MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

MHI FINANCIAL REPORT 2022

For the Year Ended March 31, 2022

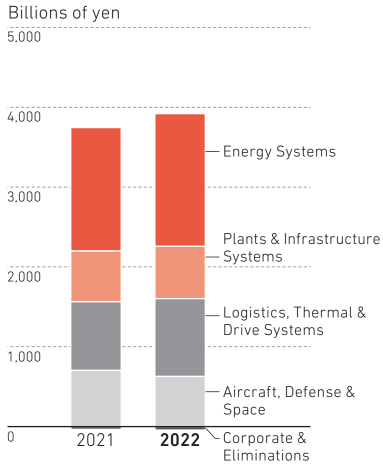
MITSUBISHI HEAVY INDUSTRIES

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2021 and 2022

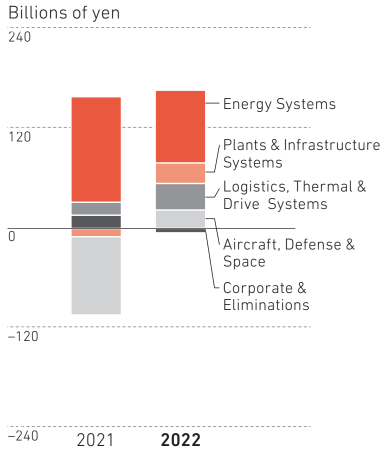
REVENUE

	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	2021	2022	2022
Energy Systems	¥1,546,003	**¥1,651,086**	**$13,490,366**
Plants & Infrastructure Systems	637,258	**651,886**	**5,326,301**
Logistics, Thermal & Drive Systems	860,307	**986,534**	**8,060,576**
Aircraft, Defense & Space	702,109	**605,292**	**4,945,600**
Subtotal	3,745,679	**3,894,799**	**31,822,853**
Corporate & Eliminations	(45,732)	**(34,516)**	**(282,016)**
Total	¥3,699,946	**¥3,860,283**	**$31,540,836**



PROFIT (LOSS) FROM BUSINESS ACTIVITIES

	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	2021	2022	2022
Energy Systems	¥127,699	**¥ 86,268**	**$ 704,861**
Plants & Infrastructure Systems	(10,222)	**23,601**	**192,834**
Logistics, Thermal & Drive Systems	15,613	**30,682**	**250,690**
Aircraft, Defense & Space	(94,841)	**20,050**	**163,820**
Subtotal	38,249	**160,603**	**1,312,223**
Corporate & Eliminations	15,832	**(362)**	**(2,957)**
Total	¥ 54,081	**¥ 160,240**	**$ 1,309,257**



DEPRECIATION AND AMORTIZATION

	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	2021	2022	2022
Energy Systems	¥ 44,172	**¥ 36,871**	**$ 301,258**
Plants & Infrastructure Systems	12,047	**11,592**	**94,713**
Logistics, Thermal & Drive Systems	43,325	**44,324**	**362,153**
Aircraft, Defense & Space	26,987	**27,273**	**222,836**
Subtotal	126,532	**120,061**	**980,970**
Corporate & Eliminations	12,709	**12,118**	**99,011**
Total	¥139,242	**¥132,180**	**$1,079,990**

IMPAIRMENT LOSS

REPORTING SEGMENT	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Energy Systems	¥ 2,759	¥ 130	$ 1,062
Plants & Infrastructure Systems	4,316	346	2,827
Logistics, Thermal & Drive Systems	83	551	4,502
Aircraft, Defense & Space	80,599	1,481	12,100
Subtotal	87,758	2,509	20,500
Corporate & Eliminations	12,584	1,097	8,963
Total	¥ 100,343	¥ 3,607	$29,471

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

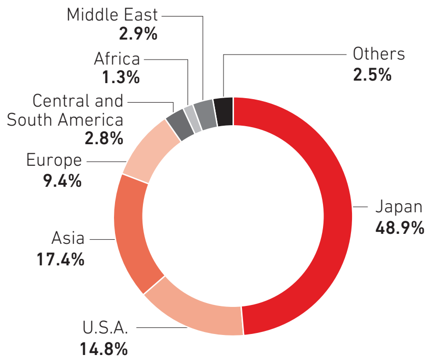
REPORTING SEGMENT	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Energy Systems	¥ 11,950	¥13,345	$109,036
Plants & Infrastructure Systems	1,186	1,772	14,478
Logistics, Thermal & Drive Systems	(347)	737	6,021
Aircraft, Defense & Space	—	—	—
Subtotal	12,789	15,854	129,536
Corporate & Eliminations	2,368	1,006	8,219
Total	¥ 15,158	¥16,861	$137,764

REVENUE

Breakdown of Revenue by Customer Location	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Japan	¥1,947,909	¥1,887,795	$15,424,421
U.S.A.	554,984	572,912	4,681,036
Asia	573,181	672,206	5,492,327
Europe	318,767	361,873	2,956,720
Central and South America	83,853	107,325	876,909
Africa	51,349	48,666	397,630
Middle East	79,671	110,345	901,585
Others	90,230	99,156	810,164
Total	¥3,699,946	¥3,860,283	$31,540,836

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥122.39=US$1, the exchange rate prevailing on March 31, 2022.

Composition of Overseas Revenue by Geographic Distribution



MANAGEMENT'S DISCUSSION AND ANALYSIS

» ANALYSIS OF OPERATING RESULTS

Consolidated revenue decreased in the Aircraft, Defense & Space segment, but Logistics, Thermal & Drive Systems segment, Energy Systems segment and Plant & Infrastructure Systems segment posted increases, resulting in an overall improvement of ¥160.3 billion or 4.3% year on year, to ¥3,860.2 billion.

Profit from business activities decreased in the Energy Systems segment, but the Aircraft, Defense & Space segment, Plant & Infrastructure Systems segment, and Logistics, Thermal & Drive Systems segment posted increases, resulting in an overall improvement of ¥106.1 billion (+196.3%) year on year to ¥160.2 billion, while profit before income taxes rose by ¥124.3 billion (+251.9%) year on year to ¥173.6 billion.

Meanwhile, profit attributable to owners of the parent came to ¥113.5 billion, ¥72.9 billion or 179.4% higher than in the previous fiscal year.

» ANALYSIS OF FINANCIAL POSITION

Due to increases in "Trade and other receivables", "Inventories" and other items, assets for the Group in the fiscal year under review increased ¥305.6 billion from the end of the previous fiscal year, to ¥5,116.3 billion.

Although "Bonds, borrowings and other financial liabilities" decreased, increases in "Contract liabilities", "Trade and other payables", and other items resulted in liabilities rising ¥82.4 billion from the end of the previous fiscal year to ¥3,453.8 billion.

Due to the increase in profit attributable to owners of the parent and other factors, total equity increased by ¥223.1 billion from the end of the previous fiscal year, to ¥1,662.5 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, 2022, was 30.8%, an increase of +2.4 percentage points over the 28.4% recorded at the end of the previous fiscal year.

» SOURCE OF FUNDS AND LIQUIDITY

Cash Flow Analysis

Net cash provided by operating activities came to ¥285.5 billion, an increase of ¥380.5 billion over the previous fiscal year. This was due primarily to a decrease in working capital, which increased significantly in the previous fiscal year, and an increase in "Profit before income taxes".

Net cash provided by investing activities came to ¥16.3 billion, ¥198.5 billion less than net cash used by investing activities in the previous fiscal year. This was due primarily to the combination of a decrease in "Payments for acquisition of businesses", and an increase in "Proceeds from sales and redemption of investments (including investments accounted for using equity method)".

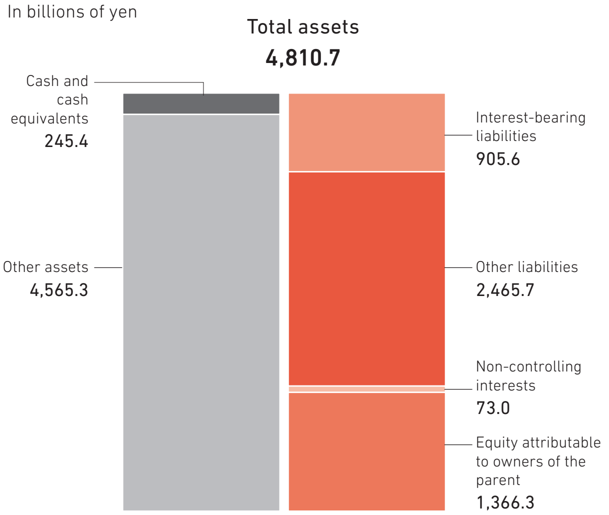
Net cash used in financing activities came to ¥255.7 billion, ¥477.5 billion less than net cash provided by financing activities in the previous fiscal year. This was due primarily to "Net decrease in short-term borrowings" and a decrease in "Proceeds from long-term borrowings".

Primary Funding Requirements

MHI Group (hereinafter referred to as the "Group") primarily

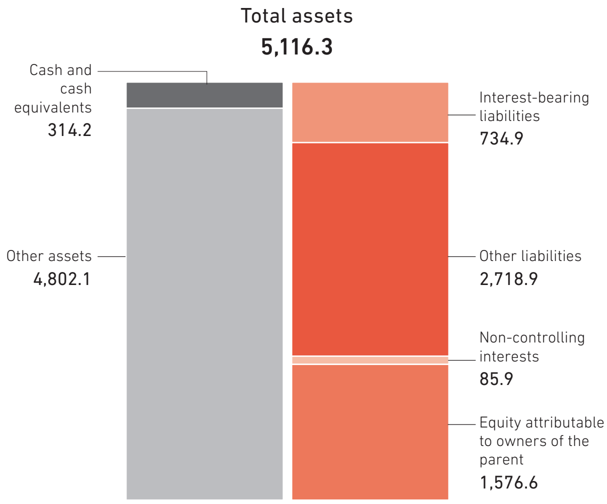
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In billions of yen



As of March 31,2021

Equity ratio	28.4%
D/E ratio	62.92%
ROE	3.1%



As of March 31,2022

Equity ratio	30.8%
D/E ratio	44.21%
ROE	7.7%

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.

The Group is planning to continue to execute necessary capital investments, R&D investments and purchase investment securities, primarily in growth areas.

Breakdown of Interest-Bearing Debt and its Applications

The breakdown of interest-bearing debt as of March 31, 2022, was as follows:

In billions of yen

	Total	Due within one year	Due after one year
Short-term borrowings	67.3	67.3	—
Long-term borrowings	462.6	90.2	372.3
Bonds	205	10	195
Total	**734.9**	**167.5**	**567.3**

The Group is involved in various projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery. Consequently, the Group must secure a stable level of working capital and funds for capital investments. During the fiscal year under review the Group worked to continuously generate funds and control working capital even during expansionary phases of the business while repaying borrowings as they came due. As a result, total interest-bearing debt at the end of the fiscal year under review was ¥734.9 billion, consisting of ¥167.5 billion due within one year, and ¥567.3 billion due after one year.

The funds procured from the interest-bearing debt mentioned above are utilized as working capital and for capital investments required for business activities. Specifically, the Group plans to use these funds mainly in key growth fields described in the 2021 MTBP, such as thermal power systems, and mass and medium-lot manufactured products, including material handling equipment and air-conditioning & refrigeration systems.

Financial Policy

The 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, the 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, the Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, the Group is working to improve asset efficiency by reducing trade receivables and inventories and by raising the utilization rate of its property, plant and equipment.

The 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

The Group's basic policy is one 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.

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 such factors as the Group's operating performance during the fiscal year under review and its financial position, the year-end dividend was set at ¥55 per share. Together with the interim dividend of ¥45 per share paid in December 2021, this results in ¥100 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 Group.

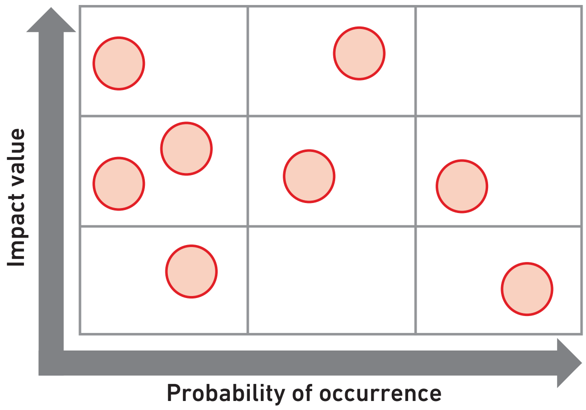
Although the Group works to prepare countermeasures to these key risks and others in advance, complete avoidance is not feasible. The Group seeks to advance its business activities in accordance with the Medium-Term Business Plan while maintaining an awareness of these risks, and striving to minimize 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 2021.

(1) Process for considering key risks

The 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, the Group may use expertise from outside the Company to assist in creating an exhaustive list of those that are relevant to the Group. Based on this list, the Group works to unearth specific risks that may materialize over a period of roughly 10 years. The Group then considers the probability of these risks materializing and the impact in the event that they do materialize, taking into account the effects of the countermeasures the Group has prepared. For quantifiable risks that are identified as having a potentially material impact on the business of the Group, the Group conducts a risk mapping exercise as follows. The Group also identifies qualitative risks that are impractical to quantify using the exhaustive list mentioned above.



(2) 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 the 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, the Group engages in business risk management activities that bring together management, business segments, and corporate departments.

