

June 7 2017

Mitsui Engineering & Shipbuilding Co., Ltd.

**DISCLOSURE THROUGH THE INTERNET RELATED TO
NOTICE OF THE 114th ORDINARY GENERAL
MEETING OF SHAREHOLDERS IN ACCORDANCE WITH THE LAWS
AND THE COMPANY'S ARTICLES OF INCORPORATION**

BUSINESS REPORT

- **Subscription Rights to Shares**

CONSOLIDATED FINANCIAL STATEMENTS

- **Consolidated Statements of Changes in Net Assets**
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FINANCIAL STATEMENTS

- **Statements of Changes in Net Assets**
- **NOTES TO FINANCIAL STATEMENTS**

for the 114th Business Term from April 1, 2016 to March 31, 2017

As for “Subscription Rights to Shares”, “Consolidated Statements of Changes in Net Assets”, “NOTES TO CONSOLIDATED FINANCIAL STATEMENTS”, “Statements of Changes in Net Assets” and “NOTES TO FINANCIAL STATEMENTS”, 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.)

Subscription Rights to Shares

a. Subscription Rights to Shares held by the Company's Directors at the end of the Term

Name (Date of Resolution of Issuance)	Number of Subscription Rights to Shares	Class and Number of Shares to Be Issued upon Exercise	Amount to Be Paid in for Subscription Rights to Shares	Exercise Price of Subscription Rights to Shares	Exercise Period	Number of Holders
Series I Subscription Rights to Shares (July 30, 2013)	226	Common stock: 226,000 shares (1,000 shares per unit)	144,000 yen per unit (144 yen per share)	1,000 yen per unit (1 yen per share)	From August 24, 2013 to August 23, 2043	202 Subscription Rights per 7 Directors (including Directors also holding positions of Executive Officers, and excluding Outside Directors) and 24 Subscription Rights per 1 Corporate Auditor
Series II Subscription Rights to Shares (July 31, 2014)	159	Common stock: 159,000 shares (1,000 shares per unit)	191,000 yen per unit (191 yen per share)	1,000 yen per unit (1 yen per share)	From August 23, 2014 to August 22, 2044	144 Subscription Rights per 8 Directors (including Directors also holding positions of Executive Officers, and excluding Outside Directors) and 15 Subscription Rights per 1 Corporate Auditor
Series III Subscription Rights to Shares (July 31, 2015)	203	Common stock: 203,000 shares (1,000 shares per unit)	169,000 yen per unit (169 yen per share)	1,000 yen per unit (1 yen per share)	From August 22, 2015 to August 21, 2045	189 Subscription Rights per 8 Directors (including Directors also holding positions of Executive Officers, and excluding Outside Directors) and 14 Subscription Rights per 1 Corporate Auditor

(Note)

1. The number of Subscription Rights to Shares held by the Company's Directors includes the number of those they had been provided before they were assigned as Directors.
2. The Subscription Rights to Shares held by the Company's Corporate Auditor had been provided to him when he served as the Company's Director and Executive Officer.

Consolidated Statement of Changes in Net Assets (April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	44,384	18,811	148,723	(4,778)	207,140
Changes during the year					
Cash dividends paid			(3,232)		(3,232)
Profit attributable to owners of parent			12,194		12,194
Purchases of treasury stock				(9)	(9)
Sales of treasury stock		(2)		9	6
Transfer from revaluation reserve for land			(10,723)		(10,723)
Change in treasury stock of parent arising from transactions with non-controlling shareholders		(0)			(0)
Net changes of items other than those in shareholders' equity					
Total changes during the year	-	(3)	(1,761)	0	(1,764)
Balance as of March 31, 2017	44,384	18,808	146,961	(4,778)	205,376

	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2016	6,185	(7,653)	30,540	11,531	(12,969)	27,634	231	108,845	343,853
Changes during the year									
Cash dividends paid									(3,232)
Profit attributable to owners of parent									12,194
Purchases of treasury stock									(9)
Sales of treasury stock									6
Transfer from revaluation reserve for land									(10,723)
Change in treasury stock of parent arising from transactions with non-controlling shareholders									(0)
Net changes of items other than those in shareholders' equity	3,772	1,041	10,723	(5,935)	7,757	17,358	4	8,157	25,520
Total changes during the year	3,772	1,041	10,723	(5,935)	7,757	17,358	4	8,157	23,755
Balance as of March 31, 2017	9,957	(6,611)	41,263	5,595	(5,211)	44,993	236	117,002	367,608

