

Mitsui E&S Holdings Co., Ltd. and its Consolidated Subsidiaries

2nd Quarter CONSOLIDATED FINANCIAL RESULTS FOR FY2021

From April 1, 2021 to September 30, 2021

Code number:	7003	URL:	https://www.mes.co.jp/
Shares Listed:	Tokyo Stock Exchange		
Representative:	Ryoichi Oka, President, Representative Director, and CEO		
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Scheduled date to file Quarterly securities report:	November 10, 2021		
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 FY2021 (From April 1, 2021 to September 30, 2021)

(Millions of yen)

	From Apr. 1, 2020 to Sep. 30, 2020	From Apr. 1, 2021 to Sep. 30, 2021	Change (%)
New Orders Received	312,808	364,160	16.4
Net Sales	324,224	356,399	9.9
Operating Loss	(9,239)	(4,489)	—
Ordinary Loss	(7,870)	(2,265)	—
Profit (Loss) attributable to owners of parent	(4,069)	2,631	—
Earnings per Share (Yen)	(50.33)	32.55	

Figures in parentheses represent negative.

(Millions of yen)

	As of Mar. 31, 2021	As of Sep. 30, 2021
Total Assets	766,449	714,322
Net Assets	95,901	104,285
Shareholders' Equity to Total Assets	8.8%	10.9%

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

2. Dividends

(Yen)

	FY2020	FY2021	FY2021 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	0.00	0.00	
Third quarter	—		—
Year-end	0.00		0.00
Total	0.00		0.00

Note: Revision of the most recent dividends forecast: None

3. Forecast of Financial Results for FY2021

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Earnings per Share (Yen)
Year ending March 31, 2022	670,000	(4,000)	(5,000)	(3,000)	(37.11)

Note: Revision of the most recent financial forecast: None

Reference: Estimate is based on exchange rate of USD1.00 = JPY110.0

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)

	FY2020 / FY2020 2Q	FY2021 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	2,250,244	2,244,293
Average number of shares during the period (cumulative quarterly consolidated period)	80,846,923	80,850,424

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.

HOW TO GET THE SUPPLEMENTARY EXPLANATORY MATERIALS

Explanatory meeting for analysts is scheduled for November 5, 2021. Supplementary explanatory material, which will be distributed at the said meeting, is planned to be posted on our web site.

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, induction heaters
Engineering	Overseas civil works, power generation business

Changes in Reportable Segment

As part of "Reform of business structure" from Mid-term Business Plan 2020, the classification of MES TOKKI & Engineering Co., Ltd. and Akishima Laboratories (Mitsui Zosen) Inc. has changed from "Ships" to "Others" from 1st quarter of FY2021. The former engages in sales and maintenance of special facilities for naval ships and aircraft and the latter engages in research and development for ships/ocean. Also, due to the Reorganization of Engineering Business under the Business Revival Plan announced in FY2019, DASH ENGINEERING PHILIPPINES, INC. has got to play a role as function sharing company throughout the Group. Because of this, its classification has changed from "Engineering" to "Others" from 1st quarter of FY2021. Comparative segment information for the prior period has been restated to reflect these changes.

Change in Accounting Policy

Application of Accounting Standard for Revenue Recognition, etc.

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of 1st quarter of FY2021, and it recognizes expected revenue when (or as) transferring control of promised goods or services to customers. Regarding the construction contracts, the percentage-of-completion method was previously applied to the construction which can recognize certainty of outcomes for the work progress. In the case the controls of the goods or services are transferring to customers over time, however, the method have been changed and the revenue is recognized based on the work progress estimated to satisfy the performance obligation. Work progress is calculated based on the ratio of the actual costs to the total costs expected to satisfy the performance obligation. Some construction contracts, which had determined work progress based on the earned value, also changed to adopt the said methods.

As a result of this change, year-to-date sales to outside customers has decreased by 13,375 million yen and segment operating loss has deteriorated by 2,093 million yen, respectively, for "Ocean Development" compared with the previous method.

