

Mitsui Engineering & Shipbuilding



MES

三井造船株式会社

MITSUI ENGINEERING & SHIPBUILDING CO.,LTD.

FY2016 2Q Financial Results

2016/11/8

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FY2016 2Q Financial Results

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FY2016 2Q Financial Results

JPY Billion	FY15	FY16 2Q		Variance from Last year
	2Q Actual	Original Plan	Actual	
New Orders	211.6		172.2	(39.4)
Net Sales	381.0	370.0	322.2	(58.8)
Operating Income	(0.9) -0.2%	11.0 3.0%	(2.3) -0.7%	(1.4)
Ordinary Income	2.4	13.0	0.3	(2.1)
Net Income*	(1.1)	18.0	3.9	5.0

USD Assumption		110.00	
USD FY end	119.96		101.12
USD Average	120.11		103.75

*Profit attributable to owners of parent

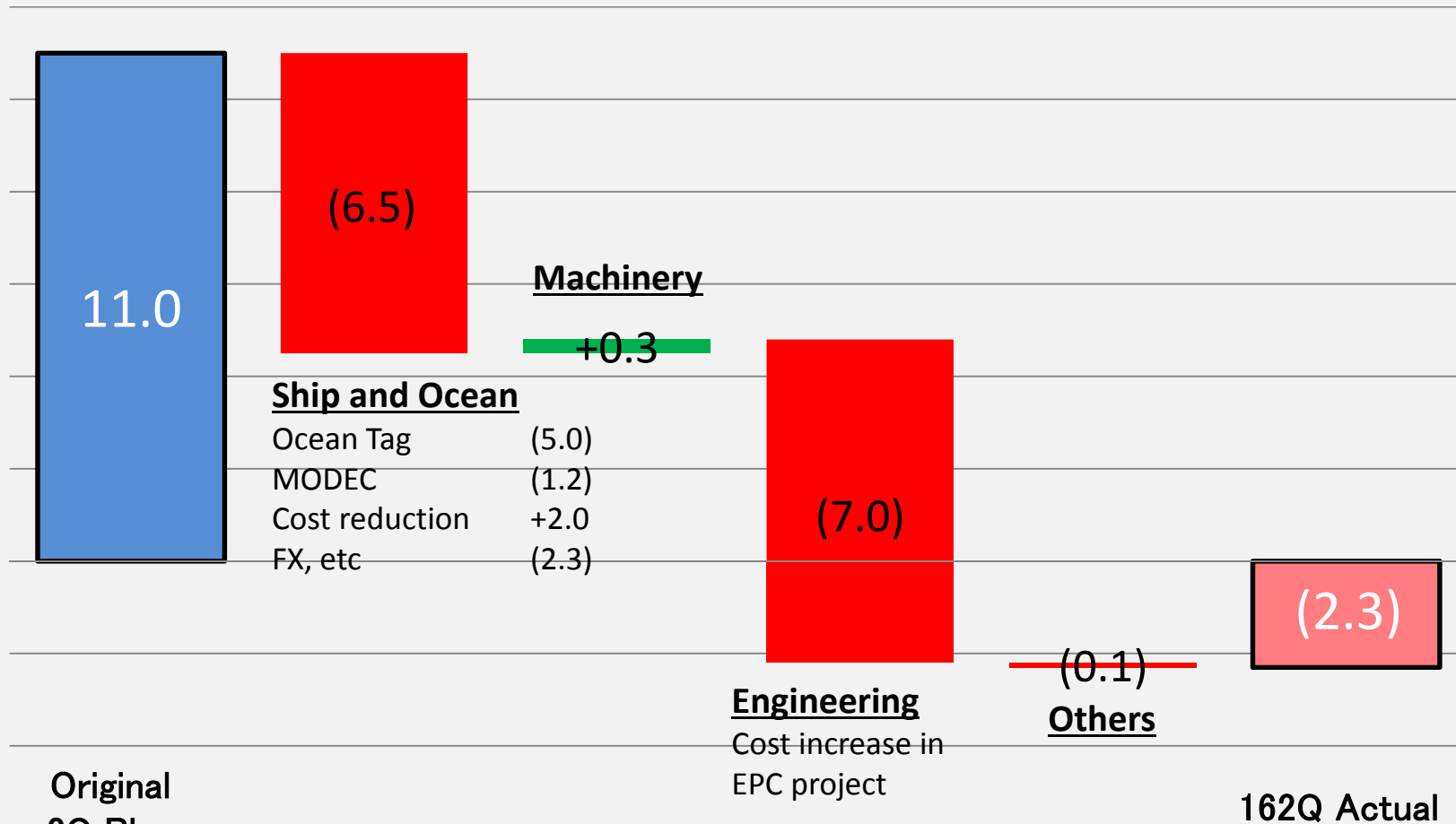
(Reference)
MES non-consolidated
USD average rate "107.40"

- New orders decreased due to order delays for Shipbuilding and Engineering projects.
- Net sales decreased due to a decline in MODEC FPSO construction projects.
- Although we recorded operating losses due to additional expenses related to ocean support vessels and engineering, net income improved year on year thanks to gains on sales of fixed assets (land).

Reason of variance in operating income

Reason of variance in operating income (vs Original Plan)

