# MHI FINANCIAL REPORT 2025

For the Year Ended March 31, 2025

Mitsubishi Heavy Industries, Ltd.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ANALYSIS OF OPERATING RESULTS

Orders received by the group ("the Group") of Mitsubishi Heavy Industries, Ltd. ("MHI") in the fiscal year ended March 31, 2025 under review increased to ¥7,071.2 billion, up ¥387.2 billion or 5.8% year on year, amid gains posted by all segments including the Energy Systems segment.

Revenue increased to ¥5,027.1 billion, up ¥370.0 billion or 7.9% year on year, as a result of gains in the Aircraft, Defense & Space segment, Energy Systems segment, and Plants & Infrastructure Systems segment, despite a decrease in the Logistics, Thermal & Drive Systems segment.

Profit from business activities increased to ¥383.1 billion, up ¥100.6 billion or 35.6% year on year, and profit before income taxes rose to ¥374.5 billion, up ¥59.3 billion or 18.8% year on year, due to gains in the Energy Systems segment, Aircraft, Defense & Space segment, and Plants & Infrastructure Systems segment, despite a decrease in the Logistics, Thermal & Drive Systems segment.

Meanwhile, profit attributable to owners of the parent came to ¥245.4 billion, up ¥23.4 billion or 10.6% year on year.

## ANALYSIS OF FINANCIAL POSITION

Due to increases mainly in "Cash and cash equivalents" and "Inventories," assets for the Group increased ¥402.6 billion from the end of the fiscal year ended March 31, 2024, to ¥6,658.9 billion in the fiscal year ended March 31, 2025.

Increases in "Contract liabilities" and other items, resulted in liabilities rising ¥293.4 billion from the end of the fiscal year ended March 31, 2024 to ¥4,189.1 billion.

Due to increases mainly in "Retained earnings" resulting from higher profit attributable to owners of the parent and other items, total equity rose ¥109.1 billion from the end of the fiscal year ended March 31, 2024 to ¥2,469.8 billion.

As a result of the above, the ratio of equity attributable to owners of the parent at the end of the fiscal year ended March 31, 2025 was 35.2%, a decrease of 0.7 percentage points from the 35.9% recorded at the end of the fiscal year ended March 31, 2024.

## SOURCE OF FUNDS AND LIQUIDITY

### Cash Flow Analysis

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the fiscal year ended March 31, 2025 amounted to ¥657.8 billion, an increase of ¥226.5 billion from the end of the fiscal year ended March 31, 2024.

Cash flows for the fiscal year ended March 31, 2025 are as follows.

(Cash flows from operating activities)

Cash flows provided by operating activities totaled ¥530.4 billion, an increase of ¥199.2 billion compared to the fiscal year ended March 31, 2024. This was due primarily to higher "Profit before income taxes" and the acquisition of "Contract liabilities" resulting from expanded orders received.

(Cash flows from investing activities)

Cash flows used in investing activities came to ¥187.7 billion, reflecting an increase in payments of ¥56.6 billion compared to the fiscal year ended March 31, 2024. This was due mainly to increases in "Purchases of PPE and intangible assets" and "Purchases of investments (including investments accounted for using the equity method)."

(Cash flows from financing activities)

Cash flows used in financing activities came to ¥114.1 billion, reflecting a decrease in payments of ¥44.7 billion compared to the fiscal year ended March 31, 2024. This was due mainly to increases in "Proceeds from factoring agreements" and decreases in "Repayment of liabilities under factoring agreements."

**Primary Funding Requirements**

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

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

**Breakdown of Interest-Bearing Debt and its Applications**

The breakdown of interest-bearing debt as of March 31, 2025, was as follows:

| | In billions of yen | | |
|---|---|---|---|
| | Total | Due within one year | Due after one year |
| Short-term borrowings | ¥ 62.3 | ¥ 62.3 | ¥ — |
| Long-term borrowings | 305.6 | 35.9 | 269.6 |
| Bonds | 225.0 | 35.0 | 190.0 |
| Subtotal | 592.9 | 133.2 | 459.6 |
| Non-recourse borrowings | 58.4 | 0.9 | 57.4 |
| **Total** | **¥ 651.3** | **¥ 134.2** | **¥ 517.1** |

The Group is involved in various projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery. Consequently, the Group must secure a stable level of working capital and funds for capital investments. During the fiscal year ended March 31, 2025 under review, the Group worked to continuously generate funds and control working capital even during expansionary phases of the business, while repaying borrowings as they came due. As a result, total interest-bearing debt at the end of the fiscal year ended March 31, 2025 under review was ¥651.3 billion, consisting of ¥134.2 billion due within one year, and ¥517.1 billion due after one year.

The funds procured from the interest-bearing debt mentioned above are utilized as working capital and for capital investments required for business activities. Specifically, the Group plans to use these funds mainly in its growing core businesses that include thermal power systems, nuclear power systems, and defense, etc., as well as in its future growth areas described in the 2024 Medium-Term Business Plan.

**Financial Policy**

The Group funds its working capital and capital investments from cash provided by its operating activities. Any additional requirements can be met with interest-bearing debt.

With regard to the procurement of long-term funds through long-term borrowings and bonds, etc., the Group appropriately determines the amounts and methods of procurement,  taking into account the funding demands based on its business plans, procurement environment including interest rate trends, and the repayment schedule for its existing debt.

On the other hand, in its efforts to reduce interest-bearing debt, the Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, the Group is working to improve asset efficiency by reducing trade receivables and inventories and by raising the utilization rate of its non-current assets.

The Group considers the repurchase of treasury shares by taking a number of factors into consideration, including the state of progress on business plans, performance outlook of MHI, stock price trends, its financial condition, and the financial market environment.

DIVIDEND POLICY

MHI has set a basic policy of implementing returns to shareholders with a dividend on equity ratio (DOE: Dividends paid ÷ Shareholder equity (excluding OCI*)) of 4% or above while considering a balance between "business growth" and "financial soundness."

As decided in MHI's Articles of Incorporation, MHI 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. The authority to decide these dividends from retained earnings lies with the Board of Directors for the interim dividend and with the General Meeting of Shareholders for the year-end dividend.

Taking into full account of business results for the fiscal year under review, its financial position as of the end of the fiscal year under review and others, the year-end dividend was set at ¥12 per share. Together with the interim dividend of ¥11 per share paid in December 2024, this results in ¥23 per share.

Internal reserves will be utilized to further strengthen the Group's corporate structure and enhance the Group's business development going forward.

MHI sets out in its Articles of Incorporation that it may pay interim dividends as stipulated in Article 454, Paragraph 5 of the Companies Act.

* OCI: Other comprehensive income (foreign currency translation adjustments, other valuation adjustments, etc.)

Dividends for the fiscal year under review were as follows:

| Date of resolution | Total cash dividends paid (Millions of yen) | Cash dividends per share (Yen) |
|---|---|---|
| November 5, 2024 Resolution of the Board of Directors | 37,063 | 11 |
| June 27, 2025 Resolution of Annual General Meeting of Shareholders | 40,434 | 12 |

OPERATIONAL RISKS

Certain key risks that management acknowledges have the potential to significantly influence our financial position, operating results, and cash flow status (hereinafter referred to collectively as "operating results, etc.") of the Group are described in (3) below.

The Group comprehensively identifies and visualizes risks that could have a material impact on its business operations. It then integrates such risks into its management cycle every year and preemptively takes conceivable actions to address such risks. However, given difficulties inherent in fully avoiding the materialization of these risks, the Group proceeds with its business activities in line with its business plans while remaining mindful of such risks. It also strives to minimize the impact of risks if they materialize.

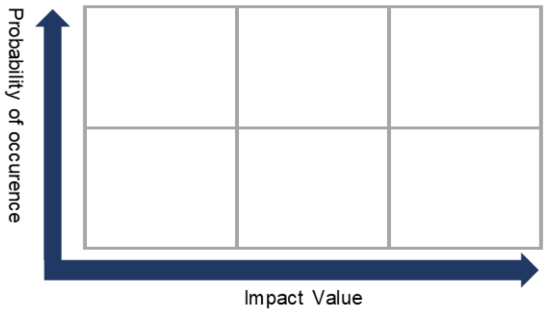
Moreover, such identified and visualized risks include those that may bring about further changes in the business environment and social structure over the medium to long term. As such, the Group recognizes the need to look ahead in taking preemptive actions that makes it possible to address such changes. The Group also draws on such identified and visualized risks as a basis for creating business opportunities.

Forward-looking statements in this document are based on judgments of the Group made as of the end of the fiscal year ended March 31, 2025.

**(1) Process for considering key risks**

The Group has formulated a management process for identifying and discussing risks encountered during the execution of business, based on which a list of risks is created. In identifying risks, we pinpoint specific risks that may materialize within a period of roughly ten years. We then assess such risks to furthermore determine those both that are quantifiable and that could have a material impact on the business of the Group if they were to materialize, taking into account the effects of the countermeasures we have prepared. We subsequently plot the risks onto a risk map based on their potential impact (impact value) and probability of occurrence, as illustrated below. In addition, qualitative risks that are difficult to quantify are also complied and visualized.

Visual representation of risk map




**(2) The Group's actions against risks**

The Group has developed systems designed to respond to each type of risk and responsibilities are clearly defined to ensure the appropriate management of risk. Risk is periodically evaluated and analyzed and necessary avoidance or mitigating measures are taken. The effectiveness and appropriateness of these measures are audited through internal audits and reported to the Board of Directors and the Audit and Supervisory Committee regularly. In addition, to prepare for cases where significant risk materializes, the Group ensures the means to immediately communicate information to senior management to respond promptly and accurately to emergency situations. Individuals responsible for crisis management shall also be appointed in each business division.

The Group has clarified the scope and requirements of risk management in the "Business Risk Management Charter" and complied with and practiced it. In the "Business Risk Management Committee" the information on significant risks is shared and a policy of necessary actions is discussed, at the top management level, clarifying the roles and coordination systems of management personnel, business segments, and corporate departments. Business risk management is also handled across the entire Group under a three-tiered structure developed to ensure a structure that each tier carries out its respective roles. Under the first tier, business segments and operating companies autonomously carry out business risk management. Under the second tier, corporate departments provide support and supervision through risk review of individual projects, etc. Under the third tier, audit departments verify the effectiveness of business risk management processes.

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

**(3) Key risks**

**a) CHANGES IN THE BUSINESS ENVIRONMENT**

(i) Changes in the Business Environment Surrounding the Group

The business environment in which the Group operates is undergoing rapid change and becoming increasingly complex. In terms of international affairs, amid tensions between the United States and China, abrupt shifts in existing policies, intensifying military action in Ukraine and the Middle East, and the rise of populism, etc. are bringing about measures including increasing military budgets worldwide, strengthening of laws and regulations related to security and public safety, restrictions being imposed on various exports for the purpose of economic security, and limits being set on transfers of intellectual property, data, and other assets, and the international order is becoming increasingly fragmented. This has furthermore led to changes in the economic environment particularly with respect to a deteriorating market landscape and rising production costs attributable to surging material prices and shipping expenses.

Whereas worldwide momentum toward decarbonization over the medium to long term remains unchanged amid such changes in the business environment, there has been a downturn with respect to investment in decarbonization projects and noticeable slowdown tendency in the uptake of renewable energy, hydrogen, ammonia, and similar alternatives. Nevertheless, MHI’s practical efforts toward Energy Transition thus far have been well evaluated, with natural gas playing a larger role and opening up business opportunities for MHI in gas turbine combined cycle (GTCC) and other such domains.

In Japan, we face intensifying competition for talent given an escalating labor shortage due to the nation’s declining population, decreasing birthrate, and aging population, combined with increasing mobility of human resources. We are also encountering concerns that include discontinuity of technical expertise and skills, etc. as a result of young people turning away from manufacturing careers and difficulties in securing technical professionals equipped with engineering backgrounds. In addition, we cannot rule out the possibility that our business activities could become temporarily interrupted due to infrastructure shutdowns caused by progressive aging and deterioration of social infrastructure built during the era of high economic growth.

Additionally, in recent years, due to the widespread use of social networking services, etc., everyone is now in an environment where they can send and receive information. If critical evaluations or negative perceptions about MHI are spread, there is a risk that MHI’s credibility and brand value may be damaged.

With the Group having positioned Energy Transition as a component of its growth strategy amid this changing business environment, the GX (Green Transformation) Solutions segment has been promoting the strategy by building a structure equipped with enhanced project management and engineering functions and placing focus on proposing new functions and solutions that anticipate market trends. With regard to M&A and business alliances undertaken in various product areas, moreover, we engage in initiatives to ensure smooth PMI*1 through activities such as monitoring and screening at the point of entry. We are also striving to strengthen our technological and human capital base in part by visualizing expert skills using digital technologies to facilitate skill succession.

*1. PMI: Post Merger Integration

(ii) Potential Impact on Operating Results, etc.

In light of the rapid and increasingly complex transformation of the worldwide business environment described above, in the case that the Group faces a difficulty in maintaining or a decline of its competitiveness due to restrictions on the Group’s business activities in such areas as participation in business discussions and selection of suppliers as well as sharp volatility in exchange rates, soaring raw material prices and shipping expenses, labor shortages and hollowing-out of manufacturing centers in Japan, or loss of societal reputation and trust, the Group’s operating results and other conditions are potentially subject to material impact. In regard to decarbonization, moreover, the Group’s operating results and other conditions are potentially subject to material impact from developments that may include significant delays incurred in implementing MHI’s products and services such as CCS*2 and hydrogen, accompanying a situation where the Group encounters slower progress in decarbonization than was assumed at the time its business plan was formulated as a result of moves to find a realistic point of landing while aiming for decarbonization as a whole. Additionally, in businesses such as thermal power systems, vehicular turbochargers, and chemical plant-related engineering, there is a potential that the demand for products and services would diminish and its business scale would be reduced and that recouping invested capital would become difficult if more stringent environmental regulations are imposed, and the Group’s operating results and other conditions are potentially subject to material impact from a slowdown of the service business, etc. as accompanying decisions by customers themselves to cease operations of thermal power plants. Furthermore, whereas the Group engages in M&As and business alliances with other companies in its various product-based businesses, it may encounter unforeseen circumstances that include changes in the market environment, decline in business competitiveness, or revision of management strategies by other companies. Accordingly, the Group’s operating results and other conditions are potentially subject to material impact including the need to recognize impairment losses by reviewing the asset evaluation if any such event prevents the Group from progressing as

planned with such M&As and business alliances.
*2. CCS: Carbon dioxide Capture and Storage

**b) DISASTERS**

(i) Natural Disasters, War, and Acts of Terrorism, etc.

Disasters have the potential to cause both material and human loss, disruption of smooth economic activity and social foundation. Such force majeure events include but are not limited to the occurrence, or more frequent occurrence of earthquakes, tsunamis, torrential rains, floods, storms, volcanic eruptions, fires, lightning strikes, pandemics and other acts of nature, and the enlargement of the damage caused by such events. Other potential events include war, acts of terrorism, political unrest, anti-Japan movements, crimes such as hostage taking or abduction, unlawful detention, social infrastructure paralysis, labor disputes, power outages, equipment deterioration or malfunction, work-related accidents, and other inconveniences or major incidents. It is also expected that climate change will lead to enlargement of the effects of natural disasters. The Group takes steps to mitigate these impacts by making use of tools to support disaster countermeasures, engaging in business continuity management in part by establishing and developing communication structures and business continuity plans, regularly inspecting plants, strengthening facilities against seismic events, and regularly arranging various forms of training. It also maintains appropriate insurance coverage, while furthermore gathering information on the safety and circumstances of various countries, responding with actions taking such considerations into account, and cooperating with relevant governmental agencies.

(ii) Potential Impact on Operating Results, etc.

The Group has product and service supply facilities all over the world, with a particular concentration of production facilities notably in Japan and Thailand. In the event of large-scale natural disasters such as earthquakes, tsunamis or floods in those countries and regions, there could be material impacts on the production capacity of the Group. Specific examples include loss of or damage to production equipment, supply chain paralysis or disruption, shortages of materials and parts or suspension of services necessary to production, reduced operation or idling of production plants, as well as loss of alternative production equipment or suppliers, and damage not covered by insurance, etc. The resulting decline in orders and revenues would have the potential to materially impact the Group’s operating results and other conditions.

**c) PRODUCT- AND SERVICE-RELATED PROBLEMS**

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

As a global leader in manufacturing and engineering, the Group leverages advanced technologies to provide solutions for a wide range of fields, from Energy, Plants & Infrastructure Systems, through Logistics, Thermal & Drive Systems, to Aircraft, Defense & Space Systems. The Group makes unceasing efforts to improve the quality and reliability of its products, but there is nevertheless the potential for problems with product performance or delivery delay, or safety issues that arise in the use of our products. Other potential problems include rising manufacturing costs stemming from factors including changes in specifications or process delays, occurrence of problems associated with materials and parts procurement or construction work, claims for damages and contract cancellations from customers due to delivery delays or underperformance of the products, or deterioration in customers’ financial solvency. There is also the potential for similar problems arising from products, services or quality in relations with our suppliers or collaborative partners. Our ability to engage in production activities and provide products and services to customers could become subject to adverse impacts of events that may include: a situation where it is not possible to arrange an alternative supplier should it become no longer possible to continue transactions with a supplier of a specific raw material or part that is important and allows limited substitution because the supplier has become subject to bankruptcy, closure, or other such circumstances; a situation where a supplier faces a shortage of labor, quality issues, process disruptions, or other such concerns. In addition, our advanced manufacturing technology serves as a strength of the Group amid a situation where product value has been shifting more toward software control and data utilization rather than physical performance due to AI advancements in recent years. However, there is a possibility that this competitive advantage could decline in relative terms.

The Group takes steps to mitigate these risks, such as through the formulation and operation of regulations, the development and upgrade of business risk management structures, prior screening and post-order monitoring of individual projects, education for those responsible for project implementation, and executives such as business division managers, and continuously holding product safety seminars. In addition, the Group summarizes the causes and countermeasures of large loss-making projects that occurred in the past and ensures that internal education reflects the conclusions so as to prevent recurrences. The Group also works to strengthen its supply chain.

(ii) Potential Impact on Operating Results, etc.

The occurrence of such product- and service-related problems could lead to additional costs, compensation for damages paid to customers and suppliers, and the loss of societal reputation and trust. Customers, suppliers and other third parties may bring legal action or arbitration against the Group in Japan or overseas, to which the Group will respond. The Group will put forth its utmost efforts so that its claims are acknowledged in court or in arbitration, but the potential for a case to nevertheless be ruled against us cannot be ignored. Furthermore, burdens of compensation and other payments the Group is ultimately required to make may not necessarily be fully covered by various insurances. In addition to such product-and service-related problems, deterioration in the business conditions or changes in business policies of important customers, suppliers, or collaborative partners for which alternatives are limited, could also have a significant impact on the Group’s operating results and other conditions.

**d) INTELLECTUAL PROPERTY ISSUES**

(i) Violation of the Group’s Intellectual Property and Violation of the Intellectual Property of Third Parties by the Group, etc.

The Group values its intellectual property, which comprises the outcomes of its R&D, as an important management resource, and puts it to use globally. However, there is nevertheless the potential for instances of intellectual property infringement claims against the Group by third parties. Additionally, the potential for a case where current or former employees file a lawsuit regarding compensation for employee inventions cannot be ignored.

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

(ii) Potential Impact on Operating Results, etc.

