

MHI FINANCIAL REPORT 2026

For the Year Ended March 31, 2026

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, 2026 under review increased to ¥7,653.6 billion, up ¥1,248.4 billion or 19.5% year on year, amid significant gains posted by the Energy Systems segment in particular.

Revenue increased to ¥4,974.1 billion, up ¥613.0 billion or 14.1% year on year, as a result of gains in the Aircraft, Defense & Space segment, Energy Systems segment, and Plants & Infrastructure Systems segment.

Profit from business activities increased to ¥432.2 billion, up ¥77.2 billion or 21.8% year on year, due to gains in the Energy Systems segment, Aircraft, Defense & Space segment, and Plants & Infrastructure Systems segment and other segments.

Profit before income taxes rose to ¥474.6 billion, up ¥122.6 billion or 34.8% year on year, and profit attributable to owners of the parent came to ¥332.1 billion, up ¥86.6 billion or 35.3% year on year.

The business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates have been classified as discontinued operations. Accordingly, orders received, revenue, profit from business activities, and profit before income taxes for the fiscal years ended March 31, 2025 and March 31, 2026 are presented excluding discontinued operations.

ANALYSIS OF FINANCIAL POSITION

Due to increases mainly in "Cash and cash equivalents," assets for the Group increased ¥1,610.7 billion from the end of the fiscal year ended March 31, 2025 to ¥8,269.7 billion in the fiscal year ended March 31, 2026.

Increases in "Contract liabilities" and other items resulted in liabilities rising ¥852.2 billion from the end of the fiscal year ended March 31, 2025 to ¥5,041.3 billion.

Due to increases mainly in "Other components of equity" and "Retained earnings" resulting from higher comprehensive income attributable to owners of the parent and other items, total equity rose ¥758.5 billion from the end of the fiscal year ended March 31, 2025 to ¥3,228.4 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, 2026 was 37.3%, an increase of 2.1 percentage points from the 35.2% recorded at the end of the fiscal year ended March 31, 2025.

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, 2026 amounted to ¥1,334.8 billion, an increase of ¥677.0 billion from the end of the fiscal year ended March 31, 2025.

Cash flows for the fiscal year ended March 31, 2026 are as follows.

(Cash flows from operating activities)

Cash flows provided by operating activities totaled ¥942.6 billion, an increase of ¥412.1 billion compared to the fiscal year ended March 31, 2025. This was due primarily to higher "Profit before income taxes" and an increase in "Increase (decrease) in contract liabilities" resulting from expanded orders received.

(Cash flows from investing activities)

Cash flows used in investing activities came to ¥49.1 billion, reflecting an increase of ¥138.5 billion compared to the fiscal year ended March 31, 2025. This was due mainly to decreases in "Purchases of PPE and intangible assets" and "Payments for derivative transactions."

(Cash flows from financing activities)

Cash flows used in financing activities came to ¥274.5 billion, reflecting a decrease of ¥160.4 billion compared to the fiscal year ended March 31, 2025. This was due mainly to a decrease in "Proceeds from 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, the Group primarily requires funds 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, 2026 is as follows:

	In billions of yen					
	Total		Due within one year		Due after one year	
Short-term borrowings	¥	14.7	¥	14.7	¥	-
Long-term borrowings		238.4		49.6		188.7
Bonds		200.0		25.0		175.0
Subtotal		453.1		89.3		363.7
Non-recourse borrowings		62.6		1.2		61.3
Total	¥	515.7	¥	90.6	¥	425.1

The Group is involved in various projects with comparatively long construction periods. It also owns numerous pieces of large-scale machinery as production equipment. Consequently, the Group must secure a stable level of working capital and funds for capital investments. During the fiscal year ended March 31, 2026 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, 2026 under review was ¥515.7 billion, consisting of ¥90.6 billion due within one year, and ¥425.1 billion due after one year.

This does not include interest-bearing debt of ¥35.7 billion related to the business of Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.), a consolidated subsidiary of MHI, and its subsidiaries and affiliates.

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 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 (planned) was set at ¥13 per share. Together with the interim dividend of ¥12 per share paid in December 2025, the total dividend is expected to be ¥25 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.

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

Dividends for the fiscal year under review are as follows. In relation to the year-end dividends, the total cash dividends, ¥43,805 million, and the dividend of ¥13 per share are subject to approval at the Annual General Meeting of Shareholders scheduled to be held on June 26, 2026.

Date of resolution	Total cash dividends (Millions of yen)	Cash dividends per share (Yen)
November 7, 2025 Resolution of the Board of Directors	40,434	12
June 26, 2026 Resolution of Annual General Meeting of Shareholders (planned)	43,805	13

OPERATIONAL RISKS

The Group (MHI and its consolidated subsidiaries) 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 appropriate actions to address such risks. However, given difficulties inherent in fully avoiding the materialization of these risks, the Group proceeds with its business activities while remaining mindful of such risks, and strives to minimize the impact of risks if they materialize. The Group also draws on such identified and visualized risks as a basis for creating business opportunities.

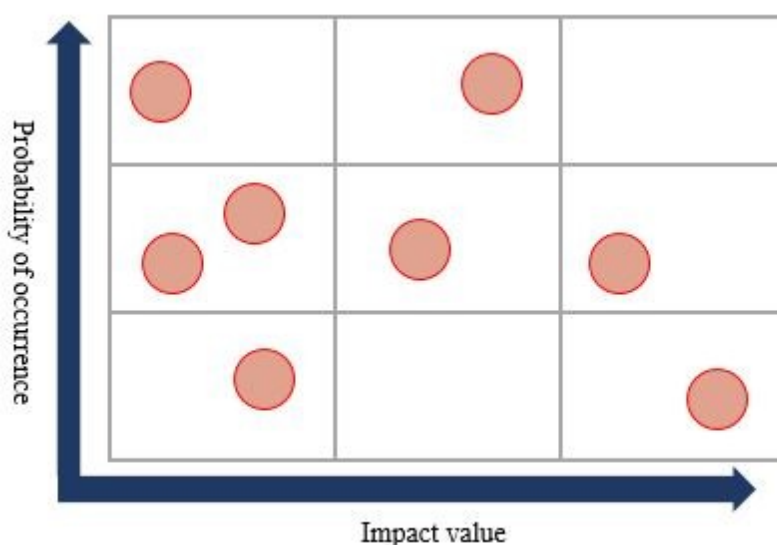
Such identified and visualized risks include those that may bring about changes in the social structure and business environment over the medium to long term. As such, the Group recognizes the need to look ahead in taking preemptive actions that make it possible to address such changes.

(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 could have a significant impact on management over the next 10 years of business operations. We subsequently plot the risks that are quantifiable onto a risk map based on their potential impact (impact value) and probability of occurrence, as illustrated below, after taking into account the effectiveness of the measures currently in place. In addition, we identify qualitative risks that are difficult to quantify, and identify and organize risks that management considers important through interviews with management.

Based on this, we have identified the key risks that management acknowledges have the potential to significantly impact the Group's financial position, operating results, and cash flow status (hereinafter referred to collectively as "operating results, etc.").

Visual representation of risk map



(2) The Group's risk management

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 also has clarified the scope and requirements, etc. of risk management in the "Business Risk Management Charter" and complied with and practiced it, and 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. In addition, 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.

The items under "(3) Key risks" below provide examples of the key risks acknowledged by the Group and specific measures we have implemented in advance to address them. However, the measures taken by the Group are not limited to these examples. We are also pursuing initiatives to avoid or mitigate risks, including those other

than the key risks, in accordance with the type and nature of each risk, and we strive to minimize the impact should any risk materialize.

(3) Key risks

Among the items regarding the business status, accounting status, and other matters disclosed in the Financial Report, the key risks that management acknowledges have the potential to significantly impact the Group's operating results, etc. include those listed below.

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, 2026.

a) RISKS RELATED TO CHANGES IN THE EXTERNAL ENVIRONMENT

(i) Changes in political and economic conditions, etc.

Factors such as deepening global divisions caused by international conflicts, abrupt shifts in existing policies, and the rise of populism; reduced freedom of economic activity due to protectionist policies; demands from various stakeholders regarding business operations and management policies; reduced production, rising costs, and stagnation of business activities due to conflicts and terrorism in the Middle East; fluctuations in exchange rates and interest rates as well as rapid inflation; and rising production costs resulting from soaring material, transportation, and prices would have the potential to materially impact the Group's operating results, etc.

(ii) Weakening of the manufacturing industry foundation

In Japan, competition for talent is intensifying due to a worsening labor shortage caused by a shrinking population, decreasing birthrate and aging population, and increased mobility of human resources. Furthermore, the ongoing depreciation of the yen is expected to lead to a brain drain of top domestic talent and difficulties in recruiting overseas. In addition, as young people increasingly turn away from the manufacturing industry, the number of engineering departments and students in educational institutions is declining, which may make it difficult to secure young talent. Moreover, a shortage of skilled workers and digital talent, including among suppliers, could lead to a critical loss of technical knowledge and skills. The Group is working to strengthen its technological and talent foundations through methods such as utilizing AI to capture the knowledge of skilled workers in order to pass on skills to the next generation. However, a decrease in the Group's competitiveness resulting from a labor shortage weakening the manufacturing industry's foundation would have the potential to materially impact the Group's operating results, etc.

(iii) Advancement and widespread adoption of AI and digital technologies

Digital technologies, including AI, have been rapidly advancing and becoming widespread in recent years. Consequently, factors such as the erosion of our technological advantage due to the replacement of our skilled expertise with physical AI^{*1}; delays in operational efficiency resulting from the failure to effectively utilize AI agents^{*2}; delays in complying with AI-related regulations in Japan and overseas; and the obsolescence of existing business models due to the business expansion of startups would have the potential to materially impact the Group's operating results, etc. Furthermore, the development of new technologies by competitors or the shift toward alternative products could lead to the obsolescence of our products and technologies or a decline in market share, which would have the potential to materially impact the Group's operating results, etc.

*1 AI that operates in conjunction with equipment and devices in physical spaces

*2 AI that autonomously makes judgments and executes tasks

(iv) Changes in the market, etc.

In our Medium-term Business Plan (2024 Business Plan), the Group identified Energy Transition as a growth area in light of the trend toward decarbonization. However, recognizing that we are proceeding along a realistic path that considers energy security and the maintenance of industrial competitiveness, we are developing various products, such as CO₂ capture systems, with a view to providing solutions that also offer economic rationality.

On the other hand, factors such as intensifying competition due to the overseas expansion of foreign companies; difficulties in procuring materials and parts, including rare metals; changes in the market

environment and demand for products and services resulting from various regulations, including decarbonization-related laws; a reduction in after-sales service due to the reduced operation or suspension of our products resulting from customer circumstances; intensifying price competition with competitors; and damage to our social reputation and credibility caused by the spread of critical information would have the potential to materially impact the Group's operating results, etc.

b) RISKS RELATED TO DISASTERS, ETC.

Factors such as the occurrence of natural disasters (such as earthquakes, tsunamis, floods, torrential rains, storms, volcanic eruptions, fires, lightning strikes, and global pandemics); an increase in their frequency and the severity of their damage; as well as conflicts and terrorism, political instability, anti-Japan movements, crimes such as hostage-taking and abduction, unlawful detention, labor disputes, the aging and increasing vulnerability of social infrastructure (including power, water, sewage, transportation, and telecommunications), major accidents, and work-related accidents could result in various types of property damage and personal injury. Should these events hinder the smooth conduct of economic activities, they would have the potential to materially impact the Group's 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 at these facilities, 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, as well as loss of alternative production equipment or suppliers, and damage not covered by insurance, etc. The resulting reduced operation and idling of production plants, etc. would have the potential to materially impact the Group's operating results, etc.

