

Report of Consolidated Financial Results

For the Year ended March 31, 2018

May 11, 2018

Name of Company: Hitachi Zosen Corporation
Code Number: 7004 URL: <http://www.hitachizosen.co.jp>
Stock Exchange Listing: Tokyo
Representative: Takashi Tanisho, Chairman & President
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This "Consolidated Financial Results" has been prepared in accordance with accounting principles generally accepted in Japan.

(Figures are rounded down to the nearest million yen.)

1. Business results and financial positions for the fiscal year (April 1, 2017 - March 31, 2018)

(1) Results of operations (Percentages show rates of increase or decrease from the previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to shareholders of Hitachi Zosen	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Year ended March 31, 2018	376,437	-5.7	5,907	-60.5	3,365	-70.0	2,171	-63.0
Year ended March 31, 2017	399,331	3.2	14,947	-1.1	11,225	-8.5	5,864	0.3

	Net income per share	Net income per share-diluted	Return on equity	Return on assets	Operating income to net sales
	(yen)	(yen)	(%)	(%)	(%)
Year ended March 31, 2018	12.88	—	1.9	0.9	1.6
Year ended March 31, 2017	34.79	—	5.1	2.8	3.7

(Note) Equity in net income of nonconsolidated subsidiaries and affiliates:
Yen 520 million (March 31, 2018), Yen 748 million (March 31, 2017)

(2) Financial position

	Total assets	Net assets	Shareholders' equity to total assets	Shareholders' equity per share
	(million yen)	(million yen)	(%)	(yen)
Year ended March 31, 2018	391,860	119,014	29.8	693.53
Year ended March 31, 2017	393,587	117,810	29.4	685.83

(Note1) Shareholders' equity: Yen 116,894 million (March 31, 2018), Yen 115,600 million (March 31, 2017)

(Note2) During this fiscal year, we finalized a provisional accounting treatment related to the business combination in the last fiscal year. The impact of the finalization of the provisional accounting treatment has been reflected in the consolidated financial statements for the fiscal year ended March 31, 2017.

(3) Cash flows

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of year
	(million yen)	(million yen)	(million yen)	(million yen)
Year ended March 31, 2018	-3,373	-10,725	-4,018	32,743
Year ended March 31, 2017	17,304	-6,998	-8,417	50,848

2. Dividends

(Record Date)	Dividends per share			Total amount of dividend payment (million yen)	Dividend payout ratio (Consolidated) (%)	Dividend to net assets ratio (Consolidated) (%)
	Interim (yen)	Year-end (yen)	Annual (yen)			
Year ended March 31, 2017	0.00	12.00	12.00	2,022	34.5	1.8
Year ended March 31, 2018	0.00	12.00	12.00	2,022	93.2	1.7
Year ending March 31, 2019 (Forecast)	0.00	12.00	12.00	—	40.5	—

3. Forecast of consolidated earnings for the fiscal year ending March 31, 2019 (April 1, 2018 - March 31, 2019)

(Percentages show rates of increase or decrease from the previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to shareholders of Hitachi Zosen		Net income per share – basic (yen)
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	
Year ending March 31, 2019	380,000	0.9	12,500	111.6	9,000	167.5	5,000	130.3	29.66

4. Notes

(1) Changes in major subsidiaries during the period: None

(2) Changes in accounting policies, changes in accounting estimates and restatements

(i) Changes in accounting policies as per the revision of accounting standards: None

(ii) Changes in accounting policies other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(3) Number of shares issued and outstanding (common stock)

(i) Number of shares issued and outstanding (including treasury stock)

March 31, 2018 170,214,843 shares

March 31, 2017 170,214,843 shares

(ii) Number of shares held in treasury

March 31, 2018 1,665,842 shares

March 31, 2017 1,659,814 shares

(iii) Average number of shares during the period

March 31, 2018 168,551,637 shares

March 31, 2017 168,559,023 shares

(4) This report is out of scope of Annual Reviews.

(5) This report includes forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of Hitachi Zosen Corporation in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause Hitachi Zosen Corporation's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements.

5. Financial Results

(1) Analysis of consolidated operating results

① Overview of consolidated operating results in this fiscal year

Under the new medium-term management plan, "Change & Growth", covering the three-year period starting in fiscal year 2017, we have made efforts for various key measures based on the fundamental strategies; restructure business foundation and improve productivity, maximize our group comprehensive strengths and promote portfolio management.

