

Report of Consolidated Financial Results

For the Year ended March 31, 2019

May 10, 2019

Name of Company: Hitachi Zosen Corporation
Code Number: 7004 URL: <https://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, 2018 - March 31, 2019)

(1) Results of operations

	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, 2019	378,140	0.5	7,358	24.6	6,720	99.7	5,445	150.8
Year ended March 31, 2018	376,437	-5.7	5,907	-60.5	3,365	-70.0	2,171	-63.0

	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, 2019	32.31	—	4.6	1.6	1.9
Year ended March 31, 2018	12.88	—	1.9	0.9	1.6

(Note) Equity in net income of nonconsolidated subsidiaries and affiliates:

Yen 691 million (March 31, 2019), Yen 520 million (March 31, 2018)

(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, 2019	429,040	120,410	27.8	708.89
Year ended March 31, 2018	391,860	119,014	29.8	693.53

(Note) Shareholders' equity: Yen 119,479 million (March 31, 2019), Yen 116,894 million (March 31, 2018)

(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, 2019	-5,428	-7,574	14,982	34,394
Year ended March 31, 2018	-3,373	-10,725	-4,018	32,743

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, 2018	0.00	12.00	12.00	2,022	93.2	1.7
Year ended March 31, 2019	0.00	12.00	12.00	2,022	37.1	1.7
Year ending March 31, 2020 (Forecast)	0.00	12.00	12.00	—	40.4	—

3. Forecast of consolidated earnings for the fiscal year ending March 31, 2020 (April 1, 2019 - March 31, 2020)

	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, 2020	380,000	0.5	12,000	63.1	8,000	19.0	5,000	-8.2	29.67

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, 2019 170,214,843 shares

March 31, 2018 170,214,843 shares

(ii) Number of shares held in treasury

March 31, 2019 1,670,326 shares

March 31, 2018 1,665,842 shares

(iii) Average number of shares during the period

March 31, 2019 168,546,496 shares

March 31, 2018 168,551,637 shares

(4) This report is out of scope of Statutory Audit.

(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

In this chapter, we analyze the consolidated operating results and consolidated financial position. Numerical figures are from "12. Supplementary information" of this report.

(1) Analysis of the consolidated operating results

① Overview of the 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, 2019, Order intake increased 13.6% to Yen 455.0 billion reflecting the increase of large-sized orders of Environmental Systems & Industrial Plants from the last fiscal year. Net sales increased 0.5% to Yen 378.1 billion due to the increased sales of Machinery while that of Environmental Systems & Industrial Plants decreased.

Operating income increased 24.6% to Yen 7.3 billion from the last fiscal year due to the improvement of profitability of Environmental Systems & Industrial Plants. In addition, non-operating loss was decreased from the previous fiscal year, and as a result, Ordinary income increased 99.7% to Yen 6.7 billion and Profit attributable to shareholders of Hitachi Zosen also increased 150.8% to Yen 5.4 billion.

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

Environmental Systems & Industrial Plants:

Net sales decreased 1.5% to Yen 228.3 billion with the less construction progress on overseas large-sized Desalination plant compared with the last fiscal year. Meanwhile, Operating income increased 330.8% to Yen 5.6 billion due to the expansion of profitability in domestic EfW constructions and the decrease in operating loss of overseas subsidiaries.

Machinery:

Net sales increased 6.0% to Yen 106.6 billion due to the boost of construction progress on process equipment. On the hand, Operating loss of Yen 0.3 billion realized in this fiscal year due to the decline of profitability in marine diesel engine despite Yen 2.5 billion of Operating income in the previous fiscal year.

Infrastructure:

Although Net sales decreased 4.8% to Yen 31.8 billion due to the lower sales of large-sized constructions, Operating income increased 18.2% to Yen 1.3 billion owing to the improvement of profitability in the steel bridge projects.

Other Businesses:

Net sales increased 7.5% to Yen 11.4 billion, meanwhile Operating income decreased 30.0% 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 decrease to Yen 400.0 billion reflecting the decrease in large sized orders of Environmental systems & Industrial Plants. 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 12.0 billion due to the recovery of profitability in overseas subsidiaries in Environmental Systems & Industrial Plants. Ordinary income and Profit attributable to shareholders of Hitachi Zosen are estimated at Yen 8.0 billion and Yen 5.0 billion respectively.

