MHI REPORT 2014

FINANCIAL SECTION 2014

For the Year Ended March 31, 2014

MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

The Group's reportable segments were changed to "Energy & Environment," "Commercial Aviation & Transportation Systems," "Integrated Defense & Space Systems," and "Machinery, Equipment & Infrastructure" in the year ended March 31, 2014, due to the shift to a four-domain business structure. Segment information for the year ended March 31, 2013, has been restated to reflect the changes.

	Net Sales			Operating Income		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2014	2013	2014	2014	2013	2014
Energy & Environment	¥1,253,988	¥1,042,139	$12,184,104	¥112,323	¥ 89,990	$1,091,362
Commercial Aviation & Transportation Systems	463,671	393,143	4,505,159	18,319	21,452	177,992
Integrated Defense & Space Systems	469,463	391,694	4,561,436	27,631	21,952	268,470
Machinery, Equipment & Infrastructure	1,096,333	925,296	10,652,283	51,690	36,586	502,234
Others	185,056	170,099	1,798,056	14,651	11,869	142,353
Subtotal	3,468,512	2,922,373	33,701,049	224,616	181,851	2,182,432
Eliminations or Corporate	(118,913)	(104,479)	(1,155,392)	(18,498)	(18,330)	(179,731)
Total	¥3,349,598	¥2,817,893	$32,545,647	¥206,118	¥163,520	$2,002,701

	Total Assets			Capital Expenditures		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2014	2013	2014	2014	2013	2014
Energy & Environment	¥1,921,411	¥1,245,978	$18,668,975	¥174,276	¥ 36,859	$1,693,315
Commercial Aviation & Transportation Systems	892,503	817,799	8,671,813	35,380	31,213	343,762
Integrated Defense & Space Systems	412,884	363,632	4,011,698	20,397	12,060	198,183
Machinery, Equipment & Infrastructure	1,066,500	921,146	10,362,417	47,498	27,783	461,504
Others	467,344	394,261	4,540,847	5,925	5,728	57,568
Subtotal	4,760,645	3,742,817	46,255,781	283,477	113,645	2,754,343
Eliminations or Corporate	125,389	192,301	1,218,315	8,328	5,223	80,917
Total	¥4,886,035	¥3,935,119	$47,474,106	¥291,806	¥118,868	$2,835,270

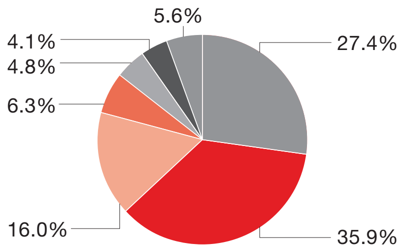
	Depreciation and Amortization*			Amortization of Goodwill		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2014	2013	2014	2014	2013	2014
Energy & Environment	¥ 44,857	¥ 36,688	$ 435,843	¥3,494	¥250	$33,948
Commercial Aviation & Transportation Systems	26,453	23,034	257,024	61	—	592
Integrated Defense & Space Systems	15,233	15,431	148,008	—	—	—
Machinery, Equipment & Infrastructure	33,560	28,963	326,078	2,235	685	21,715
Others	5,008	5,523	48,659	0	0	0
Subtotal	125,112	109,642	1,215,623	5,792	935	56,276
Corporate	9,857	8,915	95,773	—	—	—
Total	¥134,970	¥118,557	$1,311,406	¥5,792	¥935	$56,276

* Amortization of goodwill is not included.

INDUSTRY SEGMENT	Unamortized Balance of Goodwill			Investment in Equity-method Affiliate		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**	**2014**	2013	**2014**
Energy & Environment	**¥105,648**	¥1,381	**$1,026,506**	**¥ 38,087**	¥ 32,416	**$ 370,064**
Commercial Aviation & Transportation Systems	**—**	51	**—**	**17,964**	—	**174,543**
Integrated Defense & Space Systems	**—**	—	**—**	**—**	—	**—**
Machinery, Equipment & Infrastructure	**10,526**	2,844	**102,273**	**10,932**	15,396	**106,218**
Others	**0**	0	**—**	**1,826**	2,330	**17,741**
Subtotal	**116,175**	4,278	**1,128,789**	**68,809**	50,143	**668,567**
Corporate	**—**	—	**—**	**103,473**	74,391	**1,005,373**
Total	**¥116,175**	¥4,278	**$1,128,789**	**¥172,283**	¥124,535	**$1,673,950**

BREAKDOWN OF SALES BY CUSTOMER LOCATION	Net Sales		
	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥1,698,391**	¥1,555,913	**$16,502,050**
U.S.A.	**452,676**	337,654	**4,398,328**
Asia	**592,922**	457,684	**5,760, 998**
Europe	**263,844**	217,597	**2,563,583**
Central and South America	**104,069**	105,161	**1,011,164**
Middle East	**78,610**	47,518	**763,797**
Africa	**67,397**	23,400	**654,848**
Others	**91,686**	72,964	**890,847**
Total	**¥3,349,598**	**¥2,817,893**	**$32,545,647**

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 ¥102.92=US$1, the exchange rate prevailing at March 31, 2014.

ANALYSIS OF OPERATING RESULTS

MHI recorded an increase in net sales across all segments. As a result, the total value of consolidated net sales for fiscal 2013 increased ¥531.7 billion, or 18.9%, from fiscal 2012, to ¥3,349.5 billion. Operating income expanded ¥42.5 billion, or 26.1%, to ¥206.1 billion, owing to increased profitability in all segments except Commercial Aviation & Transportation Systems.

Net non-operating expenses were ¥22.9 billion, worsening ¥8.4 billion from the previous fiscal year, due to a decrease in foreign exchange gain and an increase in loss on disposal of fixed assets, although interest expense was down year on year.

As a result, ordinary income climbed ¥34.1 billion, or 22.9%, to ¥183.1 billion.

The MHI Group posted an extraordinary gain of ¥160.2 billion, resulting from changes in equity interest and sales of investment securities, as well as an extraordinary loss of ¥128.9 billion, stemming from reserve for loss on passenger vessel construction business and business structure improvement expenses.

Consequently, income before income taxes and minority interests increased ¥58.9 billion, or 37.9%, to ¥214.4 billion. Net income, meanwhile, surged ¥63.0 billion, or 64.8%, to ¥160.4 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 in Japan. Meanwhile, MHI expects its business environment to become even more challenging due to fierce ongoing global competition. In the current business environment, to build resilience to global market risks and to survive and grow as a corporate group with an 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 enhance its structures for corporate governance and operational execution.

Exchange rate fluctuations

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. To minimize exchange rate fluctuation risk, the Group is increasing its liabilities denominated in foreign currencies by expanding overseas procurement and production, and it is 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 the 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. 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 its 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 ¥296.2 billion for the fiscal year under review, an increase of ¥7.8 billion compared with the previous fiscal year. This outcome mainly reflected an increase in funds for working capital, such as trade receivables and inventories, although income before income taxes and minority interests also rose.

Investing activities used net cash of ¥151.5 billion, ¥74.8 billion higher than in the previous fiscal year. Uses of cash included the purchase of investments in subsidiaries resulting in change in scope of consolidation and purchases of property, plant, equipment and intangible assets in accordance with an expanded scope of business.

Financing activities used net cash of ¥136.6 billion, a ¥17.5 billion decline from the previous fiscal year. A principal use of cash was for the repayment of long-term borrowings, whereas proceeds from issuance of bonds provided cash.

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 as well as for the purchase of investment securities related to the execution of business strategies.

In growth areas, the MHI Group is planning to purchase investment securities and 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.

