MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

MHI REPORT 2021

FINANCIAL SECTION

For the Year Ended March 31, 2021

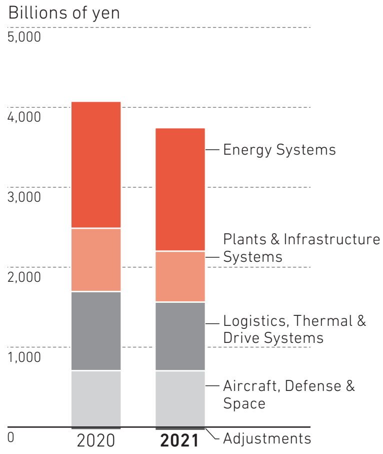
MITSUBISHI HEAVY INDUSTRIES

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2020 and 2021

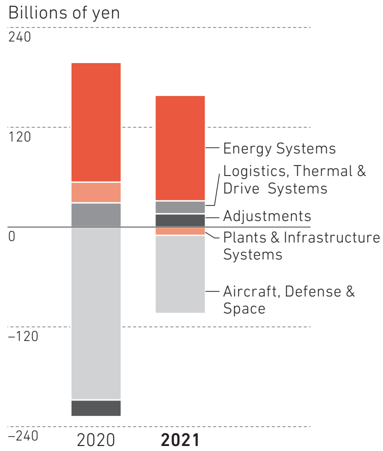
REVENUE

	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	2020	2021	2021
Energy Systems	¥1,590,293	**¥1,546,003**	**$13,964,438**
Plants & Infrastructure Systems	792,925	**637,258**	**5,756,101**
Logistics, Thermal & Drive Systems	990,105	**860,307**	**7,770,815**
Aircraft, Defense & Space	704,985	**702,109**	**6,341,875**
Subtotal	4,078,310	**3,745,679**	**33,833,249**
Adjustments	(36,934)	**(45,732)**	**(413,079)**
Total	¥4,041,376	**¥3,699,946**	**$33,420,160**



PROFIT (LOSS) FROM BUSINESS ACTIVITIES

	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	2020	2021	2021
Energy Systems	¥144,383	**¥127,699**	**$1,153,454**
Plants & Infrastructure Systems	25,534	**(10,222)**	**(92,331)**
Logistics, Thermal & Drive Systems	29,348	**15,613**	**141,026**
Aircraft, Defense & Space	(208,792)	**(94,841)**	**(856,661)**
Subtotal	(9,524)	**38,249**	**345,488**
Adjustments	(20,014)	**15,832**	**143,004**
Total	¥(29,538)	**¥ 54,081**	**$ 488,492**



DEPRECIATION AND AMORTIZATION

	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	2020	2021	2021
Energy Systems	¥ 47,085	**¥ 44,172**	**$ 398,988**
Plants & Infrastructure Systems	13,265	**12,047**	**108,815**
Logistics, Thermal & Drive Systems	43,749	**43,325**	**391,337**
Aircraft, Defense & Space	27,082	**26,987**	**243,762**
Subtotal	131,184	**126,532**	**1,142,913**
Adjustments	13,455	**12,709**	**114,795**
Total	¥144,639	**¥139,242**	**$1,257,718**

IMPAIRMENT LOSS

REPORTING SEGMENT	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Energy Systems	¥ 717	¥ 2,759	$ 24,920
Plants & Infrastructure Systems	14	4,316	38,984
Logistics, Thermal & Drive Systems	243	83	749
Aircraft, Defense & Space	177,563	80,599	728,019
Subtotal	178,538	87,758	792,683
Adjustments	833	12,584	113,666
Total	¥179,372	¥100,343	$906,358

SHARE OF PROFIT (LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

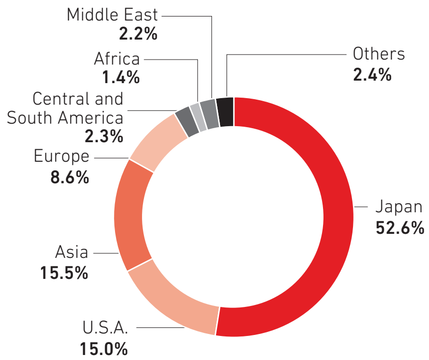
REPORTING SEGMENT	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Energy Systems	¥ 8,299	¥11,950	$107,939
Plants & Infrastructure Systems	1,409	1,186	10,712
Logistics, Thermal & Drive Systems	(2,108)	(347)	(3,134)
Aircraft, Defense & Space	—	—	—
Subtotal	7,600	12,789	115,518
Adjustments	5,298	2,368	21,389
Total	¥12,898	¥15,158	$136,916

REVENUE

Breakdown of Revenue by Customer Location	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Japan	¥1,944,758	¥1,947,909	$17,594,697
U.S.A.	663,779	554,984	5,012,952
Asia	700,385	573,181	5,177,319
Europe	374,459	318,767	2,879,297
Central and South America	131,706	83,853	757,411
Africa	60,379	51,349	463,815
Middle East	91,267	79,671	719,636
Others	74,640	90,230	815,012
Total	¥4,041,376	¥3,699,946	$33,420,160

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥110.71=US$1, the exchange rate prevailing at March 31, 2021.

Composition of Overseas Revenue by Geographic Distribution



MANAGEMENT'S DISCUSSION AND ANALYSIS

» ANALYSIS OF OPERATING RESULTS

Consolidated revenue decreased by ¥341.4 billion or 8.4% year on year, to ¥3,699.9 billion.

Profit from business activities decreases in the Plants & Infrastructure Systems segment, Energy Systems segment, and Logistics, Thermal & Drive Systems segment, but Aircraft, Defense & Space segment posted an increase, resulting in an overall improvement of ¥83.6 billion year on year to ¥54.0 billion, while profit before income taxes rose by ¥82.0 billion year on year to ¥49.3 billion.

Meanwhile, profit attributable to owners of the parent came to ¥40.6 billion, ¥46.4 billion or 53.4% lower than in the previous fiscal year. This was because deferred tax assets in relation to losses posted in previous fiscal years were recognized in the previous fiscal year.

» ANALYSIS OF FINANCIAL POSITION

Total assets as of March 31, 2021, were ¥4,810.7 billion, down by ¥174.9 billion from the end of the previous fiscal year due to the following factors. We transferred all shares in our offshore wind turbine joint venture with Danish company, Vestas Wind Systems A/S ("Vestas") to Vestas, while acquiring new shares in Vestas itself, which led to an increase in other financial assets. However, based on the settlement agreement with Hitachi, Ltd. ("Hitachi"), the shares in Mitsubishi Hitachi Power Systems, Ltd. ("MHPS") held by Hitachi were acquired by the Company, resulting in indemnification assets for South African projects being recovered in their entirety and reduced to zero. Total liabilities of ¥3,371.3 billion as of March 31, 2021, down by ¥324.2 billion from the end of the previous fiscal year due to the above-mentioned transfer of MHPS shares to the Company based on the settlement agreement with Hitachi resulted in a decrease in bonds, borrowings and other financial liabilities.

Due to the increase in profit attributable to owners of the parent and other factors, total equity increased by ¥149.3 billion from the end of the previous fiscal year, to ¥1,439.3 billion.

As a result of the above, the ratio of equity attributable to owners of the parent at the end of the fiscal year ended March 31, 2021 was 28.4%, an increase of 4.0 percentage points over the 24.4% recorded at the end of the previous fiscal year.

» SOURCE OF FUNDS AND LIQUIDITY

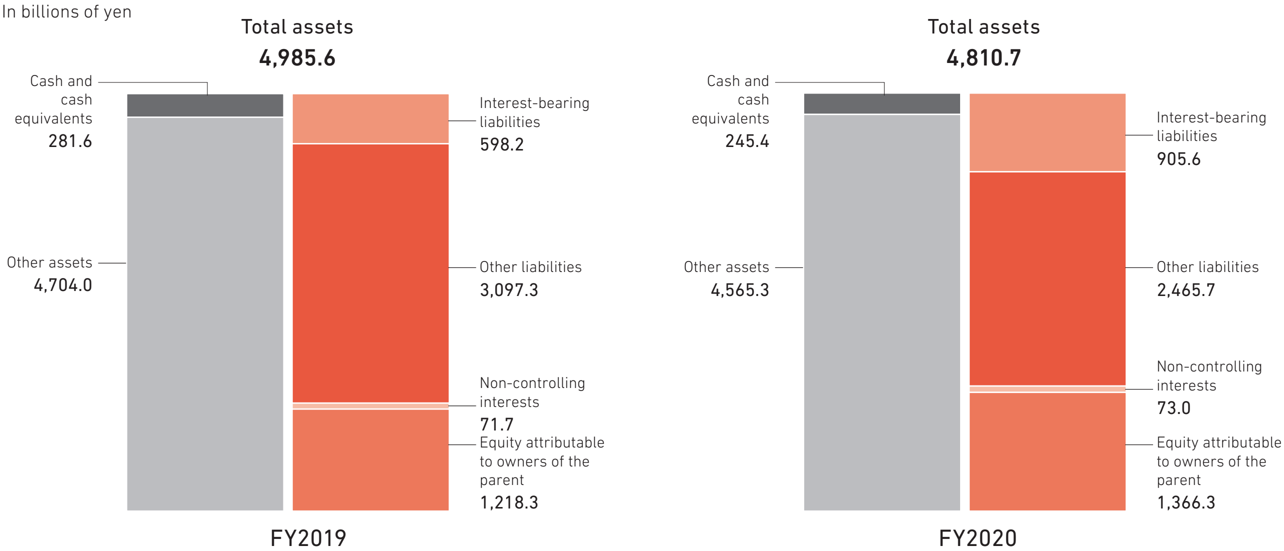
Cash Flow Analysis

Net cash used in operating activities came to ¥94.9 billion, ¥547.5 billion less than the net cash provided by operating activities of ¥452.5 billion in the previous fiscal year. This was due to the partial recovery of the indemnification assets for South African projects in the previous fiscal year, as well as an increase in trade receivables and a larger reduction in contract liabilities in the fiscal year ended March 31, 2021, which combined with other factors caused a shift towards increased demand for working capital.

Net cash used in investing activities of ¥182.2 billion, ¥57.3 billion less than in the previous fiscal year. While payments were made for acquisition of businesses, there were reduction in cash used for purchases of property, plant and equipment and intangible assets, and in payments for acquisition of subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In billions of yen



	FY2019	FY2020
Equity ratio	24.4%	28.4%
D/E ratio	46.38%	62.92%
ROE	6.6%	3.1%

Net cash from financing activities came to ¥221.7 billion, ¥426.1 billion more than the ¥204.4 billion used in the preceding fiscal year. Key sources of cash were proceeds from long-term borrowings and the issuance of bonds.

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.

In growth areas, MHI Group is planning to purchase investment securities and execute necessary capital investments and R&D investments. 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, 2021, was as follows:

	In billions of yen		
	Total	Due within one year	Due after one year
Short-term borrowings	50.5	50.5	—
Commercial paper	196	196	—
Long-term borrowings	464	31.2	432.8
Bonds	195	45	150
Total	**905.6**	**322.7**	**582.8**

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. The Group has worked consistently to streamline assets and to repay borrowings as they mature. However, in the order-made products business there has been a trend towards payments for projects for which advance payments have been received in previous years being disbursed in accordance with progress made, and there have also been increases in receivables and inventories caused by the impact of COVID-19 on the Commercial Aircraft business. As a result, total interest-bearing debt at the end of the fiscal 2020 was ¥905.6 billion, consisting of ¥322.7 billion due within one year, and ¥582.8 billion with maturities of more than one year.

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

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 mainly through long-term borrowings, bonds, MHI Group takes into account the funding requirements of its business plans, interest rate trends 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 a number of factors into consideration, including the state of progress on business plans, the Company's performance outlook, its financial condition, stock price trends, and 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. This basic policy remains unchanged in the 2021 Medium-term Business Plan.

As decided in MHI's Articles of Incorporation, the Company 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.

Taking into consideration factors such as the Group's operating performance during the fiscal year and its financial position, the year-end dividend was set at ¥75 per share. Because the Company elected to forgo paying an interim dividend for the fiscal year, the annual dividend was also ¥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 certain key risks, as described in (3) below, that have 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.

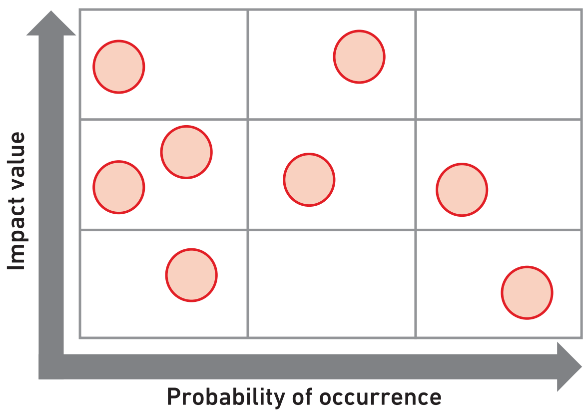
Although MHI Group works to prepare countermeasures to these key risks and others in advance, complete avoidance is not feasible. The Group seeks to advance its business activities in accordance with the Medium-Term Business Plan while maintaining an awareness of these risks, and striving to minimize their impact in the event that they materialize.

In the medium to long term, these key risks could bring about further changes to the business environment in which the Group operates, as well as to the structure of society. The Group acknowledges the need for foresight and for proactive measures to enable us to adapt to such future developments.

Items relating to the future are based on the judgment of the Group as of the end of fiscal 2020.

(1) Process for considering key risks

MHI Group has formulated a management process for identifying and discussing risks encountered during the execution of business, based on which a list of risks is created. When identifying risks, we may use expertise from outside the Company to assist in creating an exhaustive list of those that are relevant to MHI Group. Based on this list, we work to unearth specific risks that may materialize over a period of roughly 10 years. We then consider the probability of these risks materializing and the impact in the event that they do materialize, taking into account the effects of the countermeasures we have prepared. For quantifiable risks that are identified as having a potentially material impact on the business of the Group, we conduct a risk mapping exercise as follows. We also identify qualitative risks that are impractical to quantify using the exhaustive list mentioned above.



(2) MHI Group risk countermeasures

The Group has implemented systems designed to manage each type of risk and responsibilities are clearly defined to ensure the appropriate management of risk. Risk is periodically evaluated and analyzed and necessary avoidance or mitigating measures are taken. The effectiveness and appropriateness of these measures are audited through internal audits and reported to the Board of Directors and the Audit and Supervisory Committee in a timely manner. In preparation for situations in which significant risk materializes, MHI has put in place measures to ensure that the information required to respond accurately and promptly to an emergency is communicated to top-level management without delay. Risk management supervisors are assigned to each business division.

Risk management in MHI Group is practiced in accordance with the scope and requirements clarified in the Business Risk Management Charter. The Business Risk Management Committee shares information on significant risks and discusses policy responses by top-level management, with the aim of clarifying the system and the roles of management, business segments, and corporate departments. With the Business Risk Management Department acting as the responsible department, MHI Group engages in business risk management activities that bring together management, business segments, and corporate departments.

In point (1) of each of items 1 to 7 in "(3) Key risks" below are presented specific examples of the countermeasures prepared by MHI Group for the item in question. However, not only are we implementing initiatives to avoid and mitigate risks in accordance with the type and nature of each, including those that are not key risks, but we are also working to minimize the impact described in "(2) Potential Impact on Operating Results" of items 1 to 7 in the event that such a risk materializes.

(3) Key risks

a) THE SPREAD OF THE COVID-19 PANDEMIC

(i) Global Pandemic and its Impact on Economic Activity

Since the end of 2019, COVID-19 has developed into a global pandemic. A gradual resumption of economic activity is currently underway, and signs of recovery have become visible in both the Japanese and the wider global economy. Nevertheless, since it is still unable to forecast with any certainty when the spread of COVID-19 will end and when demand will recover to previous levels in some industries, caution remains necessary in relation to the impact of COVID-19.

In terms of specific steps taken to mitigate these impacts, MHI Group is strengthening profitability by investing in areas where the market is expected to expand, reinforcing sales networks and implementing initiatives to shift towards service businesses. In addition, 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 external expenditure, revised investment plans, made more effective use of surplus resources, and made use of subsidy programs available in various countries. We are also putting in place working-from-home environments, expanding related tools and reviewing the system so that a wide range of business and operational tasks can be performed remotely.

(ii) 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 in various countries. The made-to-order business, which serves infrastructure-related companies and government agencies, accounts for approximately two thirds of Group sales. Delayed progress in project orders currently in the pipeline, particularly those overseas, have led to slowdown of revenue recognition. Operating results may also be affected by travel restrictions, supply chain disruption, and delays on contract negotiations and in 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. This impact extends to the Group's production and service business, and forecasting when demand will recover going forward is problematic. It is infeasible to predict these effects with much precision, and going forward they could become more significant and prolonged, which could have a material impact on the Group's operating results.

b) CHANGES IN THE BUSINESS ENVIRONMENT

(i) Deterioration of the Business Environment Surrounding the Group

The business environment in which the Group operates is undergoing rapid change. For example, at a global level there have been changes in the economic environment such as increased antagonism between the United States and China leading to the splitting and capture of supply chains, and intensified competition for dominance through cross-border regulation in the areas of digital devices and data. 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, however, global warming is expected to accelerate efforts to shift to carbon-free energy, and lead to strengthened regulation of the use of fossil fuels, all of which are driving significant changes in the business environment for the Group.

