

Hitachi Zosen Corporation

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

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

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

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

### The year in review



A system for manufacturing solar cell film was established

Integration of 10 Group companies

2009  
**Apr.**

60th Anniversary of Hitachi Zosen Technical Research Institute

**June**

**May**

A Hitz Dehydration System was delivered to Hokkaido Bioethanol Co., Ltd.

**July**

**Aug.**

**Sep.**

**Oct.**



A decision was made to expand the NOx removal business by commencing operations next year at a factory run by H&N Catalyst Manufacturing LLC. in the US





Construction of industrial waste incinerators for General Ecology Co., Ltd. was completed

Order received for construction of Heat Recovery and Recycling Facility for the Nishi-Harima Environment Association

Order received for construction of a Clean Center for the Hadano/Isehara Environmental Sanitation Association

Order received for refurbishment of Fujigatani Disposal Center

**Mar.**

Announcement of the resumption of the dividend after 12-year hiatus

**Feb.**

Order received to supply 2 shield tunneling machines for the Taipei Metro

Order received from Kyushu Electric Power Co., Inc. for seawater desalination plant for its Genkai Nuclear Power Plant

**2010  
Jan.**

**Dec.**

**Nov.**

A decision was made to invest capital into the expansion of a dedicated facility for manufacturing casks and canisters for storing and transporting spent nuclear fuel

Completion of Japan's largest diameter (ø13.6m) earth pressure balance shield tunneling machine (for use in construction of the Ohi tunnel on the Shinagawa Route of the Central Circular line in Tokyo)



First unit completed after the launch of full-fledged operations at our new plant for medium-sized marine diesel engines

Order received for project for construction and management of Toyonaka/Itami City Clean Land (provisional name) Recycle Center

Order received for project for construction and management of Matsuyama City's Shin Nishi Clean Center

**Forward-looking statements:**

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

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Chairman and President Minoru Furukawa discusses business performance in fiscal year 2009, the outlook for the coming year, achievements and issues in the medium-term management plan, "Hitz Innovation II," and the Company's vision for the future.



## 11 Special Feature Hitachi Zosen technology: Creating a better future for the earth and for people

An introduction to the technologies of the Hitachi Zosen Group, which help enrich the global environment and support our communities, industries and lifestyles through more efficient use of energy, development of natural energy sources, a cleaner atmosphere, and infrastructure-building.

## 15 Review of Operations

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# Financial Highlights

Hitachi Zosen Corporation and consolidated subsidiaries.

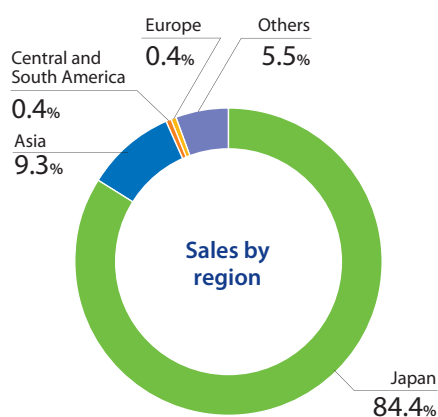
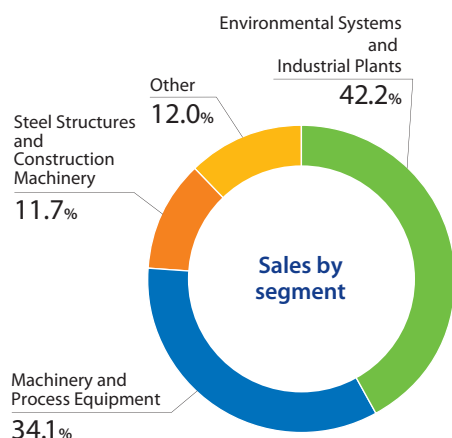
Fiscal year starts on April 1 and ends on March 31 of the following year.

Fiscal year	Millions of yen					Thousands of U.S. dollars
	2005	2006	2007	2008	2009	2009
<b>Operating results</b>						
Orders received	¥334,664	¥327,439	¥337,701	¥253,141	¥337,271	\$3,625,000
Net sales	333,881	293,409	295,503	298,605	273,526	2,939,875
Operating income	2,766	9,919	10,826	11,678	13,557	145,712
Net income (loss)	(29,057)	1,034	15,695	1,448	7,906	84,974
<b>Cash flows</b>						
Cash flows from operating activities	¥ 16,669	¥ (15,668)	¥ (730)	¥ 2,348	¥ 5,508	\$ 59,200
Cash flows from investing activities	12,227	799	26,970	(7,492)	(12,659)	(136,060)
Cash flows from financing activities	309	(17,812)	(10,714)	1,169	8,755	94,099
Cash and cash equivalents at end of year	68,323	38,760	54,229	50,095	51,690	555,567
<b>Financial position</b>						
Net assets	¥ 24,157	¥ 68,652	¥ 85,595	¥ 85,843	¥ 93,200	\$1,001,719
Total assets	390,206	365,143	365,537	367,473	349,331	3,754,632
Interest-bearing debt	153,968	111,972	102,284	103,698	112,794	1,212,317
<b>Per share data (yen, U.S. dollars)</b>						
Net income (loss)						
Basic	¥ (56.54)	¥ 1.43	¥ 19.74	¥ 1.82	¥ 9.95	\$ 0.11
Diluted	—	—	18.02	1.53	8.38	0.09
Net assets	43.18	68.49	89.05	89.05	99.15	1.07
<b>Financial indicators</b>						
Shareholders' equity ratio (%)	6.2	14.9	19.4	19.3	22.5	—
ROIC (%)	1.6	6.7	6.8	6.8	7.6	—
Debt-equity ratio (times)	6.4	2.1	1.4	1.5	1.4	—

Medium-Term Management Plan

Hitz Innovation  
FY2005–FY2007

Hitz Innovation II  
FY2008–FY2010

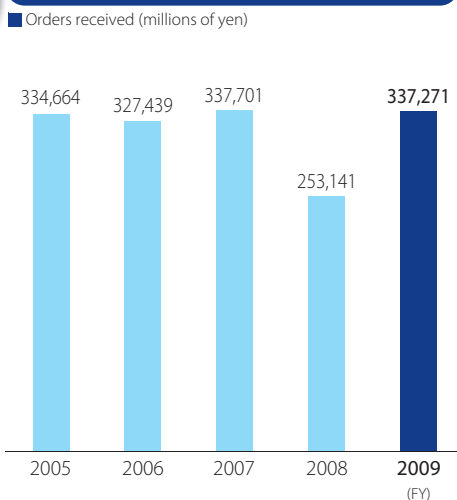


## FY2010 target

Net sales	¥300 billion
Operating income	¥12 billion
Net income	¥8 billion
ROIC (%)	Over 12%
Interest-bearing debt	Under ¥70 billion
Shareholders' equity ratio (%)	Over 30%

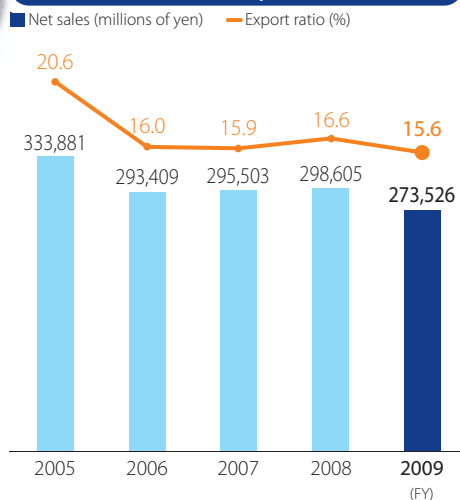
Orders received  
**¥337.3 billion**  
 +33.2%

### Orders received



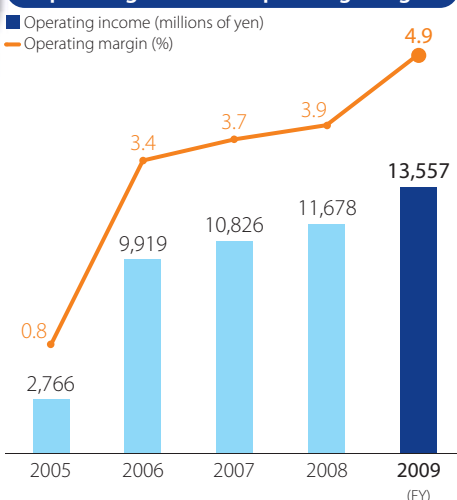
Net sales  
**¥273.5 billion**  
 -8.4%

### Net sales & Export ratio



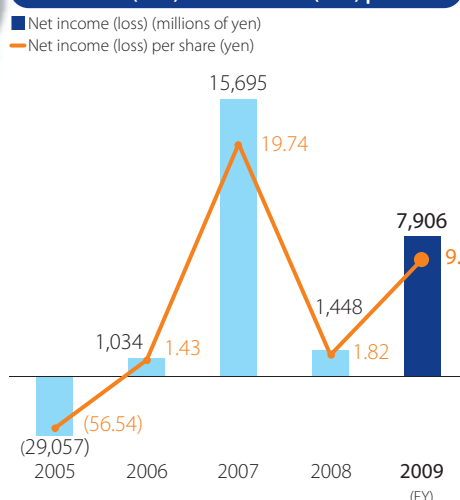
Operating income  
**¥13.6 billion**  
 +16.1%

### Operating income & Operating margin



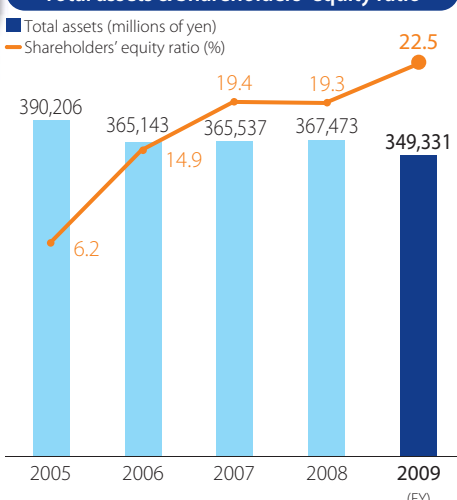
Net income  
**¥7.9 billion**  
 +446.0%

### Net income (loss) & Net income (loss) per share



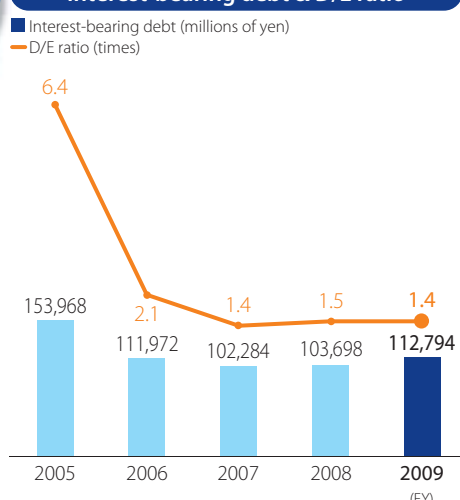
Total assets  
**¥349.3 billion**  
 -4.9%

### Total assets & Shareholders' equity ratio



Interest-bearing debt  
**¥112.8 billion**  
 +8.8%

### Interest-bearing debt & D/E ratio



# To Our Stakeholders

The Hitachi Zosen Group began implementing its three-year medium-term management plan called Hitz Innovation II in fiscal year 2008, with the aim of becoming a highly profitable company.

This plan encompasses the enhancement of the global environment and the improvement of the social infrastructure by utilizing our unique strengths in manufacturing and engineering. It is aimed at realizing a return to profitability in all business fields, and the resumption of dividend payments by the end of the plan. Our fundamental policy is to establish “Technology-Driven Hitz” as our corporate brand, and to create a corporate culture of constant innovation.

We have worked together in implementing various measures to improve our financial position and increase our profitability, and, as a result, in fiscal year 2009 (ended March 31, 2010), the second year of our medium-term management plan, we achieved growth in operating income and ordinary income for the fifth straight year. We also realized a return to profitability in all business fields and the resumption of dividend payments, which were our top priorities.

Fiscal year 2010 is the final year of Hitz Innovation II. Also, April 1, 2011 marks the 130th anniversary of the founding of the Company. Having worked together to implement the strategies of Hitz Innovation II, we are now aiming for dramatic progress in our next medium-term management plan period, beginning in fiscal year 2011.

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

July 2010



Minoru Furukawa, Chairman & President



## Fiscal year 2009 performance report

The following is a report outlining our financial performance for fiscal year 2009 (April 1, 2009 to March 31, 2010) and progress in our medium-term management plan to our stakeholders.

### The market environment and our business performance

In fiscal year 2009, the economic situation remained extremely difficult. In the second half of the year, certain areas of the economy showed signs of picking up, supported by economic stimulus measures. However, due to the sudden downturn that began in autumn 2008, private-sector capital investment was weak, corporate earnings declined, and the employment situation also deteriorated.

Amid this situation, orders received for the fiscal year 2009 amounted to ¥337,270 million, higher than the previous term, largely due to an increase in orders received by the Environmental Systems and Industrial Plants segment. Sales amounted to ¥273,526 million, lower than the previous term, as an increase in the Steel Structures and Construction Machinery segment was outweighed by decreased sales in each of the segments other than the Steel Structures and Construction Machinery segment.

Operating income was ¥13,557 million, rising from the previous year as a result of higher profit margins in the Environmental Systems and Industrial Plants segment. Ordinary income also increased over the previous year to ¥16,067 million, partly owing to higher gains on equity-method investments.

As an extraordinary loss, we posted a provision for the allowance for losses from lawsuits totaling ¥6,174 million, to cover future liability claims from customers following a ruling of violation of antitrust laws in Japan relating to a tender for the construction of refuse incineration plants. As a result, net income after deducting tax costs and minority interests was ¥7,906 million, higher than the previous fiscal year.

### Outlook for fiscal year 2010

With regard to the outlook for fiscal year 2010 (April 1, 2010 to March 31, 2011), we expect the receipt of large-scale orders by the Environmental Systems and Industrial Plants segment, as well as recovery in Machinery and Process Equipment segment. We have therefore set a target for orders received of ¥360,000 million, exceeding

the reporting term. Sales are expected to rise year on year, to ¥300,000 million.

Turning to earnings, we expect to achieve operating income of ¥12,000 million due to decreased profitability in the Machinery and Process Equipment segment, which is still suffering the effects of the slump in private-sector capital investment. We expect to achieve ordinary income of ¥10,000 million, with net income coming in at ¥8,000 million.

### Progress in the Hitz Innovation II three-year medium-term management plan

In the second year of the Hitz Innovation II medium-term management plan, operating income was slightly under target due to a decline in sales resulting from the global recession, but ordinary income and net income were both above target, even though we posted an extraordinary loss to eliminate future risks.

Our financial position is also improving steadily, with the equity ratio against assets rising to 22.5% as of March 31, 2010.

Also, we merged and integrated ten of our consolidated subsidiaries, mainly in the field of manufacturing, as of April 1, 2009 to improve profitability and strengthen corporate governance. The benefits in terms of orders received, profitability, R&D, and securing and developing human resources are already evident.

### Future policy

For our sustained growth and development, we will build business structures that are well-balanced in terms of operations for public demand and operations for private demand, domestic business and overseas business, and new construction work and after-sales maintenance services, and we will establish a solid business foundation that is not influenced by market conditions. At the same time, we will step up R&D activities in our core businesses.

# Top Interview

The Hitachi Zosen Group is implementing the medium-term management plan, “Hitz Innovation II” (fiscal 2008–2010), with its focus on returning all business areas to profitability and restoring dividend payments.

With the plan now in its final year, Chairman and President Minoru Furukawa here evaluates and explains progress in fiscal year 2009, and lays out his vision for the Group for the future.

## Q1 How was business performance during fiscal year 2009?

### Returning all business areas to profitability and resuming dividend payments

First, I would like to address a few words to our shareholders on our progress in returning all business areas to profitability and resuming dividend payments, the main goals of the medium-term management plan Hitz Innovation II.

In fiscal year 2009, the second year of the plan, orders received totaled ¥337.3 billion, net sales of ¥273.5 billion, operating income of ¥13.6 billion, and net income of ¥7.9 billion. We remain dissatisfied with sales and earnings performance, but we did succeed in increasing operating income for the fifth consecutive year despite declining sales. The operating income margin also rose to 4.9%, close to the target of 5% in Hitz Innovation II. And despite booking an extraordinary loss of ¥6.1 billion (allowance for losses from lawsuits) relating to alleged legal violations in tendering for the construction of refuse incineration plants, the net income of ¥7.9 billion demonstrated that the Group’s earnings capability has been significantly strengthened.

As a result of these achievements, we were able to resume dividend payments for the first time in the 12 years since 1997. We paid a dividend of ¥2 per share after giving full consideration to the level of retained earnings we need to ensure future business





development. We consider this amount still inadequate, in light of our failure to meet shareholders' expectations over such a long period of time. However, I would assure our shareholders that this is not a one-time payment, and that we are determined to continue dividend payments from now on.

In fiscal year 2010, we plan to pay an annual dividend of ¥2 per share, as in fiscal year 2009. We aim to increase the dividend in line with further improvement in earnings performance.

