

The cover features a white background with a light gray grid pattern. On the right side, several thick, curved lines in various shades of blue, light blue, green, and orange sweep across the page. On the left, a dark blue rectangular box contains the text 'Hitachi Zosen Corporation' in white, followed by a thin white horizontal line, the year '2014' in large yellow font, and 'Annual Report' in white below it.

Hitachi Zosen Corporation

2014

Annual Report

# TECHNOLOGY for PEOPLE, the EARTH, and the FUTURE

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

## Hit Value

(corporate philosophy, management stance, and standards of business behavior)

Hitachi Zosen will continue to adhere to the basis of its activities, the Hit Value—comprising corporate philosophy, management stance, and standards of business behavior—in efforts to acquire the technologies and problem-solving abilities needed to contribute to society and to seek further growth as a group.

## Corporate philosophy

We create value useful to society with technology and sincerity to contribute to a prosperous future.

## Our management stance

[Satisfaction of our stakeholders]

- 1) Improvement of customer satisfaction
- 2) Emphasis on the job satisfaction of employees
- 3) Enhancement of shareholder value

[Attitude to work]

- 4) Sensing change and moving in advance, emphasis on creative technology
- 5) Thorough implementation of compliance
- 6) Pursuit of no casualties in accidents or disasters on the job

## Standards of business behavior

- 1) Communicating with sincerity
- 2) Learn widely, think deeply
- 3) Continually taking on challenges

### Our Business Domains

- Environment/Green Energy
- Social Infrastructure and Disaster Prevention

### Growth Area

- Newly Developed Countries
- Advanced Business Fields

### Target Markets

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### Forward-looking statements:

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



# Medium-term management plan

## Hitz Vision II

Hitachi Zosen Corporation recently formulated Hitz Vision II, its new three-year medium-term management plan, with FY2014 as its first year.

### 1. Positioning of the new medium-term management plan

The three years covered by the medium-term management plan Hitz Vision II seeks to address the challenges presented by changes in the business environment as well as by Hitz Vision, and to achieve targets toward the goals of Hitz 2016 Vision.



### 2. Hitz 2016 Vision (management targets for FY2016)

(1) Hitz 2016 Vision management targets are given below.

Hitachi Zosen will focus on strengthening profitability, reflecting on the results of Hitz Vision.

1. Strengthen profitability (each business and product to achieve No. 1 profitability in its area)
2. Expand scale of operations (expand into a 500 billion yen company with public recognition)
3. Fortify financial structure (achieve and maintain at least 30% in shareholders' equity ratio, and secure a stable financial position)

(2) Hitz Vision II numerical targets are given below.

(¥ billion)

	FY2013 Actual results	Hitz Vision II		
		FY2014	FY2015	FY2016
Order intake	328.4	400.0	450.0	500.0
Net sales	333.4	320.0	350.0	400.0
Operating income	7.8	10.0	17.0	23.0
Ordinary income	6.2	8.0	14.0	20.0
Net income	3.7	4.0	8.0	13.0

The company aims to achieve ¥500 billion in order intake, ¥400 billion in net sales, and ¥23 billion (5.7%) in operating income in the final year, FY2016, to build the foundation for becoming a ¥500 billion company in or after FY2017. In the three years covered by Hitz Vision II, Hitachi Zosen is planning to expand expenses from ¥52.8 billion during Hitz Vision to a total ¥100 billion: ¥30 billion in R&D expenses, ¥30 billion in capital investment, and ¥40 billion in M&A, stock investment, and loans.

### 3. Hitz Value (corporate philosophy, management stance, and standards of business behavior)

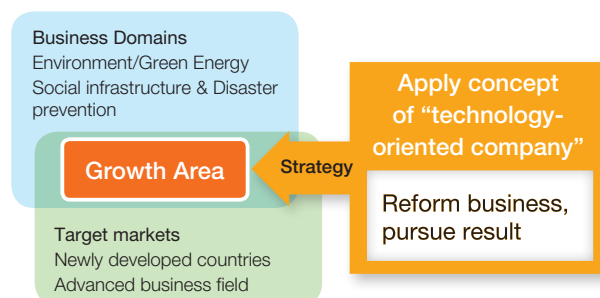
Hitachi Zosen will continue to adhere to the basis of its activities, the Hitz Value—comprising corporate philosophy, management stance, and standards of business behavior—in efforts to acquire the technologies and problem-solving abilities needed to contribute to society and to seek further growth as a group.

## 4. Hitz Vision II management policies

### I. Basic approach to management policies

#### (1) “Technology-oriented company”

The Hitachi Zosen concept of “technology-oriented company” involves a return to the corporate philosophy to strengthen fundamental technologies as well as proprietary technologies (in a broad sense, including work processes). The aim is to deliver customer satisfaction and high added value toward sustainable growth.



#### (2) Select businesses and concentrate management resources

The Hitachi Zosen approach to selection and concentration involves devising a strategy to produce results in the growth areas of its business domains. The group will concentrate management resources on these growth areas, and drive change in unprofitable businesses.

### II. Key policies to strengthen profitability and growth potential (innovate businesses)

#### ■ Growth areas and “technology-oriented company”

- In growth areas, implement strategies under the concept of “technology-oriented company”

#### ■ Strengthening profitability

- Build a mechanism for driving change in unprofitable businesses
- Promote balanced management (targets: overseas business 30%, stable business 50%)
- Expand use of ICT

#### ■ Strengthen potential for business growth

##### ○ Promote operations at overseas bases

- Strengthen control functions, promote policies by area
- Continue to expand overseas bases, strengthen governance

##### ○ Reform development processes to accelerate profitability of new businesses and products

- For key projects, assemble project teams to accelerate marketing of products and businesses
- Strengthen assessment of business feasibility
- Build a strong, globally competitive research structure

##### ○ Facilitate synergy by fortifying group strengths

- Facilitate synergy with Hitachi Zosen Inova, NAC International and Cumberland group companies
- Pursue synergy with the merger of Daiki Ataka and consolidation of NICHIZO TECH
- Expand operations, strengthen profitability, and utilize human resources through further reorganization and integration of group as a whole

##### ○ Promoting M&A

- Pursue synergy with existing businesses and technologies
- Accelerate operations at overseas bases
- Utilize human resources

### III. Key policies to strengthen management foundation (innovate management)

#### Promote flat-matrix management structure

- Fortify use of ICT, group strengths, quality control, environment and safety

#### Fortify financial structure

- Secure funds for growth strategies, improve financial structure
- Strengthen IR to improve debt rating, stock prices
- Global cash management and effective use of funds

#### Reform human resources development and culture

- Develop human resources
- Recruit and utilize diverse human resources

# The new medium-term management plan, Hitz Vision II

## Hitachi Zosen is aiming to be a “technology-

In the Hitachi Zosen Group, we are achieving results in the growth fields that we set as our business-strategy targets in Hitz Vision II, which is our new medium-term management plan, and we are pursuing our goal of being a technology-oriented company in order to achieve growth.



From desalination to water treatment

## Strengthening the water business

In April, Hitachi Zosen merged with its subsidiary Daiki Ataka Engineering and launched the Water Treatment & Industrial Equipment Headquarters. The merger will enable the Company to forcefully enter markets, not only in Japan, but globally, for products such as sludge recovery treatment systems, as well as water, sewage, and industrial effluent treatment systems that use human waste and the sludge residue of septic tanks as resources.

Hitachi Zosen's water treatment business develops both seawater desalination technologies, in which it has an extensive track record overseas, and technologies for building a resource recycling-based sustainable society in the fields of Environment/Green Energy. In this way, we will present a wide range of technologies to customers in Japan and overseas.

### • Sludge recovery and treatment technology (human-waste treatment)

Mainstay of water treatment systems, we construct sludge recovery and treatment plants and have realized Japan's first non-dilution treatment of human waste. We have a top-class track record in this field, having supplied our technologies to more than 100 facilities within Japan.

Our main technologies in sludge recovery and treatment are as follows.



### Electro-osmosis Sludge Dehydrator Super Flake

The first in the industry, this technology utilizes the electro-osmosis effect for the highly effective dehydration of the sludge that is left following the treatment of human waste. It reduces sludge content and is being utilized as a combustion improver.



### High efficiency mechanical stirring equipment New DTC

New DTC is a low-power stirring system that uses advanced sewage treatment technologies (for nitrogen removal and phosphorus removal). Together with our mechanical aeration system, it is one of the products that best represents our company.



### High speed fiber filtration system Marimo

In this system, we fill the sewage filtration equipment with the fiber filter material that we ourselves developed to carry out high-speed fiber filtration that also achieves space saving.



### • Seawater electrolysis technology

Our seawater electrolysis system directly electrolyzes seawater and prevents marine organisms, such as microorganisms and shell fish, becoming attachment to the seabed water intake without having to use chemicals. Not only can it be used at power plants and seawater desalination plants, it can also be installed on ships and vessels. We have achieved a globally leading market share for this proprietary technology.

We are also utilizing this technology to jointly develop with Sumitomo Electric Industries, Ltd., a high-performance, low-power consumption electrolytic water management system.



Target  
**2**

From design and construction through to management of maintenance

## Total solution for social infrastructure

Through making NICHIZO TECH INC. a wholly owned subsidiary, we are able to provide total solutions that encompass inspection, measurement, and diagnostic technologies, and also renewals, retrofits, and maintenance of plants.

Also, following the absorption merger on October 1 of the subsidiary HEC ENGINEERING CORPORATION, we are aiming to further strengthen our engineering solutions business for plants in the private sector.



- Crane inspection and repairs
- We provide total solutions that encompass inspection, measurement, and diagnostic technologies, and renewals, retrofits, and maintenance of plants.

Target  
**3**

Proprietary technological strengths with high value-added

## Accelerating the monetization of new products

### • Water treatment process technology

In fiscal 2013, we developed the self-cleaning membrane filtration system AQSEV for medium- and small-sized water purification plants.



### • Filter press

We possess the leading share in the private-sector filter press market and supply them for filtration dehydrators for the recovery of valuable materials and for sludge dehydration for customers in a wide range of industries and fields.



### • Movable Flap-Gates type Seawall system

We utilize the power of nature to the greatest possible extent to prevent flood damage to facilities and their surrounding areas due to tsunamis and high tides.

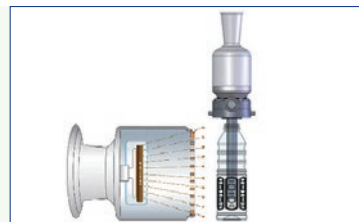
Visitors to the Hitz Disaster Prevention Solutions Laboratory at our Sakai Works can watch a demonstration of our flap gates in action to prevent flooding by 90 tons of water.



Hitz Disaster Prevention Solutions Laboratory

### • Electron beam sterilization systems

Sterilization through electron beam eliminates the need for heating costs and chemical costs. Also, it enables the weight of PET bottles to be reduced, as they don't have to be manufactured to be heat resistant.



Electron beam emitter equipment inside image

### • SCR system for marine engine

We have developed a SCR system for marine engine that is already compliant with the International Maritime Organization's (IMO) upcoming Tier III NOx emissions standards for when a vessel is in service. The system, which has been appraised by experts, has been installed for the first time in the world for vessels now in service.



Marine diesel engine fitted with SCR system



# The Year in Review

2013 Apr.

- Completed construction of the Naka-Kita Sorachi "Eneclean" waste incineration plant and starts contract operation services
- Received an order for the construction, maintenance and operation of Fijimino-Miyoshi Environment Center
- Received an order from Ofunato City, Iwate Prefecture, for the construction of a slurry ice plant
- Completed the construction of a slurry ice plant for Kitadaito Village, Okinawa



May

- Received an order for construction of an EfW plant in Poznan City, Poland

Jul.

- Received an order for a major upgrade to the Ichiyama Clean Center
- Received an order for the operation, maintenance, and management of the Tamura East Environment Center
- Selected by the Ministry of the Environment to introduce a Solar-Diesel Hybrid Power Generation System in Myanmar and Indonesia as part of the 2013 Joint Crediting Mechanism (JCM) feasibility study
- Received an order for 6 shield tunneling machines from Singapore
- Completed the construction of the factory in Dalian for Nagaoka Hitachi Zosen Equipment (Dalian) Co., Ltd.



Aug.

- Selected by the Global Environment Centre Foundation to operate an organic waste methane fermentation and cogeneration facility in Vietnam as part of the 2013 JCM Demonstration Project

Sep.

- Built the first MAN B&W G-type electronically controlled marine diesel engine in Japan
- Established Hitachi Zosen Myanmar Co., Ltd. as its subsidiary in Myanmar
- Completed construction of a large-scale photovoltaic "Mega-Solar" power plant at Innoshima Works
- Received an order to construct an EfW plant in Buckinghamshire, the United Kingdom
- Received an order for the construction of feed-water pipes in the Ofunato Bay mouth area breakwater opening Iwate Prefecture
- Received an order from the Kingdom of Thailand for two hydraulic gates for flood control



Oct.

- Received an order from Kurashiki City for the upgrade and operation of key facilities at the Mizushima Clean Center
- Received an order for reconstruction and maintenance of the EfW plant in the southern part of Kyoto in Kyoto City

Nov.

- Resolved to implement a woody biomass power generation project in Hitachiota City, Ibaraki Prefecture
- Converted power generation facilities in the Ibaraki Works to a highly efficient gas turbine facility
- Received an order to construct an EfW plant in London, the United Kingdom

Dec.

- Developed the CosMos combustion image recognition system for use in EfW plant
- Completed the construction of an EfW plant in Namyangju Byeollae, South Korea



- Completed large-scale photovoltaic "Mega-Solar" power plant for Naikai Zosen Corporation

2014 Jan.

- Completed the construction of an EfW plant in Dalian, China



- Started operations of Hitachi Zosen Trading (Shanghai) Co., Ltd.
- Developed "Michibiki," a precipitable water vapor analysis system that uses the quasi-zenith satellite
- Selected by METI to undertake research and development of a low-cost hydrogen production system for the 2013 Technology Development for the Storage and Transport of Renewable Energy program

Feb.

- Established PT. HITZ INDONESIA as its subsidiary in Indonesia
- NAC International Inc. received an order for 24 casks from a nuclear power plant in the United States

Mar.

- Completed a precision machinery factory for Hitachi Zosen GPM Technology (Suzhou) Co., Ltd.
- Received an order for new construction of the main gate and others for the Amagase Dam Redevelopment Project

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



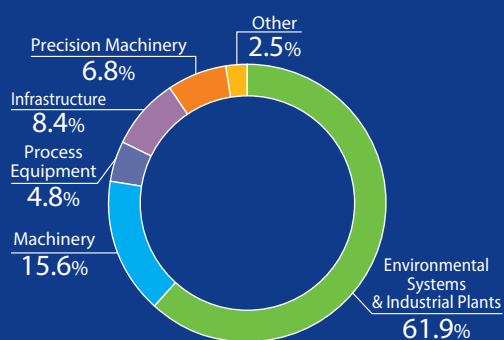
# Financial Highlights

Hitachi Zosen Corporation and consolidated subsidiaries

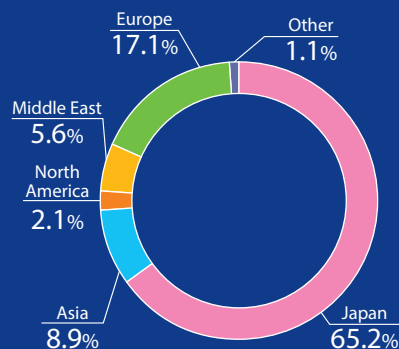
	FY2012	FY2013	
Order intake	¥382.8 billion	<b>¥328.4 billion</b>	<b>-14.2%</b>
Net sales	¥296.7 billion	<b>¥333.4 billion</b>	<b>+12.3%</b>
Operating income	¥11.3 billion	<b>¥7.8 billion</b>	<b>-30.7%</b>
Net income	¥7.4 billion	<b>¥3.7 billion</b>	<b>-49.8%</b>
Shareholders' equity ratio	26.9%	<b>26.4%</b>	<b>-0.5 points</b>
Cash dividends per share	¥2.00	<b>¥10.00*</b>	

\* Cash and cash dividends per share for FY2013 is calculated in consideration of the one for five share consolidation of common stock effective October 1, 2013

Sales by segment



Sales by region



# Seven-Year Summary

Hitachi Zosen Corporation and consolidated subsidiaries

	2007	2008	2009	2010	2011
<b>Operating results</b>					
Order intake	337,701	253,141	337,271	246,067	289,715
Net sales	295,503	298,605	273,526	287,196	303,036
Operating income	10,826	11,678	13,557	13,359	11,367
Net income	15,695	1,448	7,906	9,675	9,319

<b>Cash flows</b>					
Cash flows from operating activities	(730)	2,348	5,508	17,136	14,650
Cash flows from investing activities	26,970	(7,492)	(12,659)	(3,217)	(4,628)
Cash flows from financing activities	(10,714)	1,169	8,755	(9,630)	1,083
Cash and cash equivalents at end of year	54,229	50,095	51,690	55,915	66,609

<b>Financial position</b>					
Net assets	85,595	85,843	93,200	101,969	111,047
Total assets	365,537	367,473	349,331	380,249	375,788
Interest-bearing debt	102,284	103,698	112,794	104,598	107,650

<b>Per share data* (Yen)</b>					
Net income					
Basic	19.74	1.82	9.95	12.19	11.74
Diluted	18.02	1.53	8.38	10.74	10.67
Net assets	89.05	89.05	99.15	109.75	120.07
Cash dividends	—	—	2.00	2.00	2.00

<b>Financial indicators</b>					
Shareholders' equity ratio (%)	19.4	19.3	22.5	22.9	25.4

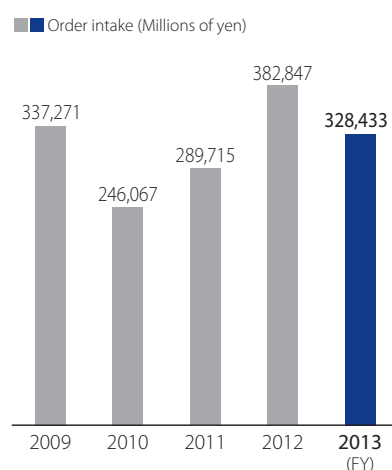
\* Per share data (Net income and net assets) is calculated the one of five share consolidation of common stocks effective October 1, 2013 occurred at the beginning of the fiscal year ended March 31, 2013.

## Management plan

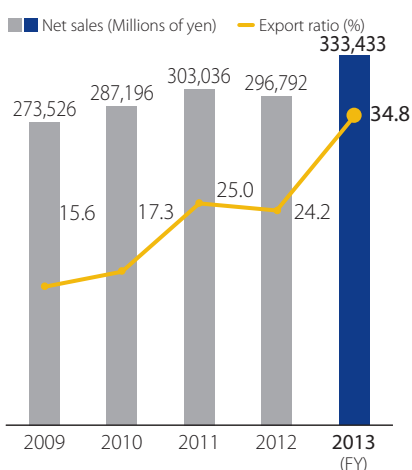
Hitz Innovation  
FY2005–FY2007

Hitz Innovation II  
FY2008–FY2010

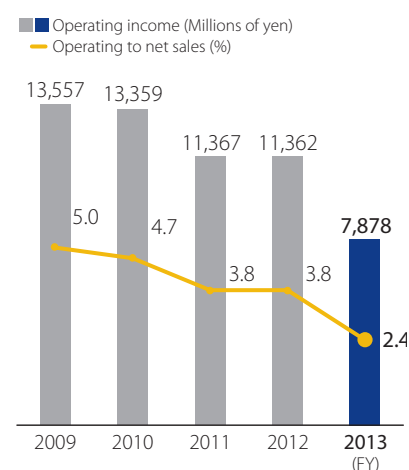
### Order intake



### Net sales & Export ratio



### Operating income & Operating to net sales

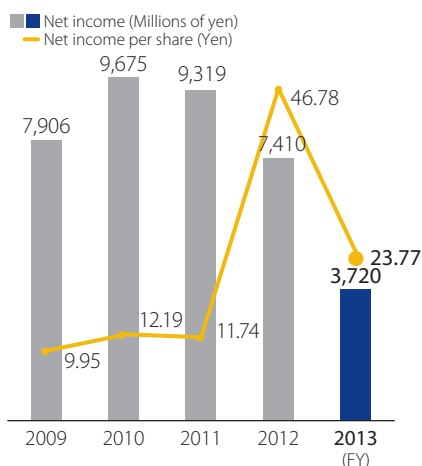


Millions of yen	
2012	2013
382,847	<b>328,433</b>
296,792	<b>333,433</b>
11,362	<b>7,879</b>
7,410	<b>3,720</b>
9,648	<b>300</b>
(13,487)	<b>(8,697)</b>
(7,818)	<b>(514)</b>
56,413	<b>49,961</b>
115,125	<b>117,565</b>
366,346	<b>379,414</b>
102,643	<b>104,327</b>
*46.78	<b>23.77</b>
*44.78	<b>—</b>
*627.85	<b>641.16</b>
2.00	<b>10.00</b>
26.9	<b>26.4</b>

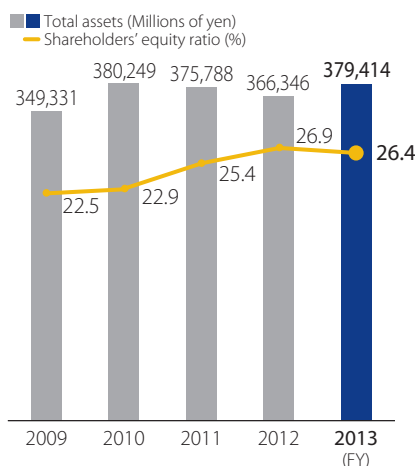
Millions of yen				
	2010	2011	2012	2013
<b>Order intake</b>	246,067	289,715	382,848	<b>328,433</b>
Environmental Systems	94,115	136,893	—	—
Industrial Plants	29,689	35,472	—	—
Environmental Systems & Industrial Plants	—	—	271,060	<b>204,985</b>
Machinery	43,141	45,008	47,530	<b>53,317</b>
Process Equipment	13,117	11,317	16,271	<b>17,306</b>
Infrastructure	33,231	30,065	20,914	<b>22,535</b>
Precision Machinery	23,315	21,084	18,345	<b>21,865</b>
Other	9,456	9,876	8,727	<b>8,425</b>
<b>Net sales</b>	287,196	303,036	296,792	<b>333,433</b>
Environmental Systems	93,137	128,132	—	—
Industrial Plants	29,583	37,856	—	—
Environmental Systems & Industrial Plants	—	—	181,060	<b>206,299</b>
Machinery	60,910	62,861	53,728	<b>51,941</b>
Process Equipment	17,277	10,227	10,144	<b>15,976</b>
Infrastructure	38,388	27,552	26,521	<b>28,092</b>
Precision Machinery	38,670	26,491	16,721	<b>22,625</b>
Other	9,231	9,917	8,617	<b>8,500</b>
<b>Operating income</b>	13,359	11,367	11,363	<b>7,879</b>
Environmental Systems	5,737	8,438	—	—
Industrial Plants	(2,281)	901	—	—
Environmental Systems & Industrial Plants	—	—	10,559	<b>9,889</b>
Machinery	2,995	2,426	1,955	<b>(353)</b>
Process Equipment	1,634	(118)	60	<b>(38)</b>
Infrastructure	1,266	(4,044)	(2,261)	<b>(1,580)</b>
Precision Machinery	3,171	2,738	157	<b>(196)</b>
Other	837	1,026	892	<b>157</b>

### Hitz Vision FY2011–FY2013

#### Net income & Net income per share



#### Total assets & Shareholders' equity ratio



#### Forward-looking statements:

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## To Our Stakeholders



First of all, I would like to thank all of our stakeholders for their support over the years.