In the fiscal year ended March 31, 2018, Order intake increased 0.4% to Yen 400.4 billion reflecting the increase in large-sized orders of Environmental Systems & Industrial Plants from the last fiscal year. Meanwhile, Net sales decreased 5.7% to Yen 376.4 billion with the deteriorated results of Environmental Systems & Industrial Plants.

Operating income declined 60.5% to Yen 5.9 billion from the last fiscal year due to the decline of profitability in Environmental Systems & Industrial Plants. Ordinary income also decreased 70.0% to Yen 3.3 billion. As a result, Profit attributable to shareholders of Hitachi Zosen also decreased 63.0% to Yen 2.1 billion.

Business results by segments compared with the previous fiscal year are as follows.

Environmental Systems & Industrial Plants:

Net sales decreased 9.0% to Yen 231.8 billion with the less construction progress on overseas large-sized Desalination plant compared with the last fiscal year. Operating income also slackened 88.5% to Yen 1.3 billion due to the cost increase in individual EfW constructions.

Machinery:

Net sales decreased 3.0% to Yen 100.6 billion because the decline in new orders of marine diesel engine exceeded the growth of new orders in precision machinery. On the hand, Operating income increased 13.6% to Yen 2.5 billion.

Infrastructure:

Although Net sales decreased 3.4% to Yen 28.2 billion due to the lower sales of large-sized constructions, Operating income increased 40.0% to Yen 1.4 billion.

Other Businesses:

Net sales increased 33.9% to Yen 15.8 billion and Operating income also increased 75.0% to Yen 0.7 billion.

② Forecast of consolidated earnings of the next fiscal year

Concerning the forecast of consolidated sales and earnings for the next fiscal year, Order intake is expected to increase to Yen 430.0 billion. Net sales is projected at Yen 380.0 billion which is comparable to that for this fiscal year. As to the profitability, Operating income is projected at Yen 12.5 billion due to the recovery of profitability in Environmental Systems & Industrial Plants. Ordinary income and Profit attributable to shareholders of Hitachi Zosen are estimated at Yen 9.0 billion and Yen 5.0 billion respectively.

(2) Analysis of consolidated financial position

① Assets, Liabilities and Net assets

Total assets decreased by Yen 1.7 billion to Yen 391.8 billion from the previous fiscal year end mainly due to decrease of Cash and deposits. Total liabilities decreased by Yen 2.9 billion to Yen 272.8 billion from the previous fiscal year end owing to the repayment of Interest bearing debt. Net assets increased by Yen 1.2 billion to Yen 119.0 billion from the previous fiscal year end due to Profit attributable to shareholders of Hitachi Zosen.

② Cash flow

Cash flows from operating activities were cash outflow of Yen 3.4 billion reflecting the increase in sales receivables.

Cash flows from investing activities were cash outflow of Yen 10.7 billion due to the capital investments.

Cash flows from financing activities were cash outflow of Yen 4.0 billion mainly due to the repayment of Interest bearing debt and the dividends paid.

On an overall basis, Cash and cash equivalents at the end of fiscal year decreased by Yen 18.1 billion to Yen 32.7 billion.

6. Policy for selecting an Accounting Standard

As the accounting principles generally accepted in Japan ("Japanese GAAP") are in the process of converging with the International Financial Reporting Standards ("IFRS"), we have decided to continue to adopt the Japanese GAAP.

On proceeding to survey the impact on management and financial matters and to monitor the environment surrounding Hitachi Zosen Group, we will consider the application of IFRS and the timing of the application.

7. Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	52,281	33,929
Notes and accounts receivable - trade	134,188	148,188
Merchandise and finished goods	1,844	2,441
Work in process	21,949	21,801
Raw materials and supplies	4,855	4,845
Deferred tax assets	6,095	4,960
Other	13,324	10,582
Allowance for doubtful accounts	△3,811	△3,474
Total current assets	230,727	223,274
Non-current assets		
Property, plant and equipment		
Buildings and structures	81,101	82,961
Accumulated depreciation	△50,114	△50,756
Buildings and structures, net	30,986	32,204
Machinery, equipment and vehicles	93,954	94,974
Accumulated depreciation	△70,738	△72,896
Machinery, equipment and vehicles, net	23,215	22,077
Tools, furniture and fixtures	16,420	15,531
Accumulated depreciation	△14,144	△13,613
Tools, furniture and fixtures, net	2,275	1,918
Land	57,863	56,993
Leased assets	1,303	1,292
Accumulated depreciation	△278	△173
Leased assets, net	1,025	1,119
Construction in progress	3,549	3,958
Total property, plant and equipment	118,916	118,270
Intangible assets		
Goodwill	4,365	3,599
Other intangible assets	4,985	7,277
Total intangible assets	9,350	10,877
Investments and other assets		
Investments in securities	24,640	25,211
Long-term loans receivable	33	28
Net defined benefit asset	1,351	1,954
Deferred tax assets	2,905	5,993
Other investments and other assets	6,325	6,885
Allowance for doubtful accounts	△670	△685
Total investments and other assets	34,585	39,388
Total non-current assets	162,852	168,536
Deferred assets		
Bond issuance cost	7	49
Total deferred assets	7	49
Total assets	393,587	391,860

