

(Note) This is a translation of the Japanese original for reference purpose only. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

**THE 87TH
ORDINARY GENERAL MEETING OF SHAREHOLDERS
THE INFORMATION DISCLOSED ON THE WEBSITE**

2011 FISCAL YEAR (from April 1, 2011 to March 31, 2012)

**① NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS**

② NOTES TO THE FINANCIAL STATEMENTS

Mitsubishi Heavy Industries, Ltd.

Pursuant to the laws of Japan and the Article 16 of MHI's Articles of Incorporation, this information is disclosed to the Shareholders on MHI's website.

<http://www.mhi.co.jp/finance/stock/meeting/index.html>

Notes to the Consolidated Financial Statements

Significant Accounting Policies and Essential Facts in Preparing Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 236

Principal consolidated subsidiaries are described in “OVERVIEW OF MHI GROUP 10. OUTLINES OF MAIN SUBSIDIARIES” of the business report.

In this fiscal year, 11 companies have been added to the scope of consolidation; 10 are newly formed companies; one has been recategorized from non-consolidated subsidiaries not accounted for by the equity method with a view to enriching the consolidated financial information of the MHI Group. Nine companies have been excluded from the scope of consolidation; five are due to mergers among consolidated subsidiaries; four are due to liquidation.

(2) Principal non-consolidated subsidiaries:

RYOYO ENGINEERING CO., LTD., etc (Total: eight companies)

(Reasons for excluding from the scope of consolidation)

Non-consolidated subsidiaries are excluded from the scope of consolidation because their consolidation would have a negligible impact on the consolidated financial statements given their overall assets, net sales and level of income, etc.

2. Application of the equity method

(1) Non-consolidated subsidiaries and affiliated companies accounted for by the equity method

Non-consolidated subsidiaries accounted for by the equity method:

RYOYO ENGINEERING CO., LTD, etc (Total: three companies)

Affiliated companies accounted for by the equity method:

MITSUBISHI MOTORS CORPORATION, etc (Total: 35 companies)

In this fiscal year, one newly formed company is added to the scope of equity method application. One company has been excluded from the scope of equity method application due to the sale of its shares.

(2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method

Non-consolidated subsidiaries not accounted for by the equity method:

DIA KIKOU K.K., etc (Total: five companies)

Affiliated companies not accounted for by the equity method:

ASA-TECH CORPORATION, etc (Total: 38 companies)

(Reasons for not applying the equity method)

The equity method is not applied to the above non-consolidated subsidiaries and affiliated companies because the change in investment accounts from the application of the equity method would have a negligible impact on the consolidated financial statements.

3. Asset valuation standards and methods

(1) Securities

Other securities

Other securities with market value

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

Other securities without market value

...Historical cost method (moving average method).

(2) Inventories

Merchandise and finished products

...Principally historical cost method (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

...Principally historical cost method (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

...Principally historical cost method (moving average method).

(Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

4. Depreciation methods for fixed assets

(1) Property, plant and equipment (excluding leased assets)

Principally straight-line method for buildings (excluding the equipment attached to them); principally declining-balance method for the other items of property, plant and equipment.

(2) Leased Assets

Straight-line method (where useful lives are equal to the lease terms and residual values are assumed to be zero).

Finance lease transactions which do not transfer ownership, if they start on or before March 31, 2008, are accounted for in a manner similar to ordinary rental transactions.

5. Allowance and reserves

(1) 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.

(2) 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.

(3) Reserve for losses on construction contracts

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

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

(4) Reserve for legal claims

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

(5) Reserve for retirement allowance

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

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

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

(6) 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.

(Change in accounting estimates)

In this fiscal year, estimated costs to turn low concentration PCB waste harmless are included in this reserve and expensed under extraordinary loss. Formerly, only high concentration PCB waste was subject to this reserve because reasonable estimates for low concentration PCB waste treatment were not available.

This change caused a decline of 4,098 million yen in income before income taxes and minority interests.

6. Other essential facts in preparing consolidated financial statements

(1) Recognition of revenue and costs

With regard to construction contracts, the percentage-of-completion method is applied if a reliable estimation of the (i) total costs on and revenues from a contract and (ii) percentage of completion at the balance sheet date is 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.

