2011 ANNUAL REPORT

Annual Report 2011

MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

How will MHI meet th demand for energy in

“MHI Group Thermal Power

Thermal power generation continues to shoulder the bulk of the world’s energy demand. In this field, MHI Group is bringing its outstanding technological capabilities to bear to support highly efficient power generation.

e world’s growing the future?

Generation”

The global transition underway to a low-carbon society remains unchanged.

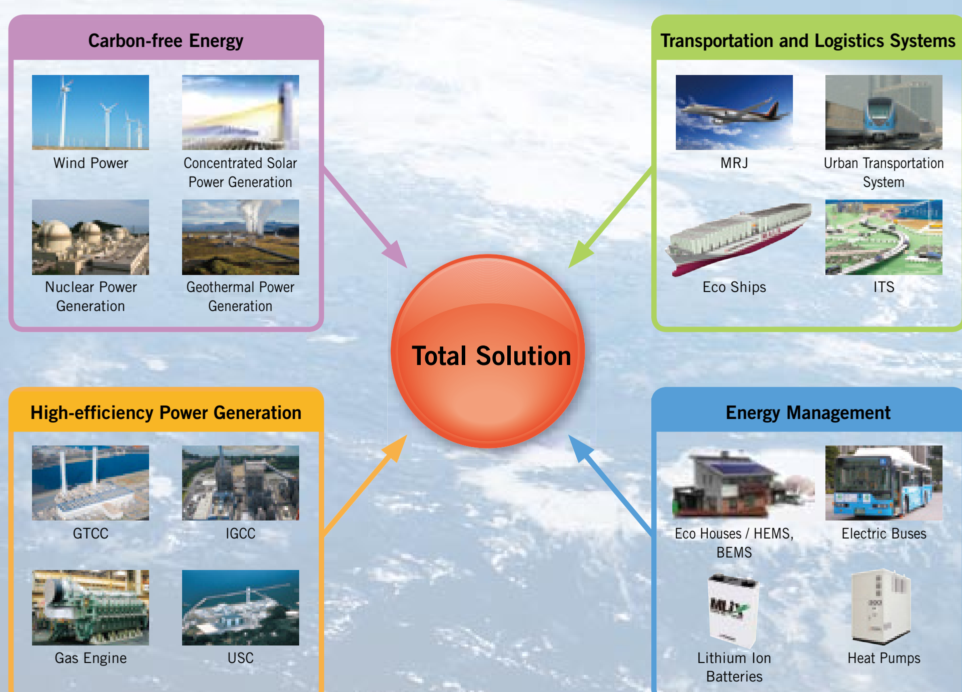
MHI Group has taken action in four key technological fields in the energy and environment businesses that it believes are essential to making a low-carbon society possible. Those Four key fields are Carbon-free Energy, Transportation and Logistics Systems, High-efficiency Power Generation, and Energy Management.

MHI Group possesses technologies in all four fields, and will contribute to developing safe, secure and comfortable communities by showcasing its ability to integrate these assets to deliver solutions that answer market needs.

It is an undeniable fact, though, that the world remains heavily dependent on fossil energy, which accounts for 67% of the total volume of power generated globally today.

With thermal power retaining such a vital position, MHI Group will work vigorously to pursue highly efficient power generation in the field.

The Four Key Technological Fields for the Energy & Environment Business



GTCC: Gas Turbine Combined Cycle, USC: Ultra Super Critical, MRJ: Mitsubishi Regional Jet, HEMS: Home Energy Management System
IGCC: Integrated Gasification Combined Cycle, ITS: Intelligent Transport System, BEMS: Building Energy Management System

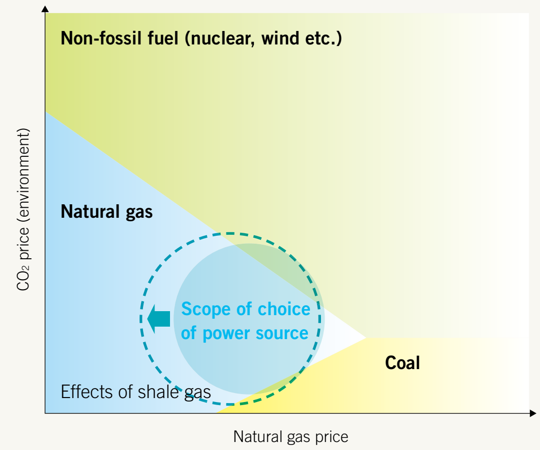
1,600°C

GAS TURBINE DEMAND IN INDUSTRIALIZED COUNTRIES

In industrialized countries, the selection of power sources continues to be based on an attempt to balance the so-called “3Es”: environment, economic efficiency, and energy security.

MHI Group is seeing growing demand for gas turbines. This situation reflects gas price stabilization brought about by the development of unconventional gas (shale gas), as well as the retirement of aging coal-fired thermal power plants in line with tougher environmental regulations.

Choice of power source



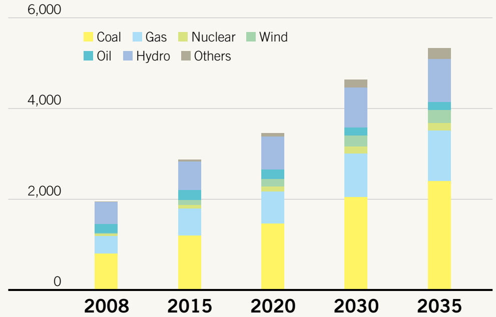
MHI Group’s most advanced J-Series gas turbine has achieved a turbine inlet temperature of 1,600°C, the highest in the world. This milestone was achieved during trial operations in early February 2011 at the combined-cycle power plant for verification testing inside MHI’s Takasago Machinery Works (Takasago City, Hyogo Prefecture, Japan). This accomplishment marked the final validation needed for the J-Series turbine, with plans now on the table to deliver six units of the turbine to the Himeji No. 2 Power Station of Kansai Electric Power Co., Inc.

GROWING POWER DEMAND IN EMERGING MARKETS AND COAL-FIRED THERMAL POWER

Demand for power today continues to rise in emerging markets. By 2035, this demand will account for some 3,300 GW, or roughly 80%, of the increase in power demand worldwide.

Demand for natural gas-fired thermal power plants is also projected to grow, as efforts to promote greater power source diversification gain ground. Demand, though, is widely expected to center on coal-fired plants, since coal is easier to procure due to its broad geographical distribution worldwide, and can be readily purchased as a fuel at reasonable prices.

Emerging countries: Cumulative installed capacity forecast

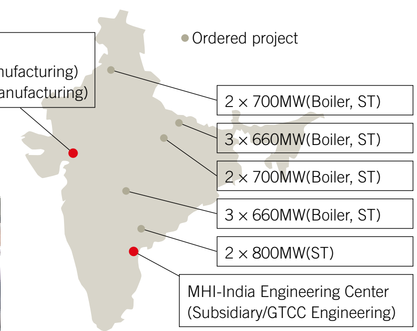


(MHI's estimate from World Energy Outlook 2010)

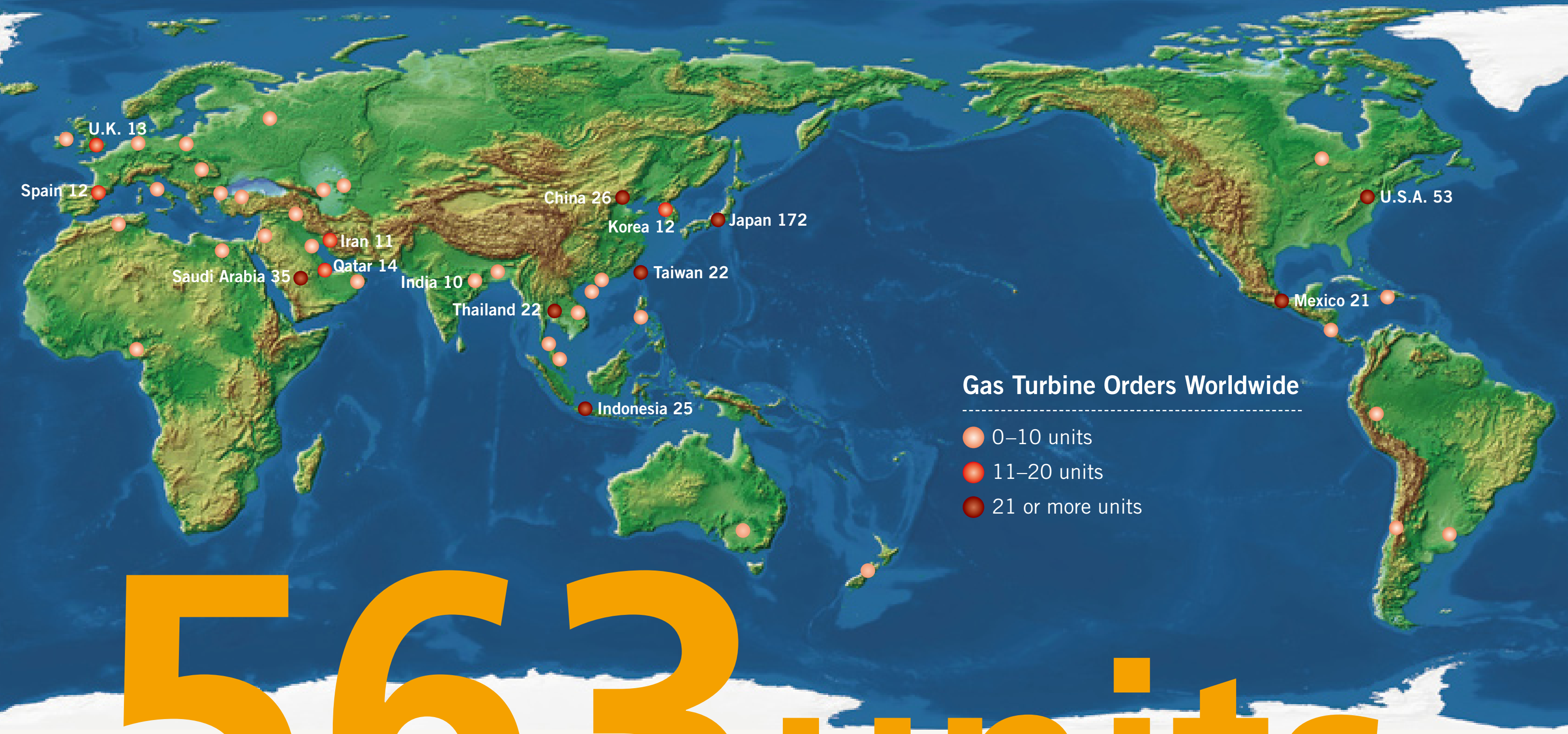
MHI and Larsen & Toubro Limited (L&T) of India have invested in two joint venture companies with plants where the full-scale production of supercritical-pressure coal-fired boilers and steam turbines/generators is now underway. With the production and supply of highly efficient coal-fired thermal power plants, these companies will aggressively meet demand for power in India, which has expanded rapidly in step with economic growth.

The joint ventures, which have respective annual production capacities for boilers and turbines/generators of 4 GW, are taking solid steps to win orders, having received orders for 10 supercritical-pressure boilers and 12 turbines to date.

Project won in India



* LMB: L&T-MHI Boilers Private Limited
LMTG: L&T-MHI Turbine Generators Private Limited

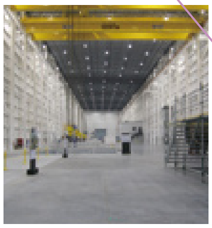


563units

STRENGTHENING THE PRODUCTION FRAMEWORK IN GAS TURBINES IN NORTH AMERICA

MHI Group has received a cumulative 563 orders for gas turbines. A key market for these machines is North America, where MHI Group has launched the Savannah Machinery Works in the U.S. state of Georgia. The site is the Group's second in the country behind the Orlando Service Center in the state of Florida. The Savannah Machinery Works is operated by Mitsubishi Power Systems Americas, Inc. (MPSA), a Florida-based subsidiary in MHI's power systems business in the United States.

An opening ceremony for the Savannah Machinery Works, which also marked the start of full-scale operations at the combustor manufacturing plant, was held in May 2011. Construction of gas and steam turbine rotor servicing and gas turbine assembly plants is still under way at the Savannah site, with the construction of a fabrication plant for rotors, the core component of gas turbines, also under consideration. Through this series of investments, MHI's intent is to incrementally enhance its structure for a host of production and services. These will encompass everything from the manufacture of gas and steam turbine core components and main unit assembly, to the maintenance and upgrade of rotors and other major components. MHI will work to realize its target of securing a 30% share of the world gas turbine market. Plans call for reinforcing the product-wide supply chain in the United States as the Group develops a more robust production system anchored in Japan and the United States that is highly resistant to exchange rate volatility.



View inside the Savannah Machinery Works

GAS TURBINE SERVICE NETWORK

During periodic inspections of gas turbines each year, high-temperature components, which can become easily worn during turbine operation, must be inspected and repaired or replaced. The delivery of more turbine units worldwide is sparking a global growth trend in repair and maintenance demand.

To systematically meet this demand, MHI Group is developing a closely-knit business network with customers in a host of regions, one that includes cooperative ventures with prominent users outside Japan.

In line with the development of this service business network (called the Diamond Service Network), service business sales are projected to expand to account for 35% of sales by fiscal 2014.

Recently completed EGAT Diamond Service maintenance center for high-temperature components in gas turbines

Promoting appealing services under the motto "CS (Customer Service) First!"

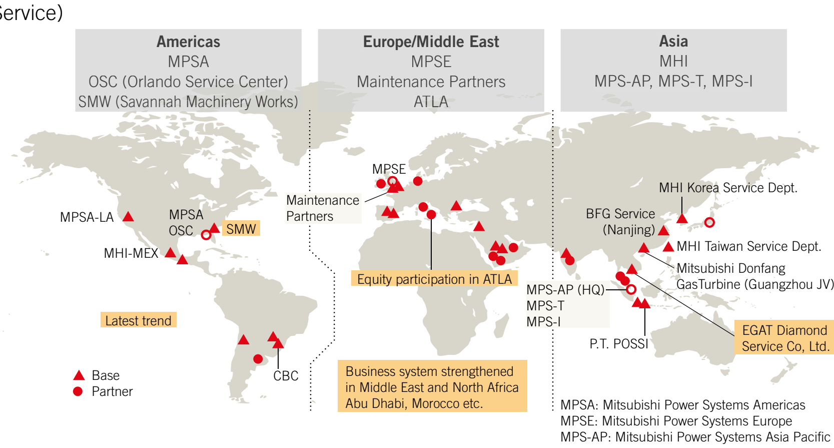
Europe: In addition to the acquisition of field service specialist Maintenance Partners NV (Belgium), MHI Group is enhancing gas turbine component manufacturing and maintenance operations via a capital stake in ATLA (Italy)

Southeast Asia: As a joint venture with the Electricity Generating Authority of Thailand (EGAT), the Group established a new company for gas turbine component repair (EGAT Diamond Service)

May 2011: Operations launched at the repair factory and maintenance plant

North America: In a follow-up to the Orlando Service Center (OSC), the Group is phasing in a broader production and service framework at the Savannah Machinery Works (USA), including precision inspection of gas and steam turbine rotors, gas turbine component manufacturing, and large ST rotor manufacturing

Middle East/North Africa: Promoting the development of service bases primarily in the Middle East, the delivery site for many gas turbines.



