary to accelerate overseas expansion of the desalination and industrial water treatment business.
5. As of the end of the current business year, there were no specified wholly-owned subsidiaries.

3) Significant technology alliances

| Alliance Partner | Country | Contents of Alliance |
|-----------------------|---------|-----------------------------|
| MAN Diesel & Turbo SE | Germany | MAN B&W-type diesel engines |

(7) Major Sales Offices, Plants, etc. (As of March 31, 2017)

1) The Company

| | |
|-------------------|---|
| Head Office | 7-89, Nanko-kita 1-chome, Suminoe-ku, Osaka |
| Tokyo Head Office | 26-3, Minami-ohi 6-chome, Shinagawa-ku, Tokyo |
| Domestic Offices | Sapporo Office (Sapporo), Sendai Office (Sendai), Nagoya Office (Nagoya), Hiroshima Office (Hiroshima), Fukuoka Office (Fukuoka) |
| Works, etc. | Technical Research Institute (Osaka), Ibaraki Works (Hitachi-omiya), Maizuru Works (Maizuru), Chikkou Works (Osaka), Sakai Works (Sakai), Mukaishima Works (Onomichi), Innoshima Works (Onomichi), Ariake Works (Tamana-gun, Kumamoto), Kashiwa Works (Kashiwa), Wakasa Works (Oi-gun, Fukui) |
| Overseas Offices | Taipei Branch (Taiwan), Seoul Branch (South Korea), Singapore Branch (Singapore), Abu Dhabi Branch (United Arab Emirates), Bangkok Office (Thailand), Ho Chi Minh City Office (Vietnam) |

(Note) Effective April 1, 2016, all of Tokyo Works (Kashiwa, Matsudo) was consolidated into one base in Kashiwa and renamed Kashiwa Works.

2) Subsidiaries

<Domestic subsidiaries>

| | |
|-------------------------------------|--|
| IMEX Co., Ltd. | 2293-1, Innoshimahabu-cho, Onomichi, Hiroshima |
| NICHIZO TECH INC. | 15-26, Tsuru-machi 2-chome, Taisho-ku, Osaka |
| Hitachi Zosen Fukui Corporation | 8-28, Jiyugaoka 1-chome, Awara, Fukui |
| OHNAMI CORPORATION | 6-33, Edobori 2-chome, Nishi-ku, Osaka |
| SN Environment Technology Co., Ltd. | 3-28, Nishikujo 5-chome, Konohana-ku, Osaka |
| Hitz Environment Service Co., Ltd. | 1-1, Minami-machi, Kawasaki-ku, Kawasaki-shi, Kanagawa |

<Overseas subsidiaries>

| | |
|--|----------------------|
| Hitachi Zosen Inova AG | Switzerland |
| NAC International Inc. | U.S.A. |
| Osmoflo Holdings Pty Ltd | Australia |
| HITACHI ZOSEN EUROPE Limited | U.K. |
| Hitachi Zosen U.S.A. Ltd. | U.S.A. |
| Hitachi Zosen India Private Limited | India |
| Hitachi Zosen Myanmar Co., Ltd. | Myanmar |
| PT. HITZ INDONESIA | Indonesia |
| Hitachi Zosen Trading (Shanghai) Co., Ltd. | China |
| Cumberland International L.L.C | United Arab Emirates |

(8) Status of Employees (As of March 31, 2017)

1) Status of employees of the Group

| Business Segment | Number of Employees |
|---|---------------------------------------|
| Environmental Systems and Industrial Plants | 5,785 |
| Machinery | 2,483 |
| Infrastructure | 653 |
| Others | 613 |
| Corporate (company-wide) | 597 |
| Total | 10,131 (year-on-year increase of 306) |

(Note) For the number of employees, the number of employees currently working at the Group is provided.

2) Status of employees of the Company

| Number of Employees | Average Age | Average Years of Service |
|-------------------------------------|-------------|--------------------------|
| 3,979 (year-on-year increase of 92) | 41.9 | 16.6 |

(Note) For the number of employees, the number of employees currently working at the Company is provided. The number includes 126 employees on loan to the Company from outside.

(9) Major Lenders (As of March 31, 2017)

| Lender | Amount (Millions of yen) |
|--|--------------------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 24,213 |
| Mizuho Bank, Ltd. | 8,644 |
| Mitsubishi UFJ Trust and Banking Corporation | 4,460 |
| Sumitomo Mitsui Trust Bank, Ltd. | 4,020 |

II. Matters Concerning Stock in the Company (As of March 31, 2017)

- (1) Total Number of Shares Authorized to Be Issued 400,000,000 shares
(2) Total Number of Issued Shares 170,214,843 shares
(including 1,659,814 shares of treasury stock)
(3) Number of Shares Constituting One Unit of Shares 100 shares
(4) Number of Shareholders 79,615 (Year-on-year decline of 5,623 shareholders)
(5) Major Shareholders (Top 10)

| Name of Shareholder | Numbers of Shares Held (Thousands of shares) | Holding Ratio (%) |
|--|---|----------------------|
| Japan Trustee Services Bank, Ltd. (Trust Account) | 15,203 | 9.0 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 14,499 | 8.6 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 5,291 | 3.1 |
| Trust & Custody Services Bank, Ltd. (Investment Trust Collateral Account) | 4,737 | 2.8 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 3,448 | 2.0 |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 2,911 | 1.7 |
| Trust & Custody Services Bank, Ltd. (Held in securities investment trust account) | 2,710 | 1.6 |
| Sompo Japan Nipponkoa Insurance Inc. | 2,358 | 1.4 |
| Japan Trustee Services Bank, Ltd. (Trust Account 1) | 2,136 | 1.3 |
| BNP Paribas Securities (Japan) Limited | 2,103 | 1.2 |

(Note) The holding ratio does not include treasury stock.

