

Financial Data

Consolidated Balance Sheets

As of March 31, 2016 and 2015

Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
Current Assets	2016	2015	2016
Cash and time deposits (Note1(r))	¥ 139,374	¥ 85,353	\$ 1,236,901
Receivables			
Trade	282,420	310,973	2,506,390
Others	13,923	13,311	123,562
Less allowance for doubtful accounts	(2,466)	(1,738)	(21,885)
Merchandise and finished goods	4,107	3,306	36,448
Raw materials and supplies	5,010	9,845	44,462
Work in progress	33,831	28,242	300,240
Deferred tax assets (Note11)	14,535	18,542	128,994
Short-term loans	22,591	55,027	200,488
Others (Notes 1(r) and 16)	24,497	19,690	217,403
Total current assets	537,822	542,551	4,773,003

Property, Plant and Equipment (Note4)

Land (Note1(p))	271,437	271,356	2,408,919
Buildings and structures	199,667	198,584	1,771,983
Machinery, equipment and vehicles	195,474	196,587	1,734,771
Lease assets	17,649	20,829	156,629
Construction in progress	6,645	4,165	58,972
	690,872	691,521	6,131,274
Less accumulated depreciation	(311,820)	(313,795)	(2,767,305)
Net property, plant and equipment	379,052	377,726	3,363,969

Intangible Assets

Intangible Assets	32,361	11,713	287,194
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Investments, Long-term Loans and Other Assets

Investment securities (Notes 2, 3, and 4)	81,646	85,830	724,583
Long-term loans	28,313	22,287	251,269
Net defined benefit assets	250	8,684	2,219
Deferred tax assets (Note11)	20,763	15,056	184,265
Others (Note3)	16,573	13,220	147,080
Less allowance for doubtful accounts	(2,737)	(2,504)	(24,290)
Total investments,long-term loans and other assets	144,808	142,573	1,285,126
Total assets	¥ 1,094,043	¥ 1,074,563	\$ 9,709,292

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

Liabilities and Net Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
Current Liabilities	2016	2015	2016
Short-term borrowings (Notes 4 and 5)	¥ 27,861	¥ 17,468	\$ 247,258
Current portion of long-term indebtedness (Note6)	41,126	42,834	364,980
Lease obligations	2,146	2,662	19,045
Trade payables	245,636	247,657	2,179,943
Advances from customers	84,388	77,159	748,917
Accrued expenses	20,593	25,299	182,756
Accrued income taxes (Note11)	6,894	9,942	61,182
Deferred tax liabilities (Note11)	592	488	5,254
Provision for losses on construction contracts	10,123	17,123	89,839
Provision for product warranty	9,881	8,926	87,691
Asset retirement obligations	2	4	18
Others	23,267	33,287	206,487
Total current liabilities	472,509	482,849	4,193,370

Long-term Liabilities

Long-term indebtedness (Notes 4 and 6)	170,887	128,012	1,516,569
Lease obligations	7,306	8,630	64,838
Liability for severance and retirement benefits			
For directors and corporate auditors	522	404	4,633
Net defined benefit liabilities	12,318	11,277	109,318
Deferred tax liabilities			
On reevaluation reserve for land (Notes 1(p) and 11)	15,086	21,312	133,884
Others (Note11)	51,697	49,371	458,795
Asset retirement obligations	1,287	1,302	11,422
Others	18,578	24,101	164,874
Total long-term liabilities	277,681	244,409	2,464,333

Net Assets (Note8)

Common stock			
Authorized - 1,500,000,000 shares			
Issued - 830,987,176 shares	44,385	44,385	393,903
Capital surplus	18,812	18,248	166,951
Retained earnings	148,723	142,677	1,319,870
Treasury stock	(4,779)	(4,761)	(42,412)
Net unrealized holding gains(losses) on securities (Note2)	6,185	14,058	54,890
Unrealized gains(losses) on hedging derivatives	(7,654)	(9,719)	(67,926)
Revaluation reserve for land (Notes 1(p) and 11)	30,541	24,777	271,042
Foreign currency translation adjustments	11,531	12,705	102,334
Remeasurements of defined benefit plans	(12,969)	(5,646)	(115,096)
Subscription rights to shares	232	146	2,059
Non-controlling interests	108,846	110,435	965,974
Total net assets	343,853	347,305	3,051,589
Total liabilities and net assets	¥ 1,094,043	¥ 1,074,563	\$ 9,709,292

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

Consolidated Statements of Income

For the Years Ended March 31, 2016 and 2015

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Net Sales	¥ 805,414	¥ 816,520	\$ 7,147,799
Cost of Sales (Note1(q))	743,530	757,034	6,598,598
Gross profit	61,884	59,486	549,201
Selling, General and Administrative Expenses (Note1(q))	50,071	46,187	444,364
Operating income	11,813	13,299	104,837
Other Income (Expenses)			
Interest and dividend income	4,976	4,128	44,160
Interest expense	(3,232)	(2,769)	(28,683)
Amortization of net transition obligation (Note 9)	-	(1,929)	-
Loss on valuation of derivatives	-	(2,823)	-
Equity in earnings of unconsolidated subsidiaries and affiliates	4,838	4,022	42,936
Foreign currency exchange gain (losses)	(6,672)	-	(59,212)
Gain on disposal of non-current assets	522	1,029	4,633
Gain on sales of investment securities (Note 2)	3,297	137	29,260
Gain on valuation of derivatives	3,227	-	28,639
Gain on liquidation of subsidiaries and affiliates	587	-	5,209
State subsidy	712	-	6,319
Gain on sales of subsidiaries and affiliates' stocks	321	1,137	2,849
Gain on bargain purchase	-	4,768	-
Insurance income	3,117	-	27,662
Gain on forgiveness of debts	334	-	2,964
Reversal of provision for environmental preservation cost	1,730	-	15,353
Loss on disposal of non-current assets	(1,363)	(2,076)	(12,097)
Loss on impairment of non-current assets (Note 14)	(341)	(2,689)	(3,026)
Loss on sales of investment securities (Note 2)	(169)	-	(1,500)
Loss on valuation of investment securities	(419)	(0)	(3,718)
Loss on valuation of investment in capital of subsidiaries and affiliates	(112)	-	(994)
Loss on liquidation of subsidiaries and affiliates	(686)	(215)	(6,088)
Loss on reduction of non-current assets	(712)	-	(6,319)
Provision of allowance for doubtful accounts	(213)	-	(1,890)
Loss on liquidation of business	-	(984)	-
Loss on shipping accident	(1,160)	-	(10,295)
Others, net	127	971	1,127
Total	8,709	2,707	77,289
Profit before income taxes	20,522	16,006	182,126
Income Taxes (Note 11)			
Current	10,621	12,985	94,258
Deferred	2,038	(6,884)	18,087
	12,659	6,101	112,345
Profit	7,863	9,905	69,781
Profit attributable to non-controlling interests	263	442	2,333
Profit attributable to owners of parent	¥ 7,600	¥ 9,463	\$ 67,448
Amounts Per Share of Common Stock (Notes 1(a) and 8)			
Earnings per share	¥ 9.40	¥ 11.63	\$ 0.083
Dividends, applicable to the year	¥ 4.00	¥ 2.00	\$ 0.035

Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2016 and 2015

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Profit	¥ 7,863	¥ 9,905	\$ 69,781
Other comprehensive income(Note 15)			
Net unrealized holding gains on securities	(8,540)	7,722	(75,790)
Unrealized gains (losses) on hedging derivatives	2,988	(2,904)	26,518
Revaluation reserve for land	5,989	2,438	53,150
Foreign currency translation adjustments	776	7,145	6,887
Remeasurements of Defined Benefit Plans	(7,354)	3,337	(65,264)
Share of other comprehensive income of affiliates accounted for using equity method	(847)	349	(7,517)
Total	(6,988)	18,087	(62,016)
Comprehensive income	¥ 875	¥ 27,992	\$ 7,765
Comprehensive income attributable to owners of parent	¥ (768)	¥ 23,365	\$ (6,816)
Comprehensive income attributable to non-controlling interests	¥ 1,643	¥ 4,627	\$ 14,581

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2016 and 2015

	Thousands	Japanese Yen (millions)											
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
Beginning balance as of April 1, 2014	830,987	44,385	18,178	136,289	(855)	7,360	(2,649)	22,516	4,252	(9,036)	67	103,102	323,609
Cumulative effects of changes in accounting policies				(1,593)								(55)	(1,648)
Restated balance		44,385	18,178	134,696	(855)	7,360	(2,649)	22,516	4,252	(9,036)	67	103,047	321,961
Cash dividends paid				(1,656)									(1,656)
Profit attributable to owners of parent				9,463									9,463
Change of scope of consolidation				(2)									(2)
Purchases of treasury stock					(4,025)								(4,025)
Sales of treasury stock			70		119								189
Transfer from revaluation reserve for land				176									176
Net changes of items other than those in Shareholders' equity						6,698	(7,070)	2,261	8,453	3,390	79	7,388	21,199
Beginning balance as of April 1, 2015	830,9874	44,385	18,248	142,677	(4,761)	14,058	(9,719)	24,777	12,705	(5,646)	146	110,435	347,305
Cash dividends paid				(1,616)									(1,616)
Profit attributable to owners of parent				7,600									7,600
Change of scope of consolidation				(24)									(24)
Change of scope of equity method				(25)									(25)
Purchases of treasury stock					(18)								(18)
Sales of treasury stock			(0)		0								0
Transfer from revaluation reserve for land				111									111
Change in treasury shares of parent arising from transactions with non-controlling shareholders			564										564
Net changes of items other than those in Shareholders' equity						(7,873)	2,065	5,764	(1,174)	(7,323)	86	(1,589)	(10,044)
Balance as of March 31, 2016	830,987	44,385	18,812	148,723	(4,779)	6,185	(7,654)	30,541	11,531	(12,969)	232	108,846	343,853

