MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

MHI REPORT 2020

FINANCIAL SECTION

For the Year Ended March 31, 2020

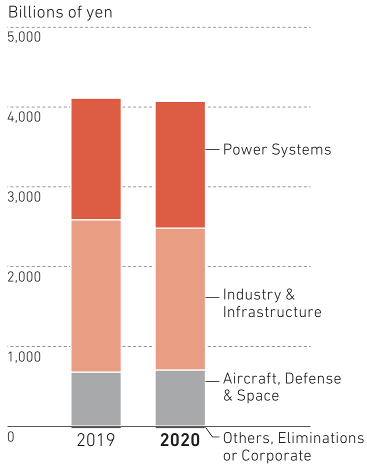
MITSUBISHI HEAVY INDUSTRIES

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2019 and 2020

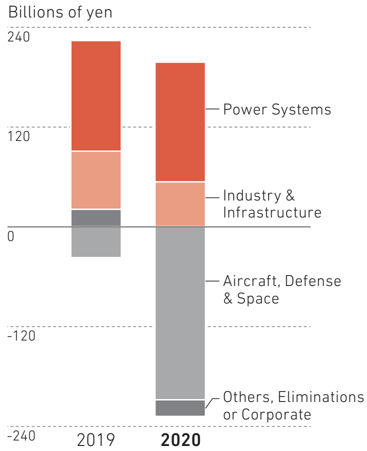
REVENUE

	Millions of yen		Thousands of U.S. dollars
Industry Segment	2019	2020	2020
Power Systems	¥1,525,108	**¥1,590,293**	**$14,612,634**
Industry & Infrastructure	1,907,871	**1,778,095**	**16,338,279**
Aircraft, Defense & Space	677,577	**704,985**	**6,477,855**
Others	71,661	**75,190**	**690,894**
Subtotal	4,182,218	**4,148,565**	**38,119,682**
Eliminations or Corporate	(103,874)	**(107,189)**	**(984,921)**
Total	¥4,078,344	**¥4,041,376**	**$37,134,760**



PROFIT FROM BUSINESS ACTIVITIES

	Millions of yen		Thousands of U.S. dollars
Industry Segment	2019	2020	2020
Power Systems	¥133,196	**¥144,383**	**$1,326,683**
Industry & Infrastructure	70,753	**54,883**	**504,300**
Aircraft, Defense & Space	(28,230)	**(208,792)**	**(1,918,515)**
Others	39,156	**6,565**	**60,323**
Subtotal	214,876	**(2,958)**	**(27,180)**
Eliminations or Corporate	(14,305)	**(26,579)**	**(244,224)**
Total	¥200,570	**¥ (29,538)**	**$ (271,414)**



DEPRECIATION AND AMORTIZATION

	Millions of yen		Thousands of U.S. dollars
Industry Segment	2019	2020	2020
Power Systems	¥ 42,861	**¥ 47,085**	**$ 432,647**
Industry & Infrastructure	51,187	**57,015**	**523,890**
Aircraft, Defense & Space	29,982	**27,082**	**248,846**
Others	6,263	**1,970**	**18,101**
Subtotal	130,294	**133,154**	**1,223,504**
Corporate	5,364	**11,485**	**105,531**
Total	¥135,658	**¥144,639**	**$1,329,036**

IMPAIRMENT LOSS

Industry Segment	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Power Systems	¥ 1,263	¥ 717	$ 6,588
Industry & Infrastructure	658	258	2,370
Aircraft, Defense & Space	61,459	177,563	1,631,562
Others	2,081	—	—
Subtotal	65,463	178,538	1,640,521
Corporate	700	833	7,654
Total	¥66,163	¥179,372	$1,648,185

SHARE OF PROFIT OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

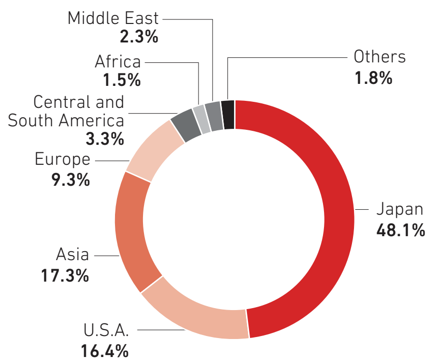
Industry Segment	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Power Systems	¥8,187	¥ 8,299	$ 76,256
Industry & Infrastructure	2,036	(699)	(6,422)
Aircraft, Defense & Space	—	—	—
Others	1,668	4,552	41,826
Subtotal	11,891	12,153	111,669
Corporate	(954)	745	6,845
Total	¥10,937	¥12,898	$118,515

REVENUE

Breakdown of Revenue by Customer Location	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Japan	¥1,877,497	¥1,944,758	$17,869,686
U.S.A.	627,167	663,779	6,099,228
Asia	737,650	700,385	6,435,587
Europe	418,514	374,459	3,440,770
Central and South America	132,015	131,706	1,210,199
Africa	91,304	60,379	554,801
Middle East	123,721	91,267	838,619
Others	70,473	74,640	685,840
Total	¥4,078,344	¥4,041,376	$37,134,760

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥108.83=US$1, the exchange rate prevailing at March 31, 2020.

Composition of Overseas Revenue by Geographic Distribution



MANAGEMENT'S DISCUSSION AND ANALYSIS

» ANALYSIS OF OPERATING RESULTS

Consolidated revenue decreased ¥36.9 billion, or 0.9% year on year, to ¥4,041.3 billion, due to lower revenue from the Industry & Infrastructure segment, despite increased revenue in the Power Systems segment and the Aircraft, Defense & Space segment. Although profit from business activities rose in the Power Systems segment, an impairment loss on assets related to the Mitsubishi SpaceJet was recorded in the Aircraft, Defense & Space segment. As a result, profit from business activities deteriorated ¥230.1 billion, to a loss of ¥29.5 billion, and profit before income taxes worsened ¥227.7 billion, to a loss of ¥32.6 billion. Profit attributable to owners of the parent decreased ¥23.1 billion, or 21.0%, to ¥87.1 billion, despite the recognition of deferred tax assets.

» ANALYSIS OF FINANCIAL POSITION

Total assets as of March 31, 2020, were ¥4,985.6 billion, down ¥254.6 billion from the prior year, mainly due to a decrease in indemnification asset for South African projects as a result of the receipt of settlement payments from Hitachi, Ltd. (hereinafter referred to as "Hitachi").

Total liabilities were ¥3,695.6 billion, up ¥183.9 billion from the fiscal year ended March 31, 2019. The increase was the result of a rise in other financial liabilities due to a settlement agreement with Hitachi, under which all the shares of Mitsubishi Hitachi Power Systems, Ltd., held by Hitachi are to be acquired by MHI.

Total equity came to ¥1,290.0 billion, down ¥438.6 billion from the end of the previous fiscal year, mainly due to a decrease in non-controlling interests as a result of the above-mentioned settlement.

» SOURCE OF FUNDS AND LIQUIDITY

Cash Flow Analysis

Net cash provided by operating activities amounted to ¥452.5 billion, ¥32.2 billion more than in the prior year. This figure reflected a decrease in indemnification asset for South African projects, despite a decline in profit before income taxes.

Investing activities used net cash of ¥239.5 billion, ¥77.6 billion more than in the prior year. Major uses of cash were for purchases of property, plant and equipment and intangible assets, as well as payments for acquisition of subsidiaries.

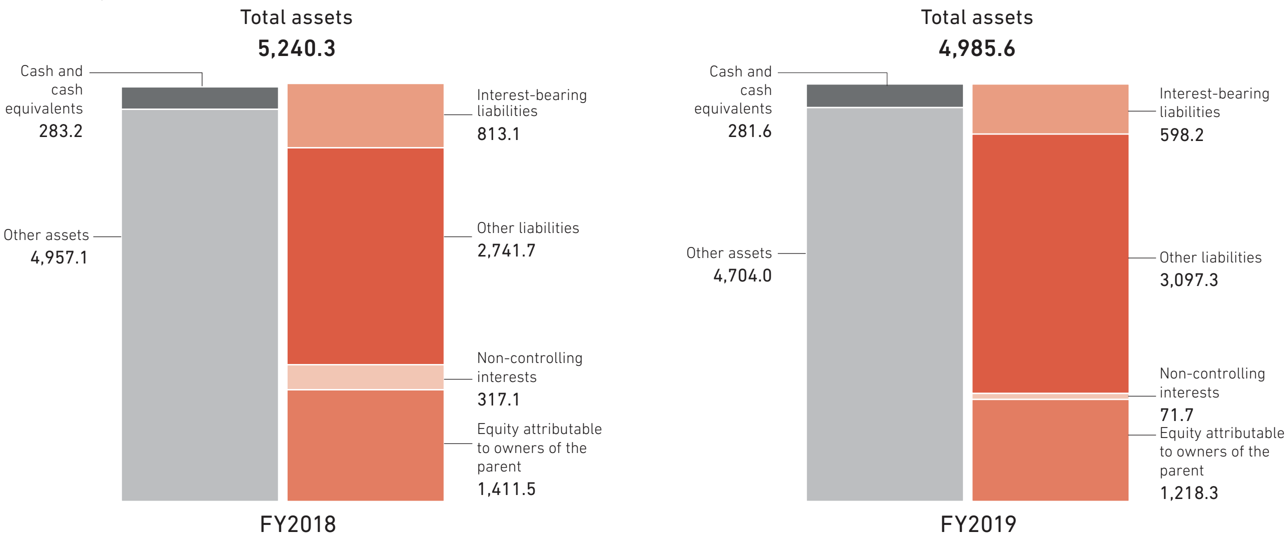
Net cash used in financing activities came to ¥204.4 billion, ¥66.5 billion less than in the preceding fiscal year. A key source of cash was proceeds from long-term borrowings.

Primary Funding Requirements

MHI Group primarily requires funds in operating activities for working capital for manufacturing activities (materials, outsourcing, and personnel costs), business development expenses and other selling expenses related to winning new orders, and R&D expenses 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.

CONSOLIDATED BALANCE SHEETS

In billions of yen



	FY2018	FY2019
Equity ratio	26.9%	24.4%
D/E ratio	38.48%	46.38%
ROE	7.9%	6.6%

In growth areas, 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.

Breakdown of Interest-Bearing Debt and its Applications

The breakdown of interest-bearing debt as of March 31, 2020, was as follows:

	In billions of yen		
	Total	Due within one year	Due after one year
Short-term borrowings	64.7	64.7	—
Commercial paper	85.0	85.0	—
Long-term borrowings	308.5	58.0	250.5
Bonds	140.0	10.0	130.0
Total	**598.2**	**217.7**	**380.5**

MHI Group is involved in various projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery. Consequently, 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 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 MHI Group at the end of fiscal 2019 was ¥598.2 billion, consisting of ¥217.7 billion due within one year and ¥380.5 billion due after one year.

The interest-bearing debt mentioned above is utilized as working capital and for capital investments required for business activities, and MHI Group plans to use these funds mainly in key growth fields that are expected to require funds, including thermal power systems, mass and medium-lot products (including material handling equipment and air-conditioning & refrigeration systems), and commercial aircraft.

Financial Policy

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, MHI Group takes into account the funding requirements of its business plans, interest rate trends and other factors in the procurement environment, and the repayment schedule for its existing debt.

Additionally, in its efforts to reduce interest-bearing debt, MHI Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, 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.

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

Under the 2018 Medium-Term Business Plan, 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 business growth and financial stability. We will continue to uphold our basic policy on providing returns to shareholders. (Evaluation of the dividend payout ratio excludes the investments in Mitsubishi SpaceJet because of its long-term payback period.)

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 fiscal year and financial conditions, the total dividend payment for fiscal 2019 was ¥150 per share, comprising the interim dividend of ¥75 per share, paid in December 2019, and the year-end dividend of ¥75 per share. Internal reserves will be utilized to further strengthen the Group's corporate structure and enhance the Group's business development going forward.

OPERATIONAL RISKS

Management acknowledges key risks as described below with the potential to significantly influence our financial position, operating results, and cash flow status (hereinafter referred to collectively as "operating results") of the MHI Group (MHI and its consolidated subsidiaries). Two key risks that could emerge within the next 10 years are: 1) the spread of the novel coronavirus disease (COVID-19), and 2) delayed development of Mitsubishi SpaceJet. Both of these risks have a particularly strong potential to manifest themselves and have a material impact on the MHI Group. From a medium- to long-term perspective, some of these key risks could bring about further changes to the business environment surrounding the MHI Group as well as to the structure of society. As such, the Group acknowledges the need for foresight and for proactive measures to enable us to adapt to such developments.

Items relating to the future are based on the judgment of the Group as of the end of fiscal 2019, the year ended March 31, 2020.

1 THE SPREAD OF THE COVID-19 PANDEMIC

(1) Global Pandemic and Economic Slowdown

Since its beginning in China in late 2019, COVID-19 has developed into a global pandemic, with explosive growth in cases reported in countries such as Italy, Iran, and South Korea, and eventually spreading rapidly throughout Europe and the United States, as well. The spread of the pandemic has prompted countries to take drastic public health measures, including locking down certain vicinities and restricting travel. With economic activity so heavily restricted around the world, the global economy has rapidly slowed down. Japan's economy has also suffered heavily, and the outlook for both Japan and the world is extremely unpredictable.

(2) Potential Impact on Operating Results

Since the Group is engaged in business not only in Japan, but around the world, it has been affected by the spread of the COVID-19 pandemic. The made-to-order business, which serves infrastructure-related companies and government agencies, accounts for roughly two thirds of Group sales. Delayed progress in project orders currently in the pipeline, particularly those overseas, have led to delayed recording of revenue. Business has also been affected by travel restrictions, supply chain disruption, and delays on contract negotiations and the order-taking process. The Commercial Aircraft business has also been affected by the reduction in airline industry capital investment due to the plunge in passenger air travel demand. The impact extends to the Group's production and service business. In addition, the mass and medium-lot products business for automotive industry has been idling plants and reducing output in some countries and regions. Impacts such as supply chain disruption and lower operating rates have begun to emerge in the other mass and medium-lot products business as well. It is difficult to predict these impacts with much precision, in addition to which they could also worsen or become prolonged. This could cause the material impact on the Group's operating results.

(3) Initiatives in Response to Risks

The Group has taken steps to mitigate these impacts. We have taken action on staffing and other measures to reduce fixed costs, temporarily furloughed parts of our workforce, revised plant operating rates, reduced output, cut down on outflows, revised investment plans, made more effective use of surplus resources, and made use of subsidy programs available in various countries.

2 DELAYED DEVELOPMENT OF MITSUBISHI SPACEJET

(1) Development Delays and Market Uncertainty

With regard to the Mitsubishi SpaceJet business, delays in obtaining type certification had resulted in the need for a detailed examination of the entire schedule. Just at that point, the spread of the novel coronavirus disease affected the transportation (ferry flight) of the 10th and most recent airframe to the US, as well as the implementation of test flights in the US.

(2) Potential Impact on Operating Results

As a result of this kind of sea change in the business environment, it would be undeniable that Mitsubishi SpaceJet development may encounter further schedule delays, cost increases, or project revisions. These factors could cause delayed recording of sales on contracts for aircraft currently in the order pipeline or customer cancellation of those contracts, as well as claims for damages from customers, business partners, or other stakeholders. It could also cause damage to the Group's reputation and credibility. These risks have the potential to materially impact the Group's operating results.

(3) Initiatives in Response to Risks

The Group has taken steps to mitigate these impacts. We are working to monitor the state of the market ahead and maintain relations with stakeholders. Concurrently, we continue to assess our development schedule, and we are taking steps to keep budgets at appropriate levels.

3 DISASTERS

(1) Natural Disasters, War, and Acts of Terrorism

Disasters have the potential to cause both material and human loss, disruption of smooth economic activity and social foundation. Such force majeure events include, but are not limited to, earthquakes, tsunamis, torrential rains, floods, storms, volcanic eruptions, fires, lighting strikes, pandemics, and other acts of nature, as well as war, acts of terrorism, political unrest, anti-Japan movements, crimes such as hostage taking or abduction, social infrastructure paralysis, labor disputes, power outages, equipment superannuation or malfunction, and other man-made factors.

(2) Potential Impact on Operating Results

The Group has product and service supply facilities all over the world, with a particular concentration of production facilities notably in Japan and Thailand. In the event of major natural disasters such as earthquakes or tsunamis in those countries and regions, there could be material impacts on the production capacity of the Group. Specific examples include damage or destruction of production equipment, supply chain impediment or disruption, shortages of materials and parts or suspension of services necessary to production, reduced operation or idling of production plants, as well as loss of alternative production equipment or suppliers, and damage not covered by insurance. The occurrence of sudden events such as acts of terrorism or global pandemics could provoke a decline in passengers and shrinkage in product and service demand and cause a substantial downturn in profits in the Commercial Aircraft and Other businesses. The resulting decline in orders and revenues and decrease in production capacity have the potential to materially impact the Group's operating results.

(3) Initiatives in Response to Risks

The Group takes steps to mitigate these impacts. We have developed a global group management structure, make use of disaster measure support tools, and establish and maintain communication systems and a business continuity plan. We implement regular plant inspections and training, and take additional measures to gather information on the state of affairs and safety in various countries.

4 CHANGES IN THE BUSINESS ENVIRONMENT

(1) Deterioration of the Business Environment Surrounding the Group

The business environment surrounding the Group is undergoing rapid change. In terms of the global economy, for example, changes taking place include escalating trade friction between the United States and China, and the promotion of protectionist trade policies. Japan, meanwhile, is undergoing changes in the structure of its society. It faces a serious labor shortage as its population continues to shrink, its birthrate declines, and its people grow older, and it risks an increase in business closures, discontinuity of technologies and skills, and a hollowing out of its manufacturing sector. The coexistence of economic development and environmental load reduction has become a social issue worldwide, and environmental regulations have been strengthened in various fields. Such issues are closely related to the Group's business. Particularly in the field of energy, with the development of emerging economies and advancements in electrification, such as the spread of electric vehicles, global demand for electric power is set to grow substantially. At the same time, though, global warming is expected to accelerate efforts to shift to low-carbon and carbon-free energy, all of which are driving an increasingly severe business environment for the Group.

(2) Potential Impact on Operating Results

Growing environmental consciousness may lead to a decrease in demand for products and services in businesses such as the thermal power systems, chemical plants, metals machinery, and compressors, a reduction in business scale, and difficulty in recouping invested capital. In particular, in the thermal power systems business, the decline in demand for electric power derived from fossil fuels and the intensification of competition with competitors are expected to have a negative impact on orders for construction work and after-sales service. Furthermore, although the Group is engaged in the strengthening and expansion of our many energy related product businesses through M&A and alliances with other companies, there could be unforeseen circumstances such as changes in the market environment, decline in business competitiveness, or the revision of management strategies by other companies. Such events could prevent us from realizing those M&A and alliances, in which case we would have to write down assets and record impairment losses. This kind of change in the business environment could materially impact the operating results of the Group.

(3) Initiatives in Response to Risks

The Group has taken steps to mitigate these impacts. To enhance our product performance, reliability, and price competitiveness, we are working to maintain and strengthen the competitiveness of our products, particularly through R&D and capital investment. We are also focusing efforts on incorporating external knowledge to propose new functions and solutions that anticipate market trends. We are also pursuing initiatives for new business development under the guidance of the Growth Strategy Office, which we set up in April 2020. Specific measures include combining existing lines of business and cultivating business domains beyond the reach of our existing business units.

5 PRODUCT ISSUES

(1) Product- and Service-Related Problems such as Quality and Safety Issues and Cost Deterioration

As a global leader in manufacturing and engineering, the Group leverages advanced technologies to provide solutions for a wide range of fields, from shipbuilding, through traffic and transportation systems, commercial aircraft, power generation systems and other infrastructure, and space systems. The Group continually makes efforts to improve the quality and reliability of its products, but there is nevertheless the potential for problems with product performance or delivery times, or safety issues that arise in the use of our products. Other potential problems include deteriorating costs stemming from factors including changes in product specifications or process delays, unforeseen problems associated with materials and parts procurement or construction work, claims for damages from contractual partners due to delivery delays or inadequate performance, or deterioration in contractual partners' financial condition. There is also the potential for similar problems arising from products or services in relations with our suppliers.

(2) Potential Impact on Operating Results

The occurrence of product-related problems such as those described above can cause legal action to be brought against the Group by contractual partners or other third parties seeking damages either in Japan or other countries, such as arbitration between customers pertaining to a steam turbine power station accident in South Korea, and we take measures to deal with such litigation. The Group will put forth its utmost efforts so that its claims are acknowledged in court, but the potential for a case to nevertheless be ruled against us cannot be ignored. Furthermore, in such cases, we cannot guarantee that product liability insurance will compensate for amounts we may be required to pay. Thus, product-related problems have the potential to materially impact the operating results of the Group.

(3) Initiatives in Response to Risks

The Group takes steps to mitigate these impacts. All divisions including design, manufacturing, quality assurance, and procurement work together to implement proper quality management and safety assurance. The Group also implements measures including the formulation and administration of global policies on business risks and other regulations, maintains and upgrades business risk management frameworks, prior review and post-order monitoring of individual projects, education for executives such as business division managers, and taking a course of ongoing product safety seminars.

6 INTELLECTUAL PROPERTY ISSUES

(1) Violation of the Group's Intellectual Property Rights, and Violation of other Parties' Intellectual Property Rights by the Group

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 put them to use globally. The Group also respects the intellectual property of third parties and takes care to avoid infringing upon it. We also follow proper procedures such as licensing technology from such third parties. However, there is nevertheless the potential for instances of intellectual property infringement claims by third parties. There is also no guarantee that the Group will be able to use technologies owned by other parties.

(2) Potential Impact on Operating Results

If competitors took legal action against us regarding the use of intellectual property and we lost, the Group may be liable for damages or become unable to use particular technologies, which could materially impact our operating results. We also face the risk of being unable to execute our business due to being unable to introduce license for such technologies from third parties necessary to the execution of our business.

(3) Initiatives in Response to Risks

The Group takes steps to mitigate these impacts. We prevent intellectual property-related problems by thoroughly investigating intellectual property held by other parties at each project stage, basic planning, design, and manufacture. We also use training and human resource cultivation to improve the specialization of our Intellectual Property division.

7 LEGAL AND REGULATORY VIOLATIONS AND INFORMATION LEAKS

(1) Serious Legal or Regulatory Violations or Problems with Information Security

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 laws, anti-dumping laws, and laws against delay in payment to subcontractors; laws and regulations related to bribery, trade and exchange; business-related laws and regulations, such as the construction industry law; and the securities listing regulations at financial instrument exchanges (these are hereinafter collectively referred to as "laws and regulations"). Since there is no trading risk for return when it comes to laws and regulations and we also have a duty to ensure compliance by our management and workforce, we take rigorous measures to instill awareness. However, we cannot ignore the possibility that, in spite of our efforts, some employees may violate laws or regulations. The Group also comes into contact with large amounts of confidential information, including that of customers, in the execution of its business activities. Furthermore, we possess confidential information regarding our technologies, operations, and other aspects of business. Confidential information could be lost or leaked outside the Group due to computer viruses, unauthorized access, or other unforeseen circumstances.

(2) Potential Impact on Operating Results

In the event of legal or regulatory violation, 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, prohibition of exports, or other steps. Moreover, the Group may face legal action from the relevant authorities or other concerned parties for damages incurred. These contingencies could threaten the execution of our business. In addition, because of the nature of our business, the Group could be particularly seriously affected when it comes to violations of domestic and international antitrust laws, laws and regulations related to bribery and trade and exchange, construction industry laws, and laws against delays in payment to subcontractors. In addition, information leaks would substantially reduce our competitiveness and damage our reputation and credibility, which could seriously impact the execution of our business as well as risk claims for damages brought against us by our customers. Thus, violation of laws and regulations and information leaks have the potential to materially impact our operating results.

(3) Initiatives in Response to Risks

The Group takes steps to mitigate these impacts. We implement rigorous, ongoing internal training on subjects such as compliance, information management, and brand strategies, and we formulate and administer global policies and rules. We also implement a cybersecurity program under the control of the chief technology officer (CTO) to minimize the risks of cyberattacks. Under this program, we perform initiatives such as cybersecurity governance (establishing standards, implementation of measures, self-assessments, and internal audits) and incident response.

