MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

Annual Report 2009

For the Year Ended March 31, 2009

MITSUBISHI HEAVY INDUSTRIES, LTD. Annual Report 2009

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.

Our Technologies, Your Tomorrow

This CI statement represents our intention to
“continuously provide an assured future
where people can live safe, secure and enriched lives
through technologies that can excite people
and passion as a manufacturer for the sustainability
of the earth and humankind.”

MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

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.

Consolidated 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*
	2009	2008	2007	2006	2005	2004	**2009**
Net sales	**¥3,375,674**	¥3,203,085	¥3,068,504	¥2,792,108	¥2,590,733	¥2,373,440	**$34,365,000**
Operating income	**105,859**	136,030	108,912	70,912	14,772	66,630	**1,077,664**
Interest expense—net of interest income and dividend income	**(6,031)**	(5,729)	(4,807)	(1,968)	(5,589)	(6,332)	**(61,396)**
Income before income taxes and minority interests	**64,923**	101,375	83,711	52,383	16,398	50,123	**660,928**
Net income	**24,217**	61,332	48,839	29,816	4,049	21,787	**246,533**
Per share information of common stock:							
(yen / U.S. dollars)							
Net income—basic	**¥ 7.22**	¥ 18.28	¥ 14.56	¥ 8.85	¥ 1.20	¥ 6.46	**$ 0.074**
Net income—diluted	**7.21**	18.27	14.55	8.83	1.20	6.46	**0.073**
Net assets	**369.94**	423.17	425.54	410.15	390.44	393.17	**3.766**
Cash dividends	**6.00**	6.00	6.00	4.00	4.00	6.00	**0.061**
Total assets	**¥4,526,213**	¥4,517,148	¥4,391,864	¥4,047,122	¥3,831,144	¥3,715,358	**$46,077,705**
Net assets**	**1,283,251**	1,440,429	1,446,436	1,376,289	1,309,977	1,324,497	**13,063,738**
Current assets	**3,165,059**	2,936,886	2,787,315	2,543,485	2,465,645	2,402,987	**32,220,899**
Current liabilities	**1,994,892**	1,825,894	1,807,411	1,626,662	1,567,987	1,519,466	**20,308,378**
Short-term borrowings and long-term borrowings	**1,612,859**	1,365,393	1,273,572	1,198,664	1,172,896	1,101,268	**16,419,210**
Cash flows:							
Cash flows from operating activities	**¥ 79,533**	¥ 161,823	¥ 158,721	¥ 73,928	¥ 107,065	¥ 134,240	**$ 809,660**
Cash flows from investing activities	**(156,593)**	(193,055)	(158,653)	(104,065)	(163,321)	(95,379)	**(1,594,146)**
Ratios:							
Return on equity***	**1.82%**	4.31%	3.48%	2.22%	0.31%	1.68%	
Equity ratio****	**27.43%**	31.44%	32.52%	34.01%	34.19%	35.65%	

Notes: * U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥98.23=US$1, the exchange rate prevailing at March 31, 2009.

** In calculating the net assets, MHI and its consolidated 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.

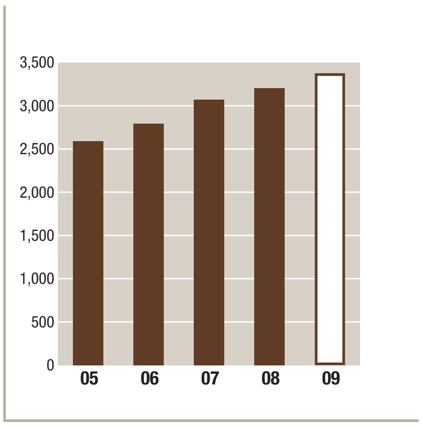
*** Return on equity = net income / (net assets – share subscription rights – minority interests) × 100

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

Consolidated Financial Performance

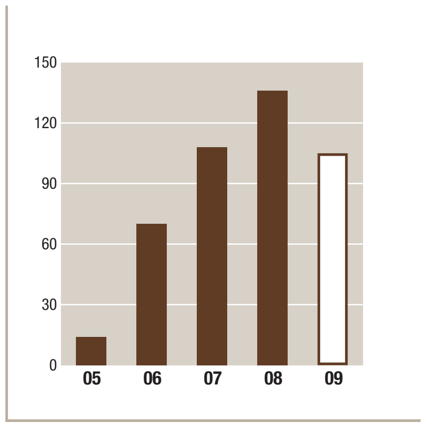
Net Sales

(In billions of yen)



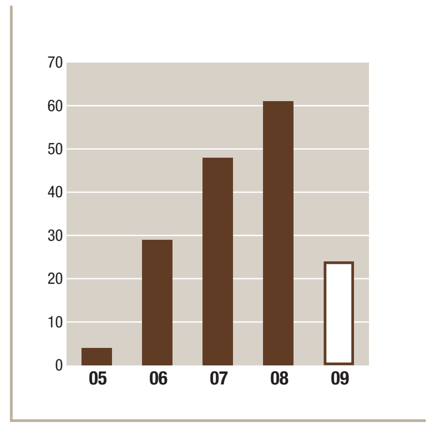
Operating Income

(In billions of yen)



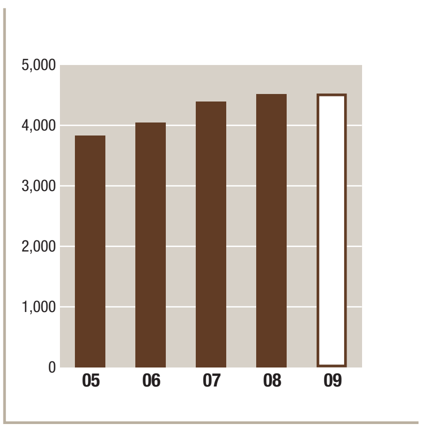
Net Income

(In billions of yen)



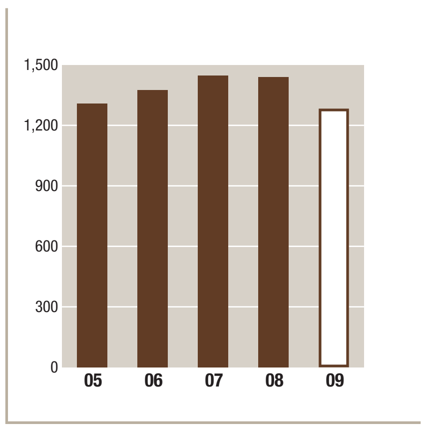
Total Assets

(In billions of yen)



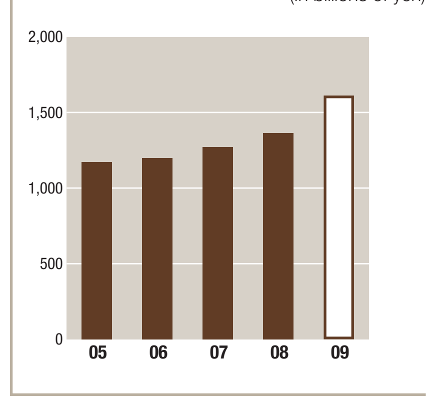
Net Assets

(In billions of yen)



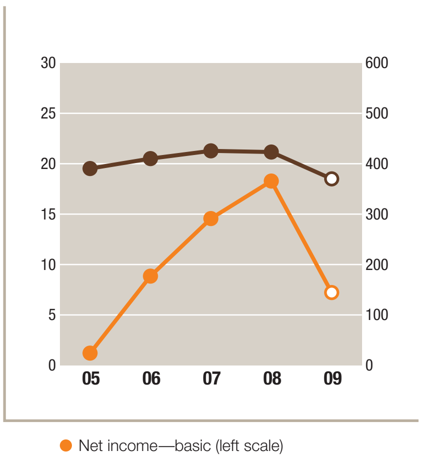
Short-term Borrowings and Long-term Borrowings

(In billions of yen)



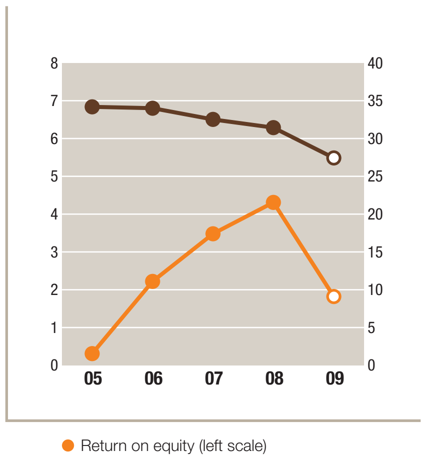
Per Share Information of Common Stock

(yen)



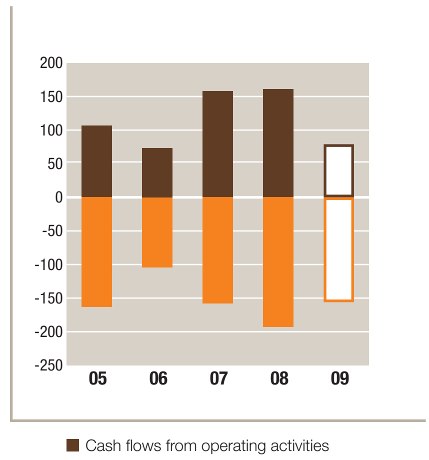
Ratios

(%)

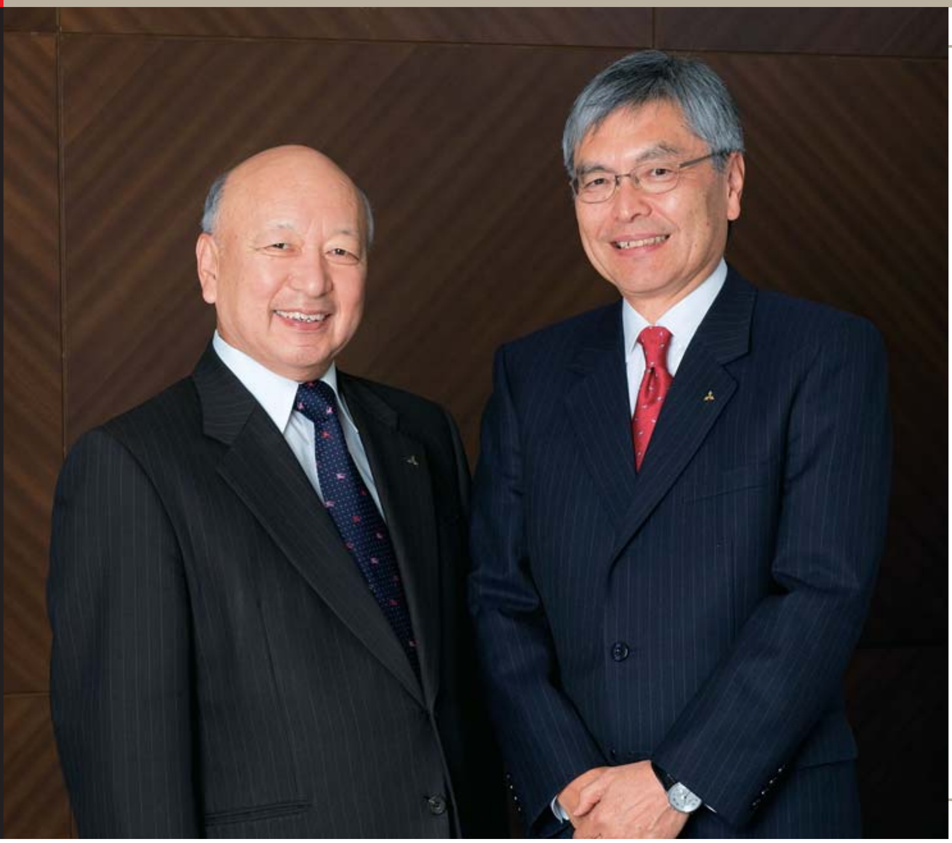


Cash Flows

(In billions of yen)



A Message from the Management



Left

Kazuo Tsukuda, Chairman

Right

Hideaki Omiya, President

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

In the fiscal year ended March 31, 2009, the global economy remained firm during the first half, but rapidly slumped from autumn 2008 as the financial crisis which began from the U.S. exerted a wide-ranging effect on the real economy.

In this operating environment, orders received by the MHI Group were favorable during the first half, particularly for the Power Systems segment which won orders for large-scale thermal power plants overseas. In the second half, however, while there were some results such as a contract for a large-scale chemical plant in the Machinery & Steel Structures segment, many business negotiations were postponed or suspended in all segments under the heavy influence of the global recession. As a result, the total value of consolidated orders in the fiscal year ended March 31, 2009 declined approximately 12% from the previous year to ¥3,268.7 billion (US$33,276 million), with declines in the Mass and Medium-Lot Manufactured Machinery and Aerospace segments.

Consolidated net sales, however, actually rose approximately 5% to ¥3,375.6 billion (US$34,365 million), despite declines in the Mass and Medium-Lot Manufactured Machinery and Shipbuilding & Ocean Development segments, on higher revenues from the Power Systems segment coupled with year-on-year increases in the Machinery & Steel Structures and Aerospace segments.

Operating income fell ¥30.1 billion to ¥105.8 billion (US$1,077 million), while ordinary income was down ¥34.1 billion to ¥75.3 billion (US$766 million). The MHI Group advanced various measures throughout the fiscal year under review under the 2008 Business Plan (Three-Year Medium-Term Business Plan which began from April 2008), and realized some success in such areas as improving productivity. Nevertheless, profits declined because of lower earnings in the Mass and Medium-Lot Manufactured Machinery segment and in other segments amid the global recession, combined with the foreign exchange effects from the appreciation of the yen year on year.

Net income decreased ¥37.1 billion to ¥24.2 billion (US$246 million). While posting extraordinary gain from gain on sales of fixed assets, gain on sales of investment securities and gain on contribution of securities to retirement benefit trust, the MHI Group posted extraordinary loss from effect of the application of the accounting standard for measurement of inventories, loss on legal claims and business structure improvement expenses.

Launch Company-wide Emergency Measures “Challenge 09”

The MHI Group has been actively advancing business development worldwide based on the 2008 Business Plan. Despite this, our business has been severely affected by the sudden deceleration of the global economy since autumn 2008. The MHI Group is vigorously advancing the following approaches to transcend this unprecedented crisis and realize continuous growth into the future.

First, with the growing global interest in energy and environmental issues, coupled with greater efforts by governments and businesses in each nation, we project large demand over the middle to long term for energy and environmental products, which constitute the core of the MHI Group’s businesses. We also have high expectations for an increase in demand of infrastructure development in BRICs, Southeast Asia and other emerging economies, and for high potential growth in those countries and areas. For these reasons, even amid the present harsh business conditions, the MHI Group continues to advance large-scale projects in each field, secure personnel, implement the necessary capital investment and research and development aimed at expanding our global businesses and achieving growth, with our energy and environment businesses and transportation systems businesses at the core.

Meanwhile, the contraction of the U.S. and European markets and downturn in automobile-related businesses are expected to continue for the time being, particularly for the Mass and Medium-Lot Manufactured Machinery business. In response to this severe business environment, the MHI Group is implementing Company-wide emergency measures “Challenge 09” aimed at improving profits to secure business performance.

By strengthening growth businesses based on middle- to long-term business strategies while carrying out short-term activities to improve profits in parallel, the MHI Group aims to overcome the present difficult situation and realize rapid business growth when economic conditions recover.

Shareholder Returns

The MHI Group is implementing diverse measures to deal with today’s harsh business climate and striving to secure business performance. We will continue to advance our business from the standpoint of customers and society, giving highest priority to enhancement of our internal control system, compliance and CSR (corporate social responsibility) in our management, and ceaseless efforts to contribute to the development of society.