III. Matters Concerning Subscription Rights to Shares of the Company

Not applicable

IV. Matters Concerning the Company's Officers

(1) Status of Directors and Corporate Auditors

| Name | Position and Areas of Responsibility | Significant Concurrent Positions |
|--------------------|---|--|
| Minoru Furukawa | Representative Director, Chairman | |
| Takashi Tanisho | Representative Director, President and Chief Executive Officer | |
| Masaki Hashikawa | Vice-Chairman | |
| Masayuki Morikata | Managing Director Responsible for Procurement Headquarters and General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters | President, Ito Country Club Corporation President, Accounting & Finance Corporation President, HITACHI ZOSEN TOURIST Co., Ltd. |
| Wataru Kobashi | Managing Director General Manager of Machinery Business Headquarters | |
| Sadao Mino | Managing Director General Manager of Environment Business Headquarters and Responsible for Architect Supervision Dept., and Quality Assurance Dept. | |
| Toshiyuki Shiraki | Managing Director General Manager of Technology Development Headquarters and General Manager of Business Planning Headquarters | President, Hitz Holdings U.S.A. Inc. |
| Chiaki Ito | Director | Outside Director, Zensho Holdings Co., Ltd. Outside Director, OBIC Business Consultants Co., Ltd. |
| Kazuko Takamatsu | Director | Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management External Director, Dexerials Corporation |
| Richard R. Lury | Director | Attorney-at-law in the United States (State of New York and New Jersey) Outside Director, Sanken Electric Co., Ltd. Outside Director, Sanken North America, Inc. |
| Masamichi Tokuhira | Full-time Corporate Auditor | |

| Name | Position and Areas of Responsibility | Significant Concurrent Positions |
|-------------------|--------------------------------------|--|
| Koji Abo | Full-time Corporate Auditor | |
| Makoto Yagi | Corporate Auditor | Chairman and Director, The Kansai Electric Power Co., Inc. Outside Director, H ₂ O RETAILING CORPORATION |
| Kenichi Takashima | Corporate Auditor | Outside Director, MAXVALU CHUBU CO., LTD. |

(Notes) 1. Positions and areas of responsibility, and significant concurrent positions both describe conditions as of March 31, 2017. Changes during the current business year are as follows.

(1) Changes in position and areas of responsibility

| Name | After Change | Before Change | Date of Change |
|-------------------|--|---|----------------|
| Minoru Furukawa | Representative Director, Chairman | Representative Director, Chairman and Chief Executive Officer | April 1, 2016 |
| Takashi Tanisho | Representative Director, President and Chief Executive Officer | Representative Director, President and Chief Operating Officer | April 1, 2016 |
| Masayuki Morikata | Managing Director Responsible for Procurement Headquarters and General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters | Managing Director General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters | April 1, 2016 |

(2) Changes in significant concurrent positions

- As of March 31, 2017, Managing Director Masayuki Morikata retired from President of Ito Country Club Corporation, Accounting & Finance Corporation, and HITACHI ZOSEN TOURIST Co., Ltd.
 - As of March 31, 2017, Managing Director Toshiyuki Shiraki retired from President of Hitz Holdings U.S.A. Inc.
 - As of June 28, 2016, Corporate Auditor Makoto Yagi changed position from President and Director of The Kansai Electric Power Co., Inc. to Chairman and Director, and retired from the position of Chairman of The Federation of Electric Power Companies of Japan.
2. Directors Chiaki Ito, Kazuko Takamatsu and Richard R. Lury are Outside Directors.
 3. Corporate Auditors Makoto Yagi and Kenichi Takashima are Outside Corporate Auditors.
 4. The Company has designated all Outside Directors and Outside Corporate Auditors as independent officers, as prescribed by Tokyo Stock Exchange, Inc.
 5. Full-time Corporate Auditor Masamichi Tokuhira and Corporate Auditor Kenichi Takashima possess considerable knowledge of finance and accounting as described below.
 - Full-time Corporate Auditor Masamichi Tokuhira has many years of experience in accounting and financial operations, including experience as the General Manager of Accounting Department in the Company.
 - Corporate Auditor Kenichi Takashima has many years of experience in accounting and financial operations, including experience as General Manager of Accounting Division and Finance Division in Honda Motor Co., Ltd.
 6. At the 119th Ordinary General Meeting of Shareholders held on June 23, 2016, Toshiyuki Shiraki and Richard R. Lury were elected as new Directors and assumed the positions thereof.
 7. At the conclusion of the 119th Ordinary General Meeting of Shareholders held on June 23, 2016, Representative Director and Executive Vice-President Hisao Matsuwake and Managing Director Toru Shimizu retired due to expiration of term of office.
 8. The positions and areas of responsibility of the six Directors listed below were changed as follows on April 1, 2017.

| Name | Position and Areas of Responsibility | |
|-------------------|--|--|
| Takashi Tanisho | Representative Director, Chairman and President | |
| Sadao Mino | Representative Director, Executive Vice-President | President's Assistant (Responsible for Production Engineering Dept. and Wind Power Business Promotion Office and Functional Materials Business Promotion Office) |
| Masayuki Morikata | Managing Director | Responsible for special assignments (General Administration Headquarters and Corporate Planning Headquarters) |
| Wataru Kobashi | Managing Director | Responsible for special assignments (Machinery Business Headquarters) |
| Toshiyuki Shiraki | Managing Director | General Manager of Business Planning & Technology Development Headquarters and Responsible for Information and Communication Technology Promotion Headquarters and Architect Supervision Dept. and Quality Assurance Dept. |
| Minoru Furukawa | Senior Corporate Advisor, Director | |

(2) Outline of agreements for limitation of liabilities

The Company has entered into an agreement with each of Outside Directors and Corporate Auditors, which limits the maximum amount of their liabilities for damages stipulated in Article 423, paragraph 1 of the Companies Act to the minimum amount stipulated by laws and regulations.

(3) Total Amount of Remuneration, etc. of Directors and Corporate Auditors for the Current Business Year

Remuneration of Directors consists of fixed remuneration and corporate performance-based bonus calculated on the basis of given indicators, and following a resolution passed by the Board of Directors, is paid within the remuneration limit determined by a resolution of the General Meeting of Shareholders. However, from the perspective of assuring independence, remuneration of Outside Directors consists only of fixed remuneration.

From the perspective of assuring independence, remuneration of Corporate Auditors consists only of fixed remuneration, and, following consultations with Corporate Auditors, is paid within the remuneration limit determined by a resolution of the General Meeting of Shareholders.

Note that, as of the conclusion of the 115th Ordinary General Meeting of Shareholders held on June 22, 2012, the Company has abolished its retirement benefits system for Directors and Corporate Auditors.

| Classification | Number of Recipients | Total Amount of Remuneration, etc. (Millions of yen) |
|--|----------------------|--|
| Directors (of which, Outside Directors) | 12 (3) | 358 (29) |
| Corporate Auditors (of which, Outside Corporate Auditors) | 4 (2) | 78 (17) |
| Total (of which, outside officers) | 16 (5) | 437 (47) |

(Notes) 1. By a resolution of the General Meeting of Shareholders, the upper limits on remuneration for Directors and Corporate Auditors are set at 550 million yen on a yearly basis for Directors (excluding salaries for concurrent service as employees) and 100 million yen on a yearly basis for Corporate Auditors. None of the above-mentioned Directors undertake concurrent service as employees.

2. As of March 31, 2017, the Company has ten (10) Directors (of which three (3) are Outside Directors) and four (4) Corporate Auditors (of which two (2) are Outside Corporate Auditors). The difference from the number of recipients noted above is due to the inclusion of two (2) Directors who retired from their posts at the conclusion of the 119th Ordinary General Meeting of Shareholders held on June 23, 2016.