Our Technologies, Your Tomorrow

Hideaki Omiya,
President

Kazuo Tsukuda,
Chairman

We extend our heartfelt sympathies to the people affected by the earthquake that struck eastern Japan. The reconstruction of stricken areas is expected to take a long time. As an organization playing a major role in developing social infrastructure, the entire Company will continue to help restore affected areas as quickly as possible.

The global economy was generally more stable during fiscal 2010. China, India and other emerging economies continued to expand, and industrialized nations began to see a gradual recovery. In general, the Japanese economy also began to experience a gradual recovery, underpinned by increased personal consumption and a rebound in capital investment that was driven by exports to emerging economies. However, some concerns about the future economic situation in Japan persist, particularly in the aftermath of the Great East Japan Earthquake last March.

MHI will continue to fulfill its wider business responsibility of supporting social and industrial infrastructure. Our other primary focus will be to further improve management and operating processes in order to succeed in the increasingly difficult competitive environment, and to accelerate our global business development.

Based on our 2010 medium-term business plan, which began from April 2010, MHI further increased its efforts to gain orders in our two core businesses for the future: "Energy & Environment" and "Transportation, Social & Industrial Infrastructure," while promoting business alliances and optimizing global production and service bases. At the same time, through consolidating and, in some situations, spinning-off production centers as a result of changes in the market environment, MHI implemented far-reaching business structure reforms to establish a more flexible and responsive management system.

In connection with growing our business and working toward the goals outlined above, meeting our Corporate Social Responsibility (CSR) obligations continues to be a top priority for our management, including each of our compliance, environmental protection, and internal control obligations. MHI is dedicated to improving our products and services from the perspective of our customers and society as a whole, with a view to how we can best contribute to social development. We would like to thank you for your continued understanding and support.

K. Tsukuda

Kazuo Tsukuda, Chairman

Hideaki O

Hideaki Omiya, President

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.

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.

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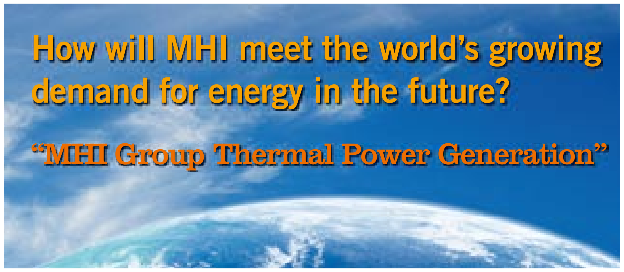
How will MHI meet the world's growing demand for energy in the future?
"MHI Group Thermal Power Generation"


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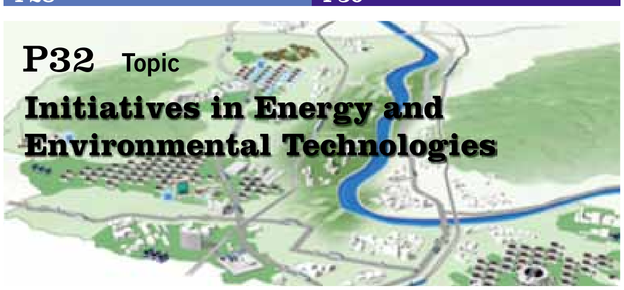

P32 Topic
Initiatives in Energy and Environmental Technologies

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*
	2011	2010	2009	2008	2007	2006	2011
Net sales	¥2,903,770	¥2,940,887	¥3,375,674	¥3,203,085	¥3,068,504	¥2,792,108	$34,922,068
Operating income	101,219	65,660	105,859	136,030	108,912	70,912	1,217,306
Interest expense–net of interest income and dividend income	(14,942)	(15,674)	(6,031)	(5,729)	(4,807)	(1,968)	(179,699)
Income before income taxes and minority interests	39,499	28,137	64,923	101,375	83,711	52,383	475,033
Net income	30,117	14,163	24,217	61,332	48,839	29,816	362,200
Per share information of common stock:							
(yen / U.S. dollars)							
Net income–basic	¥ 8.97	¥ 4.22	¥ 7.22	¥ 18.28	¥ 14.56	¥ 8.85	$ 0.108
Net income–diluted	8.96	4.22	7.21	18.27	14.55	8.83	0.108
Net assets	376.17	380.80	369.94	423.17	425.54	410.15	4.524
Cash dividends	4.00	4.00	6.00	6.00	6.00	4.00	0.048
Total assets	¥3,989,001	¥4,262,859	¥4,526,213	¥4,517,148	¥4,391,864	¥4,047,122	$47,973,553
Net assets**	1,312,678	1,328,772	1,283,251	1,440,429	1,446,436	1,376,289	15,786,867
Current assets	2,575,613	2,826,662	3,165,059	2,936,886	2,787,315	2,543,485	30,975,502
Current liabilities	1,534,070	1,555,796	1,994,892	1,825,894	1,807,411	1,626,662	18,449,428
Interest-bearing debts	1,325,667	1,495,325	1,612,859	1,365,393	1,273,572	1,198,664	15,943,078
Cash flows:							
Cash flows from operating activities	¥ 337,805	¥ 117,977	¥ 79,533	¥ 161,823	¥ 158,721	¥ 73,928	$ 4,062,597
Cash flows from investing activities	(137,248)	(180,704)	(156,593)	(193,055)	(158,653)	(104,065)	(1,650,607)
Ratios:							
Return on equity***	2.37%	1.12%	1.82%	4.31%	3.48%	2.22%	
Equity ratio****	31.64%	29.98%	27.43%	31.44%	32.52%	34.01%	

Notes: * U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥83.15 = US$1, the exchange rate prevailing at March 31, 2011.

** 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 Standards Board 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.

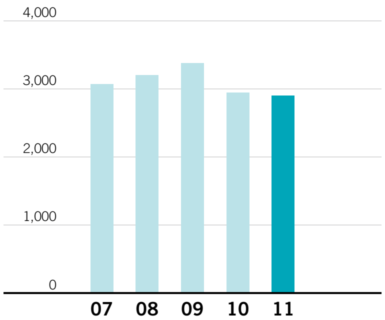
*** Return on equity = net income / (net assets – share subscription rights – minority interests) × 100

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

CONSOLIDATED FINANCIAL PERFORMANCE

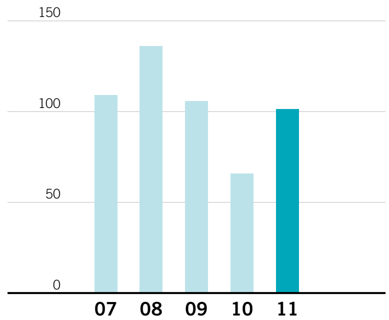
Net Sales

(In billions of yen)



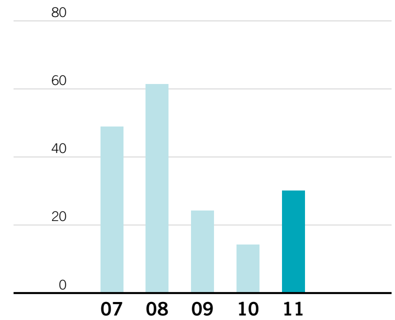
Operating Income

(In billions of yen)



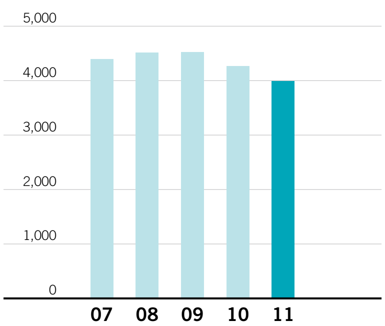
Net Income

(In billions of yen)



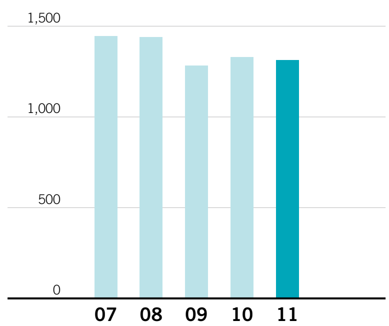
Total Assets

(In billions of yen)



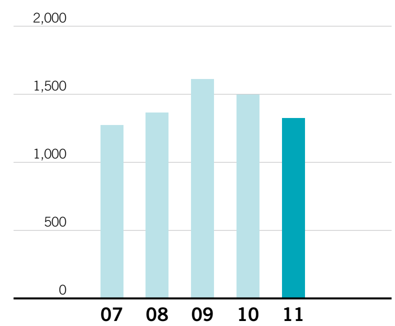
Net Assets

(In billions of yen)



Interest-Bearing Debts

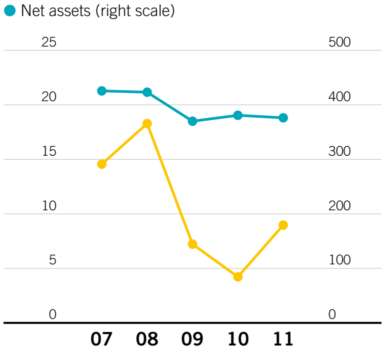
(In billions of yen)



Per Share Information of Common Stock

(yen)

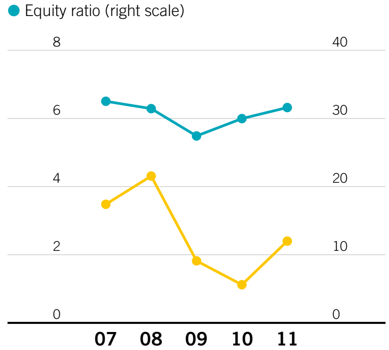
- Net income—basic (left scale)
- Net assets (right scale)



Ratios

(%)

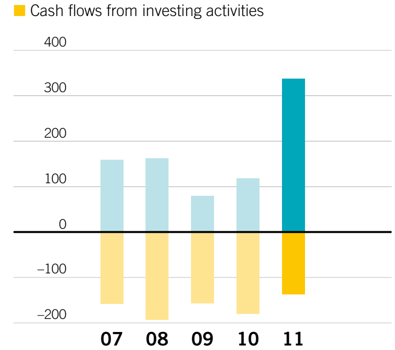
- Return on equity (left scale)
- Equity ratio (right scale)

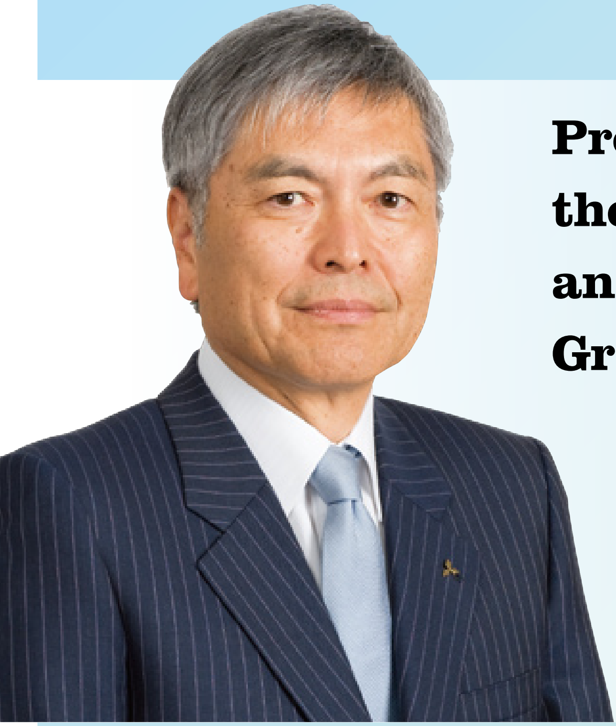


Cash Flows

(In billions of yen)

- Cash flows from operating activities
- Cash flows from investing activities





Progress on the 2010 Medium-term Business Plan and Impact of the March 2011 Great East Japan Earthquake

Hideaki Omiya, President

FY2010 Results and Analysis

Question 1 Can you give us an overview of business results for fiscal 2010?

We continued to work assiduously to win orders. As a result, the value of consolidated orders received rose across all business segments. Although consolidated net sales were largely unchanged year on year, operating, ordinary and net income all exceeded prior-year performance.

MHI Group continued working vigorously to win new orders. As a result, the value of consolidated orders received climbed more than 21% year on year, to ¥2,995.4 billion. Increases were recorded in every business segment, including Aerospace, which won major contracts in the U.S.

Consolidated net sales remained around the same level as a year earlier, at ¥2,903.7 billion. While net sales rose in Shipbuilding & Ocean Development on increased deliveries of new vessels, and in General Machinery & Special Vehicles on a recovery in demand, net sales decreased in both Power Systems and Machinery & Steel Structures.

With respect to earnings, the Group was able to increase profits despite the strong yen, thanks to company-wide activities to boost profitability. This included improved plant construction profitability in Power Systems and Machinery & Steel Structures. As a result, operating income increased ¥35.5 billion to ¥101.2 billion, while ordinary income increased ¥44.1 billion to ¥68.1 billion.

We experienced a net extraordinary loss of ¥28.6 billion, which included extraordinary gains from the sale of fixed assets and investment securities, and extraordinary losses from business structure improvement expenses, investment securities valuation losses and damages to a thermal power plant (which was under construction) caused by the Great East Japan Earthquake. Overall, net income grew ¥15.9 billion to ¥30.1 billion.

Question 2 Looking back on performance in fiscal 2010, would you say that the initiatives outlined in the 2010 Business Plan were successful?