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

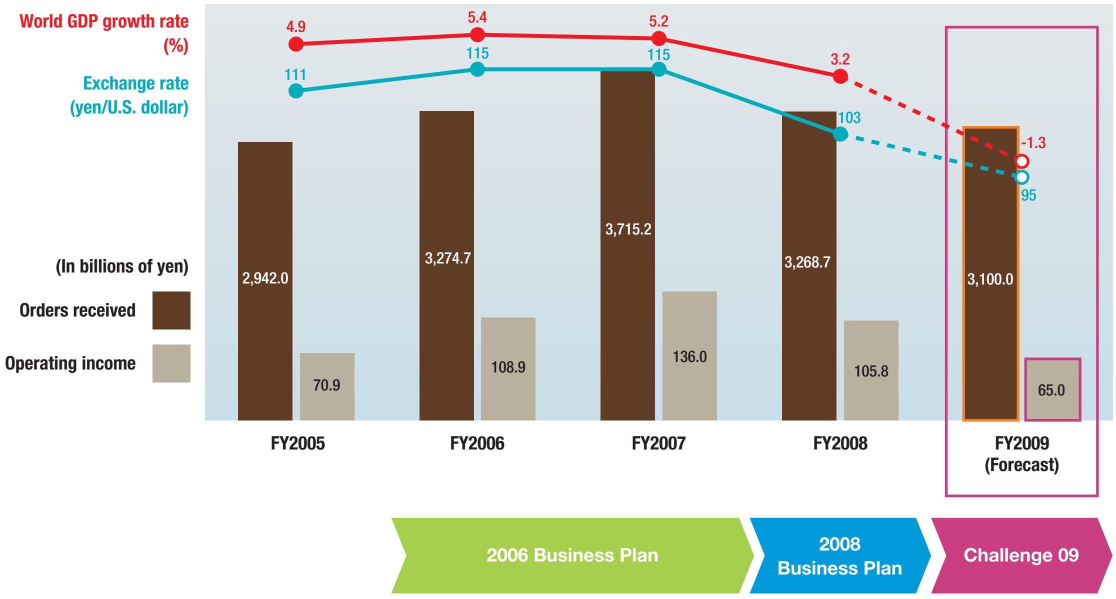
Special Feature:
Our Emergency Measures for Fiscal 2009

We are expecting the extremely severe business environment to continue in fiscal 2009. Taking this business environment into consideration, in our consolidated forecasts for fiscal 2009, we expect orders of ¥3,100 billion and operating income of ¥65 billion both down from the previous year.

In light of these projections, we have put on hold our original profit target of ¥160 billion for fiscal 2010 as stated in our 2008 Business Plan. We have also decided to launch "Challenge 09," our company-wide emergency plan aimed at securing profits in both the current fiscal 2009 and in fiscal 2010.

In fiscal 2009, although we face numerous factors that could weaken profits such as strong yen exchange rates, weaker sales, rising material costs, and increased research and development expenses, aiming to increase profits by following the measures of "Challenge 09," we plan to achieve operating income of ¥65 billion.

The business environment will remain severe in FY2009



Source: IMF (World Economic Outlook, April 2009)

Outline of FY2009 Company-wide Measures

Implementing two-track management combining emergency measures for securing profits in the short term and enhancement measures leading to future growth

Emergency measures	**Challenge 09:** Company-wide initiatives to overcome the current challenges Cost reduction activities / Sales securing activities / Actions to cope with a strong yen
Enhancement measures	Continuing enhancement of growth businesses even amid the difficult business environment Continuing enhancement of growth business resources (R&D expenditure, capital expenditure, investment and loans, and employees)

Fiscal 2009 Company-wide Measures

Given the severity of our business environment, we are implementing measures on a company-wide scale along two tracks that form important pillars of management policy for the entire MHI Group. One consists of emergency measures for securing profits in the short term. The other consists of enhancement measures leading to future growth.

"Challenge 09," our emergency measures, is a group of company-wide initiatives to overcome the current difficult challenges. We are pressing forward in earnest with these activities, which include cost reduction activities, sales securing activities, and actions to cope with a strong yen. The focus of these measures is to improve the current revenue situation.

On the other hand, we shall not neglect our business activities for future growth. Even in this difficult business environment, by enhancing rather than stopping these activities, we can continue to strengthen various resources for growth businesses.

"Challenge 09" Company-wide Emergency Measures

The three pillars of "Challenge 09" are cost reduction activities, sales securing activities, and actions to cope with a strong yen.

Cost reduction activities

Our activities aimed at reducing costs are "enhancement and acceleration of innovations in manufacturing," "across-the-board cost cutting," "measures for the Mass and Medium-Lot Manufactured Machinery segment," and "reduction in officers' remuneration."

Concerning "enhancement and acceleration of innovations in manufacturing," we are focusing on (a) the establishment of a solid foundation through innovations in three main areas, (b) the enhancement of engineering, procurement and construction (EPC) business practices and (c) the accelerated reform of the value chain business process through the deployment of engineers from Technical Headquarters.

We are working to establish a solid foundation through innovations in three main areas that form the pillars of business process reform outlined in the 2008 Business Plan.

(i) Through innovations related to standardization and sharing, we shall expand the number of repetitive production models company-wide by accelerating the sharing of drawings and parts to achieve cost reductions and quality stabilization. Currently we are pressing forward with the goal of reducing production lead times by 30%.

(ii) Through innovations related to product reliability, while pressing ahead with the reform of our manufacturing processes through the application of the latest simulation technology for complex manufacturing processes, allowing us to achieve higher accuracy in turbine blade clearance settings, for example, we are strengthening our quality control systems including those of our business partners.

(iii) Through innovations related to supply chains, while working to introduce greater visualization, through the use of IT, of flows of goods and information throughout the supply chain with the aim of constructing optimal supply chain structures, we are accelerating the realization of a united value engineering (VE) activity structure by forming company-wide business partner teams.

With respect to “enhancement of EPC business practices,” we have long-standing experience in the EPC business, and we shall press forward with further developing business IT tools and our best-practice business risk management (according to company and outside standards) such as through company-wide horizontal expansion of chemical plant business knowledge—upon which our business processes are established.

With a 1,400-strong research staff, Technical Headquarters up until now has been carrying out activities focused on cutting-edge technologies and product development. By expanding its activities to include direct participation in the manufacturing process and supply chain, we aim to accelerate company-wide business process reforms such as eliminating bottleneck processes and developing sales support systems and SCM systems.

Concerning “across-the-board cost cutting,” we are working to cut general expenses and reduce overtime hours by improving business efficiency.

Concerning “measures for the Mass and Medium-Lot Manufactured Machinery segment,” which had considerably deteriorated earnings, in addition to measures related to plant operation such as measures affecting roughly 1,000 employees including reallocation to the plants with ordered goods operations and measures to adjust operating hours on a production-line basis, we have also reviewed our capital expenditure plan of the 2008 Business Plan and reduced or carried over capital expenditure in line with production cuts.

Also, as a measure to cope with the strong yen, we have brought forward the implementation of our overseas production plans to establish plants for turbochargers and forklift trucks. In the U.S., however, we decided to temporarily halt production at an automotive thermal systems subsidiary in July 2009 due to the severe impact from production cuts. We are also examining a reorganization of the overseas marketing structure for printing machinery to make it more efficient.

Given the severity of the business conditions, we have reduced the remuneration of all officers as from April 2009.

Sales securing activities

Expanding the short-term contract service business will prove effective in securing sales for fiscal 2009. Moreover, we aim to relocate personnel of the Mass and Medium-Lot Manufactured Machinery segment to the service operations to enhance customer visit services, proposal-type services, and service business for reselling of pre-owned machinery such as printing machinery.

We shall also strengthen sales activities by establishing meetings of company-wide sales managers, sharing market and customer information, expanding joint sales activities and holding focused discussions of the latest market and customer trends at Executive Committee meetings.

Actions to cope with a strong yen

To construct a business framework that is not easily impacted by exchange-rate fluctuations, while maintaining attention to quality, we are working to establish the optimal global procurement network. We are also working to expand overseas production and increase the portion of business costs paid for in overseas currencies.

Measures to Strengthen Growth Businesses

Energy & Environment business

Given the rise in measures across the world to address the global environment, we aim to globally expand our Energy & Environment business as an important growth business.

Gas turbines

Utilizing our technology assets, we have fully developed and are ready to launch the J-series gas turbines featuring the world's largest power generation capacity and highest thermal efficiency. Compared with conventional coal-fired power generation, the J-series achieves approximately a 50% cut in CO_2 emissions. It can therefore considerably contribute to global warming prevention measures. Responding to the expanding global demand, we plan on constructing a system that can produce 50 units annually by fiscal 2012, but our final decision on investment timing will be based on market trends.

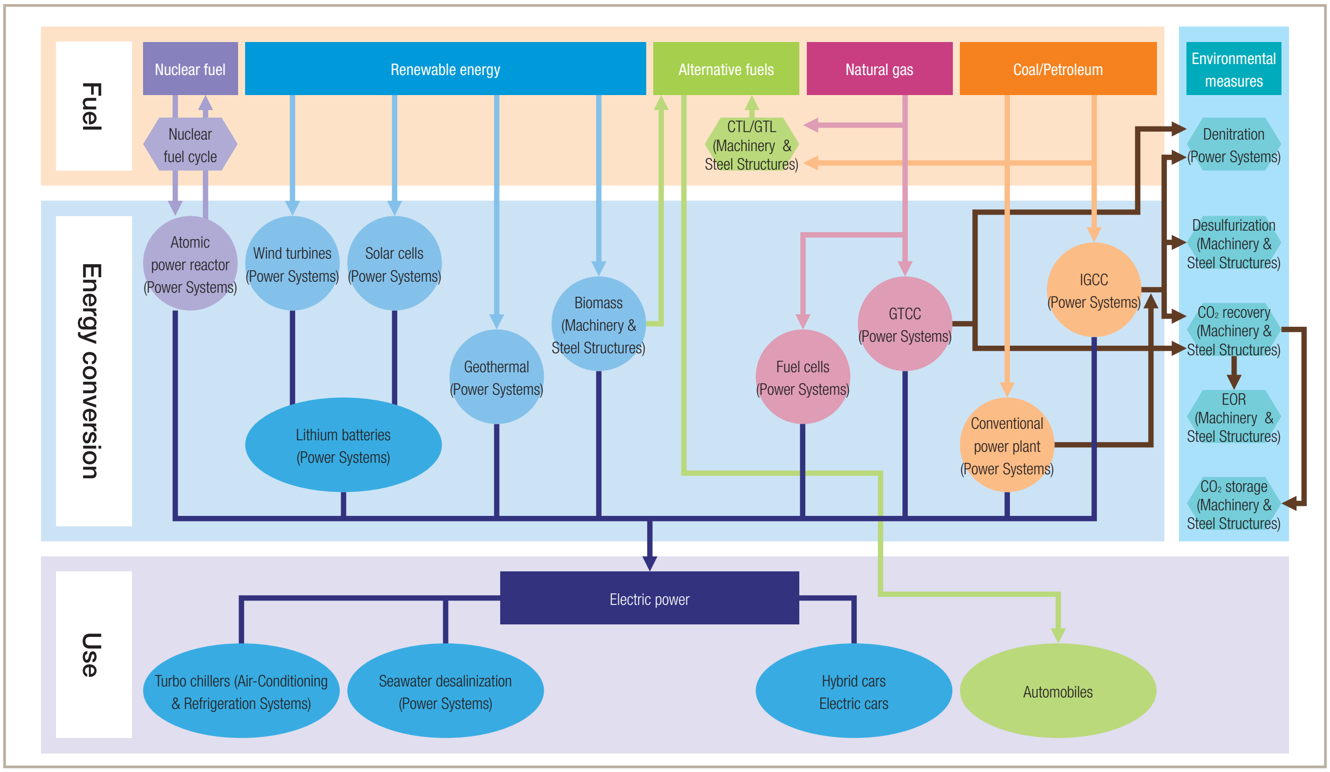
Jointly with leading global manufacturer, General Electric, we are developing steam turbines for gas turbine combined cycles. Combining the cutting-edge technologies of both companies, we aim to develop highly efficient and reliable turbines.

Integrated coal gasification combined cycle (IGCC)

We anticipate a growing demand for IGCC, which uses the coal, one of the most stable of resources. Moreover, many speculate that an extremely large market will develop for IGCC + carbon dioxide capture and storage (CCS) systems, which combine CO_2 capture technology, a technology in which our expertise is considered globally top class.

Renewable energy

In addition to our wind turbine business, which includes offshore wind turbines, we have ongoing initiatives to promote a broad range of products to suit various geographical characteristics such as solar cells, world-class geothermal generation and biomass power generation.



CTL: Coal to Liquid, GTL: Gas to Liquid, GTCC: Gas Turbine Combined Cycle, IGCC: Integrated coal Gasification Combined Cycle, EOR: Enhanced Oil Recovery

Nuclear energy

We are actively expanding global orders for the 1,700 MWe class large strategic reactors, US-APWR and EU-APWR, and for the 1,100 MWe class mid-sized strategic reactor, ATMEA1, the latter of which we are developing jointly with French company AREVA.

We also aim to expand the business scale of our fuel business, including overseas expansion and the establishment of Mitsubishi Nuclear Fuel Co., Ltd., which will be active in all aspects of the business, including design, development, manufacturing and sales.

APWR: Advanced Pressurized Water Reactor

Lithium-ion batteries

In preparation for growing demand in the future, we are promoting the development of future products.

Aerospace

We are making steady progress in advanced projects for the future.

Commercial aircraft business

Development is progressing rapidly for the Mitsubishi Regional Jet (MRJ), a revolutionary next-generation jet. The basic plan is now complete and we have mostly selected our primary equipment partners. Our aim is to make the first flight in 2011 and deliver the first aircraft in 2013. As for the Boeing 787 composite-material wing boxes, mass production will be in full-scale from fiscal 2009. Regarding commercial aircraft engines, we are currently developing a new type of engine for B787 and Airbus.

Space equipment business

In September 2009, the first launch of our H-IIB launch vehicle, which is an upgraded version of the H-IIA, is scheduled. It will be mounted with a demonstration model of the H-II transfer vehicle (HTV) currently under development, which will deliver supplies to the International Space Station.

Defense-related business

In addition to participating in the development of the successor to the F-4 fighter, we are also involved in the joint development of ballistic missile defense (BMD) by Japan and the U.S.

Transportation systems, Plant engineering

We are expanding our operations in these areas globally.

Fertilizer and methanol plants

We are strongly promoting fertilizer and methanol plants, focusing on securing orders from emerging economies. With our focus overseas, we are also steadily marketing CO_2 capture plants targeting not only chemical plants, but also enhanced oil recovery (EOR) and CCS which are growth areas.

Transportation systems

We are also strengthening our activities in large-scale projects that are being accelerated under economic stimulus measures.

Accelerated expansion of downstream businesses

Our downstream businesses, mostly related to services and operation, are modeled to facilitate expansion of business scale through the utilization of external resources. We shall continue to further expand these businesses.

Building a global network for power systems after sales services

Presently, we have bases in Asia and the U.S. and are now looking to strengthen our presence in Europe and the Middle East. We have acquired Maintenance Partners NV of Belgium and are progressing towards the establishment of a tri-polar global structure.

Expansion of alliances

Aiming to expand our sales of key components and acquire license fees, we are expanding a joint-venture business with Larsen & Toubro Limited of India for the manufacturing of boilers and steam turbines.

Chemical plants in the Middle East

Also, through investments in chemical plants in the Middle East, we are expanding our business and accumulating operational know-how.

Strengthening of business in transportation system operations

In the U.S., we are boosting our transportation system operations and have established the Operation & Maintenance business company.

Building an optimal business operation system

The Machinery & Steel Structures Headquarters is making a considerably shift towards growth business. Its current organization has many medium-sized products and we plan to build a new business structure to accelerate our creation of management processes suited to global development and our transformation to highly profitable business units.

Sustained investments into growth businesses and key technologies

We plan to allocate ¥120 billion in fiscal 2009 for R&D investment which we aim to use for large-scale development projects, development of key technologies that will lead to next-generation products and to accelerate the "open innovation" initiative, which involves collaboration with world-class experts.

Securing key personnel for future growth

We plan to continue our recruitment drive and hire approximately 1,500 new graduates in fiscal 2009. We also continue to actively hire career professionals. The hiring of personnel is integral to our management strategies for enterprise growth. While we are actively recruiting personnel to expand in the field of growth businesses, with the future firmly in mind, we plan to continue to hire key personnel in the Mass and Medium-Lot Manufactured Machinery business, which is currently facing a difficult business environment.

