

# Financial Statements

Mitsui Engineering & Shipbuilding Co.,Ltd. and Consolidated Subsidiaries  
As of March 31, 2015 and 2014

## Consolidated Balance Sheets

### Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2015	2014	2015
<b>Current Assets</b>			
Cash and time deposits (Note1(r))	¥ 85,353	¥ 89,239	\$ 710,269
Receivables			
Trade	310,973	211,463	2,587,776
Others	13,311	7,170	110,768
Less allowance for doubtful accounts	(1,738)	(3,212)	(14,463)
Merchandise and finished goods	3,306	2,602	27,511
Raw materials and supplies	9,845	6,929	81,926
Work in progress	28,242	27,279	235,017
Deferred tax assets (Note11)	18,542	14,406	154,298
Short-term loans	55,027	30,012	457,910
Others (Notes 1(r) and 16)	19,690	21,098	163,850
<b>Total current assets</b>	<b>542,551</b>	<b>406,986</b>	<b>4,514,862</b>
<b>Property, Plant and Equipment (Note4)</b>			
Land (Note1(p))	271,356	271,034	2,258,101
Buildings and structures	198,584	195,800	1,652,526
Machinery, equipment and vehicles	196,587	197,185	1,635,908
Lease assets	20,829	24,944	173,329
Construction in progress	4,165	1,955	34,659
	691,521	690,918	5,754,523
Less accumulated depreciation	(313,795)	(311,235)	(2,611,259)
<b>Net property, plant and equipment</b>	<b>377,726</b>	<b>379,683</b>	<b>3,143,264</b>
<b>Intangible Assets</b>			
Intangible Assets	11,713	11,824	97,469
<b>Investments, Long-term Loans and Other Assets</b>			
Investment securities (Notes 2, 3, and 4)	85,830	64,580	714,238
Long-term loans	22,287	39,634	185,463
Net defined benefit assets	8,684	3,528	72,264
Deferred tax assets (Note11)	15,056	15,691	125,289
Others (Note3)	13,220	13,452	110,011
Less allowance for doubtful accounts	(2,504)	(2,482)	(20,837)
<b>Total investments, long-term loans and other assets</b>	<b>142,573</b>	<b>134,403</b>	<b>1,186,428</b>
<b>Total assets</b>	<b>¥ 1,074,563</b>	<b>¥ 932,896</b>	<b>\$ 8,942,023</b>

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

## Consolidated Balance Sheets

### Liabilities and Net Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2015	2014	2015
<b>Current Liabilities</b>			
Short-term borrowings (Notes 4 and 5)	¥ 17,468	¥ 21,877	\$ 145,360
Current portion of long-term indebtedness (Note6)	42,834	33,969	356,445
Lease obligations	2,662	3,604	22,152
Trade payables	247,657	178,236	2,060,889
Advances from customers	77,159	58,744	642,082
Accrued expenses	25,299	25,544	210,527
Accrued income taxes (Note11)	9,942	5,447	82,733
Deferred tax liabilities (Note11)	488	822	4,061
Provision for losses on construction contracts	17,123	12,194	142,490
Provision for product warranty	8,926	6,436	74,278
Asset retirement obligations	4	-	33
Others	33,287	21,596	276,999
<b>Total current liabilities</b>	<b>482,849</b>	<b>368,469</b>	<b>4,018,049</b>
<b>Long-term Liabilities</b>			
Long-term indebtedness (Notes 4 and 6)	128,012	131,987	1,065,257
Lease obligations	8,630	10,448	71,815
Liability for severance and retirement benefits			
For directors and corporate auditors	404	369	3,362
Net defined benefit liabilities	11,277	10,276	93,842
Deferred tax liabilities			
On reevaluation reserve for land (Notes 1(p) and 11)	21,312	23,847	177,349
Others (Note11)	49,371	50,450	410,843
Asset retirement obligations	1,302	1,113	10,835
Others	24,101	12,328	200,557
<b>Total long-term liabilities</b>	<b>244,409</b>	<b>240,818</b>	<b>2,033,860</b>
<b>Contingent Liabilities (Note13)</b>			
<b>Net Assets (Note8)</b>			
Common stock			
Authorized - 1,500,000,000 shares			
Issued - 830,987,176 shares	44,385	44,385	369,352
Capital surplus	18,248	18,178	151,852
Retained earnings	142,677	136,289	1,187,293
Treasury stock	(4,761)	(855)	(39,619)
Net unrealized holding gains(losses) on securities (Note2)	14,058	7,360	116,984
Unrealized gains(losses) on hedging derivatives, net of tax	(9,719)	(2,649)	(80,877)
Reevaluation reserve for land, net of tax (Notes 1(p) and 11)	24,777	22,516	206,183
Foreign currency translation adjustments	12,705	4,252	105,725
Remeasurements of defined benefit plans	(5,646)	(9,036)	(46,984)
Subscription rights to shares	146	67	1,215
Minority interests	110,435	103,102	918,990
<b>Total net assets</b>	<b>347,305</b>	<b>323,609</b>	<b>2,890,114</b>
<b>Total liabilities and net assets</b>	<b>¥ 1,074,563</b>	<b>¥ 932,896</b>	<b>\$ 8,942,023</b>

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

## Consolidated Statements of Income

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2015	2014	2015
Net Sales	¥ 816,520	¥ 670,068	\$ 6,794,707
Cost of Sales (Note1(q))	757,034	606,750	6,299,692
Gross profit	59,486	63,318	495,015
Selling, General and Administrative Expenses (Note1(q))	46,187	43,349	384,347
Operating income	13,299	19,969	110,668
Other Income (Expenses)			
Interest and dividend income	4,128	3,869	34,351
Interest expense	(2,769)	(2,480)	(23,042)
Amortization of net transition obligation (Note 9)	(1,929)	(1,964)	(16,052)
Loss on valuation of derivatives	(2,823)	(725)	(23,492)
Equity in earnings of unconsolidated subsidiaries and affiliates	4,022	3,545	33,469
Foreign currency exchange gain	-	3,039	-
Gain on disposal of non-current assets	1,029	1,208	8,563
Gain on sales of investment securities (Note 2)	137	246	1,140
State subsidy	-	800	-
Gain on sales of subsidiaries and affiliates' stocks	1,137	-	9,462
Gain on bargain purchase	4,768	29,622	39,677
Gain on step acquisitions	-	5,706	-
Loss on disposal of non-current assets	(2,076)	(736)	(17,276)
Loss on impairment of non-current assets (Note 14)	(2,689)	(8,187)	(22,377)
Loss on sales of investment securities (Note 2)	-	(61)	-
Loss on valuation of investment securities	(0)	(13)	(0)
Provision of allowance for doubtful accounts	-	(1,594)	-
Provision for loss on business of subsidiaries and affiliates	-	(32)	-
Loss on liquidation of business	(984)	-	(8,188)
Loss on liquidation of subsidiaries and affiliates	(215)	-	(1,789)
Loss on reduction of non-current assets	-	(800)	-
Loss on disaster	-	(158)	-
Settlement package	-	(752)	-
Provision for environmental preservation cost	-	(3,230)	-
Others, net	971	926	8,080
Total	2,707	28,229	22,526
Income before income taxes and minority interests	16,006	48,198	133,194
Income Taxes (Note 11)			
Current	12,985	7,040	108,055
Deferred	(6,884)	(3,343)	(57,286)
Income before minority interests	6,101	3,697	50,769
Minority Interests	9,905	44,501	82,425
Net Income	¥ 9,463	¥ 42,855	\$ 78,747
Amounts Per Share of Common Stock (Notes 1(a) and 8)			
Net income	¥ 11.63	¥ 51.80	\$ 0.097
Dividends, applicable to the year	¥ 2.00	¥ 2.00	\$ 0.017

## Consolidated Statements of Comprehensive Income

Statements of comprehensive income :

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2015	2014	2015
Income before minority interests	¥ 9,905	¥ 44,501	\$ 82,425
Other comprehensive income(Note 15)			
Net unrealized holding gains on securities	7,722	1,425	64,259
Unrealized gains (losses) on hedging derivatives, net of tax	(2,904)	345	(24,165)
Reevaluation reserve for land, net of tax	2,438	-	20,288
Foreign currency translation adjustments	7,145	9,088	59,457
Remeasurements of Defined Benefit Plans	3,337	(37)	27,769
Share of other comprehensive income of affiliates accounted for using equity method	349	5,391	2,904
Total	18,087	16,212	150,512
Comprehensive income	¥ 27,992	¥ 60,713	\$ 232,937
Comprehensive income attributable to owners of the parent	¥ 23,365	¥ 56,458	\$ 194,433
Comprehensive income attributable to minority interests	¥ 4,627	¥ 4,255	\$ 38,504

## Consolidated Statements of Changes in Net Assets

	Thousands		Japanese Yen (millions)										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives, net of tax	Reevaluation reserve for land, net of tax	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Minority interests	Total
Beginning balance as of April 1, 2013	830,987	44,385	18,178	95,550	(744)	6,264	(4,558)	22,967	(6,350)	(69)	-	31,691	207,314
Cash dividends paid				(2,484)									(2,484)
Change of scope of consolidation				(83)									(83)
Net income				42,855									42,855
Purchases of treasury stock					(113)								(113)
Sales of treasury stock				(0)	2								2
Transfer from reevaluation reserve for land, net of tax				451									451
Net changes of items other than those in Shareholders' equity						1,096	1,909	(451)	10,602	(8,967)	67	71,411	75,667
Beginning balance as of April 1, 2014	830,987	44,385	18,178	136,289	(855)	7,360	(2,649)	22,516	4,252	(9,036)	67	103,102	323,609
Cumulative effects of changes in accounting policies				(1,593)								(55)	(1,648)
Restated balance		44,385	18,178	134,696	(855)	7,360	(2,649)	22,516	4,252	(9,036)	67	103,047	321,961
Cash dividends paid				(1,656)									(1,656)
Change of scope of consolidation				(2)									(2)
Net income				9,463									9,463
Purchases of treasury stock					(4,025)								(4,025)
Sales of treasury stock			70		119								189
Transfer from reevaluation reserve for land, net of tax				176									176
Net changes of items other than those in Shareholders' equity						6,698	(7,070)	2,261	8,453	3,390	79	7,388	21,199
Balance as of March 31, 2015	830,987	44,385	18,248	142,677	(4,761)	14,058	(9,719)	24,777	12,705	(5,646)	146	110,435	347,305