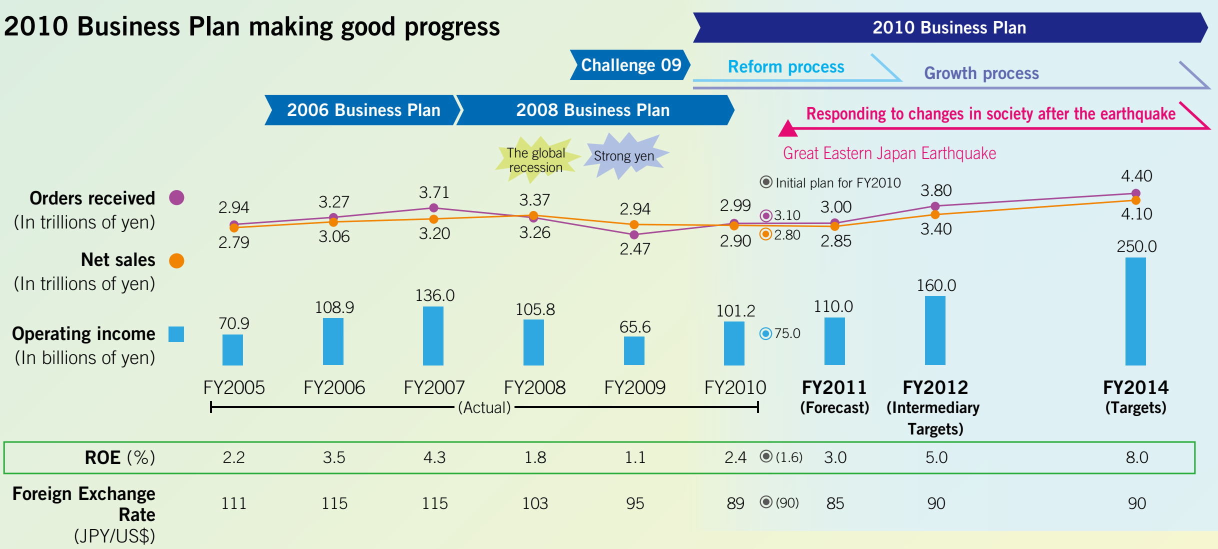
Orders received recovered to the ¥3-trillion level, and the 2010 Business Plan's presence was also evident in terms of profit.

After temporarily suspending the 2008 Business Plan due to the global recession, we moved in the previous fiscal year to advance the new 2010 Business Plan. Consequently, orders received in fiscal 2010 recovered to the ¥3-trillion level, with sales and income also beating initial plan.

Under the 2010 Business Plan, we continued and deepened business process reform begun under the 2008 Business Plan, the benefits of which we enjoyed in fiscal 2010.

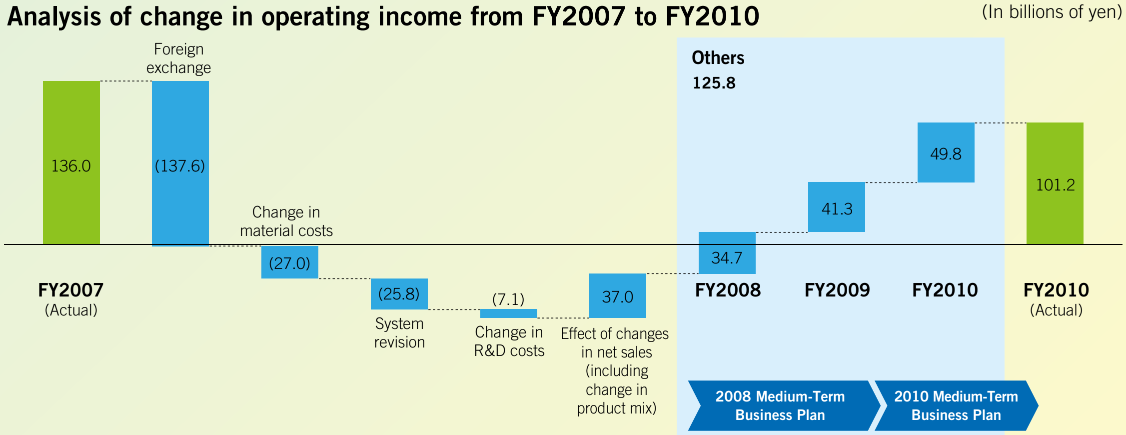
To give an analysis of the factors that drove change in operating income from fiscal 2007 to fiscal 2010, despite the adverse effects of a strong yen, business process reform within the Technology & Innovation Headquarters and Production System Innovation Planning Department resulted in steady improvements across the board. In that sense, the influence of the 2010 Business Plan was clearly evident.

2010 Business Plan making good progress



Analysis of change in operating income from FY2007 to FY2010

(In billions of yen)



The Great East Japan Earthquake—Impact and Initiatives

Question 3

How was MHI Group impacted by the March 2011 disaster?

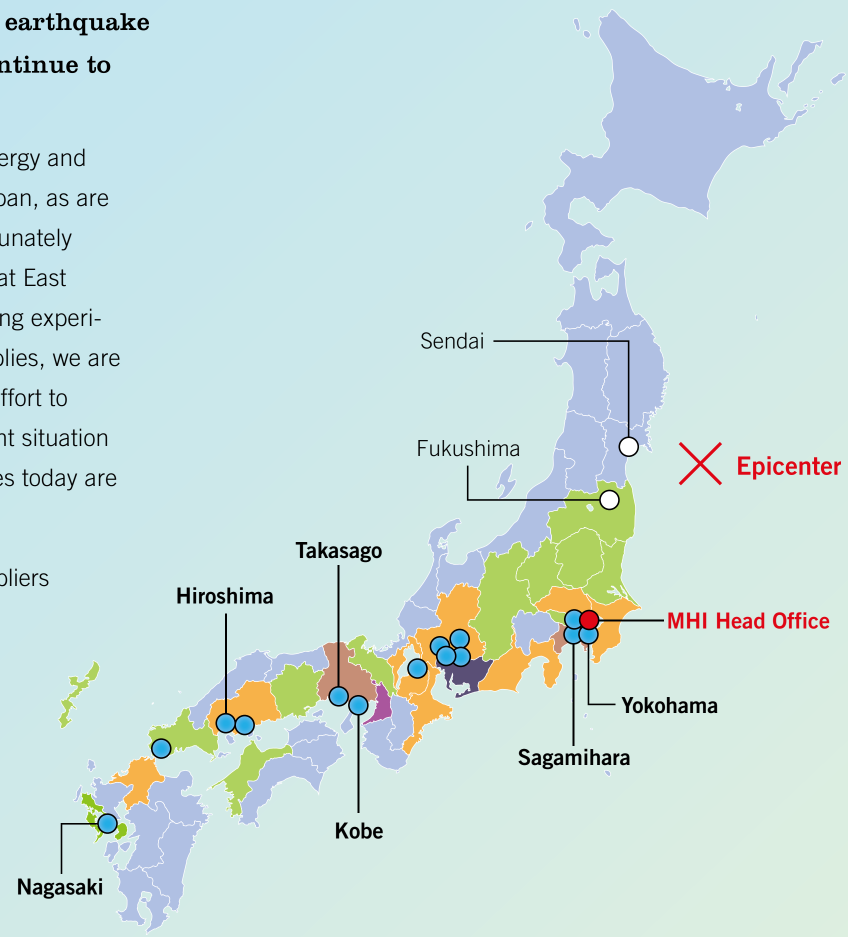
We sustained no direct damage from the earthquake and tsunami, and all production sites continue to operate as normal.

MHI Group's main production sites involved in energy and infrastructure are situated primarily in western Japan, as are the majority of our key suppliers. As such, we fortunately sustained virtually no direct damage from the Great East Japan Earthquake. Although some difficulty is being experienced in securing necessary parts and other supplies, we are checking suppliers' situations and making every effort to obtain the needed items. With this temporarily tight situation now steadily resolving itself, Group production sites today are operating normally.

Major manufacturing sites of suppliers

under 10
10–20
20–40
40–60
60–80
over 80

Main production sites



Major manufacturing sites relating to energy and infrastructure

Site	Energy				Infrastructure			
	Thermal Power Generation	Renewable Energy Power Generation	Nuclear Power Generation	Engine Power Generation	Bridges	Tunnel Excavation Machinery	Steel Manufacturing Machinery	Vibration and Isolation Systems
Nagasaki	●	●						
Kobe			●			●		
Yokohama		●		●				
Takasago	●		●					
Hiroshima					●		●	●
Sagamihara				●				

Question 4
What can you tell us about MHI Group's role in supporting restoration efforts following the tragic disaster?

As a corporate entity that supports Japan's social infrastructure, we are pooling our comprehensive strengths in an ongoing push to support a swift recovery in areas hardest hit by the recent earthquake.

In the wake of the March 2011 disaster, MHI Group has dispatched a total of more than 10,000 employees to the stricken region as of May 31, 2011, with the hopes of swiftly restoring thermal power plants and other key social infrastructure that was damaged. In addition to using company aircraft to transport relief supplies to the areas affected, our emergency disaster response and full-on commitment to supporting restoration efforts included carrying out repairs and inspections of products delivered earlier by MHI Group. This was particularly the case with respect to nuclear power, where we launched initiatives with customers immediately following the earthquake to confirm the safety of existing power plants. As for thermal power plants, we are striving to restore damaged plants to working order, and, as an emergency measure, have significantly stepped up the construction of gas turbine-based plants and the production of small- and medium-sized diesel power generators.

Our support also extends to medical activities. At the request of the Japan Medical Association and other entities, we dispatched doctors and nurses from company medical facilities, and opened company facilities to accept patients.

Question 5
What initiatives are you undertaking in nuclear energy systems?

MHI Group is committed to providing products of impeccable safety and reliability.

Customers of MHI Group in the U.S. intend to continue with slated projects, and so we are implementing them as planned. And naturally, we will continue to provide safe and reliable products that will contribute to stable power supplies. Taking the accident at the Fukushima Daiichi Nuclear Power Plant seriously, we will of course dedicate all our strength to a recovery in confidence in nuclear power. Furthermore, among MHI's range of joint initiatives with Hitachi, we have begun to consider providing support to actions at the Fukushima Daiichi Nuclear Power Plant.

Despite a short-term lull in demand, nuclear power generation is expected to play an important role in the future, both to meet society's demand for energy and to preserve the environment. We will continue working diligently to provide highly safe and reliable nuclear power technologies.

2010 Business Plan Progress

Question 6 — What progress was made on Strategy 1 of the plan, which sought to "transform business models from customer perspectives"?

Steady strides were made in four key areas.

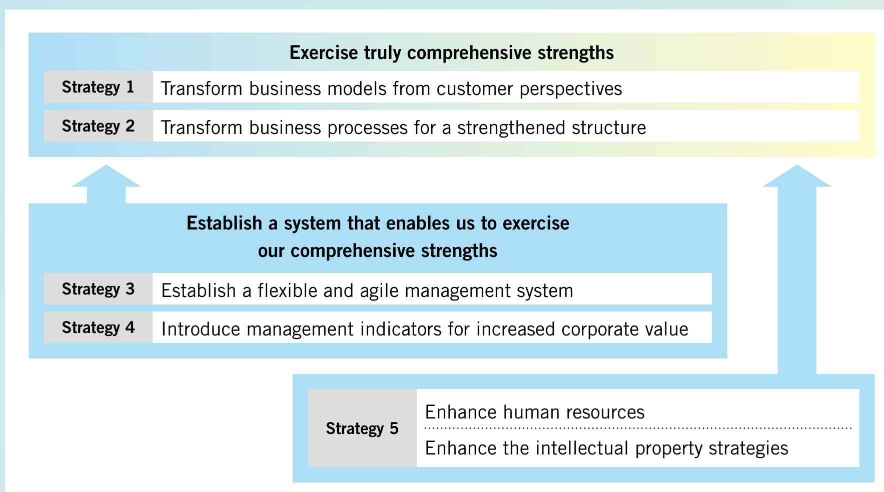
Our primary objectives are to strengthen the core businesses further, expand the solutions business, expand upstream and downstream business areas, and expand businesses primarily in new markets.

To strengthen the core businesses further, the steps we are taking include commercializing J-Series gas turbines and launching MRJ manufacturing and assembly. To expand the solutions business, our efforts include reaching an agreement with U.K.-based utility Scottish and Southern Energy plc to develop low-carbon energy.

In efforts to expand upstream and downstream business areas, our range of measures pursued include taking a capital stake in ATLA S.r.l. of Italy, as we look to reinforce our gas turbine service structure in Europe.

Finally, where our push to expand businesses primarily in new markets is concerned, we are firmly expanding business operations in India and China.

Actions here include the full-scale operation of supercritical-pressure boilers and steam turbines/generators production sites through joint investment with L&T (Larsen & Toubro Limited). In the United States, we are currently building gas and wind turbine assembly plants as we promote steps to expand the Group's network of overseas production sites.



Question 7 — Please tell us a bit about Strategy 2—"transform business processes for a strengthened structure."

We continue to pursue two distinct types of business process reform.

Under "transform business processes for a strengthened structure," we continued our push to reduce costs by accelerating business process sharing and standardization, most notably the modular design project long pursued by the Technology & Innovation Headquarters.

In terms of globally optimizing business process allocation, as aimed for in the 2010 Business Plan, we are seeing progress in making a departure from vertical integration as we seek to develop an optimal business structure. To this end, we acquired U.K.-based venture company Artemis Intelligent Power, Ltd. and entered an alliance with Hitachi, Ltd. concerning a railway systems business for overseas markets.

Question 8

Please say a few words about Strategy 3—"establish a flexible and agile management system."