In point (1) of each of items, a) to g) in "(3) Key risks" below are presented specific examples of the countermeasures prepared by the Group for the item in question. However, not only is the Group implementing initiatives to avoid and mitigate risks in accordance with the type and nature of each, including those that are not key risks, but the Group is also working to minimize the impact described in "(ii) Potential Impact on Operating Results" of items a) to g) 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. Due to the emergence of COVID-19 variants, effects remain, but economic activity is gradually resuming, and there are signs of recovery both in the Japanese and the wider global economy. Nevertheless, since it is still impossible 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, the Group is strengthening profitability by investing in areas where the market is expected to expand, reinforcing sales and service networks and implementing initiatives to shift towards service businesses. In addition, the Group has 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. The Group is 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, has 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 remains problematic. It is not feasible to predict these effects with much precision, and going forward they could become more significant or be prolonged further, 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 antagonism between the United States and China, the situation in Ukraine leading to the splitting, intensified competition for dominance through cross-border regulation in the areas of digital devices and data, soaring commodity prices such as resource prices, and significant fluctuation in the exchange rates. 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. As for issues closely related to the Group's business, the coexistence of economic development and environmental load reduction has become a social issue worldwide, and environmental regulations have been strengthened in various fields. 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, the 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. The Group is also pursuing initiatives for new business development under the guidance of the Growth Strategy Office, which the Group sets 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, the Group is undertaking in various product areas, which take the business environment into consideration, through activities such as monitoring and screening at the point of entry, the Group is putting initiatives aimed at smooth PMI*[1] into practice.

*1. Post Merger Integration

(ii) Potential Impact on Operating Results

As for progress of world economy decoupling, 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 significant fluctuation in the exchange rates, soaring prices of raw material, 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, the Group 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 each of our 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. The Group makes use of disaster measure support tools and have established and maintain communication systems and a business continuity plan. The Group implements regular plant inspections and training and strengthen facilities against seismic events. As well as taking out insurance, the Group also gathers 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.

Due to economic sanctions on Russia caused by the situation in Ukraine, projects being executed for Russia have suffered from suspensions and other effects. Although the impact on our financial position, in the form of revaluations of assets and suchlike, and the impact on operating performance was negligible during the fiscal year under review, it cannot be denied that the operating performance of the Group could be affected, depending on soaring prices of raw material and confusions of supply chains.

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, Plant & Infrastructure Systems, through Logistics, Thermal & Drive Systems, to Aircraft, Defense & Space Systems. 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 ensure that internal education reflects the conclusions 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, the Group cannot guarantee that product liability insurance will compensate for amounts the Group 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 patents 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, the Group has 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. The Group enhances 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 the Group lost, the Group may be liable for compensation for damages or become unable to use particular technologies, which could materially impact our operating results. The Group also faces 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 the Group currently anticipates, 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.

The Group also implements a cybersecurity program under the control of the CTO*[2] to minimize the risks of such cyberattacks. Under this program, the Group performs 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 the Group should never trade risk for return when it comes to laws and regulations and the Group also has a duty to ensure compliance by our management and workforce, the Group takes 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, the Group 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, 2021 / March 31, 2022

		Millions of yen		Thousands of U.S. dollars
ASSETS	Notes	As of March 31, 2021	**As of March 31, 2022**	**As of March 31, 2022**
Current assets:				
Cash and cash equivalents	5, 10	¥ 245,421	**¥ 314,257**	**$ 2,567,668**
Trade and other receivables	6, 10, 23, 35	655,181	**744,466**	**6,082,735**
Other financial assets	7, 10, 35	30,677	**70,952**	**579,720**
Contract assets	23, 35	578,936	**654,972**	**5,351,515**
Inventories	11, 23	713,498	**798,601**	**6,525,051**
Other current assets	20	230,955	**219,875**	**1,796,511**
Total current assets		2,454,670	**2,803,126**	**22,903,227**
Non-current assets:				
Property, plant and equipment (“PPE”)	12, 14	779,696	**790,204**	**6,456,442**
Goodwill	13, 14	124,500	**128,690**	**1,051,474**
Intangible assets	13, 14	74,722	**70,400**	**575,210**
Right-of-use assets	14, 17	93,321	**98,255**	**802,802**
Investments accounted for using the equity method	16	182,897	**212,828**	**1,738,932**
Other financial assets	7, 10, 35	560,213	**487,430**	**3,982,596**
Deferred tax assets	15	378,338	**352,261**	**2,878,184**
Other non-current assets	14, 20	162,365	**173,144**	**1,414,690**
Total non-current assets		2,356,056	**2,313,214**	**18,900,351**
Total assets		¥4,810,727	**¥5,116,340**	**$41,803,578**

See accompanying notes to the consolidated financial statements.

LIABILITIES AND EQUITY	Notes	Millions of yen As of March 31, 2021	Millions of yen As of March 31, 2022	Thousands of U.S. dollars As of March 31, 2022
Liabilities				
Current liabilities:				
Bonds, borrowings and other financial liabilities	9, 10, 35	¥ 445,147	¥ 304,651	$ 2,489,182
Trade and other payables	8, 10, 35	763,731	863,281	7,053,525
Income taxes payable		12,237	28,784	235,182
Contract liabilities	23	731,814	886,551	7,243,655
Provisions	18	207,876	203,585	1,663,412
Other current liabilities	20	184,453	193,865	1,583,993
Total current liabilities		2,345,260	2,480,720	20,268,976
Non-current liabilities:				
Bonds, borrowings and other financial liabilities	9, 10, 35	790,862	773,622	6,320,957
Deferred tax liabilities	15	6,597	6,217	50,796
Retirement benefit liabilities	19	124,432	76,824	627,698
Provisions	18	50,485	62,218	508,358
Other non-current liabilities	20	53,699	54,207	442,903
Total non-current liabilities		1,026,076	973,090	7,950,731
Total liabilities		3,371,337	3,453,810	28,219,707
Equity	37			
Share capital	21	265,608	265,608	2,170,177
Capital surplus	21	47,265	45,061	368,175
Treasury shares		(4,452)	(5,946)	(48,582)
Retained earnings	21	952,528	1,099,158	8,980,782
Other components of equity	29	105,393	172,728	1,411,291
Equity attributable to owners of the parent		1,366,342	1,576,611	12,881,861
Non-controlling interests	29	73,047	85,918	702,001
Total equity		1,439,390	1,662,529	13,583,863
Total liabilities and equity		¥4,810,727	¥5,116,340	$41,803,578

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, 2021 and 2022

		Millions of yen		Thousands of U.S. dollars
	Notes	2021	2022	2022
Revenue	23	¥3,699,946	¥3,860,283	$31,540,836
Cost of sales		3,116,464	3,204,371	26,181,640
Gross profit		583,482	655,911	5,359,187
Selling, general and administrative expenses	24	531,383	556,727	4,548,794
Share of profit of investments accounted for using the equity method	16	15,158	16,861	137,764
Other income*	25	167,698	68,972	563,542
Other expenses	25	180,873	24,777	202,443
Profit from business activities		54,081	160,240	1,309,257
Finance income	27	11,677	31,907	260,699
Finance costs	27	16,404	18,463	150,853
Profit before income taxes		49,355	173,684	1,419,102
Income taxes	15	6,153	48,029	392,425
Profit		43,202	125,654	1,026,668
Profit attributable to:				
Owners of the parent		¥ 40,639	¥ 113,541	$ 927,698
Non-controlling interests		2,562	12,113	98,970

		In yen		In U.S. dollars
Earnings per share attributable to owners of the parent	28	2021	2022	2022
Basic earnings per share		¥120.92	¥338.24	$2.764
Diluted earnings per share		120.83	338.05	2.762

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 the fiscal years ended March 31, 2021 and 2022 were 10,664 million yen and 17,286 million yen ($141,237 thousand) respectively.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2021 and 2022

		Millions of yen		Thousands of U.S. dollars
	Notes	2021	2022	2022
Profit		¥ 43,202	**¥125,654**	**$1,026,668**
Items that will not be reclassified to profit or loss:				
Net gains from financial assets measured at FVTOCI	10, 29	37,943	**18,700**	**152,790**
Remeasurement of defined benefit plans	19, 29	56,097	**50,140**	**409,673**
Share of other comprehensive income (loss) of entities accounted for using the equity method	16, 29	(163)	**232**	**1,895**
Total		93,878	**69,074**	**564,376**
Items that may be reclassified to profit or loss:				
Cash flow hedges	29, 35	(271)	**12**	**98**
Hedge cost	29, 35	874	**(178)**	**(1,454)**
Exchange differences on translating foreign operations	29	37,962	**67,088**	**548,149**
Share of other comprehensive income of entities accounted for using the equity method	16, 29	5,970	**6,889**	**56,287**
Total		44,535	**73,812**	**603,088**
Total other comprehensive income		138,413	**142,886**	**1,167,464**
Comprehensive income		¥181,616	**¥268,540**	**$2,194,133**
Comprehensive income attributable to:				
Owners of the parent		¥173,635	**¥248,891**	**$2,033,589**
Non-controlling interests		7,980	**19,649**	**160,544**

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, 2021 and 2022

		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, 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	29					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	22				(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
Profit					**113,541**		**113,541**	**12,113**	**125,654**
Other comprehensive income	29					**135,349**	**135,349**	**7,536**	**142,886**
Comprehensive income		**—**	**—**	**—**	**113,541**	**135,349**	**248,891**	**19,649**	**268,540**
Transfer to retained earnings					**67,792**	**(67,792)**	**—**		**—**
Purchase of treasury shares				**(2,550)**			**(2,550)**		**(2,550)**
Disposal of treasury shares			**25**	**142**			**167**		**167**
Dividends	22				**(40,313)**		**(40,313)**	**(7,880)**	**(48,194)**
Transactions with non-controlling interests	32		**(1,682)**			**(221)**	**(1,904)**	**69**	**(1,834)**
Other			**(545)**	**914**	**5,610**		**5,978**	**1,032**	**7,011**
Total transactions with owners		**—**	**(2,203)**	**(1,494)**	**(34,703)**	**(221)**	**(38,622)**	**(6,778)**	**(45,401)**
Balance as of March 31, 2022		**¥265,608**	**¥45,061**	**¥(5,946)**	**¥1,099,158**	**¥172,728**	**¥1,576,611**	**¥ 85,918**	**¥1,662,529**

		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, 2021		$ 2,170,177	$386,183	$ (36,375)	$ 7,782,727	$ 861,124	$ 11,163,836	$ 596,837	$ 11,760,683
Profit					**927,698**		**927,698**	**98,970**	**1,026,668**
Other comprehensive income	29					**1,105,882**	**1,105,882**	**61,573**	**1,167,464**
Comprehensive income		**—**	**—**	**—**	**927,698**	**1,105,882**	**2,033,589**	**160,544**	**2,194,133**
Transfer to retained earnings					**553,901**	**(553,901)**	**—**		**—**
Purchase of treasury shares				**(20,835)**			**(20,835)**		**(20,835)**
Disposal of treasury shares			**204**	**1,160**			**1,364**		**1,364**
Dividends	22				**(329,381)**		**(329,381)**	**(64,384)**	**(393,774)**
Transactions with non-controlling interests	32		**(13,742)**			**(1,805)**	**(15,556)**	**563**	**(14,984)**
Other			**(4,452)**	**7,467**	**45,837**		**48,843**	**8,432**	**57,284**
Total transactions with owners		**—**	**(17,999)**	**(12,206)**	**(283,544)**	**(1,805)**	**(315,564)**	**(55,380)**	**(370,953)**
Balance as of March 31, 2022		**$2,170,177**	**$368,175**	**$ (48,582)**	**$8,980,782**	**$1,411,291**	**$12,881,861**	**$702,001**	**$13,583,863**