## Q<sup>2</sup> How is Hitz Innovation II progressing?

### Three achievements

1. A stronger financial position
2. No more loss-making projects
3. Improved governance

Three significant achievements have already been made in the first two years of Hitz Innovation II. The first is steady progress in strengthening our financial position. In previous years, the Company sold assets to cover extraordinary losses, but at the end of fiscal year 2009, our equity ratio against assets has risen to 22.5%, at last getting back over 20%. Of course, work remains to be done, but compared to the very low level from fiscal year 1998 to fiscal year 2005, we can say we are out of the danger zone. Looking ahead, we need to further bolster our shareholders' equity and reduce interest-bearing debt to be able to address the challenges of taking on major projects such as seawater desalination plants in the Middle East. I want to see the shareholders' equity ratio against assets at 25% by the end of fiscal year 2010, the final year in Hitz Innovation II.

Secondly, we have finally fully eliminated our "negative legacy" of loss-making projects through more rigorous risk management in both acceptance of orders and execution of projects. All loss-making orders have now been purged from our books. At the end of fiscal year 2009, we completed the handover of unprofitable projects in the EPC (Engineering, Procurement and Construction) business, involving refuse incineration plants, and bridge-building business, which had become a source of concern. I believe we are now justified in regarding fiscal year 2009 as the year in which we made a decisive break with the past and set the Hitachi Zosen Group on a new course. But the real tests lie ahead, in terms of finding a pathway to stable earnings generation.

Third, we have strengthened our governance by absorbing 10 subsidiaries and integrating their operations into Hitachi Zosen

Corporation in April 2009. This was a challenging move, but, as a result, the Company has raised its profile as core entity in the Group and taken on a stronger leadership role. We are now also able to benefit from economies of scale in all areas of our business in terms of allocation of corporate resources, procurement of materials and machinery, research and development investments, overseas business expansion, and securing and developing human resources. We are now able to implement strategies and measures more effectively on a Groupwide basis. We do not expect to see the benefits of the business integration mentioned above translate into higher sales at this stage, but in a few years time, we do expect to be generating major synergies.

## Q<sup>3</sup> What issues have you encountered in Hitz Innovation II?

### Strengthening new product development and expanding into overseas markets

The issues that remain are strengthening new product development and expanding our business overseas. The Company has so far placed top priority on resuming dividend payments. By giving precedence to improvement of the financial position, we have been unable to channel adequate corporate resources into growth investment such as research and development and expansion of overseas business. We undertook a top-down review and overhaul of our organization in April 2010 to execute the growth strategy.

Specifically, we have done away with our traditional business demarcation based on segments and shifted to a four-pillar system of headquarters organizations as driver of future growth, with segmentation based on similarity of business and shared technologies. The four new headquarters are the Engineering Headquarters, the Machinery & Infrastructure Headquarters, the Precision Machinery Headquarters, and the Business & Product Development Headquarters, which will handle research and development.

The functions and roles of each headquarters are as follows. The Engineering Headquarters will strengthen its engineering capabilities based on a dual structure comprising an Environmental Systems & Solutions Division, and a Plant Engineering & Energy Solutions Division. The Machinery & Infrastructure Headquarters will take on a key role in manufacturing, likewise breaking down into two discrete businesses, the Machinery Division and the

Infrastructure Division.

In these two headquarters (Engineering, and Machinery & Infrastructure) we have combined businesses that separately depend principally on either private or public sector demand. At the same time, we have enhanced their ability to adapt to a changing economic environment by strengthening decision-making powers at the headquarters-level, to enable more flexible responses to demand fluctuation in both public and private sectors. By contrast, the Precision Machinery Headquarters depends mostly on private sector orders, but we have positioned it as a key headquarters supporting the Group's future business due to its involvement in next-generation technologies such as the production system for photovoltaic cells.

Under this new structure, we aim to strike out on a growth path by strengthening capabilities on development of new products and expanding overseas businesses, while rigorously reducing costs.

## Q4 What are the business performance forecasts for fiscal year 2010?

**¥360 billion in orders received and an operating profit margin of 5%**

Fiscal year 2010 will be the last year of Hitz Innovation II. Our targets for the year are orders received of ¥360 billion, net sales of ¥300 billion, operating income of ¥12 billion, and net income of ¥8 billion. It will be very difficult to meet all of our initial targets set out in Hitz Innovation II due to the impact of the global financial crisis. Now, with full-scale economic recovery still some way off, uncertainty has not yet disappeared from the external environment. Nonetheless, we aim to retain two targets from the original plan, orders received of ¥360 billion and an operating profit margin of 5%. In fiscal year 2009, we successfully returned all business areas to profitability and resumed dividend payments, a major achievement for us. We aim to continue to steadfastly pursue all our goals in Hitz Innovation II.

## Q5 What can you tell us about future growth strategy?

**Net sales of ¥500 billion by fiscal year 2016**

As I explained before, the Group has made a clear break with the past, and has relaunched itself. In other words, we have shifted the overall course of the ship, and our management posture from "defense" to "offense." Under this more aggressive course, we have raised our target for Group's sales for fiscal year 2016 to ¥500 billion, and set ourselves the target of becoming one of the "¥500 billion companies." We will continue to put earnings first, but we regard achievement of net sales of ¥500 billion as the minimum requirement for our continued existence as a contributor to the community.

To place the "¥500 billion enterprise" concept in a formal context, we are creating our next three-year medium-term management plan from fiscal year 2011, which we position as the first stage of the six-year mid-to long-term plan (fiscal 2011–2016).

## Q6 What are the key themes in the drive to become a "¥500 billion enterprise"?

**Three key themes**  
**1. Environment and energy**  
**2. The aftermarket**  
**3. Overseas expansion**

There are three focuses in the "¥500 billion enterprise" plan. The first is environment and energy. Establishment of a low-carbon society through reduction of carbon dioxide emissions is a prerequisite for the continued existence of mankind, and the need for new technologies that can contribute to reduction of environmental load has become more pressing. With its strengths

in renewable energies — refuse-and biomass-based power plant and production systems for photovoltaic cells — the Company will further focus resources on these areas, creating new businesses founded on our proprietary technologies.

The second focus is the aftermarket. As Japan has developed into a society with an aging population and a low birthrate and budgetary pressures have grown, it has become more important to get the most out of existing social infrastructure. The market for public infrastructure maintenance and improvement projects such as refuse incinerators, bridges and hydraulic gates is expected to become as significant in scale as the market for new construction over the coming 10 years.

Likewise, we expect an expansion of demand for after-sales services for diesel engines and other the products systems supplied by us to customers belonging to the private sector. We aim to win more orders from both public and private sectors.

Our third focus is overseas markets, which occupy a pivotal position within the Company's growth strategy. If we are to achieve our target of ¥500 billion in net sales, we need to raise the overseas sales ratio to over 30%, from around 15% at the moment.

Based on this conviction, the Company has launched initiatives on a number of fronts since last year. One example is the launch of operations of a joint-venture manufacturer of NOx removal catalysts in the United States. In moves to stage a full entry into the still promising China market, we launched a technical collaboration with a local manufacturer of shield-tunneling machines, and established joint-venture manufacturers of marine diesel engines and deck machinery. Looking beyond China, we also plan to develop markets across all of Asia including India, Vietnam and Thailand, building out business operations from the Japanese market.

## Q7 What words do you have on the 130th anniversary of the Group's founding?

### Start of new challenges for Hitachi Zosen Group

On April 1, 2011, the Company will celebrate the 130 anniversary of its founding. At the same time, the next medium-term management plan will be launched, and the Hitachi Zosen Group will address new challenges. I am all the more convinced that we must continue to progress steadily toward the "¥500 billion enterprise" target, while pausing to acknowledge the significance of this milestone. We cannot afford to be complacent; we must strengthen our business structure and earnings base and improve our financial position, while committing ourselves to protection of the global environment and consolidation of social infrastructure as we go about our business activities. This will enable us to fulfill our social responsibility as a corporate citizen.

I would like to assure all our stakeholders that you can look forward to strong growth for the newly relaunched Hitachi Zosen Group in years ahead, and ask you for your further support and encouragement in this endeavor.



## Special Feature

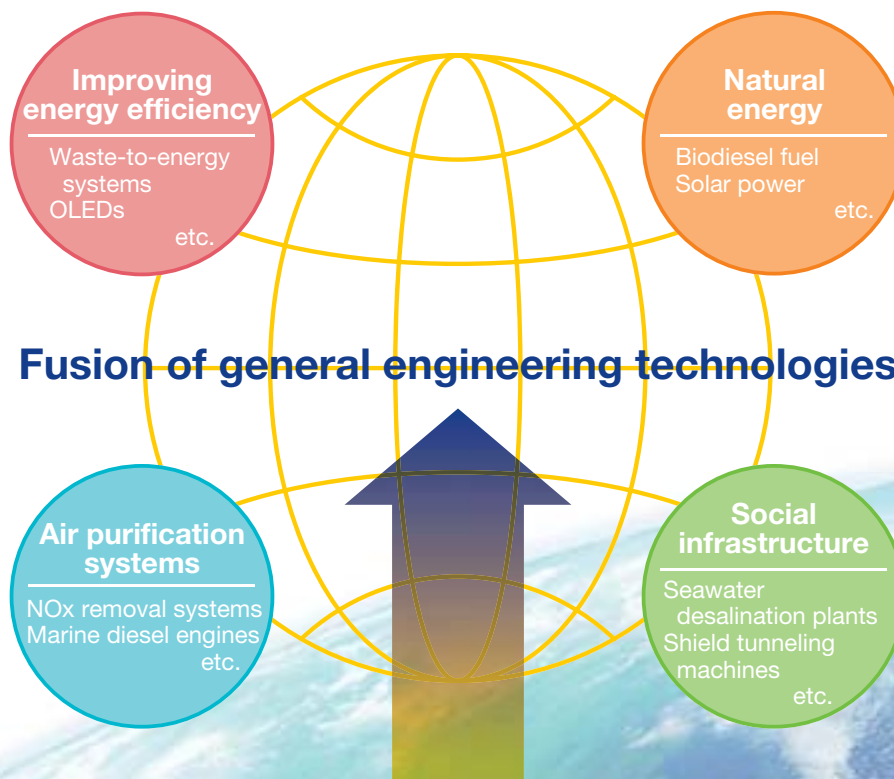
Hitachi Zosen technology:

Creating a better future for the earth and for people

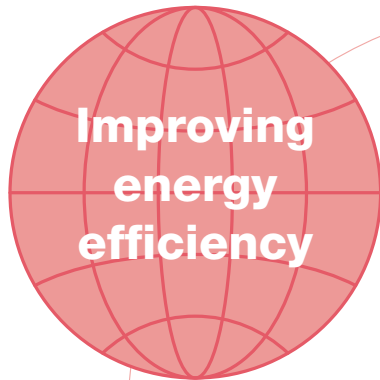
# For the Earth and for People

The goal of the Hitachi Zosen Group is to establish a distinct profile in the environment, energy, infrastructure and a range of other industrial sectors. In particular, we share the worldwide consensus that establishment of a low-carbon society, with reduced CO<sub>2</sub> emissions, is unavoidable if mankind is to survive.

A fusing general engineering technologies drawn from the wide range of industries in which we operate — environmental systems and industrial plants, machinery and process equipment, precision machinery, steel structures and construction machinery, marine and disaster prevention systems — we innovate technologies that help enrich the global environment and underpin communities, industries and lifestyles.



Help enrich the global environment and underpin communities, industries and lifestyles, through expertise in good-practice manufacturing and engineering, and advanced technology



Improving energy efficiency

Waste-to-energy systems



Reducing CO<sub>2</sub> emissions by deriving energy from waste

Pioneering the introduction of waste-to-energy systems in Japan

In 1965, Hitachi Zosen introduced Japan's first incinerator waste-to-energy system, generating electricity by converting heat from incineration of large volumes of refuse into steam for turbines. Currently, 45 of the refuse incineration plants built by Hitachi Zosen convert waste to energy, in line with the Ministry of the Environment's drive to promote high-efficiency waste-to-energy systems. The total generating capacity of these plants is 260,000 kW — equivalent to the 1.2 million tons of CO<sub>2</sub> emitted by some 220,000 households in Japan each year (as of April 1, 2010). The Maishima Plant in Osaka City, built in 2001, has one of the highest generating capacity levels in Japan, at 32,000kW.



Maishima Plant in Osaka City

OLEDs



Reducing CO<sub>2</sub> emissions through energy-saving

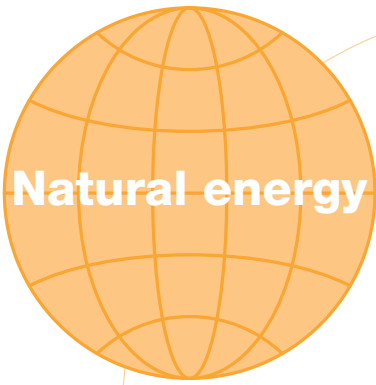
Contributing to the commercial production of OLED displays

Organic light-emitting diodes (OLEDs) are increasingly being used in televisions and other display panels, as well as in LED lighting systems, leveraging the self-illuminating properties of organic materials when activated by an electric current. In addition to offering superior chromogenic properties and enabling thinner panels, this technology cuts power consumption.

The planar evaporation source for OLED display production systems developed by Hitachi Zosen can be used for large-scale display substrates and can ensure efficient organic layer deposition, both of which have become issues for manufacturers. We are also developing an electron-beam vapor-deposition technology that enables high-speed deposition of the metal layer on top the organic layer.



OLED production systems



Solar power



**Converting sunlight into electricity**

Supporting the shift to film substrates for next-generation solar batteries

Along with wind, geothermal, biomass and other natural energy sources which do not emit CO<sub>2</sub>, solar power is gaining traction all over the world. With our strong track record in commercializing substrate manufacturing systems for solar batteries, Hitachi Zosen is developing production devices for plastic film substrates, seen as key to next-generation solar batteries.



Roll to roll continuous membrane formation equipment

Biodiesel fuel



**Recycling used cooking oil to reduce CO<sub>2</sub> emissions**

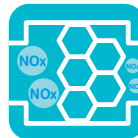
Construction in Kyoto of one of Japan's largest biodiesel fuel production facilities

Biodiesel fuel is based on used tempura oil, recycled after recovery from households, restaurants and canteens. In Kyoto, we have built one of the largest biodiesel fuel production facilities in Japan, with a daily output of 5,000 liters. This biodiesel is used in 160 garbage collection trucks and 93 city buses operating in Kyoto.



Continuous production system for biodiesel fuel

NOx removal systems



**Preventing air pollution by SCR NOx removal systems**

330 units delivered all over the world

Since the late 1960s, concern has risen over atmospheric pollution due to emissions from fossil fuel combustion and from factories and automobiles. Nitrogen oxides (NO<sub>x</sub>) and sulfur oxides (SO<sub>x</sub>) also destroy wildlife habitats by polluting forests, rivers and marshy areas where they fall as acid rain after chemical changes they undergo when in the atmosphere. In 1973, Hitachi Zosen started commercially producing Selective catalytic reduction (SCR) systems, having developed NO<sub>x</sub> removal equipment in the late 1960s. Some 330 Hitachi Zosen SCR systems have been supplied to locations in Japan, the United States, China, South Korea, Taiwan, Middle Eastern countries, and elsewhere.



NOx removal catalysts



Plant with SCR NOx removal systems

Seawater desalination plants



Turning seawater into fresh water for daily use

Supplying 4 million people around the world

Hitachi Zosen has been building desalination plants for Middle Eastern countries and remote Japanese islands that suffer chronic water shortages since 1970. The total amount of fresh water produced daily by all of the plants that we have constructed throughout the world is around 1.2 million tons — enough to meet the daily water needs of some 4 million people. Of a global population of 6.6 billion today, 1.1 billion are unable to secure a stable supply of drinking water. There are two desalination technologies that turn seawater into fresh water usable in daily life: the evaporation method, in which fresh water is produced by evaporating seawater, and the membrane method, in which fresh water is produced by passing seawater through a reverse osmosis membrane. Armed with both of these technologies, Hitachi Zosen is helping to end global water shortages.



Seawater desalination plant



Shield tunneling machines



Contributing to underground infrastructure

1,200 units delivered around the world

Shield tunneling machines are essential for creation of underground infrastructure such as subways, expressway underpasses, river channels for flood control and other underground systems. These machines burrow out tunnels using slowly rotating cutters to cut their way forward. Since 1967, when Hitachi Zosen first began manufacturing shield tunneling machines, we have delivered around 1,200 units around the world. One example is the railway tunnel works for the Bosphorus Straits, with the total distance bored by our machinery at 16,000m. We have also designed and manufactured a shield tunneling machine that is essential for Obayashi Corporation's Ultra Rapid UnderPass (URUP) method, which greatly shortens the amount of time needed to cut a tunnel.



Shield tunneling machine for the Bosphorus

Marine engines



Preventing atmospheric pollution by curbing NOx emissions

Japan's first electronically controlled engines meet the toughest standards

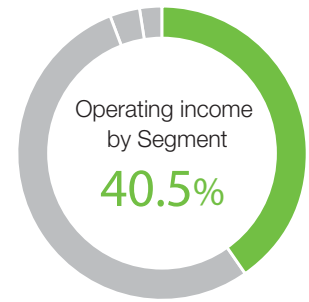
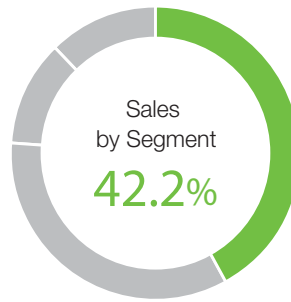
Shipping is a vital means of transportation that supports the prosperity and economic activities of people around the world. The International Maritime Organization has mandated that, in sealane areas where air quality improvement is needed, limits for emissions of NOx must be reduced by 80% compared with 2008 levels, from 2016. To cut NOx emissions from shipping, we completed development of Japan's first electronic control marine engines in 2003. It can regulate not only NOx but also CO<sub>2</sub> emissions more effectively than conventional mechanical marine engines.



