Financial Section

Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

INDUSTRY SEGMENT	Net Sales (In millions of yen) 2013	Net Sales (In millions of yen) 2012	Net Sales (In thousands of U.S. dollars) 2013	Operating Income (Loss) (In millions of yen) 2013	Operating Income (Loss) (In millions of yen) 2012†	Operating Income (Loss) (In thousands of U.S. dollars) 2013
Shipbuilding & Ocean Development	¥ 225,844	¥ 311,678	$ 2,401,318	¥ 11,572	¥ (3,843)	$ 123,040
Power Systems	988,756	955,348	10,513,088	88,902	92,322	945,263
Machinery & Steel Infrastructure Systems	482,557	428,839	5,130,855	26,452	25,305	281,254
Aerospace Systems	485,834	495,991	5,165,699	29,146	(5,301)	309,898
General Machinery & Special Vehicles	389,105	381,717	4,137,214	12,784	5,164	135,927
Others	345,780	294,477	3,676,555	12,992	16,122	138,139
Subtotal	2,917,879	2,868,052	31,024,763	181,851	129,771	1,933,556
Eliminations or Corporate	(99,985)	(47,120)	(1,063,104)	(18,330)	(17,810)	(194,896)
Total	¥2,817,893	¥2,820,932	$29,961,648	¥163,520	¥111,961	$1,738,649

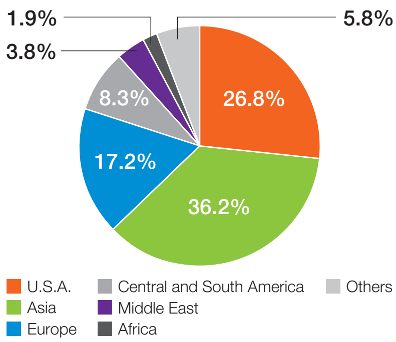
INDUSTRY SEGMENT	Total Assets (In millions of yen) 2013	Total Assets (In millions of yen) 2012†	Total Assets (In thousands of U.S. dollars) 2013	Capital Expenditures (In millions of yen) 2013	Capital Expenditures (In millions of yen) 2012	Capital Expenditures (In thousands of U.S. dollars) 2013
Shipbuilding & Ocean Development	¥ 154,568	¥ 186,929	$ 1,643,466	¥ 5,070	¥ 7,812	$ 53,907
Power Systems	1,135,709	1,203,539	12,075,587	36,107	39,850	383,912
Machinery & Steel Infrastructure Systems	620,500	638,543	6,597,554	10,027	9,448	106,613
Aerospace Systems	934,057	919,918	9,931,493	37,085	33,537	394,311
General Machinery & Special Vehicles	329,184	351,786	3,500,095	9,876	10,892	105,007
Others	567,256	620,475	6,031,430	15,477	12,578	164,561
Subtotal	3,741,276	3,921,191	39,779,649	113,645	114,119	1,208,346
Eliminations or Corporate	193,842	42,795	2,061,052	5,223	6,636	55,534
Total	¥3,935,119	¥3,963,987	$41,840,712	¥118,868	¥120,755	$1,263,880

INDUSTRY SEGMENT	Depreciation and Amortization* (In millions of yen) 2013	Depreciation and Amortization* (In millions of yen) 2012	Depreciation and Amortization* (In thousands of U.S. dollars) 2013	Amortization of Goodwill (In millions of yen) 2013	Amortization of Goodwill (In millions of yen) 2012	Amortization of Goodwill (In thousands of U.S. dollars) 2013
Shipbuilding & Ocean Development	¥ 6,309	¥ 9,728	$ 67,081	¥ –	¥ –	$ –
Power Systems	36,220	40,618	385,114	250	477	2,658
Machinery & Steel Infrastructure Systems	11,076	14,060	117,767	66	31	701
Aerospace Systems	30,078	29,995	319,808	–	–	–
General Machinery & Special Vehicles	13,778	15,449	146,496	243	1,755	2,583
Others	12,178	14,111	129,484	374	48	3,976
Subtotal	109,642	123,964	1,165,784	935	2,313	9,941
Corporate	8,915	–	94,790	–	–	–
Total	¥118,557	¥123,964	$1,260,574	¥935	¥2,313	$9,941

* Amortization of goodwill is not included.

BREAKDOWN OF SALES BY CUSTOMER LOCATION	Net Sales (In millions of yen) 2013	Net Sales (In millions of yen) 2012	Net Sales (In thousands of U.S. dollars) 2013
Japan	¥1,555,913	¥1,639,903	$16,543,466
U.S.A.	337,654	265,533	3,590,154
Asia	457,684	381,858	4,866,390
Europe	217,597	225,759	2,313,631
Central and South America	105,161	142,165	1,118,139
Middle East	47,518	68,740	505,241
Africa	23,400	51,644	248,803
Others	72,964	45,327	775,800
Total	¥2,817,893	¥2,820,932	$29,961,648

Composition of Overseas Net Sales by Geographic Distribution



Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥94.05=US$1, the exchange rate prevailing at March 31, 2013.
†Amounts for the year ended March 31, 2012 have been restated to reflect some changes in our segment allocation methodology.
Operating Income (Loss): Company-wide R&D expenses and part of the expenses incurred by administrative divisions at corporate headquarters, which were allocated among the segments have been included in "Eliminations or Corporate."
Total Assets: Deferred income taxes, which were included in "Eliminations or Corporate" have been allocated among the segments.

Management's Discussion and Analysis

Analysis of Operating Results

MHI recorded an increase in net sales for the Machinery & Steel Infrastructure Systems, Power Systems and General Machinery & Special Vehicles segments. On the other hand, net sales decreased in areas including the Shipbuilding & Ocean Development and Aerospace Systems segments. As a result, the total value of consolidated net sales for fiscal 2012 decreased ¥3.0 billion or 0.1% from fiscal 2011 to ¥2,817.8 billion.Operating income rose ¥51.5 billion, or 46.1% year on year, to ¥163.5 billion. Income rose mainly due to improved profitability in the Aerospace Systems, Shipbuilding & Ocean Development and General Machinery & Special Vehicles segments.

Net non-operating expenses were ¥14.4 billion, an improvement of ¥11.2 billion from the previous fiscal year, as improvement in equity in foreign exchange loss and a decrease in interest expense offset a worsening equity in losses of unconsolidated subsidiaries and affiliates.

As a result, ordinary income climbed ¥62.8 billion, or 72.9% year on year, to ¥149.0 billion.

The MHI Group posted an extraordinary gain of ¥12.8 billion from sales of investment securities and fixed assets. The Group also posted an extraordinary loss of ¥6.4 billion for business structure improvement expenses.

Consequently, income before income taxes and minority interests increased ¥85.6 billion, or 122.6% year on year, to ¥155.4 billion. Net income, meanwhile, increased ¥72.7 billion, or 296.6%, from the previous fiscal year to ¥97.3 billion.

Key Factors Affecting Operating Results

Key factors that affect the management of the MHI Group include external factors such as market trends, foreign exchange rate fluctuations and changes in material costs, and internal factors such as risks associated with various overseas business contracts, accidents and disasters, and weakening manufacturing capabilities.

Market trends

Markets are expected to continue showing signs of recovery, buoyed by monetary easing and stimulative measures taken by major powers around the world and by economic and fiscal policies implemented by Japan. Meanwhile, MHI expects its business environment to become even more challenging due to increasing pressure from competitors on a global scale driven by the increased opening of world markets. In the current business environment, in order to build resilience to global market risks and to survive and grow as a corporate group with international presence both in name and in reality, MHI recognizes that it is essential to further expand the scale of its business and strengthen its financial base through profit maximization. At the same time, the Group will endeavor to leverage unrivaled technology to provide products and services that answer customer needs.

Exchange rate fluctuation

The MHI Group's export and overseas business transactions are mainly denominated in foreign currencies. Consequently, foreign exchange rate fluctuations can significantly affect business competitiveness and operating results. In order to minimize exchange rate fluctuation risk, the Group is increasing its liabilities denominated in foreign currencies by expanding overseas procurement and production, and hedging risk by promoting greater use of yen-denominated contracts, coupled with timely forward foreign exchange contracts.

