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SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2012	2011	2012	2012	2011	2012
Shipbuilding & Ocean Development	¥ 311,678	¥ 302,439	$ 3,792,164	¥ (7,733)	¥ 1,826	$ (94,086)
Power Systems	955,348	996,963	11,623,652	85,675	83,021	1,042,401
Machinery & Steel Infrastructure Systems	428,839	557,515	5,217,654	26,369	27,070	320,829
Aerospace Systems	495,991	472,268	6,034,687	(10,932)	(3,411)	(133,008)
General Machinery & Special Vehicles	381,717	343,079	4,644,324	3,599	(16,681)	43,788
Others	294,477	282,738	3,582,881	14,981	9,394	182,272
Subtotal	2,868,052	2,955,004	34,895,388	111,961	101,219	1,362,221
Eliminations	(47,120)	(51,233)	(573,305)	–	–	–
Total	¥2,820,932	¥2,903,770	$34,322,082	¥111,961	¥101,219	$1,362,221

	Total Assets			Capital Expenditures		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2012	2011	2012	2012	2011	2012
Shipbuilding & Ocean Development	¥ 175,062	¥ 225,528	$ 2,129,967	¥ 7,812	¥ 9,806	$ 95,048
Power Systems	1,108,279	1,046,926	13,484,353	39,850	50,718	484,852
Machinery & Steel Infrastructure Systems	621,585	610,253	7,562,781	9,448	12,717	114,953
Aerospace Systems	875,702	910,892	10,654,605	33,537	21,518	408,042
General Machinery & Special Vehicles	353,636	367,095	4,302,664	10,892	16,307	132,522
Others	632,063	618,863	7,690,266	12,578	10,555	153,035
Subtotal	3,766,329	3,779,560	45,824,662	114,119	121,624	1,388,477
Eliminations or Corporate	197,658	209,440	2,404,891	6,636	5,059	80,739
Total	¥3,963,987	¥3,989,001	$48,229,553	¥120,755	¥126,683	$1,469,217

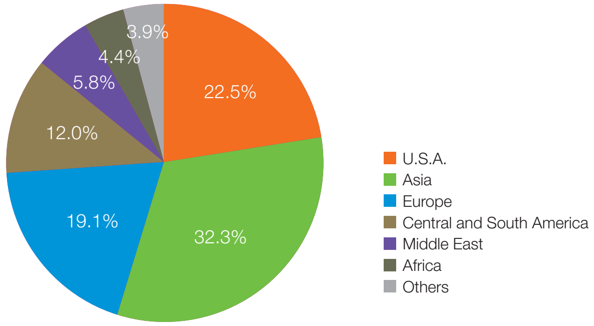
	Depreciation and Amortization*			Amortization of Goodwill		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2012	2011	2012	2012	2011	2012
Shipbuilding & Ocean Development	¥ 9,728	¥ 10,084	$ 118,359	¥ –	¥ –	$ –
Power Systems	40,618	43,214	494,196	477	268	5,803
Machinery & Steel Infrastructure Systems	14,060	15,572	171,067	31	78	377
Aerospace Systems	29,995	32,665	364,947	–	–	–
General Machinery & Special Vehicles	15,449	16,602	187,966	1,755	1,871	21,352
Others	14,111	14,019	171,687	48	48	584
Subtotal	123,964	132,159	1,508,261	2,313	2,266	28,142
Corporate	–	–	–	–	–	–
Total	¥123,964	¥132,159	$1,508,261	¥2,313	¥2,266	$28,142

* Amortization of goodwill is not included.

BREAKDOWN OF SALES BY CUSTOMER LOCATION	Net Sales		
	In millions of yen		In thousands of U.S. dollars
	2012	2011	**2012**
Japan	**¥1,639,903**	¥1,480,579	**$19,952,585**
U.S.A.	**265,533**	304,766	**3,230,721**
Asia	**381,858**	373,733	**4,646,039**
Europe	**225,759**	217,087	**2,746,794**
Central and South America	**142,165**	200,850	**1,729,711**
Middle East	**68,740**	102,690	**836,354**
Africa	**51,644**	169,283	**628,348**
Others	**45,327**	54,780	**551,490**
Total	**¥2,820,932**	¥2,903,770	**$34,322,082**

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥82.19 = U.S. $1, the exchange rate prevailing at March 31, 2012.

Composition of Overseas Net Sales by Geographic Distribution



Analysis of Operating Results

In fiscal 2011, ended March 31, 2012, consolidated net sales of the MHI Group fell ¥82.8 billion or 2.9% to ¥2,820.9 billion. Net sales performance primarily reflected declines in the Machinery & Steel Infrastructure Systems, which outweighed growth mainly in the General Machinery & Special Vehicles and Aerospace Systems.

Operating income rose ¥10.7 billion, or 10.6% year on year, to ¥111.9 billion. While the yen's appreciation was a factor undercutting earnings, income rose mainly due to improved profitability in the General Machinery & Special Vehicles and Power Systems.

Net non-operating expenses were ¥25.7 billion, an improvement of ¥7.3 billion from the previous fiscal year, as improvement in equity in foreign exchange loss offset a worsening equity in losses of unconsolidated subsidiaries and affiliates.

As a result, ordinary income climbed ¥18.0 billion, or 26.5% year on year, to ¥86.1 billion.

The MHI Group posted an extraordinary gain of ¥28.3 billion from sales of fixed assets including the head office building. The Group also posted an extraordinary loss of ¥44.6 billion. This extraordinary loss included business structure improvement expenses, such as the disposal of on-shore wind turbine inventory.

Consequently, income before income taxes and minority interests increased ¥30.3 billion, or 76.8% year on year, to ¥69.8 billion. Net income, meanwhile, decreased ¥5.5 billion, or 18.5%, from the previous fiscal year to ¥24.5 billion, primarily as a result of corporate tax rate revisions.

Key Factors Affecting Operating Results

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

Market trends

Market trends are expected to hold to an improvement trajectory overall, supported by robust performance in emerging economies. For the MHI Group, there is recognition that the operating environment will grow more severe going forward, with competition heating up as prominent companies from around the world vie for a stake in fast-growing emerging markets. In this climate, the MHI Group will win out against this stiffer competition to achieve future growth and development by building a management structure capable of responding rapidly to the market's dramatic changes and delivering consistent earnings. At the same time, the Group will endeavor to leverage unrivaled technology to provide products and services that answer customer needs.