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	40,480	41,742
Electronically recorded obligations - operating	20,956	19,431
Short-term loans payable	45,116	40,999
Current portion of bonds	10,000	—
Accrued expenses	49,150	47,719
Accrued income taxes	2,526	2,506
Advances received	10,686	14,536
Provision for construction warranties	4,897	4,094
Provision for loss on construction contracts	3,249	2,673
Other current liabilities	14,672	11,794
Total current liabilities	201,736	185,498
Non-current liabilities		
Bonds payable	—	10,000
Long-term loans payable	52,318	54,985
Deferred tax liabilities	1,038	523
Net defined benefit liability	17,168	18,625
Provision for directors' retirement benefits	412	440
Asset retirement obligations	1,041	1,155
Other	2,062	1,617
Total non-current liabilities	74,041	87,347
Total liabilities	275,777	272,846
Net assets		
Shareholders' equity		
Capital stock	45,442	45,442
Capital surplus	8,893	8,892
Retained earnings	61,285	61,433
Treasury shares	△1,013	△1,016
Total shareholders' equity	114,607	114,751
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	479	678
Deferred gains or losses on hedges	△365	△416
Revaluation reserve for land	△7	△7
Foreign currency translation adjustment	2,138	2,064
Remeasurements of defined benefit plans	△1,252	△175
Total accumulated other comprehensive income	992	2,142
Non-controlling interests	2,209	2,119
Total net assets	117,810	119,014
Total liabilities and net assets	393,587	391,860

8. Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net sales	399,331	376,437
Cost of sales	334,325	316,776
Gross profit	65,006	59,661
Selling, general and administrative expenses	50,058	53,753
Operating income	14,947	5,907
Non-operating income		
Interest income	66	82
Dividend income	195	195
Equity in net income of nonconsolidated subsidiaries and affiliates	748	520
Other	834	894
Total non-operating income	1,845	1,693
Non-operating expenses		
Interest expenses	795	896
Litigation expenses	—	1,911
Other	4,771	1,427
Total non-operating expenses	5,567	4,235
Ordinary income	11,225	3,365
Extraordinary income		
Gain on sales of fixed assets	1,425	—
Total extraordinary income	1,425	—
Extraordinary losses		
Loss on overseas business	2,961	—
Total extraordinary losses	2,961	—
Profit before income taxes	9,689	3,365
Income taxes - current	3,383	4,114
Income taxes - deferred	Δ51	Δ2,853
Total income taxes	3,332	1,260
Profit	6,356	2,104
Profit (loss) attributable to non-controlling interests	491	Δ66
Profit attributable to shareholders of Hitachi Zosen	5,864	2,171

9. Consolidated Statements of Comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit	6,356	2,104
Other comprehensive income		
Valuation difference on available-for-sale securities	Δ95	237
Deferred gains or losses on hedges	Δ399	Δ12
Foreign currency translation adjustment	Δ1,008	Δ136
Remeasurements of defined benefit plans, net of tax	2,132	1,085
Share of other comprehensive income of entities accounted for using equity method	Δ32	Δ85
Total other comprehensive income	596	1,088
Comprehensive income	6,952	3,193
Comprehensive income attributable to		
Shareholders of Hitachi Zosen	6,701	3,321
Non-controlling interests	250	Δ128

10. Consolidated Statements of Changes in Net Assets
For the year ended March 31, 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	45,442	12,230	57,329	△1,007	113,995
Changes of items during the period					
Cash dividends			△2,022		△2,022
Profit attributable to shareholders of Hitachi Zosen			5,864		5,864
Disposal of treasury shares		△0		0	0
Purchase of treasury shares				△5	△5
Change of scope of equity method			155		155
Change in ownership interest of parent due to transactions with non-controlling interests		△3,337			△3,337
Reversal of revaluation reserve for land			△42		△42
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	△3,337	3,956	△5	612
Balance at end of current period	45,442	8,893	61,285	△1,013	114,607

