MITSUBISHI
HEAVY INDUSTRIES, LTD.

ANNUAL REPORT 2008

For the Year Ended March 31, 2008

MITSUBISHI HEAVY INDUSTRIES, LTD. ANNUAL REPORT 2008

Mitsubishi Group Philosophy—Three Corporate Principles

綱領

所期奉公

處事光明

立業貿易

小弥太謹

Corporate Responsibility to Society "Shoki Hoko"

Strive to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment.

Integrity and Fairness "Shoji Komei"

Maintain principles of transparency and openness, conducting business with integrity and fairness.

International Understanding through Trade "Ritsugyo Boeki"

Expand business, based on an all-encompassing global perspective.

Creed

1. We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society.
2. We base our activities on honesty, harmony, and a clear distinction between public and private life.
3. We shall strive for innovative management and technological development from an international perspective.

Reason for Instituting the Creed

In Japan there are many enterprises with their own "creeds" which simply represent their management concept. Mitsubishi Heavy Industries, Ltd. has a creed of this type, also. This creed was instituted in 1970 on the basis of the policy advocated by Koyata Iwasaki, president of Mitsubishi Goshi Kaisha in the 1920s, to indicate the essential attitude of the company, the mental attitude of the employees, and the future directions of the company. The reason for instituting the present creed is so that all of us can call to mind our one hundred years of tradition, and strive for further development in the future.

Contents

Forward-Looking Statements

Forecasts regarding future performance in this report are based on judgments made in accordance with information available at the time this presentation was prepared. As such, these projections involve risks and uncertainties. For this reason, investors are recommended not to depend solely on these projections for making investment decisions. It is possible that actual results may differ significantly from these projections for a number of factors. Such factors include, but are not limited to, economic trends affecting the Company's operating environment, currency movements of the yen value to the U.S. dollar and other foreign currencies, and trends of stock markets in Japan.

Financial Highlights

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31 of respective years

	In millions of yen except per share amounts						In thousands of U.S. dollars except per share amounts*
	2008	2007	2006	2005	2004	2003	2008
Net sales	¥3,203,085	¥3,068,504	¥2,792,108	¥2,590,733	¥2,373,440	¥2,593,894	$31,970,113
Operating income	136,030	108,912	70,912	14,772	66,630	115,308	1,357,722
Interest expense							
—net of interest income	(5,729)	(4,807)	(1,968)	(5,589)	(6,332)	(8,393)	(57,190)
Income before income taxes							
and minority interests	101,375	83,711	52,383	16,398	50,123	66,161	1,011,831
Net income	61,332	48,839	29,816	4,049	21,787	34,330	612,164
Per share information of common stock:							
(yen/U.S. dollars)							
Net income—basic	¥ 18.28	¥ 14.56	¥ 8.85	¥ 1.20	¥ 6.46	¥ 10.14	$ 0.182
Net income—diluted	18.27	14.55	8.83	1.20	6.46	10.14	0.182
Net assets	423.17	425.54	410.15	390.44	393.17	376.76	4.223
Cash dividends	6.00	6.00	4.00	4.00	6.00	6.00	0.059
Total assets	¥4,517,148	¥4,391,864	¥4,047,122	¥3,831,144	¥3,715,358	¥3,666,865	$45,085,821
Net assets**	1,440,429	1,446,436	1,376,289	1,309,977	1,324,497	1,270,968	14,376,977
Current assets	2,936,886	2,787,315	2,543,485	2,465,645	2,402,987	2,389,357	29,313,172
Current liabilities	1,825,894	1,807,411	1,626,662	1,567,987	1,519,466	1,721,514	18,224,319
Short-term borrowings and long-term debt	1,365,393	1,273,572	1,198,664	1,172,896	1,101,268	1,122,922	13,628,045
Cash flows:							
Cash flows from operating activities	¥ 161,823	¥ 158,721	¥ 73,928	¥ 107,065	¥ 134,240	¥ 50,094	$ 1,615,169
Cash flows from investing activities	(193,055)	(158,653)	(104,065)	(163,321)	(95,379)	(106,150)	(1,926,892)
Ratios:							
Return on equity***	4.31%	3.48%	2.22%	0.31%	1.68%	2.69%	
Equity ratio****	31.44%	32.52%	34.01%	34.19%	35.65%	34.66%	

Notes: * U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥100.19=US$1, the exchange rate prevailing at March 31, 2008.

** In calculating the net assets, MHI and Subsidiaries have applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standard Boards of Japan (ASBJ) Statement No. 5) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8) since the year ended March 31, 2007.

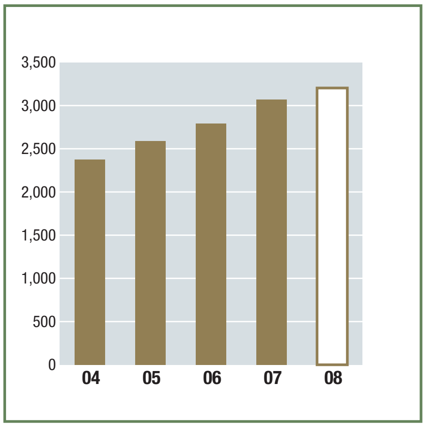
*** Return on equity = net income / (net assets – share subscription rights – minority interests) × 100

**** Equity ratio = (net assets – share subscription rights – minority interests) / total assets × 100

Financial Performance

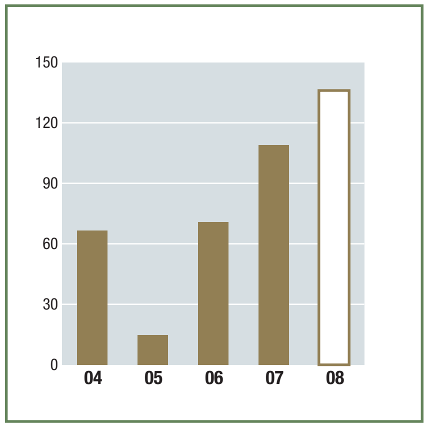
Net Sales

(In billions of yen)



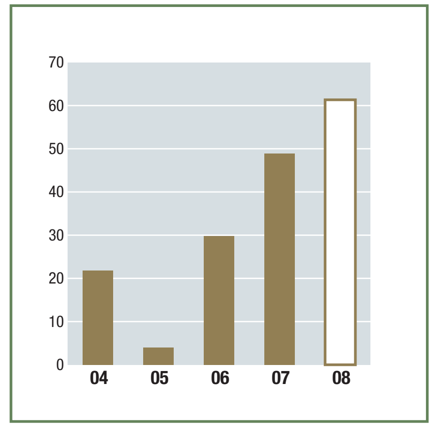
Operating Income

(In billions of yen)



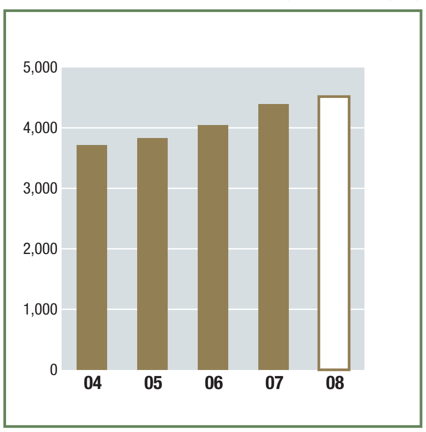
Net Income

(In billions of yen)



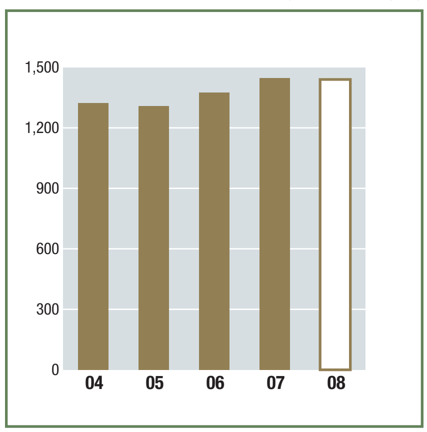
Total Assets

(In billions of yen)



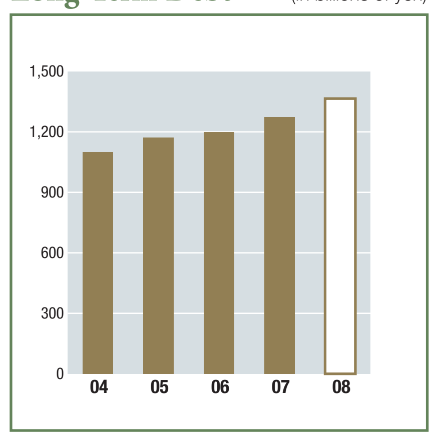
Net Assets

(In billions of yen)



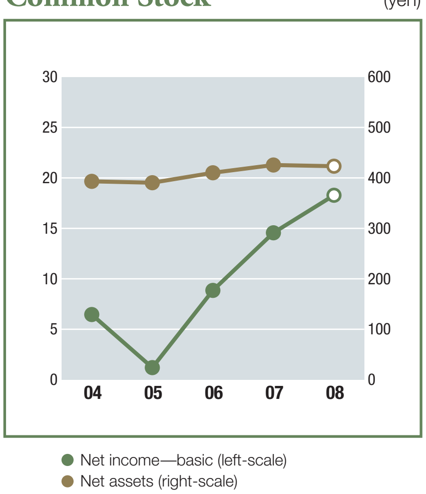
Short-Term Borrowings and Long-Term Debt

(In billions of yen)



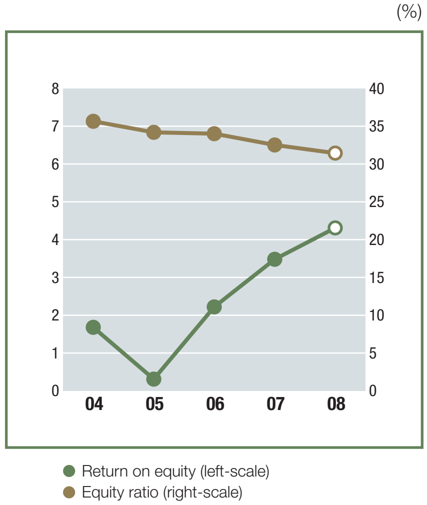
Per Share Information of Common Stock

(yen)



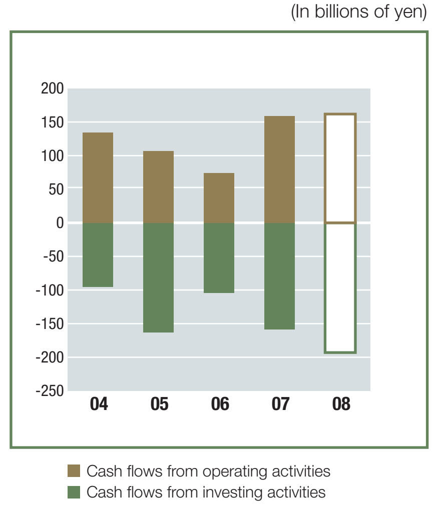
Ratios

(%)



Cash Flows

(In billions of yen)



A Message from the Management

LEFT

Kazuo Tsukuda, Chairman

RIGHT

Hideaki Omiya, President

Overview

The MHI Group's fundamental business policy is to contribute to the development of a society where people can live a safe and fulfilling life. Toward this end, the MHI Group provides trustworthy products and services backed by its unsurpassed technology in various fields that underpin society, including energy and environment, transportation and transport, and industrial infrastructure.

Based on this fundamental policy, we are working to further advance and strengthen our manufacturing capabilities and technical capabilities, which are the underpinnings of our business. In conjunction, we are taking steps to enhance our business framework by concentrating R&D, personnel, and other corporate resources in businesses having high growth potential.

Operating Environment and Performance

The global economy, on the whole, posted continued growth in the fiscal year ended March 31, 2008. While U.S. economic growth decelerated under the influence of the subprime loan problem, China, Southeast Asian nations and other countries maintained high growth. Japan upheld a high level of capital investment on continued strong corporate earnings, while consumer spending remained firm. Japanese exports were favorable on the whole, despite a decline in exports to the U.S. market. The Japanese economy recorded a gradual expansion overall.

In this environment, on a consolidated basis the MHI Group received orders with a total value of ¥3,715.2 billion (US$37,081 million) for the year under review, an increase of approximately 13% from the previous year. This result included numerous orders for large-scale thermal power plants and wind turbines overseas in the Power Systems segment, and a big increase in the Machinery & Steel Structures segment with the conclusion of contracts for large-scale chemical plants, along with increases in the Aerospace, Mass and

Medium-Lot Manufactured Machinery, and Shipbuilding & Ocean Development segments.

Consolidated net sales rose by approximately 4% to ¥3,203.0 billion (US$31,970 million) from the previous year, led by firm overseas sales in the Mass and Medium-Lot Manufactured Machinery segment along with increases in the Power Systems, Shipbuilding & Ocean Development, and Aerospace segments. Sales declined in the Machinery & Steel Structures segment.

Operating income rose ¥27.1 billion to ¥136.0 billion (US$1,357 million), and ordinary income increased ¥26.4 billion to ¥109.5 billion (US$1,092 million) from the previous year. The growth in income and earnings power from the progress of measures under the 2006 Business Plan (Medium-Term Business Plan) absorbed such negative factors as increased materials costs, research and development costs and higher depreciation costs under a revision to the depreciation method, leading to higher earnings.

Consolidated net income rose ¥12.4 billion to ¥61.3 billion (US$612 million) from the previous year. While recording special expenditures in extraordinary loss for business improvement and restructuring charges, the MHI Group also posted extraordinary gain from gain on sales of fixed assets and transfer of business.

Start of 2008 Business Plan

In the outlook for the global economy, while solid growth is expected in China, India, Russia and other emerging countries, the effects from the subprime loan problem are becoming prolonged, giving rise to greater economic uncertainty.

In Japan, business conditions are expected to grow increasingly harsh because of the abrupt appreciation of the yen and the sudden hikes in the prices of crude oil, steel and other raw materials. Moreover, there are growing concerns that these developments will have a negative effect on corporate performance, leading to reduced capital investment and a slump in exports, which have been driving economic growth.

Overall, the business environment surrounding the MHI Group is expected to become still more severe. In addition to the economic conditions reviewed above, competition is intensifying in global markets.

On the other hand, global economic development and the growing interest in the energy and environment sectors accompanying global warming constitute a major business opportunity for the MHI Group. To definitively grasp this opportunity under a harsh business environment and achieve sustainable growth, in April 2008, the MHI Group began executing its 2008 Business Plan, a three-year plan to run from fiscal 2008 through fiscal 2010.

The 2008 Business Plan leverages the business structure reinforced under the 2006 Business Plan as a base to achieve further global-scale business growth, realize high revenue, and bolster the manufacturing capabilities which constitute the core of our operations. The plan will also see MHI conduct management with CSR (Corporate Social Responsibility) as the main axis, and thus strive to earn the trust of society and become a strong and agile global player.

Shareholder Returns

The MHI Group pursues business growth in line with its fundamental business policies, while working to improve its financial condition and further increase overall corporate value.

We endeavor to meet shareholders’ expectations for dividends while comprehensively considering the level of profits and the need for internal reserves to fund future business expansion.

The MHI Group seeks sustainable growth as a manufacturing enterprise that supports the sustainability of the Earth and humankind. We ask for the continued support and understanding of all our shareholders as we move forward in our mission.

Special Feature: 2008 Business Plan

President Hideaki Omiya

Overview

Formulated on the idea that contributing to stakeholders with solid revenue is the foundation of business, the 2008 Business Plan targets the development of businesses globally to ensure MHI becomes a world-leading company.

The three main components of the plan are:

- Expand the business and market share through a dynamic global strategy
- Establish strong manufacturing capabilities throughout the value chain
- Earn the trust of society through CSR activities

Review of 2006 Business Plan

Under the 2006 Business Plan, a three-year business plan started in fiscal 2006, the MHI Group focused on improving earnings through the reinforcement of its production and earnings bases. Aided by a strong global economy, the plan delivered fiscal 2007 operating and ordinary income of ¥136.0 billion and ¥109.5 billion, respectively, achieving its targets of ¥120.0 billion in operating income and ¥100.0 billion in ordinary income one year early. Moreover, profitability was achieved in all business segments, and the construction of a generally stronger earnings base was well received.

While the speed of business execution has improved, we feel that there is still work to be done. We are therefore working to further accelerate business execution through better communication among managers, while pursuing powerful strategies that transcend individual segment headquarters and production bases. As it is essential for the Company to fully demonstrate its comprehensive capabilities, we are committed to taking on the challenge of realizing the 2008 Business Plan.

The 2008 Business Plan promotes both global growth of production business and business process reform

The 2008 Business Plan calls for speedy and forceful business expansion based on the fundamental policies of global growth of production business and business process reform.

First, to achieve global growth of production business, we have categorized each segment into one of three categories—strategic investment, quick returns, and business reforms, and are pursuing growth in accordance with the relevant fundamental strategy.

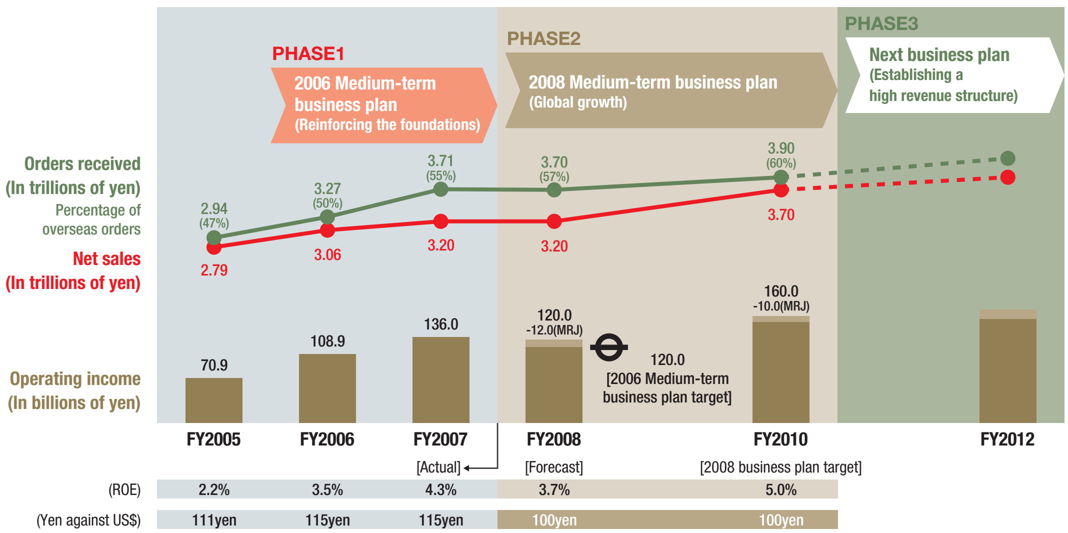
Regarding business process reform, we aim to reinforce our business structure to withstand an increasingly harsh external environment, characterized by the appreciation of the yen and sharply higher prices for raw materials. We intend to do this by leveraging our accumulated expertise while accelerating manufacturing reforms, stepping up risk management, and bolstering the business operation system.

Achieving sustainable growth even in a difficult business environment

[2008 Medium-Term Business Plan]

Orders : Expand overseas businesses, considering production capacity

Income: Achieve growing income assuming ¥100 to the dollar



Key policies for achieving global growth of production business

Under the theme of global growth in the production business, we are pursuing the respective basic strategies of the three categories while also appropriately combining them, with a focus on a balance between investments and profits to achieve sustainable growth.

The key factors in achieving global growth of production business are demonstrating the comprehensive capabilities of the MHI Group and carrying out major reform of the entire value chain.

We are creating new value by not only devising optimal solutions for individual products but also pursuing seamless combinations among them, and we are aggressively eyeing further business growth through the introduction of products in diverse markets.

