

Mitsui Engineering & Shipbuilding Co., Ltd. and its Consolidated Subsidiaries

2nd Quarter CONSOLIDATED FINANCIAL RESULTS FOR FY2016

From April 1, 2016 to September 30, 2016

Code number:	7003	URL:	http://www.mes.co.jp/
Shares Listed:	Tokyo Stock Exchange		
Representative:	Takao Tanaka, President, Representative Director CEO		
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Scheduled date to file Quarterly securities report:	November 11, 2016		
Scheduled date to commence dividend payments:	—		
Supplementary explanatory materials prepared:	Yes		
Explanatory meeting:	Yes (for analysts)		

(Amounts less than one million yen are truncated)

1.Consolidated Financial Results for 2nd Quarter FY2016 (April 1,2016 to September 30,2016)

(Millions of yen)

	From Apr. 1, to Sep. 30, 2015	From Apr. 1, to Sep. 30, 2016	Change (%)
New Orders Received	211,597	172,219	(18.6)
Net Sales	380,954	322,174	(15.4)
Operating loss	(889)	(2,330)	—
Ordinary Income	2,425	337	(86.1)
Profit (loss) attributable to owners of parent	(1,089)	3,925	—
Earnings per Share (Yen)	(1.35)	4.86	—
Operating Cash Flow	22,825	104	(99.5)
Investing Cash Flow	(62,991)	(23,248)	—
Financing Cash Flow	36,311	39,614	9.1

Figures in parentheses represent negative.

(Millions of yen)

	As of Mar. 31, 2016	As of Sep. 30, 2016
Total Assets	1,094,042	1,065,293
Net Assets	343,853	324,386
Shareholders' Equity to Total Assets	21.5%	20.5%

Note: This consolidated financial results has been prepared in accordance with Japanese accounting standards and Japanese law.

2.Dividends

(Yen)

	FY2015	FY2016	FY2016 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	0.00	0.00	
Third quarter	—		—
Year-end	4.00		5.00
Total	4.00		5.00

Note: Revision of the most recent dividends forecast: None

3.Forecast of Financial Results for FY2016

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Earnings per Share (Yen)
Year ending March 31, 2017	740,000	15,000	20,000	14,000	17.32

Note: Revision of the most recent financial forecast: Yes

Reference: Estimate is based on exchange rate of USD1.00 = JPY105.0

4.Notes

(1) Changes in significant subsidiaries during the period

(changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, accounting estimates or restatements

- i) Changes due to amendment of accounting standards: Yes
- ii) Changes due to other reasons: None
- iii) Changes in accounting estimates: None
- iv) Restatements: None

(4) Number of shares outstanding (common stock)

	FY2015 / FY2015 2Q	FY2016 2Q
	shares	shares
Number of shares outstanding at the end of period (including treasury stock)	830,987,176	830,987,176
Number of treasury stock at the end of period	22,754,073	22,756,111
Average number of shares during the period (cumulative quarterly consolidated period)	808,287,496	808,247,735

NOTICE REGARDING QUARTERLY REVIEW PROCEDURES FOR THE QUARTERLY FINANCIAL RESULTS

This quarterly financial results statement is exempt from the quarterly review procedures based upon the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial results statement, the quarterly review procedure based upon the Financial Instruments and Exchange Act has not been completed.

FORWARD LOOKING STATEMENTS AND OTHER SPECIAL ITEMS

The forecasts for financial results are based on information available at the time this report was released. These forecasts and other forward-looking statements are not guarantees of future performance. Actual operating results may differ from the above forecasts due to known and unknown risks, uncertainties, and other factors.

New Orders by Segment

(Millions of yen)

	From Apr. 1, to Sep. 30, 2015	From Apr. 1, to Sep. 30, 2016	Difference
Ship & Ocean	80,660	49,813	(30,846) (38.2%)
Machinery	54,441	59,375	4,933 9.1%
Engineering	57,884	43,232	(14,652) (25.3%)
Others	18,610	19,797	1,187 6.4%
Total	211,597	172,219	(39,378) (18.6%)

Net Sales by Segment

(Millions of yen)

	From Apr. 1, to Sep. 30, 2015	From Apr. 1, to Sep. 30, 2016	Difference
Ship & Ocean	211,213	163,675	(47,538) (22.5%)
Machinery	80,969	75,350	(5,618) (6.9%)
Engineering	71,004	65,136	(5,867) (8.3%)
Others	17,766	18,011	245 1.4%
Total	380,954	322,174	(58,780) (15.4%)

Operating Income (Loss) by Segment

(Millions of yen)

	From Apr. 1, to Sep. 30, 2015	From Apr. 1, to Sep. 30, 2016	Difference
Ship & Ocean	(8,990)	(4,439)	4,551
Machinery	6,856	4,256	(2,600)
Engineering	192	(3,030)	(3,222)
Others	1,051	882	(169)
Total	(889)	(2,330)	(1,441)

Figures in parentheses represent negative.