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, 2021 and 2022

	Notes	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Cash flows from operating activities:				
Profit before income taxes		¥ 49,355	¥173,684	$1,419,102
Depreciation, amortization and impairment loss		238,258	135,787	1,109,461
Finance income and costs		(5,369)	1,645	13,440
Share of profit of investments accounted for using the equity method		(15,158)	(16,861)	(137,764)
Loss (gain) on sale of shares of subsidiaries and affiliates		(83,041)	—	—
Loss (gain) on sale of PPE, and intangible assets		(45,570)	(37,532)	(306,659)
Loss on disposal of PPE, and intangible assets		6,912	5,328	43,532
Decrease (increase) in trade receivables		(27,739)	(51,031)	(416,953)
Decrease (increase) in contract assets		4,308	(58,722)	(479,794)
Increase (decrease) in inventories and advanced payments		57,222	(89,963)	(735,051)
Increase (decrease) in trade payables		(68,731)	73,101	597,279
Increase (decrease) in contract liabilities		(124,703)	132,985	1,086,567
Increase (decrease) in provisions		(11,011)	(1,120)	(9,151)
Increase (decrease) in retirement benefit liabilities		3,496	21,969	179,499
Others	25	5,094	(20,527)	(167,717)
Subtotal		(16,677)	268,744	2,195,800
Interest received		5,407	5,537	45,240
Dividends received	25	14,968	23,627	193,046
Interest paid		(9,543)	(10,559)	(86,273)
Income taxes paid		(89,102)	(1,786)	(14,592)
Net cash provided by operating activities		(94,948)	285,563	2,333,221
Cash flows from investing activities:				
Payments into time deposits		(9,244)	(14,033)	(114,658)
Proceeds from withdrawal of time deposits		13,161	9,677	79,066
Purchases of PPE and intangible assets		(146,212)	(129,256)	(1,056,099)
Proceeds from sales of PPE and intangible assets		43,956	51,744	422,779
Purchases of investments (including investments accounted for using the equity method)		(15,796)	(11,193)	(91,453)
Proceeds from sales and redemption of investments (including investments accounted for using the equity method)		12,521	99,214	810,638
Payments for sale of businesses (including subsidiaries)		(1,696)	(1,258)	(10,278)
Proceeds from sale of businesses (including subsidiaries)		987	11,756	96,053
Payments for acquisition of businesses (including subsidiaries)		(71,082)	—	—
Proceeds from acquisition of businesses (including subsidiaries)		—	4,799	39,210
Net decrease (increase) in short-term loans		708	1,660	13,563
Disbursement of long-term loans		(8,482)	(60)	(490)
Collection of long-term loans		222	204	1,666
Payments for derivative transactions		(3,658)	(20,754)	(169,572)
Proceeds from derivative transactions		4,625	15,490	126,562
Others		(2,260)	(1,683)	(13,751)
Net cash provided by (used in) investing activities		(182,249)	16,306	133,229
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	9	96,778	(182,326)	(1,489,713)
Proceeds from long-term borrowings	9	212,500	22,330	182,449
Repayment of long-term borrowings	9	(58,146)	(31,338)	(256,050)
Proceeds from issuance of bonds	9	65,000	55,000	449,383
Payment for redemption of bonds	9	(10,000)	(45,000)	(367,677)
Payments for acquisition of interests in subsidiaries from non-controlling interests	9	(22,549)	(2,000)	(16,341)
Payments for acquisition of treasury shares		(5)	(2,550)	(20,835)
Dividends paid to owners of the parent	22	(25,667)	(40,224)	(328,654)
Dividends paid to non-controlling interests		(5,144)	(5,501)	(44,946)
Proceeds from factoring agreements	9	139,315	140,608	1,148,852
Repayment of liabilities under factoring agreements	9	(145,045)	(133,226)	(1,088,536)
Repayment of lease liabilities	9	(22,667)	(28,154)	(230,035)
Others		(2,627)	(3,389)	(27,690)
Net cash provided by (used in) financing activities		221,737	(255,774)	(2,089,827)
Effect of exchange rate changes on cash and cash equivalents		19,255	22,740	185,799
Net increase (decrease) in cash and cash equivalents		(36,205)	68,836	562,431
Cash and cash equivalents at the beginning of the year	5	281,626	245,421	2,005,237
Cash and cash equivalents at the end of the year	5	¥245,421	¥314,257	$2,567,668

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, 2021 and 2022

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, 2022.

(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 on March 31, 2022 of ¥122.39=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 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", 14. "Impairment of non-financial assets")
- Measurement of provisions (Note 3. "Significant Accounting Policies (11) Provisions", 18. "Provisions")
- Measurement of defined benefit obligations (Note 3. "Significant Accounting Policies (12) Post-employment benefits", 19. "Employee benefits")
- Measurement of revenue (Note 3. "Significant Accounting Policies (13) Revenue", 23. "Revenue")
- Recoverability of deferred tax assets (Note 3. "Significant Accounting Policies (17) Income taxes", 15. "Income taxes")

(6) Changes in presentation

(Consolidated statement of cash flows)

The Group presents independently "Payments into time deposits", "Proceeds from withdrawal of time deposits", "Payments for sale of businesses (including subsidiaries)", "Payments for derivative transactions" and "Proceeds from derivative transactions" because of increased materiality in the fiscal year ended March 31,2022, while presenting these in "Others" of "Cash flows from investing activities" in the fiscal year ended March 31,2021.

Consequently, in the consolidated statement of cash flows, 1,138 million yen presented as the "Other" of "Cash flows from investing activities" are recalculated into "Payments into time deposits" (9,244) million yen, "Proceeds from withdrawal of time deposits" 13,161 million yen, "Payments for sale of businesses (including subsidiaries)" (1,696) million yen, "Payments for derivative transactions" (3,658) million yen, "Proceeds from derivative transactions" 4,625 million yen and "Others" (2,260) million yen.

In the same manner, we present independently "Payments for acquisition of treasury stock" because of increased materiality in the fiscal year ended March 31,2022, while presenting it in "Others" of "Cash flows from financing activities" in the fiscal year ended March 31,2021.

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 the 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, canceled 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 a 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 ("PPE")

PPE 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 PPE have been located.

PPE 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 combina-tion: 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 PPE and intangible assets, the Group determines, whether there is any indication of impairment at the end of the reporting period. 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 annual impairment test and 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 the 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

For this transaction, the Group typically recognizes revenue at the time of the delivery of the goods, as the performance obligations in the contracts with customers are considered to be satisfied principally at the time that the products are delivered and control of the relevant goods is transferred to the customer.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 these transactions, the control of the goods and services included in the contracts is deemed to be transferred to customers over a certain period specified in the contract. Therefore, the Group recognizes revenue by estimating total revenue for each construction contract, measuring progress towards completion of the performance obligation included in the contract with the customer, and calculating the portion of total revenue corresponding to the progress. The progress is measured by a method that depicts the satisfaction of the performance obligation, and principally estimated based on the proportion of costs already incurred to satisfy the performance obligation against the expected total costs to the complete satisfaction of 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 its business domain segments into four reportable segments, "Energy Systems", "Plants & Infrastructure Systems", "Logistics, Thermal & Drive Systems", and "Aircraft, Defense & Space", by considering similarities of each business domain's and segment's customers and product characteristics.

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

Energy Systems	Thermal power generation 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, Air Quality Control System ["AQCS"], Marine machinery
Plants & Infrastructure Systems	Metals machinery, Commercial ships, Engineering, Environmental systems, Mechatronics systems
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, 2021 (from April 1, 2020 to March 31, 2021)

	Millions of yen						
	Reporting segment						
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total	Corporate & Eliminations *1	Consolidated
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 (loss) 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 "Corporate & Eliminations" 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, 2022 (from April 1, 2021 to March 31, 2022)

	Millions of yen						
	Reporting segment						
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total	Corporate & Eliminations *1	Consolidated
Revenue							
Revenue from external customers	¥1,643,374	¥616,983	¥981,265	¥604,549	¥3,846,172	¥ 14,110	¥3,860,283
Inter-segment revenue and transfers	7,712	34,902	5,268	743	48,626	(48,626)	—
Total	¥1,651,086	¥651,886	¥986,534	¥605,292	¥3,894,799	¥(34,516)	¥3,860,283
Segment profit (loss)*2	86,268	23,601	30,682	20,050	160,603	(362)	160,240
Finance income							31,907
Finance costs							18,463
Profit before income taxes							173,684
Other items							
Depreciation and amortization	36,871	11,592	44,324	27,273	120,061	12,118	132,180
Impairment losses	130	346	551	1,481	2,509	1,097	3,607
Share of profit (loss) of investments accounted for using the equity method	¥ 13,345	¥ 1,772	¥ 737	¥ —	¥ 15,854	¥ 1,006	¥ 16,861

*1. The "Corporate & Eliminations" 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, 2022 (from April 1, 2021 to March 31, 2022)

	Thousands of U.S. dollars						
	Reporting segment						
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total	Corporate & Eliminations *1	Consolidated
Revenue							
Revenue from external customers	$13,427,355	$5,041,122	$8,017,525	$4,939,529	$31,425,541	$ 115,287	$31,540,836
Inter-segment revenue and transfers	63,011	285,170	43,042	6,070	397,303	(397,303)	—
Total	$13,490,366	$5,326,301	$8,060,576	$4,945,600	$31,822,853	$(282,016)	$31,540,836
Segment profit (loss)*2	704,861	192,834	250,690	163,820	1,312,223	(2,957)	1,309,257
Finance income							260,699
Finance costs							150,853
Profit before income taxes							1,419,102
Other items							
Depreciation and amortization	301,258	94,713	362,153	222,836	980,970	99,011	1,079,990
Impairment losses	1,062	2,827	4,502	12,100	20,500	8,963	29,471
Share of profit (loss) of investments accounted for using the equity method	$ 109,036	$ 14,478	$ 6,021	$ —	$ 129,536	$ 8,219	$ 137,764

*1. The "Corporate & Eliminations" 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

Revenue from external customers is classified based on their geographical location into a country or region depending on geographical proximity.

a) Revenue from external customers

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Japan	¥1,947,909	¥1,887,795	$15,424,421
U.S.A.	554,984	572,912	4,681,036
Asia	573,181	672,206	5,492,327
Europe	318,767	361,873	2,956,720
Central and South America	83,853	107,325	876,909
Africa	51,349	48,666	397,630
Middle East	79,671	110,345	901,585
Others	90,230	99,156	810,164
Total	¥3,699,946	¥3,860,283	$31,540,836

The major countries or regions in the category of the above table are as follows:
(1) Asia... China, Thailand, South Korea, Taiwan, Philippines, India, Bangladesh, Singapore, Indonesia, Hong Kong, Vietnam, Macao, Malaysia
(2) Europe... Germany, United Kingdom, Russia, France, Netherlands, Italy, Poland, Uzbekistan, Spain, Sweden, Belgium, Austria, Hungary, Finland, Greece, Belarus
(3) Central and South America... Mexico, Brazil
(4) Africa... South Africa, Egypt
(5) Middle East... Saudi Arabia, United Arab Emirates, Turkey, Israel, Qatar
(6) Others... Canada, Australia

b) Non-current assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Japan	¥ 861,102	¥ 852,861	$ 6,968,387
Overseas subtotal	294,943	315,035	2,574,025
Total	¥1,156,045	¥1,167,897	$ 9,542,421

In the above table, 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 and ¥391,057 million ($3,195,171 thousand) for the fiscal year ended March 31, 2021 and March 31, 2022, respectively.

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, 2021	As of March 31, 2022	As of March 31, 2022
Cash and deposits	¥244,607	¥314,224	$2,567,399
Cash equivalents	814	33	269
Total	¥245,421	¥314,257	$2,567,668

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, 2021	**As of March 31, 2022**	**As of March 31, 2022**
Trade receivables	¥588,013	**¥671,071**	**$5,483,054**
Other	67,167	**73,395**	**599,681**
Total	¥655,181	**¥744,466**	**$6,082,735**

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, 2021 and March 31, 2022, were ¥22,800 million and ¥22,346 million ($182,580 thousand), respectively.

7. OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2021	**As of March 31, 2022**	**As of March 31, 2022**
Financial assets at FVTPL			
Derivative assets*	¥ 9,046	**¥ 21,093**	**$ 172,342**
Shares and other investments in capital	16,740	**20,660**	**168,804**
Financial assets at FVTOCI			
Shares and other investments in capital	518,523	**450,252**	**3,678,829**
Financial assets measured at amortized cost			
Time deposits due more than three months	13,148	**19,533**	**159,596**
Other	33,431	**46,842**	**382,727**
Total	¥590,890	**¥558,382**	**$4,562,317**
Current assets	30,677	**70,952**	**579,720**
Non-current assets	560,213	**487,430**	**3,982,596**
Total	¥590,890	**¥558,382**	**$4,562,317**

* 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, 2021	As of March 31, 2022	As of March 31, 2022
Marketable securities*1	¥379,890	¥310,322	$2,535,517
Non-marketable securities*2	138,632	139,930	1,143,312
Total	¥518,523	¥450,252	$3,678,829

*1. Marketable securities designated as FVTOCI

Major marketable securities designated as FVTOCI, of entities in which the Group invests, as of March 31, 2021 and March 31, 2022, are as follows.

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, 2022	Millions of yen	Thousands of U.S. dollars
Entity name	Fair value	Fair value
Vestas Wind Systems A/S	¥92,690	$757,333
Mitsubishi Corporation	76,576	625,672
Nippon Yusen Kabushiki Kaisha	33,118	270,594
Central Japan Railway Company	23,666	193,365
Mitsubishi Motors Corporation	7,140	58,338
The Kansai Electric Power Company, Inc.	6,888	56,279
Coca-Cola Bottlers Japan Holdings Inc.	5,651	46,172
East Japan Railway Company	4,585	37,462
Toray Industries, Inc.	4,333	35,403
Mitsubishi Research Institute, Inc.	¥ 3,900	$ 31,865

[*]. Vestas's shares were acquired in exchange for the Group's shareholding in an offshore wind power plant joint venture on December 14, 2020, 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 the end of the fiscal year ended March 31, 2022 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.

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, 2021 and March 31, 2022, were ¥41,536 million and ¥40,455 million ($330,548 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, 2021 and March 31, 2022.

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Dividend income from investments derecognized during the year	¥ 84	¥ 2,475	$ 20,222
Dividend income from investments held as of the year end	10,579	14,811	121,014
Total	¥ 10,664	¥17,286	$ 141,237

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, 2021 and March 31, 2022.