(2) Accounting treatment of consumption tax

Transactions subject to national and local consumption taxes are recorded at amounts exclusive of such taxes.

7. Additional information

(1) Application of the accounting standards for accounting changes and error corrections

For the accounting changes and error corrections made after the beginning of this fiscal year, the MHI Group applies the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No.24, issued on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24, issued on December 4, 2009).

(2) Adjustment to deferred tax assets and deferred tax liabilities due to changes in income tax rate

Following the promulgation of the “Law for Partial Amendment of the Income Tax Law, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Law No. 114 of 2011) and the “Law on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Law No. 117 of 2011) on December 2, 2011, the reduction in the corporate income tax rate and the introduction of a new income tax (special corporate tax for reconstruction) becomes effective for fiscal years beginning on or after April 1, 2012. 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, 2012 have been changed.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by 9,665 million yen, income taxes (income taxes – deferred) increased by 11,352 million yen and net unrealized gains on investment securities increased by 1,686 million yen.

Notes to the Consolidated Balance Sheet

1. Pledged assets and related liabilities

(1) Assets pledged as collateral

Property, plant and equipment	¥	9,566 million
Trade receivables	¥	1,198 million
Others	¥	363 million
Total	¥	11,127 million

(2) Liabilities related to the assets pledged as collateral

Long-term borrowings	¥	3,985 million
Short-term borrowings	¥	1,084 million
Total	¥	5,070 million

2. Accumulated depreciation

Accumulated depreciation of property, plant and equipment ¥ 1,754,645 million

3. Contingent liabilities

(1) Guarantee obligations on such debts as borrowings from financial institutions by parties outside the MHI Group

Employees (Residence fund loan, etc)	¥	33,816 million
L&T-MHI Turbine Generators Private Ltd.	¥	7,058 million
Others	¥	21,159 million
Total	¥	62,034 million

(2) Unsettled balances of notes receivable endorsed

Notes receivable endorsed	¥	164 million
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Notes to the Consolidated Statement of Income

Business structure improvement expenses

Business structure improvement expenses are comprised mainly of business reorganization expenses.

Notes to the Consolidated Statement of Changes in Net Assets

1. Total number of the shares issued
Common stock 3,373,647,813 shares

2. Cash dividends
(1) Cash dividends paid

Resolution	Type of shares	Total cash dividends paid	Cash dividends per share	Record date	Effective date
Jun 23rd, 2011 Ordinary General Meeting of Shareholders	Common Stock	¥ 6,710 million	¥ 2	Mar 31st, 2011	Jun 24th, 2011
Oct 31st, 2011 Board of Directors	Common Stock	¥ 10,065 million	¥ 3	Sep 30th, 2011	Dec 5th, 2011

- (2) Dividends of which the record date is within this fiscal year which take effect in the next fiscal year

Resolution	Type of shares	Total cash dividends to be paid	Source of the cash dividends	Cash dividends per share	Record date	Effective date
Jun 21st, 2012 Ordinary General Meeting of Shareholders	Common Stock	¥ 10,065 million	Retained Earnings	¥ 3	Mar 31st, 2012	Jun 22nd, 2012

Note: The above is scheduled to be resolved at the ordinary general meeting of shareholders on June 21st, 2012.

3. Type and number of shares subject to the share subscription rights
Common stock 5,476,000 shares

Notes on Financial Instruments

1. Condition of financial instruments

The primary source of the MHI Group's operations and plant/equipment investment is the cash earned through operating activities; necessary capital exceeding that is procured mainly through bank loans and debenture issuance. Financial investment is limited to short-term bank deposits and similar assets.

The MHI Group takes steps to mitigate the credit risk on the trade receivables from customers by regularly keeping track of due dates and balances of the receivables from each customer. When necessary, such measures as forward exchange contracts are used to hedge against foreign exchange risk on trade receivables denominated in foreign currencies.

Securities and investment securities are mainly comprised of equities; the MHI Group regularly grasps their fair values and financial conditions of the equity issuers.

