MHI REPORT 2017

FINANCIAL SECTION 2017

For the Year Ended March 31, 2017

MOVE THE WORLD FORWARD

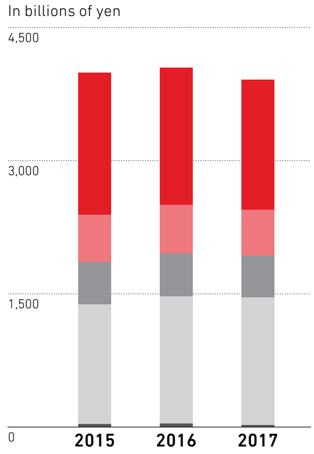
MITSUBISHI HEAVY INDUSTRIES GROUP

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2017 and 2016

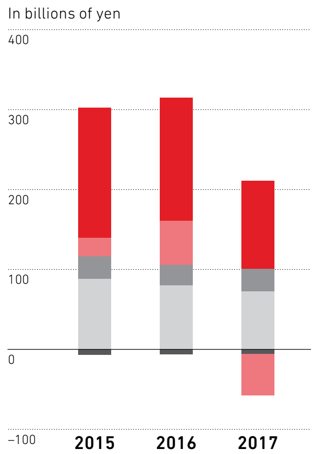
NET SALES

	In millions of yen			In thousands of U.S. dollars
Industry Segment	**2017**	2016	2015	**2017**
Energy & Environment	**¥1,470,437**	¥1,542,779	¥1,599,527	**$13,106,667**
Commercial Aviation & Transportation Systems	**515,358**	548,510	529,598	**4,593,617**
Integrated Defense & Space Systems	**470,606**	485,070	483,964	**4,194,723**
Machinery, Equipment & Infrastructure	**1,438,044**	1,432,358	1,347,463	**12,817,933**
Others	**175,926**	177,335	154,935	**1,568,107**
Subtotal	**4,070,373**	4,186,054	4,115,489	**36,281,067**
Eliminations or Corporate	**(156,354)**	(139,244)	(123,378)	**(1,393,653)**
Total	**¥3,914,018**	¥4,046,810	¥3,992,110	**$34,887,405**



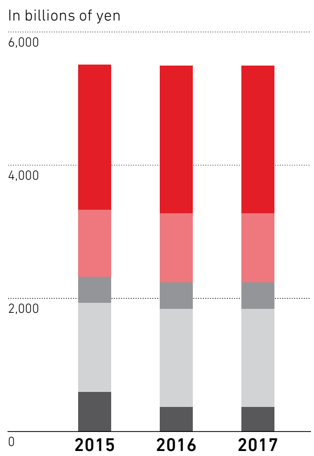
OPERATING INCOME (LOSS)

	In millions of yen			In thousands of U.S. dollars
Industry Segment	**2017**	2016	2015	**2017**
Energy & Environment	**¥110,557**	¥154,667	¥162,681	**$ 985,444**
Commercial Aviation & Transportation Systems	**(51,983)**	54,511	23,452	**(463,347)**
Integrated Defense & Space Systems	**27,988**	25,789	28,565	**249,469**
Machinery, Equipment & Infrastructure	**72,570**	80,077	87,746	**646,849**
Others	**10,731**	12,617	10,322	**95,650**
Subtotal	**169,864**	327,664	312,769	**1,514,074**
Eliminations or Corporate	**(19,321)**	(18,157)	(16,628)	**(172,216)**
Total	**¥150,543**	¥309,506	¥296,140	**$1,341,857**



TOTAL ASSETS

	In millions of yen			In thousands of U.S. dollars
Industry Segment	**2017**	2016	2015	**2017**
Energy & Environment	**¥2,239,618**	¥2,211,326	¥2,176,565	**$19,962,723**
Commercial Aviation & Transportation Systems	**1,117,221**	1,040,626	1,013,226	**9,958,293**
Integrated Defense & Space Systems	**393,076**	401,461	388,110	**3,503,663**
Machinery, Equipment & Infrastructure	**1,386,033**	1,477,680	1,361,145	**12,354,336**
Others	**653,844**	633,659	576,205	**5,828,006**
Subtotal	**5,789,795**	5,764,754	5,515,253	**51,607,050**
Eliminations or Corporate	**(307,867)**	(264,042)	5,103	**(2,744,157)**
Total	**¥5,481,927**	¥5,500,712	¥5,520,357	**$48,862,884**



	CAPITAL EXPENDITURES			DEPRECIATION AND AMORTIZATION*		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
Industry Segment	**2017**	2016	**2017**	**2017**	2016	**2017**
Energy & Environment	**¥ 32,698**	¥ 40,264	**$ 291,452**	**¥ 52,270**	¥ 57,998	**$ 465,906**
Commercial Aviation & Transportation Systems	**76,100**	45,509	**678,313**	**32,960**	25,418	**293,787**
Integrated Defense & Space Systems	**36,965**	35,921	**329,485**	**26,754**	17,828	**238,470**
Machinery, Equipment & Infrastructure	**49,481**	112,728	**441,046**	**46,745**	43,132	**416,659**
Others	**3,532**	3,517	**31,482**	**3,658**	3,993	**32,605**
Subtotal	**198,779**	237,942	**1,771,806**	**162,390**	148,371	**1,447,455**
Corporate	**11,731**	5,309	**104,563**	**10,372**	10,335	**92,450**
Total	**¥210,511**	¥243,251	**$1,876,379**	**¥172,762**	¥158,706	**$1,539,905**

* Amortization of goodwill is not included.

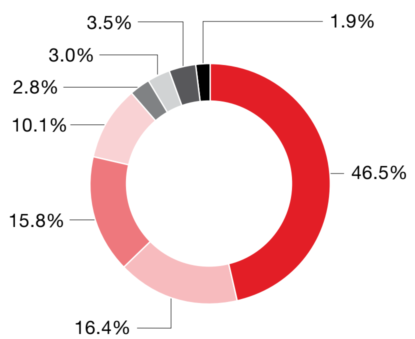
	AMORTIZATION OF GOODWILL			UNAMORTIZED BALANCE OF GOODWILL		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
Industry Segment	**2017**	2016	**2017**	**2017**	2016	**2017**
Energy & Environment	**¥ 8,491**	¥ 8,372	**$ 75,684**	**¥ 54,788**	¥ 63,511	**$ 488,350**
Commercial Aviation & Transportation Systems	**—**	—	**—**	**—**	—	**—**
Integrated Defense & Space Systems	**—**	—	**—**	**—**	—	**—**
Machinery, Equipment & Infrastructure	**8,446**	3,288	**75,283**	**68,717**	78,595	**612,505**
Others	**0**	0	**0**	**1**	2	**8**
Subtotal	**16,938**	11,661	**150,976**	**123,507**	142,109	**1,100,873**
Corporate	**(370)**	(245)	**(3,297)**	**(2,955)**	(3,195)	**(26,339)**
Total	**¥16,568**	¥11,416	**$147,678**	**¥120,552**	¥138,913	**$1,074,534**

	INVESTMENTS IN EQUITY-METHOD AFFILIATES		
	In millions of yen		In thousands of U.S. dollars
Industry Segment	**2017**	2016	**2017**
Energy & Environment	**¥ 51,577**	¥ 61,962	**$ 459,729**
Commercial Aviation & Transportation Systems	**—**	—	**—**
Integrated Defense & Space Systems	**—**	—	**—**
Machinery, Equipment & Infrastructure	**17,409**	14,013	**155,174**
Others	**16**	1,736	**142**
Subtotal	**69,003**	77,713	**615,054**
Corporate	**58,331**	125,504	**519,930**
Total	**¥127,335**	¥203,218	**$1,134,994**

	NET SALES		
	In millions of yen		In thousands of U.S. dollars
Breakdown of Sales by Customer Location	**2017**	2016	**2017**
Japan	**¥1,821,063**	¥1,804,925	**$16,231,954**
U.S.A.	**640,052**	697,369	**5,705,071**
Asia	**618,059**	721,946	**5,509,038**
Europe	**395,697**	352,706	**3,527,025**
Central and South America	**110,128**	126,956	**981,620**
Middle East	**117,202**	115,757	**1,044,674**
Africa	**135,669**	110,635	**1,209,278**
Other	**76,146**	116,512	**678,723**
Total	**¥3,914,018**	¥4,046,810	**$34,887,405**

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥112.19 = US$1, the exchange rate prevailing at March 31, 2017.

Composition of Overseas Net Sales by Geographic Distribution



MANAGEMENT'S DISCUSSION AND ANALYSIS

> ANALYSIS OF OPERATING RESULTS

Consolidated net sales declined 3.3% year on year, to ¥3,914.0 billion, due to decreases in segments other than Machinery, Equipment & Infrastructure.

Operating income was down ¥158.9 billion, to ¥150.5 billion, owing to lower income in segments except Integrated Defense & Space Systems. Reflecting the recording of a loss on equity-method investments as non-operating expenses, ordinary income fell ¥148.2 billion, to ¥124.2 billion.

Profit attributable to owners of parent came to ¥87.7 billon, up ¥23.8 billion year on year. The Company recorded a loss on passenger vessel construction business reserve as an extraordinary loss and recorded compensation for damages decided in the arbitration relating to nuclear equipment in US. However, MHI also recorded extraordinary gains, including a gain on sales of investment securities and a gain on sales of fixed assets.

> ANALYSIS OF FINANCIAL POSITION

Total assets as of March 31, 2017, were ¥5,481.9 billion, down ¥18.7 billion from their level one year earlier. This decline was largely due to decreases in property, plant and equipment, including cash and deposits and buildings and structures.

Total liabilities were ¥3,374.6 billion at fiscal year-end, a ¥126.3 billion decline from a year earlier. Factors included decreases in short-term borrowings and the reserve for loss on passenger vessel construction business.

Total net assets came to ¥2,107.2 billion, up ¥107.5 billion, due to higher retained earnings from the posting of profit for the year and an increase in the unrealized holding gain on investment securities.

> SOURCE OF FUNDS AND LIQUIDITY

Cash Flow Analysis

Net cash provided by operating activities amounted to ¥95.9 billion, ¥174.0 less than in the preceding fiscal year. The decrease was attributable to the recovery of trade receivables and lower advance payments received on contracts.

Investing activities provided net cash of ¥8.7 billion, as proceeds from sales of investments in subsidiaries that result in change in scope of consolidation and proceeds from sales of property, plant and equipment and intangible assets exceeded purchases of property, plant and equipment and intangible assets.

As a result, free cash flows—the sum of cash flows from operating activities and cash flows from investing activities—amounted to a positive ¥104.6 billion, up ¥97.1 billion year on year.

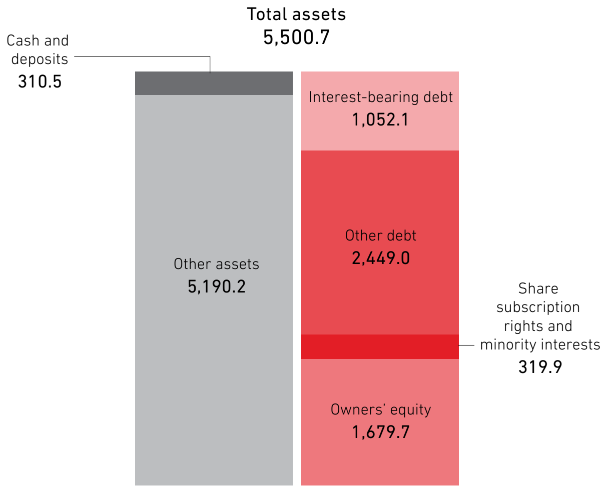
Net cash used in financing activities was ¥162.0 billion, due largely to the repayment of short-term borrowings.

