

# Action

Corporate Action Report 2016

うこそ三井造船へ

**Mitsui  
Engineering &  
Shipbuilding**





# Time for Innovation and Creation

What issues will people and society face and what will they need in the coming decades? Will we be able to create valuable goods and services in an external environment that is likely to have changed markedly? At the MES Group, more than 12,000 employees from more than 50 Group companies have begun to think and act beyond the frameworks of products and organizations through the sharing of the MES Group 2025 Vision, which outlines our long-term vision.

Here we cover the achievements being made after starting to act as an engineering team that makes full use of the diverse resources and technologies from inside and outside the Group.

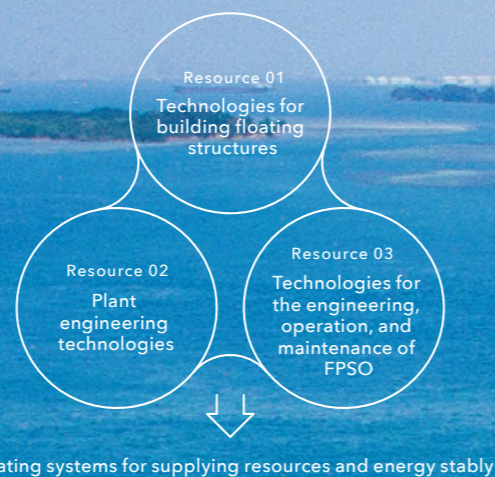
Action



Helping to ensure a sustainable future of the earth through support for ongoing development of ocean resources in various regions around the world.

Action report Deepening collaboration with MODEC, Inc.

We constructed the new-build hull for a floating, production, storage and offloading (FPSO) unit for offshore oil and gas field and delivered it to MODEC, Inc. Construction and integration of the unit's topsides production facilities was undertaken and completed at a number of module fabrication and integration yards overseas by MODEC. We have also developed the Mitsui noah-FPSO Hull, a next generation hull for FPSO units, and successfully obtained approval in principle (AIP) for this design from the American Bureau of Shipping (ABS). In addition to these efforts, we established the FPSO Business Section in February 2016 and made a capital participation in an FPSO charter project. With these and other measures, we are steadily enhancing our businesses in the area of marine resource development.



# Action for

## Environment & Energy

A floating production storage and offloading (FPSO) unit for a deep water offshore oil and gas field

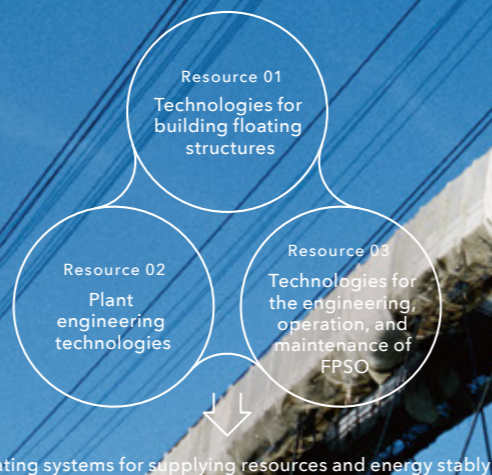


# Supporting life in safety and peace by responding to the growing demand for new construction and maintenance projects.

Action report

## Infrastructure Business Department established by consolidating related businesses

In Japan, we are seeing demand not only for the construction of new social infrastructure, but also for maintenance measures for aging structures, with growing importance placed on technologies for inspecting and diagnosing structures. In countries around the world, demand for the construction of new forms of social infrastructure is expected to rise due to the growing populations and economic development of emerging countries. Over the years the MES Group has engaged in the bridge engineering business, which covers the construction of steel and concrete bridges, and radar business, which contributes to the inspections of roads, bridges, tunnels, and other structures. In April 2015, we consolidated the management resources for these two businesses to establish the Infrastructure Business Department. We will operate the infrastructure business in an integrated manner and respond to the growing demand, thereby contributing to safe, secure, and affluent lifestyle.



# Action for

# Social & Industrial Infrastructure



# Action for

## Marine Logistics & Transportation

Providing propulsion systems that are environmentally friendly and economically efficient

Action report

Completion of Japan's first commercial electronically controlled gas injection diesel engine (ME-GI) that burns LNG

As a marine logistics professional that understands the entire global supply chain, we are expected to have a view upon which we collectively consider economic efficiency and environmental performance. We started with the evolution of the marine diesel engine. There is a growing interest in natural gas as a marine fuel alternative to heavy oil because it allows for a significant reduction in emission of sulfur oxide (SOx) and CO<sub>2</sub>, and it is expected to help reduce emissions of nitrogen oxide (NOx) and particulate matter (PM). MES has established a system for responding to diverse fuel needs with engines such as the ME-GI (LNG and heavy oil), ME-GI-Ethane (ethane and heavy oil), and ME-LGI (methanol and heavy oil). In October 2015, we completed Japan's first commercial ME-GI. In addition, we are the first in the world to create a form of operation that combines ME-GI and fuel gas supply system (FGSS) compressor. Moving forward, we will continue to tackle these kinds of challenges.

Resource 01  
Technologies for manufacturing ship engines

Resource 02  
Technologies related to the supply of high-pressure gas

Resource 03  
Technologies for operation support and maintenance with IoT

Creating a marine logistics system that enables quick, smart transport

Building a crank shaft into a marine diesel engine / Tamano Works, Okayama Prefecture



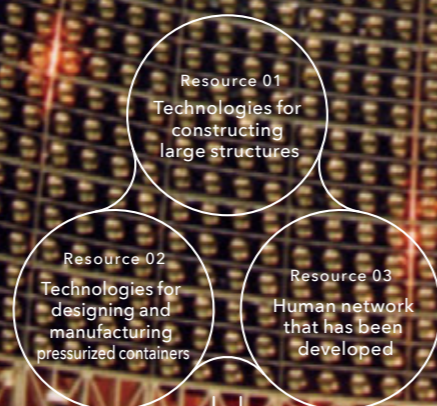
# Action for

## Intellectual Adventure

### Supporting leading research projects conducted in an attempt to expand the intellectual frontiers of humankind

**Action report** The Super-Kamiokande that helped Professor Takaaki Kajita earn the Nobel Prize in Physics

It all started when MES's designs and manufacturing of pressurized containers and low-temperature LPG containers caught the attention of leading researchers. Kamioka Mine is located in Hida City, Gifu Prefecture, and it is home to the Super-Kamiokande, a neutrino detector facility that was constructed 1,000 meters underground in the mine. It is extremely complex form of observational equipment consisting of a huge tank that is 39.3 meters in diameter and 41.4 meters in height, with approximately 11,000 photomultiplier tubes mounted inside the tank, which is filled with 50,000 tons of ultra-pure water. MES was involved in the construction of this equipment all the way from the schematic plan phase. Professor Takaaki Kajita was awarded the Nobel Prize in Physics in 2015 for his research based on the results of observations made by using the Super-Kamiokande. We were deeply moved to have been involved in a research project that helped to expand the intellectual frontiers of humankind. Through the construction of research facilities, we will continue to support researchers who enthusiastically tackle new areas of study.



Development and construction of unprecedented research and development facilities

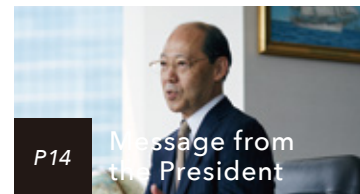


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Reports on the most recent developments at MES



P14 Message from the President  
President Tanaka provides an overview of fiscal 2016 and outlines our future direction.



P18 Special Report  
Detailed explanations of our initiatives for business model innovation.



P30 Business Segment Overview  
Overview and outlook of earnings of each division

## Editing Policy

Under our Company Philosophy of "To continue working as a company trusted by society and individual through products and services we offer," we at Mitsui Engineering and Shipbuilding Co., Ltd. uphold our corporate philosophy as we strive to be a company that uses manufacturing to contribute to social development and preserve the global environment. We view all actions related to achieving this goal as collective approach towards the creation of corporate value. The Corporate Action Report is a comprehensive summary of all these activities, covering management strategies, vital strategies, and the status of business, as well as environment conservation activities and social contribution activities. It is designed to provide stakeholders with a better understanding of company operations.

This report covers the period from April 2015 to March 2016. However, some sections include information for April 2016 and thereafter.



# Mission Statement



Mission Statement

**To continue our role as trusted manufacturer,  
and trusted member of society**

The core of our Group is manufacturing. Through our advanced technology, we offer products and services that are environment-friendly and contribute to society and people.

Our mission and raison d'etre is to gain the trust of society and people by contributing to the development of society through our manufacturing. We believe that this trust is vital to our existence.

Management Policy

- Build further satisfaction for our customers
- Provide safe and effective workplace environment for employees
- Contribute to the development of society
- Pursue a profit for the longevity of the company



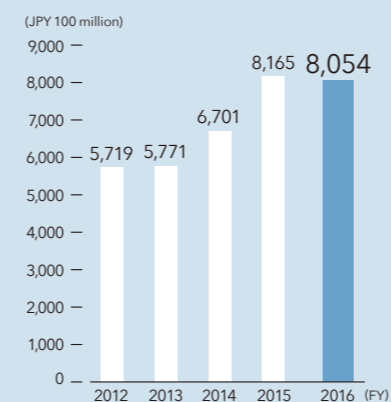


# Financial Highlights

Financial Results	Millions of Japanese Yen					Thousands of U.S.Dollars
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
New Orders Received	686,886	662,557	1,107,750	959,785	609,622	5,410,206
Net Sales	571,852	577,093	670,068	816,520	805,414	7,147,799
Operating Income	31,421	24,002	19,969	13,299	11,813	104,837
Ordinary Income	32,345	26,162	26,180	14,899	15,078	133,813
Net Income*1	17,880	(8,208)	42,855	9,463	7,600	67,448
Cash Flow	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
Operating Cash Flow	13,564	47,182	14,499	15,168	29,803	264,492
Investing Cash Flow (Loss)	11,516	(12,101)	(37,313)	(32,386)	(34,600)	(307,064)
Free Cash Flow	25,080	35,081	(22,814)	(17,218)	(4,797)	(42,572)
Financing Cash Flow (Loss)	(32,416)	(4,793)	15,532	(4,374)	48,217	427,911
Cash and Cash Equivalents	72,008	106,193	111,926	94,665	135,748	1,204,721
Financial Position	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
Net Assets	209,631	207,314	323,609	347,305	343,853	3,051,589
Total Assets	655,930	660,398	932,896	1,074,563	1,094,043	9,709,292
Interest-bearing Debt*2	144,565	148,257	187,833	188,314	239,874	2,128,807
Per Share Information	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
EPS (Net Income per Share)	21.59	(9.91)	51.80	11.63	9.40	0.083
BPS (Net Assets per Share)	219.17	212.24	266.64	292.86	290.48	2.578
Dividends per Share	4.0	3.0	2.0	2.0	4.0	0.035
Share Price at the year end	144	166	218	205	168	1.491
Key Financial Indicator	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
Shareholders' Equity to Total Assets (%)	27.7	26.6	23.6	22.0	21.5	
ROE (Return of Equity) (%)	10.3	(4.6)	21.6	4.1	3.2	

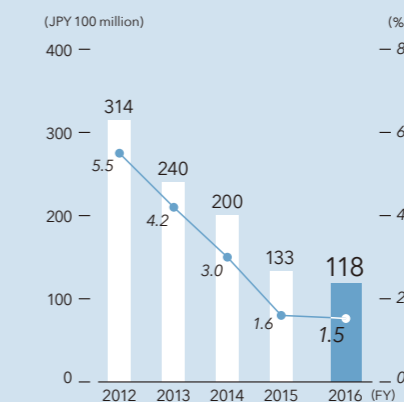
\*1 Profit(losses) attributable to owners of parent  
\*2 Excluding lease liabilities

### Net Sales



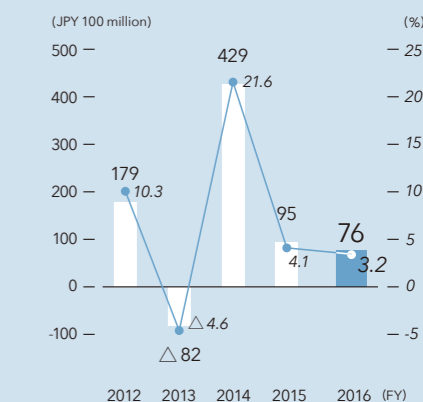
### Operating Income

Operating Income per Net Sales

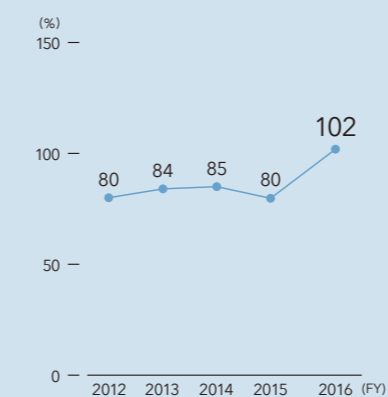


### Net Income

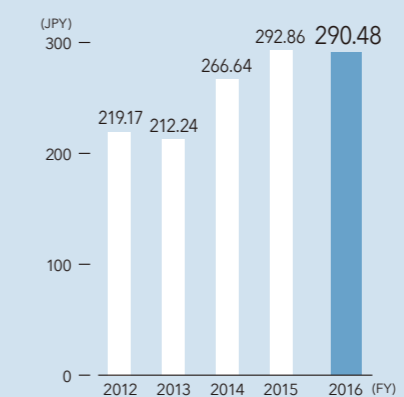
ROE (Return of Equity)



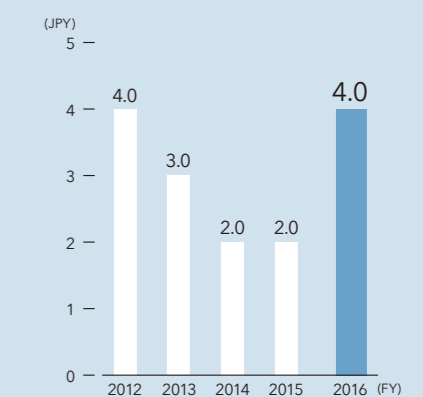
### D/E Ratio



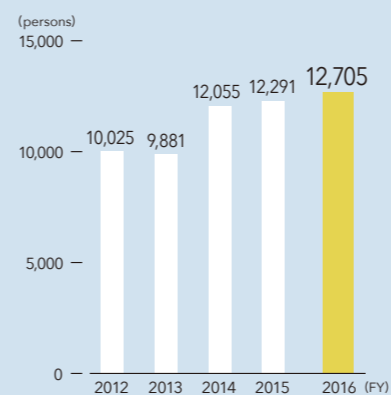
### Net Assets per Share



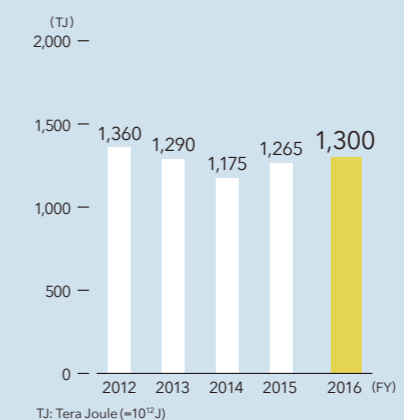
### Dividends per Share



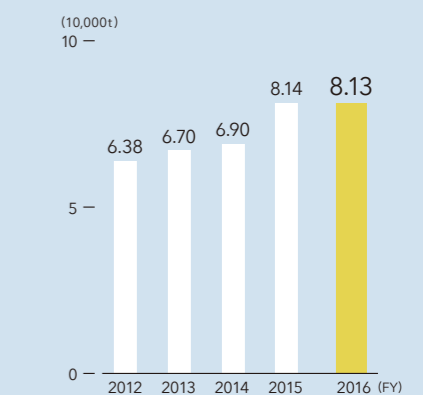
### Employees (Consolidated)



### Total Energy Consumption



### CO2 Emission





# 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.

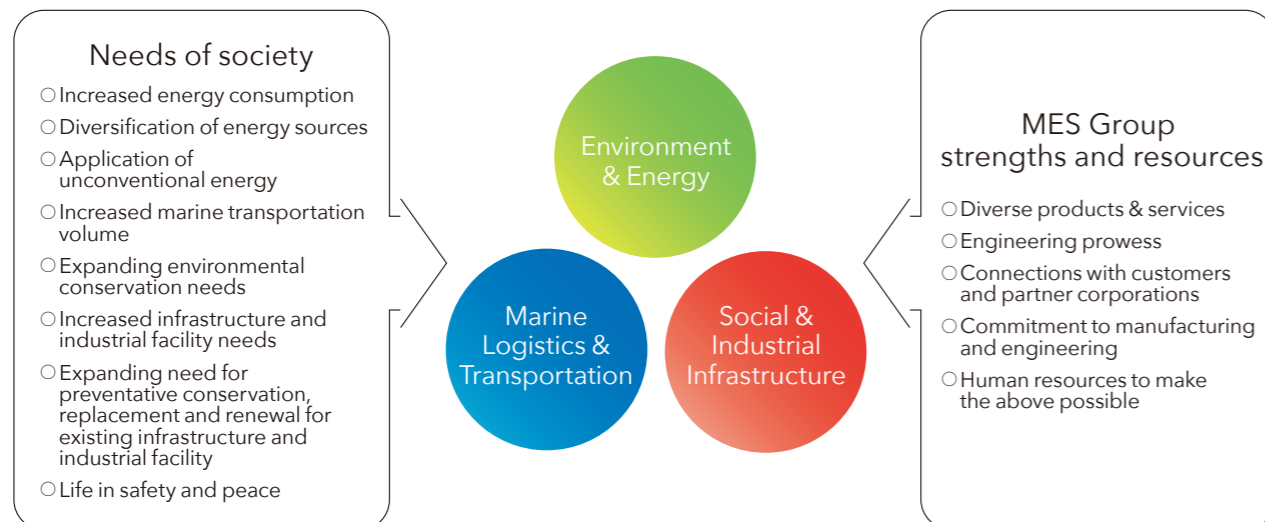


“It is important to be proactive in collaborating with partner companies.”

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.

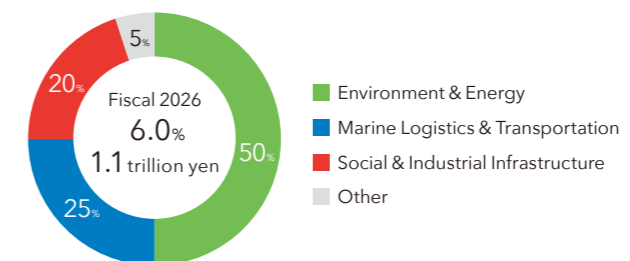
## Three domains on which we will focus our strengths



## 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.



# Special Report

## Changing ourselves to become more valuable Business model innovations in progress

Improving the profitability further by focusing our efforts on the upstream and downstream processes in the product life cycle

It is known that the upstream and downstream processes in the product life cycle tend to be more profitable than the intermediate process. The same is true for our business at MES. Given the current ups and downs of the shipping market and the fact that companies from emerging countries are entering the manufacturing business at lower costs, sustainable growth is difficult to achieve without cultivating businesses in the highly profitable upstream and downstream

processes. Possessing this sense of crisis, MES developed the Mid-Term Business Plan 2014, which covers the period from July 2013 until March 2017, to bring about business model innovations. The following section outlines the two innovations we have made in the upstream and downstream processes through tie-ups with other companies and synergy with our Group companies.

### 01

Innovation in the upstream process

#### Enhancement of the gas engineering business

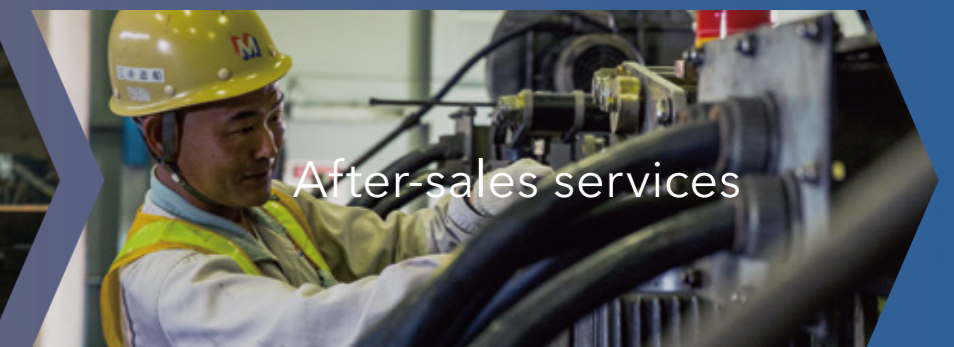
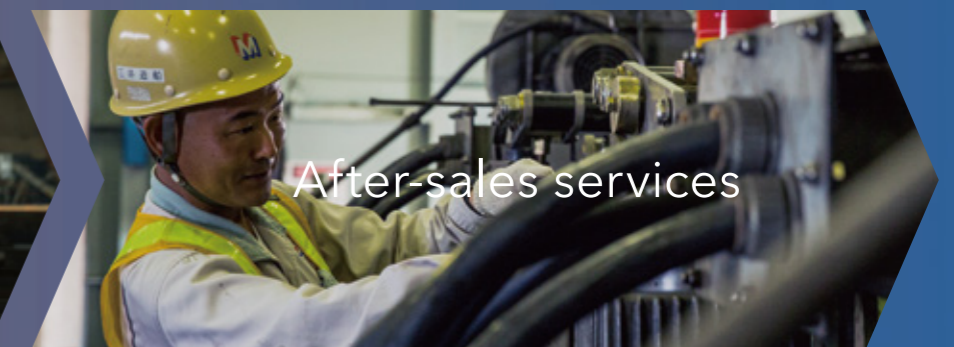
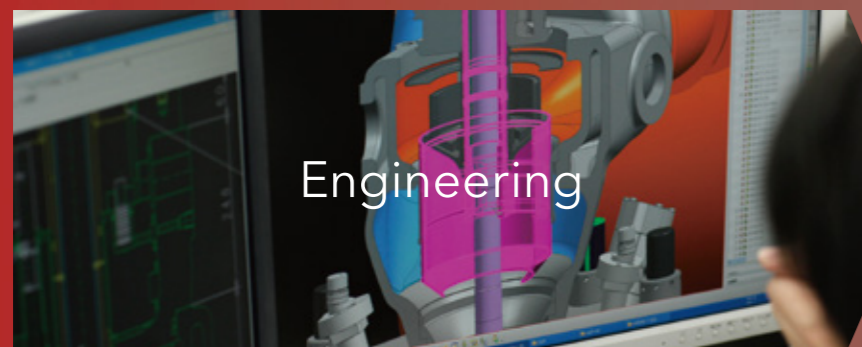
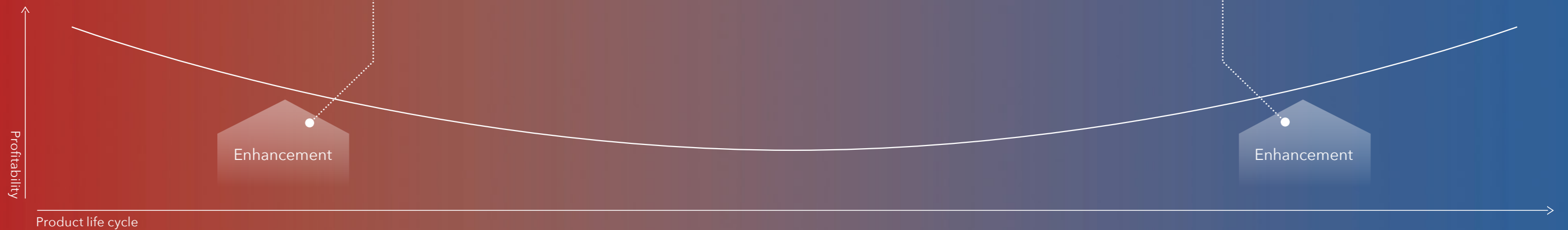
We have acquired shares in TGE Marine AG, a German gas carrier engineering company. Further enhancement of our gas business is now underway.

### 02

Innovation in the downstream process

#### Enhancement of after-sales service business

We are moving ahead with the enhancement of our after-sales services in the field of machinery by establishing services bases in locations that are closer to our customers, and by working in close cooperation with repair plants.





# Enhancement of the gas engineering business

The extraction of shale gas has driven the growing capacity of the natural gas supply mainly from Australia and the United States. This has resulted in downward pressure on the natural gas price, heightened expectations for the worldwide expansion of the liquefied gas market, and raised hopes for innovation in the gas transportation business.

Anticipating the development of liquefied gas business, MES has acquired ownership of TGE Marine AG (TGE), a gas carrier engineering company, and has started to build up its gas engineering business.

# 01

## Diversification of the different types of gas

Markets for different types of liquefied gas, such as ethane and ethylene gas (LEG), which are byproducts of shale gas development, liquefied petroleum gas (LPG), and liquefied natural gas (LNG), are expected to expand in the future.

## Increase of short-distance transport

In the past, liquefied gas was generally supplied with the long-distance transport of large quantities of gas under long-term contracts. Hereafter, small-scale, short-distance transport under spot contracts or flexible contracts in response to flexible demand is expected to increase.

## Emergence of LNG hubs

Initiatives are now underway in Asian countries, such as Singapore, to develop LNG hubs. These hubs serve as centers for LNG trade, and are where prices are set and disseminated. Japan has also started initiatives aimed at establishing itself as an LNG hub.

## Expected development of liquefied gas markets



## Necessity of partial loads

Amidst the shift from bulk shipment to small-scale transport, the need for partial loading, in which a tank full of cargo is discharged little by little at multiple ports, is expected to grow in the future.

## Increase of demand for dual fuel propulsion engines

Dual fuel propulsion engines, which use LNG and heavy oil, ethane and heavy oil, or methanol and heavy oil, for example, are expected to become the main type of engines in use.

## Topics

In October 2015, MES acquired ownership of TGE Marine AG (TGE), a German gas carrier engineering company.

