MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

MHI REPORT 2018

FINANCIAL SECTION

For the Year Ended March 31, 2018

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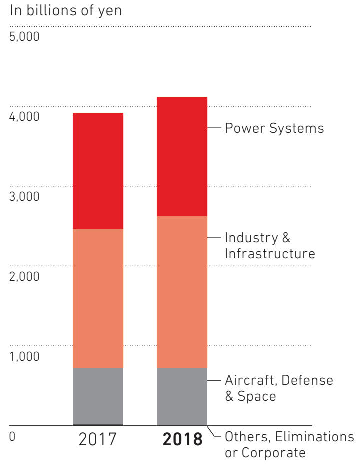
SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2018 and 2017

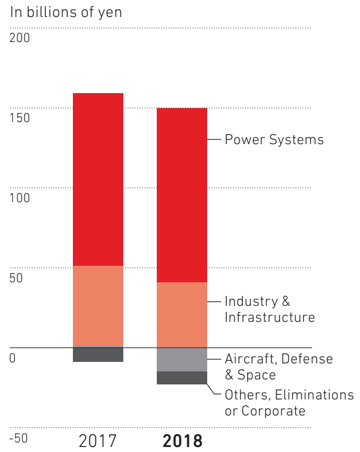
NET SALES

Industry Segment	In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Power Systems	¥1,493,962	¥1,448,400	$14,062,142
Industry & Infrastructure	1,898,965	1,747,059	17,874,294
Aircraft, Defense & Space	722,992	703,402	6,805,271
Others	120,805	175,926	1,137,095
Subtotal	4,236,726	4,074,789	39,878,821
Eliminations or Corporate	(125,909)	(160,771)	(1,185,137)
Total	¥4,110,816	¥3,914,018	$38,693,674



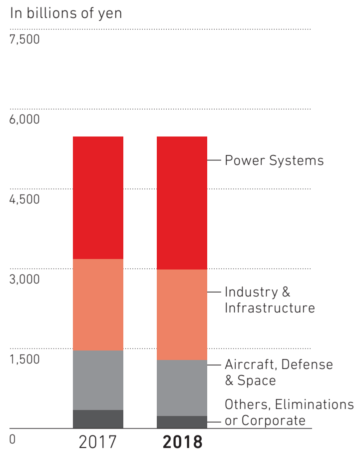
OPERATING INCOME (LOSS)

Industry Segment	In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Power Systems	¥108,980	¥108,100	$1,025,790
Industry & Infrastructure	40,853	50,093	384,535
Aircraft, Defense & Space	(15,133)	939	(142,441)
Others	5,063	10,731	47,656
Subtotal	139,764	169,864	1,315,549
Eliminations or Corporate	(13,234)	(19,321)	(124,567)
Total	¥126,530	¥150,543	$1,190,982



TOTAL ASSETS

Industry Segment	In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Power Systems	¥2,508,488	¥2,305,736	$23,611,521
Industry & Infrastructure	1,702,050	1,714,649	16,020,801
Aircraft, Defense & Space	1,046,399	1,115,225	9,849,388
Others	759,168	653,844	7,145,783
Subtotal	6,016,106	5,789,456	56,627,503
Eliminations or Corporate	(528,453)	(307,477)	(4,974,143)
Total	¥5,487,652	¥5,481,978	$51,653,350



CAPITAL EXPENDITURES / DEPRECIATION AND AMORTIZATION*

Industry Segment	Capital Expenditures: In millions of yen 2018	2017	In thousands of U.S. dollars 2018	Depreciation and Amortization*: In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Power Systems	¥ 39,328	¥ 38,395	$ 370,180	¥ 54,185	¥ 56,599	$ 510,024
Industry & Infrastructure	59,323	51,376	558,386	52,453	48,417	493,721
Aircraft, Defense & Space	54,401	105,475	512,057	58,367	53,715	549,388
Others	2,367	3,532	22,279	2,273	3,658	21,394
Subtotal	155,420	198,779	1,462,914	167,280	162,390	1,574,548
Corporate	3,033	11,731	28,548	8,824	10,372	83,057
Total	¥158,453	¥210,511	$1,491,462	¥176,104	¥172,762	$1,657,605

* Amortization of goodwill is not included.

AMORTIZATION OF GOODWILL / UNAMORTIZED BALANCE OF GOODWILL

Industry Segment	Amortization of Goodwill: In millions of yen 2018	2017	In thousands of U.S. dollars 2018	Unamortized Balance of Goodwill: In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Power Systems	¥8,563	¥8,491	$ 80,600	¥ 46,169	¥ 54,788	$ 434,572
Industry & Infrastructure	8,413	8,446	79,188	61,173	68,717	575,800
Aircraft, Defense & Space	—	—	—	—	—	—
Others	0	0	0	—	1	—
Subtotal	16,977	16,938	159,798	107,342	123,507	1,010,372
Corporate	(492)	(370)	(4,631)	(2,216)	(2,955)	(20,858)
Total	¥16,484	¥16,568	$155,158	¥105,125	¥120,552	$ 989,504

INVESTMENTS IN EQUITY-METHOD AFFILIATES

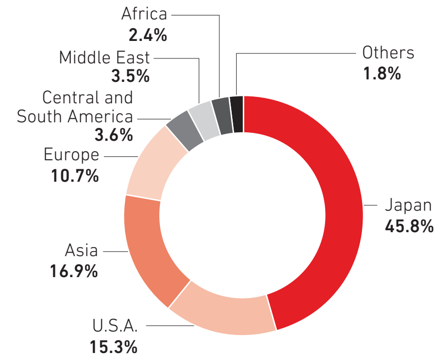
Industry Segment	In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Power Systems	¥103,190	¥ 44,482	$ 971,291
Industry & Infrastructure	20,101	24,504	189,203
Aircraft, Defense & Space	—	—	—
Others	7,339	16	69,079
Subtotal	130,631	69,003	1,229,583
Corporate	56,239	58,331	529,358
Total	¥186,870	¥127,335	$1,758,942

NET SALES

Breakdown of Sales by Customer Location	In millions of yen 2018	2017	In thousands of U.S. dollars 2018
Japan	¥1,881,196	¥1,821,063	$17,707,040
U.S.A.	630,286	640,052	5,932,661
Asia	693,093	618,059	6,523,842
Europe	440,385	395,697	4,145,190
Central and South America	146,897	110,128	1,382,690
Middle East	144,367	117,202	1,358,876
Africa	99,502	135,669	936,577
Others	75,087	76,146	706,767
Total	¥4,110,816	¥3,914,018	$38,693,674

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.24=US$1, the exchange rate prevailing at March 31, 2018.

Composition of Overseas Net Sales by Geographic Distribution



> ANALYSIS OF OPERATING RESULTS

Consolidated net sales rose ¥196.7 billion, or 5.0%, year on year, to ¥4,110.8 billion, due to higher sales in the Industry & Infrastructure; Power Systems; and Aircraft, Defense & Space segments. However, operating income fell ¥24.0 billion, or 16.0%, to ¥126.5 billion, and ordinary income declined ¥9.8 billion, or 7.9%, to ¥114.4 billion, owing to lower income from the Aircraft, Defense & Space segment and the Industry & Infrastructure segment. In addition, the extraordinary gain declined compared with the previous fiscal year, when the Company posted a gain on sales of fixed assets. Consequently, profit attributable to owners of parent decreased ¥17.2 billion, or 19.6%, to ¥70.4 billion.

> ANALYSIS OF FINANCIAL POSITION

Total assets as of March 31, 2018, were ¥5,487.6 billion, up ¥5.6 billion from their level one year earlier.

Total liabilities were ¥3,323.1 billion, down ¥54.6 billion. The decrease was attributable to such factors as lower interest-bearing debt.

Total net assets came to ¥2,164.4 billion, up ¥60.3 billion, due to the posting of ¥70.4 billion in profit attributable to owners of parent.

> SOURCE OF FUNDS AND LIQUIDITY

Cash Flow Analysis

Net cash provided by operating activities amounted to ¥345.1 billion, ¥249.1 billion more than in the preceding fiscal year. With efforts to enhance cash flow generation by improving the balance sheet, this increase stemmed from lower burden of working capital owing to lower inventories and advanced payment received on contracts by improving productivity.

Investing activities used net cash of ¥137.1 billion, as proceeds from sales of property, plant and equipment and intangible assets decreased year on year, and purchases of investment securities increased.

As a result, free cash flows—the sum of cash flows from operating activities and cash flows from investing activities—amounted to a positive ¥208.0 billion, up ¥103.4 billion year on year.

Net cash used in financing activities was ¥152.1 billion, due largely to the repayment of short-term borrowings.

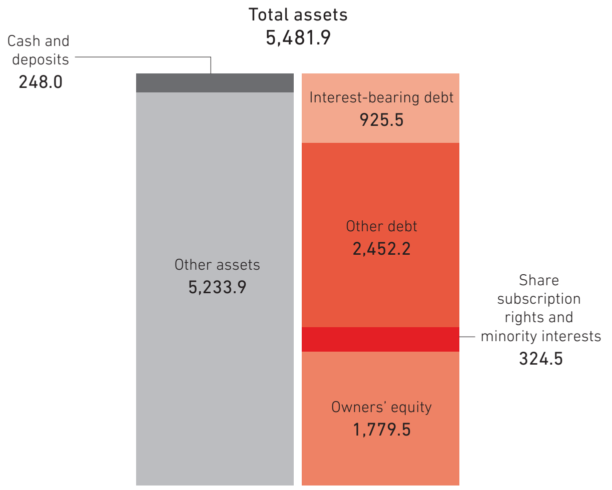
Primary Funding Requirements

The MHI Group primarily requires funds in operating activities for working capital for manufacturing activities (materials, outsourcing, and personnel costs), order preparation costs and other sales expenses related to winning new orders, and funds for R&D activities that enhance the competitiveness of its products, strengthen manufacturing capabilities and enable the launch of new businesses. In investing activities, funds are required for capital investments to grow businesses, raise productivity, and enable the launch of new businesses as well as for the purchase of investment securities related to the execution of business strategies.

In growth areas, the MHI Group is planning to purchase investment securities and execute necessary capital investments and R&D investment. As a whole, the Group plans to streamline its assets and selectively concentrate on core investment schemes, while anticipating funding requirements in future growth fields and closely monitoring the latest market environments and order trends.

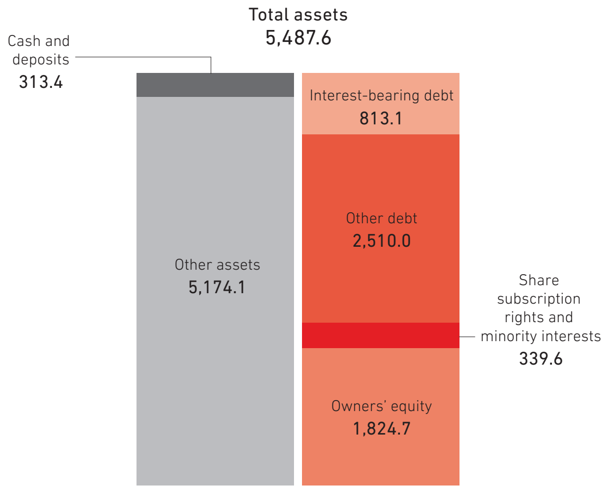
CONSOLIDATED BALANCE SHEETS

In billions of yen



FY2016

Shareholders' equity ratio 32.5%
D/E ratio .... 0.44 times
ROE 5.1%



FY2017

Shareholders' equity ratio 33.3%
D/E ratio .... 0.38 times
ROE 3.9%

Breakdown of Interest-Bearing Debt and its Applications

The breakdown of interest-bearing debt as of March 31, 2018, was as follows:

In billions of yen

	Total	Due within one year	Due after one year
Short-term borrowings	229.5	229.5	—
Long-term borrowings	348.5	68.9	279.6
Bonds	235.0	30.0	205.0
Total	813.1	328.5	484.6

The MHI Group is involved in various projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery facilities. Consequently, the MHI Group must secure a stable level of working capital and funds for capital investments. In recent years, these types of necessary funds for capital investment have been increasing due to the expansion of the MHI Group's business scale. Meanwhile, the Group has continued to work to streamline its assets and has repaid borrowings that have come due. As a result, the total interest-bearing debt of the MHI Group at the end of fiscal 2017 was ¥813.1 billion, consisting of ¥328.5 billion due within one year and ¥484.6billion due after one year.

The interest-bearing debt mentioned above is utilized as working capital and for capital investments required for business activities, and the MHI Group plans to use these funds mainly in key growth fields that are expected to require funds, including thermal power systems and commercial aircraft.

Financial Policy

The MHI Group funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with interest-bearing debt. In appropriately determining the amounts and methods of procuring long-term funds through long-term borrowings, bonds, and other means, the MHI Group takes into account the funding requirements of its business plans, interest rate trends and various other factors, and the repayment schedule for its existing debt.

Additionally, in its efforts to reduce interest-bearing debt, the MHI Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, the MHI Group is working to improve asset efficiency by reducing trade receivables and inventories and by raising the utilization rate of its property, plant and equipment.

The MHI Group considers the repurchase of treasury stock by taking into overall account a number of factors, including the state of progress on business plans, the Company's performance outlook, stock price trends, financial condition, and improvements in the financial market environment.

> DIVIDEND POLICY

In accordance with the 2015 Medium-Term Business Plan, the MHI Group planned to achieve an ROE of above 10%, while increasing its owners' equity to ¥2 trillion. In the process of doing so, the Group formulated a basic policy of providing returns to shareholders at a dividend payout ratio of around 30%, while giving consideration to the balance between investments in future businesses and the strengthening of owners' equity.

Under the 2018 Medium-Term Business Plan, we have set fiscal 2020 as the year for achieving this goal, and we have adjusted our target for owners' equity to ¥1,650.0 billion based on International Financial Reporting Standards (IFRS). However, our basic policy on providing returns to shareholders remains unchanged.