The Group is engaged in business continuity management activities to mitigate these impacts, including establishing reporting systems for disasters and other emergencies and formulating and maintaining business continuity plans. We also implement measures to address various risks through initiatives such as promoting the seismic retrofitting of facilities, conducting regular factory inspections and training exercises, and obtaining appropriate insurance coverage. In addition, we continuously gather information on the political situation and safety conditions in various countries, respond appropriately based on this information, and collaborate with relevant governmental agencies.

c) RISKS RELATED TO PRODUCTS AND SERVICES

As a global leader in manufacturing and engineering, the Group leverages advanced technologies to provide solutions for a wide range of fields, from Energy Systems, Plants & Infrastructure Systems, through Logistics, Thermal & Drive Systems, to Aircraft, Defense & Space. The Group makes unceasing efforts to improve the quality and reliability of its products and services, but there is nevertheless the potential for problems with product performance and quality or delivery delay, or safety issues. 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, or claims for damages and contract cancellations from customers due to delivery delays, quality problems, and underperformance of the products, etc. There is also the potential for similar problems arising from products, services or quality, etc. in relations with our suppliers or collaborative partners. In addition, our ability to 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 a supplier of a specific raw material or part that allows limited substitution because the supplier has been bought out by a competitor or become subject to bankruptcy or closure; a situation where a supplier faces a shortage of labor, quality issues, process disruptions, or other such concerns.

The occurrence of such product- and service-related problems could lead to the loss of societal reputation and trust, etc. Customers, suppliers and other third parties may bring legal action or arbitration against the Group in Japan or overseas. 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, factors such as the deterioration of the financial condition or bankruptcy of customers on whom the

Group relies heavily on their budgets, and the deterioration of the financial condition or bankruptcy of business partners or changes in their business policies would have the potential to materially impact the Group's operating results, etc.

The Group takes steps to mitigate these risks, such as through 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 as well as management, 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.

d) RISKS RELATED TO INTELLECTUAL PROPERTY DISPUTES

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, the potential that third parties may allege that the Group is infringing on their intellectual property, or that current or former employees may pursue legal action regarding compensation for employee inventions cannot be ignored. If competitors, current or former employees took legal action, etc. 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 the Group's operating results, etc. Also, in the case that third parties hold rights of technologies necessary to the execution of our business, we face the risk of being unable to execute our business due to being unable to introduce licenses for such technologies from third parties.

The Group appropriately protects its intellectual property through patent and other rights. It also respects the intellectual property of third parties, makes efforts to avoid infringement, and takes appropriate 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.

e) RISKS RELATED TO CYBERSECURITY AND INFORMATION MANAGEMENT

Cyberattack methods have become increasingly sophisticated and advanced in recent years, raising the risk of cyberattacks by third parties. Cyberattacks could cause disruptions to core systems essential for order management and production activities, lead to temporary business suspensions, and result in significant recovery costs and liability for damages, all of which would have the potential to materially impact the Group's operating results, etc.

In addition, the Group acquires and holds confidential information related to customers as well as the Group's technology, sales, and other business operations through its business activities. If confidential information held by MHI is lost or leaked outside the company due to cyberattacks or misconduct by current or former employees, this could result in a significant decline in competitiveness, a loss of social reputation and trust, and investigations by regulatory authorities or claims for damages from customers and others, which would have the potential to materially impact the Group's business operations.

The Group has established a cybersecurity promotion structure and is continuously strengthening controls against these risks (including developing regulations, conducting self-assessments/inspections, raising awareness/education/training, implementing defense measures, and developing detection systems). Additionally, we are working to foster employee awareness through initiatives such as distributing a handbook that clearly summarizes basic information management requirements for employees and conducting regular training sessions.

f) RISKS RELATED TO VIOLATIONS OF LAWS AND REGULATIONS, 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 anti-monopoly laws, laws ensuring proper transactions involving small and medium-sized entrusted business operators, and anti-dumping laws; laws and regulations related to bribery, trade and foreign exchange; business-related laws and regulations, such as the construction industry law; law on the protection of personal information; and the securities listing regulations at financial instrument exchanges (all of which are hereinafter collectively referred to as "laws and regulations"). We also

have to be responsible regarding human rights including those within the supply chain. However, we cannot rule out the possibility that some officers or employees may violate laws and regulations, etc. or cause human rights violations. 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 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, the infringement of laws and regulations or human rights violations could lead to a loss of the Group's social standing and credibility, which could in turn have a significant impact on the Group's business operations. Taking into account the nature of the Group, the infringement of anti-monopoly laws in Japan and overseas, laws and regulations related to bribery, trade and foreign exchange, the construction industry law, and laws ensuring proper transactions involving small and medium-sized entrusted business operators, etc. could have a particularly significant impact on the Group.

Therefore, the Group ensures compliance with laws and regulations by our officers and employees, and 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 education on compliance 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 respect human rights.

AUDIT FEES

(1) Fees for MHI's Accounting Auditor

(Millions of yen)

Category	2025		2026	
	Fees for audit services	Fees for non-audit services	Fees for audit services	Fees for non-audit services
MHI	492	95	556	188
Consolidated subsidiaries	250	—	303	—
Total	743	95	859	188

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, 2025, amounted to ¥85 million.

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

(Millions of yen)

Category	2025		2026	
	Fees for audit services	Fees for non-audit services	Fees for audit services	Fees for non-audit services
MHI	—	202	—	226
Consolidated subsidiaries	1,277	962	1,905	1,035
Total	1,277	1,164	1,905	1,262

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, 2025	As of March 31, 2026
ASSETS			
Current assets:			
Cash and cash equivalents	5, 10	657,816	1,334,874
Trade and other receivables	6, 10, 24, 36	984,684	1,108,557
Other financial assets	7, 10, 36	41,959	56,836
Contract assets	24, 36	791,871	1,019,196
Inventories	11, 24	1,062,532	1,041,899
Assets held for sale	12	3,718	548,409
Other current assets	21	369,048	330,652
Total current assets		3,911,632	5,440,426
Non-current assets:			
Property, plant and equipment ("PPE")	13, 15	935,096	794,467
Goodwill	14, 15	172,947	106,394
Intangible assets	14, 15	87,269	77,471
Right-of-use assets	15, 18	86,996	62,849
Investments accounted for using the equity method	17	295,172	326,932
Other financial assets	7, 10, 36	470,907	489,341
Deferred tax assets	16	259,942	84,810
Other non-current assets	15, 21	438,960	887,018
Total non-current assets		2,747,292	2,829,285
Total assets		6,658,924	8,269,711

See accompanying notes to the consolidated financial statements.

(Millions of yen)

	Notes	As of March 31, 2025	As of March 31, 2026
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities:			
Bonds, borrowings and other financial liabilities	9, 10, 36	280,528	255,067
Trade and other payables	8, 10, 36	930,281	1,000,863
Income taxes payable		25,282	86,557
Contract liabilities	24	1,443,983	2,161,881
Provisions	19	229,032	244,851
Liabilities directly associated with assets held for sale	12	-	281,931
Other current liabilities	21	237,191	230,058
Total current liabilities		3,146,299	4,261,212
Non-current liabilities:			
Bonds, borrowings and other financial liabilities	9, 10, 36	850,746	621,173
Deferred tax liabilities	16	9,594	11,099
Retirement benefit liabilities	20	72,042	56,701
Provisions	19	72,102	54,905
Other non-current liabilities	21	38,315	36,218
Total non-current liabilities		1,042,801	780,098
Total liabilities		4,189,101	5,041,310
Equity			
Share capital	22	265,608	265,608
Capital surplus	22	44,742	48,274
Treasury shares		(16,452)	(12,915)
Retained earnings	22	1,588,643	1,880,339
Other components of equity	31	464,159	907,258
Equity attributable to owners of the parent		2,346,702	3,088,566
Non-controlling interests	31	123,121	139,834
Total equity		2,469,823	3,228,400
Total liabilities and equity		6,658,924	8,269,711

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Profit or Loss

(Millions of yen)

	Notes	2025	2026
Continuing operations			
Revenue	24	4,361,127	4,974,168
Cost of sales		3,490,008	3,891,494
Gross profit		871,119	1,082,674
Selling, general and administrative expenses	25	584,085	632,810
Share of profit (loss) of investments accounted for using the equity method	17	(2,607)	16,690
Other income	26	91,967	35,619
Other expenses	26	21,427	69,954
Profit from business activities		354,965	432,218
Finance income	28	12,779	59,460
Finance costs	28	15,672	16,984
Profit before income taxes		352,073	474,694
Income taxes	16	106,409	116,306
Profit from continuing operations		245,663	358,387
Discontinued operations			
Profit (loss) from discontinued operations	29	16,333	(12,445)
Profit		261,997	345,942
Profit attributable to:			
Owners of the parent		245,447	332,129
Non-controlling interests		16,549	13,812

(Yen)

		2025	2026
Earnings per share attributable to owners of the parent	30		
Basic earnings (loss) per share		73.04	98.86
Continuing operations		69.95	104.68
Discontinued operations		3.10	(5.82)
Diluted earnings (loss) per share		73.02	98.84
Continuing operations		69.93	104.66
Discontinued operations		3.10	(5.82)

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Notes	2025	2026
Profit		261,997	345,942
Items that will not be reclassified to profit or loss:			
Net gains from financial assets measured at FVTOCI	10, 31	(42,506)	80,464
Remeasurement of defined benefit plans	20, 31	(8,581)	291,168
Share of other comprehensive income of entities accounted for using the equity method	17, 31	872	1,345
Total		(50,215)	372,978
Items that may be reclassified to profit or loss:			
Cash flow hedges	31, 36	1,100	(3,670)
Exchange differences on translating foreign operations	31	(10,660)	104,290
Share of other comprehensive income of entities accounted for using the equity method	17, 31	991	19,402
Total		(8,568)	120,022
Total other comprehensive income		(58,784)	493,000
Comprehensive income		203,213	838,943
Comprehensive income attributable to:			
Owners of the parent		186,470	815,370
Non-controlling interests		16,742	23,572

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					Total	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity			
Balance as of April 1, 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) 31					(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 23				(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
Profit				332,129		332,129	13,812	345,942
Other comprehensive income 31					483,240	483,240	9,760	493,000
Comprehensive income (loss)	—	—	—	332,129	483,240	815,370	23,572	838,943
Transfer to retained earnings				40,137	(40,137)	—		—
Purchase of treasury shares			(6)			(6)		(6)
Disposal of treasury shares		11	33			44		44
Dividends 23				(80,615)		(80,615)	(7,755)	(88,371)
Others		3,520	3,510	43	(3)	7,070	895	7,966
Total transactions with owners	—	3,531	3,537	(80,571)	(3)	(73,506)	(6,860)	(80,366)
Balance as of March 31, 2026	265,608	48,274	(12,915)	1,880,339	907,258	3,088,566	139,834	3,228,400

Consolidated Statement of Cash Flows

(Millions of yen)