Primary Funding Requirements

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

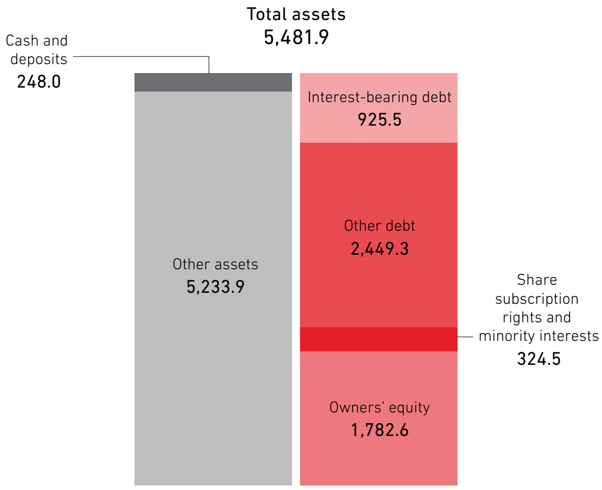
CONSOLIDATED BALANCE SHEETS

In billions of yen



FY2015

Shareholders' equity ratio	30.5%
D/E ratio	0.53 times
ROE	3.7%



FY2016

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

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

Breakdown of Interest-Bearing Debt and its Applications

The breakdown of interest-bearing debt as of March 31, 2017, was as follows:

In billions of yen

	Total	Due within one year	Due after one year
Short-term borrowings	205.6	205.6	–
Long-term borrowings	444.8	97.7	347.1
Bonds	275.0	60.0	215.0
Total	925.5	363.4	562.1

The MHI Group is involved in various projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery facilities. Consequently, the MHI Group must secure a stable level of working capital and funds for capital investments. In recent years, these types of necessary funds for capital investment have been increasing due to the expansion of the MHI Group's business scale. Meanwhile, the Group has continued to work to streamline its assets and has repaid borrowings that have come due. As a result, the total interest-bearing debt of the MHI Group at the end of fiscal 2016 was ¥925.5 billion, consisting of ¥363.4 billion due within one year and ¥562.1 billion due after one year.

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

Financial Policy

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

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

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

> DIVIDEND POLICY

The MHI Group plans to achieve an ROE of above 10%, while increasing its owners' equity to ¥2 trillion. In the process of doing so, the Group has set a basic policy of providing returns to shareholders at a dividend payout ratio of around 30%, for the time being, while giving consideration to the balance between investments in future businesses and the strengthening of owners' equity. As decided in MHI's Articles of Incorporation, the Group pays dividends from retained earnings to shareholders twice a year. These payments consist of an interim dividend with a record date of September 30 and a year-end dividend with a record date of March 31. Decisions on interim dividend payments are made by the Board of Directors, and decisions on year-end dividend payments are made at the General Meeting of Shareholders.

In accordance with the above policy and after taking into overall consideration such factors as the Group's operating performance during the year and financial conditions including the enhancement of equity capital, the total dividend payment for fiscal 2016 was ¥12 per share, comprising the interim dividend of ¥6 per share, paid in December 2016, and the year-end dividend of ¥6 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

The MHI Group, comprising MHI and its consolidated subsidiaries, is exposed to various risk factors, including the following: economic risks, such as currency exchange fluctuation and credit risks; political risks, such as trade restrictions and country risks; legal risks, such as product liability; disaster risks, such as natural disaster and accidents; market risks, such as stock price fluctuation and investment risks; and others. However, of the risks related to the state of our businesses and accounting, the items below are those that have the potential to significantly influence investor judgment. Items relating to the future are based on the judgment of the Group as of the end of fiscal 2016, the year ended March 31, 2017.

01 RISKS RELATED TO FINANCIAL POSITION AND OPERATING RESULTS

i. Economic Conditions

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

ii. Export and Overseas Operations

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

iii. Currency Exchange Rate Fluctuations

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

iv. Fund-raising

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

v. Retirement Benefit Expenses and Liabilities

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

02 RISKS RELATED TO RELIANCE ON PARTICULAR CLIENTS

i. M&A and Alliances

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

ii. Procurement of Materials

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

03 RISKS RELATED TO SPECIFIC PRODUCTS AND TECHNOLOGIES

i. Product Competitiveness

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

ii. Product Quality

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

iii. Intellectual Property

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

04 RISKS RELATED TO LEGAL REGULATIONS

i. Laws and Regulations

The Group conducts business in accordance with various domestic and overseas laws and regulations. These include laws and regulations related to taxation, the environment, and labor and occupational health and safety; economic laws and regulations, such as antitrust and anti-dumping laws; laws and regulations related to bribery, and trade and exchange; business-related laws and regulations, such as the construction industry law; and the securities listing regulations at financial instrument exchanges. The Group endeavors to fully comply with these laws and regulations. In accordance with these laws and regulations, the Group may become subject to investigation or examination by the relevant authorities. Furthermore, the Group may be subject to administrative penalties, such as fines, reassessment, determination, the payment of surcharges, suspension of business, or other steps. Moreover, the Group may face legal action from the relevant authorities or other concerned parties for damages incurred.

In September 2013, in a plea agreement entered into with the U.S. Department of Justice, MHI made an admission of the factual basis for a violation of U.S. antitrust laws regarding the sale of compressors and condensers for automobile air-conditioning systems to certain customers. Following the settlement of a plea agreement, legal action was taken against numerous businesses, including MHI and its subsidiaries, requiring them to pay civil damages in North America, and we are responding to this action.

ii. Environmental Regulations

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

05 RISKS RELATED TO EMPLOYEES AND RELATED COMPANIES

i. Securing Human Resources

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

ii. Related Companies

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

06 OTHER RISKS

i. Disasters

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

ii. Information Security

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

CONSOLIDATED BALANCE SHEETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

	In millions of yen		In thousands of U.S. dollars (Note 3)
ASSETS	**2017**	2016	**2017**
Current assets:			
Cash and deposits (Notes 4 and 22)	**¥ 248,040**	¥ 310,523	**$ 2,210,892**
Trade receivables (Notes 4 and 26)	**1,180,143**	1,200,852	**10,519,146**
Merchandise and finished products	**178,884**	187,330	**1,594,473**
Work in process	**989,336**	992,160	**8,818,397**
Raw materials and supplies	**157,330**	156,507	**1,402,353**
Deferred tax assets (Note 7)	**114,223**	137,428	**1,018,121**
Indemnification asset for South African project (Notes 12 and 26)	**294,955**	185,308	**2,629,066**
Other current assets (Notes 9 and 26)	**368,088**	367,376	**3,280,934**
Allowance for doubtful accounts (Note 1)	**(8,959)**	(7,694)	**(79,855)**
Total current assets	**3,522,043**	3,529,792	**31,393,555**
Non-current assets:			
Property, plant and equipment, net (Notes 9 and 24)**:**			
Buildings and structures	**361,310**	397,292	**3,220,518**
Machinery and transportation equipment	**262,129**	257,306	**2,336,473**
Tools, equipment and furniture	**64,511**	56,570	**575,015**
Land	**179,674**	197,898	**1,601,515**
Leased assets	**5,004**	2,873	**44,602**
Construction in progress	**62,448**	75,497	**556,627**
Total property, plant and equipment, net	**935,078**	987,440	**8,334,771**
Intangible assets:			
Goodwill	**120,552**	138,913	**1,074,534**
Others	**128,896**	144,631	**1,148,908**
Total intangible assets	**249,448**	283,545	**2,223,442**
Investments and advances:			
Investment securities (Notes 4 and 5)	**578,758**	534,570	**5,158,730**
Long-term loans	**17,778**	4,946	**158,463**
Asset for retirement benefit (Notes 1 and 13)	**60,556**	27,459	**539,762**
Deferred tax assets (Note 7)	**13,060**	15,808	**116,409**
Others	**113,407**	125,601	**1,010,847**
Allowance for doubtful accounts (Note 1)	**(8,204)**	(8,452)	**(73,125)**
Total investments and advances	**775,356**	699,934	**6,911,097**
Total non-current assets	**1,959,883**	1,970,920	**17,469,319**
Total assets	**¥5,481,927**	¥5,500,712	**$48,862,884**

See accompanying notes to consolidated financial statements.

	In millions of yen		In thousands of U.S. dollars (Note 3)
LIABILITIES AND NET ASSETS	**2017**	2016	**2017**
Liabilities			
Current liabilities:			
Trade payables (Note 4)	**¥ 736,502**	¥ 763,761	**$ 6,564,774**
Electronically recorded obligations (Note 4)	**99,560**	96,888	**887,423**
Short-term borrowings (Notes 4, 8 and 9)	**205,679**	293,131	**1,833,309**
Current portion of long-term borrowings (Notes 4, 8 and 9)	**97,729**	61,715	**871,102**
Commercial papers (Notes 4 and 8)	**—**	45,000	**—**
Current portion of bonds (Notes 4 and 8)	**60,000**	20,000	**534,807**
Income taxes payable	**31,233**	18,091	**278,393**
Reserve for product warranties (Note 1)	**14,899**	15,128	**132,801**
Reserve for loss on construction contracts (Note 1)	**49,853**	56,866	**444,362**
Reserve for loss on passenger vessel construction business (Notes 1 and 15)	**18,463**	72,842	**164,569**
Reserve for stock benefits (Note 1)	**366**	98	**3,262**
Advance payments received on contracts	**777,654**	749,747	**6,931,580**
Other current liabilities (Notes 7 and 8)	**435,152**	407,108	**3,878,705**
Total current liabilities	**2,527,093**	2,600,378	**22,525,118**
Non-current liabilities:			
Bonds (Notes 4 and 8)	**215,000**	245,000	**1,916,391**
Long-term borrowings (Notes 4, 8 and 9)	**347,157**	387,302	**3,094,366**
Deferred tax liabilities (Note 7)	**87,029**	68,711	**775,728**
Reserve for stock benefits (Note 1)	**1,247**	966	**11,115**
Reserve for treatment of PCB waste (Note 1)	**6,485**	7,258	**57,803**
Liability for retirement benefits (Notes 1 and 13)	**123,160**	124,890	**1,097,780**
Other non-current liabilities (Note 8)	**67,458**	66,467	**601,283**
Total non-current liabilities	**847,538**	900,596	**7,554,487**
Total liabilities	**3,374,632**	3,500,975	**30,079,614**
Net assets:			
Stockholders' equity (Note 20)**:**			
Common stock, without par value:			
Authorized shares: 6,000,000,000			
Issued shares: 2017 and 2016–3,373,647,813	**265,608**	265,608	**2,367,483**
Capital surplus	**203,658**	203,951	**1,815,295**
Retained earnings	**1,214,749**	1,173,053	**10,827,604**
Treasury stock (2017–15,513,870 shares and 2016–16,140,149 shares) at cost	**(4,609)**	(4,771)	**(41,082)**
Total stockholders' equity	**1,679,407**	1,637,842	**14,969,310**
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on investment securities	**100,600**	40,108	**896,693**
Unrealized gain (loss) from hedging instruments	**1,294**	3,044	**11,534**
Translation adjustments	**(2,287)**	17,762	**(20,385)**
Retirement benefits liability adjustments (Note 1)	**3,683**	(18,998)	**32,828**
Total accumulated other comprehensive income (loss)	**103,291**	41,917	**920,679**
Share subscription rights (Notes 20 and 21)	**2,536**	2,616	**22,604**
Non-controlling interests	**322,059**	317,360	**2,870,656**
Total net assets	**2,107,295**	1,999,737	**18,783,269**
Total liabilities and net assets	**¥5,481,927**	¥5,500,712	**$48,862,884**

