

Report of Consolidated Financial Results

For the Six Months Ended September 30, 2019

October 31, 2019

Name of Company: Hitachi Zosen Corporation
 Code Number: 7004 URL: <https://www.hitachizosen.co.jp>
 Stock Exchange Listing: Tokyo
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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 position for the six months ended September 30, 2019 (April 1 - September 30, 2019)

(1) Results of operations (Accumulated)

(Percentages show rates of increase or decrease from the period a year earlier.)

	Net sales		Operating income		Ordinary income		Profit attributable to shareholders of Hitachi Zosen	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
6 months ended Sep. 30, 2019	168,260	9.8	-6,333	—	-6,866	—	-10,625	—
6 months ended Sep. 30, 2018	153,243	-5.6	-8,496	—	-8,647	—	-7,682	—

	Net income per share	Net income per share-diluted
	(yen)	(yen)
6 months ended Sep. 30, 2019	-63.04	—
6 months ended Sep. 30, 2018	-45.58	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity to total assets
	(million yen)	(million yen)	(%)
As of September 30, 2019	383,583	106,618	27.6
As of March 31, 2019	429,040	120,410	27.8

(Note) Shareholders' equity: Yen 105,713 million (September 30, 2019), Yen 119,479 million (March 31, 2019)

2. Dividends

Record Date	Dividends per share (yen)		
	Interim	Year-end	Annual
Year ended March 31, 2019	0.0	12.0	12.0
Year ending March 31, 2020	0.0		
Year ending March 31, 2020 (Forecast)		12.0	12.0

(Note) Revisions to the dividends forecast most recently announced : None

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

(Percentages show rates of increase or decrease from the period a year earlier.)

	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	395,000	4.5	12,000	63.1	8,000	19.0	1,000	-81.6	5.93

(Note) Revisions to the forecast of consolidated earnings most recently announced : Yes

4. Notes

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

(2) Specific accounting policies applied in the quarterly consolidated financial statements: Yes

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

(i) Changes in accounting policies as per the revision of accounting standards: Yes

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

(iii) Changes in accounting estimates: None

(iv) Restatements: None

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

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

September 30, 2019 170,214,843 shares

March 31, 2019 170,214,843 shares

(ii) Number of shares held in treasury

September 30, 2019 1,672,050 shares

March 31, 2019 1,670,326 shares

(iii) Average number of shares during the respective periods

Six months ended September 30, 2019 168,543,546 shares

Six months ended September 30, 2018 168,547,722 shares

(5) This report is out of scope of Quarterly Reviews.

(6) 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.

5. Analysis of Financial Results

(1) Overview of consolidated operating results

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

For the six months ended September 30, 2019, Order intake increased 7.9% to Yen 200.2 billion from the same period in the previous fiscal year due to an increase in Machinery and Infrastructure. Net sales also increased 9.8% to Yen 168.2 billion from the same period in the previous fiscal year due mainly to an increase in Environmental Systems & Industrial Plants.

Operating loss improved by Yen 2.1 billion to a loss of Yen 6.3 billion from the same period of the previous fiscal year. A significant improvement in Environmental Systems & Industrial Plants compensated an increase of the loss in Machinery and Infrastructure. Reflecting the decrease of operating loss, Ordinary loss also improved by Yen 1.8 billion to a loss of Yen 6.8 billion from the corresponding period of a year earlier. On the other hand, due to the recognition of extraordinary loss, Loss attributable to shareholders of Hitachi Zosen increased by Yen 3.0 billion from the same period of the previous year to Yen 10.6 billion.

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

Environmental Systems & Industrial Plants:

Net sales increased 21.0% to Yen 106.4 billion due to the progress of large-scale construction of domestic EfW plants. Operating loss also decreased significantly by Yen 7.6 billion to Yen 0.5 billion due to the improvement in loss at overseas subsidiaries and the cost reduction in large-scale domestic EfW constructions.

Machinery:

Net sales decreased 8.9% to Yen 43.0 billion due to a decrease in sales of process equipment and precision machinery. Reflecting the decrease of profitability of process equipment, Operating loss also increased by Yen 2.7 billion to Yen 3.2 billion.