	Notes	2025	2026
Cash flows from operating activities:			
Profit before income taxes		352,073	474,694
Profit (loss) before income taxes from discontinued operations	29	22,458	(5,550)
Depreciation, amortization and impairment loss		160,643	211,214
Finance income and costs		6,623	(73,730)
Share of profit of investments accounted for using the equity method		2,754	(16,717)
Loss (gain) on sale of PPE, and intangible assets		(70,510)	(8,690)
Loss on disposal of PPE, and intangible assets		10,399	9,625
Decrease (increase) in trade receivables		(29,668)	(201,178)
Decrease (increase) in contract assets		(56,725)	(208,901)
Decrease (increase) in inventories and advanced payments		(147,467)	(37,675)
Increase (decrease) in trade payables		13,481	107,671
Increase (decrease) in contract liabilities		361,023	663,533
Increase (decrease) in provisions		8,094	3,274
Increase (decrease) in retirement benefit liabilities		17,821	33,258
Others	26	(26,260)	8,556
Subtotal		624,739	959,382
Interest received		10,804	14,010
Dividends received	26	15,796	25,769
Interest paid		(14,457)	(11,546)
Income taxes paid		(106,424)	(44,997)
Net cash provided by operating activities		530,459	942,619

(Millions of yen)

Notes	2025	2026
Cash flows from investing activities:		
Payments into fixed-term deposits	(26,780)	(23,526)
Proceeds from withdrawal of fixed-term deposits	24,825	23,826
Purchases of PPE and intangible assets	(240,692)	(181,064)
Proceeds from sales of PPE and intangible assets	76,474	14,612
Purchases of investments (including investments accounted for using the equity method)	(63,885)	(7,493)
Proceeds from sales and redemption of investments (including investments accounted for using the equity method)	58,672	101,609
Proceeds from sales of businesses (including subsidiaries)	—	4,894
Payments for sales of businesses (including subsidiaries)	(1,475)	—
Payments for acquisition of businesses (including subsidiaries)	(1,509)	(27,054)
Net decrease (increase) in short-term loans	519	(348)
Disbursement of long-term loans	(15,675)	(353)
Collection of long-term loans	121	312
Payments for derivative transactions	(100,520)	(43,649)
Proceeds from derivative transactions	108,484	98,972
Others	(6,273)	(9,912)
Net cash provided by (used in) investing activities	(187,714)	(49,175)

(Millions of yen)

	Notes	2025	2026
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	9	(9,389)	(16,162)
Proceeds from long-term borrowings	9	9,012	1,000
Repayment of long-term borrowings	9	(76,629)	(66,546)
Proceeds from issuance of bonds	9	30,000	10,000
Payment for redemption of bonds	9	(30,000)	(35,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	9	(1,806)	—
Dividends paid to owners of the parent	23	(77,165)	(80,481)
Dividends paid to non-controlling interests		(7,659)	(7,796)
Payments for purchase of treasury shares		(12,366)	(184)
Proceeds from factoring agreements	9	283,678	85,243
Repayment of liabilities under factoring agreements	9	(192,643)	(135,557)
Repayment of lease liabilities	9	(27,834)	(27,855)
Others		(1,318)	(1,212)
Net cash provided by (used in) financing activities		(114,123)	(274,553)
Effect of exchange rate changes on cash and cash equivalents		(2,091)	79,518
Net increase (decrease) in cash and cash equivalents		226,529	698,407
Cash and cash equivalents at the beginning of the year	5	431,287	657,816
Cash and cash equivalents included in assets held for sale	12	—	(21,350)
Cash and cash equivalents at the end of the year	5	657,816	1,334,874

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-sales 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 24, 2026.

(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 have been issued or amended by the date of approval of the consolidated financial statements but have not been applied as of March 31, 2026 since application are not mandatory are 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 the 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 is 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 (9) Intangible assets")
- Recognition of revenue (Note 3. "Material Accounting Policies (14) 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 (11) Impairment of non-financial assets", 15. "Impairment of non-financial assets", 17. "Investments Accounted for Using the Equity Method")
- Measurement of provisions (Note 3. "Material Accounting Policies (12) Provisions", 19. "Provisions")
- Measurement of defined benefit obligations (Note 3. "Material Accounting Policies (13) Post-employment benefits", 20. "Employee Benefits")
- Measurement of revenue (Note 3. "Material Accounting Policies (14) Revenue", 24. "Revenue")
- Recoverability of deferred tax assets (Note 3. "Material Accounting Policies (18) Income taxes", 16. "Income Taxes")

(6) Change in presentation

During the fiscal year ended March 31, 2026, the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.), a consolidated subsidiary of MHI, and its subsidiaries and affiliates as discontinued operations.

As a result, the Consolidated statement of profit or loss and the related notes to the Consolidated Financial Statements for the fiscal year ended March 31, 2025 have been partially reclassified.

Assets and liabilities related to such business in the Consolidated statement of financial position have been classified as a disposal group held for sale and presented as "Assets held for sale" and "Liabilities directly associated with assets held for sale."

In the Consolidated statement of cash flows, cash flows from operating activities, investing activities and financing activities are presented as the aggregate amounts of cash flows arising from both continuing operations and discontinued operations. Cash flows arising from discontinued operations are as described in Note 29.

"Discontinued operations."

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, and 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 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 intends 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) Assets held for sale and Discontinued operations

Non-current assets or disposal groups for which recovery is considered highly probable principally through sale rather than through continuing use are classified as assets held for sale.

Assets held for sale are not depreciated or amortized and are measured at the lower of their carrying amount and fair value less costs to sell.

Discontinued operations include non-current assets or disposal groups that have been disposed of or classified as held for sale and are recognized when they constitute a major business or geographical area of the Group and there is a plan to dispose of such business or geographical area.

(8) 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 sites 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 PPE are as follows:

- Buildings and structures: 2 to 70 years
- Machinery and transportation equipment: 2 to 20 years
- Tools, equipment and furniture: 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.

(9) 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 combinations: 7 to 25 years
- Customer relationships recognized through business combinations: 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.

(10) 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 the Group's assessment of whether such options will be exercised.

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.

(11) 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 reassesses the possibility that the impairment loss will be reversed, at the end of each reporting period.

(12) 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.

(13) 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.

(14) 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 an asset 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 or 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.

(15) 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.

(16) 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.

(17) 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.

Grants associated with assets are presented by deducting the grants from the acquisition cost of the assets.

(18) 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, the Group 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"], Steam power), Nuclear power generation system (Light-water reactors, Nuclear fuel cycle & Advanced solutions), Wind power generators, Engines for aircrafts, Compressors, Marine machinery
Plants & Infrastructure Systems	Metals machinery, Commercial ships, Engineering (Transportation system, Chemical plant), Environmental systems, Machinery Systems (Paper converting machinery, Intelligent transport systems ["ITS"], Test equipment)
Logistics, Thermal & Drive Systems	Air-conditioning & refrigeration systems, Engines, Turbochargers, Automotive thermal systems
Aircraft, Defense & Space	Commercial aviation, Defense aircraft, Missile systems, Naval ships, Maritime systems (Torpedoes), Special vehicles (Tanks), Space systems

The Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates, which were included in "Logistics, Thermal & Drive Systems" as discontinued operations for the fiscal year ended March 31, 2026 and has deducted them from the amounts for the fiscal years ended March 31, 2025 and March 31, 2026.

The segment information for the fiscal year ended March 31, 2025 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, 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	636,609	1,029,291	4,275,957	73,215	4,349,172	11,955	4,361,127
Inter-segment revenue and transfers	11,918	45,935	4,426	1,354	63,634	1,259	64,893	(64,893)	—
Total	1,815,796	852,112	641,035	1,030,646	4,339,591	74,474	4,414,065	(52,938)	4,361,127
Segment profit *3	205,356	59,634	20,480	99,984	385,455	30,002	415,457	(60,491)	354,965
Finance income									12,779
Finance costs									15,672
Profit before income taxes									352,073
Other items									
Depreciation and amortization	40,028	11,459	17,382	27,383	96,254	8,230	104,484	10,465	114,949
Impairment losses	735	70	1,154	44	2,003	—	2,003	—	2,003
Share of profit of investments accounted for using the equity method	10,591	1,967	(213)	1,208	13,553	(18,154)	(4,600)	1,993	(2,607)

For the fiscal year ended March 31, 2026 (from April 1, 2025 to March 31, 2026)

(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	2,053,956	814,757	624,860	1,392,898	4,886,472	74,467	4,960,939	13,228	4,974,168
Inter-segment revenue and transfers	8,644	66,135	5,966	960	81,707	1,527	83,234	(83,234)	—
Total	2,062,600	880,893	630,826	1,393,858	4,968,179	75,994	5,044,174	(70,005)	4,974,168
Segment profit *3	267,272	84,106	33,066	151,505	535,950	(26,810)	509,140	(76,921)	432,218
Finance income									59,460
Finance costs									16,984
Profit before income taxes									474,694
Other items									
Depreciation and amortization	41,777	13,574	16,462	29,545	101,360	7,653	109,014	12,474	121,488
Impairment losses	2,502	17	4,526	8,791	15,837	30,096	45,933	247	46,181
Share of profit of investments accounted for using the equity method	12,922	1,519	(628)	27	13,841	313	14,155	2,535	16,690

- *1. "Others" includes businesses related to growth areas such as data center & energy management 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, corporate research and development expenses and dividends on shares concerning corporate overall businesses.
- *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)

	2025	2026
Japan	2,000,488	2,352,063
U.S.A.	809,198	1,094,694
Asia	731,033	660,156
Europe	384,154	404,099
Central and South America	129,650	144,326
Africa	54,847	25,239
Middle East	125,973	156,840
Others	125,780	136,747
Total	4,361,127	4,974,168

The major countries or regions in the category of the above table are as follows:

- (i) Asia... China, India, Taiwan, Singapore, South Korea, Thailand, Vietnam, the Philippines, Indonesia, Malaysia, Hong Kong, and Macau
- (ii) Europe... Germany, the United Kingdom, Uzbekistan, Spain, Austria, Poland, the Netherlands, France, Italy, Kazakhstan, Turkmenistan, Ireland, Sweden, Serbia, Belgium, and Finland
- (iii) Central and South America... Mexico, Brazil, Puerto Rico, and Panama
- (iv) Africa... Morocco, Algeria, South Africa, and Egypt
- (v) Middle East... Saudi Arabia, Qatar, Turkey, the United Arab Emirates, Kuwait, Israel, Oman, and Bahrain
- (vi) Others... Canada and Australia

b) Non-current assets

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Japan	870,065	770,897
Overseas subtotal	498,943	362,208
Total	1,369,009	1,133,105

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 the Ministry of Defense. Its revenue mainly belonged to the reporting segment of Aircraft, Defense & Space and the amounts of revenue were ¥704,181 million and ¥1,006,022 million for the fiscal years ended March 31, 2025 and March 31, 2026, respectively.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Cash and deposits	657,785	1,334,846
Cash equivalents	30	27
Total	657,816	1,334,874

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, 2025	As of March 31, 2026
Trade receivables	897,727	1,047,412
Others	86,956	61,145
Total	984,684	1,108,557

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, 2025 and March 31, 2026, were ¥36,317 million and ¥49,126 million, respectively.