JPY billion



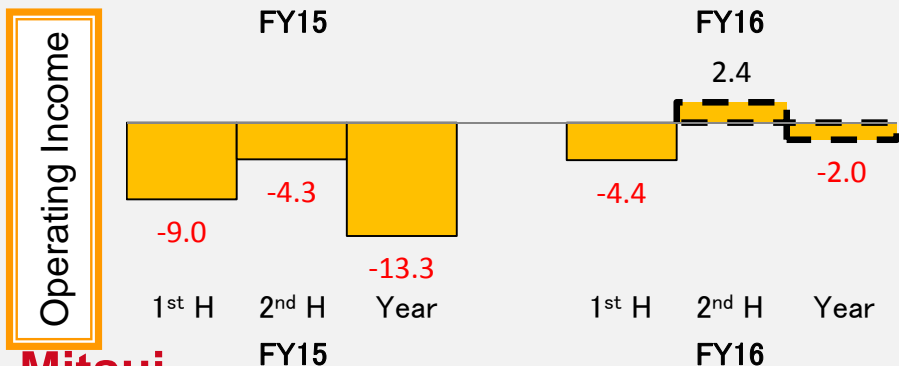
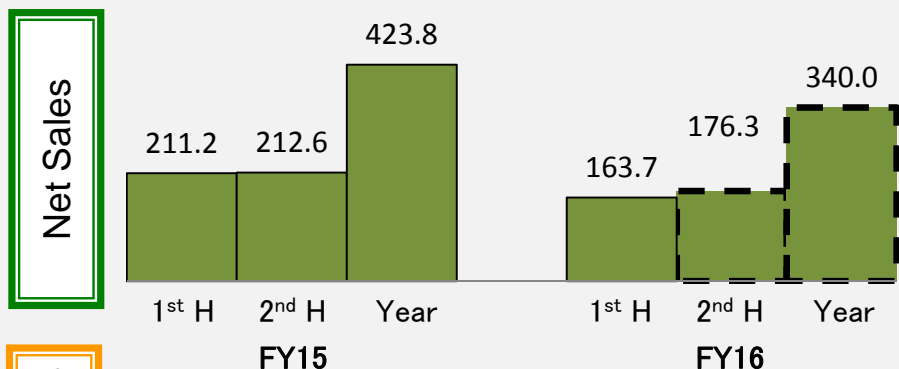
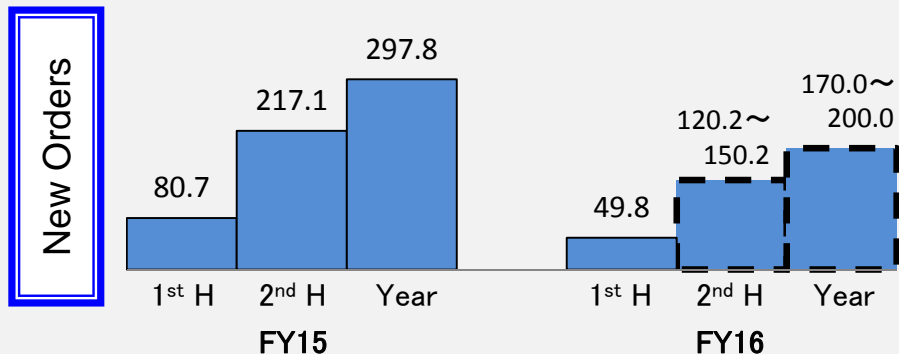
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Ship & Ocean

[Main products: New ships, ship repairs, ocean structures](#)

JPY billion



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New orders: Down 30.9 billion yen YoY

The Shipbuilding Division was impacted by a market cooldown that saw only one new order (training vessel) for the cumulative second quarter, a significant decline compared to the previous year. The environment for new orders of commercial vessels is down on a global level with no foreseeable end in sight, suggesting it will take time before we see a meaningful recovery. As the leading yard for energy-saving ships, we are working to improve profitability while conducting selective order acceptance. We also will explore business opportunities in gas-related fields as we accelerate initiatives related to compact gas vessels and LNG fuel ships.

Net sales: Down 47.5 billion yen YoY

The Shipbuilding Division achieved favorable results that were largely unchanged from plans thanks to the efficient and accurate implementation of work on current orders. However, net sales declined year on year due to a 52.7 billion yen decline in revenues by MODEC.

Operating income: Up 4.6 billion yen YoY

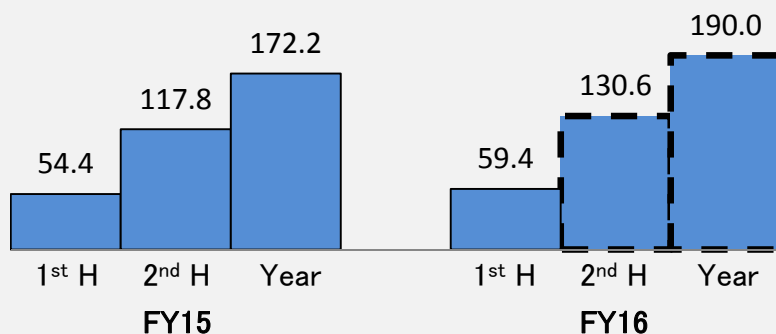
The near turnaround of low-priced ships enabled us to secure a certain level of income on a non-consolidated basis. Niigata Shipbuilding & Repair, Inc. completed its first ocean support vessel in September and additional expenses are under control. MODEC recorded increased income of 4.5 billion yen compared to the previous year, resulting in a 4.6 billion yen year-on-year improvement on a consolidated basis.

Machinery

Main products: [Diesel engines, industrial machinery, container cranes](#)

JPY billion

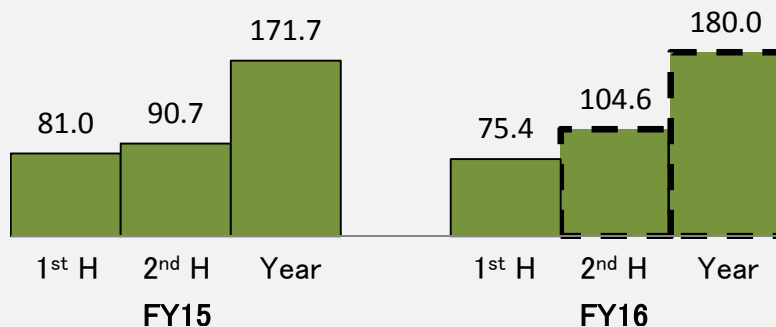
New Orders



New orders: Up 5.0 billion yen YoY

Although after-sales services declined due to a downturn in market conditions, orders for marine diesel engines increased due to the acceleration of contracts out of concerns regarding a lack of market transparency. Also, container cranes, which were sluggish during 2Q of the previous year, also increased. These factors resulted in a year-on-year increase.

