

Financial Section 2017

For the Year Ended March 31, 2017

Hitachi Zosen Corporation



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, 2017 and 2016, 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 misstatement, 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, 2017 and 2016, 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, 2017 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 21, 2017
Osaka, Japan

CONSOLIDATED BALANCE SHEETS
Hitachi Zosen Corporation and Consolidated Subsidiaries
At March 31, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------------------|------------------|--|
| | 2016 | 2017 | 2017 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and time deposits (Note 16) | ¥ 51,585 | ¥ 52,282 | \$ 466,013 |
| Receivables: | | | |
| Trade notes and accounts: | | | |
| Nonconsolidated subsidiaries and affiliates | 832 | 858 | 7,648 |
| Other (Note 6) | 138,445 | 133,330 | 1,188,430 |
| Other | 5,071 | 5,702 | 50,824 |
| Allowance for doubtful receivables | (3,411) | (3,811) | (33,969) |
| | <u>140,937</u> | <u>136,079</u> | <u>1,212,933</u> |
| Marketable securities (Note 3) | 10 | — | — |
| Inventories (Note 4) | 30,978 | 28,650 | 255,370 |
| Deferred tax assets (Note 21) | 5,873 | 6,095 | 54,328 |
| Prepaid expenses and other current assets (Note 5) | 12,476 | 7,622 | 67,938 |
| Total current assets | <u>241,859</u> | <u>230,728</u> | <u>2,056,582</u> |
| Property, plant and equipment, at cost (Note 5): | | | |
| Land (Notes 7 and 24) | 61,315 | 57,864 | 515,768 |
| Buildings and structures (Note 24) | 80,370 | 81,101 | 722,890 |
| Machinery and equipment | 105,434 | 110,375 | 983,822 |
| Lease assets (Note 17) | 1,627 | 1,304 | 11,623 |
| Construction in progress | 1,429 | 3,550 | 31,643 |
| | <u>250,175</u> | <u>254,194</u> | <u>2,265,746</u> |
| Less accumulated depreciation | (130,368) | (135,277) | (1,205,785) |
| Property, plant and equipment, net | <u>119,807</u> | <u>118,917</u> | <u>1,059,961</u> |
| Intangible assets: | | | |
| Goodwill | 3,073 | 4,655 | 41,492 |
| Other intangible assets | 4,643 | 4,582 | 40,842 |
| Total intangible assets | <u>7,716</u> | <u>9,237</u> | <u>82,334</u> |
| Investments and other noncurrent assets: | | | |
| Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5) | 8,449 | 9,177 | 81,799 |
| Investments in securities (Notes 3 and 5) | 15,677 | 15,464 | 137,838 |
| Long-term loans receivable (Note 5) | 37 | 33 | 294 |
| Net defined benefit assets (Note 20) | 759 | 1,351 | 12,042 |
| Deferred tax assets (Note 21) | 3,095 | 2,905 | 25,894 |
| Other investments and noncurrent assets | 5,217 | 6,326 | 56,386 |
| Allowance for doubtful receivables | (990) | (671) | (5,981) |
| Total investments and other noncurrent assets | <u>32,244</u> | <u>34,585</u> | <u>308,272</u> |
| Deferred assets | 23 | 7 | 62 |
| Total assets | <u>¥ 401,649</u> | <u>¥ 393,474</u> | <u>\$ 3,507,211</u> |

See the accompanying Notes to the Consolidated Financial Statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------------------|------------------|--|
| | 2016 | 2017 | 2017 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Notes and accounts payable: | | | |
| Nonconsolidated subsidiaries and affiliates | ¥ 543 | ¥ 391 | \$ 3,485 |
| Other | 62,006 | 61,046 | 544,131 |
| Short-term borrowings (Note 5) | 6,150 | 30,191 | 269,106 |
| Current portion of long-term debt (Note 5) | 22,506 | 24,925 | 222,168 |
| Accrued expenses | 51,960 | 49,150 | 438,096 |
| Accrued income taxes | 2,849 | 2,527 | 22,524 |
| Advances received on work in progress | 18,728 | 10,687 | 95,258 |
| Reserve for product warranties | 4,902 | 4,897 | 43,649 |
| Reserve for losses on construction contracts (Note 4) | 5,498 | 3,250 | 28,969 |
| Other current liabilities | 8,912 | 14,672 | 130,778 |
| Total current liabilities | <u>184,054</u> | <u>201,736</u> | <u>1,798,164</u> |
| Long-term liabilities: | | | |
| Long-term debt, less current portion (Note 5) | 75,406 | 52,319 | 466,343 |
| Asset retirement obligations (Note 23) | 967 | 1,041 | 9,279 |
| Deferred tax liabilities (Note 21) | 790 | 918 | 8,183 |
| Net defined benefit liability (Note 20) | 17,700 | 17,168 | 153,026 |
| Directors' and corporate auditors' severance and retirement benefits | 401 | 412 | 3,672 |
| Other noncurrent liabilities (Note 5) | 1,665 | 2,063 | 18,388 |
| Total long-term liabilities | <u>96,929</u> | <u>73,921</u> | <u>658,891</u> |
| Total liabilities | <u>280,983</u> | <u>275,657</u> | <u>2,457,055</u> |
| CONTINGENT LIABILITIES (Note 6) | | | |
| NET ASSETS (Note 8): | | | |
| Common stock | | | |
| Authorized — 400,000,000 shares | | | |
| Issued — 170,214,843 shares at March 31, 2016 | 45,442 | 45,442 | 405,045 |
| — 170,214,843 shares at March 31, 2017 | | | |
| Capital surplus | 12,231 | 8,893 | 79,267 |
| Retained earnings | 57,329 | 61,286 | 546,270 |
| Treasury stock, at cost — 1,650,068 shares in 2016 | | | |
| — 1,659,814 shares in 2017 | (1,008) | (1,013) | (9,029) |
| Net unrealized holding gains (losses) on securities | 489 | 480 | 4,278 |
| Net unrealized holding gains (losses) on hedging derivatives | (96) | (366) | (3,262) |
| Land revaluation difference (Note 7) | (50) | (8) | (71) |
| Foreign currency translation adjustments | 3,136 | 2,231 | 19,886 |
| Remeasurements of defined benefit plans | (3,315) | (1,253) | (11,169) |
| Non-controlling interests in consolidated subsidiaries | 6,508 | 2,125 | 18,941 |
| Total net assets | <u>120,666</u> | <u>117,817</u> | <u>1,050,156</u> |
| Total liabilities and net assets | <u>¥ 401,649</u> | <u>¥ 393,474</u> | <u>\$ 3,507,211</u> |

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, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|--|
| | 2016 | 2017 | 2017 |
| Profit before non-controlling interests | ¥ 6,901 | ¥ 6,357 | \$ 56,663 |
| Other comprehensive income | | | |
| Net unrealized holding gains (losses) on securities | (255) | (95) | (847) |
| Net unrealized holding gains (losses) on hedging derivatives | 763 | (400) | (3,565) |
| Foreign currency translation adjustments | (538) | (917) | (8,174) |
| Remeasurements of defined benefit plans | (61) | 2,133 | 19,012 |
| Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method | (703) | (33) | (294) |
| Total other comprehensive income (Note 14) | (794) | 688 | 6,132 |
| Total comprehensive income | 6,107 | 7,045 | 62,795 |
| Comprehensive income attributable to | | | |
| Shareholders of Hitachi Zosen | 5,004 | 6,794 | 60,558 |
| Non-controlling interests | 1,103 | 251 | 2,237 |

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, 2016 and 2017

For the year ended March 31, 2016

(Millions of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock (Note 15) | Total shareholders' equity |
| Balance at beginning of year | ¥ 45,442 | ¥ 9,576 | ¥ 53,089 | ¥ (411) | ¥ 107,696 |
| Changes of items during the period | | | | | |
| Cash dividends | | | (1,671) | | (1,671) |
| Increase by share exchanges | | 1,531 | | 397 | 1,928 |
| Profit attributable to shareholders of Hitachi Zosen | | | 5,849 | | 5,849 |
| Treasury stock disposed, net | | 0 | | 0 | 0 |
| Treasury stock purchased, net | | | | (994) | (994) |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | 1,124 | | | 1,124 |
| Reversal of land revaluation difference | | | 62 | | 62 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes during the period | — | 2,655 | 4,240 | (597) | 6,298 |
| Balance at end of year | ¥ 45,442 | ¥ 12,231 | ¥ 57,329 | ¥ (1,008) | ¥ 113,994 |

| | Other accumulated comprehensive income | | | | | | Non-controlling interests in consolidated subsidiaries | Total net assets |
|---|---|--|--------------------------------------|--|---|--|--|------------------|
| | Net unrealized holding gains (losses) on securities | Net unrealized holding gains (losses) on hedging derivatives | Land revaluation difference (Note 7) | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total other accumulated comprehensive income | | |
| Balance at beginning of year | ¥ 853 | ¥ (844) | ¥ (4) | ¥ 4,266 | ¥ (3,201) | ¥ 1,070 | ¥ 8,765 | ¥ 117,531 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (1,671) |
| Increase by share exchanges | | | | | | | | 1,928 |
| Profit attributable to shareholders of Hitachi Zosen | | | | | | | | 5,849 |
| Treasury stock disposed, net | | | | | | | | 0 |
| Treasury stock purchased, net | | | | | | | | (994) |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | | | | | | 1,124 |
| Reversal of land revaluation difference | | | (46) | | | (46) | | 16 |
| Net changes of items other than shareholders' equity | (364) | 748 | — | (1,130) | (114) | (860) | (2,257) | (3,117) |
| Total changes during the period | (364) | 748 | (46) | (1,130) | (114) | (906) | (2,257) | 3,135 |
| Balance at end of year | ¥ 489 | ¥ (96) | ¥ (50) | ¥ 3,136 | ¥ (3,315) | ¥ 164 | ¥ 6,508 | ¥ 120,666 |

See the accompanying Notes to the Consolidated Financial Statements.