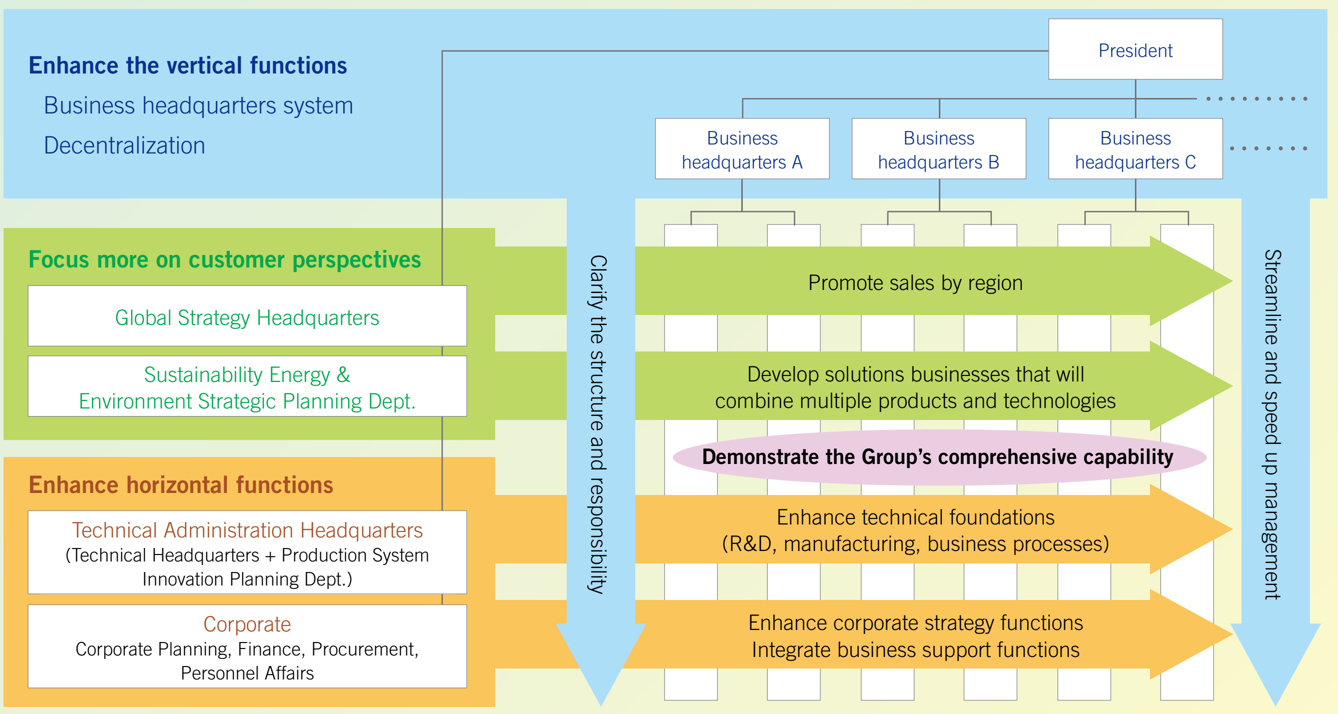
We made sweeping reforms to our management system, which had been a long-standing management issue, crafting a system that can take optimal advantage of MHI Group's comprehensive strengths.

To establish the flexible and agile management structure targeted in Strategy 3, we implemented sweeping reform of our management system, which had been a long-standing management issue.

Our previous management structure saw business segments and works segregated along functional lines, namely sales and production. But from April 2011, we opted instead to concentrate at our business segments all related product business functions. From this reform, business segments can use their now centralized responsibility for business to make faster decisions, for a system that will enable MHI Group to succeed against the competition.

Similarly, we have reinforced strategic functions, along with business support and governance functions, at corporate management divisions as well. Ultimately, we have put a structure into place that can optimally showcase the comprehensive strengths of MHI Group.

From a matrix of business headquarters and sites to a business headquarters system



Question 9 What progress has been made on Strategy 4—"introduce management indicators for increased corporate value"?

Our management indicator for fiscal 2014 is ROE of 8%, and we plan to fully apply our business grading system from fiscal 2012 as we emphasize the pursuit of investment efficiency.

In the 2010 Business Plan, we positioned ROE as a key management indicator, and are exploring the adoption of a business grading system.

This business grading system will involve ranking each product business from multiple perspectives including marketability, competitiveness and financial health, which in turn will lead to allocating personnel, funds and other management resources more efficiently. This system will spearhead our efforts to construct an optimal business portfolio, and we will advance further improvements to management processes.

Outlook for Fiscal 2011

Question 10 Finally, can you briefly discuss the Group's intended direction in fiscal 2011 and your outlook going forward?

Along with continuing support of restoration efforts following the Great East Japan Earthquake, we will push ahead with management and business process reform and accelerate global business development.

Despite certain volatile factors such as rising crude oil prices, high unemployment rates, and concerns regarding government finances and continued financial instability in some industrialized nations, continued overall improvement is expected in the global economy, fueled by ongoing economic growth in emerging economies. Likewise, as a result of this continued economic growth in the emerging economies, the Japanese economy is also expected to continue its recovery. The impact of the Great East Japan Earthquake, however, continues to cause some uncertainty about the future.

Additionally, we recognize that our business environment will become even more challenging, with fierce competition among top global companies vying for emerging markets with outstanding growth potential. The yen is also likely to remain strong for the foreseeable future. Particularly since the March 2011 disaster, we have seen power supply shortages in Japan, as well as reviews of energy policy taking place in countries worldwide and greater calls to enhance the safety of nuclear power. The public's values and approach to considering various issues are similarly likely to begin changing in the wake of the tragic disaster.

In this climate, MHI Group will continue to make all possible efforts to aid Japan's recovery from the Great East Japan Earthquake, and thereby fulfill our wider business responsibility of supporting social and industrial infrastructure. At the same time, the Group will respond swiftly and flexibly to social changes triggered by the massive earthquake and tsunami. Our other primary focus will be to further improve management and operating processes in order to succeed in the increasingly difficult competitive environment, and to accelerate our global business development.

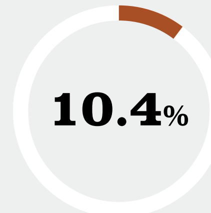
In terms of our business outlook, for fiscal 2011, ending March 31, 2012, we are projecting ¥3 trillion in orders received, net sales of ¥2,850.0 billion, and operating income of ¥110.0 billion. We also expect to see tangible benefits from business process reform emerge in fiscal 2011.

MHI at a GLANCE

Share of Net Sales

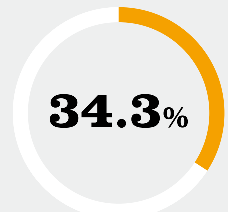
Shipbuilding & Ocean Development

We develop and build ships and marine structures for a wide range of applications on all the Seven Seas. Drawing on a century-old tradition and vast depth of accumulated expertise, it proactively addresses future as well as present needs, responding to environmental regulations and through continuing improvements in economy, reliability, and safety.



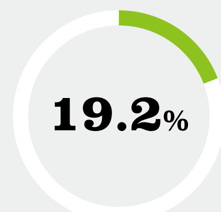
Power Systems

We grapple with issues of concern to everyone, pursuing research on energy problem solutions that keep the environment safe, as well as new and alternative energy sources. In the nuclear energy field, MHI has been widely expanding its business as a major manufacturer of nuclear power plants to encompass provision of PWR (pressurized water reactor) plants, development of FBR (fast breeder reactors), and the establishment of nuclear fuel cycle plants, among others.



Machinery & Steel Structures

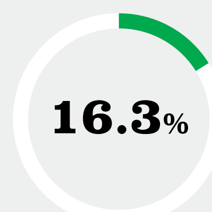
We develop and manufacture environmental and chemical plants, transportation systems, bridges, and crane & material handling systems that form an indispensable part of society's infrastructure, along with steel machinery and compressors contributing to the creation of industrial infrastructures. At the same time, MHI is expanding into new fields such as a diverse range of equipment and devices used in daily life along with CO_2 recovery plants and medical systems contributing to prevention of global warming. MHI will continue to promote further technological development to contribute to the realization of an enriched society.



Aerospace

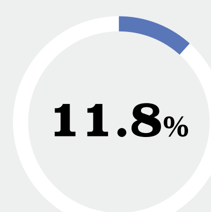
We are moving into the space era through R&D based on our leading-edge technologies. The Aircraft Division is expanding operations through development and participation in commercial airplane and other new business areas.

The Space Division, serving as the system integrator for the H-IIA Launch Vehicle, is driving Japan's exploration and utilization of space.



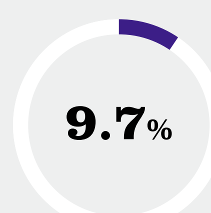
General Machinery & Special Vehicles

MHI develops and manufactures a wide range of products that are essential to daily life, such as engine generating equipment, engines for agricultural/industrial/marine use, turbochargers, forklift trucks and other material handling equipment. The technological edge we have honed through each of our products is the basis for making our products environmentally friendly as well, with energy conservation, fuel efficient, and quiet designs.



Others

The Air-conditioning & Refrigeration Systems business boasts an extensive lineup of air-conditioning products, from air-conditioners for commercial, residential and automotive use, to centrifugal chillers. Also, in the Machine Tool business MHI manufactures a range of machine tools including large machines, gear cutting machines and other industrial machinery with a focus on minimizing their impact on the environment, such as through energy-saving design features.



Shipbuilding & Ocean Development

Cruise Ship DIAMOND PRINCESS

Fiscal 2010 Review

As global demand for new shipbuilding began to recover, MHI focused sales activities on high value-added vessels. Orders for a total of 17 ships were received, including orders for 2 seismic vessels, 3 LPG carriers and 1 LNG carrier. As a result, FY2010 consolidated orders rose from the previous year to ¥173.2 billion. Pending consolidated orders for Shipbuilding & Ocean Development at the end of FY2010 were for 53 ships, totaling approximately 2.7 million gross tons.

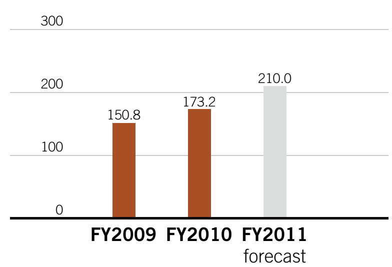
Consolidated net sales rose year on year to ¥302.4 billion, with deliveries of a total of 23 ships, including 11 container ships, 3 LPG carriers, and 4 "pure car carriers." Operating income declined to ¥1.8 billion, despite improved profitability, primarily due to the adverse impact from the strong yen.

Future Initiatives

The supply-demand balance for regular commercial ships had been greatly out of sync, reflecting the large volume of orders for ships prior to the global financial crisis of 2008, which exceeded actual demand. The desire to take advantage of lower ship prices, however, reignited orders in 2010. Nevertheless, the yen's growing strength against the U.S. dollar continues to thwart efforts to close the cost gap with South Korea and China, with severe conditions on this front expected to continue. In this market environment, the 2010 Business Plan has targeted Shipbuilding & Ocean Development as a "Reform Business." The aims here are to secure stable earnings and accelerate cost structure reform in order to boost production efficiency. To do this, MHI is building a business structure suited to changes in the business climate, making large-scale projects and products for new business fields its main business concerns.

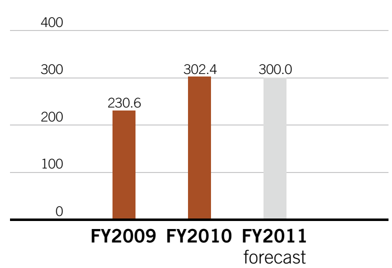
Orders Received

(In billions of yen)



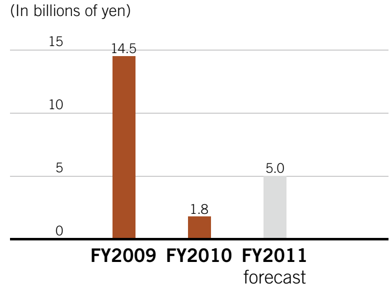
Net Sales

(In billions of yen)



Operating Income

(In billions of yen)



Moss Type LNG Carrier CYGNUS PASSAGE

RO / RO Ships TØNSBERG

PRODUCTS

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

For cruise ships, MHI's goals for FY2011 are to establish a one-ship-a-year shipbuilding structure and win orders. In seismic vessels, against a backdrop of global escalation in resource prices, the market for seabed resource exploration and development is expanding annually. In this context, MHI will differentiate itself from other companies through sophisticated design and construction technology in a bid to continuously win orders. With fuel costs expected to rise sharply in the future, MHI will accelerate its development of energy-saving and environmental technology in this field to gain orders by setting itself even further apart from competitors.

In this climate, the targets for Shipbuilding & Ocean Development for FY2011 are orders of ¥210.0 billion, net sales of ¥300.0 billion, and operating income of ¥5.0 billion; and for FY2012, orders of ¥230.0 billion, net sales of ¥220.0 billion and operating income of ¥5.0 billion. The targets for FY2014, which is the last year of the 2010 Business Plan, are orders of ¥230.0 billion, net sales of ¥210.0 billion, and operating income of ¥7.0 billion.

Message from the Segment Leader

Hisashi Hara
General Manager, Shipbuilding & Ocean Development

We are taking action on the business strategies outlined in the 2010 Business Plan. Our aim going forward is to reach business plan targets by bolstering our business operating structure, and by enhancing and accelerating technology development.

The actions we take going forward will follow a policy of moving over to a business structure in which large-scale projects and products in new business fields, such as cruise ships, ocean structures and gas carriers, become our main business concerns.

Where initiatives to bolster our technology development capabilities are concerned, we plan to set MHI apart from competitors by speeding up the development of energy-saving and environmental technologies, and answering customer needs faster. Our goals here are to expand orders and to quickly reform our earnings and cost structures.

Power Systems

J Gas Turbine

Fiscal 2010 Review

MHI received orders for gas turbine combined-cycle thermal power plants within Japan, as the domestic market continues to replace aging facilities to meet environmental regulations. Gas turbine orders also increased internationally, particularly in Asia. For nuclear power, MHI was able to reach an agreement for the pre-construction engineering and planning work for a U.S. nuclear power plant. The total value of consolidated orders for Power Systems rose from the previous year to ¥1,022.8 billion.

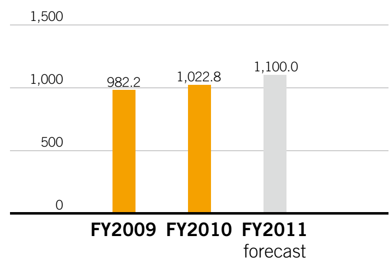
Consolidated net sales decreased to ¥996.9 billion due to reduced revenues from thermal power plants, wind turbines and other products. Nevertheless, despite the net sales decrease and the stronger yen, operating income increased to ¥83.0 billion as a result of sales growth on the after-sales service side.

Future Initiatives

In power systems, MHI will move to expand orders won from markets in both developing and developed countries. To this end, MHI will leverage manufacturing plants for supercritical-pressure boilers, steam turbines and generators with Larsen & Toubro Limited (L&T) in India, as well as a gas turbine assembly plant and wind turbine manufacturing plant in the U.S. The development of a service network, meanwhile, enabled MHI to strengthen its service business organization under the slogan CS First! (Customer Satisfaction First) and develop attractive services. Another focus will be product development in growth fields. Here, MHI will promote solution proposal business activities that encompass the “J” series of gas turbines, which offer the highest level of heat efficiency in the world, integrated gasification combined cycle (IGCC) power generation, off-shore wind turbines, the development of lithium-ion batteries, and measures to help ships comply with environmental regulations and improve fuel efficiency.