	Thousands		U.S.Dollars (thousands) (Note 1(a))										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives, net of tax	Reevaluation reserve for land, net of tax	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Minority interests	Total
Beginning balance as of April 1, 2014	830,987	369,352	151,269	1,134,134	(7,115)	61,246	(22,044)	187,368	35,383	(75,194)	558	857,968	2,692,925
Cumulative effects of changes in accounting policies				(13,256)								(458)	(13,714)
Restated balance		369,352	151,269	1,120,878	(7,115)	61,246	(22,044)	187,368	35,383	(75,194)	558	857,510	2,679,211
Cash dividends paid				(13,780)									(13,780)
Change of scope of consolidation				(17)									(17)
Net income				78,747									78,747
Purchases of treasury stock					(33,494)								(33,494)
Sales of treasury stock			583		990								1,573
Transfer from reevaluation reserve for land, net of tax				1,465									1,465
Net changes of items other than those in Shareholders' equity						55,738	(58,833)	18,815	70,342	28,210	657	61,480	176,409
Balance as of March 31, 2015	830,987	369,352	151,852	1,187,293	(39,619)	116,984	(80,877)	206,183	105,725	(46,984)	1,215	918,990	2,890,114

## Consolidated Statements of Cash Flows

Cash Flows from Operating Activities :	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2015	2014	2015
Income before income taxes and minority interests	¥ 16,006	¥ 48,198	\$ 133,195
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities			
Depreciation and amortization	17,457	15,140	145,269
Loss on impairment of non-current assets	2,689	8,187	22,377
Amortization of goodwill	495	453	4,119
Gain on bargain purchase	(4,768)	(29,622)	(39,677)
Gain on step acquisitions	-	(5,706)	-
Share-based compensation expenses	79	67	657
Increase (Decrease) of allowance for doubtful accounts	(1,473)	1,321	(12,257)
Decrease of liability for severance and retirement benefits	-	(5,948)	-
Increase in net defined benefit liability	247	5,519	2,055
Decrease in prepaid pension costs	-	13,981	-
Increase in net defined benefit asset	(3,563)	(17,407)	(29,650)
Interest and dividend income	(4,128)	(3,869)	(34,351)
Interest expense	2,769	2,480	23,042
Equity in earnings of unconsolidated subsidiaries and affiliates	(4,022)	(3,545)	(33,469)
Foreign currency exchange gain, net	2,082	(3,465)	17,325
Gain on sales of investment securities	(137)	(185)	(1,140)
Gain on sales of subsidiaries and affiliates' stocks	(1,137)	-	(9,462)
Loss on valuation of investment securities	0	13	0
Loss on liquidation of business	984	-	8,188
Loss on liquidation of subsidiaries and affiliates	215	-	1,789
Loss (Gain) on disposal of non-current assets, net	1,047	(472)	8,713
Loss on reduction of non-current assets	-	800	-
State subsidy	-	(800)	-
Loss on disaster	-	158	-
Provision for environmental preservation cost	-	3,230	-
Settlement package	-	752	-
Increase in provision for loss on business of subsidiaries and affiliates	-	32	-
Changes in assets and liabilities :			
Decrease (increase) in			
Trade receivables	(74,521)	(39,890)	(620,130)
Inventories	(4,204)	7,735	(34,984)
Other assets	(2,440)	(2,314)	(20,304)
Increase (decrease) in			
Trade payables	57,485	29,635	478,364
Other liabilities	9,803	(1,779)	81,576
Others, net	8,725	(498)	72,606
Sub-total	19,690	22,201	163,851
Interest and dividend received	5,517	6,345	45,910
Interest paid	(2,895)	(2,449)	(24,091)
Payments for loss on disaster	-	(108)	-
Payments for adjustment fee by alteration of contract for feed-in tariffs	-	(75)	-
Income taxes paid	(7,144)	(11,415)	(59,449)
Net cash provided by (used in) operating activities	¥ 15,168	¥ 14,499	\$ 126,221

Cash Flows from Investing Activities :	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2015	2014	2015
Net decrease in time deposits	2,630	3,284	21,886
Capital expenditure	(16,603)	(22,485)	(138,163)
Proceeds from sales of non-current assets	1,412	1,766	11,750
Purchases of investment securities	(4)	(343)	(33)
Proceeds from sales of investment securities	340	1,697	2,829
Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation (Note 1(r))	-	(9,307)	-
Purchase of shares of subsidiaries and affiliates	(8,040)	(7,190)	(66,905)
Proceeds from sales of shares of subsidiaries and affiliates	1,519	-	12,640
Disbursements of loans receivable	(38,800)	(51,470)	(322,876)
Collection of loans receivable	24,446	45,784	203,428
Proceeds from subsidy income	-	800	-
Others, net	714	151	5,942
Net cash provided by (used in) investing activities	¥ (32,386)	¥ (37,313)	\$ (269,502)
Cash Flows from Financing Activities :			
Net increase (decrease) in short-term borrowings	(6,322)	4,310	(52,609)
Proceeds from long-term indebtedness	29,156	43,358	242,623
Repayments of long-term indebtedness	(37,079)	(34,334)	(308,554)
Repayments of lease obligations	(3,428)	(2,754)	(28,526)
Proceeds from sales and leasebacks	-	3,302	-
Proceeds from issuance of bonds	10,000	5,000	83,215
Purchases of treasury stock	(4,026)	(26)	(33,503)
Cash dividends	(1,653)	(2,491)	(13,755)
Cash dividends paid to minority interests	(1,215)	(835)	(10,111)
Proceeds from share issuance to minority shareholders	9,769	-	81,293
Others, net	424	2	3,529
Net cash provided by (used in) financing activities	¥ (4,374)	¥ 15,532	\$ (36,398)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,904	13,260	32,488
Net increase (decrease) in Cash and Cash Equivalents	(17,688)	5,978	(147,191)
Increase (decrease) due to changes in scope of consolidation	427	(245)	3,553
Cash and Cash Equivalents at Beginning of Year	111,926	106,193	931,397
Cash and Cash Equivalents at End of Year (Note1(r))	¥ 94,665	¥ 111,926	\$ 787,759

## Notes to Consolidated Financial Statements

### 1. Significant Accounting and Reporting Policies

The following is a summary of the significant accounting and reporting policies adopted by the Mitsui Engineering & Shipbuilding Group (the "Group"), which consists of Mitsui Engineering & Shipbuilding Co., Ltd. ("MES") and its consolidated subsidiaries ("Subsidiaries") in the preparation of the accompanying consolidated financial statements.

#### (a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Group have been prepared in accordance with the provisions set forth in the "Japanese Financial Instruments and Exchange Act" and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the overseas Subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile ("Local GAAP") and significant differences between Japanese GAAP and Local GAAP are adjusted in consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Finance Bureau of the Ministry of Finance as required by the "Financial Instruments and Exchange Act". Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2015, which was ¥120.17 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

#### (b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Group, over which MES has power of control through majority voting rights or existence of certain conditions requiring control by MES.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

The assets and liabilities of the Subsidiaries, including the portion attributable to minority shareholders, were evaluated using the fair value at the time MES acquired control of the respective subsidiaries.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by the equity method.

Goodwill is generally amortized using the straight-line method over 5 years; however, reasonable assessment may determine a certain period of time. Fiscal years of some Subsidiaries end on the 31st of December. MES consolidates these subsidiaries' financial statements as of each subsidiary's latest fiscal year and significant transactions occurred between each subsidiary's fiscal year-end and MES's fiscal year-end are adjusted on consolidation.

#### (c) Revenue Recognition

Revenue and costs associated with construction contracts

1) Construction of its certainty of achievement on the progressed portion until the fiscal year end can be recognized:

The percentage-of-completion method

(The progress of work is mainly measured by the percentage of cost method)

2) Construction other than above:

The completed-contract method

Revenues and costs of sales on finance lease transactions are recognized when lease payments are received.

#### (d) Securities

MES and its domestic Subsidiaries examined the intent of holding each security and classified those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). MES and its domestic Subsidiaries did not have trading securities or held-to-maturity debt securities.

Equity securities issued by Subsidiaries and affiliated companies, which are not accounted for by the equity method, are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Fair market value is calculated using mainly the average price of securities over one month before the consolidated balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for by the equity method, and available-for-sale securities decline significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

#### (e) Derivative Transaction and Hedge Accounting

Japanese accounting standard for financial instruments requires MES and domestic Subsidiaries to measure derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the instruments are applied to hedged items.

In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedging items are accounted for in the following manner.

1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,

i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the statement of income of the fiscal year in which such contracts are entered into, and

ii) the difference between the Japanese yen amount converted by the contracted forward foreign exchange rate and the Japanese yen amount by spot rate at the trade date of the contract is allocated to every fiscal period over the term of the contract.

2) If forward foreign exchange contracts are entered into to hedge a future transaction (be contracted but not stated in financial statements) denominated in foreign currency, recognition of gains and losses resulting from fair value of the forward foreign exchange contracts are deferred until the contracts are applied to the hedged item.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was allocated.

#### (f) Allowance for Doubtful Accounts

In order to provide for credit losses, non recoverable amount is recorded based on write-off ratio for general accounts. For doubtful accounts, collectability is examined and recoverable amount is estimated individually.

#### (g) Inventories

Merchandise, finished goods, raw materials and supplies are stated at cost determined mainly by the moving-average method (except steels for new shipbuilding, which are by identified cost method) (Balance sheet value reflects downturn in profitability). Work in progress is stated using identified cost method (Balance sheet value reflects downturn in profitability). Construction costs, which are accumulated in inventory, consist of direct materials, labor, other items directly attributable to each contract and an allocable portion of general manufacturing and construction overheads.

#### (h) Property, Plant and Equipment and Depreciation

Depreciation of plant and equipment is mainly computed using the declining-balance method over their estimated useful lives. Buildings, acquired on and after April 1, 1998, are depreciated using the straight-line method. Ordinary maintenance and repairs are charged to the profit and loss account as incurred.

#### (i) Software Costs

Software costs included in intangible assets are depreciated using the straight-line method over the estimated useful life (5 years).

#### (j) Employees' Severance and Retirement Benefits

In calculating retirement benefit obligations, the standard of equal allocation to each year is used to allocate projected retirement benefits over the period to the end of the consolidated fiscal year. The net transition obligation (¥28,905 million) has been recognized in expenses, primarily in equal amounts over 15 years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in the consolidated statements of income using the straight-line method within the estimated remaining service lives (five years or ten years) commencing with the following fiscal year. Prior service costs are recognized in the consolidated statements of income using the straight-line method within the estimated remaining service lives (one year or five years).

After being adjusted for tax effect, unrecognized actuarial gains and losses, unrecognized prior service costs are added to "Remeasurements of defined benefit plans", an item within "Accumulated other comprehensive income(net assets)".