Development of Our Next Medium-Term Business Plan

In fiscal 2009, we shall formulate a new business plan that reflects the changes of the current business environment and plan to announce the new plan in April 2010. In our formulation of the new plan, we shall focus our sights on business restructuring to strengthen earning capacity in the new competitive environment, developing our global resources through expansion of M&As and overseas production, and establishing an optimal business operational structure that includes alliances and Group companies.

(In billions of yen)

Classification	Segment	Orders received		Net sales		Operating income (loss)	
		FY2008	FY2009 Forecast	FY2008	FY2009 Forecast	FY2008	FY2009 Forecast
Ordered Goods	Shipbuilding & Ocean Development	271.3	120.0	240.1	240.0	1.6	11.0
	Power Systems	1,148.8	1,380.0	1,209.1	1,130.0	80.0	62.0
	Machinery & Steel Structures	527.8	420.0	542.2	500.0	31.6	26.0
	Aerospace	510.8	550.0	512.3	490.0	(10.3)	(6.0)
	Subtotal	2,458.9	2,470.0	2,503.8	2,360.0	102.9	93.0
Mass and Medium-Lot Manufactured Machinery	General Machinery & Special Vehicles	439.3	320.0	432.7	320.0	(1.3)	(14.0)
	Air-Conditioning & Refrigeration Systems	186.2	140.0	187.5	140.0	(2.4)	(12.0)
	Industrial Machinery	141.3	120.0	185.0	130.0	(3.1)	(9.0)
	Mass and Medium-Lot Manufactured Machinery total	767.0	580.0	805.4	590.0	(7.0)	(35.0)
	Others	99.0	100.0	121.1	100.0	9.9	7.0
	Inter-group consolidation adjustments	(56.2)	(50.0)	(54.7)	(50.0)	–	–
	Total	3,268.7	3,100.0	3,375.6	3,000.0	105.8	65.0

Topics:
Energy & Environment Business

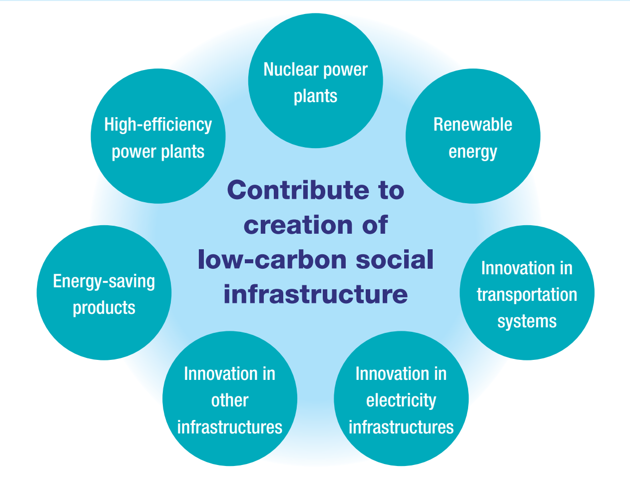
Green energy revolution is becoming the global mainstream

All nations and regions place social investment into energy and the environment at the core of their economic stimulus measures. The challenge of constructing an infrastructure for a low-carbon society is one shared globally.

We expect investment in low-carbon social infrastructures to increase in the coming years. According to the latest world green energy-related investment forecasts (IEA), such investment is expected to peak during 2030–50 at a scale of ¥50 trillion per year.

New business opportunities are expected

Now that the creation of this new market has started, MHI is identifying considerable business opportunities. MHI is uniquely equipped with technologies and products in a wide range of fields that can be applied equally to the stable supply of energy or to the reduction of environmental impacts. We can provide integrated solutions for achieving a low-carbon society.



MHI's Energy & Environment business strategy

By applying its comprehensive capabilities and strengths in integration, MHI has the following concrete business strategies to expand its business.

(1) Create next generation businesses by putting strengths of existing businesses to good use.

By utilizing GTCC, wind turbines, nuclear power plants, chemical plants and other existing businesses, we shall invest in next-generation businesses such as IGCC, CCS, photovoltaic and solar thermal power plants, offshore wind turbines, EV related businesses and eco-houses.

(2) Expand business opportunities through comprehensive proposals of energy/environment-related products (policies).

We are providing comprehensive proposals to contribute to a country's clean energy policies by utilizing our technologies and know-how.

(3) Accelerate global expansion (expand base networks and form alliances).

We expect our individual businesses to expand in line with the expansion of business opportunities. From the perspective of risk management, however, we aim to expand our businesses by forming alliances.

Applying comprehensive capabilities through integration of product operations

In April 2008, MHI established, under the direct control of the President, the Sustainability Energy & Environment Strategic Planning Department to strengthen the company-wide strategies of the energy & environment businesses.

Looking forward, MHI, guided by the activities of this department, shall strengthen its existing businesses and work to create new businesses by integrating technologies that have been developed in a broad range of fields, aiming to be a leading company in the energy and environmental fields.

By striving for business expansion based on the above business strategies, MHI is aiming to lift its total sales of energy and environment related products from the current ¥2 trillion to ¥3 trillion in 2012 and beyond.

Nuclear power plants

As they emit no CO_2 at the point of electricity generation, nuclear power plants are a very important technology for constructing a low-carbon society. MHI is developing the US/EU-APWR and the nuclear fuel cycle.

Renewable energy

In order to effectively utilize non-exhaustible clean energy, in addition to its main focus of wind turbines, MHI is developing photovoltaic and solar thermal power plants, geothermal power plants, and hydropower plants.

High-efficiency power plants

The improvement of efficiency in fossil fuel power plants is essential from the viewpoints of effective utilization of energy and CO_2 reduction. MHI is engaged in global cutting-edge technological development, which includes GTCC and IGCC.

Innovation in transportation systems

In order to reduce CO_2 emissions in transportation fields, it is essential that we increase efficiency and make the modal shift to electrification. MHI contributes to CO_2 reductions in transportation fields by developing technologies such as MRJ (Mitsubishi Regional Jet), Eco-ships and LRT.

Energy-saving products

In order to contribute to energy-saving on the energy demand side such as in homes or buildings, MHI is advancing technological development such as eco-friendly houses that utilize heat-pump hot water systems and lithium-ion batteries.

Innovation in electricity infrastructures

In order to depart from fossil fuels and promote energy saving, it is important that we become energy societies based on easy-to-use and highly-efficient electrical energy. MHI contributes to reforming the electricity infrastructure in areas such as lithium-ion batteries.

Innovation in other infrastructures

MHI is developing a wide range of infrastructural technologies other than power plants etc. such as seawater desalination plants, CTL (Coal to Liquid) plants and bio-fuel synthetic.

GTCC: Gas Turbine Combined Cycle
IGCC: Integrated coal Gasification Combined Cycle
CCS: Carbon dioxide Capture and Storage
EV: Electric Vehicle
APWR: Advanced Pressurized Water Reactor
LRT: Light Rail Transit

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 leading company in the global nuclear energy field.

Machinery & Steel Structures

MHI boasts an extensive range of environmental and chemical plants, transportation systems, bridges, cranes and material handling systems, iron and steel manufacturing machinery, compressors 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, including flue gas CO_2 recovery plants that act as countermeasures for global warming, and medical systems.

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 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 & 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 machinery.

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 & Special Vehicles
Air-conditioning & Refrigeration Systems
Industrial Machinery

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

General Machinery & Special Vehicles
Air-conditioning & Refrigeration Systems
Industrial Machinery
A breakdown for fiscal years up to 2005 is not disclosed.

LNG Carrier "SERI BALHAF"

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.

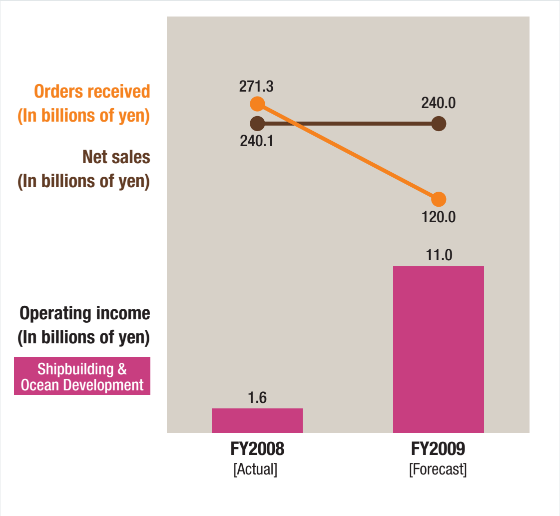
Shipbuilding & Ocean Development

FY2009 forecast:

Orders received: *120.0 billion yen*

Net sales: *240.0 billion yen*

Operating income: *11.0 billion yen*



Fiscal 2008 Review

Amid the sudden contraction in the global demand for new shipbuilding, the MHI Group focused its sales activities on our strongest types of ships. We received orders for a total of 18 ships including 8 pure car and track carriers, 3 oil tankers, 2 container ships as well as 1 escort ship and 1 submarine for the Japan Ministry of Defense. As a result, the total value of consolidated orders totaled ¥271.3 billion (US$2,762 million), falling from the previous year when the maritime transport market conditions were favorable. Outstanding orders at the end of the fiscal year were for 66 ships, for a total of approximately 3.85 million gross tons.

Consolidated net sales totaled ¥240.1 billion (US$2,445 million), with deliveries of a total of 23 ships including 10 pure car and track carriers and 5 LNG carriers. Operating income was ¥1.6 billion (US$16 million). Despite the progress of efforts to improve profitability, operating income declined because of the appreciation of the yen coupled with higher steel and other materials prices.

Future Initiatives

In this segment, we shall promote the “two-track management” of emergency measures to secure profits in the short term, and measures for strengthening operations toward future negotiations. We shall weather the crisis through company-wide determination in the face of challenging times.

As part of the emergency measures, our primary challenge is to secure our sales targets for 2012 and beyond. We are also concentrating our efforts on cost reduction measures based on two pillars: changing the shipbuilding process and strengthening and accelerating manufacturing innovation promotion activities.

Concrete activities

(1) Cost reduction activities

- Accelerate productivity enhancement through production process reforms
- Accelerate manufacturing innovation activities
- Review of resources

(2) Sales securing activities

- Shift focus to specified projects (including special ships) and ocean development business
- Strengthen response capability to orders and development, and strengthen cost competitiveness

(3) Actions to cope with a strong yen

- Renegotiation reflecting most recent business period’s exchange rates and steel prices

Pure Car and Truck Carrier “TOREADOR”

Passenger/Ro-Ro Cargo Ship “FERRY AKEBONO”

Kaliakra Wind Power Generation Farm

Products

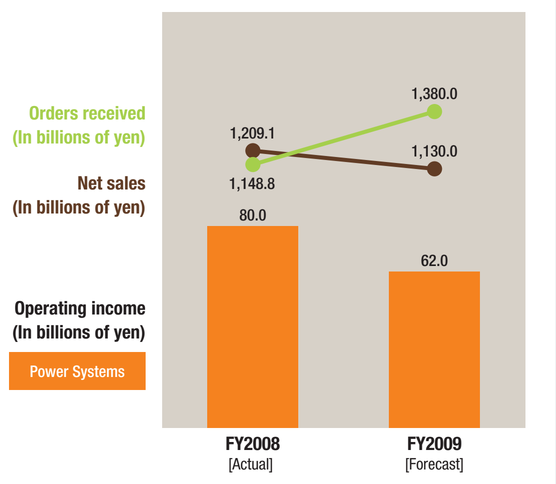
Power Systems
Manufacturing, installation, sale and repair of boilers, steam turbines, gas turbines, diesel engines, water turbines, wind turbines, SCR (DeNOx) systems, marine machinery, and desalination plants, etc.

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

Power Systems

FY2009 forecast:

Orders received: *1,380.0 billion yen*
Net sales: *1,130.0 billion yen*
Operating income: *62.0 billion yen*



Fiscal 2008 Review

Within Japan, improvement, reform and maintenance services for existing plants were firm, and orders were also received for large-scale thermal power plants. Overseas, the MHI Group worked to win more orders, especially in Southeast Asia and the Middle East. Contracts were concluded for gas turbine combined cycle thermal power plants in Indonesia, Qatar and other countries and an order was received for nuclear power turbines in China. Nevertheless, with the cancellation of a wind turbine contract and a series of project postponements and suspensions in the second half, the total value of consolidated orders declined to ¥1,148.8 billion (US$11,695 million).

Consolidated net sales rose to ¥1,209.1 billion (US$12,309 million) with the construction of new power plants and growth in improvement, reform and maintenance services of existing plants. Operating income increased to ¥80.0 billion (US$814 million), with greater profits from the higher net sales.

Future Initiatives

Although we are experiencing a short-term drop in the overall market in this segment, early recovery is expected in the energy/environment sector, which is where the MHI Group will focus in the future. We are preparing for a recovery in demand, which is expected to occur in the near future, and are continuing to allocate resources. Moreover, as a leading company in the global nuclear energy field we shall continue to allocate resources to improve the availability factor of nuclear power plants and contribute to reducing CO_2 emissions.

Concrete activities

(1) Cost reduction activities

- Strengthening of procurement capability (SCM optimization, etc.)
- Low-price procurement (through simplified specifications, sharing, adoption of standard products)
- Planned procurement of large/special materials
- Tight budget controls for existing contracts
- Shortening work periods by improving the accuracy of project planning and management (after-sales services and construction)
- Elimination of nonconformance by thorough advance verification

(2) Sales securing activities

- Shift to after-sales services by assigning key resources
- Provision of fine-tuned services corresponding to the requirements of each plant

(3) Actions to cope with a strong yen

- Accelerate global sourcing/production

Replacement Reactor Vessel Head for Nuclear Power Plant

Gas Turbine Power Combined Cycle Plant (Chubu Electric Power Company)

Replacement Core Internal for Nuclear Power Plant

Methanol Plant (Saudi Arabia)

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.

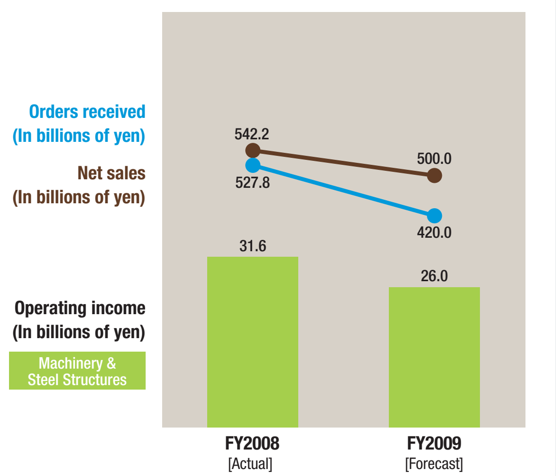
Machinery & Steel Structures

FY2009 forecast:

Orders received: *420.0 billion yen*

Net sales: *500.0 billion yen*

Operating income: *26.0 billion yen*



Fiscal 2008 Review

Overseas, while orders for transportation systems declined with the cancellation of major planned projects, energetic marketing efforts won orders for large-scale fertilizer plants and iron and steel manufacturing machinery. Within Japan, material handling machines and other orders declined as business negotiations were postponed amid the accelerating review of corporate capital investment plans. As a result, the total value of consolidated orders declined to ¥527.8 billion (US$5,373 million).

Consolidated net sales rose to ¥542.2 billion (US$5,519 million) with higher sales of iron and steel manufacturing machinery and compressors. Operating income increased to ¥31.6 billion (US$321 million) with greater profits from the higher net sales and the progress of measures to improve profitability.

Future Initiatives

Although the market environment surrounding this segment continues to be severe and further growth efforts are required, there is the expectation of additional orders for chemical plants and iron and steel manufacturing machinery in the second half of fiscal 2009. Moreover, early recovery is expected in the energy/environment sector, which is where the MHI Group will focus in the future and we are continuing to inject resources in preparation for a recovery in demand.

