June 5, 2015

Mitsui Engineering & Shipbuilding Co., Ltd.

DISCLOSURE THROUGH THE INTERNET RELATED TO NOTICE OF THE 112th ORDINARY GENERAL MEETING OF SHAREHOLDERS

Attached are:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

for the 112th Business Term from April 1, 2014 to March 31, 2015

As for Notes to Consolidated Financial Statement and Notes to Financial Statement, the Company is deemed to have provided those to shareholders by means of disclosure through the Internet (on the Company's website: http://www.mes.co.jp/) in accordance with the laws and Article 16 of the Company's Articles of Incorporation.

(This is English translations of Japanese original for reference purpose only.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes to Basic Significant Matters Regarding Preparation of Consolidated Financial Statements

1. Items in the scope of consolidation

(1) Number of consolidated subsidiaries: 87

Major consolidated subsidiaries are Mitsui Zosen Chiba Kiko Engineering Inc., MODEC, Inc., MES Shipping Co., Ltd., Shikoku Dockyard Co., Ltd., Niigata Shipbuilding & Repair, Inc., Mitsui Zosen Steel Structures Engineering Co., Ltd. , Mitsui Zosen Machinery & Service, Inc., Mitsui Meehanite Metal Co., Ltd., Mitsui Zosen Environment Engineering Corporation, Mitsui Zosen Plant Engineering Inc., Green Power Ichihara Co., Ltd., Showa Aircraft Industry Co., Ltd., Mitsui Zosen Systems Research Inc., Sanyu Real Estate Co., Ltd., Sanko Logistics Corporation, DPS Bridge Works Co., Ltd., Paceco Corp., Burmeister & Wain Scandinavian Contractor A/S, Colombo Power(Private) Limited, and Engineers and Constructors International, Inc.

MODEC VENTURE 28 B.V. was newly established in this term.

Betsukai Biogas Power Co., Ltd. has been changed to consolidated subsidiary in this term from unconsolidated subsidiary in the previous term due to increase of material impact on consolidated financial statements.

Mersey Bioenergy Ltd. has been changed to the affiliate on the equity method in this term due to decrease in the shareholding ratio. MES AFTY Corporation and LANGSA FPSO PTE LTD. has been excluded from the scope of consolidation due to liquidation. And MES Engineering, Inc. has been excluded due to decrease of material impact on consolidated financial statements.

Sanzo Enterprise Co., Ltd. changed the trade name to MES Shipping Co., Ltd. in this term.

(2) Number of unconsolidated subsidiaries: 24

Unconsolidated subsidiaries are Asahi Sangyo, METOS. Inc, Showa-no-Mori Total Service Co., Ltd., Showa Aircraft Techno Service Co., Ltd., Showa-no-Mori Area Service Co., Ltd., Harley-Davidson Showa-no-Mori Co., Ltd., S&S Management Co., Ltd., MODEC SINGAPORE PTE. LTD., JUBILEE GHANA MV21 B.V., MODEC OFFSHORE SERVICOS LTDA., MODEC OFFSHORE ENGINEERING SERVICES (DALIAN) CO., LTD., MODEC MALAYSIA SDN. BHD., SOFEC MALAYSIA SDN. BHD., TARTARUGA MV29 B.V., BWSC El Salvador, BWSC Mexico, MES Engineering, Inc., MES Technoservice Middle East W.L.L., MES Mitr Project services Co., Ltd., MIPEC (THAILAND) LIMITED, MITSUI ZOSEN (U.S.A.) INC., MITSUI ZOSEN (SHANGHAI) Co., Ltd., SHOWA AIRCRAFT USA INC., and Showa Aircraft Industry Philippines Inc.

SOFEC MALAYSIA SDN. BHD., TARTARUGA MV29 B.V., MES Technoservice Middle East W.L.L., and Showa Aircraft Industry Philippines Inc. were newly established in this term.

MES Engineering, Inc. has been changed to unconsolidated subsidiary in this term from consolidated subsidiary in the previous term due to decrease of material impact on consolidated financial statements.

Betsukai Biogas Power Co., Ltd. has been changed to consolidated subsidiary in this term from unconsolidated subsidiary in the previous term due to increase of material impact on consolidated financial statements. BWSC Portugal Lda. has been liquidated in this term.

JUBILEE GHANA MV21 B.V. and TARTARUGA MV29 B.V. are excluded from the scope of consolidation as the ownership is only temporary. Other companies are unconsolidated as they are all small in terms of total assets, sales, net profit or loss, and retained earnings (amount corresponding to equity ownership) and have no material impact to the consolidated financial statements.

2. Items concerning application of the equity method

(1) Number of unconsolidated subsidiaries on the equity method: 2

JUBILEE GHANA MV21 B.V., TARTARUGA MV29 B.V.

TARTARUGA MV29 B.V. was newly established in this term. Because the ownership was temporary, it has been classified as equity method unconsolidated subsidiaries.