Change in costs of materials

The MHI Group is responding to the impact of certain material price rises, such as for steel products, nonferrous metals and crude oil, promoting design standardization, increasing its utilization of common components, promoting employment of standardized parts, and expanding its signing of comprehensive procurement contracts and its overseas production activities. The Group is also strengthening relationships with its business partners, promoting an even greater level of information sharing, and striving to achieve further cost reductions.

Overseas business contracts

The MHI Group is exposed to a number of risks associated with individual business contracts it concludes in overseas markets. These include quality issues and delayed delivery dates for locally procured materials, inadequate skill levels and specific labor practices of the local staff, as well as unilateral contractual obligations. In order to prevent or mitigate these risks, all contracts undergo a rigorous internal assessment process prior to their formal conclusion. In addition to the segments concerned, several administrative departments are involved in this process, which includes the verification of local obligations with respect to procurement and labor contracts, extensive advance verification of contract terms with customers, the removal of unilateral conditions, and other prudent steps.

Accidents and disasters

Regarding accidents and disasters, the MHI Group is taking steps to minimize the probability of accidents and disasters occurring, which can have a significant impact on management, by carrying out ongoing work-site management activities, including the training of on-site workers to be more aware of risks.

Technology and skill transfer

The MHI Group is at risk of manufacturing capabilities weakening due to technology and skill transfer issues, particularly those associated with generational change. In response, the MHI Group invests in production process improvement aimed at rationalization and carries out focused investment in R&D related to manufacturing technology. The Group also strives to maintain and enhance its basic manufacturing capabilities through programs to train and improve the skills of its employees.

Source of Funds and Liquidity

Cash flow analysis

Operating activities provided net cash of ¥288.3 billion for the fiscal year under review, an increase of ¥88.0 billion compared with the previous fiscal year. This outcome mainly reflected a decrease in funds for working capital such as trade receivables.

Investing activities used net cash of ¥76.7 billion, ¥29.6 billion more than the previous fiscal year. This increase was mainly due to a decrease in proceeds from sales of non-current assets.

Financing activities used net cash of ¥154.2 billion, ¥29.3 billion less than the previous fiscal year. This fall was due mainly to a decrease in the repayment of long-term borrowings.

Primary funding requirements

The MHI Group primarily requires funds in operating activities for working capital for manufacturing activities (materials, outsourcing and personnel costs), order preparation costs and other sales expenses related to winning new orders, and funds for R&D activities that enhance the competitiveness of its products and strengthen manufacturing capabilities. In investing activities, funds are required for capital investments to grow business and enhance productivity, and for the purchase of investment securities related to the execution of business strategies.

In growth areas, the MHI Group is planning to execute necessary capital investments and R&D investment. As a whole, the Group plans to streamline its assets and selectively concentrate on core investment schemes, while anticipating fund requirements in future growth fields and closely monitoring the latest market environments and order trends. Accordingly, funding requirements are expected to trend lower going forward.

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2013 was as follows:

(in billions of yen)

	Total	Due within one year	Due after one year
Short-term borrowings	154.0	154.0	–
Long-term borrowings	627.2	150.1	477.0
Bonds	250.0	50.0	200.0
Total	1,031.2	354.1	677.0

The MHI Group is involved in numerous projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery facilities. Consequently, the MHI Group must secure a stable level of working capital and funds for capital investments. On the other hand, the Group has continued working to streamline its assets, and has repaid borrowings that have come due. As a result, the total interest-bearing debt of the MHI Group at the end of fiscal year 2012 was ¥1,031.2 billion, consisting of ¥354.1 billion due within one year, and ¥677.0 billion due after one year.

The interest-bearing debt mentioned above is utilized as working capital and for capital investments required for business activities, and the MHI Group plans to use these funds mainly in key growth fields expected to require funds, including Power Systems and Aerospace Systems.

Financial policy

The MHI Group funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with interest-bearing debt. In appropriately determining the amounts and methods of procuring long-term funds through long-term borrowings, bonds, and other means, the MHI Group takes into account the funding requirements of its business plans, interest-rate trends and various other factors, as well as the repayment schedule for its existing debt.

Additionally, in its efforts to reduce interest-bearing debt, the MHI Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, the MHI Group is working to improve asset efficiency by reducing trade receivables and inventories and by raising the utilization rate of its property, plant and equipment.

The MHI Group flexibly considers the repurchase of treasury stock based on the financial position of the Group, the stock price, as well as recent earnings forecasts and other factors.

Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	2013	2012	2013
Current assets:			
Cash and deposits (Notes 3 and 17)	¥ 328,365	¥ 262,287	$ 3,491,387
Trade receivables (Notes 3 and 8)	931,469	968,064	9,903,976
Securities (Notes 3 and 4)	2	1	21
Merchandise and finished products	139,157	155,990	1,479,606
Work in process	746,640	773,782	7,938,755
Raw materials and supplies	124,038	123,670	1,318,851
Deferred income taxes (Note 6)	138,934	180,747	1,477,235
Other current assets	222,550	180,826	2,366,294
Allowance for doubtful accounts (Note 1)	(6,333)	(6,368)	(67,336)
Total current assets	2,624,824	2,639,003	27,908,814
Non-current assets:			
Property, plant and equipment, net (Notes 8 and 19):			
Buildings and structures	339,262	342,243	3,607,251
Machinery and transportation equipment	225,547	234,037	2,398,160
Tools, equipment and furniture	41,877	38,051	445,263
Land	138,382	137,337	1,471,366
Leased assets	4,599	5,356	48,899
Construction in progress	43,263	40,557	460,000
Total property, plant and equipment, net	792,932	797,584	8,430,962
Intangible assets	29,216	25,313	310,643
Investments and advances:			
Investment securities (Notes 3 and 4)	297,625	309,054	3,164,540
Long-term loans and advances	6,863	5,478	72,971
Deferred income taxes (Note 6)	10,087	11,180	107,251
Others	182,459	185,708	1,940,021
Allowance for doubtful accounts (Note 1)	(8,891)	(9,335)	(94,534)
Total investments and advances	488,144	502,086	5,190,260
Total non-current assets	1,310,294	1,324,984	13,931,887
Total assets	¥3,935,119	¥3,963,987	$41,840,712

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

LIABILITIES AND NET ASSETS	In millions of yen 2013	2012	In thousands of U.S. dollars (Note 2) 2013
Liabilities			
Current liabilities:			
Trade payables (Note 3)	**¥ 663,451**	¥ 651,101	**$ 7,054,237**
Short-term borrowings (Notes 3, 7 and 8)	**154,014**	152,344	**1,637,575**
Current portion of long-term borrowings (Notes 3, 7 and 8)	**150,171**	131,713	**1,596,714**
Current portion of bonds (Notes 3 and 7)	**50,000**	69,900	**531,632**
Reserve for product warranties (Note 1)	**22,135**	20,812	**235,353**
Reserve for losses on construction contracts (Note 1)	**35,405**	77,565	**376,448**
Reserve for legal claims (Note 1)	**61**	3,936	**648**
Advance payments received on contracts	**427,390**	399,288	**4,544,284**
Other current liabilities (Notes 6 and 7)	**191,193**	208,034	**2,032,886**
Total current liabilities	**1,693,822**	1,714,695	**18,009,803**
Non-current liabilities:			
Bonds (Notes 3 and 7)	**200,000**	250,000	**2,126,528**
Long-term borrowings (Notes 3, 7 and 8)	**477,053**	553,189	**5,072,333**
Deferred income taxes (Note 6)	**9,922**	17,832	**105,497**
Reserve for retirement allowance (Notes 1 and 10)	**51,904**	47,002	**551,876**
Reserve for treatment of PCB waste (Note 1)	**10,865**	11,604	**115,523**
Other non-current liabilities (Note 7)	**61,324**	63,296	**652,036**
Total non-current liabilities	**811,070**	942,925	**8,623,817**
Total liabilities	**2,504,893**	2,657,621	**26,633,631**
Net assets			
Stockholders' equity (Note 15):			
Common stock, without par value:			
Authorized shares: 6,000,000,000			
Issued shares: 2013 and 2012 – 3,373,647,813	**265,608**	265,608	**2,824,114**
Capital surplus	**203,956**	203,942	**2,168,591**
Retained earnings	**901,397**	822,473	**9,584,231**
Treasury stock (2013 – 18,454,838 shares and 2012 – 18,546,244 shares) at cost	**(5,394)**	(5,418)	**(57,352)**
Total stockholders' equity	**1,365,568**	1,286,606	**14,519,595**
Accumulated other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	**30,979**	22,082	**329,388**
Deferred gains (losses) on hedges	**142**	12	**1,509**
Foreign currency translation adjustments	**(18,040)**	(53,611)	**(191,812)**
Total accumulated other comprehensive income (loss)	**13,081**	(31,517)	**139,085**
Share subscription rights (Note 16)	**2,243**	1,868	**23,849**
Minority interests	**49,332**	49,409	**524,529**
Total net assets	**1,430,225**	1,306,366	**15,207,070**
Total liabilities and net assets	**¥3,935,119**	¥3,963,987	**$41,840,712**