### What is TGE Marine AG (TGE)?

TGE is a gas carrier engineering company headquartered in Bonn, Germany. The company undertakes the EPCS business, including the engineering and construction of type-C pressurized gas tanks and gas handling systems, and the supervision of construction for small and midsize gas carriers. TGE already commands a global market share of more than 50% for both small LNG carriers and small ethylene carriers, and approximately 30% for LPG carriers. Its marketing activities target clients that include both influential gas carrier owners in Europe and shipyards in China and South Korea.



### Action 01

Development of small and midsize gas carriers

## Focusing efforts on the development of small and midsize gas carriers

In the building of gas carriers, MES used to focus on large carriers and did not work on small and midsize ones. However, the demand for small and midsize carriers is expected to increase in the gas markets of India, China, and Southeast Asia following the development of routes for short-distance transport that enable the efficient supply of gas in the region. By collaborating with TGE, which excels in the engineering of small and midsize gas carriers, MES will focus on the development of small-sized ships known as Type C, and small and midsize gas carriers referred to as "MOSS Type."

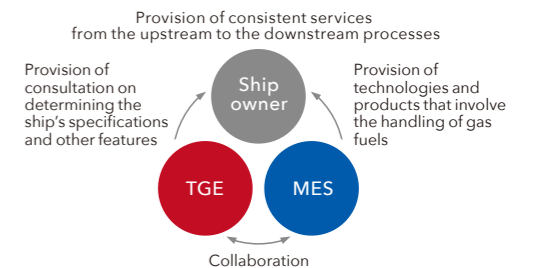


### Action 02

Engagement in EPCS business

## Entering the upstream process of gas carrier construction

EPCS business is a business method in which Engineering, Procurement, and Construction Supervision are undertaken as a job lot, and the gas system of a gas carrier is managed as a whole. In the global market of gas carrier construction, TGE has been involved in projects starting from the phase for determining the specifications of ships. We will enter the upstream process in gas carrier construction by learning the ins and outs of the projects from TGE, which has worked on a large number of EPCS business projects.

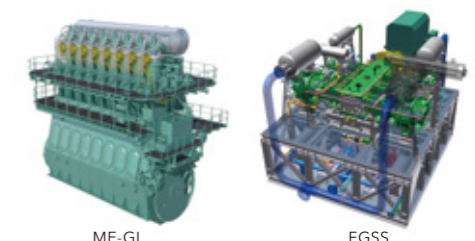


### Action 03

Expanding sales channels of gas engineering equipment

## Expanding sales channels of ME-GI and FGSS

MES has been making progress on the development and sales of the electronically-controlled gas injection diesel engine (ME-GI), which allows for the use of LNG as well as heavy oil, and the high-pressure compressors for fuel gas supply systems (FGSS). Moving forward, we will work to expand the sales channels of these technologies and products, which involve the handling of gas fuels, in the global market for systems in which TGE has shares.





# Enhancement of after-sales service business

We are promoting innovation to make the shift from the previous business model focused on selling finished products to a system that enables us to provide life cycle engineering, with which we are involved in the entire life cycle of products and respond to all customer needs.

We will be actively involved in domains which we have never worked on, while also enhancing our existing after-sales service business, and switching to a business model in which we continue supporting customers' businesses.

# 02

## Ships

MES-KHI Yura Dock Co., Ltd. was established in April 2015 at the Ship Repair Department in Yura Town, Wakayama with an investment from Kawasaki Heavy Industries, Ltd. We will respond to demand for repairs and retrofits, focusing primarily on LNG carriers for transporting shale gas from North America, a commodity for which demand is expected to grow.

## Diesel engines and industrial machinery

MES Technoservice Co., Ltd. and overseas subsidiaries provide after-sales services for diesel engines, plant machinery, cranes, gas turbine cogeneration systems, and other types of equipment.

## Power plants

Burmeister & Wain Scandinavian Contractor A/S (BWSC) provides total services for entire power plants. In addition to the supply and construction of plants, it offers operation and maintenance services throughout the entire life cycle period of plants.



## Environmental plants

Mitsui Zosen Environment Engineering Corporation provides engineering, procurement, construction, and operation and maintenance services for various water treatment facilities and waste treatment facilities.

## FPSO / FSO

MODEC, Inc. provides operation and maintenance services for floating production storage and offloading system (FPSO) vessels and Floating Storage and Offloading (FSO) systems, which are used in the production of oil and gas in the ocean.

## Testing, inspection, and analysis services

MES Testing & Research Center Co., Ltd. provides testing, inspection, and analysis services. It also offers inspection services in the field of social infrastructure, including the use of radar and other technology to inspect bridges.

## Topics 01

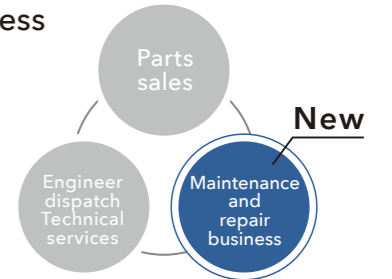
In 2015, major progress was made in our after-sales service business in the field of machinery.

### Action 01

Diesel engine field

## Making our way into the maintenance and repair business

Our after-sales services for marine diesel engines used to focus primarily on parts sales, the dispatching of engineers, and retrofitting. However, our business model lacked a maintenance and repair business. Thus, we have decided to establish bases for maintenance and repairs in important areas in Japan and other countries, where we will be involved in the entire life cycle of marine diesel engines by providing services such as the overhaul of fuel valves and pumps of engines, as well as the welding repair of engine exhaust valves, pistons, and other parts.



April 2015, Onomichi City, Hiroshima Prefecture

### Establishment of mother factory for maintenance business

We established Azuma Machinery Co., Ltd., a joint venture, by joining up with Azuma Kako Co., Ltd., which runs a business for repairing and recycling marine engine parts in Japan and other countries. It is located on the premises of the Onomichi plant of Azuma Kako in Setouchi area, which is one of the centers of the repair business in Japan. We will increase our shares in the maintenance business in Japan and make this company a mother factory as the base for overseas expansion.

April 2015, Singapore

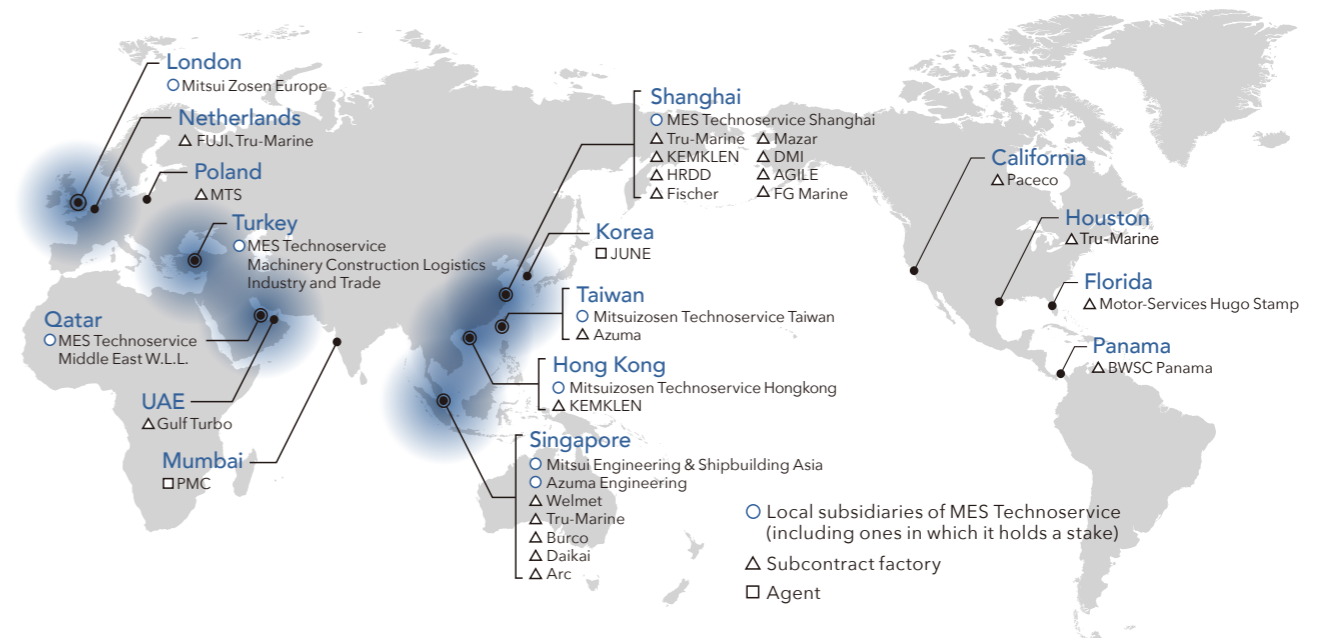
### Capital participation in a main factory for maintenance and welding repair

We acquired a stake in Azuma Engineering (S) Pte Ltd, which provides maintenance and welding repair services in Singapore, the global center of shipping and the marine shipping industry. We will increase the level of synergy with Mitsui Engineering & Shipbuilding Asia Pte Ltd (MES Asia), which is also the MES Group's base for after-sales services, and operate it as the main factory for maintenance and welding repair.

### Action 02

## Expansion of overseas bases for after-sales services

We are developing a system for the global operation of the after-sales service business by implementing various measures, such as establishing a subsidiary for plant machinery maintenance in Qatar and a joint venture in Turkey. We are also expanding factories for the repair of marine diesel engines. We will build upon the enhancement of our after-sales services to win new orders.





## New business models are created beyond the existing framework of after-sales services.

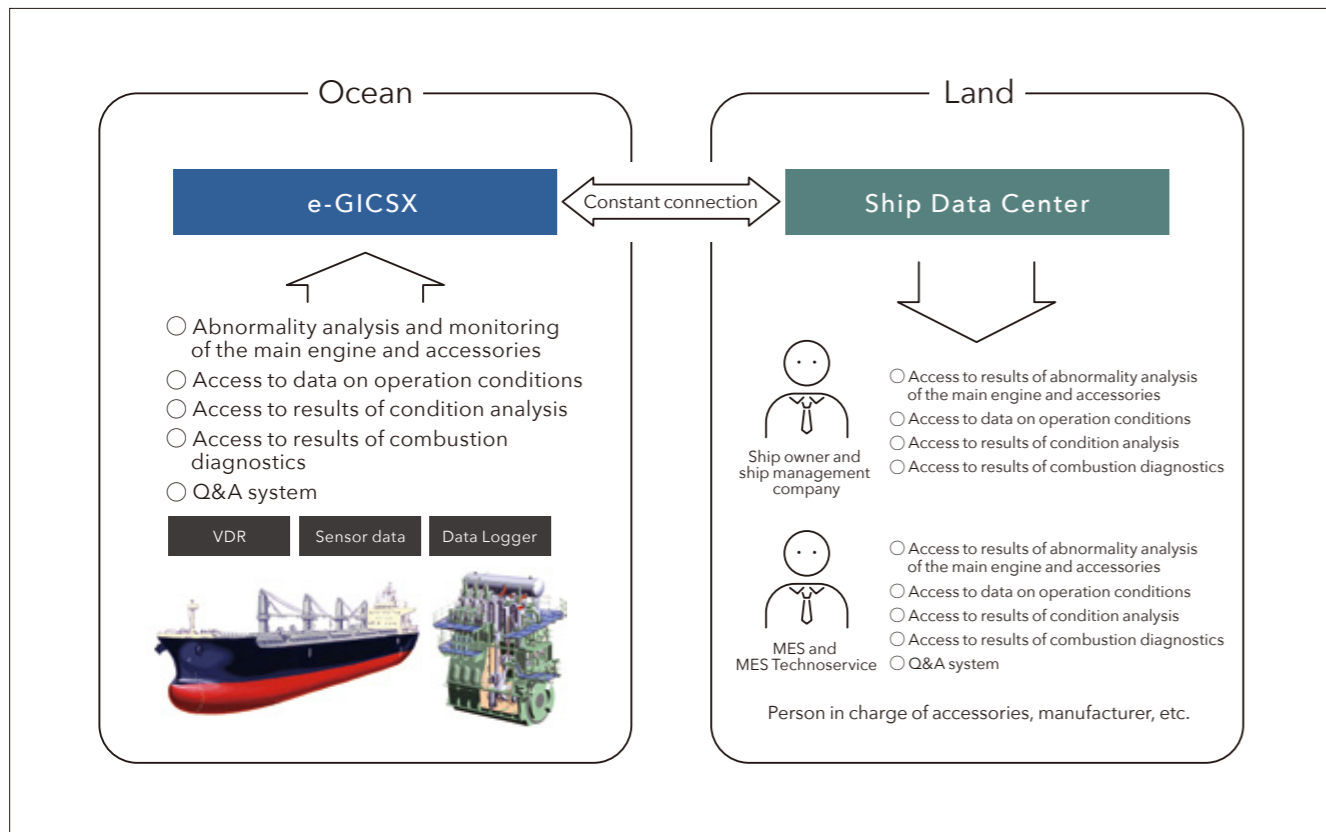
Action 01

CMAXS e-GICSX, a next generation condition-based engine monitoring system

### Preventive maintenance through the use of big data

MES, its subsidiary, MES Technoservice Co., Ltd. and Nippon Kaiji Kyokai have been working on a joint research project to develop the "Next Generation Condition-Based Engine Monitoring System, called CMAXS e-GICSX" for Mitsui-MAN B&W diesel engines starting from April 2016.

The CMAXS e-GICSX system ensures the early, accurate detection of abnormalities by using sophisticated algorithms that are capable of conducting onboard analysis and monitoring of the big data collected from not only multiple main engine sensors but also navigation data, such as weather and sea conditions. By merging the onboard monitoring results with performance analysis conducted on land, the CMAXS e-GICSX system ensures a higher level of accuracy of performance analysis than ever before.



Action 02

Retrofitting

### Transforming existing port cranes into energy-saving cranes

MES and MES Technoservice Co., Ltd. are committed to transform operating cranes into energy-saving cranes, improving their economic efficiency and reducing their environmental impact. For example, we retrofitted five Transtainers at Leam Chabang Port in Thailand and made them Hybrid Transtainers. We were rated highly for this project because we quickly finished the retrofitting work, which produced an energy savings of 50%, within only two months of fieldwork.

Moving forward, we will continue working to reduce Fuel Consumption and Carbon Footprint up to 60% compared to existing levels. The key to achieve this is our owned Engine Variable Speed Control (EVSC) technology which combined with high spec Lithium Ion Batteries and downsized Engine bring to life a new concept in Crane green technology, the MES Hybrid Transtainer.



Past projects

- Leam Chabang Port, Thailand/ Retrofitting of 6 Transtainers into Hybrid units
- Manila Port, Philippines/ Retrofitting of 3 Transtainers into Hybrid units
- Manila Port, Philippines/ Retrofitting of 5 Transtainers into EVSC units
- Buenos Aires Port, Argentina/ Retrofitting of 7 Transtainers into EVSC units

Action 03

Life cycle solutions

### Services for retrofitting port cranes into larger cranes, and services for relocating, removing, and dismantling them

A large quantity of container cranes were delivered in the 1980s and 1990s, which was the initial period of container transport. These cranes now need to be replaced, and thus there is a rising demand for replacements for aging cranes. This coincides with the rise in demand for retrofitting existing cranes into larger cranes as the size of container ships becomes bigger.

At MES, we are aiming to be the One-Stop service provider for our customers. Our team is capable to provide maintenance to existing cranes, modify and retrofit to match the market needs (Crane Rise-up, boom extension), relocate, remove and dismantle cranes, as well as manufacture New Cranes. We offer life cycle solutions that provide for the care of products throughout their life cycle. This means that we support our customers' terminal operations, which in turn enables us to better understand our customers' needs. As a result, we have created a virtuous circle in which our understanding of their needs leads to new orders.



Action 04

Business engagement

### Engagement in terminal operation

Playing a more active role in the Container Terminal Sector will allow us to better understand the market needs and to prepare ourselves to be a better service provider and an even better crane manufacturer.







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**  
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.



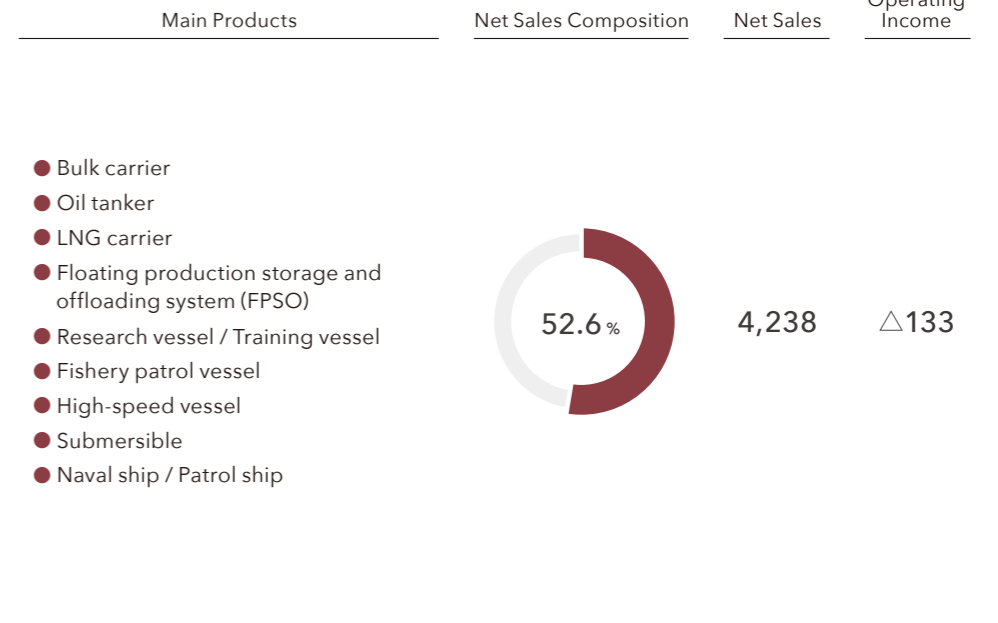


# Business Segment Overview



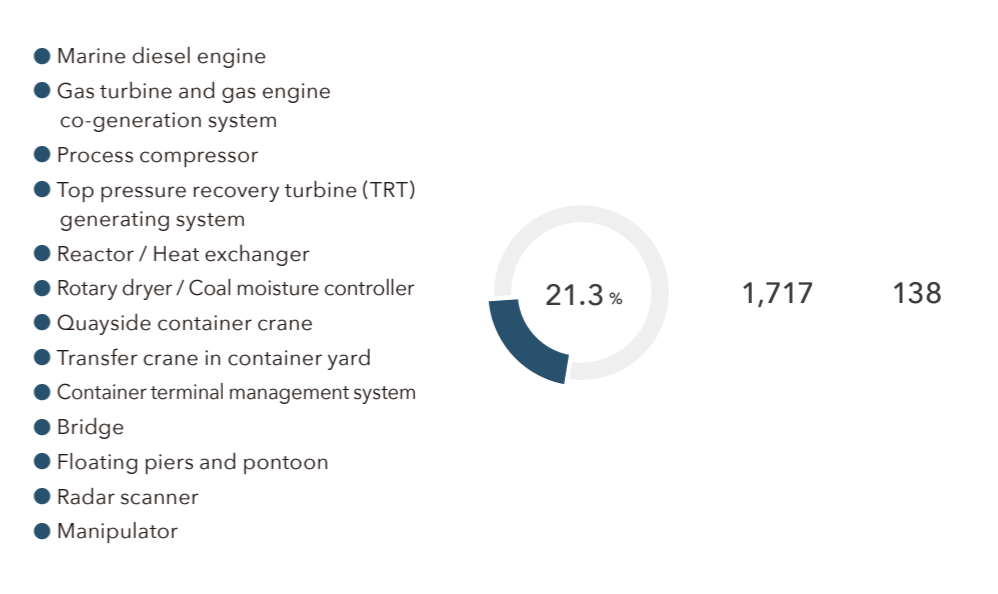
Ship & Ocean Project

Ship & Ocean  
Project  
Headquarters



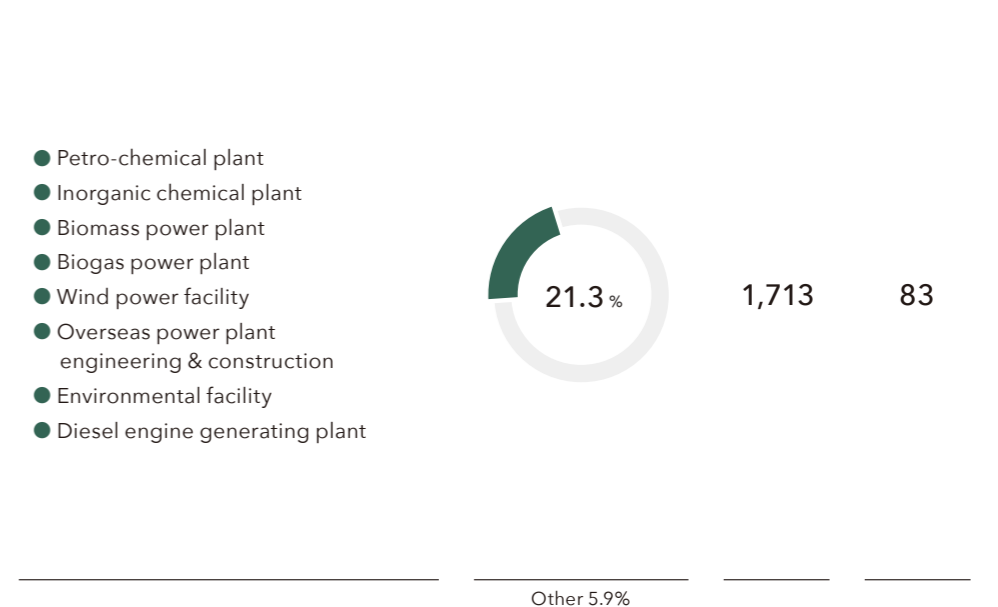
Machinery & Systems

Machinery &  
Systems  
Headquarters



Engineering

Engineering  
Headquarters





# Ship & Ocean Project Headquarters

We are enhancing our existing businesses and proceeding with creation of new business models, such as the ocean business and gas engineering.

Director and Managing Executive Officer  
General Manager of Ship & Ocean Project Headquarters

Tetsuro Koga



## Business environment and performance

The shipping market has worsened from the cooling state that has continued since last year and entered a recession phase. The state of excess capacity attributed to the completion of numerous new shipbuilding construction projects over the last several years has been aggravated by the slowdown in the Chinese economy. In particular, charter freight has remained at historically low levels in the dry bulk division, which has left the market in a rigid state. On the other hand, while the charter market of crude oil tankers and LPG carriers has remained reasonable level, competition has been growing fiercer in the shipbuilding market, exposing us to fierce price competition for all types of ships.

The future remains uncertain in the ocean development field. This uncertainty stems partly from the drop in the price of crude oil, which has led to the slowdown or discontinuation of new oil well and gas development projects.

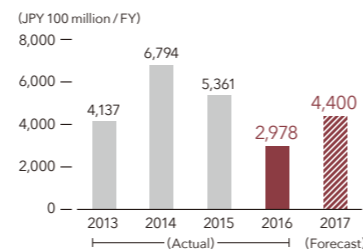
In the midst of these conditions, MES

has developed and released a steady stream of new bulk carriers that incorporate energy-saving and environment-friendly technologies. Since we handed over the first energy-saving ship in November 2013, we have steadily received new orders for and have constructed various types of energy-saving bulk carriers, ranging from 56,000-ton bulk carriers to 66,000-ton vessels.

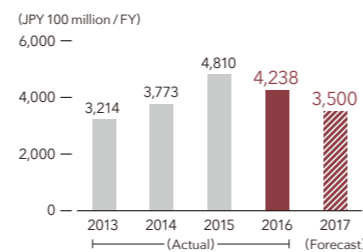
During the fiscal year under review, we received additional orders for multiple newly-designed large tankers (VLCC). This has raised the total number of new orders received for energy-saving ships to 69 vessels, resulting in an order backlog for approximately two years. The environment for receiving new orders has been tough, but we will continue to apply our competitive advantages as the pioneer shipyard for energy-saving ships. We will also strive to be selective in accepting new orders, while at the same time trying to improve profitability.

## Financial highlights

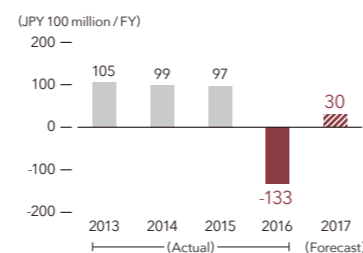
### New orders



### Net Sales



### Operating income



## Fiscal 2016 earnings

We received orders to construct Floating Storage and Offloading system (FSO) vessels for marine oil and gas, operation services for floating production storage and offloading system (FPSO) vessels for marine oil and gas. However, due in part to a decline in orders for the construction of FPSO and bulk carriers, orders received decreased by 238.252 billion yen (-44.4%) compared to the previous fiscal year to 297.818 billion

yen. Net sales decreased by 57.234 billion yen (-11.9%) compared to the previous fiscal year to 423.786 billion yen, partly reflecting a decline in the construction of FPSO vessels. While operating income was 9.657 billion yen in the previous fiscal year, we posted an operating loss of 13.305 billion yen due mainly to a decline in the profitability of ocean support vessels.

# Our Action

Initiatives for innovation based on the Mid-Term Business Plan

## Topics Progress in the establishment of a system for ocean projects

Working within a business environment that remains tough, we are actively promoting a shift in our axis to ocean and engineering business in an effort to move away from the previous business model that focused solely on general commercial ships. As for ocean projects, we have been proceeding with the development of new process for manufacturing the vessel hulls for floating production storage and offloading system (FPSO) vessels for marine oil and gas production in anticipation of the increase of new oil well development projects. In

September 2015, we developed the Mitsui noah-FPSO Hull (noah: New Offshore Adapted Hull), a next generation offshore platform for FPSO that allows for flexible FPSO hull design adapted to the production facilities, rather than adjusting the oil/gas production facilities to fit the specifications of the hull. In regards to facilities, a 500-ton crane will be built at Dock No.3 of Chiba Shipyard in the latter half of 2016. Steady progress is being made in the establishment of a system for ocean projects.