In order to address these changes in the business environment, MHI Group is working to maintain and strengthen product competitiveness in such areas as performance, reliability, price and environmental friendliness through R&D and capital investment. At the same time, it is focusing on incorporating external knowledge where advantageous 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. These include combining existing lines of business to develop products and services, and cultivating business domains beyond the reach of our existing business units. With regard to the M&A and alliances we are undertaking in various product areas, which take the business environment into consideration, through activities such as monitoring and screening at the point of entry, we are putting initiatives aimed at smooth PMI*[1] into practice.

*1. Post Merger Integration

(ii) Potential Impact on Operating Results

The trend towards strengthened export controls resulting from antagonism between the United States and China has intensified further. Restrictions on the Group's business activities in such areas as participation in business discussions and the selection of suppliers, or reduced competitiveness of the Group as a result of the increasingly serious labor shortage in Japan and the hollowing-out of its manufacturing center, could have a material impact on the Group's operating results. With regard to environmental regulation, growing environmental awareness may lead to a decrease in demand for products and services in businesses such as thermal power systems, vehicular turbochargers, and chemical plant-related engineering, as well as a reduction in business scale, and difficulty in recouping invested capital. In addition, the thermal power generation systems business could be affected by a sharp decline in demand for electricity derived from fossil fuels, and the loss of service business negotiations to competitors due to intensified competition, which could in turn lead to a decline in orders. In the event that changes in the business environment lead to customers making the decision to cease operations of thermal power plants on their own initiative, the resulting slump in the service business could have a material impact on the Group's operating results. If various environmental regulations become even more stringent than was assumed that the time the business plan was formulated, we could encounter problems when attempting to respond to such changes. These could result in a reduction in market competitiveness and the loss of opportunities to win orders, which could negatively impact the Group's ability to carry its business plans forward. 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 may prevent us from progressing as planned with these M&A and alliances with target companies, which could have a material impact on the Group's operating results, for example by requiring it to write down assets and recognize impairment losses.

c) DISASTERS

(i) 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 the occurrence, or more frequent occurrence of earthquakes, tsunamis, torrential rains, floods, storms, volcanic eruptions, fires, lightning strikes, pandemics other than COVID-19, and other acts of nature, and the enlargement of the damage caused by such events. Other potential events include 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. It is expected that climate change will lead to enlargement of the effects of natural disasters.

The Group takes steps to mitigate these impacts. We make use of disaster measure support tools, and have established and maintain communication systems and a business continuity plan. We implement regular plant inspections and training, and strengthen facilities against seismic events. As well as taking out insurance, we also gather information on the safety of various countries and other circumstances, respond with appropriate measures, and cooperate with relevant governmental agencies.

(ii) 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, tsunamis or floods in those countries and regions, there could be material impacts on the production capacity of the Group. Specific examples include loss of or damage to production equipment, supply chain paralysis 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 resulting decline in orders and revenues would have the potential to materially impact the Group's operating results.

d) PRODUCT- AND SERVICE-RELATED PROBLEMS

(i) Product- and Service-Related Problems such as Quality and Safety Issues and Rising Manufacturing Costs

As a global leader in manufacturing and engineering, the Group leverages advanced technologies to provide solutions for a wide range of fields, from Energy Systems, Plants & Infrastructure Systems, through Logistics, Thermal & Drive Systems, to Aircraft, Defense & Space. The Group makes unceasing efforts to improve the quality and reliability of its products, but there is nevertheless the potential for problems with product performance or delivery delay, or safety issues that arise in the use of our products. Other potential problems include rising manufacturing costs stemming from factors including changes in specifications or process delays, unforeseen problems associated with materials and parts procurement or construction work, claims for damages and contract cancellations from customers due to delivery delays or underperformance of the products, or deterioration in customers' financial solvency. There is also the potential for similar problems arising from products or services in relations with our suppliers. In the event that it becomes impossible to continue transactions with the supplier of a specific raw material or part and an alternative supplier cannot be arranged, there could be a negative impact on production activities and on the provision of products or services to the customer.

The Group takes steps to mitigate these risks, such as through the formulation and administration of regulations, the maintenance and upgrade of business risk management frameworks, prior screening and post-order monitoring of individual projects, education for those responsible for project implementation, and executives such as business division managers, and holding ongoing courses of product safety seminars. In addition, the Group summarizes the causes of large loss-making projects that occurred in the past, and the steps taken to deal with them, and ensures that internal education reflects the conclusions so as to prevent recurrences.

(ii) Potential Impact on Operating Results

The occurrence of such product- and service-related problems could lead to additional costs, compensation for damages paid to customers, and the loss of societal reputation and trust. Customers, suppliers and other third parties may bring legal action or arbitration against the Group in Japan or overseas, to which the Group will respond. The Group will put forth its utmost efforts so that its claims are acknowledged in court or in arbitration, 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- and service-related problems could have a material impact on the operating results of the Group.

e) INTELLECTUAL PROPERTY ISSUES

(i) Violation of the Group's Intellectual Property and Violation of the Intellectual Property of Third Parties by the Group

The Group values its intellectual property, which comprises the outcomes of its R&D, as an important management resource, and puts it to use globally. However, there is nevertheless the potential for instances of intellectual property infringement claims against the Group by third parties.

The Group appropriately protects its intellectual property through patent and other rights. It also respects the intellectual property of third parties, makes efforts to avoid infringement, and takes appropriate procedures such as licensing technology from the third parties concerned as necessary. Specifically, we have taken measures to prevent intellectual property-related disputes by thoroughly investigating intellectual property held by other parties at each stage of product planning, design and manufacturing. We enhance the expertise of our Intellectual Property division through training and human resource development.

(ii) 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 compensation 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.

f) INFORMATION SECURITY PROBLEMS

(i) Information Security Problems

The Group comes into contact with large amounts of confidential information, including that of customers, in the execution of its business activities. It also possesses confidential information regarding the Group's technologies, operations, and other aspects of business, and our operational dependency on information technology is increasing. In the event that increasingly sophisticated and aggressive cyberattacks exceed the level we currently anticipate, leading to infection by computer viruses, unauthorized access and other unforeseen circumstances, confidential information could be lost or leaked outside the Group. It is also possible that such cyberattacks could result in impediments to the use of terminals or servers.

We also implement a cybersecurity program under the control of the CTO*[2] to minimize the risks of such cyberattacks. Under this program, we perform initiatives such as cybersecurity governance (establishing standards, implementation of measures, self-assessments, and internal audits) and incident response.

*2. CTO: Chief Technology Officer

(ii) Potential Impact on Operating Results

Information leaks would substantially reduce our competitiveness and damage our societal reputation and trust, which could seriously impact the execution of our business. In addition to becoming the target of investigations by the authorities, such events could risk claims for damages being brought against us by our customers. Furthermore if cyberattacks were to result in obstacles to the use of servers and other equipment, this could have a significant impact on the execution of operations, and lead to the risk of production activities, and provision of goods and services to customers, being affected. Thus, information security-related problems have the potential to materially impact the operating results of the Group.

g) LEGAL AND REGULATORY VIOLATIONS

(i) Significant Legal and Regulatory Violations

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 we should never trade 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. Specifically, MHI has formulated the "MHI Group Global Code of Conduct," which is aimed at all officers and employees of the Group, and is operated in conjunction with various other policies it has established. In addition, the Group holds periodic meetings of the Compliance Committee, has put in place a whistleblowing system, conveys messages from management on the importance of thorough compliance with laws and regulations, enhances and implements internal education on compliance, information management, and brand strategy on an ongoing basis, and performs internal audits that take into account outstanding issues in various departments. However, we cannot rule out the possibility that, in spite of our efforts, some officers or employees may violate laws or regulations.

(ii) Potential Impact on Operating Results

In the event of legal or regulatory violations, 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, in the event that laws or regulations have been infringed, the Group may face legal action from the relevant authorities or other concerned parties for damages incurred, and may lead to the loss of societal reputation and trust. Taking into account the nature of the Group, anti-monopoly laws in Japan and overseas, laws and regulations related to bribery, trade and foreign exchange, the construction industry law, and laws against delays in payments to subcontractors could have a particularly significant impact on the Group. Such violations of laws and regulations have the potential to materially impact our operating results.

CONSOLIDATED FINANCIAL STATEMENTS [IFRS]
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2020 / March 31, 2021

		Millions of yen		Thousands of U.S. dollars
ASSETS	Notes	As of March 31, 2020	**As of March 31, 2021**	**As of March 31, 2021**
Current assets:				
Cash and cash equivalents	5, 10	¥ 281,626	**¥ 245,421**	**$ 2,216,791**
Trade and other receivables	6, 10, 24, 35	611,976	**655,181**	**5,917,992**
Other financial assets	7, 10, 35	28,539	**30,677**	**277,093**
Contract assets	24, 35	576,061	**578,936**	**5,229,301**
Inventories	11, 24	726,228	**713,498**	**6,444,747**
Indemnification asset for South African projects	12	407,800	**—**	**—**
Other current assets	21	206,261	**230,955**	**2,086,125**
Total current assets		2,838,493	**2,454,670**	**22,172,071**
Non-current assets:				
Property, plant and equipment	13, 15	792,920	**779,696**	**7,042,688**
Goodwill	14, 15	124,500	**124,500**	**1,124,559**
Intangible assets	14, 15	78,908	**74,722**	**674,934**
Right-of-use assets	15, 18	96,201	**93,321**	**842,931**
Investments accounted for using the equity method	17	177,569	**182,897**	**1,652,036**
Investments in securities and other financial assets	7, 10, 35	391,538	**560,213**	**5,060,184**
Deferred tax assets	16	382,729	**378,338**	**3,417,378**
Other non-current assets	15, 21	102,827	**162,365**	**1,466,579**
Total non-current assets		2,147,196	**2,356,056**	**21,281,329**
Total assets		¥4,985,690	**¥4,810,727**	**$43,453,409**

See accompanying notes to the consolidated financial statements.

LIABILITIES AND EQUITY	Notes	Millions of yen As of March 31, 2020	Millions of yen As of March 31, 2021	Thousands of U.S. dollars As of March 31, 2021
Liabilities				
Current liabilities:				
Bonds, borrowings and other financial liabilities	9, 10, 35	¥ 769,099	¥ 445,147	$ 4,020,838
Trade and other payables	8, 10, 35	824,030	763,731	6,898,482
Income taxes payable		28,994	12,237	110,532
Contract liabilities	24	835,465	731,814	6,610,188
Provisions	19	199,496	207,876	1,877,662
Other current liabilities	21	151,657	184,453	1,666,091
Total current liabilities		2,808,742	2,345,260	21,183,813
Non-current liabilities:				
Bonds, borrowings and other financial liabilities	9, 10, 35	601,770	790,862	7,143,546
Deferred tax liabilities	16	7,318	6,597	59,588
Retirement benefit liabilities	20	145,890	124,432	1,123,945
Provisions	19	58,173	50,485	456,011
Other non-current liabilities	21	73,718	53,699	485,042
Total non-current liabilities		886,871	1,026,076	9,268,141
Total liabilities		3,695,614	3,371,337	30,451,964
Equity	37			
Share capital	22	265,608	265,608	2,399,132
Capital surplus	22	49,667	47,265	426,926
Treasury shares		(5,374)	(4,452)	(40,213)
Retained earnings	22	886,307	952,528	8,603,811
Other components of equity	30	22,133	105,393	951,973
Equity attributable to owners of the parent		1,218,343	1,366,342	12,341,631
Non-controlling interests	30	71,732	73,047	659,804
Total equity		1,290,076	1,439,390	13,001,445
Total liabilities and equity		¥4,985,690	¥4,810,727	$43,453,409

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2020 and 2021

	Notes	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Revenue	24	¥4,041,376	¥3,699,946	$33,420,160
Cost of sales		3,331,339	3,116,464	28,149,796
Gross profit		710,036	583,482	5,270,364
Selling, general and administrative expenses	25	583,874	531,383	4,799,774
Share of profit of investments accounted for using the equity method	17	12,898	15,158	136,916
Other income*	26	67,751	167,698	1,514,750
Other expenses	26	236,350	180,873	1,633,754
Profit (loss) from business activities		(29,538)	54,081	488,492
Finance income	28	11,616	11,677	105,473
Finance costs	28	14,738	16,404	148,170
Profit (loss) before income taxes		(32,660)	49,355	445,804
Income taxes	16	(139,945)	6,153	55,577
Profit		107,284	43,202	390,226
Profit attributable to:				
Owners of the parent		87,123	40,639	367,076
Non-controlling interests		20,161	2,562	23,141

	Notes	In yen 2020	In yen 2021	In U.S. dollars 2021
Earnings per share attributable to owners of the parent	29			
Basic earnings per share		¥259.39	¥120.92	$1.092
Diluted earnings per share		259.06	120.83	1.091

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 dividend income in fiscal years ended March 31, 2020 and 2021 were 12,096 million yen and 10,664 million yen ($96,323 thousand) respectively.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2020 and 2021

	Notes	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Profit		¥ 107,284	**¥ 43,202**	**$ 390,226**
Items that will not be reclassified to profit or loss:				
Net gain (loss) from financial assets measured at FVTOCI	10, 30	(50,873)	**37,943**	**342,724**
Remeasurement of defined benefit plans	20, 30	(23,201)	**56,097**	**506,702**
Share of other comprehensive loss of entities accounted for using the equity method	17, 30	(24)	**(163)**	**(1,472)**
Total		(74,098)	**93,878**	**847,963**
Items that may be reclassified to profit or loss:				
Cash flow hedges	30, 35	(1,713)	**(271)**	**(2,447)**
Hedge cost	30, 35	(639)	**874**	**7,894**
Exchange differences on translating foreign operations	30	(25,106)	**37,962**	**342,895**
Share of other comprehensive income of entities accounted for using the equity method	17, 30	941	**5,970**	**53,924**
Total		(26,517)	**44,535**	**402,267**
Total other comprehensive income (loss)		(100,616)	**138,413**	**1,250,230**
Comprehensive income		¥ 6,668	**¥181,616**	**$1,640,466**
Comprehensive income attributable to:				
Owners of the parent		¥ (8,201)	**¥173,635**	**$1,568,376**
Non-controlling interests		14,869	**7,980**	**72,080**

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, 2020 and 2021

		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, 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 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
Profit					40,639		40,639	2,562	43,202
Other comprehensive income	30					132,995	132,995	5,418	138,413
Comprehensive income		—	—	—	40,639	132,995	173,635	7,980	181,616
Transfer to retained earnings					49,668	(49,668)	—		—
Purchase of treasury shares				(5)			(5)		(5)
Disposal of treasury shares			83	364			447		447
Dividends	23				(25,188)		(25,188)	(5,073)	(30,261)
Transactions with non-controlling interests	32		(1,611)			(67)	(1,678)	(1,380)	(3,058)
Other			(874)	563	1,100		789	(212)	576
Total transactions with owners		—	(2,402)	921	(24,087)	(67)	(25,636)	(6,665)	(32,302)
Balance as of March 31, 2021		¥265,608	¥ 47,265	¥(4,452)	¥952,528	¥105,393	¥1,366,342	¥ 73,047	¥1,439,390

		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, 2020		$ 2,399,132	$ 448,622	$ (48,541)	$ 8,005,663	$ 199,918	$ 11,004,814	$ 647,927	$ 11,652,750
Profit					367,076		367,076	23,141	390,226
Other comprehensive income	30					1,201,291	1,201,291	48,938	1,250,230
Comprehensive income		—	—	—	367,076	1,201,291	1,568,376	72,080	1,640,466
Transfer to retained earnings					448,631	(448,631)	—		—
Purchase of treasury shares				(45)			(45)		(45)
Disposal of treasury shares			749	3,287			4,037		4,037
Dividends	23				(227,513)		(227,513)	(45,822)	(273,335)
Transactions with non-controlling interests	32		(14,551)			(605)	(15,156)	(12,464)	(27,621)
Other			(7,894)	5,085	9,935		7,126	(1,914)	5,202
Total transactions with owners		—	(21,696)	8,319	(217,568)	(605)	(231,559)	(60,202)	(291,771)
Balance as of March 31, 2021		$2,399,132	$426,926	$(40,213)	$8,603,811	$ 951,973	$12,341,631	$659,804	$13,001,445