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2014, was as follows:

	In billions of yen		
	Total	Due within one year	Due after one year
Short-term borrowings	¥166.2	¥166.2	¥ —
Long-term borrowings	546.1	186.2	359.9
Bonds	245.0	70.0	175.0
Total	¥957.4	¥422.5	¥534.9

The MHI Group is involved in various 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 2013 was ¥957.4 billion, consisting of ¥422.5 billion due within one year, and ¥534.9 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 that are expected to require funds, including Energy & Environment and Commercial Aviation & Transportation 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, and 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, 2014 and 2013

ASSETS	In millions of yen 2014	In millions of yen 2013	In thousands of U.S. dollars (Note 2) 2014
Current assets:			
Cash and deposits (Notes 3 and 18)	**¥ 381,056**	¥ 328,365	**$ 3,702,448**
Trade receivables (Notes 3 and 8)	**1,188,928**	931,469	**11,551,962**
Securities (Notes 3 and 4)	**29**	2	**281**
Merchandise and finished products	**161,401**	139,157	**1,568,218**
Work in process	**846,201**	746,640	**8,221,929**
Raw materials and supplies	**143,298**	124,038	**1,392,324**
Deferred income taxes (Note 6)	**177,253**	138,934	**1,722,240**
Other current assets	**290,707**	222,550	**2,824,591**
Allowance for doubtful accounts (Note 1)	**(8,015)**	(6,333)	**(77,876)**
Total current assets	**3,180,861**	2,624,824	**30,906,150**
Non-current assets:			
Property, plant and equipment, net (Notes 8 and 20):			
Buildings and structures	**373,000**	339,262	**3,624,174**
Machinery and transportation equipment	**262,123**	225,547	**2,546,861**
Tools, equipment and furniture	**43,502**	41,877	**422,677**
Land	**176,418**	138,382	**1,714,127**
Leased assets	**4,843**	4,599	**47,055**
Construction in progress	**70,609**	43,263	**686,057**
Total property, plant and equipment, net	**930,498**	792,932	**9,040,983**
Intangible assets (Notes 1 and 22):			
Goodwill	**116,175**	4,278	**1,128,789**
Others	**54,925**	24,937	**533,666**
Total intangible assets	**171,100**	29,216	**1,662,456**
Investments and advances:			
Investment securities (Notes 3 and 4)	**402,827**	297,625	**3,913,981**
Long-term loans and advances	**3,212**	6,863	**31,208**
Asset for retirement benefit (Notes 1 and 10)	**80,468**	—	**781,849**
Deferred income taxes (Note 6)	**41,091**	10,087	**399,251**
Others	**85,056**	182,459	**826,428**
Allowance for doubtful accounts (Note 1)	**(9,081)**	(8,891)	**(88,233)**
Total investments and advances	**603,575**	488,144	**5,864,506**
Total non-current assets	**1,705,174**	1,310,294	**16,567,955**
Total assets	**¥4,886,035**	¥3,935,119	**$47,474,106**

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

LIABILITIES AND NET ASSETS	In millions of yen 2014	2013	In thousands of U.S. dollars (Note 2) 2014
Liabilities			
Current liabilities:			
Trade payables (Note 3)	**¥ 801,445**	¥ 663,451	**$ 7,787,067**
Short-term borrowings (Notes 3, 7 and 8)	**166,296**	154,014	**1,615,779**
Current portion of long-term borrowings (Notes 3, 7 and 8)	**186,245**	150,171	**1,809,609**
Current portion of bonds (Notes 3 and 7)	**70,000**	50,000	**680,139**
Income taxes payable (Note 22)	**64,487**	8,723	**626,574**
Reserve for product warranties (Note 1)	**18,314**	22,135	**177,944**
Reserve for loss on construction contracts (Note 1)	**62,523**	35,405	**607,491**
Reserve for loss on passenger vessel construction business (Note 1)	**64,126**	—	**623,066**
Reserve for legal claims	**—**	61	**—**
Advance payments received on contracts	**567,470**	427,390	**5,513,699**
Other current liabilities (Notes 6 and 7)	**284,368**	182,470	**2,763,000**
Total current liabilities	**2,285,278**	1,693,822	**22,204,411**
Non-current liabilities:			
Bonds (Notes 3 and 7)	**175,000**	200,000	**1,700,349**
Long-term borrowings (Notes 3, 7 and 8)	**359,946**	477,053	**3,497,337**
Deferred income taxes (Note 6)	**25,377**	9,922	**246,570**
Reserve for treatment of PCB waste (Note 1)	**10,459**	10,865	**101,622**
Reserve for retirement allowance (Note 10)	**—**	51,904	**—**
Liability for retirement benefit (Notes 1 and 10)	**189,937**	—	**1,845,481**
Other non-current liabilities (Note 7)	**65,812**	61,324	**639,448**
Total non-current liabilities	**826,533**	811,070	**8,030,829**
Total liabilities	**3,111,812**	2,504,893	**30,235,250**
Net assets:			
Stockholders' equity (Note 16):			
Common stock, without par value:			
Authorized shares: 6,000,000,000			
Issued shares: 2014 and 2013–3,373,647,813	**265,608**	265,608	**2,580,722**
Capital surplus	**203,978**	203,956	**1,981,908**
Retained earnings	**1,031,371**	901,397	**10,021,094**
Treasury stock (2014–18,328,994 shares and 2013–18,454,838 shares) at cost	**(5,385)**	(5,394)	**(52,322)**
Total stockholders' equity	**1,495,573**	1,365,568	**14,531,412**
Accumulated other comprehensive income (loss):			
Net unrealized gain (loss) on investment securities	**43,188**	30,979	**419,626**
Deferred gain (loss) on hedges	**(1,001)**	142	**(9,726)**
Foreign currency translation adjustments	**34,658**	(18,040)	**336,746**
Remeasurements of defined benefit plans (Notes 1 and 10)	**(29,019)**	—	**(281,956)**
Total accumulated other comprehensive income (loss)	**47,825**	13,081	**464,681**
Share subscription rights (Note 17)	**2,635**	2,243	**25,602**
Minority interests	**228,188**	49,332	**2,217,139**
Total net assets	**1,774,223**	1,430,225	**17,238,855**
Total liabilities and net assets	**¥4,886,035**	¥3,935,119	**$47,474,106**

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net sales	¥3,349,598	¥2,817,893	$32,545,647
Cost of sales	2,695,898	2,297,072	26,194,111
Gross profit	653,700	520,821	6,351,535
Selling, general and administrative expenses (Notes 17 and 19)	447,581	357,300	4,348,824
Operating income	206,118	163,520	2,002,701
Non-operating income (expense):			
Interest income	3,483	2,717	33,841
Dividend income	3,297	3,876	32,034
Income from equity method investments	1,492	2,625	14,496
Foreign exchange gain	2,086	7,030	20,268
Other income	4,827	2,623	46,900
Interest expense	(15,629)	(17,256)	(151,855)
Loss on disposal of fixed assets	(5,999)	(4,397)	(58,287)
Other expenses (Note 14)	(16,517)	(11,711)	(160,483)
Total non-operating income (expense)	(22,959)	(14,492)	(223,076)
Ordinary income	183,159	149,028	1,779,624
Extraordinary gain (loss):			
Gain on changes in equity interest (Note 23)	130,661	—	1,269,539
Gain on sales of investment securities	13,360	8,676	129,809
Gain on sales of fixed assets (Note 11)	11,256	4,157	109,366
Gain on negative goodwill (Note 12)	4,928	—	47,881
Loss on passenger vessel construction business reserve (Note 1)	(64,126)	—	(623,066)
Business structure improvement expenses (Notes 13 and 14)	(57,907)	(6,414)	(562,640)
Impairment loss (Note 14)	(6,910)	—	(67,139)
Total extraordinary gain (loss)	31,262	6,419	303,750
Income before income taxes and minority interests	214,421	155,448	2,083,375
Income taxes (Note 6)**:**			
Current	81,137	26,059	788,350
Deferred	(31,694)	33,080	(307,947)
Total income taxes	49,442	59,139	480,392
Income before minority interests	164,978	96,308	1,602,973
Minority interests in income (loss) of consolidated subsidiaries	4,550	(1,021)	44,209
Net income	¥ 160,428	¥ 97,330	$ 1,558,764

	In yen		In U.S. dollars (Note 2)
Per share information of common stock (Note 1)**:**	2014	2013	2014
Net income - basic	¥47.81	¥29.01	$0.465
Net income - diluted	47.71	28.95	0.464
Cash dividends	8.00	8.00	0.078