CONSOLIDATED FINANCIAL STATEMENTS [IFRS]
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of April 1, 2018 / March 31, 2019 / March 31, 2020

		Millions of yen			Thousands of U.S. dollars
ASSETS	Notes	As of April 1, 2018	As of March 31, 2019	**As of March 31, 2020**	**As of March 31, 2020**
Current assets:					
Cash and cash equivalents	5,10	¥ 299,237	¥ 283,235	**¥ 281,626**	**$ 2,587,760**
Trade and other receivables	6, 10, 24, 35	759,902	717,414	**611,976**	**5,623,228**
Other financial assets	7, 10, 35	27,591	25,180	**28,539**	**262,234**
Contract assets	24, 35	744,707	625,749	**576,061**	**5,293,218**
Inventories	11, 24	748,574	739,820	**726,228**	**6,673,049**
Indemnification asset for South African projects	12	445,920	546,098	**407,800**	**3,747,128**
Other current assets	21	214,962	222,390	**206,261**	**1,895,258**
Total current assets		3,240,895	3,159,890	**2,838,493**	**26,081,898**
Non-current assets:					
Property, plant and equipment	13, 15	770,163	777,228	**792,920**	**7,285,858**
Goodwill	14, 15	121,563	121,117	**124,500**	**1,143,986**
Intangible assets	14, 15	103,003	113,131	**78,908**	**725,057**
Right-of-use assets	15, 18	55,195	90,335	**96,201**	**883,956**
Investments accounted for using the equity method	17	205,198	209,929	**177,569**	**1,631,618**
Investments in securities and other financial assets	7, 10, 35	485,047	447,888	**391,538**	**3,597,702**
Deferred tax assets	16	133,703	133,511	**382,729**	**3,516,760**
Other non-current assets	15, 21	198,673	187,320	**102,827**	**944,840**
Total non-current assets		2,072,550	2,080,463	**2,147,196**	**19,729,817**
Total assets		¥5,313,445	¥5,240,353	**¥4,985,690**	**$45,811,724**

See accompanying notes to the consolidated financial statements.

LIABILITIES AND EQUITY	Notes	As of April 1, 2018 (Millions of yen)	As of March 31, 2019 (Millions of yen)	As of March 31, 2020 (Millions of yen)	As of March 31, 2020 (Thousands of U.S. dollars)
Liabilities					
Current liabilities:					
Bonds, borrowings and other financial liabilities	9, 10, 35	¥ 531,206	¥ 459,548	¥ 769,099	$ 7,066,976
Trade and other payables	8, 10, 35	801,154	862,174	824,030	7,571,717
Income taxes payable		27,251	27,024	28,994	266,415
Contract liabilities	24	914,697	875,294	835,465	7,676,789
Provisions	19	202,797	215,475	199,496	1,833,097
Other current liabilities	21	188,121	157,273	151,657	1,393,522
Total current liabilities		2,665,228	2,596,790	2,808,742	25,808,527
Non-current liabilities:					
Bonds, borrowings and other financial liabilities	9, 10, 35	734,621	637,204	601,770	5,529,449
Deferred tax liabilities	16	6,738	4,012	7,318	67,242
Retirement benefit liabilities	20	142,242	154,105	145,890	1,340,531
Provisions	19	20,546	47,583	58,173	534,530
Other non-current liabilities	21	79,334	71,964	73,718	677,368
Total non-current liabilities		983,483	914,870	886,871	8,149,140
Total liabilities		3,648,711	3,511,660	3,695,614	33,957,677
Equity	36				
Share capital	22	265,608	265,608	265,608	2,440,577
Capital surplus	22	185,937	185,302	49,667	456,372
Treasury shares		(4,081)	(5,572)	(5,374)	(49,379)
Retained earnings	22	801,838	869,238	886,307	8,143,958
Other components of equity	30	117,968	96,987	22,133	203,372
Equity attributable to owners of the parent		1,367,271	1,411,564	1,218,343	11,194,918
Non-controlling interests	30	297,462	317,128	71,732	659,119
Total equity		1,664,733	1,728,693	1,290,076	11,854,047
Total liabilities and equity		¥5,313,445	¥5,240,353	¥4,985,690	$45,811,724

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

		Millions of yen		Thousands of U.S. dollars
	Notes	2019	2020	2020
Revenue	24	¥4,078,344	**¥4,041,376**	**$37,134,760**
Cost of sales		3,309,351	**3,331,339**	**30,610,484**
Gross profit		768,992	**710,036**	**6,524,267**
Selling, general and administrative expenses	25	538,210	**583,874**	**5,365,009**
Share of profit of investments accounted for using the equity method	17	10,937	**12,898**	**118,515**
Other income*	26	64,472	**67,751**	**622,539**
Other expenses	26	105,621	**236,350**	**2,171,735**
Profit (loss) from business activities		200,570	**(29,538)**	**(271,414)**
Finance income	28	7,650	**11,616**	**106,735**
Finance costs	28	13,161	**14,738**	**135,422**
Profit (loss) before income taxes		195,059	**(32,660)**	**(300,101)**
Income taxes	16	57,671	**(139,945)**	**(1,285,904)**
Profit		137,388	**107,284**	**985,794**
Profit attributable to:				
Owners of the parent		110,271	**87,123**	**800,542**
Non-controlling interests		27,117	**20,161**	**185,252**

		Yen		U.S. dollars
Earnings per share attributable to owners of the parent	29	2019	2020	2020
Basic earnings per share		¥328.52	**¥259.39**	**$2.383**
Diluted earnings per share		327.97	**259.06**	**2.380**

See accompanying notes to the consolidated financial statements.

*As stated in Note 3. "Significant Accounting Policies (14) Profit from business activities," Other income includes dividend income.
The amount of dividends in fiscal years ended March 31, 2019 and 2020 were 11,647 million yen and 12,096 million yen ($111,145 thousand) respectively.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

		Millions of yen		Thousands of U.S. dollars
	Notes	2019	2020	2020
Profit		¥137,388	¥ 107,284	$ 985,794
Items that will not be reclassified to profit or loss :				
Net gain (loss) from financial assets measured at FVTOCI	10, 30	(12,753)	(50,873)	(467,453)
Remeasurement of defined benefit plans	20, 30	(6,996)	(23,201)	(213,185)
Share of other comprehensive income (loss) of entities accounted for using the equity method	17, 30	(178)	(24)	(220)
Total		(19,928)	(74,098)	(680,860)
Items that may be reclassified to profit or loss :				
Cash flow hedges	30, 35	(893)	(1,713)	(15,740)
Hedge cost	30, 35	(242)	(639)	(5,871)
Exchange differences on translating foreign operations	30	4,724	(25,106)	(230,690)
Share of other comprehensive income (loss) of entities accounted for by the equity method	17, 30	(8,828)	941	8,646
Total		(5,239)	(26,517)	(243,655)
Total other comprehensive income (loss)		(25,167)	(100,616)	(924,524)
Comprehensive income		¥112,220	¥6,668	$ 61,269
Comprehensive income attributable to:				
Owners of the parent		¥ 85,577	¥ (8,201)	$ (75,356)
Non-controlling interests		26,642	14,869	136,625

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

		Millions of yen							
		Equity attributable to owners of the parent							
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of April 1, 2018		¥265,608	¥ 185,937	¥(4,081)	¥830,057	¥118,015	¥1,395,537	¥ 298,327	¥1,693,865
Cumulative effect of changes in accounting policies					¥ (28,219)	¥(47)	¥(28,266)	¥ (865)	¥ (29,131)
Restated balance		¥265,608	¥ 185,937	¥(4,081)	¥801,838	¥117,968	¥1,367,271	¥ 297,462	¥1,664,733
Profit					110,271		110,271	27,117	137,388
Other comprehensive income (loss)	30					(24,693)	(24,693)	(474)	(25,167)
Comprehensive income (loss)					110,271	(24,693)	85,577	26,642	112,220
Transfer to retained earnings					(3,712)	3,712	—		—
Purchase of treasury shares				(2,116)			(2,116)		(2,116)
Disposal of treasury shares			22	1			24		24
Dividends	23				(41,974)		(41,974)	(6,348)	(48,323)
Put options held by non-controlling shareholders			689				689	548	1,238
Transactions with non-controlling interests			33				33	(60)	(27)
Other			(1,381)	623	2,816		2,059	(1,115)	943
Total transactions with owners		—	(635)	(1,491)	(39,157)	—	(41,284)	(6,976)	(48,261)
Balance as of March 31, 2019		¥265,608	¥ 185,302	¥(5,572)	¥869,238	¥ 96,987	¥1,411,564	¥ 317,128	¥1,728,693
Profit					87,123		87,123	20,161	107,284
Other comprehensive income (loss)	30					(95,324)	(95,324)	(5,291)	(100,616)
Comprehensive income (loss)					87,123	(95,324)	(8,201)	14,869	6,668
Transfer to retained earnings					(22,287)	22,287	—		—
Purchase of treasury shares				(14)			(14)		(14)
Disposal of treasury shares			57	467			524		524
Dividends	23				(47,016)		(47,016)	(5,866)	(52,883)
Put options held by non-controlling shareholders			11,214				11,214	8,912	20,127
Transactions with non-controlling interests	32		(146,568)			(1,816)	(148,385)	(259,449)	(407,835)
Other			(337)	(253)	(750)		(1,341)	(3,862)	(5,204)
Total transactions with owners		—	(135,634)	198	(47,766)	(1,816)	(185,019)	(260,265)	(445,285)
Balance as of March 31, 2020		¥265,608	¥ 49,667	¥(5,374)	¥886,307	¥ 22,133	¥1,218,343	¥ 71,732	¥1,290,076

		Thousands of U.S. dollars							
		Equity attributable to owners of the parent							
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of March 31, 2019		$2,440,577	$ 1,702,673	$(51,199)	$7,987,117	$ 891,178	$12,970,357	$ 2,913,975	$15,884,342
Profit					800,542		800,542	185,252	985,794
Other comprehensive income (loss)	30					(875,898)	(875,898)	(48,617)	(924,524)
Comprehensive income (loss)					800,542	$(875,898)	(75,356)	136,625	61,269
Transfer to retained earnings					(204,787)	204,787	—		—
Purchase of treasury shares				(128)			(128)		(128)
Disposal of treasury shares			523	4,291			4,814		4,814
Dividends	23				(432,013)		(432,013)	(53,900)	(485,922)
Put options held by non-controlling shareholders			103,041				103,041	81,889	184,939
Transactions with non-controlling interests	32		$(1,346,761)			(16,686)	(1,363,456)	(2,383,984)	(3,747,450)
Other			(3,096)	(2,324)	(6,891)		(12,321)	(35,486)	(47,817)
Total transactions with owners		—	(1,246,292)	1,819	(438,904)	(16,686)	(1,700,073)	(2,391,482)	(4,091,564)
Balance as of March 31, 2020		$2,440,577	$ 456,372	$(49,379)	$8,143,958	$ 203,372	$11,194,918	$ 659,119	$11,854,047

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

		Millions of yen		Thousands of U.S. dollars
	Notes	2019	2020	2020
Cash flows from operating activities:				
Profit (loss) before income tax		¥ 195,059	¥ (32,660)	$ (300,101)
Depreciation, amortization and impairment loss		202,789	323,967	2,976,817
Finance income and costs		7,234	2,324	21,354
Share of profit of investments accounted for using the equity method		(10,937)	(12,898)	(118,515)
Loss (gain) on sale of property, plant and equipment, and intangible assets		(41,218)	(978)	(8,986)
Loss on disposal of property, plant and equipment, and intangible assets		6,519	7,842	72,057
Decrease (increase) in trade receivables		34,863	65,082	598,015
Decrease (increase) in contract assets		115,185	46,447	426,784
Decrease (increase) in inventories and advanced payments		17,229	39,162	359,845
Increase (decrease) in trade payables		51,014	(27,859)	(255,986)
Increase (decrease) in contract liabilities		(33,589)	(34,185)	(314,113)
Increase (decrease) in provisions		45,522	(12,559)	(115,400)
Increase (decrease) in retirement benefit liabilities		2,162	(126)	(1,157)
Decrease (increase) in indemnification asset of South African projects	12	(110,615)	131,777	1,210,851
Others	26	(15,464)	8,715	80,079
Subtotal		465,759	504,051	4,631,544
Interest received		5,149	7,218	66,323
Dividends received	26	15,232	14,903	136,938
Interest paid		(8,074)	(10,444)	(95,966)
Income taxes paid		(57,718)	(63,164)	(580,391)
Net cash provided by operating activities		420,349	452,564	4,158,448
Cash flows from investing activities:				
Purchases of property, plant and equipment and intangible assets		(224,263)	(246,291)	(2,263,080)
Proceeds from sales of property, plant and equipment and intangible assets		43,509	31,133	286,070
Purchases of investments (including investments accounted for using equity method)		(8,547)	(13,924)	(127,942)
Proceeds from sales and redemption of investments (including investments accounted for using equity method)		26,975	23,981	220,352
Payments for acquisition of subsidiaries		—	(28,733)	(264,017)
Proceeds from sale of subsidiaries		—	1,652	15,179
Net decrease (increase) in short-term loans receivable		(417)	201	1,846
Disbursement of long-term loans		(2,669)	(807)	(7,415)
Collection of long-term loans		1,165	237	2,177
Others		2,377	(7,015)	(64,458)
Net cash provided by (used in) investing activities		(161,869)	(239,566)	(2,201,286)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	9	(60,613)	(19,800)	(181,935)
Proceeds from long-term borrowings	9	7,039	65,341	600,395
Repayment of long-term borrowings	9	(68,439)	(45,506)	(418,138)
Payment for redemption of bonds	9	(30,000)	(65,000)	(597,261)
Proceeds from issuance of stock to non-controlling interests		1,749	19	174
Payments for acquisition of interests in subsidiaries from non-controlling interests	9	—	(13,908)	(127,795)
Dividends paid to owners of the parent	23	(41,888)	(46,933)	(431,250)
Dividends paid to non-controlling interests		(7,781)	(5,837)	(53,634)
Proceeds from factoring agreements	9	169,271	145,264	1,334,779
Repayment of liabilities under factoring agreements	9	(218,519)	(192,502)	(1,768,832)
Repayments of lease liabilities	9	(17,135)	(23,256)	(213,691)
Others		(4,684)	(2,332)	(21,427)
Net cash provided by (used in) financing activities		(271,002)	(204,452)	(1,878,636)
Effect of exchange rate changes on cash and cash equivalents		(3,478)	(10,153)	(93,292)
Net increase (decrease) in cash and cash equivalents		(16,001)	(1,608)	(14,775)
Cash and cash equivalents at the beginning of the year	5	299,237	283,235	2,602,545
Cash and cash equivalents at the end of the year	5	¥ 283,235	¥ 281,626	$ 2,587,760

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2019 and 2020

1 REPORTING ENTITY

Mitsubishi Heavy Industries, Ltd. (hereinafter referred to as "MHI") is a company incorporated in Japan. MHI's consolidated financial statements consist of accounts of MHI and its consolidated subsidiaries (hereinafter referred to as the "Group"). Based on the three business domains "Power Systems," "Industry & Infrastructure" and "Aircraft, Defense & Space", the Group is engaged in the development, manufacture, sale and after-sale service of a wide variety of products.

2 BASIS OF PREPARATION

(1) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, as the Group meets the requirements of a "Specified Company" prescribed in Article 1-2 of said ordinance.

These consolidated financial statements were approved by MHI's President Seiji Izumisawa on June 26, 2020.

(2) Presentation of currency

The Group's consolidated financial statements are presented in Japanese yen, which is also the Group's functional currency. Figures are presented in millions of yen and are rounded down to the nearest million yen, unless otherwise indicated.

U.S. dollar amounts are included solely for convenience purposes. 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 solely for convenience purposes, the prevailing rate at March 31, 2020 of ¥108.83=US$1 is used for the purpose of presenting U.S. dollar amounts in the accompanying consolidated financial statements.

(3) Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis, except for certain items, such as financial instruments and defined benefit liability (asset), as described in Note 3. "Significant Accounting Policies."

(4) Standards and interpretations not yet applied

None of the new accounting standards and guidelines that have been issued or amended by the date of approval of the consolidated financial statements have a material impact on the consolidated financial statements of the Group.

(5) Use of estimates and judgements

In preparing these consolidated financial statements, the Group's management has made critical judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities as at the end of the reporting period. Although estimates and assumptions are based on the management's best judgements using past experience and available information, they may differ from actual future values. Estimates and underlying assumptions are continuously reviewed, and the effects of any revisions are recognized in the period in which the revision is made and any subsequent periods affected.

Information about judgements made in the application of accounting policies that have significant impacts on the amounts recognized in the consolidated financial statements are as follows:

- Scope of consolidation (Note 3. "Significant Accounting Policies (1) Basis of consolidation")
- Recognition of intangible assets arising from development (Note 3. "Significant Accounting Policies (8) Intangible assets")
- Recognition and measurement of revenue (Note 3. "Significant Accounting Policies (13) Revenue")

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Recoverable amount of non-financial assets (Note 3. "Significant Accounting Policies (10) Impairment of non-financial assets")
- Measurement of provisions (Note 3. "Significant Accounting Policies (11) Provisions")
- Measurement of defined benefit obligations (Note 3. "Significant Accounting Policies (12) Post-employment benefits")
- Recoverability of deferred tax assets (Note 3. "Significant Accounting Policies (17) Income taxes")

(6) Changes in accounting policies

(Application of IFRS 16 "Leases")

The Group has applied IFRS 16 "Leases" ("IFRS 16") from the beginning of the fiscal year ended March 31, 2020. IFRS 16 defines a lease as a contract that conveys the right to control a specific asset for a period of time in exchange for payment of consideration provided in the contract. IFRS 16 has introduced a single, on-balance sheet accounting model, in principle, for all leases as lessee. Under this model, a lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group's accounting policy for leases upon the application of IFRS 16 is stated in Note 3. "Significant Accounting Policies (9) Leases."

In applying IFRS 16, the Group has elected to retrospectively apply the policies above to each lease contract back to the date when each contract was entered into. Accordingly, comparative financial information for the fiscal year ended March 31, 2019 has been restated for disclosure. Whereas the cumulative impact of the application before April 1, 2018 is adjusted through net assets balance as of April 1, 2018.

It is noted that the Group has applied the practical expedient to assess whether a contract is, or contains, a lease before the date of initial application of IFRS16. As such, the Group continues to use the assessment made under IAS 17, to determine whether a contract entered into before the date of initial application is, or contains, a lease. Furthermore, the Group continues to apply the same policy to account for sale and leaseback transactions entered into before the date of initial application. Therefore, the Group applies IFRS 16 to assess whether a contract is, or contains, a lease at inception to contracts entered into or amended after the date of initial application.

The impact of the application on the Group's consolidated financial statements before April 1, 2018 is presented as "cumulative effects of changes in accounting policies" in the consolidated statement of changes in equity. There are no significant leases as lessor that was affected by the application of IFRS 16.

(Impact on the Consolidated Financial Statement)

The major impact of applying IFRS 16 on the consolidated statement of financial position as of April 1, 2018 and March 31, 2019 is as follows.

As of April 1, 2018

	Millions of yen		
	Amount based on IAS 17	Adjustments	Amount based on IFRS 16
Current assets			
Inventories	¥748,574	¥ —	¥748,574
Other current assets	214,992	(29)	214,962
Non-current assets			
Property, plant and equipment	773,186	(3,022)	770,163
Intangible assets	103,023	(19)	103,003
Rights-of-use assets	—	55,195	55,195
Deferred tax assets	121,138	12,564	133,703
Total adjustments for Assets		¥ 64,689	
Current liabilities			
Bonds, borrowings and other financial liabilities	517,537	13,669	531,206
Provisions	202,797	—	202,797
Other current liabilities	188,121	—	188,121
Non-current liabilities			
Bonds, borrowings and other financial liabilities	656,129	78,491	734,621
Provisions	18,747	1,798	20,546
Other non-current liabilities	79,474	(139)	79,334
Equity			
Retained Earning	830,057	(28,219)	801,838
Other Components of equity	118,015	(47)	117,968
Non-controlling interests	298,327	(865)	297,462
Total adjustments for Liabilities and Equity		¥ 64,689	

As of March 31, 2019

	Millions of yen		
	Amount based on IAS 17	Adjustments	Amount based on IFRS 16
Current assets			
Inventories	¥739,252	¥ 567	¥739,820
Other current assets	222,420	(29)	222,390
Non-current assets			
Property, plant and equipment	784,849	(7,621)	777,228
Intangible assets	107,799	5,331	113,131
Rights-of-use assets	—	90,335	90,335
Deferred tax assets	124,464	9,046	133,511
Total adjustments for Assets		¥ 97,630	
Current liabilities			
Bonds, borrowings and other financial liabilities	444,116	15,431	459,548
Provisions	216,531	(1,056)	215,475
Other current liabilities	161,717	(4,444)	157,273
Non-current liabilities			
Bonds, borrowings and other financial liabilities	532,961	104,243	637,204
Provisions	43,859	3,723	47,583
Other non-current liabilities	72,103	(139)	71,964
Equity			
Retained Earning	888,541	(19,302)	869,238
Other Components of equity	96,998	(10)	96,987
Non-controlling interests	317,943	(814)	317,128
Total adjustments for Liabilities and Equity		¥ 97,630	

The major impact of applying IFRS 16 on the consolidated statement of profit or loss for the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019) is as follows.

	Millions of yen		
	Amount based on IAS 17	Adjustments	Amount based on IFRS 16
Cost of sales	¥3,310,210	¥ (859)	¥3,309,351
Selling, general and administrative expenses	541,714	(3,503)	538,210
Other income	64,503	(31)	64,472
Other expenses	115,135	(9,514)	105,621
Profit from business activities	186,724	13,846	200,570
Finance costs	11,749	1,411	13,161
Income taxes	54,153	3,518	57,671
Profit	¥ 128,471	¥ 8,916	¥ 137,388

Profit attributable to:

	Millions of yen		
Owners of the parent	¥ 101,354	¥ 8,916	¥ 110,271
Non-controlling interests	27,116	0	27,117

Earnings per share attributable to owners of the parent

	Yen		
Basic earnings per share	¥302	¥27	¥329
Diluted earnings per share	301	27	328

The major impact of applying IFRS 16 on the consolidated statement of cash flows for the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019) is as follows.

	Millions of yen		
	Amount based on IAS 17	Adjustments	Amount based on IFRS 16
Cash flows from operating activities:			
Profit before income taxes	¥ 182,624	¥ 12,435	¥ 195,059
Depreciation, amortization and impairment loss	198,761	4,028	202,789
Finance income and costs	5,824	1,410	7,234
Increase (decrease) in provisions	46,578	(1,056)	45,522
Others	(15,480)	16	(15,464)
Interest paid	(6,664)	(1,410)	(8,074)
Total adjustments for Net cash provided by (used in) operating activities		¥ 15,425	
Cash flows from financing activities:			
Repayment of lease liabilities	—	(17,135)	(17,135)
Others	(6,394)	1,710	(4,684)
Total adjustments for Net cash provided by (used in) financing activities		¥(15,425)	

3 SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect the returns through its power over the entity.

Subsidiaries' financial statements are included in the consolidated financial statements from the date on which control starts until the date on which control ends. If accounting policies adopted by subsidiaries differ from those adopted by MHI, the financial statements of those subsidiaries are adjusted. Balances of receivables and payables and transaction amounts between Group companies and unrealized gains or losses arising from transactions between Group companies are eliminated in the preparation of the consolidated financial statements.

b) Associates and joint ventures (entities accounted for using the equity method)

Associates are entities in which the Group has significant influence, but does not have control or joint control over the financial and operating policies.

Joint ventures are arrangements in which two or more parties, including the Group, have joint control under contractual arrangements, in which the Group has rights to the net assets of the arrangements. Joint control requires the unanimous consent of the jointly controlling parties in financial and operating decisions related to their activities.

Investments in associates and joint ventures are accounted for using the equity method (hereinafter referred to as "entities accounted for using the equity method"). Goodwill related to entities accounted for using the equity method is included in the carrying amount of investments, and is not amortized. When there is an indication that an investment in an entity accounted for using the equity method may be impaired, the carrying amount of the entire investment (including goodwill) is evaluated for impairment as a single asset.

If accounting policies adopted by associates or joint ventures accounted for using the equity method differ from those adopted by the Group in the application of the equity method, the equity method is applied after financial statements of those associates or joint ventures are adjusted. It is impracticable for certain entities accounted for using the equity method to align their closing date with that of the Group due to the intent of joint investors and other reasons. For such entities, the equity method is applied after necessary adjustments are made in relation to significant transactions or events during the period occurring from the difference in the closing date.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The consideration of acquisition is measured as the aggregate of the acquisition-date fair value of the assets transferred, liabilities assumed and equity securities issued by the Group in exchange for control of the acquiree. Transaction costs directly attributable to the acquisition are accounted for as expenses when they are incurred. Identifiable assets and liabilities of the acquired entity are recognized at their fair value on the acquisition date.

Goodwill is measured as the difference between the fair value of consideration transferred in the acquisition of the entity less the net recognized amount of identifiable assets acquired and liabilities assumed as at the date of acquisition. If the fair value of consideration transferred in the acquisition is lower than the net recognized amount of assets acquired and liabilities assumed, the difference is recognized as profit.