For the year ended March 31, 2017

(Millions of yen)

| | Shareholders' equity | | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|--------------------------|-----------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock (Note 15) | | |
| Balance at beginning of year | ¥ 45,442 | ¥ 12,231 | ¥ 57,329 | ¥ (1,008) | ¥ 113,994 | |
| Changes of items during the period | | | | | | |
| Cash dividends | | | (2,022) | | (2,022) | |
| Profit attributable to shareholders of Hitachi Zosen | | | 5,865 | | 5,865 | |
| Treasury stock disposed, net | | (0) | | 0 | 0 | |
| Treasury stock purchased, net | | | | (5) | (5) | |
| Change of scope of equity method | | | 156 | | 156 | |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | (3,338) | | | (3,338) | |
| Reversal of land revaluation difference | | | (42) | | (42) | |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes during the period | — | (3,338) | 3,957 | (5) | 614 | |
| Balance at end of year | ¥ 45,442 | ¥ 8,893 | ¥ 61,286 | ¥ (1,013) | ¥ 114,608 | |

| | Other accumulated comprehensive income | | | | | | Non-controlling interests in consolidated subsidiaries | Total net assets |
|---|---|--|--------------------------------------|--|---|--|--|------------------|
| | Net unrealized holding gains (losses) on securities | Net unrealized holding gains (losses) on hedging derivatives | Land revaluation difference (Note 7) | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total other accumulated comprehensive income | | |
| Balance at beginning of year | ¥ 489 | ¥ (96) | ¥ (50) | ¥ 3,136 | ¥ (3,315) | ¥ 164 | ¥ 6,508 | ¥ 120,666 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (2,022) |
| Profit attributable to shareholders of Hitachi Zosen | | | | | | | | 5,865 |
| Treasury stock disposed, net | | | | | | | | 0 |
| Treasury stock purchased, net | | | | | | | | (5) |
| Change of scope of equity method | | | | | | | | 156 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | | | | | | (3,338) |
| Reversal of land revaluation difference | | | 42 | | | 42 | | — |
| Net changes of items other than shareholders' equity | (9) | (270) | — | (905) | 2,062 | 878 | (4,383) | (3,505) |
| Total changes during the period | (9) | (270) | 42 | (905) | 2,062 | 920 | (4,383) | (2,849) |
| Balance at end of year | ¥ 480 | ¥ (366) | ¥ (8) | ¥ 2,231 | ¥ (1,253) | ¥ 1,084 | ¥ 2,125 | ¥ 117,817 |

See the accompanying Notes to the Consolidated Financial Statements.

For the year ended March 31, 2017

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

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|--------------------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock (Note 15) | Total shareholders' equity |
| Balance at beginning of year | \$ 405,045 | \$ 109,020 | \$ 510,999 | \$ (8,984) | \$ 1,016,080 |
| Changes of items during the period | | | | | |
| Cash dividends | | | (18,023) | | (18,023) |
| Profit attributable to shareholders of Hitachi Zosen | | | 52,277 | | 52,277 |
| Treasury stock disposed, net | | (0) | | 0 | 0 |
| Treasury stock purchased, net | | | | (45) | (45) |
| Change of scope of equity method | | | 1,391 | | 1,391 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | (29,753) | | | (29,753) |
| Reversal of land revaluation difference | | | (374) | | (374) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes during the period | — | (29,753) | 35,271 | (45) | 5,473 |
| Balance at end of year | \$ 405,045 | \$ 79,267 | \$ 546,270 | \$ (9,029) | \$ 1,021,553 |

| | Other accumulated comprehensive income | | | | | | Non-controlling interests in consolidated subsidiaries | Total net assets |
|---|---|--|--------------------------------------|--|---|--|--|------------------|
| | Net unrealized holding gains (losses) on securities | Net unrealized holding gains (losses) on hedging derivatives | Land revaluation difference (Note 7) | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total other accumulated comprehensive income | | |
| Balance at beginning of year | \$ 4,358 | \$ (856) | \$ (445) | \$ 27,952 | \$ (29,548) | \$ 1,461 | \$ 58,009 | \$ 1,075,550 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (18,023) |
| Profit attributable to shareholders of Hitachi Zosen | | | | | | | | 52,277 |
| Treasury stock disposed, net | | | | | | | | 0 |
| Treasury stock purchased, net | | | | | | | | (45) |
| Change of scope of equity method | | | | | | | | 1,391 |
| Change in treasury shares of parent arising from transactions with non-controlling shareholders | | | | | | | | (29,753) |
| Reversal of land revaluation difference | | | 374 | | | 374 | | — |
| Net changes of items other than shareholders' equity | (80) | (2,406) | — | (8,066) | 18,379 | 7,827 | (39,068) | (31,241) |
| Total changes during the period | (80) | (2,406) | 374 | (8,066) | 18,379 | 8,201 | (39,068) | (25,394) |
| Balance at end of year | \$ 4,278 | \$ (3,262) | \$ (71) | \$ 19,886 | \$ (11,169) | \$ 9,662 | \$ 18,941 | \$ 1,050,156 |

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, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|-----------------|--|
| | 2016 | 2017 | 2017 |
| Cash flows from operating activities: | | | |
| Profit before income taxes and non-controlling interests | ¥ 9,081 | ¥ 9,689 | \$ 86,362 |
| Adjustments to reconcile profit before income taxes and non-controlling interests to net cash provided by operating activities: | | | |
| Depreciation | 8,429 | 8,536 | 76,085 |
| Impairment loss | 1,786 | — | — |
| Amortization of goodwill | 817 | 426 | 3,797 |
| Increase in allowance for doubtful receivables | 1,668 | 26 | 232 |
| Increase of net defined benefit liability | 1,596 | 1,505 | 13,415 |
| Decrease in reserve for losses on construction contracts | (71) | (2,249) | (20,046) |
| Interest and dividend income | (393) | (262) | (2,335) |
| Interest expense | 992 | 796 | 7,095 |
| Foreign exchange loss (gain) | 532 | (313) | (2,790) |
| Equity in net loss (gain) of nonconsolidated subsidiaries and affiliates | 1,269 | (749) | (6,676) |
| Gain on sale of property | — | (1,425) | (12,702) |
| Decrease (increase) in trade receivables | (2,756) | 5,301 | 47,250 |
| Decrease (increase) in inventories | (4,860) | 2,345 | 20,902 |
| Decrease (increase) in other current assets | (8,044) | 4,402 | 39,237 |
| Increase (decrease) in trade payables | 3,679 | (1,473) | (13,130) |
| Decrease in accrued expenses | (5,809) | (2,331) | (20,777) |
| Increase (decrease) in advances received | 3,802 | (7,712) | (68,741) |
| Increase (decrease) in other current liabilities | (1,063) | 4,391 | 39,139 |
| Other | (306) | (449) | (4,002) |
| Subtotal | <u>10,349</u> | <u>20,454</u> | <u>182,315</u> |
| Interest and dividends received | 405 | 292 | 2,603 |
| Interest paid | (951) | (753) | (6,712) |
| Income taxes paid | (1,655) | (2,689) | (23,968) |
| Net cash and cash equivalents provided by operating activities | <u>8,148</u> | <u>17,304</u> | <u>154,238</u> |
| Cash flows from investing activities: | | | |
| Increase in time deposits | (2,204) | (2,042) | (18,201) |
| Decrease in time deposits | 1,847 | 2,312 | 20,608 |
| Purchase of property, plant and equipment | (8,249) | (8,042) | (71,682) |
| Proceeds from sales of property, plant and equipment | 5,671 | 5,456 | 48,632 |
| Purchase of intangible assets | (771) | (974) | (8,682) |
| Purchase of investments in securities | (271) | (679) | (6,052) |
| Payments for investments in capital of affiliates | (495) | (176) | (1,569) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 16) | — | (3,825) | (34,094) |
| Other | 806 | 971 | 8,655 |
| Net cash and cash equivalents used in investing activities | <u>(3,666)</u> | <u>(6,999)</u> | <u>(62,385)</u> |
| Cash flows from financing activities: | | | |
| Increase in short-term borrowings, net | 946 | 24,051 | 214,377 |
| Proceeds from long-term debt | 19,713 | 1,700 | 15,153 |
| Payment of long-term debt | (24,786) | (22,537) | (200,883) |
| Redemption of bonds | (10,000) | — | — |
| Cash dividends paid | (1,671) | (2,022) | (18,023) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (107) | (9,578) | (85,373) |
| Other | (43) | (31) | (276) |
| Net cash and cash equivalents used in financing activities | <u>(15,948)</u> | <u>(8,417)</u> | <u>(75,025)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 196 | (712) | (6,346) |
| Net increase (decrease) in cash and cash equivalents | <u>(11,270)</u> | <u>1,176</u> | <u>10,482</u> |
| Cash and cash equivalents at beginning of year | 60,770 | 49,672 | 442,749 |
| Cash and cash equivalents of newly consolidated subsidiaries, at beginning of year | 172 | — | — |
| Cash and cash equivalents at end of year (Note 16) | <u>¥ 49,672</u> | <u>¥ 50,848</u> | <u>\$ 453,231</u> |

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 the consolidated overseas subsidiaries for the year ended March 31, 2017 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, 2017, which was ¥12.19 to U.S. \$1.00. The translations should not be construed as representations that 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 109 significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in 12 affiliates are accounted for by the equity method.

