MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

MHI FINANCIAL REPORT 2023

For the Year Ended March 31, 2023

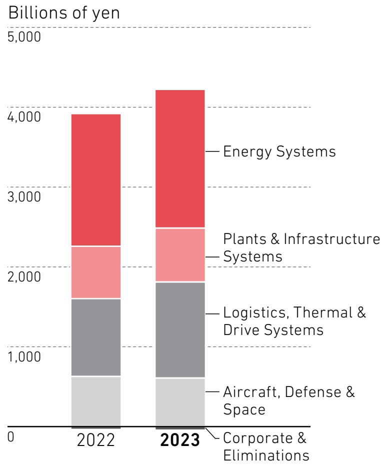
MITSUBISHI HEAVY INDUSTRIES

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2022 and 2023

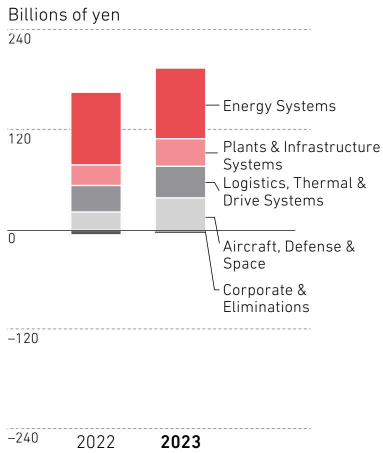
REVENUE

REPORTING SEGMENT	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Energy Systems	¥1,651,086	¥1,738,676	$13,020,864
Plants & Infrastructure Systems	651,886	675,665	5,060,023
Logistics, Thermal & Drive Systems	986,534	1,203,776	9,015,022
Aircraft, Defense & Space	605,292	619,442	4,638,972
Subtotal	3,894,799	4,237,560	31,734,891
Corporate & Eliminations	(34,516)	(34,762)	(260,331)
Total	¥3,860,283	¥4,202,797	$31,474,552



PROFIT (LOSS) FROM BUSINESS ACTIVITIES

REPORTING SEGMENT	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Energy Systems	¥ 86,268	¥ 85,160	$ 637,759
Plants & Infrastructure Systems	23,601	32,751	245,270
Logistics, Thermal & Drive Systems	30,682	38,945	291,657
Aircraft, Defense & Space	24,032	39,981	299,415
Subtotal	164,585	196,838	1,474,110
Corporate & Eliminations	(4,344)	(3,514)	(26,316)
Total	¥160,240	¥193,324	$1,447,794



DEPRECIATION AND AMORTIZATION

REPORTING SEGMENT	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Energy Systems	¥ 36,871	¥ 36,848	$ 275,952
Plants & Infrastructure Systems	11,592	11,366	85,119
Logistics, Thermal & Drive Systems	44,324	49,997	374,425
Aircraft, Defense & Space	26,894	27,137	203,227
Subtotal	119,683	125,350	938,740
Corporate & Eliminations	12,497	12,505	93,649
Total	¥132,180	¥137,855	$1,032,389

IMPAIRMENT LOSS

REPORTING SEGMENT	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Energy Systems	¥ 130	¥ 1,221	$ 9,144
Plants & Infrastructure Systems	346	—	—
Logistics, Thermal & Drive Systems	551	502	3,759
Aircraft, Defense & Space	539	5,216	39,062
Subtotal	1,567	6,940	51,973
Corporate & Eliminations	2,039	3,753	28,106
Total	¥3,607	¥10,694	$80,086

SHARE OF PROFIT OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

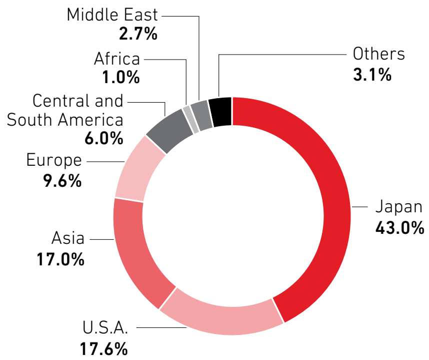
REPORTING SEGMENT	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Energy Systems	¥13,345	¥ 8,437	$ 63,184
Plants & Infrastructure Systems	1,772	1,612	12,072
Logistics, Thermal & Drive Systems	737	1,257	9,413
Aircraft, Defense & Space	—	—	—
Subtotal	15,854	11,307	84,677
Corporate & Eliminations	1,006	2,194	16,430
Total	¥16,861	¥13,502	$101,115

REVENUE

Breakdown of Revenue by Customer Location	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Japan	¥1,887,795	¥1,808,335	$13,542,537
U.S.A.	572,912	738,177	5,528,173
Asia	672,206	714,258	5,349,045
Europe	361,873	405,045	3,033,363
Central and South America	107,325	255,624	1,914,356
Africa	48,666	41,715	312,401
Middle East	110,345	113,446	849,591
Others	99,156	126,194	945,061
Total	¥3,860,283	¥4,202,797	$31,474,552

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥133.53=US$1, the exchange rate prevailing on March 31, 2023.

Composition of Overseas Revenue by Geographic Distribution



MANAGEMENT'S DISCUSSION AND ANALYSIS

» ANALYSIS OF OPERATING RESULTS

Consolidated revenue increased in all segments, including Logistics, Thermal & Drive Systems, by ¥342.5 billion or 8.9% year on year, to ¥4,202.7 billion overall. Profit from business activities decreased in Energy Systems segment, but Aircraft, Defense & Space Systems segment, Plant & Infrastructure Systems segment, and Logistics, Thermal & Drive Systems segment posted increases, resulting in an overall improvement of ¥33.0 billion (+20.6%) year on year to ¥193.3 billion, while profit before income taxes rose by ¥17.4 billion (+10.0%) year on year to ¥191.1 billion.

Meanwhile, profit attributable to owners of the parent came to ¥130.4 billion, ¥16.9 billion or 14.9% higher than in the previous fiscal year.

» ANALYSIS OF FINANCIAL POSITION

Due to increases in "Contract assets", "Inventories" and other items, assets for MHI Group (hereinafter referred to as "the Group") in the fiscal year under review increased ¥358.4 billion from the end of the previous fiscal year, to ¥5,474.8 billion.

Increases in "Bonds, borrowings and other financial liabilities", and in "Contract liabilities" and other items, resulted in liabilities rising ¥187.0 billion from the end of the previous fiscal year, to ¥3,640.8 billion.

Due to the increase in profit attributable to owners of the parent and other factors, total equity increased by ¥171.4 billion from the end of the previous fiscal year, to ¥1,833.9 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, 2023 was 31.8%, an increase of +1.0 percentage points over the 30.8% recorded at the end of the previous fiscal year.

» SOURCE OF FUNDS AND LIQUIDITY

Cash Flow Analysis

Net cash provided by operating activities came to ¥80.8 billion, a decrease of ¥204.6 billion over the previous fiscal year. This was due primarily to higher working capital following a rise in revenue opportunities, and an increase in "Income taxes paid".

Net cash used in investing activities came to ¥45.5 billion, ¥61.8 billion less than net cash provided by investing activities in the previous fiscal year.

This was due primarily to a decrease in "Proceeds from sales and redemption of investments (including investments accounted for using equity method)".

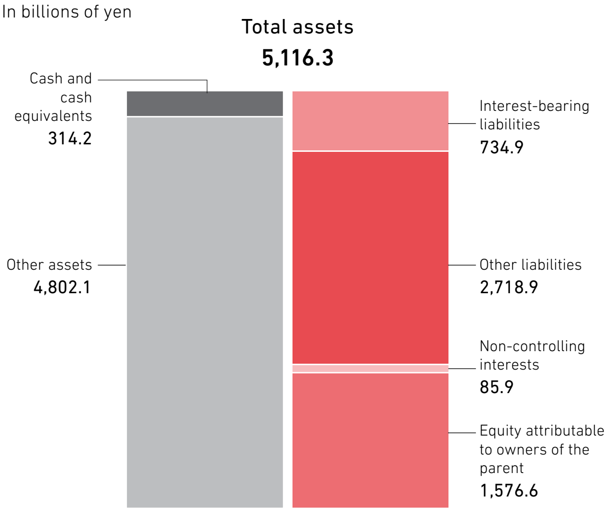
Net cash used in financing activities came to ¥18.9 billion, ¥236.8 billion less than net cash used in financing activities in the previous fiscal year. This was due primarily to the combination of a decrease in "Repayments of short-term borrowings", and an increase in "Proceeds from factoring agreements".

Primary Funding Requirements

The Group primarily requires funds in operating activities for working capital for manufacturing activities (materials, outsourcing, and personnel costs), business development expenses and other selling expenses related to winning new orders, and R&D expenses that enhance the competitiveness of its products, strengthen manufacturing capabilities and

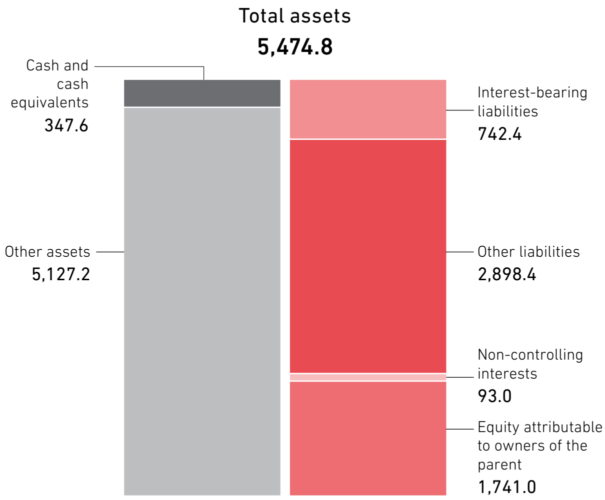
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In billions of yen



As of March 31,2022

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



As of March 31,2023

Equity ratio	31.8%
D/E ratio	40.0%
ROE	7.9%

enable the launch of new businesses. In investing activities, funds are required for capital investments to grow businesses, raise productivity, and enable the launch of new businesses as well as for the purchase of investment securities related to the execution of business strategies.

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

Breakdown of Interest-Bearing Debt and its Applications

The breakdown of interest-bearing debt as of March 31, 2023, was as follows:

	In billions of yen		
	Total	Due within one year	Due after one year
Short-term borrowings	¥ 61.9	¥ 61.9	¥ —
Long-term borrowings	406.4	61.7	344.7
Bonds	215	15	200
Total	**¥742.4**	**¥139.5**	**¥602.8**

The Group is involved in various projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery. Consequently, the Group must secure a stable level of working capital and funds for capital investments. During the fiscal year under review the Group worked to continuously generate funds and control working capital even during expansionary phases of the business, while repaying borrowings as they came due. As a result, total interest-bearing debt at the end of the fiscal year under review was ¥742.4 billion, consisting of ¥139.5 billion due within one year, and ¥602.8 billion due after one year.

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

Financial Policy

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

In appropriately determining the amounts and methods of procuring long-term funds mainly through long-term borrowings, bonds, the Group takes into account the funding requirements of its business plans, interest rate trends in the procurement environment, and the repayment schedule for its existing debt.

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

The Group considers the repurchase of treasury stock by taking a number of factors into consideration, including the state of progress on businessplans, the Company's performance outlook, its financial condition, stock price trends, and the financial market environment.

» DIVIDEND POLICY

The Group's basic policy is one of providing returns to shareholders at a dividend payout ratio of around 30%, while giving consideration to the balance between business growth and financial stability.

As decided in MHI's Articles of Incorporation, the Company pays dividends from retained earnings to shareholders twice a year. These payments consist of an interim dividend with a record date of September 30 and a year-end dividend with a record date of March 31.

Taking into consideration such factors as the Group's operating performance during the fiscal year under review and its financial position, the year-end dividend was set at ¥70 per share. Together with the interim dividend of ¥60 per share paid in December 2022, this results in ¥130 per share.

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

» OPERATIONAL RISKS

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

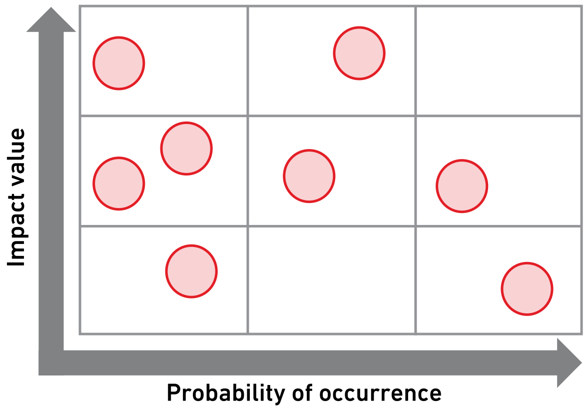
Although the Group works to prepare countermeasures to these key risks and others in advance, complete avoidance is not feasible. The Group seeks to advance its business activities in accordance with the Medium-Term Business Plan while maintaining an awareness of these risks, and striving to minimize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

In the medium to long term, these key risks could bring about further changes to the business environment in which the Group operates, as well as to the structure of society. The Group acknowledges the need for foresight and for proactive measures to enable us to adapt to such future developments.

Items relating to the future are based on the judgment of the Group as of the end of fiscal 2022.

(1) Process for considering key risks

The Group has formulated a management process for identifying and discussing risks encountered during the execution of business, based on which a list of risks is created. When identifying risks, we may use expertise from outside the Company to assist in creating an exhaustive list of those that are relevant to the Group. Based on this list, we work to unearth specific risks that may materialize over a period of roughly 10 years. We then consider the probability of these risks materializing and the impact in the event that they do materialize, taking into account the effects of the countermeasures we have prepared. For quantifiable risks that are identified as having a potentially material impact on the business of the Group, we conduct a risk mapping exercise as follows. We also identify qualitative risks that are impractical to quantify using the exhaustive list mentioned above.



(2) Group risk countermeasures

The Group has implemented systems designed to manage each type of risk and responsibilities are clearly defined to ensure the appropriate management of risk. Risk is periodically evaluated and analyzed and necessary avoidance or mitigating measures are taken. The effectiveness and appropriateness of these measures are audited through internal audits and reported to the Board of Directors and the Audit and Supervisory Committee in a timely manner. In preparation for situations in which significant risk materializes, MHI has put in place measures to ensure that the information required to respond accurately and promptly to an emergency is communicated to top-level management without delay. Risk management supervisors are assigned to each business division.

Risk management in the Group is practiced in accordance with the scope and requirements clarified in the Business Risk Management Charter. The Business Risk Management Committee shares information on significant risks and discusses policy responses by top-level management, with the aim of clarifying the system and the roles of management, business segments, and corporate departments. With the Business Risk Management Department acting as the responsible department, the Group engages in business risk management activities that bring together top-level management, business segments, and corporate departments.

In point (1) of each of items a) to g) in "(3) Key risks" below are presented specific examples of the countermeasures prepared by the Group for the item in question. However, not only are we implementing initiatives to avoid and mitigate risks in accordance with the type and nature of each, including those that are not key risks, but we are also working to minimize the impact described in "(ii) Potential Impact on Operating Results" of items a) to g) in the event that such a risk materializes.

(3) Key risks

a) THE SPREAD OF THE COVID-19 PANDEMIC

(i) Global Pandemic and its Impact on Economic Activity

From the end of 2019 onward, COVID-19 developed into a global pandemic. Currently, economic activity has been resumed, and there are signs of a recovery unfolding in both the Japanese and the global economies.

In addition to taking steps to strengthen profitability by reinforcing sales and service networks, the Group is working on countermeasures tailored to the status of infections, such as reducing fixed costs, cutting down on external expenditure, making more effective use of surplus resources, and putting in place and reviewing working environments and systems.

(ii) Potential Impact on Operating Results

Because the Group is engaged in business not only in Japan but around the world, it could be affected by the spread of COVID-19 and other infectious diseases in various countries that delays in the progress of projects for which orders have already been received, postponement of revenue recognition, travel restrictions, supply chain disruption and delays in contract negotiations and the order process and that might impact on the operating results. In some of the Group's businesses it continues to be difficult to estimate the timing of a recovery from the impacts such as reductions in capital expenditures by customers and other issues caused by the COVID-19 pandemic. It is not feasible to predict these effects with much precision, and going forward the possibility that they will become more significant or be prolonged further remains and it could have a material impact on the Group's operating results.

b) CHANGES IN THE BUSINESS ENVIRONMENT

(i) Deterioration of the Business Environment Surrounding the Group

The business environment in which the Group operates is undergoing rapid change. For example, at a global level there have been changes in the economic environment such as antagonism between the United States and China, divisions in the world economy caused by Russia's invasion of Ukraine, growing momentum towards strengthening national defense, intensified competition for dominance through cross-border regulation in the areas of digital devices and data, soaring prices including those of resources, and violent fluctuations in exchange rates. Japan, meanwhile, is undergoing changes in the structure of its society. It faces a serious labor shortage as its population continues to shrink, its birthrate declines, and its people grow older, and it risks an increase in business closures, discontinuity of technologies and skills, and a hollowing out of its manufacturing sector. The balance between economic development and reductions in environmental impacts has become a social issue worldwide, and environmental regulations have been strengthened in various fields. Particularly in the field of energy, with the development of emerging economies and advancements in electrification, such as the spread of electric vehicles, global demand for electric power is set to grow substantially. At the same time, however, soaring fuel prices and global warming are expected to further entrench carbon-free energy, all of which factors are driving significant changes in the business environment for the Group.

In order to address these changes in the business environment, the Group is working to maintain and strengthen product competitiveness in such areas as performance, reliability, price and environmental friendliness through R&D and capital investment. At the same time, it is focusing on incorporating external knowledge where advantageous to propose new functions and solutions that anticipate market trends. We are also pursuing initiatives for new business development under the guidance of the Growth Strategy Office, which we set up in April 2020. These include combining existing lines of business to develop products and services, and cultivating business domains beyond the reach of our existing business units. With regard to the M&A and alliances we are undertaking in various product areas, which take the business environment into consideration, through activities such as monitoring and screening at the point of entry, we are putting initiatives aimed at smooth PMI*[1] into practice.