When consideration for the business combination transferred from the Group includes assets or liabilities arising from a contingent consideration arrangement, it is measured at fair value on the acquisition date and is included as part of the above consideration transferred in the acquisition.

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

(3) Foreign currency translation

Foreign currency transactions are translated into the functional currencies of the Group at the exchange rates at the dates of the transactions or an approximation of the rate.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated at the exchange rates at the end of the reporting period.

Exchange differences arising from the translation or settlement are recognized as profit or loss. On the other hand, exchange differences arising from financial assets at FVTOCI are recognized as other comprehensive income.

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rates at the end of the reporting period, whereas revenue and expenses are translated using the average exchange rate during the period unless there is significant fluctuation in the exchange rates.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income. At the time of the disposal of a foreign operation, cumulative exchange differences recognized in other components of equity are transferred to profit or loss.

(4) Financial instruments

Financial instruments are recognized on the date when the Group becomes a contracting party to the financial instruments. Financial assets purchased in the common ways are recognized on the transaction date.

a) Non-derivative financial assets

Non-derivative financial assets which are classified as debt instruments are measured at amortized cost since all these instruments satisfy both of the following conditions:

- The financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these assets are measured at amortized cost using the effective interest method.

Equity instruments are measured at fair value.

Non-derivative financial assets are measured at fair value plus transaction costs at initial recognition, unless the assets are measured at fair value through profit or loss. However, trade receivables that do not contain a significant financing component are initially measured at the transaction price.

For financial assets measured at fair value, except for equity instruments held for trading that must be measured at fair value through profit or loss (FVTPL), the Group determines, for each equity instrument, whether the instrument is measured at FVTPL or if it irrevocably designates the instrument as measured at fair value through other comprehensive income (FVTOCI).

For assets designated as financial assets at FVTOCI at initial recognition, any changes in fair value after initial recognition are recognized as other comprehensive income. If a financial asset at FVTOCI is derecognized, or the fair value decreases significantly, the amount accumulated in other components of equity is transferred to retained earnings. Dividends from financial assets at FVTOCI are recognized as profit or loss in principle.

When the contractual right to cash flows from a financial asset expires or the Group transfers a financial asset and substantially all the risks and rewards of ownership of the financial asset, the financial asset is derecognized.

b) Non-derivative financial liabilities

Non-derivative financial liabilities are classified as financial liabilities measured at amortized cost. Financial liabilities measured at amortized cost are measured at fair value less transaction costs at initial recognition.

After initial recognition, such liabilities are measured at amortized cost using the effective interest method.

When the obligation specified in the contract for a non-derivative financial liability is discharged, cancelled or expires, the non-derivative financial liability is derecognized.

c) Derivative transactions and hedge accounting

The Group uses derivative instruments, including forward exchange contracts, currency swap contracts and interest rate swap contracts, to hedge foreign currency risks and interest rate risks.

Derivative transactions are initially recognized at fair value on the date when the Group becomes party to the contract, and related transaction costs are expensed as incurred. After the initial recognition, they are measured at fair value with changes in the fair value recognized in profit or loss, unless they are designated as the hedging instrument in a cash flow hedge.

When applying hedge accounting, the Group formally designates and documents the hedging relationship, the risk management objective and strategy at the inception of a hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and the methods of assessing hedge effectiveness. The Group assesses whether the hedging relationship is effective prospectively on an ongoing basis.

The Group applies cash flow hedges to derivative transactions related to foreign exchange and interest rates that meet the requirements for hedge accounting.

When a derivative transaction is designated as the hedging instrument in a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized as other comprehensive income and the ineffectiveness is recognized immediately as profit or loss.

When applying a cash flow hedge to a currency swap contract, the Group designates the portion other than the currency basis spread as the hedging instrument and treats the currency basis spread as costs of hedging, and recognizes changes in its fair value in other components of equity through other comprehensive income.

The cash flow hedge accumulated in other components of equity is transferred to profit or loss in the same period during which cash flows of the hedged item affect profit or loss. However, when the hedged item is associated with acquisition of a non-financial asset, such an amount is accounted for as an adjustment to the initial acquisition cost of the non-financial asset.

When the Group recognizes the costs of hedging for a derivative transaction entered into in order to hedge a time-period related hedged item, it transfers the cumulative costs of hedging accumulated in other components of equity to profit or loss on a systematic and rational basis over the period during which the hedge adjustment from the hedging instrument could affect profit or loss.

When a forecast transaction is no longer highly probable to occur, hedge accounting is discontinued. When the forecast transaction is no longer expected to occur, the amount accumulated in other components of equity is transferred to profit or loss.

d) Impairment of financial assets

For financial assets measured at amortized cost, the Group determines, at the end of each reporting period, whether credit risk on the asset has increased significantly since initial recognition. If the credit risk has increased significantly, a loss allowance at an amount equal to lifetime expected credit losses is recognized. If no significant increase in the credit risk is identified, a loss allowance at an amount equal to 12-month expected credit losses is recognized.

However, for trade receivables and contract assets, loss allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, regardless of whether or not the credit risk has increased significantly since the initial recognition.

Evidence indicating a significant increase in credit risk includes default or delinquency by a debtor, extension of the due date provided by the Group for a debtor on terms that the Group would not implement under other circumstances, and indications that a debtor or issuer will enter bankruptcy. Loss allowance for expected credit loss is recognized in profit or loss.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits that can be withdrawn at any time, and short-term investments that are readily convertible and subject only to insignificant risk of changes in value. Short-term investments mean investments that have a maturity of three months or less from the acquisition date.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is the amount including costs of purchase, costs of conversion and all costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

The inventory valuation method is as follows:

Merchandise and finished goods: principally moving average method

Work in process: principally specific identification method

Raw materials and supplies: principally moving average method

(7) Property, plant and equipment

Property, plant and equipment are presented at cost less accumulated depreciation and impairment losses, using the cost model. Cost includes any costs directly attributable to the acquisition of assets, dismantling costs, removal costs, and restoration costs for the site where the property, plant and equipment have been located.

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives except for assets those are not depreciated, such as land.

The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures: 2 to 60 years

Machinery and vehicles: 2 to 20 years

Tools, furniture and fixtures: 2 to 20 years

The depreciation method, estimated useful lives and residual value are reviewed at the end of the fiscal year and revised where necessary.

(8) Intangible assets

Intangible assets are presented at the amount of acquisition cost less accumulated amortization and impairment losses, using the cost model. Intangible assets are amortized over the estimated useful lives using the straight-line method. The estimated useful lives of major intangible assets are as follows:

Software: 3 to 10 years

Technologies recognized through business combination: 7 to 20 years

Customer relationship recognized through business combination: 2 to 13 years

Other: 3 to 15 years

Intangible assets with indefinite useful lives are presented at the amount of acquisition cost less accumulated impairment losses.

Expenses incurred with respect to development activities of the Group are capitalized only when it can be proved that the expenses satisfy all the following conditions:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Group intends to complete the intangible asset and use or sell it.
- The Group is able to use or sell the intangible asset.
- The intangible asset's future economic benefits are probable.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development is reliably measurable.

Development expenses that do not satisfy the above requirements for capitalization and expenditures on research activities are expensed as incurred. The amortization method, estimated useful lives and residual value are reviewed at the end of the fiscal year and revised where necessary.

(9) Leases

a) Leases as lessor

Leases in which substantially all the risks and rewards of ownership of the asset are transferred to the lessee under the contract are classified as finance leases. Leases other than finance leases are classified as operating leases.

With regard to the amount received from lessees under finance leases, the net investment in leases is recorded as "trade and other receivables", and unearned finance income is allocated to the net investment at a constant interest rate over the lease term and recognized in the fiscal year to which the profit is attributed. Lease revenues under operating leases are recognized on a straight-line basis over the lease term.

b) Leases as lessee

For leases as lessee, the Group recognizes assets and liabilities under an on-balance sheet accounting model. The Group recognizes a right-of-use asset which represents the right to use the underlying leased asset and a lease liability which represents the obligation to make lease payments for all leases at the lease commencement date. The Group measures right-of-use assets and lease liabilities as follows.

For short-term leases with a lease term of 12 months or less and leases of low value, however, the Group has elected not to recognize right-of-use assets and lease liabilities.

• Right-of-use assets

Right-of-use assets are initially recognized at the lease commencement date and are measured at cost, which mainly comprises the amount of the initial measurement of the lease liability adjusted for any initial direct costs incurred and any prepaid lease payments made at or before the commencement date. After initial recognition, right-of-use assets are measured, at cost less any accumulated depreciation and any accumulated impairment losses, using the cost model.

Right-of-use assets are depreciated on a straight-line basis over the period until the earlier of the end of the useful life or the end of the lease term.

• Lease liabilities

Lease liabilities are initially recognized at the lease commencement date and are measured at the present value of the lease payments that are not paid at that date. To calculate the present value, the interest rate implicit in the lease is used as the discount rate. If that rate cannot be readily determined, the Group's incremental borrowing rate is used. Lease liabilities are remeasured, if each lease contract contains an option to purchase the underlying asset or an option to extend or terminate the lease and there is a change in possibilities to exercise such options.

The Group presents "right-of-use assets" separately from other assets and lease liabilities in "bonds, borrowings and other financial liabilities" in the consolidated statement of financial position.

(10) Impairment of non-financial assets

With regard to property, plant and equipment and intangible assets, the Group determines, at the end of the reporting period, whether or not there is any indication of impairment. If any such indication exists, the Group performs an impairment test by estimating the recoverable amount of the asset. With regard to goodwill and intangible assets with indefinite useful lives, the Group conducts an impairment test annually or whenever there is any indication of impairment.

The recoverable amount of the asset or cash-generating unit is the higher of the fair value less costs of disposal or its value in use. Value in use is determined as the present value of future cash flows that are expected to arise from the asset or cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. When the recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is determined. If the recoverable amount of an asset or cash-generating unit is lower than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to the recoverable amount.

For non-financial assets for which an impairment loss was recognized, except for goodwill, the Group reassesses the possibility that the impairment loss will be reversed, at the end of the reporting period.

(11) Provisions

The Group recognizes a provision when there is a present legal or constructive obligation arising from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably. In doing so, if the period up to the settlement of the obligation is expected to be a long term and the time value of money is material, a provision is measured based on the present value of expenditure expected at the time of settlement.

If some or all of expenditure required for the Group to settle the provisions is expected to be reimbursed, the reimbursement is recognized as a separate asset only when it is virtually certain that the Group will receive the reimbursement.

If provisions and external reimbursements are recognized in the same reporting period, these amounts are presented on a net basis in the consolidated statement of profit or loss.

(12) Post-employment benefits

The Group has adopted lump-sum payment on retirement and pension plans as post-employment benefit plans for employees. These plans are roughly classified as defined benefit plans or defined contribution plans. Accounting policies for respective plans are as follows.

a) Defined benefit plans

In defined benefit plans, the present value of defined benefit obligations is calculated separately for each plan by estimating the amount of future benefits that employees have earned in exchange for their service rendered in the prior fiscal years and the fiscal year ended March 31, 2020. The amount used to settle the obligations less fair value of plan assets is recognized as defined benefit liability (asset). The asset ceiling in this calculation is the present value of future economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of defined benefit obligations is calculated using the projected unit credit method, and the discount rate is determined by reference to the market yield on high quality corporate bonds at the end of the fiscal year corresponding to the estimated timing for future benefit payments.

Service cost and net interest cost on net defined benefit liability (asset) are recognized as profit or loss, and remeasurement of defined benefit liability (asset) is recognized as other comprehensive income and immediately transferred to retained earnings.

b) Defined contribution plans

Contributions for retirement benefits under defined contribution plans are recognized as expenses in profit or loss as the related service is provided.

(13) Revenue

The Group recognizes revenue at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services to customers based on the following five-step approach, except for interest and dividend income, etc. under IFRS 9.

Step 1: Identify the contract with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized to the extent that an inflow of economic benefits to the Group is probable and its amount can be measured reliably, regardless of the timing of receiving the payment, and measured at the fair value of consideration received or receivable after taxes in light of contractual payment terms.

Of incremental costs of obtaining contracts with customers and fulfillment costs directly related to contracts, the portion that is expected to be recoverable is recognized as an asset. Incremental costs of obtaining contracts with customers are costs that would not be incurred if the contract is not obtained.

Requirements for revenue recognition of the Group are as follows.

a) Sale of products

With regard to revenue from the sale of goods, performance obligations are principally considered to be fulfilled at the time of delivery of the goods, at which point in time customers obtain control and revenue is recognized. Revenue from the sale of goods is measured at an amount of consideration promised in the contract with the customer less sales returns, discounts, rebates, taxes collected on behalf of third parties and others.

b) Rendering of services and construction contracts

With regard to contracts for the rendering of services or construction contracts under which the control of goods or services promised in the contracts is transferred to customers over the contract term, revenue is recognized by measuring progress toward the complete satisfaction of the performance obligation. Progress is measured using a method that depicts the satisfaction of the performance obligation, and is principally estimated based on the proportion of costs incurred to fulfill the performance obligation against the expected total costs of fulfilling the performance obligation.

(14) Profit from business activities

"Profit from business activities" on the consolidated statement of profit or loss is presented as a measure that enables continuous comparison and assessment of the Group's business performance. "Profit from business activities" is calculated by subtracting "cost of sales", "selling, general and administrative expenses" and "other expenses" from "revenue" and adding "share of profit (loss) of investments accounted for using the equity method" and "other income" to the resulting amount. "Other income" and "other expenses" consist of dividend income, gains or losses on sales of fixed assets, impairment losses on fixed assets, and others. Dividend income from shares and investments in capital held by the Group, where the investment is held by the Group over the long term due to business operation requirements, such as collaborating with other companies, is included in profit from business activities as the results of the business. Dividend income is recognized when the Group's right to receive the dividend income is established.

(15) Finance income and costs

"Finance income" and "finance costs" consist of interest income, interest expenses, foreign exchange gains or losses, gains or losses on derivatives (except for gains or losses recognized in other comprehensive income) and others. Interest income and expenses are recognized using the effective interest method when they arise.

(16) Government grants

Government grants are recognized when the Group obtains reasonable assurance of both of the following matters.

- The Group's activities, status and others comply with the incidental conditions to the receipt of the grants.
- The grants are paid to the Group.

Grants associated with revenue are presented by deducting the grants from related expenses.

(17) Income taxes

Income taxes consist of current taxes and deferred taxes. Except for income taxes related to the initial recognition of business combinations and those which are recognized directly in equity or other comprehensive income, income taxes are recognized as profit or loss.

Current taxes are measured as the amount that is expected to be paid to or refunded from tax authorities. The amount of these taxes is calculated based on tax rates and tax laws that are enacted or substantively enacted by the end of the reporting period.

Deferred taxes are recognized in relation to temporary differences arising from differences between the carrying amount of assets and liabilities for accounting purposes and the related carrying amount for tax purposes, unused tax losses and unused tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences in principle. However, taxable temporary differences on investments in subsidiaries, associates and interests in joint ventures are not recognized if the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future. With regard to taxable temporary differences arising from the initial recognition of goodwill, deferred tax liabilities are also not recognized.

Deferred tax assets are reviewed at the end of each reporting period, and a reduction is made for the portion for which it is probable that taxable profit sufficient to utilize all or part of the deferred tax assets will not be available. On the other hand, unrecognized deferred tax assets are also reassessed at the end of each reporting period, and such deferred tax assets are recognized to the extent that the assets are recoverable if it becomes probable that the assets will be recovered due to future taxable profit.

Deferred tax assets and liabilities are measured based on tax rates and tax laws that are enacted or substantively enacted by the end of the reporting period and are anticipated to be applied in the period when the temporary difference is expected to be reversed.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and related taxes are levied by the same tax authority on the same taxable entity.

With regard to uncertain tax position of income taxes, a reasonably estimated amount is recognized as asset or liability when it is probable to pay or refund income taxes based on interpretations for the purpose of tax law.

04 OPERATING SEGMENT

(1) Overview of reporting segments

The reporting segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by MHI's Board of Directors to make decisions about resource allocation and assess their performance.

The Group has three reporting segments based on products and services: Power Systems; Industry & Infrastructure; and Aircraft, Defense & Space. These reporting segments correspond to the same three business domains of the Group, which have been defined by considering commonality of each business unit's customers, markets, core technologies, and business strategies. Each business domain engages in its business activities by formulating comprehensive strategies on products and services it provides in both domestic and overseas markets.

Main products and services belonging to each reporting segment are as follows:

Power Systems	Thermal power systems (Gas turbine combined cycle [GTCC] and Steam power), Nuclear power plant equipment (Light-water reactors, Nuclear fuel cycle & Advanced solutions), Wind power generators, Engines for aircrafts, Compressors, Environmental plants, Marine machinery
Industry & Infrastructure	Material handling equipment, Turbochargers, Engines, Air-conditioning & refrigeration systems, Automotive thermal systems, Metals machinery, Commercial ships, Transportation systems, Chemical plants, Environmental systems, Mechatronics systems, Machine tools
Aircraft, Defense & Space	Commercial aircraft, Defense aircraft, Missile systems, Naval ships, Special vehicles, Maritime systems (torpedoes), Space systems

(2) Method for calculating revenue, profit or loss and other items by reporting segment

The accounting policies of the reporting segments are the same as the accounting policies described in the Note 3. "Significant Accounting Policies." Inter-segment revenue reflects arm's length transaction prices.

(3) Information about revenue, profit or loss and other items by reporting segment

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

	Millions of yen							
	Reporting segment				Others*1	Total	Inter-segment Eliminations*2	Consolidated
	Power Systems	Industry & Infrastructure	Aircraft, Defense & Space	Total				
Revenue								
Revenue from external customers	¥1,514,804	¥1,866,575	¥675,672	¥4,057,053	¥21,290	¥4,078,344	¥ —	¥4,078,344
Inter-segment revenue and transfers	10,303	41,295	1,904	53,504	50,370	103,874	(103,874)	—
Total	¥1,525,108	¥1,907,871	¥677,577	¥4,110,557	¥71,661	¥4,182,218	¥(103,874)	¥4,078,344
Segment profit*3	133,196	70,753	(28,230)	175,719	39,156	214,876	(14,305)	200,570
Finance income								7,650
Finance costs								13,161
Profit before income taxes								195,059
Other items								
Depreciation and amortization	42,861	51,187	29,982	124,030	6,263	130,294	5,364	135,658
Impairment losses	1,263	658	61,459	63,382	2,081	65,463	700	66,163
Share of loss (profit) of investments accounted for using the equity method	¥ 8,187	¥ 2,036	¥ —	¥ 10,223	¥ 1,668	¥ 11,891	¥ (954)	¥ 10,937

*1. The "Others" classification includes asset management business, which are not included in any of the reporting segments.
*2. The ¥14,305 million negative adjustment to segment profit represents revenues and expenses not attributable to any of the reporting segments. The adjustment includes corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.
*3. The segment profit represents profit from business activities.

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

	Millions of yen							
	Reporting segment				Others*1	Total	Inter-segment Eliminations*2	Consolidated
	Power Systems	Industry & Infrastructure	Aircraft, Defense & Space	Total				
Revenue								
Revenue from external customers	¥1,579,397	¥1,734,475	¥ 703,862	¥4,017,736	¥23,640	¥4,041,376	¥ —	¥4,041,376
Inter-segment revenue and transfers	10,896	43,619	1,122	55,638	51,550	107,189	(107,189)	—
Total	¥1,590,293	¥1,778,095	¥ 704,985	¥4,073,374	¥75,190	¥4,148,565	¥(107,189)	¥4,041,376
Segment profit*3	144,383	54,883	(208,792)	(9,524)	6,565	(2,958)	(26,579)	(29,538)
Finance income								11,616
Finance costs								14,738
Profit before income taxes								(32,660)
Other items								
Depreciation and amortization	47,085	57,015	27,082	131,184	1,970	133,154	11,485	144,639
Impairment losses	717	258	177,563	178,538	—	178,538	833	179,372
Share of loss (profit) of investments accounted for using the equity method	¥ 8,299	¥ (699)	¥ —	¥ 7,600	¥ 4,552	¥ 12,153	¥ 745	¥ 12,898

*1. The "Others" classification includes asset management business, which are not included in any of the reporting segments.
*2. The ¥26,579 million ($244,224 thousand) negative adjustment to segment profit represents revenues and expenses not attributable to any of the reporting segments. The adjustment includes corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.
*3. The segment profit represents profit from business activities.

	Reporting segment: Power Systems	Reporting segment: Industry & Infrastructure	Reporting segment: Aircraft, Defense & Space	Reporting segment: Total	Others*1	Total	Inter-segment Eliminations*2	Consolidated
	Thousands of U.S. dollars							
Revenue								
Revenue from external customers	$14,512,514	$15,937,471	$6,467,536	$36,917,541	$217,219	$37,134,760	$ —	$37,134,760
Inter-segment revenue and transfers	100,119	400,799	10,309	511,237	473,674	984,921	(984,921)	—
Total	$14,612,634	$16,338,279	$6,477,855	$37,428,778	$690,894	$38,119,682	$(984,921)	$37,134,760
Segment profit*3	1,326,683	504,300	(1,918,515)	(87,512)	60,323	(27,180)	(244,224)	(271,414)
Finance income								106,735
Finance costs								135,422
Profit before income taxes								(300,101)
Other items								
Depreciation and amortization	432,647	523,890	248,846	1,205,402	18,101	1,223,504	105,531	1,329,036
Impairment losses	6,588	2,370	1,631,562	1,640,521	—	1,640,521	7,654	1,648,185
Share of loss (profit) of investments accounted for using the equity method	$ 76,256	$ (6,422)	$ —	$ 69,833	$ 41,826	$ 111,669	$ 6,845	$ 118,515

*1. The "Others" classification includes asset management business, which are not included in any of the reporting segments.
*2. The ¥26,579 million ($244,224 thousand) negative adjustment to segment profit represents revenues and expenses not attributable to any of the reporting segments. The adjustment includes corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.
*3. The segment profit represents profit from business activities.

(4) Information by product and service

This information is omitted because the classification of products and services is the same as the classification of reporting segments.

(5) Breakdown by geographical market

a) Revenue from external customers

	Millions of yen: 2019	Millions of yen: 2020	Thousands of U.S. dollars: 2020
Japan	¥1,877,497	**¥1,944,758**	**$17,869,686**
U.S.A.	627,167	**663,779**	**6,099,228**
Asia	737,650	**700,385**	**6,435,587**
Europe	418,514	**374,459**	**3,440,770**
Central and South America	132,015	**131,706**	**1,210,199**
Africa	91,304	**60,379**	**554,801**
Middle East	123,721	**91,267**	**838,619**
Others	70,473	**74,640**	**685,840**
Total	¥4,078,344	**¥4,041,376**	**$37,134,760**

*1. Revenue from external customers is classified based on their geographical location into a country or region depending on geographical proximity.
*2. The major countries or regions in the category:
(1) Asia...China, Indonesia, Thailand, South Korea, India, Taiwan, Singapore, Philippines, Vietnam, Hong Kong, Malaysia, Bangladesh, Macau
(2) Europe...Germany, United Kingdom, Uzbekistan, France, Netherlands, Spain, Poland, Italy, Russia, Greece, Hungary, Turkmenistan, Austria, Sweden, Belgium, Denmark, Ukraine, Finland
(3) Central and South America...Mexico, Brazil, Panama, Trinidad and Tobago, Dominican Republic
(4) Africa...South Africa, Liberia, Egypt, Kenya, Tunisia
(5) Middle East...Saudi Arabia, Qatar, United Arab Emirates, Turkey, Iraq
(6) Others...Canada, Australia

b) Non-current assets

	Millions of yen: As of March 31, 2019	Millions of yen: As of March 31, 2020	Thousands of U.S. dollars: As of March 31, 2020
Japan	¥ 969,767	**¥ 896,361**	**$ 8,236,341**
Overseas subtotal	255,281	**280,209**	**2,574,740**
Total	¥1,225,048	**¥1,176,570**	**$10,811,081**

*1. Financial instruments, investments accounted for using the equity method, deferred tax assets, and assets for retirement benefits are not included.

(6) Information about major customers

This information is omitted because there is no major external customer from which revenue accounts for 10% or more of the revenue recorded in the consolidated statement of profit or loss.

05 CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Cash and deposits	¥277,971	¥280,141	$2,574,115
Cash equivalents	5,264	1,485	13,645
Total	¥283,235	¥281,626	$2,587,760

All cash and cash equivalents are classified as financial assets measured at amortized cost.

06 TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Trade receivables	¥619,376	¥549,903	$5,052,862
Other	98,037	62,072	570,357
Total	¥717,414	¥611,976	$5,623,228

All trade and other receivables other than lease receivables included in "Other" are classified as financial assets measured at amortized cost.