Exchange rate fluctuation

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

Change in costs of materials

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

Overseas business contracts

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

Accidents and disasters

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

Technology and skill transfer

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

Source of Funds and Liquidity

Cash flow analysis

Operating activities provided net cash of ¥200.3 billion for the fiscal year under review, a decrease of ¥137.4 billion compared with the previous fiscal year. This outcome mainly reflected increases in trade receivables.

Investing activities used net cash of ¥47.0 billion, ¥90.2 billion less than the previous fiscal year. This decrease was mainly due to an increase in proceeds from sales of property, plant, equipment and intangible assets.

Financing activities used net cash of ¥183.6 billion, ¥13.8 billion more than the previous fiscal year. This rise was due mainly to an increase in repayment of long-term borrowings.

Primary funding requirements

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

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

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2012 was as follows:

(In billions of yen)

	Total	Due within one year	Due after one year
Short-term borrowings	¥ 152.3	¥152.3	¥ —
Long-term borrowings	684.9	131.7	553.1
Bonds	319.9	69.9	250.0
Total	1,157.1	353.9	803.1

The MHI Group is involved in numerous projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery facilities. Consequently, the MHI Group must secure a stable level of working capital and funds for capital investments. Since the start of the global financial crisis in 2008, the Group has worked to streamline its assets, and has repaid long-term borrowings that have come due. As a result, the total interest-bearing debt of the MHI Group at the end of fiscal year 2011 was ¥1,157.1 billion, consisting of ¥353.9 billion due within one year, and ¥803.1 billion due after one year.

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

Financial policy

The MHI Group funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with interest-bearing debt.

In appropriately determining the amounts and methods of procuring long-term funds through long-term borrowings, bonds, and other means, the MHI Group takes into account the funding requirements of its business plans, interest-rate trends and various other factors, as well as the repayment schedule for its existing debt.

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

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

CONSOLIDATED BALANCE SHEETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	2012	2011	2012
Current assets:			
Cash and deposits (Notes 3 and 18)	¥ 262,287	¥ 301,047	$ 3,191,227
Trade receivables (Notes 3 and 8)	968,064	852,645	11,778,367
Securities (Notes 3 and 4)	1	8	12
Merchandise and finished products	155,990	175,630	1,897,919
Work in process	773,782	803,874	9,414,551
Raw materials and supplies	123,670	136,701	1,504,684
Deferred income taxes (Note 6)	180,747	161,823	2,199,136
Other current assets	180,826	151,383	2,200,097
Allowance for doubtful accounts (Note 1)	(6,368)	(7,500)	(77,479)
Total current assets	2,639,003	2,575,613	32,108,565
Non-current assets:			
Property, plant and equipment, net (Notes 8 and 20)**:**			
Buildings and structures	342,243	355,449	4,164,046
Machinery and transportation equipment	234,037	251,507	2,847,511
Tools, equipment and furniture	38,051	39,714	462,963
Land	137,337	166,494	1,670,969
Leased assets	5,356	6,004	65,166
Construction in progress	40,557	42,358	493,454
Total property, plant and equipment, net	797,584	861,528	9,704,148
Intangible assets	25,313	25,165	307,981
Investments and advances:			
Investment securities (Notes 3 and 4)	309,054	321,285	3,760,238
Long-term loans and advances	5,478	5,180	66,650
Deferred income taxes (Note 6)	11,180	10,824	136,026
Others	185,708	198,938	2,259,496
Allowance for doubtful accounts (Note 1)	(9,335)	(9,535)	(113,578)
Total investments and advances	502,086	526,693	6,108,845
Total non-current assets	1,324,984	1,413,387	16,120,987
Total assets	¥3,963,987	¥3,989,001	$48,229,553

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

LIABILITIES AND NET ASSETS	In millions of yen 2012	2011	In thousands of U.S. dollars (Note 2) 2012
Liabilities			
Current liabilities:			
Trade payables (Note 3)	¥ 651,101	¥ 619,107	$ 7,921,900
Short-term borrowings (Notes 3, 7 and 8)	152,344	85,488	1,853,558
Current portion of long-term borrowings (Notes 3, 7 and 8)	131,713	211,114	1,602,542
Current portion of bonds (Notes 3 and 7)	69,900	14,074	850,468
Reserve for product warranties (Note 1)	20,812	23,123	253,218
Reserve for losses on construction contracts (Note 1)	77,565	50,753	943,727
Reserve for legal claims (Note 1)	3,936	2,167	47,889
Advance payments received on contracts	399,288	330,275	4,858,109
Other current liabilities (Notes 6 and 7)	208,034	197,965	2,531,135
Total current liabilities	1,714,695	1,534,070	20,862,574
Non-current liabilities:			
Bonds (Notes 3 and 7)	250,000	330,000	3,041,732
Long-term borrowings (Notes 3, 7 and 8)	553,189	684,989	6,730,611
Deferred income taxes (Note 6)	17,832	3,607	216,960
Reserve for retirement allowance (Notes 1 and 10)	47,002	49,842	571,870
Reserve for treatment of PCB waste (Note 1)	11,604	7,007	141,185
Other non-current liabilities (Note 7)	63,296	66,805	770,118
Total non-current liabilities	942,925	1,142,251	11,472,502
Total liabilities	2,657,621	2,676,322	32,335,089
Net assets			
Stockholders' equity (Note 16)**:**			
Common stock, without par value:			
Authorized shares: 6,000,000,000			
Issued shares: 2012 and 2011—3,373,647,813	265,608	265,608	3,231,634
Capital surplus	203,942	203,939	2,481,348
Retained earnings	822,473	815,145	10,006,971
Treasury stock (2012—18,546,244 shares and 2011—18,582,258 shares) at cost	(5,418)	(5,425)	(65,920)
Total stockholders' equity	1,286,606	1,279,267	15,654,045
Accumulated other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	22,082	25,579	268,670
Deferred gains (losses) on hedges	12	(467)	146
Foreign currency translation adjustments	(53,611)	(42,311)	(652,281)
Total accumulated other comprehensive income (loss)	(31,517)	(17,199)	(383,465)
Share subscription rights (Note 17)	1,868	1,509	22,727
Minority interests	49,409	49,101	601,155
Total net assets	1,306,366	1,312,678	15,894,464
Total liabilities and net assets	¥3,963,987	¥3,989,001	$48,229,553