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

**e) CYBERSECURITY PROBLEMS, ETC.**

(i) Occurrence of Cybersecurity Incidents, etc.

The Group possesses large amounts of confidential information of customers and regarding the Group’s technologies, operations, and other aspects of business in the execution of its business activities, and our operational dependency on information technology is increasing. In the event that increasingly sophisticated and shrewd cyberattacks exceed the level we currently anticipate, leading to infection by malware, unauthorized access and other unforeseen circumstances, confidential information could be lost or leaked outside the Group. It is also possible that such cyberattacks could affect business operations, such as production activities at factories.

We formulate a cybersecurity promotion structure under the control of the CTO*3 against such risks. Under this structure, we continue to strengthen our cybersecurity governance, which includes initiatives such as developing standards, conducting self-assessments/inspections, raising awareness/education/training, implementing defense measures, and developing detection systems.

*3. CTO: Chief Technology Officer

(ii) Potential Impact on Operating Results, etc.

If information leaks were to occur, they would substantially reduce our competitiveness and damage our societal reputation and trust, which could seriously impact the execution of our business. In addition to becoming the target of investigations by the authorities, such events could risk claims for damages or other action being brought against us by our customers. Furthermore, if cyberattacks were to result in obstacles to the use of servers and other equipment, this could have a significant impact on the execution of operations, and lead to impacts on production activities, and provision of goods and services to customers.

**f) LEGAL AND REGULATORY VIOLATIONS, ETC.**

(i) Significant Legal and Regulatory Violations, etc.

The Group conducts business in accordance with various domestic and overseas laws and regulations. These include laws and regulations related to taxation, the environment, and labor and occupational health and safety; economic laws and regulations such as antitrust laws, laws against delay in payment to subcontractors, and anti-dumping laws; laws and regulations related to bribery, trade and exchange; business-related laws and regulations, such as the construction industry law; the securities listing regulations at financial instrument exchanges; and law on the protection of personal information (all of which are hereinafter collectively referred to as “laws and regulations”). We also have to be responsible regarding human rights including those within supply chain. While ensuring compliance by our officers and employees, we take rigorous measures and instill awareness for that as a matter that we should never trade risk for return. Specifically, MHI has formulated and operated the “MHI Group Global Code of Conduct,” which is aimed at all officers and employees of the Group and various other policies. In addition, the Group holds periodic meetings of the Compliance Committee, has developed a whistleblowing system, conveys messages from management on the importance of thorough compliance with laws and regulations, enhances and implements internal education on compliance, information management, and brand strategy, etc. on an ongoing basis, performs internal audits that take into account outstanding issues in each department, and conducts human rights due diligence to ensure business activities respecting human rights. However, we cannot rule out the possibility that some officers or employees may violate laws and regulations, etc. or cause human rights violation.

(ii) Potential Impact on Operating Results, etc.

In the event of legal or regulatory violations, etc., the Group may become subject to investigation or examination by the relevant authorities. Furthermore, the Group may be subject to administrative penalties, such as fines, reassessment, determination, the payment of surcharges, suspension of business, prohibition of exports, or other steps, or claims for damages or other actions may be brought against us by authorities or other interested parties. Moreover, in the event that laws and regulations have been infringed, or there is a human rights violation, the Group may have an impact such as a situation where the business operation of the Group become difficult, and may lead to the loss of societal reputation and trust. Taking into account the nature of the Group, anti-monopoly laws in Japan and overseas, laws and regulations related to bribery, trade and foreign exchange, the construction industry law, and laws against delays in payments to subcontractors could have a particularly significant impact on the Group.

AUDIT FEES

**(1) Fees for MHI’s Accounting Auditor**

(Millions of yen)

| Category | 2024 | | 2025 | |
|---|---|---|---|---|
| | Fees for audit services | Fees for non-audit services | Fees for audit services | Fees for non-audit services |
| MHI | 442 | 37 | 492 | 95 |
| Consolidated subsidiaries | 245 | 6 | 250 | — |
| Total | 687 | 43 | 743 | 95 |

Non-audit services provided to MHI include advisory services concerning sustainability disclosure.
Other than the above table, additional fees based on audit services provided to MHI and consolidated subsidiaries in the fiscal year ended March 31, 2024, amounted to ¥88 million.

**(2) Fees for organizations that belong to the same network as MHI’s Accounting Auditor (KPMG) (excluding (1))**

(Millions of yen)

| Category | 2024 | | 2025 | |
|---|---|---|---|---|
| | Fees for audit services | Fees for non-audit services | Fees for audit services | Fees for non-audit services |
| MHI | — | 84 | — | 202 |
| Consolidated subsidiaries | 1,184 | 676 | 1,277 | 962 |
| Total | 1,184 | 760 | 1,277 | 1,164 |

Non-audit services provided to MHI include advisory services concerning the project to improve efficiency of purchases of indirect materials.
Non-audit services provided to consolidated subsidiaries include advisory services concerning tax.

## Consolidated Financial Statements [IFRS]

### Consolidated Statement of Financial Position

(Millions of yen)

| | Notes | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 5, 10 | 431,287 | 657,816 |
| Trade and other receivables | 6, 10, 23, 34 | 916,011 | 984,684 |
| Other financial assets | 7, 10, 34 | 39,771 | 41,959 |
| Contract assets | 23, 34 | 776,399 | 791,871 |
| Inventories | 11, 23 | 974,577 | 1,062,532 |
| Other current assets | 20 | 281,895 | 372,766 |
| Total current assets | | 3,419,942 | 3,911,632 |
| Non-current assets: | | | |
| Property, plant and equipment(“PPE”) | 12, 14 | 908,448 | 935,096 |
| Goodwill | 13, 14 | 172,493 | 172,947 |
| Intangible assets | 13, 14 | 93,786 | 87,269 |
| Right-of-use assets | 14, 17 | 93,496 | 86,996 |
| Investments accounted for using the equity method | 16 | 268,978 | 295,172 |
| Other financial assets | 7, 10, 34 | 538,126 | 470,907 |
| Deferred tax assets | 15 | 297,017 | 259,942 |
| Other non-current assets | 14, 20 | 463,969 | 438,960 |
| Total non-current assets | | 2,836,316 | 2,747,292 |
| Total assets | | 6,256,259 | 6,658,924 |

See accompanying notes to the consolidated financial statements.

(Millions of yen)

| | Notes | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|---|
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Current liabilities: | | | |
| Bonds, borrowings and other financial liabilities | 9, 10, 34 | 379,210 | 280,528 |
| Trade and other payables | 8, 10, 34 | 958,891 | 930,281 |
| Income taxes payable | | 55,228 | 25,282 |
| Contract liabilities | 23 | 1,095,138 | 1,443,983 |
| Provisions | 18 | 216,220 | 229,032 |
| Other current liabilities | 20 | 235,829 | 237,191 |
| Total current liabilities | | 2,940,518 | 3,146,299 |
| Non-current liabilities: | | | |
| Bonds, borrowings and other financial liabilities | 9, 10, 34 | 763,754 | 850,746 |
| Deferred tax liabilities | 15 | 9,987 | 9,594 |
| Retirement benefit liabilities | 19 | 73,165 | 72,042 |
| Provisions | 18 | 79,747 | 72,102 |
| Other non-current liabilities | 20 | 28,429 | 38,315 |
| Total non-current liabilities | | 955,085 | 1,042,801 |
| Total liabilities | | 3,895,604 | 4,189,101 |
| Equity | 36 | | |
| Share capital | 21 | 265,608 | 265,608 |
| Capital surplus | 21 | 41,187 | 44,742 |
| Treasury shares | | (4,828) | (16,452) |
| Retained earnings | 21 | 1,433,267 | 1,588,643 |
| Other components of equity | 29 | 509,385 | 464,159 |
| Equity attributable to owners of the parent | | 2,244,620 | 2,346,702 |
| Non-controlling interests | 29 | 116,034 | 123,121 |
| Total equity | | 2,360,654 | 2,469,823 |
| Total liabilities and equity | | 6,256,259 | 6,658,924 |

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Profit or Loss

(Millions of yen)

| | Notes | 2024 | 2025 |
|---|---|---|---|
| Revenue | 23 | 4,657,147 | 5,027,176 |
| Cost of sales | | 3,727,034 | 3,995,935 |
| Gross profit | | 930,112 | 1,031,241 |
| Selling, general and administrative expenses | 24 | 695,342 | 716,941 |
| Share of profit (loss) of investments accounted for using the equity method | 16 | 2,149 | (2,754) |
| Other income | 25 | 63,595 | 98,762 |
| Other expenses | 25 | 17,973 | 27,110 |
| Profit from business activities | | 282,541 | 383,198 |
| Finance income | 27 | 49,945 | 13,645 |
| Finance costs | 27 | 17,298 | 22,313 |
| Profit before income taxes | | 315,187 | 374,531 |
| Income taxes | 15 | 71,622 | 112,533 |
| Profit | | 243,565 | 261,997 |
| Profit attributable to: | | | |
| Owners of the parent | | 222,023 | 245,447 |
| Non-controlling interests | | 21,542 | 16,549 |

(In yen)

| | | 2024 | 2025 |
|---|---|---|---|
| Earnings per share attributable to owners of the parent | 28 | | |
| Basic earnings per share | | 66.07 | 73.04 |
| Diluted earnings per share | | 66.04 | 73.02 |

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Notes | 2024 | 2025 |
|---|---|---|---|
| Profit | | 243,565 | 261,997 |
| Items that will not be reclassified to profit or loss: | | | |
| Net gains from financial assets measured at FVTOCI | 10, 29 | 58,624 | (42,506) |
| Remeasurement of defined benefit plans | 19, 29 | 173,848 | (8,581) |
| Share of other comprehensive income of entities accounted for using the equity method | 16, 29 | 329 | 872 |
| Total | | 232,803 | (50,215) |
| Items that may be reclassified to profit or loss: | | | |
| Cash flow hedges | 29, 34 | (1,488) | 1,100 |
| Exchange differences on translating foreign operations | 29 | 99,394 | (10,660) |
| Share of other comprehensive income of entities accounted for using the equity method | 16, 29 | 13,641 | 991 |
| Total | | 111,547 | (8,568) |
| Total other comprehensive income | | 344,350 | (58,784) |
| Comprehensive income | | 587,916 | 203,213 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | | 556,434 | 186,470 |
| Non-controlling interests | | 31,482 | 16,742 |

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

(Millions of yen)

| | Notes | Equity attributable to owners of the parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Capital surplus | Treasury shares | Retained earnings | Other components of equity | Total | | |
| Balance as of April 1, 2023 | | 265,608 | 41,256 | (5,385) | 1,243,565 | 195,929 | 1,740,974 | 93,010 | 1,833,984 |
| Profit | | | | | 222,023 | | 222,023 | 21,542 | 243,565 |
| Other comprehensive income | 29 | | | | | 334,411 | 334,411 | 9,939 | 344,350 |
| Comprehensive income | | ― | ― | ― | 222,023 | 334,411 | 556,434 | 31,482 | 587,916 |
| Transfer to retained earnings | | | | | 20,937 | (20,937) | ― | | ― |
| Purchase of treasury shares | | | | (39) | | | (39) | | (39) |
| Disposal of treasury shares | | | 22 | 96 | | | 118 | | 118 |
| Dividends | 22 | | | | (50,398) | | (50,398) | (6,898) | (57,296) |
| Others | | | (91) | 499 | (2,860) | (18) | (2,469) | (1,560) | (4,028) |
| Total transactions with owners | | ― | (68) | 557 | (53,258) | (18) | (52,788) | (8,458) | (61,246) |
| Balance as of March 31, 2024 | | 265,608 | 41,187 | (4,828) | 1,433,267 | 509,385 | 2,244,620 | 116,034 | 2,360,654 |
| Profit | | | | | 245,447 | | 245,447 | 16,549 | 261,997 |
| Other comprehensive income (loss) | 29 | | | | | (58,977) | (58,977) | 193 | (58,784) |
| Comprehensive income (loss) | | ― | ― | ― | 245,447 | (58,977) | 186,470 | 16,742 | 203,213 |
| Transfer to retained earnings | | | | | (13,742) | 13,742 | ― | | ― |
| Purchase of treasury shares | | | | (12,174) | | | (12,174) | | (12,174) |
| Disposal of treasury shares | | | 20 | 50 | | | 71 | | 71 |
| Dividends | 22 | | | | (77,321) | | (77,321) | (7,943) | (85,264) |
| Others | | | 3,533 | 500 | 993 | 8 | 5,035 | (1,711) | 3,323 |
| Total transactions with owners | | ― | 3,554 | (11,623) | (76,328) | 8 | (84,388) | (9,655) | (94,044) |
| Balance as of March 31, 2025 | | 265,608 | 44,742 | (16,452) | 1,588,643 | 464,159 | 2,346,702 | 123,121 | 2,469,823 |

Consolidated Statement of Cash Flows

(Millions of yen)

| | Notes | 2024 | 2025 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Profit before income taxes | | 315,187 | 374,531 |
| Depreciation, amortization and impairment loss | | 155,899 | 160,643 |
| Finance income and costs | | (32,582) | 6,623 |
| Share of profit of investments accounted for using the equity method | | (2,149) | 2,754 |
| Loss (gain) on sale of PPE, and intangible assets | | (29,028) | (70,510) |
| Loss on disposal of PPE, and intangible assets | | 7,594 | 10,399 |
| Decrease (increase) in trade receivables | | (60,305) | (29,668) |
| Decrease (increase) in contract assets | | (29,697) | (56,725) |
| Decrease (increase) in inventories and advanced payments | | (70,402) | (147,467) |
| Increase (decrease) in trade payables | | 20,734 | 13,481 |
| Increase (decrease) in contract liabilities | | 118,637 | 361,023 |
| Increase (decrease) in provisions | | (3,445) | 8,094 |
| Increase (decrease) in retirement benefit liabilities | | 14,938 | 17,821 |
| Others | 25 | (38,908) | (26,260) |
| Subtotal | | 366,472 | 624,739 |
| Interest received | | 9,630 | 10,804 |
| Dividends received | 25 | 15,467 | 15,796 |
| Interest paid | | (11,181) | (14,457) |
| Income taxes paid | | (49,201) | (106,424) |
| Net cash provided by operating activities | | 331,186 | 530,459 |

(Millions of yen)

| | Notes | 2024 | 2025 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Payments into fixed-term deposits | | (25,556) | (26,780) |
| Proceeds from withdrawal of fixed-term deposits | | 18,728 | 24,825 |
| Purchases of PPE and intangible assets | | (160,486) | (240,692) |
| Proceeds from sales of PPE and intangible assets | | 37,263 | 76,474 |
| Purchases of investments (including investments accounted for using the equity method) | | (11,892) | (63,885) |
| Proceeds from sales and redemption of investments (including investments accounted for using the equity method) | | 63,174 | 58,672 |
| Payments for sales of businesses (including subsidiaries) | | ― | (1,475) |
| Payments for acquisition of businesses (including subsidiaries) | | (73,589) | (1,509) |
| Net decrease (increase) in short-term loans | | 1,420 | 519 |
| Disbursement of long-term loans | | (417) | (15,675) |
| Collection of long-term loans | | 102 | 121 |
| Payments for derivative transactions | | (52,232) | (100,520) |
| Proceeds from derivative transactions | | 76,619 | 108,484 |
| Others | | (4,181) | (6,273) |
| Net cash provided by (used in) investing activities | | (131,048) | (187,714) |

(Millions of yen)

| | Notes | 2024 | 2025 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Net increase (decrease) in short-term borrowings | 9 | 9,284 | (9,389) |
| Proceeds from long-term borrowings | 9 | 23,000 | 9,012 |
| Repayment of long-term borrowings | 9 | (64,649) | (76,629) |
| Proceeds from issuance of bonds | 9 | 25,000 | 30,000 |
| Payment for redemption of bonds | 9 | (15,000) | (30,000) |
| Payments for acquisition of interests in subsidiaries from non-controlling interests | | (1,024) | (1,806) |
| Dividends paid to owners of the parent | 22 | (50,289) | (77,165) |
| Dividends paid to non-controlling interests | | (8,511) | (7,659) |
| Payments for purchase of treasury shares | | (239) | (12,366) |
| Proceeds from factoring agreements | 9 | 171,544 | 283,678 |
| Repayment of liabilities under factoring agreements | 9 | (215,845) | (192,643) |
| Repayment of lease liabilities | 9 | (30,380) | (27,834) |
| Others | | (1,791) | (1,318) |
| Net cash provided by (used in) financing activities | | (158,903) | (114,123) |
| Effect of exchange rate changes on cash and cash equivalents | | 42,388 | (2,091) |
| Net increase (decrease) in cash and cash equivalents | | 83,623 | 226,529 |
| Cash and cash equivalents at the beginning of the year | 5 | 347,663 | 431,287 |
| Cash and cash equivalents at the end of the year | 5 | 431,287 | 657,816 |

See accompanying notes to the consolidated financial statements.

1. Reporting Entity

Mitsubishi Heavy Industries, Ltd. (hereinafter referred to as "MHI") is a company incorporated in Japan. MHI's consolidated financial statements consist of accounts of MHI and its consolidated subsidiaries. Based on the four reporting segments "Energy Systems", "Plants & Infrastructure Systems", "Logistics, Thermal & Drive Systems" and "Aircraft, Defense & Space", the Group is engaged in the development, manufacture, sale and after-sale service of a wide variety of products.

2. Basis of Preparation

(1) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), pursuant to the provisions set forth in Article 312 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, as the Group meets the requirements of a "Specified Company" prescribed in Article 1-2 of said ordinance.

These consolidated financial statements were approved by MHI's President Eisaku Ito on June 27, 2025.

(2) Presentation of currency

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

(3) Basis of measurement

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

(4) Standards and interpretations not yet applied

The new accounting standard and guideline that has been issued or amended by the date of approval of the consolidated financial statements but has not been applied as of March 31, 2025 since application is not mandatory is as follows.

The fiscal year of first application and the impact of the new accounting standard on the consolidated financial statements are under review.

| No. | Title | Mandatory Application | Description of the New Standard or the Amendment |
|---|---|---|---|
| IFRS 18 | Presentation and Disclosure in Financial Statements | Annual periods beginning on or after January 1, 2027 | Stipulates the requirements mainly for the presentation and disclosure of the financial performance in statement of profit or loss |

(5) Use of estimates and judgments

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

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

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

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

- Recoverable amount of non-financial assets (Note 3. “Material Accounting Policies (10) Impairment of non-financial assets”, 14. “Impairment of non-financial assets”, 16. “Investments Accounted for Using the Equity Method”)
- Measurement of provisions (Note 3. “Material Accounting Policies (11) Provisions”, 18. “Provisions”)
- Measurement of defined benefit obligations (Note 3. “Material Accounting Policies (12) Post-employment benefits”, 19. “Employee Benefits”)
- Measurement of revenue (Note 3. “Material Accounting Policies (13) Revenue”, 23. “Revenue”)
- Recoverability of deferred tax assets (Note 3. “Material Accounting Policies (17) Income taxes”, 15. “Income Taxes”)

(6) Change in presentation

(Consolidated Statement of Cash Flows)

The Group presents independently “Payments for acquisition of treasury stock” because of increased materiality in the fiscal year ended March 31, 2025, while presenting it in “Others” of “Cash flows from financing activities” in the fiscal year ended March 31, 2024. The figures for the fiscal year ended March 31, 2024 have been reclassified to reflect this change. Consequently, in the consolidated statement of cash flows, ¥(2,030) million presented as the “Other” of “Cash flows from financing activities” are recalculated into “Payments for purchase of treasury shares” ¥(239) million and “Others” ¥(1,791) million.

