

FY2015 2Q Report

(ended on 30th September 2015)

Reported on 6th November 2015



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FY2015 2Q Highlight

(JPY 100 million)

	FY14 2Q	FY15 2Q		Compare to last year
	Actual	Plan	Actual	
New Orders	2,552		2,116	Δ436
Net Sales	3,524	3,900	3,810	+286
Operating Income	87 (2.5%)	10 (0.3%)	Δ9 -	Δ96
Ordinary Income	91 (2.6%)	40 (1.0%)	24 (0.6%)	Δ67
Net Income	43 (1.2%)	5 (0.1%)	Δ11 -	Δ54

US\$ Rate (year end)

119.96

US\$ Rate (Average)

111.80

New Orders

New orders decreased due to decrease in new orders of ships in subsidiary caused by last minutes orders in prior year, and selective order in cranes.

Net Sales

Net sales increased due to good progress of EPC project in Engineering segment.

Operating Income

Operating income stayed low level due to provision for losses in shipbuilding subsidiary and repair expenses in MODEC.

Net Profit

Net profit decreased due to decrease in operating income.

FY2015 2Q Highlight

Breakdown by segment

(JPY 100 million)

	New Orders			Net Sales			Operating Income		
	FY14 2Q	FY15 2Q	Var.	FY14 2Q	FY15 2Q	Var.	FY14 2Q	FY15 2Q	Var.
Ship & Ocean	1,128	807	△321	2,083	2,112	29	45	△90	△135
Machinery	713	544	△169	745	810	65	40	69	29
Engineering	521	579	58	521	710	189	△13	2	15
Others	190	186	△4	175	178	3	15	10	△5
Total	2,552	2,116	△436	3,524	3,810	286	87	△9	△96

FY2015 2Q Highlight

Decrease in Operating Income of Ship & Ocean segment

- Additional cost in building ocean support vessels in a shipbuilding subsidiary
 - Design changes, delay in schedule due to problems, and back track work
 - Provision includes maximum expense. Established structure to support fully by MES as a parent.
- Repair expense and elimination of unrealized profit of MODEC.
- Progress of ships received when the market was tough.

Loss making project in Engineering segment was completed

Loss making project received in tough marketing environment is over. Profitable project will be recorded for a while.

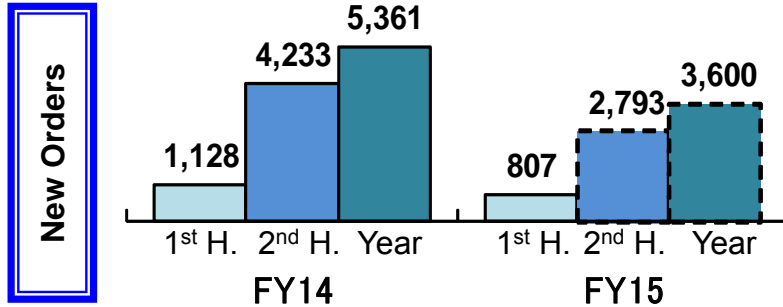
Order backlog to be recorded in sales after 152Q

Area	Project
<u>Petro-chemical</u> ¥130 billion	ExxonMobile (U.S.A. and Singapore) SASOL (U.S.A.)
<u>Infrastructure / Power</u> ¥ 160 billion	Civil engineering for thermal power (S.E. Asia) Biomass power (U.K.)
<u>Operation and Maintenance</u> ¥ 85 billion	Biomass power (U.K.)

Ship & Ocean

Main products: New ships, ship repairs, ocean structures

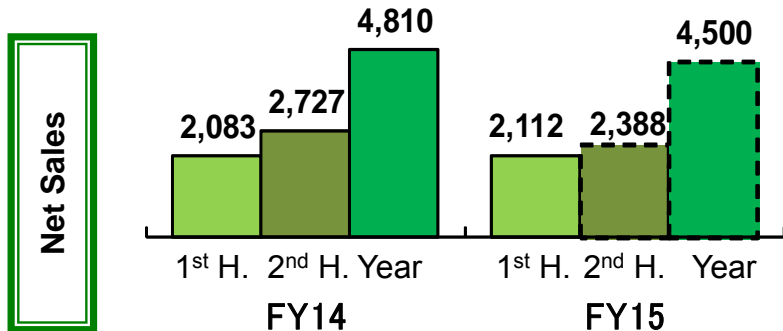
(JPY 100 million)



