(Note) This is a translation of the official Japanese original for reference purposes only. In the event of any discrepancy between this translation and the official Japanese original, the Japanese original shall prevail. Please note that differences between this translation and those in the previous years may not necessarily mean that there have been changes in the official Japanese original, since the translation differences may stem only from a more accurate translation.

THE 93RD

ANNUAL GENERAL MEETING OF SHAREHOLDERS

THE INFORMATION DISCLOSED ON THE WEBSITE

2017 FISCAL YEAR (from April 1, 2017 to March 31, 2018)

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Pursuant to the laws of Japan and the Article 16 of MHI's Articles of Incorporation, this information is disclosed to the Shareholders on MHI's website. (https://www.mhi.com/finance/stock/meeting/)

STOCK ACQUISITION RIGHTS OF MHI

Stock Acquisition Rights Held by MHI's Officers at the End of FY2017

Name (Approval Date of Stock Acquisition Rights Offering)	Type and Number of Shares Received When Exercising Acquisition Rights	Issue Price of Stock Acquisition Rights	Exercise Price of the Stock Acquisition Rights	Period to Exercise Each Stock Acquisition Right	Stock Acquisition Rights Held by Directors (excluding Directors who are not serving as Audit and Supervisory Committee Members)
#4 Stock Acquisition Rights (July 31, 2006)	100 shares of common stock	¥412,000	¥1,000	August 18, 2006 to June 28, 2036	46 (2 Directors)
#5 Stock Acquisition Rights (July 31, 2007)	100 shares of common stock	¥793,000	¥1,000	August 17, 2007 to August 16, 2037	33 (2 Directors)
#6 Stock Acquisition Rights (July 31, 2008)	100 shares of common stock	¥410,000	¥1,000	August 19, 2008 to August 18, 2038	94 (2 Directors)
#8 Stock Acquisition Rights (July 31, 2009)	100 shares of common stock	¥295,000	¥1,000	August 18, 2009 to August 17, 2039	130 (2 Directors)
#9 Stock Acquisition Rights (July 30, 2010)	100 shares of common stock	¥268,000	¥1,000	August 18, 2010 to August 17, 2040	143 (2 Directors)
#10 Stock Acquisition Rights (November 30, 2011)	100 shares of common stock	¥270,000	¥1,000	December 16, 2011 to December 15, 2041	164 (2 Directors)
#11 Stock Acquisition Rights (July 31, 2012)	100 shares of common stock	¥225,000	¥1,000	August 17, 2012 to August 16, 2042	196 (2 Directors)

Name (Approval Date of Stock Acquisition Rights Offering)	Type and Number of Shares Received When Exercising Acquisition Rights	Issue Price of Stock Acquisition Rights	Exercise Price of the Stock Acquisition Rights	Period to Exercise Each Stock Acquisition Right	Stock Acquisition Rights Held by Directors (excluding Directors who are not serving as Audit and Supervisory Committee Members)
#12 Stock Acquisition Rights (July 31, 2013)	100 shares of common stock	¥435,000	¥1,000	August 20, 2013 to August 19, 2043	136 (3 Directors)
#15 Stock Acquisition Rights (July 31, 2014)	100 shares of common stock	¥564,000	¥1,000	August 19, 2014 to August 18, 2044	222 (4 Directors)

(Notes)

1. MHI does not grant stock acquisition rights to outside directors or Directors who are serving as Audit and Supervisory Committee Members.
2. The issue prices of stock acquisition rights are the fair values of the rights offering (determined according to the Black-Scholes Options Pricing Model) as of the approval date of these rights offering.
3. On October 1, 2017, MHI conducted a consolidation of its shares on a one for 10 basis. Accordingly, the necessary adjustments have been made to stock acquisition rights.

(End)

ESTABLISHING A FRAMEWORK FOR ENSURING APPROPRIATE BUSINESS CONDUCT

RESOLUTIONS OF THE BOARD OF DIRECTORS FOR THE ESTABLISHMENT OF A FRAMEWORK FOR ENSURING APPROPRIATE BUSINESS CONDUCT

In accordance with the applicable laws and ordinances, MHI has prepared a system to ensure appropriate operations by resolution of the Board of Directors. We promote fair and solid management. The content of the resolution is as follows:

1. Matters regarding Directors and employees who are assigned to support duties of the Audit and Supervisory Committee
   For the purpose of supporting the duties of the Audit and Supervisory Committee, MHI shall establish the Audit and Supervisory Committee's Office with dedicated employees to assist the smooth performance of its duties. MHI will not appoint any Director who is assigned to support duties of the Audit and Supervisory Committee.

2. Matters regarding independence of employees in 1. above from Directors (excluding Directors who are serving as Audit and Supervisory Committee Members) and to ensure the effectiveness of instructions by the Audit and Supervisory Committee to employees
   The staff of the Audit and Supervisory Committee's Office shall be assigned to said office on an exclusive basis. They shall not receive any instructions or orders from Directors (excluding Directors who are serving as Audit and Supervisory Committee Members) and shall obey the instructions and orders of the Audit and Supervisory Committee. Any personnel transfers and evaluation of said staff shall be subject to the consent of the Audit and Supervisory Committee to ensure the independence of them from the departments engaging in business execution and the effectiveness of instructions by the Audit and Supervisory Committee to them.

3. System for reporting to the Audit and Supervisory Committee by Directors and employees and other systems for reporting to the Audit and Supervisory Committee
   (1) Directors, etc. of MHI shall implement arrangements concerning reporting to and communication with the Audit and Supervisory Committee (or the Audit and Supervisory Committee Members designated by the Audit and Supervisory Committee; the same shall apply hereinafter) including reporting matters concerning MHI Group companies. In addition, Directors, etc. of MHI shall ensure adequate mutual understanding through regular exchange of opinions and make reports upon request of the Audit and Supervisory Committee.
   (2) Directors, etc. of MHI Group companies shall carry out reporting to and communication with the Audit and Supervisory Committee in accordance with the operational procedures prescribed in Item 12 and make reports upon request of the Audit and Supervisory Committee.
   (3) The department in charge of the whistleblower system shall report the matters reported to it through the whistleblower system and other compliance-related matters reported to it to the Audit and Supervisory Committee.

4. System to ensure that the person who made a report in 3. above shall not be subject to any unfavorable treatment for reason of having made such report
   It shall be prescribed in company regulations that a person who made a report through the whistleblower system shall not be treated disadvantageously in any way on the grounds of such report and this rule shall be internally informed and appropriately operated.

