

# Message from the President

A year that produced quantifiable results  
towards sustainable growth.

Now, we look to further accelerate innovation.



President / Representative Director CEO

T. Tanaka

## In an Economic Environment Lacking Steam

The global economy in fiscal 2014 varied greatly depending on the country and region. While the US economy remained solid thanks to strong consumer spending, the European economy was vailed in uncertainty due to concerns of deflation across the EU zone and the rekindling of financial problems in Greece. Meanwhile, China and other emerging economies continued to show signs of an economic slowdown. Overall, the global markets lack the steam required to drive economic expansion. In Japan, we saw signs of economic downturn during the first half of the

year due to the effects of the consumption tax rate hike but, entering the second half of the year, government economic policies and monetary easing strategies implemented by the Bank of Japan promoted continued yen depreciation and higher stock prices. Profits improved particularly among exporters and we began seeing improvements in hiring and consumer spending, as well as more positive attitudes towards capital expenditures as the country transition towards a mild recovery.

## Record High Net Sales Net Orders Near High Levels from Previous Year

Amid such an environment, full-year consolidated earnings for the MES Group were net sales of 816.5 billion yen, operating income of 13.3 billion yen, ordinary income 14.9 billion yen, and net income of 9.5 billion yen. We outperform initial forecasts and achieved a record high for net sales thanks to a construction contract won by our subsidiary MODEC, Inc. for **floating production storage and offloading system (FPSO) vessels** for marine oil and gas and other engineering projects. On the other hand, operating income, ordinary income, and net income fell below initial forecasts. Despite improved revenue and cost reductions at MODEC, Inc. and other factors such as yen depreciation, the company incurred losses related to a chemical plant under construction in the US.

In light of those losses, moving forward we will

promote sales activities that focus on good-quality projects and strengthen each stage of the project evaluation process, including project estimates, design, procurement, and construction, to prevent losses on future construction projects.

Consolidated orders received were 959.8 billion yen, which exceeded our initial forecast of 870 billion yen by 89.8 billion yen. This represents our second highest mark for orders received and follows up our record high from the previous fiscal year.

We believe the strong status of orders received, a preliminary indicator of net sales, represents a certain level of success towards sustainable growth.

### Floating Production Storage and Offloading System (FPSO) Vessels for Marine Oil and Gas

An FPSO is an ocean-based facility that produces oil and gas, stores produced fuel in the facility's internal tanks, and then directly supplies the fuel to oil tankers. Representing over 60% of floating vessels for marine oil and gas production, the FPSO is the most popular type of production facility.

## About Progress of Mid-Term Business Plan 2014

Based on the basic policies outlined in our Mid-Term Business Plan 2014 (MBP14), we are implementing various policies aimed at achieving a well-balanced portfolio. By business domain, we will focus on expanding chemical plants, power plants, and ocean resources. In terms of specific business models, we will focus on the engineering business, business engagement, and

expanding our related-service business. Due in part to the contributions to net sales by MODEC, Inc. in fiscal 2014, our sales composition falls in line with these strategic directions. The basic policies of MBP14 outline three key strategies. The progress of each of those key strategies is outlined below.

“ Aiming for a business portfolio  
that is not influenced by the shipping market ”







“ Reflecting the half-way point of MBP14, we will confirm progress and accelerate our speed. ”

## Progress of Key Strategy 1 - Manufacturing Business Innovation

Our first key strategy is manufacturing business innovation. In our core businesses of shipbuilding and marine engines, we are implementing qualitative product innovations that will enable us to increase product competitiveness and operate from an advantageous position. In our shipbuilding business, we developed the large-scale bulk carrier “neo-cape” as part of our “neo series” lineup of next-generation environment-friendly ships. We already have received new orders for the ship. Not limiting ourselves to general commercial ships, we are applying technology cultivated through our shipbuilding business towards the construction of offshore structures as well by focusing on the construction of FPSO vessels, which process and store crude oil extracted from deep sea oil fields. Our Chiba works is already constructing and delivering FPSO facilities. In the field of marine engines, we have established our position as a company that is capable of constructing an electronically-controlled

gas injection diesel engine (ME-GI). We already have received orders for the ME-GI as Japan's first LNG carrier able to run on both natural gas and crude petroleum and we are the first company in the world to receive new orders for the ME-GI Ethane, which is capable of using ethane and crude petroleum for fuel. We will continue distinguishing ourselves in the field of environment-friendly technology and shift to a domestic development and production system that ensures our ability to produce high value-added products. Our process machinery business is beginning to produce results in terms of creating a system of optimal production sites from a global perspective. To secure a greater share of the expanding Southeast Asian market, we established the joint venture company MES UBI Heavy Industries Co., Ltd. in Vietnam and have launched production. Moving forward, we intend to continue developing overseas production sites for our crane business.