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, 2014 and 2013

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Income before minority interests	**¥164,978**	¥ 96,308	**$1,602,973**
Other comprehensive income (loss):			
Net unrealized gain (loss) on investment securities	**11,368**	9,631	**110,454**
Deferred gain (loss) on hedges	**(829)**	236	**(8,054)**
Foreign currency translation adjustments	**51,688**	25,638	**502,215**
Share of other comprehensive income (loss) of entities accounted for using the equity method	**9,026**	10,547	**87,699**
Changes in equity interest	**4**	1,725	**38**
Total other comprehensive income (loss) (Note 15)	**71,258**	47,780	**692,363**
Comprehensive income (loss)	**¥236,237**	¥144,088	**$2,295,345**
Comprehensive income (loss) attributable to:			
Shareholders of the parent	**¥224,197**	¥143,653	**$2,178,361**
Minority interests	**12,040**	435	**116,984**

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, 2014 and 2013

	In millions of yen												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gain (loss) on investment securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
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 16)			(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
Cash dividends (Note 16)			(30,198)		(30,198)								(30,198)
Net income			160,428		160,428								160,428
Changes in scope of consolidation			(260)		(260)								(260)
Changes in equity interest			4		4								4
Purchase of treasury stock				(42)	(42)								(42)
Disposal of treasury stock		22		51	73								73
Net changes in items other than stockholders' equity						12,208	(1,143)	52,699	(29,019)	34,744	391	178,856	213,992
Subtotal	—	22	129,974	8	130,005	12,208	(1,143)	52,699	(29,019)	34,744	391	178,856	343,997
Balance as of March 31, 2014	¥265,608	¥203,978	¥1,031,371	¥(5,385)	¥1,495,573	¥43,188	¥(1,001)	¥ 34,658	¥(29,019)	¥ 47,825	¥2,635	¥228,188	¥1,774,223

	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 gain (loss) on investment securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2013	$2,580,722	$1,981,694	$ 8,758,229	$(52,409)	$13,268,247	$301,000	$ 1,379	$(175,281)	$ —	$127,098	$21,793	$ 479,323	$13,896,472
Cash dividends (Note 16)			(293,412)		(293,412)								(293,412)
Net income			1,558,764		1,558,764								1,558,764
Changes in scope of consolidation			(2,526)		(2,526)								(2,526)
Changes in equity interest			38		38								38
Purchase of treasury stock				(408)	(408)								(408)
Disposal of treasury stock		213		495	709								709
Net changes in items other than stockholders' equity						118,616	(11,105)	512,038	(281,956)	337,582	3,799	1,737,815	2,079,207
Subtotal		213	1,262,864	77	1,263,165	118,616	(11,105)	512,038	(281,956)	337,582	3,799	1,737,815	3,342,372
Balance as of March 31, 2014	$2,580,722	$1,981,908	$10,021,094	$(52,322)	$14,531,412	$419,626	$ (9,726)	$ 336,746	$(281,956)	$464,681	$25,602	$2,217,139	$17,238,855

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

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 214,421**	¥ 155,448	**$ 2,083,375**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**134,970**	118,557	**1,311,406**
Impairment loss	**6,910**	—	**67,139**
Amortization of goodwill (Note 22)	**5,792**	935	**56,276**
Gain on negative goodwill	**(4,928)**	—	**(47,881)**
Increase (decrease) in reserve for retirement allowance	**(51,904)**	4,687	**(504,314)**
Increase (decrease) in liability for retirement benefit	**57,022**	—	**554,041**
Interest and dividend income	**(6,780)**	(6,594)	**(65,876)**
Interest expense	**15,629**	17,256	**151,855**
(Income) loss from equity method investments	**(1,492)**	(2,625)	**(14,496)**
(Gain) loss on changes in equity interest	**(130,661)**	—	**(1,269,539)**
(Gain) loss on sales of investment securities	**(13,360)**	(8,676)	**(129,809)**
(Gain) loss on sales of fixed assets	**(11,256)**	(4,157)	**(109,366)**
Loss on disposal of fixed assets	**5,999**	4,397	**58,287**
Business structure improvement expenses	**57,907**	6,414	**562,640**
Loss on passenger vessel construction business reserve	**64,126**	—	**623,066**
(Increase) decrease in receivables	**(73,900)**	60,932	**(718,033)**
(Increase) decrease in inventories and advances to suppliers	**(15,599)**	32,827	**(151,564)**
(Increase) decrease in other assets	**(6,590)**	8,194	**(64,030)**
Increase (decrease) in payables	**31,303**	(11,938)	**304,148**
Increase (decrease) in advance payments received on contracts	**42,685**	23,986	**414,739**
Increase (decrease) in other liabilities	**(22,820)**	(44,128)	**(221,725)**
Others	**27,333**	888	**265,575**
Subtotal	**324,807**	356,406	**3,155,917**
Interest and dividends received	**7,854**	7,962	**76,311**
Interest paid	**(16,103)**	(17,507)	**(156,461)**
Income taxes paid	**(20,342)**	(58,485)	**(197,648)**
Net cash provided by operating activities	**296,216**	288,375	**2,878,118**
Cash flows from investing activities:			
Net (increase) decrease in time deposits	**53**	(372)	**514**
Purchases of property, plant, equipment and intangible assets	**(158,198)**	(115,701)	**(1,537,096)**
Proceeds from sales of property, plant and equipment and intangible assets	**19,345**	8,814	**187,961**
Purchases of investment securities	**(27,630)**	(4,307)	**(268,460)**
Proceeds from sales and redemption of investment securities	**19,623**	44,563	**190,662**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(50,319)**	—	**(488,913)**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	**3,398**	—	**33,015**
Proceeds from sales of investments in subsidiaries	**29,700**	—	**288,573**
Disbursement of long-term loans	**(12,886)**	(3,338)	**(125,204)**
Collection of long-term loans	**26,607**	1,096	**258,521**
Others	**(1,249)**	(7,494)	**(12,135)**
Net cash used in investing activities	**(151,555)**	(76,737)	**(1,472,551)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	**(7,251)**	(1,695)	**(70,452)**
Proceeds from long-term borrowings	**59,694**	72,652	**580,003**
Repayment of long-term borrowings	**(153,072)**	(132,092)	**(1,487,291)**
Proceeds from issuance of bonds	**45,000**	—	**437,232**
Payment for redemption of bonds	**(50,000)**	(69,900)	**(485,814)**
Proceeds from issuance of stock to minority stockholders of subsidiaries	**3,431**	372	**33,336**
Dividends paid to stockholders	**(30,107)**	(20,061)	**(292,528)**
Dividends paid to minority stockholders of subsidiaries	**(1,682)**	(954)	**(16,342)**
Others	**(2,681)**	(2,535)	**(26,049)**
Net cash used in financing activities	**(136,669)**	(154,215)	**(1,327,914)**
Effect of exchange rate changes on cash and cash equivalents	**(11,450)**	7,397	**(111,251)**
Net increase (decrease) in cash and cash equivalents	**(3,459)**	64,820	**(33,608)**
Cash and cash equivalents at beginning of year	**319,426**	254,605	**3,103,633**
Increase in cash and cash equivalents due to changes in scope of consolidation	**27,957**	—	**271,638**
Increase in cash and cash equivalents due to absorption-type company split	**26,787**	—	**260,270**
Cash and cash equivalents at end of year (Note 18)	**¥ 370,710**	¥ 319,426	**$ 3,601,923**

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

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, 2014 and 2013 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 loss on construction contracts

Reserve for loss 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 loss on passenger vessel construction business

Reserve for loss on passenger vessel construction business is provided based on reasonable estimation for the expected loss to be realized in the following years from the construction of two large-sized cruise ships for the AIDA Cruises brand.

In November 2011, MHI received an order for two large-sized cruise ships for the AIDA Cruises brand. Based on its previous experience building cruise ships, MHI set up a project to facilitate prompt implementation of measures necessary for the newly ordered ships' construction. Also, the company, because it views the two ships as next-generation energy-efficient cruise vessels that will function as a prototype for the AIDA Cruises brand, accordingly allotted a proportionate amount of time to handling the pre-construction details.