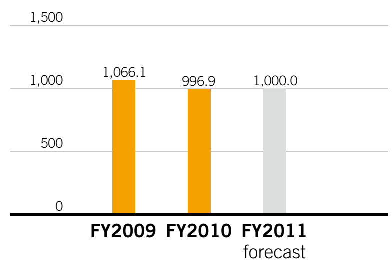
Orders Received

(In billions of yen)



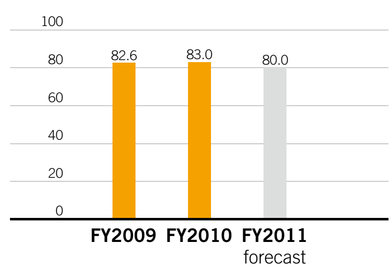
Net Sales

(In billions of yen)



Operating Income

(In billions of yen)



Rendering of proposed US-APWR North Anna unit-3 U.S Utility, Dominion Virginia Power

Wind Turbine Plants

PRODUCTS

Power Systems
Manufacturing, installation, sale and service of boilers, steam turbines, gas turbines, diesel engines, water turbine plants, wind turbine plants, geothermal power plants, photovoltaic power systems, SCR (DeNOx) systems, marine machinery, pumps, desalination plants, lithium-ion secondary batteries, etc.

Nuclear Energy Systems
Manufacturing, installation, sale and service of pressurized water reactor (PWR) nuclear power plants and equipment, advanced reactor plants, nuclear fuel cycle plants, etc.

In nuclear energy systems, MHI, in response to changes in the business environment, will optimally allocate resources and take action to meet its planned order targets. In operations in Japan, MHI will take further steps to improve the safety and reliability of pressurized water reactor (PWR) plants in light of the lessons learned from the earthquake. Where support for the Fukushima Daiichi Nuclear Power Plant is concerned, MHI will collaborate with Hitachi, Ltd. to enter alliances with their respective overseas partners, bringing the collective efforts of Japan, the U.S. and Europe to the task. In global operations, as well as in Japan, MHI will seek to enhance further safety and reliability of PWR plants and focus on priority business negotiations. In addition to strengthening the promotion of three plant projects in the United States, MHI will focus on business negotiations in Europe, Jordan and Vietnam, pushing the development of the ATMEA1 in partnership with AREVA and the EU-APWR, an improved PWR plant for the European market. In the service business overseas, MHI will boost its competitiveness and respond to needs for the replacement of steam generators and other equipment.

In this climate, the targets for the power systems business are orders of ¥900.0 billion for FY2011, orders of ¥1,200.0 billion for FY2012, and orders of ¥1,300.0 billion for FY2014. In nuclear energy systems, MHI is targeting orders of ¥200.0 billion for FY2011, orders of ¥400.0 billion for FY2012, and orders of ¥600.0 billion for FY2014.

Message from the Segment Leaders

Masafumi Wani
General Manager,
Power Systems

The power systems market is continuing to see expansion in demand from Asia and emerging markets. Demand is also expected to gradually recover in North America and other developed markets. MHI is pushing for business expansion through greater localization in promising markets such as India and the U.S., growing its service business by enhancing its global network, promoting product development in gas turbines, offshore wind turbines and other growth fields, and securing orders through an assertive approach to business negotiations. In tandem, we will contribute to the realization of a low-carbon society through the pursuit of higher temperature, higher efficiency technology.

Shigero Masamori
General Manager,
Nuclear Energy Systems

The G8 recently reconfirmed that they will promote nuclear power generation while insisting on the highest levels of safety. Furthermore, a survey taken after the March 2011 earthquake in Japan showed that 36 countries still have policies to promote nuclear power. Key MHI customers have also expressed their intent to move forward with projects. Upholding a vision to be the leading company in the global nuclear energy field, MHI will strive to improve the safety of PWR plants while supporting recovery and stable operations at the Fukushima Daiichi Nuclear Power Plant. By deploying a range of countermeasures based on the lessons learned from Fukushima Daiichi, we hope to contribute broadly to measures to counter global warming, ensure energy security, and achieve power supply stability.

Machinery & Steel Structures

Ammonia Plant (Indonesia)

Fiscal 2010 Review

In general, many customers or potential customers for Machinery & Steel Structures either postponed or delayed the start of their respective projects, but MHI was able to focus on new sales activities, which led to an increase in orders throughout the business segment. Chemical plant orders increased with a contract for the construction of a large-scale fertilizer plant in the Republic of Tatarstan (Russian Federation), and transportation systems orders increased with major orders for Macau LRT and for the Tokyo "Yurika-mome" waterfront transit line. Environmental equipment orders in Japan also increased, including an order for a domestic waste treatment plant. Finally, orders for iron and steel machinery also increased, particularly from China and India. As a result, the total value of consolidated orders for Machinery & Steel Structures increased from the previous year to ¥492.6 billion.

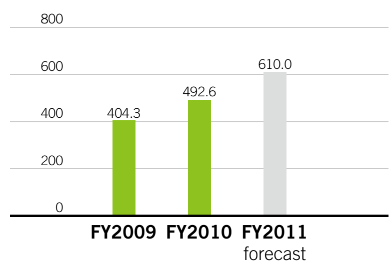
Consolidated net sales decreased from the previous year to ¥557.5 billion, mainly as a result of sales declines in steel production machinery and transportation systems. Nevertheless, operating income rose from FY2009 to ¥27.0 billion as a result of improved profitability in overseas plant construction and efficiencies achieved in business restructuring.

Future Initiatives

In terms of growth strategies for major businesses, MHI will aim for further growth in fertilizer plants and other areas of specialty in environmental and chemical plants. Other key actions will see growth in the services business through the enhancement of customer response capabilities from the establishment of MHI Industrial Engineering & Services Private Ltd. (MIES) in Singapore, and the establishment of a base in Europe (Amsterdam), to accelerate the efforts to develop the Middle East and African markets. A plan to establish an engineering firm in India, thereby strengthening marketing capabilities close to the market, is also under review as MHI aims for growth through further globalization.

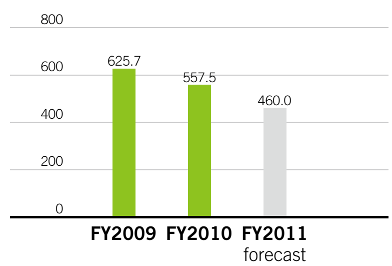
Orders Received

(In billions of yen)



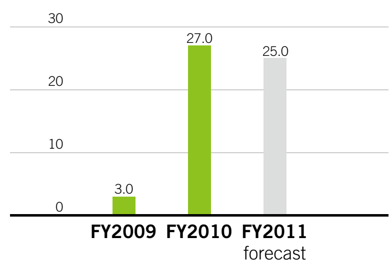
Net Sales

(In billions of yen)

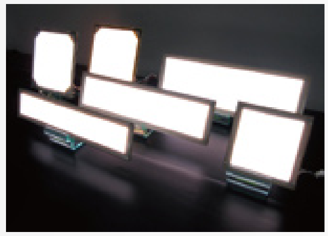


Operating Income

(In billions of yen)



Tandem Cold Mill (UC mill)



OLED Lighting Panels (provided as a sample kit from 2010)

PRODUCTS

Manufacturing, installation, sale and service 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 systems, waste treatment equipment, compressors and turbines, iron and steel machinery, medical systems, transportation equipment, cranes and material handling systems, rubber and tire machinery, bridges, hydraulic gates, stacks, vertical parking garages, social infrastructure, injection molding machines, food and packing machinery, printing machinery, packaging machinery, etc.

In transportation systems, MHI will grow the solutions business by promoting business coordination with the Sustainability Energy & Environment Strategic Planning Department. In parallel, work with Hitachi targeting urban transportation systems in major cities overseas will accelerate MHI's business development efforts in emerging economies.

In iron and steel machinery, MHI will vigorously develop upstream business mainly through device development in the steel production field. To accelerate business promotion in emerging markets, where future demand is anticipated, MHI is taking steps to enhance cost competitiveness led by its joint venture in China. Moves will also be made to bolster alliances with local manufacturers in India through the establishment of a local subsidiary there.

Turning to compressors, in the natural gas market, where future growth is expected, MHI is cultivating markets in the energy resources field, advancing notably into compressors used in off-shore LNG plants. MHI is also speeding the pace of business development in emerging economies through a more robust structure that includes local production, and expansion of its service business base in the Middle East.

In this climate, the targets for Machinery & Steel Structures for FY2011 are orders of ¥610.0 billion, net sales of ¥460.0 billion, and operating income of ¥25.0 billion; and for FY2012, orders of ¥640.0 billion, net sales of ¥600.0 billion and operating income of ¥32.0 billion. The targets for FY2014, which is the last year of the 2010 Business Plan, are orders of ¥810.0 billion, net sales of ¥730.0 billion, and operating income of ¥40.0 billion.

Message from the Segment Leader

Yoichi Kujirai
General Manager, Machinery & Steel Infrastructure Systems

We are seeing steady progress today from our persistent business structure reforms taken to date. Our product business-driven management has yielded three specific benefits. The first is transparency, where we have clarified accountability and authority, and also made profitability by product more visible. The second is speed, in terms of prompter management and a flatter organization. The third is efficiency, where we have consolidated key staff and operations, and eliminated areas of overlap.

As a result, operating companies provide the bulk of our earnings today, with consolidated management having lifted up a notch and accelerated efficiency.

Our growth strategy going forward has three major components–accelerate deployment into emerging countries; deploy into upstream and downstream businesses; and expand into the services and solutions businesses. By skillfully linking these to our business structure reforms to date, we will expand both our earnings structure and growth potential.

Aerospace

Boeing787 Dreamliner

Fiscal 2010 Review

In the commercial aircraft business, orders increased thanks in part to a large order from a U.S. company for the Mitsubishi Regional Jet (MRJ) and increased orders for the B777 (aft fuselage), as well as a recovery from low demand for aircraft passengers. Orders for defense-related products also increased, notably for Patriot missile systems. Space systems orders also surpassed the previous year amounts. As a result, the total value of consolidated orders for Aerospace increased to ¥708.1 billion.

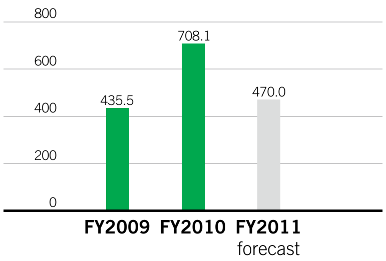
Consolidated net sales decreased from the previous year to ¥472.2 billion as a result of lower sales of commercial aircraft, defense-related products and space systems. Although operating income improved from the previous year, Aerospace posted an operating loss of ¥3.4 billion, mainly due to MRJ-related research and development costs.

Future Initiatives

The business environment surrounding the commercial aircraft business is right on track for recovery in demand, with long-term expansion anticipated, by sustained development in emerging nations, and airline companies' recovering business vitality in recent years. Against this backdrop, MHI will work in the commercial aircraft field to increase earnings by optimizing the portfolio of complete aircraft (MRJ), joint development under international cooperation (787, others), and aeroengines (Trent 1000, others). Along these lines, in addition to securing profits with a focus on the 777 and other joint developments under international cooperation with Boeing, MHI will develop the complete aircraft (MRJ) business to establish dual earnings sources in this business. MHI will also promote overseas production as a measure to mitigate foreign exchange rate risks, and pursue further cost reductions.

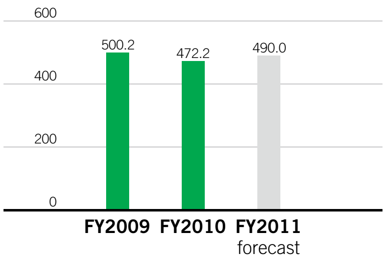
Orders Received

(In billions of yen)



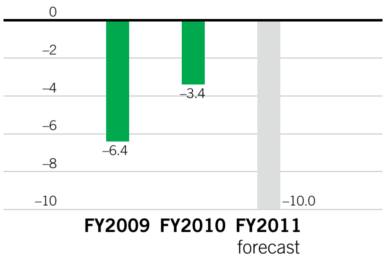
Net Sales

(In billions of yen)



Operating Income (Loss)

(In billions of yen)



H-II Transfer Vehicle (HTV) KOUNOTORI (Courtesy of JAXA / NASA)

Mitsubishi Regional Jet (MRJ)

PRODUCTS

Manufacturing, installation, sale and service of jet fighters, helicopters, commercial transport aircraft and various other aircraft, structural parts and components of aircraft, aeroengines, missiles, torpedoes and space systems, etc.

In defense-related products, MHI will maintain its production and technological bases related to fighter jets, and promote the joint development of a Ballistic Missile Defense (BMD) system between Japan and the United States. MHI will also respond to budget decreases in this field, securing base load by acquiring orders for repairs and spare parts. Coupled with the steady promotion of new programs (Advanced Technology Demonstrator, new Air-to-Ship missile, others), MHI will expand and develop this business by responding to national needs.

In space systems, MHI recorded 14 consecutive successful launches of the H-IIA/H-II B rocket, and will leverage this improved reliability to secure base load. The development of an H-IIA upgrade/next-generation primary launch system will also take place, with the aim of strengthening MHI's international competitiveness for launch services. Additionally, MHI will push the development of HTV-R (HTV improved model with recovery functions), which will help enable future human space activities.

In this climate, the targets for the Aerospace business for FY2011 are orders of ¥470.0 billion, net sales of ¥490.0 billion, and an operating loss of ¥10.0 billion; and for FY2012, orders of ¥510.0 billion, net sales of ¥500.0 billion and operating income of ¥0.0 billion. The targets for FY2014, which is the last year of the 2010 Business Plan, are orders of ¥590.0 billion, net sales of ¥650.0 billion, and operating income of ¥17.0 billion.

Message from the Segment Leader

Takashi Kobayashi
General Manager, Aerospace Systems

Global passenger demand for air flight is projected to grow by more than 2.5 times over the next 20 years, which means we can expect growth in long-term demand for commercial aircraft. Our goal by FY2014, the final year of the 2010 Business Plan, is to expand the commercial aircraft business, and thereby grow into stable earnings sources.