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes to Basic Significant Matters Regarding Preparation of Consolidated Financial Statements

1. Items in the scope of consolidation

(1) Consolidated subsidiaries:

Number of consolidated subsidiaries: 86

Major consolidated subsidiaries

MODEC, Inc.	MES-KHI YURA DOCK CO., LTD.
Mitsui Zosen Chiba Kiko Engineering Inc.	MES Tokki & Engineering Co. Ltd.
MES Shipping Co., Ltd.	Shikoku Dockyard Co., Ltd.
Niigata Shipbuilding & Repair, Inc.	Mitsui Zosen Steel Structures Engineering Co., Ltd.
DPS Bridge Works Co., Ltd.	Kaji Technology Corporation
Mitsui Zosen Machinery & Service, Inc.	MES Techno service Co., Ltd.
Mitsui Meehanite Metal Co., Ltd.	Mitsui Zosen Environment Engineering Corporation
Mitsui Zosen Plant Engineering Inc.	Green Power Ichihara Co., Ltd.
Hamamatsu Green Wave Co., Ltd.	Betsukai Biogas Power Co., Ltd.
Showa Aircraft Industry Co., Ltd.	Mitsui Zosen Systems Research Inc.
MES Facilities Co., Ltd.	TGE Marine Gas Engineering GmbH
MES HOLDINGS B.V.	PACECO CORP.
MES Ferrotec CHINA CO., LTD.	Burmeister & Wain Scandinavian Contractor A/S
Engineers and Constructors International, Inc.	

In this fiscal year, the number of consolidated subsidiaries increased by 1 due to new establishment of the company, 2 due to an acquisition, and decreased by 4 due to business combination. 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.

(2) Non-consolidated subsidiaries:

Major non-consolidated subsidiaries

MITSUI ZOSEN (SHANGHAI) Co., Ltd.	MES (Thailand) Ltd.
Mitsui Zosen (China) Co., Ltd.	

Reason for excluding from the scope of consolidation

These non-consolidated subsidiaries are small in size and their total assets, net sales, the profit or loss for the Company's equity interest, and retained earnings for the Company's equity interest do not have a significant effect on the consolidated financial statements.

2. Items concerning application of the equity method

(1) Non-consolidated subsidiaries and affiliated companies on the equity method

Number of non-consolidated subsidiaries on the equity method: 2

JUBILEE GHANA MV21 B.V.	Rabai Operation & Maintenance Limited
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Number of affiliated companies on the equity method: 47

Major affiliated companies on the equity method

Minami-nippon Shipbuilding Co., Ltd.	Mitsui Miike Machinery Co., Ltd.
CSSC-MES Diesel Co., Ltd.	

In this fiscal year, the number of affiliated companies decreased by 1 because Kaji Technology Corporation became a consolidated subsidiary due to additional acquisition of shares as a result of TOB.

(2) Non-consolidated subsidiaries and affiliated companies not on the equity method

Major Non-consolidated subsidiaries not on the equity method

MITSUI ZOSEN (SHANGHAI) Co., Ltd.	MES (Thailand) Ltd.
Mitsui Zosen (China) Co., Ltd.	

Major affiliated companies not on the equity method

NHI Co., Ltd.	Endurance & MES (Chongqing) Environment Co., Ltd.
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Reason for excluding from the scope of equity method

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

(3) 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 interests.

3. Accounting period of the consolidated subsidiaries

3 domestic subsidiaries including MODEC, Inc. and Shikoku Dockyard Co., Ltd., and 52 overseas subsidiaries close their accounting period on the 31st of December. Although the Company consolidates these subsidiaries' financial statements as of each subsidiary's latest fiscal year-end, adjustments necessary for the consolidation are performed in terms of the significant transactions occurred between their fiscal year-end and the consolidated balance sheet date.