The consolidated financial statements include the accounts of 17 consolidated subsidiaries with the fiscal year-ends of December 31. Appropriate adjustments were made for significant transactions during the period from December 31 to March 31, the date of the consolidated financial statements. In addition, the fiscal year-ends of Osmoflo Holdings Pty Ltd, Osmoflo Holdings Singapore Pte Ltd and their 10 subsidiaries are mainly June 30. In preparation of the consolidated financial statements for these companies, financial statements based on provisional settlements executed as of the consolidated closing date are used. The closing dates of the other consolidated subsidiaries are consistent with the closing date of the consolidated financial statements.

b) Cash Flow Statements

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

c) Translation of Foreign Currencies

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

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

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 calculated 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, the 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 values are recognized as gains and losses unless the derivative financial instruments are used for hedging purposes.

(1) Hedge accounting

The Companies defer recognition of gains and losses resulting from changes in the fair value of derivative financial instruments until the related losses and 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 contract 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' basic policies approved at the management strategy conferences and the group companies' administrative rules.

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 of leased assets, is calculated, with minor exceptions, by the declining balance method. However, buildings, excluding facilities attached to buildings, acquired since April 1, 1998 and facilities attached to buildings and structures acquired since April 1, 2016 are depreciated using the straight-line method.

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

Depreciation for leased assets is calculated by the straight-line method over the term of the lease to the residual value of zero.

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 Product Warranty

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

n) Reserve for Losses on Construction Contracts

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

o) Employees' Severance and Retirement Benefits

In calculating projected benefit obligation, the benefit formula basis is used as the 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.

p) 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.

q) 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 ¥6,526 million and ¥7,090 million (\$63,196 thousand) for the years ended March 31, 2016 and 2017, respectively.

r) 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.

s) Amounts Per Share

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

Diluted net income per share is not shown because there were no dilutive securities.

t) Changing Accounting Policies

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No.32, June 17, 2016) from the current fiscal year and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining balance method to the straight-line method.

The effect of this change on consolidated statement of income for the fiscal year ended March 31, 2017 was insignificant.

u) Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the current fiscal year.

v) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2016 to conform to the fiscal year ended March 31, 2017 presentation. These reclassifications had no effect on previously reported net profit 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, 2016 and 2017:

(1) Held-to-maturity debt securities:

At March 31, 2016

Securities with available fair values exceeding book values:

| | Millions of yen | | |
|--------|-----------------|------------|------------|
| | Book value | Fair value | Difference |
| Others | ¥ 23 | ¥ 24 | ¥ 1 |

At March 31, 2017

Securities with available fair values exceeding book values:

| | Millions of yen | | |
|--------|-----------------|------------|------------|
| | Book value | Fair value | Difference |
| Others | ¥ 24 | ¥ 24 | ¥ 0 |

Thousands of U.S. dollars

| | Thousands of U.S. dollars | | |
|--------|---------------------------|------------|------------|
| | Book value | Fair value | Difference |
| Others | \$ 214 | \$ 214 | \$ 0 |

(2) Available-for-sale securities:

At March 31, 2016

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

| | Millions of yen | | |
|-------------------|-----------------|------------------|------------|
| | Book value | Acquisition cost | Difference |
| Equity securities | ¥ 831 | ¥ 423 | ¥ 408 |
| Others | 603 | 534 | 69 |
| Total | ¥ 1,434 | ¥ 957 | ¥ 477 |

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

| | Millions of yen | | |
|-------------------|-----------------|------------------|------------|
| | Book value | Acquisition cost | Difference |
| Equity securities | ¥ 544 | ¥ 600 | ¥ (56) |
| Others | 9 | 10 | (1) |
| Total | ¥ 553 | ¥ 610 | ¥ (57) |

At March 31, 2017

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

| | Millions of yen | | |
|-------------------|-----------------|------------------|------------|
| | Book value | Acquisition cost | Difference |
| Equity securities | ¥ 1,144 | ¥ 879 | ¥ 265 |
| Others | 601 | 566 | 35 |
| Total | ¥ 1,745 | ¥ 1,445 | ¥ 300 |

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

| | Millions of yen | | |
|-------------------|-----------------|------------------|------------|
| | Book value | Acquisition cost | Difference |
| Equity securities | ¥ 7 | ¥ 17 | ¥ (10) |
| Others | 9 | 10 | (1) |
| Total | ¥ 16 | ¥ 27 | ¥ (11) |

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

| | Thousands of U.S. dollars | | |
|-------------------|---------------------------|------------------|------------|
| | Book value | Acquisition cost | Difference |
| Equity securities | \$ 10,197 | \$ 7,835 | \$ 2,362 |
| Others | 5,357 | 5,045 | 312 |
| Total | \$ 15,554 | \$ 12,880 | \$ 2,674 |

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

| | Thousands of U.S. dollars | | |
|-------------------|---------------------------|------------------|------------|
| | Book value | Acquisition cost | Difference |
| Equity securities | \$ 63 | \$ 152 | \$ (89) |
| Others | 80 | 89 | (9) |
| Total | \$ 143 | \$ 241 | \$ (98) |

Note. There was no available fair market price for non-listed equity securities, and it was considered extremely difficult to determine the fair value. As a result, these securities were not included in the table (2) Available-for-sale securities.

b) Sales of available-for-sale securities in the year ended March 31, 2016 and 2017 were as follows:

Year ended March 31, 2016

| | Millions of yen | | |
|-------------------|-----------------|----------------|-----------------|
| | Sales | Gains on sales | Losses on sales |
| Equity securities | ¥ 742 | ¥ 326 | ¥ — |
| Others | 19 | — | 2 |
| Total | <u>¥ 761</u> | <u>¥ 326</u> | <u>¥ 2</u> |

Year ended March 31, 2017

| | Millions of yen | | |
|-------------------|-----------------|----------------|-----------------|
| | Sales | Gains on sales | Losses on sales |
| Equity securities | ¥ 395 | ¥ 227 | ¥ — |
| Others | 541 | 32 | — |
| Total | <u>¥ 936</u> | <u>¥ 259</u> | <u>¥ —</u> |

| | Thousands of U.S. dollars | | |
|-------------------|---------------------------|-----------------|-----------------|
| | Sales | Gains on sales | Losses on sales |
| Equity securities | \$ 3,521 | \$ 2,024 | \$ — |
| Others | 4,822 | 285 | — |
| Total | <u>\$ 8,343</u> | <u>\$ 2,309</u> | <u>\$ —</u> |

4. Inventories

Inventories at March 31, 2016 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|-----------------|-----------------|---------------------------|
| | 2016 | 2017 | 2017 |
| Merchandise and finished goods | ¥ 2,152 | ¥ 1,845 | \$ 16,445 |
| Work in progress | 23,914 | 21,949 | 195,641 |
| Raw material and supplies | 4,912 | 4,856 | 43,284 |
| Total | <u>¥ 30,978</u> | <u>¥ 28,650</u> | <u>\$ 255,370</u> |

Inventories for construction contracts with 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, 2016 and 2017 were ¥1,458 million and ¥1,185 million (\$10,562 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 0.59 percent and 0.28 percent as of March 31, 2016 and 2017, respectively, were as follows:

| | Millions of yen | | Thousands of U.S dollars |
|-----------------------------|-----------------|----------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Secured (or partly secured) | ¥ 200 | ¥ 150 | \$ 1,337 |
| Unsecured | 5,950 | 30,041 | 267,769 |
| Total | ¥ 6,150 | ¥ 30,191 | \$ 269,106 |

As of March 31, 2016 and 2017, the Company had line-of-credit agreements for short-term borrowings with financial institutions totaling ¥20,000 million and ¥30,000 million (\$267,404 thousand), among which used amounts were ¥0 (unused) and ¥8,500 million (\$75,764 thousand), respectively.

Long-term debt at March 31, 2016 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S dollars |
|---|-----------------|----------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Borrowings from banks and other financial institutions at 0.48 percent to 4.28 percent, due through 2035: | | | |
| Secured (or partly secured) | ¥ 337 | ¥ 761 | \$ 6,783 |
| Unsecured | 87,575 | 66,483 | 592,593 |
| Straight bonds at 0.47 percent due 2017 | 10,000 | 10,000 | 89,135 |
| Others | 765 | 1,280 | 11,409 |
| Less current portion included in current liabilities | (22,506) | (24,925) | (222,168) |
| Total | ¥ 76,171 | ¥ 53,599 | \$ 477,752 |

The following assets were pledged as collateral mainly for secured long-term debt of ¥337 million at March 31, 2016 and ¥761 million (\$6,783 thousand) at March 31, 2017:

| | Millions of yen | | Thousands of U.S dollars |
|--|-----------------|---------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Prepaid expenses and other current assets | ¥ 6 | ¥ 6 | \$ 54 |
| Property, plant and equipment (at net book value) | 13,974 | 1,907 | 16,998 |
| Investments in nonconsolidated subsidiaries and affiliates | 25 | 25 | 223 |
| Investments in securities | 57 | 57 | 508 |
| Long-term loans receivable | 37 | 32 | 285 |
| Total | ¥ 14,099 | ¥ 2,027 | \$ 18,068 |

The aggregate annual maturities of long-term debt outstanding at March 31, 2017 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|------------------------------|
| 2019 | ¥ 24,579 | \$ 219,083 |
| 2020 | 20,278 | 180,747 |
| 2021 | 4,960 | 44,211 |
| 2022 | 2,045 | 18,228 |
| 2023 and thereafter | 1,737 | 15,483 |
| Total | ¥ 53,599 | \$ 477,752 |

6. Contingent Liabilities

Contingent liabilities at March 31, 2016 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-------|------------------------------|
| | 2016 | 2017 | 2017 |
| Notes receivable endorsed | ¥ 259 | ¥ 262 | \$ 2,335 |
| Guarantees of bank borrowings and other indebtedness | 135 | 134 | 1,195 |
| Total | ¥ 394 | ¥ 396 | \$ 3,530 |

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 ¥84 million and ¥67 million (\$597 thousand) lower than the revalued book amount at March 31, 2016 and 2017, respectively.