(2) Number of affiliates on the equity method: 43

Major affiliates are Minami-nippon Shipbuilding Co., Ltd., Mitsui Miike Machinery Co., Ltd., Kaji Technology Corporation, and CSSC-MES Diesel Co., Ltd.

Mersey Bioenergy Ltd., consolidated subsidiary in the previous term, has been changed to the affiliates on the equity method due to decrease in the shareholding ratio.

BWSC North Lincs Ltd., Mersey Bioenergy Holding Ltd., BWSC East Anglia Ltd., and ERE Holding Ltd. were newly established in this term. Kaji Technology Corporation became an affiliate on the equity method as the Company acquired shares. Ichihara Power Co., Ltd. has been excluded due to divestiture, and JASMINE FPSO PTE LTD. has been excluded due to liquidation.

Mitsui Thang Long Steel Construction Company Ltd. is an affiliate on the equity method as the Company does not have control in its decision making body even though the Company has majority of voting right.

(3) Number of unconsolidated subsidiaries and affiliates not on the equity method: 33

Number of unconsolidated subsidiaries: 22

Asahi Sangyo, METOS. Inc, Showa-no-Mori Total Service Co., Ltd., Showa Aircraft Techno Service Co., Ltd., Showa-no-Mori Area Service Co., Ltd., Harley-Davidson Showa-no-Mori Co., Ltd., S&S Management Co., Ltd., MODEC SINGAPORE PTE. LTD., MODEC OFFSHORE SERVICOS LTDA., MODEC OFFSHORE ENGINEERING SERVICES

(DALIAN) CO., LTD., MODEC MALAYSIA SDN. BHD., SOFEC MALAYSIA SDN. BHD., BWSC El Salvador, BWSC Mexico, MES Engineering, Inc., MES Mitr Project Services Co., Ltd., MIPEC (THAILAND) LIMITED, MITSUI ZOSEN (U.S.A.) INC., MITSUI ZOSEN (SHANGHAI) Co., Ltd., MES Technoservice Middle EAST W.L.L., SHOWA AIRCRAFT USA INC., Showa Aircraft Industry Philippines Inc.

Number of Affiliates: 11

ISB Inc., Oita Hiyoshibaru Solar Co., Ltd., Dr. Vegetable JAPAN Co., Ltd., Mitsui Engineering & Shipbuilding Arabia Ltd., MES UBI Heavy Industries Co., Ltd., MES Technoservice Machinery Construction Logistics Industry and Trade Corporation, Sanuki Foundry Co., Ltd., PT. Marine Technology Indonesia, NHI Co., Ltd., Primate Shipping S.A., Endurance & MES (Chongqing) Enviroment Co., Ltd.

As these companies have extremely slight impact on net profit or loss and retained earnings (amount corresponding to the Company’s equity ownership), they have no material impact as a whole on the consolidated financial statements and thus the equity method was not applied.

(4) Change in shareholding ratio arising from capital increase of the companies subject to application of the equity method is accounted for by the method supposing it as trading of the Company’s equity ownership.

3. Accounting period of the consolidated subsidiaries

Fiscal years of 3 domestic subsidiaries including MODEC, INC. and Shikoku Dockyard Co., and all the 51 overseas subsidiaries end on the 31st of December. The Company consolidates these subsidiaries’ financial statements as of each subsidiary’s latest fiscal year-end and significant transactions occurred between each subsidiary’s fiscal year-end and the Company’s fiscal year-end are adjusted on consolidation.

4. Significant accounting policies

(1) Valuation standards and methods for important assets

a. Securities:

i. Equity securities issued by subsidiaries and affiliated companies:
stated at cost based on the moving-average method.

ii. Other securities

Securities with fair market value: stated at average market value during the final month of the fiscal year. (Related valuation differences are directly charged to net assets, and the cost of securities sold is computed by the moving-average method.)

Securities without fair market value: stated at cost based on the moving-average method.

b. Derivatives: mainly on the fair market value method

c. Inventories

i. Merchandise, finished goods, raw materials and supplies: stated at cost determined mainly by the moving-average method except steel for new shipbuilding, which is by the identified cost method (Balance sheet value reflects downturn in profitability).

ii. Work in progress: stated at cost based on the identified cost method. (Balance sheet value reflects downturn in profitability).

(2) Depreciation methods for non-current assets

a. Property, plant and equipment (other than lease assets): mainly on the declining-balance method. Useful lives and residual value are on the standard stipulated in the Corporation Tax Act. However, the buildings acquired after April 1, 1998 (except auxiliary equipment) are on the straight-line method.

b. Intangible assets (other than lease assets): mainly on the straight-line method. Useful lives are on the standard stipulated in the Corporation Tax Act. However, software for own use is depreciated on the straight-line method based on the period of possible use, i.e. five years.

c. Lease assets

The depreciation method for lease assets related to finance lease transactions without transfer of ownership is by the straight-line method over the lease term. The residual value is either zero or the guaranteed residual value if it is specified in the lease contract.