4. Significant accounting policies

(1) Valuation standards and methods for important assets

a. Securities:

- | | |
|--|--|
| i Securities issued by subsidiaries & affiliates | Stated at cost based on the moving-average method. |
| ii Other securities | |
| With fair market value | Mainly 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.) |
| Without fair market value | Stated at cost based on the moving-average method. |

b. Derivatives

Stated at fair value

c. Inventories

- | | |
|---|---|
| i Merchandise, finished goods, raw materials and supplies | Mainly 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) | Mainly based on the declining-balance method. However, the straight-line method is used for buildings (excluding facilities attached to buildings) acquired from April 1, 1998 onward and for facilities attached to buildings and structures acquired from April 1, 2016 onward. |
| b. Intangible assets (other than lease assets) | On the straight-line method. Software for own use is depreciated on the straight-line method based on the period of possible use, i.e. five years and customer-related assets is amortized on the straight-line method based on effected period, i.e. mainly eighteen 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 amounts of construction revenue for the past two years. As for new ships, provisions 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, etc., is provided based on estimated losses which can be anticipated to occur in the next consolidated fiscal year and later with respect to undelivered construction projects, etc., on which eventual losses are deemed inevitable at the end of the this consolidated 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 this consolidated fiscal year. |

(4) Accounting criteria for important revenues and expenses

- | | |
|---|--|
| a. Revenue and costs associated with construction contracts | |
| i 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) |
| ii Construction other than above: | The completed-contract method |
| b. Revenues and costs of sales on finance lease transactions are accounted for when lease fees are received. | |

(5) Amortization of goodwill

Goodwill is generally amortized using the straight-line method 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 mainly apply deferral hedge treatment. The Company and some of consolidated subsidiaries apply allocation treatment for forward foreign exchange contracts and currency swap contracts, exceptional treatment for interest rate swap contracts, and batch treatment (exceptional and allocation treatment) for interest rate and currency swap contracts when each contract meets the certain requirement.

ii Hedging instruments and risks hedged

Hedging instruments	Hedged items
Forward forex contracts	Foreign currency receivables and payables including future transactions
Currency swap contracts	Foreign currency receivables and payables
Interest rate swap contracts	Interest on borrowings and bonds payables
Interest rate and currency swap contracts	Foreign currency borrowings and interest

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 hedge efficacy evaluations

The Company and its consolidated subsidiaries compare market price fluctuations or cash flow fluctuations of hedged items with market price fluctuations or cash flow fluctuations of hedging instruments to conduct hedge efficacy evaluations. Furthermore, the Company and its consolidated subsidiaries omit hedge efficacy evaluations for interest rate swaps that fulfill special treatment requirements, as well as interest rate and currency swaps subject to batch treatment.

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 this consolidated fiscal year.

ii Method of accounting for actuarial gains and losses, prior service costs

Actuarial gains and losses are recognized in the consolidated statements of income commencing with the following year using the straight-line method mainly for five or ten years. Prior service costs are recognized in the consolidated statements of income using the straight-line method mainly for one 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

The Company applies a consolidated tax payment system.

(7) Additional Information

(Use of Application Guidelines Concerning the Recoverability of Deferred Tax Assets)

As of this fiscal year, the Company and some of consolidated subsidiaries are using the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

Note to Change in the Accounting Policy

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In light of revisions to the Corporate Tax Act, the Company and some of consolidated subsidiaries are applying "Practical Solution on a change in depreciation method due to Tax Reform 2016" (PITF No. 32, June 17, 2016) to this fiscal year and changing the depreciation method for facilities attached to buildings and structures acquired from April 1, 2016 onward from the declining-balance method to the straight-line method.

Furthermore, the impact of these changes on consolidated financial statements is not significant.

Note to Change in the Manner of Description

(Consolidated balance sheet)

"Short-term loans," listed in "Others" of "Current assets" in the previous consolidated fiscal year, is listed separately in this consolidated fiscal year as the amount is significant.