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2013	2012	2013
Net sales	¥2,817,893	¥2,820,932	$29,961,648
Cost of sales	2,297,072	2,375,158	24,423,944
Gross profit	520,821	445,774	5,537,703
Selling, general and administrative expenses (Note 18)	357,300	333,812	3,799,043
Operating income	163,520	111,961	1,738,649
Non-operating income (expenses):			
Interest income	2,717	3,637	28,888
Dividend income	3,876	4,248	41,212
Income (loss) from equity method investments	2,625	4,960	27,910
Foreign exchange gain	7,030	–	74,747
Other income	2,623	5,107	27,889
Interest expense	(17,256)	(20,522)	(183,476)
Foreign exchange loss	–	(5,094)	–
Loss on disposal of fixed assets	(4,397)	(5,725)	(46,751)
Other expenses (Note 13)	(11,711)	(12,390)	(124,518)
Total non-operating income (expenses)	(14,492)	(25,779)	(154,088)
Ordinary income	149,028	86,182	1,584,561
Extraordinary gain (loss):			
Gain (loss) on sales of investment securities	8,676	–	92,248
Gain (loss) on sales of fixed assets (Note 11)	4,157	28,344	44,199
Business structure improvement expenses (Notes 12 and 13)	(6,414)	(38,116)	(68,197)
Expense for treatment of PCB waste (Note 1)	–	(4,098)	–
Loss on revaluation of investment securities (Note 4)	–	(2,479)	–
Total extraordinary gain (loss)	6,419	(16,350)	68,250
Income before income taxes and minority interests	155,448	69,831	1,652,822
Income taxes (Note 6):			
Current	26,059	46,031	277,076
Deferred	33,080	(855)	351,727
Total income taxes	59,139	45,175	628,803
Income before minority interests	96,308	24,655	1,024,008
Minority interests in income (loss) of consolidated subsidiaries	(1,021)	114	(10,855)
Net income	¥ 97,330	¥ 24,540	$ 1,034,875

	In yen		In U.S. dollars (Note 2)
Per share information of common stock (Note 1) :	2013	2012	2013
Net income - basic	¥ 29.01	¥ 7.31	$ 0.308
Net income - diluted	28.95	7.30	0.308
Cash dividends	8.00	6.00	0.085

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

Consolidated Statements of Comprehensive Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2013	2012	2013
Income before minority interests	¥ 96,308	¥24,655	$1,024,008
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	9,631	(3,607)	102,402
Deferred gains (losses) on hedges	236	549	2,509
Foreign currency translation adjustments	25,638	(9,455)	272,599
Share of other comprehensive income (loss) of entities accounted for using the equity method	10,547	(2,051)	112,142
Changes in equity interest	1,725	–	18,341
Total other comprehensive income (loss) (Note 14)	47,780	(14,565)	508,027
Comprehensive income (loss)	¥144,088	¥10,090	$1,532,036
Comprehensive income (loss) attributable to:			
Shareholders of the parent	¥143,653	¥10,223	$1,527,410
Minority interests	435	(132)	4,625

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

Consolidated Statements of Changes in Net Assets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

In millions of yen

	Stockholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2011	¥265,608	¥203,939	¥815,145	¥(5,425)	¥1,279,267	¥25,579	¥(467)	¥(42,311)	¥(17,199)	¥1,509	¥49,101	¥1,312,678
Cash dividends (Note 15)			(16,775)		(16,775)							(16,775)
Net income			24,540		24,540							24,540
Changes in scope of consolidation			19		19							19
Changes in scope of equity method application			(4)		(4)							(4)
Changes in fiscal year-end of consolidated subsidiaries			(452)		(452)							(452)
Purchase of treasury stock				(14)	(14)							(14)
Disposal of treasury stock		3		22	25							25
Net changes in items other than stockholders' equity						(3,497)	479	(11,300)	(14,317)	359	307	(13,650)
Subtotal	–	3	7,327	7	7,338	(3,497)	479	(11,300)	(14,317)	359	307	(6,312)
Balance as of March 31, 2012	¥265,608	¥203,942	¥822,473	¥(5,418)	¥1,286,606	¥22,082	¥ 12	¥(53,611)	¥(31,517)	¥1,868	¥49,409	¥1,306,366
Cash dividends (Note 15)			(20,131)		(20,131)							(20,131)
Net income			97,330		97,330							97,330
Changes in equity interest			1,725		1,725							1,725
Purchase of treasury stock				(11)	(11)							(11)
Disposal of treasury stock		13		35	49							49
Net changes in items other than stockholders' equity						8,897	129	35,570	44,598	375	(76)	44,897
Subtotal	–	13	78,924	23	78,962	8,897	129	35,570	44,598	375	(76)	123,859
Balance as of March 31, 2013	¥265,608	¥203,956	¥901,397	¥(5,394)	¥1,365,568	¥30,979	¥ 142	¥(18,040)	¥ 13,081	¥2,243	¥49,332	¥1,430,225

In thousands of U.S. dollars (Note 2)

	Stockholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2012	$2,824,114	$2,168,442	$8,745,061	$(57,607)	$13,680,021	$234,790	$ 127	$(570,026)	$(335,108)	$19,861	$525,348	$13,890,122
Cash dividends (Note 15)			(214,045)		(214,045)							(214,045)
Net income			1,034,875		1,034,875							1,034,875
Changes in equity interest			18,341		18,341							18,341
Purchase of treasury stock				(116)	(116)							(116)
Disposal of treasury stock		138		372	520							520
Net changes in items other than stockholders' equity						94,598	1,371	378,203	474,194	3,987	(808)	477,373
Subtotal	–	138	839,170	244	839,574	94,598	1,371	378,203	474,194	3,987	(808)	1,316,948
Balance as of March 31, 2013	$2,824,114	$2,168,591	$9,584,231	$(57,352)	$14,519,595	$329,388	$1,509	$(191,812)	$139,085	$23,849	$524,529	$15,207,070

