We will make an all-out effort to ensure the execution of the Mitsui E&S Group Business Revival Plan to increase the Group's corporate value.

Moving the Business Revival Plan forward

For the Mitsui E&S Group, the fiscal year ended March 31, 2020 marks the final year of the 2017 mid-term business plan (the management plan from April 2017 to March 2020). In order to achieve the MES Group 2025 Vision, which lays out the future vision and long-term direction of the Group and the ideal state of the company over the seven years leading up to fiscal 2025, we have been advancing our goals of a reinforced business foundation and deepened Group management by focusing on the three business areas of Environment & Energy, Marine Logistics & Transportation, and Social & Industrial Infrastructure.

However, the Group's financial base was significantly damaged as a result of a series of large losses from overseas EPC projects in the engineering business, which created an urgent need to recover capital and secure funds.

To that end, in May 2019 we developed a new Mitsui E&S Group Business Revival Plan. During the period of the Business Revival Plan, which runs from April 2019 to March 2023, we will work to shore up our financial base by reinforcing our financial and profit structure and reforming our business structure.

The Business Revival Plan was partially revised in November 2019 to expand and accelerate necessary measures such as the disposal of assets and reduction of fixed costs in the wake of additional large losses in the second quarter from a civil engineering construction project for a thermal power plant in the Republic of Indonesia. As a result, we have reached a point to secure funds to a certain degree.

Going forward, we will continue to work to get through these difficult times and increase the Group's corporate value by accelerating our efforts to maximize MES Group strengths collectively through the reorganization of Group businesses.

Results for the fiscal year ended March 31, 2020

The Group's net sales in FYE Mar. 2020 increased by ¥129.9 billion (19.8%) compared to the previous fiscal year to ¥786.5 billion thanks to increased sales (calculated using the percentage of completion method) in the ocean development sector as well as gains in the ship and machinery divisions. Despite the improvements and loss reductions in the Ship, Machinery, and Engineering divisions, operating losses amounted to ¥62.1 billion (compared to losses of ¥59.7 billion in the previous fiscal year) due mainly to losses posted by MODEC, Inc. in overseas projects in the ocean development business. Ordinary losses amounted to ¥60.5 billion (compared to losses of ¥50.5 billion in the previous fiscal year) due to a decrease in equity method investment income in addition to the posted operating losses. Net losses attributable to parent company shareholders amounted to ¥86.2 billion (compared to net losses of ¥69.6 billion in the previous fiscal year) as a result of a decrease in profits attributable to non-controlling interests in addition to the posted net loss before tax adjustment.

New orders received in FYE Mar. 2020 increased by ¥286.7 billion (40.4%) compared to the previous fiscal year to ¥996.8 billion thanks to orders for large-scale projects received by our subsidiary MODEC, Inc.

Business environment

The global economy has slowed sharply due to the impact from the spread of COVID-19. In the United States, the economy was continuing to recover against a backdrop of favorable employment and income environments. However, the arrival of the pandemic on top of US-China trade friction has resulted in stagnation of corporate activity and deterioration of the labor market, posing a risk of recession. Similarly, in Europe the economy had been rebounding thanks to improved employment and income environments, but in addition to the UK's vote to leave the European Union, there are now concerns over sluggishness in the service industries and personal consumption. In Asian countries, there are concerns about the impact on neighboring countries of the economic downturn in China caused by the suspension of factory operations and self-isolation of the population at home. In Japan too, there is growing concern about an economic downturn caused by the contraction in consumer sentiment and economic activity due to self-isolation at home, business shutdowns, and similar measures.

Future outlook

Against this backdrop, the consolidated earnings forecast for the fiscal year ending March 31, 2021 predicts net sales of ¥630 billion, operating loss of ¥10 billion, ordinary loss of ¥7 billion, and net income attributable to parent company shareholders of ¥0.

In the Ship segment, sales are expected to decrease due to a decrease in the number of ships built, while operating losses will improve due to improved profitability and reduced fixed costs.

In the Ocean Development segment, there have been orders for new projects, but we expect a decline in revenues and profits caused by delays in construction work due to the impact of COVID-19 and revisions to oil companies' development plans due to falling crude oil prices.