7. Other Financial Assets

(1) Breakdown of other financial assets

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Financial assets at FVTPL		
Derivative assets *1	6,295	16,156
Financial assets at FVTOCI		
Shares and other investments in capital	358,272	383,230
Financial assets measured at amortized cost		
Fixed-term deposits due more than three months	26,972	29,577
Long-term loans	19,150	15,753
Receivables under service concession agreements *2	71,707	77,322
Others	30,469	24,137
Total	512,867	546,178

Current assets	41,959	56,836
Non-current assets	470,907	489,341
Total	512,867	546,178

*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 a 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, 2025	As of March 31, 2026
Marketable securities *1	190,182	199,778
Non-marketable securities *2	168,089	183,451
Total	358,272	383,230

*1. Marketable securities designated as FVTOCI

Major marketable securities designated as FVTOCI, of entities in which the Group invests, as of March 31, 2025 and March 31, 2026, are as follows:

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

As of March 31, 2026

		(Millions of yen)
Entity name	Fair value	
Vestas Wind Systems A/S		36,148
Central Japan Railway Company		30,270
The Kansai Electric Power Company, Inc.		15,494
Japan Engine Corporation		15,208
The Japan Steel Works, Ltd.		8,422
TECHNO RYOWA LTD.		8,246
Kyushu Electric Power Company, Inc.		7,186
East Japan Railway Company		7,014
Mitsubishi Motors Corporation		6,627
Namura Shipbuilding Co., Ltd.		5,899

*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 Limited and Orano S.A. The total fair values of nuclear energy related securities as of March 31, 2025 and March 31, 2026 were ¥45,954 million and ¥52,488 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 values of chemical plant related securities as of March 31, 2025 and March 31, 2026 were ¥40,014 million and ¥46,620 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 following are the amounts of dividend income from financial assets at FVTOCI that were recognized for the fiscal years ended March 31, 2025 and March 31, 2026.

(Millions of yen)

	2025	2026
Dividend income from investments derecognized during the year	840	871
Dividend income from investments held as of the year end	10,561	13,142
Total	11,401	14,013

c) Financial assets at FVTOCI derecognized

The following are the fair values, at the date of derecognition, of derecognized financial assets at FVTOCI, and the associated accumulated gains or losses, and the amounts transferred to retained earnings during the fiscal years ended March 31, 2025 and March 31, 2026.

(Millions of yen)

	2025	2026
Fair value at the date of derecognition	26,000	101,329
Accumulated gains	18,125	29,661

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, 2025 and March 31, 2026 were ¥(13,742) million and ¥40,068 million, respectively.

8. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Trade payables	862,404	942,422
Others	67,876	58,440
Total	930,281	1,000,863

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, 2025	As of March 31, 2026
Financial liabilities measured at amortized cost		
Bonds *1	225,000	200,000
Short-term borrowings *2, 3, 4	62,307	14,703
Long-term borrowings *2, 3	305,621	238,429
Non-recourse borrowings *2, 3	58,458	62,601
Others	77,653	93,603
Financial liabilities at FVTPL		
Derivative liabilities *5	6,331	12,332
Liabilities under factoring agreements *6	288,041	174,610
Lease liabilities	107,861	79,960
Total	1,131,274	876,241
Current liabilities	280,528	255,067
Non-current liabilities	850,746	621,173
Total	1,131,274	876,241

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

(Millions of yen)

Company name Issue name	Date of issue	As of March 31, 2025	As of March 31, 2026	Interest rate	Date of maturity
Mitsubishi Heavy Industries, Ltd.					
The 31st Unsecured Corporate Bond	Sep 2, 2015	10,000	—	0.630%	2025.9.2
The 33rd Unsecured Corporate Bond	Aug 31, 2016	10,000	10,000	0.240%	2026.8.31
The 35th Unsecured Corporate Bond	Aug 29, 2017	10,000	10,000	0.330%	2027.8.27
The 36th Unsecured Corporate Bond	Nov 24, 2020	25,000	—	0.140%	2025.11.21
The 37th Unsecured Corporate Bond	Nov 24, 2020	40,000	40,000	0.390%	2030.11.22
The 38th Unsecured Corporate Bond	Sep 1, 2021	15,000	15,000	0.090%	2026.9.1
The 39th Unsecured Corporate Bond	Sep 1, 2021	40,000	40,000	0.270%	2031.9.1
The 40th Unsecured Corporate Bond	Sep 8, 2022	10,000	10,000	0.310%	2027.9.8
The 41st Unsecured Corporate Bond	Sep 8, 2022	10,000	10,000	0.629%	2032.9.8
The 42nd Unsecured Corporate Bond	Aug 31, 2023	10,000	10,000	0.459%	2028.8.31
The 43rd Unsecured Corporate Bond	Aug 31, 2023	15,000	15,000	0.962%	2033.8.31
The 44th Unsecured Corporate Bond	Sep 5, 2024	10,000	10,000	0.700%	2029.9.5
The 45th Unsecured Corporate Bond	Sep 5, 2024	20,000	20,000	1.302%	2034.9.5
The 46th Unsecured Corporate Bond	Sep 3, 2025	—	10,000	1.341%	2030.9.3
Total		225,000	200,000		

*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, 2026, is 1.96%.

The weighted average interest rate for long-term and non-recourse borrowings applicable to the fiscal year ended March 31, 2026, is 0.99%.

Long-term and non-recourse borrowings will be due in 2026 through 2043.

*3. Secured borrowings:

Not applicable.

*4. Offsetting of financial assets and financial liabilities

The Group has notional pooling agreements with financial institutions.

Under the relevant agreements, the Group offsets "Cash and cash equivalents" and "Bonds, borrowings, and other financial liabilities" recognized with the same counterparty and presents the net amount on the consolidated statement of financial position as follows:

	(Millions of yen)	
	As of March 31, 2025	As of March 31, 2026
Cash and cash equivalents		
Total Amount Recognized	15,337	23,598
Amount Offset	(14,999)	(9,999)
Amount Reported in the Consolidated Statement of Financial Position	337	13,599
Bonds, borrowings, and other financial liabilities		
Total Amount Recognized	14,999	9,999
Amount Offset	(14,999)	(9,999)
Amount Reported in the Consolidated Statement of Financial Position	—	—

*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, 2026, 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 payments for these factoring agreements will be due in 2026 through 2029.

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 as of March 31, 2025 were ¥10,769 million, ¥213,229 million and ¥58,829 million. The amounts of trade receivables and contract assets transferred without qualifying for derecognition as of March 31, 2026 were ¥57,845 million and ¥113,904 million, respectively, and there was no PPE transferred without qualifying for derecognition.

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, 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

For the fiscal year ended March 31, 2026 (from April 1, 2025 to March 31, 2026)

(Millions of yen)

	Carrying amount as of April 1, 2025	Cash flows	Non-cash transactions				Carrying amount as of March 31, 2026
			Changes in fair value	Foreign currency translation	New contracts	Other movements *1	
Bonds	225,000	(25,000)	—	—	—	—	200,000
Short-term borrowings	62,307	(16,162)	—	781	—	(32,223)	14,703
Long-term borrowings	305,621	(64,506)	—	113	—	(2,799)	238,429
Non-recourse borrowings	58,458	(1,039)	—	6,303	—	(1,120)	62,601
Liabilities under factoring agreements	288,041	(50,314)	—	5,505	—	(68,622)	174,610
Lease liabilities	107,861	(27,855)	—	5,301	27,314	(32,661)	79,960
Other liabilities *2	13,867	(557)	—	—	—	484	13,794
Total	1,061,157	(185,436)	—	18,006	27,314	(136,943)	784,099

*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 methods of measuring the fair values of financial assets and liabilities are as follows.

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

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

b) Bonds and borrowings

Short-term borrowings and commercial paper are measured at carrying amount because they approximate 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 is measured at market price. The fair value of non-marketable shares and investments in capital is 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 one 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, 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

As of March 31, 2026

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	199,778	—	183,451	383,230
Derivatives	—	16,156	—	16,156
Total	199,778	16,156	183,451	399,386
Liabilities:				
Derivatives	—	11,646	686	12,332
Total	—	11,646	686	12,332

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, 2025 and March 31, 2026.

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, 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

For the fiscal year ended March 31, 2026 (from April 1, 2025 to March 31, 2026)

(Millions of yen)

	Balance as of April 1, 2025	Purchase	Changes in fair value *1	Sale	Others *2	Balance as of March 31, 2026
Securities and investments in capital	168,089	4,655	16,461	(2,758)	(2,996)	183,451

*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. As the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as discontinued operations, “Others” for the fiscal year ended March 31, 2026 includes a decrease of ¥6,325 million reclassified to “Assets held for sale.”

There were no material changes for derivative assets and liabilities for the fiscal years ended March 31, 2025 and March 31, 2026.

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 0.7 to 2.3 times for the fiscal year ended March 31, 2025, and within a range from 0.9 to 2.1 times for the fiscal year ended March 31, 2026.

The significant unobservable inputs used for the discounted cash flow method are the discount rates applied; the estimated fair value of these instruments would decrease (increase) 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, 2025 and between 8.0% and 12.8% for the fiscal year ended March 31, 2026.

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, 2025		As of March 31, 2026	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost				
Receivables under service concession arrangements	71,707	70,520	77,322	80,399
Deposits	—	—	12,128	8,905
Financial liabilities measured at amortized cost				
Bonds	225,000	216,071	200,000	187,388
Long-term borrowings	305,621	290,500	238,429	223,148
Non-recourse borrowings	58,458	58,458	62,601	62,601

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”.

Non-recourse borrowings classified as non-current include borrowings for which the Group has obtained consent from the counterparty financial institutions to waive the right to demand lump-sum repayment in relation to financial covenants.

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, 2025	As of March 31, 2026
Merchandise and finished products	334,228	297,682
Work in progress	473,774	508,250
Raw materials and supplies	216,515	203,771
Capitalized contract costs	38,015	32,193
Total	1,062,532	1,041,899

The amounts of inventories to be used or sold after more than 12 months from the year-end were ¥110,898 million and ¥121,777 million as of March 31, 2025 and March 31, 2026, respectively.

Write-downs or reversals of write-downs (A negative amount indicates a reversal) of inventories recognized as expenses for the fiscal years ended March 31, 2025 and March 31, 2026 were ¥(1,335) million and ¥5,313 million, respectively. The reversal for the fiscal year ended March 31, 2025 was mainly due to an increase in net realizable value.

For details of the contract costs included in inventories, refer to Note 24. "Revenue."

12. Assets Held for Sale

Assets held for sale and liabilities directly associated with assets held for sale are comprised of the following.

(i) Assets held for sale

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Cash and cash equivalents	—	21,350
Trade and other receivables	—	113,043
Contract assets	—	1,261
Inventories	—	109,256
Property, plant and equipment ("PPE")	3,718	196,356
Goodwill	—	27,186
Intangible assets	—	16,673
Right-of-use assets	—	28,567
Investments accounted for using the equity method	—	1,439
Other financial assets	—	10,767
Deferred tax assets	—	7,998
Other assets	—	14,509
Total	3,718	548,409

(ii) Liabilities directly associated with assets held for sale

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Bonds, borrowings and other financial liabilities	—	129,843
Trade and other payables	—	70,500
Income taxes payable	—	2,011
Contract liabilities	—	11,759
Retirement benefit liabilities	—	12,655
Provisions	—	10,010
Deferred tax liabilities	—	1,831
Other current liabilities	—	43,318
Total	—	281,931

Assets held for sale as of March 31, 2025 were mainly PPE expected to be sold within one year. Assets held for sale and associated liabilities as of March 31, 2026 are mainly related to the business of Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as described in Note 29. "Discontinued operations".

In addition, the disposal group classified as held for sale as of March 31, 2026 is measured at fair value less costs to sell because the fair value less costs to sell is lower than the carrying amount.

The fair value is measured based on the share price as of March 31, 2026, and is categorized within Level 1 of the fair value hierarchy.

Accumulated other comprehensive income related to the relevant business (mainly foreign currency translation differences of overseas operations) of ¥26,968 million is included in "Other components of equity" in the consolidated statement of financial position as of March 31, 2026.