	Thousands	U.S. Dollars (thousands) (Note1(a))											
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
Beginning balance as of April 1, 2015	830,987	393,903	161,945	1,266,214	(42,252)	124,760	(86,253)	219,888	112,753	(50,107)	1,296	980,076	3,082,223
Cash dividends paid				(14,342)									(14,342)
Profit attributable to owners of parent				67,448									67,448
Change of scope of consolidation				(213)									(213)
Change of scope of equity method				(222)									(222)
Purchases of treasury stock					(160)								(160)
Sales of treasury stock			(0)		0								0
Transfer from revaluation reserve for land				985									985
Change in treasury shares of parent arising from transactions with non-controlling shareholders			5,006										5,006
Net changes of items other than those in Shareholders' equity						(69,870)	18,327	51,154	(10,419)	(64,989)	763	(14,102)	(89,136)
Balance as of March 31, 2016	830,987	393,903	166,951	1,319,870	(42,412)	54,890	(67,926)	271,042	102,334	(115,096)	2,059	965,974	3,051,589

Consolidated Statements of Cash Flows

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
Cash Flows from Operating Activities :	2016	2015	2016
Profit before income taxes	¥ 20,522	¥ 16,006	\$ 182,126
Adjustments to reconcile Profit before income taxes to net cash provided by (used in) operating activities			
Depreciation and amortization	17,945	17,457	159,256
Loss on impairment of non-current assets	341	2,689	3,026
Amortization of goodwill	922	495	8,182
Gain on bargain purchase	-	(4,768)	-
Share-based compensation expenses	86	79	763
Increase (Decrease) of allowance for doubtful accounts	964	(1,473)	8,555
Increase in net defined benefit liability	523	247	4,641
Increase in net defined benefit asset	(2,165)	(3,563)	(19,213)
Interest and dividend income	(4,976)	(4,128)	(44,160)
Interest expense	3,232	2,769	28,683
Equity in earnings of unconsolidated subsidiaries and affiliates	(4,838)	(4,022)	(42,936)
Foreign currency exchange gain, net	4,162	2,082	36,936
Gain on sales of investment securities	(3,128)	(137)	(27,760)
Gain on sales of subsidiaries and affiliates' stocks	(321)	(1,137)	(2,849)
Loss on valuation of investment securities	419	0	3,718
Loss on valuation of investments in capital of subsidiaries and affiliates	112	-	994
Loss on liquidation of business	-	984	-
Loss on liquidation of subsidiaries and affiliates	99	215	879
Loss on disposal of non-current assets, net	841	1,047	7,464
Loss on reduction of non-current assets	712	-	6,319
State subsidy	(712)	-	(6,319)
Gain on forgiveness of debt	(334)	-	(2,964)
Insurance income	(3,117)	-	(27,662)
Changes in assets and liabilities :			
Decrease (increase) in			
Trade receivables	30,642	(74,521)	271,938
Inventories	(4,945)	(4,204)	(43,885)
Other assets	(5,629)	(2,440)	(49,955)
Increase (decrease) in			
Trade payables	(2,661)	57,485	(23,615)
Other liabilities	(14,036)	9,803	(124,565)
Others, net	(183)	8,725	(1,624)
Sub-total	34,477	19,690	305,973
Interest and dividend received	9,078	5,517	80,564
Interest paid	(2,933)	(2,895)	(26,029)
Proceeds from insurance income	3,117	-	27,662
Income taxes paid	(13,936)	(7,144)	(123,678)
Net cash provided by (used in) operating activities	¥ 29,803	¥ 15,168	\$ 264,492

Cash Flows from Investing Activities :	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2016	2015	2016
Net decrease in time deposits	1,751	2,630	15,540
Capital expenditure	(16,023)	(16,603)	(142,199)
Proceeds from sales of non-current assets	747	1,412	6,629
Purchases of investment securities	(52)	(4)	(461)
Proceeds from sales of investment securities	6,816	340	60,490
Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation (Note 1(r))	(15,155)	-	(134,496)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	221	-	1,961
Purchase of shares of subsidiaries and affiliates	(10,695)	(8,040)	(94,915)
Proceeds from sales of shares of subsidiaries and affiliates	-	1,519	-
Disbursements of loans receivable	(77,260)	(38,800)	(685,659)
Collection of loans receivable	74,789	24,446	663,729
Proceeds from subsidy income	712	-	6,319
Others, net	(451)	714	(4,002)
Net cash provided by (used in) investing activities	¥ (34,600)	¥ (32,386)	\$ (307,064)

Cash Flows from Financing Activities :

Net increase (decrease) in short-term borrowings	12,444	(6,322)	110,437
Proceeds from long-term indebtedness	68,683	29,156	609,540
Repayments of long-term indebtedness	(28,568)	(37,079)	(253,532)
Repayments of lease obligations	(1,540)	(3,428)	(13,667)
Proceeds from issuance of bonds	10,000	10,000	88,747
Repayments on bonds	(10,000)	-	(88,747)
Purchases of treasury stock	(18)	(4,026)	(160)
Cash dividends	(1,612)	(1,653)	(14,306)
Dividends paid to non-controlling interests	(2,116)	(1,215)	(18,779)
Proceeds from share issuance to non-controlling shareholders	-	9,769	-
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	944	-	8,378
Others, net	0	424	0
Net cash provided by (used in) financing activities	¥ 48,217	¥ (4,374)	\$ 427,911

Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,464)	3,904	(21,867)
Net increase (decrease) in Cash and Cash Equivalents	40,956	(17,688)	363,472
Increase due to changes in scope of consolidation	127	427	1,127
Cash and Cash Equivalents at Beginning of Year	94,665	111,926	840,122
Cash and Cash Equivalents at End of Year (Note1(r))	¥ 135,748	¥ 94,665	\$ 1,204,721

Notes to Consolidated Financial Statements

1. Significant Accounting and Reporting Policies

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

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Group have been prepared in accordance with the provisions set forth in the “Japanese Financial Instruments and Exchange Act” and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The accounts of the overseas Subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile (“Local GAAP”) and significant differences between Japanese GAAP and Local GAAP are adjusted in consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Finance Bureau of the Ministry of Finance as required by the “Financial Instruments and Exchange Act”. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Group, over which MES has power of control through majority voting rights or existence of certain conditions requiring control by MES. Material inter-company balances, transactions and profits have been eliminated in consolidation. The assets and liabilities of the Subsidiaries, including the portion attributable to non-controlling shareholders were evaluated using the fair value at the time MES acquired control of the respective subsidiaries. Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by the equity method. Goodwill is generally amortized over certain periods on the straight-line method. Fiscal years of some Subsidiaries end on the 31st of December. MES consolidates these subsidiaries’ financial statements as of each subsidiary’s latest fiscal year and significant transactions occurred between each subsidiary’s fiscal year-end and MES’s fiscal year-end are adjusted on consolidation.

(c) Revenue Recognition

Revenue and costs associated with construction contracts

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

 The percentage-of-completion method

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

2) Construction other than above:

 The completed-contract method

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

(d) Securities

MES and its domestic Subsidiaries examined the intent of holding each security and classified those securities as (a) securities held for trading purposes (“trading securities”), (b) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (“available-for-sale securities”). MES and its domestic Subsidiaries did not have trading securities or held-to-maturity debt securities. Equity securities issued by Subsidiaries and affiliated companies, which are not accounted for by the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Fair market value is calculated using mainly the average price of securities over one month before the consolidated balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for by the equity method, and available-for-sale securities decline significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Derivative Transaction and Hedge Accounting

Japanese accounting standard for financial instruments requires MES and domestic Subsidiaries to measure derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the instruments are applied to hedged items. In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedging items are accounted for in the following manner.

- 1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,
- i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the consolidated statements

of income of the fiscal year in which such contracts are entered into, and

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

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

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

(f) Allowance for Doubtful Accounts

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

(g) Inventories

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

(h) Property, Plant and Equipment and Depreciation

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

(i) Intangible assets

Intangible assets primarily consist of software, customer-related assets and goodwill. Software for own use is depreciated using the straight-line method over the estimated useful life (five years). Customer-related assets is also amortized using the straight-line method based on effected period (mainly eighteen years). Goodwill is generally amortized using the straight-line method over a reasonable period in which the economic benefits are expected to be realized.

(j) Employees’ Severance and Retirement Benefits

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

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

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

(l) Translation of Foreign Currency Accounts

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

(m) Provision for Losses on Construction Contracts

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

(n) Provision for Product Warranty

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

(o) Income Taxes

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

(p) Revaluation Reserve for Land

The land used for business operations is revaluated based on real estate tax value on March 31, 2000 and March 31, 2002 respectively, in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the “Law”) effective March 31, 1998. The related unrealized gain, net of income taxes was recorded as “Revaluation reserve for land” in Net assets and the deferred income tax effects were recorded as Deferred tax liabilities on “Revaluation reserve for land” in Long-term liabilities. According to the Law, revaluation of the land is not permitted at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation losses are ¥38,972 million (\$345,864 thousand) and ¥38,778 million as of March 31, 2016 and 2015, respectively.