As decided in MHI's Articles of Incorporation, the Group pays dividends from retained earnings to shareholders twice a year. These payments consist of an interim dividend with a record date of September 30 and a year-end dividend with a record date of March 31. Decisions on interim dividend payments are made by the Board of Directors, and decisions on year-end dividend payments are made at the General Meeting of Shareholders.

In accordance with the above policy and after taking into overall consideration such factors as the Group's operating performance during the year and financial conditions, the total dividend payment for fiscal 2017 was ¥120 per share, comprising the interim dividend of ¥60 per share, paid in December 2017, and the year-end dividend of ¥60 per share.

Internal reserves will be utilized to further strengthen the Group's corporate structure and enhance the Group's business development going forward.

The MHI Group, comprising MHI and its consolidated subsidiaries, is exposed to various risk factors, including the following: economic risks, such as currency exchange fluctuation and credit risks; political risks, such as trade restrictions and country risks; legal risks, such as product liability; disaster risks, such as natural disaster and accidents; market risks, such as stock price fluctuation and investment risks; and others. However, of the risks related to the state of our businesses and accounting, the items below are those that have the potential to significantly influence investor judgment. Items relating to the future are based on the judgment of the Group as of the end of fiscal 2017, the year ended March 31, 2018.

01 RISKS RELATED TO FINANCIAL POSITION, OPERATING RESULTS AND CASH FLOW STATUS

i. Economic Conditions

The Group's operating results (including financial position, operating results, and cash flow status; hereinafter referred to collectively as "Operating Results") may be influenced by changes in economic conditions, both in Japan and in other countries and regions around the world. Such changes include movements in Japanese private sector investments and fluctuations in economic conditions overseas in the United States and Europe, as well as in emerging nations. However, as the global economy has become more complex, influences are no longer limited to the economic conditions of the countries and regions where the Group is engaged in business operations.

ii. Export and Overseas Operations

The Group is working toward the expansion of export and overseas businesses in countries and regions around the world. Therefore, several factors, including unforeseen difficulties in the local procurement of parts or with local construction, claims from contractual partners due to delivery delays or inadequate performance, and contractual partner defaults, have the potential to influence the Group's Operating Results. Furthermore, the Group is actively engaged in the creation and expansion of new business models, including participation in comprehensive infrastructure development projects in emerging nations. However, we cannot guarantee that we will be successful in securing projects when faced with intense competition, such as when other private corporations are supported by governments in securing contracts for largescale infrastructure development projects, particularly in emerging nations.

iii. Currency Exchange Rate Fluctuations

Most of the Group's export and overseas business transactions are conducted in foreign currencies, such as the U.S. dollar and the euro. Therefore, currency exchange rate fluctuations have the potential to influence our competitiveness. Moreover, changes in the cost competitiveness of overseas competitors due to currency exchange rate fluctuations have the potential to influence our competitiveness in domestic business. In cases where the Group and its domestic competitors are affected differently by currency exchange rate fluctuations, our domestic and overseas competitiveness with the corporations concerned may be affected. When making transactions in foreign currencies, we endeavor to hedge risk by increasing liabilities denominated in foreign currencies by expanding overseas procurement of materials and through forward exchange contracts. Nevertheless, currency exchange rate fluctuations have the potential to influence our Operating Results.

iv. Fund-raising

The Group takes trends in interest rates, including future forecasts, into consideration when implementing fund-raising activities, and strives to secure low interest rates and stable funding. However, significant fluctuations in interest rates and changes in the overall state of financial markets have the potential to influence our future Operating Results.

v. Retirement Benefit Expenses and Liabilities

Group employee retirement benefit expenses and liabilities are calculated based on actuarial assumptions, the key assumptions for which are the discount rate for retirement benefit liabilities and the expected long-term rate of return on pension assets. These assumptions are judged to be appropriate estimations. Nevertheless, where actual outcomes differ from these assumptions, or should these assumptions change, the Group's future Operating Results may be affected. Moreover, changes in the investment yield of pension assets, or in the yield on blue-chip corporate bonds, which serves as a basis for deciding the discount rate, may also influence the Group's Operating Results.

02 RISKS RELATED TO RELIANCE ON PARTICULAR CLIENTS

i. M&A and Alliances

The Group is engaged in the strengthening and expansion of many of its businesses through M&A and alliances with other companies. However, in the event that we are unable to realize these M&A and alliances due to changes in the market environment, or because of a decline in business competitiveness, revision of management strategies by these companies, or other unforeseen circumstances, the Group's business may be affected.

In July 2017, MHI submitted a request for arbitration relating to the demands against Hitachi, Ltd. ("Hitachi") to pay price adjustment and other payments related to a boiler construction project in the Republic of South Africa, which was transferred to Mitsubishi Hitachi Power Systems Africa Proprietary Limited. This request is in relation to MHI's business integration with Hitachi in the thermal power generation systems field.

ii. Procurement of Materials

Group business activities necessitate the supply of raw materials, parts, machinery, and services from third parties in a timely, appropriate manner, and supplied items must be of sufficient quality and quantity. Due to the specialist nature of certain items, suppliers are limited, and changing suppliers can be difficult. If there is a problem with the quality of an item, a shortage in supply, a delivery delay, a halt in production due to a disaster, or other problem, the Group's businesses may be affected. Moreover, increases in the price of an item due to such factors as changes in supply and demand may affect the Group's operating results.

03 RISKS RELATED TO SPECIFIC PRODUCTS AND TECHNOLOGIES

i. Product Competitiveness

The Group strives to achieve high customer evaluations of performance, reliability, and price of its products. We work hard to propose new functions and solutions that anticipate market trends, and we are working to strengthen the competitiveness of our products, particularly through R&D and capital investment. However, where the efforts of domestic and overseas competitors to strengthen product competitiveness are more effective than those of the Group, our businesses may be affected.

ii. Product Quality

The Group continually makes efforts to improve the quality and reliability of its products. However, product performance or delivery issues, or safety issues that arise in the use of our products, may lead to claims from contractual partners or other third parties, either domestically or overseas, in addition to the possibility of legal action brought against us. Furthermore, in such cases, we cannot guarantee that product liability insurance will compensate us for amounts we may be required to pay. In addition, deteriorating costs stemming from factors including changes in product specifications and process delays could affect the Group's Operating Results.

iii. Intellectual Property

The Group values its intellectual property, which comprises the outcomes of its R&D, as an important management resource. While appropriately preserving these resources through patent rights, we are engaged in the provision of technology to, and the introduction of technology from, third parties. However, we cannot guarantee that we will be able to either acquire or acquire under favorable conditions the technology we need from third parties. Moreover, if competitors took legal action against us regarding the use of intellectual property and we lost, we may become unable to use particular technologies, be liable for damages, or face obstacles in the continuation of our business activities. We cannot guarantee that we will not face legal action from employees or former employees regarding compensation for employee invention.

04 RISKS RELATED TO LEGAL REGULATIONS

i. Laws and Regulations

The Group conducts business in accordance with various domestic and overseas laws and regulations. These include laws and regulations related to taxation, the environment, and labor and occupational health and safety; economic laws and regulations, such as antitrust and anti-dumping laws; laws and regulations related to bribery, and trade and exchange; business-related laws and regulations, such as the construction industry law; and the securities listing regulations at financial instrument exchanges. The Group endeavors to fully comply with these laws and regulations. In accordance with these laws and regulations, the Group may become subject to investigation or examination by the relevant authorities. Furthermore, the Group may be subject to administrative penalties, such as fines, reassessment, determination, the payment of surcharges, suspension of business, or other steps. Moreover, the Group may face legal action from the relevant authorities or other concerned parties for damages incurred. In September 2013, in a plea agreement entered into with the U.S. Department of Justice, MHI made an admission of the factual basis for a violation of U.S. antitrust laws regarding the sale of compressors and condensers for automobile airconditioning systems to certain customers. Following the settlement of a plea agreement, legal action was taken against numerous businesses, including MHI and its subsidiaries, requiring them to pay civil damages in North America, and we are responding to this action.

ii. Environmental Regulations

The Group complies with various domestic and overseas environmental regulations related to air pollution, water pollution, soil and groundwater contamination, waste disposal, the use of toxic substances, energy conservation, and countermeasures to global warming. The Group's Operating Results may be affected in the following circumstances: environmental regulations are tightened in the future; the Group faces liabilities based on legal responsibilities related to its business activities in the past, present, or future; or the Group incurs costs when engaging in social responsibility initiatives, such as the voluntary removal of toxic substances.

05 RISKS RELATED TO EMPLOYEES AND RELATED COMPANIES

i. Securing Human Resources

The competitiveness of the Group is supported by the exemplary specialist knowledge and skills of its employees in various areas, such as R&D, design, procurement, manufacturing, and construction. To secure a large number of excellent human resources and further expand our global business activities, we are actively engaged in recruiting activities both domestically and overseas. However, we cannot guarantee that we will be able to secure an adequate number of human resources. We are also working to nurture human resources by strengthening the transfer of technology and technical skills. However, we cannot guarantee that these measures will be sufficiently effective.

ii. Related Companies

MHI and its consolidated subsidiaries, non-consolidated equity-method subsidiaries, and affiliated companies accounted for by the equity method have established a framework for mutual cooperation. However, due to independent management, trends in business and the business performance of these companies may influence the Group's Operating Results.

06 OTHER RISKS

i. Disasters

To minimize the occurrence of damage and the spread of damage in the event of storms, earthquakes, lightning strikes, floods, fires, the global spread of contagious diseases (pandemics), or various other disasters, the Group is engaged in the implementation of inspections and training as well as the establishment of communication systems and a business continuity plan (BCP). However, material and human loss, in addition to damage and loss of functionality to social infrastructure, may influence the Group's activities, particularly manufacturing activities at factories. Moreover, we cannot guarantee that damages will be covered by damage insurance.

ii. Information Security

The Group comes into contact with large amounts of confidential information, including that of clients, in the execution of its business activities. Furthermore, we possess confidential information regarding our technologies, operations, and other aspects of business. If confidential information is lost or leaked outside the Company due to computer viruses, unauthorized access, or other unforeseen circumstances, the Group's businesses may be affected.

CONSOLIDATED BALANCE SHEETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

	In millions of yen		In thousands of U.S. dollars (Note 4)
ASSETS	**2018**	2017	**2018**
Current assets:			
Cash and deposits (Notes 6 and 22)	**¥ 313,458**	¥ 248,040	**$ 2,950,470**
Trade receivables (Note 6)	**1,232,742**	1,180,143	**11,603,369**
Merchandise and finished products	**173,152**	178,884	**1,629,819**
Work in process	**899,839**	989,336	**8,469,870**
Raw materials and supplies	**139,822**	157,330	**1,316,095**
Deferred tax assets (Note 9)	**108,954**	114,274	**1,025,545**
Indemnification asset for the South African project (Notes 14 and 27)	**400,903**	294,955	**3,773,559**
Other current assets (Notes 6 and 11)	**319,337**	368,088	**3,005,807**
Allowance for doubtful accounts	**(8,998)**	(8,959)	**(84,695)**
Total current assets	**3,579,212**	3,522,095	**33,689,871**
Non-current assets:			
Property, plant and equipment, net (Notes 11 and 24):			
Buildings and structures (Note 18)	**340,447**	361,310	**3,204,508**
Machinery and transportation equipment (Note 18)	**234,690**	262,129	**2,209,054**
Tools, equipment and furniture	**47,758**	64,511	**449,529**
Land (Note 16)	**179,936**	179,674	**1,693,674**
Leased assets	**5,224**	5,004	**49,171**
Construction in progress	**59,828**	62,448	**563,140**
Total property, plant and equipment, net	**867,884**	935,078	**8,169,088**
Intangible assets:			
Goodwill	**105,125**	120,552	**989,504**
Others (Note 18)	**107,655**	128,896	**1,013,318**
Total intangible assets	**212,781**	249,448	**2,002,833**
Investments and advances:			
Investment securities (Notes 6 and 7)	**605,434**	578,758	**5,698,738**
Long-term loans	**18,623**	17,778	**175,291**
Asset for retirement benefit (Note 15)	**73,426**	60,556	**691,133**
Deferred tax assets (Note 9)	**27,350**	13,060	**257,435**
Others (Note 18)	**109,548**	113,407	**1,031,137**
Allowance for doubtful accounts	**(6,608)**	(8,204)	**(62,198)**
Total investments and advances	**827,774**	775,356	**7,791,547**
Total non-current assets	**1,908,440**	1,959,883	**17,963,478**
Total assets	**¥5,487,652**	¥5,481,978	**$51,653,350**

See accompanying notes to the consolidated financial statements.