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	488	△96	△49	3,135	△3,314	163	6,507	120,666
Changes of items during the period								
Cash dividends								△2,022
Profit attributable to shareholders of Hitachi Zosen								5,864
Disposal of treasury shares								0
Purchase of treasury shares								△5
Change of scope of equity method								155
Change in ownership interest of parent due to transactions with non-controlling interests								△3,337
Reversal of revaluation reserve for land			42			42		—
Net changes of items other than shareholders' equity	△9	△269	—	△996	2,062	786	△4,297	△3,510
Total changes of items during the period	△9	△269	42	△996	2,062	829	△4,297	△2,856
Balance at end of current period	479	△365	△7	2,138	△1,252	992	2,209	117,810

For the year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	45,442	8,893	61,285	Δ1,013	114,607
Changes of items during the period					
Cash dividends			Δ2,022		Δ2,022
Profit attributable to shareholders of Hitachi Zosen			2,171		2,171
Disposal of treasury shares		Δ0		0	0
Purchase of treasury shares				Δ3	Δ3
Change in ownership interest of parent due to transactions with non-controlling interests		Δ1			Δ1
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	Δ1	148	Δ3	143
Balance at end of current period	45,442	8,892	61,433	Δ1,016	114,751

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	479	Δ365	Δ7	2,138	Δ1,252	992	2,209	117,810
Changes of items during the period								
Cash dividends								Δ2,022
Profit attributable to shareholders of Hitachi Zosen								2,171
Disposal of treasury shares								0
Purchase of treasury shares								Δ3
Change in ownership interest of parent due to transactions with non-controlling interests								Δ1
Net changes of items other than shareholders' equity	198	Δ50	—	Δ74	1,077	1,150	Δ89	1,060
Total changes of items during the period	198	Δ50	—	Δ74	1,077	1,150	Δ89	1,204
Balance at end of current period	678	Δ416	Δ7	2,064	Δ175	2,142	2,119	119,014

11. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	9,689	3,365
Depreciation	8,536	9,115
Amortization of goodwill	425	626
Increase (decrease) in allowance for doubtful accounts	25	△321
Increase (decrease) in net defined benefit liability	1,504	1,683
Increase (decrease) in provision for loss on construction contracts	△2,248	△575
Interest and dividend income	△261	△277
Interest expenses	795	896
Foreign exchange losses (gains)	△313	△78
Share of loss (profit) of entities accounted for using equity method	△748	△520
Loss (gain) on sales of non-current assets	△1,425	—
Decrease (increase) in notes and accounts receivable - trade	5,301	△14,096
Decrease (increase) in inventories	2,345	275
Decrease (increase) in other current assets	4,402	1,753
Increase (decrease) in notes and accounts payable - trade	△1,473	△230
Increase (decrease) in accrued expenses	△2,330	△1,345
Increase (decrease) in advances received	△7,711	4,149
Increase (decrease) in other current liabilities	4,390	△3,716
Other, net	△449	449
Subtotal	20,454	1,151
Interest and dividend income received	292	352
Interest expenses paid	△753	△831
Income taxes paid	△2,689	△4,045
Net cash provided by (used in) operating activities	17,304	△3,373
Cash flows from investing activities		
Payments into time deposits	△2,042	△1,621
Proceeds from withdrawal of time deposits	2,311	1,966
Purchase of property, plant and equipment	△8,042	△10,055
Proceeds from sales of property, plant and equipment	5,456	1,261
Purchase of intangible assets	△973	△2,616
Purchase of investment securities	△678	△178
Payments for investments in capital of subsidiaries and associates	△175	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	△3,824	—
Other, net	971	518
Net cash provided by (used in) investing activities	△6,998	△10,725

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	24,051	Δ13,691
Proceeds from long-term loans payable	1,700	27,351
Repayments of long-term loans payable	Δ22,536	Δ14,939
Proceeds from issuance of bonds	—	9,946
Redemption of bonds	—	Δ10,000
Cash dividends paid	Δ2,022	Δ2,022
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	Δ9,577	—
Other, net	Δ31	Δ663
Net cash provided by (used in) financing activities	Δ8,417	Δ4,018
Effect of exchange rate change on cash and cash equivalents	Δ711	13
Net increase (decrease) in cash and cash equivalents	1,176	Δ18,104
Cash and cash equivalents at beginning of period	49,671	50,848
Cash and cash equivalents at end of period	50,848	32,743