In fiscal year of 2013, the economic conditions remained globally uncertain, as the sovereign debt crisis in Europe became protracted, quantitative easing in the United States was tapered off and economic growth in China and India slowed. However, the Japanese economy showed signs of moderate recovery momentum as economic policies and fiscal easing by government and Bank of Japan began to affect the “real” economy, sparking a moderate increase in consumer prices and a pickup in capital expenditure. Nevertheless, downside risk from a consumption tax rate hike and other factors continued to threaten the economy.

In this economic situation, the Hitachi Zosen Group took measures to realize the goals of the Hitz Vision three-year

medium-term management plan, of which 2013 was the final fiscal year. The broad aims were to raise the profile of the Group and develop it into a highly profitable enterprise, by realizing three long-term goals incorporated in the Hitz 2016 Vision: strengthening earnings capability (building the company with leading earnings potential in each business segment and product); expanding the scale of businesses (growing into a ¥500 billion enterprise); and strengthening its financial position (building a stable position with an equity ratio of at least 30%). Looking back over the results of the previous plan, we see that steady progress was made in the globalization of our businesses (including mergers with and acquisition of overseas businesses, and expansion of overseas units), improvement of basic profitability (including long-term operations and expansion of after-sales service businesses), and

# Aiming for steady results toward future growth under the Hitz 2016 Vision long-term vision

develop the strategies underpinning a highly profitable company that is publicly recognized. However, orders received, sales and earnings all fell short of target. Undeterred, following the Great East Japan Earthquake and the nuclear accident at Fukushima, we came to see Environment/Green Energy and Social Infrastructure and Disaster Prevention as business domains to be worthy of greater focus, and our conviction deepened that provision of products and services in these areas have become a social mission for the Group.

Fiscal 2014 is the first fiscal year in the Hitz Vision II medium-term management plan. In Hitz Vision II, we are working toward fulfillment of the performance targets in the long-term Hitz 2016 Vision. At the same time, we will take measures to resolve issues that reveal themselves in the Hitz Vision. We will continue to contribute to a sounder environment, more effective harnessing of resources and energy, broadening of uses of renewable energies, and realization of a more efficient and safer society for all.

Now I would like to say a few words about specific measures we will take. Firstly, in the Environment/Green Energy sector, we will take further measures to develop our Energy from Waste (EfW) refuse incineration technologies globally in partnership with Hitachi Zosen Inova AG. Likewise, we are committed to building up our After-sales service, Operation and Maintenance (AOM) and long-term operational management businesses. To ensure continuous stable refuse incineration operations 24 hours a day at our modern incineration facilities, we have introduced an automatic combustion system which enables energy-saving during incinerator operation. By collecting and managing data—operational, maintenance- and repair-related and image data—we have developed a support system that is effective in areas such as operational rationalization, optimization of operation, maintenance and repair, and reduction of faults and problems. Using such

operational data, we plan to propose to the customer construction projects and facilities with a longer working life. In addition, in the Social Infrastructure and Disaster Prevention businesses, we are encouraging the widespread adoption of Movable Flap-Gate type Seawall systems featuring automatically opening and closing gates, to cope with tsunami and high tides.

The year 2014 will be the 134th anniversary of the Group's founding. Looking ahead to the 150th anniversary, we are determined to provide products and services that provide satisfaction to the customer in the business domains of Environment/Green Energy and Social Infrastructure and Disaster Prevention. One example is our determined commitment to technological developments incorporating hydrogen energy, typified by fuel cells. In specific initiatives, the Group is working to develop CO<sub>2</sub> recycling and refueling technologies such as conversion of CO<sub>2</sub> generated during the extraction of natural gas into methane, through reaction with hydrogen generated by water electrolysis using wind and other renewable energy sources. If we can commercialize this technology, it will be possible to convert CO<sub>2</sub> generated during the extraction of natural gas into methane.

We always keep an eye on global trends ten or twenty years down the line. We are determined to further refine our technological potential so as to provide innovative solutions that meet all stakeholders' expectations of us as a "technology-oriented company". I would like to ask for your continuing support and encouragement in this endeavor.

August 2014

Minoru Furukawa,  
Chairman & CEO





# Aiming for steady results toward future growth under the Hitz 2016 Vision long-term vision

Takashi Tanisho,  
President & COO

A handwritten signature in black ink that reads "T. Tanisho".

To realize the goals of the Hitz 2016 Vision, the Hitachi Zosen Group is vigorously expanding two business domains, Environment/Green Energy, and Social Infrastructure and Disaster Prevention. In its previous medium-term management plan, the Group fell short of its numerical targets. However, it did make steady progress in building a robust platform for the future growth of its businesses and transforming into a highly profitable company. President and COO Takashi Tanisho herein explains the Group's current position and future strategic development, focusing on issues surrounding the achievement of the Hitz Vision II medium-term management plan, and measures it needs to take.

### Overview of business results in fiscal 2013

**During the period under review, the Group increased revenues on the back of growth in sales of environmental systems and industrial plants, but this was not sufficient to absorb increased costs, resulting in lower earnings.**

In fiscal 2013, the Japanese economy showed signs of moderate recovery momentum as economic policies and fiscal easing by the government and the Bank of Japan combined to spark a gradual rise in consumer prices and a

pickup in capital investment. However, as far as the Hitachi Zosen Group is concerned, because capital investment in the manufacturing sector in Japan was focused more overseas, it continued to face a tough environment. Conditions overseas



remained uncertain, as the sovereign debt crisis in Europe became protracted, quantitative easing in the United States was tapered off and economic growth in China and India slowed.

Under this environment, the Group took measures to implement priority policies—investment of corporate resources in strategic areas, strengthening of growth and earnings potential, and development of new products and businesses—based on the Hitz Vision three-year medium-term management plan launched in fiscal 2011. As a result of these measures, orders received on a consolidated basis in fiscal 2013 were down year-on-year, due chiefly to lower sales in the environmental system and industrial plant businesses, at ¥328 billion.

Consolidated sales increased 12.3% year-on-year to ¥333 billion. Despite some improvement in the infrastructure business, operating income declined 30.7% as a result of a worsening performance by the machinery business and other factors, to ¥7.8 billion. Due to the fall in operating income and the booking of an investment loss on equity affiliates, ordinary income fell 44.7% to ¥6.2 billion. Net income also dropped, by 49.8%, to ¥3.7 billion. So, in sum, revenues rose and earnings fell. Although sales grew in the environmental systems, industrial plant, process equipment and precision machinery businesses this was not enough to absorb increased costs from construction works and outsourcing, which caused earnings to decline.

## Review of previous medium-term management plan Hitz Vision (fiscal 2011- 2013)

**Although we failed to meet numerical targets in the plan, issues were clearly identified and a platform for the next phase of growth has been created and improved.**

Under the long-term Hitz 2016 Vision, outlining the future profile of the Group in fiscal 2016, we have aimed to evolve into a highly profitable company based on the three pillars of strengthening earnings capability (building the enterprise with leading earnings potential in each of its business segments and products); expanding the scale of our businesses (growing into a ¥500 billion enterprise); and strengthening our financial position (building up a stable position with an equity ratio of at least 30%).

To realize this vision, we took initial measures in the previous medium-term management plan, Hitz Vision (fiscal 2011- 2013), which we designated as a period for laying the groundwork. Under that plan, we worked to strengthen our growth potential, create a more balanced portfolio of businesses, and develop business strategies that would position us to lead the pack in earnings potential in individual segments. However, the plan was completed without our reaching the numerical targets, and the Group was likewise unable to meet the expectations of its stakeholders in terms of improved earnings capability.

We have remained committed to our target of expanding sales over the previous few years, and the overseas proportion of sales too had increased, to 34.8%, at the end of the fiscal year under review. We also launched a variety of long-range initiatives during the period of the plan, including expansion of overseas bases, and entry into the woody biomass power generation and mega-solar power generation businesses, but we are still at the investment stage in all cases, and it was difficult to attain profitability during the period of the plan. However, we have made steady progress in creating a platform for future Group growth. I see this as the payoff from the Hitz Vision plan.

On the other hand, certain problems also became apparent. We must now take measures to overhaul business processes, and create more effective business mechanisms. In fiscal 2013, we only managed to achieve around 60% of earnings and 80% of orders received compared with initial targets in the plan. We consider the main reason for this to be insufficient linkage in our business processes spanning marketing, estimation of project,

## Interview with the President



procurement, manufacturing and construction. This came in addition to the significant impact of the adoption in public works tenders of technological assessments as well as pricing as criteria, which was decisive in some orders we failed to capture. We delayed moving quickly in using ICT and other tools, and also to adequately ensure transfers of technology and technical skills from our veterans to younger employees. The basis of “monodzukuri” (craftsmanship), it hardly needs to be said, is technology and technical skills, but it is necessary to create mechanisms for passing on not only expertise per se, but also process knowledge. By looking back to our corporate philosophy “We create value useful to society with technology and sincerity to contribute to a prosperous future”, we are taking measures to restructure business processes.

Looking ahead, based on the business platforms created during the three-year Hitz Vision plan, we will further expand growth businesses, accelerate reform of underperforming businesses and bring new products and businesses to early profitability, so as to steadily build positive results.

### Measures and targets in the Hitz Vision II

**Based on the concept of a “technology-oriented company”, we aim to create new businesses that reflect our origins, and to maximize synergies within the Group.**

#### Concerning the targets

In Hitz Vision II, our new medium-term management plan, we will succeed by resolving issues that became evident in the previous medium-term management plan, leading to improved performance, and will provide products and services that give a high level of customer satisfaction in the fields of Environment/Green Energy and Social Infrastructure and Disaster Prevention, areas of greatly increased public concern. In addition, we

will once more commit ourselves to the concept of a “technology-oriented company”, and have drafted and will implement optimal business strategies for that purpose. In fiscal 2016, the last year of the plan, our targets are orders received of ¥500 billion, sales of ¥400 billion and operating income of ¥23 billion. After fiscal 2017, we will lay the foundations for a ¥500 billion business.

### Toward a “technology-oriented company”

Our concept of “technology-oriented company” involves a return to the corporate philosophy to strengthen fundamental technologies as well as proprietary technologies in a broad sense, including work processes. The aim is to deliver customer satisfaction and high added value toward sustainable growth.

The basis of the “technology-oriented company” is “monodzukuri” (craftsmanship) and engineering. In this connection, the concept of technology and people becomes an extremely important factor. As mentioned above, one major issue is creating business processes and systems that are well

adapted to the market, through a close alliance of marketing, design and manufacturing and other departments. At the moment, we have arranged collaborations among our departments, with the production engineering department coordinating horizontally, to create information-sharing paradigms and highly effective business mechanisms. Here, what is most important is to foster relations of trust among departments. I myself have carried out visits to all our offices and works, and have explained the importance of information-sharing and alliance-building.

### Business innovation: Strengthening earnings and business growth potential

To promote business innovation, we are taking steps in the new plan to strengthen earnings and business growth potential.

Strengthening earnings potential depends firstly on further strengthening core competences. In fiscal 2013 too, growth in the environmental and plant businesses, particularly EfW (Energy-from-Waste) plants, was ahead of target. We will further expand cooperative relations in this area with the key company in this business, Hitachi Zosen Inova. In April 2014, we became the first Japanese company to win an order in India for construction of an EfW plant. This was the fruit of collaboration among Hitachi Zosen Inova, Hitachi Zosen India Private Limited as well as Indian partner companies. We will develop this partnership-based model in other areas including the Middle East.

We plan to strengthen our highly advantageous After-sales service, Operation and Maintenance (AOM) business at EfW plants through component supplies through an alliance with Hitachi Zosen Inova, which specializes in plant construction. This model will also be rolled out in Europe, China, Vietnam and other markets. Creation of this kind of synergy is also an aim of measures under the Hitz Vision II.

Meanwhile, for underperforming businesses such as shield tunneling machinery and marine engines, we have formed a taskforce which will pinpoint structural problems and take restructuring measures. Based on the concept

of a “technology-oriented company”, we plan to develop business strategies aimed at making individual businesses the leader in a range of niche markets or different regions.

To strengthen business growth potential, we will continue to take measures to further expand overseas operations, strengthen operational controls for each region, and develop region-specific policies as we build up our overseas network. Additionally, we will accelerate the attainment of profitability for new products and new businesses, by organizing alliances of Group companies and emphasizing collaboration. In particular, the realization of synergies through strengthened Groupwide capabilities will form an important strategy for ensuring growth into the future. For example, Daiki Ataka Engineering Co., Ltd. which we acquired in April 2014, is now taking measures to expand its human waste and sewage processing businesses as our water treatment and industrial device department, in combination with our own EfW plant business, with a view to expansion overseas. This is the kind of collaboration we are aiming for. The products of the water treatment and industrial device department can be expected to have applications in other fields. We can expand our business domains by combining products and production lines in areas such as fillers and electron beam sterilization systems for foods and other products. Likewise in April, NICHIZO TECH INC. which has become a wholly-owned subsidiary of the Group,



# Interview with the President

is developing a construction-related inspection and maintenance consultancy service based mainly on nondestructive inspections. We can expect further business growth as a Group by stepping up the

operational alliance of Hitachi Zosen and NICHIZO TECH. In these ways, Hitachi Zosen will share information with individual Group companies and leverage its comprehensive Groupwide capabilities.

## Concerning new businesses

We also continue to aggressively take measures to identify and foster new businesses. For the “neo RiSe®” land-mounted Movable Flap-Gate type Seawall system of our disaster prevention business, we have established the Hitachi Zosen disaster prevention solution laboratory within our Sakai Works. We are now positioned to enable the customers to see what actually happens during operation of the system in an inundation. We aim to expand sales by enabling customers to experience personally how effective the system is and encouraging them to adopt it. Additionally, we have also completed offshore experimentation facilities at Shin Yaizu fishing port, Shizuoka Prefecture, for our Movable Flap-Gate type Breakwater system installed on the seabed, and are confirming its full safety, efficacy and operability. By building up a track record from small-scale systems, we are winning customers’ trust in our flap gate systems and the sense of security they afford, leading to

greater takeup.

Electron beam sterilization systems are increasingly in demand for streamlining and cost-cutting in sterilization and cleaning processes for filler and packaging lines for foodstuffs and medical products. At the moment, we plan to develop systems that can handle containers other than PET bottles. To attract new customer segments, we have created a one-stop integrated supply system from sterilization system to filler machine.

In terms of propriety technology, Selective Catalytic Reduction (SCR) systems that eliminate nitrous oxides from exhaust gases emitted by marine diesel engines are one of the unique products of Hitachi Zosen. This is one technology that does not exist anywhere else in the world. We expect growth in these systems, given the upcoming tightening of nitrous oxide emission restrictions to be introduced in some regions from 2016.

## Management innovations: A stronger financial position and personnel training

During the previous medium-term management plan, the overall equity ratio improved steadily. Hitachi Zosen aims to continue to strengthen its financial position by maintaining an equity ratio of at least 30%. Looking ahead, we will further increase overseas investment in Southeast Asia, India and the Middle East. For this reason, we believe it is extremely important to build up own equity. We will take measures to improve our funding capability and financial position, to realize growth strategies with an efficiently operated, globally-based fund management model.

I mentioned previously the importance of what we call “technology and people”. Personnel training lies the key to our growth. We have a wide range of programs in place for the training of new hires,

including those that incorporate overseas study programs, as well as programs for midcareer employees which focus not only on training tailored to the conventional qualification ladder, but also offer regular training for each professional grade, with use of external training facilities. We also revitalize the workforce internally through proactive rotation of personnel among different departments. We are committed to molding workforces that can take on the challenge of working with different products, markets and assignments, across departmental firewalls, and can create new businesses rooted in overseas markets. I want to see creation of a corporate culture that can promote exchange among employees and respond to dramatic change in the business environment.

## Outlook for fiscal 2014

### **Increased earnings are expected on improved business performance in the machinery and infrastructure businesses and orders at new businesses.**

In fiscal 2014, our target for orders intake is ¥400 billion. Although economic prospects remain unclear, we assume growth in the Environmental Systems and Industrial Plants businesses and certain other specific businesses. In particular, we aim to secure orders in new areas such as Movable Flap-Gate type Seawall system, electron beam sterilization systems and SCR systems for marine engines. We expect sales to decline some 4.0% year-on-year to ¥320 billion due partly to a correctional decline in large-scale orders at Environmental Systems and Industrial Plants. We expect operating income to increase 26.9%, to ¥10 billion, factoring in improved earnings at the Machinery and infrastructure businesses, while ordinary income is expected to grow 28.6% to ¥8 billion and net income 7.6% to ¥4 billion.



## Concerning financial strategy and shareholder returns

### **We will continue to follow a stable dividend policy, with due consideration to investments in future growth.**

In fiscal 2013, the capital ratio stood at 26.4%, and the balance of long-term interest-bearing liabilities at ¥100 billion. The debt-equity ratio was 1.0 times, indicating sound progress toward financial health. In fiscal 2014 likewise, we will continue to strengthen our financial position. Under this situation, and based on a policy of stable, continuous dividend payment in line with business performance, we will work to return profit to shareholders while investing in capital facilities, research

and development and whatever other measures may be necessary to fund growth investments for the future. Based on this approach, we paid a dividend of ¥10 per share in fiscal 2013 and plan to pay the same amount as the end-of-year dividend in fiscal 2014.

In line with the new plan, we will work to grow businesses and develop into a highly profitable enterprise. I trust we can count on your support and encouragement in this endeavor.

# Business Domains

## Environmental Systems and Industrial Plant Business

P21 



Our Energy-from-Waste plants are environmental conservation energy systems designed to produce power from the large amounts of energy generated during waste incineration. We also have expertise and a strong track record in biomass utilization and water treatment systems and in addition, we have been delivering a wide range of plants in Japan and overseas in fields such as chemicals and petrochemicals, seawater desalination. Moreover, we supply gas turbine power generation facility using natural gas and biogas, as well as wind power generation systems using natural energy.

### »» Environmental protection systems

- Energy-from-Waste plants
- Material recycling systems

### »» Environmental solutions

- AOM business (after-sales service, operation control and chemical supply)
- Long-term operations and management (PFI and PPP)
- Remote monitoring (remon) support systems
- Technologies for the long-term use of and to extend the lives of facilities

### »» Plants

- Desalination plants
- Chemical plants
- Sulfuric acid plants
- Hitz Dehydration system HDS® by zeolite membrane
- Non-destructive inspections

### »» Power generator systems

- Gas turbine power generation facilities
- Gas engine power generation facilities
- Co-generation systems
- O&M and after-sales service
- Vegetable oil-fired biomass facilities
- Wind farms

### »» Electricity power business

### »» Water treatment and industrial equipment systems

- Sludge recovery, recycling and final processing plant exudative water treatment system
- Water, sewage, and industrial effluent treatment systems
- Electrolyzing systems and rubber lining
- Filter press
- Slurry ice plants

### »» Biomass utilization system

- System of producing fuel from sewage sludge "Hitz Pearl system"
- Methane fermentation system
- Eco-agriculture business

## Machinery Business

P23 



We supply many types of marine diesel engine to shipyards in Japan and abroad, and have developed a selective catalytic reduction (SCR) nitrogen oxide removal systems for marine engines to achieve compliance with the International Maritime Organization (IMO) regulations on NOx emissions. We also deliver a wide range of press machinery and FA systems for automakers.

