FINANCIAL SECTION 2015

For the Year Ended March 31, 2015

MITSUBISHI HEAVY INDUSTRIES, LTD.

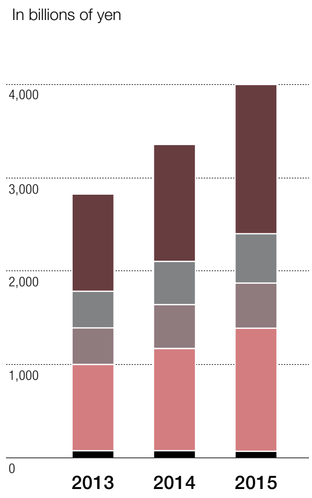
Our Technologies, Your Tomorrow

Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2015 and 2014

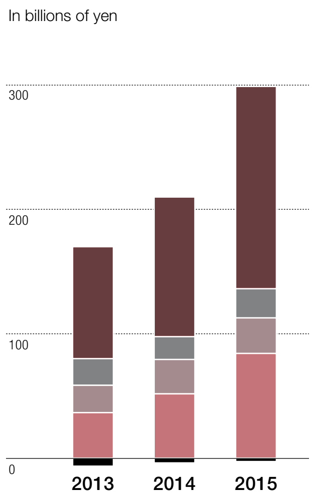
Net Sales

Industry Segment	In millions of yen 2015	2014	2013	In thousands of U.S. dollars 2015
Energy & Environment	**¥1,599,527**	¥1,253,988	¥1,042,139	**$13,310,535**
Commercial Aviation & Transportation Systems	**529,598**	463,671	393,143	**4,407,073**
Integrated Defense & Space Systems	**483,964**	469,463	391,694	**4,027,327**
Machinery, Equipment & Infrastructure	**1,319,552**	1,096,333	925,296	**10,980,710**
Others	**182,836**	185,056	170,099	**1,521,477**
Subtotal	**4,115,479**	3,468,512	2,922,373	**34,247,141**
Eliminations or Corporate	**(123,368)**	(118,913)	(104,479)	**(1,026,612)**
Total	**¥3,992,110**	¥3,349,598	¥2,817,893	**$33,220,520**



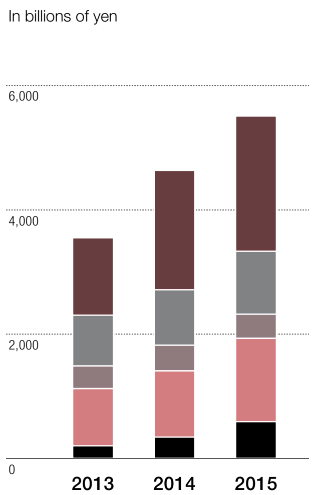
Operating Income

Industry Segment	In millions of yen 2015	2014	2013	In thousands of U.S. dollars 2015
Energy & Environment	**¥162,681**	¥112,323	¥ 89,990	**$1,353,757**
Commercial Aviation & Transportation Systems	**23,452**	18,319	21,452	**195,156**
Integrated Defense & Space Systems	**28,565**	27,631	21,952	**237,704**
Machinery, Equipment & Infrastructure	**84,189**	51,690	36,586	**700,582**
Others	**13,880**	14,651	11,869	**115,503**
Subtotal	**312,769**	224,616	181,851	**2,602,721**
Eliminations or Corporate	**(16,628)**	(18,498)	(18,330)	**(138,370)**
Total	**¥296,140**	¥206,118	¥163,520	**$2,464,342**



Total Assets

Industry Segment	In millions of yen 2015	2014	2013	In thousands of U.S. dollars 2015
Energy & Environment	**¥2,176,565**	¥1,921,411	¥1,245,978	**$18,112,382**
Commercial Aviation & Transportation Systems	**1,013,226**	892,503	817,799	**8,431,605**
Integrated Defense & Space Systems	**388,110**	412,884	363,632	**3,229,674**
Machinery, Equipment & Infrastructure	**1,341,405**	1,066,500	921,146	**11,162,561**
Others	**595,946**	467,344	394,261	**4,959,191**
Subtotal	**5,515,253**	4,760,645	3,742,817	**45,895,423**
Eliminations or Corporate	**5,103**	125,389	192,301	**42,464**
Total	**¥5,520,357**	¥4,886,035	¥3,935,119	**$45,937,896**



Industry Segment	Capital Expenditures (In millions of yen) 2015	2014	In thousands of U.S. dollars 2015	Depreciation and Amortization* (In millions of yen) 2015	2014	In thousands of U.S. dollars 2015
Energy & Environment	¥ 44,843	¥174,276	$ 373,163	¥ 64,613	¥ 44,857	$ 537,679
Commercial Aviation & Transportation Systems	27,713	35,380	230,614	23,579	26,453	196,213
Integrated Defense & Space Systems	24,088	20,397	200,449	16,758	15,233	139,452
Machinery, Equipment & Infrastructure	69,571	47,498	578,938	37,159	33,560	309,220
Others	4,071	5,925	33,877	4,962	5,008	41,291
Subtotal	170,288	283,477	1,417,059	147,073	125,112	1,223,874
Corporate	5,755	8,328	47,890	9,937	9,857	82,691
Total	¥176,043	¥291,806	$1,464,949	¥157,010	¥134,970	$1,306,565

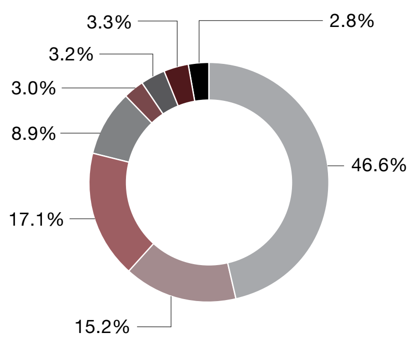
* Amortization of goodwill is not included.

Industry Segment	Amortization of Goodwill (In millions of yen) 2015	2014	In thousands of U.S. dollars 2015	Unamortized Balance of Goodwill (In millions of yen) 2015	2014	In thousands of U.S. dollars 2015
Energy & Environment	¥ 7,985	¥3,494	$66,447	¥68,186	¥105,648	$567,412
Commercial Aviation & Transportation Systems	—	61	—	—	—	—
Integrated Defense & Space Systems	—	—	—	—	—	—
Machinery, Equipment & Infrastructure	3,951	2,235	32,878	27,401	10,526	228,018
Others	0	0	0	0	0	0
Subtotal	11,937	5,792	99,334	95,588	116,175	795,439
Corporate	—	—	—	—	—	—
Total	¥11,937	¥5,792	$99,334	¥95,588	¥116,175	$795,439

Industry Segment	Investment in Equity-method Affiliate (In millions of yen) 2015	2014	In thousands of U.S. dollars 2015
Energy & Environment	¥ 65,021	¥ 38,087	$ 541,075
Commercial Aviation & Transportation Systems	—	17,964	—
Integrated Defense & Space Systems	—	—	—
Machinery, Equipment & Infrastructure	10,572	10,932	87,975
Others	1,805	1,826	15,020
Subtotal	77,398	68,809	644,070
Corporate	119,668	103,473	995,822
Total	¥197,067	¥172,283	$1,639,901

Breakdown of Sales by Customer Location	Net Sales (In millions of yen) 2015	2014	In thousands of U.S. dollars 2015
Japan	¥1,862,140	¥1,698,391	$15,495,880
U.S.A.	607,288	452,676	5,053,574
Asia	682,587	592,922	5,680,178
Europe	354,020	263,844	2,945,993
Central and South America	119,021	104,069	990,438
Middle East	127,167	78,610	1,058,225
Africa	129,814	67,397	1,080,252
Others	110,070	91,686	915,952
Total	¥3,992,110	¥3,349,598	$33,220,520

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 ¥120.17 = US$1, the exchange rate prevailing at March 31, 2015.

Analysis of Operating Results

In fiscal 2014, MHI recorded increases in net sales in almost every segment, particularly the Energy & Environment and the Machinery, Equipment & Infrastructure segments. As a result, the total value of consolidated net sales for fiscal 2014 moved up ¥642.5 billion from fiscal 2013, or 19.2%, to ¥3,992.1 billion. Operating income rose ¥90.0 billion, or 43.7%, to ¥296.1 billion, owing to gains primarily in the Energy & Environment and the Machinery, Equipment & Infrastructure segments.

Total non-operating expense improved ¥1.6 billion year on year, to ¥21.3 billion, due to improvement in foreign exchange gain and an increase in interest income, despite a decline in income from equity method investments year on year.

As a result, ordinary income climbed ¥91.6 billion year on year, or 50.0%, to ¥274.7 billion.

In addition, the MHI Group posted an extraordinary gain of ¥43.8 billion from gain on changes in equity interest and gain on return of assets from retirement benefits trust. The Group also posted an extraordinary loss of ¥85.9 billion from loss on passenger vessel construction business reserve and other factors. Consequently, income before income taxes and minority interests increased ¥18.2 billion year on year, or 8.5%, to ¥232.6 billion. Meanwhile, net income fell ¥50.0 billion, or 31.2%, to ¥110.4 billion, reflecting such factors as an increase in total income taxes.

Analysis of Financial Position

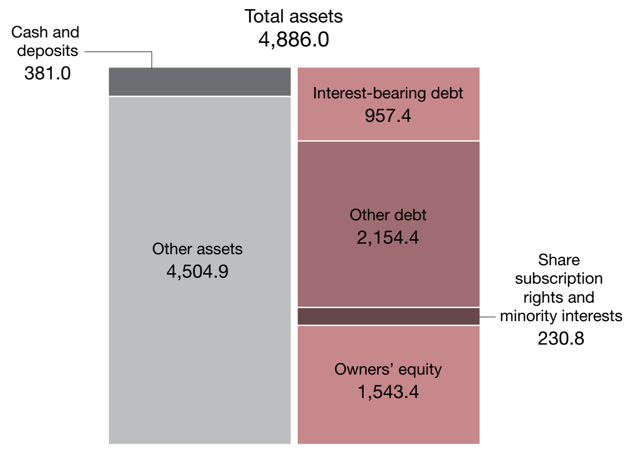
Total assets moved up ¥634.3 billion from the previous fiscal year-end, to ¥5,520.3 billion, reflecting gains in trade receivables, inventories, and fixed assets due to an expanded scope of consolidation from business integration.

