Consolidated Financial Statements

Mitsui Engineering & Shipbuilding Co., Ltd.
and Consolidated Subsidiaries

For the Years ended March 31,
2017 and 2016
Together with Independent
Auditor's Report

MES MITSUI ENGINEERING & SHIPBUILDING CO.,LTD.

Financial Data

Consolidated Balance Sheets

As of March 31, 2017 and 2016

Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
Current Assets	2017	2016	2017
Cash and time deposits (Notes 1(r) and 4)	¥ 119,812	¥ 139,374	$ 1,067,938
Receivables			
Trade	261,674	282,420	2,332,418
Others	14,445	13,923	128,755
Less allowance for doubtful accounts	(3,301)	(2,466)	(29,423)
Merchandise and finished goods	4,091	4,107	36,465
Raw materials and supplies	5,977	5,010	53,276
Work in progress	35,585	33,831	317,185
Deferred tax assets (Note 11)	10,791	14,535	96,185
Short-term loans	56,495	22,591	503,566
Others (Note 16)	31,804	24,497	283,483
Total current assets	537,373	537,822	4,789,848
Property, Plant and Equipment (Note 4)			
Land (Note 1(p))	249,265	257,695	2,221,811
Buildings and structures	201,237	199,667	1,793,716
Machinery, equipment and vehicles	202,405	195,473	1,804,127
Lease assets	18,196	17,649	162,189
Construction in progress	2,034	6,645	18,130
	673,137	677,129	5,999,973
Less accumulated depreciation	(303,879)	(298,077)	(2,708,610)
Net property, plant and equipment	369,258	379,052	3,291,363
Intangible Assets			
Intangible Assets	29,761	32,361	265,273
Investments and Other Assets			
Investment securities (Notes 2, 3, and 4)	88,171	81,646	785,908
Long-term loans	31,488	28,313	280,666
Net defined benefit assets (Note 9)	6,698	250	59,702
Deferred tax assets (Note 11)	17,450	20,763	155,540
Others (Notes 3 and 4)	17,285	16,573	154,069
Less allowance for doubtful accounts	(749)	(2,737)	(6,676)
Total investments and other assets	160,343	144,808	1,429,209
Total assets	¥ 1,096,735	¥ 1,094,043	$ 9,775,693

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	2017	2016	2017
Short-term borrowings (Notes 5 and 7)	¥ 14,124	¥ 27,861	$ 125,894
Current portion of long-term indebtedness (Notes 4 and 6)	62,633	41,126	558,276
Lease obligations	2,433	2,146	21,686
Trade payables	195,850	245,636	1,745,699
Advances from customers	72,905	84,388	649,835
Accrued expenses	24,708	20,593	220,234
Accrued income taxes (Note 11)	13,736	6,894	122,435
Deferred tax liabilities (Note 11)	537	592	4,786
Provision for losses on construction contracts	15,857	10,123	141,341
Provision for construction warranties (Note 1(n))	10,542	9,881	93,966
Asset retirement obligations	10	2	89
Others	16,149	23,267	143,943
Total current liabilities	429,484	472,509	3,828,184
Long-term Liabilities			
Long-term indebtedness (Notes 4 and 6)	188,419	170,887	1,679,463
Lease obligations	7,312	7,306	65,175
Liability for severance and retirement benefits			
For directors and corporate auditors	425	522	3,788
Net defined benefit liabilities (Note 9)	12,778	12,318	113,896
Deferred tax liabilities			
On revaluation reserve for land (Notes 1(p) and 11)	18,616	15,086	165,933
Others (Note 11)	50,317	51,697	448,498
Asset retirement obligations	1,285	1,287	11,454
Others	20,491	18,578	182,646
Total long-term liabilities	299,643	277,681	2,670,853
Net Assets (Note 8)			
Common stock			
Authorized - 1,500,000,000 shares			
Issued - 830,987,176 shares	44,385	44,385	395,623
Capital surplus	18,809	18,812	167,653
Retained earnings	146,961	148,723	1,309,930
Treasury stock	(4,779)	(4,779)	(42,597)
Net unrealized holding gains (losses) on securities (Note 2)	9,957	6,185	88,751
Unrealized gains (losses) on hedging derivatives	(6,612)	(7,654)	(58,936)
Revaluation reserve for land (Note 1(p))	41,264	30,541	367,805
Foreign currency translation adjustments	5,596	11,531	49,880
Remeasurements of defined benefit plans	(5,212)	(12,969)	(46,457)
Subscription rights to shares	236	232	2,104
Non-controlling interests	117,003	108,846	1,042,900
Total net assets	367,608	343,853	3,276,656
Total liabilities and net assets	¥ 1,096,735	¥ 1,094,043	$ 9,775,693

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, 2017 and 2016

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2017	2016	2017
Net Sales	¥ 731,465	¥ 805,414	$ 6,519,877
Cost of Sales (Note 1(q))	672,580	743,530	5,995,008
Gross profit	58,885	61,884	524,869
Selling, General and Administrative Expenses (Note 1(q))	50,581	50,071	450,852
Operating income	8,304	11,813	74,017
Other Income (Expenses)			
Interest and dividend income	5,671	4,976	50,548
Interest expenses	(3,417)	(3,232)	(30,457)
Loss on valuation of derivatives	(205)	-	(1,827)
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	5,548	4,838	49,452
Foreign currency exchange losses	(1,889)	(6,672)	(16,838)
Gain on disposal of non-current assets	27,260	522	242,981
Gain on sales of investment securities (Note 2)	294	3,297	2,621
Gain on valuation of derivatives	-	3,227	-
Gain on liquidation of subsidiaries and affiliates	-	587	-
State subsidy	-	712	-
Gain on sales of subsidiaries and affiliates' stocks	-	321	-
Gain on bargain purchase	273	-	2,433
Insurance income	-	3,117	-
Gain on forgiveness of debt	-	334	-
Reversal of provision for environmental preservation cost	-	1,730	-
Loss on disposal of non-current assets	(1,056)	(1,363)	(9,413)
Loss on impairment of non-current assets (Note 14)	(5,090)	(341)	(45,369)
Loss on sales of investment securities (Note 2)	(2)	(169)	(18)
Loss on valuation of investment securities	(11)	(419)	(98)
Loss on valuation of investments in capital of subsidiaries and affiliates	(5)	(112)	(45)
Loss on liquidation of subsidiaries and affiliates	-	(686)	-
Loss on reduction of non-current assets	-	(712)	-
Loss on valuation of shares of subsidiaries and affiliates	(272)	-	(2,424)
Provision of allowance for doubtful accounts	-	(213)	-
Loss on shipping accident	-	(1,160)	-
Loss on step acquisitions	(437)	-	(3,895)
Loss on settlement	(1,084)	-	(9,662)
Provision for loss on litigation	(715)	-	(6,373)
Others, net	847	127	7,549
Total	25,710	8,709	229,165
Profit before income taxes	34,014	20,522	303,182
Income Taxes (Note 11)			
Current	11,613	10,621	103,512
Deferred	3,839	2,038	34,219
	15,452	12,659	137,731
Profit	18,562	7,863	165,451
Profit attributable to non-controlling interests	6,368	263	56,760
Profit attributable to owners of parent	¥ 12,194	¥ 7,600	$ 108,691
Amounts Per Share of Common Stock (Notes 1(a) and 8)			
Earnings per share	¥ 15.09	¥ 9.40	$ 0.135
Diluted earnings per share	¥ 15.06	¥ 9.39	$ 0.134
Dividends, applicable to the year	¥ 3.00	¥ 4.00	$ 0.027

Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2017 and 2016

	Japanese Yen (millions)				U.S.Dollars (thousands) (Note 1(a))	
	2017		2016		2017	
Profit	¥	18,562	¥	7,863	$	165,451
Other comprehensive income(Note 15)						
Net unrealized holding gains (losses) on securities		3,618		(8,540)		32,249
Unrealized gains (losses) on hedging derivatives		1,729		2,988		15,411
Revaluation reserve for land		-		5,989		-
Foreign currency translation adjustments		(1,660)		776		(14,796)
Remeasurements of Defined Benefit Plans		7,750		(7,354)		69,079
Share of other comprehensive income of affiliates accounted for using equity method		(4,371)		(847)		(38,961)
Total		7,066		(6,988)		62,982
Comprehensive income	¥	25,628	¥	875	$	228,433
Comprehensive income attributable to owners of parent	¥	18,824	¥	(768)	$	167,786
Comprehensive income attributable to non-controlling interests	¥	6,804	¥	1,643	$	60,647