5. Matters concerning the policy on the treatment of expenses or debts arising in the course of the execution of duties of Audit and Supervisory Committee Members including the procedure for advance payment and reimbursement of expenses arising in the course of the execution of said duties
   A certain amount of annual budget shall be secured for the payment of expenses arising in the course of the execution of duties of Audit and Supervisory Committee Members based on the request of the Audit and Supervisory Committee. If the payment of other expenses is requested by an Audit and Supervisory Committee Member, it shall be handled appropriately pursuant to Article 399-2, Paragraph 4 of the Companies Act.

6. Other systems to ensure effectiveness of audits by the Audit and Supervisory Committee
   Consideration to ensure the effectiveness of audits shall be given to any exchange of opinions with internal departments concerned, financial auditor, etc., information gathering and research that are conducted by the Audit and Supervisory Committee.

7. System to ensure that the Directors' execution of their duties is in compliance with laws and ordinances and MHI's Articles of Incorporation
   (1) Directors shall lead by example in realizing MHI's fundamental principle of fair and honest business activities that comply with all laws and ordinances and emphasize social norms and business ethics.
   (2) The Board of Directors shall fully discuss all matters raised and reported by Directors and oversight MHI's operations from the perspectives of sound and efficient management. The views of outside officers shall be employed to introduce greater objectivity and enhance the effectiveness of oversight.

8. System to store and manage information related to the Directors' execution of their duties
   (1) Principle matters related to the management of documents shall be specified in company regulations, and information related to the Directors' execution of their duties shall be appropriately recorded, stored and managed.
   (2) Directors (including Audit and Supervisory Committee Members) shall be given access to such information at any time where it is deemed necessary to supervise and audit actions by Directors.

9. Regulations and other systems to manage risk of loss
   (1) Systems designed to manage each type of risk shall be implemented and responsibilities shall be clearly defined to ensure the appropriate management of risk.
   (2) Risk shall be regularly evaluated and analyzed and necessary avoidance or mitigating measures taken; internal audits shall monitor the effectiveness and appropriateness of these measures and reports shall be regularly submitted to the Board of Directors and Audit and Supervisory Committee.
   (3) To prepare for cases where significant risk may materialize, MHI shall ensure the means to immediately communicate information to senior management to respond promptly and accurately to emergency situations; individuals responsible for crisis management shall also be appointed in each business division.

10. System to ensure that Directors execute their duties efficiently
   (1) The Board of Directors shall formulate business plans and establish companywide management policy and objectives; business execution, led by the President, shall be conducted with the aim of achieving these objectives.
   (2) MHI's organizational structure, division of duties, and lines of authority shall be specified in company regulations to ensure steps to achieve management objectives are conducted efficiently.

11. System to ensure that the duties and actions of employees comply with laws and ordinances and MHI's Articles of Incorporation
   (1) MHI shall create a framework comprising the Compliance Committee and other bodies to raise awareness of compliance among employees by formulating a code of conduct, implementing various training programs and taking other steps.
   (2) MHI shall establish a whistleblower system and other mechanisms to enhance the effectiveness of compliance, conduct internal audits of the compliance framework, and report the results to the Board of Directors and Audit and Supervisory Committee.

12. System to ensure appropriate business activities of MHI Group
   (1) Each MHI Group company shall operate autonomously as an independent enterprise and its president shall be responsible for the management of the company. At the same time, in order to ensure that the MHI Group as a whole is operated soundly and efficiently and in a manner to contribute to the improvement of its consolidated financial performance, MHI shall support and provide guidance to MHI Group companies by establishing the division of management responsibilities between MHI and Group companies and operational procedures stipulating, among others, matters that should be requested or reported by Group companies to MHI.
   (2) In order to ensure that the MHI Group as a whole is operated appropriately and various risks existing within the MHI Group as a whole are managed appropriately, various measures concerning compliance and risk management shall be promoted on a group-wide basis and each company shall put in place an internal control system that is appropriate for its size and characteristics. The operating status of these internal control systems shall be audited by the department of MHI responsible for their management.
   (3) MHI and MHI group companies shall ensure the accuracy of their respective financial information, and arrange the organization, company regulations and other matters required for the preparation and disclosure of reliable financial reports.

SUMMARY OF THE OPERATION STATUS OF A FRAMEWORK FOR ENSURING APPROPRIATE BUSINESS CONDUCT

The operation status of a framework for ensuring appropriate business conduct for FY2017 is as summarized below.

1. Initiatives to ensure the effectiveness of audits by the Audit and Supervisory Committee

   - Based on company regulations, MHI has established the Audit and Supervisory Committee's Office with the staff assigned on an exclusive basis to support the audit activities of the Audit and Supervisory Committee. It is also prescribed in the same company regulations that the independence of the exclusively assigned staff from the departments engaging in business execution shall be secured.
   - A budget necessary for audit activities is appropriately secured based on the request of the Audit and Supervisory Committee and expenses, etc. are paid from the budget.
   - MHI responds appropriately to any requests of Full-time Audit and Supervisory Committee Members received in advance for the attendance at an important meeting and the provision of documents. In addition, any projects that are important from the audit perspective, etc. are reported to Full-time Audit and Supervisory Committee Members or the Audit and Supervisory Committee on an individual basis.
   - On a regular basis, information is shared among Full-time Audit and Supervisory Committee Members, officers of execution of business department and the internal auditing department. In addition, the Audit and Supervisory Committee regularly exchanges opinions with financial auditor.

- All matters that have been reported through the whistleblower system are reported to Full-time Audit and Supervisory Committee Members. It is prescribed in company regulations that a person who made a report through the whistleblower system shall not be treated disadvantageously in any way on the grounds of such report and this rule is internally informed and strictly enforced.

2. Initiatives to ensure legal compliance in the execution of duties by Directors and employees and the appropriateness of decision-making processes
    - As the initiatives to ensure compliance, MHI established the "MHI Group Global Code of Conduct," which applies to all officers and employees of the MHI Group both in Japan and overseas. MHI also strives to conduct several activities including regular Compliance Committee meetings, the establishment of various company regulations, the provision of education to promote legal compliance, and internal audits that take into consideration the issues of each department subject to audit.
    - In FY2017, 15 meetings of the Board of Directors were held to thoroughly deliberate on each agenda. In addition, the Nomination and Remuneration Meetings consisting only of outside directors and the President and CEO and the meetings consisting only of outside directors were held to hear broadly the opinions of outside directors particularly on matters related to corporate governance as the initiatives to increase the soundness and transparency of the management of MHI.