3. Material Accounting Policies

(1) Basis of consolidation

a) Subsidiaries

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

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

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

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

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

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

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

(2) Business combinations

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

Goodwill is measured as the difference between the fair value of consideration transferred in the acquisition of the entity less the net recognized amount of identifiable assets acquired and liabilities assumed as at the date of acquisition. If the fair value of consideration transferred in the acquisition is lower than the net recognized amount of assets acquired and liabilities assumed, the difference is recognized as profit. When consideration for the business combination transferred from the Group includes assets or liabilities arising from a contingent consideration arrangement, it is measured at fair value on the acquisition date and is included as part of the above consideration transferred in the acquisition.

Non-controlling interests are measured principally at their proportionate share of the acquiree’s identifiable net assets.

(3) Foreign currency translation

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

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

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

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

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

(4) Financial instruments

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

a) Non-derivative financial assets

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

・The financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

・The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Equity instruments are measured at fair value.

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

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

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

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

b) Non-derivative financial liabilities

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

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

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

c) Derivative transactions and hedge accounting

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

Derivative transactions are initially recognized at fair value on the date when the Group becomes a party to the contract, and related transaction costs are expensed as incurred. After the initial recognition, they are measured at fair value with changes in the fair value recognized in profit or loss, unless they are designated as the hedging instrument in a cash flow hedge. When applying hedge accounting, the Group formally designates and documents the hedging relationship, the risk management objective and strategy at the inception of a hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and the methods of assessing hedge effectiveness. The Group assesses whether the hedging relationship is effective prospectively on an ongoing basis.

The Group applies the following accounting treatment for derivative transactions that meet the requirements for hedge accounting.

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

When applying a cash flow hedge to a currency swap contract, the Group designates the portion other than the currency basis spread as the hedging instrument and treats the currency basis spread as costs of hedging, and recognizes changes in its fair value in other components of equity through other comprehensive income. The cash flow hedge accumulated in other components of equity is transferred to profit or loss in the same period during which cash flows of the hedged item affect profit or loss. However, when the hedged item is associated with acquisition of a non-financial asset, such amount is accounted for as an adjustment to the initial acquisition cost of the non-financial asset. When the Group recognizes the costs of hedging for a derivative transaction entered into in order to hedge a time-period related hedged item, it transfers the cumulative costs of hedging accumulated in other components of equity to profit or loss on a systematic and rational basis over the period during which the hedge adjustment from the hedging instrument could affect profit or loss.

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

d) Impairment of financial assets

For financial assets measured at amortized cost, the Group determines, at the end of each reporting period, whether credit risk on the asset has increased significantly since initial recognition. If the credit risk has increased significantly, a loss allowance at an amount equal to lifetime expected credit losses is recognized. If no significant increase in the credit risk is identified, a loss allowance at an amount equal to 12-month expected credit losses is recognized. However, for trade receivables and contract assets, loss allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, regardless of whether or not the credit risk has increased significantly since the initial recognition.

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

e) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset only if the Group currently has a legally enforceable right to offset recognized amounts and intend to settle net or to realize assets and settle liabilities simultaneously, and the net amount is presented in the consolidated statement of financial position.

(5) Cash and cash equivalents

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

(6) Inventories

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

The inventory valuation method is as follows:

・Merchandise and finished goods: principally moving average method
・Work in progress: principally specific identification method
・Raw materials and supplies: principally moving average method

(7) Property, plant and equipment (“PPE”)

PPE are presented at cost less accumulated depreciation and impairment losses, using the cost model. Cost includes any costs directly attributable to the acquisition of assets, dismantling costs, removal costs, and restoration costs for the site where the PPE have been located. PPE are depreciated using the straight-line method over the estimated useful lives except for assets that are not depreciated, such as land.

The estimated useful lives of major property, PPE are as follows:

・Buildings and structures: 2 to 70 years
・Machinery and vehicles: 2 to 20 years
・Tools, furniture and fixtures: 2 to 20 years

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

(8) Intangible assets

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

- Software: 3 to 10 years
- Technologies recognized through business combination: 7 to 25 years
- Customer relationship recognized through business combination: 2 to 25 years
- Others: 3 to 15 years

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

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

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

(9) Leases

a) Leases as lessor

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

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

b) Leases as lessee

For leases as lessee, the Group recognizes assets and liabilities under an on-balance sheet accounting model. The Group recognizes a right-of-use asset which represents the right to use the underlying leased asset and a lease liability which represents the obligation to make lease payments for all leases at the lease commencement date. The Group measures right-of-use assets and lease liabilities as follows. For short-term leases with a lease term of 12 months or less and leases of low value, however, the Group has elected not to recognize right-of-use assets and lease liabilities.

(i) Right-of-use assets

Right-of-use assets are measured at cost, which mainly comprises the amount of the initial measurement of the lease liability adjusted for any initial direct costs incurred and any prepaid lease payments made at or before the commencement date. After initial recognition, right-of-use assets are measured, at cost less any accumulated depreciation and any accumulated impairment losses, using the cost model. Right-of-use assets are depreciated on a straight-line basis over the period until the earlier of the end of the useful life or the end of the lease term.

(ii) Lease liabilities

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

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

(10) Impairment of non-financial assets

With regard to PPE and intangible assets, the Group determines whether there is any indication of impairment at the end of the reporting period. If any such indication exists, the Group performs an impairment test by estimating the recoverable amount of the asset. With regard to goodwill and intangible assets with indefinite useful lives, the Group performs an impairment test annually and whenever there is any indication of impairment.

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

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

(11) Provisions

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

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

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

(12) Post-employment benefits

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

a) Defined benefit plans

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

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

b) Defined contribution plans

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

(13) Revenue

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

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

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

Of incremental costs of obtaining contracts with customers and fulfillment costs directly related to contracts, the portion that is expected to be recoverable is recognized as assets and is regularly amortized over the transfer of related goods or services to customers. Incremental costs of obtaining contracts with customers are costs that would not be incurred if the contract is not obtained.

Requirements for revenue recognition of the Group are as follows.

a) Sale of products

For this transaction, the Group typically recognizes revenue at the time of the delivery of the goods, as the performance obligations in the contracts with customers are considered to be satisfied principally at the time that the products are delivered and control of the relevant goods is transferred to the customer. Revenue from the sale of goods is measured at an amount of consideration promised in the contract with the customer less sales returns, discounts, rebates, taxes collected on behalf of third parties and others.

b) Rendering of services and construction contracts

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

(14) Profit from business activities

“Profit from business activities” on the consolidated statement of profit or loss is presented as a measure that enables continuous comparison and assessment of the Group’s business performance.

“Profit from business activities” is calculated by subtracting “cost of sales”, “selling, general and administrative expenses” and “other expenses” from “revenue” and adding “share of profit of investments accounted for using the equity method” and “other income” to the resulting amount.

“Other income” and “other expenses” consist of dividend income, gains or losses on sales of fixed assets, impairment losses on fixed assets, and others. Dividend income from shares and investments in capital held by the Group, where the investment is held by the Group over the long term due to business operation requirements, such as collaborating with other companies, is included in profit from business activities as the results of the business. Dividend income is recognized when the Group’s right to receive the dividend income is established.

(15) Finance income and costs

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

(16) Government grants

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

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

・The grants are paid to the Group.

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

(17) Income taxes

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

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

Deferred taxes are recognized in relation to temporary differences arising from differences between the carrying amount of assets and liabilities for accounting purposes and the related carrying amount for tax purposes, unused tax losses and unused tax credits. Based on management plans taking into account tax implications and others, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized.

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

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

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

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

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

4. Operating Segment

(1) Overview of reporting segments

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

The Group manages its businesses by business domains and segments. Each business domain and segment engages in its business activities by formulating comprehensive strategies on products and services which are provided in both domestic and overseas markets. Therefore, MHI aggregates its business domain segments into four reportable segments, “Energy Systems”, “Plants & Infrastructure Systems”, “Logistics, Thermal & Drive Systems”, and “Aircraft, Defense & Space”, by considering similarities of each business domain’s and segment’s customers and product characteristics.

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

| | |
|---|---|
| Energy Systems | Thermal power generation systems (Gas turbine combined cycle [“GTCC”] and Steam power), Nuclear power generation system (Light-water reactors, Nuclear fuel cycle & Advanced solutions), Wind power generators, Engines for aircrafts, Compressors, Air Quality Control System ["AQCS"], Marine machinery |
| Plants & Infrastructure Systems | Metals machinery, Commercial ships, Engineering, Environmental systems, Mechatronics systems |
| Logistics, Thermal & Drive Systems | Material handling equipment, Air-conditioning & refrigeration systems, Engines, Turbochargers, Automotive thermal systems |
| Aircraft, Defense & Space | Commercial aircraft, Defense aircraft, Missile systems, Naval ships, Maritime systems (torpedoes), Special vehicles, Space systems |

In order to further strengthen its Energy Transition initiatives, MHI established Green Transformation (GX) Solutions as a new business domain and reorganized some other businesses at the beginning of the fiscal year ended March 31, 2025. GX Solutions includes Engineering and other businesses and is included within the Plants & Infrastructure Systems reporting segment. Additionally, based on the new medium-term business plan, revisions were made to the positioning and management structures of the businesses and some products and services previously included within the “Corporate & Eliminations” column have become the businesses of which financial results should be assessed and managed as revenue-making businesses. As a result, these businesses are reported on the “Others” column.

The segment information for the fiscal year ended March 31, 2024 is restated to reflect these changes.

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

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

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

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Millions of yen)

| | Reporting segment | | | | | Others *1 | Total | Corporate & Eliminations *2 | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Energy Systems | Plants & Infrastructure Systems | Logistics, Thermal & Drive Systems | Aircraft, Defense & Space | Reporting segments total | | | | |
| Revenue | | | | | | | | | |
| Revenue from external customers | 1,714,615 | 796,684 | 1,310,359 | 790,342 | 4,612,001 | 32,501 | 4,644,502 | 12,644 | 4,657,147 |
| Inter-segment revenue and transfers | 9,050 | 36,531 | 4,229 | 1,205 | 51,015 | 672 | 51,688 | (51,688) | — |
| Total | 1,723,665 | 833,215 | 1,314,588 | 791,547 | 4,663,016 | 33,174 | 4,696,191 | (39,043) | 4,657,147 |
| Segment profit *3 | 149,865 | 44,737 | 72,818 | 72,692 | 340,115 | 15,854 | 355,969 | (73,427) | 282,541 |
| Finance income | | | | | | | | | 49,945 |
| Finance costs | | | | | | | | | 17,298 |
| Profit before income taxes | | | | | | | | | 315,187 |
| Other items | | | | | | | | | |
| Depreciation and amortization | 37,663 | 11,907 | 59,929 | 26,280 | 135,780 | 3,793 | 139,574 | 10,551 | 150,126 |
| Impairment losses | 875 | 473 | 3,206 | 285 | 4,841 | — | 4,841 | 932 | 5,773 |
| Share of profit of investments accounted for using the equity method | 7,456 | 1,864 | 256 | 68 | 9,645 | (8,852) | 793 | 1,356 | 2,149 |

For the fiscal year ended March 31, 2025 (from April 1, 2024 to March 31, 2025)

(Millions of yen)

| | Reporting segment | | | | | Others *1 | Total | Corporate & Eliminations *2 | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Energy Systems | Plants & Infrastructure Systems | Logistics, Thermal & Drive Systems | Aircraft, Defense & Space | Reporting segments total | | | | |
| Revenue | | | | | | | | | |
| Revenue from external customers | 1,803,878 | 806,177 | 1,302,671 | 1,029,291 | 4,942,018 | 73,215 | 5,015,233 | 11,943 | 5,027,176 |
| Inter-segment revenue and transfers | 11,918 | 45,935 | 4,430 | 1,354 | 63,638 | 1,259 | 64,897 | (64,897) | — |
| Total | 1,815,796 | 852,112 | 1,307,101 | 1,030,646 | 5,005,656 | 74,474 | 5,080,131 | (52,954) | 5,027,176 |
| Segment profit *3 | 205,356 | 59,634 | 49,321 | 99,984 | 414,295 | 30,002 | 444,297 | (61,099) | 383,198 |
| Finance income | | | | | | | | | 13,645 |
| Finance costs | | | | | | | | | 22,313 |
| Profit before income taxes | | | | | | | | | 374,531 |
| Other items | | | | | | | | | |
| Depreciation and amortization | 40,028 | 11,459 | 60,623 | 27,383 | 139,494 | 8,230 | 147,724 | 10,465 | 158,190 |
| Impairment losses | 735 | 70 | 1,194 | 44 | 2,044 | — | 2,044 | — | 2,044 |
| Share of profit of investments accounted for using the equity method | 10,591 | 1,967 | (359) | 1,208 | 13,407 | (18,154) | (4,747) | 1,993 | (2,754) |

*1. “Others” includes businesses related to growth areas such as electrification and data center business and asset businesses which are not included in the reporting segments.
*2. The “Corporate & Eliminations” includes revenues and expenses which are not included in any of the reporting segments. Specifically, income from utilization and disposal of assets, corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.
*3. The segment profit represents profit from business activities.

(4) Information by product and service

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

(5) Breakdown by geographical market

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

a) Revenue from external customers

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Japan | 1,950,028 | 2,188,019 |
| U.S.A. | 1,053,196 | 1,111,761 |
| Asia | 701,020 | 758,448 |
| Europe | 480,010 | 474,712 |
| Central and South America | 175,402 | 157,225 |
| Africa | 31,465 | 59,537 |
| Middle East | 148,397 | 135,802 |
| Others | 117,625 | 141,668 |
| Total | 4,657,147 | 5,027,176 |

The major countries or regions in the category of the above table are as follows:
(i) Asia... China, Singapore, India, Taiwan, South Korea, Thailand, Vietnam, Indonesia, Philippines, Macao, Malaysia, Hong Kong, and Bangladesh
(ii) Europe... Germany, United Kingdom, Netherlands, France, Uzbekistan, Spain, Italy, Poland, Austria, Finland, Sweden, Belgium, Denmark, Ireland, Serbia, Greece, Russia, and Hungary
(iii) Central and South America... Mexico, Brazil, Panama, and Chile
(iv) Africa... South Africa, Egypt, and Algeria
(v) Middle East... Saudi Arabia, Qatar, Turkey, United Arab Emirates, Oman, Bahrain, Kuwait, and Israel
(vi) Others... Canada and Australia

b) Non-current assets

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Japan | 868,052 | 870,065 |
| Overseas subtotal | 495,755 | 498,943 |
| Total | 1,363,808 | 1,369,009 |

In the above table, financial instruments, investments accounted for using the equity method, deferred tax assets, and assets for retirement benefits are not included.

(6) Information about major customers

Major external customer from which revenue accounts for 10% or more of the revenue recorded in the consolidated statement of profit or loss was Ministry of Defense. Its revenue mainly belonged to the reporting segment of Aircraft, Defense & Space and the amount of revenue was ¥489,778 million and ¥704,181 million for the fiscal year ended March 31, 2024 and March 31, 2025, respectively.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Cash and deposits | 430,807 | 657,785 |
| Cash equivalents | 479 | 30 |
| Total | 431,287 | 657,816 |

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

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Trade receivables | 825,445 | 897,727 |
| Others | 90,566 | 86,956 |
| Total | 916,011 | 984,684 |

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

In the above table, the amounts of trade and other receivables to be collected after 12 months as of March 31, 2024 and March 31, 2025, were ¥30,724 million and ¥36,317 million, respectively.

7. Other Financial Assets

(1) Breakdown of other financial assets

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Financial assets at FVTPL | | |
| Derivative assets *1 | 5,261 | 6,295 |
| Financial assets at FVTOCI | | |
| Shares and other investments in capital | 443,746 | 358,272 |
| Financial assets measured at amortized cost | | |
| Fixed-term deposits due more than three months | 25,527 | 26,972 |
| Long-term loans | 3,831 | 19,150 |
| Receivables under service concession agreements *2 | 73,962 | 71,707 |
| Others | 25,567 | 30,469 |
| Total | 577,897 | 512,867 |

| | | |
|---|---|---|
| Current assets | 39,771 | 41,959 |
| Non-current assets | 538,126 | 470,907 |
| Total | 577,897 | 512,867 |

*1. Derivative assets at FVTPL

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

*2. Receivables under service concession agreements measured at amortized cost

A service concession arrangement is an arrangement between the “grantor” (national and local governments) and the “operator” (a private sector entity) to provide services that gives the access to public services to the operator. The Group recognizes receivables under service concession agreements as financial assets measured at amortized cost, which are included as "Other financial assets." The service concession agreement under which the Group recognizes receivables expires in 2046, but there is the renewal option held by the grantor.

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

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

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

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Marketable securities *1 | 279,559 | 190,182 |
| Non-marketable securities *2 | 164,187 | 168,089 |
| Total | 443,746 | 358,272 |

*1. Marketable securities designated as FVTOCI

Major marketable securities designated as FVTOCI, of entities in which the Group invests, as of March 31, 2024 and March 31, 2025, are as follows:

As of March 31, 2024

(Millions of yen)

| Entity name | Fair value |
|---|---|
| Vestas Wind Systems A/S | 106,612 |
| Central Japan Railway Company | 27,617 |
| Nippon Yusen Kabushiki Kaisha | 25,072 |
| The Kansai Electric Power Company, Inc. | 13,156 |
| Mitsubishi Motors Corporation | 10,911 |
| Coca-Cola Bottlers Japan Holdings Inc. | 8,691 |
| Tokyo Electric Power Company Holdings, Inc. | 7,644 |
| East Japan Railway Company | 5,648 |
| Kyushu Electric Power Company, Inc. | 5,471 |
| Japan Engine Corporation | 4,899 |

As of March 31, 2025

(Millions of yen)

| Entity name | Fair value |
|---|---|
| Vestas Wind Systems A/S | 52,050 |
| Central Japan Railway Company | 21,153 |
| Nippon Yusen Kabushiki Kaisha | 15,146 |
| The Kansai Electric Power Company, Inc. | 10,626 |
| Coca-Cola Bottlers Japan Holdings Inc. | 9,564 |
| Mitsubishi Motors Corporation | 8,820 |
| East Japan Railway Company | 5,712 |
| The Japan Steel Works, Ltd. | 5,268 |
| Kyushu Electric Power Company, Inc. | 5,189 |
| Mitsubishi Research Institute, Inc. | 4,577 |

*2. Non-marketable securities designated as FVTOCI

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

Major securities included in “nuclear energy related companies” are Japan Nuclear Fuel Service Limited and Orano S.A. The total fair value of nuclear energy related securities as of March 31, 2024 and March 31, 2025, were ¥45,597 million and ¥45,954 million, respectively.

Major securities included in “chemical plant related companies” are Amjad Oman Investment Holding LLC, Shama Development Holding LLC and Japan Trinidad Methanol Company, Inc. The total fair value of chemical plant related securities as of March 31, 2024 and March 31, 2025, were ¥34,836 million and ¥40,014 million, respectively.

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

b) Dividend income from financial assets at FVTOCI

The followings are the amounts of dividend income from financial assets at FVTOCI that were recognized for the fiscal years ended March 31, 2024 and March 31, 2025.