(q) Research and Development

Costs relating to research and development activities are charged to the profit and loss account as incurred. The amounts for the years ended March 31, 2016 and 2015 were ¥3,472 million (\$30,813 thousands) and ¥3,508 million,respectively.

(r) Cash Flow Statement

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits including short-term loans and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents. Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Cash and time deposits	¥ 139,374	¥ 85,353	\$ 1,236,901
Time deposits with maturities exceeding 3 months	(3,626)	(4,686)	(32,180)
Cash equivalents included in short-term loans	-	13,998	-
Cash and cash equivalents	¥ 135,748	¥ 94,665	\$ 1,204,721

Acquisition cost and net payments for assets and liabilities of TGE Marine AG and its subsidiaries, newly consolidated subsidiaries acquired through stock purchase, for the year ended March 31, 2016 were as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 10,762	\$ 95,509
Non-current assets	8,904	79,020
Goodwill	14,472	128,435
Current liabilities	(7,501)	(66,569)
Non-current liabilities	(4,510)	(40,025)
Non-controlling interests	(1)	(9)
Acquisition cost of stock	¥ 22,126	\$ 196,361
Cash and cash equivalents of newly consolidated subsidiaries	(6,971)	(61,865)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 15,155	\$ 134,496

(s) Finance Lease Transactions without Transfer of Ownership

Lessee:
The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period. The residual value is the guaranteed residual value in case such value is set forth in the lease contract but otherwise is zero value.
Lessor:
Revenues and costs of sales on finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are recognized when lease payments are received.

(t) Reclassifications

Certain reclassifications have been made in the financial statement of the previous fiscal year to conform to the classification used in this fiscal year. These reclassifications had no effect on previously reported profit or net assets.

(u) Additional information

Transfer of non-current assets
MES resolved at its Board of Directors’ Meeting held on February 25, 2016, to transfer non-current assets.

(1)Reason of transfer

In order to reform the business structure and improve the financial strength through effective utilization of assets, MES decided to transfer the Land and buildings of the rental warehouse and the dormitory which it owns in Shinonome, Koto ward, Tokyo.

(2)Details of the transferred assets

a. The rental warehouse

Address: 11-28, Shinonome 1-chome, Koto ward, Tokyo
Land surface area: 10,566.57 m²
Total floor area: 5,779.62 m²
Note: The borrower is to vacate the rental warehouse by August, 2016.

b. The dormitory

Address: 11-34, Shinonome 1-chome, Koto ward, Tokyo
Land surface area: 2,989.73 m²
Total floor area: 2,835.09 m²

Note: MES has no notable capital, personal, or transactional relationships with the acquirers. Furthermore, the acquirers do not constitute a related party of MES.

(3) Timing of transfer

Date of Board of Directors’ resolution: February 25, 2016
Contract date: February 26, 2016
Scheduled date of property transfer: September 30, 2016

(4) Impact on consolidated gains and losses

MES projects that gain on sales of non-current assets of approximately ¥16,804 million (\$149,130 thousands) will be recorded in the second quarter of fiscal year 2016.

(v) Changes in accounting and reporting policies

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013, hereinafter "Business Combinations Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" ASBJ Statement No. 22, September 13, 2013, hereinafter "Consolidated Accounting Standard"), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013, hereinafter "Business Divestitures Accounting Standard") are applied from the beginning of this consolidated fiscal year. Differences due to fluctuations in the equity of subsidiaries remaining under control of the parent company are recorded as capital surplus and changed to the accounting treatment of recording acquisition related cost as expenses for the consolidated accounting period. For business combination conducted after the beginning of this consolidated fiscal year, MES conducted a review of amounts allocated as acquisition costs based on the use of provisional accounting treatments and reflecting this in the consolidated financial statements for the consolidated fiscal year during which the date of the business combination falls. Additionally, MES changed the indication of net income and changed from the indication of minority interests to non-controlling interests. To reflect these changes, the consolidated financial statements for the previous fiscal year were modified.

The application of accounting standards related to business combination is in accordance with the transitional handling outlined in Business Combinations Accounting Standard No. 58-2(4), Consolidated Accounting Standard No. 44-5(4), and Business Divestitures Accounting Standard No. 57-4(4). These standards will be applied moving forward as of the beginning of the fiscal year under review. As a result, operating income for the consolidated accounting period decreased by ¥415 million (\$3,683 thousands), and profit before income taxes decreased by ¥1,259 million (\$11,173 thousands). Furthermore, capital surplus as of the end of the fiscal year under review increased by ¥564 million (\$5,005 thousands). In the consolidated cash flow statement for the fiscal year under review, cash flow related to the sale of subsidiary stock not requiring a change in the scope of consolidation is recorded under "Cash flow from financing activities" and cash flow related to expenses incurred due to the acquisition of subsidiary stock requiring a change in the scope of consolidation is recorded under "Cash flow from operating activities." Capital surplus in Consolidated Statements of Changes in Net Assets of the fiscal year under review increased by ¥564 million (\$5,005 thousands). The effect on per-share information is recorded in the relevant place.

2. Marketable Securities and Investment Securities

(a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2016 and 2015:

2016:	Japanese Yen (millions)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 15,519	¥ 26,302	¥ 10,783
Sub Total	15,519	26,302	10,783
Securities with book values not exceeding acquisition costs:			
Equity securities	7,269	6,310	(959)
Sub Total	7,269	6,310	(959)
Total	¥ 22,788	¥ 32,612	¥ 9,824

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

2016:	U. S. Dollars (thousands)		
	Acquisition cost	Book value	Differences
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 137,726	\$ 233,422	\$ 95,696
Sub Total	137,726	233,422	95,696
Securities with book values not exceeding acquisition costs:			
Equity securities	64,510	55,999	(8,511)
Sub Total	64,510	55,999	(8,511)
Total	\$ 202,236	\$ 289,421	\$ 87,185

(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Proceeds from sales of available-for-sale securities			
Securities	¥ 6,316	¥ 340	\$ 56,053
Bonds	500	-	4,437
Realized gains on sales of available-for-sale securities			
Securities	¥ 3,297	¥ 137	\$ 29,260
Bonds	-	-	-
Realized losses on sales of available-for-sale securities			
Securities	¥ 169	¥ -	\$ 1,500
Bonds	-	-	-

3. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2016 and 2015 were ¥46,300 million (\$410,898 thousand) and ¥33,492 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2016 and 2015 were ¥5,964 million (\$52,929 thousand) and ¥5,978 million, respectively.

4. Pledged Assets

Assets pledged as collateral for short-term borrowings and long-term indebtedness as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Land	¥ 5,123	¥ 5,123	\$ 45,465
Buildings and structures	305	325	2,707
Machinery, equipment and vehicles	15,084	16,674	133,866
Investment securities	530	151	4,704
Cash and deposits	625	-	5,546
	¥ 21,667	¥ 22,273	\$ 192,288

Short-term borrowings and long-term indebtedness secured by the above pledged assets as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Short-term borrowings	¥ -	¥ 1,100	\$ -
Long-term loan payable	15,787	17,241	140,105
	¥ 15,787	¥ 18,341	\$ 140,105

5. Short-Term Borrowings

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

	2016	2015
	0.69%	1.10%
Average interest rate for each term		

6. Long-Term Indebtedness

Long-term indebtedness as of March 31, 2016 and 2015 is summarized below:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Secured by mortgages on plant and equipment-			
0.40% to 2.27% loans from Japanese banks, due on various dates through 2021	¥ 15,787	¥ 17,241	\$ 140,106
Unsecured or non-guaranteed-			
0.92% bonds, due January 28, 2016	-	10,000	-
1.08% bonds, due June 15, 2017	10,000	10,000	88,748
1.47% bonds, due January 26, 2018	5,000	5,000	44,373
1.14% bonds, due December 12, 2019	5,000	5,000	44,373
0.63% bonds, due December 12, 2019	5,000	5,000	44,373
0.62% bonds, due September 14, 2020	5,000	-	44,373
1.03% bonds, due December 10, 2021	5,000	5,000	44,373
1.01% bonds, due September 14, 2022	5,000	-	44,373
0.22% to 2.27% loans from banks, insurance companies and trading companies due on various dates through 2027	156,226	113,605	1,386,457
	212,013	170,846	1,881,549
Less: Current portion included in current liabilities	(41,126)	(42,834)	(364,980)
	¥ 170,887	¥ 128,012	\$ 1,516,569

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

Year ended March 31,	Japanese Yen (millions)	U.S.Dollars (thousands)
2017	¥ 41,126	\$ 364,980
2018	47,047	417,527
2019	41,388	367,306
2020	27,077	240,300
2021 and thereafter	55,375	491,436
	¥ 212,013	\$ 1,881,549

7. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at the Group as of March 31, 2016 was as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Total overdraft facilities and lending commitments	¥ 64,425	\$ 571,752
Less amounts currently executed	2,142	19,010
Unexecuted balance	¥ 62,283	\$ 552,742

8. Net Assets and Per Share Data

Under the Japanese Corporate Law (“the Law”) and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half the price of the new shares as additional paid-in capital, which is included in capital surplus. In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution in the shareholders' meeting or could be capitalized by a resolution in the shareholders' meeting.