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Fair value at the date of derecognition	¥ 9,437	¥ 98,323	$ 803,358
Accumulated gains (losses)	¥ (4,028)	¥ 37,128	$ 303,358

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 of 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, 2021 and March 31, 2022 were ¥(6,009) million and ¥17,118 million ($139,871 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, 2021	**As of March 31, 2022**	**As of March 31, 2022**
Trade payables	¥635,749	**¥737,950**	**$6,029,495**
Electronically recorded obligations	78,457	**70,425**	**575,414**
Other	49,525	**54,905**	**448,606**
Total	¥763,731	**¥863,281**	**$7,053,525**

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, 2021	**As of March 31, 2022**	**As of March 31, 2022**
Financial liabilities measured at amortized cost			
Bonds*1	¥ 195,000	**¥ 205,000**	**$ 1,674,973**
Commercial Papers	196,000	**—**	**—**
Short-term borrowings*2,3	50,527	**67,324**	**550,077**
Long-term borrowings*2,3	464,095	**462,609**	**3,779,794**
Other	100,536	**98,361**	**803,668**
Financial liabilities at FVTPL			
Derivative liabilities*4	12,190	**15,963**	**130,427**
Liabilities under factoring agreement*5	88,306	**94,825**	**774,777**
Lease liabilities	129,353	**134,190**	**1,096,413**
Total	¥1,236,010	**¥1,078,274**	**$ 8,810,147**
Current liabilities	445,147	**304,651**	**2,489,182**
Non-current liabilities	790,862	**773,622**	**6,320,957**
Total	¥1,236,010	**¥1,078,274**	**$ 8,810,147**

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

		Millions of yen				Thousands of U.S. dollars
Company name Issue name	Date of issue	As of March 31, 2021	**As of March 31, 2022**	Interest rate	Date of maturity	**As of March 31, 2022**
Mitsubishi Heavy Industries, Ltd.						
The 26th Unsecured Corporate Bond	Sept 4, 2013	¥ 15,000	**¥ 15,000**	0.877%	Sept 4, 2023	**$ 122,559**
The 28th Unsecured Corporate Bond	Sept 3, 2014	25,000	**—**	0.381%	Sept 3, 2021	**—**
The 29th Unsecured Corporate Bond	Sept 3, 2014	30,000	**30,000**	0.662%	Sept 3, 2024	**245,118**
The 31st Unsecured Corporate Bond	Sept 2, 2015	10,000	**10,000**	0.630%	Sept 2, 2025	**81,706**
The 32nd Unsecured Corporate Bond	Aug 31, 2016	20,000	**—**	0.050%	Aug 31, 2021	**—**
The 33rd Unsecured Corporate Bond	Aug 31, 2016	10,000	**10,000**	0.240%	Aug 31, 2026	**81,706**
The 34th Unsecured Corporate Bond	Aug 29, 2017	10,000	**10,000**	0.104%	Aug 29, 2022	**81,706**
The 35th Unsecured Corporate Bond	Aug 29, 2017	10,000	**10,000**	0.330%	Aug 27, 2027	**81,706**
The 36th Unsecured Corporate Bond	Nov 24, 2020	25,000	**25,000**	0.140%	Nov 21, 2025	**204,265**
The 37th Unsecured Corporate Bond	Nov 24, 2020	40,000	**40,000**	0.390%	Nov 22, 2030	**326,824**
The 38th Unsecured Corporate Bond	Sept 1, 2021	—	**15,000**	0.090%	Sept 1, 2026	**122,559**
The 39th Unsecured Corporate Bond	Sept 1, 2021	—	**40,000**	0.270%	Sept 1, 2031	**326,824**
Total		¥195,000	**¥205,000**			**$1,674,973**

*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, 2022, are 1.19% and 0.90%, respectively.
Long-term borrowings will be due in 2022 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, 2021 was ¥195 million.
The breakdown of assets pledged as collateral is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
PPE	¥1,926	¥—	$—
Trade and other receivables	432	—	—
Inventories	256	—	—
Total	¥2,616	¥—	$—

Security interest would be executed in case of breach of financial covenants or non-performance of the borrowing contracts.
As of March 31, 2022, there are no borrowings for which collateral were pledged.

*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, 2022, 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 2022 through 2026.
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 on March 31, 2021 and March 31, 2022, were ¥13,084 million, and ¥11,071 million ($90,456 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 on March 31, 2021 and March 31, 2022, were ¥72,726 million, and ¥83,915 million ($685,636 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, 2021 (from April 1, 2020 to March 31, 2021)

	Millions of yen						
			Non-cash transactions				
	Carrying amount as of April 1, 2020	Cash flows	Changes in fair value	Foreign currency translation	New contracts	Other movements*1	Carrying amount as of March 31, 2021
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, 2022 (from April 1, 2021 to March 31, 2022)

	Millions of yen						
			Non-cash transactions				
	Carrying amount as of April 1, 2021	Cash flows	Changes in fair value	Foreign currency translation	New contracts	Other movements*1	Carrying amount as of March 31, 2022
Bonds	¥ 195,000	¥ 10,000	¥ —	¥ —	¥ —	¥ —	¥ 205,000
Commercial papers*2	196,000	(196,000)	—	—	—	—	—
Short-term borrowings	50,527	13,673	—	1,641	—	1,482	67,324
Long-term borrowings	464,095	(9,008)	—	6,978	—	543	462,609
Liabilities under factoring agreement	88,306	7,382	—	—	—	(862)	94,825
Lease liabilities	129,353	(28,154)	—	5,718	24,359	2,913	134,190
Other liabilities*3	28,468	(2,966)	—	—	—	1,109	26,611
Total	¥1,151,752	¥(205,075)	¥ —	¥14,338	¥24,359	¥ 5,187	¥ 990,561

For the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

	Thousands of U.S. dollars						
			Non-cash transactions				
	Carrying amount as of April 1, 2021	Cash flows	Changes in fair value	Foreign currency translation	New contracts	Other movements*1	Carrying amount as of March 31, 2022
Bonds	$ 1,593,267	$ 81,706	$ —	$ —	$ —	$ —	$ 1,674,973
Commercial papers*2	1,601,438	(1,601,438)	—	—	—	—	—
Short-term borrowings	412,836	111,716	—	13,407	—	12,108	550,077
Long-term borrowings	3,791,935	(73,600)	—	57,014	—	4,436	3,779,794
Liabilities under factoring agreement	721,513	60,315	—	—	—	(7,043)	774,777
Lease liabilities	1,056,891	(230,035)	—	46,719	199,027	23,800	1,096,413
Other liabilities*3	232,600	(24,234)	—	—	—	9,061	217,427
Total	$ 9,410,507	$(1,675,586)	$ —	$117,150	$199,027	$ 42,380	$8,093,479

*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 are 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 are 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 is 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 Book-value 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.

(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, 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, 2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	¥310,322	¥ —	¥160,590	¥470,913
Derivatives	—	20,393	699	21,093
Total	¥310,322	¥20,393	¥161,290	¥492,006
Liabilities:				
Derivatives	—	12,846	3,117	15,963
Total	¥ —	¥12,846	¥ 3,117	¥ 15,963

As of March 31, 2022

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	$2,535,517	$ —	$1,312,117	$3,847,642
Derivatives	—	166,623	5,711	172,342
Total	$2,535,517	$166,623	$1,317,836	$4,019,985
Liabilities:				
Derivatives	—	104,959	25,467	130,427
Total	$ —	$104,959	$ 25,467	$ 130,427

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, 2021 and March 31, 2022.

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, 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*	Balance as of March 31, 2021
Securities and investments in capital	¥ 151,759	¥ 3,231	¥(11,057)	¥ (4,202)	¥15,641	¥ 155,372

For the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

	Millions of yen					
	Balance as of April 1, 2021	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other*	Balance as of March 31, 2022
Securities and investments in capital	¥ 155,372	¥ 4,219	¥ 1,138	¥ (4,433)	¥ 4,293	¥ 160,590

For the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

	Thousands of U.S. dollars					
	Balance as of April 1, 2021	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Other*	Balance as of March 31, 2022
Securities and investments in capital	$1,269,482	$34,471	$ 9,298	$(36,220)	$35,076	$1,312,117

* "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 PBRs of comparable companies; the estimated fair value of these instruments would increase (decrease) if the PBRs were higher (lower). The PBRs were distributed within a range from 0.6 to 3.0 times for the fiscal year ended March 31, 2021, and within a range from 0.7 to 2.4 times for the fiscal year ended March 31, 2022.

The significant unobservable inputs used for the discounted cash flow method are the discount rates applied; the estimated fair value of these instruments would increase (decrease) if the discount rate were higher (lower). The discount rates applied ranged between 6.4% and 10.0% for the fiscal year ended March 31, 2021 and between 6.0% and 10.0% for the fiscal year ended March 31, 2022.

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, 2021		As of March 31, 2022		As of March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	¥195,000	¥195,904	¥205,000	¥204,423	$1,674,973	$1,670,259
Long-term borrowings	¥464,095	¥460,519	¥462,609	¥457,105	$3,779,794	$3,734,823

For financial assets and liabilities measured at amortized cost that are not included in the above table, 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, 2021	As of March 31, 2022	As of March 31, 2022
Merchandise and finished products	¥197,518	¥239,037	$1,953,076
Work in progress	325,972	353,518	2,888,454
Raw materials and supplies	142,534	163,919	1,339,316
Capitalized contract costs	47,473	42,125	344,186
Total	¥713,498	¥798,601	$6,525,051

The amounts of inventories to be used or sold after more than 12 months from the year-end were ¥107,745 million and ¥125,266 million ($1,023,498 thousand) as of March 31, 2021 and March 31, 2022, respectively.

Write-downs or reversal of write-downs (negative is a reversal) of inventories recognized as expenses for the fiscal years ended March 31, 2021 and March 31, 2022 were ¥11,396 million and ¥(2,373) million ($(19,388) thousand), respectively. The reversal is due to an increase in net realizable value.

For details of the contract costs included in inventories, refer to Note 23. "Revenue."

12. PPE

Changes in book values, and acquisition cost, accumulated depreciation and accumulated impairment losses of PPE 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, 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
Acquisition	1,035	23,177	2,286	546	88,002	115,048
Depreciation*1	(20,452)	(51,322)	(25,418)	—	—	(97,193)
Impairment*2	(380)	(169)	(373)	(776)	(31)	(1,731)
Transfer of accounts	17,054	31,082	20,164	1,623	(71,040)	(1,115)
Transfer to held-for-sale	(443)	(1,504)	(142)	(118)	(1,376)	(3,585)
Sales or disposals	(3,120)	(7,905)	(898)	(1,945)	(211)	(14,081)
Exchange differences	4,828	5,801	1,566	698	1,052	13,947
Other changes	890	(1,538)	936	453	(1,522)	(780)
As of March 31, 2022	¥307,752	¥231,438	¥49,134	¥145,303	¥56,575	¥790,204

	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	$2,519,323	$ 1,910,417	$ 416,806	$1,183,282	$ 340,738	$ 6,370,585
Acquisition	8,456	189,370	18,677	4,461	719,029	940,011
Depreciation*[1]	(167,105)	(419,331)	(207,680)	—	—	(794,125)
Impairment*[2]	(3,104)	(1,380)	(3,047)	(6,340)	(253)	(14,143)
Transfer of accounts	139,341	253,958	164,752	13,260	(580,439)	(9,110)
Transfer to held-for-sale	(3,619)	(12,288)	(1,160)	(964)	(11,242)	(29,291)
Sales or disposals	(25,492)	(64,588)	(7,337)	(15,891)	(1,723)	(115,050)
Exchange differences	39,447	47,397	12,795	5,703	8,595	113,955
Other changes	7,271	(12,566)	7,647	3,701	(12,435)	(6,373)
As of March 31, 2022	$2,514,519	$ 1,890,987	$ 401,454	$1,187,213	$ 462,251	$ 6,456,442

(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, 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
As of March 31, 2022	¥839,124	¥1,327,462	¥539,878	¥146,769	¥64,659	¥2,917,894

	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, 2022	$6,856,148	$10,846,163	$4,411,128	$1,199,191	$ 528,302	$23,840,942

(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, 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
As of March 31, 2022	¥531,372	¥1,096,023	¥490,743	¥1,465	¥8,084	¥2,127,689

	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, 2022	$4,341,629	$ 8,955,167	$4,009,665	$11,969	$66,051	$17,384,500

*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 14. “Impairment of Non-Financial Assets.”

13. 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, 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
Acquisition	—	—	—	—	5,313	2,471	7,785
Acquisition through business combinations	1,848	—	—	—	555	—	2,405
Amortization*1	—	—	(2,510)	(1,589)	(7,357)	(2,880)	(14,338)
Impairment*2	—	—	—	—	(40)	—	(40)
Transfer of accounts	—	—	—	—	300	9	310
Transfer to held-for-sale	—	—	(5)	(140)	(33)	(11)	(191)
Sale or disposal	—	—	—	—	(1,224)	(122)	(1,347)
Exchange differences	2,332	—	1,053	1,090	401	2,004	6,882
Other changes	8	—	—	(760)	(1,293)	447	(1,597)
As of March 31, 2022	¥128,690	¥ —	¥12,536	¥12,793	¥20,823	¥24,245	¥ 199,090

	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	$1,017,239	$ —	$114,380	$115,973	$197,744	$182,408	$1,627,763
Acquisition	—	—	—	—	43,410	20,189	63,608
Acquisition through business combinations	15,099	—	—	—	4,534	—	19,650
Amortization*1	—	—	(20,508)	(12,983)	(60,111)	(23,531)	(117,150)
Impairment*2	—	—	—	—	(326)	—	(326)
Transfer of accounts	—	—	—	—	2,451	73	2,532
Transfer to held-for-sale	—	—	(40)	(1,143)	(269)	(89)	(1,560)
Sale or disposal	—	—	—	—	(10,000)	(996)	(11,005)
Exchange differences	19,053	—	8,603	8,905	3,276	16,373	56,230
Other changes	65	—	—	(6,209)	(10,564)	3,652	(13,048)
As of March 31, 2022	$1,051,474	$ —	$102,426	$104,526	$170,136	$198,096	$1,626,685

(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, 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
As of March 31, 2022	¥271,845	¥644,288	¥29,642	¥28,079	¥64,229	¥80,116	¥1,118,201

	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
	Thousands of U.S. dollars						
As of March 31, 2022	$2,221,137	$5,264,220	$242,192	$229,422	$524,780	$654,595	$9,136,375

(3) Accumulated amortization and accumulated impairment losses

	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
	Millions of yen						
As of April 1, 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
As of March 31, 2022	¥ 143,155	¥ 644,288	¥ 17,105	¥ 15,285	¥ 43,405	¥ 55,870	¥ 919,111

	Goodwill	Internal development*3	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Other	Total
	Thousands of U.S. dollars						
As of March 31, 2022	$1,169,662	$5,264,220	$139,758	$124,887	$354,644	$456,491	$7,509,690

*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 14. "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.