In the field of defense, however, budgets for defense-related products are on the decline, with no substantial growth in demand likely. So, we intend to steadily maintain and develop business in this field as our core operations by responding to national needs, which are indicated in the National Defense Program Guideline formulated at the end of last year.

Similarly in space systems, we will respond to the country's demands as a scientific and technological nation by promoting the development of cutting-edge technology in the field.

General Machinery & Special Vehicles

Reach Stacker

Fiscal 2010 Review

Orders for medium- and small-sized engines increased, particularly in China where demand remains firm amid continued robust economic growth. Orders for turbochargers remained strong in Europe, and orders for forklifts increased as a result of expanded sales activities in Asia and in the Middle East. As a result, the total value of consolidated orders and consolidated net sales for General Machinery & Special Vehicles both increased to ¥344.1 billion and ¥343.0 billion, respectively. Although operating results improved from FY2009, General Machinery & Special Vehicles posted an operating loss of ¥16.6 billion, in part because of the further strengthening of the yen.

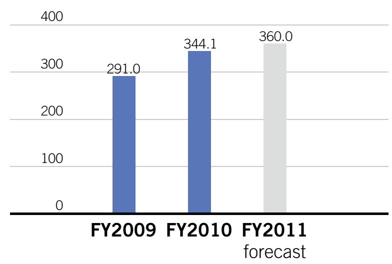
Future Initiatives

In turbochargers, MHI, armed with performance and quality recognized worldwide, aims for top market share by FY2016. To this end, in addition to increasing the number of permanent engineers to provide closer support to customers, test and inspection facilities will also be reinforced. In China, where demand is rapidly expanding, MHI will leverage its partnership with China's largest automaker to expand new orders.

In engines, orders remain firm for engines used in construction machinery, an MHI specialty, and power generation systems. Going forward, MHI will carry out an extensive program of "selection and concentration" to make the jump to a highly profitable structure in this business. This effort will entail streamlining the engine lineup to only strong-performing models. Another component will be service business expansion, driven by long-term service contracts and service network enhancement. MHI will also enhance development efforts for compliance with the next step in emission regulations (Tier 4) and achieving the world's lowest fuel

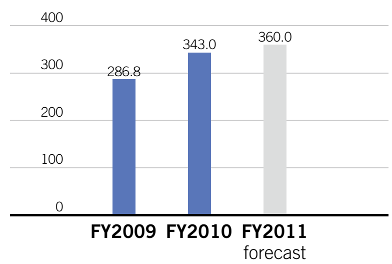
Orders Received

(In billions of yen)



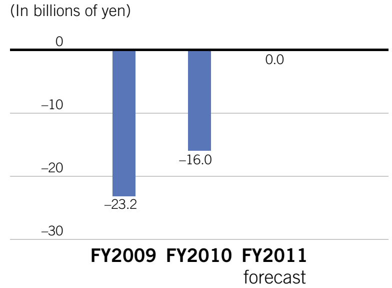
Net Sales

(In billions of yen)



Operating Income (Loss)

(In billions of yen)



Variable Geometry Turbocharger
for Automobile

Miller Cycle Gas Engine GS16R

PRODUCTS

Manufacturing, installation, sale and service of turbochargers, medium- and small-sized engines, forklift trucks, construction machinery, special vehicles, agricultural machinery, tractors, etc.

consumption.

In forklifts, the market for internal combustion trucks is shifting from the United States and Europe to emerging markets. In electric trucks, demand is growing in Europe, which already accounts for the bulk of the market. Given this market climate, MHI will promote a further shift to electrification, while also strengthening its global collaborative business framework and service business.

In special vehicles, MHI will focus on the development of special equipment for responding to the recent disaster and aiding in Japan's recovery, including radiation-shielded forklifts.

In this climate, the targets from FY2011 for General Machinery & Special Vehicles are orders of ¥360.0 billion, net sales of ¥360.0 billion, and operating income of ¥0.0 billion for FY2011; and for FY2012, orders of ¥450.0 billion, net sales of ¥450.0 billion and operating income of ¥13.0 billion. The targets for FY2014, which is the last year of the 2010 Business Plan, are orders of ¥520.0 billion, net sales of ¥520.0 billion, and operating income of ¥35.0 billion.

Message from the Segment Leader

Atsushi Maekawa
General Manager, General Machinery & Special Vehicles

We plan to deploy tactics for RE-BIRTH 11, a plan of action for turning our business model around and revitalizing our operations. As part of structural reforms for transforming our business model, we will thoroughly investigate needs, work to quicken the pace of development, deliver the world's best performance and quality, and create a global network that will vastly accelerate our shift to overseas production. At the same time, to revitalize our operations, we will reform our corporate culture to one in which each employee is profit-conscious, has the ability to execute, and responds swiftly to customer needs.

Others

Air-Conditioning & Refrigeration Systems

The "Q-ton" commercial-use CO_2 refrigerant heat pump water heater (ESA30)

PRODUCTS

Manufacturing, installation, sale and service of Commercial- and Residential-use Air Conditioners, Automotive Thermal Systems, Transport Refrigeration Units and Centrifugal Chillers, etc.

Message from the Segment Leader

Masahiko Arihara
General Manager,
Air-Conditioning &
Refrigeration Systems

Taking advantage of global environmental regulations as a rare business opportunity, we promote global sales of high-performance, high value-added products that make a major contribution to environmental conservation, and are developing a business that will play a role in MHI's energy and environmental business. To this end, we will establish a light and nimble business structure, and focus on capturing and maintaining a position as a dominant niche player in specified domains.

Fiscal 2010 Review

Orders for Air-Conditioning and Refrigeration Systems increased, partly as a result of higher sales of Automotive Thermal Systems on firm automobile sales and increased orders for Residential Air Conditioners in Southeast Asia, where our expanded sales activities were successful. Sales of Commercial Air Conditioners also increased, which corresponded with the improved economic situation in Europe. As a result, the total value of consolidated orders and consolidated net sales for Air-Conditioning & Refrigeration Systems rose to ¥159.1 billion and ¥158.1 billion, respectively, with an operating loss of ¥2.3 billion.

Future Outlook and Initiatives

As part of production structure reforms, MHI will consolidate the manufacture of "global model" air-conditioner products (excluding for-China market models) in Thailand (MACO), shifting away from Japan and China (MHAQ), and promote greater production efficiency and cost reductions.

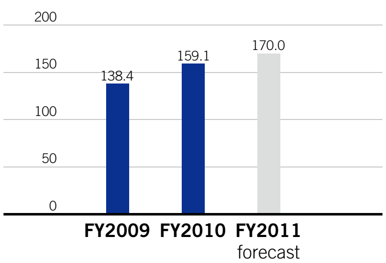
In Heat-Pump Hot Water Systems, a growth market going forward, MHI will seek business expansion through offering a wider range of products from residential to commercial and industrial use.

Shifts in technology are happening in the field of Automotive Thermal Systems, where MHI is gearing up to win orders for 3D Scroll Compressors, Electric Compressors, and PTC Heaters for use in "eco-cars (compact cars and EV/HEVs)," where future growth in demand is expected, as well as enhancing related production facilities.

In this climate, the targets for Air-Conditioning & Refrigeration Systems for FY2011 are orders of ¥170.0 billion, net sales of ¥170.0 billion, and operating income of ¥2.0 billion; and for FY2012, orders of ¥200.0 billion, net sales of ¥200.0 billion and operating income of ¥4.0 billion. The targets for FY2014, which is the last year of the 2010 Business Plan, are orders of ¥240.0 billion, net sales of ¥240.0 billion, and operating income of ¥11.0 billion.

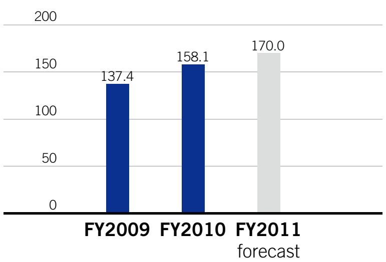
Orders Received

(In billions of yen)



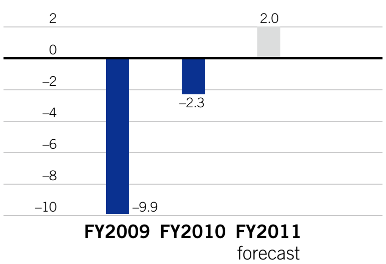
Net Sales

(In billions of yen)



Operating Income (Loss)

(In billions of yen)



Machine Tool, Others

Gear grinding machine ZE15A

PRODUCTS

Manufacturing, installation, sales and service for power transmissions and machine tools, etc.

Message from the Segment Leader

Yukio Kodama
General Manager, Machine Tool

For this division, in addition to achieving a high revenue structure through globalization and increasingly high-added value products, we are working through the Machining Process Technology Center to support greater sophistication in in-house manufacturing skills. We intend to provide technical support for manufacturing and operational launches at MHI's overseas manufacturing plants. We will also expand core operations by moving in parallel to sell our products, made possible through cutting-edge in-house machining technology, to external customers.

Fiscal 2010 Review

Order booking from overseas for machine tools increased, particularly from China. The total value of consolidated orders and net sales for the Machine Tool with others segment rose to ¥128.8 billion and ¥124.6 billion, respectively, with an operating profit of ¥11.6 billion.

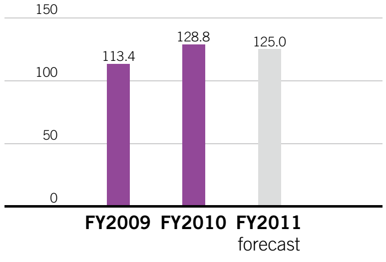
Future Initiatives

In the Machine Tool business, efforts will focus on globalizing operations and developing high-added value for creating a highly profitable structure. In globalizing operations, in addition to enhancing the overseas sales network and promoting localization, MHI will greatly expand the functional scope of its new China-based manufacturing plant (Mitsubishi Heavy Industries (Changshu) Machinery Co., Ltd.). Another initiative will see MHI bolster its lineup, centered on products for priority enhancement, in striving to gain the world's No. 1 market share in gear cutting machines and large machines. Management resources will also be channeled into promoting hollow engine valves and other growth products.

In this climate, the targets for the Machine Tool business with others segment, for FY2011 and beyond are as follows. For FY2011, orders of ¥125.0 billion, net sales of ¥120.0 billion, and operating income of ¥8.0 billion; and for FY2012, orders of ¥150.0 billion, net sales of ¥130.0 billion and operating income of ¥11.0 billion. The targets for FY2014, which is the last year of the 2010 Business Plan, are orders of ¥160.0 billion, net sales of ¥140.0 billion, and operating income of ¥15.0 billion.

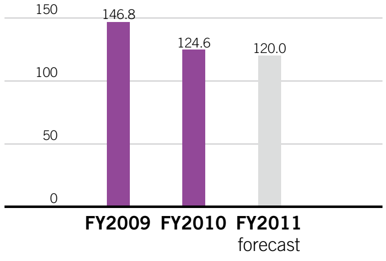
Orders Received

(In billions of yen)



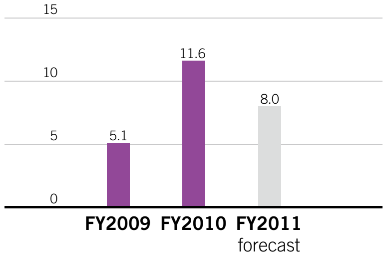
Net Sales

(In billions of yen)



Operating Income

(In billions of yen)



“How is MHI Group pursuing its business for providing total solutions integrating its technologies in the field of energy and environment?”

Initiatives in Energy and Environmental Technologies

Katsuhiko Toda
General Manager of Sustainability
Energy & Environment Strategic
Planning Department

Q1: One business within the four technology fields that MHI Group is targeting, and in which its technologies are being integrated to deliver total solutions, is the Smart Community business. What progress has MHI Group made in this area?

A1: The development by 2020 of 300 to 400 Smart Community projects is being planned and carried out worldwide, with a total value on the scale of ¥180 trillion. Among these, MHI Group is promoting projects in India, China, Spain and KEIHANNA (Kyoto, Osaka and Nara in western Japan) described below.

In India, we completed a Pre-Feasibility study regarding development in Sanand-Changodar in Gujarat State. We then proposed options for enhancement of power generating facilities, promoting the electrification of transportation infrastructure appropriate for the stage of local economic development, and the adoption of renewable energy. Also in January 2011, we signed a memorandum of understanding concerning urban development with the state government and Delhi-Mumbai Industrial Corridor (DMIC) development consortium. Plans call for completing a feasibility study by March 2012.

In China, MHI Group is a project member in the Eco-City concept taking shape around Beijing, where we are proposing an electric and thermal energy management project in the region.

In Malaga, Andalusia (Spain), we are planning to conduct demonstrations of an EV management center, and demonstrations in electric power management, information system management, and other areas.

In KEIHANNA, at Kansai Science City in Kyoto Prefecture, in addition to demonstrations of demand-side energy management, we are promoting establishment of energy management technology, including EVs, life systems (water and waste recycling and conversion infrastructure), and upcoming demonstrations.

Q2: What kind of schedule do you anticipate for realizing these Smart Community projects going forward?

A2: In feasibility studies, in addition to technological evaluations, we will also evaluate profitability, and will move forward after demonstrations are completed. Using the project in China as an example, we will be conducting construction work in the Smart Community there over the next ten years.

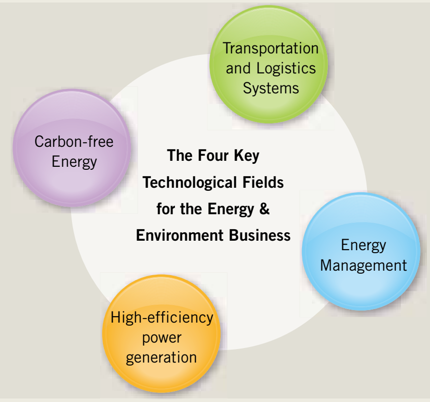
Q3: How does energy management in a Smart Community differ from conventional energy management?

A3: In a Smart Community, energy management has to take into account natural sources of energy that readily fluctuate with weather conditions, such as solar and wind power generation. Also, electric vehicle batteries, as energy devices, are incorporated into the Community Energy Management System (CEMS) for optical management of EV recharging and allocation control, including peak-cuts. Another difference versus conventional energy management is that it can often allow for more in-depth management than ever before, especially when weather forecasts are involved. What’s more, the “Smart” concept goes well beyond electric power-related areas to encompass every field necessary for realizing a low-carbon community, including gas, the supply of heat, water and waste.