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Dividend income from investments derecognized during the year | 1,215 | 845 |
| Dividend income from investments held as of the year end | 9,964 | 10,704 |
| Total | 11,180 | 11,549 |

c) Financial assets at FVTOCI derecognized

The followings are the fair values, at the date of derecognition, of derecognized financial assets at FVTOCI, and the associated accumulated gains or losses, and the amounts transferred to retained earnings during the fiscal years ended March 31, 2024 and March 31, 2025.

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Fair value at the date of derecognition | 56,706 | 26,000 |
| Accumulated gains | 34,420 | 18,125 |

Accumulated gains or losses that have been recognized as other components of equity are transferred from other components of equity to retained earnings when the fair value of financial assets measured at FVTOCI decreases significantly or when they are derecognized. Accumulated gains or losses transferred to retained earnings are for those investments that were sold or otherwise disposed of and derecognized as a result of reviewing business relationships and those investments where the fair value decreased significantly. The amounts transferred to retained earnings for the fiscal years ended March 31, 2024 and March 31, 2025 were ¥20,937 million and ¥(13,742) million, respectively.

8. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Trade payables | 845,356 | 862,404 |
| Others | 113,535 | 67,876 |
| Total | 958,891 | 930,281 |

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

9. Bonds, Borrowings and Other Financial Liabilities

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Financial liabilities measured at amortized cost | | |
| Bonds *1 | 225,000 | 225,000 |
| Short-term borrowings *2, 3, 4 | 72,074 | 62,307 |
| Long-term borrowings *2, 3 | 371,153 | 305,621 |
| Non-recourse borrowings *2, 3 | 60,755 | 58,458 |
| Others | 86,596 | 77,653 |
| Financial liabilities at FVTPL | | |
| Derivative liabilities *5 | 9,737 | 6,331 |
| Liabilities under factoring agreements *6 | 200,552 | 288,041 |
| Lease liabilities | 117,094 | 107,861 |
| Total | 1,142,964 | 1,131,274 |

| | | |
|---|---|---|
| Current liabilities | 379,210 | 280,528 |
| Non-current liabilities | 763,754 | 850,746 |
| Total | 1,142,964 | 1,131,274 |

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

(Millions of yen)

| Company name<br>Issue name | Date of issue | As of March 31, 2024 | As of March 31, 2025 | Interest rate | Date of maturity |
|---|---|---|---|---|---|
| Mitsubishi Heavy Industries, Ltd. | | | | | |
| The 29th Unsecured Corporate Bond | Sep 3, 2014 | 30,000 | — | 0.662% | Sep 3, 2024 |
| The 31st Unsecured Corporate Bond | Sep 2, 2015 | 10,000 | 10,000 | 0.630% | Sep 2, 2025 |
| The 33rd Unsecured Corporate Bond | Aug 31, 2016 | 10,000 | 10,000 | 0.240% | Aug 31, 2026 |
| The 35th Unsecured Corporate Bond | Aug 29, 2017 | 10,000 | 10,000 | 0.330% | Aug 27, 2027 |
| The 36th Unsecured Corporate Bond | Nov 24, 2020 | 25,000 | 25,000 | 0.140% | Nov 21, 2025 |
| The 37th Unsecured Corporate Bond | Nov 24, 2020 | 40,000 | 40,000 | 0.390% | Nov 22, 2030 |
| The 38th Unsecured Corporate Bond | Sep 1, 2021 | 15,000 | 15,000 | 0.090% | Sep 1, 2026 |
| The 39th Unsecured Corporate Bond | Sep 1, 2021 | 40,000 | 40,000 | 0.270% | Sep 1, 2031 |
| The 40th Unsecured Corporate Bond | Sep 8, 2022 | 10,000 | 10,000 | 0.310% | Sep 8, 2027 |
| The 41st Unsecured Corporate Bond | Sep 8, 2022 | 10,000 | 10,000 | 0.629% | Sep 8, 2032 |
| The 42nd Unsecured Corporate Bond | Aug 31, 2023 | 10,000 | 10,000 | 0.459% | Aug 31, 2028 |
| The 43rd Unsecured Corporate Bond | Aug 31, 2023 | 15,000 | 15,000 | 0.962% | Aug 31, 2033 |
| The 44th Unsecured Corporate Bond | Sep 5, 2024 | — | 10,000 | 0.700% | Sep 5, 2029 |
| The 45th Unsecured Corporate Bond | Sep 5, 2024 | — | 20,000 | 1.302% | Sep 5, 2034 |
| Total | | 225,000 | 225,000 | | |

*2. The interest rates on and repayment dates of borrowings

The weighted average interest rate for short-term borrowings applicable to the fiscal year ended March 31, 2025, is 1.07%.

The weighted average interest rate for long-term and non-recourse borrowings applicable to the fiscal year ended March 31, 2025, is 1.12%.

Long-term borrowings will be due in 2025 through 2043.

*3. Secured borrowings:

Not applicable.

*4. Offsetting of financial assets and financial liabilities

The Group has notional pooling agreements with external financial institutions.

The Group offset “Bonds, borrowings, and other financial liabilities“ and “Cash and cash equivalents“ recognized with the same counterparty and presented the net amount on the consolidated statement of financial position:

・Bonds, borrowings, and other financial liabilities: The gross amount of liabilities under the agreement was ¥14,999 million and was offset in full.

・Cash and cash equivalents: The gross amount of assets under the agreement was ¥15,337 million, of which ¥14,999 million was offset against the above liabilities , and the remaining ¥337 million is presented on a net basis.

There were no financial assets or financial liabilities offset and presented in the consolidated statement of financial position under this agreement as of March 31, 2024.

*5. Derivatives at FVTPL

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

*6. Liabilities under factoring agreements

The Group converts trade receivables and other receivables into cash pursuant to asset transfer contracts as a measure of financing.

For the factoring agreements that were recognized as liabilities and were not due for payment as of March 31, 2024, the discount rates applied at the conclusion of the contracts were calculated taking into account interest rates applicable to ordinary borrowing contracts.

For assets that were transferred to third parties pursuant to a factoring agreement with recourse obligation on the Group in the event of non-payment by the debtor, the underlying assets are not derecognized because such transfers do not qualify for derecognition. The payment for these factoring agreements will be due in 2025 through 2030.

Additionally, receivables arising from contract assets and PPE under other factoring deals which do not qualify for derecognition are not derecognized.

The amounts of trade receivables, contract assets and PPE transferred without qualifying for derecognition on March 31, 2024 were ¥22,985 million, ¥109,448 million and ¥63,065 million and the amount on March 31, 2025 are ¥10,769 million, ¥213,229 million and ¥58,829 million, respectively. These amounts are included in “Trade and other receivables”, “Contract assets” and “PPE” in the consolidated statement of financial position.

(2) Changes in liabilities arising from financing activities

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Millions of yen)

| | Carrying amount as of April 1, 2023 | Cash flows | Non-cash transactions | | | | Carrying amount as of March 31, 2024 |
|---|---|---|---|---|---|---|---|
| | | | Changes in fair value | Foreign currency translation | New contracts | Other movements *1 | |
| Bonds | 215,000 | 10,000 | ― | ― | ― | ― | 225,000 |
| Short-term borrowings | 61,933 | 9,284 | ― | 956 | ― | (100) | 72,074 |
| Long-term borrowings | 406,468 | (36,433) | ― | 129 | ― | 988 | 371,153 |
| Non-recourse borrowings | 59,019 | (5,216) | ― | 6,547 | ― | 405 | 60,755 |
| Liabilities under factoring agreements | 240,644 | (44,301) | ― | 6,166 | ― | (1,956) | 200,552 |
| Lease liabilities | 118,655 | (30,380) | ― | 6,608 | 20,384 | 1,826 | 117,094 |
| Other liabilities *2 | 15,735 | (1,382) | ― | ― | ― | (307) | 14,046 |
| Total | 1,117,457 | (98,430) | ― | 20,407 | 20,384 | 857 | 1,060,676 |

For the fiscal year ended March 31, 2025 (from April 1, 2024 to March 31, 2025)

(Millions of yen)

| | Carrying amount as of April 1, 2024 | Cash flows | Non-cash transactions | | | | Carrying amount as of March 31, 2025 |
|---|---|---|---|---|---|---|---|
| | | | Changes in fair value | Foreign currency translation | New contracts | Other movements *1 | |
| Bonds | 225,000 | ― | ― | ― | ― | ― | 225,000 |
| Short-term borrowings | 72,074 | (9,389) | ― | (90) | ― | (286) | 62,307 |
| Long-term borrowings | 371,153 | (66,602) | ― | (5) | ― | 1,076 | 305,621 |
| Non-recourse borrowings | 60,755 | (1,013) | ― | (297) | ― | (986) | 58,458 |
| Liabilities under factoring agreements | 200,552 | 91,035 | ― | (591) | ― | (2,955) | 288,041 |
| Lease liabilities | 117,094 | (27,834) | ― | (1,073) | 22,354 | (2,679) | 107,861 |
| Other liabilities *2 | 14,046 | (531) | ― | ― | ― | 353 | 13,867 |
| Total | 1,060,676 | (14,337) | ― | (2,057) | 22,354 | (5,478) | 1,061,157 |

*1. “Other movements” under Non-cash transactions includes changes arising from obtaining or losing control of subsidiaries or other businesses.

*2. Cash flows related to “Other liabilities” are included in “Others” under cash flows from financing activities in the consolidated statement of cash flows.

10. Fair Value Measurements

(1) Method of fair value measurement

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

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

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

b) Bonds and borrowings

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

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

c) Other financial assets, and other financial liabilities

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

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

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

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

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

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

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

As of March 31, 2024

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Securities and investments in capital | 279,559 | ― | 164,187 | 443,746 |
| Derivatives | ― | 4,582 | 679 | 5,261 |
| Total | 279,559 | 4,582 | 164,867 | 449,008 |
| Liabilities: | | | | |
| Derivatives | ― | 9,737 | ― | 9,737 |
| Total | ― | 9,737 | ― | 9,737 |

As of March 31, 2025

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Securities and investments in capital | 190,182 | — | 168,089 | 358,272 |
| Derivatives | — | 4,872 | 1,422 | 6,295 |
| Total | 190,182 | 4,872 | 169,512 | 364,567 |
| Liabilities: | | | | |
| Derivatives | — | 6,331 | — | 6,331 |
| Total | — | 6,331 | — | 6,331 |

Financial assets measured at fair value are separately presented as “Other financial assets” in both the current assets and non-current assets sections of the consolidated statement of financial position. Similarly, financial liabilities measured at fair value are separately presented as “Bonds, borrowings and other financial liabilities” in both the current liabilities and non-current liabilities sections.
The Group determines at the end of each reporting period whether there are transfers between levels of the fair value. There were no such transfers between levels for the fiscal years ended March 31, 2024 and March 31, 2025.

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

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Millions of yen)

| | Balance as of April 1, 2023 | Purchase | Changes in fair value *1 | Sale | Others *2 | Balance as of March 31, 2024 |
|---|---|---|---|---|---|---|
| Securities and investments in capital | 163,246 | 8,513 | 17,468 | (1,912) | (23,127) | 164,187 |

For the fiscal year ended March 31, 2025 (from April 1, 2024 to March 31, 2025)

(Millions of yen)

| | Balance as of April 1, 2024 | Purchase | Changes in fair value *1 | Sale | Others | Balance as of March 31, 2025 |
|---|---|---|---|---|---|---|
| Securities and investments in capital | 164,187 | 5,285 | 2,403 | (4,910) | 1,123 | 168,089 |

*1. “Changes in fair value” indicates changes in fair value of financial assets at FVTOCI. This change is included in “Net gains from financial assets measured at FVTOCI” in the consolidated statement of comprehensive income.
*2. “Others” for the fiscal year ended March 31, 2024 includes a decrease of ¥28,614 million, etc., which was reclassified to “Investments accounted for using the equity method” based on the increased influence of the Group.

There were no material changes for derivative assets and liabilities for the fiscal years ended March 31, 2024 and March 31, 2025.

The financial instruments categorized within Level 3 are assessed in accordance with the valuation policies and procedures approved by the responsible person of the Financial Management Division.
Of which, the fair values of non-marketable equity instruments are measured using valuation methods such as the market multiple method based on comparable public companies and the discounted cash flow method. The significant unobservable inputs used for the market multiple method based on comparable public companies are the price-to-book ratios of comparable companies; the estimated fair value of these instruments would increase (decrease) if the PBR were higher (lower). The PBR was distributed within a range from 0.8 to 2.5 times for the

fiscal year ended March 31, 2024, and within a range from 0.7 to 2.3 times for the fiscal year ended March 31, 2025.
The significant unobservable inputs used for the discounted cash flow method are the discount rates applied; the estimated fair value of these instruments would increase (decrease) if the discount rate were higher (lower). The discount rates applied ranged between 8.2% and 13.3% for the fiscal year ended March 31, 2024 and between 8.2% and 13.3% for the fiscal year ended March 31, 2025.

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

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

(Millions of yen)

| | As of March 31, 2024 | | As of March 31, 2025 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets measured at amortized cost | | | | |
| Receivables under service concession arrangements | 73,962 | 72,285 | 71,707 | 70,520 |
| Financial liabilities measured at amortized cost | | | | |
| Bonds | 225,000 | 221,297 | 225,000 | 216,071 |
| Long-term borrowings | 371,153 | 361,235 | 305,621 | 290,500 |
| Non-recourse borrowings | 60,755 | 60,755 | 58,458 | 58,458 |

Financial liabilities measured at amortized cost, which are included in this table, are classified as current or non-current under “Bonds, borrowings and other financial liabilities”.
For financial assets and liabilities measured at amortized cost that are not included in the above table, liabilities under factoring agreements, and lease receivables, the carrying amount approximates the fair value. In terms of fair value measurement, bonds are categorized within Level 2, and all others are categorized within Level 3.

## 11. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Merchandise and finished products | 316,417 | 334,228 |
| Work in progress | 421,309 | 473,774 |
| Raw materials and supplies | 195,915 | 216,515 |
| Capitalized contract costs | 40,934 | 38,015 |
| Total | 974,577 | 1,062,532 |

The amounts of inventories to be used or sold after more than 12 months from the year-end were ¥116,698 million and ¥110,898 million as of March 31, 2024 and March 31, 2025, respectively.
Write-downs or reversal of write-downs (negative is a reversal) of inventories recognized as expenses for the fiscal years ended March 31, 2024 and March 31, 2025 were ¥2,657 million and ¥(698) million, respectively. The reversal as of March 31, 2025 is due to an increase in net realizable value.
For details of the contract costs included in inventories, refer to Note 23. “Revenue.”

12. PPE

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

(1) Book values

(Millions of yen)

| | Buildings and structures | Machinery and transportation equipment | Tools, equipment and furniture | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 315,887 | 271,567 | 48,334 | 155,924 | 48,098 | 839,813 |
| Acquisition | 21,633 | 49,795 | 4,685 | 593 | 117,194 | 193,902 |
| Depreciation * | (22,495) | (64,403) | (24,949) | ― | ― | (111,848) |
| Impairment | (91) | (1,839) | (851) | (28) | (1,211) | (4,022) |
| Transfer of accounts | 38,431 | 44,618 | 25,840 | (713) | (116,824) | (8,647) |
| Transfer to held-for-sale | (309) | (6,165) | (77) | (1,762) | (32) | (8,348) |
| Sales or disposals | (1,474) | (5,175) | (140) | (1,076) | (1,227) | (9,093) |
| Exchange differences | 6,729 | 14,584 | 2,242 | 1,273 | 1,190 | 26,021 |
| Other changes | (2,671) | (6,561) | (670) | 0 | 575 | (9,328) |
| As of March 31, 2024 | 355,639 | 296,421 | 54,414 | 154,210 | 47,761 | 908,448 |
| Acquisition | 12,652 | 30,694 | 3,683 | 5 | 136,662 | 183,698 |
| Depreciation * | (24,056) | (68,673) | (26,550) | ― | ― | (119,280) |
| Impairment | (104) | (583) | (222) | (41) | (797) | (1,748) |
| Transfer of accounts | 31,941 | 52,003 | 27,402 | 99 | (108,741) | 2,705 |
| Transfer to held-for-sale | (459) | (5,884) | (48) | (3,246) | ― | (9,639) |
| Sales or disposals | (1,724) | (2,178) | (589) | (5,854) | (2,882) | (13,228) |
| Exchange differences | (727) | (495) | 6 | 93 | (369) | (1,492) |
| Other changes | (1,116) | (4,817) | (156) | 1,163 | (9,438) | (14,365) |
| As of March 31, 2025 | 372,043 | 296,486 | 57,939 | 146,431 | 62,195 | 935,096 |

(2) Acquisition cost

(Millions of yen)

| | Buildings and structures | Machinery and transportation equipment | Tools, equipment and furniture | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 862,912 | 1,381,343 | 532,271 | 156,755 | 55,888 | 2,989,171 |
| As of March 31, 2024 | 922,062 | 1,434,823 | 542,312 | 155,019 | 48,408 | 3,102,626 |
| As of March 31, 2025 | 948,648 | 1,451,221 | 550,435 | 147,258 | 62,768 | 3,160,330 |

(3) Accumulated depreciation and accumulated impairment losses

(Millions of yen)

| | Buildings and structures | Machinery and transportation equipment | Tools, equipment and furniture | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 547,025 | 1,109,776 | 483,936 | 831 | 7,789 | 2,149,358 |
| As of March 31, 2024 | 566,423 | 1,138,401 | 487,897 | 808 | 646 | 2,194,178 |
| As of March 31, 2025 | 576,604 | 1,154,734 | 492,495 | 827 | 572 | 2,225,234 |

* Depreciation is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

13. Goodwill and Intangible Assets

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

(1) Book values

(Millions of yen)

| | Goodwill | Technologies recognized through business combinations | Customer relations recognized through business combinations | Software | Others | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 131,181 | 11,790 | 12,690 | 19,975 | 25,705 | 201,343 |
| Acquisition | — | — | — | 4,430 | 2,100 | 6,531 |
| Acquisition through business combinations | 36,618 | 299 | 20,238 | 88 | 9,677 | 66,922 |
| Amortization *1 | — | (1,840) | (2,591) | (7,349) | (4,296) | (16,077) |
| Impairment | — | — | — | (668) | (120) | (789) |
| Transfer of accounts | — | — | — | 1,704 | (955) | 748 |
| Transfer to held-for-sale | — | — | — | — | (1) | (1) |
| Sale or disposal | — | — | — | (210) | (179) | (389) |
| Exchange differences | 4,692 | 1,374 | 1,731 | 672 | 2,938 | 11,410 |
| Other changes | 0 | — | — | (4,038) | 620 | (3,418) |
| As of March 31, 2024 | 172,493 | 11,623 | 32,069 | 14,604 | 35,489 | 266,280 |
| Acquisition | — | — | — | 5,550 | 4,073 | 9,624 |
| Acquisition through business combinations | 1,423 | — | — | — | — | 1,423 |
| Amortization *1 | — | (1,929) | (3,485) | (5,640) | (3,945) | (15,000) |
| Impairment | — | — | — | (154) | — | (154) |
| Transfer of accounts | — | — | (57) | 106 | (327) | (278) |
| Transfer to held-for-sale | — | — | — | (20) | — | (20) |
| Sale or disposal | — | — | — | (76) | (3) | (80) |
| Exchange differences | (830) | (111) | (334) | (155) | (500) | (1,931) |
| Other changes | (139) | — | — | 487 | 5 | 353 |
| As of March 31, 2025 | 172,947 | 9,583 | 28,192 | 14,702 | 34,791 | 260,216 |

(2) Acquisition cost

(Millions of yen)

| | Goodwill | Technologies recognized through business combinations | Customer relations recognized through business combinations | Software | Others | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 256,020 | 31,851 | 30,866 | 65,348 | 86,306 | 470,394 |
| As of March 31, 2024 | 309,543 | 35,750 | 54,928 | 59,904 | 105,505 | 565,633 |
| As of March 31, 2025 | 308,580 | 35,373 | 54,315 | 55,840 | 107,012 | 561,121 |

(3) Accumulated amortization and accumulated impairment losses

(Millions of yen)

| | Goodwill | Technologies recognized through business combinations | Customer relations recognized through business combinations | Software | Others | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 124,838 | 20,060 | 18,175 | 45,373 | 60,601 | 269,051 |
| As of March 31, 2024 | 137,050 | 24,127 | 22,859 | 45,299 | 70,016 | 299,353 |
| As of March 31, 2025 | 135,632 | 25,789 | 26,122 | 41,138 | 72,221 | 300,904 |

* Amortization recognized on the amortizable Intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

14. Impairment of Non-Financial Assets

The Group impaired some of its operating assets by reducing the carrying amount to the recoverable amount because the profitability of such assets is no longer expected. The impairment losses are included in “Other expenses” in the consolidated statement of profit or loss.
In terms of impairment losses by reporting segment, in either the fiscal year ended March 31, 2024 or the fiscal year ended March 31, 2025, no material impairment losses are recognized.

