(Note) This is a translation of the official Japanese original for reference purposes only. In the event of any discrepancy between this translation and the official Japanese original, the Japanese original shall prevail. Please note that differences between this translation and those in the previous years may not necessarily mean that there have been changes in the official Japanese original, since the translation differences may stem only from a more accurate translation. All the number of pages referred in this translation is translated directly from the official Japanese original without any adjustment or modification.

THE 89TH

ORDINARY GENERAL MEETING OF SHAREHOLDERS

THE INFORMATION DISCLOSED ON THE WEBSITE

2013 FISCAL YEAR (from April 1, 2013 to March 31, 2014)

① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

② NOTES TO THE FINANCIAL STATEMENTS

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) (available in Japanese only)

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: 290
   Principal consolidated subsidiaries are described in "OVERVIEW OF MHI GROUP 10. OUTLINES OF MAIN SUBSIDIARIES" of the business report.
   In this fiscal year, 63 companies have been added to the scope of consolidation; 17 (MITSUBISHI HITACHI POWER SYSTEMS, LTD., etc.) are newly formed companies; 42 (PW POWER SYSTEMS, INC., BABCOCK-HITACHI K.K., MITSUBISHI HITACHI POWER SYSTEMS EUROPE GMBH, etc.) are due to equity acquisition; four companies have been recategorized from affiliated companies accounted for by the equity method, of which two (MITSUBISHI NICHIYU FORKLIFT CO., LTD., etc.) are due to change in ownership ratio by an absorption-type company split from MHI, and two (TOYO ENGINEERING WORKS, LTD., etc.) by additional equity acquisition. Nine companies have been excluded from the scope of consolidation; six are due to mergers among consolidated subsidiaries; two are due to liquidation; one is due to the sale of its equity.

   (2) Principal non-consolidated subsidiaries:
   RYOYO ENGINEERING CO., LTD., etc.
   (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 aggregate level of total assets, sales, net 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: 36 companies)
   In this fiscal year, four companies have been added to the scope of equity method application due to equity acquisition. Four companies have been recategorized to the scope of consolidation, of which two (MITSUBISHI NICHIYU FORKLIFT CO., LTD., etc.) are due to change in ownership ratio by an absorption-type company split from MHI, and two (TOYO ENGINEERING WORKS, LTD., etc.) by additional equity acquisition.

   (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.
   Affiliated companies not accounted for by the equity method:
   ASA-TECH CORPORATION, etc.
   (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).

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 loss on construction contracts

Reserve for loss on construction contracts is provided for the expected total losses to be realized in the following years on the construction contracts if (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 loss on passenger vessel construction business

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

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

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

During the 4th quarter of FY2013, it became clear that substantial loss from the cruise ship construction contract is inevitable and the company decided to provide a reserve for the expected loss on the cruise ship business to be realized in the following years, separately from the other reserves for loss on construction contracts, judging that this loss is not the same level as those from continuing operations.

As a result, 64,126 million yen of “Reserve for loss on passenger vessel construction business” is recognized in the current fiscal year-end consolidated balance sheets, and the same amount of “Loss on passenger vessel construction business reserve” is recorded as an extraordinary loss in the consolidated statements of income.

(5) 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.

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.

(3) Liability for retirement benefit

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

Prior service costs are either expensed as incurred or amortized by the straight-line method over 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.

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

(Change in accounting policy)

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

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

In accordance with the transitional measures stipulated in article 37 of the Accounting Standard for Retirement Benefits, the effect of this accounting change is recognized as “Remeasurements of defined benefit plans” in the accumulated other comprehensive income, at the end of the fiscal year.

As a result, “Liability for retirement benefit” of 189,937 million yen and “Asset for retirement benefit” of 80,468 million yen are recorded, while “Accumulated other comprehensive income” of 29,019 million yen and “Minority interests” of 2,274 million yen have decreased at the end of the fiscal year. Also, book value per share has decreased by 8.64 yen.

Notes on Change in Presentation / Classification of Line Items

(Change in presentation of goodwill)

“Goodwill” which was included in “Intangible assets” in previous fiscal years is separately shown from this fiscal year due to the increased materiality of the account. The ending balances of the account for the previous and current fiscal years are 4,278 million yen and 116,175 million yen, respectively.

(Change in presentation of income taxes payable)

“Income taxes payable” which was included in “Others” under current liabilities in previous fiscal years is separately shown from this fiscal year due to the increased materiality of the account. The ending balances of the account for the previous and current fiscal years are 8,723 million yen and 64,487 million yen, respectively.