3. Initiatives concerning the preservation and management of information about the execution of duties by Directors
    - The minutes of the Board of Directors and other information about the execution of duties by Directors are appropriately recorded in accordance with company regulations and managed in a manner to make them available for inspection any time upon request of a Director. In addition, appropriate measures have been taken to prevent information leakage, loss, etc. and checks on these measures are regularly conducted.

4. Initiatives concerning the management of risk of loss
    - MHI practices portfolio management based on the strategic business assessment system to allocate management resources as appropriate to the business.
    - In addition to conducting initial screening and monitoring of project negotiations, the dedicated organization for risk management concerning the businesses addresses major risks that are identified, and works with related departments to take appropriate action towards problem resolution.
    - MHI holds business risk management committee meetings based on the rules governing business risk management systems and processes, and checks and discusses the framework of the business risk management, progress of measures to strengthen the business risk management, and so on.

5. Initiatives to ensure the efficiency of the execution of duties by Directors
    - Business plans, which set forth group-wide management policies and targets, are developed by the Board of Directors. Under the business execution framework headed by President and CEO, MHI strives to achieve the targets set forth in the plans and the progress status is regularly reported at the meetings of the Board of Directors. In FY2017, the Board of Directors held discussions related to the formulation of the next Medium-Term Business Plan.
    - Part of decisions on important business execution has been delegated to President and CEO pursuant to the provisions of the Articles of Incorporation. In addition, criteria for matters that

should be deliberated by the Board of Directors have been prescribed in the Bylaws of the Board of Directors to improve the efficiency and agility of the execution of duties by Directors.

6. Initiatives to ensure appropriate business conduct of an enterprise group

- Company regulations on the system to define the management responsibilities for MHI Group companies and other relevant matters have been established and important management matters within Group companies are reported to MHI.
- Each MHI Group company is implementing initiatives that are largely similar to those described in "2. Initiatives to ensure legal compliance in the execution of duties by Directors and employees and the appropriateness of decision-making processes" and "4. Initiatives concerning the management of risk of loss" above. In addition, internal audits are conducted by each Group company and the status of these audits is also monitored by the internal auditing department of MHI.

(End)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (1/2)
(From April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity
Balance as of March 31, 2017	**265,608**	**203,658**	**1,214,749**	**(4,609)**	**1,679,407**
Cumulative effects of changes in accounting policies					
Restated balance	**265,608**	**203,658**	**1,214,749**	**(4,609)**	**1,679,407**
Changes in the period					
Cash dividends			(40,305)		**(40,305)**
Profit attributable to owners of parent			70,484		**70,484**
Changes in scope of consolidation			(681)		**(681)**
Changes in scope of equity method application			246		**246**
Changes in treasury shares of parent arising from transactions with non-controlling shareholders		10,077		0	**10,077**
Purchase of treasury stock				(21)	**(21)**
Disposal of treasury stock		162		549	**711**
Net changes in items other than stockholders' equity					
Total changes in the period	**—**	**10,239**	**29,743**	**528**	**40,511**
Balance as of March 31, 2018	**265,608**	**213,898**	**1,244,492**	**(4,081)**	**1,719,918**

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (2/2)
(From April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Accumulated other comprehensive income							
	Unrealized holding gain (loss) on investment securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehe-nsive income	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2017	**100,600**	**1,294**	**(2,287)**	**3,683**	**103,291**	**2,536**	**322,059**	**2,107,295**
Cumulative effects of changes in accounting policies		**(3,177)**			**(3,177)**			**(3,177)**
Restated balance	**100,600**	**(1,882)**	**(2,287)**	**3,683**	**100,113**	**2,536**	**322,059**	**2,104,118**
Changes in the Period								
Cash dividends								**(40,305)**
Profit attributable to owners of parent								**70,484**
Changes in scope of consolidation								**(681)**
Changes in scope of equity method application								**246**
Change in treasury shares of parent arising from transactions with non-controlling shareholders								**10,077**
Purchase of treasury stock								**(21)**
Disposal of treasury stock								**711**
Net changes in items other than stockholders' equity	(578)	1,002	(4,712)	9,048	4,760	(407)	15,487	**19,840**
Total changes in the period	**(578)**	**1,002**	**(4,712)**	**9,048**	**4,760**	**(407)**	**15,487**	**60,351**
Balance as of March 31, 2018	**100,021**	**(880)**	**(6,999)**	**12,732**	**104,874**	**2,129**	**337,547**	**2,164,469**

(REFERENCE)
CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of Yen)

	FY2017	FY2016
Cash flows from operating activities:		
Profit before income taxes	128,042	169,718
Depreciation and amortization	176,104	172,762
Impairment loss	3,174	-
Amortization of goodwill	16,484	16,568
Increase (decrease) in liability for retirement benefits	6,612	(1,093)
Interest and dividend income	(16,366)	(15,437)
Interest expense	9,036	11,461
Foreign exchange loss(gain)	(2,239)	(8,337)
(Income) loss from equity method investments	(3,230)	22,845
(Gain) loss on sales of investment securities	(31,303)	(61,047)
Loss on revaluation of investment securities	372	6,272
(Gain) loss on sales of fixed assets	(1,693)	(53,861)
Loss on disposal of fixed assets	7,022	7,627
Gain on negative goodwill	(45)	-
Business structure improvement expenses	14,548	12,810
Loss on passenger vessel construction business reserve	-	34,323
(Increase) decrease in receivables	(42,093)	(11,002)
(Increase) decrease in inventories and advances to suppliers	126,965	(121,023)
(Increase) decrease in other assets	(110,734)	(117,552)
Increase (decrease) in payables	41,733	(14,261)
Increase (decrease) in advance payments received on contracts	118,648	39,375
Increase (decrease) in other liabilities	(54,039)	52,556
Others	(15,908)	(3)
Subtotal	371,089	142,703
Interest and dividends received	21,470	20,270
Interest paid	(8,456)	(12,185)
Income taxes paid	(38,994)	(54,875)
Net cash provided by (used in) operating activities	**345,109**	**95,913**
Cash flows from investing activities:		
Net (increase) decrease in time deposits	(5,849)	2,521
Purchases of property, plant, equipment and intangible assets	(165,168)	(200,185)
Proceeds from sales of property, plant, equipment and intangible assets	8,231	97,013
Purchases of investment securities	(104,514)	(5,033)
Proceeds from sales and redemption of investment securities	112,122	17,376
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	1,900	102,436
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(928)	(849)
Proceeds for transfer of business	1,400	-
Disbursement of long-term loans	(1,993)	(10,996)
Collection of long-term loans	15,898	13,868
Others	1,719	(7,440)
Net cash provided by (used in) investing activities	**(137,181)**	**8,712**
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings and commercial papers	25,963	(132,340)
Proceeds from long-term borrowings	6,449	60,206
Repayment of long-term borrowings	(96,841)	(62,804)
Proceeds from issuance of bonds	20,000	30,000
Payment for redemption of bonds	(60,000)	(20,000)
Proceeds from issuance of stock to non-controlling shareholders	519	445
Dividends paid to stockholders	(40,206)	(40,283)
Dividends paid to non-controlling shareholders	(6,128)	(2,682)
Others	(1,868)	5,381
Net cash provided by (used in) financing activities	**(152,113)**	**(162,078)**
Effect of exchange rate changes on cash and cash equivalents	**1,607**	**1,060**
Net increase (decrease) in cash and cash equivalents	**57,422**	**(56,392)**
Cash and cash equivalents at beginning of the year	**242,404**	**300,267**
Increase in cash and cash equivalents due to changes in scope of consolidation	**2**	**-**
Decrease in cash and cash equivalents due to changes in scope of consolidation	**(592)**	**(1,470)**
Cash and cash equivalents at end of the year	**299,237**	**242,404**