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, 2020 and 2021

	Notes	Millions of yen		Thousands of U.S. dollars
		2020	2021	2021
Cash flows from operating activities:				
Profit (loss) before income tax		¥ (32,660)	¥ 49,355	$ 445,804
Depreciation, amortization and impairment loss		323,967	238,258	2,152,091
Finance income and costs		2,324	(5,369)	(48,496)
Share of profit of investments accounted for using the equity method		(12,898)	(15,158)	(136,916)
Gain on sale of shares of subsidiaries and affiliates		—	(83,041)	(750,076)
Gain on sale of property, plant and equipment, and intangible assets		(978)	(45,570)	(411,615)
Loss on disposal of property, plant and equipment, and intangible assets		7,842	6,912	62,433
Decrease (increase) in trade receivables		65,082	(27,739)	(250,555)
Increase in contract assets		46,447	4,308	38,912
Increase in inventories and advanced payments		39,162	57,222	516,863
Decrease in trade payables		(27,859)	(68,731)	(620,820)
Decrease in contract liabilities		(34,185)	(124,703)	(1,126,393)
Decrease in provisions		(12,559)	(11,011)	(99,458)
Increase (decrease) in retirement benefit liabilities		(126)	3,496	31,577
Decrease in indemnification asset of South African projects	12	131,777	—	—
Others	26	8,715	5,094	46,012
Subtotal		504,051	(16,677)	(150,636)
Interest received		7,218	5,407	48,839
Dividends received	26	14,903	14,968	135,200
Interest paid		(10,444)	(9,543)	(86,198)
Income taxes paid		(63,164)	(89,102)	(804,823)
Net cash provided by operating activities		452,564	(94,948)	(857,628)
Cash flows from investing activities:				
Purchases of property, plant and equipment and intangible assets		(246,291)	(146,212)	(1,320,675)
Proceeds from sales of property, plant and equipment and intangible assets		31,133	43,956	397,037
Purchases of investments (including investments accounted for using equity method)		(13,924)	(15,796)	(142,679)
Proceeds from sales and redemption of investments (including investments accounted for using equity method)		23,981	12,521	113,097
Payments for acquisition of subsidiaries		(28,733)	—	—
Proceeds from sale of subsidiaries		1,652	775	7,000
Payments for acquisition of businesses		—	(71,082)	(642,055)
Net decrease in short-term loans receivable		201	708	6,395
Disbursement of long-term loans		(807)	(8,482)	(76,614)
Collection of long-term loans		237	222	2,005
Others		(7,015)	1,138	10,279
Net cash provided by (used in) investing activities		(239,566)	(182,249)	(1,646,183)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	9	(19,800)	96,778	874,157
Proceeds from long-term borrowings	9	65,341	212,500	1,919,429
Repayment of long-term borrowings	9	(45,506)	(58,146)	(525,210)
Proceeds from issuance of bonds	9	—	65,000	587,119
Payment for redemption of bonds	9	(65,000)	(10,000)	(90,326)
Proceeds from issuance of stock to non-controlling interests		19	—	—
Payments for acquisition of interests in subsidiaries from non-controlling interests	9	(13,908)	(22,549)	(203,676)
Dividends paid to owners of the parent	23	(46,933)	(25,667)	(231,839)
Dividends paid to non-controlling interests		(5,837)	(5,144)	(46,463)
Proceeds from factoring agreements	9	145,264	139,315	1,258,377
Repayment of liabilities under factoring agreements	9	(192,502)	(145,045)	(1,310,134)
Repayments of lease liabilities	9	(23,256)	(22,667)	(204,742)
Others		(2,332)	(2,633)	(23,782)
Net cash provided by (used in) financing activities		(204,452)	221,737	2,002,863
Effect of exchange rate changes on cash and cash equivalents		(10,153)	19,255	173,922
Net decrease in cash and cash equivalents		(1,608)	(36,205)	(327,025)
Cash and cash equivalents at the beginning of the year	5	283,235	281,626	2,543,817
Cash and cash equivalents at the end of the year	5	¥ 281,626	¥ 245,421	$ 2,216,791

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, 2020 and 2021

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 four reporting segments "Energy Systems," "Plants & Infrastructure Systems," "Logistics, Thermal & Drive Systems" 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 29, 2021.

(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, 2021 of ¥110.71=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 judgments

In preparing these consolidated financial statements, the Group's management has made critical judgments, 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 judgments 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 judgments 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 of revenue (Note 3. "Significant Accounting Policies (13) Revenue")

Judgments, estimates and underlying assumptions that may have significant impacts on the consolidated financial statements are as follows:

- Recoverable amount of non-financial assets (Note 3. "Significant Accounting Policies (10) Impairment of non-financial assets," 15. "Impairment of non-financial assets")
- Measurement of provisions (Note 3. "Significant Accounting Policies (11) Provisions," 19. "Provisions")
- Measurement of defined benefit obligations (Note 3. "Significant Accounting Policies (12) Post-employment benefits," 20. "Employee benefits")
- Measurement of revenue (Note 3. "Significant Accounting Policies (13) Revenue," 24. "Revenue")
- Recoverability of deferred tax assets (Note 3. "Significant Accounting Policies (17) Income taxes," 16. "Income taxes")

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, financial assets measured at amortized cost 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, interest rate swap contracts and forward contracts, to hedge foreign currency risks, interest rate risks and commodity price 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 the following accounting treatment for derivative transactions that meet the requirements for hedge accounting.

(i) Fair value hedge

Changes in the fair value of derivative transactions that are designated as fair value hedges are recognized in profit or loss together with changes in the fair value of the hedged assets or liabilities that corresponds to the hedged risk.

When derivative transactions are designated as the hedging instrument for equity instruments that are designated as financial assets measured at FVTOCI, changes in the fair value of the hedging instrument and hedged assets are recognized in other comprehensive income.

(ii) Cash flow hedge

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. Provision of loss allowance 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 25 years

Customer relationship recognized through business combination: 2 to 25 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 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 the cash-generating unit ("CGU") is the higher of its fair value less costs of disposal and 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 the CGU. A CGU 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 CGU to which the asset belongs is determined. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or the CGU 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 each 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 current fiscal year. 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 assets and is regularly amortized over the transfer of related goods or services to customers. 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 satisfied 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

For contracts for the rendering of services or construction contracts under which the control of a good or service promised in the contracts is transferred to customers over the contract term, revenue is recognized by estimating total revenue for each contract and measuring progress towards the complete satisfaction of the performance obligation. The 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 satisfy the performance obligation against the expected total costs of satisfying 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. Based on management plans taking into account tax implications and others, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences in principle. However, taxable temporary differences on investments in subsidiaries, affiliates and interests in joint ventures are not recognized if the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences 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 profits 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 profits.

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.

4. 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 manages its businesses by business domains and segments. Each business domain and segment engages in its business activities by formulating comprehensive strategies on products and services which are provided in both domestic and overseas markets. Therefore, MHI aggregates the business domains and segments by considering similarities of each business domain's and segment's customers and product characteristics.

The Group carried out reorganization effective on April 1, 2020. In conjunction with the reorganization, the previous three reporting segments namely Power Systems; Industry & Infrastructure; and Aircraft, Defense & Space were restructured into four reporting segments namely Energy Systems; Plants & Infrastructure Systems; Logistics, Thermal & Drive Systems; and Aircraft, Defense & Space.

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

Segment information for the previous fiscal year was restated based on the categories of reporting segments after the change.

Energy Systems	Thermal power systems (Gas turbine combined cycle [GTCC] and Steam power), Nuclear power generation system (Light-water reactors, Nuclear fuel cycle & Advanced solutions), Wind power generators, Engines for aircrafts, Compressors, Environmental plants, Marine machinery
Plants & Infrastructure Systems	Metals machinery, Commercial ships, Engineering, Environmental systems, Mechatronics systems, Machine tools
Logistics, Thermal & Drive Systems	Material handling equipment, Turbochargers, Engines, Air-conditioning & refrigeration systems, Automotive thermal systems
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, 2020 (from April 1, 2019 to March 31, 2020)

	Millions of yen						
	Reporting segment					Adjustments*1	Consolidated
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
Revenue							
Revenue from external customers	¥1,579,397	¥750,556	¥983,918	¥ 703,862	¥4,017,736	¥ 23,640	¥4,041,376
Inter-segment revenue and transfers	10,896	42,368	6,186	1,122	60,574	(60,574)	—
Total	¥1,590,293	¥792,925	¥990,105	¥ 704,985	¥4,078,310	¥(36,934)	¥4,041,376
Segment profit (loss)*2	144,383	25,534	29,348	(208,792)	(9,524)	(20,014)	(29,538)
Finance income							11,616
Finance costs							14,738
Profit (loss) before income taxes							(32,660)
Other items							
Depreciation and amortization	47,085	13,265	43,749	27,082	131,184	13,455	144,639
Impairment losses	717	14	243	177,563	178,538	833	179,372
Share of profit (loss) of investments accounted for using the equity method	¥ 8,299	¥ 1,409	¥ (2,108)	¥ —	¥ 7,600	¥ 5,298	¥ 12,898

*1. The "Adjustments" classification includes revenues and expenses which are not included in any of the reporting segments. Specifically, income from utilization and disposal of assets, corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.

*2. The segment profit (loss) represents profit (loss) from business activities.

For the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

	Millions of yen						
	Reporting segment					Adjustments*1	Consolidated
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
Revenue							
Revenue from external customers	¥1,533,380	¥596,153	¥855,449	¥701,087	¥3,686,071	¥ 13,875	¥3,699,946
Inter-segment revenue and transfers	12,622	41,104	4,858	1,022	59,607	(59,607)	—
Total	¥1,546,003	¥637,258	¥860,307	¥702,109	¥3,745,679	¥(45,732)	¥3,699,946
Segment profit (loss)*2	127,699	(10,222)	15,613	(94,841)	38,249	15,832	54,081
Finance income							11,677
Finance costs							16,404
Profit before income taxes							49,355
Other items							
Depreciation and amortization	44,172	12,047	43,325	26,987	126,532	12,709	139,242
Impairment losses	2,759	4,316	83	80,599	87,758	12,584	100,343
Share of profit (loss) of investments accounted for using the equity method	¥ 11,950	¥ 1,186	¥ (347)	¥ —	¥ 12,789	¥ 2,368	¥ 15,158

*1. The "Adjustments" classification includes revenues and expenses which are not included in any of the reporting segments. Specifically, income from utilization and disposal of assets, corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.
*2. The segment profit (loss) represents profit (loss) from business activities.

	Thousands of U.S. dollars						
	Reporting segment					Adjustments*1	Consolidated
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
Revenue							
Revenue from external customers	$13,850,420	$5,384,816	$7,726,935	$6,332,643	$33,294,833	$ 125,327	$33,420,160
Inter-segment revenue and transfers	114,009	371,276	43,880	9,231	538,406	(538,406)	—
Total	$13,964,438	$5,756,101	$7,770,815	$6,341,875	$33,833,249	$(413,079)	$33,420,160
Segment profit (loss)*2	1,153,454	(92,331)	141,026	(856,661)	345,488	143,004	488,492
Finance income							105,473
Finance costs							148,170
Profit before income taxes							445,804
Other items							
Depreciation and amortization	398,988	108,815	391,337	243,762	1,142,913	114,795	1,257,718
Impairment losses	24,920	38,984	749	728,019	792,683	113,666	906,358
Share of profit (loss) of investments accounted for using the equity method	$ 107,939	$ 10,712	$ (3,134)	$ —	$ 115,518	$ 21,389	$ 136,916

*1. The "Adjustments" classification includes revenues and expenses which are not included in any of the reporting segments. Specifically, income from utilization and disposal of assets, corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.
*2. The segment profit (loss) represents profit (loss) 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		Thousands of U.S. dollars
	2020	2021	2021
Japan	¥1,944,758	¥1,947,909	$17,594,697
U.S.A.	663,779	554,984	5,012,952
Asia	700,385	573,181	5,177,319
Europe	374,459	318,767	2,879,297
Central and South America	131,706	83,853	757,411
Africa	60,379	51,349	463,815
Middle East	91,267	79,671	719,636
Others	74,640	90,230	815,012
Total	¥4,041,376	¥3,699,946	$33,420,160

*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, Thailand, South Korea, Indonesia, Taiwan, India, Singapore, Philippines, Vietnam, Hong Kong, Bangladesh, Malaysia
(2) Europe... Germany, United Kingdom, France, Netherlands, Russia, Poland, Uzbekistan, Italy, Spain, Belgium, Sweden, Hungary, Belarus, Austria, Greece, Finland, Turkmenistan, Denmark
(3) Central and South America... Mexico, Brazil, Panama, Trinidad and Tobago, Dominican Republic
(4) Africa... Egypt, South Africa, Liberia
(5) Middle East... United Arab Emirates, Saudi Arabia, Qatar, Turkey, Israel
(6) Others... Canada, Australia

b) Non-current assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2020	As of March 31, 2021	As of March 31, 2021
Japan	¥ 896,361	¥ 861,102	$ 7,777,996
Overseas subtotal	280,209	294,943	2,664,104
Total	¥1,176,570	¥1,156,045	$10,442,100

*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

Major external customer from which revenue accounts for 10% or more of the revenue recorded in the consolidated statement of profit or loss was Ministry of Defense. Its revenue mainly belonged to the reporting segment of Aircraft, Defense & Space and the amount of revenue was ¥400,723 million ($3,619,573 thousand) for the fiscal year ended March 31, 2021.

5. 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, 2020	As of March 31, 2021	As of March 31, 2021
Cash and deposits	¥280,141	¥244,607	$2,209,439
Cash equivalents	1,485	814	7,352
Total	¥281,626	¥245,421	$2,216,791

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

6. 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, 2020	**As of March 31, 2021**	**As of March 31, 2021**
Trade receivables	¥549,903	**¥588,013**	**$5,311,290**
Other	62,072	**67,167**	**606,693**
Total	¥611,976	**¥655,181**	**$5,917,992**

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, 2020 and March 31, 2021, were ¥21,650 million and ¥22,800 million ($205,943 thousand), respectively.

7. OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2020	**As of March 31, 2021**	**As of March 31, 2021**
Financial assets at FVTPL			
Derivative assets*1	¥ 6,716	**¥ 9,046**	**$ 81,708**
Shares and other investments in capital	—	**16,740**	**151,205**
Financial assets at FVTOCI			
Shares and other investments in capital	364,883	**518,523**	**4,683,614**
Financial assets measured at amortized cost			
Time deposits due more than three months	17,010	**13,148**	**118,760**
Other	31,466	**33,431**	**301,969**
Total	¥420,078	**¥590,890**	**$5,337,277**
Current assets	28,539	**30,677**	**277,093**
Non-current assets	391,538	**560,213**	**5,060,184**
Total	¥420,078	**¥590,890**	**$5,337,277**

*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, 2020	As of March 31, 2021	As of March 31, 2021
Marketable securities*1	¥213,123	¥379,890	$3,431,397
Non-marketable securities*2	151,759	138,632	1,252,208
Total	¥364,883	¥518,523	$4,683,614

*1. Marketable securities designated as FVTOCI

Major marketable securities designated as FVTOCI, of entities in which the Group invests, as of March 31, 2020 and March 31, 2021, are as follows.

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, 2021 (Millions of yen)

Entity name	Fair value
Vestas Wind Systems A/S[*]	114,720
Mitsubishi Corporation	52,093
Tokio Marine Holdings, Inc.	26,676
Central Japan Railway Company	24,545
Nippon Yusen Kabushiki Kaisha	15,491
Mitsubishi Electric Corporation	12,685
SUZUKI MOTOR CORPORATION	10,238
AGC Inc.	9,516
Coca-Cola Bottlers Japan Holdings Inc.	7,559
Mitsubishi Estate Company, Limited	7,444

As of March 31, 2021 (Thousands of U.S. dollars)

Entity name	Fair value
Vestas Wind Systems A/S[*]	1,036,220
Mitsubishi Corporation	470,535
Tokio Marine Holdings, Inc.	240,953
Central Japan Railway Company	221,705
Nippon Yusen Kabushiki Kaisha	139,924
Mitsubishi Electric Corporation	114,578
SUZUKI MOTOR CORPORATION	92,475
AGC Inc.	85,954
Coca-Cola Bottlers Japan Holdings Inc.	68,277
Mitsubishi Estate Company, Limited	67,238

[*]. The Group acquired 2.5% of Vestas's shares on December 14, 2020.
Such shares were acquired in exchange for the Group's shareholding in an offshore wind power plant joint venture, which was jointly established by the Group and Vestas.
The fair value of the shares of Vestas at the date of acquisition was ¥107 billion ($966 million). The difference between the carrying amount of the shares of the joint venture and the fair value of the shares of Vestas at the date of acquisition was recognized in "other income" and the fair value change of the shares of Vestas through March 31, 2021 was recognized in "other comprehensive income."