Q4: Where does MHI Group stand out in terms of the key technologies for Smart Community projects?

A4: MHI Group is responsible for different fields in each project. However, it is difficult to single-handedly provide all of the technologies required, and the same goes for the other global companies involved. The products for a Smart Community can vary, but in addition to products, these communities require (1) network technology, (2) security technology, and (3) project management/

As the shift to a low-carbon society gains momentum, MHI Group is addressing four specific technological fields—carbon-free energy, transportation and logistics systems, high-efficiency power generation, and energy management.

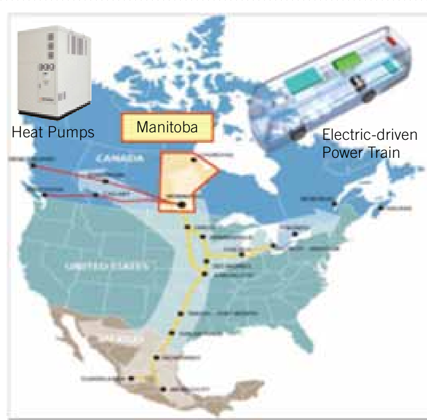


system integration technology. Of the three, MHI Group's strengths are in project management/system integration technology. For the future, we are eyeing alliances with companies that excel in network and security technologies as we take on these Smart Community projects.

Q5: Now that three years have passed since the launch of the Sustainability Energy & Environment Strategic Planning Department, what is your outlook for the department?

A5: Over the years, the Sustainability Energy & Environment Strategic Planning Department has, among other things, identified Smart Community projects and linked our in-house organization in this area. We can expect to reap benefits from this as the business solidifies going forward. Furthermore, in the wake of the Great East Japan Earthquake, in addition to taking a leading role in the development of energy and environment businesses, the department will also spearhead work at MHI to support reconstruction efforts.

Smart Community: Example KEIHANNA



Developing an all-electric transit bus with the government of Canada's Manitoba Province

Biomass Power Shizukuishi (Biomass Business Operator)

About the Sustainability Energy & Environment Strategic Planning Department

MHI established the Sustainability Energy & Environment Strategic Planning Department in April 2008 as an organization under the direct control of the President for the purpose of developing business related to energy and the environment and playing a leading role in these activities inside MHI.

Principal Roles of the Sustainability Energy & Environment Strategic Planning Department	
1	Present opinions related to energy and environmental policies to the government and to industry by gathering information and conducting market trend surveys regarding environmental policies around the world and in Japan.
2	Promote horizontally oriented activities throughout the MHI Group while creating business opportunities based on MHI's energy and environmental technologies and products.
3	Formulate medium- to long-term development policies such as development roadmaps for new fields and new products related to energy and the environment.

MHI's Intellectual Property Activities Policy

MHI's priority in acquiring patents is to protect its technology assets and competitiveness. Accordingly, we must 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.

In order to protect our business through patents, and to prevail amongst global competition, we will strengthen our twin intellectual property strategies of "defense" and "offense" based on two key principles: applying for patents focused on our products for which there is high risk of the intellectual property being copied, and protecting our continued royalty revenues by granting licenses.

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

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. These members share 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—and the team of members works to formulate an optimal intellectual property strategy.

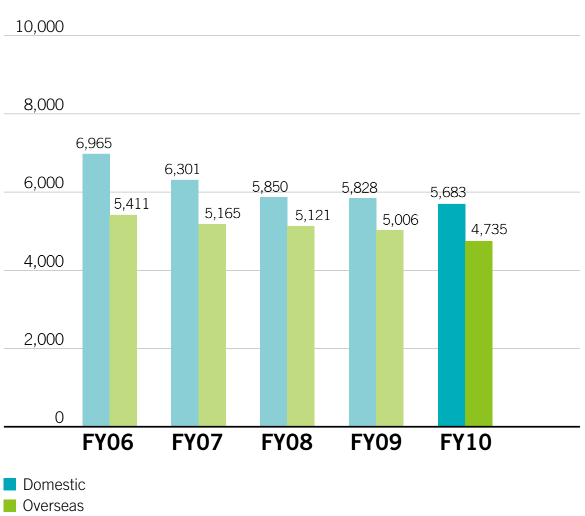
To promote activities in line with this strategy, the Intellectual Property Division develops effective and efficient business processes, takes steps to manage intellectual property appropriately, and develops highly specialized and skilled personnel.

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.

Research and Development Activities

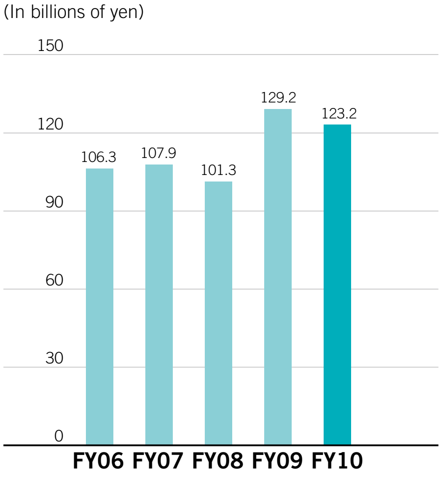
Through close cooperation among headquarters and divisions, manufacturing facilities and R&D centers, MHI is working to reinforce its R&D activities to enhance product competitiveness in the aerospace, power systems and other business fields, and drive business expansion.

Number of Domestic and Overseas Patents



R&D Investment

(In billions of yen)



* Includes expenses related to R&D under contract.

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

MHI is a company with a Board of Statutory Auditors. The Board of Directors makes important management decisions and oversees the execution of business operations. Statutory auditors oversee the execution of director duties by attending meetings of the Board of Directors and other key meetings.

As of June 23, 2011, of the Company's 19 directors, three are from outside MHI. Through receiving valuable opinions and frank comments from outside directors concerning the management of the Company, MHI works to strengthen the management oversight functions. 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 and it now implements this corporate governance framework. 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.

Enhancing Internal Control Systems

In compliance with laws and regulations, the Board of Directors has approved resolutions to establish systems that ensure business operations are conducted in an appropriate manner, and the Company makes efforts to promote fair and sound management. 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 Company-wide 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 Group-wide 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 Auditors' 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.

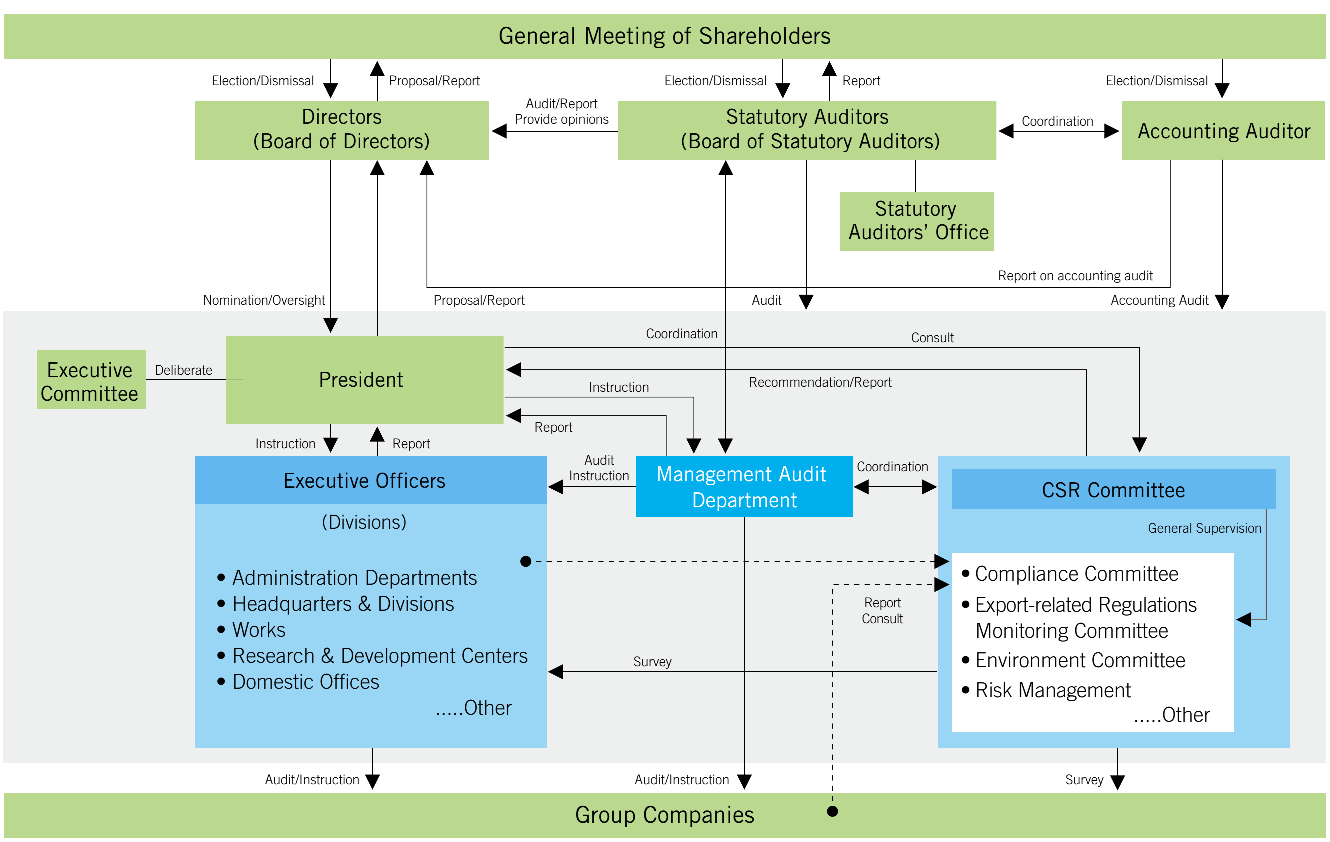
10. Other systems to ensure statutory auditor activities are conducted effectively
   (i) Due consideration shall be given to statutory auditors to allow them to conduct audits in an effective manner by gathering information, conducting surveys and taking other steps to ensure appropriate communication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

Internal Audits

On April 1, 2011, the Company reorganized the Internal Audit Department into the 28-member Management Audit Department, which conducts internal audits and evaluation of internal control related to financial reports to check the effectiveness of internal control systems.

As part of internal audits, each fiscal year the Management Audit Department formulates an internal audit policy, and the Management Audit Department, or the internal audit departments at each business site, conducts audits in accordance with the audit theme of this policy and the location of the department to be audited. The Management Audit Department also regularly receives reports from the internal control department concerning the status of compliance.

Concerning the internal control reporting system related to financial reports, the Company takes actions appropriately and, abiding by the Financial Instruments and Exchange Act, and as of the end of FY2010, the Company had obtained an evaluation result that the internal controls related to the Company's financial reports were effective.



Statutory Auditors

The Company's Board of Statutory Auditors has five members, three of whom are outside appointments. Additionally, one of the full-time statutory auditors has long-standing business experience in the fields of accounting and finance and those considered for election as statutory auditors are people with a suitable level of knowledge in finance and accounting. 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 establishment and operation of internal control systems including those in relation to financial reporting.

In addition to regularly exchanging information and opinions with the Management 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. The statutory auditors also regularly receive reports from the internal control department concerning the status of compliance, risk management and other activities. As a support to the statutory auditors, the Company has established a Statutory Auditors' Office with a dedicated six member staff, which assists the statutory auditors in performing their duties more smoothly.

Accounting Audits

MHI's accounting auditor is Ernst & Young ShinNihon LLC. Three of the firm's certified public accountants (designated and engagement partners) audit the Company's financial statements: Masayuki Ueda, Ichiro Ishii and Yoshiaki Morita. None of these individuals have been continually auditing the Company's financial statements for longer than seven years.

In addition to the above, the auditing team includes 16 other certified public accountants and 21 assistant accountants.

The accounting auditor regularly exchanges opinions with designated directors concerning initiatives and other matters related to corporate governance and compliance.

Outside Directors and Outside Statutory Auditors

For the purpose of receiving advice and oversight of the Company's management from an objective standpoint not biased by an internal company perspective and based on abundant experience and broad knowledge as a corporate manager or government official, three of the 19 directors elected and three of the five statutory auditors elected are from outside the company.

The Company judges these outside directors and outside statutory auditors to be independent from the Company on the basis that there are no circumstances that compromise independence from the Company such as history of employment by the Company, an associated company of the Company, or a major trading partner of the Company, or existence of close relatives who are directors of the Company or the Company's associated companies; and that there are no personal relationships, capital relationships, trading relationships or other special interests between the individual and the Company.

All the outside directors and outside statutory auditors are independent from management and they supervise or audit management. In addition, at meetings of the Board of Directors, they receive reports of the status of establishment and operation of internal control systems including compliance, risk management and other activities; and the results of internal audits, and they state their opinions when appropriate. In particular, the outside statutory auditors shall regularly exchange opinions with directors while conducting effective auditing through collaboration with the full-time statutory auditors, the internal audit department and the accounting auditor. In this way, the Company strives to ensure soundness and appropriateness of management.

In accordance with Article 423, Paragraph 1 of the Corporate Law, the Company has entered into liability limitation agreements with each of its outside directors and outside statutory auditors, which provides a limitation on their liabilities to compensate for damages, the amount of which is the higher of ¥10 million or the minimum liability amount specified in Article 425, Paragraph 1 of the Corporate Law.

The Company's corporate governance framework, including internal control systems, is shown in the diagram on page 37.

Director and Statutory Auditor Compensation

Position	No. of Recipients	Amounts of Compensation by Category (In millions of yen)			Total Amount of Compensation (In millions of yen)
		Base Compensation	Performance-Linked Compensation	Stock Options	
Directors (Excluding Outside Directors)	17	698	215	204	1,118
Statutory Auditors (Excluding Outside Statutory Auditors)	2	69	17	–	87
Outside Officers	7	79	–	–	79

Notes 1. The personnel in the table include three directors who retired during the fiscal year under review. Two are stated under the classification "Directors (Excluding Outside Directors)", with the remaining director stated under "Outside Officers."
2. Amounts stated in performance-linked compensation include the difference between the amounts disclosed as compensation in the previous fiscal year (the estimated compensation) and the actual amounts paid.
3. Amounts stated as stock options include the cost associated with the accounting of stock acquisition rights issued in a so-called stock-linked compensation scheme.
4. The maximum permitted financial compensation amounts including both base and performance-linked compensations 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).
5. The maximum permitted total issuance price for stock acquisition rights related to stock-linked stock options is ¥300 million per fiscal year for directors excluding outside directors (resolution of the 82nd Ordinary General Meeting of Shareholders on June 27, 2007).
6. The retirement allowance program has been abolished effective the conclusion of the 81st Ordinary General Meeting of Shareholders on June 28, 2006.
7. The amount stated in "Directors (Excluding Outside Directors)" includes compensation paid to director Kazuo Tsukuda and director Hideaki Omiya of ¥132 million (base compensation of ¥80 million, performance-linked compensation of ¥25 million, and stock options of ¥25 million) each. Note that there is no compensation, etc. paid to the two individuals as directors of major consolidated subsidiaries.