*1. PMI : Post Merger Integration

(ii) Potential Impact on Operating Results

The progressive decoupling of the global economy could result in restrictions on the Group's business activities in such areas as participation in business discussions and the selection of suppliers, or result in the difficulty in maintaining or a loss of competitiveness for the Group due to such factors as the increasingly serious labor shortage in Japan and the hollowing-out of its manufacturing center, violent fluctuations in exchange rates,and soaring raw material prices, which could have a material impact on the Group's operating results. With regard to environmental regulation, growing environmental awareness may lead to a decrease in demand for products and services in businesses such as thermal power systems, vehicular turbochargers, and chemical plant-related engineering, as well as a reduction in business scale, and difficulty in recouping invested capital.

In addition, the thermal power generation systems business could be affected by a sharp decline in demand for electricity derived from fossil fuels, and the loss of service business negotiations to competitors due to intensified competition, which could in turn lead to a decline in orders. In the event that changes in the business environment due to increasingly stringent environmental regulations, soaring fuel prices, or other factors lead to customers making the decision to cease operations of thermal power plants on their own initiative, the resulting slump in the service business could have a material impact on the Group's operating results. If various environmental regulations become even more stringent than was assumed that the time the business plan was formulated, we could encounter problems when attempting to respond to such changes. These could result in a reduction in market competitiveness and the loss of opportunities to win orders, which could negatively impact the Group's ability to carry its business plans forward. Furthermore, although the Group is engaged in the strengthening and expansion of our many energy-related product businesses through M&A and alliances with other companies, there could be unforeseen circumstances such as changes in the market environment, decline in business competitiveness, or the revision of management strategies by other companies. Such events may prevent us from progressing as planned with these M&A and alliances with target companies, which could have a material impact on the Group's operating results, for example by requiring it to write down assets and recognize impairment losses.

c) DISASTERS

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

Disasters have the potential to cause both material and human loss, disruption of smooth economic activity and social foundation. Such force majeure events include but are not limited to the occurrence, or more frequent occurrence of earthquakes, tsunamis, torrential rains, floods, storms, volcanic eruptions, fires, lightning strikes, pandemics other than COVID-19, and other acts of nature, and the enlargement of the damage caused by such events. Other potential events include war, acts of terrorism, political unrest, anti-Japan movements, crimes such as hostage taking or abduction, social infrastructure paralysis, labor disputes, power outages, equipment superannuation or malfunction, work-related accidents, and other man-made factors. It is expected that climate change will lead to enlargement of the effects of natural disasters.

The Group takes steps to mitigate these impacts. We make use of tools to support disaster countermeasures, and have established and maintain communication systems and a business continuity plan. We implement regular plant inspections and training, and strengthen facilities against seismic events. As well as taking out appropriate insurance, we also gather information on the safety of various countries and other circumstances, respond with appropriate measures, and cooperate with relevant governmental agencies.

(ii) Potential Impact on Operating Results

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

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

d) PRODUCT- AND SERVICE-RELATED PROBLEMS

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

As a global leader in manufacturing and engineering, the Group leverages advanced technologies to provide solutions for a wide range of fields, from Energy, Plant & Infrastructure Systems, through Logistics, Thermal & Drive Systems, to Aircraft, Defense & Space Systems. The Group makes unceasing efforts to improve the quality and reliability of its products, but there is nevertheless the potential for problems with product performance or delivery delay, or safety issues that arise in the use of our products. Other potential problems include rising manufacturing costs stemming from factors including changes in specifications or process delays, unforeseen problems associated with materials and parts procurement or construction work, claims for damages and contract cancellations from customers due to delivery delays or underperformance of the products, or deterioration in customers' financial solvency. There is also the potential for similar problems arising from products or services in relations with our suppliers. In the event that it becomes impossible to continue transactions with the supplier of a specific raw material or part and an alternative supplier cannot be arranged, there could be a negative impact on production activities and on the provision of products or services to the customer.

The Group takes steps to mitigate these risks, such as through the formulation and administration of regulations, the maintenance and upgrade of business risk management frameworks, prior screening and post-order monitoring of individual projects, education for those responsible for project implementation, and executives such as business division managers, and holding ongoing courses of product safety seminars. In addition, the Group summarizes the causes of large loss-making projects that occurred in the past, and the steps taken to deal with them, and ensures that internal education reflects the conclusions so as to prevent recurrences.

(ii) Potential Impact on Operating Results

The occurrence of such product- and service-related problems could lead to additional costs, compensation for damages paid to customers, and the loss of societal reputation and trust. Customers, suppliers and other third parties may bring legal action or arbitration against the Group in Japan or overseas, to which the Group will respond. The Group will put forth its utmost efforts so that its claims are acknowledged in court or in arbitration, but the potential for a case to nevertheless be ruled against us cannot be ignored. Furthermore, in such cases, we cannot guarantee that product liability insurance will compensate for amounts we may be required to pay. Thus, product- and service-related problems could have a material impact on the operating results of the Group.

e) INTELLECTUAL PROPERTY ISSUES

(i) Violation of the Group's Intellectual Property and Violation of the Intellectual Property of Third Parties by the Group

The Group values its intellectual property, which comprises the outcomes of its R&D, as an important management resource, and puts it to use globally. However, there is nevertheless the potential for instances of intellectual property infringement claims against the Group by third parties.

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

(ii) Potential Impact on Operating Results

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

f) INFORMATION SECURITY PROBLEMS

(i) Information Security Problems

The Group comes into contact with large amounts of confidential information, including that of customers, in the execution of its business activities. It also possesses confidential information regarding the Group's technologies, operations, and other aspects of business, and our operational dependency on information technology is increasing. In the event that increasingly sophisticated and aggressive cyberattacks exceed the level we currently anticipate, leading to infection by computer viruses, unauthorized access and other unforeseen circumstances, confidential information could be lost or leaked outside the Group. It is also possible that such cyberattacks could result in impediments to the use of terminals or servers.

We also implement a cybersecurity program under the control of the CTO*2 to minimize the risks of such cyberattacks. Under this program, we perform initiatives such as cybersecurity governance (establishing standards, implementation of measures, self-assessments, and internal audits) and incident response.

*2. CTO : Chief Technology Officer

(ii) Potential Impact on Operating Results

Information leaks would substantially reduce our competitiveness and damage our societal reputation and trust, which could seriously impact the execution of our business. In addition to becoming the target of investigations by the authorities, such events could risk claims for damages being brought against us by our customers. Furthermore if cyberattacks were to result in obstacles to the use of servers and other equipment, this could have a significant impact on the execution of operations, and lead to the risk of production activities, and provision of goods and services to customers, being affected. Thus, information security-related problems have the potential to materially impact the operating results of the Group.

g) LEGAL AND REGULATORY VIOLATIONS

(i) Significant Legal and Regulatory Violations

The Group conducts business in accordance with various domestic and overseas laws and regulations. These include laws and regulations related to taxation, the environment, and labor and occupational health and safety; economic laws and regulations such as antitrust laws, anti-dumping laws, and laws against delay in payment to subcontractors; laws and regulations related to bribery, trade and exchange; business-related laws and regulations, such as the construction industry law; and the securities listing regulations at financial instrument exchanges (these are hereinafter collectively referred to as "laws and regulations"). Since we should never trade risk for return when it comes to laws and regulations and we also have a duty to ensure compliance by our management and workforce, we take rigorous measures to instill awareness. Specifically, MHI has formulated the "MHI Group Global Code of Conduct," which is aimed at all officers and employees of the Group, and is operated in conjunction with various other policies it has established. In addition, the Group holds periodic meetings of the Compliance Committee, has put in place a whistleblowing system, conveys messages from management on the importance of thorough compliance with laws and regulations, enhances and implements internal education on compliance, information management, and brand strategy on an ongoing basis, and performs internal audits that take into account outstanding issues in various departments. However, we cannot rule out the possibility that, in spite of our efforts, some officers or employees may violate laws or regulations.

(ii) Potential Impact on Operating Results

In the event of legal or regulatory violations, the Group may become subject to investigation or examination by the relevant authorities. Furthermore, the Group may be subject to administrative penalties, such as fines, reassessment, determination, the payment of surcharges, suspension of business, prohibition of exports, or other steps. Moreover, in the event that laws or regulations have been infringed, the Group may face legal action from the relevant authorities or other concerned parties for damages incurred, and may lead to the loss of societal reputation and trust. Taking into account the nature of the Group, anti-monopoly laws in Japan and overseas, laws and regulations related to bribery, trade and foreign exchange, the construction industry law, and laws against delays in payments to subcontractors could have a particularly significant impact on the Group. Such violations of laws and regulations have the potential to materially impact our operating results.

CONSOLIDATED FINANCIAL STATEMENTS [IFRS]
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2022 / March 31, 2023

		Millions of yen		Thousands of U.S. dollars
ASSETS	Notes	As of March 31, 2022	**As of March 31, 2023**	**As of March 31, 2023**
Current assets:				
Cash and cash equivalents	5, 10	¥ 314,257	¥ 347,663	$ 2,603,632
Trade and other receivables	6, 10, 23, 34	744,466	804,613	6,025,709
Other financial assets	7, 10, 34	70,952	35,382	264,974
Contract assets	23, 34	654,972	731,820	5,480,566
Inventories	11, 23	798,601	876,878	6,566,898
Other current assets	20	219,875	245,943	1,841,855
Total current assets		2,803,126	3,042,302	22,783,659
Non-current assets:				
Property, plant and equipment ("PPE")	12, 14	790,204	839,813	6,289,320
Goodwill	13, 14	128,690	131,181	982,408
Intangible assets	13, 14	70,400	70,161	525,432
Right-of-use assets	14, 17	98,255	86,295	646,259
Investments accounted for using the equity method	16	212,828	227,045	1,700,329
Other financial assets	7, 10, 34	487,430	521,135	3,902,755
Deferred tax assets	15	352,261	358,758	2,686,722
Other non-current assets	14, 20	173,144	198,117	1,483,689
Total non-current assets		2,313,214	2,432,509	18,216,947
Total assets		¥5,116,340	¥5,474,812	$41,000,614

See accompanying notes to the consolidated financial statements.

LIABILITIES AND EQUITY	Notes	Millions of yen As of March 31, 2022	Millions of yen As of March 31, 2023	Thousands of U.S. dollars As of March 31, 2023
Liabilities				
Current liabilities:				
Bonds, borrowings and other financial liabilities	9, 10, 34	¥ 304,651	¥ 349,075	$ 2,614,206
Trade and other payables	8, 10, 34	863,281	895,286	6,704,755
Income taxes payable		28,784	19,661	147,240
Contract liabilities	23	886,551	936,765	7,015,389
Provisions	18	203,585	229,582	1,719,328
Other current liabilities	20	193,865	193,791	1,451,291
Total current liabilities		2,480,720	2,624,163	19,652,235
Non-current liabilities:				
Bonds, borrowings and other financial liabilities	9, 10, 34	773,622	843,359	6,315,876
Deferred tax liabilities	15	6,217	10,465	78,371
Retirement benefit liabilities	19	76,824	76,146	570,253
Provisions	18	62,218	60,817	455,455
Other non-current liabilities	20	54,207	25,874	193,769
Total non-current liabilities		973,090	1,016,663	7,613,742
Total liabilities		3,453,810	3,640,827	27,265,985
Equity	35			
Share capital	21	265,608	265,608	1,989,126
Capital surplus	21	45,061	41,256	308,964
Treasury shares		(5,946)	(5,385)	(40,328)
Retained earnings	21	1,099,158	1,218,180	9,122,893
Other components of equity	29	172,728	221,314	1,657,410
Equity attributable to owners of the parent		1,576,611	1,740,974	13,038,073
Non-controlling interests	29	85,918	93,010	696,547
Total equity		1,662,529	1,833,984	13,734,621
Total liabilities and equity		¥5,116,340	¥5,474,812	$41,000,614

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

		Millions of yen		Thousands of U.S. dollars
	Notes	2022	2023	2023
Revenue	23	¥3,860,283	**¥4,202,797**	**$31,474,552**
Cost of sales		3,204,371	**3,437,779**	**25,745,368**
Gross profit		655,911	**765,017**	**5,729,176**
Selling, general and administrative expenses	24	556,727	**623,638**	**4,670,396**
Share of profit of investments accounted for using the equity method	16	16,861	**13,502**	**101,115**
Other income*	25	68,972	**103,710**	**776,679**
Other expenses	25	24,777	**65,267**	**488,781**
Profit from business activities		160,240	**193,324**	**1,447,794**
Finance income	27	31,907	**28,984**	**217,059**
Finance costs	27	18,463	**31,181**	**233,513**
Profit before income taxes		173,684	**191,126**	**1,431,333**
Income taxes	15	48,029	**44,818**	**335,639**
Profit		125,654	**146,308**	**1,095,693**
Profit attributable to:				
Owners of the parent		¥ 113,541	**¥ 130,451**	**$ 976,941**
Non-controlling interests		12,113	**15,857**	**118,752**

		In yen		In U.S. dollars
Earnings per share attributable to owners of the parent	28	2022	2023	2023
Basic earnings per share		¥ 338.24	**¥ 388.43**	**$ 2.909**
Diluted earnings per share		338.05	**388.26**	**2.908**

See accompanying notes to the consolidated financial statements.

* As stated in Note 3. "Significant Accounting Policies (14) Profit from business activities", Other income includes dividend income.
The amount of dividend income in the fiscal years ended March 31, 2022 and 2023 were 17,286 million yen and 20,627 million yen ($154,474 thousand) respectively.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

		Millions of yen		Thousands of U.S. dollars
	Notes	2022	2023	2023
Profit		¥125,654	**¥146,308**	**$1,095,693**
Items that will not be reclassified to profit or loss:				
Net gains from financial assets measured at FVTOCI	10, 29	18,700	**3,436**	**25,732**
Remeasurement of defined benefit plans	19, 29	50,140	**18,208**	**136,358**
Share of other comprehensive income of entities accounted for using the equity method	16, 29	232	**815**	**6,103**
Total		69,074	**22,459**	**168,194**
Items that may be reclassified to profit or loss:				
Cash flow hedges	29, 34	12	**2,094**	**15,681**
Hedge cost	29, 34	(178)	**185**	**1,385**
Exchange differences on translating foreign operations	29	67,088	**41,345**	**309,630**
Share of other comprehensive income of entities accounted for using the equity method	16, 29	6,889	**7,061**	**52,879**
Total		73,812	**50,688**	**379,600**
Total other comprehensive income		142,886	**73,148**	**547,801**
Comprehensive income		¥268,540	**¥219,456**	**$1,643,495**
Comprehensive income attributable to:				
Owners of the parent		¥248,891	**¥201,231**	**$1,507,009**
Non-controlling interests		19,649	**18,225**	**136,486**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

		Millions of yen							
		Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of April 1, 2021		¥265,608	¥47,265	¥(4,452)	¥952,528	¥105,393	¥1,366,342	¥73,047	¥1,439,390
Profit					113,541		113,541	12,113	125,654
Other comprehensive income	29					135,349	135,349	7,536	142,886
Comprehensive income		—	—	—	113,541	135,349	248,891	19,649	268,540
Transfer to retained earnings					67,792	(67,792)	—		-
Purchase of treasury shares				(2,550)			(2,550)		(2,550)
Disposal of treasury shares			25	142			167		167
Dividends	22				(40,313)		(40,313)	(7,880)	(48,194)
Transactions with non-controlling interests			(1,682)			(221)	(1,904)	69	(1,834)
Others			(545)	914	5,610		5,978	1,032	7,011
Total transactions with owners		—	(2,203)	(1,494)	(34,703)	(221)	(38,622)	(6,778)	(45,401)
Balance as of March 31, 2022		¥265,608	¥45,061	¥(5,946)	¥1,099,158	¥172,728	¥1,576,611	¥85,918	¥1,622,529
Profit					130,451		130,451	15,857	146,308
Other comprehensive income	29					70,780	70,780	2,367	73,148
Comprehensive income		—	—	—	130,451	70,780	201,231	18,225	219,456
Transfer to retained earnings					26,883	(26,883)	—		—
Purchase of treasury shares				(16)			(16)		(16)
Disposal of treasury shares			29	97			127		127
Dividends	22				(38,616)		(38,616)	(6,304)	(44,920)
Transactions with non-controlling interests			(958)			4,689	3,731	(3,735)	(4)
Others			(2,877)	480	303		(2,093)	(1,093)	(3,187)
Total transactions with owners		—	(3,805)	560	(38,312)	4,689	(36,868)	(11,133)	(48,001)
Balance as of March 31, 2023		¥265,608	¥41,256	¥(5,385)	¥1,218,180	¥221,314	¥1,740,974	¥93,010	¥1,833,984

		Thousands of U.S. dollars							
		Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of March 31, 2022		$1,989,126	$337,459	$(44,529)	$8,231,543	$1,293,552	$11,807,166	$643,435	$12,151,044
Profit					976,941		976,941	118,752	1,095,693
Other comprehensive income	30					530,068	530,068	17,726	547,801
Comprehensive income		—	—	—	976,941	530,068	1,507,009	136,486	1,643,495
Transfer to retained earnings					201,325	(201,325)	—		—
Purchase of treasury shares				(119)			(119)		(119)
Disposal of treasury shares			217	726			951		951
Dividends	23				(289,193)		(289,193)	(47,210)	(336,403)
Transactions with non-controlling interests	32		(7,174)			35,115	27,941	(27,971)	(29)
Others			(21,545)	3,594	2,269		(15,674)	(8,185)	(23,867)
Total transactions with owners		—	(28,495)	4,193	(286,916)	35,115	(276,102)	(83,374)	(359,477)
Balance as of March 31, 2023		$1,989,126	$308,964	$(40,328)	$9,122,893	$1,657,410	$13,038,073	$696,547	$13,734,621