### »» Marine diesel engines

- Marine diesel engines
- Marine SCR systems
- NOx removal systems and NOx removal catalysts

### »» Press machines



### »» Deck machinery for ships





## Process Equipment Business

P25



We supply many types of process equipment, such as pressure vessels, in Japan and abroad. In the nuclear power sector, we have established a strong track record in the supply of a wide range of equipment for nuclear power stations, including spent nuclear fuel transport casks and storage casks, and radioactive waste incineration and reduction facilities.

### »» Process equipment

- Reactor vessels
- Heat exchangers



### »» Nuclear fuel cycling-related equipment

- Spent nuclear fuel transport casks and storage casks
- Canisters for nuclear spent fuels storage



## Infrastructure Business

P27



For a century, our bridge-building division has delivered long structures, and shield tunnelling machines for road and subway construction equipment for infrastructure projects in newly emerging countries. We also supply disaster prevention systems, including our GPS buoy wave-tsunami tide observation systems and Movable Flap-Gate type Seawall system.

### »» Infrastructure

- Bridges
- Infrastructure maintenance technology and earthquake technology
- Hydraulic gates
- Marine civil engineering (caissons, steel-plate cells)
- Steel stacks
- Shield tunneling machines

### »» Disaster prevention

- GPS Comprehensive Oceanographic Monitoring System
- Movable Flap-Gate type Seawall system
- Movable Flap-Gate type Breakwater system
- Electric Discharge Impulse Crushing System



## Precision Machinery Business

P29



From manufacturing to engineering, we handle all aspects of the production of organic electroluminescent (EL) displays and other flat panel displays and semiconductor manufacturing equipment. We supply filling systems for foods, beverages, and in electronic control systems, we provide the Food Recorder and other products.

### »» Precision machinery

- OLED production systems
- Vacuum equipment and vacuum valves
- Laser patterning equipment
- Precision polishing technologies and polishing machines
- Castings for semiconductor and liquid crystal production equipment (lapping plates)
- Conveyance and handling systems



### »» System machinery

- Plastic extrusion molding equipment
- Filing and packaging line systems
- Foreign Substance separation equipment for food

### »» Electronic control systems

- Image and image processing and storage systems
- Electronic boards and units
- High-precision GPS system
- GPS remote monitoring system





▲ Energy-from-Waste plant in central Dalian City, China

## Review of Operations

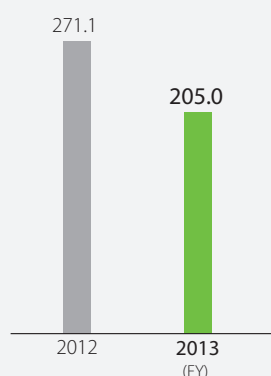
# Environmental Systems and Industrial Plant Business

Net sales



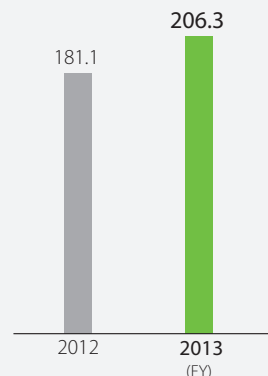
Order intake (Billions of yen)

205.0 billion  
-24.4%



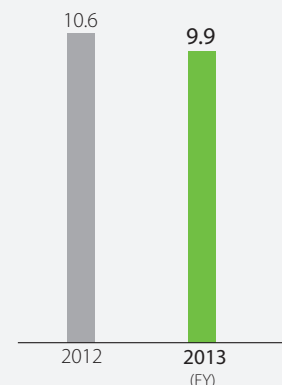
Net sales (Billions of yen)

206.3 billion  
+13.9%

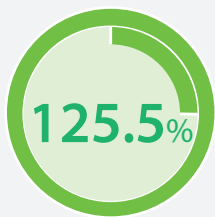


Operating income (Billions of yen)

9.9 billion  
-6.6%



Operating income



Note: Business segments changed in fiscal 2013. Accordingly, only figures for fiscal 2012 have been included in the reclassified segments after the change.

## Business overview and outlook for fiscal year 2014

In fiscal 2013, we recorded net sales of ¥206.3 billion (an increase of ¥25.2 billion year on year) and operating income of ¥9.9 billion (a decrease of ¥0.7 billion).

### ◆ Environmental systems

Amid the increasing attention being paid to new energy, such as generating power from EfW plants, we received an order to rebuild and maintain the EfW plant in the southern part of Kyoto City (Kyoto Prefecture). A feature of this plant is that it combines an EfW incinerator with a facility to convert natural waste into biogas, thereby maximizing the energy it collects from waste and further contributing to reduce CO<sub>2</sub> emissions compared to a conventional EfW plant.

We also received an order from Kurashiki City (Okayama Prefecture) to upgrade, maintain, and operate the key facilities at its Mizushima waste incineration plant; from the Tamura Large Area Administrative Association (Fukushima Prefecture) for the management, maintenance, and control of its Tamura East Environment Center; and from Katori Large Area Municipal Association (Chiba Prefecture) for a major repair project at its Ichiyama Clean Center.

In addition to the above, we received and carried out a number of orders from various local governments for maintenance inspections, maintenance work, and repairs, and also for operations and control work, at general waste disposal facilities.

Overseas, we received two orders to construct urban refuse power plants from customers in the United Kingdom, and we became the first Japanese company to receive an order from India for the construction of an EfW plant (engineering, procurement, and construction of the EfW plant excluding civil scope). We also completed the construction of urban refuse power plants in South Korea and China and handed them over to customers.

In fiscal 2014, we are again aiming to receive orders from domestic customers to construct EfW plants, for upgrade and life-extension projects, and for projects related to the post-earthquake restoration. We will also continue to strive to expand our AOM and long-term operations businesses, based on our abundant track record in delivering projects in these fields.

Overseas, we are collaborating with HZI and accelerating the deployment of our strategy to become the world leader in EfW. Along with Europe and the Middle East markets, which are where HZI has traditionally operated, we have introduced a conceptual model that corresponds to the characteristics of the markets in the various regions, including China, South East Asia and India, and we are working to build business models for them and to open up these new markets.

### ◆ Plants

In the context of the recovery trend in capital investment in the Japanese manufacturing industry, we received orders for and delivered a variety of plant renewal and reinforcement projects.

Also, while we did not receive any large-scale orders in the desalination field, we concluded an agreement with Abu Dhabi Water and Electricity Authority (ADWEA) for the construction of a pilot plant for our high-speed seabed infiltration system "HiSIS" that utilizes a seawater reverse osmosis (RO) method, which we developed in partnership with Nagaoka International Corporation.

In fiscal 2014, we are once again aiming to acquire a variety of orders for plant renewal and reinforcement projects, while at the same time targeting expansion and growth in our overseas desalination plant operations and orders of large-scale construction projects.

### ◆ Energy Business

Since the Great East Japan Earthquake, there have been changes to the energy market in conjunction with the suspension of operations at nuclear power plants in Japan. Despite a severe ordering environment due to price competition, thanks to increased private-sector demands for the introduction of a decentralized power supply, which has been created from private-sector companies' concerns about power shortages, we received orders for and delivered gas-engine power generation facilities for domestic customers as well as a number of orders for facilities-maintenance projects.

In our wholesale electric power supply business for power companies, at the No. 2 power generation facility within the Ibaraki Works, we decided to change from using conventional fuel oil A to the less expensive and more environmentally considerate LNG. We also decided on capital investment to upgrade the facility with highly effective, gas turbine combined cycle equipment.

In Hitachiota City, Ibaraki Prefecture, together with local forestry we established the Woody Biomass Fuel Stable Supply Council to construct a power generation facility that utilizes unused wood and to make use of the feed-in tariff (FIT) system.

In addition, we completed the construction of large-scale photovoltaic power generation facilities (mega-solar) on idle land at the Company's Innoshima Works and the Naikai Zosen Corporation, and have started supplying power to the Chugoku Electric Power Company, Inc.

Overseas, in collaboration with the Saline Water Conversion Corporation (SWCC), a Saudi company, we constructed a solar-thermal power-generation demonstration plant that employs the newly developed Hitz Super Low Profile Fresnel "HSLPF" concentrated solar power (CSP) system and started test operations.

### ◆ Water Treatment and Industrial Equipment

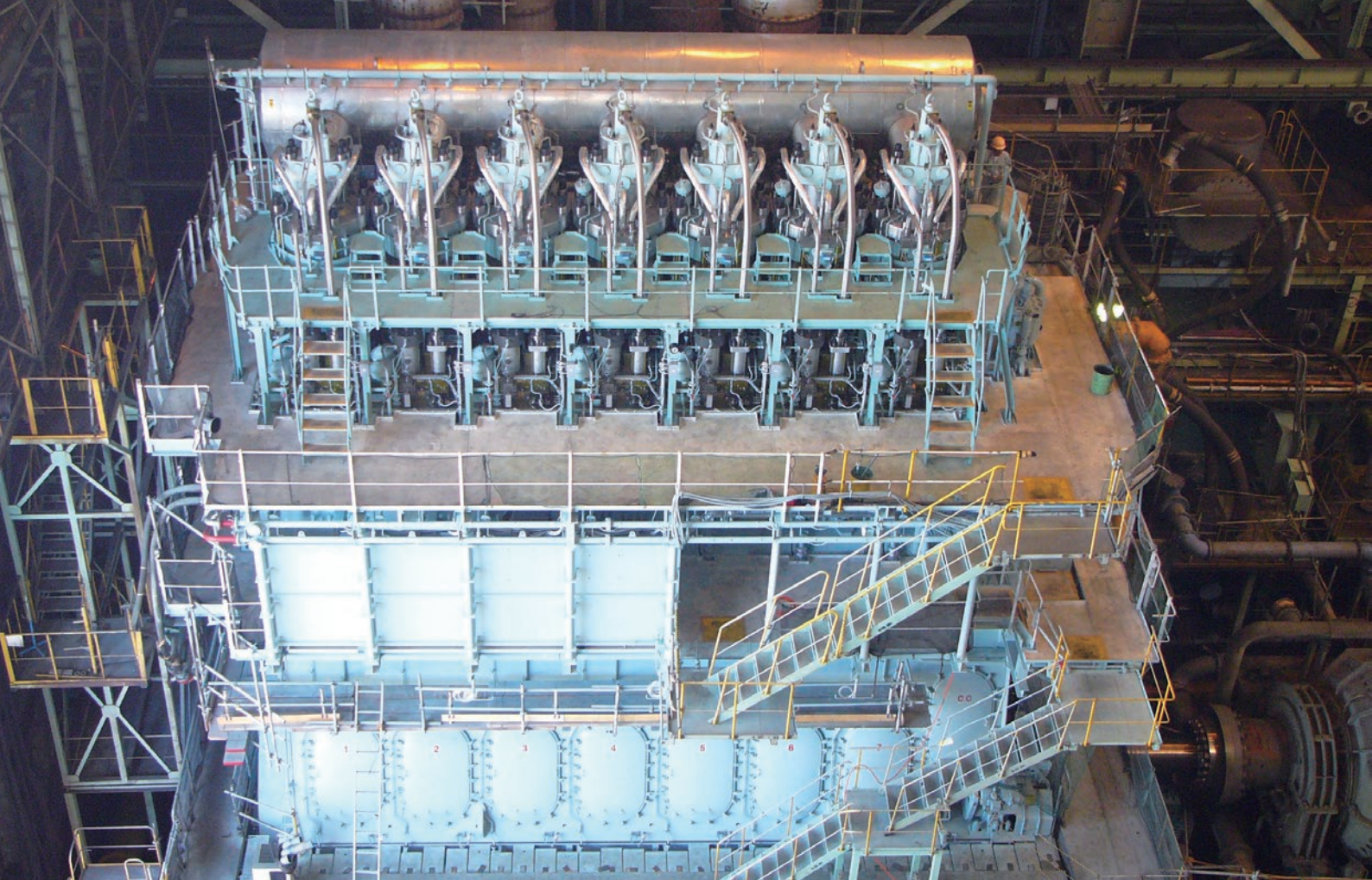
In fiscal 2013, toward the completion of Daiki Ataka Engineering's medium term management plan Global AD, we have been working hard to increase our profitability, including by improving the differentiation of our products and our sales proposal capabilities; increasing orders through strengthening collaborations with affiliate companies; improving productivity within plants; implementing exhaustive cost reductions in the areas of design, procurement, and construction projects; and bolstering our after-sales services.

However, the fiscal 2013 order intake was ¥34.4 billion, due to factors such as a decline in water-treatment order intake. As for net sales, although sales in water treatment business increased due to an increased number of projects on hold at the beginning of the fiscal term, this was offset by a decline in industrial equipment sales, and as a result, we recorded net sales of ¥36.6 billion, while the balance of order intakes at the end of the fiscal year was ¥23.4 billion.

In terms of profit and loss, we recorded an operating income of ¥0.2 billion, due to an increase of the reserve for losses on construction contracts attributable to some unprofitable projects in the water treatment field and a decline in sales and profits in industrial equipment caused by the slump in orders for filter presses and after-sales services for seawater electrolysis equipment.

In fiscal 2014, we work hard to improve profitability by strengthening our after-sales services and eliminating EPC unprofitable construction projects. In addition, we will enter into the overseas water treatment market, push ahead with the early commercialization of new products and businesses, and aim to take advantage of synergies generated by the merger.



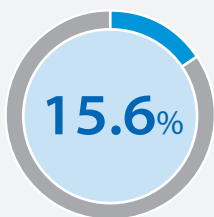


▲ MAN B&W G-type electronically controlled marine diesel engine

## Review of Operations

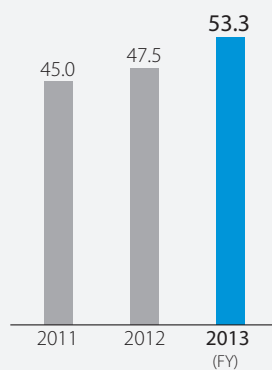
# Machinery Business

Net sales



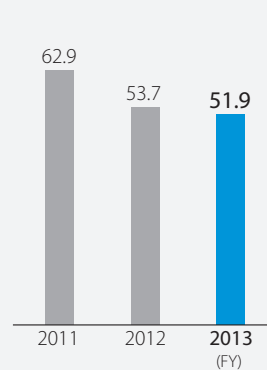
Order intake (Billions of yen)

**53.3** billion  
+12.2%



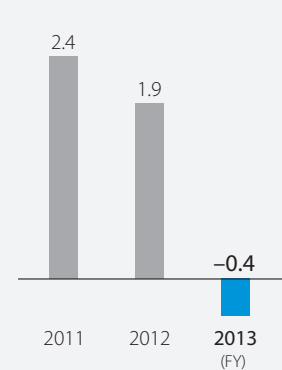
Net sales (Billions of yen)

**51.9** billion  
-3.3%

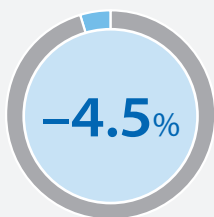


Operating income (Billions of yen)

**-0.4** billion  
—



Operating income



# Business overview and outlook for fiscal year 2014

## ◆ Machinery

In fiscal 2013, the difficult ordering environment for marine diesel engines for ships continued as the gap between the demand and supply for ships and vessels failed to improve. In this environment, we received orders for and delivered to both domestic and overseas ship-builders marine diesel engines and marine deck machinery for ships, including delivering our MAN B&W “G-type”, which is Japan’s first electronically controlled marine diesel engine and which contributes to environmental protection by achieving energy saving with low fuel costs and a decrease in carbon-dioxide emissions.

In business performance, net sales were down ¥3.6 billion year on year, to ¥26.5 billion, due mainly to a decline in sales of marine deck equipment, while the operating loss worsened by ¥2.4 billion, to ¥3.2 billion, because of the decrease in profitability resulting from our reductions in the prices of marine diesel engines and deck machinery for ships.

We do not expect a rapid market recovery in fiscal 2014 and so we will be maintaining a production output of marine diesel engines at around the 60-units level, while focusing on improving profits by increasing prices and reducing costs.

We expect net sales to be practically unchanged from fiscal 2013, at ¥27.2 billion, and the operating loss to improve by ¥800 million, to ¥2.4 billion.



▲ Marine diesel engine fitted with SCR system

## ◆ Press

The automotive industry, which is the principal customer of our press machines business, was finally freed from the adverse effects of the yen’s excessive appreciation, which had often been cited as one of the six major negative factors preventing Japan’s manufacturing sector from being fully competitive. However, there are growing concerns about future outlook as signs of a slowdown were seen in emerging markets, centered on Asia, which up to the present time have achieved remarkable growth.

Amid this situation, we positioned five tasks as our key objectives; implement reforms throughout the Group, secure earnings, secure order intakes, further pursue globalization, and strengthen our product development capabilities. As a result of our efforts in these directions and support by vigorous capital investment by auto-manufacturers, in the fiscal year under review we posted record figures in both net sales and profits. Net sales rose to ¥25,474 million, an increase of 7.1% year on year, while operating income was ¥2,848 million, a rise of 4.9%. In fiscal 2014, as there has been a fall in auto sales in the emerging markets, particularly in Asia, and also signs of a slowdown in capital investment, we are forecasting net sales of ¥23,000 million, down 9.7% compared to the fiscal year under review, and also a fall in profits, with operating income of ¥2,430 million, a decline of 14.7%.

However, we are aiming to improve levels of customer satisfaction through Group-wide proposal sales and strengthened after-sales service and our goal is to “further evolve our expertise in monodzukuri manufacturing.”



▲ Press machine (Hitachi Zosen Fukui Corporation)

## TOPICS

### Completed the SCR system development

In marine diesel engines, it has been resolved that IMO Tier III NOx emission-reduction standards shall be applied to those ships and vessels built after January 1, 2016, from among all ships and vessels that travel through Emission Control Areas (ECA) in North America and the Caribbean.

We have utilized our NOx removal system technologies that we commercialized for coal thermal power plants and have been working on developing a SCR system for marine engines that will clear the IMO Tier III NOx emission-reduction standards. We continued testing using a demonstration vessel installed with this equipment and completed its development in fiscal 2013.

We lead the field in SCR systems. We aim to expand our sales of marine diesel engines by selling engines including SCR systems as well as SCR systems alone as separate units.



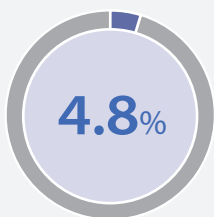


▲ Pressure vessels for the Middle East

## Review of Operations

# Process Equipment Business

Net sales



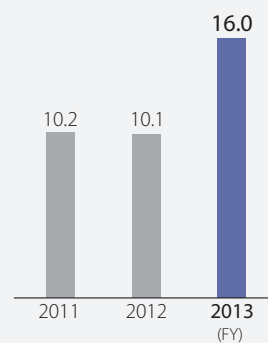
Order intake (Billions of yen)

**17.3** billion  
**+6.1%**



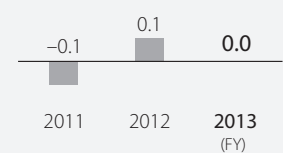
Net sales (Billions of yen)

**16.0** billion  
**+58.4%**



Operating income (Billions of yen)

**0.0** billion  
—



Operating income



## Business overview and outlook for fiscal year 2014

Competition became increasingly fierce in the process equipment field in fiscal 2013 due to the rise of overseas competitors in the same industry. But despite these conditions, we obtained orders for pressure vessels for use in North America, Africa, the Middle East, Central Asia, and South East Asia. In addition, we received orders for and delivered equipment for use in a wide range of plants both in Japan and overseas. Further, we focused our energies into increasing orders for pressure vessels for use in GTL (gas to liquid: the conversion of natural gas to liquid fuel) plants that convert into liquid fuel the shale gas that is becoming increasingly widespread in North America.

In nuclear fuel cycling-related equipment, we received and delivered orders for spent-fuel storage casks for customers in the United States. We also received orders to manufacture casks for the decommissioning of a reactor at a nuclear power plant also in the United States, as well as orders for fuel transportation and storage operations.

In terms of business performance, net sales increased ¥5.9 billion year on year, to ¥16.0 billion, mainly as a result of NAC International Inc. newly entering the scope of consolidated and also a recovery in orders of pressure vessels. The operating income or loss decreased by ¥100 million to basically zero, as while on the one hand there was an improvement from the increase in sales of pressure vessels, on the other hand the synergies with NAC International Inc. have not yet been realized.

New plant construction in fiscal 2014 is continuing on a recovery track, and in conjunction with the global food shortages, demand is trending strongly from fertilizer plants and also from ammonia plants that operate in the upstream of fertilizer plants. In this context, orders for GTL-use pressure vessels increased and we are aiming to utilize ISGEC Hitachi Zosen Limited and enter into and expand our businesses in emerging markets (India, South America, Russia, and China). We are also focusing on increasing orders for nuclear power equipment through our collaboration with NAC International Inc. and on building a new business model.

Due to the increase in sales of pressure vessels, we forecast net sales will increase ¥1.0 billion year on year, to ¥17.0 billion, and operating income or loss will rise ¥500 million and become an operating income of ¥500 million.