FPSO whose vessel hull was constructed at Chiba Works

## Topics Engagement in gas engineering business

In October 2015, MES acquired shares in TGE Marine AG (TGE), a gas career engineering company headquartered in Bonn, Germany, making TGE a subsidiary of MES. MES and TGE are highly compatible in terms of technologies and customer bases. In addition, MES will use TGE's network with ship owners to actively engage in the upstream process of gas carrier business, such as the

determination of ship specifications. The acquisition will enable MES to provide consistent services, from the upstream to downstream of manufacturing processes for the gas transportation business. We will establish a firm position in the global market of medium- and small-sized gas carriers for short-distance transportation, a type of vessel for which demand is expected to increase.



A gas carrier that TGE worked on

## Topics Establishment of a Design Office in Fukuoka to strengthen design capabilities

To strengthen its design and engineering capabilities that support the business structure, MES has been increasing the internal manpower and enhancing resources of its domestic and overseas design companies. In October 2015, we established the Fukuoka Design Office of Ship Design Department, Ship & Ocean Project Headquarters, at Kamigofukumachi in Hakata Ward, Fukuoka City. We focused attention on the fact that Kyushu area possesses a large number of people with great sets of skills.

There are many educational institutions that support the ship and marine business, and many people with experience in ship design. These conditions led us to establish a design organization headed by people with experience in ship design at Fukuoka, a strategic location in Kyushu, as a measure for improving our design and engineering capabilities. We are working to improve our capabilities to handle ocean projects, and consolidate and improve the efficiency of detailed design function.



Fukuoka Design Office was established in October 2015



# Machinery & Systems Headquarters



We are striving to further increase the competitiveness of our mainstay products and improve product value from the perspective of the life cycle.

Director and Managing Executive Officer  
General Manager of Machinery & Systems Headquarters

Shinsuke Minoda

## Business environment and performance

The production volume of our marine diesel engines was on par with the previous fiscal year at 181 engines/3,280,000 horse power. In addition, we delivered three LNG-burning engines, three methanol-burning engines, and one ethane-burning engine. These engines all burn new types of fuel, and offer excellent environmental performance and economic efficiency. Industrial machinery saw a year-on-year decline in orders received for reciprocating compressors to oil refineries and other facilities, which is attributed to a heightened negative attitude towards capital expenditures affected by the fall of crude oil prices and economic slowdown in China and other emerging countries. Because the business environment is expected to remain tough for the time being, we intend to increase the sales of high-pressure compressors for gas-burning marine diesel engines, for which demand is expected to grow, and enter non-petroleum fields in

collaboration with Kaji Technology Corporation. Demand for cranes is strong both in Japan and other countries due to replacement demand and new demand that arose from the need to accommodate larger container ship sizes. To meet this demand, we are conducting large-scale capital investments at our Oita Works aimed at increasing production capacity, with the new facilities scheduled to start operating in October 2016. We are also studying overseas production of container cranes. In the Life-cycle Solution Service (LSS Service) and Customer Oriented Service, we achieved record highs for both orders received and net sales. These successes were due in part to the strength of after-sales services for marine diesel engines, which were made possible by viewing the docking before the ballast water regulations as a business opportunity, as well as increased crane-related relocation and dismantling work.

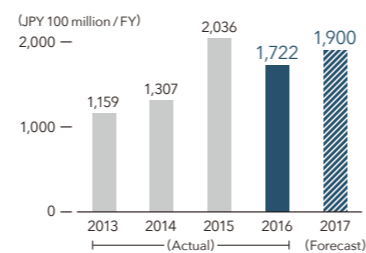
## Fiscal 2016 earnings

Orders received declined by 31.339 billion yen (-15.4%) year on year to 172.238 billion yen. This was due in part to the decrease in orders for marine diesel engines, container cranes, bridges, port structures, various industrial machinery, and after-sales services. Thanks to these products and businesses,

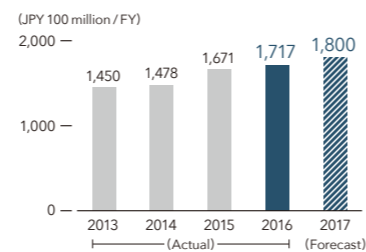
net sales increased by 4.553 billion yen (+2.7%) year on year to 171.690 billion yen. Operating income increased by 3.146 billion yen (+29.5%) year on year to 13.806 billion yen, partly reflecting the strength of after-sales service business and industrial machinery.

## Financial highlights

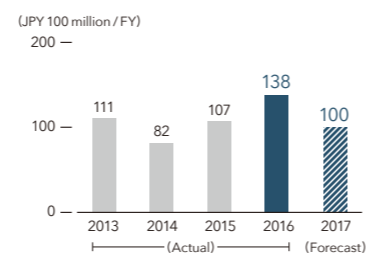
### New orders



### Net Sales



### Operating income



# Our Action

Initiatives for innovation based on the Mid-Term Business Plan

## Topics Expanding environment policy-compliant product business

In October 2015, we completed the first electronically-controlled gas injection diesel engine (ME-GI) in Japan for commercial use. We have also received an order for the world's first ethane-burning engine (ME-LGI). Ready to offer ME-GI, ME-GI-Ethane, and ME-LGI, we have established a system to meet the needs for various types of fuel. In addition, in October 2015 we added

a high-pressure gas compressor to the fuel gas supply system (FGSS) for ME-GI, which has been installed at Tamano Works. It began gas operation with the world's first combination of compressor and engine. We are steadily moving forward with the creation of a system that will allow us to supply not only engines as single units, but also high-value added propulsion systems in an integrated manner.



Methanol-burning electronically-controlled gas injection diesel engine (ME-LGI)

## Topics Improving crane production capacity

Cranes continue to see strong demand both in Japan and other countries. To respond to numerous inquiries, we are expanding our domestic and overseas manufacturing centers. At Oita Works, a manufacturing

center in Japan, we have conducted capital expenditures to increase the large Portainer production capacity to 36 per year. A new production line is scheduled to start operating in the second half of 2016.



Ongoing improvement of the production capacity at Oita Works

## Topics Enhancement of after-sales services

For the after-sales services for marine diesel engines, we have established a system for entering the maintenance and repair business, which was not in the previous business model. We have expanded overseas bases and established a global organization for the after-sales services for industrial machinery. In addition, we are moving

forward with efforts to enhance the after-sales service business, such as the expansion of the technical service domain aimed at providing new services. We will create businesses from the viewpoint of the product lifecycle to break away from the previous earnings structure that was based merely on the sales of products.



Entering the marine diesel engine maintenance and repair business

## Topics Expansion of social infrastructure business

Moving forward, we will continue to see an increase in the demand for the construction of social infrastructure for the Olympic Games until 2020. This in turn will lead to greater demand for the repair of aging roads, bridges, and other structures. The decommissioning of nuclear power plants is also another significant issue facing Japan.

To respond to these areas of demand and issues, we established an Infrastructure Business Department in April 2015 and created a system that makes it possible to operate businesses in an integrated manner. This department and system consolidate our management resources, such as the bridge construction technologies, radar search technologies, and robot technologies used for the decommissioning business. Moving forward, we will promote collaboration and joint development with other companies in the different fields, thereby benefitting from the great demand and further expanding our social infrastructure business.



Investigation of tunnel lining concrete



# Engineering Headquarters



We will enter the upstream and downstream areas of projects, such as business engagement and O&M, with our engineering capabilities at the core.

Director and Managing Executive Officer  
General Manager of Engineering Headquarters

Shinsuke Nippo

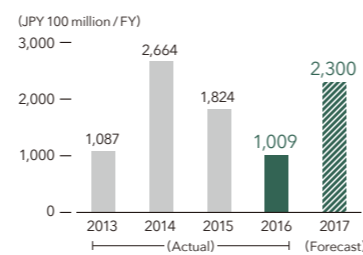
## Business environment and performance

Oil and gas producing countries and major oil companies are reviewing their capital expenditure plans in response to the slumping crude oil prices. This trend and other developments have made the future of our business environment uncertain. Customers in the field of chemical plants, which is one field in which we excel, are in the downstream part of the petroleum industry. While they benefit from low crude oil prices because they can reduce material costs, they have maintained a cautious stance on capital expenditures. On the other hand, economic growth in Southeast Asia is expected to cause the demand for electricity to go up. In Indonesia, progress was seen in a plan to construct a coal thermal power plant, which was at a standstill. In the environmental energy field, the demand for energy generation based on

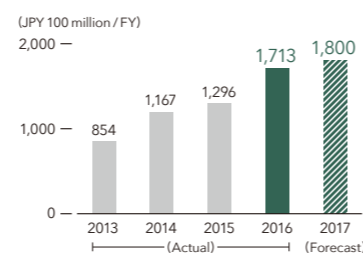
renewable energy remains as strong as ever both in Japan and other countries. In the midst of these conditions, Burmeister & Wain Scandinavian Contractor A/S (BWSC) received orders for the construction, operation, and maintenance of two large biomass power plants in the United Kingdom. In Japan, we received orders for the construction of two wind power plants and other facilities. We focused our efforts on securely implementing the construction work in projects for which we have already received orders, and each project has made steady progress. In the area of business engagement, commercial operation began for the biogas energy generation projects in Hokkaido and solar energy business at the Oita Works.

## Financial highlights

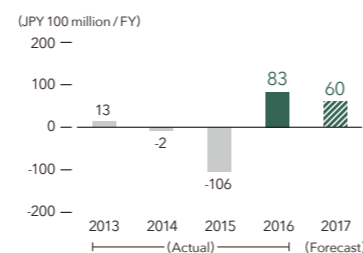
### New orders



### Net Sales



### Operating income



## Fiscal 2016 earnings

Orders received decreased by 81.513 billion yen (-44.7%) year on year to 100.922 billion yen due in part to the delay in a project for a petrochemical plant and projects in the field of power plant engineering, as well as the reactionary fall experienced by BWSC, which received orders for large-scale projects in the previous fiscal year. Net sales increased by 41.654 billion yen (+32.1%) year on year to 171.270 billion yen. This increase was due in part to the steady progress of petrochemical plant

construction work projects for the United States and Singapore, power plant engineering work for Vietnam, and the completion of a solar power plant in the environmental energy field. While we posted an operating loss of 10.633 billion yen in the previous fiscal year, we posted an operating income of 8.297 billion yen in the fiscal year under review due to the completion of unprofitable work projects and the steady progress of large-scale work projects.

# Our Action

Initiatives for innovation based on the Mid-Term Business Plan

**Topics** Enhancing upstream and downstream service businesses that focus on EPC (engineering, procurement, and construction) in the renewable energy field

## Start of commercial operation of one of the largest biogas power plants in Japan

A biogas power plant was completed and began commercial operation in July 2015. The plant was constructed by Betsukai Biogas Power Generation Co., Ltd., a special-purpose company that was established jointly by MES, Betsukai Town in Hokkaido, JA Nakashunbetsu, and JA Doutou Asahi. This power plant generates methane gas from domestic animal waste supplied by dairy farmers and uses it

to generate power. The electric power selling business will be operated for 20 years, with MES taking the initiative in the business development and undertaking the EPC, Betsukai Biogas Power Generation Co., Ltd. operating the plant, and Mitsui Zosen Environment Engineering Corporation handling the maintenance of the facility.



Betsukai Biogas Power Generation Plant

## Start of commercial operation of a mega solar power plant that was constructed on the premises of Oita Works

A 44.8-megawatt mega solar power plant, which was being constructed by Oita Hiyoshibaru Solar Co., Ltd., a special-purpose company that was established jointly by MES, ITOCHU Corporation, and Kyudenko Corporation, was completed and began commercial operation in March 2016.

This facility was built on about a 460,000 square meter plot of land on

the premises of Oita Works, with MES undertaking the EPC for the project. The expected annual electricity-generating capacity is 52,500,000 kilowatt-hours, which is equivalent to the annual power consumption of approximately 9,300 regular homes. This plant will be used to run the electric power selling business for 20 years.



Full view of the Oita Hiyoshibaru Mega-Solar Power Plant

## Orders received for construction, operation, and maintenance of a biomass power plant for the United Kingdom

In December 2015, BWSC received orders for the construction and 12-year operation and maintenance of a combined heat and power plant in the United Kingdom. This plant uses wood chips for fuel, has an electricity-generating capacity of 27.8 megawatts, and is expected to generate 223 gigawatt-hours per year. BWSC engages in a consistent

business involving the development, construction, and operation management of high-efficiency biomass, biogas, and diesel power plants in various areas around the world. Since its establishment, it has delivered more than 175 power plants to 53 countries around the world, with a total capacity of more than 3,500 megawatts.



Rendering of the biomass power plant in Cramlington



# R&D and Intellectual Property Activities

We are pursuing development aimed at enhancing product competitiveness and expanding our businesses through close partnerships with operational headquarters and AKISHIMA LABORATORIES (MITSUI ZOSEN) INC.

Executive Officer  
General Manager of Research & Development Headquarters  
**Yukinori Torii**



## Research and development

### Initiatives in the Environment & Energy domain

In the field of ocean development and submersibles, we are developing a newly constructed floating production storage and offloading system (FPSO) vessel for marine oil and gas, which will make it possible to respond to requests for delivery in a short turnaround period. We are also working a medium-sized multi-gas carrier that transports various types of liquefied gas, dynamic positioning system (DPS) with redundancy that make it possible to respond to various customer needs, Remotely Operated Vehicle (ROV) for measuring the distribution of radioactive materials on the ocean floor, a system for producing methane hydrate under the ocean floor, and other systems and vessels.

In the field of renewable energy, we are developing floating and bottom-mounted off-shore wind power generation facilities, wave power generation facilities, and others. Furthermore, in the field of environmental plants, we are developing fermentation technologies which are compatible with diverse materials for the purpose of expanding the scope of application of biogas power generation technologies.

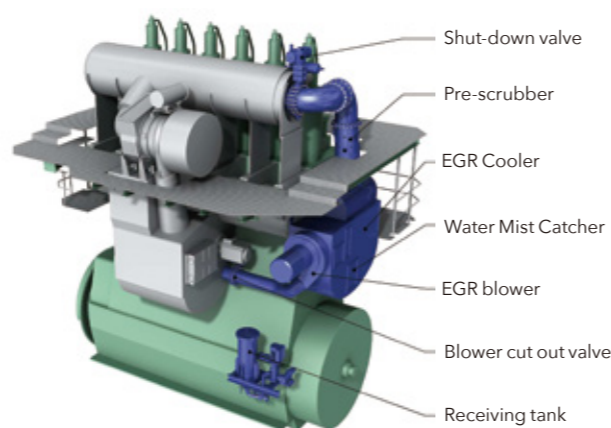
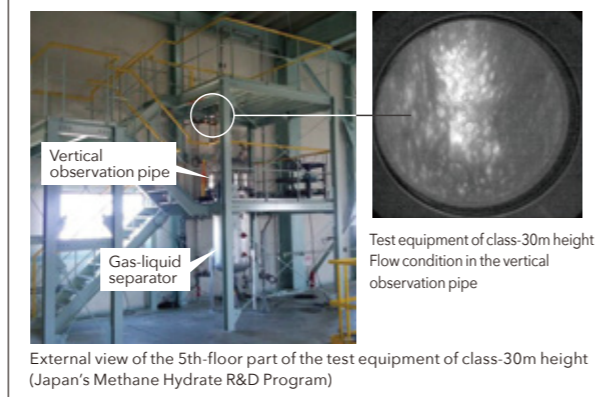
### Initiatives in the Marine Logistics & Transportation domain

In the field of port cranes, we are tackling the development of low-profile container crane conformed to aeronautical height regulation with seismic isolator, which is located around the airport. Also we are developing light weight crane to minimize reinforcement of civil work for the existing quay, various technologies coped with terminal automation system, and other items.

In the field of merchant ships, we are developing new neo-series ships, or next-generation, environmentally friendly ships that reduce CO<sub>2</sub> emissions, and services of analyzing propulsive performance of ships in the commercial voyage. We are also working on technologies to improve the precision of the predictive calculation of flows done by using a computer (CFD) for highly efficient of ships.

In addition, in the field of two-stroke marine diesel engines

Development of system for producing methane hydrate under the ocean floor

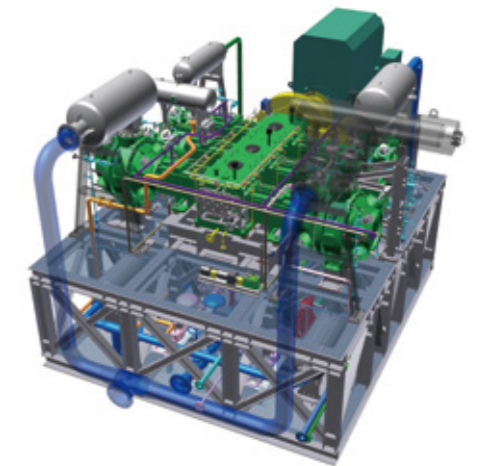


Integrated EGR layout for ME engine

we are developing exhaust gas recirculation (EGR) system to meet the current IMO NO<sub>x</sub> (Nitrogen Oxides) Tier III regulation. We are also working on a waste heat recovery system (THS) that uses hydraulic power and is capable of reducing fuel consumption and CO<sub>2</sub> emissions by up to 4%. In addition to these systems, we are developing an electronically-controlled dual fuel gas injection diesel engine (ME-GI) for liquefied natural gas (LNG) and ethane that allows for a significant reduction of sulfur oxide (SO<sub>x</sub>) and CO<sub>2</sub> emissions, fuel gas supply system (FGSS) for ME-GI, and an electronically-controlled dual fuel liquid gas injection engine (ME-LGI) for methanol and liquefied petroleum gas (LPG).

### Initiatives in the Social & Industrial Infrastructure domain

We are developing radar inspection system for the maintenance of tunnels and roads, technologies for large-scale maintenance and repair of bridges, and other related technologies. In the field of industrial machinery, we are developing axial compressors for ASU (Air Separation Units) that compress air to separate oxygen and other elements from it.



FGSS high-pressure gas compressor for ME-GI

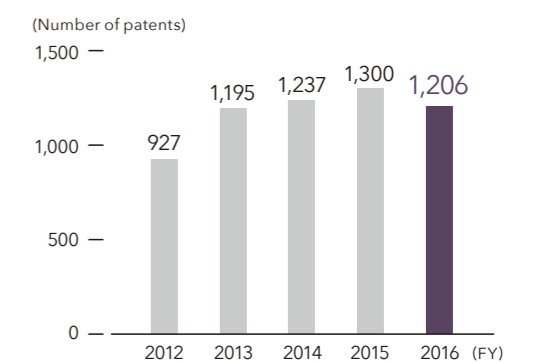
## Intellectual properties

The basics of initiatives for intellectual property lie in securing a competitive edge for our businesses through the acquisition of intellectual property rights and their application. Intellectual Property Department and operational headquarters work together to promote the creation of intellectual property rights, such as inventions achieved through the development of products and technologies and trademarks attached to our products, and acquisition of rights over the properties and their application. The Legal Department, Intellectual Property Department, and related departments also work together to handle contracts and disputes with other companies regarding intellectual properties.

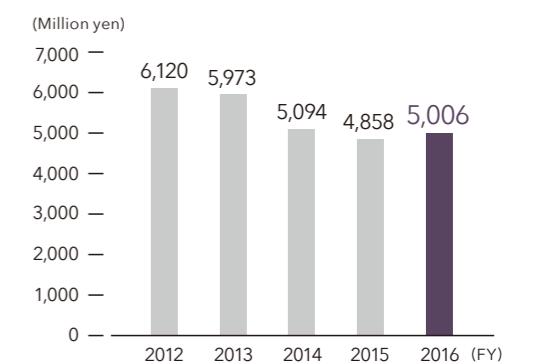
The intellectual property strategy cannot exist on its own, but must be implemented in an integrated manner with the business strategy and technological development strategy, forming the trinity strategy. While we are apt to feel that the rights are acquired as a result of achievements in technological development, we must fully consider how to acquire, protect, and apply technologies when we start developing a business or product. At MES, we always try to formulate and implement intellectual property strategy in this way.

In addition, in Japanese corporate society, where there is a tendency to avoid patent disputes, we have started to see a trend towards actively exercising intellectual property rights. This is believed to be the result of the great impact made by the progress of globalization. At the same time, however, it also reflects the fact that people are starting to have a greater awareness of how to apply these rights to gain profits. The importance of patent surveys and analysis, which aim to avoid infringing upon other companies' rights and exercise the intellectual property rights owned by MES, have been increasing, and we are taking measures to improve our capacity to conduct surveys.

Changes in the number of patents



Changes in the amount of R&D expenses





# Corporate Governance

## Directors / Corporate Auditors



Chairman and Representative Director  
Yasuhiko Katoh



President and Representative Director  
Takao Tanaka



Vice President and Representative Director  
Takaki Yamamoto



Director  
Shinsuke Minoda



Director  
Akira Nishihata



Director  
Kiyoshi Nakamura



Director  
Shinsuke Nippo



Director  
Tetsuro Koga



Director (Outside)  
Toru Tokuhisa



Director (Outside)  
Toshikazu Tanaka



Corporate Auditor (Full-time)  
Yasuo Irie



Corporate Auditor (Full-time)  
Takahiro Hiraiwa



Corporate Auditor (Outside)  
Osamu Endo



Corporate Auditor (Outside)  
Koichi Tanaka

### Directors

Chairman and Representative Director	Yasuhiko Katoh
President and Representative Director	Takao Tanaka
Vice President and Representative Director	Takaki Yamamoto
Director	Shinsuke Minoda
Director	Akira Nishihata
Director	Kiyoshi Nakamura
Director	Shinsuke Nippo
Director	Tetsuro Koga
Director (Outside)	Toru Tokuhisa
Director (Outside)	Toshikazu Tanaka

### Corporate Auditors

Corporate Auditor (Full-time)	Yasuo Irie
Corporate Auditor (Full-time)	Takahiro Hiraiwa
Corporate Auditor (Outside)	Osamu Endo
Corporate Auditor (Outside)	Koichi Tanaka

### Executive Officers

President	Takao Tanaka	CEO
Senior Managing Executive Officer	Takaki Yamamoto	General Manager of Export Control Dept., and CCO(*1)
Managing Executive Officer	Shinsuke Minoda	General Manager of Machinery & Systems Hq.
Managing Executive Officer	Akira Nishihata	General Manager of Ocean Business Promotion Dept., and CISO(*2)
Managing Executive Officer	Kiyoshi Nakamura	CFO(*3)
Managing Executive Officer	Shinsuke Nippo	General Manager of Engineering Hq.
Managing Executive Officer	Tetsuro Koga	General Manager of Ship & Ocean Project Hq.
Managing Executive Officer	Norihisa Fukuda	Director and Senior Managing Executive Officer, Minaminippon Shipbuilding Co., Ltd.
Managing Executive Officer	Shoichi Taguchi	General Manager of Tamano Works and Special Mission by President (in charge of manufacturing)
Executive Officer	Yasuki Kishimoto	Deputy General Manager of Machinery & Systems Hq. (in charge of material handling machinery) and General Manager of Oita Works
Executive Officer	Yukinori Torii	General Manager of Research & Development Hq.
Executive Officer	Katsuhiko Yoshida	Deputy General Manager of Engineering Hq. (in charge of plant engineering)
Executive Officer	Toshiro Miyake	Deputy General Manager of Ship & Ocean Project Hq. and General Manager of Tamano Shipyard, Ship & Ocean Project Hq.
Executive Officer	Ryoichi Oka	Deputy General Manager of Machinery & Systems Hq. (in charge of industrial machinery) and General Manager of Technoservice Dept., Machinery & Systems Hq.
Executive Officer	Yuichi Shiomi	General Manager of Finance & Accounting Dept.
Executive Officer	Yuji Kozai	General Manager of Corporate Planning Dept.
Executive Officer	Kiyohiko Murakami	General Manager of Machinery Factory, Machinery & Systems Hq.
Executive Officer	Keiji Kurosaka	Deputy General Manager of Engineering Hq. (in charge of energy solutions and infrastructure)
Executive Officer	Naokazu Fukui	General Manager of Marketing Promotion Dept.
Executive Officer	Shigeki Takitani	General Manager of Procurement Dept.
Executive Officer	Yasunori Iwamatsu	Deputy General Manager of Ship & Ocean Project Hq. and General Manager of Planning & Administration Dept., Ship & Ocean Project Hq.

(\*1) CCO stands for Chief Compliance Officer. (\*2) CISO stands for Chief Information Security Officer. (\*3) CFO stands for Chief Financial Officer.

## Corporate governance

### 1. Basic philosophy

Based on its Company Philosophy, Business Policy, and Management Policy, MES aims to ensure its sustainable growth and further improve its medium- and long-term corporate value. It recognizes the importance of the social nature of a company and takes into account the global environment, working to ensure that all of its stakeholders find the company beneficial to society. To this end, we have established a system for making fair and transparent decisions promptly and boldly, under which we continuously strive to enhance our corporate governance.

#### <Company Philosophy>

To continue working as a company trusted by society and individual through products and services we offer

#### <Business Policy>

To fulfill expectations and foster trust in people and society as a manufacturing company that offers products and services representing the culmination of our global business experience and years of advanced technology development in a wide range of fields

#### <Management policy>

Build further satisfaction for our customers

Provide safe and effective workplace environment for employees

Contribute to the development of society

Pursue profit for the longevity of the company

In accordance with the preceding basic philosophy concerning corporate governance, we will try to enhance our corporate governance based on the following basic policies.

(1) We ensure the substantive rights and equality of our shareholders.

(2) We collaborate appropriately with our shareholders and other stakeholders.

(3) We ensure the appropriate, voluntary disclosure of our corporate information and transparency.

(4) We clarify the roles and responsibilities of our Board of Directors, Corporate Auditors, and Board of Corporate Auditors.

(5) We hold dialogue with our shareholders to help support our sustainable growth and improve medium- and long-term corporate value.

