

# Message from the President

From a long-term vision  
to the next set of actions.  
Be on the lookout for innovation  
achieved through the concerted  
efforts of the MES Group.



President / Representative Director CEO

T. Tanaka

## Facing an uncertain business environment

In fiscal 2016, we saw the moderate recovery of the US economy. Nevertheless, the global economy remained uncertain due to the sharp fall of prices of energy resources such as crude oil, the economic slowdown of China, and the economic slump of emerging countries that came to the surface.

In Japan, we saw continuous improvement in earnings recovery largely among exporting companies thanks to the weaker yen in 2015. However, the economy has lacked momentum due in part to the rising value of the yen, which has remained high since the turn of the year, persistently low resource prices, and the sluggish growth of capital expenditures.

In the midst of this environment, our full-year consolidated earnings were net sales of 805.4 billion yen, operating income of 11.8 billion yen, ordinary income of 15.1 billion yen, and net income of 7.6 billion yen. Net sales were the second highest ever,

although net sales of the Ship & Ocean segment declined and fell below the initial forecast.

Operating income, ordinary income, and net income fell below the initial forecasts due to the losses incurred in relation to the construction of an ocean support vessel by a subsidiary. We will prevent this problem from reoccurring by ensuring our subsidiaries thoroughly manage the design, procurement, and manufacturing processes and by establishing a system for supporting our subsidiaries.

Consolidated orders received were 609.6 billion yen, which fell below the full-year target of 750 billion yen due in part to the postponement of the bid for a project on floating production storage and offloading system (FPSO) for marine oil and gas.

However, we believe that we secured a sound quantity of orders.

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 it to oil tankers.

The FPSO is the most popular type of production facility, representing over 60% of floating vessels for marine oil and gas production.

## Progress of the Mid-Term Business Plan in fiscal 2016

Fiscal 2016 was the middle year of the Mid-Term Business Plan 2014 (MBP14), and we have been implementing various policies aimed at achieving the "well-balanced portfolio" that we set as a goal in the MBP14, with the three key strategies of "Manufacturing Business Innovation," "Engineering Business Expansion," and "Expansion of Business Engagement and Related Service Business," complemented by a basic policy of "Enhance Business Foundation."

For the "Manufacturing Business Innovation," we are enhancing the "neo series" lineup of next-generation environment-friendly ships in the Ship & Ocean segment. In businesses related to ocean development, we promote initiatives for the future, such as the development of the FPSO hull under a new concept, by taking advantage of our experience in delivering an FPSO hull for MODEC, Inc. In the Machinery segment, we position marine diesel engine powered by gas or similar fuels as a future growth field, and are enhancing our production system to meet customer needs. In addition, the container crane business has continued

to be strong. We have made investments to expand this business, and have also implemented structural reforms.

For the "Engineering Business Expansion," in the Ship & Ocean segment, we have made the German engineering company TGE Marine AG (TGE) one of our subsidiaries. By joining hands with TGE, we will aim to establish a firm position in the market for medium- and small-sized gas carriers. In regards to orders received, we have successfully won some orders for civil engineering projects, such as those for wind farms and coal thermal power plants. In addition, we have also seen the entry of MODEC, Inc. into the market of North Sea oil, while Burmeister & Wain Scandinavian Contractor A/S (BWSC) has received orders to construct multiple biomass power plants in the United Kingdom.

For the "Expansion of Business Engagement and Related Service Business," we will engage in a mega solar business in Oita Prefecture and biogas energy generation business in Betsukai Town, Hokkaido. We have also taken initiatives to stabilizing our earnings, such as capital participation in

Next-generation environment-friendly ships -The neo series

The neo series is a lineup of eco-ship bulk carriers that retains the broad applicability and reliability of our best-selling 56,000-ton bulk carrier (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.

Enhancement of the gas engineering business

Our "Enhancement of the gas engineering business" is an initiative for business model innovation. It is introduced on page 20 of this report.

an FPSO charter project by MODEC, Inc. and MES, and the operation and maintenance business for multiple biomass power plants by BWSC. In the service business, we have taken measures for business expansion, such as capital

participation in Azuma Engineering (S) Pte Ltd in Singapore, which runs a business for maintaining and repairing marine diesel engines, and promoting the establishment of overseas bases for after-sales services.

**Enhancement of after-sales service business**  
Our "Enhancement of after-sales service business" is another initiative for business model innovation. It is introduced on page 22 of this report.

## Formulation of the MES Group 2025 Vision, long-term vision

In January 2016, we formulated the MES Group 2025 Vision, which shows the long-term direction of the MES Group. We have formulated this vision by considering what we need to work on in the rapidly changing external environment. We will incorporate this vision within the specific action plans in the coming three mid-term business plans, the first of which will be launched in fiscal 2018. In formulating the MES Group 2025 Vision, we started by considering what the world

will be like 30 years from now, based on which we forecast social issues and needs. Taking these needs into account, we thought of the domains in which we would be able to promote businesses by using the strengths and resources of the MES Group. As a result, we specified three domains in which we can address social issues and keep developing as a business. These are the domains on which we will focus our strengths as we move forward.