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net sales	¥2,820,932	¥2,903,770	$34,322,082
Cost of sales	2,375,158	2,461,857	28,898,381
Gross profit	445,774	441,913	5,423,701
Selling, general and administrative expenses (Note 19)	333,812	340,693	4,061,467
Operating income	111,961	101,219	1,362,221
Non-operating income (expenses):			
Interest income	3,637	4,029	44,251
Dividend income	4,248	3,499	51,685
Income (loss) from equity method investments	4,960	6,804	60,347
Other income	5,107	5,867	62,136
Interest expense	(20,522)	(22,471)	(249,689)
Foreign exchange loss	(5,094)	(14,556)	(61,978)
Loss on disposal of fixed assets	(5,725)	(5,882)	(69,655)
Other expenses (Note 14)	(12,390)	(10,396)	(150,748)
Total non-operating income (expenses)	(25,779)	(33,106)	(313,651)
Ordinary income	86,182	68,113	1,048,570
Extraordinary gain (loss):			
Gain (loss) on sales of fixed assets (Note 11)	28,344	10,870	344,859
Gain (loss) on sales of investment securities	–	4,972	–
Business structure improvement expenses (Notes 12 and 14)	(38,116)	(22,684)	(463,754)
Expense for treatment of PCB waste (Note 1)	(4,098)	–	(49,860)
Loss on revaluation of investment securities (Note 4)	(2,479)	(9,519)	(30,161)
Loss on disaster (Note 13)	–	(10,240)	–
Loss on the application of the accounting standards for asset retirement obligations	–	(2,012)	–
Total extraordinary gain (loss)	(16,350)	(28,614)	(198,929)
Income before income taxes and minority interests	69,831	39,499	849,628
Income taxes (Note 6):			
Current	46,031	39,905	560,055
Deferred	(855)	(29,423)	(10,402)
Total income taxes	45,175	10,481	549,641
Income before minority interests	24,655	29,018	299,975
Minority interests in income (loss) of consolidated subsidiaries	114	(1,099)	1,387
Net income	¥ 24,540	¥ 30,117	$ 298,576

	In yen		In U.S. dollars (Note 2)
Per share information of common stock (Note 1):	2012	2011	2012
Net income—basic	¥ 7.31	¥ 8.97	$ 0.089
Net income—diluted	7.30	8.96	0.089
Cash dividends	6.00	4.00	0.073

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Income before minority interests	¥ 24,655	¥ 29,018	$ 299,975
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	(3,607)	(10,934)	(43,886)
Deferred gains (losses) on hedges	549	(262)	6,679
Foreign currency translation adjustments	(9,455)	(17,337)	(115,038)
Share of other comprehensive income (loss) of entities accounted for using the equity method	(2,051)	(2,676)	(24,954)
Total other comprehensive income (loss) (Note 15)	(14,565)	(31,211)	(177,211)
Comprehensive income (loss)	¥ 10,090	¥ (2,192)	$ 122,764
Comprehensive income (loss) attributable to:			
Shareholders of the parent	¥ 10,223	¥ (408)	$ 124,382
Minority interests	(132)	(1,784)	(1,606)

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

In millions of yen

	Stockholders' equity					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2010 . . .	¥265,608	¥203,938	¥800,199	¥(5,025)	¥1,264,721	¥ 35,942	¥(721)	¥(21,894)	¥ 13,327	¥1,184	¥49,540	¥1,328,772
Cash dividends (Note 16)			(13,425)		(13,425)							(13,425)
Net income.			30,117		30,117							30,117
Changes in scope of consolidation.			(1,763)		(1,763)							(1,763)
Changes in scope of equity method application			18		18							18
Purchase of treasury stock				(412)	(412)							(412)
Disposal of treasury stock.		0		12	12							12
Net changes in items other than stockholders' equity					–	(10,363)	254	(20,416)	(30,526)	324	(439)	(30,640)
Subtotal	–	0	14,946	(400)	14,546	(10,363)	254	(20,416)	(30,526)	324	(439)	(16,093)
Balance as of March 31, 2011 . . .	¥265,608	¥203,939	¥815,145	¥(5,425)	¥1,279,267	¥ 25,579	¥(467)	¥(42,311)	¥(17,199)	¥1,509	¥49,101	¥1,312,678
Cash dividends (Note 16)			(16,775)		(16,775)							(16,775)
Net income.			24,540		24,540							24,540
Changes in scope of consolidation.			19		19							19
Changes in scope of equity method application			(4)		(4)							(4)
Changes in fiscal year-end of consolidated subsidiaries			(452)		(452)							(452)
Purchase of treasury stock				(14)	(14)							(14)
Disposal of treasury stock.		3		22	25							25
Net changes in items other than stockholders' equity					–	(3,497)	479	(11,300)	(14,317)	359	307	(13,650)
Subtotal	–	3	7,327	7	7,338	(3,497)	479	(11,300)	(14,317)	359	307	(6,312)
Balance as of March 31, 2012 . . .	¥265,608	¥203,942	¥822,473	¥(5,418)	¥1,286,606	¥ 22,082	¥ 12	¥(53,611)	¥(31,517)	¥1,868	¥49,409	¥1,306,366

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

	Stockholders' equity					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2011 . . .	$3,231,634	$2,481,311	$ 9,917,812	$(66,005)	$15,564,752	$311,217	$(5,681)	$(514,794)	$(209,259)	$18,359	$597,408	$15,971,261
Cash dividends (Note 16)			(204,100)		(204,100)							(204,100)
Net income.			298,576		298,576							298,576
Changes in scope of consolidation.			231		231							231
Changes in scope of equity method application			(48)		(48)							(48)
Changes in fiscal year-end of consolidated subsidiaries			(5,499)		(5,499)							(5,499)
Purchase of treasury stock				(170)	(170)							(170)
Disposal of treasury stock.		36		267	304							304
Net changes in items other than stockholders' equity					–	(42,547)	5,827	(137,486)	(174,193)	4,367	3,735	(166,078)
Subtotal	–	36	89,147	85	89,280	(42,547)	5,827	(137,486)	(174,193)	4,367	3,735	(76,797)
Balance as of March 31, 2012 . . .	$3,231,634	$2,481,348	$10,006,971	$(65,920)	$15,654,045	$268,670	$ 146	$(652,281)	$(383,465)	$22,727	$601,155	$15,894,464