(4) Matters Concerning Outside Officers

1) Concurrent positions as executive officers and outside officers for other corporations, etc. served by Outside Directors and Outside Corporate Auditors

| Classification | Name | Concurrent Positions |
|---------------------------|-------------------|--|
| Outside Director | Chiaki Ito | Outside Director, Zensho Holdings Co., Ltd. Outside Director, OBIC Business Consultants Co., Ltd. |
| | Kazuko Takamatsu | Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management External Director, Dexerials Corporation |
| | Richard R. Lury | Outside Director, Sanken Electric Co., Ltd. Outside Director, Sanken North America, Inc. |
| Outside Corporate Auditor | Makoto Yagi | Chairman and Director, The Kansai Electric Power Co., Inc. Outside Director, H ₂ O RETAILING CORPORATION |
| | Kenichi Takashima | Outside Director, MAXVALU CHUBU CO., LTD. |

(Note) The relationships between the Company and the companies where our outside officers hold significant concurrent positions are as follows. There is no special relationship between the other companies where the concurrent positions are held and the Company.

- While a transactional relationship such as business consignment exists between the Company and Japan Institute for Women's Empowerment & Diversity Management, where Outside Director Kazuko Takamatsu holds a concurrent position, the value of transactions is very small relative to the scales of business of the respective organizations. The average annual value of transactions in the past three business years is less than 0.1% of the Company's net sales.
- While a sales transaction relationship exists between the Company and The Kansai Electric Power Co., Inc. (KEPCO), where Outside Corporate Auditor Makoto Yagi holds a concurrent position, the value of transactions is very small relative to the scales of business of the respective companies. The average annual value of transactions in the past three business years is less than 1% of the Company's net sales.

2) Main activities during the current business year

| Classification | Name | Main Activities |
|----------------------------|-------------------|---|
| Outside Director | Chiaki Ito | Mr. Ito attended all 14 meetings of the Board of Directors held during the current business year, and based on his experience and knowledge concerning corporate management, made statements to ensure the improvement of the Group's corporate value and the validity and appropriateness of the Company's decision-making and business execution. |
| | Kazuko Takamatsu | Ms. Takamatsu attended all 14 meetings of the Board of Directors held during the current business year, and based on her experience and knowledge concerning corporate management, made statements to ensure the improvement of the Group's corporate value and the validity and appropriateness of the Company's decision-making and business execution. |
| | Richard R. Lury | Mr. Lury attended all 11 meetings of the Board of Directors held following his appointment on June 23, 2016, and based on his experience and knowledge concerning international corporate legal matters, made statements to ensure the improvement of the Group's corporate value and the validity and appropriateness of the Company's decision-making and business execution. |
| Outside Corporate Auditors | Makoto Yagi | Mr. Yagi attended 12 of the 14 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held during the current business year, and based on his experience and knowledge concerning corporate management, made statements to ensure the legality and appropriateness of the Company's decision-making and business execution. |
| | Kenichi Takashima | Mr. Takashima attended all 14 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held during the current business year, and based on his experience and knowledge concerning corporate management, finance and accounting, made statements to ensure the legality and appropriateness of the Company's decision-making and business execution. |

V. Status of Accounting Auditor

(1) Name of Accounting Auditor KPMG AZSA LLC

(2) Amount of Remuneration, etc. of Accounting Auditor for the Current Business Year
(Millions of yen)

| Category | Amount of Remunerations, etc. |
|---|-------------------------------|
| Amount of remuneration, etc. payable by the Company | 81 |
| Total amount of cash and other financial benefits payable by the Company and its subsidiaries | 149 |

(Notes) 1. In the audit agreement between the Company and the Accounting Auditor, no differentiation is made between remuneration on the basis of the Companies Act and remuneration on the basis of the Financial Instruments and Exchange Act, and it is not possible to make a substantial differentiation between the two. As a consequence, the amount of remuneration, etc. for services as Accounting Auditor of the Company provided in the table above is the total of the two.

2. The Board of Corporate Auditors has consented to the remuneration for the Accounting Auditor after having verified and discussed the reasonableness of audit hours, personnel allocation, and estimated remuneration for the current business year's audit plan, based on an analysis and evaluation of audits actually conducted during the previous business year and comparison between audit plan and actual performance.

3. Of the Company's significant subsidiaries, the auditing of Hitachi Zosen Inova AG, NAC International Inc. and Osmoflo Holdings Pty Ltd is performed by audit corporations other than the Accounting Auditor of the Company (including those with equivalent status overseas).

(3) Non-audit Services

The Company outsources work (Non-audit Services), including financial due diligence that is work other than that provided for in Article 2, paragraph 1 of the Certified Public Accountants Act, to the Accounting Auditor and pays for these services.

(4) Policy for Determining Dismissal or Non-reappointment of Accounting Auditor

If it is deemed that the Accounting Auditor falls within the grounds of each item of Article 340, paragraph 1 of the Company Act and that no improvement in the situation is expected, the Board of Corporate Auditors shall dismiss the Accounting Auditor based on the agreement of all the Corporate Auditors.

If the Board of Corporate Auditors determines the Accounting Auditor is unsuitable after taking into consideration such matters as the execution of duties of the Accounting Auditor and the number of years it has been performing audits, the Board of Corporate Auditors shall determine details of a proposal for dismissal or non-reappointment of the Accounting Auditor to be submitted to the General Meeting of Shareholders.

VI. Matters Concerning the Development of Systems to Ensure Appropriateness of Operations, etc.

(1) Systems to Ensure Appropriateness of Operations

The following summarizes the contents of the resolutions of the Company's Board of Directors concerning the development of systems to ensure that the execution of duties by Directors is in compliance with laws and regulations and the Articles of Incorporation and other systems necessary to ensure the appropriateness of operations.