	In millions of yen		In thousands of U.S. dollars (Note 4)
LIABILITIES AND NET ASSETS	**2018**	2017	**2018**
Liabilities:			
Current liabilities:			
Trade payables (Note 6)	**¥ 771,324**	¥ 736,502	**$ 7,260,203**
Electronically recorded obligations (Note 6)	**106,968**	99,560	**1,006,852**
Short-term borrowings (Notes 6, 10 and 11)	**229,584**	205,679	**2,160,993**
Current portion of long-term borrowings (Notes 6, 10 and 11)	**68,956**	97,729	**649,058**
Current portion of bonds (Notes 6 and 10)	**30,000**	60,000	**282,379**
Income taxes payable	**27,251**	31,233	**256,504**
Provision for product warranties	**13,936**	14,899	**131,174**
Provision for loss on construction contracts	**64,896**	49,853	**610,843**
Provision for loss on passenger vessel construction business	**—**	18,463	**—**
Provision for business structure improvement (Note 26)	**6,739**	6,585	**63,431**
Provision for share-based payment arrangements	**781**	366	**7,351**
Advance payments received on contracts	**899,642**	777,654	**8,468,015**
Other current liabilities (Notes 6, 8, 9, 10 and 26)	**318,138**	428,734	**2,994,521**
Total current liabilities	**2,538,219**	2,527,262	**23,891,368**
Non-current liabilities:			
Bonds (Notes 6 and 10)	**205,000**	215,000	**1,929,593**
Long-term borrowings (Notes 6, 10 and 11)	**279,630**	347,157	**2,632,059**
Deferred tax liabilities (Note 9)	**77,590**	85,689	**730,327**
Provision for stock benefits	**1,148**	1,247	**10,805**
Provision for treatment of PCB waste	**6,911**	6,485	**65,050**
Liability for retirement benefits (Note 15)	**137,893**	123,160	**1,297,938**
Other non-current liabilities (Notes 6, 8, 10 and 25)	**76,789**	71,858	**722,788**
Total non-current liabilities	**784,963**	850,598	**7,388,582**
Total liabilities	**3,323,183**	3,377,860	**31,279,960**
Net assets:			
Stockholders' equity (Note 20):			
Common stock, without par value:			
Authorized shares: 600,000,000			
Issued shares: 2018–337,364,781 and 2017–3,373,647,813	**265,608**	265,608	**2,500,075**
Capital surplus	**213,898**	203,658	**2,013,347**
Retained earnings	**1,244,492**	1,214,749	**11,713,968**
Treasury stock (Note 3) (2018–1,370,499 shares and 2017–15,513,870 shares) at cost	**(4,081)**	(4,609)	**(38,413)**
Total stockholders' equity	**1,719,918**	1,679,407	**16,188,987**
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities	**100,021**	100,600	**941,462**
Deferred gains or losses on hedges	**(880)**	(1,882)	**(8,283)**
Translation adjustments	**(6,999)**	(2,287)	**(65,879)**
Remeasurements of defined benefit plans (Note 15)	**12,732**	3,683	**119,841**
Total accumulated other comprehensive income (loss)	**104,874**	100,113	**987,142**
Share subscription rights (Notes 20 and 21)	**2,129**	2,536	**20,039**
Non-controlling interests	**337,547**	322,059	**3,177,211**
Total net assets	**2,164,469**	2,104,118	**20,373,390**
Total liabilities and net assets	**¥5,487,652**	¥5,481,978	**$51,653,350**

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2018 and 2017

	In millions of yen		In thousands of U.S. dollars (Note 4)
	2018	2017	**2018**
Net sales	**¥4,110,816**	¥3,914,018	**$38,693,674**
Cost of sales	**3,379,874**	3,180,898	**31,813,573**
Gross profit	**730,942**	733,119	**6,880,101**
Selling, general and administrative expenses (Note 23)	**604,412**	582,576	**5,689,118**
Operating income	**126,530**	150,543	**1,190,982**
Non-operating income (expense):			
Interest income	**4,155**	3,799	**39,109**
Dividend income	**12,211**	11,637	**114,937**
Foreign exchange gain	**—**	10,213	**—**
Income from equity method investments	**3,230**	—	**30,402**
Gain on arbitration expenses awarded in the arbitration relating to nuclear equipment in the US	**—**	6,558	**—**
Other income	**15,674**	9,945	**147,533**
Interest expense	**(9,036)**	(11,461)	**(85,052)**
Foreign exchange loss	**(10,385)**	—	**(97,750)**
Loss from equity method investments	**—**	(22,845)	**—**
Loss on disposal of fixed assets	**(7,022)**	(7,627)	**(66,095)**
Other expenses (Notes 18 and 26)	**(20,896)**	(26,470)	**(196,686)**
Total non-operating income (expense)	**(12,067)**	(26,249)	**(113,582)**
Ordinary income	**114,462**	124,293	**1,077,390**
Extraordinary gain (loss):			
Gain on sales of investment securities (Note 7)	**31,303**	61,047	**294,644**
Gain on sales of fixed assets (Note 16)	**—**	53,861	**—**
Business structure improvement expenses (Notes 15, 17 and 18)	**(14,548)**	(12,810)	**(136,935)**
Impairment loss (Note 18)	**(3,174)**	—	**(29,875)**
Loss on passenger vessel construction business provision	**—**	(34,323)	**—**
Compensation for damages decided in the arbitration relating to nuclear equipment in the US	**—**	(16,076)	**—**
Loss on revaluation of investment securities (Note 7)	**—**	(6,272)	**—**
Total extraordinary gain (loss)	**13,579**	45,424	**127,814**
Profit before income taxes	**128,042**	169,718	**1,205,214**
Income taxes (Note 9)**:**			
Current	**63,184**	49,856	**594,728**
Deferred	**(31,315)**	14,584	**(294,757)**
Total income taxes	**31,868**	64,440	**299,962**
Profit	**96,173**	105,278	**905,242**
Profit attributable to non-controlling interests	**25,689**	17,557	**241,801**
Profit attributable to owners of the parent	**¥ 70,484**	¥ 87,720	**$ 663,441**

	In yen		In U.S. dollars (Note 4)
Per share information of common stock:	**2018**	2017	**2018**
Profit attributable to owners of the parent - basic	**¥209.82**	¥261.24	**$1.975**
Profit attributable to owners of the parent - diluted	**209.39**	260.71	**1.971**
Cash dividends	**—**	12.00	**—**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2018 and 2017

	In millions of yen		In thousands of U.S. dollars (Note 4)
	2018	2017	**2018**
Profit	**¥ 96,173**	¥105,278	**$905,242**
Other comprehensive income (loss):			
Valuation difference on available-for-sale securities	**(648)**	60,914	**(6,099)**
Deferred gains or losses on hedges	**2,488**	3,676	**23,418**
Translation adjustments	**(1,790)**	(23,946)	**(16,848)**
Remeasurements of defined benefit plans (Note 15)	**9,501**	20,893	**89,429**
Share of other comprehensive income (loss) of entities accounted for by the equity method	**(857)**	(6,165)	**(8,066)**
Total other comprehensive income (loss) (Note 19)	**8,694**	55,371	**81,833**
Comprehensive income (loss)	**¥104,868**	¥160,649	**$987,085**
Comprehensive income (loss) attributable to:			
Owners of the parent	**¥ 75,244**	¥152,495	**$708,245**
Non-controlling interests	**29,623**	8,154	**278,830**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2018 and 2017

	In millions of yen												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2016	¥265,608	¥203,951	¥1,173,053	¥(4,771)	¥1,637,842	¥ 40,108	¥ 3,044	¥ 17,762	¥(18,998)	¥ 41,917	¥2,616	¥317,360	¥1,999,737
Cumulative effects of changes in accounting policies					—		(6,578)			(6,578)			(6,578)
Restated Balance	¥265,608	¥203,951	¥1,173,053	¥(4,771)	¥1,637,842	¥ 40,108	¥(3,533)	¥ 17,762	¥(18,998)	¥ 35,338	¥2,616	¥317,360	¥1,993,158
Cash dividends (Note 20)			(40,291)		(40,291)								(40,291)
Profit attributable to owners of the parent			87,720		87,720								87,720
Changes in scope of consolidation			(333)		(333)								(333)
Changes in scope of equity method			(5,398)		(5,398)								(5,398)
Changes in treasury stock of the parent arising from transactions with non-controlling shareholders		(398)			(398)								(398)
Purchase of treasury stock				(81)	(81)								(81)
Disposal of treasury stock		104		243	348								348
Net changes in items other than stockholders' equity						60,491	1,651	(20,049)	22,682	64,774	(80)	4,699	69,394
Subtotal	—	(293)	41,696	161	41,564	60,491	1,651	(20,049)	22,682	64,774	(80)	4,699	110,959
Balance as of March 31, 2017	¥265,608	¥203,658	¥1,214,749	¥(4,609)	¥1,679,407	¥100,600	¥(1,882)	¥ (2,287)	¥ 3,683	¥100,113	¥2,536	¥322,059	¥2,104,118
Cash dividends (Note 20)			**(40,305)**		**(40,305)**								**(40,305)**
Profit attributable to owners of the parent			**70,484**		**70,484**								**70,484**
Changes in scope of consolidation			**(681)**		**(681)**								**(681)**
Changes in scope of equity method			**246**		**246**								**246**
Changes in treasury stock of the parent arising from transactions with non-controlling shareholders		**10,077**		**0**	**10,077**								**10,077**
Purchase of treasury stock				**(21)**	**(21)**								**(21)**
Disposal of treasury stock		**162**		**549**	**711**								**711**
Net changes in items other than stockholders' equity						**(578)**	**1,002**	**(4,712)**	**9,048**	**4,760**	**(407)**	**15,487**	**19,840**
Subtotal	**—**	**10,239**	**29,743**	**528**	**40,511**	**(578)**	**1,002**	**(4,712)**	**9,048**	**4,760**	**(407)**	**15,487**	**60,351**
Balance as of March 31, 2018	**¥265,608**	**¥213,898**	**¥1,244,492**	**¥(4,081)**	**¥1,719,918**	**¥100,021**	**¥ (880)**	**¥(6,999)**	**¥12,732**	**¥104,874**	**¥2,129**	**¥337,547**	**¥2,164,469**

	In thousands of U.S. dollars (Note 4)												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2017	$2,500,075	$1,916,961	$11,434,007	$(43,382)	$15,807,671	$946,912	$(17,714)	$(21,526)	$ 34,666	$942,328	$23,870	$3,031,428	$19,805,327
Cash dividends (Note 20)			**(379,376)**		**(379,376)**								**(379,376)**
Profit attributable to owners of the parent			**663,441**		**663,441**								**663,441**
Changes in scope of consolidation			**(6,410)**		**(6,410)**								**(6,410)**
Changes in scope of equity method			**2,315**		**2,315**								**2,315**
Changes in treasury stock of the parent arising from transactions with non-controlling shareholders		**94,851**		**0**	**94,851**								**94,851**
Purchase of treasury stock				**(197)**	**(197)**								**(197)**
Disposal of treasury stock		**1,524**		**5,167**	**6,692**								**6,692**
Net changes in items other than stockholders' equity						**(5,440)**	**9,431**	**(44,352)**	**85,165**	**44,804**	**(3,830)**	**145,773**	**186,746**
Subtotal	**—**	**96,376**	**279,960**	**4,969**	**381,315**	**(5,440)**	**9,431**	**(44,352)**	**85,165**	**44,804**	**(3,830)**	**145,773**	**568,062**
Balance as of March 31, 2018	**$2,500,075**	**$2,013,347**	**$11,713,968**	**$(38,413)**	**$16,188,987**	**$941,462**	**$ (8,283)**	**$(65,879)**	**$119,841**	**$987,142**	**$20,039**	**$3,177,211**	**$20,373,390**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2018 and 2017

	In millions of yen		In thousands of U.S. dollars (Note 4)
	2018	2017	**2018**
Cash flows from operating activities:			
Profit before income taxes	**¥128,042**	¥ 169,718	**$1,205,214**
Adjustments to reconcile profit (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**176,104**	172,762	**1,657,605**
Impairment loss	**3,174**	—	**29,875**
Amortization of goodwill	**16,484**	16,568	**155,158**
Increase (decrease) in liability for retirement benefits	**6,612**	(1,093)	**62,236**
Interest and dividend income	**(16,366)**	(15,437)	**(154,047)**
Interest expense	**9,036**	11,461	**85,052**
Foreign exchange loss (gain)	**(2,239)**	(8,337)	**(21,074)**
(Income) loss from equity method investments	**(3,230)**	22,845	**(30,402)**
(Gain) loss on sales of investment securities	**(31,303)**	(61,047)	**(294,644)**
Loss on revaluation of investment securities	**372**	6,272	**3,501**
(Gain) loss on sales of fixed assets	**(1,693)**	(53,861)	**(15,935)**
Loss on disposal of fixed assets	**7,022**	7,627	**66,095**
Gain on negative goodwill	**(45)**	—	**(423)**
Business structure improvement expenses	**14,548**	12,810	**136,935**
Loss on passenger vessel construction business provision	**-**	34,323	**-**
(Increase) decrease in receivables	**(42,093)**	(11,002)	**(396,206)**
(Increase) decrease in inventories and advances to suppliers	**126,965**	(121,023)	**1,195,077**
(Increase) decrease in other assets	**(110,734)**	(117,552)	**(1,042,300)**
Increase (decrease) in payables	**41,733**	(14,261)	**392,818**
Increase (decrease) in advance payments received on contracts	**118,648**	39,375	**1,116,792**
Increase (decrease) in other liabilities	**(54,039)**	52,556	**(508,650)**
Others	**(15,908)**	(3)	**(149,736)**
Subtotal	**371,089**	142,703	**3,492,931**
Interest and dividends received	**21,470**	20,270	**202,089**
Interest paid	**(8,456)**	(12,185)	**(79,593)**
Income taxes paid	**(38,994)**	(54,875)	**(367,036)**
Net cash provided by (used in) operating activities	**345,109**	95,913	**3,248,390**
Cash flows from investing activities:			
Net (increase) decrease in time deposits	**(5,849)**	2,521	**(55,054)**
Purchases of property, plant and equipment and intangible assets	**(165,168)**	(200,185)	**(1,554,668)**
Proceeds from sales of property, plant and equipment and intangible assets	**8,231**	97,013	**77,475**
Purchases of investment securities	**(104,514)**	(5,033)	**(983,753)**
Proceeds from sales and redemption of investment securities	**112,122**	17,376	**1,055,365**
Proceeds from sales of investments in subsidiaries that result in change in scope of consolidation	**1,900**	102,436	**17,884**
Payment for sales of investments in subsidiaries that result in change in scope of consolidation	**(928)**	(849)	**(8,734)**
Proceeds from transfer of business	**1,400**	—	**13,177**
Disbursement of long-term loans	**(1,993)**	(10,996)	**(18,759)**
Collection of long-term loans	**15,898**	13,868	**149,642**
Others	**1,719**	(7,440)	**16,180**
Net cash provided by (used in) investing activities	**(137,181)**	8,712	**(1,291,236)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	**25,963**	(132,340)	**244,380**
Proceeds from long-term borrowings	**6,449**	60,206	**60,702**
Repayment of long-term borrowings	**(96,841)**	(62,804)	**(911,530)**
Proceeds from issuance of bonds	**20,000**	30,000	**188,253**
Payment for redemption of bonds	**(60,000)**	(20,000)	**(564,759)**
Proceeds from issuance of stock to non-controlling shareholders	**519**	445	**4,885**
Dividends paid to stockholders	**(40,206)**	(40,283)	**(378,445)**
Dividends paid to non-controlling shareholders	**(6,128)**	(2,682)	**(57,680)**
Others	**(1,868)**	5,381	**(17,582)**
Net cash provided by (used in) financing activities	**(152,113)**	(162,078)	**(1,431,786)**
Effect of exchange rate changes on cash and cash equivalents	**1,607**	1,060	**15,126**
Net increase (decrease) in cash and cash equivalents	**57,422**	(56,392)	**540,493**
Cash and cash equivalents at the beginning of the year	**242,404**	300,267	**2,281,664**
Increase in cash and cash equivalents due to changes in scope of consolidation	**2**	—	**18**
Decrease in cash and cash equivalents due to changes in scope of consolidation	**(592)**	(1,470)	**(5,572)**
Cash and cash equivalents at the end of the year (Note 22)	**¥299,237**	¥ 242,404	**$2,816,613**

See accompanying notes to the consolidated financial statements.

