

# **FY2013 2Q Report**

## **(ended on 30<sup>th</sup> September, 2013)**

Reported on 7 November, 2013



# Key Point of FY2013 2Q

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## ● Upward revision of full-term earnings forecast

## ● Positive turnaround in market environment

- Increase in petro-chemical plant construction plans
- Container crane construction /replacement demand
- Aggressive ocean development investments
- New shipbuilding recovery trend

# Key Point of FY2013 2Q

## ● Upward revision of full-term earnings forecast

	(100 Million Yen)			(100 Million Yen)		
	1st Six Months		Variance	Full Year		Variance
	Initial	Revised		Initial	Revised	
<b>Net Sales</b>	<b>2,800</b>	<b>2,900</b>	<b>100</b>	<b>6,500</b>	<b>6,600</b>	<b>100</b>
<b>Operating Income</b>	<b>50</b>	<b>70</b>	<b>20</b>	<b>140</b>	<b>160</b>	<b>20</b>
<b>Ordinary Income</b>	<b>60</b>	<b>100</b>	<b>40</b>	<b>150</b>	<b>170</b>	<b>20</b>
<b>Quarterly Net Income</b>	<b>15</b>	<b>30</b>	<b>15</b>	<b>50</b>	<b>70</b>	<b>20</b>

Due to greater-than-anticipated yen depreciation (95 yen)  
 and improved income resulting from cost reduction measures

Revised figures are those released on July 30, 2013

# Key Point of FY2013 2Q

## ● Positive turnaround in market environment

### Engineering (petro-chemical, power generation):

Numerous projects related to shale gas petro-chemical plant, Singapore petro-chemical plant, biomass generation, etc.

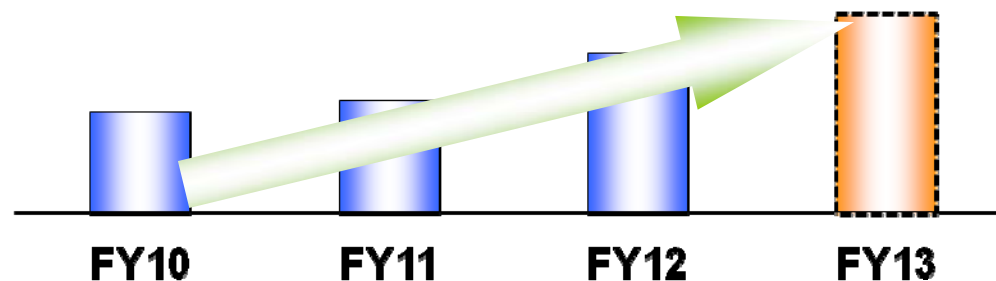
### Container cranes:

Numerous inquiries both from Japan and overseas, particularly from Southeast Asia.

Based on strong replacement demand, we forecast steady orders for at least the next 10 years.

### Transitions in Container Cranes New Orders

New Orders goals  
35 billion yen



# Key Point of FY2013 2Q

## ● Positive turnaround in orders received environment

### Ocean Development:

Numerous ocean oil well and gas field development projects in Brazil and Africa are underway.

Ocean development demand remains strong.

### New shipbuilding

Although there were zero orders received in the first half of FY2012, entering the second half we gradually began to close contracts, which resulted in 6 orders received for merchant ships. However, in the first half of FY2013 alone we already have exceeded last year's total by 2 ships. Although projections for improvement in the environment for orders received are becoming a reality, ship prices remain severe.

### Transitions in general merchant ship orders received

	1Q	2Q	3Q	4Q	Total
<b>FY12</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>6</b>
<b>FY13</b>	<b>5</b>	<b>3</b>			<b>8</b>

# Key Point of FY2013 2Q

(100 Million Yen)

