

Hitachi Zosen Corporation



FY2014 Financial Results and Progress of Hitz Vision II

Fujisan Eco Park Incineration Center (71.5t/day × 2units)
Gotemba-Oyama Regional Administrative Association(Shizuoka, Japan)



June 2015

Hitachi Zosen Corporation

1. Overview of FY2014 Consolidated Financial Results and Forecast of FY2015
2. Progress of Mid term Business Plan “Hitz Vision II ”
3. Key Business Strategies
4. New Business And Products

1. Overview of FY2014 Consolidated Financial Results and Forecast of FY2015

- FY2014 exceeds the last year result
- Big growth of Environmental system division's order intake

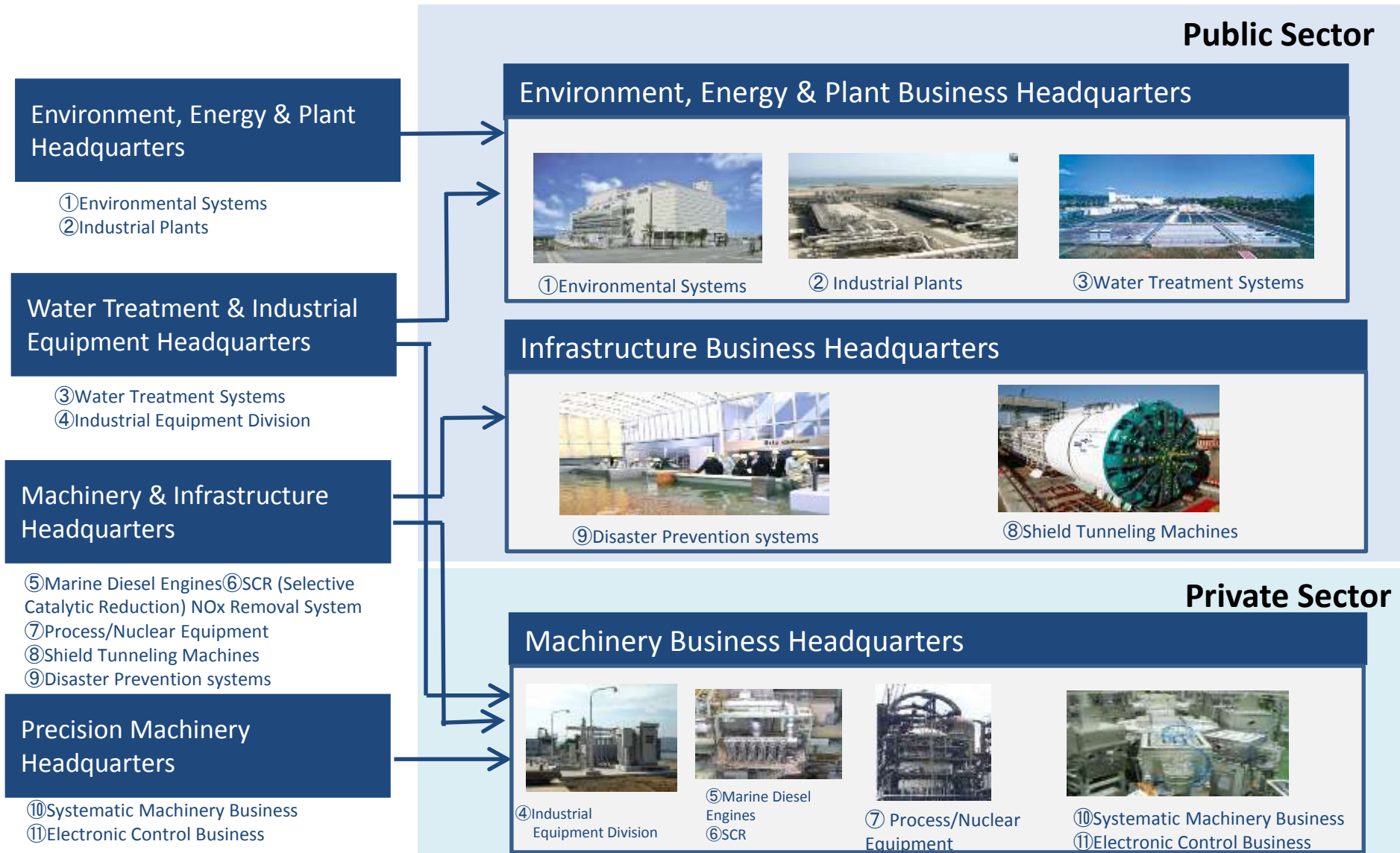
FY2014 Results and FY2015 Forecast Overview

(Unit: Billion Yen)

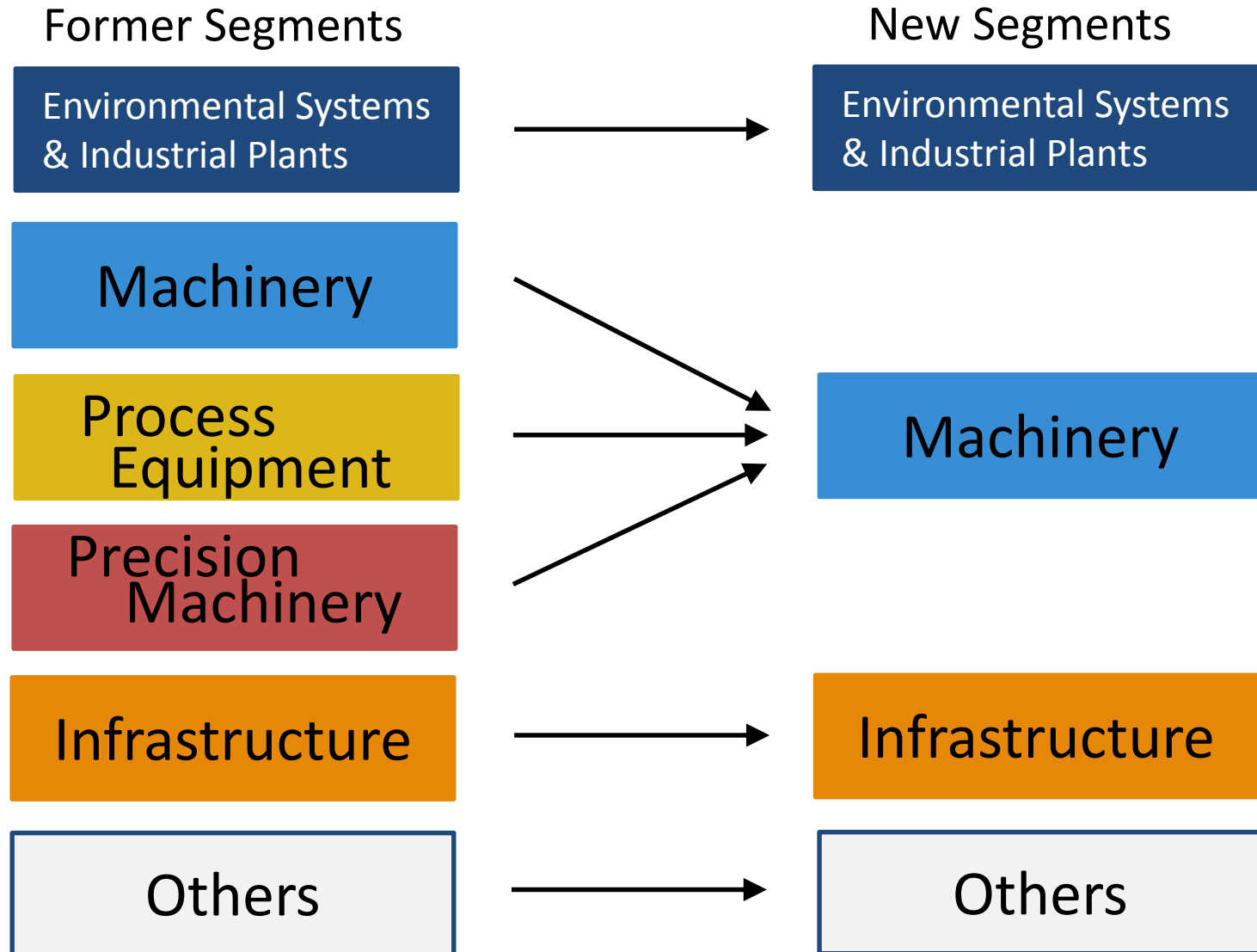
| | FY2013 | FY2014 | FY2015 | FY2016 |
|------------------------------------|--------|--------|----------|----------------|
| | Actual | Actual | Forecast | Hitz-V II Plan |
| Order intake | 328.4 | 452.7 | 450.0 | 500.0 |
| Net sales | 333.4 | 359.3 | 370.0 | 400.0 |
| Operating income | 7.8 | 12.8 | 13.5 | 23.0 |
| (ratio) | 2.4% | 3.6% | 3.6% | 5.8% |
| Non-operating P&L | -1.6 | -5.3 | -3.5 | -3.0 |
| Ordinary income | 6.2 | 7.5 | 10.0 | 20.0 |
| (ratio) | 1.9% | 2.1% | 2.7% | 5.0% |
| Extraordinary P&L | 0.0 | 1.8 | 0.0 | 0.0 |
| Income tax & minority interests | -2.5 | -4.2 | -4.5 | -7.0 |
| Net income | 3.7 | 5.1 | 5.5 | 13.0 |
| (ratio) | 1.1% | 1.4% | 1.4% | 3.3% |

