

June 5, 2018

Dear Shareholders

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

NOTICE OF THE 121ST ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 121st Ordinary General Meeting of Shareholders of Hitachi Zosen Corporation (“the Company”). The meeting shall be held as described below.

If you are unable to attend the meeting in person, we kindly ask you to review the “Reference Documents for the General Meeting of Shareholders” (described hereinafter), and exercise your voting rights in writing or via the Internet, etc. by 5:00 p.m. on Monday, June 25, 2018 (exercise date). Please refer to “Instructions on Exercising Voting Rights via the Internet” presented on pages 3 and 4.

1. **Date and Time:** June 26, 2018 (Tuesday), 10:00 a.m. (Doors open 9:00 a.m.)
2. **Place:** Art Hotel Osaka Bay Tower, 4th Floor, “Art Grand Ballroom”
(former Hotel Osaka Bay Tower)
2-1, Benten 1-chome, Minato-ku, Osaka, Japan
* Though the name of the hotel has changed, the location is the same as last year.

3. Purposes

I. Matters to be Reported:

1. The Business Report, the Consolidated Financial Statements and Non-consolidated Financial Statements for the 121st business year (from April 1, 2017 to March 31, 2018)
2. The Audit Reports of the Accounting Auditor and the Board of Corporate Auditors on the Consolidated Financial Statements for the 121st business year

II. Matters to be Resolved:

- Proposal 1:** Appropriation of Surplus
Proposal 2: Election of Ten (10) Directors
Proposal 3: Election of Two (2) Corporate Auditors

4. Matters Decided for Convocation

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

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

- 1) “Matters Concerning the Development of Systems to Ensure Appropriateness of Operations, etc.”
- 2) “Consolidated Statements of Changes in Net Assets” and “Notes to the Consolidated Financial Statements”
- 3) “Non-consolidated Statements of Changes in Net Assets” and “Notes to the Non-consolidated Financial Statements”

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

Instructions on Exercising Voting Rights via the Internet

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

When exercising your voting rights via the Internet, you must do so before 5:00 p.m. on June 25, 2018 (Monday).

Cautionary matters

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

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

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

Platform for Exercise of Voting Rights

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

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

Disclaimer:

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

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

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

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal 1: Appropriation of Surplus

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


Despite the challenging situation in terms of profitability, in accordance with above basic policy on dividends, and from a comprehensive perspective including the importance of continuous dividends and the prospect of an improvement in business results in the next fiscal year and beyond, we propose the year-end dividend for the current year as follows.


- (i) Dividend to be paid by cash
- (ii) Items concerning allocation of dividend property to shareholders and total amount thereof
Dividend per share of the Company's common stock: 12 yen
Total amount: 2,022,588,012 yen
- (iii) Effective date of commencement of payment: June 27, 2018


Proposal 2: Election of Ten (10) Directors

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


The candidates for Directors are as follows:


Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
1	<p><u>Reappointed</u></p>  <p>Takashi Tanisho (February 26, 1949)</p>	<p>April 1973 Joined the Company</p> <p>June 2010 Director, the Company</p> <p>June 2010 Responsible for Precision Machinery Headquarters, General Manager of Precision Machinery Headquarters, and General Manager of Chikkou Works, the Company</p> <p>April 2012 Managing Director, the Company</p> <p>April 2012 Responsible for Business & Product Development Headquarters and Precision Machinery Headquarters, and General Manager of Business & Product Development Headquarters, the Company</p> <p>April 2013 Representative Director, President and Chief Operating Officer, the Company</p> <p>April 2016 Representative Director, President and Chief Executive Officer, the Company</p> <p>April 2017 Representative Director, Chairman and President, the Company (current position)</p>	118,051
		<p><Reasons for nominating the candidate as Director></p> <p>Mr. Tanisho has been engaged in business operations mainly in departments in charge of engineering, sales, and R&D, as well as engaged in management at subsidiaries and affiliates. He has extensive experience and wide-ranging insight into company management. As President and COO since April 2013, President and CEO since April 2016, and Chairman and President since April 2017, he has been working to make the corporate philosophy of the Company a reality, improve the corporate value of the Hitachi Zosen Group, and promote stronger corporate governance. The Company has determined, based on this experience and track record as a corporate manager, that Mr. Tanisho is well-qualified to play a key role in further developing the Hitachi Zosen Group. Thus, once again, the Company has designated Mr. Tanisho as a candidate for Director.</p>	


Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
2	<p data-bbox="363 248 491 271">Reappointed</p>  <p data-bbox="323 607 531 663">Hidenobu Fujii (November 29, 1955)</p>	<p data-bbox="563 248 1238 566"> April 1979 Joined The Sanwa Bank, Limited June 2006 Executive Officer, The Bank of Tokyo-Mitsubishi UFJ, Ltd. May 2009 Managing Executive Officer, The Bank of Tokyo-Mitsubishi UFJ, Ltd. June 2010 Managing Director, The Bank of Tokyo-Mitsubishi UFJ, Ltd. June 2013 President, Mitsubishi UFJ Research and Consulting Co., Ltd. June 2017 Vice-Chairman, the Company (current position) </p> <p data-bbox="563 577 1238 925"> <Reasons for nominating the candidate as Director> Mr. Fujii has extensive experience and wide-ranging insight into company management and business operations including service as Managing Director, and President at a major financial institution and a leading think tank. Mr. Fujii has been working to make the corporate philosophy of the Company a reality, improve the corporate value of the Hitachi Zosen Group, and promote stronger corporate governance as Vice-Chairman since June 2017. Based on this experience and track record, Mr. Fujii has adequately fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Fujii as a candidate for Director. </p>	4,348


Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
3	<div data-bbox="363 250 496 275" style="border: 1px solid black; padding: 2px; display: inline-block;">Reappointed</div>  Sadao Mino (August 27, 1957)	<p>April 1982 Joined the Company</p> <p>April 2011 Executive Officer, the Company</p> <p>January 2013 General Manager of Engineering Business Division, Environment, Energy & Plant Headquarters, the Company</p> <p>April 2013 Managing Executive Officer, the Company</p> <p>April 2015 General Manager of Environment Business Headquarters, and Responsible for Architect Supervision Dept. and Quality Assurance Dept., the Company</p> <p>June 2015 Managing Director, the Company</p> <p>April 2017 Representative Director, Executive Vice-President, the Company (current position)</p> <p>April 2017 President's Assistant (Responsible for Production Engineering Dept., Wind Power Business Promotion Office and Functional Materials Business Promotion Office), the Company</p> <p>April 2018 President's Assistant (Responsible for Sales and Production Engineering Dept.), the Company (current position)</p>	33,692
		<p><Reasons for nominating the candidate as Director></p> <p>Mr. Mino has extensive experience and wide-ranging insight into company management having engaged mainly in engineering activities in the Environmental Systems Business segment of the Company and as General Manager of Environment Business Headquarters from April 2015, promoted the globalization and business expansion, etc., of the Environmental Systems and Industrial Plants Business. Since he took the position of Executive Vice-President in April 2017, he has been assisting the President and working to make the corporate philosophy of the Company a reality, improve the corporate value of the Hitachi Zosen Group, and promote stronger corporate governance. Based on this experience and track record, Mr. Mino has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Mino as a candidate for Director.</p>	


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4	<p style="text-align: center;"><u>Reappointed</u></p>  <p style="text-align: center;">Toshiyuki Shiraki (June 24, 1958)</p>	<p>April 1984 Joined the Company</p> <p>April 2012 General Manager of Overseas Project Execution Dept., Environmental Systems EPC Business Unit, Environmental Systems & Solutions Division, Engineering Headquarters, the Company</p> <p>April 2013 Executive Officer, the Company</p> <p>April 2015 General Manager of Business Planning Headquarters, the Company</p> <p>April 2016 Managing Executive Officer, the Company</p> <p>April 2016 General Manager of Technology Development Headquarters, and General Manager of Business Planning Headquarters, the Company</p> <p>June 2016 Managing Director, the Company (current position)</p> <p>April 2017 General Manager of Business Planning & Technology Development Headquarters and Responsible for Information and Communication Technology Promotion Headquarters, Architect Supervision Dept. and Quality Assurance Dept., the Company (current position)</p> <p><Reasons for nominating the candidate as Director> Mr. Shiraki has been engaged mainly in engineering, R&D, and construction activities and overseas project works in the Environmental Systems Business segment, and has extensive experience of business operations, as well as technical skills and specialist capabilities. Since he took the position of General Manager of the Business Planning & Technology Development Headquarters in April 2017, he has been working on the planning and development of new businesses and products, and the enhancement of technical capabilities. Based on this experience and track record, Mr. Shiraki has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Shiraki as a candidate for Director.</p>	23,427


Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
5	<p style="text-align: center;"><u>Reappointed</u></p>  <p style="text-align: center;">Tatsuji Kamaya (September 2, 1961)</p>	<p>April 1984 Joined the Company</p> <p>May 1990 Hitachi Zosen Singapore (Pte.) Ltd. (Secondment)</p> <p>April 2012 General Manager of Corporate Planning Dept., the Company</p> <p>April 2014 Executive Officer, the Company</p> <p>April 2015 Deputy General Manager of Environment Business Headquarters, the Company</p> <p>April 2017 Managing Executive Officer, the Company</p> <p>April 2017 General Manager of Corporate Planning Headquarters, and Responsible for General Administration Headquarters and Procurement Headquarters, the Company</p> <p>June 2017 Director, the Company</p> <p>August 2017 General Manager of Corporate Planning Headquarters, and General Manager of SR99 Project Team, Corporate Planning Headquarters, and Responsible for General Administration Headquarters and Procurement Headquarters, the Company (current position)</p> <p>April 2018 Managing Director, the Company (current position)</p>	15,805
		<p>(Significant Concurrent Positions)</p> <p>President, Ito Country Club Corporation</p> <p>President, Accounting & Finance Corporation</p> <p>President, HITACHI ZOSEN TOURIST Co., Ltd.</p> <p>President, Hitz Holdings U.S.A. Inc.</p>	
		<p><Reasons for nominating the candidate as Director></p> <p>Mr. Kamaya has been engaged mainly in operations such as accounting & finance and corporate planning in departments in charge of administration and business operations, and overseas subsidiaries of the Company. He has extensive experience and wide-ranging insight into the Hitachi Zosen Group's company management, business structure reforms, and others. He has been working to grow businesses and improve corporate value as General Manager of Corporate Planning Headquarters since April 2017. Based on this experience and track record, Mr. Kamaya has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Kamaya as a candidate for Director.</p>	

Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
6	<p><u>Reappointed</u></p>  <p>Tadashi Shibayama (September 13, 1958)</p>	<p>April 1982 Joined the Company</p> <p>September 1992 Hitachi Zosen U.S.A. Ltd. (Secondment)</p> <p>April 2012 Executive Officer, the Company</p> <p>January 2013 General Manager of Environmental Systems & Plant Sales Division, Environment, Energy & Plant Headquarters, the Company</p> <p>April 2015 Deputy General Manager of Infrastructure Business Headquarters, the Company</p> <p>April 2016 General Manager of Wind Power Business Promotion Office, the Company</p> <p>April 2017 Managing Executive Officer, the Company</p> <p>April 2017 General Manager of Machinery Business Headquarters, the Company (current position)</p> <p>June 2017 Director, the Company (current position)</p>	23,589
		<p><Reasons for nominating the candidate as Director></p> <p>Mr. Shibayama has been engaged in operations such as engineering, sales, planning and development, and promotion of new businesses in departments in charge of manufacturing and engineering businesses, planning and R&D, and overseas subsidiaries. He has extensive experience and wide-ranging insight into business operations both in Japan and overseas. He has been working to grow businesses and improve corporate value by exercising leadership as General Manager of Machinery Business Headquarters since April 2017. Based on this experience and track record, Mr. Shibayama has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Shibayama as a candidate for Director.</p>	

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7	<div style="border: 1px solid black; padding: 2px; display: inline-block; margin-bottom: 5px;">Reappointed</div>  Kazuhisa Yamamoto (June 1, 1959)	April 1982 Joined the Company April 2012 General Manager of Domestic Project Execution Dept., Environmental Systems EPC Business Unit, Environmental Systems & Solutions Division, Engineering Headquarters, the Company April 2014 Executive Officer, the Company April 2015 General Manager of Environmental EPC Business Unit, the Company April 2017 Managing Executive Officer, the Company April 2017 General Manager of Environment Business Headquarters, the Company (current position) June 2017 Director, the Company (current position)	17,513
		(Significant Concurrent Position) President, Eco Hitz Nagano Co., Ltd.	
		<Reasons for nominating the candidate as Director> Mr. Yamamoto has been engaged mainly in operations such as design, construction, and engineering in the Environmental Systems and Industrial Plant Business segment of the Company. He has extensive experience and wide-ranging insight into management of departments in charge of business operations and improvement of technical capabilities for Energy-from-Waste plants, and others. He has been working to grow businesses and improve corporate value by exercising leadership as General Manager of Environment Business Headquarters since April 2017. Based on this experience and track record, Mr. Yamamoto has fulfilled the role of determining important matters and strengthening supervisory functions in the Board of Directors. Thus, once again, the Company has designated Mr. Yamamoto as a candidate for Director.	

Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
8	<p>Reappointed</p> <p>Candidate for Outside Director</p> <p>Candidate for Independent Officer</p>  <p>Chiaki Ito (October 10, 1947)</p> <p>Tenure as Outside Director 5 years (at the conclusion of the General Meeting of Shareholders)</p>	<p>April 1970 Joined Fujitsu Limited</p> <p>June 2006 Corporate Senior Executive Vice President and Representative Director, Fujitsu Limited</p> <p>June 2008 Vice Chairman and Director, Fujitsu Limited</p> <p>April 2010 Chairman and Representative Director, FUJITSU RESEARCH INSTITUTE</p> <p>June 2013 Outside Director, the Company (current position)</p> <p>June 2015 Outside Director, Zensho Holdings Co., Ltd. (current position)</p> <p>June 2015 Outside Director, OBIC Business Consultants Co., Ltd. (current position)</p> <p>(Significant Concurrent Positions)</p> <p>Outside Director, Zensho Holdings Co., Ltd.</p> <p>Outside Director, OBIC Business Consultants Co., Ltd.</p> <p><Reasons for nominating the candidate as Outside Director></p> <p>Mr. Ito has extensive experience and wide-ranging insight into company management based on his long service as a corporate manager in the information and communication equipment industry, such as engaging in overseas business. As Outside Director, Mr. Ito provides appropriate opinions and advice from an independent standpoint to the Company, which is now promoting stronger corporate governance, the globalization of business, the development of new businesses and new products, and utilization of ICT. Since Mr. Ito has fulfilled the role of strengthening supervisory functions regarding business execution, the Company has once again designated Mr. Ito as a candidate for Outside Director.</p> <p><Matters concerning the Independency></p> <p>Although there is a business relationship between the Company and Fujitsu Limited, where Mr. Ito was formerly engaged in execution of business, the average annual value of transactions between the two companies in the past three business years was less than 0.1% of the Company's net sales, which is very small relative to the scales of business of the Company and Fujitsu Limited. Furthermore, the Company has no business relationships with FUJITSU RESEARCH INSTITUTE, where Mr. Ito was formerly engaged in execution of business. Based on the above facts, the Company has determined that Mr. Ito is independent, and has designated him as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p>	None

Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
9	<p style="text-align: center; border: 1px solid black; padding: 2px;">Reappointed</p> <p style="text-align: center; border: 1px solid black; padding: 2px;">Candidate for Outside Director</p> <p style="text-align: center; border: 1px solid black; padding: 2px;">Candidate for Independent Officer</p>  <p style="text-align: center;">Kazuko Takamatsu (August 27, 1951)</p> <p style="text-align: center;">Tenure as Outside Director 3 years (at the conclusion of the General Meeting of Shareholders)</p>	<p>April 1974 Joined Sony Corporation</p> <p>April 2003 Representative Director, Sony Digital Network Applications, Inc.</p> <p>October 2008 VP in charge of Environment, Sony Corporation</p> <p>April 2012 Advisor, YAMAGATA INTECH Corporation</p> <p>April 2013 Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management (current position)</p> <p>May 2015 Outside Director, Dexerials Corporation (current position)</p> <p>June 2015 Outside Director, the Company (current position)</p> <p>(Significant Concurrent Positions)</p> <p>Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management</p> <p>Outside Director, Dexerials Corporation</p> <p><Reasons for nominating the candidate as Outside Director></p> <p>Ms. Takamatsu has extensive experience and wide-ranging insight into company management and diversity-focused management. Her experience encompasses working for many years at global companies, as well as service as the Chief Executive of a software development company and as the Executive Director and Secretariat of the Japan Institute for Women's Empowerment & Diversity Management. As Outside Director, Ms. Takamatsu provides appropriate opinions and advice from an independent standpoint to the Company, which is now promoting stronger corporate governance, the globalization of business, and diversity-focused management. Since Ms. Takamatsu has fulfilled the role of strengthening supervisory functions regarding business execution, the Company has once again designated Ms. Takamatsu as a candidate for Outside Director.</p> <p><Matters concerning the Independency></p> <p>While there are business relationships including outsourcing between the Company and the Japan Institute for Women's Empowerment & Diversity Management, where Ms. Takamatsu currently serves as Executive Director and Secretariat, the average annual value of transactions between the Company and the Japan Institute for Women's Empowerment & Diversity Management during the past three business years was less than 0.1% of the Company's net sales, which is very small relative to the scales of business of the Company and the Japan Institute for Women's Empowerment & Diversity Management. Moreover, there is no business relationship between the Company and both Sony Corporation and Sony Digital Network Applications, Inc., where Ms. Takamatsu was formerly engaged in execution of business. Based on the above facts, the Company has determined that Ms. Takamatsu is independent, and has designated her as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p>	2,936

Candidate No.	Name (Date of Birth)	Career Summary (Position and Areas of Responsibility at the Company, and Significant Concurrent Positions)	Number of the Company's Share Owned
10	<p>Reappointed</p> <p>Candidate for Outside Director</p> <p>Candidate for Independent Officer</p>  <p>Richard R. Lury (January 21, 1948)</p> <p>Tenure as Outside Director 2 years (at the conclusion of the General Meeting of Shareholders)</p>	<p>May 1974 Admitted to the bar of the State of New York</p> <p>September 1989 Partner, Kelley Drye & Warren LLP</p> <p>June 2003 Admitted to the bar of the State of New Jersey</p> <p>March 2013 Outside Director, Sanken North America, Inc. (currently, Allegro MicroSystems, Inc) (current position)</p> <p>June 2014 Outside Director, Sanken Electric Co., Ltd. (current position)</p> <p>June 2016 Outside Director, the Company (current position)</p> <p>(Significant Concurrent Positions)</p> <p>Attorney-at-law in the United States (State of New York and New Jersey)</p> <p>Outside Director, Sanken Electric Co., Ltd.</p> <p>Outside Director, Allegro MicroSystems, Inc</p> <p><Reasons for nominating the candidate as Outside Director> Mr. Lury served as a partner of a major law firm in the United States for many years, and has extensive experience and expertise in international corporate legal matters. As Outside Director, Mr. Lury provides appropriate opinions and advice from an independent standpoint to the Company, which is now promoting stronger corporate governance and the globalization of business. Since Mr. Lury has fulfilled the role of strengthening supervisory functions regarding business execution, the Company has once again designated Mr. Lury as a candidate for Outside Director.</p> <p><Matters concerning the Independency> Although a business relationship between the Company and a major law firm in the United States, where Mr. Richard R. Lury served as partner until he retired in January 2015, exists via the Company's subsidiary in the United States, more than three years has passed since his retirement. Mr. Lury has concluded a legal advisory contract with the Company's subsidiary in the United States since January 2015, but the average annual value of transactions during the past three business years is within the amount allowed under the Criteria for Independence of Outside Officers. Based on the above facts, the Company has determined that Mr. Lury is independent, and has designated him as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p>	None

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


Proposal 3: Election of Two (2) Corporate Auditors

Mr. Kenichi Takashima, one of the present Corporate Auditors, will complete his term of office at the conclusion of this General Meeting of Shareholders. Also, Mr. Masamichi Tokuhira will resign. Accordingly, we propose to elect two (2) Corporate Auditors.