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

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

At the annual shareholders’ meeting held on June 28, 2016, the shareholders approved cash dividends amounting to ¥3,232 million (\$28,683 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. This type of appropriations is recognized in the period in which they are approved by the shareholders.

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

9. Liability for Severance and Retirement Benefits

(a) Overview of adopting severance and retirement benefits plans

The Group has system of funded and unfunded severance and retirement benefits, and defined contribution pension plans. Severance and retirement benefits (all funded) pay out lump-sum payment or annual pension based on salary and length of service. Part of funded severance and retirement benefits is entrusted. Lump-sum payment (part of which becomes funded as a result of benefit trust although the system is unfunded) is paid out based on salary and length of service as retirement benefits. Some domestic Subsidiaries have adopted a “simpler method” to calculate liability for severance and retirement benefits for employees.

(b) Breakdown of information concerning severance and retirement benefits

i) Movements of severance and retirement benefit obligation:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Balance at beginning of year	¥ 47,811	¥ 46,819	\$ 424,308
Cumulative effect of change in accounting policy	-	2,574	-
Restated balance at beginning of year	47,811	49,393	424,308
Current service costs	2,407	2,306	21,361
Interest costs	468	566	4,153
Actuarial differences on pension plan obligation	2,855	2,106	25,337
Benefits paid	(4,858)	(6,306)	(43,113)
Others	34	(254)	302
Balance at end of year	¥ 48,717	¥ 47,811	\$ 432,348

ii) Movements of pension assets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Balance at beginning of year	¥ 45,219	¥ 40,071	\$ 401,305
Expected return on pension assets	10	11	89
Actuarial differences on pension assets	(8,596)	5,070	(76,287)
Contribution to pension plans	165	187	1,464
Benefits paid	(186)	(152)	(1,651)
Others	37	31	328
Balance at end of year	¥ 36,649	¥ 45,218	\$ 325,248

iii) Reconciliation of projected retirement benefit obligation and net defined benefit assets/liabilities recorded in the consolidated balance sheets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Retirement benefit obligation (funded non-contributory)	¥ 40,387	¥ 39,631	\$ 358,422
Less fair value of pension assets	(36,649)	(45,218)	(325,248)
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	8,330	8,180	73,925
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 12,068	¥ 2,593	\$ 107,099
Defined benefit liabilities	12,318	11,277	109,318
Defined benefit assets	(250)	(8,684)	(2,219)
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 12,068	¥ 2,593	\$ 107,099

iv) Severance and retirement benefit expenses:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Current service costs	¥ 2,407	¥ 2,306	\$ 21,361
Interest costs	468	566	4,153
Expected return on pension assets	10	11	89
Amortization of actuarial differences	1,240	627	11,005
Amortization of prior service costs	(35)	(61)	(311)
Amortization of net transition obligation	-	1,929	-
Severance and retirement benefit expenses	¥ 4,090	¥ 5,378	\$ 36,297

v) Remeasurements of defined benefit plans (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Prior service costs	¥ 3	¥ 4	\$ 27
Actuarial differences	(10,306)	3,796	(91,463)
Net transition obligation	-	1,929	-
Others	23	(156)	204
Total	¥ (10,280)	¥ 5,573	\$ (91,232)

vi) Unrecognized actuarial differences (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Unrecognized prior service costs	¥ (7)	¥ (3)	\$ (62)
Unrecognized actuarial differences	18,468	8,161	163,898
Total	¥ 18,461	¥ 8,158	\$ 163,836

vii) The major categories of pension assets:	Percentage of composition	
	2016	2015
Bonds	3%	3%
Securities	79%	84%
Cash and deposits	14%	10%
Others	4%	3%
Total	100%	100%

viii) The principal actuarial assumptions at reporting date are summarized below:	2016	2015
	Discount rate	0.0% - 0.8%
	Expected rate of return on pension plan assets	0.1% - 1.7%
		Not applicable

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

(c) Defined contribution pension plan

The contribution paid to the defined contribution pension plan is summarized below:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Contribution paid to the defined contribution pension plan	¥ 248	¥ 192	\$ 2,201

10. Stock options

(a) Expenses for stock options and account titles at March 31, 2016 and 2015 are as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Selling, general and administrative expenses	¥ 86	¥ 79	\$ 763

(b)The stock options outstanding at March 31, 2016 are as follows:

	FY2014 Stock option	FY2013 Stock option
Persons granted	Directors of MES: 14 Deputy directors of MES: 21	Directors of MES: 14 Deputy directors of MES: 19
Class and number of shares	Common stock 366,000 shares	Common stock 624,000 shares
Grant date	August 22, 2014	August 23, 2013
Vesting conditions	It continues in the position of Director or Deputy director until (June 30, 2015 or March 31, 2015) on data of vested after (August 22, 2014) on date of grant.	It continues in the position of Director or Deputy director until (June 30, 2014) on data of vested after (August 23, 2013) on data of grant.
Service period	(Directors of MES) From July 1, 2014 to June 30, 2015 (Deputy directors of MES) (continuously - appointed) From July 1, 2014 to March 31, 2015 (Deputy directors of MES)(newly - appointed) From April 1, 2014 to March 31, 2015	From July 1, 2013 to June 30, 2014
Exercise period	From August 23, 2014 to August 22, 2044	From August 24, 2013 to August 23, 2043
	FY2015 Stock option	
Persons granted	Directors of MES: 9 (including executive officers additional post) Executive officers of MES: 13 (excluding directors additional post) Deputy directors of MES: 17	
Class and number of shares	Common stock 497,000 shares	
Grant date	August 21, 2015	
Vesting conditions	It continues in the position of Director, Executive officer or Deputy director until (June 30, 2016 or March 31, 2016) on data of vested after (August 21, 2015) on date of grant.	
Service period	(Directors of MES) From July 1, 2015 to June 30, 2016 (Executive officers of MES) From April 1, 2015 to March 31, 2016 (Deputy directors of MES) From April 1, 2015 to March 31, 2016	
Exercise period	From August 22, 2015 to August 21, 2045	

(c) The numbers of and changes in stock options during the year ended March 31, 2016 are as follows:

	FY2015 Stock option	FY2014 Stock option	FY2013 Stock option
Non-vested:			
Outstanding at March 31, 2015	-	250,000	-
Granted	497,000	-	-
Forfeited	1,000	-	-
Vested	258,000	250,000	-
Outstanding of non-vested at March 31, 2016	238,000	-	-
Vested:			
Outstanding at March 31, 2015	-	114,000	616,000
Vested	258,000	250,000	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding of non-vested at March 31, 2016	258,000	364,000	616,000
Exercise price - Yen (U.S. Dollars)	¥ 1 (\$0.009)	¥ 1 (\$0.009)	¥ 1 (\$0.009)
Average share price at exercise -Yen (U.S. Dollars)	-	-	-
Fair value price at grant date -Yen (U.S. Dollars)	¥ 169 (\$1.500)	¥ 191 (\$1.695)	¥ 144 (\$1.278)

(d) Estimation method for stock options issued during the year ended March 31, 2016 is as follows:

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

	FY2015 Stock option
Volatility of stock price (note: i)	46.700%
Estimated remaining outstanding period (note: ii)	15 years
Estimated dividend (note: iii)	¥2 per share
Interest rate with risk free (note: iv)	0.750%

notes:

- i. Annual volatility rate estimated based on daily stock prices in the past 15 years (closing prices on each day from August 21, 2000 to August 21, 2015).
- ii. Remaining outstanding period was estimated in the middle of exercisable period, since it is difficult to make reasonable estimate.
- iii. Based on actual year-end dividend for the preceding year (March 31, 2015 year-end dividend).
- iv. The yield on national government bonds with the period corresponding to the expected residual period.

(e) Calculation method for the number of rights vested

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

11. Income Taxes

MES and domestic Subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 36.0% for the year ended March 31, 2015 and 33.1% for the year ended March 31, 2016. The following table summarizes the significant differences between the statutory tax rate and the Group's effective tax rate for financial statement purposes for the years ended March 31,2016 and 2015:

	2016	2015
Statutory tax rate	33.1%	36.0%
Valuation allowance	42.4	49.6
Revaluation of land	(0.5)	(0.5)
Non-deductible expenses for tax purposes	1.2	1.1
Amortization of consolidated difference	1.5	1.1
Taxation on per capita basis	0.6	0.7
Equity in earning of unconsolidated subsidiaries and affiliates	(9.0)	(8.9)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(4.4)	(7.2)
Non-taxable dividend income	(0.3)	(1.8)
Gain on bargain purchase	-	(10.7)
Increase of deferred tax assets, net of liabilities at fiscal year-end by the change of tax rate	(7.3)	(24.3)
Others	4.4	3.0
Effective tax rate	61.7%	38.1%