Concrete Activities

(1) Cost reduction activities

- Complete management of construction work at hand
- Standardization/sharing innovations
- Overall strengthening of quality control system
- Supply chain innovations (joint purchasing, strengthening ties with overseas partners)

(2) Sales securing activities

- Additional sales (after-sales services, small-scale construction, etc.)
- Focus on areas with demand (infrastructure investments in line with fiscal policy, investments in industrial infrastructure of emerging markets, food security (population increase, economic development))
- Strengthening of competitiveness (costs, sales, services)

(3) Actions to cope with a strong yen

- Measures to hedge exchange rate risk through a distribution of contracts in different currency denominations

Crystal Mover for Atlanta International Airport

Onboard Equipment for ETC System “MOBE-500 series”

Boeing 787 Transport Aircraft (international collaboration)

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, launch services via launch vehicles and Mitsubishi Regional Jet

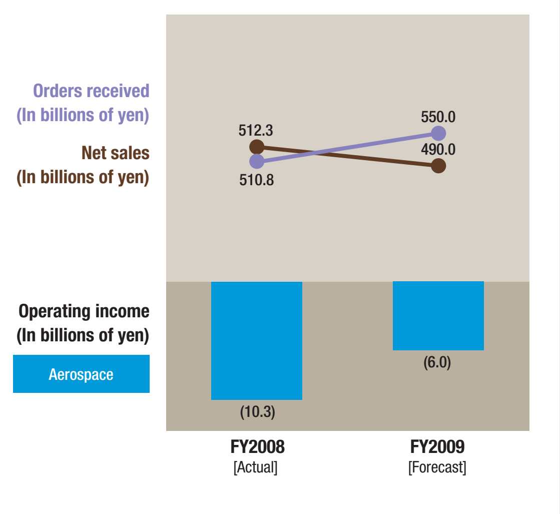
Aerospace

FY2009 forecast:

Orders received: *550.0 billion yen*

Net sales: *490.0 billion yen*

Operating income: *–6.0 billion yen*



Fiscal 2008 Review

In commercial aircraft, orders were less than the previous year because of the decline of orders for aft fuselage and other components for the Boeing 777 due to a strike at Boeing (U.S.A.). Orders for defense-related products also fell because the government completed procurement of the F-2 fighter in the previous year, while orders for guided missiles and for modifying the F-15 fighter remained firm. In space systems, orders also declined despite some successes including the first overseas order for launch services by the H-IIA rocket from South Korea agency. As a result, the total value of consolidated orders declined to ¥510.8 billion (US$5,200 million).

Consolidated net sales totaled ¥512.3 billion (US$5,215 million), surpassing the previous year, with increased sales of defense-related products notwithstanding the decrease of sales of commercial aircraft. Operating income totaled loss of ¥10.3 billion (US$105 million), mostly due to the appreciation of the yen.

Future Initiatives

In this segment, although demand for commercial aircraft slowed temporarily as airlines faced worsening business conditions, we will carry out mid/long term strategic investments because long-range expansion of the market is expected.

Also business structure will be strengthened through manufacturing improvements and production system innovation activities.

Concrete activities

(1) Cost reduction activities

- Promotion and acceleration of innovation in manufacturing
- Productivity improvements through reform of production processes
- Standardization, commoditization
- Supply chain reform

(2) Sales securing activities

- Strengthening of sales and service capabilities
- Boosting of after-sales service business and associated businesses

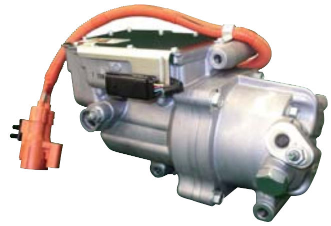
(3) Actions to cope with a strong yen

- Accelerate global sourcing/production

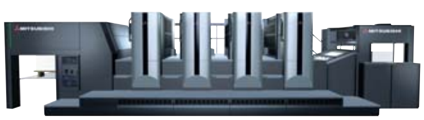
Mitsubishi Regional Jet (MRJ)

H-IIA Launch Vehicle Flight No. 15

Mitsubishi Forklift Trucks (Internal combustion model)



Inverter Integrated Electric Scroll Compressor "EV30AN"



Sheet-fed Offset Press "DIAMOND V3000"

Internally Toothed Ring Gear Grinding Machine "ZI20A"

Products

GM&SV
Manufacturing, installation, sale and services of forklift trucks, construction machinery, earth-moving 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 machinery, and box making machines

Machine Tool
Various machine tools, precision cutting tools, engine valves, power transmissions, etc.

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

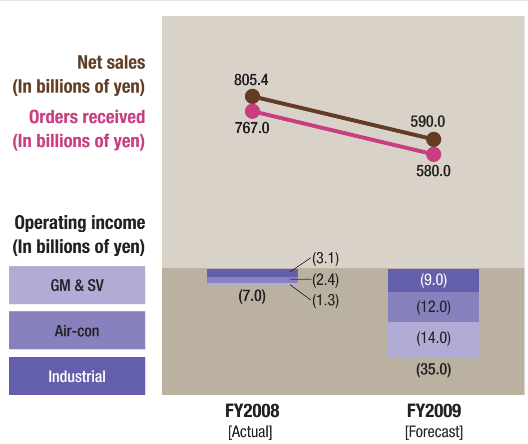
Mass and Medium-Lot Manufactured Machinery

FY2009 forecast:

Orders received: *580.0 billion yen*

Net sales: *590.0 billion yen*

Operating income: *–35.0 billion yen*



GM & SV : General Machinery & Special Vehicles
Air-con : Air-conditioning & Refrigeration Systems
Industrial : Industrial Machinery

Fiscal 2008 Review

In the General Machinery and Special Vehicles business, domestic orders for special vehicles remained firm. In contrast, after strong performance in the previous year, forklift orders slumped as customers refrained from purchases, despite efforts to reinforce our sales network and enrich our product lineup. Orders for turbochargers also declined under large-scale production adjustments by automobile manufacturers. As a result, the total value of consolidated orders and net sales in the General Machinery and Special Vehicles business fell to ¥439.3 billion (US$4,473 million) and ¥432.7 billion (US$4,405 million), respectively, with an operating loss of ¥1.3 billion (US$14 million).

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

In the Air-conditioning and Refrigeration Systems business, domestic and foreign orders both declined despite efforts to reinforce our sales networks. Orders for automotive thermal systems slumped, while orders for residential and commercial use air-conditioners also declined, especially in Europe where demand had remained strong in recent years. The total value of consolidated orders and net sales in the Air-conditioning and Refrigeration Systems business decreased to ¥186.2 billion (US$1,895 million) and ¥187.5 billion (US$1,909 million), with an operating loss of ¥2.4 billion (US$24 million).

In the Industrial Machinery business, orders slumped amid the marked downturn in capital investment, as orders for sheet-fed offset presses declined where many business negotiations were postponed or suspended because of the rapid appreciation of the yen. Machine tool orders fell with the abrupt drop in demand, particularly in automobile-related industries. Consequently, the total value of consolidated orders and net sales in the industrial machinery business declined to ¥141.3 billion (US$1,439 million) and ¥185.0 billion (US$1,883 million), respectively, with an operating loss of ¥3.1 billion (US$32 million).

Future Initiatives

General Machinery and Special Vehicles

As the current downturn in the market is expected to continue for the time being, we intend to comprehensively cut costs to boost profits and implement product strategies with an emphasis on profitability to lay solid business foundations that will pave the way for growth strategies in the future.

Concrete Activities

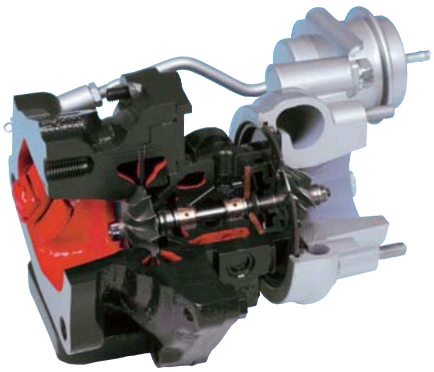
(1) Cost reduction activities
- Standardization/commoditization reform
- Product reliability reform
- Supply chain reform

(2) Sales securing activities
- Expand service projects
- Focus on needs in emerging countries and target the energy/environmental sectors

(3) Actions to cope with a strong yen
- Expand production in emerging countries (Thailand, China, India)
- Actively step up overseas procurement

Air-Conditioning and Refrigeration Systems

Under the current business conditions, the situation has become difficult because of the slowdown in residential and commercial use air-conditioners and a massive slowdown by Japanese and U.S. automakers who are the main customer for our automotive thermal systems. Operating under these conditions we are quickly responding to market trends such as adjusting operations of domestic production lines and temporarily suspending production at a U.S. automotive thermal systems subsidiary.



Twin Scroll Turbochargers

Refrigeration Unit for Trailer “TFV2000D” PEGASUS

Concrete Activities

(1) Cost reduction activities

- Operation adjustments (temporary production halt at U.S. branch (MCC), adjustment of production lines at domestic plants)
- Innovation in manufacturing (improved activities at MACO (Thailand))

(2) Sales securing activities

- Solutions business (comprehensive system proposals of air-conditioning equipment for offices and plants, operation of its own business)
- Service business (focus on expanding the service business, strengthening the stock business)
- Transport refrigeration units (by mounting scroll compressors, capture demand of products for new trucks complied with the new emission control)
- Residential use air-conditioners (measures to respond to Eco Point)
- Expand sales of centrifugal chiller by launching new models

(3) Actions to cope with a strong yen

- Aim to transfer production to overseas for air-conditioning parts to put more costs in dollar denominations

Industrial Machinery

Under the current business conditions, the situation has become difficult as a result of the global demand for paper and printing machinery coming to a standstill in the economic slowdown and a slowdown in demand for automobile-related machine tools due to the current automaker doldrums. On the other hand, signs of recovery are starting to appear in the markets of the emerging countries such as China and we are striving to sustain sales by accelerating sales expansion.

Concrete Activities

(1) Cost reduction activities

- Step up and accelerate innovative activities in manufacturing
- Relocate staff within the division as well as in the other divisions of MHI
- Radically reduce selling expenses, advertising expenses etc.
- Review equipment investment plan

(2) Sales securing activities

- Increase the certainty of order receipts through speedier responses in negotiations and higher levels of judgment
- Expand sales by launching new models
- Expand after-service business
- Focus on increasing exports to potential markets
- Provide machining technology support for customers in order to generate demand

(3) Actions to cope with a strong yen

- Increase local presence (expanding global procurement through standardization, transferring more roles to overseas subsidiaries)

Box Making Machine “EVOL Flexo Folder Gluer”

Horizontal Boring Mill “MAF150R”

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.

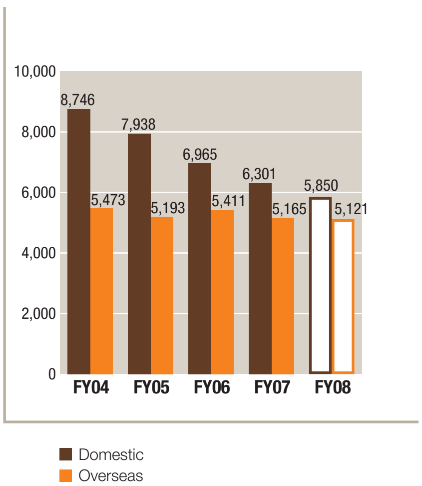
Guided by MHI's fundamental business strategy of adopting a more international approach in its operations, and the basic R&D strategy of ensuring that MHI remains successful in the face of ever-intensifying competition worldwide, the Intellectual Property Division is shifting the focus of patent acquisition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

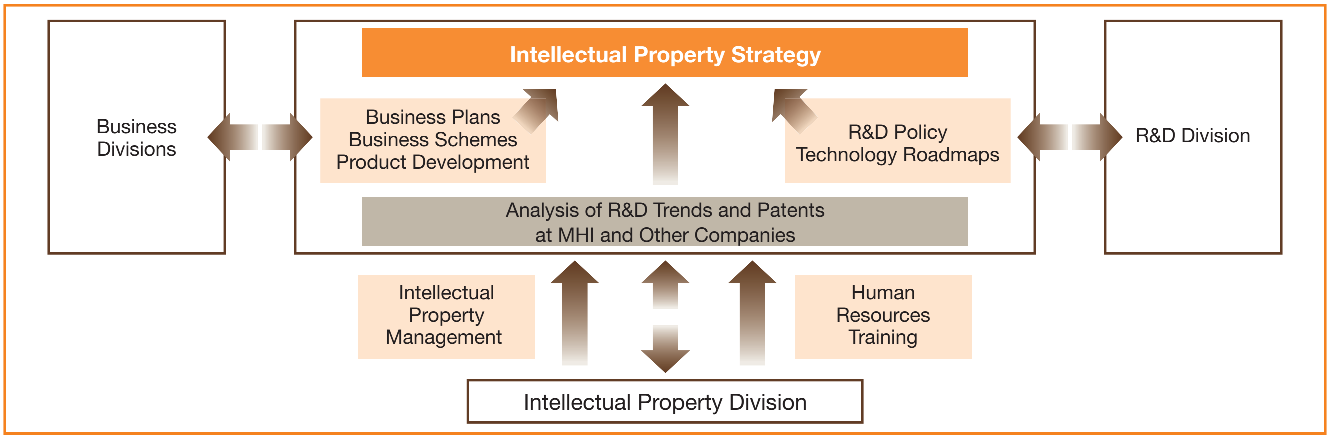
MHI's Intellectual Property Activities Policy

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.

Number of Domestic and Overseas Patents





Research and Development Activities

Through close cooperation between manufacturing facilities 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 prevent 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, container vessels and car carriers, which are responsible for the stable transport of goods on a global scale, as well as large cruise 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 nuclear energy, 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 facilities and energy to the steel, chemical and other industries.

Aerospace

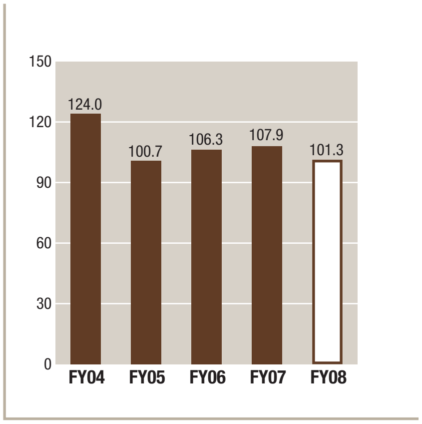
As Japan's leading company in the aerospace sector, MHI develops cutting-edge products leveraging its years of experience in the development of aircraft and aerospace equipment.

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 25, 2009, 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 establish 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.