Promote flat-matrix management structure : Reorganization

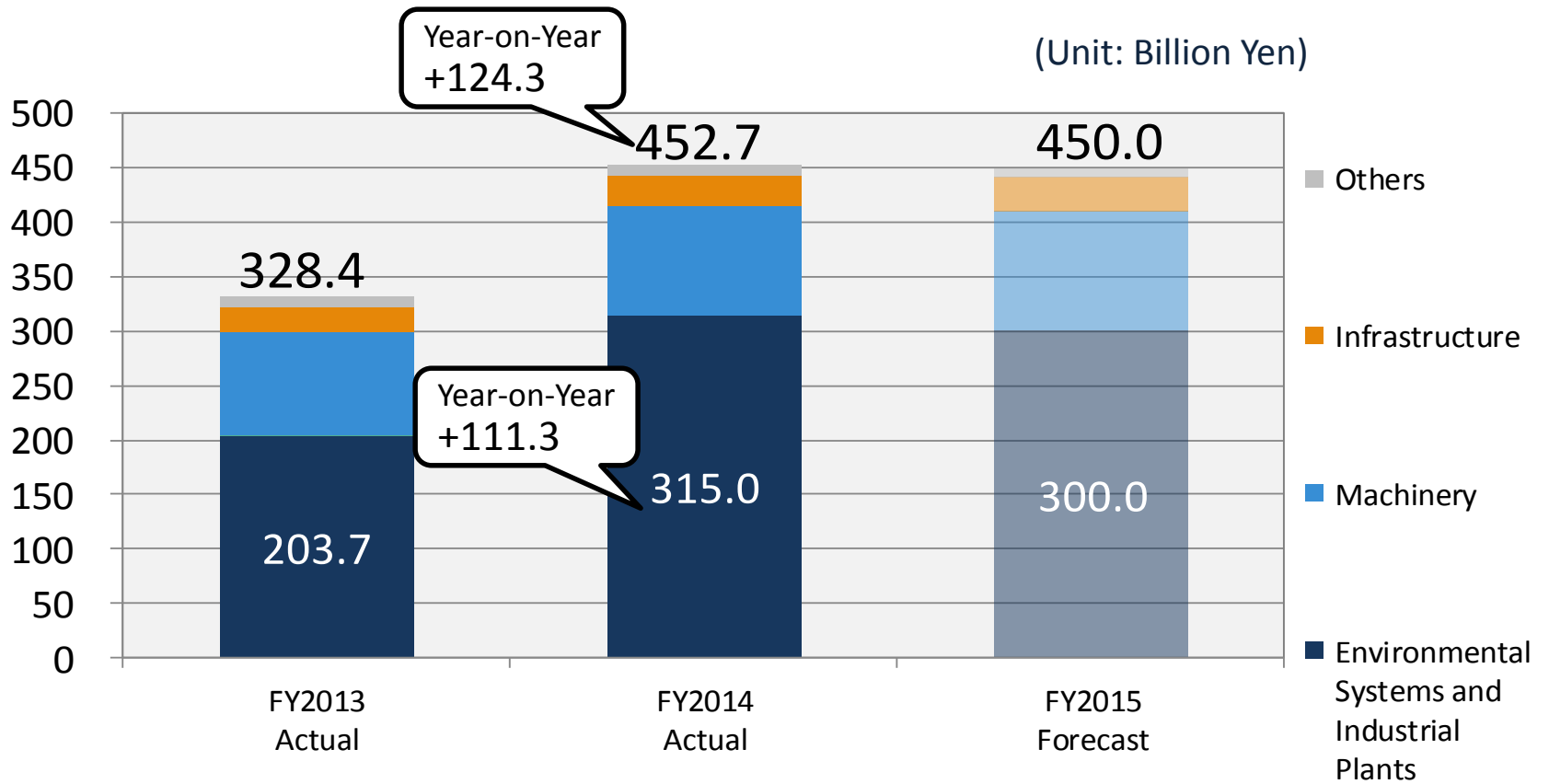
◆ Reorganization to divided by industry from our customers' perspective



Change of Business Segments

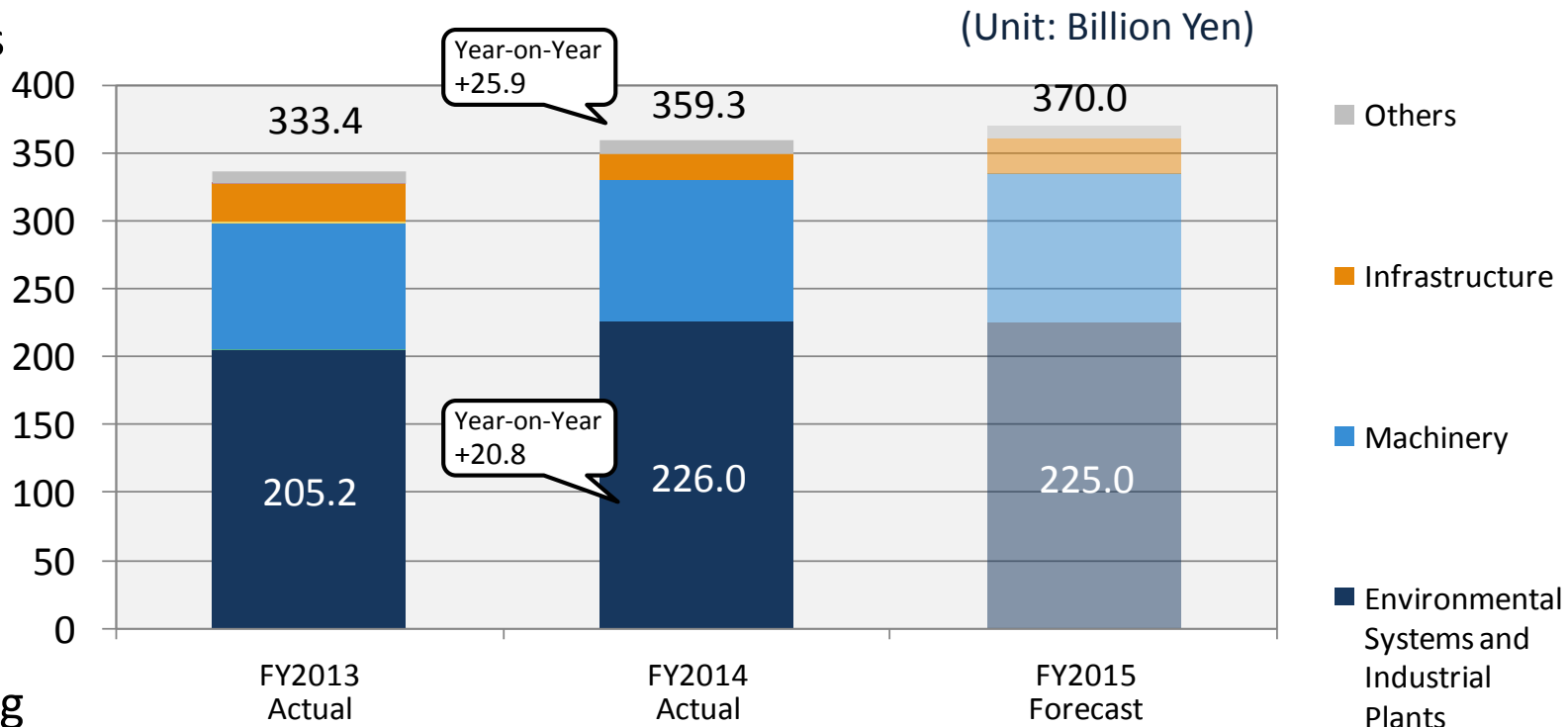


Order intake

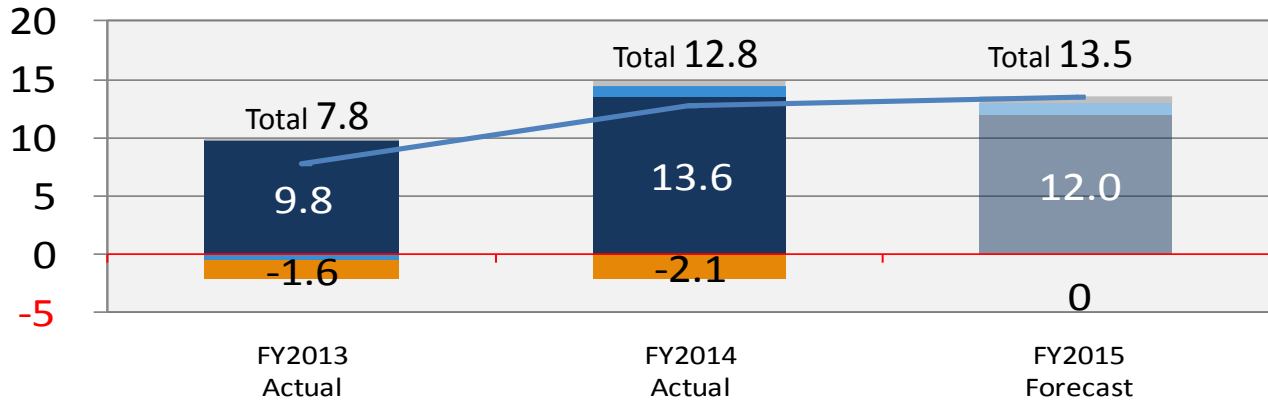


Net sales & Operating income

Net sales



Operating income



Order intake, Net sales & Operating income by Segments

(unit: billion Yen)