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2017 and 2016

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2017	2016	**2017**
Net sales	**¥3,914,018**	¥4,046,810	**$34,887,405**
Cost of sales (Note 16)	**3,180,898**	3,184,596	**28,352,776**
Gross profit	**733,119**	862,213	**6,534,619**
Selling, general and administrative expenses (Notes 21 and 23)	**582,576**	552,707	**5,192,762**
Operating income	**150,543**	309,506	**1,341,857**
Non-operating income (expense):			
Interest income	**3,799**	6,602	**33,862**
Dividend income	**11,637**	8,975	**103,725**
Foreign exchange gain	**10,213**	—	**91,033**
Income from equity method investments	**—**	5,647	**—**
Gain on arbitration expenses awarded in the arbitration relating to nuclear equipment in US (Note 16)	**6,558**	—	**58,454**
Other income	**9,945**	6,828	**88,644**
Interest expense	**(11,461)**	(13,338)	**(102,157)**
Foreign exchange loss	**—**	(21,908)	**—**
Loss from equity method investments	**(22,845)**	—	**(203,627)**
Loss on disposal of fixed assets	**(7,627)**	(12,959)	**(67,982)**
Loss on passenger vessel construction business (Note 15)	**(7,829)**	—	**(69,783)**
Other expenses (Note 18)	**(18,640)**	(16,853)	**(166,146)**
Total non-operating income (expense)	**(26,249)**	(37,006)	**(233,969)**
Ordinary income	**124,293**	272,500	**1,107,879**
Extraordinary gain (loss):			
Gain on sales of investment securities	**61,047**	—	**544,139**
Gain on sales of fixed assets (Note 14)	**53,861**	5,663	**480,087**
Gain on negative goodwill	**—**	6,867	**—**
Gain on revision of retirement benefit plan	**—**	2,208	**—**
Loss on passenger vessel construction business reserve (Notes 1 and 15)	**(34,323)**	(103,911)	**(305,936)**
Compensation for damages decided in the arbitration relating to nuclear equipment in US (Note 16)	**(16,076)**	—	**(143,292)**
Business structure improvement expenses (Notes 17 and 18)	**(12,810)**	(47,251)	**(114,181)**
Loss on revaluation of investment securities	**(6,272)**	—	**(55,905)**
Impairment loss (Note 18)	**—**	(3,393)	**—**
Total extraordinary gain (loss)	**45,424**	(139,817)	**404,884**
Profit before income taxes	**169,718**	132,682	**1,512,772**
Income taxes (Note 7)**:**			
Current	**49,856**	50,379	**444,388**
Deferred	**14,584**	5,651	**129,993**
Total income taxes	**64,440**	56,031	**574,382**
Profit	**105,278**	76,650	**938,390**
Profit attributable to non-controlling interests	**17,557**	12,816	**156,493**
Profit attributable to owners of parent	**¥ 87,720**	¥ 63,834	**$ 781,887**

	In yen		In U.S. dollars (Note 3)
Per share information of common stock (Note 1)**:**	**2017**	2016	**2017**
Profit attributable to owners of parent - basic	**¥26.12**	¥19.02	**$0.233**
Profit attributable to owners of parent - diluted	**26.07**	18.97	**0.232**
Cash dividends	**12.00**	12.00	**0.107**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2017 and 2016

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2017	2016	**2017**
Profit	**¥105,278**	¥ 76,650	**$ 938,390**
Other comprehensive income (loss):			
Unrealized holding gain (loss) on investment securities	**60,914**	(42,469)	**542,953**
Unrealized gain (loss) from hedging instruments	**275**	418	**2,451**
Translation adjustments	**(23,946)**	(51,910)	**(213,441)**
Retirement benefits liability adjustments	**20,893**	(35,066)	**186,228**
Share of other comprehensive income (loss) of entities accounted for by the equity method	**(6,165)**	(6,249)	**(54,951)**
Total other comprehensive income (loss) (Note 19)	**51,970**	(135,277)	**463,232**
Comprehensive income (loss)	**¥157,248**	¥ (58,626)	**$1,401,622**
Comprehensive income (loss) attributable to:			
Owners of parent	**¥149,094**	¥ (62,348)	**$1,328,941**
Non-controlling interests	**8,154**	3,721	**72,680**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2017 and 2016

	In millions of yen												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Unrealized holding gain (loss) on investment securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2015	¥265,608	¥204,039	¥1,148,268	¥(5,249)	¥1,612,668	¥ 81,499	¥ 802	¥ 68,413	¥ 17,383	¥ 168,100	¥3,129	¥336,117	¥2,120,014
Cash dividends (Note 20)			(40,275)		(40,275)								(40,275)
Profit attributable to owners of parent			63,834		63,834								63,834
Changes in scope of consolidation			(461)		(461)								(461)
Changes in scope of equity method			1,687		1,687								1,687
Changes in treasury stock of parent arising from transactions with non-controlling shareholders		(211)			(211)								(211)
Purchase of treasury stock				(32)	(32)								(32)
Disposal of treasury stock		123		509	633								633
Net changes in items other than stockholders' equity						(41,390)	2,241	(50,651)	(36,382)	(126,182)	(512)	(18,757)	(145,452)
Subtotal	—	(87)	24,784	477	25,174	(41,390)	2,241	(50,651)	(36,382)	(126,182)	(512)	(18,757)	(120,277)
Balance as of March 31, 2016	¥265,608	¥203,951	¥1,173,053	¥(4,771)	¥1,637,842	¥ 40,108	¥ 3,044	¥ 17,762	¥(18,998)	¥ 41,917	¥2,616	¥317,360	¥1,999,737
Cash dividends (Note 20)			**(40,291)**		**(40,291)**								**(40,291)**
Profit attributable to owners of parent			**87,720**		**87,720**								**87,720**
Changes in scope of consolidation			**(333)**		**(333)**								**(333)**
Changes in scope of equity method			**(5,398)**		**(5,398)**								**(5,398)**
Changes in treasury stock of parent arising from transactions with non-controlling shareholders		**(398)**			**(398)**								**(398)**
Purchase of treasury stock				**(81)**	**(81)**								**(81)**
Disposal of treasury stock		**104**		**243**	**348**								**348**
Net changes in items other than stockholders' equity						**60,491**	**(1,749)**	**(20,049)**	**22,682**	**61,374**	**(80)**	**4,699**	**65,993**
Subtotal	**—**	**(293)**	**41,696**	**161**	**41,564**	**60,491**	**(1,749)**	**(20,049)**	**22,682**	**61,374**	**(80)**	**4,699**	**107,558**
Balance as of March 31, 2017	**¥265,608**	**¥203,658**	**¥1,214,749**	**¥(4,609)**	**¥1,679,407**	**¥100,600**	**¥ 1,294**	**¥ (2,287)**	**¥ 3,683**	**¥ 103,291**	**¥2,536**	**¥322,059**	**¥2,107,295**

	In thousands of U.S. dollars (Note 3)												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Unrealized holding gain (loss) on investment securities	Unrealized gain (loss) from hedging instruments	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Share subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2016	$2,367,483	$1,817,907	$10,455,949	$(42,526)	$14,598,823	$357,500	$ 27,132	$ 158,320	$(169,337)	$373,625	$23,317	$2,828,772	$17,824,556
Cash dividends (Note 20)			**(359,131)**		**(359,131)**								**(359,131)**
Profit attributable to owners of parent			**781,887**		**781,887**								**781,887**
Changes in scope of consolidation			**(2,968)**		**(2,968)**								**(2,968)**
Changes in scope of equity method			**(48,114)**		**(48,114)**								**(48,114)**
Changes in treasury stock of parent arising from transactions with non-controlling shareholders		**(3,547)**			**(3,547)**								**(3,547)**
Purchase of treasury stock				**(721)**	**(721)**								**(721)**
Disposal of treasury stock		**926**		**2,165**	**3,101**								**3,101**
Net changes in items other than stockholders' equity						**539,183**	**(15,589)**	**(178,705)**	**202,174**	**547,054**	**(713)**	**41,884**	**588,225**
Subtotal	**—**	**(2,611)**	**371,655**	**1,435**	**370,478**	**539,183**	**(15,589)**	**(178,705)**	**202,174**	**547,054**	**(713)**	**41,884**	**958,712**
Balance as of March 31, 2017	**$2,367,483**	**$1,815,295**	**$10,827,604**	**$(41,082)**	**$14,969,310**	**$896,693**	**$ 11,534**	**$ (20,385)**	**$ 32,828**	**$920,679**	**$22,604**	**$2,870,656**	**$18,783,269**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2017 and 2016

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2017	2016	**2017**
Cash flows from operating activities:			
Profit before income taxes	**¥ 169,718**	¥ 132,682	**$ 1,512,772**
Adjustments to reconcile profit (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**172,762**	158,706	**1,539,905**
Impairment loss	**—**	3,393	**—**
Amortization of goodwill	**16,568**	11,416	**147,678**
Increase (decrease) in liability for retirement benefits	**(1,093)**	(7,820)	**(9,742)**
Interest and dividend income	**(15,437)**	(15,577)	**(137,596)**
Interest expense	**11,461**	13,338	**102,157**
Foreign exchange loss (gain) (Note 26)	**(8,337)**	22,856	**(74,311)**
(Income) loss from equity method investments	**22,845**	(5,647)	**203,627**
(Gain) loss on sales of investment securities	**(61,047)**	—	**(544,139)**
Loss on revaluation of investment securities	**6,272**	—	**55,905**
(Gain) loss on sales of fixed assets	**(53,861)**	(5,663)	**(480,087)**
Loss on disposal of fixed assets	**7,627**	12,959	**67,982**
Gain on negative goodwill	**—**	(6,867)	**—**
Gain on revision of retirement benefit plan	**—**	(2,208)	**—**
Business structure improvement expenses	**12,810**	47,251	**114,181**
Loss on passenger vessel construction business reserve	**34,323**	103,911	**305,936**
(Increase) decrease in receivables	**(11,002)**	75,764	**(98,065)**
(Increase) decrease in inventories and advances to suppliers	**(121,023)**	(116,847)	**(1,078,732)**
(Increase) decrease in other assets	**(117,552)**	(202,252)	**(1,047,793)**
Increase (decrease) in payables	**(14,261)**	(3,228)	**(127,114)**
Increase (decrease) in advance payments received on contracts	**39,375**	107,093	**350,967**
Increase (decrease) in other liabilities	**52,556**	(4,214)	**468,455**
Others (Note 26)	**(3)**	(3,765)	**(26)**
Subtotal	**142,703**	315,280	**1,271,976**
Interest and dividends received	**20,270**	18,393	**180,675**
Interest paid	**(12,185)**	(13,800)	**(108,610)**
Income taxes paid	**(54,875)**	(49,870)	**(489,125)**
Net cash provided by (used in) operating activities	**95,913**	270,002	**854,915**
Cash flows from investing activities:			
Net (increase) decrease in time deposits	**2,521**	(2,180)	**22,470**
Purchases of property, plant and equipment and intangible assets	**(200,185)**	(161,160)	**(1,784,339)**
Proceeds from sales of property, plant and equipment and intangible assets	**97,013**	12,535	**864,720**
Purchases of investment securities	**(5,033)**	(13,112)	**(44,861)**
Proceeds from sales and redemption of investment securities	**17,376**	11,055	**154,880**
Purchase of investments in subsidiaries that result in change in scope of consolidation	**—**	(105,425)	**—**
Proceeds from purchase of investments in subsidiaries that result in change in scope of consolidation	**—**	9,574	**—**
Proceeds from sales of investments in subsidiaries that result in change in scope of consolidation	**102,436**	—	**913,058**
Payment for sales of investments in subsidiaries that result in change in scope of consolidation	**(849)**	(6,369)	**(7,567)**
Payments for transfer of business	**—**	(2,708)	**—**
Disbursement of long-term loans	**(10,996)**	(6,240)	**(98,012)**
Collection of long-term loans	**13,868**	4,259	**123,611**
Others	**(7,440)**	(2,706)	**(66,316)**
Net cash provided by (used in) investing activities	**8,712**	(262,479)	**77,653**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	**(132,340)**	20,506	**(1,179,606)**
Proceeds from long-term borrowings	**60,206**	44,889	**536,643**
Repayment of long-term borrowings	**(62,804)**	(58,859)	**(559,800)**
Proceeds from issuance of bonds	**30,000**	20,000	**267,403**
Payment for redemption of bonds	**(20,000)**	—	**(178,269)**
Proceeds from issuance of stock to non-controlling shareholders	**445**	4,144	**3,966**
Dividends paid to stockholders	**(40,283)**	(40,269)	**(359,060)**
Dividends paid to non-controlling shareholders	**(2,682)**	(10,494)	**(23,905)**
Purchase of investments in subsidiaries that do not result in change in scope of consolidation	**0**	(571)	**—**
Others	**5,381**	(2,452)	**47,963**
Net cash provided by (used in) financing activities	**(162,078)**	(23,106)	**(1,444,674)**
Effect of exchange rate changes on cash and cash equivalents	**1,060**	(35,194)	**9,448**
Net increase (decrease) in cash and cash equivalents	**(56,392)**	(50,778)	**(502,647)**
Cash and cash equivalents at the beginning of the year	**300,267**	357,349	**2,676,415**
Increase in cash and cash equivalents due to changes in scope of consolidation	**—**	649	**—**
Decrease in cash and cash equivalents due to changes in scope of consolidation	**(1,470)**	(6,953)	**(13,102)**
Cash and cash equivalents at the end of the year (Note 22)	**¥ 242,404**	¥ 300,267	**$ 2,160,656**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2017 and 2016