The foregoing initiatives notwithstanding, as work proceeded in the actual construction phase of the project, difficulties involved in the construction of a prototype became evident. Moreover, the volume of design work relating to the cruise ships' cabins and other areas has been vast and significant design changes have been made, with the combined result of a delay in the design work. Said delay has translated not only to increased design costs but also to negative factors in terms of additional material procurement, construction schedule, etc.; and these adverse influences have eroded the originally planned cost structure.

During the 4th quarter of the year ended March 31, 2014, it became clear that substantial loss from the cruise ship construction contract is inevitable and the company decided to provide a reserve for the expected loss on the cruise ship business to be realized in the following years, separately from the other reserves for loss on construction contracts, judging that this loss is not the same level as those from continuing operations.

As a result, 64,126 million yen ($623,066 thousand) of "Reserve for loss on passenger vessel construction business" is recognized in the consolidated balance sheet as of March 31, 2014, and the same amount of "Loss on passenger vessel construction business reserve" is recorded as an extraordinary loss in the consolidated statement of income.

l) 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.

m) Liability for retirement benefit

Liability for retirement benefit is provided for employees' retirement benefits by deducting the pension assets (including a retirement benefit trust) from the retirement benefit obligations, based on estimated balances at the end of the fiscal year.

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

Unrecognized actuarial gains and losses and unrecognized prior service costs after tax are recorded in "Remeasurements of defined benefit plans" within the net assets section as a component of accumulated other comprehensive income.

(Change in accounting policy)

The Group has applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012) (except for the provisions of article 35 of the Accounting Standard and article 67 of the Guidance on Accounting Standard) from March 31, 2014.

Under these accounting standards, liability for retirement benefit (or asset for retirement benefit) is recognized as the net amount of retirement benefit obligations minus pension assets, and unrecognized actuarial gains and losses and unrecognized prior service costs are recorded as liability for retirement benefit (or asset for retirement benefit).

In accordance with the transitional measures stipulated in article 37 of the "Accounting Standard for Retirement Benefits," the effect of this accounting change is recognized as "Remeasurements of defined benefit plans" in the accumulated other comprehensive income, at March 31, 2014.

As a result, "Liability for retirement benefit" of 189,937 million yen ($1,845,481 thousand) and "Asset for retirement benefit" of 80,468 million yen ($781,849 thousand) are recorded, while "Accumulated other comprehensive income" decreased by 29,019 million yen ($281,956 thousand) and "Minority interests" decreased by 2,274 million yen ($22,094 thousand) at March 31, 2014. Also, net assets per share has decreased by 8.64 yen ($0.083).

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 are 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.

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.

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).

s) Change in fiscal year-end of consolidated subsidiaries

From the fiscal year ended March 31, 2014, Mitsubishi Hitachi Power Systems Americas, Inc., etc. (14 companies in total) have changed their fiscal year-end from December 31 to March 31 (the same as the consolidated balance sheet date). The financial results of the 14 companies included in the consolidated financial statements for the year ended March 31, 2014, are for the 15-month period of January 1, 2013 through March 31, 2014.

As a result of this change, “Net sales,” “Operating income,” “Ordinary income,” and “Income before income taxes and minority interests” have increased by 30,019 million yen ($291,673 thousand), 1,137 million yen ($11,047 thousand), 1,174 million yen ($11,406 thousand), and 1,174 million yen ($11,406 thousand), respectively, for the year ended March 31, 2014.

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 ¥102.92 = US$1 prevailing at March 31, 2014 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, 2014 and 2013 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		
	2014			2014		
	Carrying amount	Fair value	Variance	Carrying amount	Fair value	Variance
(1) Cash and deposits	¥ 381,056	¥ 381,056	¥ —	$ 3,702,448	$ 3,702,448	$ —
(2) Trade receivables	1,188,928	1,188,928	—	11,551,962	11,551,962	—
(3) Securities and investment securities	270,249	412,723	142,473	2,625,816	4,010,134	1,384,308
Asset items total	¥1,840,234	¥1,982,708	¥142,473	$17,880,237	$19,264,554	$1,384,308
(4) Trade payables	801,445	801,445	—	7,787,067	7,787,067	—
(5) Short-term borrowings	166,296	166,296	—	1,615,779	1,615,779	—
(6) Bonds	245,000	253,196	8,196	2,380,489	2,460,124	79,634
(7) Long-term borrowings	546,192	572,906	26,714	5,306,956	5,566,517	259,560
Liability items total	¥1,758,934	¥1,793,845	¥ 34,910	$17,090,303	$17,429,508	$ 339,195
(8) Derivatives (*)	¥ (1,362)	¥ (1,362)	¥ —	$ (13,233)	$ (13,233)	$ —

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

	In millions of yen		
	2013		
	Carrying amount	Fair value	Variance
(1) Cash and deposits	¥ 328,365	¥ 328,365	¥ —
(2) Trade receivables	931,469	931,469	—
(3) Securities and investment securities	183,083	243,146	60,062
Asset items total	¥1,442,918	¥1,502,980	¥60,062
(4) Trade payables	663,451	663,451	—
(5) Short-term borrowings	154,014	154,014	—
(6) Bonds	250,000	260,183	10,183
(7) Long-term borrowings	627,224	645,459	18,235
Liability items total	¥1,694,689	¥1,723,108	¥28,418
(8) Derivatives (*)	¥ (18,197)	¥ (18,197)	¥ —

(*)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 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
	2014	2013	**2014**
Carrying amounts of unlisted securities	¥132,607	¥114,543	$1,288,447

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2014 and 2013 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2014				**2014**			
	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	**¥ 358,172**	**¥ —**	**¥ —**	**¥—**	**$ 3,480,101**	**$ —**	**$ —**	**$—**
Trade receivables	**1,169,974**	**18,073**	**879**	**—**	**11,367,800**	**175,602**	**8,540**	**—**
Securities and investment securities								
Other securities								
Government bonds	**0**	**—**	**—**	**—**	**0**	**—**	**—**	**—**
Total	**¥1,528,147**	**¥18,073**	**¥879**	**¥—**	**$14,847,910**	**$175,602**	**$8,540**	**$—**

	In millions of yen			
	2013			
	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	¥ —	¥ —	¥—
Trade receivables	892,809	35,257	3,402	—
Securities and investment securities				
Other securities				
Government bonds	9	—	—	—
Total	¥1,219,550	¥35,257	¥3,402	¥—

4

SECURITIES

a) Breakdown of other securities with market value at March 31, 2014 and 2013

	In millions of yen			In thousands of U.S. dollars		
	2014			**2014**		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	**¥165,893**	**¥ 98,692**	**¥67,201**	**$1,611,863**	**$ 958,919**	**$652,944**
Government bonds	**0**	**0**	**0**	**0**	**0**	**0**
Others	**29**	**29**	**0**	**281**	**281**	**0**
Subtotal	**¥165,923**	**¥ 98,721**	**¥67,202**	**$1,612,155**	**$ 959,201**	**$652,953**
ii) Acquisition costs over carrying amounts:						
Equity securities	**¥ 28,810**	**¥ 34,876**	**¥ (6,066)**	**$ 279,926**	**$ 338,865**	**$ (58,938)**
Government bonds	**—**	**—**	**—**	**—**	**—**	**—**
Others	**86**	**86**	**—**	**835**	**835**	**—**
Subtotal	**¥ 28,897**	**¥ 34,963**	**¥ (6,066)**	**$ 280,771**	**$ 339,710**	**$ (58,938)**
Total (i+ ii)	**¥194,820**	**¥133,684**	**¥61,136**	**$1,892,926**	**$1,298,911**	**$594,014**

	In millions of yen		
	2013		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥107,697	¥55,123	¥52,574
Government bonds	0	0	0
Others	2	1	0
Subtotal	¥107,700	¥55,125	¥52,574
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 34,593	¥42,675	¥ (8,081)
Government bonds	9	9	—
Others	5	5	(0)
Subtotal	¥ 34,608	¥42,690	¥ (8,082)
Total (i+ ii)	¥142,308	¥97,816	¥44,492

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, 2014 and 2013

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Sales amounts	**¥186,385**	¥291	**$1,810,969**
Gains	**893**	161	**8,676**
Losses	**(182)**	—	**(1,768)**

c) Impairment losses on other securities with market value for the years ended March 31, 2014 and 2013

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Impairment losses	**¥1**	¥1,968	**$9**

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 risks on the receivables or payables denominated in foreign currencies and the latter is to fix the interest rates 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, 2014 and 2013.