14. 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.

The breakdown of impairment losses recognized in the fiscal year ended at March 31, 2021 is indicated in the following table.

In the fiscal year ended at March 31, 2022, no material impairment losses are recognized.

	Millions of yen
	2021
Aircraft, Defense & Space*1	¥80,599
Others*2	15,539
Total	¥96,139

*1. The Group impaired PPE, 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.

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

As for SpaceJet project which belongs to Aircraft, Defense & Space, MHI postponed the delivery schedule of first SpaceJet in February 2020, and announced the slowdown of SpaceJet development activities in October 2020. The Group measures the recoverable amount of the assets related to SpaceJet project by value in use. However, as shown in the series of these announcement, it is difficult to predict the timing of the first delivery of SpaceJet. As a result, MHI determined that future cash flows from SpaceJet project cannot be measured reliably, fully impaired the assets related to SpaceJet project.

In the fiscal year ended March 31, 2021, the Group recognized impairment losses by ¥80,599 million on newly acquired PPE, intangible assets, right-of-use assets and others.

The impairment losses stated above included the impairment loss of goodwill of ¥47,950 million which recognized by the acquisition of CRJ program from Bombardier in Canada and allocated to the SpaceJet project. In the fiscal year ended at March 31, 2022, no material impairment losses are recognized.

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

	Millions of yen
	2021
PPE	¥ 2,133
Intangible assets	29,443
Right-of-use assets	590
Goodwill	47,950
Other non-current assets	480
Total	¥80,599

(2) Other impairments

The amount of impairment losses from non-financial assets relating to other businesses as of March 31, 2021 is as follows:
There is no material impairment as of March 31, 2022.

	Millions of yen
	2021
PPE	¥13,571
Intangible assets	82
Right-of-use assets	330
Goodwill	1,553
Other non-current assets	1
Total	¥15,539

(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 PPE and performs impairment tests on them. The total amount of non-financial assets including goodwill subject to the impairment testing, were ¥1,082,134 million, and ¥1,098,289 million ($8,973,682 thousand) as of March 31, 2021 and March 31, 2022, 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 6.4% to 10.9%, and 6.1% to 11.1% for the fiscal years ended March 31, 2021 and March 31, 2022, respectively.

Growth rates were (0.5)% to 0% for the fiscal years ended March 31, 2021 and March 31, 2022, respectively.

The total amount of the Group's goodwill at the end of the fiscal year, were ¥124,500 million, and ¥128,690 million ($1,051,474 thousand) as of March 31, 2021 and March 31, 2022, 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, 2021		¥ 55,364	¥ 25,530	¥ 20,159	¥ 18,003
As of March 31, 2022		¥ 56,339	¥ 25,834	¥ 20,444	¥ 18,814
Key factors used for impairment tests for the fiscal year ended March 31, 2022	Discount rate (before tax)	6.1% ~ 8.7%			
	Growth rate	(0.5)% ~ 0.0%			

	Thousands of U.S. dollars			
	Material handling equipment	Steam power	GTCC	Metals machinery
As of March 31, 2022	$460,323	$211,079	$167,039	$153,721

No impairment loss of goodwill allocated to four main CGUs stated above table was recognized in either the fiscal year ended March 31, 2021 or the fiscal year ended March 31, 2022.

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 falls 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 ¥249,884 million ($2,041,702 thousand) and ¥83,101 million ($678,985 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 or there occurs material changes in the factors of the business plan underlying the estimated future cash flows.

- Steam power: In case of an increase of 25.9% in the discount rate or a decrease of 139.1% in the growth rate.
- Metals machinery: In case of an increase of 10.7% in the discount rate or a decrease of 17.4% in the growth rate.

*As for Metals machinery, the impacts occurred and expected from the situation described in Note 39."Others "(d)" Impact of the international situation involving Ukraine" are reflected in the key factors.

15. 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, 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
Provisions	50,358	6,065	—	56,424
Retirement benefits liabilities	85,008	(2,466)	(24,386)	58,155
Unused tax losses	10,234	47,126	—	57,360
Excess of book depreciation over tax depreciation	21,477	5,573	—	27,051
Contract liabilities	14,358	5,239	—	19,598
Accrued expenses, and so forth	19,198	1,451	—	20,650
Valuation difference on PPE	18,354	1,249	—	19,603
Loss allowance for expected credit losses	5,091	3,320	—	8,412
Valuation difference on securities	2,222	—	8,748	10,970
Valuation difference on right-of-use assets	15,704	(2,112)	—	13,591
Loss on valuation of inventories	20,331	(560)	—	19,770
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
Reserve for advanced depreciation of non-current assets	27,252	1,953	—	29,206
Retirement benefit assets (Retirement benefit trust)	43,537	(1,845)	—	41,692
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, 2022

	Millions of yen			
	As of April 1, 2021	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2022
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	¥141,369	¥ 18,857	¥ —	¥160,226
Provisions	56,424	10,848	—	67,272
Retirement benefits liabilities	58,155	4,109	(22,296)	39,968
Unused tax losses	57,360	(27,637)	—	29,723
Excess of book depreciation over tax depreciation	27,051	1,623	—	28,674
Contract liabilities	19,598	6,341	—	25,939
Accrued expenses, and so forth	20,650	(1,256)	—	19,393
Valuation difference on PPE	19,603	(367)	—	19,236
Loss allowance for expected credit losses	8,412	4,464	—	12,876
Valuation difference on securities	10,970	—	(358)	10,612
Valuation difference on right-of-use assets	13,591	(3,361)	—	10,230
Loss on valuation of inventories	19,770	(13,503)	—	6,266
Other	108,234	(26,168)	3,772	85,838
Total deferred tax assets	¥561,193	¥(26,049)	¥(18,882)	¥516,260
Deferred tax liabilities				
Valuation difference on securities	¥43,235	¥ —	¥ (1,056)	¥42,179
Reserve for advanced depreciation of non-current assets	29,206	3,289	—	32,495
Retirement benefit assets (Retirement benefit trust)	41,692	(1,750)	(8,499)	31,442
Investments in subsidiaries, associates and joint ventures	19,745	(5,369)	3,651	18,027
Excess of book depreciation over tax depreciation	10,026	(430)	—	9,595
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	8,465	(2,110)	—	6,355
Intangible assets recognized through business combinations	3,091	(695)	—	2,395
Other	33,988	(6,562)	300	27,725
Total deferred tax liabilities	¥189,451	¥(13,630)	¥ (5,604)	¥170,216

For the fiscal year ended March 31, 2022

	Thousands of U.S. dollars			
	As of April 1, 2021	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2022
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	$1,155,069	$ 154,073	$ —	$1,309,142
Provisions	461,018	88,634	—	549,652
Retirement benefits liabilities	475,161	33,573	(182,171)	326,562
Unused tax losses	468,665	(225,810)	—	242,854
Excess of book depreciation over tax depreciation	221,022	13,260	—	234,283
Contract liabilities	160,127	51,809	—	211,937
Accrued expenses, and so forth	168,722	(10,262)	—	158,452
Valuation difference on PPE	160,168	(2,998)	—	157,169
Loss allowance for expected credit losses	68,731	36,473	—	105,204
Valuation difference on securities	89,631	—	(2,925)	86,706
Valuation difference on right-of-use assets	111,046	(27,461)	—	83,585
Loss on valuation of inventories	161,532	(110,327)	—	51,196
Other	884,336	(213,808)	30,819	701,348
Total deferred tax assets	$4,585,284	$(212,836)	$(154,277)	$4,218,155
Deferred tax liabilities				
Valuation difference on securities	$353,255	$ —	$(8,628)	$344,627
Reserve for advanced depreciation of non-current assets	238,630	26,873	—	265,503
Retirement benefit assets (Retirement benefit trust)	340,648	(14,298)	(69,441)	256,900
Investments in subsidiaries, associates and joint ventures	161,328	(43,867)	29,830	147,291
Excess of book depreciation over tax depreciation	81,918	(3,513)	—	78,396
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	69,164	(17,239)	—	51,924
Intangible assets recognized through business combinations	25,255	(5,678)	—	19,568
Other	277,702	(53,615)	2,451	226,529
Total deferred tax liabilities	$1,547,928	$(111,365)	$(45,788)	$1,390,767

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, 2021	As of March 31, 2022	As of March 31, 2022
Deferred tax assets	¥ 378,338	¥ 352,261	$2,878,184
Deferred tax liabilities	¥ 6,597	¥ 6,217	$ 50,796

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, 2021	As of March 31, 2022	As of March 31, 2022
Unused tax losses	¥ 547,258	¥ 595,415	$4,864,899
Deductible temporary differences	628,428	606,095	4,952,161
Total	¥1,175,687	¥1,201,511	$9,817,068

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 thermal power generation system 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, 2021	As of March 31, 2022	As of March 31, 2022
Year 1	¥ 18,145	¥ 13,053	$ 106,650
Year 2	15,198	19,635	160,429
Year 3	25,364	31,184	254,792
Year 4	37,463	53,329	435,730
Year 5 or later	451,087	478,212	3,907,280
Total	¥ 547,258	¥ 595,415	$4,864,899

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, 2021 and March 31, 2022, were ¥318,017 million and ¥430,370 million ($3,516,382 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
	2021	2022	2022
Current tax expense			
Current period	¥ 36,324	¥35,005	$286,011
Prior period restatement	4,206	605	4,943
Total of current tax expense	40,530	35,610	290,955
Deferred tax expense			
Arising and reversal of temporary differences	(35,838)	11,749	95,996
Changes in tax rates or the imposition of new taxes	1,120	717	5,858
Other	340	(47)	(384)
Total of deferred tax expense	(34,377)	12,419	101,470
Total tax expense	¥ 6,153	¥48,029	$392,425

(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:

	2021	2022
Effective statutory tax rate in Japan	30.5%	30.5%
Non-deductible expenses	2.8%	1.4%
Non-taxable revenues	(1.6)%	(0.9)%
Share of profit (loss) of investments accounted for using the equity method	(9.4)%	(3.0)%
Changes in unrecognized deferred tax assets	(3.0)%	(1.7)%
Tax credit for experiment and research expenses	(2.4)%	(2.0)%
Investments in subsidiaries, associates and joint ventures	(16.1)%	0.8%
Revision to year-end deferred tax assets due to a change in tax rate	0.6%	0.5%
Other	11.0%	2.1%
Average actual tax rate	12.5%	27.7%

16. 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 ¥152,933 million, and ¥171,195 million ($1,398,766 thousand) as of March 31, 2021 and March 31, 2022, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2021 and March 31, 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit or loss	¥10,857	¥10,714	$ 87,539
Other comprehensive income	4,148	6,480	52,945
Total comprehensive income	¥15,006	¥17,195	$140,493

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.

(2) Individually immaterial joint ventures

The carrying amount of investments in individually immaterial joint ventures accounted for using the equity method were ¥29,963 million, and ¥41,632 million ($340,158 thousand) as of March 31, 2021 and March 31, 2022, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2021 and March 31, 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit or loss	¥4,300	¥6,146	$50,216
Other comprehensive income	1,658	641	5,237
Total comprehensive income	¥5,958	¥6,787	$55,453

17. LEASES

Information about leases to which the Group is a lessee is 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, 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*	1,283	(1,996)	26	1,711	—	1,025
As of March 31, 2021	¥61,685	¥27,035	¥2,101	¥2,435	¥ 64	¥93,321
Increased amount of right-of-use assets	12,512	7,206	1,375	1,853	135	23,083
Depreciation	(12,107)	(7,349)	(631)	(471)	(81)	(20,641)
Others*	1,218	1,101	7	156	7	2,491
As of March 31, 2022	¥63,309	¥27,994	¥2,853	¥3,972	¥ 125	¥98,255

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Others	Total
As of March 31, 2021	$504,003	$220,892	$17,166	$19,895	$522	$762,488
Increased amount of right-of-use assets	102,230	58,877	11,234	15,140	1,103	188,602
Depreciation	(98,921)	(60,045)	(5,155)	(3,848)	(661)	(168,649)
Others*	9,951	8,995	57	1,274	57	20,352
As of March 31, 2022	$517,272	$228,727	$23,310	$32,453	$1,021	$802,802

* "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
	2021	2022	2022
Interest expenses on lease liabilities	¥2,165	¥2,009	$16,414
Expenses relating to short-term leases	6,575	7,007	57,251
Expenses relating to leases of low-value assets	18,209	17,578	143,622
Lease income from subleasing right-of-use assets	¥6,527	¥7,739	$63,232

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

(4) Cash outflow related to leases

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash outflow related to leases	¥50,250	¥52,484	$428,825

(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 contract.