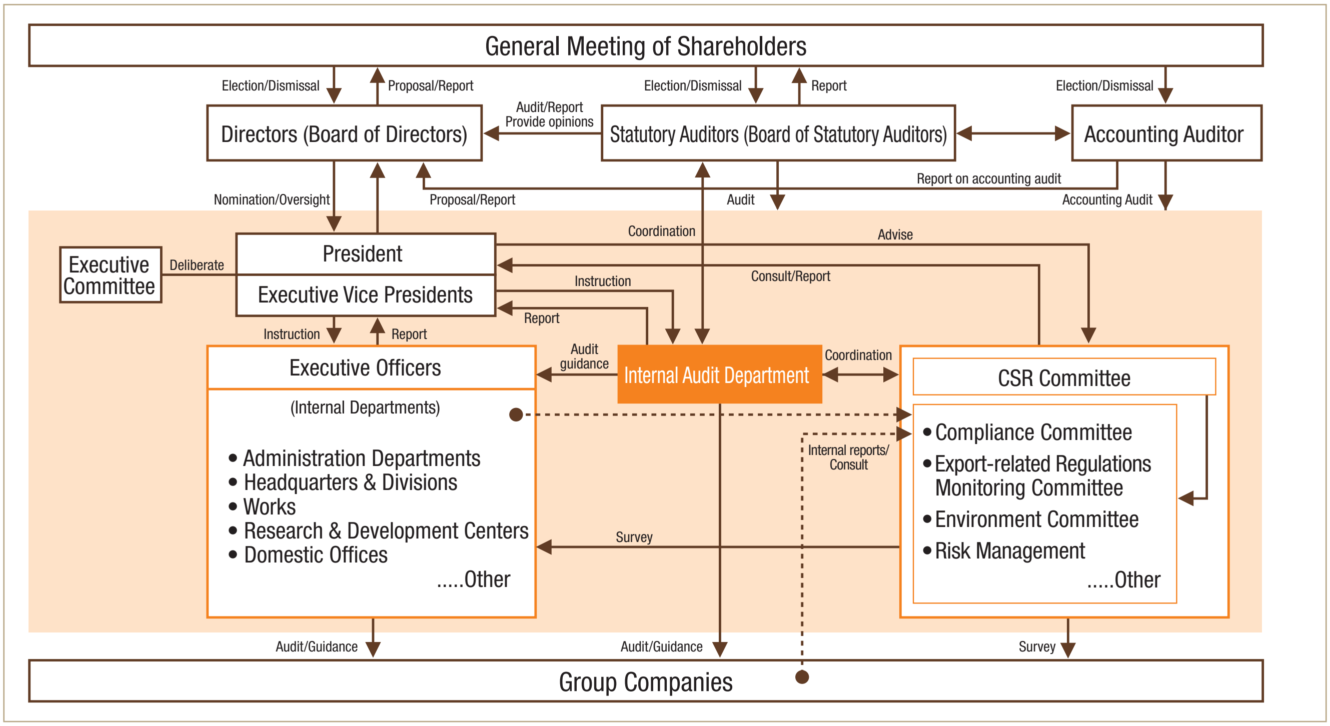
10. Other systems to ensure statutory auditor activities are conducted effectively

(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 23-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.

The Board of Statutory Auditors has five members, three of whom are outside appointments. In accordance with the auditing policy and auditing plan determined by the Board of Statutory 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. As part of the audit, statutory auditors make sure the execution of director duties complies with laws and regulations and the Articles of Incorporation and ascertain whether or not business operations of the Company are being executed appropriately by conducting spot checks and verifying compliance with relevant laws and regulations, and by monitoring the status of development and operation of internal control systems including those in relation to financial reporting.



In addition to regularly exchanging information and opinions with the Internal Audit Department and accounting auditors, statutory auditors also work in close collaboration in other ways, including receiving audit results and being present for the auditing performed by the accounting auditors. 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.

The Company's corporate governance framework, including internal control systems, is shown in the diagram on page 31.

Accounting Audits

MHI's accounting auditor is Ernst & Young ShinNihon LLC. The firm's certified public accountants (designated and engagement partners) that audit the Company's financial statements are: Michio Shibuya, Masayuki Ueda, Ichiro Ishii and Yoshiaki Morita. 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 11 other certified public accountants and 26 assistant accountants.

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

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

Director and Statutory Auditor Compensation and Audit Fees

Director and Statutory Auditor Compensation

Position	No. of recipients	Amount of compensation (In millions of yen)
Directors (Of which, outside)	23 (3)	1,244 (44)
Statutory Auditors (Of which, outside)	6 (3)	125 (36)
Total (Of which, outside)	29 (6)	1,369 (80)

In addition to the amounts specified above, for officers other than outside officers a gap emerged this fiscal year under review between the compensation amounts disclosed for the previous fiscal year (the estimated compensation amounts) and the compensation amounts actually disbursed. Consequently, a total of ¥964 million was paid to 17 directors and a total of ¥122 million was paid to five statutory auditors.

Also, based on the resolution passed at the 81st Ordinary General Meeting of Shareholders on June 28, 2006, a total of ¥15 million will be paid to two outside directors and a total of ¥20 million to three outside statutory auditors at the times of their retirement as part of terminating the retirement allowance program.

(Notes)
1. The personnel in the table include four directors and one statutory auditor who retired during the fiscal year under review.
2. The compensation amounts in the table include stock acquisition rights issued in a so-called stock-linked compensation scheme (with a total value of ¥252 million) for the 16 directors excluding outside directors. The total issuance price of stock acquisition rights to directors excluding outside directors is limited to ¥300 million per fiscal year (resolution of the 82nd Ordinary General Meeting of Shareholders on June 27, 2007).
3. The maximum permitted financial compensation amounts are ¥1,200 million per fiscal year for directors and ¥160 million per fiscal year for statutory auditors (resolution of the 81st Ordinary General Meeting of Shareholders on June 28, 2006).

Auditing Certified Public Accountant Compensation

Category	Fiscal year 2008	
	Audit attestation duty based compensation (In millions of yen)	Non-audit based compensation (In millions of yen)
MHI	186	3
Consolidated subsidiaries	132	–
Total	319	3

Other material compensation

In the fiscal year 2008, 17 of the Company's overseas subsidiaries commissioned the Ernst & Young Group, which belongs to the same network as the Company's auditing public certified accountants, to undertake audit attestation and other duties. The total compensation for these services for the fiscal year 2008 was ¥479 million.

Corporate Social Responsibility

Aiming to win the solid trust of society through the advancement of CSR

The underlying objective of the MHI Group is, as a manufacturer, to carry out CSR through production activities; and we are working to achieve that goal under our CSR Action Guidelines.

MHI Group CSR Action Guidelines

(formulated July 2007)

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.

Undertaking CSR through production activities

As outlined in our corporate creed the underlying objective of the MHI Group is to contribute to society as a manufacturing enterprise that provides products in support of the world's infrastructure as well as its ecological, economic and energy needs.

The core aims of our CSR initiatives are to minimize the environmental loads emanating from our production activities through the achievement of zero emissions and CO_2 emission reduction activities, to generate solid earnings through product differentiation, and to allocate our earnings appropriately on an ongoing basis for the growth of all stakeholders and the MHI Group.

For more information, please refer to the documents that can be accessed from the "CSR" webpage of our website.

http://www.mhi.co.jp/en/csr/

Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	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	**2009**	2008	**2009**	**2009**	2008	**2009**
Shipbuilding & Ocean Development	**¥ 240,178**	¥ 283,955	**$ 2,445,057**	**¥ 1,641**	¥ 4,064	**$ 16,705**
Power Systems	**1,209,150**	946,997	**12,309,375**	**80,001**	58,287	**814,425**
Machinery & Steel Structures	**542,203**	472,537	**5,519,729**	**31,605**	11,328	**321,744**
Aerospace	**512,355**	500,576	**5,215,870**	**(10,340)**	14,657	**(105,263)**
Mass and Medium-Lot Manufactured Machinery	**805,403**	913,606	**8,199,155**	**(7,030)**	40,058	**(71,566)**
Others	**121,147**	140,045	**1,233,299**	**9,982**	7,633	**101,618**
Subtotal	**3,430,438**	3,257,718	**34,922,508**	**105,859**	136,030	**1,077,664**
Eliminations or Corporate	**(54,763)**	(54,632)	**(557,497)**	**–**	–	**–**
Total	**¥3,375,674**	¥3,203,085	**$34,365,000**	**¥105,859**	¥136,030	**$1,077,664**

	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	**2009**	2008	**2009**	**2009**	2008	**2009**
Shipbuilding & Ocean Development	**¥ 250,386**	¥ 233,301	**$ 2,548,976**	**¥ 9,707**	¥ 7,332	**$ 98,819**
Power Systems	**1,238,460**	1,044,513	**12,607,757**	**36,629**	30,357	**372,890**
Machinery & Steel Structures	**494,383**	502,265	**5,032,912**	**10,624**	9,520	**108,154**
Aerospace	**954,452**	923,014	**9,716,502**	**46,103**	33,533	**469,337**
Mass and Medium-Lot Manufactured Machinery	**821,649**	842,574	**8,364,542**	**33,541**	30,973	**341,453**
Others	**189,606**	202,786	**1,930,224**	**17,250**	17,545	**175,608**
Subtotal	**3,948,939**	3,748,456	**40,200,946**	**153,856**	129,263	**1,566,283**
Eliminations or Corporate	**577,274**	768,691	**5,876,758**	**–**	–	**–**
Total	**¥4,526,213**	¥4,517,148	**$46,077,705**	**¥153,856**	¥129,263	**$1,566,283**

	Capital Expenditures		
	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	**2009**	2008	**2009**
Shipbuilding & Ocean Development	**¥ 8,045**	¥ 15,637	**$ 81,899**
Power Systems	**66,220**	55,653	**674,132**
Machinery & Steel Structures	**15,765**	13,545	**160,490**
Aerospace	**40,225**	51,638	**409,498**
Mass and Medium–Lot Manufactured Machinery	**58,957**	37,243	**600,193**
Others	**7,463**	17,734	**75,974**
Subtotal	**196,677**	191,454	**2,002,209**
Eliminations or Corporate	**–**	–	**–**
Total	**¥ 196,677**	¥ 191,454	**$ 2,002,209**

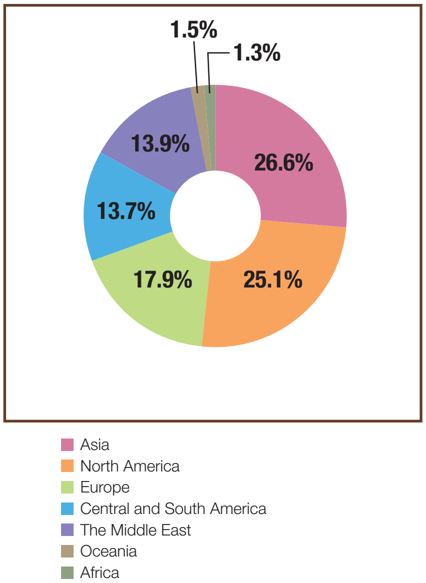
	In millions of yen		In thousands of U.S. dollars
OVERSEAS SALES	**2009**	2008	**2009**
Overseas Sales	**¥1,652,269**	¥1,561,139	**$16,820,411**
Ratio to Total Net Sales	**48.9%**	48.7%	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥98.23=US$1, the exchange rate prevailing at March 31, 2009.
2. The accompanying consolidated financial statements for the years ended March 31, 2009 and 2008 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
	2009	2008	2009	2009	2008	2009
Japan	**¥3,120,614**	¥2,916,934	**$31,768,441**	**¥ 91,203**	¥121,535	**$ 928,463**
North America	**297,395**	297,874	**3,027,537**	**6,647**	8,284	**67,667**
Asia	**120,344**	105,797	**1,225,124**	**2,471**	1,339	**25,155**
Europe	**166,908**	166,112	**1,699,155**	**2,821**	4,473	**28,718**
Others	**39,155**	52,213	**398,605**	**2,715**	397	**27,639**
Subtotal	**3,744,419**	3,538,932	**38,118,894**	**105,859**	136,030	**1,077,664**
Eliminations or Corporate	**(368,744)**	(335,846)	**(3,753,883)**	**–**	–	**–**
Total	**¥3,375,674**	¥3,203,085	**$34,365,000**	**¥105,859**	¥136,030	**$1,077,664**

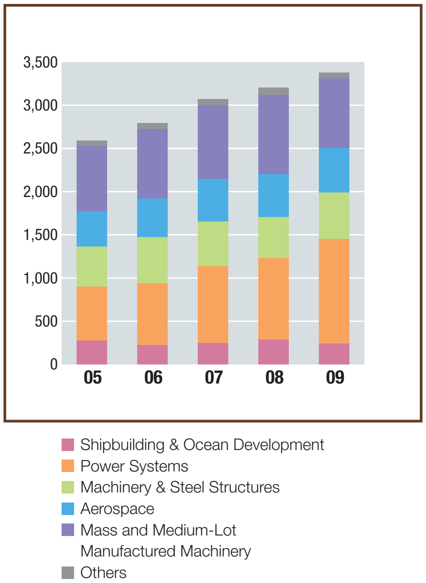
GEOGRAPHIC DISTRIBUTION	Total Assets		
	In millions of yen		In thousands of U.S. dollars
	2009	2008	2009
Japan	**¥3,447,183**	¥3,303,873	**$35,092,975**
North America	**217,999**	196,340	**2,219,271**
Asia	**84,073**	72,376	**855,879**
Europe	**115,970**	105,920	**1,180,596**
Others	**83,711**	69,944	**852,193**
Subtotal	**3,948,939**	3,748,456	**40,200,946**
Eliminations or Corporate	**577,274**	768,691	**5,876,758**
Total	**¥4,526,213**	¥4,517,148	**$46,077,705**

COMPOSITION OF OVERSEAS NET SALES BY GEOGRAPHIC DISTRIBUTION



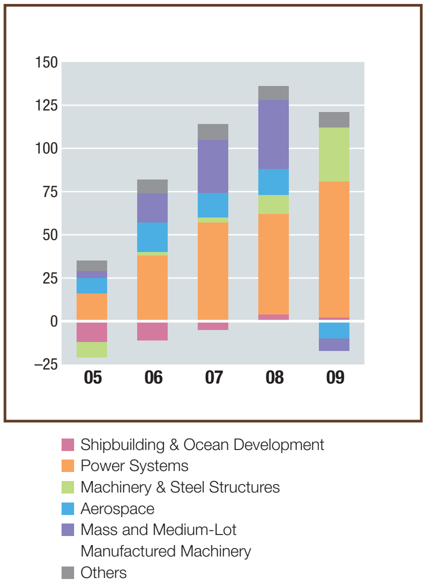
NET SALES BY INDUSTRY SEGMENT

(In billions of yen)



OPERATING INCOME (LOSS) BY INDUSTRY SEGMENT

(In billions of yen)



Analysis of Operating Results

In fiscal 2008, ended March 31, 2009, consolidated net sales of Mitsubishi Heavy Industries, Ltd. (MHI) and its consolidated subsidiaries (MHI Group) increased ¥172,589 million, or 5.4%, from the previous year, to ¥3,375,674 million (US$34,365,000 thousand). Increases were recorded in Power Systems—due to the construction of new power plants, as well as a growth in improvement, reform and maintenance services of existing plants—Machinery & Steel Structures, and Aerospace. Mass and Medium-Lot Manufactured Machinery and Shipbuilding & Ocean Development, however, recorded lower sales.

Operating income fell ¥30,171 million, or 22.2%, to ¥105,859 million (US$1,077,664 thousand). Despite the success of various measures under the 2008 Business Plan (Medium-Term Business Plan), which commenced fiscal year 2008, and achievements in productivity improvement, not only did profits deteriorate under the effect of economic recession, particularly in Mass and Medium-Lot Manufactured Machinery, but profits were also reduced because the yen continued to be much stronger than the previous year in exchange rates.

Net non-operating expenses were ¥30,552 million (US$311,025 thousand), ¥4,027 million more than in the previous year. This was mainly due to deterioration of income from equity in earnings of unconsolidated subsidiaries and affiliates which offset a year-on-year improvement in foreign exchange gain. Ordinary income fell ¥34,198 million, or 31.2%, to ¥75,306 million (US$766,629 thousand).

Extraordinary gain totaled ¥54,323 million (US$553,018 thousand), due to gain on contribution of securities to retirement benefit trust, gain on sales of investment securities and gain on sales of fixed assets. Extraordinary loss totaled ¥64,705 million (US$658,709 thousand), due to the amount recorded as effect of the application of the accounting standard for measurement of inventories, loss on legal claims, and business structure improvement expenses.

Income before income taxes and minority interests declined ¥36,452 million, or 36.0%, to ¥64,923 million (US$660,928 thousand), and net income declined ¥37,115 million, or 60.5%, to ¥24,217 million (US$246,533 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

The impact of the financial crisis that originated in the U.S. has spread broadly across the global real economies. The resulting trends in the market include weakening consumption and a shrinking market on a global scale, particularly with respect to the unstable financial market trends. In Japan, exports and capital expenditure, traditionally the drivers of the economy, fell considerably to heavily impact corporate earnings. These conditions also heavily impacted the operating results of the MHI Group. However, in the medium- to long-term, we recognize considerable business chances especially in areas where demand is expected to expand globally such as energy and environmental solutions and infrastructural development in emerging countries. The MHI Group is continuing its efforts to further strengthen its management framework and provide products and services suited to the needs of customers using technologies superior to the competition.

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. It is also expanding overseas production and bringing forward overseas production dates.