- 1) Systems to Ensure that the Execution of Duties by Directors and Employees of the Company and Group Companies Complies with the Laws and Regulations and the Articles of Incorporation
 - a) The Company shall formulate the Charter of Ethical Behavior with which all Directors, Corporate Auditors, and employees must comply, and shall make this charter known to all Directors, Corporate Auditors, and employees. In addition, the top management shall ceaselessly and clearly demonstrate the spirit of such charter to the Directors, Corporate Auditors, and employees, thus ensuring that compliance with laws and regulations and corporate ethics forms the basis of the Company's existence and the premise of all corporate activities.
 - b) The Company shall establish the Compliance Committee, with a President and Director of the Company as Chairperson. This committee shall continuously implement measures with respect to compliance and shall make reports on its activities to the Board of Directors of the Company.
 - c) The Company shall work to prevent violations of laws and regulations, discover such violations at an early stage and deal with them promptly and effectively by establishing a whistle-blowing system that enables the opinions of Directors, Corporate Auditors, and employees regarding compliance to be reflected in company management.
 - d) The Company shall have all Directors, Corporate Auditors, and employees of the Company enter into covenants regarding compliance with laws and regulations and corporate ethics and develop disciplinary measures to be taken against violators and those who are aware of violations but conceal them.
 - e) Rules on the management of financial data and other important facts about the operations of the Company and the Group shall be formulated, and such facts shall be disclosed in a timely and appropriate manner.
 - f) To ensure the reliability of its financial reporting on the basis of the Financial Instruments and Exchange Act, the Company shall establish a department dedicated to this purpose, and shall regularly evaluate the development and management of financial reporting through a system of cooperation among departments of the Company and work to make improvements accordingly.
 - g) The department of the Company in charge of internal auditing shall perform audits of compliance and shall report to the Board of Directors.
 - h) The Charter of Ethical Behavior shall be made known to Group companies, which shall work to develop structures for compliance with laws and regulations and corporate ethics in accordance with the circumstances of each company with support from the Company. Furthermore, the Company's whistle-blowing system shall be made available for use by the Directors, Corporate Auditors, and employees of Group companies.

- i) Internal auditing performed by the department of the Company in charge of internal auditing shall also be applicable to Group companies, and the Company's rules regarding internal auditing shall apply mutatis mutandis to the guidelines for such auditing.
 - j) The Company shall determinedly eliminate and block anti-social forces, and the department in charge of general affairs shall construct and develop a system for this purpose in cooperation with external specialist bodies such as law enforcement.
- 2) Systems to Retain and Manage Information Concerning the Directors' Execution of Duties
- a) Minutes of meetings of the Board of Directors and other management bodies holding meetings shall be prepared, retained, and managed appropriately by the administrative offices of each management body in accordance with laws and regulations and internal rules.
 - b) Records of information concerning decision making and execution of duties by the Directors shall be retained and managed appropriately in accordance with the rules on the management of documents or electromagnetic records stipulated by the Company.
 - c) Rules regarding the retention and management of company secrets, significant matters that are not publicly disclosed, and personal information shall be formulated, and the relevant information shall be managed with due care.
- 3) Rules and Other Organizational Structures of the Company and Group Companies Concerning Management of Risk of Loss
- a) Risks that may occur in the course of business operations shall be evaluated and monitored continuously. Risks with the potential to have a substantial impact on the financial position and business results shall be reported to the Board of Directors of the Company.
 - b) To prevent and eliminate risks related to earnings from individual products, appropriate risk management shall be carried out through deliberations to identify and evaluate risks and formulation of avoidance measures at the Risk Examination Committee.
 - c) To promptly and appropriately deal with such a serious risk that has emerged, systems shall be developed in advance including the formulation of rules on such matters as means of transmitting information, methods of handling such events, and structures for their management.
 - d) The department of the Company in charge of internal auditing shall monitor risk management statuses at each department of the Company and each Group company. It shall also perform audits of the effectiveness and adequacy of risk management and make reports on this to the Board of Directors of the Company.
- 4) Systems to Ensure that Directors of the Company and Group Companies Execute their Duties in an Efficient Manner
- a) Meetings of the Board of Directors shall in principle be held once a month and extraordinary meetings of the Board of Directors shall be held as necessary to determine important matters and to supervise the execution of business. For meetings of the Board of Directors to be operated appropriately and efficiently, rules on the matters to be decided upon at the meetings and standards for submitting such matters for deliberation and reporting on them shall be formulated.
 - b) The Company shall establish the Management Strategy Committee comprising Directors of the Company in charge of business operations and other key management personnel, at which sufficient advance deliberations on basic strategies and important matters shall be carried out, thus putting in place a system enabling accurate managerial judgment.

- c) The Board of Directors of the Company shall determine the Group's medium-term management plans and plans for each year. Based on such plans, all Directors of the Company shall develop detailed measures and systems for efficient business execution, and make progress reports on these measures to the Board of Directors of the Company.
 - d) The Company shall establish the Management Plan Follow-Up Committee with the President and Director of the Company as Chairperson. This committee shall monitor and inspect progress made with the measures and work towards the early discovery and prevention of problems, thus ensuring efficient business operations.
 - e) To efficiently achieve management targets, the Company shall formulate rules on organizational structure, division of duties, and decision-making authority, and clarify duties and authorities. The Company shall also formulate rules on the operation of information and communication systems and the protection of information assets, and shall utilize such rules effectively.
 - f) The department of the Company in charge of internal auditing shall perform audits to determine whether business operations at each department of the Company and each Group company are carried out efficiently in accordance with laws and regulations, the Articles of Incorporation and other internal rules, and shall report to the Board of Directors on this matter.
- 5) Systems for Reporting to the Company on the Matters regarding Execution of Duties by Directors of Group Companies
- To carry out deliberations on establishing internal control systems and to share information on Group management policies and other matters, the Company shall regularly hold conferences attended by the Directors of the Company and the President and Director of each Group company. Group companies shall report any material events at the conferences.
- 6) Other Systems to Ensure Appropriateness of Operations in the Group Consisting of the Company and the Group companies
- a) Regarding the management of Group companies, the Company shall supervise and monitor the appropriateness of operations at Group companies, while also respecting their autonomy, by assigning Directors and Corporate Auditors of the Company to work at each Group company, thus working to strengthen governance and supervisory functions under Group management.
 - b) The Company shall establish a main control division in the Company to control and guide Group companies, thus advancing efficient Group management in accordance with the standards for Group control and management. The control division shall also provide support for the establishment of internal control systems at each Group company.
- 7) Matters Concerning Employees who are Requested by Corporate Auditors to Assist in the Duties of Corporate Auditors and Matters Concerning Ensuring the Independence from Directors of Such Employees and the Effectiveness of Directions to Such Employees
- a) The Company shall put in place the Assistant to the Corporate Auditors as a body to assist the Corporate Auditors of the Company in their duties.
 - b) Employees belonging to other departments shall not be precluded from serving concurrently as staff in the Assistant to the Corporate Auditors. However, if Corporate Auditors request the assignment of dedicated staff to the Assistant to the Corporate Auditors, this shall not be refused without rational grounds.
 - c) When performing duties in accordance with the directions of the Corporate Auditors, staff in the Assistant to the Corporate Auditors shall not be under the command of Directors or other business executives.
 - d) Personnel matters relating to staff in the Assistant to the Corporate Auditors shall be determined by the Directors after deliberations with the Corporate Auditors.