01 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of the Mitsubishi Heavy Industries Group (the "Group"), which consists of Mitsubishi Heavy Industries, Ltd. ("MHI") and its consolidated subsidiaries ("Subsidiaries"), have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been prepared from the consolidated financial statements filed with the Financial Services Agency ("FSA") of Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

b) Principles of consolidation

The accompanying consolidated financial statements for the fiscal years ended March 31, 2018 and 2017 include the accounts of the Group. All significant inter-company transactions and accounts have been eliminated. Investments in affiliates are accounted for by the equity method.

c) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the exchange rates in effect at the balance sheet date and the resulting translation gains or losses are included in profit.

All assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date, revenues and expenses at the average exchange rates during the fiscal year, and stockholders' equity at historical rates. The resulting foreign currency translation adjustments are accounted for as a component of net assets.

d) Securities

Securities include (1) investments in unconsolidated subsidiaries and affiliates and (2) other securities (available-for-sale securities). Their valuation standards and methods are as follows:

(1) Investments in unconsolidated subsidiaries and affiliates excluding those accounted for by the equity method:
Historical cost (moving average method).

(2a) Other securities with market value:
Market value method based on market prices and other fair values at the balance sheet date. Unrealized holding gains and losses are accounted for as a component of net assets. The costs of sold securities are computed based on the moving average method.

(2b) Other securities without market value:
Historical cost method (moving average method).
As to the presentation of the balance sheet, the Group has classified securities due within one year in "Other current assets" in "Current assets" and the others as "Investment securities" in "Investments and advances".

e) Inventories

Merchandise and finished products are principally stated at cost determined by the moving average method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Work in process is principally stated at cost determined by the specific identification method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Raw materials and supplies are principally stated at cost determined by the moving average method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

f) Depreciation of property, plant and equipment

Depreciation of property, plant and equipment (excluding leased assets) is calculated using the straight-line method for buildings and declining-balance method for others, over their estimated useful lives.

Depreciation of leased assets is calculated using the straight-line method over the lease term with zero residual value.

g) Amortization of intangible assets

Amortization of intangible assets (excluding leased assets) is calculated using the straight-line method over their estimated useful lives. Amortization of leased assets is calculated using the straight-line method over the lease term with zero residual value.

Goodwill is amortized on a straight-line basis over the investment recovery period of up to 20 years.

h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for possible losses on the collection of receivables. The amount of the allowance for general receivables is based on the historical rate of actual losses. As for certain receivables, such as the ones from the debtors whose solvency is in doubt, the recoverability of each receivable is examined individually and the estimated unrecoverable amounts are recognized as the allowance.

i) Provision for product warranties

Provision for product warranties is provided for the product warranty expenditure after products are delivered. The amounts are estimated based on the past experience.

j) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for the expected total losses to be realized in the following fiscal years on the construction contracts if (1) those losses are considered probable at the current fiscal year-end and (2) a reasonable estimate of the amounts of such losses is possible.

With regard to the construction contracts for which this provision is recognized, if the fiscal year-end balances of their work-in-process already exceeds their respective total contract revenues, the exceeding portion is recognized as the loss on devaluation of the work-in-process and, accordingly, is not included in the provision for losses on construction contracts.

k) Provision for business structure improvement

Provision for business structure improvement is provided for the expenses and losses in association with business structure improvement at an amount expected to be incurred.

l) Provision for share-based payment arrangements

Provision for share-based payment arrangements is provided in relation to the remuneration plans that provide MHI stock to eligible persons through a trust. The estimated value of MHI stock corresponding to the Stock Grant Points held by the eligible persons as at the balance sheet date is recognized.

m) Provision for treatment of PCB waste

Provision for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment of PCB products and equipment.

n) Accounting treatment of retirement benefits

Liability for retirement benefits is provided for employees' retirement benefits by deducting plan assets (including a retirement benefit trust) from retirement benefit obligations, based on estimated balances at the end of the fiscal year.

When calculating retirement benefit obligations, the benefit formula basis is mainly used to attribute estimated retirement benefits to the period through the end of the current fiscal year.

Past service costs are either expensed as incurred or amortized by the straight-line method over a period shorter than the average remaining service period of employees.

Actuarial gains and losses for each fiscal year are amortized by the straight-line method, starting in the following fiscal year of occurrence, over a period shorter than the average remaining service period of employees.

Unrecognized actuarial gains and losses and unrecognized past service costs after tax are recorded in "Remeasurements of defined benefit plans" within the net assets section as a component of accumulated other comprehensive income. If plan assets to be recognized at the end of the current fiscal year exceed retirement benefit obligations, the excess amount shall be recorded in "Investments and advances" as "Asset for retirement benefit".

o) Recognition of revenue and costs

With regard to construction contracts, the percentage-of-completion method is applied if reliable estimates of the (1) total costs on and revenues from a contract and (2) percentage of completion at the balance sheet date are available. In applying this method, the percentage of completion at the balance sheet date is estimated based on the costs incurred to date divided by the estimated total costs on the contracts. The completed-contract method is applied when the above conditions are not met.

p) Hedge accounting

The principal method in applying hedge accounting is deferral hedge accounting, where gains or losses on a hedging instrument are deferred (and recognized as a component of net assets, net of tax effect) until the losses or gains on the hedged item are recognized in the income statement.

The Group evaluates the effectiveness of its hedging activities by reference to the accumulated amounts of fluctuations in cash flows of hedging instruments and those on the hedged items from the commencement of the hedges.

q) Tax-effect accounting

Deferred income taxes arise from temporary differences between the financial reporting and tax bases of assets and liabilities. They are accounted for under the asset and liability method, where the amounts of deferred income taxes are calculated using the future tax rates in effect when the temporary differences are recovered or settled.

r) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, demand deposits and short-term highly liquid investments with maturities of three months or less when purchased that have insignificant risk of changes in value.

s) Earnings per share

The computation of basic profit attributable to owners of the parent per share is based on the profit attributable to owners of the parent available to common stockholders and the weighted average number of shares outstanding during each period.

MHI carried out a share consolidation on common stock with a ratio of ten shares to one share on October 1, 2017. Profit attributable to owners of the parent per share, diluted profit attributable to owners of the parent per share and net assets per share are calculated based on the assumption that consolidation of shares had been carried out at the beginning of the fiscal year ended March 31, 2017.

Due to this share consolidation, the amount of cash dividends per share in 2018 is omitted and shown as "–" as the 2nd quarter-end dividends per share and the fiscal year-end dividends per share cannot be simply added. Meanwhile, the dividends per share for the end of the 2nd quarter of the fiscal year ended March 31, 2018 converted after the share consolidation and the annual dividends per share are ¥60.00 and ¥120.00, respectively.

t) Fiscal years of consolidated subsidiaries

The financial statements of Shanghai MHI Turbocharger Co., Ltd., etc. (36 companies in total), whose fiscal year end is December 31, 2017, are consolidated by using their financial statements of the parent fiscal year end which are prepared solely for consolidation purposes.

The financial statements of Mitsubishi Hitachi Power Systems Africa (Pty) Ltd., etc. (3 companies in total), are consolidated by using their financial statements as of their respective fiscal year end, which falls on December 31 and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

The financial statements of Urawa Red Diamonds Co., Ltd., etc. (2 companies in total), are consolidated by using their financial statements as of their respective fiscal year end, which falls on January 31 and necessary adjustments are made to their financial statements to reflect any significant transactions from February 1 to March 31.

02 CHANGE IN ACCOUNTING POLICY

a) Change in cost accounting method

As part of MHI's efforts to transition to a global management framework centering on domain SBUs (Strategic Business Unit: A business unit used in the strategic business evaluation system), while also moving to a more sophisticated business management model, there have been changes to cost accounting practices.

Previously cost accounting was focused on corporate sectors' however, in the current period internal regulations and systems have been fully implemented to enable expenses to be allocated based on their nature. For example, expenses related to functions supporting corporate operations within a construction sector company can now classify such expenses as a general and administrative expenses, rather than construction costs.

Given the difficulty of retrospectively applying this accounting policy to cost accounting for the past fiscal years and calculating future effects, the basic treatment for retrospective application is impossible in practice and the change has been applied prospectively from the current fiscal year.

The impact of this change on the consolidated financial statements for the current fiscal year is insignificant.

b) Change from the "exceptional method for interest-rate swaps"

For interest-rate swaps that meet requirements for the exceptional method, previously the exceptional method was adopted. However, MHI changed its practice to use the basic method from the end of the current fiscal year. This change is based on the judgment that the change to the basic method enables a more appropriate presentation of the consolidated financial statements when considering the global management framework.

The change in the accounting policy has been applied retrospectively and the cumulative effect has been reflected in financial statements as of March 31, 2016. As a result, "Other current liabilities" and "Other non-current liabilities" increased by 168 million yen ($1,581 thousand) and 4,399 million yen ($41,406 thousand), respectively, and "Deferred gains or losses on hedges" decreased by 3,177 million yen ($29,903 thousand), and "Deferred tax assets" (current) increased by 51 million yen ($480 thousand), and "Deferred tax liabilities" (non-current) decreased by 1,339 million yen ($12,603 thousand), compared with the consolidated balance sheets as of March 31, 2017, prior to the retrospective adjustment. "Unrealized gain (loss) from hedging instruments" and "Comprehensive income (loss) attributable to owners of parent" in the consolidated statements of comprehensive income increased by 3,401 million yen ($32,012 thousand), respectively. In addition, the beginning balance after the retrospective application in "Deferred gains or losses on hedges" in the consolidated statements of changes in net assets decreased by 6,578 million yen ($61,916 thousand) since the cumulative effect has been reflected in net assets as of March 31, 2016.

Also, compared with the figures prior to retrospective application, net assets per share has decreased by 9.46 yen ($0.089).

03 ADDITIONAL INFORMATION

a) Stock grant ESOP (Employee Stock Ownership Plan) Trust

MHI and its main subsidiaries provide MHI stock to certain employees who hold important managerial positions (hereinafter, Management Personnel) through a trust.

(1) Overview of transaction

A stock grant ESOP Trust (the ESOP Trust) was established by the Group for the purpose of strengthening the Group's business performance and corporate value in the medium-and-long term by better aligning Management Personnel's remuneration structure with the performance of the Group.

The Group established a trust in which Management Personnel who meet certain requirements are the beneficiaries, and the Group contributes the amount required to purchase MHI stock to the ESOP Trust. Based on predetermined regulations of awarding stock, the ESOP Trust will acquire the estimated number of shares of MHI stock to be awarded to Management Personnel from MHI (disposal of treasury stock) or from the stock market.

In accordance with the regulations of awarding stock, eligible Management Personnel are awarded a specific number of points each fiscal year based on their contribution to the Group during the period of the ESOP Trust. Subsequently, the ESOP Trust delivers MHI stock or a cash equivalent equal to the value of the stock to Management Personnel based on the total number of points awarded to them.

(2) MHI stock in ESOP Trust

MHI stock in the ESOP Trust is recorded in treasury stock under net assets based on its book value. The book value and number of shares of treasury stock in the ESOP Trust were 103 million yen ($969 thousand) and 34,888 shares, respectively, as of March 31, 2018, and 123 million yen and 416,246 shares, respectively, as of March 31, 2017.

As of October 1, 2017, MHI carried out a share consolidation of 10 common shares to 1.

b) Officer Remuneration Board Incentive Plan (BIP) Trust

MHI and its main subsidiaries provide MHI stock to MHI's directors (excluding independent directors and also audit and supervisory committee members), MHI's corporate officers, MHI's main subsidiaries' directors (excluding independent directors) and also MHI's main subsidiaries' corporate officers (hereinafter, collectively referred as Directors and Other Executives) through a trust.

(1) Overview of transaction

An officer remuneration BIP Trust (the BIP Trust) was established by the Group for the purpose of strengthening the Group's business performance and corporate value in the medium-and-long term by better aligning the Directors and Other Executives' remuneration structure with the performance of the Group.

The Group established a trust in which Directors and Other Executives who meet certain requirements are the beneficiaries, and the Group contributes the amount required to purchase MHI stock to the BIP Trust. Based on predetermined regulations of awarding stock, the BIP Trust will acquire the estimated number of shares of the MHI stock to be awarded to Directors and Other Executives from MHI (disposal of treasury stock) or from the stock market.

In accordance with the regulations of awarding stocks, eligible Directors and Other Executives are awarded a specific number of points each fiscal year based on their contribution to the Group during the period of BIP Trust. Subsequently, the BIP Trust delivers MHI stock or a cash equivalent equal to the value of the stock to Directors and Other Executives based on the total number of points awarded to them.

Based on the qualifications of the beneficiaries, the Group classified the BIP Trust as follows:

[BIP Trust I]: available for MHI's directors

[BIP Trust II]: available for MHI's corporate officers and its main subsidiaries' directors and corporate officers

(2) MHI stock in BIP Trust

MHI stock in the BIP Trust is recorded in treasury stock under net assets based on the book value. The book value and number of shares of treasury stock in the BIP Trust were 1,426 million yen ($13,422 thousand) and 475,000 shares, respectively, as of March 31, 2018, and 1,595 million yen and 5,319,000 shares, respectively, as of March 31, 2017.