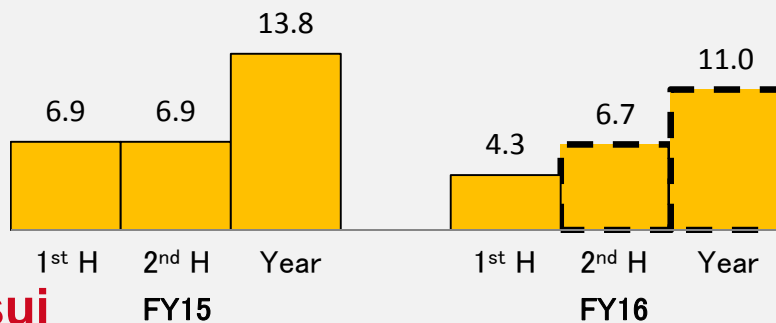
Net Sales



Net sales: Down 5.6 billion yen YoY

Although sales increased thanks to increase in total production horsepower in marine diesel engines, net sales decreased year on year due to a significant decline in net sales in container cranes, for which sales tend to concentrate in the second half along with impact of currency, and declining sales of industrial machinery, for which we struggled to secure orders during the previous fiscal year.

Operating Income



Operating income: Down 2.6 billion yen YoY

Although profitability improved thanks to cost reductions for marine diesel engines, income decreased year on year on lower income from container cranes due to the impact of currency and lower net sales.

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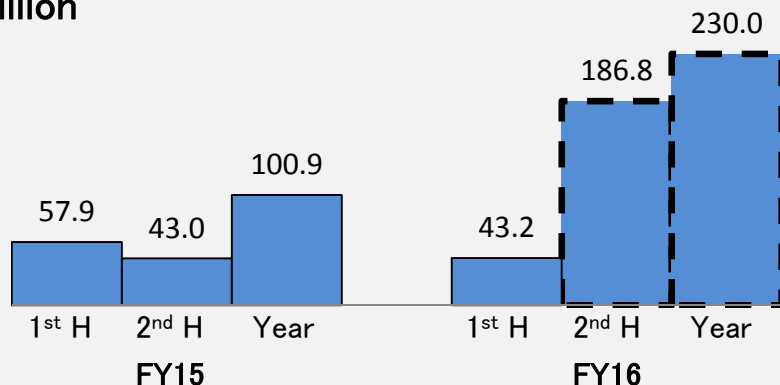
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Engineering

Main products: Chemical plants, water processing plants, foreign civil engineering, construction projects, power plants

JPY billion

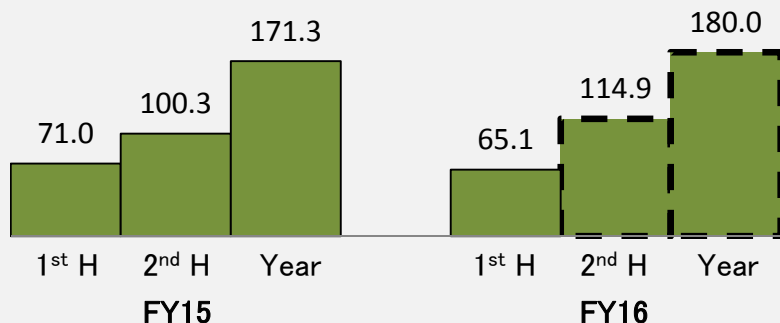
New Orders



New orders: Down 14.7 billion yen YoY

Although BWSC received a diesel generation plant construction order for Mauritius, new orders were down year on year due to postponements to petrochemical plant and overseas power plant engineering projects.

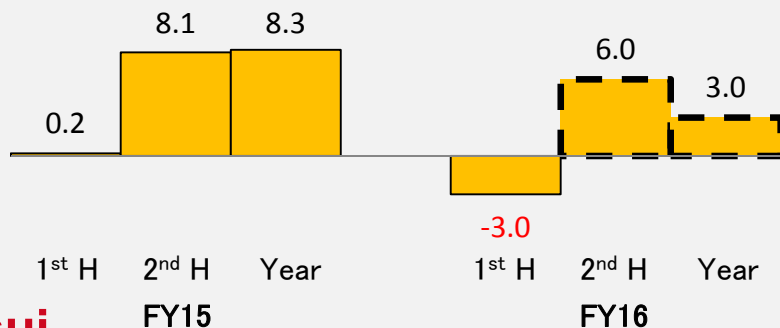
Net Sales



Net sales: Down 5.9 billion yen YoY

Although petrochemical plants in North America and Singapore progressed according to plan, the impact of order delays for power plant engineering projects and other factors resulted in a year-on-year decrease in net sales.

Operating Income



Operating income: Down 3.2 billion yen YoY

Although petrochemical plant and an infrastructure power plant in Singapore progressed according to plan, operating income was down year on year due to a significant increase in construction costs on certain projects resulting in a decline in profitability.

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FY2016 Latest Forecast

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FY2016 Latest Forecast

■ USD assumption rate changed to JPY 105

JPY Billion	FY16		Variance
	Original Plan	Latest Plan	
New Orders	900.0	630.0~ 660.0	(240.0)~ (270.0)
Net Sales	750.0	740.0	(10.0)
Operating Income	22.0 2.9%	15.0 2.0%	(7.0)
Ordinary Income	27.0	20.0	(7.0)
Net Income*	21.0	14.0	(7.0)
EPS (JPY)	26	17	
Dividend (JPY)	5	5	
USD Assumption	110.00	105.00	

*Profit attributable to owners of parent

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FY2016 Latest Forecast

(JPY billion)

	New Orders			Net Sales			Operating Income		
	FY16 1 st H (Actual)	FY16 2 nd H (Plan)	FY16 Upper: Latest (Lower: Orig.)	FY16 1 st H (Actual)	FY16 2 nd H (Plan)	FY16 Upper: Latest (Lower: Orig.)	FY16 1 st H (Actual)	FY16 2 nd H (Plan)	FY16 Upper: Latest (Lower: Orig.)
Ships	49.8	120.2~ 150.2	170.0~ 200.0 (440.0)	61.1	58.9	120.0 (120.0)	(6.8)	(2.2)	(9.0) (4.0)
Ocean Dev.	—	—	—	102.6	117.4	220.0 (230.0)	2.3	4.7	7.0 (7.0)
Machinery	59.4	130.6	190.0 (190.0)	75.4	104.6	180.0 (180.0)	4.3	6.7	11.0 (10.0)
Engineering	43.2	186.8	230.0 (230.0)	65.1	114.9	180.0 (180.0)	(3.0)	6.0	3.0 (6.0)
Others	19.8	20.2	40.0 (40.0)	18.0	22.0	40.0 (40.0)	0.9	2.1	3.0 (3.0)
Total	172.2	457.8~ 487.8	630.0~ 660.0 (900.0)	322.2	417.8	740.0 (750.0)	(2.3)	17.3	15.0 (22.0)