1. Derivatives to which hedge accounting is not applied

Forward foreign exchange contracts (*1)

	In millions of yen			In thousands of U.S. dollars		
	2014			2014		
	Notional amount (*2)	Fair value	Unrealized gain (loss)	Notional amount (*2)	Fair value	Unrealized gain (loss)
Sell:						
USD	¥ 8,562	¥ 43	¥ 43	$ 83,190	$ 417	$ 417
EUR	7,445	(435)	(435)	72,337	(4,226)	(4,226)
Others	1,355	(8)	(8)	13,165	(77)	(77)
Buy:						
USD	¥38,251	¥ 337	¥ 337	$371,657	$ 3,274	$ 3,274
EUR	83	7	7	806	68	68
Others	1,879	11	11	18,256	106	106
Total	¥ —	¥ (44)	¥ (44)	$ —	$ (427)	$ (427)

	In millions of yen		
	2013		
	Notional amount (*2)	Fair value	Unrealized gain (loss)
Sell:			
USD	¥164,306	¥(17,530)	¥(17,530)
EUR	7,142	(585)	(585)
Others	950	(16)	(16)
Total	¥ —	¥(18,132)	¥(18,132)

(*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		
	2014			2014		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell: (*1)						
USD	¥ 5,055	¥—	¥ 4,831	$ 49,115	$—	$ 46,939
EUR	18,638	—	19,627	181,092	—	190,701
Others	28,307	—	28,775	275,038	—	279,586
Buy: (*2)						
USD	2,663	—	2,575	25,874	—	25,019
Others	60	—	63	582	—	612
Total	¥ —	¥—	¥50,595	$ —	$—	$491,595

	In millions of yen		
	2013		
	Notional amount	Therein: portion due after one year	Fair value
Sell: (*1)			
USD	¥2,851	¥—	¥3,007
EUR	744	—	906
Buy: (*2)			
USD	299	—	355
EUR	4	—	5
Others	1,513	—	1,710
Total	¥ —	¥—	¥1,843

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

(2) 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		
	2014			**2014**		
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	**¥256,697**	**¥137,759**	**(*2)**	**$2,494,141**	**$1,338,505**	**(*2)**

	In millions of yen		
	2013		
Type of transactions	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥244,481	¥197,556	(*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% for the years ended March 31, 2014 and 2013.

a) Significant components of deferred tax assets and liabilities at March 31, 2014 and 2013, 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
	2014	2013	**2014**
Deferred tax assets:			
Reserve for retirement allowance	**¥ —**	¥ 92,022	**$ —**
Liability for retirement benefit	**123,740**	—	**1,202,293**
Tax loss carryforwards	**38,003**	32,610	**369,247**
Accrued expenses for product warranties	**37,030**	45,773	**359,794**
Accrued expenses for construction contracts	**36,071**	38,994	**350,476**
Reserve for loss on passenger vessel construction business	**22,714**	—	**220,695**
Reserve for loss on construction contracts	**21,243**	13,076	**206,403**
Loss on revaluation of investment securities	**15,518**	5,749	**150,777**
Inventory write-downs	**13,218**	17,345	**128,429**
Others	**131,783**	90,650	**1,280,441**
Subtotal	**439,324**	336,223	**4,268,596**
Valuation allowance	**(114,857)**	(76,296)	**(1,115,983)**
Total gross deferred tax assets	**324,467**	259,926	**3,152,613**
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	**(49,744)**	(65,940)	**(483,326)**
Reserve for reduction in costs of fixed assets	**(27,263)**	(26,186)	**(264,895)**
Net unrealized gain on investment securities	**(27,228)**	(14,703)	**(264,554)**
Others	**(27,939)**	(14,712)	**(271,463)**
Total gross deferred tax liabilities	**(132,175)**	(121,542)	**(1,284,249)**
Net deferred tax assets (liabilities)*	**¥ 192,292**	¥ 138,383	**$ 1,868,363**

*Net deferred tax assets (liabilities) at March 31, 2014 and 2013 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	2014
Deferred income taxes in current assets	¥177,253	¥138,934	$1,722,240
Deferred income taxes in investments and advances	41,091	10,087	399,251
Other liabilities in current liablities	(675)	(715)	(6,558)
Deferred income taxes in non-current liabilities	(25,377)	(9,922)	(246,570)

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

	2014	2013
Statutory tax rate	37.8%	As for FY2013, 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.
Reconciliation:		
Items excluded from expenses	4.5	
Items excluded from gross income	(2.2)	
(Income) loss from equity method investments	(0.3)	
Valuation allowance	2.5	
Tax exemption for research and development expenses	(1.9)	
Reduction in deferred tax assets due to changes in statutory tax rate	5.3	
Gain on changes in equity interest	(23.0)	
Others	0.4	
Income tax rate as a percentage of income before income taxes and minority interests	23.1%	

c) Changes in deferred income taxes due to changes in corporation tax rates

Following the promulgation of the "Law for Partial Amendment of the Income Tax Law, etc." (Law No. 10 of 2014) on March 31, 2014, the special corporate tax for reconstruction has been abolished for fiscal years beginning on or after April 1, 2014. In conjunction with this change, the statutory tax rate used to measure deferred tax assets and liabilities for the temporary differences estimated to be resolved for the fiscal year beginning on April 1, 2014 has been changed from 37.8% to 35.4%.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by 11,315 million yen ($109,939 thousand) and income taxes (income taxes – deferred) increased by the same amount, as of and for the year ended March 31, 2014.

7

INTEREST-BEARING DEBTS AND LEASE OBLIGATIONS

a) Short-term interest-bearing debts at March 31, 2014 and 2013 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	2014
Short-term loans, principally from banks (with weighted-average interest rate of 0.7% at March 31, 2014)	¥166,296	¥154,014	$1,615,779
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 1.7% at March 31, 2014)	186,245	150,171	1,809,609
Current portion of bonds	70,000	50,000	680,139
Total	¥422,542	¥354,185	$4,105,538

b) Bonds at March 31, 2014 and 2013 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	2014
Unsecured bonds issued by MHI:			
0.70% bonds due Jun. 2013 (issued in Jun. 2003)	¥ —	¥ 50,000	$ —
2.04% bonds due Sep. 2016 (issued in Sep. 2006)	20,000	20,000	194,325
1.69% bonds due Sep. 2014 (issued in Sep. 2007)	20,000	20,000	194,325
2.03% bonds due Sep. 2017 (issued in Sep. 2007)	60,000	60,000	582,977
0.688% bonds due Dec. 2014 (issued in Dec. 2009)	50,000	50,000	485,814
1.482% bonds due Dec. 2019 (issued in Dec. 2009)	50,000	50,000	485,814
0.366% bonds due Sep. 2018 (issued in Sep. 2013)	30,000	—	291,488
0.877% bonds due Sep. 2023 (issued in Sep. 2013)	15,000	—	145,744
Total	¥245,000	¥250,000	$2,380,489

The aggregate annual maturities of bonds at March 31, 2014 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2015 (= current portion)	¥ 70,000	$ 680,139
2016	—	-
2017	20,000	194,325
2018	60,000	582,977
2019	30,000	291,488
Thereafter	65,000	631,558
Non-current portion subtotal	175,000	1,700,349
Total	**¥245,000**	**$2,380,489**

c) Long-term borrowings at March 31, 2014 and 2013 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Non-current portion of long-term loans, principally from banks and insurance companies, due 2015 to 2033 (with weighted-average interest rate of 1.9% at March 31, 2014)	¥359,946	¥477,053	$3,497,337

The aggregate annual maturities of long-term borrowings at March 31, 2014 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2015 (= current portion)	¥186,245	$1,809,609
2016	53,679	521,560
2017	51,570	501,068
2018	89,724	871,783
2019	61,968	602,098
Thereafter	103,003	1,000,806
Non-current portion subtotal	359,946	3,497,337
Total	**¥546,192**	**$5,306,956**

d) Lease obligations at March 31, 2014 and 2013 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Current portion of lease obligations	¥ 2,040	¥ 2,340	$ 19,821
Non-current portion of lease obligations	10,345	8,441	100,514
Total	**¥12,385**	¥10,781	**$120,336**

8
PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	**2014**	2013	**2014**
Property, plant and equipment	¥ 9,742	¥10,020	$ 94,656
Trade receivables	144	1,903	1,399
Others	3,874	359	37,640
Total	**¥13,761**	¥12,282	**$133,705**

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	**2014**	2013	**2014**
Long-term borrowings	¥2,595	¥3,137	$25,213
Short-term borrowings	1,868	1,372	18,150
Total	**¥4,464**	¥4,509	**$43,373**

9
CONTINGENT LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Contingent liabilities	**2014**	2013	**2014**
Guarantee obligations on such debts as borrowings from financial institutions by companies outside the Group	¥54,347	¥55,238	$528,050

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 m) for accounting polices and related information.