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2022 and 2023

		Millions of yen		Thousands of U.S. dollars
	Notes	2022	2023	2023
Cash flows from operating activities:				
Profit before income taxes		¥173,684	¥191,126	$1,431,333
Depreciation, amortization and impairment loss		135,787	148,549	1,112,476
Finance income and costs		1,645	(2,147)	(16,078)
Share of profit of investments accounted for using the equity method		(16,861)	(13,502)	(101,115)
Loss (gain) on sale of PPE, and intangible assets		(37,532)	(29,018)	(217,314)
Loss on disposal of PPE, and intangible assets		5,328	7,154	53,575
Decrease (increase) in trade receivables		(51,031)	(32,978)	(246,970)
Decrease (increase) in contract assets		(58,722)	(64,500)	(483,037)
Decrease (increase) in inventories and advanced payments		(89,963)	(65,690)	(491,949)
Increase (decrease) in trade payables		73,101	(55,676)	(416,954)
Increase (decrease) in contract liabilities		132,985	32,436	242,911
Increase (decrease) in provisions		(1,120)	27,285	204,336
Increase (decrease) in retirement benefit liabilities		21,969	(3,102)	(23,230)
Others	25	(20,527)	(4,691)	(35,130)
Subtotal		268,744	135,244	1,012,836
Interest received		5,537	7,755	58,076
Dividends received	25	23,627	26,898	201,437
Interest paid		(10,559)	(13,114)	(98,210)
Income taxes paid		(1,786)	(75,894)	(568,366)
Net cash provided by operating activities		285,563	80,888	605,766
Cash flows from investing activities:				
Payments into fixed-term deposits		(14,033)	(26,067)	(195,214)
Proceeds from withdrawal of fixed-term deposits		9,677	28,809	215,749
Purchases of PPE and intangible assets		(129,256)	(131,905)	(987,830)
Proceeds from sales of PPE and intangible assets		51,744	38,062	285,044
Purchases of investments (including investments accounted for using the equity method)		(11,193)	(7,788)	(58,323)
Proceeds from sales and redemption of investments (including investments accounted for using the equity method)		99,214	59,111	442,679
Payments for sale of businesses (including subsidiaries)		(1,258)	(944)	(7,069)
Proceeds from sale of businesses (including subsidiaries)		11,756	—	—
Payments for acquisition of businesses (including subsidiaries)		—	(4,420)	(33,101)
Proceeds from acquisition of businesses (including subsidiaries)		4,799	1,863	13,951
Net decrease (increase) in short-term loans		1,660	(1,932)	(14,468)
Disbursement of long-term loans		(60)	(48)	(359)
Collection of long-term loans		204	711	5,324
Payments for derivative transactions		(20,754)	(38,918)	(291,455)
Proceeds from derivative transactions		15,490	42,268	316,543
Others		(1,683)	(4,375)	(32,764)
Net cash provided by (used in) investing activities		16,306	(45,575)	(341,309)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	9	(182,326)	(4,532)	(33,939)
Proceeds from long-term borrowings	9	22,330	50,966	381,682
Repayment of long-term borrowings	9	(31,338)	(97,656)	(731,341)
Proceeds from issuance of bonds	9	55,000	20,000	149,779
Payment for redemption of bonds	9	(45,000)	(10,000)	(74,889)
Payments for acquisition of interests in subsidiaries from non-controlling interests	9	(2,000)	(24,473)	(183,277)
Payments for acquisition of treasury shares		(2,550)	(16)	(119)
Dividends paid to owners of the parent	22	(40,224)	(38,531)	(288,556)
Dividends paid to non-controlling interests		(5,501)	(6,769)	(50,692)
Proceeds from factoring agreements	9	140,608	200,235	1,499,550
Repayment of liabilities under factoring agreements	9	(133,226)	(80,738)	(604,643)
Repayment of lease liabilities	9	(28,154)	(26,850)	(201,078)
Others		(3,389)	(534)	(3,999)
Net cash provided by (used in) financing activities		(255,774)	(18,902)	(141,556)
Effect of exchange rate changes on cash and cash equivalents		22,740	16,995	127,274
Net increase (decrease) in cash and cash equivalents		68,836	33,406	250,175
Cash and cash equivalents at the beginning of the year	5	245,421	314,257	2,353,456
Cash and cash equivalents at the end of the year	5	¥314,257	¥347,663	$2,603,632

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Fiscal years ended March 31, 2022 and 2023

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

(1) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, as the Group meets the requirements of a "Specified Company" prescribed in Article 1-2 of said ordinance.

These consolidated financial statements were approved by MHI's President Seiji Izumisawa on June 29, 2023.

(2) Presentation of currency

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

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

As the amounts shown in U.S. dollars are solely for convenience purposes, the prevailing rate on March 31, 2023 of ¥133.53=US$1 is used for the purpose of presenting U.S. dollar amounts in the accompanying consolidated financial statements.

(3) Basis of measurement

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

(4) Standards and interpretations not yet applied

The new accounting standard and guideline that has been issued or amended by the date of approval of the consolidated financial statements but has not been applied as of March 31, 2023 since application is not mandatory is as follows. The Group is currently assessing the impact of the new accounting standard since they are still not sure whether there will be material impact or not.

No.	IFRS 17
Title	Insurance Contracts
Mandatory Application	Annual periods beginning on or after January 1, 2023
The First Application by The Group	The annual period ending March 31, 2024
Description of the New Standard or the Amendment	Formulate consistent accounting model for insurance contracts

(5) Use of estimates and judgments

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

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

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

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

- Recoverable amount of non-financial assets (Note 3. "Significant Accounting Policies (10) Impairment of non-financial assets", 14. "Impairment of non-financial assets")
- Measurement of provisions (Note 3. "Significant Accounting Policies (11) Provisions", 18. "Provisions")
- Measurement of defined benefit obligations (Note 3. "Significant Accounting Policies (12) Post-employment benefits", 19. "Employee benefits")
- Measurement of revenue (Note 3. "Significant Accounting Policies (13) Revenue", 23. "Revenue")
- Recoverability of deferred tax assets (Note 3. "Significant Accounting Policies (17) Income taxes", 15. "Income taxes")

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

a) Subsidiaries

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

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

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

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

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

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

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

(2) Business combinations

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

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

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

(3) Foreign currency translation

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

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

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

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

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

(4) Financial instruments

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

a) Non-derivative financial assets

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

- The financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Equity instruments are measured at fair value.

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

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

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

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

b) Non-derivative financial liabilities

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

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

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

c) Derivative transactions and hedge accounting

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

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

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

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

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

d) Impairment of financial assets

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

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

(5) Cash and cash equivalents

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

(6) Inventories

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

The inventory valuation method is as follows:

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

(7) Property, plant and equipment ("PPE")

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

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

- Buildings and structures: 2 to 60 years
- Machinery and vehicles: 2 to 20 years
- Tools, furniture and fixtures: 2 to 20 years

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

(8) Intangible assets

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

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

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

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

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

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

(9) Leases

a) Leases as lessor

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

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

b) Leases as lessee

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

(i) Right-of-use assets

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

(ii) Lease liabilities

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

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

(10) Impairment of non-financial assets

With regard to PPE and intangible assets, the Group determines whether there is any indication of impairment at the end of the reporting period. If any such indication exists, the Group performs an impairment test by estimating the recoverable amount of the asset. With regard to goodwill and intangible assets with indefinite useful lives, the Group conducts 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 determined as the present value of future cash flows that are expected to arise from the asset or the CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. When the recoverable amount of an individual asset cannot be estimated, the recoverable amount of the CGU to which the asset belongs is determined. If the recoverable amount of an asset or a CGU is less than the carrying amount, the carrying amount of the asset or the CGU shall be reduced to the recoverable amount.

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

(11) Provisions

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

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

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

(12) Post-employment benefits

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

a) Defined benefit plans

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

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

b) Defined contribution plans

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

(13) Revenue

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

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

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

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

Requirements for revenue recognition of the Group are as follows.

a) Sale of products

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

b) Rendering of services and construction contracts

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

(14) Profit from business activities

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

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

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

(15) Finance income and costs

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

(16) Government grants

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

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

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

(17) Income taxes

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

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

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

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

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

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

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

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

4. OPERATING SEGMENT

(1) Overview of reporting segments

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

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

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

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

The SpaceJet project, for which development activities have been discontinued, was previously included in "Aircraft, Defense & Space". However, starting from the fiscal year ended March 31, 2023, the SpaceJet project has been excluded from the reporting segments and profit or loss related to the SpaceJet project is included in "Corporate & Eliminations". Accordingly, segment information for the fiscal year ended March 31, 2022 has been restated for disclosure.

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

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

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

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

	Millions of yen						
	Reporting segment						
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total	Corporate & Eliminations *1	Consolidated
Revenue							
Revenue from external customers	¥1,643,374	¥616,983	¥981,265	¥604,549	¥3,846,172	¥ 14,110	¥3,860,283
Inter-segment revenue and transfers	7,712	34,902	5,268	743	48,626	(48,626)	—
Total	¥1,651,086	¥651,886	¥986,534	¥605,292	¥3,894,799	¥(34,516)	¥3,860,283
Segment profit *2	86,268	23,601	30,682	24,032	164,585	(4,344)	160,240
Finance income							31,907
Finance costs							18,463
Profit before income taxes							173,684
Other items							
Depreciation and amortization	36,871	11,592	44,324	26,894	119,683	12,497	132,180
Impairment losses	130	346	551	539	1,567	2,039	3,607
Share of profit of investments accounted for using the equity method	¥ 13,345	¥ 1,772	¥ 737	¥ —	¥ 15,854	¥ 1,006	¥ 16,861

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

	Millions of yen						
	Reporting segment					Corporate & Eliminations *1	Consolidated
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
Revenue							
Revenue from external customers	¥1,731,444	¥638,689	¥1,199,695	¥617,994	¥4,187,822	¥ 14,974	¥4,202,797
Inter-segment revenue and transfers	7,231	36,976	4,081	1,448	49,737	(49,737)	—
Total	¥1,738,676	¥675,665	¥1,203,776	¥619,442	¥4,237,560	¥(34,762)	¥4,202,797
Segment profit*2	85,160	32,751	38,945	39,981	196,838	(3,514)	193,324
Finance income							28,984
Finance costs							31,181
Profit before income taxes							191,126
Other items							
Depreciation and amortization	36,848	11,366	49,997	27,137	125,350	12,505	137,855
Impairment losses	1,221	—	502	5,216	6,940	3,753	10,694
Share of profit of investments accounted for using the equity method	¥ 8,437	¥ 1,612	¥ 1,257	¥ —	¥ 11,307	¥ 2,194	¥ 13,502

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

	Thousands of U.S. dollars						
	Reporting segment					Corporate & Eliminations *1	Consolidated
	Energy Systems	Plants & Infrastructure Systems	Logistics, Thermal & Drive Systems	Aircraft, Defense & Space	Total		
Revenue							
Revenue from external customers	$12,966,704	$4,783,112	$8,984,460	$4,628,128	$31,362,405	$ 112,139	$31,474,552
Inter-segment revenue and transfers	54,152	276,911	30,562	10,844	372,478	(372,478)	—
Total	$13,020,864	$5,060,023	$9,015,022	$4,638,972	$31,734,891	$(260,331)	$31,474,552
Segment profit*2	637,759	245,270	291,657	299,415	1,474,110	(26,316)	1,447,794
Finance income							217,059
Finance costs							233,513
Profit before income taxes							1,431,333
Other items							
Depreciation and amortization	275,952	85,119	374,425	203,227	938,740	93,649	1,032,389
Impairment losses	9,144	—	3,759	39,062	51,973	28,106	80,086
Share of profit of investments accounted for using the equity method	$ 63,184	$ 12,072	$ 9,413	$ —	$ 84,677	$ 16,430	$ 101,115

*1. The "Corporate & Eliminations" includes revenues and expenses which are not included in any of the reporting segments. Specifically, income from utilization and disposal of assets, corporate research and development expenses and dividends on shares concerning corporate overall businesses, neither of which are linked to any specific segment.

*2. The segment profit 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		Thousands of U.S. dollars
	2022	2023	2023
Japan	¥1,887,795	¥1,808,335	$13,542,537
U.S.A.	572,912	738,177	5,528,173
Asia	672,206	714,258	5,349,045
Europe	361,873	405,045	3,033,363
Central and South America	107,325	255,624	1,914,356
Africa	48,666	41,715	312,401
Middle East	110,345	113,446	849,591
Others	99,156	126,194	945,061
Total	¥3,860,283	¥4,202,797	$31,474,552

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

b) Non-current assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Japan	¥ 852,861	¥ 847,175	$6,344,454
Overseas subtotal	315,035	357,575	2,677,862
Total	¥1,167,897	¥1,204,750	$9,022,317

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

(6) Information about major customers

Major external customer from which revenue accounts for 10% or more of the revenue recorded in the consolidated statement of profit or loss was Ministry of Defense for the fiscal year ended March 31, 2022. Its revenue mainly belonged to the reporting segment of Aircraft, Defense & Space and the amount of revenue was ¥391,057 million for the fiscal year ended March 31, 2022. This information is omitted because there is no customer that accounts for 10% or more of net sales in the consolidated statements of income for the fiscal year ended March 31, 2023.

5. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Cash and deposits	¥314,224	¥347,628	$2,603,370
Cash equivalents	33	35	262
Total	¥314,257	¥347,663	$2,603,632

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

6. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	**As of March 31, 2023**	**As of March 31, 2023**
Trade receivables	¥671,071	**¥720,250**	**$5,393,918**
Others	73,395	**84,363**	**631,790**
Total	¥744,466	**¥804,613**	**$6,025,709**

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, 2022 and March 31, 2023, were ¥22,346 million and ¥29,129 million ($218,145 thousand), respectively.

7. OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	**As of March 31, 2023**	**As of March 31, 2023**
Financial assets at FVTPL			
Derivative assets*1	¥ 21,093	**¥ 11,144**	**$ 83,456**
Shares and other investments in capital	20,660	**26,366**	**197,453**
Financial assets at FVTOCI			
Shares and other investments in capital	450,252	**406,966**	**3,047,749**
Financial assets measured at amortized cost			
Fixed-term deposits due more than three months	19,533	**17,014**	**127,417**
Receivables under service concession agreements *2	-	**67,965**	
Others	46,842	**27,060**	**202,651**
Total	¥558,382	**¥556,518**	**$4,167,737**
Current assets	70,952	**35,382**	**264,974**
Non-current assets	487,430	**521,135**	**3,902,755**
Total	¥558,382	**¥556,518**	**$4,167,737**

*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 give the access to public services to the operator.

The Group acquired the company that has service concession agreements through business combination in the fiscal year ended March 31, 2023. The company has construction and operation agreements of waste-to-energy plant. Herewith the Group acquired rights of receiving cash and other financial assets by fulfilling these contracts. Then the rights are recognized as service concessionreceivables and presented as "Other financial assets". The period of the service agreement is 25 years, but there is the renewable option by 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		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Marketable securities*1	¥310,322	¥270,087	$2,022,669
Non-marketable securities*2	139,930	136,879	1,025,080
Total	¥450,252	¥406,966	$3,047,749

*1. Marketable securities designated as FVTOCI
Major marketable securities designated as FVTOCI, of entities in which the Group invests, as of March 31, 2022 and March 31, 2023, are as follows.

As of March 31, 2022	Millions of yen
Entity name	Fair value
Vestas Wind Systems A/S	¥92,690
Mitsubishi Corporation	76,576
Nippon Yusen Kabushiki Kaisha	33,118
Central Japan Railway Company	23,666
Mitsubishi Motors Corporation	7,140
The Kansai Electric Power Company, Inc.	6,888
Coca-Cola Bottlers Japan Holdings Inc.	5,651
East Japan Railway Company	4,585
Toray Industries, Inc.	4,333
Mitsubishi Research Institute, Inc.	¥ 3,900

As of March 31, 2023	Millions of yen	Thousands of U.S. dollars
Entity name	Fair value	Fair value
Vestas Wind Systems A/S	¥98,271	$735,946
Mitsubishi Corporation	39,536	296,083
Central Japan Railway Company	23,436	175,511
Nippon Yusen Kabushiki Kaisha	19,015	142,402
Mitsubishi Motors Corporation	11,260	84,325
The Kansai Electric Power Company, Inc.	7,739	57,957
Coca-Cola Bottlers Japan Holdings Inc.	5,663	42,409
Mitsubishi Research Institute, Inc.	4,972	37,235
East Japan Railway Company	4,731	35,430
Toray Industries, Inc.	¥ 4,083	$ 30,577

*2. Non-marketable securities designated as FVTOCI
Non-marketable securities designated as FVTOCI are mostly securities of nuclear energy related companies.
Major securities included in "nuclear energy related companies" are Japan Nuclear Fuel Service Limited and Orano S.A. The total fair value of nuclear energy related securities as of March 31, 2022 and March 31, 2023, were ¥40,455 million and ¥37,091 million ($277,772 thousand), respectively.
There are no material shares and concentrated investments in specific industries other than those listed in Notes 1 and 2.

b) Dividend income from financial assets at FVTOCI

The following are the amounts of dividend income from financial assets at FVTOCI that were recognized for the fiscal years ended March 31, 2022 and March 31, 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Dividend income from investments derecognized during the year	¥ 2,475	¥ 3,621	$ 27,117
Dividend income from investments held as of the year end	14,811	17,006	127,357
Total	¥ 17,286	¥20,627	$154,474

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, 2022 and March 31, 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Fair value at the date of derecognition	¥98,323	¥58,718	$439,736
Accumulated gains	¥37,128	¥22,895	$171,459

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, 2022 and March 31, 2023 were ¥17,118 million and ¥7,873 million ($58,963 thousand), respectively.

8. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Trade payables	¥737,950	¥792,317	$5,933,625
Electronically recorded obligations	70,425	1,571	11,765
Others	54,905	101,397	759,357
Total	¥863,281	¥895,286	$6,704,755

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

9. BONDS, BORROWINGS AND OTHER FINANCIAL LIABILITIES

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Financial liabilities measured at amortized cost			
Bonds*1	¥ 205,000	¥ 215,000	$1,610,125
Short-term borrowings*2, 3	67,324	61,933	463,813
Long-term borrowings*2, 3	462,609	406,468	3,044,020
Non-recourse borrowings *2, 3	—	59,019	441,990
Others	98,361	82,036	614,363
Financial liabilities at FVTPL			
Derivative liabilities*4	15,963	8,676	64,974
Liabilities under factoring agreements*5	94,825	240,644	1,802,171
Lease liabilities	134,190	118,655	888,601
Total	¥1,078,274	¥1,192,435	$8,930,090
Current liabilities	304,651	349,075	2,614,206
Non-current liabilities	773,622	843,359	6,315,876
Total	¥1,078,274	¥1,192,435	$8,930,090

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

Company name Issue name	Date of issue	Millions of yen As of March 31, 2022	Millions of yen As of March 31, 2023	Interest rate	Date of maturity	Thousands of U.S. dollars As of March 31, 2023
Mitsubishi Heavy Industries, Ltd.						
The 26th Unsecured Corporate Bond	Sep 4, 2013	¥ 15,000	¥ 15,000	0.877%	Sep 4, 2023	$ 112,334
The 29th Unsecured Corporate Bond	Sep 3, 2014	30,000	30,000	0.662%	Sep 3, 2024	224,668
The 31st Unsecured Corporate Bond	Sep 2, 2015	10,000	10,000	0.630%	Sep 2, 2025	74,889
The 33rd Unsecured Corporate Bond	Aug 31, 2016	10,000	10,000	0.240%	Aug 31, 2026	74,889
The 34th Unsecured Corporate Bond	Aug 29, 2017	10,000	—	0.104%	Aug 29, 2022	—
The 35th Unsecured Corporate Bond	Aug 29, 2017	10,000	10,000	0.330%	Aug 27, 2027	74,889
The 36th Unsecured Corporate Bond	Nov 24, 2020	25,000	25,000	0.140%	Nov 21, 2025	187,223
The 37th Unsecured Corporate Bond	Nov 24, 2020	40,000	40,000	0.390%	Nov 22, 2030	299,558
The 38th Unsecured Corporate Bond	Sep 1, 2021	15,000	15,000	0.090%	Sep 1, 2026	112,334
The 39th Unsecured Corporate Bond	Sep 1, 2021	40,000	40,000	0.270%	Sep 1, 2031	299,558
The 40th Unsecured Corporate Bond	Sep 8, 2022	—	10,000	0.310%	Sep 8, 2027	74,889
The 41st Unsecured Corporate Bond	Sep 8, 2022	—	10,000	0.629%	Sep 8, 2032	74,889
Total		¥205,000	¥215,000			$1,610,125

*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, 2023, is 0.93%.
The weighted average interest rate for long-term and non-recourse borrowings applicable to the fiscal year ended March 31, 2023, is 0.85%.
Long-term borrowings will be due in 2023 through 2043.

*3. Secured borrowings:
Not applicable.

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

*5. Liabilities under factoring agreements
The Group converts trade receivables and other receivables into cash pursuant to 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, 2023, the discount rates applied at the conclusion of the contracts were calculated taking into account interest rates applicable to ordinary borrowing contracts.

For assets that were transferred to third parties pursuant to a factoring agreement with recourse obligation on the Group in the event of non-payment by the debtor, the underlying assets are not derecognized because such transfers do not qualify for derecognition. The payment for these factoring agreements will be due in 2023 through 2027.

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

The amounts of trade receivables, contract assets and PPE transferred without qualifying for derecognition on March 31, 2022 were ¥11,071 million, ¥83,915 million and ¥3,057 million and the amount on March 31, 2023 are ¥29,673 million ($222,219 thousand), ¥166,380 million ($1,246,012 thousand) and ¥43,427 million ($325,222 thousand), respectively. These amounts are included in "Trade and other receivables", "Contract assets" and "PPE" in the consolidated statement of financial position..

(2) Changes in liabilities arising from financing activities

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

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

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

	Millions of yen						
			Non-cash transactions				
	Carrying amount as of April 1, 2022	Cash flows	Changes in fair value	Foreign currency translation	New contracts	Other movements*1	Carrying amount as of March 31, 2023
Bonds	¥205,000	¥10,000	¥ —	¥ —	¥ —	¥ —	¥ 215,000
Short-term borrowings	67,324	(4,532)	—	520	—	(1,379)	61,933
Long-term borrowings	462,609	(63,181)	—	6,203	—	838	406,468
Non-recourse borrowings	—	16,491	—	1,340	—	41,188	59,019
Liabilities under factoring agreements	94,825	119,497	—	(219)	—	26,540	240,644
Lease liabilities	134,190	(26,850)	—	4,221	33,989	(26,895)	118,655
Other liabilities *3	26,611	(24,705)	—	1	—	13,827	15,735
Total	¥990,561	¥ 26,719	¥ —	¥12,067	¥33,989	¥54,120	¥1,117,457

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

	Thousands of U.S. dollars						
			Non-cash transactions				
	Carrying amount as of April 1, 2022	Cash flows	Changes in fair value	Foreign currency translation	New contracts	Other movements*1	Carrying amount as of March 31, 2023
Bonds	$1,535,235	$ 74,889	$ —	$ —	$ —	$ —	$1,610,125
Short-term borrowings	504,186	(33,939)	—	3,894	—	(10,327)	463,813
Long-term borrowings	3,464,457	(473,159)	—	46,453	—	6,275	3,044,020
Non-recourse borrowings	—	123,500	—	10,035	—	308,455	441,990
Liabilities under factoring agreements	710,140	894,907	—	(1,640)	—	198,756	1,802,171
Lease liabilities	1,004,942	(201,078)	—	31,610	254,542	(201,415)	888,601
Other liabilities *3	199,288	(185,014)	—	7	—	103,549	117,838
Total	$7,418,265	$200,097	$ —	$90,369	$254,542	$405,302	$8,368,583

*1. "Other movements" under Non-cash transactions includes changes arising from obtaining or losing control of subsidiaries or other businesses. "Non-recourse borrowings" assumed in a business combination was ¥41,747 million ($312,641thousand).

*2. Cash flows from commercial papers are included in "Net increase (decrease) in short-term borrowings" under cash flows from financing activities in the consolidated statement of cash flows.

*3. Changes of "Other liabilities" for the fiscal year ended March 31, 2023 include the remeasurement of financial liabilities which was performed at the time when the Group acquired preferred shares from non-controlling shareholders. Cash flows related to "Other liabilities" are included in "Payments for acquisition of interests in subsidiaries from non-controlling interests" or "Others" under cash flows from financing activities in the consolidated statement of cash flows.

10. FAIR VALUE MEASUREMENTS

(1) Method of fair value measurement

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

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

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

b) Bonds and borrowings

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

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

c) Other financial assets, and other financial liabilities

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

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

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

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

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

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

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

As of March 31, 2022

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

As of March 31, 2023

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	¥270,087	¥ —	¥163,246	¥433,333
Derivatives	—	10,731	413	11,144
Total	¥270,087	¥10,731	¥163,659	¥444,478
Liabilities:				
Derivatives	—	8,676	—	8,676
Total	¥ —	¥ 8,676	¥ —	¥ 8,676

As of March 31, 2023

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and investments in capital	$2,022,669	$ —	$1,222,541	$3,245,210
Derivatives	—	80,363	3,092	83,456
Total	$2,022,669	$80,363	$1,225,634	$3,328,675
Liabilities:				
Derivatives	—	64,974	—	64,974
Total	$ —	$64,974	$ —	$ 64,974

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, 2022 and March 31, 2023.

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

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

* "Others" includes the change in fair value of FVTPL financial assets of ¥1,967 million ($14,730 thousand). This change is included in "Other income" in the consolidated statement of profit or loss.

There were no material changes for derivative assets and liabilities.

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

	Millions of yen					
	Balance as of April 1, 2022	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Others*	Balance as of March 31, 2023
Securities and investments in capital	¥160,590	¥5,718	¥(3,256)	¥(11,872)	¥12,066	¥163,246

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

	Thousands of U.S. dollars					
	Balance as of April 1, 2022	Purchase	Other Comprehensive Income, Changes in fair value of financial assets at FVTOCI	Sale	Others*	Balance as of March 31, 2023
Securities and investments in capital	$1,202,651	$42,821	$(24,384)	$(88,908)	$90,361	$1,222,541

* "Others" includes the change in fair value of FVTPL financial assets of ¥3,851 million ($28,839 thousand). This change is included in "Other income" in the consolidated statement of profit or loss.

There were no material changes for derivative assets and liabilities.

The financial instruments categorized within Level 3 are assessed in accordance with the valuation policies and procedures approved by the responsible person of the Financial Management Division.

Of which, the fair values of non-marketable equity instruments are measured using valuation methods such as the market multiple method based on comparable public companies and the discounted cash flow method. The significant unobservable inputs used for the market multiple method based on comparable public companies are the 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 2.4 times for the fiscal year ended March 31, 2022, and within a range from 0.7 to 2.2 times for the fiscal year ended March 31, 2023.

The significant unobservable inputs used for the discounted cash flow method are the discount rates applied; the estimated fair value of these instruments would increase (decrease) if the discount rate were higher (lower). The discount rates applied ranged between 6.0% and 10.0% for the fiscal year ended March 31, 2022 and between 9.2% and 13.0% for the fiscal year ended March 31, 2023.

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

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

	Millions of yen				Thousands of U.S. dollars	
	As of March 31, 2022		As of March 31, 2023		As of March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Receivables under service concession arrangements	¥ —	¥ —	¥ 67,965	¥ 68,554	$ 508,986	$ 513,397
Financial liabilities measured at amortized cost						
Bonds	205,000	204,423	215,000	212,438	1,610,125	1,590,938
Long-term borrowings	462,609	457,107	406,468	396,333	3,044,020	2,968,119
Non-recourse borrowings	¥ —	¥ —	¥ 59,019	¥ 59,019	$ 441,990	$ 441,990

For financial assets and liabilities measured at amortized cost that are not included in the above table, liabilities under factoring agreements, and lease receivables, the carrying amount approximates the fair value.

In terms of fair value measurement, bonds are categorized within Level 2, and all others are categorized within Level 3.

11. INVENTORIES

The breakdown of inventories is as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Merchandise and finished products	¥239,037	¥275,401	$2,062,465
Work in progress	353,518	391,656	2,933,093
Raw materials and supplies	163,919	165,839	1,241,960
Capitalized contract costs	42,125	43,980	329,364
Total	¥798,601	¥876,878	$6,566,898

The amounts of inventories to be used or sold after more than 12 months from the year-end were ¥125,266 million and ¥116,125 million ($869,654 thousand) as of March 31, 2022 and March 31, 2023, respectively.

Write-downs or reversal of write-downs (negative is a reversal) of inventories recognized as expenses for the fiscal years ended March 31, 2022 and March 31, 2023 were ¥(2,373) million and ¥(533) million ($(3,991) thousand), respectively. The reversal is due to an increase in net realizable value.

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

12. PPE

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

(1) Book values

	Millions of yen					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of April 1, 2021	¥308,340	¥233,816	¥51,013	¥144,822	¥41,703	¥779,696
Acquisition	1,035	23,177	2,286	546	88,002	115,048
Depreciation *	(20,452)	(51,322)	(25,418)	—	—	(97,193)
Impairment	(380)	(169)	(373)	(776)	(31)	(1,731)
Transfer of accounts	17,054	31,082	20,164	1,623	(71,040)	(1,115)
Transfer to held-for-sale	(443)	(1,504)	(142)	(118)	(1,376)	(3,585)
Sales or disposals	(3,120)	(7,905)	(898)	(1,945)	(211)	(14,081)
Exchange differences	4,828	5,801	1,566	698	1,052	13,947
Other changes	890	(1,538)	936	453	(1,522)	(780)
As of March 31, 2022	¥307,752	¥231,438	¥49,134	¥145,303	¥56,575	¥790,204
Acquisition	1,245	41,491	2,036	127	97,416	142,316
Depreciation *	(20,673)	(57,599)	(24,006)	—	—	(102,280)
Impairment	(2,082)	(3,182)	(236)	—	(145)	(5,648)
Reversal of impairment	3	241	0	—	—	244
Transfer of accounts	32,672	45,909	20,074	10,927	(109,950)	(367)
Transfer to held-for-sale	(2,956)	(6,597)	(151)	0	(216)	(9,920)
Sales or disposals	(3,986)	(5,335)	(1,111)	(1,221)	(575)	(12,230)
Exchange differences	3,834	4,745	1,351	785	694	11,412
Other changes	79	20,458	1,242	1	4,300	26,081
As of March 31, 2023	¥315,887	¥271,567	¥48,334	¥155,924	¥48,098	¥839,813

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of March 31, 2022	$2,304,740	$1,733,228	$367,962	$1,088,167	$423,687	$5,917,801
Acquisition	9,323	310,724	15,247	951	729,543	1,065,797
Depreciation *	(154,819)	(431,356)	(179,779)	—	—	(765,970)
Impairment	(15,592)	(23,829)	(1,767)	—	(1,085)	(42,297)
Reversal of impairment	22	1,804	—	—	—	1,827
Transfer of accounts	244,679	343,810	150,333	81,831	(823,410)	(2,748)
Transfer to held-for-sale	(22,137)	(49,404)	(1,130)	—	(1,617)	(74,290)
Sales or disposals	(29,850)	(39,953)	(8,320)	(9,144)	(4,306)	(91,589)
Exchange differences	28,712	35,535	10,117	5,878	5,197	85,463
Other changes	591	153,209	9,301	7	32,202	195,319
As of March 31, 2023	$2,365,663	$2,033,752	$361,971	$1,167,707	$360,203	$6,289,320

(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, 2021	¥842,767	¥1,322,011	¥535,911	¥145,802	¥53,893	¥2,900,387
As of March 31, 2022	839,124	1,327,462	539,878	146,769	64,659	2,917,894
As of March 31, 2023	¥862,912	¥1,381,343	¥532,271	¥156,755	¥55,888	¥2,989,171

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of March 31, 2023	$6,462,308	$10,344,813	$3,986,152	$1,173,930	$418,542	$22,385,754

(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, 2021	¥534,427	¥1,088,194	¥484,898	¥ 980	¥12,189	¥2,120,690
As of March 31, 2022	531,372	1,096,023	490,743	1,465	8,084	2,127,689
As of March 31, 2023	¥547,025	¥1,109,776	¥483,936	¥ 831	¥ 7,789	¥2,149,358

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and transportation equipment	Tools, equipment and furniture	Land	Construction in progress	Total
As of March 31, 2023	$4,096,644	$8,311,061	$3,624,174	$6,223	$58,331	$16,096,442

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

13. GOODWILL AND INTANGIBLE ASSETS

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

(1) Book values

	Millions of yen						
	Goodwill	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Internal development*2	Others	Total
As of April 1, 2021	¥124,500	¥13,999	¥14,194	¥24,202	¥ —	¥22,325	¥199,222
Acquisition	—	—	—	5,313	—	2,471	7,785
Acquisition through business combinations	1,848	—	—	555	—	—	2,405
Amortization *1	—	(2,510)	(1,589)	(7,357)	—	(2,880)	(14,338)
Impairment	—	—	—	(40)	—	—	(40)
Transfer of accounts	—	—	—	300	—	9	310
Transfer to held-for-sale	—	(5)	(140)	(33)	—	(11)	(191)
Sale or disposal	—	—	—	(1,224)	—	(122)	(1,347)
Exchange differences	2,332	1,053	1,090	401	—	2,004	6,882
Other changes	8	—	(760)	(1,293)	—	447	(1,597)
As of March 31, 2022	¥128,690	¥12,536	¥12,793	¥20,823	¥ —	¥24,245	¥199,090
Acquisition	—	—	—	5,632	—	2,758	8,391
Acquisition through business combinations	1,255	—	724	—	—	10	1,991
Amortization *1	—	(1,733)	(1,808)	(6,701)	—	(3,928)	(14,172)
Impairment	—	—	—	(4)	—	—	(4)
Reversal of impairment	—	—	—	0	—	4	5
Transfer of accounts	(916)	—	—	382	—	1,067	534
Transfer to held-for-sale	—	—	—	(88)	—	(85)	(173)
Sale or disposal	—	—	—	(142)	—	(401)	(543)
Exchange differences	1,984	987	981	329	—	1,574	5,856
Other changes	168	—	—	(258)	—	458	368
As of March 31, 2023	¥131,181	¥11,790	¥12,690	¥19,975	¥ —	¥25,705	¥201,343

	Thousands of U.S. dollars						
	Goodwill	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Internal development*2	Others	Total
As of March 31, 2022	$963,753	$93,881	$95,806	$155,942	$ —	$181,569	$1,490,975
Acquisition	—	—	—	42,177	—	20,654	62,839
Acquisition through business combinations	9,398	—	5,422	—	—	74	14,910
Amortization *1	—	(12,978)	(13,540)	(50,183)	—	(29,416)	(106,133)
Impairment	—	—	—	(29)	—	—	(29)
Reversal of impairment	—	—	—	0	—	29	37
Transfer of accounts	(6,859)	—	—	2,860	—	7,990	3,999
Transfer to held-for-sale	—	—	—	(659)	—	(636)	(1,295)
Sale or disposal	—	—	—	(1,063)	—	(3,003)	(4,066)
Exchange differences	14,858	7,391	7,346	2,463	—	11,787	43,855
Other changes	1,258	—	—	(1,932)	—	3,429	2,755
As of March 31, 2023	$982,408	$88,294	$95,034	$149,591	$ —	$192,503	$1,507,848

(2) Acquisition cost

	Millions of yen						
	Goodwill	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Internal development*2	Others	Total
As of April 1, 2021	¥259,898	¥58,840	¥71,078	¥70,250	¥644,288	¥73,674	¥1,178,031
As of March 31, 2022	271,845	29,642	28,079	64,229	644,288	80,116	1,118,201
As of March 31, 2023	¥256,020	¥31,851	¥30,866	¥65,348	¥644,288	¥86,306	¥1,114,682

	Thousands of U.S. dollars						
	Goodwill	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Internal development*2	Others	Total
As of March 31, 2023	$1,917,321	$238,530	$231,154	$489,388	$4,825,043	$646,341	$8,347,801

(3) Accumulated amortization and accumulated impairment losses

	Millions of yen						
	Goodwill	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Internal development*2	Others	Total
As of April 1, 2021	¥135,398	¥44,841	¥56,884	¥46,047	¥644,288	¥51,349	¥978,809
As of March 31, 2022	143,155	17,105	15,285	43,405	644,288	55,870	919,111
As of March 31, 2023	¥124,838	¥20,060	¥18,175	¥45,373	¥644,288	¥60,601	¥913,339

	Thousands of U.S. dollars						
	Goodwill	Technologies recognized through business combinations	Customer relations recognized through business combinations	Software	Internal development*2	Others	Total
As of March 31, 2023	$934,906	$150,228	$136,111	$339,796	$4,825,043	$453,838	$6,839,953

*1. Amortization of amortizable intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

*2. Assets still in business development phases that are determined not to be ready for their intended use are classified into intangible assets with indefinite useful lives based on the analysis that the period over which such assets are expected to generate future economic benefits is not foreseeable.
Intangible assets with indefinite useful lives are measured at cost less any accumulated impairment losses.

14. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group impaired some of its operating assets by reducing the carrying amount to the recoverable amount because the profitability of such assets is no longer expected. The impairment losses are included in "Other expenses" in the consolidated statement of profit or loss.

In terms of impairment losses by reporting segment, in either the fiscal year ended March 31, 2022 or the fiscal year ended March 31, 2023, no material impairment losses are recognized.

Impairment test for goodwill

As described in Note 3. "Significant Accounting Policies (10) Impairment of non-financial assets", the Group performs impairment tests annually, or whenever there is an indication of impairment.

Since goodwill does not generate independent cash flows, the Group estimates the recoverable amount of goodwill together with non-financial assets such as other PPE and performs impairment tests on them. The total amount of non-financial assets including goodwill subject to the impairment testing, were ¥1,098,289 million, and ¥1,137,686 million ($8,520,077 thousand) as of March 31, 2022 and March 31, 2023, respectively.

The recoverable amount is measured at the value in use.The value in use is calculated as the discounted present value of the future cash flows projected based on the business plans approved by management, reflecting historical experience and external information, and the growth rate. The Group establishes the business plans consist of the key points such as trends of future revenue and gross margin ratios, and reduction of fixed costs, which would have significant impacts on the projection. These are based on factors considered reasonable by management.

For impairment tests of goodwill, the weighted average cost of capital for each CGU was used as a discount rate.

The discount rates (before tax) used for the impairment tests were 6.1% to 11.1%, and 6.1% to 11.6% for the fiscal years ended March 31, 2022 and March 31, 2023, respectively. Growth rates were (0.5)% to 0.0% for the fiscal years ended March 31, 2022 and March 31, 2023, respectively.

The total amount of the Group's goodwill at the end of the fiscal year, were ¥128,690 million, and ¥131,181 million ($982,408 thousand) as of March 31, 2022 and March 31, 2023, respectively.

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

The balance of carrying amount of major goodwill by CGU

		Millions of yen			
		Material handling equipment	Steam power	GTCC	Metals machinery
As of March 31, 2022		¥56,339	¥25,834	¥20,444	¥18,814
As of March 31, 2023		¥57,773	¥26,126	¥20,716	¥19,808
Key factors used for impairment tests for the fiscal year ended March 31, 2023	Discount rate (before tax)	6.1% ~ 8.7%			
	Growth rate	(0.5)% ~ 0.0%			

	Thousands of U.S. dollars			
	Material handling equipment	Steam power	GTCC	Metals machinery
As of March 31, 2023	$432,659	$195,656	$155,141	$148,341

No impairment loss of goodwill allocated to four main CGUs stated above was recognized in either the fiscal year ended March 31, 2022 or the fiscal year ended March 31, 2023.

The recoverable amount of Material handling equipment and GTCC was sufficiently higher than the carrying amount for the CGU. The Group judged it was unlikely that the recoverable amount falls below the carrying amount, even if key factors used for impairment tests changed to the predictable extent reasonably.

On the other hand, although the recoverable amount of Steam power business and Metals machinery business exceeded the carrying amount by ¥132,667 million ($993,537 thousand) and ¥92,795 million ($694,937 thousand) respectively, an impairment loss might have been recognized if the discount rate (before tax) or the growth rate, which is among key factors* used in the impairment testing were changed as following or there occurs material changes in the factors of the business plan underlying the estimated future cash flows.

- Steam power: In case of an increase of 15.2% in the discount rate or a decrease of 28.8% in the growth rate.

- Metals machinery: In case of an increase of 13.6% in the discount rate or a decrease of 25.0% in the growth rate.
  *As for Metals machinery, the impacts occurred and expected from the situation described in Note 37."Others"(3)"Impact of the international situation involving Ukraine" are reflected in the key factors.

15. INCOME TAXES

(1) Deferred tax assets and liabilities

a) The breakdown of major factors for deferred tax assets and liabilities

For the fiscal year ended March 31, 2022

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

For the fiscal year ended March 31, 2023

	Millions of yen			
	As of April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2023
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	¥160,226	¥ 7,752	¥ 2,327	¥170,306
Provisions	67,272	7,928	—	75,201
Retirement benefits liabilities	39,968	350	(7,774)	32,544
Excess of book depreciation over tax depreciation	28,674	1,215	—	29,890
Contract liabilities	25,939	(722)	—	25,217
Unused tax losses	29,723	(4,845)	—	24,878
Accrued expenses, and so forth	19,393	(418)	—	18,975
Valuation difference on securities	10,612	—	6,545	17,158
Valuation difference on PPE	19,236	(2,362)	—	16,873
Valuation difference on right-of-use assets	10,230	(2,832)	—	7,397
Loss allowance for expected credit losses	12,876	(8,578)	—	4,298
Loss on valuation of inventories	6,266	(3,893)	—	2,373
Others	85,838	25,288	3,765	114,892
Total deferred tax assets	¥516,260	¥ 18,880	¥ 4,865	¥540,006
Deferred tax liabilities				
Valuation difference on securities	¥ 42,179	¥ —	¥ (421)	¥ 41,757
Reserve for advanced depreciation of non-current assets	32,495	3,576	—	36,072
Retirement benefit assets (Retirement benefit trust)	31,442	(2,696)	(4,412)	24,333
Investments in subsidiaries, associates and joint ventures	18,027	2,412	—	20,439
Excess of book depreciation over tax depreciation	9,595	(453)	—	9,142
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	6,355	(2,118)	—	4,237
Intangible assets recognized through business combinations	2,395	(314)	—	2,081
Others	27,725	23,775	2,147	53,648
Total deferred tax liabilities	¥170,216	¥24,183	¥(2,686)	¥191,713

For the fiscal year ended March 31, 2023

	Thousands of U.S. dollars			
	As of April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2023
Deferred tax assets				
Investments in subsidiaries, associates and joint ventures	$1,199,925	$ 58,054	$ 17,426	$1,275,413
Provisions	503,796	59,372	—	563,176
Excess of book depreciation over tax depreciation	214,738	9,099	(58,219)	223,844
Retirement benefits liabilities	299,318	2,621	—	243,720
Unused tax losses	222,594	(36,283)	—	186,310
Contract liabilities	194,255	(5,407)	—	188,848
Accrued expenses, and so forth	145,233	(3,130)	—	142,102
Valuation difference on PPE	144,057	(17,688)	49,015	126,361
Valuation difference on securities	79,472	—	—	128,495
Valuation difference on right-of-use assets	76,611	(21,208)	—	55,395
Loss allowance for expected credit losses	96,427	(64,240)	—	32,187
Loss on valuation of inventories	46,925	(29,154)	—	17,771
Others	642,836	189,380	28,195	860,420
Total deferred tax assets	$3,866,247	$141,391	$ 36,433	$4,044,079
Deferred tax liabilities				
Valuation difference on securities	$ 315,876	$ —	$ (3,152)	$ 312,716
Reserve for advanced depreciation of non-current assets	243,353	26,780	—	270,141
Retirement benefit assets (Retirement benefit trust)	235,467	(20,190)	(33,041)	182,228
Investments in subsidiaries, associates and joint ventures	135,003	18,063	—	153,066
Excess of book depreciation over tax depreciation	71,856	(3,392)	—	68,464
Tax benefits recognized under the Act on Strengthening Industrial Competitiveness	47,592	(15,861)	—	31,730
Intangible assets recognized through business combinations	17,936	(2,351)	—	15,584
Others	207,631	178,049	16,078	401,767
Total deferred tax liabilities	$1,274,739	$181,105	$(20,115)	$1,435,729

b) Deferred tax assets and liabilities recognized in the consolidated statement of financial position

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Deferred tax assets	¥ 352,261	¥ 358,758	$2,686,722
Deferred tax liabilities	¥ 6,217	¥ 10,465	$ 78,371

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Unused tax losses	¥ 595,415	¥1,075,403	$8,053,643
Deductible temporary differences	606,095	190,193	1,424,346
Total	¥1,201,511	¥1,265,597	$9,477,997

In recognizing the deferred tax assets, the Group assesses whether it is possible that part or all of the deductible temporary differences, unused tax losses and others are to be utilized against future taxable profits. The estimate of future taxable profits is based on the business plan approved by management, which is established by taking account of the reduction of fixed costs, recovery from a decline in demand and production due to COVID-19 and responses to changes in business environment of the thermal power generation system business, which is one of the Group's core businesses. For the assessment of the recoverability of deferred tax assets, the Group assesses that it is probable that the tax benefit will be realized based on the level of past taxable profits, the projection of future taxable profits for the period when the deferred tax assets can be recognized and management plans taking into account tax implications and others.

d) The amount of unused tax losses for unrecognized deferred tax assets and the expiration year

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Year 1	¥ 13,053	¥ 20,186	$ 151,172
Year 2	19,635	35,148	263,221
Year 3	31,184	53,068	397,423
Year 4	53,329	65,414	489,882
Year 5 or later	478,212	901,586	6,751,935
Total	¥595,415	¥1,075,403	$8,053,643

Local taxes in Japan (corporate inhabitant tax and corporate enterprise tax) are included in the amount of unused tax losses, and the tax rates are less than 10%.

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

The aggregated amount of temporary differences associated with investments in subsidiaries and associates for unrecognized deferred tax liabilities as of March 31, 2022 and March 31, 2023, were ¥430,370 million and ¥503,171 million ($3,768,224 thousand), respectively. The deferred tax liabilities associated with said temporary differences are not recognized when the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse within the foreseeable future.

(2) Income taxes recognized through profit or loss

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Current tax expense			
Current period	¥35,005	¥34,394	$257,575
Prior period restatement	605	5,120	38,343
Total of current tax expense	35,610	39,515	295,926
Deferred tax expense			
Arising and reversal of temporary differences	11,749	7,689	57,582
Changes in tax rates or the imposition of new taxes	717	(635)	(4,755)
Others	(47)	(1,751)	(13,113)
Total of deferred tax expense	12,419	5,302	39,706
Total tax expense	¥48,029	¥44,818	$335,639

(3) Reconciliation of income tax rate

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

	2022	2023
Effective statutory tax rate in Japan	30.5%	30.5%
Non-deductible expenses	1.4%	1.0%
Non-taxable revenues	(0.9)%	(8.8)%
Share of profit (loss) of investments accounted for using the equity method	(3.0)%	(2.1)%
Changes in unrecognized deferred tax assets	(1.7)%	4.0%
Tax credit for experiment and research expenses	(2.0)%	(1.8)%
Investments in subsidiaries, associates and joint ventures	0.8%	1.3%
Revision to year-end deferred tax assets due to a change in tax rate	0.5%	(0.3)%
Others	2.1%	(0.2)%
Average actual tax rate	27.7%	23.4%

(4) Temporary exception regarding introduction of the Pillar Two model rules published by the Organization for Economic Co-operation and Development

Since the fiscal year ended March 31, 2023, the Group applies the temporary exception established by amended IAS 12 "Income Taxes" at May 23, 2023 regarding introduction of the Pillar Two model rules. The temporary exception stipulates that an entity shall neither recognize nor disclose information about deferred tax assets and liabilities arising from tax laws enacted or substantively enacted by national governments to introduce Pillar Two model rules.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(1) Individually immaterial associates

The total carrying amount of investments in individually immaterial associates accounted for using the equity method were ¥171,195 million, and ¥183,877 million ($1,377,046 thousand) as of March 31, 2022 and March 31, 2023, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2022 and March 31, 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit or loss	¥10,714	¥12,493	$ 93,559
Other comprehensive income	6,480	7,240	54,220
Total comprehensive income	¥17,195	¥19,733	$147,779

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.

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(2) Individually immaterial joint ventures

The carrying amount of investments in individually immaterial joint ventures accounted for using the equity method were ¥41,632 million, and ¥43,168 million ($323,283 thousand) as of March 31, 2022 and March 31, 2023, respectively. The total amount of equity shares on comprehensive income of the Group for the fiscal years ended March 31, 2022 and March 31, 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit or loss	¥6,146	¥1,009	$ 7,556
Other comprehensive income	641	636	4,762
Total comprehensive income	¥6,787	¥1,646	$12,326

17. LEASES

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

(1) Right-of-use assets

Carrying amount, depreciation expense and increased amount

	Millions of yen					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Others	Total
As of April 1, 2021	¥61,685	¥27,035	¥2,101	¥2,435	¥ 64	¥93,321
Increased amount of right-of-use assets	12,512	7,206	1,375	1,853	135	23,083
Depreciation	(12,107)	(7,349)	(631)	(471)	(81)	(20,641)
Others*	1,218	1,101	7	156	7	2,491
As of March 31, 2022	¥63,309	¥27,994	¥2,853	¥3,972	¥ 125	¥98,255
Increased amount of right-of-use assets	13,635	4,213	2,614	283	1,149	21,896
Depreciation	(14,238)	(4,771)	(918)	(604)	(144)	(20,677)
Others*	2,825	(16,269)	275	(11)	1	(13,179)
As of March 31, 2023	¥65,531	¥11,165	¥4,824	¥3,640	¥1,132	¥86,295

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Others	Total
As of March 31, 2022	$474,118	$209,645	$21,365	$29,746	$ 936	$735,827
Increased amount of right-of-use assets	102,111	31,550	19,576	2,119	8,604	163,978
Depreciation	(106,627)	(35,729)	(6,874)	(4,523)	(1,078)	(154,849)
Others*	21,156	(121,837)	2,059	(82)	7	(98,696)
As of March 31, 2023	$490,758	$ 83,614	$36,126	$27,259	$8,477	$646,259

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

(2) Lease liabilities

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

(3) Amount recognized in profit and loss

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Interest expenses on lease liabilities	¥2,009	¥1,765	$13,218
Expenses relating to short-term leases	7,007	6,156	46,101
Expenses relating to leases of low-value assets	17,578	16,054	120,227
Lease income from subleasing right-of-use assets	¥7,739	¥ 2	$ 14

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

(4) Cash outflow related to leases

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash outflow related to leases	¥52,484	¥50,299	$376,686

(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.

In the fiscal year ended March 31, 2022, cash inflow caused from sale and leaseback transaction of the Group was ¥5,865 million but there was not a new transaction in the fiscal year ended March 31, 2023. The profit or loss arising from these sale and leaseback transactions was immaterial.

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

18. PROVISIONS

Changes in provisions are as follows:

For the fiscal year ended March 31, 2023

	Millions of yen				
	Loss on construction contracts	Product and construction warranties	Levies	Others	Total
Balance as of April 1, 2022	¥ 97,850	¥ 99,518	¥11,593	¥56,842	¥265,803
Increase	54,396	57,378	11,133	31,232	154,140
Decrease (utilization)	(46,710)	(36,457)	(10,971)	(23,331)	(117,471)
Decrease (reversal)	(3,235)	(12,309)	(621)	(3,167)	(19,333)
Others (Exchange rate differences, etc.)	3,067	2,443	(32)	1,782	7,261
Balance as of March 31, 2023	¥105,368	¥110,573	¥11,101	¥63,357	¥290,399
Current liabilities	105,368	86,213	11,101	26,900	229,582
Non-current liabilities	—	24,360	—	36,457	60,817
Total	¥105,368	¥110,573	¥11,101	¥63,357	¥290,399

For the fiscal year ended March 31, 2023

	Thousands of U.S. dollars				
	Loss on construction contracts	Product and construction warranties	Levies	Others	Total
Balance as of April 1, 2022	$732,794	$745,285	$86,819	$425,687	$1,990,586
Increase	407,369	429,701	83,374	233,895	1,154,347
Decrease (utilization)	(349,809)	(273,024)	(82,161)	(174,724)	(879,734)
Decrease (reversal)	(24,226)	(92,181)	(4,650)	(23,717)	(144,783)
Others (Exchange rate differences, etc.)	22,968	18,295	(239)	13,345	54,377
Balance as of March 31, 2023	$789,096	$828,076	$83,134	$474,477	$2,174,784
Current liabilities	789,096	645,645	83,134	201,452	1,719,328
Non-current liabilities	—	182,430	—	273,024	455,455
Total	$789,096	$828,076	$83,134	$474,477	$2,174,784

(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 losses on construction contracts recognized in the fiscal year ended March 31, 2023 included a provision for losses on long-term service agreements associated with the plant facilities that were delivered during the prior fiscal year ended March 31, 2022.

The Group was carrying out improvement works to enhance the performance reliability of the plant facilities as of March 31, 2023, and recognized the provision based on the reasonable estimates of compensation for loss during the unavailable period for the improvement works and total costs necessary to fulfill the long-term service agreements.

The Group expects that the plant facilities will operate stably after completion of the improvement works. However, if the effectiveness of the improvement works deemed to be insufficient compared to the plan, there is a possibility that additional costs and other losses may be incurred in accordance with the contract terms.

(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, 2023 included a provision for the improvement works to enhance the performance reliability of 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.

Among changes of other provisions for the fiscal year ended March 31, 2023, change of provision for business structure improvement was ¥3,534 million($26,465 thousand).

