



Progress should be made with confidence toward early achievement of the long-term vision.

Toshikazu Tanaka Outside Director

Mr. Tanaka served as a Director, Managing Director, Executive Vice President, and President and Chief Executive Officer of Mitsui Chemicals, Inc. and now serves as the Senior Advisor of the company. He became a Director of MES in June 2015. He is also the Chairperson of Japan Intellectual Property Association.



MES needs to find the next pillar that stands as its true value.

Toru Tokuhsa Outside Director

Mr. Tokuhsa worked for the Japan Bank for International Cooperation (JBIC) as the Chief Representative of Representative Office in Washington D.C., Deputy Director General of JBIC Institute, Director General of Country Economic Analysis Dept., and Resident Executive Director for the Americas before he took his position as the Executive Vice President and Representative Director, Nusa Tenggara Mining Corp. He became a Director of MES in June 2013.



Dialogue of Outside Directors

In 2013, MES began to invite directors from outside the company in an effort to strengthen its corporate governance. We receive a lot of input from them at the Board of Directors meetings, and ask them to supervise the direction of our management. We spoke with Outside Director Toru Tokuhsa, who is in his fourth year as a director, and Outside Director Toshikazu Tanaka, who is in his second year, to give us their honest opinions about what think of MES now and its future direction.

“ My impression is that both the people and the company are very committed to what they do. ”

— Tokuhsa

— To start, please tell us your impression of MES.

Tokuhsa My first impression of MES was that it was a company incredibly committed to what it does. I felt that from both the individuals I met and the organization.

Tanaka I agree. Everyone is incredibly proud of the fact that they are part of a company that has been contributing to the modernization and industrial development of Japan for nearly 100 years, with shipbuilding as its main pillar. At the same time, they also have an extraordinary determination to reinvent their portfolio in the rapidly changing business environment. I feel that the employees work very intently, seriously, and positively. There is a high

level of accumulated technologies, and the company has potential.

— What do you feel are the strengths and weaknesses of the company?

Tokuhsa There were a lot of dramatic ups and downs over the past 100 years, such as wars. The company has been trying new businesses instead of merely accumulating the same technologies. This is a quality I view as a strength. However, the issue of whether the company has really developed a business that will be the next pillar after shipbuilding is open for debate.

Tanaka I agree. Shipbuilding still accounts for large share. For example, the company has many good things about technologies

100th anniversary
MES was established as the Shipbuilding Division of Mitsui & Co., Ltd. in Tamano City, Okayama Prefecture, in 1917. The company will celebrate its 100th anniversary in 2017.

related to the environment and energy. I think it should aggressively look to take advantage of these things. I also feel that the Group needs to mobilize more of its capabilities.

Tokuhsa It commands a large share of the

market for marine diesel engines and is highly regarded in overseas markets for work on social infrastructure, such as bridges, and container cranes. I believe that if MES can bring these to the forefront, it will have room for further growth.

“ I think the speed of management can be made faster. ”

— Tanaka

— Please tell us your impression or thoughts on corporate governance.

Tanaka I think great changes have been made in the last year. The executive officer system should have had a great impact on the management foundation. The company has also established the Personnel Advisory Committee and Compensation Committee, increased the number of outside directors, and formulated the Corporate Governance Code that aims to establish fairer corporate governance. I think that the company has achieved substantial progress with these and other measures.

Tokuhsa The company was able to make great progress in a short period of slightly less than a year. The driving factor behind this progress was the fact that the management team, who were aware of the trend towards greater emphasis on corporate governance, began making preparations several years ago. I feel that the company is ahead of other listed companies in Japan.

Tanaka The governance of MES has made

considerable progress. This is definitely commendable, and the level reached is decent by any standard. If I was to name one point that could do with greater improvement, I think the company should go a step further in separating the supervision and execution functions. One way in which it has sought to do this is by creating the executive officer system. I think the speed of management can be made faster by transferring authority and responsibility to executive officers.

Tokuhsa I agree. That will enable the Board of Directors to concentrate on agendas covering the broader policies of the company and accelerate the speed of discussions. **Tanaka:** In addition, the business environment is always in a state of rapid change, so likewise I feel that the Corporate Governance Code also needs to be changed flexibly in response to environmental changes. The company needs to respond in a level-headed manner that best fits the situation and resources available.

Corporate governance
The corporate governance of MES is described in greater detail on page 40.

Executive officer system
MES introduced the executive officer system in April 2015. With this system, the company has separated the execution function from the roles of the Board of Directors, which now concentrates on decision-making and supervision functions. The execution of operations has been delegated to executive officers to strengthen both them and the Board of Directors.