## TOPICS

### Capital investment of Process Equipment Business, joint corporation in India

ISGEC Hitachi Zosen Limited, which is the Company's joint corporation in India, resolved on a capital investment plan in May 2013, and in July 2014 it completed the construction of a new building in which it installed large-scale cranes and the latest welding equipment. Compared to one year earlier, its production capacity is expected to increase by around 70%, while it also plans to increase its number of employees to around 750 people within the current fiscal year, which will be an increase of around 50% compared to the current number.

As a leading company in the field of process equipment, we are actively responding to the constantly rising demand from fertilizer plants and GTL plants.



▲ New factory under construction at ISGEC Hitachi Zosen Limited



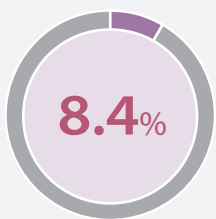


▲ Bikunitani bridge (Kumamoto Prefecture)

## Review of Operations

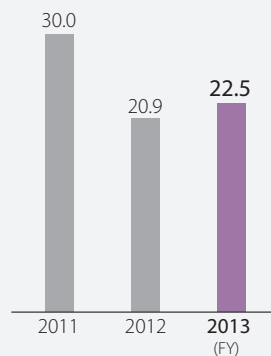
# Infrastructure Business

Net sales



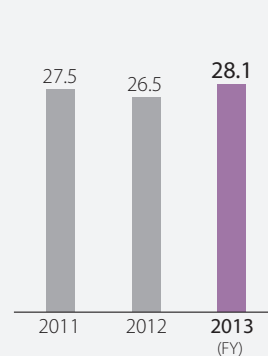
Order intake (Billions of yen)

**22.5** billion  
**+7.8%**



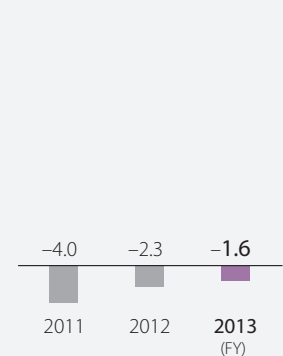
Net sales (Billions of yen)

**28.1** billion  
**+5.9%**

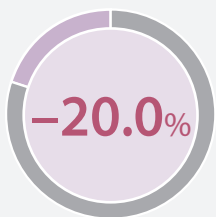


Operating income (Billions of yen)

**-1.6** billion  
—



Operating income



# Business overview and outlook for fiscal year 2014

Despite the continuing difficult business conditions for steel structures in fiscal 2013 resulting from the fierce competition for orders, we still received orders for and delivered projects for new bridges, hydraulic gates, penstocks, stacks, and marine structures for customers such as the Ministry of Land, Infrastructure, Transport and Tourism (MLIT); various local governments; expressway companies; and power companies. Specifically, we received orders from the Kanto Regional Development Bureau of the MLIT for a bridge superstructure project at the Port of Yokohama Port Railway Minami Honmoku Pier Honmoku Line (construction area VI); from the Tohoku Regional Development Bureau for a bridge superstructure project at the Furukuchi Ohashi Bridge on National Highway No. 47; from the Kinki Regional Development Bureau of the MLIT for the redevelopment of the main gate at Amagase and construction of new facilities; and from the Kingdom of Thailand to construct hydraulic gates in the Ayutthaya district as a flood-prevention measure.

In the disaster prevention field, we received an order from the MLIT and delivered to it a construction relating to GPS wave meters that measure wave height and other variables using satellite positioning.

In construction machinery, amid the increase in demand for road and traffic infrastructure, particularly in emerging countries, we received orders for and delivered a variety of shield tunneling machines for domestic and overseas construction companies, including orders of this machinery from Singapore.

In terms of business performance, while sales declined for shield tunneling machines, they increased for bridges, hydraulic gates, and penstocks, and as a result, we recorded net sales of ¥28.1 billion, an increase of ¥1.6 billion year on year, while the operating loss improved by ¥0.7 billion, to a loss of ¥1.6 billion, mainly due to the increase in net sales and the reduction in the loss from shield tunneling machines.

Against the backdrop of the improvement to the ordering environment, in fiscal 2014 we will focus our energies into increasing orders for bridges, hydraulic gates, and stacks by our selective bidding and strengthening our technological-proposal capabilities. In addition, in the disaster prevention field, we will work hard to rapidly establish a license business for our land-mounted Flap-Gate type Seawall system “neo RiSe®” and the early commercialization of our seabed-installed flap-gate system.

Compared to fiscal 2013, we forecast that net sales to be down ¥5.1 billion, to ¥23.0 billion, while the operating loss to be improved by ¥1.6 billion, to return to profitability in this area, owing mainly to a reduction in the loss from shield tunneling machines, improvements to profitability from bridges, and the growth in the disaster prevention business .

## TOPICS

### Completed sea demonstration trials of our movable seabed-installed Flap-Gate type Seawall system

In the disaster prevention field, we completed the two year, sea demonstration trials of our movable seabed-installed Flap-Gate type Seawall system in Yaizu Port, Shizuoka Prefecture, and published the results of these trials. We achieved the hoped-for results in terms of key performance and reliability and have started sales activities toward obtaining orders from the national and local governments.

Moreover, we have been receiving a rapidly increasing number of inquiries from various potential customers for our land-mounted Flap-Gate type Seawall system “neo RiSe®” and we are targeting a fairly substantial volume of orders in fiscal 2014. Also, in March of 2014, the Hitz Disaster Prevention Solutions Laboratory (abbreviation: Hitz Disaster Prevention Lab) was opened at the Sakai Works. We have installed in the laboratory three types of flap-gates designed specifically for the entrances of plants, buildings, and subways, and visitors can observe demonstrations of the flap-gates stopping actual floods.



▲ Hitz Disaster Prevention Solutions Laboratory



▲ Shield tunneling machine for Singapore



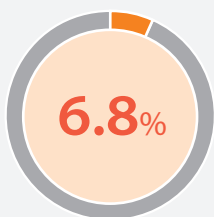


▲ Large-scale photovoltaic (mega solar) power plant in Innoshima Works

## Review of Operations

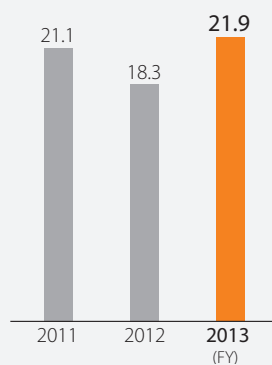
# Precision Machinery Business

Net sales



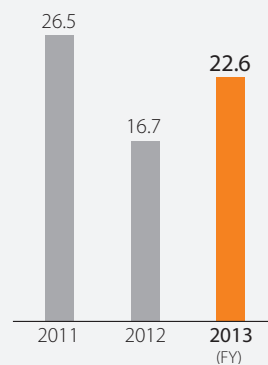
Order intake (Billions of yen)

**21.9** billion  
**+19.2%**



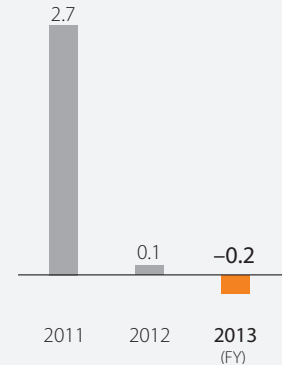
Net sales (Billions of yen)

**22.6** billion  
**+35.3%**

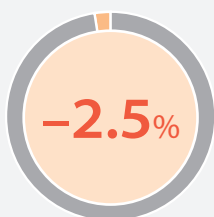


Operating income (Billions of yen)

**-0.2** billion



Operating income



### ◆ System machinery

The system machinery business environment in fiscal 2013 possessed a light and shade depending on the machinery model, but it is gradually recovering based on the fact that customers' attitudes toward capital investment are becoming more positive. Due to this improvement in our external environment, we have been receiving orders and recording sales for a number of products that since the past have been recognized as having superior technological qualities, including our infusion medical bag filling systems, mineral water bottle filling systems, polishing equipment used in the precision field, and plastic machinery equipment for use with optical films, such as touch panels. We are also starting to see the results of the efforts we made for new technologies and new business fields; specifically, we have received orders for new technologies including our electron beam sterilizer equipment for food and pharmaceutical machinery and stretching machines for plastic machinery. We manufacture laser processing equipment and transportation equipment for the solar battery market, but from this fiscal year, we have also entered the EPC business for solar power plants. As our No. 1 plant, we began an EPC construction project for a large-scale photovoltaic power generation facilities (mega-solar), (power output, 1.5 MW) at idle land the Company owns next to our Innoshima Works, which we completed in September. We also completed construction of the No. 2 plant, which is a large-scale photovoltaic power plant with a power output of 1.0 MW, for Naikai Zosen Corporation in December.

In addition to our previous radioactivity screening system for rice, we have developed a radioactivity screening system for partially dried persimmon, which is a special product of Fukushima, and also a radioactivity screening system for earthquake rubble. Going forward, we will continue to develop our radioactivity screening systems so that we can help as much as possible with the restoration of the Tohoku region.

In comparison, the improvement to the operating loss in fiscal 2013 was limited, mainly as a result of the increase in costs from growing the business for electron beam sterilizer equipment, which is a new technology.

Thanks to factors such as the effect of a tax reduction on capital investment, we expect our external environment in fiscal 2014 to continue to improve steadily. We are working to expand our businesses by growing new fields, such the previously mentioned electron beam sterilizer equipment, longitudinal oriented film machines, and mega-solar plants, and also by opening up overseas markets, particularly those in Asia.

### ◆ Electronic control equipment

In our electronic control business in fiscal 2013, we received orders for and delivered a variety of electronic equipment, food defense and management recording system for food companies, and image and audio recording equipment for railway companies. In addition, in our business utilizing our GPS positioning technology, we received orders and delivered measurement systems and other equipment for customers including the Geospatial Information Authority of Japan and the Meteorological Agency, and also container yard GPS systems and other products for private-sector customers.

This was because the decline in sales of previously developed mass-produced products was covered by the increase in sales from newly developed mass-produced products and also sales from new fields. But operating income declined marginally, primarily due to an increase in expenses from business expansion.

We were praised for our farming-machinery automated-operations demonstration trial that utilized corrected data from the quasi-zenith satellite and in the fiscal 2013 Space Development and Utilization Awards, we were awarded the Minister of State for Space Policy Award for this technology. The Japan Railway Engineers' Association awarded us its prize for excellence in its technology awards for our image and on-board digital recorder for use in rail carriages "train recorder", while the Japan Institute of Invention and Innovation gave us its Kinki Region Invention Promotion Award for our food defense and management recording system.

We have been working to commercialize a hybrid LED streetlamp we developed for use in emergencies that combines power generation through solar power and small-scale wind power with equipment to accumulate and store electricity, and in February, we conducted performance evaluation trials within the grounds of the Kyoto Prefectural Government.

In fiscal 2014, following incidents of agricultural chemicals being mixed with food on food production lines, we are seeing a rapid increase in inquiries about food recorders. We have had a track record of delivering food recorders to a Japanese manufacturer that is advancing into overseas markets and we will use this opportunity to further expand our business. Moreover, sales of train recorders to railway companies are increasing through our sales activities that are founded on our track record of installing this technology (which appeals to customers as it enables a rapid restart of operations following a railway accident). This summer, we plan to launch a new model for the receiver for satellite positioning that can be used with smartphones, and our satellite positioning business continues to grow. We aim to increase sales of all the products we develop by differentiating them from those of our competitors, thereby expanding our businesses and improving profits.

## TOPICS

### Completed the new plant of Hitachi Zosen GPM Technology Co., Ltd. in China

The new plant of Hitachi Zosen GPM Technology (Suzhou) Co., Ltd. (the Company's capital contribution, 70%), which is the base for our precision machinery business in China, was completed in March 2014 in Suzhou City, Jiangsu Province. In addition to helping us to improve our price competitiveness by manufacturing in China, this plant will enable us to respond more rapidly to our customers in China. We employ engineers in China and then train them in Japan and also send engineers from Japan to China to provide guidance on the start of construction projects. This structure ensures that the machinery we manufacture in China has the same level of performance and quality as the machinery we manufacture in Japan. The China plant of our partner in this joint venture, the GPM Technology Group (based in Taiwan), is also located within Suzhou City and it is cooperating with us in areas such as establishing a support structure so it can respond to seasonal trends in work. With the new plant as the base, we are working hard to grow our precision machinery business in China.

# Research & Development

## The research and development basic policy and system

In line with our development strategy based on Hitz Vision II, our current medium-term management plan, in the Hitachi Zosen Group we are advancing research and development centered on the fields of the environment and green energy, the improvement of social infrastructure and disaster prevention, and advanced technologies.

Our research and development activities are centered on those carried out in the Technical Research Institute and the Product Development Project Division, which are within the Technology Development Headquarters, and in each development center in the four headquarters (the environment, energy, and plant; water treatment and industrial equipment, machinery and infrastructure, and precision machinery). They work in close collaboration with the design and marketing divisions to realize the early commercialization of newly developed products and the development of new products and technologies. The Product Development Planning Division in the Technology Development Headquarters observes and considers these research themes and works to ensure that development resources for each theme is appropriately allocated.

## Our fiscal 2013 technology development achievements

Our development staff handled 89 themes in fiscal year 2013 and achievements broadly met targets.

In the environmental, energy, and plant field, we developed high-efficiency, power generation equipment and a high-performance exhaust gas treatment system for stoker-type furnaces for EfW plant. And with the goal of extending the life spans of their main parts, we also carried out verification testing on corrosion prevention measures, cladding by welding, and improved grating for high-temperature high-pressure boiler superheater tubes. In addition, we tested a plant for producing ethanol (biofuel) from waste, in Kyoto and it has been producing positive results. Further, for our new RO (reverse osmosis) seawater desalination system that utilizes our high-speed seabed filtration system, we have been conducting research and development using sand filtration and membrane filtration experimental equipment. We have also completed the construction of a pilot plant in Abu Dhabi for verification testing.



High-speed Seabed Infiltration System (Abu Dhabi demonstration plant)

In the machinery, process equipment, and infrastructure business areas, for marine diesel engines, we pursued development work on Selective Catalytic Reduction (SCR) and Organic Rankine Cycle (ORC) waste heat recovery power generation facilities systems for the Tier III NOx emission standards (to be implemented in 2016), which have been compiled by the International Maritime Organization, and we also conducted maritime testing using a demonstration vessel. Furthermore, we

conducted verification testing to expand applications of laser welding technology and optimization of technologies for welding and heat treatment of high-strength steel plates for pressure vessels. In the field of disaster prevention, we further developed our Movable Flap-Gate type Seawall systems (seabed-type, land-mounted, and seawall-type) for actual use in protection against tsunami and storm surges, and also developed smaller-sized and lighter GPS wave meters.

In the precision machinery business area, we continued to develop a manufacturing process for Dye-Sensitized Solar Cells (DSC) and to sophisticate the manufacturing equipment for organic light-emitting large-scale displays, while accumulating various manufacturing-process technologies. In food-machinery related, we commercialized a PET bottle electron beam sterilization system and advanced the development of Role-to-role deposition equipment.

We have also developed to improve food inspection apparatus based on image-processing technology and an operational data recording device that is mounted on transport vehicles. In response to the Great East Japan Earthquake, we developed an incinerator ash radioactivity screening device, which is able to measure radiodensity from collected decontaminated waste and incinerator ash on the units of special containers. We also commercialized a non-destructive test device that measures the radiocesium levels of partially dried persimmon, an indigenous product of Fukushima Prefecture.



A device for measuring the radioactivity of partially dried persimmon

We also conducted research into functional materials, including carbon nano-tubes, all-solid-type lithium-ion batteries and an elastomer using *Eucommia ulmoides* bark as the raw material.

## Plans for fiscal 2014

The Group's development activities in fiscal 2014 (ending March 31, 2015) will continue to tackle the themes it addressed in fiscal 2013. In particular, we are accelerating development of Selective Catalytic Reduction (SCR) for marine engines, food packaging electron beam sterilization systems, and Movable Flap-Gates type Seawall system, as well as CO<sub>2</sub> separation membranes with a view to their early commercialization and order-taking.

We will also continue to develop applications and mass-production technologies carbon nano-tubes, which have attracted much attention as functional materials. In particular, we will accelerate the development of continuous production technologies for *Eucommia ulmoides*-based elastomers.

In the R&D activities of the research center in the water treatment and industrial equipment headquarters that was launched in April 2014, we aim to appropriately manage all development resources and efficiently create new products.



# Intellectual Property Management

## Basic policy of the Hitachi Zosen Group

The intellectual property strategy of the Hitachi Zosen Corporation supports the Company's management business strategy, which was drawn up in line with its business philosophy, and it creates and maintains intellectual property rights in conformity with its research and development strategy. That is to say, we seek actively to acquire intellectual property rights in fields that we are strategically developing and to promote the efficient pursuit of our business goals. We also set the direction of technological development targeted by our research and development strategy, and invest resources from the Intellectual Property section on a priority basis in key development projects so as to protect our proprietary technologies and further expand the fields in which we possess unrivalled technological superiority.

We also provide guidance to the managements of all other members of the Hitachi Zosen Group and affiliated companies in respect to the acquisition of patents with strategic significance, and carry out other intellectual property management activities to enhance synergy between the operations of Group companies.

## Acquiring intellectual property rights

Intellectual property rights provide the support that is vital for us to realize the vision we describe in Hitz Vision II, of being a "technology-oriented company". Our researchers work to discover and create new ideas and then to ensure that an application is made for a patent as their achievement. Using intellectual property tools known as "technology maps" and "patent maps" to visually represent related patent information, we analyze the areas in which we are weak and those in which we are strong in terms of patent rights. This analysis is then used to maintain and if possible further enhance our position in our areas of strength, while reinforcing our position in area of weakness.

Our basic policy is to apply the rights for the intellectual property we have acquired over an appropriate scope of business operations and to 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 protect our business operations, and thus support our business continuity.

## Management of intellectual property rights

The management of Hitachi Zosen's intellectual property rights is carried out by specialist units dedicated to that task. The Company's Legal & Intellectual Property Department serves as the governance center for the management of intellectual property by the entire Hitachi Zosen Group, conducting a wide range of intellectual property activities, working to maintain rights with respect to patents held by us in conformity with our operational and development strategies, promoting the effective employment of such patents, and drawing up policies to be followed in applying for patents overseas, in response to the growth of the Company's overseas operations.

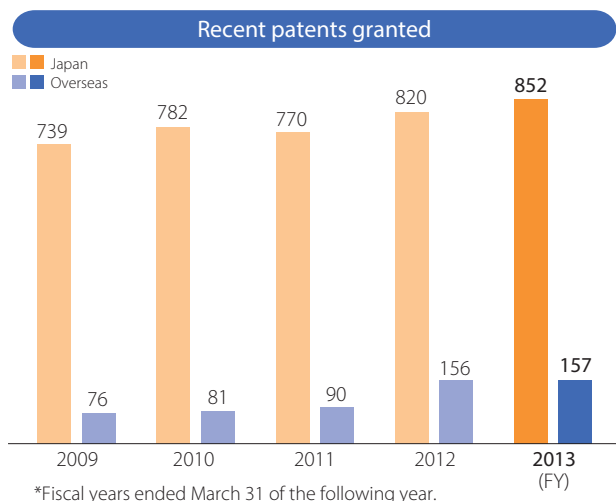
As of the end of fiscal year 2013, neither Hitachi Zosen Corporation nor any member of the Group was involved in litigation relating to the violation of intellectual property rights.

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

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

Also, during fiscal 2013 (ended March 31, 2014), Patent No. 4959417, Product monitoring and recording system, received the Honorable Mention at the 2012 Kinki Regional Invention Awards from the Japan Institute of Innovation and Invention.

As of the end of fiscal year 2013 (ended March 31, 2014), Hitachi Zosen Corporation held 852 patents in Japan and 157 overseas. It also held 54 design rights in Japan and 21 overseas, as well as 114 trademark/service mark rights in Japan and 31 overseas.





# Corporate Governance and Compliance

Recognizing that enhancement of corporate governance is one of our top-priority management issues to ensure corporate soundness, transparency and efficiency, increase enterprise value, and fulfill the Company’s responsibilities as a good corporate citizen, we are working to establish a framework that enables effective corporate governance. In addition, we are working proactively to strengthen our compliance management in order to manage the Company in conformity with laws and regulations and corporate ethics, and fulfill our social responsibilities.

## Corporate governance system

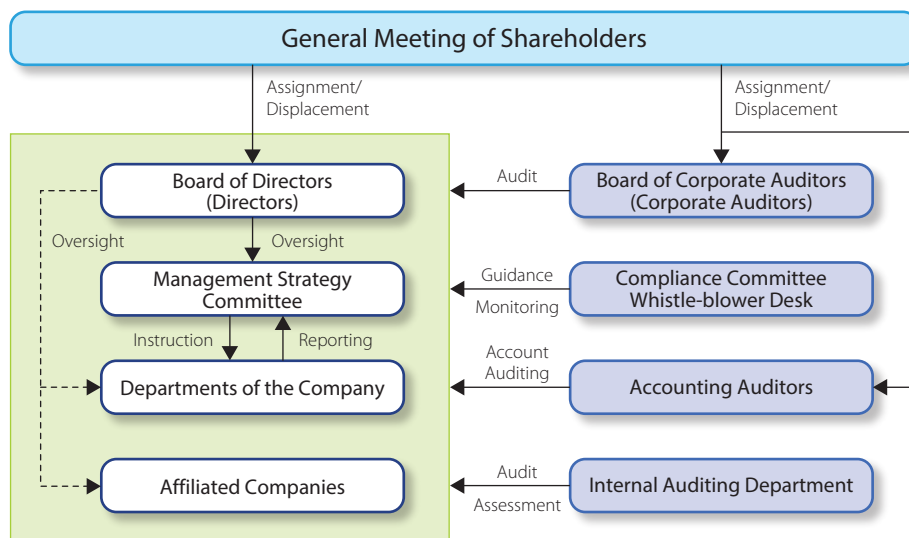
Our principal management decision-making bodies consist of the Board of Directors and the Management Strategy Committee. In addition to dealing with issues stipulated by the law, the Board of Directors decides upon important matters such as basic management policies, and oversees the execution of operations.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

Hitachi Zosen ensures transparency and appropriateness in its decision-making by bringing in external points of view to management. One outside director was appointed with the goal of further strengthening supervisory functions pertaining to the execution of business. The Company has also adopted an executive officer system, which is aimed at striking a balance between strengthening the supervision function performed by the directors and facilitating the swift and appropriate execution of business. To achieve this objective, some of the business execution functions performed by directors are delegated to executive officers. As of July 2014, there are 10 directors (of which one is an outside director) and 21 executive officers.