Notes to Consolidated Balance Sheet

1. Pledged assets and secured liabilities

(1) Pledged assets

Buildings and structures:	¥214	million
Machinery, equipment and vehicles:	10,557	
Land:	4,196	
Investment securities:	530	
Cash and time deposits:	919	
Others:	3,781	
Total	¥20,200	million

Note: "Others" of "Pledged assets" is "Long-term deposits," which was pledged to issue letters of credit. No debt corresponds to these deposits as of the end of this consolidated fiscal year.

(2) Pledged debts

Long-term borrowings (including current portion):	¥13,787	million
Total	¥13,787	million

2. Accumulated depreciation of tangible assets: ¥287,930 million

3. Contingent liabilities

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

TARTARUGA MV29 B.V.	¥35,457	million
CARIOCA MV27 B.V.	24,211	
T.E.N. GHANA MV25 B.V.	12,953	
PRIMATE SHIPPING S.A.	2,330	
Mitsui Chemicals, Inc.	1,563	
TUPI PILOT MV22 B.V.	972	
CERNAMBI NORTE MV26 B.V.	913	
GUARA MV23 B.V.	905	
CERNAMBI SUL MV24 B.V.	851	
Doosan Babcock Limited	824	
Others	5,069	
Total	¥86,051	million

Among the above, guarantees in foreign currencies are USD697,117K, GBP5,884K and EUR1,683K.

Besides the above, the Company and certain consolidated subsidiary guarantee the debts owed by affiliated companies on the equity method in respect of their interest rate swap contracts. The Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No. 24, March 10, 2008), and among the fair values of the swap contracts, the amounts attributable to the Company's interest are reflected in the consolidated financial statements.

4. Revaluation of land

In accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the "Law") effective March 31, 1998, the Company and certain domestic consolidated subsidiary revaluated 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 revaluation difference (unrealized gain) was recorded as "Deferred tax liabilities for land revaluation" in "Long-term liabilities," and the balance after deducting the tax equivalent was recorded as "Revaluation reserve for land" in "Net assets" of the consolidated balance sheet.

According to the Law, the Company and the domestic consolidated subsidiary are not permitted to revalue the land at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation loss is ¥38,943 million as of March 31, 2017.

Notes to Consolidated Statements of Changes in Net Assets

1. Classification and number of issued shares

(thousand shares)

Classification	Number as of the beginning of the current fiscal year	Number increased during the current fiscal year	Number decreased during the current fiscal year	Number as of the end of the current fiscal year
Common Shares	830,987	—	—	830,987

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

Common shares 1,435 thousand shares

3. Dividends

(1) Amount of Dividend Paid

Resolution	Classification	Total Amount of Dividend (million)	Dividend per share	Record date	Effective date
June 28, 2016 (Ordinary General Shareholders' Meeting)	Common Shares	¥3,232	¥4.0	March 31, 2016	June 29, 2016

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

The following has been placed on the agenda for approval at the Ordinary General Shareholders' Meeting on June 28, 2017.

Resolution	Classification	Source of dividends	Total Amount of Dividend (million)	Dividend per share	Record date	Effective date
June 28, 2017 (Ordinary General Shareholders' Meeting)	Common Shares	Retained earnings	¥2,424	¥3.0	March 31, 2017	June 29, 2017

Notes to Financial Instruments

1. Articles concerning status of financial instruments

(1) Policies for financial instruments

The Company and its consolidated subsidiaries restrict our fund management to short-term financial instruments. Funds are transferred to each other through an inter-company cash management systems (CMS).

Regarding the funding, the Company and its consolidated subsidiaries raise our short-term operating capital through bank loans and the issuance of commercial paper (CP), and raise our long-term capital investment through bank loans and the 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 receivables are exposed to credit risks of customers. Trade receivables in foreign currency, which the Company and some of consolidated subsidiaries receive from foreign operations, 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 and 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 capital investments. Although the portions of those debts with floating interest rates are exposed to interest rate fluctuation risk, 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, hedged items, hedging policy and hedge effectiveness testing, please refer to "4. Significant accounting policies (6) a. Accounting for major hedges."

