

# Message from the President

As an engineering team,  
the MES Group will continue to  
create new value by maximizing  
its strengths collectively.

President/Representative Director & CEO

*T. Tanaka*



Another achievement that I feel we have made is that the terms “engineering” and “life cycle” have begun to take root in the company. In the field of engineering, we made the German gas engineering company TGE Marine Gas Engineering GmbH (TGE) one of our subsidiaries in 2015. Needless to say, the gas carrier market is a global growth market. **I also think, however, that this move was very meaningful in that it allowed us to instill the idea, both internally and externally, that the MES Group operates under an engineering-oriented management system.**

On the other hand, “life cycle” is an engineering concept of contributing not only to EPC (engineering, procurement, and construction) but to the entire life cycle of a product, from planning to dismantling, through maintenance, after-sales services, and other services. In MBP14, we positioned “Expansion of Business Engagement and Related Service” as one of the important measures and focused on the expansion of our overseas after-sales network and business engagement in the form of

equity participation. We have yet to achieve a sufficient milestone from the viewpoint of earnings, but I believe that the reform of our awareness about business models has made progress. **Our approach to business represented by “engineering” and “life cycle,” which goes beyond EPC, unlike our previous approach, has been instilled in the company. This has, I believe, begun to be reflected in our portfolio values.**

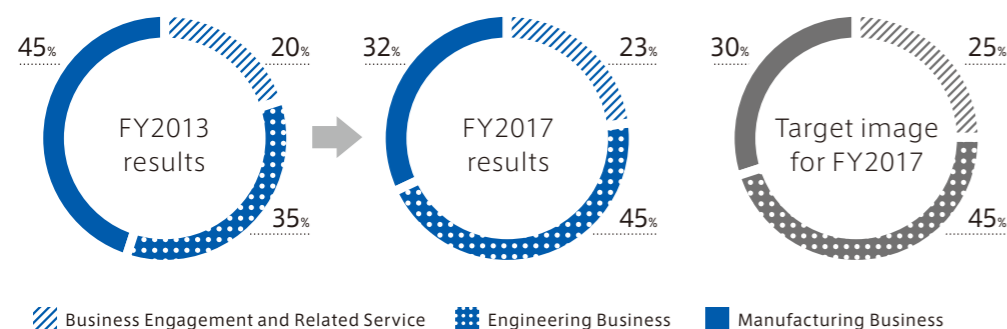
While we can see certain achievements, we also posted huge losses from particular projects. This is a matter of great regret for me as the business manager, and I regard the strengthening of risk management as an essential task under the Mid-Term Business Plan 2017. I take pride in the fact that we have extremely advanced capabilities in technical aspects such as engineering, design, and manufacturing. On the other hand, I recognize that our ability to manage global risks was insufficient. We will strive to prevent the recurrence of the loss by strengthening our skills regarding contracts in global fields.

## Review of FY2017 (Year ended March 31, 2017)

For the MES Group, FY2017 was the final year of the Mid-Term Business Plan 2014 (MBP14). Under MBP14, we promoted business domain innovation and business model innovation for the purpose of achieving “Well-balanced Portfolio -- Sustainable Growth and Solid

Profit Stability --.” The composition of each business model is close to the target image for FY2017, and I feel that our business model innovation, which has been a consistent focus for us since FY2014, has been making steady progress.

Composition of each business model



## Deepening group management

In the MES Group 2025 Vision, which we formulated in 2016, we have set the ideal vision for the MES Group in FY2026 (year ending March 31, 2026) as an “engineering team that creates social value.” We have also set “net sales of 1.1 trillion yen and an ordinary income rate of 6%” as our quantitative target. As the first step towards the target, we formulated the Mid-Term Business Plan 2017 (MBP17) in February 2017.

In MBP17, we have set the ideal vision for FY2020 (Year ending March 31, 2020) the final year of the plan, as “Maximize MES Group strengths collectively to improve profitability and stabilize earnings.” **As specific quantitative targets, we have set net sales of 920.0 billion yen and ordinary income of 37.0 billion yen.** We are therefore strongly committed to improving profitability. Profit is a share of the earnings of customers, and achieving a

high profit means that we provide customers with highly valuable services accordingly. So, what can we do to continue to remain valuable for customers and society? We are now pressed to think beyond the existing framework of manufacturing.

In the process, it will be important to “maximize MES Group strengths collectively.” The MES Group, which was founded as a shipbuilder, has grown into an engineering group with more than 100 affiliates at home and abroad. We can provide solutions that cater to customer needs by combining the resources and products of our group. This means the provision of total solutions, such as creating a system that fulfills the demand for lower electric power cost instead of only delivering power-generating equipment and a system that fulfills the demand for highly efficient logistics instead of just delivering a port crane.

**MES Group 2025 Vision:**  
Our long-term vision is introduced on pages 20 and 21 of this report.

**Mid-Term Business Plan 2017:**  
Details of our mid-term business plan beginning in 2017 are introduced on pages 22 to 27 of this report.

“ We can create unique business models by combining businesses in which the MES Group engages. ”



A photo taken with Mr. Bentzen (right), who is the chairman of BWSC, our subsidiary in Denmark, and Mr. Jensen (left), who is the president of BWSC.

At present, we have yet to maximize the group's collective strengths in this way. However, the buds of new business have begun to be seen in some projects. In the project on floating production storage and offloading system (FPSO), we promote cooperation and collaboration with our subsidiary MODEC, Inc. In addition to collaborating in terms of the manufacturing aspect, such as building hulls and topsides, we are enhancing and strengthening the related services. For example, we began investing in a special purpose company (SPC) that implements an FPSO charter project (owning and operating FPSO and providing maintenance and inspection services). We have also developed a barge system for gas power generation jointly with Burmeister & Wain Scandinavian Contractor A/S (BWSC),

our subsidiary in Denmark, and TGE of Germany. These and other projects, in which we take advantage of our group's unique, collective strengths, are taking shape.