Promote both global growth of production business and business process reform

Global growth in the production business
– Business strategy by category –

I. Strategic investment
(Power Systems/Aerospace)

- Businesses driving the growth of the Company
- Make strategic investments from a medium- to long-term perspective
- Aim to expand the scope and revenue of businesses to the level of the world's leading companies

II. Quick returns
(Mass and Medium-Lot Manufactured Machinery)

- Increase market share in the global market
- Allocate resources for products to stay in step with market trends
- Aim to secure quick returns

III. Business reforms
(Machinery & Steel Structures/ Shipbuilding & Ocean Development)

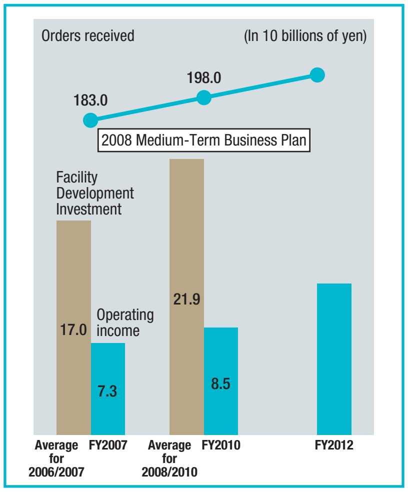
- Achieve profitability through business reform
- Continue to reform
- Aim to develop growth businesses

Business process reform

- Accelerating manufacturing reforms
- Stepping up risk management
- Bolstering the business operation system

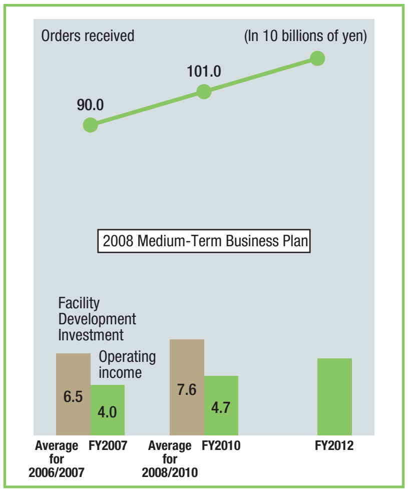
Continuing to expand revenues with business structures in which investments and profits are well balanced

I. Strategic investment
(Power Systems/Aerospace)



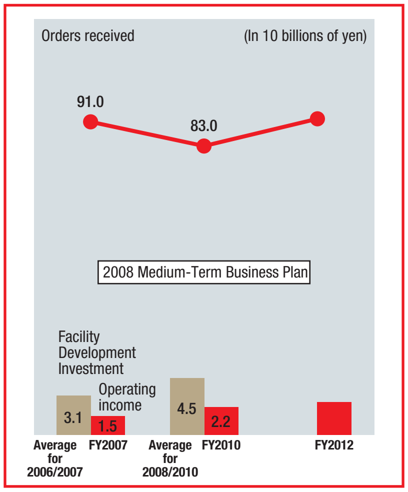
- Make strategic investments that will far exceed income.
- Expand income during the term of the business plan through gas turbines, wind turbines, and solar cells, which will bring relatively early paybacks.

II. Quick returns
(Mass and Medium-Lot Manufactured Machinery)



- Bolster production capacity and bolster a global sales structure.
- Increase income with a rapid investment recovery.

III. Business reforms
(Machinery & Steel Structures/ Shipbuilding & Ocean Development)



- Improve production efficiency and investment in next-generation product development.
- Expand revenue steadily with the investment effect.

Policies for strategic investment businesses

We have positioned the Power Systems and Aerospace segments as strategic investment businesses. As these are businesses driving the growth of the Company, we intend to make strategic investments from a medium-to long-term perspective while aiming to expand the scope and revenue of businesses to the level of the world's leading companies.

In the Power Systems business, we aim to undertake large-scale projects in response to the expanding global fight against global warming. Specifically, we are working to expand the scale and revenue of the business by accelerating the change from conventional thermal power to renewable energy. We are supporting this effort by aggressively bolstering production capability and accelerating the development of major products.

In the Nuclear Energy Systems business, due to increased countermeasures for global warming in the world, the opportunities are rapidly expanding. Therefore we will take advantage of this opportunity, and work to become a "comprehensive nuclear energy company" that leads the world.

In the Aerospace business, we are involved in major new products, including the Boeing 787 and the Mitsubishi Regional Jet (MRJ). With the success of these projects, we aim to become a world-class aircraft manufacturer.

Policies for quick returns businesses

We have positioned the Mass and Medium-Lot Manufactured Machinery segment as a quick returns business. To achieve higher market share in markets that are growing globally, we are allocating resources and delivering products that offer timely responses to market trends, thereby generating quick returns.

In the General Machinery and Special Vehicles business, we aim to generate quick returns through timely responses to rapidly growing demand for turbochargers, engines, and forklift trucks, which are the division's three main products.

In the Air-conditioning & Refrigeration Systems and Industrial Machinery businesses, we are generating revenue through growth in overseas orders while maintaining the current scale of operations in Japan.

Policies for business reforms

We have positioned the Machinery & Steel Structures and the Shipbuilding & Ocean Development segments for business reforms. While these segments returned to profitability on the back of reforms carried out under the 2006 Business Plan, we aim to reconfigure them as growth businesses through ongoing reforms.

We are taking steps to bolster the competitiveness of the Shipbuilding & Ocean Development business heading into an era of major competition. From 2010 onward, global shipbuilding capacity is projected to exceed demand, which is likely to usher in a period of intense competition. Even so, demand is stable for the high value-added vessels that are our forte, such as container ships, LPG carriers, LNG carriers and car carriers. Under this business environment, we are specializing in high value-added vessels and working to improve our technologies and productivity as a means of achieving stable revenue.

In the Machinery & Steel Structures business, revenue growth is being supported by ongoing business reforms and the reinforcement of growth businesses. The 2008 Business Plan targets further scale expansion and profit growth through increased production and improved EPC* capabilities in profitable businesses such as compressors, transportation systems, metals machinery, and chemical plants.

Key policies in business process reform

Information, such as that related to market demands and customer needs, and the transformation of that information into products, is at the heart of the manufacturing business, and added value is the product of that transformation process. As such, many people within the MHI Group are involved in a host of business processes related to the transformation of information into products.

Previously, our activities aimed at improving business efficiency had been concentrated on products (in other words, manufacturing). However, we are now using these activities to take a scalpel to the business process of information handling, and major benefits from this have become evident.

Currently, we are carrying out reform programs at downstream manufacturing locations and standardization and commoditization by generic application of baseline design. We are also reforming our materials procurement activities. However, there is still plenty of room for improvement in the many business processes involved in turning information into finished products, as well as in related administrative and indirect operations. Reform activities from the aspects of both information and products result in major innovations in the Company's overall value chain. This encompasses not only production facilities but all corporate divisions and entails the comprehensive assembly of knowledge from both inside and outside the Group, resulting in reform of business processes for both information and products, and culminating with vigorous innovation efforts in manufacturing.

Naturally, the optimization of individual business units (headquarters) and production facilities are essential to the reform of management processes. However, we also believe that it is essential to optimize the overall cooperative framework, which includes Group companies and suppliers.

* EPC: Engineering, Procurement and Construction

(In billions of yen)

	Segment		Orders Received		Net Sales		Operating Income	
			FY2007	FY2010 Target	FY2007	FY2010 Target	FY2007	FY2010 Target
Strategic investment	Power Systems		1,214.9	1,340.0	946.9	1,220.0	58.2	80.0
	Aerospace	Excluding MRJ	615.8	640.0	500.5	570.0	14.6	15.0
		MRJ	–	(Included in the above)	–	–	–	–10.0
		Sub-total	615.8	640.0	500.5	570.0	14.6	5.0
	Total		**1,830.7**	**1,980.0**	**1,447.4**	**1,790.0**	**72.8**	**85.0**
Quick returns	Mass and Medium-Lot Manufactured Machinery	GM&SV	465.2	520.0	474.4	520.0	20.8	22.0
		Air-con	212.1	230.0	211.8	230.0	6.2	8.0
		Industrial	224.3	260.0	227.2	260.0	12.9	17.0
	Total		**901.7**	**1,010.0**	**913.6**	**1,010.0**	**40.0**	**47.0**
Business reforms	Shipbuilding & Ocean Development		353.6	270.0	283.9	280.0	4.0	7.0
	Machinery & Steel Structures		557.3	560.0	472.5	540.0	11.3	15.0
	Total		**910.9**	**830.0**	**756.4**	**820.0**	**15.3**	**22.0**
	Others		71.7	80.0	85.4	80.0	7.6	6.0
	Total		**3,715.2**	**3,900.0**	**3,203.0**	**3,700.0**	**136.0**	**160.0**

Notes) GM & SV : General Machinery & Special Vehicles
Air-con : Air-conditioning and Refrigeration System
Industrial : Industrial Machinery

The Company also demonstrates its comprehensive capabilities through the lateral spread of best practices for the compilation of knowledge from both inside and outside the Group, and through the implementation of potent policies that transcend the framework of business headquarters and manufacturing plants.

Specific policies for business process reform and accelerating manufacturing reforms

To accelerate manufacturing reforms, we are conducting three major reform programs—standardization reform, supply chain reform and product reliability reform—to extend and accelerate reform throughout the value chain.

In the area of standardization reform, we currently employ a customized model for accommodating the requests of specific customers and a mass production model that responds to customer requests through project production and inventory management. However, we are now shifting to a repeat production model for responding flexibly to customer needs by combining modules. This has resulted in improved productivity, shorter delivery times, and more consistent quality through the use of shared drawings.

As for supply chain reform, the key issue is the use of procurement methods and systems that differ by business location and product. To address this, we are moving toward a procurement infrastructure that is optimized for the Company as a whole and expanding the procurement of maker's standard product items, as well as stepping up Company-wide joint procurement through standardization, and compiling procurement information throughout the Company. Additionally, we are building a global supply chain to optimize purchasing globally, with the ultimate objective of significantly reducing materials costs.

In product reliability reform, we are improving our verification and quality building functions through case analysis to ensure product reliability in response to product upgrades. We are also using robust designs able to respond to disturbances and changes in use situation.

Resource enhancement

To solidify the foundation for the 2008 Business Plan, we are further reinforcing three resources: securing human resources, capital expenditure, and R&D.

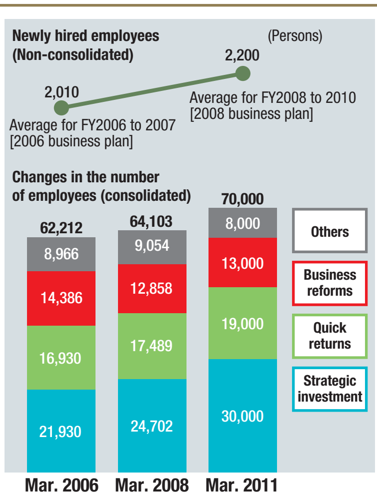
First, we are continuing to secure human resources, which are the foundation of business operations. In conjunction, we are focusing on education and training aimed at the early acquirement and deployment of business skills. In this way, we are taking steps to further enhance the human resources of the entire MHI Group.

Regarding capital expenditure, we are investing aggressively in businesses having high growth potential, including advance investments in large-scale projects such as MRJ and nuclear power, etc. Simultaneously, we are systematically improving the efficiency of our core facilities.

In R&D investment, we are expanding investments to develop large, next-generation products, including the MRJ. We are also carrying out ongoing investment to bolster the competitiveness of major products and manufacturing capabilities.

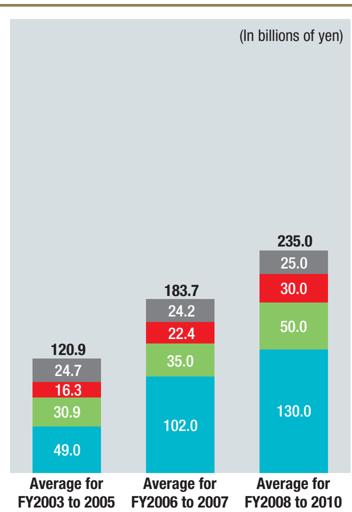
Securing human resources

- Continue to bolster the key staff needed for growth.
- Improve human resources development programs for the rising number of young employees.



Capital expenditure

- Continue active investment in response to business growth, including advance investments in large-scale projects such as MRJ and nuclear power, etc.
- Continue to improve the efficiency of core facilities systematically.



R&D

- Expand investments to develop large, next-generation products.
- Continue investing to bolster the competitiveness of major products and manufacturing capability.

Board of Directors

[15] [13] [11] [9] [7] [5] [3] [1] [2] [4]

CHAIRMAN

Kazuo Tsukuda [1]

PRESIDENT

Hideaki Omiya [2]

SENIOR EXECUTIVE VICE PRESIDENTS

Hideo Egawa [3]
Providing assistance to the President. General Manager, Presidential Administration Office, also in charge of Personnel and other matters specially assigned by the President

Ichiro Fukue [4]
Providing assistance to the President. In charge of Production System Innovation Planning, Energy & Environment business and other matters specially assigned by the President

EXECUTIVE VICE PRESIDENTS

Hiroshi Kan [5]
In charge of Accounting, Finance and Material

Sunao Aoki [6]
General Manager, Technical Headquarters, also in charge of Information Systems & Communications

Katsuhiko Yoshida [7]
General Manager, General Machinery & Special Vehicle Headquarters

Shiro Iijima [8]
General Manager, Shipbuilding & Ocean Development Headquarters

Katsuhiko Yasuda [9]
In charge of Internal Audit, Corporate Social Responsibility, General Affairs and Legal

Akira Sawa [10]
General Manager, Nuclear Energy Systems Headquarters

Teruaki Kawai [11]
General Manager, Aerospace Headquarters

Shunichi Miyanaga [12]
General Manager, Machinery & Steel Structures Headquarters

[6] [8] [10] [12] [14] [16]

[17] [18] [19]

Yoshiaki Tsukuda [13]
General Manager, Power Systems Headquarters

SENIOR VICE PRESIDENTS

Fumio Wakisaka [14]
General Manager, Paper & Printing Machinery Division

Ken Watabe [15]
General Manager, Machine Tool Division

Kiyonobu Toma [16]
General Manager, Air-conditioning & Refrigeration Systems Headquarters

OUTSIDE DIRECTORS

Mikio Sasaki [17]
Chairman of the Board of Mitsubishi Corporation

Akihiro Wada [18]
Executive Adviser of Aisin Seiki Co., Ltd.

Yoshihiro Sakamoto [19]

STATUTORY AUDITORS

Koshin Nakamoto

Naoki Yasaka

Satoru Kishi
Senior Adviser of The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Toyoshi Nakano
Senior Adviser of Mitsubishi UFJ Trust and Banking Corporation

Kichisaburo Nomura
Executive Adviser of All Nippon Airways Co., Ltd.

(As of June 26, 2008)

MHI at a Glance

MHI's businesses are classified below into six business segments along operational lines.

Shipbuilding & Ocean Development

Through its Shipbuilding & Ocean Development segment, MHI plays an extensive role on the world's oceans with the development and construction of a wide range of large vessels and ocean structures that satisfy diverse customer needs. Underpinned by more than a century of tradition and years of technological expertise, MHI is actively working to develop new products that raise the bar on economy, reliability and safety while responding to environmental regulations.

Power Systems

Based on independent research efforts that strike a balance between solving energy supply issues and protecting the environment, MHI's Power Systems segment develops energy conservation measures, petroleum substitutes and new forms of energy to help solve some of the common problems faced by human beings today. In the nuclear energy field, MHI has been widely expanding its business, as the major nuclear plant manufacturer in the world.

Machinery & Steel Structures

MHI boasts an extensive range of transportation systems, chemical plants, steel manufacturing machinery, cranes and material handling system, and other products that help to create foundations for industry or are related to the infrastructure vital to society today. MHI is also moving into new fields that contribute to energy conservation and recycling, including flue gas CO_2 recovery plants.

Aerospace

This segment conducts extensive research and development programs underpinned by state-of-the-art technologies to prepare for the advent of the next Space Age. In aerospace products, MHI is working to expand its business into new areas through participation in projects for Japan's Ministry of Defense and the development of new commercial aircraft. In space systems, MHI helps to drive forward Japan's space program as a systems integrator in launch vehicle development.

Mass and Medium-Lot Manufactured Machinery

In the General Machinery & Special Vehicles business, MHI develops and manufactures products such as engines and forklift trucks for the distribution field. The Air-conditioning & Refrigeration Systems business boasts an extensive lineup of Air-conditioning products. This segment also includes the Paper and Printing Machinery business, which meets a diverse range of customer needs in Japan and overseas as a specialist player in printing and paper converting machinery. Through its Machine Tool business, this division also supplies the "mother machines" of industry. The Industrial Machinery business manufactures injection molding machines, used in the production of plastic products, beverage filling and packaging machines and other industrial equipment.

Note: MHI's operations also include an Others segment, not shown above.

Share of net Sales	Orders Received	Net Sales/Share of Net Sales	Operating Income (Loss)

General Machinery and Special Vehicles
Air-conditioning and Refrigeration Systems
Industrial Machinery

General Machinery and Special Vehicles
Air-conditioning and Refrigeration Systems
Industrial Machinery
Share of Net Sales

General Machinery and Special Vehicles
Air-conditioning and Refrigeration Systems
Industrial Machinery

REVIEW OF OPERATIONS

Shipbuilding & Ocean Development

Shiro Iijima

[General Manager, Shipbuilding & Ocean Development Headquarters]

Fiscal 2007 Review

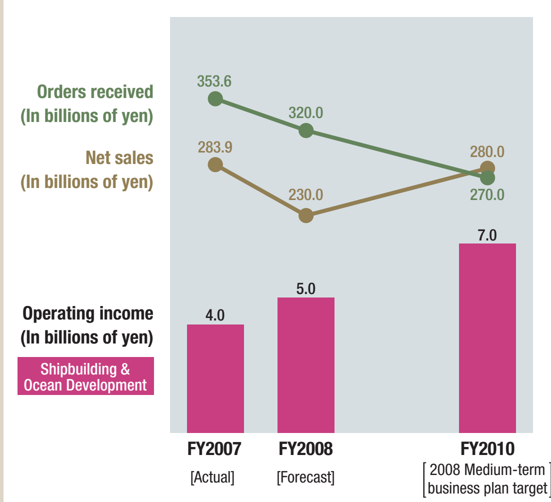
As global demand for new shipbuilding remained at a high level, the MHI Group positively advanced activities to win new orders, especially for high value-added vessels. These efforts resulted in the conclusion of contracts for a total of 32 vessels (all figures in this section exclude vessels of less than 100 gross tons), including seven container ships, 13 pure car and track carriers, and four roll-on/roll-off ships. As a result, the total value of new orders rose from the previous year to ¥353.6 billion (US$3,529 million). As of March 31, 2008, MHI had outstanding orders for 71 vessels totaling approximately 3.95 million gross tons.

Products

Manufacturing, installation, sale and repair of crude oil carriers, container ships, cruise ships, car ferries, LPG carriers, LNG carriers and various other ships, defense vessels, offshore structures, etc.

FY2010 target:

Orders received:	270.0 billion yen
Net Sales:	280.0 billion yen
Operating income:	7.0 billion yen



LNG Carrier "ALTO ACRUX"

Net sales totaled ¥283.9 billion (US$2,834 million), with deliveries of 22 vessels including seven container carriers and five LNG carriers. Operating income rose from the previous year to ¥4.0 billion (US$40 million), securing a net profit.

2008 Business Plan Strategy

Secure stable revenue by improving technical capabilities and productivity, specializing in high value-added ships

The Shipbuilding & Ocean Development segment has been positioned for business reforms in the 2008 Business Plan, and is strengthening its competitiveness to face the approaching era of intense competition.

From fiscal 2010 the shipbuilding industry will enter a period of intense competition, as shipbuilding capacity exceeds demand worldwide due to increased capital expenditures focused on South Korea and China. MHI plans to secure stable revenue by improving technical capabilities and productivity, specializing in high value-added ships.

As part of our measures to achieve this, MHI plans to take advantage of rising fuel costs and tighter environmental regulations to distinguish itself in terms of technological capability, utilizing its comprehensive technologies and alliances to accelerate its fuel efficiency improvements and modifications, thereby ensuring compliance with environmental regulations. Specifically, we will strengthen our alliance with the Power Systems Headquarters, which possesses expertise in turbine, diesel and denitration technologies, and the Machinery & Steel Structures Headquarters, which is strong in desulfurization technologies.

To enhance cost competitiveness to overcome soaring material costs, we are revising our production system to utilize MATES (Mitsubishi Advanced Total Engineering system of Ship), a 3D design system developed by MHI, and are bolstering cost competitiveness by expanding use of the "mega-block" building method made possible by modernized equipment. In February 2008, we completed installation of a gantry-type crane at the Koyagi Plant of Nagasaki Shipyard & Machinery Works. This crane has a hoisting capacity of 1,200 tons—the largest in Japan—and has begun full-scale operation lifting large blocks for ships. The introduction of this crane, along with expansion of other shipbuilding-related facilities, has contributed to the improved shipbuilding capacity of the Koyagi Plant.