Changes in costs of materials

Although the trend of rising prices for materials such as steel products, non-ferrous metals and crude oil has abated, the MHI Group is responding to the impact of certain material price rises and boosting the price competitiveness of its products 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 is also strengthening relationships with its business partners, promoting an even greater level of information sharing, and striving to achieve further cost reductions.

Overseas business contracts

The MHI Group is exposed to a number of risks associated with individual 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. 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

The 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 ¥79,533 million (US$809,660 thousand), ¥82,290 million less than in the previous year. This mainly reflected a decrease in income before income taxes and minority interests.

Investing activities used net cash of ¥156,593 million (US$1,594,146 thousand), ¥36,462 million less than the previous year. This decrease was mainly due to proceeds from sales of investment securities offsetting continued aggressive capital expenditures in growth fields, mainly in the Power Systems and Aerospace segments.

Financing activities provided net cash of ¥262,002 million (US$2,667,229 thousand), due to the procurement of new funds to secure cash-on-hand fluidity in response to the post-financial crisis economic disarray.

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.

Since the sharp economic slowdown that began in autumn 2008, the MHI Group is reviewing part of its investment timing. It still expects, however, increased requirements for working capital and investment funds particularly in growth areas next year and beyond. The MHI Group is planning to aggressively execute necessary capital investment and R&D investment to expand global business, particularly in growth areas such as energy and environment-related businesses and transportation systems businesses.

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2009 was as follows:

(In millions of yen)

	Total	Due within one year	Due after one year
Short-term borrowings	248,734	248,734	–
Commercial papers	115,000	115,000	–
Long-term borrowings	964,224	108,267	855,956
Bonds	284,901	20,300	264,601
Total	1,612,859	492,301	1,120,558

(In thousands of U.S. dollars)

	Total	Due within one year	Due after one year
Short-term borrowings	2,532,159	2,532,159	–
Commercial papers	1,170,721	1,170,721	–
Long-term borrowings	9,815,982	1,102,178	8,713,794
Bonds	2,900,346	206,657	2,693,688
Total	16,419,210	5,011,717	11,407,492

The MHI Group is involved in numerous projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery facilities. Consequently, the MHI Group must secure a stable level of working capital and funds for capital investments. Taking into account these factors, the MHI Group has procured funds to increase its cash deposits to higher than normal levels to secure cash-on-hand fluidity in response to the economic disarray of the financial crisis that began in autumn 2008.

As a result, the MHI Group's total interest-bearing debt at the end of fiscal year 2008 was ¥1,612,859 million (US$16,419,210 thousand): ¥492,301 million (US$5,011,717 thousand) due within one year, and ¥1,120,558 million (US$11,407,492 thousand) due after one year.

The interest-bearing debt mentioned above is utilized as working capital and for capital investment required for business activities. In addition to using these funds mainly in key growth fields expected to require funds, including the Power Systems and Aerospace segments, the MHI Group continues to maintain ample cash deposits to ensure it has cash-on-hand fluidity.

Financial policy

The MHI Group, currently funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with interest-bearing debt.

In appropriately determining the amounts and methods of procuring long-term funds through long-term borrowings, bonds, and other means, the MHI Group takes into account the funding requirements of its business plans, interest-rate trends and various other factors, 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, 2009 and 2008

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	**2009**	2008	**2009**
Current assets:			
Cash and deposits (Notes 5 and 12)	**¥ 435,038**	¥ 274,885	**$ 4,428,769**
Trade receivables (Note 5):			
Notes	**31,843**	39,373	**324,167**
Accounts	**1,050,725**	1,047,206	**10,696,579**
Allowance for doubtful receivables	**(5,617)**	(5,677)	**(57,182)**
Securities (Note 3)	**3,010**	3,569	**30,642**
Merchandise and finished products	**170,754**	147,070	**1,738,308**
Work in process	**959,138**	889,473	**9,764,206**
Raw materials and supplies	**138,724**	128,309	**1,412,236**
Advances to suppliers	**134,764**	117,095	**1,371,923**
Deferred income taxes (Note 4)	**136,341**	114,548	**1,387,977**
Prepaid expenses and other current assets	**110,335**	181,029	**1,123,231**
Total current assets	**3,165,059**	2,936,886	**32,220,899**
Property, plant and equipment (Note 5)**:**			
Land	**157,986**	153,615	**1,608,327**
Buildings and structures	**770,107**	742,323	**7,839,835**
Machinery and equipment	**1,545,822**	1,509,077	**15,736,760**
Leased assets	**3,192**	–	**32,495**
Construction in progress	**51,966**	50,256	**529,023**
	2,529,075	2,455,272	**25,746,462**
Less accumulated depreciation	**(1,636,727)**	(1,579,618)	**(16,662,190)**
Net property, plant and equipment	**892,347**	875,653	**9,084,261**
Intangible assets	**30,991**	29,037	**315,494**
Investments and advances:			
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	**117,369**	177,421	**1,194,838**
Long-term loans and advances	**111,976**	24,905	**1,139,936**
Investment securities (Note 3)	**157,278**	432,367	**1,601,119**
Deferred income taxes (Note 4)	**9,372**	7,411	**95,408**
Allowance for doubtful accounts	**(10,533)**	(18,490)	**(107,227)**
Net investments and advances	**385,463**	623,615	**3,924,086**
Other assets	**52,350**	51,954	**532,932**
Total assets	**¥ 4,526,213**	¥ 4,517,148	**$ 46,077,705**

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

LIABILITIES AND NET ASSETS	In millions of yen 2009	2008	In thousands of U.S. dollars (Note 2) 2009
Current liabilities:			
Trade payables:			
Notes	**¥ 12,252**	¥ 13,453	**$ 124,727**
Accounts	**687,395**	720,046	**6,997,811**
Short-term borrowings (Note 5)	**248,734**	233,801	**2,532,159**
Commercial papers (Note 5)	**115,000**	–	**1,170,721**
Current portion of long-term borrowings (Note 5)	**128,567**	125,716	**1,308,836**
Advance payments received on contracts	**479,004**	469,285	**4,876,351**
Accrued expenses	**134,378**	122,113	**1,367,993**
Accrued income taxes	**13,942**	36,862	**141,932**
Reserve for product warranties (Note 1)	**23,872**	23,660	**243,021**
Reserve for losses on construction contracts (Note 1)	**37,911**	6,893	**385,941**
Reserve for legal claims (Note 1)	**23,300**	–	**237,198**
Other current liabilities (Note 4)	**90,532**	74,060	**921,632**
Total current liabilities	**1,994,892**	1,825,894	**20,308,378**
Long-term liabilities:			
Long-term borrowings (Note 5)	**1,120,558**	1,005,876	**11,407,492**
Deferred income taxes (Note 4)	**7,519**	94,134	**76,544**
Reserve for retirement allowance (Note 6)	**50,776**	89,936	**516,909**
Reserve for treatment of PCB waste (Note 1)	**4,293**	4,300	**43,703**
Other long-term liabilities	**64,921**	56,577	**660,908**
Total long-term liabilities	**1,248,068**	1,250,824	**12,705,568**
Total liabilities	**3,242,961**	3,076,719	**33,013,957**
Net assets			
Stockholders' equity (Note 10)**:**			
Common stock, without par value:			
Authorized—6,000,000,000 shares			
Issued in 2009 and 2008—3,373,647,813 shares	**265,608**	265,608	**2,703,939**
Capital surplus	**203,928**	203,893	**2,076,025**
Retained earnings	**788,948**	787,007	**8,031,640**
Treasury stock, at cost:			
2009—17,474,958 shares	**(5,041)**		**(51,318)**
2008—17,573,785 shares		(5,045)	
Total stockholders' equity	**1,253,443**	1,251,464	**12,760,287**
Valuation, translation adjustments and others			
Net unrealized gains on investment securities	**17,313**	157,546	**176,249**
Deferred gains or losses on hedges	**323**	7,346	**3,288**
Foreign currency translation adjustments	**(29,482)**	3,847	**(300,132)**
Total valuation, translation adjustments and others	**(11,845)**	168,739	**(120,584)**
Share subscription rights (Note 11)	**881**	549	**8,968**
Minority interests	**40,772**	19,676	**415,066**
Total net assets	**1,283,251**	1,440,429	**13,063,738**
Total liabilities and net assets	**¥4,526,213**	¥4,517,148	**$46,077,705**

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2009	2008	**2009**
Net Sales	**¥3,375,674**	¥3,203,085	**$34,365,000**
Cost of sales	**2,945,340**	2,753,951	**29,984,118**
Gross profit	**430,334**	449,134	**4,380,881**
Selling, general and administrative expenses	**324,475**	313,103	**3,303,216**
Operating income	**105,859**	136,030	**1,077,664**
Non-operating income (expense):			
Interest income	**5,575**	7,071	**56,754**
Dividend income	**8,617**	7,487	**87,722**
Equity in earnings of unconsolidated subsidiaries and affiliates	**–**	8,224	**–**
Foreign exchange gain	**1,230**	–	**12,521**
Other income	**2,584**	5,425	**26,305**
Interest expense	**(20,224)**	(20,288)	**(205,884)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(9,006)**	–	**(91,682)**
Foreign exchange loss	**–**	(10,784)	**–**
Loss on disposal of fixed assets	**(7,080)**	(7,344)	**(72,075)**
Other expenses	**(12,248)**	(16,317)	**(124,686)**
	(30,552)	(26,525)	**(311,025)**
Ordinary income	**75,306**	109,504	**766,629**
Extraordinary gain (loss):			
Gain on contribution of securities to retirement benefit trust (Note 3)	**36,104**	–	**367,545**
Gain on sales of investment securities	**14,286**	–	**145,434**
Gain on sales of fixed assets (Note 7)	**3,932**	18,467	**40,028**
Gain on transfer of business (Note 8)	**–**	3,664	**–**
Effect of the application of the accounting standard for measurement of inventories (Note 1)	**(33,436)**	–	**(340,384)**
Loss on legal claims	**(20,835)**	–	**(212,104)**
Business structure improvement expenses (Note 9)	**(10,434)**	(30,261)	**(106,220)**
	(10,382)	(8,128)	**(105,690)**
Income before income taxes and minority interests	**64,923**	101,375	**660,928**
Income taxes (Note 4)**:**			
Current	**54,206**	58,889	**551,827**
Deferred	**(13,144)**	(20,612)	**(133,808)**
Minority interests in income after taxes	**(355)**	1,765	**(3,613)**
Net income	**¥ 24,217**	¥ 61,332	**$ 246,533**

	In yen		In U.S. dollars (Note 2)
	2009	2008	**2009**
Per share information of common stock (Note 1)**:**			
Net income—basic	**¥ 7.22**	¥ 18.28	**$ 0.074**
Net income—diluted	**7.21**	18.27	**0.073**
Cash dividends	**6.00**	6.00	**0.061**

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, 2009 and 2008

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, 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 10)			(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
Effect of changes in accounting policies applied to foreign subsidiaries			(2,142)*		(2,142)							(2,142)
Cash dividends (Note 10)			(20,137)		(20,137)							(20,137)
Net income			24,217		24,217							24,217
Increase resulting from inclusion in the scope of consolidation and equity method			3		3							3
Purchase of treasury stock				(72)	(72)							(72)
Disposal of treasury stock		34		76	111							111
Net changes in items other than stockholders' equity					–	(140,232)	(7,022)	(33,329)	(180,585)	332	21,095	(159,157)
Subtotal	–	34	4,083	3	4,121	(140,232)	(7,022)	(33,329)	(180,585)	332	21,095	(155,035)
Balance as of March 31, 2009	¥265,608	¥203,928	¥788,948	¥(5,041)	¥1,253,443	¥ 17,313	¥ 323	¥(29,482)	¥ (11,845)	¥881	¥40,772	¥1,283,251

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 March 31, 2008	$2,703,939	$2,075,669	$8,011,880	$(51,359)	$12,740,140	$ 1,603,848	$ 74,783	$ 39,163	$ 1,717,794	$5,588	$200,305	$14,663,839
Effect of changes in accounting policies applied to foreign subsidiaries			(21,805)*		(21,805)							(21,805)
Cash dividends (Note 10)			(204,998)		(204,998)							(204,998)
Net income			246,533		246,533							246,533
Increase resulting from inclusion in the scope of consolidation and equity method			30		30							30
Purchase of treasury stock				(732)	(732)							(732)
Disposal of treasury stock		346		773	1,130							1,130
Net changes in items other than stockholders' equity					–	(1,427,588)	(71,485)	(339,295)	(1,838,389)	3,379	214,751	(1,620,248)
Subtotal	–	346	41,565	30	41,952	(1,427,588)	(71,485)	(339,295)	(1,838,389)	3,379	214,751	(1,578,285)
Balance as of March 31, 2009	$2,703,939	$2,076,025	$8,031,640	$(51,318)	$12,760,287	$ 176,249	$ 3,288	$(300,132)	$ (120,584)	$8,968	$415,066	$13,063,738

* Decrease of 2,111 million yen ($21,490 thousand) included in the above figures was an effect of changes in accounting policies applied to overseas subsidiaries of an affiliate company accounted for by the equity method. (This was an amount proportionate to the number of its shares the MHI Group held.)

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2009	2008	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 64,923**	¥ 101,375	**$ 660,928**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**152,989**	128,260	**1,557,456**
Decrease in reserve for retirement allowance	**(38,827)**	(8,554)	**(395,266)**
Interest and dividend income	**(14,193)**	(14,558)	**(144,487)**
Interest expense	**20,224**	20,288	**205,884**
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	**9,006**	(8,224)	**91,682**
Gain on sales of investment securities	**(14,286)**	–	**(145,434)**
Gain on sales of fixed assets (Note 7)	**(3,932)**	(18,467)	**(40,028)**
Loss on disposal of fixed assets	**7,080**	7,344	**72,075**
Loss on legal claims	**20,835**	–	**212,104**
Business structure improvement expenses (Note 9)	**10,434**	30,261	**106,220**
Gain on transfer of business (Note 8)	**–**	(3,664)	**–**
Decrease in investment securities due to the contribution to retirement benefit trust (Note 3)	**71,735**	–	**730,275**
(Increase) decrease in receivables	**(41,289)**	80,076	**(420,329)**
(Increase) decrease in inventories and advances to suppliers	**(149,996)**	(140,789)	**(1,526,987)**
(Increase) decrease in other assets	**(40,010)**	(3,559)	**(407,309)**
Increase (decrease) in payables	**305**	(14,683)	**3,104**
Increase (decrease) in advance payments received on contracts	**26,492**	76,971	**269,693**
Increase (decrease) in other liabilities	**77,159**	(17,543)	**785,493**
Others	**(1,397)**	(504)	**(14,221)**
Subtotal	**157,255**	214,027	**1,600,885**
Interest and dividends received	**18,644**	16,240	**189,799**
Interest paid	**(19,863)**	(20,068)	**(202,209)**
Payments for income taxes	**(76,503)**	(48,375)	**(778,815)**
Net cash provided by operating activities	**79,533**	161,823	**809,660**
Cash flows from investing activities:			
Net decrease in time deposits	**3,029**	2,903	**30,835**
Purchases of marketable securities	**(245)**	–	**(2,494)**
Proceeds from sales and redemption of marketable securities	**555**	793	**5,650**
Purchases of property, plant, equipment and intangible assets	**(182,273)**	(194,660)	**(1,855,573)**
Proceeds from sales of property, plant, equipment and intangible assets	**6,363**	15,100	**64,776**
Purchases of investment securities	**(41,068)**	(28,366)	**(418,080)**
Proceeds from sales and redemption of investment securities	**53,541**	8,986	**545,057**
Disbursement of long-term loans	**(1,615)**	(1,956)	**(16,441)**
Collection of long-term loans	**5,038**	1,142	**51,287**
Others	**80**	3,000	**814**
Net cash used in investing activities	**(156,593)**	(193,055)	**(1,594,146)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	**134,936**	(56,816)	**1,373,674**
Proceeds from long-term borrowings	**249,621**	132,219	**2,541,189**
Repayment of long-term borrowings	**(84,925)**	(60,402)	**(864,552)**
Proceeds from issuance of bonds	**–**	130,000	**–**
Payment for redemption of bonds	**(40,300)**	(52,656)	**(410,261)**
Proceeds from issuance of stock to minority stockholders of subsidiaries	**23,533**	–	**239,570**
Dividends paid to stockholders	**(20,083)**	(20,078)	**(204,448)**
Dividends paid to minority stockholders of subsidiaries	**(501)**	(712)	**(5,100)**
Others	**(279)**	(324)	**(2,840)**
Net cash provided by financing activities	**262,002**	71,228	**2,667,229**
Effect of exchange rate changes on cash and cash equivalents	**(23,388)**	(5,339)	**(238,094)**
Net increase in cash and cash equivalents	**161,554**	34,657	**1,644,650**
Cash and cash equivalents at beginning of year	**262,852**	227,584	**2,675,883**
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	**1,506**	610	**15,331**
Cash and cash equivalents at end of year (Note 12)	**¥ 425,913**	¥ 262,852	**$ 4,335,874**

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, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

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

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2009 and 2008 include the accounts of the Group. 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 the 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 the 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 investments in unconsolidated subsidiaries and affiliates, and other securities (available-for-sale securities).