New orders : Decrease JPY -32.1 billion (vs last year)

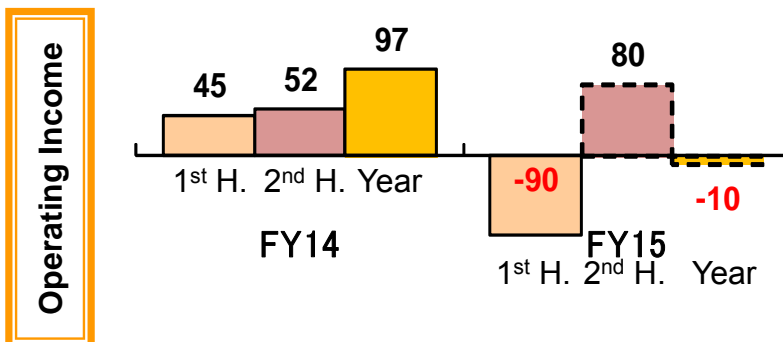
Certain number of orders are secured by taking advantage of pioneer in fuel efficient ships even though the market demand is largely decreasing due to lower freight for bulk carriers.

Forecast of new orders is lowered as MODEC's order is expected to carry over.



Net Sales : Increase JPY +2.9 billion (vs last year)

Net sales is on track due to good progress in MODEC's project and other back log orders.



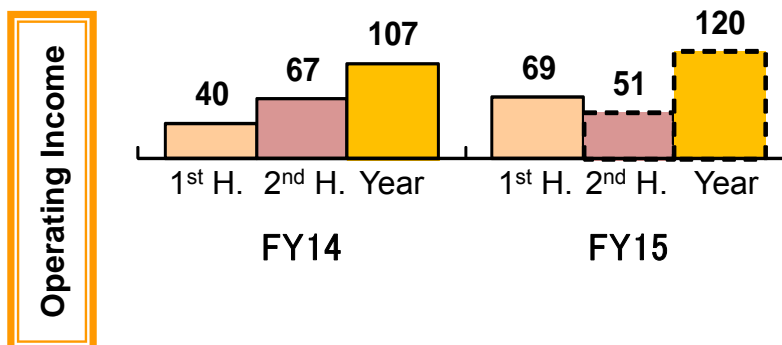
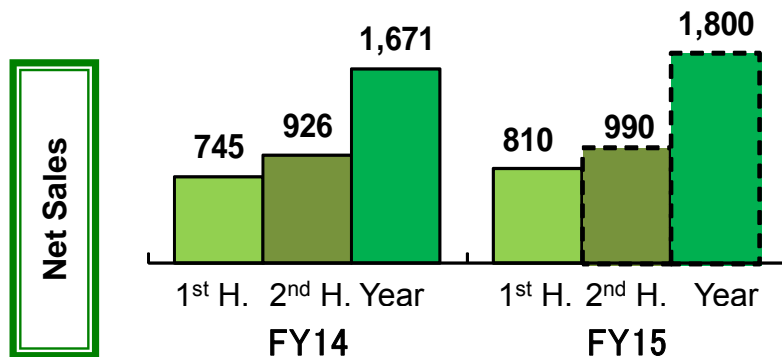
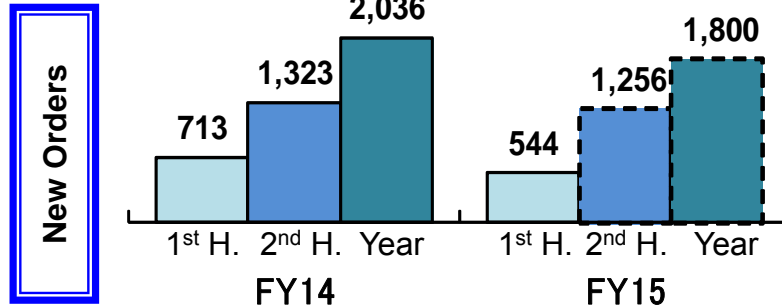
Operating Income : Decrease JPY -13.5 billion (vs last year)

Operating income became far below last year due to large provision for ocean support vessels being built in a subsidiary and repair expense and elimination of unrealized profit in MODEC.