Notes to the Consolidated Balance Sheet

1. Pledged assets and related liabilities

(1) Assets pledged as collateral

Property, plant and equipment	¥	9,742 million
Trade receivables	¥	144 million
Others	¥	3,874 million
Total	¥	13,761 million

(2) Liabilities related to the assets pledged as collateral

Short-term borrowings	¥	1,868 million
Long-term borrowings	¥	2,595 million
Total	¥	4,464 million

2. Accumulated depreciation

Accumulated depreciation of property, plant and equipment	¥	2,026,421 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.)	¥	26,494 million
L&T-MHI Turbine Generators Private Ltd.	¥	8,800 million
Others	¥	19,052 million
Total	¥	54,347 million

(2) Unsettled balances of notes receivable endorsed

Notes receivable discounted	¥	2,641 million
Notes receivable endorsed	¥	369 million

Notes to the Consolidated Statement of Income

Business structure improvement expenses

Business structure improvement expenses are comprised of business reorganization expenses relating to Energy & Environment domain, Commercial Aviation & Transportation Systems domain, and Others.

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 26, 2013 Ordinary General Meeting of Shareholders	Common Stock	¥ 16,776 million	¥ 5	Mar 31, 2013	Jun 27, 2013
Oct 31, 2013 Board of Directors	Common Stock	¥ 13,421 million	¥ 4	Sep 30, 2013	Dec 4, 2013

   (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 26, 2014 Ordinary General Meeting of Shareholders	Common Stock	¥ 13,421 million	Retained Earnings	¥ 4	Mar 31, 2014	Jun 27, 2014

Note: The above is scheduled to be resolved at the ordinary general meeting of shareholders on June 26, 2014.

3. Type and number of shares subject to the share subscription rights
   Common stock 7,732, 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, 2014 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	381,056	381,056	—
(2) Trade receivables	1,188,928	1,188,928	—
(3) Securities and investment securities	270,249	412,723	142,473
(4) Trade payables	(801,445)	(801,445)	—
(5) Short-term borrowings	(166,296)	(166,296)	—
(6) Debentures	(245,000)	(253,196)	(8,196)
(7) Long-term borrowings	(546,192)	(572,906)	(26,714)
(8) Derivatives (*)			
・to which hedge accounting is not applied	(44)	(44)	—
・to which hedge accounting is applied	(1,317)	(1,317)	—

(*) 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 method for interest-rate swaps" are applied (see (8) below), the principal and total interest according to the interest rate under the interest-rate swaps are used.

(8) Derivatives

The fair values of exchange contracts are based on forward exchange rates.

Those to which the "exceptional method for 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 132,607 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	¥ 459.99
Net income per share	¥ 47.81

Additional Information

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

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

As a result of this change, "Impairment loss" of 4,676 million yen is recorded as an extraordinary loss, and "Income before income taxes and minority interests" has decreased by the same amount.

Notes on Business Combination and Business Divestiture

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

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

1. Outline of the Business Integration

(1) Purpose of the Business Integration

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

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

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

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

(2) Schedule of the Business Integration

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

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

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

(i) MHI establishes the Integrated Company.
(ii) MHI and Hitachi, the splitting companies, respectively transfers the Integrated Business to the Integrated Company, the successor company, by the Absorption-type Company Split (spin-off type). As a result, MHI and Hitachi owns shares of common stock of the Integrated Company 683 shares and 317 shares, respectively.
(iii) MHI sells 33 shares of common stock of the Integrated Company that it owns to Hitachi for 29.7 billion yen.

(4) Overview of the Integrated Company after the Business Integration

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

(5) Term of operating results of the Integrated Company included in the Consolidated Financial Statements

From February 1, 2014 to March 31, 2014

(6) Acquisition cost of the Integrated Business

Consideration for the acquisition	¥	194,859 million
Expenses directly related to the acquisition	¥	2,281 million

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

(7) Amount of assets and liabilities acquired on the effective date of Business Integration

Current assets	¥	272,246 million
Fixed assets	¥	93,597 million
Total assets	¥	365,843 million
Current liabilities	¥	186,168 million
Long-term liabilities	¥	34,117 million
Total liabilities	¥	220,285 million

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

(8) Amount, factor and amortization of goodwill

(i) Amount of goodwill

¥ 97,725 million

The above is the amount of goodwill initially recognized before MHI sold 33 shares of stock of the Integrated Company that it owns to Hitachi.

(ii) Factor of goodwill

Goodwill is derived from the Integrated Company's prospective excess earning power expected from its future business deployment.