**MES Group 2025 Vision**  
The details of the long-term vision are described on the following website page of MES.  
<http://www.mes.co.jp/english/investor/manage/2025vision.html>

## Three domains on which we will focus our strengths

The first domain is Environment & Energy. Environment conservation and energy creation are two essential needs for society in the future. At the moment, we are widely involved in energy creation, including the development of renewable energies such as wind power, bio-gas, and biomass power plants, and we are participating in the ocean resource development sector by constructing FPSO (floating production, storage, and offloading) systems for offshore oil and gas producing. Moving forward, we will gather and strengthen our existing expertise and resources, and at the same

time create new forms of value by going beyond the boundaries of segments or companies. To this end, we will integrate and make full use of their resources and business models, instead of relying upon the principle of self-sufficiency. The second domain is Marine Logistics & Transportation. Not only providing shipbuilding, the MES Group's involvement in port logistics includes container cranes and other structures, and as such the market expects the MES Group to serve as a marine logistics professional with expertise in every aspect of the global supply chain.

**Three domains on which we will focus efforts**  
We reviewed our activities for fiscal 2016 and selected actions we took in three different domains. These actions are introduced and discussed on pages 04 to 09 of this report.

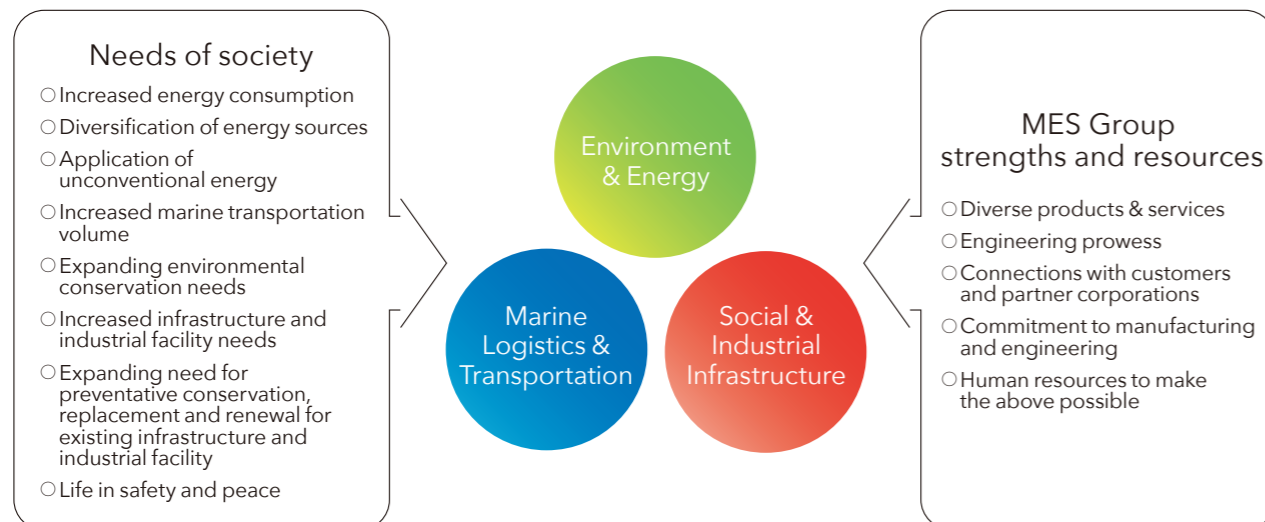


“It is important to be proactive in collaborating with partner companies.”

Further innovation will be made possible by integrating our tangible services, such as shipbuilding and the manufacturing of container cranes, with our intangible services like the monitoring of operating statuses of marine diesel engines and container terminal management systems. The third domain is Social & Industrial Infrastructure. Developing countries in Asia and Africa require social and industrial infrastructure and facilities. In Japan and other advanced economies meanwhile, the need for our conservation technology as a measure against aging infrastructure will only grow stronger. We can also provide new solutions in these segments by fusing technologies such as radar and robotics-based safety management. The key points of this long-term vision are

that we have clarified three domains in which the MES Group contributes to society, and that we have identified the necessity to create business ideas based on social issues or needs instead of within the framework of our existing businesses or the products we offer. We can only make great leaps forward in development when we abandon the perspective of providing products such as ships and cranes. The capacity to provide solutions to social issues through the use of ships and cranes is more important than being able to build and deliver them. To survive in a tough competitive environment, the key is recognizing these needs and promptly changing our system so that we can respond to them.

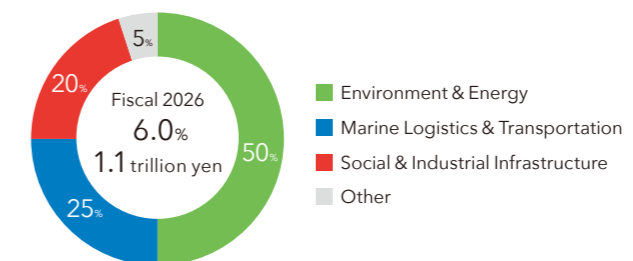
## Three domains on which we will focus our strengths



## Quantitative target

Achieving net sales of 1.1 trillion yen and an ordinary income rate of 6% by fiscal 2026

## Percentage by business domain



## Evolving into an engineering team that creates social value

In the MES Group 2025 Vision, we have declared the ideal to be that "the MES Group will evolve into an engineering team that creates social value." This reflects our determination to think beyond the box, unite the efforts of the entire Group, be proactive in working together with partners, and continue to provide valuable things that solve social issues and needs.

The MES Group has more than 12,000 members from more than 50 Group companies. With each individual thinking and acting from wider perspective, we will work together with customers and partner companies to create social value as an engineering team and unite our efforts towards building a better society. We humbly ask for the continued support and cooperation of our shareholders.