Infrastructure:

Although Net sales increased 4.7% to Yen 13.3 billion due to an increase in large-sized constructions, Operating loss increased by Yen 2.9 billion to Yen 3.0 billion due to the deterioration in profitability of constructions and incurring the large compensation cost in new products.

Other Businesses:

Net sales increased 1.8% to Yen 5.5 billion and Operating income also increased 33.3% to Yen 0.4 billion.

Due to the nature of business in our group companies, large proportion of projects are completed in the end of March, fiscal year closing month of public sector companies. Thus, there is a tendency that our operating results experience the seasonal fluctuation.

(2) Overview of consolidated financial position

Assets, Liabilities and Net assets

Total assets at the end of the second quarter of the current consolidated fiscal year decreased by Yen 45.5 billion to Yen 383.5 billion from the previous fiscal year end mainly due to the large amounts of collection of Notes and accounts receivable. Total liabilities decreased by Yen 31.7 billion to Yen 276.9 billion from the previous fiscal year end due to the repayment of Interest-bearing debt. Net assets decreased by Yen 13.8 billion from the previous fiscal year end to Yen 106.6 billion reflecting Loss attributable to shareholders of Hitachi Zosen in the first half of this fiscal year.

(3) Forecast of consolidated earnings

Concerning the forecast of consolidated sales and earnings for the fiscal year ending March 31, 2020, Net sales is expected to increase by Yen 15.0 billion to Yen 395.0 billion as per the last announcement of October 4, 2019 due to the boost of net sales in Environmental Systems & Industry Plants.

On the other hand, in terms of profit and loss, Operating income remains unchanged from Yen 12.0 billion, our previous announcement. While operating income in Environmental Systems & Industrial Plants is expected to increase due to the expansion of net sales and the cost reduction, operating income in Machinery and Infrastructure is expected to decline owing to the deterioration in profitability. As a result, Ordinary income and Profit attributable to shareholders of Hitachi Zosen also remains unchanged from Yen 8.0 billion and Yen1.0 billion, from the last announcement.

6. Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	35,578	26,923
Notes and accounts receivable - trade	172,704	125,288
Merchandise and finished goods	1,582	1,304
Work in process	23,422	26,395
Raw materials and supplies	5,802	5,692
Other	17,874	18,061
Allowance for doubtful accounts	△3,771	△3,028
Total current assets	253,193	200,637
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,456	35,970
Land	56,934	57,950
Other, net	26,998	29,136
Total property, plant and equipment	118,389	123,058
Intangible assets		
Goodwill	2,994	2,549
Other intangible assets	8,553	8,188
Total intangible assets	11,547	10,737
Investments and other assets		
Other investments and other assets	46,464	49,657
Allowance for doubtful accounts	△666	△608
Total investments and other assets	45,797	49,048
Total non-current assets	175,734	182,844
Deferred assets	113	100
Total assets	429,040	383,583

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	47,103	37,430
Electronically recorded obligations - operating	21,386	19,204
Short-term loans payable	52,429	31,110
Lease obligations	390	782
Accrued expenses	45,508	40,338
Accrued income taxes	4,109	1,407
Advances received	21,481	31,566
Provision for construction warranties	3,156	5,055
Provision for loss on construction contracts	3,218	3,079
Other current liabilities	13,854	11,363
Total current liabilities	212,637	181,339
Non-current liabilities		
Bonds payable	25,000	25,000
Long-term loans payable	47,449	44,570
Lease obligations	1,075	3,216
Retirement benefit liability	19,296	19,942
Provision for retirement benefits for directors (and other officers)	358	328
Asset retirement obligations	1,103	1,107
Other	1,709	1,459
Total non-current liabilities	95,992	95,625
Total liabilities	308,630	276,964
Net assets		
Shareholders' equity		
Capital stock	45,442	45,442
Capital surplus	8,527	8,527
Retained earnings	64,856	52,197
Treasury shares	△1,018	△1,019
Total shareholders' equity	117,807	105,147
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	280	109
Deferred gains or losses on hedges	△146	△67
Revaluation reserve for land	△7	△7
Foreign currency translation adjustment	1,335	603
Remeasurements of defined benefit plans	209	△71
Total accumulated other comprehensive income	1,671	565
Non-controlling interests	931	905
Total net assets	120,410	106,618
Total liabilities and net assets	429,040	383,583

7. Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	153,243	168,260
Cost of sales	135,376	147,612
Gross profit	17,867	20,647
Selling, general and administrative expenses	26,363	26,981
Operating loss	△8,496	△6,333
Non-operating income		
Interest income	35	44
Dividend income	100	123
Equity in net income of nonconsolidated subsidiaries and affiliates	269	337
Other	1,363	645
Total non-operating income	1,770	1,150
Non-operating expenses		
Interest expenses	397	419
Other	1,524	1,263
Total non-operating expenses	1,921	1,683
Ordinary loss	△8,647	△6,866
Extraordinary losses		
Loss on overseas business	—	7,197
Total extraordinary losses	—	7,197
Loss before income taxes	△8,647	△14,063
Income taxes	△902	△3,458
Loss	△7,745	△10,605
Profit (loss) attributable to non-controlling interests	△62	19
Loss attributable to shareholders of Hitachi Zosen	△7,682	△10,625

8. Supplementary Information

(1) Consolidated Information by segments

i) Order Intake

(Unit: billion yen)

Business Segment	Six months ended Sep. 30, 2018	Six months ended Sep. 30, 2019	Difference	Order backlog as of Sep. 30, 2019
Environmental Systems & Industrial Plants	123.4	115.4	-8.0	578.9
Machinery	42.5	55.6	13.1	98.0
Infrastructure	13.6	23.7	10.1	48.9
Other Businesses	6.0	5.5	-0.5	0.8
Total	185.5	200.2	14.7	726.6

ii) Statements of Operations

(Unit: billion yen)

		Six months ended Sep. 30, 2018		Six months ended Sep. 30, 2019		Difference	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Operating income	Environmental Systems & Industrial Plants	87.9	-8.1	106.4	-0.5	18.5	7.6
	Machinery	47.2	-0.5	43.0	-3.2	-4.2	-2.7
	Infrastructure	12.7	-0.1	13.3	-3.0	0.6	-2.9
	Other Businesses	5.4	0.3	5.5	0.4	0.1	0.1
	Total	153.2	-8.4	168.2	-6.3	15.0	2.1
Ordinary Income			-8.6		-6.8		1.8
Extraordinary loss			—		-7.2		-7.2
Profit attributable to shareholders of Hitachi Zosen			-7.6		-10.6		-3.0

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

i) Order Intake

(Unit: billion yen)

Business Segment	(Actual) Fiscal year ended Mar. 31, 2019	(Forecast) Released on Oct. 4, 2019	(Forecast) Released on Oct. 31, 2019	(Forecast) Difference
Environmental Systems & Industrial Plants	314.7	240.0	240.0	0.0
Machinery	100.7	110.0	110.0	0.0
Infrastructure	27.6	40.0	40.0	0.0
Other Businesses	12.0	10.0	10.0	0.0
Total	455.0	400.0	400.0	0.0

ii) Statements of Operations

(Unit: billion yen)

		(Actual) Fiscal year ended Mar. 31, 2019		(Forecast) Released on Oct. 4, 2019		(Forecast) Released on Oct. 31, 2019		(Forecast) Difference	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Operating income	Environmental Systems & Industrial Plants	228.3	5.6	240.0	10.0	255.0	13.0	15.0	3.0
	Machinery	106.6	-0.3	100.0	1.0	100.0	0.0	0.0	-1.0
	Infrastructure	31.8	1.3	30.0	0.5	30.0	-1.5	0.0	-2.0
	Other Businesses	11.4	0.7	10.0	0.5	10.0	0.5	0.0	0.0
	Total	378.1	7.3	380.0	12.0	395.0	12.0	15.0	0.0
Ordinary Income		6.7		8.0		8.0		0.0	
Profit attributable to shareholders of Hitachi Zosen		5.4		1.0		1.0		0.0	