13. PPE

Changes in book values, 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, 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
Acquisition	1,581	33,339	2,999	1,206	181,067	220,195
Depreciation *	(26,677)	(56,743)	(29,040)	—	—	(112,460)
Impairment	(1,605)	(945)	(348)	(3,733)	(2,572)	(9,205)
Transfer of accounts	54,665	79,914	40,641	4,489	(181,035)	(1,324)
Transfer to held-for-sale	(26,839)	(139,520)	(3,526)	(28,489)	(2,024)	(200,400)
Sales or disposals	(2,179)	(3,670)	(1,077)	(2,677)	(611)	(10,216)
Exchange differences	6,783	12,740	2,135	1,248	1,691	24,599
Other changes	(17,001)	(22,449)	(3,333)	0	(9,031)	(51,816)
As of March 31, 2026	360,770	199,152	66,390	118,475	49,678	794,467

(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, 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
As of March 31, 2026	923,283	1,252,855	552,160	122,894	53,305	2,904,499

(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, 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
As of March 31, 2026	562,513	1,053,702	485,770	4,419	3,626	2,110,032

* Depreciation is included in "Cost of sales", "Selling, general and administrative expenses" and "Profit (loss) from discontinued operations" in the consolidated statement of profit or loss.

14. Goodwill and Intangible Assets

Changes in book values, 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, 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 *	—	(1,929)	(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
Acquisition	—	—	—	4,568	4,730	9,299
Acquisition through business combinations	19,125	—	6,799	—	2,427	28,352
Amortization *	—	(986)	(2,740)	(4,692)	(2,382)	(10,800)
Impairment	(61,668)	—	(634)	(1,048)	(3,225)	(66,576)
Transfer of accounts	—	—	—	616	(581)	35
Transfer to held-for-sale	(29,627)	(0)	(6,492)	(3,290)	(6,890)	(46,302)
Sale or disposal	—	—	—	(42)	(13)	(55)
Exchange differences	5,479	604	2,198	263	2,990	11,536
Other changes	138	0	—	(429)	(1,548)	(1,838)
As of March 31, 2026	106,394	9,201	27,323	10,648	30,298	183,866

(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, 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
As of March 31, 2026	256,407	28,938	49,363	42,193	100,121	477,023

(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, 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
As of March 31, 2026	150,013	19,737	22,039	31,544	69,822	293,157

* Amortization recognized on the amortizable intangible assets is included in "Cost of sales", "Selling, general and administrative expenses" and "Profit (loss) from discontinued operations" in the consolidated statement of profit or loss.

15. Impairment of Non-Financial Assets

(1) Impairment of assets related to Industrial power solutions business

With respect to Industrial power solutions business included in "Others" in Note 4. "Operating Segment (3) Information about revenue, profit or loss and other items by reporting segment", the Group believes in the growth potential of the market, as well as the Group's business opportunities and potential capabilities in the market. However, as a result of the impairment test reflecting certain risks, an impairment loss of ¥29,550 million was recognized in the fiscal year ended March 31, 2026 because the recoverable amount was calculated less than the carrying amount.

The impairment loss is allocated entirely to goodwill and is included in "Other expenses" in the consolidated statement of profit or loss.

(2) Impairment of others

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.

Impairment losses by reporting segment are described in Note 4. "Operating Segment (3) Information about revenue, profit or loss and other items by reporting segment."

(3) Impairment test for goodwill

As described in Note 3. "Material Accounting Policies (11) 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 amounts of non-financial assets including goodwill were ¥1,296,194 million and ¥1,054,969 million as of March 31, 2025 and March 31, 2026, 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, gross margin ratios and EBITDA margin, 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 6.8% to 13.3%, and 8.3% to 14.1% for the fiscal years ended March 31, 2025 and March 31, 2026, respectively. Growth rates were (0.5)% to 6.8%, and (0.5)% to 6.9% for the fiscal years ended March 31, 2025 and March 31, 2026, respectively.

The total amounts of the Group's goodwill at the end of the fiscal years were ¥172,947 million and ¥106,394 million as of March 31, 2025 and March 31, 2026, respectively.

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

The balance of carrying amount of major goodwill by CGU *1

(Millions of yen)

		Industrial power solutions *2	Steam power	GTCC	Metals machinery
As of March 31, 2025		37,983	28,271	21,969	21,582
As of March 31, 2026		23,367	28,535	22,222	23,819
Key factors used for impairment tests for the fiscal year ended March 31, 2026	Discount rate (before tax)	8.3% ~ 10.9%			
	Growth rate	(0.5)% ~ 6.9%			

*1. The goodwill balance classified as assets held for sale is not included above.

*2. Including goodwill recognized upon the acquisition of Critical Components Inc. on December 18, 2025. This goodwill recognized was calculated on a provisional basis based on the identifiable assets as of the acquisition date, and the recognized amount of goodwill may change as the amount of identifiable assets changes.

As for Industrial power solutions business, as a result of the recognition of the impairment loss in the fiscal year ended March 31, 2026, the carrying amount of the CGU is equal to the recoverable amount of ¥65,394 million. 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 or the growth rate decreased.

As for Steam power business, GTCC and Metals machinery business, no impairment loss was recognized in either the fiscal years ended March 31, 2025 or March 31, 2026.

The recoverable amount was sufficiently higher than the carrying amount for the CGU. The Group judged it was unlikely that the recoverable amount would fall below the carrying amount, even if key factors used for impairment tests changed to the predictable extent reasonably.

16. Income Taxes

(1) Deferred tax assets and liabilities

a) The breakdown of deferred tax assets and liabilities

(Millions of yen)

	As of March, 2025		As of March 31, 2026	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Trade and other receivables and contract assets	33,978	(8,905)	37,496	(4,321)
Inventories	74,426	(565)	71,080	(114)
PPE, goodwill, intangible assets, and right-of-use assets	67,379	(80,923)	92,500	(74,030)
Other assets	14,190	(133,636)	10,208	(268,252)
Contract liabilities	25,946	(14,848)	31,424	(5,685)
Provisions	71,545	(414)	75,244	(14)
Retirement benefits liabilities	28,241	—	11,199	—
Other liabilities	67,578	(25,796)	58,246	(27,910)
Investments in subsidiaries, associates and joint ventures	1,584	(11,673)	968	(5,027)
Unused tax losses	142,240	—	70,698	—
Total	527,111	(276,762)	459,068	(385,357)
Deferred tax assets and liabilities recognized in the consolidated statement of financial position	259,942	(9,594)	84,810	(11,099)

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)

	2025	2026
Balance at the beginning of the year	287,030	250,348
Increase (decrease) recognized through profit or loss	(45,837)	(23,450)
Increase (decrease) recognized in other comprehensive income		
Items related to "Other assets" *1	19,862	(138,138)
Items related to "Retirement benefits liabilities"	(11,109)	(12,952)
Items related to assets and liabilities other than the above	(651)	3,798
Other Increase (decrease) *2	1,054	(5,893)
Balance at the end of the year	250,348	73,710

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

*2. As the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as discontinued operations, "Others" for the fiscal year ended March 31, 2026 includes a decrease of ¥5,983 million reclassified to "Assets held for sale" and "Liabilities directly associated with assets held for sale."

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

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Unused tax losses *1, 2	517,055	348,946
Deductible temporary differences	161,090	209,157
Total	678,146	558,103

*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, 2025	As of March 31, 2026
Year 1	1,655	6,340
Year 2	7,257	454
Year 3	1,219	9,610
Year 4	7,300	6,243
Year 5 or later	499,622	326,298
Total	517,055	348,946

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

The aggregated amounts of temporary differences associated with investments in subsidiaries and associates for unrecognized deferred tax liabilities as of March 31, 2025 and March 31, 2026, were ¥778,263 million and ¥974,029 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 of continuing operations for each consolidated fiscal year is as follows:

In addition, income taxes related to discontinued operations are described in Note 29. "Discontinued Operations."

(Millions of yen)

	2025	2026
Current tax expense		
Current period	53,541	100,432
Prior period restatement	6,621	(3,688)
Total of current tax expense	60,162	96,743
Deferred tax expense		
Arising and reversal of temporary differences	54,349	19,549
Changes in tax rates or the imposition of new taxes	(6,136)	221
Others	(1,965)	(208)
Total of deferred tax expense	46,246	19,562
Total tax expense	106,409	116,306

(3) Reconciliation of income tax rate

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

	2025	2026
Effective statutory tax rate in Japan	30.5%	30.5%
Non-deductible expenses	0.5%	0.7%
Non-taxable revenues	(0.4%)	(1.4%)
Share of profit (loss) of investments accounted for using the equity method	0.2%	(1.3%)
Changes in unrecognized deferred tax assets	4.1%	(0.3%)
Tax credit for experiment and research expenses	(1.9%)	(3.1%)
Investments in subsidiaries, associates and joint ventures	0.0%	0.2%
Revision to year-end deferred tax assets due to a change in tax rate	(1.9%)	(0.2%)
Applicable tax rate differences of foreign subsidiaries	(3.0%)	(3.2%)
Others	2.1%	2.5%
Average actual tax rate	30.2%	24.5%

(4) Income Tax Treatment under the Global Minimum Tax

The Group applies the exception stipulated in 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.

(5) Estimates for uncertainties related to income taxes

As stated in Note 3. "Material Accounting Policies (18) Income taxes", a reasonably estimated amount is recognized as an asset and a 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 certain companies within the Group are under examination and/or in discussions with 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 consolidated fiscal years.

17. Investments Accounted for Using the Equity Method

(1) Investment in associates

The total carrying amounts of investments in associates accounted for using the equity method were ¥218,498 million, and ¥242,182 million as of March 31, 2025 and March 31, 2026, respectively. The total amounts of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2025 and March 31, 2026 were as follows:

(Millions of yen)

	2025	2026
Continuing profit or loss	13,753	9,407
Discontinued profit or loss	82	196
Other comprehensive income	(216)	16,607
Total comprehensive income	13,619	26,210

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.

Although the Group's equity interests in these companies are 90.8% and 91.8%, respectively, the Group applies the equity method in consideration of the terms of the joint venture agreements.

The summarized financial information combining the financial information of Both Companies for the fiscal years ended March 31, 2025 and March 31, 2026, 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 in the fiscal year ended March 31, 2025, and adjustments for accounting standard differences.

(Millions of yen)

	2025	2026
Assets	295,939	276,598
Liabilities	227,092	203,090
Total equity	68,847	73,508
Equity attributable to the Group	64,171	68,043
Adjustments (Goodwill and others)	—	—
Carrying amount of investments	64,171	68,043

	2025	2026
Revenue	61,434	96,673
Comprehensive income	(37,475)	4,891
Comprehensive income attributable to the Group	(17,252)	3,871

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 ¥241,896 million and ¥215,568 million as of March 31, 2025 and March 31, 2026, respectively, and includes identifiable intangible assets recognized as a result of the fair value adjustment associated with the aforementioned purchase of equity interest, reflecting 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 and March 31, 2026.

b) Individually immaterial joint ventures

The carrying amounts of investments in individually immaterial joint ventures accounted for using the equity method were ¥12,502 million, and ¥16,707 million as of March 31, 2025 and March 31, 2026, respectively. The total amounts of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2025 and March 31, 2026 were as follows:

	(Millions of yen)	
	2025	2026
Continuing profit or loss	2,743	6,595
Discontinued profit or loss	(229)	(169)
Other comprehensive income	227	957
Total comprehensive income	2,741	7,383

(3) Commitment to joint ventures

The Group has commitments to make investment and/or other contributions for joint ventures under certain conditions. The potential amounts for new or additional investments by the Group based on these commitments are ¥18,155 million and ¥20,155 million as of March 31, 2025 and March 31, 2026, respectively.