(2) Analysis of the consolidated financial position

① Assets, Liabilities and Net assets

Total assets increased by Yen 37.2 billion to Yen 429.0 billion from the previous fiscal year end mainly due to increase of Trade notes and accounts receivables. Total liabilities increased by Yen 35.8 billion to Yen 308.6 billion from the previous

fiscal year end owing to the increase of Interest bearing debt. Net assets increased by Yen 1.4 billion to Yen 120.4 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 5.4 billion reflecting the increase in sales receivables.

Cash flows from investing activities were cash outflow of Yen 7.6 billion due to the capital investments.

Cash flows from financing activities were cash inflow of Yen 14.9 billion mainly due to the increase of Interest bearing debt.

On an overall basis, Cash and cash equivalents at the end of fiscal year increased by Yen 1.6 billion to Yen 34.3 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, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	33,929	35,578
Notes and accounts receivable - trade	148,188	172,704
Merchandise and finished goods	2,441	1,582
Work in process	21,801	23,422
Raw materials and supplies	4,845	5,802
Other	10,582	17,874
Allowance for doubtful accounts	△3,474	△3,771
Total current assets	218,314	253,193
Non-current assets		
Property, plant and equipment		
Buildings and structures	82,961	86,683
Accumulated depreciation	△50,756	△52,226
Buildings and structures, net	32,204	34,456
Machinery, equipment and vehicles	94,974	97,470
Accumulated depreciation	△72,896	△76,177
Machinery, equipment and vehicles, net	22,077	21,293
Tools, furniture and fixtures	15,531	16,589
Accumulated depreciation	△13,613	△13,692
Tools, furniture and fixtures, net	1,918	2,896
Land	56,993	56,934
Leased assets	1,292	1,540
Accumulated depreciation	△173	△371
Leased assets, net	1,119	1,168
Construction in progress	3,958	1,640
Total property, plant and equipment	118,270	118,389
Intangible assets		
Goodwill	3,599	2,994
Other intangible assets	7,277	8,553
Total intangible assets	10,877	11,547
Investments and other assets		
Investments in securities	25,211	24,952
Long-term loans receivable	28	22
Retirement benefit asset	1,954	1,431
Deferred tax assets	10,953	14,530
Other investments and other assets	6,885	5,527
Allowance for doubtful accounts	△685	△666
Total investments and other assets	44,348	45,797
Total non-current assets	173,497	175,734
Deferred assets		
Bond issuance cost	49	113
Total deferred assets	49	113
Total assets	391,860	429,040

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	41,742	47,103
Electronically recorded obligations - operating	19,431	21,386
Short-term loans payable	40,999	52,429
Accrued expenses	47,719	45,508
Accrued income taxes	2,506	4,109
Advances received	14,536	21,481
Provision for construction warranties	4,094	3,156
Provision for loss on construction contracts	2,673	3,218
Other current liabilities	11,794	14,244
Total current liabilities	185,498	212,637
Non-current liabilities		
Bonds payable	10,000	25,000
Long-term loans payable	54,985	47,449
Deferred tax liabilities	523	459
Retirement benefit liability	18,625	19,296
Provision for retirement benefits for directors (and other officers)	440	358
Asset retirement obligations	1,155	1,103
Other	1,617	2,326
Total non-current liabilities	87,347	95,992
Total liabilities	272,846	308,630
Net assets		
Shareholders' equity		
Capital stock	45,442	45,442
Capital surplus	8,892	8,527
Retained earnings	61,433	64,856
Treasury shares	△1,016	△1,018
Total shareholders' equity	114,751	117,807
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	678	280
Deferred gains or losses on hedges	△416	△146
Revaluation reserve for land	△7	△7
Foreign currency translation adjustment	2,064	1,335
Remeasurements of defined benefit plans	△175	209
Total accumulated other comprehensive income	2,142	1,671
Non-controlling interests	2,119	931
Total net assets	119,014	120,410
Total liabilities and net assets	391,860	429,040

8. Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	376,437	378,140
Cost of sales	316,776	317,038
Gross profit	59,661	61,101
Selling, general and administrative expenses	53,753	53,743
Operating income	5,907	7,358
Non-operating income		
Interest income	82	79
Dividend income	195	221
Equity in net income of nonconsolidated subsidiaries and affiliates	520	691
Other	894	3,743
Total non-operating income	1,693	4,735
Non-operating expenses		
Interest expenses	896	864
Other	3,338	4,509
Total non-operating expenses	4,235	5,373
Ordinary income	3,365	6,720
Profit before income taxes	3,365	6,720
Income taxes - current	4,114	4,859
Income taxes - deferred	△2,853	△3,527
Total income taxes	1,260	1,332
Profit	2,104	5,388
Loss attributable to non-controlling interests	△66	△56
Profit attributable to shareholders of Hitachi Zosen	2,171	5,445