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2017 and 2016

	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 net assets
Balance as of April 1, 2015	830,987	44,385	18,248	142,677	(4,761)	14,058	(9,719)	24,777	12,705	(5,646)	146	110,435	347,305
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)
Disposal of treasury stock			(0)		0								0
Transfer from revaluation reserve for land				111									111
Change in treasury stock 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 April 1, 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
Cash dividends paid				(3,233)									(3,233)
Profit attributable to owners of parent				12,194									12,194
Purchases of treasury stock					(9)								(9)
Disposal of treasury stock			(3)		9								6
Transfer from revaluation reserve for land				(10,723)									(10,723)
Change in treasury stock of parent arising from transactions with non-controlling shareholders			(0)										(0)
Net changes of items other than those in Shareholders' equity						3,772	1,042	10,723	(5,935)	7,757	4	8,157	25,520
Balance as of March 31, 2017	830,987	44,385	18,809	146,961	(4,779)	9,957	(6,612)	41,264	5,596	(5,212)	236	117,003	367,608

	Thousands	U.S. Dollars (thousands) (Note 1(a))											
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of April 1, 2016	830,987	395,623	167,680	1,325,635	(42,597)	55,130	(68,224)	272,226	102,781	(115,600)	2,068	970,193	3,064,915
Cash dividends paid				(28,817)									(28,817)
Profit attributable to owners of parent				108,691									108,691
Purchases of treasury stock					(80)								(80)
Disposal of treasury stock			(27)		80								53
Transfer from revaluation reserve for land				(95,579)									(95,579)
Change in treasury stock of parent arising from transactions with non-controlling shareholders			(0)										(0)
Net changes of items other than those in Shareholders' equity						33,621	9,288	95,579	(52,901)	69,143	36	72,707	227,473
Balance as of March 31, 2017	830,987	395,623	167,653	1,309,930	(42,597)	88,751	(58,936)	367,805	49,880	(46,457)	2,104	1,042,900	3,276,656

Consolidated Statements of Cash Flows

	Japanese Yen (millions)				U.S.Dollars (thousands) (Note 1(a))	
Cash Flows from Operating Activities :	2017		2016		2017	
Profit before income taxes	¥	34,014	¥	20,522	$	303,182
Adjustments to reconcile Profit before income taxes to net cash provided by (used in) operating activities						
Depreciation and amortization		18,577		17,945		165,585
Loss on impairment of non-current assets		5,090		341		45,369
Amortization of goodwill		1,311		922		11,686
Gain on bargain purchase		(273)		-		(2,433)
Loss on step acquisitions		437		-		3,895
Share-based compensation expenses		10		86		89
Increase (Decrease) of allowance for doubtful accounts		(1,128)		964		(10,054)
Increase in net defined benefit liabilities		190		523		1,694
Decrease (Increase) in net defined benefit assets		29		(2,165)		258
Interest and dividend income		(5,671)		(4,976)		(50,548)
Interest expenses		3,417		3,232		30,457
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method		(5,548)		(4,838)		(49,452)
Foreign currency exchange losses (gain), net		(1,715)		4,162		(15,287)
Gain on sales of investment securities		(292)		(3,128)		(2,603)
Gain on sales of subsidiaries and affiliates' stocks		-		(321)		-
Loss on valuation of investment securities		11		419		98
Loss on valuation of shares of subsidiaries and affiliates		272		-		2,424
Loss on valuation of investments in capital of subsidiaries and affiliates		5		112		45
Loss on liquidation of subsidiaries and affiliates		-		99		-
Loss (Gain) on disposal of non-current assets, net		(26,204)		841		(233,568)
Loss on reduction of non-current assets		-		712		-
State subsidy		-		(712)		-
Gain on forgiveness of debt		-		(334)		-
Insurance income		-		(3,117)		-
Changes in assets and liabilities :						
Decrease (increase) in						
Trade receivables		10,783		30,642		96,114
Inventories		(1,391)		(4,945)		(12,399)
Other assets		(2,674)		(5,629)		(23,835)
Increase (decrease) in						
Trade payables		(44,466)		(2,661)		(396,344)
Other liabilities		7,743		(14,036)		69,017
Others, net		(460)		(183)		(4,100)
Sub-total		(7,933)		34,477		(70,710)
Interest and dividend received		12,522		9,078		111,614
Interest paid		(3,429)		(2,933)		(30,564)
Proceeds from insurance income		576		3,117		5,134
Income taxes paid		(9,580)		(13,936)		(85,391)
Net cash provided by (used in) operating activities	¥	(7,844)	¥	29,803	$	(69,917)

Cash Flows from Investing Activities :

	Japanese Yen (millions) 2017	2016	U.S.Dollars (thousands) (Note 1(a)) 2017
Net decrease (increase) in time deposits	(27)	1,751	(241)
Capital expenditure	(20,238)	(16,023)	(180,390)
Proceeds from sales of non-current assets	37,694	747	335,984
Purchases of investment securities	(4,542)	(52)	(40,485)
Proceeds from sales of investment securities	612	6,816	5,455
Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation (Note 1(r))	(766)	(15,155)	(6,828)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	221	-
Purchase of shares of subsidiaries and affiliates	(7,881)	(10,695)	(70,247)
Proceeds from sales of shares of subsidiaries and affiliates	1	-	9
Payments for investments in capital of subsidiaries and affiliates	(115)	-	(1,025)
Disbursements of loans receivable	(83,493)	(77,260)	(744,210)
Collection of loans receivable	50,353	74,789	448,819
Proceeds from subsidy income	-	712	-
Others, net	(351)	(451)	(3,129)
Net cash provided by (used in) investing activities	¥ (28,753)	¥ (34,600)	$ (256,288)

Cash Flows from Financing Activities :

	Japanese Yen (millions) 2017	2016	U.S.Dollars (thousands) 2017
Net increase (decrease) in short-term borrowings	(14,175)	12,444	(126,348)
Proceeds from long-term indebtedness	57,609	68,683	513,495
Repayments of long-term indebtedness	(32,314)	(28,568)	(288,030)
Repayments of lease obligations	(1,767)	(1,540)	(15,750)
Proceeds from issuance of bonds	15,000	10,000	133,702
Repayments on bonds	-	(10,000)	-
Purchases of treasury stock	(9)	(18)	(80)
Cash dividends	(3,221)	(1,612)	(28,710)
Dividends paid to non-controlling interests	(1,865)	(2,116)	(16,624)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	944	-
Others, net	144	0	1,284
Net cash provided by (used in) financing activities	¥ 19,402	¥ 48,217	$ 172,939

	Japanese Yen (millions) 2017	2016	U.S.Dollars (thousands) 2017
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,933)	(2,464)	(26,144)
Net increase (decrease) in Cash and Cash Equivalents	(20,128)	40,956	(179,410)
Increase due to changes in scope of consolidation	-	127	-
Cash and Cash Equivalents at Beginning of Year	135,748	94,665	1,209,983
Cash and Cash Equivalents at End of Year (Note 1(r))	¥ 115,620	¥ 135,748	$ 1,030,573

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, 2017, which was ¥112.19 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 using 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 using 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. Available-for-sale securities without market prices available are stated at 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 using equity method, and available-for-sale securities decline significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Derivative Transaction and Hedge Accounting

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

1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,
   i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the

contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the statement of income of the fiscal year in which such contracts are entered into, and
ii) the difference between the Japanese yen amount converted by the contracted forward foreign exchange rate and the Japanese yen amount by spot rate at the trade date of the contract is allocated to every fiscal period over the term of the contract.

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

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

(f) Allowance for Doubtful Accounts

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

(g) Inventories

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

(h) Property, Plant and Equipment and Depreciation

Depreciation of plant and equipment is mainly computed using the declining-balance method over their estimated useful lives. Buildings (excluding facilities attached to buildings) that were acquired on or after April 1, 1998, and facilities attached to buildings and structures that were acquired on or after April 1, 2016 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 mainly 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 Construction Warranties

Provision for construction warranties for ships and other products is provided based on the estimated amounts calculated by using mainly the average proportion of construction warranties against amounts of construction revenue 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 ¥38,944 million ($347,125 thousand) and ¥38,972 million as of March 31, 2017 and 2016, 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, 2017 and 2016 were ¥3,912 million ($34,869 thousands) and ¥3,472 million, respectively.

(r) Cash Flow Statement

In preparing the consolidated statements of cash flows, cash and cash equivalents consists of 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 which involve only an insignificant risk in their movements of value.
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, 2017 and 2016 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Cash and time deposits	¥ 119,812	¥ 139,374	$ 1,067,938
Time deposits with maturities exceeding 3 months	(4,192)	(3,626)	(37,365)
Cash and cash equivalents	¥ 115,620	¥ 135,748	$ 1,030,573

The following tables summarize breakdown of assets and liabilities of newly consolidated subsidiaries acquired through stock purchase.