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

19. EMPLOYEE BENEFITS

(1) Retirement benefits

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

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

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

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

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

a) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Present value of defined benefit obligations	¥551,570	¥517,302	$3,874,050
Fair value of plan assets	567,544	561,974	4,208,597
Net defined benefit liability	¥ (15,973)	¥ (44,672)	$ (334,546)
Amounts presented in the consolidated statement of financial position			
Retirement benefit liabilities	76,824	76,146	570,253
Retirement benefit assets	92,797	120,818	904,800
Net defined benefit liability	¥ (15,973)	¥ (44,672)	$ (334,546)

ii. Changes in present value of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance as of April 1	¥550,400	¥551,570	$4,130,682
Current service cost	41,469	39,080	292,668
Interest expense	2,960	3,785	28,345
Remeasurement			
Actuarial gains (losses) arising from changes in demographic assumptions	(7,023)	460	3,444
Actuarial gains (losses) arising from changes in financial assumptions	(6,940)	(19,802)	(148,296)
Actuarial gains (losses) arising from experience adjustment	5,121	(701)	(5,249)
Past service cost	3,105	164	1,228
Payment of benefits	(44,296)	(57,183)	(428,240)
Changes from business combinations	2,820	(36)	(269)
Others	3,952	(37)	(277)
Balance as of March 31	¥551,570	¥517,302	$3,874,050

iii. Changes in fair value of plan assets

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance as of April 1	¥504,529	¥567,544	$4,250,310
Interest income	2,615	3,780	28,308
Remeasurement			
Return on plan assets (excluding amounts included in net interest on the net defined benefit asset)	63,990	5,415	40,552
Contributions to the plan (by the employer)	23,181	12,277	91,941
Payment of benefits	(29,801)	(27,237)	(203,976)
Changes from business combinations	985	(15)	(112)
Others	2,043	209	1,565
Balance as of March 31	¥567,544	¥561,974	$4,208,597

iv. The breakdown of fair value of plan assets

As of March 31, 2022

	Millions of yen		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Shares issued by Japanese companies	¥257,506	¥ —	¥257,506
Shares issued by foreign companies	46,767	12,095	58,863
Bonds issued by Japanese companies	20,872	—	20,872
Bonds issued by foreign companies	38,556	15,809	54,365
Cash and deposits	63,457	—	63,457
General accounts for life insurance	—	17,136	17,136
Others*	—	95,343	95,343
Total	¥427,159	¥140,384	¥567,544

As of March 31, 2023

	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	¥266,455	¥ —	¥266,455
Shares issued by foreign companies	35,630	11,167	46,798
Bonds issued by Japanese companies	16,001	—	16,001
Bonds issued by foreign companies	26,861	14,253	41,114
Cash and deposits	52,868	—	52,868
General accounts for life insurance	—	16,044	16,044
Others*	—	122,692	122,692
Total	¥397,817	¥164,157	¥561,974

As of March 31, 2023

	Thousands of U.S. dollars		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Shares issued by Japanese companies	$1,995,469	$ —	$1,995,469
Shares issued by foreign companies	266,831	83,629	350,468
Bonds issued by Japanese companies	119,830	—	119,830
Bonds issued by foreign companies	201,160	106,740	307,900
Cash and deposits	395,926	—	395,926
General accounts for life insurance	—	120,152	120,152
Others*	—	918,834	918,834
Total	$2,979,233	$1,229,364	$4,208,597

*"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 ¥251,987 million, and ¥261,828 million ($1,960,817 thousand) as of March 31, 2022 and March 31, 2023, 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, 2022 and 2023, 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, 2022	As of March 31, 2023
Discount rate	Mainly 0.7%	Mainly 1.1%

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

	Millions of yen				Thousands of U.S. dollars	
	As of March 31, 2022		As of March 31, 2023		As of March 31, 2023	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact in the event of 0.5 percentage point change in the discount rate	¥(33,578)	¥35,997	¥(27,445)	¥29,171	$(205,534)	$218,460

The trial calculation is approximated by changing only the discount rate, without varying other actuarial assumptions.

Since this calculation does not take into account potential variation to other actuarial assumptions, the actual calculation may be affected by fluctuations in other variables.

vi. Plan assets management policy

The Group ensures it is able to provide benefits in the form of pensions and lump-sum payments. To this end, a target asset allocation is established to ensure that necessary returns are received stably over the long term and the Group makes diversified investments in a broad range of assets, including bonds and stocks, within permissible risk parameters. The Group also periodically assesses the investment status and financial condition of the plan assets and the asset management environment and revises the asset management if necessary. For contributions to the pension funds, the contribution amount is reviewed periodically by, for example, recalculating the amount once every three years to balance the future financial position of the pension plan in compliance with relevant laws and regulations.

The Group makes contributions based on an appropriate actuarial calculation to fund the benefits. The amount of contributions expected to be paid to the defined benefit plans for the fiscal year ended March 31, 2024 is ¥11,919 million ($89,260 thousand).

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

	As of March 31, 2022	As of March 31, 2023
Weighted average duration (year)	13.01	11.33

b) Defined contribution plans

Expenses for the defined contribution plans for the fiscal years ended March 31, 2022 and March 31, 2023 were ¥11,376 million and ¥15,315 million ($114,693 thousand), respectively.

(2) Employee benefits expenses

The aggregated amounts of employee benefit expenses recognized for the fiscal years ended March 31, 2022 and March 31, 2023 were ¥816,425 million and ¥869,538 million ($6,511,929 thousand), respectively.

20. OTHER ASSETS AND LIABILITIES

(1) The breakdown of other assets

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Advances to suppliers and prepaid expenses	¥123,228	¥139,740	$1,046,506
Retirement benefit assets	92,797	120,818	904,800
Consumption tax receivables (Incl. VAT receivables)	47,189	42,649	319,396
Income tax receivables	5,930	21,549	161,379
Others	123,873	119,302	893,447
Total	¥393,020	¥444,061	$3,325,552
Current assets	219,875	245,943	1,841,855
Non-current assets	173,144	198,117	1,483,689
Total	¥393,020	¥444,061	$3,325,552

(2) The breakdown of other liabilities

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Accrued expenses	¥134,893	¥135,019	$1,011,151
Accrued consumption taxes (Incl. VAT payables)	16,054	20,067	150,280
Others	97,125	64,579	483,629
Total	¥248,073	¥219,666	$1,645,068
Current liabilities	193,865	193,791	1,451,291
Non-current liabilities	54,207	25,874	193,769
Total	¥248,073	¥219,666	$1,645,068

21. EQUITY AND OTHER EQUITY ITEMS

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

	Shares	
	2022	2023
The number of shares authorized*:		
Common shares	600,000,000	600,000,000
The number of shares issued*:		
At the beginning of the year	337,364,781	337,364,781
Changes during the year	—	—
At the end of the year	337,364,781	337,364,781

* Both the shares authorized and the shares issued are no-par value common stock. All of the shares issued are paid in full.
The number of treasury shares included in the shares issued was 1,660,084 shares, and 1,470,454 shares as of March 31, 2022 and March 31, 2023, respectively. The number of MHI's common shares held by the Stock Grant ESOP Trust, and the Officer Remuneration BIP Trust I & II were 1,171,087 shares, and 1,010,532 shares as of March 31, 2022 and March 31, 2023, respectively. There was no change in the number of MHI's common shares held by its associates, which was 4,328 shares as of March 31, 2022 and March 31, 2023, respectively.

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

a) Capital surplus

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

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

b) Retained earnings

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

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

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

22. DIVIDENDS

The total dividends for each fiscal year are as follows.

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

a) Dividends paid

Resolution	Type of shares	Total cash dividends paid (Millions of yen)*1, 2	Total cash dividends paid (Thousands of U.S. dollars)*1, 2	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 29, 2021 Annual General Meeting of Shareholders	Common Stock	¥25,262	$189,185	¥75	$0.5616	March 31, 2021	June 30, 2021	Retained earnings
October 29, 2021 Board of Directors Meeting	Common Stock	¥15,158	$113,517	¥45	$0.3370	September 30, 2021	December 3, 2021	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2021, include ¥51 million ($381 thousand) 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 October 29, 2021, include ¥56 million ($419 thousand) 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, 2022, but take effect in the fiscal year ending March 31, 2023

Resolution	Type of shares	Total cash dividends paid (Millions of yen)*	Total cash dividends paid (Thousands of U.S. dollars)*	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 29, 2022 Annual General Meeting of Shareholders	Common Stock	¥18,528	$138,755	¥55	$0.4118	March 31, 2022	June 30, 2022	Retained earnings

*Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2022, include ¥64 million ($479 thousand) 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, 2023 (From April 1, 2022 to March 31, 2023)

a) Dividends paid

Resolution	Type of shares	Total cash dividends paid (Millions of yen)*1,2	Total cash dividends paid (Thousands of U.S. dollars)*1,2	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 29, 2022 Annual General Meeting of Shareholders	Common Stock	¥18,528	$138,755	¥55	$0.4118	March 31, 2022	June 30, 2022	Retained earnings
November 1, 2022 Board of Directors Meeting	Common Stock	¥20,213	$151,374	¥60	$0.4493	September 30, 2022	December 5, 2022	Retained earnings

*1. Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2022, include ¥64 million ($479 thousand) 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 1, 2022, include ¥60 million ($449 thousand) 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, 2023, but take effect in the fiscal year ending March 31, 2024

Resolution	Type of shares	Total cash dividends paid (Millions of yen)*	Total cash dividends paid (Thousands of U.S. dollars)*	Cash dividends per share (Yen)	Cash dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 29, 2023 Annual General Meeting of Shareholders	Common Stock	¥23,583	$176,611	¥70	$0.5242	March 31, 2023	June 30, 2023	Retained earnings

*Total dividends paid in accordance with the resolution passed at the Annual General Meeting of Shareholders held on June 29, 2023, include ¥70 million ($524 thousand) of dividends for the stocks held by the Stock Grant ESOP (Employee Stock Ownership Plan) Trust and the Officer Remuneration BIP (Board Incentive Plan) Trust I&II.

23. REVENUE

(1) Disaggregation of revenue

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

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

Revenue from external customers*1

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Reporting segments			
Energy Systems	¥1,643,374	¥1,731,444	$12,966,704
Plants & Infrastructure Systems	616,983	638,689	4,783,112
Logistics, Thermal & Drive Systems	981,265	1,199,695	8,984,460
Aircraft, Defense & Space			
Commercial aircraft	109,176	144,311	1,080,738
Defense & space equipment	495,372	473,682	3,547,382
Subtotal	604,549	617,994	4,628,128
Total	¥3,846,172	¥4,187,822	$31,362,405
Corporate & Eliminations*2	14,110	14,974	112,139
Total	¥3,860,283	¥4,202,797	$31,474,552

*1. Most of the revenue from external customers are recognized from contracts with customers under IFRS 15, and the amount of lease revenue recognized under IFRS 16 and revenue recognized from other sources are not material.
*2. "Corporate & Eliminations" includes income from utilization and disposal of assets, which are not included in any of the reporting segments.

The Group is engaged in the sales of products, the performance of construction works and rendering of services in Energy Systems, Plants & Infrastructure Systems, Logistics, Thermal & Drive Systems and Aircraft, Defense & Space business domains and segments. For details of the revenue recognition in each transaction, refer to Note 3. "Significant Accounting Policies (13) Revenue."

Of these, Energy Systems, Plants & Infrastructure Systems, and Defense & space equipment businesses are engaged in construction work in which performance obligations are satisfied over a long period exceeding one year. The revenue of these three businesses is set forth above. These amounts include revenue recognized over time based on total revenue calculated for each construction contract and the progress towards construction completion.

The progress is measured using the method that depicts the satisfaction of performance obligation and is principally estimated based on the proportion of costs incurred to satisfy the performance obligation against the expected total costs of satisfying the performance obligation.

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

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

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

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

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

The consideration of a transaction is received based on the progress for each performance obligation satisfied over time, such as a milestone in the case of a construction contract. The consideration for the sale of goods or rendering of services is received within one year after the performance obligation is satisfied. In either case, the contract does not include a significant financing component. In addition, within consideration from contracts with customers, no significant amounts have been excluded from the transaction price.

Further, the Group provides warranties assuring that a product satisfies specifications as provided in the contract. However, the Group does not identify this warranty as a separate performance obligation because it does not provide a distinct service. For certain products and construction contracts, under which warranties on performance and delivery guarantees are provided, revenue is reduced to the extent a refund liability to customers is deemed to be incurred, as a result of unsatisfied obligations.

(2) The breakdown of revenue by geographical market

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

(3) Contract balances

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Receivables from contracts with customers	¥683,649	¥732,398	$5,484,894
Contract assets	654,972	731,820	5,480,566
Contract liabilities	¥886,551	¥936,765	$7,015,389

Significant changes in contract assets and liabilities

a) Contract assets

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

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

b) Contract liabilities

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

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

Of the above-mentioned decreases in contract liabilities as a result of the recognition of revenue, amounts transferred from the beginning balance of contract liabilities were ¥451,665 million and ¥468,678 million ($3,509,907 thousand) for the fiscal years ended March 31, 2022 and March 31, 2023, 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, 2023, and the balance by reporting segment are as follows.

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Reporting segments			
Energy Systems	¥3,114,441	¥3,325,682	$24,905,878
Plants & Infrastructure Systems	1,243,418	1,509,232	11,302,568
Logistics, Thermal & Drive Systems	43,264	54,815	410,507
Aircraft, Defense & Space	1,087,165	1,171,848	8,775,915
Subtotal	5,488,289	6,061,580	45,394,892
Corporate & Eliminations*	309	264	1,977
Total	¥5,488,599	¥6,061,844	$45,396,869

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

The transaction amounts allocated to the remaining performance obligations in the three reporting segments, namely "Energy Systems", "Plants & Infrastructure Systems" and "Aircraft, Defense & Space", are mainly attributable to the individual made-to-order products business. As such, many of such transactions are for construction contracts that have performance obligations to be satisfied over a long period exceeding one year. Whereas the transaction amounts allocated to the remaining performance obligations in "Logistics, Thermal & Drive Systems", are mainly attributable to medium-volume production business, and are mainly related to the sale of the products and rendering of the service for which the performance obligation is completed within one year.

Remaining performance obligations for each reporting segment are expected to be satisfied and recognized as revenue within the number of years from the end of each fiscal year as stated below.

- Energy Systems: Within 6 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 fulfil contracts with customers

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Assets recognized from the costs to obtain contracts	¥ 581	¥ 651	$ 4,875
Assets recognized from the costs to fulfil contracts	41,544	43,328	324,481
Total	¥42,125	¥43,980	$329,364

The Group recognizes assets only to the extent that it is probable that the incremental costs of obtaining contracts and direct cost of fulfilling contracts will be recoverable, which is included in "Inventories" in the consolidated statement of financial position.

The majority of such assets recognized by the Group as the incremental costs of obtaining contracts are mainly commissions paid to trading companies used in obtaining construction contracts. These assets are amortized in accordance with the transference pattern of goods or services to customers for the relevant construction contracts.

In addition, assets recognized from the costs for expected future contracts are mainly costs for designing mass production drawings or making jigs dedicated for new models and products that had been incurred prior to the conclusion of contracts with customers. After the contracts were concluded, said assets are amortized in accordance with the transference pattern of goods or services to customers.

The amount of amortization for the assets recognized from the contract costs for the fiscal years ended March 31, 2022 and March 31, 2023 were ¥17,332 million and ¥11,857 million ($88,796 thousand) respectively. Impairment loss was not recognized in the fiscal years ended March 31, 2022 and recognized ¥192 million ($1,437 thousand) in the fiscal years ended March 31, 2023.

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Employee benefit expenses	¥221,313	¥238,693	$1,787,560
Research and development expenses*	72,066	75,290	563,843
Business development expenses	50,614	53,042	397,229
Remuneration and fees	40,249	42,684	319,658
Depreciation and amortization	22,301	24,613	184,325
Loss allowance for expected credit losses	2,562	3,973	29,753
Others	147,619	185,340	1,388,002
Total	¥556,727	¥623,638	$4,670,396

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

25. OTHER INCOME AND EXPENSES

The breakdown of other income and expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Other income			
Gains on sales of PPE	¥38,496	¥ 29,018	$217,314
Gains on reversal of liabilities related to discontinuation of development	—	28,449	213,053
Dividend income *1	17,286	20,627	154,474
Gains from FVTPL financial assets	2,107	4,620	34,598
Others	11,083	20,994	157,223
Total	¥68,972	¥103,710	$776,679
Other expenses			
Business structure improvement expenses *2	¥ —	¥ 16,030	$120,047
Impairment losses	3,607	10,945	81,966
Losses on sale and retirement of PPE and intangible assets	5,328	7,154	53,575
Costs of restoring	—	6,666	49,921
Various losses related to SpaceJet project	—	5,869	43,952
Losses related to suspended operations	5,560	2,500	18,722
Others	10,282	16,101	120,579
Total	¥24,777	¥ 65,267	$488,781

*1. In the consolidated statement of cash flows, dividend income is included in "Others" under cash flows from operating activities. As stated in Note 7. "Other Financial Assets", all dividend income is derived from financial assets at FVTOCI.
*2. "Business structure improvement expenses" are costs related to restructuring.

26. GOVERNMENT GRANTS

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

Government grants recorded for the fiscal years ended March 31, 2022 and 2023 were ¥9,875 million and ¥37,467 million ($280,588 thousand), respectively. The main portion of these grants is deducted from research and development expenses as incurred, and some portion is deferred and recognized as other income.

27. FINANCE INCOME AND FINANCE COSTS

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Finance income			
Interest income			
Financial assets measured at amortized cost	¥ 5,705	¥10,362	$ 77,600
Foreign exchange gain	23,141	18,238	136,583
Others	3,061	383	2,868
Total	¥31,907	¥28,984	$217,059
Finance costs			
Interest expense			
Financial liabilities measured at amortized cost	10,405	12,540	93,911
Lease liabilities	2,009	1,765	13,218
Others*	6,048	16,875	126,376
Total	¥18,463	¥31,181	$233,513

* "Others" includes changes remeasured financial liabilities.
In the fiscal year ended March 31, 2023, the amount of remeasured financial liabilities recognized as financial expenses was ¥10,351 million ($77,518 thousand).

