

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

2nd Quarter CONSOLIDATED FINANCIAL RESULTS FOR FY2017

From April 1, 2017 to September 30, 2017

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 7, 2017		
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 FY2017 (April 1, 2017 to September 30, 2017)

(Millions of yen)

	From Apr. 1, to Sep. 30, 2016	From Apr. 1, to Sep. 30, 2017	Change (%)
New Orders Received	172,219	247,500	43.7
Net Sales	322,174	341,527	6.0
Operating Income (Loss)	(2,330)	(9,059)	—
Ordinary Income (Loss)	337	(4,792)	—
Profit attributable to owners of parent	3,925	(5,890)	—
Earnings per Share (Yen)	48.56	(72.88)	—

Figures in parentheses represent negative.

Note: The Company consolidated every 10 shares into 1 share with an effective date of October 1, 2017. Earnings per share has been calculated on the assumption that the said share consolidation was conducted on the beginning of previous fiscal year.

(Millions of yen)

	As of Mar. 31, 2017	As of Sep. 30, 2017
Total Assets	1,096,735	1,089,619
Net Assets	367,608	354,509
Shareholders' Equity to Total Assets	22.8%	22.0%

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

2. Dividends

(Yen)

	FY2016	FY2017	FY2017 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	0.00	0.00	
Third quarter	—		—
Year-end	3.00		30.00
Total	3.00		30.00

Note: Revision of the most recent dividends forecast: None

The Company consolidated every 10 shares into 1 share with an effective date of October 1, 2017. The forecast of per share year-end dividends for the fiscal year ending March 31, 2018 takes into account the impact of the share consolidation.

3. Forecast of Financial Results for FY2017

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Earnings per Share (Yen)
Year ending March 31, 2018	700,000	10,000	17,000	3,000	37.12

Note: Revision of the most recent financial forecast: None

The Company consolidated every 10 shares into 1 share with an effective date of October 1, 2017. The forecast of earnings per share for the fiscal year ending March 31, 2018 takes into account the impact of the share consolidation.

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: None

ii) Changes due to other reasons: Yes

iii) Changes in accounting estimates: Yes

iv) Restatements: None

(4) Number of shares outstanding (common stock)

	FY2016 / FY2016 2Q	FY2017 2Q
	shares	shares
Number of shares outstanding at the end of period (including treasury stock)	83,098,717	83,098,717
Number of treasury stock at the end of period	2,276,697	2,271,167
Average number of shares during the period (cumulative quarterly consolidated period)	80,824,773	80,824,893

The Company consolidated every 10 shares into 1 share with an effective date of October 1, 2017. The figures for "Number of shares outstanding at the end of period", "Number of treasury stock at the end of period" and "Average number of shares during the period" have been calculated on the assumption that the said share consolidation was conducted on the beginning of previous fiscal year.

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.

Overview of Reportable Segment

Reportable Segment is classified into 4 segments: Ship, Ocean Development, Machinery and Engineering. Main products and services of each Reportable Segment are as follows.

Reportable Segment	Main Products and Services
Ship	Commercial ships, naval ships, high speed passenger/vehicle ferries, offshore structures, underwater TV vehicles, steel structures
Ocean Development	FPSOs (floating production storage offloading vessels)
Machinery	Marine and stationary diesel engines, marine equipment, gas engines, steam turbines, blowers, process compressors, gas turbines, cogeneration system, regulating system, container cranes, industrial cranes, container terminal management systems, HWM manipulators, equipment of radar sensing for underground and construction, bridges, port structures, induction heaters
Engineering	Chemical plants, overseas civil works, power generation plants, renewable energy business, waste treatment plants, water treatment plants, resources recycling plants, PCB disposal plants

New Orders by Segment

(Millions of yen)

	From Apr. 1, to Sep. 30, 2016	From Apr. 1, to Sep. 30, 2017	Difference
Ship	30,453	19,854	(10,599) (34.8%)
Ocean Development	19,359	84,607	65,247 337.0%
Machinery	59,375	63,816	4,441 7.5%
Engineering	43,232	61,524	18,292 42.3%
Others	19,797	17,697	(2,100) (10.6%)
Total	172,219	247,500	75,280 43.7%

Net Sales by Segment

(Millions of yen)