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 reflects 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.

In the fiscal year ended March 31, 2021, there was no cash inflow caused from sales and leaseback transaction because there was not a new transaction. In the fiscal year ended March 31, 2022, it was ¥5,865 million ($47,920 thousand).

The profit or loss arising from these sale and leaseback transactions was immaterial.

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

18. PROVISIONS

Changes in provisions are as follows:

For the fiscal year ended March 31, 2022

	Millions of yen				
	Loss on construction contracts	Product and construction warranties	Levies	Other	Total
Balance as of April 1, 2021	¥89,838	¥97,878	¥11,275	¥59,370	¥258,361
Increase	52,471	33,647	11,593	10,726	108,438
Decrease (utilization)	(46,137)	(24,166)	(11,152)	(11,260)	(92,716)
Decrease (reversal)	(2,938)	(9,481)	(278)	(5,244)	(17,942)
Other (Exchange rate differences, etc.)	4,616	1,640	154	3,251	9,662
Balance as of March 31, 2022	¥97,850	¥99,518	¥11,593	¥56,842	¥265,803
Current liabilities	97,850	75,299	11,593	18,841	203,585
Non-current liabilities	—	24,218	—	38,000	62,218
Total	¥97,850	¥99,518	¥11,593	¥56,842	¥265,803

For the fiscal year ended March 31, 2022

	Thousands of U.S. dollars				
	Loss on construction contracts	Product and construction warranties	Levies	Other	Total
Balance as of April 1, 2021	$734,030	$799,722	$92,123	$485,088	$2,110,964
Increase	428,719	274,916	94,721	87,637	886,003
Decrease (utilization)	(376,967)	(197,450)	(91,118)	(92,000)	(757,545)
Decrease (reversal)	(24,005)	(77,465)	(2,271)	(42,846)	(146,596)
Other (Exchange rate differences, etc.)	37,715	13,399	1,258	26,562	78,944
Balance as of March 31, 2022	$799,493	$813,121	$94,721	$464,433	$2,171,770
Current liabilities	799,493	615,238	94,721	153,942	1,663,412
Non-current liabilities	—	197,875	—	310,482	508,358
Total	$799,493	$813,121	$94,721	$464,433	$2,171,770

(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) Others

Other provisions include provision for business structure improvement, provision related to sales finance and asset retirement obligations.

Among changes of other provisions for the fiscal year ended March 31, 2022, change of provision for business structure improvement was ¥(6,215) million($(50,780) thousand)

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.

19. 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, 2021	As of March 31, 2022	As of March 31, 2022
Present value of defined benefit obligations	¥550,400	¥551,570	$4,506,659
Fair value of plan assets	504,529	567,544	4,637,176
Net defined benefit liability	¥ 45,871	¥ (15,973)	$ (130,509)
Amounts presented in the consolidated statement of financial position			
Retirement benefit liabilities	124,432	76,824	627,698
Retirement benefit assets	78,560	92,797	758,207
Net defined benefit liability	¥ 45,871	¥ (15,973)	$ (130,509)

ii. Changes in present value of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Balance as of April 1	¥551,642	¥550,400	$4,497,099
Current service cost	40,629	41,469	338,826
Interest expense	2,823	2,960	24,184
Remeasurement			
Actuarial gains (losses) arising from changes in demographic assumptions	(94)	(7,023)	(57,382)
Actuarial gains (losses) arising from changes in financial assumptions	(1,977)	(6,940)	(56,703)
Actuarial gains (losses) arising from experience adjustment	1,695	5,121	41,841
Past service cost	(83)	3,105	25,369
Payment of benefits	(45,581)	(44,296)	(361,924)
Changes from business combinations	(82)	2,820	23,041
Other	1,429	3,952	32,290
Balance as of March 31	¥550,400	¥551,570	$4,506,659

iii. Changes in fair value of plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Balance as of April 1	¥424,539	¥504,529	$4,122,305
Interest income	2,150	2,615	21,366
Remeasurement			
Return on plan assets (excluding amounts included in net interest on the net defined benefit asset)	80,595	63,990	522,836
Contributions to the plan (by the employer)	23,510	23,181	189,402
Payment of benefits	(27,554)	(29,801)	(243,492)
Changes from business combinations	(115)	985	8,048
Other	1,404	2,043	16,692
Balance as of March 31	¥504,529	¥567,544	$4,637,176

iv. The breakdown of fair value of plan assets

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, 2022

	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	¥257,506	¥ —	¥257,506
Shares issued by foreign companies	46,767	12,095	58,863
Bonds issued by Japanese companies	20,872	—	20,872
Bonds issued by foreign companies	38,556	15,809	54,365
Cash and deposits	63,457	—	63,457
General accounts for life insurance	—	17,136	17,136
Other	—	95,343	95,343
Total	¥427,159	¥140,384	¥567,544

As of March 31, 2022

	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	$2,103,979	$ —	$2,103,979
Shares issued by foreign companies	382,114	98,823	480,946
Bonds issued by Japanese companies	170,536	—	170,536
Bonds issued by foreign companies	315,025	129,169	444,194
Cash and deposits	518,481	—	518,481
General accounts for life insurance	—	140,011	140,011
Other	—	779,009	779,009
Total	$3,490,146	$1,147,021	$4,637,176

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 ¥205,304 million, and ¥251,987 million ($2,058,885 thousand) as of March 31, 2021 and March 31, 2022, 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, 2021 and 2022, 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, 2021	As of March 31, 2022
Discount rate	Mainly 0.5%	Mainly 0.7%

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 follows:

	Millions of yen				Thousands of U.S. dollars	
	As of March 31, 2021		As of March 31, 2022		As of March 31, 2022	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact in the event of 0.5 percentage point change in the discount rate	¥(29,950)	¥31,880	¥(33,578)	¥35,997	$(274,352)	$294,117

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 assesses the investment status and financial condition of the plan assets and the asset management environment and revises 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 ¥13,359 million ($109,151 thousand).

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

	As of March 31, 2021	As of March 31, 2022
Weighted average duration (year)	11.55	13.01

b) Defined contribution plans

Expenses for the defined contribution plans for the fiscal years ended March 31, 2021 and March 31, 2022 were ¥8,622 million and ¥11,376 million ($92,948 thousand), respectively.

(2) Employee benefits expenses

The aggregated amounts of employee benefit expenses recognized for the fiscal years ended March 31, 2021 and March 31, 2022 were ¥790,475 million and ¥816,425 million ($6,670,683 thousand), respectively.

20. OTHER ASSETS AND LIABILITIES

(1) The breakdown of other assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Advances to suppliers and prepaid expenses	¥ 86,608	¥123,228	$1,006,846
Retirement benefit assets	78,560	92,797	758,207
Consumption tax receivables (Incl. VAT receivables)	44,454	47,189	385,562
Income tax receivables	42,063	5,930	48,451
Others	141,634	123,873	1,012,117
Total	¥393,321	¥393,020	$3,211,210
Current assets	230,955	219,875	1,796,511
Non-current assets	162,365	173,144	1,414,690
Total	¥393,321	¥393,020	$3,211,210

(2) The breakdown of other liabilities

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Accrued expenses	¥121,795	¥134,893	$1,102,157
Accrued consumption taxes (Incl. VAT payables)	15,056	16,054	131,170
Others	101,300	97,125	793,569
Total	¥238,152	¥248,073	$2,026,905
Current liabilities	184,453	193,865	1,583,993
Non-current liabilities	53,699	54,207	442,903
Total	¥238,152	¥248,073	$2,026,905

21. EQUITY AND OTHER EQUITY ITEMS

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

	Shares	
	2021	2022
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 was 1,218,459 shares, and 1,660,084 shares as of March 31, 2021 and March 31, 2022, respectively. The number of MHI's common shares held by the Stock Grant ESOP Trust, and the Officer Remuneration BIP Trust I & II were 684,587 shares, and 1,171,087 shares as of March 31, 2021 and March 31, 2022, 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, 2021 and March 31, 2022, 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.

22. DIVIDENDS

The total dividends for each fiscal year are as follows.

(1) 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

*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

*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.

(2) For the fiscal year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

a) Dividends paid

Resolution	Type of shares	Total cash dividends paid (Millions of yen)*1,2	Total cash dividends paid (Thousands of U.S. dollars)*1,2	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	$206,405	¥75	$0.6127	March 31, 2021	June 30, 2021	Retained earnings
October 29, 2021 Board of Directors Meeting	Common Stock	¥15,158	$123,849	¥45	$0.3676	September 30, 2021	December 3, 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 ($416 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 29, 2021, include ¥56 million ($457 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, 2022, but take effect in the fiscal year ending March 31, 2023

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, 2022 Annual General Meeting of Shareholders	Common Stock	¥18,528	$151,384	¥55	$0.4493	March 31, 2022	June 30, 2022	Retained earnings

*Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2022, include ¥64 million ($522 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.

23. 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 & space equipment" based on the type of markets or customers.

Revenue from external customers*1

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Reporting segments			
Energy Systems	¥1,533,380	¥1,643,374	$13,427,355
Plants & Infrastructure Systems	596,153	616,983	5,041,122
Logistics, Thermal & Drive Systems	855,449	981,265	8,017,525
Aircraft, Defense & Space			
Commercial aircraft	177,415	109,176	892,033
Defense & space equipment	523,672	495,372	4,047,487
Subtotal	701,087	604,549	4,939,529
Total	¥3,686,071	¥3,846,172	$31,425,541
Corporate & Eliminations*2	13,875	14,110	115,287
Total	¥3,699,946	¥3,860,283	$31,540,836

*1. Most of the revenue is recognized from contracts with customers under IFRS 15, and the amount of lease revenue recognized under IFRS 16 and revenue recognized from other sources is not material.

*2. "Corporate & Eliminations" 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, the 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. For details of the revenue recognition in each transaction, refer to Note 3. "Significant Accounting Policies (13) Revenue."

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 total revenue calculated for each construction contract and the progress towards construction completion.

The progress is measured using the method that depicts the satisfaction of 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.

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 on the estimates.

(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, 2021	As of March 31, 2022	As of March 31, 2022
Receivables from contracts with customers	¥597,633	¥683,649	$5,585,824
Contract assets	578,936	654,972	5,351,515
Contract liabilities	¥731,814	¥886,551	$7,243,655

Significant changes in contract assets and liabilities

a) Contract assets

Principally for the performance of construction works and rendering of services, the Group measures the level of satisfaction of the performance obligation at the end of the reporting period and recognizes contract assets as the right to receive the payment corresponding to the level of satisfaction. Then, when the Group has an unconditional right to receive payment, such as by reaching the objectives to be achieved as agreed beforehand with the customer or completely satisfying the performance obligations, the amount of contract assets is transferred to trade receivables.

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).

b) Contract liabilities

The Group principally recognizes the amount of advance payments as contract liabilities, when we receive the payment of consideration as advance payments before the goods or services, which are promised to customers, are transferred to the customers.

Then, when we have satisfied the performance obligation, we derecognize them as contract liabilities and recognize them as revenue.

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 ¥520,473 million and ¥451,665 million ($3,690,375 thousand) for the fiscal years ended March 31, 2021 and March 31, 2022, 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, 2022, 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		Thousands of U.S. dollars
	2021	2022	2022
Reporting segments			
Energy Systems	¥3,228,043	¥3,114,441	$25,446,858
Plants & Infrastructure Systems	988,357	1,243,418	10,159,473
Logistics, Thermal & Drive Systems	36,576	43,264	353,492
Aircraft, Defense & Space	892,863	1,087,165	8,882,792
Subtotal	5,145,840	5,488,289	44,842,626
Corporate & Eliminations*	259	309	2,524
Total	¥5,146,100	¥5,488,599	$44,845,158

* "Corporate & Eliminations" 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 4 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, 2021	As of March 31, 2022	As of March 31, 2022
Assets recognized from the costs to obtain contracts	¥ 595	¥ 581	$ 4,747
Assets recognized from the costs to fulfil contracts	46,877	41,544	339,439
Total	¥47,473	¥42,125	$344,186

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.

The amount of amortization for the assets recognized from the contract costs for the fiscal years ended March 31, 2021 and March 31, 2022 were ¥15,254 million and ¥17,332 million ($141,612 thousand), respectively. There were no impairment losses recognized in the fiscal years ended March 31, 2021 and March 31, 2022.