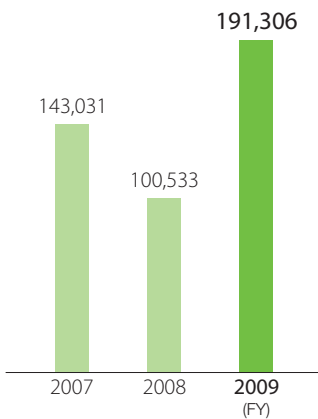
Electronically controlled MAN B&W type 6S50ME-C engine

# Environmental Systems and Industrial Plants Business

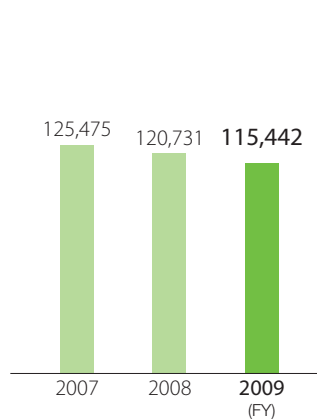
Orders received **¥191.3** billion  
 Sales **¥115.4** billion  
 Operating income **¥5.5** billion



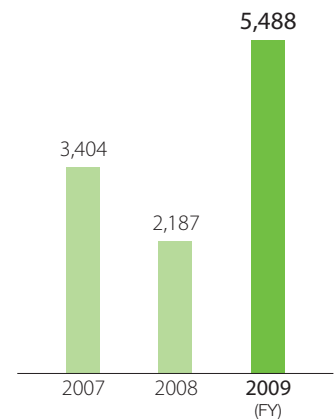
Orders received (Millions of yen)



Sales (Millions of yen)



Operating income (Millions of yen)



\*Fiscal years ended March 31 of the following year.

## Main business lines

### Environmental protection systems

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

### Environmental solutions

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

### Principal Group companies

- Daiki Ataka Engineering Co., Ltd.
- Nichizo Tech INC.
- SN Environment Technology Co., Ltd.
- HEC Engineering Corporation
- Hitz Environment Takamatsu Co., Ltd.

### Biomass utilization / Water treatment / Soil remediation systems

#### Biomass utilization systems

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

#### Water treatment systems

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

#### Soil remediation systems

### Industrial plants

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



## Business overview and outlook for fiscal year 2010

### Environmental systems

With public investment in environmental systems picking up, we received an order from Matsuyama City, Ehime Prefecture for a project involving construction and management of Matsuyama City's Shin Nishi Clean Center, an order from the administrator for Toyonaka/Itami City Clean Land (tentative name), Osaka/Hyogo prefectures for a project involving construction and management of Toyonaka/Itami City Clean Land, an order from Hadano-Isehara Environmental Sanitation Association, Kanagawa Prefecture to construct a "clean center" garbage incineration facility, and an order from Bekki Hayami Regional Municipal Association, Oita Prefecture for the refurbishment of Fujigatani Disposal Center. We also completed and turned over the Higashiyodo waste incineration plant to the Environment Bureau of the City of Osaka and an industrial waste incinerator to General Ecology Co., Ltd., Osaka Prefecture. We have also received numerous orders from local governments for maintenance and inspection of municipal refuse incineration facilities, and repair work, as well as operation and management services.

Overseas, we received orders in China from Xiamen City, Fujian Province, Wuxi City, Jiangsu Province and Haikou City, Hainan Province to design and equip municipal waste incineration facilities, and we also finished designing and equipping waste incineration equipment for Chengdu City, Sichuan Province (already turned over).

### Industrial plants

As a result of the rapid economic downturn which started in the second half of 2008, companies are cancelling or postponing plant and equipment investments.

Against this backdrop, we received an order from Kyushu Electric Power Co., Inc. for desalination plant for its Genkai Nuclear Power Plant, and an order from Samsung Engineering Co., Ltd., Seoul, South Korea, for a seawater desalination plant for the United Arab Emirates (UAE). Apart from this, with the completion of development of the MED (Multi-effect desalination) method, in May 2010 we began constructing the out first MED plant with a desalination capacity of 1,300 tons per day at Kansai Electric Power Co. Inc.'s Takahama Power Station.

Given that the United States is tightening NOx emission regulations, with other regions such as China and the Middle East expected to follow suit, interest in protecting the global environment is growing, and demand for NOx removal catalysts is expected to rise. Consequently, we launched operations in March 2010 of the Scottsboro factory of H&N Catalyst Manufacturing LLC., a company based in Alabama, U.S.A. that was jointly established by Hitachi Zosen Corporation and Nichias Corp. In addition to working to develop more advanced (NOx removal) products and increasing our cost competitiveness, we also plan to expand sales and profits through collaboration with engineering companies and boiler manufacturers in the United States, China and elsewhere.

### Topics

#### High-efficiency waste-to-energy plant constructed in Osaka

Hitachi Zosen Corporation has completed construction of the Higashiyodo Plant for the Environment Bureau of the City of Osaka. The construction project involved replacement of three existing 1974-vintage incinerators (200 tons per day, each for a total capacity of 600 tons per day) which were in a state of deterioration. The new facility employs a wet-type exhaust gas treatment system in combination with other elements such as a low-temperature economizer and two-stage extraction turbine. It is one of the most advanced waste-to-energy conversion facilities of its type in Japan, with a power generation efficiency of over 20%.

▼ Higashiyodo Plant in Osaka City



▼ Seawater desalination plant

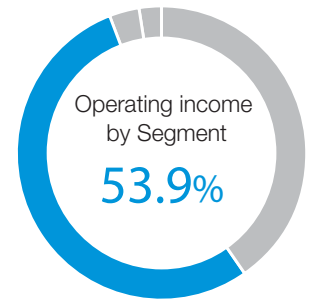
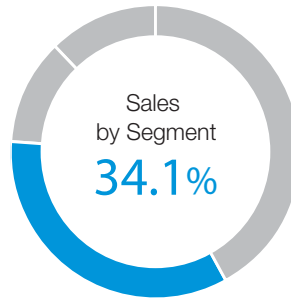


# Machinery and Process Equipment Business

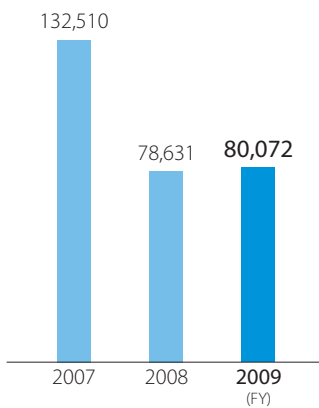
Orders received **¥80.1** billion

Sales **¥93.4** billion

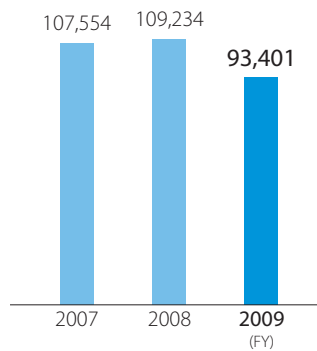
Operating income **¥7.3** billion



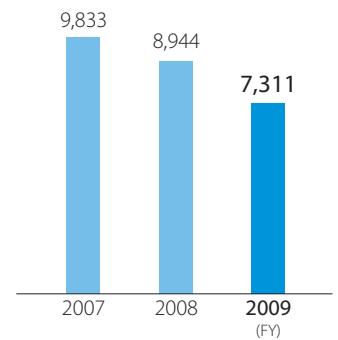
Orders received (Millions of yen)



Sales (Millions of yen)



Operating income (Millions of yen)



\*Fiscal years ended March 31 of the following year.

## Main business lines

### Precision machinery

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

### Industrial machinery

- Food machinery
- Pharmaceutical machinery
- Plastic machinery

### Process equipment / Nuclear power equipment

- Process equipment  
Heat exchangers, pressure vessels, mixing vessels, driers
- Nuclear fuel cycling-related equipment  
Transportation casks, storage casks, storage facilities
- Radioactive waste incineration and reduction facilities

### Marine diesel engines / Press machinery

- Marine diesel engines
- Press machines

### Power generation facilities / New energy

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

### Principal Group companies

- V TEX Corporation
- Ultra Finish Technology Co., Ltd.
- Hitachi Zosen Fukui Corporation
- IMEX Co., Ltd.
- Hitachi-Zosen Plant Techno-Service Corporation

## Business overview and outlook for fiscal year 2010

### Precision machinery

Hit by the economic downturn that followed the bankruptcy of Lehman Brothers, the precision machinery business recorded sales of ¥15.9 billion (falling ¥7.6 billion over the previous year) and operating income of ¥0.4 billion (a decrease of ¥0.3 billion). In the fiscal year 2010, business generally is recovering gradually, although some fields remain stagnant. In particular, the solar battery-related business and other businesses with potential for expansion such as the food production-line video recording system *Shokureko*, used to assure food safety, are generating earnings. We expect sales of ¥35.8 billion (an increase of ¥19.9 billion over the previous year) and operating income of ¥2.3 billion (rising ¥1.9 billion).

### Plastic machinery

Since the Lehman's failure, the market environment has remained difficult in general, but areas related to LCD (Liquid Crystal Display) panels, solar power generation and lithium-ion batteries are performing solidly, and we expect them to expand steadily in the future. In particular, demand for lithium-ion batteries is expected to rise with their widespread adoption in hybrid vehicles and electric cars from 2009 in addition to their conventional application in mobile devices such as mobile phones, notebook computers and electric power tools. The separator films used in lithium-ion batteries now have to meet customers' increasingly stringent performance, safety and cost requirements, and we will work to speed up the development of technology to satisfy these requirements and work hard to expand business.

### Systematic machinery

We focus on the supply of laser patterning equipment, vacuum film-forming devices and conveyance devices for the solar battery industry, which is expected to show major growth in the future. In the fiscal year 2009 we managed to achieve good results, with orders for such systematic machinery amounting to ¥20 billion. We are also working

on the development of new technologies such as new dye-sensitized solar cells and Roll to roll continuous membrane formation equipment. We will make the utmost efforts to expand our business in these production machines in the future. With the recovery of the LCD panel market, demand for polishing systems is also picking up, and we aim to achieve steady orders. In food packaging and medical machinery, we are focusing on expanding orders from producers of alcohol and seasoning for multi-handling filling systems, which is effective in increasing the efficiency of production of diversified products. We are also aiming to increase orders from other food industries for imaging detection and classification systems and orders from the pharmaceutical industry for infusion bag filling systems and artificial kidney manufacturing systems, etc.

### Electronics control equipment

Orders for electronics control equipment were extremely slack, as the market for semiconductors and IT-related products slumped and private-sector capital investment languished due to the recession that began in the autumn of 2008. Against this backdrop, we focused on the image and video technology field and received many orders from food companies for our new production-line video recording system (*Shokureko*) and from railway companies for audio-visual recording systems. Recently, food companies have been investing in food safety and security and food defense (against deliberate contamination), and we plan to further expand sales of *Shokureko*. With the recovery of the market for semiconductors and IT-related products, which started in the second half of the fiscal year 2009, infrastructure industries overseas are buoyant, and orders for electronic boards and electronic unit products are picking up. Accordingly, we plan to expand sales of rolling stock products.

### Materials business

The semiconductor industry was badly shaken by the collapse of Lehman Brothers, and both orders received and sales of lapping plates, which are one of our major products, were slack. However,

▼ Roll to roll continuous membrane formation equipment



▼ Combined shape and color imaging system for food material



since the second half of the fiscal year, there has been a continuous trend towards recovery and expansion in orders received is expected. On the other hand, sales of other material products have been affected by the major delay in the recovery of the auto industry and machine tool industry, meaning the outlook is unpredictable. Looking ahead, we aim to increase sales of lapping plates to the next generation semiconductor market and expand our share of the domestic market. We will also step up our sales activities to win overseas contracts (especially in Asia), which are expected to grow in the future. We are aiming to expand sales of other material products to the environment and energy industries. In particular, we will focus on the new areas of wind power generation components and nuclear power equipment and components. We will work to generate profits through measures such as large reductions in manufacturing costs, a review of our production system, and improvement of machinery capacity utilization.

### Marine diesel engines

Conditions remained difficult owing to the global recession that started last fiscal year, but our marine diesel engine business continued to perform strongly, largely due to increased supply of knock-down production parts to our Chinese joint venture Zhongji Hitachi Zosen Diesel Engine Co., Ltd. (ZHD). Our new factory, aimed at expanding our domestic production capacity for marine diesel engines to 2 million break horsepower per annum (nearly twice the current capacity) also went into full-scale operation, and turned over its first marine diesel engines.

In the future we will continue working to expand marine engine business in the China market through effective utilization of our Chinese joint venture ZHD. We are the only company in Japan that is a double licensee of both Wärtsilä-type and MAN B&W-type marine diesel engines. We aim to leverage our technological superiority, which enables us to manufacture both types of electronically controlled diesel engines, and also to speed up the development of technologies for NOx emission compliance. We will also expand our new menu of after-sales services to meet the needs of our customers.

▼ Wärtsilä 6RT-flex 50-B type electronically controlled engine



### Process equipment

Orders received remained at a low level as competition increased in a shrinking market. Against this backdrop, we received orders from the Middle East for large heat exchangers used in fertilizer plants and oil refineries. We also received and delivered orders from customers in Japan and overseas for process equipment used in various types of plants. In nuclear equipment, we received and delivered an order from the U.S. for spent nuclear fuel storage canisters and orders from domestic power companies for solid waste transfer containers.

Further investments went into plant and equipment to expand the production capacity of spent fuel storage and transport casks and canisters at our Ariake Works. We completed the extension of a specialist factory dedicated to manufacturing these products. Total production capacity of casks and canisters will be around 120 units per year (nearly twice the current capacity).

### Press machines

Automobile manufacturers, which are our main customers in the press machinery business, continued to face difficult conditions despite signs of significant recovery mainly in emerging nations. As a result, orders received by our press machinery business remained extremely low, but began to show an upward trend fuelled by emerging nations at the beginning of this year. In the fiscal year 2009, we manufactured a servo press test model and conducted verification tests to enhance the performance of servo cushion. In April 2009, we teamed up with an automobile manufacturer to carry out a performance evaluation of stamping dies that are used for automobile production. Our servo press machine was evaluated as meeting the world's highest standards. We are currently focusing on supplying high-speed press lines.

▼ Spent nuclear fuel storage casks



## Electricity generation facilities

In the energy field, domestic market conditions remain difficult as a result of the global recession, and in some cases plans are being postponed or cancelled. However, since the market hit bottom in the autumn of 2009 we have received orders from domestic power companies for steam turbine generators. With new construction projects also getting off the ground elsewhere, we are stepping up our sales activities.

We will also proceed to expand operations in the China market and focus on product diversification through the development of new products (vegetable oil-fired biomass power plants, waste heat recovery systems, and industrial-use solid oxide fuel cells), as well as after-sales service and maintenance.

## Topics

### Expansion of production facilities for spent nuclear fuel transport and storage casks

In August 2010, we enlarged a dedicated facility within the Ariake Works in Kumamoto Prefecture for casks and canisters for transportation and storage of spent nuclear fuel, to increase production capacity.

Recent years have seen rising demand in Japan and abroad for canisters and casks for interim storage and transportation of spent nuclear fuel, amid dramatically increased interest in nuclear power as a pathway to a low-carbon society. Accordingly, we have decided to double cask and canister production capacity to around 120 units a year in fiscal year 2011, by expanding the dedicated facility at Ariake from its current length of 80m to 200m (width: 23m).

Hitachi Zosen has been actively growing the canister and cask business, for example by providing technology to Kimura Chemical Plants Co., Ltd. (Hyogo Prefecture), and NAC International of the United States (Georgia) for solid neutron shielding materials used in transportation and storage containers for spent nuclear fuel. Looking ahead, we plan to continue to develop the market and expand sales of highly safe and reliable products to meet rising demand for nuclear-plant casks and canisters.

▼ CTL reactor



▼ 18,000kN servo press

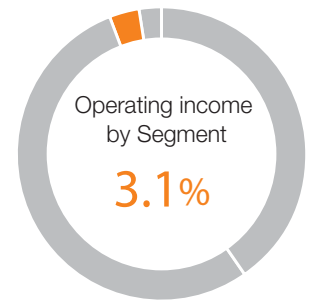
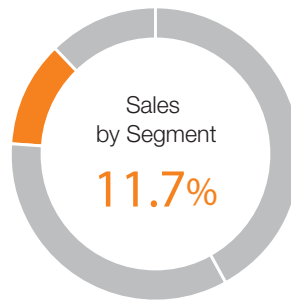


# Steel Structures and Construction Machinery Business

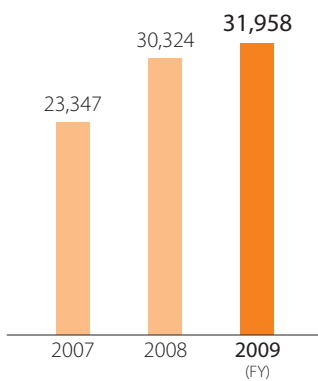
Orders received **¥32.0 billion**

Sales **¥31.9 billion**

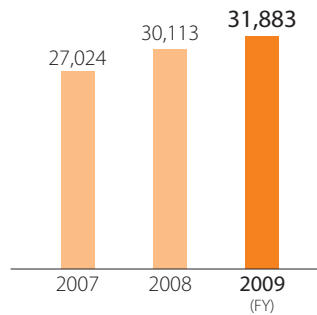
Operating income **¥0.4 billion**



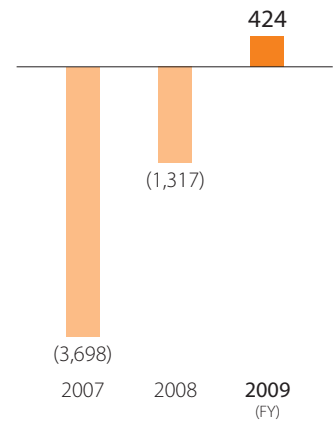
Orders received (Millions of yen)



Sales (Millions of yen)



Operating income (loss) (Millions of yen)



\*Fiscal years ended March 31 of the following year.