- 8) Systems for Reporting to Corporate Auditors of the Company by Officers and Employees of the Company and Group Companies, Other Systems Concerning Reporting to Corporate Auditors, and Systems to Ensure that Persons who Report to Corporate Auditors Are not Treated Unfavorably as a Result of Making Such Report
- a) If a Director of the Company discovers a matter with the potential to cause substantial harm to the Company and the Group, such Director shall report such matter to the Board of Corporate Auditors of the Company immediately.
 - b) To monitor important decision-making processes and the status of business execution, the Corporate Auditors of the Company shall be permitted to attend meetings of the Board of Directors and other important meetings of the Company, and shall be permitted to request explanations on such matters from Directors or employees. Furthermore, when they are unable to attend such meetings due to circumstances, Corporate Auditors shall be permitted to receive explanations of the contents of such meetings, and inspect minutes and other related documents.
 - c) Corporate Auditors of the Company shall be permitted to inspect important documents related to business execution, and to request explanations of such matters from Directors or employees of the Company and Group companies as necessary.
 - d) Representative Directors of the Company shall regularly hold talks with Corporate Auditors of the Company, make reports to the Corporate Auditors of the Company regarding important matters with an impact on the Company and the Group, and exchange opinions with the Corporate Auditors on such matters.
 - e) It is prohibited for officers and employees of the Company or Group Companies who report to Corporate Auditors of the Company to be treated unfavorably as a result of making such report.
- 9) Matters Concerning the Policy Relating to Advance Payment of Expenses Accompanying Execution of Duties by the Corporate Auditors or Reimbursement thereof, or Other Treatments of Expenses or Liabilities Generated from Execution of those Relevant Duties
- When Corporate Auditors of the Company request advance payment of expenses and others on the basis of Article 388 of the Companies Act for executing their duties, those expenses or liabilities shall be processed immediately through deliberation within the department in charge, except as may be recognized as unnecessary for executing duties of the Corporate Auditor.
- 10) Other Systems to Ensure that Corporate Auditors Effectively Perform Audits
- a) The Directors of the Company shall cooperate with the Corporate Auditors of the Company to enable them to perform effective audits through cooperation with the Accounting Auditor, the department in charge of internal auditing, and the Corporate Auditors of Group companies.
 - b) The Directors of the Company shall have an awareness and understanding of the importance and usefulness of auditing by the Corporate Auditors. They shall also inform employees of the rules relating to auditing operations and auditing standards and help to establish an environment in which the Corporate Auditors can perform their audits effectively.
 - c) The department of the Company in charge of internal auditing shall provide internal audit plans, internal audit reports and other necessary information it receives in the course of performing internal auditing to the Corporate Auditors.

(2) Outline of Status of Systems to Ensure the Appropriateness of Operations

Outline of status of systems to ensure the appropriateness of operations is as follows.

1) Regarding Compliance

Within the Company, the President himself thoroughly communicates to employees the importance of compliance in managing companies on the occasions of New Year's greetings and workshops, etc. Moreover, the whole-company Compliance Committee, on which the President serves as the Chairperson, has decided the basic policy and specific measures to thoroughly enforce compliance, while continuously implementing e-learning, various workshops and lectures, distributing the "Hitz Group Charter of Ethical Behavior" to be carried by employees at all times, as well as implementing educational activities by transmitting information through newsletters and operating a whistle-blowing system.

Furthermore, with the aim of strengthening the compliance system of the entire Group, the Company has been operating a regular reporting system from domestic and overseas Group companies and local offices. Based on its reports, the Company endeavors to prevent violations, and discover and solve problems promptly, while implementing various support measures according to respective situations and needs.

2) Regarding Risk Management

Risks related to compliance, the environment, safety, disasters, information security, and other risks that may occur in the course of business operations are continuously managed by a system established at each responsible department, in order to prevent and minimize risks.

With regard to order intake projects, discussions to identify and evaluate risks related to technologies, business conditions, and other factors, as well as the formulation of avoidance measures are carried out by the Corporate Planning Department (Risk Management Section) when preparing an estimate. Regarding important projects, the final decision on whether to accept an order is made by the Management Strategy Committee or at a decision-making meeting after the whole-company Risk Examination Committee has examined risks from various aspects and taken measures. Risks that may arise after receiving an order are monitored by the Corporate Planning Department (Project Management Section). Due to the progress of entering new businesses and overseas expansion, it has become necessary to give consideration to risks in a different way from that previously, and relevant departments are cooperating in developing stronger risk management systems and thoroughly eliminating risks. Important issues among them are reported to the Board of Directors.

3) Regarding the Execution of Duties by Directors

We have held 14 meetings of the Board of Directors, in which important management matters (management basic policies, medium-term management plan formulation and follow-up, budget formulation, M&As, etc.) prescribed by laws and regulations, the Articles of Incorporation, and Rules of the Board of Directors are discussed and determined, while supervising the execution of duties of the Directors. To further enhance and promote the efficiency of discussions by the Board of Directors, the Company conducts a questionnaire survey with individual Directors to assess and analyze the effectiveness of the Board of Directors as a whole, and uses issues identified to improve the operations of the Board of Directors.

4) Regarding the Management of Group Companies

To carry out discussions and share information on Group management policies and internal control systems and other matters, conferences is held on a regular basis. In

addition, whenever necessary, the Company provides oversight and instructions regarding important matters such as business and financial conditions.

5) Regarding Internal Auditing

To ensure the appropriateness of operations in the Group in accordance with the Internal Auditing Rule, the Internal Auditing Department (Internal Auditing Section) implements ongoing internal audits related to matters such as finance and accounting, operational controls and procedures, business risks, and compliance across all management activities of domestic and overseas Group companies based on such factors as business type, scale, and importance to conduct evaluations and provide advice and correction guidance from an objective standpoint. In particular, internal audits were conducted with top priority given to companies which newly joined the Group and newly established organizations. The Internal Auditing Department also submits reports on the results of audits, as well as the status of corrective actions to Directors, Corporate Auditors, and responsible persons of audited segments from time to time, while providing regular comprehensive reports on the status of audits to the Management Strategy Committee, as well as the Board of Directors.

6) Regarding Audits Performed by Corporate Auditors

Corporate Auditors audit operations and status of assets at respective business locations and segments, as well as similar carrying out investigations on major subsidiaries. They have made audits on the execution of business of Directors and others by receiving reports on important matters through attending important internal meetings such as meetings of the Board of Directors and the Management Strategy Committee, meetings with the Representative Directors, and by stating opinions where necessary. The Board of Corporate Auditors held 10 meetings at which information regarding auditing was exchanged, opinions on auditing were collected from each Corporate Auditor, and resolutions were passed.