New Orders by Segment

(Millions of yen)

	From Apr. 1, 2020 to Sep. 30, 2020	From Apr. 1, 2021 to Sep. 30, 2021	Difference
Ship	22,183	16,332	(5,850) (26.4%)
Ocean Development	167,654	255,324	87,669 52.3%
Machinery	64,419	74,157	9,737 15.1%
Engineering	16,423	1,201	(15,222) (92.7%)
Others	42,127	17,144	(24,982) (59.3%)
Total	312,808	364,160	51,351 16.4%

Net Sales by Segment

(Millions of yen)

	From Apr. 1, 2020 to Sep. 30, 2020	From Apr. 1, 2021 to Sep. 30, 2021	Difference
Ship	40,310	26,294	(14,015) (34.8%)
Ocean Development	156,470	228,180	71,710 45.8%
Machinery	70,088	71,308	1,220 1.7%
Engineering	18,786	4,723	(14,063) (74.9%)
Others	38,568	25,892	(12,676) (32.9%)
Total	324,224	356,399	32,175 9.9%

Operating Income (Loss) by Segment

(Millions of yen)

	From Apr. 1, 2020 to Sep. 30, 2020	From Apr. 1, 2021 to Sep. 30, 2021	Difference
Ship	(1,566)	(1,004)	562
Ocean Development	(12,141)	(3,383)	8,757
Machinery	3,760	1,524	(2,236)
Engineering	(114)	(3,411)	(3,296)
Others	822	1,784	961
Total	(9,239)	(4,489)	4,749

Figures in parentheses represent negative.

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and time deposits	137,647	102,383
Trade receivables	233,955	-
Notes and accounts receivable - trade, and contract assets	-	231,378
Merchandise and finished goods	5,925	6,100
Work in progress	55,287	36,312
Raw materials and supplies	4,231	3,991
Short-term loans	1,745	5,865
Others	41,772	40,638
Allowance for doubtful accounts	(1,498)	(1,627)
Total current assets	479,067	425,043
Non-current assets		
Property, plant and equipment		
Land	70,959	70,897
Others, net	60,187	56,988
Total property, plant and equipment	131,146	127,885
Intangible assets		
Goodwill	9,631	9,143
Others	17,769	19,900
Total intangible assets	27,400	29,044
Investments and other assets		
Others	129,178	132,650
Allowance for doubtful accounts	(342)	(301)
Total investments and other assets	128,835	132,348
Total non-current assets	287,382	289,279
Total assets	766,449	714,322

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Trade payables	215,208	190,586
Short-term borrowings	70,852	70,512
Current portion of long-term borrowings	20,713	14,273
Current portion of bonds	15,000	10,000
Accrued income taxes	6,490	6,363
Advances from customers	94,345	2,820
Contract liabilities	-	98,636
Provision for construction warranties	10,823	11,682
Provision for losses on construction contracts	77,043	68,852
Provision for repairs	3,731	4,106
Other provisions	7,602	5,832
Asset retirement obligations	4	4
Others	37,427	40,750
Total current liabilities	559,244	524,421
Long-term liabilities		
Bonds	20,000	15,000
Long-term borrowings	37,964	26,269
Liability for severance and retirement benefits for directors and corporate auditors	20	24
Provision for business restructuring	1,879	1,660
Other provisions	1,643	1,136
Net defined benefit liabilities	8,052	6,972
Asset retirement obligations	2,368	2,395
Others	39,374	32,156
Total long-term liabilities	111,303	85,615
Total liabilities	670,548	610,037
Net assets		
Shareholders' equity		
Common stock	44,384	44,384
Capital surplus	18,396	18,426
Retained earnings	(8,596)	(8,405)
Treasury stock	(4,696)	(4,681)
Total shareholders' equity	49,488	49,723
Accumulated other comprehensive income		
Net unrealized holding gains on securities	193	472
Unrealized losses on hedging derivatives	(9,174)	(6,870)
Revaluation reserve for land	27,609	27,609
Foreign currency translation adjustments	(5,930)	1,512
Remeasurements of defined benefit plans	5,321	5,720
Total accumulated other comprehensive income	18,019	28,444
Subscription rights to shares	151	140
Non-controlling interests	28,241	25,977
Total net assets	95,901	104,285
Total liabilities and net assets	766,449	714,322

Consolidated Statements of Operations

(Millions of yen)

	April 1, 2020 to September 30, 2020	April 1, 2021 to September 30, 2021
Net sales	324,224	356,399
Cost of sales	312,322	340,776
Gross profit	11,901	15,623
Selling, general and administrative expenses	21,141	20,112
Operating loss	(9,239)	(4,489)
Non-operating income		
Interest income	2,433	2,598
Dividend income	129	83
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	2,915	3,678
Gain on valuation of derivatives	-	86
Others	1,121	1,246
Total non-operating income	6,600	7,694
Non-operating expenses		
Interest expenses	1,381	1,423
Commission expenses	2,171	2,783
Foreign currency exchange loss	842	425
Loss on valuation of derivatives	319	-
Others	517	837
Total non-operating expenses	5,230	5,469
Ordinary loss	(7,870)	(2,265)
Extraordinary income		
Gain on disposal of non-current assets	15	1,304
Gain on sale of investment securities	513	15
Gain on sales of subsidiaries and affiliates' stocks	2,342	5,074
Recovery of extraordinary repair expenses	-	1,300
Total extraordinary income	2,872	7,694
Extraordinary losses		
Loss on disposal of non-current assets	930	127
Loss on impairment of non-current assets	1,420	42
Loss on sale of investment securities	-	136
Loss on valuation of investment securities	191	-
Provision for losses on liquidation of subsidiaries and affiliates	447	-
Business restructuring cost	186	-
Retirement benefit expenses	818	-
Total extraordinary losses	3,994	306
Profit (loss) before income taxes	(8,992)	5,123
Income taxes	813	3,489
Profit (loss)	(9,806)	1,633
Loss attributable to non-controlling interests	(5,737)	(997)
Profit (loss) attributable to owners of parent	(4,069)	2,631