18. 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 transportation equipment	Tools, equipment and furniture	Land	Others	Total
As of April 1, 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
Increased amount of right-of-use assets	14,857	4,166	6,315	2,274	—	27,613
Depreciation	(15,418)	(3,262)	(1,656)	(582)	(137)	(21,057)
Transfer to held-for-sale	(14,918)	(11,687)	(30)	(1,932)	—	(28,567)
Others *	(3,063)	600	112	171	44	(2,135)
As of March 31, 2026	45,036	4,552	9,491	3,553	216	62,849

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

(2) Lease liabilities

For details of the repayment schedule for lease liabilities, refer to Note 36. "Risk Management (2) Liquidity risk management".

(3) Amount recognized in profit or loss

(Millions of yen)

	2025	2026
Interest expenses on lease liabilities	1,936	1,495
Expenses relating to short-term leases	5,458	7,666
Expenses relating to leases of low-value assets	15,496	18,332

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)

	2025	2026
Cash outflow related to leases	49,488	60,892

(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 inflows from the Group's sale and leaseback transaction 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.

19. Provisions

Changes in provisions are as follows:

For the fiscal year ended March 31, 2026

(Millions of yen)

	Loss on construction contracts	Product and construction warranties	Levies	Others	Total
Balance as of April 1, 2025	77,391	156,931	11,488	55,323	301,134
Increase	42,255	103,113	11,351	11,411	168,132
Decrease (utilization)	(33,402)	(86,992)	(9,247)	(8,250)	(137,892)
Decrease (reversal)	(2,663)	(17,096)	(2,240)	(4,917)	(26,917)
Others (Exchange rate differences, etc.) *	(284)	1,338	(382)	(5,370)	(4,699)
Balance as of March 31, 2026	83,295	157,294	10,969	48,196	299,757

Current liabilities	83,295	129,965	10,969	20,621	244,851
Non-current liabilities	—	27,329	—	27,575	54,905
Total	83,295	157,294	10,969	48,196	299,757

* As the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as discontinued operations, "Others (Exchange rate differences, etc.)" for the fiscal year ended March 31, 2026 includes a decrease of ¥3,019 million, ¥382 million, and ¥6,608 million, respectively reclassified from "Product and construction warranties", "Levies" and "Others" to "Liabilities directly associated with assets classified as held for sale."

(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, 2026 includes a provision for losses on long-term service agreements associated with the plant facilities that were delivered in the fiscal year ended March 31, 2022. The Group recognizes the provision based on the reasonable estimates of costs and other expenses 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, 2026 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.

20. Employee Benefits

(1) Retirement benefits

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

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

As the defined benefit obligations are measured based on actuarial assumptions, they are exposed to the risk of fluctuating assumptions, such as discount rates. Plan assets are composed primarily of marketable stocks, bonds, and other interest-bearing securities, which are exposed to the risks of fluctuating stock prices and interest rates. Lump-sum retirement benefit plans provide a lump-sum payment at the time of retirement, and the benefit is calculated based on factors such as the salary level at retirement and the number of years of service. MHI and certain subsidiaries have an obligation to pay benefits directly to retirees.

The defined contribution plans require employees who elect to participate in the plan and MHI and certain subsidiaries as employers 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, 2025	As of March 31, 2026
Present value of defined benefit obligations	515,210	478,183
Fair value of plan assets	795,429	1,216,577
Net defined benefit liability	(280,218)	(738,393)
Amounts presented in the consolidated statement of financial position		
Retirement benefit liabilities	72,042	56,701
Retirement benefit assets	352,261	795,095
Net defined benefit liability	(280,218)	(738,393)

(ii) Changes in present value of defined benefit obligations

(Millions of yen)

	2025	2026
Balance as of April 1	551,269	515,210
Current service cost	39,213	34,854
Interest expense	7,107	10,179
Remeasurement		
Actuarial gains(losses) arising from changes in demographic assumptions	1,573	4
Actuarial gains(losses) arising from changes in financial assumptions	(27,498)	(23,190)
Actuarial gains(losses) arising from experience adjustment	(13,558)	(230)
Past service cost	43	121
Payment of benefits	(42,701)	(39,519)
Changes from business combinations	(61)	(142)
Others *	(177)	(19,104)
Balance as of March 31	515,210	478,183

* As the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as discontinued operations, "Others" for the fiscal year ended March 31, 2026 includes a decrease of ¥20,679 million reclassified to "Liabilities directly associated with assets held for sale."

(iii) Changes in fair value of plan assets

(Millions of yen)

	2025	2026
Balance as of April 1	846,597	795,429
Interest income	10,246	15,152
Remeasurement		
Return on plan assets (excluding amounts included in net interest on the net defined benefit asset)	(45,990)	398,205
Contributions to the plan (by the employer)	11,892	32,021
Payment of benefits	(27,152)	(17,596)
Changes from business combinations	—	—
Others *	(163)	(6,634)
Balance as of March 31	795,429	1,216,577

* As the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as discontinued operations, "Others" for the fiscal year ended March 31, 2026 includes a decrease of ¥9,947 million reclassified to "Assets held for sale."

(iv) The breakdown of fair value of plan assets

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

As of March 31, 2026

(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	840,592	3	840,595
Shares issued by foreign companies	39,984	17,672	57,656
Bonds issued by Japanese companies	16,114	—	16,114
Bonds issued by foreign companies	20,436	13,478	33,915
Cash and deposits	106,292	—	106,292
General accounts for life insurance	—	13,218	13,218
Others *	—	148,783	148,783
Total	1,023,420	193,157	1,216,577

* "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 ¥480,197 million and ¥863,305 million as of March 31, 2025 and March 31, 2026, 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, 2025 and March 31, 2026, 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, 2025	As of March 31, 2026
Discount rate	Mainly 2.1%	Mainly 3.0%

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, 2025		As of March 31, 2026	
	Increase	Decrease	Increase	Decrease
Impact in the event of 0.5 percentage point change in the discount rate	(26,614)	28,254	(22,960)	24,288

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 in 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, 2027 is ¥23,420 million.

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

	As of March 31, 2025	As of March 31, 2026
Weighted average duration (year)	11.21	10.57

b) Defined contribution plans

Expenses for the defined contribution plans for the fiscal years ended March 31, 2025 and March 31, 2026 were ¥17,705 million and ¥18,157 million, respectively.

(2) Employee benefits expenses

The aggregated amounts of employee benefit expenses recognized for the fiscal years ended March 31, 2025 and March 31, 2026 were ¥840,200 million and ¥897,903 million, respectively.

21. Other Assets and Liabilities

(1) The breakdown of other assets

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Retirement benefit assets	352,261	795,095
Advances to suppliers and prepaid expenses	247,447	239,150
Consumption tax receivables (Incl. VAT receivables)	67,459	75,380
Income tax receivables	26,083	1,926
Others	114,756	106,118
Total	808,008	1,217,670

Current assets	369,048	330,652
Non-current assets	438,960	887,018
Total	808,008	1,217,670

(2) The breakdown of other liabilities

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Accrued expenses	177,492	160,305
Accrued consumption taxes (Incl. VAT payables)	14,011	21,547
Others	84,003	84,423
Total	275,507	266,276

Current liabilities	237,191	230,058
Non-current liabilities	38,315	36,218
Total	275,507	266,276

22. Equity and Other Equity Items

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

(Shares)

	2025	2026
The number of shares authorized *:		
Common shares	6,000,000,000	6,000,000,000
The number of shares issued *:		
At the beginning of the year	3,373,647,810	3,373,647,810
Changes during the year	—	—
At the end of the year	3,373,647,810	3,373,647,810

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

The numbers of treasury shares included in the shares issued were 15,980,024 shares, and 13,438,470 shares as of March 31, 2025 and March 31, 2026, respectively. The numbers of MHI's common shares held by the Stock Grant ESOP Trust, and the Officer Remuneration BIP Trust I & II were 11,778,600 shares, and 9,343,376 shares as of March 31, 2025 and March 31, 2026, respectively. The numbers of MHI's common shares held by its associates were 78,348 shares, and 78,345 shares as of March 31, 2025 and March 31, 2026, 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 reserve or legal retained earnings until the total amount of legal capital reserve 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.

23. Dividends

The total dividends for each fiscal year are as follows.

(1) 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.

(2) For the fiscal year ended March 31, 2026 (From April 1, 2025 to March 31, 2026)

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 27, 2025 Annual General Meeting of Shareholders	Common Stock	40,434	12	March 31, 2025	June 30, 2025	Retained earnings
November 7, 2025 Board of Directors Meeting	Common Stock	40,434	12	September 30, 2025	December 5, 2025	Retained earnings

*1. 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.

*2. Total dividends paid in accordance with the resolution passed at the Board of Directors Meeting held on November 7, 2025, include ¥112 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, 2026, but take effect in the fiscal year ending March 31, 2027

The following proposal will be submitted to the Annual General Meeting of Shareholders to be held on June 26, 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 26, 2026 Annual General Meeting of Shareholders	Common Stock	43,805	13	March 31, 2026	June 29, 2026	Retained earnings

* Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 26, 2026, include ¥121 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.

24. Revenue

(1) Disaggregation of revenue

The Group is composed of four business domains and segments: Energy Systems; Plants & Infrastructure Systems; Logistics, Thermal & Drive Systems; and Aircraft, Defense & Space. The operating results of these business domains and segments are regularly reviewed by the Board of Directors of 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.

The Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates, which were included in “Logistics, Thermal & Drive Systems” as discontinued operations for the fiscal year ended March 31, 2026 as described in Note 4. “Operating Segment (1) Overview of reporting segments” and Note 29. “Discontinued Operations” and has deducted them from the amounts for the fiscal years ended March 31, 2025 and March 31, 2026.

The segment information for the fiscal year ended March 31, 2025 is restated to reflect these changes.

Revenue from external customers *1

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Energy Systems	1,803,878	2,053,956
Plants & Infrastructure Systems	806,177	814,757
Logistics, Thermal & Drive Systems	636,609	624,860
Aircraft, Defense & Space		
Commercial aircraft	202,529	249,095
Defense & space equipment	826,762	1,143,802
Subtotal	1,029,291	1,392,898
Reporting segments total	4,275,957	4,886,472
Others *2	73,215	74,467
Total	4,349,172	4,960,939
Corporate & Eliminations *3	11,955	13,228
Consolidation	4,361,127	4,974,168

*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 data center & energy management business 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 work 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 (14) 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 are 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, 2025	As of March 31, 2026
Receivables from contracts with customers	910,920	1,057,742
Contract assets	791,871	1,019,196
Contract liabilities	1,443,983	2,161,881

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 the Group 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 the Group have satisfied the performance obligation, the Group 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 ¥571,635 million and ¥543,661 million for the fiscal years ended March 31, 2025 and March 31, 2026, 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, 2026, 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, 2025	As of March 31, 2026
Energy Systems	4,918,439	6,983,230
Plants & Infrastructure Systems	1,705,361	2,102,859
Logistics, Thermal & Drive Systems	61,568	68,566
Aircraft, Defense & Space	3,514,580	4,063,214
Reporting segments total	10,199,949	13,217,870
Others *1	18,239	19,006
Total	10,218,188	13,236,877
Corporate & Eliminations *2	320	810
Consolidation	10,218,509	13,237,688

*1. "Others" includes businesses related to growth areas such as data center & energy management 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 approximately within the number of years from the end of each fiscal year as stated below.