(3) Risk management in financial instruments

a. Management of credit risks (Risks for breach of contracts)

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. 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.

b. Management of market risks (Exchange rate or interest rate fluctuation risks)

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts, interest rate swap contracts, and interest rate and currency swap contracts. Forward foreign exchange contracts are for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables in principle, and the others are utilized for the purpose of hedging interest rate fluctuation risks arising from short-term and 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 Company and its consolidated subsidiaries utilize them to offset risks within the range of trade demand.

c. Management of liquidity risks for 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, 2017 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 time deposits	¥119,811	¥119,811	¥ -
(2) Trade receivables	261,673		
Allowance for doubtful accounts *1	(2,854)		
	258,818	258,818	0
(3) Short-term loans	56,495		
Allowance for doubtful accounts *1	(84)		
	56,411	56,411	-
(4) Investment securities			
Available-for-sale securities	37,593	37,593	-
(5) Long-term loans	31,488		
Allowance for doubtful accounts *1	(341)		
	31,146	31,413	266
Total assets	¥503,781	¥504,047	¥266
(1) Trade payables	¥195,849	¥195,849	¥ -
(2) Short-term borrowings	61,756	61,824	67
(3) Current portion of bonds	15,000	15,018	18
(4) Accrued income taxes	13,736	13,736	-
(5) Bonds	40,000	40,283	283
(6) Long-term borrowings	148,419	148,769	350
Total liabilities	¥474,761	¥475,481	¥719
Derivative transactions *2			
a. hedge accounting has not been applied	¥1,996	¥1,996	¥ -
b. hedge accounting has been applied	1,730	1,730	-
Total derivative transactions	¥3,726	¥3,726	¥ -

*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 time deposits, (3) Short-term loans

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

(2) Trade 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 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 and 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 batch treatment of interest rate swaps that fulfill special treatment requirements, as well as interest rate and currency swaps. Those fair values are based on quotes from financial institutions.

(3) Current portion of bonds, (5) 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: Unlisted equity securities (¥50,433 million) and trust property (¥143 million) are not included in the above "(4) Investment securities" because they are considered costly to estimate future cash flows and their fair values are 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 consolidated fiscal year, and fair value are shown below.

Usage	Book value (millions)			Fair value at year end (millions)
	Beginning balance	Increase or Decrease	Ending balance	
Facilities for lease	¥107,221	(¥8,833)	¥98,387	¥97,323
Idle assets (Land)	22,742	(5,485)	17,256	17,848
Total	¥129,963	(¥14,319)	¥115,644	¥115,171

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 consolidated fiscal year is mainly due to new acquisitions (¥444 million), and the decrease in rental properties is mainly due to sales of rental properties (¥7,147 million), diversion of land (¥3,092 million), impairment losses (¥3,230 million), depreciation (¥1,426 million).

In addition, reclassification amounts (¥191 million) are included both in the increase of rental properties and in the decrease of idle assets.

Note 3: Fair value at the end of this consolidated 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 consolidated fiscal year are shown below. (millions)

Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	¥8,604	¥5,151	¥3,453	¥21,749
Idle assets (Land)	-	-	-	(2,486)
Total	¥8,604	¥5,151	¥3,453	¥19,263

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 gain/loss on disposal of non-current assets, loss on impairment of non-current assets and taxes-and-dues, which are recognized as extraordinary income/losses and non-operating expenses

Per share information

1. Net assets per share	¥309.78
2. Earnings per share	¥15.09

Notes to Business Combination

Business combination by acquisition

1. Outline of the transaction

(1) Name and business of the acquired entity

Name	Kaji Technology Corporation
Business	Manufacturing and sales of gas compressors, air compressors, and related equipment

(2) Reason of business combination

Main objective is to generate increased Group synergy through the consolidation of Kaji Technology Corporation into the Company's business strategies to conduct integrated operations for the reciprocating compressor business.

(3) Date of the transaction:

March 31, 2017 (Deemed date of acquisition)

(4) Legal Form of the Business Combination:

Acquisition of shares in consideration of cash

(5) Name of the combined entity after the transaction

There is no change.