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥155,448	¥ 69,831	$1,652,822
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	118,557	123,964	1,260,574
Increase (decrease) in reserve for retirement allowance	4,687	(2,956)	49,835
Interest and dividend income	(6,594)	(7,885)	(70,111)
Interest expense	17,256	20,522	183,476
(Income) loss from equity method investments	(2,625)	(4,960)	(27,910)
(Gain) loss on sales of investment securities	(8,676)	(123)	(92,248)
Loss on revaluation of investment securities	–	2,479	–
(Gain) loss on sales of fixed assets	(4,157)	(28,344)	(44,199)
Loss on disposal of fixed assets	4,397	5,725	46,751
Business structure improvement expenses	6,414	38,116	68,197
Expense for treatment of PCB waste	–	4,098	–
(Increase) decrease in receivables	60,932	(123,811)	647,868
(Increase) decrease in inventories and advances to suppliers	32,827	33,945	349,037
(Increase) decrease in other assets	8,194	(1,733)	87,123
Increase (decrease) in payables	(11,938)	38,004	(126,932)
Increase (decrease) in advance payments received on contracts	23,986	70,284	255,034
Increase (decrease) in other liabilities	(44,128)	14,622	(469,197)
Others	1,824	4,841	19,393
Subtotal	356,406	256,621	3,789,537
Interest and dividends received	7,962	8,447	84,657
Interest paid	(17,507)	(20,931)	(186,145)
Income taxes paid	(58,485)	(43,776)	(621,850)
Net cash provided by operating activities	288,375	200,361	3,066,188
Cash flows from investing activities:			
Net (increase) decrease in time deposits	(372)	4,417	(3,955)
Purchases of marketable securities	–	(40,000)	–
Proceeds from sales and redemption of marketable securities	–	40,000	–
Purchases of property, plant, equipment and intangible assets	(115,701)	(117,433)	(1,230,207)
Proceeds from sales of property, plant and equipment and intangible assets	8,814	66,963	93,716
Purchases of investment securities	(4,307)	(2,763)	(45,794)
Proceeds from sales and redemption of investment securities	44,563	3,557	473,822
Disbursement of long-term loans	(3,338)	(1,930)	(35,491)
Collection of long-term loans	1,096	1,887	11,653
Others	(7,494)	(1,746)	(79,681)
Net cash used in investing activities	(76,737)	(47,047)	(815,917)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	(1,695)	69,278	(18,022)
Proceeds from long-term borrowings	72,652	2,835	772,482
Repayment of long-term borrowings	(132,092)	(212,859)	(1,404,486)
Payment for redemption of bonds	(69,900)	(24,228)	(743,221)
Proceeds from issuance of stock to minority stockholders of subsidiaries	372	1,775	3,955
Dividends paid to stockholders	(20,061)	(16,733)	(213,301)
Dividends paid to minority stockholders of subsidiaries	(954)	(1,375)	(10,143)
Others	(2,535)	(2,306)	(26,953)
Net cash used in financing activities	(154,215)	(183,614)	(1,639,712)
Effect of exchange rate changes on cash and cash equivalents	7,397	(4,045)	78,649
Net increase (decrease) in cash and cash equivalents	64,820	(34,347)	689,207
Cash and cash equivalents at beginning of year	254,605	288,868	2,707,123
Increase in cash and cash equivalents due to changes in scope of consolidation	–	84	–
Cash and cash equivalents at end of year (Note 17)	¥319,426	¥254,605	$3,396,342

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

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of the Mitsubishi Heavy Industries Group (the "Group"), which consists of Mitsubishi Heavy Industries, Ltd. ("MHI") and its consolidated subsidiaries ("Subsidiaries"), have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been prepared from the consolidated financial statements filed with the Financial Services Agency ("FSA") of Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2013 and 2012 include the accounts of the Group. All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and affiliates, with certain minor exceptions, are accounted for by the equity method.

c) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the exchange rates in effect at the balance sheet date and the resulting translation gains or losses are included in net income.

All assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date, revenues and expenses at the average exchange rates during the year, and stockholders' equity at historical rates. The resulting foreign currency translation adjustments are accounted for as a component of net assets.

d) Securities

Securities include (1) investments in unconsolidated subsidiaries and affiliates and (2) other securities (available-for-sale securities). Their valuation standards and methods are as follows:

(1) Investments in unconsolidated subsidiaries and affiliates excluding those accounted for by the equity method:
Historical cost (moving average method).

(2a) Other securities with market value:
Market value method based on market prices or other fair values at the balance sheet date. Unrealized holding gains and losses are accounted for as a component of net assets, net of tax effect. The costs of sold securities are computed based on the moving average method.

(2b) Other securities without market value:
Historical cost (moving average method).
As to the presentation of the balance sheet, the Group has classified securities due within one year as securities in current assets and the others as investment securities in "Investments and advances."

e) Inventories

Merchandise and finished products are principally stated at cost determined by the moving average method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Work in process is principally stated at cost determined by the specific identification method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Raw materials and supplies are principally stated at cost determined by the moving average method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

f) Depreciation of property, plant and equipment

Depreciation of property, plant and equipment (excluding leased assets) is principally computed using the straight-line method for buildings (excluding the equipment attached to them) and the declining-balance method for the other items of property, plant and equipment over the assets' useful lives.

Depreciation of leased assets is computed using the straight-line method over the lease terms.

g) Amortization of intangible assets

Amortization of intangible assets (excluding leased assets) is computed using the straight-line method over the assets' useful lives.

Amortization of leased assets is computed using the straight-line method over the lease terms.

Goodwill is amortized on a straight-line basis over the investment recovery period of up to 20 years.

h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for possible losses on the collection of receivables. The amount of the allowance for general receivables is based on the write-off ratio. As for certain receivables such as the ones from the debtors whose solvency is in doubt, the recoverability of each receivable is examined individually and the estimated unrecoverable amounts are recognized as the allowance.

i) Reserve for product warranties

Reserve for product warranties is provided for the product warranty expenditure after products are delivered. The amounts are estimated based on the past statistics and other relevant factors.

j) Reserve for losses on construction contracts

Reserve for losses on construction contracts is provided for the expected total losses to be realized in the following years on the construction contracts if (1) those losses are judged inevitable at current year-end and (2) reasonable estimation of the amounts of such losses is possible.

With regard to the construction contracts for which this reserve is recognized, if the year-end balances of their work-in-process already exceed their respective total contract revenues, the exceeding portion is recognized as the loss on devaluation of the work-in-process and, accordingly, is not included in the reserve for losses on construction contracts.

k) Reserve for legal claims

Reserve for legal claims is provided based on estimates of damage compensations and other expenses on legal claims.

l) Reserve for retirement allowance

Reserve for retirement allowance is provided for employees' retirement benefits. The amounts are based on the balances of retirement benefit obligations and estimated pension fund assets (including a retirement benefit trust) at the end of the fiscal year.

Prior service costs are either expensed as incurred or amortized by the straight-line method over the years shorter than the average remaining service period of employees.

Actuarial gains and losses for each year are amortized by the straight-line method, starting in the following year of incurrence, over the years shorter than the average remaining service period of employees.

m) Reserve for treatment of PCB waste

Reserve for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment of PCB products and equipment.

n) Revenue recognition

With regard to construction contracts, the percentage-of-completion method is applied if reliable estimates of the (1) total costs on and revenues from a contract and (2) percentage of completion at the balance sheet date are available. In applying this method, the percentage of completion at the balance sheet date is estimated based on the costs incurred to date divided by the estimated total costs on the contracts. The completed-contract method is applied when the above conditions are not met.

o) Hedge Accounting

The principal method in applying the hedge accounting is deferral hedge accounting, where gains or losses on a hedging instrument are deferred (and recognized as a component of net assets, net of tax effect) until the losses or gains on the hedged item are recognized in the income statement.

The Group applies the "exceptional method for interest rate swaps" (hereinafter referred to as the "exceptional method") when the transactions meet the requirements of relevant accounting standards.

The "exceptional method" is applied when an interest rate swap (hedging instrument) with the corresponding conditions (e.g. principal amount, maturity and index) to the hedged item is concluded to fix the interest rate on the hedged item. Under this method, the amounts to be paid or received under the contract is added to or deducted from the interest; the fair value of the hedging instrument is not computed.

The Group evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and those on the hedged items from the commencement of the hedges.

(Change in accounting policy)

When foreign currency receivables or payables were covered by forward exchange contracts (excluding the cases where comprehensive forward exchange contracts were concluded with regard to build-to-stock products) and the transactions met the requirements of relevant accounting standards, the Group applied the "assigning method for foreign currency receivables or payables" until the year ended March 31, 2012. However, the Group has changed the accounting treatment of foreign currency receivables and payables to a regular method as a result of the revision of management policy on forward exchange contracts, which was made in line with the renewal of the business operating structure. The change was made effective the year ended March 31, 2013, when "2012 Business Plan" was implemented. The effect of this change was immaterial.

p) Tax-effect accounting

Deferred income taxes arise from temporary differences between the financial reporting and tax bases of assets and liabilities. They are accounted for under the asset and liability method, where the amounts of deferred income taxes are calculated using the future tax rates in effect when the temporary differences are recovered or settled.