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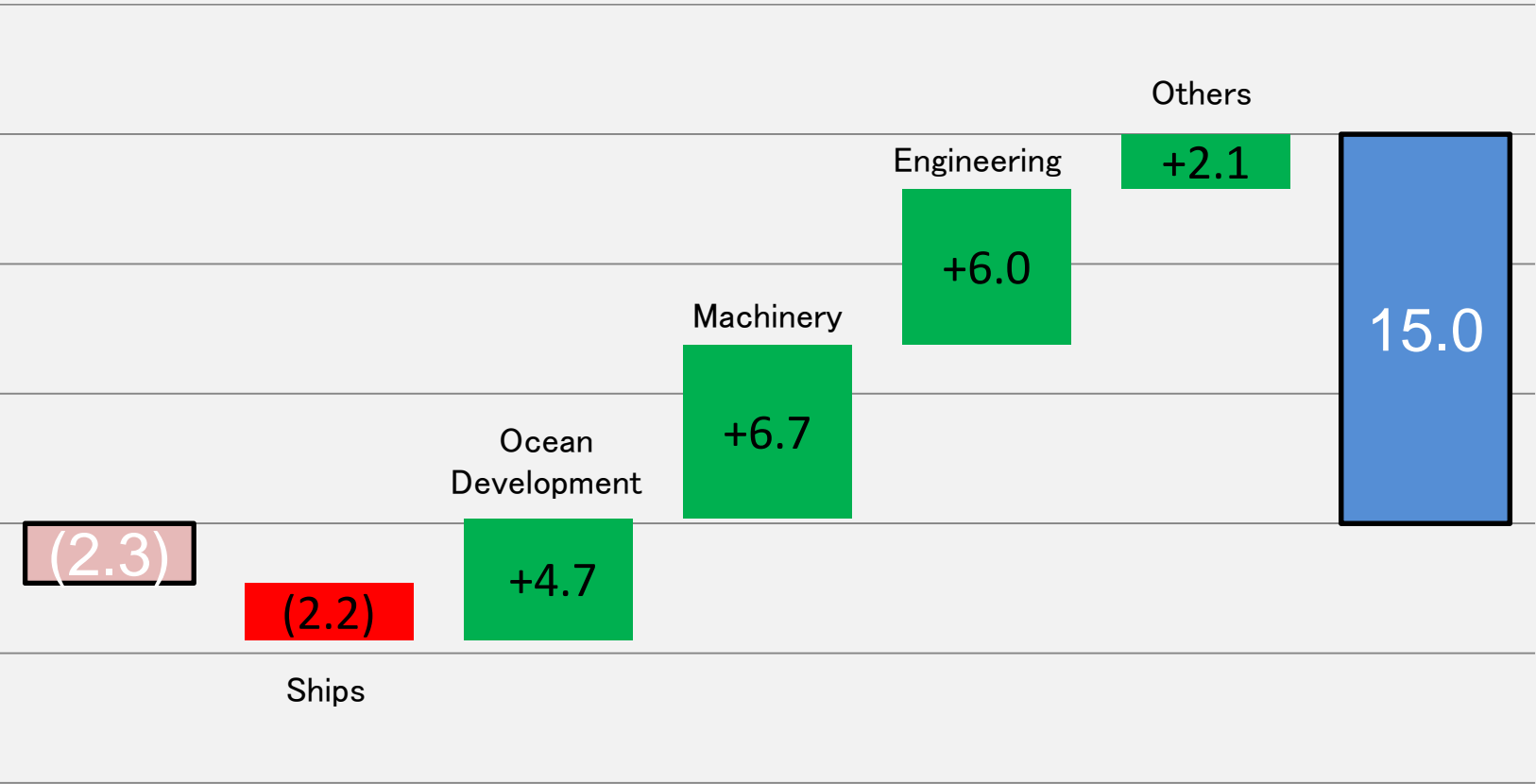
White font represents change in plan

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Forecast of operating income toward year-end