Short-term borrowings are used for operations; long-term borrowings and debenture issuance are used for operations and plant/equipment investment. Interest payment for some long-term borrowings with interest-rate risks is fixed by means of interest-rate swaps.

The use of derivatives is subject to the internal control policy and limited to the extent corresponding to actual business.

2. Fair value of financial instruments

The amounts on the consolidated balance sheet, fair values and the variance between them as of March 31, 2012 are shown in the following table. The ones whose fair values are extremely difficult to determine are excluded from the following table. (See Footnote 2 below the table.)

(Unit: million yen)

	Consolidated Balance Sheet Amount (*)	Fair Value (*)	Variance
(1) Cash and deposits	262,287	262,287	—
(2) Trade receivables	968,064	968,064	—
(3) Securities and investment securities	157,553	222,836	65,283
(4) Trade payables	(651,101)	(651,101)	—
(5) Short-term borrowings	(152,344)	(152,344)	—
(6) Debentures	(319,900)	(330,120)	(10,220)
(7) Long-term borrowings	(684,902)	(707,013)	(22,110)
(8) Derivatives (*)			
•to which hedge accounting is not applied	(1,121)	(1,121)	—
•to which hedge accounting is applied	(311)	(311)	—

(*) The amounts recognized as liabilities are shown in parentheses. The derivatives positions shown are net amounts; if the total net position of an item results in obligations, the amounts are shown in parentheses.

(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 large portion of these are settled in a short period and the fair values could be deemed almost equal to the book values.

(3) Securities and investment securities

Market prices are used as the fair values.

(4) Trade payables; (5) Short-term borrowings

The book values are used as the fair values since large portion of these are settled in a short period and the fair values are almost equal to the book values.

(6) Debentures

Market prices are used as the fair values.

(7) Long-term borrowings

The present values of the principal and total interest (*) (discounted by the rate assumed to be applied to the new borrowings of the same conditions) are used as the fair values.

(*) As for the long-term borrowings to which the exceptional treatment of interest-rate swaps are applied (see (8) below), the principal and total interest according to the interest rate under the interest-rate swaps.

(8) Derivatives

The fair values of exchange contracts are based on forward exchange rates. Out of those to which hedge accounting is applied, the ones to which the “assigning method for foreign currency receivables or payables” is applied are treated as part of the hedged trade receivables/payables, thus their fair values are included in those trade receivables/payables. (See above (2) and (4).)

Those to which the exceptional treatment of interest-rate swaps are applied are treated as part of the hedged long-term borrowings, thus their fair values are included in those long-term borrowings. (See above (7).)

(Footnote 2) Unlisted securities, whose consolidated balance sheet amount is 151,503 million yen, are excluded from the above table because it is extremely difficult to determine their fair values; they do not have market prices and reliable estimation by alternative methods is not available due to the impossibility of estimating their future cash flows or other difficulties.

Per Share Information

Book value per share	¥ 374.08
Net income per share	¥ 7.31

Notes on Subsequent Events

On April 2, 2012, MHI sold all the shares it held in an affiliated company accounted for by the equity method, Caterpillar Japan Ltd. (CJL), to CJL itself under the contract concluded on November 7, 2011. The following is a description of the affiliated company and the transaction.

- (1) The name of the buyer / affiliated company
Caterpillar Japan Ltd.
- (2) Date of the transaction
April 2, 2012.
- (3) Description of the business of the affiliated company
Manufacture and sale of construction machinery including hydraulic excavators, wheel loaders and track-type tractors.
- (4) Business relationship of the affiliated company with MHI
It is a purchaser of MHI’s products.
- (5) Number of shares sold under the transaction: 115,500
- (6) Transaction Price: ¥ 36,543 million
- (7) Gain on the sale of the shares: ¥ 6,267 million

Notes to the Financial Statements

Significant Accounting Policies

1. Asset valuation standards and methods

(1) Securities

Securities of subsidiaries and affiliated companies

...Historical cost method (moving average method).

Other securities

Other securities with market value

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

Other securities without market value

...Historical cost method (moving average method).