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
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q) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, demand deposits and short-term highly liquid investments with maturities of three months or less when purchased that have insignificant risk of changes in value.

r) Net income per share

The computation of basic net income per share is based on the net income available to common stockholders and the weighted average number of shares outstanding during each period.

Diluted net income per share is computed based on the assumption that all the share subscription rights are exercised at the beginning of the year (or issue date if later).

2. U.S. DOLLAR AMOUNTS

U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the Japanese yen actually represent, or have been or could be converted into, U.S. dollars.

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥94.05 = US$1 prevailing at March 31, 2013 is used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. FINANCIAL INSTRUMENTS

The carrying amounts on the consolidated balance sheet, fair values and the variance between them of financial instruments as of March 31, 2013 and 2012 are shown in the following table. The ones whose fair values are extremely difficult to determine are excluded from the following table and shown in Footnote 2. See Note 1 o) for the information on hedge accounting.

	In millions of yen			In thousands of U.S. dollars		
	2013			2013		
	Carrying Amount	Fair Value	Variance	Carrying Amount	Fair Value	Variance
(1) Cash and deposits	¥ 328,365	¥ 328,365	¥ –	$ 3,491,387	$ 3,491,387	$ –
(2) Trade receivables	931,469	931,469	–	9,903,976	9,903,976	–
(3) Securities and investment securities	183,083	243,146	60,062	1,946,656	2,585,284	638,617
Asset Items Total	¥1,442,918	¥1,502,980	¥60,062	$15,342,030	$15,980,648	$638,617
(4) Trade payables	663,451	663,451	–	7,054,237	7,054,237	–
(5) Short-term borrowings	154,014	154,014	–	1,637,575	1,637,575	–
(6) Bonds	250,000	260,183	10,183	2,658,160	2,766,432	108,272
(7) Long-term borrowings	627,224	645,459	18,235	6,669,048	6,862,934	193,886
Liability Items Total	¥1,694,689	¥1,723,108	¥28,418	$18,019,021	$18,321,190	$302,158
(8) Derivatives (*)	¥ (18,197)	¥ (18,197)	¥ –	$ (193,482)	$ (193,482)	$ –

(*) The derivatives positions shown are net amounts. The amounts in parentheses show liability balances.

	In millions of yen		
	2012		
	Carrying Amount	Fair Value	Variance
(1) Cash and deposits	¥ 262,287	¥ 262,287	¥ –
(2) Trade receivables	968,064	968,064	–
(3) Securities and investment securities	157,553	222,836	65,283
Asset Items Total	¥1,387,905	¥1,453,189	¥65,283
(4) Trade payables	651,101	651,101	–
(5) Short-term borrowings	152,344	152,344	–
(6) Bonds	319,900	330,120	10,220
(7) Long-term borrowings	684,902	707,013	22,110
Liability Items Total	¥1,808,248	¥1,840,579	¥32,330
(8) Derivatives (*)	¥ (1,432)	¥ (1,432)	¥ –

(*) The derivatives positions shown are net amounts. The amounts in parentheses show liability balances.

(Footnote 1) The computation method of the fair values of financial instruments.

(1) Cash and deposits
The book values are used as the fair values since all the deposits are short-term and the fair values are almost equal to the book values.
(2) Trade receivables
The book values are used as the fair values since a large portion of these are settled in a short period and the fair values could be deemed almost equal to the book values.
(3) Securities and investment securities
Market prices are used as the fair values.
(4) Trade payables; (5) Short-term borrowings
The book values are used as the fair values since they are settled in a short period and the fair values are almost equal to the book values.
(6) Bonds
Market prices are used as the fair values.
(7) Long-term borrowings
The present values of the principal and total interest (*) (discounted by the rate assumed to be applied to the new borrowings of the same conditions) are used as the fair values.
(*) As for the long-term borrowings to which the "exceptional method" for interest-rate swaps is applied, the principal and total interest according to the interest rate under the interest-rate swaps are used.
(8) Derivatives
See Note 5.

(Footnote 2) Financial instruments shown below are excluded from the above table because they do not have market prices and it is extremely difficult to determine their fair values.

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Carrying amounts of unlisted securities	**¥114,543**	¥151,503	**$1,217,894**

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2013 and 2012 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2013				**2013**			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	**¥ 326,731**	**¥ –**	**¥ –**	**¥–**	**$ 3,474,013**	**$ –**	**$ –**	**$–**
Trade receivables	**892,809**	**35,257**	**3,402**	**–**	**9,492,918**	**374,875**	**36,172**	**–**
Securities and investment securities								
Other securities								
Government bonds	**9**	**–**	**–**	**–**	**95**	**–**	**–**	**–**
Total	**¥1,219,550**	**¥35,257**	**¥3,402**	**¥–**	**$12,967,038**	**$374,875**	**$36,172**	**$–**

	In millions of yen			
	2012			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 261,722	¥ –	¥ –	¥–
Trade receivables	903,892	53,852	10,319	–
Securities and investment securities				
Other securities				
Government bonds	0	9	–	–
Total	¥1,165,615	¥53,862	¥10,319	¥–

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
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4. SECURITIES

a) Breakdown of other securities with market value at March 31, 2013 and 2012

	In millions of yen			In thousands of U.S. dollars		
	2013			2013		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥107,697	¥55,123	¥52,574	$1,145,103	$ 586,103	$559,000
Government bonds	0	0	0	0	0	0
Others	2	1	0	21	10	0
Subtotal	¥107,700	¥55,125	¥52,574	$1,145,135	$ 586,124	$559,000
ii) Acquisition costs over carrying amounts:						
Equity securities	¥ 34,593	¥42,675	¥ (8,081)	$ 367,814	$ 453,748	$ (85,922)
Government bonds	9	9	–	95	95	–
Others	5	5	(0)	53	53	(0)
Subtotal	¥ 34,608	¥42,690	¥ (8,082)	$ 367,974	$ 453,907	$ (85,933)
Total (i+ii)	¥142,308	¥97,816	¥44,492	$1,513,110	$1,040,042	$473,067

	In millions of yen		
	2012		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥ 79,346	¥32,400	¥ 46,945
Others	1	1	0
Subtotal	¥ 79,347	¥32,402	¥ 46,945
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 56,161	¥67,161	¥(10,999)
Government bonds	9	9	(0)
Others	4	5	(0)
Subtotal	¥ 56,175	¥67,176	¥(11,000)
Total (i+ii)	¥135,523	¥99,578	¥ 35,944

Footnote:If the market values of the securities decline substantially and if the Group judges that they have no chance of recovery, impairment losses on them are recognized and the acquisition costs of them are reduced by the same amounts.

b) Sales amounts of other securities with market value and related gains and losses for the years ended March 31, 2013 and 2012

	In millions of yen		In thousands of U.S. dollars
	2013	2012	2013
Sales amounts	¥291	¥175,094	$3,094
Gains	161	46	1,711
Losses	–	–	–

c) Impairment losses on other securities with market value for the years ended March 31, 2013 and 2012

	In millions of yen		In thousands of U.S. dollars
	2013	2012	2013
Impairment losses	¥1,968	¥2,351	$20,925

Securities with market value are judged as impaired when their market values decline from their book values by (i) 50% or more at the end of a fiscal year, or (ii) between 30% and 50% at four consecutive quarter ends (Q1-Q4) of a fiscal year.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivatives for the purpose of reducing the risks mentioned below and does not enter into derivatives for speculative or trading purposes.

The derivative financial instruments which the Group utilizes are principally foreign currency forward and option contracts and interest rate swaps. The former is to hedge against the exchange rate risk on the receivables and payables denominated in foreign currencies and the latter is to fix the interest rate on certain long-term borrowings. See Note 1 o) for the information on hedge accounting.

The use of the derivatives is subject to the internal control policy; the objective of the derivatives transactions is limited to hedging against such risks as exchange rate risks and interest rate risks and their use is limited to the extent corresponding to actual business. Accordingly, the Group believes that market risks resulting from the change in exchange rates and interest rates are insignificant. The Group also believes that the risk of nonperformance by counterparties is insignificant because all the counterparties are banks with high credit ratings.

Summarized below are the notional amounts and the fair values of the derivative positions outstanding at March 31, 2013 and 2012.