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 69,831	¥ 39,499	$ 849,628
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	123,964	132,159	1,508,261
Increase (decrease) in reserve for retirement allowance	(2,956)	819	(35,965)
Interest and dividend income	(7,885)	(7,529)	(95,936)
Interest expense	20,522	22,471	249,689
(Income) loss from equity method investments	(4,960)	(6,804)	(60,347)
(Gain) loss on sales of investment securities	(123)	(4,972)	(1,496)
Loss on revaluation of investment securities	2,479	9,519	30,161
(Gain) loss on sales of fixed assets	(28,344)	(10,870)	(344,859)
Loss on disposal of fixed assets	5,725	5,882	69,655
Loss on the application of the accounting standards for asset retirement obligations	–	2,012	–
Business structure improvement expenses	38,116	22,684	463,754
Expense for treatment of PCB waste	4,098	–	49,860
Loss on disaster	–	10,240	–
(Increase) decrease in receivables	(123,811)	82,377	(1,506,399)
(Increase) decrease in inventories and advances to suppliers	33,945	167,088	413,006
(Increase) decrease in other assets	(1,733)	(22,024)	(21,085)
Increase (decrease) in payables	38,004	(27,390)	462,392
Increase (decrease) in advance payments received on contracts	70,284	(54,465)	855,140
Increase (decrease) in other liabilities	14,622	8,297	177,904
Others	4,841	(301)	58,900
Subtotal	256,621	368,694	3,122,289
Interest and dividends received	8,447	9,472	102,774
Interest paid	(20,931)	(22,871)	(254,666)
Income taxes paid	(43,776)	(17,490)	(532,619)
Net cash provided by operating activities	200,361	337,805	2,437,778
Cash flows from investing activities:			
Net (increase) decrease in time deposits	4,417	(154)	53,741
Purchases of marketable securities	(40,000)	–	(486,677)
Proceeds from sales and redemption of marketable securities	40,000	–	486,677
Purchases of property, plant, equipment and intangible assets	(117,433)	(138,099)	(1,428,799)
Proceeds from sales of property, plant, equipment and intangible assets	66,963	12,899	814,734
Purchases of investment securities	(2,763)	(16,835)	(33,617)
Proceeds from sales and redemption of investment securities	3,557	6,246	43,277
Disbursement of long-term loans	(1,930)	(2,729)	(23,482)
Collection of long-term loans	1,887	3,124	22,958
Others	(1,746)	(1,699)	(21,243)
Net cash used in investing activities	(47,047)	(137,248)	(572,417)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	69,278	(32,522)	842,900
Proceeds from long-term borrowings	2,835	13,537	34,493
Repayment of long-term borrowings	(212,859)	(116,220)	(2,589,840)
Payment for redemption of bonds	(24,228)	(20,000)	(294,780)
Proceeds from issuance of stock to minority stockholders of subsidiaries	1,775	1,899	21,596
Dividends paid to stockholders	(16,733)	(13,351)	(203,589)
Dividends paid to minority stockholders of subsidiaries	(1,375)	(598)	(16,729)
Others	(2,306)	(2,537)	(28,056)
Net cash used in financing activities	(183,614)	(169,793)	(2,234,018)
Effect of exchange rate changes on cash and cash equivalents	(4,045)	(2,512)	(49,215)
Net increase (decrease) in cash and cash equivalents	(34,347)	28,251	(417,897)
Cash and cash equivalents at beginning of year	288,868	261,373	3,514,636
Increase in cash and cash equivalents due to changes in scope of consolidation	84	275	1,022
Decrease in cash and cash equivalents due to changes in scope of consolidation	–	(1,031)	–
Cash and cash equivalents at end of year (Note 18)	¥ 254,605	¥ 288,868	$ 3,097,761

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

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

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

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2012 and 2011 include the accounts of the Group. All significant inter-company transactions and accounts have been eliminated.

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

c) Foreign currency translation

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

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

d) Securities

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

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

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

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

e) Inventories

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

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

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

f) Depreciation of property, plant and equipment

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

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

g) Amortization of intangible assets

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

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

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

h) Allowance for doubtful accounts

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

i) Reserve for product warranties

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

j) Reserve for losses on construction contracts

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

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

k) Reserve for legal claims

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

l) Reserve for retirement allowance

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

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

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

m) Reserve for treatment of PCB waste

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

(Change in accounting estimates)

In the year ended March 31, 2012, 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 ($49,860 thousand) in income before income taxes and minority interests.

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 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.

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 "assigning method for foreign currency receivables or payables" (hereinafter referred to as the "assigning method") and 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 “assigning method” is applied when a forward exchange contract (hedging instrument) with the corresponding conditions (e.g. amount, currency and settlement period) to the hedged item is concluded to fix the conversion rate of those receivables or payables. Under this method, the hedged item and the hedging instrument are treated as a single item, thus the hedged item is converted by the forward exchange contract rate; the fair value of the hedging instrument is not computed. The assigning method is not applied in case of comprehensive forward exchange contracts.

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

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

p) Tax-effect accounting

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

q) Cash and cash equivalents

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

r) Net income per share

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

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

S) Additional information

Application of the accounting standards for accounting changes and error corrections

For the accounting changes and error corrections made after the beginning of the year ended March 31, 2012, the 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. U.S. DOLLAR AMOUNTS

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

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥82.19 = US$1 prevailing at March 31, 2012 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, 2012 and 2011 are shown in the following table. The ones whose fair values are extremely difficult to determine are excluded from the following table and shown in Footnote 2. See Note 1 o) for the information on hedge accounting.

	In millions of yen			In thousands of U.S. dollars		
	2012			2012		
	Carrying Amount	Fair Value	Variance	Carrying Amount	Fair Value	Variance
(1) Cash and deposits	**¥ 262,287**	**¥ 262,287**	**¥ –**	**$ 3,191,227**	**$ 3,191,227**	**$ –**
(2) Trade receivables	**968,064**	**968,064**	**–**	**11,778,367**	**11,778,367**	**–**
(3) Securities and investment securities	**157,553**	**222,836**	**65,283**	**1,916,936**	**2,711,230**	**794,293**
Asset Items Total	**¥1,387,905**	**¥1,453,189**	**¥65,283**	**$16,886,543**	**$17,680,849**	**$794,293**
(4) Trade payables	**651,101**	**651,101**	**–**	**7,921,900**	**7,921,900**	**–**
(5) Short-term borrowings	**152,344**	**152,344**	**–**	**1,853,558**	**1,853,558**	**–**
(6) Bonds	**319,900**	**330,120**	**10,220**	**3,892,200**	**4,016,547**	**124,346**
(7) Long-term borrowings	**684,902**	**707,013**	**22,110**	**8,333,154**	**8,602,177**	**269,010**
Liability Items Total	**¥1,808,248**	**¥1,840,579**	**¥32,330**	**$22,000,827**	**$22,394,196**	**$393,356**
(8) Derivatives (*)	**¥ (1,432)**	**¥ (1,432)**	**¥ –**	**$ (17,423)**	**$ (17,423)**	**$ –**