(6) Acquired ratio of voting right:

Voting rights percentage prior to stock acquisition	32.50%
Additional voting rights percentage gained on date of corporate consolidation	18.80%
Voting rights percentage following acquisition	51.30%

(7) The main reason that led to the decision of acquiring entity

Due to acquisition of stocks received as compensation for cash payment

2. The period of financial result of the acquired entity included in the consolidated financial statements

April 1, 2016 through March 31, 2017

As the equity method was applied to the acquired entity, results from April 1, 2016 through March 31, 2017 are recorded as Equity in earnings of unconsolidated subsidiaries and affiliates.

3. Consideration transferred for the acquisition

Acquisition compensation	Market value of stocks held prior to business combination on the date of the business combination	¥ 1,947 million
	Cash paid on date of corporate consolidation	1,126 million
Acquisition Cost		¥ 3,074 million

4. Amount of incidental acquisition related cost and its purpose

Advisory fee, etc	¥ 113 million
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5. Difference between acquisition costs for the acquired entity and the total amount for acquisition costs per transaction leading up to acquisition.

Loss on step acquisitions	¥ 436 million
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6. Amount and cause of Gain on bargain purchase

(1) Amount of Gain on bargain purchase	¥ 272 million
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(2) Reason of Gain on bargain purchase

Because the net value of assets received and liabilities underwritten for the acquired entity exceeds the acquisition costs for the acquired entity, the Company is treating the excess portion as Gain on bargain purchase

7. Identifiable assets acquired and assumed liabilities in business combination

Current assets	¥ 6,844 million
Non-current assets	2,016
Total assets	¥ 8,861 million
Current liabilities	1,445
Long-term liabilities	853
Total liabilities	¥ 2,298 million

8. Estimate of impact on the consolidated income statement for the consolidated fiscal year if the business combination is completed on the start of this consolidated fiscal year under review, and said estimate method.

As the impact on the consolidated financial statements is not significant, the note is omitted. Furthermore, the Company has not received an audit certificate for the note.

Statement of Changes in Net Assets

From April 1, 2016 to March 31, 2017

(Millions of yen)

	Shareholders' equity							
	Common stock	Capital surplus	Retained earnings				Treasury stock	Total shareholders' equity
		Legal capital surplus	Other retained earnings			Total retained earnings		
			Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	Retained earnings brought forward			
Balance as of April 1, 2016	44,384	18,154	1,291	2,624	38,908	42,823	(4,778)	100,583
Changes during the year								
Cash dividends paid					(3,232)	(3,232)		(3,232)
Profit					402	402		402
Reversal of reserve for special depreciation			(248)		248	—		—
Reversal of reserve for advanced depreciation of non-current assets				(176)	176	—		—
Purchase of treasury stock						—	(9)	(9)
Sales of treasury stock					(2)	(2)	9	6
Transfer from revaluation reserve for land					(13,135)	(13,135)		(13,135)
Net changes of items other than those in shareholders' equity								
Total changes during the year	—	—	(248)	(176)	(15,543)	(15,968)	0	(15,968)
Balance as of March 31, 2017	44,384	18,154	1,042	2,447	23,364	26,855	(4,778)	84,615

	Valuation and translation adjustments				Subscription rights to shares	Total net assets
	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives	Revaluation reserve for land	Total valuation and translation adjustments		
Balance as of April 1, 2016	5,090	1,539	23,228	29,858	231	130,674
Changes during the year						
Cash dividends paid						(3,232)
Profit						402
Reversal of reserve for special depreciation						—
Reversal of reserve for advanced depreciation of non-current assets						—
Purchase of treasury stock						(9)
Sales of treasury stock						6
Transfer from revaluation reserve for land						(13,135)
Net changes of items other than those in shareholders' equity	3,892	(952)	13,135	16,074	4	16,078
Total changes during the year	3,892	(952)	13,135	16,074	4	110
Balance as of March 31, 2017	8,982	586	36,363	45,933	236	130,785

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 affiliates:

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: stated at fair value.

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): on the declining-balance method.

However, the straight-line method is used for buildings (excluding facilities attached to buildings) acquired from April 1, 1998 onward and for facilities attached to buildings and structures acquired from April 1, 2016 onward.

b. Intangible assets (other than lease assets): on the straight-line method. 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 amounts of construction revenue for the past two years. As for new ships, provisions 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, etc., 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, etc., 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.