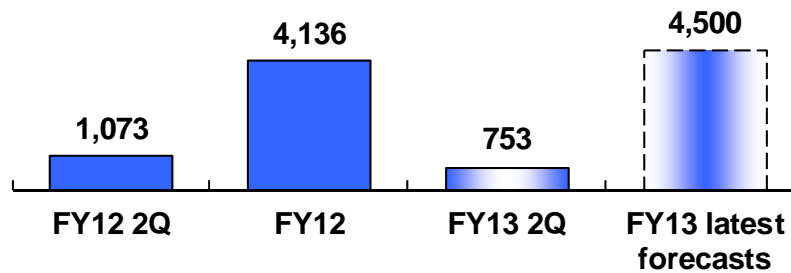
	FY12 2Q Actual	FY13 2Q Initial	FY13 2Q Actual	YoY Increase/ Decrease	Increase/ Decrease Versus Plan
New Orders	1,840		1,849	9	
Net Sales	2,675	2,800	2,767	92	△33
Operating Income	96	50	81	△15	31
Ordinary Income	98	60	119	21	59
Quarterly Net Income	30	15	40	10	25
US\$ End of term rate	77.60		97.75		
US\$ Actual rate	77.83		92.38		

# Ship & Ocean

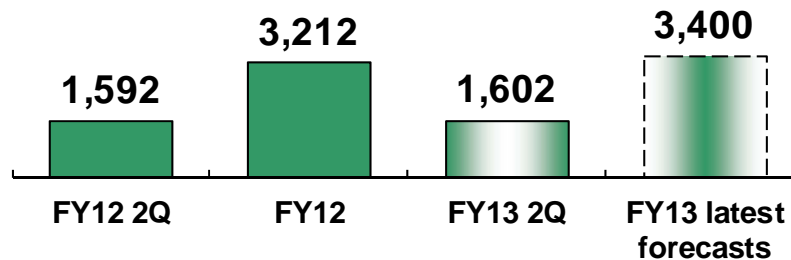
Major products: New ships, ship repairs, ocean structures

(100 Million Yen)

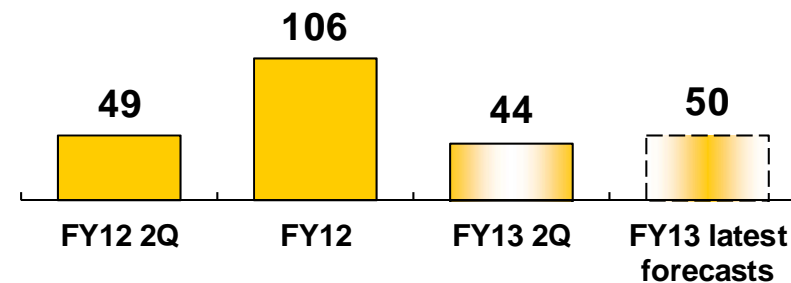
New Orders



Net Sales



Operating Income



Latest forecasts for FY2013 are those released on October 28, 2013

## New Orders

In comparison to one bulk carrier in 2Q of the previous year, we received orders for 8 bulk carriers (non-consolidated).

Subsidiaries received orders for 2 bulk carriers as well as fishing ships and training ships.

Although price levels for new ships remain low, we are beginning to see an increase in inquiries. The business environment for ocean-related businesses is strong and MODEC is working to receive orders for large-scale projects during the fiscal year.