01 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

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

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

b) Principles of consolidation

The accompanying consolidated financial statements for the fiscal years ended March 31, 2017 and 2016 include the accounts of the Group. All significant inter-company transactions and accounts have been eliminated. Investments in affiliates are accounted for by the equity method.

c) Foreign currency translation

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

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

d) Securities

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

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

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

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

e) Inventories

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

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

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

f) Depreciation of property, plant and equipment

Depreciation of property, plant and equipment (excluding leased assets) is principally computed using the straight-line method for buildings (excluding the equipment attached to them) and the declining-balance method for the other items of property, plant and equipment over the assets' useful lives.

Depreciation of leased assets is computed using the straight-line method over the lease terms.

g) Amortization of intangible assets

Amortization of intangible assets (excluding leased assets) is computed using the straight-line method over the assets' useful lives. Amortization of leased assets is computed using the straight-line method over the lease terms.

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

h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for possible losses on the collection of receivables. The amount of the allowance for general receivables is based on the 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.

i) 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.

j) 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 years on the construction contracts if (1) those losses are judged inevitable at current fiscal year-end and (2) reasonable estimation 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.

k) Reserve for loss on passenger vessel construction business

Reserve for loss on passenger vessel construction business is provided based on reasonable estimation for the expected loss to be realized in the following fiscal years from the construction project of two large-sized cruise ships for the AIDA Cruises brand.

l) Reserve for stock benefits

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

m) 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.

n) Liability for 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.

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

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

Unrecognized actuarial gains and losses and unrecognized 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.

o) Revenue recognition

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

p) Hedge accounting

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

The Group applies the "exceptional method for interest rate swaps" (hereinafter referred to as the "exceptional method") when the transactions meet the requirements of relevant accounting standards.

The "exceptional method" is applied when an interest rate swap (hedging instrument) with the corresponding conditions (e.g. principal amount, maturity and index) to the hedged item is concluded to fix the interest rate on the hedged item. Under this method, the amounts to be paid or received under the contract are added to or deducted from the interest; the fair value of the hedging instrument is not computed.

The Group evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and those on the hedged items from the commencement of the hedges.

q) Tax-effect accounting

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

r) Cash and cash equivalents

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

s) Earnings per share

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

Diluted profit attributable to owners of parent per share is computed based on the assumption that all the share subscription rights are exercised at the beginning of the fiscal year (or issue date if later).

t) Fiscal years of consolidated subsidiaries

The financial statements of Shanghai MHI Turbocharger Co., Ltd., etc. (36 companies in total), whose fiscal year end is December 31, 2016, are consolidated by using their financial statements of the parent fiscal year end which are prepared solely for consolidation purposes. The financial statements of Mitsubishi Hitachi Power Systems Africa (Pty) Ltd., etc. (3 companies in total), are consolidated by using their financial statements as of their respective fiscal year end, which falls on December 31 and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

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

From the fiscal year ended March 31, 2017, Mitsubishi Hitachi Power Systems Europe GmbH, etc. (2 companies in total) have changed their fiscal year-end from December 31 to March 31 (the same as the consolidated balance sheet date). The financial results of these 2 companies included in the consolidated financial statements for the fiscal year ended March 31, 2017, are for the 15-month period of January 1, 2016 through March 31, 2017.

The impact of these changes on the consolidated financial statements is insignificant.

02 ADDITIONAL INFORMATION

a) Application of ASBJ Guidance on Recoverability of Deferred Tax Assets

Effective from the fiscal ended March 31, 2017, the MHI Group has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

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

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

(1) Overview of transaction

A stock grant ESOP Trust (the ESOP Trust) was established by the Group for the purpose of strengthening the Group's business performance and corporate value in the medium-and-long term by promoting the Management Personnel's motivation and willingness to participate in management.

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

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

(2) MHI stock in ESOP Trust

MHI stock in the ESOP Trust is recorded in treasury stock under net assets based on its book value. The book value and number of shares of treasury stock in the ESOP Trust were 123 million yen ($1,096 thousand) and 416,246 shares, respectively, as of March 31, 2017, and 148 million yen and 500,198 shares, respectively, as of March 31, 2016.

c) Officer Remuneration Board Incentive Plan (BIP) Trust

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

(1) Overview of transaction

An officer remuneration BIP Trust (the BIP Trust) was established by the Group for the purpose of strengthening the Group's business performance and corporate value in the medium-and-long term by promoting the Directors and Other Executives motivation and willingness to participate in management.

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

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

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

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

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

(2) MHI stock in BIP Trust

MHI stock in the BIP Trust is recorded in treasury stock under net assets based on the book value. The book value and number of shares of treasury stock in the BIP Trust were 1,595 million yen ($14,216 thousand) and 5,319,000 shares, respectively, as of March 31, 2017, and 1,644 million yen and 5,551,000 shares, respectively, as of March 31, 2016.

d) Change in share trading unit size and share consolidation

The meeting of MHI's Board of Directors held on March 30, 2017 resolved to partially amend the Company's Articles of Incorporation, changing the share trading unit size pursuant to the provision of Paragraph 1, Article 195 of Japan's Companies Act in addition to resolving to submit a proposal concerning a share consolidation (hereinafter, the "Share Consolidation") to the 92nd Ordinary General Meeting of Shareholders (hereinafter, the "General Meeting of Shareholders") held on June 22, 2017.

Additionally, pursuant to the provision of Paragraph 2, Article 180 of Japan's Companies Act, the proposal concerning the Share Consolidation was subsequently approved by the General Meeting of Shareholders.

The details of the proposal are as follows.

(1) Reason for the change

Japanese stock exchanges have been encouraging companies to transition to a standard trading unit of 100 shares for the purpose of improving market convenience for investors as per the "Action Plan for Consolidating Trading Units". In light of the goal of the plan, MHI has decided to change its share trading unit size from 1,000 shares to 100 shares effective on October 1, 2017. In relation to this change, MHI has decided to implement the Share Consolidation on a one-for-ten basis to maintain the market price of the share trading unit as well as to keep the number of voting rights unchanged.

(2) Details of the Share Consolidation

i. Type of the Share Consolidation

Common Stock

ii. Method and ratio of the Share Consolidation

Common stocks will be consolidated on a one-for-ten basis on October 1, 2017 based on the number of shares owned by shareholders who are registered in the shareholders' registry as of September 30, 2017.

iii. Total number of authorized shares after the Share Consolidation

600,000,000 shares (6,000,000,000 shares before the Share Consolidation)

Pursuant to the provision of Paragraph 2, Article 182 of Japan's Companies Act, the total number of authorized shares stipulated in the Articles of Incorporation will be changed as above on the effective date of the Share Consolidation on October 1, 2017.

iv. Decrease in number of shares due to the Share Consolidation

Number of issued shares before the Share Consolidation (as of March 31, 2017)	3,373,647,813 shares
Decrease in number of shares due to the Share Consolidation	3,036,283,032 shares
Number of issued shares after the Share Consolidation	337,364,781 shares

(Footnote): The decrease in the number shares due to the Share Consolidation and number of issued shares after the Share Consolidation are theoretical values calculated based on the number of issued shares before the Share Consolidation and consolidation ratio.

v. Fractional amounts less than one share

Any fractional amounts of less than one share arising as a result of the Share Consolidation will be collectively sold by MHI and the proceeds from the sale will be distributed to shareholders in proportion to their shareholding ratios of fractional amounts pursuant to Article 235 of Japan's Companies Act.

(3) Schedule of the change

March 30, 2017	Resolution date of Board of Directors
June 22, 2017	Approval date of the General Meeting of Shareholders
October 1, 2017	Prospective effective date of the change of shares trading unit size, the Share Consolidation and amendment of the Articles of Incorporation

(4) Impacts on per share information

Assuming the Share Consolidation was executed at the beginning of the fiscal year ended March 31, 2016, per share information as of and for the years ended March 31, 2017 and 2016 is as follows:

	In yen		In U.S. dollars
	2017	2016	**2017**
Net assets	**¥5,308.60**	¥5,003.00	**$47.31**
Profit attributable to owners of parent - basic	**261.24**	190.17	**2.32**
Profit attributable to owners of parent - diluted	**260.71**	189.72	**2.32**

03 U.S. DOLLAR AMOUNTS

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

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥112.19 = US$1 prevailing at March 31, 2017 is used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

04 FINANCIAL INSTRUMENTS

The carrying amounts on the consolidated balance sheets, fair values and the variance between them of financial instruments as of March 31, 2017 and 2016 are shown in the following table. Those whose fair values are extremely difficult to determine are excluded from the following table and shown in Footnote 2. See Note 1 p) for the information on hedge accounting.