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Employee benefit expenses	¥229,524	¥221,313	$1,808,260
Research and development expenses*	68,383	72,066	588,822
Business development expenses	50,174	50,614	413,546
Remuneration and fees	41,758	40,249	328,858
Depreciation and amortization	33,880	22,301	182,212
Loss allowance for expected credit losses	770	2,562	20,933
Others	106,891	147,619	1,206,136
Total	¥531,383	¥556,727	$4,548,794

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

25. OTHER INCOME AND EXPENSES

The breakdown of other income and expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Other income			
Gains on sales of PPE	¥ 45,570	¥38,496	$314,535
Dividend income *1	10,664	17,286	141,237
Gains from FVTPL financial assets	591	2,107	17,215
Gains on sales of investment securities	83,916	—	—
Recognition of revenue deferred in prior fiscal years	21,238	—	—
Others	5,719	11,083	90,554
Total	¥167,698	¥68,972	$563,542
Other expenses			
Losses related to suspended operations	¥ 5,849	¥ 5,560	$ 45,428
Losses on sale and retirement of PPE and intangible assets	6,912	5,328	43,532
Impairment losses *2	99,554	3,607	29,471
Various related losses expected in conjunction with slowdown of development of SpaceJet project	41,109	—	—
Business structure improvement expenses	10,901	—	—
Others	16,548	10,282	84,010
Total	¥180,873	¥24,777	$202,443

*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 14. "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.

26. 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, 2021 and 2022 were ¥35,045 million and ¥9,875 million ($80,684 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.

27. FINANCE INCOME AND FINANCE COSTS

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

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Finance income			
Interest income			
Financial assets measured at amortized cost	¥ 5,387	¥ 5,705	$ 46,613
Foreign exchange gain	4,972	23,141	189,075
Others	1,317	3,061	25,010
Total	¥11,677	¥31,907	$260,699
Finance costs			
Interest expense			
Financial liabilities measured at amortized cost	8,261	10,405	85,015
Lease liabilities	2,165	2,009	16,414
Others	5,976	6,048	49,415
Total	¥16,404	¥18,463	$150,853

28. 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
	2021	2022	2022
Profit (attributable to owners of the parent)	¥40,639	¥113,541	$927,698

	Thousands of shares	
	2021	2022
Weighted-average number of common shares outstanding during the period	336,073	335,685
Impact of the dilutive effect: share subscription rights	257	184
Weighted-average number of common shares outstanding during the period after impact of the dilutive effect	336,331	335,869

	Yen		U.S. dollars
	2021	2022	2022
Earnings per share (attributable to owners of the parent)			
Basic earnings per share	¥120.92	¥338.24	$2.76
Diluted earnings per share	¥120.83	¥338.05	$2.76

29. 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
	2021	2022	2022
Financial assets measured at FVTOCI			
Balance at the beginning of the year	¥ 55,366	¥ 99,024	$ 809,085
Changes during the year	37,648	18,686	152,675
Transfer to retained earnings	6,009	(17,118)	(139,864)
Balance at the end of the year	¥ 99,024	¥100,592	$ 821,897
Remeasurement of defined benefit plans			
Balance at the beginning of the year	¥ —	¥ —	$ —
Changes during the year	55,677	50,673	414,028
Transfer to retained earnings	(55,677)	(50,673)	(414,028)
Balance at the end of the year	¥ —	¥ —	$ —
Cash flow hedges			
Balance at the beginning of the year	¥ (8,073)	¥ (6,145)	$ (50,208)
Changes during the year	1,928	1,651	13,489
Balance at the end of the year	¥ (6,145)	¥ (4,493)	$ (36,710)
Hedge costs			
Balance at the beginning of the year	¥ (881)	¥ (7)	$ (57)
Changes during the year	874	(178)	(1,454)
Balance at the end of the year	¥ (7)	¥ (185)	$ (1,511)
Exchange differences on translating foreign operations			
Balance at the beginning of the year	¥ (24,277)	¥ 12,521	$ 102,304
Changes during the year	36,798	64,294	525,320
Balance at the end of the year	¥ 12,521	¥ 76,815	$ 627,624
Other components of equity			
Balance at the beginning of the year	¥ 22,133	¥105,393	$ 861,124
Changes during the year	132,928	135,128	1,104,077
Transfer to retained earnings	(49,668)	(67,792)	(553,901)
Balance at the end of the year	¥105,393	¥172,728	$1,411,291

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

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Financial assets measured at FVTOCI	¥ 313	¥ (13)	$ (106)
Remeasurement of defined benefit plans	231	(283)	(2,312)
Cash flow hedges	138	126	1,029
Exchange differences on translating foreign operations	4,734	7,707	62,970
Total	¥5,418	¥7,536	$61,573

(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
	2021	2022	2022
Items that will not be reclassified to profit (loss)			
Net gain (loss) from financial assets measured at FVTOCI			
Amount arising during the year	¥ 55,161	¥ 26,182	$ 213,922
Before tax effects	55,161	26,182	213,922
Tax effects	(17,217)	(7,482)	(61,132)
After tax effects	37,943	18,700	152,790
Remeasurement of defined benefit plans			
Amount arising during the year	¥ 80,484	¥ 72,437	$ 591,853
Before tax effects	80,484	72,437	591,853
Tax effects	(24,386)	(22,296)	(182,171)
After tax effects	56,097	50,140	409,673
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Amount arising during the year	¥ (163)	¥ 232	$ 1,895
Before tax effects	(163)	232	1,895
Tax effects	—	—	—
After tax effects	(163)	232	1,895
Items that may be reclassified to profit (loss)			
Cash flow hedges			
Amount arising during the year	¥ (2,033)	¥ 5,411	$ 44,211
Reclassification adjustments	1,689	(5,363)	(43,818)
Before tax effects	(344)	48	392
Tax effects	72	(35)	(285)
After tax effects	(271)	12	98
Hedge costs			
Amount arising during the year	¥ 1,453	¥ (60)	$ (490)
Reclassification adjustments	(195)	(195)	(1,593)
Before tax effects	1,257	(256)	(2,091)
Tax effects	(382)	78	637
After tax effects	874	(178)	(1,454)
Exchange differences on translating foreign operations			
Amount arising during the year	¥ 43,882	¥ 69,104	$ 564,621
Reclassification adjustments	(6,300)	(1,868)	(15,262)
Before tax effects	37,582	67,235	549,350
Tax effects	380	(147)	(1,201)
After tax effects	37,962	67,088	548,149
Share of other comprehensive income (loss) of entities accounted for using the equity method			
Amount arising during the year	¥ 3,048	¥ 8,103	$ 66,206
Reclassification adjustments	2,922	(1,214)	(9,919)
Before tax effects	5,970	6,889	56,287
Tax effects	-	-	-
After tax effects	5,970	6,889	56,287
Total other comprehensive income	¥138,413	¥142,886	$1,167,464

30. 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 as a non-cash transaction. 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.

31. RELATED PARTY TRANSACTIONS

(1) Transactions with affiliates and joint ventures

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Balance of receivables*1	¥85,530	¥64,270	$525,124
Balance of payables	¥60,406	¥69,108	$564,653

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Revenue*2	¥162,336	¥91,053	$743,957
Purchases	¥ 63,343	¥57,286	$468,061

*1. The Group provides loans to some of its related parties.
The total amounts of loans to related parties were ¥10,786 million, and ¥11,269 million ($92,074 thousand) as of March 31, 2021 and March 31, 2022, respectively.
Loans to related parties were mainly provided to Japan Casting & Forging Corporation.
The Group sets loss allowances for the loans as ¥7,691 million, and ¥7,907 million ($64,604 thousand) as of March 31, 2021 and March 31, 2022, respectively.
The loans receivable and the loss allowances shown in the table above are net amounts.

*2. In addition to the above, the Group dealt with non-current assets with some of its related parties.
The total amount of those transactions was 7,728 million ($63,142 thousand) for the fiscal year ended March 31, 2022.

(2) Remuneration for management personnel

Remuneration amount for directors is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Short-term remuneration	¥499	¥581	$4,747
Share-based remuneration	85	114	931
Total	¥585	¥696	$5,686

Other than above, the amount of welfare expenses, which is borne by MHI when appointing directors, for the fiscal years ended March 31, 2021 and March 31, 2022 were ¥12 million and ¥11 million ($89 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, 2021	As of March 31, 2022
Energy Systems			
Mitsubishi Heavy Industries Aero Engines, Ltd.	Komaki City, Aichi	100%	100%
Mitsubishi Heavy Industries Compressor Corporation	Minato-ku, Tokyo	100%	100%
Mitsubishi Heavy Industries Power IDS Co., Ltd.	Naka-ku, Yokohama City	100% (100%)	100%
Mitsubishi Heavy Industries Marine Machinery & Equipment Co., Ltd	Nagasaki City	100%	100%
Mitsubishi Power Aero LLC	Connecticut, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Power Americas, Inc.	Florida, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Power Europe GmbH	Duisburg, Germany	100% (100%)	100% (99.9%)
Mechanical Dynamics & Analysis LLC	New York, U.S.A.	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% (1.5%)
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 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%
Mitsubishi Logisnext Co., Ltd.	Nagaokakyo City, Kyoto	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%)
Mitsubishi Logisnext Americas (Marengo) Inc.	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 Heavy Industries Air-conditioners (Shanghai) Co., Ltd.	Shanghai, China	100% (100%)	100% (100%)
Mitsubishi Logisnext Europe B.V.	Almere, The Netherlands	100% (100%)	100% (100%)
Mitsubishi Logisnext Americas (Houston) Inc.	Texas, U.S.A.	100% (100%)	100% (100%)
Aircraft, Defense & Space			
Mitsubishi Aircraft Corporation	Minato-ku, Nagoya City	86.9%	86.9%
MHI RJ Aviation Inc.	West Virginia, U.S.A.	100% (100%)	100% (100%)

Name of subsidiary	Location	Ownership percentage of voting rights*1, 2 As of March 31, 2021	As of March 31, 2022
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 EMEA, Ltd.	London, U.K.	100%	100%
Mitsubishi Heavy Industries (Thailand) Ltd.	Bangkok, Thailand	100% (100%)	100% (99.9%)
Mitsubishi Heavy Industries (Shanghai) Co., Ltd.	Shanghai, China	100% (100%)	100% (100%)
Other subsidiaries		225 companies	218 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, 2021 and March 31, 2022, respectively.

33. COMMITMENTS

(1) Commitments related to the acquisition of PPE

The amounts committed for the purchase of PPE where the purchase has already been committed but has not been inspected for acceptance were ¥68,641 million and ¥82,568 million ($674,630 thousand) as of March 31, 2021 and March 31, 2022, 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 ¥1,671 million and ¥1,794 million ($14,658 thousand) as of March 31, 2021 and March 31, 2022, 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 ¥7,899 million and ¥2,835 million ($23,163 thousand) as of March 31, 2021 and March 31, 2022, respectively.

34. CONTINGENT LIABILITIES

(Contingent liabilities relating to the slowdown of SpaceJet development activities)

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

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 is 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 is 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 assets subject to loss allowance for ECL

Measurement method of credit losses	Classification	Millions of yen As of March 31, 2021	Millions of yen As of March 31, 2022	Thousands of U.S. dollars As of March 31, 2022
Simplified approach	—	¥1,205,288	¥1,367,327	$11,171,884
General approach	Measured at an amount equal to the 12-month ECL	95,863	105,273	860,143
	Measured at an amount equal to the lifetime ECL	—	—	—
	Measured at an amount equal to the lifetime ECL (credit impaired)	¥ 9,149	¥ 8,086	$ 66,067

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, 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, 2022 (From April 1, 2021 to March 31, 2022)

	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	¥12,896	¥1,108	¥(644)	¥ 505	¥13,866
Allowances using the general approach					
Other than credit-impaired financial assets	368	1,148	(24)	31	1,524
Credit-impaired financial assets*2	¥ 9,149	¥ 186	¥ —	¥(1,425)	¥ 7,909

For the fiscal year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

	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	$105,368	$9,053	$(5,261)	$ 4,126	$113,293
Allowances using the general approach					
Other than credit-impaired financial assets	3,006	9,379	(196)	253	12,451
Credit-impaired financial assets*2	$ 74,752	$1,519	$ —	$(11,643)	$ 64,621

*1. Other changes include adjustments for foreign currency translation gains and losses.
*2. Credit-impaired financial assets 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 on borrowings from financial institutions which were made by the Group's employees and associates. Also, in relation to leasing business mainly for the aircrafts dealt in CRJ division, the Group provided guarantees on fulfillment of obligations for lessees, etc.

Guarantees outstanding were ¥67,249 million and ¥66,254 million ($541,335 thousand) as of March 31, 2021 and March 31, 2022, respectively. These guarantees are not included in the tables a) and b) above because the credit risk related to these guarantees is limited and not material.