## Net Sales / Operating Income

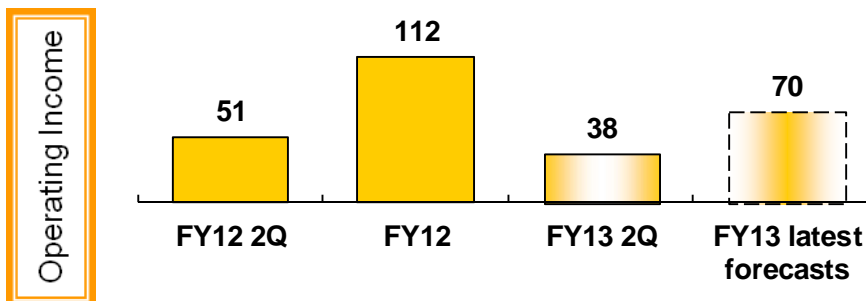
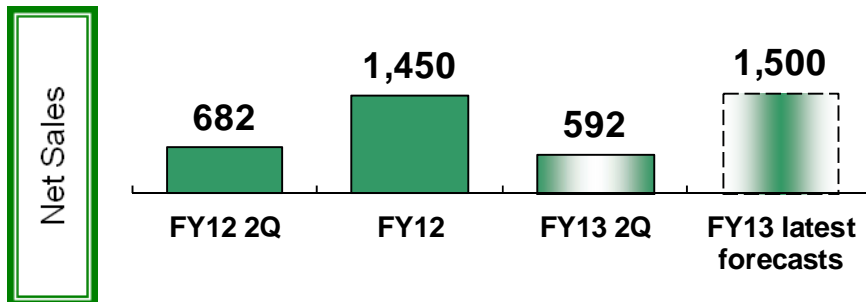
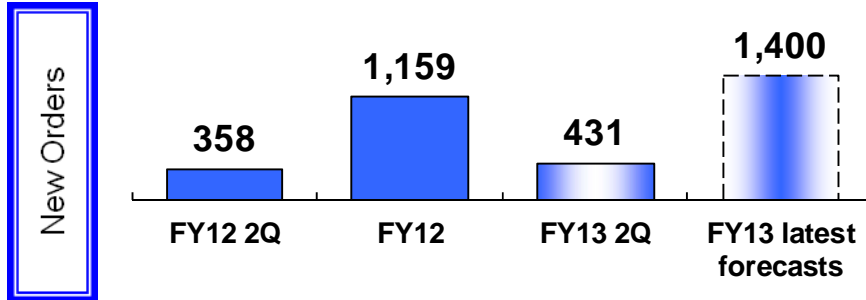
Although new ships ordered decreased, MODEC increases resulted in performance on par with the previous year.

As we have secured a certain level of construction projects, we will work to improve cost reductions.

# Machinery & Systems

Main products: Diesel engines, industrial machinery, container cranes

(100 Million Yen)



## New Orders

For marine diesel engines, production volume has been secured through the end of FY2014.

Container cranes performance is very strong both in Japan and overseas, and during the second half we will secure projects in Japan, Southeast Asia, Africa, etc. Industrial machinery saw strong demand in energy generation and fuel refinery industries. International competitiveness is recovering thanks to a stronger yen. However, there continues to be severe price competition.

## Net Sales

The decline in marine diesel engines was a factor that resulted in decreases of 9 billion yen compared to 2Q of the previous year.

## Operating Income

Although securing profitability with marine diesel engines remains difficult, in addition to after-sales services business gaining stability, we can expect to improve on income with strong performance in container cranes to achieve planned figures.

## Reference: Marine Diesel Engine

	FY12 First Six Months		FY12 Full Year		FY13 First Six Months	
	Unit	H.P. (10K)	Unit	H.P. (10K)	Unit	H.P. (10K)
New Orders	18	34	126	232	10	19
Net Sales	93	197	173	359	67	149
Back Log	124	326	152	362	95	233

Latest forecasts for FY2013 are those released on October 28, 2013

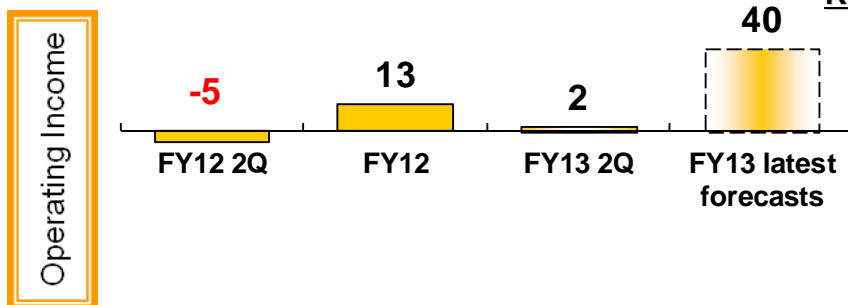
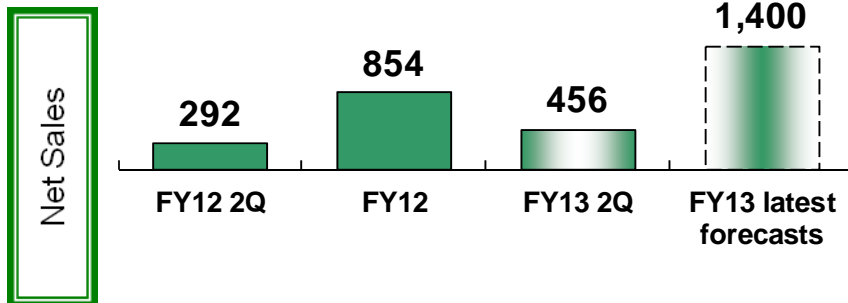
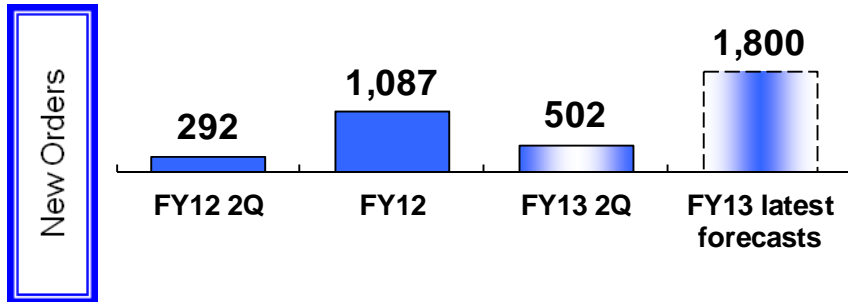
H.P.=Horse Power