Impairment test for goodwill

As described in Note 3. “Material Accounting Policies (10) Impairment of non-financial assets”, the Group performs impairment tests annually, or whenever there is an indication of impairment.
Since goodwill does not generate independent cash flows, the Group estimates the recoverable amount of goodwill together with non-financial assets such as other PPE and performs impairment tests on them. The total amount of non-financial assets including goodwill subject to the impairment testing, were ¥1,278,431 million, and ¥1,296,194 million as of March 31, 2024 and March 31, 2025, respectively.
The recoverable amount is measured at the value in use. The value in use is calculated as the discounted present value of the future cash flows projected based on the business plans approved by management, reflecting historical experience and external information, and the growth rate. The Group establishes the business plans consist of the key points such as trends of future revenue and gross margin ratios, and reduction of fixed costs, which would have significant impacts on the projection. These are based on factors considered reasonable by management.
For impairment tests of goodwill, the weighted average cost of capital for each CGU was used as a discount rate. The discount rates (before tax) used for the impairment tests were 6.2% to 10.2%, and 6.8% to 13.3% for the fiscal years ended March 31, 2024 and March 31, 2025, respectively. Growth rates were (0.5)% to 3.0%, and (0.5)% to 6.8% for the fiscal years ended March 31, 2024 and March 31, 2025, respectively.
The total amount of the Group's goodwill at the end of the fiscal year, were ¥172,493 million, and ¥172,947 million as of March 31, 2024 and March 31, 2025, respectively.
The breakdown of the carrying amount of goodwill by CGU is as follows:

The balance of carrying amount of major goodwill by CGU

(Millions of yen)

<table>
<tr><td colspan="2"></td><td>Material handling equipment</td><td>Industrial power solutions</td><td>Steam power</td><td>GTCC</td><td>Metals machinery</td></tr>
<tr><td colspan="2">As of March 31, 2024</td><td>58,784</td><td>37,083</td><td>25,735</td><td>22,015</td><td>21,759</td></tr>
<tr><td colspan="2">As of March 31, 2025</td><td>58,679</td><td>37,983</td><td>28,271</td><td>21,969</td><td>21,582</td></tr>
<tr><td rowspan="2">Key factors used for impairment tests for the fiscal year ended March 31, 2025</td><td>Discount rate (before tax)</td><td colspan="5">6.8% ～ 9.2%</td></tr>
<tr><td>Growth rate</td><td colspan="5">(0.5)% ～ 6.8%</td></tr>
</table>

No impairment loss of goodwill allocated to five main CGUs stated above was recognized in either the fiscal year ended March 31, 2024 or the fiscal year ended March 31, 2025.
The recoverable amount of GTCC and Metals machinery business was sufficiently higher than the carrying amount for the CGU. The Group judged it was unlikely that the recoverable amount falls below the carrying amount, even if key factors used for impairment tests changed to the predictable extent reasonably.
As for Material handling equipment business, the recoverable amount exceeded the carrying amount by ¥90,492 million. However, an impairment loss might have been recognized if there occur material changes in the factor of the business plan underlying the estimated future cash flows or if the discount rate (before tax) increased by 2.2% or the growth rate decreased by 1.7%, which is among key factors used in the impairment testing.
As for Industrial power solutions, it is expected to grow at high rates and the recoverable amount exceeded the carrying amount by ¥171,660 million. However, an impairment loss might have been recognized if there occur material changes in the factor of the business plan underlying the estimated future cash flows or if the discount rate (before tax) increased by 3.9% or the growth rate decreased by 3.6%, which is among key factors used in the impairment testing.
As for Steam power business, the recoverable amount exceeded the carrying amount by ¥107,140 million. However, an impairment loss might have been recognized if the business environment changed materially and that causes material changes in the factor of the business plan underlying the estimated future cash flows or if the discount rate (before tax) increased by 15.6% or the growth rate decreased by 26.7%, which is among key factors used in the impairment testing.

15. Income Taxes

(1) Deferred tax assets and liabilities

a) The breakdown of deferred tax assets and liabilities

(Millions of yen)

| | As of March, 2024 | | As of March 31, 2025 | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Trade and other receivables and contract assets | 55,682 | (10,877) | 33,978 | (8,905) |
| Inventories | 71,843 | (883) | 74,426 | (565) |
| PPE, goodwill, intangible assets, and right-of-use assets | 63,023 | (82,412) | 67,379 | (80,923) |
| Other assets | 23,448 | (152,306) | 14,190 | (133,636) |
| Contract liabilities | 10,268 | (20,663) | 25,946 | (14,848) |
| Provisions | 70,203 | (2,838) | 71,545 | (414) |
| Retirement benefits liabilities | 34,951 | — | 28,241 | — |
| Other liabilities | 63,499 | (16,368) | 67,578 | (25,796) |
| Investments in subsidiaries, associates and joint ventures | 173,415 | (11,924) | 1,584 | (11,673) |
| Unused tax losses | 18,968 | — | 142,240 | — |
| Total | 585,305 | (298,275) | 527,111 | (276,762) |
| Deferred tax assets and liabilities recognized in the consolidated statement of financial position | 297,017 | (9,987) | 259,942 | (9,594) |

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

b) Breakdown of changes in deferred tax assets and liabilities (in net amounts)

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Balance at the beginning of the year | 348,292 | 287,030 |
| Increase (decrease) recognized through profit or loss | 16,363 | (45,837) |
| Increase (decrease) recognized in other comprehensive income | | |
| Items related to "Other assets" * | (80,053) | 19,862 |
| Items related to "Retirement benefits liabilities" | (7,987) | (11,109) |
| Items related to assets and liabilities other than the above | 8,675 | (651) |
| Other Increase (decrease) | 1,739 | 1,054 |
| Balance at the end of the year | 287,030 | 250,348 |

* "Other assets" include equity instruments, such as securities and investments in capital.

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Unused tax losses *1, 2 | 1,181,842 | 517,055 |
| Deductible temporary differences | 161,980 | 161,090 |
| Total | 1,343,822 | 678,146 |

*1. The amount of unused tax losses includes the tax losses related to Japanese local taxations (corporate inhabitant tax and corporate enterprise tax). With regard to these taxations, the tax rates levied on the tax bases are less than 10%.

*2. The expiration year of unused tax losses for unrecognized deferred tax assets is as follows:

(Millions of yen)

| Expiration year | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Year 1 | 34,719 | 1,655 |
| Year 2 | 51,188 | 7,257 |
| Year 3 | 63,817 | 1,219 |
| Year 4 | 1,098 | 7,300 |
| Year 5 or later | 1,031,017 | 499,622 |
| Total | 1,181,842 | 517,055 |

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

The aggregated amount of temporary differences associated with investments in subsidiaries and associates for unrecognized deferred tax liabilities as of March 31, 2024 and March 31, 2025, were ¥712,178 million and ¥778,263 million, respectively. The deferred tax liabilities associated with said temporary differences are not recognized when the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse within the foreseeable future.

(2) Income taxes recognized through profit or loss

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Current tax expense | | |
| Current period | 82,920 | 61,054 |
| Prior period restatement | 5,064 | 5,642 |
| Total of current tax expense | 87,985 | 66,696 |
| Deferred tax expense | | |
| Arising and reversal of temporary differences | (14,586) | 53,995 |
| Changes in tax rates or the imposition of new taxes | 15 | (6,078) |
| Others | (1,792) | (2,079) |
| Total of deferred tax expense | (16,363) | 45,837 |
| Total tax expense | 71,622 | 112,533 |

(3) Reconciliation of income tax rate

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

| | 2024 | 2025 |
|---|---|---|
| Effective statutory tax rate in Japan | 30.5% | 30.5% |
| Non-deductible expenses | 0.9% | 0.5% |
| Non-taxable revenues | (2.8%) | (1.0%) |
| Share of profit (loss) of investments accounted for using the equity method | (0.2%) | 0.2% |
| Changes in unrecognized deferred tax assets | 3.4% | 4.3% |
| Tax credit for experiment and research expenses | (2.6%) | (1.9%) |
| Investments in subsidiaries, associates and joint ventures | (0.3%) | 0.1% |
| Revision to year-end deferred tax assets due to a change in tax rate | 0.6% | (1.8%) |
| Applicable tax rate differences of foreign subsidiaries | (4.0%) | (2.8%) |
| Others | (2.8%) | 2.0% |
| Average actual tax rate | 22.7% | 30.0% |

(4) Income Tax Treatment under the Global Minimum Tax

The Group applies the exception stipulated in the IAS 12 “Income Taxes” regarding the introduction of the Pillar Two model rules. In accordance with this exception, The Group does not recognize deferred tax assets and liabilities, which arise from tax laws enacted or substantively enacted by national governments to introduce the Pillar Two model rules, but recognizes income taxes as current tax expenses when incurred. The introduction of the Pillar Two model rules has no material impact on the financial position or operating results of the Group.

(5) Estimates for uncertainties related to income taxes

As stated in Note 3. “Material Accounting Policies (17) Income taxes”, a reasonably estimated amount is recognized as asset or liability when it is deemed to be probable to pay or refund income taxes based on interpretations for the purpose of tax law in the future.

Although within the Group, there are matters that are currently under discussion and/or examination by the taxation authorities in certain countries where the Group conducts business activities, the Group recognizes assets and liabilities related to income taxes of each company of the Group based on the best estimates.

If the taxes finally determined differ from those estimates, the difference may have impacts on income taxes in subsequent fiscal years.

16. Investments Accounted for Using the Equity Method

(1) Investment in associates

The total carrying amount of investments in associates accounted for using the equity method were ¥232,531 million, and ¥218,498 million as of March 31, 2024 and March 31, 2025, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2024 and March 31, 2025 were as follows:

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Profit or loss | 9,582 | 13,836 |
| Other comprehensive income | 13,685 | (216) |
| Total comprehensive income | 23,268 | 13,619 |

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

(2) Investment in joint ventures

a) Material joint ventures

The joint ventures that are material to the Group are Nakoso IGCC Power GK and Hirono IGCC Power GK (hereinafter referred to as “Both Companies”), which operate power plant businesses in Japan and earn revenue from selling electricity externally.

Based on the amended joint venture agreement concluded among the investors during the fiscal year ended March 31, 2025, the Group has increased its equity interest from the previous 40% to 90.8% and 91.8%, respectively, through the purchase of equity interest. However, considering the terms of the joint venture agreement, the Group continues to apply the equity method.

The summarized financial information combining the financial information of Both Companies for the fiscal year ended March 31, 2024 and fiscal year ended March 31, 2025, as well as the reconciliations between the summarized financial information and the carrying amounts of the Group's investments, are as follows. The summarized financial information includes the fair value adjustments performed after the purchase of equity interest and adjustment for accounting standard differences.

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Assets | 312,864 | 295,939 |
| Liabilities | 239,593 | 227,092 |
| Total equity | 73,271 | 68,847 |
| Equity attributable to owners of the Group | 29,308 | 64,171 |
| Adjustments (Goodwill and others) | — | — |
| Carrying amount of investments | 29,308 | 64,171 |

| | 2024 | 2025 |
|---|---|---|
| Revenue | 65,353 | 61,434 |
| Comprehensive income | (8,832) | (37,475) |
| Comprehensive income attributable to owners of the Group | (3,533) | (17,252) |

The primary assets in the summarized financial information of Both Companies are non-financial assets such as plant facilities related to the power plant business. The balance of the non-financial assets was ¥234,371 million and ¥241,896 million as of March 31, 2024 and March 31, 2025, respectively.
The balance as of March 31, 2025 includes identifiable intangible assets recognized as a result of the fair value adjustment associated with the aforementioned purchase of equity interest, which are reflected impairment losses recognized based on its recoverable amount under the latest business plan.

The Group performs impairment tests whenever there are indications of impairment in these non-financial assets. In case the recoverable amount is calculated less than the carrying amount of the non-financial assets and an impairment is deemed necessary as a result of impairment test, the Group will recognize the equivalent loss corresponding to its equity interest as a share of losses of investment accounted for using equity method.
The recoverable amount is determined as the higher of fair value less costs of disposal and value in use. The estimates involve key factors such as the future operational outlook of the plant facilities and discount rates.

The primary liabilities in the summarized financial information of Both Companies are borrowings from the financial institutions. The Group has provided credit guarantees of ¥38,842 million to Both Companies as of March 31, 2025.

b) Individually immaterial joint ventures

The carrying amount of investments in individually immaterial joint ventures accounted for using the equity method were ¥7,138 million, and ¥12,502 million as of March 31, 2024 and March 31, 2025, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2024 and March 31, 2025 were as follows:

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Profit or loss | (3,313) | 2,514 |
| Other comprehensive income | (300) | 227 |
| Total comprehensive income | (3,613) | 2,741 |

(3) Commitment to joint ventures

The Group has commitments to make investment and/or other contributions for joint ventures under certain conditions. The potential amount for new or additional investments by the Group based on these commitments is ¥2,835 million and ¥18,155 million as of March 31, 2024 and March 31, 2025, respectively.

17. Leases

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

(1) Right-of-use assets

Carrying amount, depreciation expense and increased amount

(Millions of Yen)

| | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Land | Others | Total |
|---|---|---|---|---|---|---|
| As of April 1, 2023 | 65,531 | 11,165 | 4,824 | 3,640 | 1,132 | 86,295 |
| Increased amount of right-of-use assets | 16,281 | 6,153 | 895 | 383 | 171 | 23,885 |
| Depreciation | (16,004) | (4,035) | (1,216) | (853) | (90) | (22,200) |
| Others * | 5,357 | 357 | 224 | 703 | (1,127) | 5,515 |
| As of March 31, 2024 | 71,165 | 13,641 | 4,728 | 3,874 | 86 | 93,496 |
| Increased amount of right-of-use assets | 12,757 | 7,392 | 1,719 | 683 | 77 | 22,630 |
| Depreciation | (16,600) | (4,936) | (1,511) | (742) | (118) | (23,909) |
| Others * | (3,742) | (1,361) | (188) | (192) | 263 | (5,221) |
| As of March 31, 2025 | 63,580 | 14,735 | 4,749 | 3,622 | 308 | 86,996 |

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

(2) Lease liabilities

For details of the repayment schedule for lease liabilities, refer to Note 34. “Risk Management (2) Liquidity risk management”.

(3) Amount recognized in profit and loss

(Millions of Yen)

| | 2024 | 2025 |
|---|---|---|
| Interest expenses on lease liabilities | 1,624 | 1,936 |
| Expenses relating to short-term leases | 6,063 | 5,458 |
| Expenses relating to leases of low-value assets | 14,747 | 15,496 |

Expense related to variable lease payments not included in the measurement of lease liabilities and lease income from subleasing right-of-use assets are immaterial.

(4) Cash outflow related to leases

(Millions of Yen)

| | 2024 | 2025 |
|---|---|---|
| Cash outflow related to leases | 50,887 | 49,488 |

(5) Nature of leasing activities

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

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

(6) Sale and leaseback

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

The lease term of all such contracts is more or less 10 years, but some of them are attached with an extension option and/or a purchase option exercisable upon the expiration of the term of the contract. There are no significant supplementary provisions, such as restrictions imposed under the lease contracts. When determining whether a transaction is a sale and leaseback transaction, the judgment is made based on whether the transfer of the asset qualifies as a sale under IFRS 15. If the transaction does not qualify as a sale, the transaction is treated as a financial transaction, the transferred asset continues to be recognized and a financial liability equal to the transfer proceeds is recognized.

Cash inflow caused from sale and leaseback transaction of the Group and the profit or loss arising from these transactions are immaterial.

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

18. Provisions

Changes in provisions are as follows:

For the fiscal year ended March 31, 2025

(Millions of yen)

| | Loss on construction contracts | Product and construction warranties | Levies | Others | Total |
|---|---|---|---|---|---|
| Balance as of April 1, 2024 | 94,060 | 136,181 | 13,009 | 52,716 | 295,968 |
| Increase | 29,665 | 74,067 | 11,488 | 16,020 | 131,242 |
| Decrease (utilization) | (41,652) | (38,929) | (11,221) | (7,542) | (99,345) |
| Decrease (reversal) | (4,301) | (14,043) | (1,788) | (5,314) | (25,447) |
| Others (Exchange rate differences, etc.) | (381) | (345) | — | (556) | (1,283) |
| Balance as of March 31, 2025 | 77,391 | 156,931 | 11,488 | 55,323 | 301,134 |

| | | | | | |
|---|---|---|---|---|---|
| Current liabilities | 77,391 | 121,881 | 11,488 | 18,270 | 229,032 |
| Non-current liabilities | — | 35,049 | — | 37,053 | 72,102 |
| Total | 77,391 | 156,931 | 11,488 | 55,323 | 301,134 |

(1) Loss on construction contracts

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

The provision for losses on construction contracts recognized in the fiscal year ended March 31, 2025 includes a provision for losses on long-term service agreements associated with the plant facilities that were delivered in the prior fiscal year ended March 31, 2022. The Group recognizes the provision based on the reasonable estimates of such as costs necessary to fulfill the long-term service agreements.

(2) Product and construction warranties

As part of its warranty obligations for product and construction after they are delivered, the Group may carry out repairs, etc. The Group recognizes a provision to provide for warranty expenditures which are expected to be covered by the Group in the future based on the past experience and the status of discussions with customers, etc. The provision is utilized as the Group carries out repairs, etc.

The provision recognized for product and construction warranties in the fiscal year ended March 31, 2025 includes a provision related to the plant facilities described in (1).