The Board of Corporate Auditors has approved this proposal.

The candidate for Corporate Auditor is as follows:

Name (Date of Birth)	Career Summary (Position at the Company and Significant Concurrent Positions)	Number of the Company's Share Owned														
<div data-bbox="212 488 384 517" style="border: 1px solid black; padding: 2px;">Newly appointed</div> <div data-bbox="188 562 411 824" style="text-align: center;">  </div> <div data-bbox="194 842 405 902"> <p>Masayuki Morikata (September 2, 1951)</p> </div>	<table border="0" style="width: 100%;"> <tr> <td style="width: 15%;">April 1974</td> <td>Joined the Company</td> </tr> <tr> <td>June 2010</td> <td>Director, the Company</td> </tr> <tr> <td>April 2012</td> <td>Managing Director, the Company</td> </tr> <tr> <td>April 2014</td> <td>Responsible for Corporate Planning Dept., Accounting Dept., Subsidiary Administration Dept., and Overseas Business Administration Dept., the Company</td> </tr> <tr> <td>June 2015</td> <td>General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters, the Company</td> </tr> <tr> <td>April 2016</td> <td>General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters, and responsible for Procurement Headquarters, the Company</td> </tr> <tr> <td>June 2017</td> <td>Corporate Adviser, the Company (current position)</td> </tr> </table> <p><Reasons for nominating the candidate as Corporate Auditor> Mr. Morikata possesses extensive experience within the Company as the responsible person of departments in charge of accounting, finance, and corporate planning, and has sufficient insight into finance and accounting. He also has extensive insights into internal control and compliance. The Company anticipates that, based on his experience and track record, Mr. Morikata is suitable for promoting stronger the Company's corporate governance and enhancing the auditing system. Thus, the Company has designated Mr. Morikata as a candidate for Corporate Auditor.</p>	April 1974	Joined the Company	June 2010	Director, the Company	April 2012	Managing Director, the Company	April 2014	Responsible for Corporate Planning Dept., Accounting Dept., Subsidiary Administration Dept., and Overseas Business Administration Dept., the Company	June 2015	General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters, the Company	April 2016	General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters, and responsible for Procurement Headquarters, the Company	June 2017	Corporate Adviser, the Company (current position)	<p>45,377</p>
April 1974	Joined the Company															
June 2010	Director, the Company															
April 2012	Managing Director, the Company															
April 2014	Responsible for Corporate Planning Dept., Accounting Dept., Subsidiary Administration Dept., and Overseas Business Administration Dept., the Company															
June 2015	General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters, the Company															
April 2016	General Manager of General Administration Headquarters and General Manager of Corporate Planning Headquarters, and responsible for Procurement Headquarters, the Company															
June 2017	Corporate Adviser, the Company (current position)															

Name (Date of Birth)	Career Summary (Position at the Company and Significant Concurrent Positions)	Number of the Company's Share Owned
<div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Reappointed</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Candidate for Outside Corporate Auditor</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Candidate for Independent Officer</div>  <p>Kenichi Takashima (October 2, 1947)</p> <p>Tenure as Outside Corporate Auditor 4 years (at the conclusion of the General Meeting of Shareholders)</p>	<p>September 1976 Joined Honda Motor Co., Ltd.</p> <p>September 1979 Vice President (CFO), Honda Deutschland GmbH</p> <p>June 1996 General Manager of Finance Division, Honda Motor Co., Ltd.</p> <p>June 1998 Director and General Manager of Accounting Division, Honda Motor Co., Ltd.</p> <p>June 2000 Corporate Auditor (full time), Honda Motor Co., Ltd.</p> <p>April 2010 Full-time Auditor, Government Pension Investment Fund, Japan</p> <p>June 2014 Outside Corporate Auditor, the Company (current position)</p> <p>May 2015 Outside Director, MAXVALU CHUBU CO., LTD. (current position)</p>	10,000
	<p>(Significant Concurrent Position)</p> <p>Outside Director, MAXVALU CHUBU CO.,LTD. (current position)</p>	
	<p><Reasons for nominating the candidate as Outside Corporate Auditor></p> <p>Mr. Takashima served as the responsible person of in charge of accounting and finance divisions at a leading automobile company, and later as its Director and Corporate Auditor, and possesses extensive experience and wide-ranging knowledge of company management and has sufficient insights into finance and accounting. As Outside Corporate Auditor, Mr. Takashima provides appropriate opinions and advice on the Company's management and business operations from an independent standpoint, and has fulfilled the role of strengthening its corporate governance and enhancing the auditing system. Thus, once again, the Company has designated Mr. Takashima as a candidate for Outside Corporate Auditor.</p>	
	<p><Matters concerning the Independency></p> <p>While there are business relationships between the Company and Honda Motor Co., Ltd., where Mr. Kenichi Takashima was engaged in executing business in the past, the average annual value of transactions between the Company and Honda Motor Co., Ltd. during the past three business years was less than 0.1% of the Company's net sales, which is very small relative to the scales of business of the Company and Honda Motor Co., Ltd. Based on the above fact, the Company has determined that Mr. Takashima is independent, and has designated him as an independent officer as prescribed by Tokyo Stock Exchange, Inc.</p>	

Note: The Company has concluded an agreement with Mr. Kenichi Takashima that limits the maximum amount of his liabilities to the minimum amount stipulated by laws and regulations concerning liability for compensation for damages pursuant to the provisions of Article 423, paragraph 1 of the Companies Act. In the event that his reelection is approved, the Company intends to continue the said agreement. If Mr. Masayuki Morikata is elected to the office of Corporate Auditor, the Company intends to conclude a comparable agreement with him.

(Reference) The Criteria for Independence of Outside Officers

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

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

Business Report

(From April 1, 2017 to March 31, 2018)

I. Matters Concerning the Current Status of the Group

(1) Business Developments and Results

1) Overall summary

Reviewing economic circumstances during the current business year, overall conditions overseas followed a gradual recovery trend, due to the strong performance of the US economy and a rebound of economic activity in China, etc. In Japan, economic activity remained on a moderate recovery track due to improving corporate earnings, increasing capital investment, and improvements in the employment and income environment supported by recovering demand in Japan and abroad.

Under this environment, as the first step to achieving “Hitz 2030 Vision,” a future vision envisaged for 2030, the Hitachi Zosen Group (“the Group”) initiated medium-term management plan “Change & Growth” for the three-year period from fiscal year 2017, and has worked to develop business foundation.

•Status of orders, sales, and profit/loss

Total order intake for the current business year rose from the previous business year at 400.4 billion yen, due to an increase in orders of the Environmental Systems and Industrial Plants Business, in spite of a decrease in orders of the Machinery Business, the Infrastructure Business, and the Others Business. On the other hand, net sales decreased from the previous business year to 376.4 billion yen, due to decreased sales of the Environmental Systems and Industrial Plants Business among other reasons.

In terms of profit and loss, operating income decreased markedly from the previous business year to 5.9 billion yen, due to a significant decreased contribution from the Environmental Systems and Industrial Plants Business. Ordinary income also decreased compared to the previous business year to 3.3 billion yen, due to lower operating income and the recording of litigation expenses under non-operating expenses. Profit attributable to shareholders of Hitachi Zosen also decreased from the previous business year to 2.1 billion yen.

(Billions of yen)

	Previous business year	Current business year	Change (year on year)
Order intake	398.9	400.4	1.5 (up 0.4%)
Net sales	399.3	376.4	(22.9) (down 5.7%)
Operating income	14.9	5.9	(9.0) (down 60.5%)
Ordinary income	11.2	3.3	(7.9) (down 70.0%)
Profit attributable to shareholders of Hitachi Zosen	5.8	2.1	(3.7) (down 63.0%)

2) Summary by business segments

Environmental Systems and Industrial Plants

Major Lines of Business

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

(Billions of yen)

Business segment	Order intake		Net sales		Operating income	
	Previous business year	Current business year	Previous business year	Current business year	Previous business year	Current business year
Environmental Systems and Industrial Plants	240.57	257.18	254.61	231.79	11.31	1.31



Neyagawa-shi Clean Center



EfW plant in Ireland

Total order intake increased from the previous business year by 16.6 billion yen to 257.18 billion yen due to: 1) many orders received in Japan for long-term operation projects and infrastructure improvement work projects such as for i) construction and operation of Energy-from-Waste (EfW) plants for Tsuruoka City, Yamagata Prefecture and for the Kikuchi Environment Preservation Association in Kumamoto Prefecture, and for ii) upgrading project of Tanigahara Water Purification Plant wastewater treatment facility for Kanagawa Prefecture; and 2) orders received overseas for an EfW plant construction project in Turkey, the first order received by the Group, etc. Net sales decreased from the previous business year by 22.81 billion yen to 231.79 billion yen, due to lower sales recorded from construction of a large-scale desalination plant in Qatar, etc., despite completions of EfW plants for Neyagawa City, Osaka Prefecture and Joetsu City, Niigata Prefecture in Japan and overseas in Ireland. Operating income decreased from the previous business year by 9.99 billion yen to 1.31 billion yen due to a deterioration in profitability caused by rising costs of individual projects at overseas subsidiary.