8. Net Assets

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

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

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

At the annual shareholders' meeting held on June 22, 2017, the shareholders approved cash dividends of ¥2,023 million (\$18,032 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2017. 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 ¥4,047 million and ¥1,909 million (\$17,016 thousand) for the years ended March 31, 2016 and 2017, respectively.

10. Impairment Loss

The assets on which the Companies recognized impairment loss in the year ended March 31, 2016 were as follows:

| Location | Use | Type of Assets | Millions of Yen |
|---|--|----------------|-----------------|
| Cumberland International L.L.C. and its subsidiaries (Dubai, U.A.E) | Engineering of seawater and brine electrolysis equipment | Goodwill | ¥ 1,786 |

At the time of the acquisition of Cumberland International L.L.C, Cumberland Electrochemical Ltd. and Cumberland Pte Ltd. ("Cumberland Group"), the Companies booked goodwill, which comprised mainly the prospective extra earning power. In the year ended March 31, 2016, the prospective extra earning power was lost due to the deterioration of Cumberland Group's forecast of income. As a result, the Companies reduced the book value of the goodwill to the recoverable amount and recognized impairment loss of ¥1,786 million. The recoverable amount was zero because the present values of the expected cash flows was lost.

11. Provision for Loss on Guarantees

The Company guaranteed certain affiliates' indebtedness. For the year ended March 31, 2016, the Companies recognized provision for loss on guarantees of ¥1,406 million due to weakness of its financial positions.

12. Loss on Overseas Business

For the year ended March 31, 2017, loss on overseas business was recognized in the amount of ¥2,961 million (\$26,393 thousand) mainly due to a request for payment on a performance bond and lawyer costs regarding the shield machine business in the United States.

13. Gain on Sale of Property

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

14. 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 |
|---|-----------------|---------|------------------------------|
| | 2016 | 2017 | 2017 |
| Net unrealized holding gains (losses) on securities | | | |
| Increase (decrease) during the year | ¥ (269) | ¥ 124 | \$ 1,105 |
| Reclassification adjustments | (97) | (251) | (2,237) |
| Subtotal before tax | (366) | (127) | (1,132) |
| Tax benefit (expenses) | 111 | 32 | 285 |
| Subtotal net of tax | (255) | (95) | (847) |
| Net unrealized holding gains (losses) on hedging derivatives | | | |
| Increase (decrease) during the year | ¥ 466 | ¥ (116) | \$ (1,034) |
| Reclassification adjustments | 476 | (386) | (3,440) |
| Subtotal before tax | 942 | (502) | (4,474) |
| Tax benefit (expenses) | (179) | 102 | 909 |
| Subtotal net of tax | 763 | (400) | (3,565) |
| Foreign currency translation adjustments | | | |
| Increase (decrease) during the year | ¥ (538) | ¥ (917) | \$ (8,174) |
| Remeasurements of defined benefit plans | | | |
| Increase (decrease) during the year | ¥ (1,132) | ¥ 1,634 | \$ 14,564 |
| Reclassification adjustments | 986 | 1,079 | 9,618 |
| Subtotal before tax | (146) | 2,713 | 24,182 |
| Tax benefit (expenses) | 85 | (580) | (5,170) |
| Subtotal net of tax | (61) | 2,133 | 19,012 |
| Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method | | | |
| Increase (decrease) during the year | ¥ (703) | ¥ (33) | \$ (294) |
| Total other comprehensive income | ¥ (794) | ¥ 688 | \$ 6,132 |

15. Treasury Stock

Treasury stock for the years ended March 31, 2016 and 2017 consisted of the following:

Year ended March 31, 2016

| Number of shares of common stock | Thousands |
|----------------------------------|-----------|
| At March 31, 2015 | 830 |
| Increase | 1,620 |
| Decrease | (800) |
| At March 31, 2016 | 1,650 |

Increase of 1,620 thousand shares was mainly due to purchase of the Company's treasury stock via Off-Auction Own Share Repurchase Trading (ToSTNeT-3) by the Tokyo Stock Exchange.

Decrease of 800 thousand shares was mainly due to allocation of the Company's treasury stock to the shareholders of OHNAMI CORPORATION at the time of share exchange.

Year ended March 31, 2017

| Number of shares of common stock | Thousands |
|----------------------------------|-----------|
| At March 31, 2016 | 1,650 |
| Increase | 10 |
| Decrease | (0) |
| At March 31, 2017 | 1,660 |

16. 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, 2016 and 2017 were reconciled as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2016 | 2017 | 2017 |
| Cash and time deposits in the balance sheets | ¥ 51,585 | ¥ 52,282 | \$ 466,013 |
| Time deposits with maturities over three months | (1,913) | (1,434) | (12,782) |
| Cash and cash equivalents in cash flow statements | ¥ 49,672 | ¥ 50,848 | \$ 453,231 |

b) Other

The assets and liabilities of newly consolidated Osmoflo Holdings Pty Ltd, Osmoflo Holdings Singapore Pte Ltd and their 10 subsidiaries as of March 31, 2017 and the reconciliation between the acquisition cost of shares and net cash outflow were as follows:

| | Millions of yen | Thousands of U.S dollars |
|--|--------------------|-----------------------------|
| | 2017 | 2017 |
| Current assets | ¥ 3,426 | \$ 30,537 |
| Fixed assets | 3,931 | 35,039 |
| Goodwill | 2,148 | 19,146 |
| Current liabilities | (1,855) | (16,534) |
| Noncurrent liabilities | (648) | (5,776) |
| Non-controlling interests | (1,791) | (15,964) |
| Acquisition cost | ¥ 5,211 | \$ 46,448 |
| Cash and cash equivalents of acquired companies | (1,386) | (12,354) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | ¥ 3,825 | \$ 34,094 |

17. Lease Information

a) Finance leases as lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions at March 31, 2016 and 2017 consisted of leases for production facilities for the Environmental systems and Industrial plants segment and Machinery segment (machinery, equipment and vehicles) and software. Depreciation was as described in Note 2(i), "Significant Accounting Policies - Depreciation and Amortization."

b) Operating leases as lessee

Future minimum payments for operating leases at March 31, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S dollars |
|------------------------------|-----------------|---------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Payments due within one year | ¥ 668 | ¥ 794 | \$ 7,077 |
| Payments due after one year | 1,825 | 1,914 | 17,061 |
| Total | ¥ 2,493 | ¥ 2,708 | \$ 24,138 |

c) Finance leases as lessor

Lease investment assets

Current assets as of March 31, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------|-----------------|------|------------------------------|
| | 2016 | 2017 | 2017 |
| Lease payments receivable | ¥ 19 | ¥ 63 | \$ 562 |
| Interest | (1) | (3) | (27) |
| Total | ¥ 18 | ¥ 60 | \$ 535 |

Lease investment assets receivable after March 31, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------|------------------------------|
| | 2016 | 2017 | 2017 |
| Within one year | ¥ 10 | ¥ 19 | \$ 170 |
| Over one year but within two years | 8 | 12 | 107 |
| Over two years but within three years | 1 | 12 | 107 |
| Over three years but within four years | 0 | 11 | 98 |
| Over four years but within five years | — | 9 | 80 |
| Over five years | — | 0 | 0 |

18. Financial Instruments

a) Articles concerning status of financial instruments

(1) Policies for financial instruments

The Companies raise necessary funds for capital investment plans, R&D plans and operation of particular projects 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 risk 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 risk. 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 risk, 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, R&D and operation of particular projects. The longest due date is 18 years after the fiscal year end. Some of the items are exposed to interest rate fluctuation risk.

Derivative transactions mainly consist of forward foreign exchange contracts and currency option contracts made for hedging currency fluctuation risk arising from foreign currency receivables and payables and interest rate swap contracts for hedging interest rate fluctuation risk 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

① Management of credit risk (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 research the credit standing of customers, monitors due dates and balances by customer at regular intervals through the each sales and business administration divisions of each department and recognizes 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 risk.

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

② Management of market risk (risk 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 risk 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 risk arising from long-term borrowings.

As to securities and investment securities, the Companies monitor the 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 the 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.

③ Management of liquidity risk of raising funds (risk of default)

The financial department of the Company makes and updates finance plans based on finance reports from each department. The consolidated subsidiaries manage liquidity risk 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 19, "Derivative Transactions," do not show the market risk 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 years ended March 31, 2016 and 2017 are set forth in the tables below. Financial instruments for which the fair value was considered to be extremely difficult to determine were not included in the tables below.

At March 31, 2016:

| | Millions of yen | | |
|---|-----------------|-------------|------------|
| | Book value | Fair value | Difference |
| (1) Cash and time deposits | ¥ 51,585 | ¥ 51,585 | ¥ — |
| (2) Trade notes and accounts | 139,277 | | |
| Allowance for doubtful receivables *1 | (878) | | |
| | 138,399 | 138,504 | 105 |
| (3) Securities and investment securities | 4,697 | 2,997 | (1,700) |
| (4) Long-term loans receivable | 37 | 35 | (2) |
| Total assets | ¥ 194,718 | ¥ 193,121 | ¥ (1,597) |
| (1) Notes and accounts payable | (62,549) | (62,549) | — |
| (2) Short-term borrowings | (6,150) | (6,150) | — |
| (3) Current portion of long-term debt | (22,506) | (22,558) | (52) |
| (4) Accrued expenses | (51,960) | (51,960) | — |
| (5) Accrued income taxes | (2,849) | (2,849) | — |
| (6) Long-term debt, less current portion | (75,406) | (75,739) | (333) |
| Total liabilities | ¥ (221,420) | ¥ (221,805) | ¥ (385) |
| Derivative transactions *2 | | | |
| Derivative transactions for which hedge accounting has not been applied | 378 | 378 | — |
| Derivative transactions for which hedge accounting has been applied | 378 | 378 | — |
| Total derivative transactions | ¥ 756 | ¥ 756 | ¥ — |

*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.