2017:
Acquisition cost and net payments for assets and liabilities of Simon Carves Engineering Limited, newly consolidated subsidiaries acquired through stock purchase, for the year ended March 31, 2017 were as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 382	$ 3,405
Non-current assets	18	160
Goodwill	125	1,114
Current liabilities	(308)	(2,745)
Acquisition cost of stock	217	1,934
Cash and cash equivalents of newly consolidated subsidiaries	(98)	(873)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 119	$ 1,061

Acquisition cost and net payments for assets and liabilities of Kaji Technology Corporation, newly consolidated subsidiaries acquired through stock purchase, for the year ended March 31, 2017 were as follows:

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 6,844	$ 61,004
Non-current assets	2,017	17,978
Current liabilities	(1,445)	(12,880)
Non-current liabilities	(853)	(7,603)
Non-controlling interests	(3,216)	(28,666)
Sub-total	3,347	29,833
Book value on an equity method basis before acquisition	(2,384)	(21,250)
Gain on bargain purchase	(273)	(2,433)
Loss on step acquisitions	437	3,895
Acquisition cost of stock	1,127	10,045
Cash and cash equivalents of newly consolidated subsidiaries	(480)	(4,278)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 647	$ 5,767

2016:
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)
Current assets	¥ 10,762
Non-current assets	8,904
Goodwill	14,472
Current liabilities	(7,501)
Non-current liabilities	(4,510)
Non-controlling interests	(1)
Acquisition cost of stock	22,126
Cash and cash equivalents of newly consolidated subsidiaries	(6,971)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 15,155

(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

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

(v) Changes in accounting and reporting policies

In light of revisions to the Corporation Tax Act, the Company and some of consolidated subsidiaries are applying "Practical Solution on a change in depreciation method due to Tax Reform 2016" (PITF No. 32, June 17, 2016) to this fiscal year and changing the depreciation method for facilities attached to buildings and structures acquired from April 1, 2016 onward from the declining-balance method to the straight-line method. Furthermore, the impact of these changes on consolidated financial statements is not significant.

2. Investment Securities

(a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2017 and 2016:

2017:

	Japanese Yen (millions)					
		Acquisition cost		Book value		Difference
Available-for-sale securities:						
Securities with book values exceeding acquisition costs:						
Equity securities	¥	20,268	¥	35,849	¥	15,581
Sub Total		20,268		35,849		15,581
Securities with book values not exceeding acquisition costs:						
Equity securities		2,265		1,744		(521)
Sub Total		2,265		1,744		(521)
Total	¥	22,533	¥	37,593	¥	15,060

2016:

	Japanese Yen (millions)					
		Acquisition cost		Book value		Difference
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

2017:

	U. S. Dollars (thousands)					
		Acquisition cost		Book value		Difference
Available-for-sale securities:						
Securities with book values exceeding acquisition costs:						
Equity securities	$	180,658	$	319,538	$	138,880
Sub Total		180,658		319,538		138,880
Securities with book values not exceeding acquisition costs:						
Equity securities		20,189		15,545		(4,644)
Sub Total		20,189		15,545		(4,644)
Total	$	200,847	$	335,083	$	134,236

(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, 2017 and 2016 were as follows:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
		2017		2016		2017
Proceeds from sales of available-for-sale securities						
Securities	¥	612	¥	6,316	$	5,455
Bonds		-		500		-
Realized gains on sales of available-for-sale securities						
Securities	¥	294	¥	3,297	$	2,621
Realized losses on sales of available-for-sale securities						
Securities	¥	2	¥	169	$	18

3. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2017 and 2016 were ¥43,495 million ($387,691 thousand) and ¥46,300 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2017 and 2016 were ¥5,719 million ($50,976 thousand) and ¥5,964 million, respectively.

4. Pledged Assets

Assets pledged as collateral for short-term borrowings and long-term indebtedness as of March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
		2017		2016		2017
Land	¥	4,197	¥	5,123	$	37,410
Buildings and structures		215		305		1,916
Machinery, equipment and vehicles		10,557		15,084		94,099
Investment securities		530		530		4,724
Cash and time deposits		919		625		8,192
Others		3,782		-		33,711
	¥	20,200	¥	21,667	$	180,052

Long-term indebtedness secured by the above pledged assets as of March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
		2017		2016		2017
Long-term indebtedness	¥	13,788	¥	15,787	$	122,899
	¥	13,788	¥	15,787	$	122,899

5. Short-Term Borrowings

Short-term borrowings represent notes payable to banks due within twelve months. The average interest rate for the year ended March 31, 2017 is 1.59%.

6. Long-Term Indebtedness

Long-term indebtedness as of March 31, 2017 and 2016 were summarized below:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
		2017		2016		2017
Secured by mortgages on plant and equipment-						
loans from Japanese banks, due on various dates through 2025	¥	13,788	¥	15,787	$	122,899
Unsecured or non-guaranteed-						
1.08% bonds, due June 15, 2017		10,000		10,000		89,135
1.47% bonds, due January 26, 2018		5,000		5,000		44,567
1.14% bonds, due December 12, 2019		5,000		5,000		44,567
0.63% bonds, due December 12, 2019		5,000		5,000		44,567
0.62% bonds, due September 14, 2020		5,000		5,000		44,567
1.03% bonds, due December 10, 2021		5,000		5,000		44,567
0.46% bonds, due September 15, 2021		10,000		-		89,135
1.01% bonds, due September 14, 2022		5,000		5,000		44,567
0.7% bonds, due September 15, 2023		5,000		-		44,567
loans from banks, insurance companies and trading companies due on various dates through 2027		182,264		156,226		1,624,601
		251,052		212,013		2,237,739
Less: Current portion included in current liabilities		(62,633)		(41,126)		(558,276)
	¥	188,419	¥	170,887	$	1,679,463

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

Year ended March 31,	Japanese Yen (millions)	U.S.Dollars (thousands)
2018	¥ 62,633	$ 558,276
2019	55,764	497,050
2020	39,527	352,322
2021	41,993	374,302
2022 and thereafter	51,135	455,789
	¥ 251,052	$ 2,237,739

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, 2017 and 2016 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Total overdraft facilities and lending commitments	¥ 70,611	¥ 64,425	$ 629,388
Less amounts currently executed	4,386	2,142	39,095
Unexecuted balance	¥ 66,225	¥ 62,283	$ 590,293

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, 2017, the shareholders approved cash dividends amounting to ¥2,425 million ($21,615 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. This type of appropriations is recognized in the period in which they are approved by the shareholders.
Earnings per share is computed 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)
	2017	2016	2017
Balance at beginning of year	¥ 48,717	¥ 47,811	$ 434,237
Current service costs	2,902	2,407	25,867
Interest costs	266	468	2,371
Actuarial differences on pension plan obligation	(110)	2,855	(981)
Benefits paid	(4,796)	(4,858)	(42,749)
Change of scope of consolidation	1,005	-	8,958
Others	51	34	455
Balance at end of year	¥ 48,035	¥ 48,717	$ 428,158

ii) Movements of pension assets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Balance at beginning of year	¥ 36,649	¥ 45,219	$ 326,669
Expected return on pension assets	10	10	89
Actuarial differences on pension assets	6,658	(8,596)	59,346
Contribution to pension plans	210	165	1,872
Benefits paid	(1,966)	(186)	(17,524)
Change of scope of consolidation	399	-	3,557
Others	(5)	37	(45)
Balance at end of year	¥ 41,955	¥ 36,649	$ 373,964

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)
	2017	2016	2017
Retirement benefit obligation (funded non-contributory)	¥ 40,064	¥ 40,387	$ 357,109
Less fair value of pension assets	(41,955)	(36,649)	(373,964)
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	7,971	8,330	71,049
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 6,080	¥ 12,068	$ 54,194
Defined benefit liabilities	12,778	12,318	113,896
Defined benefit assets	(6,698)	(250)	(59,702)
Net defined benefit assets/liabilities recorded in the consolidated balance sheets	¥ 6,080	¥ 12,068	$ 54,194

iv) Severance and retirement benefit expenses:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Current service costs	¥ 2,902	¥ 2,407	$ 25,867
Interest costs	266	468	2,371
Expected return on pension assets	(10)	(10)	(89)
Amortization of actuarial differences	4,396	1,241	39,183
Amortization of prior service costs	(55)	(35)	(490)
Severance and retirement benefit expenses	¥ 7,499	¥ 4,071	$ 66,842

v) Remeasurements of defined benefit plans (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Prior service costs	¥ 5	¥ 3	$ 44
Actuarial differences	11,149	(10,306)	99,376
Others	17	23	152
Total	¥ 11,171	¥ (10,280)	$ 99,572

vi) Unrecognized actuarial differences (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Unrecognized prior service costs	¥ (12)	¥ (7)	$ (107)
Unrecognized actuarial differences	7,319	18,468	65,238
Others	379	396	3,378
Total	¥ 7,686	¥ 18,857	$ 68,509

vii) The major categories of pension assets:	Percentage of composition	
	2017	2016
Bonds	3%	3%
Securities	84%	79%
Cash and deposits	9%	14%
Others	4%	4%
Total	100%	100%

viii) The principal actuarial assumptions at reporting date are summarized below:	2017	2016
Discount rate	0.0% - 1.1%	0.0% - 0.8%
Expected rate of return on pension plan assets	Not applicable	Not applicable
Expected rate of pay raises	Primarily 2.0% - 3.9%	Primarily 2.0% - 4.2 %

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)
	2017	2016	2017
Contribution paid to the defined contribution pension plan	¥ 338	¥ 248	$ 3,013