	In millions of yen			In thousands of U.S. dollars		
	2017			2017		
	Carrying amount	Fair value	Variance	Carrying amount	Fair value	Variance
(1) Cash and deposits	¥ 248,040	¥ 248,040	¥ —	$ 2,210,892	$ 2,210,892	$ —
(2) Trade receivables	1,180,143	1,180,143	—	10,519,146	10,519,146	—
(3) Securities and investment securities	411,275	411,148	(127)	3,665,879	3,664,747	(1,132)
Asset items total	¥1,839,460	¥1,839,322	¥ (127)	$16,395,935	$16,394,705	$ (1,132)
(4) Trade payables	736,502	736,502	—	6,564,774	6,564,774	—
(5) Electronically recorded obligations	99,560	99,560	—	887,423	887,423	—
(6) Short-term borrowings	205,679	205,679	—	1,833,309	1,833,309	—
(7) Bonds	275,000	279,115	4,115	2,451,198	2,487,877	36,678
(8) Long-term borrowings	444,887	461,981	17,094	3,965,478	4,117,844	152,366
Liability items total	¥1,761,630	¥1,782,839	¥21,209	$15,702,201	$15,891,246	$189,045
(9) Derivatives (*)	¥ 500	¥ 500	¥ —	$ 4,456	$ 4,456	$ —

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

	In millions of yen		
	2016		
	Carrying amount	Fair value	Variance
(1) Cash and deposits	¥ 310,523	¥ 310,523	¥ —
(2) Trade receivables	1,200,852	1,200,852	—
(3) Securities and investment securities	378,429	393,995	15,565
Asset items total	¥1,889,804	¥1,905,370	¥15,565
(4) Trade payables	763,761	763,761	—
(5) Electronically recorded obligations	96,888	96,888	—
(6) Short-term borrowings	293,131	293,131	—
(7) Commercial papers	45,000	45,000	—
(8) Bonds	265,000	271,513	6,513
(9) Long-term borrowings	449,017	471,240	22,223
Liability items total	¥1,912,798	¥1,941,535	¥28,736
(10) Derivatives (*)	¥ 2,774	¥ 2,774	¥ —

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

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

(1) Cash and deposits
The book 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 a 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 they are settled in a short period and the fair values are almost equal to the book values.

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

(8) Long-term borrowings
The present values of the principal and total interest (*) (discounted by the rate assumed to be applied to new borrowings of the same conditions) are used as the fair values.
(*) As for the long-term borrowings to which the "exceptional method" for interest rate swaps is applied, the principal and total interest according to the interest rate under the interest rate swaps are used.

(9) Derivatives
See Note 6.

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

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Carrying amounts of unlisted securities	¥170,901	¥158,020	$1,523,317

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2017 and 2016 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2017				2017			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 235,528	¥ 64	¥ —	¥ —	$ 2,099,367	$ 570	$ —	$ —
Trade receivables	1,152,891	26,705	546	0	10,276,236	238,033	4,866	0
Securities and investment securities								
Other securities								
Government bonds	0	—	—	—	0	—	—	—
Total	¥1,388,420	¥26,770	¥546	¥ 0	$12,375,612	$238,613	$4,866	$ —

	In millions of yen			
	2016			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 302,142	¥ —	¥ —	¥ —
Trade receivables	1,165,393	35,308	150	—
Securities and investment securities				
Other securities				
Government bonds	0	—	—	—
Total	¥1,467,535	¥35,308	¥150	¥ —

05 SECURITIES

a) Breakdown of other securities with market value at March 31, 2017 and 2016

	In millions of yen			In thousands of U.S. dollars		
	2017			2017		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts exceed acquisition costs:						
Equity securities	¥307,016	¥172,344	¥134,671	$2,736,571	$1,536,179	$1,200,383
Debt securities						
Government bonds	0	0	0	0	0	0
Others	564	533	31	5,027	4,750	276
Subtotal	¥307,581	¥172,877	¥134,703	$2,741,607	$1,540,930	$1,200,668
ii) Acquisition costs exceed carrying amounts:						
Equity securities	¥ 97,915	¥106,358	¥ (8,443)	$ 872,760	$ 948,016	$ (75,256)
Debt securities						
Government bonds	—	—	—	—	—	—
Others	—	1	(1)	—	8	(8)
Others	2,375	2,375	—	21,169	21,169	—
Subtotal	¥100,291	¥108,736	¥ (8,445)	$ 893,938	$ 969,212	$ (75,274)
Total (i + ii)	¥407,872	¥281,614	¥126,258	$3,635,546	$2,510,152	$1,125,394

	In millions of yen		
	2016		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts exceed acquisition costs:			
Equity securities	¥173,314	¥ 87,314	¥ 86,000
Debt securities			
Government bonds	0	0	0
Others	—	—	—
Subtotal	¥173,314	¥ 87,314	¥ 86,000
ii) Acquisition costs exceed carrying amounts:			
Equity securities	¥109,466	¥144,099	¥(34,633)
Debt securities			
Government bonds	—	—	—
Others	—	1	(1)
Others	1,575	1,616	(41)
Subtotal	¥111,042	¥145,718	¥(34,676)
Total (i + ii)	¥284,356	¥233,032	¥ 51,324

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

b) Sales amounts of other securities with market value and related gains and losses for the fiscal years ended March 31, 2017 and 2016

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Sales amounts	**¥13,871**	¥5,998	**$123,638**
Gains	**4,400**	3,158	**39,219**
Losses	**(501)**	(210)	**(4,465)**

c) Impairment losses on other securities with market value for the fiscal years ended March 31, 2017 and 2016

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Impairment losses	**¥5,201**	¥—	**$46,358**

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

06 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Summarized below are the notional amounts and the fair values of the derivative positions outstanding at March 31, 2017 and 2016.

1. Derivatives to which hedge accounting is not applied

Forward foreign exchange contracts (*1)

		In millions of yen				In thousands of U.S. dollars			
		2017				**2017**			
		Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Sell:									
USD		**¥209,271**	**¥24,594**	**¥(7,631)**	**¥(7,631)**	**$1,865,326**	**$219,217**	**$(68,018)**	**$(68,018)**
EUR		**37,598**	**6,003**	**238**	**238**	**335,127**	**53,507**	**2,121**	**2,121**
Others		**28,521**	**1,830**	**(405)**	**(405)**	**254,220**	**16,311**	**(3,609)**	**(3,609)**
Buy:									
USD		**¥110,666**	**¥24,242**	**¥ 4,966**	**¥ 4,966**	**$ 986,415**	**$216,079**	**$ 44,264**	**$ 44,264**
EUR		**80,687**	**4,656**	**1,740**	**1,740**	**719,199**	**41,501**	**15,509**	**15,509**
Others		**22,371**	**1,830**	**485**	**485**	**199,402**	**16,311**	**4,323**	**4,323**
Currency option contracts									
Sell:									
		¥ 790				**$ 7,041**			
	(*2)	**(8)**	**¥ —**	**¥ 32**	**¥ (23)**	**(71)**	**$ —**	**$ 285**	**$ (205)**
Buy:									
		¥ 919				**$ 8,191**			
	(*2)	**(60)**	**—**	**3**	**(57)**	**(534)**	**—**	**26**	**(508)**
Total		**¥ —**	**¥ —**	**¥ (571)**	**¥ (687)**	**$ —**	**$ —**	**$ (5,089)**	**$ (6,123)**

	In millions of yen			
	2016			
	Notional amount	Therein: portion due after one year	Fair value	Unrealized gain (loss)
Sell:				
USD	¥80,797	¥5,109	¥ 998	¥ 998
EUR	23,837	1,618	(730)	(730)
Others	11,541	463	13	13
Buy:				
USD	¥82,111	¥4,449	¥ 490	¥ 490
EUR	39,871	907	(271)	(271)
Others	19,288	1,058	272	272
Total	¥ —	¥ —	¥ 772	¥ 772

(*1) The fair values of exchange contracts are based on forward exchange rates.
(*2) Currency option premiums are disclosed in brackets "()", and corresponding fair value and unrealized gain (loss) are disclosed in the same line. The fair values of currency option contracts are based on the Black-Scholes formula.

2. Derivatives to which hedge accounting is applied

(1) Forward foreign exchange contracts (to which deferral hedge accounting is applied)

	In millions of yen			In thousands of U.S. dollars		
	2017			2017		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell: (*1)						
USD	**¥35,754**	**¥14,406**	**¥ 775**	**$318,691**	**$128,407**	**$ 6,907**
EUR	**10,704**	**1,188**	**664**	**95,409**	**10,589**	**5,918**
Others	**6,329**	**1,598**	**(326)**	**56,413**	**14,243**	**(2,905)**
Buy: (*2)						
USD	**2,658**	**816**	**84**	**23,691**	**7,273**	**748**
EUR	**3,400**	**1,732**	**(36)**	**30,305**	**15,438**	**(320)**
Others	**1,319**	**232**	**27**	**11,756**	**2,067**	**240**
Total	**¥ —**	**¥ —**	**¥1,188**	**$ —**	**$ —**	**$10,589**

	In millions of yen		
	2016		
	Notional amount	Therein: portion due after one year	Fair value
Sell: (*1)			
USD	¥34,587	¥1,975	¥1,073
EUR	8,164	—	(116)
Others	11,400	3,152	(549)
Buy: (*2)			
USD	3,770	2,270	6
EUR	673	301	1,516
Others	450	—	70
Total	¥ —	¥ —	¥2,001

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

(2) Interest rate swaps (to which the “exceptional method” for interest-rate swaps is applied) (*1)

	In millions of yen			In thousands of U.S. dollars		
	2017			2017		
Type of transactions	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥201,640	¥151,640	(*2)	$1,797,308	$1,351,635	(*2)

	In millions of yen		
	2016		
Type of transactions	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥207,283	¥201,931	(*2)

(*1) The hedged items on these derivatives are principally long-term borrowings.
(*2) Since the “exceptional method” for interest-rate swaps is applied, the above interest rate swaps are treated as part of the hedged long-term borrowings, thus their fair values are included in those of the long-term borrowings, which are shown in Note 4.

07 INCOME TAXES

The Group is subject to corporation income tax, inhabitants’ tax and enterprise tax, based on income, which in the aggregate resulted in the statutory tax rates of approximately 30.7% and 32.9% for the fiscal year ended March 31, 2017 and 2016, respectively.

a) Significant components of deferred tax assets and liabilities at March 31, 2017 and 2016, which arose as a result of the recognition of the tax effect mentioned in Note 1 q), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Tax loss carryforwards	¥ 119,614	¥ 113,610	$ 1,066,173
Liability for retirement benefits.	65,960	75,329	587,931
Accrued expenses for construction contracts	24,317	22,124	216,748
Accrued expenses for product warranties	20,831	32,307	185,676
Depreciation	15,522	12,998	138,354
Reserve for loss on construction contracts	14,574	17,156	129,904
Write-downs of inventories	13,397	9,686	119,413
Loss on revaluation of investment securities	7,519	11,127	67,020
Reserve for loss on passenger vessel construction business	5,664	22,356	50,485
Others	162,775	140,102	1,450,886
Subtotal	450,176	456,799	4,012,621
Valuation allowance	(185,162)	(160,527)	(1,650,432)
Total gross deferred tax assets	265,014	296,271	2,362,189
Deferred tax liabilities:			
Reserve for reduction in costs of fixed assets	(35,510)	(22,178)	(316,516)
Unrealized holding gain on investment securities	(31,009)	(16,977)	(276,397)
Reserve for specified business restructuring investment loss	(30,547)	(40,580)	(272,279)
Gain on contribution or return of securities related retirement benefit trust	(25,649)	(24,416)	(228,621)
Identified intangible assets due to business combination	(15,856)	(28,078)	(141,331)
Others	(86,537)	(79,900)	(771,343)
Total gross deferred tax liabilities	(225,109)	(212,131)	(2,006,497)
Net deferred tax assets (liabilities)*	¥ 39,905	¥ 84,140	$ 355,691

*Net deferred tax assets (liabilities) at March 31, 2017 and 2016 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets in current assets	¥114,223	¥137,428	$1,018,121
Deferred tax assets in investments and advances	13,060	15,808	116,409
Other liabilities in current liabilities	(349)	(384)	(3,110)
Deferred tax liabilities in non-current liabilities	(87,029)	(68,711)	(775,728)

b) Reconciliation of the statutory tax rate and the income tax rate as a percentage of profit before income taxes

	2017	2016
Statutory tax rate	30.7%	32.9%
Reconciliation:		
Non-deductible expenses	3.7	0.9
Items excluded from gross profit	0.1	1.1
(Income) loss from equity method investments	4.1	(1.4)
Valuation allowance	(0.8)	6.6
Tax exemption for research and development expenses	(0.8)	(1.7)
Change in deferred tax assets due to changes in statutory tax rate	(0.9)	4.0
Others	1.9	(0.2)
Income tax rate as a percentage of profit before income taxes	38.0%	42.2%

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

As the "Law for Partial Amendment to the Partial Amendment, etc. of Consumption Tax Law for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Law No. 85 of 2016) and the "Law for Partial Amendment to the Partial Amendment, etc. of Local Tax Law and Local Allocation Tax Law for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Law No. 86 of 2016) were enacted in the Japanese National Diet on November 18, 2016, the increase in the consumption tax rate of 10% was postponed from April 1, 2017 to October 1, 2019. In conjunction with these changes, the recovery of corporation enterprise tax, amendment of local corporation tax rate and amendment of corporate residential tax rate as a result of the abolition of special local corporation tax were also postponed to become effective from fiscal years beginning on or after April 1, 2017 to fiscal years beginning on or after October 1, 2019.