# Engineering

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

(100 Million Yen)



## New Orders

Signed a deal in September for a sulfuric acid plant in Turkmenistan.

BWSC received 2 orders for diesel power plant facilities, continuing to perform well with participation in biomass power plant projects. We will use numerous projects to achieve full-year goals.

## Net Sales

Orders received being pushed into the second half, net sales growth has been slow but with smooth progress of backlog orders and increased revenue from BWSC led to year-on-year increase of 16.4 billion yen.

## Operating Income

Taking advantage of strong orders received market, construction volume has increased and operating income is now in the black.

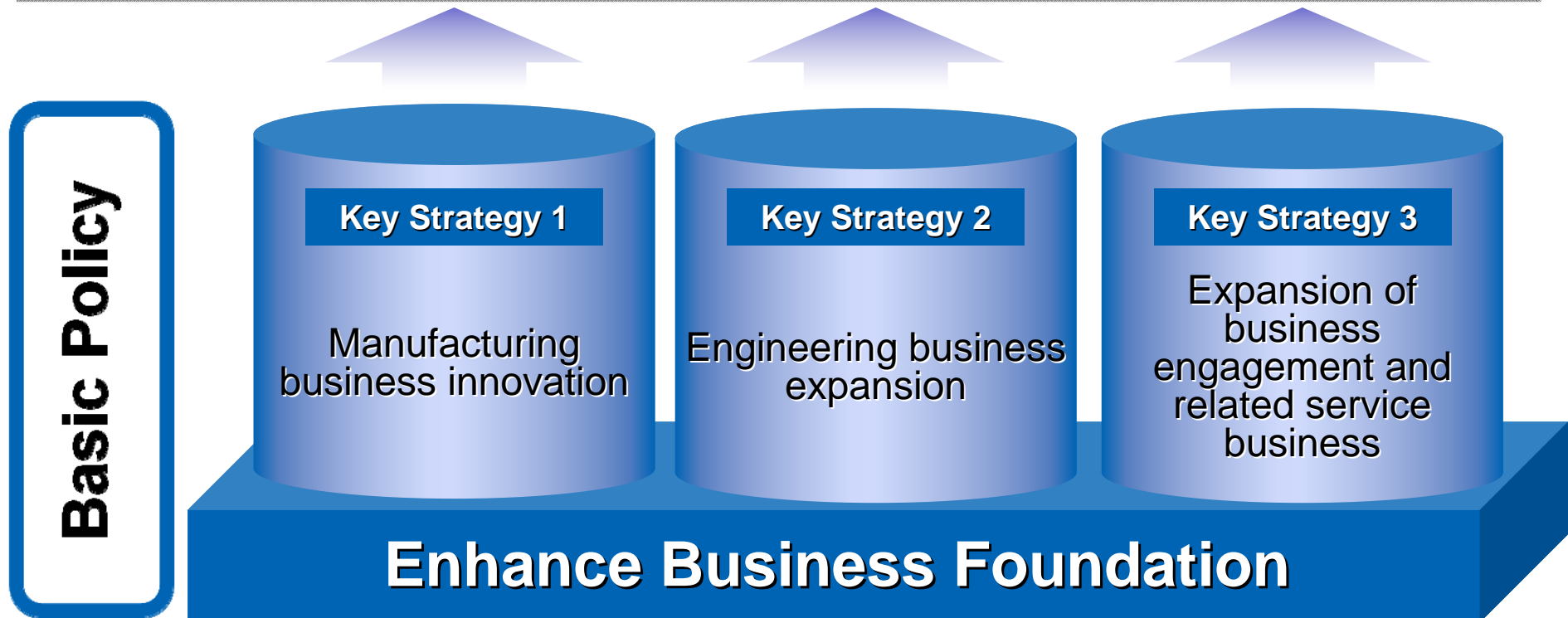
Reference: Breakdown of consolidated New Orders and Net Sales