(3) Levies

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

(4) Others

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

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

19. Employee Benefits

(1) Retirement benefits

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

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

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

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

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

a) Defined benefit plans

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Present value of defined benefit obligations | 551,269 | 515,210 |
| Fair value of plan assets | 846,597 | 795,429 |
| Net defined benefit liability | (295,328) | (280,218) |
| Amounts presented in the consolidated statement of financial position | | |
| Retirement benefit liabilities | 73,165 | 72,042 |
| Retirement benefit assets | 368,493 | 352,261 |
| Net defined benefit liability | (295,328) | (280,218) |

(ii) Changes in present value of defined benefit obligations

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Balance as of April 1 | 517,302 | 551,269 |
| Current service cost | 36,024 | 39,213 |
| Interest expense | 5,691 | 7,107 |
| Remeasurement * | | |
| Actuarial gains(losses) arising from changes in demographic assumptions | 11,319 | 1,573 |
| Actuarial gains(losses) arising from changes in financial assumptions | (10,090) | (27,498) |
| Actuarial gains(losses) arising from experience adjustment | 34,667 | (13,558) |
| Past service cost | (212) | 43 |
| Payment of benefits | (44,880) | (42,701) |
| Changes from business combinations | (168) | (61) |
| Others | 1,614 | (177) |
| Balance as of March 31 | 551,269 | 515,210 |

* Since the fiscal year ended March 31, 2024, the Group remeasured the defined benefit obligations, taking into account the effect of supplemental retirement benefit which will be paid to employees who retire from a company and transfer to other group companies.
As a result, ¥4,200 million of actuarial gains have arisen from changes in demographic assumptions and ¥17,900 million from experience adjustment, respectively.

(iii) Changes in fair value of plan assets

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Balance as of April 1 | 561,974 | 846,597 |
| Interest income | 5,914 | 10,246 |
| Remeasurement | | |
| Return on plan assets (excluding amounts included in net interest on the net defined benefit asset) | 285,614 | (45,990) |
| Contributions to the plan (by the employer) | 12,019 | 11,892 |
| Payment of benefits | (20,669) | (27,152) |
| Changes from business combinations | (83) | — |
| Others | 1,827 | (163) |
| Balance as of March 31 | 846,597 | 795,429 |

(iv) The breakdown of fair value of plan assets

As of March 31, 2024

(Millions of yen)

| | With quoted market price in an active market | With no quoted market price in an active market | Total |
|---|---|---|---|
| Shares issued by Japanese companies | 528,058 | — | 528,058 |
| Shares issued by foreign companies | 39,857 | 9,158 | 49,015 |
| Bonds issued by Japanese companies | 17,054 | — | 17,054 |
| Bonds issued by foreign companies | 20,708 | 13,797 | 34,505 |
| Cash and deposits | 76,029 | — | 76,029 |
| General accounts for life insurance | — | 18,008 | 18,008 |
| Others * | — | 123,924 | 123,924 |
| Total | 681,708 | 164,889 | 846,597 |

As of March 31, 2025

(Millions of yen)

| | With quoted market price in an active market | With no quoted market price in an active market | Total |
|---|---|---|---|
| Shares issued by Japanese companies | 472,246 | 90 | 472,337 |
| Shares issued by foreign companies | 28,953 | 14,714 | 43,668 |
| Bonds issued by Japanese companies | 17,205 | 235 | 17,440 |
| Bonds issued by foreign companies | 24,574 | 8,229 | 32,804 |
| Cash and deposits | 71,377 | — | 71,377 |
| General accounts for life insurance | — | 17,369 | 17,369 |
| Others * | — | 140,432 | 140,432 |
| Total | 614,357 | 181,072 | 795,429 |

* “Others” includes investments in real estate funds, hedge funds and private equity funds.

The total amounts of plan assets include retirement benefit trust set up for the defined benefit plans and the lump-sum retirement benefit plan. The amounts were ¥532,804 million, and ¥480,197 million as of March 31, 2024 and March 31, 2025, respectively.
The fund is managed to hedge its exposure to interest by using interest rate swap.
Further, 30% of exposures to interest rate risk against defined benefit obligations are covered by using debt instruments combined with interest rate swaps. In the fiscal years ended March 31, 2024 and 2025, The pension fund was managed based on said policies.
All exposures to foreign exchange risks are hedged using forward exchange contracts.

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

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Discount rate | Mainly1.4% | Mainly2.1% |

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

(Millions of yen)

| | As of March 31, 2024 | | As of March 31, 2025 | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| Impact in the event of 0.5 percentage point change in the discount rate | (28,994) | 30,806 | (26,614) | 28,254 |

The trial calculation is approximated by changing only the discount rate, without varying other actuarial assumptions.
Since this calculation does not take into account potential variation to other actuarial assumptions, the actual calculation may be affected by fluctuations in other variables.

(vi) Plan assets management policy

The Group ensures it is able to provide benefits in the form of pensions and lump-sum payments. To this end, a target asset allocation is established to ensure that necessary returns are received stably over the long term and the Group makes diversified investments in a broad range of assets, including bonds and stocks, within permissible risk parameters. The Group also periodically assesses the investment status and financial condition of the plan assets and the asset management environment and revises the asset management if necessary. For contributions to the pension funds, the contribution amount is reviewed periodically by, for example, recalculating the amount once every three years to balance the future financial position of the pension plan in compliance with relevant laws and regulations.
The Group makes contributions based on an appropriate actuarial calculation to fund the benefits. The amount of contributions expected to be paid to the defined benefit plans for the fiscal year ended March 31, 2025 is ¥12,259 million.

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

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Weighted average duration (year) | 11.30 | 11.21 |

b) Defined contribution plans

Expenses for the defined contribution plans for the fiscal years ended March 31, 2024 and March 31, 2025 were ¥19,057 million and ¥20,028 million, respectively.

(2) Employee benefits expenses

The aggregated amounts of employee benefit expenses recognized for the fiscal years ended March 31, 2024 and March 31, 2025 were ¥934,541 million and ¥980,452 million, respectively.

20. Other Assets and Liabilities

(1) The breakdown of other assets

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Retirement benefit assets | 368,493 | 352,261 |
| Advances to suppliers and prepaid expenses | 180,744 | 247,447 |
| Consumption tax receivables (Incl. VAT receivables) | 56,650 | 67,459 |
| Income tax receivables | 3,868 | 26,083 |
| Others | 136,107 | 118,474 |
| Total | 745,864 | 811,726 |

| | | |
|---|---|---|
| Current assets | 281,895 | 372,766 |
| Non-current assets | 463,969 | 438,960 |
| Total | 745,864 | 811,726 |

(2) The breakdown of other liabilities

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Accrued expenses | 165,168 | 177,492 |
| Accrued consumption taxes (Incl. VAT payables) | 18,955 | 14,011 |
| Others | 80,134 | 84,003 |
| Total | 264,258 | 275,507 |

| | | |
|---|---|---|
| Current liabilities | 235,829 | 237,191 |
| Non-current liabilities | 28,429 | 38,315 |
| Total | 264,258 | 275,507 |

## 21. Equity and Other Equity Items

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

(Shares)

| | 2024 | 2025 |
|---|---|---|
| The number of shares authorized *: | | |
| Common shares | 600,000,000 | 6,000,000,000 |
| The number of shares issued *: | | |
| At the beginning of the year | 337,364,781 | 3,373,647,810 |
| Changes during the year | — | — |
| At the end of the year | 337,364,781 | 3,373,647,810 |

* Both the shares authorized and the shares issued are no-par value common stock. All of the shares issued are paid in full.

The number of treasury shares included in the shares issued was 1,275,082 shares, and 15,980,024 shares as of March 31, 2024 and March 31, 2025, respectively. The number of MHI’s common shares held by the Stock Grant ESOP Trust, and the Officer Remuneration BIP Trust I & Ⅱ were 838,818 shares, and 11,778,600 shares as of March 31, 2024 and March 31, 2025, respectively. The number of MHI’s common shares held by its associates were 7,838 shares, and 78,348 shares as of March 31, 2024 and March 31, 2025, respectively. On April 1, 2024, MHI executed a ten-for-one stock split of its common shares. As a result of that, the number of shares authorized and shares issued increased by 5,400,000,000 shares, and 3,036,283,029 shares, respectively.

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

a) Capital surplus

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

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

b) Retained earnings

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

The Companies Act requires that 10 percent of retained earnings appropriated for dividends be reserved either as legal capital surplus or legal retained earnings until the total amount of legal capital surplus or legal retained earnings reaches 25 percent of the amount of share capital. Upon fulfilling certain requirements, such as a resolution at the General Meeting of Shareholders, the amount of legal retained earnings may be reduced, and part or all of the reduction may be transferred to share capital.

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

22. Dividends

The total dividends for each fiscal year are as follows.

(1) For the fiscal year ended March 31, 2024 (From April 1, 2023 to March 31, 2024)

a) Dividends paid

| Resolution | Type of shares | Total cash dividends paid (Millions of Yen) *1, 2 | Cash dividends per share (Yen) | Record date | Effective date | Source of dividends |
|---|---|---|---|---|---|---|
| June 29, 2023 Annual General Meeting of Shareholders | Common Stock | 23,583 | 70 | March 31, 2023 | June 30, 2023 | Retained earnings |
| November 6, 2023 Board of Directors Meeting | Common Stock | 26,952 | 80 | September 30, 2023 | December 5, 2023 | Retained earnings |

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2023, include ¥70 million of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

*2. Total dividends paid in accordance with the resolution passed at the Board of Directors Meeting held on November 6, 2023, include ¥67 million of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

b) Dividends of which the record date is within the fiscal year ended March 31, 2024, but take effect in the fiscal year ending March 31, 2025

| Resolution | Type of shares | Total cash dividends paid (Millions of Yen) *1 | Cash dividends per share (Yen) *2 | Record date | Effective date | Source of dividends |
|---|---|---|---|---|---|---|
| June 27, 2024 Annual General Meeting of Shareholders | Common Stock | 40,432 | 120 | March 31, 2024 | June 28, 2024 | Retained earnings |

*1 Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 27, 2024, include ¥100 million of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

*2 On April 1, 2024, MHI executed a ten-for-one stock split of its common shares. As the record date for dividends was March 31, 2024, the amount of cash dividends per share shows the amount before the stock split.

(2) For the fiscal year ended March 31, 2025 (From April 1, 2024 to March 31, 2025)

a) Dividends paid

| Resolution | Type of shares | Total cash dividends paid (Millions of Yen) *1, 2 | Cash dividends per share (Yen) *3 | Record date | Effective date | Source of dividends |
|---|---|---|---|---|---|---|
| June 27, 2024 Annual General Meeting of Shareholders | Common Stock | 40,432 | 120 | March 31, 2024 | June 28, 2024 | Retained earnings |
| November 5, 2024 Board of Directors Meeting | Common Stock | 37,063 | 11 | September 30, 2024 | December 5, 2024 | Retained earnings |

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 27, 2024, include ¥100 million of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

*2. Total dividends paid in accordance with the resolution passed at the Board of Directors Meeting held on November 5, 2024, include ¥73 million of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

*3. On April 1, 2024, MHI executed a ten-for-one stock split of its common shares. The amount of cash dividends per share based on the record date of March 31, 2024 shows the amount before the stock split.

b) Dividends of which the record date is within the fiscal year ended March 31, 2025, but take effect in the fiscal year ending March 31, 2026

| Resolution | Type of shares | Total cash dividends paid (Millions of Yen) * | Cash dividends per share (Yen) | Record date | Effective date | Source of dividends |
|---|---|---|---|---|---|---|
| June 27, 2025 Annual General Meeting of Shareholders | Common Stock | 40,434 | 12 | March 31, 2025 | June 30, 2025 | Retained earnings |

* Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 27, 2025, include ¥141 million of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

23. Revenue

(1) Disaggregation of revenue

The Group is composed of four business domains and segments: Energy Systems; Plants & Infrastructure Systems; Logistics, Thermal & Drive Systems; and Aircraft, Defense & Space. The operating results of these business domains and segments are regularly reviewed by the Board of Directors of MHI for making decisions about resource allocation and assessing their performance. Therefore, turnover recognized from these businesses is presented as revenue.

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

As stated in Note "4.Operating Segment (1) Overview of reporting segments", the Group established Green Transformation (GX) Solutions as a new business domain, which is included within the Plants & Infrastructure Systems reporting segment for the fiscal year ended March 31, 2025. Additionally, the Group established the “Others” column, which includes some products and services previously reported on the “Corporate & Eliminations” column.

The segment information for the fiscal year ended March 31, 2024 is restated to reflect these changes.

Revenue from external customers *1

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Energy Systems | 1,714,615 | 1,803,878 |
| Plants & Infrastructure Systems | 796,684 | 806,177 |
| Logistics, Thermal & Drive Systems | 1,310,359 | 1,302,671 |
| Aircraft, Defense & Space | | |
| Commercial aircraft | 184,521 | 202,529 |
| Defense & space equipment | 605,820 | 826,762 |
| Subtotal | 790,342 | 1,029,291 |
| Reporting segments total | 4,612,001 | 4,942,018 |
| Others *2 | 32,501 | 73,215 |
| Total | 4,644,502 | 5,015,233 |
| Corporate & Eliminations *3 | 12,644 | 11,943 |
| Consolidation | 4,657,147 | 5,027,176 |

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

*2. “Others” includes the businesses categorized in growth areas such as electrification and data center and asset businesses, which are not included in the reporting segments.

*3. “Corporate & Eliminations” includes general services not included in any of the reporting segments.

The Group is engaged in the sales of products, the performance of construction works and rendering of services in Energy Systems, Plants & Infrastructure Systems, Logistics, Thermal & Drive Systems and Aircraft, Defense & Space business domains and segments. For details of the revenue recognition in each transaction, refer to Note 3. "Material Accounting Policies (13) Revenue."
Of these, Energy Systems, Plants & Infrastructure Systems, and Defense & space equipment businesses are engaged in construction work in which performance obligations are satisfied over a long period exceeding one year. The revenue of these three businesses is set forth above. These amounts include revenue recognized over time based on total revenue calculated for each construction contract and the progress towards construction completion.

The progress is measured using the method that depicts the satisfaction of performance obligation and is principally estimated based on the proportion of costs incurred to satisfy the performance obligation against the expected total costs of satisfying the performance obligation.
The estimated total revenue and costs are subject to change due to the factors set forth below, among others, which could arise from contracts with customers and suppliers. Accordingly, there were certain construction contracts which involved significant management judgment on the estimates.

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

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

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

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

The consideration of a transaction is received based on the progress for each performance obligation satisfied over time, such as a milestone in the case of a construction contract. The consideration for the sale of goods or rendering of services is received within one year after the performance obligation is satisfied. In either case, the contract does not include a significant financing component. In addition, within consideration from contracts with customers, no significant amounts have been excluded from the transaction price.
Further, the Group provides warranties assuring that a product satisfies specifications as provided in the contract. However, the Group does not identify this warranty as a separate performance obligation because it does not provide a distinct service. For certain products and construction contracts, under which warranties on performance and delivery guarantees are provided, revenue is reduced to the extent a refund liability to customers is deemed to be incurred, as a result of unsatisfied obligations.

(2) The breakdown of revenue by geographical market

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

(3) Contract balances

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Receivables from contracts with customers | 839,959 | 910,920 |
| Contract assets | 776,399 | 791,871 |
| Contract liabilities | 1,095,138 | 1,443,983 |

Significant changes in contract assets and liabilities

a) Contract assets

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

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

b) Contract liabilities

The Group principally recognizes the amount of advance payments as contract liabilities, when we receive the payment of consideration as advance payments before the goods or services, which are promised to customers, are transferred to the customers. Then, when we have satisfied the performance obligation, we derecognize them as contract liabilities and recognize them as revenue.

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

Of the above-mentioned decreases in contract liabilities as a result of the recognition of revenue, amounts transferred from the beginning balance of contract liabilities were ¥558,716 million and ¥578,157 million for the fiscal years ended March 31, 2024 and March 31, 2025, respectively.

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

(4) Transaction price allocated to the remaining performance obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations as of March 31, 2025, and the balance by reporting segment are as follows:

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Energy Systems | 4,229,866 | 4,918,439 |
| Plants & Infrastructure Systems | 1,623,682 | 1,705,361 |
| Logistics, Thermal & Drive Systems | 58,369 | 79,355 |
| Aircraft, Defense & Space | 2,474,222 | 3,514,580 |
| Subtotal | 8,386,141 | 10,217,736 |
| Others *1 | 14,291 | 18,239 |
| Total | 8,400,433 | 10,235,976 |
| Corporate & Eliminations *2 | 142 | 320 |
| Consolidation | 8,400,576 | 10,236,296 |

*1. “Others” includes businesses related to growth areas such as electrification and data center business and asset businesses which are not included in the reporting segments.

*2. “Corporate & Eliminations” includes general services not included in any of the reporting segments.

The transaction amounts allocated to the remaining performance obligations in the three reporting segments, namely “Energy Systems”, “Plants & Infrastructure Systems” and “Aircraft, Defense & Space”, are mainly attributable to the individual made-to-order products business. As such, many of such transactions are for construction contracts that have performance obligations to be satisfied over a long period exceeding one year. Whereas the transaction amounts allocated to the remaining performance obligations in “Logistics, Thermal & Drive Systems”, are mainly attributable to medium-volume production business, and are mainly related to the sale of the products and rendering of the service for which the performance obligation is completed within one year.
Remaining performance obligations for each reporting segment are expected to be satisfied and recognized as revenue within the number of years from the end of each fiscal year as stated below.
・Energy Systems: Within 8 years
・Plants & Infrastructure Systems: Within 5 years
・Logistics, Thermal & Drive Systems: Within 1 year
・Aircraft, Defense & Space: Within 3 years

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Assets recognized from the costs to obtain contracts | 620 | 259 |
| Assets recognized from the costs to fulfill contracts | 40,313 | 37,755 |
| Total | 40,934 | 38,015 |

The Group recognizes assets only to the extent that it is probable that the incremental costs of obtaining contracts and direct cost of fulfilling contracts will be recoverable, which is included in “Inventories” in the consolidated statement of financial position.
The majority of such assets recognized by the Group as the incremental costs of obtaining contracts are mainly commissions paid to trading companies used in obtaining construction contracts. These assets are amortized in accordance with the transference pattern of goods or services to customers for the relevant construction contracts.
In addition, assets recognized from the costs for expected future contracts are mainly costs for designing mass production drawings or making jigs dedicated for new models and products that had been incurred prior to the conclusion of contracts with customers. After the contracts were concluded, said assets are amortized in accordance with the transference pattern of goods or services to customers.
The amount of amortization for the assets recognized from the contract costs for the fiscal years ended March 31, 2024 and March 31, 2025 were ¥12,403 million and ¥13,050 million respectively. No impairment loss was recognized for the fiscal year ended March 31, 2024 and March 31, 2025.