(3) Accounting criteria for major allowances

a. Allowance for doubtful accounts

An allowance for doubtful accounts is provided based on historical loss rates for normal receivables and on an individual evaluation for highly doubtful receivables.

b. Provision for product warranties

A provision for product warranties of ships and other products is provided mainly based on the estimated amounts calculated by using the average ratio of product warranties against sales amounts for the past two years. As for new ships, allowances are appropriated for the subsequent two years from the next consolidated fiscal year.

c. Provision for losses on construction contracts

A provision for losses on construction contracts is provided based on estimated losses which can be anticipated to occur in the next fiscal year and later with respect to undelivered construction projects on which eventual losses are deemed inevitable at the end of the current fiscal year and the amounts of loss can reasonably be estimated.

d. Liability for severance and retirement benefits for directors and corporate auditors
Some of consolidated subsidiaries calculate the required amount, based on internal regulations, in preparation for payment of retirement benefits to directors and corporate auditors as of the end of the fiscal year.

(4)Accounting criteria for important revenues and expenses

a. Accounting for revenues and costs of completed work

i. Construction for which the portion completed by the end of the fiscal year can be determined with certainty: the percentage-of-completion method
（Progress on work is mainly measured by the percentage of cost method.）

ii. Construction other than above: the completed-contract method

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

(5) Amortization of goodwill

Goodwill is generally amortized using the straight-line method either over five years or over a reasonable period in which the economic benefits are expected to be realized.

(6) Other significant items associated with the preparation of consolidated financial statements

a. Accounting for major hedges

i. Hedge Accounting

The Company and some of consolidated subsidiaries defer recognition of gains or losses caused by market value of hedging instruments at the end of each fiscal year.
For forward foreign exchange contracts and currency swap contracts, the Company and some of consolidated subsidiaries allocate differences in the values of hedging instruments when such hedges meet all requirements by financial instrument accounting for such allocations. For interest rate swap contracts, the Company and some of consolidated subsidiaries apply exceptional treatment when the swap contract meets the requirements for such exceptional treatment.

ii. Hedging instruments and risks hedged

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency receivables and payables including future transactions

Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Loans and bonds payables

iii. Hedging policy

The Company and its consolidated subsidiaries follow the internal regulations for derivatives, which stipulate the policy, objective, scope, organization, procedures, and financial institutions to deal with.

iv. Method of evaluating the effectiveness of hedging

The Company and some of consolidated subsidiaries evaluate the effectiveness of the financial instruments by comparing the cumulative changes in cash flows of hedged items in fair value with the corresponding changes in the hedging financial instruments.

v. Risk management policy

Interest rate risk resulting from Fixed / Current gap in the Financial Assets / Liabilities and currency fluctuation risk resulting from foreign currency receivables and payables are reduced by hedge transactions in order for those risks to be adjusted to a proper level.

b. Accounting for retirement benefits

i. Method of allocating projected retirement benefits by service period

In calculating retirement benefit obligations, the benefit formula basis is used to allocate projected retirement benefits over the period to the end of the consolidated fiscal year.

ii. Method of accounting for actuarial gains and losses, prior service costs and the net transition obligation.

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 average of 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 average of the estimated remaining service lives (one year or five years).

iii. Method of accounting for unrecognized actuarial differences and unrecognized prior service costs.

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)”.

c. Consumption tax and similar taxes

The tax-excluded method is applied in accounting for the consumption tax, etc.

d. Application of Consolidated Taxation System

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

Note to Change in the Accounting Policy

(Implementation of Accounting Standard for Retirement Benefits)

Effective from the consolidated fiscal year 2014, the Company applied 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”). With this application, the Company revised the methods of calculating retirement benefit obligations and service costs. 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, assets related to retirement benefits decreased by ¥2,273 million, liabilities related to retirement benefits increased by ¥300 million, and retained earnings decreased by ¥1,593 million. The impact on consolidated statements of income was immaterial.

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

Notes to Changes in the Manner of Description

(Consolidated balance sheets)

“Short-Term Loans” listed in “Others” of “Current Assets” in the previous fiscal year is listed separately in this fiscal year as the increase in amount is significant.

(Consolidated statements of income)

"Income Taxes for Prior Periods" listed separately in the previous fiscal year is included in "Income Taxes – Current" in this fiscal year as the amount of ¥254 million is not significant.