Machinery

Major Lines of Business

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

(Billions of yen)

Business segment	Order intake		Net sales		Operating income	
	Previous business year	Current business year	Previous business year	Current business year	Previous business year	Current business year
Machinery	106.93	98.44	103.72	100.62	2.20	2.50



Press machines for automotive industry (servo press line)



Pressure vessel for fertilizer plants (length 25m, weight 250t)

Total order intake decreased from the previous business year by 8.48 billion yen to 98.44 billion yen, due to a decrease in orders received for marine diesel engines and process equipment, despite continued orders for marine high-pressure SCR systems and increased orders received for vacuum valves.

Net sales decreased from the previous business year by 3.09 billion yen to 100.62 billion yen, due to a decrease in orders for marine diesel engines and process equipment, despite sales of various press machines for automobile manufacturers, marine diesel engines for domestic and overseas shipyards, and pressure vessels for fertilizer plants, as well as a marked growth of precision machinery driven by vacuum valves for semiconductors, etc.

Operating income increased from the previous business year by 0.29 billion yen to 2.50 billion yen, due to an increase in orders for precision machinery despite a decrease for press machines, due to intensifying price competition.

Infrastructure

Major Lines of Business

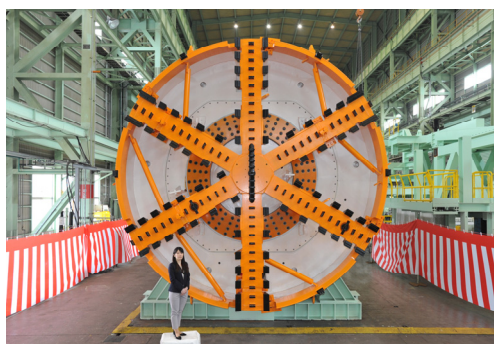
Bridges, Hydraulic gates, Steel stacks, Marine civil engineering, Shield tunneling machines, Disaster prevention systems

(Billions of yen)

Business segment	Order intake		Net sales		Operating income	
	Previous business year	Current business year	Previous business year	Current business year	Previous business year	Current business year
Infrastructure	33.24	31.45	29.23	28.24	0.99	1.40



Land-mounted flap-gate retractable seawall
“neo RiSe®”



Shield tunneling machine for the central
Fukuoka City trunk line 2 (diameter 5.62 m)

Total order intake decreased from the previous business year by 1.79 billion yen to 31.45 billion yen, due to a decrease in orders for large shield tunneling machines, affected by sluggish domestic demand, although many orders were received for new bridge construction works from the Ministry of Land, Infrastructure, Transport and Tourism and local governments, including the Tonomachi-Haneda Airport Line bridge construction work, coupled with the first order for a seabed-mounted flap-gate type seawall for Iwate Prefecture.

Net sales decreased from the previous business year by 0.98 billion yen to 28.24 billion yen, due to a decrease in sales of marine structures.

Operating income increased from the previous business year by 0.40 billion yen to 1.40 billion yen due to improved profitability achieved for a variety of equipment by promoting cost reductions in individual projects.

Others

Major Lines of Business

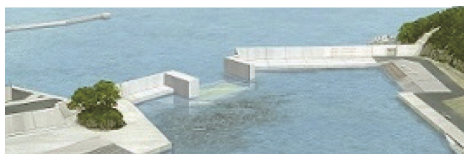
Transportation, Warehousing, Port cargo handling

Total order intake decreased from the previous business year by 4.8 billion yen to 13.37 billion yen, while net sales increased 4.0 billion yen to 15.76 billion yen. On the other hand, operating income increased from the previous business year by 0.3 billion yen to 0.69 billion yen.

Hitz Topics

Received Order for Japan's First Seabed-Mounted Flap-Gate Type Seawall

Seawall is lowered



When the Tsunami Occurs

Seawall is raised



Rendering (photo provided by Iwate Prefecture)

The Company has developed flap-gate type water disaster prevention facilities that makes full use of the wave force of tsunami and high tide to prevent water inundation damages. The Company has built up a track record mainly with land-installation type facilities. This time the Company received the order for a seabed-mounted flap-gate type seawall (width 32m, height 12m) from the Iwate Prefecture, which will be the first such facility in Japan. This project is conducted as part of the Ofunato Fishing Port coastal high tide countermeasures project, and the seawall rises itself through buoyancy and the wave force of tsunami to protect against tsunami damage.

Going forward, we will strive to further promote the flap-gate type water disaster prevention facilities aspiring to realize the sustainable disaster-preventing and disaster-reducing society.

Delivered the First SCR System of Marine Engines and Received Consecutive Orders

The Company has been developing and conducting sales activities for SCR systems of marine engines, which are devices that remove NOx (nitrogen oxide) from exhaust gases of marine engines to comply with Tier III NOx emission standards of the International Maritime Organization. By this time, the Company has delivered six those systems to overseas shipyards, including the first system to South Korea.

Orders remain strong, with the Company receiving orders for ten SCR systems of marine engines and eight marine engines equipped with the system for domestic and overseas shipyards.

Going forward, we will further strengthen competitiveness by working to reduce costs and downsize the systems, aiming to expand sales of SCR systems of marine engines.



Marine engine equipped with SCR systems

Steady Progress in the Water Business

In the large-scale desalination plant (processing volume: approximately 590 thousand m³/day) being constructed for Umm Al Houl Power in Qatar, which is made up of a Reverse Osmosis* (RO) plant and a Multi-Stage Flash* (MSF) plant, the RO plant began commercial operation in June 2017. The remaining MSF plant is scheduled to begin commercial operation in June 2018. By completing what will become Qatar’s largest seawater desalination plant within the delivery schedule and in conformity with the quality requirements, we will win the trust of clients so that we may receive expanded orders in the future.

Our Group company Osmoflo Holdings (Australia) received orders and delivered through rental contracts the movable containerized desalination plants that are supplying drinking water (processing volume: 2 thousand m³/day) to Cape Town, South Africa, which is experiencing a drought being called the worst in 100 years. Furthermore, it received an order for a desalination plant in Australia, which is to be its largest-scale plant for iron ore mines (processing volume: 20 thousand m³/day).

We will maximize group synergies and expand water business by combining the Company’s abundant achievements and engineering technology in MSF plants, and Osmoflo Holdings’ various water quality-related RO technologies and expertise of rental business.

“Reverse Osmosis”: Method to remove salt from seawater and create fresh water by filtering seawater through a semipermeable membrane that allows water molecules to pass while preventing salt from passing

“Multi-Stage Flash ”*: Method to produce fresh water by coagulating the steam generated by evaporating sea water in an evaporating container



RO plant interior, seawater desalination plant in Qatar



Movable containerized desalination plants

New Establishment of Hitz Advanced Information Technology Center

To bolster the utilization of ICT including IoT, big data, and AI, we are constructing the “Hitz Advanced Information Technology Center.” Operations are scheduled to commence in October 2018, and the space will be used as an ICT development hub and as a space for open co-creation between the Company and external firms, university research institutes, etc.

The Company is using ICT to provide remote monitoring and operation support services for Energy-from-Waste facilities. The Company is aiming to strengthen the AOM business by developing similar services for other products (marine diesel engines, shield tunneling machines, etc.) and increase productivity by making its own works smart works by connecting them with IoT.



Hitz Advanced Information Technology Center
(Remote Monitoring Room Image)

“The Seismic Retrofitting of the Katashinagawa Bridge” Wins the Japan Society of Civil Engineers (JSCE) Tanaka Award

The JSCE Tanaka Award is awarded by the JSCE for achieving excellence in bridge and steel structural engineering. In “the seismic retrofitting of the Katashinagawa Bridge” designed and constructed by the Company, our efforts to increase the seismic adequacy of the Katashinagawa Bridge, one of the most famous bridges in Japan, without losing its aesthetic by incorporating the latest technology and knowledge were well received, winning the Tanaka Award.



Katashinagawa Bridge (bridge length 1,034m, largest span length 169m, largest bridge column height 69m)

Completion of Construction of the New Suginami Incineration Plant and Initiatives in Technological Development Using Big Data

A special construction joint venture formed by the Company and Okumura Corporation completed construction of the new Suginami Incineration Plant for the Clean Authority of Tokyo.

The Company will collect and analyze various data sets from the plant essential for performing operational predictions, detecting signs of anomaly, and estimating the service life of equipment, and by using those data as big data, will develop autonomous control and anomaly signs diagnosis services, etc., building a further advanced, optimal operation control system.



Suginami Incineration Plant

New Technologies & New Fields

Next-Generation Offshore Windfarm System Experimental Research

In the “Next-Generation Offshore Windfarm System Experimental Research” being carried out under consignment from NEDO* by a consortium of the Company and five other companies, we are working to lower the cost of offshore wind farms through experimental equipment combining a simple-structure, barge-type floating body that can be placed in marine areas with relatively low water depths of 50–100m with lightweight two-blade windmills. The Company is mainly responsible for the design and production of the floating bodies and the local installation construction of the experimental equipment. We are steadily moving forward with the production of the floating bodies at Sakai Works. In around summer of 2018, we plan to install the experimental equipment about 13 km offshore of the Hibikinada Port in the City of Kitakyushu, and thereafter, work to develop inspection and other technology while conducting operations and maintenance through March 2022.