10. Stock options

(a) Expenses for stock options and account titles at March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Selling, general and administrative expenses	¥ 10	¥ 86	$ 89

(b) The stock options outstanding at March 31, 2017 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, 2017 are as follows:

	FY2015 Stock option	FY2014 Stock option	FY2013 Stock option
Non-vested:			
Outstanding at March 31, 2016	238,000	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested	238,000	-	-
Outstanding of non-vested at March 31, 2017	-	-	-
Vested:			
Outstanding at March 31, 2016	258,000	364,000	616,000
Vested	238,000	-	-
Exercised	-	-	41,000
Forfeited	-	-	-
Outstanding of non-vested at March 31, 2017	496,000	364,000	575,000
Exercise price - Yen (U.S. Dollars)	¥ 1 ($0.009)	¥ 1 ($0.009)	¥ 1 ($0.009)
Average share price at exercise -Yen (U.S. Dollars)	-	-	¥ 177 ($1.578)
Fair value price at grant date -Yen (U.S. Dollars)	¥ 169 ($1.506)	¥ 191 ($1.702)	¥ 144 ($1.284)

(d) 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 tax rate in Japan of approximately 33.1% for the year ended March 31, 2016 and 30.8% for the year ended March 31, 2017.
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, 2017 and 2016:

	2017	2016
Statutory tax rate	30.8 %	33.1 %
Valuation allowance	31.9	42.4
Revaluation of land	(0.7)	(0.5)
Non-deductible expenses for tax purposes	2.2	1.2
Amortization of goodwill	0.7	1.5
Taxation on per capita basis	0.4	0.6
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	(5.0)	(9.0)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(15.2)	(4.4)
Non-taxable dividend income	(1.5)	(0.3)
Gain on bargain purchase	(0.2)	-
Increase (Decrease) of deferred tax assets, net of liabilities at fiscal year-end by the change of tax rate	1.1	(7.3)
Others	0.9	4.4
Effective tax rate	45.4 %	61.7 %

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Deferred tax assets:			
Net defined benefit liabilities	10,658	12,594	95,000
Elimination of intercompany profit of fixed assets	7,262	10,787	64,729
Tax loss carry forward	19,350	11,356	172,475
Losses on revaluation of inventories	313	291	2,790
Accrued expenses	4,874	2,834	43,444
Provision for construction warranties	2,448	2,045	21,820
Allowance for doubtful accounts	1,619	2,033	14,431
Provision for losses on construction contracts	5,398	2,868	48,115
Loss on impairment of non-current assets	7,502	7,699	66,869
Loss on revaluation of marketable and investment securities	413	429	3,681
Stock investment to subsidiaries and affiliates	11,340	-	101,079
Others	19,835	15,723	176,798
Total deferred tax assets	91,012	68,659	811,231
Valuation allowance	(46,371)	(19,695)	(413,326)
Net deferred tax assets	¥ 44,641	¥ 48,964	$ 397,905
Deferred tax liabilities:			
Net unrealized holding gains on securities	(5,828)	(4,222)	(51,947)
Accelerated depreciation on non-current assets	(807)	(1,773)	(7,193)
Reserve for advanced depreciation of non-current assets	(3,181)	(3,357)	(28,354)
Gains on contribution of securities to trust for employees' retirement benefit	(1,637)	(1,637)	(14,591)
Percentage of completion	(1,944)	(3,562)	(17,328)
Unrealized gain on assets and liabilities of consolidated subsidiaries	(47,994)	(49,426)	(427,792)
Unrealized gain on foreign currency assets and liabilities	-	(1,072)	-
Others	(5,861)	(905)	(52,242)
Total deferred tax liabilities	(67,252)	(65,954)	(599,447)
Net deferred tax assets	¥ (22,611)	¥ (16,990)	$ (201,542)

Correction to amounts for deferred tax assets and deferred tax liabilities due to change in tax rates for corporate tax, etc.
Since amendments to the Japanese tax regulations were enacted into law on November 28, 2016, the statutory tax rate utilized for the measurement of deferred tax assets and liabilities in the current fiscal year changed from the previous year.
The impact of these changes on our consolidated financial statements is not significant.

12. Business Combination

Business combination by acquisition
(a) Outline of the transaction
i) Name and business of the acquired entity
Name: Kaji Technology Corporation
Business: Manufacturing and sales of gas compressors, air compressors, and related auxiliary equipment
ii) Reason of business combination
Main objective is to generate increased Group synergy through the consolidation of Kaji Technology Corporation into the Company's business strategies to conduct integrated operations for the reciprocating compressor business.
iii) Date of the transaction:
March 31, 2017 (Deemed date of acquisition)
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:
Voting rights percentage prior to stock acquisition: 32.50%
Additional voting rights percentage gained on date of corporate consolidation: 18.80%
Voting rights percentage following acquisition: 51.30%
vii) The main reason that led to the decision of acquiring entity
Due to acquisition of stocks received as compensation for cash payment

(b) The period of financial result of the acquired entity included in the consolidated financial statements:
April 1, 2016 through March 31, 2017
As the equity method was applied to the acquired entity, results from April 1, 2016 through March 31, 2017 are recorded as Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method.

(c) Consideration transferred for the acquisition

		Japanese Yen (millions)		U.S.Dollars (thousands)	
Acquisition compensation	Market value of stocks held prior to business combination on the date of the business combination	¥	1,947	$	17,354
	Cash paid on date of business consolidation		1,127		10,045
Acquisition Cost		¥	3,074	$	27,399

(d) Amount of incidental acquisition related cost and its purpose
Advisory fee, etc: ¥ 114 million ($ 1,016 thousand)

(e) Difference between acquisition costs for the acquired entity and the total amount for acquisition costs per transaction leading up to acquisition.
Loss on step acquisitions: ¥ 437 million ($ 3,895 thousand)

(f) Amount and cause of Gain on bargain purchase
i) Amount of Gain on bargain purchase : ¥ 273 million ($ 2,433 thousand)
ii) Reason of Gain on bargain purchase
Because the net value of assets received and liabilities underwritten for the acquired entity exceeds the acquisition costs for the acquired entity, the Company is treating the excess portion as Gain on bargain purchase.

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

	Japanese Yen (millions)		U.S.Dollars (thousands)	
Current assets	¥	6,844	$	61,004
Non-current assets		2,017		17,978
Total assets	¥	8,861	$	78,982

	Japanese Yen (millions)		U.S.Dollars (thousands)	
Current liabilities	¥	(1,445)	$	(12,880)
Long-term liabilities		(853)		(7,603)
Total liabilities	¥	(2,298)	$	(20,483)

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

13. Contingent Liabilities

Contingent liabilities of the Group as of March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
	2017		2016		2017	
Guarantees of bank loans and other indebtedness	¥	86,052	¥	141,679	$	767,020

14. Loss on Impairment of 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, 2017 and 2016 were comprised of the following.

2017

Location	Oita City, Oita Prefecture etc.
Major use	Idle assets
Asset category	Land
Amount	¥ 30 million ($ 267 thousand)
Reason	Decline in market value

Location	Yamakita Town, Kanagawa Prefecture etc.
Major use	Business assets
Asset category	Land, Structure, Machinery and Equipment etc.
Amount	¥ 893 million ($ 7,960 thousand)
Reason	Decline in market value and deterioration of business environment

Location	Yamakita Town, Kanagawa Prefecture
Major use	Assets to be disposed
Asset category	Land, Structure
Amount	¥ 2,642 million ($ 23,549 thousand)
Reason	Determination of disposal

Location	The United States
Major use	-
Asset category	Goodwill
Amount	¥ 1,525 million ($ 13,593 thousand)
Reason	Deterioration of estimated profitability of MODEC INTERNATIONAL, INC.