Consolidated Statements of Comprehensive Income

(Millions of yen)

	April 1, 2020 to September 30, 2020	April 1, 2021 to September 30, 2021
Profit (loss)	(9,806)	1,633
Other comprehensive income		
Net unrealized holding gains on securities	125	277
Unrealized gains (losses) on hedging derivatives	197	(1,600)
Foreign currency translation adjustments	(3,384)	6,543
Remeasurements of defined benefit plans	224	358
Share of other comprehensive income of affiliates accounted for using equity method	(7,126)	6,802
Total	(9,962)	12,381
Comprehensive income	(19,769)	14,015
Comprehensive income attributable to		
Owners of parent	(11,736)	13,056
Non-controlling interests	(8,032)	958

Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2020 to September 30, 2020	April 1, 2021 to September 30, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(8,992)	5,123
Depreciation and amortization	6,330	5,966
Loss on impairment of non-current assets	1,420	42
Amortization of goodwill	534	536
Increase (decrease) of allowance for doubtful accounts	(501)	70
Increase in net defined benefit liabilities	1,295	453
Decrease in net defined benefit assets	2,167	19
Decrease in provision for losses on construction contracts	(10,272)	(7,553)
Increase (decrease) in provision for repairs	(5,387)	374
Interest and dividend income	(2,562)	(2,682)
Interest expenses	1,381	1,423
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	(2,915)	(3,678)
Foreign currency exchange losses (gain), net	(792)	3,872
Loss (gain) on sales of investment securities, net	(513)	121
Gain on sales of subsidiaries and affiliates' stocks	(2,342)	(5,074)
Loss on valuation of investment securities	191	-
Loss (gain) on disposal of non-current assets, net	914	(1,177)
Decrease (increase) in trade receivables	36,156	(47,906)
Decrease (increase) in inventories	(10,297)	20,118
Increase (decrease) in trade payables	(7,577)	19,789
Decrease in other assets	422	1,183
Decrease in other liabilities	(2,298)	(512)
Others, net	104	(565)
Sub-total	(3,536)	(10,054)
Interest and dividend received	7,194	8,679
Interest paid	(1,462)	(1,516)
Income taxes refund	2,722	-
Income taxes paid	-	(1,079)
Net cash provided by (used in) operating activities	4,917	(3,971)

(Millions of yen)

	April 1, 2020 to September 30, 2020	April 1, 2021 to September 30, 2021
Cash flows from investing activities		
Net decrease in time deposits	1,040	468
Capital expenditure	(5,273)	(6,700)
Proceeds from sales of non-current assets	15,631	5,361
Purchases of investment securities	(0)	(0)
Proceeds from sales of investment securities	637	190
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	3,360	5,941
Purchases of shares of subsidiaries and affiliates	(552)	(1,745)
Proceeds from sales of shares of subsidiaries and affiliates	74	1,428
Payments for investments in capital of subsidiaries and affiliates	(659)	(774)
Disbursements of loans receivable	(13,891)	(9,137)
Collection of loans receivable	7,306	346
Others, net	(368)	202
Net cash provided by (used in) investing activities	7,304	(4,417)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	22,308	(487)
Proceeds from long-term borrowings	300	400
Repayments of long-term borrowings	(21,479)	(18,292)
Repayments of lease obligations	(1,590)	(1,637)
Repayments on bonds	(5,000)	(10,000)
Dividends paid to non-controlling interests	(693)	(706)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(291)
Others, net	376	270
Net cash provided by (used in) financing activities	(5,777)	(30,746)
Effect of exchange rate changes on cash and cash equivalents	(4,489)	5,015
Net increase (decrease) in cash and cash equivalents	1,956	(34,120)
Cash and cash equivalents at beginning of period	116,691	135,482
Increase due to changes in scope of consolidation	-	60
Cash and cash equivalents at end of period	118,647	101,422