Notes to the Consolidated Financial Statements

Significant Accounting Policies and Essential Facts in Preparing Consolidated Financial Statements

1. Scope of consolidation
   (1) Number of consolidated subsidiaries: 230
   Principal consolidated subsidiaries are described in "OVERVIEW OF MHI GROUP 9. OUTLINES OF MAIN SUBSIDIARIES" of the business report.
   In this fiscal year, 12 companies have been added to the scope of consolidation; eleven (MITSUBISHI HEAVY INDUSTRIES ENGINEERING, LTD. etc.) are newly formed companies; one is due to the increase of significance on the consolidated financial statements. 14 companies have been excluded from the scope of consolidation; seven (MITSUBISHI HEAVY INDUSTRIES PRINTING & PACKAGING MACHINERY, LTD., etc) are due to dissolution by mergers; two (NTT DATA MHI SYSTEMS CORPORATION, etc) are due to the sale of its equity; one is due to liquidation and four are due to the decrease of significance on the consolidated financial statements.

   (2) Principal non-consolidated subsidiaries:
   AMAGASAKI KENKO NO MORI CO., LTD., etc.
   (Reasons for excluding from the scope of consolidation)
   Non-consolidated subsidiaries are excluded from the scope of consolidation because their consolidation would have a negligible impact on the consolidated financial statements given their aggregate level of total assets, sales, net income, etc.

   (3) Entities not accounted for as subsidiaries even though MHI owns the majority of voting rights:
   MITSUBISHI MAHINDRA AGRICULTURAL MACHINERY CO., LTD.
   This company is classified as an affiliated company accounted for by the equity method considering the percentage of holdings (including preferred stocks) and the contents of shareholders' agreement.

2. Application of the equity method
   (1) Affiliated companies accounted for by the equity method
   SHINRYO CORPORATION (Total: 32 companies)
   In this fiscal year, 2 companies have been added to the scope of the equity method; one is due to newly acquisition of its equity; one is due to additionally acquisition of its equity. In addition, one was excluded from the scope of the equity method due to the sale of its equity and NTT DATA MHI SYSTEMS CORPORATION was changed from a consolidated subsidiary to an affiliate accounted for by the equity method.
   2 affiliated companies have been excluded from the scope of the equity method due to the decrease of significance on the consolidated financial statements.

   (2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method

   Non-consolidated subsidiaries not accounted for by the equity method:
   AMAGASAKI KENKO NO MORI CO., LTD., etc.
   Affiliated companies not accounted for by the equity method:
   NICHIYU SHARYO CO., LTD. etc.
   (Reasons for not applying the equity method)
   The equity method is not applied to the above non-consolidated subsidiaries and affiliated companies because the change in investment accounts from the application of the equity method would have a negligible impact on the consolidated financial statements.

3. Asset valuation standards and methods
   (1) Securities
   Other securities
   Other securities with market value
   …Market value method based on market prices and other fair values at the balance sheet

date. (Unrealized holding gains and losses are accounted for as a component of net assets. The costs of sold securities are computed based on the moving average method.)

Other securities without market value

…Historical cost method (moving average method).

(2) Inventories

Merchandise and finished products

…Principally historical cost method (moving average method).

(Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Work in process

…Principally historical cost method (specific identification method).

(Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Raw materials and supplies

…Principally historical cost method (moving average method).

(Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

4. Depreciation methods for fixed assets

(1) Property, plant and equipment (excluding leased assets)

Principally straight-line method is applied for buildings (excluding the equipment attached to them). Principally declining-balance method is applied for the other items of property, plant and equipment.

(2) Intangible Assets (excluding leased assets)

Straight-line method is applied.

(3) Leased Assets

Straight-line method (where useful lives are equal to the lease terms and residual values are assumed to be zero) is applied.

5. Allowance and reserves

(1) Allowance for doubtful accounts

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

(2) Reserve for product warranties

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

(3) Reserve for loss on construction contracts

Reserve for loss on construction contracts is provided for the expected total losses to be realized in the following fiscal years on the construction contracts if (i) those losses are judged inevitable at current fiscal year-end and (ii) reasonable estimate of the amounts of such losses is possible.

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

(4) Provision for business structure improvement

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

(5) Reserve for stock benefits

Reserve for stock benefits is provided in relation to the plan to grant the stocks of MHI to the officers and executive management personnel through a trust. Estimated value of the MHI's stocks corresponding to the Stock Grant Points held by the eligible persons as at the balance sheet date is recognized.

(6) Reserve for treatment of PCB waste

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

6. Other essential facts in preparing consolidated financial statements

(1) Recognition of revenue and costs

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

(2) Accounting treatment of consumption tax

Transactions subject to national and local consumption taxes are recorded at amounts exclusive of such taxes.

(3) Accounting treatment of retirement benefits

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

When calculating retirement benefit obligations, the benefit formula basis is mainly used to attribute estimated retirement benefits to the period through the end of the current fiscal year. Past service costs are either expensed as incurred or amortized by the straight-line method over a period shorter than the average remaining service period of employees.