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Deferred tax assets:			
Net defined benefit liabilities	12,594	10,263	111,768
Unrealized inter-company profit	10,897	10,934	96,707
Tax loss carry forward	11,356	14,031	100,781
Losses on revaluation of inventories	291	269	2,583
Accrued expenses	2,834	3,479	25,151
Provision for product warranty	2,045	1,917	18,149
Allowance for doubtful accounts	2,033	1,420	18,042
Provision for losses on construction contracts	2,868	6,068	25,453
Loss on impairment of non-current assets	7,699	10,500	68,326
Losses on revaluation of marketable and investment securities	429	576	3,807
Others	15,613	16,493	138,560
Total deferred tax assets	68,659	75,950	609,327
Valuation allowance	(19,695)	(22,848)	(174,787)
Net deferred tax assets	48,964	53,102	434,540
Deferred tax liabilities:			
Net unrealized holding gains on securities	(4,222)	(8,680)	(37,469)
Accelerated depreciation on non-current assets	(5,409)	(2,093)	(48,003)
Reserve for advanced depreciation of non-current assets	(3,357)	(3,722)	(29,792)
Gains on contribution of securities to trust for employees' retirement benefit	(1,637)	(1,728)	(14,528)
Losses on progress basis contract	(3,562)	(2,282)	(31,612)
Unrealized gain on assets and liabilities	(45,790)	(48,141)	(406,372)
Unrealized gain on foreign currency assets and liabilities	(1,072)	(1,726)	(9,514)
Others	(906)	(991)	(8,040)
Total deferred tax liabilities	(65,955)	(69,363)	(585,330)
Net deferred tax assets	¥ (16,991)	¥ (16,261)	\$ (150,790)

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

The “Act for Partial Revision of the Income Tax Act, etc.” (Law No.15 of 2016) and “Act for Partial Revision of the Local Tax Act, etc.” (Law No.13 of 2016) were established in the Diet on March 29, 2016, as a result of which MES is subject to the reduction such as corporate tax rates from the consolidated fiscal year beginning on or after April 1, 2016. The corporation income tax in Japan consists of a corporation tax, an enterprise tax, resident tax. In conjunction with this promulgation, the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities with respect to the temporary difference expected to be eliminated in the consolidated fiscal year beginning on April 1, 2016 and 2017 are changed from the previous 32.3% to 30.8% and 30.6% from the consolidated fiscal year beginning April 1, 2018. As a result of this change, deferred tax assets (after deduction of deferred tax liabilities) increased by ¥1,432 million (\$12,709 thousands). Income taxes (deferred) decreased by ¥1,502 million (\$13,330 thousands) and remeasurements of defined benefit plans decreased by ¥337 million (\$2,991 thousands). Net unrealized holding gains on securities increased by ¥232 million (\$2,059 thousands) and unrealized gain or loss on hedging derivatives increased by ¥34 million (\$302 thousands). Also deferred tax liabilities on revaluation reserve for land decreased ¥756 million (\$6,709 thousands), and revaluation reserve for land increased same amounts.

12.Business Combination

Business combination by acquisition

(a) Outline of the transaction

i) Name and business of the combined entity

Name: TGE Marine AG

Business: Engineering and manufacturing supervision related to fuel carriers and other gas plants

ii) Reason of business combination

TGE Marine AG (hereinafter "TGE") is involved in the EPCS business, including pressurized gas tanks for small- and medium-sized gas carriers, gas handling system design, equipment procurement, and manufacturing supervision. In addition to the high share of the global market for small-sized LNG carriers and small-scale ethylene carriers, moving forward the Group is planning to expand its business related to design and manufacturing supervision for fuel supply systems for gas fuel ships and floating storage and regasification units (FSRU). Through new initiatives to incorporate TGE's gas ship technology and their customer base, the Group will aim to establish a firm position in global market for small- and medium-sized gas carriers, a market expected to see future growth, as well as maximize synergy with our existing technology and increase the overall corporate value of the Group.

iii) Date of the transaction:

October 1, 2015

iv) Legal Form of the Business Combination:

Acquisition of shares in consideration of cash

v) Name of the combined entity after the transaction

There is no change.

vi) Acquired ratio of voting right:

99.98%

vii) The main reason that led to the decision to acquire the company

MES Germany Beteiligungs GmbH, our consolidated subsidiary, acquired shares of TGE Marine AG and its two consolidated subsidiaries in consideration of cash.

(b) The period of financial result of the combined entity included in the consolidated financial statement:

From October 1, 2015 to March 31, 2016

(c) Consideration transferred for the acquisition

Consideration for the acquisition (Cash): €165 million

Acquisition Cost: €165 million (\$ 196,353 thousand)

(d) Amount of incidental acquisition related cost and its purpose

Advisory fee, etc: €4 million (\$ 4,624 thousand)

(e) Amount and reason of goodwill, method and period of amortization

i) Amount of goodwill: € 108 million (\$ 128,435 thousand)

ii) Reason of goodwill

Because the acquisition cost of the acquired company exceeds the net amount of assets accepted and liabilities underwritten from the acquired company, the excess portion is treated as goodwill.

iii) Method and period of amortization

Straight-line method for 16 years

(f) Identifiable assets acquired and assumed liabilities in business combination

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 10,762	\$ 95,510
Non-current assets	8,904	79,020
Total assets	¥ 19,666	\$ 174,530

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current liabilities	¥ (7,501)	\$ (66,569)
Non-current liabilities	(4,510)	(40,025)
Total liabilities	¥ (12,011)	\$ (106,594)

(g) Amounts other than goodwill distributed as intangible fixed assets and a breakdown of other major categories, and the weighted average amortization period for total assets and by major category

	Japanese Yen (millions)	U.S.Dollars (thousands)	Weighted average amortization period
Classification			
Customer-related assets	¥ 8,247	\$ 73,190	16 years
Technology-related assets	577	5,121	12 years
Total	¥ 8,824	\$ 78,311	16 years

(h) 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

	Japanese Yen (millions)	U.S.Dollars (thousands)
Net sales	¥ 10,324	\$ 91,622
Operating income	62	550
Profit attributable to owners of parent	(88)	(781)

(Estimate value calculation method)

The difference between the net sales and gains and loss information estimated as assuming the business combination is completed on the start of this consolidated fiscal year and net sales and gains and loss information recorded on the consolidated income statement as the estimated impact value. Also, the amortization value on the goodwill related to business combination is treated as having occurred on the start of this consolidated fiscal year. Furthermore, an audit certificate for the estimated impact values is not issued.

13.Contingent Liabilities

Contingent Liabilities of the Group as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Guarantees of bank loans and other indebtedness	¥ 141,679	¥ 175,226	\$ 1,257,357

14. Loss on Impairment on non-current assets

The Group adopted the accounting standard for impairment of non-current assets. The non-current assets are grouped by each segment. Idle non-current assets are grouped individually. The book value of the non-current assets is reduced to the collectable amount. The loss on impairment of non-current assets for the years ended March 31, 2016 and 2015 were comprised of the following.

2016

Location	Oita City, Oita Prefecture etc.
Major use	Idle assets
Asset category	Land, Building
Amount	¥341 million (\$ 3,026 thousand)
Reason	Decline in market value

2015

Location	Saga Prefecture
Major use	Floating wind & Current Hybrid Power Generation
Asset category	Construction in progress
Amount	¥605 million
Reason	Decline in use value

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

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

15. Comprehensive Income

Each component of other comprehensive income for the years ended of March 31, 2016 and 2015 was the following:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Net unrealized holding gains on securities :			
Amount of generation at this fiscal term	¥ (9,891)	¥ 11,066	\$ (87,780)
Amount of rearrangement adjustment	(3,105)	(531)	(27,556)
Before adjusting the tax effect	(12,996)	10,535	(115,336)
Tax effect	4,456	(2,813)	39,546
Net unrealized holding gains on securities	(8,540)	7,722	(75,790)
Unrealized gains (losses) on hedging derivatives			
Amount of generation at this fiscal term	4,444	(4,100)	39,439
Amount of rearrangement adjustment	(155)	(207)	(1,375)
Before adjusting the tax effect	4,289	(4,307)	38,064
Tax effect	(1,301)	1,403	(11,546)
Unrealized gains (losses) on hedging derivatives	2,988	(2,904)	26,518
Revaluation reserve for land:			
Amount of generation at this fiscal term	(128)	-	(1,136)
Before adjusting the tax effect	(128)	-	(1,136)
Tax effect	6,117	2,438	54,286
Revaluation reserve for land	5,989	2,438	53,150
Foreign currency translation adjustments :			
Amount of generation at this fiscal term	718	7,615	6,372
Amount of rearrangement adjustment	95	(215)	843
Before adjusting the tax effect	813	7,400	7,215
Tax effect	(37)	(255)	(328)
Foreign currency translation adjustments	776	7,145	6,887
Remeasurements of defined benefit plans :			
Amount of generation at this fiscal term	(11,110)	3,245	(98,598)
Amount of rearrangement adjustment	830	2,328	7,366
Before adjusting the tax effect	(10,280)	5,573	(91,232)
Tax effect	2,926	(2,236)	25,968
Remeasurements of defined benefit plans	(7,354)	3,337	(65,264)
Share of other comprehensive income of affiliates accounted for using equity method :			
Amount of generation at this fiscal term	(3,676)	670	(32,623)
Amount of rearrangement adjustment	2,829	(321)	25,106
Share of other comprehensive income of affiliates accounted for using equity method	(847)	349	(7,517)
Total	¥ (6,988)	¥ 18,087	\$ (62,016)

16. Leases

(a) Lessee

i) Unexpired lease payments of operating lease transactions as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Due within one year	¥ 1,365	¥ 1,289	\$ 12,114
Due after one year	6,639	1,938	58,919
Total	¥ 8,004	¥ 3,227	\$ 71,033

(b) Lessor

i) Unexpired lease receivables of operating lease transactions as of March 31, 2016 and 2015 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2016	2015	2016
Due within one year	¥ 3,920	¥ 3,871	\$ 34,789
Due after one year	10,057	11,942	89,253
Total	¥ 13,977	¥ 15,813	\$ 124,042

17. Financial Instruments

a) Articles concerning status of financial instruments

1) Policies for financial instruments

The Group restricts the fund management to short-term financial instruments. The Group transfers funds to each other through an inter-company cash management systems (CMS). Short-term working capital is financed through bank loans and issuance of commercial paper (CP). Long term equipment fund and working capital is financed through bank loans and issuance of bonds. Derivative financial instruments are utilized to hedge the risks described hereinafter and not for speculative transactions as a matter of policy.