#### (k) Liabilities for Severance and Retirement Benefits for Directors and Corporate Auditors

Amount is recorded based on internal regulations in order to prepare for payment of retirement benefit of directors and corporate auditors.

#### (l) Translation of Foreign Currency Accounts

Under Japanese accounting standard for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included in the current statements of income. Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at each balance sheet date, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are also translated at the exchange rates in effect at each balance sheet date.

#### (m) Provision for Losses on Construction Contracts

Provision for losses on construction contracts is provided based on an estimate of the total losses which can probably occur for the next fiscal year and beyond with respect to construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

#### (n) Provision for Product Warranty

Provision for product warranty for ships and other products is provided based on the estimated amounts calculated by using mainly the average proportion of product warranties against sales amounts for past two years.

#### (o) Income Taxes

Deferred income tax is recognized from temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

**(p) Reevaluation Reserve for Land**

The land used for business operations is reevaluated based on real estate tax value on March 31, 2000 and March 31, 2002 respectively, in accordance with Enforcement Ordinance for the Law Concerning Reevaluation Reserve for Land (the "Law") effective March 31, 1998. The related unrealized gain, net of income taxes was recorded as "Reevaluation reserve for land, net of tax" in Net assets and the deferred income tax effects were recorded as Deferred tax liabilities on "Reevaluation reserve for land" in Long-term liabilities.

According to the Law, reevaluation of the land is not permitted at any time after the above reevaluation even in cases where the fair value of the land declines. Such unrecorded reevaluation losses are ¥38,778 million (\$322,693 thousand) and ¥37,881 million as of March 31, 2015 and 2014, respectively.

**(q) Research and Development**

Costs relating to research and development activities are charged to the profit and loss account as incurred. The amounts for the years ended March 31, 2015 was ¥3,508 million (\$29,192 thousands) and for 2014 was ¥4,035 million.

**(r) Cash Flow Statement**

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits including short-term loans and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Cash and time deposits	¥ 85,353	¥ 89,239	\$ 710,269
Time deposits with maturities exceeding 3 months	(4,686)	(7,307)	(38,995)
Cash equivalents included in short-term loans	13,998	29,994	116,485
Cash and cash equivalents	¥ 94,665	¥ 111,926	\$ 787,759

**(s) Finance Lease Transactions without Transfer of Ownership**

Lessee:

The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period. The residual value is the guaranteed residual value in case such value is set forth in the lease contract but otherwise is zero value.

Lessor:

Revenues and costs of sales on finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are recognized when lease payments are received.

**(t) Reclassifications**

Certain reclassifications have been made to the previously reported fiscal year 2014 amounts to conform to fiscal year 2015 presentation. These reclassifications had no effect on previously reported net income or net assets.

**(u) Unapplied accounting standards**

Effective from the consolidated fiscal year beginning from April 1, 2015, MES and its domestic Subsidiaries will apply the following standards and guidance. The effects of applying these accounting standards are currently under consideration.

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013)

"Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013)

"Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013)

"Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, revised on September 13, 2013)

"Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, revised on September 13, 2013)

"Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, revised on September 13, 2013)

These accounting standards and guidance have been mainly revised for accounting treatments in regard to following matters:

- i) Change in interest in controlled subsidiary in which a parent keeps continued control such as in a case of acquiring additional interest of the subsidiary.
- ii) Accounting treatment of acquisition related cost.
- iii) Change in presentation of net income, and change in terminology from minority interest to net income attribute to owners of parents and non-controlling interest
- iv) Change in accounting for transitional accounting in business combination

**(v) Application of Consolidated Taxation System**

Effective from the consolidated fiscal year 2014, MES applies a consolidated tax payment system.

**(w) Changes in accounting and reporting policies**

Effective from the consolidated fiscal year 2014, the main clause of Section 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012; hereinafter, the "Retirement Benefits Accounting Standard") and the main clause of Section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015; hereinafter, the "Retirement Benefits Guidance") are adopted. With this application, the methods of calculating retirement benefit obligations and service costs are revised. The method of allocating projected retirement benefits by service period was changed from a straight line basis to a benefit formula basis. The method of determining the discount rates was also changed from using a single weighted-average discount rate that reflects the average remaining years of service to using multiple discount rates.

The Accounting Standard is being implemented in accordance with the transitional handling as stated in Section 37 of the Accounting Standard, and at the beginning of the consolidated fiscal year 2014, the amounts influenced by the relevant changes of calculating retirement benefit obligations and service costs were subtracted from retained earnings.

As a result, at the beginning of the consolidated fiscal year 2014, net defined benefit assets decreased by ¥2,273 million (\$18,915 thousand), net defined benefit liabilities related to retirement benefits increased by ¥300 million (\$2,496 thousand), and retained earnings decreased by ¥1,593 million (\$13,256 thousand). The impact on consolidated statements of income was immaterial.

The effect on per-share information is recorded in the relevant place.

**2. Marketable Securities and Investment Securities****(a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2015 and 2014:**

2015:	Japanese Yen (millions)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 22,088	¥ 45,404	¥ 23,316
Sub Total	22,088	45,404	23,316
Securities with book values not exceeding acquisition costs:			
Equity securities	4,032	3,283	(749)
Sub Total	4,032	3,283	(749)
Total	¥ 26,120	¥ 48,687	¥ 22,567

2014:	Japanese Yen (millions)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 15,478	¥ 28,096	¥ 12,618
Sub Total	15,478	28,096	12,618
Securities with book values not exceeding acquisition costs:			
Equity securities	10,279	9,464	(815)
Sub Total	10,279	9,464	(815)
Total	¥ 25,757	¥ 37,560	¥ 11,803

2015:	U. S. Dollars (thousands)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 183,806	\$ 377,831	\$ 194,025
Sub Total	183,806	377,831	194,025
Securities with book values not exceeding acquisition costs:			
Equity securities	33,552	27,320	(6,232)
Sub Total	33,552	27,320	(6,232)
Total	\$ 217,358	\$ 405,151	\$ 187,793

**(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2015 and 2014 were as follows:**

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Proceeds from sales of available-for-sale securities	¥ 340	¥ 1,697	\$ 2,829
Realized gains on sales of available-for-sale securities	137	246	1,140
Realized losses on sales of available-for-sale securities	-	61	-

### 3. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2015 and 2014 were ¥33,492 million (\$278,705 thousand) and ¥23,528 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2015 and 2014 were ¥5,978 million (\$49,746 thousand) and ¥5,383 million, respectively.

### 4. Pledged Assets

Assets pledged as collateral for short-term borrowings and long-term indebtedness as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Land	¥ 5,123	¥ 26,953	\$ 42,631
Buildings and structures	325	1,401	2,705
Machinery, equipment and vehicles	16,674	15,392	138,753
Investment securities	151	1	1,257
	¥ 22,273	¥ 43,747	\$ 185,346

Short-term borrowings and long-term indebtedness secured by the above pledged assets as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Short-term borrowings	¥ 1,100	¥ 1,120	\$ 9,154
Long-term loan payable	17,241	16,039	143,471
	¥ 18,341	¥ 17,159	\$ 152,625

### 5. Short-Term Borrowings

Short-term borrowings represent notes payable to banks due within twelve months. The average interest rate for each term is summarized below:

	2015	2014
Average interest rate for each term	1.10%	0.95%

### 6. Long-Term Indebtedness

Long-term indebtedness as of March 31, 2015 and 2014 is summarized below:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Secured by mortgages on plant and equipment- 0.45% to 2.40% loans from Japanese banks, due on various dates through 2021	¥ 17,241	¥ 16,039	\$ 143,471
Unsecured or non-guaranteed-			
0.92% bonds, due January 28, 2016	10,000	10,000	83,215
1.08% bonds, due June 15, 2017	10,000	10,000	83,215
1.47% bonds, due January 26, 2018	5,000	5,000	41,608
1.14% bonds, due December 12, 2019	5,000	5,000	41,608
0.63% bonds, due December 12, 2019	5,000	-	41,608
1.03% bonds, due December 10, 2021	5,000	-	41,608
0.44% to 4.96% loans from banks, insurance companies and trading companies due on various dates through 2023	113,605	119,917	945,369
	170,846	165,956	1,421,702
Less: Current portion included in current liabilities	(42,834)	(33,969)	(356,445)
	¥ 128,012	¥ 131,987	\$ 1,065,257

The aggregate annual maturities of long-term indebtedness are summarized below:

Year ended March 31,	Japanese Yen (millions)	U.S.Dollars (thousands)
2016	¥ 42,834	\$ 356,445
2017	29,033	241,599
2018	37,869	315,129
2019	30,702	255,488
2020 and thereafter	30,408	253,041
	¥ 170,846	\$ 1,421,702

### 7. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at the Group as of March 31, 2015 was as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Total overdraft facilities and lending commitments	¥ 53,678	\$ 446,684
Less amounts currently executed	1,500	12,482
Unexecuted balance	¥ 52,178	\$ 434,202

### 8. Net Assets and Per Share Data

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution in the shareholders' meeting or could be capitalized by a resolution in the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that MES can distribute as dividends is calculated based on the non-consolidated financial statements of MES in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 26, 2015, the shareholders approved cash dividends amounting to ¥1,617 million (\$13,456 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2015. This type of appropriations is recognized in the period in which they are approved by the shareholders.

Net income per share is based on the weighted average number of shares of common stock outstanding during each period. Cash dividends per share represent the cash dividends declared applicable to the respective year.

### 9. Liability for Severance and Retirement Benefits

#### (a) Overview of adopting severance and retirement benefits plans

The Group provides two types of employees' severance and retirement benefit plans: Unfunded termination and retirement allowance plans and funded non-contributory pension plans. Under the plans, employees whose employment is terminated or who retire are entitled to benefits which are, in general, determined on the basis of length of service and current basic salary at the time of termination or retirement.

Part of funded non-contributory pension plan is set up based on pension benefit trust.

Some domestic Subsidiaries have adopted a "simpler method" to calculate liability for severance and retirement benefits for employees and a number of overseas Subsidiaries also adopt defined contribution pension plans.