In the Machinery segment, the production of container cranes and large marine diesel engines, for which we get many inquiries, is expected to gain comparable sales profit to FYE Mar. 2020. In terms of profit and loss, however, the recovery in ship prices is still slow and the downward pressure on product prices is expected to continue, leading to a decline in profits. Note that following the reorganization in the Business Revival Plan, the social infrastructure business was shifted from the Machinery segment to the Other segment.

In the Engineering segment, sales are expected to decrease due to the disposal of businesses and the slowdown in civil engineering and construction work at large coal-fired power plants overseas due to the impact of COVID-19. In terms of profit and loss, this represents a significant improvement from the operating losses suffered in the current fiscal year; however, it is likely that operating losses will continue due to temporary operating shortfalls associated with the restructuring of the business.

Consolidated earnings forecast for fiscal year ending March 31, 2021 (issued May 12, 2020)

New orders: ¥550 – 750 billion

Net sales: ¥630 billion

Operating income: ¥△10 billion

Ordinary Income: ¥△7 billion

Impact of the spread of COVID-19 on business performance

We have estimated the impact of the spread of COVID-19 on business performance based on the information currently available to us; however, if the social and economic impacts are greater or more prolonged than expected, this may affect our earnings outlook.

Efforts toward business revitalization

In May 2019, the Group established the Mitsui E&S Group Business Revival Plan, which positions the four-year period ending in March 2023 as a business revival period for restructuring the business foundation and regaining energy for the future. We are making an all-out effort to implement a variety of measures aimed at restoring our financial base and strengthening our profit structure.

Strengthening our financial and profit structure

As a result of the sale of businesses and assets, mainly in the fiscal year ending March 31, 2020, we have reached a point to secure funds to a certain degree. Going forward, we will continue to work to improve profit margins through the reduction of fixed costs and the disposal and exit from unprofitable businesses, and to further strengthen our financial and profit structures by promoting reforms in our business structure.

Reforming the business structure

Out of the three areas of MES Group 2025 Vision, Environment & Energy, Marine Logistics & Transportation, and Social & Industrial Infrastructure, we will in particular position machinery and ocean development as our focus businesses to strengthen. Meanwhile, in the shipbuilding and social infrastructure businesses, we will aim for growth through collaboration and alliances with companies outside the Group.

■ Strengthening the machinery and ocean development businesses

In parallel with the reallocation of personnel due to the reorganization of businesses within the Group, we are strengthening human resources in our Research & Development and After-Sales Services units. Going forward, we will pursue overall expansion in marine propulsion systems, strengthening of our LSS business, and enhancement of profitability through overseas business expansion.

■ Reorganization of the shipbuilding and social infrastructure businesses

In the shipbuilding business, the new merchant shipbuilding business at Chiba Shipyard will be withdrawn, and the portfolio will shift to a structure that focuses on the businesses of energy engineering and contract construction projects for merchant ships. With respect our ship business at the Tamano Shipyard, a basic agreement was signed with Mitsubishi Heavy Industries, Ltd. to start discussions on the transfer of this business. In the future, the two companies will carry out a detailed study, and once the details, scope, and method of transfer of the specific targets have been finalized, we aim to complete the transfer by October 2021 (as of the June 12, 2020 announcement).

In the social infrastructure business, we will consolidate the resources of construction projects such as a bridge construction project, for example, to strengthen competitiveness and expand the market size through collaboration.

■ Reorganization of the engineering business

We established an Engineering Business Management Office directly under the President to restructure the governance structure of the engineering business, and we are currently working on execution of the power generation civil engineering projects already on order and improving profitability. We are also proceeding with the disposal of engineering businesses such as chemical and power generation plants and the reallocation of personnel associated with those businesses.

To all our stakeholders

In the fiscal year ended March 31, 2020, there was an urgent need to restore a financial base that was significantly damaged as a result of large losses from overseas projects in the previous fiscal years, meaning that we continued to pay no year-end dividends. I would like to give my most sincere apologies to all our shareholders for the inconvenience and concern caused. Today, the Group faces an unprecedented crisis due to the impact of COVID-19. However, the Group cannot afford to hunker down and ride out this storm. We will make an all-out effort to increase the Group's corporate value by steadily executing the Mitsui E&S Group Business Revival Plan to strengthen our financial and profit structure, and by moving forward with the reform of the business structure, for example by exiting from unprofitable businesses and developing growth businesses that will be our new primary sources of profit.

I would like to ask all our stakeholders for their continued support and for their further assistance and encouragement.