1. Derivatives to which hedge accounting is not applied

Forward foreign exchange contracts (*1)

	In millions of yen			In thousands of U.S. dollars		
	2013			2013		
	Notional amount (*2)	Fair value	Unrealized gain (loss)	Notional amount (*2)	Fair value	Unrealized gain (loss)
Sell:						
US$	¥164,306	¥181,837	¥(17,530)	$1,747,006	$1,933,407	$(186,390)
Euro	7,142	7,728	(585)	75,938	82,169	(6,220)
Others	950	967	(16)	10,101	10,281	(170)
Total	¥172,400	¥190,532	¥(18,132)	$1,833,067	$2,025,858	$(192,791)

	In millions of yen		
	2012		
	Notional amount (*2)	Fair value	Unrealized gain (loss)
Sell:			
US$	¥26,030	¥26,873	¥ (842)
Euro	23,007	23,034	(26)
Others	4,533	4,792	(258)
Buy:			
Euro	18	18	(0)
Others	249	256	6
Total	¥53,303	¥54,425	¥(1,121)

(*1) The fair values of exchange contracts are based on forward exchange rates.
(*2) Notional amounts shown above are all due within one year.

2. Derivatives to which hedge accounting is applied

(1) Forward foreign exchange contracts (to which deferral hedge accounting is applied)

	In millions of yen			In thousands of U.S. dollars		
	2013			2013		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)						
US$	¥2,851	¥–	¥3,007	$30,313	$–	$31,972
Euro	744	–	906	7,910	–	9,633
Buy:(*2)						
US$	299	–	355	3,179	–	3,774
Euro	4	–	5	42	–	53
Others	1,513	–	1,710	16,087	–	18,181
Total	¥1,778	¥–	¥1,843	$18,904	$–	$19,595

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	In millions of yen		
	2012		
	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)			
US$	¥11,109	¥–	¥11,241
Euro	5,366	–	5,156
Others	3,730	–	3,813
Buy:(*2)			
US$	8,845	–	8,993
Euro	9,718	–	9,245
Others	4,597	–	4,616
Total	¥ (2,954)	¥–	¥ (2,643)

(*1) The hedged items on these derivatives are principally trade receivables.
(*2) The hedged items on these derivatives are principally trade payables.

(2) Forward foreign exchange contracts (to which the "assigning method" for foreign currency receivables or payables is applied)

	In millions of yen		
	2012		
	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)			
US$	¥ 2,440	¥ –	(*3)
Euro	10,132	–	(*3)
Others	145	–	(*3)
Buy:(*2)			
US$	1,612	9	(*3)
Euro	2,152	–	(*3)
Others	295	–	(*3)
Total	¥ 8,657	¥(9)	

(*1) The hedged items on these derivatives are principally trade receivables.
(*2) The hedged items on these derivatives are principally trade payables.
(*3) Since the "assigning method" for foreign currency receivables or payables was applied, the above contracts were treated as part of the hedged trade receivables/payables, thus their fair values are included in those of the trade receivables/payables, which are shown in Note 3.

(3) Interest rate swaps (to which the "exceptional method" for interest-rate swaps is applied) (*1)

	In millions of yen			In thousands of U.S. dollars		
	2013			**2013**		
Type of transactions	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	**¥244,481**	**¥197,556**	**(*2)**	**$2,599,479**	**$2,100,542**	**(*2)**

	In millions of yen		
	2012		
	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥251,001	¥186,556	(*2)

(*1) The hedged items on these derivatives are principally long-term borrowings.
(*2) Since the "exceptional method" for interest-rate swaps is applied, the above interest rate swaps are treated as part of the hedged long-term borrowings, thus their fair values are included in those of the long-term borrowings, which are shown in Note 3.

6. INCOME TAXES

The Group is subject to corporation income tax, inhabitants' tax and enterprise tax, based on income, which in the aggregate resulted in the statutory tax rate of approximately 37.8% and 40.5% for the years ended March 31, 2013 and 2012 respectively.

a) Significant components of deferred tax assets and liabilities at March 31, 2013 and 2012, which arose as a result of the recognition of the tax effect mentioned in Note 1 p), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Reserve for retirement allowance	**¥ 92,022**	¥ 94,955	**$ 978,437**
Accrued expenses for product warranties	**45,773**	44,903	**486,687**
Accrued expenses for construction contracts	**38,994**	26,896	**414,609**
Tax loss carryforwards	**32,610**	28,799	**346,730**
Inventory write-downs	**17,345**	32,721	**184,423**
Reserve for losses on construction contracts	**13,076**	28,807	**139,032**
Others	**96,399**	112,108	**1,024,976**
Subtotal	**336,223**	369,191	**3,574,938**
Valuation allowance	**(76,296)**	(65,660)	**(811,228)**
Total gross deferred tax assets	**259,926**	303,530	**2,763,700**
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	**(65,940)**	(68,146)	**(701,116)**
Reserve for reduction in costs of fixed assets	**(26,186)**	(27,404)	**(278,426)**
Net unrealized gains on investment securities	**(14,703)**	(16,621)	**(156,331)**
Others	**(14,712)**	(17,750)	**(156,427)**
Total gross deferred tax liabilities	**(121,542)**	(129,923)	**(1,292,312)**
Net deferred tax assets (liabilities)*	**¥138,383**	¥173,607	**$1,471,376**

*Net deferred tax assets (liabilities) at March 31, 2013 and 2012 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Deferred income taxes in current assets	**¥138,934**	¥180,747	**$1,477,235**
Deferred income taxes in investments and advances	**10,087**	11,180	**107,251**
Other liabilities in current liabilities	**(715)**	(488)	**(7,602)**
Deferred income taxes in non-current liabilities	**(9,922)**	(17,832)	**(105,497)**

b) Reconciliation of the statutory tax rate and the income tax rate as a percentage of income before income taxes and minority interests

	2013	2012
Statutory tax rate	Disclosure is omitted since the difference between the statutory tax rate and the income tax rate as a percentage of income before income taxes and minority interests was less than five percent of the statutory tax rate.	40.5%
Reconciliation:		
Items excluded from expenses		4.1
Items excluded from gross income		(2.1)
(Income) loss from equity method investments		(2.9)
Valuation allowance		12.5
Tax exemption for research and development expenses		(5.8)
Income taxes for previous periods		1.3
Reduction in deferred tax assets due to changes in statutory tax rate		16.3
Others		0.8
Income tax rate as a percentage of income before income taxes and minority interests		64.7%

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

7. INTEREST-BEARING DEBTS AND LEASE OBLIGATIONS

a) Short-term interest-bearing debts at March 31, 2013 and 2012 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Short-term loans, principally from banks (with weighted-average interest rate of 0.8% at March 31, 2013)	**¥154,014**	¥152,344	**$1,637,575**
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 1.5% at March 31, 2013)	**150,171**	131,713	**1,596,714**
Current portion of bonds	**50,000**	69,900	**531,632**
Total	**¥354,185**	¥353,957	**$3,765,922**

b) Bonds at March 31, 2013 and 2012 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Unsecured bonds issued by MHI:			
1.03% bonds due Jan 2013 (issued in Jan 2003)	**¥ –**	¥ 30,000	**$ –**
0.70% bonds due Jun 2013 (issued in Jun 2003)	**50,000**	50,000	**531,632**
2.04% bonds due Sep 2016 (issued in Sep 2006)	**20,000**	20,000	**212,652**
1.47% bonds due Sep 2012 (issued in Sep 2007)	**–**	39,900	**–**
1.69% bonds due Sep 2014 (issued in Sep 2007)	**20,000**	20,000	**212,652**
2.03% bonds due Sep 2017 (issued in Sep 2007)	**60,000**	60,000	**637,958**
0.688% bonds due Dec 2014 (issued in Dec 2009)	**50,000**	50,000	**531,632**
1.482% bonds due Dec 2019 (issued in Dec 2009)	**50,000**	50,000	**531,632**
Total	**¥250,000**	¥319,900	**$2,658,160**