- Energy Systems: Within 7 years
- Plants & Infrastructure Systems: Within 4 years
- Logistics, Thermal & Drive Systems: Within 1 year
- Aircraft, Defense & Space: Within 3 years

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

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Assets recognized from the costs to obtain contracts	259	580
Assets recognized from the costs to fulfill contracts	37,755	31,613
Total	38,015	32,193

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 are 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 amounts of amortization for the assets recognized from the contract costs for the fiscal years ended March 31, 2025 and March 31, 2026 were ¥13,050 million and ¥16,923 million, respectively. No impairment losses were recognized for the fiscal years ended March 31, 2025 and March 31, 2026.

25. Selling, General and Administrative Expenses

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

(Millions of yen)

	2025	2026
Employee benefit expenses	222,791	239,050
Research and development expenses *	67,968	80,166
Business development expenses	52,434	55,474
Remuneration and fees	43,452	48,751
Depreciation and amortization	19,564	17,689
Loss allowance for expected credit losses	6,343	597
Others	171,530	191,080
Total	584,085	632,810

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

26. Other Income and Expenses

The breakdown of other income and expenses is as follows:

(Millions of yen)

	2025	2026
Other income		
Dividend income *	11,401	14,013
Gains on sales of PPE	64,553	8,564
Gain on sale of businesses	—	2,477
Others	16,011	10,563
Total	91,967	35,619
Other expenses		
Impairment losses	2,003	46,181
Losses on sale and retirement of PPE and intangible assets	10,271	9,442
Loss allowance for expected credit losses	354	944
Others	8,798	13,385
Total	21,427	69,954

* 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.

27. Government Grants

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

Government grants recorded for the fiscal years ended March 31, 2025 and 2026 were ¥10,633 million and ¥18,294 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.

28. Finance Income and Finance Costs

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

(Millions of yen)

	2025	2026
Finance income		
Interest income		
Financial assets measured at amortized cost	9,597	13,105
Foreign exchange gain	2,323	46,145
Others	858	209
Total	12,779	59,460
Finance costs		
Interest expense		
Financial liabilities measured at amortized cost	8,620	6,836
Lease liabilities	1,936	1,495
Others	5,115	8,652
Total	15,672	16,984

29. Discontinued Operations

MHI, at the meeting of its board of directors held on September 30, 2025, resolved to enter into the basic transaction agreement concerning the following matters with LVJ Holdings 2 LLC (the "Tender Offeror"), which is wholly owned by JIP Fund VI, for which all the issued shares are held by Japan Industrial Partners, Inc. and the agreement was executed on the same day:

- a) A non-participation in a tender offer by the Tender Offeror for the shares of Mitsubishi Logisnext Co., Ltd. ("Mitsubishi Logisnext") and share subscription rights
- b) A share consolidation to be conducted by Mitsubishi Logisnext in order to make the Tender Offeror and MHI the only shareholders of Mitsubishi Logisnext if the Tender Offeror is unable to acquire all the Mitsubishi Logisnext shares and share subscription rights through the Tender Offer
- c) Subject to the effectiveness of the share consolidation, a provision of funds to Mitsubishi Logisnext by the Tender Offeror and a reduction in Mitsubishi Logisnext's capital stock, capital reserve and legal reserve based on Article 447, Paragraph 1 and Article 448, Paragraph 1 of the Companies Act for the purpose of securing the funds and distributable amount for Mitsubishi Logisnext to acquire the Mitsubishi Logisnext shares held by MHI (the "Non-Tendered Shares")
- d) A share repurchase by Mitsubishi Logisnext of the Non-Tendered Shares, and a series of transactions for the purposes of taking Mitsubishi Logisnext private through a) to d)
- e) MHI to underwrite Class B Preferred Shares and Class D Shares issued by the Tender Offeror following the effectiveness of the share repurchase

Through the transaction, Mitsubishi Logisnext shall cease to be a consolidated subsidiary of MHI. Therefore, the businesses related to Mitsubishi Logisnext Co., Ltd. and its subsidiaries and affiliates are classified as discontinued operations in the fiscal year ended March 31, 2026. This transaction was completed on May 1, 2026.

(i) Profit or loss from discontinued operations

(Millions of yen)

	2025	2026
Revenue	674,181	643,558
Expenses	651,723	649,109
Profit (loss) before income taxes from discontinued operations	22,458	(5,550)
Income taxes	6,124	6,894
Profit (loss) from discontinued operations	16,333	(12,445)

Expenses for the fiscal year ended March 31, 2026 include a write-down of goodwill of ¥32,117 million resulting from measuring the disposal group constituting discontinued operations at fair value less costs to sell.

(ii) Cash flows from discontinued operations

(Millions of yen)

	2025	2026
Cash flows from operating activities	42,105	49,979
Cash flows from investing activities	(34,260)	(38,704)
Cash flows from financing activities	(7,714)	(5,355)
Total	131	5,919

30. 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)

	2025	2026
Profit (loss) (attributable to owners of the parent)	245,447	332,129
Continuing operations	235,036	351,694
Discontinued operations	10,411	(19,564)

(Thousands of shares)

	2025	2026
Weighted-average number of common shares outstanding during the period	3,360,292	3,359,594
Impact of the dilutive effect: share subscription rights	901	774
Weighted-average number of common shares outstanding during the period after impact of the dilutive effect	3,361,193	3,360,368

(Yen)

	2025	2026
Earnings per share (attributable to owners of the parent)		
Basic earnings (loss) per share	73.04	98.86
Continuing operations	69.95	104.68
Discontinued operations	3.10	(5.82)
Diluted earnings (loss) per share	73.02	98.84
Continuing operations	69.93	104.66
Discontinued operations	3.10	(5.82)

31. 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)

	2025	2026
Financial assets measured at FVTOCI		
Balance at the beginning of the year	133,898	105,367
Changes during the year	(42,272)	80,374
Transfer to retained earnings	13,742	(40,068)
Balance at the end of the year	105,367	145,673
Remeasurement of defined benefit plans		
Balance at the beginning of the year	147,957	140,083
Changes during the year	(7,873)	291,910
Balance at the end of the year	140,083	431,993
Cash flow hedges		
Balance at the beginning of the year	(2,127)	725
Changes during the year	2,852	203
Balance at the end of the year	725	928
Exchange differences on translating foreign operations		
Balance at the beginning of the year	229,657	217,982
Changes during the year	(11,674)	110,680
Balance at the end of the year	217,982	328,663
Other components of equity		
Balance at the beginning of the year	509,385	464,159
Changes during the year	(58,968)	483,168
Transfer to retained earnings	13,742	(40,068)
Balance at the end of the year	464,159	907,258

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

(Millions of yen)

	2025	2026
Financial assets measured at FVTOCI	(148)	239
Remeasurement of defined benefit plans	80	384
Cash flow hedges	46	(8)
Exchange differences on translating foreign operations	215	9,144
Total	193	9,760

(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)

	2025	2026
Items that will not be reclassified to profit (loss)		
Net gain (loss) from financial assets measured at FVTOCI		
Amount arising during the year	(62,110)	115,460
Before tax effects	(62,110)	115,460
Tax effects	19,603	(34,995)
After tax effects	(42,506)	80,464
Remeasurement of defined benefit plans		
Amount arising during the year	(7,099)	424,274
Before tax effects	(7,099)	424,274
Tax effects	(1,482)	(133,106)
After tax effects	(8,581)	291,168
Share of other comprehensive income of entities accounted for using the equity method		
Amount arising during the year	872	1,345
Before tax effects	872	1,345
Tax effects	—	—
After tax effects	872	1,345
Items that may be reclassified to profit (loss)		
Cash flow hedges		
Amount arising during the year	(915)	(8,167)
Reclassification adjustments	2,601	3,121
Before tax effects	1,685	(5,045)
Tax effects	(585)	1,375
After tax effects	1,100	(3,670)
Exchange differences on translating foreign operations		
Amount arising during the year	(9,681)	109,703
Reclassification adjustments	(979)	(5,413)
Before tax effects	(10,660)	104,290
Tax effects	—	—
After tax effects	(10,660)	104,290
Share of other comprehensive income of entities accounted for using the equity method		
Amount arising during the year	639	17,773
Reclassification adjustments	351	1,628
Before tax effects	991	19,402
Tax effects	—	—
After tax effects	991	19,402
Total other comprehensive income	(58,784)	493,000

32. Related Party Transactions

(1) Transactions with affiliates and joint ventures

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Balance of receivables *	87,502	101,810
Balance of payables	47,842	55,895

(Millions of yen)

	2025	2026
Revenues	100,499	137,814
Purchases	57,643	85,615

* The Group provides loans to some of its related parties.

The total amounts of loans to related parties were ¥18,893 million, and ¥16,142 million as of March 31, 2025 and March 31, 2026, respectively.

The loans to related parties were primarily provided to Nakoso IGCC Power GK and Hirono IGCC Power GK.

With respect to loss allowances for certain loans to related parties, the balance is not material as of March 31, 2025 and March 31, 2026, respectively.

In the table above, the loans receivable and the loss allowances are presented on a net basis.

(2) Remuneration for management personnel

Remuneration amount for directors is as follows:

(Millions of yen)

	2025	2026
Short-term remuneration	1,009	1,121
Share-based remuneration	1,200	2,077
Total	2,209	3,198

Other than above, the amounts of welfare expenses, which are borne by MHI when appointing directors, for the fiscal years ended March 31, 2025 and March 31, 2026 were ¥9 million and ¥12 million, respectively.

33. 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, 2025	As of March 31, 2026
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%)
Mitsubishi Power India Private Limited	Delhi, India	100% (0.0%)	100% (0.0%)
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 Heavy Industries Air-Conditioning and Refrigeration Corporation	Minato-ku, Tokyo	100% (100%)	100% (100%)
Mitsubishi Heavy Industries-Haier (Qingdao) Air-Conditioners Co., Ltd.	Shandong, China	55.0% (55.0%)	55.0% (55.0%)
Mitsubishi Turbocharger and Engine Europe B.V.	Almere, The Netherlands	100% (100%)	100% (100%)
Mitsubishi Heavy Industries - Mahajak Air Conditioners Co., Ltd.	Bangkok, Thailand	81.8% (81.8%)	81.8% (81.8%)
Mitsubishi Heavy Industries Air-Conditioning Europe, Ltd.	Uxbridge, U.K.	100% (100%)	100% (100%)
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%)

Name of subsidiary	Location	Ownership percentage of voting rights *1, 2	
		As of March 31, 2025	As of March 31, 2026
Logistics, Thermal & Drive Systems Mitsubishi Heavy Industries Air-conditioners Australia, Pty. Ltd.	New South Wales, Australia	100% (100%)	100% (100%)
Aircraft, Defense & Space Mitsubishi Heavy Industries Maritime Systems Co., Ltd. MHI RJ Aviation Inc.	Tamano City, Okayama West Virginia, U.S.A.	100% 100% (100%)	100% 100% (100%)
Others Concentric, LLC	Texas, U.S.A.	100% (100%)	100% (100%)
Corporate MHI International Investment B.V. Mitsubishi Heavy Industries (China) Co., Ltd. Mitsubishi Heavy Industries India Private Limited Mitsubishi Heavy Industries Asia Pacific Pte. Ltd. Mitsubishi Heavy Industries America, Inc. Mitsubishi Heavy Industries EMEA, Ltd. Mitsubishi Heavy Industries (Thailand) Limited. Mitsubishi Heavy Industries (Shanghai) Co., Ltd.	Amsterdam, The Netherlands Beijing, China Delhi, India Singapore Texas, U.S.A. London, U.K. Bangkok, Thailand Shanghai, China	100% 100% 100% (0.0%) 100% 100% 100% (99.9%) 100% (100%)	100% 100% 100% (0.0%) 100% 100% 100% (99.9%) 100% (100%)
Other subsidiaries		218companies	212companies

*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, there were no consolidated subsidiaries with material non-controlling interests in the fiscal years ended March 31, 2025 and March 31, 2026, respectively.