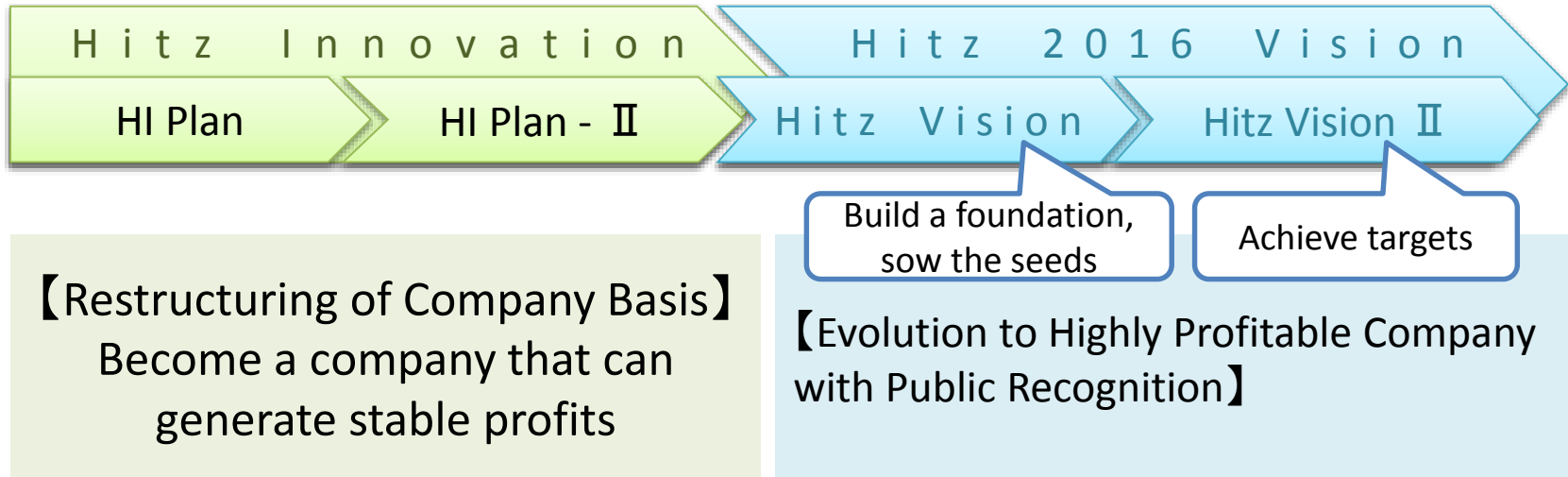
| | | Environmental Systems & Industrial Plants | Machinery | Infrastructure | Others | Total |
|---------------------------|------------------|---|-----------|----------------|--------|-------|
| FY2013 Actual | Order intake | 203.7 | 93.8 | 22.5 | 8.4 | 328.4 |
| | Net sales | 205.2 | 91.6 | 28.1 | 8.5 | 333.4 |
| | Operating income | 9.8 | -0.5 | -1.6 | 0.1 | 7.8 |
| FY2014 Actual | Order intake | 315.0 | 100.6 | 27.7 | 9.4 | 452.7 |
| | Net sales | 226.0 | 104.4 | 19.4 | 9.5 | 359.3 |
| | Operating income | 13.6 | 0.8 | -2.1 | 0.5 | 12.8 |
| FY2015 Forecast | Order intake | 300.0 | 110.0 | 31.0 | 9.0 | 450.0 |
| | Net sales | 225.0 | 110.0 | 26.0 | 9.0 | 370.0 |
| | Operating income | 12.0 | 1.0 | 0.0 | 0.5 | 13.5 |

2. Progress of Mid Term Business Plan “Hitz Vision II”

◆ Long-term vision and medium-term management plans

<FY2005-FY2010>

<FY2011-FY2016>



◆ Business Domains

A. Environment/Green Energy

- Environmental restoration
- Effective use of natural resources
- Expansion of utilization of renewable energy sources

B. Social Infrastructure & Disaster Prevention

Hitz Vision II : Three years to achieve targets

(Unit: Billion yen)

| | FY2013 Actual | FY2014 Actual | FY2016 Targets |
|------------------|------------------|------------------|-------------------|
| Order intake | 328.4 | 452.7 | 500.0 |
| Net sales | 333.4 | 359.3 | 400.0 |
| Operating margin | 7.8 (2.4%) | 12.8 (3.6%) | 23.0 (5.8%) |
| R&D expenses | 6.2 (1.9%) | 6.1 (1.7%) | 12.0 (3.0%) |

A. Strengthen profitability

Each business and product to achieve No. 1 profitability in its area

B. Expand scale of operations

Expand to Yen 500 billion company with public recognition

C. Fortify financial structure

Achieve and maintain at least 30% shareholders' equity ratio, and secure a stable financial position

◆ Status of Well-balanced Business Portfolio

(Unit: Billion yen)

| | FY2010 | | FY2013 | | FY2014 | |
|--|--------|------|--------|------|--------|------|
| Domestic | 237.5 | 83% | 217.4 | 65% | 237.1 | 66% |
| Overseas | 49.6 | 17% | 116.0 | 35% | 122.2 | 34% |
| Total | 287.1 | 100% | 333.4 | 100% | 359.3 | 100% |
| Incl. New Businesses/Products | — | — | 0.9 | 0% | 3.2 | 1% |
| Incl. Stable businesses (after-sales service, etc.) | 115.5 | 40% | 139.5 | 42% | 136.1 | 38% |

[Overseas]

17% → 30% (FY2016)

[Stable businesses]

40% → 50% (FY2016)

[New Businesses/Products]

50bil (FY2016)

◆ Investment

(Unit: Billion Yen)

| | Hitz Vision (Actual) 3 years total | Hitz Vision II (Plan) 3 years total |
|--------------------|--|---|
| R&D expenses | 20.0 | 30.0 |
| Capital investment | 19.0 | 30.0 |
| M&A & others | 13.8 | 40.0 |
| Total | 52.8 | 100.0 |

3. Key Business Strategies

◆ Strategic M&A of overseas companies

Hitachi Zosen Inova (Switzerland): since Dec. 2010

Consolidation of licensor → **Aiming global Market**

Steady order intake in Europe

- Cleveland STV4+5: 456t/dx2 24MW (FY2011) (UK)
- Vantaa: 480t/dx2 (FY2011) (Finland)
- Ferrybridge: 1,013t/dx2 68MW (FY2012) (UK)
- Luzern: 300t/dx2 (FY2012) (Switzerland)
- Buckinghamshire: 900t/dx1 22MW (FY2013) (UK)
- Severnside: 581t/dx2 34MW (FY2013) (UK)
- Poznan: 360t/dx2 15MW (FY2014) (Poland)
- Hereford & Worcestershire: 624t/dx1 21MW (FY2014) (UK)
- Dublin: 840t/dx2 69MW (FY2014) (Ireland)