Total liabilities rose ¥288.5 billion, to ¥3,400.3 billion, resulting from an increase in trade payables and advance payments received on contracts due to an expanded scope of consolidation from business integration.

Total net assets grew ¥345.7 billion, to ¥2,120.0 billion, reflecting an increase in minority interests from business integration as well as rises in foreign currency translation adjustments and retained earnings.

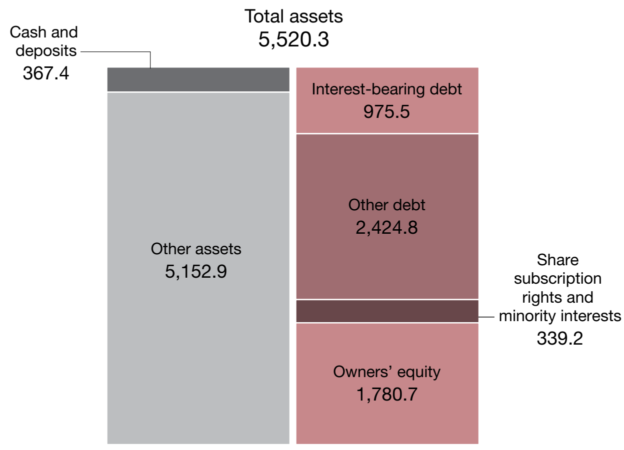
Consolidated Balance Sheets

In billions of yen



FY2013

Shareholders’ equity ratio	31.6%
D/E ratio	0.54 times
ROE	11.0%



FY2014

Shareholders’ equity ratio	32.3%
D/E ratio	0.46 times
ROE	6.5%

Source of Funds and Liquidity

Cash flow analysis

Operating activities provided net cash of ¥212.8 billion for the fiscal year under review, a decrease of ¥83.3 billion compared with the previous fiscal year. This outcome reflected a rise in income taxes paid and an increase in funds for working capital, such as inventories, that accompanied an expansion in business scale, although income before income taxes and minority interests also registered a gain.

Investing activities used net cash of ¥174.1 billion, ¥22.5 billion higher than in the previous fiscal year. Although there was an absence of purchases and sales of investments in subsidiaries resulting in change in scope of consolidation that occurred in the previous fiscal year, expenditures from the purchases of investment securities increased, resulting in the rise in net cash used in investing activities.

Financing activities used net cash of ¥45.8 billion, a ¥90.7 billion decline from the previous fiscal year. This outcome reflected a net increase in short-term borrowings and commercial papers, in addition to an increase in proceeds from issuance of stock to minority stockholders of subsidiaries.

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 businesses and raise 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 funding 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, 2015, was as follows:

	In billions of yen		
	Total	Due within one year	Due after one year
Short-term borrowings	177.7	177.7	–
Commercial papers	95.0	95.0	–
Long-term borrowings	457.8	54.9	402.8
Bonds	245.0	–	245.0
Total	975.5	327.7	647.8

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. In recent years, these types of necessary funds for capital investment have been increasing due to the expansion of the MHI Group's business scale. Meanwhile, the Group has continued to work 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 2014 was ¥975.5 billion, consisting of ¥327.7 billion due within one year and ¥647.8 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.

Dividend Policy

In the 2015 Medium-Term Business Plan, the MHI Group plans to achieve an ROE of above 10% by fiscal 2017, while increasing its owners' equity to ¥2,000 billion. In the process of doing so, the Group has set a basic policy of providing returns to shareholders at a dividend payout ratio of around 30%, for the time being, while giving consideration to the balance between investments in future businesses and the strengthening of owners' equity.

As decided in MHI's Articles of Incorporation, the Group pays dividends from retained earnings to shareholders twice a year. These payments consist of an interim dividend with a record date of September 30 and a year-end dividend with a record date of March 31. Decisions on interim dividend payments are made by the Board of Directors, and decisions on year-end dividend payments are made at the General Meeting of Shareholders.

In accordance with the above policy, the total dividend payment for the fiscal year under review was ¥11 per share, comprising the interim dividend of ¥5 per share, paid in December 2014, and the year-end dividend of ¥6 per share.

Internal reserves will be utilized to further strengthen the Group's corporate structure and enhance the Group's business development going forward.

Operational Risks

The MHI Group, comprising MHI and its consolidated subsidiaries, is exposed to various risk factors, including the following: economic risks, such as currency exchange fluctuation and credit risks; political risks, such as trade restrictions and country risks; legal risks, such as product liability; disaster risks, such as natural disaster and accidents; market risks, such as stock price fluctuation and investment risks; and others. However, of the risks related to the state of our businesses and accounting, the items below are those that have the potential to significantly influence investor judgment. Items relating to the future are based on the judgment of the Group as of the end of fiscal 2014, the year ended March 31, 2015.

1. Risks Related to Financial Position and Operating Results

i. Economic Conditions

The Group's operating results may be influenced by changes in economic conditions, both in Japan and in other countries and regions around the world. Such changes include movements in Japanese private sector investments and fluctuations in economic conditions overseas in the United States and Europe, as well as in emerging nations, such as China and India. However, as the global economy has become more complex, influences are no longer limited to the economic conditions of the countries and regions where the Group is engaged in business operations.

ii. Export and Overseas Operations

The Group is working toward the expansion of export and overseas businesses in countries and regions around the world. Therefore, several factors, including unforeseen difficulties in the local procurement of parts or with local construction, claims from contractual partners due to delivery delays or inadequate performance, and contractual partner defaults, have the potential to influence the Group's operating results. Furthermore, although the Group is actively engaged in the creation and expansion of such new business models as comprehensive infrastructure development projects in emerging nations, we cannot guarantee that we will be successful in securing projects when faced with intense competition, such as when other private corporations are supported by governments in securing contracts for large-scale infrastructure development projects.

iii. Currency Exchange Rate Fluctuations

Most of the Group's export and overseas business transactions are conducted in foreign currencies, such as the U.S. dollar and the euro. Therefore, currency exchange rate fluctuations have the potential to influence our competitiveness. Moreover, changes in the cost competitiveness of overseas competitors due to currency exchange rate fluctuations have the potential to influence our competitiveness in domestic business. In cases where the Group and its domestic competitors are affected differently by currency exchange rate fluctuations, our domestic and overseas competitiveness with the corporations concerned may be affected. When making transactions in foreign currencies, we endeavor to hedge risk by increasing liabilities denominated in foreign currencies by expanding overseas procurement of materials and through forward exchange contracts. Nevertheless, currency exchange rate fluctuations have the potential to influence our operating results.

iv. Fund-raising

The Group takes trends in interest rates, including future forecasts, into consideration when implementing fund-raising activities, and strives to secure low interest rates and stable funding. However, significant fluctuations in interest rates and changes in the overall state of financial markets have the potential to influence our future operating results.

v. Retirement Benefit Expenses and Liabilities

Group employee retirement benefit expenses and liabilities are calculated based on actuarial assumptions, the key assumptions for which are the discount rate for retirement benefit liabilities and the expected long-term rate of return on pension assets. These assumptions are judged to be appropriate estimations. Nevertheless, where actual outcomes differ from these assumptions, or should these assumptions change, the Group's future financial position and operating results may be affected. Moreover, changes in the investment yield of pension assets, or in the yield on government bonds, which serves as a basis for deciding the discount rate, may also influence the Group's financial position and operating results.

2. Risks Related to Reliance on Particular Clients

i. M&A and Alliances

The Group is engaged in the strengthening and expansion of many of its businesses through M&A and alliances with other companies. However, in the event that we are unable to realize these M&A and alliances due to changes in the market environment, or because of a decline in business competitiveness, revision of management strategies by these companies, or other unforeseen circumstances, the Group's business may be affected.

ii. Procurement of Materials

Group business activities necessitate the supply of raw materials, parts, machinery, and services from third parties in a timely, appropriate manner, and supplied items must be of sufficient quality and quantity. Due to the specialist nature of certain items, suppliers are limited, and changing suppliers can be difficult. If there is a problem with the quality of an item, a shortage in supply, a delivery delay, a halt in production due to a disaster, or other problem, the Group's businesses may be affected. Moreover, increases in the price of an item due to changes in supply and demand may affect the Group's operating results.

3. Risks Related to Specific Products and Technologies

i. Product Competitiveness

The Group strives to achieve high customer evaluations of performance, reliability, and price of its products. We work hard to propose new functions that anticipate market trends, and we are working to strengthen the competitiveness of our products, particularly through R&D and capital investment. However, where the efforts of domestic and overseas competitors to strengthen product competitiveness are more effective than those of the Group, our businesses may be affected.

ii. Product Quality

The Group continually makes efforts to improve the quality and reliability of its products. However, product performance or delivery issues, or any safety issues that arise in the use of our products, may lead to claims from contractual partners or other third parties, either domestically or overseas, in addition to the possibility of legal action brought against us. Furthermore, in such cases, we cannot guarantee that the compensation amount we may be required to pay will be covered by product liability insurance.

iii. Intellectual Property

The Group values its intellectual property, which comprises the outcomes of its R&D, as an important management resource. While appropriately preserving these resources through patent rights, we are engaged in the provision of technology to, and the introduction of technology from, third parties. However, we cannot guarantee that we will be able to either acquire or acquire under favorable conditions the technology we need from third parties. Moreover, if competitors took legal action against us regarding the use of intellectual property and we lost, we may become unable to use particular technologies, be liable for damages, or face obstacles in the continuation of our business activities. We cannot guarantee that we will not face legal action from employees or former employees regarding compensation for employee invention.