24. Selling, General and Administrative Expenses

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Employee benefit expenses | 261,798 | 283,858 |
| Research and development expenses * | 77,638 | 74,271 |
| Remuneration and fees | 47,721 | 55,226 |
| Business development expenses | 52,787 | 52,434 |
| Depreciation and amortization | 23,784 | 29,934 |
| Development expenses | 43,250 | 25,009 |
| Loss allowance for expected credit losses | 3,452 | 6,855 |
| Others | 184,909 | 189,349 |
| Total | 695,342 | 716,941 |

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

25. Other Income and Expenses

The breakdown of other income and expenses is as follows:

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Other income | | |
| Gains on sales of PPE | 29,028 | 70,510 |
| Dividend income * | 11,180 | 11,549 |
| Insurance recovery gain | 4,555 | 2,047 |
| Others | 18,831 | 14,655 |
| Total | 63,595 | 98,762 |
| Other expenses | | |
| Losses on sale and retirement of PPE and intangible assets | 6,963 | 10,399 |
| Loss on sales of investment securities | — | 3,089 |
| Compensation expenses | — | 2,294 |
| Impairment losses | 4,424 | 2,044 |
| Loss allowance for expected credit losses | — | 353 |
| Others | 6,585 | 8,929 |
| Total | 17,973 | 27,110 |

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

26. Government Grants

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

Government grants recorded for the fiscal years ended March 31, 2024 and 2025 were ¥7,642 million and ¥10,633 million, respectively. The main portion of these grants is deducted from research and development expenses as incurred, and some portion is deferred and recognized as other income.

27. Finance Income and Finance Costs

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Finance income | | |
| Interest income | | |
| Financial assets measured at amortized cost | 10,369 | 10,705 |
| Foreign exchange gain | 39,024 | 1,858 |
| Others | 550 | 1,081 |
| Total | 49,945 | 13,645 |
| Finance costs | | |
| Interest expense | | |
| Financial liabilities measured at amortized cost | 10,994 | 13,802 |
| Lease liabilities | 1,624 | 1,936 |
| Others | 4,680 | 6,574 |
| Total | 17,298 | 22,313 |

28. Earnings per Share

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Profit (attributable to owners of the parent) | 222,023 | 245,447 |

(Thousands of shares)

| | 2024 | 2025 |
|---|---|---|
| Weighted-average number of common shares outstanding during the period | 3,360,379 | 3,360,292 |
| Impact of the dilutive effect: share subscription rights | 1,218 | 901 |
| Weighted-average number of common shares outstanding during the period after impact of the dilutive effect | 3,361,597 | 3,361,193 |

(Yen)

| | 2024 | 2025 |
|---|---|---|
| Earnings per share (attributable to owners of the parent) | | |
| Basic earnings per share | 66.07 | 73.04 |
| Diluted earnings per share | 66.04 | 73.02 |

On April 1, 2024, MHI executed a ten-for-one stock split of its common shares. “Basic earnings per share” and “Diluted earnings per share” are calculated assuming that the stock split was executed at the beginning of the fiscal year ended March 31, 2024.

29. Other Components of Equity and Other Comprehensive Income

(1) Other components of equity

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Financial assets measured at FVTOCI | | |
| Balance at the beginning of the year | 96,182 | 133,898 |
| Changes during the year | 58,653 | (42,272) |
| Transfer to retained earnings | (20,937) | 13,742 |
| Balance at the end of the year | 133,898 | 105,367 |
| Remeasurement of defined benefit plans | | |
| Balance at the beginning of the year | (25,385) | 147,957 |
| Changes during the year | 173,342 | (7,873) |
| Balance at the end of the year | 147,957 | 140,083 |
| Cash flow hedges | | |
| Balance at the beginning of the year | (1,262) | (2,127) |
| Changes during the year | (865) | 2,852 |
| Balance at the end of the year | (2,127) | 725 |
| Exchange differences on translating foreign operations | | |
| Balance at the beginning of the year | 126,394 | 229,657 |
| Changes during the year | 103,262 | (11,674) |
| Balance at the end of the year | 229,657 | 217,982 |
| Other components of equity | | |
| Balance at the beginning of the year | 195,929 | 509,385 |
| Changes during the year | 334,393 | (58,968) |
| Transfer to retained earnings | (20,937) | 13,742 |
| Balance at the end of the year | 509,385 | 464,159 |

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Financial assets measured at FVTOCI | 124 | (148) |
| Remeasurement of defined benefit plans | 682 | 80 |
| Cash flow hedges | (10) | 46 |
| Exchange differences on translating foreign operations | 9,142 | 215 |
| Total | 9,939 | 193 |

(3) Other comprehensive income

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Items that will not be reclassified to profit (loss) | | |
| Net gain (loss) from financial assets measured at FVTOCI | | |
| Amount arising during the year | 81,620 | (62,110) |
| Before tax effects | 81,620 | (62,110) |
| Tax effects | (22,995) | 19,603 |
| After tax effects | 58,624 | (42,506) |
| Remeasurement of defined benefit plans | | |
| Amount arising during the year | 250,096 | (7,099) |
| Before tax effects | 250,096 | (7,099) |
| Tax effects | (76,247) | (1,482) |
| After tax effects | 173,848 | (8,581) |
| Share of other comprehensive income of entities accounted for using the equity method | | |
| Amount arising during the year | 329 | 872 |
| Before tax effects | 329 | 872 |
| Tax effects | — | — |
| After tax effects | 329 | 872 |
| Items that may be reclassified to profit (loss) | | |
| Cash flow hedges | | |
| Amount arising during the year | (6,095) | (915) |
| Reclassification adjustments | 3,747 | 2,601 |
| Before tax effects | (2,347) | 1,685 |
| Tax effects | 858 | (585) |
| After tax effects | (1,488) | 1,100 |
| Exchange differences on translating foreign operations | | |
| Amount arising during the year | 105,868 | (9,681) |
| Reclassification adjustments | (6,473) | (979) |
| Before tax effects | 99,394 | (10,660) |
| Tax effects | — | — |
| After tax effects | 99,394 | (10,660) |
| Share of other comprehensive income of entities accounted for using the equity method | | |
| Amount arising during the year | 13,714 | 639 |
| Reclassification adjustments | (73) | 351 |
| Before tax effects | 13,641 | 991 |
| Tax effects | — | — |
| After tax effects | 13,641 | 991 |
| Total other comprehensive income | 344,350 | (58,784) |

30. Related Party Transactions

(1) Transactions with affiliates and joint ventures

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Balance of receivables * | 75,091 | 87,502 |
| Balance of payables | 55,973 | 47,842 |

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Revenues | 122,076 | 100,499 |
| Purchases | 55,842 | 57,643 |

* The Group provides loans to some of its related parties.
The total amounts of loans to related parties were ¥10,926 million, and ¥18,893 million as of March 31, 2024 and March 31, 2025, respectively.
As of March 31, 2024, the loans to related parties were primarily provided to Japan Casting & Forging Corporation and as of March 31, 2025, that were primarily provided to Nakoso IGCC Power GK and Hirono IGCC Power GK.
Although The Group sets loss allowances for certain loans to related parties, in the table above, the loans receivable and the loss allowances are presented on a net basis.
As of March 31, 2024, the total amount of loss allowances for loans to related parties was ¥7,739 million. As of March 31, 2025, the balance is not material.

(2) Remuneration for management personnel

Remuneration amount for directors is as follows:

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Short-term remuneration | 879 | 1,009 |
| Share-based remuneration | 348 | 1,200 |
| Total | 1,227 | 2,209 |

Other than above, the amount of welfare expenses, which is borne by MHI when appointing directors, for the fiscal years ended March 31, 2024 and March 31, 2025 were ¥9 million.

31. Major Subsidiaries

The Group's major subsidiaries are as follows:

| Name of subsidiary | Location | Ownership percentage of voting rights *1, 2 | |
|---|---|---|---|
| | | As of March 31, 2024 | As of March 31, 2025 |
| Energy Systems | | | |
| Mitsubishi Heavy Industries Aero Engines, Ltd. | Komaki City, Aichi | 100% | 100% |
| Mitsubishi Heavy Industries Compressor Corporation | Nishi-ku, Hiroshima City | 100% | 100% |
| Mitsubishi Heavy Industries Power IDS Co., Ltd. | Naka-ku, Yokohama City | 100% | 100% |
| Mitsubishi Heavy Industries Marine Machinery & Equipment Co., Ltd. | Nagasaki City | 100% | 100% |
| Mitsubishi Power Aero LLC | Connecticut, U.S.A. | 100% (100%) | 100% (100%) |
| Mitsubishi Power Americas, Inc. | Florida, U.S.A. | 100% (100%) | 100% (100%) |
| Mechanical Dynamics & Analysis LLC | New York, U.S.A. | 100% (100%) | 100% (100%) |
| Plants & Infrastructure Systems | | | |
| Mitsubishi Heavy Industries Environmental & Chemical Engineering Co., Ltd. | Nishi-ku, Yokohama City | 100% | 100% |
| Mitsubishi Shipbuilding Co., Ltd. | Minato-ku, Tokyo | 100% | 100% |
| Mitsubishi Heavy Industries Machinery Systems, Ltd. | Hyogo-ku, Kobe City | 100% | 100% |
| Mitsubishi Heavy Industries Transportation and Construction Engineering, Ltd. | Minato-ku, Tokyo | 100% | 100% |
| Primetals Technologies, Limited | London, U.K. | 100% (100%) | 100% (100%) |
| Logistics, Thermal & Drive Systems | | | |
| Mitsubishi Heavy Industries Thermal Systems, Ltd. | Chiyoda-ku, Tokyo | 100% | 100% |
| Mitsubishi Heavy Industries Engine & Turbocharger, Ltd. | Chuo-ku, Sagamihara City | 100% | 100% |
| Mitsubishi Logisnext Co., Ltd. | Nagaokakyo City, Kyoto | 64.6% | 64.6% |
| Mitsubishi Heavy Industries Air-Conditioning and Refrigeration Corporation | Minato-ku, Tokyo | 100% (100%) | 100% (100%) |
| Equipment Depot, Inc. | Texas, U.S.A. | 100% (100%) | 100% (100%) |
| Mitsubishi Heavy Industries-Haier (Qingdao) Air-Conditioners Co., Ltd. | Shandong, China | 55.0% (55.0%) | 55.0% (55.0%) |
| Mitsubishi Heavy Industries-Mahajak Air Conditioners Co., Ltd. | Bangkok, Thailand | 81.8% (81.8%) | 81.8% (81.8%) |
| Mitsubishi Turbocharger and Engine Europe B.V. | Almere, The Netherlands | 100% (100%) | 100% (100%) |
| Mitsubishi Heavy Industries Air-Conditioning Europe, Ltd. | Uxbridge, U.K. | 100% (100%) | 100% (100%) |
| Shanghai MHI Turbocharger Co., Ltd. | Shanghai, China | 56.2% (56.2%) | 56.2% (56.2%) |

| Name of subsidiary | Location | Ownership percentage of voting rights *1, 2 | |
|---|---|---|---|
| | | As of March 31, 2024 | As of March 31, 2025 |
| Logistics, Thermal & Drive Systems | | | |
| Mitsubishi Turbocharger and Engine America, Inc. | Illinois, U.S.A. | 100% (100%) | 100% (100%) |
| Mitsubishi Heavy Industries Air-conditioners (Shanghai) Co., Ltd. | Shanghai, China | 100% (100%) | 100% (100%) |
| Mitsubishi Logisnext Europe B.V. | Almere, The Netherlands | 100% (100%) | 100% (100%) |
| Mitsubishi Heavy Industries Air-conditioners Australia, Pty. Ltd. | New South Wales, Australia | 100% (100%) | 100% (100%) |
| Mitsubishi Logisnext Americas Inc. | Texas, U.S.A. | 100% (100%) | 100% (100%) |
| Aircraft, Defense & Space | | | |
| Mitsubishi Heavy Industries Maritime Systems Co., Ltd. | Tamano City, Okayama | 100% | 100% |
| MHI RJ Aviation Inc. | West Virginia, U.S.A. | 100% (100%) | 100% (100%) |
| Corporate | | | |
| MHI International Investment B.V. | Almere, The Netherlands | 100% | 100% |
| Mitsubishi Heavy Industries (China) Co., Ltd. | Beijing, China | 100% | 100% |
| Mitsubishi Heavy Industries India Pte. Ltd. | Delhi, India | 100% (0.0%) | 100% (0.0%) |
| Mitsubishi Heavy Industries Asia Pacific Pte. Ltd. | Singapore | 100% | 100% |
| Mitsubishi Heavy Industries America, Inc. | Texas, U.S.A. | 100% | 100% |
| Mitsubishi Heavy Industries EMEA, Ltd. | London, U.K. | 100% | 100% |
| Mitsubishi Heavy Industries (Thailand) Ltd. | Bangkok, Thailand | 100% (99.9%) | 100% (99.9%) |
| Mitsubishi Heavy Industries (Shanghai) Co., Ltd. | Shanghai, China | 100% (100%) | 100% (100%) |
| Others | | | |
| Concentric, LLC | Texas, U.S.A. | 100% (100%) | 100% (100%) |
| Other subsidiaries | | 219companies | 218companies |

*1. The numbers in brackets in the ownership percentage of voting rights represent the percentage of indirect ownership, out of the total ownership percentage.
*2. In the Group’s consolidated financial statements, no consolidated subsidiaries with material non-controlling interests have been included for the fiscal years ended March 31, 2024 and March 31, 2025, respectively.

32. Commitments

(1) Commitments related to the acquisition of PPE

The amounts committed for the purchase of PPE where the purchase has already been committed but has not been inspected for acceptance were ¥50,594 million and ¥64,554 million as of March 31, 2024 and March 31, 2025, respectively.

(2) Commitments related to the acquisition of intangible assets

The amounts committed for the purchase of intangible assets where the purchase has already been committed but has not been inspected for acceptance were ¥1,793 million and ¥2,413 million as of March 31, 2024 and March 31, 2025, respectively.

33. Contingent Liabilities

Not applicable.

34. Risk Management

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

(1) Credit risk management

The Group’s financial assets and financial guarantee contracts that are measured at amortized cost under “Trade and other receivables”, “Other financial assets” and “Contract assets” are exposed to credit risk of the customers. The Group regularly manages the due dates and balances of receivables from each customer, and assesses their credit status. The Group has accepted collateral with respect to specific transactions with customers for credit enhancement purposes. The Group also tries to reduce credit risk by utilizing letters of credit, trade insurance, etc. The Group has no excessive credit risk concentrated on a single customer.
The credit risks related to deposits and derivative transactions that the Group has entered into are limited because all transactions entered into are with highly creditworthy financial institutions.

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

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

The amount of ECL is measured as follows:

・Trade and other receivables and contract assets

Based on the simplified approach, receivables and contract assets are classified according to the customers' credit risk characteristics. The ECL is measured by multiplying a provision rate determined by adjusting forecasts such as future economic conditions to the rate of past credit losses calculated based on this classification.

・Other financial assets measured at amortized cost

Based on the general approach, ECL for receivables that are not deemed to have a significant increase in credit risk are assumed by multiplying the total carrying amount of the financial assets by a provision rate calculated by adjusting forecasts, such as future economic conditions, to the rate of past credit losses for the same kind of assets. ECL for financial assets that are deemed to have a significant increase in credit risk and credit-impaired financial assets are determined as the difference between the present value of estimated future cash flows discounted by the initial effective interest rate of the assets and the gross carrying amount of the assets.

a) Balances of assets subject to loss allowance for ECL

(Millions of yen)

| Measurement method of credit losses | Classification | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|---|
| Simplified approach | ― | 1,647,375 | 1,736,420 |
| General approach | Measured at an amount equal to the 12-month ECL | 165,706 | 178,427 |
| | Measured at an amount equal to the lifetime ECL | 1,505 | 4,666 |
| | Measured at an amount equal to the lifetime ECL (Credit impaired) | 7,690 | 2,624 |

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

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

For the fiscal year ended March 31, 2024 (From April 1, 2023 to March 31, 2024)

(Millions of yen)

| | Balance at the beginning of the year | Changes during the year | Decrease during the year (utilization) | Other changes *1 | Balance at the end of the year |
|---|---|---|---|---|---|
| Allowances using the simplified approach | 13,149 | 3,483 | (977) | 1,414 | 17,070 |
| Allowances using the general approach | | | | | |
| Other than credit-impaired financial assets | 1,553 | 135 | (8) | 155 | 1,835 |
| Credit-impaired financial assets *2 | 8,040 | (19) | (456) | 33 | 7,598 |

For the fiscal year ended March 31, 2025 (From April 1, 2024 to March 31, 2025)

(Millions of yen)

| | Balance at the beginning of the year | Changes during the year | Decrease during the year (utilization) | Other changes *1 | Balance at the end of the year |
|---|---|---|---|---|---|
| Allowances using the simplified approach | 17,070 | 4,252 | (1,127) | (400) | 19,794 |
| Allowances using the general approach | | | | | |
| Other than credit-impaired financial assets | 1,835 | 210 | (57) | (150) | 1,837 |
| Credit-impaired financial assets *2 | 7,598 | 2,506 | (7,598) | 117 | 2,624 |

*1. Other changes include adjustments for foreign currency translation gains and losses.

*2. Credit-impaired financial assets included loans to Japan Casting & Forging Corporation, which is described in Note 30. “Related Party Transactions”. In the fiscal year ended March 31, 2025, the corresponding loss allowance was reversed due to the liquidation of the company.

c) Financial guarantee contracts

The Group primarily guarantees affiliated companies’ loans from financial institutions.

Guarantees outstanding were ¥20,232 million and ¥53,142 million as of March 31, 2024 and March 31, 2025, respectively. These guarantees are not included in the tables a) and b) above because the credit risk related to these guarantees is limited and not material.

(2) Liquidity risk management

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

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

As one of the financing methods, the Group liquidates trade receivables and other assets under factoring agreement, etc.

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

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

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

As of March 31, 2024

(Millions of yen)

| | Carrying amount | Total undiscounted contractual cash flows | One year or less | More than one year and less than five years | More than five years |
|---|---|---|---|---|---|
| Non-derivative liabilities | | | | | |
| Trade and other payables | 958,891 | 958,891 | 955,739 | 3,033 | 118 |
| Bonds | 225,000 | 229,957 | 30,915 | 92,433 | 106,609 |
| Short-term borrowings | 72,074 | 72,074 | 72,074 | — | — |
| Long-term borrowings | 371,153 | 378,630 | 77,306 | 207,503 | 93,820 |
| Non-recourse borrowings | 60,755 | 97,657 | 4,131 | 20,453 | 73,073 |
| Liabilities under factoring agreements | 200,552 | 202,787 | 116,555 | 71,944 | 14,287 |
| Lease liabilities | 117,094 | 130,547 | 27,619 | 74,906 | 28,021 |
| Other financial liabilities | 86,596 | 92,773 | 52,168 | 24,412 | 16,192 |
| Derivative liabilities | 9,737 | 9,737 | 8,005 | 1,732 | — |
| Total | 2,101,856 | 2,173,057 | 1,344,516 | 496,418 | 332,122 |

As of March 31, 2025

(Millions of yen)

| | Carrying amount | Total undiscounted contractual cash flows | One year or less | More than one year and less than five years | More than five years |
|---|---|---|---|---|---|
| Non-derivative liabilities | | | | | |
| Trade and other payables | 930,281 | 930,281 | 927,611 | 2,556 | 112 |
| Bonds | 225,000 | 231,996 | 36,047 | 68,509 | 127,439 |
| Short-term borrowings | 62,307 | 62,307 | 62,307 | — | — |
| Long-term borrowings | 305,621 | 311,907 | 37,596 | 236,710 | 37,599 |
| Non-recourse borrowings | 58,458 | 86,007 | 4,383 | 18,054 | 63,569 |
| Liabilities under factoring agreements | 288,041 | 291,528 | 68,452 | 212,653 | 10,422 |
| Lease liabilities | 107,861 | 113,822 | 30,229 | 58,544 | 25,048 |
| Other financial liabilities | 77,653 | 83,379 | 42,927 | 25,487 | 14,965 |
| Derivative liabilities | 6,331 | 6,331 | 4,403 | 1,927 | — |
| Total | 2,061,555 | 2,117,561 | 1,213,958 | 624,445 | 279,157 |

Financial guarantee contracts are not included in the tables above.