At March 31, 2017:

| | Millions of yen | | |
|---|-----------------|-------------|------------|
| | Book value | Fair value | Difference |
| (1) Cash and time deposits | ¥ 52,282 | ¥ 52,282 | ¥ — |
| (2) Trade notes and accounts | 134,188 | | |
| Allowance for doubtful receivables *1 | (1,072) | | |
| | 133,116 | 133,211 | 95 |
| (3) Securities and investment securities | 4,583 | 3,143 | (1,440) |
| (4) Long-term loans receivable | 33 | 31 | (2) |
| Total assets | ¥ 190,014 | ¥ 188,667 | ¥ (1,347) |
| (1) Notes and accounts payable | (61,437) | (61,437) | — |
| (2) Short-term borrowings | (30,191) | (30,191) | — |
| (3) Current portion of long-term debt | (24,925) | (25,008) | (83) |
| (4) Accrued expenses | (49,150) | (49,150) | — |
| (5) Accrued income taxes | (2,527) | (2,527) | — |
| (6) Long-term debt, less current portion | (52,319) | (52,820) | (501) |
| Total liabilities | ¥ (220,549) | ¥ (221,133) | ¥ (584) |
| Derivative transactions *2 | | | |
| Derivative transactions for which hedge accounting has not been applied | 163 | 163 | — |
| Derivative transactions for which hedge accounting has been applied | (124) | (124) | — |
| Total derivative transactions | ¥ 39 | ¥ 39 | ¥ — |

*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 | \$ 466,013 | \$ 466,013 | \$ — |
| (2) Trade notes and accounts | 1,196,078 | | |
| Allowance for doubtful receivables *1 | (9,555) | | |
| | 1,186,523 | 1,187,370 | 847 |
| (3) Securities and investment securities | 40,851 | 28,016 | (12,835) |
| (4) Long-term loans receivable | 294 | 276 | (18) |
| Total assets | \$ 1,693,681 | \$ 1,681,675 | \$ (12,006) |
| (1) Notes and accounts payable | (547,616) | (547,616) | — |
| (2) Short-term borrowings | (269,106) | (269,106) | — |
| (3) Current portion of long-term debt | (222,168) | (222,908) | (740) |
| (4) Accrued expenses | (438,096) | (438,096) | — |
| (5) Accrued income taxes | (22,524) | (22,524) | — |
| (6) Long-term debt, less current portion | (466,343) | (470,808) | (4,465) |
| Total liabilities | \$ (1,965,853) | \$ (1,971,058) | \$ (5,205) |
| Derivative transactions *2 | | | |
| Derivative transactions for which hedge accounting has not been applied | 1,453 | 1,453 | — |
| Derivative transactions for which hedge accounting has been applied | (1,105) | (1,105) | — |
| Total derivative transactions | \$ 348 | \$ 348 | \$ — |

*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 price on the stock exchange for equity instruments and on the prices obtained from financial institutions for certain debt instruments. Securities classified by intent for which they were held were summarized in the table in Note 3, "Securities."

(4) Long-term loans receivable

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

Liabilities

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

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

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

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

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 19, "Derivative Transactions."

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

| | Millions of yen | | Thousands of U.S dollars |
|--|-----------------|----------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Stock of nonconsolidated subsidiaries and affiliates | ¥ 5,762 | ¥ 6,379 | \$ 56,859 |
| Non-listed equity securities, etc. | 13,676 | 13,679 | 121,927 |
| Total | ¥ 19,438 | ¥ 20,058 | \$ 178,786 |

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, 2016:

| | 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 | ¥ 51,585 | ¥ — | ¥ — | ¥ — |
| Trade notes and accounts | 136,196 | 499 | 537 | 1,167 |
| Securities and investment securities | | | | |
| Held-to-maturity debt securities | | | | |
| (1) Others | — | 24 | — | — |
| Available-for-sale securities with maturities | | | | |
| (1) Others | 10 | 39 | — | — |
| Long-term loans receivable | — | 21 | 9 | 7 |
| Total | <u>¥ 187,791</u> | <u>¥ 583</u> | <u>¥ 546</u> | <u>¥ 1,174</u> |

At March 31, 2017:

| | 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 | ¥ 52,282 | ¥ — | ¥ — | ¥ — |
| Trade notes and accounts | 131,114 | 553 | 571 | 878 |
| Securities and investment securities | | | | |
| Held-to-maturity debt securities | | | | |
| (1) Others | — | 24 | — | — |
| Available-for-sale securities with maturities | | | | |
| (1) Others | — | 44 | 541 | — |
| Long-term loans receivable | — | 19 | 9 | 5 |
| Total | <u>¥ 183,396</u> | <u>¥ 640</u> | <u>¥ 1,121</u> | <u>¥ 883</u> |

| | 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 | \$ 466,013 | \$ — | \$ — | \$ — |
| Trade notes and accounts | 1,168,678 | 4,929 | 5,090 | 7,826 |
| Securities and investment securities | | | | |
| Held-to-maturity debt securities | | | | |
| (1) Others | — | 214 | — | — |
| Available-for-sale securities with maturities | | | | |
| (1) Others | — | 393 | 4,822 | — |
| Long-term loans receivable | — | 169 | 80 | 45 |
| Total | <u>\$ 1,634,691</u> | <u>\$ 5,705</u> | <u>\$ 9,992</u> | <u>\$ 7,871</u> |

Note 4. The expected redemption amounts of short-term borrowings and long-term debt after the consolidated fiscal year-end were as follows:

At March 31, 2016:

| | 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 | ¥ 6,150 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term debt | 22,506 | 24,722 | 23,900 | 19,936 | 4,704 | 2,144 |
| Others | 307 | 224 | 156 | 134 | 87 | 164 |
| Total | <u>¥ 28,963</u> | <u>¥ 24,946</u> | <u>¥ 24,056</u> | <u>¥ 20,070</u> | <u>¥ 4,791</u> | <u>¥ 2,308</u> |

At March 31, 2017:

| | 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 | ¥ 30,191 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term debt | 24,925 | 24,041 | 20,009 | 4,764 | 1,922 | 1,583 |
| Others | 452 | 538 | 269 | 196 | 123 | 154 |
| Total | <u>¥ 55,568</u> | <u>¥ 24,579</u> | <u>¥ 20,278</u> | <u>¥ 4,960</u> | <u>¥ 2,045</u> | <u>¥ 1,737</u> |

| | 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 | \$ 269,106 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Long-term debt | 222,168 | 214,288 | 178,349 | 42,464 | 17,132 | 14,110 |
| Others | 4,029 | 4,795 | 2,398 | 1,747 | 1,096 | 1,373 |
| Total | <u>\$ 495,303</u> | <u>\$ 219,083</u> | <u>\$ 180,747</u> | <u>\$ 44,211</u> | <u>\$ 18,228</u> | <u>\$ 15,483</u> |

19. Derivative Transactions

The Companies enter into forward foreign exchange contracts, currency swaps and interest rate swap contracts. Forward foreign exchange contracts and currency swaps 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 fair value information as of March 31, 2016 and 2017 for derivative transactions for which hedge accounting had not been applied.

a) Currency related derivatives

At March 31, 2016:

| | Millions of yen | | | |
|-------------------------------------|-----------------|---------------|------------|------------------------|
| | Notional amount | Over one year | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | ¥ 6,233 | ¥ — | ¥ 461 | ¥ 461 |
| Euro | 420 | — | (9) | (9) |
| Swedish krona | 45 | — | (0) | (0) |
| Purchase | | | | |
| U.S. dollars | 842 | — | (48) | (48) |
| Euro | 382 | — | (21) | (21) |
| Swiss franc | 105 | — | (5) | (5) |
| Total | ¥ 8,027 | ¥ — | ¥ 378 | ¥ 378 |

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

At March 31, 2017:

| | Millions of yen | | | |
|---|-----------------|---------------|--------------|------------------------|
| | Notional amount | Over one year | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | ¥ 3,433 | ¥ 542 | ¥ 161 | ¥ 161 |
| Euro | 575 | — | 4 | 4 |
| Swedish krona | 146 | — | 0 | 0 |
| Purchase | | | | |
| U.S. dollars | 95 | — | 1 | 1 |
| Euro | 21 | — | 0 | 0 |
| Swiss franc | 50 | — | (1) | (1) |
| Currency swaps: | | | | |
| Receive in U.S. dollars, pay in swiss franc | 110 | — | 2 | 2 |
| Receive in euro, pay in GBP | 655 | — | (7) | (7) |
| Receive in euro, pay in swiss franc | 2,252 | — | (0) | (0) |
| Receive in GBP, pay in swiss franc | 697 | — | 3 | 3 |
| Receive in swedish krona, pay in swiss franc | 75 | — | 0 | 0 |
| Total | <u>¥ 8,109</u> | <u>¥ 542</u> | <u>¥ 163</u> | <u>¥ 163</u> |

Note. The fair value of forward foreign exchange contracts is calculated using the forward exchange rate. And the fair value of currency swaps is calculated using the price offered by transacting financial institutions.

| | Thousands of U.S. dollars | | | |
|---|---------------------------|-----------------|-----------------|------------------------|
| | Notional amount | Over one year | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | \$ 30,600 | \$ 4,831 | \$ 1,435 | \$ 1,435 |
| Euro | 5,125 | — | 35 | 35 |
| Swedish krona | 1,301 | — | 0 | 0 |
| Purchase | | | | |
| U.S. dollars | 847 | — | 9 | 9 |
| Euro | 187 | — | 0 | 0 |
| Swiss franc | 446 | — | (9) | (9) |
| Currency swaps: | | | | |
| Receive in U.S. dollars, pay in swiss franc | 980 | — | 18 | 18 |
| Receive in euro, pay in GBP | 5,838 | — | (62) | (62) |
| Receive in euro, pay in swiss franc | 20,073 | — | (0) | (0) |
| Receive in GBP, pay in swiss franc | 6,213 | — | 27 | 27 |
| Receive in swedish krona, pay in swiss franc | 669 | — | 0 | 0 |
| Total | <u>\$ 72,279</u> | <u>\$ 4,831</u> | <u>\$ 1,453</u> | <u>\$ 1,453</u> |

Note. The fair value of forward foreign exchange contracts is calculated using the forward exchange rate. And the fair value of currency swaps is calculated using the price offered by transacting financial institutions.