*NEDO: New Energy and Industrial Technology Development Organization



Floating bodies being produced at Sakai Works



Rendering

Expanded Applications of Eucommia Elastomer



BIOSPIN



Eucommia Elastomer, a biopolymer derived from the deciduous tree *Eucommia ulmoides* developed by the Company, is a material with properties including high impact resistance and tensile strength, high molecular weight, low-temperature thermoplasticity, and safety (100% plant-derived, allergen free). The practical application of Eucommia Elastomer includes the cover material of Kasco Corporation’s new product, the “BIOSPIN” golf ball, which is attracting attention as an approved ball with both strong durability and spin performance, and filaments for 3D printers.

The Company will utilize a range of properties of Eucommia Elastomer as it works to expand its applications in fields such as sporting goods and medical products.

(2) Capital Investment

In the current business year, the Group carried out total capital investments of 9,973 million yen, mainly consisting of rationalization investment for improving productivity, capital investment for developing and commercializing new products and businesses, and capital investment for strengthening production capacity.

- Major capital investment by business segment

(Millions of yen)

Business Segment	Amount	Summary of Investment
Environmental Systems and Industrial Plants	3,210	Construction of Kompogas plants, Upgrading power generation facilities and equipment
Machinery	2,004	Reconstruction (extension) the workshop for press machines for automotive industry, Introduction of production facilities for vacuum valves
Infrastructure	1,843	Reconstruction the administration office in workshop, Upgrading production facilities and Construction of painting workshop
Others/ Company-wide	2,913	Construction of wind power stations and Upgrading transport marine vessel
Total	9,973	

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

(3) Funds Procurement

In the current business year, 7,401 million yen in funds was financed through long-term and short-term borrowings primarily to appropriate funds for future working capital and for business investment. In addition, 20,000 million yen in funds was financed through subordinated loans to increase growth investment capacity and our ability to withstand risks as part of a financial strategy supporting our medium-term management plan.

In September 2017, the Company conducted the 24th issue of unsecured straight bonds, with a value of 10,000 million yen, to appropriate funds for redeeming the 23rd issue of unsecured straight bonds.

(4) Trends in Assets and Profit and Loss

(Millions of yen)

	FY 2014 (118th Business Year)	FY 2015 (119th Business Year)	FY 2016 (120th Business Year)	FY 2017 (121st Business Year)
Order intake	452,757	435,435	398,943	400,461
Net sales	359,332	387,043	399,331	376,437
Operating income	12,818	15,112	14,947	5,907
Ordinary income	7,568	12,272	11,225	3,365
Profit attributable to shareholders of Hitachi Zosen	5,100	5,848	5,864	2,171
Net income per share (Yen)	30.52	34.96	34.79	12.88
Total assets	408,803	401,648	393,587	391,860

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

2. Total assets for the fiscal year 2016 (120th business year) reflected a provisional accounting treatment implemented during the current business year.

(5) Issues to be Addressed

Under “Change & Growth” the medium-term management plan, as the first step for growth that aims to realize “Hitz 2030 Vision” (establishment of business platform), we worked on three basic strategies designed to strengthen profitability, namely, Restructuring Business Foundation and Improving Productivity, Maximizing Group Comprehensive Strengths, and Promoting Portfolio Management. In the first year, although Restructuring Business Foundation and Improving Productivity met the objectives, we failed to attain the profit target for the current business year, due to a significant deterioration in profitability at an overseas subsidiary, among other reasons.

In the light of this situation, the Company revised organization structures effective April 1, 2018, and will steadily promote the priority measures of its basic strategies and aim to achieve the numerical targets for the second year of the medium-term management plan.

■ Restructuring Business Foundation and Improving Productivity

1) Expanding business areas (value chains)

In the Environmental Systems and Industrial Plants, Natural Energy Japan Corporation, the Group’s company, constructed the Akita Biogas Power Station in the current business year, and launched the power generation business using biogas produced by methane fermentation of food waste.

In order for the Group to secure stable profits in the future, the Machinery Business and the Infrastructure Business also need to expand their scope of operations to include business planning and service business. Hitz Advanced Information Technology Center, which enters operation in October 2018, will use AI and ICT to collect and analyze big data on not only waste incineration plants but also shield tunneling machines and marine diesel engines, etc., thereby striving to expand our service businesses such as remote-monitoring, operation support, and prevention-preservation for machines and facilities.

2) Improving productivity using ICT

To increase the productivity of Works, our manufacturing sites, it is essential to use IoT and ICT. The Group as a whole, including works and research institutes, will consider introducing a remote-monitoring system, as well as a production management system, and realize a smart work, thus striving to improve productivity.

In April 2018, the Company put in place a work-from-home scheme and implemented the use of satellite offices. Moreover, starting from August 2018, we will launch operation of a new ERP system, and continue to simplify and standardize our operational processes and streamline operations. Through these work-style reform initiatives, we aim to increase productivity and enhance work-life balance, supported by streamlining the indirect operations of management.

3) Reinforcing the structure of risk management

Hitachi Zosen Inova AG’s significant deterioration in profitability is considered to be attributable to its management capabilities and the Company’s management structure of group company system. As the Group continues to expand its overseas businesses, risk management for overseas businesses is an urgent issue. We will strengthen the risk management structure for overseas businesses over the entire Group in the form of dispatching a director to overseas subsidiaries, discovering and taking measures against risks through a Risk Examination Committee prior to a project order intake, arranging for top management to deliberate on risks, and developing a follow-up system after order intake.

■ Maximizing Group Comprehensive Strengths

To maximize the Group's comprehensive strengths, we need to effectively use its management resources, such as human resources, technologies, production facilities, and funds within the Group. The Company and its group companies will formulate clusters for each individual business field and enhance collaboration, while strengthening the group's management foundation, thereby seeking to maximize group synergies.

■ Promoting Portfolio Management

We will promote investments in new businesses, capital investment, M&A, etc. by establishing investment decision-making criteria that takes into account financing costs and investment returns. We will take measures for underperforming businesses to make them highly profitable, and aim to rehabilitate them by implementing structural reforms. However, if a business is deemed to be challenging to rehabilitate, we will consider withdrawal or sale, thus rigorously pursuing a "selection and concentration" approach, and concentrating our management resources on growth fields.

Finally, while management issues for achieving the medium-term management plan "Change & Growth" have been discussed above, thoroughly implementing safety management and compliance is an important issue in order for the Group to grow in a sustained manner and improve its corporate value in the future. Thus, we will work to promote the Group's governance system stronger, and foster a safe and comfortable workplace and an open corporate culture.

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

(6) Significant Parent Company and Subsidiaries (As of March 31, 2018)

1) Parent company

The Company does not have a parent company.

2) Significant subsidiaries

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

Name of Company	Amount of Capital	Holding Ratio (Direct) (%)	Major Lines of Business
NAC International Inc.	USD43 million	-	Design, transport and consulting related to the storage and transportation of spent nuclear fuel control equipment
Osmoflo Holdings Pty Ltd	AUD53 million	70.0	Design, manufacture, sale, and operation of desalination and industrial water treatment systems

(Notes) 1. There are 114 consolidated subsidiaries, including the nine significant subsidiaries mentioned above, and 13 equity method companies.

2. NAC International Inc. is a wholly-owned subsidiary of Hitz Holdings U.S.A. Inc., a holding company in the United States that is wholly-owned by the Company.

3. As of the end of the current business year, there were no specified wholly-owned subsidiaries.

3) Significant technology alliances

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

(7) Major Sales Offices, Plants, etc. (As of March 31, 2018)

1) The Company

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

(Note) In accordance with the establishment of HITZ (THAILAND) CO., LTD., the Company closed the Bangkok Office effective August 31, 2017.

2) Subsidiaries

<Domestic subsidiaries>

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

<Overseas subsidiaries>

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

(Note) To accelerate business development in the Southeast Asian market, the Company established HITZ (THAILAND) CO., LTD. on April 26, 2017, and it began operation on August 1, 2017.

(8) Status of Employees (As of March 31, 2018)

1) Status of employees of the Group

Business Segment	Number of Employees
Environmental Systems and Industrial Plants	6,004
Machinery	2,449
Infrastructure	651
Others	647
Corporate (company-wide)	626
Total	10,377 (year-on-year increase of 246)

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

2) Status of employees of the Company

Number of Employees	Average Age	Average Years of Service
4,034 (year-on-year increase of 55)	41.8	16.5

(Note) For the number of employees, the number of employees currently working at the Company is provided. The number includes 142 employees on loan to the Company from outside.

(9) Major Lenders (As of March 31, 2018)

Lender	Amount (Millions of yen)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	25,566
Mizuho Bank, Ltd.	8,935
Mitsubishi UFJ Trust and Banking Corporation	4,220
Sumitomo Mitsui Trust Bank, Ltd.	4,090

(Note) The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its trade name to MUFG Bank, Ltd. effective April 1, 2018.

II. Matters Concerning Stock in the Company (As of March 31, 2018)

- (1) Total Number of Shares Authorized to Be Issued 400,000,000 shares
(2) Total Number of Issued Shares 170,214,843 shares
(including 1,665,842 shares of treasury stock)
(3) Number of Shares Constituting One Unit of Shares 100 shares
(4) Number of Shareholders 80,560 (Year-on-year increase of 945 shareholders)
(5) Major Shareholders (Top 10)

Name of Shareholder	Numbers of Shares Held (Thousands of shares)	Holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,114	7.8
Japan Trustee Services Bank, Ltd. (Trust Account)	10,729	6.4
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,257	3.7
GOLDMAN SACHS INTERNATIONAL	5,543	3.3
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,291	3.1
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,028	1.8
DFA INTL SMALL CAP VALUE PORTFOLIO	2,923	1.7
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	2,514	1.5
THE BANK OF NEW YORK 133972	2,501	1.5
Sompo Japan Nipponkoa Insurance Inc.	2,358	1.4

- (Notes) 1. The holding ratio does not include treasury stock.
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its trade name to MUFG Bank, Ltd. effective April 1, 2018.