Forecast of operating income toward year-end

JPY billion



Operating Income of 162Q

Forecast of Operating Income for year-end

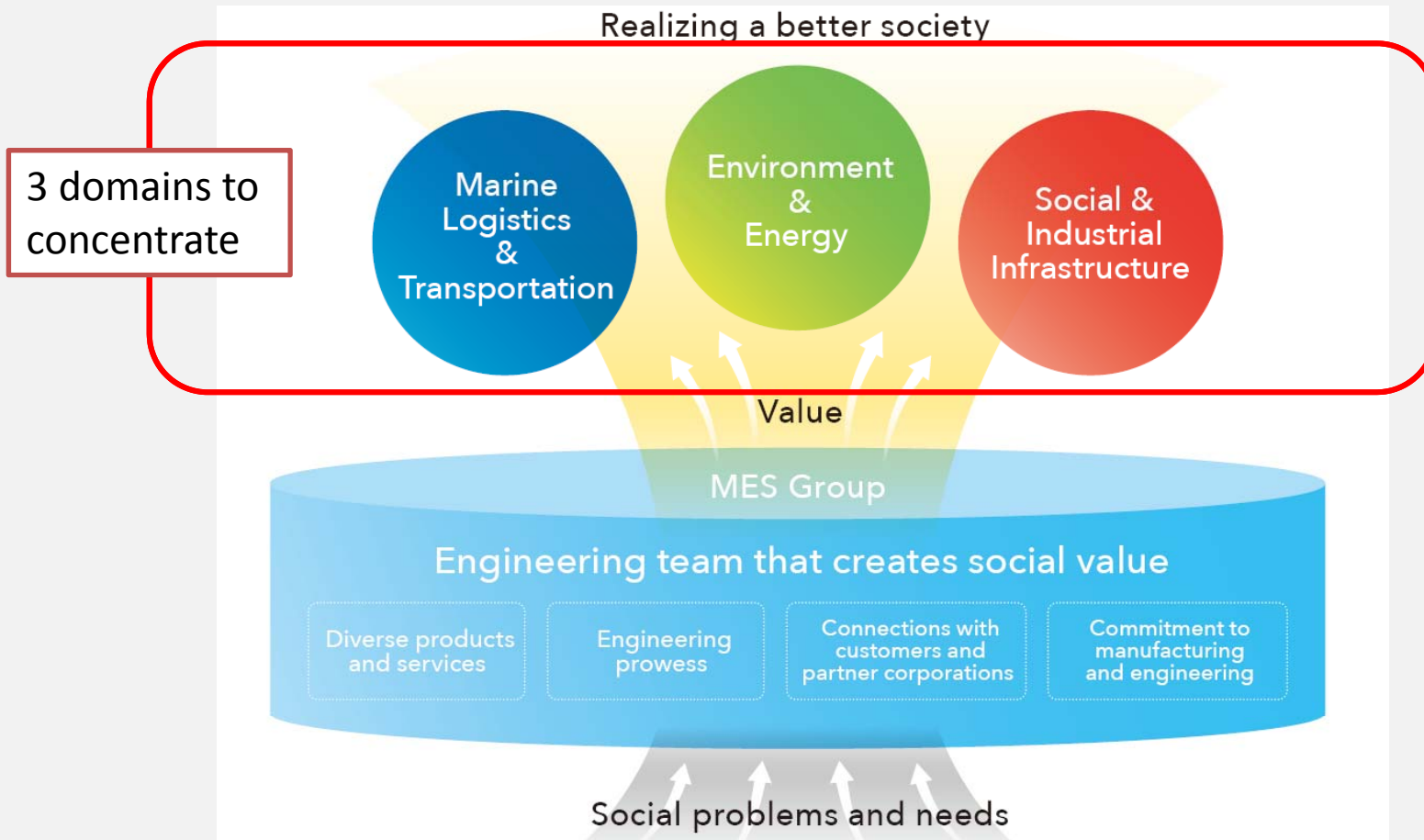
Toward 2025 Vision

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MES Group 2025 Vision



Latest Topic



Marine Engineering of the Year (ME-LGI)

Methanol-fueled ME-LGI engine

Enables significant reductions to CO₂, SO_x, and PM



Completed delivery of First Ocean Support Vessel – Among World’s Largest



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Delivered automated crane that also allows for remote operation and has no operator’s cabin

Realization of US West Coast’s first railway automation terminal



Latest Topic



Completed installation of FPSO MV27

MES constructed the hull



Order for low-concentration PCB detoxification facility



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Delivery of biomass power plant