4. Risks Related to Legal Regulations

i. Laws and Regulations

The Group conducts business in accordance with various domestic and overseas laws and regulations. These include laws and regulations related to taxation, the environment, and labor and occupational health and safety; economic laws and regulations, such as antitrust and anti-dumping laws; laws and regulations related to bribery, and trade and exchange; business-related laws and regulations, such as the construction industry law; and the securities listing regulations at financial instrument exchanges. The Group endeavors to fully comply with these laws and regulations. In accordance with these laws and regulations, the Group may become subject to investigation or examination by the relevant authorities. Furthermore, the Group may be subject to administrative penalties, such as fines, reassessment, determination, the payment of surcharges, suspension of business, or other steps. Moreover, the Group may face legal action from the relevant authorities or other concerned parties for damages incurred.

In September 2013, in a plea agreement entered into with the U.S. Department of Justice, MHI made an admission of the factual basis for a violation of U.S. antitrust laws regarding the sale of compressors and condensers for automobile air-conditioning systems to certain customers. Following the settlement of a plea agreement, legal action was taken against numerous businesses, including MHI and its subsidiaries, requiring them to pay civil damages in North America.

ii. Environmental Regulations

The Group complies with various domestic and overseas environmental regulations related to air pollution, water pollution, soil and groundwater contamination, waste disposal, the use of toxic substances, energy conservation, and countermeasures to global warming. The Group's financial position and operating results may be affected in the following circumstances: environmental regulations are tightened in the future; the Group faces liabilities based on legal responsibilities related to its business activities in the past, present, or future; or the Group incurs costs when engaging in social responsibility initiatives, such as the voluntary removal of toxic substances.

5. Risks Related to Employees and Related Companies

i. Securing Human Resources

The competitiveness of the Group is supported by the exemplary specialist knowledge and skills of its employees in various areas, such as R&D, design, procurement, manufacturing, and construction. To secure a large number of excellent human resources and further expand our global business activities, we are actively engaged in recruiting activities both domestically and overseas. However, we cannot guarantee that we will be able to secure an adequate number of human resources. We are also working to nurture human resources by strengthening the transfer of technology and technical skills. However, we cannot guarantee that these measures will be sufficiently effective.

ii. Related Companies

MHI and its consolidated subsidiaries, non-consolidated equity-method subsidiaries, and affiliated companies accounted for by the equity method have established a framework for mutual cooperation. However, due to independent management, trends in business and the business performance of these companies may influence the Group's financial position and operating results.

6. Other Risks

i. Disasters

To minimize the occurrence of damage and the spread of damage in the event of storms, earthquakes, lightening strikes, floods, fires, the global spread of contagious diseases (pandemics), or various other disasters, the Group is engaged in the implementation of inspections and training as well as the establishment of communication systems and a business continuity plan (BCP). However, material and human loss, in addition to the serious damage and loss of functionality experienced by social infrastructure, may influence the Group's activities, particularly manufacturing activities at factories. Moreover, we cannot guarantee that damages will be covered by damage insurance.

ii. Information Security

The Group comes into contact with large amounts of confidential information, including that of clients, in the execution of its business activities. Furthermore, we possess confidential information regarding our technologies, operations, and other aspects of business. If confidential information is lost or leaked outside the Company due to computer viruses, unauthorized access, or other unforeseen circumstances, the Group's businesses may be affected.

Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2015 and 2014

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	**2015**	2014	**2015**
Current assets:			
Cash and deposits (Notes 3 and 18)	**¥ 367,415**	¥ 381,056	**$ 3,057,460**
Trade receivables (Notes 3 and 8)	**1,291,278**	1,188,928	**10,745,427**
Merchandise and finished products	**182,281**	161,401	**1,516,859**
Work in process	**985,570**	846,201	**8,201,464**
Raw materials and supplies	**157,010**	143,298	**1,306,565**
Deferred income taxes (Note 6)	**150,939**	177,253	**1,256,045**
Other current assets	**429,027**	290,737	**3,570,167**
Allowance for doubtful accounts (Note 1)	**(11,519)**	(8,015)	**(95,855)**
Total current assets	**3,552,002**	3,180,861	**29,558,142**
Non-current assets:			
Property, plant and equipment, net (Notes 8 and 20):			
Buildings and structures	**377,804**	373,000	**3,143,912**
Machinery and transportation equipment	**259,358**	262,123	**2,158,259**
Tools, equipment and furniture	**49,451**	43,502	**411,508**
Land	**184,691**	176,418	**1,536,914**
Leased assets	**4,856**	4,843	**40,409**
Construction in progress	**78,635**	70,609	**654,364**
Total property, plant and equipment, net	**954,797**	930,498	**7,945,385**
Intangible assets (Note 1):			
Goodwill	**95,588**	116,175	**795,439**
Others	**145,925**	54,925	**1,214,321**
Total intangible assets	**241,513**	171,100	**2,009,761**
Investments and advances:			
Investment securities (Notes 3 and 4)	**583,496**	402,827	**4,855,587**
Long-term loans and advances	**19,422**	3,212	**161,621**
Asset for retirement benefit (Notes 1 and 10)	**67,377**	80,468	**560,680**
Deferred income taxes (Note 6)	**15,495**	41,091	**128,942**
Others	**97,808**	85,056	**813,913**
Allowance for doubtful accounts (Note 1)	**(11,558)**	(9,081)	**(96,180)**
Total investments and advances	**772,043**	603,575	**6,424,590**
Total non-current assets	**1,968,354**	1,705,174	**16,379,745**
Total assets	**¥5,520,357**	¥4,886,035	**$45,937,896**

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

LIABILITIES AND NET ASSETS	In millions of yen 2015	In millions of yen 2014	In thousands of U.S. dollars (Note 2) 2015
Liabilities			
Current liabilities:			
Trade payables (Notes 3 and 22)	¥ 794,780	¥ 760,444	$ 6,613,797
Electronically recorded obligations (Notes 3 and 22)	74,430	41,000	619,372
Short-term borrowings (Notes 3, 7 and 8)	177,780	166,296	1,479,404
Current portion of long-term borrowings (Notes 3, 7 and 8)	54,985	186,245	457,560
Commercial papers (Notes 3 and 7)	95,000	—	790,546
Current portion of bonds (Notes 3 and 7)	—	70,000	—
Income taxes payable	30,113	64,487	250,586
Reserve for product warranties (Note 1)	15,796	18,314	131,447
Reserve for loss on construction contracts (Note 1)	59,529	62,523	495,373
Reserve for loss on passenger vessel construction business (Notes 1 and 12)	105,280	64,126	876,092
Advance payments received on contracts	663,176	567,470	5,518,648
Other current liabilities (Notes 6 and 7)	358,359	284,368	2,982,100
Total current liabilities	2,429,232	2,285,278	20,214,962
Non-current liabilities:			
Bonds (Notes 3 and 7)	245,000	175,000	2,038,778
Long-term borrowings (Notes 3, 7 and 8)	402,822	359,946	3,352,101
Deferred income taxes (Note 6)	105,536	25,377	878,222
Reserve for treatment of PCB waste (Note 1)	9,845	10,459	81,925
Liability for retirement benefit (Notes 1 and 10)	129,008	189,937	1,073,545
Other non-current liabilities (Note 7)	78,896	65,812	656,536
Total non-current liabilities	971,109	826,533	8,081,126
Total liabilities	3,400,342	3,111,812	28,296,097
Net assets:			
Stockholders' equity (Note 16):			
Common stock, without par value:			
Authorized shares: 6,000,000,000			
Issued shares: 2015 and 2014–3,373,647,813	265,608	265,608	2,210,268
Capital surplus	204,039	203,978	1,697,919
Retained earnings	1,148,268	1,031,371	9,555,363
Treasury stock (2015–17,806,756 shares and 2014–18,328,994 shares) at cost	(5,249)	(5,385)	(43,679)
Total stockholders' equity	1,612,668	1,495,573	13,419,888
Accumulated other comprehensive income (loss):			
Net unrealized gain (loss) on investment securities	81,499	43,188	678,197
Deferred gain (loss) on hedges	802	(1,001)	6,673
Foreign currency translation adjustments	68,413	34,658	569,301
Remeasurements of defined benefit plans (Note 1)	17,383	(29,019)	144,653
Total accumulated other comprehensive income (loss)	168,100	47,825	1,398,851
Share subscription rights (Note 17)	3,129	2,635	26,038
Minority interests	336,117	228,188	2,797,012
Total net assets	2,120,014	1,774,223	17,641,790
Total liabilities and net assets	¥5,520,357	¥4,886,035	$45,937,896

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2015 and 2014

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Net sales	**¥3,992,110**	¥3,349,598	**$33,220,520**
Cost of sales	**3,161,157**	2,695,898	**26,305,708**
Gross profit	**830,953**	653,700	**6,914,812**
Selling, general and administrative expenses (Notes 17 and 19)	**534,812**	447,581	**4,450,461**
Operating income	**296,140**	206,118	**2,464,342**
Non-operating income (expense):			
Interest income	**7,324**	3,483	**60,946**
Dividend income	**5,539**	3,297	**46,093**
Income from equity method investments	**—**	1,492	**—**
Foreign exchange gain	**13,862**	2,086	**115,353**
Other income	**3,284**	4,827	**27,327**
Interest expense	**(15,365)**	(15,629)	**(127,860)**
Loss from equity method investments	**(14,128)**	—	**(117,566)**
Loss on disposal of fixed assets	**(6,312)**	(5,999)	**(52,525)**
Other expenses (Note 14)	**(15,557)**	(16,517)	**(129,458)**
Total non-operating income (expense)	**(21,352)**	(22,959)	**(177,681)**
Ordinary income	**274,787**	183,159	**2,286,652**
Extraordinary gain (loss):			
Gain on changes in equity interest	**17,157**	130,661	**142,772**
Gain on return of assets from retirement benefit trust (Note 10)	**11,986**	—	**99,742**
Gain on sales of investment securities	**10,787**	13,360	**89,764**
Gain on sales of fixed assets (Note 11)	**3,960**	11,256	**32,953**
Gain on negative goodwill	**—**	4,928	**—**
Loss on passenger vessel construction business reserve (Notes 1 and 12)	**(69,534)**	(64,126)	**(578,630)**
Business structure improvement expenses (Notes 13 and 14)	**(16,449)**	(57,907)	**(136,881)**
Impairment loss (Note 14)	**—**	(6,910)	**—**
Total extraordinary gain (loss)	**(42,090)**	31,262	**(350,253)**
Income before income taxes and minority interests	**232,697**	214,421	**1,936,398**
Income taxes (Note 6)**:**			
Current	**73,222**	81,137	**609,320**
Deferred	**27,921**	(31,694)	**232,345**
Total income taxes	**101,143**	49,442	**841,665**
Income before minority interests	**131,553**	164,978	**1,094,724**
Minority interests in income (loss) of consolidated subsidiaries	**21,141**	4,550	**175,925**
Net income	**¥ 110,412**	¥ 160,428	**$ 918,798**