Machinery

Main products: Diesel engines, industrial machinery, container cranes

(JPY 100 million)



New orders : Decrease JPY -16.9 billion (vs last year)

New orders decreased by JPY 16.9 billion as sales activity of container yard crane business was selective due to constraint in production capacity as the back log increased by favorable order environment in prior year. Although the order environment of industrial machinery is tough, the order target will be reached as the demand of container yard crane remains to be large and capacity increase will be achieved. After service market is also favorable.

Net Sales : Increase JPY +6.5 billion (vs last year)

Net sales increased due to increase in container yard crane and after service business.

Operating Income : Increase JPY +2.9 billion (vs last year)

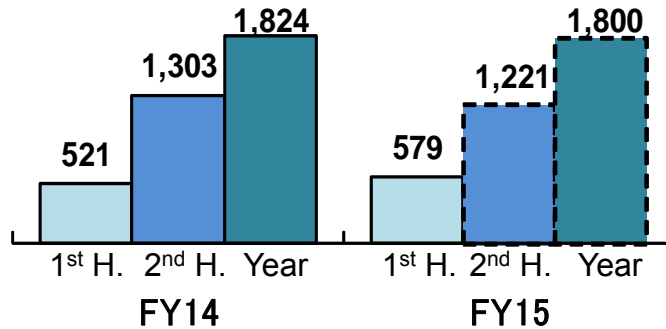
Operating income exceeded last year because of improvement in profitability of marine diesel engine, continuous good condition in container yard crane and after service, and effort of cost reduction.

Engineering

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

(JPY 100 million)

New Orders

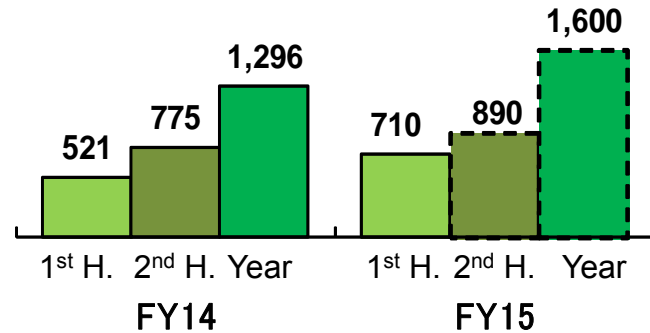


New orders : Increase JPY +5.8 billion (vs last year)

There was no large project in petrochemical plant. Construction project of wind power was received as infrastructure / power area.

New orders exceeded last year mainly because of new EPC and O&M project of Biomass in U.K. received by BWSC, a subsidiary.

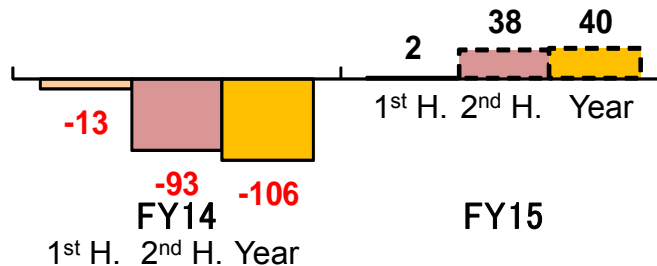
Net Sales



Net Sales : Increase JPY +18.9 billion (vs last year)

Net sales increased due to increase in sales of BWSC and good progress of backlog projects received in 2 years ago.

Operating Income



Operating Income : Increase JPY +1.5 billion (vs last year)

Operating income recovered as loss making projects are completed and main sales will now shift to profitable projects received in 2 years ago.