40MW (straw fuel) for eastern UK

O&M for next 15 years



Latest Topic



Delivery of Sulfuric Acid Plant for Turkmenistan

Acquisition of UK engineering company
Increased share of LDPE market

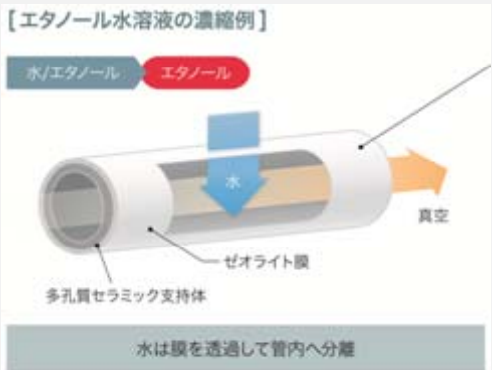
Simon Carves



Zeolite membrane partnership with Mitsubishi Chemical

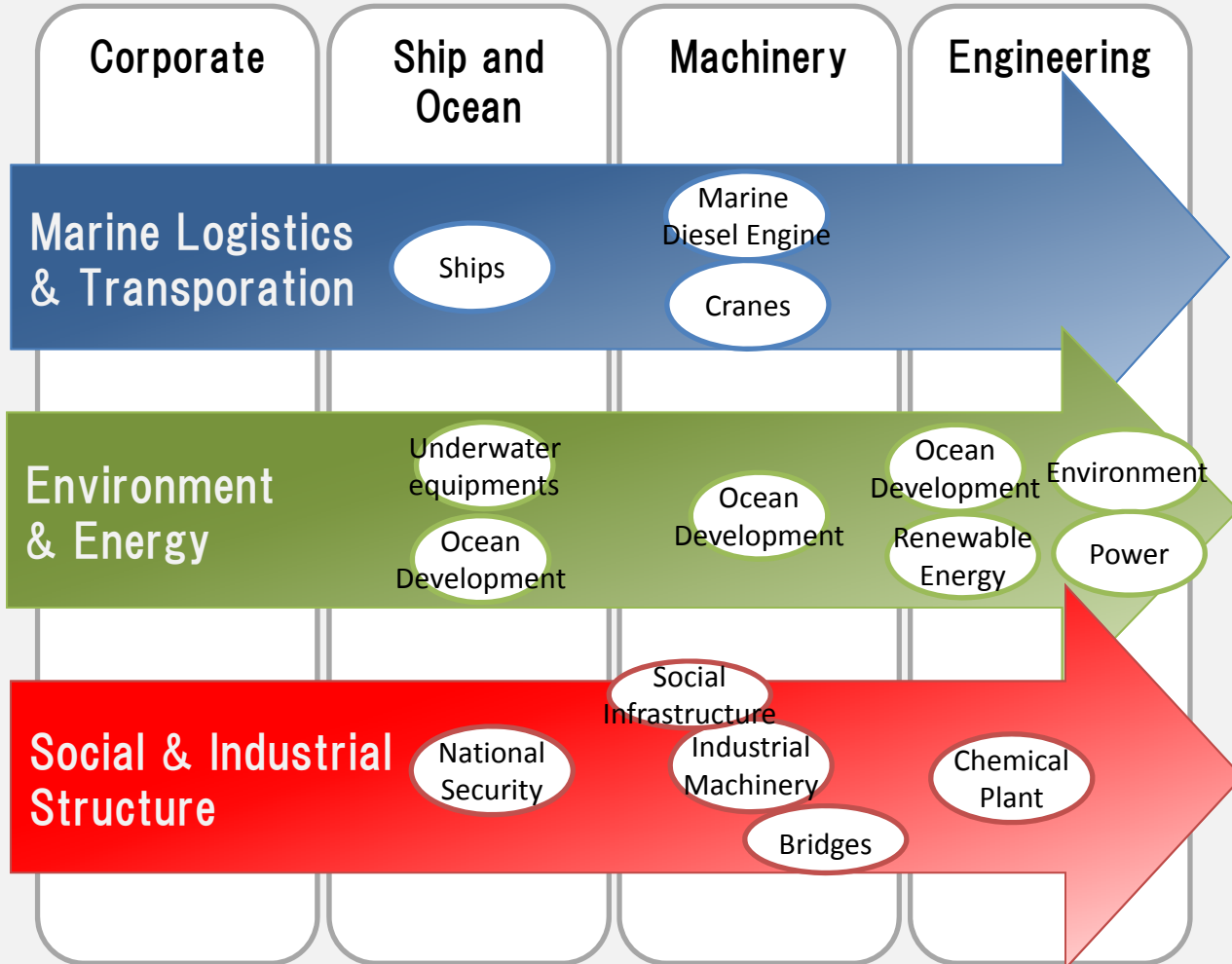
Launch of submarine rescue ship

Slab replacement order received from NEXCO EAST



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Strengthen lateral organization for achieving 2025 Vision with speed



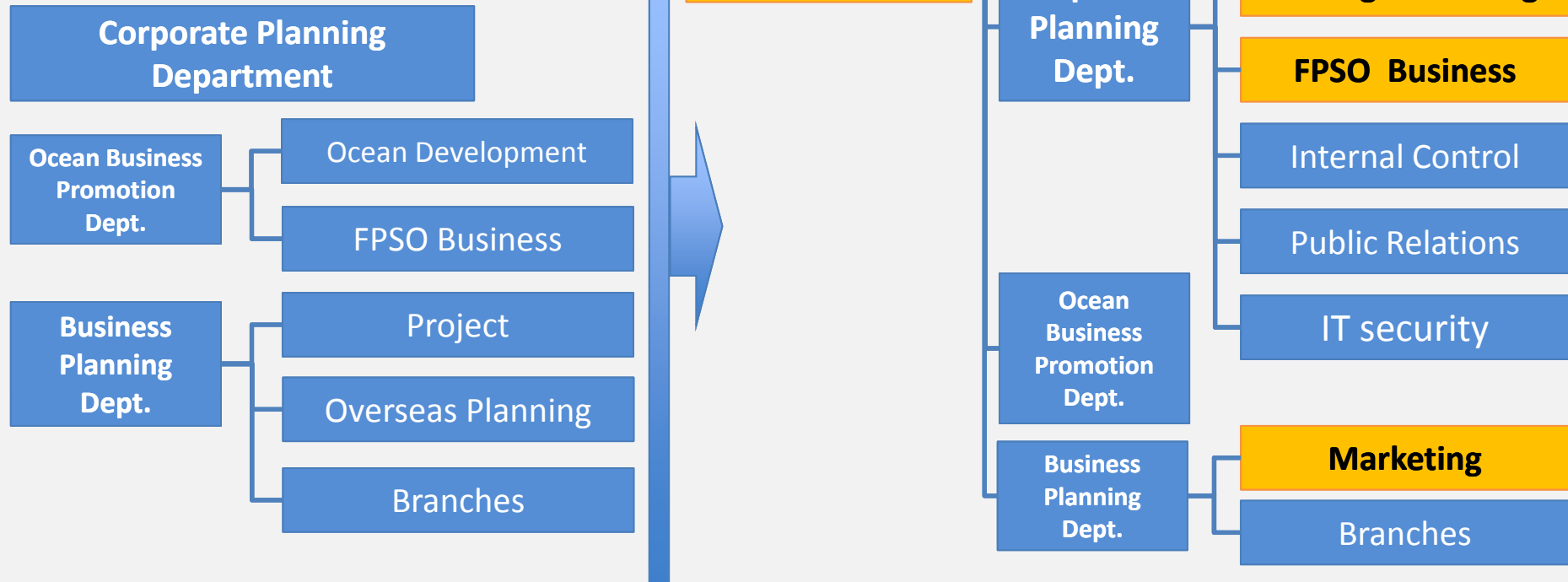
- Create new added value (products/services) based on needs in each domain
 - Proactively seek external collaborations without being fixated on how to incorporate our own products
 - Strengthen partnerships between each department and corporate on marketing, business and sales strategy, technology, product, and service development
- ↓
- Strengthening of planning functions

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Toward 2025 Vision

Newly established Corporate Planning Hq.



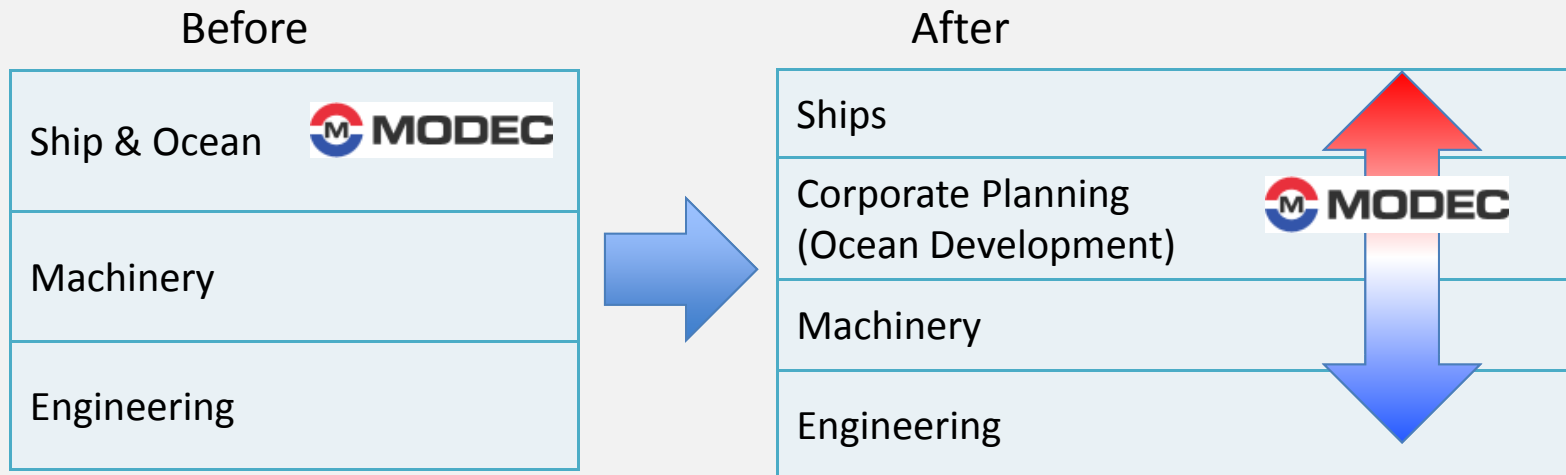
Strengthen corporate planning ability by cooperating Strategic planning, Business planning, and Marketing resources