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

Unrecognized actuarial gains and losses and unrecognized prior service costs after tax are recorded in "Retirement benefits liability adjustments" within the net assets section as a component of accumulated other comprehensive income. If pension assets to be recognized at the end of the current fiscal year exceed retirement benefit obligations, the excess amount shall be recorded in investments and advances as asset for retirement benefit.

Changes in Accounting Policies

1. Change in cost accounting method

Since fiscal year 2010, MHI has demolished the previous management system focused on the company works, and promoted the transition to the global management framework centering on the domain SBU (Strategic Business Unit: A business unit used in the strategic business evaluation system) in stages. At the same time, MHI works to achieve more sophisticated business management to support the global management framework and to establish cost accounting practice appropriate for the management.

As part of these efforts, MHI has determined to change the accounting treatment of expenses of works' corporate sector, etc. that evolved its function from company works management focused into a function supporting the consolidated management. In the new accounting method, MHI started to recognize the expenses of company works' corporate sector not as construction cost, but as general and administrative expenses. This change is effective from the current fiscal year when changes of internal regulations and systems were completed.

Because it is systematically difficult to retrospectively apply this accounting policy to cost accounting in past fiscal years and calculate effects in the future, and the basic treatment for retrospective application is impossible in practice, the change has been applied prospectively from the current fiscal year.

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

2. Abolition of the "exceptional method for interest-rate swaps"

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

   The change in the accounting policy has been applied retrospectively and the cumulative effect has been reflected in book value of net assets as at the beginning of the current fiscal year. Consequently, the beginning balance after the retrospective application in deferred gain (loss) on hedges in the consolidated statements of changes in net assets decreased by 3,177 million yen.

Changes in Presentation

(Consolidated Balance Sheets)

Change in presentation of provision for business structure improvement

As for presentation of provision for business structure improvement (previous fiscal year: 6,585 million yen), this provision was previously included in "Other current liabilities" in the consolidated balance sheet. However, because separate presentation of the provision provides more clarity in the presentation than presenting it as Other current liabilities together with other line items, the provision has been presented as "Provision for business structure improvement" (current fiscal year: 6,739 million yen) from the current fiscal year.

(Consolidated Statements of Income)

Change in presentation of loss on passenger vessel construction business

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

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

Notes to the Consolidated Balance Sheet

1. Pledged assets and related liabilities

(1) Assets pledged as collateral

Property, plant and equipment	¥	1,209 million
Others	¥	264 million
Total	¥	1,473 million

(2) Liabilities related to the assets pledged as collateral

Short-term borrowings	¥	477 million
Long-term borrowings	¥	412 million
Total	¥	889 million

2. Accumulated depreciation

   Accumulated depreciation of property, plant and equipment ¥ 2,082,505 million

3. Contingent liabilities

(1) Guarantee obligations on such debts as borrowings from financial institutions by parties outside the MHI Group

Employees (Residence fund loan, etc.)	¥	18,155 million
L&T-MHPS Turbine Generators Private Ltd.	¥	6,553 million
Others	¥	10,965 million
Total	¥	35,674 million

(2) Unsettled balances of notes receivable

Notes receivable discounted	¥	1,240 million
Notes receivable endorsed	¥	353 million

4. Contingent liabilities relating to change in MRJ delivery timing

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

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

5. Indemnification Asset for South African Projects

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

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

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

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

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

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

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

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

Notes to the Consolidated Statement of Income

1. Business structure improvement expenses

Business structure improvement expenses are comprised of business reorganization expenses, relating to Power Systems domain is 7,819 million yen, Industry & Infrastructure domain is 4,526 million yen and other is 2,202 million yen.

Notes to the Consolidated Statement of Changes in Net Assets

1. Total number of the shares issued

Common stock 337,364,781 shares

2. Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Total cash dividends paid	Cash dividends per share	Record date	Effective date
Jun 22, 2017 Ordinary General Meeting of Shareholders	Common Stock	¥20,183million	¥6	Mar 31, 2017	Jun 23, 2017
Oct 31, 2017 Board of Directors	Common Stock	¥20,187million	¥6	Sep 30, 2017	Dec 5, 2017

Note1: Total cash dividends paid in accordance with the resolution by Ordinary General Meeting of Shareholders held on Jun 22, 2017 include 34 million yen of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I&II.

Note2: Total cash dividends paid in accordance with the resolution by the board of directors held on October 31, 2017 include 31 million yen of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I&II.

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

(2) Dividends of which the record date is within this fiscal year which take effect in the next fiscal year

Resolution	Type of shares	Total cash dividends to be paid	Source of the cash dividends	Cash dividends per share	Record date	Effective date
Jun 21, 2018 Ordinary General Meeting of Shareholders	Common Stock	¥ 20,190 million	Retained Earnings	¥ 60	Mar 31, 2018	Jun 22, 2018

Note 1: The above is scheduled to be resolved at the ordinary general meeting of shareholders on June 21, 2018.

Note 2: Total cash dividends to be paid in accordance with the resolution by the ordinary general meeting of shareholders to be held on June 21, 2018 include 30 million yen of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I&II.

3. Type and number of shares subject to the share subscription rights

Common stock 540,400 shares

Notes on Tax Effect Accounting

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

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

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

Notes on Financial Instruments

1. Condition of financial instruments

The primary source of the MHI Group's operations and plant/equipment investment is the cash earned through operating activities; necessary capital exceeding that is procured mainly through bank loans and bond issuance. Financial investment is limited to short-term bank deposits and similar assets.

The MHI Group takes steps to mitigate the credit risk on the trade receivables from customers by regularly keeping track of due dates and balances of the receivables from each customer. When necessary, such measures as forward exchange contracts are used to hedge against foreign exchange risk on trade receivables denominated in foreign currencies.

Securities and investment securities are mainly comprised of equities; the MHI Group regularly grasps their fair values and financial conditions of the equity issuers.

Short-term borrowings are used for operations; long-term borrowings and bond issuance are used for operations and plant/equipment investment. Interest payment for some long-term borrowings with interest-rate risks is fixed by means of interest-rate swaps.

The use of derivatives is subject to the internal control policy and limited to the extent corresponding to actual business.

2. Fair value of financial instruments

The amounts on the consolidated balance sheet, fair values and the variance between them as of March 31, 2018 are shown in the following table. The ones whose fair values are extremely difficult to determine are excluded from the following table. (See Footnote 2 below the table.)