III. Matters Concerning Share acquisition rights of the Company

Not applicable

IV. Matters Concerning the Company's Officers

(1) Status of Directors and Corporate Auditors

Name	Position	Areas of Responsibility	Significant Concurrent Positions
Takashi Tanisho	Representative Director, Chairman and President		
Hidenobu Fujii	Vice-Chairman		
Sadao Mino	Representative Director, Executive Vice-President	President's Assistant (Responsible for Production Engineering Dept. and Wind Power Business Promotion Office and Functional Materials Business Promotion Office)	
Toshiyuki Shiraki	Managing Director	General Manager of Business Planning & Technology Development Headquarters and Responsible for Information and Communication Technology Promotion Headquarters and Architect Supervision Dept. and Quality Assurance Dept.	
Tadashi Shibayama	Director	General Manager of Machinery Business Headquarters	
Kazuhisa Yamamoto	Director	General Manager of Environment Business Headquarters	President, Eco Hitz Nagano Co., Ltd.
Tatsuji Kamaya	Director	General Manager of Corporate Planning Headquarters and General Manager of SR99 Project Team, Corporate Planning Headquarters and Responsible for General Administration	President, Ito Country Club Corporation President, Accounting & Finance Corporation President, HITACHI ZOSEN TOURIST Co., Ltd. President, Hitz Holdings U.S.A. Inc.

Name	Position	Areas of Responsibility	Significant Concurrent Positions
		Headquarters and Procurement Headquarters	
Chiaki Ito	Director		Outside Director, Zensho Holdings Co., Ltd. Outside Director, OBIC Business Consultants Co., Ltd.
Kazuko Takamatsu	Director		Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management Outside Director, Dexerials Corporation
Richard R. Lury	Director		Attorney-at-law in the United States (State of New York and New Jersey) Outside Director, Sanken Electric Co., Ltd. Outside Director, Sanken North America, Inc.
Koji Abo	Full-time Corporate Auditor		
Masamichi Tokuhira	Full-time Corporate Auditor		
Yoshihiro Doi	Corporate Auditor		Director, Executive Vice President, The Kansai Electric Power Co., Inc.
Kenichi Takashima	Corporate Auditor		Outside Director, MAXVALU CHUBU CO., LTD.

(Notes) 1. Positions and areas of responsibility, and significant concurrent positions both describe conditions as of March 31, 2018. Changes during the current business year are as follows.

(1) Changes in position and areas of responsibility

Name	After Change	Before Change	Date of Change
Takashi Tanisho	Representative Director Chairman and President	Representative Director President and Chief Executive Officer	April 1, 2017
Sadao Mino	Representative Director Executive Vice-President President's Assistant (Responsible for Production Engineering Dept. and Wind	Managing Director General Manager of Environment Business Headquarters and Responsible for Architect Supervision Dept., and Quality Assurance	April 1, 2017

Name	After Change	Before Change	Date of Change
	Power Business Promotion Office and Functional Materials Business Promotion Office)	Dept.	
Toshiyuki Shiraki	Managing Director General Manager of Business Planning & Technology Development Headquarters and Responsible for Information and Communication Technology Promotion Headquarters and Architect Supervision Dept. and Quality Assurance Dept.	Managing Director General Manager of Technology Development Headquarters and General Manager of Business Planning Headquarters	April 1, 2017
Tatsuji Kamaya	Director General Manager of Corporate Planning Headquarters and General Manager of SR99 Project Team, Corporate Planning Headquarters and Responsible for General Administration Headquarters and Procurement Headquarters	Director General Manager of Corporate Planning Headquarters and Responsible for General Administration Headquarters and Procurement Headquarters	August 1, 2017

2. Directors Chiaki Ito, Kazuko Takamatsu and Richard R. Lury are Outside Directors.
3. Corporate Auditors Yoshihiro Doi and Kenichi Takashima are Outside Corporate Auditors.
4. The Company has designated all Outside Directors and Outside Corporate Auditors as independent officers, as prescribed by Tokyo Stock Exchange, Inc.
5. Full-time Corporate Auditor Masamichi Tokuhira and Corporate Auditor Kenichi Takashima possess considerable knowledge of finance and accounting as described below.
 - Full-time Corporate Auditor Masamichi Tokuhira has many years of experience in accounting and financial operations, including experience as the General Manager of Accounting Department in the Company.
 - Corporate Auditor Kenichi Takashima has many years of experience in accounting and financial operations, including experience as General Manager of Accounting Division and Finance Division in Honda Motor Co., Ltd.
6. At the 120th Ordinary General Meeting of Shareholders held on June 22, 2017, Hidenobu Fujii, Tadashi Shibayama, Kazuhisa Yamamoto and Tatsuji Kamaya were elected as new Directors and assumed the positions thereof. Also at the same Ordinary General Meeting of Shareholders, Yoshihiro Doi was newly elected as Corporate Auditor and assumed the position thereof.
7. At the conclusion of the 120th Ordinary General Meeting of Shareholders held on June 22, 2017, Vice-Chairman Masaki Hashikawa, Managing Directors Masayuki Morikata, Wataru Kobashi, Senior Corporate Advisor and Director Minoru Furukawa and Corporate Auditor Makoto Yagi retired due to expiration of term of office.
8. The positions and areas of responsibility were changed as follows on April 1, 2018.

Name	Position	Areas of Responsibility
Sadao Mino	Representative Director, Executive Vice-President	President's Assistant (Responsible for Sales, Production Engineering Dept.)
Tatsuji Kamaya	Managing Director	General Manager of Corporate Planning Headquarters and General Manager of SR99 Project Team, Corporate Planning Headquarters and Responsible for General Administration Headquarters and Procurement Headquarters

9. Sanken North America, Inc. served concurrently by Director Richard R. Lury changed its trade name to Allegro MicroSystems Inc. effective on April 2, 2018.

(2) Outline of agreements for limitation of liabilities

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

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

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

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

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

Classification	Number of Recipients	Total Amount of Remuneration, etc. (Millions of yen)
Directors (of which, Outside Directors)	14 (3)	296 (32)
Corporate Auditors (of which, Outside Corporate Auditors)	5 (3)	79 (18)
Total (of which, outside officers)	19 (6)	375 (50)

- (Notes) 1. By a resolution of the General Meeting of Shareholders, the upper limits on remuneration for Directors and Corporate Auditors are set at 550 million yen on a yearly basis for Directors (excluding salaries for concurrent service as employees) and 100 million yen on a yearly basis for Corporate Auditors. None of the above-mentioned Directors undertake concurrent service as employees.
2. As of March 31, 2018, the Company has ten (10) Directors (of which three (3) are Outside Directors) and four (4) Corporate Auditors (of which two (2) are Outside Corporate Auditors). The difference from the number of recipients noted above is due to the inclusion of four (4) Directors and one (1) Outside Corporate Auditor who retired from their posts at the conclusion of the 120th Ordinary General Meeting of Shareholders held on June 22, 2017.
3. A total of 36 million yen was paid to seven (7) Directors as bonuses for the 120th business year. Of this amount, 35 million had been recorded as remuneration (officer's bonuses) for the current business year.

(4) Matters Concerning Outside Officers

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

Classification	Name	Concurrent Positions
Outside Director	Chiaki Ito	Outside Director, Zensho Holdings Co., Ltd. Outside Director, OBIC Business

Classification	Name	Concurrent Positions
		Consultants Co., Ltd.
	Kazuko Takamatsu	Executive Director and Secretariat, Japan Institute for Women's Empowerment & Diversity Management Outside Director, Dexerials Corporation
	Richard R. Lury	Outside Director, Sanken Electric Co., Ltd. Outside Director, Sanken North America, Inc.
Outside Corporate Auditor	Yoshihiro Doi	Director, Executive Vice President, The Kansai Electric Power Co., Inc.
	Kenichi Takashima	Outside Director, MAXVALU CHUBU CO., LTD.

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

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

2) Main activities during the current business year

Classification	Name	Main Activities
Outside Director	Chiaki Ito	Mr. Ito attended all 14 meetings of the Board of Directors held during the current business year, and based on his experience and knowledge concerning corporate management, made statements to ensure the improvement of the Group's corporate value and the validity and appropriateness of the Company's decision-making and business execution.
	Kazuko Takamatsu	Ms. Takamatsu attended all 14 meetings of the Board of Directors held during the current business year, and based on her experience and knowledge concerning corporate management, made statements to ensure the improvement of the Group's corporate value and the validity and appropriateness of the Company's decision-making and business execution.
	Richard R. Lury	Mr. Lury attended 13 of the 14 meetings of the Board of Directors held during the current business year, and based on his experience and knowledge concerning international corporate legal matters, made statements to ensure the improvement of the Group's corporate value and the validity and appropriateness of the Company's decision-making and business execution.
Outside Corporate Auditors	Yoshihiro Doi	Mr. Doi attended all 11 meetings of the Board of Directors and all 7 meetings of the Board of Corporate Auditors held following his appointment on June 22, 2017, and based on his experience and knowledge concerning corporate management, made statements to ensure the legality and appropriateness of the Company's decision-making and business execution.
	Kenichi Takashima	Mr. Takashima attended all 14 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held during the current business year, and based on his experience and knowledge concerning corporate management, finance and accounting, made statements to ensure the legality and appropriateness of the Company's decision-making and business execution.