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and time deposits	139,374	144,496
Trade receivables	282,419	233,437
Merchandise and finished goods	4,107	4,249
Work in progress	33,830	41,602
Raw materials and supplies	5,010	4,987
Others	75,546	91,818
Allowance for doubtful accounts	(2,466)	(2,056)
Total current assets	537,822	518,535
Non-current assets		
Property, plant and equipment		
Land	257,694	253,326
Others, net	121,357	120,652
Total property, plant and equipment	379,051	373,979
Intangible assets		
Goodwill	17,877	15,385
Others	14,482	12,642
Total intangible assets	32,360	28,028
Investments, long-term loans and other assets		
Others	147,544	146,929
Allowance for doubtful accounts	(2,736)	(2,178)
Total investments, long-term loans and other assets	144,807	144,750
Total non-current assets	556,220	546,758
Total assets	1,094,042	1,065,293

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Trade payables	245,635	199,253
Short-term borrowings	27,860	18,223
Current portion of long-term borrowings	41,125	43,177
Current portion of bonds	-	10,000
Accrued income taxes	6,894	5,940
Advances from customers	84,388	79,831
Provision for product warranty	9,881	8,841
Provision for losses on construction contracts	10,123	16,957
Other provisions	4,210	3,388
Asset retirement obligations	1	1
Others	42,387	35,898
Total current liabilities	472,508	421,514
Long-term liabilities		
Bonds	40,000	45,000
Long-term borrowings	130,886	162,899
Liability for severance and retirement benefits for directors and corporate auditors	522	396
Other provisions	2,176	2,310
Net defined benefit liabilities	12,318	12,453
Asset retirement obligations	1,286	1,264
Others	90,490	95,068
Total long-term liabilities	277,681	319,393
Total liabilities	750,189	740,907
Net assets		
Shareholders' equity		
Common stock	44,384	44,384
Capital surplus	18,811	18,809
Retained earnings	148,723	135,389
Treasury stock	(4,778)	(4,777)
Total shareholders' equity	207,140	193,806
Accumulated other comprehensive income		
Net unrealized holding gains (losses) on securities	6,185	6,128
Unrealized gains (losses) on hedging derivatives	(7,653)	(9,234)
Revaluation reserve for land	30,540	44,566
Foreign currency translation adjustments	11,531	(5,262)
Remeasurements of defined benefit plans	(12,969)	(11,275)
Total accumulated other comprehensive income	27,634	24,923
Subscription rights to shares	231	238
Non-controlling interests	108,845	105,418
Total net assets	343,853	324,386
Total liabilities and net assets	1,094,042	1,065,293

Consolidated Statements of Income

(Millions of yen)

	April 1, 2015 to September 30, 2015	April 1, 2016 to September 30, 2016
Net sales	380,954	322,174
Cost of sales	358,743	302,094
Gross profit	22,210	20,080
Selling, general and administrative expenses	23,100	22,410
Operating loss	(889)	(2,330)
Non-operating income		
Interest income	2,008	2,094
Dividend income	783	644
Equity in earnings of unconsolidated subsidiaries and affiliates	1,669	1,213
Gain on valuation of derivatives	1,867	2,929
Others	702	1,452
Total non-operating income	7,030	8,334
Non-operating expenses		
Interest expenses	1,456	1,664
Foreign currency exchange losses	1,630	3,331
Others	629	670
Total non-operating expenses	3,715	5,666
Ordinary income	2,425	337
Extraordinary income		
Gain on disposal of non-current assets	10	16,989
Gain on sales of investment securities	3	0
Gain on sales of subsidiaries and affiliates' stocks	321	-
State subsidy	708	-
Gain on forgiveness of debts	333	-
Total extraordinary income	1,377	16,990
Extraordinary losses		
Loss on disposal of non-current assets	480	308
Loss on impairment of non-current assets	338	2,915
Loss on sales of investment securities	0	0
Loss on valuation of investment securities	7	346
Loss on reduction of non-current assets	708	-
Loss on liquidation of subsidiaries and affiliates	114	-
Provision for disposal of property and equipment	571	-
Total extraordinary losses	2,220	3,570
Profit before income taxes	1,583	13,757
Income taxes	4,428	9,331
Profit (loss)	(2,844)	4,426
Profit (loss) attributable to non-controlling interests	(1,755)	500
Profit (loss) attributable to owners of parent	(1,089)	3,925