Notes to Consolidated Balance Sheets

1. Pledged assets and secured liabilities

(1) Pledged assets

Figures in bracket are pledged assets for foundation collateral (inclusive)

Buildings:	¥317 million	(¥87 million)
Structures (including docks):	¥6 million	(¥6 million)
Machinery, equipment and vehicles:	¥16,674 million	(¥46 million)
Land:	¥5,123 million	(¥926 million)
Investment securities:	¥151 million	(-)
Total	¥22,272 million	(¥1,066 million)

(2) Pledged debts

Figures in bracket are pledged debts for foundation collateral (inclusive)

Short-term borrowings:	¥1,100 million	(¥300 million)
Long-term borrowings (including current portion):	¥17,241 million	(¥125 million)
Total	¥18,341 million	(¥425 million)

2. Accumulated depreciation of tangible assets: ¥300,383 million

Accumulated impairment losses included in accumulated depreciation: ¥16,290 million

3. Contingent liabilities

The Company and some of consolidated subsidiaries guarantee the debt owed by the following companies, which are not consolidated subsidiaries, in respect of their borrowings from financial institutions and performance of contract.

CARIOCA MV27 B.V.	¥57,868 million
CERNAMBI NORTE MV26 B.V.	¥55,423 million
T.E.N. GHANA MV25 B.V.	¥24,546 million
CERNAMBI SUL MV24 B.V.	¥23,847 million
PRIMATE SHIPPING S.A.	¥2,308 million
Mitsui Chemicals, Inc.	¥1,800 million
Doosan Babcock Limited	¥1,047 million

TUPI PILOT MV22 B.V.	¥1,011	million
GUARA MV23 B.V.	¥942	million
GAS OPPORTUNITY MV20 B.V.	¥733	million
Others	¥5,695	million
Total	¥175,226	million

Among the above, guarantee in foreign currencies are USD1,404,188K, GBP5,884K, EUR63K and THB6,123K.

4. Reevaluation of land

In accordance with Enforcement Ordinance for the Law Concerning Reevaluation Reserve for Land (the "Law") effective March 31, 1998, the Company and a domestic consolidated subsidiary reevaluated the land used for business operations based on real estate tax value on March 31, 2000 and March 31, 2002 respectively. Tax equivalent due to reevaluation difference(unrealized gain) was recorded as "Deferred tax liabilities", in which was shown long-term liabilities, and the balance amount after deducting the tax equivalent was recorded as "Reevaluation reserve for land" in net assets of the balance sheet.

According to the Law, the Company and a domestic consolidated subsidiary are not permitted to reevaluate the land at any time after the above reevaluation even in cases where the fair value of the land declines. Such unrecorded reevaluation loss is ¥38,778 million as of March 31, 2015.

Notes to Consolidated Statements of Changes in Net Assets

1. Classification and number of issued shares

Common shares

Number as of the beginning of the current fiscal year (Apr. 1, 2014): 830,987 thousand shares

Number increased during the current fiscal year: Nil

Number decreased during the current fiscal year: Nil

Number as of the end of the current fiscal year (Mar. 31, 2015): 830,987 thousand shares

2. Classification and number of shares of Treasury stock

Common shares

Number as of the beginning of the current fiscal year (Apr. 1, 2014): 4,262 thousand shares

Number increased during the current fiscal year: 19,354 thousand shares

Number decreased during the current fiscal year: 950 thousand shares

Number as of the end of the current fiscal year (Mar. 31, 2015): 22,667 thousand shares

Note: Outline of Change

Increase due to the purchase of shares based on the resolutions of Board of Directors' Meeting

: 19,237 thousand shares

Increase due to the purchase of shares of shareholders holding less than one unit

: 117 thousand shares

Decrease due to the sale of parent company shares held by the consolidated subsidiary

: 942 thousand shares

Decrease due to the sales to shareholders holding less than one unit

: 8 thousand shares

3. Number of shares subject to share purchase warrants upon exercise thereof

Kind of Shares: Common shares

980 thousand shares

4. Dividends

(1) Amount of Dividend Paid

Resolution at the Ordinary General Shareholders' Meeting held on June 26, 2014

Kind of Shares: Common shares

Total amount of dividends: ¥1,655 million

Dividend per share: ¥2.0

Record date: March 31, 2014

Effective date: June 27, 2014

(2) Dividends to be distributed after the fiscal year end

The following item has been placed on the agenda for approval at the Ordinary General Shareholders' Meeting scheduled for June 26, 2015.

Kind of Shares: Common shares

Source of dividends: Retained earnings

Total amount of dividends: ¥1,616 million

Dividend per share: ¥2.0

Record date: March 31, 2015

Effective date: June 29, 2015

Notes to Financial Instruments

1. Articles concerning status of financial instruments

(1) Policies for financial instruments

The Company and its consolidated subsidiaries restrict their fund management to short-term financial instruments. The Company and its consolidated subsidiaries meet their long-term operating capital and capital expenditure requirements through bank loans and the issuance of bonds and meet their short-term operating capital requirements through bank loans and the issuance of commercial paper (CP). The Company and its consolidated subsidiaries transfer funds to each other through an inter-company cash management systems (CMS). The Company and its consolidated subsidiaries utilize derivative financial instruments to hedge the risks described hereinafter and do not engage in 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 the Company and some of consolidated 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 which the Company has 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 and currency swap 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 "4. Significant accounting policies (6) a. Accounting for major hedges."