V. Status of Accounting Auditor

(1) Name of Accounting Auditor KPMG AZSA LLC

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

Category	Amount of Remunerations, etc.
Amount of remuneration, etc. payable by the Company	87
Total amount of cash and other financial benefits payable by the Company and its subsidiaries	143

- (Notes) 1. In the audit agreement between the Company and the Accounting Auditor, no differentiation is made between remuneration on the basis of the Companies Act and remuneration on the basis of the Financial Instruments and Exchange Act, and it is not possible to make a substantial differentiation between the two. As a consequence, the amount of remuneration, etc. for services as Accounting Auditor of the Company provided in the table above is the total of the two.
2. The Board of Corporate Auditors has consented to remuneration, etc. for the Accounting Auditor as a result of having verified and discussed the reasonableness of the Accounting Auditor's audit plan and the basis for the estimate of remuneration, based on a review and evaluation of reports from relevant internal departments and results of audit for the previous business year.
3. Of the Company's significant subsidiaries, the auditing of Hitachi Zosen Inova AG, NAC International Inc. and Osmoflo Holdings Pty Ltd is performed by audit corporations other than the Accounting Auditor of the Company (including those with equivalent status overseas).

(3) Non-audit Services

The Company outsources work (Non-audit Services), including preparing the comfort letter associated with the issuance of bonds that is work other than that provided for in Article 2, paragraph 1 of the Certified Public Accountants Act, to the Accounting Auditor and pays for these services.

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

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

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

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

(1) Systems to Ensure Appropriateness of Operations

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

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

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

personnel, at which sufficient advance deliberations on basic strategies and important matters shall be carried out, thus putting in place a system enabling accurate managerial judgment.

- c) The Board of Directors of the Company shall determine the Group's medium-term management plans and plans for each year. Based on such plans, all Directors of the Company shall develop detailed measures and systems for efficient business execution, and make progress reports on these measures to the Board of Directors of the Company.
 - d) The Company shall establish the Management Plan Follow-Up Committee with the President and Director of the Company as Chairperson. This committee shall monitor and inspect progress made with the measures and work towards the early discovery and prevention of problems, thus ensuring efficient business operations.
 - e) To efficiently achieve management targets, the Company shall formulate rules on organizational structure, division of duties, and decision-making authority, and clarify duties and authorities. The Company shall also formulate rules on the operation of information and communication systems and the protection of information assets, and shall utilize such rules effectively.
 - f) The department of the Company in charge of internal auditing shall perform audits to determine whether business operations at each department of the Company and each Group company are carried out efficiently in accordance with laws and regulations, the Articles of Incorporation and other internal rules, and shall report to the Board of Directors on this matter.
- 5) Systems for Reporting to the Company on the Matters regarding Execution of Duties by Directors of Group Companies
- To carry out deliberations on establishing internal control systems and to share information on Group management policies and other matters, the Company shall regularly hold conferences attended by the Directors of the Company and the President and Director of each Group company. Group companies shall report any material events at the conferences.
- 6) Other Systems to Ensure Appropriateness of Operations in the Group Consisting of the Company and the Group companies
- a) Regarding the management of Group companies, the Company shall supervise and monitor the appropriateness of operations at Group companies, while also respecting their autonomy, by assigning Directors and Corporate Auditors of the Company to work at each Group company, thus working to strengthen governance and supervisory functions under Group management.
 - b) The Company shall establish a main control division in the Company to control and guide Group companies, thus advancing efficient Group management in accordance with the standards for Group control and management. The control division shall also provide support for the establishment of internal control systems at each Group company.
- 7) Matters Concerning Employees who are Requested by Corporate Auditors to Assist in the Duties of Corporate Auditors and Matters Concerning Ensuring the Independence from Directors of Such Employees and the Effectiveness of Directions to Such Employees
- a) The Company shall put in place the Assistant to the Corporate Auditors as a body to assist the Corporate Auditors of the Company in their duties.
 - b) Employees belonging to other departments shall not be precluded from serving concurrently as staff in the Assistant to the Corporate Auditors. However, if Corporate

Auditors request the assignment of dedicated staff to the Assistant to the Corporate Auditors, this shall not be refused without rational grounds.

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

inform employees of the rules relating to auditing operations and auditing standards and help to establish an environment in which the Corporate Auditors can perform their audits effectively.

- c) The department of the Company in charge of internal auditing shall provide internal audit plans, internal audit reports and other necessary information it receives in the course of performing internal auditing to the Corporate Auditors.

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

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

1) Regarding Compliance

Within the Company, on the occasions of New Year's greetings and workshops, etc., the President himself gives employees a message from the top management on the importance of compliance in managing companies. Moreover, each year the Company distributes the "Hitz Group Charter of Ethical Behavior" (Japanese, English, and Chinese versions), which presents the same message mentioned above and is to be carried by employees at all times.

The Compliance Committee, on which the President serves as Chairperson, has decided the basic policy and specific measures, and engages in compliance activities across the entire Group. Specifically, the committee has implemented e-learning, various workshops and lectures, while installing a whistle-blower desk and communicating information through internal newsletters. Moreover, in addition to having set up a regular reporting system from domestic and overseas Group companies and overseas offices, the Company checks the status of compliance and problems at each company and office, organizes visit workshops and provides learning tools, among other operational support carried out once every six months, thereby ensuring compliance across the entire Group.

2) Regarding Risk Management

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

With regard to order intake projects, the Company holds a Risk Examination Committee in each business (a whole-company Risk Examination Committee for important projects) from the project estimate stage, to clarify risks for technologies, estimates, delivery date, and contract, and take measures for risks before judging whether or not to accept an order, thereby securing the high quality of order intake. After order intake, the Company secures the quality and processes, etc. of projects by following up project progress in a timely way, and discovering risks and addressing them promptly. For overseas projects in particular, it has become important to develop a security and medical platform for employees dispatched overseas. Therefore, the Company strives to develop an environment in the form of creating emergency guidelines and entering into overseas medical service contracts.

3) Regarding the Execution of Duties by Directors

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

4) Regarding the Management of Group Companies

To share information on Group management policies and plans, conferences is held on a

regular basis and the Company provides oversight and instructions regarding the management of Group companies. The Company discusses and determines important business activities of Group companies in particular at the Management Strategy Committee and Board of Directors meetings, thereby streamlining the entire Group's business activities and maximizing its synergies, while securing the appropriateness of the business and avoiding risks.

5) Regarding Internal Auditing

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

6) Regarding Audits Performed by Corporate Auditors

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

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

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

Consolidated Balance Sheets

As of March 31, 2018

	(Millions of yen)
Assets	391,860
Current assets	223,274
Cash and time deposits	33,929
Notes and accounts receivable-trade	148,188
Merchandise and finished goods	2,441
Work in progress	21,801
Raw materials and supplies	4,845
Deferred tax assets	4,960
Other current assets	10,582
Allowance for doubtful receivables	(3,474)
Noncurrent assets	168,536
Property, plant and equipment, net	[118,270]
Buildings and structures	32,204
Machinery, equipment and vehicles	22,077
Tools, furniture and fixtures	1,918
Land	56,993
Lease assets	1,119
Construction in progress	3,958
Intangible assets	[10,877]
Goodwill	3,599
Other intangible assets	7,277
Investments and other noncurrent assets	[39,388]
Investments in securities	25,211
Long-term loans receivable	28
Net defined benefit assets	1,954
Deferred tax assets	5,993
Other investments and noncurrent assets	6,885
Allowance for doubtful receivables	(685)
Deferred assets	49
Bond issue expenses	49
Total assets	391,860

	(Millions of yen)
Liabilities	272,846
Current liabilities	185,498
Notes and accounts payable-trade	41,742
Electronically recorded obligations	19,431
Short-term borrowings	40,999
Accrued expenses	47,719
Accrued income taxes	2,506
Advances received on work in progress	14,536
Reserve for product warranty	4,094
Reserve for losses on construction contracts	2,673
Other current liabilities	11,794
Noncurrent liabilities	87,347
Bonds payable	10,000
Long-term borrowings	54,985
Deferred tax liabilities	523
Net defined benefit liability	18,625
Directors' and corporate auditors' severance and retirement benefits	440
Asset retirement obligations	1,155
Other noncurrent liabilities	1,617
Net assets	119,014
Shareholders' equity	114,751
Common stock	45,442
Capital surplus	8,892
Retained earnings	61,433
Treasury stock, at cost	(1,016)
Accumulated other comprehensive income	2,142
Net unrealized holding gains (losses) on securities	678
Net unrealized holding gains (losses) on hedging derivatives	(416)
Land revaluation difference	(7)
Foreign currency translation adjustments	2,064
Remeasurements of defined benefit plans	(175)
Non-controlling interests in consolidated subsidiaries	2,119
Total liabilities and net assets	391,860

Consolidated Statements of Income

For the business year ended March 31, 2018

		(Millions of yen)
Net sales		376,437
Cost of sales		316,776
Gross profit		59,661
Selling, general and administrative expenses		53,753
Operating income		5,907
Non-operating income		
Interest income	82	
Dividend income	195	
Equity in net income of affiliates	520	
Other non-operating income	894	1,693
Non-operating expenses		
Interest expense	896	
Litigation expenses	1,911	
Other non-operating expenses	1,427	4,235
Ordinary income		3,365
Profit before income taxes & non-controlling interests		3,365
Income taxes-current		4,114
Income taxes-deferred		(2,853)
Profit before non-controlling interests		2,104
Loss attributable to non-controlling interests		(66)
Profit attributable to shareholders of Hitachi Zosen		2,171

Consolidated Statements of Changes in Net Assets

For the business year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	45,442	8,893	61,285	(1,013)	114,607
Changes of items during the period					
Cash dividends			(2,022)		(2,022)
Profit attributable to shareholders of Hitachi Zosen			2,171		2,171
Treasury stock disposed, net		(0)		0	0
Treasury stock purchased, net				(3)	(3)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1)			(1)
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	(1)	148	(3)	143
Balance at end of year	45,442	8,892	61,433	(1,016)	114,751