(Unit: million yen)

	Consolidated Balance Sheet Amount (*)	Fair Value (*)	Variance
(1) Cash and deposits	313,458	313,458	—
(2) Trade receivables	1,232,742	1,232,742	—
(3) Securities and investment securities	341,217	341,048	(168)
(4) Trade payables	(771,324)	(771,324)	—
(5) Electronically recorded obligations	(106,968)	(106,968)	—
(6) Short-term borrowings	(229,584)	(229,584)	—
(7) Bonds	(235,000)	(237,901)	(2,901)
(8) Long-term borrowings	(348,586)	(361,197)	(12,610)
(9) Derivatives			
・to which hedge accounting is not applied	1,705	1,705	—
・to which hedge accounting is applied	(876)	(876)	—

(*) The amounts recognized as liabilities are shown in parentheses. The derivatives positions shown are net amounts; if the total net position of an item results in obligations; the amounts are shown in parentheses.

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

(1) Cash and deposits

The book values are used as the fair values since all the deposits are short-term and the fair values are almost equal to the book values.

(2) Trade receivables

The book values are used as the fair values since large portion of these are settled in a short period and the fair values could be deemed almost equal to the book values.

(3) Securities and investment securities

Market prices are used as the fair values.

(4) Trade payables; (5) Electronically recorded obligations; (6) Short-term borrowings;

The book values are used as the fair values since large portion of these are settled in a short period and the fair values are almost equal to the book values.

(7) Debentures

Market prices are used as the fair values.

(8) Long-term borrowings

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

(9) Derivatives

The fair values of exchange contracts are based on prices presented by financial institutions.

(Footnote 2) Unlisted securities, whose consolidated balance sheet amount is 265,035 million yen, are excluded from the above table because it is extremely difficult to determine their fair values; they do not have market prices and reliable estimate by alternative methods is not available due to the impossibility of estimating their future cash flows or other difficulties.

Per Share Information

Book value per share	¥5,431.02
Net income per share	¥ 209.82

Note: As of October 1, 2017, the Company consolidated the shares at the rate of one share per 10 shares of common stock. Assuming that the consolidation was carried out at the beginning of the current consolidated fiscal year, book value per share and net income attributable to the shares of the parent company per share are calculated.

Other notes

Major lawsuits

(1) On July 31, 2017, MHI filed a demand for arbitration against Hitachi, Ltd. seeking performance of the obligation to pay approximately ZAR 90,779 million (equivalent to approximately 774.3 billion yen when converted at a rate of 8.53 yen to 1 ZAR) as the price adjustment and other payments (for details, refer to 5. Indemnification asset for South African Project in Notes to the Consolidated Balance Sheet).

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

(3) In October 2017, Korea East-West Power Co., Ltd. ("EWP") filed a demand for arbitration against MHI and its consolidated subsidiary, Mitsubishi Hitachi Power Systems, Ltd. ("MHPS"), to the Korean Commercial Arbitration Board, seeking compensation for damage in relation to non-operating loss due to a burnout accident that occurred during commissioning period of steam turbine generation facilities supplied to Dangjin Coal-Fired Power Complex in South Korea. EWP has claimed that this burnout accident was caused by intentional act or gross negligence of MHPS, and MHI and that MHPS shall bear liability for the damage under the contract and the laws of South Korea. With regard to these claims, MHI and MHPS believe that MHPS had neither the intention nor the gross negligence and there is no basis for the claims, and will assert that the petitioner's demand is unreasonable.

(End)

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (1/2)
(From April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Stockholders' equity								
		Capital surplus			Retained earnings				
						Revenue reserve			
	Common stock	Capital reserve	Other capital reserve	Total capital surplus	Legal reserve	Reserve for specified business restructuring investment loss	Reserve for reduction in costs of fixed assets	Reserve for accelerated depreciation	General reserves
Balance as of March 31, 2017	**265,608**	**203,536**	**2,727**	**206,263**	**66,363**	**69,524**	**75,903**	**2,415**	**410,000**
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Restated balance	**265,608**	**203,536**	**2,727**	**206,263**	**66,363**	**69,524**	**75,903**	**2,415**	**410,000**
Changes in the period									
Reversal of reserve for specified business restructuring investment loss						(22,633)			
Provision of reserve for reduction in costs of fixed assets							1,034		
Reversal of reserve for reduction in costs of fixed assets							(21,891)		
Reversal of reserve for accelerated depreciation								(676)	
Reversal of general reserve									(410,000)
Cash dividends									
Profit									
Purchase of treasury stock									
Disposal of treasury stock			(65)	(65)					
Net changes in items other than stockholders' equity									
Total changes in the period	-	-	**(65)**	**(65)**	-	**(22,633)**	**(20,856)**	**(676)**	**(410,000)**
Balance as of March 31, 2018	**265,608**	**203,536**	**2,661**	**206,197**	**66,363**	**46,890**	**55,047**	**1,738**	-

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (2/2)
(From April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Stockholders' equity					Valuation, translation adjustments and others				
	Retained earnings									
	Revenue reserve									
	Earned surplus brought forward	Total revenue reserve	Total retained earnings	Treasury stock	Total stockholders' equity	Unrealized holding gain (loss) on investment securities	Unrealized gain (loss) from hedging instruments	Total valuation, translation adjustments and others	Share subscription rights	Total net assets
Balance as of March 31, 2017	**2,161**	**560,005**	**626,369**	**(2,882)**	**1,095,359**	**83,141**	**658**	**83,799**	**2,393**	**1,181,552**
Cumulative effects of changes in accounting policies	**-**	**-**	**-**	**-**	**-**	**-**	**(3,177)**	**(3,177)**	**-**	**(3,177)**
Restated balance	**2,161**	**560,005**	**626,369**	**(2,882)**	**1,095,359**	**83,141**	**(2,518)**	**80,622**	**2,393**	**1,178,375**
Changes in the period										
Reversal of reserve for specified business restructuring investment loss	22,633	-	-		**-**					**-**
Provision of reserve for reduction in costs of fixed assets	(1,034)	-	-		**-**					**-**
Reversal of reserve for reduction in costs of fixed assets	21,891	-	-		**-**					**-**
Reversal of reserve for accelerated depreciation	676	-	-		**-**					**-**
Reversal of general reserve	410,000	-	-		**-**					**-**
Cash dividends	(40,371)	(40,371)	(40,371)		**(40,371)**					**(40,371)**
Profit	29,379	29,379	29,379		**29,379**					**29,379**
Purchase of treasury stock				(21)	**(21)**					**(21)**
Disposal of treasury stock				360	**295**					**295**
Net changes in items other than stockholders' equity						(4,045)	1,794	(2,250)	(423)	**(2,674)**
Total changes in the period	**443,175**	**(10,991)**	**(10,991)**	**339**	**(10,718)**	**(4,045)**	**1,794**	**(2,250)**	**(423)**	**(13,392)**
Balance as of March 31, 2018	**445,337**	**549,013**	**615,377**	**(2,542)**	**1,084,641**	**79,095**	**(724)**	**78,371**	**1,969**	**1,164,983**