MHI is also considering the development of a ship repair business in Vietnam and other overseas areas.

Container Ship "MOL CREATION"


Passenger and Vehicle Ferry "SUNFLOWER GOLD"

Review of operations

Power Systems

Fiscal 2007 Review

Amid continued solid demand overseas, the MHI Group pursued vigorous sales activities and won orders for gas turbine combined cycle power plants in various countries, including the Netherlands, Indonesia and Egypt. Sales of wind turbines mainly to the U.S. increased on vibrant demand, and orders were received for turbine generators for nuclear power plants in China. Domestically, orders were received for a large thermal power plant. Orders for improvement, reform and repair work at existing plants also increased. Consequently, the total value of new orders rose to ¥1,214.9 billion (US$12,126 million).

Yoshiaki Tsukuda
General Manager, Power Systems Headquarters

Akira Sawa
General Manager, Nuclear Energy Systems Headquarters

Products

Power Systems

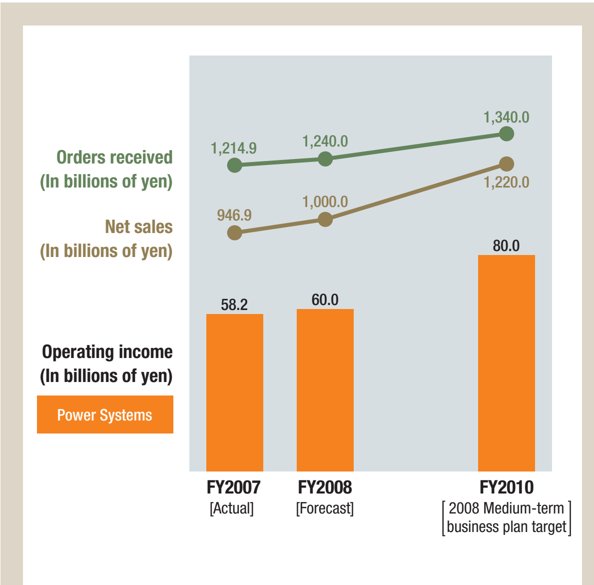
Manufacturing, installation, sale and repair of boilers, steam turbines, gas turbines, diesel engines, water turbines, wind turbines, SCR (DeNOx) system, marine machinery, and desalination plants, etc.

Nuclear Energy Systems

Manufacturing, installation, sale and repair of nuclear power plants and equipment, advanced reactor plants, nuclear fuel cycle plants, nuclear fuel, etc.

FY2010 target:

Orders received:	1,340.0 billion yen
Net Sales:	1,220.0 billion yen
Operating income:	80.0 billion yen



M701G2 Gas Turbine

Net sales totaled ¥946.9 billion (US$9,452 million), surpassing the previous year, with strong sales of wind turbines to the U.S. and the continued high level of execution of construction within Japan and overseas. Operating income rose from the previous year to ¥58.2 billion (US$581 million), due to such factors as the effect of increased revenues from higher sales.

2008 Business Plan Strategy

Undertake large-scale projects in response to the expanding global fight against global warming

The Power Systems segment (power systems and nuclear energy systems) has been positioned as a strategic investment business in the 2008 Business Plan, and is aiming to become the leading manufacturer globally in each of its businesses.

As the change from conventional thermal power to renewable energy sources accelerates, MHI is taking proactive steps to hasten development and increase production capacity for its major products in order to expand the scale and revenue of the Power Systems business.

For gas turbine combined cycle power plants MHI will increase its market share by strengthening technological capabilities and alliances, and expand its after-sales service. To accomplish this we are expanding our production capability for gas turbines to between 36 and 50 units, developing next-generation products, and bolstering our after-sales service system.

In the renewable energy field, MHI expects to secure short-term revenue by investing in expanded production to respond quickly to the rapidly growing market. For wind turbines we plan to have a 1,600 MW production system by 2010, and will afterward expand this to 2,600 MW. For photovoltaic systems, we will expand production capacity to 130 MW by 2010, and will consider further increases in accordance with market trends.

Cedar Creek Project Wind Turbine Plants (U.S.A.)

MHI Submits US-APWR
Design Certification Application to U.S. NRC

For conventional thermal power plants, despite concerns of slow growth we will continue to market our products as a key business, and will concentrate on producing a commercial IGCC (Integrated Coal Gasification Combined Cycle) plant as quickly as possible, as an area that is expected to grow going forward.

Being aware of the increased requirements for energy security and environmental measures against various risks including global warming, our target is the development of pioneering nuclear power business in an international arena as “a company for comprehensive nuclear power businesses”.

We are the company with excellent ability to address whole range of nuclear power business including development, design, manufacturing, construction, operation, maintenance of PWR (Pressurized Water Reactor) plant, FBR (Fast Breeder Reactor) and nuclear fuel cycle plant as well as services related to nuclear fuels. Our longtime experience and the continued involvement in the construction of new plants and replacement work of main components in existing plants has made us fully competent in keeping and reinforcing our engineering power in design and manufacturing. In addition, our positive investments in the main plants have increased our production capability.

We are committed to the development of a series of global strategic reactors based on these advantages. In large-sized reactor, we will actively promote our originally developed “US/EU-APWR (1,700MWe class)” reactor in the US and European markets. Particularly, our US-APWR adopted as a reactor type for new power plants in the U.S. is currently under review after smooth acceptance of the Design Certification application by the United States Nuclear Regulatory Commission (NRC).

In medium-sized reactor, a joint venture with AREVA (France) was established to accelerate collaboration in developing ATMEA1 (1,100MWe class reactor) to be marketed in East European and Asian markets.

In the arena of small-sized reactor, we are involved in the South African PBMR (Pebble Bed Modular Reactor; 170MWe class) development project.

Further, we will focus our efforts in reinforcing global alliances to survive competition against major players in the world and to propel business growth on a global basis. We have already established a collaborative relationship with AREVA in ATMEA1 development.

As a core organization in the domestic development of FBR, we are determined to play a leading role in realizing a global standard reactor by promoting our development targeted for the start of demonstration reactor operation in 2025.

Topics

Wind Turbine Generators

From Fossil Fuels to Renewable Energy—Growing Expectations for Wind Power Generation

Today, all eyes are on wind as a source for clean power generation with no greenhouse gas emissions. Spurred by soaring crude oil prices, more countries are offering incentives to promote wind-generated power. These trends, in fact, have triggered rapid growth in the installation of wind turbines, particularly in Europe and the United States. The size of wind power equipment is also quickly becoming larger in the quest to reap economies of scale.

MHI's History in Wind Power Generation

For more than a quarter century since the delivery of its first wind turbine in 1980, MHI has taken the initiative to develop, produce and supply its own wind turbines as Japan's largest manufacturer of large-scale wind power systems. While remaining cognizant of the need to cope with weather conditions characteristic of Japan, such as typhoons, lightning, and highly variable wind directions and speed, MHI has moved steadily to produce large-scale wind turbines that exhibit both outstanding functional and economic performance. In 1999, the Company developed a 1,000 kW wind turbine, followed by a 2,000 kW model in 2004 and its latest 2,400 kW turbine in 2006. This track record has earned MHI a reputation as East Asia's leading wind turbine manufacturer.

Striving to Realize Offshore Wind Farms

MHI developed and commercialized a 2,400 kW wind turbine—the largest class of wind turbine in Japan. The 2,400 kW wind power system is a strategic model targeting the market for large-scale wind turbines and was developed from proprietary MHI technology. The system was marketed following operational demonstrations and testing begun in January 2006 at the Company's Yokohama Dockyard & Machinery Works. In addition to a continued focus on greater economic performance, MHI is developing 4 MW- to 5 MW-class ultra-large wind turbines to effectively meet offshore wind power generation needs going forward. Because these enormous turbines have blades that are over 50 meters in length, their use would currently be limited to areas that offer favorable transportation access, namely coastal and ocean regions. Accordingly, the development of new technologies—such as techniques for separating blades into smaller components—and groundbreaking transportation methods are key issues to address in the coming years. MHI will also need to look beyond merely achieving better economic performance via massive power output to develop technologies for minimizing the fluctuations in power output inherent to the wind.

MHI is the only manufacturer in the world that possesses both wind turbine and shipbuilding (marine structure) businesses (e.g., the Shipbuilding & Ocean Development segment). By leveraging its overall technological capabilities to deliver offshore wind turbines of the highest standard, MHI aims to hone its ability to effectively compete with manufacturers outside Japan.

Review of operations

Machinery & Steel Structures

Shunichi Miyanaga
General Manager, Machinery & Steel Structures Headquarters

Fiscal 2007 Review

Overseas, the MHI Group won several large-scale orders for iron and steel manufacturing machinery and chemical plants against a background of firm demand. However, there was a decrease in orders for transportation systems as the MHI Group won large-scale orders in the previous year. Orders rose within Japan, capturing replacement demand for toll collection equipment, crane and material-handling systems and testing equipment. As a result, the total value of new orders rose to ¥557.3 billion (US$5,562 million) from the previous year.

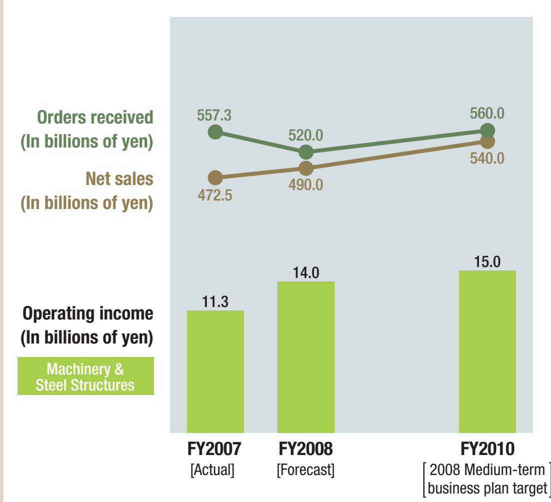
Net sales decreased from the high level of the previous year to ¥472.5 billion (US$4,716 million), but

Products

Manufacturing, installation, sale and repair of transportation systems, toll and fare collection machinery and other ITS equipment, petrochemical plants, flue gas desulfurization systems, flue gas CO_2 recovery plants and various other chemical plants, oil and gas production plants, compressors and turbines, iron and steel manufacturing machinery, automotive products, medical systems, semiconductor production equipment and other advanced equipment, transportation equipment, cranes and material-handling systems, rubber and tire machinery, waste treatment equipment, electrostatic precipitator and various other environmental control systems, bridges, hydraulic gates, stacks, parking systems, tanks, and various other steel products, etc.

FY2010 target:

Orders received:	560.0 billion yen
Net Sales:	540.0 billion yen
Operating income:	15.0 billion yen



LRV “J-TRAM”

with improved profitability operating income rose from the previous year to ¥11.3 billion (US$113 million).

2008 Business Plan Strategy

Expand revenue by reforming the business structure and bolstering growth businesses

The Machinery & Steel Structures segment has been positioned for business reforms in the 2008 Business Plan, and is expanding revenue by reforming the business structure and bolstering growth businesses.

Since the unification of the Machinery Headquarters and the Steel Structure & Construction Headquarters in fiscal 2006, MHI has been promoting structural reforms under the 2006 Business Plan, including establishing operating companies for bridges and environment-related products, and transferring the turbo-molecular pumps business to Shimadzu Corporation. Operating income improved substantially over fiscal 2006 as the result of eliminating unprofitable projects by improving management of order acceptance, and establishing a compliance system.

Under the 2008 Business Plan, we are benefiting from investment to increase production capacity in the profitable businesses of compressors, transportation systems, metals machinery, and chemical plants. We are also expanding business scale and revenue through such measures as strengthening engineering, procurement, and construction capabilities.

For the medium-sized products businesses, which include environmental equipment such as waste treatment and electrostatic precipitator , as well as steel structures, ITS (Intelligent Transport Systems) and crane and material-handling systems, MHI will strengthen and reorganize its operations to provide an integrated service covering installation through after-sales service and operation.

In January 2008, MHI began full-scale manufacturing and sales of radiotherapy equipment, and in May 2008 established a joint venture company to assess the business viability of organic electroluminescence (OEL) panels for lighting applications. We will commercialize such next-generation products as medical systems and OELs as part of our effort to expand revenue.


On Board Equipment for ETC System “MOBE-401”


Radiotherapy Equipment “VERO”

REVIEW OF OPERATIONS

Aerospace

Teruaki Kawai
General Manager, Aerospace Headquarters

Fiscal 2007 Review

Orders for defense-related products rose from the previous year. The number of orders for F-2 support fighter jets increased as the Ministry of Defense accelerated its purchasing plans. The high priority given to deployment of Japan's Ballistic Missile Defense (BMD) system led to increased orders for Patriot surface-to-air missiles (PAC-3 missiles) and guided missiles.

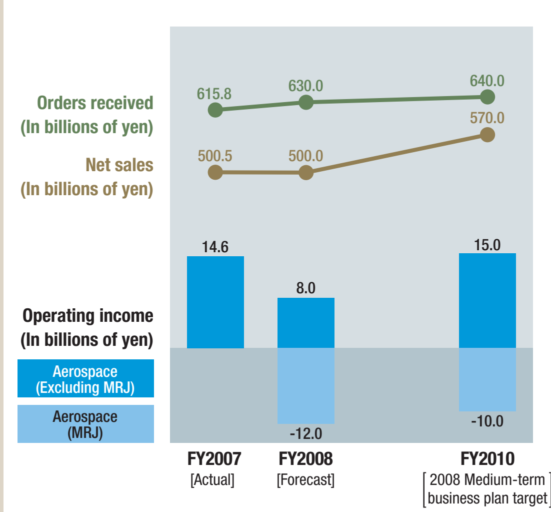
In space systems, orders for H-IIA rockets increased following two successful launches during the fiscal year. In commercial aircraft, orders also rose, including orders for the cabins of S-92 helicopters and for the aft fuselage and other components for the Boeing 777, which is

Products

Manufacturing, installation, sale and repair of fighters, helicopters and other aircraft, structural parts and components of commercial transport aircraft, aero engines, missiles, torpedoes, and space systems, and launch services via launch vehicles

FY2010 target:

Orders received:	640.0 billion yen
Net Sales:	570.0 billion yen
Operating income:	5.0 billion yen



Boeing 777 Transport Aircraft (international collaboration)

enjoying firm demand. As a result, the total value of new orders increased to ¥615.8 billion (US$6,147 million).

Net sales totaled ¥500.5 billion (US$4,996 million), surpassing the previous year, with increased sales of defense-related products and a continued high level of sales of commercial aircraft, especially the aft fuselage and other components for the Boeing 777. Operating income rose slightly from the previous year to ¥14.6 billion (US$146 million).

2008 Business Plan Strategy

Move to world class status by developing new projects

The Aerospace segment has been positioned as a strategic investment business by the 2008 Business Plan. Accordingly, MHI is aiming to rapidly establish its reputation as a world-class aircraft manufacturer with the success of new large-scale projects such as the Boeing 787 and Mitsubishi Regional Jet (MRJ).

Companies in the commercial aircraft industry are broadly divided into aircraft manufacturers, "Tier 1" subcontractors, and "Tier 2" subcontractors. MHI is a Tier 1 company supplying structural components mainly for Boeing projects, with an established mastery in the layering of composite wings, and making efforts to utilize low-cost overseas suppliers. However, the number of low-cost Tier 1 suppliers in China, Russia and other countries is rising rapidly, and over the long term it will be difficult for MHI to continue to achieve growth as a Tier 1 company only. Against this backdrop, in March 2008 MHI decided to officially launch the MRJ as part of its development of the commercial aircraft business.

MHI will face competition in the regional jet market, but the market is extremely large, with demand for over 5,000 aircraft anticipated over the next two decades. The MRJ is a revolutionary next-generation jet that provides new levels of values for the environment, passengers and airlines. It utilizes composite materials for wings and vertical fins to attain lighter weight, and incorporates the latest technology such as a new fuel-efficient engine and an advanced aerodynamic design that reduce fuel consumption substantially and reduce noise, as well as a new slim seat for improved cabin comfort. MHI intends to draw on these advantages in terms of economy and comfort to make a concerted effort to smoothly proceed with the program and establish the MRJ in the regional jet market. Initial development cost will be a burden over the first few years, but we expect this business to grow to be one of our earnings pillars in the future. We plan to make delivery of our first aircraft in 2013.


H-IIA Launch Vehicle
(Flight No.13)


MRJ (conceptual drawing)

REVIEW OF OPERATIONS

Mass and Medium-Lot Manufactured Machinery

Katsuhiko Yoshida
General Manager, General Machinery & Special Vehicle Headquarters

Kiyonobu Toma
General Manager, Air-conditioning & Refrigeration Systems Headquarters

Fumio Wakisaka
General Manager, Paper & Printing Machinery Division

Ken Watabe
General Manager, Machine Tool Division

Fiscal 2007 Review

In the General Machinery and Special Vehicles business, orders for small and medium-sized engines for industrial use were favorable in the prosperous Middle East and in China and Southeast Asia, where markets remain firm. Orders for turbochargers continued rising, especially in Europe where stricter exhaust emission regulations are driving demand. Sales of forklift trucks also moved up from the previous year, especially in Central and South America and other emerging economies with growing

Products

GM&SV
Manufacturing, installation, sale and services of forklift trucks, construction machinery, earthmoving and grading machinery, medium- and small-sized engines, turbochargers, agricultural machinery, tractors, special vehicles, etc.

Air-con
Air-conditioners (commercial use, residential), automotive thermal systems, chilling systems, etc.

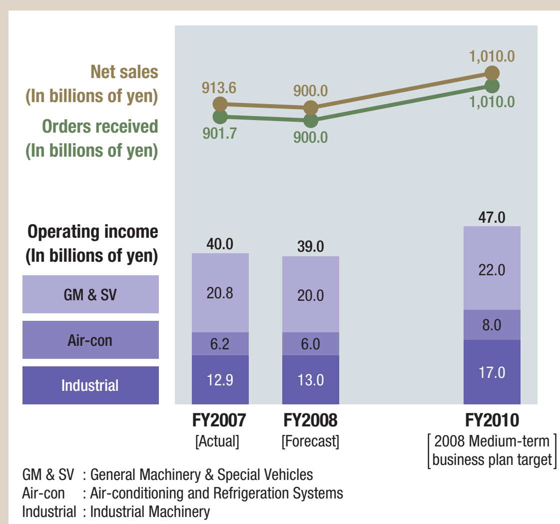
Paper & Printing Machinery
Sheet-fed offset presses, commercial web offset presses, newspaper offset presses, corrugating machines, and box making machines

Machine Tool
Large machine tools, gear cutting machinery, precision cutting tools, engine valves, power transmissions, etc.

Industrial Machinery
Plastic processing machinery, food and packing machinery, etc.

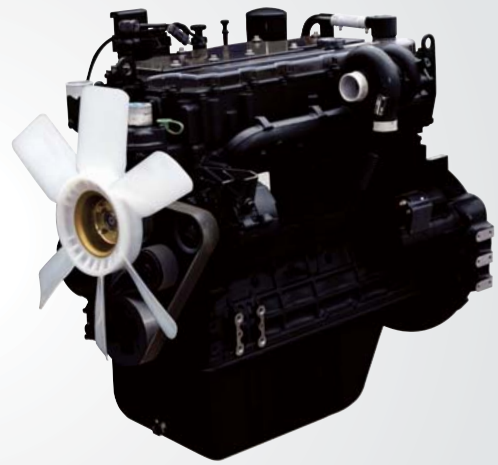
FY2010 target:

Orders received:	1,010.0 billion yen
Net Sales:	1,010.0 billion yen
Operating income:	47.0 billion yen



- **GM & SV** — General Machinery & Special Vehicle Headquarters
- **Air-con** — Air-conditioning and Refrigeration Systems Headquarters
- **Industrial** — Paper & Printing Machinery Division
  - Machine Tool Division
  - Industrial Machinery

Electric Forklift Trucks “FB20P”



Small-sized Diesel Engine “FD series”

demand. In this business, the total value of new orders rose to ¥465.2 billion (US$4,643 million) and net sales increased to ¥474.4 billion (US$4,735 million) from the previous year, with operating income of ¥20.8 billion (US$208 million).

In the Air-conditioning and Refrigeration Systems business, sales of residential use air-conditioners and commercial use air-conditioners rose, especially in the European market, where demand is rising and MHI has worked to expand its sales network. Within Japan, sales of automotive thermal systems remained firm and orders of centrifugal liquid chillers increased. In this business, the total value of new orders rose to ¥212.1 billion (US$2,117 million) and net sales increased to ¥211.8 billion (US$2,114 million) from the previous year, with operating income of ¥6.2 billion (US$62 million).