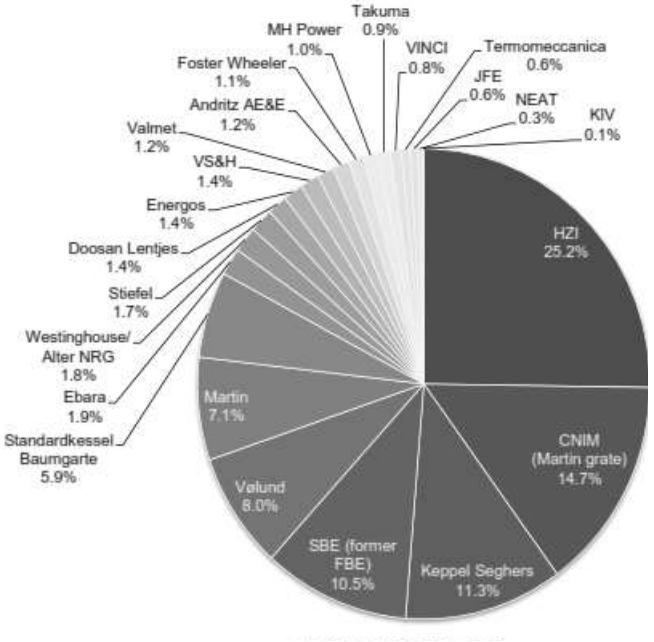


Accelerate synergy with Hitachi Zosen

1. Expansion in growth areas (Overseas) : Energy from Waste (2)

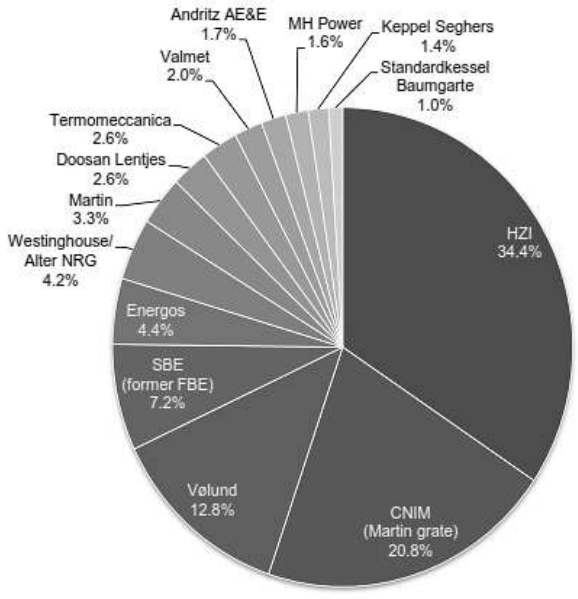
HZI Market Shares – European EfW Market

Market Shares
2005 – 2014 by supplier



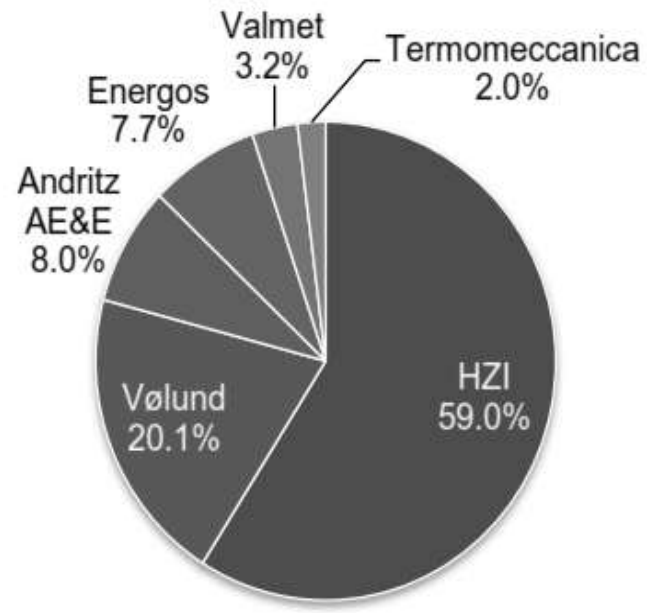
Total: 106'793 tpd

Market Shares
2012 – 2014 by supplier



Total: 25'923 tpd

Market Shares
in 2014 by supplier

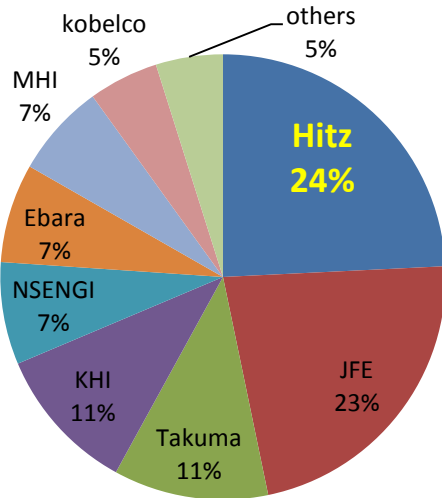


Total: 5'623 tpd

1. Expansion in growth areas (Overseas) : Energy from Waste (3)

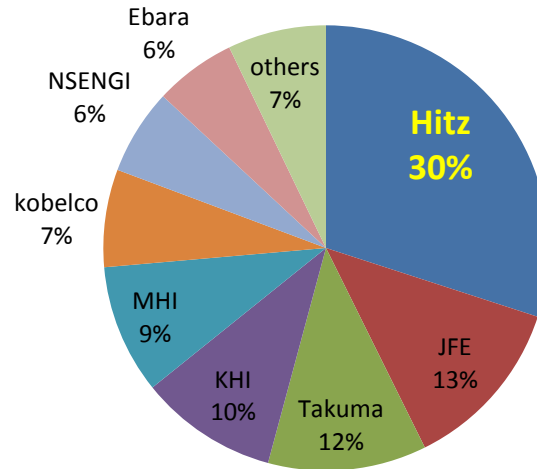
Hitz Market Shares – Japanese EfW Market

Market Shares
2005 – 2014 by supplier



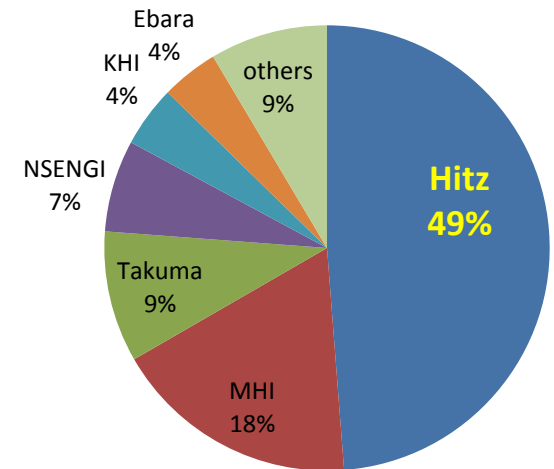
Total: 16'515 tpd

Market Shares
2012 – 2014 by supplier



Total: 9'143 tpd

Market Shares
in 2014 by supplier

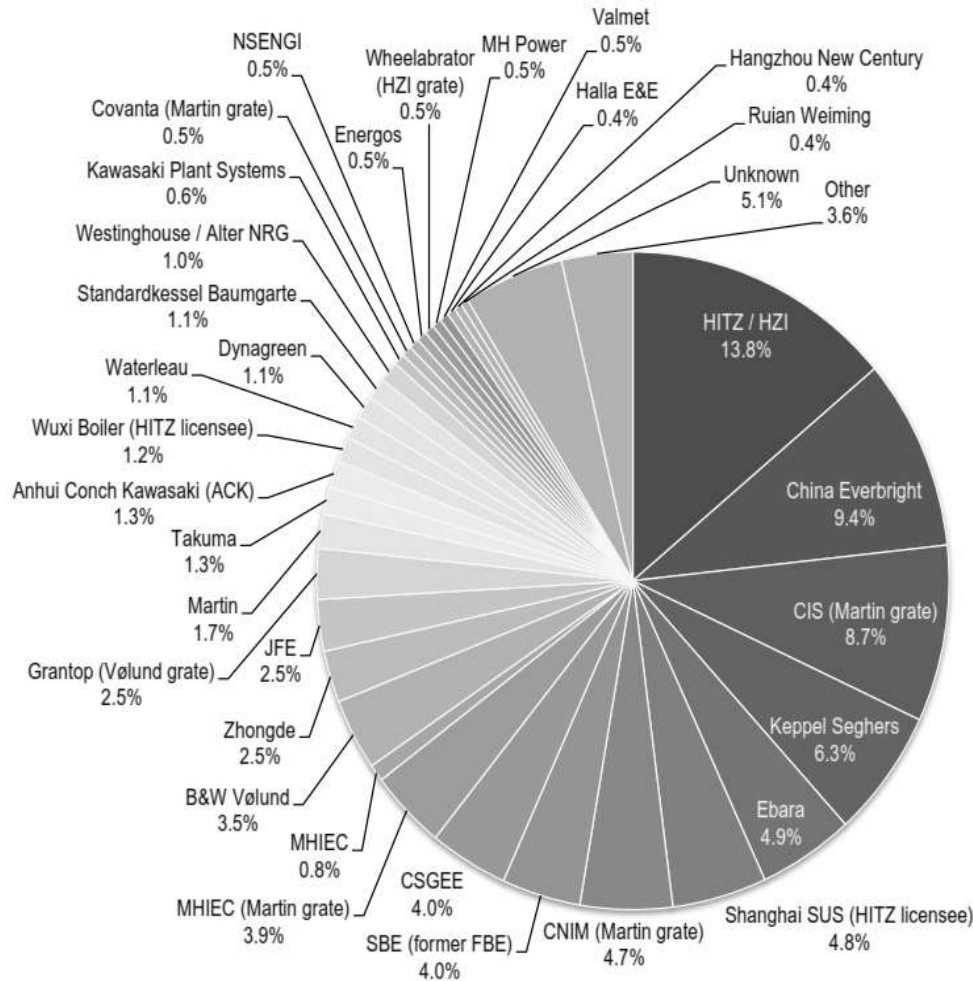


Total: 2'247 tpd

Source: Internal survey by Hitachi Zosen Corporation

1. Expansion in growth areas (Overseas) : Energy from Waste (4)

Market Shares by Supplier 2008-2014 – Worldwide



HITZ/HZI = Market Leader

Total: 271'258 tpd

Source: Vaccani Worldwide Market Share Analysis of Thermal Waste Treatment Plants, 2015 Edition