	In yen		In U.S. dollars (Note 2)
Per share information of common stock (Note 1)**:**	**2015**	2014	**2015**
Net income - basic	**¥32.90**	¥47.81	**$0.274**
Net income - diluted	**32.82**	47.71	**0.273**
Cash dividends	**11.00**	8.00	**0.092**

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 fiscal years ended March 31, 2015 and 2014

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Income before minority interests	**¥131,553**	¥164,978	**$1,094,724**
Other comprehensive income (loss):			
Net unrealized gain (loss) on investment securities	**38,632**	11,368	**321,477**
Deferred gain (loss) on hedges	**1,111**	(829)	**9,245**
Foreign currency translation adjustments	**32,988**	51,688	**274,511**
Remeasurements of defined benefit plans	**48,677**	—	**405,067**
Share of other comprehensive income (loss) of entities accounted for using the equity method	**4,417**	9,026	**36,756**
Changes in equity interest	**—**	4	**—**
Total other comprehensive income (loss) (Note 15)	**125,827**	71,258	**1,047,074**
Comprehensive income (loss)	**¥257,381**	¥236,237	**$2,141,807**
Comprehensive income (loss) attributable to:			
Shareholders of the parent	**¥230,686**	¥224,197	**$1,919,663**
Minority interests	**26,694**	12,040	**222,135**

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 fiscal years ended March 31, 2015 and 2014

	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, 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
Cumulative effects of changes in accounting policies					—								—
Restated balance	¥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
Cumulative effects of changes in accounting policies			**49,547**		**49,547**								**49,547**
Restated balance	**¥265,608**	**¥203,978**	**¥1,080,918**	**¥(5,385)**	**¥1,545,120**	**¥43,188**	**¥(1,001)**	**¥ 34,658**	**¥(29,019)**	**¥ 47,825**	**¥2,635**	**¥228,188**	**¥1,823,770**
Cash dividends (Note 16)			**(30,199)**		**(30,199)**								**(30,199)**
Net income			**110,412**		**110,412**								**110,412**
Changes in scope of consolidation			**(12,862)**		**(12,862)**								**(12,862)**
Changes in equity interest					**—**								**—**
Purchase of treasury stock				**(32)**	**(32)**								**(32)**
Disposal of treasury stock		**61**		**168**	**230**								**230**
Net changes in items other than stockholders' equity						**38,311**	**1,804**	**33,754**	**46,403**	**120,274**	**493**	**107,929**	**228,696**
Subtotal	**—**	**61**	**67,350**	**136**	**67,547**	**38,311**	**1,804**	**33,754**	**46,403**	**120,274**	**493**	**107,929**	**296,244**
Balance as of March 31, 2015	**¥265,608**	**¥204,039**	**¥1,148,268**	**¥(5,249)**	**¥1,612,668**	**¥81,499**	**¥ 802**	**¥ 68,413**	**¥ 17,383**	**¥168,100**	**¥3,129**	**¥336,117**	**¥2,120,014**

	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, 2014	$2,210,268	$1,697,411	$8,582,599	$(44,811)	$12,445,477	$359,390	$ (8,329)	$288,408	$(241,482)	$ 397,977	$21,927	$1,898,876	$14,764,275
Cumulative effects of changes in accounting policies			**412,307**		**412,307**								**412,307**
Restated balance	**$2,210,268**	**$1,697,411**	**$8,994,907**	**$(44,811)**	**$12,857,784**	**$359,390**	**$ (8,329)**	**$288,408**	**$(241,482)**	**$ 397,977**	**$21,927**	**$1,898,876**	**$15,176,583**
Cash dividends (Note 16)			**(251,302)**		**(251,302)**								**(251,302)**
Net income			**918,798**		**918,798**								**918,798**
Changes in scope of consolidation			**(107,031)**		**(107,031)**								**(107,031)**
Changes in equity interest					**—**								**—**
Purchase of treasury stock				**(266)**	**(266)**								**(266)**
Disposal of treasury stock		**507**		**1,398**	**1,913**								**1,913**
Net changes in items other than stockholders' equity						**318,806**	**15,012**	**280,885**	**386,144**	**1,000,865**	**4,102**	**898,135**	**1,903,103**
Subtotal	**—**	**507**	**560,456**	**1,131**	**562,095**	**318,806**	**15,012**	**280,885**	**386,144**	**1,000,865**	**4,102**	**898,135**	**2,465,207**
Balance as of March 31, 2015	**$2,210,268**	**$1,697,919**	**$9,555,363**	**$(43,679)**	**$13,419,888**	**$678,197**	**$ 6,673**	**$569,301**	**$ 144,653**	**$1,398,851**	**$26,038**	**$2,797,012**	**$17,641,790**

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 fiscal years ended March 31, 2015 and 2014

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 232,697**	¥ 214,421	**$ 1,936,398**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**157,010**	134,970	**1,306,565**
Impairment loss	**—**	6,910	**—**
Amortization of goodwill	**11,937**	5,792	**99,334**
Gain on negative goodwill	**—**	(4,928)	**—**
Increase (decrease) in reserve for retirement allowance	**—**	(51,904)	**—**
Increase (decrease) in liability for retirement benefit	**(2,409)**	57,022	**(20,046)**
Interest and dividend income	**(12,864)**	(6,780)	**(107,048)**
Interest expense	**15,365**	15,629	**127,860**
(Income) loss from equity method investments	**14,128**	(1,492)	**117,566**
(Gain) loss on changes in equity interest	**(17,157)**	(130,661)	**(142,772)**
(Gain) loss on sales of investment securities	**(10,787)**	(13,360)	**(89,764)**
(Gain) loss on sales of fixed assets	**(3,960)**	(11,256)	**(32,953)**
Loss on disposal of fixed assets	**6,312**	5,999	**52,525**
Business structure improvement expenses	**16,449**	57,907	**136,881**
Loss on passenger vessel construction business reserve	**69,534**	64,126	**578,630**
Gain on return of assets from retirement benefit trust	**(11,986)**	—	**(99,742)**
(Increase) decrease in receivables	**29,145**	(73,900)	**242,531**
(Increase) decrease in inventories and advances to suppliers	**(156,049)**	(15,599)	**(1,298,568)**
(Increase) decrease in other assets	**(8,798)**	(6,590)	**(73,212)**
Increase (decrease) in payables	**5,373**	31,303	**44,711**
Increase (decrease) in advance payments received on contracts	**24,934**	42,685	**207,489**
Increase (decrease) in other liabilities	**(17,341)**	(22,820)	**(144,303)**
Others	**2,507**	27,333	**20,862**
Subtotal	**344,040**	324,807	**2,862,944**
Interest and dividends received	**18,905**	7,854	**157,318**
Interest paid	**(15,960)**	(16,103)	**(132,811)**
Income taxes paid	**(134,151)**	(20,342)	**(1,116,343)**
Net cash provided by operating activities	**212,834**	296,216	**1,771,107**
Cash flows from investing activities:			
Net (increase) decrease in time deposits	**(2,230)**	53	**(18,557)**
Purchases of property, plant, equipment and intangible assets	**(163,402)**	(158,198)	**(1,359,757)**
Proceeds from sales of property, plant and equipment and intangible assets	**14,378**	19,345	**119,647**
Purchases of investment securities	**(50,319)**	(27,630)	**(418,731)**
Proceeds from sales and redemption of investment securities	**29,758**	19,623	**247,632**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	(50,319)	**—**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	3,398	**—**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	**2,573**	—	**21,411**
Proceeds from sales of investments in subsidiaries	**—**	29,700	**—**
Disbursement of long-term loans	**(18,275)**	(12,886)	**(152,076)**
Collection of long-term loans	**15,498**	26,607	**128,967**
Others	**(2,130)**	(1,249)	**(17,724)**
Net cash used in investing activities	**(174,149)**	(151,555)	**(1,449,188)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	**57,256**	(7,251)	**476,458**
Proceeds from long-term borrowings	**97,115**	59,694	**808,146**
Repayment of long-term borrowings	**(188,683)**	(153,072)	**(1,570,133)**
Proceeds from issuance of bonds	**70,000**	45,000	**582,508**
Payment for redemption of bonds	**(70,000)**	(50,000)	**(582,508)**
Proceeds from issuance of stock to minority stockholders of subsidiaries	**25,228**	3,431	**209,935**
Dividends paid to stockholders	**(30,139)**	(30,107)	**(250,803)**
Dividends paid to minority stockholders of subsidiaries	**(4,133)**	(1,682)	**(34,392)**
Others	**(2,516)**	(2,681)	**(20,937)**
Net cash used in financing activities	**(45,872)**	(136,669)	**(381,725)**
Effect of exchange rate changes on cash and cash equivalents	**(945)**	(11,450)	**(7,863)**
Net increase (decrease) in cash and cash equivalents	**(8,133)**	(3,459)	**(67,679)**
Cash and cash equivalents at beginning of year	**370,710**	319,426	**3,084,879**
Increase in cash and cash equivalents due to changes in scope of consolidation	**—**	27,957	**—**
Decrease in cash and cash equivalents due to changes in scope of consolidation	**(10,845)**	—	**(90,247)**
Increase in cash and cash equivalents from corporate partition	**5,617**	26,787	**46,742**
Cash and cash equivalents at end of year (Note 18)	**¥ 357,349**	¥ 370,710	**$ 2,973,695**

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

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2015 and 2014

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 fiscal years ended March 31, 2015 and 2014 include the accounts of the Group. All significant inter-company transactions and accounts have been eliminated. Investments in affiliates 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 fiscal 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 fiscal 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 fiscal 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 fiscal years from the construction of two large-sized cruise ships for the AIDA Cruises brand.