28. EARNINGS PER SHARE

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit (attributable to owners of the parent)	¥113,541	¥130,451	$976,941

	Thousands of shares	
	2022	2023
Weighted-average number of common shares outstanding during the period	335,685	335,841
Impact of the dilutive effect: share subscription rights	184	150
Weighted-average number of common shares outstanding during the period after impact of the dilutive effect	335,869	335,991

	Yen		U.S. dollars
	2022	2023	2023
Earnings per share (attributable to owners of the parent)			
Basic earnings per share	¥338.24	¥388.43	$2.90
Diluted earnings per share	¥338.05	¥388.26	$2.90

29. OTHER COMPONENTS OF EQUITY AND OTHER COMPREHENSIVE INCOME

(1) Other components of equity

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Financial assets measured at FVTOCI			
Balance at the beginning of the year	¥ 99,024	¥100,592	$ 753,328
Changes during the year	18,686	3,462	25,926
Transfer to retained earnings	(17,118)	(7,873)	(58,960)
Balance at the end of the year	¥100,592	¥ 96,182	$ 720,302
Remeasurement of defined benefit plans			
Balance at the beginning of the year	¥ —	¥ —	$ —
Changes during the year	50,673	19,009	142,357
Transfer to retained earnings	(50,673)	(19,009)	(142,357)
Balance at the end of the year	¥ —	¥ —	$ —
Cash flow hedges			
Balance at the beginning of the year	¥ (6,145)	¥ (4,493)	$ (33,647)
Changes during the year	1,651	3,231	24,196
Balance at the end of the year	¥ (4,493)	¥ (1,262)	$ (9,451)
Hedge costs			
Balance at the beginning of the year	¥ (7)	¥ (185)	$ (1,385)
Changes during the year	(178)	185	1,385
Balance at the end of the year	¥ (185)	¥ —	$ —
Exchange differences on translating foreign operations			
Balance at the beginning of the year	¥ 12,521	¥ 76,815	$ 575,263
Changes during the year*	64,294	49,579	371,294
Balance at the end of the year	¥ 76,815	¥126,394	$ 946,558
Other components of equity			
Balance at the beginning of the year	¥105,393	¥172,728	$1,293,552
Changes during the year	135,128	75,469	565,183
Transfer to retained earnings	(67,792)	(26,883)	(201,325)
Balance at the end of the year	¥172,728	¥221,314	$1,657,410

*Changes during the year in "Exchange differences on translating foreign operations" include the transactions with noncontrolling interests and others by ¥4,969 million ($37,212 thousand).

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Financial assets measured at FVTOCI	¥ (13)	¥ (100)	$ (748)
Remeasurement of defined benefit plans	(283)	(46)	(344)
Cash flow hedges	126	(163)	(1,220)
Exchange differences on translating foreign operations	7,707	2,678	20,055
Total	¥7,536	¥2,367	$17,726

(3) Other comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Items that will not be reclassified to profit (loss)			
Net gain (loss) from financial assets measured at FVTOCI			
Amount arising during the year	¥ 26,182	¥ 1,553	$ 11,630
Before tax effects	26,182	1,553	11,630
Tax effects	(7,482)	1,883	14,101
After tax effects	18,700	3,436	25,732
Remeasurement of defined benefit plans			
Amount arising during the year	¥ 72,437	¥25,982	$194,577
Before tax effects	72,437	25,982	194,577
Tax effects	(22,296)	(7,774)	(58,219)
After tax effects	50,140	18,208	136,358
Share of other comprehensive income of entities accounted for using the equity method			
Amount arising during the year	¥ 232	¥ 815	$ 6,103
Before tax effects	232	815	6,103
Tax effects	—	—	—
After tax effects	232	815	6,103
Items that may be reclassified to profit (loss)			
Cash flow hedges			
Amount arising during the year	¥ 5,411	¥ 5,401	$ 40,447
Reclassification adjustments	(5,363)	(2,775)	(20,781)
Before tax effects	48	2,626	19,665
Tax effects	(35)	(532)	(3,984)
After tax effects	12	2,094	15,681
Hedge costs			
Amount arising during the year	¥ (60)	¥ 460	$ 3,444
Reclassification adjustments	(195)	(194)	(1,452)
Before tax effects	(256)	266	1,992
Tax effects	78	(81)	(606)
After tax effects	(178)	185	1,385
Exchange differences on translating foreign operations			
Amount arising during the year	¥ 69,104	¥45,260	$338,950
Reclassification adjustments	(1,868)	(3,914)	(29,311)
Before tax effects	67,235	41,345	309,630
Tax effects	(147)	—	—
After tax effects	67,088	41,345	309,630
Share of other comprehensive income of entities accounted for using the equity method			
Amount arising during the year	¥ 8,103	¥ 7,245	$ 54,257
Reclassification adjustments	(1,214)	(183)	(1,370)
Before tax effects	6,889	7,061	52,879
Tax effects	—	—	—
After tax effects	6,889	7,061	52,879
Total other comprehensive income	¥142,886	¥73,148	$547,801

30. RELATED PARTY TRANSACTIONS

(1) Transactions with affiliates and joint ventures

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Balance of receivables*1	¥64,270	¥67,983	$509,121
Balance of payables	¥69,108	¥49,446	$370,298

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Revenues*2	¥91,053	¥100,965	$756,122
Purchases	¥57,286	¥ 51,372	$384,722

*1. The Group provides loans to some of its related parties.
The total amounts of loans to related parties were ¥11,269 million, and ¥11,206 million ($83,921 thousand) as of March 31, 2022 and March 31, 2023, respectively.
Loans to related parties were mainly provided to Japan Casting & Forging Corporation.
The Group sets loss allowances for the loans as ¥7,907 million, and ¥8,038 million ($60,196 thousand) as of March 31, 2022 and March 31, 2023, respectively.
The loans receivable and the loss allowances shown in the table above are net amounts.

*2. In addition to the above, the Group dealt non-current assets with some of its related parties.
The total amount of those transactions were ¥7,728 million, and ¥3,682 million ($27,574thousand) for the fiscal year ended March 31, 2022 and March 31, 2023.

(2) Remuneration for management personnel

Remuneration amount for directors is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Short-term remuneration	¥581	¥699	$5,234
Share-based remuneration	114	200	1,497
Total	¥696	¥899	$6,732

Other than above, the amount of welfare expenses, which is borne by MHI when appointing directors, for the fiscal years ended March 31, 2022 and March 31, 2023 were ¥11 million and ¥10 million ($74 thousand), respectively.

31. MAJOR SUBSIDIARIES

The Group's major subsidiaries are as follows:

Name of subsidiary	Location	Ownership percentage of voting rights*1, 2	
		As of March 31, 2022	As of March 31, 2023
Energy Systems			
Mitsubishi Heavy Industries Aero Engines, Ltd.	Komaki City, Aichi	100%	100%
Mitsubishi Heavy Industries Compressor Corporation	Minato-ku, Tokyo	100%	100%
Mitsubishi Heavy Industries Power IDS Co., Ltd.	Naka-ku, Yokohama City	100%	100%
Mitsubishi Heavy Industries Marine Machinery & Equipment Co., Ltd.	Nagasaki City	100%	100%
Mitsubishi Power Aero LLC	Connecticut, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Power Americas, Inc.	Florida, U.S.A.	100% (100%)	100% (100%)
Mechanical Dynamics & Analysis LLC	New York, U.S.A.	100% (100%)	100% (100%)

Name of subsidiary	Location	Ownership percentage of voting rights*1, 2 As of March 31, 2022	As of March 31, 2023
Plants & Infrastructure Systems			
Mitsubishi Heavy Industries Environmental & Chemical Engineering Co., Ltd.	Nishi-ku, Yokohama City	100% (100%)	100% (58.8%)
Mitsubishi Shipbuilding Co., Ltd.	Nishi-ku, Yokohama City	100% (1.5%)	100%
Mitsubishi Heavy Industries Machinery Systems, Ltd.	Hyogo-ku, Kobe City	100%	100%
Mitsubishi Heavy Industries Transportation and Construction Engineering, Ltd.	Nishi-ku, Yokohama City	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Engineering, Ltd.*3	Nishi-ku, Yokohama City	100%	100%
Primetals Technologies, Limited	London, U.K.	100% (100%)	100% (100%)
Logistics, Thermal & Drive Systems			
Mitsubishi Heavy Industries Thermal Systems, Ltd.	Chiyoda-ku, Tokyo	100%	100%
Mitsubishi Heavy Industries Engine & Turbocharger, Ltd.	Chuo-ku, Sagamihara City	100%	100%
Mitsubishi Logisnext Co., Ltd.	Nagaokakyo City, Kyoto	64.6%	64.6%
Mitsubishi Heavy Industries Air-Conditioning and Refrigeration Corporation	Minato-ku, Tokyo	100% (100%)	100% (100%)
Equipment Depot, Inc.	Texas, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Heavy Industries-Haier (Qingdao) Air-Conditioners Co., Ltd.	Shandong, China	55.0% (55.0%)	55.0% (55.0%)
Mitsubishi Logisnext Americas (Marengo) Inc.*4	Illinois, U.S.A.	100% (100%)	100% (100%)
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%)
Shanghai MHI Turbocharger Co., Ltd.	Shanghai, China	56.2% (56.2%)	56.2% (56.2%)
Mitsubishi Turbocharger and Engine America, Inc.	Illinois, U.S.A.	100% (100%)	100% (100%)
Mitsubishi Heavy Industries Air-conditioners (Shanghai) Co., Ltd.	Shanghai, China	100% (100%)	100% (100%)
Mitsubishi Logisnext Europe B.V.	Almere, The Netherlands	100% (100%)	100% (100%)
Mitsubishi Logisnext Americas (Houston) Inc.*4	Texas, U.S.A.	100% (100%)	100% (100%)
Aircraft, Defense & Space			
MHI RJ Aviation Inc.	West Virginia, U.S.A.	100% (100%)	100% (100%)
Others			
Mitsubishi Aircraft Corporation *5	Minato-ku, Nagoya City	86.9%	86.9%
MHI International Investment B.V.	Almere, The Netherlands	100%	100%
Mitsubishi Heavy Industries (China) Co., Ltd.	Beijing, China	100%	100%
Mitsubishi Heavy Industries Asia Pacific Pte. Ltd.	Singapore	100%	100%
Mitsubishi Heavy Industries America, Inc.	Texas, U.S.A.	100%	100%
Mitsubishi Heavy Industries EMEA, Ltd.	London, U.K.	100%	100%
Mitsubishi Heavy Industries (Thailand) Ltd.	Bangkok, Thailand	100% (99.9%)	100% (99.9%)
Mitsubishi Heavy Industries (Shanghai) Co., Ltd.	Shanghai, China	100% (100%)	100% (100%)
Other subsidiaries		218 companies	217 companies

*1. The numbers in brackets in the ownership percentage of voting rights represent the percentage of indirect ownership, out of the total ownership percentage.
*2. In the Group's consolidated financial statements, no consolidated subsidiaries with material non-controlling interests have been included for the fiscal years ended March 31, 2022 and March 31, 2023, respectively.
*3. Mitsubishi Heavy Industries Engineering, Ltd. changed the company name to MHI Engineering, Ltd. on April 1, 2023.
*4. Mitsubishi Logisnext Americas (Houston) Inc. merged with Mitsubishi Logisnext Americas (Marengo) Inc. and changed the company name to Mitsubishi Logisnext Americas Inc. on April 1, 2023.
*5. Mitsubishi Aircraft Corporation changed the company name to MSJ Asset Management Company on April 25, 2023.

32. COMMITMENTS

(1) Commitments related to the acquisition of PPE

The amounts committed for the purchase of PPE where the purchase has already been committed but has not been inspected for acceptance were ¥82,568 million and ¥86,986 million ($651,434 thousand) as of March 31, 2022 and March 31, 2023, respectively.

(2) Commitments related to the acquisition of intangible assets

The amounts committed for the purchase of intangible assets where the purchase has already been committed but has not been inspected for acceptance were ¥1,794 million and ¥1,563 million ($11,705 thousand) as of March 31, 2022 and March 31, 2023, respectively.

(3) Commitments to joint ventures

The Group is committed to making capital investments in some joint ventures.

The amounts by which the Group may make new or additional capital investments were ¥2,835 million ($21,231 thousand) as of March 31, 2022 and March 31, 2023.

33. CONTINGENT LIABILITIES

Not applicable.

34. RISK MANAGEMENT

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

(1) Credit risk management

The Group's financial assets and financial guarantee contracts that are measured at amortized cost under "Trade and other receivables", "Other financial assets" and "Contract assets" are exposed to credit risk of the customers.

The Group regularly manages the due dates and balances of receivables from each customer, and assesses their credit status. The Group has accepted collateral with respect to specific transactions with customers for credit enhancement purposes. The Group also tries to reduce credit risk by utilizing letters of credit, trade insurance, etc.

The Group has no excessive credit risk concentrated on a single customer.

The credit risks related to deposits and derivative transactions that the Group has entered into are limited because all transactions entered into are with highly creditworthy financial institutions.

Loss allowance for expected credit loss for "Trade and other receivables" and "Contract assets" presented in the consolidated statement of financial position are always measured at an amount equal to the lifetime expected credit losses (Simplified approach).

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

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

The amount of ECL is measured as follows:

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

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

a) Balances of assets subject to loss allowance for ECL

Measurement method of credit losses	Classification	Millions of yen As of March 31, 2022	Millions of yen As of March 31, 2023	Thousands of U.S. dollars As of March 31, 2023
Simplified approach	—	¥1,367,327	¥1,490,861	$11,164,989
General approach	Measured at an amount equal to the 12-month ECL	105,273	156,080	1,168,875
	Measured at an amount equal to the lifetime ECL	—	—	—
	Measured at an amount equal to the lifetime ECL (credit impaired)	¥ 8,086	¥ 8,113	$ 60,757

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

	Millions of yen				
	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes*1	Balance at the end of the year
Allowances using the simplified approach	¥12,896	¥1,108	¥(644)	¥ 505	¥13,866
Allowances using the general approach					
Other than credit-impaired financial assets	368	1,148	(24)	31	1,524
Credit-impaired financial assets*2	¥ 9,149	¥ 186	¥ —	¥(1,425)	¥ 7,909

For the fiscal year ended March 31, 2023 (From April 1, 2022 to March 31, 2023)

	Millions of yen				
	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes*1	Balance at the end of the year
Allowances using the simplified approach	¥13,866	¥3,925	¥(5,382)	¥740	¥13,149
Allowances using the general approach					
Other than credit-impaired financial assets	1,524	44	(110)	94	1,553
Credit-impaired financial assets*2	¥ 7,909	¥ 104	¥ —	¥ 26	¥ 8,040

For the fiscal year ended March 31, 2023 (From April 1, 2022 to March 31, 2023)

	Thousands of U.S. dollars				
	Balance at the beginning of the year	Changes during the year	Decrease during the year (utilization)	Other changes*1	Balance at the end of the year
Allowances using the simplified approach	$103,841	$29,394	$(40,305)	$5,541	$98,472
Allowances using the general approach					
Other than credit-impaired financial assets	11,413	329	(823)	703	11,630
Credit-impaired financial assets*2	$ 59,230	$ 778	$ —	$ 194	$60,211

*1. Other changes include adjustments for foreign currency translation gains and losses.
*2. Credit-impaired financial assets included loans to Japan Casting & Forging Corporation, which is stated in Note 30. "Related Party Transactions".

c) Financial guarantee contracts

The Group has provided guarantees on borrowings from financial institutions which were made by the Group's employees. Also, in relation to leasing business mainly for the aircrafts dealt in CRJ division, the Group provided guarantees on fulfillment of obligations for lessees, etc.

Guarantees outstanding were ¥66,254 million and ¥47,649 million ($356,841 thousand) as of March 31, 2022 and March 31, 2023, 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, 2022

	Millions of yen				
	Carrying amount	Total undiscounted contractual cash flows	One year or less	More than one year and less than five years	More than five years
Non-derivative liabilities					
Trade and other payables	¥ 863,281	¥ 863,281	¥ 859,485	¥ 3,699	¥ 96
Bonds	205,000	209,130	10,773	107,160	91,197
Short-term borrowings	67,324	67,324	67,324	—	—
Long-term borrowings	462,609	474,400	94,382	187,516	192,502
Liabilities under factoring agreements	94,825	94,825	41,293	53,532	—
Lease liabilities	134,190	139,144	30,309	83,114	25,719
Other financial liabilities	98,361	98,281	54,406	26,082	17,792
Derivative liabilities	15,963	15,963	14,642	1,320	—
Total	¥1,941,556	¥1,962,351	¥1,172,617	¥462,426	¥327,307

As of March 31, 2023

	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	¥ 895,286	¥ 895,286	¥ 892,991	¥ 2,196	¥ 99
Bonds	215,000	219,140	15,856	112,070	91,214
Short-term borrowings	61,933	61,933	61,933	—	—
Long-term borrowings	406,468	414,412	63,532	216,803	134,076
Non-recourse borrowings	59,019	60,286	856	7,563	51,866
Liabilities under factoring agreements	240,644	241,848	133,379	94,324	14,144
Lease liabilities	118,655	127,003	26,482	75,971	24,548
Other financial liabilities	82,036	87,990	44,002	25,508	18,480
Derivative liabilities	8,676	8,676	8,078	597	—
Total	¥2,087,721	¥2,116,578	¥1,247,113	¥535,035	¥334,430

As of March 31, 2023

	Thousands of U.S. dollars				
	Carrying amount	Total undiscounted contractual cash flows	One year or less	More than one year and less than five years	More than five years
Non-derivative liabilities					
Trade and other payables	$ 6,704,755	$ 6,704,755	$6,687,568	$ 16,445	$ 741
Bonds	1,610,125	1,641,129	118,744	839,287	683,097
Short-term borrowings	463,813	463,813	463,813	—	—
Long-term borrowings	3,044,020	3,103,512	475,788	1,623,627	1,004,088
Non-recourse borrowings	441,990	451,479	6,410	56,638	388,422
Liabilities under factoring agreements	1,802,171	1,811,188	998,869	706,388	105,923
Lease liabilities	888,601	951,119	198,322	568,943	183,838
Other financial liabilities	614,363	658,953	329,528	191,028	138,395
Derivative liabilities	64,974	64,974	60,495	4,470	—
Total	$15,634,846	$15,850,954	$9,339,571	$4,006,852	$2,504,530

Financial guarantee contracts are not included in the tables above.

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

(3) Market risk management

a) Foreign currency risk management

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

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

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

Forward exchange contracts are mainly used to hedge the foreign currency risk on trade receivables and trade payables denominated in foreign currencies. Currency swap contracts, on the other hand, are used to hedge the foreign currency risk on financial liabilities with relatively long repayment terms, such as borrowings denominated in foreign currencies.