Actuarial gains and losses are recognized in the statements of income commencing with the following year using the straight-line method for ten years. Prior service costs are recognized 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 sheet.

e. Provision for losses on business of subsidiaries and affiliates

The Company estimates the amount necessary for prospective losses by taking account of their financial positions and the possibilities of recovery in the future.

f. Provision for loss on litigation

As a provision for the payment of compensation damages resulting from lawsuits, record the estimated burden amount based on lawsuit proceedings and other relevant matters.

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 applies deferral hedge treatment.

The Company applies allocation treatment for forward foreign exchange contracts and currency swap contracts, exceptional treatment for interest rate swap contracts, and batch treatment (exceptional and allocation treatment) for interest rate and currency swap contracts when each contract meets the certain requirement.

ii. Hedging instruments and Hedged items

Hedging instruments

Forward forex contracts

Currency swap contracts

Interest rate swap contracts

Interest rate and currency swap contracts

Hedged items

Foreign currency receivables and payables including future transactions

Foreign currency receivables and payables

Interest on borrowings and bonds payables

Foreign currency borrowings and interest

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 hedge efficacy evaluation

The Company compares market price fluctuations or cash flow fluctuations of hedged items with market price fluctuations or cash flow fluctuations of hedging instruments to conduct hedge efficacy evaluations.

Furthermore, the Company omits hedge efficacy evaluations for interest rate swaps that fulfill exceptional treatment requirements, as well as interest rate and currency swaps subject to batch treatment.

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

The Company applies a consolidated tax payment system.

Note to Change in the Accounting Policy

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In light of revisions to the Corporate Tax Act, the Company is applying "Practical Solution on a change in depreciation method due to Tax Reform 2016" (PITF No. 32, June 17, 2016) to this fiscal year and changing the depreciation method for facilities attached to buildings and structures acquired from April 1, 2016 onward from the declining-balance method to the straight-line method.

Furthermore, the impact of these changes on financial statements is not significant.

Note to Change in the Manner of Description

(Statements of Income)

"Provision of Allowance for Doubtful Accounts " listed separately in the previous fiscal year is included in "Others – Non-operating expenses" in this fiscal year as the amount is not significant.

Additional Information

(Use of Application Guidelines Concerning the Recoverability of Deferred Tax Assets)

As of this fiscal year, the Company is using the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

Notes to Balance Sheet

(1) Pledged assets

Investment securities: ¥1 million

Stocks of subsidiaries and affiliates: ¥529 million

Note: The above mentioned assets are based on a stock-backed line of credit established between the creditor, shareholders, and financial institution to guarantee ¥12 million in long-term borrowings of an investee and ¥2,100 million in long-term borrowings of an affiliate.

(2) Accumulated depreciation of property, plant and equipment: ¥159,480 million

(3) Contingent liabilities

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

Engineers and Constructors International, Inc.	¥20,762 million
SANZO ENTERPRISE (PANAMA) S.A.	5,062
Mitsui Chemicals, Inc.	1,563
Betsukai Biogas Power Co.,Ltd.	857
Doosan Babcock Limited	824
Others	1,590
Total	¥30,660 million

In addition to the above, the Company guarantees the debts owed by the following companies in respect of their interest swap transactions. Each market value of said swaps is as indicated below.

CARIOCA MV27 B.V.	(¥ 1,543) million
CERNAMBI NORTE MV26 B.V.	(944)
T.E.N. GHANA MV25 B.V.	(395)
Total	(¥2,884) million

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

a. Short-term receivables	¥26,558 million
b. Long-term receivables	¥4,313 million
c. Short-term payables	¥36,081 million
d. Long-term payables	¥3 million

(5) Revaluation of land

In accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the “Law”) effective March 31, 1998, the Company revaluated the land used for business operations based on real estate tax value on March 31, 2000. Tax equivalent due to revaluation difference (unrealized gain) was recorded as “Deferred tax liabilities for land revaluation” in Long-term liabilities, and the balance after deducting the tax equivalent was recorded as “Revaluation reserve for land” in net assets.

According to the Law, the Company is not permitted to revalue the land at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation loss is ¥38,268 million as of March 31, 2017.

