

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

3rd Quarter CONSOLIDATED FINANCIAL RESULTS FOR FY2021

From April 1, 2021 to December 31, 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:	February 14, 2022		
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 3rd Quarter FY2021 (From April 1, 2021 to December 31, 2021)

(Millions of yen)

	From Apr. 1, 2020 to Dec. 31, 2020	From Apr. 1, 2021 to Dec. 31, 2021	Change (%)
New Orders Received	369,087	432,913	17.3
Net Sales	484,748	508,538	4.9
Operating Loss	(5,129)	(9,418)	—
Ordinary Loss	(3,070)	(8,629)	—
Loss attributable to owners of parent	(2,493)	(1,933)	—
Earnings per Share (Yen)	(30.84)	(23.92)	

Figures in parentheses represent negative.

(Millions of yen)

	As of Mar. 31, 2021	As of Dec. 31, 2021
Total Assets	766,449	421,562
Net Assets	95,901	82,113
Shareholders' Equity to Total Assets	8.8%	17.3%

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	590,000	(4,000)	(23,000)	(21,000)	(259.74)

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):

Yes *excludes* MODEC, Inc.

(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 3Q	FY2021 3Q
	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	2,245,204
Average number of shares during the period (cumulative quarterly consolidated period)	80,848,203	80,851,556

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

Supplementary explanatory material 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., which engages in sales and maintenance of special facilities for naval ships and aircraft, and Akishima Laboratories (Mitsui Zosen) Inc., which engages in research and development for ships/ocean, has changed from "Ships" to "Others" from 1st quarter of FY2021. The classification of DASH ENGINEERING PHILIPPINES, INC. has also changed from "Engineering" to "Others" from 1st quarter of FY2021 due to the Reorganization of Engineering Business under the Business Revival Plan announced in FY2019 and became a function sharing company for the entire Group.

For further execution of said reform, the classification of Shikoku Dockyard Co., Ltd., which engages in shipbuilding and repair, and TGE Marine Gas Engineering GmbH, which engages in engineering for gas carriers, has also changed from "Ship" to "Others" from this 3rd 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, which can recognize the certainty of outcomes for work progress, has been applied to the construction up to this point. However, in cases where the control of goods and services is being transferred to customers over time, the method has 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 that had work progress estimated based on the earned value have also been changed to adopt said methods.

As a result of this change, year-to-date sales to outside customers has decreased by 13,628 million yen and segment operating loss has deteriorated by 2,914 million yen, respectively, for "Ocean Development" compared with the previous method.

New Orders by Segment

(Millions of yen)

	From Apr. 1, 2020 to Dec. 31, 2020	From Apr. 1, 2021 to Dec. 31, 2021	Difference
Ship	23,961	12,787	(11,174) (46.6%)
Ocean Development	178,162	270,697	92,534 51.9%
Machinery	89,778	110,476	20,698 23.1%
Engineering	18,264	1,533	(16,731) (91.6%)
Others	58,921	37,419	(21,502) (36.5%)
Total	369,087	432,913	63,825 17.3%

Net Sales by Segment

(Millions of yen)

	From Apr. 1, 2020 to Dec. 31, 2020	From Apr. 1, 2021 to Dec. 31, 2021	Difference
Ship	42,677	24,086	(18,591) (43.6%)
Ocean Development	230,092	323,321	93,229 40.5%
Machinery	111,774	107,551	(4,223) (3.8%)
Engineering	28,748	6,931	(21,817) (75.9%)
Others	71,455	46,647	(24,808) (34.7%)
Total	484,748	508,538	23,789 4.9%

Operating Income (Loss) by Segment

(Millions of yen)

	From Apr. 1, 2020 to Dec. 31, 2020	From Apr. 1, 2021 to Dec. 31, 2021	Difference
Ship	(2,256)	(216)	2,039
Ocean Development	(10,794)	(8,086)	2,707
Machinery	5,480	3,623	(1,856)
Engineering	1,075	(5,429)	(6,504)
Others	1,366	690	(676)
Total	(5,129)	(9,418)	(4,289)

Figures in parentheses represent negative.

Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and time deposits	137,647	46,838
Trade receivables	233,955	-
Notes and accounts receivable - trade, and contract assets	-	73,773
Merchandise and finished goods	5,925	6,164
Work in progress	55,287	37,352
Raw materials and supplies	4,231	4,699
Short-term loans	1,745	18
Others	41,772	26,684
Allowance for doubtful accounts	(1,498)	(180)
Total current assets	479,067	195,350
Non-current assets		
Property, plant and equipment		
Land	70,959	70,896
Others, net	60,187	48,680
Total property, plant and equipment	131,146	119,576
Intangible assets		
Goodwill	9,631	7,837
Others	17,769	7,707
Total intangible assets	27,400	15,544
Investments and other assets		
Investment securities	51,587	60,721
Others	77,591	30,671
Allowance for doubtful accounts	(342)	(301)
Total investments and other assets	128,835	91,091
Total non-current assets	287,382	226,212
Total assets	766,449	421,562