### 2. Structure

MES is required by law to establish a Board of Corporate Auditors. The function fulfilled by the Board of Corporate Auditors together with the voluntarily established Personnel Advisory Committee and Compensation Advisory Committee form the structure for corporate governance at MES, and we have appointed accounting auditors. As of June 28, 2016, the MES Board of Directors consists of ten members. Two of these members are part-time outside directors. Moreover, our Board of Corporate Auditors consists of four members, two of which are part-time outside corporate auditors. We have also adopted an executive officer system to improve decision-making on vital matters by the Board of Directors, improve supervisory functions, and streamline business operations. The executive officers elected by the

Board of Directors are given executive authority related to business operations, and they perform their assigned duties under the supervision of the chief executive officer (CEO). The Personnel Advisory Committee is chaired by the president and consists of four directors, including two outside directors. It improves the transparency of the procedure for nominating candidates for directors and electing executive officers, and ensures the fairness of the procedure. The Compensation Advisory Committee is chaired by an outside director, and consists of four directors including the two outside directors. It improves the transparency of the procedure for determining the compensation for directors and executive officers, and ensures the appropriateness of the compensation standards and fairness of evaluations.

## Internal control system

### Basic philosophy

We view the objectives of our internal control system as "Assuring efficiency and work performance (achieving objectives)," "Assuring the reliability of financial reports," and "Complying with the law (compliance)." We are making efforts to reinforce and improve our internal control more than ever.

In our internal control system, the Total Risk Management and Internal Control Committee deliberates the basic policy regarding internal control required by the Companies Act,

the Financial Instruments and Exchange Act, and other matters. It also undertakes the company-wide promotion of measures based on the policy decided by management committees and other bodies.

To achieve our internal control objectives, we have established a business execution system, compliance system, a risk management system, and an internal control promotion system for financial reports. The internal auditing section (Auditing Department) confirms the efficacy of these systems.



## Systems of corporate governance and internal control

### 1. Business execution system

To execute business operations in accordance with the basic policy decided by the Board of Directors, we have established two managing committees: the Management Strategy Committee and the Management Committee. Deliberations are held based on the functions of each organization to promote rapid, flexible decision-making. As for the business execution system, we transferred the authority to execute business from directors to executive officers elected by the Board of Directors. This streamlines the execution of duties performed by directors.

### 2. Compliance systems

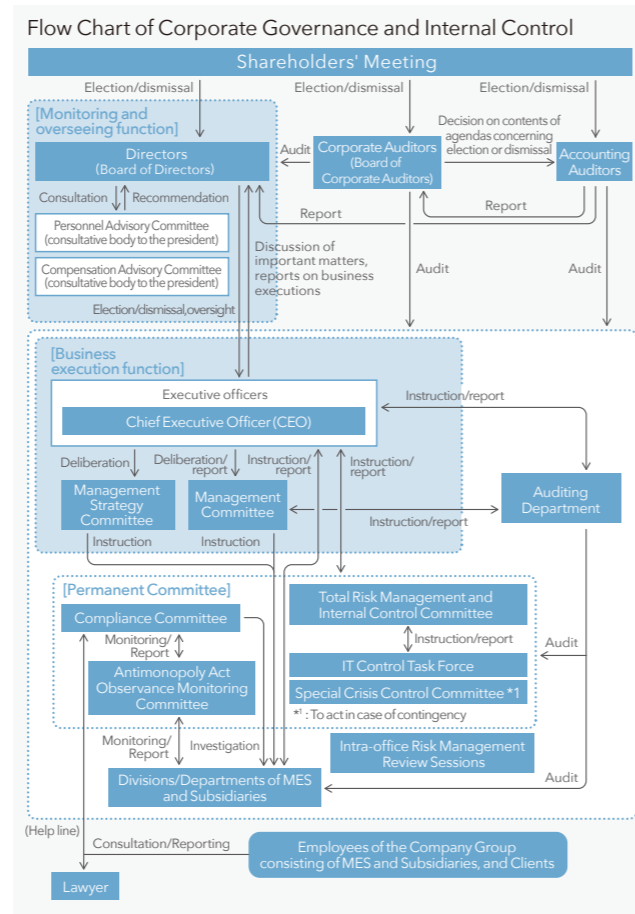
We operate our businesses by keeping legal compliance in mind, and continually review and reinforce our compliance systems. Specifically, we deliver the Corporate Code of Conduct to all officers and employees of the corporate group made up of MES and its domestic subsidiaries. We have also established a system in which guidebooks and collections of cases, which are materials used as references for daily operations, are available for review at all times. We distribute an English version of the Corporate Code of Conduct to our overseas subsidiaries and work with the presidents of those subsidiaries in a timely manner based on the situation of each area to confirm compliance systems and the status of their implementation. Likewise, we have established the Compliance Committee as an entity for promoting awareness of compliance policy and reporting results of surveys. To ensure legal compliance during activities aimed at winning new orders for public projects, each division and department conducts checks by themselves. We have also established an Antimonopoly Act Observance Monitoring Committee.

### 3. Risk management system

MES is promoting Total Risk Management System that systematically identifies and evaluates risks related to all aspects of business activities. This system is designed to ensure that we conduct business activities within the proper limit in which we can take risks. Under the Total Risk Management and Internal Control Committee, we promote group-wide risk management in line with the total risk management policy determined at the Management Strategy Committee. In regards to risks related to business operations, each headquarters holds Intra-office Risk Management Review Sessions and conducts risk analysis on their own. For orders received and things such as investment and loan projects, key members of relevant divisions and departments examine the risk management status before they are submitted to the

### 4. Internal control promotion system for financial reports

To assure the credibility of financial reports, basic policy concerning evaluation of internal control for financial reports is established at annual management committees and the



In addition, we have set up a "Help-line" to detect compliance problems in their early stages. Employees can directly consult or submit reports to either the Secretary General of the Compliance Committee or a lawyer.

Management Committee for deliberation.

To address information security risks, we have established the IT Control Task Force, a group-wide organization and subordinate body of the Total Risk Management and Internal Control Committee. This organization formulates basic policies on security measures. Following these basic policies, we promote specific measures such as formulating security policies, obtaining the latest information by cooperating with external organizations, monitoring network and IT equipment, taking countermeasures against attacks from the outside, and providing related education and training. In cases of contingency, the Special Crisis Control Committee stands ready to quickly cope with the problem.

Total Risk Management and Internal Control Committee evaluates the preparation and operation status of said internal control, and make corrections if necessary.

# Action for Social Responsibility



# Environmental Preservation

## Reducing annual CO<sub>2</sub> emissions by approx. 32,000 tons Start of operation of a mega-solar power plant on the premises of Oita Works

[Mega-solar power generation business at Oita Hiyoshibaru Mega-Solar Power Plant]

The joint project, which has been undertaken with ITOCHU Corporation and Kyudenko Corporation since 2014, has finally taken shape, with commercial operation starting in March 2016. A large-scale solar power plant has begun to produce environmentally-friendly energy on a vast area of land on the premises of MES Oita Works.



### Use of a vast area of land on the premises

Currently, fossil fuels constitute more than 80% of energy supplied in Japan, and most of these fuels are imported from other countries. The situation surrounding fossil fuels has been unstable, with the demand growing globally and the market prices becoming volatile. Fossil fuels also face environmental problems partly because they are sources of greenhouse gases. These circumstances have made it necessary to further promote the introduction of renewable energy—such as solar power, wind power, and biomass—to realize both a stable energy supply and lower the burden on the environment. To help spread the use of renewable energy, MES is taking part in an approximately 45-megawatt mega solar (large-scale solar power generation facility) project. It has also undertaken EPC (engineering, procurement, and construction) work. This project was carried out on the site of the former Hiyoshibaru Country Club, which was located on the vast premises of Oita Works, to maximize the solar power generation capacity.



Before development



After development

### Maintaining the rainwater slopes of the land

One feature of the design of the mega solar power plant is that solar panels have been set up on the existing slopes without leveling the overall site. This means that the rainwater slopes of the land remain unchanged, making it possible to use the drainage system of the golf course and limit the parts requiring drain pipe laying work to only the creeks and ponds. It also made it possible to limit land development work to partial earth cutting and filling of the greens and bunkers. As a result, the area for land development works was limited to around one-sixth of the overall site of the power plant. In addition, discussions about the maintenance operation method began in the design phase, which helped to minimize the area needed for service roads for the power plant. While mega solar power plants generally require 1.3 to 1.5 hectares of land per one megawatt, we were able to install solar panels for approximately 45 megawatts on a 46-hectare site. The overall design of the power plant was meant to reduce the environmental burden by limiting the area for land development and size of the facility. The electric facilities installed at the plant, such as high-voltage transformers, conform to the Top Runner standards. In addition to making the plant environmentally friendly, consideration was also given to lowering the energy consumption.



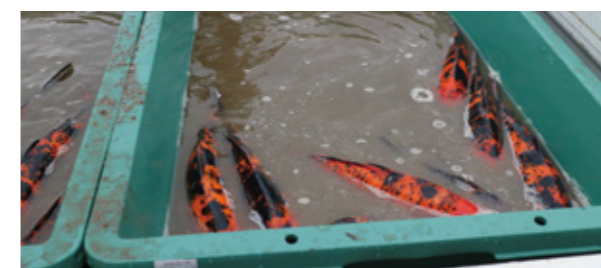
Solar panels set up on the existing rainfall slopes of the land

### Windbreak and protecting the wildlife

One feature of the construction work is that an effort was made to keeping as many of the trees surrounding the site as possible. The trees functioned as the windbreak for the golf course and prevented dust from being generated by the wind or other factors during the construction work. They also helped control the noise from the construction work. In addition, the trees make the power plant invisible from the outside, which is good for the landscape. Consideration was also given to protecting living things. More than 100 living such as carp, crucian carp and tortoises lived in the five ponds of the former Hiyoshibaru Country Club. Before those ponds were filled in, the animals were carefully moved using water-filled containers so that they would not be injured. They were relocated to a pond in the garden of the guesthouse that is located on land adjacent to the solar power plant.



Former Hiyoshibaru Country Club



Carp moved out by using containers

### Generating power equivalent to the annual power consumption of 9,300 homes

The expected annual electric-generating capacity of the Oita Hiyoshibaru Solar Power Plant is 52,500,110 kilowatt-hours. This is equal to the annual power consumption of approximately 9,300 ordinary homes. To lessen the environmental burden, the plant helps reduce CO<sub>2</sub> emissions by approximately 32,000 tons per year. We have also been proactive in pursuing other projects for generating power from renewable energy. For example, we operate a mega solar power generation facility with a capacity of approximately 22 megawatts on the same site as that of the Oita Hiyoshibaru Mega-Solar Power Plant, and one with a capacity of approximately 2 megawatts at Tamano Works. At Chiba Works, we operate one of the largest biomass power generation facilities in Japan, which has a capacity of 50 megawatts, and a wind power generation facility with a capacity of 1.5 megawatts. We continue working to contribute in various ways to improving the energy self-sufficiency rate and reducing the burden on the global environment.



High-voltage transformers that conform to the Top Runner standards



Panoramic view of the Oita Hiyoshibaru Mega-Solar Power Plant

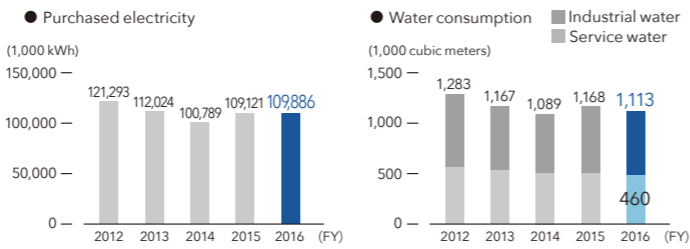
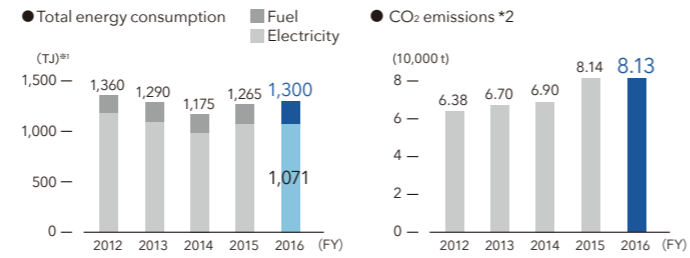


## ● Initiatives for promoting environmental preservation

As a manufacturer, MES places a great deal of importance on activities related to environmental preservation. These include conserving resources and energy, reducing waste, and properly managing chemical substances.

### Efforts to conserve energy and reduce CO<sub>2</sub> emissions

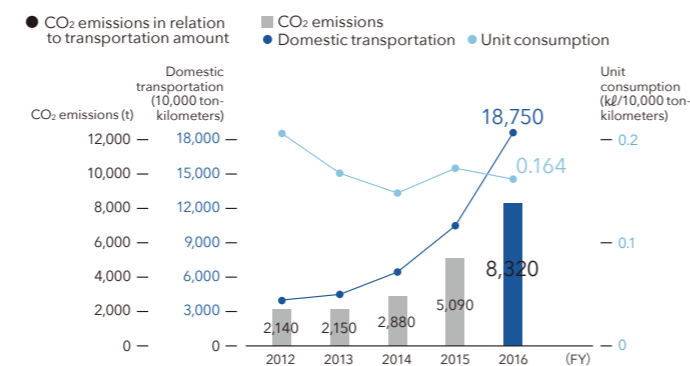
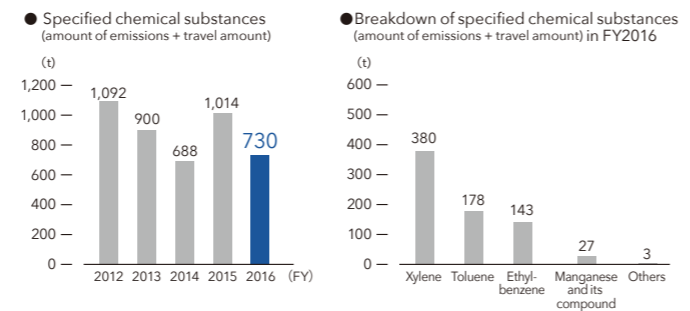
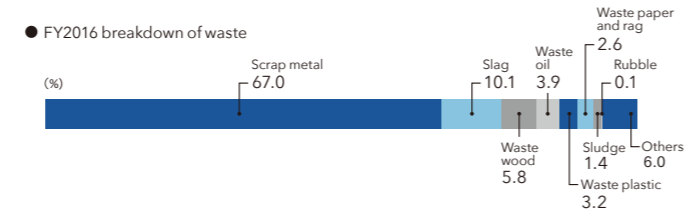
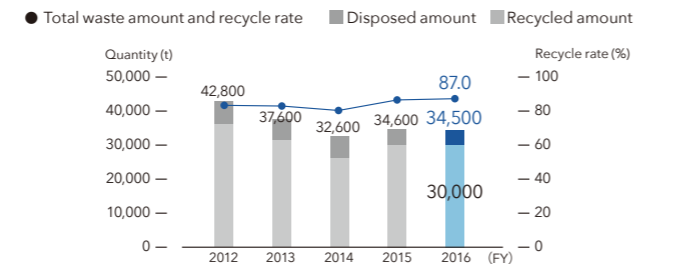
MES continues to promote efforts to reduce CO<sub>2</sub> emissions through activities such as switching the fuel for in-house power generation from heavy oil to natural gas. The graphs on the right show our total energy consumption, CO<sub>2</sub> emissions, and purchased electricity over the past five years. Corresponding with an increase in the production of small engines among marine diesel engines, which are our mainstay products, total energy consumption for fiscal 2015 increased by approximately 3% year on year. On the other hand, the CO<sub>2</sub> emission coefficient of each power company declined, causing CO<sub>2</sub> emissions to fall slightly from the fiscal 2015 level.



\*1 TJ: Tera Joule (=10<sup>12</sup>J)  
\*2 CO<sub>2</sub> emissions were calculated by following the Guidelines for Calculating Corporate Greenhouse Gases Emissions issued by the Ministry of the Environment. CO<sub>2</sub> emissions from electric power were calculated by using the adjusted CO<sub>2</sub> emission coefficient for designated electric enterprises that was also published by the Ministry of the Environment.

### Effective use of aquatic resources

The graph on the right shows the use of water by MES over the last five years. MES uses both service water (clean water) and industrial water (intermediate water). We strived to save water once again during fiscal 2016, and as a result of these efforts the amount of service and industrial water used fell by approximately 5% from the previous year.



### Initiatives for reducing waste

The unlawful dumping of industrial waste has become a major social problem. As a producer of industrial waste, MES makes every effort to fulfill its responsibilities in this area. One of these efforts is our strict management of manifest. This is accomplished through periodic on-site inspections of disposal companies. Even more important is our effort to reduce the amount of waste itself. To achieve this objective, we work hard to recycle and thoroughly classify our waste. The graphs on the right show the waste amount and recycle rates over the past five years, and a breakdown of waste for fiscal 2016. We worked to limit waste, and as a result of our efforts fiscal 2016 saw an approximately 0.4% reduction in waste from the previous fiscal year. Meanwhile, the recycle rate increased by approximately 0.3% to 87% because of the increased amount of slag that we recycled. We will continue our efforts to reduce waste and improve our recycle rate. In addition, we will continue to properly dispose of our waste through strict management.

### Proper management of specific chemical substances (PRTR substances)

The majority of chemical substances used by MES are the solvents and pigments contained in paint. The changes in the output and travel amount of specific chemical substances over the past five years are shown in the graph on the right. The other chart describes the breakdown of chemical substances used by MES for fiscal 2016. In May 2004, a partial revision to the Air Pollution Control Act was officially announced. By maintaining strict control of usage levels and by using low-emission airtight containers, MES continues working to conform to the objectives of this law.

### Promoting environment-friendly transportation

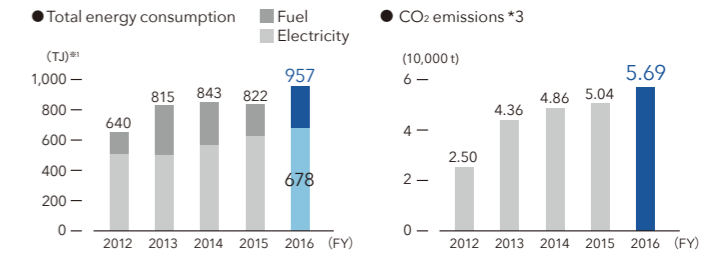
As a cargo owner, MES is actively tackling the issue of energy conservation in the field of transportation as well. One way in which we are doing this is by increasing the transportation loading rates while reducing the number of shipments by aggregating things such as shipping dates and destinations. We are also attempting to reduce the number of dedicated ships and expand the use of consolidated shipments. All of these activities are aimed at reducing both CO<sub>2</sub> emissions and energy consumption. The graph on the right shows MES's CO<sub>2</sub> emissions over the past five years, as well as domestic transportation (ten thousand tons-kilo) and unit consumption (= amount of energy consumed for transportation per amount transported). Domestic transportation in fiscal 2016 increased by approximately 80% from the previous fiscal year, while energy use per transportation decreased by approximately 7% year on year.

## ● Environmental management data of subsidiaries

The graphs below show environmental management data covering the past five years for the domestic factories of MES subsidiaries in Japan.

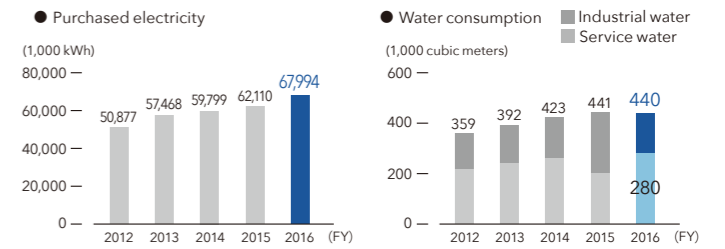
### Energy conservation and CO<sub>2</sub> emissions

The total amount of subsidiary energy consumption for fiscal 2016 increased approximately 16% from fiscal 2015 due to the increase in the number of subject domestic subsidiaries. During that same period, the amount of electricity purchased by subsidiaries increased by no more than approximately 9%. Despite the increase in the number of domestic subsidiaries, CO<sub>2</sub> emission in fiscal 2016 only increased by approximately 13% due to a decrease in the CO<sub>2</sub> emission coefficient.



### Effective use of aquatic resources

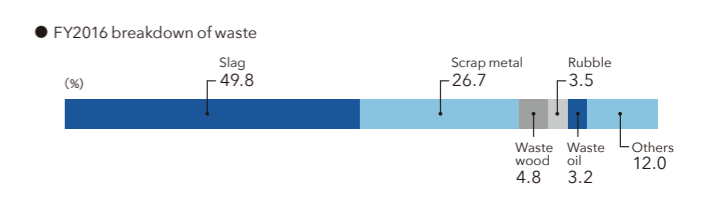
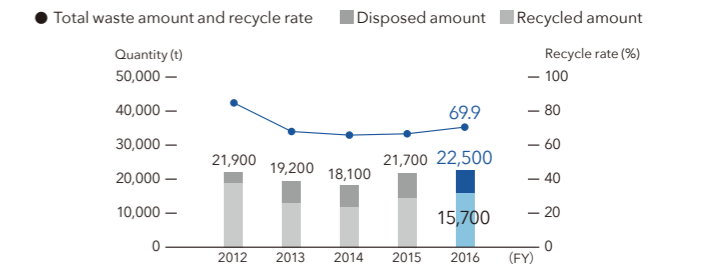
Despite the increase in the number of subject subsidiaries, the water consumption in fiscal 2016 decreased by 0.2% from the previous fiscal year.



\*3 CO<sub>2</sub> emissions were calculated by following the Guidelines for Calculating Corporate Greenhouse Gases Emissions issued by the Ministry of the Environment. CO<sub>2</sub> emissions from electric power were calculated by using the adjusted CO<sub>2</sub> emission coefficient for designated electric enterprises that was also published by the Ministry of the Environment.

### Data related to waste

Compared to fiscal 2015, the amount of waste for fiscal 2016 increased by approximately 4%. Domestic subsidiaries include those involved in iron casting, steel casting manufacturing, and ship repair operations that differ from operations conducted by MES. As such, the breakdown of waste from our subsidiaries also differed from MES. Approximately 50% of the waste produced by domestic subsidiaries was slag (fiscal 2015). Due to the progress in the recycling of slag, the recycle rate increased 2.5% from fiscal 2015 to approximately 70%.



## ● Environmental accounting

MES spent a total of 2,890 million yen on investments and costs related to environmental preservation efforts. A detailed breakdown of these expenditures is shown on the right. The categories for environmental preservation costs are based on the Environmental Conservation Cost Categories shown in the Environmental Accounting Guidelines 2005. These expenditures included a total of 340 million yen spent on investment, consisting of 300 million yen spent on research and development, 20 million yen spent on pollution prevention cost such as exhaust gas measures, and 20 million yen spent on energy conservation of global environment conservation. The total non-investment costs came to 2,550 million yen, which included 2,050 million yen spent on the research and development of environment-friendly energy-saving products, 340 million yen allocated to resource circulation cost such as waste treatment, 80 million yen spent on administration costs, and 70 million yen for pollution prevention cost.

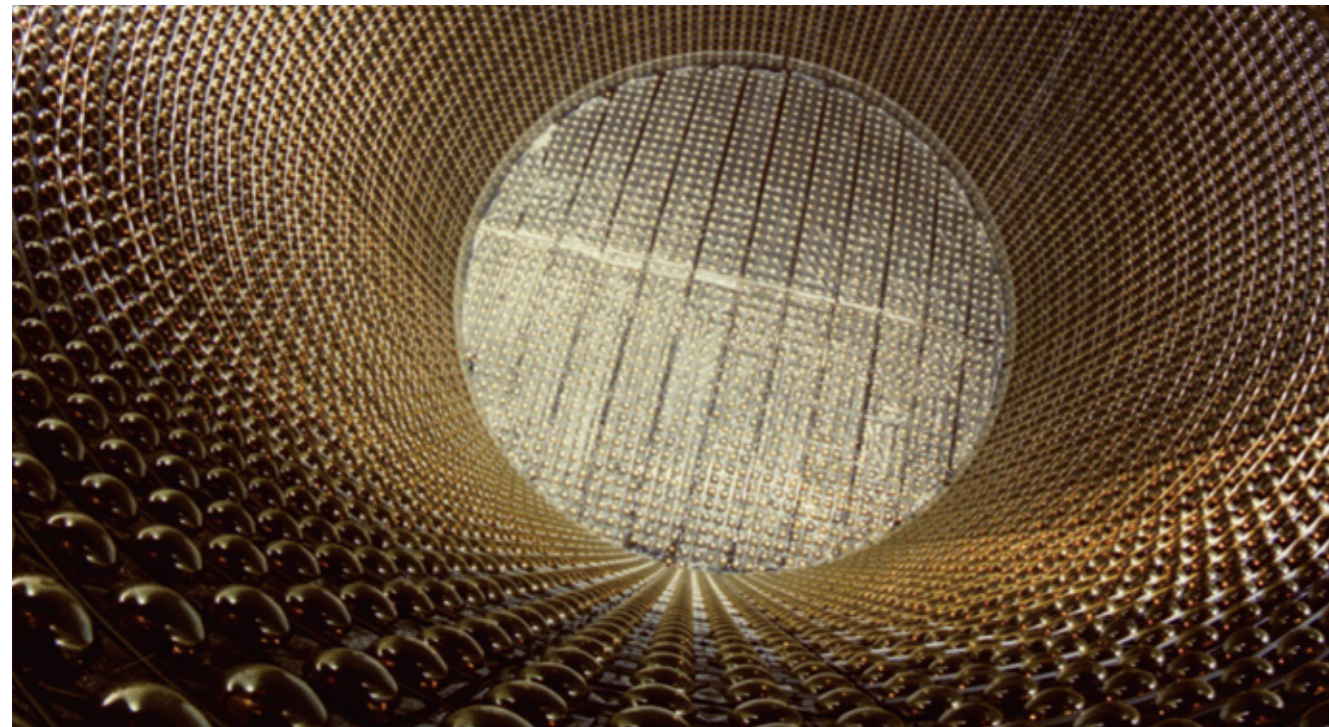
Environmental preservation cost (= sum of investment and cost: 2,891.5 million yen) (JPY million)

Categories corresponding to business activities	Investment	Cost	Major initiatives and effects
<b>1. Business Area Cost</b>			
(1) Pollution prevention cost	21.8	66.7	Exhaust gas measures, wastewater treatment, dust control and other pollution control
(2) Global environmental conservation cost	16.2	1.1	Energy saving
(3) Resource circulation cost	1.6	344.9	Waste treatment
<b>2. Upstream / downstream cost</b>	-	0.2	Use of recycled paper as copy paper
<b>3. Administration cost</b>	-	82.5	Environmental management system implementation, CSR reports, and environmental education
<b>4. Research &amp; development cost</b>	303.5	2,049.9	Development of various environment-friendly products
<b>5. Social activity cost</b>	-	0.8	Road cleaning, seminar sponsorship
<b>6. Environmental remediation cost</b>	-	2.4	Environmental damage countermeasure
<b>Total</b>	<b>343.1</b>	<b>2,548.4</b>	



# Social Contributions

MES carries out a wide variety of social contribution activities, in addition to its business activities, in line with our Company Philosophy, which calls on us "to continue working as a company trusted by society and individuals through products and services we offer."