In the Industrial Machinery business, while orders for pulp and paper machinery decreased under business restructuring, orders for sheet-fed offset presses and machine tools rose in China and India, which are maintaining high economic growth, and sales of paper converting machinery were firm, especially in North America. In this business, the total value of new orders rose to ¥224.3 billion (US$2,239 million) and net sales increased to ¥227.2 billion (US$2,268 million) from the previous year, with operating income of ¥12.9 billion (US$129 million).

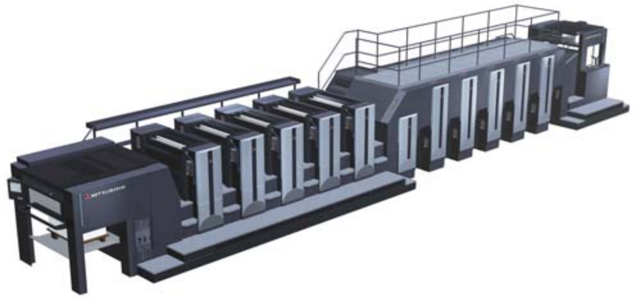
2008 Business Plan Strategy

Accelerate the expansion of market share and investment recovery

The Mass and Medium-Lot Manufactured Machinery segment has been designated as a target for “quick returns business” in the 2008 Business Plan, and is aiming to accelerate the expansion of market share and investment recovery.

Commercial Use Inverter Air-conditioners “HYPER series”

Centrifugal Chiller “eco Turbo ETI series”



Mitsubishi Sheet-fed offset press
“DIAMOND V3000TP”

Mitsubishi 5Axis Vertical Precision Milling Machine

The General Machinery & Special Vehicles business will quickly secure revenue by responding in a timely manner to the rapid expansion of demand in three major product types: turbochargers, engines, and forklift trucks.

For turbochargers, demand is growing quickly in response to the tightening of exhaust emission regulations and other factors. By responding to this market in a timely manner, MHI will establish a system for producing 6.9 million units at its locations in Japan, Thailand and the Netherlands, gaining the second highest market share worldwide and working toward the leading share.

For engines, as part of its response to stricter environmental regulations MHI will accelerate development of models that will comply with the fourth recent update to such regulations. We will also put in place a system for producing 200,000 small diesel engines, for which demand is rising quickly in emerging markets, mainly for use in earthmoving and agricultural equipment.

For forklift trucks, improved efficiency in factory transport and smaller distribution lots are driving demand in developed countries for electric warehouse equipment, and MHI is expanding its product lineup by strengthening its alliance with Nippon Yusoki Co., Ltd., among other measures. The increase in distribution in emerging markets has also spurred demand for engine-powered vehicles, to which MHI is responding by making efficient use of resources at existing factories, for example by beginning production of products for the Central and South American market at our U.S. Group company.

The Air-conditioning & Refrigeration Systems business and the industrial machinery business will secure revenue by expanding orders overseas, while maintaining its current scale in Japan.

The air-conditioners business is expanding by bolstering its sales and service systems and focusing on high value-added, variable flow air-conditioners for buildings in Europe and China, where demand is rising.

For automotive thermal systems, MHI will increase sales of new types of compressors. These include the QS (Quality Scroll) compressor, the world’s most efficient compressor made smaller and lighter by employing a three-dimensional compression mechanism, and an electric compressor that utilizes inverter technology for air-conditioning equipment used in hybrid and electric vehicles.

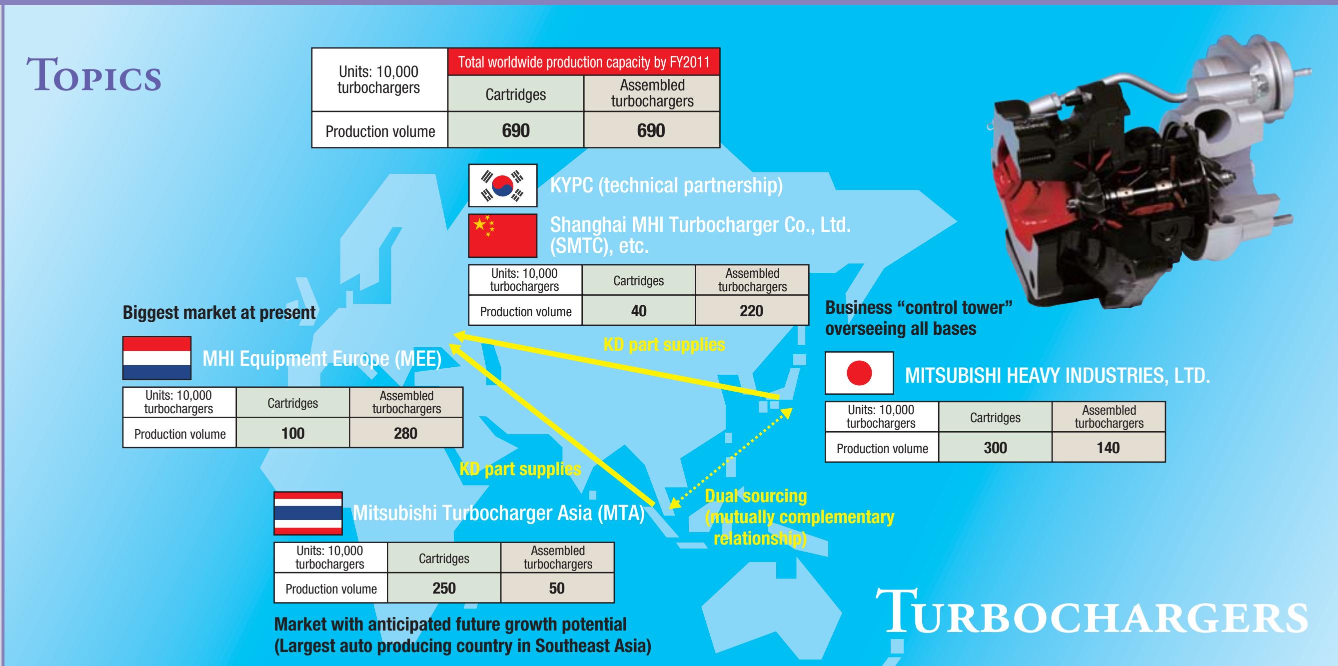
For centrifugal liquid chillers, MHI will maintain its top market share in Japan and expand exports with models that utilize gas turbine technology to achieve the world’s highest levels of efficiency.

For the printing machinery business, MHI will expand sales of the DIAMOND series of sheet-fed offset presses, which allow for high-speed, high-precision plate exchange. We will also increase sales in emerging markets and regions where we have yet to develop business, including China, India, the Middle East, Eastern Europe and Russia.

The machine tool business will increase exports of large machines and gear cutting machinery to China, India, Southeast Asia and North America, focusing on manufacturers in the automotive and aircraft industries.

Topics

Turbochargers



Units: 10,000 turbochargers	Total worldwide production capacity by FY2011	
	Cartridges	Assembled turbochargers
Production volume	690	690

KYPC (technical partnership) / Shanghai MHI Turbocharger Co., Ltd. (SMTC), etc.

Units: 10,000 turbochargers	Cartridges	Assembled turbochargers
Production volume	40	220

MHI Equipment Europe (MEE)

Units: 10,000 turbochargers	Cartridges	Assembled turbochargers
Production volume	100	280

MITSUBISHI HEAVY INDUSTRIES, LTD.

Units: 10,000 turbochargers	Cartridges	Assembled turbochargers
Production volume	300	140

Mitsubishi Turbocharger Asia (MTA)

Units: 10,000 turbochargers	Cartridges	Assembled turbochargers
Production volume	250	50

As tighter emission controls spread around the world, MHI is responding to rapidly increasing demand for turbochargers by establishing a global turbocharger business network encompassing Japan, Europe and Asia. MHI intends to nearly double its production capacity for small-size turbochargers from the current 3.6 million units p.a. (per annum) to 6.9 million by the end of fiscal 2011 (April 1, 2011 through March 31, 2012).

With implementation of these initiatives, MHI looks to meet customer needs solidly with respect to both product quality and delivery. In the process, MHI is targeting to become the second-largest turbocharger manufacturer in the world, from its current third, as early as possible, and aspires ultimately to be the leader in these products.

Japan

Upgrade dedicated factory and bolster functions as design center and mother factory

Turbocharger development, design and production technology is centered on the General Machinery & Special Vehicle Headquarters in Sagamihara. Currently, at the Main Plant in Sagamihara, MHI is working to expand floor space to 33,000 m^2 at its dedicated new production plant by securing adjacent property. The aims are twofold: (1) to establish an effective and coherent production/distribution structure from acceptance of parts and materials to processing, assembly and shipment; and (2) to introduce new production lines enabling the capacity increase, while simultaneously integrating existing lines located separately. The headquarters will position the plant as a design center and mother factory to expand its role as a leader in global turbocharger production.

Thailand

A new production base planned in Thailand to assist in production and supply of major turbocharger components

In Thailand, MHI is building a new base to assist the Main Plant in Sagamihara as a second KD (knock down) supply base.

For this purpose MHI has already secured 147,000 m^2 of property within the Amata Nakorn Industrial Estate, near Bangkok. It has also completed the establishment of Mitsubishi Turbocharger Asia Co., Ltd. (MTA), a wholly owned local subsidiary, and is now constructing a production plant with a 60,000 m^2 floor area.

Europe

Boost final assembly capacity by 800,000 units to raise output to the 2.8 million unit level

MHI Equipment Europe B.V. (MEE), MHI's wholly owned subsidiary in Almere, the Netherlands, which functions as the company's production base in Europe, will strengthen its ability to respond to demand in the European markets, home to many of MHI's largest customers. Specifically, MEE's production capacity in turbochargers will be increased by 800,000 units to 2.8 million p.a., to be achieved by expanding its production plant by 6,900 m^2. Besides eliminating product supply delays, these changes will also establish MEE as a key "outpost" base on the frontlines of MHI's turbocharger operations in Europe.

Intellectual Property and R&D

Intellectual Property: An Integrated Approach Linking Business Activities and R&D

MHI's intellectual property activities are an integral part of its business and R&D strategies.

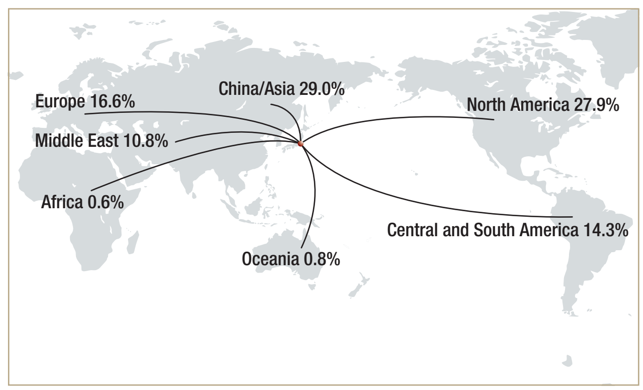
MHI has established a team made up of members from its business divisions (sales and design personnel) and R&D and intellectual property departments for each core, mainstay and new product line. By sharing information from a wide variety of sources—business plans, business schemes, product development, R&D policy, technology roadmaps, and analyses of R&D trends and patents at both MHI and other companies—the team works to formulate an optimal intellectual property strategy.

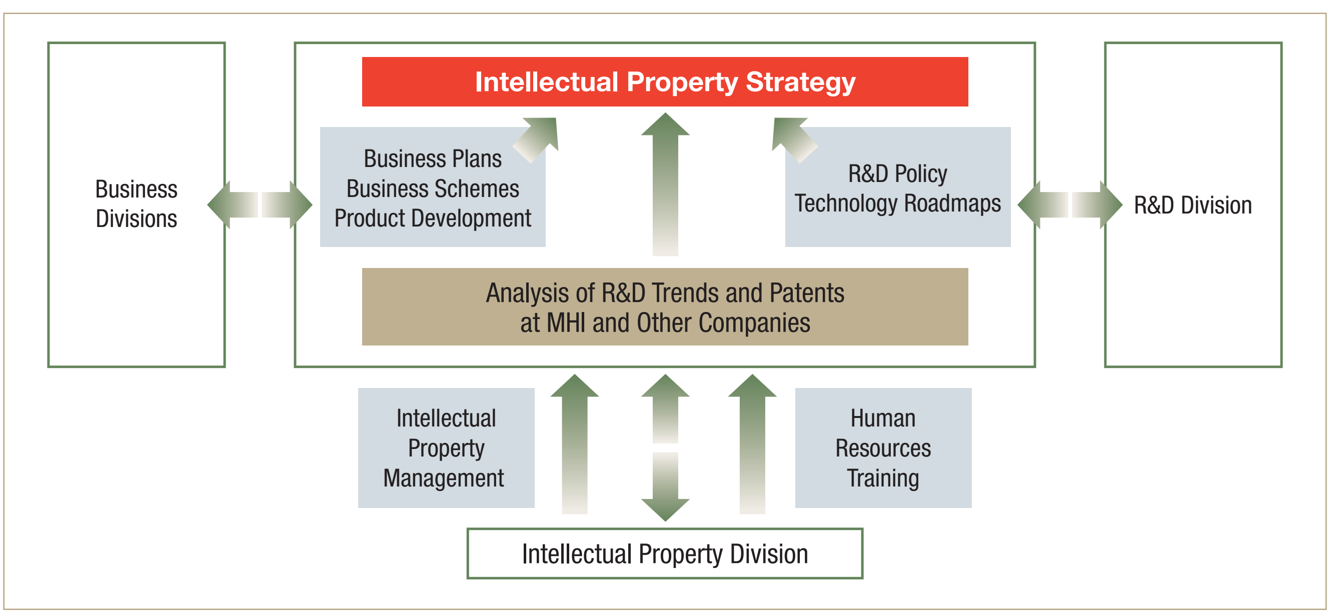
To promote activities in line with this strategy, the Intellectual Property Division develops effective and efficient business processes, takes steps to manage intellectual property appropriately, and develops highly specialized and skilled personnel.

Guided by MHI's fundamental business strategy of adopting a more international approach in its operations, and the basic R&D strategy of ensuring that MHI remains successful in the face of ever-intensifying competition worldwide, the Intellectual Property Division is shifting the focus of patent acquisition from the domestic market to a more aggressive global approach.

Global Strategy

*Figures are ratios of net sales by region.
(Overseas sales of FY 2007: 1,561.1 billion yen)





Intellectual Property Support Framework

MHI conducts R&D based on close cooperation between business divisions in each of the Company's five business segments and its five R&D centers. In addition, the Advanced Technology Research Center (ATRC) carries out application-oriented research into advanced technologies that significantly impact our business. Business headquarters and departments, intellectual property departments in each business office and R&D center, and the Headquarters Intellectual Property Department itself work closely with each other, thereby ensuring an approach that integrates business, R&D and intellectual property strategies.

MHI's Intellectual Property Activities

Policy

MHI's priority in acquiring patents is to protect its technology assets and competitiveness. Accordingly, we take every possible step to apply for and acquire patents for technologies we have developed that will be used in MHI products. Although this is partly to protect our technology assets from copying by other parties, our main aim here is to ensure that our customers can use MHI products with peace of mind.

Against a backdrop of fierce competition in new technology development between companies worldwide, our integrated approach to intellectual property activities is based on two key principles—protecting the results of R&D with patents, and promoting global patent-protected manufacturing.

Business Process and Risk Management

MHI formulated operational standards for intellectual property around 40 years ago. Based on these standards, we have been able to conduct intellectual property activities efficiently as common business processes. In order to match the needs of the time such as revisions to laws and regulations, we have continually updated or deleted sections of these standards. For example, in April 2006, based on our integrated approach to business, R&D and intellectual property strategies, we revised the section on appraisal of inventions to include the evaluation of the invention's impact on all three of these management areas.

Our operational standards for intellectual property are mainly concerned with procedures for patent application (from application to acquisition). In October 1998, we moved to an electronic system for domestic patent applications to improve the efficiency of business processes and reduce the use of paper documents. This step was also designed to promote greater information sharing with business and R&D divisions. A similar move for overseas patent applications was delayed because the volume of information handled is large compared to domestic applications. However, as the capabilities and processing power of IT equipment improved, we decided to begin working on an electronic system for overseas patents in 2005. The completed system began operation in April 2006. The system is groundbreaking because it integrates all data related to the application, including patent offices that handled our patent applications. Very few such systems exist in Japan or worldwide.

We are also reviewing other systems. For example, with our technology contract management system, which manages a whole host of information related to joint R&D and patent application contracts such as data about the organizations MHI has signed intellectual property contracts with, relevant internal departments, and contract periods, we have taken steps to make the system more watertight. Specifically, we established searchable databases of our patent rights and obligations to other organizations, linking details of joint R&D projects with products that come under the scope of the research. In this way, we are ensuring we meet our patent obligations to other rights holders and clearly separate information held by others groups and MHI. The new system went into operation in April 2007.

MHI product lines are typically covered by multiple patents because they incorporate numerous technologies. Consequently, we are vulnerable to involvement in disputes with other parties over patents. At MHI, we believe the biggest risk we face in terms of intellectual property is infringement of patents held by other parties. We therefore carry out exhaustive checks of existing patents during the basic product planning, design and manufacturing phases to prevent any possible infringement.

Furthermore, MHI's export rate is expanding, surpassing 50% of orders received in fiscal 2006. In line with this, we are working to establish a network of in-house staff and representatives both in Japan and overseas and formulate and upgrade a procedural response manual to ensure rapid and appropriate responses in the event of an international patent dispute.

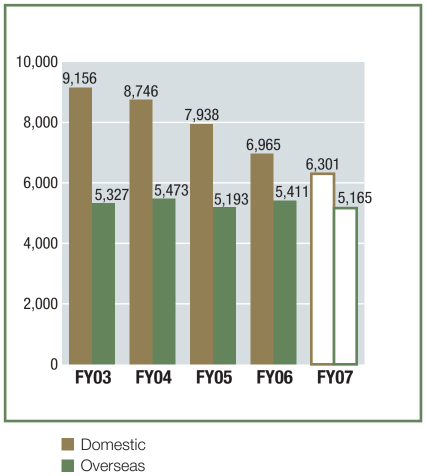
MHI also sees the leak of critical technical data as a major risk. For this reason, we also protect important know-how incorporated in our inventions using means specific to safeguarding expertise, rather than through patents. Based on criteria included in our operational standards for intellectual property, we strictly manage any information judged to require high levels of security.

Personnel Training

In terms of training and utilizing personnel, we are working to boost skill levels of individuals, and therefore all intellectual property departments, by helping our staff acquire the specialist knowledge they need. Examples include encouraging participation in domestic and international seminars on intellectual property and systematically rotating employees internally between intellectual property departments and R&D centers. We also conduct training for inventors and managers in business divisions and R&D centers to heighten awareness of the importance and necessity of filing patents for inventions that contribute to business.

MHI outsources routine administrative processes related to intellectual property to affiliated companies to allow personnel in the Intellectual Property Division to focus on core activities.

No. of domestic and overseas patents



Research and Development Activities

Through close cooperation between business offices and R&D centers, the MHI Group (the Company and its consolidated subsidiaries) is working to reinforce its R&D activities to enhance product competitiveness in the shipbuilding & ocean development, power systems, aerospace and other business fields, and drive business expansion.

Shipbuilding & Ocean Development

In this segment, our goal is to improve the performance and reliability of ships and ocean structures. R&D activities cover a wide range of areas—technologies related to the fluid-dynamic technology to improve ship propulsion; technologies that increase structural strength; and vibration- and noise-reduction technologies. These efforts also encompass technologies that reduce environmental impact, including those pertaining to fuel efficiency and fuel tank positioning, to prerent fuel spills and leakage. All of these efforts are channeled into developing a variety of ships and other products. These include large-scale vessels such as liquefied natural gas (LNG) and liquefied petroleum gas (LPG) carriers and container vessels, which are responsible for the stable transport of goods on a global scale, as well as large passenger ships and ferries, for which growth in future demand is expected. We also work to enhance the performance and reliability of special-purpose vessels, namely survey and training ships.

Power Systems

Aiming to develop pioneering technologies that realize stable energy supplies, protect the environment and achieve greater efficiency, this segment conducts R&D into clean fuels, such as natural gas, and renewable energy technologies, distributed power systems and high-efficiency generation systems in an effort to meet market needs covering upstream to downstream energy sectors.