*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, 2020 and March 31, 2021, were ¥36,617 million and ¥41,536 million ($375,178 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, 2020 and March 31, 2021, were ¥39,943 million and ¥14,537 million ($131,307 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, 2020 and March 31, 2021, were ¥25,438 million and ¥24,843 million ($224,397 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, 2020 and March 31, 2021.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Dividend income from investments derecognized during the year	¥ 554	¥ 84	$ 758
Dividend income from investments held as of the year end	11,542	10,579	95,555
Total	¥12,096	¥10,664	$96,323

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, 2020 and March 31, 2021.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Fair value at the date of derecognition	¥27,542	¥ 9,437	$ 85,240
Accumulated gains (losses)	¥ 7,854	¥(4,028)	$(36,383)

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, 2020 and March 31, 2021 were ¥68 million and ¥(6,009) million ($(54,276) thousand), respectively.

8. 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, 2020	As of March 31, 2021	As of March 31, 2021
Trade payables	¥655,208	¥635,749	$5,742,471
Electronically recorded obligations	122,791	78,457	708,671
Other	46,030	49,525	447,339
Total	¥824,030	¥763,731	$6,898,482

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

9. 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, 2020	As of March 31, 2021	As of March 31, 2021
Financial liabilities measured at amortized cost			
Bonds*1	¥ 140,000	¥ 195,000	$ 1,761,358
Commercial Papers	85,000	196,000	1,770,391
Short-term borrowings*2 *3	64,744	50,527	456,390
Long-term borrowings*2 *3	308,553	464,095	4,191,988
Other	104,808	100,536	908,102
Financial liabilities at FVTPL			
Derivative liabilities*4	12,778	12,190	110,107
Liabilities under factoring agreement*5	94,233	88,306	797,633
Liabilities arising from put options held by non-controlling shareholders	426,066	—	—
Lease liabilities	134,684	129,353	1,168,394
Total	¥1,370,870	¥1,236,010	$11,164,393
Current liabilities	769,099	445,147	4,020,838
Non-current liabilities	601,770	790,862	7,143,546
Total	¥1,370,870	¥1,236,010	$11,164,393

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

Company name / Issue name	Date of issue	Millions of yen: As of March 31, 2020	Millions of yen: As of March 31, 2021	Interest rate	Date of maturity	Thousands of U.S. dollars: As of March 31, 2021
Mitsubishi Heavy Industries, Ltd.						
The 26th Unsecured Corporate Bond	Sept 4, 2013	¥ 15,000	¥ 15,000	0.877%	Sept 4, 2023	$ 135,489
The 28th Unsecured Corporate Bond	Sept 3, 2014	25,000	25,000	0.381%	Sept 3, 2021	225,815
The 29th Unsecured Corporate Bond	Sept 3, 2014	30,000	30,000	0.662%	Sept 3, 2024	270,978
The 30th Unsecured Corporate Bond	Sept 2, 2015	10,000	—	0.221%	Sept 2, 2020	—
The 31st Unsecured Corporate Bond	Sept 2, 2015	10,000	10,000	0.630%	Sept 2, 2025	90,326
The 32nd Unsecured Corporate Bond	Aug 31, 2016	20,000	20,000	0.050%	Aug 31, 2021	180,652
The 33rd Unsecured Corporate Bond	Aug 31, 2016	10,000	10,000	0.240%	Aug 31, 2026	90,326
The 34th Unsecured Corporate Bond	Aug 29, 2017	10,000	10,000	0.104%	Aug 29, 2022	90,326
The 35th Unsecured Corporate Bond	Aug 29, 2017	10,000	10,000	0.330%	Aug 27, 2027	90,326
The 36th Unsecured Corporate Bond	Nov 24, 2020	—	25,000	0.140%	Nov 21, 2025	225,815
The 37th Unsecured Corporate Bond	Nov 24, 2020	—	40,000	0.390%	Nov 22, 2030	361,304
Total		¥140,000	¥195,000			$1,761,358

*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, 2021, are 0.58% and 0.88%, respectively.

Long-term borrowings will be due in 2021 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, 2020 and March 31, 2021, were ¥435 million, and ¥195 million ($1,761 thousand), respectively.

The breakdown of assets pledged as collateral is as follows:

	Millions of yen: As of March 31, 2020	Millions of yen: As of March 31, 2021	Thousands of U.S. dollars: As of March 31, 2021
Property, plant and equipment	¥1,240	¥1,926	$17,396
Trade and other receivables	219	432	3,902
Inventories	451	256	2,312
Total	¥1,910	¥2,616	$23,629

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, 2021, 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 2021 through 2024.

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, 2020 and March 31, 2021, were ¥13,489 million, and ¥13,084 million ($118,182 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, 2020 and March 31, 2021, were ¥75,225 million, and ¥72,726 million ($656,905 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, 2020 (from April 1, 2019 to March 31, 2020)

Millions of yen

	Carrying amount as of April 1, 2019	Cash flows	Non-cash transactions				Carrying amount as of March 31, 2020
			Changes in fair value	Foreign currency translation	New contracts	Other movements*1	
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 agreement	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, 2021 (from April 1, 2020 to March 31, 2021)

Millions of yen

	Carrying amount as of April 1, 2020	Cash flows	Non-cash transactions				Carrying amount as of March 31, 2021
			Changes in fair value	Foreign currency translation	New contracts	Other movements*1	
Bonds	¥ 140,000	¥ 55,000	¥ —	¥ —	¥ —	¥ —	¥ 195,000
Commercial papers*2	85,000	111,000	—	—	—	—	196,000
Short-term borrowings	64,744	(14,221)	—	289	—	(285)	50,527
Long-term borrowings	308,553	154,353	—	1,143	—	44	464,095
Liabilities under factoring agreement	94,233	(5,730)	—	—	—	(195)	88,306
Lease liabilities	134,684	(22,667)	—	1,779	11,481	4,075	129,353
Liabilities arising from put options held by non-controlling shareholders	426,066	(19,523)	596	660	—	(407,800)	—
Other liabilities*3	30,460	(3,020)	—	—	—	1,028	28,468
Total	¥1,283,743	¥255,189	¥596	¥3,873	¥11,481	¥(403,131)	¥1,151,752

For the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

Thousands of U.S. dollars

	Carrying amount as of April 1, 2020	Cash flows	Non-cash transactions				Carrying amount as of March 31, 2021
			Changes in fair value	Foreign currency translation	New contracts	Other movements*1	
Bonds	$ 1,264,565	$ 496,793	$ —	$ —	$ —	$ —	$ 1,761,358
Commercial papers*2	767,771	1,002,619	—	—	—	—	1,770,391
Short-term borrowings	584,807	(128,452)	—	2,610	—	(2,574)	456,390
Long-term borrowings	2,787,038	1,394,210	—	10,324	—	397	4,191,988
Liabilities under factoring agreement	851,169	(51,756)	—	—	—	(1,761)	797,633
Lease liabilities	1,216,547	(204,742)	—	16,069	103,703	36,807	1,168,394
Liabilities arising from put options held by non-controlling shareholders	3,848,487	(176,343)	5,383	5,961	—	(3,683,497)	—
Other liabilities*3	275,133	(27,278)	—	—	—	9,285	257,140
Total	$11,595,546	$2,305,022	$5,383	$34,983	$103,703	$(3,641,324)	$10,403,323

*1. "Other movements" under Non-cash transactions includes changes arising from obtaining or losing control of subsidiaries or other businesses, and changes arising from collection of assets.

*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, 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, 2021

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	¥379,890	¥ —	¥155,372	¥535,263
Derivatives	—	7,822	1,224	9,046
Total	¥379,890	¥ 7,822	¥156,597	¥544,310
Liabilities:				
Derivatives	—	10,018	2,172	12,190
Total	¥ —	¥10,018	¥ 2,172	¥ 12,190

As of March 31, 2021

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	$3,431,397	$ —	$1,403,414	$4,834,820
Derivatives	—	70,653	11,055	81,708
Total	$3,431,397	$70,653	$1,414,479	$4,916,538
Liabilities:				
Derivatives	—	90,488	19,618	110,107
Total	$ —	$90,488	$ 19,618	$ 110,107

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, 2020 and March 31, 2021.

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, 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

*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.

There were no material changes for derivative assets and liabilities.

For the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

	Millions of yen					
	Balance as of April 1, 2020	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other*1	Balance as of March 31, 2021
Securities and investments in capital	¥151,759	¥3,231	¥(11,057)	¥(4,202)	¥15,641	¥155,372

	Thousands of U.S. dollars					
	Balance as of April 1, 2020	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other*1	Balance as of March 31, 2021
Securities and investments in capital	$1,370,779	$29,184	$(99,873)	$(37,955)	$141,279	$1,403,414

*1. "Other" includes shares and investments in capital of external companies that have been held by new consolidated subsidiaries at the beginning time of consolidation, which the Group acquired its shares in the fiscal year ended March 31, 2021.

There were no material changes for derivative assets and liabilities.

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 0.6 to 2.4 times for the fiscal year ended March 31, 2020, and within a range from 0.6 to 3.0 times for the fiscal year ended March 31, 2021.

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 5.9% and 9.9% for the fiscal year ended March 31, 2020 and between 6.4% and 10.0% for the fiscal year ended March 31, 2021.

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, 2020		As of March 31, 2021		As of March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	¥140,000	¥141,026	¥195,000	¥195,904	$1,761,358	$1,769,523
Long-term borrowings	¥308,553	¥307,215	¥464,095	¥460,519	$4,191,988	$4,159,687

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, 2020	As of March 31, 2021	As of March 31, 2021
Merchandise and finished products	¥185,731	¥197,518	$1,784,102
Work in progress	354,106	325,972	2,944,377
Raw materials and supplies	131,459	142,534	1,287,453
Capitalized contract costs	54,930	47,473	428,804
Total	¥726,228	¥713,498	$6,444,747

The amounts of inventories to be used or sold after more than 12 months from the year-end were ¥91,023 million and ¥107,745 million ($973,218 thousand) as of March 31, 2020 and March 31, 2021, respectively.

For the fiscal years ended March 31, 2020 and March 31, 2021, write-downs of inventories recognized as expenses were ¥24,703 million and ¥11,396 million ($102,935 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 ¥22,033 million and ¥380 million ($3,432 thousand), for the fiscal years ended March 31, 2020 and March 31, 2021, 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")*[1], 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")*[2], 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 ($1,806 million) in March 2020.

(2) MHI's Obligations

- MHI purchases the ¥70.0 billion ($632 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 acquisition of 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.

In accordance with the aforementioned settlement agreement, all MHPS shares held by Hitachi were transferred to MHI on September 1, 2020. As a result, "indemnification assets for South African projects" of ¥407.8 billion ($3,683 million) recorded as of March 2020 was fully collected, and "bonds, borrowings and other financial liabilities" also decreased by the same amount. After conclusion of the settlement agreement, 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."

*1. MHPS changed its company name to Mitsubishi Power, Ltd. on September 1, 2020.
*2. MHPS-Africa changed its company name to MHI Power ZAF (Pty) Ltd. on September 1, 2020.

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, 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
Acquisition	2,748	13,472	1,868	1,155	97,313	116,558
Depreciation*1	(19,911)	(51,362)	(24,632)	—	—	(95,907)
Impairment*2	(6,046)	(3,168)	594	(3,314)	(3,769)	(15,705)
Transfer of accounts	24,153	48,383	22,073	(1,887)	(95,724)	(3,001)
Transfer to held-for-sale	(1,860)	(4,685)	(390)	(1,096)	(149)	(8,182)
Sales or disposals	(4,031)	(3,662)	(618)	(539)	(1,979)	(10,830)
Exchange differences	1,929	4,159	591	571	528	7,779
Other changes	147	(1,831)	(1,544)	(170)	(535)	(3,933)
As of March 31, 2021	¥308,340	¥233,816	¥ 51,013	¥144,822	¥ 41,703	¥779,696

	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	$2,811,046	$2,100,180	$ 479,378	$1,355,830	$ 415,680	$7,162,135
Acquisition	24,821	121,687	16,872	10,432	878,990	1,052,822
Depreciation*1	(179,848)	(463,932)	(222,491)	—	—	(866,290)
Impairment*2	(54,611)	(28,615)	5,365	(29,934)	(34,043)	(141,857)
Transfer of accounts	218,164	437,024	199,376	(17,044)	(864,637)	(27,106)
Transfer to held-for-sale	(16,800)	(42,317)	(3,522)	(9,899)	(1,345)	(73,904)
Sales or disposals	(36,410)	(33,077)	(5,582)	(4,868)	(17,875)	(97,823)
Exchange differences	17,423	37,566	5,338	5,157	4,769	70,264
Other changes	1,327	(16,538)	(13,946)	(1,535)	(4,832)	(35,525)
As of March 31, 2021	$2,785,114	$2,111,968	$ 460,780	$1,308,120	$ 376,686	$7,042,688

(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, 2019	¥839,306	¥1,300,005	¥531,897	¥150,036	¥87,947	¥2,909,190
As of March 31, 2020	837,871	1,334,333	542,758	151,778	55,063	2,921,805
As of March 31, 2021	¥842,767	¥1,322,011	¥535,911	¥145,802	¥53,893	¥2,900,387

	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, 2021	$7,612,383	$11,941,206	$4,840,673	$1,316,972	$486,794	$26,198,052

(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, 2019	¥524,024	¥1,092,553	¥481,020	¥1,258	¥33,108	¥2,131,962
As of March 31, 2020	526,660	1,101,821	489,686	1,674	9,042	2,128,885
As of March 31, 2021	¥534,427	¥1,088,194	¥484,898	¥ 980	¥12,189	¥2,120,690

	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, 2021	$4,827,269	$9,829,229	$4,379,893	$8,851	$110,098	$19,155,364

*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, 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)
Transfer to held-for-sale	—	—	—	—	—	—	—
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
Acquisition	125	29,402	—	—	7,269	1,749	38,547
Acquisition through business combinations	47,950	—	—	2,969	—	10,022	60,943
Amortization*1	—	—	(5,585)	(6,939)	(7,409)	(5,120)	(25,054)
Impairment*2	(49,504)	(29,402)	—	—	(106)	(18)	(79,030)
Transfer of accounts	—	—	—	—	573	(533)	40
Transfer to held-for-sale	—	—	—	—	(1,242)	(274)	(1,516)
Sale or disposal	—	—	—	—	(368)	(36)	(404)
Exchange differences	1,551	—	315	430	306	1,079	3,684
Other changes	(124)	—	(84)	(201)	126	(1,111)	(1,396)
As of March 31, 2021	¥124,500	¥ —	¥13,999	¥14,194	¥24,202	¥22,325	¥ 199,222

	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	$1,124,559	$ —	$174,817	$161,990	$226,284	$149,643	$1,837,313
Acquisition	1,129	265,576	—	—	65,658	15,798	348,179
Acquisition through business combinations	433,113	—	—	26,817	—	90,524	550,474
Amortization*1	—	—	(50,447)	(62,677)	(66,922)	(46,246)	(226,302)
Impairment*2	(447,150)	(265,576)	—	—	(957)	(162)	(713,846)
Transfer of accounts	—	—	—	—	5,175	(4,814)	361
Transfer to held-for-sale	—	—	—	—	(11,218)	(2,474)	(13,693)
Sale or disposal	—	—	—	—	(3,323)	(325)	(3,649)
Exchange differences	14,009	—	2,845	3,884	2,763	9,746	33,276
Other changes	(1,120)	—	(758)	(1,815)	1,138	(10,035)	(12,609)
As of March 31, 2021	$1,124,559	$ —	$126,447	$128,208	$218,607	$201,652	$1,799,494

(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, 2019	¥207,701	¥529,486	¥59,328	¥59,711	¥70,243	¥76,887	¥1,003,359
As of March 31, 2020	210,233	614,885	58,491	67,728	69,113	65,768	1,086,221
As of March 31, 2021	¥259,898	¥644,288	¥58,840	¥71,078	¥70,250	¥73,674	¥1,178,031

	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, 2021	$2,347,556	$5,819,600	$531,478	$642,019	$634,531	$665,468	$10,640,691

(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, 2019	¥ 86,584	¥501,722	¥32,683	¥42,196	¥49,159	¥56,763	¥769,110
As of March 31, 2020	85,732	614,885	39,137	49,794	44,060	49,201	882,812
As of March 31, 2021	¥135,398	¥644,288	¥44,841	¥56,884	¥46,047	¥51,349	¥978,809

	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, 2021	$1,222,997	$5,819,600	$405,031	$513,810	$415,924	$463,815	$8,841,197

*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

The Group impaired some of its operating assets by reducing the carrying amount to the recoverable amount because the profitability of such assets is no longer expected.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Aircraft, Defense & Space*1	¥177,563	¥80,599	$728,019
Others*2	1,809	15,539	140,357
Total	¥179,372	¥96,139	$868,385

*1. The Group mainly impaired property, plant and equipment, intangible assets, right-of-use assets and others related to SpaceJet project.

*2. The "Others" category mainly includes the impairment not included in any of the reporting segments. The impairment of assets and others that are expected to be sold from the point of view of business structure improvement was included as of the fiscal year ended March 31, 2021.