12. Supplementary Information

(1) Consolidated Information by segments

1) Statements of Operations

(Unit: billion yen)

	Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018		Difference	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Environmental Systems & Industrial Plants	254.6	11.3	231.8	1.3	-22.8	-10.0
Machinery	103.7	2.2	100.6	2.5	-3.1	0.3
Infrastructure	29.2	1.0	28.2	1.4	-1.0	0.4
Other Businesses	11.8	0.4	15.8	0.7	4.0	0.3
Total	399.3	14.9	376.4	5.9	-22.9	-9.0

2) Order Intake

(Unit: billion yen)

Business Segment	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Difference
Environmental Systems & Industrial Plants	240.6	257.2	16.6
Machinery	106.9	98.4	-8.5
Infrastructure	33.2	31.4	-1.8
Other Businesses	18.2	13.4	-4.8
Total	398.9	400.4	1.5

3) Order Backlog

(Unit: billion yen)

Business Segment	March 31, 2017	March 31, 2018	Difference
Environmental Systems & Industrial Plants	461.9	487.3	25.4
Machinery	93.5	91.3	-2.2
Infrastructure	35.3	38.5	3.2
Other Businesses	6.8	4.4	-2.4
Total	597.5	621.5	24.0

4) Consolidated Balance Sheet

(Unit: billion yen)

	As of March 31, 2017	As of March 31, 2018	Difference
Cash and time deposits	52.3	33.9	-18.4
Trade notes and accounts receivable	134.2	148.2	14.0
Inventories	28.6	29.1	0.5
Tangible & intangible fixed assets	128.2	129.1	0.9
Others	50.2	51.5	1.3
Total Assets	393.5	391.8	-1.7
Notes and accounts payable	61.4	61.2	-0.2
Interest bearing debt	109.2	107.2	-2.0
Others	105.1	104.4	-0.7
Total Liabilities	275.7	272.8	-2.9
Shareholders' equity	114.6	114.7	0.1
Accumulated other comprehensive income	1.0	2.2	1.2
Non-controlling interests	2.2	2.1	-0.1
Total Net Assets	117.8	119.0	1.2
Total Liabilities and Net Assets	393.5	391.8	-1.7

Note:

During this fiscal year, we finalized a provisional accounting treatment related to the business combination in the last fiscal year. Therefore, in the consolidated balance sheet as of March,31 2017, the impact of the finalization of the provisional accounting treatment has been reflected.

5) Consolidated Statements of Cash Flows

(Unit: billion yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Difference
Cash flows from operating activities	17.3	-3.4	-20.7
Cash flows from investing activities	-7.0	-10.7	-3.7
Cash flows from financing activities	-8.4	-4.0	4.4
Foreign exchange translation	-0.7	0.0	0.7
Increase/decrease in cash & cash equivalents	1.2	-18.1	-19.3
Cash & cash equivalents at beginning of year	49.6	50.8	1.2
Cash & cash equivalents at end of year	50.8	32.7	-18.1

(2) Forecast of Consolidated Information by segments for fiscal year ending March 31, 2019

1) Statements of Operations

(Unit: billion yen)

		Fiscal year ended March 31, 2018		Fiscal year ending March 31, 2019		Difference	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Operating income & Net sales	Environmental Systems & Industrial Plants	231.8	1.3	240.0	9.0	8.2	7.7
	Machinery	100.6	2.5	100.0	2.0	-0.6	-0.5
	Infrastructure	28.2	1.4	30.0	1.0	1.8	-0.4
	Other Businesses	15.8	0.7	10.0	0.5	-5.8	-0.2
	Total	376.4	5.9	380.0	12.5	3.6	6.6
Ordinary Income		3.3		9.0		5.7	
Profit attributable to shareholders of Hitachi		2.1		5.0		2.9	

2) Order Intake

(Unit: billion yen)

Business Segment	Fiscal year ended March 31, 2018	Fiscal year ending March 31, 2019	Difference
Environmental Systems & Industrial Plants	257.2	280.0	22.8
Machinery	98.4	100.0	1.6
Infrastructure	31.4	40.0	8.6
Other Businesses	13.4	10.0	-3.4
Total	400.4	430.0	29.6