2) Substances and risks of financial instruments

Trade and other receivables are exposed to credit risks of customers. Foreign currency trade and other receivables of MES and certain Subsidiaries are exposed to currency fluctuation risks. Forward foreign exchange contracts are applied to these hedged items in principle. Investments securities, mainly of companies with business relationships, are exposed to market fluctuation risks. Short-term and long-term loans for operating funds and capital expenditures of SPC's, which are established for charter project of FPSO or for generating electricity, are exposed to credit risks of customers. Almost all of the trade payables are due within one year. Foreign currency trade payables for overseas procurement are exposed to currency fluctuation risks, but those trade payables are controlled not to exceed the balance of trade receivables in the same foreign currencies. Short-term borrowings are mainly for the purpose of funding commercial transactions. Long-term borrowings, bonds, and lease obligations are mainly for the purpose of funding investment in plant and equipment. Although the portion of that debt with floating interest rates is exposed to interest rate fluctuation risks, interest rate swap contracts are applied to hedge the risks. Derivative transactions are the above mentioned forward foreign exchange contracts as well as interest rate swap contracts. They are for the purpose of hedging currency fluctuation risks and rising interest rate risks. As to details on hedging instruments, hedging items, hedging policy and method of evaluating the effectiveness of hedging, please refer to "i. Significant Accounting and Reporting policies (e) Derivative Transaction and Hedge Accounting."

3) Managing of financial instruments

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

The Group monitors due dates and balances of trade receivables and regularly investigate the credit standings of main customers for early detection and reduction of default risks according to internal regulation. Certain Subsidiaries reduce their balance of loan receivables by arranging project finance or through cooperation with business partners such as general trading companies. As to derivative transactions, credit risks are minimized by dealing solely with top-ranked financial institutions.

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

MES and certain Subsidiaries utilize forward foreign exchange contracts, 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 risks arising from short-term borrowings, long-term borrowings and bonds. Holding position of investment securities are continuously reviewed by researching fair market value and financial status of important customers regularly and taking into account of market condition and relationship with customers. Execution and management of derivative transactions are based on each company's internal regulation restricting scope of authority. As to derivative transactions, the Group utilizes them to offset risks within the range of trade demand.

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

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

4) Supplementary explanation about fair value of financial instruments

Fair value of financial instruments includes not only fair market value based on market price but also reasonably estimated value if market price is not available. Reasonably estimated fair value may fluctuate because it depends on an estimation process which is based on certain preconditions. The contract amounts for derivatives stated in the following "(b) Articles concerning fair value of financial instruments," do not indicate the market risks of derivatives.

(b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts, fair value of financial instruments and the differences between them for the fiscal years ended March 31, 2016 and 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.

2016	Japanese Yen (millions)		
	Book value	Fair value	Differences
(1)Cash and time deposits	¥ 139,374	¥ 139,374	¥ -
(2)Trade receivables	282,420		
Less allowance for doubtful accounts *1	(1,757)		
	280,663	280,663	0
(3)Short-term loans	22,591	22,591	-
(4)Investments securities			
Available-for-sale securities	32,612	32,612	-
(5)Long-term loans	28,313		
Less allowance for doubtful accounts *1	(196)		
	28,117	28,114	(3)
Assets total	¥ 503,357	¥ 503,354	¥ (3)
(1)Trade payables	¥ 245,636	¥ 245,636	¥ -
(2)Short-term borrowings	27,861	27,861	-
(3)Current portion of long-term loan payable	41,126	41,274	148
(4)Current portion of bonds	-	-	-
(5)Accrued income taxes	6,894	6,894	-
(6)Bonds	40,000	41,467	1,467
(7)Long-term loan payable	130,887	131,878	991
Liabilities total	¥ 492,404	¥ 495,010	¥ 2,606
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	¥ 687	¥ 687	¥ -
ii Derivative transactions for which hedge accounting has been applied	179	179	-
Derivative transactions total	¥ 866	¥ 866	¥ -

2015	Japanese Yen (millions)		
	Book value	Fair value	Differences
(1)Cash and time deposits	¥ 85,352	¥ 85,352	¥ -
(2)Trade receivables	310,973		
Less allowance for doubtful accounts *1	(1,193)		
	309,780	309,776	(4)
(3)Short-term loans	55,027	55,027	-
(4)Investments securities			
Available-for-sale securities	48,687	48,687	-
(5)Long-term loans	22,287		
Less allowance for doubtful accounts *1	(197)		
	22,090	23,225	1,135
Assets total	¥ 520,936	¥ 522,067	¥ 1,131
(1)Trade payables	247,656	247,656	-
(2)Short-term borrowings	17,468	17,468	-
(3)Current portion of long-term loan payable	32,834	32,934	100
(4)Current portion of bonds	10,000	10,061	61
(5)Accrued income taxes	9,942	9,942	-
(6)Bonds	30,000	30,514	514
(7)Long-term loan payable	98,013	98,718	705
Liabilities total	¥ 445,913	¥ 447,293	¥ 1,380
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	(2,868)	(2,868)	-
ii Derivative transactions for which hedge accounting has been applied	(10,447)	(10,447)	-
Derivative transactions total	¥ (13,315)	¥ (13,315)	¥ -

2016	U.S. Dollars (thousands)		
	Book value	Fair value	Differences
(1)Cash and time deposits	\$ 1,236,901	\$ 1,236,901	\$ -
(2)Trade receivables	2,506,390		
Less allowance for doubtful accounts *1	(15,593)		
	2,490,797	2,490,797	0
(3)Short-term loans	200,488	200,488	-
(4)Investments securities			
Available-for-sale securities	289,421	289,421	-
(5)Long-term loans	251,269		
Less allowance for doubtful accounts *1	(1,739)		
	249,530	249,503	(27)
Assets total	\$ 4,467,137	\$ 4,467,110	\$ (27)
(1)Trade payables	\$ 2,179,943	\$ 2,179,943	\$ -
(2)Short-term borrowings	247,258	247,258	-
(3)Current portion of long-term loan payable	364,980	366,294	1,314
(4)Current portion of bonds	-	-	-
(5)Accrued income taxes	61,182	61,182	-
(6)Bonds	354,988	368,007	13,019
(7)Long-term loan payable	1,161,581	1,170,376	8,795
Liabilities total	\$ 4,369,932	\$ 4,393,060	\$ 23,128
Derivative transactions *2			
i Derivative transactions for which hedge accounting has not been applied	\$ 6,097	\$ 6,097	\$ -
ii Derivative transactions for which hedge accounting has been applied	1,588	1,588	-
Derivative transactions total	\$ 7,685	\$ 7,685	\$ -

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

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

Assets

- (1) Cash and time deposits, (3) Short-term loans
Fair value of these accounts is stated at the book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.
- (2) Trade receivables
Fair value of these accounts is stated at the present value discounted over the maturity term of each receivable divided into certain classified term
- (4) Investment securities
Fair value of these accounts is based on available market price. (Please see 2. Marketable Securities and Investment Securities)
- (5) Long-term loans
Fair value of these accounts is stated at the present value using future cash flows discounted by the premium added rate on the appropriate index like yield on government bonds.

Liabilities

- (1) Trade payables, (5) Accrued income taxes
Fair value of these accounts is stated at book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.
- (2) Short-term borrowings, (3) Current portion of long-term loan payable, (7) Long-term loan payable
Fair value of borrowings at fixed interest rates is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.
Fair value of long-term borrowings at variable interest rates is stated at balance sheet amounts because variable interest rates reflects the latest market conditions and MES's credit standings is considered to be almost same as when funds were borrowed, so fair value is considered to be close to the balance sheet amounts.
Some borrowings at variable interest rates are subjected to 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.
- (4) Current portion of bonds, (6) Bonds
These fair values consist of both the fair value based on fair market value and the present value using the total of the principal and interest discounted by a risk-free interest rate over the remaining term of each bond.

Derivative transactions

Please refer to "18. Derivative Transactions."

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

	Japanese Yen (millions)		U.S.Dollars (thousands)
	Book value		Book value
	2016	2015	2016
(1)Unlisted equity securities	¥ 48,894	¥ 36,563	\$ 433,919
(2)Bonds	-	500	-
(3)Trust property	140	81	1,243
Total	¥ 49,034	¥ 37,144	\$ 435,162

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

(note 3) The expected redemption amount of monetary credit and securities with maturity after the fiscal years ended March 31, 2016 and 2015 are as follows.