### Next-generation Environment-Friendly Ships – The Neo Series

The neo series is a lineup of eco-ship bulk carriers that maintain the broad applicability and reliability of our best-selling bulk carrier, the 56,000 ton Handy-max (Mitsui 56BC), while employing an electrically-controlled engine and an optimized hull shape. We have developed three ship sizes: 56,000 tons, 60,000 tons, and 66,000 tons.

### Electrically-controlled Gas Injection Diesel Engine (ME-GI)

A highly heat efficient, large-scale two-stroke low-speed diesel engine that is also a dual fuel engine capable of running on both LNG and crude petroleum.

## Key Strategy 2 - Engineering Business Expansion

Our second key Strategy is engineering business expansion. MES is a specialist in plant engineering. We will apply our expertise to the chemical plant, power plant, and ocean resource development fields, all of which are seen as growth markets. This will help us achieve a business portfolio that is not influenced by shipping markets and stabilize revenues. The chemical plants business is achieving result, including orders received for the design of a low-density polyethylene plant for Sasol North America, Inc. in the US. In Japan, the enactment of the renewable energy Feed-in Tariff is leading to increased demand. Amid efforts to expand power generation business, our subsidiary Mitsui Zosen Environment

Engineering Corporation received an order for a hybrid plant combining commercial raw waste biogas facilities and feed production. Overseas, our subsidiary in Denmark Burmeister & Wain Scandinavian Contractor A/S received two orders for biomass power facilities in England as EPC (engineering, procurement, and construction) projects. We will continue efforts to expand the renewable energy field, including the wind power business. Our Group has progressed with mutual partnerships between plant subsidiaries that have led to personnel exchanges, business collaborations, and joint project orders. We will continue to work as a Group to elevate our total engineering capabilities.

## Key Strategy 3 - Expansion of Business Engagement and Related-Service Businesses

Our third key strategy is the expansion of business engagement and related-service business. Our previous business model was one that which merely focused on selling finished products and plants. However, we are implementing reforms to adopt a complex business model that includes after-sales services, operation and maintenance, participation in business operations, and total support for the product life cycle. Our Singapore subsidiary established in October 2013, Mitsui Engineering & Shipbuilding Asia Pte. Ltd., is off to a solid start, having received orders for after-sales services from an existing petrochemical plant customer. By providing repair and modification services for existing plants, we will be able to expand our life cycle engineering services. We will extend our after-sales services to cover plants constructed by

other companies as we work to expand our business scope. The techno business, which oversees all aspects of after-sales services, has opened sales offices in Turkey and Qatar. The business is aiming to expand after-service sales for compressors, etc., installed in plants. Also getting underway are projects in which MES is involved in business activities. In Betsukai-cho, Hokkaido, we partnered with the town to establish a special purpose company to launch the Japan's largest biogas power generation business. Boasting Japan's largest dairy farming town with nearly 110,000 dairy cows, a biogas plant is under construction as the town aims to achieve gas generation using livestock waste. We will work to respond to the growing energy security needs of each region by aggressively proposing technology solutions.

**Life Cycle Engineering Service**  
Through not only EPC (engineering, procurement, and construction) but also maintenance and after-sales service, we offer total engineering services for the entire product life cycle, from product planning to dismantling.

## Further Collaborations with MODEC, Inc.

MODEC, Inc. has a major influence on Group earnings, with the ratio of MODEC, Inc. sales and orders received represents 40% of Group totals. In the current environment where the price of crude oil is dropping, the level of interest in new marine resource development projects will decline. However, if the price of crude oil is maintained at a certain level, we will be able to secure profits from our FPSO charter business currently underway and our O&M business (operations

management and maintenance). In the long-term, we believe our technology can be applied to the development of rare earth metals and methane hydrate in Japan. Already we are progressing with topside engineering projects, including FPSO vessel hull construction and on-board crude oil production plants. We will continue to promote partnerships with the company, including personnel exchanges.

**Topside**  
Oil and gas production facility installed on an FPSO vessel. Placed on the vessel's topside, the facility separates crude oil produced from deep sea fields into oil, gas, and water.

## We Will Work to Build The Foundations of Society for the Next 100 Years.

All the domains in which we are focused, including energy, resources, and environment, all are related to vital issues that the world is facing. Our slogan for MBP14 is Creating Prosperity for Our Next 100 Years. This slogan reflects not only our aim to establish our own business foundation, but also to build the foundations of society for the next 100 years. This is our

responsibility, our mission to future generations. Through our business, we hope to work with our customers to contribute to the development of society for future generations. The role of MES is more important than ever. Every member of the MES Group is united in accelerating efforts to achieve our goals.

“ Group united towards the same goals ”