Note to Statements of Income

Transactions concerning subsidiaries and affiliates

a. Sales	¥35,332 million
b. Purchases	¥30,382 million
c. Other transactions other than operating transactions	¥10,212 million

Note to Statements of Changes in Net Assets

Classification and number of shares of Treasury stock

(thousand shares)

Classification	Number as of the beginning of the current fiscal year	Number increased during the current fiscal year	Number decreased during the current fiscal year	Number as of the end of the current fiscal year
Common shares	22,754	59	46	22,766

Note: Outline of Change

Reason of increase:

purchase of shares of shareholders holding less than one unit 59 thousand shares

Reason of decrease:

sales to shareholders holding less than one unit 5 thousand shares

exercise of subscription rights to shares 41 thousand shares

Notes to Tax Effect Accounting

(1)Principal causes of deferred tax assets and liabilities

Deferred tax assets:

Loss on valuation of shares of subsidiaries and affiliates	¥11,513 million
Provision for losses on business of subsidiaries and affiliates	8,268
Loss on impairment of non-current assets	7,276
Liability for severance and retirement benefits for employees	4,443
Retirement benefit trust	1,664
Provision for losses on construction contracts	1,494
Others	6,035
Deferred tax assets subtotal	40,695
Valuation allowance	(20,530)
Deferred tax assets total	¥20,165 million

Deferred tax liabilities:

Net unrealized holding gains on securities	(¥3,912) million
Gains on contribution of securities to trust for employees' retirement benefit	(1,637)
Reserve for advanced depreciation of non-current assets	(1,079)
Others	(1,074)
Deferred tax liabilities total	(7,704)
Deferred tax assets, net	¥12,460 million

(2) Correction to amounts for deferred tax assets and deferred tax liabilities due to change in tax rates for corporate tax, etc.

In light of the "Act Partially Revising Laws including the Act Partially Revising the Consumption Tax Act for the Purpose of Implementing Fundamental Reforms to the Tax System and Secure Stable Financial Resources for Social Security"(Act No.85 of 2016) and the "Act Partially Revising Laws including the Act Partially Revising the Local Tax Act and Local Tax Allocation Law for the Purpose of Implementing Fundamental Reforms to the Tax System and Secure Stable Financial Resources for Social Security" (Act No.86 of 2016)being passed by the National Diet on November 18, 2016, the increase in the consumption tax rate to 10% was postponed to October 1, 2019 from April 1, 2017. Accordingly, the abolition of the local corporation special tax, the accompanying restoration of the corporate enterprise tax, and changes in statutory tax rates of the local corporation tax and corporate inhabitant tax have been postponed from fiscal years beginning on or after April 1, 2017 to fiscal years beginning on or after October 1 , 2019.

Furthermore, the impact of these changes on financial statements is not significant.

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	Niigata Shipbuilding & Repair, Inc.	Niigata City, Niigata	¥300 million	Shipbuilding	Direct, 100.0%	None	Sales of products	Sales of products *2(1)	¥6,753 million	Accounts receivable – trade	¥5,548 million
Subsidiary	MODEC Inc.	Chuo-ku, Tokyo	¥30,122 million	Design, Construction, and Lease of FPSO	Direct, 50.1%	Concurrent appointment: 2	Sales of products, Support of design works	Borrowings*2(2)	¥5,580 million	Short-term borrowings	¥5,580 million
Subsidiary	MES Technoservice Co., Ltd.	Tamano City, Okayama	¥100 million	Repair and Maintenance of Machinery	Direct, 100.0%	None	Sales of products	Sales of products *2(1)	¥14,620 million	Accounts receivable – trade	¥5,799 million
Subsidiary	Engineers and Constructors International, Inc.	U.S.A.	USD3,851 thousand	Plant engineering design	Direct, 100.0%	None	Subcontracting of EPC, Joint project	Debt guarantees*2(3)	¥20,762 million	—	—

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. Transaction Condition and Decision Policy of the transaction condition

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

(2) Interest rates on borrowings are decided in consideration of market interest rates.

(3) Debt guarantees represent guarantee for the borrowings from the bank, and so forth.

Per share information

1. Net assets per share: ¥161.53

2. Earnings per share: ¥0.50