Notes to the Non-Consolidated Financial Statements

Significant Accounting Policies

1. Asset valuation standards and methods
   (1) Securities
      Securities of subsidiaries and affiliated companies
         …Historical cost method (moving average method).
      Other securities
         Other securities with market value
         …Market value method based on market prices and other fair values at the balance sheet date. (Unrealized holding gains and losses are accounted for as a component of net assets. The costs of sold securities are computed based on the moving average method.)
         Other securities without market value
         …Historical cost method (moving average method).

   (2) Inventories
      Merchandise and finished products
      …Historical cost method (moving average method).
         (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)
      Work in process
      …Historical cost method (specific identification method).
         (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)
      Raw materials and supplies
      …Historical cost method (moving average method).(*)
         (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

         *Some standardized steel materials for building new ships are stated at cost determined by the specific identification method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

2. Depreciation methods for fixed assets
   (1) Property, plant and equipment (excluding leased assets)
      Straight-line method is applied for buildings (excluding the equipment attached to them). Declining-balance method is applied for the other items of property, plant and equipment.

   (2) Intangible Assets (excluding leased assets)
      Straight-line method is applied.

   (3) Leased Assets
      Straight-line method (where useful lives are equal to the lease terms and residual values are assumed to be zero) is applied.

3. Allowance and reserves
   (1) Allowance for doubtful accounts
      Allowance for doubtful accounts is provided for possible losses on the collection of receivables. The amount of the allowance for general receivables is based on the write-off ratio. As for certain receivables such as the ones from the debtors whose solvency is in doubt, the recoverability of each receivable is examined individually and the estimated unrecoverable amounts are recognized as the allowance.
   (2) Reserve for losses on construction contracts
      Reserve for losses on construction contracts is provided for the expected total losses to be realized in the following fiscal years on the construction contracts if (i) those losses are judged inevitable at current fiscal year and (ii) reasonable estimate of the amounts of such losses is

possible.

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

(3) Provision for business structure improvement

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

(4) Reserve for stock benefits

Reserve for stock benefits is provided in relation to the plan to grant the stocks of MHI to the officers and executive management personnel through a trust. Estimated value of the MHI's stocks corresponding to the Stock Grant Points held by the eligible persons as at the balance sheet date is recognized.

(5) Reserve for retirement allowance

Reserve for retirement allowance is provided for employees' retirement benefits. The amounts are based on the balances of retirement benefit obligations and estimated pension fund assets (including a retirement benefit trust) at the end of the fiscal year.

When calculating retirement benefit obligations, the benefit formula basis is mainly used to attribute estimated retirement benefits to the period through the end of the current fiscal year. Past service costs are either expensed as incurred or amortized by the straight-line method over a period shorter than the average remaining service period of employees.

Past service costs are expensed as incurred and actuarial gains and losses for each fiscal year are amortized by the straight-line method, starting in the following fiscal year of incurrence, over the average remaining service period of employees.

If pension assets to be recognized at the end of the current fiscal year exceed the amount that the unrecognized actuarial gains or losses are deducted from the retirement benefit obligations, the excess amount shall be recorded in investments and advances as prepaid pension cost.

(6) Reserve for treatment of PCB waste

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

(7) Provision for loss on guarantees

In order to provide for losses due to contingent liabilities such as guarantees for subsidiaries and affiliates and others, MHI records the amount deemed necessary, taking into account the financial position and other factors of the guaranteed parties.

4. Recognition of revenue and costs

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

5. Other essential facts in preparing non-consolidated financial statements

Accounting treatment of consumption tax

Transactions subject to national and local consumption taxes are recorded at amounts exclusive of such taxes.

Changes in Accounting Policies

1. Change in cost accounting method

Since fiscal year 2010, MHI has demolished the previous management system focused on the company works, and promoted the transition to the global management framework centering on the domain SBU (Strategic Business Unit: A business unit used in the strategic business evaluation system) in stages. At the same time, MHI works to achieve more sophisticated business management to support the global management framework and to establish cost accounting practice appropriate for the management.

As part of these efforts, MHI has determined to change the accounting treatment of expenses of works' corporate sector, etc. that evolved its function from company works management focused into a function supporting the consolidated management. In the new accounting method, MHI started to recognize the expenses of company works' corporate sector not as construction cost, but as general and administrative expenses. This change is effective from the current fiscal year when changes of internal regulations and systems were completed.

Because it is systematically difficult to retrospectively apply this accounting policy to cost accounting in past fiscal years and calculate effects in the future, and the basic treatment for retrospective application is impossible in practice, the change has been applied prospectively from the current fiscal year.

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

2. Abolition of the "exceptional method for interest-rate swaps"

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

The change in the accounting policy has been applied retrospectively, and the cumulative effect has been reflected in book value of net assets as at the beginning of the current fiscal year. Consequently, the beginning balance after the retrospective application in deferred gain (loss) on hedges in the Non-Consolidated statements of changes in net assets decreased by 3,177 million yen.

Changes in Presentation

(Non-Consolidated Balance Sheet)

Change in presentation of provision for business structure improvement

As for presentation of provision for business structure improvement (previous fiscal year: 716 million yen), this provision was previously included in "Accrued expense" in the balance sheet. However, because separate presentation of the provision provides more clarity in the presentation than presenting it as Accrued expense with other line items, the provision has been presented as "Provision for business structure improvement" (current fiscal year: 2,202 million yen) from the current fiscal year.

(Non-Consolidated Statement of Income)

Change in presentation of loss on passenger vessel construction business

"Loss on passenger vessel construction business" which was separately presented for the previous fiscal year is included in "Others" under "Non-operating expenses" from this fiscal year due to a decreased materiality in terms of amount. To reflect this change in presentation, the statements of income for the previous fiscal year have been reclassified.