#### (b) Breakdown of information concerning severance and retirement benefits

i) Movements of severance and retirement benefit obligation:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Balance at beginning of year	¥ 46,819	¥ 45,840	\$ 389,606
Cumulative effect of change in accounting policy	2,574	-	21,420
Restated balance at beginning of year	49,393	45,840	411,026
Current service costs	2,306	2,258	19,189
Interest costs	566	774	4,710
Actuarial differences on pension plan obligation	2,106	2,074	17,525
Benefits paid	(6,306)	(8,048)	(52,476)
Change of scope of consolidation	-	4,566	-
Others	(254)	(645)	(2,113)
Balance at end of year	¥ 47,811	¥ 46,819	\$ 397,861

## ii) Movements of pension assets:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Balance at beginning of year	¥ 40,071	¥ 35,558	\$ 333,453
Expected return on pension assets	11	11	92
Actuarial differences on pension assets	5,070	5,076	42,190
Contribution to pension plans	187	193	1,556
Benefits paid	(152)	(136)	(1,265)
Others	31	(631)	258
Balance at end of year	¥ 45,218	¥ 40,071	\$ 376,284

## iii) Reconciliation of projected retirement benefit obligation and net defined benefit assets/liabilities recorded in the consolidated balance sheets:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Retirement benefit obligation (funded non-contributory)	¥ 39,631	¥ 39,353	\$ 329,791
Less fair value of pension assets	(45,218)	(40,071)	(376,284)
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	8,180	7,466	68,071
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 2,593	¥ 6,748	\$ 21,578
Defined benefit liabilities	11,277	10,276	93,842
Defined benefit assets	(8,684)	(3,528)	(72,264)
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 2,593	¥ 6,748	\$ 21,578

## iv) Severance and retirement benefit expenses:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Current service costs	¥ 2,306	¥ 2,258	\$ 19,189
Interest costs	566	774	4,710
Expected return on pension assets	11	11	92
Amortization of actuarial differences	627	(211)	5,218
Amortization of prior service costs	(61)	(66)	(508)
Amortization of net transition obligation	1,929	1,964	16,052
Severance and retirement benefit expenses	¥ 5,378	¥ 4,730	\$ 44,753

## v) Remeasurements of defined benefit plans (before deducted tax effects):

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Prior service costs	¥ 4	¥ -	\$ 33
Actuarial differences	3,796	-	31,589
Net transition obligation	1,929	-	16,052
Others	(156)	(122)	(1,298)
Total	¥ 5,573	¥ (122)	\$ 46,376

## vi) Unrecognized actuarial differences (before deducted tax effects):

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Unrecognized prior service costs	¥ (3)	¥ 0	\$ (25)
Unrecognized actuarial differences	8,161	11,958	67,912
Unrecognized net transition obligation	-	1,936	-
Total	¥ 8,158	¥ 13,894	\$ 67,887

## vii) The major categories of pension assets:

	Percentage of composition	
	2015	2014
Bonds	3%	3%
Securities	84%	84%
Cash and deposits	10%	10%
Others	3%	3%
Total	100%	100%

## viii) The principal actuarial assumptions at reporting date are summarized below:

	2015	2014
Discount rate	0.1% - 1.7%	1.0% - 1.6%
Expected rate of return on pension plan assets	Not applicable	Not applicable

To determine the expected rate of return on pension plan assets, allocation of pension assets expected in present and future, and long-term rate of return on portfolio assets expected in present and future are considered.

## 10. Stock options

## (a) Expenses for stock options and account titles at March 31, 2015 and 2014 are as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Selling, general and administrative expenses	¥ 79	¥ 67	\$ 657

## (b) The stock options outstanding at March 31, 2015 are as follows:

	FY2014 Stock option	FY2013 Stock option
Persons granted	Directors of MES: 14 Deputy directors of MES: 21	Directors of MES: 14 Deputy directors of MES: 19
Class and number of shares	Common stock 366,000 shares	Common stock 624,000 shares
Grant date	August 22, 2014	August 23, 2013
Vesting conditions	It continues in the position of Director or Deputy director until (June 30, 2015 or March 31, 2015) on data of vested after (August 22, 2014) on date of grant.	It continues in the position of Director or Deputy director until (June 30, 2014) on data of vested after (August 23, 2013) on data of grant.
Service period	(Directors of MES) From July 1, 2014 to June 30, 2015 (Deputy directors of MES) (continuously - appointed) From July 1, 2014 to March 31, 2015 (Deputy directors of MES)(newly - appointed) From April 1, 2014 to March 31, 2015	From July 1, 2013 to June 30, 2014
Exercise period	From August 23, 2014 to August 22, 2044	From August 24, 2013 to August 23, 2043

## (c) The numbers of and changes in stock options during the year ended March 31, 2015 are as follows:

	FY2014 Stock option	FY2013 Stock option
Non-vested:		
Outstanding at March 31, 2014	-	596,000
Granted	366,000	-
Forfeited	2,000	-
Vested	114,000	596,000
Outstanding of non-vested at March 31, 2015	250,000	-
Vested:		
Outstanding at March 31, 2014	-	20,000
Vested	114,000	596,000
Exercised	-	-
Forfeited	-	-
Outstanding of non-vested at March 31, 2015	114,000	616,000
Exercise price - Yen (U.S. Dollars)	¥ 1(0.008)	¥ 1(0.010)
Average share price at exercise - Yen (U.S. Dollars)	-	-
Fair value price at grant date - Yen (U.S. Dollars)	¥ 191(1.589)	¥ 144(1.339)

## (d) Estimation method for stock options issued during the year ended March 31, 2015 is as follows:

The fair value of stock options granted is estimated by using Black-Scholes option pricing model with the following assumptions:

	FY2014 Stock option
Volatility of stock price (note: i)	48.387%
Estimated remaining outstanding period (note: ii)	15 years
Estimated dividend (note: iii)	¥2 per share
Interest rate with risk free (note: iv)	0.952%

notes:

- Annual volatility rate estimated based on daily stock prices in the past 15 years (closing prices on each day from August 22, 1999 to August 22, 2014).
- Remaining outstanding period was estimated in the middle of exercisable period, since it is difficult to make reasonable estimate.
- Based on actual year-end dividend for the preceding year (March 31, 2014 year-end dividend).
- The yield on national government bonds with the period corresponding to the expected residual period.

## (e) Calculation method for the number of rights vested

Only actual forfeited number of the vested stock option is used for calculation for the number of rights vested, since it is difficult to reasonably estimate the number of options that will be forfeited in the future.

## 11. Income Taxes

MES and domestic Subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 38.0% for the year ended March 31, 2014 and 36.0% for the year ended March 31, 2015.

The following table summarizes the significant differences between the statutory tax rate and the Group's effective tax rate for financial statement purposes for the years ended March 31, 2015 and 2014:—

	2015	2014
Statutory tax rate	36.0%	38.0%
Valuation allowance	49.6	(0.8)
Reevaluation of land	(0.5)	(0.6)
Non-deductible expenses for tax purposes	1.1	0.4
Amortization of consolidated difference	1.1	0.4
Taxation on per capita basis	0.7	0.2
Equity in earning of unconsolidated subsidiaries and affiliates	(8.9)	(2.5)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(7.2)	(1.0)
Non-taxable dividend income	(1.8)	(0.6)
Gain on bargain purchase	(10.7)	(23.4)
Increase of deferred tax assets, net of liabilities at fiscal year-end by the change of tax rate	(24.3)	—
Others	3.0	(2.4)
<b>Effective tax rate</b>	<b>38.1%</b>	<b>7.7%</b>

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
<b>Deferred tax assets:</b>	¥	¥	\$
Net defined benefit liabilities	10,263	14,179	85,404
Unrealized inter-company profit	10,934	10,028	90,988
Tax loss carry forward	14,031	5,710	116,760
Losses on reevaluation of inventories	269	727	2,238
Accrued expenses	3,479	4,105	28,951
Provision for product warranty	1,917	1,600	15,952
Allowance for doubtful accounts	1,420	1,116	11,817
Provision for losses on construction contracts	6,068	4,372	50,495
Loss on impairment of non-current assets	10,500	11,444	87,376
Losses on reevaluation of marketable and investment securities	576	1,107	4,793
Others	16,493	13,767	137,247
<b>Total deferred tax assets</b>	<b>75,950</b>	<b>68,155</b>	<b>632,021</b>
Valuation allowance	(22,848)	(18,304)	(190,130)
<b>Net deferred tax assets</b>	<b>53,102</b>	<b>49,851</b>	<b>441,891</b>
<b>Deferred tax liabilities:</b>			
Net unrealized holding gains on securities	(8,680)	(5,868)	(72,231)
Accelerated depreciation on non-current assets	(2,093)	(4,031)	(17,417)
Reserve for advanced depreciation of noncurrent assets	(3,722)	(1,697)	(30,973)
Gains on contribution of securities to trust for employees' retirement benefit	(1,728)	(1,926)	(14,380)
Losses on progress basis contract	(2,282)	(603)	(18,990)
Unrealized gain on assets and liabilities	(48,141)	(52,791)	(400,607)
Unrealized gain on foreign currency assets and liabilities	(1,726)	(1,634)	(14,363)
Others	(991)	(2,475)	(8,247)
<b>Total deferred tax liabilities</b>	<b>(69,363)</b>	<b>(71,025)</b>	<b>(577,208)</b>
<b>Net deferred tax assets</b>	<b>¥ (16,261)</b>	<b>¥ (21,174)</b>	<b>\$ (135,317)</b>

Correction of amounts of Deferred tax assets and Deferred tax liabilities due to changes in Corporation Tax Rates, Etc.

The "Act for Partial Revision of the Income Tax Act, etc." (Law No.9 of 2015) and "Act for Partial Revision of the Local Tax Act, etc." (Law No.2 of 2015) were promulgated on March 31, 2015, as a result of which MES is subject to the reduction such as corporate tax rates from the fiscal year beginning on or after April 1, 2015. The corporation income tax in Japan consists of a corporation tax, an enterprise tax, resident tax. In conjunction with this promulgation, the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities with respect to the temporary difference expected to be eliminated in the fiscal year beginning on April 1, 2015 is changed from the previous 36.0% to 33.1% and 32.3% from the fiscal year beginning April 1, 2016. As a result of this change, deferred tax assets (after deduction of deferred tax liabilities) increased by ¥5,014 million (\$41,724 thousands), deferred tax liabilities among them has decreased by ¥7,772 million (\$64,675 thousands). Income taxes (deferred) decreased by ¥3,892 million (\$32,387 thousands) and unrealized gain or loss on hedging derivatives decreased by ¥106 million (\$882 thousands), and net unrealized holding gains on securities increased by ¥956 million (\$7,955 thousands) and remeasurements of defined benefit plans increased by ¥271 million (\$2,255 thousands).

Also deferred tax liabilities on reevaluation reserve for land decreased ¥2,437 million (\$20,280 thousands), and reevaluation reserve for land, net of tax increased same amounts.

## 12. Business Combination

Common control transaction etc.