Consolidated Statements of Comprehensive Income

(Millions of yen)

	April 1, 2015 to September 30, 2015	April 1, 2016 to September 30, 2016
Profit (loss)	(2,844)	4,426
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(922)	(717)
Unrealized gains (losses) on hedging derivatives	(33)	2,944
Foreign currency translation adjustments	(1,815)	(11,862)
Remeasurements of defined benefit plans	298	1,704
Share of other comprehensive income of affiliates accounted for using equity method	4,891	(11,769)
Total	2,418	(19,699)
Comprehensive income	(426)	(15,273)
Comprehensive income attributable to		
Owners of parent	406	(12,812)
Non-controlling interests	(833)	(2,461)

Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2015 to September 30, 2015	April 1, 2016 to September 30, 2016
Cash flows from operating activities		
Profit before income taxes	1,583	13,757
Depreciation and amortization	8,598	8,599
Loss on impairment of non-current assets	338	2,915
Amortization of goodwill	246	607
Share-based compensation expenses	41	10
Increase (decrease) of allowance for doubtful accounts	(118)	(536)
Increase (decrease) in net defined benefit liability	14	276
Decrease (increase) in net defined benefit asset	(770)	(839)
Interest and dividend income	(2,791)	(2,738)
Interest expense	1,456	1,664
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,669)	(1,213)
Foreign currency exchange losses (gain), net	879	(1,085)
Gain on sales of investment securities	(2)	(0)
Gain on sales of subsidiaries and affiliates' stocks	(321)	-
Loss on valuation of investment securities	7	346
Loss on liquidation of subsidiaries and affiliates	114	-
Loss (gain) on disposal of non-current assets, net	469	(16,681)
Loss on reduction of non-current assets	708	-
State subsidy	(708)	-
Gain on forgiveness of debt	(333)	-
Decrease (increase) in trade receivables	45,830	35,623
Decrease (increase) in inventories	(10,755)	(8,081)
Increase (decrease) in trade payables	(5,748)	(28,715)
Decrease (increase) in other assets	(884)	(4,009)
Increase (decrease) in other liabilities	(10,736)	3,676
Others, net	368	(1,957)
Sub-total	25,815	1,616
Interest and dividend received	3,789	3,774
Interest paid	(1,269)	(1,672)
Income taxes paid	(5,508)	(3,614)
Net cash provided by (used in) operating activities	22,825	104

(Millions of yen)

	April 1, 2015 to September 30, 2015	April 1, 2016 to September 30, 2016
Cash flows from investing activities		
Net decrease (increase) in time deposits	977	(2,526)
Capital expenditure	(11,769)	(7,943)
Proceeds from sales of non-current assets	124	18,965
Purchases of investment securities	(2)	(336)
Proceeds from sales of investment securities	668	1
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	220	-
Purchase of shares of subsidiaries and affiliates	(31,180)	(6,956)
Proceeds from sales of shares of subsidiaries and affiliates	-	1
Disbursements of loans receivable	(58,489)	(58,841)
Collection of loans receivable	35,838	34,377
Proceeds from subsidy income	708	-
Others, net	(87)	11
Net cash provided by (used in) investing activities	(62,991)	(23,248)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	20	(8,807)
Proceeds from long-term indebtedness	42,388	55,704
Repayments of long-term indebtedness	(13,533)	(16,878)
Repayments of lease obligations	(829)	(921)
Proceeds from issuance of bonds	10,000	15,000
Purchases of treasury stock	(13)	(4)
Cash dividends	(1,603)	(3,215)
Dividends paid to non-controlling interests	(1,061)	(1,268)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	944	-
Others, net	0	4
Net cash provided by (used in) financing activities	36,311	39,614
Effect of exchange rate changes on cash and cash equivalents	(560)	(13,758)
Net increase (decrease) in cash and cash equivalents	(4,414)	2,711
Cash and cash equivalents at beginning of year	94,664	135,747
Cash and cash equivalents at end of year	90,250	138,459