In the above table, the amounts of trade and other receivables to be collected after 12 months as of March 31, 2019 and March 31, 2020, were ¥14,630 million and ¥21,650 million ($198,934 thousand), respectively.

07 OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Financial assets at FVTPL			
Derivative assets*1	¥ 8,229	¥ 6,716	$ 61,710
Financial assets at FVTOCI			
Shares and other investments in capital	422,622	364,883	3,352,779
Financial assets measured at amortized cost			
Time deposits due more than three months	13,328	17,010	156,298
Other	28,889	31,466	289,129
Total	¥473,069	¥420,078	$3,859,946
Current assets	25,180	28,539	262,234
Non-current assets	447,888	391,538	3,597,702
Total	¥473,069	¥420,078	$3,859,946

*1. Derivative assets at FVTPL
Derivative assets include those designated as hedging instruments. The effective portion of any change in fair value of derivative assets is recognized as other comprehensive income.

(2) Shares and other investments in capital designated as FVTOCI

The Group holds shares and investments in capital primarily for the purpose of maintaining and strengthening relations with its business partners.

The Group has elected to present subsequent changes in fair value of shares and investments in capital held for the above purpose in other comprehensive income.

a) The breakdown of shares and other investments in capital designated as financial assets at FVTOCI

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Marketable securities*[1]	¥309,606	¥213,123	$1,958,311
Non-marketable securities*[2]	113,016	151,759	1,394,459
Total	¥422,622	¥364,883	$3,352,779

*1. Marketable securities designated as FVTOCI

Major marketable securities designated as FVTOCI, of entities in which the Group invests, as of March 31, 2019 and March 31, 2020, are as follows.

As of March 31, 2019 (Millions of yen)

Entity name	Fair value
Mitsubishi Corporation	51,315
Central Japan Railway Company	38,112
Tokio Marine Holdings, Inc.	27,167
Kirin Holdings Company, Limited	17,114
Mitsubishi Motors Corporation	12,891
Coca-Cola Bottlers Japan Holdings Inc.	11,015
Mitsubishi Electric Corporation	10,700
SUZUKI MOTOR CORPORATION	9,980
The Kansai Electric Power Company, Inc.	9,784
AGC Inc.	7,936

As of March 31, 2020 (Millions of yen)

Entity name	Fair value
Mitsubishi Corporation	38,252
Central Japan Railway Company	25,675
Tokio Marine Holdings, Inc.	25,080
Mitsubishi Electric Corporation	10,041
Coca-Cola Bottlers Japan Holdings Inc.	8,681
The Kansai Electric Power Company, Inc.	7,215
Mitsubishi Motors Corporation	6,708
Mitsubishi Estate Company, Limited	6,144
AGC Inc.	5,470
Nippon Yusen Kabushiki Kaisha	5,277

As of March 31, 2020 (Thousands of U.S. dollars)

Entity name	Fair value
Mitsubishi Corporation	351,483
Central Japan Railway Company	235,918
Tokio Marine Holdings, Inc.	230,451
Mitsubishi Electric Corporation	92,263
Coca-Cola Bottlers Japan Holdings Inc.	79,766
The Kansai Electric Power Company, Inc.	66,296
Mitsubishi Motors Corporation	61,637
Mitsubishi Estate Company, Limited	56,455
AGC Inc.	50,261
Nippon Yusen Kabushiki Kaisha	48,488

*2. Non-marketable securities designated as FVTOCI

Non-marketable securities designated as FVTOCI are mostly securities of nuclear energy related companies, construction related companies, and chemical plant related companies.

Major securities included in "nuclear energy related companies" are Japan Nuclear Fuel Service Limited and Orano S.A. The total fair value of nuclear energy related securities as of March 31, 2019 and March 31, 2020, were ¥39,220 million and ¥36,617 million ($336,460 thousand), respectively.

The major security included in "construction related companies" is Shinryo Corporation. The total fair value of construction related securities as of March 31, 2019 and March 31, 2020, were ¥1,257 million and ¥39,943 million ($367,021 thousand), respectively.

Major securities included in "chemical plant related companies" are Japan Trinidad Methanol Co., Ltd., Amjad Oman Investment Holding LLC, and Shama Development Holding LLC. The total fair value of chemical plant related securities as of March 31, 2019 and March 31, 2020, were ¥21,321 million and ¥25,438 million ($233,740 thousand), respectively.

There are no material shares and concentrated investments in specific industries other than those listed in Notes 1 and 2.

b) Dividend income from financial assets at FVTOCI

The following are the amounts of dividend income from financial assets at FVTOCI that were recognized for the fiscal years ended March 31, 2019 and March 31, 2020.

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Dividend income from investments derecognized during the year	¥ 1,512	¥ 554	$ 5,090
Dividend income from investments held as of the year end	10,134	11,542	106,055
Total	¥11,647	¥12,096	$111,145

c) Financial assets at FVTOCI derecognized

The following are the fair values, at the date of derecognition, of derecognized financial assets at FVTOCI, and the associated accumulated gains or losses, and the amounts transferred to retained earnings during the fiscal years ended March 31, 2019 and March 31, 2020.

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Fair value at the date of derecognition	¥18,895	¥27,542	$253,073
Accumulated gains (losses)	¥ 5,615	¥ 7,854	$ 72,167

Accumulated gains or losses that have been recognized as other components of equity are transferred from other components of equity to retained earnings when the fair value of financial assets measured at FVTOCI decreases significantly or when they are derecognized. Accumulated gains or losses transferred to retained earnings are for those investments that were sold or otherwise disposed and derecognized as a result of reviewing business relationships and those investments where the fair value decreased significantly. The amounts transferred to retained earnings for the fiscal years ended March 31, 2019 and March 31, 2020 were ¥2,250 million and ¥68 million ($624 thousand), respectively.

08 TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Trade payables	¥682,668	¥655,208	$6,020,472
Electronically recorded obligations	124,393	122,791	1,128,282
Other	55,113	46,030	422,953
Total	¥862,174	¥824,030	$7,571,717

Trade and other payables are classified as financial liabilities measured at amortized cost.

09 BONDS, BORROWINGS AND OTHER FINANCIAL LIABILITIES

(1) Breakdown of bonds, borrowings and other financial liabilities

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Financial liabilities measured at amortized cost			
Bonds*1	¥ 205,000	¥ 140,000	$ 1,286,409
Commercial Papers	—	85,000	781,034
Short-term borrowings*2, *3	170,124	64,744	594,909
Long-term borrowings*2, *3	289,989	308,553	2,835,183
Other	99,800	104,808	963,043
Financial liabilities at FVTPL			
Derivative liabilities*4	9,860	12,778	117,412
Liabilities under factoring agreements*5	140,405	94,233	865,873
Liabilities arising from put options held by non-controlling shareholders	51,974	426,066	3,914,968
Lease liabilities	129,595	134,684	1,237,563
Total	¥1,096,752	¥1,370,870	$12,596,434
Current liabilities	¥ 459,548	¥ 769,099	$ 7,066,976
Non-current liabilities	637,204	601,770	5,529,449
Total	¥1,096,752	¥1,370,870	$12,596,434

*1. The summary of bond issues is as follows:

Company name Issue name	Date of issue	Millions of yen As of March 31, 2019	Millions of yen As of March 31, 2020	Interest rate	Date of maturity	Thousands of U.S. dollars As of March 31, 2020
Mitsubishi Heavy Industries, Ltd.						
The 24th Unsecured Corporate Bond	Dec. 9, 2009	50,000	—	1.482%	Dec. 9, 2019	—
The 26th Unsecured Corporate Bond	Sept. 4, 2013	15,000	15,000	0.877%	Sept. 4, 2023	137,829
The 27th Unsecured Corporate Bond	Sept. 3, 2014	15,000	—	0.243%	Sept. 3, 2019	—
The 28th Unsecured Corporate Bond	Sept. 3, 2014	25,000	25,000	0.381%	Sept. 3, 2021	229,716
The 29th Unsecured Corporate Bond	Sept. 3, 2014	30,000	30,000	0.662%	Sept. 3, 2024	275,659
The 30th Unsecured Corporate Bond	Sept. 2, 2015	10,000	10,000	0.221%	Sept. 2, 2020	91,886
The 31st Unsecured Corporate Bond	Sept. 2, 2015	10,000	10,000	0.630%	Sept. 2, 2025	91,886
The 32nd Unsecured Corporate Bond	Aug. 31, 2016	20,000	20,000	0.050%	Aug. 31, 2021	183,772
The 33rd Unsecured Corporate Bond	Aug. 31, 2016	10,000	10,000	0.240%	Aug. 31, 2026	91,886
The 34th Unsecured Corporate Bond	Aug. 29, 2017	10,000	10,000	0.104%	Aug. 29, 2022	91,886
The 35th Unsecured Corporate Bond	Aug. 29, 2017	10,000	10,000	0.330%	Aug. 27, 2027	91,886
Total		¥205,000	¥140,000			$1,286,409

*2. The interest rates on and repayment dates of borrowings are as follows:

The weighted average interest rates for short-term and long-term borrowings applicable to the fiscal year ended March 31, 2020, are 0.29% and 1.08%, respectively.

Long-term borrowings will be due in 2020 through 2032.

*3. Secured borrowings:

The amounts of borrowings for which collateral was pledged when the loan agreements were entered into as of March 31, 2019 and March 31, 2020, were ¥1,592 million, and ¥312 million ($2,866 thousand), respectively.

The breakdown of assets pledged as collateral is as follows:

	Millions of yen As of March 31, 2019	Millions of yen As of March 31, 2020	Thousands of U.S. dollars As of March 31, 2020
Property, plant and equipment	¥ 878	¥753	$6,919
Inventories	1,231	242	2,223
Total	¥2,110	¥996	$9,151

Security interest is executed in case of breach of financial covenants or non-performance of the borrowing contracts.

*4. Derivatives at FVTPL

Derivative liabilities include those designated as hedging instruments. The effective portion of any change in fair value of such liabilities is recognized as other comprehensive income.

*5. Liabilities under factoring agreements

The Group converts trade receivables and other receivables into cash pursuant to factoring agreements as a measure of financing.

For the factoring agreements that were recognized as liabilities and were not due for payment as of March 31, 2020, the discount rates applied at the conclusion of the contracts were calculated taking into account interest rates applicable to ordinary borrowing contracts. The payment for these factoring agreements will be due in 2020 through 2023.

For assets that were transferred to third parties pursuant to a factoring agreement with recourse obligation on the Group in the event of non-payment by the debtor, the underlying assets are not derecognized because such transfers do not qualify for derecognition.

Additionally, receivables arising from contract assets that were transferred to third parties are not derecognized because such transfers do not qualify for derecognition.

The amounts of trade receivables transferred without qualifying for derecognition March 31, 2019 and March 31, 2020, were ¥13,816 million, and ¥13,489 million ($123,945 thousand), respectively. These amounts are included in “Trade and other receivables” in the consolidated statement of financial position.

In the same manner, the amounts of contract assets transferred without qualifying for derecognition March 31, 2019 and March 31, 2020, were ¥117,428 million, and ¥75,225 million ($691,215 thousand), respectively. These amounts are included in “Contract assets” in the consolidated statement of financial position.

(2) Changes in liabilities arising from financing activities

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

	Millions of yen						
	Carrying amount as of April 1, 2018	Cash flows	Non-cash transactions: Changes in fair value	Non-cash transactions: Foreign currency translation	Non-cash transactions: New contracts	Non-cash transactions: Other movements*1	Carrying amount as of March 31, 2019
Bonds	¥ 235,000	¥ (30,000)	¥ —	¥ —	¥ —	¥ —	¥ 205,000
Commercial papers*2	—	—	—	—	—	—	—
Short-term borrowings	229,584	(60,613)	—	82	—	1,071	170,124
Long-term borrowings	348,586	(61,400)	—	2,801	—	1	289,989
Liabilities under factoring agreements	189,793	(49,248)	—	(140)	—	—	140,405
Lease liabilities	101,127	(17,135)	—	(435)	43,360	2,677	129,595
Liabilities arising from put options held by non-controlling shareholders	53,363	—	(1,389)	—	—	—	51,974
Other liabilities*3	36,526	(2,637)	—	—	—	(529)	33,359
Total	¥1,193,982	¥(221,035)	¥(1,389)	¥2,309	¥43,360	¥3,220	¥1,020,449

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

	Millions of yen						
	Carrying amount as of April 1, 2019	Cash flows	Non-cash transactions: Changes in fair value	Non-cash transactions: Foreign currency translation	Non-cash transactions: New contracts	Non-cash transactions: Other movements*1	Carrying amount as of March 31, 2020
Bonds	¥ 205,000	¥ (65,000)	¥ —	¥ —	¥ —	¥ —	¥ 140,000
Commercial papers*2	—	85,000	—	—	—	—	85,000
Short-term borrowings	170,124	(104,800)	—	(677)	—	97	64,744
Long-term borrowings	289,989	19,835	—	(1,336)	—	64	308,553
Liabilities under factoring agreements	140,405	(47,237)	—	(95)	—	1,160	94,233
Lease liabilities	129,595	(23,256)	—	(2,926)	16,481	14,790	134,684
Liabilities arising from put options held by non-controlling shareholders	51,974	(13,534)	(19,429)	(743)	407,800	—	426,066
Other liabilities*3	33,358	(2,914)	—	—	—	16	30,460
Total	¥1,020,449	¥(151,909)	¥(19,429)	¥(5,779)	¥424,281	¥16,130	¥1,283,743

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

	Thousands of U.S. dollars						
	Carrying amount as of April 1, 2019	Cash flows	Non-cash transactions: Changes in fair value	Non-cash transactions: Foreign currency translation	Non-cash transactions: New contracts	Non-cash transactions: Other movements*1	Carrying amount as of March 31, 2020
Bonds	$1,883,671	$ (597,261)	$ —	$ —	$ —	$ —	$ 1,286,409
Commercial papers*2	—	781,034	—	—	—	—	781,034
Short-term borrowings	1,563,208	(962,969)	—	(6,220)	—	891	594,909
Long-term borrowings	2,664,605	182,256	—	(12,276)	—	588	2,835,183
Liabilities under factoring agreements	1,290,131	(434,043)	—	(872)	—	10,658	865,873
Lease liabilities	1,190,802	(213,691)	—	(26,885)	151,438	135,900	1,237,563
Liabilities arising from put options held by non-controlling shareholders	477,570	(124,359)	(178,526)	(6,827)	3,747,128	—	3,914,968
Other liabilities*3	306,514	(26,775)	—	—	—	147	279,886
Total	$9,376,541	$(1,395,837)	$(178,526)	$(53,101)	$3,898,566	$148,212	$11,795,855

*1. "Other movements" under Non-cash transactions includes changes arising from obtaining or losing control of subsidiaries or other businesses.
*2. Cash flows from commercial papers is included in "Net increase (decrease) in short-term borrowings" under cash flows from financing activities in the consolidated statement of cash flows.
*3. Cash flows from liabilities classified as "Other liabilities" in the above table is included in "Others" under cash flows from financing activities in the consolidated statement of cash flows.

10 FAIR VALUE MEASUREMENTS

(1) Method of fair value measurement

The method of measuring the fair values of financial assets and liabilities are as follows.

a) Cash and cash equivalents, trade and other receivables, trade and other payables, and liabilities under factoring agreements

These items are measured at carrying amount because it approximates fair value due to the short period to maturity or settlement.

b) Bonds and borrowings

Short-term borrowings and commercial papers are measured at carrying amount because it approximates fair value due to the short period to settlement.

The fair value of marketable bonds is measured at market price. The fair values of non-marketable bonds and long-term borrowings are measured by discounting the estimated future cash flows to the present value using the interest rate applicable to the borrowing over the same residual period with the same conditions.

c) Other financial assets, and other financial liabilities

The fair value of marketable shares and investments in capital are measured at market price. The fair value of non-marketable shares and investments in capital are measured based on market multiples derived from the PBR (price-to-book ratio) of comparable companies. For derivative assets and liabilities, the fair value of forward foreign exchange contracts is determined based on the forward exchange rate at the market as of the end of each reporting period. The fair value of interest rate swaps is determined by discounting the estimated future cash flows to the present value at the interest rate as of the end of each reporting period.

d) Liabilities arising from put options held by non-controlling shareholders

Put options attributable to non-controlling interests granted to non-controlling shareholders of subsidiaries are initially recognized at the present value of the future exercise price as financial liabilities, the same amount of which is treated mainly as a deduction from capital surplus. After initial recognition, they are measured at amortized cost by using the effective interest method with subsequent changes recognized as capital surplus. The fair value of put options is determined by discounting the future cash flows to the present value.

(2) Financial assets and liabilities measured at fair value in the consolidated statement of financial position

The inputs to valuation techniques used to measure fair value are categorized into either of the following three based on the observability in the market.

Level 1 inputs: Quoted prices in active markets for identical assets or liabilities.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: Inputs that are not based on observable market data.

a) The following is the breakdown of measurements of assets and liabilities measured at fair value.

As of March 31, 2019

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	¥309,606	¥ —	¥113,016	¥422,622
Derivatives	—	7,631	598	8,229
Total	¥309,606	¥7,631	¥113,614	¥430,852
Liabilities:				
Derivatives	—	7,549	2,311	9,860
Total	¥ —	¥7,549	¥ 2,311	¥ 9,860

As of March 31, 2020

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	¥213,123	¥ —	¥151,759	¥364,883
Derivatives	—	5,673	1,042	6,716
Total	¥213,123	¥5,673	¥152,802	¥371,600
Liabilities:				
Derivatives	—	12,778	—	12,778
Total	¥ —	¥12,778	¥ —	¥ 12,778

As of March 31, 2020

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	$1,958,311	$ —	$1,394,459	$3,352,779
Derivatives	—	52,127	9,574	61,710
Total	$1,958,311	$ 52,127	$1,404,043	$3,414,499
Liabilities:				
Derivatives	—	117,412	—	117,412
Total	$ —	$117,412	$ —	$ 117,412

Financial assets measured at fair value are separately presented as "Other financial assets" in both the current assets and non-current assets sections of the consolidated statement of financial position. Similarly, financial liabilities measured at fair value are separately presented as "Bonds, borrowings and other financial liabilities" in both the current liabilities and non-current liabilities sections.

MHI determines at the end of each reporting period whether there are transfers between levels of the fair value. There were no such transfers between levels as of the transition date, March 31, 2019 and March 31, 2020.

b) The changes in fair value measurement of assets and liabilities categorized within Level 3 are as follows:

For the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

	Millions of yen					
	Balance as of April 1, 2018	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other	Balance as of March 31, 2019
Securities and investments in capital	¥122,681	¥2,432	¥(5,020)	¥(5,883)	¥(1,193)	¥113,016

There were no material changes for derivative assets and liabilities.

For the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

	Millions of yen					
	Balance as of April 1, 2019	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other*1	Balance as of March 31, 2020
Securities and investments in capital	¥113,016	¥4,555	¥(856)	¥(1,344)	¥36,389	¥151,759

There were no material changes for derivative assets and liabilities.

	Thousands of U.S. dollars					
	Balance as of April 1, 2019	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other*1	Balance as of March 31, 2020
Securities and investments in capital	$1,038,463	$41,854	$(7,865)	$(12,349)	$334,365	$1,394,459

*1. "Other" includes the amount transferred from "Investments accounted for using the equity method" that was recognized in the fiscal year ended March 31, 2020 to reflect the Group's diminished influence.

The financial instruments categorized within Level 3 are assessed in accordance with the valuation policies and procedures approved by the responsible person of the Financial Management Division.

Of which, the fair values of non-marketable equity instruments are measured using valuation methods such as the market multiple method based on comparable public companies and the discounted cash flow method.

The significant unobservable inputs used for the market multiple method based on comparable public companies are the price-to-book ratios (PBRs) of comparable companies; the estimated fair value of these instruments would increase (decrease) if the PBR were higher (lower). The PBR distributed within a range from 0.8 to 2.5 times for the fiscal year ended March 31, 2019, and within a range from 0.6 to 2.4 times for the fiscal year ended March 31, 2020.

The significant unobservable inputs used for the discounted cash flow method are the discount rates applied; the estimated fair value of these instruments would increase (decrease) if the discount rate were higher (lower). The discount rates applied ranged between 6.4% and 11.4% for the fiscal year ended March 31, 2019 and between 5.9% and 9.9% for the fiscal year ended March 31, 2020.

For financial assets and liabilities categorized within Level 3, a significant increase or decrease in fair value is not expected even if the unobservable inputs are changed to other reasonably possible alternative assumptions.

(3) Financial assets and liabilities not measured at fair value

	Millions of yen				Thousands of U.S. dollars	
	As of March 31, 2019		As of March 31, 2020		As of March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	¥205,000	¥207,354	¥140,000	¥141,026	$1,286,409	$1,295,837
Long-term borrowings	¥289,989	¥291,460	¥308,553	¥307,215	$2,835,183	$2,822,888

For financial assets and liabilities measured at amortized cost that are not included in the above table, liabilities arising from put options held by non-controlling shareholders, liabilities under factoring agreements, and lease receivables, the carrying amount approximates the fair value. In terms of fair value measurement, bonds are categorized within Level 2, and all others are categorized within Level 3.

11 INVENTORIES

The breakdown of inventories is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Merchandise and finished products	¥177,331	¥185,731	$1,706,615
Work in progress	351,435	354,106	3,253,753
Raw materials and supplies	138,735	131,459	1,207,929
Capitalized contract costs	72,318	54,930	504,732
Total	¥739,820	¥726,228	$6,673,049

The amounts of inventories to be used or sold after 12 months from the year-end were ¥131,577 million and ¥91,023 million ($836,377 thousand) as of March 31, 2019 and March 31, 2020, respectively.

For the fiscal years ended March 31, 2019 and March 31, 2020, write-downs of inventories recognized as expenses were ¥8,223 million and ¥24,703 million ($226,987 thousand), respectively. These amounts include write-downs of inventories related to the SpaceJet project.

Write-downs of inventories related to the SpaceJet project, which were recognized as expenses, amounted to ¥172 million and ¥22,033 million ($202,453 thousand), for the fiscal years ended March 31, 2019 and March 31, 2020, respectively.

For details of the contract costs included in inventories, refer to Note 24. "Revenue."

12 INDEMNIFICATION ASSET FOR SOUTH AFRICAN PROJECTS

On February 1, 2014 ("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, both parties agreed 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 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. Regarding the payment of the difference between the tentative price and the definite price (price adjustment and other payments) according to the agreement, MHI and Hitachi have finally reached an out-of-court settlement on December 18, 2019 after MHI's request for arbitration to the Japan Commercial Arbitration Association ("JCAA") as of July 31, 2017. Details of the settlement are as follows.

(1) Hitachi's Obligations

- Hitachi will transfer to MHI its total shareholdings (35%) in MHPS, the company jointly established by MHI and Hitachi to conduct business mainly with respect to thermal power systems.
- Hitachi pays MHI the sum of ¥200.0 billion ($1,837 million) in March 2020.

(2) MHI's Obligations

- MHI purchases the ¥70.0 billion ($643 million) of receivables against MHPS Africa from Hitachi for the same amount in March 2020.

- MHI shall, following completion of the payment and the share transfer described in (1) above, swiftly withdraw its pending request for arbitration previously submitted to JCAA.
- Upon completion of the abovementioned payment and share transfer, MHI shall waive any other claims held by MHI Group toward Hitachi concerning succession of the South African projects.

(3) Other Matters

Because the transfer of shares described in (1) above requires approval from the authorities in multiple countries overseeing anti-monopoly laws, Hitachi and MHI shall jointly request to the JCAA that the aforementioned arbitration procedures be suspended swiftly after conclusion of the settlement agreement.

The Group recognized ¥407.8 billion ($3,747 million) after deducting ¥200.0 billion ($1,837 million), which was paid by Hitachi in March 2020, from the amount equivalent to (1) above in the item "indemnification asset for South African Projects" in the consolidated statement of financial position as of March 31, 2020. As of March 31, 2019, the Group recognized the amount measured based on the losses that it expected to be incurred from the project at that time.

The Group will collect the full amount of "indemnification asset for South African Projects" in and after April 2020 through the receipt of MHPS shares. The fluctuation of earnings of the South African Projects is recognized as profit or loss of the Group instead of a change in the balance of "indemnification asset for South African Projects" from this fiscal year onward.