◆ World-class operation bases, ample reference projects



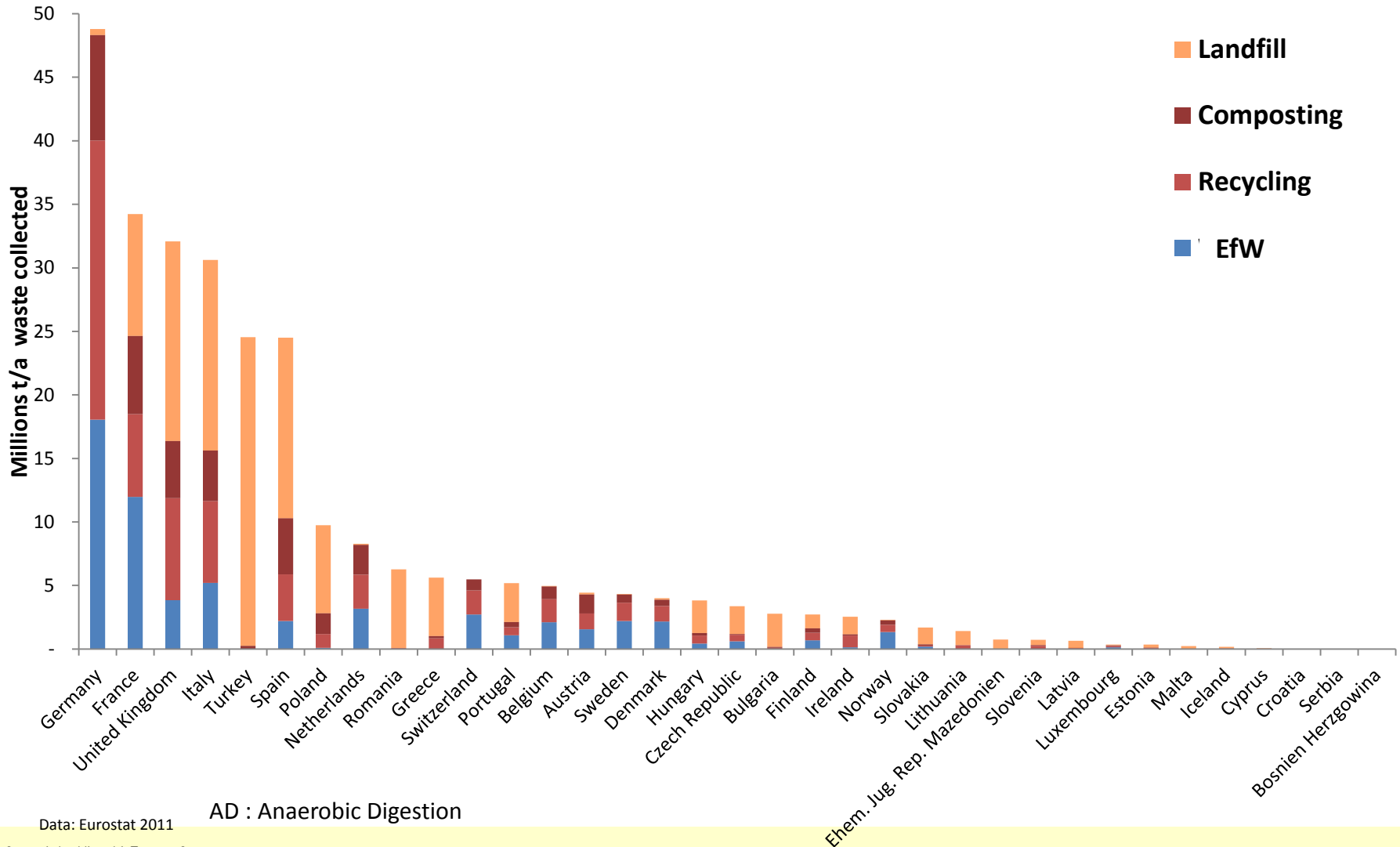
Riverside, UK (778t/dx3)



Shanghai, China (500t/dx4)

1. Expansion in growth areas (Overseas) : Energy from Waste (6)

European Waste Management: Outlook Europe Remains Important Market for EfW and AD