The disclosures for the years ended March 31, 2014 and 2013 are different due to the changes in relevant accounting standards.

Information for the year ended March 31, 2014 [a) through g)]

a) A reconciliation of the beginning and ending balances of the retirement benefit obligations is as follows:

	In millions of yen	In thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at beginning of year	¥593,285	$5,764,525
Service cost	29,033	282,092
Interest cost	11,674	113,427
Actuarial loss (gain)	4,934	47,940
Benefits paid	(66,274)	(643,937)
Effect of business combinations	69,670	676,933
Others	416	4,041
Retirement benefit obligations, at end of year	¥642,740	$6,245,044

b) A reconciliation of the beginning and ending balances of the fair value of plan assets is as follows:

	In millions of yen	In thousands of U.S. dollars
	2014	2014
Fair value of plan assets at beginning of year	¥529,425	$5,144,043
Expected return on plan assets	11,599	112,699
Actuarial gain (loss)	35,220	342,207
Employer contributions	17,373	168,801
Benefits paid	(40,194)	(390,536)
Effect of business combinations	26,316	255,693
Others	(46,469)	(451,506)
Fair value of plan assets at end of year	¥533,271	$5,181,412

c) A reconciliation of the ending balance of the retirement benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheet is as follows:

	In millions of yen	In thousands of U.S. dollars
	2014	2014
Retirement benefit obligation for funded plans	¥ 586,772	$ 5,701,243
Fair value of plan assets	(533,271)	(5,181,412)
	53,500	519,821
Retirement benefit obligation for unfunded plans	55,968	543,801
Net amount recognized in consolidated balance sheet	¥ 109,468	$ 1,063,622
Liability for retirement benefit	¥ 189,937	$ 1,845,481
Asset for retirement benefit	(80,468)	(781,849)
Net amount recognized in consolidated balance sheet	¥ 109,468	$ 1,063,622

d) The components of net periodic retirement benefit expenses for the year ended March 31, 2014 were as follows:

	In millions of yen	In thousands of U.S. dollars
	2014	2014
Service cost	¥ 28,925	$ 281,043
Interest cost	11,674	113,427
Expected return on plan assets	(11,599)	(112,699)
Amortization of actuarial loss (gain)	23,809	231,335
Amortization of prior service cost (credit)	(350)	(3,400)
Retirement benefit expense	¥ 52,458	$ 509,696

e) Remeasurements of defined benefit plans

The amounts recognized in accumulated other comprehensive income consisted of the following on a pretax basis at March 31, 2014.

	In millions of yen	In thousands of U.S. dollars
	2014	**2014**
Unrecognized prior service (cost) credit	**¥ (407)**	**$ (3,954)**
Unrecognized actuarial (loss) gain	**(46,891)**	**(455,606)**
Total	**¥(47,298)**	**$(459,560)**

f) Information on plan assets

(1) A breakdown of the plan assets by asset class was as follows:

	2014
Equity securities	**58%**
Debt securities	**34**
Life insurance company general accounts	**3**
Cash and deposits	**2**
Others	**3**
Total	**100%**

Footnote: Forty-eight percent of the plan assets consist of a retirement benefit trust which is provided for the severance indemnity plans.

(2) Determination of the expected long-term rate of return on plan assets

To determine the expected long-term rate of return on the plan assets, the Group considers the current and expected asset allocation, as well as current and expected future long-term returns on various assets constituting the plan assets.

g) The principal actuarial assumptions at March 31, 2014 were as follows:

	2014
Discount rate	**2.0%**
Expected long-term rate of return on plan assets	**2.4%**

Information for the year ended March 31, 2013 [h) through j)]

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

	In millions of yen
	2013
(1) Retirement benefit obligation	¥(593,285)
(2) Fair value of plan assets	529,425
(3) Unfunded benefit obligation ((1) + (2))	(63,859)
(4) Unrecognized actuarial loss (gain)	100,860
(5) Unrecognized prior service cost (credit)	(5)
(6) Net benefit liability recognized in consolidated balance sheet ((3) + (4) + (5))	36,995
(7) Prepaid pension expense	88,899
(8) Reserve for retirement allowance ((6)– (7))	¥ (51,904)

i) The components of net periodic retirement benefit expenses for the years ended March 31, 2013 were as follows:

	In millions of yen
	2013
Service cost	¥ 27,764
Interest cost	11,819
Expected return on plan assets	(10,607)
Amortization of actuarial loss (gain)	23,585
Amortization of prior service cost (credit)	(76)
Retirement benefit expense	¥ 52,486

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

	2013
Discount rate	2.0%
Expected rate of return on plan assets	2.4%
Amortization period for prior service cost and credit	Expensed as incurred or 9 to 18 years
Amortization period for actuarial gain and loss	9 to 21 years

11
GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Land	**¥11,572**	¥3,295	**$112,436**
Others	**(315)**	862	**(3,060)**
Total	**¥11,256**	¥4,157	**$109,366**

12
GAIN ON NEGATIVE GOODWILL

Gain on negative goodwill for the year ended March 31, 2014 is due to changes in ownership ratios of Mitsubishi Nichiyu Forklift Co., Ltd. by an absorption-type company split from MHI, and of Toyo Engineering Works, Ltd. by an additional equity acquisition.

13
BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the year ended March 31, 2014 consisted of business reorganization expenses relating to Energy & Environment business, Commercial Aviation & Transportation Systems business, Machinery, Equipment & Infrastructure business, and Others.

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

14
IMPAIRMENT LOSS

The following is a description of the impairment loss recognized in the year ended March 31, 2014.

a) Description of the impaired asset group

The impaired asset group consisted mainly of "Machinery and transportation equipment" and "Buildings and structures" for operating purpose, which were located in Nagasaki, etc.

b) Method of asset grouping

The principal unit of asset grouping is business units under the strategic evaluation system. 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.

(Change in the method of asset grouping for impairment accounting)

By shifting to a new business operating structure, and having established a system to manage fixed assets by business units under the strategic evaluation system, the Group has changed the principal unit of asset grouping for impairment, which was works in previous fiscal years, to business units under the strategic evaluation system (SBU = Strategic Business Unit) from the year ended March 31, 2014.

c) Reason to recognize the impairment

The book values of some business assets were written down to their recoverable amounts since a short-term recovery of performance cannot be expected due to the deterioration of profitability, and the future cash flows to be derived from the assets have become less than their book values.