9. Consolidated Statements of Comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit	2,104	5,388
Other comprehensive income		
Valuation difference on available-for-sale securities	237	△332
Deferred gains or losses on hedges	△12	221
Foreign currency translation adjustment	△136	△502
Remeasurements of defined benefit plans, net of tax	1,085	388
Share of other comprehensive income of entities accounted for using equity method	△85	△264
Total other comprehensive income	1,088	△490
Comprehensive income	3,193	4,898
Comprehensive income attributable to		
Shareholders of Hitachi Zosen	3,321	4,973
Non-controlling interests	△128	△75

10. Consolidated Statements of Changes in Net Assets
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	△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
Disposal of treasury shares		△0		0	0
Purchase of treasury shares				△3	△3
Change in ownership interest of parent due to transactions with non-controlling interests		△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 current period	45,442	8,892	61,433	△1,016	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	△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
Disposal of treasury shares								0
Purchase of treasury shares								△3
Change in ownership interest of parent due to transactions with non-controlling interests								△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 current period	678	△416	△7	2,064	△175	2,142	2,119	119,014

For the year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	45,442	8,892	61,433	△1,016	114,751
Changes of items during the period					
Cash dividends			△2,022		△2,022
Profit attributable to shareholders of Hitachi Zosen			5,445		5,445
Disposal of treasury shares		△0		0	0
Purchase of treasury shares				△2	△2
Change in ownership interest of parent due to transactions with non-controlling interests		△364			△364
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	△364	3,422	△2	3,056
Balance at end of current period	45,442	8,527	64,856	△1,018	117,807

	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	678	△416	△7	2,064	△175	2,142	2,119	119,014
Changes of items during the period								
Cash dividends								△2,022
Profit attributable to shareholders of Hitachi Zosen								5,445
Disposal of treasury shares								0
Purchase of treasury shares								△2
Change in ownership interest of parent due to transactions with non-controlling interests								△364
Net changes of items other than shareholders' equity	△397	270	—	△729	384	△471	△1,188	△1,659
Total changes of items during the period	△397	270	—	△729	384	△471	△1,188	1,396
Balance at end of current period	280	△146	△7	1,335	209	1,671	931	120,410

11. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	3,365	6,720
Depreciation	9,115	8,940
Amortization of goodwill	626	628
Increase (decrease) in allowance for doubtful accounts	△321	289
Increase (decrease) in retirement benefit liability	1,683	1,335
Increase (decrease) in provision for loss on construction contracts	△575	544
Interest and dividend income	△277	△300
Interest expenses	896	864
Foreign exchange losses (gains)	△78	557
Share of loss (profit) of entities accounted for using equity method	△520	△691
Loss (gain) on sales of investment securities	△305	△950
Decrease (increase) in notes and accounts receivable - trade	△14,096	△24,668
Decrease (increase) in inventories	275	△1,790
Decrease (increase) in other current assets	1,753	△7,362
Increase (decrease) in notes and accounts payable - trade	△230	7,366
Increase (decrease) in accrued expenses	△1,345	△2,207
Increase (decrease) in advances received	4,149	7,051
Increase (decrease) in other current liabilities	△3,716	1,651
Other, net	755	394
Subtotal	1,151	△1,625
Interest and dividend income received	352	372
Interest expenses paid	△831	△861
Income taxes paid	△4,045	△3,314
Net cash provided by (used in) operating activities	△3,373	△5,428
Cash flows from investing activities		
Payments into time deposits	△1,621	△1,348
Proceeds from withdrawal of time deposits	1,966	1,291
Purchase of property, plant and equipment	△10,055	△6,964
Proceeds from sales of property, plant and equipment	1,261	170
Purchase of intangible assets	△2,616	△2,444
Purchase of investment securities	△178	△48
Proceeds from sales of investment securities	458	1,517
Other, net	59	253
Net cash provided by (used in) investing activities	△10,725	△7,574

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△13,691	15,454
Proceeds from long-term loans payable	27,351	13,000
Repayments of long-term loans payable	△14,939	△24,650
Proceeds from issuance of bonds	9,946	14,919
Redemption of bonds	△10,000	—
Cash dividends paid	△2,022	△2,022
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	△1,553
Other, net	△663	△163
Net cash provided by (used in) financing activities	△4,018	14,982
Effect of exchange rate change on cash and cash equivalents	13	△329
Net increase (decrease) in cash and cash equivalents	△18,104	1,649
Cash and cash equivalents at beginning of period	50,848	32,743
Increase in cash and cash equivalents from newly consolidated subsidiary	—	1
Cash and cash equivalents at end of period	32,743	34,394