Auditing functions are performed by the Board of Corporate Auditors, comprising two full-time corporate auditors and two part-time outside corporate auditors as of July 2014. Corporate auditors attend meetings of the Board of Directors regularly and other meetings as needed, and implement audits of management from a neutral, objective standpoint under a system in which they can fully audit the execution of operations of directors and other high-ranking executives. In addition to the corporate auditors (the Board of Corporate Auditors), we have set up an Internal Auditing Department as a division responsible for internal audits. The Internal Auditing Group within the department implements ongoing internal audits related to matters such as finance and accounting, internal controls and procedures, business risks, and compliance across all management activities. At the same time, the Internal Control Group within the Internal Auditing Department makes assessments of internal controls on financial reporting in line with the stipulations of the Financial Instruments and Exchange Act, aiming to improve internal control functions through the exchange of information with the corporate auditors at appropriate times.

## Compliance system

We 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 Group Charter of Ethical Behavior” as ethical behavior guidelines to be observed by all the directors and employees of the Group. By educating all directors and employees, the Group is aiming to improve awareness of legal compliance and promote the maintenance of a high standard of corporate ethics. At the same time we have established a 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 24, 2014)



Representative Director  
Chairman & CEO

Minoru Furukawa



Representative Director  
President & COO

Takashi Tanisho



Vice Chairman

Masaki Hashikawa



Representative Director  
Executive Vice President

Hisao Matsuwake



Managing Director

Masayuki Morikata



Managing Director

Koji Abo



Managing Director

Toru Yoshioka



Managing Director

Toru Shimizu



Managing Director

Wataru Kobashi



Director

Chiaki Ito



Full-time Corporate Auditor

Masamichi Tokuhira



Full-time Corporate Auditor

Motohiro Fujii



Corporate Auditor

Makoto Yagi



Corporate Auditor

Kenichi Takashima



Managing Executive Officer

Yasuyuki Nakata



Managing Executive Officer

Masahiro Sakai



Managing Executive Officer

Sadao Mino



Executive Officer

Nobuyoshi Mori



Executive Officer

Masayuki Tanigawa



Executive Officer

Shoichi Momose



Executive Officer

Yutaka Masumizu



Executive Officer

Takashi Mishima



Executive Officer

Masanori Shimasaki



Executive Officer

Kazuo Ieyama



Executive Officer

Shoichi Morimoto



Executive Officer

Tadashi Shibayama



Executive Officer

Akikazu Kitagawa



Executive Officer

Toshiyuki Shiraki



Executive Officer

Hiroshi Hisamori



Executive Officer

Shogo Kezuka



Executive Officer

Naokazu Kumagai



Executive Officer

Kenichiro Minami



Executive Officer

Kazuhisa Yamamoto



Executive Officer

Hiromu Shibata



Executive Officer

Tatsuji Kamaya

# Tackling Environmental Issues

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

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

## Promoting environmental management systems

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

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

The Company's energy conservation measures include shifting fuel from heavy oil to LNG, adopting improved operational methods as well as energy-saving equipment such as transformers and compressors, and setting stricter temperature standards for heating and air-conditioning so as to help reduce atmospheric CO<sub>2</sub> levels. At the end of fiscal 2011, we replaced all lighting fixtures in existing office buildings

with LED lights. We installed a 100kW-class solar power generation system at Ariake Works in fiscal 2010, and in fiscal 2011 we installed a 133kW system at Chikko Works, a 70kW system at Maizuru Works, and in fiscal 2012 a 88kW system at the Nanko Headquarters, for a total of 391kW. In fiscal 2013, we will contribute to the reduction of carbon dioxide by selling 1,500kW of solar power generated at Innoshima Works and 5,000kW from the biomass power generation system that uses waste timber materials now under construction at Ibaraki Works.

We are working to ensure that 100% of scrap metal is recycled, and are also promoting a higher recycling rate for waste paper and the conversion of waste oil into fuel. We also recycle waste wood materials, turning them into chips and recycling them for use in other products, flux is turned into roadbed materials, and shotblast waste sand into raw material for cement.

## Promoting communication on environmental protection

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

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

In order to contribute to biodiversity through our products and services, in March 2012, we established action guidelines that are in line with the Declaration of Biodiversity by Keidanren and we are pursuing biodiversity-related activities.

In April 2012, we participated in Osaka's adopt-a-forest activities and began forest creation activities including tree trimming and planting.

## Achievements under the Hitachi Zosen Environmental Protection Promotion Plan

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

Measures		Medium-term target	Results in fiscal year 2013	Evaluation
Environmental management	Adoption of environmental management systems	<ul style="list-style-type: none"> <li>Acquisition of ISO 14001 for all places of business</li> <li>Implementation of environmental audits</li> </ul>	<ul style="list-style-type: none"> <li>Implemented environmental audits on Company factories via dedicated local community environment protection committee</li> <li>Internal audits of factories and offices conducted by Internal Auditing Officer</li> <li>External environment audit conducted by third-party institution</li> </ul>	◎
	Promote "Green Purchasing"	—	<ul style="list-style-type: none"> <li>Promote purchasing of products with as little environmental burden as possible</li> <li>Promoted central purchasing of eco-friendly products via the Internet</li> </ul>	◎
Reducing environmental burden of business activities	Restrictions on use of ozone-depleting substances	Proper disposal of chlorofluorocarbon equipment according to Law on Collection of Chlorofluorocarbon of Special Products and Their Destruction	<ul style="list-style-type: none"> <li>Upgraded chlorofluorocarbon equipment</li> </ul>	◎
	Reducing CO <sub>2</sub> emissions	FY2005 as the base year Medium-term target: 2.8% decrease in FY2016 Long-term target: 3.8% decrease in FY2020	6% increase over FY2005 FY2005: 44,722 tons CO <sub>2</sub> FY2013: 47,447 tons CO <sub>2</sub>	△
	Reducing waste generated (excluding valuable materials)	Reduction of FY2015 amount to 90% of FY2000 level	Decreased by 21% of FY2000 level FY2000: 3,855 tons FY2013: 2,958 tons	◎
	Reducing landfill waste	Reduction of FY2015 amount to 35% of FY2000 level	Decreased by 47.6% of FY2000 level FY2000: 942 tons FY2013: 494 tons	◎
Contribution to local environmental protection	Achieve full environmental protection at workplaces	—	<ul style="list-style-type: none"> <li>Complied with stipulations of environmental protection legislation</li> <li>Carried out environmental measures in line with agreements with local communities, or independently by our factories/offices</li> </ul>	◎
	Contribute to local communities	—	Participated in environmental protection campaigns by government bodies, local communities, etc.	◎

# Financial Section

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## Consolidated Balance Sheets

Hitachi Zosen Corporation and Consolidated Subsidiaries  
At March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 5 and 15)	¥ 59,249	¥54,462	\$ 529,168
Receivables:			
Trade notes and accounts:			
Nonconsolidated subsidiaries and affiliates	811	897	8,715
Other	107,022	121,440	1,179,946
Other	2,566	5,875	57,083
Allowance for doubtful receivables	(1,450)	(1,541)	(14,973)
	108,949	126,671	1,230,771
Marketable securities (Note 3)	45	52	505
Inventories (Note 4)	19,338	21,156	205,558
Deferred tax assets (Note 20)	6,909	6,203	60,270
Prepaid expenses and other current assets (Note 5)	6,748	7,129	69,268
Total current assets	201,238	215,673	2,095,540
<b>Property, plant and equipment, at cost (Note 5):</b>			
Land (Notes 7 and 23)	67,723	67,607	656,889
Buildings and structures (Note 23)	77,122	77,637	754,343
Machinery and equipment	93,643	95,203	925,019
Lease assets (Note 16)	1,022	1,303	12,660
Construction in progress	522	1,499	14,565
	240,032	243,249	2,363,476
Less accumulated depreciation	(116,559)	(121,218)	(1,177,788)
Property, plant and equipment, net	123,473	122,031	1,185,688
<b>Intangible assets:</b>			
Goodwill	4,736	3,432	33,347
Other intangible assets	2,246	3,855	37,456
Total intangible assets	6,982	7,287	70,803
<b>Investments and other noncurrent assets:</b>			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	9,033	8,354	81,170
Investments in securities (Notes 3 and 5)	15,521	15,523	150,826
Long-term loans receivable (Note 5)	84	53	515
Net defined benefit assets (Note 19)	—	812	7,889
Deferred tax assets (Note 20)	1,263	3,286	31,928
Other investments and noncurrent assets (Note 5)	9,751	7,474	72,619
Allowance for doubtful receivables	(1,038)	(1,102)	(10,707)
Total investments and other noncurrent assets	34,614	34,400	334,240
Deferred assets	40	23	223
<b>Total assets</b>	¥366,347	¥379,414	\$3,686,494

See the accompanying Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	¥ 220	¥ 434	\$ 4,217
Other	52,279	58,198	565,468
Short-term borrowings (Note 5)	5,960	10,326	100,330
Current portion of long-term debt (Note 5)	30,564	22,607	219,656
Accrued expenses	37,140	42,114	409,192
Accrued income taxes	2,321	1,836	17,839
Advances received on work in progress	16,754	16,651	161,786
Reserve for directors' and corporate auditors' bonuses	81	39	379
Reserve for product warranty	5,580	3,983	38,700
Reserve for losses on construction contracts (Note 4)	9,795	7,517	73,037
Other current liabilities	10,377	9,761	94,841
Total current liabilities	171,071	173,466	1,685,445
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 5)	65,501	70,561	685,591
Asset retirement obligations (Note 22)	934	879	8,540
Deferred tax liabilities (Note 20)	1,957	2,545	24,728
Employees' severance and retirement benefits (Note 19)	9,829	—	—
Net defined benefit liability (Note 19)	—	12,135	117,907
Directors' and corporate auditors' severance and retirement benefits	694	500	4,858
Other noncurrent liabilities (Note 5)	1,235	1,763	17,130
Total long-term liabilities	80,150	88,383	858,754
Total liabilities	251,221	261,849	2,544,199
<b>CONTINGENT LIABILITIES (Note 6)</b>			
<b>NET ASSETS (Note 8):</b>			
Common stock			
Authorized — 400,000,000 shares			
Issued — 159,214,656 shares At March 31, 2013 and 2014	45,442	45,442	441,527
Capital surplus	5,974	5,974	58,045
Retained earnings	48,314	50,467	490,352
Treasury stock, at cost — 2,465,894 shares in 2013			
— 2,743,807 shares in 2014	(1,799)	(1,995)	(19,384)
Net unrealized holding gains (losses) on securities	292	416	4,042
Net unrealized holding gains (losses) on hedging derivatives	(1,110)	(775)	(7,530)
Pension obligation adjustments of overseas subsidiaries	880	—	—
Land revaluation difference (Note 7)	(22)	(22)	(214)
Foreign currency translation adjustments	443	2,504	24,330
Remeasurements of defined benefit plans	—	(1,688)	(16,401)
Subscription rights to shares	1	1	10
Minority interests in consolidated subsidiaries	16,711	17,241	167,518
Total net assets	115,126	117,565	1,142,295
<b>Total liabilities and net assets</b>	<b>¥366,347</b>	<b>¥379,414</b>	<b>\$3,686,494</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, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>Net sales</b>	¥296,792	¥333,433	\$3,239,730
<b>Cost of sales</b> (Note 9)	246,046	283,260	2,752,235
Gross profit	50,746	50,173	487,495
<b>Selling, general and administrative expenses</b>	39,383	42,294	410,940
Operating income	11,363	7,879	76,555
<b>Other income (expenses):</b>			
Interest and dividend income	175	240	2,332
Interest expense	(1,315)	(1,162)	(11,290)
Foreign exchange income (loss)	(368)	51	495
Equity in net loss (income) of nonconsolidated subsidiaries and affiliates (Note 10)	2,364	(1,003)	(9,746)
Impairment loss (Note 11)	(1,690)	—	—
Contribution for withdrawal from employees' pension fund	(841)	—	—
Other, net	(972)	215	2,089
Total other expenses	(2,647)	(1,659)	(16,120)
Income before income taxes and minority interests	8,716	6,220	60,435
<b>Income taxes</b> (Note 20)			
Current	2,858	2,234	21,706
Deferred	(2,559)	(737)	(7,161)
Income before minority interests	8,417	4,723	45,890
<b>Minority interests in net income of consolidated subsidiaries</b>	1,006	1,003	9,745
Net income	¥ 7,411	¥ 3,720	\$ 36,145

	Yen		U.S. dollars (Note 1)
	2013	2014	2014
<b>Amounts per share</b> (Note 2)			
Net income — basic	¥46.78	¥23.77	\$0.23
Net income — diluted	44.78	—	—
Cash dividends	2.00	10.00	0.10

See the accompanying Notes to the Consolidated Financial Statements.



## Consolidated Statements of Comprehensive Income

Hitachi Zosen Corporation and Consolidated Subsidiaries  
For the years Ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>Income before minority interests</b>	¥8,417	<b>¥4,723</b>	<b>\$45,890</b>
<b>Other comprehensive income</b>			
Net unrealized holding gains on securities	36	92	894
Net unrealized holding gains (losses) on hedging derivatives	(881)	371	3,605
Foreign currency translation adjustments	945	1,634	15,876
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method	432	519	5,043
Changes in equity	(1,887)	—	—
<b>Total other comprehensive income (Note 13)</b>	(1,355)	<b>2,616</b>	<b>25,418</b>
<b>Total comprehensive income</b>	¥7,062	<b>¥7,339</b>	<b>\$71,308</b>
Comprehensive income attributable to			
Owners of the parent	6,173	6,240	60,630
Minority interests	889	1,099	10,678

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, 2013 and 2014

For the year Ended March 31, 2013

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 14)	
Balance at beginning of year	¥45,442	¥5,974	¥44,356	¥ (286)	¥95,486
Changes of items during the period					
Cash dividends			(1,588)		(1,588)
Net income			7,411		7,411
Increase due to consolidation of additional subsidiaries			24		24
Change in equity			(1,887)		(1,887)
Treasury stock disposed, net		0		1	1
Treasury stock purchased, net				(1,514)	(1,514)
Reversal of land revaluation difference			(2)		(2)
Net changes of items other than shareholders' equity					
Total changes during the period	—	0	3,958	(1,513)	2,445
Balance at end of year	¥45,442	¥5,974	¥48,314	¥(1,799)	¥97,931

	Other accumulated comprehensive income									
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on derivatives	Pension obligation adjustments of overseas subsidiaries	Land revaluation difference (Note 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other comprehensive income	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	¥ 73	¥ (242)	¥880	¥(24)	¥ (855)	¥—	¥(168)	¥1	¥15,728	¥111,047
Changes of items during the period										
Cash dividends										(1,588)
Net income										7,411
Increase due to consolidation of additional subsidiaries										24
Change in equity										(1,887)
Treasury stock disposed, net										1
Treasury stock purchased, net										(1,514)
Reversal of land revaluation difference										(2)
Net changes of items other than shareholders' equity	219	(868)	—	2	1,298	—	651	—	983	1,634
Total changes during the period	219	(868)	—	2	1,298	—	651	—	983	4,079
Balance at end of year	¥292	¥(1,110)	¥880	¥(22)	¥ 443	¥—	¥ 483	¥1	¥16,711	¥115,126

See the accompanying Notes to the Consolidated Financial Statements.

For the year Ended March 31, 2014

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 14)	
Balance at beginning of year	¥45,442	¥5,974	¥48,314	¥(1,799)	¥97,931
Changes of items during the period					
Cash dividends			(1,567)		(1,567)
Net income			3,720		3,720
Treasury stock disposed, net		0		—	0
Treasury stock purchased, net				(196)	(196)
Net changes of items other than shareholders' equity					
Total changes during the period	—	0	2,153	(196)	1,957
Balance at end of year	¥45,442	¥5,974	¥50,467	¥(1,995)	¥99,888

Other accumulated comprehensive income

	Other accumulated comprehensive income							Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on derivatives	Pension obligation adjustments of overseas subsidiaries	Land revaluation difference (Note 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other comprehensive income			
Balance at beginning of year	¥292	¥(1,110)	¥880	¥(22)	¥ 443	¥ —	¥483	¥1	¥16,711	¥115,126
Changes of items during the period										
Cash dividends										(1,567)
Net income										3,720
Treasury stock disposed, net										0
Treasury stock purchased, net										(196)
Net changes of items other than shareholders' equity	124	335	(880)	—	2,061	(1,688)	(48)	—	530	482
Total changes during the period	124	335	(880)	—	2,061	(1,688)	(48)	—	530	2,439
Balance at end of year	¥416	¥ (775)	¥ —	¥(22)	¥2,504	¥(1,688)	¥435	¥1	¥17,241	¥117,565

See the accompanying Notes to the Consolidated Financial Statements.



For the year Ended March 31, 2014

(Thousands of U.S. dollars) (Note 1)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 14)	
Balance at beginning of year	\$441,527	\$58,045	\$469,433	\$(17,480)	\$951,525
Changes of items during the period					
Cash dividends			(15,226)		(15,226)
Net income			36,145		36,145
Treasury stock disposed, net		0		—	0
Treasury stock purchased, net				(1,904)	(1,904)
Net changes of items other than shareholders' equity					0
Total changes during the period	—	0	20,919	(1,904)	19,015
Balance at end of year	\$441,527	\$58,045	\$490,352	\$(19,384)	\$970,540

	Other accumulated comprehensive income									
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on derivatives	Pension obligation adjustments of overseas subsidiaries	Land revaluation difference (Note 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	\$2,837	\$(10,785)	\$8,550	\$(214)	\$ 4,305	\$ —	\$4,693	\$10	\$162,369	\$1,118,597
Changes of items during the period										
Cash dividends										(15,226)
Net income										36,145
Treasury stock disposed, net										0
Treasury stock purchased, net										(1,904)
Net changes of items other than shareholders' equity	1,205	3,255	(8,550)	—	20,025	(16,401)	(466)	—	5,149	4,683
Total changes during the period	1,205	3,255	(8,550)	—	20,025	(16,401)	(466)	—	5,149	23,698
Balance at end of year	\$4,042	\$ (7,530)	\$ —	\$(214)	\$24,330	\$(16,401)	\$4,227	\$10	\$167,518	\$1,142,295

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, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 8,716	¥ 6,220	\$ 60,435
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	8,286	8,199	79,664
Impairment loss	1,690	—	—
Amortization of goodwill	160	476	4,625
Increase (decrease) in allowance for doubtful receivables	(43)	156	1,516
Increase in employees' severance and retirement benefits	601	—	—
Increase of net defined benefit liability	—	1,498	14,555
Increase (decrease) in reserve for losses on construction contracts	1,210	(2,277)	(22,124)
Interest and dividend income	(175)	(240)	(2,332)
Interest expense	1,315	1,162	11,290
Equity in net loss (income) of nonconsolidated subsidiaries and affiliates	(2,364)	1,003	9,746
Gain on sale of investments in securities	(1)	(570)	(5,538)
Loss on disposal of fixed assets	126	282	2,740
Decrease (increase) in trade receivables	2,370	(14,433)	(140,235)
Decrease (increase) in inventories	4,116	(1,815)	(17,635)
Decrease (increase) in other current assets	1,267	(4,314)	(41,916)
Increase (decrease) in trade payables	(8,015)	6,118	59,444
Increase (decrease) in accrued expenses	(3,067)	5,018	48,756
Increase (decrease) in advances received	369	(103)	(1,001)
Decrease in other current liabilities	(2,616)	(2,269)	(22,046)
Other	(2,194)	(589)	(5,723)
Subtotal	11,751	3,522	34,221
Interest and dividends received	939	287	2,789
Interest paid	(1,336)	(1,210)	(11,757)
Income taxes paid	(1,705)	(2,299)	(22,338)
<b>Net cash and cash equivalents provided by operating activities</b>	<b>9,649</b>	<b>300</b>	<b>2,915</b>
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(3,198)	(4,999)	(48,572)
Decrease in time deposits	2,778	3,600	34,979
Purchase of property, plant and equipment	(5,991)	(5,295)	(51,448)
Purchase of intangible assets	(677)	(529)	(5,140)
Purchase of investments in securities	(1,278)	(15)	(146)
Proceeds from sales and redemption of investments in securities	16	862	8,375
Payments for investments in capital of affiliates	(422)	(2,502)	(24,310)
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 15)	(4,196)	—	—
Other	(520)	181	1,759
<b>Net cash and cash equivalents used in investing activities</b>	<b>(13,488)</b>	<b>(8,697)</b>	<b>(84,503)</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings, net	(791)	4,316	41,935
Proceeds from long-term debt	26,800	27,940	271,473
Payment of long-term debt	(25,370)	(30,836)	(299,611)
Proceeds from issuance of bonds	10,000	—	—
Redemption of bonds	(15,070)	—	—
Cash dividends paid	(1,588)	(1,568)	(15,235)
Other	(1,799)	(366)	(3,556)
<b>Net cash and cash equivalents used in financing activities</b>	<b>(7,818)</b>	<b>(514)</b>	<b>(4,994)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,298</b>	<b>2,444</b>	<b>23,747</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(10,359)</b>	<b>(6,467)</b>	<b>(62,835)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>66,609</b>	<b>56,413</b>	<b>548,125</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries, at beginning of year</b>	<b>163</b>	<b>15</b>	<b>145</b>
<b>Cash and cash equivalents at end of year (Note 15)</b>	<b>¥56,413</b>	<b>¥49,961</b>	<b>\$485,435</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, 2013 were 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, 2014, which was ¥102.92 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 seventy-nine significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

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

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

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

During the fiscal year ended March 31, 2014, the fiscal year end date of Hitachi Zosen Inova AG. and Hitachi Zosen KRB AG. was changed from December 31 to March 31. As a result of this change, the financial statements of these 2 companies cover 15 months from January 1, 2013 to March 31, 2014, which are consolidated into the financial results for the fiscal year ended March 31. For the period from January 1 to March 31, 2014, net sales and operating income increased by ¥10,411 million (\$101,156 thousand) and ¥72 million (\$700 thousand), respectively, and income before income taxes and minority interests decreased by ¥91 million (\$884 thousand).