	From Apr. 1, to Sep. 30, 2016	From Apr. 1, to Sep. 30, 2017	Difference
Ship	61,108	59,041	(2,067) (3.4%)
Ocean Development	102,566	101,719	(846) (0.8%)
Machinery	75,350	80,114	4,764 6.3%
Engineering	65,136	83,534	18,397 28.2%
Others	18,011	17,117	(894) (5.0%)
Total	322,174	341,527	19,353 6.0%

Operating Income (Loss) by Segment

(Millions of yen)

	From Apr. 1, to Sep. 30, 2016	From Apr. 1, to Sep. 30, 2017	Difference
Ship	(6,781)	(4,718)	2,063
Ocean Development	2,342	2,644	302
Machinery	4,256	5,793	1,537
Engineering	(3,030)	(13,930)	(10,900)
Others	882	1,150	268
Total	(2,330)	(9,059)	(6,729)

Figures in parentheses represent negative.

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and time deposits	119,811	93,911
Trade receivables	261,673	262,326
Merchandise and finished goods	4,090	4,168
Work in progress	35,585	42,715
Raw materials and supplies	5,976	5,681
Others	113,535	127,735
Allowance for doubtful accounts	(3,300)	(2,250)
Total current assets	537,372	534,289
Non-current assets		
Property, plant and equipment		
Land	249,265	247,888
Others, net	119,992	117,578
Total property, plant and equipment	369,257	365,467
Intangible assets		
Goodwill	14,348	15,086
Others	15,413	15,639
Total intangible assets	29,761	30,725
Investments and other assets		
Others	161,091	159,821
Allowance for doubtful accounts	(749)	(684)
Total investments and other assets	160,342	159,137
Total non-current assets	559,362	555,329
Total assets	1,096,735	1,089,619

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Trade payables	195,849	189,664
Short-term borrowings	14,124	68,909
Current portion of long-term borrowings	47,632	66,101
Current portion of bonds	15,000	5,000
Accrued income taxes	13,736	13,771
Advances from customers	72,904	56,796
Provision for construction warranties	10,542	10,696
Provision for losses on construction contracts	15,857	13,058
Other provisions	4,849	5,628
Asset retirement obligations	9	2
Others	38,977	43,036
Total current liabilities	429,483	472,665
Long-term liabilities		
Bonds	40,000	40,000
Long-term borrowings	148,419	110,456
Liability for severance and retirement benefits for directors and corporate auditors	425	298
Other provisions	2,090	2,086
Net defined benefit liabilities	12,777	12,393
Asset retirement obligations	1,284	1,279
Others	94,645	95,929
Total long-term liabilities	299,642	262,444
Total liabilities	729,126	735,109
Net assets		
Shareholders' equity		
Common stock	44,384	44,384
Capital surplus	18,808	18,803
Retained earnings	146,961	138,345
Treasury stock	(4,778)	(4,765)
Total shareholders' equity	205,376	196,767
Accumulated other comprehensive income		
Net unrealized holding gains (losses) on securities	9,957	7,078
Unrealized gains (losses) on hedging derivatives	(6,611)	(7,095)
Revaluation reserve for land	41,263	41,263
Foreign currency translation adjustments	5,595	4,533
Remeasurements of defined benefit plans	(5,211)	(3,293)
Total accumulated other comprehensive income	44,993	42,486
Subscription rights to shares	236	225
Non-controlling interests	117,002	115,030
Total net assets	367,608	354,509
Total liabilities and net assets	1,096,735	1,089,619