(1) Impairment of property, plant and equipment, intangible assets, right-of-use assets and others related to SpaceJet project

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

In February 2020, MHI announced that the delivery schedule of the first SpaceJet would be postponed and it is difficult to predict the timing for the delivery of the first SpaceJet. As a result, MHI fully impaired the assets related to the SpaceJet project in the fiscal year ended March 31, 2020.

Furthermore, MHI announced in October 2020 the slowdown of SpaceJet development activities due to the destabilization of the civil aviation market, which has been impacted by the global outbreak of COVID-19 pandemic. Consequently, as following the accounting treatment for the previous fiscal year, MHI recognized the impairment losses of ¥80,599 million($728,019 thousand) for the end of the fiscal year ended March 31, 2021, because it is continuously difficult to predict the timing for the delivery of the first SpaceJet.

The impairment losses stated above included the impairment loss of goodwill of ¥47,950 million ($433,113 thousand) which recognized by the acquisition of CRJ program from Bombardier in Canada and allocated to the SpaceJet project as of June 30, 2020.

Details of the acquisition of CRJ program are stated in Note. 36 "Business combinations."

b) Method for determining the recoverable amount

The recoverable amount is measured at the value in use.

In February 2020, MHI announced that the delivery schedule of the first SpaceJet would be postponed and the expected future cash flows generated from the SpaceJet project could not be reliably estimated. Because of this, MHI fully impaired the assets related to the SpaceJet project in the fiscal year ended March 31, 2020.

Furthermore, MHI announced in October 2020 the slowdown of SpaceJet development activities due to the destabilization of the civil aviation market, which has been impacted by the global outbreak of COVID-19 pandemic. Consequently, MHI fully impaired assets acquired during the fiscal year ended March 31, 2021 at the time of acquisition, since the situation that MHI could not reliably estimate the delivery schedule of the first SpaceJet and the future cash flows generated from the SpaceJet project has continued at the end of the fiscal year ended March 31, 2021.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Property, plant and equipment	¥ 4,032	¥ 2,133	$ 19,266
Intangible assets	117,378	29,443	265,947
Right-of-use assets	3,128	590	5,329
Goodwill	—	47,950	433,113
Other non-current assets	51,534	480	4,335
Total	¥176,073	¥80,599	$728,019

(2) Other impairments

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Property, plant and equipment	¥1,538	¥13,571	$122,581
Intangible assets	—	82	740
Right-of-use assets	1,760	330	2,980
Goodwill	—	1,553	14,027
Other non-current assets	—	1	9
Total	¥3,299	¥15,539	$140,357

(3) Impairment test for goodwill

As described in Note 3. "Significant Accounting Policies (10) Impairment of non-financial assets," the Group performs impairment tests annually, or whenever there is an indication of impairment.

Since goodwill does not generate independent cash flows, the Group estimates the recoverable amount of goodwill together with non-financial assets such as other property, plant and equipment and performs impairment tests on them. The total amount of non-financial assets including goodwill subject to the impairment testing, were ¥1,101,783 million, and ¥1,082,134 million ($9,774,491 thousand) as of March 31, 2020 and March 31, 2021, respectively.

The recoverable amount is measured at the value in use. The value in use is calculated by discounting to the present value the future cash flows projected based on the business plans, approved by management, reflecting historical experience and external information and the growth rate. The Group establishes the business plans consist of the key points such as trends of future revenue and gross margin ratios, and the reduction of fixed costs, which would have significant impacts on the projection. These are based on factors considered reasonable by management.

For impairment tests of goodwill, the weighted average cost of capital for each CGU was used as a discount rate.

The discount rates(before tax) used for the impartment tests were 4.7% to 9.8%, and 6.4% to 10.9% for the fiscal years ended March 31, 2020 and March 31, 2021, respectively.

Growth rates were 0%, and -0.5% to 0% for the fiscal years ended March 31, 2020 and March 31, 2021, respectively.

The total amount of the Group's goodwill at the end of the fiscal year, which was ¥124,500 million ($1,124,559 thousand) as of March 31, 2020 and March 31, 2021, respectively.

The breakdown of the carrying amount of goodwill by CGU is as follows.

The balance of carrying amount of major goodwill by CGU

		Millions of yen			
		Material handling equipment	Steam power	GTCC	Metals machinery
As of March 31, 2020		¥55,370	¥25,473	¥20,113	¥16,816
As of March 31, 2021		¥55,364	¥25,530	¥20,159	¥18,003
Key factors used for impairment tests for the fiscal year ended March 31, 2021	Discount rate (before tax)	6.4% ~ 8.3%			
	Growth rate	−0.5% ~ 0.0%			

	Thousands of U.S. dollars			
	Material handling equipment	Steam power	GTCC	Metals machinery
As of March 31, 2021	$500,081	$230,602	$182,088	$162,614

No impairment loss of goodwill allocated to four main CGUs stated above table was recognized in either the fiscal year ended March 31, 2020 or the fiscal year ended March 31, 2021.

The recoverable amount of Material handling equipment and GTCC was sufficiently higher than the carrying amount for the CGU. The Group judged it was unlikely that the recoverable amount fall below the carrying amount, even if key factors used for impairment tests changed to the predictable extent reasonably. On the other hand, although the recoverable amount of Steam power business and Metals machinery business exceeded the carrying amount by ¥194,253 million ($1,754,611 thousand) and ¥39,709 million ($358,675 thousand) respectively, an impairment loss may be recognized if the discount rate (before tax) or the growth rate, which is among key factors used in the impairment testing were changed as following.

- Steam power: In case of an increase of 13.7% in the discount rate or a decrease of 29.9% in the growth rate.
- Metals machinery: In case of an increase of 5.0% in the discount rate or a decrease of 6.8% in the growth rate.

In addition, an impairment loss also may be recognized in case that there occurred material changes in the factors of the business plan underlying the estimated future cash flows.

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, 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
Unused tax losses	22,458	(12,224)	—	10,234
Provisions	51,649	(1,291)	—	50,358
Excess of book depreciation over tax depreciation	22,396	(918)	—	21,477
Accrued expenses, and so forth	16,516	2,681	—	19,198
Loss on valuation of inventories	14,721	5,609	—	20,331
Valuation difference on property, plant and equipment	9,932	8,421	—	18,354
Contract liabilities	18,421	(4,062)	—	14,358
Valuation difference on right-of-use assets	12,464	3,239	—	15,704
Valuation difference on securities	2,769	—	(547)	2,222
Loss allowance for expected credit losses	7,237	(2,146)	—	5,091
Other	72,788	32,208	(1,915)	103,081
Total deferred tax assets	¥322,457	¥215,202	¥ 8,517	¥546,177
Deferred tax liabilities				
Valuation difference on securities	45,593	—	(25,482)	20,110
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
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, 2021

	Millions of yen			
	As of April 1, 2020	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2021
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	¥180,756	¥(39,386)	¥ —	¥141,369
Retirement benefits liabilities	85,008	(2,466)	(24,386)	58,155
Unused tax losses	10,234	47,126	—	57,360
Provisions	50,358	6,065	—	56,424
Excess of book depreciation over tax depreciation	21,477	5,573	—	27,051
Accrued expenses, and so forth	19,198	1,451	—	20,650
Loss on valuation of inventories	20,331	(560)	—	19,770
Valuation difference on property, plant and equipment	18,354	1,249	—	19,603
Contract liabilities	14,358	5,239	—	19,598
Valuation difference on right-of-use assets	15,704	(2,112)	—	13,591
Valuation difference on securities	2,222	—	8,748	10,970
Loss allowance for expected credit losses	5,091	3,320	—	8,412
Other	103,081	(764)	5,917	108,234
Total deferred tax assets	¥546,177	¥ 24,736	¥ (9,720)	¥561,193
Deferred tax liabilities				
Valuation difference on securities	20,110	—	23,125	43,235
Gain (loss) on contribution of securities to retirement benefit trust	43,537	(1,845)	—	41,692
Reserve for advanced depreciation of non-current assets	27,252	1,953	—	29,206
Investments in subsidiaries, associates and joint ventures	17,284	25	2,435	19,745
Excess of book depreciation over tax depreciation	11,574	(1,547)	—	10,026
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	10,574	(2,109)	—	8,465
Intangible assets recognized through business combinations	5,994	(2,902)	—	3,091
Other	34,438	(3,216)	2,766	33,988
Total deferred tax liabilities	¥170,765	¥ (9,641)	¥ 28,326	¥189,451

For the fiscal year ended March 31, 2021

	Thousands of U.S. dollars			
	As of April 1, 2020	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2021
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	$1,632,698	$(355,758)	$ —	$1,276,930
Retirement benefits liabilities	767,843	(22,274)	(220,269)	525,291
Unused tax losses	92,439	425,670	—	518,110
Provisions	454,864	54,782	—	509,655
Excess of book depreciation over tax depreciation	193,993	50,338	—	244,341
Accrued expenses, and so forth	173,408	13,106	—	186,523
Loss on valuation of inventories	183,641	(5,058)	—	178,574
Valuation difference on property, plant and equipment	165,784	11,281	—	177,066
Contract liabilities	129,690	47,321	—	177,021
Valuation difference on right-of-use assets	141,848	(19,076)	—	122,762
Valuation difference on securities	20,070	—	79,017	99,087
Loss allowance for expected credit losses	45,985	29,988	—	75,982
Other	931,090	(6,900)	53,445	977,635
Total deferred tax assets	$4,933,402	$223,430	$(87,796)	$5,069,036
Deferred tax liabilities				
Valuation difference on securities	181,645	—	208,879	390,524
Gain (loss) on contribution of securities to retirement benefit trust	393,252	(16,665)	—	376,587
Reserve for advanced depreciation of non-current assets	246,156	17,640	—	263,806
Investments in subsidiaries, associates and joint ventures	156,119	225	21,994	178,348
Excess of book depreciation over tax depreciation	104,543	(13,973)	—	90,560
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	95,510	(19,049)	—	76,461
Intangible assets recognized through business combinations	54,141	(26,212)	—	27,919
Other	311,064	(29,048)	24,984	307,000
Total deferred tax liabilities	$1,542,453	$ (87,083)	$ 255,857	$1,711,236

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, 2020	**As of March 31, 2021**	**As of March 31, 2021**
Deferred tax assets	¥382,729	**¥378,338**	**$3,417,388**
Deferred tax liabilities	¥ 7,318	**¥ 6,597**	**$ 59,588**

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, 2020	**As of March 31, 2021**	**As of March 31, 2021**
Unused tax losses	¥ 459,070	**¥ 547,258**	**$ 4,943,166**
Deductible temporary differences	652,642	**628,428**	**5,676,343**
Total	¥1,111,712	**¥1,175,687**	**$10,619,519**

In recognizing the deferred tax assets, the Group assesses whether it is possible that part or all of the deductible temporary differences, unused tax losses and others are to be utilized against future taxable profits. The estimate of future taxable profits is based on the business plan approved by management, which is established by taking account of the reduction of fixed costs, the impact of spread of COVID-19 on demand and production and responses to changes in business environment of the gas and steam power systems business, which is one of the Group's core businesses. 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, the projection of future taxable profits for the period when the deferred tax assets can be recognized and management plans taking into account tax implications and others.

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, 2020	As of March 31, 2021	As of March 31, 2021
Year 1	¥ 12,051	¥ 18,145	$ 163,896
Year 2	20,604	15,198	137,277
Year 3	16,672	25,364	229,103
Year 4	20,058	37,463	338,388
Year 5 or later	389,684	451,087	4,074,491
Total	¥459,070	¥547,258	$4,943,166

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, 2020 and March 31, 2021, were ¥271,284 million and ¥318,017 million ($2,872,522 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
	2020	2021	2021
Current tax expense			
Current period	¥ 63,636	¥ 36,324	$ 328,100
Prior period restatement	3,141	4,206	37,991
Total of current tax expense	66,777	40,530	366,091
Deferred tax expense			
Arising and reversal of temporary differences	(207,796)	(35,838)	(323,710)
Changes in tax rates or the imposition of new taxes	5	1,120	10,116
Other	1,068	340	3,071
Total of deferred tax expense	(206,722)	(34,377)	(310,513)
Total tax expense	¥(139,945)	¥ 6,153	$ 55,577

(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:

	2020	2021
Effective statutory tax rate in Japan	30.4%	30.5%
Non-deductible expenses	(13.5)%	2.8%
Non-taxable revenues	6.4%	(1.6)%
Share of profit (loss) of investments accounted for using the equity method	11.7%	(9.4)%
Changes in unrecognized deferred tax assets	(118.1)%	(3.0)%
Tax credit for experiment and research expenses	24.5%	(2.4)%
Investments in subsidiaries, associates and joint ventures	497.4%	(16.1)%
Revision to year-end deferred tax assets due to a change in tax rate	(0.6)%	0.6%
Other	(9.7)%	11.0%
Average actual tax rate	428.5%	12.5%

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 ¥141,190 million, and ¥152,933 million ($1,381,383 thousand) as of March 31, 2020 and March 31, 2021, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2020 and March 31, 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Profit or loss	¥11,888	¥10,857	$ 98,076
Other comprehensive income	(2,843)	4,148	37,473
Total comprehensive income	¥ 9,045	¥15,006	$135,543

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 judgment that the Group has significant influence due primarily to the composition of officers of Framatome S.A.S.

The Group owned more than 20% of the voting rights of Shinryo Corporation in the fiscal year ended March 31, 2020. However, based on the judgment that the Group does not have significant influence over the company as a result of revisions to the shareholders' agreement and changes to the board composition in the previous fiscal year, the Group did not apply the equity method when accounting for the investment.

(2) Individually immaterial joint ventures

The carrying amount of investments in individually immaterial joint ventures accounted for using the equity method were ¥36,379 million, and ¥29,963 million ($270,644 thousand) as of March 31, 2020 and March 31, 2021, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2020 and March 31, 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Profit or loss	¥1,009	¥4,300	$38,840
Other comprehensive income	3,760	1,658	14,979
Total comprehensive income	¥4,770	¥5,958	$53,816

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
As of April 1, 2019	¥ 62,801	¥23,647	¥1,719	¥ 2,154	¥ 12	¥ 90,335
Increased amount of right-of-use assets	10,819	17,562	639	—	64	29,086
Depreciation	(12,045)	(6,369)	(499)	(48)	(9)	(18,973)
Others*1	(2)	(2,149)	(547)	(1,551)	—	(4,247)
As of March 31, 2020	¥ 61,573	¥32,691	¥1,312	¥ 555	¥ 67	¥ 96,201
Increased amount of right-of-use assets	9,253	3,243	1,318	504	17	14,337
Depreciation	(10,424)	(6,904)	(556)	(336)	(20)	(18,242)
Others*1	1,283	(1,996)	26	1,711	—	1,025
As of March 31, 2021	¥ 61,685	¥27,035	¥2,101	¥ 2,435	¥ 64	¥ 93,321

	Thousand of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Others	Total
As of March 31, 2020	$556,164	$295,284	$11,850	$ 5,013	$ 605	$ 868,945
Increased amount of right-of-use assets	83,578	29,292	11,904	4,552	153	129,500
Depreciation	(94,155)	(62,361)	(5,022)	(3,034)	(180)	(164,772)
Others*1	11,588	(18,029)	234	15,454	—	9,258
As of March 31, 2021	$557,176	$244,196	$18,977	$21,994	$ 578	$ 842,931

*1. "Others" includes decrease due to cancellation, impairment losses, foreign currency translation gains and losses and others.

(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		Thousands of U.S. dollars
	2020	2021	2021
Interest expenses on lease liabilities	¥ 2,409	¥ 2,165	$ 19,555
Expenses relating to short-term leases	6,703	6,575	59,389
Expenses relating to leases of low-value assets	15,391	18,209	164,474
Lease income from subleasing right-of-use assets	¥ 4,721	¥ 6,527	$ 58,955

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

(4) Cash outflow related to leases

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash outflow related to leases	¥47,186	¥50,250	$453,888

(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 contract. There are no significant supplementary provisions, such as restrictions imposed under the lease contracts.