12. Supplementary Information

(1) Consolidated Information by segments

1) Order Intake and Order backlog

(Unit: billion yen)

Business Segment	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Difference	Order backlog as of March 31, 2019
Environmental Systems & Industrial Plants	257.2	314.7	57.5	572.2
Machinery	98.4	100.7	2.3	85.9
Infrastructure	34.3	27.6	-6.7	38.4
Other Businesses	10.5	12.0	1.5	0.9
Total	400.4	455.0	54.6	697.4

2) Statements of Operations

(Unit: billion yen)

		Fiscal year ended March 31, 2018		Fiscal year ended March 31, 2019		Difference	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Net sales & Operating income	Environmental Systems & Industrial Plants	231.8	1.3	228.3	5.6	-3.5	4.3
	Machinery	100.6	2.5	106.6	-0.3	6.0	-2.8
	Infrastructure	33.4	1.1	31.8	1.3	-1.6	0.2
	Other Businesses	10.6	1.0	11.4	0.7	0.8	-0.3
	Total	376.4	5.9	378.1	7.3	1.7	1.4
Ordinary Income		3.3		6.7		3.4	
Profit attributable to shareholders of Hitachi Zosen		2.1		5.4		3.3	

(Notes)

As per reorganization effective April 1, 2018, a part of business on Other Businesses segment was changed to Infrastructure segment.

In the above tables, the figure of previous fiscal year is restated to reflect this organizational change.

3) Consolidated Balance Sheet

(Unit: billion yen)

	As of March 31, 2018	As of March 31, 2019	Difference
Cash and time deposits	33.9	35.6	1.7
Trade notes and accounts receivable	148.2	172.7	24.5
Inventories	29.1	30.8	1.7
Tangible & intangible fixed assets	129.1	129.9	0.8
Others	51.5	60.0	8.5
Total Assets	391.8	429.0	37.2
Notes and accounts payable	61.2	68.5	7.3
Interest bearing debt	107.2	126.3	19.1
Others	104.4	113.8	9.4
Total Liabilities	272.8	308.6	35.8
Shareholders' equity	114.7	117.8	3.1
Accumulated other comprehensive income	2.2	1.7	-0.5
Non-controlling interests	2.1	0.9	-1.2
Total Net Assets	119.0	120.4	1.4
Total Liabilities and Net Assets	391.8	429.0	37.2

4) Consolidated Statements of Cash Flows

(Unit: billion yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Difference
Cash flows from operating activities	-3.4	-5.4	-2.0
Cash flows from investing activities	-10.7	-7.6	3.1
Cash flows from financing activities	-4.0	14.9	18.9
Foreign exchange translation	0.0	-0.3	-0.3
Increase/decrease in cash & cash equivalents	-18.1	1.6	19.7
Cash & cash equivalents at beginning of year	50.8	32.7	-18.1
Other increase/decrease	—	0.0	0.0
Cash & cash equivalents at end of year	32.7	34.3	1.6

(2) Forecast of Consolidated Information by segments for fiscal year ending March 31, 2020

1) Order Intake

(Unit: billion yen)

Business Segment	Fiscal year ended March 31, 2019	Fiscal year ending March 31, 2020	Difference
Environmental Systems & Industrial Plants	314.7	240.0	-74.7
Machinery	100.7	110.0	9.3
Infrastructure	27.6	40.0	12.4
Other Businesses	12.0	10.0	-2.0
Total	455.0	400.0	-55.0

2) Statements of Operations

(Unit: billion yen)

		Fiscal year ended March 31, 2019		Fiscal year ending March 31, 2020		Difference	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Net sales & Operating income	Environmental Systems & Industrial Plants	228.3	5.6	240.0	10.0	11.7	4.4
	Machinery	106.6	-0.3	100.0	1.0	-6.6	1.3
	Infrastructure	31.8	1.3	30.0	0.5	-1.8	-0.8
	Other Businesses	11.4	0.7	10.0	0.5	-1.4	-0.2
	Total	378.1	7.3	380.0	12.0	1.9	4.7
Ordinary Income		6.7		8.0		1.3	
Profit attributable to shareholders of Hitachi Zosen		5.4		5.0		-0.4	