Corporate Auditors exchange information about such matters as audit plans and results with the Accounting Auditor on a regular basis, while monitoring and verifying whether the Accounting Auditor is conducting its audits appropriately. In addition, Corporate Auditors implement regular information exchanges and maintain close collaboration with the Internal Auditing Department by receiving such matters as audit plans and results, as well as necessary information obtained through audits with respect to internal auditing, in order to promote effective and efficient audits.

[Reference] Monetary amounts and numbers of shares provided in this business report are presented with fractional units discarded. Percentages are rounded off to the nearest unit.

Consolidated Balance Sheets

As of March 31, 2017

| | (Millions of yen) |
|---|-------------------|
| Assets | 393,474 |
| Current assets | 230,727 |
| Cash and time deposits | 52,281 |
| Notes and accounts receivable-trade | 134,188 |
| Merchandise and finished goods | 1,844 |
| Work in progress | 21,949 |
| Raw materials and supplies | 4,855 |
| Deferred tax assets | 6,095 |
| Other current assets | 13,324 |
| Allowance for doubtful receivables | (3,811) |
| Noncurrent assets | 162,738 |
| Property, plant and equipment, net | [118,916] |
| Buildings and structures | 30,986 |
| Machinery, equipment and vehicles | 23,215 |
| Tools, furniture and fixtures | 2,275 |
| Land | 57,863 |
| Lease assets | 1,025 |
| Construction in progress | 3,549 |
| Intangible assets | [9,237] |
| Goodwill | 4,654 |
| Other intangible assets | 4,582 |
| Investments and other noncurrent assets | [34,585] |
| Investments in securities | 24,640 |
| Long-term loans receivable | 33 |
| Net defined benefit assets | 1,351 |
| Deferred tax assets | 2,905 |
| Other investments and noncurrent assets | 6,325 |
| Allowance for doubtful receivables | (670) |
| Deferred assets | 7 |
| Bond issue expenses | 7 |
| Total assets | 393,474 |

| | (Millions of yen) |
|--|-------------------|
| Liabilities | 275,656 |
| Current liabilities | 201,736 |
| Notes and accounts payable-trade | 40,480 |
| Electronically recorded obligations | 20,956 |
| Short-term borrowings | 45,116 |
| Current portion of long-term debt | 10,000 |
| Accrued expenses | 49,150 |
| Accrued income taxes | 2,526 |
| Advances received on work in progress | 10,686 |
| Reserve for product warranty | 4,897 |
| Reserve for losses on construction contracts | 3,249 |
| Other current liabilities | 14,672 |
| Noncurrent liabilities | 73,920 |
| Long-term borrowings | 52,318 |
| Deferred tax liabilities | 917 |
| Net defined benefit liability | 17,168 |
| Directors' and corporate auditors' severance and retirement benefits | 412 |
| Asset retirement obligations | 1,041 |
| Other noncurrent liabilities | 2,062 |
| Net assets | 117,817 |
| Shareholders' equity | 114,607 |
| Common stock | 45,442 |
| Capital surplus | 8,893 |
| Retained earnings | 61,285 |
| Treasury stock, at cost | (1,013) |
| Accumulated other comprehensive income | 1,084 |
| Net unrealized holding gains (losses) on securities | 479 |
| Net unrealized holding gains (losses) on hedging derivatives | (365) |
| Land revaluation difference | (7) |
| Foreign currency translation adjustments | 2,231 |
| Remeasurements of defined benefit plans | (1,252) |
| Non-controlling interests in consolidated subsidiaries | 2,125 |
| Total liabilities and net assets | 393,474 |

Consolidated Statements of Income

For the business year ended March 31, 2017

(Millions of yen)

| | | |
|---|-------|----------------|
| Net sales | | 399,331 |
| Cost of sales | | 334,325 |
| Gross profit | | 65,006 |
| Selling, general and administrative expenses | | 50,058 |
| Operating income | | 14,947 |
| Non-operating income | | |
| Interest income | 66 | |
| Dividend income | 195 | |
| Equity in net income of nonconsolidated subsidiaries and affiliates | 748 | |
| Other non-operating income | 834 | 1,845 |
| Non-operating expenses | | |
| Interest expense | 795 | |
| Liquidated damages | 2,494 | |
| Other non-operating expenses | 2,276 | 5,567 |
| Ordinary income | | 11,225 |
| Extraordinary income | | |
| Gain on sale of property | 1,425 | 1,425 |
| Extraordinary loss | | |
| Loss on overseas business | 2,961 | 2,961 |
| Profit before income taxes & non-controlling interest | | 9,689 |
| Income taxes-current | | 3,383 |
| Income taxes-deferred | | (51) |
| Profit before non-controlling interests | | 6,356 |
| Profit attributable to non-controlling interests | | 491 |
| Profit attributable to shareholders of Hitachi Zosen | | 5,864 |

Consolidated Statements of Changes in Net Assets

For the business year ended March 31, 2017

(Millions of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of year | 45,442 | 12,230 | 57,329 | (1,007) | 113,995 |
| Changes of items during the period | | | | | |
| Cash dividends | | | (2,022) | | (2,022) |
| Profit attributable to shareholders of Hitachi Zosen | | | 5,864 | | 5,864 |
| Treasury stock disposed, net | | (0) | | 0 | 0 |
| Treasury stock purchased, net | | | | (5) | (5) |
| Change of scope of equity method | | | 155 | | 155 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | (3,337) | | | (3,337) |
| Reversal of land revaluation difference | | | (42) | | (42) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | - | (3,337) | 3,956 | (5) | 612 |
| Balance at end of year | 45,442 | 8,893 | 61,285 | (1,013) | 114,607 |

| | Accumulated other comprehensive income | | | | | | Non-controlling interests in consolidated subsidiaries | Total net assets |
|---|---|--|-----------------------------|--|---|--|--|------------------|
| | Net unrealized holding gains (losses) on securities | Net unrealized holding gains (losses) on hedging derivatives | Land revaluation difference | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of year | 488 | (96) | (49) | 3,135 | (3,314) | 163 | 6,507 | 120,666 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (2,022) |
| Profit attributable to shareholders of Hitachi Zosen | | | | | | | | 5,864 |
| Treasury stock disposed, net | | | | | | | | 0 |
| Treasury stock purchased, net | | | | | | | | (5) |
| Change of scope of equity method | | | | | | | | 155 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | | | | | | (3,337) |
| Reversal of land revaluation difference | | | 42 | | | 42 | | - |
| Net changes of items other than shareholders' equity | (9) | (269) | - | (904) | 2,062 | 879 | (4,382) | (3,503) |
| Total changes of items during the period | (9) | (269) | 42 | (904) | 2,062 | 921 | (4,382) | (2,848) |
| Balance at end of year | 479 | (365) | (7) | 2,231 | (1,252) | 1,084 | 2,125 | 117,817 |

[Reference] Monetary amounts in the Consolidated Financial Statements are presented with amounts of less than 1 million yen discarded.