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

(i) Exposure to foreign currency risk

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

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
U.S. dollars	¥185,757	¥159,454	$1,194,143
Euros	¥ 24,684	¥ 16,017	$ 119,950

(ii) Foreign exchange sensitivity analysis

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

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

	Millions of yen		Thousands of U.S. dollars
Profit before income taxes	2022	2023	2023
U.S. dollars	¥(1,858)	¥(1,595)	$(11,944)
Euros	¥ (247)	¥ (160)	$ (1,198)

b) Interest rate risk management

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

(i) Exposure to interest rate risk

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

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Borrowings with variable interest rates	¥51,981	¥68,278	$511,330

(ii) Interest rate sensitivity analysis

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

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit before income taxes	¥(520)	¥(683)	$(5,114)

c) Share price risk management

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

(i) Exposure to share price fluctuation

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

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Marketable stocks	¥310,322	¥270,087	$2,022,669

(ii) Sensitivity analysis of share price fluctuation

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

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Other comprehensive income (After tax deduction)	¥(21,573)	¥(18,776)	$(140,612)

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, 2022

	Millions of yen			
			Carrying amount of hedging instruments	
Hedging instruments	Contract amount/ notional amount	Of which, more than 1 year	Assets	Liabilities
Foreign exchange risk				
Forward exchange contracts	¥189,570	¥67,396	¥2,870	¥6,759
Currency swap	72,699	—	416	—
Interest rate risk				
Interest rate swap	¥ 84,699	¥ 9,887	¥ —	¥ 989

As of March 31, 2023

	Millions of yen			
			Carrying amount of hedging instruments	
Hedging instruments	Contract amount/ notional amount	Of which, more than 1 year	Assets	Liabilities
Foreign exchange risk				
Forward exchange contracts	¥170,351	¥30,985	¥3,956	¥5,031
Currency swap	—	—	—	—
Interest rate risk				
Interest rate swap	¥ 45,803	¥40,798	¥ —	¥ 677

As of March 31, 2023

	Thousands of U.S. dollars			
			Carrying amount of hedging instruments	
Hedging instruments	Contract amount/ notional amount	Of which, more than 1 year	Assets	Liabilities
Foreign exchange risk				
Forward exchange contracts	$1,275,750	$232,045	$29,626	$37,676
Currency swap	—	—	—	—
Interest rate risk				
Interest rate swap	$ 343,016	$305,534	$ —	$ 5,070

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 100.68 yen per U.S. dollar and 123.23 yen per U.S. dollar as of March 31, 2022 and March 31, 2023 respectively.

Currency swaps are mainly used as hedging instruments (fixed amounts to be paid in yen and fixed amounts to be received in U.S. dollar) for U.S. dollar borrowings at fixed interest rates. The average contract rate for exchanges of principal was 110.17 yen per U.S. dollar as of March 31, 2022. The Group enters into interest rate swaps that mainly exchange variable interest rate payments for fixed interest rate payments. The average contract rate is 2.94% and 2.49% as of the date of transition, March 31, 2022 and March 31, 2023, respectively.

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

(ii) Cash flow hedge reserve and hedge cost reserve

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2022	**As of March 31, 2023**	**As of March 31, 2023**
Cash flow hedge reserve			
Foreign exchange risk			
Forward exchange contracts	¥(4,283)	¥(1,755)	$(13,143)
Currency swap	476	—	—
Interest rate risk			
Interest rate swap	(687)	493	3,692
Total	¥(4,493)	¥(1,262)	$ (9,451)
Hedge cost reserve			
Currency swap	(185)	—	—
Total	¥ (185)	¥ —	$ —

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

The Group sets an appropriate hedge ratio at the inception of the hedging relationship based on the quantity of the hedged item and the quantity of the hedging instrument. As a result, the Group's hedge ratio has a 1:1 relationship in principle.

The Group assumes that no significant ineffective portion of hedges arises because the credit risk related to the hedging instruments of the Group is limited. This assumption is also based on the following facts: the periods of exchange contracts are not on a long-time basis; the reference interest rate indices used for interest rate swap contracts are the same as those for the hedged borrowings with variable interest rates.

Since the ineffective portion of hedges recognized in profit or loss are not material, and changes in the value of hedged items approximate those in the fair value of hedging instruments, the Group omits the specification of changes in the value of the hedged items, used as a basis for recognizing the hedge ineffectiveness. No cash flow hedge reserve arises from hedging relationships for which hedge accounting has been discontinued.

All of the hedge cost reserves are recognized in respect of currency swap contracts to hedge time-period related hedged items.

(iii) Derivative transactions designated as fair value hedges

As of March 31, 2022

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

As of March 31, 2023, there are no derivative transactions designated as fair value hedges.

The hedge ratio for fair value hedges is 1:1 and there is no ineffective portion of hedges.

The above hedging instruments were recorded in “bonds, borrowings and other financial liabilities” on the consolidated statement of financial position.

In addition, the impact of hedged items designated as hedges on the consolidated statement of financial position is as follows:

As of March 31, 2022

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

The hedged item above is classified and recorded in “Other financial assets” in the consolidated statement of financial position.

e) Impact on the consolidated statement of profit or loss and the consolidated statement of comprehensive income

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

As of March 31, 2022

	Millions of yen		
	Changes in the fair value of hedging instruments recognized in other comprehensive income	Amount transferred from other components of equity to profit or loss as a reclassification adjustment	Line item of profit or loss transferred as a reclassification adjustment
Foreign exchange risk			
Forward exchange contracts	¥(1,941)	¥1,616	Finance costs
Currency swap	6,345	(9,204)	Finance income
Interest rate risk			
Interest rate swap	¥ 947	¥2,029	Finance costs

As of March 31, 2023

	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	¥(3,270)	¥5,167	Finance costs
Currency swap	8,190	(8,606)	Finance income
Interest rate risk			
Interest rate swap	¥ 943	¥ 470	Finance costs

As of March 31, 2023

	Thousands of U.S. dollars		
	Changes in the fair value of hedging instruments recognized in other comprehensive income	Amount transferred from other components of equity to profit or loss as a reclassification adjustment	Line item of profit or loss transferred as a reclassification adjustment
Foreign exchange risk			
Forward exchange contracts	$(24,488)	$38,695	Finance costs
Currency swap	61,334	(64,449)	Finance income
Interest rate risk			
Interest rate swap	$ 7,062	$ 3,519	Finance costs

35. CAPITAL MANAGEMENT

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

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

	As of March 31, 2022	**As of March 31, 2023**
Return on equity attributable to owners of the parent (ROE) (%)	7.72	7.86
Ratio of equity attributable to owners of the parent (%)	30.82	31.80
D/E ratio (debt ratio) (%)	44.21	40.48

The Group is not subject to any material capital requirements.

36. SUBSEQUENT EVENTS

Not applicable.

37. OTHERS

(1) Quarterly Information for the Fiscal Year Ended March 31, 2023

	Millions of yen				Thousands of U.S. dollars
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Revenue	¥871,332	¥1,875,267	¥2,938,046	¥4,202,797	$31,474,552
Profit before income taxes	35,560	91,391	113,662	191,126	1,431,333
Profit attributable to owners of the parent	¥ 19,193	¥ 54,132	¥ 66,441	¥ 130,451	$ 976,941

	Yen				U.S. dollars
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	Year Total	Year Total
Earnings per share attributable to owners of the parent–basic	¥57.16	¥161.20	¥197.84	¥388.43	$2.908

	Yen			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share attributable to owners of the parent–basic	¥57.16	¥104.04	¥36.64	¥190.59

	U.S. dollars			
Three months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share attributable to owners of the parent–basic	$0.428	$0.779	$0.274	$1.427

(2) Major Lawsuits

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

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

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

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

(3) Impact of the international situation involving Ukraine

Although the Group is being affected by the suspension of Russia-related construction works due to the economic sanctions being imposed on Russia resulting from the situation in Ukraine, the impact on the financial position and operating results of the Group including the valuation of assets, in the fiscal year ended March 31, 2023, is minimal.

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

The Estimates of the revenue recognized from construction contracts and a provision for losses on construction contracts as well as a provision for product and construction warranties	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 3. "Significant accounting policies, (13) Revenue" and Note 23. "Revenue" to the consolidated financial statements, the Group is engaged in construction work in which performance obligations are to be satisfied over a long period exceeding one year. These construction works are performed primarily in Energy Systems, Plants & Infrastructure Systems, and Defense and space equipment businesses. The revenue of each business for the year ended March 31, 2023 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 obligations included in the contract with customers.	We assessed the reasonableness of the estimates of the revenue recognized from construction contracts and a provision for losses on construction contracts as well as a provision for products and construction warranties. In addition, construction contracts which the consolidated subsidiaries entered into, we instructed the component auditors of the relevant consolidated subsidiaries to perform an audit over such contracts, received the results of the audit procedures performed, and evaluated whether sufficient and appropriate audit evidence was obtained. The following are the primary procedures we and the component auditors performed:

(Unit: ¥ million)

Business	Revenue
Energy Systems	1,731,444
Plants & Infrastructure Systems	638,689
Defense & space equipment	473,682

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

As described in Note 18. "Provisions" 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 ¥105,368 million as of March 31, 2023.

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

- Factors that may cause changes in the estimated total revenue
  - Claims for damage or other requests by customers arising from delivery delays, underperformance of the product and other reasons
- Factors that may cause changes in the estimated total costs

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the estimates of total revenue and costs of construction contracts, including those that monitor changes in conditions subsequent to the start of construction and ensured 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 applicable documents;
  - compared the estimated total costs with the project budget and other supporting materials;
  - compared the estimated total costs at the end of the current fiscal year with the original estimate of total costs and analyzed the reasons for such variances; and
  - assessed whether variable factors such as compensation for damages from customers and additional costs were reflected in the estimated total revenue and costs.

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

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

- Changes in product specifications - Responses to process delays - Fluctuations of procurement costs such as materials and parts - Responses to underperformance - Events that were not considered in the planning of construction Within the aforementioned provision for losses on construction contracts, it included a provision for losses on long-term service agreements associated with the plant facilities that were delivered during the prior fiscal year ended March 31, 2022. The Group was carrying out improvement works to enhance the performance reliability of the plant facilities as of March 31, 2023, and recognized the provision based on the reasonable estimates of compensation for loss during the unavailable period for the improvement works, and the total costs necessary to fulfill the long-term service agreements. However, if the effectiveness of the improvement works is deemed to be insufficient compared to the plan, there is a possibility that additional costs and other losses may be incurred in accordance with the contract terms. As described in Notes 18. “Provisions” to the consolidated financial statements, the estimates of warranty expenditures associated with the above improvement works to enhance the performance reliability of the plant facilities were included in the provision for product and construction warranties of ¥110,573 million as of March 31, 2023. The provision is recognized to provide for warranty expenditures, which are expected to be covered by the Group in the future, as part of its warranty obligations for product and construction after they are delivered, based on the past experience and the status of discussions with customers, etc. 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 as well as a provision for product and construction warranties was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year ended March 31, 2023, and accordingly, a key audit matter.	materials, and assessed whether there were any changes in the conditions of construction work that would require updates to the estimates of total revenue and costs by inquiring of relevant responsible personnel; and ● for the construction work for which updates to the estimates were deemed necessary, assessed whether the future expectations of significant assumptions, risk and other factors, and the methods to address them were appropriately reflected in the updated estimates of the total revenue and costs. In addition to the above procedures, in order to evaluate the appropriateness of assumptions regarding the effectiveness of improvement works of the plant facilities, which was the basis of the unavailable period of the plant facilities used in estimating the provision for losses on construction contracts associated with the long term service agreements for the delivered plant facilities, and the assumptions regarding a range of warranty expenditures the Group is expected to cover in the future as a result of the improvement works, which was used in estimating the provision for product and construction warranties, we performed the following procedures; ● Physical observation of the plant facilities ● Inquiry of the responsible personnel and inspection of the relevant documents

The recoverability of deferred tax assets

The key audit matter	How the matter was addressed on our audit
In the consolidated statement of financial position of the Group, deferred tax assets of ¥358,758 million were recognized as of March 31, 2023, representing 15% of non-current assets. As described in Note 15. "Income taxes" to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥540,006 million. Of this amount, the deferred tax assets related to deductible temporary differences arising from investments in subsidiaries, associates and joint ventures accounted for ¥170,306 million (before being offset by deferred tax liabilities). As described in Note 3. "Significant accounting policies, (17) Income taxes" to the consolidated financial statements, deferred tax assets are reviewed at the end of each reporting period and are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and unused tax losses can be utilized. For deductible temporary differences arising from interests in subsidiaries, associates and joint ventures, deferred tax assets are recognized to the extent that it is probable that the temporary differences are expected to reverse in the foreseeable future based on management plans taking into account tax implications and others. The future taxable income used to determine the recoverability of deferred tax assets is estimated based on the business plan approved by management. The business plan included key factors, such as the reduction of fixed costs, the recovery from a decline in demand and production due to COVID-19, and responses to changes in the business environment of the thermal power generation system business, which is one of the Group's core businesses. These factors involved significant management judgment, and therefore, had a material effect on the estimate of future taxable income. For deductible temporary differences arising from interests in subsidiaries, associates and joint ventures, management's judgment had a material effect on the factors that it was probable that the temporary differences would reverse in the foreseeable future. We, therefore, determined that our assessment of the appropriateness of the Company's judgment on the	The primary audit procedures we performed to assess whether the Company's judgment on the recoverability of deferred tax assets was appropriate, included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the judgment on the recoverability of deferred tax assets, including those over the process of preparing the business plan and estimating future taxable income. **(2) Assessment of the reasonableness of the estimated future taxable income** In order to assess the appropriateness of key factors adopted in the business plan, which was used as the basis for estimating future taxable income, we performed the following procedures, among others: ● assessed the feasibility of the cost reduction plans by inquiring of the responsible manager, inspecting the relevant documents, and assessing the consistency of the plans with the past actual results; ● performed an analysis on expected revenue, reflecting the recovery from a decline in demand and production due to COVID-19, by comparing it with the trends that were based mainly on external information and statistical data; and ● compared the trends of expected future revenue based on the measures to respond to changes in the business environment of the thermal power generation system business with the past actual orders received and relevant external information. In addition, we evaluated the feasibility of the plan to improve the future gross margin ratios of the business based on these measures by inquiring of the responsible manager, inspecting relevant documents, and assessing the consistency with past actual results. **(3) Assessment of the appropriateness of the judgment on the estimated timing of the reversal of deductible temporary differences arising from investments in subsidiaries and others** In order to assess the appropriateness of management's judgment in evaluating the probability that deductible temporary differences

recoverability of deferred tax assets was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year ended March 31, 2023, and accordingly, a key audit matter.	arising particularly from the significant investments in subsidiaries would reverse in the foreseeable future, we performed the following procedures, among others: ● assessed the feasibility of management's plans underlying the judgment by inquiring of management and inspecting the relevant documents. In the process, we confirmed management's plans underlying the judgment were progressing as we had previously understood; and ● examined the tax treatment of the deductible temporary differences arising from the relevant investments by involving tax specialists within our domestic network firms who assisted our assessment.

Judgment on whether to recognize an impairment loss on non-financial assets belonging to Steam power business	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 3. "Significant accounting policies, (10) Impairment of non-financial assets" to the consolidated financial statements, with regard to property, plant and equipment and intangible assets, included in non-financial assets, the Group determines whether there is any indication of impairment at the end of the reporting period. If any such indication exists, the Group performs an impairment test. With regard to goodwill and intangible assets with indefinite useful lives, the Group conducts an impairment test annually and whenever there is any indication of impairment. In the impairment testing, when the recoverable amount of the cash-generating unit ("CGU") is less than the carrying amount, the carrying amount shall be reduced to the recoverable amount, and such reduction in the carrying amount is recognized as an impairment loss. The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use. As described in Note 14. "Impairment of non-financial assets, Impairment test for goodwill" to the consolidated financial statements, no impairment loss was recognized on goodwill allocated to the four main CGUs as a result of the impairment testing for the fiscal year ended March 31, 2023. For the Steam power business, however, an impairment loss might have been recognized if key factors used in the impairment testing were changed. The non-financial assets belonging to the CGU were a part of the total amount of non-financial assets of	The primary audit procedures we performed to assess the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets belonging to Steam power business are set forth below. **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Group's internal controls relevant to measuring the value-in-use used for the impairment testing on the CGU that includes goodwill. **(2) Assessment of the reasonableness of the estimated value-in-use** In order to assess the reasonableness of the estimated value-in-use, we performed the following procedures on key factors underlying the business plans, as well as the growth rate and the discount rate, depending on the circumstances of the CGU: ● confirmed the consistency of the trend of future revenue with historical orders received, and external and internal information on the future outlook of the sales; ● examined the appropriateness and feasibility of the fixed cost reduction plans by inquiring of the responsible manager, inspecting the relevant documents, and assessing the consistency with historical results; ● verified the consistency of the growth rate with available external data;

¥1,137,686 million that was subject to the impairment testing. The Group used the value in use as the recoverable amount for the impairment testing for the CGU. The value in use was calculated as the discounted present value of the future cash flows projected based on the business plans approved by management, reflecting historical experience and external information, and the growth rate. The business plans of the Steam power business contained key factors , such as trends of expected future revenue, and reduction of fixed costs. These factors involved significant management judgment, and therefore, had a material effect on the estimated future cash flows. In addition, selecting appropriate models and input data for estimating the growth rate and the discount rate used to calculate the value in use required significant management judgment, and had a material effect on the value in use. We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on non-financial assets belonging to the Steam power business was one of the most significant matters in our audit of the financial statements for the current fiscal year ended March 31, 2023, and accordingly, a key audit matter.	● compared the discount rate with the estimates made by our valuation specialists in corporate valuation within our domestic network firms; and ● evaluated the effect of changes in the growth rate, discount rate and underlying key factors in the business plan of the CGU on management's judgment as to whether an impairment loss should be recognized.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit and supervisory committee with a statement that we have complied with relevant

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

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

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

Masahiko Chino
Designated Engagement Partner
Certified Public Accountant

Kenji Tanaka
Designated Engagement Partner
Certified Public Accountant

Kentaro Maruta
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 29, 2023

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.