JPY 100 Million	FY12 First Six Months		FY12 Full Year		FY13 First Six Months	
	Petro-chemical	Environ-mental Infrastructure, etc.	Petro-chemical	Environ-mental Infrastructure, etc.	Petro-chemical	Environ-mental Infrastructure, etc.
New Orders	117	175	576	511	68	434
Net Sales	116	176	413	441	219	237

Latest forecasts for FY2013 are those released on October 28, 2013

# Topics: Mid-term Business Plan 2014 Basic Policy

**Achieving a balanced business portfolio  
for sustainable growth and profit stability**



# Topics: Manufacturing Business Innovation (1)

## Eco Ships

### The 1<sup>st</sup> Eco Ship Delivery

#### ■ 30% CO<sub>2</sub> reduced ship development largely divided into 3 phases

##### ◆ Challenging approach to develop new markets

- We introduced the neo66BC shallow draft vessel as a new genre in 2010.
- Despite a declining market, the ship was favorably received. The first order was received in 2011 and delivered in November of this year.

##### ◆ Traditional approach to solidify position in existing markets

- We introduced the neo56BC, a 190 m class ship for Panama Canal voyages.

##### ◆ Trendy approach to aim at growth markets

- We introduced the neo60BC, a 200 m ship with enhanced load capacity.

#### ■ Received orders for more than 10 ships each for neo56 / neo60 / neo66 (including planned orders)

##### ◆ neo series total for 3 ship types: 39 ships

#### ■ Reputation on the market earned through our 56BC hit conventional ships

##### ◆ Endless inquiries for a truly applicable eco-ship

#### ■ Also developing large-scale and LNG ships to achieve top class energy conservation performance

#### Key Strategy 1

Manufacturing  
business  
innovation

# Topics: Manufacturing Business Innovation (2)

## ME-GI Engines

## Established ME-GI Engine Manufacturing System

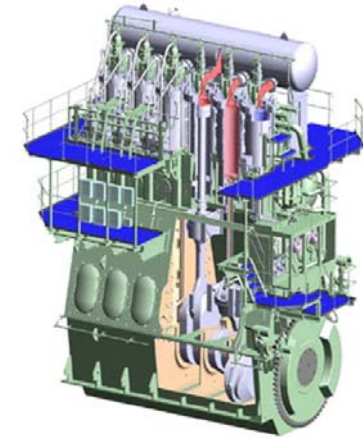
### [Features of ME-GI engines]

Compared to conventional heavy oil engines

- Low emissions of acid rain-producing NO<sub>x</sub>, SO<sub>x</sub>
- Low emissions of CO<sub>2</sub> and other greenhouse gases
- Low emissions of health-damaging particulate matter (PM)

Compared to medium-speed gas engines

- Emissions of residual methane, which has a greenhouse effect many times greater than CO<sub>2</sub>, are extremely low.



Demonstration run in April of this year

Established manufacturing/operating system for gas injection diesel (ME-GI) engines, including fuel gas supply systems (FGSS), along with establishment of comprehensive control system and complete manufacturing system

Expectations for reduction of environment load and expanded use of natural gas with development of shale gas

### Key Strategy 1

Manufacturing business innovation

# Topics: Engineering Business Expansion (1)

## Ocean Projects

## New Establishment of Ocean Business Promotion Department

In order to achieve speedy expansion of our ocean business as outlined in MBP14, the new department was established on November 1, 2013 with the goal of integrating companywide ocean business efforts.