The following tables summarize fair value information as of March 31, 2016 and 2017 for derivative transactions for which hedge accounting had been applied.

a) Currency related derivatives

At March 31, 2016:

| | | Millions of yen | | |
|-------------------------------------|-----------------------------|-----------------|---------------|------------|
| Hedged items | | Notional amount | Over one year | Fair value |
| Basic treatment: | | | | |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S dollars | Trade receivable | ¥ 6,322 | ¥ 3,886 | ¥ 443 |
| Euro | Trade receivable | 278 | — | (6) |
| GBP | Trade receivable and others | 4,005 | — | 243 |
| Thai baht | Trade receivable | 44 | — | 1 |
| CNY | Trade receivable | 6 | — | (0) |
| Purchase | | | | |
| U.S dollars | Trade payable | 536 | — | 20 |
| Euro | Trade payable | 5,448 | 778 | (326) |
| Swiss franc | Trade payable | 89 | 75 | 3 |
| CNY | Trade payable | 45 | — | (0) |
| Alternative treatment *2: | | | | |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S dollars | Trade receivable | 88 | — | — |
| GBP | Trade receivable | 36 | — | — |
| Thai baht | Trade receivable | 98 | — | — |
| Purchase | | | | |
| U.S dollars | Trade payable | 57 | — | — |
| Euro | Trade payable | 6 | — | — |
| Total | | ¥ 17,058 | ¥ 4,739 | ¥ 378 |

*1 The fair value of forward foreign exchange contracts is calculated based on the price 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 risk, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payable as hedged items.

At March 31, 2017:

| | | Millions of yen | | |
|-------------------------------------|------------------------|--------------------|---------------|------------|
| Hedged items | | Notional amount | Over one year | Fair value |
| Basic treatment: | | | | |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | Trade receivable | ¥ 2,000 | ¥ 1,693 | ¥ (194) |
| Euro | Trade receivable | 3,818 | 3,030 | 37 |
| GBP | Trade receivable | 817 | — | 103 |
| Thai baht | Trade receivable | 11 | — | (1) |
| Purchase | | | | |
| U.S. dollars | Trade payable | 367 | 64 | (3) |
| Euro | Trade payable | 824 | — | (54) |
| Swiss franc | Other accounts payable | 25 | 25 | 1 |
| Swedish krona | Trade payable | 1,261 | 473 | (8) |
| Singapore dollars | Trade payable | 365 | — | (5) |
| Alternative treatment *2: | | | | |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | Trade receivable | 349 | — | — |
| Euro | Trade receivable | 6 | — | — |
| Thai baht | Trade receivable | 107 | — | — |
| Total | | ¥ 9,950 | ¥ 5,285 | ¥ (124) |

*1 The fair value of forward foreign exchange contracts is calculated based on the price 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 risk, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payables as hedged items.

| | | Thousands of U.S. dollars | | |
|-------------------------------------|------------------------|---------------------------|---------------|------------|
| Hedged items | | Notional amount | Over one year | Fair value |
| Basic treatment: | | | | |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | Trade receivable | \$ 17,827 | \$ 15,091 | \$ (1,729) |
| Euro | Trade receivable | 34,032 | 27,008 | 330 |
| GBP | Trade receivable | 7,282 | — | 918 |
| Thai baht | Trade receivable | 98 | — | (9) |
| Purchase | | | | |
| U.S. dollars | Trade payable | 3,271 | 570 | (27) |
| Euro | Trade payable | 7,345 | — | (481) |
| Swiss franc | Other accounts payable | 223 | 223 | 9 |
| Swedish krona | Trade payable | 11,240 | 4,216 | (71) |
| Singapore dollars | Trade payable | 3,253 | — | (45) |
| Alternative treatment *2: | | | | |
| Forward foreign exchange contracts: | | | | |
| Type of contracts: | | | | |
| Sell | | | | |
| U.S. dollars | Trade receivable | 3,111 | — | — |
| Euro | Trade receivable | 53 | — | — |
| Thai baht | Trade receivable | 954 | — | — |
| Total | | \$ 88,689 | \$ 47,108 | \$ (1,105) |

*1 The fair value of forward foreign exchange contracts is calculated based on the price 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 risk, 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, 2016:

| Exceptional treatment: | Hedged items | Millions of yen | | |
|--|----------------------|-----------------|---------------|------------|
| | | Notional amount | Over one year | Fair value |
| Interest rate swap contracts: | | | | |
| Receive float, pay fixed | Long-term borrowings | ¥ 27,900 | ¥ 19,190 | ¥ — |
| Interest rate and currency swap contracts: | | | | |
| Receive float, pay fixed | Long-term borrowings | 500 | 500 | — |
| Receive in U.S. dollars, pay in JPY | | | | |

Note. As interest rate swap contracts subject to exceptional treatment for interest rate swap contracts and interest rate 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 fair value is included in that of the long-term debt.

At March 31, 2017:

| Exceptional treatment: | Hedged items | Millions of yen | | |
|--|----------------------|---------------------------|---------------|------------|
| | | Notional amount | Over one year | Fair value |
| Interest rate swap contracts: | | | | |
| Receive float, pay fixed | Long-term borrowings | ¥ 19,190 | ¥ 17,150 | ¥ — |
| Interest rate and currency swap contracts: | | | | |
| Receive float, pay fixed | Long-term borrowings | 500 | 500 | — |
| Receive in U.S. dollars, pay in JPY | | | | |
| | | Thousands of U.S. dollars | | |
| Exceptional treatment: | | | | |
| Interest rate swap contracts: | | | | |
| Receive float, pay fixed | Long-term borrowings | \$ 171,049 | \$ 152,866 | \$ — |
| Interest rate and currency swap contracts: | | | | |
| Receive float, pay fixed | Long-term borrowings | 4,457 | 4,457 | — |
| Receive in U.S. dollars, pay in JPY | | | | |

Note. As interest rate swap contracts subject to exceptional treatment for interest rate swap contracts and interest rate 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 fair value is included in that of the long-term debt.

20. 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 components of defined benefit plans for the year ended March 31, 2016 and 2017 were as follows:

(a) Movements in projected benefit obligations for the years ended March 31, 2016 and 2017.

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|----------|------------------------------|
| | 2016 | 2017 | 2017 |
| Balance at April 1, 2015 and 2016 | ¥ 42,673 | ¥ 44,067 | \$ 392,789 |
| Service cost | 2,091 | 1,447 | 12,898 |
| Interest cost | 307 | 139 | 1,239 |
| Actuarial differences | 1,963 | (335) | (2,986) |
| Benefits paid | (1,036) | (1,809) | (16,124) |
| Past service cost | (107) | — | — |
| Other | (1,824) | (96) | (856) |
| Balance at March 31, 2016 and 2017 | ¥ 44,067 | ¥ 43,413 | \$ 386,960 |

Note. Some consolidated subsidiaries have adopted the alternative treatment.

(b) Movements in fair value of pension assets for the year ended March 31, 2016 and 2017.

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2016 | 2017 | 2017 |
| Balance at April 1, 2015 and 2016 | ¥ 27,725 | ¥ 27,126 | \$ 241,786 |
| Expected return on pension assets | 189 | 90 | 802 |
| Actuarial differences | 61 | 1,146 | 10,215 |
| Contributions paid by the employer etc. | 1,357 | 1,050 | 9,359 |
| Benefits paid | (61) | (863) | (7,692) |
| Other | (2,145) | (953) | (8,494) |
| Balance at March 31, 2016 and 2017 | ¥ 27,126 | ¥ 27,596 | \$ 245,976 |

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 |
|--|-----------------|----------|------------------------------|
| | 2016 | 2017 | 2017 |
| Funded projected benefit obligations | ¥ 28,201 | ¥ 26,310 | \$ 234,513 |
| Fair value of pension assets | (27,126) | (27,596) | (245,976) |
| | 1,075 | (1,286) | (11,463) |
| Unfunded projected benefit obligations | 15,866 | 17,103 | 152,447 |
| Total net liability (asset) for projected benefits at March 31, 2016 and 2017 | ¥ 16,941 | ¥ 15,817 | \$ 140,984 |
| Net defined benefit liability | ¥ 17,700 | ¥ 17,168 | \$ 153,026 |
| Net defined benefit asset | (759) | (1,351) | (12,042) |
| Total net liability (asset) for projected benefits at March 31, 2016 and 2017 | ¥ 16,941 | ¥ 15,817 | \$ 140,984 |

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, 2016 and 2017.

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2016 | 2017 | 2017 |
| Service cost | ¥ 2,091 | ¥ 1,447 | \$ 12,898 |
| Interest cost | 307 | 139 | 1,239 |
| Expected return on pension assets | (189) | (90) | (802) |
| Amortization of actuarial differences | 985 | 1,101 | 9,813 |
| Amortization of past service cost | 0 | (23) | (205) |
| Severance and retirement benefit expenses based on the alternative treatment | 259 | 278 | 2,478 |
| Others | 0 | 14 | 125 |
| Severance and retirement benefit expenses | ¥ 3,453 | ¥ 2,866 | \$ 25,546 |

(e) Remeasurements of defined benefit plans (before tax) for the years ended March 31, 2016 and 2017.