2016

Location	Oita City, Oita Prefecture etc.
Major use	Idle assets
Asset category	Land, Building
Amount	¥ 341 million
Reason	Decline in market value

15. Comprehensive Income

Each component of other comprehensive income for the years ended of March 31, 2017 and 2016 were the following:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Net unrealized holding gains (losses) on securities :			
Amount of generation at this fiscal term	¥ 5,469	¥ (9,891)	$ 48,748
Amount of rearrangement adjustment	(246)	(3,105)	(2,193)
Before adjusting the tax effect	5,223	(12,996)	46,555
Tax effect	(1,605)	4,456	(14,306)
Net unrealized holding gains (losses) on securities	3,618	(8,540)	32,249
Unrealized gains (losses) on hedging derivatives :			
Amount of generation at this fiscal term	2,807	4,444	25,020
Amount of rearrangement adjustment	(243)	(155)	(2,166)
Before adjusting the tax effect	2,564	4,289	22,854
Tax effect	(835)	(1,301)	(7,443)
Unrealized gains (losses) on hedging derivatives	1,729	2,988	15,411
Revaluation reserve for land:			
Amount of generation at this fiscal term	-	(128)	-
Before adjusting the tax effect	-	(128)	-
Tax effect	-	6,117	-
Revaluation reserve for land	-	5,989	-
Foreign currency translation adjustments :			
Amount of generation at this fiscal term	(1,798)	718	(16,026)
Amount of rearrangement adjustment	-	95	-
Before adjusting the tax effect	(1,798)	813	(16,026)
Tax effect	138	(37)	1,230
Foreign currency translation adjustments	(1,660)	776	(14,796)
Remeasurements of defined benefit plans :			
Amount of generation at this fiscal term	6,830	(11,110)	60,879
Amount of rearrangement adjustment	4,341	830	38,693
Before adjusting the tax effect	11,171	(10,280)	99,572
Tax effect	(3,421)	2,926	(30,493)
Remeasurements of defined benefit plans	7,750	(7,354)	69,079
Share of other comprehensive income of affiliates accounted for using equity method :			
Amount of generation at this fiscal term	(5,606)	(3,676)	(49,969)
Amount of rearrangement adjustment	1,235	2,829	11,008
Share of other comprehensive income of affiliates accounted for using equity method	(4,371)	(847)	(38,961)
Total	¥ 7,066	¥ (6,988)	$ 62,982

16. Leases

(a) Lessee

i) Unexpired lease payments of operating lease transactions as of March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Due within one year	¥ 1,655	¥ 1,365	$ 14,752
Due after one year	6,861	6,639	61,155
Total	¥ 8,516	¥ 8,004	$ 75,907

(b) Lessor

i) Unexpired lease receivables of operating lease transactions as of March 31, 2017 and 2016 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2017	2016	2017
Due within one year	¥ 3,026	¥ 3,920	$ 26,972
Due after one year	9,812	10,057	87,459
Total	¥ 12,838	¥ 13,977	$ 114,431

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).

Regarding the funding, the Group raises the short-term working capital through bank loans and the issuance of commercial paper (CP), and raises the long term capital investment through bank loans and the issuance of bonds. Derivative financial instruments are utilized to hedge the risks described hereinafter and not for speculative transactions as a matter of policy.

2) Substances and risks of financial instruments

Trade receivables are exposed to credit risks of customers. Trade receivables in foreign currency, which MES and certain Subsidiaries receive from foreign operations, are exposed to currency fluctuation risks. Forward foreign exchange contracts are applied to these hedged items in principle. Investment 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 capital investments. Although the portions of those debts with floating interest rates are 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, hedged items, hedging policy and hedge effectiveness testing, please refer to "1. Significant Accounting and Reporting Policies (e) Derivative Transaction and Hedge Accounting."

3) Risk management in financial instruments

i) Management of credit risks (Risks for breach of contracts)

The Group monitors due dates and balances of trade receivables and regularly investigates 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 fluctuation risks arising from short-term and long-term borrowings and bonds.

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

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

As to derivative transactions, the 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, 2017 and 2016 were as follows. Financial instruments in which the fair value is considered to be extremely difficult to recognize are not included in the list below.

2017	Japanese Yen (millions)		
	Book value	Fair value	Difference
(1)Cash and time deposits	¥ 119,812	¥ 119,812	¥ -
(2)Trade receivables	261,674		
Less allowance for doubtful accounts *1	(2,855)		
	258,819	258,819	0
(3)Short-term loans	56,495		
Less allowance for doubtful accounts *1	(84)		
	56,411	56,411	-
(4)Investment securities			
Available-for-sale securities	37,593	37,593	-
(5)Long-term loans	31,488		
Less allowance for doubtful accounts *1	(342)		
	31,146	31,413	267
Assets total	¥ 503,781	¥ 504,048	¥ 267
(1)Trade payables	¥ 195,850	¥ 195,850	¥ -
(2)Short-term borrowings	14,124	14,124	-
(3)Current portion of long-term borrowings	47,633	47,700	67
(4)Current portion of bonds	15,000	15,018	18
(5)Accrued income taxes	13,736	13,736	-
(6)Bonds	40,000	40,284	284
(7)Long-term borrowings	148,419	148,770	351
Liabilities total	¥ 474,762	¥ 475,482	¥ 720
Derivative transactions *2			
i . Derivative transactions for which hedge accounting has not been applied	¥ 1,997	¥ 1,997	¥ -
ii. Derivative transactions for which hedge accounting has been applied	1,730	1,730	-
Derivative transactions total	¥ 3,727	¥ 3,727	¥ -

2016	Japanese Yen (millions)		
	Book value	Fair value	Difference
(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		
Less allowance for doubtful accounts *1	(213)		
	22,378	22,378	-
(4)Investment 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	¥ 503,144	¥ 503,141	¥ (3)
(1)Trade payables	¥ 245,636	¥ 245,636	¥ -
(2)Short-term borrowings	27,861	27,861	-
(3)Current portion of long-term borrowings	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 borrowings	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	¥ -

2017	U.S. Dollars (thousands)		
	Book value	Fair value	Difference
(1)Cash and time deposits	$ 1,067,938	$ 1,067,938	$ -
(2)Trade receivables	2,332,418		
Less allowance for doubtful accounts *1	(25,448)		
	2,306,970	2,306,970	0
(3)Short-term loans	503,566		
Less allowance for doubtful accounts *1	(748)		
	502,818	502,818	-
(4)Investments securities			
Available-for-sale securities	335,083	335,083	-
(5)Long-term loans	280,666		
Less allowance for doubtful accounts *1	(3,048)		
	277,618	279,998	2,380
Assets total	$ 4,490,427	$ 4,492,807	$ 2,380
(1)Trade payables	$ 1,745,699	$ 1,745,699	$ -
(2)Short-term borrowings	125,894	125,894	-
(3)Current portion of long-term borrowings	424,574	425,171	597
(4)Current portion of bonds	133,702	133,862	160
(5)Accrued income taxes	122,435	122,435	-
(6)Bonds	356,538	359,070	2,532
(7)Long-term borrowings	1,322,925	1,326,054	3,129
Liabilities total	$ 4,231,767	$ 4,238,185	$ 6,418
Derivative transactions *2			
i. Derivative transactions for which hedge accounting has not been applied	$ 17,800	$ 17,800	$ -
ii. Derivative transactions for which hedge accounting has been applied	15,420	15,420	-
Derivative transactions total	$ 33,220	$ 33,220	$ -

*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 borrowings, (7) Long-term borrowings
Fair value of borrowings at fixed interest rates is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.
Fair value of long-term borrowings at variable interest rates is stated at balance sheet amounts because variable interest rates reflects the latest market conditions and 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
	2017	2016	2017
(1)Unlisted equity securities	¥ 50,434	¥ 48,894	$ 449,541
(2)Trust property	143	140	1,275
Total	¥ 50,577	¥ 49,034	$ 450,816

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, 2017 and 2016 were as follows.

2017	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 119,714	¥ -	¥ -	¥ -
Trade receivables	260,438	1,228	8	-
Short-term loans	56,495	-	-	-
Long-term loans	0	2,885	15,207	13,396
Total	¥ 436,647	¥ 4,113	¥ 15,215	¥ 13,396

2016	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 138,527	¥ -	¥ -	¥ -
Trade receivables	279,774	2,636	10	-
Short-term loans	22,591	-	-	-
Long-term loans	1	6,972	10,739	10,601
Total	¥ 440,893	¥ 9,608	¥ 10,749	¥ 10,601

2017	U.S. Dollars (thousands)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	$ 1,067,064	$ -	$ -	$ -
Trade receivables	2,321,401	10,946	71	-
Short-term loans	503,566	-	-	-
Long-term loans	0	25,715	135,547	119,404
Total	$ 3,892,031	$ 36,661	$ 135,618	$ 119,404

(note 4) The expected redemption amount of bonds and long-term loan payable after the fiscal years ended March 31, 2017 and 2016 were as follows.