For some assets to be disposed of, their book values were written down to their recoverable amounts since they are being phased out in line with the reorganization of operation.

d) Calculation method of recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its 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 mainly 8%.

e) Impairment loss amount and the breakdown

	In millions of yen	In thousands of U.S. dollars
Breakdown by the income statement accounts	**2014**	**2014**
"Impairment loss" under extraordinary loss	**¥6,910**	**$67,139**
"Business structure improvement expenses" under extraordinary loss	**2,522**	**24,504**
Total	**¥9,433**	**$91,653**

	In millions of yen	In thousands of U.S. dollars
Breakdown by the category of assets	**2014**	**2014**
Machinery and transportation equipment	**¥4,876**	**$47,376**
Buildings and structures	**1,677**	**16,294**
Goodwill	**1,176**	**11,426**
Tools, equipment and furniture, etc.	**1,702**	**16,537**
Total	**¥9,433**	**$91,653**

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 purposes, 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

Book values of some assets were written down to recoverable amounts since they are being phased out line with the reorganization of operation.

d) Calculation method of recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its 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

Breakdown by the income statement accounts	In millions of yen 2013
"Business structure improvement expenses" under extraordinary loss	¥4,557
"Other expenses" under non-operating expenses	2,504
Total	¥7,062

Breakdown by the category of assets	In millions of yen 2013
Buildings and structures	¥3,583
Machinery and transportation equipment	2,295
Tools, equipment and furniture, etc.	1,183
Total	¥7,062

15

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effect on other comprehensive income (loss) for the years ended March 31, 2014 and 2013 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized gain (loss) on investment securities			
Gain (loss) arising during the year	**¥18,425**	¥10,527	**$179,022**
Reclassification adjustments	**(709)**	1,806	**(6,888)**
Net unrealized gain (loss) on investment securities, before tax	**17,715**	12,334	**172,123**
Deferred taxes relating to net unrealized gain (loss) on investment securities	**(6,346)**	(2,702)	**(61,659)**
Net unrealized gain (loss) on investment securities, net of tax	**11,368**	9,631	**110,454**
Deferred gain (loss) on hedges			
Gain (loss) arising during the year	**(1,667)**	(356)	**(16,197)**
Reclassification adjustments	**528**	598	**5,130**
Deferred gain (loss) on hedges, before tax	**(1,139)**	241	**(11,066)**
Deferred taxes relating to deferred gain (loss) on hedges	**310**	(4)	**3,012**
Deferred gain (loss) on hedges, net of tax	**(829)**	236	**(8,054)**
Foreign currency translation adjustments			
Gain (loss) arising during the year	**52,361**	25,993	**508,754**
Reclassification adjustments	**(673)**	(354)	**(6,539)**
Foreign currency translation adjustments	**51,688**	25,638	**502,215**
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Gain (loss) arising during the year	**8,463**	10,575	**82,228**
Reclassification adjustments	**562**	(27)	**5,460**
Share of other comprehensive income (loss) of entities accounted for using the equity method, net of tax	**9,026**	10,547	**87,699**
Changes in equity interest			
Gain (loss) arising during the year	**4**	1,725	**38**
Other comprehensive income (loss) , net of tax	**¥71,258**	¥47,780	**$692,363**

16

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Total number of shares issued and treasury stock at March 31, 2014 and 2013 were as follows:

	Type of shares	At March 31, 2013	Increase by March 31, 2014	Decrease by March 31, 2014	At March 31, 2014
Total number of shares issued	Common stock	3,373,647,813	—	—	3,373,647,813
Treasury stock	Common stock	18,454,838	69,924	195,768	18,328,994

(1) Reason for increase of treasury stock	
Repurchasing of shares that were less than the minimum trading unit	69,924

(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	171,000
Sales of MHI treasury stock held by consolidated subsidiaries	20,635
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	4,133
Total	195,768

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 26, 2013							
Ordinary General Meeting of Shareholders	Common stock	March 31, 2013	June 27, 2013	¥5	$0.0486	¥16,776	$163,000
October 31, 2013							
Board of Directors	Common stock	September 30, 2013	December 4, 2013	¥4	$0.0389	13,421	130,402
Total						¥30,198	$293,412

(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, 2014 Ordinary General Meeting of Shareholders	Common stock	March 31, 2014	June 27, 2014	¥4	$0.0389	¥13,421	$130,402

17

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 419 million yen ($4,071 thousand) in the year ended March 31, 2014 and 424 million yen in the year ended March 31, 2013, 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)
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)
Number of shares	663,000	400,000	806,000	46,000	1,109,000	1,259,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	Aug. 17, 2006	Aug. 16, 2007	Aug. 18, 2008	Feb. 20, 2009	Aug. 17, 2009	Aug. 17, 2010
Exercise period (from)	Aug. 18, 2006	Aug. 17, 2007	Aug. 19, 2008	Feb. 21, 2009	Aug. 18, 2009	Aug. 18, 2010
(to)	Jun. 28, 2036	Aug. 16, 2037	Aug. 18, 2038	Feb. 20, 2039	Aug. 17, 2039	Aug. 17, 2040

	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (14th grant)
Grantee (Number of individuals)	Directors & executive officers (38)	Directors & executive officers (40)	Directors & executive officers (37)	Executive officer (1)	Ex-executive officer (1)
Number of shares	1,364,000	1,632,000	800,000	41,000	73,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	Dec. 15, 2011	Aug. 16, 2012	Aug. 19, 2013	Dec. 13, 2013	Feb. 21, 2014
Exercise period (from)	Dec. 16, 2011	Aug. 17, 2012	Aug. 20, 2013	Dec. 14, 2013	Feb. 22, 2014
(to)	Dec. 15, 2041	Aug. 16, 2042	Aug. 19, 2043	Dec. 13, 2043	Feb. 21, 2044

b) Activities of stock options in the year ended March 31, 2014

	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)
Unexercised at March 31, 2013	489,000	348,000	768,000	46,000	1,109,000	1,256,000
Granted	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	36,000	33,000	30,000	—	27,000	38,000
Expired	—	—	—	—	—	—
Unexercised at March 31, 2014	453,000	315,000	738,000	46,000	1,082,000	1,218,000

	Number of shares				
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (14th grant)
Unexercised at March 31, 2013	1,341,000	1,632,000	—	—	—
Granted	—	—	800,000	41,000	73,000
Vested	—	—	800,000	41,000	73,000
Exercised	7,000	—	—	—	—
Expired	—	—	—	—	—
Unexercised at March 31, 2014	1,334,000	1,632,000	800,000	41,000	73,000

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)
Weighted-average exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2014	662	602	629	—	658	635
Grant date fair value	443	644	471	194	294	258

	In yen				
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (14th grant)
Weighted-average exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2014	578	—	—	—	—
Grant date fair value	267	260	453	521	493

	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)
Weighted-average exercise price	$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, 2014	6.43	5.85	6.11	—	6.39	6.17
Grant date fair value	4.30	6.26	4.58	1.88	2.86	2.51

	In U.S. dollars				
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (14th grant)
Weighted-average exercise price	$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, 2014	5.62	—	—	—	—
Grant date fair value	2.59	2.53	4.40	5.06	4.79

d) Estimate method of fair value of stock options

The fair value of stock options granted in the year ended March 31, 2014 was estimated using the Black-Scholes option-pricing model with the following assumptions.

	Stock options (12th grant)
Expected volatility *1	37.211%
Expected life of option *2	15 years
Expected dividends *3	¥8 ($0.077) per share
Risk-free interest rate *4	1.295%

(*1) Estimated based on the actual share prices of 15 years (August 19, 1998 - August 19, 2013).
(*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, 2013
(*4) Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

	Stock options (13th grant)
Expected volatility *1	36.799%
Expected life of option *2	15 years
Expected dividends *3	¥8 ($0.077) per share
Risk-free interest rate *4	1.101%

(*1) Estimated based on the actual share prices of 15 years (December 13, 1998 - December 13, 2013).
(*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, 2013
(*4) Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

	Stock options (14th grant)
Expected volatility *1	36.757%
Expected life of option *2	15 years
Expected dividends *3	¥9 ($0.087) per share
Risk-free interest rate *4	1.027%

(*1) Estimated based on the actual share prices of 15 years (February 21, 1999 - February 21, 2014).
(*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, 2013 and for the first-half period of the year ended March 31, 2014.
(*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.