Super-Kamiokande, a neutrino detector facility that was constructed at 1,000 meters underground in Kamioka Mine

## Science

**Professor Takaaki Kajita was awarded the Nobel Prize in Physics for his research based on results of observations made by using the Super-Kamiokande.**

In 2015, Takaaki Kajita, the Director of Institute for Cosmic Ray Research and Professor at the University of Tokyo, was awarded the Nobel Prize in Physics for discovering neutrino oscillations. The Super-Kamiokande is the neutrino detector facility that supported this research project, which has succeeded in expanding the intellectual frontiers of humankind. MES was involved in the construction of this facility from the schematic plan phase. In 2001 a chain reaction of implosions destroyed the original facility. Following this major accident, MES worked together with researchers to determine the cause of the chain reaction. A lecture meeting to commemorate Professor Kajita's winning the Nobel Prize was held in March 2016. The meeting was hosted by the Asahi Shimbun Company and co-sponsored by MES. High school and university students were invited to the meeting, and Professor Kajita sent a message to the young people. In addition to the Super-Kamiokande, MES has participated in the construction of the Japan Microgravity Center located in Kamisunagawa Town, Hokkaido, and KamLAND, a neutrino detector owned by Tohoku University. We will continue to provide technological support to researchers who enthusiastically take on new challenges.



Professor Takaaki Kajita talking about his research



High school and university students who dream of becoming scientists asked Professor Kajita many questions.

## Sports

**Activities of Showa Aircraft Industry Co., Ltd. to support top athletes**

Showa Aircraft Industry Co., Ltd. runs businesses that range from the development and operation of real estate such as MoriTown, a shopping facility, to the manufacture of special-purpose vehicles such as tankers and aircraft components in honey-comb structures, in Akishima City, Tokyo. As of February 1, 2015, this company employed Ms. Aki Yazawa, a top canoe slalom athlete, in cooperation with Athnavi, a Japanese Olympic Committee (JOC) program that provides support for top athletes looking for jobs. In addition, the company is an official partner for fiscal 2017 of the Japan Canoe Federation, and aims to help further the development of canoeing as a sport. Under the corporate philosophy of "helping to create a wealthy society and lifestyles," the company opened the MORIPARK Outdoor Village, a new type of outdoor shopping facility, in March 2015. Aiming to expose people to outdoor sports, this facility provides hands-on experiences that allow people to discover the fun of outdoor sports. The company will continue furthering the development of outdoor sports by supporting the canoeing sporting events and the activities of Ms. Yazawa.



Profile of Ms. Aki Yazawa

- Sporting event / Canoe slalom
- Career / March 2014: Graduated from Surugadai University  
February 2015: Joined Showa Aircraft Industry Co., Ltd.
- Hometown / Iida City, Nagano Prefecture
- Qualification / Granted the name of Nishikawa Namiha in the Nishikawa School of Nihon Buyo (Japanese classical dance)
- Major achievements
- 2015 May: Ranked 3rd in Bratislava Open (Slovakia)  
June: Ranked 27th in WPC World Cup 2015 -- Prague  
August: Ranked 29th in 2015 ICF Canoe Slalom World Cup in France  
September: Ranked 25th in 2015 ICF Canoe Slalom World Championships in London (result of the national team: 15th) (first qualifying round of Rio 2016 Olympics)  
October: Ranked 1st in 2015 Japan Cup Final Round  
November: Ranked 18th in Rio Olympic Test Event
- 2016 April: Ranked 1st in 2016 Japan Cup First Round  
Ranked 1st in 2016 NHK Cup Canoe Slalom All Japan Championships

## Culture

**Support for the activities of the Fureai Trio**

Children and people with disabilities have few opportunities to be exposed to classical music. The activities of Fureai Trio started with a desire to expose these people to live classical music and spiritually enrich their lives. The trio has given 410 public performances for more than 95,000 people. Since the activities of the Fureai Trio started in 2003, MES has not only co-sponsored its events, but has also provided volunteer services to support its concert activities.



We hold full-scale classical music concerts for people in local communities.

**Activities of the Mitsui Public Relations Committee**

MES has co-sponsored various cultural activities as a member company of the Mitsui Public Relations Committee. MES carries out various activities aimed at "enriching society by cherishing people and respecting diverse personal characteristics," working in line with the characteristics of the Mitsui Group described as "Mitsui is People." One example is the MITSUI Golden Glove Award, an award that stresses the importance of fielding in professional baseball. In 2015, the committee created the MITSUI Golden Takumi Award. Japanese traditional crafts face a number of problems, such as the lack of people to carry on these traditions. Through this award program, the committee provides opportunities for people to gain attention and praise for successfully carrying on traditional techniques and styles and combining them with innovative ideas, thereby helping to further the development of traditional crafts.



We held a memorable first award presentation ceremony.



# Financial Data

## Consolidated Balance Sheets

As of March 31, 2016 and 2015

### Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
<b>Current Assets</b>			
Cash and time deposits (Note1(r))	¥ 139,374	¥ 85,353	\$ 1,236,901
Receivables			
Trade	282,420	310,973	2,506,390
Others	13,923	13,311	123,562
Less allowance for doubtful accounts	(2,466)	(1,738)	(21,885)
Merchandise and finished goods	4,107	3,306	36,448
Raw materials and supplies	5,010	9,845	44,462
Work in progress	33,831	28,242	300,240
Deferred tax assets (Note11)	14,535	18,542	128,994
Short-term loans	22,591	55,027	200,488
Others (Notes 1(r) and 16)	24,497	19,690	217,403
<b>Total current assets</b>	<b>537,822</b>	<b>542,551</b>	<b>4,773,003</b>

### Property, Plant and Equipment (Note4)

Land (Note1(p))	271,437	271,356	2,408,919
Buildings and structures	199,667	198,584	1,771,983
Machinery, equipment and vehicles	195,474	196,587	1,734,771
Lease assets	17,649	20,829	156,629
Construction in progress	6,645	4,165	58,972
	690,872	691,521	6,131,274
<b>Less accumulated depreciation</b>	<b>(311,820)</b>	<b>(313,795)</b>	<b>(2,767,305)</b>
<b>Net property, plant and equipment</b>	<b>379,052</b>	<b>377,726</b>	<b>3,363,969</b>

### Intangible Assets

Intangible Assets	32,361	11,713	287,194
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### Investments, Long-term Loans and Other Assets

Investment securities (Notes 2, 3, and 4)	81,646	85,830	724,583
Long-term loans	28,313	22,287	251,269
Net defined benefit assets	250	8,684	2,219
Deferred tax assets (Note11)	20,763	15,056	184,265
Others (Note3)	16,573	13,220	147,080
Less allowance for doubtful accounts	(2,737)	(2,504)	(24,290)
<b>Total investments, long-term loans and other assets</b>	<b>144,808</b>	<b>142,573</b>	<b>1,285,126</b>
<b>Total assets</b>	<b>¥ 1,094,043</b>	<b>¥ 1,074,563</b>	<b>\$ 9,709,292</b>

The accompanying notes to the consolidated financial statements are an integral part of these balance sheets.

### Liabilities and Net Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
<b>Current Liabilities</b>			
Short-term borrowings (Notes 4 and 5)	¥ 27,861	¥ 17,468	\$ 247,258
Current portion of long-term indebtedness (Note6)	41,126	42,834	364,980
Lease obligations	2,146	2,662	19,045
Trade payables	245,636	247,657	2,179,943
Advances from customers	84,388	77,159	748,917
Accrued expenses	20,593	25,299	182,756
Accrued income taxes (Note11)	6,894	9,942	61,182
Deferred tax liabilities (Note11)	592	488	5,254
Provision for losses on construction contracts	10,123	17,123	89,839
Provision for product warranty	9,881	8,926	87,691
Asset retirement obligations	2	4	18
Others	23,267	33,287	206,487
<b>Total current liabilities</b>	<b>472,509</b>	<b>482,849</b>	<b>4,193,370</b>

### Long-term Liabilities

Long-term indebtedness (Notes 4 and 6)	170,887	128,012	1,516,569
Lease obligations	7,306	8,630	64,838
Liability for severance and retirement benefits			
For directors and corporate auditors	522	404	4,633
Net defined benefit liabilities	12,318	11,277	109,318
Deferred tax liabilities			
On reevaluation reserve for land (Notes 1(p) and 11)	15,086	21,312	133,884
Others (Note11)	51,697	49,371	458,795
Asset retirement obligations	1,287	1,302	11,422
Others	18,578	24,101	164,874
<b>Total long-term liabilities</b>	<b>277,681</b>	<b>244,409</b>	<b>2,464,333</b>

### Net Assets (Note8)

Common stock			
Authorized - 1,500,000,000 shares			
Issued - 830,987,176 shares	44,385	44,385	393,903
Capital surplus	18,812	18,248	166,951
Retained earnings	148,723	142,677	1,319,870
Treasury stock	(4,779)	(4,761)	(42,412)
Net unrealized holding gains(losses) on securities (Note2)	6,185	14,058	54,890
Unrealized gains(losses) on hedging derivatives	(7,654)	(9,719)	(67,926)
Revaluation reserve for land (Notes 1(p) and 11)	30,541	24,777	271,042
Foreign currency translation adjustments	11,531	12,705	102,334
Remeasurements of defined benefit plans	(12,969)	(5,646)	(115,096)
Subscription rights to shares	232	146	2,059
Non-controlling interests	108,846	110,435	965,974
<b>Total net assets</b>	<b>343,853</b>	<b>347,305</b>	<b>3,051,589</b>
<b>Total liabilities and net assets</b>	<b>¥ 1,094,043</b>	<b>¥ 1,074,563</b>	<b>\$ 9,709,292</b>

The accompanying notes to the consolidated financial statements are an integral part of these balance sheets.



## Consolidated Statements of Income

For the Years Ended March 31, 2016 and 2015

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Net Sales	¥ 805,414	¥ 816,520	\$ 7,147,799
Cost of Sales (Note1(q))	743,530	757,034	6,598,598
Gross profit	61,884	59,486	549,201
Selling, General and Administrative Expenses (Note1(q))	50,071	46,187	444,364
Operating income	11,813	13,299	104,837
Other Income (Expenses)			
Interest and dividend income	4,976	4,128	44,160
Interest expense	(3,232)	(2,769)	(28,683)
Amortization of net transition obligation (Note 9)	-	(1,929)	-
Loss on valuation of derivatives	-	(2,823)	-
Equity in earnings of unconsolidated subsidiaries and affiliates	4,838	4,022	42,936
Foreign currency exchange gain (losses)	(6,672)	-	(59,212)
Gain on disposal of non-current assets	522	1,029	4,633
Gain on sales of investment securities (Note 2)	3,297	137	29,260
Gain on valuation of derivatives	3,227	-	28,639
Gain on liquidation of subsidiaries and affiliates	587	-	5,209
State subsidy	712	-	6,319
Gain on sales of subsidiaries and affiliates' stocks	321	1,137	2,849
Gain on bargain purchase	-	4,768	-
Insurance income	3,117	-	27,662
Gain on forgiveness of debts	334	-	2,964
Reversal of provision for environmental preservation cost	1,730	-	15,353
Loss on disposal of non-current assets	(1,363)	(2,076)	(12,097)
Loss on impairment of non-current assets (Note 14)	(341)	(2,689)	(3,026)
Loss on sales of investment securities (Note 2)	(169)	-	(1,500)
Loss on valuation of investment securities	(419)	(0)	(3,718)
Loss on valuation of investment in capital of subsidiaries and affiliates	(112)	-	(994)
Loss on liquidation of subsidiaries and affiliates	(686)	(215)	(6,088)
Loss on reduction of non-current assets	(712)	-	(6,319)
Provision of allowance for doubtful accounts	(213)	-	(1,890)
Loss on liquidation of business	-	(984)	-
Loss on shipping accident	(1,160)	-	(10,295)
Others, net	127	971	1,127
Total	8,709	2,707	77,289
Profit before income taxes	20,522	16,006	182,126
Income Taxes (Note 11)			
Current	10,621	12,985	94,258
Deferred	2,038	(6,884)	18,087
Profit	7,863	9,905	69,781
Profit attributable to non-controlling interests	263	442	2,333
Profit attributable to owners of parent	¥ 7,600	¥ 9,463	\$ 67,448
Amounts Per Share of Common Stock (Notes 1(a) and 8)			
Earnings per share	¥ 9.40	¥ 11.63	\$ 0.083
Dividends, applicable to the year	¥ 4.00	¥ 2.00	\$ 0.035

## Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2016 and 2015

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Profit	¥ 7,863	¥ 9,905	\$ 69,781
Other comprehensive income (Note 15)			
Net unrealized holding gains on securities	(8,540)	7,722	(75,790)
Unrealized gains (losses) on hedging derivatives	2,988	(2,904)	26,518
Revaluation reserve for land	5,989	2,438	53,150
Foreign currency translation adjustments	776	7,145	6,887
Remeasurements of Defined Benefit Plans	(7,354)	3,337	(65,264)
Share of other comprehensive income of affiliates accounted for using equity method	(847)	349	(7,517)
Total	(6,988)	18,087	(62,016)
Comprehensive income	¥ 875	¥ 27,992	\$ 7,765
Comprehensive income attributable to owners of parent	¥ (768)	¥ 23,365	\$ (6,816)
Comprehensive income attributable to non-controlling interests	¥ 1,643	¥ 4,627	\$ 14,581

## Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2016 and 2015

	Thousands		Japanese Yen (millions)										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
Beginning balance as of April 1, 2014	830,987	44,385	18,178	136,289	(855)	7,360	(2,649)	22,516	4,252	(9,036)	67	103,102	323,609
Cumulative effects of changes in accounting policies				(1,593)								(55)	(1,648)
Restated balance		44,385	18,178	134,696	(855)	7,360	(2,649)	22,516	4,252	(9,036)	67	103,047	321,961
Cash dividends paid				(1,656)									(1,656)
Profit attributable to owners of parent				9,463									9,463
Change of scope of consolidation				(2)									(2)
Purchases of treasury stock					(4,025)								(4,025)
Sales of treasury stock			70		119								189
Transfer from revaluation reserve for land				176									176
Net changes of items other than those in Shareholders' equity						6,698	(7,070)	2,261	8,453	3,390	79	7,388	21,199
Beginning balance as of April 1, 2015	830,987	44,385	18,248	142,677	(4,761)	14,058	(9,719)	24,777	12,705	(5,646)	146	110,435	347,305
Cash dividends paid				(1,616)									(1,616)
Profit attributable to owners of parent				7,600									7,600
Change of scope of consolidation				(24)									(24)
Change of scope of equity method				(25)									(25)
Purchases of treasury stock					(18)								(18)
Sales of treasury stock			(0)		0								0
Transfer from revaluation reserve for land				111									111
Change in treasury shares of parent arising from transactions with non-controlling shareholders			564										564
Net changes of items other than those in Shareholders' equity						(7,873)	2,065	5,764	(1,174)	(7,323)	86	(1,589)	(10,044)
Balance as of March 31, 2016	830,987	44,385	18,812	148,723	(4,779)	6,185	(7,654)	30,541	11,531	(12,969)	232	108,846	343,853

	Thousands		U.S. Dollars (thousands) (Note1(a))										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
Beginning balance as of April 1, 2015	830,987	393,903	161,945	1,266,214	(42,252)	124,760	(86,253)	219,888	112,753	(50,107)	1,296	980,076	3,082,223
Cash dividends paid				(14,342)									(14,342)
Profit attributable to owners of parent				67,448									67,448
Change of scope of consolidation				(213)									(213)
Change of scope of equity method				(222)									(222)
Purchases of treasury stock					(160)								(160)
Sales of treasury stock			(0)		0								0
Transfer from revaluation reserve for land				985									985
Change in treasury shares of parent arising from transactions with non-controlling shareholders			5,006										5,006
Net changes of items other than those in Shareholders' equity						(69,870)	18,327	51,154	(10,419)	(64,989)	763	(14,102)	(89,136)
Balance as of March 31, 2016	830,987	393,903	166,951	1,319,870	(42,412)	54,890	(67,926)	271,042	102,334	(115,096)	2,059	965,974	3,051,589



## Consolidated Statements of Cash Flows

Cash Flows from Operating Activities :	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Profit before income taxes	¥ 20,522	¥ 16,006	\$ 182,126
Adjustments to reconcile Profit before income taxes to net cash provided by (used in) operating activities			
Depreciation and amortization	17,945	17,457	159,256
Loss on impairment of non-current assets	341	2,689	3,026
Amortization of goodwill	922	495	8,182
Gain on bargain purchase	-	(4,768)	-
Share-based compensation expenses	86	79	763
Increase (Decrease) of allowance for doubtful accounts	964	(1,473)	8,555
Increase in net defined benefit liability	523	247	4,641
Increase in net defined benefit asset	(2,165)	(3,563)	(19,213)
Interest and dividend income	(4,976)	(4,128)	(44,160)
Interest expense	3,232	2,769	28,683
Equity in earnings of unconsolidated subsidiaries and affiliates	(4,838)	(4,022)	(42,936)
Foreign currency exchange gain, net	4,162	2,082	36,936
Gain on sales of investment securities	(3,128)	(137)	(27,760)
Gain on sales of subsidiaries and affiliates' stocks	(321)	(1,137)	(2,849)
Loss on valuation of investment securities	419	0	3,718
Loss on valuation of investments in capital of subsidiaries and affiliates	112	-	994
Loss on liquidation of business	-	984	-
Loss on liquidation of subsidiaries and affiliates	99	215	879
Loss on disposal of non-current assets, net	841	1,047	7,464
Loss on reduction of non-current assets	712	-	6,319
State subsidy	(712)	-	(6,319)
Gain on forgiveness of debt	(334)	-	(2,964)
Insurance income	(3,117)	-	(27,662)
Changes in assets and liabilities :			
Decrease (increase) in			
Trade receivables	30,642	(74,521)	271,938
Inventories	(4,945)	(4,204)	(43,885)
Other assets	(5,629)	(2,440)	(49,955)
Increase (decrease) in			
Trade payables	(2,661)	57,485	(23,615)
Other liabilities	(14,036)	9,803	(124,565)
Others, net	(183)	8,725	(1,624)
Sub-total	34,477	19,690	305,973
Interest and dividend received	9,078	5,517	80,564
Interest paid	(2,933)	(2,895)	(26,029)
Proceeds from insurance income	3,117	-	27,662
Income taxes paid	(13,936)	(7,144)	(123,678)
Net cash provided by (used in) operating activities	¥ 29,803	¥ 15,168	\$ 264,492

Cash Flows from Investing Activities :	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Net decrease in time deposits	1,751	2,630	15,540
Capital expenditure	(16,023)	(16,603)	(142,199)
Proceeds from sales of non-current assets	747	1,412	6,629
Purchases of investment securities	(52)	(4)	(461)
Proceeds from sales of investment securities	6,816	340	60,490
Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation (Note 1(r))	(15,155)	-	(134,496)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	221	-	1,961
Purchase of shares of subsidiaries and affiliates	(10,695)	(8,040)	(94,915)
Proceeds from sales of shares of subsidiaries and affiliates	-	1,519	-
Disbursements of loans receivable	(77,260)	(38,800)	(685,659)
Collection of loans receivable	74,789	24,446	663,729
Proceeds from subsidy income	712	-	6,319
Others, net	(451)	714	(4,002)
Net cash provided by (used in) investing activities	¥ (34,600)	¥ (32,386)	\$ (307,064)

## Cash Flows from Financing Activities :

Net increase (decrease) in short-term borrowings	12,444	(6,322)	110,437
Proceeds from long-term indebtedness	68,683	29,156	609,540
Repayments of long-term indebtedness	(28,568)	(37,079)	(253,532)
Repayments of lease obligations	(1,540)	(3,428)	(13,667)
Proceeds from issuance of bonds	10,000	10,000	88,747
Repayments on bonds	(10,000)	-	(88,747)
Purchases of treasury stock	(18)	(4,026)	(160)
Cash dividends	(1,612)	(1,653)	(14,306)
Dividends paid to non-controlling interests	(2,116)	(1,215)	(18,779)
Proceeds from share issuance to non-controlling shareholders	-	9,769	-
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	944	-	8,378
Others, net	0	424	0
Net cash provided by (used in) financing activities	¥ 48,217	¥ (4,374)	\$ 427,911
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,464)	3,904	(21,867)
Net increase (decrease) in Cash and Cash Equivalents	40,956	(17,688)	363,472
Increase due to changes in scope of consolidation	127	427	1,127
Cash and Cash Equivalents at Beginning of Year	94,665	111,926	840,122
Cash and Cash Equivalents at End of Year (Note1(r))	¥ 135,748	¥ 94,665	\$ 1,204,721



# Notes to Consolidated Financial Statements

## 1. Significant Accounting and Reporting Policies

The following is a summary of the significant accounting and reporting policies adopted by the Mitsui Engineering & Shipbuilding Group (the "Group"), which consists of Mitsui Engineering & Shipbuilding Co., Ltd. ("MES") and its consolidated subsidiaries ("Subsidiaries") in the preparation of the accompanying consolidated financial statements.

### (a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Group have been prepared in accordance with the provisions set forth in the "Japanese Financial Instruments and Exchange Act" and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the overseas Subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile ("Local GAAP") and significant differences between Japanese GAAP and Local GAAP are adjusted in consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Finance Bureau of the Ministry of Finance as required by the "Financial Instruments and Exchange Act". Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### (b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Group, over which MES has power of control through majority voting rights or existence of certain conditions requiring control by MES.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

The assets and liabilities of the Subsidiaries, including the portion attributable to non-controlling shareholders were evaluated using the fair value at the time MES acquired control of the respective subsidiaries.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by the equity method.

Goodwill is generally amortized over certain periods on the straight-line method.

Fiscal years of some Subsidiaries end on the 31st of December. MES consolidates these subsidiaries' financial statements as of each subsidiary's latest fiscal year and significant transactions occurred between each subsidiary's fiscal year-end and MES's fiscal year-end are adjusted on consolidation.

### (c) Revenue Recognition

Revenue and costs associated with construction contracts

1) Construction of its certainty of achievement on the progressed portion until the fiscal year end can be recognized:

The percentage-of-completion method  
(The progress of work is mainly measured by the percentage of cost method)

2) Construction other than above:

The completed-contract method

Revenues and costs of sales on finance lease transactions are recognized when lease payments are received.

### (d) Securities

MES and its domestic Subsidiaries examined the intent of holding each security and classified those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). MES and its domestic Subsidiaries did not have trading securities or held-to-maturity debt securities.

Equity securities issued by Subsidiaries and affiliated companies, which are not accounted for by the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Fair market value is calculated using mainly the average price of securities over one month before the consolidated balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for by the equity method, and available-for-sale securities decline significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (e) Derivative Transaction and Hedge Accounting

Japanese accounting standard for financial instruments requires MES and domestic Subsidiaries to measure derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the instruments are applied to hedged items.

In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedging items are accounted for in the following manner.

- 1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,
  - i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the consolidated statements

- ii) the difference between the Japanese yen amount converted by the contracted forward foreign exchange rate and the Japanese yen amount by spot rate at the trade date of the contract is allocated to every fiscal period over the term of the contract.

- 2) If forward foreign exchange contracts are entered into to hedge a future transaction (be contracted but not stated in financial statements) denominated in foreign currency, recognition of gains and losses resulting from fair value of the forward foreign exchange contracts are deferred until the contracts are applied to the hedged item.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was allocated.

### (f) Allowance for Doubtful Accounts

In order to provide for credit losses, non recoverable amount is recorded based on write-off ratio for general accounts. For doubtful accounts, collectability is examined and recoverable amount is estimated individually.

### (g) Inventories

Merchandise, finished goods, raw materials and supplies are stated at cost determined mainly by the moving-average method (except steels for new shipbuilding, which are by identified cost method) (Balance sheet value reflects downturn in profitability). Work in progress is stated using identified cost method (Balance sheet value reflects downturn in profitability). Construction costs, which are accumulated in inventory, consist of direct materials, labor, other items directly attributable to each contract and an allocable portion of general manufacturing and construction overheads.

### (h) Property, Plant and Equipment and Depreciation

Depreciation of plant and equipment is mainly computed using the declining-balance method over their estimated useful lives. Buildings, acquired on and after April 1, 1998, are depreciated using the straight-line method. Ordinary maintenance and repairs are charged to the profit and loss account as incurred.

### (i) Intangible assets

Intangible assets primarily consist of software, customer-related assets and goodwill. Software for own use is depreciated using the straight-line method over the estimated useful life (five years). Customer-related assets is also amortized using the straight-line method based on effected period (mainly eighteen years). Goodwill is generally amortized using the straight-line method over a reasonable period in which the economic benefits are expected to be realized.

### (j) Employees' Severance and Retirement Benefits

In calculating retirement benefit obligations, the benefit formula basis is used to allocate projected retirement benefits over the period to the end of this consolidated fiscal year. Actuarial gains and losses are recognized in the consolidated statements of income commencing with the following year using the straight-line method mainly for five or ten years. Prior service costs are recognized in the consolidated statements of income using the straight-line method for one or five years.

After being adjusted for tax effect, unrecognized actuarial gains and losses, unrecognized prior service costs are added to "Remeasurements of defined benefit plans", an item within "Accumulated other comprehensive income(net assets)".