## Main business lines

### Bridges / Hydraulic gates / Marine civil engineering

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

### Construction machinery

- Shield tunneling machines
- Tunnel boring machines

### Principal Group companies

- Promotec Corporation

## Topics

### Delivery of two shield tunneling machines for the Taipei Metro

In March 2010, two 6.24m diameter mud pressure shield tunneling machines were delivered to the Chun Yuan-Iwata Chizaki joint venture (Chun Yuan Construction Co., Ltd. of Taiwan and Sapporo-based Iwata Chizaki Inc.) for the extension of the Tucheng Line on the Taipei Metro to the Tucheng industrial area. Each of the two new machines will excavate a 1,529-meter section between Yongning and Dingpu stations. The cutter bits feature a unique design (in terms of shape, materials and configuration) that enables the machines to dig through both gravel and sandstone without requiring bit replacement.

## Business overview and outlook for fiscal year 2010

### Steel structures

Despite a difficult environment characterized by increasingly fierce competition against the backdrop of the public spending review, profit improved significantly over the previous year because we achieved large reductions in fixed costs, largely by concentrating bridge construction operations at the Mukaishima Works. Also, we received an order from the Kyushu Regional Development Bureau under the Ministry of Land, Infrastructure and Transport (MLIT) for the construction of the upper portion of No. 1 Kitagawa River Bridge, an order from the Kanto Regional Development Bureau for the construction of an elevated bridge for the Bay Shore Route expressway in Negishi area (Kanagawa), and an order from the Chubu Regional Development Bureau for two large-scale bridge repair work projects. We also continued to receive orders for construction work on Japan's largest embedded steel plate cells, which will be used to make Yokohama City's Minami Honmoku Pier earthquake resistant, and orders from electricity generation companies for the construction of steel stacks as well as for large-scale seismic retrofitting projects. Likewise, we received and delivered orders for bridges, hydraulic gates, marine structures, other building and structures, and steel stacks from MLIT, as well as local authorities, expressway companies, electricity generation companies and construction companies.

We also developed a flap gate type seawall designed for installation on land (*neoRiSe*) to provide protection against high tides and tsunamis.

We plan to generate stable earnings in steel structures business in the future through continued efforts to ensure the safety of coastal regions and prevent disasters, and through the expansion of bridge maintenance operations.

### Construction machinery

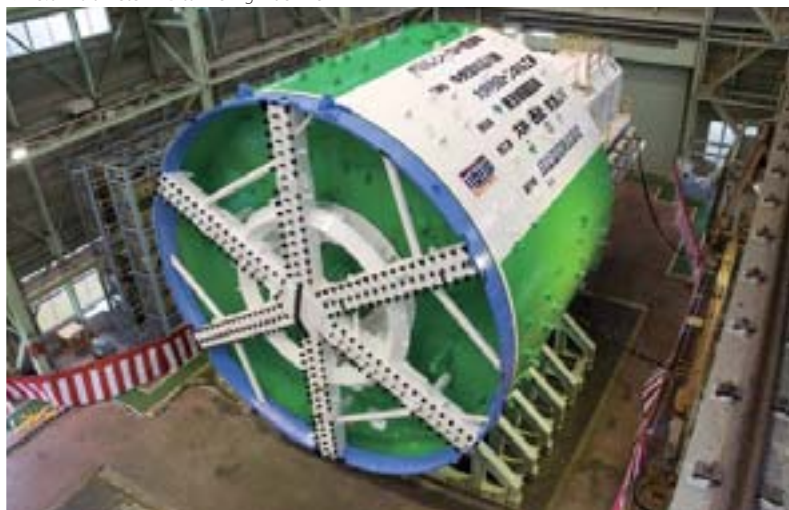
Domestically, the difficult environment for orders persisted amid sluggishness in public-sector investment. Meanwhile, overseas, we opened a base in Singapore and focused on expanding sales to South East Asia, Hong Kong and India to make further inroads into emerging markets, which show an expansionary trend fuelled by ongoing large-scale projects. As a result, we received orders from North America, Taiwan and Singapore for various types of shield tunneling machines and orders received, including from domestic customers, increased sharply, up 33% over the previous year. In Japan, we turned over Japan's largest earth pressure balance (EPB) shield tunneling machine with a diameter of 13.6m, and also delivered various shield tunneling machines in Japan and overseas.

Moving forward, we will meet domestic demand for various types of shield tunneling machines and also work to expand operations overseas to meet demand from infrastructure businesses in expanding emerging markets.

▼ Steel plate cells



▼ 13.6m-diameter EPB tunneling machine

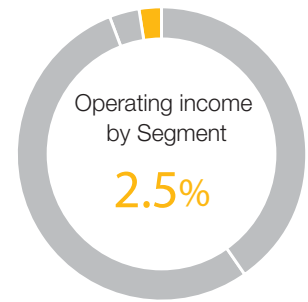
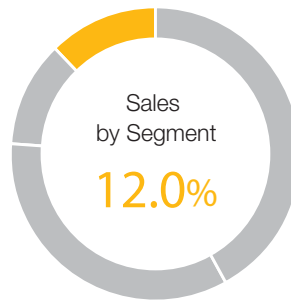


# Other Businesses

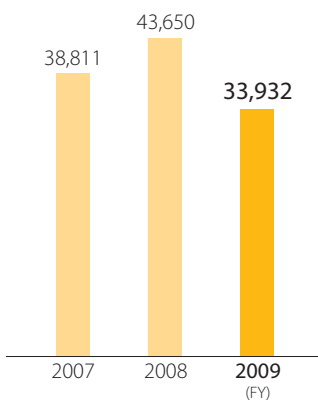
Orders received **¥33.9 billion**

Sales **¥32.8 billion**

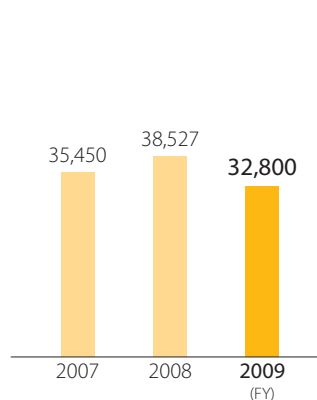
Operating income **¥0.3 billion**



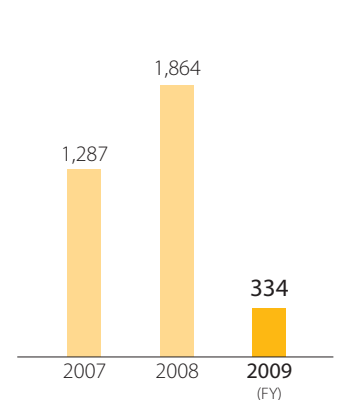
Orders received (Millions of yen)



Sales (Millions of yen)



Operating income (Millions of yen)



\*Fiscal years ended March 31 of the following year.

## Main business lines

### Marine disaster prevention systems

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

Electronics systems / Control systems

High precision positioning information systems

Slurry ice manufacturing systems

Deck machinery

Electricity power business

### Principal Group companies

- Ohnami Corporation
- Nippon GPS Solutions Corporation
- Nippon GPS Data Service Corporation
- Seillac Co., Ltd.
- Slurry-21 Co., Ltd.
- Nippon Pusnes Co., Ltd.
- CASTING & FORGING Co., Ltd.



## Business overview and outlook for fiscal year 2010

In the marine infrastructure business, we shipped GPS ocean wave meters for Toa Corporation (original order from MLIT's Shikoku Regional Development Bureau) and for Toyo Construction Co., Ltd. (original order from MLIT's Tohoku Regional Development Bureau). The Group has now manufactured and delivered a total of 12 GPS wave observation systems, which enable early detection of tsunamis approaching the Japanese coast and provide information to the Japan Meteorological Agency.

In a wide-area fishery development project for Kochi Prefecture, we completed works on an order for surface floating fish-breeding reef at Tosa Kuroshio fish farm No.16. By equipping floating fish-breeding reefs with oceanographical observation systems, we are improving the environment for marine resources and raising productivity levels in the fishery industry.

In food-plant operations, we won an order from Hachinohe City in Aomori Prefecture for a project for seawater-based slurry ice manufacturing equipment. We also delivered a movable slurry ice manufacturing system for Hokkaido Needs Co., Ltd. Through its fishery processing facilities, the Company will continue to add value in fishery products and help raise food safety standards in Japan.

We also won an order from Hachinohe City in Aomori Prefecture for a project for seawater-based slurry ice manufacturing equipment for Building A of Tatehana district sorting center. The order will be delivered by the end of March 2011. This facility being planned by Hachinohe must meet Ministry of Health, Labour and Welfare-recognized standards for facilities for seafood exports to the European Union — the most stringent Hazard Analysis and Critical Control Point (HACCP) controls.

The Company and its subsidiary Slurry-21 Co., Ltd. plan to expand sales of slurry ice manufacturing systems to meet tougher health and safety standards in food production and more rigorous freshness demands for marine products logistics companies.

### Topics

#### Delivery of movable slurry ice manufacturing system demonstration unit

In March 2010, Hitachi Zosen delivered a movable slurry ice manufacturing system for Hokkaido Needs Co., Ltd. The system is a demonstration unit (movable sherbet ice manufacturing system with snow-ice and blocks of ice) developed after Hokkaido Needs was awarded the development support grant for SMEs engaged in good-practice manufacturing (support for trial development) by National Federation of Small Business Associations. Hitachi Zosen Group provided part of the proprietary expertise used in the slurry ice manufacturing system.

Through our business alliance established in 2003 with the Canadian supplier of slurry ice manufacturing machines Sunwell Technologies Inc., Hitachi Zosen has moved onto the next generation of ice manufacturing machines. We have won orders for 16 units in Japan, mainly from fish-processing facilities and local authorities. Backed by our track record and strong technological reputation, we have taken on technological support including building of key components for this system.

▼ GPS buoy wave/Tsunami/Tide observation system



▼ Movable slurry ice manufacturing system



# Technological Development

## Basic policy

Our basic policy is to focus on research and development activities in line with our medium-term management plan Hitz Innovation II under the slogan "Impact and Speed." Our research and development structure consists of the Business and Product Development Headquarters which oversees two units: the Product Development Project Department, which promotes product and system development in existing businesses and new businesses in the form of projects, and the Technical Research Institute, which is responsible for the development of product elemental technologies and production technologies as well as the development of future core technologies. These units pursue development activities, while seeking to strengthen collaboration with business divisions and sales divisions.

## Results for fiscal year 2009

Development activities in fiscal year 2009 focused on 72 themes, including the improvement and upgrading of existing products, as well as new business and new product development.

In environmental protection, industrial plants and energy business areas, we made progress with the development of high-efficiency waste-to-energy systems and low emission stoker-type incinerators. We also began manufacturing demonstration systems for our vapor compression MED (multi-effect desalination) method. We have also launched the manufacture of bioethanol, and the development of a high-performance dehydration film, which will contribute to the realization of a low-carbon society.

In the machinery and infrastructure business areas, we achieved significant improvements in quality and productivity through the commercial application of laser welding technology, and we also pursued development activities that will lead to improvements in production technology such as the development of technology for the simulation of residual stress fields in welded structures. Also, in disaster prevention business, we made progress with the development of an electric discharge impulse crushing method and flap gates for protection against tsunami and flood tide disasters.

In the precision machinery business area, we improved the performance of equipment related to the integrated manufacturing of solar cell films, focusing on our film-forming machine with elastic metal roll UF roll and our Roll to roll continuous membrane formation equipment, as well as laser precision patterning equipment. In OLED-related businesses, we continued to take part in a NEDO project aimed at the development of large-scale OLED film-forming equipment.

We also conducted research in up-and-coming fields, such as carbon nanotubes, all solid type lithium-ion cells and duzhong elastomers made using Eucommia gum.

## Plans for fiscal year 2010

Regarding development activities in fiscal year 2010 (ending March 31, 2011), in principle we will maintain our fiscal 2009 policies and areas of focus.

In the environmental protection, industrial plant and energy business areas, we aim to upgrade high-efficiency waste-to-energy systems and stoker-type incinerators, make progress with the development of proprietary manufacturing processes for bioethanol and biodegradable plastic, and complete the demonstration systems for vapor compression MED method.

In the machinery and infrastructure business area, we will foster innovations in production technologies using laser welding technologies and robot welding and also continue development of a demonstration-machine flap gate for protection against tsunami and flood tide disasters.

In the precision machinery business area, we will continue with the development of high-performance film-forming technologies using the Roll to roll method, and vacuum evaporation equipment for OLED as part of a NEDO project.

In up-and-coming fields, we will continue developing new technology such as carbon nanotubes and elastomers made using Eucommia gum in preparation for practical application.



Roll to roll continuous membrane formation equipment



Flap gate-type wave breaker (water tank trial)



Eucommia woods



Duzhong elastomers made using Eucommia

# Intellectual Property Activity Report

## Basic policy

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

In addition, specialist units dedicated to the management of intellectual property provide guidance to the managements of all other members and affiliates of the Hitachi Zosen Group in respect to the ethical pursuit and protection of patent rights, so as to realize Groupwide intellectual property management that is in conformity with our business philosophy.

## Medium-term intellectual property activities

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

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

## Management of intellectual property rights

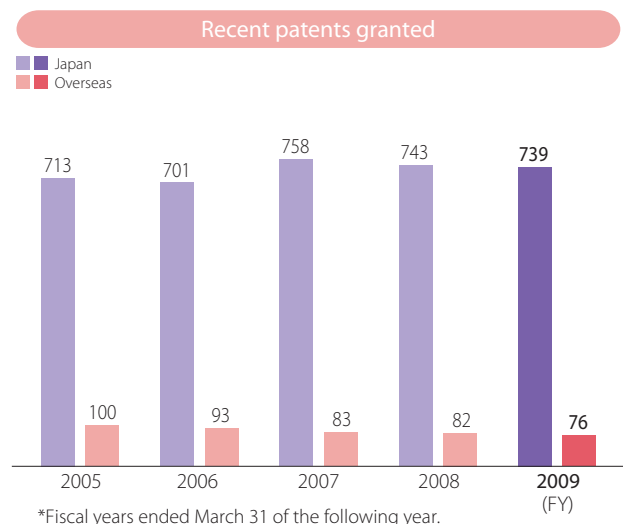
To coordinate intellectual property activities across Group companies, we have established specialist units dedicated to the management of intellectual property within Hitachi Zosen Corporation's Head Office organization. These specialist units provide support and guidance to subsidiaries and affiliates of the Hitachi Zosen Group as necessary on the management of intellectual property as well as possible litigation.

At specialist units dedicated to management of intellectual property, we have 13 "patent managers" working at our Business & Product Development Headquarters and the separate business divisions. In addition, 13 "patent leaders" have been appointed (three at the Business & Product Development Headquarters and 10 at some of the business divisions). Specialist staff at the Legal and Intellectual Property Department work together with the patent managers and patent leaders to discover patent possibilities and applications for the Company's research findings (i.e., potential inventions) and take them to the patent application stage.

To encourage staff to do the work required to discover valuable new technologies and processes, and to reward them when they are successful, we have laid down regulations governing the patent application process, and have stipulated criteria for judging the originality and value of inventions. Monetary rewards are given to inventors when patent application, registration and practical application occurs. Rewards for practical application are based on a fair and impartial evaluation process that takes into account the market value of the invention. This is reflected in the payment to the inventor.

Outstanding inventions owned by Hitachi Zosen Corporation are also awarded prizes by outside agencies. Patent No. 3194904 relating to a sheet and film-forming roll deposition system received the 2009 Osaka Outstanding Invention Award, while Patent No. 3247059 relating to an ash treatment system and Patent No. 3100532 relating to an electric discharge impulse crushing system were awarded 2009 Kinki Regional Invention Awards. Patent No. 3803177 relating to a GPS-wave meter (tsunami detection) system also won an award in Japan's National Invention Awards 2010.

As of the end of fiscal year 2009 (ended March 31, 2010), Hitachi Zosen Corporation holds 739 patents in Japan and 76 overseas. It also holds 30 design rights in Japan and 112 trademark rights.



# Corporate Governance and Compliance

We are pushing ahead to establish a framework that enables efficient corporate governance, as we recognize that enhancement of corporate governance is one of our top priority management issues to ensure corporate soundness, transparency and efficiency, increase corporate value, and fulfill the Company's responsibilities as a good corporate citizen.

Furthermore, in order to strengthen the internal control system still further we have drawn up a Basic Policy for Internal Control, and are aiming to improve the effectiveness of corporate governance and raise corporate value based on this policy.