(iii) Amount of goodwill, amortization method and amortization period

The amount of goodwill and the method and period of amortization of goodwill are calculated provisionally, since the allocation of the acquisition cost is not finalized.

(9) Calculation method and estimated amount of impact on the current fiscal year consolidated statements of income, on the assumption that the Business Integration had been completed on the beginning day of the current fiscal year

It is not stated for the calculation of the impact is difficult.

(10) Accounting treatment and impact on the consolidated profit and loss

Accounting for the Business Integration has been performed in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, December 26, 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, December 26, 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 26, 2008). As a result, "Gain on changes in equity interest" of 121,578 million yen is recorded as an extraordinary gain in the current fiscal year consolidated statements of income.

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).

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 loss on passenger vessel construction business

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

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

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

During the 4th quarter of FY2013, it became clear that substantial loss from the cruise ship construction contract is inevitable and the company decided to provide a reserve for the expected loss on the cruise ship business to be realized in the following years, separately from the other reserves for loss on construction contracts, judging that this loss is not the same level as those from continuing operations.

As a result, 64,126 million yen of “Reserve for loss on passenger vessel construction business” is recognized in the current fiscal year-end non-consolidated balance sheets, and the same amount of “Loss on passenger vessel construction business reserve” is recorded as an extraordinary loss in the non-consolidated statements of income.

(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.

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.

Notes to the Balance Sheet

1. Accumulated depreciation

Accumulated depreciation of property, plant and equipment	¥ 1,277,831 million

2. Contingent liabilities

(1) Guarantee obligations on such debts as borrowings from financial institutions

PW Power Systems, Inc.	¥ 28,449 million
Employees (Residence fund loan, etc.)	¥ 21,192 million
Mitsubishi Heavy Industries Marine Machinery & Engine Co., Ltd.	¥ 6,865 million
Others	¥ 17,942 million
Total	¥ 74,449 million

(2) Unsettled balances of notes receivable

Notes receivable discounted	¥ 1,653 million

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

Short-term monetary receivables	¥ 367,805 million
Long-term monetary receivables	¥ 26,054 million
Short-term monetary payables	¥ 239,951 million
Long-term monetary payables	¥ 19,293 million

Notes to the Statement of Income

1. Transactions with subsidiaries and affiliated companies

Sales	¥	465,775 million
Purchases	¥	351,313 million
Transactions other than operating transactions	¥	29,797 million

2. Business structure improvement expenses

   Business structure improvement expenses are comprised of business reorganization expenses relating to Energy & Environment domain, Commercial Aviation & Transportation Systems domain, and Others.

Notes to the Statement of Changes in Net Assets

The number of treasury stock

Common stock 18,252,743 shares

Notes on Tax Effect Accounting

Deferred tax assets are principally caused by the reserve for retirement allowance.

Related Party Transactions

Category	Name	Percentage of Voting Rights held by the Issuer	Relation with the Related Parties	Contents of the Transactions	Transaction Amounts	Account	Ending Balance
Subsidiary	Mitsubishi Hitachi Power Systems, Ltd.	Direct 65.0%	Some officers of MHI concurrently serve as officers of the related party Transfer of Business	Transfer of Business (*1)			
				Total Assets Transferred	¥ 551,174 million	─	─
				Total Liabilities Transferred	¥ 351,641 million	─	─
				Transfer Value	¥ 199,533 million	─	─
Subsidiary	Mitsubishi Nichiyu Forklift Co., Ltd.	Direct 49.4%	Some officers of MHI concurrently serve as officers of the related party Transfer of Business	Transfer of Business (*2)			
				Total Assets Transferred	¥ 32,974 million	─	─
				Total Liabilities Transferred	¥ 431 million	─	─
				Transfer Value	¥ 35,542 million	─	─

Terms of the Contracts and the Policy in Deciding Them

*1. On February 1, 2014, MHI transferred its thermal power business to Mitsubishi Hitachi Power Systems, Ltd. by way of spin-off type company split. Assets and liabilities relating to the business were transferred by their book value immediately prior to the company split, as a transaction under common control in accordance with the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7) and the “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10) .

*2. On April 1, 2013, MHI transferred its forklift truck business to Mitsubishi Nichiyu Forklift Co., Ltd. by way of spin-off type company split. Assets and liabilities relating to the business were transferred by their book value immediately prior to the company split, as a transaction under common control in accordance with the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7) and the “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10).

Per Share Information

Book value per share	¥	356.77
Net income per share	¥	5.22

Additional Information

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

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

As a result of this change, “Impairment loss” of 3,203 million yen is recorded as an extraordinary loss, and “Income before income taxes and minority interests” has decreased by the same amount.