As a result, the reclassifications between national tax and local tax occur in deferred tax assets and deferred tax liabilities, however the impact of these changes on the consolidated financial statements is insignificant.

08 INTEREST-BEARING DEBT AND LEASE OBLIGATIONS

a) Short-term interest-bearing debt at March 31, 2017 and 2016 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Short-term loans, principally from banks (with weighted-average interest rate of 0.4% at March 31, 2017)	¥205,679	¥293,131	$1,833,309
Current portion of bonds	60,000	20,000	534,807
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 0.9% at March 31, 2017)	97,729	61,715	871,102
Commercial papers	—	45,000	—
Total	¥363,409	¥419,846	$3,239,228

b) Bonds at March 31, 2017 and 2016 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Unsecured bonds issued by MHI:			
2.04% bonds due Sep 2016 (issued in Sep 2006)	¥ —	¥ 20,000	$ —
2.03% bonds due Sep 2017 (issued in Sep 2007)	60,000	60,000	534,807
1.482% bonds due Dec 2019 (issued in Dec 2009)	50,000	50,000	445,672
0.366% bonds due Sep 2018 (issued in Sep 2013)	30,000	30,000	267,403
0.877% bonds due Sep 2023 (issued in Sep 2013)	15,000	15,000	133,701
0.243% bonds due Sep 2019 (issued in Sep 2014)	15,000	15,000	133,701
0.381% bonds due Sep 2021 (issued in Sep 2014)	25,000	25,000	222,836
0.662% bonds due Sep 2024 (issued in Sep 2014)	30,000	30,000	267,403
0.221% bonds due Sep 2020 (issued in Sep 2015)	10,000	10,000	89,134
0.630% bonds due Sep 2025 (issued in Sep 2015)	10,000	10,000	89,134
0.050% bonds due Aug 2021 (issued in Aug 2016)	20,000	—	178,269
0.240% bonds due Aug 2026 (issued in Aug 2016)	10,000	—	89,134
Total	¥275,000	¥265,000	$2,451,198

The aggregate annual maturities of bonds at March 31, 2017 were as follows:

Fiscal years ending March 31	In millions of yen	In thousands of U.S. dollars
2018 (= current portion)	¥ 60,000	$ 534,807
2019	30,000	267,403
2020	65,000	579,374
2021	10,000	89,134
2022	45,000	401,105
Thereafter	65,000	579,374
Non-current portion subtotal	215,000	1,916,391
Total	¥275,000	$2,451,198

c) Long-term borrowings at March 31, 2017 and 2016 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Non-current portion of long-term loans, principally from banks and insurance companies, due 2018 to 2027 (with weighted-average interest rate of 1.4% at March 31, 2017)	¥347,157	¥387,302	$3,094,366

The aggregate annual maturities of long-term borrowings at March 31, 2017 were as follows:

Fiscal years ending March 31	In millions of yen	In thousands of U.S. dollars
2018 (= current portion)	¥ 97,729	$ 871,102
2019	67,718	603,601
2020	44,425	395,980
2021	58,095	517,826
2022	30,985	276,183
Thereafter	145,931	1,300,748
Non-current portion subtotal	347,157	3,094,366
Total	¥444,887	$3,965,478

d) Lease obligations at March 31, 2017 and 2016 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Current portion of lease obligations	¥1,745	¥1,652	$15,553
Non-current portion of lease obligations	7,106	4,770	63,338
Total	¥8,852	¥6,423	$78,901

09 PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	2017	2016	2017
Property, plant and equipment	¥2,341	¥8,638	$20,866
Others	262	—	2,335
Total	¥2,604	¥8,638	$23,210

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	2017	2016	2017
Short-term borrowings	¥ 779	¥1,438	$ 6,943
Long-term borrowings	590	614	5,258
Total	¥1,370	¥2,053	$12,211

10 CONTINGENT LIABILITIES

Contingent liabilities	In millions of yen 2017	In millions of yen 2016	In thousands of U.S. dollars 2017
(1) Guarantee obligations on such debts as borrowings from financial institutions by companies outside the Group	**¥39,697**	¥39,794	**$353,837**

(2) Contingent liabilities relating to change in MRJ delivery timing
MHI announced on January 23, 2017 that the delivery schedule of the first Mitsubishi Regional Jet ("MRJ") would be changed from mid-2018 to mid-2020. The change is due mainly to revisions in the placement of certain equipment in addition to design modifications to electrical wiring configurations to meet the latest safety compliance standards. Consultations on the delivery timing were subsequently initiated 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.

11 OVERDRAFT AGREEMENTS AND COMMITMENT LINE AGREEMENTS (BORROWER)

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

The balances of unexecuted loans, etc., based on these agreements as of March 31, 2017 and 2016 are as follows:

Overdraft agreements and commitment line agreements (borrower)	In millions of yen 2017	In millions of yen 2016	In thousands of U.S. dollars 2017
Total amount of overdraft limit and commitment line agreements	**¥610,000**	¥310,000	**$5,437,204**
Balance of executed loans	**—**	—	**—**
Unexecuted balance	**¥610,000**	¥310,000	**$5,437,204**

12 INDEMNIFICATION ASSET FOR SOUTH AFRICAN PROJECT

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

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

At the time the contract for the South African Asset Transfer was concluded, MHI was aware that major losses were probable and asserted this to Hitachi. Therefore, it was agreed in the contract that Hitachi and HPA would be responsible for contingent liabilities arising from events that occurred prior to the Effective Date of Company Split as well as for any claims that had already accrued as of the 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.

Subsequently, MHI and Hitachi worked together, respecting the spirit of the business integration and continuing discussions, to refine the project schedule and cash flow estimates. MHI and Hitachi have still not completed the price adjustment for the South African Asset Transfer at the moment. Meanwhile, given that it was already expected as of the Effective Date of Company Split that the South African projects would incur a loss, MHPS-Africa has the right to receive the price adjustment payments and other payments from Hitachi or HPA in the amount calculated under the legally binding 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 agreement on the assets and liabilities.

On March 31, 2016, MHI demanded that Hitachi pay ZAR 48,200 million (equivalent to approximately 379.0 billion yen ($3,378 million) when converted at a rate of 7.87 yen to 1 ZAR) to MHPS-Africa as part of the price adjustment and other payments (the "Previous Demands for Payment"). In the Previous Demands for Payment, 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 ($6,804 million) when converted at a rate of 8.51 yen to 1 ZAR) as the price adjustment and other payments (the "Current Demands for Payment"), which included the a forementioned Previous Demands for Payment. In the Current Demands for Payment, 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 Previous Demands for Payment. Therefore, the Previous Demands for Payment, which were based on MHPS-Africa's cash flow estimates after the Effective Date of Company Split and the Current Demands for Payment are different in nature, and the difference between them affects neither the cash flow estimates for the South Africa projects after the Effective Date of Company Split nor the amount recorded in "Current assets" on MHI's consolidated balance sheet for the fiscal year ended March 31, 2017.

The Previous Demands and the Current Demands for Payment are exercises of rights pursuant to a legally binding contractual agreement, and MHI intends to collect the amount demanded in accordance with the procedures stipulated in the contract while continuing discussions with Hitachi on this issue.

MHI recorded 294.9 billion yen ($2,628 million) out of the claims against Hitachi described above in the item "Indemnification asset for South African project" at the end of this fiscal year. This amount roughly corresponds to the amount of the net expenditure already expended on the South African Projects at the end of this fiscal year, and is a portion of the aforementioned the Previous Demands and the Current Demands for Payment.

13 RETIREMENT BENEFITS

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

1. Non-contributory defined benefit pension plan

a) A reconciliation of the beginning and ending balances of the retirement benefit obligations for the fiscal years ended March 31, 2017 and 2016 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Retirement benefit obligation at beginning of fiscal year	**¥551,793**	¥565,722	**$4,918,379**
Service cost	**36,723**	32,793	**327,328**
Interest cost	**4,814**	5,380	**42,909**
Actuarial loss (gain)	**11,511**	6,347	**102,602**
Benefits paid	**(52,817)**	(58,525)	**(470,781)**
Effect of business combinations	**(594)**	11,865	**(5,294)**
Decrease due to termination and transition of retirement benefit plan (*2)	**(13,243)**	—	**(118,040)**
Others	**(2,222)**	(11,791)	**(19,805)**
Retirement benefit obligations, at end of fiscal year (*1)	**¥535,965**	¥551,793	**$4,777,297**

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

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

b) A reconciliation of the beginning and ending balances of the fair value of plan assets for the fiscal years ended March 31, 2017 and 2016 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Fair value of plan assets at beginning of fiscal year	**¥454,363**	¥504,091	**$4,049,942**
Expected return on plan assets	**8,933**	10,233	**79,623**
Actuarial gain (loss)	**37,618**	(54,961)	**335,306**
Employer contributions	**15,084**	23,564	**134,450**
Benefits paid	**(30,294)**	(30,557)	**(270,024)**
Effect of business combinations	**—**	4,183	**—**
Decrease due to termination and transition of retirement benefit plan (*1)	**(9,697)**	—	**(86,433)**
Others	**(2,646)**	(2,192)	**(23,584)**
Fair value of plan assets at end of fiscal year	**¥473,361**	¥454,363	**$4,219,279**

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

c) A reconciliation of the ending balance of the retirement benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets at March 31, 2017 and 2016 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Retirement benefit obligation for funded plans	**¥ 494,362**	¥ 511,243	**$ 4,406,471**
Fair value of plan assets	**(473,361)**	(454,363)	**(4,219,279)**
	21,000	56,879	**187,182**
Retirement benefit obligation for unfunded plans	**41,603**	40,550	**370,826**
Net amount recognized in consolidated balance sheets	**¥ 62,603**	¥ 97,430	**$ 558,008**
Liability for retirement benefits	**¥ 123,160**	¥ 124,890	**$ 1,097,780**
Asset for retirement benefits	**(60,556)**	(27,459)	**(539,762)**
Net amount recognized in consolidated balance sheets	**¥ 62,603**	¥ 97,430	**$ 558,008**

d) The components of net periodic retirement benefit expenses for the fiscal years ended March 31, 2017 and 2016 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Service cost (*1)	**¥36,747**	¥ 32,778	**$327,542**
Interest cost	**4,814**	5,380	**42,909**
Expected return on plan assets	**(8,933)**	(10,233)	**(79,623)**
Amortization of actuarial loss (gain)	**3,539**	7,900	**31,544**
Amortization of prior service cost (credit)	**(327)**	(2,742)	**(2,914)**
Retirement benefit expense	**¥35,840**	¥ 33,082	**$319,458**
Loss on termination of retirement benefit plan (*2)	**¥ 962**	¥ —	**$ 8,574**

(*1) Accrued pension costs for the consolidated subsidiaries that adopt a simplified method were included in "Service cost".
(*2) Loss on termination of retirement benefit plan was included in "Other expenses".

e) Retirement benefits liability adjustments

The amounts recognized in other comprehensive income consisted of the following on a pretax basis for the fiscal years ended March 31, 2017 and 2016.