13 PROPERTY, PLANT AND EQUIPMENT

Changes in book values, and acquisition cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment are as follows:

(1) Book values

	Millions of yen					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of April 1, 2018	¥318,632	¥207,548	¥ 44,925	¥151,717	¥ 47,342	¥770,163
Acquisition	2,864	18,482	2,905	88	111,106	135,446
Depreciation*1	(19,724)	(53,620)	(21,339)	—	—	(94,682)
Impairment*2	(2,132)	(9,222)	(1,329)	(54)	(6,541)	(19,279)
Transfer of accounts	20,780	48,550	26,587	34	(88,635)	7,316
Transfer to held-for-sale	(1,592)	(237)	(18)	(648)	—	(2,495)
Sales or disposals	(5,763)	(4,800)	(680)	(2,602)	(5,587)	(19,434)
Exchange differences	927	352	210	93	132	1,715
Other changes	1,288	400	(384)	148	(2,976)	(1,523)
As of March 31, 2019	¥315,282	¥207,453	¥ 50,877	¥148,778	¥ 54,839	¥777,228
Acquisition	1,843	19,647	2,443	1,137	123,043	148,115
Depreciation*1	(20,361)	(52,764)	(25,896)	—	—	(99,021)
Impairment*2	(861)	(2,758)	(1,222)	—	(728)	(5,571)
Transfer of accounts	22,270	72,663	28,913	1,098	(125,481)	(534)
Transfer to held-for-sale	(1,019)	(600)	(256)	(16)	—	(1,892)
Sales or disposals	(3,922)	(12,175)	(853)	(592)	(1,381)	(18,925)
Exchange differences	(1,736)	(3,051)	(659)	(360)	(346)	(6,153)
Other changes	(283)	4,095	(273)	61	(3,924)	(325)
As of March 31, 2020	¥311,211	¥232,511	¥ 53,072	¥150,104	¥ 46,020	¥792,920

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of March 31, 2019	$2,897,013	$1,906,211	$ 467,490	$1,367,067	$ 503,895	$7,141,670
Acquisition	16,934	180,529	22,447	10,447	1,130,598	1,360,975
Depreciation*1	(187,089)	(484,829)	(237,949)	—	—	(909,868)
Impairment*2	(7,911)	(25,342)	(11,228)	—	(6,689)	(51,189)
Transfer of accounts	204,631	667,674	265,671	10,089	(1,153,000)	(4,906)
Transfer to held-for-sale	(9,363)	(5,513)	(2,352)	(147)	—	(17,384)
Sales or disposals	(36,037)	(111,871)	(7,837)	(5,439)	(12,689)	(173,895)
Exchange differences	(15,951)	(28,034)	(6,055)	(3,307)	(3,179)	(56,537)
Other changes	(2,600)	37,627	(2,508)	560	(36,056)	(2,986)
As of March 31, 2020	$2,859,606	$2,136,460	$ 487,659	$1,379,252	$ 422,861	$7,285,858

(2) Acquisition cost

	Millions of yen					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of April 1, 2018	¥854,299	¥1,299,650	¥525,315	¥153,137	¥47,342	¥2,879,745
As of March 31, 2019	839,306	1,300,005	531,897	150,036	54,839	2,876,082
As of March 31, 2020	¥837,871	¥1,334,333	¥542,758	¥151,778	¥46,020	¥2,912,762

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of March 31, 2020	$7,698,897	$12,260,709	$4,987,209	$1,394,633	$422,861	$26,764,329

(3) Accumulated depreciation and accumulated impairment losses

	Millions of yen					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of April 1, 2018	¥535,667	¥1,092,103	¥480,391	¥1,420	¥—	¥2,109,582
As of March 31, 2019	524,024	1,092,553	481,020	1,258	—	2,098,854
As of March 31, 2020	¥526,660	¥1,101,821	¥489,686	¥1,674	¥—	¥2,119,842

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of March 31, 2020	$4,839,290	$10,124,239	$4,499,549	$15,381	$—	$19,478,471

*1. Depreciation is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
*2. For details of impairment, refer to Note 15. "Impairment of Non-Financial Assets."

14 GOODWILL AND INTANGIBLE ASSETS

Changes in book values, and acquisition cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are as follows:

(1) Book values

	Millions of yen						
	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
As of April 1, 2018	¥121,563	¥ —	¥33,188	¥24,816	¥21,967	¥23,031	¥ 224,565
Acquisition	105	76,154	—	—	6,877	3,303	86,439
Acquisition through business combinations	—	—	—	—	—	—	—
Amortization*1	—	—	(6,980)	(7,185)	(8,391)	(6,315)	(28,872)
Impairment*2	—	(44,241)	—	—	(1,096)	(231)	(45,569)
Transfer of accounts	—	—	—	—	521	750	1,271
Sale or disposal	—	—	—	—	(127)	(24)	(152)
Exchange differences	(579)	—	437	(115)	(12)	45	(225)
Other changes	28	(4,149)	—	—	1,346	(435)	(3,209)
As of March 31, 2019	¥121,117	¥ 27,763	¥26,644	¥17,515	¥21,083	¥20,124	¥ 234,248
Acquisition	84	88,309	—	—	10,379	3,036	101,809
Acquisition through business combinations	4,210	—	—	8,312	—	851	13,374
Amortization*1	—	—	(6,866)	(7,818)	(7,354)	(4,535)	(26,574)
Impairment*2	—	¥(116,081)	—	—	(1,242)	(54)	(117,378)
Transfer of accounts	—	—	—	—	2,073	(2,096)	(23)
Sale or disposal	—	—	—	—	(231)	(23)	(255)
Exchange differences	(911)	—	(424)	(75)	(183)	(504)	(2,100)
Other changes	—	8	—	—	529	(230)	307
As of March 31, 2020	¥124,500	¥ —	¥19,354	¥17,934	¥25,052	¥16,567	¥ 203,409

	Thousands of U.S. dollars						
	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
As of March 31, 2019	$1,112,900	$ 255,104	$244,822	$160,939	$193,724	$184,912	$ 2,152,421
Acquisition	771	811,439	—	—	95,368	27,896	935,486
Acquisition through business combinations	38,684	—	—	76,375	—	7,819	122,888
Amortization*1	—	—	(63,089)	(71,836)	(67,573)	(41,670)	(244,178)
Impairment*2	—	(1,066,626)	—	—	(11,412)	(496)	(1,078,544)
Transfer of accounts	—	—	—	—	19,048	(19,259)	(211)
Sale or disposal	—	—	—	—	(2,122)	(211)	(2,343)
Exchange differences	(8,370)	—	(3,895)	(689)	(1,681)	(4,631)	(19,296)
Other changes	—	73	—	—	4,860	(2,113)	2,820
As of March 31, 2020	$1,143,986	$ —	$177,836	$164,789	$230,193	$152,228	$ 1,869,052

(2) Acquisition cost

	Millions of yen						
	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
As of April 1, 2018	¥206,471	¥457,481	¥58,807	¥59,599	¥63,861	¥73,185	¥ 919,406
As of March 31, 2019	207,701	529,486	59,328	59,711	65,964	76,887	999,080
As of March 31, 2020	¥210,233	¥614,885	¥58,491	¥67,728	¥68,705	¥65,630	¥1,085,675

	Thousands of U.S. dollars						
	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
As of March 31, 2020	$1,931,755	$5,649,958	$537,452	$622,328	$631,305	$603,050	$9,975,879

(3) Accumulated amortization and accumulated impairment losses

	Millions of yen						
	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
As of April 1, 2018	¥84,907	¥457,481	¥25,619	¥34,782	¥41,894	¥50,154	¥694,839
As of March 31, 2019	86,584	501,722	32,683	42,196	44,880	56,763	764,831
As of March 31, 2020	¥85,732	¥614,885	¥39,137	¥49,794	¥43,652	¥49,063	¥882,265

	Thousands of U.S. dollars						
	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
As of March 31, 2020	$787,760	$5,649,958	$359,615	$457,539	$401,102	$450,822	$8,106,817

*1. Amortization of amortizable intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
*2. For details of impairment, refer to Note 15. "Impairment of Non-Financial Assets."
*3. Assets still in business development phases that are determined not to be ready for their intended use are classified into intangible assets with indefinite useful lives based on the analysis that the period over which such assets are expected to generate future economic benefits is not foreseeable.
Intangible assets with indefinite useful lives are measured at cost less any accumulated impairment losses.

15 IMPAIRMENT OF NON-FINANCIAL ASSETS

(1) SpaceJet project

a) The amount of impairment losses on non-financial assets*1

As a result of the impairment test performed in accordance with IFRS requirements, the recoverable amount of property, plant and equipment, intangible assets, and right-of use assets relating to the SpaceJet project belonging to the Aircraft, Defense & Space segment calculated based on the discounted future cash flows expected to be derived from the assets, fell below the carrying amount because it takes a long period of time to recoup the investment funds.

Therefore, impairment losses of ¥58,386 million*2 were recognized for the fiscal years ended March 31, 2019. In February 2020, the Company announced that the first commercial delivery of SpaceJet would be postponed to the fiscal year ending March 31, 2022 or later. This caused the operating assets for the business, including those recognized as assets by the end of the fiscal year ended March 31, 2019, to be impaired, and an impairment loss of ¥176,073 million ($1,617,871 thousand) was recognized. The impairment losses are included in "Other expenses" in the consolidated statement of profit or loss.

Some assets of the aero engines business were, in light of changes in business circumstances, included in the SpaceJet business, and impairment tests were performed, from the fiscal year ended March 31, 2020.

*1: The impairment loss amount indicated above reflects the application of IFRS 16 Leases.
*2: As a result of retrospective application of IFRS 16 Leases, the impairment loss recognized decreased by ¥9,657 million.

b) Method for determining the recoverable amount

The recoverable amount is measured based on the SpaceJet business's value in use calculated in accordance with IFRS requirements. In the fiscal year ending March 31, 2019, the value in use was calculated by discounting the future cash flows projected based on the SpaceJet business plan, approved by management, to their present value. The period of projected future cash flows extended until the fiscal year ending March 31, 2037 based on the projected sales period, and 12.9% of pre-tax discount rate was applied. Such a long projected sales period is considered to be reasonable given the product life cycle in the aircraft industry. The future cash flows for the business plan period are estimated by considering factors such as the demand forecast and the growth rate in the regional jet market.

In addition, during the fiscal year ended March 31, 2020, the Company announced in February 2020 that the scheduled delivery of the first SpaceJet would be postponed to the fiscal year ending March 31, 2022 or later; and impaired the entire operating assets of the business.

The amount of impairment losses from non-financial assets relating to the SpaceJet project

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Property, plant and equipment	¥13,679	¥ 4,032	$ 37,048
Intangible assets	44,604	117,378	1,078,544
Right-of-use assets	102	3,128	28,742
Other non-current assets	—	51,534	473,527
Total	¥58,386	¥176,073	$1,617,871

(2) Other impairments

In addition to the item (1) above, the Group impaired some of its operating assets by reducing the carrying amount to the recoverable amount because these assets can no longer achieve the return initially expected.

The impairment losses are included in "Other expenses" in the consolidated statement of profit or loss.

The amount of impairment losses from non-financial assets relating to other businesses

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Property, plant and equipment	¥5,598	¥1,538	$14,132
Intangible assets	964	—	—
Right-of-use assets	1,213	1,760	16,172
Total	¥7,776	¥3,299	$30,313

(3) Impairment test for goodwill

As described in the significant accounting policies, the Group performs impairment tests annually, or whenever there is an indication of impairment. The total amounts of goodwill were ¥121,117 million and ¥124,500 million ($1,143,986 thousand) as of March 31, 2019 and March 31, 2020, respectively. The breakdown of the carrying amount of goodwill by cash generating unit is as follows.

The breakdown of carrying amount of major goodwill by cash generating unit

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Material handling equipment	¥50,383	¥55,370	$508,775
Steam power	24,644	25,473	234,062
GTCC	20,655	20,113	184,811
Iron & steel machinery	¥17,858	¥16,816	$154,516

The recoverable amount is measured at the value in use. The value in use reflects past experience and external sources of information, and is calculated by discounting the future cash flows projected based on the business plan, approved by management, and the growth rate to the present value.

For impairment tests of goodwill, the weighted average cost of capital set for each cash-generating unit was applied as a discount rate. The discount rates used for the impartment tests were 3.5% to 8.0%, and 3.6% to 8.0% for the fiscal years ended March 31, 2019 and March 31, 2020, respectively.

A growth rate of 0% was applied to both the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020. Impairment loss was not recognized in either the fiscal year ended March 31, 2019 or the fiscal year ended March 31, 2020.

Although the value in use was sufficiently higher than the carrying amount for any of cash generating units in the fiscal year ended March 31, 2019, in the fiscal year ended March 31, 2020, the difference between the recoverable amount and the carrying amount declined for material handling equipment, steam power plants, and iron & steel machinery.

Assuming that the growth rate that is applied, which is one of the main assumptions, is unchanged, recognition of impairment loss may arise if the discount rate has changed in the way shown below.

- Material handling equipment: For the fiscal year ended March 31, 2020, the recoverable amount exceeded the carrying amount by around 25%, but an increase of 1.5% in the discount rate would result in impairment.
- Steam power plants: For the fiscal year ended March 31, 2020, the recoverable amount exceeded the carrying amount by around 24%, but an increase of 3.0% in the discount rate would result in impairment.
- Iron & steel machinery: For the fiscal year ended March 31, 2020, the recoverable amount exceeded the carrying amount by around 20%, but an increase of 1.4% in the discount rate would result in impairment.

16 INCOME TAXES

(1) Deferred tax assets and liabilities

a) The breakdown of major factors for deferred tax assets and liabilities

For the fiscal year ended March 31, 2019

	Millions of yen			
	As of April 1, 2018	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2019
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	¥ —	¥ —	¥ —	¥ —
Retirement benefits liabilities	64,080	3,396	3,622	71,099
Provisions	42,946	8,703	—	51,649
Excess of book depreciation over tax depreciation	22,898	(502)	—	22,396
Loss on valuation of inventories	13,193	1,528	—	14,721
Accrued expenses, etc.	8,606	7,910	—	16,516
Valuation difference on property, plant and equipment	5,796	4,136	—	9,932
Valuation difference on right-of-use assets	12,564	(100)	—	12,464
Contract liabilities	22,113	(3,692)	—	18,421
Unused tax losses	24,057	(1,598)	—	22,458
Loss allowance for expected credit losses	1,792	5,444	—	7,237
Valuation difference on securities	4,827	—	(2,057)	2,769
Other	98,825	(26,119)	82	72,788
Total deferred tax assets	¥321,703	¥ (893)	¥ 1,647	¥322,457
Deferred tax liabilities				
Gain (loss) on contribution of securities to retirement benefit trust	47,429	(1,920)	—	45,509
Reserve for advanced depreciation of non-current assets	25,980	8,243	—	34,223
Valuation difference on securities	46,469	—	(876)	45,593
Investments in subsidiaries, associates and joint ventures	8,155	1,184	—	9,339
Excess of book depreciation over tax depreciation	5,352	2,542	—	7,894
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	20,520	(9,946)	—	10,574
Intangible assets recognized through business combinations	11,798	(3,480)	—	8,318
Other	29,033	2,783	(310)	31,506
Total deferred tax liabilities	¥194,739	¥ (593)	¥(1,186)	¥192,958

For the fiscal year ended March 31, 2020

	Millions of yen			
	As of April 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2020
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	¥ —	¥180,756	¥ —	¥180,756
Retirement benefits liabilities	71,099	2,929	10,979	85,008
Provisions	51,649	(1,291)	—	50,358
Excess of book depreciation over tax depreciation	22,396	(918)	—	21,477
Loss on valuation of inventories	14,721	5,609	—	20,331
Accrued expenses, etc.	16,516	2,681	—	19,198
Valuation difference on property, plant and equipment	9,932	8,421	—	18,354
Valuation difference on right-of-use assets	12,464	3,239	—	15,704
Contract liabilities	18,421	(4,062)	—	14,358
Unused tax losses	22,458	(12,224)	—	10,234
Loss allowance for expected credit losses	7,237	(2,146)	—	5,091
Valuation difference on securities	2,769	—	(547)	2,222
Other	72,788	32,208	(1,915)	103,081
Total deferred tax assets	¥322,457	¥215,202	¥ 8,517	¥546,177
Deferred tax liabilities				
Gain (loss) on contribution of securities to retirement benefit trust	45,509	(1,972)	—	43,537
Reserve for advanced depreciation of non-current assets	34,223	(6,970)	—	27,252
Valuation difference on securities	45,593	—	(25,482)	20,110
Investments in subsidiaries, associates and joint ventures	9,339	14,178	(6,233)	17,284
Excess of book depreciation over tax depreciation	7,894	3,679	—	11,574
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	10,574	—	—	10,574
Intangible assets recognized through business combinations	8,318	(2,324)	—	5,994
Other	31,506	1,889	1,043	34,438
Total deferred tax liabilities	¥192,958	¥ 8,480	¥(30,673)	¥170,765

For the fiscal year ended March 31, 2020

	Thousands of U.S. dollars			
	As of April 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2020
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	$ —	$1,660,902	$ —	$1,660,902
Retirement benefits liabilities	653,303	26,913	100,882	781,108
Provisions	474,584	(11,862)	—	462,721
Excess of book depreciation over tax depreciation	205,788	(8,435)	—	197,344
Loss on valuation of inventories	135,266	51,539	—	186,814
Accrued expenses, etc.	151,759	24,634	—	176,403
Valuation difference on property, plant and equipment	91,261	77,377	—	168,648
Valuation difference on right-of-use assets	114,527	29,762	—	144,298
Contract liabilities	169,263	(37,324)	—	131,930
Unused tax losses	206,358	(112,321)	—	94,036
Loss allowance for expected credit losses	66,498	(19,718)	—	46,779
Valuation difference on securities	25,443	—	(5,026)	20,417
Other	668,822	295,947	(17,596)	947,174
Total deferred tax assets	$2,962,942	$1,977,414	$ 78,259	$5,018,625
Deferred tax liabilities				
Gain (loss) on contribution of securities to retirement benefit trust	418,165	(18,120)	—	400,045
Reserve for advanced depreciation of non-current assets	314,462	(64,044)	—	250,408
Valuation difference on securities	418,937	—	(234,144)	184,783
Investments in subsidiaries, associates and joint ventures	85,812	130,276	(57,272)	158,816
Excess of book depreciation over tax depreciation	72,535	33,805	—	106,349
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	97,160	—	—	97,160
Intangible assets recognized through business combinations	76,431	(21,354)	—	55,076
Other	289,497	17,357	9,583	316,438
Total deferred tax liabilities	$1,773,022	$ 77,919	$(281,843)	$1,569,098

b) Deferred tax assets and liabilities recognized in the consolidated statement of financial position

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Deferred tax assets	¥133,511	¥382,729	$3,516,760
Deferred tax liabilities	¥ 4,012	¥ 7,318	$ 67,242

c) Unused tax losses and deductible temporary differences for unrecognized deferred tax assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Unused tax losses	¥348,455	¥ 459,070	$4,218,230
Deductible temporary differences	508,591	602,954	5,540,328
Total	¥857,046	¥1,062,024	$9,758,559

In recognizing the deferred tax assets, the Group assesses whether it is possible that part or all of the deductible temporary differences and unused tax losses, etc. are to be utilized against future taxable profits. For the assessment of the recoverability of deferred tax assets, the Group assesses that it is probable that the tax benefit will be realized based on the level of past taxable profits and the projection of future taxable profits for the period when the deferred tax assets can be recognized.

d) The amount of unused tax losses for unrecognized deferred tax assets and the expiration year

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Year 1	¥ 15,101	¥ 12,051	$ 110,732
Year 2	11,711	20,604	189,322
Year 3	11,394	16,672	153,193
Year 4	10,431	20,058	184,305
Year 5 or later	299,815	389,684	3,580,667
Total	¥348,455	¥459,070	$4,218,230

Local taxes in Japan (corporate inhabitant tax and corporate enterprise tax) are included in the amount of unused tax losses, and the tax rates are less than 10%.

e) The aggregated amount of temporary differences associated with investments for unrecognized deferred tax liabilities

The aggregated amount of temporary differences associated with investments in subsidiaries and associates for unrecognized deferred tax liabilities as of March 31, 2019 and March 31, 2020, were ¥284,535 million and ¥271,284 million ($2,492,731 thousand), respectively. The deferred tax liabilities associated with said temporary differences are not recognized when the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse within the foreseeable future.

(2) Income taxes recognized through profit or loss

The breakdown of income taxes recognized through profit or loss for each consolidated fiscal year is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Current tax expense			
Current period	¥51,709	¥ 63,636	$ 584,728
Prior period restatement	5,662	3,141	28,861
Total of current tax expense	57,371	66,777	613,590
Deferred tax expense			
Arising and reversal of temporary differences	5,229	(207,796)	(1,909,363)
Changes in tax rates or the imposition of new taxes	1,271	5	45
Other	(6,201)	1,068	9,813
Total of deferred tax expense	300	(206,722)	(1,899,494)
Total tax expense	¥57,671	¥(139,945)	$(1,285,904)

(3) Reconciliation of income tax rate

The breakdown of major reconciling items between the effective statutory tax rate and the average actual tax rate are as follows:

	2019	2020
Effective statutory tax rate in Japan	30.4%	30.4%
Non-deductible expenses	1.2%	(13.5)%
Non-taxable revenues	(1.7)%	6.4%
Share of profit (loss) of investments accounted for using the equity method	(1.6)%	11.7%
Changes in unrecognized deferred tax assets	6.2%	(118.1)%
Tax credit for experiment and research expenses	(2.5)%	24.5%
Investments in subsidiaries, associates and joint ventures	0.5%	497.4%
Revision to year-end deferred tax assets due to a change in tax rate	0.1%	(0.6)%
Other	(3.0)%	(9.7)%
Average actual tax rate	29.6%	428.5%

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(1) Individually immaterial associates

The total carrying amount of investments in individually immaterial associates accounted for using the equity method were ¥179,321 million, and ¥141,190 million ($1,297,344 thousand) as of March 31, 2019 and March 31, 2020, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2019 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit or loss	¥ 7,893	¥11,888	$109,234
Other comprehensive income	(4,084)	(2,843)	(26,123)
Total comprehensive income	¥ 3,809	¥ 9,045	$ 83,111

Although more than 50% of the voting rights of Mitsubishi Mahindra Agricultural Machinery Co., Ltd. are held by the Group, it is treated as an equity-method associate in consideration of the Group's shareholding ratio, including preferred shares and provisions of the shareholders agreement. Furthermore, although less than 20% of voting rights of Framatome S.A.S. are held by the Group, it is treated as an equity-method associate based on the judgement that the Group has significant influence due primarily to the composition of officers of Framatome S.A.S.

The Group owns more than 20% of the voting rights of Shinryo Corporation, and it was treated as an equity-method associate in the fiscal year ended March 31, 2019. However, based on the judgement that the Group no longer has significant influence over the company as a result of revisions to the shareholders' agreement and changes to the board composition in this fiscal year, the Group did not apply the equity method when accounting for the investment at the end of the fiscal year ended March 31, 2020.

(2) Individually immaterial joint ventures

The carrying amount of investments in individually immaterial joint ventures accounted for using the equity method were ¥30,608 million, and ¥36,379 million ($334,273 thousand) as of March 31, 2019 and March 31, 2020, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2019 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit or loss	¥ 3,043	¥1,009	$ 9,271
Other comprehensive income	(4,922)	3,760	34,549
Total comprehensive income	¥(1,878)	¥4,770	$43,829

18 LEASES

Information about leases to which the Group is a lessee are as follows:

(1) Right-of-use assets

Carrying amount, depreciation expense and increased amount

	Millions of yen					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Others	Total
For the fiscal year ended March 31, 2019						
Carrying amount at the beginning of the period	¥32,040	¥19,940	¥1,150	¥2,043	¥19	¥55,195
Carrying amount at the end of the period	62,801	23,647	1,719	2,154	12	90,335
Depreciation	7,793	3,516	409	92	9	11,821
Increased amount of right-of-use assets	38,700	5,795	1,039	139	25	45,700
For the fiscal year ended March 31, 2020						
Carrying amount at the end of the period	61,573	32,691	1,312	555	67	96,201
Depreciation	12,045	6,369	499	48	9	18,973
Increased amount of right-of-use assets	10,819	17,562	639	—	64	29,086

	Thousand of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Others	Total
For the fiscal year ended March 31, 2019						
Carrying amount at the beginning of the period	$294,404	$183,221	$10,566	$18,772	$174	$507,167
Carrying amount at the end of the period	577,055	217,283	15,795	19,792	110	830,056
Depreciation	71,607	32,307	3,758	845	82	108,618
Increased amount of right-of-use assets	355,600	53,248	9,546	1,277	229	419,920
For the fiscal year ended March 31, 2020						
Carrying amount at the end of the period	565,772	300,385	12,055	5,099	615	883,956
Depreciation	110,677	58,522	4,585	441	82	174,336
Increased amount of right-of-use assets	99,411	161,370	5,871	—	588	267,260

(2) Lease liabilities

For details of the repayment schedule for lease liabilities, refer to Note 35 "Risk Management (2) Liquidity risk management".