### (a) Outline of the transaction

- i) Name and business of the combined entity  
Name: Showa Aircraft Industry Co., Ltd.  
Business: Production and sales of transportation equipment, real estate business and service

- ii) Date of the transaction:  
December 2, 2014 (The deemed acquisition date: December 31, 2014)

- iii) Legal Form of the Business Combination:  
Purchase of the stocks from minority shareholders

- iv) Name of the combined entity after the transaction  
There is no change.

- v) Other matters with regard to the transaction  
To execute the further reinforcement of the group management and the maximization of synergy within the range where maintaining the independence of Showa Aircraft Industry is possible, MES acquired the stocks which minority stockholders held.

### (b) Outline of the accounting treatment

The transaction was treated as a transaction with minority shareholders under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

### (c) Consideration transferred for the acquisition

- i) Acquisition cost and details  
Consideration for the acquisition: ¥1,223 million (\$ 10,177 thousand)  
Direct payments required for the acquisition: ¥2 million (\$ 17 thousand)  
Acquisition Cost: ¥1,225 million (\$ 10,194 thousand)
- ii) Amount of the recognized gain on the negative goodwill and its cause  
Amount: ¥4,759 million (\$ 39,602 thousand)  
Cause: The acquisition cost was less than the decrease of minority interest in earnings resulting from the additional acquisition.

## 13. Contingent Liabilities

Contingent Liabilities of the Group as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Guarantees of bank loans and other indebtedness	¥ 175,226	¥ 70,541	\$ 1,458,151

## 14. Loss on Impairment on non-current assets

The Group adopted the accounting standard for impairment of non-current assets. The non-current assets are grouped by each segment. Idle non-current assets are grouped individually. The book value of the non-current assets is reduced to the collectable amount. The loss on impairment of non-current assets for the years ended March 31, 2015 and 2014 were comprised of the following.

### 2015

Location	Saga Prefecture
Major use	Floating wind & Current Hybrid Power Generation
Asset category	Construction in progress
Amount	¥605 million (\$ 5,035 thousand)
Reason	Decline in use value

Location	Oita City, Oita Prefecture, Tamano City, Okayama Prefecture, Akishima City, Tokyo Metropolis etc.
Major use	Idle assets
Asset category	Land etc.
Amount	¥809 million (\$ 6,732 thousand)
Reason	Decline in market value

Location	Ichihara City, Chiba Prefecture, Tamano City, Okayama Prefecture etc.
Major use	Business assets
Asset category	Land, Building, Machinery and Equipment etc.
Amount	¥1,276 million (\$ 10,618 thousand)
Reason	Deterioration of shipbuilding and subsidiaries' business environment

### 2014

Location	Saga Prefecture
Major use	Floating wind & Current Hybrid Power Generation
Asset category	Construction in progress
Amount	¥2,311 million
Reason	Decline in use value

Location	Oita City, Oita Prefecture, Tamano City, Okayama Prefecture etc.
Major use	Idle assets
Asset category	Land etc.
Amount	¥863 million
Reason	Decline in market value

Location	Ichihara City, Chiba Prefecture, Tamano City, Okayama Prefecture etc.
Major use	Business assets
Asset category	Land, Building, Machinery and Equipment etc.
Amount	¥5,013 million
Reason	Deterioration of shipbuilding and subsidiaries' business environment



## 15. Comprehensive Income

Each component of other comprehensive income for the years ended of March 31, 2015 and 2014 was the following:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Net unrealized holding gains on securities:			
Amount of generation at this fiscal term	11,066	2,131	92,086
Amount of rearrangement adjustment	(531)	(6)	(4,419)
Before adjusting the tax effect	10,535	2,125	87,667
Tax effect	(2,813)	(700)	(23,408)
Net unrealized holding gains on securities	7,722	1,425	64,259
Unrealized gains (losses) on hedging derivatives, net of tax:			
Amount of generation at this fiscal term	(4,100)	719	(34,118)
Amount of rearrangement adjustment	(207)	(86)	(1,722)
Before adjusting the tax effect	(4,307)	633	(35,840)
Tax effect	1,403	(288)	11,675
Unrealized gains (losses) on hedging derivatives, net of tax	(2,904)	345	(24,165)
Reevaluation reserve for land, net of tax:			
Tax effect	2,438	-	20,288
Foreign currency translation adjustments:			
Amount of generation at this fiscal term	7,615	9,024	63,368
Amount of rearrangement adjustment	(215)	64	(1,789)
Before adjusting the tax effect	7,400	9,088	61,579
Tax effect	(255)	-	(2,122)
Foreign currency translation adjustments	7,145	9,088	59,457
Remeasurements of defined benefit plans:			
Amount of generation at this fiscal term	3,245	(137)	27,003
Amount of rearrangement adjustment	2,328	15	19,373
Before adjusting the tax effect	5,573	(122)	46,376
Tax effect	(2,236)	85	(18,607)
Remeasurements of defined benefit plans	3,337	(37)	27,769
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount of generation at this fiscal term	670	4,153	5,575
Amount of rearrangement adjustment	(321)	1,238	(2,671)
Share of other comprehensive income of affiliates accounted for using equity method	349	5,391	2,904
Total	¥ 18,087	¥ 16,212	\$ 150,512

## 16. Leases

### (a) Lessee

i) Unexpired lease payments of operating lease transactions as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Due within one year	¥ 1,289	¥ 1,164	\$ 10,728
Due after one year	1,938	1,649	16,127
Total	¥ 3,227	¥ 2,813	\$ 26,855

### (b) Lessor

i) Unexpired lease receivables of operating lease transactions as of March 31, 2015 and 2014 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Due within one year	¥ 3,871	¥ 3,820	\$ 32,212
Due after one year	11,942	12,543	99,378
Total	¥ 15,813	¥ 16,363	\$ 131,590

ii) Breakdown of lease investment assets:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2015	2014	2015
Lease payments receivable	¥ 82	¥ 136	\$ 686
The residual value	-	-	-
The amount of receipt interest equivalency	-	(0)	-
Lease investment assets	¥ 82	¥ 136	\$ 686

iii) The aggregate annual collection of lease investment assets are summarized below:

Year ended March 31,	Japanese Yen (millions)	U.S.Dollars (thousands)
2016	¥ 42	\$ 351
2017	34	286
2018	6	47
2019	0	2
2020 and thereafter	-	-
	¥ 82	\$ 686

## 17. Financial Instruments

### (a) Articles concerning status of financial instruments

#### 1) Policies for financial instruments

The Group restricts the fund management to short-term financial instruments. The Group transfers funds to each other through an inter-company cash management systems (CMS).

Short-term working capital is financed through bank loans and issuance of commercial paper (CP). Long term equipment fund and working capital is financed through bank loans and issuance of bonds. Derivative financial instruments are utilized to hedge the risks described hereinafter and not for speculative transactions as a matter of policy.

#### 2) Substances and risks of financial instruments

Trade and other receivables are exposed to credit risks of customers. Foreign currency trade and other receivables of MES and certain Subsidiaries are exposed to currency fluctuation risks. Forward foreign exchange contracts are applied to these hedged items in principle. Investments securities, mainly of companies with business relationships, are exposed to market fluctuation risks. Short-term and long-term loans for operating funds and capital expenditures of SPC's, which are established for charter project of FPSO or for generating electricity, are exposed to credit risks of customers.

Almost all of the trade payables are due within one year. Foreign currency trade payables for overseas procurement are exposed to currency fluctuation risks, but those trade payables are controlled not to exceed the balance of trade receivables in the same foreign currencies.

Short-term borrowings are mainly for the purpose of funding commercial transactions. Long-term borrowings, bonds, and lease obligations are mainly for the purpose of funding investment in plant and equipment. Although the portion of that debt with floating interest rates is exposed to interest rate fluctuation risks, interest rate swap contracts are applied to hedge the risks.

Derivative transactions are the above mentioned forward foreign exchange contracts as well as interest rate swap contracts. They are for the purpose of hedging currency fluctuation risks and rising interest rate risks.

As to details on hedging instruments, hedging items, hedging policy and method of evaluating the effectiveness of hedging, please refer to "1. Significant Accounting and Reporting policies (e) Derivative Transaction and Hedge Accounting."

#### 3) Management of financial instruments

##### i) Management of credit risks (Breach of contracts risks)

The Group monitors due dates and balances of trade receivables and regularly investigate the credit standings of main customers for early detection and reduction of default risks according to internal regulation. Certain Subsidiaries reduce their balance of loan receivables by arranging project finance or through cooperation with business partners such as general trading companies.

As to derivative transactions, credit risks are minimized by dealing solely with top-ranked financial institutions.

##### ii) Management of market risks (Exchange rate or interest rate fluctuation risks)

MES and certain Subsidiaries utilize forward foreign exchange contracts for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables in principle, and utilize interest rate swap contracts for the purpose of hedging interest rate risks arising from short-term borrowings, long-term borrowings and bonds.

Holding position of investment securities are continuously reviewed by researching fair market value and financial status of important customers regularly and taking into account of market condition and relationship with customers.

Execution and management of derivative transactions are based on each company's internal regulation restricting scope of authority.

As to derivative transactions, the Group utilize them to offset risks within the range of trade demand.

##### iii) Management of liquidity risks of raising funds (Default risks)

The Finance & Accounting department of the Group makes and updates finance plans, and maintains a certain level of liquidity on hand to minimize liquidity risks.

#### 4) Supplementary explanation about fair value of financial instruments

Fair value of financial instruments includes not only fair market value based on market price but also reasonably estimated value if market price is not available. Reasonably estimated fair value may fluctuate because it depends on an estimation process which is based on certain preconditions.

The contract amounts for derivatives stated in the following "(b) Articles concerning fair value of financial instruments," do not indicate the market risks of derivatives.

### (b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts, fair value of financial instruments and the differences between them for the fiscal years ended March 31, 2015 and 2014 are as follows. Financial instruments in which the fair value is considered to be extremely difficult to recognize are not included in the list below.