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Prior service (cost) credit	**¥ 411**	¥ 1,618	**$ 3,663**
Actuarial (loss) gain	**29,646**	(53,100)	**264,248**
Decrease due to termination of retirement benefit plan (*1)	**962**	—	**8,574**
Total	**¥31,021**	¥(51,481)	**$276,504**

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

f) Retirement benefits liability adjustments (accumulated)

The amounts recognized in accumulated other comprehensive income consisted of the following on a pretax basis at March 31, 2017 and 2016.

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service (cost) credit	**¥2,390**	¥ 1,978	**$21,303**
Unrecognized actuarial (loss) gain	**3,822**	(26,786)	**34,067**
Total	**¥6,212**	¥(24,808)	**$55,370**

g) Information on plan assets

(1) A breakdown of the plan assets by asset class at March 31, 2017 and 2016 were as follows:

	2017	2016
Equity securities	**51%**	47%
Debt securities	**30**	40
Cash and deposits	**12**	4
Life insurance company general accounts	**4**	5
Others	**3**	4
Total (*1)	**100%**	100%

(*1) 42% of the plan assets consist of a retirement benefit trust, which is provided for the severance indemnity plan, as of March 31, 2017 and 35% as of March 31, 2016.

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

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

h) The principal actuarial assumptions at March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate (*1)	**mainly 0.6%**	mainly 0.9%
Expected long-term rate of return on plan assets	**mainly 2.1%**	mainly 2.1%

(*1) The discount rate applied at the beginning of the fiscal year was 0.9%. However, as a result of the review made at the end of fiscal year, the Group changed the discount rate to 0.6% based on the judgment that the amount of the retirement benefit obligation is significantly affected by the change in the discount rate.

2. Contributory defined benefit pension plan

Contributions made by the Group were 9,878 million yen ($88,047 thousand) in the fiscal year ended March 31, 2017 and 10,392 million yen in the fiscal year ended March 31, 2016.

14 GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Land	**¥52,680**	¥5,073	**$469,560**
Others	**1,181**	589	**10,526**
Total	**¥53,861**	¥5,663	**$480,087**

15 LOSS ON PASSENGER VESSEL CONSTRUCTION BUSINESS RESERVE

The following is a description of the loss on passenger vessel construction business reserve in the fiscal year ended March 31, 2017.

In the passenger vessel construction business, MHI recognized an extraordinary loss of 64,126 million yen ($571,583 thousand) in its consolidated financial results for the fiscal year ended March 31, 2014, 69,534 million yen ($619,787 thousand) for the fiscal year ended March 31, 2015 and 103,911 million yen ($926,205 thousand) for the fiscal year ended March 31, 2016 under provision for loss on passenger vessel construction business reserve as a result of a significant cost overrun, due to, among others, difficulties in construction of the prototype ship.

Having delivered the first ship to the customer in March 2016, MHI continued building the second ship in the fiscal year ended March 31, 2017. In the second quarter, MHI recognized an extraordinary loss of 16,481 million yen ($146,902 thousand). This reflects such factors as an increase in the construction budget with the aim of strengthening the construction system with a priority on ensuring the construction schedule and quality, including a change in subcontractor for some of the interior finishing section work from a Japanese contractor to an overseas contractor with greater expertise in passenger vessel construction, the correction of defects that have become obvious in the first ship while in service in the second ship, and in addition, the effect of appreciation in the value of the yen.

In the fourth quarter of the fiscal year ended March 31, 2017, given the agreement on a final delivery date with the customer, MHI brought forward the schedule and steadily implemented the work for delivery, including interior finishing, inspections and audits, commissioning of various equipment, and sea trials. However, as a result of an anticipated overrun in the construction budget due to some rush work to keep the new delivery schedule and incurrence of new additional costs after the final commercial discussion with the customer, MHI recognized an extraordinary loss of 17,842 million yen ($159,033 thousand) for an additional expected loss estimated to the extent reasonably possible as of the end of the fourth quarter. As a result of the foregoing, the total amount of the reserve for loss on passenger vessel construction business recorded under extraordinary loss during the fiscal year ended March 31, 2017 amounted to 34,323 million yen ($305,936 thousand).

MHI recognizes the estimated loss associated with its passenger vessel construction business, which will be incurred in the future, as extraordinary loss because it does not regard such loss as one incurred as on ongoing operations.

On the other hand, after delivery to the customer for the first ship, remaining work was carried out during the voyage to Europe, including interior finishing work for some sections on which construction was incomplete at the time of delivery. Because the expenses relating to such work, including expense adjustment with construction contractors, exceeded the amount of reserve already recorded, MHI recognized non-operating expenses of 7,829 million yen ($69,783 thousand) as loss on passenger vessel construction business.

16 COMPENSATION FOR DAMAGES DECIDED IN THE ARBITRATION RELATING TO NUCLEAR EQUIPMENT IN US

On October 16, 2013, U.S. firm Southern California Edison Company and Edison Material Supply LLC (subsequently joined by U.S. firm San Diego Gas & Electric Company and City of Riverside) (the "Claimants") filed a demand for arbitration against MHI and Mitsubishi Nuclear Energy Systems, Inc. ("Mitsubishi") seeking compensation for damages alleging claims including breach of contract (the "Arbitration") regarding the contract for the supply of replacement steam generators for the U.S. San Onofre Nuclear Generating Station (the "Contract"). As of July 15, 2016, the amount of the claim relating to the Arbitration stood at $6.667 billion.

On March 14, 2017, Mitsubishi received the arbitration award from the International Chamber of Commerce (the "ICC"), the arbitral institution in the Arbitration. In the arbitration award, while recognizing the liability of Mitsubishi for compensation for damages to the Claimants, the ICC Tribunal agreed that the limitation of liability contained in the Contract should be upheld, and ordered Mitsubishi to pay $125 million for costs incurred by the Claimants up to the liability cap, which includes adjustments as a result of payments already made by Mitsubishi and accrued interest. The ICC Tribunal also rejected claims made by the Claimants alleging that Mitsubishi had committed fraud and gross negligence. Due to the fact that the majority of the Claimants' allegations were not accepted, the ICC Tribunal ordered the Claimants to pay $58 million of Mitsubishi's fees and costs incurred for the arbitration.

As a result, in the fourth quarter of the fiscal year ended March 31, 2017, MHI recognized an extraordinary loss of 16,076 million yen ($143,292 thousand)in compensation for damages, etc. (includes the amount that Mitsubishi has already paid to the Claimants) based on the Arbitration award as an extraordinary item. In addition, since it became clear that no guarantee work for the repair and replacement of defective equipment would be incurred by Mitsubishi as a result of the Arbitration award, 10,397 million yen ($92,673 thousand), which had been recorded as the reserve for guarantee work expenses for repair and replacement of defective equipment, was reversed and recorded as a reduction in cost of sales in the fourth quarter of the fiscal year ended March 31, 2017.

The reimbursement for Mitsubishi's arbitration expenses of 6,558 million yen ($58,454 thousand), which the Claimants have been ordered to pay to Mitsubishi, was recorded in the fourth quarter of the fiscal year ended March 31, 2017 under "Gain on arbitration expenses awarded in the arbitration relating to nuclear equipment in US" in non-operating income.

17 BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the fiscal years ended March 31, 2017 and 2016 consisted of business reorganization expenses relating to the Energy & Environment business and the Machinery, Equipment & Infrastructure business.

18 IMPAIRMENT LOSS

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

a) Description of the impaired asset group

The impaired asset group consisted mainly of "Buildings and structures" for operating purposes which were located in Germany, China, etc,

b) Method of asset grouping

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

c) Reason to recognize the impairment

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

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

d) Calculation method of recoverable amount

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

e) Impairment loss amount and the breakdown

Breakdown by the income statement accounts	In millions of yen 2017	In thousands of U.S. dollars 2017
"Business structure improvement expenses" under extraordinary loss	¥2,648	$23,602
"Other expenses" under non-operating expense	1,130	10,072
Total	¥3,778	$33,675

Breakdown by the category of assets	In millions of yen 2017	In thousands of U.S. dollars 2017
Buildings and structures	¥1,754	$15,634
Machinery and transportation equipment	1,487	13,254
Intangible assets (Others), etc	536	4,777
Total	¥3,778	$33,675

The following is a description of the impairment loss recognized in the fiscal year ended March 31, 2016.
a) Description of the impaired asset group
The impaired asset group consisted mainly of "Machinery and transportation equipment" for operating purposes which were located in Kanagawa, etc.
b) Method of asset grouping
The principal unit of asset grouping is business units under the strategic evaluation system. Basically, assets for rental purposes, idle assets and assets to be disposed of due to termination or transfer of some operation are each treated as separate asset groups.
c) Reason to recognize the impairment
The book values of some business assets were written down to their recoverable amounts since a short-term recovery of performance cannot be expected due to the deterioration of profitability, and the future cash flows to be derived from the assets have become less than their book values.

For some assets to be disposed of, their book values were written down to their recoverable amounts since they are being phased out in line with the reorganization of operation.
d) Calculation method of recoverable amount
The recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is computed by discounting the future cash flows to be derived from the assets to the present value with the rate of mainly 8%.

e) Impairment loss amount and the breakdown

Breakdown by the income statement accounts	In millions of yen 2016
"Impairment loss" under extraordinary loss	¥3,393
"Business structure improvement expenses" under extraordinary loss	2,138
Total	¥5,532

Breakdown by the category of assets	In millions of yen 2016
Machinery and transportation equipment	¥3,381
Goodwill	1,257
Land, etc.	892
Total	¥5,532

19 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effect on other comprehensive income (loss) for the fiscal years ended March 31, 2017 and 2016 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	2017
Unrealized holding gain (loss) on investment securities			
Gain (loss) arising during the fiscal year	¥ 72,336	¥ (58,063)	$ 644,763
Reclassification adjustments	2,086	(3,118)	18,593
Unrealized holding gain (loss) on investment securities, before tax	74,422	(61,181)	663,356
Deferred taxes relating to unrealized holding gain (loss) on investment securities	(13,508)	18,712	(120,402)
Unrealized holding gain (loss) on investment securities, net of tax	60,914	(42,469)	542,953
Unrealized gain (loss) from hedging instruments			
Gain (loss) arising during the fiscal year	1,126	1,110	10,036
Reclassification adjustments	(458)	(589)	(4,082)
Unrealized gain (loss) from hedging instruments, before tax	668	520	5,954
Deferred taxes relating to unrealized gain (loss) from hedging instruments	(393)	(102)	(3,502)
Unrealized gain (loss) from hedging instruments, net of tax	275	418	2,451
Translation adjustments			
Gain (loss) arising during the fiscal year	(22,881)	(52,822)	(203,948)
Reclassification adjustments	(1,065)	830	(9,492)
Translation adjustments, before tax	(23,946)	(51,992)	(213,441)
Deferred taxes relating to translation adjustments	—	82	—
Translation adjustments, net of tax	(23,946)	(51,910)	(213,441)
Retirement benefits liability adjustments			
Gain (loss) arising during the fiscal year	26,846	(56,966)	239,290
Reclassification adjustments	4,174	5,485	37,204
Retirement benefits liability adjustments, before tax	31,021	(51,481)	276,504
Deferred taxes relating to retirement benefits liability adjustments	(10,127)	16,414	(90,266)
Retirement benefits liability adjustments, net of tax	20,893	(35,066)	186,228
Share of other comprehensive income (loss) of entities accounted for by the equity method			
Gain (loss) arising during the fiscal year	(4,979)	(5,095)	(44,380)
Reclassification adjustments	(1,185)	(1,153)	(10,562)
Share of other comprehensive income (loss) of entities accounted for by the equity method, net of tax	(6,165)	(6,249)	(54,951)
Other comprehensive income (loss) , net of tax	¥ 51,970	¥(135,277)	$ 463,232