Machinery & Steel Structures

R&D in this segment is focused on the development of technologies and products that enable MHI to supply high-added-value products and social infrastructure, among other products. These products and infrastructure help prevent global warming and protect the environment, enable land transport and logistics, and support the supply of basic materials and energy to the steel, chemical and other industries.

Aerospace

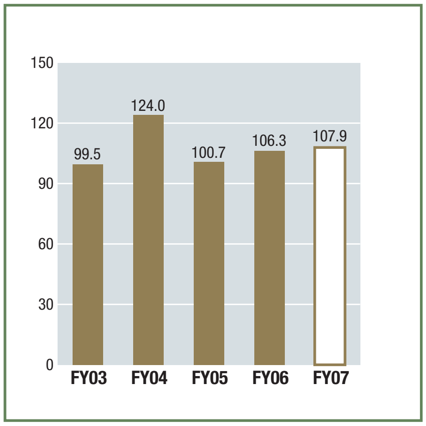
As Japan's leading company in the aerospace sector, MHI develops cutting-edge products leveraging its years of experience in the development of aircraft and aerospace equipment.

Mass and Medium-Lot Manufactured Machinery

This segment is involved in the development of technologies related to a wide range of products that support today's industrial infrastructure. In addition to cutting-edge technologies unique to the products in this segment, MHI also draws on and applies the latest and most advanced pioneering technologies from its extensive product lines in other segments in product development.

R&D Investment

(In billions of yen)



* Includes expenses related to R&D under contract.

Corporate Governance

Fundamental Policy

Committed to the ethos of customer-first, MHI conducts its business activities as a responsible corporate citizen based on consideration for all stakeholders.

MHI is implementing a number of initiatives to enhance management efficiency and strengthen compliance, including reforming the management system to allow more effective decision-making in response to radical changes in the economic environment, and promoting fair and sound management. MHI is also working to make management more transparent by disclosing information rapidly and accurately to shareholders and other external stakeholders.

Corporate Governance Initiatives

Corporate Governance Framework

The Board of Directors makes important management decisions and oversees the execution of business operations. MHI is strengthening management oversight functions through the appointment of outside directors. As of June 26, 2008, of the Company's 19 directors, three are from outside MHI. Additionally, MHI has established an Executive Committee to provide a forum for discussing important matters related to business execution. This allows for a more cohesive approach to discussion as part of the operational execution framework centered on the President, and consequently leads to more appropriate management decisions and business execution.

MHI overhauled its corporate governance framework in June 2005 to improve the soundness and transparency of management and increase efficiency and flexibility. The main components of this reform included streamlining the Board of Directors while increasing the number of outside directors, shortening the terms of directors, and introducing an executive officer system. These modifications were aimed at enhancing the oversight functions of the Board of Directors and clearly delineating the roles and responsibilities of directors and executive officers. Directors are responsible for general oversight of the Company's operations and making important business decisions, while executive officers are responsible for the day-to-day business and affairs of the Company.

MHI has concluded liability limitation agreements with each of its outside directors and outside auditors based on Article 423, Paragraph 1 of the Corporate Law. The limit of liability pursuant to these agreements is ¥10 million or the statutory minimum liability limit stipulated in Article 425, Paragraph 1 of the Corporate Law, whichever is higher.

Enhancing Internal Control Systems

In compliance with the Corporate Law and the Enforcement Regulations of the Corporate Law, the Board of Directors has approved resolutions to create systems that ensure business operations are conducted in an appropriate manner. An overview of these resolutions is as follows:

1. System to ensure the execution of duties by Directors is in compliance with relevant laws and the Articles of Incorporation

(i) Directors shall lead by example in realizing the Company's fundamental principle of fair and honest business activities that comply with all relevant laws and emphasize social norms and business ethics.

(ii) The Board of Directors shall fully discuss all matters raised and reports submitted by Directors and monitor the Company's operations from the perspectives of sound and efficient management. The views of Outside Directors shall be employed to introduce greater objectivity and enhance the effectiveness of oversight.

2. System to store and manage information related to the execution of duties by directors

(i) Principle matters related to the management of documents shall be specified in Company regulations, and information related to the execution of duties by directors shall be appropriately recorded, stored and managed.

(ii) Directors and Statutory Auditors shall be given access to such information at any time where it is deemed necessary to supervise and audit actions by the Directors.

3. Regulations and other systems to manage risk

(i) Systems designed to manage each type of risk shall be implemented and responsibilities shall be clearly defined to ensure the appropriate management of risk.

(ii) Risk shall be regularly evaluated and analyzed and necessary avoidance or mitigating measures taken; internal audits shall monitor the effectiveness and appropriateness of these measures and reports shall be regularly submitted to the Board of Directors.

(iii) To prepare for cases where significant risk may materialize, the Company shall ensure the means to immediately communicate information to senior management to respond promptly and accurately to emergency situations; individuals responsible for crisis management shall also be appointed in each business division.

4. System to ensure directors execute their duties efficiently

(i) The Board of Directors shall formulate business plans and establish Companywide management policy and objectives; business execution, led by the President, shall be conducted with the aim of achieving these objectives.

(ii) The Company's organizational structure, division of duties, and lines of authority shall be specified in Company regulations to ensure steps to achieve management objectives are conducted efficiently.

5. System to ensure the duties and actions of employees comply with relevant laws and the Articles of Incorporation

(i) The Company shall create a framework comprising the Compliance Committee and other bodies to raise awareness of compliance among employees by formulating a code of conduct, implementing various training programs and taking other steps.

(ii) The Company shall establish a whistleblower system and other mechanisms to enhance the effectiveness of compliance, conduct internal audits of the compliance framework, and report the results to the Board of Directors.

6. System to ensure appropriate business activities by the MHI Group

(i) The presidents of Group companies shall be responsible for the independent management of their companies as autonomous bodies; in addition, the Company shall create a system to define the management responsibilities of Group companies, determine operational procedures and provide support and guidance with the aim of improving consolidated operating performance through sound and efficient Groupwide management.

(ii) To ensure appropriate Groupwide operations, the Company shall promote various compliance and risk measures in conjunction with Group companies and create internal control systems tailored to the size and specific nature of each company; the respective departments in the Company responsible for managing Group companies shall also monitor the status of compliance at these companies.

(iii) MHI and MHI Group companies shall ensure the accuracy of their respective financial information, and arrange the organization, company regulations and other matters required for the preparation and disclosure of reliable financial reports.

7. Matters related to employees requested by statutory auditors to support audit activities

(i) In response to requests by the statutory auditors, the Company shall establish a Statutory

Auditor's Office with a dedicated staff to support the smooth conduct of audit activities.

8. Independence of employees in 7. (above) from directors

(i) To ensure independence from the executive bodies of the Company, Auditing Office staff shall not be subject to the orders of directors, and the appointment, transfer and evaluation of these employees shall be conducted with the agreement of the statutory auditors.

9. System to allow directors and employees to report information to the statutory auditors and other related reporting systems

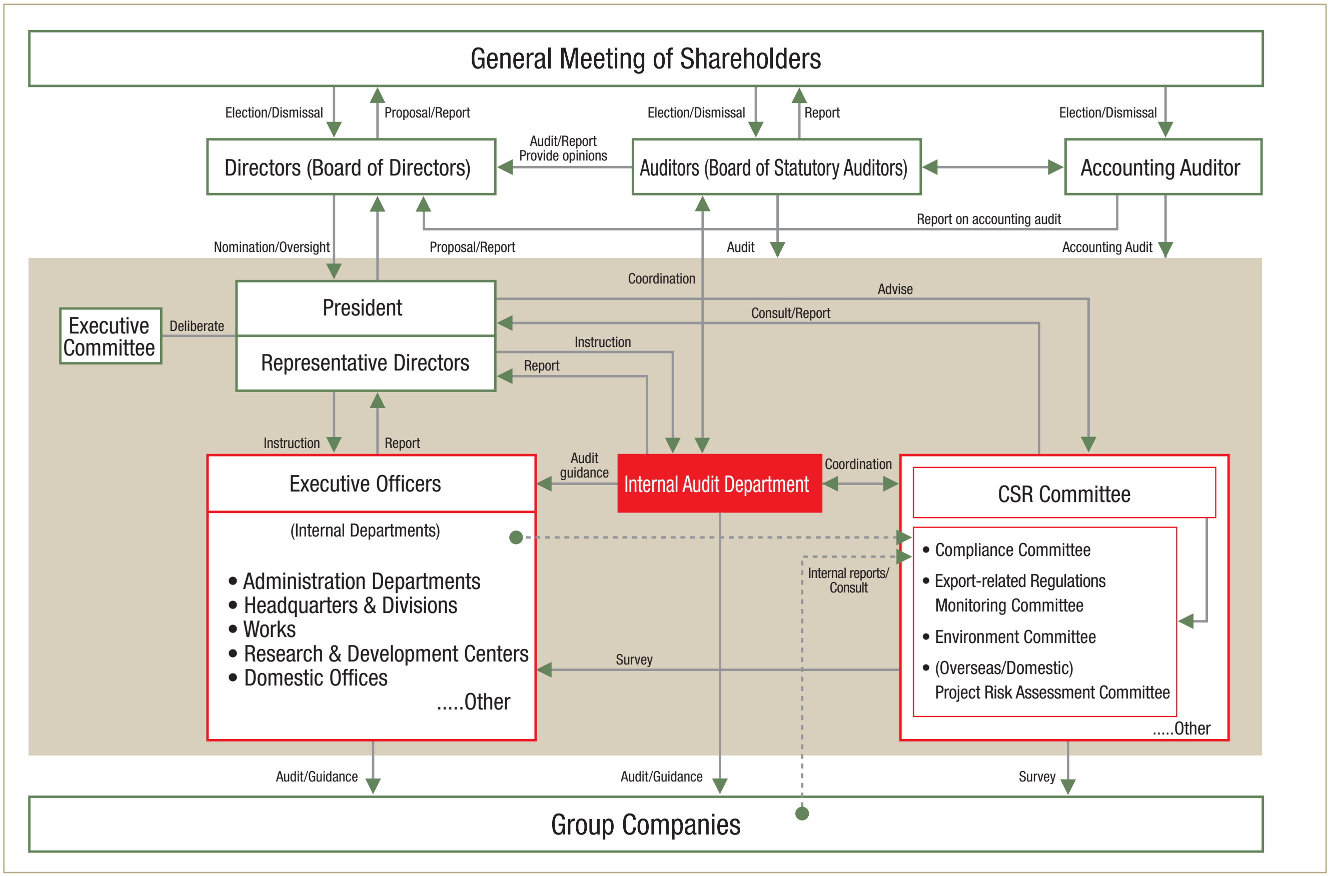
(i) The Company shall implement arrangements to allow the reporting and provision of information to statutory auditors, and promote appropriate communication through regular exchanges of views.

10. Other systems to ensure statutory auditor activities are conducted effectively

(i) Due consideration shall be given to statutory auditors to allow them to conduct audits in an effective manner by gathering information, conducting surveys and taking other steps to ensure appropriate communication with related divisions in the Company, the accounting auditors and other parties.

Internal Audits and Statutory Auditors

The Company conducts internal audits to check the effectiveness of internal control systems. For each fiscal year, the 10-member Internal Audit Department, the Company's dedicated internal audit organization,



formulates an internal audit policy and instructs each of MHI's departments to conduct audits in accordance with this policy. The department confirms the status and results of these internal audits and conducts its own separate audits targeting specific themes.

MHI has adopted a corporate auditor governance model whereby the statutory auditors are responsible for monitoring the executive actions of directors. The Board of Statutory Auditors has five members, three of whom are outside appointments. In accordance with auditing policy and allocation of duties determined by the Board of Auditors, statutory auditors attend meetings of the Board of Directors, the Executive Committee and other key meetings related to business planning, enabling them to accurately assess the status of management in a timely manner. Statutory auditors also audit the execution of director duties by conducting spot checks and verifying compliance with relevant laws and regulations, and by monitoring the status and operation of internal control systems. As a support to the statutory auditors, the Company has established a Statutory Auditor's Office with a dedicated six-member staff, which assists the auditors in performing their duties more smoothly.

In addition, statutory auditors work closely with the Internal Audit Department by regularly exchanging information and opinions and by receiving reports on internal audits performed by this department. Statutory auditors also periodically exchange information and opinions with accounting auditors and cooperate closely in other ways, including receiving audit reports and participating in accounting audits as needed.

The Company's corporate governance framework, including internal control systems, is shown in the diagram on page 36.

Accounting Audits

MHI's accounting auditor is Ernst & Young ShinNihon. The firm's certified public accountants (engagement partners and management partners) that audit the Company's financial statements are: Michio Shibuya, Shin Fujita, and Ichiro Ishii. None of these individuals has been continually auditing the Company's financial statements for longer than seven years.

In addition to the above, the auditing team includes seven other certified public accountants and thirteen assistant accountants.

Conflicts of Interest Between Outside Directors and Statutory Auditors and the Company

None of the external directors or statutory auditors has any particular conflicts of interest with MHI.

Director and Statutory Auditor Remuneration and Audit Fees

Director and Statutory Auditor Remuneration

Position	No. of recipients	Amount of compensation (In millions of yen)
Directors (Of which, outside)	17 (3)	954 (39)
Auditors (Of which, outside)	5 (3)	121 (36)
Total (Of which, outside)	22 (6)	1,075 (75)

In addition to the above, stock acquisition rights corresponding to ¥163 million were issued as stock options for stock-linked compensation to 14 Directors, excluding Outside Directors.

Audit Fees

Audit fees paid to Ernst & Young ShinNihon, the accounting auditor for the fiscal year under review, were as follows:

Category	Amount of compensation (In millions of yen)
Compensation paid for auditing services pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan	104
Compensation for other services (see note 1)	11
Total	116

Notes:
1. "Compensation for other services" of ¥11 million consists of compensation for advice on establishing internal control systems in relation to financial reporting and other advisory services.
2. The Company and its consolidated subsidiaries paid a total of ¥205 million in compensation to the accounting auditor.

Corporate Social Responsibility

Fulfilling Our Role as a Manufacturer of Products Vital to People and Economies Worldwide

As a manufacturing specialist, MHI earns profit by utilizing the funds that shareholders and investors provide to create and deliver products to customers. Besides distributing these profits as appropriate to the range of stakeholders involved in our business operations, they are effectively channeled into R&D and capital investments to promote company growth. These actions enable MHI to fulfill the most fundamental role of any good manufacturer—to create products that offer greater value.

Fulfilling this role is particularly important for MHI. Since the Company's founding in 1884, we have grown to offer a wide array of products that have underpinned society's development and our daily lives, from launch vehicles and power generation facilities, to ships, industrial machinery and home air-conditioning systems. Guiding these efforts from the beginning has been our corporate creed—"We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society." Along with supplying a host of "eco-energy" (a term encompassing ecology, economy and energy) products designed to solve environmental and energy issues worldwide, we also have a hand in providing global customers with transportation systems, public facilities and other infrastructure vital to the world's social and economic prosperity. In this way, we are fulfilling our social role more robustly than ever as a company with a truly global presence.

Understanding the weight of this role, we strive for sustainable growth on behalf of all of our stakeholders, as well as for the sake of our society and our planet. We recognize such growth as the proper way for MHI to fulfill its corporate social responsibility (CSR) as a good corporate citizen.

Drafting of CSR Action Guidelines and CSR Action Plan to Entrench CSR-Oriented Management

Based on this awareness, MHI strives to create safe, high-quality products in tandem with proactive efforts to establish the high business ethics standards and extensive compliance that make this possible. These actions accompany initiatives that support environmental preservation, human rights and labor. Our promotion of CSR-oriented management has included our participation in the UN Global Compact since 2004.

In October 2006, we moved to further entrench these activities with establishment of the CSR Committee, which is chaired by MHI's president. In July 2007, we drafted the MHI Group CSR Action Guidelines, founded on the themes of building close ties with the Earth, close ties with society and a bridge to the next generation. We then formulated the CSR Action Plan, a three-year plan designed to put these guidelines into practice. Our goal going forward is to enhance the Group's CSR activities by steadily implementing the measures prioritized in this plan.

We believe that preventing global warming will become a particularly important theme in 2008, as the first year of commitment for signatories of the Kyoto Protocol, and in light of initiatives in response to environmental and climate change discussed at the G8 Hokkaido Toyako Summit in July this year.

As one of only a few companies that is ready to address this problem on a global scale, MHI is helping to reduce CO_2 emissions by supplying high-efficiency power plants utilizing a range of energy sources, including thermal, nuclear, and natural energy, to countries throughout the world. In addition to offering a host of environmental conservation products, from flue gas CO_2 recovery plants and flue gas desulfurization systems, to biomass utilization systems, we are turning attention to the development of technologies and products, such as desalination plants, for coping with the impact of climate change and water scarcity.

Another extremely important CSR theme is minimizing the environmental impact of our own business activities. Our voluntary target is to reduce CO_2 emissions from MHI production facilities by an average of 6% over the five-year period from fiscal 2008 to fiscal 2012 relative to fiscal 1990 levels. A variety of tasks are currently under way in the push to meet this goal, including installation of MHI photovoltaic power generation systems at its own manufacturing works.

Building a “bridge to the next generation” is a key tenet of the CSR Action Guidelines. To this end, we plan to upgrade and enhance the facilities and schedule of events at the Mitsubishi Minatomirai Industrial Museum to better convey the wonders of science to children. We also intend to visit elementary and junior high schools across the country to hold science classes as one of several new initiatives in this area.

For more information on MHI’s activities, please view our CSR Report available online. (http://www.mhi.co.jp/en/csr/index.html)

CSR Action Guidelines

In order to ensure a secure future for the Earth, we will establish and maintain,

Close ties with the Earth

Safeguard an abundantly green Earth through environmental technologies and environmental awareness;

Close ties with society

Build a relationship of trust with society through proactive participation in society and trustworthy actions;

A bridge to the next generation

Contribute to the cultivation of human resources who can shoulder responsibility in the next generation through technologies that can realize dreams.

Hosting Trainees From China

MHI hosts trainees from China's Tsinghua University and the Chinese Society of Engineering Thermophysics at its Takasago Research & Development Center. By giving trainees direct access to gas turbine products and development activities, we hope to encourage trainees to conduct future research in this area.

Endowed Course at Hanoi University of Technology in Vietnam

MHI has established endowed courses at Hanoi University of Technology in Vietnam specializing in power plant engineering, environmental systems engineering, and control system engineering for these types of facilities. These courses are boosting technology skills in Vietnam, thereby contributing to its economic development.