Focuses on business related to ocean resources development facilities and machinery

Operation includes participation in national projects and contribution to/commercialization of resource development in Japan

Strives to establish a comprehensive business model from upstream to downstream based on our EPC capabilities and product lineup in the ocean resources development field

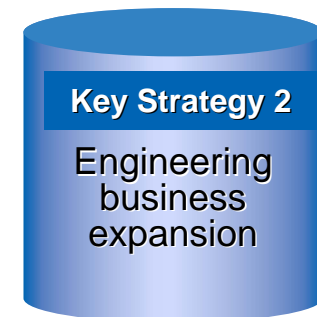
## R&D Investments

### “Generic FPSO” development

- Development of standard FPSO vessel able to adapt to specification changes that occur during manufacturing
- Addition of new shipbuilding options to MODEC renovation business (Response to decrease in used single hull tankers for renovation)

### FPSO TOPSIDE development

- Established detailed design technology
- Distinguish ourselves through increased standardization, high quality, and technology that achieves cost reductions



# Topics: Engineering Business Expansion (2)

## Expansion of Business Engagement and Related Service Business

### Engineering Business Expansion

#### Petro-chemical:

A petro-chemical plant for shale gas  
A petro-chemical plant for Singapore

Use shale gas revolution as trigger to increase chemical plant construction plans

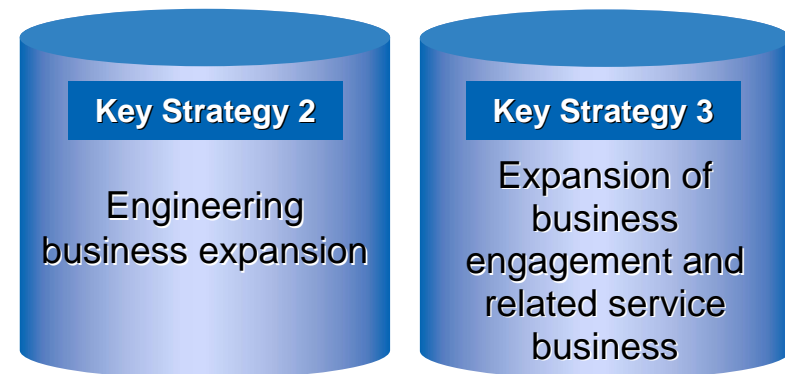
#### Energy generation:

Woodchip-burning biomass generation for the UK  
Straw burning biomass generation for the UK  
Oita works mega solar, etc.

Use FIT (Feed-in Tarrif) system to increase demand in renewable energy

### Establishment of MES ASIA

- ASEAN market main base
- After-sales services for local customers
- Petro-chemical plant on-site construction, O&M
- Acceleration of global business development / expansion



# Consolidated Income Statement (Summary)

(100 Million Yen)

	FY12 2Q		FY13 2Q		Var.
	Amount	%	Amount	%	
<b>Net Sales</b>	2,675	(100.0%)	2,767	(100.0%)	92
<b>Cost of Sales</b>	2,380		2,469		
<b>Gross Profit</b>	294		298		
<b>Selling, General and Admin. Exp.</b>	199		217		
<b>Operating Income</b>	96	(3.6%)	81	(3.0%)	△ 14
<b>Other Income</b>	33		76		
<b>Other Expenses</b>	30		38		
<b>Ordinary Income</b>	98	(3.7%)	119	(4.3%)	21
<b>Extraordinary Income</b>	0		8		
<b>Extraordinary Losses</b>	29		31		
<b>Income Before Income Taxes and Minority Interest</b>	69	(2.6%)	97	(3.5%)	28
<b>Income Taxes</b>	34		40		
<b>Minority Interest</b>	5		17		
<b>Net Income</b>	30	(1.1%)	40	(1.4%)	10



# Consolidated Balance Sheet (Summary)

(100 Million Yen)