The aggregate annual maturities of bonds at March 31, 2013 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2014 (= current portion)	**¥ 50,000**	**$ 531,632**
2015	**70,000**	**744,284**
2016	**–**	**–**
2017	**20,000**	**212,652**
2018	**60,000**	**637,958**
Thereafter	**50,000**	**531,632**
Non-current portion subtotal	**200,000**	**2,126,528**
Total	**¥250,000**	**$2,658,160**

c) Long-term borrowings at March 31, 2013 and 2012 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Non-current portion of long-term loans, principally from banks and insurance companies, due 2014 to 2030 (with weighted-average interest rate of 1.6% at March 31, 2013)	**¥477,053**	¥553,189	**$5,072,333**

The aggregate annual maturities of long-term borrowings at March 31, 2013 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2014 (= current portion)	¥150,171	$1,596,714
2015	181,745	1,932,429
2016	50,341	535,257
2017	48,255	513,078
2018	89,602	952,706
Thereafter	107,107	1,138,830
Non-current portion subtotal	477,053	5,072,333
Total	¥627,224	$6,669,048

d) Lease obligations at March 31, 2013 and 2012 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	2013
Current portion of lease obligations	¥ 2,340	¥ 2,177	$ 24,880
Non-current portion of lease obligations	8,441	8,218	89,750
Total	¥10,781	¥10,396	$114,630

8. PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	2013	2012	2013
Property, plant and equipment	¥10,020	¥ 9,566	$106,539
Trade receivables	1,903	1,198	20,233
Others	359	363	3,817
Total	¥12,282	¥11,127	$130,590

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	2013	2012	2013
Long-term borrowings	¥3,137	¥3,985	$33,354
Short-term borrowings	1,372	1,084	14,587
Total	¥4,509	¥5,070	$47,942

9. CONTINGENT LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Contingent liabilities	2013	2012	2013
Guarantee obligations on such debts as borrowings from financial institutions by companies outside the MHI Group	¥55,238	¥62,034	$587,325

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
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10. RETIREMENT BENEFITS

The Group has several non-contributory defined benefit pension plans and severance indemnity plans, and there are occasions where employees receive special lump-sum payments at retirement. Contributions to the plans are funded in accordance with the applicable laws and regulations. See Note 1 l) for accounting polices and related information.

a) Benefit obligations and related information at March 31, 2013 and 2012 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	2013
① Retirement benefit obligations	¥(593,285)	¥(610,093)	$(6,308,187)
② Fair value of plan assets	529,425	492,091	5,629,186
③ Unfunded benefit obligations (①+②)	(63,859)	(118,002)	(678,989)
④ Unrecognized actuarial losses (gains)	100,860	160,268	1,072,408
⑤ Unrecognized prior service costs (credits)	(5)	(66)	(53)
⑥ Net benefit liability recognized on the consolidated balance sheets (③+④+⑤)	36,995	42,199	393,354
⑦ Prepaid pension expenses	88,899	89,202	945,231
⑧ Reserve for retirement allowance (⑥–⑦)	¥ (51,904)	¥ (47,002)	$ (551,876)

b) The components of net periodic retirement benefit expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	2013
Service cost	¥27,764	¥28,330	$ 295,204
Interest cost	11,819	12,262	125,667
Expected return on plan assets	(10,607)	(11,377)	(112,780)
Amortization of actuarial losses (gains)	23,585	21,789	250,770
Amortization of prior service costs (credits)	(76)	(270)	(808)
Retirement benefit expenses	¥52,486	¥50,734	$ 558,064

c) The principal assumptions used in determining the information above at March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.4%	2.4%
Amortization period for prior service costs	Expensed as incurred or 9 to 18 years	Expensed as incurred or 9 to 15 years
Amortization period for actuarial gains and losses	9 to 21 years	9 to 19 years

11. GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2013	2012	2013
Land	¥3,295	¥23,447	$35,034
Others	862	4,896	9,165
Total	¥4,157	¥28,344	$44,199

12. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the year ended March 31, 2013 consisted of business reorganization expenses relating to Machinery & Steel Infrastructure Systems business and Others.

Business structure improvement expenses for the year ended March 31, 2012 consisted of business reorganization expenses relating mainly to Shipbuilding & Ocean Development business, Power Systems business, Machinery & Steel Infrastructure Systems business and General Machinery & Special Vehicles business.

13. LOSS ON IMPAIRMENT OF FIXED ASSETS

The following is a description of the loss on impairment of fixed assets recognized in the year ended March 31, 2013.

a) Description of the impaired asset group
The impaired asset group consisted mainly of buildings and structures and machinery and transportation equipment for operating purpose which were located in Mie, Yamagata, etc.

b) Method of asset grouping
The principal unit of asset grouping is works. Basically, assets for rental purpose, idle assets and assets to be disposed of due to termination or transfer of some operation are each treated as separate asset groups.

c) Reason to recognize the impairment
Because some assets are going out of use in relation to the reorganization of some operation, their book values were written down to recoverable amounts.

d) Calculation method of recoverable amounts
Recoverable amounts are measured either by fair value less costs to sell or the value in use. The value in use is computed by discounting the future cash flows to be derived from the assets to the present value with the rate of 4.6%.

e) Impairment loss amount and the breakdown

	In millions of yen	In thousands of U.S. dollars
Breakdown by the income statement accounts	2013	2013
"Business structure improvement expenses" under extraordinary loss	¥4,557	$48,452
"Other expenses" under non-operating expenses	2,504	26,624
Total	¥7,062	$75,087

	In millions of yen	In thousands of U.S. dollars
Breakdown by the category of the fixed assets	2013	2013
Buildings and structures	¥3,583	$38,096
Machinery and transportation equipment	2,295	24,401
Tools, equipment and furniture, etc.	1,183	12,578
Total	¥7,062	$75,087

The following is a description of the loss on impairment of fixed assets recognized in the year ended March 31, 2012.

a) Description of the impaired asset group
The impaired asset group consisted mainly of machinery and transportation equipment and land for operating purpose which were located in Nagasaki, Fukuoka, etc.

b) Method of asset grouping
The principal unit of asset grouping is works. Basically, assets for rental purpose, idle assets and assets to be disposed of due to termination or transfer of some operation are each treated as separate asset groups.

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c) Reason to recognize the impairment
Because some assets are going out of use in relation to the reorganization of some operation, their book values were written down to recoverable amounts.

d) Calculation method of recoverable amounts
Recoverable amounts are measured either by fair value less costs to sell or the value in use. The value in use is computed by discounting the future cash flows to be derived from the assets to the present value with the rate of 3.5%.

e) Impairment loss amount and the breakdown

	In millions of yen
Breakdown by the income statement accounts	2012
"Business structure improvement expenses" under extraordinary loss	¥5,150
"Other expenses" under non-operating expenses	1,841
Total	¥6,992

	In millions of yen
Breakdown by the category of the fixed assets	2012
Machinery and transportation equipment	¥3,823
Land	2,193
Buildings and structures, etc.	975
Total	¥6,992

14. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effect on other comprehensive income (loss) for the years ended March 31, 2013 and 2012 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Net unrealized gains (losses) on investment securities			
Gains (losses) arising during the year	**¥10,527**	¥(11,223)	**$111,929**
Reclassification adjustments	**1,806**	2,305	**19,202**
Net unrealized gains (losses) on investment securities, before tax	**12,334**	(8,918)	**131,143**
Deferred taxes relating to net unrealized gains (losses) on investment securities	**(2,702)**	5,310	**(28,729)**
Net unrealized gains (losses) on investment securities, net of tax	**9,631**	(3,607)	**102,402**
Deferred gains (losses) on hedges			
Gains (losses) arising during the year	**(356)**	(1,283)	**(3,785)**
Reclassification adjustments	**598**	2,124	**6,358**
Deferred gains (losses) on hedges, before tax	**241**	840	**2,562**
Deferred taxes relating to deferred gains (losses) on hedges	**(4)**	(291)	**(42)**
Deferred gains (losses) on hedges, net of tax	**236**	549	**2,509**
Foreign currency translation adjustments			
Gains (losses) arising during the year	**25,993**	9,455	**276,374**
Reclassification adjustments	**(354)**	–	**(3,763)**
Foreign currency translation adjustments	**25,638**	9,455	**272,599**
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Gains (losses) arising during the year	**10,575**	(1,650)	**112,440**
Reclassification adjustments	**(27)**	(400)	**(287)**
Share of other comprehensive income (loss) of entities accounted for using the equity method, net of tax	**10,547**	(2,051)	**112,142**
Changes in equity interest			
Gains (losses) arising during the year	**1,725**	–	**18,341**
Other comprehensive income (loss), net of tax	**¥47,780**	¥(14,565)	**$508,027**

15. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Total number of shares issued and treasury stock at March 31, 2013 and 2012 were as follows:

	Type of shares	At March 31, 2012	Increase by March 31, 2013	Decrease by March 31, 2013	At March 31, 2013
Total number of shares issued	Common stock	3,373,647,813	–	–	3,373,647,813
Treasury stock	Common stock	18,546,244	29,758	121,164	18,454,838

(1) Reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	29,758

(2) Reason for decrease of treasury stock

Disposal resulting from the exercise of share subscription rights, which were issued for the purpose of providing stock options	119,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	2,164
Total	121,164

b) Cash dividends

(1) Cash dividends paid

				Cash dividends per share		Total cash dividends paid	
Resolution	Type of shares	Record date	Effective date	In yen	In U.S. dollars	In millions of yen	In thousands of U.S. dollars
June 21, 2012							
Ordinary General Meeting of Shareholders	Common stock	March 31, 2012	June 22, 2012	¥3	$0.0319	¥10,065	$107,017
October 31, 2012 Board of Directors	Common stock	September 30, 2012	December 5, 2012	¥3	$0.0319	¥10,065	$107,017
Total						¥20,131	$214,045

(2) Dividends of which record date is within this fiscal year but the effective date is within next fiscal year

				Cash dividends per share		Total cash dividends paid	
Resolution	Type of shares	Record date	Effective date	In yen	In U.S. dollars	In millions of yen	In thousands of U.S. dollars
June 26, 2013							
Ordinary General Meeting of Shareholders	Common stock	March 31, 2013	June 27, 2013	¥5	$0.0532	¥16,776	$178,373

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16. SHARE-BASED COMPENSATION PLANS

MHI has the following share-based compensation plans for the directors and corporate executive officers.

The share-based compensation expenses, which amounted to 424 million yen ($4,508 thousand) in the year ended March 31, 2013 and 364 million yen in the year ended March 31, 2012, are included in selling, general and administrative expenses.

a) Conditions for issue of stock options

	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)	Stock options (11th grant)
Grantee (Number of individuals)	Directors & executive officers (25)	Directors & executive officers (30)	Directors & executive officers (33)	Executive officers (2)	Directors & executive officers (33)	Directors & executive officers (35)	Directors & executive officers (38)	Directors & executive officers (40)
Number of shares	663,000	400,000	806,000	46,000	1,109,000	1,259,000	1,364,000	1,632,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	August 17, 2006	August 16, 2007	August 18, 2008	February 20, 2009	August 17, 2009	August 17, 2010	December 15, 2011	August 16, 2012
Exercise period (from)	August 18, 2006	August 17, 2007	August 19, 2008	February 21, 2009	August 18, 2009	August 18, 2010	December 16, 2011	August 17, 2012
(to)	June 28, 2036	August 16, 2037	August 18, 2038	February 20, 2039	August 17, 2039	August 17, 2040	December 15, 2041	August 16, 2042

b) Activities of stock options in the year ended March 31, 2013

	Number of shares							
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)	Stock options (11th grant)
Unexercised at March 31, 2012	562,000	348,000	788,000	46,000	1,109,000	1,259,000	1,364,000	–
Granted	–	–	–	–	–	–	–	1,632,000
Vested	–	–	–	–	–	–	–	1,632,000
Exercised	73,000	–	20,000	–	–	3,000	23,000	–
Expired	–	–	–	–	–	–	–	–
Unexercised at March 31, 2013	489,000	348,000	768,000	46,000	1,109,000	1,256,000	1,341,000	1,632,000

c) Price per share

	In yen							
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)	Stock options (11th grant)
Weighted-average exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2013	406	–	304	–	–	334	312	–
Grant date fair value	443	644	471	194	294	258	267	260

	In U.S. dollars							
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)	Stock options (11th grant)
Weighted-average exercise price	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2013	4.32	–	3.23	–	–	3.55	3.32	–
Grant date fair value	4.71	6.85	5.01	2.06	3.13	2.74	2.84	2.76

d) Estimate method of fair value of stock options
The fair value of stock options granted in the year ended March 31, 2013 was estimated using the Black-Scholes option-pricing model with the following assumptions.

	Stock options (11th grant)
Expected volatility *1	37.728%
Expected life of option *2	15 years
Expected dividends *3	¥6 ($0.064) per share
Risk-free interest rate *4	1.389%

(*1) Estimated based on the actual share prices of 15 years (August 16, 1997 - August 16, 2012).
(*2) Calculated on the assumption that the share subscription rights would be excised at the middle point of the exercise period.
(*3) Actual cash dividends for the year ended March 31, 2012
(*4) Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

e) Estimate method of the number of vested share subscription rights
All of the share subscription rights were vested when granted.

17. CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at end of year" in the statements of cash flows for the years ended March 31, 2013 and 2012 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Cash and deposits	**¥328,365**	¥262,287	**$3,491,387**
Time deposits with maturities over three months	**(8,938)**	(7,682)	**(95,034)**
Total	**¥319,426**	¥254,605	**$3,396,342**

18. RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Research and development expenses	**¥120,040**	¥121,420	**$1,276,342**

19. ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2013	2012	**2013**
Accumulated depreciation of property, plant and equipment	**¥1,800,938**	¥1,754,645	**$19,148,729**

20. ASSET RETIREMENT OBLIGATIONS

When the Group disposes of certain assets belonging to nuclear energy business, those assets are required to be treated with a special care as radioactive wastes. In principle, the Group recognizes asset retirement obligations on those assets. With regard to some of those assets, however, the Group does not recognize asset retirement obligations because estimation of necessary costs to dispose of them is not available due to the fact that the technology necessary to dismantle or dispose of them and the legislation on how they should be disposed of have been developed only partially. Those assets include the facilities conducting research and development concerning the safeness of constituting material of reactors, nuclear fuel and so on.

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
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21. SIGNIFICANT AFFILIATES

Disclosure of condensed consolidated financial statements of significant affiliates under statutory criteria is required. Caterpillar Japan Ltd. was a significant affiliate in the year ended March 31, 2012.

	In millions of yen
Caterpillar Japan Ltd.	2012
Total current assets	¥202,290
Total non-current assets	91,291
Total current liabilities	181,544
Total non-current liabilities	16,189
Total net assets	95,847
Sales	453,684
Income before income taxes and minority interests	22,372
Net income	¥ 15,108

22. SUBSEQUENT EVENT

On June 11, 2013, MHI concluded a basic integration agreement and a joint venture agreement in relation to the business integration centered on the thermal power generation systems (hereinafter referred to as the “Definitive Agreements”) with Hitachi, Ltd. (hereinafter referred to as “Hitachi”). The Definitive Agreements, concluded in line with a basic agreement concluded on November 29, 2012 between MHI and Hitachi with a view to enhancing the thermal power generation systems business, contain the terms and conditions on the business integration. The following is a summary of the agreement on the business integration.

(1) Schedule and method of the business integration
MHI will set up a new legal entity that will succeed the business under the agreements (hereinafter referred to as the “Integrated Company”) first. Then, effective January 1, 2014, MHI and Hitachi each will transfer the business under the agreements to the Integrated Company mainly by way of absorption-type company split.

(2) Percentage of shareholding in the Integrated Company
MHI and Hitachi will hold 65% and 35%, respectively, of the shares in the Integrated Company.

Independent Auditor's Report

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Independent Auditor's Report

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 22 to the consolidated financial statements, which describes that Mitsubishi Heavy Industries, Ltd. concluded an agreement in relation to the business integration centered on the thermal power generation systems with Hitachi, Ltd. on June 11, 2013. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 26, 2013