(3) Managing of financial instruments

① Management of credit risks (Breach of contracts risks)

The Company and its consolidated subsidiaries monitor 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. Some consolidated 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, the Company and its consolidated subsidiaries deal solely with top-ranked financial institutions so as to minimize credit risks.

② Management of market risks (Exchange rate or interest rate fluctuation risks)

The Company and some of consolidated 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.

As to investment securities, the Company and its consolidated subsidiaries endeavor to research fair market value and regularly check to grasp the financial status of important customers, and continuously examine whether the holding position is proper or not while taking market conditions or relationships with the issuing company into consideration.

The Company and its consolidated subsidiaries execute and manage derivative transactions based on each company’s internal regulation restricting scope of authority. As to derivative transactions, the Company and its consolidated subsidiaries utilize them to offset risks within the range of trade demand.

③ Management of liquidity risks of raising funds (Default risks)

The Finance & Accounting department of the Company and its consolidated subsidiaries make and update finance plans, and maintain 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 “2. Articles concerning fair value of financial instruments,” do not indicate the market risks of derivatives.

2. Articles concerning fair value of financial instruments

Consolidated balance sheet amounts, fair value of financial instruments and the differences between them for the year ended March 31, 2015 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.

	Book value (millions)	Fair value (millions)	Differences (millions)
(1) Cash and deposits	¥85,352	¥85,352	—
(2) Trade and other receivables	¥310,972		
Allowance for doubtful accounts *1	△¥1,193		
	¥309,779	¥309,776	△¥3
(3) Short-term loans	¥55,026	¥55,026	—
(4) Investment securities			
Available-for-sale securities	¥48,686	¥48,686	—
(5) Long-term loans	¥22,287		
Allowance for doubtful accounts *1	△¥197		
	¥22,090	¥23,225	¥1,135
Assets total	¥520,935	¥522,067	¥1,131
(1) Trade payables	¥247,656	¥247,656	—
(2) Short-term borrowings	¥50,302	¥50,402	¥100
(3) Current portion of bonds	¥10,000	¥10,060	¥60
(4) Accrued income taxes	¥9,942	¥9,942	—
(5) Corporate bonds	¥30,000	¥30,513	¥513
(6) Long-term borrowings	¥98,012	¥98,717	¥705
Liabilities total	¥445,913	¥447,293	¥1,379
Derivative transactions *2			
①Derivative transactions for which hedge accounting has not been applied	(¥2,867)	(¥2,867)	—
②Derivative transactions for which hedge accounting has been applied	(¥10,446)	(¥10,446)	—
Derivatives transactions total	(¥13,314)	(¥13,314)	—

*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 is enclosed in parentheses ( ) in cases where the offset amount is a debt.

Note 1: Articles concerning calculation method of fair value, marketable securities and derivative transactions.

Assets

(1) Cash and 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.

(3) Trade and other receivables

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

(4) Investment securities

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

(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.

Liabilities

(1) Trade payables, (4) 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, (6) Long-term borrowings

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 the Company'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.

(3) Current portion of bonds, (5) Corporate 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

The fair values of currency related derivatives and interest swaps are based on quotes from financial institutions.

Note 2: There is no available fair market price for unlisted equity securities (¥36,563 million), bonds(¥500 million) and trust property(¥80 million), and it is considered costly to estimate future cash flows. Hence these financial instruments are not included in ”(4) Investment securities” because their fair value is considered extremely difficult to comprehend.

Notes to Investment and Rental Property

1. Articles concerning state of investment and rental property

The Company and some of its consolidated 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.

2. 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.

	Book value (millions)			Fair value (millions)
Usage	Beginning balance as of April 1, 2014	Increase or Decrease	Ending Balance as of March31, 2015	As of March 31, 2015
Facilities for lease	¥105,729	△¥1,252	¥104,476	¥100,651
Idle assets (Land)	¥8,645	¥16,568	¥25,214	¥27,286
Total	¥114,374	¥15,316	¥129,691	¥127,937

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) and new acquisitions (¥1,308 million), and the decrease in rental properties is mainly due to depreciation (¥1,472 million), impairment losses (¥479 million) and termination of contracts (¥423 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 profits and losses from investment and rental properties in this fiscal year are shown below.

(millions)

Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	¥8,405	¥5,355	¥3,050	△¥79
Idle assets (Land)	—	—	—	△¥479
Total	¥8,405	¥5,355	¥3,050	△¥559

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 are recognized as extraordinary loss, and taxes and dues are recognized as non-operating expenses.

Per share information

1. Net assets per share: ¥292.86
2. Net income per share: ¥11.63

Note 1: As stated in "Note to Change in the Accounting Policy", the Accounting Standard for Retirement Benefits has been applied and retirement benefits are accounted for according to each Section 35 of the Accounting Standard and Section 67 of the Guidance on Accounting Standard. As a result, net assets per share declined by ¥1.97 in the current fiscal year. The impact on consolidated statements of net income per share was immaterial.