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Trade payables	215,208	48,838
Short-term borrowings	70,852	82,036
Current portion of long-term borrowings	20,713	8,101
Current portion of bonds	15,000	15,000
Accrued income taxes	6,490	1,025
Advances from customers	94,345	647
Contract liabilities	-	36,207
Provision for construction warranties	10,823	2,590
Provision for losses on construction contracts	77,043	62,191
Provision for losses on sales of subsidiaries and affiliates' stocks	-	1,736
Provision for repairs	3,731	-
Other provisions	7,602	3,857
Asset retirement obligations	4	-
Others	37,427	19,915
Total current liabilities	559,244	282,148
Long-term liabilities		
Bonds	20,000	5,000
Long-term borrowings	37,964	20,169
Liability for severance and retirement benefits for directors and corporate auditors	20	26
Provision for business restructuring	1,879	1,580
Other provisions	1,643	912
Net defined benefit liabilities	8,052	6,260
Asset retirement obligations	2,368	2,209
Others	39,374	21,140
Total long-term liabilities	111,303	57,299
Total liabilities	670,548	339,448
Net assets		
Shareholders' equity		
Common stock	44,384	44,384
Capital surplus	18,396	18,134
Retained earnings	(8,596)	(12,970)
Treasury stock	(4,696)	(4,679)
Total shareholders' equity	49,488	44,868
Accumulated other comprehensive income		
Net unrealized holding gains on securities	193	499
Unrealized losses on hedging derivatives	(9,174)	(5,867)
Revaluation reserve for land	27,609	27,609
Foreign currency translation adjustments	(5,930)	475
Remeasurements of defined benefit plans	5,321	5,512
Total accumulated other comprehensive income	18,019	28,229
Subscription rights to shares	151	137
Non-controlling interests	28,241	8,878
Total net assets	95,901	82,113
Total liabilities and net assets	766,449	421,562

Consolidated Statements of Operations

(Millions of yen)

	April 1, 2020 to December 31, 2020	April 1, 2021 to December 31, 2021
Net sales	484,748	508,538
Cost of sales	458,019	486,882
Gross profit	26,729	21,655
Selling, general and administrative expenses	31,858	31,074
Operating loss	(5,129)	(9,418)
Non-operating income		
Interest income	3,512	3,809
Dividend income	164	104
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	3,725	2,228
Gain on valuation of derivatives	-	19
Others	1,932	1,582
Total non-operating income	9,335	7,745
Non-operating expenses		
Interest expenses	2,088	2,165
Commission expenses	2,782	3,543
Foreign currency exchange losses	1,462	276
Loss on valuation of derivatives	248	-
Others	694	969
Total non-operating expenses	7,276	6,955
Ordinary loss	(3,070)	(8,629)
Extraordinary income		
Gain on disposal of non-current assets	52	2,356
Gain on sale of investment securities	583	17
Gain on sales of subsidiaries and affiliates' stocks	2,342	6,325
Recovery of extraordinary repair expenses	-	1,316
Gain on return of assets from retirement benefit trust	-	1,224
Reversal of provision for repairs	2,051	-
Total extraordinary income	5,029	11,239
Extraordinary losses		
Loss on disposal of non-current assets	1,006	205
Loss on impairment of non-current assets	1,362	44
Loss on sale of investment securities	-	136
Loss on sales of subsidiaries and affiliates' stocks	1,919	225
Loss on valuation of investment securities	185	-
Provision for losses on sales of subsidiaries and affiliates' stocks	-	1,736
Provision for losses on liquidation of subsidiaries and affiliates	449	-
Business restructuring cost	303	-
Retirement benefit expenses	818	-
Total extraordinary losses	6,044	2,350
Profit (loss) before income taxes	(4,084)	260
Income taxes	2,555	5,306
Loss	(6,640)	(5,046)
Loss attributable to non-controlling interests	(4,146)	(3,112)
Loss attributable to owners of parent	(2,493)	(1,933)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	April 1, 2020 to December 31, 2020	April 1, 2021 to December 31, 2021
Loss	(6,640)	(5,046)
Other comprehensive income		
Net unrealized holding gains on securities	198	306
Unrealized gains (losses) on hedging derivatives	2,514	(1,744)
Foreign currency translation adjustments	(4,577)	4,590
Remeasurements of defined benefit plans	436	141
Share of other comprehensive income of affiliates accounted for using equity method	(6,888)	8,344
Total	(8,315)	11,638
Comprehensive income	(14,955)	6,592
Comprehensive income attributable to		
Owners of parent	(8,374)	8,276
Non-controlling interests	(6,581)	(1,684)