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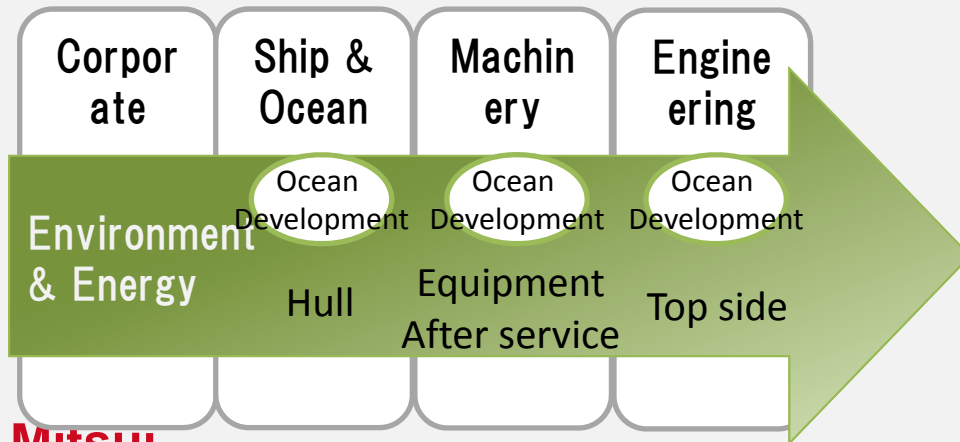
Speedy business planning in 3 business domains!

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Changed segment of MODEC



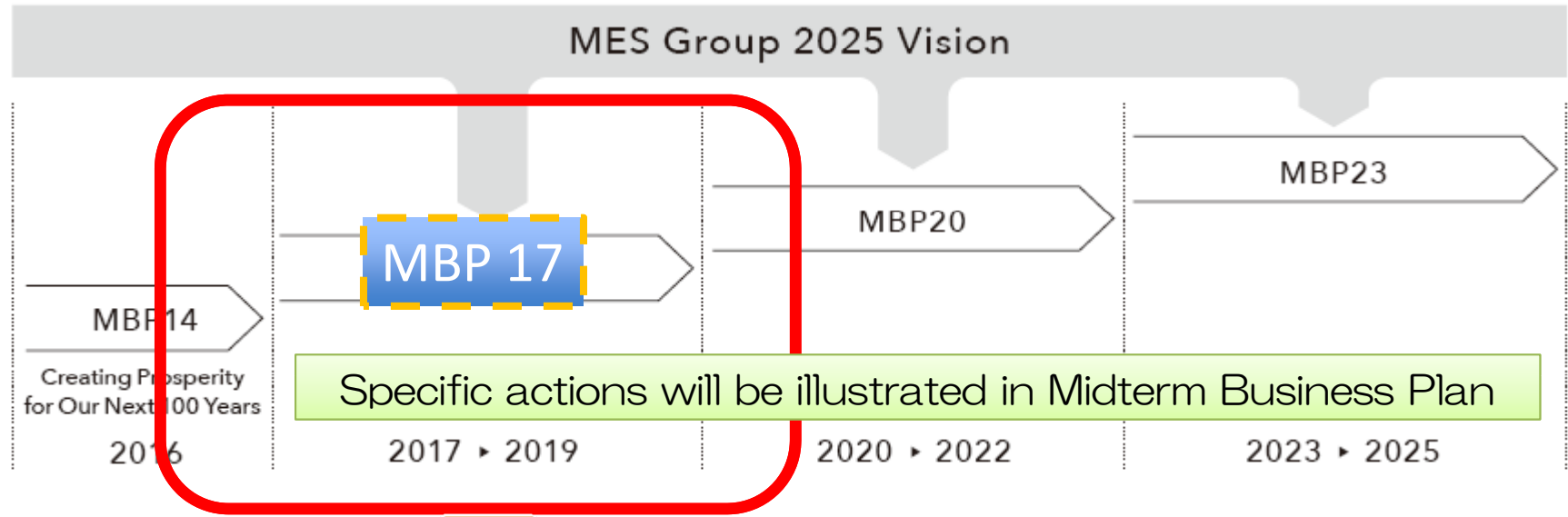
Speedy business development (Ocean Development)



- Increase size and margin of Ocean Development
- Reforming group business portfolio

Position of 2025 Vision

● Position of this Vision



MBP 17 will be released in the beginning of 2017





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Consolidated PL

JPY billion

	FY15 2Q	FY16 2Q	Var.	
Net Sales	381.0	322.2	(58.8)	Decrease in MODEC
Gross Profit	22.2	20.1	(2.1)	
SG&A	23.1	22.4	(0.7)	
Operating Income	(0.9)	(2.3)	(1.4)	
	-0.2%	-0.7%	-0.5%	
Other Income	7.0	8.3	1.3	
Other Expenses	3.7	5.7	2.0	Forex., etc
Ordinary Income	2.4	0.3	(2.1)	
Extraordinary Income	1.4	17.0	15.6	Sales of fixed assets
Extraordinary Losses	2.2	3.6	1.4	
Profit before taxes	1.6	13.8	12.2	
Income Taxes	4.4	9.3	4.9	
Non-controlling interest	(1.8)	0.5	2.3	
Profit attributable to owners of parent	(1.1)	3.9	5.0	