As of October 1, 2017, MHI carried out a share consolidation of 10 common shares to 1.

c) Standards issued but not yet effective

(1) Accounting Standard for Revenue Recognition, etc.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018, ASBJ)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018, ASBJ)

1) The nature of the standard

The standard defines comprehensive accounting standard for revenue recognition.

2) Scheduled application date and effect of application

Since voluntary application of IFRS will start from the following fiscal year, effect of application of the said accounting standard to the consolidated financial statements are not assessed.

04 U.S. DOLLAR AMOUNTS

U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the Japanese yen actually represent, or have been or could be converted into, U.S. dollars.

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥106.24= US$1 prevailing at March 31, 2018 is used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

05 LEASES

As a lessee, the future minimum lease payments under non-cancellable operating leases are payable in the fiscal year ended March 31, 2018 and 2017 as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Less than one year	¥15,238	¥15,907	$143,429
More than one year	74,564	82,301	701,844
Total	¥89,803	¥98,209	$845,284

06 FINANCIAL INSTRUMENTS

The book value, fair value, and variance between these two values specific to financial instrument balances as of March 31, 2018 and 2017 are shown in the following table. Where an instrument's fair value is extremely difficult to determine it is excluded from the following table and shown in Footnote 2. See Note 1 p) for information on hedge accounting.

	In millions of yen			In thousands of U.S. dollars		
	2018			2018		
	Book Value	Fair Value	Variance	Book Value	Fair Value	Variance
(1) Cash and deposits	¥ 313,458	¥ 313,458	¥ —	$ 2,950,470	$ 2,950,470	$ —
(2) Trade receivables	1,232,742	1,232,742	—	11,603,369	11,603,369	—
(3) Securities and investment securities	341,217	341,048	(168)	3,211,756	3,210,165	(1,581)
Asset items total	¥1,887,418	¥1,887,249	¥ (168)	$17,765,606	$17,764,015	$ (1,581)
(4) Trade payables	771,324	771,324	—	7,260,203	7,260,203	—
(5) Electronically recorded obligations	106,968	106,968	—	1,006,852	1,006,852	—
(6) Short-term borrowings	229,584	229,584	—	2,160,993	2,160,993	—
(7) Bonds	235,000	237,901	2,901	2,211,972	2,239,278	27,306
(8) Long-term borrowings	348,586	361,197	12,610	3,281,118	3,399,821	118,693
Liability items total	¥1,691,464	¥1,706,976	¥15,511	$15,921,159	$16,067,168	$145,999
(9) Derivatives (*)	¥ 829	¥ 829	¥ —	$ 7,803	$ 7,803	$ —

(*) The derivatives positions shown are net amounts. The amounts in parentheses show liability balances.

	In millions of yen		
	2017		
	Book Value	Fair Value	Variance
(1) Cash and deposits	¥ 248,040	¥ 248,040	¥ —
(2) Trade receivables	1,180,143	1,180,143	—
(3) Securities and investment securities	411,275	411,148	(127)
Asset items total	¥1,839,460	¥1,839,332	¥ (127)
(4) Trade payables	736,502	736,502	—
(5) Electronically recorded obligations	99,560	99,560	—
(6) Short-term borrowings	205,679	205,679	—
(7) Bonds	275,000	279,115	4,115
(8) Long-term borrowings	444,887	449,583	4,696
Liability items total	¥1,761,630	¥1,770,441	¥ 8,811
(9) Derivatives (*)	¥ (4,067)	¥ (4,067)	¥ —

(*) The derivatives positions shown are net amounts. The amounts in parentheses show liability balances.

(Footnote 1) The computation method of the fair values of financial instruments.

(1) Cash and deposits
The book value is used as the fair value since all the deposits are short-term and the fair value is almost equal to the book value.

(2) Trade receivables
The book value is used as the fair value since a large portion of them are settled in a short period and the fair value could be deemed almost equal to the book value.

(3) Securities and investment securities
Market prices are used as the fair value. Also, securities are included in "Other current liabilities" under current liabilities in the consolidated balance sheet.

(4) Trade payables; (5) Electronically recorded obligations; (6) Short-term borrowings.
The book values are used as the fair values since they are settled in a short period and the fair values are almost equal to the book values.

(7) Bonds
Market prices are used as the fair value.

(8) Long-term borrowings
The present value of the principal and total interest (discounted by the rate assumed to be applied to new borrowings of the same conditions) are used as the fair value.

(9) Derivatives
See Note 8.

(Footnote 2) Financial instruments shown below are excluded from the above table because they do not have market prices and it is extremely difficult to determine their fair value.

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Book value of unlisted securities	¥265,035	¥170,901	$2,494,681

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2018 and 2017 are as follows:

	In millions of yen				In thousands of U.S. dollars			
	2018				2018			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 301,354	¥ 3,566	¥ —	¥—	$ 2,836,539	$ 33,565	$ —	$—
Trade receivables	1,222,031	10,648	61	—	11,502,550	100,225	574	—
Securities and investment securities								
Other securities					—			
Government bonds	0	—	—	—	0	—	—	—
Total	¥1,523,386	¥14,215	¥61	¥—	$14,339,100	$133,800	$574	$—

	In millions of yen			
	2017			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 235,528	¥ 64	¥ —	¥ —
Trade receivables	1,152,891	26,705	546	0
Securities and investment securities				
Other securities				
Government bonds	0	—	—	—
Total	¥1,388,420	¥26,770	¥546	¥ 0

07 SECURITIES

a) Breakdown of other securities with market value at March 31, 2018 and 2017

	In millions of yen			In thousands of U.S. dollars		
	2018			2018		
	Book value	Acquisition cost	Unrealized gain (loss)	Book value	Acquisition cost	Unrealized gain (loss)
i) Book values exceed acquisition costs:						
Equity securities	¥305,327	¥169,423	¥135,903	$2,873,936	$1,594,719	$1,279,207
Debt securities						
Government bonds	0	0	0	0	0	0
Others	716	659	56	6,739	6,202	527
Subtotal	¥306,044	¥170,083	¥135,960	$2,880,685	$1,600,931	$1,279,743
ii) Acquisition costs exceed book values:						
Equity securities	¥ 31,242	¥ 37,151	¥ (5,908)	$ 294,070	$ 349,689	$ (55,609)
Debt securities						
Government bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	511	511	—	4,809	4,809	—
Subtotal	¥ 31,754	¥ 37,662	¥ (5,908)	$ 298,889	$ 354,499	$ (55,609)
Total (i + ii)	¥337,798	¥207,746	¥130,052	$3,179,574	$1,955,440	$1,224,134

	In millions of yen		
	2017		
	Book value	Acquisition cost	Unrealized gain (loss)
i) Book values exceed acquisition costs:			
Equity securities	¥307,016	¥172,344	¥134,671
Debt securities			
Government bonds	0	0	0
Others	564	533	31
Subtotal	¥307,581	¥172,877	¥134,703
ii) Acquisition costs exceed book values:			
Equity securities	¥ 97,915	¥106,358	¥ (8,443)
Debt securities			
Government bonds	—	—	—
Others	—	1	(1)
Others	2,375	2,375	—
Subtotal	¥100,291	¥108,736	¥ (8,445)
Total (i + ii)	¥407,872	¥281,614	¥126,258

Footnote: If the market value of the securities decline substantially and if the Group judges that they have no chance of recovery, impairment losses on them are recognized and their acquisition costs are reduced by the same amount.

b) Sales amounts of other securities with market value and related gains and losses for the fiscal years ended March 31, 2018 and 2017

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Sales amounts	¥110,962	¥13,871	$1,044,446
Gains	31,497	4,400	296,470
Losses	(18)	(501)	(169)

c) Impairment losses on other securities with market value for the fiscal years ended March 31, 2018 and 2017
Impairment losses on other securities were 5,201 million yen for the fiscal year ended March 31, 2017.
Although impairment losses on other securities were recorded for the fiscal year ended March 31, 2018, disclosure has been omitted as the amounts are immaterial.

Securities with market value are judged as impaired when their market values decline from their book values by (i) 50% or more at the end of a fiscal year, or (ii) between 30% and 50% at four consecutive quarter ends (Q1–Q4) of a fiscal year.

08 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivatives for the purpose of reducing the risks mentioned below and does not enter into derivatives for speculative or trading purposes.

The derivative financial instruments which the Group utilizes are principally foreign currency forward and option contracts and interest rate swaps. The former is to hedge against the exchange rate risks on the receivables or payables denominated in foreign currencies and the latter is to fix the interest rates on certain long-term borrowings. See Note 1 p) for the information on hedge accounting.

The use of derivatives is subject to internal control policies; the objective of the derivatives transactions is limited to hedging against such risks as exchange rate risks and interest rate risks and their use is limited to the extent corresponding to actual business. Accordingly, the Group believes that market risks resulting from the change in exchange rates and interest rates are insignificant. The Group also believes that the risk of nonperformance by counterparties is insignificant because all the counterparties are banks with high credit ratings.

Summarized below are the notional amounts and the fair values of the derivative positions outstanding at March 31, 2018 and 2017.

1. Derivatives to which hedge accounting is not applied

(1) Currency related

	In millions of yen				In thousands of U.S. dollars			
	2018				2018			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts (*1)								
Sell:								
USD	¥106,127	¥19,494	¥ 4,054	¥ 4,054	$ 998,936	$183,490	$ 38,158	$ 38,158
EUR	1,509	—	(6)	(6)	14,203	—	(56)	(56)
Others	134,063	43,479	(604)	(604)	1,261,888	409,252	(5,685)	(5,685)
Buy:								
USD	¥ 64,831	¥16,740	¥(3,383)	¥(3,383)	$ 610,231	$157,567	$(31,842)	$(31,842)
EUR	53,870	15,962	777	777	507,059	150,244	7,313	7,313
Others	49,529	16,008	191	191	466,199	150,677	1,797	1,797
Currency option contracts (*2)								
Sell:								
USD	¥ 1,114 (26)	¥ —	¥ 6	¥ 20	$ 10,485 (244)	—	$ 56	$ 188
EUR	—	¥ —	—	—	—	—	—	—
Others	744 (6)	¥ —	0	6	7,003 (56)	—	0	56
Buy:								
USD	¥ 586 (3)	¥ —	¥ (0)	¥ (3)	$ 5,515 (28)	$ —	$ (0)	$ (28)
EUR	—	—	—	—	—	—	—	—
Others	1,265 (56)	—	30	(25)	11,907 (527)	—	282	(235)
Embedded derivatives (*3)								
Sell:								
USD	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —	$ —
EUR	7,047	5,515	(4,849)	(4,849)	66,330	51,910	(45,641)	(45,641)
Others	—	—	—	—	—	—	—	—
Buy:								
USD	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —	$ —
EUR	16,539	9,019	5,532	5,532	155,675	84,892	52,070	52,070
Others	—	—	—	—	—	—	—	—
Total	¥ —	¥ —	¥ 1,748	¥ 1,709	$ —	$ —	$ 16,453	$ 16,086

	In millions of yen			
	2017			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts (*1)				
Sell:				
USD	¥209,271	¥24,594	¥(7,631)	¥(7,631)
EUR	37,598	6,003	238	238
Others	28,521	1,830	(405)	(405)
Buy:				
USD	¥110,666	¥24,242	¥ 4,966	¥ 4,966
EUR	80,687	4,656	1,740	1,740
Others	22,371	1,830	485	485
Currency option contracts (*2)				
Sell:				
USD	¥ —	¥ —	¥ —	¥ —
EUR	—	—	—	—
Others	790 (8)	—	32	(23)
Buy:				
USD	¥ —	¥ —	¥ —	¥ —
EUR	158 (3)	—	3	0
Others	760 (57)	—	0	(57)
Total	¥ —	¥ —	¥ (571)	¥ (687)

(*1) The fair values of exchange contracts are based on forward exchange rates.
(*2) Currency option premiums are disclosed in brackets "()", and corresponding fair value and unrealized gain (loss) are disclosed in the same line. The fair values of currency option contracts are based on the Black-Scholes formula.
(*3) Embedded derivatives are comprised of contracts denominated in foreign currencies that are bifurcated as embedded derivatives in accordance with local accounting standards in some overseas subsidiaries.

(2) Interest rate related

	In millions of yen				In thousands of U.S. dollars			
	2018				2018			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Interest rate swaps contracts (*1)								
Fixed payment / variable receipt	¥1,400	¥1,400	¥(6)	¥(6)	$13,177	$13,177	$(56)	$(56)

(*1) The fair values of interest rate swaps contracts are provided by the counterparty financial institution.

(3) Equity related

	In millions of yen				In thousands of U.S. dollars			
	2018				2018			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Forward equity contracts (*1)								
Forward equity contracts (buy)	¥153	¥—	¥3	¥3	$1,440	$—	$28	$28

(*1) The fair values of forward equity contracts are provided by the counterparty financial institution.

2. Derivatives to which hedge accounting is applied

(1) Currency related

	In millions of yen			In thousands of U.S. dollars		
	2018			2018		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Forward foreign exchange contracts (to which deferral hedge accounting is applied)						
Sell: (*1)						
USD	¥10,406	¥ —	¥791	$ 97,948	$ —	$7,445
EUR	6,955	4,791	182	65,464	45,096	1,713
Others	12,827	4,664	(89)	120,736	43,900	(837)
Buy: (*2)						
USD	¥ 723	¥ 723	¥ (22)	$ 6,805	$ 6,805	$ (207)
EUR	—	—	—	—	—	—
Others	6,914	1,762	95	65,079	16,585	894
Total	¥ —	¥ —	¥957	$ —	$ —	$9,007

	In millions of yen		
	2017		
	Notional amount	Therein: portion due after one year	Fair value
Forward foreign exchange contracts (to which deferral hedge accounting is applied)			
Sell: (*1)			
USD	¥35,754	¥14,406	¥ 775
EUR	10,704	1,188	664
Others	6,329	1,598	(326)
Buy: (*2)			
USD	2,658	816	84
EUR	3,400	1,732	(36)
Others	1,319	232	27
Total	¥ —	¥ —	¥1,188

(*1) The hedged items on these derivatives are principally trade receivables.
(*2) The hedged items on these derivatives are principally trade payables.