Financial Section

Contents

Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	**2008**	2007	**2008**	**2008**	2007	**2008**
Shipbuilding & Ocean Development	**¥ 283,955**	¥ 247,137	**$ 2,834,169**	**¥ 4,064**	¥ (5,384)	**$ 40,565**
Power Systems	**946,997**	890,782	**9,452,012**	**58,287**	56,760	**581,774**
Machinery & Steel Structures	**472,537**	511,692	**4,716,412**	**11,328**	2,921	**113,070**
Aerospace	**500,576**	495,008	**4,996,276**	**14,657**	14,430	**146,298**
Mass and Medium-Lot Manufactured Machinery	**913,606**	849,049	**9,118,740**	**40,058**	31,363	**399,823**
Others	**140,045**	135,782	**1,397,795**	**7,633**	8,820	**76,190**
Subtotal	**3,257,718**	3,129,453	**32,515,406**	**136,030**	108,912	**1,357,722**
Eliminations or Corporate	**(54,632)**	(60,948)	**(545,293)**	**–**	–	**–**
Total	**¥3,203,085**	¥3,068,504	**$31,970,113**	**¥136,030**	¥108,912	**$1,357,722**

	Total Assets			Depreciation and Amortization		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	**2008**	2007	**2008**	**2008**	2007	**2008**
Shipbuilding & Ocean Development	**¥ 233,301**	¥ 225,139	**$ 2,328,595**	**¥ 7,332**	¥ 6,005	**$ 73,188**
Power Systems	**1,044,513**	887,065	**10,425,326**	**30,357**	23,259	**302,995**
Machinery & Steel Structures	**502,265**	557,765	**5,013,132**	**9,520**	8,557	**95,023**
Aerospace	**923,014**	863,315	**9,212,640**	**33,533**	22,738	**334,701**
Mass and Medium-Lot Manufactured Machinery	**842,574**	845,751	**8,409,765**	**30,973**	28,491	**309,149**
Others	**202,786**	216,008	**2,024,019**	**17,545**	17,666	**175,119**
Subtotal	**3,748,456**	3,595,045	**37,413,480**	**129,263**	106,719	**1,290,178**
Eliminations or Corporate	**768,691**	796,819	**7,672,341**	**–**	–	**–**
Total	**¥4,517,148**	¥4,391,864	**$45,085,821**	**¥129,263**	¥106,719	**$1,290,178**

	Capital Expenditures		
	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	**2008**	2007	**2008**
Shipbuilding & Ocean Development	**¥ 15,637**	¥ 6,398	**$ 156,080**
Power Systems	**55,653**	40,049	**555,480**
Machinery & Steel Structures	**13,545**	9,342	**135,194**
Aerospace	**51,638**	56,845	**515,408**
Mass and Medium-Lot Manufactured Machinery	**37,243**	34,369	**371,732**
Others	**17,734**	28,962	**177,013**
Subtotal	**191,454**	175,969	**1,910,909**
Eliminations or Corporate	**–**	–	**–**
Total	**¥ 191,454**	¥ 175,969	**$ 1,910,909**

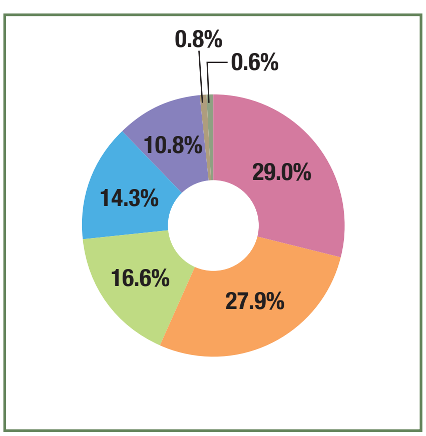
	In millions of yen		In thousands of U.S. dollars
OVERSEAS SALES	**2008**	2007	**2008**
Overseas Sales	**¥ 1,561,139**	¥1,462,646	**$15,581,789**
Ratio to Total Net Sales	**48.7%**	47.7%	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥100.19=US$1, the exchange rate prevailing at March 31, 2008.
2. The accompanying consolidated financial statements for the years ended March 31, 2008 and 2007 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

GEOGRAPHIC DISTRIBUTION	Net Sales			Operating Income		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008	2008	2007	2008
Japan	¥2,916,934	¥2,840,556	$29,114,032	¥121,535	¥ 95,443	$1,213,049
North America	297,874	223,638	2,973,091	8,284	6,098	82,689
Asia	105,797	74,311	1,055,964	1,339	434	13,364
Europe	166,112	128,387	1,657,977	4,473	3,290	44,652
Others	52,213	33,958	521,143	397	3,644	3,965
Subtotal	3,538,932	3,300,851	35,322,209	136,030	108,912	1,357,722
Eliminations or Corporate	(335,846)	(232,346)	(3,352,096)	–	–	–
Total	¥3,203,085	¥3,068,504	$31,970,113	¥136,030	¥108,912	$1,357,722

GEOGRAPHIC DISTRIBUTION	Total Assets		
	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Japan	¥3,303,873	¥3,234,245	$32,976,078
North America	196,340	173,463	1,959,685
Asia	72,376	64,357	722,397
Europe	105,920	90,577	1,057,201
Others	69,944	32,402	698,117
Subtotal	3,748,456	3,595,045	37,413,480
Eliminations or Corporate	768,691	796,819	7,672,341
Total	¥4,517,148	¥4,391,864	$45,085,821

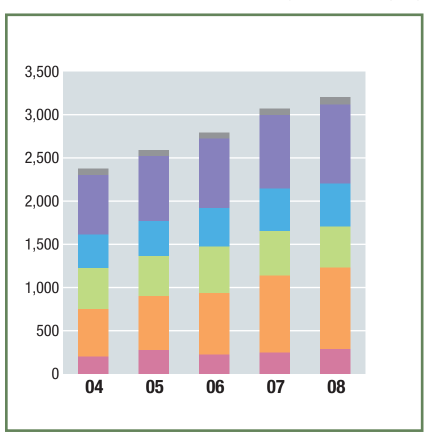
COMPOSITION OF OVERSEAS NET SALES BY GEOGRAPHIC DISTRIBUTION



- Asia
- North America
- Europe
- Central and South America
- The Middle East
- Oceania
- Africa

NET SALES BY INDUSTRY SEGMENT

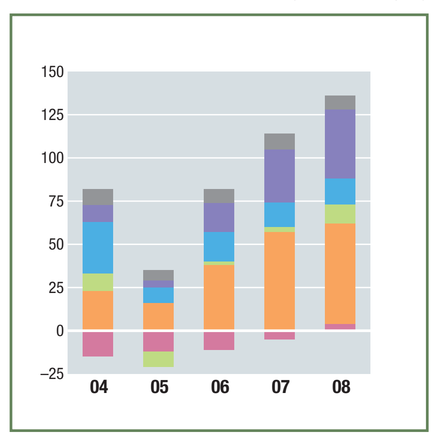
(In billions of yen)



- Shipbuilding & Ocean Development
- Power Systems
- Machinery & Steel Structures
- Aerospace
- Mass and Medium-Lot Manufactured Machinery
- Others

OPERATING INCOME (LOSS) BY INDUSTRY SEGMENT

(In billions of yen)



- Shipbuilding & Ocean Development
- Power Systems
- Machinery & Steel Structures
- Aerospace
- Mass and Medium-Lot Manufactured Machinery
- Others

Management's Discussion and Analysis

Analysis of Operating Results

In fiscal 2007, ended March 31, 2008, consolidated net sales of Mitsubishi Heavy Industries, Ltd. (MHI) and its consolidated subsidiaries (MHI Group) increased ¥134,580 million, or 4.4%, from the previous year, to ¥3,203,085 million (US$31,970,113 thousand). The increase was the result of strong sales in major segments. Mass and Medium-Lot Manufactured Machinery turned in a strong performance for overseas customers. In Power Systems, sales of wind turbines to the U.S. were strong and execution of construction within Japan and overseas continued at a high level. In Shipbuilding & Ocean Development, 22 vessels, including 7 container carriers and 5 LNG carriers, were delivered. In Aerospace, sales of defense-related products and commercial aircraft continued to grow briskly. However, Machinery & Steel Structures recorded lower sales.

Operating income rose ¥27,117 million, or 24.9%, to ¥136,030 million (US$1,357,722 thousand). The growth in income and earnings power from the progress of measures under the 2006 Business Plan (Medium-Term Business Plan) absorbed such negative factors as increased material costs, research and development costs and higher depreciation costs under a revision to the depreciation method, leading to higher earnings.

Net non-operating expenses were ¥26,525 million (US$264,756 thousand), ¥662 million more than in the previous year. This was mainly due to higher interest expense and other factors which outweighed improvements in foreign exchange losses. Ordinary income rose ¥26,455 million, or 31.9%, to ¥109,504 million (US$1,092,965 thousand).

Extraordinary gain totaled ¥22,132 million (US$220,904 thousand), due to gain on sales of fixed assets and transfer of business. Extraordinary loss totaled ¥30,261 million (US$302,037 thousand), due to business improvement and restructuring charges.

Income before income taxes and minority interests increased ¥17,664 million, or 21.1%, to ¥101,375 million (US$1,011,831 thousand), and net income rose ¥12,493 million, or 25.6%, to ¥61,332 million (US$612,164 thousand).

Key Factors Affecting Operating Results

Key factors that affect the management of the MHI Group include external factors such as market trends, foreign exchange rate fluctuations and changes in material costs, and internal factors such as risks associated with various overseas business contracts, accidents and disasters. Another key factor is the risk of manufacturing capabilities weakening due to technology and skill transfer issues associated with generational change.

Market trends

Trends in the public works field include ongoing curbs on public capital investment and intensifying price-based competition. These have resulted in a challenging operating environment characterized by a shrinking market. With few prospects of significant market growth going forward, the MHI Group will continue to strive to maintain its position in this field as a vital partner to its customers. This means offering products and services which satisfy customers' needs by leveraging the MHI Group's industry-leading technologies. The MHI Group will also work aggressively to strengthen its overseas presence in China, Southeast Asia, the Middle East, Europe and the U.S., targeting markets where growth is expected to continue.

Exchange rate fluctuation

Foreign exchange rate fluctuation can significantly affect the MHI Group's competitiveness and operating results. In order to minimize exchange rate fluctuation risk, the MHI Group is increasing its liabilities denominated in foreign currencies by expanding the procurement of overseas materials, promoting greater use of yen-denominated contracts, and hedging risk with timely forward foreign exchange contracts.

Changes in costs of materials

Prices for materials such as steel products, non-ferrous metals and crude oil are rising, which is also driving up the cost of finished materials used to manufacture products. There is also a concern about the potential impact from delayed supplies of necessary materials. In response, the MHI Group is working harder to reduce costs by promoting design standardization, increasing its utilization of common components, employing standardized parts, signing comprehensive procurement contracts, and expanding its overseas production activities. The MHI Group also intends to pass the price rises of materials on to customers as much as possible.

In order to secure the supply of materials, the MHI Group is strengthening relationships with its business partners, promoting an even greater level of information sharing, and acting even more rapidly to secure the materials essential to its business activities.

Overseas business contracts

The MHI Group is exposed to a number of risks associated with business contracts it concludes in overseas markets. These include the quality and delivery dates of locally procured materials and the skill levels and specific labor practices of the local staff, as well as the risks inherent in its contractual obligations. In order to prevent or mitigate these risks, all contracts undergo a rigorous internal assessment process prior to their formal conclusion. In addition to the business headquarters and the segments concerned, several administrative departments are involved in this process, which includes the verification of local contractual obligations, the removal of unilateral conditions, and other prudent steps.

Accidents and disasters

Accidents and disasters can have a significant impact on the management of the MHI Group. In managing this type of risk, the MHI Group is taking steps to minimize the probability of accidents and disasters occurring, by carrying out ongoing work-site management activities, including the training of on-site workers to be more aware of risks.

Technology and skill transfer

MHI Group is at risk of manufacturing capabilities weakening due to technology and skill transfer issues associated with generational change. In response, the MHI Group invests in production process improvement aimed at rationalization and carries out focused investment in R&D related to manufacturing technology. The MHI Group also strives to enhance its basic manufacturing capabilities through programs to train and improve the skills of its employees.

Source of Funds and Liquidity

Cash flow analysis

Operating activities provided net cash of ¥161,823 million (US$1,615,169 thousand), ¥3,101 million more than in the previous year. This mainly reflected an increase in income before income taxes and minority interests.

Investing activities used net cash of ¥193,055 million (US$1,926,892 thousand), ¥34,401 million more than the previous year. This increase was mainly due to aggressive capital expenditures in growth fields, mainly gas turbines and commercial aircraft.

Financing activities provided net cash of ¥71,228 million (US$710,936 thousand), due to the procurement of new funds in accordance with future funding requirements.

Primary funding requirements

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

The MHI Group foresees growth in working capital requirements and investment funds in the coming years. The Group is proactively implementing investments such as those conducted as global nuclear strategic reactor and the Mitsubishi Regional Jet (MRJ), in addition to investment in gas turbines and components for the Boeing 787 commercial aircraft. Accordingly, the MHI Group is planning capital investment to reinforce and expand production facilities and to bolster overseas production bases. As such, the MHI Group expects increased requirements for working capital and investment funds in these growth areas.

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2008, was as follows:

(In millions of yen)

	Total	Due within one year	Due after one year
Short-term borrowings	233,801	233,801	0
Long-term loans	805,235	85,416	719,818
Bonds	326,357	40,300	286,057
Total	1,365,393	359,517	1,005,876

(In thousands of U.S. dollars)

	Total	Due within one year	Due after one year
Short-term borrowings	2,333,578	2,333,578	0
Long-term loans	8,037,080	852,545	7,184,535
Bonds	3,257,385	402,235	2,855,150
Total	13,628,045	3,588,359	10,039,685

The MHI Group is involved in numerous projects with comparatively long construction periods. The MHI Group also owns a number of manufacturing facilities that employ large-scale equipment and machinery. Consequently, the MHI Group must secure a stable level of working capital and funds for capital investments. Taking into account these factors and future interest rate projections, the MHI Group's funding procurements for the current year resulted in short-term borrowings and long-term debt of ¥359,517 million (US$3,588,359 thousand) due within one year, and of ¥1,005,876 million (US$10,039,685 thousand) due after one year.

Short-term borrowings and long-term debt are utilized as working capital and for capital investment. The MHI Group plans to use these funds mainly in key growth fields, including the Power Systems and Aerospace segments.

Financial policy

The MHI Group, in general, funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with short-term borrowings and long-term debt.

In appropriately determining the amounts and methods of procuring long-term funds through long-term loans, bonds, and other means, the MHI Group takes into account the funding requirements of its business plans in effect at that time, interest-rate trends and various other factors, as well as the amount of and repayment schedule for its existing debt.

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

The MHI Group flexibly considers the repurchase of treasury stock based on the financial position of the Group, the stock price, as well as recent earnings forecasts and other factors.

Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	2008	2007	2008
Current assets:			
Cash and deposits (Note 14)	¥ 274,885	¥ 244,233	$ 2,743,645
Trade receivables (Note 6):			
Notes	39,373	44,653	392,989
Accounts	1,047,206	1,122,049	10,452,209
Allowance for doubtful receivables	(5,677)	(7,935)	(56,663)
Securities (Note 3)	3,569	2,772	35,631
Inventories (Note 4)	1,164,853	1,048,586	11,626,449
Advances to suppliers	117,095	104,403	1,168,737
Deferred income taxes (Note 5)	114,548	87,742	1,143,312
Prepaid expenses and other current assets (Note 6)	181,029	140,811	1,806,860
Total current assets	2,936,886	2,787,315	29,313,172
Property, plant and equipment (Note 6)**:**			
Land	153,615	144,422	1,533,238
Buildings and structures	742,323	721,699	7,409,152
Machinery and equipment	1,509,077	1,444,521	15,062,160
Construction in progress	50,256	56,399	501,609
	2,455,272	2,367,042	24,506,161
Less accumulated depreciation	(1,579,618)	(1,542,297)	(15,766,228)
Net property, plant and equipment	875,653	824,744	8,739,933
Intangible assets	29,037	33,444	289,822
Investments and advances:			
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	177,421	163,180	1,770,847
Long-term loans and advances	24,905	23,672	248,581
Investment securities (Note 3)	432,367	512,262	4,315,479
Deferred income taxes (Note 5)	7,411	6,309	73,976
Allowance for doubtful accounts	(18,490)	(15,699)	(184,552)
Net investments and advances	623,615	689,725	6,224,330
Other assets	51,954	56,635	518,562
Total assets	¥ 4,517,148	¥ 4,391,864	$ 45,085,821

The accompanying notes to consolidated financial statements are an integral part of these statements.

LIABILITIES AND NET ASSETS	In millions of yen 2008	In millions of yen 2007	In thousands of U.S. dollars (Note 2) 2008
Current liabilities:			
Trade payables:			
Notes	¥ 13,453	¥ 16,302	$ 134,283
Accounts	720,046	730,288	7,186,814
Short-term borrowings (Note 6)	233,801	290,411	2,333,578
Current portion of long-term debt (Note 6)	125,716	116,545	1,254,780
Advance payments received on contracts	469,285	394,932	4,683,953
Accrued expenses	122,113	101,628	1,218,819
Accrued income taxes	36,862	25,733	367,930
Reserve for product warranties (Note 1)	23,660	21,224	236,157
Reserve for losses on construction contracts (Note 1)	6,893	9,535	68,799
Other current liabilities (Note 5)	74,060	100,808	739,201
Total current liabilities	1,825,894	1,807,411	18,224,319
Long-term liabilities:			
Long-term debt (Note 6)	1,005,876	866,614	10,039,685
Deferred income taxes (Note 5)	94,134	120,617	939,558
Reserve for retirement allowance (Note 7)	89,936	98,497	897,656
Reserve for treatment of PCB waste (Note 1)	4,300	4,169	42,925
Other long-term liabilities	56,577	48,116	564,698
Total long-term liabilities	1,250,824	1,138,016	12,484,524
Total liabilities	3,076,719	2,945,428	30,708,844
Net assets			
Stockholders' equity (Note 12)**:**			
Common stock, without par value:			
Authorized—6,000,000,000 shares			
Issued: 2008—3,373,647,813 shares	265,608		2,651,050
Issued: 2007—3,373,647,813 shares		265,608	
Capital surplus	203,893	203,879	2,035,070
Retained earnings	787,007	744,562	7,855,146
Treasury stock, at cost (Note 12):			
2008—17,573,785 shares	(5,045)		(50,359)
2007—17,863,970 shares		(5,063)	
Total stockholders' equity	1,251,464	1,208,987	12,490,907
Valuation, translation adjustments and others			
Net unrealized gains on investment securities	157,546	212,165	1,572,472
Deferred gains or losses on hedges	7,346	657	73,324
Foreign currency translation adjustments	3,847	6,211	38,398
Total valuation, translation adjustments and others	168,739	219,034	1,684,194
Share subscription rights (Note 13)	549	293	5,480
Minority interests	19,676	18,120	196,393
Total net assets	1,440,429	1,446,436	14,376,977
Total liabilities and net assets	¥4,517,148	¥4,391,864	$45,085,821

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008 and 2007

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2008	2007	2008
Net Sales	¥3,203,085	¥3,068,504	$31,970,113
Cost of sales	2,753,951	2,681,867	27,487,289
Gross Profit	449,134	386,636	4,482,823
Selling, general and administrative expenses	313,103	277,724	3,125,101
Operating income	136,030	108,912	1,357,722
Non-operating income (expense):			
Interest and dividend income	14,558	13,002	145,312
Equity in earnings of unconsolidated subsidiaries and affiliates	8,224	8,662	82,085
Other income	5,425	3,000	54,156
Interest expense	(20,288)	(17,810)	(202,502)
Foreign exchange losses	(10,784)	(12,992)	(107,636)
Loss on disposal of fixed assets	(7,344)	(6,507)	(73,306)
Other expenses	(16,317)	(13,218)	(162,865)
	(26,525)	(25,863)	(264,756)
Ordinary income	109,504	83,048	1,092,965
Extraordinary gain (loss):			
Gain on sales of fixed assets (Note 8)	18,467	9,763	184,328
Gain on transfer of business (Note 9)	3,664	–	36,575
Gain on sales of investment securities	–	8,901	–
Business improvement and restructuring charges (Note 10)	(30,261)	(10,742)	(302,037)
Loss on revaluation of investment securities (Note 11)	–	(5,227)	–
Prior service cost due to change in defined interest rate of employee retirement annuity (Note 7)	–	(2,032)	–
	(8,128)	662	(81,133)
Income before income taxes and minority interests	101,375	83,711	1,011,831
Income taxes (Note 5)**:**			
Current	58,889	33,087	587,779
Deferred	(20,612)	3,162	(205,738)
Minority interests in income after taxes	1,765	(1,378)	17,625
Net income	¥ 61,332	¥ 48,839	$ 612,164

	In yen		In U.S. dollars (Note 2)
	2008	2007	2008
Per share information of common stock (Note 1)**:**			
Net income—basic	¥ 18.28	¥ 14.56	$ 0.182
Net income—diluted	18.27	14.55	0.182
Cash dividends	6.00	6.00	0.059

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008 and 2007

	In millions of yen											
	Stockholders' equity					Valuation, translation adjustments and others						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2006	¥265,608	¥203,864	¥718,479	¥(5,154)	¥1,182,798	¥193,372	¥ –	¥ 117	¥193,490	¥ –	¥17,770	¥1,394,060
Cash dividends (Note 12)			(23,488)		(23,488)							(23,488)
Bonuses to directors and statutory auditors			(110)		(110)							(110)
Net income			48,839		48,839							48,839
Increase resulting from inclusion in the scope of consolidation and equity method			841		841							841
Purchase of treasury stock				(92)	(92)							(92)
Disposal of treasury stock		14		183	198							198
Net changes in items other than stockholders' equity					–	18,792	657	6,093	25,544	293	349	26,188
Subtotal	–	14	26,082	90	26,188	18,792	657	6,093	25,544	293	349	52,376
Balance as of March 31, 2007	¥265,608	¥203,879	¥744,562	¥(5,063)	¥1,208,987	¥212,165	¥ 657	¥6,211	¥219,034	¥293	¥18,120	¥1,446,436
Cash dividends (Note 12)			(20,135)		(20,135)							(20,135)
Net income			61,332		61,332							61,332
Increase resulting from inclusion in the scope of consolidation and equity method			1,247		1,247							1,247
Purchase of treasury stock				(118)	(118)							(118)
Disposal of treasury stock		14		136	151							151
Net changes in items other than stockholders' equity					–	(54,619)	6,688	(2,364)	(50,295)	255	1,555	(48,483)
Subtotal	–	14	42,444	18	42,477	(54,619)	6,688	(2,364)	(50,295)	255	1,555	(6,006)
Balance as of March 31, 2008	¥265,608	¥203,893	¥787,007	¥(5,045)	¥1,251,464	¥157,546	¥7,346	¥3,847	¥168,739	¥549	¥19,676	¥1,440,429