FY2015 Forecast

(JPY 100 million)

	FY15 Original Plan	FY15 Latest Plan	Variance
New Orders	9,100	7,500	Δ1,600
New Sales	8,300	8,300	0
Operating Income	220 (2.7%)	180 (2.2%)	Δ40
Ordinary income	250 (3.0%)	220 (2.7%)	Δ30
Net Income	130 (1.6%)	130 (1.6%)	0
Dividend	3 to 4 Yen	4 Yen	
US\$ Rate	115.00	115.00	

FY2015 Forecast (by segment)

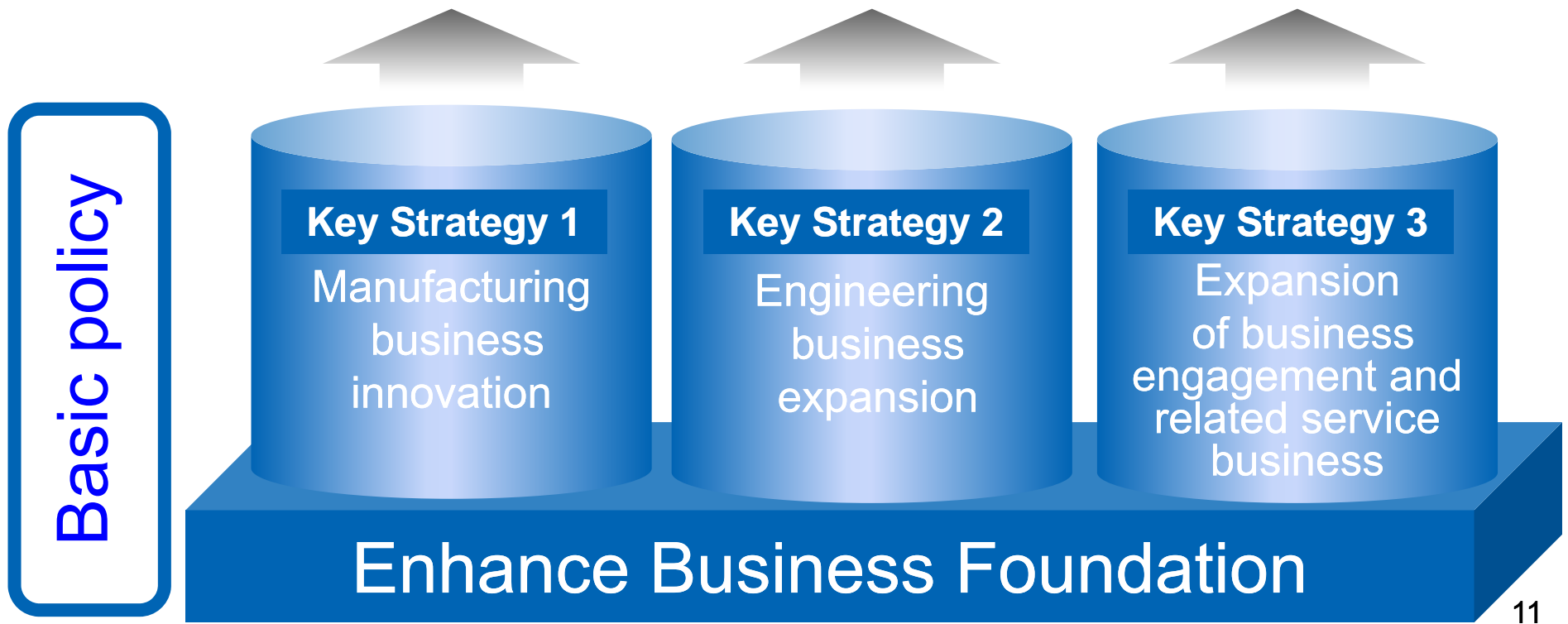
(JPY 100 million)

	New Orders			Net Sales			Operating Income		
	FY15 1st H. (Actual)	FY15 2nd H. (Plan)	Year (Plan)	FY15 1st H. (Actual)	FY15 2nd H. (Plan)	Year (Plan)	FY15 1st H. (Actual)	FY15 2nd H. (Plan)	Year (Plan)
Ship & Ocean	807	2,793	3,600	2,112	2,388	4,500	△90	80	△10
Machinery	544	1,256	1,800	810	990	1,800	69	51	120
Engineering	579	1,221	1,800	710	890	1,600	2	38	40
Others	186	114	300	178	222	400	10	20	30
Total	2,116	5,384	7,500	3,810	4,490	8,300	△9	189	180