As a manufacturing company with 100 years of history, we have developed a high level of technological capabilities and production bases. Because of this, we do everything ourselves, which is another characteristic of ours. To respond promptly to customer needs, it is essential to be proactive in adopting and applying the capabilities of external parties, **such as business collaborations and M&A, not to mention collaborating within the group. We will strive to create new businesses by thinking beyond the framework of the MES Group's previous business models.**

**Projects in which we take advantage of our collective strengths:**

The projects in which we maximize MES Group strengths collectively are introduced on pages 2 to 7 of this report.

**For sustainable growth**

The businesses of the MES Group, including marine logistics that use ships and port cranes, the supply of energy resources such as offshore oil and natural gas, and environmental energy such as biomass and biogas, are all built on our planet. In addition, the operation of these businesses involves the emission of substances that affect the global environment, such as CO<sub>2</sub>, NO<sub>x</sub> (nitrogen oxide), and SO<sub>x</sub> (sulfur oxide). To continue businesses while protecting the global environment, it is essential to participate in solving issues proactively in addition to reflecting considerations for the global environment in our products. We take initiatives to reduce the environmental impact through products, including the development of engines conforming to gas emission regulations and next-generation

environment-friendly ships. **At the same time, we should contribute to solving social issues in the three business domains specified in the MES Group 2025 Vision, which I believe will lead to our sustainable growth.**

**I believe that another important factor for achieving sustainable growth is "people." The future of the MES Group depends on whether we can continue to secure people who participate in our businesses.** This involves two issues. One is how to secure excellent skilled human resources who will be involved in manufacturing. In the face of the decline of the population and the falling birthrate and the aging population, securing human resources is a pressing task for manufacturers.

**Actions we take in the three domains to focus our strengths on:** Specific actions to take in the three domains on which to focus our strengths, which we specified in our long-term vision, are introduced on pages 2 to 7 of this report.

Tamano City in Okayama Prefecture, where Mitsui Engineering & Shipbuilding Co., Ltd. was founded, will establish a technical course at a commercial high school in the city in FY2018 in order to secure human resources for the manufacturing industry, which is the city's core industry. We will send our experienced engineers to the high school to have them instruct students and offer our Skills Training Center to the high school as a venue for the practical training of the students. We will thus support the development of skilled human resources in a proactive manner.

Yet another important factor is the development of global human resources. Our business

domains have expanded globally, making it essential to develop management capabilities in global fields. For this purpose, we will dispatch our young and mid-level employees to our overseas subsidiaries and send young engineers to overseas plants for practical training and other purposes. We will thus focus our efforts on the proactive development of human resources in the global environment. To move in the direction of new engineering, a target set by the MES Group, we need to do more than just look around ourselves or inward. We need to look outward, gain practical experience, and deepen our knowledge in the global field.

**Human resource development:** Our initiatives for human resource development are introduced on page 49 of this report.

**Development of global human resources:** Our initiatives for developing global human resources are introduced on page 49 of this report.

**Becoming Mitsui E&S Holdings in April 2018**

**I am concerned that we will not be able to achieve the target we set in our long-term vision unless we change the current management system. To achieve the target, we must further accelerate the innovation that we have been focusing on since MBP14. We will proceed with organizational reform by taking the 100th anniversary as an opportunity to make a fresh start. We have begun preparations to move to a holding company structure through an absorption-type company split on April 1, 2018.**

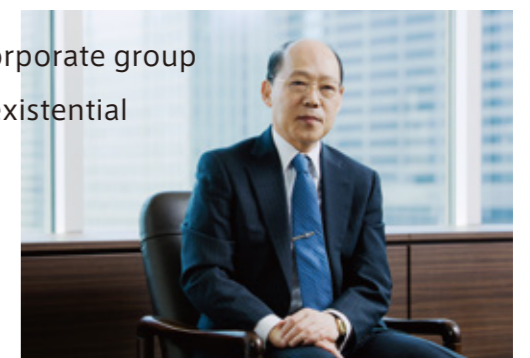
To maximize MES Group strengths collectively, as I mentioned above, we will turn into a holding company by splitting off the ship and ocean business, machinery and systems business, and engineering business to make them operating companies. Each operating company will strive to improve our corporate value further by formulating and implementing strategies more quickly, changing strategies flexibly in response to changes in the external environment, implementing bold strategies such as M&A (including business tie-ups) with other companies, and promoting selection and concentration. On the other hand, the pure holding company will strengthen the system for cooperation between operating companies, which will be more independent in terms of business, and group companies. It will also strive to improve the

MES Group's corporate value by fostering an organic sense of unity through the formulation of a business plan for the overall group and other strategies, and by consolidating our management resources on the three business domains that we position as growth domains in the MES Group 2025 Vision.

Our 100 years of history since our foundation has been a history of challenges and reforms. We are now facing another major turning point.

When we move to a holding company structure in April 2018, the MES Group will change its trade name to Mitsui E&S Holdings Co., Ltd. and make a fresh start as the new Mitsui E&S Group. We humbly ask our stakeholders to continue supporting us from a medium- and long-term perspective and cooperate further with us.

“ We aim to be a corporate group that has greater existential value globally. ”



**In April 2018, the MES Group will transform into Mitsui E&S Holdings.**