Sale and leaseback transactions increased cash flows by ¥3,014 million for the fiscal year ended March 31, 2020, however, there was no new transaction for the fiscal year ended March 31, 2021. 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, 2021

	Millions of yen				
	Loss on construction contracts	Product and construction warranties	Levies	Other	Total
Balance as of April 1, 2020	¥ 99,624	¥104,711	¥ 11,594	¥ 41,739	¥257,669
Increase	51,283	31,986	11,437	27,393	122,100
Decrease (utilization)	(49,965)	(24,931)	(11,522)	(12,550)	(98,969)
Decrease (reversal)	(7,301)	(15,205)	(72)	(9,802)	(32,382)
Other (Exchange rate differences, etc.)	(3,802)	1,317	(161)	12,590	9,943
Balance as of March 31, 2021	¥ 89,838	¥ 97,878	¥ 11,275	¥ 59,370	¥258,361
Current liabilities	89,838	81,817	11,275	24,945	207,876
Non-current liabilities	—	16,060	—	34,424	50,485
Total	¥ 89,838	¥ 97,878	¥ 11,275	¥ 59,370	¥258,361

For the fiscal year ended March 31, 2021

	Thousands of U.S. dollars				
	Loss on construction contracts	Product and construction warranties	Levies	Other	Total
Balance as of April 1, 2020	$ 899,864	$ 945,813	$ 104,724	$ 377,012	$2,327,422
Increase	463,219	288,916	103,305	247,430	1,102,881
Decrease (utilization)	(451,314)	(225,191)	(104,073)	(113,359)	(893,948)
Decrease (reversal)	(65,947)	(137,340)	(650)	(88,537)	(292,493)
Other (Exchange rate differences, etc.)	(34,341)	11,895	(1,454)	113,720	89,811
Balance as of March 31, 2021	$ 811,471	$ 884,093	$ 101,842	$ 536,265	$2,333,673
Current liabilities	811,471	739,020	101,842	225,318	1,877,662
Non-current liabilities	—	145,063	—	310,938	456,011
Total	$ 811,471	$ 884,093	$ 101,842	$ 536,265	$2,333,673

(1) Loss on construction contracts

In order to provide for losses from construction contracts for which the Group has not completed satisfying its performance obligation,the Group recognizes a provision for losses that are expected in the subsequent fiscal years for uncompleted construction contracts, if it is probable that a loss has been incurred and a reliable estimate can be made of the amount of the loss, at the end of each reporting period. The timing of cash outflows depends on the progress of the project in the future.

(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 provision for business structure improvement, provision assumed by acquisition of the CRJ program and asset retirement obligations. Details of acquisition of the CRJ program and assumption of guarantees which this provision is recognized are described in Note.36 “Business combinations.”

Among changes of other provisions for the fiscal year ended March 31, 2021, change of provision for business structure improvement was ¥13,149 million ($118,769 thousand), which included provision for the slowdown of SpaceJet development activities and other business restructuring.

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, 2020	As of March 31, 2021	As of March 31, 2021
Present value of defined benefit obligations	¥551,642	¥550,400	$4,971,547
Fair value of plan assets	424,539	504,529	4,557,212
Net defined benefit liability	¥127,103	¥ 45,871	$ 414,334
Amounts presented in the consolidated statement of financial position			
Retirement benefit liabilities	145,890	124,432	1,123,945
Retirement benefit assets	18,787	78,560	709,601
Net defined benefit liability	¥127,103	¥ 45,871	$ 414,334

ii. Changes in present value of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance as of April 1	¥555,177	¥551,642	$4,982,765
Current service cost	40,620	40,629	366,985
Interest expense	2,651	2,823	25,499
Remeasurement			
Actuarial gains (losses) arising from changes in demographic assumptions	(32)	(94)	(849)
Actuarial gains (losses) arising from changes in financial assumptions	(7,434)	(1,977)	(17,857)
Actuarial gains (losses) arising from experience adjustment	1,950	1,695	15,310
Past service cost	187	(83)	(749)
Payment of benefits	(38,279)	(45,581)	(411,715)
Changes from business combinations	843	(82)	(740)
Other	(4,040)	1,429	12,907
Balance as of March 31	¥551,642	¥550,400	$4,971,547

iii. Changes in fair value of plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance as of April 1	¥465,156	¥424,539	$3,834,694
Interest income	2,140	2,150	19,420
Remeasurement			
Return on plan assets (excluding amounts included in net interest on the net defined benefit asset)	(39,697)	80,595	727,983
Contributions to the plan (by the employer)	23,921	23,510	212,356
Payment of benefits	(26,216)	(27,554)	(248,884)
Changes from business combinations	0	(115)	(1,038)
Other	(764)	1,404	12,681
Balance as of March 31	¥424,539	¥504,529	$4,557,212

iv. The breakdown of fair value of plan assets

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, 2021

	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	¥213,755	¥ —	¥213,755
Shares issued by foreign companies	38,361	12,494	50,855
Bonds issued by Japanese companies	20,527	—	20,527
Bonds issued by foreign companies	52,368	36,047	88,416
Cash and deposits	39,572	—	39,572
General accounts for life insurance	—	16,451	16,451
Other	—	74,949	74,949
Total	¥364,586	¥139,943	¥504,529

As of March 31, 2021

	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	$1,930,765	$ —	$1,930,765
Shares issued by foreign companies	346,499	112,853	459,353
Bonds issued by Japanese companies	185,412	—	185,412
Bonds issued by foreign companies	473,019	325,598	798,627
Cash and deposits	357,438	—	357,438
General accounts for life insurance	—	148,595	148,595
Other	—	676,984	676,984
Total	$3,293,162	$1,264,050	$4,557,212

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 ¥152,414 million, and ¥205,304 million ($1,854,430 thousand) as of March 31, 2020 and March 31, 2021, 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, 2020 and 2021, 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, 2020	As of March 31, 2021
Discount rate	Mainly 0.5%	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, 2020		As of March 31, 2021		As of March 31, 2021	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact in the event of 0.5 percentage point change in the discount rate	¥(30,330)	¥32,297	¥(29,950)	¥31,880	$(270,526)	$287,959

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 assets 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, 2022 is ¥23,199 million ($209,547 thousand).

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

	As of March 31, 2020	As of March 31, 2021
Weighted average duration (year)	11.63	11.55

b) Defined contribution plans

Expenses for the defined contribution plans for the fiscal years ended March 31, 2020 and March 31, 2021 were ¥9,427 million and ¥8,622 million ($77,879 thousand), respectively.

(2) Employee benefits expenses

The aggregated amounts of employee benefit expenses recognized for the fiscal years ended March 31, 2020 and March 31, 2021 were ¥809,971 million and ¥790,475 million ($7,140,050 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, 2020	As of March 31, 2021	As of March 31, 2021
Advances to suppliers and prepaid expenses	¥101,796	¥ 86,608	$ 782,296
Retirement benefit assets	18,787	78,560	709,601
Consumption tax receivables (Incl. VAT receivables)	44,568	44,454	401,535
Income tax receivables	4,392	42,063	379,938
Others	139,543	141,634	1,279,324
Total	¥309,089	¥393,321	$3,552,714
Current assets	206,261	230,955	2,086,125
Non-current assets	102,827	162,365	1,466,579
Total	¥309,089	¥393,321	$3,552,714

(2) The breakdown of other liabilities

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2020	As of March 31, 2021	As of March 31, 2021
Accrued expenses	¥ 98,519	¥121,795	$1,100,126
Liabilities in respect of government grants	64,177	42,853	387,074
Accrued consumption taxes (Incl. VAT payables)	12,877	15,056	135,994
Others	49,800	58,446	527,919
Total	¥225,375	¥238,152	$2,151,133
Current liabilities	151,657	184,453	1,666,091
Non-current liabilities	73,718	53,699	485,042
Total	¥225,375	¥238,152	$2,151,133

22. EQUITY AND OTHER EQUITY ITEMS

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

	Shares	
	2020	2021
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 1,523,291 shares, and 1,218,459 shares as of March 31, 2020 and March 31, 2021, respectively. The number of MHI's common shares held by the Stock Grant ESOP Trust, and the Officer Remuneration BIP Trust I&II were 869,823 shares, and 684,587 shares as of March 31, 2020 and March 31, 2021, respectively. There was no change in the number of MHI's common shares held by its associates, which was 4,328 shares as of March 31, 2020 and March 31, 2021, 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, 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.

(2) For the fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

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 26, 2020 Annual General Meeting of Shareholders	Common Stock	¥25,253	$228,100	¥75	$0.6774	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 ($587 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, 2021, but take effect in the fiscal year ending March 31, 2022

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 29, 2021 Annual General Meeting of Shareholders	Common Stock	¥25,262	$228,181	¥75	$0.6774	March 31, 2021	June 30, 2021	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2021, include ¥51 million ($460 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 four business domains and segments: Energy Systems; Plants & Infrastructure Systems; Logistics, Thermal & Drive Systems; and Aircraft, Defense & Space. The operating results of these business domains and segments are regularly reviewed by the Board of Directors of the Company for making decisions about resource allocation and assessing their performance. Therefore, turnover recognized from these businesses is presented as revenue.

The Group further disaggregates revenue from contracts with customers for Aircraft, Defense & Space business domain into "commercial aircraft" and "defense and space equipment" based on the type of markets or customers.

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

	Millions of yen								
	Reporting segments							Adjustments*1	Total
				Aircraft, Defense & Space					
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Commercial aircraft	Defense and space equipment	Subtotal	Total		
Revenue from external customers	¥1,579,397	¥750,556	¥983,918	¥230,367	¥473,495	¥703,862	¥4,017,736	¥23,640	¥4,041,376

*1. "Adjustments" includes income from utilization and disposal of assets, which are not included in any of the reporting segments.

For the fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

	Millions of yen								
	Reporting segments							Adjustments*1	Total
				Aircraft, Defense & Space					
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Commercial aircraft	Defense and space equipment	Subtotal	Total		
Revenue from external customers	¥1,533,380	¥596,153	¥855,449	¥177,415	¥523,672	¥701,087	¥3,686,071	¥13,875	¥3,699,946

*1. "Adjustments" includes income from utilization and disposal of assets, which are not included in any of the reporting segments.

For the fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

	Thousands of U.S. dollars								
	Reporting segments							Adjustments*1	Total
				Aircraft, Defense & Space					
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Commercial aircraft	Defense and space equipment	Subtotal	Total		
Revenue from external customers	$13,850,420	$5,384,816	$7,726,935	$1,602,520	$4,730,123	$6,332,643	$33,294,833	$125,327	$33,420,160

*1. "Adjustments" includes income from utilization and disposal of assets, which are not included in any of the reporting segments.

The Group is engaged in the sales of products, performance of construction works and rendering of services in Energy Systems, Plants & Infrastructure Systems, Logistics, Thermal & Drive Systems and Aircraft, Defense & Space business domains and segments.

Of these, Energy Systems, Plants & Infrastructure Systems, and Defense and space equipment businesses are engaged in construction work in which performance obligations are satisfied over a long period exceeding one year. The revenue of these three businesses is set forth above. These amounts include revenue recognized over time based on the progress towards completion and determining the total transaction price for each construction contract.

- 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 mainly 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 estimated total revenue and costs are subject to change due to the factors set out below, among others, which could arise from contracts with customers and suppliers. There were certain construction contracts which involved significant management judgment.

(a) Factors that may cause changes in the estimated total revenue

- Claims for damage or other requests by customers arising from delivery delays, underperformance of the product and other reasons

(b) Factors that may cause changes in the estimated total costs

- Changes in product specifications
- Responses to process delays
- Fluctuations of procurement costs such as materials and parts
- Responses to underperformance
- Events that were not considered in the planning of construction

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 construction contracts, under which warranties on performance and delivery guarantees are provided, revenue is reduced to the extent a refund liability to customers is deemed to be 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, 2020	As of March 31, 2021	As of March 31, 2021
Receivables from contracts with customers	¥559,170	¥597,633	$5,398,184
Contract assets	576,061	578,936	5,229,301
Contract liabilities	¥835,465	¥731,814	$6,610,188

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 ¥457,408 million and ¥520,473 million ($4,701,228 thousand) for the fiscal years ended March 31, 2020 and March 31, 2021, 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, 2021, 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					Adjustments*1	Total
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
As of March 31, 2020	¥3,432,686	¥1,028,652	¥29,329	¥929,109	¥5,419,777	¥694	¥5,420,471
As of March 31, 2021	¥3,228,043	¥ 988,357	¥36,576	¥892,863	¥5,145,840	¥259	¥5,146,100

*1. "Adjustments" includes general services not included in any of the reporting segments.

	Thousands of U.S. dollars						
	Reporting segments					Adjustments*1	Total
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
As of March 31, 2021	$29,157,646	$8,927,441	$330,376	$8,064,881	$46,480,354	$2,339	$46,482,702

*1. "Adjustments" includes general services not included in any of the reporting segments.

The transaction amounts allocated to the remaining performance obligations in the three reporting segments, namely Energy Systems, Plants & Infrastructure Systems 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 satisfied over a long period exceeding one year. Whereas the transaction amounts allocated to the remaining performance obligations in the Logistics, Thermal & Drive Systems, are mainly attributable to medium-volume production business, are mainly related the sale of the products and rendering of the service for which the performance obligation is completed within one year.

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

- Energy Systems: Within 6 years
- Plants & Infrastructure Systems: Within 4 years
- Logistics, Thermal & Drive Systems: Within 1 year
- Aircraft, Defense & Space: Within 3 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, 2020	As of March 31, 2021	As of March 31, 2021
Assets recognized from the costs to obtain contracts	¥ 396	¥ 595	$ 5,374
Assets recognized from the costs to fulfil contracts	54,534	46,877	423,421
Total	¥54,930	¥47,473	$428,804

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, 2020 and March 31, 2021, the amount of amortization for the assets recognized from the contract costs were ¥22,431 million and ¥15,254 million ($137,783 thousand) respectively. While the amount of impairment losses was ¥3,215 million for the fiscal year ended March 31, 2020, there is no relevant expense for the fiscal year ended March 31, 2021.

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
	2020	2021	2021
Employee benefit expenses	¥220,413	¥229,524	$2,073,200
Research and development expenses*1	73,666	68,383	617,676
Business development expenses	52,686	50,174	453,202
Remuneration and fees	48,283	41,758	377,183
Depreciation and amortization	37,380	33,880	306,024
Loss allowance for expected credit losses	2,014	770	6,955
Others	149,428	106,891	965,504
Total	¥583,874	¥531,383	$4,799,774

*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
	2020	2021	2021
Other income			
Gain on sales of investment securities	¥ —	¥ 83,916	$ 757,980
Gain on sale of property, plant and equipment	978	45,570	411,615
Recognition of revenue deferred in prior fiscal years	—	21,238	191,834
Dividend income*1	12,096	10,664	96,323
Settlement income	47,690	—	—
Others	6,985	6,310	56,995
Total	¥ 67,751	¥167,698	$1,514,750
Other expenses			
Impairment losses*2	179,327	99,554	899,232
Various related losses expected in conjunction with slowdown of development of SpaceJet project	—	41,109	371,321
Business structure improvement expenses	1,939	10,901	98,464
Loss on sale and retirement of property, plant and equipment, and intangible assets	7,842	6,912	62,433
Loss allowance for expected credit losses	12,068	—	—
Settlement expenses	13,469	—	—
Others	21,703	22,397	202,303
Total	¥236,350	¥180,873	$1,633,754

*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.

*2. Impairment losses include impairment on non-financial assets such as goodwill recognized in relation to the SpaceJet project, as described in Note 15. "Impairment of Non-Financial Assets."

It also includes write-downs due to fair value remeasurement of the disposal group as held for sale related to the Plants & Infrastructure Systems domain.

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, 2020 and 2021 were ¥7,713 million and ¥35,045 million ($316,547 thousand), respectively. The main portion of these grants is deducted from research and development expenses as incurred, and some portion is deferred and recognized as other income.