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 fiscal year are amortized by the straight-line method, starting in the following fiscal 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)

From this fiscal year, MHI Group has applied the provisions of article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, March 26, 2015).

Under these provisions, MHI Group reviewed the calculation methods of the retirement benefit obligation and service cost, and changed the attribution method of expected benefit payments from principally straight-line the method to principally the benefit formula method, and changed the determination method of the discount rate to the use of a single weighted average discount rate.

In accordance with the transitional measures stipulated in article 37 of the accounting standard, the effect of the change in the calculation methods of the retirement benefit obligation and service cost is recognized as an adjustment to the beginning balance of this fiscal year's retained earnings.

As a result, "Liability for retirement benefit" decreased by 23,863 million yen ($198,577 thousand), while "Asset for retirement benefit" and "Retained earnings" increased by 58,609 million yen ($487,717 thousand) and 49,547 million yen ($412,307 thousand), respectively, as at the beginning of the fiscal year. The effect of the change on this fiscal year's profit and loss was immaterial.

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 fiscal year (or issue date if later).

s) Fiscal years, etc. of consolidated subsidiaries

The financial statements of Shanghai MHI Turbochager Co., Ltd., etc. (34 companies in total), ended on December 31, 2014, are consolidated by using their financial statements of the parent fiscal year end which are prepared solely for consolidation purposes. Mitsubishi Hitachi Power Systems Europe GmbH, etc. (9 companies in total), are consolidated by using their financial statements as of their respective fiscal year end, which falls on December 31 and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

From the fiscal year ended March 31, 2015, Mitsubishi Turbocharger and Engine Europe B.V., etc. (49 companies in total) have changed their fiscal year-end from December 31 to March 31. Shanghai MHI Turbochager Co., Ltd., etc. (20 companies in total) have changed to use their preliminary financial statements prepared as of the consolidated balance sheet date. The financial results of these 69 companies included in the consolidated financial statements for the fiscal year ended March 31, 2015, are for the 15 month period of January 1, 2014 through March 31, 2015.

As a result of this change, "Net sales", "Operating income", "Ordinary income", and "Income before income taxes and minority interests" have increased by 106,861 million yen ($889,248 thousand), 7,572 million yen ($63,010 thousand), 9,135 million yen ($76,017 thousand), and 9,135 million yen ($76,017 thousand), respectively, for the fiscal year ended March 31, 2015.

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 amounts 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 ¥120.17 = US$1 prevailing at March 31, 2015 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, 2015 and 2014 are shown in the following table. Those 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		
	2015			2015		
	Carrying amount	Fair value	Variance	Carrying amount	Fair value	Variance
(1) Cash and deposits	**¥ 367,415**	**¥ 367,415**	**¥ —**	**$ 3,057,460**	**$ 3,057,460**	**$ —**
(2) Trade receivables	**1,291,278**	**1,291,278**	**—**	**10,745,427**	**10,745,427**	**—**
(3) Securities and investment securities	**433,678**	**562,682**	**129,003**	**3,608,870**	**4,682,383**	**1,073,504**
Asset items total	**¥2,092,372**	**¥2,221,375**	**¥129,003**	**$17,411,766**	**$18,485,270**	**$1,073,504**
(4) Trade payables	**794,780**	**794,780**	**—**	**6,613,797**	**6,613,797**	**—**
(5) Electronically recorded obligations	**74,430**	**74,430**	**—**	**619,372**	**619,372**	**—**
(6) Short-term borrowings	**177,780**	**177,780**	**—**	**1,479,404**	**1,479,404**	**—**
(7) Commercial papers	**95,000**	**95,000**	**—**	**790,546**	**790,546**	**—**
(8) Bonds	**245,000**	**252,309**	**7,309**	**2,038,778**	**2,099,600**	**60,822**
(9) Long-term borrowings	**457,807**	**483,332**	**25,524**	**3,809,661**	**4,022,068**	**212,399**
Liability items total	**¥1,844,798**	**¥1,877,632**	**¥ 32,834**	**$15,351,568**	**$15,624,798**	**$ 273,229**
(10) Derivatives (*)	**¥ (669)**	**¥ (669)**	**¥ —**	**$ (5,567)**	**$ (5,567)**	**$ —**

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

	In millions of yen		
	2014		
	Carrying amount	Fair value	Variance
(1) Cash and deposits	¥ 381,056	¥ 381,056	¥ —
(2) Trade receivables	1,188,928	1,188,928	—
(3) Securities and investment securities	270,249	412,723	142,473
Asset items total	¥1,840,234	¥1,982,708	¥142,473
(4) Trade payables	760,444	760,444	—
(5) Electronically recorded obligations	41,000	41,000	—
(6) Short-term borrowings	166,296	166,296	—
(7) Bonds	245,000	253,196	8,196
(8) Long-term borrowings	546,192	572,906	26,714
Liability items total	¥1,758,934	¥1,793,845	¥ 34,910
(9) Derivatives (*)	¥ (1,362)	¥ (1,362)	¥ —

(*)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) Electronically recorded obligations; (6) Short-term borrowings; (7) Commercial papers
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.
(8) Bonds
Market prices are used as the fair values.
(9) 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.
(10) 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
	2015	2014	**2015**
Carrying amounts of unlisted securities	**¥151,338**	¥132,607	**$1,259,365**

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2015 and 2014 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2015				**2015**			
	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	**¥ 353,384**	**¥ —**	**¥ —**	**¥—**	**$ 2,940,700**	**$ —**	**$ —**	**$—**
Trade receivables	**1,263,357**	**26,770**	**1,149**	**—**	**10,513,081**	**222,767**	**9,561**	**—**
Securities and investment securities								
Other securities								
Government bonds	**0**	**—**	**—**	**—**	**0**	**—**	**—**	**—**
Total	**¥1,616,742**	**¥26,770**	**¥1,149**	**¥—**	**$13,453,790**	**$222,767**	**$9,561**	**$—**

	In millions of yen			
	2014			
	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	¥ —	¥ —	¥—
Trade receivables	1,169,974	18,073	879	—
Securities and investment securities				
Other securities				
Government bonds	0	—	—	—
Total	¥1,528,147	¥18,073	¥879	¥—

4 SECURITIES

a) Breakdown of other securities with market value at March 31, 2015 and 2014

	In millions of yen			In thousands of U.S. dollars		
	2015			**2015**		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	**¥249,012**	**¥132,015**	**¥116,996**	**$2,072,164**	**$1,098,568**	**$973,587**
Debt securities						
Government bonds	**0**	**0**	**0**	**0**	**0**	**0**
Others	**406**	**394**	**11**	**3,378**	**3,278**	**91**
Subtotal	**¥249,419**	**¥132,410**	**¥117,008**	**$2,075,551**	**$1,101,855**	**$973,687**
ii) Acquisition costs over carrying amounts:						
Equity securities	**¥ 93,069**	**¥100,972**	**¥ (7,903)**	**$ 774,477**	**$ 840,242**	**$ (65,765)**
Debt securities						
Government bonds	**—**	**—**	**—**	**–**	**—**	**—**
Others	**0**	**1**	**(1)**	**0**	**8**	**(8)**
Others	**1,198**	**1,198**	**—**	**9,969**	**9,969**	**—**
Subtotal	**¥ 94,268**	**¥102,173**	**¥ (7,904)**	**$ 784,455**	**$ 850,237**	**$ (65,773)**
Total (i + ii)	**¥343,687**	**¥234,583**	**¥109,103**	**$2,860,006**	**$1,952,092**	**$907,905**

	In millions of yen		
	2014		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥165,893	¥ 98,692	¥67,201
Debt securities			
Government bonds	0	0	0
Others	29	29	0
Others	—	—	—
Subtotal	¥165,923	¥ 98,721	¥67,202
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 28,810	¥3 4,876	¥ (6,066)
Debt securities			
Government bonds	—	—	—
Others	86	86	—
Subtotal	¥ 28,897	¥ 34,963	¥ (6,066)
Total (i + ii)	¥194,820	¥133,684	¥61,136

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 fiscal years ended March 31, 2015 and 2014

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Sales amounts	**¥126,729**	¥186,385	**$1,054,581**
Gains	**10,690**	893	**88,957**
Losses	**(218)**	(182)	**(1,814)**

c) Impairment losses on other securities with market value for the fiscal years ended March 31, 2015 and 2014

Although impairment losses on other securities were recorded for the fiscal years ended March 31, 2015 and 2014, disclosure was omitted as the amount were immaterial.

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, 2015 and 2014.

1. Derivatives to which hedge accounting is not applied

a) Forward foreign exchange contracts (*1)

	In millions of yen				In thousands of U.S. dollars			
	2015				**2015**			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Sell:								
USD	**¥71,435**	**¥ —**	**¥(232)**	**¥(232)**	**$594,449**	**$ —**	**$(1,930)**	**$(1,930)**
EUR	**16,199**	**1,245**	**(130)**	**(130)**	**134,800**	**10,360**	**(1,081)**	**(1,081)**
Others	**25,865**	**6,400**	**541**	**541**	**215,236**	**53,257**	**4,501**	**4,501**
Buy:								
USD	**¥37,403**	**¥3,849**	**¥ (32)**	**¥ (32)**	**$311,250**	**$32,029**	**$ (266)**	**$ (266)**
EUR	**12,657**	**1,433**	**(183)**	**(183)**	**105,325**	**11,924**	**(1,522)**	**(1,522)**
Others	**32,256**	**4,703**	**(480)**	**(480)**	**268,419**	**39,136**	**(3,994)**	**(3,994)**
Total	**¥ —**	**¥ —**	**¥(518)**	**¥(518)**	**$ —**	**$ —**	**$(4,310)**	**$(4,310)**

	In millions of yen			
	2014			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Sell:				
USD	¥ 8,562	¥—	¥ 43	¥ 43
EUR	7,445	—	(435)	(435)
Others	1,355	—	(8)	(8)
Buy:				
USD	¥38,251	¥—	¥ 337	¥ 337
EUR	83	—	7	7
Others	1,879	—	11	11
Total	¥ —	¥—	¥ (44)	¥ (44)

(*1) The fair values of exchange contracts are based on forward exchange rates.

b) Forward equity contracts (*1)

	In millions of yen				In thousands of U.S. dollars			
	2015				**2015**			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Forward equity contracts (buy)	**¥3,199**	**¥—**	**¥34**	**¥34**	**$26,620**	**$—**	**$282**	**$282**

(*1) The fair values of equity contracts are provided by the counterparty of financial institution.