(3) Amount recognized in profit and loss

	Millions of yen	
	2019	2020
Interest expenses on lease liabilities	¥ 1,411	**¥ 2,409**
Expenses relating to short-term leases	1,444	**6,703**
Expenses relating to leases of low-value assets	15,278	**15,391**
Lease income from subleasing right-of-use assets	¥ 592	**¥ 4,721**

Expense related to variable lease payments not included in the measurement of lease liabilities are immaterial.

	Thousand of U.S. dollars	
	2019	2020
Interest expenses on lease liabilities	$ 12,965	**$ 22,135**
Expenses relating to short-term leases	13,268	**61,591**
Expenses relating to leases of low-value assets	140,384	**141,422**
Lease income from subleasing right-of-use assets	$ 5,439	**$ 43,379**

(4) Cash outflow related to leases

	Millions of yen	
	2019	2020
Cash outflow related to leases	¥35,267	**¥47,186**

	Thousand of U.S. dollars	
	2019	2020
Cash outflow related to leases	$324,055	**$433,575**

(5) Nature of leasing activities

Primary leasing activities of the Group include leasing of buildings as offices or plants and leasing of machinery as production facilities for business purposes. The term of lease contracts for buildings ranges from 10 to 20 years, while the term of lease contracts for machinery ranges from 5 to 10 years. Some lease contracts include a lease term extension option exercisable upon the expiration of the contact.

In measuring lease liabilities, the Group assesses whether it is reasonably certain to exercise the extension option on the commencement date of the lease and reflect the results of the assessment in the measurement. The Group also assesses whether it is reasonably certain to exercise the option upon the occurrence of either a significant event or a significant change in circumstances that is within its control.

(6) Sale and leaseback

The Group has entered into sale and leaseback transactions on part of office buildings (buildings), production facilities for business purposes (machinery) and other assets with the aim of increasing the liquidity of these assets, avoiding the risk of uncertainties in the future, and enhancing its access to cash funds.

The lease term of all such contracts is more or less 10 years, but some of them are attached with an extension option and/or a purchase option exercisable upon the expiration of the term of the contact. There are no significant supplementary provisions, such as restrictions imposed under the lease contracts.

Sale and leaseback transactions increased cash flows by ¥8,041 million and by ¥3,014 million ($27,694 thousand) for the fiscal years ended on March 31, 2019 and March 31 2020, respectively. The profit or loss arising from these sale and leaseback transactions is immaterial.

Lease information for which the Group is the lessor is not material and is therefore omitted.

19 PROVISIONS

Changes in provisions are as follows:

For the fiscal year ended March 31, 2020

	Millions of yen				
	Loss on construction contracts	Product and construction warranties	Levies	Other	Total
Balance as of April 1, 2019	¥108,714	¥103,359	¥ 12,027	¥38,956	¥263,058
Increase	34,534	48,514	11,594	14,728	109,372
Decrease (utilization)	(40,864)	(35,625)	(11,942)	(8,099)	(96,531)
Decrease (reversal)	(3,205)	(10,544)	(85)	(4,769)	(18,604)
Other (Exchange rate differences, etc.)	444	(992)	—	922	374
Balance as of March 31, 2020	¥ 99,624	¥104,711	¥ 11,594	¥41,739	¥257,669
Current liabilities	99,624	80,494	11,594	7,782	199,496
Non-current liabilities	—	24,216	—	33,957	58,173
Total	¥ 99,624	¥104,711	¥ 11,594	¥41,739	¥257,669

For the fiscal year ended March 31, 2020

	Thousands of U.S. dollars				
	Loss on construction contracts	Product and construction warranties	Levies	Other	Total
Balance as of April 1, 2019	$ 998,934	$ 949,728	$110,511	$357,952	$2,417,146
Increase	317,320	445,777	106,533	135,330	1,004,980
Decrease (utilization)	(375,484)	(327,345)	(109,730)	(74,418)	(886,988)
Decrease (reversal)	(29,449)	(96,885)	(781)	(43,820)	(170,945)
Other (Exchange rate differences, etc.)	4,079	(9,115)	—	8,471	3,436
Balance as of March 31, 2020	$ 915,409	$ 962,151	$106,533	$383,524	$2,367,628
Current liabilities	915,409	739,630	106,533	71,506	1,833,097
Non-current liabilities	—	222,512	—	312,018	534,530
Total	$ 915,409	$ 962,151	$106,533	$383,524	$2,367,628

(1) Loss on construction contracts

To provide for losses from construction contracts for which the Group is fulfilling its contract obligations, the Group identifies construction contracts for which it is certain at the end of the reporting period that the Group will incur a loss and the amount of the loss is reasonably estimable, and then recognizes provisions for losses that are expected for the next fiscal year and onward. The timing of cash outflows depends on the progress of the project in the future.

The Group recognizes a provision for losses that are expected to be incurred from South African projects while recognizing the gross amount of the claims to Hitachi as "Indemnification asset for South African projects" (Note 12. "Indemnification Asset for South African Projects").

(2) Product and construction warranties

To provide for expenditures incurred after the delivery of construction, for example product warranty expenses, the Group estimates and recognizes warranty expenses expected to be incurred in the future based primarily on past experience. The provision is utilized as customers make warranty claim.

(3) Levies

The Group recognizes provisions for the expected amount of levies imposed by governments for the Group to engage in business. The levies are expected to be paid within one year from the end of the reporting period.

(4) Other

Other provisions include asset retirement obligations.

As the Group is involved in nuclear businesses, it owns facilities for processing the radioactive waste of nuclear fuel and for carrying out research and development on the safety of nuclear fission reactor materials. However, the asset retirement obligations associated with the disposal and demolition of such facilities are not recognized because costs are not reasonably estimable at present since technology applied to demolition processes as well as laws and ordinances, which regulate such process methods have not been developed yet.

20 EMPLOYEE BENEFITS

(1) Retirement benefits

“To provide retirement benefits to employees, the Group has established and maintained defined benefit plans, lump-sum retirement benefit plans, and defined contribution plans. Each company funds the defined benefit plans by periodically making contributions to entrusted financial institutions. The financial institutions provide benefits when qualified employees retire.

Each company sets up Retirement Benefits Management Committee through which responsible departments share information on retirement lump-sum payment and retirement benefits plans, accounting for retirement benefits, and plan asset management as well as comprehensively review, exchange opinions and engage in discussions regarding its retirement benefit plans.

As the defined benefit obligations are measured based on actuarial assumptions, they are exposed to the risk of fluctuating assumptions, such as discount rates. Plan assets are composed primarily of marketable stocks, bonds, and other interest-bearing securities, which are exposed to the risks of fluctuating stock prices and interest rates.

Lump-sum retirement benefit plans provide a lump-sum payment at the time of retirement, and the benefit is calculated based on factors such as the salary level at retirement and the number of years of service. MHI and certain subsidiaries have an obligation to pay benefits directly to retirees.

The defined contribution plans require employees who elect to participate in the plan and MHI and certain subsidiaries as employer to make contributions over a participation period, and plan participants themselves are responsible for the management of plan assets. Benefits are paid by the trustee.

a) Defined benefit plans

i. The breakdown of net defined benefit liability recognized in the consolidated statement of financial position

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Present value of defined benefit obligations	¥555,177	¥551,642	$5,068,841
Fair value of plan assets	465,156	424,539	3,900,937
Net defined benefit liability	¥ 90,020	¥127,103	$1,167,904
Amounts presented in the consolidated statement of financial position			
Retirement benefit liabilities	154,105	145,890	1,340,531
Retirement benefit assets	64,084	18,787	172,627
Net defined benefit liability	¥ 90,020	¥127,103	$1,167,904

ii. Changes in present value of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance as of April 1	¥546,257	¥555,177	$5,101,323
Current service cost	39,686	40,620	373,242
Interest expense	3,207	2,651	24,359
Remeasurement			
Actuarial gains and losses arising from changes in demographic assumptions	(187)	(32)	(294)
Actuarial gains and losses arising from changes in financial assumptions	5,007	(7,434)	(68,308)
Actuarial gains and losses arising from experience adjustment	2,679	1,950	17,917
Past service cost	237	187	1,718
Payment of benefits	(39,945)	(38,279)	(351,732)
Changes from business combinations	—	843	7,746
Other	(1,765)	(4,040)	(37,122)
Balance as of March 31	¥555,177	¥551,642	$5,068,841

iii. Changes in fair value of plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance as of April 1	¥477,441	¥465,156	$4,274,152
Interest income	2,523	2,140	19,663
Remeasurement			
Return on plan assets (excluding amounts included in net interest on the net defined benefit asset)	(3,119)	(39,697)	(364,761)
Contributions to the plan (by the employer)	14,638	23,921	219,801
Payment of benefits	(25,541)	(26,216)	(240,889)
Other	(785)	(764)	(7,020)
Balance as of March 31	¥465,156	¥424,539	$3,900,937

iv. The breakdown of fair value of plan assets

As of March 31, 2019

	Millions of yen		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Shares issued by Japanese companies	¥211,101	¥ —	¥211,101
Shares issued by foreign companies	28,991	3,460	32,451
Bonds issued by Japanese companies	45,713	—	45,713
Bonds issued by foreign companies	89,717	7,993	97,710
Cash and deposits	17,602	—	17,602
General accounts for life insurance	—	16,937	16,937
Other	—	43,639	43,639
Total	¥393,124	¥72,031	¥465,156

As of March 31, 2020

	Millions of yen		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Shares issued by Japanese companies	¥170,052	¥ —	¥170,052
Shares issued by foreign companies	27,331	2,768	30,100
Bonds issued by Japanese companies	37,311	—	37,311
Bonds issued by foreign companies	54,448	—	54,448
Cash and deposits	41,173	—	41,173
General accounts for life insurance	—	17,087	17,087
Other	—	74,366	74,366
Total	¥330,316	¥94,222	¥424,539

As of March 31, 2020

	Thousands of U.S. dollars		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Shares issued by Japanese companies	$1,562,547	$ —	$1,562,547
Shares issued by foreign companies	251,134	25,434	276,578
Bonds issued by Japanese companies	342,837	—	342,837
Bonds issued by foreign companies	500,303	—	500,303
Cash and deposits	378,323	—	378,323
General accounts for life insurance	—	157,006	157,006
Other	—	683,322	683,322
Total	$3,035,155	$865,772	$3,900,937

The total amounts of plan assets include retirement benefit trust set up for the defined benefit plans and the lump-sum retirement benefit plan.

The amounts were ¥195,292 million, and ¥152,414 million ($1,400,477 thousand) as of March 31, 2019 and March 31, 2020, respectively.

The fund is managed to hedge its exposure to interest by using interest rate swap.

Further, 30% of exposures to interest rate risk against defined benefit obligations are covered by using debt instruments combined with interest rate swaps. In the fiscal years ended March 31, 2019 and 2020, The pension fund was managed based on said policies.

All exposures to foreign exchange risks are hedged using forward exchange contracts.

v. The significant actuarial assumptions used in determining present value of defined benefit obligations

	As of March 31, 2019	As of March 31, 2020
Discount rate	Mainly 0.4%	Mainly 0.5%

As to the significant actuarial assumptions, the result of the sensitivity analysis (the impact on the defined benefit obligations) based on reasonably possible changes is as follow:

	Millions of yen				Thousands of U.S. dollars	
	As of March 31, 2019		As of March 31, 2020		As of March 31, 2020	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact in the event of 0.5 percentage point change in the discount rate	¥(35,188)	¥37,845	¥(30,330)	¥32,297	$(278,691)	$296,765

The trial calculation is approximated by changing only the discount rate, without varying other actuarial assumptions.

Since this calculation does not take into account potential variation to other actuarial assumptions, the actual calculation may be affected by fluctuations in other variables.

vi. Plan asset management policy
The Group ensures it is able to provide benefits in the form of pensions and lump-sum payments. To this end, a target asset allocation is established to ensure that necessary returns are received stably over the long term and the Group makes diversified investments in a broad range of assets, including bonds and stocks, within permissible risk parameters. The Group also periodically assess the investment status and financial condition of the plan assets and the asset management environment and revise the asset management if necessary. For contributions to the pension funds, the contribution amount is reviewed periodically by, for example, recalculating the amount once every three years to balance the future financial position of the pension plan in compliance with relevant laws and regulations.

The Group makes contributions based on an appropriate actuarial calculation to fund the benefits. The amount of contributions expected to be paid to the defined benefit plans for the fiscal year ended March 31, 2021 is ¥23,353 million ($214,582 thousand).

vii. The maturity analysis of defined benefit obligations is as follows:

	As of March 31, 2019	As of March 31, 2020
Weighted average duration (year)	13.62	11.63

b) Defined contribution plans
Expenses for the defined contribution plans for the fiscal years ended March 31, 2019 and March 31, 2020 were ¥8,994 million and ¥9,427 million ($86,621 thousand), respectively.

(2) Employee benefits expenses
The aggregated amounts of employee benefit expenses recognized for the fiscal years ended March 31, 2019 and March 31, 2020 were ¥791,598 million and ¥809,971 million ($7,442,534 thousand), respectively.

21 OTHER ASSETS AND LIABILITIES

(1) The breakdown of other assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Advances to suppliers and prepaid expenses	¥137,915	¥101,796	$ 935,367
Retirement benefit assets	64,084	18,787	172,627
Consumption tax receivables (Incl. VAT receivables)	37,335	44,568	409,519
Income tax receivables	9,941	4,392	40,356
Others	160,434	139,543	1,282,210
Total	¥409,711	¥309,089	2,840,108
Current assets	222,390	206,261	1,895,258
Non-current assets	187,320	102,827	944,840
Total	¥409,711	¥309,089	$2,840,108

(2) The breakdown of other liabilities

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Accrued expenses	¥106,042	¥ 98,519	$ 905,255
Liabilities in respect of government grants	64,310	64,177	589,699
Accrued consumption taxes (Incl. VAT payables)	9,353	12,877	118,322
Others	49,530	49,800	457,594
Total	¥229,237	¥225,375	$2,070,890
Current liabilities	157,273	151,657	1,393,522
Non-current liabilities	71,964	73,718	677,368
Total	¥229,237	¥225,375	$2,070,890

22 EQUITY AND OTHER EQUITY ITEMS

(1) The number of shares authorized, shares issued and treasury shares

	Shares	
	2019	2020
The number of shares authorized*:		
Common shares	600,000,000	600,000,000
The number of shares issued*:		
at the beginning of the year	337,364,781	337,364,781
Changes during the year	—	—
at the end of the year	337,364,781	337,364,781

* Both the shares authorized and the shares issued are no-par value common stock. All of the shares issued are paid in full.
The number of treasury shares included in the shares issued were 1,654,039 shares, and 1,523,291 shares as of March 31, 2019 and March 31, 2020, respectively. The number of MHI's common shares held by the Stock Grant ESOP Trust, and the Officer Remuneration BIP Trust I & II were 847,808 shares, and 869,823 shares as of March 31, 2019 and March 31, 2020, respectively. The number of MHI's common shares held by its associates were 4,328 shares, and 4,328 shares as of March 31, 2019 and March 31, 2020, respectively.

(2) Details and purpose of surplus accounts included in equity

a) Capital surplus

The capital surplus account is composed of amounts arising from equity transactions that are not included in share capital. A major component of the capital surplus account is the legal capital reserve.

The Companies Act of Japan ("the Companies Act") requires that at least half of paid-in capital be appropriated as share capital and the rest be appropriated as legal capital reserve within capital surplus. In addition, under the Companies Act, legal capital reserve can be transferred to share capital upon approval at the General Meeting of Shareholders.

b) Retained earnings

The retained earnings account is composed of legal retained earnings and other retained earnings.

The Companies Act requires that 10 percent of retained earnings appropriated for dividends be reserved either as legal capital surplus or legal retained earnings until the total amount of legal capital surplus or legal retained earnings reaches 25 percent of the amount of share capital.

Upon fulfilling certain requirements, such as a resolution at the General Meeting of Shareholders, the amount of legal retained earnings may be reduced, and part or all of the reduction may be transferred to share capital.

While the amount available for distribution allowed by the Companies Act is calculated based on the amount of retained earnings recognized in the Company's accounting book prepared in accordance with generally accepted accounting principles in Japan, legal retained earnings are excluded from the calculation of the amount available for distribution.

23 DIVIDENDS

The total dividends for each fiscal year are as follows.

(1) For the fiscal year ended March 31, 2019 (From April 1, 2018 to March 31, 2019)

a) Dividends paid

Resolution	Type of shares	Total cash dividends paid (Millions of yen)	Total cash dividends paid (Thousands of U.S. dollars)	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 21, 2018 Annual General Meeting of Shareholders	Common Stock	¥20,190	$181,908	¥60	$0.5405	March 31, 2018	June 22, 2018	Retained earnings
October 31, 2018 Board of Directors	Common Stock	¥21,873	$197,071	¥65	$0.5856	September 30, 2018	December 5, 2018	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 21, 2018, include ¥30 million ($270 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and Officer Remuneration BIP (Board Incentive Plan Trust) I&II.
*2. Total dividends paid in accordance with the resolution passed by the Board of Directors meeting held on October 31, 2018, include ¥59 million ($531 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

b) Dividends which the record date is within the fiscal year ended March 31, 2019, but take effect in the fiscal year ending March 31, 2020

Resolution	Type of shares	Total cash dividends paid (Millions of yen)	Total cash dividends paid (Thousands of U.S. dollars)	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 27, 2019 Annual General Meeting of Shareholders	Common Stock	¥21,876	$197,098	¥65	$0.5856	March 31, 2019	June 28, 2019	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 27, 2019, include ¥55 million ($495 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

(2) For the fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

a) Dividends paid

Resolution	Type of shares	Total cash dividends paid (Millions of yen)	Total cash dividends paid (Thousands of U.S. dollars)	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 27, 2019 Annual General Meeting of Shareholders	Common Stock	¥21,876	$201,010	¥65	$0.5972	March 31, 2019	June 28, 2019	Retained earnings
October 31, 2019 Board of Directors	Common Stock	¥25,246	$231,976	¥75	$0.6891	September 30, 2019	December 4, 2019	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 27, 2019, include ¥55 million ($505 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and Officer Remuneration BIP (Board Incentive Plan Trust) I&II.
*2. Total dividends paid in accordance with the resolution passed by the Board of Directors meeting held on October 31, 2019, include ¥51 million ($468 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

b) Dividends which the record date is within the fiscal year ended March 31, 2020, but take effect in the fiscal year ending March 31, 2021

Resolution	Type of shares	Total cash dividends paid (Millions of yen)	Total cash dividends paid (Thousands of U.S. dollars)	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 26, 2020 Annual General Meeting of Shareholders	Common Stock	¥25,253	$232,040	¥75	$0.6891	March 31, 2020	June 29, 2020	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 26, 2020, include ¥65 million ($597 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

24 REVENUE

(1) Disaggregation of revenue

The Group is composed of three business domains: Power Systems; Industry & Infrastructure; and Aircraft, Defense & Space, whose operating results are regularly reviewed by the Board of Directors of the Company to make decisions about resource allocation and assess their performance. Therefore, turnover recognized from these businesses is presented as revenue.

The Group further disaggregates revenue from contracts with customers. Specifically, revenue of the Industry & Infrastructure business domain is disaggregated into "mass and medium lot manufactured products" and "individual made-to-order products" based on the timing of transferring goods or services. Revenue of the Aircraft, Defense & Space business domain is disaggregated into "commercial aircraft" and "defense and space equipment" based on the types of markets or customers.

For the fiscal year ended March 31, 2019 (From April 1, 2018 to March 31, 2019)

	Millions of yen									
	Reporting segments									
		Industry & Infrastructure			Aircraft, Defense & Space					
	Power Systems	Mass and medium lot manufactured products*1	Individual made-to-order products*2	Subtotal	Commercial aircraft	Defense and space equipment	Subtotal	Total	Other*3	Total
Revenue from external customers	¥1,514,804	¥1,080,881	¥785,694	¥1,866,575	¥218,408	¥457,264	¥675,672	¥4,057,053	¥21,290	¥4,078,344

*1. The "Mass and medium lot manufactured products" category within the Industry & Infrastructure segment includes lot manufactured products including material-handling equipment, engines, turbochargers, air-conditioning & refrigeration systems, automotive thermal systems, and machine tools.
*2. The "Individual made-to-order products" category within the same segment above includes metals machinery, chemical plants, transportation systems, commercial ships, and environmental systems.
*3. The "Other" category includes construction, real estate and information services not included in any of the reporting segments.

For the fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

	Millions of yen									
	Reporting segments									
		Industry & Infrastructure			Aircraft, Defense & Space					
	Power Systems	Mass and medium lot manufactured products*1	Individual made-to-order products*2	Subtotal	Commercial aircraft	Defense and space equipment	Subtotal	Total	Other*3	Total
Revenue from external customers	¥1,579,397	¥1,013,611	¥720,864	¥1,734,475	¥230,367	¥473,495	¥703,862	¥4,017,736	¥23,640	¥4,041,376

*1. The "Mass and medium lot manufactured products" category within the Industry & Infrastructure segment includes lot manufactured products including material-handling equipment, engines, turbochargers, air-conditioning & refrigeration systems, automotive thermal systems, and machine tools.
*2. The "Individual made-to-order products" category within the same segment above includes metals machinery, chemical plants, transportation systems, commercial ships, and environmental systems.
*3. The "Others" classification includes asset management business, which are not included in any of the reporting segments.

For the fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

	Thousands of U.S. dollars									
	Reporting segments									
		Industry & Infrastructure			Aircraft, Defense & Space					
	Power Systems	Mass and medium lot manufactured products*1	Individual made-to-order products*2	Subtotal	Commercial aircraft	Defense and space equipment	Subtotal	Total	Other*3	Total
Revenue from external customers	$14,512,514	$9,313,709	$6,623,761	$15,937,471	$2,116,760	$4,350,776	$6,467,536	$36,917,541	$217,219	$37,134,760

*1. The "Mass and medium lot manufactured products" category within the Industry & Infrastructure segment includes lot manufactured products including material-handling equipment, engines, turbochargers, air-conditioning & refrigeration systems, automotive thermal systems, and machine tools.
*2. The "Individual made-to-order products" category within the same segment above includes metals machinery, chemical plants, transportation systems, commercial ships, and environmental systems.
*3. The "Others" classification includes asset management business, which are not included in any of the reporting segments.

The Group is engaged in the sales of products, performance of constructions and rendering of services in the Power Systems domain, the Industry & Infrastructure domain, the commercial aircraft category, and the defense and space equipment category.

• Sales of products
The Group determines that performance obligations have been satisfied when customers obtain control of the products. Hence, revenue from sales of products is usually recognized upon the delivery of goods.

• Performance of construction and rendering of services
Since the control of goods or services promised is being transferred to customers over the contracted period as per the contract, the Group recognizes revenue from performance of construction and rendering of services over time based on the progress towards complete satisfaction of a performance obligation. The progress is measured by specifying the satisfaction of performance obligation. Measurements are mainly based on the ratio of the estimated costs incurred to satisfy the performance obligation over a certain period, against the estimated total costs to fully satisfy the contractual obligation.

The consideration of a transaction is received based on the progress for each performance obligation satisfied over time, such as a milestone in the case of a construction contract. The consideration for the sale of goods or rendering of services is received within one year after the performance obligation is satisfied. In either case, the contract does not include a significant financing component. In addition, within consideration from contracts with customers, no significant amounts have been excluded from the transaction price.

Further, the Group provides warranties assuring that a product satisfies specifications as provided in the contract. However, the Group does not identify this warranty as a separate performance obligation because it does not provide a distinct service. For certain products and constructions, warranties on performance and delivery are provided, which leads to a reduction in revenue to the extent of the expected refund liability to customers incurred, as a result of unsatisfied obligations.

(2) The breakdown of revenue by geographical market

For the breakdown of revenue by geographical market, refer to Note 4. "Operating Segment."

(3) Contract balances

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Receivables from contracts with customers	¥630,434	¥559,170	$5,138,013
Contract assets	625,749	576,061	5,293,218
Contract liabilities	¥875,294	¥835,465	$7,676,789

Significant changes in contract assets and liabilities
Changes to contract assets mainly occurred as a result of the recognition of revenue (leading to increases in contract assets) and transfers to trade receivables (leading to decreases in contract assets).

Changes to contract liabilities mainly occurred as a result of advance payments from customers (leading to increases in contract liabilities) and the recognition of revenue (leading to decreases in contract liabilities).

Of the above-mentioned decreases in contract liabilities as a result of the recognition of revenue, amounts transferred from the beginning balance of contract liabilities were ¥418,958 million and ¥578,107 million ($5,312,018 thousand) for the fiscal years ended March 31, 2019 and March 31, 2020, respectively.

All revenues recognized for performance obligations satisfied (or partially satisfied) in the previous periods are immaterial.