Notes to Business Combination

Common control transaction, etc.

1. Outline of the transaction

(1) 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

(2) Date of the transaction:

December 2, 2014(The deemed acquisition date: December 31, 2014)

(3) Legal Form of the Business Combination:

Purchase of the stocks from minority shareholders

(4) Name of the combined entity after the transaction

There is no change.

(5)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, the Company has acquired the stocks which minority stockholders held.

2. 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).

3.Consideration transferred for the acquisition

(1) Acquisition cost and details

Consideration for the acquisition: ¥1,223 million

Direct payments required for the acquisition: ¥2 million

Acquisition Cost: ¥1,225 million

(2) Amount of the recognized gain on the negative goodwill and its cause

Amount: ¥4,759 million

Cause: The acquisition cost was less than the decrease of minority interest in earnings resulting from the additional acquisition.

NOTES TO FINANCIAL STATEMENTS

Notes to the Items related to Significant Accounting Policy

(1) Valuation standards and methods for assets

a. Securities:

i. Equity securities issued by subsidiaries and affiliated companies:
stated at cost based on the moving-average method.

ii. Other securities
Securities with fair market value: stated at the average market value during the final month of the fiscal year. (Related valuation differences are directly charged to net assets, and the cost of securities sold is computed by the moving-average method.)
Securities without fair market value: stated at cost based on the moving-average method.

b. Derivatives: the fair market value method

c. Inventories

i. Finished goods, raw materials and supplies: stated at cost determined by the moving-average method except steel for new shipbuilding, which is by the identified cost method (Balance sheet value reflects downturn in profitability).

ii. Work in progress: stated at cost based on the identified cost method (Balance sheet value reflects downturn in profitability).

(2) Depreciation methods for non-current assets

a. Property, plant and equipment (other than lease assets): the declining-balance method. Useful lives and residual value are based on the standard stipulated in the Corporation Tax Act. However, the buildings acquired after April 1, 1998 (except auxiliary equipment) are on the straight-line method.

b. Intangible assets (other than lease assets): the straight-line method. Useful lives are on the standard stipulated in the Corporation Tax Act. However, software for own use is depreciated on the straight-line method based on the period of possible use, i.e. five years.

c. Lease assets:
The depreciation method for lease assets related to finance lease transactions without transfer of ownership is by the straight-line method over the lease term. The residual value is either zero or the guaranteed residual value if it is specified in the lease contract.

(3) Accounting criteria for major allowances

a. Allowance for doubtful accounts
An allowance for doubtful accounts is provided based on historical loss rates for normal receivables and on an individual evaluation for highly doubtful receivables.

b. Provision for product warranties

A provision for product warranties of ships and other products is provided mainly based on the estimated amounts calculated by using the average ratio of product warranties against sales amounts for the past two years. As for new ships, allowances are appropriated for the subsequent two years from the next fiscal year.

c. Provision for losses on construction contracts

A provision for losses on construction contracts is provided based on estimated losses which can be anticipated to occur in the next fiscal year and later with respect to undelivered construction projects on which eventual losses are deemed inevitable at the end of the current fiscal year and the amount of loss can reasonably be estimated.

d. Liability for severance and retirement benefits for employees

The Company calculates the necessary amount of allowance for employees' severance and retirement benefits deemed to have accrued during the term, based on projected benefit obligations and the pension fund balance at term-end.

The net transition obligation (¥26,541 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 statements of income using the straight-line method within the average of the estimated remaining service lives (ten years) commencing with the following fiscal year. Prior service costs are expensed at the time they are incurred.

As the fair value of pension assets exceeds the liability for employees' severance and retirement benefits after deduction of the actuarial gains and losses which have not been recognized yet, the amount in excess of the liability is recorded as prepaid pension cost and stated in "investments, long-term loans and other assets" in the balance sheets.

e. Provision for losses on business of subsidiaries and affiliates

The Company estimates the amount necessary for prospective losses by taking account of its financial position and the possibility of recovery in the future.

f. Provision for losses on disaster

The Company estimates the amount needed to restore assets damaged by the disaster.

g. Provision for Environmental Preservation Cost

A provision for Environmental Preservation Cost is estimated for the PCB waste treatment costs based on related legal requirements.

(4) Accounting criteria for revenues and expenses

Accounting for revenues and costs of completed work

i. Construction for which the portion completed by the end of the fiscal year can be determined with certainty: the percentage-of-completion method
(Progress on work is measured by the percentage of cost method.)

ii. Construction other than above: the completed-contract method

(5)Other significant items associated with the preparation of financial statements

a. Accounting for hedging

i. Hedge Accounting

The Company defers recognition of gains or losses caused by market value of hedging instruments for hedges at the end of each fiscal year.