#### b) Cash Flow Statements

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

#### c) Translation of Foreign Currencies

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

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

#### d) Revenue Recognition

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

#### e) Allowance for Doubtful Receivables

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

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

#### f) Securities

Trading securities are stated at fair market value. Gains and losses

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

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

#### g) Derivatives and Hedge Accounting

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

##### (1) Hedge accounting

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

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

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

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

##### (3) Hedging policy

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

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

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

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

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

#### h) Inventories

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

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

#### i) Depreciation and Amortization

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

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

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

#### j) Software Costs

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

#### k) Goodwill

Goodwill is amortized by the straight-line method over five or ten years.

#### l) Deferred Assets

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

#### m) Reserve for Directors' and Corporate Auditors' Bonuses

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

#### n) Reserve for Product Warranty

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

#### o) Reserve for Losses on Construction Contracts

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

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

In calculating projected benefit obligation, the straight-line basis is used as a method of attributing expected benefit obligation to the period up to the end of this fiscal year.

Unrecognized past service costs are recognized by the straight-line method over a certain term within the average remaining service period of the employees (from 5 to 12 years).

Unrecognized actuarial differences are recognized as income or expenses from the following fiscal year by the straight-line method over a certain term within the average remaining service period of the employees (from 5 to 12 years) of the respective fiscal years.

#### 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.

#### 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 ¥7,044 million and ¥6,285 million (\$61,067 thousand) for the years ended March 31, 2013 and 2014, 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 have 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.

Net income per share and net income per share-diluted are calculated assuming the one for five share consolidation of common stocks effective October 1, 2013 occurred at the beginning of the fiscal year ended March 31, 2013.

#### u) Changing Accounting Policies

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")) except the Article 35 of the Statement No. 26 and Article 67 of Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.

In accordance with the Article 37 of Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, net defined liability and defined assets in the amount of ¥12,135 (\$117,937 thousand) and \$812 million (\$7,890 thousand), respectively, has been recognized. Accumulated other comprehensive income has decreased by ¥1,688 million (\$16,401 thousand) at the end of the current fiscal year.

The effects of this change on net income per share are described in the related note

#### v) Unadapted Accounting Standard and Guidance

"Accounting Standard for Retirement Benefits" (Statement No. 26 issued by the Accounting Standards Board of Japan on May 17, 2012)

"Guidance on Accounting Standard for Retirement Benefits" (Guidance No. 25 issued by the Accounting Standards Boards of Japan on May 17, 2012)

#### (1) Overview

The accounting standard and guidance have been revised from the viewpoint of improvements to financial reporting and international convergence and mainly focus on how actual gains and losses and past service costs should be accounted for, how retirement obligations and current service costs and should be determined and how disclosures can be enhanced.

## (2) Effective dates

The Companies will adopt the accounting standard and guidance for the year ended March 31, 2014. However, revisions to the determination of retirement benefit obligations and current service costs will be adopted from the beginning of the year ended March 31, 2015.

## (3) The effect of adoption of the standard and guidance

The effect of adoption of the standard and guidance is currently being examined.

## w) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2013 to conform to the fiscal year ended March 31, 2014 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, 2013 and 2014:

### (1) Trading securities:

At March 31, 2013

	Millions of yen
Amount for the year of net unrealized gains included in the statements of income	¥10

At March 31, 2014

	Millions of yen	Thousands of U.S. dollars
Amount for the year of net unrealized gains included in the statements of income	¥7	\$68

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

At March 31, 2013

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥ 5	¥ 5	¥0
Others	17	19	2

At March 31, 2014

Securities with available fair values exceeding book values:

	Millions of yen		
	Book value	Fair value	Difference
Government bonds	¥ 3	¥ 3	¥0
Others	19	21	2

Securities with available fair values exceeding book values:

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Government bonds	\$ 29	\$ 29	\$ 0
Others	185	204	19

### (3) Available-for-sale securities:

At March 31, 2013

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥1,230	¥ 876	¥354
Others	373	343	30
Total	¥1,603	¥1,219	¥384

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥256	¥311	¥(55)
Others	24	26	(2)
Total	¥280	¥337	¥(57)

At March 31, 2014

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥1,400	¥ 889	¥511
Others	375	343	32
Total	¥1,775	¥1,232	¥543

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥257	¥285	¥(28)
Others	13	16	(3)
Total	¥270	¥301	¥(31)

At March 31, 2014

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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$13,603	\$ 8,638	\$4,965
Others	3,644	3,333	311
Total	\$17,247	\$11,971	\$5,276



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

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$2,497	\$2,769	\$(272)
Others	126	155	(29)
Total	\$2,623	\$2,924	\$(301)

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

b) Sales of available-for-sale securities in the year ended March 31, 2014 were as follows:  
Year ended March 31, 2014

	Millions of yen		
	Sales	Gain on sales	Losses on sales
Others	¥707	¥570	¥—

	Thousands of U.S. dollars		
	Sales	Gain on sales	Losses on sales
Others	\$6,869	\$5,538	\$—

c) Impairment of securities

The Companies recognized losses from impairment of investments in securities (available-for-sale securities) in the amount of ¥153 million for the year ended March 31, 2013.

#### 4. Inventories

Inventories At March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Merchandise and finished goods	¥ 672	¥ 1,396	\$ 13,564
Work in progress	14,949	15,482	150,428
Raw material and supplies	3,717	4,278	41,566
Total	¥19,338	¥21,156	\$205,558

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

The corresponding amounts of inventories for the reserve for losses on construction contracts at March 31, 2013 and 2014 were ¥1,614 million and ¥2,012 million (\$19,552 thousand), respectively, all of which represented work in progress.

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

Short-term borrowings that represented bank borrowings bearing average interest rates of 0.93 percent and 0.73 percent as of March 31, 2013 and 2014, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Secured (or partly secured)	¥ 200	¥ 100	\$ 971
Unsecured	5,760	10,226	99,359
Total	¥5,960	10,326	\$100,330

Long-term debt at March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
0.86 percent to 1.55 percent borrowings from banks and other financial institutions, due through 2022:			
Secured (or partly secured)	¥ 4,309	¥ 1,713	\$ 16,644
Unsecured	81,756	81,455	791,440
0.91 percent straight bonds due 2015	10,000	10,000	97,163
Others	401	576	5,596
Less current portion included in current liabilities	(30,564)	(22,607)	(219,656)
Total	¥65,902	¥71,137	\$691,187

The following assets were pledged as collateral mainly for secured long-term debt of ¥4,309 million at March 31, 2013 and ¥1,713 million (\$16,642 thousand) at March 31, 2014:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Marketable securities	¥ —	¥ 1	\$ 10
Prepaid expenses and other current assets	1,776	1,376	13,370
Property, plant and equipment (at net book value)	19,902	19,682	191,236
Investments in nonconsolidated subsidiaries and affiliates	2,261	1,658	16,109
Investments in securities	59	13	126
Long-term loans receivable	55	26	253
Other investments and noncurrent assets	2,293	1,423	13,826
Total	¥26,346	¥24,179	\$234,930

The aggregate annual maturities of long-term debt outstanding at March 31, 2014 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥30,731	\$298,591
2017	16,178	157,190
2018	7,284	70,773
2019	16,625	161,533
2020 and thereafter	319	3,100
Total	¥71,137	\$691,187

## 6. Contingent Liabilities

Contingent liabilities at March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Notes receivable endorsed	¥234	¥228	\$2,215
Guarantees of bank borrowings and other indebtedness	13	5	49
Total	¥247	¥233	\$2,264

## 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 ¥107 million and ¥109 million (\$1,059 thousand) lower than the revalued book amount at March 31, 2013 and 2014, 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 in which 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, 2014, the shareholders approved cash dividends of ¥1,565 million (\$15,206 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2013. This type of appropriation is recognized in the period in which it is approved by the shareholders.

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

Provision for losses on construction contracts included in cost of sales was ¥7,278 million and ¥7,517 million (\$73,037 thousand) for the years ended March 31, 2013 and 2014, respectively.

## 10. Equity in Net Income of Nonconsolidated Subsidiaries and Affiliates

The unrealized gain which was recognized due to the exclusion of a company from affiliates accounted for by the equity method was included in equity in net income of nonconsolidated subsidiaries and affiliates.

## 11. Impairment Loss

The asset for which the Companies recognized impairment loss in the year ended March 31, 2013 was as follows:

Location	Use	Type of Assets
The former Mukaishima-Nishi Works (Onomichi-city, Hiroshima Prefecture)	Rental property	Land

The Companies grouped their assets based mainly on divisions or 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 ¥1,690 million because the market value of the former Mukaishima-Nishi Works decreased while the Companies used it as rental property.

The recoverable amount of the former Mukaishima-Nishi Works was measured based on values in the appraisal reports prepared by external real estate appraisers.

## 12. Contribution for Withdrawal from Employees' Pension Fund

The Companies recognized contribution for withdrawal from employees' pension fund of ¥841 million in the year ended March 31, 2013 because a subsidiary withdrew from the employees' pension fund in the year ended March 31, 2013.

### 13. Comprehensive Income Information

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

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Net unrealized holding gains (losses) on securities			
Increase (decrease) during the year	¥ 48	¥ 192	\$ 1,866
Reclassification adjustments	45	(47)	(457)
Sub-total before tax	93	145	1,409
Tax benefit (expenses)	(57)	(53)	(515)
Sub-total net of tax	36	92	894
Net unrealized holding gains (losses) on hedging derivatives			
Increase (decrease) during the year	¥ (801)	¥ (199)	\$ (1,934)
Reclassification adjustments	(132)	562	5,461
Sub-total before tax	(933)	363	3,527
Tax benefit (expenses)	52	8	78
Sub-total net of tax	(881)	371	3,605
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ 945	¥1,634	\$15,876
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method			
Increase (decrease) during the year	¥ 432	¥ 519	\$ 5,043
Changes in equity			
Increase (decrease) during the year	¥(1,887)	¥ —	\$ —
Total other comprehensive income	¥(1,355)	¥2,616	\$25,418

### 14. Treasury Stock

Treasury stock for the years ended March 31, 2013 and 2014 consisted of the following:

Year ended March 31, 2013

Number of shares of common stock	Thousands
At March 31, 2012	2,231
Increase	10,102
Decrease	(4)
At March 31, 2013	12,329

Year ended March 31, 2014

Number of shares of common stock	Thousands
At March 31, 2013	2,466
Increase	278
Decrease	(0)
At March 31, 2014	2,744

Net income per share and net income per share-diluted are calculated assuming the one for five share consolidation of common stocks effective October 1, 2013 occurred at the beginning of the fiscal year ended March 31, 2013.

### 15. Cash Flow Information

#### a) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets at March 31, 2013 and 2014 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Cash and time deposits in the balance sheets	¥59,249	¥54,462	\$529,168
Time deposits with maturities over three months	(2,836)	(4,501)	(43,733)
Cash and cash equivalents in cash flow statements	¥56,413	¥49,961	\$485,435

#### b) Other

The assets and liabilities of a newly consolidated subsidiary, NAC International Inc., on March 31, 2013 were as follows:

	Millions of yen
	2013
Current assets	¥1,275
Fixed assets	51
Total	¥1,326
Current liabilities	¥1,435
Fixed liabilities	6
Total	¥1,441

### 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, 2013 and 2014 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, 2013 and 2014 were as follows:

At March 31, 2013:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥499	¥473	¥26
Software	87	87	—
Total	¥586	¥560	¥26

At March 31, 2014:

	Millions of yen		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	¥32	¥27	¥5
Total	¥32	¥27	¥5

At March 31, 2014:

	Thousands of U.S. dollars		
	Original lease obligations	Payments to date	Payments remaining
Machinery, equipment and vehicles	\$311	\$262	\$49
Total	\$311	\$262	\$49

Lease payments for the above finance leases for the years ended March 31, 2013 and 2014 were ¥97 million and ¥29 million (\$279 thousand), respectively.

Future minimum payments, including finance charges, for finance leases at March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Payments due within one year	¥31	¥5	\$49
Payments due after one year	3	0	0
Total	¥34	¥5	\$49

#### b) Operating Leases as Lessee

Future minimum payments for operating leases at March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Payments due within one year	¥ 507	¥ 574	\$ 5,577
Payments due after one year	2,791	2,573	25,000
Total	¥3,298	¥3,147	\$30,577

#### c) Finance Leases as Lessor

##### Lease investment assets

Current assets as of March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Lease payments receivables	¥42	¥53	\$515
Interest	(2)	(3)	(29)
Total	¥40	¥50	\$486

Lease investment assets receivables after March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Within one year	¥18	¥20	\$194
Over one year but within two years	13	16	156
Over two years but within three years	9	9	87
Over three years but within four years	2	7	68
Over four years but within five years	0	1	10

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

Future minimum payments to be received, including finance charges, for finance leases at March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Payments due within one year	¥11	¥—	\$—
Payments due after one year	0	—	—
Total	¥11	¥—	\$—

The remaining book values of future minimum payments to be received concerning a sublet lease transaction at March 31, 2013 were ¥11 million.

The remaining book value of future minimum payments as lessee at March 31, 2013 was 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 borrowings and the issuance of corporate bonds. The Companies invest temporary surplus funds in highly secure financial assets and obtain working capital mainly through bank borrowings. The Companies utilize derivative financial instruments not for speculation but for hedging purposes only.

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

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

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

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

Borrowings and corporate bonds are mainly for the purpose of raising funds for capital investment and research and development plans. The longest due date is 9 years after the fiscal year end. Some of the items are exposed to interest rate fluctuation risks.

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

#### (3) Management of financial instruments

##### i) Management of credit risks (risk of customer default)

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

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

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

##### ii) Management of market risks

###### (risks of exchange rate or interest rate fluctuation)

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

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

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

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

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

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

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

### b) Articles Concerning Fair Value of Financial Instruments

Consolidated balance sheet amounts and fair values of financial instruments and the difference between them, if any, for the year ended March 31, 2013 and 2014 are set forth in the tables below. Financial instruments in which the fair value was considered to be extremely difficult to determine were not included in the tables below.

At March 31, 2013:

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 59,249	¥ 59,249	¥ —
(2) Trade notes and accounts	107,833		
Allowance for doubtful receivables *1	(92)		
	107,741	107,740	(1)
(3) Securities and investment securities	5,321	3,551	(1,770)
(4) Long-term loans receivables	84		
Allowance for doubtful receivables *1	(0)		
	84	88	4
<b>Total assets</b>	<b>¥ 172,395</b>	<b>¥ 170,628</b>	<b>¥(1,767)</b>
(1) Notes and accounts payable	(52,499)	(52,499)	—
(2) Short-term borrowings	(5,960)	(5,960)	—
(3) Current portion of long-term debt	(30,564)	(30,671)	(107)
(4) Accrued expenses	(37,140)	(37,140)	—
(5) Accrued income taxes	(2,321)	(2,321)	—
(6) Long-term debt, less current portion	(65,501)	(65,700)	(199)
<b>Total liabilities</b>	<b>¥(193,985)</b>	<b>¥(194,291)</b>	<b>¥ (306)</b>
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(777)	(777)	—
Derivative transactions for which hedge accounting has been applied	(769)	(769)	—
<b>Total derivative transactions</b>	<b>¥ (1,546)</b>	<b>¥ (1,546)</b>	<b>¥ —</b>

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

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

At March 31, 2014:

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 54,462	¥ 54,462	¥ —
(2) Trade notes and accounts	122,337		
Allowance for doubtful receivables *1	0		
	122,337	12,337	—
(3) Securities and investment securities	4,591	3,240	(1,351)
(4) Long-term loans receivables	53	56	3
<b>Total assets</b>	<b>¥ 181,443</b>	<b>¥ 180,095</b>	<b>¥(1,348)</b>
(1) Notes and accounts payable	(58,632)	(58,632)	—
(2) Short-term borrowings	(10,326)	(10,326)	—
(3) Current portion of long-term debt	(22,607)	(22,648)	(41)
(4) Accrued expenses	(42,114)	(42,114)	—
(5) Accrued income taxes	(1,836)	(1,836)	—
(6) Long-term debt, less current portion	(70,561)	(70,822)	(261)
<b>Total liabilities</b>	<b>¥(206,076)</b>	<b>¥(206,378)</b>	<b>¥ (302)</b>
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(1,036)	(1,036)	—
Derivative transactions for which hedge accounting has been applied	(415)	(415)	—
<b>Total derivative transactions</b>	<b>¥ (1,451)</b>	<b>¥ (1,451)</b>	<b>¥ —</b>

\*1 Allowance for doubtful receivables was deducted from trade notes and accounts.

\*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	\$ 529,168	\$ 529,168	\$ —
(2) Trade notes and accounts	1,188,661		
Allowance for doubtful receivables *1	0		
	1,118,661	1,188,661	—
(3) Securities and investment securities	44,068	31,481	(13,127)
(4) Long-term loans receivables	515	544	29
<b>Total assets</b>	<b>\$ 1,762,952</b>	<b>\$ 1,749,854</b>	<b>\$(13,098)</b>
(1) Notes and accounts payable	(569,685)	(569,685)	—
(2) Short-term borrowings	(100,330)	(100,330)	—
(3) Current portion of long-term debt	(219,656)	(220,054)	(398)
(4) Accrued expenses	(409,192)	(409,192)	—
(5) Accrued income taxes	(17,839)	(17,839)	—
(6) Long-term debt, less current portion	(685,591)	(688,127)	(2,536)
<b>Total liabilities</b>	<b>\$(2,002,293)</b>	<b>\$(2,005,227)</b>	<b>\$ (2,934)</b>
Derivative transactions *2			
Derivative transactions for which hedge accounting has not been applied	(10,066)	(10,066)	—
Derivative transactions for which hedge accounting has been applied	(4,032)	(4,032)	—
<b>Total derivative transactions</b>	<b>\$(14,098)</b>	<b>\$(14,098)</b>	<b>\$ —</b>

\*1 Allowance for doubtful receivables was deducted from trade notes and accounts.

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

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

#### Assets

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

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

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

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

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

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

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

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

#### Liabilities

(1) Notes and accounts payable, (2) Electronically recorded obligation, (3) Short-term borrowings, (5) Accrued expenses and (6) 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.

(4) Current portion of long-term debt and (7) Long-term debt, less current portion

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

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

#### Derivative transactions

See Note 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
	2013	2014	2014
Stock of consolidated subsidiaries and affiliates	¥ 5,660	¥ 5,881	\$ 57,142
Non-listed equity securities, etc.	13,618	13,457	130,752
<b>Total</b>	<b>¥19,278</b>	<b>¥19,338</b>	<b>\$187,894</b>

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

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

At March 31, 2013:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Cash and time deposits	¥ 59,249	¥ —	¥ —
Trade notes and accounts	107,833	—	—
Securities and investment securities			
Held-to-maturity debt securities			
(1) Government bonds	3	3	—
(2) Others	—	20	—
Available-for-sale securities with maturities			
(1) Others	—	34	29
Long-term loans receivables	—	59	25
<b>Total</b>	<b>¥167,085</b>	<b>¥116</b>	<b>¥54</b>

At March 31, 2014:

	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	¥ 54,462	¥ —	¥ —	¥ —
Trade notes and accounts	122,337	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	1	1	—	—
(2) Others	—	22	—	—
Available-for-sale securities with maturities				
(1) Others	—	63	—	—
Long-term loans receivables	—	25	18	10
<b>Total</b>	<b>¥176,800</b>	<b>¥111</b>	<b>¥18</b>	<b>¥10</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	\$ 529,168	\$ —	\$ —	\$ —
Trade notes and accounts	1,188,661	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	10	10	—	—
(2) Others	—	214	—	—
Available-for-sale securities with maturities				
(1) Others	—	612	—	—
Long-term loans receivables	—	243	175	97
<b>Total</b>	<b>\$1,717,839</b>	<b>\$1,079</b>	<b>\$175</b>	<b>\$97</b>

Note 4. The expected redemption amount of long-term debt after the consolidated fiscal year-end was as follows:

At March 31, 2013:

	Millions of yen					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 5,960	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	30,564	20,466	28,368	11,363	5,106	198
Others	217	189	116	89	6	1
<b>Total</b>	<b>¥36,741</b>	<b>¥20,655</b>	<b>¥28,484</b>	<b>¥11,452</b>	<b>¥5,112</b>	<b>¥199</b>

At March 31, 2014:

	Millions of yen					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 10,326	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	22,607	30,538	16,022	7,221	16,582	198
Others	257	193	156	63	43	121
<b>Total</b>	<b>¥ 33,190</b>	<b>¥30,731</b>	<b>¥16,178</b>	<b>¥7,284</b>	<b>¥16,625</b>	<b>¥319</b>



At March 31, 2014:

	Thousands of U.S. dollars					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	\$100,330	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	219,656	296,716	155,674	70,161	161,115	1,925
Others	2,497	1,875	1,516	612	418	1,175
Total	\$322,483	\$298,591	\$157,190	\$70,773	\$161,533	\$3,100

## 18. Derivative Transactions

The Companies enter into forward foreign exchange and interest rate 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 rate swap contracts are used to avoid the risk of rising interest rates.