2016	Japanese Yen (millions)			
	Within one year	Over one yearbut within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 138,205	¥ 289	¥ 33	¥ -
Trade receivables	279,773	2,636	10	-
Short-term loans	22,591	-	-	-
Investments securities	-	-	-	-
Available-for-sale securities	-	-	-	-
Long-term loans	1	6,973	10,740	10,601
Total	¥ 440,570	¥ 9,898	¥ 10,783	¥ 10,601

2015	Japanese Yen (millions)			
	Within one year	Over one yearbut within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 85,218	¥ -	¥ -	¥ -
Trade receivables	310,588	374	10	-
Short-term loans	55,027	-	-	-
Investments securities	-	-	-	-
Available-for-sale securities	-	500	-	-
Long-term loans	-	7,845	4,134	10,309
Total	¥ 450,833	¥ 8,719	¥ 4,144	¥ 10,309

2016	U.S. Dollars (thousands)			
	Within one year	Over one yearbut within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 1,226,527	\$ 2,565	\$ 293	\$ -
Trade receivables	2,482,898	23,394	89	-
Short-term loans	200,488	-	-	-
Investments securities	-	-	-	-
Available-for-sale securities	-	-	-	-
Long-term loans	9	61,883	95,314	94,081
Total	\$ 3,909,922	\$ 87,842	\$ 95,696	\$ 94,081

(note 4) The expected redemption amount of bonds and long-term loan payable after the fiscal years ended March 31, 2016 and 2015 are as follows.

2016	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 27,861	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	-	15,000	-	10,000	5,000	10,000
Long-term borrowings	41,126	32,047	41,388	17,077	24,580	15,795
Lease obligations	2,146	1,892	1,194	778	2,484	958
Other interest-bearing debt	2,234	127	97	91	82	238
Total	¥ 73,367	¥ 49,066	¥ 42,679	¥ 27,946	¥ 32,146	¥ 26,991

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

2016	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	\$ 247,258	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable	-	133,120	-	88,747	44,373	88,747
Long-term borrowings	364,980	284,407	367,306	151,553	218,140	140,176
Lease obligations	19,045	16,791	10,596	6,904	22,045	8,502
Other interest-bearing debt	19,826	1,128	861	808	728	2,112
Total	\$ 651,109	\$ 435,446	\$ 378,763	\$ 248,012	\$ 285,286	\$ 239,537

18. Derivative Transactions

Derivative transactions of the Group for market value information as of March 31, 2016 and 2015 were as follows:

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

2016	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	¥ 1,612	¥ -	¥ (10)	¥ (10)
Euro	3,170	-	(292)	(292)
Norwegian Krone	3,438	-	(626)	(626)
Swiss Franc	709	-	(16)	(16)
Chinese Yuan	296	-	4	4
To sell U.S. Dollars	15,824	-	(464)	(464)
	¥ 25,049	¥ -	¥ (1,404)	¥ (1,404)
Interest swap				
To receive float, pay fix	¥ 26,991	¥ 24,051	¥ 2,091	¥ 2,091
	¥ 26,991	¥ 24,051	¥ 2,091	¥ 2,091

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

2016	U.S. Dollars (thousands)			
	Contract amount		Fair value	Unrealized gain(loss)
	Total	Due after one year		
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	\$ 14,306	\$ -	\$ (89)	\$ (89)
Euro	28,133	-	(2,591)	(2,591)
Norwegian Krone	30,511	-	(5,556)	(5,556)
Swiss Franc	6,292	-	(142)	(142)
Chinese Yuan	2,627	-	36	36
To sell U.S. Dollars	140,433	-	(4,118)	(4,118)
	\$ 222,302	\$ -	\$ (12,460)	\$ (12,460)
Interest swap				
To receive float, pay fix	\$ 239,537	\$ 213,445	\$ 18,557	\$ 18,557
	\$ 239,537	\$ 213,445	\$ 18,557	\$ 18,557

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

2016	Hedged items	Japanese Yen (millions)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	¥ 7,226	¥ 1,154	¥ 562
Euro		9,805	71	(17)
STG Pounds		854	-	(12)
Thai Baht		982	-	(35)
Singapore Dollars		1,147	-	(10)
Norwegian Krone		70	-	(5)
Japanese Yen		113	-	4
Swiss Franc		311	47	(5)
Brazil Real		315	-	(6)
To sell U.S.Dollars	Trade receivables	48,754	6,019	2,522
STG Pounds		12,004	173	(456)
Euro		1,978	-	(15)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Trade receivables	29	-	-
		¥ 83,588	¥ 7,464	¥ 2,527
Interest swap				
Basic treatment :				
To receive float,pay fix	Long-term loan payable	¥ 29,823	¥ 25,822	¥ (2,348)
Exceptional treatment *2 :				
To receive float,pay fix	Long-term loan payable	45,004	37,034	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix;				
To receive U.S. Dollars,	Long-term loan payable	9,822	7,858	-
Pay Japanese Yen		¥ 84,649	¥ 70,714	¥ (2,348)

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

2016

2016		U.S. Dollars (thousands)			
		Hedged items	Contract amount		Fair value
			Total	Due after one year	
Deferral hedge accounting					
Currency related derivatives					
Forward contracts					
To buy	U.S.Dollars	Trade payables	\$ 64,129	\$ 10,242	\$ 4,988
	Euro		87,016	630	(151)
	STG Pounds		7,579	-	(107)
	Thai Baht		8,715	-	(311)
	Singapore Dollars		10,179	-	(89)
	Norwegian Krone		621	-	(44)
	Japanese Yen		1,003	-	35
	Swiss Franc		2,760	417	(44)
	Brazil Real		2,796	-	(53)
To sell	U.S.Dollars	Trade receivables	432,677	53,417	22,382
	STG Pounds		106,532	1,535	(4,047)
	Euro		17,554	-	(133)
Alternative method *1					
Currency related derivatives					
Forward contracts					
To sell	U.S. Dollars	Trade receivables	257	-	-
			\$ 741,818	\$ 66,241	\$ 22,426
Interest swap					
Basic treatment :					
	To receive float,pay fix	Long-term loan payable	\$ 264,670	\$ 229,162	\$ (20,838)
Exceptional treatment *2 :					
	To receive float,pay fix	Long-term loan payable	399,397	328,665	-
Interest rate and currency swap					
Batch treatment *2:					
	To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term loan payable	87,167	69,738	-
			\$ 751,234	\$ 627,565	\$ (20,838)

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

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

19. Segment Information

(a) Overview of Reportable Segment

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

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

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

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

Machinery: marine and stationary diesel engines, marine equipment, gas engines, steam turbines, blowers, process compressors, gas turbines, cogeneration system, regulating system, container cranes, industrial cranes, container terminal management systems, HWM manipulators, equipment of radar sensing for underground and construction, bridges, port structures, induction heaters

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

There were some changes in businesses between reportable segments from the beginning of the consolidated fiscal year 2016. Segment information for the consolidated fiscal year 2015 has been restated to reflect the changes.

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

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

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

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

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

Reportable Segment information for the years ended March 31, 2016 and 2015 were as follows:

2016	Japanese Yen (millions)							
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:								
Outside customers	¥ 423,786	¥ 171,690	¥ 171,271	¥ 766,747	¥ 38,667	¥ 805,414	¥ -	¥ 805,414
Inter segment	981	8,485	14	9,480	1,052	10,532	(10,532)	-
Total	424,767	180,175	171,285	776,227	39,719	815,946	(10,532)	805,414
Operating income (loss)	¥ (13,305)	¥ 13,806	¥ 8,298	¥ 8,799	¥ 3,014	¥ 11,813	¥ -	¥ 11,813
Assets	¥ 482,808	¥ 159,627	¥ 107,757	¥ 750,192	¥ 233,775	¥ 983,967	¥ 110,076	¥ 1,094,043
Depreciation	¥ 9,148	¥ 3,626	¥ 1,636	¥ 14,410	¥ 3,170	¥ 17,580	¥ 365	¥ 17,945
Increase in property, plant and equipment and intangible assets	¥ 15,879	¥ 6,959	¥ 1,530	¥ 24,368	¥ 1,552	¥ 25,920	¥ 907	¥ 26,827

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

(note 2) Adjustments are as follows:

(1) Adjustments of ¥110,076 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of ¥114,686 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥365 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥476 million.

(3) Adjustments recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.

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

2015	Japanese Yen (millions)							
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:								
Outside customers	¥ 481,021	¥ 167,137	¥ 129,616	¥ 777,774	¥ 38,746	¥ 816,520	¥ -	¥ 816,520
Inter segment	866	6,675	308	7,849	1,443	9,292	(9,292)	-
Total	481,887	173,812	129,924	785,623	40,189	825,812	(9,292)	816,520
Operating income (loss)	¥ 9,657	¥ 10,660	¥ (10,633)	¥ 9,684	¥ 3,615	¥ 13,299	¥ -	¥ 13,299
Assets	¥ 446,721	¥ 159,093	¥ 99,429	¥ 705,243	¥ 237,733	¥ 942,976	¥ 131,587	¥ 1,074,563
Depreciation	¥ 8,137	¥ 4,201	¥ 1,780	¥ 14,118	¥ 2,820	¥ 16,938	¥ 519	¥ 17,457
Increase in property, plant and equipment and intangible assets	¥ 8,323	¥ 3,653	¥ 3,577	¥ 15,553	¥ 5,256	¥ 20,809	¥ 226	¥ 21,035

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

(note 2) Adjustments are as follows:

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

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

(3) Adjustments recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.

