

Ship

Leveraging the strengths of the Mitsui brand and its world-class design and construction technologies, we will push forward with the priority issues of further strengthening our strong businesses, focusing on growth businesses, and transforming our unprofitable businesses.



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[Environment Recognition and Challenges]

The shipping and shipbuilding markets are still sluggish and oversupply is expected to continue until around 2025. In the medium to long term, there is concern that the gap between supply and demand will not close, leaving little return on ship prices. Challenges include difficulty in securing adequate profits on general commercial ships at current ship price levels, and high fixed costs such as general administrative expenses.

[Opportunities and Our Strengths]

We excel in our design development capabilities, construction capabilities, research facilities, gas technologies, and brand power, as well as having technological strengths and a good track record with naval vessels and government ships. Greater emphasis is being placed on requests for security and maritime safety, and we will respond to the increasing demands for LNG mainly in developing countries.

Business Environment and Performance

The shipping and shipbuilding markets remain sluggish due to uncertainties relating to the intensifying trade war between the U.S. and China, a sharp decline in shipments due to mine dam collapse of a major Brazilian resource company, and fast approaching, stricter environmental regulations.

On the other hand, in the field of gas carriers, investment in LNG export projects has been steady, and in addition to negotiations over the new construction of large LNG carriers, order plans for small and midsize LNG carriers and LNG bunkering vessels are beginning to move. In the field of resource development vessels, crude oil prices are on the rise as a result of coordinated production cuts and increased geopolitical risks in major oil-producing countries, and from the viewpoint of a stable energy resource supply, offshore oil development is continuously being implemented around the world with the establishment of floating production storage and offloading systems (FPSO) and other equipment, which are being implemented in

these projects, in full flow.

Under these circumstances and through increased efforts for accepting selective new orders while trying to improve profitability, the amount of orders received in this fiscal year increased by ¥6.2 billion (up 5.9%) year-on-year to ¥113.2 billion due to orders for government ships, including naval vessels for the Ministry of Defense, as well as receiving orders for 11 environmentally friendly bulk carriers by taking advantage of our strengths as the pioneer shipyard for energy-saving ships. However, net sales decreased by ¥15.6 billion (down 13.9%) to ¥96.9 billion due to a reduction in planned operational volume for the year off the back of limited orders during the slump in the shipbuilding market. Thanks to the success of ongoing cost improvement measures, operating losses amounted to ¥8.1 billion, an improvement of ¥7.1 billion as a result of efforts to improve profitability on orders already received for construction projects.

Business Revival Plan

Amid the continued oversupply of commercial ships and low ship prices, the ship business will leverage the strengths of the Mitsui brand and its world-class design and construction technologies, pushing forward with the priority issues of further strengthening our strong businesses, focusing on growth businesses, and transforming our unprofitable businesses to accelerate the shift away from the order-first approach to the pursuit of profits.

As a further strengthening of our strong businesses, we will focus on the national defense and ship repair businesses. We will strengthen the naval vessels and government ships business as well as the ship repair business since they ensure reasonable profits. Particularly in the field of national defense, where the Company has a large competitive edge, we have budgeted for naval ships, large patrol ships, fishery patrol vessels and training ships after the announcement from government ministries and agencies for strengthened defense capabilities, and the strengthening of the strategic maritime defense system and system to patrol its fisheries. This increasing trend and replacement demand remains strong, and we expect it to continue in the future where we aim to secure firm orders.

As for our focus on growth businesses, we will place importance on the fields of energy and the environment. Specifically, while continuing with development on new types of vessels such as new gas fueled ships, we will establish a new organization to promote energy engineering business (offshore FPSO, gas business, etc.). In the field of resource development

vessels, we are working to establish a marine brand through developing business in engineering services and licensing the noah-FPSO hull, which supplies with quick delivery highly-durable new ship hulls to FPSOs, while the majority of which are remodeled used tankers. In addition, the Office to Promote Business for Autonomous Ship Handling Systems will be set up to focus on the commercialization of autonomous ships.

As for transforming our unprofitable businesses, we will scale down new commercial shipbuilding business at the Chiba Shipyard, converting it to a framework that focuses on business relating to energy engineering and large steel structures. Meanwhile, we will continue to work with companies outside the group, rather than adhering to a 'go it alone' policy. Already in May 2018, we entered into a business alliance agreement with TSUNEISHI Shipbuilding Co., Ltd., mutually complementing and strengthening design development capabilities and cost competitiveness in the field of commercial ships. In October of the same year, the decision was made to establish a joint venture between Mitsui & Co., Ltd. and Yangzijiang Shipbuilding (Holdings) Limited, the largest private shipbuilding company in China, with business operations having started on August 1, 2019. The new company will aim to build a globally competitive shipbuilding business by combining the large production capacity of Yangzijiang Shipbuilding (Holdings) Limited with the extensive sales capabilities of Mitsui & Co., Ltd. as well as with our own advanced technologies.

TOPICS

Launched a new manufacturing business of gas handling systems for LPG carriers at the Chiba Shipyard



Mitsui E&S Shipbuilding has started the cargo tank manufacturing and installation business for small and midsize LPG carriers at Chiba Works.

As our first project, we received an order from domestic client for construction of cargo tanks and supply of gas handling systems for one 5,000m³ LPG carrier. Our scope of work fully covers the engineering of the gas handling and storage system, supply of gas handling equipment, construction and installation of cargo and their out fitting work for the LPG carrier. The engineering of gas handling and storage system for the LPG carrier will be collaborated with our subsidiary TGE Marine, and the construction and installation of cargo tanks and outfitting work of the gas handling system will be carried out at Chiba Works.

The Mitsui E&S Group took full ownership of German corporation TGE Marine AG in 2015, combining TGE's gas engineering technology with our own design and manufacturing technologies to provide domestic clients with EPCS

(Engineering, Procurement, Construction, Supervising) services on gas handling and storage systems for small and midsize gas carriers. By adding tank manufacturing and outfitting services at Chiba Works to these EPCS services, we aim to provide clients with higher value-added solutions, thereby expanding our business portfolio even further.