The plan is latest plan as of 30 October 2015

Basic Policy(1)

Well-balanced Portfolio
- Sustainable Growth and Solid Profit Stability -



Tough in Short Term, New Business Opportunity Arises

- Uncertain global economics, stagnation in emerging countries, financial crisis and currency exchange risk continue.
- Economic growth of emerging countries in Asia continues to lead world economic growth.
- **Global energy demand increases and shift to natural gas and renewable energy sources accelerated.**
- **Change of industrial structural caused by shale gas revolution.**
- Announcement of Basic Plan on Ocean Policy in Japan. (Apr. 2013)
- Tough business environment in marine diesel engine continues.
- Increase of opportunity of orders received in marine resources development, petro-chemical gas, electric power, environmental energy, logistics and crane fields.

Gas business

Change in LNG market

- Excess production of shale oil, gas → LNG price down
→ Increase in short-range LNG demand

Forecast of marine gas transportation

- Development of gas market in India, China, and S.E. Asia → LNG hub trade
- Short-Middle range, non-fixed amount, and spot trade → portion lading
- Lower LNG price and tighter environment control → Increase in gas fueled ship

Future of liquidated gas carrier

- Dual fuel engine will be main stream
- Ship type will be categorized into three

Large	Membrane	Tanks for Cargo
Middle	Type B(Moss)	Tanks for Cargo
Small	Type C	Tanks for Cargo



Small「Type C」Image

⇒ New line up in neo series, Middle type 「neo82GC」

ME-GI & FGSS

Domestically first ME-GI engine completed

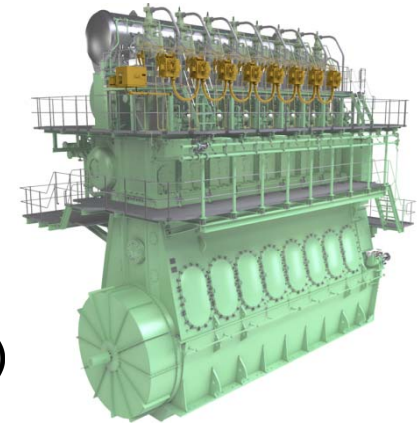
Dual fuel engine for LNG ship “MAN B&W 8S70ME-C8.2-GI”

Line-up of Dual fuel engine

ME-GI(LNG/Heavy oil)

ME-GI-Ethane(Ethane/Heavy oil)

ME-LGI(Methanol, ethanol, LPG, Dimethyl Ether/Heavy oil)



Achieved natural gas supply using FGSS* compressor

Achieve on-land commissioning by combining ME-GI and FGSS compressor

MES is the only company to enable trial combining ME-GI and FGSS before loading



FGSS : Fuel Gas Supply System

Acquired TGE Marine



Business of TGE Marine

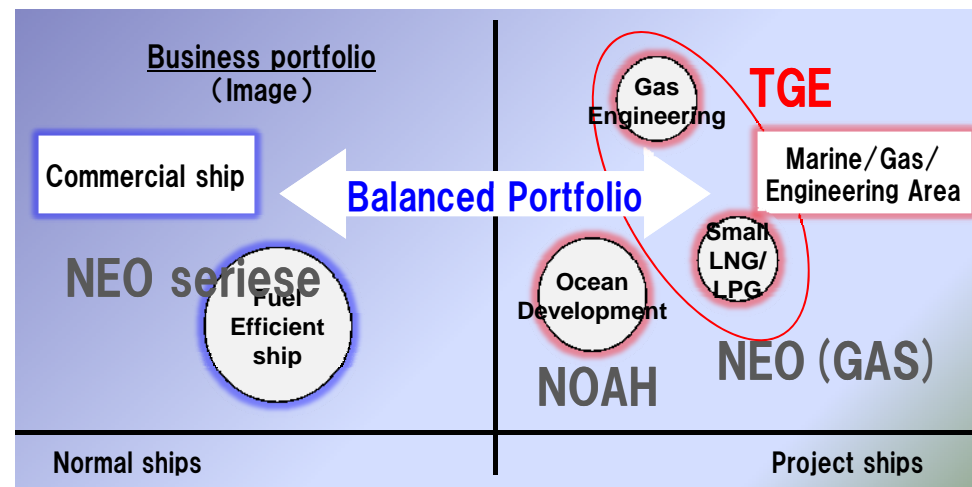
- Engineering company for Gas ship in Bonn, Germany
- Providing EPCS(Engineering, Procurement, Construction Supervision) for small size gas carrier using Type C tank and gas handling system
→ Global share of 50% in small ethylene carrier and 30% in LPG
- Gas ship owner in Europe and shipbuilder in China and Korea as customer base