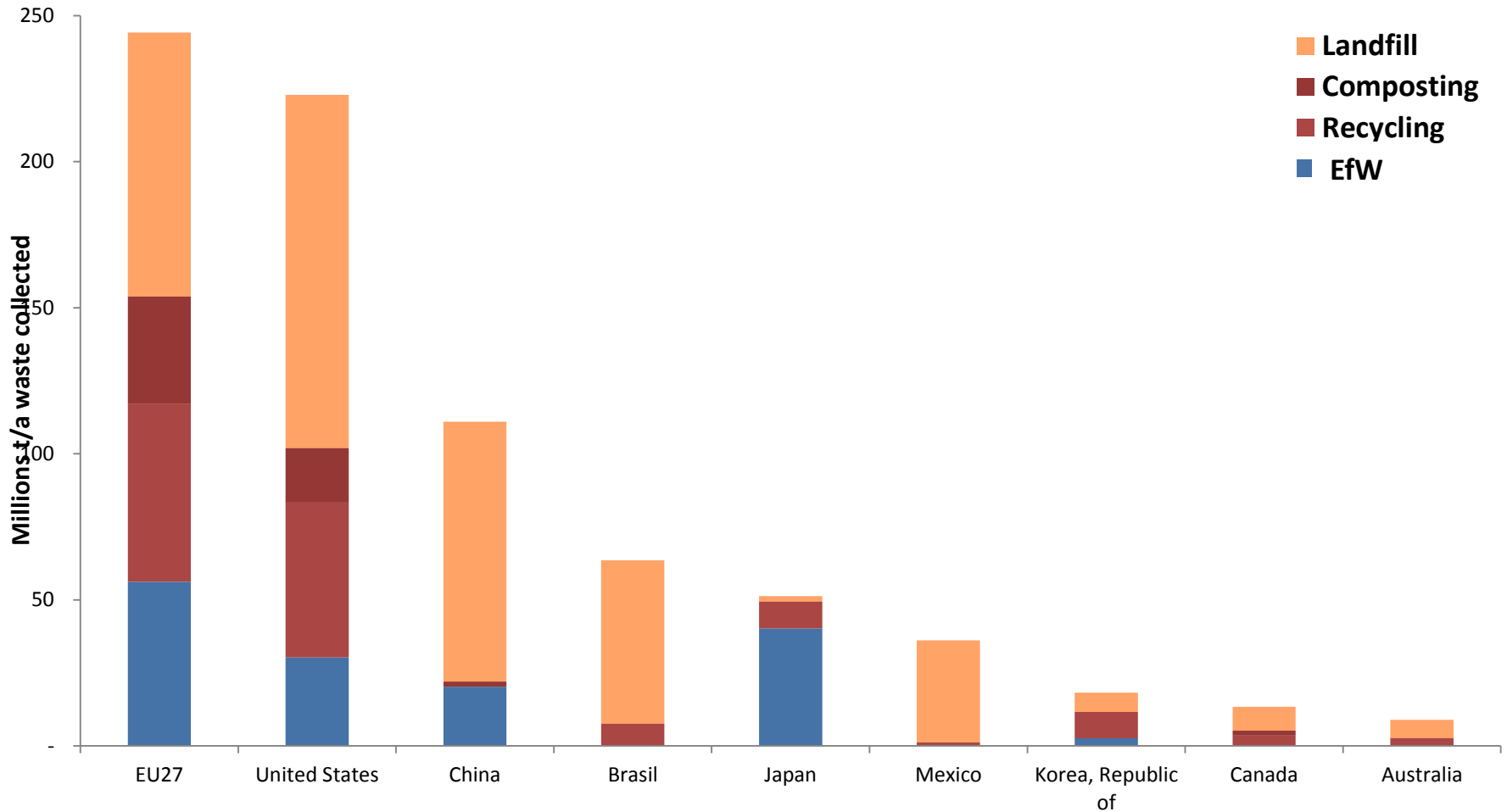


Data: Eurostat 2011

AD : Anaerobic Digestion

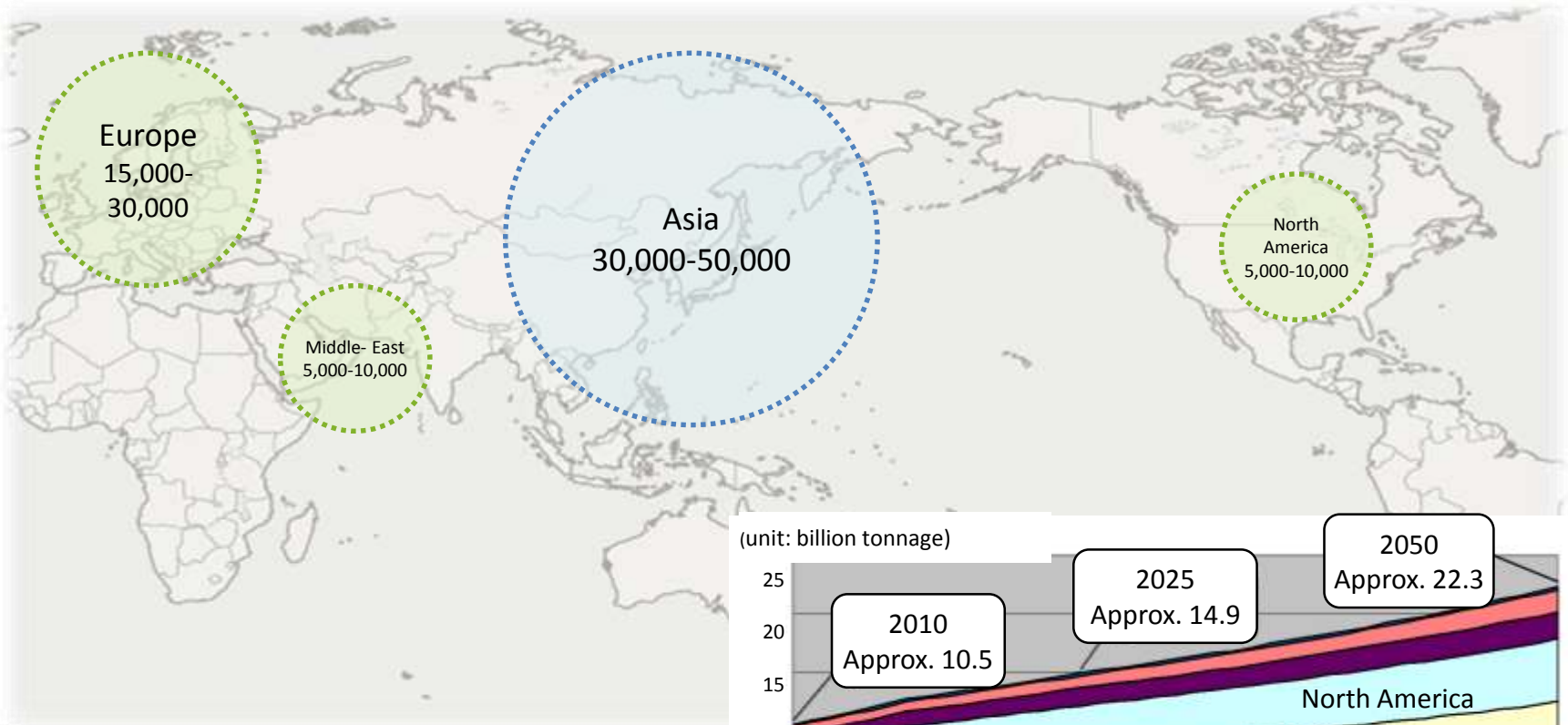
1. Expansion in growth areas (Overseas) : Energy from Waste (7)

Global Waste Management: Outlook Potential in Many Markets, Slow Development Outside of China

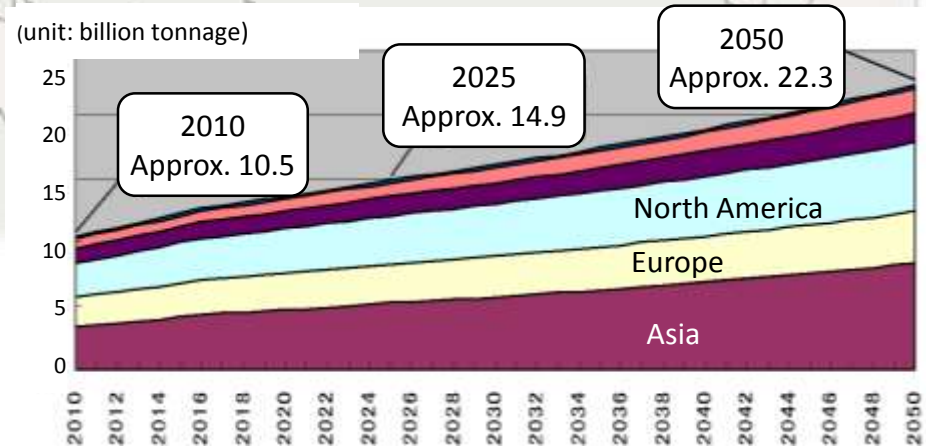


Data from Eurostat and OECD, 2012

◆ Global forecast market volume in EfW 2013-2017

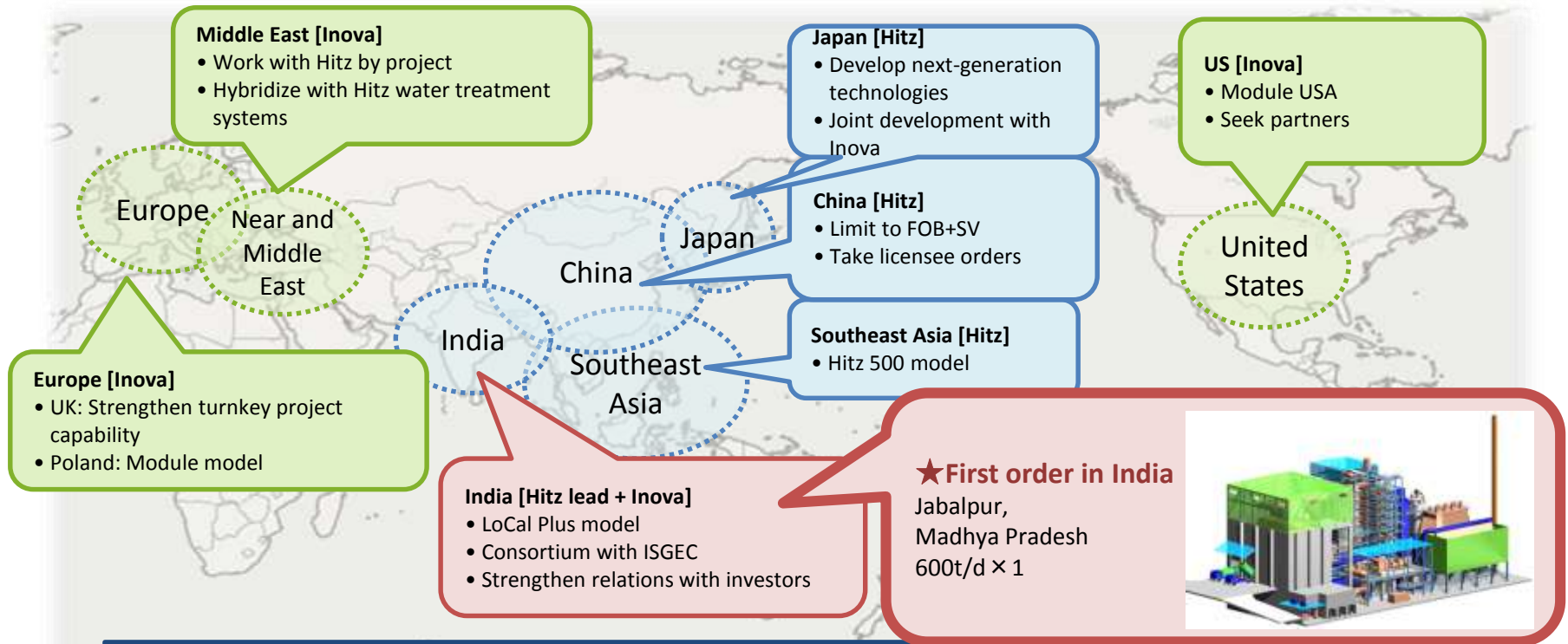


New Constructions in 1,000t/a
 Source : Ecoprog 2013/2014



Source: "Estimates and Projections of Global Waste Emission Volumes,"
 Research Institute of Solid Waste Management Engineering

◆ Aim to be No. 1 in global EfW market



Hitz to lead collaboration with Inova aiming for No. 1 in global EfW market

- Expand into Southeast Asia, India, Near and Middle East
- Introduce EPC concept models by market (standardization)
- Collaboration and operation with key partners (localization)
- Propose financing with Japanese government related fund (JCM)
- Combine with desalination plants

JCM: The Joint Crediting Mechanism

AOM + long-term operation of waste incineration facilities

Japan

Expand business based on **strong track record**

(1) Expand AOM business

- Propose added value for each facility (life extension, CO₂ emissions reduction)
- Disaster management
 - Retrofit facilities, solution for disaster management bases
 - Expand solutions menu (disaster prevention, emergency response, recovery and reconstruction, etc.)
- Develop further technologies, increase plants with technology (advanced maintenance, energy recovery and etc.)

(2) Expand long-term operation business

- Differentiate through feedback of experiences (optimal LCC, etc.)
- Propose long-term operation along with life extension work
- Streamline with operation support systems