The following tables summarize market value information as of March 31, 2013 and 2014 for derivative transactions for which hedge accounting had not been applied.

### a) Currency Related Derivatives

At March 31, 2013:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥3,602	¥—	¥(781)	¥(781)
Euro	580	—	7	7
Purchase				
U.S. dollars	¥ 438	¥—	¥ (61)	¥ (61)
Euro	2,843	—	58	58
Total	¥7,463	¥—	¥(777)	¥(777)

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, 2014:

	Millions of yen			
	Notional amount	Over one year	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	¥5,011	¥—	¥(1,055)	¥(1,055)
Euro	158	—	(0)	(0)
Japanese yen	24	—	0	0
Norwegian krone	19	—	(0)	(0)
Swedish krona	31	—	0	0
Purchase				
Euro	1,100	—	14	14
Swiss franc	44	—	5	5
Total	¥6,387	¥—	¥(1,036)	¥(1,036)

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

At March 31, 2014:

	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	\$48,688	\$—	\$(10,251)	\$(10,251)
Euro	1,535	—	(0)	(0)
Japanese yen	233	—	0	0
Norwegian krone	185	—	(0)	(0)
Swedish krona	301	—	0	0
Purchase				
Euro	10,688	—	136	136
Swiss franc	428	—	49	49
Total	\$62,058	\$—	\$(10,066)	\$(10,066)

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, 2013 and 2014 for derivative transactions for which hedge accounting had been applied.

## a) Currency Related Derivatives

At March 31, 2013:

	Hedged items	Millions of yen		
		Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	¥ 6,348	¥1,362	¥(979)
Euro	Trade receivable	3,654	1,911	(24)
GBP	Trade receivable	21	—	(1)
Thai baht	Trade receivable and other	353	—	(42)
Purchase				
U.S. dollars	Trade payable	725	518	24
Euro	Trade payable	1,857	562	253
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	28	—	—
Thai baht	Trade receivable	15	—	—
Purchase				
U.S. dollars	Trade payable	6	—	—
<b>Total</b>		<b>¥13,007</b>	<b>¥4,353</b>	<b>¥(769)</b>

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

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

At March 31, 2014:

	Hedged items	Millions of yen		
		Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	¥4,307	¥ —	¥(807)
Euro	Trade receivable	956	97	(37)
GBP	Trade receivable	57	—	(3)
Thai baht	Trade receivable	175	—	(2)
Purchase				
U.S. dollars	Trade payable	2,643	435	78
Euro	Trade payable	1,315	241	353
Swiss franc	Accounts payable	105	27	3
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	51	—	—
Thai baht	Trade receivable	40	—	—
Purchase				
U.S. dollars	Trade payable	12	—	—
<b>Total</b>		<b>¥9,661</b>	<b>¥800</b>	<b>¥(415)</b>

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

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

	Hedged items	Thousands of U.S. dollars		
		Notional amount	Over one year	Unrealized gain (loss)
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	\$41,848	\$ —	\$(7,841)
Euro	Trade receivable	9,289	942	(360)
GBP	Trade receivable	554	—	(29)
Thai baht	Trade receivable	1,700	—	(19)
Purchase				
U.S. dollars	Trade payable	25,680	4,227	758
Euro	Trade payable	12,777	2,342	3,430
Swiss franc	Accounts payable	1,020	262	29
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
U.S. dollars	Trade receivable	495	—	—
Thai baht	Trade receivable	389	—	—
Purchase				
U.S. dollars	Trade payable	117	—	—
<b>Total</b>		<b>\$93,869</b>	<b>\$7,773</b>	<b>\$(4,032)</b>

\*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, 2013:

Exceptional treatment:	Hedged items	Millions of yen		
		Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term borrowings	¥40,276	¥26,125	¥—

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

At March 31, 2014:

Exceptional treatment:	Hedged items	Millions of yen		
		Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term borrowings	¥34,930	¥25,277	¥—
Interest rate and currency swap contracts:				
Receive float, pay fixed	Long-term borrowings	500	500	—

Exceptional treatment:	Hedged items	Thousands of U.S. dollars		
		Notional amount	Over one year	Market value
Interest rate swap contracts:				
Receive float, pay fixed	Long-term borrowings	\$339,390	\$245,599	\$—
Interest rate and currency swap contracts:				
Receive float, pay fixed	Long-term borrowings	4,858	4,858	—

Note. As interest rate swap contracts subject to exceptional treatment for interest rate swap contracts and interest and currency swap contracts subject to exceptional treatment for interest rate and currency 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. 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, 2013.

	Millions of yen 2013
Projected benefit obligation	¥31,681
Less fair value of pension assets	(19,865)
Funded status:	
Benefit obligation in excess of plan assets	11,816
Unrecognized actuarial differences	(5,143)
Unrecognized past service cost	(53)
Total	6,620
Deferred benefit expenses	3,209
Retirement and severance benefits in the consolidated balance sheets	¥ 9,829

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

Severance and pension costs of the Companies included the following components for the years ended March 31, 2013.

	Millions of yen 2013
Service cost — benefits earned during the year	¥2,157
Interest cost on projected benefit obligation	564
Expected return on plan assets	(465)
Amortization of actuarial differences	834
Amortization of past service cost	156
Severance and retirement benefit expenses	¥3,246

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

For the years ended March 31, 2013, the Companies made contributions to the defined contribution pension plans in the amount of ¥1,007 million 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, 2013 were as follows:

	2013
Method of attributing benefits to periods of service	Straight-line method
Discount rate	0.97% to 2.0%
Long-term rate of return on fund assets	0.0% to 2.63%
Amortization period for past service cost (within the remaining average term of employees' service)	5 to 12 years
Amortization period for actuarial differences (within the remaining average term of employees' service)	5 to 12 years

The components of defined benefit plans for the year ended March 31, 2014 were as follows:

**a) Movements in projected benefit obligations for the year ended March 31, 2014.**

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at April 1, 2013	¥31,681	\$307,822
Service cost	2,030	19,724
Interest cost	642	6,238
Actuarial differences	52	505
Benefits paid	(1,997)	(19,403)
Past service costs	26	253
Other	4,566	44,364
Balance at March 31, 2014	¥37,000	\$359,503

Note. Some consolidated subsidiaries have adopted the alternative treatment.

**b) Movements in fair value of pension assets for the year ended March 31, 2014.**

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at April 1, 2013	¥19,865	\$193,014
Expected return on pension assets	454	4,411
Actuarial differences	1,436	13,953
Contributions paid by the employer	1,505	14,623
Benefits paid	(1,209)	(11,747)
Other	3,625	35,221
Balance at March 31, 2014	¥25,676	\$249,475

Note. Some consolidated subsidiaries have adopted the alternative treatment.

**c) Reconciliation of projected benefit obligations and fair value of pension assets to liability (asset) for retirement benefits**

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded projected benefit obligations	¥27,341	\$265,653
Fair value of pension assets	(25,676)	(249,475)
	1,665	16,178
Unfunded projected benefit obligations	9,658	93,840
Total net liability (assets) for projected benefit at March 31, 2014	¥11,323	\$110,018
Net defined benefit liability	¥12,135	\$117,907
Net defined benefit assets	(812)	(7,889)
Total net liability (assets) for projected benefit at March 31, 2014	¥11,323	\$110,018

Note. Some consolidated subsidiaries have adopted the alternative treatment.

**d) Severance and pension costs of the Companies included the following components for the year ended March 31, 2014.**

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥2,030	\$19,724
Interest cost	642	6,238
Expected return on pension assets	(454)	(4,411)
Amortization of actuarial differences	1,001	9,726
Amortization of past service cost	56	544
Severance and retirement benefit expenses are based on the alternative treatment	454	4,411
Severance and retirement benefit expenses	¥3,729	\$36,232

**e) Remeasurements of defined benefit plans (before tax)**

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized past service cost	¥ (21)	\$ (204)
Unrecognized actuarial differences	(3,379)	(32,831)
Other	1,114	10,824
Total	¥(2,286)	\$(22,211)

**f) Pension assets**

(1) Pension assets comprise:

	2014
Stocks	31%
Bonds	37
Cash and deposits	6
Real estate	25
Other	1
Total	100%

(2) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of pension assets have been considered in determining the long-term expected rate of return.

**g) Actuarial assumptions**

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) were as follows:

	2014
Discount rate	1.73%
Long-term expected rate of return	1.67%

**h) Contributions to the defined contributions pension plan**

For the year ended March 31, 2014, the Companies made contributions to the defined contributions pension plan in the amount of ¥995 million (\$9,668 thousand).



## 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 38.0% for the years ended March 31, 2013 and 2014.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2013 and 2014 were as follows:

	2013	2014
Statutory tax rate	38.0%	38.0%
Nondeductible expenses	2.3	5.2
Nontaxable dividend income	(5.9)	(8.3)
Fluctuation in deferred tax assets valuation allowance account	(29.4)	(29.4)
Elimination of dividend income	7.7	8.7
Equity in net income of nonconsolidated subsidiaries and affiliates	(10.3)	6.1
Other	1.0	3.8
Effective tax rate	3.4%	24.1%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Deferred tax assets:			
Impairment loss	¥ 6,972	¥ 6,626	\$ 64,380
Employees' retirement benefits	3,822	4,921	47,814
Tax loss carryforwards	3,234	2,987	29,022
Allowance for doubtful receivables	949	786	7,637
Research and development expenses	689	595	5,781
Loss on devaluation of securities	434	558	5,422
Other reserves	7,013	5,700	55,383
Other	4,683	4,311	41,887
Total deferred tax assets	27,796	26,484	257,326
Valuation allowance	(17,842)	(14,515)	(141,032)
Deferred tax assets, net	9,954	11,969	116,294
Deferred tax liabilities:			
Land valuation difference	(1,459)	(1,489)	(14,468)
Investment securities	(816)	(816)	(7,928)
Prepaid pension benefit expenses	(502)	(592)	(5,752)
Reserve for compressed entry	(592)	(588)	(5,713)
Net unrealized holding gains on securities	(109)	(149)	(1,448)
Reserve for replacement of property	(112)	(108)	(1,049)
Other	(153)	(1,283)	(12,466)
Total deferred tax liabilities	(3,743)	(5,025)	(48,824)
Net deferred tax assets	¥ 6,211	¥ 6,944	\$ 67,470

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

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Current assets	¥6,909	¥6,203	\$60,270
Investments and other noncurrent assets	1,263	3,286	31,928
Long-term liabilities	(1,957)	(2,545)	(24,728)
Net deferred tax assets	¥6,215	¥6,944	\$67,470

## 21. Business Combinations

Purchase price allocation of NAC International Inc. has been completed for the year ended March 31, 2014. The main contents are as follows.

### a) Acquisition costs and breakdown

	Millions of yen	Thousands of U.S. dollars
Common stock	¥4,059	\$39,438
Expenses arising directly from the acquisition	365	3,547
Total	¥4,424	\$42,985

### b) Newly recognized property, plant and equipment of NAC International Inc.

#### (1) The amounts and breakdown of recognized property, plant and equipment

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 7	\$ 68
Machinery and equipment	434	4,217
Total	¥441	\$4,285

#### (2) Amortization methods and period

Buildings and structures will be amortized on straight-line method over 4 years.

Machinery and equipment will be amortized on straight-line method over 2-10 years.

### c) Newly recognized intangible assets of NAC International Inc.

#### (1) The amounts and breakdown of recognized intangible assets

	Millions of yen	Thousands of U.S. dollars
NRC licences*	¥ 839	\$ 8,152
Customer-related assets	432	4,198
Trade name	207	2,011
Patents and other	41	398
Total	¥1,519	\$14,759

\* NRC stands for The U.S. Nuclear Regulatory Commission which regulates commercial nuclear power plants and other uses of nuclear materials.

## (2) Amortization method and period

NRC licences will be amortized by the straight-line method over 10-15 years.

Customer-related assets will be amortized by the straight-line method over 2-20 years.

Trade name will be amortized on straight-line method over 20 years.

Patents and other will be amortized on straight-line method over 10 years.

## d) Goodwill

Goodwill in the amount of ¥2,761 million (\$26,827 thousand) comprised mainly prospective extra earning power by expanding the Company's reach in the business of cask and canisters. The goodwill will be amortized on straight-line method over 10 years.

## 22. Asset Retirement Obligations

### a) General Information about Asset Retirement Obligations

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

### b) Basis of Measurement for Asset Retirement Obligations

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

Year ended March 31, 2013 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Balance at the beginning of the fiscal year	¥925	¥934	\$9,075
Adjustment with passing of time	9	9	87
Decrease in performance of asset retirement obligations	—	(64)	(622)
Balance at the end of the fiscal year	¥934	¥879	\$8,540

## 23. Investment and Rental Property

The Company and some consolidated subsidiaries own rental property and idle land in Osaka and other areas. For the years ended March 31, 2013 and 2014, rental income was ¥592 million and ¥585 million (\$5,684 thousand), respectively. Rental income and rental expenses were counterbalanced and described mainly in other income and expenses.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Book value			
Balance at the beginning of the fiscal year	¥25,088	¥23,236	\$225,767
Decrease for this fiscal year, net	(1,852)	(98)	(952)
Balance at the end of the fiscal year	¥23,236	¥23,138	\$224,815
Fair value			
At the end of the fiscal year	¥19,802	¥19,065	\$185,241

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

For the fiscal year ended March 31, 2013, Net decrease by ¥1,852 million stemmed from an impairment loss of ¥1,690 million. For the fiscal year ended March 31, 2014, Net decrease by ¥98 million (\$952 thousand) stemmed from a depreciation of ¥168 million (\$1,632 thousand).

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

## 24. Segment Information

### a) Reportable Segments

#### (1) General information about reportable segments

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

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

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

Operations in the environmental systems and the industrial plants segment include the production of environmental protection systems, water treatment systems, desalination and potabilization plants and chemical plants.

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

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

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

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

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

As per reorganization effective January 1, 2013, Environmental Systems and Industrial Plants were merged into one segment. In the following analysis, the figures of the previous fiscal year were also restated to reflect this organizational change.

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

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

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

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

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

Information by reported segment of the Companies was as follows:

	Millions of yen								
	2013								
	Environmental systems and Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales									
Outside customers	¥181,061	¥53,728	¥10,144	¥26,521	¥16,721	¥ 8,617	¥296,792	¥ —	¥296,792
Intersegment	966	168	287	274	1,000	2,828	5,523	(5,523)	—
Total	182,027	53,896	10,431	26,795	17,721	11,445	302,315	(5,523)	296,792
Segment income (loss)	¥ 10,560	¥ 1,955	¥ 60	¥ (2,261)	¥ 157	¥ 762	¥ 11,233	¥ 130	¥ 11,363
Segment assets	¥132,461	¥59,311	¥17,858	¥37,309	¥18,105	¥42,001	¥307,045	¥59,302	¥366,347
Others									
Depreciation	¥ 2,677	¥ 1,786	¥ 862	¥ 1,226	¥ 719	¥ 1,016	¥ 8,286	¥ —	¥ 8,286
Increase in assets and intangible assets	¥ 3,202	¥ 815	¥ 88	¥ 345	¥ 1,041	¥ 1,051	¥ 6,542	¥ —	¥ 6,542

	Millions of yen								
	2014								
	Environmental systems and Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total	Eliminations and corporate	Consolidated
Net Sales									
Outside customers	¥206,299	¥51,941	¥15,976	¥28,092	¥22,625	¥ 8,500	¥333,433	¥ —	¥333,433
Intersegment	938	357	3	501	1,319	2,845	5,963	(5,963)	—
Total	207,237	52,298	15,979	28,593	23,944	11,345	339,396	(5,963)	333,433
Segment income (loss)	¥ 9,889	¥ (353)	¥ (38)	¥ (1,580)	¥ (196)	¥ 285	¥ 8,007	¥ (128)	¥ 7,879
Segment assets	¥134,110	¥65,679	¥23,959	¥42,301	¥23,206	¥40,054	¥329,309	¥50,105	¥379,414
Others									
Depreciation	¥ 2,757	¥ 1,813	¥ 803	¥ 1,064	¥ 722	¥ 1,040	¥ 8,199	¥ —	¥ 8,199
Increase in assets and intangible assets	¥ 1,921	¥ 1,244	¥ 177	¥ 301	¥ 452	¥ 1,729	¥ 5,824	¥ —	¥ 5,824

Thousands of U.S. dollars

	2014								Eliminations and corporate	Consolidated
	Environmental systems and Industrial plants	Machinery	Process equipment	Infrastructure	Precision machinery	Other businesses	Total			
Net Sales										
Outside customers	\$2,004,460	\$504,674	\$155,227	\$272,950	\$219,831	\$ 82,588	\$3,239,730	\$ —	\$3,239,730	
Intersegment	9,114	3,468	29	4,868	12,816	27,643	57,938	(57,938)	—	
Total	2,013,574	508,142	155,256	277,818	232,647	110,231	3,297,668	(57,938)	3,239,730	
Segment income (loss)	\$ 96,084	\$ (3,430)	\$ (369)	\$ (15,352)	\$ (1,904)	\$ 2,769	\$ 77,798	\$ (1,243)	\$ 76,555	
Segment assets	\$1,303,051	\$638,156	\$232,792	\$411,009	\$225,476	\$389,176	\$3,199,660	\$486,834	\$3,686,494	
Others										
Depreciation	\$ 26,788	\$ 17,616	\$ 7,802	\$ 10,338	\$ 7,015	\$ 10,105	\$ 79,664	\$ —	\$ 79,664	
Increase in assets and intangible assets	\$ 18,665	\$ 12,087	\$ 1,720	\$ 2,925	\$ 4,392	\$ 16,799	\$ 56,588	\$ —	\$ 56,588	

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

Corporate amounts are mainly the common accounts of the head office, which cannot be allotted to each segment. Corporate assets, which include mainly cash, time deposits and securities at March 31, 2013 and 2014 were ¥59,475 million and ¥50,280 million (\$488,535 thousand), respectively.

## b) Related Information

### (1) Information about products and services

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

### (2) Information about geographic areas

Sales by region for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Japan	¥225,061	¥217,356	\$2,111,893
Asia	25,954	29,781	289,361
North America	9,456	6,997	67,985
Middle East	5,400	18,690	181,597
Europe	26,295	56,943	553,274
Other	4,626	3,666	35,620
Total	¥296,792	¥333,433	\$3,239,730

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

### (3) Information about major customers

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

## 25. Related Party Information

A significant affiliated company was Universal Shipbuilding Corporation (Japan Marine United Corporation) for the year ended March 31, 2013.

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

	Millions of yen
Total current assets	¥103,278
Total fixed assets	82,879
Total current liabilities	97,404
Total long-term liabilities	11,344
Total net assets	77,409
Net sales	¥139,894
Income before income taxes and minority interests	10,378
Net income	6,397

Note. Universal Shipbuilding Corporation (Japan Marine United Corporation) was excluded from affiliates accounted for by the equity method for the fiscal year ended March 31, 2013. This summary was for the nine months ended December 31, 2012.



## 26. Subsequent Event

### Merger with Daiki Ataka Engineering

The Company resolved to carry out a merger with Daiki Ataka Engineering Co., Ltd. ("Daiki Ataka Engineering") at a meeting of the Board of Directors held on November 28, 2013 and merged on April 1, 2014.

#### a) Overview

##### (1) Purpose

Daiki Ataka Engineering was engaged in a wide variety of business fields including environment related equipment for water processing and pollution control and industrial equipment.

In order to develop and grow sustainably in the green energy field, it is imperative to press ahead with efforts to gain a presence in global markets. In these circumstances, the Company decided to carry out a merger with Daiki Ataka Engineering in order to maximize synergies through the strengthening of business momentum and streamlining provided by unified management and speed up efforts to stimulate further growth for the Hitachi Zosen Group in the green energy field.

##### (2) Legal method

The merger is an absorption-type merger in which the Company is the surviving company and Daiki Ataka Engineering is the extinct company.

##### (3) Business activities of extinct company

Environment-related equipment for water processing and pollution control, industrial equipment and others.

#### b) Accounting method

The Company applied the following accounting treatment stipulated by "Accounting Standard for Business Combinations" (ASBJ Statement No. 21; December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10; December 26, 2008) for the transaction under common control.