34. 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 ¥64,554 million and ¥68,021 million as of March 31, 2025 and March 31, 2026, 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 ¥2,413 million and ¥1,204 million as of March 31, 2025 and March 31, 2026, respectively.

35. Contingent Liabilities

Not applicable.

36. 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, 2025	As of March 31, 2026
Simplified approach	—	1,736,420	2,095,779
General approach	Measured at an amount equal to the 12-month ECL	178,427	168,130
	Measured at an amount equal to the lifetime ECL	4,666	778
	Measured at an amount equal to the lifetime ECL (Credit impaired)	2,624	5,348

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, 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	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	7,598	2,506	(7,598)	117	2,624

For the fiscal year ended March 31, 2026 (From April 1, 2025 to March 31, 2026)

(Millions of yen)

	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes *	Balance at the end of the year
Allowances using the simplified approach	19,794	1,462	(1,595)	(930)	18,730
Allowances using the general approach					
Other than credit-impaired financial assets	1,837	(952)	(59)	164	989
Credit-impaired financial assets	2,624	2,378	—	345	5,348

* As the Group has classified the business operations related to Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) and its subsidiaries and affiliates as discontinued operations, "Other changes" for the fiscal year ended March 31, 2026 includes a decrease of ¥2,103 million reclassified to "Liabilities directly associated with assets held for sale."

c) Financial guarantee contracts

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

Guarantees outstanding were ¥53,142 million and ¥48,028 million as of March 31, 2025 and March 31, 2026, 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, 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

As of March 31, 2026

(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	1,000,863	1,000,863	996,609	4,130	124
Bonds	200,000	206,620	26,083	93,828	86,708
Short-term borrowings	14,703	14,703	14,703	—	—
Long-term borrowings	238,429	242,977	50,972	178,646	13,358
Non-recourse borrowings	62,601	79,819	2,890	16,740	60,188
Liabilities under factoring agreements	174,610	174,610	92,677	81,933	—
Lease liabilities	79,960	93,600	25,557	45,801	22,241
Other financial liabilities	93,603	98,871	45,048	40,432	13,390
Derivative liabilities	12,332	12,332	4,450	7,882	—
Total	1,877,104	1,924,398	1,258,992	469,394	196,011

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, 2025	As of March 31, 2026
U.S. dollars	125,791	307,385
Euros	12,617	4,890

(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	2025	2026
U.S. dollars	(1,258)	(3,074)
Euros	(126)	(49)

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, 2025	As of March 31, 2026
Borrowings with variable interest rates	56,913	34,199

(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)

	2025	2026
Profit before income taxes	(569)	(342)

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, 2025	As of March 31, 2026
Marketable stocks	190,182	199,778

(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 (after 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)

	2025	2026
Other comprehensive income (After tax deduction)	(13,221)	(13,708)

- 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, 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

As of March 31, 2026

(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	143,311	32,713	982	6,903
Interest rate risk				
Interest rate swap	63,787	63,787	—	2,933

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 136.76 yen per U.S. dollar and 137.31 yen per U.S. dollar as of March 31, 2025 and March 31, 2026, 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 2.71% and 2.91% as of the date of transition, March 31, 2025 and March 31, 2026, 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, 2025	As of March 31, 2026
Cash flow hedge reserve		
Foreign exchange risk		
Forward exchange contracts	1,345	2,120
Interest rate risk		
Interest rate swap	(619)	(1,192)
Total	725	928

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 is 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, 2025 and March 31, 2026, 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, 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			
Forward exchange contracts	754	2,660	Finance costs
Interest rate risk			
Interest rate swap	(1,669)	(59)	Finance income

As of March 31, 2026

(Millions of yen)

	Changes in the fair value of hedging instruments recognized in other comprehensive income	Amount transferred from other components of equity to profit or loss as a reclassification adjustment	Line item of profit or loss transferred as a reclassification adjustment
Foreign exchange risk			
Forward exchange contracts	(6,508)	2,218	Finance costs
Interest rate risk			
Interest rate swap	(1,658)	903	Finance costs

37. Capital Management

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

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

(Unit: %)

	As of March 31, 2025	As of March 31, 2026
Return on equity attributable to owners of the parent (ROE)	10.69	12.22
Ratio of equity attributable to owners of the parent	35.24	37.35
D/E ratio (debt ratio)	26.37	15.97

The Group is not subject to any material capital requirements.

38. Subsequent Events

As described in Note 29. "Discontinued operations", MHI entered into the basic transaction agreement on September 30, 2025 in order to take Mitsubishi Logisnext Co., Ltd. (currently Logisnext Co., Ltd.) private and subsequently proceeded with the procedures for a tender offer and other related procedures. These procedures were completed on May 1, 2026. The impact of the completion of the transaction on the Group's consolidated financial results for the fiscal year ending March 31, 2027 will be minimal.

39. Others

(1) Interim Information for the Fiscal Year Ended March 31, 2026

	Six months ended September 30, 2025	Fiscal year ended March 31, 2026
Revenue (Millions of yen)	2,113,717	4,974,168
Profit before income taxes (Millions of yen)	173,720	474,694
Profit attributable to owners of the parent (Millions of yen)	114,912	332,129
Earnings per share attributable to owners of the parent - basic (Yen)	34.21	98.86

(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.

In June 2026, MHI and Daewoo received the arbitral award that substantially upheld the claims of MHI and Daewoo. The impact of this on the financial position or operating results of the Group will be minimal.

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, 2026, 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, 2026, 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 of public interest entities 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, (14) Revenue” and Note 24. “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, 2026 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: (1) Internal control testing

obligations included in the contract with customers.

(Unit: ¥ million)

Business	Revenue
Energy Systems	2,053,956
Plants & Infrastructure Systems	814,757
Defense & Space equipment	1,143,802

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 19. "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 ¥83,295 million as of March 31, 2026.

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

- Factors that may cause changes in the estimated total revenue:

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

<ul style="list-style-type: none"> - Claims for damage or other requests by customers arising from delivery delays, underperformance of the product and other reasons. ● Factors that may cause changes in the estimated total costs: <ul style="list-style-type: none"> - Changes in product specifications; - Responses to process delays; - Fluctuations of procurement costs such as materials and parts; - Responses to underperformance; and - Events that were not considered in the planning of construction. <p>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.</p> <p>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, 2026, and accordingly, a key audit matter.</p>	<p>suppliers 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</p> <ul style="list-style-type: none"> ● 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.
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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
<p>In the consolidated statement of financial position of the Group, investments accounted for using the equity method of ¥326,932 million were recognized as of March 31, 2026. As described in Note 17. “Investments Accounted for Using the Equity Method,” included therein was the balance totaling ¥68,043 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 operate the power plant business in Japan.</p> <p>The Group holds equity interests of 90.8% and 91.8%, respectively, in Both Companies. However, the Group applies the equity method to the investments, considering the terms of the joint venture agreement among the interest holders.</p>	<p>The primary procedures we performed to assess the appropriateness of the valuation of non-financial assets held by Both Companies are set forth below.</p> <p>(1) Internal control testing</p> <p>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.</p> <p>(2) Assessment of the reasonableness of the estimated value in use</p> <p>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 rates, which were key assumptions included in the</p>

<p>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, (11) 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.</p> <p>The carrying amount of the non-financial assets of Both Companies totaling ¥215,568 million as of March 31, 2026 included intangible assets recognized as a result of the fair value adjustment associated with the purchase of equity interests in the previous fiscal year, which reflected an impairment loss to the recoverable amount recognized based on the latest business plan.</p> <p>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.</p> <p>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, 2026, and accordingly, a key audit matter.</p>	<p>business plans of Both Companies that formed the basis for estimating future cash flows:</p> <ul style="list-style-type: none"> ● evaluated the appropriateness of the assumptions regarding the projected future operations of plant facilities by performing: <ul style="list-style-type: none"> - analysis of factors that caused non-operation of the plant facilities during the fiscal year ended March 31, 2026 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; - evaluation of the reasonableness of the plan to implement countermeasures by inspecting the plan of warranty-related construction work for the subsequent fiscal years, and inquiring of the appropriate responsible personnel and management; and - inspection of publicly announced information about the operational or non-operational status of the plant facilities. ● 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.
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Appropriateness of the valuation of non-financial assets related to the Industrial power solutions business	
The key audit matter	How the matter was addressed in our audit
As described in Note 3, "Material accounting policies, (11) Impairment of non-financial assets" to the consolidated financial statements, property,	The primary procedures we performed to assess the appropriateness of the valuation of non-financial

plant and equipment and intangible assets are assessed at the end of reporting period to determine whether there is any indication of impairment, and if any such indication exists, an impairment test is performed. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is any indication of impairment. If the recoverable amount of a cash-generating unit (“CGU”) is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the resulting decrease in the carrying amount is recognized as an impairment loss. The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the CGU.

As described in Note 15, “Impairment of Non-Financial Assets” to the consolidated financial statements, the Company recognized an impairment loss of ¥29,550 million in the year ended March 31, 2026 for the Industrial power solutions business because the recoverable amount was less than its carrying amount. As a result, the carrying amount of the CGU became equal to its recoverable amount of ¥65,394 million.

The Company used value in use as the recoverable amount in the impairment test of the CGU. The value in use was calculated by discounting future cash flows, which were estimated based on the business plan and the growth rate approved by management, taking into account past experience and external information, to their present value. The business plan for the Industrial power solutions business included key assumptions such as future revenue growth and EBITDA margin trends. These assumptions involved significant management judgment and had a significant effect on the estimation of future cash flows.

In addition, significant management judgment was required in selecting appropriate models and input data for estimating the growth rate and the discount rate used to calculate the value in use. Accordingly, management judgment thereon had a significant effect on the value in use.

We, therefore, determined that our assessment of the appropriateness of the valuation of non-financial assets related to the Industrial power solutions business was one of the most significant matters in our audit of the consolidated financial statements for the year ended March 31, 2026, and accordingly, a key audit matter.

assets related to the Industrial power solutions business included the following:

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to measuring the value in use used in the impairment test of CGUs that include goodwill.

(2) Assessment of the reasonableness of the estimated value in use

In order to assess the reasonableness of the estimated value in use, we performed the following procedures on key assumptions included in the business plan, the growth rate and the discount rate:

- assessed the consistency of future revenue trends with historical results and internal and external information regarding future forecasts;
- assessed the consistency of future EBITDA margin trends with historical results and internal information regarding future forecasts;
- evaluated the reasonableness of the growth rate by comparing it with available external data; and
- involved valuation specialists within our domestic network firms to assist in our evaluation of the discount rate. Specifically, we assessed the appropriateness of the methodology used to calculate the discount rate, and the appropriateness of input data used in the calculation by comparing them with market data published by external organizations independently obtained by the specialists.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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.

Hiroataka 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 24, 2026