2017	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	¥ 14,124	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds	15,000	-	10,000	5,000	15,000	10,000
Long-term borrowings	47,633	55,764	29,527	36,993	16,158	9,977
Lease obligations	2,433	1,597	1,164	2,903	494	1,154
Other interest-bearing debt	128	97	90	83	40	198
Total	¥ 79,318	¥ 57,458	¥ 40,781	¥ 44,979	¥ 31,692	¥ 21,329

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	-	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

2017	U.S. Dollars (thousands)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	$ 125,894	$ -	$ -	$ -	$ -	$ -
Bonds	133,702	-	89,135	44,567	133,702	89,135
Long-term borrowings	424,574	497,050	263,187	329,735	144,023	88,929
Lease obligations	21,686	14,235	10,375	25,876	4,403	10,286
Other interest-bearing debt	1,141	864	802	740	357	1,765
Total	$ 706,997	$ 512,149	$ 363,499	$ 400,918	$ 282,485	$ 190,115

18. Derivative Transactions

Derivative transactions of the Group for market value information as of March 31, 2017 and 2016 were as follows:

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

2017	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	¥ 2,658	¥ -	¥ 58	¥ 58
Norwegian Krone	5	-	0	0
Swiss Franc	163	-	2	2
Chinese Yuan	285	-	3	3
To sell U.S. Dollars	15,370	-	(598)	(598)
Interest swap				
To receive float, pay fix	¥ 24,051	¥ 21,025	¥ 2,532	¥ 2,532
	¥ 42,532	¥ 21,025	¥ 1,997	¥ 1,997

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)
Interest swap				
To receive float, pay fix	¥ 26,991	¥ 24,051	¥ 2,091	¥ 2,091
	¥ 52,040	¥ 24,051	¥ 687	¥ 687

2017	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	$ 23,692	$ -	$ 517	$ 517
Norwegian Krone	45	-	0	0
Swiss Franc	1,453	-	18	18
Chinese Yuan	2,540	-	26	26
To sell U.S. Dollars	137,000	-	(5,330)	(5,330)
Interest swap				
To receive float, pay fix	$ 214,377	$ 187,405	$ 22,569	$ 22,569
	$ 379,107	$ 187,405	$ 17,800	$ 17,800

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

2017

	Hedged items	Japanese Yen (millions) Contract amount Total	Due after one year	Fair value
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	¥ 4,462	¥ 984	¥ 941
Euro		2,548	244	(70)
STG Pounds		923	470	(92)
Indonesian Rupiah		7,790	4,252	(46)
Singapore Dollars		962	44	(36)
Japanese Yen		309	-	(10)
Swiss Franc		47	-	(3)
Brazil Real		10,263	-	2,043
To sell U.S.Dollars	Trade receivables	46,308	6,901	(132)
STG Pounds		20,194	7,086	834
Hong Kong Dollars		455	-	(38)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	1,297	-	-
		¥ 95,558	¥ 19,981	¥ 3,391
Interest swap				
Basic treatment : To receive float, pay fix	Long-term borrowings	¥ 25,671	¥ 20,619	¥ (1,661)
Exceptional treatment *2 : To receive float, pay fix	Long-term borrowings	48,046	38,414	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term borrowings	7,858	5,893	-
		¥ 81,575	¥ 64,926	¥ (1,661)

2016

	Hedged items	Japanese Yen (millions) Contract amount Total	Due after one year	Fair value
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 borrowings	¥ 29,823	¥ 25,822	¥ (2,348)
Exceptional treatment *2 : To receive float, pay fix	Long-term borrowings	45,004	37,034	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term borrowings	9,822	7,858	-
		¥ 84,649	¥ 70,714	¥ (2,348)

2017

	Hedged items	U.S. Dollars (thousands) Contract amount Total	Due after one year	Fair value
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S.Dollars	Trade payables	$ 39,772	$ 8,771	$ 8,388
Euro		22,711	2,175	(624)
STG Pounds		8,227	4,189	(820)
Indonesian Rupiah		69,436	37,900	(410)
Singapore Dollars		8,575	392	(321)
Japanese Yen		2,754	-	(89)
Swiss Franc		419	-	(27)
Brazil Real		91,479	-	18,211
To sell U.S.Dollars	Trade receivables	412,764	61,512	(1,177)
STG Pounds		179,998	63,161	7,434
Hong Kong Dollars		4,055	-	(339)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	11,561	-	-
		$ 851,751	$ 178,100	$ 30,226
Interest swap				
Basic treatment : To receive float, pay fix	Long-term borrowings	$ 228,817	$ 183,787	$ (14,805)
Exceptional treatment *2 : To receive float, pay fix	Long-term borrowings	428,256	342,401	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term borrowings	70,042	52,527	-
		$ 727,115	$ 578,715	$ (14,805)

*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 borrowings, which are hedged items, their fair value is included in that of long-term borrowings.

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 4 segments: Ship, Ocean Development, Machinery and Engineering. Main products and services of each Reportable Segment are as follows.

Ship: commercial ships, naval ships, high speed passenger/vehicle ferries, offshore structures, underwater TV vehicles, steel structures

Ocean Development: FPSOs (floating production storage offloading vessels)

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

Following the reorganization conducted on October 1, 2016 based on the business strategy of "MES Group 2025 Vision," the Group reclassified Reportable Segment from "Ship & Ocean," "Machinery" and "Engineering" to "Ship," "Ocean Development," "Machinery" and "Engineering" from the 3rd quarter of the year ended March 31, 2017. Segment information for the year ended March 31, 2016 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, 2017 and 2016 were as follows:

2017	Japanese Yen (millions)								
	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	¥ 126,690	¥ 228,420	¥ 174,847	¥ 162,598	¥ 692,555	¥ 38,910	¥ 731,465	¥ -	¥ 731,465
Inter segment	1,821	-	7,617	12	9,450	1,112	10,562	(10,562)	-
Total	128,511	228,420	182,464	162,610	702,005	40,022	742,027	(10,562)	731,465
Operating income (loss)	¥ (9,754)	¥ 17,896	¥ 14,772	¥ (17,333)	¥ 5,581	¥ 2,723	¥ 8,304	¥ -	¥ 8,304
Assets	¥ 159,912	¥ 312,377	¥ 170,164	¥ 101,861	¥ 744,314	¥ 225,985	¥ 970,299	¥ 126,436	¥1,096,735
Depreciation and amortization	¥ 4,000	¥ 5,364	¥ 4,158	¥ 1,468	¥ 14,990	¥ 3,149	¥ 18,139	¥ 438	¥ 18,577
Amortization of goodwill	¥ 809	¥ 465	¥ -	¥ 17	¥ 1,291	¥ 20	¥ 1,311	¥ -	¥ 1,311
Year-end balance of goodwill	¥ 11,738	¥ 2,372	¥ -	¥ 141	¥ 14,251	¥ 97	¥ 14,348	¥ -	¥ 14,348
Gain on bargain purchase	¥ -	¥ -	¥ 273	¥ -	¥ 273	¥ -	¥ 273	¥ -	¥ 273
Loss on impairment of non-current assets	¥ -	¥ 1,525	¥ 21	¥ -	¥ 1,546	¥ 58	¥ 1,604	¥ 3,486	¥ 5,090
Increase in property, plant and equipment and intangible assets	¥ 5,509	¥ 3,631	¥ 9,710	¥ 2,078	¥ 20,928	¥ 4,503	¥ 25,431	¥ 1,975	¥ 27,406

(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 ¥126,436 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 ¥132,051 million that are not allocated to any Reportable Segment.
(2) Adjustments of ¥438 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥457 million.
(3) Adjustments of ¥3,486 million recorded for loss on impairment of non-current assets are the impairment loss for Corporate.
(4) Adjustments of ¥1,975 million 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	Japanese Yen (millions)								
	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	¥ 128,804	¥ 294,982	¥ 171,690	¥ 171,271	¥ 766,747	¥ 38,667	¥ 805,414	¥ -	¥ 805,414
Inter segment	981	-	8,485	15	9,481	1,052	10,533	(10,533)	-
Total	129,785	294,982	180,175	171,286	776,228	39,719	815,947	(10,533)	805,414
Operating income (loss)	¥ (18,679)	¥ 5,373	¥ 13,807	¥ 8,298	¥ 8,799	¥ 3,014	¥ 11,813	¥ -	¥ 11,813
Assets	¥ 140,157	¥ 342,651	¥ 159,627	¥ 107,757	¥ 750,192	¥ 233,775	¥ 983,967	¥ 110,076	¥ 1,094,043
Depreciation and amortization	¥ 3,496	¥ 5,652	¥ ¥3,627	¥ 1,636	¥ 14,411	¥ 3,170	¥ 17,581	¥ 364	¥ 17,945
Amortization of goodwill	¥ 431	¥ 482	¥ -	¥ 9	¥ 922	¥ -	¥ 922	¥ -	¥ 922
Year-end balance of goodwill	¥ 13,372	¥ 4,476	¥ -	¥ 30	¥ 17,878	¥ -	¥ 17,878	¥ -	¥ 17,878
Loss on impairment of non-current assets	¥ -	¥ -	¥ 6	¥ -	¥ 6	¥ -	¥ 6	¥ 335	¥ 341
Increase in property, plant and equipment and intangible assets	¥ 11,465	¥ 4,414	¥ 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 ¥364 million recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of ¥476 million.
(3) Adjustments of ¥335 million recorded for loss on impairment of non-current assets are the impairment loss for Corporate.
(4) Adjustments of ¥907 million 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.