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
	2020	2021	2021
Finance income			
Interest income			
Financial assets measured at amortized cost	¥ 7,059	¥ 5,387	$ 48,658
Foreign exchange gain	2,000	4,972	44,910
Others	2,556	1,317	11,895
Total	¥11,616	¥11,677	$105,473
Finance costs			
Interest expense			
Financial liabilities measured at amortized cost	7,089	8,261	74,618
Lease liabilities	2,409	2,165	19,555
Others	5,240	5,976	53,978
Total	¥14,738	¥16,404	$148,170

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		Thousands of U.S. dollars
	2020	2021	2021
Profit (attributable to owners of the parent)	¥87,123	¥40,639	$367,076

	Thousands of shares	
	2020	2021
Weighted-average number of common shares outstanding during the period	335,876	336,073
Impact of the dilutive effect: share subscription rights	432	257
Weighted-average number of common shares outstanding during the period after impact of the dilutive effect	336,309	336,331

	Yen		U.S. dollars
	2020	2021	2021
Earnings per share (attributable to owners of the parent)			
Basic earnings per share	¥259.39	¥120.92	$1.09
Diluted earnings per share	¥259.06	¥120.83	$1.09

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
	2020	2021	2021
Financial assets measured at FVTOCI			
Balance at the beginning of the year	¥105,782	¥ 55,366	$ 500,099
Changes during the year	(50,347)	37,648	340,059
Transfer to retained earnings	(68)	6,009	54,276
Balance at the end of the year	55,366	99,024	894,444
Remeasurement of defined benefit plans			
Balance at the beginning of the year	¥ —	¥ —	$ —
Changes during the year	(22,355)	55,677	502,908
Transfer to retained earnings	22,355	(55,677)	(502,908)
Balance at the end of the year	—	—	—
Cash flow hedges			
Balance at the beginning of the year	¥ (9,760)	¥ (8,073)	$ (72,920)
Changes during the year	1,687	1,928	17,414
Balance at the end of the year	(8,073)	(6,145)	(55,505)
Hedge costs			
Balance at the beginning of the year	¥ (242)	¥ (881)	$ (7,957)
Changes during the year	(639)	874	7,894
Balance at the end of the year	(881)	(7)	(63)
Exchange differences on translating foreign operations			
Balance at the beginning of the year	¥ 1,208	¥ (24,277)	$ (219,284)
Changes during the year	(25,485)	36,798	332,381
Balance at the end of the year	(24,277)	12,521	113,097
Other components of equity			
Balance at the beginning of the year	¥ 96,987	¥ 22,133	$ 199,918
Changes during the year	(97,140)	132,928	1,200,686
Transfer to retained earnings	22,287	(49,668)	(448,631)
Balance at the end of the year	¥ 22,133	¥105,393	$ 951,973

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Financial assets measured at FVTOCI	¥ (64)	¥ 313	$ 2,827
Remeasurement of defined benefit plans	(2)	231	2,086
Cash flow hedges	(407)	138	1,246
Exchange differences on translating foreign operations	(4,817)	4,734	42,760
Other comprehensive income	¥(5,291)	¥5,418	$48,938

(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
	2020	2021	2021
Items that will not be reclassified to profit (loss)			
Net gain (loss) from financial assets measured at FVTOCI			
Amount arising during the year	¥ (77,115)	¥ 55,161	$ 498,247
Before tax effects	(77,115)	55,161	498,247
Tax effects	26,242	(17,217)	(155,514)
After tax effects	(50,873)	37,943	342,724
Remeasurement of defined benefit plans			
Amount arising during the year	¥ (34,180)	¥ 80,484	$ 726,980
Before tax effects	(34,180)	80,484	726,980
Tax effects	10,979	(24,386)	(220,269)
After tax effects	(23,201)	56,097	506,702
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Amount arising during the year	¥ (24)	¥ (163)	$ (1,472)
Before tax effects	(24)	(163)	(1,472)
Tax effects	—	—	—
After tax effects	(24)	(163)	(1,472)
Items that may be reclassified to profit (loss)			
Cash flow hedges			
Amount arising during the year	¥ (3,826)	¥ (2,033)	$ (18,363)
Reclassification adjustments	987	1,689	15,256
Before tax effects	(2,838)	(344)	(3,107)
Tax effects	1,125	72	650
After tax effects	(1,713)	(271)	(2,447)
Hedge costs			
Amount arising during the year	¥ (723)	¥ 1,453	$ 13,124
Reclassification adjustments	(196)	(195)	(1,761)
Before tax effects	(919)	1,257	11,353
Tax effects	281	(382)	(3,450)
After tax effects	(639)	874	7,894
Exchange differences on translating foreign operations			
Amount arising during the year	¥ (30,520)	¥ 43,882	$ 396,368
Reclassification adjustments	10	(6,300)	(56,905)
Before tax effects	(30,510)	37,582	339,463
Tax effects	5,404	380	3,432
After tax effects	(25,106)	37,962	342,895
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Amount arising during the year	¥ 1,365	¥ 3,048	$ 27,531
Reclassification adjustments	(423)	2,922	26,393
Before tax effects	941	5,970	53,924
Tax effects	—	—	—
After tax effects	941	5,970	53,924
Total other comprehensive income	¥(100,616)	¥138,413	$1,250,230

31. RELATED PARTY TRANSACTIONS

(1) Transactions with affiliates and joint ventures

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2020	As of March 31, 2021	As of March 31, 2021
Balance of receivables*1	¥72,474	¥85,530	$772,558
Balance of payables	¥73,895	¥60,406	$545,623

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Revenue	¥294,750	¥162,336	$1,466,317
Purchases	¥ 66,248	¥ 63,343	$ 572,152

*1. The Group provides loans to some of its related parties.
The total amounts of loans to related parties were ¥3,566 million, and ¥10,786 million ($97,425 thousand) as of March 31, 2020 and March 31, 2021, respectively.
Loans to related parties were mainly provided to Japan Casting & Forging Corporation.
The Group sets loss allowances for the loans as ¥363 million, and ¥7,691 million ($69,469 thousand) as of March 31, 2020 and March 31, 2021, 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
	2020	2021	2021
Short-term remuneration	¥479	¥499	$4,507
Share-based remuneration	225	85	767
Total	¥705	¥585	$5,284

Other than above, the amount of welfare expenses, which is borne by MHI when appointing directors, for the fiscal years ended March 31, 2020 and March 31, 2021 were ¥11 million and ¥12 million ($108 thousand), respectively.

32. MAJOR SUBSIDIARIES

The Group's major subsidiaries are as follows:

Name of subsidiary	Location	Ownership percentage of voting rights*1, 2	
		As of March 31, 2020	As of March 31, 2021
Energy Systems			
Mitsubishi Power, Ltd.*3	Nishi-ku, Yokohama City	65.0%	100%
Mitsubishi Heavy Industries Aero Engines, Ltd.	Komaki City, Aichi	100%	100%
Mitsubishi Heavy Industries Compressor Corporation	Minato-ku, Tokyo	100%	100%
Mitsubishi Power Industries Co., Ltd.	Naka-ku, Yokohama City	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Marine Machinery & Equipment Co., Ltd	Nagasaki City, Nagasaki	100%	100%
Mitsubishi Power Aero LLC	Connecticut, U.S.A.	100% (100%)	100% (100%)
MHI Holding Denmark ApS	Copenhagen, Denmark	100%	100%
Mitsubishi Power Americas, Inc.	Florida, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Power Europe GmbH	Duisburg, Germany	100% (100%)	100% (100%)
Plants & Infrastructure Systems			
Mitsubishi Heavy Industries Engineering, Ltd.	Nishi-ku, Yokohama City	100%	100%
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 Marine Structure Co., Ltd.	Nagasaki City, Nagasaki	100%	100%
Mitsubishi Heavy Industries Transportation and Construction Engineering, Ltd.	Nishi-ku, Yokohama City	100% (100%)	100% (100%)
Primetals Technologies, Limited.	London, U.K.	100% (100%)	100% (100%)
Logistics, Thermal & Drive Systems			
Mitsubishi Heavy Industries Thermal Systems, Ltd.	Chiyoda-ku, Tokyo	100%	100%
Mitsubishi Heavy Industries Engine & Turbocharger, Ltd.	Chuo-ku, Sagamihara City	100% (100%)	100%
Mitsubishi Logisnext Co., Ltd.	Nagaokakyo City, Kyoto	64.6% (64.6%)	64.6%
Mitsubishi Heavy Industries Air-Conditioning and Refrigeration Corporation	Minato-ku, Tokyo	100% (100%)	100% (100%)
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*4	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%)
Mitsubishi Heavy Industries Air Conditioning Europe, Ltd.	Uxbridge, U.K.	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.	Almere, The Netherlands	100% (100%)	100% (100%)
Mitsubishi Caterpillar Forklift America Inc.*5	Texas, U.S.A.	93.1% (93.1%)	100% (100%)
Aircraft, Defense & Space			
Mitsubishi Aircraft Corporation	Minato-ku, Nagoya City	86.9%	86.9%
MHI RJ Aviation ULC	Quebec, Canada	100% (100%)	100% (100%)

Name of subsidiary	Location	Ownership percentage of voting rights*1, 2 As of March 31, 2020	As of March 31, 2021
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.*6	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		222 companies	223 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. In the Group's consolidated financial statements, no consolidated subsidiaries with material non-controlling interests have been included for the fiscal years ended March 31, 2020 and March 31, 2021, respectively.
*3. As described in Note 12. "Indemnification Asset for South African Projects," the Group concluded settlement agreement with Hitachi, Ltd. ("Hitachi"), and acquired the entire economic stake in Mitsubishi Hitachi Power Systems, Ltd. ("MHPS") from Hitachi in the fiscal year ended March 31, 2020. As a result, non-controlling interests in MHPS held by Hitachi was reduced to zero.
Subsequently, transfer of MHPS shares from Hitachi to MHI has been completed, and the Group's ownership percentage of voting rights in MHPS increased from 65% to 100% in the fiscal year ended March 31, 2021. However, as stated above, reduction of non-controlling interests held by Hitachi has been accounted for in the fiscal year ended March 31, 2020, there is no change in non-controlling interests in the current fiscal year.
In addition, MHPS changed its company name to Mitsubishi Power, Ltd. on September 1, 2020.
*4. UniCarriers Americas Corporation changed its company name to Mitsubishi Logisnext Americas(Marengo)Inc. on April 1, 2021.
*5. The Group acquired additional shares in Mitsubishi Caterpillar Forklift America Inc.in the fiscal year ended March 31, 2021. As a result, the Group's ownership percentage of voting rights increased from 93.1% to 100%. This transaction had no material impact on non-controlling interests and other equity items.
Mitsubishi Caterpillar Forklift America Inc. changed its company name to Mitsubishi Logisnext Americas (Houston) Inc. on April 1, 2021.
*6. Mitsubishi Heavy Industries Europe,Ltd. changed its company name to Mitsubishi Heavy Industries EMEA, Ltd. on April 3, 2021.

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 ¥31,323 million and ¥68,641 million ($620,007 thousand) as of March 31, 2020 and March 31, 2021, 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 ¥1,119 million and ¥1,671 million ($15,093 thousand) as of March 31, 2020 and March 31, 2021, 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 ¥18,115 million and ¥7,899 million ($71,348 thousand) as of March 31, 2020 and March 31, 2021, respectively.

34. CONTINGENT LIABILITIES

(Contingent liabilities relating to changes to the delivery schedule of SpaceJet)

Given the destabilization of the civil aviation market, which has been impacted by the global outbreak of COVID-19 pandemic, MHI announced in October 2020 the slowdown of SpaceJet development activities.

Therefore, it is difficult to predict the timing for the delivery of the first SpaceJet, and it is possible that additional burdens will arise depending on the results of discussions with customers and other parties concerned, 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.

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, 2020	As of March 31, 2021	As of March 31, 2021
Simplified approach	—	¥1,162,857	¥1,205,288	$10,886,893
General approach	Measured at an amount equal to the 12-month ECL	70,023	95,863	865,892
	Measured at an amount equal to the lifetime ECL	—	—	—
	Measured at an amount equal to the lifetime ECL (credit impaired)	¥ 1,752	¥ 9,149	$ 82,639

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, 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, 2021 (From April 1, 2020 to March 31, 2021)

	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	¥12,882	¥ 875	¥(1,840)	¥978	¥12,896
Allowances using the general approach					
Other than credit-impaired financial assets	542	(57)	(21)	(94)	368
Credit-impaired financial assets*2	¥ 1,704	¥7,413	¥ —	¥ 31	¥ 9,149

For the fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

	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	$116,358	$ 7,903	$(16,619)	$8,833	$116,484
Allowances using the general approach					
Other than credit-impaired financial assets	4,895	(514)	(189)	(849)	3,323
Credit-impaired financial assets*2	$15,391	$66,958	$ —	$ 280	$ 82,639

*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, 2021.
Credit-impaired financial assets as of April 1, 2019 included loans to ATMEA S.A.S. Given the loans were transferred to a third party, the corresponding loss allowance was reversed in the fiscal year ended March 31, 2020.
Similarly, credit-impaired financial assets as of March 31, 2021 included loans to Japan Casting & Forging Corporation, which is stated in Note 31. "Related Party Transactions."

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 ¥32,416 million and ¥28,634 million ($258,639 thousand) as of March 31, 2020 and March 31, 2021, 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.

Total of the guarantees stated above does not include guarantees related to the CRJ program, which are stated in Note 36. "Business Combinations."

(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, 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, 2021

	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	¥ 763,731	¥ 763,731	¥ 761,310	¥ 2,289	¥ 131
Bonds	195,000	198,738	45,756	92,112	60,870
Commercial papers	196,000	196,000	196,000	—	—
Short-term borrowings	50,527	50,527	50,527	—	—
Long-term borrowings	464,095	479,744	35,454	217,179	227,110
Liabilities under factoring agreements	88,306	88,306	38,561	49,745	—
Lease liabilities	129,353	137,526	25,341	79,510	32,674
Other financial liabilities	100,536	101,663	57,207	26,428	18,028
Derivative liabilities	12,190	12,190	6,835	5,355	—
Total	¥1,999,741	¥2,028,429	¥1,216,995	¥472,619	¥338,814

As of March 31, 2021

	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	$ 6,898,482	$ 6,898,482	$ 6,876,614	$ 20,675	$ 1,183
Bonds	1,761,358	1,795,122	413,295	832,011	549,814
Commercial papers	1,770,391	1,770,391	1,770,391	—	—
Short-term borrowings	456,390	456,390	456,390	—	—
Long-term borrowings	4,191,988	4,333,339	320,242	1,961,692	2,051,395
Liabilities under factoring agreements	797,633	797,633	348,306	449,327	—
Lease liabilities	1,168,394	1,242,218	228,895	718,182	295,131
Other financial liabilities	908,102	918,281	516,728	238,713	162,839
Derivative liabilities	110,107	110,107	61,737	48,369	—
Total	$18,062,875	$18,322,003	$10,992,638	$4,268,982	$3,060,373

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, 2020	**As of March 31, 2021**	**As of March 31, 2021**
U.S. dollars	¥109,844	**¥132,577**	**$1,197,516**
Euros	¥ 48,836	**¥ 39,183**	**$ 353,924**

(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	2020	**2021**	**2021**
U.S. dollars	¥(1,098)	**¥(1,326)**	**$(11,977)**
Euros	¥ (488)	**¥ (392)**	**$ (3,540)**

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, 2020	**As of March 31, 2021**	**As of March 31, 2021**
Borrowings with variable interest rates	¥45,377	**¥27,546**	**$248,812**

(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
	2020	**2021**	**2021**
Profit before income taxes	¥(454)	**¥(275)**	**$(2,483)**

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. Of these shares, to shares for which the selling policy has been determined, the Group may use forward contracts and apply fair value hedge for the purpose of hedging the risk of changes in share prices.

(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, 2020	As of March 31, 2021	As of March 31, 2021
Marketable stocks	¥213,123	¥379,890	$3,431,397

(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
	2020	2021	2021
Other comprehensive income (After tax deduction)	¥(14,826)	¥(26,421)	$(238,650)

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, 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, 2021

	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	¥170,566	¥40,377	¥1,138	¥4,945
Currency swap	65,761	32,880	3,275	—
Interest rate risk				
Interest rate swap	¥ 82,761	¥42,823	¥ —	¥3,966

As of March 31, 2021

	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	$1,540,655	$364,709	$10,279	$44,666
Currency swap	593,993	296,992	29,581	—
Interest rate risk				
Interest rate swap	$ 747,547	$386,803	$ —	$35,823

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 102.44 yen per U.S. dollar and 101.61 yen per U.S. dollar as of March 31, 2020 and March 31, 2021, 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 110.17 yen per U.S. dollar as of March 31, 2021. The Group enters into interest rate swaps that mainly exchange variable interest rate payments for fixed interest rate payments. The average contract rate is 2.30% and 2.76% as of the date of transition, March 31, 2020 and March 31, 2021, 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, 2020	As of March 31, 2021	As of March 31, 2021
Cash flow hedge reserve			
Foreign exchange risk			
Forward exchange contracts	¥(7,531)	¥(5,673)	$(51,241)
Currency swap	3,153	2,286	20,648
Interest rate risk			
Interest rate swap	(3,694)	(2,758)	(24,911)
Total	¥(8,073)	¥(6,145)	$(55,505)
Hedging cost reserve			
Currency swap	(881)	(7)	(63)
Total	¥ (881)	¥ (7)	$ (63)

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.

(iii) Derivative transactions designated as fair value hedges
Details for the fiscal year ended March 31, 2021, is as follows.
As of March 31, 2021

	Millions of yen	
	Carrying amount of hedging instruments	
	Assets	Liabilities
Share price risk		
Forward contracts	¥—	¥2,172

As of March 31, 2021

	Thousands of U.S. dollars	
	Carrying amount of hedging instruments	
	Assets	Liabilities
Share price risk		
Forward contracts	$—	$19,618

The hedge ratio for fair value hedges is 1:1 and there is no ineffective portion of hedges.

The above hedging instruments were recorded in "bonds, borrowings and other financial liabilities" on the consolidated statement of financial position

In addition, the impact of hedged items designated as hedges on the consolidated statement of financial position is as follows:

As of March 31, 2021

Hedged item	Millions of yen Carrying amount	 Accumulated fair value hedge adjustment on hedged item included in carrying amount of hedged item
Share price risk	¥12,929	¥493

As of March 31, 2021

Hedged item	Thousands of U.S. dollars Carrying amount	 Accumulated fair value hedge adjustment on hedged item included in carrying amount of hedged item
Share price risk	$116,782	$4,453

The hedged item above is classified and recorded in "Other financial assets" in the consolidated statement of financial position.