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

Notes to the Non-Consolidated Balance Sheet

1. Accumulated depreciation

Accumulated depreciation of property, plant and equipment ¥ 1,143,013 million

2. Contingent liabilities

Guarantee obligations on such debts as borrowings from financial institutions

Mitsubishi Heavy Industries Aero Engines, Ltd. ¥ 20,000 million

Employees (Residence fund loan, etc.)	¥	13,613 million
Mitsubishi Nuclear Fuel Co., Ltd.	¥	5,630 million
Japanese Aero Engines Corporation	¥	5,610 million
Others	¥	15,981 million
Total	¥	60,835 million

3. Monetary receivables from / payables to subsidiaries and affiliated companies
(Excluding accounts which are stated as such in Balance Sheet)

Short-term monetary receivables	¥	103,081 million
Long-term monetary receivables	¥	463,192 million
Short-term monetary payables	¥	528,860 million
Long-term monetary payables	¥	14,490 million

4. Contingent liabilities relating to change in MRJ delivery timing

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

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

5. Others

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

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

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

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

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

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

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

At the end of the fiscal year under review, MHI has extended loans of 330 billion yen to MHPS-Africa.

Notes to the Non-Consolidated Statement of Income

1. Transactions with subsidiaries and affiliated companies

Sales	¥	235,271 million
Purchases	¥	230,817 million
Transactions other than operating transactions	¥	90,439 million

2. Business structure improvement expenses

   Business structure improvement expenses are comprised of business reorganization expenses relating to welfare facility.

Notes to the Non-Consolidated Statement of Changes in Net Assets

The number of treasury stock

Common stock	853,183 shares

Notes on Tax Effect Accounting

Deferred tax assets are principally caused by temporary differences with shares of subsidiaries and affiliates arising from restructuring. Deferred tax liabilities are principally caused by unrealized gains on other securities.

Related Party Transactions

Category	Name	Percentage of Voting Rights held by the Issuer	Relation with the Related Parties	Contents of the Transactions	Transaction Amounts	Account	Ending Balance
Subsidiary	Mitsubishi Aircraft Corporation	Direct 64.6%	Manufacturing of MRJ Some officers of MHI concurrently serve as officers of the related party	loans receivable (*1)	¥ 125,700 million	Long-term receivables etc.	¥443,000 million
Subsidiary	Mitsubishi Hitachi Power Systems Africa(Pty) Ltd.	Indirect 75.0%	Fund loans	loans receivable (*1)	¥ 100,000 million	Long-term loans receivable	¥330,000 million
Subsidiary	Mitsubishi Hitachi Power Systems, Ltd.	Direct 65.0%	Some officers of MHI concurrently serve as officers of the related party	sales of investments in capital（*2） Price of sales Loss of sales	 ¥ 47,566 million ¥ 20,050 million	— —	— —
Subsidiary	Mitsubishi Shipbuilding Co., Ltd.	Direct 100.0%	Transfer of Business Some officers of MHI concurrently serve as officers of the related party	Transfer of Business (*3) Total Assets Transferred Total Liabilities Transferred Transfer Value	 ¥ 46,139 million ¥ 34,458 million ¥ 11,681 million	— — —	— — —
Subsidiary	Mitsubishi Heavy Industries Engineering, Ltd.	Direct 100.0%	Transfer of Business Some officers of MHI concurrently serve as officers of the related party	Transfer of Business (*4) Total Assets Transferred Total Liabilities Transferred Transfer Value	 ¥ 185,092 million ¥ 75,220 million ¥ 109,872 million	— — —	— — —

Terms and conditions of the transaction and the policy for determining terms and conditions

*1. The interest rate on loans is determined taking market interest rates into account.

* 2. We sold investment in MPS-CT LLC which is our wholly owned subsidiary to Mitsubishi Hitachi Power Systems, Ltd. As for the transaction price, it is decided with reference to the price calculation requested to an independent third party.

*3. On January 1, 2018, MHI transferred its Ship Ocean Business Division business to Mitsubishi Shipbuilding Co., Ltd. by way of company split. Assets and liabilities relating to the business were transferred by their book value immediately prior to the company split, as a transaction under common control in accordance with the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7) and the “Revised Guidance on

Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

*4. On January 1, 2018, MHI transferred its business of Chemical plants and Engineering business related to products to Mitsubishi Heavy Industries Engineering, Ltd. by way of company split. Assets and liabilities relating to the business were transferred by their book value immediately prior to the company split, as a transaction under common control in accordance with the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

Per Share Information

Book value per share	¥3,461.33
Net income per share	¥ 87.46

Note: As of October 1, 2017, the Company consolidated the shares at the rate of one share per 10 shares of common stock. Assuming that the consolidation was carried out at the beginning of the current fiscal year, book value per share and net income attributable to the shares of the parent company per share are calculated.

Significant Subsequent Events

Significant Merger

MHI entered into an absorption-type merger agreement with Ryoju Facility and Properties Co., Ltd. (“Ryoju F&P”), a fully owned subsidiary of MHI, as of May 8, 2018.

The overview of the merger is as follows:

1. Purpose of the merger

   While Ryoju F&P transfers relevant assets and liabilities through a company split-up of its plant and facility management business to MHI Facility Service Co., Ltd., which is also a fully owned subsidiary of MHI, as of July 1, 2018, assets (company residence and dormitory, leasehold properties and others) and liabilities left in Ryoju F&P will be merged into MHI.

2. Partner company in the merger and legal form thereof

   This is an absorption-type merger with MHI as the surviving company, and Ryoju F&P, the merger partner, will be dissolved.

3. Allotment regarding the merger

   Since this is a merger with MHI’s fully owned subsidiary, share allotment and delivery of other consideration due to the merger will not be conducted.

4. Name and business of the partner company in the merger

   Name: Ryoju Facility and Properties Co., Ltd.

   Business: Maintenance and management of facilities, etc. incidental to buildings for construction work and welfare facilities, etc. and others

5. Date of the merger

   July 1, 2018

6. Other

   In conjunction with the Merger, “Gain on extinguishment of tie-in shares” of 77.3 billion yen is expected to be recorded as “Extraordinary gain” for the fiscal year ending March 31, 2019 in financial results of MHI on a non-consolidated basis.

Other notes

Major lawsuits

(1) On July 31, 2017, MHI filed a demand for arbitration against Hitachi, Ltd. seeking performance of the obligation to pay approximately ZAR 90,779 million (equivalent to approximately 774.3 billion yen when converted at a rate of 8.53 yen to 1 ZAR) as the price adjustment and other payments (for details, refer to 5. Others in Notes to the Non-Consolidated Balance Sheet).

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

(End)