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, the Group has classified securities due within one year as securities in current assets and the others as investment securities in "Investments and advances."

e) Inventories

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

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

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

(Change in accounting policy)

The Group has applied the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9, issued on July 5, 2006) from the year ended March 31, 2009.

The amount of the write-downs at the end of the year ended March 31, 2009 due to this application was 53,932 million yen ($549,037 thousand). Out of the total amount, 33,436 million yen ($340,384 thousand) write-downs taken at the beginning of the same year were recognized as extraordinary loss on the "effect of the application of the accounting standard for measurement of inventories." As the result of this change, operating income and ordinary income for the same year decreased by 20,496 million yen ($208,653 thousand), respectively and income before income taxes and minority interests for the same year decreased by 53,932 million yen ($549,037 thousand).

f) Property, plant and equipment and depreciation

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

Depreciation is principally computed using the straight-line method for buildings (excluding the equipment attached to them) and the declining-balance method for the other tangible assets over the assets' useful lives, which are substantially the same as those provided for in the Corporation Income Tax Law.

(Additional information)

MHI and Subsidiaries located in Japan revised the categorization and useful lives of machinery in order to reflect their actual status more properly in relation to the amendment of the Corporation Income Tax Law in fiscal year 2008.

As the result of this treatment, operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2009 decreased by 5,361 million yen ($54,575 thousand), respectively.

g) Intangible assets

Depreciation of leased assets is computed using the straight-line method over the assets' useful lives, which are substantially the same as those provided for in the Corporation Income Tax Law.

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

h) Leases

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

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 the Group's 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 be reasonably 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 legal claims

Reserve for legal claims is provided based on estimates of damage compensations and other expenses on legal claims.

m) 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 either expensed as incurred or amortized by the straight-line method over the years shorter than the average remaining service periods of the Group's employees.

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' average remaining service periods.

(Additional information)
In the year ended March 31, 2009, MHI made a contribution of investment securities with the aggregate book value of 71,735 million yen ($730,275 thousand) whose aggregate market value was 107,840 million yen ($1,097,831 thousand) to a retirement benefit trust. An extraordinary gain of 36,104 million yen ($367,545 thousand) was recognized as a result.

n) 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 equipment as well as their collection and transportation fees.

o) 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 yen ($50,900 thousand) or greater and the contract period of two years or longer are recognized on the basis of the percentage-of-completion method.

p) Hedge accounting
Principally, the “deferral method” is applied where the Group defers 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 receivables or payables 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 items 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.

The Group evaluates 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.

q) 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.

r) 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.

s) Net income per share
The computation of basic net income per share is based on the net income available to common stockholders and the weighted average number of shares outstanding during each period.

Diluted net income per share is computed based on the assumption that all the share subscription rights are exercised at the beginning of the year (or issue date if later).

t) Others
(1) Application of the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”
The Group has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No.18, issued on May 17, 2006) from the year ended March 31, 2009 and made necessary adjustments in preparing consolidated financial statements.

As a result, retained earnings at the beginning of the same year decreased by 30 million yen ($305 thousand).

The effects on operating income, ordinary income and income before income taxes and minority interests for the same year are negligible.

(2) Application of the accounting standard for lease transactions

Finance lease transactions that do not transfer ownership used to be accounted for in a manner similar to ordinary rental transactions. From the year ended March 31, 2009, they are accounted for in a manner similar to ordinary sale and purchase transactions due to the application of the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued by the First Committee of the Business Accounting Council on June 17, 1993 and amended by the ASBJ on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, issued by the Accounting Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and amended by the ASBJ on March 30, 2007).

Finance lease transactions which do not transfer ownership, if their commencement day falls prior to the first year of implementation of the accounting standard for lease transactions, continue to be accounted for in a manner similar to ordinary rental transactions.

The effects on operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2009 are negligible.

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 ¥98.23=US$1 prevailing at March 31, 2009 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, 2009 and 2008, consisted of the following:

	In millions of yen			In thousands of U.S. dollars		
	2009			2009		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	**¥ 31,575**	**¥ 84,090**	**¥ 52,514**	**$ 321,439**	**$ 856,052**	**$ 534,602**
Government bonds	**498**	**499**	**0**	**5,069**	**5,079**	**0**
Others	**13**	**51**	**37**	**132**	**519**	**376**
Subtotal	**¥ 32,087**	**¥ 84,641**	**¥ 52,553**	**$ 326,651**	**$ 861,661**	**$ 534,999**
ii) Acquisition costs over carrying amounts:						
Equity securities	**¥ 74,550**	**¥ 53,183**	**¥(21,366)**	**$ 758,933**	**$ 541,413**	**$(217,509)**
Total (i+ii)	**¥106,637**	**¥137,824**	**¥ 31,187**	**$1,085,584**	**$1,403,074**	**$ 317,489**

	In millions of yen		
	2008		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥144,092	¥407,814	¥263,722
Government bonds	498	499	0
Others	12	29	16
Subtotal	¥144,603	¥408,343	¥263,739
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 5,841	¥ 4,321	¥ (1,519)
Others	321	321	–
Subtotal	6,162	4,642	(1,519)
Total (i+ii)	¥150,766	¥412,986	¥262,219

Note: The Group 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 at every quarter end (Q1–Q4) of respective fiscal years.
The amount of impairment losses for the years ended March 31, 2009 and 2008 amounted to 420 million yen ($4,275 thousand) and 33 million yen 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, 2009 and 2008, excluding investment securities contributed to the retirement benefit trust mentioned in Note 1 m), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Sales amounts	**¥1,266**	¥ 8,541	**$12,888**
Gains	**282**	2,051	**2,870**
Losses	**¥ (16)**	¥(1,304)	**$ (162)**

Note: The aggregate book value of the investment securities contributed to the retirement benefit trust was 71,735 million yen ($730,275 thousand) and the gain on the contribution was 36,104 million yen ($367,545 thousand). These amounts are not included in the above table.

c) Other securities without market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2009 and 2008, mainly consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Equity securities – unlisted	**¥14,326**	¥14,295	**$145,841**
Certificate of deposit	**¥ 3,000**	¥ 3,500	**$ 30,540**

Note: The Group 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 years ended March 31, 2009 and 2008 amounted to 9 million yen ($91 thousand) and 150 million yen, respectively, with respect to other securities without market value.

d) The contractual maturities of other securities at March 31, 2009 and 2008 were as follows:

	In millions of yen		In thousands of U.S. dollars	
	2009		**2009**	
	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	**¥3,007**	**¥ –**	**$30,611**	**$ –**
Bonds:				
Government bonds	**–**	**509**	**–**	**5,181**
Total	**¥3,007**	**¥509**	**$30,611**	**$5,181**

	In millions of yen	
	2008	
	Due within one year	Due after one year through five years
Certificate of deposit	¥3,507	¥ –
Bonds:		
Government bonds	9	499
Others	383	–
Total	¥3,901	¥499

4. INCOME TAXES

The Group is subject to corporation income tax, inhabitants' tax and enterprise tax, based on income, which in the aggregate resulted in the statutory effective tax rate of approximately 40.5% for the years ended March 31, 2009 and 2008.

a) Significant components of deferred tax assets and liabilities at March 31, 2009 and 2008, which arose as a result of the recognition of the tax effect mentioned in section q) of Note 1 "Summary of Significant Accounting Policies," were as follows:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Reserve for retirement allowance	**¥ 109,792**	¥ 110,315	**$ 1,117,703**
Accrued expenses for product warranties	**30,568**	30,339	**311,188**
Accrued expenses for construction contracts	**24,982**	25,447	**254,321**
Tax loss carryforwards	**21,658**	–	**220,482**
Inventory write-downs	**18,251**	–	**185,798**
Reserve for losses on construction contracts	**16,780**	–	**170,823**
Others	**121,251**	108,431	**1,234,358**
Subtotal	**343,285**	274,533	**3,494,706**
Valuation allowance	**(56,362)**	(33,813)	**(573,775)**
Total gross deferred tax assets	**286,922**	240,720	**2,920,920**
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	**(84,421)**	(70,682)	**(859,421)**
Reserve for reduction in costs of fixed assets	**(22,576)**	(23,199)	**(229,827)**
Net unrealized gains on investment securities	**(21,278)**	(106,823)	**(216,614)**
Deferred (gains) losses on hedges	**(1,719)**	(5,564)	**(17,499)**
Reserve for accelerated depreciation	**–**	(2,566)	**–**
Others	**(18,910)**	(4,059)	**(192,507)**
Total gross deferred tax liabilities	**(148,905)**	(212,895)	**(1,515,881)**
Net deferred tax assets (liabilities)	**¥ 138,016**	¥ 27,824	**$ 1,405,029**

Notes: 1. "Others" in deferred tax assets at March 31, 2008 includes "Tax loss carryforwards" which amounts to 9,412 million yen, "Inventory write-downs" which amounts to 1,645 million yen and "Reserve for losses on construction contracts" which amounts to 4,817 million yen.
2. "Others" in deferred tax liabilities at March 31, 2009 includes "Reserve for accelerated depreciation" which amounts to 1,192 million yen ($12,134 thousand).
3. Net deferred tax assets (liabilities) at March 31, 2009 and 2008 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Deferred income taxes in current assets	**¥136,341**	¥114,548	**$1,387,977**
Deferred income taxes in investments and advances	**9,372**	7,411	**95,408**
Other current liabilities	**(177)**	(1)	**(1,801)**
Deferred income taxes in long-term liabilities	**¥ (7,519)**	¥ (94,134)	**$ (76,544)**

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, 2009 and 2008 are as follows:

	2009	2008
Japanese statutory effective income tax rate	**40.5%**	40.5%
Adjustment:		
Items excluded from expenses	**2.5**	1.3
Items excluded from gross income	**(12.9)**	(1.9)
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	**5.6**	(3.3)
Valuation allowance	**34.6**	8.0
Tax exemption for research & development expenditure	**(7.7)**	(4.4)
Others	**0.6**	(2.4)
Income tax rate as a percentage of income before income taxes and minority interests	**63.2%**	37.8%

5. SHORT-TERM BORROWINGS AND LONG-TERM BORROWINGS

a) Short-term borrowings and commercial papers at March 31, 2009 and 2008 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Loans, principally from banks, with weighted-average interest rate of 1.3% at March 31, 2009 and 1.6% at March 31, 2008:			
Secured	**¥ 10,065**	¥ 11,196	**$ 102,463**
Unsecured	**238,669**	222,604	**2,429,695**
Commercial papers with weighted-average interest rate of 0.4% at March 31, 2009:	**115,000**	–	**1,170,721**
Total	**¥363,734**	¥233,801	**$3,702,880**

b) Long-term borrowings at March 31, 2009 and 2008 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Loans, principally from banks and insurance companies, due 2009 to 2023 with weighted-average interest rate of 1.7% at March 31, 2009 and due 2008 to 2023 with weighted-average interest rate of 1.7% at March 31, 2008:			
Secured	**¥ 8,764**	¥ 21,792	**$ 89,219**
Unsecured	**951,050**	775,387	**9,681,869**
Export loans, principally from main contractors, due 2009 to 2018 with weighted-average interest rate of 2.7% at March 31, 2009 and due 2008 to 2018 with weighted-average interest rate of 2.6% at March 31, 2008:			
Unsecured	**4,409**	8,054	**44,884**
Unsecured bonds:			
2.15% bonds due 2008	**–**	40,000	**–**
0.63% bonds due 2010	**20,000**	20,000	**203,603**
1.03% bonds due 2013	**30,000**	30,000	**305,405**
0.365% bonds due 2010	**20,000**	20,000	**203,603**
0.70% bonds due 2013	**50,000**	50,000	**509,009**
1.45% bonds due 2011	**10,000**	10,000	**101,801**
2.04% bonds due 2016	**20,000**	20,000	**203,603**
1.47% bonds due 2012	**50,000**	50,000	**509,009**
1.69% bonds due 2014	**20,000**	20,000	**203,603**
2.03% bonds due 2017	**60,000**	60,000	**610,811**
Unsecured bonds issued by Subsidiaries:			
0.62% bonds, due 2009 to 2010 in 2009 and due 2008 to 2010 in 2008	**350**	650	**3,563**
6.45% bonds due 2011	**4,551**	5,707	**46,330**
Subtotal	**1,249,125**	1,131,592	**12,716,329**
Less current portion due within one year	**(128,567)**	(125,716)	**(1,308,836)**
Total	**¥1,120,558**	¥1,005,876	**$11,407,492**

c) A summary of assets pledged as collateral for short-term borrowings and long-term borrowings at March 31, 2009 and 2008 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Property, plant and equipment	**¥23,787**	¥23,765	**$242,156**
Trade receivables:			
Notes	**–**	3,194	**–**
Accounts	**–**	11,424	**–**
Others	**283**	763	**2,880**
Total	**¥24,070**	¥39,147	**$245,037**

d) The aggregate annual maturities of long-term borrowings at March 31, 2009 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2010	¥ 128,567	$ 1,308,836
2011	119,706	1,218,629
2012	223,941	2,279,761
2013	194,202	1,977,013
2014	178,868	1,820,910
Thereafter	403,839	4,111,157
Total	¥1,249,125	$12,716,329

e) The aggregate annual maturities of lease obligations at March 31, 2009 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2010	¥1,394	$14,191
2011	1,313	13,366
2012	979	9,966
2013	835	8,500
2014	628	6,393
Thereafter	1,593	16,217
Total	¥6,744	$68,655

6. RETIREMENT BENEFITS

The Group has 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 m) 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, 2009 and 2008 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Benefit obligations	**¥(692,808)**	¥(712,123)	**$(7,052,916)**
Fair value of plan assets	**479,574**	530,621	**4,882,154**
Unfunded benefit obligations	**(213,233)**	(181,502)	**(2,170,752)**
Unrecognized actuarial losses (gains)	**259,640**	119,851	**2,643,184**
Unrecognized prior service costs (benefits)	**(449)**	(531)	**(4,570)**
Net benefit liability recognized on the consolidated balance sheets	**45,958**	(62,182)	**467,861**
Prepaid pension expense	**96,734**	27,754	**984,770**
Reserve for retirement allowance	**¥ (50,776)**	¥ (89,936)	**$ (516,909)**

b) The components of net periodic retirement benefit expenses for the years ended March 31, 2009 and 2008 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥ 29,694**	¥ 28,894	**$ 302,290**
Interest cost	**14,017**	14,835	**142,695**
Expected return on plan assets	**(12,917)**	(15,060)	**(131,497)**
Amortization of actuarial losses (gains)	**16,484**	9,857	**167,810**
Amortization of prior service costs (credits)	**(105)**	(267)*	**(1,068)**
Net benefit expenses	**¥ 47,174**	¥ 38,259	**$ 480,240**

* 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.

c) The principal assumptions used in determining the information above at March 31, 2009 and 2008 were as follows:

	2009	2008
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 18 years

7. GAIN ON SALES OF FIXED ASSETS

Gain on sales of fixed assets for the years ended March 31, 2009 and 2008 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
	2009	**2009**
Land	**¥3,457**	**$35,192**
Others	**474**	**4,825**
Total	**¥3,932**	**$40,028**

	In millions of yen
	2008
Land	¥18,857
Others	(390)
Total	¥18,467

8. 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.

9. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the year ended March 31, 2009, which mainly arose from Mass and Medium–Lot Manufactured Machinery business and Power Systems business consisted of the following:

	In millions of yen	In thousands of U.S. dollars
	2009	**2009**
Expenses on the restructuring of affiliate companies	**¥ 7,883**	**$ 80,250**
Expenses on the restructuring of the production structure	**2,550**	**25,959**
Total	**¥10,434**	**$106,220**

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

	In millions of yen
	2008
Expenses related to the contract cancellation	¥26,991
Others	3,269
Total	¥30,261

10. 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 number of shares issued and treasury stock at March 31, 2009 and 2008 is as follows:

	Type of shares	At March 31, 2008	Increase by March 31, 2009	Decrease by March 31, 2009	At March 31, 2009
Total number of the shares issued	Common stock	3,373,647,813	–	–	3,373,647,813
Treasury stock	Common stock	17,573,785	165,116	263,943	17,474,958

(1) Main reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	165,115

(2) Reason for decrease of treasury stock

Disposal resulting from the exercise of share subscription rights, which were issued for the purpose of providing stock options	167,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	96,943
Total	263,943

c) Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In U.S. dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of U.S. dollars
June 26, 2008							
Ordinary General Meeting of Shareholders . .	Common stock	March 31, 2008	June 27, 2008	¥3	$0.0305	¥10,068	$102,494
October 31, 2008 Board of Directors.	Common stock	September 30, 2008	December 3, 2008	¥3	$0.0305	¥10,068	$102,494
Total						¥20,136	$204,988

(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 U.S. dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of U.S. dollars
June 25, 2009							
Ordinary General Meeting of Shareholders . . .	Common stock	March 31, 2009	June 26, 2009	¥3	$0.0305	¥10,068	$102,494

11. 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 388 million yen ($3,949 thousand) in the year ended March 31, 2009 and 257 million yen in the year ended March 31, 2008, are included in selling, general and administrative expenses.

a) Conditions for issue of stock options

	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)
Grantee	Directors	Directors	Directors & Executive officers	Directors & Executive officers	Directors & Executive officers	Directors & Executive officers	Executive officers
(Number of individuals) . . .	(29)	(27)	(26)	(25)	(30)	(33)	(2)
Number of shares	535,000	500,000	502,000	663,000	400,000	806,000	46,000
Type of share	Common stock	Common stock	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	August 18, 2008	February 20, 2009
Exercise period (from) . . .	June 27, 2005	June 26, 2006	June 29, 2007	August 18, 2006	August 17, 2007	August 19, 2008	February 21, 2009
(to) . . .	June 26, 2009	June 25, 2010	June 28, 2011	June 28, 2036	August 16, 2037	August 18, 2038	February 20, 2039

b) Activities of stock options in the years ended March 31, 2008 and 2009

	Number of shares						
	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)
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	–	–
Granted	–	–	–	–	–	806,000	46,000
Vested	–	–	–	–	–	806,000	46,000
Exercised	–	–	55,000	78,000	34,000	–	–
Expired	–	–	–	–	–	–	–
Unexercised at March 31, 2009	1,000	21,000	148,000	580,000	366,000	806,000	46,000

c) Price per share

	In yen						
	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)
Weighted-average exercise price	¥315	¥289	¥294	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2008	749	755	632	413	–	–	–
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2009	–	–	519	454	477	–	–
Fair value on the date of grant	–	–	–	443	644	471	194

	In U.S. dollars						
	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)
Weighted-average exercise price	$3.20	$2.94	$2.99	$0.01	$0.01	$0.01	$0.01
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2009	–	–	5.28	4.62	4.85	–	–
Fair value on the date of grant	–	–	–	4.50	6.55	4.79	1.97

d) Estimate method of fair value of stock options

The fair value of stock options (5th, 6th and 7th grant) were estimated using the Black-Scholes option-pricing model with the following assumptions.

		Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)
Expected volatility	Note 1	33.267%	34.420%	36.454%
Expected life (of option)	Note 2	15 years	15 years	15 years
Expected dividends	Note 3	¥6 per share	¥6 ($0.061) per share	¥6 ($0.061) per share
Risk-free interest rate	Note 4	1.936%	1.873%	1.783%

Notes: 1. Estimated based on the actual share prices of 15 years shown below.
Stock options (5th grant): August 16, 1992–August 16, 2007
Stock options (6th grant): August 18, 1993–August 18, 2008
Stock options (7th grant): February 20, 1994–February 20, 2009
2. Calculated on the assumption that the share subscription rights would be excised at the middle point of the exercise period.
3. Actual cash dividends for the following periods.
Stock options (5th grant): full year ended March 31, 2007
Stock options (6th grant): full year ended March 31, 2008
Stock options (7th grant): second half of the year ended March 31, 2008 and first half of the year ended March 31, 2009
4. Yield of Japanese government bonds with the same years to maturity as the above expected life of options.

e) Estimate method of number of vested share subscription rights

All of the share subscription rights were vested when granted.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2009 and 2008 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Cash and deposits	**¥435,038**	¥274,885	**$4,428,769**
Time deposits with maturities over three months	**(12,124)**	(15,533)	**(123,424)**
Short-term investments with maturities within three months included in securities	**3,000**	3,500	**30,540**
Total	**¥425,913**	¥262,852	**$4,335,874**

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilizes derivative financial instruments, which are principally comprised 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.

The Group believes that market risks are insignificant, because the Group utilizes such derivative financial instruments solely in order to hedge against certain risks in accordance with internal control procedures. The Group also believes 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, 2009 and 2008.

	In millions of yen			In thousands of U.S. dollars		
	2009			2009		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sell:						
US$	**¥22,350**	**¥21,363**	**¥ 987**	**$227,527**	**$217,479**	**$10,047**
Euro	**15,616**	**13,702**	**1,914**	**158,973**	**139,488**	**19,484**
Others	**2,627**	**2,232**	**394**	**26,743**	**22,722**	**4,010**
Buy:						
US$	**1,076**	**982**	**(93)**	**10,953**	**9,996**	**(946)**
Others	**790**	**811**	**20**	**8,042**	**8,256**	**203**
Total			**¥3,223**			**$32,810**

	In millions of yen		
	2008		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US$	¥68,355	¥60,032	¥8,323
Euro	38,325	37,986	338
Others	4,919	4,559	359
Buy:			
US$	3,782	3,555	(226)
Total			¥8,794

14. CONTINGENT LIABILITIES

Contingent liabilities for guarantees to loans of others made in the ordinary course of business amounted to 94,606 million yen ($963,106 thousand) and 111,863 million yen at March 31, 2009 and 2008, respectively.

15. SUPPLEMENTARY INCOME INFORMATION

	In millions of yen		In thousands of U.S. dollars
	2009	2008	**2009**
Depreciation	**¥153,856**	¥129,263	**$1,566,283**
Research and development costs (including routine or periodic alterations to existing products)	**101,332**	107,960	**1,031,578**

16. RELATED PARTY DISCLOSURES

(Additional information)

The Group has applied the "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11, issued on October 17th, 2006) and the "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13, issued on October 17th, 2006) from the year ended March 31, 2009.

As a result, "notes regarding the parent entity and significant affiliates" have been added to the scope of disclosure.

1. Transactions with related parties

Category	Name	Address	Capital Stock	Description of the Business
Affiliate Company	Caterpillar Japan Ltd. (*1)	Setagaya-ku, Tokyo	23,100 million yen ($235,162 thousand)	Manufacture and sale of construction machinery, including hydraulic excavators, wheel loaders and track-type tractors

Percentage of voting rights held by the Issuer (%)	Relation with the Related Parties	Description of the Transactions	Transaction Amounts (in millions of yen)	Transaction Amounts (in thousands of U.S. dollars)
(Direct holdings) 33.3	MHI sells its products to the related party.	Sale of the shares of Caterpillar Japan Ltd. held by MHI		
		Price	¥50,000	$509,009
		Gain on Sales (*2)	13,921	141,718

*1. The company name was changed on August 1, 2008 from Shin Caterpillar Mitsubishi Ltd.

*2. Terms of the Contracts and the Policy in Deciding Them
MHI sold to Caterpillar Japan Ltd. 115,500 shares (out of 231,000 shares MHI held) of the buyer on August 1, 2008 based on the agreement reached on March 26, 2008 among Caterpillar International Investments Coöperatie U.A., Caterpillar Japan Ltd. and MHI on the revision of the ownership allocation of Caterpillar Japan Ltd. The price was decided after the negotiation based on the enterprise value.

2. Notes regarding the parent entity and significant affiliates

Mitsubishi Motors Corporation was a significant affiliate in the year ended March 31, 2009. The condensed consolidated financial statements of it were as follows:

	In millions of yen	In thousands of U.S. dollars
Mitsubishi Motors Corporation	2009	2009
Total current assets	¥ 540,943	$ 5,506,902
Total non-current assets	597,066	6,078,244
Total current liabilities	620,093	6,312,664
Total non-current liabilities	294,891	3,002,046
Total net assets	223,024	2,270,426
Sales	1,973,572	20,091,336
Loss before income taxes and minority interests	(53,717)	(546,849)
Net loss for the period	¥ (54,883)	$ (558,719)

Report of Independent Auditors

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

Tel : +81 3 3503 1100
Fax: +81 3 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, 2009 and 2008, 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, 2009 and 2008, 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.

Supplemental Information

As described in Note 1.e), effective April 1, 2008, the Company and consolidated subsidiaries have adopted a new accounting standard for measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 25, 2009

Ernst & Young ShinNihon LLC

Corporate Data

As of March 31, 2009

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

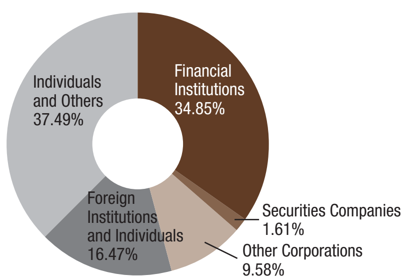
Total Number of Issuable Shares: 6,000,000,000

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

Number of Shareholders: 375,538

Number of Employees: 67,416 (Consolidated)

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

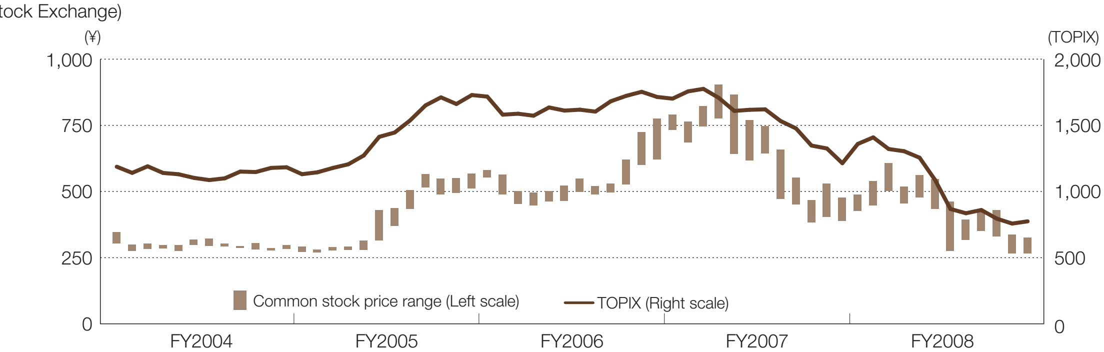
Manager of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

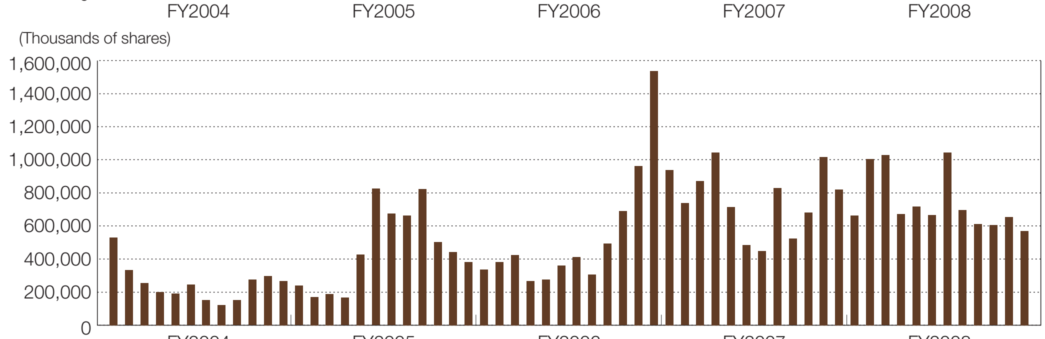
Independent Auditors:
Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo 100-0011, Japan

Major Shareholders	Number of shares owned by major shareholders	% of total shares
Japan Trustee Services Bank, Ltd. (Holder in Trust 4G)	198,062,000	5.9
Japan Trustee Services Bank, Ltd. (Holder in Trust)	180,983,900	5.4
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	131,709,000	3.9
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
Meiji Yasuda Life Insurance Company	80,022,741	2.4
Tokio Marine & Nichido Fire Insurance Co., Ltd.	63,000,000	1.9
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for Mitsubishi UFJ Trust and Banking Corporation)	45,934,000	1.4
Japan Trustee Services Bank, Ltd. (Holder in Trust 4)	33,732,000	1.0
OD 05 Omnibus China Treaty 808150	33,171,554	1.0
MHI Stock Ownership Plan	28,645,897	0.8

Monthly Stock Price Range & Trading Volume

(Tokyo Stock Exchange)





Board of Directors

Directors

CHAIRMAN

Kazuo Tsukuda

PRESIDENT

Hideaki Omiya

SENIOR EXECUTIVE VICE PRESIDENTS

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

Hiroshi Kan
Providing assistance to the President. General Manager, Presidential Administration Office. In charge of other matters specially assigned by the President

Sunao Aoki
Providing assistance to the President. General Manager, Technical Headquarters. In charge of Information Systems & Communications and other matters specially assigned by the President

EXECUTIVE VICE PRESIDENTS

Shiro Iijima
General Manager, Shipbuilding & Ocean Development Headquarters

Katsuhiko Yasuda
In charge of Internal Audit, Corporate Social Responsibility, General Affairs, Legal and Personnel

Akira Sawa
General Manager, Nuclear Energy Systems Headquarters

Teruaki Kawai
General Manager, Aerospace Headquarters

Shunichi Miyanaga
General Manager, Machinery & Steel Structures Headquarters

Yoshiaki Tsukuda
General Manager, Power Systems Headquarters

Yujiro Kawamoto
In charge of Accounting, Finance and Material

SENIOR VICE PRESIDENTS

Ken Watabe
General Manager, Paper & Printing Machinery Division

Makoto Shintani
General Manager, Production System Innovation Planning Department

Takashi Abe
Deputy General Manager, Presidential Administration Office; General Manager, Corporate Planning Department

Akira Hishikawa
General Manager, General Machinery & Special Vehicle Headquarters

OUTSIDE DIRECTORS

Mikio Sasaki
Chairman of the Board of Mitsubishi Corporation

Akihiro Wada
Advisor, Executive Technical Advisor of Aisin Seiki Co., Ltd.

Yoshihiro Sakamoto
Former Vice-Minister for International Affairs of the Ministry of International Trade and Industry

STATUTORY AUDITORS

Koshin Nakamoto

Naoki Yasaka

Toyoshi Nakano
Senior Adviser of Mitsubishi UFJ Trust and Banking Corporation

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

Nobuo Kuroyanagi
President & CEO of Mitsubishi UFJ Financial Group, Inc.; Chairman of The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(As of June 25, 2009)

MITSUBISHI HEAVY INDUSTRIES, LTD.

To protect the environment, this annual report is printed on FSC-certified paper, and the cover is printed on recycled paper, by a waterless printing method that generates no harmful wastewater.

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