	FY12	FY13 2Q	Var.		FY12	FY13 2Q	Var.
<b>Current Assets</b>	(3,536)	(3,672)	(136)	<b>Trade payables</b>	1,362	1,395	33
Cash and time deposits	866	837	△ 29	Advances from customers	541	617	76
Receivables	1,611	1,513	△ 98	Interest-bearing debts	1,483	1,704	221
Inventories	311	402	92	Others	1,146	1,081	△ 65
Other current assets	748	920	172	<b>Liabilities</b>	(4,531)	(4,797)	(266)
				Common stock	444	444	—
				Capital surplus	182	182	—
<b>Fixed Assets</b>	(3,068)	(3,364)	(296)	Retained earnings	955	974	19
Property, plant and equipment	1,919	2,004	84	Treasury stock	△ 7	△ 8	△ 0
Intangible assets	119	125	6	Accu. other comp. Income	183	283	100
Others	1,030	1,236	206	Minority interests	317	364	47
				<b>Net Assets</b>	(2,073)	(2,239)	(166)
<b>Total</b>	6,604	7,036	432	<b>Total</b>	6,604	7,036	432



# Segment Information

(100 Million Yen)

Segment	FY12 2Q			FY13 2Q			FY13 Forecast		
	New Orders	Net Sales	Operating Income	New Orders	Net Sales	Operating Income	New Orders	Net Sales	Operating Income
Ship & Ocean	1,073	1,592	49	753	1,602	44	4,500	3,400	50
Machinery	358	682	51	431	592	38	1,400	1,500	70
Engineering	292	292	△5	502	456	2	1,800	1,400	40
Other	119	108	0	163	117	△2	300	300	0
<b>Total</b>	<b>1,841</b>	<b>2,675</b>	<b>96</b>	<b>1,849</b>	<b>2,767</b>	<b>81</b>	<b>8,000</b>	<b>6,600</b>	<b>160</b>