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, 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, 2021

	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	¥(4,882)	¥ 3,183	Finance costs
Currency swap	3,162	(3,151)	Finance income
Interest rate risk			
Interest rate swap	¥ (313)	¥ 1,657	Finance costs

As of March 31, 2021

	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	$(44,097)	$ 28,750	Finance costs
Currency swap	28,561	(28,461)	Finance income
Interest rate risk			
Interest rate swap	$ (2,827)	$ 14,967	Finance costs

36. BUSINESS COMBINATIONS

On June 25, 2019, MHI entered into a definitive agreement with Bombardier Inc.("BA"), whereby MHI acquired the Canadair Regional Jet (CRJ) program, which is complementary to the Group's existing commercial aircraft business and acquired CRJ program on June 1, 2020.

(1) Overview of the Acquisition

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

This is intended to complement the functions that will need to be developed for the commercialization of SpaceJet, such as regional jet customer support functions and the acquisition of customer platforms and supply chains in North America and to strengthen competitiveness and expand sales from a medium-term perspective.

(2) Acquisition Amount and Settlement Method

i) Acquisition amount

USD699.3 million*1 (¥75,342 million*2)

*1. Finalized based on consultation with BA
*2. Converted at ¥107.74/$1(rate at June 1, 2020)

ii) Settlement method

Payment of the acquisition amount in cash

iii) Expenses related to the acquisition

In the fiscal year ended March 31, 2021, expenses related to the acquisition amounted to ¥1,351 million (cumulative total of ¥4,871 million since the fiscal year ended March 31, 2020) are recorded in other expenses.

(3) Fair value of assets, liabilities and goodwill at the time of business combinations

Items	Millions of yen	Thousands of U.S. dollars
	Amount *1	
Consideration of acquisition	¥75,342	$699,294
Assets acquired		
Current assets	29,587	274,614
Other non-current assets*2	34,573	320,892
Total of assets acquired	¥64,160	$595,507
Liabilities assumed		
Current liabilities	22,274	206,738
Non-current liabilities	15,261	141,646
Total of liabilities assumed	37,535	348,385
Goodwill*3	¥48,717	$452,171

*1. Converted at ¥107.74/$1 (rate at June 1, 2020). In addition, as for the amounts of assets acquired and liabilities assumed, allocation of acquisition cost was completed as of March 31, 2021.
*2. Non-current assets include ¥13,198 million ($122,498 thousand) of intangible assets.
*3. The stated amount is before the recognition of impairment. The main components of the goodwill represent synergy effect with the SpaceJet business that are expected to arise from the acquisition, and excess earning power. As described in Note 15. "Impairment of Non-Financial Assets," an impairment has been fully recognized for the amount. Changes recognized on and after the acquisition date until March 31, 2021 are as follows. In addition, the Group expects that tax deduction is possible.

	Millions of yen	Thousands of U.S. dollars
Goodwill (as of June 30, 2020)	¥39,831	$359,777
Adjustment		
Change in consideration for transfer due to adjustment of consideration for acquisition	(1,013)	(9,150)
Change in liabilities assumed	2,437	22,012
Change in assets acquired	7,462	67,401
Total	8,886	80,263
Goodwill (as of March 31, 2021)	¥48,717	$440,041

(4) Impacts on operating results

The Group's consolidated statement of profit or loss for the fiscal year ended March 31, 2021 includes impacts on revenue and profit generated from the business on and after the acquisition date, which are ¥60,594 million ($547,321 thousand) and ¥(1,439) million ($(12,997) thousand), respectively. The above impact on profit does not include impairment losses of goodwill and the corresponding deferred taxes as described in (3) above.

(5) Guarantees related to the CRJ program

Along with the acquisition of the CRJ program from BA, the Group assumed part of the guarantees that BA had pledged to financial institutions, including external leasing companies.

The guarantees mainly relate to leases of aircraft delivered by BA in the past and will be exercised in the event that an airline company leasing aircraft defaults on its obligations.

However, the contract allows the Group to recover all or part of losses related to the aforementioned guarantees by seizing the leased aircraft and subleasing or selling the aircraft to a third party in the event that the airline company would default on its obligation.

The total of the guarantees amounted to ¥38,615 million ($348,794 thousand) at the end of the fiscal year ended March 31, 2021. The total of the guarantees does not include the amount recorded as provisions of ¥9,809 million($88,600 thousand).

37. 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, 2020	As of March 31, 2021
Return on equity attributable to owners of the parent (ROE) (%)	6.63	3.14
Ratio of equity attributable to owners of the parent (%)	24.44	28.40
D/E ratio (debt ratio) (%)	46.38	62.92

The Group is not subject to any material capital requirements.

38. SUBSEQUENT EVENTS

Not applicable.

39. OTHERS

(1) Quarterly Information for the Fiscal Year Ended March 31, 2021

	Millions of yen				Thousands of U.S. dollars
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Revenue	¥778,009	¥1,658,625	¥2,603,377	¥3,699,946	$33,420,160
Profit (loss) before income taxes	(76,860)	(72,849)	(1,262)	49,355	445,804
Profit (loss) attributable to owners of the parent	¥ (57,902)	¥ (57,081)	¥ 3,302	¥ 40,639	$ 367,076

	Yen				U.S. dollars
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Earnings (loss) per share attributable to owners of the parent–basic	¥(172.34)	¥(169.87)	¥ 9.83	¥120.92	$1.092

	Yen			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings (loss) per share attributable to owners of the parent–basic	¥(172.34)	¥ 2.47	¥179.70	¥111.10

	U.S. dollars			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings (loss) per share attributable to owners of the parent–basic	$ (1.557)	$ 0.022	$ 1.623	$ 1.004

(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 cancelled on September 14, 2020. (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.

* MHPS changed its company name to Mitsubishi Power, Ltd. on September 1, 2020.

c) There was a temporary dispute between a consortium composed of MHI and Daewoo Engineering & Construction Co., Ltd. ("the Company, etc.") and El Sharika El-Djazairia El-Omania Lil Asmida SPA ("AOA") regarding a chemical fertilizer plant construction contract in Algeria whose orders had been received by the Company, etc., but a settlement was reached in 2017 (the "Settlement Agreement"), and the consortium delivered the plant to AOA. However, AOA subsequently refused to make some of the outstanding payment under the Settlement Agreement. Therefore, the Company, etc. filed for arbitration against AOA and one of its shareholders, Societe Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SPA ("SONATRACH").

In March 2021, the Company, etc. received a counterclaim from AOA which mainly consists of the cancellation of the Settlement Agreement and the refund of the payment already made under the Settlement Agreement. The Company, etc. will assert that there are no reasonable grounds for AOA's refusal to make the outstanding payment and that the counterclaim should be dismissed.

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

Due to the spread of COVID-19, there has been a decrease in revenue associated with shrinking demand and production adjustments at factories of the Group's commercial aircraft business and medium-volume production business. During the fiscal year ended March 31, 2021, the impact has been 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 it will spread in the future or when it will end. Therefore, considering external and other information, the Company looked over the impact on the business plan, and made 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 further 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 fiscal year.

There have been no significant changes since the previous fiscal year ended March 31, 2020, regarding the assumptions which include the future spread of COVID-19 and when the pandemic will be contained.

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 finanical position as at March 31, 2021, 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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the estimates of total revenue and costs related to the revenue recognized from construction contracts and a provision for losses on construction contracts	
The key audit matter	How the matter was addressed in our audit
As described in Notes 3. "Significant accounting policies, (13) Revenue" and 24. "Revenue" to the consolidated financial statements, the "Company" and the Group are engaged in construction work in which performance obligations are to be satisfied over a long period exceeding one year. These construction works are performed primarily in Energy, Plants & Infrastructure, and Defense and space equipment businesses. The revenue of each business for the year ended March 31, 2021 is set forth below. These amounts include revenue recognized over time based on the progress towards completion and determining the total transaction price for each construction contract.	The primary audit procedures we performed to assess the reasonableness of the estimates of total revenue and costs related to the revenue recognized from construction contracts and a provision for losses on construction contracts are set out below. For construction contracts that any of the consolidated subsidiaries entered into, we requested the component auditors of the relevant consolidated subsidiaries to perform an audit. Then we received the results of audit procedures performed by the component auditors and concluded on whether sufficient and appropriate audit evidence was obtained.

(Unit: ¥ million)

Business	Revenue
Energy	1,533,380
Plants & Infrastructure	596,153
Defense and space equipment	523,672

For construction contracts under which the control of a good or service promised in the contracts is transferred to customers over the contract term, revenue is recognized by estimating total revenue for each construction contract and measuring progress towards complete satisfaction of the performance obligation. For certain construction contracts under which warranties on performance and delivery guarantees are provided, revenue is reduced to the extent that a refund liability to customers is deemed to be incurred. The progress is principally estimated based on the proportion of costs already incurred to satisfy a performance obligation against the expected total costs to the satisfaction of performance obligation.

As described in Note 19. "Provisions, (1) Loss on construction contracts" to the consolidated financial statements, in order to provide for losses from construction contracts for which the Group has not completed satisfying its performance obligations, the Group recognizes a provision for losses that are expected in the subsequent fiscal years for uncompleted construction contracts, if it is probable that a loss has been incurred and a reliable estimate can be made of the amount of the loss, at the end of each reporting period. The balance of such a provision amounted to ¥89,838 million as of March 31, 2021.

The estimated total revenue and costs are subject to change due to the factors set forth below, among others, which could arise from contracts with customers and suppliers. Accordingly, there were certain construction contracts which involved significant management judgment.

- Factors that may cause changes in the estimated total revenue
  - Claims for damage or other requests by customers arising from delivery delays, underperformance of the product and other reasons
- Factors that may cause changes in the estimated total costs
  - Changes in product specifications
  - Responses to process delays
  - Fluctuations of procurement costs such as materials and parts
  - Responses to underperformance

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the estimates of total revenue and costs of construction contracts, including those that ensure that changes in conditions subsequent to the start of construction are reflected in the estimates in a timely and appropriate manner.

(2) Assessment of the reasonableness of the estimates of total revenue and costs

For construction contracts selected considering quantitative materiality of total revenue and costs as well as material qualitative factors, such as, terms and conditions of the construction contract, contents of construction, variances between the project budget and actual costs, updates, if any, to the project budget and the results of monitoring by the Group, we performed the following procedures depending on the circumstances of each contract :

- Obtained an understanding of significant judgment and risk factors related to delivery schedule, performance and specification requirements in the construction contract, and fluctuations of procurement costs, among others, by inquiring of the personnel responsible for the estimates of total revenue and costs and inspecting the relevant documents, and then assessed whether such judgment and risk factors were appropriately reflected in the estimated total revenue and costs; and
- Assessed the reasonableness of the Company's judgment as to whether the estimates of total revenue and costs should be updated, as necessary, based on the future expectations of significant judgment, risk and other factors and the methods to address them by inquiring of appropriate personnel and inspecting the relevant documents.

・ Events that were not considered in the planning of construction We, therefore, determined that our assessment of the reasonableness of the estimates of total revenue and costs related to the revenue recognized from construction contracts and a provision for losses on construction contracts was one of the most significant matters in our audit of the consolidated financial statements for the fiscal year ended March 31, 2021, and accordingly, a key audit matter.	

Appropriateness of the Company's judgment on the recoverability of deferred tax assets	
The key audit matter	How the matter was addressed on our audit
In the consolidated statement of financial position of the Group, deferred tax assets of ¥378,338 million were recognized as of March 31, 2021, representing 16% of non-current assets. As described in Note 16. "Income taxes" to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥561,193 million. Of this amount, the deferred tax assets related to deductible temporary differences arising from investments in subsidiaries, associates and joint ventures accounted for ¥141,369 million (before being offset by deferred tax liabilities). As described in Note 3. "Significant accounting policies, (17) Income taxes" to the consolidated financial statements, deferred tax assets are reviewed at the end of each reporting period and are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences and unused tax losses can be utilized. For deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, deferred tax assets are recognized to the extent that it is probable that the temporary differences are expected to reverse by reducing taxable income in the foreseeable future based on management plans taking into account tax implications and others. The future taxable income used to determine the recoverability of deferred tax assets was estimated based on the business plan approved by management. The business plan included key factors, such as the reduction of fixed costs, the impact of the spread of COVID-19 on demand and production, and responses to changes in the business environment of the Gas and Steam power systems business, which is one of the Group's core businesses. These factors involved significant	The primary audit procedures we performed to assess whether the Company's judgment on the recoverability of deferred tax assets was appropriate, included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the judgment on the recoverability of deferred tax assets, including those over the process of preparing the business plan and estimating future taxable income. **(2) Assessment of the reasonableness of the estimated future taxable income** In order to assess the reasonableness of key factors adopted in the business plan, which was used as the basis for estimating future taxable income, we performed the following procedures, among others: ● assessed the feasibility and reasonableness of the cost reduction plans by inquiring of the responsible personnel and inspecting the relevant documents; ● performed a trend analysis on expected revenue reflecting the impact of COVID-19 based mainly on external information and statistical data; and ● confirmed the consistency of the measures to respond to changes in the business environment of Gas and Steam power systems business with past actual results and external information on the future outlook. **(3) Assessment of the reasonableness of the scheduling of when deductible temporary differences and unused tax losses will reverse** In order to assess the reasonableness of key factors used in scheduling when deductible temporary differences and unused tax losses will reverse, we performed the following procedures, among others:

management judgment, and therefore, had a material effect on the estimate of future taxable income. For deductible temporary differences arising from investments in subsidiaries, affiliates and joint ventures, management's judgment had a material effect on the factor that it was probable that the temporary differences would reverse in the foreseeable future. We, therefore, determined that our assessment of the appropriateness of the Company's judgment on the recoverability of deferred tax assets was one of the most significant matters in our audit of the consolidated financial statements for the fiscal year ended March 31, 2021, and accordingly, a key audit matter.	● assessed the feasibility of management's plans underlying its judgment that it was probable that the deductible temporary differences arising from certain significant investments would reverse in the foreseeable future, by inquiring of management and inspecting the relevant documents; and ● confirmed the tax treatment of the deductible temporary differences arising from certain significant investments by involving tax specialists within our domestic network firms who assisted our assessment.

Appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets belonging to Steam power business and Metals machinery business	
The key audit matter	How the matter was addressed in our audit
As described in Note 3. "Significant accounting policies, (10) Impairment of non-financial assets" to the consolidated financial statements, non-financial assets are tested for impairment at least annually or whenever there is any indication of impairment. In the impairment testing, when the recoverable amount of a cash-generating unit ("CGU") is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. The recoverable amount of a CGU is the higher of its fair value less cost of disposal and its value in use. As described in Note 15. "Impairment of non-financial assets, (3) Impairment test for goodwill" to the consolidated financial statements, no impairment loss was recognized on goodwill allocated to the four main CGUs as a result of the impairment testing for the fiscal year ended March 31, 2021. For CGUs related to Steam power business and Metals machinery business, however, an impairment loss may be recognized if key factors used in the impairment testing were changed. The non-financial assets belonging to these CGUs were a part of the total amount of non-financial assets of ¥1,082,134 million that was subject to the impairment testing. The Group used the value in use as the recoverable amount for the impairment testing for these CGUs. The value in use was calculated by discounting to a present value the future cash flows projected based on the business plans approved by management, reflecting historical experience and external information, and the growth rates. The business plans of Steam power business and Metals	The primary audit procedures we performed to assess the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets belonging to Steam power business and Metals machinery business are set forth below. Our procedures included requesting the component auditors of the relevant consolidated subsidiaries to perform an audit, receiving the result of their audit procedures, and then concluding on whether sufficient and appropriate audit evidence was obtained. **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Group's internal controls relevant to measuring the value in use used for the impairment testing on CGUs to which goodwill has been allocated. **(2) Assessment of the reasonableness of the estimated value in use** In order to assess the reasonableness of the estimated value in use, we performed the following procedures on key factors underlying the business plans, as well as the growth rates and the discount rates, depending on the circumstances of each CGU: ● confirmed the consistency of the trend of future revenue with actual orders received and external information on the future outlook; ● performed a trend analysis on future gross margin ratios based on past actual results and other information; ● examined the reasonableness and feasibility of the fixed cost reduction plans by inquiring of

machinery business contained key factors, such as trends of expected future revenue, gross margin ratios, and reduction of fixed costs. These factors involved significant management judgment, and therefore, had a material effect on the estimated future cash flows. In addition, selecting appropriate models and input data for estimating the growth rates and the discount rates used to calculate the value in use required significant management judgment, and had a material effect on the value in use. We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets belonging to Steam power business and Metals machinery business was one of the most significant matters in our audit of the financial statements for the fiscal year ended March 31, 2021, and accordingly, a key audit matter.	the responsible personnel and inspecting the relevant documents; ● confirmed the consistency of the growth rates with available external data; ● obtained an understanding of components comprising the discount rates, and compared them with the estimates made by specialists in corporate valuation within our domestic network firms; and ● evaluated the effect of changes in the growth rates, discount rates and underlying key factors in the business plan of each CGU on the judgment as to whether an impairment loss should be recognized.

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 with regard to 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.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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
July 6, 2021

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.

MITSUBISHI
HEAVY INDUSTRIES