	Accumulated other comprehensive income						Non-controlling interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of year	479	(365)	(7)	2,138	(1,252)	992	2,209	117,810
Changes of items during the period								
Cash dividends								(2,022)
Profit attributable to shareholders of Hitachi Zosen								2,171
Treasury stock disposed, net								0
Treasury stock purchased, net								(3)
Change in treasury shares of parent arising from transactions with non-controlling shareholders								(1)
Net changes of items other than shareholders' equity	198	(50)	-	(74)	1,077	1,150	(89)	(1,060)
Total changes of items during the period	198	(50)	-	(74)	1,077	1,150	(89)	(1,204)
Balance at end of year	678	(416)	(7)	2,064	(175)	2,142	2,119	119,014

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

Non-consolidated Balance Sheets

As of March 31, 2018

	(Millions of yen)
Assets	310,044
Current assets	145,731
Cash and time deposits	16,579
Trade notes receivable	5,708
Trade accounts receivable	91,020
Work in progress	15,967
Raw materials and supplies	2,785
Advance payments	1,897
Prepaid expenses	715
Deferred tax assets	2,394
Other accounts receivable	4,608
Advances paid	3,307
Short-term loans receivable	3,106
Other current assets	1,481
Allowance for doubtful receivables	(3,839)
Noncurrent assets	164,263
Property, plant and equipment, net	[89,894]
Buildings	18,894
Structures	5,555
Machinery and equipment	14,734
Vehicles	154
Tools, furniture and fixtures	1,176
Land	48,297
Lease assets	551
Construction in progress	530
Intangible assets	[4,073]
Patent rights	43
Software	1,161
Rights of using facilities	109
Other intangible assets	2,759
Investments and other noncurrent assets	[70,294]
Investments in securities	14,501
Stocks of subsidiaries and affiliates	46,832
Investments in capital of subsidiaries and affiliates	2,287
Long-term loans receivable	3,035
Noncurrent prepaid expenses	784
Deferred tax assets	1,691
Other investments and noncurrent assets	1,837
Allowance for doubtful receivables	(677)
Deferred assets	49
Bond issue expenses	49
Total assets	310,044

	(Millions of yen)
Liabilities	223,893
Current liabilities	154,684
Trade notes payable	5,079
Electronically recorded obligations	15,970
Trade accounts payable	22,770
Short-term borrowings	38,706
Lease obligations	184
Other accounts payable	2,874
Accrued expenses	32,555
Accrued income taxes	1,576
Advances received on work in progress	8,650
Deposits received	23,537
Reserve for product warranty	1,383
Reserve for losses on construction contracts	1,294
Other current liabilities	99
Noncurrent liabilities	69,208
Bonds payable	10,000
Long-term borrowings	47,834
Lease obligations	351
Employees' severance and retirement benefits	9,849
Asset retirement obligations	856
Other noncurrent liabilities	317
Net assets	86,150
Shareholders' equity	86,181
Common stock	45,442
Capital surplus	11,080
Legal capital surplus	5,946
Other capital surplus	5,133
Retained earnings	30,675
Legal retained earnings	1,361
Other retained earnings	29,314
Retained earnings brought forward	29,314
Treasury stock, at cost	(1,016)
Valuation and translation adjustments	(30)
Net unrealized holding gains (losses) on securities	310
Net unrealized holding gains (losses) on hedging derivatives	(0)
Land revaluation difference	(340)
Total liabilities and net assets	310,044

Non-consolidated Statements of Income

For the business year ended March 31, 2018

		(Millions of yen)
Net sales		225,078
Cost of sales		189,652
Gross profit		35,425
Selling, general and administrative expenses		26,150
Operating income		9,274
Non-operating income		
Interest income	174	
Dividend income	2,364	
Other non-operating income	900	3,439
Non-operating expenses		
Interest expense	951	
Other non-operating expenses	3,937	4,888
Ordinary income		7,825
Extraordinary loss		
Loss on support to subsidiaries and affiliates	7,820	7,820
Profit before income taxes		4
Income taxes-current		1,343
Income taxes-deferred		(371)
Loss		967

Non-consolidated Statements of Changes in Net Assets

For the business year ended March 31, 2018

	(Millions of yen)									
	Shareholders' equity								Treasury stock	Total shareholders' equity
	Common stock	Capital surplus			Retained earnings					
Additional paid-in capital		Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings				
					Retained earnings brought forward					
Balance at beginning of year	45,442	5,946	5,133	11,080	1,158	32,506	33,665	(1,013)	89,174	
Changes of items during the period										
Cash dividends						(2,022)	(2,022)		(2,022)	
Reserve for dividends payment					202	(202)	-		-	
Loss						(967)	(967)		(967)	
Treasury stock disposed, net			(0)	(0)				0	0	
Treasury stock purchased, net								(3)	(3)	
Net changes of items other than shareholders' equity										
Total changes of items during the period	-	-	(0)	(0)	202	(3,192)	(2,989)	(3)	(2,993)	

Balance at end of year	45,442	5,946	5,133	11,080	1,361	29,314	30,675	(1,016)	86,181
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	Valuation and translation adjustments				Total net assets
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference	Total valuation and translation adjustments	
Balance at beginning of year	95	(5)	(340)	(250)	88,924
Changes of items during the period					
Cash dividends					(2,022)
Reserve for dividends payment					–
Loss					(967)
Treasury stock disposed, net					0
Treasury stock purchased, net					(3)
Net changes of items other than shareholders' equity	214	4	–	219	219
Total changes of items during the period	214	4	–	219	(2,773)
Balance at end of year	310	(0)	(340)	(30)	86,150

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

Independent Auditor's Report

May 15, 2018

The Board of Directors
Hitachi Zosen Corporation

KPMG AZSA LLC

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

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

Takaaki Mitsui (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of Hitachi Zosen Corporation and its consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

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

Notes to the Reader of Independent Auditor's Report:

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

Independent Auditor's Report

May 15, 2018

The Board of Directors
Hitachi Zosen Corporation

KPMG AZSA LLC

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

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

Takaaki Mitsui (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the non-consolidated financial statements, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the related notes, and the supplementary schedules of Hitachi Zosen Corporation as at March 31, 2018 and for the 121st business year from April 1, 2017 to March 31, 2018 in accordance with Article 436, paragraph 2, item 1 of the Companies Act.

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the supplementary schedules. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial

statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the supplementary schedules.

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

Opinion

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

Other Matter

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

Notes to the Reader of Independent Auditor's Report:

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

Audit Report of the Board of Corporate Auditors

Audit Report

With respect to the Directors' performance of their duties during the 121st business year (from April 1, 2017 to March 31, 2018), the Board of Corporate Auditors has prepared this audit report as the consensus of all its members after deliberations based on the audit reports prepared by each Corporate Auditor, and hereby reports as follows:

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

- (1) The Board of Corporate Auditors determined the audit policies, audit plan, etc., received reports from each Corporate Auditor on the progress and results of audits, exchanged opinions, and shared information. Additionally, they received reports from the Accounting Auditor on the status of its performance of duties, and requested explanations as necessary.
- (2) In accordance with the audit standards for Corporate Auditors determined by the Board of Corporate Auditors and based on the audit policies and audit plan, each Corporate Auditor took steps to facilitate mutual understanding with Directors, the department in charge of internal auditing, and other employees, strove to collect information and establish an environment for auditing, and performed audits using the methods below. Regarding the results of their investigations or audit activities, each Corporate Auditor provided opinions to Directors and those in charge of various departments as necessary.
 - i) Each Corporate Auditor attended meetings of the Board of Directors and other important meetings, received reports from Directors and other employees on the status of their performance of duties and requested explanations as necessary, inspected documents regarding important decisions and the like, and investigated the status of the business operations and assets at Head Office and major business locations. With respect to the subsidiaries, they took steps to facilitate mutual understanding and information exchange with Directors, Corporate Auditors, etc., at each subsidiary, received reports from subsidiaries on their respective businesses periodically, and investigated as necessary.
 - ii) Each Corporate Auditor discussed the audit plan with the department in charge of internal auditing in advance and received explanations on the results of audits at the time of each audit's completion. Regarding matters mentioned in audits, each Corporate Auditor confirmed that they had been rectified in a timely manner.
 - iii) Each Corporate Auditor received reports on a regular basis from the Directors and employees, etc., requested explanations as necessary, and provided opinions with respect to matters mentioned in the business report. Such matters consist of the contents of the Board of Directors' resolutions regarding the development and maintenance of the system to ensure that the Directors' performance of their duties complied with applicable laws and regulations and the Articles of Incorporation of the Company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of the corporate group consisting of a joint stock company (*kabushiki kaisha*) and its subsidiaries, and the systems developed and maintained based on such resolutions (internal control systems). Regarding internal control over financial reporting, each Corporate Auditor received

reports from Directors and others as well as KPMG AZSA LLC concerning the evaluation of said internal control and the audit status, and requested explanations as necessary.

- iv) Each Corporate Auditor monitored and verified whether the Accounting Auditor maintained its independence and properly conducted its audit, received a report from the Accounting Auditor on the status of its performance of duties, and requested explanations as necessary. In addition, each Corporate Auditor was informed of the establishment of the “System for ensuring that duties are performed appropriately” (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations) in accordance with “Standards for the Quality Control of Audits” (Business Accounting Council, October 28, 2005), etc. by the Accounting Auditor and requested explanations as necessary.

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

2. Results of Audits

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

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

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

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

(3) Results of Audit of Consolidated Financial Statements

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

May 18, 2018

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