FY13 Forecast as of October 28, 2013

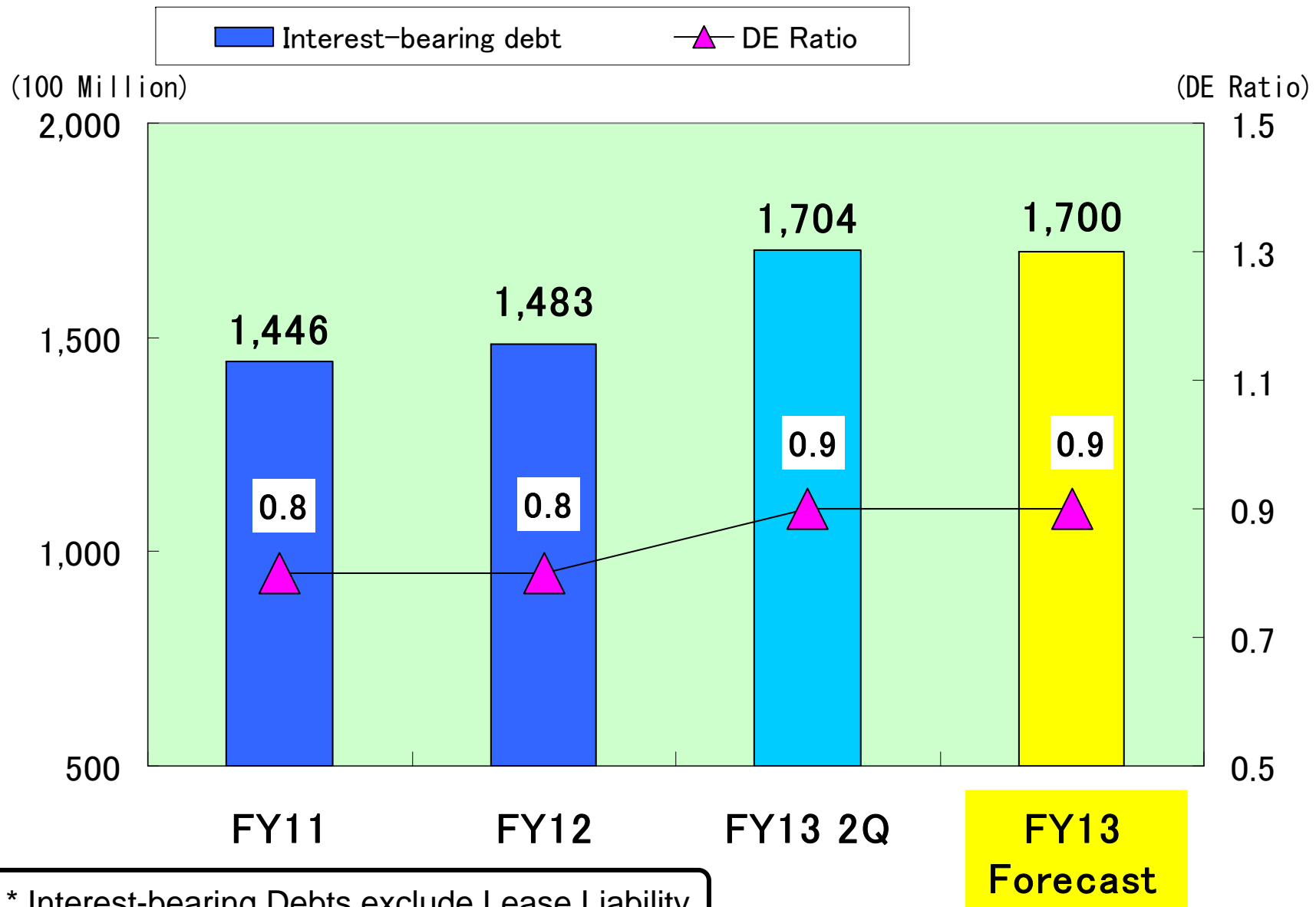
# Consolidated Cash Flow

(100 Million Yen)

	FY12 2Q	FY13 2Q	FY12 Actual	FY13 Forecast
Operating Cash Flow	131	34	472	80
Investing Cash Flow	△49	△136	△121	△260
Financing Cash Flow	△149	121	△48	120
Interest-bearing Debts	1,347	1,704	1,483	1,700

\* Interest-bearing Debts exclude Lease Liability

# Interest-bearing debt and DE Ratio



\* Interest-bearing Debts exclude Lease Liability

# Appendix: Consolidated Segments

(100 Million Yen)

New Orders	Segment	FY12 2Q	FY13 2Q	FY13 Forecast
	Ship & Ocean	1,073	753	4,500
	Machinery	358	431	1,400
	Engineering	292	502	1,800
	Other	119	163	300
	<b>Total</b>	<b>1,841</b>	<b>1,849</b>	<b>8,000</b>

Net Sales	Segment	FY12 2Q	FY13 2Q	FY13 Forecast
	Ship & Ocean	1,592	1,602	3,400
	Machinery	682	592	1,500
	Engineering	292	456	1,400
	Other	108	117	300
	<b>Total</b>	<b>2,675</b>	<b>2,767</b>	<b>6,600</b>

Backlog Orders	Segment	FY12 2Q	FY13 2Q	FY13 Forecast
	Ship & Ocean	5,231	6,740	8,072
	Machinery	1,157	1,067	1,121
	Engineering	1,359	1,833	2,112
	Other	92	126	80
	<b>Total</b>	<b>7,839</b>	<b>9,765</b>	<b>11,385</b>

# Appendix: Other Information

(100 Million Yen)

Main Subsidiaries	FY12 2Q		FY12		FY13 2Q		FY13 Forecast	
	New Orders	Net Sales	New Orders	Net Sales	New Orders	Net Sales	New Orders	Net Sales
MODEC	840	856	3,427	1,869	308	1,073		2,200
BWSC	17	62	116	164	255	111		300

(100 Million Yen)

Capex and Others	FY12 2Q		FY12		FY13 2Q		FY13 Forecast	
	Consolidated							
Cap. Ex.		44		126		102		110
Depreciation		81		163		72		
R&D		20		49		23		55

Employees	FY12 2Q		FY12		FY13 2Q		FY13 Forecast	
	Consolidated							
Employees		10,014		9,881		9,986		

## Appendix: FY13 2Q Breakdown of ships

(Ship)

Type of ships	New Orders	Delivery	Back Log
Tanker	0	0	0
Bulk Carrier	8	10	29
Other	0	0	9
<b>Total</b>	<b>8</b>	<b>10</b>	<b>38</b>