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

2016	U.S. Dollars (thousands)							
	Ship & Ocean	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:								
Outside customers	\$ 3,760,969	\$ 1,523,695	\$ 1,519,977	\$ 6,804,641	\$ 343,158	\$ 7,147,799	\$ -	\$ 7,147,799
Inter segment	8,706	75,302	124	84,132	9,336	93,468	(93,468)	-
Total	3,769,675	1,598,997	1,520,101	6,888,773	352,494	7,241,267	(93,468)	7,147,799
Operating income (loss)	\$ (118,078)	\$ 122,524	\$ 73,642	\$ 78,088	\$ 26,749	\$ 104,837	\$ -	\$ 104,837
Assets	\$ 4,284,771	\$ 1,416,640	\$ 956,310	\$ 6,657,721	\$ 2,074,681	\$ 8,732,402	\$ 976,890	\$ 9,709,292
Depreciation	\$ 81,185	\$ 32,180	\$ 14,519	\$ 127,884	\$ 28,133	\$ 156,017	\$ 3,239	\$ 159,256
Increase in property, plant and equipment and intangible assets	\$ 140,921	\$ 61,759	\$ 13,578	\$ 216,258	\$ 13,774	\$ 230,032	\$ 8,049	\$ 238,081

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

(note 2) Adjustments are as follows:

(1) Adjustments of \$976,890 thousand recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of MES of \$1,017,803 thousand that are not allocated to any Reportable Segment.

(2) Adjustments of \$3,239 thousand recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of \$4,224 thousand.

(3) Adjustments recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.

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

[Related information]

(d) Information by products and services

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

(e) Information by geographical area

1)Sales

2016	Japanese Yen (millions)					
	Japan	Brazil	Asia	Europe	Other	Total
Net sales	¥ 253,711	¥ 205,325	¥ 108,522	¥ 55,742	¥ 182,114	¥ 805,414

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

2016	U.S. Dollars (thousands)				
	Japan	Brazil	Asia	Europe	Other
Net sales	\$ 2,251,606	\$ 1,822,196	\$ 963,099	\$ 494,693	\$ 1,616,205

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

2) Property, plant and equipment

2016	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 343,097	¥ 35,955	¥ 379,052

2015	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 341,470	¥ 36,256	¥ 377,726

2016	U.S. Dollars (thousands)		
	Japan	Others	Total
Property, plant and equipment	\$ 3,044,879	\$ 319,090	\$ 3,363,969

(f) Information by major customer

Information by major customer for 2016 is not described because there is no customer with the sales amount exceeds 10% of the sales amount in Consolidated Statements of Income.

2015	Japanese Yen (millions)	Reportable Segment
CARIOCA MV27 B.V.	¥ 96,317	Ship & Ocean

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

Losses on impairment on non-current assets

2016	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	¥ -	¥ 6	¥ -	¥ -	¥ 335	¥ 341

2015	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	¥ 1,977	¥ 255	¥ -	¥ 292	¥ 164	¥ 2,689

2016	U.S. Dollars (thousands)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Losses on impairment on non-current assets	\$ -	\$ 53	\$ -	\$ -	\$ 2,973	\$ 3,026

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

Goodwill

2016	Japanese Yen (millions)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	¥ 913	¥ -	¥ 9	¥ -	¥ -	¥ 922
Goodwill	¥ 17,848	¥ -	¥ 30	¥ -	¥ -	¥ 17,878

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

2016	U.S. Dollars (thousands)					
	Ship & Ocean	Machinery	Engineering	Others	Corporate and Elimination	Total
Amortization	\$ 8,102	\$ -	\$ 80	\$ -	\$ -	\$ 8,182
Goodwill	\$ 158,396	\$ -	\$ 266	\$ -	\$ -	\$ 158,662

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

2016

Not applicable.

2015

Gain on bargain purchase of ¥4,768 million is recorded under “Others” segment due to additional acquirement of the shares of the subsidiary, Showa Aircraft Industry Co. Ltd.

20. Investment and Rental Property

(a) Articles concerning situation of investment and rental property

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

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

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

Usage	Japanese Yen (millions)			
	Book value			Fair value
	Beginning balance as of April 1, 2015	Increase (Decrease)	Ending balance as of March 31, 2016	As of March 31, 2016
Facilities for lease	¥ 104,477	¥ 2,744	¥ 107,221	¥ 105,023
Idle assets (Land)	25,215	(2,472)	22,743	23,801
Total	¥ 129,692	¥ 272	¥ 129,964	¥ 128,824

Usage	U.S. Dollars (thousands)			
	Book value			Fair value
	Beginning balance as of April 1, 2015	Increase (Decrease)	Ending balance as of March 31, 2016	As of March 31, 2016
Facilities for lease	\$ 927,201	\$ 24,352	\$ 951,553	\$ 932,047
Idle assets (Land)	223,775	(21,938)	201,837	211,226
Total	\$ 1,150,976	\$ 2,414	\$ 1,153,390	\$ 1,143,273

(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 new acquisitions (¥926 million/ \$8,218 thousand) and diversion of land (¥1,197 million/ \$10,623 thousand), and the decrease in rental properties is mainly due to depreciation (¥1,404 million / \$12,460 thousand), impairment losses (¥335 million/ \$2,973 thousand).

In addition, reclassification amounts (¥1,930 million/ \$17,128 thousand) 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 fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

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

Usage	Japanese Yen (millions)			
	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	¥ 8,741	¥ 5,658	¥ 3,083	¥ (98)
Idle assets (Land)	-	-	-	(336)
Total	¥ 8,741	¥ 5,658	¥ 3,083	¥ (434)

Usage	U.S.Dollars (thousands)			
	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	\$ 77,574	\$ 50,213	\$ 27,361	\$ (870)
Idle assets (Land)	-	-	-	(2,982)
Total	\$ 77,574	\$ 50,213	\$ 27,361	\$ (3,852)

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

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

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

(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 (¥1,309 million), and the decrease in rental properties is mainly due to depreciation (¥1,473 million), impairment losses (¥480 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 profit and loss from investment and rental properties in this fiscal year are shown below.

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

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

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

21. Related Party Transactions

Transactions between the Group and related parties for the fiscal years ended March 31, 2016 and 2015 were as follows:

Unconsolidated subsidiaries and affiliates of MES

Category	Japanese Yen (millions)								
	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title
									Outstanding balance at the year end
Affiliate	CERNAMBI NORTEMV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Direct 9.3% Indirect 10.1%	Time Charter of FPSO	Guarantee Obligation	23,256	-

Category	Japanese Yen (millions)								
	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title
									Outstanding balance at the year end
Affiliate	CERNAMBI SULMV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	23,848	-
	CERNAMBI NORTEMV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Guarantee Obligation	24,802	-

Category	U.S.Dollars (thousands)								
	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title
									Outstanding balance at the year end
Affiliate	CERNAMBI NORTEMV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Direct 9.3% Indirect 10.1%	Time Charter of FPSO	Guarantee Obligation	206,390	-

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

Transactions between Subsidiaries and related parties for the fiscal years ended March 31, 2016 and 2015 were as follows:

Unconsolidated subsidiaries and affiliates of MES

Category	Japanese Yen (millions)								
	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title
									Outstanding balance at the year end
Affiliate	CERNAMBI SULMV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	The equipment capital collection	31,424	Short-term loans
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	Construction of FPSO	28,566	Receivables
							The equipment capital lending	12,245	Short-term loans
							Guarantee Obligation	24,118	-
	CERNAMBI NORTEMV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 10.1%	Time Charter of FPSO	The equipment capital lending	22,355	Short-term loans
							The equipment capital collection	13,509	Short-term loans
							Guarantee Obligation	46,796	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	48,408	Receivables
							The equipment capital lending	28,253	Short-term loans
							Guarantee Obligation	40,209	-
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	69,799	Receivables
							The equipment capital collection	11,958	Short-term loans
							Guarantee Obligation	12,846	-



Independent Auditor’s Report

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

We have audited the accompanying consolidated financial statements of Mitsui Engineering & Shipbuilding Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mitsui Engineering & Shipbuilding Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.

June 28, 2016
Tokyo, Japan

KPMG AZSA LLC

2015

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

2016

U.S.Dollars (thousands)										
Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year end
Affiliate	CERNAMBI SUL MV24 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	The equipment capital collection	278,878	Short-term loans	-
							Construction of FPSO	253,514	Receivables	167,945
	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 12.5%	Time Charter of FPSO	The equipment capital lending	108,671	Short-term loans	53,594
							Guarantee Obligation	214,040	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 10.1%	Time Charter of FPSO	The equipment capital lending	198,394	Short-term loans	77,165
							The equipment capital collection	119,888	Short-term loans	-
							Guarantee Obligation	415,300	-	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	429,606	Receivables	170,634
							The equipment capital lending	250,737	Short-term loans	156,603
							Guarantee Obligation	356,842	-	-
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 100	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	619,444	Receivables	354,233
							The equipment capital collection	106,124	Short-term loans	-
							Guarantee Obligation	114,004	-	-

1. The transaction amount does not include exchange gains and losses, outstanding balance at the year end includes exchange gains and losses. The transaction amount does not include sales tax, outstanding balance at the year end includes sales tax.
2. Policies for determining terms and conditions are as follows:

(1)FPSO construction and operation trade are deliberately determined in consideration by each project plan.

(2)The equipment capital lending is deliberately determined in consideration by each project plan.

(3)The working capital lending is deliberately determined in consideration by each project plan.

(4)Guarantee Obligation is deliberately determined in consideration by each project plan.