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------|-----------------|---------|------------------------------|
| | 2016 | 2017 | 2017 |
| Past service cost | ¥ 107 | ¥ (23) | \$ (205) |
| Actuarial differences | (669) | 2,793 | 24,895 |
| Other | (92) | (57) | (508) |
| Total | ¥ (654) | ¥ 2,713 | \$ 24,182 |

(f) Remeasurements of defined benefit plans (before tax) at the years ended March 31, 2016 and 2017.

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|-----------|------------------------------|
| | 2016 | 2017 | 2017 |
| Unrecognized past service cost | ¥ 158 | ¥ 135 | \$ 1,203 |
| Unrecognized actuarial differences | (6,099) | (3,306) | (29,468) |
| Other | 1,438 | 1,381 | 12,310 |
| Total | ¥ (4,503) | ¥ (1,790) | \$ (15,955) |

(g) Pension assets

(1) Pension assets comprise:

| | 2016 | 2017 |
|-------------------|-------|-------|
| Stocks | 26 % | 29 % |
| Bonds | 33 % | 26 % |
| Cash and deposits | 1 % | 2 % |
| Real estate | 35 % | 38 % |
| Other | 5 % | 5 % |
| Total | 100 % | 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.

(h) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2017 (expressed as weighted averages) were as follows:

| | 2016 | 2017 |
|-------------------------------------|--------|--------|
| Discount rate | 0.36 % | 0.51 % |
| Long-term expected rate of return | 0.37 % | 0.56 % |
| Expected rate of increase in salary | 2.00 % | 2.07 % |

(i) Contributions to the defined contributions pension plan

For the years ended March 31, 2016 and 2017, the Companies made contributions to the defined contributions pension plan in the amount of ¥1,198 million and ¥1,313 million (\$11,703 thousand), respectively.

21. Income Taxes

The Companies are subject to a number of income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 33.0% and 30.8% for the years ended March 31, 2016 and 2017, respectively.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2016 and 2017 were as follows:

| | 2016 | 2017 |
|--|---------|---------|
| Statutory tax rate | 33.0 % | 30.8 % |
| Nondeductible expenses | 2.9 % | 2.1 % |
| Nontaxable dividend income | (6.5) % | (6.4) % |
| Fluctuation in deferred tax assets valuation allowance account | (1.6) % | (1.9) % |
| Elimination of dividend income | 6.2 % | 7.0 % |
| Effect of tax credit | (6.3) % | (4.9) % |
| Other | (3.7) % | 7.7 % |
| Effective tax rate | 24.0 % | 34.4 % |

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of |
|--|-----------------|----------|--------------|
| | 2016 | 2017 | U.S. dollars |
| Deferred tax assets: | | | 2017 |
| Impairment loss | ¥ 5,981 | ¥ 5,152 | \$ 45,922 |
| Employees' retirement benefits | 4,849 | 5,118 | 45,619 |
| Allowance for doubtful receivables | 1,217 | 1,328 | 11,837 |
| Tax loss carryforwards | 893 | 1,676 | 14,939 |
| Research and development expenses | 554 | 526 | 4,689 |
| Loss on devaluation of securities | 505 | 372 | 3,316 |
| Other reserves | 4,440 | 3,757 | 33,488 |
| Other | 4,461 | 4,548 | 40,538 |
| Total deferred tax assets | 22,900 | 22,477 | 200,348 |
| Valuation allowance | (10,748) | (10,623) | (94,688) |
| Deferred tax assets, net | 12,152 | 11,854 | 105,660 |
| Deferred tax liabilities: | | | |
| Land valuation difference | (1,321) | (1,321) | (11,775) |
| Investment securities | (701) | (701) | (6,248) |
| Reserve for compressed entry | (478) | (465) | (4,145) |
| Intangible assets | (448) | (346) | (3,084) |
| Reserve for replacement of property | (87) | (85) | (758) |
| Net unrealized holding gains on securities | (139) | (84) | (749) |
| Other | (810) | (793) | (7,068) |
| Total deferred tax liabilities | (3,984) | (3,795) | (33,827) |
| Net deferred tax assets | ¥ 8,168 | ¥ 8,059 | \$ 71,833 |

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

| | Millions of yen | | Thousands of |
|---|-----------------|---------|--------------|
| | 2016 | 2017 | U.S. dollars |
| Current assets | ¥ 5,873 | ¥ 6,095 | \$ 54,328 |
| Investments and other noncurrent assets | 3,095 | 2,905 | 25,894 |
| Current liabilities | (10) | (23) | (206) |
| Long-term liabilities | (790) | (918) | (8,183) |
| Net deferred tax assets | ¥ 8,168 | ¥ 8,059 | \$ 71,833 |

22. Business Combinations

Making Hitachi Zosen Fukui Corporation a wholly owned subsidiary

The Company acquired the ordinary shares of Hitachi Zosen Fukui Corporation (the “Target Company”) through a tender offer (the “Tender Offer”) pursuant to the Financial Instrument and Exchange Act from November 7, 2016 to December 19, 2016.

As a result, the Company became a special controlling shareholder of the Target Company at December 27, 2016.

On the same day, the Company executed the demand that all shareholders of the Target Company, excluding the Target Company and the Company, (“Demand for Sale Shareholders”) sell all of their Target Company’s shares in accordance with the provisions of Article 179, Paragraph 1 of the Companies Act. Through the approval of the Target Company’s Board of director’s meeting, the Company made the Target Company a wholly owned subsidiary at February 2, 2017.

We call the Tender Offer and Demand for Sale Shareholders the “Transactions.”

a) Overview

(1) Purpose

By the Company making the Target Company its wholly-owned subsidiary and securing mutual collaboration with fully utilizing the Target Company’s business characteristics, operations and structures, the Company will strengthen its manufacturing business, which is the origin of the Companies and the overseas business, such as strengthening the power to handle customer’s needs and enhancing productivity through the optimal product mix and strengthening the overseas solution business.

(2) Legal method

Acquisition of shares for cash consideration by the Company

b) Accounting method

The Company applied the following accounting treatments stipulated by “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013) and accounted for the business combination as a transaction with non-controlling shareholders under common control.

c) Acquisition cost of share exchange

| | Millions of yen | Thousands of U.S. dollars |
|-------|-----------------|------------------------------|
| Cash | ¥ 9,535 | \$ 84,990 |
| Total | ¥ 9,535 | \$ 84,990 |

d) Contents of the Transactions

(1) Purchase price

¥2,125 (\$19) per share ordinary share

(2) Basis of calculation

The Company requested Mitsubishi UFJ Morgan Stanley Securities and the Target Company requested Nomura Securities, acting in the capacity of a third-party valuation institutions independent from both the Company and the Target Company.

The Company finally determined the Purchase Price to be ¥2,125 (\$19) per share, considering the results of the discussions and negotiations with the Target Company based on the statement and analysis results in the Share Valuation Report obtained from the third-party valuation institutions, premium rates offered

by tender offerors other than issuers in the past tender offer cases (the tender offer cases assuming that tender offerors intends to make target companies a wholly-owned subsidiaries) conducted in the past year, the price performance trend of the Target Company's shares and the prospects of the Tender Offer, among other things.

(3) Number of shares and ratio of voting rights to be obtained by the Transactions

| | | |
|------------------------------------|------------------|---------|
| Before the Transactions | 5,362,400 shares | 54.44% |
| To be obtained by the Transactions | 4,487,202 shares | 45.56% |
| After the Transactions | 9,849,602 shares | 100.00% |

e) Change in equity related to transactions with non-controlling shareholders

Decrease in capital surplus by transactions with non-controlling shareholders is ¥3,356 million (\$29,914 thousand).

Acquisition of Osmoflo Group

The Company has acquired Osmoflo Holdings Pty Ltd and Osmoflo Holdings Singapore Pte Ltd ("Osmoflo Group") during the fiscal year ended March 31, 2017.

a) Overview

| | |
|---------------------------------|--|
| Name of acquired company | Osmoflo Holdings Pty Ltd Osmoflo Holdings Singapore Pte Ltd and their 10 subsidiaries |
| Business of acquired company | Design, manufacture, supply operation and maintenance of desalination and wastewater system and equipment, etc. |
| Purpose | The acquisition will enable integration of Osmoflo's technology, especially reverse osmosis, with the Company's plant engineering technology and experience in the multistage flash method. The Company believes this will further enhance the combined opportunities in the desalination and industrial water treatment business in overseas markets including the Middle East. The Company views this opportunity with Osmoflo as a key component of the Companies target of promoting operations at overseas bases, outlined in the new medium-term management plan Hitz Vision II, and will seek to maximize synergy with Osmoflo in the hope that it will substantially contribute to sustainable growth for the Companies. |
| Acquisition date | February 14, 2017 |
| Legal form of acquisition | Acquisition of shares for cash consideration by the Company |
| Ratio of voting rights acquired | 70% |

b) Period for which the acquired company's results are included in the consolidated financial results
 Acquisition date is February 14, 2017, but the assumed consolidation date is March 31, 2017. Therefore, the acquired company's results are not included in the consolidated financial results.

c) Acquisition costs

| | Millions of yen | Thousands of U.S. dollars |
|-------|-----------------|------------------------------|
| Cash | ¥ 5,211 | \$ 46,448 |
| Total | ¥ 5,211 | \$ 46,448 |

d) Main acquisition related costs

| | Millions of yen | Thousands of U.S. dollars |
|---------------------|-----------------|------------------------------|
| Advisory fees, etc. | ¥ 252 | \$ 2,246 |
| Total | ¥ 252 | \$ 2,246 |

e) Goodwill

Goodwill in the amount of ¥2,148 million (\$19,146 thousand) comprises mainly the excess earning power expected in the future from the business expansion in the desalination and industrial water treatment business. The goodwill will be amortized over ten years.

f) Assets and liabilities acquired on the day of the business combination were as follows:

| Assets | | Millions of yen | Thousands of U.S. dollars |
|----------------|--|-----------------|------------------------------|
| Current assets | | ¥ 3,426 | \$ 30,537 |
| Fixed assets | | 3,931 | 35,039 |
| Total | | ¥ 7,357 | \$ 65,576 |

Liabilities

| | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|------------------------------|
| Current liabilities | ¥ 1,855 | \$ 16,534 |
| Long-term liabilities | 648 | 5,776 |
| Total | ¥ 2,503 | \$ 22,310 |

g) Purchase price allocation

The Company used a provisional accounting treatment based on rational information available at the end of this fiscal year because the purchase price allocation had not been finished at this time.