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		
	2015			**2015**		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell: (*1)						
USD	**¥10,656**	**¥ 2,692**	**¥10,892**	**$88,674**	**$ 22,401**	**$ 90,638**
EUR	**3,228**	**—**	**2,613**	**26,861**	**—**	**21,744**
Others	**14,410**	**14,410**	**14,945**	**119,913**	**119,913**	**124,365**
Buy: (*2)						
USD	**4,077**	**3,932**	**3,962**	**33,926**	**32,720**	**32,969**
EUR	**1,579**	**—**	**1,545**	**13,139**	**—**	**12,856**
Others	**721**	**721**	**840**	**5,999**	**5,999**	**6,990**
Total	**¥ —**	**¥ —**	**¥22,102**	**$ —**	**$ —**	**$183,922**

	In millions of yen		
	2014		
	Notional amount	Therein: portion due after one year	Fair value
Sell: (*1)			
USD	¥ 5,055	¥—	¥ 4,831
EUR	18,638	—	19,627
Others	28,307	—	28,775
Buy: (*2)			
USD	2,663	—	2,575
Others	60	—	63
Total	¥ —	¥—	¥50,595

(*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		
	2015			**2015**		
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	**¥206,896**	**¥186,651**	**(*2)**	**$1,721,694**	**$1,553,224**	**(*2)**

	In millions of yen		
	2014		
Type of transactions	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥256,697	¥137,759	(*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 35.4% for the fiscal year ended March 31, 2015 and 37.8% for the fiscal year ended March 31, 2014.

a) Significant components of deferred tax assets and liabilities at March 31, 2015 and 2014, 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
	2015	2014	**2015**
Deferred tax assets:			
Tax loss carryforwards	**¥ 78,730**	¥ 38,003	**$ 655,155**
Liability for retirement benefit	**64,730**	123,740	**538,653**
Accrued expenses for product warranties	**48,354**	37,030	**402,379**
Reserve for loss on passenger vessel construction business	**34,605**	22,714	**287,967**
Accrued expenses for construction contracts	**23,722**	36,071	**197,403**
Reserve for loss on construction contracts	**18,545**	21,243	**154,323**
Loss on revaluation of investment securities	**11,765**	15,518	**97,902**
Inventory write-downs	**10,896**	13,218	**90,671**
Others	**160,196**	131,783	**1,333,078**
Subtotal	**451,547**	439,324	**3,757,568**
Valuation allowance	**(134,105)**	(114,857)	**(1,115,960)**
Total gross deferred tax assets	**317,442**	324,467	**2,641,607**
Deferred tax liabilities:			
Gain on contribution or return of securities related retirement benefit trust	**(55,823)**	(49,744)	**(464,533)**
Reserve for specified business restructuring investment loss	**(42,607)**	—	**(354,556)**
Net unrealized gain on investment securities	**(41,806)**	(27,228)	**(347,890)**
Identified intangible assets due to business combination	**(30,363)**	—	**(252,667)**
Reserve for reduction in costs of fixed assets	**(24,627)**	(27,263)	**(204,934)**
Others	**(61,785)**	(27,939)	**(514,146)**
Total gross deferred tax liabilities	**(257,014)**	(132,175)	**(2,138,753)**
Net deferred tax assets (liabilities)*	**¥ 60,428**	¥ 192,292	**$ 502,854**

*Net deferred tax assets (liabilities) at March 31, 2015 and 2014 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Deferred income taxes in current assets	**¥ 150,939**	¥ 177,253	**$1,256,045**
Deferred income taxes in investments and advances	**15,495**	41,091	**128,942**
Other liabilities in current liabilities	**(470)**	(675)	**(3,911)**
Deferred income taxes in non-current liabilities	**(105,536)**	(25,377)	**(878,222)**

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

	2015	2014
Statutory tax rate	35.4%	37.8%
Reconciliation:		
Items excluded from expenses	2.5	4.5
Items excluded from gross income	0.4	(2.2)
(Income) loss from equity method investments	2.2	(0.3)
Valuation allowance	(1.3)	2.5
Tax exemption for research and development expenses	(0.8)	(1.9)
Reduction in deferred tax assets due to changes in statutory tax rate	5.7	5.3
Gain on changes in equity interest	(2.6)	(23.0)
Others	2.0	0.4
Income tax rate as a percentage of income before income taxes and minority interests	43.5%	23.1%

c) Adjustment to deferred tax assets and deferred tax liabilities due to changes in corporate income tax rate

Following the promulgation of the "Law for Partial Amendment of the Income Tax Law, etc." (Law No. 9 of 2015) and the "Law for Partial Amendment of the Local Tax Law, etc." (Law No. 2 of 2015) on March 31, 2015, the reduction in the corporate income tax rate became effective for fiscal years beginning on or after April 1, 2015. In conjunction with these changes, the statutory tax rate used to measure deferred tax assets and liabilities for the temporary differences estimated to be resolved in or after the fiscal year beginning on April 1, 2015 has been changed.

As a result, "Deferred tax assets (net of deferred tax liabilities)" decreased by 8,663 million yen ($72,089 thousand), while "Income taxes (deferred)", "Net unrealized gains (losses) on investment securities", and "Remeasurements of defined benefit plans" increased by 13,301 million yen ($110,684 thousand), 3,707 million yen ($30,847 thousand) and 930 million yen ($7,739 thousand), respectively, in this fiscal year.

7 INTEREST-BEARING DEBTS AND LEASE OBLIGATIONS

a) Short-term interest-bearing debts at March 31, 2015 and 2014 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	2015
Short-term loans, principally from banks (with weighted-average interest rate of 0.5% at March 31, 2015)	¥177,780	¥166,296	$1,479,404
Current portion of bonds	—	70,000	—
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 2.0% at March 31, 2015)	54,985	186,245	457,560
Commercial papers (with weighted-average interest rate of 0.1% at March 31, 2015)	95,000	—	790,546
Total	¥327,766	¥422,542	$2,727,519

b) Bonds at March 31, 2015 and 2014 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	2015
Unsecured bonds issued by MHI:			
2.04% bonds due Sep 2016 (issued in Sep 2006)	¥ 20,000	¥ 20,000	$ 166,430
1.69% bonds due Sep 2014 (issued in Sep 2007)	—	20,000	—
2.03% bonds due Sep 2017 (issued in Sep 2007)	60,000	60,000	499,292
0.688% bonds due Dec 2014 (issued in Dec 2009)	—	50,000	—
1.482% bonds due Dec 2019 (issued in Dec 2009)	50,000	50,000	416,077
0.366% bonds due Sep 2018 (issued in Sep 2013)	30,000	30,000	249,646
0.877% bonds due Sep 2023 (issued in Sep 2013)	15,000	15,000	124,823
0.243% bonds due Sep 2019 (issued in Sep 2014)	15,000	—	124,823
0.381% bonds due Sep 2021 (issued in Sep 2014)	25,000	—	208,038
0.662% bonds due Sep 2024 (issued in Sep 2014)	30,000	—	249,646
Total	¥245,000	¥245,000	$2,038,778

The aggregate annual maturities of bonds at March 31, 2015 were as follows:

Fiscal years ending March 31	In millions of yen	In thousands of U.S. dollars
2016 (= current portion)	¥ —	$ —
2017	20,000	166,430
2018	60,000	499,292
2019	30,000	249,646
2020	65,000	540,900
Thereafter	70,000	582,508
Non-current portion subtotal	245,000	2,038,778
Total	**¥245,000**	**$2,038,778**

c) Long-term borrowings at March 31, 2015 and 2014 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Non-current portion of long-term loans, principally from banks and insurance companies, due 2016 to 2033 (with weighted-average interest rate of 1.8% at March 31, 2015)	**¥402,822**	¥359,946	**$3,352,101**

The aggregate annual maturities of long-term borrowings at March 31, 2015 were as follows:

Fiscal years ending March 31	In millions of yen	In thousands of U.S. dollars
2016 (= current portion)	¥ 54,985	$ 457,560
2017	66,530	553,632
2018	91,927	764,974
2019	61,474	511,558
2020	37,932	315,652
Thereafter	144,956	1,206,257
Non-current portion subtotal	402,822	3,352,101
Total	**¥457,807**	**$3,809,661**

d) Lease obligations at March 31, 2015 and 2014 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Current portion of lease obligations	**¥ 2,125**	¥ 2,040	**$ 17,683**
Non-current portion of lease obligations	**10,525**	10,345	**87,584**
Total	**¥12,651**	¥12,385	**$105,275**

8 PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	**2015**	2014	**2015**
Property, plant and equipment	**¥ 6,479**	¥ 9,742	**$ 53,915**
Trade receivables	**—**	144	**—**
Others	**5,882**	3,874	**48,947**
Total	**¥12,361**	¥13,761	**$102,862**

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	**2015**	2014	**2015**
Short-term borrowings	**¥1,477**	¥1,868	**$12,290**
Long-term borrowings	**358**	2,595	**2,979**
Total	**¥1,835**	¥4,464	**$15,270**

9

CONTINGENT LIABILITIES

Contingent liabilities	In millions of yen 2015	2014	In thousands of U.S. dollars 2015
Guarantee obligations on such debts as borrowings from financial institutions by companies outside the Group	**¥57,661**	¥54,347	**$479,828**