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

	In millions of yen		
	2011		
	Carrying Amount	Fair Value	Variance
(1) Cash and deposits	¥ 301,047	¥ 301,047	¥ –
(2) Trade receivables	852,645	852,645	–
(3) Securities and investment securities	168,795	240,080	71,284
Asset Items Total	¥1,322,487	¥1,393,772	¥71,284
(4) Trade payables	619,107	619,107	–
(5) Short-term borrowings	85,488	85,488	–
(6) Bonds	344,074	352,480	8,405
(7) Long-term borrowings	896,104	919,911	23,806
Liability Items Total	¥1,944,774	¥1,976,987	¥32,212
(8) Derivatives (*)	¥ (1,620)	¥ (1,620)	¥ –

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

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

(1) Cash and deposits
The book values are used as the fair values since all the deposits are short-term and the fair values are almost equal to the book values.

(2) Trade receivables
The book values are used as the fair values since a large portion of these are settled in a short period and the fair values could be deemed almost equal to the book values.

(3) Securities and investment securities
Market prices are used as the fair values.

(4) Trade payables; (5) Short-term borrowings
The book values are used as the fair values since they are settled in a short period and the fair values are almost equal to the book values.

(6) Bonds
If market prices are available, they are used as the fair values. If not, the present values of the principal and total interest (discounted by the rate based on the remaining years and the credit risk of the bonds) are used as the fair values.

(7) Long-term borrowings
The present values of the principal and total interest (*) (discounted by the rate assumed to be applied to the new borrowings of the same conditions) are used as the fair values.
(*) As for the long-term borrowings to which the "exceptional method" for interest-rate swaps is applied, the principal and total interest according to the interest rate under the interest-rate swaps are used.

(8) Derivatives
See Note 5.

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

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Carrying amounts of unlisted securities	**¥151,503**	¥152,498	**$1,843,326**

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2012 and 2011 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2012				2012			
	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	¥ 261,722	¥ –	¥ –	¥–	$ 3,184,353	$ –	$ –	$–
Trade receivables	903,892	53,852	10,319	–	10,997,590	655,213	125,550	–
Securities and investment securities								
Other securities								
Government bonds	0	9	–	–	0	109	–	–
Total	¥1,165,615	¥53,862	¥10,319	¥–	$14,181,956	$655,335	$125,550	$–

	In millions of yen			
	2011			
	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	¥ 300,596	¥ –	¥ –	¥–
Trade receivables	812,450	38,504	1,690	–
Securities and investment securities				
Other securities				
Government bonds	0	9	–	–
Total	¥1,113,047	¥38,513	¥1,690	¥–

4. SECURITIES

a) Breakdown of other securities with market value at March 31, 2012 and 2011

	In millions of yen			In thousands of U.S. dollars		
	2012			2012		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥ 79,346	¥32,400	¥ 46,945	$ 965,397	$ 394,208	$ 571,176
Others	1	1	0	12	12	0
Subtotal	¥ 79,347	¥32,402	¥ 46,945	$ 965,409	$ 394,232	$ 571,176
ii) Acquisition costs over carrying amounts:						
Equity securities	¥ 56,161	¥67,161	¥(10,999)	$ 683,306	$ 817,143	$(133,824)
Government bonds	9	9	(0)	109	109	(0)
Others	4	5	(0)	48	60	(0)
Subtotal	¥ 56,175	¥67,176	¥(11,000)	$ 683,477	$ 817,325	$(133,836)
Total (i+ii)	¥135,523	¥99,578	¥ 35,944	$1,648,898	$1,211,558	$ 437,328

	In millions of yen		
	2011		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥105,204	¥ 51,883	¥53,321
Others	2	1	0
Subtotal	¥105,206	¥ 51,884	¥53,321
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 40,660	¥ 49,457	¥ (8,797)
Government bonds	9	9	(0)
Others	10	12	(1)
Subtotal	¥ 40,680	¥ 49,479	¥ (8,799)
Total (i+ii)	¥145,887	¥101,364	¥44,522

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

b) Sales amounts of other securities with market value and related gains and losses for the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Sales amounts	¥175,094	¥704	$2,130,356
Gains	46	154	559
Losses	–	–	–

c) Impairment losses on other securities with market value for the years ended March 31, 2012 and 2011

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Impairment losses	¥2,351	¥9,472	$28,604

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

5. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Summarized below are the notional amounts and the fair values of the derivative positions outstanding at March 31, 2012 and 2011.

1. Derivatives to which hedge accounting is not applied

Forward foreign exchange contracts [*1]

	In millions of yen			In thousands of U.S. dollars		
	2012			2012		
	Notional amount [*2]	Fair value	Unrealized gain (loss)	Notional amount [*2]	Fair value	Unrealized gain (loss)
Sell:						
US$.	¥26,030	¥26,873	¥ (842)	$316,705	$326,961	$(10,244)
Euro	23,007	23,034	(26)	279,924	280,253	(316)
Others.	4,533	4,792	(258)	55,152	58,303	(3,139)
Buy:						
Euro	18	18	(0)	219	219	(0)
Others.	249	256	6	3,029	3,114	73
Total	¥53,303	¥54,425	¥(1,121)	$648,533	$662,185	$(13,639)

	In millions of yen		
	2011		
	Notional amount [*2]	Fair value	Unrealized gain (loss)
Sell:			
US$.	¥20,658	¥20,603	¥ 55
Euro	17,113	17,471	(358)
Others.	3,578	3,749	(170)
Buy:			
US$.	2,468	2,563	95
Total	¥38,882	¥39,260	¥(378)

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

2. Derivatives to which hedge accounting is applied

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

	In millions of yen			In thousands of U.S. dollars		
	2012			2012		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell: [*1]						
US$.	¥11,109	¥–	¥11,241	$135,162	$–	$136,768
Euro	5,366	–	5,156	65,287	–	62,732
Others.	3,730	–	3,813	45,382	–	46,392
Buy: [*2]						
US$.	8,845	–	8,993	107,616	–	109,417
Euro	9,718	–	9,245	118,238	–	112,483
Others.	4,597	–	4,616	55,931	–	56,162
Total	¥ (2,954)	¥–	¥ (2,643)	$ (35,941)	$–	$ (32,157)