23. 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, 2016 and 2017:

| | Millions of yen | | Thousands of U.S.dollars |
|---|-----------------|---------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Balance at the beginning of the fiscal year | ¥ 918 | ¥ 967 | \$ 8,619 |
| Increase in purchase of property, plant and equipment | 39 | 65 | 580 |
| Adjustment with passing of time | 10 | 9 | 80 |
| Balance at the end of the fiscal year | ¥ 967 | ¥ 1,041 | \$ 9,279 |

24. 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, 2016 and 2017, rental income was ¥513 million and ¥295 million (\$2,629 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 |
|---|-----------------|----------|-----------------------------|
| | 2016 | 2017 | 2017 |
| Book value | | | |
| Balance at the beginning of the fiscal year | ¥ 23,062 | ¥ 17,472 | \$ 155,736 |
| Decrease for this fiscal year, net | (5,590) | (3,388) | (30,199) |
| Balance at the end of the fiscal year | ¥ 17,472 | ¥ 14,084 | \$ 125,537 |
| Fair value | | | |
| at the end of the fiscal year | ¥ 16,052 | ¥ 10,576 | \$ 94,269 |

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

For the fiscal year ended March 31, 2016 and 2017, net decrease of ¥5,590 million and ¥3,388 million (\$30,199 thousand) was due mainly to sale of rental land in the amount of ¥5,383 million and ¥3,612 million (\$32,195 thousand), respectively.

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.

25. 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 four 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, boilers, SCR systems, process equipment, nuclear equipment, plastic machinery, food filling and packaging systems and material business.

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

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

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

There were no significant changes in the accounting methods used 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 | | | | | | |
|--|---|-----------|-----------------|------------------|-----------|----------------------------|--------------|
| | 2016 | | | | | | |
| | Environmental systems and industrial plants | Machinery | Infra-structure | Other businesses | Total | Eliminations and corporate | Consolidated |
| Net sales | | | | | | | |
| Outside customers | ¥ 241,629 | ¥ 104,482 | ¥ 30,835 | ¥ 10,098 | ¥ 387,044 | ¥ — | ¥ 387,044 |
| Intersegment | 372 | 3,548 | 519 | 2,919 | 7,358 | (7,358) | — |
| Total | 242,001 | 108,030 | 31,354 | 13,017 | 394,402 | (7,358) | 387,044 |
| Segment income (loss) | ¥ 14,819 | ¥ (864) | ¥ 433 | ¥ 753 | ¥ 15,141 | ¥ (28) | ¥ 15,113 |
| Segment assets | ¥ 136,768 | ¥ 119,353 | ¥ 47,852 | ¥ 56,597 | ¥ 360,570 | ¥ 41,079 | ¥ 401,649 |
| Others | | | | | | | |
| Depreciation | ¥ 3,379 | ¥ 3,029 | ¥ 763 | ¥ 1,258 | ¥ 8,429 | ¥ — | ¥ 8,429 |
| Increase in assets and intangible assets | ¥ 3,322 | ¥ 2,985 | ¥ 1,048 | ¥ 1,665 | ¥ 9,020 | ¥ — | ¥ 9,020 |

| Millions of yen | | | | | | | |
|--|---|-----------|-----------------|------------------|-----------|----------------------------|--------------|
| 2017 | | | | | | | |
| | Environmental systems and industrial plants | Machinery | Infra-structure | Other businesses | Total | Eliminations and corporate | Consolidated |
| Net sales | | | | | | | |
| Outside customers | ¥ 254,612 | ¥ 103,722 | ¥ 29,236 | ¥ 11,761 | ¥ 399,331 | ¥ — | ¥ 399,331 |
| Intersegment | 293 | 3,935 | 251 | 2,014 | 6,493 | (6,493) | — |
| Total | 254,905 | 107,657 | 29,487 | 13,775 | 405,824 | (6,493) | 399,331 |
| Segment income (loss) | ¥ 11,313 | ¥ 2,204 | ¥ 994 | ¥ 397 | ¥ 14,908 | ¥ 39 | ¥ 14,947 |
| Segment assets | ¥ 131,132 | ¥ 115,292 | ¥ 39,730 | ¥ 68,283 | ¥ 354,437 | ¥ 39,037 | ¥ 393,474 |
| Others | | | | | | | |
| Depreciation | ¥ 3,374 | ¥ 3,121 | ¥ 651 | ¥ 1,390 | ¥ 8,536 | ¥ — | ¥ 8,536 |
| Increase in assets and intangible assets | ¥ 2,698 | ¥ 3,114 | ¥ 793 | ¥ 2,411 | ¥ 9,016 | ¥ — | ¥ 9,016 |

| Thousands of U.S.dollars | | | | | | | |
|--|---|--------------|-----------------|------------------|--------------|----------------------------|--------------|
| 2017 | | | | | | | |
| | Environmental systems and industrial plants | Machinery | Infra-structure | Other businesses | Total | Eliminations and corporate | Consolidated |
| Net sales | | | | | | | |
| Outside customers | \$ 2,269,471 | \$ 924,521 | \$ 260,594 | \$ 104,831 | \$ 3,559,417 | \$ — | \$ 3,559,417 |
| Intersegment | 2,612 | 35,074 | 2,237 | 17,952 | 57,875 | (57,875) | — |
| Total | 2,272,083 | 959,595 | 262,831 | 122,783 | 3,617,292 | (57,875) | 3,559,417 |
| Segment income (loss) | \$ 100,838 | \$ 19,645 | \$ 8,860 | \$ 3,539 | \$ 132,882 | \$ 347 | \$ 133,229 |
| Segment assets | \$ 1,168,839 | \$ 1,027,650 | \$ 354,131 | \$ 608,637 | \$ 3,159,257 | \$ 347,954 | \$ 3,507,211 |
| Others | | | | | | | |
| Depreciation | \$ 30,074 | \$ 27,819 | \$ 5,802 | \$ 12,390 | \$ 76,085 | \$ — | \$ 76,085 |
| Increase in assets and intangible assets | \$ 24,049 | \$ 27,757 | \$ 7,068 | \$ 21,490 | \$ 80,364 | \$ — | \$ 80,364 |

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 that cannot be allocated to each segment. Corporate assets, which include mainly cash, time deposits and securities, at March 31, 2016 and 2017 were ¥41,258 million and ¥38,876 million (\$ 346,519 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 as the classification of reported segments.

(2) Information about geographic areas

Sales by region for the years ended March 31, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of U. S dollars |
|---------------|-----------------|-----------|---------------------------|
| | 2016 | 2017 | 2017 |
| Japan | ¥ 258,116 | ¥ 268,522 | \$ 2,393,458 |
| Asia | 23,083 | 27,996 | 249,541 |
| North America | 14,571 | 15,385 | 137,133 |
| Middle East | 20,246 | 43,932 | 391,586 |
| Europe | 68,579 | 40,402 | 360,121 |
| Other | 2,449 | 3,094 | 27,578 |
| Total | ¥ 387,044 | ¥ 399,331 | \$ 3,559,417 |

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

(3) Information about major customers

Sales by major customers for the year ended March 31, 2017 were as follows:

| Customer | Millions of yen | | Thousands of U. S. dollars | |
|-------------------|-----------------|--------|----------------------------|---------|
| | 2017 | | 2017 | |
| Umm Al Houf Power | ¥ | 42,288 | \$ | 376,932 |

For the year ended March 31, 2016, information about major customers is not shown because there were no sales from transactions with a single external customer that amounted to 10% or more of sales in the Consolidated Statements of Income.

26. Related Party Information

Year ended March 31, 2016:

| Attribute | Name | Domicile | Capitalization | Nature of operations | Equity ownership by the Company | Relationship | Nature of transaction | Trading amount | Account | Balance at year end |
|-----------|--------------------------|-------------------------------------|----------------|----------------------|---------------------------------|-------------------------------|-----------------------|----------------|---------------|---------------------|
| Affiliate | Naikai Zosen Corporation | Onomichi City, Hiroshima Prefecture | ¥1,200 million | Manufacturing | 39.5% direct 0.5% indirect | Materials purchase acceptance | Purchase of materials | ¥4,520 million | Advances paid | ¥1,429 million |

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

The significant affiliated company was Zhongji Hitachi Zosen Diesel Engine Co., Ltd. for the year ended March 31, 2016.

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

| | Millions of yen | |
|--|-----------------|----------|
| Total current assets | ¥ | 1,648 |
| Total fixed assets | | 8,847 |
| Total current liabilities | | 12,885 |
| Total long-term liabilities | | 1,671 |
| Total net assets | | (4,061) |
| Net sales | ¥ | 1,269 |
| Loss before income taxes and non-controlling interests | | (11,744) |
| Net loss | | (11,744) |

Year ended March 31, 2017:

Since there are no significant transactions and affiliates, the description is omitted.