(2) Interest rate related(*1)

	In millions of yen			In thousands of U.S. dollars		
	2018			2018		
	Notional amount	Therein: portion due after one year	Fair value(*2)	Notional amount	Therein: portion due after one year	Fair value(*2)
Interest rate swaps contracts (to which deferral hedge accounting is applied) (*3)						
Fixed payment / variable receipt	¥143,468	¥138,106	¥(1,833)	$1,350,414	$1,299,943	$(17,253)

	In millions of yen		
	2017		
	Notional amount	Therein: portion due after one year	Fair value(*2)
Interest rate swaps contracts (to which deferral hedge accounting is applied) (*3)			
Fixed payment / variable receipt	¥201,640	¥151,640	¥(4,568)

(*1) The hedged items on these derivatives are principally long-term borrowings.
(*2) The fair values of interest rate swaps contracts are provided by the counterparty of financial institution.
(*3) From the current fiscal year, the Group changed the practices for hedge accounting from the exceptional method to the basic method.

09 INCOME TAXES

The Group is subject to corporation income tax, inhabitants' tax and enterprise tax, based on income, which in the aggregate resulted in a statutory tax rate of approximately 30.7% for the fiscal years ended March 31, 2018 and 2017.

a) Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017, which arose as a result of the recognition of the tax effect mentioned in Note 1 q), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Tax loss carried forward	¥ 125,576	¥ 121,251	$ 1,182,003
Liability for retirement benefits	64,800	65,960	609,939
Depreciation	20,050	15,522	188,723
Accrued expenses for construction contracts	19,788	24,317	186,257
Provision for loss on construction contracts	18,323	14,574	172,467
Accrued expenses for product warranties	16,933	20,831	159,384
Loss on revaluation of investment securities	14,804	7,519	139,344
Write-downs of inventories	13,953	13,397	131,334
Others	155,906	169,830	1,467,488
Subtotal	450,137	453,204	4,236,982
Valuation allowance	(196,811)	(186,799)	(1,852,513)
Total gross deferred tax assets	253,325	266,405	2,384,459
Deferred tax liabilities:			
Gain on contribution or return of securities related retirement benefit trust	(47,429)	(54,355)	(446,432)
Valuation difference on available-for-sale securities	(39,236)	(31,009)	(369,314)
Provision for reduction in costs of fixed assets	(25,980)	(35,510)	(244,540)
Provision for specified business restructuring investment loss	(20,520)	(30,547)	(193,147)
Identified intangible assets due to business combination	(11,798)	(15,856)	(111,050)
Others	(50,013)	(57,831)	(470,754)
Total gross deferred tax liabilities	(194,978)	(225,109)	(1,835,259)
Net deferred tax assets (liabilities)*	¥ 58,347	¥ 41,296	$ 549,199

*Net deferred tax assets (liabilities) at March 31, 2018 and 2017 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets in current assets	¥108,954	¥114,274	$1,025,545
Deferred tax assets in investments and advances	27,350	13,060	257,435
Other current liabilities in current liabilities	(367)	(349)	(3,454)
Deferred tax liabilities in non-current liabilities	(77,590)	(85,689)	(730,327)

b) Reconciliation of the statutory tax rate and the effective tax rate at March 31, 2018 and 2017 are as follows:

	2018	2017
Statutory tax rate	30.7%	30.7%
Reconciliation:		
Non-deductible expenses	11.1	3.7
Items excluded from gross profit	(6.5)	0.1
(Income) loss from equity method investments	(0.8)	4.1
Valuation allowance	(8.1)	(0.8)
Tax credit for research and development expenses	(4.2)	(0.8)
Change in deferred tax assets due to changes in statutory tax rate	3.5	(0.9)
Others	(0.8)	1.9
Effective tax rate	24.9 %	38.0%

c) Adjustment to deferred tax assets and deferred tax liabilities due to changes in corporate income tax rate

The Tax Cuts and Jobs Act was enacted on December 22, 2017 in the U.S. and the rate of federal corporate income tax applicable from the fiscal year beginning on and after January 1, 2018 is to be reduced from the current 35% to 21%. In conjunction with this change, deferred tax assets and deferred tax liabilities of MHI's consolidated subsidiaries in the U.S. have been calculated using the statutory tax rate based on the tax rate after the amendment.

As a result, "Deferred tax assets" and "Deferred tax liabilities" decreased by 5,687 million yen ($53,529 thousand) and 1,401 million yen ($13,187 thousand), respectively, while "Income taxes (deferred)" increased by 4,466 million yen ($42,036 thousand) in this fiscal year.

10 INTEREST-BEARING DEBT AND LEASE OBLIGATIONS

a) Short-term interest-bearing debt at March 31, 2018 and 2017 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Short-term loans, principally from banks (with weighted-average interest rate of 0.4% at March 31, 2018)	¥229,584	¥205,679	$2,160,993
Current portion of bonds	30,000	60,000	282,379
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 1.9% at March 31, 2018)	68,956	97,729	649,058
Total	¥328,540	¥363,409	$3,092,432

b) Bonds at March 31, 2018 and 2017 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Unsecured bonds issued by MHI:			
2.03% bonds due Sep 2017 (issued in Sep 2007)	¥ —	60,000	$ —
1.482% bonds due Dec 2019 (issued in Dec 2009)	50,000	50,000	470,632
0.366% bonds due Sep 2018 (issued in Sep 2013)	30,000	30,000	282,379
0.877% bonds due Sep 2023 (issued in Sep 2013)	15,000	15,000	141,189
0.243% bonds due Sep 2019 (issued in Sep 2014)	15,000	15,000	141,189
0.381% bonds due Sep 2021 (issued in Sep 2014)	25,000	25,000	235,316
0.662% bonds due Sep 2024 (issued in Sep 2014)	30,000	30,000	282,379
0.221% bonds due Sep 2020 (issued in Sep 2015)	10,000	10,000	94,126
0.630% bonds due Sep 2025 (issued in Sep 2015)	10,000	10,000	94,126
0.050% bonds due Aug 2021 (issued in Aug 2016)	20,000	20,000	188,253
0.240% bonds due Aug 2026 (issued in Aug 2016)	10,000	10,000	94,126
0.104% bonds due Aug 2022 (issued in Aug 2017)	10,000	—	94,126
0.330% bonds due Aug 2027 (issued in Aug 2017)	10,000	—	94,126
Total	¥235,000	¥275,000	$2,211,972

The aggregate annual maturities of bonds at March 31, 2018 were as follows:

Fiscal years ending March 31	In millions of yen	In thousands of U.S. dollars
2019 (= current portion)	¥ 30,000	$ 282,379
2020	65,000	611,822
2021	10,000	94,126
2022	45,000	423,569
2023	10,000	94,126
Thereafter	75,000	705,948
Non-current portion subtotal	205,000	1,929,593
Total	¥235,000	$2,211,972

c) Long-term borrowings at March 31, 2018 and 2017 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Non-current portion of long-term loans, principally from banks and insurance companies, due 2019 to 2028 (with weighted-average interest rate of 1.4% at March 31, 2018)	¥279,630	¥347,157	$2,632,059

The aggregate annual maturities of long-term borrowings at March 31, 2018 were as follows:

Fiscal years ending March 31	In millions of yen	In thousands of U.S. dollars
2019 (= current portion)	¥ 68,956	$ 649,058
2020	44,841	422,072
2021	58,099	546,865
2022	30,983	291,632
2023	72,677	684,083
Thereafter	73,028	687,387
Non-current portion subtotal	279,630	2,632,059
Total	¥348,586	$3,281,118

d) Lease obligations at March 31, 2018 and 2017 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Current portion of lease obligations	¥1,753	¥1,745	$16,500
Non-current portion of lease obligations	7,213	7,106	67,893
Total	¥8,966	¥8,852	$84,393

11 PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	2018	2017	2018
Property, plant and equipment	¥1,209	¥2,341	$11,379
Others	264	262	2,484
Total	¥1,473	¥2,604	$13,864

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	2018	2017	2018
Short-term borrowings	¥477	¥ 779	$4,489
Long-term borrowings	412	590	3,878
Total	¥889	¥1,370	$8,367

12 CONTINGENT LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Contingent liabilities	2018	2017	2018
(1) Guarantee obligations on debts such as borrowings from financial institutions by parties outside the MHI Group	¥35,674	¥39,697	$335,786

(2) Contingent liabilities relating to changes to the MRJ delivery timing

MHI announced in January 2017 that the scheduled delivery timing of the first Mitsubishi Regional Jet ("MRJ") would be changed from mid-2018 to mid-2020, and has continued consultations on the delivery timing with existing customers.

Going forward, it is possible that additional liabilities will arise depending on the results of consultations with customers on the timing for the delivery of MRJ and other factors, and this could impact the future financial position and operating results.

13 OVERDRAFT AGREEMENTS AND COMMITMENT LINE AGREEMENTS (BORROWER)

MHI has overdraft agreements and commitment line agreements with multiple financial institutions for the stable and effective procurement of MHI and MHI Group working capital.

The balances of unexecuted loans, etc., based on these agreements as of March 31, 2018 and 2017 are as follows:

	In millions of yen		In thousands of U.S. dollars
Overdraft agreements and commitment line agreements (borrower)	2018	2017	2018
Total amount of overdraft limit and commitment line agreements	¥789,190	¥610,000	$7,428,369
Balance of executed loans	—	—	—
Unexecuted balance	¥789,190	¥610,000	$7,428,369

14 INDEMNIFICATION ASSET FOR THE SOUTH AFRICAN PROJECT

On February 1, 2014 (hereinafter referred to as the "Effective Date of Company Split"), MHI and Hitachi, Ltd. ("Hitachi") integrated their businesses centered on thermal power generation systems into Mitsubishi Hitachi Power Systems, Ltd. ("MHPS"), a consolidated subsidiary of MHI, through a spin-off in the form of an absorption-type company split.

As part of this business integration, the assets and liabilities, contracts with customers and others, and rights and obligations thereunder, regarding the boiler construction projects for Medupi and Kusile Power Stations (the "South African Projects"), for which Hitachi Power Africa Proprietary Limited ("HPA"), a consolidated subsidiary of Hitachi in the Republic of South Africa, and other companies received orders in 2007, were transferred (the "South African Asset Transfer") from HPA to Mitsubishi Hitachi Power Systems Africa Proprietary Limited ("MHPS-Africa"), a consolidated subsidiary of MHI.

At the time the contract for the South African Asset Transfer was concluded, MHI was aware that major losses were probable and asserted this to Hitachi. Therefore, it was agreed in the contract that Hitachi and HPA would be responsible for contingent liabilities arising from events that occurred prior to the Effective Date of Company Split as well as for any claims that had already accrued as of said date, while MHPS and MHPS-Africa would be responsible for the execution of the projects on and after the Effective Date of Company Split. On that basis, it was also agreed in the contract to first retrospectively refine the project schedule and the cash flow estimates, as of the Effective Date of Company Split, then to determine the definitive price of the South African Asset Transfer based on them, and then to adjust the difference between the tentative price and the definitive price.

On March 31, 2016, MHI demanded that Hitachi pay ZAR 48,200 million (equivalent to approximately 379.0 billion yen ($3,567 million) when converted at a rate of 7.87 yen to 1 ZAR) to MHPS-Africa as part of the difference between the tentative price and the definitive price (price adjustment and other payments) according to the contract (the "Part of Demands for Payment on March 2016"). In the Part of Demands for Payment on March 2016, MHI explicitly stated to Hitachi that the amount that Hitachi and HPA were obliged to pay under the contract for the South African Asset Transfer significantly exceeded ZAR 48,200 million and that MHI reserved the right to make additional demands.

Then, on January 31, 2017, MHI demanded that Hitachi pay ZAR 89,700 million (equivalent to approximately 763.4 billion yen ($7,185 million) when converted at a rate of 8.51 yen to 1 ZAR) as the price adjustment and other payments (the "Demands for Payment on January 2017"), which included the aforementioned Part of Demands for Payment on March 2016. In the Demands for Payment on January 2017, MHI retrospectively refined the project schedule and the cash flow estimates, as of the Effective Date of Company Split in accordance with the contract for the South African Asset Transfer, and thereby demonstrated that the amount that Hitachi and HPA were obliged to pay significantly exceeded ZAR 48,200 million as stated in the Part of Demands for Payment on March 2016.

However, given that MHI and Hitachi had been unable to reach an agreement as of July 31, 2017, MHI decided that it had become necessary to submit a request for arbitration to the Japan Commercial Arbitration Association as stated in the above contract which states demands against Hitachi for the payment of ZAR 90,779 million (equivalent to approximately 774.3 billion yen ($7,288 million) when converted at a rate of 8.53 yen to 1 ZAR) as the price adjustment and other payments relating to the South African Projects.

Given that it was already expected as at the Effective Date of Company Split that the South African Projects would incur a loss, MHPS-Africa etc. have the right to receive the price adjustment and other payments from Hitachi or HPA in the amount calculated under the above contract. Furthermore, there is a discrepancy between the amount of anticipated losses included in the assets and liabilities regarding HPA's South African Asset Transfer immediately before the Effective Date of Company Split (January 31, 2014) and the amount of the losses that MHI believes were already expected at the time. Presently, there is yet to be an agreement on the assets and liabilities.

MHI recorded 400.9 billion yen ($3,773 million) out of the claims against Hitachi described above in the item "Indemnification Asset for the South African Project" at the end of this fiscal year. This amount roughly corresponds to the amount of the net expenditure already expended on the South African Projects at the end of this fiscal year, and is a portion of the demand in the aforementioned request for arbitration.

15 RETIREMENT BENEFITS

The Group has several retirement benefit plans such as the defined benefit plans, defined contribution plans and severance indemnity plan. There are also occasions where employees receive special lump-sum payments at retirement. Contributions to the plans are funded in accordance with the applicable laws and regulations. See Note 1 n) for accounting policies and related information.