10

RETIREMENT BENEFITS

The Group has several non-contributory defined benefit pension plans and severance indemnity plans, and there are occasions when 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 fiscal years ended March 31, 2015 and 2014 are different due to the changes in relevant accounting standards.

a) A reconciliation of the beginning and ending balances of the retirement benefit obligations for the fiscal years ended March 31, 2015 and 2014 were as follows:

	In millions of yen 2015	2014	In thousands of U.S. dollars 2015
Retirement benefit obligation at beginning of fiscal year	**¥642,740**	¥593,285	**$5,348,589**
Cumulative effect of change in accounting policies	**(82,473)**	—	**(686,302)**
Restated balance	**560,266**	593,285	**4,662,278**
Service cost	**35,075**	29,033	**291,878**
Interest cost	**5,500**	11,674	**45,768**
Actuarial loss (gain)	**7,359**	4,934	**61,238**
Benefits paid	**(53,185)**	(66,274)	**(442,581)**
Effect of business combinations	**24,007**	69,670	**199,775**
Others	**(13,300)**	416	**(110,676)**
Retirement benefit obligations, at end of fiscal year	**¥565,722**	¥642,740	**$4,707,680**

b) A reconciliation of the beginning and ending balances of the fair value of plan assets for the fiscal years ended March 31, 2015 and 2014 were as follows:

	In millions of yen 2015	2014	In thousands of U.S. dollars 2015
Fair value of plan assets at beginning of fiscal year	**¥ 533,271**	¥529,425	**$4,437,638**
Expected return on plan assets	**10,934**	11,599	**90,987**
Actuarial gain (loss)	**77,855**	35,220	**647,873**
Employer contributions	**19,799**	17,373	**164,758**
Benefits paid	**(33,665)**	(40,194)	**(280,144)**
Effect of business combinations	**16,412**	26,316	**136,573**
Return of assets from retirement benefit trust	**(115,486)**	—	**(961,021)**
Others	**(5,029)**	(46,469)	**(41,849)**
Fair value of plan assets at end of fiscal year	**¥ 504,091**	¥533,271	**$4,194,815**

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 sheets at March 31, 2015 and 2014 were as follows:

	In millions of yen 2015	2014	In thousands of U.S. dollars 2015
Retirement benefit obligation for funded plans	**¥ 517,515**	¥ 586,772	**$ 4,306,524**
Fair value of plan assets	**(504,091)**	(533,271)	**(4,194,815)**
	13,423	53,500	**111,700**
Retirement benefit obligation for unfunded plans	**48,207**	55,968	**401,156**
Net amount recognized in consolidated balance sheets	**¥ 61,631**	¥ 109,468	**$ 512,865**
Liability for retirement benefit	**¥ 129,008**	¥ 189,937	**$ 1,073,545**
Asset for retirement benefit	**(67,377)**	(80,468)	**(560,680)**
Net amount recognized in consolidated balance sheets	**¥ 61,631**	¥ 109,468	**$ 512,865**

d) The components of net periodic retirement benefit expenses for the fiscal years ended March 31, 2015 and 2014 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Service cost	**¥ 35,019**	¥ 28,925	**$291,412**
Interest cost	**5,500**	11,674	**45,768**
Expected return on plan assets	**(10,934)**	(11,599)	**(90,987)**
Amortization of actuarial loss (gain)	**2,707**	23,809	**22,526**
Amortization of prior service cost (credit)	**(616)**	(350)	**(5,126)**
Retirement benefit expense	**¥ 31,678**	¥ 52,458	**$263,609**

e) Remeasurements of defined benefit plans

The amounts recognized in other comprehensive income consisted of the following on a pretax basis for the fiscal years ended March 31, 2015 and 2014.

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Prior service (cost) credit	**¥ 766**	¥—	**$ 6,374**
Actuarial (loss) gain	**73,204**	—	**609,170**
Total	**¥73,971**	¥—	**$615,552**

f) Remeasurements of defined benefit plans (accumulated)

The amounts recognized in accumulated other comprehensive income consisted of the following on a pretax basis at March 31, 2015 and 2014.

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Unrecognized prior service (cost) credit	**¥ 359**	¥ (407)	**$ 2,987**
Unrecognized actuarial (loss) gain	**26,313**	(46,891)	**218,964**
Total	**¥26,672**	¥(47,298)	**$221,952**

g) Information on plan assets

(1) A breakdown of the plan assets by asset class at March 31, 2015 and 2014 was as follows:

	2015	2014
Equity securities	**52%**	58%
Debt securities	**38**	34
Cash and deposits	**5**	2
Life insurance company general accounts	**4**	3
Others	**1**	3
Total	**100%**	100%

Footnote: 41% of the plan assets consist of a retirement benefit trust which is provided for the severance indemnity plans in the fiscal year ended March 31, 2015 and 48% in the fiscal year ended March 31, 2014.

(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.

h) The principal actuarial assumptions at March 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	**mainly 0.9%**	mainly 2.0%
Expected long-term rate of return on plan assets	**mainly 2.1%**	mainly 2.4%

11
GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Land	**¥4,050**	¥11,572	**$33,702**
Others	**(89)**	(315)	**(740)**
Total	**¥3,960**	¥11,256	**$32,953**

12
LOSS ON PASSENGER VESSEL CONSTRUCTION BUSINESS RESERVE

The following is a description of the loss on passenger vessel construction business reserve in the fiscal year ended March 31, 2015.

In November 2011, MHI received an order for two large-sized cruise ships for the AIDA Cruises brand. In the course of the project, difficulties involved in the construction of a prototype became evident. Moreover, the volume of design work relating to the cruise ship cabins and other areas increased and significant design changes were made, resulting in a delay in the design work. This delay not only increased design costs but also had negative effects on the subsequent material procurement, construction process and other works, with adverse impact on the project costs. Under such circumstances, a significant loss on construction was anticipated and therefore at the end of FY2013 an extraordinary loss of 64,126 million yen ($533,627 thousand) was recognized as an amount of provision reasonably estimated for loss expected to be incurred in FY2014 and subsequent fiscal years.

As for the ship construction, MHI set up a new project management structure in March 2014 and pressed ahead with the construction work. In FY2014, however, as advanced specifications required for the ships were discussed and pursued with the customer, circumstances emerged involving the need for reviewing the basic ship design, including the overall layout plan of the public area, the cabins and other areas, as well as related fixtures and equipment, causing extensive redesigning and significant delay in the design work schedules.

Despite the additional design resources mobilized and other measures taken, in the second quarter of FY2014, the construction work process of the first ship had to be revised because the completion of release of the drawings was expected to be delayed from the planned date. The delay in the design work for the first ship led to another delay in the release of the drawings for the second ship, which in turn affected adversely the construction work process of the second ship.

Consequently, in the second quarter of FY2014, an extraordinary loss of 39,841 million yen ($331,538 thousand) was recorded as an amount of provision reasonably estimated for additional loss expected from increases in design rework costs, in construction costs due to backtrack works at later work stages and rush work required to make up delays, as well as in procurement costs associated with changes in design specifications and increases in volume of materials.

Amid such circumstances, in order to reinforce the project execution structure further, MHI brought in top-class managers such as senior general managers and their equivalents from other departments, employed foreign expert personnel, and mobilized a large number of direct workers both from inside and outside MHI. Also, by further improving the relationship of trust and enhancing communication with the customer, we are currently working closely together with the customer on the construction aiming at the completion of the first ship in September 2015.

Meanwhile, the design work ran behind the schedule planned at the close of the second quarter of FY2014. Specifically, while we expected that the overall layout plan would be approved by the customer by the end of December 2014, an agreement on specifications for the overall layout plan with the customer was actually delayed until March 2015 due to design challenges associated with the installation of an enormous quantity of pipes and electric wires in a small and narrow space inside the ship. In addition, detailed changes in the design were necessary after the construction process started in order to reflect the actual situation of the construction work site.

The ships are designed to be equipped with very high-density, interrelated complex systems and nearly 4,000 people are working in a small and narrow space inside the ship to deal with the enormous workload required. Therefore, any design change affects the entire process and gives rise to major reworks and decrease in work efficiency, resulting in more than estimated cost increase.

In addition, on-site construction cost is also expected to increase as additional resources have been mobilized for rush work in order to recover delays in the construction schedule caused by above reasons.

Consequently, in the fourth quarter of FY2014, MHI came to expect that the amount of expected future loss would exceed the amount of the provision recorded at the end of FY2013 and in the second quarter of FY2014. MHI therefore recorded at the end of the fourth quarter of FY2014 an extraordinary loss of 29,693 million yen ($247,091 thousand) as an amount of provision for additional loss estimated to the extent reasonably possible.

As a result, the amount of “Loss on passenger vessel construction business reserve” recorded under extraordinary loss in FY2014 totaled 69,534 million yen ($578,630 thousand).

MHI recognizes future loss expected to incur associated with its cruise ship business as extraordinary loss because it does not regard such loss as a loss incurred as an ongoing operations.

As most of the design-related challenges and issues concerning the construction of a prototype ship have been resolved as of the end of FY2014, MHI believes that it has already accounted for all provisions for loss related to its cruise ship business estimated to the extent reasonably possible based on the facts already occurred. However, should any new events occur in the future such as unexpected changes to specifications, the actual amount of loss may be different from the amount of provision recorded.

The following is a description of the loss on passenger vessel construction business reserve in the fiscal year ended March 31, 2014.

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 fourth quarter of the fiscal year ended March 31, 2014, it became clear that substantial loss from the cruise ship construction contract was inevitable and MHI decided to provide a reserve for the expected loss on the cruise ship business to be realized in the following years, and an extraordinary loss of 64,126 million yen was recognized as an amount of provision reasonably estimated for loss expected to incur in FY2014 and subsequent fiscal years.

MHI recognizes future loss expected to incur associated with its cruise ship business as extraordinary loss because it does not regard such loss as a loss incurred as an ongoing operations.

13
BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the fiscal year ended March 31, 2015 consisted of business reorganization expenses relating to Energy & Environment business, Machinery, Equipment & Infrastructure business, and Others.