	Japanese Yen (millions)		
	Book value	Fair value	Differences
(1)Cash and time deposits	¥ 85,352	¥ 85,352	¥ -
(2)Trade receivables	310,973		
Less allowance for doubtful accounts *1	(1,193)		
	309,780	309,776	(4)
(3)Short-term loans	55,027	55,027	-
(4)Investments securities			
Available-for-sale securities	48,687	48,687	-
(5)Long-term loans	22,287		
Less allowance for doubtful accounts *1	(197)		
	22,090	23,225	1,135
Assets total	¥ 520,936	¥ 522,067	¥ 1,131
(1)Trade payables	247,656	247,656	-
(2)Short-term borrowings	17,468	17,468	-
(3)Current portion of long-term loan payable	32,834	32,934	100
(4)Current portion of bonds	10,000	10,061	61
(5)Accrued income taxes	9,942	9,942	-
(6)Bonds	30,000	30,514	514
(7)Long-term loan payable	98,013	98,718	705
Liabilities total	¥ 445,913	¥ 447,293	¥ 1,380
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	(2,868)	(2,868)	-
ii Derivative transactions for which hedge accounting has been applied	(10,447)	(10,447)	-
Derivative transactions total	¥ (13,315)	¥ (13,315)	¥ -

## 2014

	Japanese Yen (millions)		
	Book value	Fair value	Differences
(1)Cash and time deposits	¥ 89,239	¥ 89,239	¥ -
(2)Trade receivables	211,463		
Less allowance for doubtful accounts *1	(2,728)		
	208,735	208,728	(7)
(3)Short-term loans	30,012	30,012	-
(4)Investments securities			
Available-for-sale securities	37,560	37,560	-
(5)Long-term loans	39,634		
Less allowance for doubtful accounts *1	(356)		
	39,278	39,976	698
<b>Assets total</b>	<b>¥ 404,824</b>	<b>¥ 405,515</b>	<b>¥ 691</b>
(1)Trade payables	¥ 178,236	¥ 178,236	¥ -
(2)Short-term borrowings	21,877	21,877	-
(3)Current portion of long-term loan payable	33,969	34,030	61
(4)Accrued income taxes	5,447	5,447	-
(5)Bonds	30,000	30,332	332
(6)Long-term loan payable	101,987	102,242	255
<b>Liabilities total</b>	<b>¥ 371,516</b>	<b>¥ 372,164</b>	<b>¥ 648</b>
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	¥ (303)	¥ (303)	¥ -
ii Derivative transactions for which hedge accounting has been applied	(570)	(570)	-
<b>Derivative transactions total</b>	<b>¥ (873)</b>	<b>¥ (873)</b>	<b>¥ -</b>

## 2015

	U.S. Dollars (thousands)		
	Book value	Fair value	Differences
(1)Cash and time deposits	\$ 710,260	\$ 710,260	\$ -
(2)Trade receivables	2,587,776		
Less allowance for doubtful accounts *1	(9,928)		
	2,577,848	2,577,815	(33)
(3)Short-term loans	457,910	457,910	-
(4)Investments securities			
Available-for-sale securities	405,151	405,151	-
(5)Long-term loans	185,463		
Less allowance for doubtful accounts *1	(1,640)		
	183,823	193,268	9,445
<b>Assets total</b>	<b>\$ 4,334,992</b>	<b>\$ 4,344,404</b>	<b>\$ 9,412</b>
(1)Trade payables	\$ 2,060,880	\$ 2,060,880	\$ -
(2)Short-term borrowings	145,361	145,361	-
(3)Current portion of long-term loan payable	273,230	274,062	832
(4)Current portion of bonds	83,215	83,723	508
(5)Accrued income taxes	82,733	82,733	-
(6)Bonds	249,646	253,924	4,278
(7)Long-term loan payable	815,620	821,486	5,866
<b>Liabilities total</b>	<b>\$ 3,710,685</b>	<b>\$ 3,722,169</b>	<b>\$ 11,484</b>
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	\$ (23,866)	\$ (23,866)	\$ -
ii Derivative transactions for which hedge accounting has been applied	(86,935)	(86,935)	-
<b>Derivative transactions total</b>	<b>\$ (110,801)</b>	<b>\$ (110,801)</b>	<b>\$ -</b>

\*1 Allowance for doubtful accounts is deducted from each account.

\*2 Net credit or debt arising from derivative transactions is indicated by the offset amount and which is indicated as ( ) in case of the offset amount is debt. (note 1) Articles concerning calculation method of fair value, marketable securities and derivative transactions.

## Assets

## (1) Cash and time deposits, (3) Short-term loans

Fair value of these accounts is stated at the book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.

## (2) Trade receivables

Fair value of these accounts is stated at the present value discounted over the maturity term of each receivable divided into certain classified term

## (4) Investment securities

Fair value of these accounts is based on available market price.

(Please see 2. Marketable Securities and Investment Securities)

## (5) Long-term loans

Fair value of these accounts is stated at the present value using future cash flows discounted by the premium added rate on the appropriate index like yield on government bonds. nd long-term loan payable after the fiscal years ended March 31, 2015 and 2014 are as follows.

## Liabilities

## (1) Trade payables, (5) Accrued income taxes

Fair value of these accounts is stated at book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.

## (2) Short-term borrowings, (3)Current portion of long-term loan payable,(7) Long-term loan payable

Fair value of borrowings at fixed interest rates is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.

Fair value of long-term borrowings at variable interest rates is stated at balance sheet amounts because variable interest rates reflects the latest market conditions and MES's credit standings

is considered to be almost same as when funds were borrowed, so fair value is considered to be close to the balance sheet amounts.

Some borrowings at variable interest rates are subjected to exceptional treatment using interest swaps. The total of principal and interest obtained from the interest swaps is discounted at a reasonable interest rate that would rationally be applied to the same amount of borrowings.

## (4) Current portion of bonds, (6) Bonds

These fair values consist of both the fair value based on fair market value and the present value using the total of the principal and interest discounted by a risk-free interest rate over the remaining term of each bond.

## Derivative transactions

Please refer to " 18. Derivative Transactions "

(note 2) Financial instruments in which the fair value is considered to be extremely difficult to recognize are as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	Book value		Book value
	2015	2014	2015
(1)Unlisted equity securities	36,563	26,969	304,260
(2)Bonds	500	500	4,161
(3)Trust property	81	50	674
<b>Total</b>	<b>¥ 37,144</b>	<b>¥ 27,519</b>	<b>\$ 309,095</b>

As to these financial instruments, there's no available fair market price and it is considered to cost a great deal to estimate future cash flows. So these financial instruments are not included in investment securities because it is considered to be extremely difficult to recognize fair value.

(note 3) The expected redemption amount of monetary credit and securities with maturity after the fiscal years ended March 31, 2015 and 2014 are as follows.

	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 85,218	¥ -	¥ -	¥ -
Trade receivables	310,588	374	10	-
Short-term loans	55,027	-	-	-
Investments securities				
Available-for-sale securities*1	-	500	-	-
Long-term loans	-	7,845	4,134	10,309
<b>Total</b>	<b>¥ 450,833</b>	<b>¥ 8,719</b>	<b>¥ 4,144</b>	<b>¥ 10,309</b>

## 2014

	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 82,229	¥ -	¥ -	¥ -
Trade receivables	210,501	962	-	-
Short-term loans	30,012	-	-	-
Investments securities				
Available-for-sale securities	500	-	-	-
Long-term loans	-	27,360	3,570	8,704
<b>Total</b>	<b>¥ 323,242</b>	<b>¥ 28,322</b>	<b>¥ 3,570</b>	<b>¥ 8,704</b>

## 2015

	U.S. Dollars (thousands)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 709,145	\$ -	\$ -	\$ -
Trade receivables	2,584,572	3,112	83	-
Short-term loans	457,910	-	-	-
Investments securities				
Available-for-sale securities	-	4,161	-	-
Long-term loans	-	65,283	34,401	85,787
<b>Total</b>	<b>\$ 3,751,627</b>	<b>\$ 72,556</b>	<b>\$ 34,484</b>	<b>\$ 85,787</b>

(note 4) The expected redemption amount of bonds and long-term loan payable after the fiscal years ended March 31, 2015 and 2014 are as follows.

2015	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 17,469	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	10,000	-	15,000	-	10,000	5,000
Long-term borrowings	32,834	29,033	22,869	30,702	6,312	9,096
Lease obligations	2,662	1,912	1,756	1,154	725	3,083
Other interest-bearing debt	609	134	127	97	90	321
<b>Total</b>	<b>¥ 63,574</b>	<b>¥ 31,079</b>	<b>¥ 39,752</b>	<b>¥ 31,953</b>	<b>¥ 17,127</b>	<b>¥ 17,500</b>

2014	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 21,877	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	-	10,000	-	15,000	-	5,000
Long-term borrowings	33,969	26,551	26,328	16,230	24,887	7,990
Lease obligations	3,604	2,284	1,864	1,770	1,122	3,407
Other interest-bearing debt	122	121	144	135	102	378
<b>Total</b>	<b>¥ 59,572</b>	<b>¥ 38,956</b>	<b>¥ 28,336</b>	<b>¥ 33,135</b>	<b>¥ 26,111</b>	<b>¥ 16,775</b>

2015	U.S. Dollars (thousands)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	\$ 145,369	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable	83,215	-	124,823	-	83,215	41,607
Long-term borrowings	273,230	241,599	190,306	255,488	52,526	75,693
Lease obligations	22,152	15,911	14,613	9,603	6,033	25,655
Other interest-bearing debt	5,068	1,115	1,056	807	749	2,671
<b>Total</b>	<b>\$ 529,034</b>	<b>\$ 258,625</b>	<b>\$ 330,798</b>	<b>\$ 265,898</b>	<b>\$ 142,523</b>	<b>\$ 145,626</b>

## 18. Derivative Transactions

Derivative transactions of the Group for market value information as of March 31, 2015 and 2014 were as follows:

### (a) Derivative transactions for which hedge accounting has not been applied

2015	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy Euro	¥ 5,247	¥ -	¥ (378)	¥ (378)
Norwegian krone	5,796	3,430	(617)	(617)
To sell U.S.Dollars	14,052	-	(1,872)	(1,872)
<b>Total</b>	<b>¥ 25,095</b>	<b>¥ 3,430</b>	<b>¥ (2,867)</b>	<b>¥ (2,867)</b>

2014	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To sell U.S.Dollars	¥ 5,833	¥ 38	¥ (303)	¥ (303)
<b>Total</b>	<b>¥ 5,833</b>	<b>¥ 38</b>	<b>¥ (303)</b>	<b>¥ (303)</b>

2015	U.S. Dollars (thousands)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy Euro	\$ 43,663	\$ -	\$ (3,146)	\$ (3,146)
Norwegian krone	48,232	28,543	(5,134)	(5,134)
To sell U.S.Dollars	116,934	-	(15,578)	(15,578)
<b>Total</b>	<b>\$ 208,829</b>	<b>\$ 28,543</b>	<b>\$ (23,858)</b>	<b>\$ (23,858)</b>