## Corporate governance system

Our principal management decision-making bodies consist of the Board of Directors and the Management Strategy Committee. The Board of Directors decides upon important matters such as basic management policies, and oversees the execution of operations. The Management Strategy Committee, which consists of top management personnel, conducts thorough discussion of basic strategies and important matters. This system facilitates appropriate management decisions.

As members of the Board of Directors, directors are responsible for management decision-making and oversight, and as managing and supervising executives who also share responsibilities for the execution of business, they instruct, lead and supervise the divisions in charge. The Company has also adopted an executive officer system, which is aimed at striking a balance between strengthening the supervision function performed by the directors and facilitating the swift and appropriate execution of business. In order to achieve this objective, some of the business execution functions performed by directors are delegated to executive officers. As of July 2010, there are 10 directors and 11 executive officers.

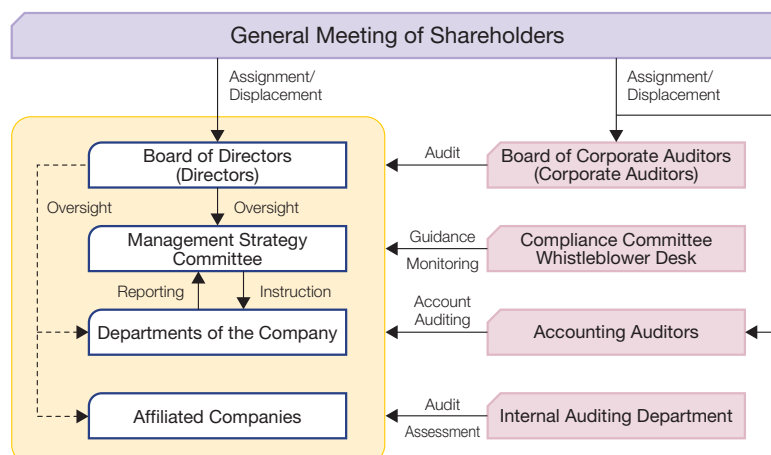
Auditing functions are performed by the Board of Auditors, comprising 2 full-time corporate auditors and 2 outside auditors (part-time corporate auditors) as of July 2010. Corporate auditors attend meetings of the Board of Directors regularly and other meetings as needed, and implement audits of management from a neutral, objective standpoint under a system in which they can fully audit the execution of operations of directors and other high-ranking executives. In addition to the corporate auditors (Board of Auditors), we have set up an Internal Auditing Department as

a division responsible for internal audits. The Internal Auditing Group within the department implements ongoing internal audits related to matters such as finance and accounting, internal controls and procedures, business risks and compliance across all management activities. At the same time, the Internal Control Group within the Internal Auditing Department makes assessments of internal controls on financial reporting in line with the stipulations of the Financial Instruments and Exchange Act, aiming at the improvement of internal control functions through the exchange of information with the corporate auditors at appropriate times.

## Compliance system

We are working proactively on strengthening compliance management as a priority management issue in order to conduct management in conformity with laws and regulations and corporate ethics, and fulfill the Company's social responsibilities.

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



# Board of Directors, Corporate Auditors and Executive Officers

(As of June 25, 2010)



Representative Director  
Chairman & President

**Minoru Furukawa**



Vice Chairman

**Shunsaku Yahata**



Representative Director  
Executive Vice President

**Koichiro Anzai**



Managing Director

**Akifumi Mitani**



Managing Director

**Hisao Matsuwake**



Managing Director

**Seiichiro Tsurisaki**



Director

**Toru Shimizu**



Director

**Takashi Tanisho**



Director

**Kenji Sawada**



Director

**Masayuki Morikata**



Full-time Corporate Auditor

**Hiromitsu Miyasaka**



Full-time Corporate Auditor

**Motohiro Fujii**



Corporate Auditor

**Sakae Kanno**



Corporate Auditor

**Junnosuke Ban**



Managing Executive Officer

**Shosaku Umezawa**



Managing Executive Officer

**Toru Yoshioka**



Executive Officer

**Koji Abo**



Executive Officer

**Masahiro Sakai**



Executive Officer

**Ryoji Kasumoto**



Executive Officer

**Wataru Kobashi**



Executive Officer

**Masajiro Shimizu**



Executive Officer

**Nobuyoshi Mori**



Executive Officer

**Masayuki Tanigawa**



Executive Officer

**Shoichi Momose**



Executive Officer

**Seiji Shimoda**

# Tackling Environmental Issues

## Efforts to protect the environment

Hitachi Zosen's fundamental policy is to achieve a constant state of harmony between its business operations in every area and the needs of the natural environment. To embody our efforts on environmental issues, we formulated a number of basic environmental protection policies in 1992. These policies include the statement that: "The Company recognizes its responsibilities as a good corporate citizen and proactively solves environmental issues on a global basis. It endeavors to promote environmental protection based on the understanding that the protection of nature and the living environments of local communities are corporate social responsibilities." In 1993, the Company's Environmental Protection Promotion Committee drew up an environmental protection promotion plan based on these basic policies. With this plan, we are now implementing global environmental protection activities, such as protecting the ozone layer, mitigation of global warming, and reducing and recycling waste, in addition to conventional activities. Each office and work-place has set targets based on this promotion plan, and the staff at each location are striving to preserve the environment. Since 1994, we have audited offices concerning environmental protection once a year, according to internal audit standards which include the provision of global environment protection.

## Promoting environmental management systems

In March 1998, Hitachi Zosen's Maizuru Works became Japan's first shipyard to obtain ISO14001 certification. Since then, six domestic workplaces, one district and three divisions, have acquired the certification. We plan to continuously improve our environmental management systems so that we can implement appropriate countermeasures against risks associated with the environment.

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

As part of its efforts to reduce the use of ozone-depleting substances, we discontinued the use of specified chlorofluorocarbons and trichloroethane for washing in 1995, and

of specific halons in extinguishants in 2002, and we aim to reduce CO<sub>2</sub> emissions to 6% below the level for the base year of fiscal year 1990 (ended March 31, 1991) as an annual average figure over the 2008-2012 five-fiscal-year period. To achieve this, we are improving operational processes, introducing energy-saving transformers and compressors, using energy-saving equipment such as inverter fluorescent lights, as well as setting and observing standards for air conditioning temperatures.

We set a target of cutting the discharge of waste from 1991 levels by 15% by 2000, which we achieved in 1999. A new goal was set in 2000 to cut the level further to 10% below 2000 levels by 2010, with the aim of reducing landfill to 40% below 1999 levels by 2010.

We are stepping up our efforts to recycle all scrap metal, use waste paper as materials for recycled paper, and turn waste oil into fuel. We are also recycling scrap wood into litter for livestock, flux into roadbed materials, and shotblast waste sand into cement materials.

## Managing chemical substances

We fully comprehend the issues regarding exhaust gases and the quantity of chemical substances that are moved in accordance with the PRTR method, and we manage such substance appropriately, while taking steps to reduce their amount under the newly formulated "Voluntary Management Plan for Chemical Substances."

## Promoting communication on environmental protection

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

Medium- and long-term targets

Item	Purpose	Targets	Fiscal year for achieving targets	Results for fiscal year 2009
Reduction of energy consumption	Suppression of CO <sub>2</sub>	Reduce energy consumption rate by 6% compared with fiscal year 1990 levels	2012 Annual average for fiscal 2008-12	Increased by 41%
Reduction of waste materials	Suppression of waste discharge	Reduce total waste discharge rate by 10% from fiscal year 2000 levels	2010	Increased by 11%
	Suppression of landfill disposal quantity	Reduce total landfill disposal quantity by 40% compared with fiscal year 1999 levels	2010	Decreased by 1%

\*Fiscal years ended March 31 of the following year.



## Financial Section

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## Consolidated Balance Sheets

Hitachi Zosen Corporation and Consolidated Subsidiaries  
At March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 5 and 15)	¥ 51,306	¥ 55,826	\$ 600,021
Receivables:			
Trade notes and accounts:			
Nonconsolidated subsidiaries and affiliates	4,259	3,599	38,682
Other	92,326	87,991	945,733
Other	5,751	3,917	42,100
Allowance for doubtful receivables	(820)	(591)	(6,352)
	101,516	94,916	1,020,163
Marketable securities (Note 3)	86	44	473
Inventories (Note 4)	46,432	32,824	352,795
Deferred tax assets (Note 20)	4,482	4,138	44,476
Prepaid expenses and other current assets (Note 5)	8,391	3,253	34,963
Total current assets	212,213	191,001	2,052,891
<b>Property, plant and equipment, at cost (Note 5):</b>			
Land (Notes 7 and 21)	71,232	71,303	766,369
Buildings and structures (Note 21)	72,738	70,336	755,976
Machinery and equipment	81,670	89,629	963,339
Lease assets (Note 16)	144	428	4,600
Construction in progress	1,596	731	7,857
	227,380	232,427	2,498,141
Less accumulated depreciation	(94,103)	(100,337)	(1,078,429)
Property, plant and equipment, net	133,277	132,090	1,419,712
<b>Intangible assets</b>	1,622	1,644	17,670
<b>Investments and other noncurrent assets:</b>			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	9,498	14,141	151,988
Investments in securities (Notes 3 and 5)	6,312	6,448	69,304
Long-term loans receivable (Note 5)	144	109	1,172
Deferred tax assets (Note 20)	1,774	1,136	12,210
Other investments and noncurrent assets (Note 5)	3,584	3,805	40,896
Allowance for doubtful receivables	(1,467)	(1,316)	(14,145)
Total investments and other noncurrent assets	19,845	24,323	261,425
<b>Deferred assets</b>	516	273	2,934
<b>Total assets</b>	¥367,473	¥349,331	\$3,754,632

See the accompanying Notes to the Consolidated Financial Statements.



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	¥ 388	¥ 300	\$ 3,225
Other	71,378	52,822	567,734
Short-term loans (Note 5)	14,200	10,946	117,648
Current portion of long-term debt (Note 5)	15,598	32,398	348,216
Accrued expenses	30,627	28,601	307,405
Accrued income taxes	1,885	882	9,480
Advances received on work in progress	30,789	23,296	250,387
Reserve for directors' and corporate auditors' bonuses	20	75	806
Reserve for product warranty	5,342	4,170	44,820
Reserve for losses on construction contracts	2,490	3,551	38,166
Reserve for losses from lawsuits	13,914	11,869	127,569
Other current liabilities	10,574	7,060	75,881
Total current liabilities	197,205	175,970	1,891,337
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 5)	73,720	69,020	741,832
Deferred tax liabilities (Note 20)	1,563	1,723	18,519
Employees' severance and retirement benefits (Note 19)	6,943	7,431	79,869
Directors' and corporate auditors' severance and retirement benefits	623	677	7,276
Negative goodwill	898	439	4,718
Other noncurrent liabilities (Note 5)	678	871	9,362
Total long-term liabilities	84,425	80,161	861,576
Total liabilities	281,630	256,131	2,752,913
<b>CONTINGENT LIABILITIES (Note 6)</b>			
<b>NET ASSETS (Note 8):</b>			
Common stock			
Authorized — 2,000,000,000 shares			
Issued — 796,073,282 shares at March 31, 2009 and 2010	45,442	45,442	488,413
Capital surplus	5,974	5,974	64,209
Retained earnings	20,708	28,587	307,255
Treasury stock, at cost — 1,448,905 shares in 2009 — 2,081,269 shares in 2010	(186)	(267)	(2,870)
Net unrealized holding losses on securities	(377)	(90)	(967)
Net unrealized holding losses on hedging derivatives	(403)	(463)	(4,976)
Land revaluation difference (Note 7)	(156)	(140)	(1,505)
Foreign currency translation adjustments	(245)	(316)	(3,397)
Subscription rights to shares	—	1	11
Minority interests in consolidated subsidiaries	15,086	14,472	155,546
Total net assets	85,843	93,200	1,001,719
<b>Total liabilities and net assets</b>	<b>¥367,473</b>	<b>¥349,331</b>	<b>\$3,754,632</b>

See the accompanying Notes to the Consolidated Financial Statements.

## Consolidated Statements of Income

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
<b>Net sales</b>	¥298,605	<b>¥273,526</b>	<b>\$2,939,875</b>
<b>Cost of sales</b> (Note 9)	255,554	<b>230,896</b>	<b>2,481,685</b>
Gross profit	43,051	<b>42,630</b>	<b>458,190</b>
<b>Selling, general and administrative expenses</b>	31,373	<b>29,073</b>	<b>312,478</b>
Operating income	11,678	<b>13,557</b>	<b>145,712</b>
<b>Other income (expenses):</b>			
Interest and dividend income	302	<b>224</b>	<b>2,407</b>
Interest expense	(1,732)	<b>(1,479)</b>	<b>(15,896)</b>
Foreign exchange loss	(12)	<b>(156)</b>	<b>(1,677)</b>
Equity in net income of nonconsolidated subsidiaries and affiliates	62	<b>3,688</b>	<b>39,639</b>
Gain on sale of property (Note 10)	1,603	—	—
Reversal of allowance for losses from lawsuits (Note 11)	822	—	—
Provision for allowance for losses from lawsuits (Note 12)	(5,700)	<b>(6,175)</b>	<b>(66,369)</b>
Impairment loss (Note 13)	(1,096)	—	—
Other, net	(1,308)	<b>234</b>	<b>2,515</b>
Total other income (expenses)	(7,059)	<b>(3,664)</b>	<b>(39,381)</b>
Income before income taxes and minority interests	4,619	<b>9,893</b>	<b>106,331</b>
<b>Income taxes</b> (Note 20)			
Current	3,374	<b>1,245</b>	<b>13,381</b>
Deferred	(1,284)	<b>1,077</b>	<b>11,576</b>
Income before minority interests	2,529	<b>7,571</b>	<b>81,374</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	1,081	<b>(335)</b>	<b>(3,600)</b>
Net income	¥ 1,448	<b>¥ 7,906</b>	<b>\$ 84,974</b>

	Yen		U.S. dollars (Note 1)
	2009	2010	2010
<b>Amounts per share</b> (Note 2)			
Net income — basic	¥1.82	<b>¥9.95</b>	<b>\$0.11</b>
Net income — diluted	1.53	<b>8.38</b>	<b>0.09</b>
Cash dividends	—	<b>2.00</b>	<b>0.02</b>

See the accompanying Notes to the Consolidated Financial Statements.

## Consolidated Statements of Changes in Net Assets

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
<b>Common stock:</b>			
Balance at beginning of year	¥45,442	¥45,442	\$488,413
Balance at end of year	¥45,442	¥45,442	\$488,413
<b>Capital surplus:</b>			
Balance at beginning of year	¥ 5,975	¥ 5,974	\$ 64,209
Treasury stock purchased, net	(1)	(0)	(0)
Balance at end of year	¥ 5,974	¥ 5,974	\$ 64,209
<b>Retained earnings:</b>			
Balance at beginning of year	¥19,262	¥20,708	\$222,571
Net income	1,448	7,906	84,974
Increase due to consolidation of additional subsidiaries	(2)	—	—
Decrease due to inclusion of affiliates	—	(11)	(118)
Reversal of land revaluation difference	—	(16)	(172)
Balance at end of year	¥20,708	¥28,587	\$307,255
<b>Treasury stock (Note 14):</b>			
Balance at beginning of year	¥ (160)	¥ (186)	\$ (1,999)
Treasury stock purchased, net	(26)	(81)	(871)
Balance at end of year	¥ (186)	¥ (267)	\$ (2,870)
<b>Net unrealized holding gains (losses) on securities:</b>			
Balance at beginning of year	¥ 108	¥ (377)	\$ (4,052)
Other	(485)	287	3,085
Balance at end of year	¥ (377)	¥ (90)	\$ (967)
<b>Net unrealized holding gains (losses) on hedging derivatives:</b>			
Balance at beginning of year	¥ 482	¥ (403)	\$ (4,331)
Other	(885)	(60)	(645)
Balance at end of year	¥ (403)	¥ (463)	\$ (4,976)
<b>Land revaluation difference (Note 7):</b>			
Balance at beginning of year	¥ (156)	¥ (156)	\$ (1,677)
Reversal of land revaluation difference	—	16	172
Balance at end of year	¥ (156)	¥ (140)	\$ (1,505)
<b>Foreign currency translation adjustments:</b>			
Balance at beginning of year	¥ (168)	¥ (245)	\$ (2,634)
Other	(77)	(71)	(763)
Balance at end of year	¥ (245)	¥ (316)	\$ (3,397)
<b>Subscription rights to shares:</b>			
Balance at beginning of year	¥ —	¥ —	\$ —
Other	—	1	11
Balance at end of year	¥ —	¥ 1	\$ 11
<b>Minority interests in consolidated subsidiaries:</b>			
Balance at beginning of year	¥14,810	¥15,086	\$162,145
Other	276	(614)	(6,599)
Balance at end of year	¥15,086	¥14,472	\$155,546
	Shares		
	2009	2010	
<b>Number of shares of common stock:</b>			
Balance at beginning of year	796,073,282	796,073,282	
Balance at end of year	796,073,282	796,073,282	