	In millions of yen		
	2011		
	Notional amount	Therein: portion due after one year	Fair value
Sell: [*1]			
US$.	¥ 9,955	¥ –	¥ 9,666
Euro	13,288	–	13,718
Others.	3,396	–	3,399
Buy: [*2]			
US$.	26,293	14	25,830
Euro	19,065	–	18,875
Others.	4,824	–	4,378
Total	¥(23,542)	¥(14)	¥ (22,299)

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

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

	In millions of yen			In thousands of U.S. dollars		
	2012			2012		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)						
US$	¥ 2,440	¥ –	(*3)	$ 29,687	$ –	(*3)
Euro	10,132	–	(*3)	123,275	–	(*3)
Others	145	–	(*3)	1,764	–	(*3)
Buy:(*2)						
US$	1,612	9	(*3)	19,613	109	(*3)
Euro	2,152	–	(*3)	26,183	–	(*3)
Others	295	–	(*3)	3,589	–	(*3)
Total	¥ 8,657	¥(9)		$105,329	$(109)	

	In millions of yen		
	2011		
	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)			
US$	¥12,682	¥–	(*3)
Euro	18,008	–	(*3)
Buy:(*2)		–	
US$	2,847	–	(*3)
Euro	3,891	–	(*3)
Others	785	–	(*3)
Total	¥23,166	¥–	

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

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

	In millions of yen			In thousands of U.S. dollars		
	2012			2012		
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	¥251,001	¥186,556	(*2)	$3,053,911	$2,269,813	(*2)

	In millions of yen		
	2011		
	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥342,139	¥251,001	(*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 40.5% for the years ended March 31, 2012 and 2011.

a) Significant components of deferred tax assets and liabilities at March 31, 2012 and 2011, 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
	2012	2011	**2012**
Deferred tax assets:			
Reserve for retirement allowance	**¥ 94,955**	¥ 106,470	**$ 1,155,310**
Accrued expenses for product warranties	**44,903**	42,516	**546,331**
Accrued expenses for construction contracts	**26,896**	31,469	**327,241**
Inventory write-downs	**32,721**	28,081	**398,114**
Tax loss carryforwards	**28,799**	24,074	**350,395**
Reserve for losses on construction contracts	**28,807**	20,727	**350,492**
Others	**112,108**	117,727	**1,364,010**
Subtotal	**369,191**	371,066	**4,491,921**
Valuation allowance	**(65,660)**	(63,607)	**(798,880)**
Total gross deferred tax assets	**303,530**	307,459	**3,693,028**
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	**(68,146)**	(79,798)	**(829,127)**
Reserve for reduction in costs of fixed assets	**(27,404)**	(25,963)	**(333,422)**
Net unrealized gains on investment securities	**(16,621)**	(21,572)	**(202,226)**
Others	**(17,750)**	(11,414)	**(215,963)**
Total gross deferred tax liabilities	**(129,923)**	(138,748)	**(1,580,764)**
Net deferred tax assets (liabilities)*	**¥ 173,607**	¥ 168,710	**$ 2,112,264**

* Net deferred tax assets (liabilities) at March 31, 2012 and 2011 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2012	2011	**2012**
Deferred income taxes in current assets	**¥180,747**	¥161,823	**$2,199,136**
Deferred income taxes in investments and advances	**11,180**	10,824	**136,026**
Other liabilities in current liabilities	**(488)**	(329)	**(5,937)**
Deferred income taxes in non-current liabilities	**¥ (17,832)**	¥ (3,607)	**$ (216,960)**

b) Reconciliation of the statutory tax rate and the income tax rate as a percentage of income before income taxes and minority interests at March 31, 2012 and 2011 are as follows:

	2012	2011
Statutory tax rate	**40.5%**	40.5%
Reconciliation:		
Items excluded from expenses	**4.1**	5.3
Items excluded from gross income	**(2.1)**	(4.3)
(Income) loss from equity method investments	**(2.9)**	(7.0)
Valuation allowance	**12.5**	21.3
Tax exemption for research and development expenses	**(5.8)**	(17.2)
Income taxes for previous periods	**1.3**	(7.2)
Reduction in deferred tax assets due to changes in statutory tax rate	**16.3**	–
Others	**0.8**	(4.9)
Income tax rate as a percentage of income before income taxes and minority interests	**64.7%**	26.5%

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

Following the promulgation of the "Law for Partial Amendment of the Income Tax Law, etc. 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 corporation 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 ($117,593 thousand), income taxes (income taxes—deferred) increased by 11,352 million yen ($138,118 thousand) and net unrealized gains on investment securities increased by 1,686 million yen ($20,513 thousand).

7. INTEREST-BEARING DEBTS AND LEASE OBLIGATIONS

a) Short-term interest-bearing debts at March 31, 2012 and 2011 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2012	2011	**2012**
Short-term loans, principally from banks (with weighted-average interest rate of 1.2% at March 31, 2012)	**¥152,344**	¥ 85,488	**$1,853,558**
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 1.6% at March 31, 2012)	**131,713**	211,114	**1,602,542**
Current portion of bonds	**69,900**	14,074	**850,468**
Total	**¥353,957**	¥310,677	**$4,306,570**

b) Bonds at March 31, 2012 and 2011 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2012	2011	**2012**
Unsecured bonds issued by MHI:			
1.03% bonds due 2013 (issued in Jan 2003)	**¥ 30,000**	¥ 30,000	**$ 365,007**
0.70% bonds due 2013 (issued in Jun 2003)	**50,000**	50,000	**608,346**
1.45% bonds due 2011 (issued in Sep 2006)	**–**	10,000	**–**
2.04% bonds due 2016 (issued in Sep 2006)	**20,000**	20,000	**243,338**
1.47% bonds due 2012 (issued in Sep 2007)	**39,900**	50,000	**485,460**
1.69% bonds due 2014 (issued in Sep 2007)	**20,000**	20,000	**243,338**
2.03% bonds due 2017 (issued in Sep 2007)	**60,000**	60,000	**730,015**
0.688% bonds due 2014 (issued in Dec 2009)	**50,000**	50,000	**608,346**
1.482% bonds due 2019 (issued in Dec 2009)	**50,000**	50,000	**608,346**
Unsecured bonds issued by Subsidiaries:			
6.45% bonds due 2011 (issued in Aug 2006)	**–**	4,074	**–**
Total	**¥319,900**	¥344,074	**$3,892,200**