18
CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at end of year" in the statements of cash flows for the years ended March 31, 2014 and 2013 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥381,056**	¥328,365	**$3,702,448**
Time deposits with maturities over three months	**(10,376)**	(8,938)	**(100,816)**
Cash equivalents included in "Securities"	**29**	—	**281**
Total	**¥370,710**	¥319,426	**$3,601,923**

19
RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Research and development expenses	**¥138,540**	¥120,040	**$1,346,094**

20
ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2014	2013	**2014**
Accumulated depreciation of property, plant and equipment	**¥2,026,421**	¥1,800,938	**$19,689,282**

21
ASSET RETIREMENT OBLIGATIONS

When the Group disposes of certain assets belonging to nuclear energy business, those assets are required to be treated with 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.

22
CHANGES IN PRESENTATION

a) Consolidated Balance Sheets

(1) Change in presentation of "Goodwill"

"Goodwill," which was included in "Intangible assets" in previous fiscal years is separately shown from the year ended March 31, 2014, due to the increased materiality. As a result, "Intangible assets," which was 29,216 million yen in the previous year's consolidated balance sheet, is reclassified to "Goodwill" (4,278 million yen) and "Others" (24,937 million yen).

(2) Change in presentation of "Income taxes payable"

"Income taxes payable," which was included in "Other current liabilities" in previous fiscal years is separately shown from the year ended March 31, 2014, due to the increased materiality. As a result, "Other current liabilities," which was 191,193 million yen in the previous year's consolidated balance sheet, is reclassified to "Income taxes payable" (8,723 million yen) and "Other current liabilities" (182,470 million yen).

b) Consolidated Statements of Cash Flows

(1) Change in presentation of "Amortization of goodwill"

"Amortization of goodwill" which was included in "Others" under "Cash flows from operating activities" in previous fiscal years is separately shown from the year ended March 31, 2014, due to the increased materiality. As a result, "Others" under "Cash flows from operating activities," which was 1,824 million yen in the previous year's consolidated statement of cash flows, is reclassified to "Amortization of goodwill" (935 million yen) and "Others" (888 million yen).

23
BUSINESS COMBINATION AND BUSINESS DIVESTITURE

On July 31, 2013, MHI and Hitachi, Ltd. ("Hitachi") each signed absorption-type company split agreements (the "Absorption-type Company Split Agreements") with MH Power Systems, Ltd. (the "Integrated Company"(*)) established by MHI, in order to transfer the business centered on the thermal power generation systems of MHI and Hitachi (the "Integrated Business") by way of company split, which has become effective on February 1, 2014 (the "Business Integration").

(*) The name of the Integrated Company has been changed to Mitsubishi Hitachi Power Systems, Ltd. in conjunction with the Business Integration.

a) Purpose of the Business Integration

The global market has continued to expand, driven by the growth engines of China and other emerging countries, while environmental awareness around the world has increased. These trends have presented a major opportunity for MHI and Hitachi to expand thermal power generation systems businesses where they both excel—businesses that solve global energy and environmental issues at the same time. In order to prevail against competition and respond to this buoyant demand, companies must respond in detail based on highly advanced technologies, quality and reliability, unfettered by the traditional frameworks of companies. In this regard, they must be able to harness engineering capabilities as well as sales and service capabilities closely tied to each region. MHI and Hitachi share the same corporate credo of contributing to society through the development of superior, original technologies and products. Over the years, the two companies have established partnerships harnessing their technical skills and expertise in a variety of fields. Examples include an alliance and subsequent establishment of a joint venture in the steel production machinery field; collaboration in the overseas railway systems business; and integration of the hydroelectric power generation system business. Another example has been joint support for the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company.

Based on these extensive partnerships, the two companies reached an agreement on the Business Integration to address buoyant global demand for thermal power generation systems by harnessing superior technical skills, quality and reliability, with the aim of prevailing against intensifying global competition.

In the thermal power generation field, the two companies both have expansive product lineups. For example, in gas turbines, MHI has focused on highly efficient large models in recent years. Meanwhile, Hitachi sees its mainstay products as small and medium-sized models. Regionally, MHI has strengths mainly in Southeast Asia and the Middle East, while Hitachi has harnessed its strengths in markets such as Europe and Africa. The two companies will respectively strive to leverage the complementary strengths of the other company. Moreover, the two companies will further enhance their ability to address customer needs and provide services by taking advantage of their respective strengths in providing total solutions across all aspects of thermal power plants.

MHI and Hitachi will cooperate to develop a stable and efficient management base for the new company. The Integrated Company aims to be a global leading company in the thermal power generation systems field by accelerating global business development along with synergies of the integration and by maximizing integrated and complementary strengths in the technology and product aspects.

b) Schedule of the Business Integration

(1) Execution of Absorption-type Company Split Agreements .... July 31, 2013
(2) Effective Date of Company Split .... February 1, 2014

MHI and Hitachi executed the company split without the approval of their shareholders' meetings as a simple absorption-type company split pursuant to Article 784, Paragraph 3 of the Companies Act of Japan.

c) Business Integration Method and Equity Contribution

The Business Integration was executed according to the following scheme. The equity contribution ratio of MHI and Hitachi as of the effective date of the company split is 65% and 35%, respectively.

(1) MHI establishes the Integrated Company.
(2) MHI and Hitachi, the splitting companies, respectively transfer the Integrated Business to the Integrated Company, the successor company, by the absorption-type company split (spin-off type). As a result, MHI and Hitachi own shares of common stock of the Integrated Company—683 shares and 317 shares, respectively.
(3) MHI sells 33 shares of common stock of the Integrated Company that it owns to Hitachi for 29.7 billion yen ($288 million).

d) Overview of the Integrated Company after the Business Integration

Name	Mitsubishi Hitachi Power Systems, Ltd. (Name has been changed from MH Power Systems, Ltd. in conjunction with the Business Integration)
Head office	3-1, Minato Mirai 3-chome, Nishi-ku, Yokohama, Kanagawa
Representative	Takato Nishizawa, President and CEO
Capital	100.0 billion yen ($971 million)
Fiscal year-end	March 31
Business	Thermal power generation system businesses (gas turbines, steam turbines, coal gasification generating equipment, boilers, thermal power control systems, generators, etc.), geothermal power system business, environmental equipment business, fuel cells business, electric power sales business (only electric power sales in relation to demonstration facility for gas turbine combined cycle power generation plant at Takasago works of the Integrated Company), other related business

e) Term of operating results of the Integrated Company included in the consolidated financial statements for the year ended March 31, 2014
From February 1, 2014 to March 31, 2014

f) Acquisition cost of the Integrated Business

(1) Consideration for the acquisition	194,859 million yen	($1,893,305 thousand)
(2) Expenses directly related to the acquisition	2,281 million yen	($22,162 thousand)

The above breakdown of acquisition cost does not include Integrated Business transferred to the Integrated Company from MHI.

g) Amount of Assets and Liabilities Acquired on the Effective Date of Business Integration

Current assets	272,246 million yen	($2,645,219 thousand)
Non-current assets	93,597 million yen	($909,415 thousand)
Total assets	365,843 million yen	($3,554,634 thousand)
Current liabilities	186,168 million yen	($1,808,861 thousand)
Non-current liabilities	34,117 million yen	($331,490 thousand)
Total liabilities	220,285 million yen	($2,140,351 thousand)

The above breakdown does not include assets and liabilities transferred to the Integrated Company from MHI. The figures shown are provisional amounts that are reflected in the consolidated balance sheet as of March 31, 2014.

h) Amount, Factor and Amortization of Goodwill

(1) Amount of goodwill
97,725 million yen ($949,523 thousand)
The above is the amount of goodwill initially recognized before MHI sold 33 shares of stock of the Integrated Company that it owns to Hitachi.

(2) Factor of Goodwill
Goodwill is derived from the Integrated Company's prospective excess earning power expected from its future business deployment.

(3) Amount of Goodwill, Amortization Method and Amortization Period
The amount of goodwill and the method and period of amortization of goodwill are calculated provisionally, since the allocation of the acquisition cost is not finalized.

i) Accounting Treatment and Impact on the Consolidated Statement of Income
Accounting for the Business Integration has been performed in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, December 26, 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, December 26, 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 26, 2008).

As a result, "Gain on changes in equity interest" of 121,578 million yen ($1,181,286 thousand) is recorded as an extraordinary gain in the consolidated statement of income for the year ended March 31, 2014.

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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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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, 2014

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