See the accompanying Notes to the Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 4,619	¥ 9,893	\$106,331
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	7,638	8,480	91,144
Impairment loss	1,096	—	—
Increase (decrease) in allowance for doubtful receivables	301	(389)	(4,181)
Increase in employees' severance and retirement benefits	863	488	5,245
Increase (decrease) in reserve for losses on construction contracts	(1,086)	1,061	11,404
Increase (decrease) in reserve for losses from lawsuits	4,878	(2,045)	(21,980)
Decrease in reserve for factory relocation expense	(867)	—	—
Interest and dividend income	(302)	(224)	(2,407)
Interest expense	1,732	1,479	15,896
Equity in net income of nonconsolidated subsidiaries and affiliates	(62)	(3,688)	(39,639)
Gain on sale of property, plant and equipment	(1,603)	—	—
Gain on sale of investments in securities	(126)	(82)	(882)
Loss on devaluation of investments in securities	403	2	21
Loss on disposal of fixed assets	531	329	3,536
Decrease (increase) in trade receivables	(2,358)	5,168	55,546
Decrease in inventories	1,933	13,719	147,453
Decrease (increase) in other current assets	(3,524)	6,482	69,669
Increase (decrease) in trade payables	1,296	(18,012)	(193,594)
Decrease in accrued expenses	(6,036)	(1,900)	(20,421)
Increase (decrease) in advances received	3,296	(7,493)	(80,535)
Decrease in other current liabilities	(3,498)	(4,733)	(50,871)
Other	(1,747)	224	2,407
Subtotal	7,377	8,759	94,142
Interest and dividends received	487	579	6,223
Interest paid	(1,643)	(1,575)	(16,928)
Income taxes paid	(3,873)	(2,255)	(24,237)
<b>Net cash and cash equivalents provided by operating activities</b>	<b>2,348</b>	<b>5,508</b>	<b>59,200</b>
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(5,498)	(4,360)	(46,862)
Decrease in time deposits	5,742	1,188	12,769
Purchase of property, plant and equipment	(11,505)	(7,783)	(83,652)
Proceeds from sales of property, plant and equipment	4,058	553	5,944
Purchase of intangible assets	(270)	(341)	(3,665)
Purchase of investments in securities	(545)	(1,374)	(14,768)
Proceeds from sales of investments in securities	518	559	6,008
Other	8	(1,101)	(11,834)
<b>Net cash and cash equivalents used in investing activities</b>	<b>(7,492)</b>	<b>(12,659)</b>	<b>(136,060)</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans and debt, net	(2,261)	(3,555)	(38,209)
Proceeds from long-term debt	21,950	31,400	337,489
Payment of long-term debt	(17,522)	(16,008)	(172,055)
Redemption of bonds	(700)	(700)	(7,524)
Payments for retirement of bonds by purchase	—	(2,375)	(25,527)
Other	(298)	(7)	(75)
<b>Net cash and cash equivalents provided by financing activities</b>	<b>1,169</b>	<b>8,755</b>	<b>94,099</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(109)</b>	<b>(9)</b>	<b>(96)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,084)</b>	<b>1,595</b>	<b>17,143</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>54,229</b>	<b>50,095</b>	<b>538,424</b>
<b>Net decrease in cash and cash equivalents with exclusion of a consolidated subsidiary</b>	<b>(50)</b>	<b>—</b>	<b>—</b>
<b>Cash and cash equivalents at end of year (Note 15)</b>	<b>¥50,095</b>	<b>¥51,690</b>	<b>\$555,567</b>

See the accompanying Notes to the Consolidated Financial Statements.

## Notes to the Consolidated Financial Statements

### 1. Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2, the accounts of consolidated overseas subsidiaries for the year ended March 31, 2010 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S. \$1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### 2. Significant Accounting Policies

#### a) Consolidation

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

The consolidated financial statements consist of the accounts of the Company and its sixty-one significant subsidiaries (sixty-seven in the year ended March 31, 2009) that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in one nonconsolidated subsidiary (one in the year ended March 31, 2009) and eleven affiliates (nine in the year ended March 31, 2009) are accounted for by the equity method.

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

The consolidated financial statements include the accounts of five consolidated subsidiaries (five in the year ended March 31, 2009) the fiscal year-end of which is December 31. Appropriate adjustments were made for significant transactions during the period from December 31 to March 31, the date of the consolidated financial statements.

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

#### b) Cash Flow Statements

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

#### c) Translation of Foreign Currencies

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

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

#### d) Revenue Recognition

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

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

Effective from the year ended March 31, 2010, the Companies adopted the new accounting standard, “Accounting Standard for Construction Contracts” (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and the implementation guidance, “Guidance on Accounting Standard for Construction Contracts” (Guidance No. 18 issued by the Accounting

Standards Board of Japan on December 27, 2007). Revenues and costs of sales on construction for which the portion completed by the end of the fiscal year can be determined with certainty are recognized by the percentage of completion method (the progress of work is measured by the percentage of cost method). Revenues and costs of sales on other construction are recorded by the completed contract method. As a result, for the year ended March 31, 2010, net sales were ¥6,671 million (\$71,700 thousand) more, and operating income and income before income taxes and minority interests were both ¥777 million (\$8,351 thousand) more than they would have been with the previous method. The effects on segment information are described in Note 22, "Segment Information".

#### e) Allowance for Doubtful Receivables

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

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

#### f) Securities

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

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

#### g) Derivatives and Hedge Accounting

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

##### (1) Hedge accounting

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

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

##### (2) Hedging instruments and hedged items

Hedging instruments: Interest rate swap contracts

Hedged items: Interest on loans and bonds payable

Hedging instruments: Forward foreign exchange contracts and other derivatives

Hedged items: Trade receivables and expected trade receivables denominated in foreign currencies from exports of products, trade payables denominated in foreign currencies from imports of materials

##### (3) Hedging policy

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

##### (4) Evaluation of hedge effectiveness

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

##### (5) Control over use of derivatives

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

#### h) Inventories

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

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

Effective from the year ended March 31, 2009, the Companies adopted the standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). As a result, operating income and income before income taxes and minority interests were both ¥389 million less than they would have been with the previous method. The effects on segment information are described in Note 22, "Segment Information".

#### **i) Depreciation and Amortization**

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

Effective from the year ended March 31, 2009, the Company and some consolidated subsidiaries changed the period of depreciation for machinery in accordance with the revised Corporate Tax Law of Japan. As a result, for the year ended March 31, 2009, operating income and income before income taxes and minority interests were both ¥280 million less than they would have been with the previous method.

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

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

#### **j) Software Costs**

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

#### **k) Deferred Assets**

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

#### **l) Reserve for Directors' and Corporate Auditors' Bonuses**

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

For the year ended March 31, 2010, the Company decided to pay directors' and corporate auditors' bonuses which are subject to approval at the annual shareholders' meeting, and recorded an estimated amount at the end of the fiscal year in accordance with "Accounting Standard for Directors' Bonus" (Statement No. 4

issued by the Accounting Standards Board of Japan on November 29, 2005).

#### **m) Reserve for Product Warranty**

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

#### **n) Reserve for Losses on Construction Contracts**

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

#### **o) Reserve for Losses from Lawsuits**

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

#### **p) Employees' Severance and Retirement Benefits**

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

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

Effective from the year ended March 31, 2010, the Companies adopted the new accounting standard, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Statement No. 19 issued by the Accounting Standards Board of Japan on July 31, 2008). This adoption had no effect on operating income and income before income taxes and minority interests.

#### **q) Directors' and Corporate Auditors' Severance and Retirement Benefits**

To provide for payment of retirement benefits to directors and corporate auditors, the Companies record the required amount, based on internal regulations for retirement benefits for directors and corporate auditors at the end of the fiscal year. For the year ended March 31, 2010, since the required amount based on internal regulations occurred, the Company recorded the required amount in accordance with the "Auditing Treatment Related to Reserve Defined Under the Special Taxation Measures Law, Reserve Defined Under the Special Law and Reserve for Directors and Corporate Auditor Retirement Benefits" (Auditing and Assurance Practice Committee Report No. 42 issued by the Japanese Institute of Certified Public Accountants on April 13, 2007).

#### **r) Research and Development Expenses**

Research and development expenses are charged to selling, general and administrative expenses and manufacturing costs



as incurred. Research and development expenses amounted to ¥4,502 million and ¥4,532 million (\$48,710 thousand) for the years ended March 31, 2009 and 2010, respectively.

#### s) Income Taxes

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

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

#### t) Amounts Per Share

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

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

#### u) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective from the year ended March 31, 2009, the Companies adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). The adoption of this Task Force No. 18 had no effect on the consolidated financial statements for the year ended March 31, 2009.

#### v) Accounting Standard for Lease Transactions as Lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions had been accounted for in the same manner as operating leases under Japanese GAAP.

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007) and the implementation guidance, "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007). The new accounting standards require that all finance lease transactions be treated as capital leases. Finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases under Japanese GAAP. This adoption had no effect on gain or loss for the year ended March 31, 2009.

#### w) Accounting Standard for Lease Transactions as Lessor

Finance leases which do not transfer ownership and do not have

bargain purchase provisions had been accounted for in the same manner as operating leases under Japanese GAAP.

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007) and the implementation guidance, "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007). The new accounting standards require that all finance lease transactions be treated as capital leases. This adoption had no material effect on gain or loss for the year ended March 31, 2009. A consolidated subsidiary continues to account for finance leases commencing prior to April 1, 2008 which do not transfer ownership and do not have bargain purchase provisions in the same manner as operating leases under Japanese GAAP.

#### x) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2009 to conform to the fiscal year ended March 31, 2010 presentation. These reclassifications had no effect on previously reported net loss or total shareholders' equity.

### 3. Securities

a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2009 and 2010:

#### (1) Trading securities:

At March 31, 2009

	Millions of yen
Book value (fair value)	¥74
Amount for the year of net unrealized losses included in the statements of income	(16)

At March 31, 2010

	Millions of yen	Thousands of U.S. dollars
Amount for the year of net unrealized gains included in the statements of income	¥9	\$97

#### (2) Held-to-maturity debt securities:

At March 31, 2009

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥865	¥880	¥15

At March 31, 2010

Securities with available fair values exceeding book values:

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

At March 31, 2010

Securities with available fair values exceeding book values:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	\$9,297	\$9,426	\$129
Others	161	172	11

(3) Available-for-sale securities:

At March 31, 2009

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

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥142	¥197	¥55
Bond	6	9	3
Others	9	15	6
Total	¥157	¥221	¥64

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

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥1,480	¥1,045	¥(435)
Bond	1	1	—
Others	11	9	(2)
Total	¥1,492	¥1,055	¥(437)

At March 31, 2010

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

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

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

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

At March 31, 2010

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$8,136	\$5,793	\$2,343
Others	774	548	226
Total	\$8,910	\$6,341	\$2,569

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$10,372	\$12,812	\$(2,440)
Others	96	107	(11)
Total	\$10,468	\$12,919	\$(2,451)

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

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

Available-for-sale securities:

Type	Millions of yen	
	Book value	2009
Non-listed equity securities	¥4,155	
Loan trusts	10	
Investment securities in independent administrative entities	19	

c) Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

At March 31, 2009

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds	¥—	¥ 3	¥ 3	¥860
Other bonds	12	13	—	—
Total	¥12	¥16	¥ 3	¥860

d) Total sales of available-for-sale securities in the year ended March 31, 2009 amounted to ¥60 million, and the related gains and losses amounted to ¥1 million and ¥0 million, respectively.

Total sales of available-for-sale securities in the year ended March 31, 2010 were as follows:

	Millions of yen		
	Amounts of sales	Amounts of gains on sales	Amounts of losses on sales
Equity securities	¥538	¥93	¥(15)
Others	21	5	(1)
Total	¥559	¥98	¥(16)

	Thousands of U.S. dollars		
	Amounts of sales	Amounts of gains on sales	Amounts of losses on sales
Equity securities	\$5,782	\$ 999	\$(161)
Others	226	54	(11)
Total	\$6,008	\$1,053	\$(172)

#### 4. Inventories

Inventories at March 31, 2009 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Merchandise and finished goods	¥ 550	¥ 432	\$ 4,643
Work in progress	41,992	28,689	308,352
Raw materials and supplies	3,890	3,703	39,800
Total	¥46,432	¥32,824	\$352,795

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

The corresponding amounts of inventories for the reserve for losses on construction contracts were ¥511 million (\$5,492 thousand) all of which represented work in progress.

#### 5. Short-term Loans and Long-term Debt

Short-term loans that represented bank loans bearing average interest rates of 1.41 percent and 1.22 percent as of March 31, 2009 and 2010, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Secured (or partly secured)	¥ 2,414	¥ 2,464	\$ 26,483
Unsecured	11,786	8,482	91,165
Total	¥14,200	¥10,946	\$117,648

Long-term debt at March 31, 2009 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
1.13 percent to 2.88 percent loans from banks and other financial institutions, due through 2022:			
Secured (or partly secured)	¥15,146	¥14,680	\$157,782
Unsecured	40,199	56,402	606,212
0.00 percent convertible bonds due 2010	16,239	13,678	147,012
1.50 percent convertible bonds due 2012	15,333	15,258	163,994
0.57 percent straight bonds due 2010	600	200	2,150
1.15 percent straight bonds due 2011	900	600	6,449
0.96 to 1.65 percent straight bonds due 2011			
Secured (or partly secured)	600	600	6,449
Unsecured	300	—	—
Others	144	331	3,557
Less current portion included in current liabilities	(15,598)	(32,398)	(348,216)
Total	¥73,863	¥69,351	\$745,389

As of March 31, 2010, the convertible bonds due in 2010 and 2012 were convertible into shares of common stock at the option of the holders of the bonds at the price of ¥165 and ¥215 per share, respectively. The conversion prices are subject to adjustments under specified conditions.

The following assets were pledged as collateral mainly for secured long-term debt of ¥15,746 million at March 31, 2009 and ¥15,280 million (\$164,230 thousand) at March 31, 2010:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Cash and time deposits	¥ 22	¥ 21	\$ 226
Prepaid expenses and other current assets	595	479	5,148
Property, plant and equipment (at net book value)	27,430	21,029	226,021
Investments in nonconsolidated subsidiaries and affiliates	1,081	1,709	18,368
Investments in securities	121	17	183
Long-term loans receivable	106	83	892
Other investments and noncurrent assets	4	4	43
Total	¥29,359	¥23,342	\$250,881

The aggregate annual maturities of long-term debt outstanding at March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥19,323	\$207,685
2013	32,003	343,970
2014	14,427	155,062
2015	3,320	35,684
2016 and thereafter	278	2,988
Total	¥69,351	\$745,389

#### 6. Contingent Liabilities

Contingent liabilities at March 31, 2009 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Export notes receivable discounted	¥ —	¥ 25	\$ 269
Notes receivable endorsed	219	184	1,977
Guarantees of bank loans and other indebtedness	913	79	849
Total	¥1,132	¥288	\$3,095

#### 7. Land Revaluation Difference

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

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

revaluation difference.

The market value of the land was ¥158 million and ¥86 million (\$924 thousand) lower than the revalued book amount at March 31, 2009 and 2010, respectively.

## 8. Net Assets

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

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

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

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

At the annual shareholders’ meeting held on June 25, 2010, the shareholders approved cash dividends of ¥1,588 million (\$17,068 thousand). The appropriation has not been accrued in the consolidated

financial statements as of March 31, 2010. This type of appropriation is recognized in the period in which it is approved by the shareholders.

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

Provision for losses on construction contracts included in cost of sales for the year ended March 31, 2010 was ¥3,482 million (\$37,425 thousand).

## 10. Gain on Sale of Property

Gain on sale of property for the year ended March 31, 2009 resulted from the sale of a portion of the land of the Kanagawa works and the Kawachinagano Company Housing.

## 11. Reversal of Allowance for Losses from Lawsuits

Reversal of allowance for losses from lawsuits resulted from the settlement of pending citizens’ lawsuits in connection with the construction of waste incineration plants.

## 12. Provision for Allowance for Losses from Lawsuits

Provision for allowance for losses from lawsuits for the year ended March 31, 2009 was recorded based on the estimation of surcharges for violation of the antitrust law and the indemnity and interest arising from citizens’ lawsuits in connection with the construction of waste incineration plants.

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

## 13. Impairment Loss

The asset for which the Companies recognized impairment loss in the year ended March 31, 2009 was as follows:

Location	Use	Type of Assets
V TEX Corporation Tokai Works (Hitachinaka-city, Ibaraki Prefecture)	Mainly production facilities for precision machinery	Land

The Companies grouped their assets based mainly on divisions and works. The Companies also grouped their assets for sale individually.

The Companies reduced the book value of the asset to the recoverable amount and recognized impairment loss of ¥1,096 million because the V TEX Corporation had been affected by the deteriorating semiconductor market and its orders for a part model of precision machinery sharply decreased.

Impairment loss was as follows:

	Millions of yen
	Land
V TEX Corporation Tokai Works	¥1,096

The recoverable amount for the V TEX Corporation Tokai Works was the present value of the expected cash flows from the on-going utilization and subsequent disposition of the asset using a discount rate of 6%.

## 14. Treasury Stock

Treasury stock for the years ended March 31, 2009 and 2010 consisted of the following:

For the year ended March 31, 2009

Number of shares of common stock	Thousands
At March 31, 2008	1,192
Increase	285
Decrease	(28)
At March 31, 2009	1,449

For the year ended March 31, 2010

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

## 15. Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows, and cash and time deposits in the consolidated balance sheets at March 31, 2009 and 2010 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Cash and time deposits in the balance sheets	¥51,306	¥55,826	\$600,021
Time deposits with maturities over three months	(1,211)	(4,136)	(44,454)
Cash and cash equivalents in cash flow statements	¥50,095	¥51,690	\$555,567

## 16. Lease Information

### a) Finance leases as lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions at March 31, 2009 and 2010 consisted of leases for productive facilities for the machinery and process equipment segment (machinery, equipment and vehicles) and software.