2017	U.S. Dollars (thousands)								
	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	$ 1,129,245	$ 2,036,011	$ 1,558,490	$ 1,449,309	$ 6,173,055	$ 346,822	$ 6,519,877	$ -	$6,519,877
Inter segment	16,231	-	67,894	107	84,232	9,912	94,144	(94,144)	-
Total	1,145,476	2,036,011	1,626,384	1,449,416	6,257,287	356,734	6,614,021	(94,144)	6,519,877
Operating income (loss)	$ (86,942)	$ 159,515	$ 131,670	$ (154,497)	$ 49,746	$ 24,271	$ 74,017	$ -	$ 74,017
Assets	$ 1,425,368	$ 2,784,357	$ 1,516,748	$ 907,933	$6,634,406	$2,014,306	$8,648,712	$ 1,126,981	$9,775,693
Depreciation and amortization	$ 35,654	$ 47,812	$ 37,062	$ 13,085	$ 133,613	$ 28,068	$ 161,681	$ 3,904	$ 165,585
Amortization of goodwill	$ 7,211	$ 4,145	$ -	$ 152	$ 11,508	$ 178	$ 11,686	$ -	$ 11,686
Year-end balance of goodwill	$ 104,626	$ 21,143	$ -	$ 1,257	$ 127,026	$ 864	$ 127,890	$ -	$ 127,890
Gain on bargain purchase	$ -	$ -	$ 2,433	$ -	$ 2,433	$ -	$ 2,433	$ -	$ 2,433
Loss on impairment of non-current assets	$ -	$ 13,593	$ 187	$ -	$ 13,780	$ 517	$ 14,297	$ 31,072	$ 45,369
Increase in property, plant and equipment and intangible assets	$ 49,104	$ 32,365	$ 86,550	$ 18,522	$ 186,541	$ 40,137	$ 226,678	$ 17,604	$ 244,282

(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 $1,126,981 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 $1,177,030 thousand that are not allocated to any Reportable Segment.
(2) Adjustments of $3,904 thousand recorded for depreciation include depreciation for property, plant and equipment and intangible assets related to the administration divisions of $4,073 thousand.
(3) Adjustments of $31,072 thousand recorded for loss on impairment of non-current assets are the impairment loss for Corporate.
(4) Adjustments of $17,604 thousand 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

2017	Japanese Yen (millions)					
	Japan	Brazil	Asia	Africa	Others	Total
Net sales	¥ 266,573	¥ 139,591	¥ 98,695	¥ 69,283	¥ 157,323	¥ 731,465

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

2017	U.S. Dollars (thousands)					
	Japan	Brazil	Asia	Africa	Others	Total
Net sales	$ 2,376,085	$ 1,244,237	$ 879,713	$ 617,551	$ 1,402,291	$ 6,519,877

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

2) Property, plant and equipment

2017	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 339,132	¥ 30,126	¥ 369,258

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

2017	U.S. Dollars (thousands)		
	Japan	Others	Total
Property, plant and equipment	$ 3,022,836	$ 268,527	$ 3,291,363

(f) Information by major customer

Information by major customer for both 2017 and 2016 is not described because there is no customer with the sales amount exceeds 10% of the sales amount in Consolidated Statements of Income.

[Information about gain on bargain purchase for each Reportable Segment]

2017

Gain on bargain purchase of ¥273 million ($2,433 thousand) is recorded under “Machinery” segment due to additional acquirement of the shares of the subsidiary, Kaji Technology Corporation.

2016

Not applicable.

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.

2017	Japanese Yen (millions)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2016	Increase (Decrease)	Ending balance as of March 31, 2017	As of March 31, 2017
Facilities for lease	¥ 107,221	¥ (8,834)	¥ 98,387	¥ 97,323
Idle assets (Land)	22,743	(5,486)	17,257	17,849
Total	¥ 129,964	¥ (14,320)	¥ 115,644	¥ 115,172

	U.S. Dollars (thousands)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2016	Increase (Decrease)	Ending balance as of March 31, 2017	As of March 31, 2017
Facilities for lease	$ 955,709	$ (78,741)	$ 876,968	$ 867,484
Idle assets (Land)	202,719	(48,900)	153,819	159,096
Total	$ 1,158,428	$ (127,641)	$ 1,030,787	$ 1,026,580

(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 (¥444 million / $3,958 thousand), and the decrease in rental properties is mainly due to sales of rental properties (¥7,147 million / $63,704 thousand), diversion of land (¥3,092 million / $27,560 thousand), impairment loss (¥3,230 million / $28,790 thousand) and depreciation (¥1,426 million / $12,711 thousand).
In addition, reclassification amounts (¥191 million / $1,702 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.

	Japanese Yen (millions)			
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	¥ 8,605	¥ 5,151	¥ 3,454	¥ 21,750
Idle assets (Land)	-	-	-	(2,487)
Total	¥ 8,605	¥ 5,151	¥ 3,454	¥ 19,263

	U.S.Dollars (thousands)			
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
Facilities for lease	$ 76,700	$ 45,913	$ 30,787	$ 193,868
Idle assets (Land)	-	-	-	(22,168)
Total	$ 76,700	$ 45,913	$ 30,787	$ 171,700

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.
(note 2) Others include gain/loss on disposal of non-current assets, loss on impairment of non-current assets and taxes-and-dues, which are recognized as other income (expenses).

2016	Japanese Yen (millions)			
	Book value			Fair value
Usage	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

(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) and diversion of land (¥1,197 million), and the decrease in rental properties is mainly due to depreciation (¥1,404 million), impairment losses (¥335 million).
In addition, reclassification amounts (¥1,930 million) are included both in the increase of rental properties and in the decrease of idle assets.
(note 3) Fair value at the end of this 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	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc)
	Japanese Yen (millions)			
Facilities for lease	¥ 8,741	¥ 5,658	¥ 3,083	¥ (98)
Idle assets (Land)	-	-	-	(336)
Total	¥ 8,741	¥ 5,658	¥ 3,083	¥ (434)

(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 loss on impairment of non-current assets and taxes-and-dues, which are recognized as other income (expenses).

21. Related Party Transactions

Transactions between MES and related parties for the fiscal years ended March 31, 2017 and 2016 were as follows:
Unconsolidated subsidiaries and affiliates of MES

2017

Not applicable.

2016

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 NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	Guarantee Obligation	23,256	-	-

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, 2017 and 2016 were as follows:
Unconsolidated subsidiaries and affiliates of MES

2017

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	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 15.0%	Time Charter of FPSO	The equipment capital lending	33,708	Short-term loans	27,993
							The equipment capital collection	12,182		
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 175,026	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	The equipment capital lending	15,618	Short-term loans	-
							The equipment capital collection	24,033		
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	Construction of FPSO	14,108	Receivables	11,249
							The equipment capital lending	27,418	Short-term loans	31,704
							The equipment capital collection	12,828		
							Guarantee Obligation	24,211	-	-
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 110	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	75,059	Receivables	43,242
							Guarantee Obligation	35,457	-	-

2016

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 162,160	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	18,924
							The equipment capital lending	12,245	Short-term loans	6,039
							Guarantee Obligation	24,118	-	-
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	The equipment capital lending	22,355	Short-term loans	8,695
							The equipment capital collection	13,509		
							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	19,227
							The equipment capital lending	28,253	Short-term loans	17,646
							Guarantee Obligation	40,209	-	-
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 110	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	69,799	Receivables	39,915
							The equipment capital collection	11,958	Short-term loans	-
							Guarantee Obligation	12,846	-	-

2017

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	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 15.0%	Time Charter of FPSO	The equipment capital lending	300,455	Short-term loans	249,514
							The equipment capital collection	108,584		
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 175,026	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	The equipment capital lending	139,210	Short-term loans	-
							The equipment capital collection	214,217		
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	Construction of FPSO	125,751	Receivables	100,267
							The equipment capital lending	244,389	Short-term loans	282,592
							The equipment capital collection	114,342		
							Guarantee Obligation	215,804	-	-
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 110	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	669,035	Receivables	385,435
							Guarantee Obligation	316,044	-	-

1. The transaction amount does not include foreign currency exchange gains and losses, while outstanding balance at the year-end includes foreign currency exchange gains and losses. The transaction amount does not include sales tax, while 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) Guarantee Obligation is deliberately determined in consideration by each project plan.

22. Notes to Important Subsequent Events

(a) Share consolidation and change in the number of shares per unit

At the Board of Directors Meeting held on May 22, 2017, the Board resolved to submit a proposal for share consolidation and change in the number of shares per unit to the 114th Ordinary General Meeting of Shareholders held on June 28, 2017. The proposal was approved at the said Ordinary General Meeting of Shareholders.

1) Purpose of the share consolidation and change in the number of shares per unit

The Japanese Stock Exchanges are promoting "Action Plan for Consolidating Trading Units", which aims to standardize the trading units (the number of shares per unit) for common shares issued by listed domestic corporations at 100 shares by October 1, 2017, seeking to improve convenience of market users including investors.

As a corporation listed on the Tokyo Stock Exchange, the Company respects the purport of this plan. Therefore, the Company resolved to change in the number of shares per unit from 1,000 shares to 100 shares to take effect on October 1, 2017. The Company will consolidate every 10 shares into 1 share in order to maintain the price standard of its shares per trading unit and prevent changes of the number of voting rights of its shareholders after it changes its number of shares per unit.