The aggregate annual maturities of bonds at March 31, 2012 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2013 (= current portion)	**¥ 69,900**	**$ 850,468**
2014	**50,000**	**608,346**
2015	**70,000**	**851,685**
2016	**–**	**–**
2017	**20,000**	**243,338**
Thereafter	**110,000**	**1,338,362**
Non-current portion subtotal	**250,000**	**3,041,732**
Total	**¥319,900**	**$3,892,200**

c) Long-term borrowings at March 31, 2012 and 2011 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Non-current portion of long-term loans, principally from banks and insurance companies, due 2013 to 2030 (with weighted-average interest rate of 1.7% at March 31, 2012)	¥553,189	¥684,989	$6,730,611

The aggregate annual maturities of long-term borrowings at March 31, 2012 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2013 (= current portion)	¥131,713	$1,602,542
2014	149,926	1,824,139
2015	180,939	2,201,472
2016	49,301	599,841
2017	47,957	583,489
Thereafter	125,064	1,521,644
Non-current portion subtotal	553,189	6,730,611
Total	¥684,902	$8,333,154

d) The aggregate annual maturities of lease obligations at March 31, 2012 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2013 (= current portion)	¥ 2,177	$ 26,487
2014	1,875	22,812
2015	1,172	14,259
2016	569	6,922
2017	308	3,747
Thereafter	4,292	52,220
Non-current portion subtotal	8,218	99,987
Total	¥10,396	$126,487

8. PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	2012	2011	2012
Property, plant and equipment	¥ 9,566	¥14,925	$116,388
Trade receivables	1,198	1,263	14,575
Others	363	386	4,416
Total	¥11,127	¥16,574	$135,381

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	2012	2011	2012
Long-term borrowings	¥3,985	¥ 7,123	$48,485
Short-term borrowings	1,084	10,276	13,188
Total	¥5,070	¥17,400	$61,686

9. CONTINGENT LIABILITIES

Contingent liabilities	In millions of yen 2012	2011	In thousands of U.S. dollars 2012
Guarantee obligations on such debts as borrowings from financial institutions by companies outside the MHI Group . . .	**¥62,034**	¥72,543	**$754,763**

10. RETIREMENT BENEFITS

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

a) Benefit obligations and related information at March 31, 2012 and 2011 were as follows:

	In millions of yen 2012	2011	In thousands of U.S. dollars 2012
① Retirement benefit obligations.	**¥(610,093)**	¥(629,674)	**$(7,422,958)**
② Fair value of plan assets	**492,091**	527,925	**5,987,236**
③ Unfunded benefit obligations (① + ②)	**(118,002)**	(101,748)	**(1,435,722)**
④ Unrecognized actuarial losses (gains)	**160,268**	147,425	**1,949,969**
⑤ Unrecognized prior service costs (credits).	**(66)**	(136)	**(803)**
⑥ Net benefit liability recognized on the consolidated balance sheets (③ + ④ + ⑤)	**42,199**	45,539	**513,432**
⑦ Prepaid pension expenses	**89,202**	95,382	**1,085,314**
⑧ Reserve for retirement allowance (⑥ – ⑦)	**¥ (47,002)**	¥ (49,842)	**$ (571,870)**

b) The components of net periodic retirement benefit expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	In millions of yen 2012	2011	In thousands of U.S. dollars 2012
Service cost	**¥ 28,330**	¥ 28,783	**$ 344,689**
Interest cost	**12,262**	13,026	**149,190**
Expected return on plan assets	**(11,377)**	(13,884)	**(138,423)**
Amortization of actuarial losses (gains)	**21,789**	18,959	**265,105**
Amortization of prior service costs (credits).	**(270)**	(195)	**(3,285)**
Retirement benefit expenses.	**¥ 50,734**	¥ 46,689	**$ 617,277**

c) The principal assumptions used in determining the information above at March 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.4%**	3.5%
Amortization period for prior service costs	**Expensed as incurred or 9 to 15 years**	Expensed as incurred or 9 to 15 years
Amortization period for actuarial gains and losses.	**9 to 19 years**	9 to 19 years

11. GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Land	¥23,447	¥10,946	$285,278
Others	4,896	(76)	59,569
Total	¥28,344	¥10,870	$344,859

12. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

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

Business structure improvement expenses for the year ended March 31, 2011 consisted of business reorganization expenses relating mainly to Power Systems business and Machinery & Steel Infrastructure Systems business.

13. LOSS ON DISASTER

Loss on disaster for the year ended March 31, 2011 arose from the Great East Japan Earthquake. It consisted of the following items.

	In millions of yen
	2011
Expenses on restoration or disposal of damaged assets	¥ 9,981
Abnormal idle time cost	259
Total	¥10,240

14. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

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

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

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

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

e) Impairment loss amount and the breakdown

Breakdown by the income statement accounts	In millions of yen 2012	In thousands of U.S. dollars 2012
"Business structure improvement expenses" under extraordinary loss	¥5,150	$62,659
"Other expenses" under non-operating expenses	1,841	22,399
Total	¥6,992	$85,071

Breakdown by the category of the fixed assets	In millions of yen 2012	In thousands of U.S. dollars 2012
Machinery and transportation equipment	¥3,823	$46,514
Land	2,193	26,682
Buildings and structures, etc.	975	11,862
Total	¥6,992	$85,071

The following is a description of the loss on impairment of fixed assets recognized in the year ended March 31, 2011.