For forward foreign exchange contracts and currency swap contracts, the Company allocates differences in the values of hedging instruments when such hedges meet all requirements by financial instrument accounting for such allocations. For interest rate swap contracts, the Company applies exceptional treatment when the swap contract meets the requirements for such exceptional treatment.

ii. Hedging instruments and Hedged items

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency receivables and payables including future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Loans and bonds payables

iii. Hedging policy

The Company follows the internal regulations for derivatives, which stipulates the policy, objective, scope, organization, procedures, and financial institutions to deal with.

iv. Method of evaluating the effectiveness of hedging

The Company evaluates the effectiveness of the financial instruments by comparing the cumulative changes in cash flows of hedged items in fair value with the corresponding changes in the hedging financial instruments.

v. Risk management policy

Interest rate risk resulting from Fixed / Current gap in the Financial Assets / Liabilities and currency fluctuation risk resulting from foreign currency receivables and payables are reduced by hedge transactions in order for those risks to be adjusted to a proper level.

b. Consumption tax and similar taxes

The tax-excluded method is applied in accounting for the consumption tax, etc.

c. Application of Consolidated Taxation System

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

Note to Change in the Accounting Policy

(Implementation of Accounting Standard for Retirement Benefits)

Effective from the fiscal year 2014, the Company applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012; hereinafter, the "Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015). With this application, the Company revised the methods of calculating retirement benefit obligations and service costs. 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 fiscal year 2014, the amounts influenced by the relevant changes of calculating retirement benefit obligations and service costs were subtracted from retained earnings brought forward.

As a result, at the beginning of the fiscal year 2014, prepaid pension cost decreased by ¥2,273 million, and retained earnings brought forward decreased by ¥1,454 million. The impact on the statements of income for the period was immaterial.

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

Notes to Balance Sheets

(1) Pledged assets

Investment securities:	¥1 million
Stocks of Subsidiaries and Affiliates:	¥150 million

Note: The above assets are based on revolving pledge agreement concluded among the debtors, the shareholders, and the financial institutions in order to secure long-term borrowings of the investee (¥37 million) and the affiliate (¥269 million).

(2) Accumulated depreciation of property, plant and equipment:	¥182,492 million
Accumulated impairment losses included in accumulated depreciation:	¥16,186million

(3) Contingent liabilities

The Company guarantees the debt owed by the following companies in respect of their borrowings from financial institutions and performance of contract.

CERNAMBI NORTE MV26 B.V.	¥24,801 million
CERNAMBI SUL MV24 B.V.	¥23,847 million
SANZO ENTERPRISE (PANAMA) S.A.	¥6,255 million
Engineers and Constructors International, Inc.	¥5,842 million
DPS Bridge Works Co., Ltd.	¥2,850 million
Others	¥4,748 million
Total	¥68,346 million

(4) Balance of receivables and payables concerning subsidiaries and affiliates

a. Short-term receivables	¥18,727 million
b. Long-term receivables	¥7,558 million
c. Short-term payables	¥27,242 million
d. Long-term payables	¥6 million

(5) Reevaluation of land

In accordance with Enforcement Ordinance for the Law Concerning Reevaluation Reserve for Land (the "Law") effective March 31, 1998, the Company reevaluated the land used for business operations based on real estate tax value on March 31, 2000. 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, the Company is not permitted to reevaluate the land at any time after the above reevaluation even in cases where the fair value of the land declines. Such unrecorded reevaluation loss is ¥38,134 million as of March 31, 2015.

Notes to Statements of Income

(1) Transactions concerning subsidiaries and affiliates

a. Sales	¥39,793 million
b. Purchases	¥27,121 million
c. Other transactions other than operating transactions	¥9,015 million

Notes to Statements of Changes in Net Assets

Classification and number of shares of Treasury stock

Common shares

Number as of the beginning of the current fiscal year (Apr. 1, 2014):	3,320 thousand shares
Number increased during the current fiscal year:	19,354 thousand shares
Number decreased during the current fiscal year:	8 thousand shares
Number as of the end of the current fiscal year (Mar. 31, 2015):	22,667 thousand shares

Note: Outline of Change

Increase due to the purchase of shares based on the resolutions of Board of Directors' Meeting: 19,237 thousand shares

Increase due to the purchase of shares of shareholders holding less than one unit: 117 thousand shares

Decrease due to the sales to shareholders holding less than one unit: 8 thousand shares

Notes to Tax Effect Accounting

(1)Principal causes of deferred tax assets and liabilities

Deferred tax assets:	(million yen)
Loss on impairment of non-current assets	8,711
Tax loss carry forward	4,258
Liability for severance and retirement benefits for employees	3,789
Loss on valuation of investment securities	3,248
Provision for losses on business of subsidiaries and affiliates	2,536
Provision for losses on construction contracts	2,244
Allowance for doubtful accounts	1,811
Others	8,842
Deferred tax assets subtotal	35,441
Valuation allowance	(12,763)
Deferred tax assets total	22,678

Deferred tax liabilities:	
Net unrealized holding gains on securities	(5,790)
Gains on contribution of securities to trust for employees' retirement benefit	(1,728)
Reserve for advanced depreciation of non-current assets	(1,313)
Others	(1,096)
Deferred tax liabilities total	(9,928)
Deferred tax assets, net	12,749

(2) Correction of amounts of deferred tax assets and 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 Taxation Act, etc" (Law No.2 of 2015) were promulgated on March 31, 2015. As a result, the Company is subject to the reduction such as corporate tax rates from the fiscal year beginning on or after April 1, 2015.