Consolidated Statements of Income

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Net sales	322,174	341,527
Cost of sales	302,094	324,807
Gross profit	20,080	16,720
Selling, general and administrative expenses	22,410	25,780
Operating loss	(2,330)	(9,059)
Non-operating income		
Interest income	2,094	2,728
Dividend income	644	995
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	1,213	884
Gain on valuation of derivatives	2,929	190
Others	1,452	2,361
Total non-operating income	8,334	7,161
Non-operating expenses		
Interest expenses	1,664	1,820
Foreign currency exchange losses	3,331	475
Others	670	597
Total non-operating expenses	5,666	2,893
Ordinary income (loss)	337	(4,792)
Extraordinary income		
Gain on disposal of non-current assets	16,989	1,816
Gain on sales of investment securities	0	3,874
Gain on sales of subsidiaries and affiliates' stocks	-	492
Gain on liquidation of subsidiaries and affiliates	-	244
Total extraordinary income	16,990	6,426
Extraordinary losses		
Loss on disposal of non-current assets	308	84
Loss on impairment of non-current assets	2,915	-
Loss on sales of investment securities	0	-
Loss on valuation of investment securities	346	7
Total extraordinary losses	3,570	92
Profit before income taxes	13,757	1,542
Income taxes	9,331	5,670
Profit (loss)	4,426	(4,127)
Profit attributable to non-controlling interests	500	1,762
Profit (loss) attributable to owners of parent	3,925	(5,890)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Profit (loss)	4,426	(4,127)
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(717)	(2,849)
Unrealized gains (losses) on hedging derivatives	2,944	(703)
Foreign currency translation adjustments	(11,862)	(1,328)
Remeasurements of defined benefit plans	1,704	1,912
Share of other comprehensive income of affiliates accounted for using equity method	(11,769)	(1,449)
Total	(19,699)	(4,418)
Comprehensive income	(15,273)	(8,546)
Comprehensive income attributable to		
Owners of parent	(12,812)	(8,397)
Non-controlling interests	(2,461)	(148)

Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Cash flows from operating activities		
Profit before income taxes	13,757	1,542
Depreciation and amortization	8,599	8,605
Loss on impairment of non-current assets	2,915	-
Amortization of goodwill	607	633
Share-based compensation expenses	10	-
Decrease of allowance for doubtful accounts	(536)	(1,279)
Increase in net defined benefit liability	276	256
Decrease (increase) in net defined benefit asset	(839)	841
Interest and dividend income	(2,738)	(3,724)
Interest expense	1,664	1,820
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	(1,213)	(884)
Foreign currency exchange gain, net	(1,085)	(239)
Gain on sales of investment securities	(0)	(3,874)
Gain on sales of subsidiaries and affiliates' stocks	-	(492)
Loss on valuation of investment securities	346	7
Gain on liquidation of subsidiaries and affiliates	-	(244)
Gain on disposal of non-current assets, net	(16,681)	(1,731)
Decrease (increase) in trade receivables	35,623	(17,915)
(Increase) in inventories	(8,081)	(6,959)
Decrease in trade payables	(28,715)	(6,078)
(Increase) in other assets	(4,009)	(2,235)
Increase (decrease) in other liabilities	3,676	(4,378)
Others, net	(1,957)	3,072
Sub-total	1,616	(33,258)
Interest and dividend received	3,774	8,943
Interest paid	(1,672)	(1,882)
Income taxes paid	(3,614)	(5,586)
Net cash provided by (used in) operating activities	104	(31,784)

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Cash flows from investing activities		
Net (increase) in time deposits	(2,526)	(385)
Capital expenditure	(7,943)	(11,893)
Proceeds from sales of non-current assets	18,965	3,979
Purchases of investment securities	(336)	(171)
Proceeds from sales of investment securities	1	6,226
Purchase of shares of subsidiaries and affiliates	(6,956)	(6,807)
Proceeds from sales of shares of subsidiaries and affiliates	1	300
Disbursements of loans receivable	(58,841)	(50,934)
Collection of loans receivable	34,377	38,900
Others, net	11	(393)
Net cash provided by (used in) investing activities	(23,248)	(21,178)
Cash flows from financing activities		
Net decrease in short-term borrowings	(8,807)	54,715
Proceeds from issuance of commercial papers	-	8,000
Proceeds from long-term indebtedness	55,704	2,111
Repayments of long-term indebtedness	(16,878)	(20,492)
Repayments of lease obligations	(921)	(923)
Proceeds from issuance of bonds	15,000	-
Redemption of bonds	-	(10,000)
Purchases of treasury stock	(4)	(3)
Cash dividends	(3,215)	(2,410)
Dividends paid to non-controlling interests	(1,268)	(687)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(0)
Others, net	4	10
Net cash provided by (used in) financing activities	39,614	30,320
Effect of exchange rate changes on cash and cash equivalents	(13,758)	(1,429)
Net increase (decrease) in cash and cash equivalents	2,711	(24,072)
Cash and cash equivalents at beginning of year	135,747	115,620
Decrease in cash and cash equivalents resulting from change of scope of consolidation	-	(1,816)
Cash and cash equivalents at end of year	138,459	89,731