#### c) Acquisition cost and breakdown

	Millions of yen	Thousands of U.S. dollars
Common stock	¥4,578	\$44,481
Expenses arising directly from the acquisition	115	1,118
Total	¥4,693	\$45,599

#### d) Content of allotments related to merger

##### (1) Ratio of share allotments

	The Company (surviving company)	Daiki Ataka Engineering (extinct company)
Content of allotments related to merger	1	0.66
Number of shares to be delivered through merger	Common stock of Company: 9,304,189 shares	

0.66 shares of the Company's common stock was delivered for each share of Daiki Ataka Engineering's common stock. Common stock of Daiki Ataka Engineering held by the Company and Daiki Ataka Engineering's treasury stock was not included in the share allotments.

##### (2) Calculation method for the ratio of share allotments

In order to support the respective efforts of the Company and Daiki Ataka Engineering to ensure the fairness of the ratio of share allotments for this merger, the Company had requested Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. to perform financial analysis, while, Daiki Ataka Engineering had requested Nomura Securities Co., Ltd. to perform similar analyses. Referring to the results of those financial analyses, the Company and Daiki Ataka Engineering conducted careful negotiations and discussions on the ratio of share allotments, comprehensively taking into consideration factors such as the financial position, stock price trend, and future prospects of each party. As a result, the Company and Daiki Ataka Engineering have reached the conclusion that the above ratio of share allotments is appropriate.

##### (3) Number of shares to be delivered through merger

In the merger, the Company allotted and delivered to shareholders of Daiki Ataka Engineering immediately prior to the point of time the merger became effective 9,304,189 shares of the Company's common stock. In the 9,304,189 shares, 675,000 shares were allotted for the Company's treasury stock and 8,629,189 shares were issued under the merger.

#### e) Negative goodwill

Negative goodwill in the amount of ¥1,917 million (\$18,626 thousand) comprised the difference between the acquisition cost of Daiki Ataka Engineering and the Company's share of net assets of Daiki Ataka Engineering.

## Making NICHIZO TECH INC. a wholly owned subsidiary through share exchange

The Company resolved to make NICHIZO TECH INC. ("NICHIZO TECH") a wholly owned subsidiary through a share exchange at a meeting of the Board of Directors held on November 28, 2013 and made on April 1, 2014.

### a) Overview

#### (1) Purpose

NICHIZO TECH was the main subsidiary of the Hitachi Zosen Group (the "Group") in the business areas of industrial plants and social infrastructure and disaster prevention.

In order to fully utilize NICHIZO TECH's business characteristics and the advantages of its operations and structure and strengthen cooperation between both companies. Making NICHIZO TECH a wholly owned subsidiary will enable the Company to speed up efforts to stimulate further growth in the Group's social infrastructure and disaster prevention operations, and also strengthen its solution businesses and expand its overseas operations.

#### (2) Legal method

Though the share exchange, the Company is the wholly owning parent company in the share exchange and NICHIZO TECH is the wholly owned subsidiary in the share exchange.

### b) Accounting method

The Company applied the following accounting treatments stipulated by "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008) for the transaction under common control.

### c) Acquisition cost and breakdown

	Millions of yen	Thousands of U.S. dollars
Common stock	¥1,015	\$ 9,862
Expenses arising directly from the acquisition	111	1,079
Total	¥1,126	\$10,941

### d) Content of allotments related to share exchange

#### (1) Ratio of share allotments

	The Company (Wholly owned parent company in share exchange)	NICHIZO TECH (Wholly owned subsidiary in share exchange)
Content of allotments related to share exchange	1	0.82
Number of shares to be delivered through share exchange	<b>Common stock of Company: 2,062,704 shares</b>	

0.82 shares of the Company's common stock was delivered for each share of NICHIZO TECH's common stock. Common stock of NICHIZO TECH held by the Company was not included in the share allotments.

#### (2) Calculation method for the ratio of share allotments

In order to support the respective efforts of the Company and NICHIZO TECH to ensure the fairness of the ratio of share allotments for this share exchange, the Company had requested Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. to perform financial analysis, while, NICHIZO TECH had requested Nomura Securities Co., Ltd. to perform similar analyses. Referring to the results of those financial analyses, the Company and NICHIZO TECH conducted careful negotiations and discussions on the ratio of share allotments, comprehensively taking into consideration factors such as the financial position, stock price trend, and future prospects of each party. As a result, the Company and NICHIZO TECH reached the conclusion that the above ratio of share allotments is appropriate.

#### (3) Number of shares to be delivered through share exchange

In the share exchange, the Company allotted and delivered to shareholders of NICHIZO TECH (excluding the Company) immediately prior to its acquisition of all issued shares of NICHIZO TECH (excluding common stock of NICHIZO TECH by the Company) 2,062,704 shares of the Company's common stock. The 2,062,704 shares were allotted for the Company's treasury stock.

### e) Negative goodwill

Negative goodwill in the amount of ¥1,229 million (\$11,941 thousand) comprised the difference between the acquisition cost of NICHIZO TECH and the Company's share of net assets of NICHIZO TECH.



## Independent Auditor's Report

To the Board of Directors of Hitachi Zosen Corporation :

We have audited the accompanying consolidated financial statements of Hitachi Zosen Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hitachi Zosen Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

July 18, 2014  
Osaka, Japan

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



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Facsimile: +44-20-7929-1803

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

2 Grand Central Tower, 140 East 45th Street,  
17th Floor, New York, NY 10017, U.S.A.  
Phone: +1-212-883-9060  
Facsimile: +1-212-883-9064

### Hitachi Zosen India Private Limited

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

### Hitachi Zosen India Private Limited Hyderabad Branch

8-2-685/1/1A, 4th Floor, Road No. 12,  
Banjara Hills, Hyderabad, 500034, Telangana  
India  
Phone: +91-40-2333-4241  
Facsimile: +91-40-2333-4240

### Hitachi Zosen Myanmar Co., Ltd.

No.#1704, 17th Floor, Sakura Tower,  
339 Bogyoke Aung San Road, Kyauktada  
Township, Yangon, Myanmar  
Phone: +95-1-255-162  
Facsimile: +95-1-255-081

### PT. HITZ INDONESIA

Wisma BNI 46 Lt. 30 Suite 30. 03 Jl. Jendral  
Sudirman Kav.1 karet Tengsin Tanah Abang  
Jakarta Pusat, 10220, Indonesia  
Phone: +62-21-574-4482  
Facsimile: +62-21-574-6559

### Hitachi Zosen Trading (shanghai) Co., LTD.

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

### Hitachi Zosen Trading (Shanghai) Co., LTD. Guangzhou Branch

Room 1303, Goldlion Digital Network  
Center, 138 Tiyu Road east, Guangzhou  
510620, The People's Republic of China  
Phone: +86-20-3878-1430  
Facsimile: +86-20-3820-0586

### Hitachi Zosen Trading (Shanghai) Co., LTD. Shenyang Branch

Room 1808, N-MEDIA International Center,  
No. 167 Youth Avenue, Shenyang, Liaoning,  
110014, The People's Republic of China  
Phone: +86-24-2318-2422

## Major overseas subsidiaries

### Hitachi Zosen Inova AG

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

### Hitachi Zosen Inova U.S.A. LLC.

3740 Davinci Court, Suite 250, Norcross,  
GA 30092, U.S.A.  
Phone: +1-678-987-2500  
Facsimile: +1-678-987-2599  
Energy-from-Waste plant business in the  
North America

### HITACHI ZOSEN VIETNAM CO., LTD.

Room 702, 7th floor HMC Tower, 193 Dinh  
Tien Hoang, Dakao Ward, District 1,  
Ho Chi Minh City, Vietnam  
Phone: +84-8-3825-1040  
Facsimile: +84-8-3825-1041  
3D-CAD for plant engineering and Energy-from-  
Waste plant

### Hitachi Zosen Catalyst U.S.A. LLC.

207 Lonnie E. Crawford Boulevard, Scottsboro,  
AL 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,  
The People's Republic of 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 Road 87, Xingang Industrial Base,  
Economic Development Zone, Zhoushan,  
Zhejiang Province, The People's Republic of  
China  
Phone: +86-580-806-2015  
Facsimile: +86-580-806-2003  
Design, manufacture, sale and after-sales  
servicing of marine engines, diesel engines for  
power generation, and various equipment for  
environmental protection purposes

### Zhoushan Nippon Pusnes Ship Machinery Co., Ltd.

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

### NAC International Inc.

3930 East Jones Bridge Road, Norcross,  
Georgia 30092, U.S.A.  
Phone: +1-770-447-1144  
Facsimile: +1-770-447-1797

### ISGEC Hitachi Zosen Limited

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

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

1st Floor, No. 1 Factory Indcon Technology  
Park, 199, Jinfeng Road, Gaoxin District,  
Suzhou, The People's Republic of China  
Phone: +86-512-6832-1458  
Facsimile: +86-512-6832-1468  
Manufacture and sale of plastic machinery,  
food and pharmaceutical machinery



## Major subsidiaries

### 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 plants and equipment; engineering services; design of industrial machinery

### SERACHEM Co., Ltd.

954-1, Hongo, Sera-cho, Sera-gun, Hiroshima 722-1112, Japan  
Phone: +81-847-22-0705  
Facsimile: +81-847-22-0707  
Manufacturing and distribution of activated carbon, veterinary drugs, food, and food additives

### Tokaiseiki Co., Ltd.

542, Gokanjima, Fuji, Shizuoka 416-0946, Japan  
Phone: +81-545-61-7101  
Facsimile: +81-545-64-0247  
Manufacturing and installation work of machinery and freight transport vehicles; design and construction of water treatment facilities; design, manufacturing, and construction of SMC/TMC impregnation equipment (for FRP product manufacturing); manufacturing and distribution of corrosion-resistant polyethylene and lined steel pipes

### HITACHI ZOSEN FUKUI CORPORATION

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

### IMEX CO., LTD.

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

### NIPPON PUSNES CO., LTD.

18-6 Takehisa-cho 2-chome,  
Shimonoseki, Yamaguchi 751-0833, Japan  
Phone: +81-83-252-7161  
Facsimile: +81-83-252-7166  
Design, manufacture and distribution of marine deck equipment, marine structures and various equipment

### OCL Corporation

1-1-3, Shibadaimon, Minato-ku, Tokyo 105-0012, Japan  
Phone: +81-3-5408-1380  
Facsimile: +81-3-5408-1381  
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

### V TEX Korea Co., Ltd.

52, Oseongsandan 1-ro, Oseong-myeon,  
Pyeongtaek-si, Gyeonggi-do, Korea  
Phone: +82-31-686-5381  
Facsimile: +82-31-686-5385  
Manufacture and sale of valves, valve parts, and vacuum pumps

### 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.

### SHINKO SEIKI CO., LTD.

1-35, 3-chome, Takatsukadai, Nishi-ku,  
Kobe, Hyogo 651-2271, Japan  
Phone: +81-78-991-3011  
Facsimile: +81-78-991-2860

### 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.

6-33, 2-chome, Edobori, Nishi-ku,  
Osaka 550-0002, Japan  
Phone: +81-6-6447-7072  
Facsimile: +81-6-6447-7073  
Manufacture, distribution, lease, repair and maintenance of ice makers and parts

### 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

### UniCarriers Handling Systems Corporation

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

### Hitachi Zosen Yangling Co., Ltd.

Nanbin Road, Yangling Demonstration Zone,  
Shaanxi Province China  
Phone: +86-29-8703-3236

# Company History

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

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

## Old Osaka Iron Works Ltd. era

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

## New Osaka Iron Works Ltd. era

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

## As Hitachi Zosen Corporation

- 1943 • The name is changed to Hitachi Zosen Corporation.  
• Mukaishima Works starts operations.
- 1944 • Kanagawa Works starts operations.
- 1948 • *Hitachi Zosen Technical Review* is inaugurated.
- 1949 • Technical Research Institute is opened.  
• The first whaling ship is constructed for Norway following World War II as a result of government trade.
- 1950 • A technological tie-up for B&W-type diesel engines is concluded.
- 1951 • An order is received for a tanker from a customer in the United States — the first order received under the private trade program to export a ship after the end of World War II.  
• The first B&W marine diesel engine is completed.
- 1956 • Offices are opened in London and New York.
- 1960 • A technological tie-up is concluded with Von Roll Environmental Technology Ltd. of Switzerland for a De Roll-type refuse incineration plant.
- 1965 • A De Roll-type refuse incineration plant is completed for the municipal government of Osaka (the first mechanical incineration plant with power generation facility manufactured in Japan).  
• Sakai Works starts operations.
- 1966 • Sakurajima Works restarts as a specialized plant for land machinery.
- 1969 • A number of orders are completed for De Roll-type refuse incineration plants for Tokyo Metropolis.
- 1971 • Maizuru Works starts operations.
- 1972 • Orders are received for two cargo ships for China.
- 1973 • Ariake Works starts operations.
- 1977 • Construction is completed for a 500,000-ton tanker for Esso.
- 1979 • Ariake Land Machinery Works starts operations.
- 1981 • Hitachi Zosen celebrates its 100th anniversary.

- 1987 • The world's first multiple-face shield tunneling machine is completed.
- 1990 • Construction of ultra-large steel mill plants is completed for Baoshan Iron and Steel of China and Sicarsa Steel Mill in Mexico.
- 1993 • Construction of Japan's first double-hull VLCC is completed.  
• Sakai Works starts operation as a specialized plant for steel structures.  
• Slurry-shield tunnel boring machine (with one of the world's largest diameters of 14.14m) is produced.
- 1994 • The world's first triple-face shield tunneling machine is completed.
- 1996 • A refuse incineration plant for the Clean Association of Eastern Saitama District receives MITI (now METI) Minister prize for excellent environmental equipment.  
• Electric power supply business is inaugurated.  
• Japan's first super refuse-fired power generation plant comes on stream.
- 1997 • An order is received for the world's first fifth-generation semisub rig.  
• Sakurajima Works is closed, and facilities are transferred to Ariake Works; Ariake Machinery Works starts operations.  
• The world's largest B&W marine diesel engine (74,640 hp) at the time is completed.
- 2000 • An order is received for the No. 1 gasification melting furnace.  
• Yumemai Ohashi, the world's first floating swing bridge is constructed.  
• 8,000 hours of continuous operations are achieved by refuse incineration plant delivered for Taiwan.
- 2001 • A large-scale desalination plant is constructed in Saudi Arabia.
- 2002 • The Basic Agreement on Consolidation of Shipbuilding Operations is concluded with NKK Corp (now JFE Steel Corporation).  
• The shipbuilding operation is transferred to Universal Shipbuilding Corporation on October 1.  
• The Hitz brand name goes into use as of October 1.  
• HEC Corporation is acquired.
- 2003 • The world's most advanced electronic control marine engine for large vessels is produced.  
• A desalination plant is constructed for Oman.
- 2004 • An order is received (as member of international consortium) for Stonecutters Bridge — the world's second-longest cable-stayed bridge — for Hong Kong.  
• Kyoto Municipal Waste Edible Oil Fuel Production Facility is completed with the greatest manufacturing capacity in Japan.
- 2005 • Refuse incineration plant is constructed for Odate City (the first intermediate processing operation of municipal refuse in Japan under PFI legislation).
- 2006 • A desalination plant is constructed in Abu Dhabi.
- 2007 • One of Japan's largest gasification melting furnaces is completed for Toyoda City.  
• An order is received from South Africa for one of the world's largest coal-to-liquids (CTL) reactors.
- 2008 • A new factory is constructed in Sakai Works for extension of industrial machinery and shield tunneling machinery production.
- 2009 • Ten Group companies are absorbed.  
• Completed a new plant for manufacture of medium-sized diesel engines at Ariake Works.  
• Launched a joint venture in China for manufacture of marine diesel engines.
- 2010 • Launched a joint venture in China for manufacture of marine deck machinery.  
• Acquired European refuse incineration plant maker (current name: Hitachi Zosen Inova AG).
- 2011 • Hitachi Zosen celebrates its 130th anniversary.  
• Establishes local subsidiary in India.  
• Establishes a joint-venture precision machinery company in China.  
• Vessel put into service employing world's first selective catalytic reduction (SCR) NOx removal system for marine engines compliant with IMO Tier III NOx emission standards.
- 2012 • Established a joint-venture manufacturer of process equipment in India.
- 2013 • Acquired all shares of U.S.-based NAC International Inc.
- 2014 • Daiki Ataka Engineering is acquired.

# Investor Information

(As of March 31, 2014)

## Corporate data

Date of establishment:	April 1, 1881
Paid-in capital:	45,442,365,005 yen
Number of employees (consolidated):	9,171
Number of employees (non-consolidated):	3,155
Consolidated subsidiaries:	79

## Stock data

Number of shares authorized:	400,000,000
Number of shares issued:	159,214,656
Number of shareholders:	94,028

## Major shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Equity stake* (%)
The Master Trust Bank of Japan, Ltd. (trust account)	11,548	7.4
Japan Trustee Services Bank, Ltd. (trust account)	8,528	5.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,949	3.2
EVERGREEN	3,786	2.4
Japan Trustee Services Bank, Ltd. (trust account 1)	2,494	1.6
BNP Paribas Securities (Japan) Limited	2,250	1.4
Japan Trustee Services Bank, Ltd. (trust account 5)	2,125	1.4
Japan Trustee Services Bank, Ltd. (trust account 6)	2,121	1.4
Sompo Japan Insurance Inc.	2,000	1.3
Japan Trustee Services Bank, Ltd. (trust account 2)	1,810	1.2

Notes: 1. The Company holds 2,743 thousand shares of treasury stock, but is not listed among the above major shareholders.  
2. The shareholding ratio do not include treasury stock.

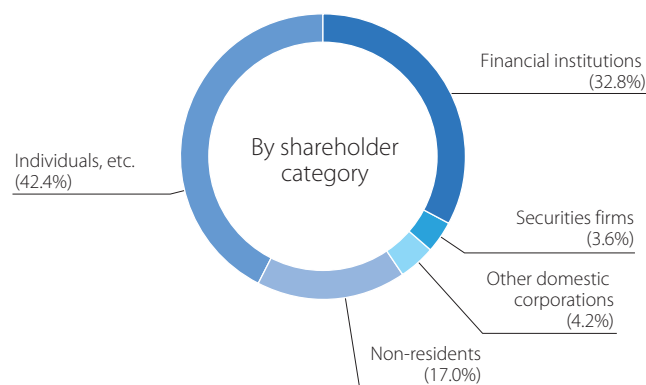
## Shareholders information

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/>

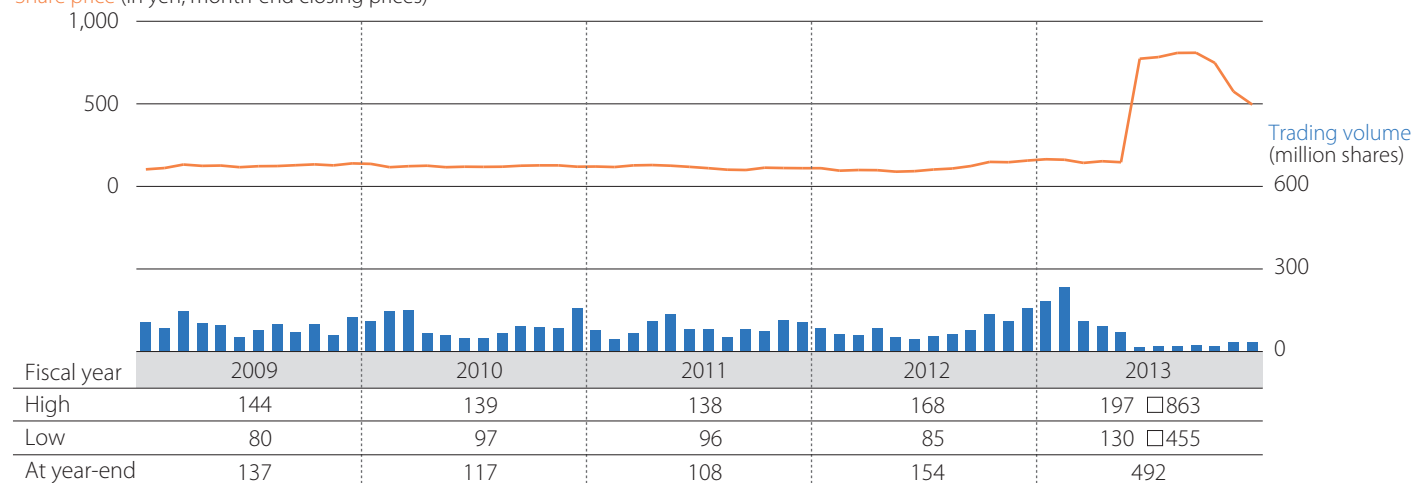
Share trading unit: 100 shares  
Shareholder registry administrator:  
Mitsubishi UFJ Trust and Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo  
Stock listing: Tokyo Stock Exchange

## 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.

Note: On October 1, 2013, as Hitachi Zosen Corporation implemented a share consolidation with a ratio of five shares to one, the share price before the share consolidation and the share price after the consolidation, as indicated by □, have been recorded as our share price high and low during fiscal 2013.

For investor relations information, please visit our website.

<http://www.hitachizosen.co.jp/english/ir/index.html>





# Hitachi Zosen Corporation

## Head Office

7-89, Nankokita 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, Minamioi 6-chome, Shinagawa-ku,  
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<http://www.hitachizosen.co.jp>



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