Non-consolidated Balance Sheets

As of March 31, 2017

| | (Millions of yen) |
|---|-------------------|
| Assets | 315,480 |
| Current assets | 153,638 |
| Cash and time deposits | 28,982 |
| Trade notes receivable | 6,353 |
| Trade accounts receivable | 84,453 |
| Work in progress | 15,595 |
| Raw materials and supplies | 2,909 |
| Advance payments | 2,740 |
| Prepaid expenses | 569 |
| Deferred tax assets | 2,981 |
| Other accounts receivable | 4,957 |
| Advances paid | 3,394 |
| Short-term loans receivable | 1,821 |
| Other current assets | 2,822 |
| Allowance for doubtful receivables | (3,942) |
| Noncurrent assets | 161,834 |
| Property, plant and equipment, net | [91,975] |
| Buildings | 18,373 |
| Structures | 5,954 |
| Machinery and equipment | 15,971 |
| Vehicles | 213 |
| Tools, furniture and fixtures | 1,111 |
| Land | 49,150 |
| Lease assets | 552 |
| Construction in progress | 647 |
| Intangible assets | [1,207] |
| Patent rights | 61 |
| Software | 858 |
| Rights of using facilities | 102 |
| Other intangible assets | 184 |
| Investments and other noncurrent assets | [68,650] |
| Investments in securities | 14,272 |
| Stocks of subsidiaries and affiliates | 46,714 |
| Investments in capital of subsidiaries and affiliates | 2,276 |
| Long-term loans receivable | 3,179 |
| Noncurrent prepaid expenses | 425 |
| Deferred tax assets | 740 |
| Other investments and noncurrent assets | 1,672 |
| Allowance for doubtful receivables | (631) |
| Deferred assets | 7 |
| Bond issue expenses | 7 |
| Total assets | 315,480 |

| | (Millions of yen) |
|--|-------------------|
| Liabilities | 226,556 |
| Current liabilities | 166,389 |
| Trade notes payable | 4,483 |
| Electronically recorded obligations | 18,487 |
| Trade accounts payable | 25,445 |
| Current portion of long-term debt | 10,000 |
| Short-term borrowings | 40,081 |
| Lease obligations | 186 |
| Other accounts payable | 2,712 |
| Accrued expenses | 33,519 |
| Accrued income taxes | 1,163 |
| Advances received on work in progress | 5,397 |
| Deposits received | 21,552 |
| Reserve for product warranty | 1,882 |
| Reserve for losses on construction contracts | 1,442 |
| Other current liabilities | 33 |
| Noncurrent liabilities | 60,167 |
| Long-term borrowings | 49,670 |
| Lease obligations | 361 |
| Employees' severance and retirement benefits | 8,884 |
| Asset retirement obligations | 810 |
| Other noncurrent liabilities | 439 |
| Net assets | 88,924 |
| Shareholders' equity | 89,174 |
| Common stock | 45,442 |
| Capital surplus | 11,080 |
| Additional paid-in capital | 5,946 |
| Other capital surplus | 5,133 |
| Retained earnings | 33,665 |
| Legal retained earnings | 1,158 |
| Other retained earnings | 32,506 |
| Retained earnings brought forward | 32,506 |
| Treasury stock, at cost | (1,013) |
| Valuation and translation adjustments | (250) |
| Net unrealized holding gains (losses) on securities | 95 |
| Net unrealized holding gains (losses) on hedging derivatives | (5) |
| Land revaluation difference | (340) |
| Total liabilities and net assets | 315,480 |

Non-consolidated Statements of Income

For the business year ended March 31, 2017

| | | (Millions of yen) |
|--|-------|-------------------|
| Net sales | | 259,407 |
| Cost of sales | | 225,239 |
| Gross profit | | 34,167 |
| Selling, general and administrative expenses | | 25,239 |
| Operating income | | 8,928 |
| Non-operating income | | |
| Interest income | 90 | |
| Dividend income | 1,841 | |
| Other non-operating income | 1,024 | 2,956 |
| Non-operating expenses | | |
| Interest expense | 901 | |
| Other non-operating expenses | 2,021 | 2,923 |
| Ordinary income | | 8,962 |
| Extraordinary income | | |
| Gain on sale of property | 1,425 | 1,425 |
| Extraordinary loss | | |
| Loss on valuation of investments in capital of subsidiaries and affiliates | 3,125 | |
| Loss on overseas business | 2,961 | 6,087 |
| Profit before income taxes | | 4,300 |
| Income taxes-current | | 467 |
| Income taxes-deferred | | 895 |
| Profit | | 2,937 |

Non-consolidated Statements of Changes in Net Assets

For the business year ended March 31, 2017

(Millions of yen)

| | Shareholders' equity | | | | | | | | |
|--|----------------------|----------------------------|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|----------------|----------------------------|
| | Common stock | Capital surplus | | | Retained earnings | | | Treasury stock | Total shareholders' equity |
| | | Additional paid-in capital | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | Total retained earnings | | |
| Balance at beginning of year | 45,442 | 5,946 | 5,133 | 11,080 | 956 | 31,836 | 32,793 | (1,007) | 88,307 |
| Changes of items during the period | | | | | | | | | |
| Cash dividends | | | | | | (2,022) | (2,022) | | (2,022) |
| Reserve for dividends payment | | | | | 202 | (202) | – | | – |
| Profit | | | | | | 2,937 | 2,937 | | 2,937 |
| Treasury stock disposed, net | | | (0) | (0) | | | | 0 | 0 |
| Treasury stock purchased, net | | | | | | | | (5) | (5) |
| Reversal of revaluation reserve for land | | | | | | (42) | (42) | | (42) |
| Net changes of items other than shareholders' equity | | | | | | | | | |
| Total changes of items during the period | – | – | (0) | (0) | 202 | 670 | 872 | (5) | 867 |
| Balance at end of year | 45,442 | 5,946 | 5,133 | 11,080 | 1,158 | 32,506 | 33,665 | (1,013) | 89,174 |

| | Valuation and translation adjustments | | | | Total net assets |
|--|---|--|-----------------------------|---|------------------|
| | Net unrealized holding gains (losses) on securities | Net unrealized holding gains (losses) on hedging derivatives | Land revaluation difference | Total valuation and translation adjustments | |
| Balance at beginning of year | 105 | 191 | (382) | (85) | 88,222 |
| Changes of items during the period | | | | | |
| Cash dividends | | | | | (2,022) |
| Reserve for dividends payment | | | | | – |
| Profit | | | | | 2,937 |
| Treasury stock disposed, net | | | | | 0 |
| Treasury stock purchased, net | | | | | (5) |
| Reversal of revaluation reserve for land | | | 42 | 42 | – |
| Net changes of items other than shareholders' equity | (10) | (196) | – | (207) | (207) |
| Total changes of items during the period | (10) | (196) | 42 | (165) | 701 |
| Balance at end of year | 95 | (5) | (340) | (250) | 88,924 |

[Reference] Monetary amounts in the Non-consolidated Financial Statements are presented with amounts of less than 1 million yen discarded.