1. Defined benefit plans

a) A reconciliation of the beginning and ending balances of the retirement benefit obligations for the fiscal years ended March 31, 2018 and 2017 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Retirement benefit obligation at beginning of fiscal year	**¥535,965**	¥551,793	**$5,044,851**
Service cost	**38,808**	36,723	**365,286**
Interest cost	**3,456**	4,814	**32,530**
Actuarial loss (gain)	**3,835**	11,511	**36,097**
Benefits paid	**(38,426)**	(52,817)	**(361,690)**
Effect of business combinations	**(3,426)**	(594)	**(32,247)**
Decrease due to termination and transition of retirement benefit plan (*2)	**—**	(13,243)	**—**
Others	**1,695**	(2,222)	**15,954**
Retirement benefit obligations, at end of fiscal year (*1)	**¥541,908**	¥535,965	**$5,100,790**

(*1) The government-sponsored portion of the benefits under the welfare pension fund plans has been included. Certain consolidated subsidiaries have adopted a simplified method to calculate retirement benefit obligations.

(*2) Certain subsidiaries terminated part of the retirement benefit plan and adopted a defined contribution pension system, effective on April 1, 2016, and accounted for the change in accordance with "Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No.1 on January 31, 2002, revised on December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefits Plans" (ASBJ PITF No.2 on March 29, 2002, revised on Feburary 7, 2007).

b) A reconciliation of the beginning and ending balances of the fair value of plan assets for the fiscal years ended March 31, 2018 and 2017 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Fair value of plan assets at beginning of fiscal year	**¥473,361**	¥454,363	**$4,455,581**
Expected return on plan assets	**9,578**	8,933	**90,154**
Actuarial gain (loss)	**14,783**	37,618	**139,147**
Employer contributions	**14,412**	15,084	**135,655**
Benefits paid	**(34,827)**	(30,294)	**(327,814)**
Effect of business combinations	**(1,309)**	—	**(12,321)**
Decrease due to termination and transition of retirement benefit plan (*1)	**—**	(9,697)	**—**
Others	**1,441**	(2,646)	**13,563**
Fair value of plan assets at end of fiscal year	**¥477,441**	¥473,361	**$4,493,985**

(*1) Certain subsidiaries terminated part of the retirement benefit plan and adopted a defined contribution pension system, effective on April 1, 2016, and accounted for the change in accordance with "Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No.1 on January 31, 2002, revised on December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefits Plans" (ASBJ PITF No.2 on March 29, 2002, revised on Feburary 7, 2007).

c) A reconciliation of the ending balance of the retirement benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets at March 31, 2018 and 2017 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Retirement benefit obligation for funded plans	**¥ 498,337**	¥ 494,362	**$ 4,690,672**
Fair value of plan assets	**(477,441)**	(473,361)	**(4,493,985)**
	20,896	21,000	**196,686**
Retirement benefit obligation for unfunded plans	**43,570**	41,603	**410,109**
Net amount recognized in consolidated balance sheets	**¥ 64,467**	¥ 62,603	**$ 606,805**
Liability for retirement benefits	**¥ 137,893**	¥ 123,160	**$ 1,297,938**
Asset for retirement benefits	**(73,426)**	(60,556)	**(691,133)**
Net amount recognized in consolidated balance sheets	**¥ 64,467**	¥ 62,603	**$ 606,805**

d) The components of net periodic retirement benefit expenses for the fiscal years ended March 31, 2018 and 2017 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Service cost (*1)	**¥38,764**	¥36,747	**$364,871**
Interest cost	**3,456**	4,814	**32,530**
Expected return on plan assets	**(9,578)**	(8,933)	**(90,154)**
Amortization of actuarial loss (gain)	**2,144**	3,539	**20,180**
Amortization of past service cost (credit)	**212**	(327)	**1,995**
Retirement benefit expense	**¥34,998**	¥35,840	**$329,423**
Loss on termination of retirement benefit plan (*2)	**¥ —**	¥ 962	**$ —**

(*1) Accrued pension costs for the consolidated subsidiaries that adopt a simplified method are included in "Service cost".

(*2) Loss on termination of retirement benefit plan was included in "Other expenses".

(*3) In addition to the above-mentioned retirement benefit expenses, special severance payments are 3,932 million yen ($37,010 thousand) and 5,498 million yen respectively which included in "Business structure improvement expenses" in the fiscal year ended March 31, 2018 and 2017.

e) Remeasurements of defined benefit plans

The amounts recognized in other comprehensive income consisted of the following on a pretax basis for the fiscal years ended March 31, 2018 and 2017.

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Past service (cost) credit	¥ (227)	¥ 411	$ (2,136)
Actuarial (loss) gain	13,092	29,646	123,230
Decrease due to termination of retirement benefit plan (*1)	—	962	—
Total	¥12,864	¥31,021	$121,084

(*1) Certain subsidiaries terminated part of the retirement benefit plan and adopted a defined contribution pension system, effective on April 1, 2016, and accounted for the change in accordance with "Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No.1 on January 31, 2002, revised on December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefits Plans" (ASBJ PITF No.2 on March 29, 2002, revised on February 7, 2007).

f) Remeasurements of defined benefit plans (accumulated)

The amounts recognized in accumulated other comprehensive income consisted of the following on a pretax basis at March 31, 2018 and 2017.

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Unrecognized past service (cost) credit	¥ 2,163	¥2,390	$ 20,359
Unrecognized actuarial (loss) gain	16,914	3,822	159,205
Total	¥19,077	¥6,212	$179,565

g) Information on plan assets

(1) A breakdown of the plan assets by asset class at March 31, 2018 and 2017 were as follows:

	2018	2017
Equity securities	51%	51%
Debt securities	32	33
Cash and deposits	4	4
Life insurance company general accounts	4	4
Others	9	8
Total (*1)	100%	100%

(*1) 43% of the plan assets consist of a retirement benefit trust, which is provided for the severance indemnity plan, as of March 31, 2018 and 42% as of March 31, 2017.

(2) Determination of the expected long-term rate of return on plan assets

To determine the expected long-term rate of return on the plan assets, the Group considers the current and expected asset allocation, as well as current and expected future long-term returns on various assets constituting the plan assets.

h) The principal actuarial assumptions at March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate	mainly 0.5%	mainly 0.6%
Expected long-term rate of return on plan assets	mainly 2.1%	mainly 2.1%

2. Defined contribution plans

Contributions made by the Group were 8,587 million yen ($80,826 thousand) in the fiscal year ended March 31, 2018 and 9,878 million yen in the fiscal year ended March 31, 2017.

16 GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Land	¥—	¥52,680	$—
Others	—	1,181	—
Total	¥—	¥53,861	$—

17 BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the fiscal year ended March 31, 2018 are comprised of business reorganization expenses, relating to the Power Systems domain of 7,819 million yen ($73,597 thousand), the Industry & Infrastructure domain of 4,526 million yen ($42,601 thousand) and other amounts of 2,202 million yen ($20,726 thousand).

Business structure improvement expenses for the fiscal year ended March 31, 2017 are comprised of business reorganization expenses, relating to the Power Systems domain of 8,058 million yen and the Industry & Infrastructure domain of 4,752 million yen.

18 IMPAIRMENT LOSS

The following is a description of the impairment loss recognized in the fiscal year ended March 31, 2018.

a) Breakdown of the impaired asset group

			Impairment loss	
Use	Category	Location	In millions of yen	In thousands of U.S. dollars
Idle assets	Buildings and structures, etc.	Hitachi-city, Ibaraki, China, etc.	¥5,403	$50,856
Assets for operation	Machinery and transportation equipment, etc.	Hiroshima-city, Hiroshima, etc.	¥ 696	$ 6,551

b) Method of asset grouping

The principal unit of asset grouping is business units under the strategic evaluation system. Basically, assets for rental purpose, idle assets and assets to be disposed of due to termination or transfer of some operation are each treated as separate asset groups.

c) Reason to recognize the impairment

The book values of some business assets were written down to their recoverable amounts since a short-term recovery of performance cannot be expected due to the deterioration of profitability, and the future cash flows to be derived from the assets have become less than their book values.

For some assets to be disposed of, their book values were written down to their recoverable amounts since they are being phased out in line with the reorganization of operations.

d) Calculation method of recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is computed by discounting the future cash flows to be derived from the assets to the present value often using a rate of 8%.

e) Impairment loss amount and the breakdown

	In millions of yen	In thousands of U.S. dollars
Breakdown by the income statement accounts	2018	2018
"Impairment loss" under extraordinary loss	¥3,174	$29,875
"Business structure improvement expenses" under extraordinary loss	2,403	22,618
"Other expenses" under non-operating expense	523	4,922
Total	¥6,100	$57,417

	In millions of yen	In thousands of U.S. dollars
Breakdown by the category of assets	2018	2018
Buildings and structures	¥1,511	$14,222
Machinery and transportation equipment	1,723	16,217
Investments and advances (Others)	¥1,758	$16,547
Intangible assets (Others), etc	1,108	10,429
Total	¥6,100	$57,417

The following is a description of the impairment loss recognized in the fiscal year ended March 31, 2017.

a) Breakdown of the impaired asset group

			Impairment loss
Use	Category	Location	In millions of yen
Assets for operation	Buildings and structures, etc.	Germany, China, etc.	¥3,716
Idle assets	Land, etc.	Mihara-city, Hiroshima	¥ 62

b) Method of asset grouping

The principal unit of asset grouping is business units under the strategic evaluation system. Basically, assets for rental purpose, idle assets and assets to be disposed of due to termination or transfer of some operation are each treated as separate asset groups.

c) Reason to recognize the impairment

The book values of some business assets were written down to their recoverable amounts since a short-term recovery of performance cannot be expected due to the deterioration of profitability, and the future cash flows to be derived from the assets have become less than their book values.

For some assets to be disposed of, their book values were written down to their recoverable amounts since they are being phased out in line with the reorganization of operations.

d) Calculation method of recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is computed by discounting the future cash flows to be derived from the assets to the present value often using a rate of 8%.

e) Impairment loss amount and the breakdown

Breakdown by the income statement accounts	In millions of yen 2017
"Business structure improvement expenses" under extraordinary loss	¥2,648
"Other expenses" under non-operating expense	1,130
Total	¥3,778

Breakdown by the category of assets	In millions of yen 2017
Buildings and structures	¥1,754
Machinery and transportation equipment	1,487
Intangible assets (Others), etc	536
Total	¥3,778

19 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effect on other comprehensive income (loss) for the fiscal years ended March 31, 2018 and 2017 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Valuation difference on available-for-sale securities			
Gain (loss) arising during the fiscal year	**¥39,512**	¥ 72,336	**$ 371,912**
Reclassification adjustments	**(30,741)**	2,086	**(289,354)**
Valuation difference on available-for-sale securities, before tax	**8,770**	74,422	**82,548**
Deferred taxes relating to valuation difference on available-for-sale securities	**(9,418)**	(13,508)	**(88,648)**
Valuation difference on available-for-sale securities, net of tax	**(648)**	60,914	**(6,099)**
Deferred gains or losses on hedges			
Gain (loss) arising during the fiscal year	**1,560**	4,112	**14,683**
Reclassification adjustments	**931**	1,447	**8,763**
Deferred gains or losses on hedges, before tax	**2,491**	5,560	**23,446**
Deferred taxes relating to deferred gains or losses on hedges	**(3)**	(1,883)	**(28)**
Deferred gains or losses on hedges, net of tax	**2,488**	3,676	**23,418**
Translation adjustments			
Gain (loss) arising during the fiscal year	**(1,978)**	(22,881)	**(18,618)**
Reclassification adjustments	**134**	(1,065)	**1,261**
Translation adjustments, before tax	**(1,843)**	(23,946)	**(17,347)**
Deferred taxes relating to translation adjustments	**53**	—	**498**
Translation adjustments, net of tax	**(1,790)**	(23,946)	**(16,848)**
Remeasurements of defined benefit plans			
Gain (loss) arising during the fiscal year	**10,507**	26,846	**98,898**
Reclassification adjustments	**2,356**	4,174	**22,176**
Remeasurements of defined benefit plans, before tax	**12,864**	31,021	**121,084**
Deferred taxes relating to remeasurements of defined benefit plans	**(3,362)**	(10,127)	**(31,645)**
Remeasurements of defined benefit plans, net of tax	**9,501**	20,893	**89,429**
Share of other comprehensive income (loss) of entities accounted for by the equity method			
Gain (loss) arising during the fiscal year	**(304)**	(4,979)	**(2,861)**
Reclassification adjustments	**(553)**	(1,185)	**(5,205)**
Share of other comprehensive income (loss) of entities accounted for by the equity method, net of tax	**(857)**	(6,165)	**(8,066)**
Other comprehensive income (loss), net of tax	**¥ 8,694**	¥ 55,371	**$ 81,833**

20 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Total number of shares issued and treasury stock at March 31, 2018 and 2017 were as follows:

	Type of shares	At March 31, 2017	Increase by March 31, 2018	Decrease by March 31, 2018	At March 31, 2018
Total number of shares issued	Common stock	3,373,647,813	—	3,036,283,032	337,364,781
Treasury stock	Common stock	15,513,870	18,240	14,161,611	1,370,499

(Footnote 1) MHI carried out a share consolidation on common stock with a ratio of ten shares to one share on October 1, 2017.

(Footnote 2) The number of treasury stock held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II includes 5,735,246 shares at the beginning of the fiscal year ended March 31, 2018, and 509,888 shares at the end of the fiscal year ended March 31, 2018.