Overseas

Expand worldwide the **know-how acquired in Japan**

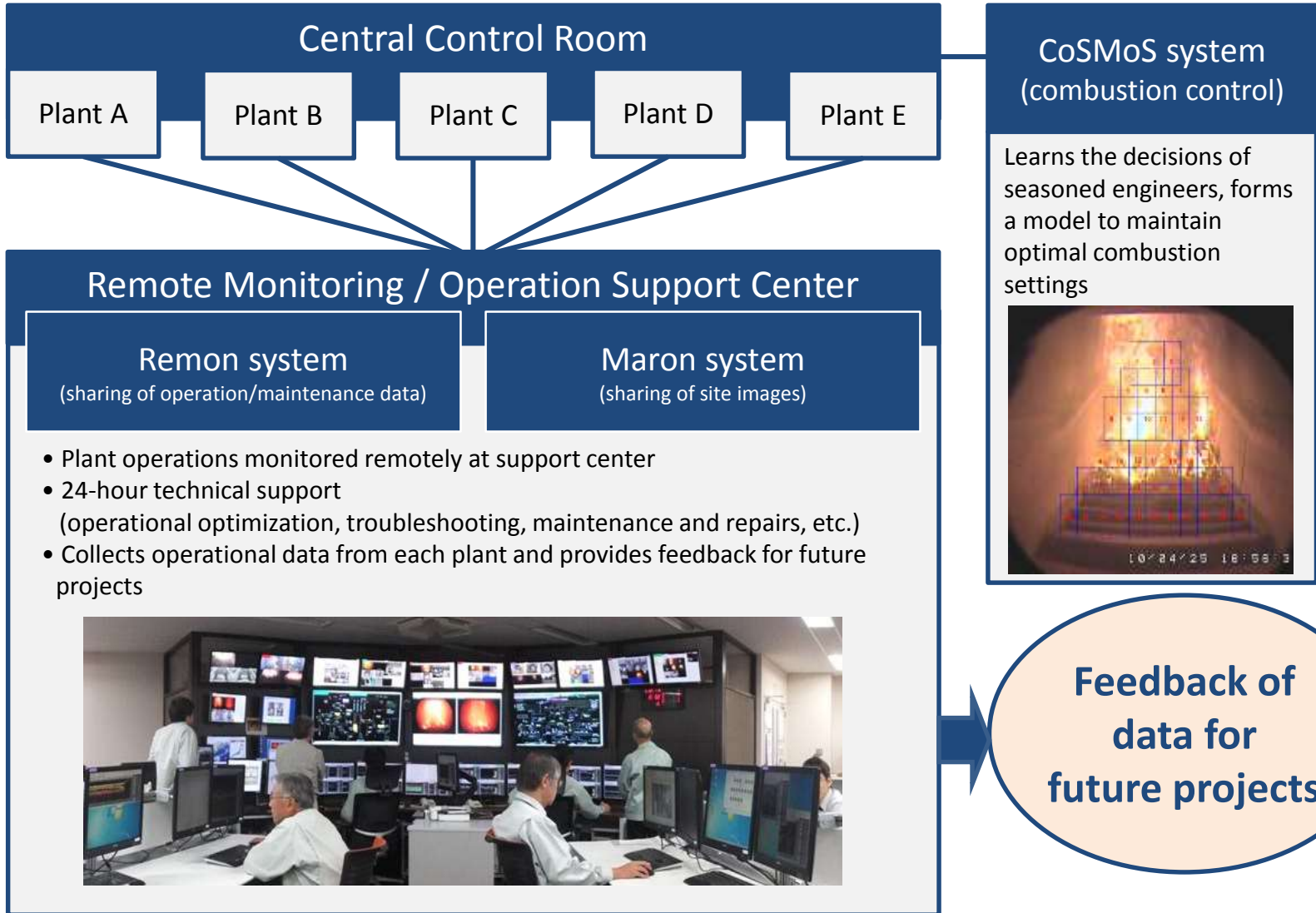
(1) China: After-sales and maintenance services

(2) Southeast Asia: Market research for long-term operation

(3) Europe: Expansion of AOM business by Inova (including by M&A)

AOM: After-service, Operation and Maintenance

◆ Rationalization by overall operation of support systems



4. New Businesses And Products

1. Movable Flap-Gate Type Breakwater

(1) Land-mounted flap-gate seawall (neo RiSe)

- Steady order intake (order intake in FY2014: 2.4 bil)
- Demonstration at Sakai Works **Disaster Prevention Lab** (opened April 2014)



(2) Seabed-installed flap-gate breakwater

Improving reliability and preparing environment toward use of new technology

- Two-year test in actual marine environment at Shin Yaizu Fishing Port → Final report October 2013

Strategy:

- Build a track record with neo RiSe and small seabed type projects
- Prepare operations manual
- Provide information to tsunami preparedness technology advisory committees



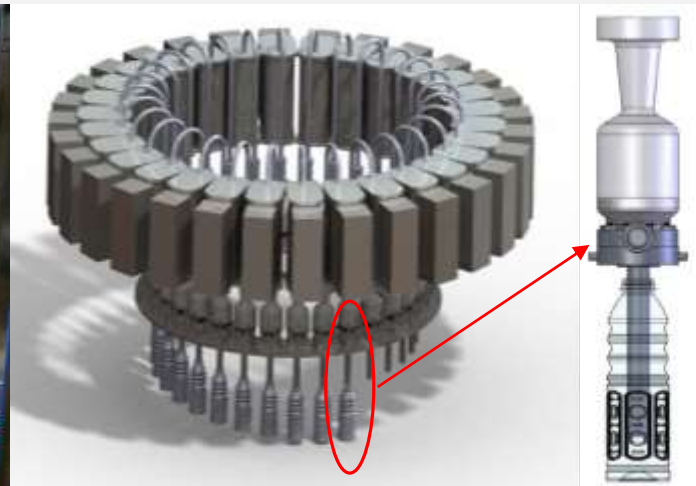
2. Electron beam sterilization system

Electron beam sterilization (environment friendly and cost-effective)

- Sterilizes PET bottles without heat or chemical treatment
- Can also be used for paper cartons and other food containers

Strategy:

- Develop an aseptic filling system
- Expand maintenance services
- Pharmaceuticals application
- Develop overseas markets



3. SCR (Selective Catalytic Reduction) system for marine engines

Compliant with IMO Tier III NOx emission standards to be enforced in 2016

Hitz is the leader in SCR system for marine engines

- World's first new vessel commissioned with certified SCR system launched in November 2011
- Development completed in FY2013
- **SCR system received World's first approval from Man Diesel & Turbo (MDT) in October 2014**



Note :

Tier III requires an 80% reduction of NOx emissions from Tier I (17.0g/kWh) within emission control areas (ECA)

IMO: International Maritime Organization



Current and Future Emission Control Areas

Source: "Understanding exhaust gas treatment systems", LRS

4. Demonstration Plant for Solar Thermal Power Generation

One-year test got successful results

Saudi Arabia

Thermal Power Generation ⇒ **Contributing to Desalination plants**

Using mirror reflectors to focus sunlight on a tube absorber,
which acts as a heat source to generate steam and produce electricity

Thermal storage enable continuous power generation during nighttime

Hitz Super Low Profile Fresnel concentrated solar power (HSLPF)

(1) Controllable reflector in both angle and curvature

→improvement of the solar concentration ratio

(2) Lower setup of the tube absorber →wind resistance and easy maintenance

⇒**Received first order for HSLPF from Mitsubishi Hitachi Power Systems, Ltd.**



5. High-speed Seabed Infiltration System (HiSIS®)

One-year operation test was started in June 2014

Abu Dhabi

HiSIS® pilot plant construction

is agreed between the Abu Dhabi Water and Electricity Authority (ADWEA) and Hitachi Zosen contributing to **Seawater Reverse Osmosis (SWRO) Desalination Plants**

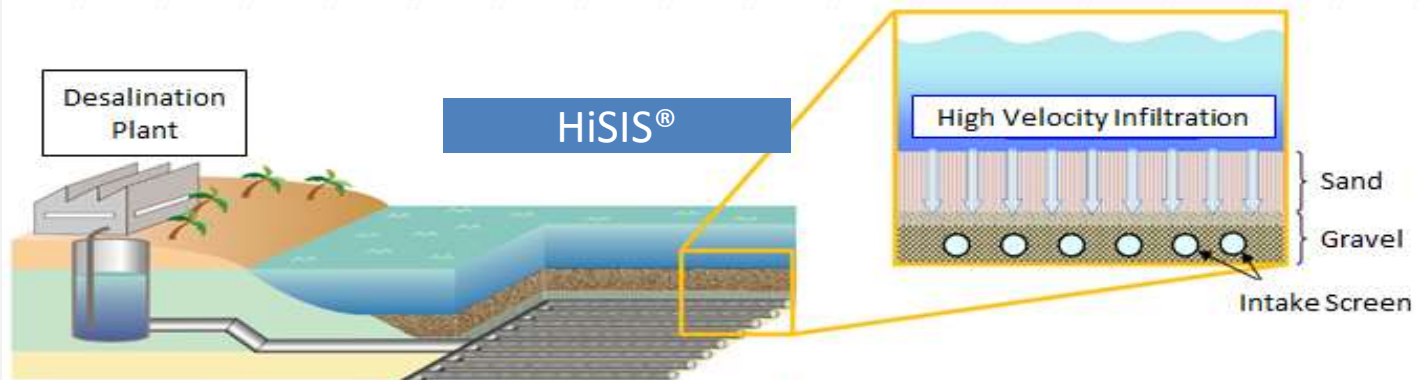
Features of SWRO

Needs fewer electricity consumption, but has problems;