	In thousands of U.S. dollars (Note 2)											
	Stockholders' equity					Valuation, translation adjustments and others						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Share subscription rights	Minority interests	Total net assets
Balance as of April 1, 2007	$2,651,050	$2,034,926	$7,431,507	$(50,542)	$12,066,942	$2,117,634	$ 6,565	$ 61,993	$2,186,193	$2,931	$180,864	$14,436,932
Cash dividends (Note 12)			(200,975)		(200,975)							(200,975)
Net income			612,164		612,164							612,164
Increase resulting from inclusion in the scope of consolidation and equity method			12,449		12,449							12,449
Purchase of treasury stock				(1,181)	(1,181)							(1,181)
Disposal of treasury stock		143		1,364	1,507							1,507
Net changes in items other than stockholders' equity					–	(545,161)	66,758	(23,595)	(501,998)	2,549	15,529	(483,920)
Subtotal	–	143	423,638	182	423,964	(545,161)	66,758	(23,595)	(501,998)	2,549	15,529	(59,955)
Balance as of March 31, 2008	$2,651,050	$2,035,070	$7,855,146	$(50,359)	$12,490,907	$1,572,472	$73,324	$ 38,398	$1,684,194	$5,480	$196,393	$14,376,977

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 101,375	¥ 83,711	$ 1,011,831
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	128,260	106,608	1,280,170
Increase (decrease) in reserve for retirement allowance	(8,554)	(12,441)	(85,384)
Interest and dividend income	(14,558)	(13,002)	(145,312)
Interest expense	20,288	17,810	202,502
Equity in earnings of unconsolidated subsidiaries and affiliates	(8,224)	(8,662)	(82,085)
Gain on sales of investment securities	–	(8,901)	–
Loss on revaluation of investment securities	–	5,227	–
Gain on sales of fixed assets	(18,467)	(9,763)	(184,328)
Loss on disposal of fixed assets	7,344	6,507	73,306
Business improvement and restructuring charges	30,261	10,742	302,037
Gain on transfer of business (Note 9)	(3,664)	–	(36,575)
Prior service cost due to change in defined interest rate of employee retirement annuity	–	2,032	–
(Increase) decrease in receivables	80,076	(63,857)	799,241
(Increase) decrease in inventories and advances to suppliers	(140,789)	(110,540)	(1,405,220)
(Increase) decrease in other assets	(3,559)	(4,275)	(35,524)
Increase (decrease) in payables	(14,683)	69,459	(146,559)
Increase (decrease) in advance payments received on contracts	76,971	59,140	768,258
Increase (decrease) in other liabilities	(17,543)	41,260	(175,107)
Others	(504)	(1,274)	(5,039)
Subtotal	214,027	169,780	2,136,212
Interest and dividend received	16,240	20,525	162,097
Interest paid	(20,068)	(17,090)	(200,306)
Payments for income taxes	(48,375)	(14,494)	(482,833)
Net cash provided by operating activities	161,823	158,721	1,615,169
Cash flows from investing activities:			
Net (Increase) decrease in time deposits	2,903	1,690	28,980
Proceeds from sales and redemption of marketable securities	793	59	7,923
Purchases of property, plant, equipment and intangible assets	(194,660)	(174,396)	(1,942,908)
Proceeds from sales of property, plant, equipment and intangible assets	15,100	15,407	150,721
Purchases of investment securities	(28,366)	(15,295)	(283,125)
Proceeds from sales and redemption of investment securities	8,986	11,733	89,695
Disbursement of long-term loans	(1,956)	(2,496)	(19,531)
Collection of long-term loans	1,142	3,961	11,408
Others	3,000	682	29,943
Net cash used in investing activities	(193,055)	(158,653)	(1,926,892)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(56,816)	(19,201)	(567,089)
Proceeds from long-term debt	132,219	161,789	1,319,691
Repayment of long-term debt	(60,402)	(105,941)	(602,875)
Proceeds from issuance of bonds	130,000	35,819	1,297,534
Payment for redemption of bonds	(52,656)	(300)	(525,569)
Dividends paid to stockholders	(20,078)	(23,400)	(200,402)
Dividends paid to minority stockholders of subsidiaries	(712)	(529)	(7,115)
Others	(324)	494	(3,238)
Net cash provided by financing activities	71,228	48,730	710,936
Effect of exchange rate changes on cash and cash equivalents	(5,339)	2,032	(53,297)
Net increase (decrease) in cash and cash equivalents	34,657	50,830	345,914
Cash and cash equivalents at beginning of year	227,584	176,274	2,271,529
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	610	479	6,094
Cash and cash equivalents at end of year (Note 14)	¥ 262,852	¥ 227,584	$ 2,623,538

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. ("MHI"), together with its consolidated subsidiaries ("Subsidiaries") have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards and have been prepared from the consolidated financial statements filed with the Financial Services Agency ("FSA") in Japan. The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles of the respective countries of domicile. Certain items presented in the consolidated financial statements filed with the FSA have been reclassified.

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

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year's presentation.

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2008 and 2007 include the accounts of MHI and Subsidiaries. All significant inter-company transactions and accounts have been eliminated. Investments in unconsolidated subsidiaries and affiliates, with certain minor exceptions, are accounted for by the equity method.

c) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the exchange rate in effect at the end of respective fiscal year and the resulting translation gains or losses are included in net income.

All assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at the exchange rate in effect at the end of respective fiscal year, revenues and expenses at the average exchange rate during the year, and stockholders' equity at historical rates. The resulting foreign currency translation adjustments are accounted for as a separate component of "Valuation, translation adjustments and others."

d) Securities

Securities include held-to-maturity debt securities, investments in unconsolidated subsidiaries and affiliates, and other securities (available-for-sale securities).

Held-to-maturity debt securities are stated at amortized cost and adjusted for the amortization of premium or discounts. Investments in unconsolidated subsidiaries and affiliates excluding those accounted for by the equity method are stated at cost determined by the moving average method. Other securities with market value are stated at market value based on market prices or other fair values at the balance sheet date. Unrealized holding gains and losses of other securities with market value are accounted for as a separate component of "Valuation, translation adjustments and others," net of tax effect. The cost of other securities sold with market value is computed based on the moving average method. Other securities without market value are stated at cost determined by the moving average method.

As to the presentation of the balance sheet, MHI and Subsidiaries have classified securities due within one year as securities in current assets and the others as investment securities in "Investments and advances."

e) Inventories

Work in process is stated at cost determined by the specific identification method.

Finished products, raw materials and supplies are principally stated at cost determined by the moving average method, while some prospective products are stated at the lower of cost or market, the cost being determined by the moving average method.

Some of the standardized steel materials for building new ships are stated at cost determined by the specific identification method.

Inventories held by certain business units are stated at cost determined by the yearly average method.

f) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are carried at cost.

Depreciation has principally been computed by the straight-line method for buildings except for related equipment, and by the declining-balance method for the other assets based on the useful lives of assets, which are substantially the same as those provided for in the Corporation Income Tax Law.

When an asset is retired or otherwise disposed of, the cost and the related depreciation are relieved from the respective accounts and the net difference, less any amounts realized on disposal, is reflected in earnings.

g) Intangible assets

Amortization of intangible assets is computed by the straight-line method based on the useful lives of assets, which are substantially the same as those provided for in the Corporation Income Tax Law.

Goodwill have been amortized on a straight-line basis over certain periods which were estimated based on the investment recovery within 20 years.

h) Leases

Non-cancelable lease transactions of MHI and its domestic Subsidiaries are accounted for as operating leases (whether such leases are classified as operating leases or finance leases), except those lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, lease transactions of foreign Subsidiaries are accounted for as either finance leases or operating leases in conformity with generally accepted accounting principles in the respective countries of domicile.

i) Allowance for doubtful receivables

Allowance for doubtful receivables is provided at an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is determined based on (1) an estimated amount for probable doubtful accounts based on a review of the collectibility of individual receivables, and (2) a ratio based on MHI's and Subsidiaries' historical experience of write-offs of receivables other than those covered in Item (1) above.

j) Reserve for product warranties

Reserve for product warranties is provided for the purpose of reserving for the product warranty expenditure after products are delivered, which is estimated based on the historical experience.

k) Reserve for losses on construction contracts

Reserve for losses on construction contracts is provided based on an estimate of the total losses to be realized in the following years in respect of construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

If the costs of partially completed construction contracts (out of the construction contracts covered by the reserve for losses on construction contracts) at the end of the fiscal year exceed their respective total contract revenues, the excess of such costs is recognized as a loss on revaluation of partially completed construction contracts and, accordingly, is not included in the reserve for losses on construction contracts.

l) Reserve for retirement allowance

Reserve for retirement allowance is provided to prepare for employees' retirement based on estimates of the retirement benefit obligation and the pension fund assets including the retirement benefit trust at the end of the fiscal year.

Prior service costs are expensed as incurred by MHI and most of the Subsidiaries. Some Subsidiaries amortize them by the straight-line method over the years shorter than the employees' estimated average remaining service periods. Actuarial gains and losses for each year are amortized, starting in the following year of the incurrence, by the straight-line method over the years shorter than the employees' estimated average remaining service periods.

m) Reserve for treatment of PCB waste

Reserve for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment for PCB products and equipments as well as their collection and transportation fees.

n) Revenue recognition

Sales of products are principally recognized upon acceptance by the customers. Revenues from long-term contracts with both the contract amount of ¥5,000 million (US$49,905 thousand) or greater and the contract period of two years or longer are recognized on the basis of the percentage-of-completion method.

o) Hedge Accounting

Principally, the "deferral method" is applied where MHI and Subsidiaries defer recognition of gains or losses until the related losses or gains on the hedged items are recognized.

If a forward exchange contract for foreign currency receivable or payable meets conditions of hedged item in terms of amount, currency and period, the "assigning method" is applied where the hedged item is stated at the forward exchange contract rate. (Note: The "assigning method" is not applied in case of comprehensive forward exchange contracts.)

Also, if an interest rate swap contract meets conditions of hedged item in terms of amount, index and period, the "exceptional method" is applied where the net amount to be paid or received under the contract is added to or deducted from the interest.

MHI and Subsidiaries have evaluated the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

p) Tax-effect accounting

Deferred income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled.

q) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash, demand deposits and highly liquid investments with insignificant risk of changes in value which have maturities of three months or less when purchased, are treated as cash and cash equivalents.

r) Net income per share

The computation of basic net income per share is based on the average number of shares outstanding. Fully diluted earnings per share are determined on the assumption that the rights attaching to all the dilutive potential common stocks were exercised on the dates of each issue, appropriately adjusted for subsequent redemption.

s) Others

(Change in accounting policy)

In response to the amendment of the Corporation Income Tax Law, MHI and Subsidiaries located in Japan changed the depreciation method for tangible fixed assets to the method prescribed in the amended Corporation Income Tax Law; the new method is applied from the year ended March 31, 2008 to the tangible fixed assets acquired on or after April 1, 2007.

As the result of this change, operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥5,299 million ($52,892 thousand), respectively.

(Additional information)

In response to the amendment of the Corporation Income Tax Law, MHI and Subsidiaries located in Japan depreciate by the straight-line method over five years five percent residual value (less memorandum value) of the fixed assets acquired on or before March 31, 2007; this depreciation starts in the following year each tangible fixed asset is depreciated to five percent of the acquisition cost by the method prescribed in the Corporation Income Tax Law before the amendment. This treatment is applied from the year ended March 31, 2008 and the amounts are included in the depreciation costs.

As the result of this treatment, operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥6,640 million ($66,275 thousand), respectively.

2. U.S. DOLLAR AMOUNTS

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

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥100.19=US$1 prevailing at March 31, 2008 has been used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. SECURITIES

a) Other securities with market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2008 and 2007, consisted of the following:

	In millions of yen			In thousands of U.S. dollars		
	2008			2008		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥144,092	¥407,814	¥263,722	$1,438,189	$4,070,413	$2,632,223
Government bonds	498	499	–	4,976	4,982	6
Others	12	29	16	127	291	163
Subtotal	¥144,603	¥408,343	¥263,739	$1,443,293	$4,075,687	$2,632,393
ii) Acquisition costs over carrying amounts:						
Equity securities	¥ 5,841	¥ 4,321	¥ (1,519)	$ 58,299	$ 43,132	$ (15,167)
Others	321	321	–	3,209	3,209	–
Subtotal	6,162	4,642	(1,519)	61,509	46,341	(15,167)
Total (i+ii)	¥150,766	¥412,986	¥262,219	$1,504,803	$4,122,029	$2,617,225

	In millions of yen		
	2007		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥130,329	¥483,532	¥353,202
Government bonds	242	306	63
Others	111	130	18
Subtotal	¥130,683	¥483,968	¥353,285
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 1,623	¥ 1,116	¥ (507)
Others	1,891	1,870	(20)
Subtotal	3,514	2,986	(528)
Total (i+ii)	¥134,198	¥486,955	¥352,757

Note: MHI and Subsidiaries treated as impaired those securities whose market values showed a substantial decline and were not judged to recover. The amount reflecting the impairment loss is recorded as the acquisition cost for these securities.

Securities were judged as impaired when their market values had declined 50% or more from their book values at the end of respective fiscal years, or had declined between 30% and 50% from their book values both at the interim period and the end of respective fiscal years.

The amount of impairment losses for the years ended March 31, 2008 and 2007 amounted to ¥33 million (US$339 thousand) and ¥33 million with respect to other securities with market value.

b) Sales amounts of other securities and related gains and losses for the years ended March 31, 2008 and 2007 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Sales amounts	¥ 8,541	¥10,981	$ 85,252
Gain	2,051	8,885	20,480
Loss	¥(1,304)	¥ (2)	$(13,020)

c) Other securities without market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2008 and 2007, mainly consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	**2008**
Equity securities – unlisted	**¥14,295**	¥19,893	**$142,687**
Certificate of deposit	**¥ 3,500**	–	**$ 34,933**

Note: MHI and Subsidiaries treated as impaired those securities whose equity values were judged to have declined 50% or more from their book values due to financial difficulties of the issuers.
The amount of impairment loss for the year ended March 31, 2008 and 2007 amounted to ¥150 million (US$1,502 thousand) and ¥5,137 million, respectively, with respect to other securities without market value.

d) Securities subject to the change in the holding purpose are as follows:
In June 2007, MHI made Nippon Yusoki Corporation ("Nichiyu") an affiliated company accounted for by the equity method, and changed the holding purpose of the securities of Nichiyu from "other securities" to "investments in unconsolidated subsidiaries and affiliates."

As a result, the securities of Nichiyu, which were part of "other securities with market value" (item (a) above) in 2007, are no longer classified in it in 2008.

The amounts of the securities of Nichiyu included in 2007's "other securities with market value" were as follows:

	In millions of yen		
	2007		
	Acquisition cost	Carrying amount	Unrealized gain
Other securities with market value	¥175	¥2,170	¥1,994

e) The contractual maturities of other securities at March 31, 2008 and 2007 were as follows:

	In millions of yen		In millions of U.S. dollars	
	2008		**2008**	
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Certificate of deposit	**¥3,507**	**¥ –**	**$35,013**	**$ –**
Bonds:				
Government bonds	**9**	**499**	**96**	**4,982**
Others	**383**	**–**	**3,827**	**–**
Total	**¥3,901**	**¥499**	**$38,937**	**$4,982**

	In millions of yen		
	2007		
	Due within one year	Due after one year through five years	Due after five years
Certificate of deposit	¥1,909	¥ –	¥ –
Loan trusts	701	–	–
Bonds:			
Government bonds	306	508	–
Others	659	628	95
Total	¥3,576	¥1,137	¥95

4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Finished products	¥ 147,070	¥ 147,566	$ 1,467,914
Work in process	889,473	796,450	8,877,868
Raw materials	128,309	104,568	1,280,666
Total	¥1,164,853	¥1,048,586	$11,626,449

5. INCOME TAXES

MHI and Subsidiaries are subject to corporation income tax, inhabitants' tax and enterprise tax, based on income, which in the aggregate resulted in the statutory effective tax rate of approximately 40.5% for the years ended March 31, 2008 and 2007.

a) Significant components of deferred tax assets and liabilities at March 31, 2008 and 2007, which arose as a result of the recognition of the tax effect mentioned in section p) of Note 1 "Summary of Significant Accounting Policies," were as follows:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Reserve for retirement allowance	¥ 110,315	¥ 113,096	$ 1,101,063
Accrued expenses for product warranties	30,339	26,120	302,822
Accrued expenses for construction contracts	25,447	21,646	253,992
Others	108,431	78,018	1,082,254
Subtotal	274,533	238,882	2,740,133
Valuation allowance	(33,813)	(25,699)	(337,497)
Total gross deferred tax assets	240,720	213,182	2,402,635
Deferred tax liabilities:			
Net unrealized gains on investment securities	(106,823)	(143,072)	(1,066,210)
Gain on contribution of investment securities to trust for retirement allowance	(70,682)	(69,346)	(705,479)
Reserve for reduction in costs of fixed assets	(23,199)	(17,055)	(231,552)
Deferred (gains) losses on hedges	(5,564)	–	(55,543)
Reserve for accelerated depreciation	(2,566)	(4,074)	(25,616)
Others	(4,059)	(6,207)	(40,513)
Total gross deferred tax liabilities	(212,895)	(239,755)	(2,124,916)
Net deferred tax assets (liabilities)	¥ 27,824	¥ (26,572)	$ 277,718

Note: 1. "Others" in deferred tax liabilities at March 31, 2007 includes "Deferred (gains) losses on hedges" which amounts to ¥(1,149) million.
2. Net deferred tax assets (liabilities) at March 31, 2008 and 2007 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Deferred income taxes in current assets	¥114,548	¥ 87,742	$1,143,312
Deferred income taxes in investments and advances	7,411	6,309	73,975
Other current liabilities	(1)	(6)	(10)
Deferred income taxes in long-term liabilities	¥ (94,134)	¥(120,617)	$ (939,558)

b) Reconciliation of the statutory effective income tax rate and the income tax rate as a percentage of income before income taxes and minority interests at March 31, 2008 and 2007 are as follows:

	2008	2007
Japanese statutory effective income tax rate	**40.5%**	40.5%
Adjustments:		
Items excluded from expenses	**1.3**	1.9
Items excluded from gross income	**(1.9)**	(0.4)
Equity in earnings of unconsolidated subsidiaries and affiliates	**(3.3)**	(4.2)
Valuation allowance	**8.0**	9.5
Tax exemption for research & development expenditure	**(4.4)**	–
Others	**(2.4)**	(4.0)
Income tax rate as a percentage of income before income taxes and minority interests	**37.8%**	43.3%

Note: "Others" at March 31, 2007 includes "Tax exemption for research & development expenditure" which amounts to (5.4)%.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

a) Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Loans, principally from banks, with weighted-average interest rate of 1.6% at March 31, 2008 and 1.5% at March 31, 2007:			
Secured	**¥ 11,196**	¥ 4,760	**$ 111,751**
Unsecured	**222,604**	285,651	**2,221,827**
Total	**¥233,801**	¥290,411	**$2,333,578**

b) Long-term debt at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Loans, principally from banks and insurance companies, due 2008 to 2023 with weighted-average interest rate of 1.7% at March 31, 2008 and due 2007 to 2023 with weighted-average interest rate of 1.6% at March 31, 2007:			
Secured	¥ 21,792	¥ 23,072	$ 217,515
Unsecured	775,387	698,884	7,739,175
Export loans, principally from main contractors, due 2008 to 2018 with weighted-average interest rate of 2.6% at March 31, 2008 and due 2007 to 2018 with weighted-average interest rate of 2.6% at March 31, 2007:			
Unsecured	8,054	11,916	80,390
Unsecured bonds:			
2.525% bonds due 2008	–	50,000	–
2.15% bonds due 2008	40,000	40,000	399,241
0.63% bonds due 2010	20,000	20,000	199,620
1.03% bonds due 2013	30,000	30,000	299,431
0.365% bonds due 2010	20,000	20,000	199,620
0.70% bonds due 2013	50,000	50,000	499,051
1.45% bonds due 2011	10,000	10,000	99,810
2.04% bonds due 2016	20,000	20,000	199,620
1.47% bonds due 2012	50,000	–	499,051
1.69% bonds due 2014	20,000	–	199,620
2.03% bonds due 2017	60,000	–	598,862
Unsecured bonds issued by Subsidiaries:			
0.62% bonds, due 2008 to 2010 in 2008 and due 2007 to 2010 in 2007	650	950	6,487
8.39% bonds due 2007	–	2,382	–
6.45% bonds due 2011	5,707	5,955	56,966
Subtotal	1,131,592	983,160	11,294,466
Less current portion due within one year	(125,716)	(116,545)	(1,254,780)
Total	¥1,005,876	¥ 866,614	$10,039,685

c) A summary of assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Property, plant and equipment	¥23,765	¥16,358	$237,203
Trade receivables:			
Notes	3,194	4,891	31,888
Accounts	11,424	13,886	114,026
Short-term loans included in prepaid expenses and other current assets	–	1,747	–
Others	763	–	7,616
Total	¥39,147	¥36,883	$390,736

d) The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2009	¥ 125,716	$ 1,254,780
2010	123,355	1,231,212
2011	109,224	1,090,171
2012	125,535	1,252,975
2013	154,167	1,538,747
Thereafter	493,593	4,926,578
Total	¥1,131,592	$11,294,466

7. RETIREMENT BENEFITS

MHI and Subsidiaries have several non-contributory defined benefit pension plans and severance indemnity plans, and there are occasions where employees receive special lump-sum payments at retirement. Contributions to the plans are funded in accordance with the applicable laws and regulations. MHI has established a retirement benefit trust, as mentioned in section l) of Note 1 "Summary of Significant Accounting Policies."