(Footnote 3) Reason for decrease of total number of shares issued

Decrease due to the share consolidation	3,036,283,032

(Footnote 4) Reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	18,240

(Footnote 5) Reason for decrease of treasury stock

Decrease due to the share consolidation	12,891,366
Disposal resulting from the exercise of share subscription rights, which were issued for the purpose of providing stock options	709,400
Disposal resulting from the implementation of the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II	557,391
Disposal resulting from purchase request from shareholders with shares that were less than the minimum trading unit	2,429
Decrease resulting from change in equity of entities accounted for by the equity method	1,025
Total	14,161,611

b) Share subscription rights

	Type of share subscription rights	In millions of yen At March 31, 2018	At March 31, 2017	In thousands of U.S. dollars At March 31, 2018
MHI	Share subscription rights as stock options	¥2,129	¥2,536	$20,039

c) Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Record date	Effective date	Cash dividends per share In yen	In U.S. dollars	Total cash dividends paid In millions of yen	In thousands of U.S. dollars
June 22, 2017							
Ordinary General Meeting of Shareholders	Common stock	March 31, 2017	June 23, 2017	¥6	$0.0564	¥20,183	$189,975
October 31, 2017							
Board of Directors	Common stock	September 30, 2017	December 5, 2017	¥6	$0.0564	¥20,187	$190,013
Total						¥40,370	$379,988

(Footnote 1) Total cash dividends paid in accordance with the resolution by the Ordinary General Meeting of Shareholders held on June 22, 2017 include 34 million yen ($320 thousand) of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

(Footnote 2) Total cash dividends paid in accordance with the resolution by the Board of Directors held on October 31, 2017 include 31 million yen ($291 thousand) of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

(Footnote 3) As the record date for dividends is September 30, 2017, the amount of cash dividends per share shows the amount prior to the share consolidation as of October 1, 2017.

(2) Dividends where the record date is within the fiscal year ended March 31, 2018 but the effective date is within the fiscal year ended March 31, 2019

Resolution	Type of shares	Record date	Effective date	Cash dividends per share In yen	In U.S. dollars	Total cash dividends paid In millions of yen	In thousands of U.S. dollars
June 21, 2018 Ordinary General Meeting of Shareholders	Common stock	March 31, 2018	June 22, 2018	¥60	$0.5647	¥20,190	$190,041

(Footnote 1) Total cash dividends paid in accordance with the resolution by the Ordinary General Meeting of Shareholders held on June 21, 2018 include 30 million yen ($282 thousand) of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

21 SHARE-BASED COMPENSATION PLANS

MHI has the following share-based compensation plans for the directors and corporate executive officers.

a) Conditions for issue of stock options

	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Grantee (Number of individuals)	Directors & executive officers (25)	Directors & executive officers (30)	Directors & executive officers (33)	Executive officers (2)	Directors & executive officers (33)	Directors & executive officers (35)
Number of shares	66,300	40,000	80,600	4,600	110,900	125,900
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	Aug 17, 2006	Aug 16, 2007	Aug 18, 2008	Feb 20, 2009	Aug 17, 2009	Aug 17, 2010
Exercise period (from)	Aug 18, 2006	Aug 17, 2007	Aug 19, 2008	Feb 21, 2009	Aug 18, 2009	Aug 18, 2010
(to)	Jun 28, 2036	Aug 16, 2037	Aug 18, 2038	Feb 20, 2039	Aug 17, 2039	Aug 17, 2040

	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Grantee (Number of individuals)	Directors & executive officers (38)	Directors & executive officers (40)	Directors & executive officers (37)	Executive officer (1)	Directors, executive officers & ex-executive officer (37)	Executive officer (1)
Number of shares	136,400	163,200	80,000	4,100	132,800	4,200
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	Dec 15, 2011	Aug 16, 2012	Aug 19, 2013	Dec 13, 2013	Aug 18, 2014	May 11, 2015
Exercise period (from)	Dec 16, 2011	Aug 17, 2012	Aug 20, 2013	Dec 14, 2013	Aug 19, 2014	May 12, 2015
(to)	Dec 15, 2041	Aug 16, 2042	Aug 19, 2043	Dec 13, 2043	Aug 18, 2044	May 11, 2045

(Footnote) As of October 1, 2017, MHI carried out a share consolidation at a ratio of 10 common shares to 1. The number of shares are calculated after taking into account the share consolidation.

b) Stock option activity in the fiscal year ended March 31, 2018

	Number of shares					
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Unexercised at March 31, 2017	13,200	10,400	37,300	2,300	65,500	90,300
Granted	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	2,700	2,000	15,700	—	18,900	18,200
Expired	—	—	—	—	—	—
Unexercised at March 31, 2018	10,500	8,400	21,600	2,300	46,600	72,100

	Number of shares					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Unexercised at March 31, 2017	94,900	130,300	75,900	4,100	132,800	4,200
Granted	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	20,300	18,300	11,000	4,100	9,600	—
Expired	—	—	—	—	—	—
Unexercised at March 31, 2018	74,600	112,000	64,900	—	123,200	4,200

(Footnote) As of October 1, 2017, MHI carried out a share consolidation at a ratio of 10 common shares to 1. The number of shares are calculated after taking into account the share consolidation.

c) Price per share

	In yen					
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Weighted-average exercise price	¥ 10	¥ 10	¥ 10	¥ 10	¥ 10	¥ 10
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2018	4,467	4,281	4,270	—	4,325	4,293
Grant date fair value	4,430	6,440	4,710	1,940	2,940	2,580

	In yen					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Weighted-average exercise price	¥ 10	¥ 10	¥ 10	¥ 10	¥ 10	¥ 10
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2018	4,274	4,238	4,248	4,083	4,325	—
Grant date fair value	2,670	2,600	4,530	5,210	5,120	5,920

	In U.S. dollars					
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Weighted-average exercise price	$ 0.09	$ 0.09	$ 0.09	$ 0.09	$ 0.09	$ 0.09
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2018	42.05	40.30	40.19	—	40.71	40.41
Grant date fair value	41.70	60.62	44.33	18.26	27.67	24.28

	In U.S. dollars					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Weighted-average exercise price	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2018	40.23	39.89	39.98	38.43	40.71	—
Grant date fair value	25.13	24.47	42.64	49.04	48.19	55.72

(Footnote) As of October 1, 2017, MHI carried out a share consolidation at a ratio of 10 common shares to 1. The share price are calculated after taking into account the share consolidation.

d) Estimate method of fair value of stock options

No stock options were granted in the fiscal year ended March 31, 2018.

e) Estimate method of the number of vested share subscription rights

All of the share subscription rights were vested when granted because there are no vesting conditions.

22 CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at the end of the year" in the statements of cash flows for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Cash and deposits	**¥313,458**	¥248,040	**$2,950,470**
Time deposits with maturities over three months	**(15,040)**	(8,997)	**(141,566)**
Cash equivalents included in "Other current assets"	**818**	3,360	**7,699**
Total	**¥299,237**	¥242,404	**$2,816,613**

23 RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2018	2017	**2018**
Research and development expenses	**¥176,815**	¥160,722	**$1,664,297**

24 ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2018	2017	2018
Accumulated depreciation of property, plant and equipment	¥2,082,505	¥2,009,896	$19,601,891

25 ASSET RETIREMENT OBLIGATIONS

When the Group disposes of certain assets belonging to the nuclear energy business, those assets are required to be treated with special care as radioactive waste. In principle, the Group recognizes asset retirement obligations on those assets. With regard to some of those assets, however, the Group does not recognize asset retirement obligations because an estimation of necessary costs to dispose of them is not available due to the fact that the technology necessary to dismantle or dispose of them and the legislation on how they should be disposed of have only been developed partially. Those assets include the facilities conducting nuclear fuel manufacturing, research and development concerning the safety of the constituting material of reactors and so on.

26 CHANGE IN PRESENTATION

a) Consolidated Balance Sheets

(1) Change in presentation of "Provision for business structure improvement"

Regarding the presentation of the provision for business structure improvement (previous fiscal year: 6,585 million yen), this provision was previously included in "Other current liabilities" in the consolidated balance sheet. However, because the separate presentation of this provision provides more clarity the provision has been presented separately as "Provision for business structure improvement" (current fiscal year: 6,739 million yen)($63,431 thousand) from the current fiscal year.

b) Consolidated Statements of Income

(1) Change in presentation of "Loss on passenger vessel construction business"

"Loss on passenger vessel construction business", which was separately presented in the previous fiscal year, is included in "Other expenses" under "Non-operating expenses" from this fiscal year due to the amount being immaterial. To reflect this change in presentation, the consolidated statements of income for the previous fiscal year has been reclassified.

As a result, "Loss on passenger vessel construction business" of 7,829 million yen presented on the consolidated statements of income for the previous fiscal year has been reclassified into "Other expenses" under "Non-operating income (expense)".

27 MAJOR LAWSUITS

a) On July 31, 2017, MHI filed a demand for arbitration against Hitachi, Ltd. seeking performance of the obligation to pay approximately ZAR 90,779 million (equivalent to approximately 774.3 billion yen ($7,288 million) when converted at a rate of 8.53 yen to 1 ZAR) as the price adjustment and other payments (for details, refer to Note 14. Indemnification asset for the South African Project).

b) In January 2014, Mitsui O.S.K. Lines, Ltd. filed a lawsuit against MHI seeking compensation for damages sustained to a ship that was constructed by MHI as a result of a marine accident. Then, the insurance company, shipper, joint operator and others also filed a similar lawsuit against MHI. In response, MHI filed a countersuit against Mitsui O.S.K. Lines, Ltd. in March 2016 demanding the payment of the contracted amount for the work performed to reinforce hull structure of the same type of ship in this case, which was executed at the request of said company, and the lawsuit is currently still in dispute. MHI believes that the ship has no flaws under the Product Liability Act and MHI has no tort liability, and will assert its legitimacy in this lawsuit.

c) In October 2017, Korea East-West Power Co., Ltd. ("EWP") filed a demand for arbitration against MHI and its consolidated subsidiary, Mitsubishi Hitachi Power Systems, Ltd. ("MHPS"), to the Korean Commercial Arbitration Board, seeking compensation for damages in relation to a non-operating loss due to a burnout accident that occurred during the commissioning period of steam turbine generation facilities supplied by MHPS. EWP has claimed that this burnout accident was caused by an intentional act or gross negligence of MHPS, and that MHI and MHPS shall bear liability for the damage under the contract and the laws of South Korea. With regard to these claims, MHI and MHPS will assert that MHPS had neither the intention nor the gross negligence and the liability of MHPS is limited under the contract.

28 BUSINESS COMBINATIONS

Business Combinations Involving Entities under Common Control

a) Divestiture of Ship & Ocean Business Division

(1) Summary of business divestiture

1) Name and description of divested business

Name : Ship and Ocean Business Division

Description : Mainly manufacture, sell and repair ship and ocean related products

2) Date of business divestiture

January 1, 2018

3) Legal form of business divestiture

A spin-off in the form of a simple absorption-type company split with MHI as the splitting company in absorption-type company split and Mitsubishi Heavy Industries Shipbuilding Co., Ltd. ("MHI Shipbuilding" current company name : Mitsubishi Shipbuilding Co., Ltd.) as the succeeding company in an absorption-type company split.

4) Name of company after business divestiture

Mitsubishi Shipbuilding Co., Ltd. (MHI Group's consolidated subsidiary)

5) Other additional information

MHI had been planning to establish a new shipbuilding company on January 1, 2018 that engages in construction of ships that require intensive outfitting, collaboration with alliance partners, provision of design, and development of new businesses. Consequently, to realize the establishment of such shipbuilding company, MHI decided to establish MHI Shipbuilding as its wholly-owned subsidiary, which will succeed ship & ocean business, etc., by way of a simple absorption-type company split.

(2) Summary of accounting treatment applied

The transaction was treated as business combinations involving entities under common control in accordance with the "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

b) Divestiture of Engineering Business Related to Chemical Plants and Transportation Systems

(1) Summary of business divestiture

1) Name and description of divested business

Name: Engineering Business Related to Chemical Plants and Transportation Systems

Description: Mainly engineering, manufacture, procurement, construction, marketing and after-sale servicing of chemical plants, transportation systems and products, environmental products

2) Date of business divestiture

January 1, 2018

3) Legal form of business divestiture

A spin-off in the form of a simple absorption-type company split with MHI as the splitting company in absorption-type company split and MHI Plant and Transportation Systems., Ltd. ("MHI Plant and Transportation Systems" current company name : Mitsubishi Heavy Industries Engineering, Ltd.) as the succeeding company in an absorption-type company split.

4) Name of company after business divestiture

Mitsubishi Heavy Industries Engineering, Ltd. (MHI Group's consolidated subsidiary)

5) Other additional information

MHI has been cultivating engineering skills and resources in areas such as chemical plants, transportation systems and environmental facilities. In order to strengthen its response capabilities for large-scale complex systems relating to MHI's product portfolio, MHI consolidated its engineering-related businesses and established Engineering Headquarters in April 2016, pursuing horizontal development into other businesses. Moreover, there have been changes in the market environment and changes to customer needs, which require a shift individual products to system products. Demand to further strengthen capabilities to respond to project risks including geopolitical risks and to control quality, cost and delivery (QCD) is also increasing. Accordingly, to clarify business responsibilities and authority, and to expedite decision making, MHI decided that MHI Plant and Transportation Systems should succeed to MHI's engineering business related to chemical plants and transportation systems by way of a simple absorption-type company split.

(2) Summary of accounting treatment applied

The transaction was treated as business combinations involving entities under common control in accordance with the "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

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Independent Auditor's Report

To the Board of Directors of Mitsubishi Heavy Industries, Ltd..

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 audit. We conducted our audit 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 judgment, 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 Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries as at March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants [illegible]

KPMG

Emphasis of Matter

1 We draw attention to Note 12(2) "Contingent liabilities relating to change in MRJ delivery timing" in Notes to the Consolidated Balance Sheet, which describes, going forward, it is possible that additional liabilities may arise depending on the results of consultations with customers on the timing for the delivery of MRJ and other factors, and this could impact the future financial position and operating results.

2. We draw attention to Note 14 "Indemnification asset for South African Project" in Notes to the Consolidated Balance Sheet, which describes, Mitsubishi Heavy Industries, Ltd. ("MHI") demanded that Hitachi, Ltd. ("Hitachi") pay the price adjustment and other payments regarding the boiler construction projects in the Republic of South Africa.
Meanwhile, MHI and Hitachi have still not completed the price adjustment for the South African Asset Transfer at the moment.
Our opinion is not qualified in respect of these matters.

Other Matter

The consolidated financial statements of the Company as at and for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on June 22, 2017

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 4 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
June 21, 2018
Tokyo, Japan