Purpose of acquisition

- MES : Global market for middle to small size gas carrier and FSRU. Sales base for FGSS equipment
- TGE : Enter into Japanese market and enlargement of business area. Enhancement of quality control for procurement.



•FSRU : Floating Storage and Re-gasification Unit



Progress of Midterm business plan 2014

【Key strategy 1】 Manufacturing business innovation

Restructuring of domestic development and production system	Development global business structure	Development and expansion of key components business
FPSO construction, ME-GI, LGI orders, Increase of crane capacity, neo82GC(new line-up) 、FPSO(NOAH) development	JV for process machinery, Overseas block production in cranes, Sales office for cranes in Singapore	FGSS for ME-GI 、Lower fuel by THS, Kaji tech (Hydrogene station) 、Lobo-tics business

【Key Strategy 2】 Engineering business expansion

Enhance and expand competitiveness in chemical, power and marine resources development EPC fields	Expand environmental energy EPC field	Enhance group internal partnerships and global operations structure
Cooperation with MODEC for TOSIDE, FSO in North sea, Thermal power civil engineering	Biomass power plant, Wind power plant, Hybrid plant of biogas power and animal feed	People exchange within group, Joint project with subsidiary in EPC project

【Key Strategy 3】 Expansion of business engagement and related service business

Enhance related services that revolve around our manufacturing business	Enhance upstream and downstream services that center on EPC
New techno-service base in Turkey and Qatar, Comprehensive contract for new crane and maintenance, Bid for terminal business for port, Joint operation of ship repair with KHI, AZUMA ENGINEERING (Overseas repair base)、 Acquired TGE-Marine (Middle to small gas carrier and FGSS)	Start of biogas power generation in Betsukai Hokkaido , Solar power plant business (6 projects)、After service order for petro chemical plant in Singapore

FY15 2Q Consolidated PL

(JPY 100 million)

	FY14 2Q	FY15 2Q	Var.	
Net Sales	3,524	3,810	286	
Gross Profit	304	222	(82)	
SG&A	218	231	13	
Operating Income	87	(9)	(96)	
	2.5%	(0.2%)	(2.6%)	
Other Income	46	70	24	
Other Expenses	41	37	(4)	
Ordinary Income	91	24	(67)	
Extraordinary Income	2	14	12	
Extraordinary Losses	34	22	(12)	
Profit before taxes	59	16	(43)	
Income Taxes	31	44	13	
Non-controlling interest	(15)	(18)	(3)	
Profit attributable to owners of parent	43	(11)	(54)	

FY15 2Q Consolidated BS

(JPY 100 million)

	FY14	FY15 2Q	Var.		FY14	FY15 2Q	Var.
Cash	854	940	86	Payables	2,477	2,441	(36)
Receivables	3,110	2,858	(252)	Advances from customers	772	962	190
Work in Progress	282	381	99	Provision for losses	171	112	(59)
Other Current Assets	1,180	1,206	26	Interest bearing debt	1,883	2,270	387
Fixed Assets	3,894	3,916	22	Others	1,970	1,713	(257)
Investment, other	1,426	1,645	219	Net Assets	3,473	3,448	(25)
Total Asset	10,746	10,946	200	Total liabilities and net assets	10,746	10,946	200

Consolidated Cash Flow

(JPY 100 million)