### (k) Liabilities for Severance and Retirement Benefits for Directors and Corporate Auditors

Amount is recorded based on internal regulations in order to prepare for payment of retirement benefit of directors and corporate auditors.

### (l) Translation of Foreign Currency Accounts

Under Japanese accounting standard for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included in the current statements of income.

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at each balance sheet date, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are also translated at the exchange rates in effect at each balance sheet date.

### (m) Provision for Losses on Construction Contracts

Provision for losses on construction contracts, etc., is provided based on an estimate of the total losses which can probably occur for the next fiscal year and beyond with respect to construction projects, etc., on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

### (n) Provision for Product Warranty

Provision for product warranty for ships and other products is provided based on the estimated amounts calculated by using mainly the average proportion of product warranties against sales amounts for past two years.

### (o) Income Taxes

Deferred income tax is recognized from temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.



(p) Revaluation Reserve for Land

The land used for business operations is revaluated based on real estate tax value on March 31, 2000 and March 31, 2002 respectively, in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the "Law") effective March 31, 1998. The related unrealized gain, net of income taxes was recorded as "Revaluation reserve for land" in Net assets and the deferred income tax effects were recorded as Deferred tax liabilities on "Revaluation reserve for land" in Long-term liabilities.

According to the Law, revaluation of the land is not permitted at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation losses are ¥38,972 million (\$345,864 thousand) and ¥38,778 million as of March 31, 2016 and 2015, respectively.

(q) Research and Development

Costs relating to research and development activities are charged to the profit and loss account as incurred. The amounts for the years ended March 31, 2016 and 2015 were ¥3,472 million (\$30,813 thousands) and ¥3,508 million, respectively.

(r) Cash Flow Statement

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits including short-term loans and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents. Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Cash and time deposits	¥ 139,374	¥ 85,353	\$ 1,236,901
Time deposits with maturities exceeding 3 months	(3,626)	(4,686)	(32,180)
Cash equivalents included in short-term loans	-	13,998	-
Cash and cash equivalents	¥ 135,748	¥ 94,665	\$ 1,204,721

Acquisition cost and net payments for assets and liabilities of TGE Marine AG and its subsidiaries, newly consolidated subsidiaries acquired through stock purchase, for the year ended March 31, 2016 were as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 10,762	\$ 95,509
Non-current assets	8,904	79,020
Goodwill	14,472	128,435
Current liabilities	(7,501)	(66,569)
Non-current liabilities	(4,510)	(40,025)
Non-controlling interests	(1)	(9)
Acquisition cost of stock	¥ 22,126	\$ 196,361
Cash and cash equivalents of newly consolidated subsidiaries	(6,971)	(61,865)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 15,155	\$ 134,496

(s) Finance Lease Transactions without Transfer of Ownership

Lessee:

The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period. The residual value is the guaranteed residual value in case such value is set forth in the lease contract but otherwise is zero value.

Lessor:

Revenues and costs of sales on finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are recognized when lease payments are received.

(t) Reclassifications

Certain reclassifications have been made in the financial statement of the previous fiscal year to conform to the classification used in this fiscal year. These reclassifications had no effect on previously reported profit or net assets.

(u) Additional information

Transfer of non-current assets

MES resolved at its Board of Directors' Meeting held on February 25, 2016, to transfer non-current assets.

(1) Reason of transfer

In order to reform the business structure and improve the financial strength through effective utilization of assets, MES decided to transfer the Land and buildings of the rental warehouse and the dormitory which it owns in Shinonome, Koto ward, Tokyo.

(2) Details of the transferred assets

a. The rental warehouse

Address: 11-28, Shinonome 1-chome, Koto ward, Tokyo

Land surface area: 10,566.57 m<sup>2</sup>

Total floor area: 5,779.62 m<sup>2</sup>

Note: The borrower is to vacate the rental warehouse by August, 2016.

b. The dormitory

Address: 11-34, Shinonome 1-chome, Koto ward, Tokyo

Land surface area: 2,989.73 m<sup>2</sup>

Total floor area: 2,835.09 m<sup>2</sup>

Note: MES has no notable capital, personal, or transactional relationships with the acquirers. Furthermore, the acquirers do not constitute a related party of MES.

(3) Timing of transfer

Date of Board of Directors' resolution: February 25, 2016

Contract date: February 26, 2016

Scheduled date of property transfer: September 30, 2016

(4) Impact on consolidated gains and losses

MES projects that gain on sales of non-current assets of approximately ¥16,804 million (\$149,130 thousands) will be recorded in the second quarter of fiscal year 2016.

(v) Changes in accounting and reporting policies

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013, hereinafter "Business Combinations Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" ASBJ Statement No. 22, September 13, 2013, hereinafter "Consolidated Accounting Standard"), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013, hereinafter "Business Divestitures Accounting Standard") are applied from the beginning of this consolidated fiscal year. Differences due to fluctuations in the equity of subsidiaries remaining under control of the parent company are recorded as capital surplus and changed to the accounting treatment of recording acquisition related cost as expenses for the consolidated accounting period.

For business combination conducted after the beginning of this consolidated fiscal year, MES conducted a review of amounts allocated as acquisition costs based on the use of provisional accounting treatments and reflecting this in the consolidated financial statements for the consolidated fiscal year during which the date of the business combination falls. Additionally, MES changed the indication of net income and changed from the indication of minority interests to non-controlling interests. To reflect these changes, the consolidated financial statements for the previous fiscal year were modified.

The application of accounting standards related to business combination is in accordance with the transitional handling outlined in Business Combinations Accounting Standard No. 58-2(4), Consolidated Accounting Standard No. 44-5(4), and Business Divestitures Accounting Standard No. 57-4(4). These standards will be applied moving forward as of the beginning of the fiscal year under review.

As a result, operating income for the consolidated accounting period decreased by ¥415 million (\$3,683 thousands), and profit before income taxes decreased by ¥1,259 million (\$11,173 thousands). Furthermore, capital surplus as of the end of the fiscal year under review increased by ¥564 million (\$5,005 thousands).

In the consolidated cash flow statement for the fiscal year under review, cash flow related to the sale of subsidiary stock not requiring a change in the scope of consolidation is recorded under "Cash flow from financing activities" and cash flow related to expenses incurred due to the acquisition of subsidiary stock requiring a change in the scope of consolidation is recorded under "Cash flow from operating activities." Capital surplus in Consolidated Statements of Changes in Net Assets of the fiscal year under review increased by ¥564 million (\$5,005 thousands). The effect on per-share information is recorded in the relevant place.

2. Marketable Securities and Investment Securities

(a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2016 and 2015:

2016:	Japanese Yen (millions)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 15,519	¥ 26,302	¥ 10,783
Sub Total	15,519	26,302	10,783
Securities with book values not exceeding acquisition costs:			
Equity securities	7,269	6,310	(959)
Sub Total	7,269	6,310	(959)
Total	¥ 22,788	¥ 32,612	¥ 9,824

2015:	Japanese Yen (millions)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 22,088	¥ 45,404	¥ 23,316
Sub Total	22,088	45,404	23,316
Securities with book values not exceeding acquisition costs:			
Equity securities	4,032	3,283	(749)
Sub Total	4,032	3,283	(749)
Total	¥ 26,120	¥ 48,687	¥ 22,567

2016:	U. S. Dollars (thousands)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 137,726	\$ 233,422	\$ 95,696
Sub Total	137,726	233,422	95,696
Securities with book values not exceeding acquisition costs:			
Equity securities	64,510	55,999	(8,511)
Sub Total	64,510	55,999	(8,511)
Total	\$ 202,236	\$ 289,421	\$ 87,185



(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Proceeds from sales of available-for-sale securities			
Securities	¥ 6,316	¥ 340	\$ 56,053
Bonds	500	-	4,437
Realized gains on sales of available-for-sale securities			
Securities	¥ 3,297	¥ 137	\$ 29,260
Bonds	-	-	-
Realized losses on sales of available-for-sale securities			
Securities	¥ 169	¥ -	\$ 1,500
Bonds	-	-	-

### 3. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2016 and 2015 were ¥46,300 million (\$410,898 thousand) and ¥33,492 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2016 and 2015 were ¥5,964 million (\$52,929 thousand) and ¥5,978 million, respectively.

### 4. Pledged Assets

Assets pledged as collateral for short-term borrowings and long-term indebtedness as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Land	¥ 5,123	¥ 5,123	\$ 45,465
Buildings and structures	305	325	2,707
Machinery, equipment and vehicles	15,084	16,674	133,866
Investment securities	530	151	4,704
Cash and deposits	625	-	5,546
	¥ 21,667	¥ 22,273	\$ 192,288

Short-term borrowings and long-term indebtedness secured by the above pledged assets as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Short-term borrowings	¥ -	¥ 1,100	\$ -
Long-term loan payable	15,787	17,241	140,105
	¥ 15,787	¥ 18,341	\$ 140,105

### 5. Short-Term Borrowings

Short-term borrowings represent notes payable to banks due within twelve months. The average interest rate for each term is summarized below:

	2016	2015
Average interest rate for each term	0.69%	1.10%

### 6. Long-Term Indebtedness

Long-term indebtedness as of March 31, 2016 and 2015 is summarized below:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Secured by mortgages on plant and equipment-			
0.40% to 2.27% loans from Japanese banks, due on various dates through 2021	¥ 15,787	¥ 17,241	\$ 140,106
Unsecured or non-guaranteed-			
0.92% bonds, due January 28, 2016	-	10,000	-
1.08% bonds, due June 15, 2017	10,000	10,000	88,748
1.47% bonds, due January 26, 2018	5,000	5,000	44,373
1.14% bonds, due December 12, 2019	5,000	5,000	44,373
0.63% bonds, due December 12, 2019	5,000	5,000	44,373
0.62% bonds, due September 14, 2020	5,000	-	44,373
1.03% bonds, due December 10, 2021	5,000	5,000	44,373
1.01% bonds, due September 14, 2022	5,000	-	44,373
0.22% to 2.27% loans from banks, insurance companies and trading companies due on various dates through 2027	156,226	113,605	1,386,457
	212,013	170,846	1,881,549
Less: Current portion included in current liabilities	(41,126)	(42,834)	(364,980)
	¥ 170,887	¥ 128,012	\$ 1,516,569

The aggregate annual maturities of long-term indebtedness are summarized below:

Year ended March 31,	Japanese Yen (millions)	U.S.Dollars (thousands)
2017	¥ 41,126	\$ 364,980
2018	47,047	417,527
2019	41,388	367,306
2020	27,077	240,300
2021 and thereafter	55,375	491,436
	¥ 212,013	\$ 1,881,549

### 7. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at the Group as of March 31, 2016 was as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Total overdraft facilities and lending commitments	¥ 64,425	\$ 571,752
Less amounts currently executed	2,142	19,010
Unexecuted balance	¥ 62,283	\$ 552,742

### 8. Net Assets and Per Share Data

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution in the shareholders' meeting or could be capitalized by a resolution in the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that MES can distribute as dividends is calculated based on the non-consolidated financial statements of MES in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 28, 2016, the shareholders approved cash dividends amounting to ¥3,232 million (\$28,683 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. This type of appropriations is recognized in the period in which they are approved by the shareholders.

Net income per share is based on the weighted average number of shares of common stock outstanding during each period. Cash dividends per share represent the cash dividends declared applicable to the respective year.

### 9. Liability for Severance and Retirement Benefits

#### (a) Overview of adopting severance and retirement benefits plans

The Group has system of funded and unfunded severance and retirement benefits, and defined contribution pension plans.

Severance and retirement benefits (all funded) pay out lump-sum payment or annual pension based on salary and length of service.

Part of funded severance and retirement benefits is entrusted.

Lump-sum payment (part of which becomes funded as a result of benefit trust although the system is unfunded) is paid out based on salary and length of service as retirement benefits.

Some domestic Subsidiaries have adopted a "simpler method" to calculate liability for severance and retirement benefits for employees.

#### (b) Breakdown of information concerning severance and retirement benefits

i) Movements of severance and retirement benefit obligation:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Balance at beginning of year	¥ 47,811	¥ 46,819	\$ 424,308
Cumulative effect of change in accounting policy	-	2,574	-
Restated balance at beginning of year	47,811	49,393	424,308
Current service costs	2,407	2,306	21,361
Interest costs	468	566	4,153
Actuarial differences on pension plan obligation	2,855	2,106	25,337
Benefits paid	(4,858)	(6,306)	(43,113)
Others	34	(254)	302
Balance at end of year	¥ 48,717	¥ 47,811	\$ 432,348



ii) Movements of pension assets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Balance at beginning of year	¥ 45,219	¥ 40,071	\$ 401,305
Expected return on pension assets	10	11	89
Actuarial differences on pension assets	(8,596)	5,070	(76,287)
Contribution to pension plans	165	187	1,464
Benefits paid	(186)	(152)	(1,651)
Others	37	31	328
Balance at end of year	¥ 36,649	¥ 45,218	\$ 325,248

iii) Reconciliation of projected retirement benefit obligation and net defined benefit assets/liabilities recorded in the consolidated balance sheets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Retirement benefit obligation (funded non-contributory)	¥ 40,387	¥ 39,631	\$ 358,422
Less fair value of pension assets	(36,649)	(45,218)	(325,248)
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	8,330	8,180	73,925
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 12,068	¥ 2,593	\$ 107,099
Defined benefit liabilities	12,318	11,277	109,318
Defined benefit assets	(250)	(8,684)	(2,219)
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 12,068	¥ 2,593	\$ 107,099

iv) Severance and retirement benefit expenses:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Current service costs	¥ 2,407	¥ 2,306	\$ 21,361
Interest costs	468	566	4,153
Expected return on pension assets	10	11	89
Amortization of actuarial differences	1,240	627	11,005
Amortization of prior service costs	(35)	(61)	(311)
Amortization of net transition obligation	-	1,929	-
Severance and retirement benefit expenses	¥ 4,090	¥ 5,378	\$ 36,297

v) Remeasurements of defined benefit plans (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Prior service costs	¥ 3	¥ 4	\$ 27
Actuarial differences	(10,306)	3,796	(91,463)
Net transition obligation	-	1,929	-
Others	23	(156)	204
Total	¥ (10,280)	¥ 5,573	\$ (91,232)

vi) Unrecognized actuarial differences (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Unrecognized prior service costs	¥ (7)	¥ (3)	\$ (62)
Unrecognized actuarial differences	18,468	8,161	163,898
Total	¥ 18,461	¥ 8,158	\$ 163,836

vii) The major categories of pension assets:	Percentage of composition	
	2016	2015
Bonds	3%	3%
Securities	79%	84%
Cash and deposits	14%	10%
Others	4%	3%
Total	100%	100%

viii) The principal actuarial assumptions at reporting date are summarized below:	2016	2015
	Discount rate	0.0% - 0.8%
Expected rate of return on pension plan assets	Not applicable	Not applicable

To determine the expected rate of return on pension plan assets, allocation of pension assets expected in present and future, and long-term rate of return on portfolio assets expected in present and future are considered.

### (c) Defined contribution pension plan

The contribution paid to the defined contribution pension plan is summarized below:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Contribution paid to the defined contribution pension plan	¥ 248	¥ 192	\$ 2,201

## 10. Stock options

(a) Expenses for stock options and account titles at March 31, 2016 and 2015 are as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Selling, general and administrative expenses	¥ 86	¥ 79	\$ 763

(b) The stock options outstanding at March 31, 2016 are as follows:

	FY2014 Stock option	FY2013 Stock option
Persons granted	Directors of MES: 14 Deputy directors of MES: 21	Directors of MES: 14 Deputy directors of MES: 19
Class and number of shares	Common stock 366,000 shares	Common stock 624,000 shares
Grant date	August 22, 2014	August 23, 2013
Vesting conditions	It continues in the position of Director or Deputy director until (June 30, 2015 or March 31, 2015) on data of vested after (August 22, 2014) on date of grant.	It continues in the position of Director or Deputy director until (June 30, 2014) on data of vested after (August 23, 2013) on data of grant.
Service period	(Directors of MES) From July 1, 2014 to June 30, 2015 (Deputy directors of MES) (continuously - appointed) From July 1, 2014 to March 31, 2015 (Deputy directors of MES)(newly - appointed) From April 1, 2014 to March 31, 2015	From July 1, 2013 to June 30, 2014
Exercise period	From August 23, 2014 to August 22, 2044	From August 24, 2013 to August 23, 2043
	FY2015 Stock option	
Persons granted	Directors of MES: 9 (including executive officers additional post) Executive officers of MES: 13 (excluding directors additional post) Deputy directors of MES: 17	
Class and number of shares	Common stock 497,000 shares	
Grant date	August 21, 2015	
Vesting conditions	It continues in the position of Director, Executive officer or Deputy director until (June 30, 2016 or March 31, 2016) on data of vested after (August 21, 2015) on date of grant.	
Service period	(Directors of MES) From July 1, 2015 to June 30, 2016 (Executive officers of MES) From April 1, 2015 to March 31, 2016 (Deputy directors of MES) From April 1, 2015 to March 31, 2016	
Exercise period	From August 22, 2015 to August 21, 2045	

(c) The numbers of and changes in stock options during the year ended March 31, 2016 are as follows:

	FY2015 Stock option	FY2014 Stock option	FY2013 Stock option
Non-vested:			
Outstanding at March 31, 2015	-	250,000	-
Granted	497,000	-	-
Forfeited	1,000	-	-
Vested	258,000	250,000	-
Outstanding of non-vested at March 31, 2016	238,000	-	-
Vested:			
Outstanding at March 31, 2015	-	114,000	616,000
Vested	258,000	250,000	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding of non-vested at March 31, 2016	258,000	364,000	616,000
Exercise price - Yen (U.S. Dollars)	¥ 1 (\$0.009)	¥ 1 (\$0.009)	¥ 1 (\$0.009)
Average share price at exercise - Yen (U.S. Dollars)	-	-	-
Fair value price at grant date - Yen (U.S. Dollars)	¥ 169 (\$1.500)	¥ 191 (\$1.695)	¥ 144 (\$1.278)



(d) Estimation method for stock options issued during the year ended March 31, 2016 is as follows:

The fair value of stock options granted is estimated by using Black-Scholes option pricing model with the following assumptions:

	FY2015 Stock option
Volatility of stock price (note: i)	46.700%
Estimated remaining outstanding period (note: ii)	15 years
Estimated dividend (note: iii)	¥2 per share
Interest rate with risk free (note: iv)	0.750%

notes:

- Annual volatility rate estimated based on daily stock prices in the past 15 years (closing prices on each day from August 21, 2000 to August 21, 2015).
- Remaining outstanding period was estimated in the middle of exercisable period, since it is difficult to make reasonable estimate.
- Based on actual year-end dividend for the preceding year (March 31, 2015 year-end dividend).
- The yield on national government bonds with the period corresponding to the expected residual period.

(e) Calculation method for the number of rights vested

Only actual forfeited number of the vested stock option is used for calculation for the number of rights vested, since it is difficult to reasonably estimate the number of options that will be forfeited in the future.

## 11. Income Taxes

MES and domestic Subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 36.0% for the year ended March 31, 2015 and 33.1% for the year ended March 31, 2016.

The following table summarizes the significant differences between the statutory tax rate and the Group's effective tax rate for financial statement purposes for the years ended March 31, 2016 and 2015:

	2016	2015
Statutory tax rate	33.1%	36.0%
Valuation allowance	42.4	49.6
Revaluation of land	(0.5)	(0.5)
Non-deductible expenses for tax purposes	1.2	1.1
Amortization of consolidated difference	1.5	1.1
Taxation on per capita basis	0.6	0.7
Equity in earning of unconsolidated subsidiaries and affiliates	(9.0)	(8.9)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(4.4)	(7.2)
Non-taxable dividend income	(0.3)	(1.8)
Gain on bargain purchase	-	(10.7)
Increase of deferred tax assets, net of liabilities at fiscal year-end by the change of tax rate	(7.3)	(24.3)
Others	4.4	3.0
<b>Effective tax rate</b>	<b>61.7%</b>	<b>38.1%</b>

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
<b>Deferred tax assets:</b>			
Net defined benefit liabilities	12,594	10,263	111,768
Unrealized inter-company profit	10,897	10,934	96,707
Tax loss carry forward	11,356	14,031	100,781
Losses on revaluation of inventories	291	269	2,583
Accrued expenses	2,834	3,479	25,151
Provision for product warranty	2,045	1,917	18,149
Allowance for doubtful accounts	2,033	1,420	18,042
Provision for losses on construction contracts	2,868	6,068	25,453
Loss on impairment of non-current assets	7,699	10,500	68,326
Losses on revaluation of marketable and investment securities	429	576	3,807
Others	15,613	16,493	138,560
<b>Total deferred tax assets</b>	<b>68,659</b>	<b>75,950</b>	<b>609,327</b>
Valuation allowance	(19,695)	(22,848)	(174,787)
<b>Net deferred tax assets</b>	<b>48,964</b>	<b>53,102</b>	<b>434,540</b>
<b>Deferred tax liabilities:</b>			
Net unrealized holding gains on securities	(4,222)	(8,680)	(37,469)
Accelerated depreciation on non-current assets	(5,409)	(2,093)	(48,003)
Reserve for advanced depreciation of non-current assets	(3,357)	(3,722)	(29,792)
Gains on contribution of securities to trust for employees' retirement benefit	(1,637)	(1,728)	(14,528)
Losses on progress basis contract	(3,562)	(2,282)	(31,612)
Unrealized gain on assets and liabilities	(45,790)	(48,141)	(406,372)
Unrealized gain on foreign currency assets and liabilities	(1,072)	(1,726)	(9,514)
Others	(906)	(991)	(8,040)
<b>Total deferred tax liabilities</b>	<b>(65,955)</b>	<b>(69,363)</b>	<b>(585,330)</b>
<b>Net deferred tax assets</b>	<b>¥ (16,991)</b>	<b>¥ (16,261)</b>	<b>\$ (150,790)</b>

Correction of amounts of Deferred tax assets and Deferred tax liabilities due to changes in Corporation Tax Rates, Etc.

The "Act for Partial Revision of the Income Tax Act, etc." (Law No.15 of 2016) and "Act for Partial Revision of the Local Tax Act, etc." (Law No.13 of 2016) were established in the Diet on March 29, 2016, as a result of which MES is subject to the reduction such as corporate tax rates from the consolidated fiscal year beginning on or after April 1, 2016. The corporation income tax in Japan consists of a corporation tax, an enterprise tax, resident tax. In conjunction with this promulgation, the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities with respect to the temporary difference expected to be eliminated in the consolidated fiscal year beginning on April 1, 2016 and 2017 are changed from the previous 32.3% to 30.8% and 30.6% from the consolidated fiscal year beginning April 1, 2018.

As a result of this change, deferred tax assets (after deduction of deferred tax liabilities) increased by ¥1,432 million (\$12,709 thousands). Income taxes (deferred) decreased by ¥1,502 million (\$13,330 thousands) and remeasurements of defined benefit plans decreased by ¥337 million (\$2,991 thousands). Net unrealized holding gains on securities increased by ¥232 million (\$2,059 thousands) and unrealized gain or loss on hedging derivatives increased by ¥34 million (\$302 thousands).

Also deferred tax liabilities on revaluation reserve for land decreased ¥756 million (\$6,709 thousands), and revaluation reserve for land increased same amounts.

## 12. Business Combination

Business combination by acquisition

(a) Outline of the transaction

i) Name and business of the combined entity

Name: TGE Marine AG

Business: Engineering and manufacturing supervision related to fuel carriers and other gas plants

ii) Reason of business combination

TGE Marine AG (hereinafter "TGE") is involved in the EPCS business, including pressurized gas tanks for small- and medium-sized gas carriers, gas handling system design, equipment procurement, and manufacturing supervision. In addition to the high share of the global market for small-sized LNG carriers and small-scale ethylene carriers, moving forward the Group is planning to expand its business related to design and manufacturing supervision for fuel supply systems for gas fuel ships and floating storage and regasification units (FSRU).

Through new initiatives to incorporate TGE's gas ship technology and their customer base, the Group will aim to establish a firm position in global market for small- and medium-sized gas carriers, a market expected to see future growth, as well as maximize synergy with our existing technology and increase the overall corporate value of the Group.

iii) Date of the transaction:

October 1, 2015

iv) Legal Form of the Business Combination:

Acquisition of shares in consideration of cash

v) Name of the combined entity after the transaction

There is no change.

vi) Acquired ratio of voting right:

99.98%

vii) The main reason that led to the decision to acquire the company

MES Germany Beteiligung GmbH, our consolidated subsidiary, acquired shares of TGE Marine AG and its two consolidated subsidiaries in consideration of cash.

(b) The period of financial result of the combined entity included in the consolidated financial statement:

From October 1, 2015 to March 31, 2016

(c) Consideration transferred for the acquisition

Consideration for the acquisition (Cash): €165 million

Acquisition Cost: €165 million (\$ 196,353 thousand)

(d) Amount of incidental acquisition related cost and its purpose

Advisory fee, etc: €4 million (\$ 4,624 thousand)

(e) Amount and reason of goodwill, method and period of amortization

i) Amount of goodwill: € 108 million (\$ 128,435 thousand)

ii) Reason of goodwill

Because the acquisition cost of the acquired company exceeds the net amount of assets accepted and liabilities underwritten from the acquired company, the excess portion is treated as goodwill.

iii) Method and period of amortization

Straight-line method for 16 years

(f) Identifiable assets acquired and assumed liabilities in business combination

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 10,762	\$ 95,510
Non-current assets	8,904	79,020
<b>Total assets</b>	<b>¥ 19,666</b>	<b>\$ 174,530</b>

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current liabilities	¥ (7,501)	\$ (66,569)
Non-current liabilities	(4,510)	(40,025)
<b>Total liabilities</b>	<b>¥ (12,011)</b>	<b>\$ (106,594)</b>



(g) Amounts other than goodwill distributed as intangible fixed assets and a breakdown of other major categories, and the weighted average amortization period for total assets and by major category

Classification	Japanese Yen (millions)		U.S.Dollars (thousands)		Weighted average amortization period
	Japanese Yen (millions)	U.S.Dollars (thousands)	Japanese Yen (millions)	U.S.Dollars (thousands)	
Customer-related assets	¥ 8,247	\$ 73,190			16 years
Technology-related assets	577	5,121			12 years
Total	¥ 8,824	\$ 78,311			16 years

(h) Estimate of impact on the consolidated income statement for the consolidated fiscal year if the business combination is completed on the start of this consolidated fiscal year under review, and said estimate method

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	Japanese Yen (millions)	U.S.Dollars (thousands)	Japanese Yen (millions)	U.S.Dollars (thousands)
Net sales	¥ 10,324	\$ 91,622		
Operating income	62	550		
Profit attributable to owners of parent	(88)	(781)		

(Estimate value calculation method)

The difference between the net sales and gains and loss information estimated as assuming the business combination is completed on the start of this consolidated fiscal year and net sales and gains and loss information recorded on the consolidated income statement as the estimated impact value. Also, the amortization value on the goodwill related to business combination is treated as having occurred on the start of this consolidated fiscal year. Furthermore, an audit certificate for the estimated impact values is not issued.