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Consolidated BS

JPY billion

	FY15	FY162Q	Var.		FY15	FY162Q	Var.
Cash	139.4	144.5	5.1	Payables	245.6	199.3	(46.3)
Receivables	282.4	233.4	(49.0)	Advances from customers	84.4	79.8	(4.6)
Work in Progress	33.8	41.6	7.8	Provision for losses	10.1	17.0	6.9
Other Current Assets	82.2	99.0	16.8	Interest bearing debt	239.9	279.3	39.4
Fixed Assets	411.4	402.0	(9.4)	Others	170.2	165.5	(4.7)
Investment, other	144.8	144.8	0.0	Net Assets	343.8	324.4	(19.4)
Total Asset	1,094.0	1,065.3	(28.7)	Total liabilities and net assets	1,094.0	1,065.3	(28.7)

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Consolidated Cash Flow

JPY billion

	FY152Q Actual	FY162Q Actual	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Plan
Operating CF	22.8	0.1	14.5	15.2	29.8	(40.0)
Investing CF	(63.0)	(23.2)	(37.3)	(32.4)	(34.6)	(30.0)
Free CF	(40.2)	(23.1)	(22.8)	(17.2)	(4.8)	(70.0)
Financing CF	36.3	39.6	15.5	(4.4)	48.2	30.0
Interest bearing debt	208.8	279.3	187.8	188.3	239.9	270.0
DE Ratio	1.0	1.3	0.9	0.8	1.0	1.2
ROIC			6.5%	4.2%	3.7%	
ROE			21.6%	4.1%	3.2%	

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Appendix: Major subsidiary, capex, employees

(JPY billion)

Major Subsidiary	FY15 2Q		FY15		FY16 2Q		FY16 Plan	
	Order	Sales	Order	Sales	Order	Sales	Order	Sales
MODEC	29.7	156.8	188.8	295.0	19.4	102.6	—	230.0
BWSC	24.9	18.7	47.4	37.0	13.2	18.7	—	52.0
Showa Air	—	11.2	—	23.6	—	8.9	—	24.5

Capex.	FY15 2Q		FY15		FY16 2Q		FY16 Plan	
	Consolidated							
Capex.	11.8		16.0		7.9		21.0	
Depreciation	8.6		17.9		8.6		—	
R&D	1.7		5.0		1.6		5.0	

Employees	FY15 2Q		FY15		FY16 2Q	
	Consolidated					
Employees	12,668		12,705		12,866	

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Appendix: Main products and customer (Ship, Ocean Development)

Shipbuilding

Products: commercial and naval ships, working ships, fishing vessels

Customer: domestic and overseas ship owner, shipping companies,
Ministry of Defense, Japan Coast Guard



Offshore structure

Products: FPSO/FSO (Floating Production, Storage, and Offloading)

Customer: oil resource development companies



Repair and others

Products: Repair and retrofit, marine related equipments, underwater vehicles

Customer: shipping companies, Ministry of Defense, Japan Coast Guard,
public institutions



FY16 2Q breakdown of ships (non-consolidated)

(Unit: Ship)

Ship types	New Orders	Deliveries	Backlog
Commercial Ships neo series (eco type)	1	5	32
Naval, patrol ships and other			
Total	1	5	32

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Appendix: Main products and customer (Machinery)

Diesel engine

Products: marine diesel engines

Customer: mainly domestic shipbuilders



Industrial machinery

Products: compressors, blowers, gas and steam turbine, process unit, induction heaters, radar inspection equipment, manipulator

Customer: oil refineries, petro-chemical plant, steel, paper, power, auto components



Techno service

Products: service parts and maintenance for diesel engine, machinery, and cranes

Customer: shipping, oil, steel companies, container terminal operators

Cranes for container terminal

Products: Portainer, Transtainer, industrial cranes, CTMS(management system)

Customer: container terminal operators, steel companies



Others

Products: marine and land generating equipments, forging, casting

Customer: construction machinery makers, train, IT, machinery industries



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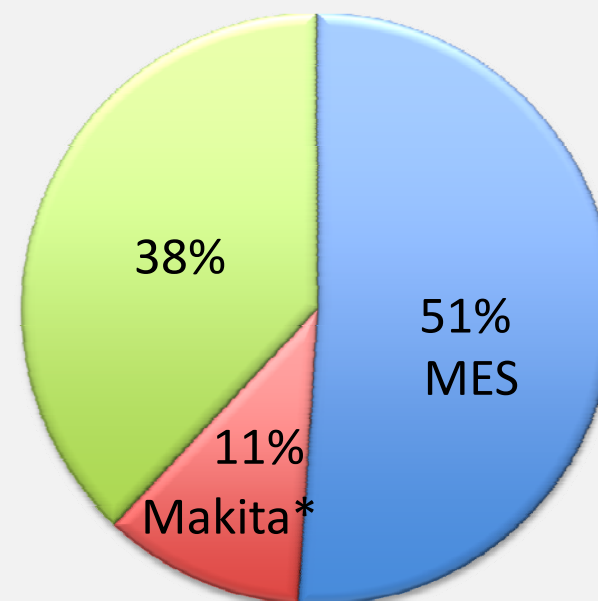
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Appendix: Details of Diesel engines

	FY15		FY16 2Q	
	Unit	Horse Power (10 k)	Unit	Horse Power (10 k)
New Orders	170	449	37	70
Deliveries	160 *(7)	298 *(17)	87	159
Back log	159 *(5)	435 *(14)	109	347
Production	181	328	99	186

*figures in bracket () represent gas fuel engines (GI and LGI) inclusive

Jan. to Dec. 2015
Marine Diesel Engines
domestic share



Source: KP data (2 stroke engine)

Makita is sub-licensee of MES

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Appendix: Main products and customer (Engineering)

Chemical Plant

Products: EPC for chemical plant such as plastic, synthetics fiber, rubber

Customer: domestic and overseas major chemical companies, petroleum companies

Infrastructures and power

Products: civil engineering for coal fired power plant, EPC and O&M for biomass, renewable energy plant, sludge treatment plant

Customer: major trading house, power producer, local governments

BWSC (Burmeister & Wain Scandinavian Contractor A/S)

Products: EPC and O&M for diesel and biomass power plant

Customer: major utility companies, IPP(Independent Power Producer)



Breakdown (JPY billion)

	FY15 2Q		FY 162Q	
	New Orders	Net Sales	New Orders	Net Sales
Chemical Plant	8.8	31.0	12.8	31.3
Infrastructures and power	49.1	40.0	30.4	33.8
Total	57.9	71.0	43.2	65.1

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