	FY14 2Q Actual	FY15 2Q Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Plan
Operating CF	(139)	228	472	145	152	180
Investing CF	(321)	(630)	(121)	(373)	(324)	(630)
Free CF	(460)	(402)	351	(228)	(172)	(450)
Financing CF	243	363	(48)	155	(44)	430
Interest bearing debt	2,088	2,270	1,483	1,878	1,883	2,350
DE Ratio	1.0	1.0	0.8	0.9	0.8	1.0
ROE			(4.6%)	21.6%	4.1%	

Interest bearing debt = Loans and bonds

Appendix: Segment breakdown

(JPY 100 million)

	FY14 2Q	FY15 2Q	FY15 Plan	
New Orders	Ship & Ocean	1,128	807	3,600
	Machinery	713	544	1,800
	Engineering	521	579	1,800
	Other	190	186	300
	Total	2,552	2,116	7,500
Net Sales	Ship & Ocean	2,083	2,112	4,500
	Machinery	745	810	1,800
	Engineering	521	710	1,600
	Other	175	178	400
	Total	3,524	3,810	8,300
Backlog Orders	Ship & Ocean	9,626	10,457	
	Machinery	1,249	1,385	
	Engineering	3,288	3,827	
	Other	88	75	
	Total	14,251	15,744	

Appendix: Major subsidiary, capex, employees

(JPY 100 million)

Major Subsidiary	FY14 2Q		FY14		FY15 2Q		FY15 Plan	
	Orders	Sales	Orders	Sales	Orders	Sales	Orders	Sales
MODEC	356	1,620	3,958	3,785	297	1,568	—	3,000
BWSC	33	167	733	354	249	187	—	520
Showa Air		111		241		112		240

(JPY 100 million)

Capex.	FY14 2Q	FY14	FY15 2Q	FY15 Plan
Consolidated				
Capex.	75	166	118	350
Depreciation	83	175	86	—
R&D	17	49	17	68

Employees	FY14 2Q	FY14	FY15 2Q
	Consolidated		
Employees	12,365	12,291	12,668

Appendix: Main products and customer (Ship & Ocean)

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



FY2015 2Q Breakdown of ships

(ships)

Types	New orders	Delivery	Backlog
Commercial ships (neo series)	5	8	43
FPSO Hull			
Others			
Total	5	8	43

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 companies

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

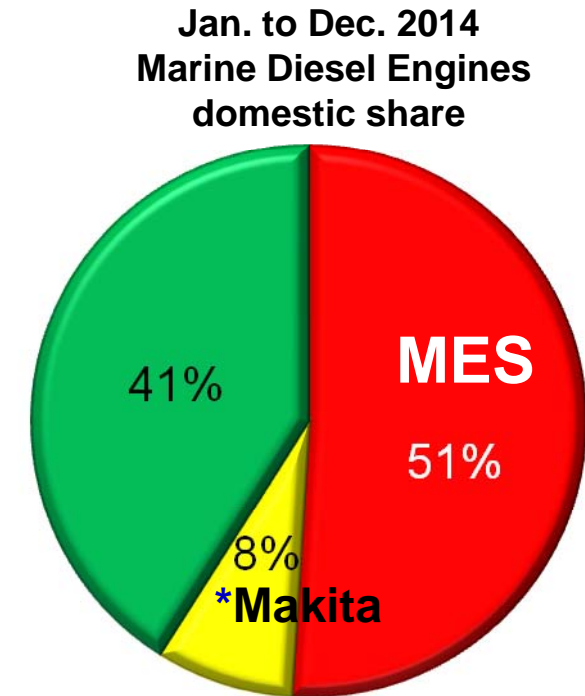
Customer: construction machinery makers, train, IT, machinery industries



Appendix: Details of Diesel engines

	FY2014		FY2015 2Q	
	Unit	Horse Power (10k)	Unit	Horse Power (10k)
New Orders	176 *(12)	322 *(31)	28	49
Deliveries	166	328	73	138
Back log	149 *(12)	284 *(31)	104	196
Production	181	354	87	158

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



Source: KP data (2 stroke engine)
Makita is sub-licensee of MES

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 100 million)			
	FY14 2Q		FY15 2Q	
	New Orders	Net Sales	New Orders	Net Sales
Chemical Plant	153	193	88	310
Infrastructures and power	368	328	491	400
Total	521	521	579	710