### (b) Derivative transactions for which hedge accounting has been applied

2015	Hedged items	Japanese Yen (millions)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	¥ 12,320	¥ 2,462	¥ 1,506
Euro		8,632	47	(450)
STG Pounds		1,917	310	(8)
Thai Baht		239	-	2
Singapore Dollars		194	-	(1)
Norwegian Krone		1,359	-	(237)
Japanese Yen		455	-	(67)
Swiss Franc		1,012	-	(68)
To sell U.S.Dollars	Trade receivables	101,506	15,475	(9,826)
STG Pounds		16,895	2,581	(677)
Currency option contract				
Buying: Put option		523	-	-
Selling: Call option		1,045	-	(156)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S.Dollars	Trade receivables	208	-	-
Euro		282	-	-
<b>Total</b>		<b>¥ 146,587</b>	<b>¥ 20,875</b>	<b>¥ (9,982)</b>
Interest swap				
Basic treatment:	Short-term borrowing , Long-term loan payable	¥ 4,806	¥ 3,800	¥ (465)
To receive float, pay fix				
Exceptional treatment *2:	Long-term loan payable	39,564	31,594	-
To receive float, pay fix				
<b>Total</b>		<b>¥ 44,370</b>	<b>¥ 35,394</b>	<b>¥ (465)</b>

2014	Hedged items	Japanese Yen (millions)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	¥ 3,372	¥ -	¥ 677
Euro		1,551	-	38
STG Pounds		520	-	6
Norwegian Krone		2,559	1,188	(41)
Japanese Yen		110	-	1
To sell U.S.Dollars	Trade receivables	17,763	-	(261)
STG Pounds		12,998	5,095	(343)
Euro		208	-	(3)
<b>Total</b>		<b>¥ 39,081</b>	<b>6,283</b>	<b>74</b>
Interest swap				
Basic treatment:	Short-term borrowing , Long-term loan payable	¥ 6,951	4,317	(644)
To receive float, pay fix				
Exceptional treatment *2:	Long-term loan payable	31,424	25,434	-
To receive float, pay fix				
<b>Total</b>		<b>¥ 38,375</b>	<b>29,751</b>	<b>(644)</b>

2015

	Hedged items	U.S. Dollars (thousands)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	\$ 102,522	\$ 20,488	\$ 12,532
Euro		71,832	391	(3,745)
STG Pounds		15,952	2,580	(67)
Thai Baht		1,989	-	17
Singapore Dollars		1,615	-	(8)
Norwegian Krone		11,309	-	(1,972)
Japanese Yen		3,786	-	(558)
Swiss Franc		8,421	-	(566)
To sell U.S.Dollars	Trade receivables	844,687	128,775	(81,767)
STG Pounds		140,592	21,478	(5,634)
Currency option contract				
Buying: Put option		4,352	-	-
Selling: Call option		8,696	-	(1,298)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S.Dollars		1,731	-	-
Euro	Trade receivables	2,346	-	-
		\$ 1,219,830	\$ 173,712	\$ (83,066)
Interest swap				
Basic treatment : To receive float, pay fix	Short-term borrowing, Long-term loan payable	\$ 39,993	\$ 31,622	\$ (3,870)
Exceptional treatment *2 : To receive float, pay fix	Long-term loan payable	329,234	262,911	-
		\$ 369,227	\$ 294,533	\$ (3,870)

\*1 When certain conditions are met, translation of foreign currency receivables is based on yen amount fixed by forward contract. The fair value is included in that of the trade receivables, which is shown in 17 Financial Instruments.

\*2 As interest swap subject to exceptional treatment of interest swap are accounted for as a single item with underlying long-term loan payable, which are hedged items, their fair value is included in that of long-term loan payable.

## 19. Segment Information

### (a) Overview of Reportable Segment

Reportable Segment is composed of the segment by products and services belonging to headquarter and subject to be reviewed periodically by the Board of Directors to decide the allocation of management resources and to evaluate the performance.

MES organizes headquarters by products and services in Head office. Each headquarter makes strategies of its products and services in both Japan and abroad comprehensively and develops the operation.

Reportable Segment is classified into three segments: Ship & Ocean, Machinery and Engineering. Main products and services of each Reportable Segment are as follows.

**Ship & Ocean:** commercial ships, naval ships, high speed passenger/vehicle ferries, FPSOs (floating production storage offloading vessels), offshore structures, underwater TV vehicles, domestic bridge business, port structures

**Machinery:** marine and stationary diesel engines, marine equipment, gas engines, steam turbines, blowers, process compressors, gas turbines, cogeneration system, regulating system, container cranes, industrial cranes, container terminal management systems, induction heaters, material for semiconductors

**Engineering:** chemical plants, overseas civil works, power generation plants, renewable energy business, waste treatment plants, water treatment plants, resources recycling plants, PCB disposal plants

### (b) Calculation method used for Sales, Operating income and loss, Assets, Liabilities and other items for each Reportable Segment.

The accounting method used for Reportable Segment is almost same as the method stated in "Significant Accounting and Reporting Policies"

Operating income and loss in Reportable Segment is based on the one in Consolidated Statements of Income.

Inter segment profit and transfer are based on the market price.

### (c) Information about Sales, Operating income and loss, Assets, Liabilities and other items for each Reportable Segment.

Reportable Segment information for the years ended March 31, 2015 and 2014 were as follows:

2015	Japanese Yen (millions)							
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:								
Outside customers	¥ 491,739	¥ 146,502	¥ 129,930	¥ 768,171	¥ 48,349	¥ 816,520	¥ -	¥ 816,520
Inter segment	572	7,346	308	8,226	1,759	9,985	(9,985)	-
Total	492,311	153,848	130,238	776,397	50,108	826,505	(9,985)	816,520
Operating income (loss)	¥ 10,177	¥ 9,815	¥ (10,593)	¥ 9,399	¥ 3,900	¥ 13,299	¥ -	¥ 13,299
Assets	¥ 451,837	¥ 142,534	¥ 101,403	¥ 695,774	¥ 247,202	¥ 942,976	¥ 131,587	¥ 1,074,563
Depreciation	¥ 8,134	¥ 4,081	¥ 1,780	¥ 13,995	¥ 2,942	¥ 16,937	¥ 519	¥ 17,456
Increase (Decrease) in property, plant and equipment and intangible assets	¥ (2,795)	¥ 933	¥ 4,414	¥ 2,552	¥ (12,962)	¥ (10,410)	¥ 8,342	¥ (2,068)

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.

(note 2) Adjustments are as follows:

(1) Adjustments of ¥131,587 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of ¥136,350 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥519 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥583 million.

(3) Adjustments of ¥8,342 million recorded for increase (decrease) in property, plant and equipment and intangible assets include assets related to the administration divisions of ¥7,866 million.

(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Income.

2014	Japanese Yen (millions)							
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:								
Outside customers	¥ 377,268	¥ 147,803	¥ 116,722	¥ 641,793	¥ 28,275	¥ 670,068	¥ -	¥ 670,068
Inter segment	231	6,477	43	6,751	1,392	8,143	(8,143)	-
Total	377,499	¥ 154,280	¥ 116,765	¥ 648,544	¥ 29,667	¥ 678,211	¥ (8,143)	¥ 670,068
Operating income (loss)	¥ 9,909	¥ 8,182	¥ (181)	¥ 17,910	¥ 2,059	¥ 19,969	¥ -	¥ 19,969
Assets	¥ 332,491	¥ 124,442	¥ 83,644	¥ 540,577	¥ 255,556	¥ 796,133	¥ 136,763	¥ 932,896
Depreciation	¥ 6,905	¥ 5,459	¥ 1,585	¥ 13,949	¥ 668	¥ 14,617	¥ 523	¥ 15,140
Increase (Decrease) in property, plant and equipment and intangible assets	¥ 8,900	¥ (6,468)	¥ 6,271	¥ 8,703	¥ 185,300	¥ 194,003	¥ (6,285)	¥ 187,718

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Systems development, Real estate lease business and others.

(note 2) Adjustments are as follows:

(1) Adjustments of ¥136,763 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of ¥141,647 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥523 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥609 million.

(3) Adjustments of ¥(6,285) million recorded for increase (decrease) in property, plant and equipment and intangible assets include assets related to the administration divisions of ¥(6,341) million.

(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Income.

2015	U.S. Dollars (thousands)							
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:								
Outside customers	\$ 4,092,028	\$ 1,219,123	\$ 1,081,218	\$ 6,392,369	\$ 402,338	\$ 6,794,707	\$ -	\$ 6,794,707
Inter segment	4,760	61,130	2,563	68,453	14,638	83,091	(83,091)	-
Total	\$ 4,096,788	\$ 1,280,253	\$ 1,083,781	\$ 6,460,822	\$ 416,976	\$ 6,877,798	\$ (83,091)	\$ 6,794,707
Operating income (loss)	\$ 84,688	\$ 81,676	\$ (88,150)	\$ 78,214	\$ 32,454	\$ 110,668	\$ -	\$ 110,668
Assets	\$ 3,759,982	\$ 1,186,103	\$ 843,830	\$ 5,789,915	\$ 2,057,102	\$ 7,847,017	\$ 1,095,007	\$ 8,942,024
Depreciation	\$ 67,687	\$ 33,960	\$ 14,812	\$ 116,459	\$ 24,482	\$ 140,941	\$ 4,320	\$ 145,261
Increase (Decrease) in property, plant and equipment and intangible assets	\$ (23,259)	\$ 7,764	\$ 36,731	\$ 21,236	\$ (107,864)	\$ (86,628)	\$ 69,419	\$ (17,209)

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Systems development, Real estate lease business and others.

(note 2) Adjustments are as follows:

- (1) Adjustments of \$1,095,007 thousand recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of \$1,134,643 thousand that are not allocated to any Reportable Segment.
- (2) Adjustments of \$4,320 thousand recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of \$4,851 thousand.
- (3) Adjustments of \$69,419 thousand recorded for increase (decrease) in property, plant and equipment and intangible assets include assets related to the administration divisions of \$65,457 thousand.

(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Income.

[Related information]

#### (d) Information by products and services

Information by products and services is the same as Reportable Segment and the description is omitted.

#### (e) Information by geographical area

1) Sales

2015	Japanese Yen (millions)					
	Japan	Brazil	Ghana	Asia	Other	Total
Net sales	¥ 240,429	¥ 243,792	¥ 91,377	¥ 78,767	¥ 162,155	¥ 816,520

2014	Japanese Yen (millions)				
	Japan	Brazil	Asia	Other	Total
Net sales	¥ 225,835	¥ 188,484	¥ 83,446	¥ 172,303	¥ 670,068

2015	U.S. Dollars (thousands)					
	Japan	Brazil	Ghana	Asia	Other	Total
Net sales	\$ 2,000,741	\$ 2,028,726	\$ 760,398	\$ 655,463	\$ 1,349,379	\$ 6,794,707

\*Sales amount is based on the place of customer and classified by country or geographical area.