20 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Total number of shares issued and treasury stock at March 31, 2017 and 2016 were as follows:

	Type of shares	At March 31, 2016	Increase by March 31, 2017	Decrease by March 31, 2017	At March 31, 2017
Total number of shares issued	Common stock	3,373,647,813	—	—	3,373,647,813
Treasury stock	Common stock	16,140,149	27,539	653,818	15,513,870

(Footnote 1) The number of treasury stock at March 31, 2017 includes 5,735,246 shares held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

(Footnote 2) Reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	27,539

(Footnote 3) Reason for decrease of treasury stock

Disposal resulting from the exercise of share subscription rights, which were issued for the purpose of providing stock options	334,000
Disposal resulting from the implementation of the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II	315,952
Disposal resulting from purchase request from shareholders with shares that were less than the minimum trading unit	3,866
Total	653,818

b) Share subscription rights

	Type of share subscription rights	In millions of yen At March 31, 2017	In millions of yen At March 31, 2016	In thousands of U.S. dollars At March 31, 2017
MHI	Share subscription rights as stock options	¥2,536	¥2,616	$22,604

c) Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Record date	Effective date	Cash dividends per share In yen	Cash dividends per share In U.S. dollars	Total cash dividends paid In millions of yen	Total cash dividends paid In thousands of U.S. dollars
June 23, 2016 Ordinary General Meeting of Shareholders	Common stock	March 31, 2016	June 24, 2016	¥6	$0.0534	¥20,181	$179,882
October 31, 2016 Board of Directors	Common stock	September 30, 2016	December 5, 2016	¥6	$0.0534	¥20,181	$179,882
Total						¥40,362	$359,764

(Footnote 1) Total cash dividends paid in accordance with the resolution by the Ordinary General Meeting of Shareholders held on June 23, 2016 include 36 million yen ($320 thousand) of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

(Footnote 2) Total cash dividends paid in accordance with the resolution by the Board of Directors held on October 31, 2016 include 35 million yen ($311 thousand) of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

(2) Dividends of which record date is within the fiscal year ended March 31, 2017 but the effective date is within the fiscal year ended March 31, 2018

Resolution	Type of shares	Record date	Effective date	Cash dividends per share In yen	Cash dividends per share In U.S. dollars	Total cash dividends paid In millions of yen	Total cash dividends paid In thousands of U.S. dollars
June 22, 2017 Ordinary General Meeting of Shareholders	Common stock	March 31, 2017	June 23, 2017	¥6	$0.0534	¥20,183	$179,900

(Footnote 1) Total cash dividends paid in accordance with the resolution by the Ordinary General Meeting of Shareholders held on June 22, 2017 include 34 million yen ($303 thousand) of cash dividends for the stocks held by the Stock Grant ESOP Trust and the Officer Remuneration BIP Trust I & II.

21 SHARE-BASED COMPENSATION PLANS

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

The share-based compensation expenses, which amounted to 24 million yen in the fiscal year ended March 31, 2016 was included in selling, general and administrative expenses.

a) Conditions for issue of stock options

	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Grantee (Number of individuals)	Directors & executive officers (25)	Directors & executive officers (30)	Directors & executive officers (33)	Executive officers (2)	Directors & executive officers (33)	Directors & executive officers (35)
Number of shares	663,000	400,000	806,000	46,000	1,109,000	1,259,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	Aug 17, 2006	Aug 16, 2007	Aug 18, 2008	Feb 20, 2009	Aug 17, 2009	Aug 17, 2010
Exercise period (from)	Aug 18, 2006	Aug 17, 2007	Aug 19, 2008	Feb 21, 2009	Aug 18, 2009	Aug 18, 2010
(to)	Jun 28, 2036	Aug 16, 2037	Aug 18, 2038	Feb 20, 2039	Aug 17, 2039	Aug 17, 2040

	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Grantee (Number of individuals)	Directors & executive officers (38)	Directors & executive officers (40)	Directors & executive officers (37)	Executive officer (1)	Directors, executive officers & ex-executive officer (37)	Executive officer (1)
Number of shares	1,364,000	1,632,000	800,000	41,000	1,328,000	42,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date	Dec 15, 2011	Aug 16, 2012	Aug 19, 2013	Dec 13, 2013	Aug 18, 2014	May 11, 2015
Exercise period (from)	Dec 16, 2011	Aug 17, 2012	Aug 20, 2013	Dec 14, 2013	Aug 19, 2014	May 12, 2015
(to)	Dec 15, 2041	Aug 16, 2042	Aug 19, 2043	Dec 13, 2043	Aug 18, 2044	May 11, 2045

b) Stock option activity in the fiscal year ended March 31, 2017

	Number of shares					
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Unexercised at March 31, 2016	202,000	118,000	379,000	23,000	784,000	926,000
Granted	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	70,000	14,000	6,000	—	129,000	23,000
Expired	—	—	—	—	—	—
Unexercised at March 31, 2017	132,000	104,000	373,000	23,000	655,000	903,000

	Number of shares					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Unexercised at March 31, 2016	1,021,000	1,323,000	759,000	41,000	1,328,000	42,000
Granted	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	72,000	20,000	—	—	—	—
Expired	—	—	—	—	—	—
Unexercised at March 31, 2017	949,000	1,303,000	759,000	41,000	1,328,000	42,000

c) Price per share

	In yen					
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Weighted-average exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2017	449	411	385	—	471	493
Grant date fair value	443	644	471	194	294	258

	In yen					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Weighted-average exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2017	500	549	—	—	—	—
Grant date fair value	267	260	453	521	512	592

	In U.S. dollars					
	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)	Stock options (9th grant)
Weighted-average exercise price	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2017	4.00	3.66	3.43	—	4.20	4.39
Grant date fair value	3.95	5.74	4.20	1.73	2.62	2.30

	In U.S. dollars					
	Stock options (10th grant)	Stock options (11th grant)	Stock options (12th grant)	Stock options (13th grant)	Stock options (15th grant)	Stock options (16th grant)
Weighted-average exercise price	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Weighted-average market share price when the share subscription rights were exercised in the fiscal year ended March 31, 2017	4.46	4.89	—	—	—	—
Grant date fair value	2.38	2.32	4.04	4.64	4.56	5.28

d) Estimate method of fair value of stock options

No stock options were granted in the fiscal year ended March 31, 2017.

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

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

22 CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at end of year" in the statements of cash flows for the fiscal years ended March 31, 2017 and 2016 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Cash and deposits	**¥248,040**	¥310,523	**$2,210,892**
Time deposits with maturities over three months	**(8,997)**	(12,135)	**(80,194)**
Cash equivalents included in "Other current assets"	**3,360**	1,879	**29,949**
Total	**¥242,404**	¥300,267	**$2,160,656**

23 RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Research and development expenses	**¥160,722**	¥150,690	**$1,432,587**

24 ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2017	2016	**2017**
Accumulated depreciation of property, plant and equipment	**¥2,009,896**	¥2,045,300	**$17,915,108**

25 ASSET RETIREMENT OBLIGATIONS

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

26 CHANGE IN PRESENTATION

a) Consolidated Balance Sheets

(1) Change in presentation of "Indemnification asset for South African project"

"Indemnification asset for South African project", which was included in "Trade receivables" and "Other current assets" in "Current assets" in the previous fiscal year is separately shown from the year ended March 31, 2017 (294,955 million yen, $2,629,066 thousand), due to its increased materiality. The consolidated financial statement for the previous fiscal year was reclassified to reflect this change in presentation.

As a result, 4,836 million yen out of 1,205,689 million yen presented as "Trade receivables" in "Current assets", and 180,471 million yen out of 547,848 million yen presented as "Other current assets" in the consolidated balance sheet for the previous fiscal year was reclassified to 185,038 million yen of "Indemnification asset for South African project".

b) Consolidated Statements of Cash Flows

(1) Change in presentation of "Foreign exchange loss (gain)"

"Foreign exchange loss (gain)", which was included in "Others" under "Cash flows from operating activities" in the previous fiscal year is separately shown from the year ended March 31, 2017 ((8,337) million yen, $(74,311) thousand), due to its increased materiality. The consolidated financial statement for the previous fiscal year was reclassified to reflect this change in presentation.

As a result, 19,090 million yen presented as "Others" under "Cash flows from operating activities" in the consolidated statements of cash flows for the previous fiscal year was reclassified to "Foreign exchange loss (gain)" (22,856 million yen) and "Others" ((3,765) million yen).

27 BUSINESS COMBINATION

1. Finalization of the tentative accounting treatment for business combination

With regard to the acquisition of UniCarriers Holdings Corporation (currently UniCarriers Corporation), which took place on March 31, 2016 and was accounted for using tentative accounting treatment in the fiscal year ended March 31, 2016, the acquisition cost was finalized and the purchase price allocation was revised in the fiscal year ended March 31, 2017 to finalize the accounting treatment.

Accompanying the finalization of the tentative accounting treatment, the adjustments recognized during the fiscal year ended March 31, 2017 to the amount of goodwill are as follows.

	In millions of yen	In thousands of U.S. dollars
Goodwill (before adjustment)	¥ 63,147	$ 562,857
Merchandise and finished products	(2,673)	(23,825)
Work in process	(751)	(6,694)
Raw materials and supplies	(193)	(1,720)
Leased assets (property, plant and equipment)	460	4,100
Intangible assets	(12,163)	(108,414)
Investment securities	(283)	(2,522)
Accrued payables	2,447	21,811
Deferred tax liabilities	4,807	42,846
Non-controlling interests	1,658	14,778
Total adjustments	(6,691)	(59,639)
Goodwill (after adjustment)	¥ 56,455	$ 503,208

Accrued payables are the adjustment amount recognized accompanying the finalization of the acquisition cost. Accompanying this, the revisions have been reflected on the consolidated balance sheet and consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2016.

2. Method and term of amortization

Intangible assets	Straight-line method primarily over 9 years
Goodwill	Straight-line method over 10 years

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

1 We draw attention to Note 10 "CONTINGENT LIABILITIES" (2) "Contingent liabilities relating to change in MRJ delivery timing" to the Consolidated Financial Statements, which describes, 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.

2. We draw attention to Note 12 "INDEMNIFICATION ASSET FOR SOUTH AFRICAN PROJECT" to the Consolidated Financial Statements, which describes, MHI demanded that Hitachi, Ltd. ("Hitachi") pay the price adjustment and other payments regarding the boiler construction projects in the Republic of South Africa. Meanwhile, MHI and Hitachi have still not completed the price adjustment for the South African Asset Transfer at the moment.
Our opinion is not qualified in respect of these matters.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3

Ernst & Young Shinnihon LLC
June 22, 2017

MITSUBISHI
HEAVY INDUSTRIES

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