(2) Inventories

Merchandise and finished products

...Historical cost method (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

...Historical cost method (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

...Historical cost method (moving average method).(*)

(Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

*Some standardized steel materials for building new ships are 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.) Inventories held by certain business units are stated at cost determined by the yearly average method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

2. Depreciation methods for fixed assets

(1) Property, plant and equipment (excluding leased assets)

Straight-line method for buildings (excluding the equipment attached to them); declining-balance method for the other items of property, plant and equipment.

(2) Leased Assets

Straight-line method (where useful lives are equal to the lease terms and residual values are assumed to be zero).

Finance lease transactions which do not transfer ownership, if they start on or before March 31, 2008, are accounted for in a manner similar to ordinary rental transactions.

3. Allowance and reserves

(1) 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.

(2) 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.

(3) Reserve for losses on construction contracts

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

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

(4) Reserve for legal claims

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

(5) Reserve for retirement allowance

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

Prior service costs are expensed as incurred and actuarial gains and losses for each year are amortized by the straight-line method, starting in the following year of incurrence, over the average remaining service period of employees.

(6) 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.

(Change in accounting estimates)

In this fiscal year, estimated costs to turn low concentration PCB waste harmless are included in this reserve and expensed under extraordinary loss. Formerly, only high concentration PCB waste was subject to this reserve because reasonable estimates for low concentration PCB waste treatment were not available.

This change caused a decline of 4,098 million yen in income before income taxes.

4. Recognition of revenue and costs

With regard to construction contracts, the percentage-of-completion method is applied if a reliable estimation of the (i) total costs on and revenues from a contract and (ii) percentage of completion at the balance sheet date is 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.

5. Other essential facts in preparing financial statements

Accounting treatment of consumption tax

Transactions subject to national and local consumption taxes are recorded at amounts exclusive of such taxes.

6. Additional information

(1) Application of the accounting standards for accounting changes and error corrections

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(2) Adjustment to deferred tax assets and deferred tax liabilities due to changes in income tax rate

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As a result, deferred tax assets (net of deferred tax liabilities) decreased by 7,759 million yen, income taxes (income taxes – deferred) increased by 9,160 million yen and net unrealized gains on investment securities increased by 1,401 million yen.

Notes to the Balance Sheet

1. Accumulated depreciation

Accumulated depreciation of property, plant and equipment ¥ 1,504,681 million

2. Contingent liabilities

Guarantee obligations on such debts as borrowings from financial institutions	
Employees (Residence fund loan, etc)	¥ 32,990 million
Mitsubishi Caterpillar Forklift Europe B.V.	¥ 15,289 million
L&T-MHI Turbine Generators Private Ltd.	¥ 7,058 million
Mitsubishi Heavy Industries Printing & Packaging Machinery, Ltd.	¥ 5,117 million
<u>Others</u>	<u>¥ 36,398 million</u>
<u>Total</u>	<u>¥ 96,854 million</u>

3. Monetary receivables from / payables to subsidiaries and affiliated companies

Short-term monetary receivables	¥ 273,660 million
Long-term monetary receivables	¥ 50,952 million
Short-term monetary payables	¥ 127,222 million
Long-term monetary payables	¥ 21,741 million

Notes to the Statement of Income

1. Transactions with subsidiaries and affiliated companies

Sales	¥ 430,820 million
Purchases	¥ 343,935 million
Transactions other than operating transactions	¥ 11,347 million

2. Business structure improvement expenses
Business structure improvement expenses are comprised mainly of business reorganization expenses.

Notes to the Statement of Changes in Net Assets

The number of treasury stock
Common stock 18,449,358 shares

Notes on Tax Effect Accounting

Deferred tax assets are principally caused by the reserve for retirement allowance. Deferred tax liabilities are principally caused by the gain on contribution of securities to retirement benefit trust.

Per Share Information

Book value per share	¥ 333.87
Net income per share	¥ 3.85

Notes on Subsequent Events

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- (3) Description of the business of the affiliated company
Manufacture and sale of construction machinery including hydraulic excavators, wheel loaders and track-type tractors.
- (4) Business relationship of the affiliated company with MHI
It is a purchaser of MHI's products.
- (5) Number of shares sold under the transaction: 115,500
- (6) Transaction price: ¥ 36,543 million
- (7) Gain on the sale of the shares: ¥ 30,768 million