2) Details of the share consolidation

i. Class of shares subject to consolidation

Common shares

ii. Consolidation ratio

Effective October 1, 2017, the Company will consolidate every 10 shares held by shareholders recorded in the list of shareholders as of September 30, 2017, into 1 share.

iii. Post-consolidation total number of shares authorized to be issued

150,000,000 shares (pre-consolidation: 1,500,000,000 shares)

iv. Reduction in number of shares as a result of share consolidation

Pre-consolidation total number of shares issued (as of March 31, 2017)

830,987,176 shares

Reduction in number of shares as a result of share consolidation

747,888,459 shares

Post-consolidation total number of shares issued

83,098,717 shares

v. Handling of fractional shares created as a result of the share consolidation

If a fraction of less than 1 share is created due to the share consolidation, all such fractional shares will be sold together in accordance with the Article 235 of the Companies Act, and the proceeds will be distributed to shareholders who held the fractional shares in proportion to the number of fractional shares they held.

3) Details of change in number of shares per unit

The Company will change its share trading unit from 1,000 common shares to 100 shares with an effective date of share consolidation on October 1, 2017.

4) Schedule for share consolidation and change in the number of shares per unit

May 22, 2017: Date of resolution at the Board of Directors
June 28, 2017: Date of resolution at the General Meeting of Shareholders
October 1, 2017 (planned): Effective date of share consolidation and change in the number of shares

5) Impact on per-share information

In the hypothetical event that the share consolidation was conducted at the beginning of the preceding term, the per-share information for the preceding term and the current term would be as follows:

	Japanese Yen		U.S.Dollars
	2017	2016	2017
Net assets per share	¥ 3,097.79	¥ 2,904.80	$ 27.612
Earnings per share	¥ 150.87	¥ 94.03	$ 1.345
Diluted Earnings per share	¥ 150.60	¥ 93.88	$ 1.342

(b) Transition to a holding company structure by means of an absorption-type company split

At the Board of Directors Meeting held on May 22, 2017, the Board resolved to submit a proposal to the 114th Ordinary General Meeting of Shareholders, held on June 28, 2017, for an absorption-type company split (the "Split"). Under the proposal, the Company will execute the Split on April 1, 2018 (planned) for the purpose of transferring its ship and ocean business, machinery and systems business, and engineering business to its three wholly owned subsidiaries (MES Ship & Ocean Project Split Preparation Co., Ltd., MES Machinery and Systems Split Preparation Co., Ltd., and MES Engineering Split Preparation Co., Ltd.; hereinafter, "Split Preparation Company" or "Succeeding Company"). The proposal was approved at the said General Meeting of Shareholders.

1) Reason for transition to a holding company structure

Business environment surrounding the Company is entering a period of major changes. In addition to fluctuations of crude oil prices, slowdown of recovery speed of investment for large plants, exchange-rate fluctuations (risk of switching of the U.S. exchange policy), and delay of recovery of demand in the market of commercial ships, there is a rapid catch-up by ship constructing competitors in emerging countries such as China and South Korea including in technical aspects. On the other hand, opportunities of business expansion are increasing in the context of growing energy demand mainly in emerging countries and increasing tendency toward environmental efficiency and energy conservation.

Under this business environment, the Company Group decided that it will spin off each of the Company's ship and ocean business, machinery & systems business, and engineering business into separate business companies and transfer to a holding company structure in order to accelerate deepening of management of the Company Group.

Transitioning to a holding company structure will enable the Company to transfer authority and responsibility over business execution to the spin-off business companies and establish clear independence of business execution and management responsibility. Under this arrangement, the business companies will formulate and execute strategies quickly, adapt their strategies to changes in the business environment flexibly, execute bold strategies such as M&A activities (or business partnerships), pursue a selection-and-concentration strategy, and thereby further enhance their corporate value.

The transition will also benefit the Company Group as a whole. As a pure holding company, the Company will work to enhance collaboration between the Group companies and the spin-off business companies, whose independence of business execution has been strengthened, develop business plans and other business strategies so as to foster an organic sense of unity among Group companies, concentrate corporate resources on business domains that the Company identifies as growth areas, and thus enhance the corporate value of the Group as a whole.

2) Summary of transition to holding company structure

i. Method of the Split

The Split will be a spin off-type absorption-type company split, with the Company as the "Splitting Company" and the Company's wholly owned Split Preparation Companies as "Succeeding Companies".

ii. Allotment under the Split

Under the Split, the Succeeding Companies will issue 49,800 common shares and allot them all to the Company (the Splitting Company).

iii. Schedule for the transition to holding company structure by means of the Split

May 22, 2017 Date of resolution at the Board of Directors
June 28, 2017 Date of resolution at the General Meeting of Shareholders
April 1, 2018 (planned) Effective date of the Split

3) Summary of business operations subject to the Split

i. Business operations subject to the Split and the performance thereof (for FY ended March 31, 2017)

Business operation subject to the Split	Net sales	Operating income
Ship	¥87,264 million ($777,823 thousand)	¥127 million ($1,132 thousand)
Machinery and systems	¥130,512 million ($1,163,312 thousand)	¥11,136 million ($99,260 thousand)
Engineering	¥45,769 million ($407,960 thousand)	¥3,532 million ($31,482 thousand)

ii. Items and amounts of assets and liabilities subject to the Split (as of March 31, 2017)

A. Ship business

Japanese Yen (millions)

Assets		Liabilities	
Item	Book value	Item	Book value
Current Assets	¥ 45,895	Current Liabilities	¥ 40,771
Non-current Assets	36,719	Long-term Liabilities	1,188
Total	¥ 82,614	Total	¥ 41,959

U.S.Dollars (thousands)

Assets		Liabilities	
Item	Book value	Item	Book value
Current Assets	$ 409,083	Current Liabilities	$ 363,410
Non-current Assets	327,293	Long-term Liabilities	10,589
Total	$ 736,376	Total	$ 373,999

B. Machinery and systems business

Japanese Yen (millions)

Assets		Liabilities	
Item	Book value	Item	Book value
Current Assets	¥ 73,230	Current Liabilities	¥ 53,033
Non-current Assets	32,863	Long-term Liabilities	2,774
Total	¥ 106,093	Total	¥ 55,807

U.S.Dollars (thousands)

Assets		Liabilities	
Item	Book value	Item	Book value
Current Assets	$ 652,732	Current Liabilities	$ 472,707
Non-current Assets	292,923	Long-term Liabilities	24,726
Total	$ 945,655	Total	$ 497,433

C. Engineering business

Japanese Yen (millions)

Assets		Liabilities	
Item	Book value	Item	Book value
Current Assets	¥ 25,965	Current Liabilities	¥ 14,755
Non-current Assets	9,449	Long-term Liabilities	46
Total	¥ 35,414	Total	¥ 14,801

U.S.Dollars (thousands)

Assets		Liabilities	
Item	Book value	Item	Book value
Current Assets	$ 231,438	Current Liabilities	$ 131,518
Non-current Assets	84,223	Long-term Liabilities	410
Total	$ 315,661	Total	$ 131,928

Note: The above book values are based on the balance sheets as of March 31, 2017. After the items are transferred to the Succeeding Companies, the book values thereof will reflect changes that occurred up until the effective date.

4) Overview of the Splitting Company and the Succeeding Companies after the Split

	Splitting Company	Succeeding Companies (Ship and ocean business)	Succeeding Companies (Machinery and systems business)	Succeeding Companies (Engineering business)
Name	Mitsui E&S Holdings Co., Ltd. (trade name to be changed from Mitsui Engineering & Shipbuilding Co., Ltd. on April 1, 2018)	MES Ship Split Preparation Co., Ltd. (trade name to be changed on April 1, 2018)	MES Machinery and Systems Split Preparation Co., Ltd. (trade name to be changed on April 1, 2018)	MES Engineering Split Preparation Co., Ltd. (trade name to be changed on April 1, 2018)
Address	6-4, Tsukiji 5-chome, Chuo-Ku, Tokyo	6-4, Tsukiji 5-chome, Chuo-Ku, Tokyo	6-4, Tsukiji 5-chome, Chuo-Ku, Tokyo	6-4, Tsukiji 5-chome, Chuo-Ku, Tokyo
Name and title of representative	Takao Tanaka Representative Director	Tetsuro Koga Representative Director	Ryoichi Oka Representative Director	Shinsuke Nippo Representative Director
Business operations	Management of Group companies, etc.	Design, construction, engineering, installation, and repair/maintenance of ships, etc.	Design, construction, engineering, installation, and repair/maintenance of machinery and plants, etc.	Design, construction, engineering, installation, and repair/maintenance of machinery and plants, etc.
Capital stock	¥44,385 million ($395,623 thousand)	¥2,000 million ($17,827 thousand)	¥2,000 million ($17,827 thousand)	¥2,000 million ($17,827 thousand)
Fiscal term	March 31	March 31	March 31	March 31

5) Future outlook

Since the Company will become a holding company as a result of the Split, its revenue will primarily be dividends income and consulting fee income from subsidiaries and affiliates, and the expenses of the Company will primarily be those pertaining to its role as the company in charge of managing the Group.

KPMG

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, 2017 and 2016, 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 misstatement, 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, 2017 and 2016, 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, 2017 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.

KPMG AZSA LLC

June 28, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

MITSUI ENGINEERING & SHIPBUILDING CO.,LTD.

http://www.mes.co.jp/