(4) Transaction price allocated to the remaining performance obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations as of March 31, 2020, and the balance by reporting segment are as follows.

Aggregate balance of the transaction price allocated to the remaining performance obligations at the end of each fiscal year

	Millions of yen					
	Reporting segments				Other*1	Total
	Power Systems	Industry & Infrastructure	Aircraft, Defense & Space	Total		
As of March 31, 2019	¥3,297,839	¥1,181,956	¥914,300	¥5,394,097	¥311	¥5,394,408
As of March 31, 2020	¥3,432,686	¥1,057,981	¥929,109	¥5,419,777	¥694	¥5,420,471

*1. The "Other" category includes general services not included in any of the reporting segments.

	Reporting segments				Other*1	Total
	Thousands of U.S. dollars					
	Power Systems	Industry & Infrastructure	Aircraft, Defense & Space	Total		
As of March 31, 2020	$31,541,725	$9,721,409	$8,537,250	$49,800,395	$6,376	$49,806,772

*1. The "Other" category includes general services not included in any of the reporting segments.

The transaction amounts allocated to the remaining performance obligations in the three business domains, namely Power Systems, Industry & Infrastructure and Aircraft, Defense & Space, are mainly attributable to the individual made-to-order products business. As such, many of such transactions are for construction contracts that have performance obligations to be fulfilled over the span of one year or longer.

Remaining performance obligations for each business domain are expected to be fulfilled and recognized as revenue within the number of years from the end of each fiscal year as stated below.

• Power Systems: Within 5 years
• Industry & Infrastructure: Within 4 years
• Aircraft, Defense & Space: Within 2 years

(5) Assets recognized from the costs to obtain or fulfil contracts with customers

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Assets recognized from the costs to obtain contracts	¥ 919	¥ 396	$ 3,638
Assets recognized from the costs to fulfil contracts	71,398	54,534	501,093
Total	¥72,318	¥54,930	$504,732

The Group recognizes assets only to the extent that it is probable that the incremental costs of obtaining contracts and direct cost of fulfilling contracts will be recoverable, which is included in "Inventories" in the consolidated statement of financial position.

The majority of such assets recognized by the Group as the incremental costs of obtaining contracts are mainly commissions paid to trading companies used in obtaining construction contracts. These assets are amortized in accordance with the transference pattern of goods or services to customers for the relevant construction contracts.

In addition, assets recognized from the costs for expected future contracts are mainly costs for designing mass production drawings or making jigs dedicated for new models and products that had been incurred prior to the conclusion of contracts with customers. After the contracts were concluded, said assets are amortized in accordance with the transference pattern of goods or services to customers.

For the fiscal years ended March 31, 2019 and March 31, 2020, the amount of amortization for the assets recognized from the contract costs were ¥18,687 million and ¥22,431 million ($206,110 thousand) respectively. While the amount of impairment losses were ¥3,082 million and ¥3,215 million ($29,541 thousand), respectively.

25 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general and administrative expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Employee benefit expenses	¥216,218	¥220,413	$2,025,296
Research and development expenses*1	59,816	73,666	676,890
Business development expenses	51,441	52,686	484,112
Remuneration and fees	43,120	48,283	443,655
Depreciation and amortization	34,843	37,380	343,471
Loss allowance for expected credit losses	1,222	2,014	18,505
Others	131,548	149,428	1,373,040
Total	¥538,210	¥583,874	$5,365,009

*1. The Group recognizes research and development expenses in selling, general and administrative expenses.

26 OTHER INCOME AND EXPENSES

The breakdown of other income and expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Other income			
Gain on sale of property, plant and equipment	¥ 41,201	¥ 978	$ 8,986
Dividend income*1	11,647	12,096	111,145
Compensation income	3,378	—	—
Settlement income	—	47,690	438,206
Others	8,243	6,985	64,182
Total	¥ 64,472	¥ 67,751	$ 622,539
Other expenses			
Impairment losses	66,163	179,327	1,647,771
Business structure improvement expenses	8,599	1,939	17,816
Loss on sale and retirement of property, plant and equipment, and intangible assets	6,519	7,842	72,057
Loss allowance for expected credit losses	3,661	12,068	110,888
Settlement expenses	4,176	13,469	123,761
Others	16,500	21,703	199,421
Total	¥105,621	¥236,350	$2,171,735

*1 In the consolidated statement of cash flows, dividend income is included in "Others" under cash flows from operating activities. As stated in Note 7. "Other Financial Assets", all dividend income is derived from financial assets at FVTOCI.

27 GOVERNMENT GRANTS

Government grants received by the Group principally relate to research and development activities.

Government grants recorded for the fiscal years ended March 31, 2019 and 2020 were ¥6,741 million and ¥7,713 million ($70,872 thousand), respectively, and deducted mainly from research and development expenses.

28 FINANCE INCOME AND FINANCE COSTS

The breakdown of finance income and finance costs are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Finance income			
Interest income			
Financial assets measured at amortized cost	¥ 5,226	¥ 7,059	$ 64,862
Foreign exchange gain	—	2,000	18,377
Others	2,424	2,556	23,486
Total	¥ 7,650	¥11,616	$106,735
Finance costs			
Interest expense			
Financial liabilities measured at amortized cost	7,453	9,498	87,273
Foreign exchange loss	543	—	—
Others	5,165	5,240	48,148
Total	¥13,161	¥14,738	$135,422

29 EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share attributable to owners of the parent is as follows:

	Millions of yen	
	2019	2020
Profit (attributable to owners of the parent)	¥110,271	¥87,123

	Thousands of shares	
	2019	2020
Weighted-average number of common shares outstanding during the period	335,662	335,876
Impact of the dilutive effect share subscription rights	522	432
Weighted-average number of common shares outstanding during the period after impact of the dilutive effect	336,184	336,309

	Yen	
	2019	2020
Earnings per share (attributable to owners of the parent)		
Basic earnings per share	¥328.52	¥259.39
Diluted earnings per share	¥327.97	¥259.06

	Thousands of U.S. dollars
	2020
Profit (attributable to owners of the parent)	$800,542

	U.S. dollars
	2020
Earnings per share (attributable to owners of the parent)	
Basic earnings per share	$2.38
Diluted earnings per share	$2.38

30 OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME

(1) Other components of equity

Changes in each item of other components of equity are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Financial assets measured at FVTOCI			
Balance at the beginning of the year	¥120,794	¥105,782	$ 971,993
Changes during the year	(12,761)	(50,347)	(462,620)
Transfer to retained earnings	(2,250)	(68)	(624)
Balance at the end of the year	105,782	55,366	508,738
Remeasurement of defined benefit plans			
Balance at the beginning of the year	¥ —	¥ —	$ —
Changes during the year	(5,963)	(22,355)	(205,412)
Transfer to retained earnings	5,963	22,355	205,412
Balance at the end of the year	—	—	—
Cash flow hedges			
Balance at the beginning of the year	¥ (880)	¥ (9,760)	$ (89,681)
Changes during the year	(8,880)	1,687	15,501
Balance at the end of the year	(9,760)	(8,073)	(74,179)
Hedge costs			
Balance at the beginning of the year	¥ —	¥ (242)	$ (2,223)
Changes during the year	(242)	(639)	(5,871)
Balance at the end of the year	(242)	(881)	(8,095)
Exchange differences on translating foreign operations			
Balance at the beginning of the year	¥ (1,946)	¥ 1,208	$ 11,099
Changes during the year	3,154	(25,485)	(234,172)
Balance at the end of the year	1,208	(24,277)	(223,072)
Other components of equity			
Balance at the beginning of the year	¥117,968	¥ 96,987	$ 891,178
Changes during the year	(24,693)	(97,140)	(892,584)
Transfer to retained earnings	3,712	22,287	204,787
Balance at the end of the year	96,987	22,133	203,372

(2) Breakdown of each item of other comprehensive income included in non-controlling interests

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Financial assets measured at FVTOCI	¥(269)	¥ (64)	$ (588)
Remeasurement of defined benefit plans	(933)	(2)	(18)
Cash flow hedges	(243)	(407)	(3,739)
Exchange differences on translating foreign operations	972	(4,817)	(44,261)
Other comprehensive income	¥(474)	¥(5,291)	$(48,617)

(3) Other comprehensive income

The breakdown of each item of other comprehensive income and related impact of tax effects (including non-controlling interests) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Items that will not be reclassified to profit (loss)			
Net gain (loss) from financial assets measured at FVTOCI			
Amount arising during the year	¥(12,175)	¥ (77,115)	$(708,582)
Before tax effects	(12,175)	(77,115)	(708,582)
Tax effects	(578)	26,242	241,128
After tax effects	(12,753)	(50,873)	(467,453)
Remeasurement of defined benefit plans			
Amount arising during the year	¥(10,618)	¥ (34,180)	$(314,067)
Before tax effects	(10,618)	(34,180)	(314,067)
Tax effects	3,622	10,979	100,882
After tax effects	(6,996)	(23,201)	(213,185)
Share of other comprehensive income (loss) of entities accounted for by the equity method			
Amount arising during the year	¥ (178)	¥ (24)	$ (220)
Before tax effects	(178)	(24)	(220)
Tax effects	—	—	—
After tax effects	(178)	(24)	(220)
Items that may be reclassified to profit (loss)			
Cash flow hedges			
Amount arising during the year	¥ (2,518)	¥ (3,826)	$ (35,155)
Reclassification adjustments	787	987	9,069
Before tax effects	(1,731)	(2,838)	(26,077)
Tax effects	837	1,125	10,337
After tax effects	(893)	(1,713)	(15,740)
Hedge costs			
Amount arising during the year	¥ (311)	¥ (723)	$ (6,643)
Reclassification adjustments	(37)	(196)	(1,800)
Before tax effects	(348)	(919)	(8,444)
Tax effects	105	281	2,582
After tax effects	(242)	(639)	(5,871)
Exchange differences on translating foreign operations			
Amount arising during the year	¥ 4,743	¥ (30,520)	$(280,437)
Reclassification adjustments	34	10	91
Before tax effects	4,777	(30,510)	(280,345)
Tax effects	(53)	5,404	49,655
After tax effects	4,724	(25,106)	(230,690)
Share of other comprehensive income (loss) of entities accounted for by the equity method			
Amount arising during the year	¥ (9,629)	¥ 1,365	$ 12,542
Reclassification adjustments	801	(423)	(3,886)
Before tax effects	(8,828)	941	8,646
Tax effects	—	—	—
After tax effects	(8,828)	941	8,646
Total other comprehensive income	¥(25,167)	¥(100,616)	$(924,524)

31 RELATED PARTY TRANSACTIONS

(1) Transactions with affiliates and joint ventures

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Balance of receivables*1	¥ 60,253	¥72,474	$665,937
Balance of payables	¥102,051	¥73,895	$678,994

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Revenue	¥231,298	¥294,750	$2,708,352
Purchases	¥ 75,445	¥ 66,248	$ 608,729

*1. The Group provides loans to several related parties. In the fiscal year ended March 31, 2019, the largest borrower was ATMEA S.A.S.
The loans to ATMEA S.A.S were transferred in full amount to a third party during the fiscal year ended March 31, 2020.
The total amounts of loans to related parties were ¥19,661 million, and ¥3,566 million ($32,766 thousand) as of March 31, 2019 and March 31, 2020, respectively. The Group sets loss allowances for the loans as ¥12,529 million, and ¥363 million ($3,336 thousand) as of March 31, 2019 and March 31, 2020, respectively.
The loans receivable and the loss allowances shown in the table above are net amounts.

(2) Remuneration for management personnel

Remuneration amount for directors is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Short-term remuneration	¥633	¥479	$4,401
Share-based remuneration	93	225	2,067
Total	¥726	¥705	$6,477

Other than above, the amount of welfare expenses, which is borne by MHI when appointing directors, for the fiscal years ended March 31, 2019 and March 31, 2020 were ¥11 million and ¥11 million ($101 thousand), respectively.

32 MAJOR SUBSIDIARIES

The Group's major subsidiaries are as follows:

Name of subsidiary	Location	Ownership percentage of voting rights*1	
		As of March 31, 2019	As of March 31, 2020
Power Systems			
Mitsubishi Hitachi Power Systems, Ltd.*2	Nishi-ku, Yokohama City	65.0%	65.0%
Mitsubishi Heavy Industries Aero Engines, Ltd.	Komaki City, Aichi	100%	100%
Mitsubishi Heavy Industries Compressor Corporation	Minato-ku, Tokyo	100%	100%
Mitsubishi Hitachi Power Systems Industries Co., Ltd.	Naka-ku, Yokohama City	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Marine Machinery & Equipment Co., Ltd.	Nagasaki City, Nagasaki	100%	100%
PW Power Systems, LLC	Connecticut, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Hitachi Power Systems Americas, Inc.	Florida, U.S.A.	100% (100%)	100% (100%)
MHI Holding Denmark ApS	Copenhagen, Denmark	100%	100%
Mitsubishi Hitachi Power Systems Europe GmbH	Duisburg, Germany	100% (100%)	100% (100%)
Industry & Infrastructure			
Mitsubishi Heavy Industries Forklift, Engine & Turbocharger Holdings, Ltd.	Chiyoda-ku, Tokyo	100%	100%
Mitsubishi Heavy Industries Engineering, Ltd.	Nishi-ku, Yokohama City	100%	100%
Mitsubishi Heavy Industries Thermal Systems, Ltd.	Chiyoda-ku, Tokyo	100%	100%
Mitsubishi Heavy Industries Engine & Turbocharger, Ltd.	Chuo-ku, Sagamihara City	100% (100%)	100% (100%)
Mitsubishi Logisnext Co., Ltd.*3	Nagaokakyo City, Kyoto	50.9% (50.9%)	64.6% (64.6%)
Mitsubishi Shipbuilding Co., Ltd.	Nishi-ku, Yokohama City	100%	100%
Mitsubishi Heavy Industries Machine Tool Co., Ltd.	Ritto City, Shiga	100%	100%
Mitsubishi Heavy Industries Machinery Systems, Ltd.	Hyogo-ku, Kobe City	100%	100%
Mitsubishi Heavy Industries Environmental & Chemical Engineering Co., Ltd.	Nishi-ku, Yokohama City	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Engine Systems Co., Ltd.	Shinagawa-ku, Tokyo	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Air-Conditioning & Refrigeration Corporation	Minato-ku, Tokyo	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Marine Structure Co., Ltd.	Nagasaki City, Nagasaki	100%	100%
MHI Plant Engineering & Construction, Ltd.	Nishi-ku, Yokohama City	100% (100%)	100% (100%)
Logisnext UniCarriers Co., Ltd.	Moriguchi City, Osaka	100% (100%)	100% (100%)
Mitsubishi Caterpillar Forklift Europe B.V.	Almere, The Netherlands	97.5% (97.5%)	97.5% (97.5%)
Mitsubishi Turbocharger Asia Co., Ltd.	Chonburi, Thailand	99.9% (99.9%)	99.9% (99.9%)
Mitsubishi Heavy Industries-Haier (Qingdao) Air-Conditioners Co., Ltd.	Shandong, China	55.0% (55.0%)	55.0% (55.0%)
UniCarriers Americas Corporation	Illinois, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Heavy Industries-Mahajak Air Conditioners Co., Ltd.	Bangkok, Thailand	81.8% (81.8%)	81.8% (81.8%)
Mitsubishi Turbocharger and Engine Europe B.V.	Almere, The Netherlands	100% (100%)	100% (100%)
Shanghai MHI Turbocharger Co., Ltd.	Shanghai, China	56.2% (56.2%)	56.2% (56.2%)
Mitsubishi Turbocharger and Engine America, Inc.	Illinois, U.S.A	100% (100%)	100% (100%)
Mitsubishi Logisnext Europe B.V.	Enschede, The Netherlands	100% (100%)	100% (100%)
Primetals Technologies, Ltd.*4	London, U.K.	51.0% (51.0%)	100% (100%)
Mitsubishi Caterpillar Forklift America Inc.	Texas, U.S.A.	93.1% (93.1%)	93.1% (93.1%)
Aircraft, Defense & Space			
Mitsubishi Aircraft Corporation	Minato-ku, Nagoya City	86.9%	86.9%

Name of subsidiary	Location	Ownership percentage of voting rights*1	
		As of March 31, 2019	As of March 31, 2020
Others			
MHI International Investment B.V.	Almere, The Netherlands	100%	100%
Mitsubishi Heavy Industries (China) Co., Ltd.	Beijing, China	100%	100%
Mitsubishi Heavy Industries Asia Pacific Pte. Ltd.	Singapore	100%	100%
Mitsubishi Heavy Industries America, Inc.	Texas, U.S.A.	100%	100%
Mitsubishi Heavy Industries Europe, Ltd.	London, U.K.	100%	100%
Mitsubishi Heavy Industries (Thailand) Ltd.	Bangkok, Thailand	100% (100%)	100% (100%)
Mitsubishi Heavy Industries (Shanghai) Co., Ltd	Shanghai, China	100% (100%)	100% (100%)
Other subsidiaries		193 companies	220 companies

*1. The numbers in brackets in the ownership percentage of voting rights represent the percentage of indirect ownership, out of the total ownership percentage.
*2. The summarized consolidated financial information of Mitsubishi Hitachi Power Systems, Ltd. ("MHPS") is as shown below.
In the Group's Consolidated Financial Statements for the fiscal year ended March 31, 2019, non-controlling interests in MHPS were of certain importance. These interests, however, have decreased in the fiscal year ended March 31, 2020 due to the reasons described below.

Summarized consolidated financial information of MHPS

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Current assets	¥1,693,032	¥1,738,510	$15,974,547
Non-current assets	439,416	424,062	3,896,554
Current liabilities	1,210,616	1,225,546	11,261,104
Non-current liabilities	127,946	122,634	1,126,840
Total equity	¥ 793,887	¥ 814,392	$ 7,483,157
Revenue	1,125,123	1,126,469	10,350,721
Profit (loss)	56,399	32,817	301,543
Total comprehensive income	56,128	24,412	224,313
Dividends paid to non-controlling shareholders	1,375	2,001	18,386
Profit (loss) allocated to non-controlling shareholders	21,158	14,011	128,742
Accumulated non-controlling interests	¥ 257,286	¥ 12,051	$ 110,732
Percentage of non-controlling interests	32.41%	1.48%	

(Reasons behind decreased non-controlling interests in MHPS)
As described in Note 12. "Indemnification Asset for South African Projects", the Company concluded an out-of-court settlement agreement with Hitachi, Ltd. ("Hitachi"), which includes a provision requiring Hitachi to transfer to MHI its total shareholdings in MHPS. The share transfer shall be executed after approvals are obtained from the authorities in multiple countries overseeing anti-monopoly laws.

Upon conclusion of the settlement agreement, the Group acquired the entire economic stake in MHPS. In the fiscal year ended March 31, 2020, the Group accordingly reduced the amount of non-controlling interests by ¥257,425 million ($2,365,386 thousand), which was the amount of Hitachi's interests in MHPS as of the date the settlement agreement (December 2019). In addition, given that this amount is the book value of Hitachi's interests in MHPS on a consolidated basis, the difference between this book value and the fair value of the shares of MHPS of ¥150,374 million ($1,381,732 thousand) was reduced from "Capital surplus" and other components of "Equity attributable to owners of the parent".

As a result, the Group no longer had consolidated subsidiaries with material non-controlling interests in the consolidated financial statements in the fiscal year ended March 31, 2020.

It is noted that non-controlling interests included in MHPS's summarized consolidated financial statements as of the end of the fiscal year ended March 31, 2020 represent the ownership interests in MHPS's consolidated subsidiaries held by the shareholders that hold part of shares in these subsidiaries, other than the Group. These non-controlling interest do not include the ownership interests held by Hitachi. The status of ownership interests held by shareholders other than Hitachi have generally remained unchanged from the fiscal year ended March 31, 2019.

*3. During the fiscal year ended March 31, 2020, the Group converted the preferred shares issued by Mitsubishi Logisnext Co., Ltd. into common shares. As a result, the Group's ownership percentage of voting rights in Mitsubishi Logisnext rose from 50.9% to 64.6%. This transaction has had no material impact on non-controlling interests and other equity items.

*4. During the fiscal year ended March 31, 2020, the Group exercised call options to acquire the shares of Primetals Technologies Ltd. ("PT") via Mitsubishi-Hitachi Metals Machinery, Inc. (the Company's ownership percentage of voting rights as of the end of the fiscal year ended March 31, 2020: 77.0%), which directly owns PT's shares. As a result, the Group acquired all voting rights in PT. This transaction has had no material impact on non-controlling interests and other equity items.

33 COMMITMENTS

(1) Commitments related to the acquisition of property, plant and equipment

The amounts committed for the purchase of property, plant and equipment where the purchase has already been committed but has not been inspected for acceptance were ¥25,568 million and ¥31,323 million ($287,815 thousand) as of March 31, 2019 and March 31, 2020, respectively.

(2) Commitments related to the acquisition of intangible assets

The amounts committed for the purchase of intangible assets where the purchase has already been committed but has not been inspected for acceptance were ¥641 million and ¥1,119 million ($10,282 thousand) as of March 31, 2019 and March 31, 2020, respectively.

(3) Commitments to joint ventures

The Group is committed to making capital investments in some joint ventures.

The amounts by which the Group may make new or additional capital investments were ¥24,063 million and ¥18,115 million ($166,452 thousand) as of March 31, 2019 and March 31, 2020, respectively.

34 CONTINGENT LIABILITIES

(Contingent liabilities relating to changes to SpaceJet delivery timing)
In February 2020, MHI announced that the scheduled delivery timing of the first SpaceJet would be postponed to be in or after the fiscal year ending March 31, 2022.

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

35 RISK MANAGEMENT

The Group is exposed to credit risk, liquidity risk, and market risk (foreign currency risk, interest rate risk and share price risk) in the course of its operating activities and has established risk management policies and frameworks to avoid or reduce these risks.

(1) Credit risk management

The Group's financial assets and financial guarantee contracts that are measured at amortized cost under "Trade and other receivables", "Other financial assets" and "Contract assets" are exposed to credit risk of the customers.

The Group regularly manages the due dates and balances of receivables from each customer, and assesses their credit status. The Group has accepted collateral with respect to specific transactions with customers for credit enhancement purposes. The Group also tries to reduce credit risk by utilizing letters of credit, trade insurance, etc. The Group has no excessive credit risk concentrated on a single customer.

The credit risks related to deposits and derivative transactions that the Group has entered into are limited because all transactions entered into are with highly creditworthy financial institutions.

Loss allowance for expected credit loss for "Trade and other receivables" and "Contract assets" presented in the Consolidated statement of financial position are always measured at an amount equal to the lifetime expected credit losses (Simplified approach).

As a general rule, loss allowance for expected credit losses for financial assets measured at amortized cost other than those noted above are measured at the same amounts as the 12-month expected credit losses. However, when payments have not been made within due dates, the Group considers that there has been a significant increase in credit risk since initial recognition, and recognizes loss allowances for expected credit losses (ECL) at an amount equal to the lifetime expected credit losses (General approach).

For financial assets with a significant increase in credit risk, if full or partial collection of receivables is considered extremely difficult, for example when a debtor requests a major modification in payment conditions because of serious financial difficulties, it is deemed to be a default. When a debtor is deemed to be in default or when events such as the commencement of legal liquidation proceedings due to bankruptcy of debtor take place, the Group considers such financial assets to be credit-impaired. The Group also directly reduces the carrying amount of financial assets when it is evident that the amount of the financial assets cannot be collected in the future.

For financial assets with a significant increase in credit risk, if full or partial collection of receivables is considered extremely difficult, for example when a debtor requests a major modification in payment conditions because of serious financial difficulties, it is deemed to be a default. When a debtor is deemed to be in default or when events such as the commencement of legal liquidation proceedings due to bankruptcy of debtor take place, the Group considers such financial assets to be credit-impaired. The Group also directly reduces the carrying amount of financial assets when it is evident that the amount of the financial assets cannot be collected in the future.