Prior service costs are expensed as incurred by MHI and most of the Subsidiaries. Some Subsidiaries amortize them by the straight-line method over the years shorter than the employees' estimated average remaining service periods. Actuarial gains and losses for each year are amortized, starting in the following year of the incurrence, by the straight-line method over the years shorter than the employees' estimated average remaining service periods.

a) Benefit obligations and related information at March 31, 2008 and 2007 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	**2008**
Benefit obligations	**¥(712,123)**	¥(746,214)	**$(7,107,735)**
Fair value of plan assets	**530,621**	636,228	**5,296,148**
Unfunded benefit obligations	**(181,502)**	(109,986)	**(1,811,586)**
Unrecognized actuarial losses (gains)	**119,851**	37,108	**1,196,245**
Unrecognized prior service costs (benefits)	**(531)**	(612)	**(5,300)**
Net benefit liability recognized on the consolidated balance sheets	**(62,182)**	(73,490)	**(620,641)**
Prepaid pension expense	**27,754**	25,006	**277,014**
Reserve for retirement allowance	**¥ (89,936)**	¥ (98,497)	**$ (897,656)**

b) The components of net periodic retirement benefit expenses for the years ended March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥ 28,894**	¥ 28,810	**$ 288,393**
Interest cost	**14,835**	14,996	**148,076**
Expected return on plan assets	**(15,060)**	(15,277)	**(150,318)**
Amortization of actuarial losses (gains)	**9,857**	5,604	**98,392**
Amortization of prior service costs (credits)	**(267)***	1,995**	**(2,672)**
Net benefit expenses	**¥ 38,259**	¥ 36,129	**$ 381,871**

* Amortization of prior service costs (credits) for the year ended March 31, 2008 included the credits generated by the retirement benefit system revision in some Subsidiaries, which were credited as incurred in that year.

** Amortization of prior service costs (credits) for the year ended March 31, 2007 included the costs generated by the change in the defined interest rate of employee retirement annuity, which were expensed as incurred in that year.

c) The principal assumptions used in determining the information above at March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**3.5%**	3.5%
Amortization period for prior service costs	**Expensed as incurred or 10 to 11 years**	Expensed as incurred or 10 to 11 years
Amortization period for actuarial gains and losses	**11 to 18 years**	11 to 20 years

8. GAIN ON SALES OF FIXED ASSETS

Gain on sales of fixed assets for the year ended March 31, 2008 and 2007 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
	2008	**2008**
Land	**¥18,857**	**$188,221**
Others	**(390)**	**(3,892)**
Total	**¥18,467**	**$184,328**

	In millions of yen
	2007
Land	¥9,710
Others	53
Total	¥9,763

9. GAIN ON TRANSFER OF BUSINESS

Gain on transfer of business for the year ended March 31, 2008 consisted of the transfer of the pulp and paper machinery business and the turbo-molecular pump business.

10. BUSINESS IMPROVEMENT AND RESTRUCTURING CHARGES

Business improvement and restructuring charges, which arose from Aerospace business, Mass and Medium–Lot Manufactured Machinery business and Machinery and Steel Structures business for the year ended March 31, 2008 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
	2008	**2008**
Expenses related to the contract cancellation	**¥26,991**	**$269,404**
Others	**3,269**	**32,633**
Total	**¥30,261**	**$302,037**

Business improvement and restructuring charges, which arose from Mass and Medium–Lot Manufactured Machinery business, Machinery and Steel Structures business and Power Systems business for the year ended March 31, 2007 consisted of the following:

	In millions of yen
	2007
Loss on disposal of fixed assets	¥ 3,663
Loss on disposal of inventories	3,606
Others	3,472
Total	¥10,742

11. LOSS ON REVALUATION OF INVESTMENT SECURITIES

Loss on revaluation of investment securities for the year ended March 31, 2007 consisted of the following:

	In millions of yen
	2007
Devaluation of securities	¥5,170
Devaluation of golf club membership	57
Total	¥5,227

12. CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

a) Retained earnings

The Corporate Law of Japan, provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

b) Total numbers of the shares issued and treasury stock at March 31, 2008 and 2007 are as follows:

	Type of shares	At March 31, 2007	Increase by March 31, 2008	Decrease by March 31, 2008	At March 31, 2008
Total number of the shares issued	Common stock	3,373,647,813	–	–	3,373,647,813
Treasury stock	Common stock	17,863,970	186,334	476,519	17,573,785

(1) Reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	165,700
Number of shares that belongs to MHI and Subsidiaries as treasury stock, which has been held by certain affiliate. (That company was converted to affiliated company accounted for by the equity method in the year ended March 31, 2008)	20,634
Total	186,334

(2) Reason for decrease of treasury stock

Disposal resulting from the exercise of share purchase warrants, which were issued for the purpose of providing stock options	441,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	35,519
Total	476,519

c) Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of dollars
June 27, 2007 Ordinary General Meeting of Shareholders	Common stock	March 31, 2007	June 28, 2007	¥3	$0.0299	¥10,067	$100,484
October 31, 2007 Board of Directors	Common stock	September 30, 2007	December 5, 2007	3	0.0299	10,068	100,491
Total						¥20,135	$200,975

(2) Dividends of which record date is within this fiscal year but the effective date is within next fiscal year

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of dollars
June 26, 2008 Ordinary General Meeting of Shareholders . . .	Common stock	March 31, 2008	June 27, 2008	¥3	$0.0299	¥10,068	$100,493

13. SHARE-BASED COMPENSATION PLANS

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

The share-based compensation expenses, which amount to ¥257 million (US$2,571 thousand) in the year ended March 31, 2008 and ¥293 million in the year ended March 31, 2007, are included in selling, general and administrative expenses.

a) Conditions for issue of stock options

	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006	Stock options granted in 2007
Grantee (Number of individuals)	Directors (29)	Directors (27)	Directors & Executive officers (26)	Directors & Executive officers (25)	Directors & Executive officers (30)
Number of shares	535,000	500,000	502,000	663,000	400,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock
Date of grant	August 11, 2003	August 11, 2004	August 11, 2005	August 17, 2006	August 16, 2007
Exercise period (from)	June 27, 2005	June 26, 2006	June 29, 2007	August 18, 2006	August 17, 2007
(to)	June 26, 2009	June 25, 2010	June 28, 2011	June 28, 2036	August 16, 2037

b) Activities of stock options in the year ended March 31, 2007 and 2008

	Number of shares				
	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006	Stock options granted in 2007
Unexercised at March 31, 2006	287,000	500,000	502,000	–	
Granted	–	–	–	663,000	
Vested	–	–	–	663,000	
Exercised	241,000	387,000	–	–	
Expired	–	–	–	–	
Unexercised at March 31, 2007	46,000	113,000	502,000	663,000	–
Granted	–	–	–	–	400,000
Vested	–	–	–	–	400,000
Exercised	45,000	92,000	299,000	5,000	–
Expired	–	–	–	–	–
Unexercised at March 31, 2008	1,000	21,000	203,000	658,000	400,000

c) Price per share

	In yen				
	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006	Stock options granted in 2007
Weighted-average exercise price . . .	¥315	¥289	¥294	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2007.	563	634	–	–	–
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2008.	749	755	632	413	–
Fair value on the date of grant	–	–	–	443	644

	In U.S. dollars				
	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006	Stock options granted in 2007
Weighted-average exercise price . . .	$3.14	$2.88	$2.93	$0.00	$0.00
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2008.	7.47	7.53	6.30	4.12	–
Fair value on the date of grant	–	–	–	4.42	6.42

d) Estimate method of fair value of stock options

The fair value of stock options granted in 2006 and 2007 were estimated using the Black-Scholes option-pricing model with the following assumptions.

		Stock options granted in 2006	Stock options granted in 2007
Expected volatility	Note 1	33.142%	33.267%
Expected life (of option)	Note 2	15 years	15 years
Expected dividends	Note 3	¥4 per share	¥6 (US$0.059) per share
Risk-free interest rate	Note 4	2.073%	1.936%

Note: 1. Estimated based on the actual share prices of 15 years shown below.
Stock options granted in 2006: August 17, 1991–August 17, 2006
Stock options granted in 2007: August 16, 1992–August 16, 2007
2. Calculated on the assumption that the share subscription rights would be exercised at the middle point of the exercise period.
3. Actual cash dividends in the year shown below.
Stock options granted in 2006: the year ended March 31, 2006
Stock options granted in 2007: the year ended March 31, 2007
4. Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

e) Estimate method of number of vested share subscription rights

All of the share subscription rights were vested when granted.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	**2008**
Cash and deposits	**¥274,885**	¥244,233	**$2,743,645**
Time deposits with maturities over three months	**(15,533)**	(18,548)	**(155,040)**
Short-term investments with maturities within three months included in securities	**3,500**	1,900	**34,933**
Total	**¥262,852**	¥227,584	**$2,623,538**

15. LEASES

a) As lessee

i) The equivalent of acquisition cost (including interest portion), accumulated depreciation and balance at the balance sheet date consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Equivalent of acquisition cost:			
Tools and equipment	¥4,811	¥4,797	$48,022
Others	1,973	1,915	19,699
Total	¥6,785	¥6,712	$67,721
Equivalent of accumulated depreciation:			
Tools and equipment	¥2,048	¥2,501	$20,441
Others	1,014	1,094	10,128
Total	¥3,062	¥3,595	$30,569
Equivalent of balance at the balance sheet date:			
Tools and equipment	¥2,763	¥2,295	$27,580
Others	958	820	9,570
Total	¥3,722	¥3,116	$37,151

ii) The equivalent of undue lease payments (including interest portion) at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Within one year	¥1,182	¥1,064	$11,799
Thereafter	2,540	2,051	25,352
Total	¥3,722	¥3,116	$37,151

Note: There are no impairment losses allocated to leased assets at March 31, 2008 and 2007.

iii) Lease payments (the equivalent of depreciation expenses)

Lease payments relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Lease payments	¥1,413	¥1,517	$14,104
Impairment losses	–	–	–

iv) Method of computing the equivalent of depreciation expenses

The equivalent of depreciation expenses was computed by the straight-line method by treating the lease periods as the useful lives.

b) As lessor

i) Acquisition cost, accumulated depreciation and balance at the balance sheet date consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Acquisition cost:			
Machinery and equipment	¥51,097	¥58,332	$510,006
Others	9,372	8,940	93,545
Total	¥60,469	¥67,272	$603,551
Accumulated depreciation:			
Machinery and equipment	¥23,236	¥22,764	$231,921
Others	4,733	2,425	47,241
Total	¥27,969	¥25,189	$279,163
Balance at the balance sheet date:			
Machinery and equipment	¥27,861	¥35,567	$278,084
Others	4,639	6,515	46,303
Total	¥32,500	¥42,082	$324,388

ii) Undue lease income (including interest portion), at March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Within one year	¥11,538	¥13,006	$115,170
Thereafter	21,360	29,521	213,203
Total	¥32,899	¥42,528	$328,373

iii) Lease income and depreciation expenses

Lease income and depreciation expenses relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2008 and 2007 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2008	2007	2008
Lease income	¥13,471	¥14,437	$134,458
Depreciation expenses	10,849	10,420	108,290

16. DERIVATIVE FINANCIAL INSTRUMENTS

MHI and Subsidiaries utilize derivative financial instruments, which are comprised principally of forward foreign exchange contracts, foreign currency options, foreign currency swaps and interest rate swaps. They are utilized for the purpose of reducing the risk of losses resulting from fluctuations in foreign exchange rates and interest rates.

MHI and Subsidiaries believe that market risks are insignificant, because MHI and Subsidiaries utilize such derivative financial instruments solely in order to hedge against certain risks in accordance with internal control procedures. MHI and Subsidiaries also believe that the risk of nonperformance by counterparties is insignificant because of the high credit ratings of the counterparties.

Summarized below are the notional amounts and the fair values of the derivative positions, except the ones hedge accounting are applied to, outstanding at March 31, 2008 and 2007.

	In millions of yen			In thousands of U.S. dollars		
	2008			2008		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sell:						
US$	**¥68,355**	**¥60,032**	**¥8,323**	**$682,263**	**$599,190**	**$83,073**
Euro	**38,325**	**37,986**	**338**	**382,523**	**379,142**	**3,381**
Others	**4,919**	**4,559**	**359**	**49,098**	**45,509**	**3,588**
Buy:						
US$	**3,782**	**3,555**	**(226)**	**37,755**	**35,492**	**(2,263)**
Total			**¥8,794**			**$87,778**

	In millions of yen		
	2007		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US$	¥194,859	¥195,776	¥ (916)
Euro	33,359	35,131	(1,771)
Others	1,299	1,321	(21)
Foreign currency options			
Buy:			
US$	56,500	–	–
Option cost	1,727	1,631	(96)
Total			¥(2,806)

17. CONTINGENT LIABILITIES

Contingent liabilities for guarantees to loans of others made in the ordinary course of business amounted to ¥111,863 million (US$1,116,508 thousand) and ¥129,451 million at March 31, 2008 and 2007, respectively.

18. SUPPLEMENTARY INCOME INFORMATION

	In millions of yen		In thousands of U.S. dollars
	2008	2007	**2008**
Depreciation	**¥129,263**	¥106,719	**$1,290,178**
Research and development costs (including routine or periodic alterations to existing products)	**107,960**	106,358	**1,077,557**

19. SUBSEQUENT EVENT

Mitsubishi Aircraft Corporation, which is an MHI's subsidiary, conducted a third-party allocation of new shares on May 30, 2008.

As a result, its capital stock amount exceeds 10 percent of MHI's capital stock and thus it has become an MHI's "specific subsidiary" according to Japanese regulations.

(1) Company name: Mitsubishi Aircraft Corporation
(2) President: Nobuo Toda
(3) Main office: Nagoya, Aichi Prefecture
(4) Scope of activities: Development, manufacture, sale and servicing of aircrafts
(5) Capital stock: ¥35,000 million
(6) Capital reserve: ¥35,000 million
(7) Number and percentage of the voting rights MHI holds: 4,725 shares (68.2%)
(8) MHI's investment: ¥47,250 million

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Mitsubishi Heavy Industries, Ltd.(the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 19, Mitsubishi Aircraft Corporation, which is a subsidiary of the Company, has become a "specific subsidiary" of the Company as a result of a third-party allocation of new shares on May 30, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

June 26, 2008

Ernst & Young Shin Nihon

Corporate Data

As of March 31, 2008

Head Office
16-5, Konan 2-chome, Minato-ku,
Tokyo 108-8215, Japan
Phone: +81-3-6716-3111
Fax: +81-3-6716-5800

Established: January 11, 1950

Paid-in Capital: ¥265.6 billion

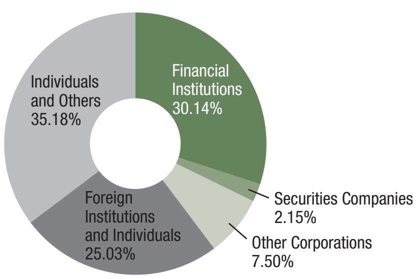
Total Number of Issuable Shares: 6,000,000,000

Total Number of Shares Issued: 3,373,647,813

Number of Shareholders: 360,820

Number of Employees: 64,103

Composition of Shareholders



Note: Government and Local Public Entities hold less than 0.01 percent of outstanding shares.

Stock Listings: Tokyo, Osaka, Nagoya, Fukuoka and Sapporo Stock Exchanges

Ticker Code: 7011

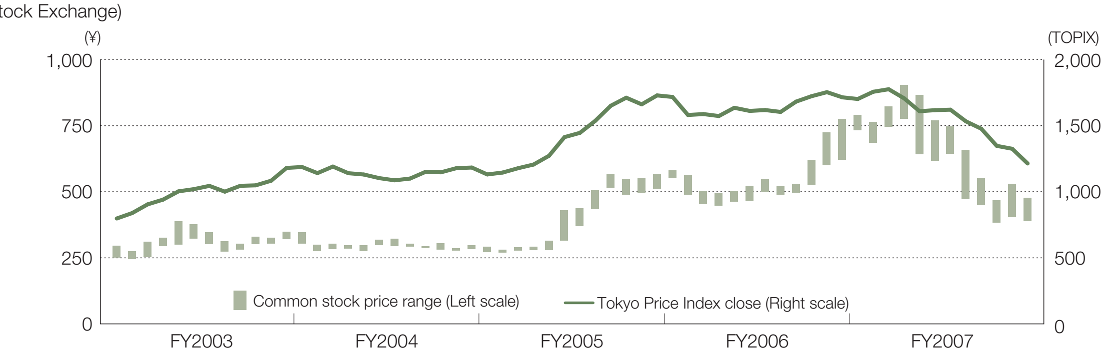
Manager of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

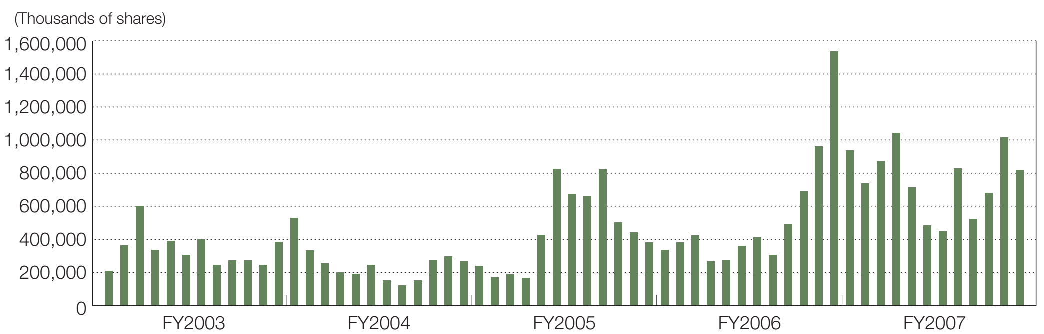
Independent Auditors:
Ernst & Young ShinNihon
Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo, Japan 100-0011

Major Shareholders	Number of shares owned by major shareholders	% of total shares
State Street Bank and Trust Company	181,960,398	5.4%
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	125,666,000	3.7
Japan Trustee Services Bank, Ltd. (Holder in Trust)	124,815,900	3.7
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	118,046,000	3.5
Meiji Yasuda Life Insurance Company	80,022,741	2.4
Tokio Marine & Nichido Fire Insurance Co., Ltd.	63,000,000	1.9
Japan Trustee Services Bank, Ltd. (Holder in Trust 4)	50,970,000	1.5
JP Morgan Chase Bank 380055	46,780,200	1.4
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for Mitsubishi UFJ Trust and Banking Corporation)	45,934,000	1.4
State Street Bank and Trust Company 505041	33,114,055	1.0

MONTHLY STOCK PRICE RANGE & TRADING VOLUME

(Tokyo Stock Exchange)





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