In conjunction with this promulgation, the effective statutory tax rate used to measure deferred tax assets and liabilities is changed from the previous 36.0% to 33.1% for the temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2015, and to 32.3% for the temporary differences expected to be eliminated from the fiscal year beginning April 1, 2016.

As a result of this change, deferred tax assets (net of deferred tax assets and liabilities) decreased by ¥1,241 million, deferred income taxes increased by ¥1,798 million, net unrealized holding gains (losses) on securities increased by ¥663 million, and unrealized gains (losses) on hedging derivatives, net of tax decreased by ¥106 million.

In addition, deferred tax liabilities on reevaluation reserve for land decreased by ¥2,278 million, and reevaluation reserve for land, net of tax increased by the same amount.

Notes to Transactions between Related Parties

Subsidiaries and affiliates, etc

Attributes	Company name	Location	Common stock	Details of business	Voting interest ratio	Relation		Details of transactions	Amount of transactions	Account item	Balance as of the end of fiscal year
						Concurrent directors	Business relation				
Subsidiary	MES Yura Inc.*2	Hidaka district, Wakayama	200 million yen	Ship repair	Direct, 100.0% *2	None	Outsourcing of ship repair	Receipt of Dividends	2,589 million yen	–	–
Subsidiary	MODEC Inc.	Chuo ward, Tokyo	30,122 million yen	Design, Construction, Installation of offshore structures	Direct, 50.1%	3	Sales of products, Support of design works	Underwriting of capital increase *3(1)	10,105 million yen	–	–
Subsidiary	SANZO ENTERPRISE (PANAMA) S.A.	Panama	112 thousand U.S. dollars	Management and Leasing of ships	Indirect, 100.0%	None	Sales of products	Debt guarantees *3(2)	6,255 million yen	–	–
Subsidiary	Shikoku Dockyard Co., Ltd.	Takamatsu City, Kagawa	350 million yen	Shipbuilding	Direct, 49.5%	None	Sales of products	Receiving deposit *3(3)	–	Deposits received	4,770 million yen
Subsidiary	MES Technoservice Co., Ltd.	Tamano City, Okayama	100 million yen	Repair and Maintenance of machinery	Direct, 100.0%	None	Sales of products	Sales of products *3(4)	14,126 million yen	Accounts Receivable – trade	5,720 million yen
Subsidiary	Engineers and Constructors International, Inc.	U.S.A.	3,850 thousand U.S. dollars	Plant engineering design	Direct, 100.0%	None	Subcontracting of EPC, Joint project	Debt guarantees *3(2)	5,842 million yen	–	–
Affiliate	CERNAMBI SUL MV24 B.V.	Netherlands	100 thousand euro	Charter of FPSO	Indirect, 12.5%	None	Charter of FPSO in consolidated subsidiaries	Debt guarantees *3(2)	23,847 million yen	–	–
Affiliate	CERNAMBI NORTE MV26 B.V.	Netherlands	100 thousand euro	Charter of FPSO	Indirect, 12.5%	None	Charter of FPSO in consolidated subsidiaries	Debt guarantees *3(2)	24,801 million yen	–	–

Note: 1. The amount of transactions excludes consumption tax and the balance of accounts receivable - trade as of the end of the fiscal year includes in the above table.

2. The Company transferred 40% of shares of MES Yura Inc. to Kawasaki Heavy Industries, Ltd. on April 1, 2015, and MES Yura Inc. changed its name to MES - KHI Yura Dock Co., Ltd.

3. Transaction Condition and Decision Policy of the transaction condition

(1) As for underwriting of capital increase, the Company decided to underwrite capital increase through third-party allotment of new shares of MODEC Inc. at ¥2,017 per share.

(2) Debt guarantees represent guarantee for the borrowing from the bank, and so forth.

(3) The Company and some of its consolidated subsidiaries transfer funds each other under the Inter-company CMS (Cash Management System). Deposits Received is recorded in such transactions. The amount of transactions is not noted, as they are operated daily.

(4) Sales price is decided by considering actual retail price.

Per share information

1. Net assets per share: ¥156.78
2. Net loss per share: ¥1.46

Note: As stated in “Note to Change in the Accounting Policy”, the Accounting Standard for Retirement Benefits has been applied and retirement benefits are accounted for according to the transitional handling as stated in Section 37 of the Accounting Standard.
As a result, net assets per share declined by ¥1.80 in the current fiscal year. The impact on net loss per share was immaterial.