The amount of ECL is measured as follows:

- Trade and other receivables and contract assets
  Based on the simplified approach, receivables and contract assets are classified according to the customers' credit risk characteristics. The ECL are measured by multiplying a provision rate determined by adjusting forecasts such as future economic conditions to the rate of past credit losses calculated based on this classification.
- Other financial assets measured at amortized cost
  Based on the general approach, ECL for receivables that are not deemed to have a significant increase in credit risk are assumed by multiplying the total carrying amount of the financial assets by a provision rate calculated by adjusting forecasts, such as future economic conditions, to the rate of past credit losses for the same kind of assets. ECL for financial assets that are deemed to have a significant increase in credit risk and credit-impaired financial assets are determined as the difference between the present value of estimated future cash flows discounted by the initial effective interest rate of the assets and the gross carrying amount of the assets.

a) Balances of loss allowance for ECL for assets

		Millions of yen		Thousands of U.S. dollars
Measurement method of credit losses	Classification	As of March 31, 2019	**As of March 31, 2020**	**As of March 31, 2020**
Simplified approach		¥1,283,447	**¥1,162,857**	**$10,685,077**
General approach	Measured at an amount equal to the 12-month ECL	97,534	**70,023**	**643,416**
	Measured at an amount equal to the lifetime ECL	—	**—**	**—**
	Measured at an amount equal to the lifetime ECL (credit impaired)	¥ 17,399	**¥ 1,752**	**$ 16,098**

Credit ratings of financial assets within the same classification in the table above are largely the same.

b) Changes in loss allowances for ECL are as follows:

For the fiscal year ended March 31, 2019 (From April 1, 2018 to March 31, 2019)

	Millions of yen				
	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes*1	Balance at the end of the year
Allowances using the simplified approach	¥12,281	¥1,094	¥(1,045)	¥(370)	¥11,960
Allowances using the general approach					
Other than credit-impaired financial assets	1,266	(122)	(195)	(187)	759
Credit-impaired financial assets*2	¥10,286	¥3,322	¥ —	¥ —	¥13,609

For the fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

	Millions of yen				
	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes*1	Balance at the end of the year
Allowances using the simplified approach	¥11,960	¥2,294	¥ (784)	¥(586)	¥12,882
Allowances using the general approach					
Other than credit-impaired financial assets	759	230	(207)	(240)	542
Credit-impaired financial assets*2	¥13,609	¥3,794	¥(15,685)	¥ (14)	¥ 1,704

For the fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

	Thousands of U.S. dollars				
	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes*1	Balance at the end of the year
Allowances using the simplified approach	$109,896	$21,078	$ (7,203)	$(5,384)	$118,368
Allowances using the general approach					
Other than credit-impaired financial assets	6,974	2,113	(1,902)	(2,205)	4,980
Credit-impaired financial assets*2	$125,048	$34,861	$(144,123)	$ (128)	$ 15,657

*1. Other changes include adjustments for foreign currency translation gains and losses.
*2. Loss allowances on credit-impaired financial assets increased due to a deterioration in financial positions of debtors as of March 31, 2019.
Credit-impaired financial assets included loans to ATMEA S.A.S., which is stated in Note 31. "Related Party Transactions." Given the loans were transferred to a third party, the corresponding loss allowance was reversed in the fiscal year ended March 31, 2020.

c) Financial guarantee contracts

The Group has provided guarantees with respect to borrowings made by employees and borrowings made by the Group's associates from financial institutions.

Guarantees outstanding were ¥34,249 million and ¥32,416 million ($297,859 thousand) as of March 31, 2019 and March 31, 2020, respectively. These guarantees are not included in the tables a) and b) above because the credit risk related to these guarantees is limited and not material.

(2) Liquidity risk management

The Group's "Bonds, borrowings and other financial liabilities" and "Trade and other payables" are exposed to liquidity risk. However, each company of the Group manages the risk by, for example, preparing its cash budget every month.

The Group finances working capital and capital expenditures primarily by using net cash provided by operating activities, and any shortage of funds is covered mainly by borrowings from banks and issuing bonds.

As one of the financing methods, the Group liquidates trade receivables under factoring agreements.

The Group has unused commitment line agreements with highly creditworthy banks.

Some bank loan agreements require the Group to maintain a certain level of specific financial ratios and net assets.

Maturity amounts of the remaining contracts of the Group's financial liabilities are as follows:

As of March 31, 2019

	Millions of yen				
	Carrying amount	Total undiscounted contractual cash flows	One year or less	More than one year and less than five years	More than five years
Non-derivative liabilities					
Trade and other payables	¥ 862,174	¥ 862,174	¥ 847,555	¥ 14,531	¥ 87
Bonds	205,000	208,958	66,365	82,064	60,528
Commercial papers	—	—	—	—	—
Short-term borrowings	170,124	170,124	170,124	—	—
Long-term borrowings	289,989	303,284	49,219	198,991	55,073
Liabilities under factoring agreements	140,405	140,405	99,317	41,087	—
Liabilities arising from put options held by non-controlling shareholders	51,974	51,974	—	51,974	—
Lease liabilities	129,595	136,223	22,209	67,711	46,302
Other financial liabilities	99,800	102,708	60,493	25,933	16,281
Derivative liabilities	9,860	9,860	4,951	4,909	—
Total	¥1,958,927	¥1,985,715	¥1,320,237	¥487,205	¥178,272

As of March 31, 2020

	Millions of yen				
	Carrying amount	Total undiscounted contractual cash flows	One year or less	More than one year and less than five years	More than five years
Non-derivative liabilities					
Trade and other payables	¥ 824,030	¥ 824,030	¥ 817,468	¥ 6,415	¥ 146
Bonds	140,000	142,593	10,587	101,795	30,210
Commercial papers	85,000	85,000	85,000	—	—
Short-term borrowings	64,744	64,744	64,744	—	—
Long-term borrowings	308,553	320,818	61,312	183,203	76,302
Liabilities under factoring agreements	94,233	94,233	54,198	40,034	—
Liabilities arising from put options held by non-controlling shareholders	426,066	426,066	407,800	18,266	—
Lease liabilities	134,684	143,164	25,915	73,703	43,545
Other financial liabilities	104,808	105,982	62,648	28,852	14,481
Derivative liabilities	12,778	12,778	7,528	5,250	—
Total	¥2,194,900	¥2,219,411	¥1,597,204	¥457,521	¥164,685

As of March 31, 2020

	Thousands of U.S. dollars				
	Carrying amount	Total undiscounted contractual cash flows	One year or less	More than one year and less than five years	More than five years
Non-derivative liabilities					
Trade and other payables	$ 7,571,717	$ 7,571,717	$ 7,511,421	$ 58,945	$ 1,341
Bonds	1,286,409	1,310,236	97,280	935,357	277,588
Commercial papers	781,034	781,034	781,034	—	—
Short-term borrowings	594,909	594,909	594,909	—	—
Long-term borrowings	2,835,183	2,947,882	563,374	1,683,386	701,111
Liabilities under factoring agreements	865,873	865,873	498,006	367,858	—
Liabilities arising from put options held by non-controlling shareholders	3,914,968	3,914,968	3,747,128	167,839	—
Lease liabilities	1,237,563	1,315,482	238,123	677,230	400,119
Other financial liabilities	963,043	973,830	575,650	265,110	133,060
Derivative liabilities	117,412	117,412	69,172	48,240	—
Total	$20,168,152	$20,393,374	$14,676,137	$4,203,997	$1,513,231

Financial guarantee contracts are not included in the tables above.
The obligation to pay under financial guarantee contracts arises upon request. Guarantees outstanding are as specified in (1) c).

(3) Market risk management

a) Foreign currency risk management

The Group develops its business on a global scale, and is exposed to risk caused by fluctuations in exchange rates. Foreign currency risk arises from receivables and payables denominated in foreign currencies that are already recognized and forecast transactions, such as future purchases and sales.

Based on the natural hedge concept, the Group keeps a balance between receivables and payables in the same currency to hedge the risk in accordance with its basic policy, but enters into forward exchange contracts and currency swap contracts as necessary for some of the receivables and payables and forecast transactions denominated in foreign currencies.

Forward exchange contracts are mainly used to hedge the foreign currency risk on trade receivables and trade payables denominated in foreign currencies. Currency swap contracts, on the other hand, are used to hedge the foreign currency risk on financial liabilities with relatively long repayment terms, such as borrowings denominated in foreign currencies.

The Group enters into derivative transactions to the extent corresponding to actual business in accordance with its internal control policy, and does not carry out any speculative transactions. The Group also applies cash flow hedges to some forward exchange contracts and currency swap contracts.

(i) Exposure to foreign currency risk

Major exposure to foreign currency risk in the Group (in net amounts) is as follows.

Amounts where the foreign currency risk is hedged through derivative transactions are excluded.

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
U.S. dollars	¥58,558	¥109,844	$1,009,317
Euros	¥36,732	¥ 48,836	$ 448,736

(ii) Foreign exchange sensitivity analysis

When the yen's value increases by 1% against the U.S. dollar and the Euro at the end of each fiscal year, an impact on profit before income taxes of the Group is as follows.

This analysis is based on the assumption that other variable factors (such as balances and interest rates) are constant.

	Millions of yen		Thousands of U.S. dollars
Profit before income taxes	2019	2020	2020
U.S. dollars	¥(587)	¥(1,098)	$(10,089)
Euros	¥(366)	¥ (488)	$ (4,484)

b) Interest rate risk management

The Group has borrowings with variable interest rates, and is exposed to interest rate risk. The Group enters into derivative transactions (interest rate swaps) for some individual long-term loan agreements in order to avoid the risk of variability in the interest payments and attempt to fix interest expenses. The Group also applies hedge accounting to the interest rate swaps, and adopts cash flow hedges.

(i) Exposure to interest rate risk

Exposure to interest rate risk in the Group is as follows.

Amounts where the interest rate risk is hedged through derivative transactions are excluded.

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Borrowings with variable interest rates	¥83,501	¥45,377	$416,953

(ii) Interest rate sensitivity analysis

The table below shows an impact on profit before income taxes of the Group arising from financial instruments that are affected by interest rate fluctuations when interest rates increase by 1% in each fiscal year.

In this analysis, the calculation is made by multiplying financial instruments with variable interest rates (excluding deposits) held by the Group at the end of each fiscal year by 1%, assuming that all other variables are constant, and not considering changes in balances in the future, effects of fluctuations in exchange rates, diversification effects of refinancing periods and timing of interest rate revision in relation to the borrowings with variable interest rates, etc.

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit before income taxes	¥(835)	¥(454)	$(4,171)

c) Share price risk management

The Group holds shares in other companies, such as its suppliers and other business partners, and is exposed to the risk of changes in share prices. The primary purpose of holding these shares is to strengthen and maintain relationships with such companies. The Group regularly reviews the status of shareholdings according to the business relationships with its suppliers and other business partners since shares in such companies are held mainly out of necessity that arises from business operations, such as collaboration with other companies.

(i) Exposure to share price fluctuation

The total amount of marketable stocks at the end of each consolidated fiscal year is as follows.

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Marketable stocks	¥309,606	¥213,123	$1,958,311

(ii) Sensitivity analysis of share price fluctuation

If the value of marketable stocks and investments held by the Group at the end of each consolidated fiscal year decreases by 10%, the impact on other comprehensive income (before tax effect deduction) in the consolidated statement of comprehensive income is as follows.

In this analysis, it is assumed that the other fluctuation factors are constant.

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2019
Other comprehensive income (After tax deduction)	¥(21,593)	¥(14,826)	$(136,230)

d) The impact of derivative transactions designated as hedges in the consolidated statement of financial position

(i) Derivative instruments designated as cash flow hedges

As of March 31, 2019

	Millions of yen			
			Carrying amount of hedging instruments	
Hedging instruments	Contract amount/ notional amount	Of which, more than 1 year	Assets	Liabilities
Foreign exchange risk				
Forward exchange contracts	¥ 48,873	¥ 7,290	¥1,429	¥ 811
Currency swap	65,928	49,446	573	—
Interest rate risk				
Interest rate swap	¥117,928	¥82,403	¥ —	¥2,841

As of March 31, 2020

	Millions of yen			
			Carrying amount of hedging instruments	
Hedging instruments	Contract amount/ notional amount	Of which, more than 1 year	Assets	Liabilities
Foreign exchange risk				
Forward exchange contracts	¥127,704	¥28,376	¥ 905	¥4,265
Currency swap	64,645	43,096	3,264	—
Interest rate risk				
Interest rate swap	¥101,645	¥68,385	¥ —	¥5,310

As of March 31, 2020

	Thousands of U.S. dollars			
			Carrying amount of hedging instruments	
Hedging instruments	Contract amount/ notional amount	Of which, more than 1 year	Assets	Liabilities
Foreign exchange risk				
Forward exchange contracts	$1,173,426	$260,736	$ 8,315	$39,189
Currency swap	593,999	395,993	29,991	—
Interest rate risk				
Interest rate swap	$ 933,979	$628,365	$ —	$48,791

Major transactions of the Group's foreign exchange contracts designated as hedges are selling U.S. dollars and buying Japanese yen. The average contract rate is 109.65 yen per U.S. dollar and 102.44 yen per U.S. dollar as of March 31, 2019 and March 31, 2020, respectively.

Currency swaps are mainly used as hedging instruments (fixed amounts to be paid in yen and fixed amounts to be received in U.S. dollar) for U.S. dollar borrowings at fixed interest rates. The average contract rate for exchanges of principal is 117.92 yen per U.S. dollar as of March 31, 2020. The Group enters into interest rate swaps that mainly exchange variable interest rate payments for fixed interest rate payments. The average contract rate is 2.19% and 2.30% as of the date of transition, March 31, 2019 and March 31, 2020, respectively.

The hedging instruments above are classified and recorded in "Other financial assets" or "Bonds, borrowings and other financial liabilities" of current and non-current assets or liabilities in the consolidated statement of financial position.

(ii) Cash flow hedge reserve and hedge cost reserve

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2019	**As of March 31, 2020**	**As of March 31, 2020**
Cash flow hedge reserve			
Foreign exchange risk			
Forward exchange contracts	¥(8,424)	**¥(7,531)**	**$(69,199)**
Currency swap	641	**3,153**	**28,971**
Interest rate risk			
Interest rate swap	(1,977)	**(3,694)**	**(33,942)**
Total	¥(9,760)	**¥(8,073)**	**$(74,179)**
Hedging cost reserve			
Currency swap	(242)	**(881)**	**(8,095)**
Total	¥ (242)	**¥ (881)**	**$ (8,095)**

The Group documents the hedging relationship between a hedging instrument and a hedged item, as well as risk management objectives and strategies for entering into a variety of hedging transactions at the inception of transactions in order to assess whether the hedging relationship meets the qualifying criteria for hedge accounting. The Group also assesses and documents at the inception of the hedge whether the hedging relationship meets all of the hedge effectiveness requirements when a derivative used for a hedging transaction to offset changes in the cash flows of a hedged item, and continues to review the hedging relationship even after the start of the transaction.

The Group sets an appropriate hedge ratio at the inception of the hedging relationship based on the quantity of the hedged item and the quantity of the hedging instrument. As a result, the Group's hedge ratio has a 1:1 relationship in principle.

The Group assumes that no significant ineffective portion of hedges arises because the credit risk related to the hedging instruments of the Group is limited. This assumption is also based on the following facts: the periods of exchange contracts are not on a long-time basis; the reference interest rate indices used for interest rate swap contracts are the same as those for the hedged borrowings with variable interest rates; and currency swap contracts (excluding the foreign currency basis spread) are designated as hedging instruments and their terms match the critical terms of the hedged borrowings denominated in foreign currencies.

Since the ineffective portion of hedges recognized in profit or loss are not material, and changes in the value of hedged items approximate those in the fair value of hedging instruments, the Group omits the specification of changes in the value of the hedged items, used as a basis for recognizing the hedge ineffectiveness. No cash flow hedge reserve arises from hedging relationships for which hedge accounting has been discontinued.

All of the hedge cost reserves are recognized in respect of currency swap contracts to hedge time-period related hedged items.

e) Impact on the consolidated statement of profit or loss and the consolidated statement of comprehensive income

The impact of applying hedge accounting on the consolidated statement of profit or loss and the consolidated statement of comprehensive income is as follows:

As of March 31, 2019

	Millions of yen		
	Changes in the fair value of hedging instruments recognized in other comprehensive income	Amount transferred from other components of equity to profit or loss as a reclassification adjustment	Line item of profit or loss transferred as a reclassification adjustment
Foreign exchange risk			
Forward exchange contracts	¥(2,196)	¥ 899	Finance costs
Currency swap	1,454	(881)	Finance income
Interest rate risk			
Interest rate swap	¥(1,777)	¥ 769	Finance costs

As of March 31, 2020

	Millions of yen		
	Changes in the fair value of hedging instruments recognized in other comprehensive income	Amount transferred from other components of equity to profit or loss as a reclassification adjustment	Line item of profit or loss transferred as a reclassification adjustment
Foreign exchange risk			
Forward exchange contracts	¥(3,949)	¥ 888	Finance costs
Currency swap	3,410	(719)	Finance income
Interest rate risk			
Interest rate swap	¥(3,287)	¥ 818	Finance costs

As of March 31, 2020

	Thousands of U.S. dollars		
	Changes in the fair value of hedging instruments recognized in other comprehensive income	Amount transferred from other components of equity to profit or loss as a reclassification adjustment	Line item of profit or loss transferred as a reclassification adjustment
Foreign exchange risk			
Forward exchange contracts	$(36,285)	$ 8,159	Finance costs
Currency swap	31,333	(6,606)	Finance income
Interest rate risk			
Interest rate swap	$(30,203)	$ 7,516	Finance costs

36 CAPITAL MANAGEMENT

It is a top priority for the Group to maintain or improve asset efficiency in its business activities. In accordance with its key policy, while maintaining financial soundness by generating stable free cash flows and increasing profitability, the Group strives to enhance corporate value stably over the long term by promoting growth strategies based on its long-term vision.

Based on the policy above, the Group sets and monitors return on equity attributable to owners of the parent (ROE), the ratio of equity attributable to owners of the parent, and the debt-to-equity (D/E) ratio as the target metrics of the Medium-term Business Plan as follows:

	As of March 31, 2019	**As of March 31, 2020**
Return on equity attributable to owners of the parent (ROE) (%)	7.94	**6.63**
Ratio of equity attributable to owners of the parent (%)	26.94	**24.44**
D/E ratio (debt ratio) (%)	38.48	**46.38**

The Group is not subject to any material capital requirements.

37 SUBSEQUENT EVENTS

On June 25, 2019, MHI entered into a definitive agreement with Bombardier Inc., where by MHI would acquire the Canadair Regional Jet (CRJ) program, which is complementary to the Group's existing commercial aircraft business.

On May 7, 2020, MHI agreed with Bombardier Inc. that the transaction pertaining to the acquisition of the CRJ Program would close on June 1, 2020, on completing the review of terms and conditions of the acquisition and acquired CRJ program on June 1, 2020.

(1) Overview of the Acquisition

With this agreement, the Group acquires the maintenance, customer support*1, refurbishment, marketing, and sales activities, as well as the type certificate for the CRJ Series*2 aircraft.

*1. Production and maintenance of service manuals, supply of spare parts, technical support, crew and mechanic training, MRO (maintenance repair and overhaul), etc.
*2. The Canadair Regional Jet (CRJ) is a series of small passenger jets seating 50 to 100 persons, manufactured and sold by Bombardier Aerospace, the aircraft division of Bombardier Inc.

(2) Overview of Bombardier

1. Name	Bombardier Inc.
2. Location	800, boulevard René-Lévesque West Montréal (Québec) H3B 1Y8, Canada
3. Representative	Éric Martel, President and Chief Executive Officer
4. Main Lines of Business	Provision of railway vehicles, systems, signals and other solutions; Design, manufacture, and customer service for business jets; Design, manufacture, and customer service for commercial aircraft; Design and manufacture of structural parts
5. Capital (at March 31, 2020)	USD 2,996 million
6. Date of Establishment	June 19, 1902

(3) Overview of Bombardier's Commercial Aircraft Division and the Business to be acquired within that Division

1. Business Overview	Design, manufacture, and customer support for commercial aircraft
2. Business Results for the Subject Business Division	Fiscal year ended December 31, 2019 Revenue: USD 1,227 million
3. Business to be acquired	Within the above Bombardier commercial aircraft division, the CRJ series business (excluding the manufacturing functions) Content and Scope: The maintenance, support, refurbishment, marketing, and sales activities, as well as the type certificate for the CRJ Series aircraft, including the related services and support network located in Montréal, Quebec, and Toronto, Ontario, and its service centers located in Bridgeport, West Virginia, and Tucson, Arizona. The CRJ production facility in Mirabel, Québec will remain with Bombardier. Bombardier will continue to supply components and spare parts and will assemble the current CRJ backlog on behalf of the Group. CRJ production is expected to conclude in the second half of 2020, following the delivery of the current backlog of aircraft. • Types: CRJ100/200 (50 seats, production discontinued), CRJ700 (70 seats), CRJ900 (90 seats), CRJ1000 (100 seats)
4. Others	• In addition to the cash consideration of $550 million, the Group assumes contingent liabilities such as credit guarantees and residual value guarantees. Bombardier also transfers its net beneficial interest in the Regional Aircraft Securitization Program (RASPRO) to the Group. • Bombardier will retain certain liabilities representing a portion of the credit and residual value guarantees. This amount is fixed and not subject to future changes in aircraft value, and payable by Bombardier over the next four years.

(4) Acquisition Amount and Settlement Method

a) Acquisition Amount

USD 550 million*1 (approx. JPY 59 billion*2)

*1. Final amount will be decided based on the terms of the Transfer Agreement including such as financial figures, and may change from the amount described above.

*2. Converted at ¥107/$1 (rate at June 26, 2020)

b) Payment Method

Payment of the acquisition amount in cash

c) Acquisition completion date: June 1, 2020

(5) Accounting process overview

The business transfer is an "acquisition" accounted for under IFRS 3 Business Combinations, with goodwill and intangible assets expected to be recognized. After the completion of the transaction, the amount of goodwill and fair value of the assets acquired and liabilities assumed will be measured. Based on the determined transfer price including working capital adjustment, and the goodwill will be allocated to the relevant cash-generating units. Given that the first commercial delivery of SpaceJet is expected to be in the fiscal year ending March 31,2022 or later, the impairment loss for the full amount of goodwill and other assets allocated to the SpaceJet business unit is expected in MHI's consolidated Balance Sheet for the fiscal year ended March 2021, whose forecast amount ranges from 50 billion to 70 billion yen, subject to the fluctuation of the measured amount of goodwill and fair value of the assets acquired and liabilities assumed.

38 OTHERS

(1) Quarterly Information for the Fiscal Year Ended March 31, 2020

	Millions of yen				Thousands of U.S. dollars
Cumulative balance	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Revenue	919,327	1,877,663	2,856,511	4,041,376	37,134,760
Profit (loss) before income taxes	31,644	60,860	4,756	(32,660)	(300,101)
Profit attributable to owners of the parent	16,372	29,237	101,408	87,123	800,542

	Yen				U.S. dollars
Cummulative	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Earnings per share attributable to owners of the parent–basic	48.76	87.06	301.92	259.39	2.383

	Yen			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share attributable to owners of the parent–basic	48.76	38.30	214.83	(42.53)

	U.S. dollars			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share attributable to owners of the parent–basic	0.448	0.352	1.974	(0.391)

(2) Major Lawsuits

a) On July 31, 2017, MHI filed a demand for arbitration against Hitachi, Ltd. seeking performance of the obligation to make a payment as the price adjustment and other payments relating to the South African Asset Transfer. MHI and Hitachi reached a settlement on December 18, 2019 regarding this case, and the arbitration proceedings have been suspended. (for details, refer to Note 12. "Indemnification Asset for South African Projects").

b) 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 non-operating losses due to a burnout accident that occurred during the commissioning period of steam turbine generation facilities. EWP has claimed that this burnout accident was caused by an intentional act or gross negligence of MHPS, and MHI and that MHPS shall bear liability for the damages under the contract and the laws of South Korea. With regard to these claims, MHI and MHPS believe that MHPS had neither the intention nor the gross negligence and will assert that the responsibility of MHPS is limited under the contract.

(3) Impact of the spread of the novel coronavirus disease (COVID-19)

Due to the increase of new coronavirus infections, there has been a decrease in revenue due to a decrease in demand and production adjustments at factories in the Group's commercial aircraft business and medium-volume production business. In the current consolidated fiscal year, the impact is incorporated into the valuation of assets and reflected in the financial figures.

The COVID-19 is an event that impacts economic and corporate activities in a wide range of ways, and it is currently difficult to predict how this disease will spread in the future or when it will end. Therefore, considering the external and other information, the Company looked over the impact on the business plan and performed accounting estimates such as the evaluation of assets based on assumptions according to the product's characteristics and the market environment that the products relate to.

If this effect is prolonged, new production adjustments and further reductions in sales to customers may occur, which would affect the financial position and operating results of the Group from the next consolidated fiscal year.

KPMG

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 37 "Subsequent Events", which describes, on June 1, 2020, MHI acquired the Canadair Regional Jet (CRJ) program of Canadian company Bombardier Inc.

Our opinion is not modified in respect of theseis matters.

Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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 2 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/Takuji Kanai
Designated Engagement Partner
Certified Public Accountant

/S/Kenji Tanaka
Designated Engagement Partner
Certified Public Accountant

/S/Kentaro Maruta
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 26, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

K137-MRFS20E1-A-0, (0.55)20-10, O

Printed in Japan