(2) Liquidity risk management

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

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

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

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

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

Maturity amounts of the remaining contracts of the Group's financial liabilities are as follows:
As of March 31, 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, 2022

	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	¥ 863,281	¥ 863,281	¥ 859,485	¥ 3,699	¥ 96
Bonds	205,000	209,130	10,773	107,160	91,197
Short-term borrowings	67,324	67,324	67,324	—	—
Long-term borrowings	462,609	474,400	94,382	187,516	192,502
Liabilities under factoring agreements	94,825	94,825	41,293	53,532	—
Lease liabilities	134,190	139,144	30,309	83,114	25,719
Other financial liabilities	98,361	98,281	54,406	26,082	17,792
Derivative liabilities	15,963	15,963	14,642	1,320	—
Total	¥1,941,556	¥1,962,351	¥1,172,617	¥462,426	¥327,307

As of March 31, 2022

	Thousands of U.S. dollars				
	Carrying amount	Total undiscounted contractual cash flows	One year or less	More than one year and less than five years	More than five years
Non-derivative liabilities					
Trade and other payables	$ 7,053,525	$ 7,053,525	$7,022,510	$ 30,223	$ 784
Bonds	1,674,973	1,708,718	88,021	875,561	745,134
Short-term borrowings	550,077	550,077	550,077	—	—
Long-term borrowings	3,779,794	3,876,133	771,157	1,532,118	1,572,857
Liabilities under factoring agreements	774,777	774,777	337,388	437,388	—
Lease liabilities	1,096,413	1,136,890	247,642	679,091	210,139
Other financial liabilities	803,668	803,014	444,529	213,105	145,371
Derivative liabilities	130,427	130,427	119,633	10,785	—
Total	$15,863,681	$16,033,589	$9,580,987	$3,778,298	$2,674,295

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, 2021	**As of March 31, 2022**	**As of March 31, 2022**
U.S. dollars	¥132,577	**¥185,757**	**$1,517,746**
Euros	¥ 39,183	**¥ 24,684**	**$ 201,683**

(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	2021	2022	2022
U.S. dollars	¥ (1,326)	¥ (1,858)	$(15,180)
Euros	¥ (392)	¥ (247)	$ (2,018)

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, 2021	As of March 31, 2022	As of March 31, 2022
Borrowings with variable interest rates	¥27,546	¥51,981	$424,716

(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
	2021	2022	2022
Profit before income taxes	¥(275)	¥(520)	$(4,248)

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, 2021	As of March 31, 2022	As of March 31, 2022
Marketable stocks	¥379,890	¥310,322	$2,535,517

(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
	2021	2022	2022
Other comprehensive income (After tax deduction)	¥(26,421)	¥(21,573)	$(176,264)

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

(i) Derivative transactions designated as cash flow hedges

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, 2022

	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	¥189,570	¥67,396	¥2,870	¥6,759
Currency swap	72,699	—	416	—
Interest rate risk				
Interest rate swap	¥ 84,699	¥ 9,887	¥ —	¥ 989

As of March 31, 2022

	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	$1,548,901	$550,665	$23,449	$55,225
Currency swap	593,994	—	3,398	—
Interest rate risk				
Interest rate swap	$ 692,041	$ 80,782	$ —	$ 8,080

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 101.61 yen per U.S. dollar and 100.68 yen per U.S. dollar as of March 31, 2021 and March 31, 2022, 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 and March 31, 2022, respectively. The Group enters into interest rate swaps that mainly exchange variable interest rate payments for fixed interest rate payments. The average contract rate is 2.76% and 2.94% as of the date of transition, March 31, 2021 and March 31, 2022, 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, 2021	**As of March 31, 2022**	**As of March 31, 2022**
Cash flow hedge reserve			
Foreign exchange risk			
Forward exchange contracts	¥ (5,673)	**¥(4,283)**	**$(34,994)**
Currency swap	2,286	**476**	**3,889**
Interest rate risk			
Interest rate swap	(2,758)	**(687)**	**(5,613)**
Total	¥ (6,145)	**¥(4,493)**	**$(36,710)**
Hedge cost reserve			
Currency swap	(7)	**(185)**	**(1,511)**
Total	¥ (7)	**¥ (185)**	**$ (1,511)**

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, 2022, are 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, 2022

	Millions of yen	
	Carrying amount of hedging instruments	
	Assets	Liabilities
Share price risk		
Forward contracts	¥—	¥3,117

As of March 31, 2022

	Thousands of U.S. dollars	
	Carrying amount of hedging instruments	
	Assets	Liabilities
Share price risk		
Forward contracts	$—	$25,467

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

	Millions of yen	
Hedged item	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, 2022

	Millions of yen	
Hedged item	Carrying amount	Accumulated fair value hedge adjustment on hedged item included in carrying amount of hedged item
Share price risk	¥11,105	¥2,410

As of March 31, 2022

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	$90,734	$19,691

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, 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, 2022

	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	¥(1,941)	¥1,616	Finance costs
Currency swap	6,345	(9,204)	Finance income
Interest rate risk			
Interest rate swap	¥ 947	¥ 2,029	Finance costs

As of March 31, 2022

	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	$(15,859)	$13,203	Finance costs
Currency swap	51,842	(75,202)	Finance income
Interest rate risk			
Interest rate swap	$ 7,737	$16,578	Finance costs

f) Interest Rate Benchmark Reform

Fundamental reforms of key interest rate benchmark are underway around the world, and some Interbank offered rates including the publication of London Interbank Offered Rate (hereinafter, LIBOR) are replaced with alternative risk free rates. The publication of LIBOR, except for certain tenors in U.S. dollar, was ceased at the end of December 2021 and U.S. dollar LIBOR will be ceased at the end of June 2023, respectively. The Group's transition status from LIBOR to alternative rate benchmarks for financial instruments with material contract amounts is as follows:

- The Group changed contract terms of borrowings (non-derivative liabilities) and interest rate swap (derivative) referring to Japanese yen LIBOR, to other interest rate benchmarks such as Tokyo Term Risk Free Rate (TORF) by December 31, 2021.
- The Group does not plan to change contract terms of borrowings (non-derivative liabilities) and interest rate swap (derivative) referring to U.S. dollar LIBOR, to other interest rate benchmarks as the contracts will expire before the ceasation.

36. BUSINESS COMBINATIONS

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

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

	Millions of yen	Thousands of U.S. dollars
Items	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 14. "Impairment of Non-Financial Assets", an impairment has been fully recognized for the amount. The Group expects that tax deduction is possible.

(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.

For the fiscal year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

Not applicable.

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, 2021	**As of March 31, 2022**
Return on equity attributable to owners of the parent (ROE) (%)	3.14	7.72
Ratio of equity attributable to owners of the parent (%)	28.40	30.82
D/E ratio (debt ratio) (%)	62.92	44.21

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, 2022

	Millions of yen				Thousands of U.S. dollars
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Revenue	¥851,715	¥1,663,747	¥2,645,375	¥3,860,283	$31,540,836
Profit (loss) before income taxes	21,084	26,534	87,568	173,684	1,419,102
Profit (loss) attributable to owners of the parent	¥ 12,651	¥ 12,081	¥ 50,019	¥ 113,541	$ 927,698

	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	¥37.68	¥35.99	¥149.01	¥338.24	$2.763

	Yen			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings (loss) per share attributable to owners of the parent–basic	¥37.68	¥(1.69)	¥113.02	¥189.23

	U.S. dollars			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings (loss) per share attributable to owners of the parent–basic	$0.307	$(0.013)	$0.923	$1.546

(2) Major Lawsuits

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, 2022, 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, 2022, regarding the assumptions which include the future spread of COVID-19 and when the pandemic will be contained.

(4) Impact of the international situation involving Ukraine

Although the Group is being affected by the suspension of Russia-related construction works due to the economic sanctions being imposed on Russia resulting from the situation in Ukraine, the impact on the financial position and operating results of the Group including the valuation of assets, in the fiscal year ended March 31, 2022, is minimal.

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2022, 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, 2022, 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.

The Estimates of 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 Note 3. "Significant accounting policies, (13) Revenue" and Note 23. "Revenue" to the consolidated financial statements, the Group is 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, 2022 was set forth below. These amounts include revenue recognized over time based on total revenue calculated for each contract and the progress towards satisfaction of the performance obligations included in the contract with customers.	We assessed 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. In addition, construction contracts for which the consolidated subsidiaries entered into, we instructed the component auditors of the relevant consolidated subsidiaries to perform an audit over such contracts, received the results of the audit procedures performed, and evaluated whether sufficient and appropriate audit evidence was obtained. The following are the primary procedures we and the component auditors performed:

(Unit: ¥ million)

Business	Revenue
Energy Systems	1,643,374
Plants & Infrastructure Systems	616,983
Defense & space equipment	495,372

Under the construction contracts, the control of the goods and services included in the contracts is deemed to be transferred to customers over a certain period specified in the contract. Therefore, the Group recognizes revenue by estimating total revenue for each construction contract, measuring progress towards completion of the performance obligation included in the contract with the customer, and calculating the portion of total revenue corresponding to the progress. 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 measured by a method that depicts satisfaction of a performance obligation and principally estimated based on the proportion of costs already incurred to satisfy the performance obligation against the expected total costs to the complete satisfaction of the performance obligation.

As described in Note 18. "Provisions, (1) Loss on construction contracts" to the consolidated financial statements, in order to account 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 ¥97,850 million as of March 31, 2022.

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 on the estimates.

- 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

(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 monitor changes in conditions subsequent to the start of construction and ensure that these changes 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 progress of each construction work, we performed the following procedures depending on the circumstances of each contract:

- Inquired of the responsible personnel of and inspected relevant materials regarding the estimates of total revenue and costs. In addition, the following are the primary procedures we performed:
  - compared the estimated total revenue with the contract and other applicable documents;
  - compared the estimated total costs with the project budget and other supporting materials;
  - compared the estimated total costs at the end of the current fiscal year with the original estimate of total costs and analyzed the reasons for such variance; and
  - assessed whether variable factors such as compensation for damages from customers and additional costs were reflected in the estimated total revenue and costs.

Based on the results of the procedures performed above, we inspected the significant assumptions and risk factors related to the delivery schedule, performance, and specification requirements, as well as the fluctuations of procurement costs such as materials and parts in the construction contract for our understanding. We then assessed whether such significant assumptions and risk factors were appropriately reflected in the estimated total revenue and costs;

- obtained the changes in the terms of contracts with customers and suppliers by inspection minutes of major meetings and other relevant

- 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 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, 2022, and accordingly, a key audit matter.	materials, and assessed whether there were any changes in the conditions of construction work that required updating of the estimates of total revenue and costs by inquiring of relevant responsible personnel; and ● for the construction work for which updates to the estimates were deemed necessary, assessed whether the future expectations of significant assumptions, risk and other factors, and the methods to address them were appropriately reflected in the updated estimates of the total revenue and costs.

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 ¥352,261 million were recognized as of March 31, 2022, representing 15% of non-current assets. As described in Note 15. “Income taxes” to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥516,260 million. Of this amount, the deferred tax assets related to deductible temporary differences arising from investments in subsidiaries, associates and joint ventures accounted for ¥160,226 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 interests 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	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 appropriateness of key factors adopted in the business plan, which was used as the basis for estimating future taxable income, the following are the primary procedures we performed: ● assessed the feasibility of the cost reduction plans by inquiring of the responsible manager, inspecting the relevant documents, and assessing the consistency of the plan with the actual past results; ● performed an analysis on expected revenue, reflecting the impact of the spread of the COVID-19 on demand and production, by comparing it with the trends that are based mainly on external information and statistical data; and ● compared the trends of expected future revenue based on the measures to respond to changes in the business environment of the

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 thermal power generation system business, which is one of the Group's core businesses. These factors involved significant management judgment, and therefore, had a material effect on the estimate of future taxable income. For deductible temporary differences arising from interests in subsidiaries, associates 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, 2022, and accordingly, a key audit matter.	thermal power generation system business with actual orders received and relevant external information. In addition, we assessed the feasibility of the plan to improve the future gross margin ratios of the business based on these measures by inquiring of the responsible manager, inspecting relevant documents, and assessing the consistency with past actual results. **(3) Assessment of the appropriateness of the judgment on the estimated timing of reversal of deductible temporary differences arising from investments in subsidiaries and others** In order to assess the appropriateness of management's judgment in evaluating the probability that deductible temporary differences arising particularly from the significant investments in subsidiaries would reverse in the foreseeable future, we performed the following procedures, among others: ● assessed the feasibility of management's underlying judgment by inquiring of management and inspecting the relevant documents; and ● examined the tax treatment of the deductible temporary differences arising from the relevant investments by involving tax specialists within our domestic network firms who assisted our assessment.

Judgment as to impairment loss 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, with regard to property, plant and equipment and intangible assets, included in non-financial assets, the Group determines whether there is any indication of impairment at the end of the reporting period. If any such indication exists, the Group performs an impairment test. With regard to goodwill and intangible assets with indefinite useful lives, the Group conducts an annual impairment test and 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 such reduction in the carrying amount is recognized as an impairment loss. The recoverable amount of a CGU	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 some of these audit procedures, obtaining the result of their audit procedures performed, and concluding on whether sufficient and appropriate audit evidence was obtained.

is the higher of its fair value less cost of disposal and its value in use. As described in Note 14. "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, 2022. For 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 ¥1,098,289 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 machinery business contained key factors, such as trends of expected future revenue, gross margin ratios, and reduction of fixed costs, which included impact on Metals machinery business caused by the situation in Ukraine. 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, 2022, and accordingly, a key audit matter.	**(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 the CGUs, including goodwill. **(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, including the impact on Metals machinery business caused by the situation in Ukraine, with historical orders received, and external and internal information on the future outlook of the sales; ● performed a trend analysis on future gross margin ratios based on the historical results and other relevant information; ● examined the appropriateness and feasibility of the fixed cost reduction plans by inquiring of the responsible manager, inspecting the relevant documents, and assessing the consistency with historical results; ● verified the consistency of the growth rates with available external data; ● compared the discount rates with the estimates made by our valuation 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 management's judgment as to whether an impairment loss should be recognized.

Other Information

The other information comprises the information included in the MHI Financial Report, but does not include the consolidated financial statements and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The Audit and Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 is 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, 2022 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.

Takuji Kanai
Designated Engagement Partner
Certified Public Accountant

Kenji Tanaka
Designated Engagement Partner
Certified Public Accountant

Kentaro Maruta
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 29, 2022

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

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