### 13. Contingent Liabilities

Contingent Liabilities of the Group as of March 31, 2016 and 2015 were as follows:

Guarantees of bank loans and other indebtedness	Japanese Yen (millions)		U.S.Dollars (thousands)	
	2016	2015	2016	
	¥	¥	\$	
	141,679	175,226	1,257,357	

### 14. Loss on Impairment on non-current assets

The Group adopted the accounting standard for impairment of non-current assets. The non-current assets are grouped by each segment. Idle non-current assets are grouped individually. The book value of the non-current assets is reduced to the collectable amount. The loss on impairment of non-current assets for the years ended March 31, 2016 and 2015 were comprised of the following.

#### 2016

Location	Oita City, Oita Prefecture etc.
Major use	Idle assets
Asset category	Land, Building
Amount	¥341 million (\$ 3,026 thousand)
Reason	Decline in market value

#### 2015

Location	Saga Prefecture
Major use	Floating wind & Current Hybrid Power Generation
Asset category	Construction in progress
Amount	¥605 million
Reason	Decline in use value

Location	Oita City, Oita Prefecture, Tamano City, Okayama Prefecture, Akishima City, Tokyo Metropolis etc.
Major use	Idle assets
Asset category	Land etc.
Amount	¥809 million
Reason	Decline in market value

Location	Ichihara City, Chiba Prefecture, Tamano City, Okayama Prefecture etc.
Major use	Business assets
Asset category	Land, Building, Machinery and Equipment etc.
Amount	¥1,276 million
Reason	Deterioration of shipbuilding and subsidiaries' business environment

## 15. Comprehensive Income

Each component of other comprehensive income for the years ended of March 31, 2016 and 2015 was the following:

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	2016	2015	2016	
Net unrealized holding gains on securities :				
Amount of generation at this fiscal term	¥ (9,891)	¥ 11,066	\$ (87,780)	
Amount of rearrangement adjustment	(3,105)	(531)	(27,556)	
Before adjusting the tax effect	(12,996)	10,535	(115,336)	
Tax effect	4,456	(2,813)	39,546	
Net unrealized holding gains on securities	(8,540)	7,722	(75,790)	
Unrealized gains (losses) on hedging derivatives				
Amount of generation at this fiscal term	4,444	(4,100)	39,439	
Amount of rearrangement adjustment	(155)	(207)	(1,375)	
Before adjusting the tax effect	4,289	(4,307)	38,064	
Tax effect	(1,301)	1,403	(11,546)	
Unrealized gains (losses) on hedging derivatives	2,988	(2,904)	26,518	
Revaluation reserve for land:				
Amount of generation at this fiscal term	(128)	-	(1,136)	
Before adjusting the tax effect	(128)	-	(1,136)	
Tax effect	6,117	2,438	54,286	
Revaluation reserve for land	5,989	2,438	53,150	
Foreign currency translation adjustments :				
Amount of generation at this fiscal term	718	7,615	6,372	
Amount of rearrangement adjustment	95	(215)	843	
Before adjusting the tax effect	813	7,400	7,215	
Tax effect	(37)	(255)	(328)	
Foreign currency translation adjustments	776	7,145	6,887	
Remeasurements of defined benefit plans :				
Amount of generation at this fiscal term	(11,110)	3,245	(98,598)	
Amount of rearrangement adjustment	830	2,328	7,366	
Before adjusting the tax effect	(10,280)	5,573	(91,232)	
Tax effect	2,926	(2,236)	25,968	
Remeasurements of defined benefit plans	(7,354)	3,337	(65,264)	
Share of other comprehensive income of affiliates accounted for using equity method :				
Amount of generation at this fiscal term	(3,676)	670	(32,623)	
Amount of rearrangement adjustment	2,829	(321)	25,106	
Share of other comprehensive income of affiliates accounted for using equity method	(847)	349	(7,517)	
Total	¥ (6,988)	¥ 18,087	\$ (62,016)	

### 16. Leases

#### (a) Lessee

i) Unexpired lease payments of operating lease transactions as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	2016	2015	2016	
Due within one year	¥ 1,365	¥ 1,289	\$ 12,114	
Due after one year	6,639	1,938	58,919	
Total	¥ 8,004	¥ 3,227	\$ 71,033	

#### (b) Lessor

i) Unexpired lease receivables of operating lease transactions as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	2016	2015	2016	
Due within one year	¥ 3,920	¥ 3,871	\$ 34,789	
Due after one year	10,057	11,942	89,253	
Total	¥ 13,977	¥ 15,813	\$ 124,042	



## 17. Financial Instruments

### (a) Articles concerning status of financial instruments

#### 1) Policies for financial instruments

The Group restricts the fund management to short-term financial instruments. The Group transfers funds to each other through an inter-company cash management systems (CMS).

Short-term working capital is financed through bank loans and issuance of commercial paper (CP). Long term equipment fund and working capital is financed through bank loans and issuance of bonds. Derivative financial instruments are utilized to hedge the risks described hereinafter and not for speculative transactions as a matter of policy.

#### 2) Substances and risks of financial instruments

Trade and other receivables are exposed to credit risks of customers. Foreign currency trade and other receivables of MES and certain Subsidiaries are exposed to currency fluctuation risks. Forward foreign exchange contracts are applied to these hedged items in principle. Investments securities, mainly of companies with business relationships, are exposed to market fluctuation risks. Short-term and long-term loans for operating funds and capital expenditures of SPC's, which are established for charter project of FPSO or for generating electricity, are exposed to credit risks of customers. Almost all of the trade payables are due within one year. Foreign currency trade payables for overseas procurement are exposed to currency fluctuation risks, but those trade payables are controlled not to exceed the balance of trade receivables in the same foreign currencies.

Short-term borrowings are mainly for the purpose of funding commercial transactions. Long-term borrowings, bonds, and lease obligations are mainly for the purpose of funding investment in plant and equipment. Although the portion of that debt with floating interest rates is exposed to interest rate fluctuation risks, interest rate swap contracts are applied to hedge the risks.

Derivative transactions are the above mentioned forward foreign exchange contracts as well as interest rate swap contracts. They are for the purpose of hedging currency fluctuation risks and rising interest rate risks.

As to details on hedging instruments, hedging items, hedging policy and method of evaluating the effectiveness of hedging, please refer to "1.

Significant Accounting and Reporting policies (e) Derivative Transaction and Hedge Accounting."

#### 3) Managing of financial instruments

##### i) Management of credit risks (Breach of contracts risks)

The Group monitors due dates and balances of trade receivables and regularly investigate the credit standings of main customers for early detection and reduction of default risks according to internal regulation. Certain Subsidiaries reduce their balance of loan receivables by arranging project finance or through cooperation with business partners such as general trading companies.

As to derivative transactions, credit risks are minimized by dealing solely with top-ranked financial institutions.

##### ii) Management of market risks (Exchange rate or interest rate fluctuation risks)

MES and certain Subsidiaries utilize forward foreign exchange contracts, interest rate swap contracts, and interest rate and currency swap contracts. Forward foreign exchange contracts are for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables in principle, and the others are utilized for the purpose of hedging interest rate risks arising from short-term borrowings, long-term borrowings and bonds.

Holding position of investment securities are continuously reviewed by researching fair market value and financial status of important customers regularly and taking into account of market condition and relationship with customers.

Execution and management of derivative transactions are based on each company's internal regulation restricting scope of authority.

As to derivative transactions, the Group utilizes them to offset risks within the range of trade demand.

##### iii) Management of liquidity risks of raising funds (Default risks)

The Finance & Accounting department of the Group makes and updates finance plans, and maintains a certain level of liquidity on hand to minimize liquidity risks.

#### 4) Supplementary explanation about fair value of financial instruments

Fair value of financial instruments includes not only fair market value based on market price but also reasonably estimated value if market price is not available. Reasonably estimated fair value may fluctuate because it depends on an estimation process which is based on certain preconditions. The contract amounts for derivatives stated in the following "(b) Articles concerning fair value of financial instruments," do not indicate the market risks of derivatives.

### (b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts, fair value of financial instruments and the differences between them for the fiscal years ended March 31, 2016 and 2015 are as follows. Financial instruments in which the fair value is considered to be extremely difficult to recognize are not included in the list below.

2016	Japanese Yen (millions)		
	Book value	Fair value	Differences
(1)Cash and time deposits	¥ 139,374	¥ 139,374	¥ -
(2)Trade receivables	282,420		
Less allowance for doubtful accounts *1	(1,757)		
	280,663	280,663	0
(3)Short-term loans	22,591	22,591	-
(4)Investments securities			
Available-for-sale securities	32,612	32,612	-
(5)Long-term loans	28,313		
Less allowance for doubtful accounts *1	(196)		
	28,117	28,114	(3)
<b>Assets total</b>	<b>¥ 503,357</b>	<b>¥ 503,354</b>	<b>¥ (3)</b>
(1)Trade payables	¥ 245,636	¥ 245,636	¥ -
(2)Short-term borrowings	27,861	27,861	-
(3)Current portion of long-term loan payable	41,126	41,274	148
(4)Current portion of bonds	-	-	-
(5)Accrued income taxes	6,894	6,894	-
(6)Bonds	40,000	41,467	1,467
(7)Long-term loan payable	130,887	131,878	991
<b>Liabilities total</b>	<b>¥ 492,404</b>	<b>¥ 495,010</b>	<b>¥ 2,606</b>
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	¥ 687	¥ 687	¥ -
ii Derivative transactions for which hedge accounting has been applied	179	179	-
<b>Derivative transactions total</b>	<b>¥ 866</b>	<b>¥ 866</b>	<b>¥ -</b>

2015	Japanese Yen (millions)		
	Book value	Fair value	Differences
(1)Cash and time deposits	¥ 85,352	¥ 85,352	¥ -
(2)Trade receivables	310,973		
Less allowance for doubtful accounts *1	(1,193)		
	309,780	309,776	(4)
(3)Short-term loans	55,027	55,027	-
(4)Investments securities			
Available-for-sale securities	48,687	48,687	-
(5)Long-term loans	22,287		
Less allowance for doubtful accounts *1	(197)		
	22,090	23,225	1,135
<b>Assets total</b>	<b>¥ 520,936</b>	<b>¥ 522,067</b>	<b>¥ 1,131</b>
(1)Trade payables	247,656	247,656	-
(2)Short-term borrowings	17,468	17,468	-
(3)Current portion of long-term loan payable	32,834	32,934	100
(4)Current portion of bonds	10,000	10,061	61
(5)Accrued income taxes	9,942	9,942	-
(6)Bonds	30,000	30,514	514
(7)Long-term loan payable	98,013	98,718	705
<b>Liabilities total</b>	<b>¥ 445,913</b>	<b>¥ 447,293</b>	<b>¥ 1,380</b>
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	(2,868)	(2,868)	-
ii Derivative transactions for which hedge accounting has been applied	(10,447)	(10,447)	-
<b>Derivative transactions total</b>	<b>¥ (13,315)</b>	<b>¥ (13,315)</b>	<b>¥ -</b>

2016	U.S. Dollars (thousands)		
	Book value	Fair value	Differences
(1)Cash and time deposits	\$ 1,236,901	\$ 1,236,901	\$ -
(2)Trade receivables	2,506,390		
Less allowance for doubtful accounts *1	(15,593)		
	2,490,797	2,490,797	0
(3)Short-term loans	200,488	200,488	-
(4)Investments securities			
Available-for-sale securities	289,421	289,421	-
(5)Long-term loans	251,269		
Less allowance for doubtful accounts *1	(1,739)		
	249,530	249,503	(27)
<b>Assets total</b>	<b>\$ 4,467,137</b>	<b>\$ 4,467,110</b>	<b>\$ (27)</b>
(1)Trade payables	\$ 2,179,943	\$ 2,179,943	\$ -
(2)Short-term borrowings	247,258	247,258	-
(3)Current portion of long-term loan payable	364,980	366,294	1,314
(4)Current portion of bonds	-	-	-
(5)Accrued income taxes	61,182	61,182	-
(6)Bonds	354,988	368,007	13,019
(7)Long-term loan payable	1,161,581	1,170,376	8,795
<b>Liabilities total</b>	<b>\$ 4,369,932</b>	<b>\$ 4,393,060</b>	<b>\$ 23,128</b>
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	\$ 6,097	\$ 6,097	\$ -
ii Derivative transactions for which hedge accounting has been applied	1,588	1,588	-
<b>Derivative transactions total</b>	<b>\$ 7,685</b>	<b>\$ 7,685</b>	<b>\$ -</b>

\*1 Allowance for doubtful accounts is deducted from each account.

\*2 Net credit or debt arising from derivative transactions is indicated by the offset amount and which is indicated as ( ) in case of the offset amount is debt. (note 1) Articles concerning calculation method of fair value, marketable securities and derivative transactions.

#### Assets

##### (1) Cash and time deposits, (3) Short-term loans

Fair value of these accounts is stated at the book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.

##### (2) Trade receivables

Fair value of these accounts is stated at the present value discounted over the maturity term of each receivable divided into certain classified term

##### (4) Investment securities

Fair value of these accounts is based on available market price. (Please see 2. Marketable Securities and Investment Securities)

##### (5) Long-term loans

Fair value of these accounts is stated at the present value using future cash flows discounted by the premium added rate on the appropriate index like yield on government bonds.



## Liabilities

### (1) Trade payables, (5) Accrued income taxes

Fair value of these accounts is stated at book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.

### (2) Short-term borrowings, (3) Current portion of long-term loan payable, (7) Long-term loan payable

Fair value of borrowings at fixed interest rates is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.

Fair value of long-term borrowings at variable interest rates is stated at balance sheet amounts because variable interest rates reflects the latest market conditions and MES's credit standings is considered to be almost same as when funds were borrowed, so fair value is considered to be close to the balance sheet amounts.

Some borrowings at variable interest rates are subjected to batch treatment of interest rate swaps that fulfill special treatment requirements, as well as interest rate and currency swaps. Those fair values are based on quotes from financial institutions.

### (4) Current portion of bonds, (6) Bonds

These fair values consist of both the fair value based on fair market value and the present value using the total of the principal and interest discounted by a risk-free interest rate over the remaining term of each bond.

## Derivative transactions

Please refer to "18. Derivative Transactions."

(note 2) Financial instruments in which the fair value is considered to be extremely difficult to recognize are as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	Book value		Book value
	2016	2015	2016
(1)Unlisted equity securities	¥ 48,894	¥ 36,563	\$ 433,919
(2)Bonds	-	500	-
(3)Trust property	140	81	1,243
<b>Total</b>	<b>¥ 49,034</b>	<b>¥ 37,144</b>	<b>\$ 435,162</b>

As to these financial instruments, there's no available fair market price and it is considered to cost a great deal to estimate future cash flows. So these financial instruments are not included in investment securities because it is considered to be extremely difficult to recognize fair value.

(note 3) The expected redemption amount of monetary credit and securities with maturity after the fiscal years ended March 31, 2016 and 2015 are as follows.

2016	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 138,205	¥ 289	¥ 33	¥ -
Trade receivables	279,773	2,636	10	-
Short-term loans	22,591	-	-	-
Investments securities	-	-	-	-
Available-for-sale securities	-	-	-	-
Long-term loans	1	6,973	10,740	10,601
<b>Total</b>	<b>¥ 440,570</b>	<b>¥ 9,898</b>	<b>¥ 10,783</b>	<b>¥ 10,601</b>

2015	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 85,218	¥ -	¥ -	¥ -
Trade receivables	310,588	374	10	-
Short-term loans	55,027	-	-	-
Investments securities	-	-	-	-
Available-for-sale securities	-	500	-	-
Long-term loans	-	7,845	4,134	10,309
<b>Total</b>	<b>¥ 450,833</b>	<b>¥ 8,719</b>	<b>¥ 4,144</b>	<b>¥ 10,309</b>

2016	U.S. Dollars (thousands)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 1,226,527	\$ 2,565	\$ 293	\$ -
Trade receivables	2,482,898	23,394	89	-
Short-term loans	200,488	-	-	-
Investments securities	-	-	-	-
Available-for-sale securities	-	-	-	-
Long-term loans	9	61,883	95,314	94,081
<b>Total</b>	<b>\$ 3,909,922</b>	<b>\$ 87,842</b>	<b>\$ 95,696</b>	<b>\$ 94,081</b>

(note 4) The expected redemption amount of bonds and long-term loan payable after the fiscal years ended March 31, 2016 and 2015 are as follows.

2016	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 27,861	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	-	15,000	-	10,000	5,000	10,000
Long-term borrowings	41,126	32,047	41,388	17,077	24,580	15,795
Lease obligations	2,146	1,892	1,194	778	2,484	958
Other interest-bearing debt	2,234	127	97	91	82	238
<b>Total</b>	<b>¥ 73,367</b>	<b>¥ 49,066</b>	<b>¥ 42,679</b>	<b>¥ 27,946</b>	<b>¥ 32,146</b>	<b>¥ 26,991</b>

2015	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 17,469	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	10,000	-	15,000	-	10,000	5,000
Long-term borrowings	32,834	29,033	22,869	30,702	6,312	9,096
Lease obligations	2,662	1,912	1,756	1,154	725	3,083
Other interest-bearing debt	609	134	127	97	90	321
<b>Total</b>	<b>¥ 63,574</b>	<b>¥ 31,079</b>	<b>¥ 39,752</b>	<b>¥ 31,953</b>	<b>¥ 17,127</b>	<b>¥ 17,500</b>

2016	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	\$ 247,258	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable	-	133,120	-	88,747	44,373	88,747
Long-term borrowings	364,980	284,407	367,306	151,553	218,140	140,176
Lease obligations	19,045	16,791	10,596	6,904	22,045	8,502
Other interest-bearing debt	19,826	1,128	861	808	728	2,112
<b>Total</b>	<b>\$ 651,109</b>	<b>\$ 435,446</b>	<b>\$ 378,763</b>	<b>\$ 248,012</b>	<b>\$ 285,286</b>	<b>\$ 239,537</b>



## 18. Derivative Transactions

Derivative transactions of the Group for market value information as of March 31, 2016 and 2015 were as follows:

### (a) Derivative transactions for which hedge accounting has not been applied

2016	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	¥ 1,612	¥ -	¥ (10)	¥ (10)
Euro	3,170	-	(292)	(292)
Norwegian Krone	3,438	-	(626)	(626)
Swiss Franc	709	-	(16)	(16)
Chinese Yuan	296	-	4	4
To sell U.S. Dollars	15,824	-	(464)	(464)
	¥ 25,049	¥ -	¥ (1,404)	¥ (1,404)
Interest swap				
To receive float, pay fix	¥ 26,991	¥ 24,051	¥ 2,091	¥ 2,091
	¥ 26,991	¥ 24,051	¥ 2,091	¥ 2,091

2015	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy Euro	¥ 5,247	¥ -	¥ (378)	¥ (378)
Norwegian krone	5,796	3,430	(617)	(617)
To sell U.S.Dollars	14,052	-	(1,872)	(1,872)
	¥ 25,095	¥ 3,430	¥ (2,867)	¥ (2,867)

2016	U.S. Dollars (thousands)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	\$ 14,306	\$ -	\$ (89)	\$ (89)
Euro	28,133	-	(2,591)	(2,591)
Norwegian Krone	30,511	-	(5,556)	(5,556)
Swiss Franc	6,292	-	(142)	(142)
Chinese Yuan	2,627	-	36	36
To sell U.S. Dollars	140,433	-	(4,118)	(4,118)
	\$ 222,302	\$ -	\$ (12,460)	\$ (12,460)
Interest swap				
To receive float, pay fix	\$ 239,537	\$ 213,445	\$ 18,557	\$ 18,557
	\$ 239,537	\$ 213,445	\$ 18,557	\$ 18,557

### (b) Derivative transactions for which hedge accounting has been applied

2016	Hedged items	Japanese Yen (millions)		Fair value
		Contract amount		
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	¥ 7,226	¥ 1,154	¥ 562
Euro		9,805	71	(17)
STG Pounds		854	-	(12)
Thai Baht		982	-	(35)
Singapore Dollars		1,147	-	(10)
Norwegian Krone		70	-	(5)
Japanese Yen		113	-	4
Swiss Franc		311	47	(5)
Brazil Real		315	-	(6)
To sell U.S.Dollars	Trade receivables	48,754	6,019	2,522
STG Pounds		12,004	173	(456)
Euro		1,978	-	(15)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Trade receivables	29	-	-
		¥ 83,588	¥ 7,464	¥ 2,527
Interest swap				
Basic treatment :				
To receive float, pay fix	Long-term loan payable	¥ 29,823	¥ 25,822	¥ (2,348)
Exceptional treatment *2 :				
To receive float, pay fix	Long-term loan payable	45,004	37,034	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term loan payable	9,822	7,858	-
		¥ 84,649	¥ 70,714	¥ (2,348)

2015	Hedged items	Japanese Yen (millions)		Fair value
		Contract amount		
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	¥ 12,320	¥ 2,462	¥ 1,506
Euro		8,632	47	(450)
STG Pounds		1,917	310	(8)
Thai Baht		239	-	2
Singapore Dollars		194	-	(1)
Norwegian Krone		1,359	-	(237)
Japanese Yen		455	-	(67)
Swiss Franc		1,012	-	(68)
To sell U.S.Dollars	Trade receivables	101,506	15,475	(9,826)
STG Pounds		16,895	2,581	(677)
Currency option contract				
Buying: Put option		523	-	-
Selling: Call option		1,045	-	(156)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S.Dollars	Trade receivables	208	-	-
Euro		282	-	-
		¥ 146,587	¥ 20,875	¥ (9,982)
Interest swap				
Basic treatment :				
To receive float, pay fix	Short-term borrowing, Long-term loan payable	¥ 4,806	¥ 3,800	¥ (465)
Exceptional treatment *2 :				
To receive float, pay fix	Long-term loan payable	39,564	31,594	-
		¥ 44,370	¥ 35,394	¥ (465)



2016

	Hedged items	U.S. Dollars (thousands)		Fair value	
		Contract amount			
		Total	Due after one year		
Deferral hedge accounting					
Currency related derivatives					
Forward contracts					
To buy	U.S.Dollars	Trade payables	\$ 64,129	\$ 10,242	\$ 4,988
	Euro		87,016	630	(151)
	STG Pounds		7,579	-	(107)
	Thai Baht		8,715	-	(311)
	Singapore Dollars		10,179	-	(89)
	Norwegian Krone		621	-	(44)
	Japanese Yen		1,003	-	35
	Swiss Franc		2,760	417	(44)
	Brazil Real		2,796	-	(53)
To sell	U.S.Dollars	Trade receivables	432,677	53,417	22,382
	STG Pounds		106,532	1,535	(4,047)
	Euro		17,554	-	(133)
Alternative method *1					
Currency related derivatives					
Forward contracts					
To sell	U.S. Dollars	Trade receivables	257	-	-
			\$ 741,818	\$ 66,241	\$ 22,426
Interest swap					
Basic treatment :					
To receive float, pay fix		Long-term loan payable	\$ 264,670	\$ 229,162	\$ (20,838)
Exceptional treatment *2 :					
To receive float, pay fix		Long-term loan payable	399,397	328,665	-
Interest rate and currency swap					
Batch treatment *2:					
To receive float, pay fix;					
To receive U.S. Dollars,		Long-term loan payable	87,167	69,738	-
Pay Japanese Yen					
			\$ 751,234	\$ 627,565	\$ (20,838)

\*1 When certain conditions are met, translation of foreign currency receivables is based on yen amount fixed by forward contract. The fair value is included in that of the trade receivables, which is shown in "17. Financial Instruments."

\*2 As interest swap subject to exceptional treatment of interest swap and batch treatment of interest swap are accounted for as a single item with underlying long-term loan payable, which are hedged items, their fair value is included in that of long-term loan payable.

## 19. Segment Information

### (a) Overview of Reportable Segment

Reportable Segment is composed of the segment by products and services belonging to headquarter and subject to be reviewed periodically by the Board of Directors to decide the allocation of management resources and to evaluate the performance.

MES organizes headquarters by products and services in Head office. Each headquarter makes strategies of its products and services in both Japan and abroad comprehensively and develops the operation.

Reportable Segment is classified into three segments: Ship & Ocean, Machinery and Engineering. Main products and services of each Reportable Segment are as follows.

**Ship & Ocean:** commercial ships, naval ships, high speed passenger/vehicle ferries, FPSOs (floating production storage offloading vessels), offshore structures, underwater TV vehicles, steel structures

**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, bridges, port structures, induction heaters

**Engineering:** chemical plants, overseas civil works, power generation plants, renewable energy business, waste treatment plants, water treatment plants, resources recycling plants, PCB disposal plants

There were some changes in businesses between reportable segments from the beginning of the consolidated fiscal year 2016. Segment information for the consolidated fiscal year 2015 has been restated to reflect the changes.

### (b) Calculation method used for Sales, Operating income and loss, Assets, Liabilities and other items for each Reportable Segment.

The accounting method used for Reportable Segment is almost same as the method stated in "Significant Accounting and Reporting Policies". Operating income and loss in Reportable Segment is based on the one in Consolidated Statements of Income. Inter segment profit and transfer are based on the market price.