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

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

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

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

e) Impairment loss amount and the breakdown

Breakdown by the income statement accounts	In millions of yen 2011
"Business structure improvement expenses" under extraordinary loss	¥16,203
"Other expenses" under non-operating expenses	1,438
Total	¥17,641

Breakdown by the category of the fixed assets	In millions of yen 2011
Construction in progress	¥12,653
Machinery and transportation equipment, etc.	4,987
Total	¥17,641

15. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	In millions of yen	In thousands of U.S. dollars
	2012	2012
Net unrealized gains (losses) on investment securities		
Gains (losses) arising during the year	¥(11,223)	$(136,549)
Reclassification adjustments	2,305	28,044
Net unrealized gains (losses) on investment securities, before tax	(8,918)	(108,504)
Deferred taxes relating to net unrealized gains (losses) on investment securities	5,310	64,606
Net unrealized gains (losses) on investment securities, net of tax	(3,607)	(43,886)
Deferred gains (losses) on hedges		
Gains (losses) arising during the year	(1,283)	(15,610)
Reclassification adjustments	2,124	25,842
Deferred gains (losses) on hedges, before tax	840	10,220
Deferred taxes relating to deferred gains (losses) on hedges	(291)	(3,540)
Deferred gains (losses) on hedges, net of tax	549	6,679
Foreign currency translation adjustments		
Gains (losses) arising during the year	(9,455)	(115,038)
Share of other comprehensive income (loss) of entities accounted for using the equity method		
Gains (losses) arising during the year	(1,650)	(20,075)
Reclassification adjustments	(400)	(4,866)
Share of other comprehensive income (loss) of entities accounted for using the equity method	(2,051)	(24,954)
Other comprehensive income (loss), net of tax	¥(14,565)	$(177,211)

16. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Total number of shares issued and treasury stock at March 31, 2012 and 2011 are as follows:

	Type of shares	At March 31, 2011	Increase by March 31, 2012	Decrease by March 31, 2012	At March 31, 2012
Total number of shares issued	Common stock	3,373,647,813	–	–	3,373,647,813
Treasury stock	Common stock	18,582,258	39,535	75,549	18,546,244

(1) Reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	39,535

(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	70,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	5,549
Total	75,549

b) Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In U.S. dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of U.S. dollars
June 23, 2011 Ordinary General Meeting of Shareholders	Common stock	March 31, 2011	June 24, 2011	¥2	$0.0243	¥ 6,710	$ 81,640
October 31, 2011 Board of Directors	Common stock	September 30, 2011	December 5, 2011	¥3	$0.0365	¥10,065	$122,460
Total						¥16,775	$204,100

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

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In U.S. dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of U.S. dollars
June 21, 2012							
Ordinary General Meeting of Shareholders . .	Common stock	March 31, 2012	June 22, 2012	¥3	$0.0365	¥10,065	$122,460

17. SHARE-BASED COMPENSATION PLANS

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

The share-based compensation expenses, which amounted to 364 million yen ($4,428 thousand) in the year ended March 31, 2012 and 324 million yen in the year ended March 31, 2011, are included in selling, general and administrative expenses.

a) Conditions for issue of stock options

	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)
Grantee (Number of individuals) . .	Directors & executive officers (26)	Directors & executive officers (25)	Directors & executive officers (30)	Directors & executive officers (33)	Executive officers (2)	Directors & executive officers (33)	Directors & executive officers (35)	Directors & executive officers (38)
Number of shares	502,000	663,000	400,000	806,000	46,000	1,109,000	1,259,000	1,364,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	August 11, 2005	August 17, 2006	August 16, 2007	August 18, 2008	February 20, 2009	August 17, 2009	August 17, 2010	December 15, 2011
Exercise period (from) . . .	June 29, 2007	August 18, 2006	August 17, 2007	August 19, 2008	February 21, 2009	August 18, 2009	August 18, 2010	December 16, 2011
(to)	June 28, 2011	June 28, 2036	August 16, 2037	August 18, 2038	February 20, 2039	August 17, 2039	August 17, 2040	December 15, 2041

b) Activities of stock options in the year ended March 31, 2012

	Number of shares							
	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)
Unexercised at March 31, 2011	62,000	562,000	356,000	788,000	46,000	1,109,000	1,259,000	–
Granted	–	–	–	–	–	–	–	1,364,000
Vested	–	–	–	–	–	–	–	1,364,000
Exercised	62,000	–	8,000	–	–	–	–	–
Expired.	–	–	–	–	–	–	–	–
Unexercised at March 31, 2012	–	562,000	348,000	788,000	46,000	1,109,000	1,259,000	1,364,000

c) Price per share

	In yen							
	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)
Weighted-average exercise price	¥294	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2012.	386	–	328	–	–	–	–	–
Grant date fair value	–	443	644	471	194	294	258	267

	In U.S. dollars							
	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)	Stock options (10th grant)
Weighted-average exercise price	$3.58	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2012.	4.70	–	3.99	–	–	–	–	–
Grant date fair value	–	5.39	7.84	5.73	2.36	3.58	3.14	3.25

d) Estimate method of fair value of stock options

The fair value of stock options granted in the year ended March 31, 2012 was estimated using the Black-Scholes option-pricing model with the following assumptions.

	Stock options (10th grant)
Expected volatility *1	37.726%
Expected life of option *2	15 years
Expected dividends *3	¥4 ($0.049) per share
Risk-free interest rate *4	1.478%

(*1) Estimated based on the actual share prices of 15 years (December 15, 1996 – December 15, 2011).
(*2) Calculated on the assumption that the share subscription rights would be excised at the middle point of the exercise period.
(*3) Actual cash dividends for the year ended March 31, 2011.
(*4) Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

e) Estimate method of the number of vested share subscription rights

All of the share subscription rights were vested when granted.

18. CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at end of year" in the statements of cash flows for the years ended March 31, 2012 and 2011 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥262,287	¥301,047	$3,191,227
Time deposits with maturities over three months	(7,682)	(12,178)	(93,466)
Total	¥254,605	¥288,868	$3,097,761

19. RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Research and development expenses	¥121,420	¥123,293	$1,477,308

20. ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2012	2011	2012
Accumulated depreciation of property, plant and equipment	¥1,754,645	¥1,720,375	$21,348,643

21. 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.

22. SIGNIFICANT AFFILIATES

Disclosure of condensed consolidated financial statements of significant affiliates under statutory criteria is required. Caterpillar Japan Ltd. was a significant affiliate in the years ended March 31, 2012 and 2011.

	In millions of yen		In thousands of U.S. dollars
Caterpillar Japan Ltd.	**2012**	2011	**2012**
Total current assets	**¥202,290**	¥139,567	**$2,461,248**
Total non-current assets	**91,291**	88,004	**1,110,731**
Total current liabilities	**181,544**	129,583	**2,208,833**
Total non-current liabilities	**16,189**	16,860	**196,970**
Total net assets	**95,847**	81,127	**1,166,163**
Sales	**453,684**	367,958	**5,519,941**
Income before income taxes and minority interests	**22,372**	37,623	**272,198**
Net income	**¥ 15,108**	¥ 22,656	**$ 183,817**

23. SUBSEQUENT EVENT

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 ($444,616 thousand)
(7) Gain on the sale of the shares: ¥6,267 million ($76,250 thousand)

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, 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 the Company and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 21, 2012