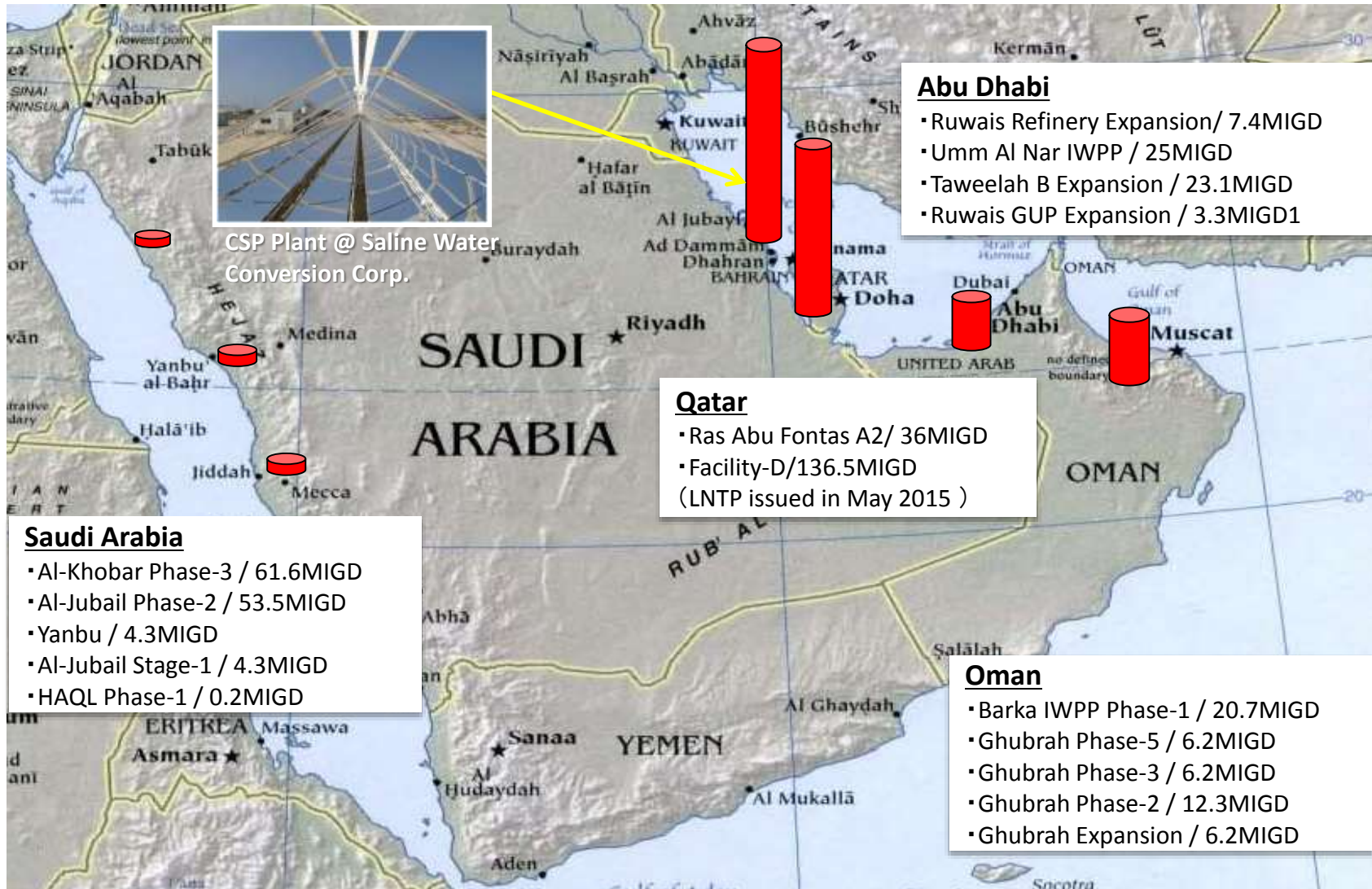
- clogging of membrane
- environmental burden caused by injecting chemicals

Merits of installing HiSIS® to SWRO

- (1) Saving facilities
→ Reduction of initial costs
- (2) Restraint the growth of marine life, amount of injecting chemicals, and deterioration of membrane
→ Reduction of running costs and environmental burden



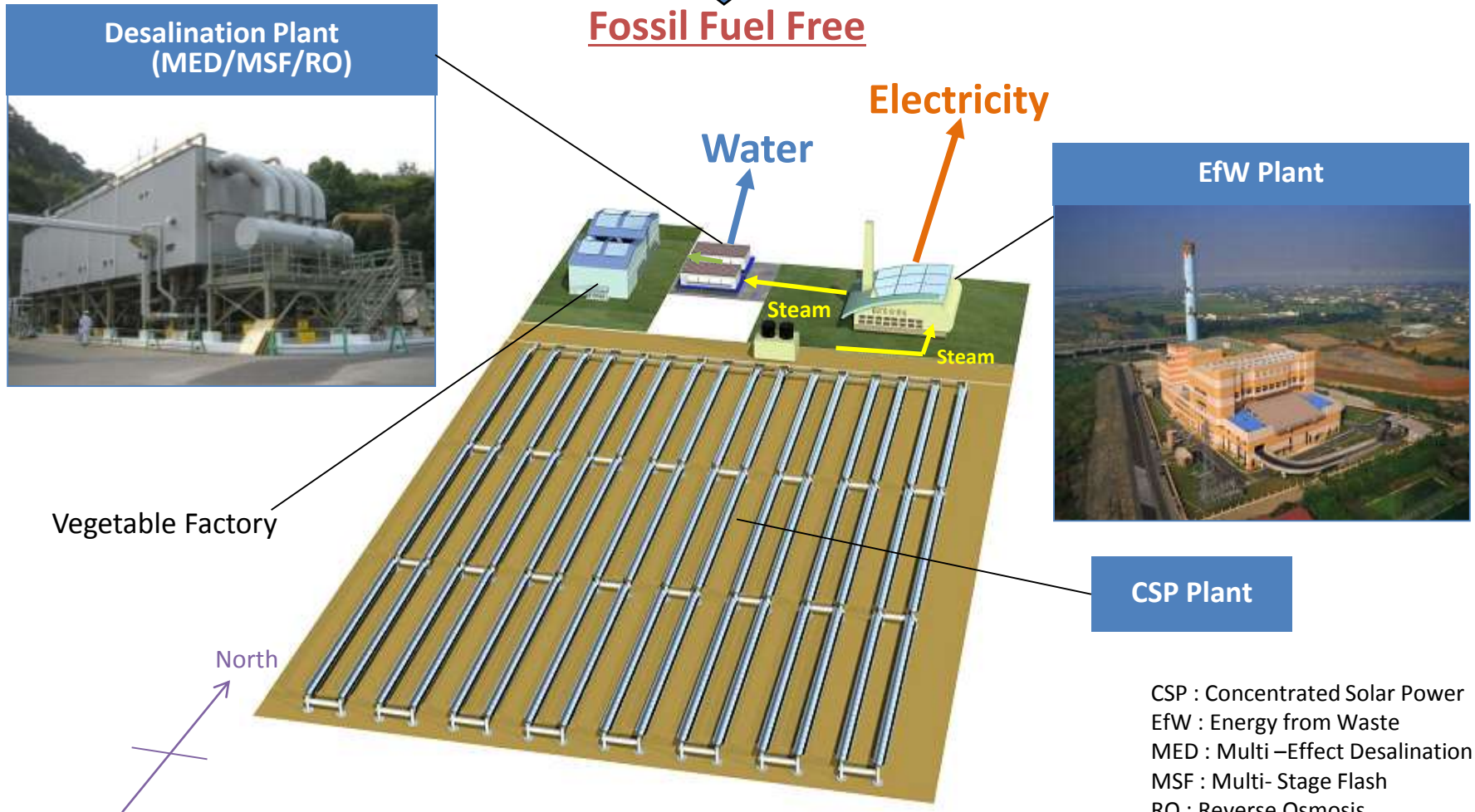
Desalination Plant Experience in Middle East



Low Carbon & Fossil Fuel Free Solution

CSP Plant + Desalination Plant + EfW Plant

Fossil Fuel Free



CSP : Concentrated Solar Power
EfW : Energy from Waste
MED : Multi-Effect Desalination
MSF : Multi-Stage Flash
RO : Reverse Osmosis

M&A results for FY2014

- ✓ Cumberland joined Hitz group
 - Strengthening A/S network for Seawater electrolysis equipment
 - Utilization sales network not only water treatment but also other area
- ✓ HZI acquired HNP Kraftwerkstechnik(Germany) engaged in services for EfW and power generation plants(Germany), Axpo Kompogas Engineering with anaerobic biogas technology(Switzerland), and MT-BioMethan GmbH with biogas purification technology(Germany)
 - Expanding HZI's business area



Cumberland Technology



Axpo Kompogas Technology



MT-BioMethan GmbH Technology

Numerical Targets “Hitz Vision II”

(Unit: Billion Yen)

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|-------------------------------|------------------|------------------|--------------------|-----------------------------|
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| Ordinary income (ratio) | 6.2 (1.9%) | 7.5 (2.1%) | 10.0 (2.7%) | 20.0 (5.0%) |
| Net income | 3.7 | 5.1 | 5.5 | 13.0 |
| Interest bearing debt | 104.3 | 119.0 | 126.0 | 120.0 |
| Shareholders' equity ratio | 26.4% | 26.6% | 27.5% | 30.6% |
| ROE | 3.7% | 4.9% | 5.0% | 11.1% |

A large version of the Hitachi Zosen logo, with "Hitachi" in a bold, blue, sans-serif font and "Zosen" in a smaller, blue, sans-serif font below it.

Cautionary Statement

Forward-looking statements are based on information currently available to Hitachi Zosen Corporation. Therefore those forward-looking statements include unknown risks and uncertainties. Accordingly, you should note that the actual results could differ materially from those forward-looking statements. Risks and uncertainties that could influence the ultimate outcome include, but are not limited to, the economic conditions surrounding Hitachi Zosen Corporation and/or exchange rate fluctuation.