### (c) Information about Sales, Operating income and loss, Assets, Liabilities and other items for each Reportable Segment.

Reportable Segment information for the years ended March 31, 2016 and 2015 were as follows:

2016	Japanese Yen (millions)							Adjustments	Consolidated
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total			
Net Sales:									
Outside customers	¥ 423,786	¥ 171,690	¥ 171,271	¥ 766,747	¥ 38,667	¥ 805,414	¥ -	¥ 805,414	
Inter segment	981	8,485	14	9,480	1,052	10,532	(10,532)	-	
Total	424,767	180,175	171,285	776,227	39,719	815,946	(10,532)	805,414	
Operating income (loss)	¥ (13,305)	¥ 13,806	¥ 8,298	¥ 8,799	¥ 3,014	¥ 11,813	¥ -	¥ 11,813	
Assets	¥ 482,808	¥ 159,627	¥ 107,757	¥ 750,192	¥ 233,775	¥ 983,967	¥ 110,076	¥ 1,094,043	
Depreciation	¥ 9,148	¥ 3,626	¥ 1,636	¥ 14,410	¥ 3,170	¥ 17,580	¥ 365	¥ 17,945	
Increase in property, plant and equipment and intangible assets	¥ 15,879	¥ 6,959	¥ 1,530	¥ 24,368	¥ 1,552	¥ 25,920	¥ 907	¥ 26,827	

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.

(note 2) Adjustments are as follows:

(1) Adjustments of ¥110,076 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of ¥114,686 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥365 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥476 million.

(3) Adjustments recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.

(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Income.

2015	Japanese Yen (millions)							Adjustments	Consolidated
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total			
Net Sales:									
Outside customers	¥ 481,021	¥ 167,137	¥ 129,616	¥ 777,774	¥ 38,746	¥ 816,520	¥ -	¥ 816,520	
Inter segment	866	6,675	308	7,849	1,443	9,292	(9,292)	-	
Total	481,887	173,812	129,924	785,623	40,189	825,812	(9,292)	816,520	
Operating income (loss)	¥ 9,657	¥ 10,660	¥ (10,633)	¥ 9,684	¥ 3,615	¥ 13,299	¥ -	¥ 13,299	
Assets	¥ 446,721	¥ 159,093	¥ 99,429	¥ 705,243	¥ 237,733	¥ 942,976	¥ 131,587	¥ 1,074,563	
Depreciation	¥ 8,137	¥ 4,201	¥ 1,780	¥ 14,118	¥ 2,820	¥ 16,938	¥ 519	¥ 17,457	
Increase in property, plant and equipment and intangible assets	¥ 8,323	¥ 3,653	¥ 3,577	¥ 15,553	¥ 5,256	¥ 20,809	¥ 226	¥ 21,035	



(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.

(note 2) Adjustments are as follows:

(1) Adjustments of ¥131,587 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of ¥136,350 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥519 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥583 million.

(3) Adjustments recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.

(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Income.

2016	U.S. Dollars (thousands)							Adjustments	Consolidated
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total			
Net Sales:									
Outside customers	\$ 3,760,969	\$ 1,523,695	\$ 1,519,977	\$ 6,804,641	\$ 343,158	\$ 7,147,799	\$ -	\$ 7,147,799	
Inter segment	8,706	75,302	124	84,132	9,336	93,468	(93,468)	-	
Total	3,769,675	1,598,997	1,520,101	6,888,773	352,494	7,241,267	(93,468)	7,147,799	
Operating income (loss)	\$ (118,078)	\$ 122,524	\$ 73,642	\$ 78,088	\$ 26,749	\$ 104,837	\$ -	\$ 104,837	
Assets	\$ 4,284,771	\$ 1,416,640	\$ 956,310	\$ 6,657,721	\$ 2,074,681	\$ 8,732,402	\$ 976,890	\$ 9,709,292	
Depreciation	\$ 81,185	\$ 32,180	\$ 14,519	\$ 127,884	\$ 28,133	\$ 156,017	\$ 3,239	\$ 159,256	
Increase in property, plant and equipment and intangible assets	\$ 140,921	\$ 61,759	\$ 13,578	\$ 216,258	\$ 13,774	\$ 230,032	\$ 8,049	\$ 238,081	

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.

(note 2) Adjustments are as follows:

(1) Adjustments of \$976,890 thousand recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of \$1,017,803 thousand that are not allocated to any Reportable Segment.

(2) Adjustments of \$3,239 thousand recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of \$4,224 thousand.

(3) Adjustments recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.

(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Income.

[Related information]

#### (d) Information by products and services

Information by products and services is the same as Reportable Segment and the description is omitted.

#### (e) Information by geographical area

1) Sales

2016	Japanese Yen (millions)					
	Japan	Brazil	Asia	Europe	Other	Total
Net sales	¥ 253,711	¥ 205,325	¥ 108,522	¥ 55,742	¥ 182,114	¥ 805,414

2015	Japanese Yen (millions)					
	Japan	Brazil	Ghana	Asia	Other	Total
Net sales	¥ 240,429	¥ 243,792	¥ 91,377	¥ 78,767	¥ 162,155	¥ 816,520

2016	U.S. Dollars (thousands)					
	Japan	Brazil	Asia	Europe	Other	Total
Net sales	\$ 2,251,606	\$ 1,822,196	\$ 963,099	\$ 494,693	\$ 1,616,205	\$ 7,147,799

\*Sales amount is based on the place of customer and classified by country or geographical area.

2) Property, plant and equipment

2016	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 343,097	¥ 35,955	¥ 379,052

2015	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 341,470	¥ 36,256	¥ 377,726

2016	U.S. Dollars (thousands)		
	Japan	Others	Total
Property, plant and equipment	\$ 3,044,879	\$ 319,090	\$ 3,363,969

#### (f) Information by major customer

Information by major customer for 2016 is not described because there is no customer with the sales amount exceeds 10% of the sales amount in Consolidated Statements of Income.

2015	Japanese Yen (millions)	
	CARIOCA MV27 B.V.	Reportable Segment
	¥ 96,317	Ship & Ocean

#### [Information about losses on impairment of non-current assets for each Reportable Segment]

Losses on impairment on non-current assets

2016	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	¥ -	¥ 6	¥ -	¥ -	¥ 335	¥ 341

2015	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	¥ 1,977	¥ 255	¥ -	¥ 292	¥ 164	¥ 2,689

2016	U.S. Dollars (thousands)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	\$ -	\$ 53	\$ -	\$ -	\$ 2,973	\$ 3,026

#### [Information about goodwill amortization amount and year-end balance for each Reportable Segment]

Goodwill

2016	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	¥ 913	¥ -	¥ 9	¥ -	¥ -	¥ 922
Goodwill	¥ 17,848	¥ -	¥ 30	¥ -	¥ -	¥ 17,878

2015	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	¥ 495	¥ -	¥ -	¥ -	¥ -	¥ 495
Goodwill	¥ 4,959	¥ -	¥ -	¥ -	¥ -	¥ 4,959

2016	U.S. Dollars (thousands)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	\$ 8,102	\$ -	\$ 80	\$ -	\$ -	\$ 8,182
Goodwill	\$ 158,396	\$ -	\$ 266	\$ -	\$ -	\$ 158,662

#### [Information about gains on negative goodwill for each Reportable Segment]

2016

Not applicable.

2015

Gain on bargain purchase of ¥4,768 million is recorded under "Others" segment due to additional acquirement of the shares of the subsidiary, Showa Aircraft Industry Co. Ltd.



## 20. Investment and Rental Property

### (a) Articles concerning situation of investment and rental property

MES and certain Subsidiaries own rental office building, commercial facilities, and houses (including land) in Tokyo, Osaka, Okayama and other areas. Idle land is also owned in Tokyo, Kanagawa, Oita and other areas.

### (b) Articles concerning fair value of investment and rental property

The book value of investment and rental properties stated in the consolidated balance sheets, the increase or decrease in this fiscal year, and fair value are shown below.

Usage	Japanese Yen (millions)			
	Book value			Fair value
	Beginning balance as of April 1, 2015	Increase (Decrease)	Ending balance as of March 31, 2016	As of March 31, 2016
Facilities for lease	¥ 104,477	¥ 2,744	¥ 107,221	¥ 105,023
Idle assets (Land)	25,215	(2,472)	22,743	23,801
<b>Total</b>	<b>¥ 129,692</b>	<b>¥ 272</b>	<b>¥ 129,964</b>	<b>¥ 128,824</b>

Usage	U.S. Dollars (thousands)			
	Book value			Fair value
	Beginning balance as of April 1, 2015	Increase (Decrease)	Ending balance as of March 31, 2016	As of March 31, 2016
Facilities for lease	\$ 927,201	\$ 24,352	\$ 951,553	\$ 932,047
Idle assets (Land)	223,775	(21,938)	201,837	211,226
<b>Total</b>	<b>\$ 1,150,976</b>	<b>\$ 2,414</b>	<b>\$ 1,153,390</b>	<b>\$ 1,143,273</b>

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.

(note 2) The increase in rental properties in this fiscal year is mainly due to new acquisitions (¥926 million/ \$8,218 thousand) and diversion of land (¥1,197 million/ \$10,623 thousand), and the decrease in rental properties is mainly due to depreciation (¥1,404 million / \$12,460 thousand), impairment losses (¥335 million/ \$2,973 thousand).

In addition, reclassification amounts (¥1,930 million/ \$17,128 thousand) are included both in the increase of rental properties and in the decrease of idle assets.

(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

Usage	Japanese Yen (millions)			
	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	¥ 8,741	¥ 5,658	¥ 3,083	¥ (98)
Idle assets (Land)	-	-	-	(336)
<b>Total</b>	<b>¥ 8,741</b>	<b>¥ 5,658</b>	<b>¥ 3,083</b>	<b>¥ (434)</b>

Usage	U.S. Dollars (thousands)			
	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	\$ 77,574	\$ 50,213	\$ 27,361	\$ (870)
Idle assets (Land)	-	-	-	(2,982)
<b>Total</b>	<b>\$ 77,574</b>	<b>\$ 50,213</b>	<b>\$ 27,361</b>	<b>\$ (3,852)</b>

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.

(note 2) Others include impairment losses and taxes-and-dues. Impairment losses and taxes-and-dues are recognized as other income (expenses).

Usage	Japanese Yen (millions)			
	Book value			Fair value
	Beginning balance as of April 1, 2014	Increase (Decrease)	Ending balance as of March 31, 2015	As of March 31, 2015
Facilities for lease	¥ 105,729	¥ (1,252)	¥ 104,477	¥ 100,651
Idle assets (Land)	8,646	16,569	25,215	27,287
<b>Total</b>	<b>¥ 114,375</b>	<b>¥ 15,317</b>	<b>¥ 129,692</b>	<b>¥ 127,938</b>

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.

(note 2) The increase in rental properties in this fiscal year is mainly due to diversion of land (¥16,379 million) and new acquisitions (¥1,309 million), and the decrease in rental properties is mainly due to depreciation (¥1,473 million), impairment losses (¥480 million) and termination of contracts (¥423 million).

(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

Usage	Japanese Yen (millions)			
	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	¥ 8,406	¥ 5,356	¥ 3,050	¥ (80)
Idle assets (Land)	-	-	-	(480)
<b>Total</b>	<b>¥ 8,406</b>	<b>¥ 5,356</b>	<b>¥ 3,050</b>	<b>¥ (560)</b>

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.

(note 2) Others include impairment losses and taxes-and-dues. Impairment losses and taxes-and-dues are recognized as other income (expenses).

## 21. Related Party Transactions

Transactions between the Group and related parties for the fiscal years ended March 31, 2016 and 2015 were as follows:

Unconsolidated subsidiaries and affiliates of MES

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Direct 9.3% Indirect 10.1%	Time Charter of FPSO	Guarantee Obligation	23,256	-	-

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	23,848	-	-
Affiliate	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	24,802	-	-

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Direct 9.3% Indirect 10.1%	Time Charter of FPSO	Guarantee Obligation	206,390	-	-

1. Guarantee Obligation is deliberately determined in consideration by each project plan.

Transactions between Subsidiaries and related parties for the fiscal years ended March 31, 2016 and 2015 were as follows:

Unconsolidated subsidiaries and affiliates of MES

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	The equipment capital collection	31,424	Short-term loans	-
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	28,566	Receivables	18,924
							The equipment capital lending	12,245	Short-term loans	6,039
							Guarantee Obligation	24,118	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 10.1%	Time Charter of FPSO	The equipment capital lending	22,355	Short-term loans	8,695
							The equipment capital collection	13,509	Short-term loans	-
							Guarantee Obligation	46,796	-	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	48,408	Receivables	19,227
							The equipment capital lending	28,253	Short-term loans	17,646
							Guarantee Obligation	40,209	-	-
TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	69,799	Receivables	39,915	
						The equipment capital collection	11,958	Short-term loans	-	
						Guarantee Obligation	12,846	-	-	





**Independent Auditor's Report**

2015

Japanese Yen (millions)

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	The working capital lending	12,349	Short-term loans	31,049
							Guarantee Obligation	23,925	-	-
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	81,439	Receivables	41,257
							Guarantee Obligation	18,518	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	58,007	Receivables	22,117
							Guarantee Obligation	55,504	-	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	105,040	Receivables	23,678
							The equipment capital lending	21,011	-	-
							The equipment capital collection	20,891	-	-
	MODECAND TOYO OFFSHORE PRODUCTION SYSTEMS PTE.LTD	Singapore	USD 100	Construction of FPSO	Indirect 25.0%	Construction of FPSO Interlocking directors	Purchase	91,077	Trade payables	6,256
Guarantee Obligation							57,869	-	-	

2016

U.S.Dollars (thousands)

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	The equipment capital collection	278,878	Short-term loans	-
							Construction of FPSO	253,514	Receivables	167,945
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	The equipment capital lending	108,671	Short-term loans	53,594
							Guarantee Obligation	214,040	-	-
							The equipment capital lending	198,394	Short-term loans	77,165
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 10.1%	Time Charter of FPSO	The equipment capital collection	119,888	Short-term loans	-
							Guarantee Obligation	415,300	-	-
							Construction of FPSO	429,606	Receivables	170,634
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	The equipment capital lending	250,737	Short-term loans	156,603
							Guarantee Obligation	356,842	-	-
Construction of FPSO							619,444	Receivables	354,233	
TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	The equipment capital collection	106,124	Short-term loans	-	
						Guarantee Obligation	114,004	-	-	
						Construction of FPSO	619,444	Receivables	354,233	

- The transaction amount does not include exchange gains and losses, outstanding balance at the year end includes exchange gains and losses. The transaction amount does not include sales tax, outstanding balance at the year end includes sales tax.
- Policies for determining terms and conditions are as follows:
  - (1) FPSO construction and operation trade are deliberately determined in consideration by each project plan.
  - (2) The equipment capital lending is deliberately determined in consideration by each project plan.
  - (3) The working capital lending is deliberately determined in consideration by each project plan.
  - (4) Guarantee Obligation is deliberately determined in consideration by each project plan.

To the Board of Directors of Mitsui Engineering & Shipbuilding Co., Ltd.

We have audited the accompanying consolidated financial statements of Mitsui Engineering & Shipbuilding Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mitsui Engineering & Shipbuilding Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.

June 28, 2016  
Tokyo, Japan

*KPMG AZSA LLC*



# Company Profile

## Company Profile (As of March 31, 2016)

Company Name	Mitsui Engineering & Shipbuilding Co., Ltd.	Number of shares authorized to be issued	1,500,000,000 Shares
Head Office Location	6-4, Tsukiji 5-Chome, Chuo-ku, Tokyo 104-8439, Japan	Number of outstanding shares	Common Shares 830,987,176 Shares
Founded in	November 14, 1917	Number of shareholders	66,543
Established in	July 31, 1937	Employees	12,705 (Consolidated) 3,612 (MES Only)
Capital	44,385 million Yen		

## Major Group Companies

### Ship & Ocean Project Headquarters

MODEC, Inc.  
Niigata Shipbuilding & Repair, Inc.  
Shikoku Dockyard Co., Ltd.  
Akishima Laboratories (Mitsui Zosen) Inc.  
M.E.S Tokki Co., Ltd.  
MES Shipping Co., Ltd.  
MES-KHI Yura Dock Co., Ltd.  
Mitsui Zosen Chiba Kiko Engineering Inc.

### Machinery & Systems Headquarters

Mitsui Zosen Machinery & Service, Inc.  
MES Technoservice Co., Ltd.  
Mitsui Meehanite Metal Co., Ltd.  
Sanzo Manufacturing & Construction Co., Ltd.  
MES Power - Electronics Industry Co., Ltd.  
Mitsui Zosen Steel Structures Engineering Co., Ltd.  
MES Testing & Research Center Co., Ltd.  
DPS Bridge Works Co., Ltd.  
Kaji Technology Corporation  
Azuma Machinery Co., Ltd.

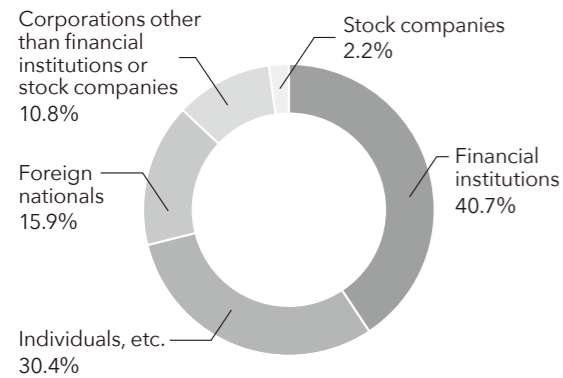
### Engineering Headquarters

Mitsui Zosen Plant Engineering Inc.  
Mitsui Zosen Environment Engineering Corporation  
Sanzo Yuki Recycle K.K.  
Hamamatsu Green Wave Co., Ltd.  
Green Power Ichihara Co., Ltd.  
Betsukai Biogas Power Co., Ltd.

### Corporate Management Divisions etc.

Showa Aircraft Industry Co., Ltd.  
Mitsui Zosen Systems Research Inc.  
MES Facilities Co., Ltd.

## Shareholding situation by each category of shareholders (As of March 31, 2016)



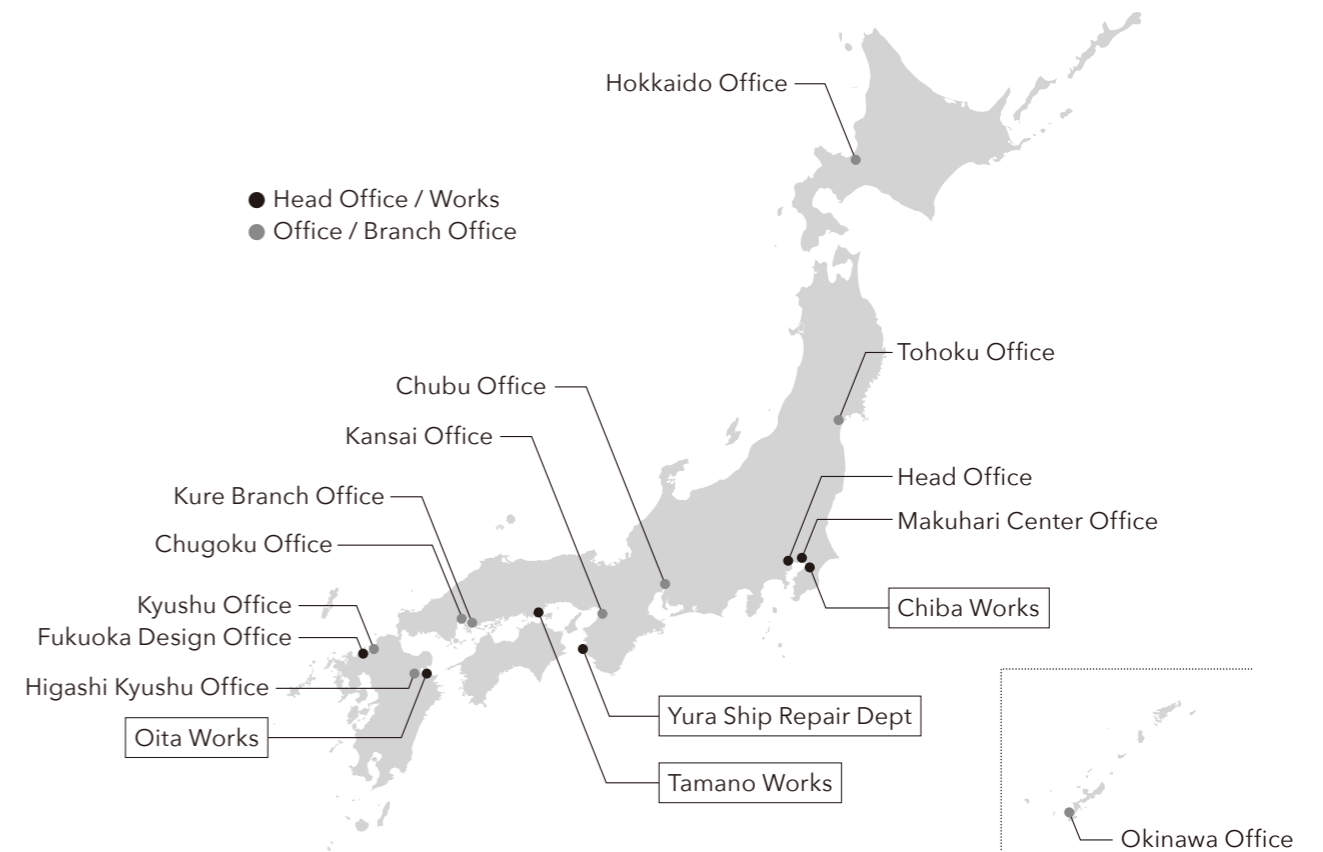
The total number of shareholders 66,543

Category	Number of shareholders	Number of Shares Held	Shareholding Ratio (%)
Financial institutions	73	338,521,252	40.7
Individuals, etc.	65,614	252,867,246	30.4
Foreign nationals	306	131,825,533	15.9
Corporations other than financial institutions or stock companies	478	89,428,467	10.8
Stock companies	72	18,344,678	2.2

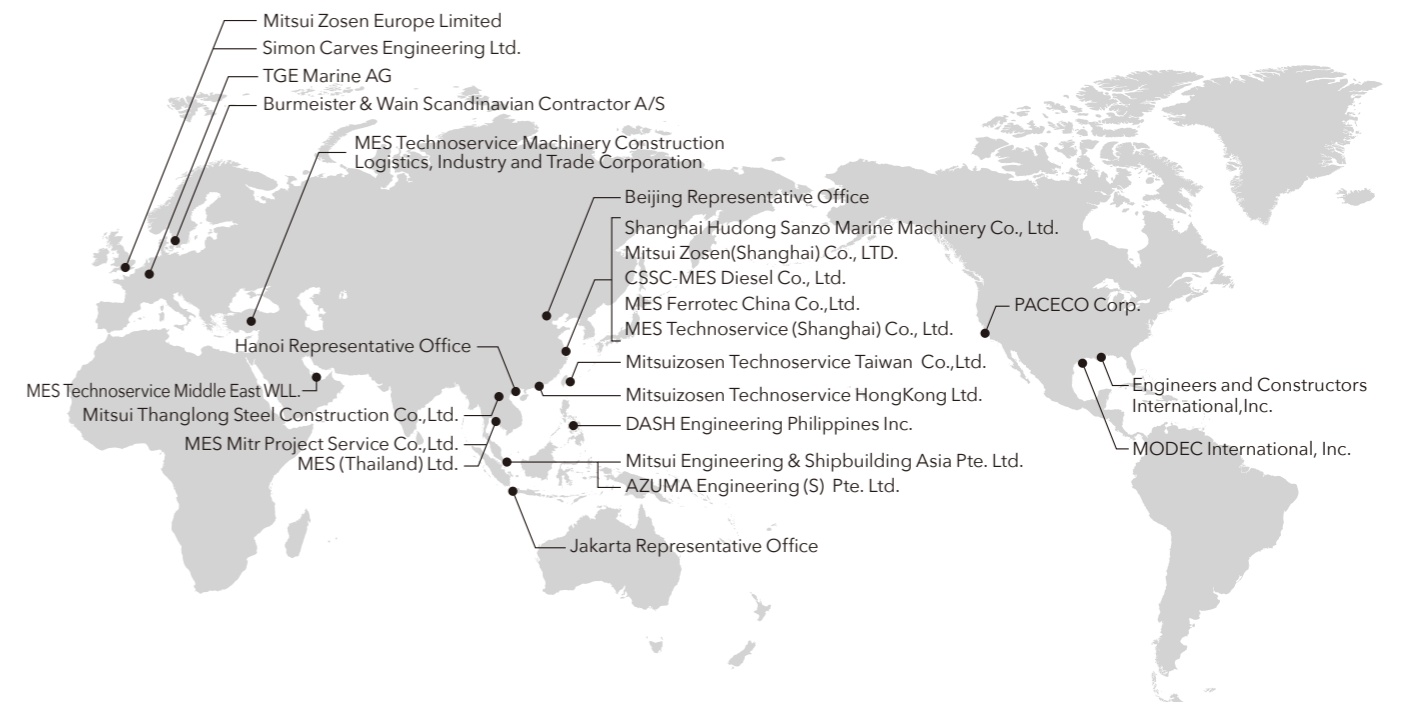
## Major 10 shareholders (As of March 31, 2016)

Name	Number of Shares Held (Thousand Shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	39,481	4.88%
The Master Trust Bank of Japan, Ltd. (Trust Account)	35,701	4.41%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	31,396	3.88%
Mitsui & Co., Ltd.	25,500	3.15%
The 114th Bank	25,460	3.15%
Japan Trustee Services Bank, Ltd. (Trust Account for the retirement allowance for Sumitomo Mitsui Trust Bank, Limited)	23,316	2.88%
Mitsui Life Insurance Company, Limited	16,000	1.97%
Trust & Custody Services Bank, Ltd. (Trust Account for securities investment)	15,651	1.93%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	14,790	1.82%
Mitsui Sumitomo Insurance Company, Limited	13,647	1.68%

## Offices and Works



## Overseas Network







<http://www.mes.co.jp/>