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

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

The original lease obligations, the payments to date, and the payments remaining for assets which were leased from other parties as of March 31, 2009 and 2010 were as follows:

At March 31, 2009:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥1,863	¥1,095	¥768
Software	291	157	134
Total	¥2,154	¥1,252	¥902

At March 31, 2010:

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

At March 31, 2010:

	Thousands of U.S. dollars		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	\$15,681	\$10,511	\$5,170
Software	2,730	1,795	935
Total	\$18,411	\$12,306	\$6,105

Lease payments for the above finance leases for the years ended March 31, 2009 and 2010 were ¥383 million and ¥334 million (\$3,590 thousand), respectively.

Future minimum payments, including finance charges, for finance leases at March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Payments due within one year	¥327	¥267	\$2,870
Payments due after one year	642	353	3,794
Total	¥969	¥620	\$6,664

### b) Operating leases as lessee

Future minimum payments for operating leases at March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Payments due within one year	¥ 36	¥ 40	\$ 430
Payments due after one year	83	235	2,526
Total	¥119	¥275	\$2,956

### c) Finance leases as lessor

#### Lease investment assets

Current assets as of March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Lease payments receivables	¥171	¥147	\$1,580
Interest	(10)	(8)	(86)
Total	¥161	¥139	\$1,494

Lease investment assets receivables after March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Within one year	¥55	¥53	\$570
Over one year but within two years	46	44	473
Over two years but within three years	37	34	365
Over three years but within four years	26	13	140
Over four years but within five years	7	3	32
Over five years	0	—	—

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

Lease payments for finance leases received for the year ended March 31, 2009 were ¥3 million.

Depreciation for the years ended March 31, 2009 was ¥2 million.

Future minimum payments to be received, including finance charges, for finance leases at March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Payments due within one year	¥17	¥17	\$183
Payments due after one year	63	46	494
Total	¥80	¥63	\$677

The remaining book values of future minimum payments to be received concerning a sublet lease transaction at March 31, 2009 and 2010 were ¥80 million and ¥63 million (\$677 thousand), respectively. Of the future minimum payments at March 31, 2009 and 2010, those payments due within one year amounted to ¥17 million and ¥17 million (\$183 thousand), respectively.

The remaining book values of future minimum payments as lessee at March 31, 2009 and 2010 were almost the same and were included in the above table of finance leases as lessee.

## 17. Financial Instruments

### a) Articles concerning status of financial instruments

#### (1) Policies for financial instruments

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

#### (2) Substances and risks of financial instruments

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

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

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

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

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

#### (3) Managing of financial instruments

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

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

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

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

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

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

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

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

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

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

#### (4) Supplementary explanation about fair value of financial instruments

Fair values of financial instruments include not only fair market values based on market prices but also reasonably estimated values if market prices are not available. Reasonably estimated fair values may fluctuate because the values depend on estimations based on certain variable assumptions. The contract amounts of derivative transactions of following Note 18, "Derivative Transactions", do not show the market risks of the derivatives.

#### b) Articles concerning fair value of financial instruments

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

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

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

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

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Cash and time deposits	\$ 600,021	\$ 600,021	\$ —
(2) Trade notes and accounts	984,415		
Allowance for doubtful receivables *1	(3,450)		
	980,965	980,761	(204)
(3) Securities and investment securities	56,900	52,934	(3,966)
(4) Long-term loans receivable	1,172		
Allowance for doubtful receivables *1	(75)		
	1,097	1,054	(43)
<b>Total assets</b>	<b>\$ 1,638,983</b>	<b>\$ 1,634,770</b>	<b>\$ (4,213)</b>
(1) Notes and accounts payable	(570,959)	(570,959)	—
(2) Short-term loans	(117,648)	(117,648)	—
(3) Current portion of long-term debt	(348,216)	(351,107)	(2,891)
(4) Accrued expenses	(307,405)	(307,405)	—
(5) Accrued income taxes	(9,480)	(9,480)	—
(6) Long-term debt, less current portion	(741,832)	(750,430)	(8,598)
<b>Total liabilities</b>	<b>\$(2,095,540)</b>	<b>\$(2,107,029)</b>	<b>\$(11,489)</b>
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	365	365	—
Derivative transactions for which hedge accounting has been applied	(6,427)	(6,427)	—
<b>Total derivative transactions</b>	<b>\$ (6,062)</b>	<b>\$ (6,062)</b>	<b>\$ —</b>

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

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

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

#### Assets

##### (1) Cash and time deposits

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

##### (2) Trade notes and accounts

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

##### (3) Securities and investment securities

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

##### (4) Long-term loans receivable

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

#### Liabilities

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

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

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

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

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

#### Derivative transactions

See Note 18, "Derivative Transactions".

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

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Stock of consolidated subsidiaries and affiliates	¥11,565	\$124,301
Non-listed equity securities, etc.	3,772	40,542

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



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

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

	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 600,021	\$ —	\$ —	\$ —
Trade notes and accounts	979,364	5,052	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	—	43	11	9,243
(2) Others	—	—	215	—
Available-for-sale securities with maturities				
(1) Others	75	376	204	—
Long-term loans receivable	—	623	419	129
<b>Total</b>	<b>\$1,579,460</b>	<b>\$6,094</b>	<b>\$849</b>	<b>\$9,372</b>

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

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

## 18. Derivative Transactions

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

The following tables summarize market value information as of March 31, 2009 for derivative transactions for which hedge accounting had not been applied.

At March 31, 2009:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥ 795	¥—	¥ 781	¥ 14
Euro	189	—	194	(5)
Purchase				
U.S. dollars	272	—	297	25
Euro	401	—	338	(63)
Total	¥1,657	¥—	¥1,610	¥(29)

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

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

### a) Currency related derivatives

At March 31, 2010:

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

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

At March 31, 2010:

	Thousands of U.S. dollars			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	\$ 7,008	\$ —	\$505	\$505
Purchase				
U.S. dollars	967	—	32	32
Euro	559	—	(11)	(11)
Currency swap contracts:				
Type of contracts:				
Purchase				
U.S. dollars	1,720	1,000	(161)	(161)
Total	\$10,254	\$1,000	\$365	\$365

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

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

#### a) Currency related derivatives

At March 31, 2010:

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

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

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

	Thousands of U.S. dollars			
	Hedged items	Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	\$ 72,560	\$ —	\$ 935
Euro	Trade receivable	312	—	11
Purchase				
U.S. dollars	Trade payable	20,991	20,228	(3,375)
Euro	Trade payable	39,499	—	(3,987)
GBP	Trade payable	645	—	(11)
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	30,266	—	—
GBP	Trade receivable	54	—	—
Purchase				
Euro	Trade payable	3,418	—	—
Total		\$167,745	\$20,228	\$(6,427)

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

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

#### b) Interest related derivatives

At March 31, 2010:

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

	Thousands of U.S. dollars			
	Hedged items	Notional amount	Over one year	Market value
Exceptional treatment:				
Interest rate swap contracts:				
Receive float, pay fixed	Long-term loans	\$215,735	\$163,306	\$—

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

## 19. Severance and Retirement Benefits

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

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

The following table sets forth the composition of the liabilities recorded in the balance sheets for the Companies' retirement plans at March 31, 2009 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Projected benefit obligation	¥14,566	<b>¥14,913</b>	<b>\$160,286</b>
Less fair value of pension assets	(5,373)	<b>(5,857)</b>	<b>(62,951)</b>
Funded status:			
Benefit obligation in excess of plan assets	9,193	<b>9,056</b>	<b>97,335</b>
Unrecognized actuarial differences	(2,406)	<b>(1,708)</b>	<b>(18,358)</b>
Total	6,787	<b>7,348</b>	<b>78,977</b>
Deferred benefit expenses	156	<b>83</b>	<b>892</b>
Retirement and severance benefits in the consolidated balance sheets	¥ 6,943	<b>¥ 7,431</b>	<b>\$ 79,869</b>

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

Severance and pension costs of the Companies included the following components for the years ended March 31, 2009 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Service cost — benefits earned during the year	¥1,761	<b>¥1,560</b>	<b>\$16,767</b>
Interest cost on projected benefit obligation	223	<b>247</b>	<b>2,655</b>
Expected return on plan assets	(96)	—	—
Amortization of actuarial differences	262	<b>504</b>	<b>5,417</b>
Severance and retirement benefit expenses	¥2,150	<b>¥2,311</b>	<b>\$24,839</b>

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

For the year ended March 31, 2009, the Companies made additional payments for retirement benefits in the amount of ¥6 million and contributions to the defined contribution pension plans in the amount of ¥668 million, which were recognized in expenses but were not included in the above table.

For the year ended March 31, 2010, the Companies made contributions to the defined contribution pension plans in the amount of ¥755 million (\$8,115 thousand), which were recognized in expenses but were not included in the above table.

Assumptions used in accounting for the retirement benefit plans for the years ended March 31, 2009 and 2010 were as follows:

	2009	2010
Method of attributing benefits to periods of service	Straight-line method	<b>Straight-line method</b>
Discount rate	1.5% to 2.5%	<b>1.5% to 2.5%</b>
Long-term rate of return on fund assets	1.0% to 2.5%	<b>0.0%</b>
Amortization period for actuarial differences (within the remaining average term of employees' service)	5 to 12 years	<b>5 to 12 years</b>

## 20. Income Taxes

The Companies are subject to a number of income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 40.6% for both the years ended March 31, 2009 and 2010.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2009 and 2010 were as follows:

	2009	2010
Statutory tax rate	40.6%	<b>40.6%</b>
Nondeductible expenses	(0.2)	<b>0.2</b>
Nontaxable dividend income	(32.6)	<b>(5.0)</b>
Fluctuation in deferred tax assets valuation allowance account	3.2	<b>(6.8)</b>
Elimination of dividend income	34.7	<b>5.7</b>
Equity in net income of nonconsolidated subsidiaries and affiliates	(1.5)	<b>(15.2)</b>
Other	1.0	<b>4.0</b>
Effective tax rate	45.2%	<b>23.5%</b>

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Deferred tax assets:			
Tax loss carryforwards	¥ 9,778	<b>¥10,617</b>	<b>\$114,112</b>
Impairment loss	6,817	<b>7,289</b>	<b>78,343</b>
Employees' retirement benefits	2,927	<b>3,239</b>	<b>34,813</b>
Loss from lawsuits	3,659	<b>2,829</b>	<b>30,407</b>
Research and development expenses	582	<b>658</b>	<b>7,072</b>
Loss on devaluation of securities	228	<b>441</b>	<b>4,740</b>
Allowance for doubtful receivables	1,275	<b>432</b>	<b>4,643</b>
Other reserves	5,274	<b>5,290</b>	<b>56,857</b>
Other	2,309	<b>2,481</b>	<b>26,666</b>
Total deferred tax assets	32,849	<b>33,276</b>	<b>357,653</b>
Valuation allowance	(25,552)	<b>(27,270)</b>	<b>(293,100)</b>
Deferred tax assets, net	7,297	<b>6,006</b>	<b>64,553</b>
Deferred tax liabilities:			
Land valuation difference	(1,693)	<b>(1,532)</b>	<b>(16,466)</b>
Reserve for compressed entry	(758)	<b>(746)</b>	<b>(8,018)</b>
Reserve for replacement of property	(145)	<b>(140)</b>	<b>(1,505)</b>
Net unrealized holding gains on securities	(6)	<b>(34)</b>	<b>(365)</b>
Other	(2)	<b>(3)</b>	<b>(32)</b>
Total deferred tax liabilities	(2,604)	<b>(2,455)</b>	<b>(26,386)</b>
Net deferred tax assets	¥ 4,693	<b>¥ 3,551</b>	<b>\$ 38,167</b>

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

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Current assets	¥4,482	<b>¥4,138</b>	<b>\$44,476</b>
Investments and other noncurrent assets	1,774	<b>1,136</b>	<b>12,210</b>
Long-term liabilities	(1,563)	<b>(1,723)</b>	<b>(18,519)</b>
Net deferred tax assets	¥4,693	<b>¥3,551</b>	<b>\$38,167</b>

## 21. Investment and Rental Property

The Company and some consolidated subsidiaries own rental property and idle lands in Osaka and other areas. Rental income was ¥726 million (\$7,803 thousand) for the year ended March 31, 2010 (Rental income and rental expenses were counterbalanced and described mainly in other income and expenses).

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

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

Thousands of U.S. dollars			
Book value		Fair value	
Year ended March 31, 2009	Increase or decrease	Year ended March 31, 2010	Year ended March 31, 2010
\$294,604	<b>\$(999)</b>	<b>\$293,605</b>	<b>\$286,404</b>

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

Within the movement of rental property in this fiscal year, an increase in rental property by ¥246 million (\$2,644 thousand) resulted mainly from acquisition of property, and a decrease in rental property by ¥224 million (\$2,408 thousand) resulted mainly from depreciation.

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

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

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

## 22. Segment Information

The Companies' operations are classified into four business segments as follows:

Operations in the environmental systems and industrial plants segment include the production of refuse incineration plants and industrial plants.

Operations in the machinery and process equipment segment include the production of iron and steel manufacturing machinery, pressing machinery, diesel engines, turbines, boilers, plant equipment and precision machinery.

Operations in the steel structures and construction machinery segment include bridge construction, water gates, and shield tunneling machines.

Operations in the other businesses segment include the production of electronic equipment and high-precision positioning information systems.

Information by business segment of the Companies was as follows:

	Millions of yen						
	2009						
	Environmental systems and industrial plants	Machinery and process equipment	Steel structures and construction machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales							
Outside customers	¥120,731	¥109,234	¥30,113	¥38,527	¥298,605	¥ —	¥298,605
Intersegment	1,694	34	347	3,654	5,729	(5,729)	—
Total	122,425	109,268	30,460	42,181	304,334	(5,729)	298,605
Cost and expenses	120,238	100,324	31,777	40,287	292,626	(5,699)	286,927
Operating income (loss)	¥ 2,187	¥ 8,944	¥ (1,317)	¥ 1,894	¥ 11,708	¥ (30)	¥ 11,678
Assets	¥ 89,151	¥124,254	¥40,272	¥47,396	¥301,073	¥66,400	¥367,473
Depreciation	¥ 1,076	¥ 4,772	¥ 406	¥ 949	¥ 7,203	¥ 435	¥ 7,638
Impairment loss	¥ —	¥ 1,096	¥ —	¥ —	¥ 1,096	¥ —	¥ 1,096
Capital expenditure	¥ 760	¥ 11,261	¥ 737	¥ 1,515	¥ 14,273	¥ 171	¥ 14,444

	Millions of yen						
	2010						
	Environmental systems and industrial plants	Machinery and process equipment	Steel structures and construction machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales							
Outside customers	¥115,442	¥ 93,401	¥31,883	¥32,800	¥273,526	¥ —	¥273,526
Intersegment	301	833	412	3,124	4,670	(4,670)	—
Total	115,743	94,234	32,295	35,924	278,196	(4,670)	273,526
Cost and expenses	110,255	86,923	31,871	35,541	264,590	(4,621)	259,969
Operating income (loss)	¥ 5,488	¥ 7,311	¥ 424	¥ 383	¥ 13,606	¥ (49)	¥ 13,557
Assets	¥ 78,164	¥112,646	¥40,483	¥59,200	¥290,493	¥58,838	¥349,331
Depreciation	¥ 798	¥ 5,404	¥ 1,259	¥ 1,007	¥ 8,468	¥ 12	¥ 8,480
Capital expenditure	¥ 948	¥ 3,671	¥ 1,750	¥ 832	¥ 7,201	¥ 1	¥ 7,202

Thousands of U.S. dollars							
2010							
	Environmental systems and industrial plants	Machinery and process equipment	Steel structures and construction machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales							
Outside customers	\$1,240,778	\$1,003,880	\$342,680	\$352,537	\$2,939,875	\$ —	\$2,939,875
Intersegment	3,235	8,953	4,428	33,577	50,193	(50,193)	—
Total	1,244,013	1,012,833	347,108	386,114	2,990,068	(50,193)	2,939,875
Cost and expenses	1,185,028	934,254	342,551	381,997	2,843,830	(49,667)	2,794,163
Operating income (loss)	\$ 58,985	\$ 78,579	\$ 4,557	\$ 4,117	\$ 146,238	\$ (526)	\$ 145,712
Assets	\$ 840,112	\$1,210,727	\$435,114	\$636,285	\$3,122,238	\$632,394	\$3,754,632
Depreciation	\$ 8,577	\$ 58,083	\$ 13,532	\$ 10,823	\$ 91,015	\$ 129	\$ 91,144
Capital expenditure	\$ 10,189	\$ 39,456	\$ 18,809	\$ 8,943	\$ 77,397	\$ 11	\$ 77,408

Corporate amounts are mainly the common accounts of the head office, which cannot be allotted to each segment. Corporate assets, which include mainly cash, time deposits and securities, at March 31, 2009 and 2010 were ¥66,329 million and ¥58,944 million (\$633,534 thousand), respectively.

As described in Note 2 h), "Significant Accounting Policies-Inventories", effective from the year ended March 31, 2009, the Companies adopted the standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). As a result, operating income was ¥3 million less in the environmental systems and industrial plants segment, ¥355 million less in the machinery and process equipment segment and ¥21 million less in the other businesses segment than they would have been with the previous method, and operating loss was ¥10 million more in the steel structures and construction machinery segment than it would have been with the previous method.