Independent Auditor's Report

May 15, 2017

The Board of Directors
Hitachi Zosen Corporation

KPMG AZSA LLC

Tohei Nitta (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Kazuo Kawai (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Yukihisa Tatsumi (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of Hitachi Zosen Corporation as at March 31, 2017 and for the business year from April 1, 2016 to March 31, 2017 in accordance with Article 444, paragraph 4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 referred to above present fairly, in all material respects, the financial position and the results of operations of Hitachi Zosen Corporation and its consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Independent Auditor's Report

May 15, 2017

The Board of Directors
Hitachi Zosen Corporation

KPMG AZSA LLC

Tohei Nitta (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Kazuo Kawai (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Yukihisa Tatsumi (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the non-consolidated financial statements, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the related notes, and the supplementary schedules of Hitachi Zosen Corporation as at March 31, 2017 and for the 120th business year from April 1, 2016 to March 31, 2017 in accordance with Article 436, paragraph 2, item 1 of the Companies Act.

Management's Responsibility for the Non-consolidated Financial Statements and Others

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

Auditor's Responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the supplementary schedules. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the supplementary schedules, 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 non-consolidated financial statements and the supplementary schedules 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 non-consolidated financial statements and the supplementary schedules.

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 non-consolidated financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Hitachi Zosen Corporation for the period, for which the non-consolidated financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Audit Report of the Board of Corporate Auditors

Audit Report

With respect to the Directors' performance of their duties during the 120th business year (from April 1, 2016 to March 31, 2017), the Board of Corporate Auditors has prepared this audit report as the consensus of all its members after deliberations based on the audit reports prepared by each Corporate Auditor, and hereby reports as follows:

1. Method and Contents of Audit by Corporate Auditors and the Board of Corporate Auditors

- (1) At the meeting of the Board of Corporate Auditors, the Board made a resolution determining the audit policies and their audit plan and, in accordance with the audit standards of the Corporate Auditors determined by the Board of Corporate Auditors, each Corporate Auditor performed an audit based on the audit policies and audit plan.
- (2) Each Corporate Auditor took steps to facilitate communication with Directors, the department in charge of internal auditing and other employees, strove to establish an environment for information collection and auditing, and attended meetings of the Board of Directors, monthly meetings on important management matters and other important meetings. When attending meetings of the Board of Directors, the Corporate Auditors closely monitored the progress and results of deliberations regarding proposals for deliberation and reported matters.
At such meetings, where necessary, the Corporate Auditors asked supplementary questions and stated opinions.
- (3) Each Corporate Auditor received reports on a regular basis from the Directors and employees, etc., requested explanations as necessary, and provided opinions with respect to matters mentioned in the business report. Such matters consist of the contents of the Board of Directors' resolutions regarding the development and maintenance of the system to ensure that the Directors' performance of their duties complied with applicable laws and regulations and the Articles of Incorporation of the Company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of the corporate group consisting of a joint stock company (*kabushiki kaisha*) and the its subsidiaries, and the systems developed and maintained based on such resolutions (internal control systems). Regarding internal control over financial reporting, each Corporate Auditor received reports from Directors and others as well as KPMG AZSA LLC concerning the evaluation of said internal control and the audit status, and requested explanations as necessary.
- (4) With respect to the subsidiaries, each Corporate Auditor endeavored to facilitate mutual understanding and information exchange with the Directors and Corporate Auditors, etc. of each subsidiary, received from subsidiaries reports on their respective businesses periodically, and investigated as necessary.
- (5) Each Corporate Auditor discussed the audit plan with the department in charge of internal auditing in advance and received explanations on the results of audits at the time of each audit's completion. Regarding matters mentioned in audits, each Corporate Auditor confirmed that they had been rectified in a timely manner.
- (6) With respect to accounting auditing, each Corporate Auditor received an explanation of the audit plan from the Accounting Auditor and agreed it in advance, and received a report on the audit results. In addition, each Corporate Auditor monitored and verified whether the Accounting Auditor maintained its independence and properly conducted its audit, received a report from the Accounting Auditor on the status of its performance of

duties, and requested explanations as necessary. In addition, each Corporate Auditor was informed of the establishment of the “System for ensuring that duties are performed appropriately” (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations) in accordance with “Standards for the Quality Control of Audits” (Business Accounting Council, October 28, 2005), etc. by the Accounting Auditor and requested explanations as necessary.

- (7) At a meeting of the Board of Corporate Auditors, each Corporate Auditor informed the other Corporate Auditors of their audit results, exchanged opinions, and shared information. Regarding the results of their investigations or audit activities, each Corporate Auditor provided opinions to Directors and those in charge of various departments as necessary.

Based on the above-described methods, each Corporate Auditor examined the business report and the supplementary schedule thereto, non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and the supplementary schedule thereto, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to consolidated financial statements), for the business year under consideration.

2. Results of Audits

(1) Results of Audit of Business Report, etc.

- (i) We acknowledge that the business report and the supplementary schedule thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the Articles of Incorporation of the Company.
- (ii) We acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the Articles of Incorporation of the Company was found with respect to the Directors’ performance of their duties.
- (iii) We acknowledge that the Board of Directors’ resolutions with respect to the internal control systems are appropriate. We did not find any matter to be mentioned with respect to the contents in the business report and Directors’ performance of their duties concerning the internal control systems, including internal control over financial reporting.

(2) Results of Audit of Non-consolidated Financial Statements and Their Supplementary Schedules

We acknowledge that the methods and results of audit performed by the Accounting Auditor KPMG AZSA LLC are appropriate.

(3) Results of Audit of Consolidated Financial Statements

We acknowledge that the methods and results of audit performed by the Accounting Auditor KPMG AZSA LLC are appropriate.

May 18, 2017

| | | |
|--|--------------------|--------|
| The Board of Corporate Auditors, Hitachi Zosen Corporation | | |
| Full-time Corporate Auditor | Masamichi Tokuhira | (Seal) |
| Full-time Corporate Auditor | Koji Abo | (Seal) |
| Outside Corporate Auditor | Makoto Yagi | (Seal) |
| Outside Corporate Auditor | Kenichi Takashima | (Seal) |