The obligation to pay under financial guarantee contracts arises upon request. Guarantees outstanding are as specified in (1) c).

(3) Market risk management

a) Foreign currency risk management

The Group develops its business on a global scale, and is exposed to risk caused by fluctuations in exchange rates.

Foreign currency risk arises from receivables and payables denominated in foreign currencies that are already recognized and forecast transactions, such as future purchases and sales.

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

Forward exchange contracts are mainly used to hedge the foreign currency risk on trade receivables and trade payables denominated in foreign currencies.

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

(i) Exposure to foreign currency risk

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

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| U.S. dollars | 203,083 | 125,791 |
| Euros | 32,962 | 12,617 |

(ii) Foreign exchange sensitivity analysis

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

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

(Millions of yen)

| Profit before income taxes | 2024 | 2025 |
|---|---|---|
| U.S. dollars | (2,031) | (1,258) |
| Euros | (330) | (126) |

b) Interest rate risk management

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

(i) Exposure to interest rate risk

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

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Borrowings with variable interest rates | 95,782 | 56,913 |

(ii) Interest rate sensitivity analysis

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

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Profit before income taxes | (958) | (569) |

c) Share price risk management

The Group holds shares in other companies, such as its suppliers and other business partners, and is exposed to the risk of changes in share prices. The primary purpose of holding these shares is to strengthen and maintain relationships with such companies. The Group regularly reviews the status of shareholdings according to the business relationships with its suppliers and other business partners since shares in such companies are held mainly out of necessity that arises from business operations, such as collaboration with other companies. Of these shares, to shares for which the selling policy has been determined, the Group may use forward contracts and apply fair value hedge for the purpose of hedging the risk of changes in share prices.

(i) Exposure to share price fluctuation

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

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Marketable stocks | 279,559 | 190,182 |

(ii) Sensitivity analysis of share price fluctuation

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

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

(Millions of yen)

| | 2024 | 2025 |
|---|---|---|
| Other comprehensive income<br>(After tax deduction) | (19,434) | (13,221) |

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

(i) Derivative transactions designated as cash flow hedges

As of March 31, 2024

(Millions of yen)

| Hedging instruments | Contract amount/ notional amount | Of which, more than 1 year | Carrying amount of hedging instruments | |
|---|---|---|---|---|
| | | | Assets | Liabilities |
| Foreign exchange risk | | | | |
| Forward exchange contracts | 169,410 | 15,698 | 2,769 | 7,014 |
| Interest rate risk | | | | |
| Interest rate swap | 48,424 | 39,245 | — | 448 |

As of March 31, 2025

(Millions of yen)

| Hedging instruments | Contract amount/ notional amount | Of which, more than 1 year | Carrying amount of hedging instruments | |
|---|---|---|---|---|
| | | | Assets | Liabilities |
| Foreign exchange risk | | | | |
| Forward exchange contracts | 152,539 | 5,484 | 1,205 | 2,728 |
| Interest rate risk | | | | |
| Interest rate swap | 67,423 | 44,487 | 14 | 2,192 |

Major transactions of the Group's foreign exchange contracts designated as hedges are selling U.S. dollars and buying Japanese yen. The average contract rate is 127.87 yen per U.S. dollar and 136.76 yen per U.S. dollar as of March 31, 2024 and March 31, 2025, respectively.

The Group enters into interest rate swaps that mainly exchange variable interest rate payments for fixed interest rate payments. The average contract rate is 2.52% and 2.71% as of the date of transition, March 31, 2024 and March 31, 2025, respectively.

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

(ii) Cash flow hedge reserve

(Millions of yen)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Cash flow hedge reserve | | |
| Foreign exchange risk | | |
| Forward exchange contracts | (2,858) | 1,345 |
| Interest rate risk | | |
| Interest rate swap | 730 | (619) |
| Total | (2,127) | 725 |

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

The Group sets an appropriate hedge ratio at the inception of the hedging relationship based on the quantity of the hedged item and the quantity of the hedging instrument. As a result, the Group's hedge ratio has a 1:1 relationship in principle.
The Group assumes that no significant ineffective portion of hedges arises because the credit risk related to the hedging instruments of the Group is limited. This assumption is also based on the following facts: the periods of exchange contracts are not on a long-time basis; the reference interest rate indices used for interest rate swap contracts are the same as those for the hedged borrowings with variable interest rates.
Since the ineffective portion of hedges recognized in profit or loss are not material, and changes in the value of hedged items approximate those in the fair value of hedging instruments, the Group omits the specification of changes in the value of the hedged items, used as a basis for recognizing the hedge ineffectiveness. No cash flow hedge reserve arises from hedging relationships for which hedge accounting has been discontinued.

(iii) Derivative transactions designated as fair value hedges
As of March 31, 2024, and March 31, 2025, there are no derivative transactions designated as fair value hedges.

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

As of March 31, 2024

(Millions of yen)

| | Changes in the fair value of hedging instruments recognized in other comprehensive income | Amount transferred from other components of equity to profit or loss as a reclassification adjustment | Line item of profit or loss transferred as a reclassification adjustment |
|---|---|---|---|
| Foreign exchange risk<br>Forward exchange contracts | (6,541) | 3,964 | Finance costs |
| Interest rate risk<br>Interest rate swap | 446 | (217) | Finance income |

As of March 31, 2025

(Millions of yen)

| | Changes in the fair value of hedging instruments recognized in other comprehensive income | Amount transferred from other components of equity to profit or loss as a reclassification adjustment | Line item of profit or loss transferred as a reclassification adjustment |
|---|---|---|---|
| Foreign exchange risk<br>Forward exchange contracts | 754 | 2,660 | Finance costs |
| Interest rate risk<br>Interest rate swap | (1,669) | (59) | Finance income |

35. Business combination

On October 2, 2023, the Group acquired all interests in Concentric, LLC and made it a consolidated subsidiary. As the purchase price allocation had not been completed by the end of March 2024, the Group applied provisional accounting treatment in the previous fiscal year.

In the fiscal year ended March 31, 2025, the purchase price allocation was completed. It was concluded that there were no changes from the disclosure in the previous fiscal year with respect to the amounts of assets acquired, liabilities assumed, and goodwill recognized.

36. Capital Management

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

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

(Unit: %)

| | As of March 31, 2024 | As of March 31, 2025 |
|---|---|---|
| Return on equity attributable to owners of the parent (ROE) | 11.14 | 10.69 |
| Ratio of equity attributable to owners of the parent | 35.88 | 35.24 |
| D/E ratio (debt ratio) | 30.88 | 26.37 |

The Group is not subject to any material capital requirements.

37. Subsequent Events

Not applicable.

38. Others

(1) Interim Information for the Fiscal Year Ended March 31, 2025

| | Six monthes ended September 30, 2024 | Fiscal year ended March 31, 2025 |
|---|---|---|
| Revenue (Millions of yen) | 2,298,113 | 5,027,126 |
| Profit before income taxes (Millions of yen) | 168,279 | 374,531 |
| Profit attributable to owners of the parent (Millions of yen) | 107,120 | 245,447 |
| Earnings per share attributable to owners of the parent - basic (yen) | 31.86 | 73.04 |

(2) Major Lawsuits

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

In March 2021, MHI and Daewoo received a counterclaim from AOA which mainly consists of the cancellation of the Settlement Agreement and the refund of the payment already made under the Settlement Agreement.

In October 2022, the arbitral tribunal decided to exclude SONATRACH from participants of arbitration.

MHI and Daewoo will assert that there are no reasonable grounds for AOA’s refusal to make the outstanding payment and that the counterclaim should be dismissed.

(3) Transfer of PPE

On February 28, 2024, the Board of Directors of MHI approved an ownership transfer of one of its PPE and the transfer was completed during the fiscal year ended March 31, 2025, as described below.

a) Reasons for the transfer

To make effective use of management resources and strengthen its financial position.

b) Asset designated for transfer

Description: Plant land (a part of the Honmoku Plant)

Location: 38-8, Nishikicho, Naka-ku, Yokohama, Kanagawa

c) Transfer schedule

Contract signed: February 29, 2024

Transfer date *: September 30, 2024 and March 31, 2025

* MHI set up a trust for the transferred asset and transferred the trust beneficiary right based on the trust. The transfer date was the date of the transfer of the trust beneficiary right for the transferred asset. The asset was transferred in two parts.

d) Impact of the transfer on financial results

As a result of the above mentioned transfer of the PPE, ¥52.1 billion of gain on sale of non-current assets was recognized for the fiscal year ended March 31, 2025.

# Independent Auditor's Report

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

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2025, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

### Basis for Opinion

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

### Key Audit Matters

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

| **Estimates of the revenue recognized from construction contracts and a provision for losses on construction contracts** | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| As described in Note 3. "Material accounting policies, (13) Revenue" and Note 23. "Revenue" to the consolidated financial statements, the Group is engaged in construction work in which performance obligations are satisfied over a long period exceeding one year, primarily in Energy Systems, Plants & Infrastructure Systems, and Defense and Space equipment businesses. The revenue of each business for the year ended March 31, 2025 is set forth below. These amounts include revenue recognized over time based on total revenue calculated for each contract and the progress towards satisfaction of the performance | We assessed the reasonableness of the estimates of the revenue recognized from construction contracts and a provision for losses on construction contracts. In addition, for the construction contracts to which consolidated subsidiaries were the primary engaging parties, we involved the component auditors of the respective consolidated subsidiaries, through providing the direction and supervision to them, as well as reviewing their work. We performed, or involved the component auditors in performing, the following procedures, among others: |

obligations included in the contract with customers.

(Unit: ¥ million)

| Business | Revenue |
|---|---|
| Energy Systems | 1,803,878 |
| Plants & Infrastructure Systems | 806,177 |
| Defense & Space equipment | 826,762 |

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

As described in Note 18. "Provisions, (1) Loss on construction contracts" to the consolidated financial statements, in order to account for losses from construction contracts for which the Group has not completed satisfying its performance obligations, the Group recognizes a provision for losses that are expected in the subsequent fiscal years for uncompleted construction contracts, if it is probable that a loss has been incurred and a reliable estimate can be made of the amount of the loss, at the end of each reporting period. The balance of such a provision for losses on construction contracts amounted to ¥77,391 million as of March 31, 2025.

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

**(1) Internal control testing**

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

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

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

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

Based on the results of the procedures performed above, we obtained an understanding of key assumptions and risk factors related to the delivery schedule, performance, and specification requirements, as well as the fluctuations of procurement costs such as materials and parts in the construction contract. We then performed the following procedures to assess whether such key assumptions and risk factors were appropriately reflected in the estimated total revenue and costs:

- obtained an understanding of the revisions to the terms of contracts with customers and suppliers

| | |
|---|---|
| ● Factors that may cause changes in the estimated total revenue:<br>- Claims for damage or other requests by customers arising from delivery delays, underperformance of the product and other reasons.<br>● Factors that may cause changes in the estimated total costs:<br>- Changes in product specifications;<br>- Responses to process delays;<br>- Fluctuations of procurement costs such as materials and parts;<br>- Responses to underperformance; and<br>- Events that were not considered in the planning of construction.<br><br>The provision for losses on construction contracts referred to above included a provision for losses on long-term maintenance service agreements associated with the plant facilities delivered in the fiscal year ended March 31, 2022. The Group recognized the provision based on the reasonable estimates such as the costs required to fulfill the long-term maintenance service agreements.<br><br>We, therefore, determined that our assessment of the reasonableness of the estimates of the revenue recognized from construction contracts and a provision for losses on construction contracts was one of the most significant matters in our audit of the consolidated financial statements for the fiscal year ended March 31, 2025, and accordingly, a key audit matter. | by inspecting the minutes of major meetings, and assessed whether there were any changes in the status of construction work that would require updates to the estimates of total revenue and costs by inquiring of the appropriate responsible personnel; and<br><br>● assessed, for the construction work for which updates to the estimates were deemed necessary, whether the future expectations of key assumptions, risk and other factors, and the measures to address them were appropriately reflected in the updated estimates of the total revenue and costs. |

| **Appropriateness of the valuation of non-financial assets held by entities accounted for using the equity method operating the power plant business** | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| In the consolidated statement of financial position of the Group, investments accounted for using the equity method of ¥295,172 million were recognized as of March 31, 2025. As described in Note 16. “Investments Accounted for Using the Equity Method,” included therein was the balance totaling ¥64,171 million related to the equity-method investments in Nakoso IGCC Power GK and Hirono IGCC Power GK (hereinafter collectively referred to as “Both Companies”), which operated the power plant business in Japan.<br><br>As a result of the purchase of equity interest pursuant to the amended joint venture agreement concluded among the interest holders during the fiscal year ended March 31, 2025, the Group has | The primary procedures we performed to assess the appropriateness of the valuation of non-financial assets held by Both Companies are set forth below.<br><br>**(1) Internal control testing**<br><br>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to measuring the value in use used for the impairment test on non-financial assets.<br><br>**(2) Assessment of the reasonableness of the estimated value in use**<br><br>In order to assess the reasonableness of the estimated value in use, we performed the following procedures on the projected future operations of plant facilities and the estimates of the discount |

| | |
|---|---|
| increased its equity interest in Both Companies to 90.8% and 91.8%, respectively. However, the Group continues to apply the equity method to the investments, considering the terms of the amended joint venture agreement among the interest holders.<br><br>Both Companies have non-financial assets primarily consisting of plant facilities related to the power plant business. As described in Note 3. "Material Accounting Policies, (10) Impairment of non-financial assets" to the consolidated financial statements, when any indication of impairment exists, an impairment test is required to perform by estimating the recoverable amount of the asset. The recoverable amount in the impairment test is determined as the higher of the fair value less costs of disposal of an asset or a cash generating unit and its value in use. If the recoverable amount is less than the carrying amount, the carrying amount shall be reduced to the recoverable amount.<br><br>The carrying amount of the non-financial assets of Both Companies totaling ¥241,896 million as of March 31, 2025 included intangible assets recognized as a result of the fair value adjustment associated with the aforementioned purchase of equity interest, which reflected an impairment loss to the recoverable amount recognized based on the latest business plan.<br><br>The value in use was used as the recoverable amount of the non-financial assets of Both Companies. The value in use was calculated as the discounted present value of future cash flows estimated based on the business plan approved by management. The business plan contained key assumptions such as the future operational outlook of plant facilities. As these key assumptions involved significant management judgment, it had a material effect on the estimated future cash flows. In addition, significant management judgment was required in selecting appropriate models and input data for estimating the discount rate used to calculate the value in use. Accordingly, management judgment thereon had a material effect on the value in use.<br><br>We, therefore, determined that our assessment of the appropriateness of the valuation of non-financial assets held by Both Companies was one of the most significant matters in our audit of the consolidated financial statements for the fiscal year ended March 31, 2025, and accordingly, a key audit matter. | rates, which were key assumptions included in the business plans of Both Companies that formed the basis for estimating future cash flows:<br><br>● evaluated the appropriateness of the assumptions regarding the projected future operations of plant facilities by performing:<br>- analysis of factors that caused non-operation of the plant facilities during the fiscal year ended March 31, 2025 and assessment of the status of implementing countermeasures by comparing the planned versus actual operational performance of the plant facilities for the fiscal year, physically observing the plant facilities, and inquiring of the appropriate responsible personnel and management;<br>- evaluation of the reasonableness of the plan to implement countermeasures by inspecting the future plan for construction under warranty, and inquiring of the appropriate responsible personnel and management; and<br>- inspection of publicly announced information about the operational or non-operational status of the plant facilities.<br><br>● evaluated the appropriateness of the discount rates, by involving a valuation specialist within our domestic network firms, in our assessment of the appropriateness of the models used to calculate the discount rates, as well as our evaluation of whether the input data was appropriate by comparing the input data used to calculate the discount rates with the market data published by external organizations that was obtained independently by the valuation specialist. |

<table>
<tr><th colspan="2">Judgment as to whether an impairment loss should be recognized on non-financial assets belonging to the Steam power business</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As described in Note 3. “Material accounting policies, (10) Impairment of non-financial assets” to the consolidated financial statements, with regard to property, plant and equipment and intangible assets, included in non-financial assets, the Group determines whether there is any indication of impairment at the end of the reporting period. If any such indication exists, the Group performs an impairment test. With regard to goodwill and intangible assets with indefinite useful lives, the Group conducts an impairment test annually and whenever there is any indication of impairment. In the impairment testing, when the recoverable amount of the cash-generating unit (“CGU”) is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and such reduction in the carrying amount is recognized as an impairment loss. The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use.<br><br>As described in Note 14. “Impairment of non-financial assets, Impairment test for goodwill” to the consolidated financial statements, no impairment loss was recognized on goodwill allocated to the five main CGUs as a result of the impairment testing for the fiscal year ended March 31, 2025. For the Steam power business, however, an impairment loss might have been recognized had key assumptions used in the impairment testing been changed. The non-financial assets belonging to that CGU were a part of the total amount of non-financial assets of ¥1,296,194 million that was subject to the impairment testing.<br><br>The Group used the value in use as the recoverable amount for the impairment testing for the CGU. The value in use was calculated as the discounted present value of the future cash flows projected based on the business plans approved by management, reflecting historical experience and external information, and the growth rate. The business plans of the Steam power business contained key assumptions, such as the trend of expected future revenue. These assumptions involved significant management judgment, and therefore, had a material effect on the estimated future cash flows.<br><br>In addition, selecting appropriate models and input data for estimating the growth rate and the discount rate used to calculate the value in use required</td><td>The primary audit procedures we performed to assess the appropriateness of the Company’s judgment as to whether an impairment loss should be recognized on non-financial assets belonging to the Steam power business are set forth below.<br><br>(1) Internal control testing<br><br>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to measuring the value in use used for the impairment testing on the CGU that includes goodwill.<br><br>(2) Assessment of the reasonableness of the estimated value in use<br><br>In order to assess the reasonableness of the estimated value in use, we performed the following procedures on key assumptions underlying the business plan, as well as the growth rate and the discount rate:<br><br>● confirmed the consistency of the trend of future revenue with historical orders received, and external and internal information on the future outlook of sales;<br>● confirmed the consistency of the growth rate with available external data;<br>● compared the discount rate with the estimates made by a specialist in enterprise valuation within our domestic network firms; and<br>● evaluated the effect of changes in the growth rate, discount rate and underlying key assumptions in the business plan of the Steam power business on management judgment as to whether an impairment loss should be recognized.</td></tr>
</table>

| | |
|---|---|
| significant management judgment, and had a material effect on the value in use.<br><br>We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets belonging to the Steam power business was one of the most significant matters in our audit of the financial statements for the fiscal year ended March 31, 2025, and accordingly, a key audit matter. | |

**Other Information**

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

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

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

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

We have nothing to report in this regard.

**Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS Accounting Standards, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

**Fee-related Information**

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries are described in "AUDIT FEES" in the MHI Financial Report.

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

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

Hirotaka Tanaka
Designated Engagement Partner
Certified Public Accountant

Shin Suzuki
Designated Engagement Partner
Certified Public Accountant

Masataka Kunimoto
Designated Engagement Partner
Certified Public Accountant

*KPMG AZSA LLC*
Tokyo Office, Japan
June 27, 2025