As described in Note 2 d), "Significant Accounting Policies-Revenue Recognition", effective from the year ended March 31, 2010, the Companies adopted the new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and the implementation guidance "Guidance on Accounting Standard for Construction Contracts" (Guidance No. 18 issued by the Accounting Standards Board of Japan on December 27, 2007).

As a result, net sales were ¥681 million (\$7,319 thousand) more and operating income ¥70 million (\$752 thousand) more in the environmental systems and industrial plants segment, net sales were ¥3,290 million (\$35,361 thousand) more and operating income ¥441 million (\$4,740 thousand) more in the machinery and process equipment segment, and net sales were ¥2,700 million (\$29,020 thousand) more and operating income ¥266 million (\$2,859 thousand) more in the steel structures and construction machinery segment than they would have been with the previous method.

Geographic segment information is not shown because domestic net sales, including export sales from Japan, for the years ended March 31, 2009 and 2010 and the related assets at March 31, 2009 and 2010 were more than 90% of the respective consolidated net sales and assets.

Overseas sales by region for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Asia	¥34,499	¥25,350	\$272,463
Central and South America	3,143	1,215	13,059
Europe	3,375	1,247	13,403
Other	8,544	14,961	160,802
Total	¥49,561	¥42,773	\$459,727

Overseas sales include overseas subsidiaries' sales to overseas third parties as well as the Company's and domestic subsidiaries' export sales to third parties.

Note: The main countries and areas included in each segment were as follows:

Asia	Korea, China, Taiwan, Thailand, Singapore, United Arab Emirates, Saudi Arabia, Hong Kong, India and Qatar
Central and South America	Brazil
Europe	England, France, and Germany
Other	America

## 23. Related Party Information

Year ended March 31, 2009:

Attribute	Name	Domicile	Capitalization	Nature of operations	Equity ownership by the company	Relationship	Nature of transaction	Trading amount	Account	Balance at year end
Affiliate	Naikai Zosen Corporation	Onomichi City, Hiroshima Prefecture	¥1,200 million	Manufacturing	19.9% direct 0.4% indirect	Materials purchase acceptance	Purchase of materials	¥8,112 million	Advances paid	¥3,158 million

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

Effective from the year ended March 31, 2009, the Companies adopted the standard, "Accounting Standard for Related Party Disclosures" (Statement No. 11 issued by the Accounting Standards Board of Japan on October 17, 2006) and the implementation guidance, "Guidance on Accounting Standard for Related Party Disclosures" (Guidance No. 13 issued by the Accounting Standards Board of Japan on October 17, 2006).

This adoption did not require any changes in disclosure for the year ended March 31, 2009.

The significant affiliate companies were Steel Plantech Corporation and Universal Shipbuilding Corporation for the year ended March 31, 2009.

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

	Millions of yen
Total Current assets	¥181,542
Total Fixed assets	82,775
Total Current liabilities	200,249
Total Long-term liabilities	13,513
Total Net assets	50,555
Net sales	¥231,019
Loss before income taxes and minority interests	(5,568)
Net loss	(3,416)

Year ended March 31, 2010:

Attribute	Name	Domicile	Capitalization	Nature of operations	Equity ownership by the company	Relationship	Nature of transaction	Trading amount	Account	Balance at year end
Affiliate	Naikai Zosen Corporation	Onomichi City, Hiroshima Prefecture	¥1,200 million (\$12,898 thousand)	Manufacturing	39.5% direct 0.4% indirect	Materials purchase acceptance	Purchase of materials	¥6,239 million (\$67,057 thousand)	Advances paid	¥1,422 million (\$15,284 thousand)

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

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

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

	Millions of yen	Thousands of U.S. dollars
Total Current assets	¥146,345	\$1,572,926
Total Fixed assets	97,545	1,048,420
Total Current liabilities	149,925	1,611,404
Total Long-term liabilities	19,411	208,631
Total Net assets	74,554	801,311
Net sales	¥395,514	\$4,251,010
Income before income taxes and minority interests	34,015	365,595
Net income	20,244	217,584





## Independent Auditors' Report

To the Board of Directors of Hitachi Zosen Corporation:

We have audited the accompanying consolidated balance sheets of Hitachi Zosen Corporation and consolidated subsidiaries as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Zosen Corporation and consolidated subsidiaries as of March 31, 2009 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Osaka, Japan  
June 25, 2010

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

# Group Companies

## Head Office

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

## Tokyo Head Office

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

## Business Promotion & Product Development Headquarters

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

## Domestic offices

### Sapporo Office

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

### Sendai Office

2-21, Chuo 3-chome, Aoba-ku, Sendai,  
Miyagi 980-0021, Japan  
Phone: +81-22-712-6066  
Facsimile: +81-22-712-6070

### Nagoya Office

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

### Hiroshima Office

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

### Fukuoka Office

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

### Kumamoto Office

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

### Okinawa Office

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

## Works

### Ariake Works

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

### Mukaishima Works

14755, Mukaihigashi-cho, Onomichi,  
Hiroshima 722-8604, Japan  
Phone: +81-848-44-1111  
Facsimile: +81-848-44-1518

### Innoshima Works

2477-16, Innoshimahabu-cho, Onomichi,  
Hiroshima 722-2323, Japan  
Phone: +81-845-22-1200  
Facsimile: +81-845-22-0383

### Sakai Works

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

### Chikko Works

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

### Maizuru Works

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

### Ibaraki Works

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

## Overseas offices

### Abu Dhabi Office

Khalifa Street, Bin Hamoodah Tower, 9th floor,  
904 P.O. Box203, Abu Dhabi,  
United Arab Emirates  
Phone: +971-2-6276-180  
Facsimile: +971-2-6276-181

### Taipei Office

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

### Shanghai Office

Room No. 9004, Zhongrong Plaza No. 1088  
Pudong South Road, Pudong New Area,  
Shanghai 200120, China  
Phone: +86-21-6887-2525  
Facsimile: +86-21-6887-2838

### Beijing Office

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

### Bangkok Office

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

### Ho Chi Minh City Office

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

### Busan Office

Jung Seok Bldg, #1203, 89-14, 4-Ga,  
Chungang-Dong, Chung-Gu,  
Busan 600-723, Korea  
Phone: +82-51-464-6796  
Facsimile: +82-51-464-6878

### Singapore Office

41 Science Park Road, #04-08B (Lobby B),  
The Gemini, Singapore Science Park II,  
Singapore 117610  
Phone: +65-6773-6833  
Facsimile: +65-6773-6433

## Major overseas subsidiaries

### HITACHI ZOSEN EUROPE LTD.

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

### Hitachi Zosen U.S.A. Ltd.

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

### H&N CATALYST MANUFACTURING LLC.

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

### Zhenjiang Zhong Chuan Hitachi Zosen Machinery Co., Ltd.

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

### Zhongji Hitachi Zosen Diesel Engine Co., Ltd.

Xingang Industrial Base, Economic Development  
Zone, Zhoushan, Zhejiang Province, China  
Phone: +86-580-6-2015  
Facsimile: +86-580-6-2003  
Design, manufacture, sale and after-sales  
servicing of marine engines, diesel engines for  
power generation, and various equipment for  
environmental protection purposes

## Major subsidiaries

### Daiki Ataka Engineering Co., Ltd.

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

### SN Environment Technology Co., Ltd.

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

### NICHIZO TECH INC.

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

### HITACHI-ZOSEN PLANT TECHNO-SERVICE CORPORATION

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

### HITACHI ZOSEN FUKUI CORPORATION

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

### IMEX CO., LTD.

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

### NIPPON PUSNES CO., LTD.

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

### OCL Corporation

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

### V TEX Corporation

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

### ULTRA FINISH TECHNOLOGY CO., LTD.

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

### OHNAMI CORPORATION

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

### SLURRY-21 Co., Ltd.

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

### Universal Shipbuilding Corporation

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

### NAIKAI ZOSEN CORPORATION

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

### JP Steel Plantech Co.

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

### HITACHI ZOSEN HANDLING SYSTEM Co., Ltd.

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

# Company History

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

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

## Old Osaka Iron Works Ltd. era

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

## New Osaka Iron Works Ltd. era

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

## As Hitachi Zosen Corporation

1943	• The name is changed to Hitachi Zosen Corporation. • Mukaishima Works starts operations.
1944	• Kanagawa Works starts operations.
1948	• <i>Hitachi Zosen Technical Review</i> is inaugurated.
1949	• Technical Research Institute is opened. • The first whaling ship is constructed for Norway following World War II as a result of government trade.
1950	• A technological tie-up for B&W type diesel engines is concluded.
1951	• An order is received for tanker from customer in United States — the first order received under the private trade program to export a ship after the end of World War II. • The first B&W marine diesel engine is completed.
1956	• Offices are opened in London and New York.
1960	• A technological tie-up is concluded with Von Roll Environmental Technology Ltd. of Switzerland for a De Roll-type refuse incineration plant.
1965	• A De Roll-type refuse incineration plant is completed for the municipal government of Osaka (the first mechanical incineration plant with power generation facility manufactured in Japan). • Sakai Works starts operations.
1966	• Sakurajima Works restarts as a specialized plant for land machinery.
1969	• A number of orders are completed for De Roll-type refuse incineration plants for Tokyo Metropolis.
1971	• Maizuru Works starts operations.
1972	• Orders are received for two cargo ships for China.
1973	• Ariake Works starts operations.

1977	• Construction is completed for 500,000-ton tanker for Esso.
1979	• Ariake Land Machinery Works starts operations.
1981	• Hitachi Zosen celebrates its 100th anniversary.
1987	• The world's first multiple-face shield tunneling machine is completed.
1990	• Construction of ultra-large steel mill plants is completed for Baoshan Iron and Steel of China and Sicartsa Steel Mill in Mexico.
1993	• Construction of Japan's first double hull VLCC is completed. • Sakai Works starts operation as the specialized plant for steel structures. • Slurry-shield tunnel boring machine (with one of the world's largest diameter of 14.14m) is produced.
1994	• The world's first triple-face shield tunneling machine is completed.
1996	• A refuse incineration plant for the Clean Association of Eastern Saitama District receives MITI (now METI) Minister prize for excellent environmental equipment. • Electric power supply business is inaugurated. • Japan's first super refuse-fired power generation plant comes on stream.
1997	• An order is received for the world's first fifth-generation semisub rig. • Sakurajima Works is closed, and facilities are transferred to Ariake Works; Ariake Machinery Works starts operations. • The first B&W marine diesel engine (74,640 hp) is completed (one of the world's largest).
2000	• An order received for the No.1 gasification melting furnace. • Yumemai Ohashi, the world's first floating swing bridge is constructed. • 8,000 hours of continuous operations are achieved by refuse incineration plant delivered for Taiwan.
2001	• A large-scale desalination plant is constructed in Saudi Arabia.
2002	• The Basic Agreement on Consolidation of Shipbuilding Operations is concluded with NKK Corp (now JFE Steel corporation). • The shipbuilding operation is transferred to Universal Shipbuilding Corporation on October 1. • The Hitz brand name goes into use as of October 1. • HEC Corporation is acquired.
2003	• The world's most advanced electronic control marine engine for large vessels is produced. • A desalination plant is constructed for Oman.
2004	• An order is received (as member of international consortium) for Stonecutters Bridge — the world's second-longest cable-stayed bridge — for Hong Kong. • Kyoto Municipal Waste Edible Oil Fuel Production Facility is completed with the greatest manufacturing capacity in Japan.
2005	• Refuse incineration plant is constructed for Odate City (the first intermediate processing operation of municipal refuse in Japan under PFI legislation).
2006	• A desalination plant is constructed in Abu Dhabi.
2007	• One of Japan's largest gasification melting furnace is completed for Toyoda City. • An order is received from South Africa for one of the world's largest coal-to-liquids (CTL) reactor.
2008	• A new factory is constructed in Sakai Works for extension of industrial machinery and shield tunneling machinery production.
2009	• Ten Group companies are absorbed. • Completed a new plant for manufacture of medium-sized diesel engines at Ariake Works. • Launched a joint venture in China for manufacture of marine diesel engines.
2010	• Launched a joint venture in China for manufacture of marine deck machinery.

# Investor Information

(As of March 31, 2010)

## Corporate data

Date of establishment:	April 1, 1881
Paid-in capital:	45,442,365,005 yen
Number of employees (consolidated):	8,004
Number of employees (non-consolidated):	2,867
Consolidated subsidiaries:	61

## Stock data

Number of shares authorized:	2,000,000,000
Number of shares issued:	796,073,282
Number of shareholders:	122,582

## Major shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Equity stake* (%)
The Master Trust Bank of Japan, Ltd. (trust account)	35,344	4.5
Japan Trustee Services Bank, Ltd. (trust account)	34,888	4.4
Citibank Hong Kong PBG Clients Hong Kong	29,204	3.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,749	3.1
Sompo Japan Insurance Inc.	13,000	1.6
Japan Trustee Services Bank, Ltd. (trust account 9)	12,480	1.6
Juniper	9,579	1.2
Trust and Custody Services Bank, Ltd. (pension trust account)	9,227	1.2
Nippon Life Insurance Company	8,514	1.1
Japan Trustee Services Bank, Ltd. (trust account 1)	6,223	0.8

\*Percentage of issued shares excluding treasury shares.

## Shareholders information

Business year: April 1 to March 31

Annual General Meeting of Shareholders: Late June

Final date for voting right registration: March 31

Dividend record date (term-end): March 31

Dividend record date (interim): September 30

Public notices:

via Company's website

<http://www.hitachizosen.co.jp/>

Share trading unit: 500 shares

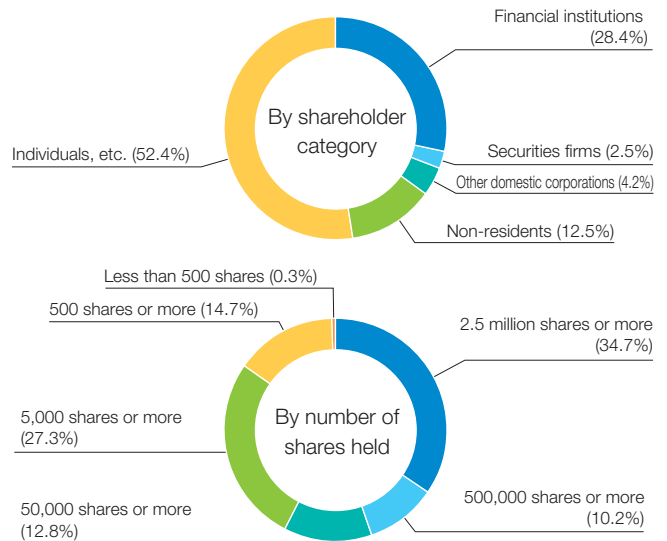
Shareholder registry administrator:

Mitsubishi UFJ Trust and Banking Corporation

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

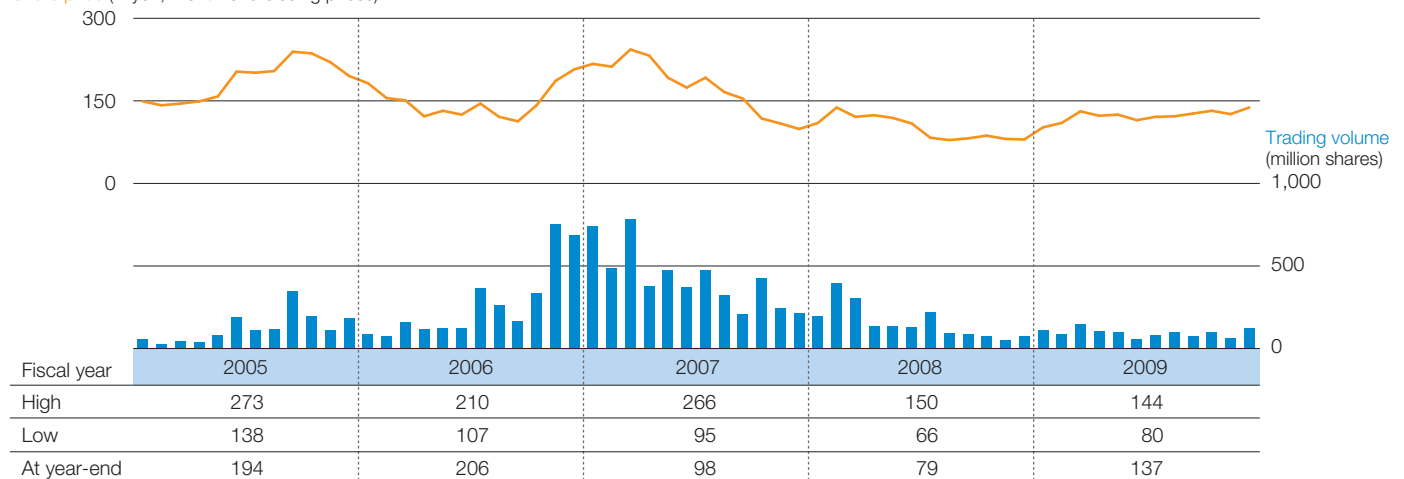
Stock listing: Tokyo Stock Exchange, Osaka Securities Exchange

## Distribution of shareholdings



## Share price and trading volume

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



\*Fiscal years ended March 31 of the following year.

# Hitachi Zosen Corporation

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