“ We need to get out in the field more. ”

— Tokuhisa

— Do you find anything difficult about being an Outside Director or do you have any requests for the Board of Directors?

Tokuhisa We are provided with various types of information. However, because we are people from the outside, we tend to only get a superficial understanding. This has made it difficult to conduct in-depth discussions at the Board of Directors’ meetings, which is frustrating. In addition, it would be better if we have more opportunities to get out in the field. If we visit key overseas locations as well as those in Japan, and see what’s happening there with our own eyes, it would give us a more direct understanding of how the company’s businesses are expanding. However, there’s no denying the fact that it is difficult for us to find these opportunities while also working on our main businesses.

Tanaka We often wonder how much we understand the actual difficulties and problems of people in the field face. Ultimately, seeing things first hand is the best way to learn how a manufacturer

operates. Mr. Tokuhisa and I have agreed that we need to make time to head out to the field and speak with “the people who work there to exchange various opinions. Mr. Tokuhisa, you often find something about the wording used in the resolutions submitted to the Board of Directors, don’t you?

Tokuhisa One reason for that is I used to work for a government agency, so I picked up the habit of closely checking the accuracy of the wording used in resolution documents. I make it a rule to point out misleading wording, although this may cause people to say I’m a bit too meticulous.

Tanaka I think that is necessary. We find good proposals at the Board of Directors’ meetings, don’t we? I sometimes praise people and let them know they made a nice proposal, but there are others who don’t. At most companies, proposals submitted to the Board of Directors tend to face resistance, but I think they should adopt a more positive attitude, and actively support proposals that are good.

“ We want to make the MES Group’s presence felt in the world. ”

— Tanaka

— Please tell us your ideas for the future direction of the company and what it needs to do to improve its corporate value.

Tanaka The idea of value in the world has changed drastically since the Lehman Brothers collapse, and the advancement

of technologies such as IoT and AI are causing the pace of change to accelerate. Amidst this trend, new businesses are emerging at a frightening pace in eight specific fields: environment, energy, food, water, health, medicine, mobility, and IT.

Rising to meet this tide of change, the MES Group has announced the MES Group 2025 Vision, in which all three core domains overlap in fields where businesses are emerging. Marine Logistics & Transportation and Social & Industrial Infrastructure, as well as Environment & Energy, are related to each of these eight fields. There is nothing wrong with where the Group is headed. It’s moving in the right direction. Let me make that crystal clear. We are starting to see many seeds of growth, such as eco-ships, solar and wind power generation, biomass, biogas, floating production storage and offloading system (FPSO) vessels for marine oil and gas, the ocean business, marine diesel engines, and the container crane business. Thus, I feel that the MES Group should take confidence in what it is doing now, and move forward quickly and boldly by making the most of alliances, integrations, and M&As with companies outside the Group as well as those on the inside.

Tokuhisa I agree. It is important to use the MES Group 2025 Vision as a guideline and reflect its aims within more specific measures in the Mid-Term Business Plan 2017 to be formulated. They will discuss what messages need to be sent when the 100th anniversary milestone is reached, while reviewing the Mid-Term Business Plan 2014. We want to be a part of this discussion, too, and share our thoughts, giving full consideration to

the notions of profit and views of general shareholders and other stakeholders.

Tanaka We view the development of various businesses carried out at the same time as providing us with a variety of possibilities. At some point I feel we need to narrow down the businesses that represent the true forms of value MES offers, commit ourselves to them, and develop them into main pillars.

Tokuhisa It is frustrating to think that not many people around the world really know the MES Group, despite all the useful things it has created for international society, such as eco-ships and the Super-Kamiokande. It also has a lot of seeds in growth fields. We need to do a better job of letting the world know about all the things the MES Group is doing.

Tanaka We no longer live in a day and an age in which people or companies are valued by others for merely working hard and possessing technologies that are highly regarded. The Group consists of 12,000 employees, their families, and business partners. There are literally hundreds of thousands of people connected to the Group. I feel it is very important now to let these people know what the MES Group is all about and call on them to work hard together with us.

— Thank you very much for your time today.

[MES Group 2025 Vision](http://www.mes.co.jp/english/investor/manage/2025vision.html)

The long-term vision is described in detail on the following page.
<http://www.mes.co.jp/english/investor/manage/2025vision.html>

[Three domains on which we will focus our strengths](#)

The three domains are described in detail in the Message from the President that begins on page 14. In regards to our activities for fiscal 2016, the actions we took in each of the three domains were highlighted and discussed on pages 4 to 9 of this report.