Business structure improvement expenses for the fiscal 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.

14
IMPAIRMENT LOSS

The following is a description of the impairment loss recognized in the fiscal year ended March 31, 2015.

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 Hiroshima, 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.

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	2015	2015
“Business structure improvement expenses” under extraordinary loss	¥1,378	$11,467
“Other expenses” under non-operating expense	806	6,707
Total	¥2,184	$18,174

	In millions of yen	In thousands of U.S. dollars
Breakdown by the category of assets	2015	2015
Machinery and transportation equipment	¥1,581	$13,156
Buildings and structures	442	3,678
Tools, equipment and furniture, etc.	161	1,339
Total	¥2,184	$18,174

The following is a description of the loss on impairment of fixed assets recognized in the fiscal 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 fiscal 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 can not 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 operations.
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
Breakdown by the income statement accounts	2014
“Impairment loss” under extraordinary loss	¥6,910
“Business structure improvement expenses” under extraordinary loss	2,522
Total	¥9,433

	In millions of yen
Breakdown by the category of assets	2014
Machinery and transportation equipment	¥4,876
Buildings and structures	1,677
Goodwill	1,176
Tools, equipment and furniture, etc.	1,702
Total	¥9,433

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effect on other comprehensive income (loss) for the fiscal years ended March 31, 2015 and 2014 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Net unrealized gain (loss) on investment securities			
Gain (loss) arising during the fiscal year	**¥ 60,744**	¥18,425	**$ 505,483**
Reclassification adjustments	**(7,577)**	(709)	**(63,052)**
Net unrealized gain (loss) on investment securities, before tax	**53,166**	17,715	**442,423**
Deferred taxes relating to net unrealized gain (loss) on investment securities	**(14,534)**	(6,346)	**(120,945)**
Net unrealized gain (loss) on investment securities, net of tax	**38,632**	11,368	**321,477**
Deferred gain (loss) on hedges			
Gain (loss) arising during the fiscal year	**1,779**	(1,667)	**14,804**
Reclassification adjustments	**(256)**	528	**(2,130)**
Deferred gain (loss) on hedges, before tax	**1,522**	(1,139)	**12,665**
Deferred taxes relating to deferred gain (loss) on hedges	**(411)**	310	**(3,420)**
Deferred gain (loss) on hedges, net of tax	**1,111**	(829)	**9,245**
Foreign currency translation adjustments			
Gain (loss) arising during the fiscal year	**33,242**	52,361	**276,624**
Reclassification adjustments	**(160)**	(673)	**(1,331)**
Foreign currency translation adjustments, before tax	**33,081**	51,688	**275,285**
Deferred taxes relating to foreign currency translation adjustments	**(92)**	—	**(765)**
Foreign currency translation adjustments, net of tax	**32,988**	51,688	**274,511**
Remeasurements of defined benefit plans			
Gain (loss) arising during the fiscal year	**71,879**	—	**598,144**
Reclassification adjustments	**2,091**	—	**17,400**
Remeasurements of defined benefit plans, before tax	**73,971**	—	**615,552**
Deferred taxes relating to remeasurements of defined benefit plans	**(25,293)**	—	**(210,476)**
Remeasurements of defined benefit plans, net of tax	**48,677**	—	**405,067**
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Gain (loss) arising during the fiscal year	**6,053**	8,463	**50,370**
Reclassification adjustments	**(1,636)**	562	**(13,614)**
Share of other comprehensive income (loss) of entities accounted for using the equity method, net of tax	**4,417**	9,026	**36,756**
Changes in equity interest			
Gain (loss) arising during the fiscal year	**—**	4	**—**
Other comprehensive income (loss) , net of tax	**¥125,827**	¥71,258	**$1,047,074**

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CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Total number of shares issued and treasury stock at March 31, 2015 and 2014 were as follows:

	Type of shares	At March 31, 2014	Increase by March 31, 2015	Decrease by March 31, 2015	At March 31, 2015
Total number of shares issued	Common stock	3,373,647,813	—	—	3,373,647,813
Treasury stock	Common stock	18,328,994	50,024	572,262	17,806,756

(1) Reason for increase of treasury stock	
Repurchasing of shares that were less than the minimum trading unit	50,024

(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	570,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	2,262
Total	572,262

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, 2014 Ordinary General Meeting of Shareholders	Common stock	March 31, 2014	June 27, 2014	¥4	$0.0333	¥13,421	$111,683
October 31, 2014 Board of Directors	Common stock	September 30, 2014	December 3, 2014	¥5	$0.0416	¥16,778	$139,618
Total						¥30,199	$251,302

(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, 2015 Ordinary General Meeting of Shareholders	Common stock	March 31, 2015	June 29, 2015	¥6	$0.0499	¥20,135	$167,554

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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 679 million yen ($5,650 thousand) in the fiscal year ended March 31, 2015 and 419 million yen in the fiscal year ended March 31, 2014, 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)	Stock options (15th grant)
Grantee (Number of individuals)	Directors & executive officers (38)	Directors & executive officers (40)	Directors & executive officers (37)	Executive officer (1)	Ex-executive officer (1)	Directors, executive officers, ex-executive officer (37)
Number of shares	1,364,000	1,632,000	800,000	41,000	73,000	1,328,000
Type of share	Common stock	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	Aug 18, 2014
Exercise period (from)	Dec. 16, 2011	Aug. 17, 2012	Aug. 20, 2013	Dec. 14, 2013	Feb. 22, 2014	Aug 19, 2014
(to)	Dec. 15, 2041	Aug. 16, 2042	Aug. 19, 2043	Dec. 13, 2043	Feb. 21, 2044	Aug 18, 2044

b) Activities of stock options in the fiscal year ended March 31, 2015

	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, 2014	453,000	315,000	738,000	46,000	1,082,000	1,218,000
Granted	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	80,000	45,000	123,000	13,000	82,000	42,000
Expired	—	—	—	—	—	—
Unexercised at March 31, 2015	373,000	270,000	615,000	33,000	1,000,000	1,176,000

	Number of shares					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (14th grant)	Stock options (15th grant)
Unexercised at March 31, 2014	1,334,000	1,632,000	800,000	41,000	73,000	—
Granted	—	—	—	—	—	1,328,000
Vested	—	—	—	—	—	1,328,000
Exercised	71,000	27,000	14,000	-	73,000	—
Expired	—	—	—	—	—	—
Unexercised at March 31, 2015	1,263,000	1,605,000	786,000	41,000	—	1,328,000

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 fiscal year ended March 31, 2015	661	641	639	531	628	671
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)	Stock options (15th 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 fiscal year ended March 31, 2015	602	670	670	—	572	—
Grant date fair value	267	260	453	521	493	512

	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 fiscal year ended March 31, 2015	5.50	5.33	5.32	4.42	5.23	5.58
Grant date fair value	3.69	5.36	3.92	1.61	2.45	2.15

	In U.S. dollars					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (14th grant)	Stock options (15th 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 fiscal year ended March 31, 2015	5.01	5.58	5.58	—	4.76	—
Grant date fair value	2.22	2.16	3.77	4.34	4.10	4.26

d) Estimate method of fair value of stock options

The fair value of stock options granted in the fiscal year ended March 31, 2015 was estimated using the Black-Scholes option-pricing model with the following assumptions.

	Stock options (15th grant)
Expected volatility (*1)	36.577%
Expected life of option (*2)	15 years
Expected dividends (*3)	¥8 ($0.066) per share
Risk-free interest rate (*4)	0.942%

(*1) Estimated based on the actual share prices of 15 years (August 18, 1999 - August 18, 2014).
(*2) Calculated on the assumption that the share subscription rights would be exercised at the middle point of the exercise period.
(*3) Actual cash dividends for the fiscal 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.

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CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at end of year" in the statements of cash flows for the fiscal years ended March 31, 2015 and 2014 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Cash and deposits	**¥367,415**	¥381,056	**$3,057,460**
Time deposits with maturities over three months	**(11,587)**	(10,376)	**(96,421)**
Cash equivalents included in "Other current assets"	**1,521**	29	**12,657**
Total	**¥357,349**	¥370,710	**$2,973,695**

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RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Research and development expenses	**¥145,572**	¥138,540	**$1,211,383**

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ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2015	2014	**2015**
Accumulated depreciation of property, plant and equipment	**¥1,962,875**	¥2,026,421	**$16,334,151**

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ASSET RETIREMENT OBLIGATIONS

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

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CHANGE IN PRESENTATION

Change in presentation of electronically recorded obligations

"Electronically recorded obligations" which was included in "Trade payables" as of March 31, 2014 is separately shown from the fiscal year due to the increased materiality of the account. As a result of this change in presentation, "Trade payables" of 801,445 million yen as of March 31, 2014 was divided into "Electronically recorded obligations" of 41,000 million yen and "Trade payables" of 760,444 million yen.

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BUSINESS COMBINATION BY ACQUISITION

1. Material adjustments to the initially allocated acquisition cost
In the fiscal year ended March 31, 2014, purchase price allocation of the thermal power generation system businesses acquired from Hitachi, Ltd. on February 1, 2014 was not finalized, and therefore accounting treatment was conducted based on reasonable information available at the time of preparation of consolidated financial statements.

In the fiscal year ended March 31, 2015, the following adjustments were made due to the finalization of purchase price allocation.

	In millions of yen	In thousands of U.S. dollars
Goodwill (before adjustment)	¥ 97,725	$(813,222)
Intangible assets	(75,460)	(627,943)
Deferred tax liabilities	26,728	(222,418)
Minority interests	15,448	(128,551)
Total adjustments	(33,284)	(276,974)
Goodwill (after adjustment)	¥ 64,441	$(536,248)

The above is the amount of goodwill initially recognized before MHI sold 33 shares of Mitsubishi Hitachi Power System, Ltd. stocks to Hitachi, Ltd.

2. Method and term of amortization

Goodwill	Straight-line method over 10 years
Intangible assets	Straight-line method primarily over 7 years

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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, 2015, 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, 2015, 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.

June 26, 2015

Ernst & Young ShinNihon LLC

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