2) Property, plant and equipment

2015	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 341,470	¥ 341,470	¥ 377,726

2014	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 340,458	¥ 39,225	¥ 379,683

2015	U.S. Dollars (thousands)		
	Japan	Others	Total
Property, plant and equipment	\$ 2,841,558	\$ 301,706	\$ 3,143,264

#### (f) Information by major customer

2015	Japanese Yen (millions)		U.S. Dollars (thousands)		Reportable Segment
	CARIOCA MV27 B.V.	¥ 96,317	\$ 801,506		Ship & Ocean

2014	Japanese Yen (millions)		Reportable Segment
	CERNAMBI NORTE MV26 B.V.	¥ 70,528	Ship & Ocean

[Information about losses on impairment of non-current assets for each Reportable Segment]

Losses on impairment on non-current assets

2015	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	¥ 1,977	¥ 219	¥ -	¥ 329	¥ 164	¥ 2,689

2014	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	¥ 4,095	¥ 3,229	¥ -	¥ 8	¥ 855	¥ 8,187

2015	U.S. Dollars (thousands)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	\$ 16,452	\$ 1,822	\$ -	\$ 2,738	\$ 1,365	\$ 22,377

[Information about goodwill amortization amount and year-end balance for each Reportable Segment]

Goodwill

2015	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	¥ 495	¥ -	¥ -	¥ -	¥ -	¥ 495
Goodwill	¥ 4,959	¥ -	¥ -	¥ -	¥ -	¥ 4,959

2014	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	¥ 445	¥ (1)	¥ -	¥ -	¥ -	¥ 444
Goodwill	¥ 4,923	¥ -	¥ -	¥ -	¥ -	¥ 4,923

2015	U.S. Dollars (thousands)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	\$ 4,119	\$ -	\$ -	\$ -	\$ -	\$ 4,119
Goodwill	\$ 41,267	\$ -	\$ -	\$ -	\$ -	\$ 41,267

[Information about gains on negative goodwill for each Reportable Segment]

2015

Gain on bargain purchase of ¥4,768 million (\$39,677 thousand) is recorded due to additional acquirement of the shares of the subsidiary, Showa Aircraft Industry Co. Ltd.

2014

Effective from fiscal year ended March 31 2014, MES acquired the shares of Showa Aircraft Industry Co. Ltd., and its subsidiaries by take over bid, and Showa Aircraft Industry Co. Ltd. is reclassified to subsidiary of the Others segment on March 24, 2014. According to the acquisition of shares, the gain on bargain purchase of ¥29,622 million is recorded.

## 20. Investment and Rental Property

#### (a) Articles concerning situation of investment and rental property

MES and certain Subsidiaries own rental office building, commercial facilities, and houses (including land) in Tokyo, Osaka, Okayama and other areas. Idle land is also owned in Tokyo, Kanagawa, Oita and other areas.

#### (b) Articles concerning fair value of investment and rental property

The book value of investment and rental properties stated in the consolidated balance sheets, the increase or decrease in this fiscal year, and fair value are shown below.

Usage	Japanese Yen (millions)			
	Book value			Fair value
	Beginning balance as of April 1, 2014	Increase (Decrease)	Ending balance as of March 31, 2015	As of March 31, 2015
Facilities for lease	¥ 105,729	¥ (1,252)	¥ 104,477	¥ 100,651
Idle assets (Land)	8,646	16,569	25,215	27,287
<b>Total</b>	<b>¥ 114,375</b>	<b>¥ 15,317</b>	<b>¥ 129,692</b>	<b>¥ 127,938</b>

Usage	U.S. Dollars (thousands)			
	Book value			Fair value
	Beginning balance as of April 1, 2014	Increase (Decrease)	Ending balance as of March 31, 2015	As of March 31, 2015
Facilities for lease	\$ 879,829	\$ (10,419)	\$ 869,410	\$ 837,572
Idle assets (Land)	71,948	137,880	209,828	227,070
<b>Total</b>	<b>\$ 951,777</b>	<b>\$ 127,461</b>	<b>\$ 1,079,238</b>	<b>\$ 1,064,642</b>

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.

(note 2) The increase in rental properties in this fiscal year is mainly due to diversion of land (¥16,379 million/ \$136,299 thousand) and new acquisitions (¥1,309 million/ \$10,893 thousand), and the decrease in rental properties is mainly due to depreciation (¥1,473 million / \$12,258 thousand), impairment losses (¥480 million/ \$3,994 thousand), and termination of contracts (¥423 million/ \$3,520 thousand).

(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

Japanese Yen (millions)					
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)	
Facilities for lease	¥ 8,406	¥ 5,356	¥ 3,050	¥ (80)	
Idle assets (Land)	-	-	-	(480)	
<b>Total</b>	<b>¥ 8,406</b>	<b>¥ 5,356</b>	<b>¥ 3,050</b>	<b>¥ (560)</b>	

U.S.Dollars (thousands)					
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)	
Facilities for lease	\$ 69,951	\$ 44,570	\$ 25,381	\$ (666)	
Idle assets (Land)	-	-	-	(3,994)	
<b>Total</b>	<b>\$ 69,951</b>	<b>\$ 44,570</b>	<b>\$ 25,381</b>	<b>\$ (4,660)</b>	

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.

(note 2) Others include impairment losses and taxes-and-dues. Impairment losses and taxes-and-dues are recognized as other income (expenses).

Japanese Yen (millions)					
Usage	Book value			Fair value	
	Beginning balance as of April 1, 2013	Increase (Decrease)	Ending balance as of March 31, 2014	As of March 31, 2014	
Facilities for lease	¥ 13,430	¥ 92,299	¥ 105,729	¥ 108,742	
Idle assets (Land)	11,415	(2,769)	8,646	9,959	
<b>Total</b>	<b>¥ 24,845</b>	<b>¥ 89,530</b>	<b>¥ 114,375</b>	<b>¥ 118,701</b>	

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.

(note 2) The increase in rental properties in this fiscal year is mainly due to newly consolidated subsidiaries (¥92,610 million), new acquisitions (¥57 million) and alteration of contracts (¥20 million), and the decrease in rental properties is mainly due to diversion of idle land (¥2,514 million), impairment losses (¥254 million), and depreciation (¥247 million).

(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

Japanese Yen (millions)					
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)	
Facilities for lease	¥ 1,931	¥ 1,253	¥ 678	¥ -	
Idle assets (Land)	-	-	-	(253)	
<b>Total</b>	<b>¥ 1,931</b>	<b>¥ 1,253</b>	<b>¥ 678</b>	<b>¥ (253)</b>	

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.

(note 2) Others include impairment losses. Impairment losses are recognized as other income (expenses).

## 21. Related Party Transactions

Transactions between the Group and related parties for the fiscal years ended March 31, 2015 and 2014 were as follows:

Unconsolidated subsidiaries and affiliates of MES

2015 Japanese Yen (millions)										
Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	23,848	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	24,802	-	-

2014 Japanese Yen (millions)										
Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	20,424	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	11,724	-	-

2015 U.S.Dollars (thousands)										
Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	198,452	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	206,391	-	-

1. Guarantee Obligation is deliberately determined in consideration by each project plan.

Transactions between Subsidiaries and related parties for the fiscal years ended March 31, 2015 and 2014 were as follows:

Unconsolidated subsidiaries and affiliates of MES

2015 Japanese Yen (millions)											
Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end	
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	The working capital lending	12,349	Short-term loans	31,049	
							Guarantee Obligation	23,925	-	-	
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	81,439	Receivables	41,257	
							Guarantee Obligation	18,518	-	-	
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	58,007	Receivables	22,117	
							Guarantee Obligation	55,504	-	-	
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	105,040	Receivables	23,678	
							The equipment capital lending	21,011	-	-	
							The equipment capital collection	20,891	-	-	
	Guarantee Obligation	57,869	-	-							
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE.LTD	Singapore	USD 100	Construction of FPSO	Indirect 25.0%	Construction of FPSO Interlocking directors	Purchase	91,077	Trade payables	6,256		

2014 Japanese Yen (millions)											
Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end	
Affiliate	GUARA MV23 B.V.	Amsterdam, The Netherlands	EURO 124,050	Charter of FPSO	Indirect 17.0%	Time Charter of FPSO	The equipment capital lending	34,957	-	-	
							The equipment capital collection	39,762	-	-	
	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	54,379	Receivables	10,621	
							The equipment capital lending	7,895	Long-term loans	15,156	
	Guarantee Obligation	20,910	-	-							
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	18,370	Receivables	12,790	
CERNAMBI NORTE MV26 B.V.							Amsterdam, The Netherlands	EURO 124,050	Charter of FPSO	Indirect 17.0%	Time Charter of FPSO
Guarantee Obligation	29,032	-	-								



## Independent Auditor's Report

2015

U.S.Dollars (thousands)

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	The working capital lending	102,763	Short-term loans	258,376
							Guarantee Obligation	199,093	-	-
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	677,698	Receivables	343,322
							Guarantee Obligation	154,098	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	482,708	Receivables	184,048
							Guarantee Obligation	461,879	-	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	874,095	Receivables	197,038
							The equipment capital lending	174,844	-	-
							The equipment capital collection	173,845	-	-
							Guarantee Obligation	481,559	-	-
MODEC AND TOYO OFFSHORE PRODUCTION SYSTEMS PTE.LTD	Singapore	USD 100	Construction of FPSO	Indirect 25.0%	Construction of FPSO Interlocking directors	Purchase	757,901	Trade payables	52,060	

1.The transaction amount does not include an exchange gains and losses, outstanding balance at the year end includes an exchange gains and losses.  
The transaction amount does not include sales tax, outstanding balance at the year end includes sales tax.

2.Policies for determining terms and conditions are as follows:

- (1) FPSO construction and operation trade are deliberately determined in consideration by each project plan.
- (2)The equipment capital lending is deliberately determined in consideration by each project plan.
- (3)The working capital lending is deliberately determined in consideration by each project plan.
- (4)Guarantee Obligation is deliberately determined in consideration by each project plan.

To the Board of Directors of Mitsui Engineering & Shipbuilding Co., Ltd.

We have audited the accompanying consolidated financial statements of Mitsui Engineering & Shipbuilding Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of Mitsui Engineering & Shipbuilding Co., Ltd. and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.

June 26, 2015  
Tokyo, Japan

KPMG AZSA LLC