Auditing Certified Public Accountant Compensation

(In millions of yen)

Category	Fiscal Year 2009		Fiscal Year 2010	
	Audit Attestation Duty Based Compensation	Non-Audit Based Compensation	Audit Attestation Duty Based Compensation	Non-Audit Based Compensation
MHI	185	10	185	33
Consolidated Subsidiaries	99	–	114	–
Total	284	10	300	33

BOARD OF DIRECTORS

DIRECTORS

Chairman

Kazuo Tsukuda

President

Hideaki Omiya

Senior Executive Vice Presidents

Shunichi Miyanaga
Assistant to President, General Manager, Presidential Administration Office

Yoshiaki Tsukuda
Assistant to President, General Manager, Technology & Innovation Headquarters

Executive Vice Presidents

Yujiro Kawamoto
Director in charge of Accounting, Finance and Material

Hisashi Hara
General Manager, Shipbuilding & Ocean Development

Takashi Abe
Director in charge of General Affairs, Legal and Personnel

Akira Hishikawa
General Manager, Global Strategic Planning & Operations Headquarters

Takato Nishizawa
Director in charge of Sustainability Energy & Environment Strategic Planning Department

Masafumi Wani
General Manager, Power Systems

Atsushi Maekawa
General Manager, General Machinery & Special Vehicles

Shigero Masamori
General Manager, Nuclear Energy Systems

Takashi Kobayashi
General Manager, Aerospace Systems

Senior Vice Presidents

Masahiko Arihara
General Manager, Air-Conditioning & Refrigeration Systems

Hisakazu Mizutani
General Manager, Management Audit Department

Yoichi Kujirai
General Manager, Machinery & Steel Infrastructure Systems

Outside Directors

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

Yorihiko Kojima
Chairman of the Board of Mitsubishi Corporation

STATUTORY AUDITORS

Naoki Yasaka

Toshiro Yagami

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

Nobuo Kuroyanagi
Chairman of The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Haruya Uehara
Chairman of Mitsubishi UFJ Trust and Banking Corporation

(As of June 23, 2011)

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

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

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.

Carrying out CSR through "manufacturing" that contributes to society

MHI Group considers its fundamental business to be "manufacturing" that contributes to society, and is dedicated to the production of products that contribute to building social infrastructures and reducing environmental impact for our customers.

While optimally returning to all stakeholders with interest in the business activities the profits that we obtain through providing such products, we base our CSR activities on minimizing the environmental impact of our manufacturing activities.

In July 2007, we formulated MHI Group CSR Action Guidelines with three basic themes: "close ties with the Earth," "close ties with Society," and "a bridge to the next Generation," for the purpose of instilling CSR awareness in each employee and encouraging voluntary actions. Subsequently, in April 2008, we created the CSR Action Plans based on the CSR Action Guidelines, and are working to achieve the continuous improvement of each CSR activity by conducting PDCA cycles.

Furthermore, to promote and establish greater CSR awareness group-wide in line with the three themes of the CSR Action Guidelines, in June 2008 we formulated representative CSR activities and, based on these, are implementing a variety of programs.

*For more details, please access the CSR section of our corporate website at
http://www.mhi.co.jp/en/csr/

CSR Topics

Topic 1 Close ties with the Earth

Coral reef restoration and expansion project in the Okinawa sea

While coral is an animal, like a plant coral reef absorbs CO_2 and releases oxygen through photosynthesis. Coral reefs also feature some of the greatest biodiversity on Earth, on par with tropical rainforests. These reefs are increasingly threatened by coral bleaching (and extinction) as a result of rising sea water temperatures.

Since 2004, Mitsubishi Heavy Industries Bridge & Steel Structures Engineering Co., Ltd. has been conducting experiments in growing coral. Five years later, we succeeded in developing a new method for propagating coral, and in 2011, began our coral regeneration project. This groundbreaking project focuses not only on protecting coral, but on actually increasing it.

Topic 2 Close ties with Society

Continuing school support activities for 13 years as a good corporate citizen in Thailand

Since 1998, Mitsubishi Heavy Industries-Mahajak Air Conditioners Co., Ltd. (MACO), core company in the MHI Group air conditioning business, has been donating school buildings and classrooms to elementary schools in impoverished regions of Thailand.

The economic disparity between Thailand's metropolitan and rural areas has become a significant social issue, and this initiative was begun in the hope that we might contribute in some small way to resolving the educational disparity that has arisen as a result. Local employees are involved as volunteers every step of the way, from selecting candidate schools to managing the actual construction, and in the 13 years through 2010, we have provided support to a total of 13 schools in Thailand's northern and northeastern regions.

As a true "good corporate citizen," MACO works to spread roots throughout Thai society, living with the Thai people and growing together with them.

Topic 3 A bridge to the next Generation

MHI Group works around the country to continue to offer science education utilizing the characteristics of their respective businesses.

MHI believes that nurturing personnel who can contribute to global society through science and technology is one of the social responsibilities of a manufacturing company, and to that end, in 2008 established a three-year plan to support science education at school. Since then, our works nationwide have worked to communicate the joys of science and technology to children, using our science classes and the study of manufacturing to support an increased interest in manufacturing among the next generation. In fiscal 2010, we held a total of 34 science and manufacturing classes at elementary schools located near our various works, for nearly 2,300 students, utilizing our products and technologies.

Over the three years of the program, our works nationwide have offered a total of 6,954 students the opportunity to learn how interesting science can be, and to interact with the manufacturing process.

MHI Group has decided to continue positioning support for the growth of the next generation as a priority initiative in our CSR activities, and we are currently moving ahead to develop a new roadmap for supporting science education.

In line with its environmental policy formulated in 1996, MHI works to promote environmental preservation activities across all its departments and Group companies.

Basic Policy on Environmental Matters (Established 1996)

As clearly laid out in provision 1 of its creed—"We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society."—MHI believes its primary purpose is to contribute to society through its R&D, manufacturing and other business activities. Accordingly, in the performance of its business activities the company shall embrace the awareness that it is an integral member of society and, in all aspects of its business activities, it will strive to reduce burden on the environment and shall devote its comprehensive technological capabilities to the development of technologies and products that will protect the environment, as its way of contributing to the development of a sustainable society.

Action Guidelines (Established 1996)

1. Accord high priority to environmental protection within company operations, and take steps company-wide to protect and enhance the environment.
2. Clarify roles and responsibilities regarding environmental protection by developing an organized structure to deal with environmental protection matters, defining environment-related procedures, etc.
3. Strive to alleviate burden on the environment in all aspects of company business activities—from product R&D and design to procurement of raw materials, manufacture, transport, usage, servicing and disposal—through pollution prevention, conservation of resources, energy saving, waste reduction, reuse and recycling.
4. Strive to develop and provide advanced, highly reliable, wholly proprietary technologies and products that will contribute to solving environmental and energy problems.
5. Strive continuously to improve and enhance environmental protection activities not only by fully complying with environmental laws and regulations but also, when necessary, by establishing, implementing and evaluating independent standards and setting environmental goals and targets.
6. In the performance of business activities overseas and exportation of products, pay full attention to impact on the local natural and social environments and strive to protect those environments; also, become actively involved in technological cooperation overseas in matters of environmental protection.
7. Take steps to raise environmental awareness among all employees through environmental education, etc., undertake activities to provide environment-related information to the public, and proactively make environment-enhancing contributions to society.

Column

Promoting use of solar power in our works, offices, and dormitories

At MHI, we have been working to install solar cell panels at our works, employee dormitories, and other MHI facilities. These are being used to power air conditioning, lighting, and other systems at our works and offices.

In fiscal 2009, domestic installations totaled 2,110 kW, achieving our medium- to long-term company-wide goal of installing a cumulative 2,000 kW or more in solar power equipment by fiscal 2010 a full year earlier than planned.

In fiscal 2010, MHI installed a total of 101 kW in photovoltaic equipment at its four dormitories for single employees at its head office, General Machinery & Special Vehicles and Nagasaki and Kobe Shipyard & Machinery Works. This brings the cumulative total installed to 121 kW at six dormitories for single employees.

Solar cell panels installed at an MHI dormitory for single employees

Financial Section

Contents

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

INDUSTRY SEGMENT	Net Sales — In millions of yen 2011	Net Sales — In millions of yen 2010	Net Sales — In thousands of U.S. dollars 2011	Operating Income (Loss) — In millions of yen 2011	Operating Income (Loss) — In millions of yen 2010	Operating Income (Loss) — In thousands of U.S. dollars 2011
Shipbuilding & Ocean Development	¥ 302,439	¥ 230,692	$ 3,637,269	¥ 1,826	¥ 14,544	$ 21,960
Power Systems	996,963	1,066,128	11,989,933	83,021	82,603	998,448
Machinery & Steel Structures	557,515	625,775	6,704,930	27,070	3,035	325,556
Aerospace	472,268	500,270	5,679,711	(3,411)	(6,424)	(41,022)
General Machinery & Special Vehicles	343,079	286,837	4,126,025	(16,681)	(23,284)	(200,613)
Others	282,738	284,394	3,400,336	9,394	(4,812)	112,976
Subtotal	2,955,004	2,994,098	35,538,232	101,219	65,660	1,217,306
Eliminations	(51,233)	(53,210)	(616,151)	–	–	–
Total	¥2,903,770	¥2,940,887	$34,922,068	¥101,219	¥ 65,660	$1,217,306

INDUSTRY SEGMENT	Total Assets — In millions of yen 2011	Total Assets — In millions of yen 2010	Total Assets — In thousands of U.S. dollars 2011	Capital Expenditures — In millions of yen 2011	Capital Expenditures — In millions of yen 2010	Capital Expenditures — In thousands of U.S. dollars 2011
Shipbuilding & Ocean Development	¥ 222,643	¥ 261,123	$ 2,677,606	¥ 9,806	¥ 11,098	$ 117,931
Power Systems	1,038,538	1,200,119	12,489,933	50,718	77,880	609,957
Machinery & Steel Structures	548,140	623,039	6,592,182	12,717	21,537	152,940
Aerospace	871,269	868,054	10,478,280	21,518	21,695	258,785
General Machinery & Special Vehicles	363,025	355,378	4,365,904	16,307	23,868	196,115
Others	489,145	510,703	5,882,681	10,555	18,559	126,939
Subtotal	3,532,762	3,818,419	42,486,614	121,624	174,639	1,462,705
Eliminations or Corporate	456,238	444,440	5,486,927	5,059	2,550	60,841
Total	¥3,989,001	¥4,262,859	$47,973,553	¥126,683	¥177,190	$1,523,547

INDUSTRY SEGMENT	Depreciation and Amortization* — In millions of yen 2011	Depreciation and Amortization* — In millions of yen 2010	Depreciation and Amortization* — In thousands of U.S. dollars 2011	Amortization of Goodwill — In millions of yen 2011	Amortization of Goodwill — In millions of yen 2010	Amortization of Goodwill — In thousands of U.S. dollars 2011
Shipbuilding & Ocean Development	¥ 10,084	¥ 9,827	$ 121,274	¥ –	¥ –	$ –
Power Systems	43,214	39,599	519,711	268	289	3,223
Machinery & Steel Structures	15,572	15,571	187,276	78	63	938
Aerospace	32,665	38,004	392,844	–	–	–
General Machinery & Special Vehicles	16,602	17,865	199,663	1,871	1,911	22,501
Others	14,019	17,178	168,598	48	125	577
Subtotal	132,159	138,045	1,589,404	2,266	2,390	27,251
Corporate	–	–	–	–	–	–
Total	¥132,159	¥138,045	$1,589,404	¥2,266	¥2,390	$27,251

* Amortization of goodwill is not included.

BREAKDOWN OF SALES BY CUSTOMER LOCATION	Net Sales		
	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Japan	¥1,480,579	¥1,462,191	$17,806,121
North America (2010)	–	360,183	–
U.S.A. (2011)	304,766	–	3,665,255
Asia	373,733	390,701	4,494,684
Europe	217,087	223,334	2,610,787
Central and South America	200,850	184,790	2,415,514
Africa	169,283	138,725	2,035,874
Middle East	102,690	170,760	1,234,996
Others	54,780	10,198	658,809
Total	¥2,903,770	¥2,940,887	$34,922,068

The amount for North America in 2010 includes the one for Canada, which is included in Others in 2011.

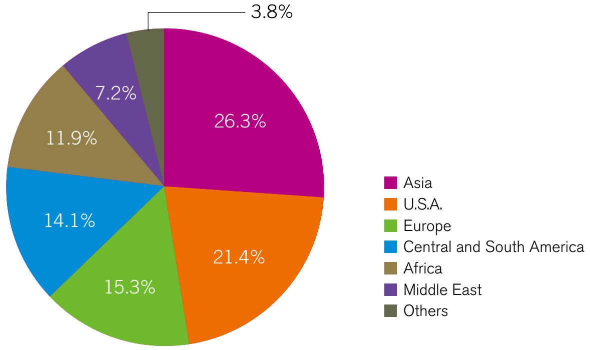
Note1: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥83.15=US$1, the exchange rate prevailing at March 31, 2011.

Note2: Application of New Accounting Standards on Segment Information

The Group has applied the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, amended on March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, issued on March 21, 2008) since the year ended March 31, 2011.

The segment information in this section is in accordance with those new standards.

Composition of Overseas Net Sales by Geographic Distribution



Analysis of Operating Results

In fiscal 2010, ended March 31, 2011, MHI Group recorded consolidated net sales of ¥2,903,770 million, on a par with the previous fiscal year. Net sales performance primarily reflected declines in the Power Systems and Machinery & Steel Structures segments, which outweighed growth in transactions for new vessels in the Shipbuilding & Ocean Development segment and a recovery in demand seen in the General Machinery & Special Vehicles segment.

Operating income rose ¥35,558 million, or 54.2% year on year, to ¥101,219 million. While the yen's ongoing appreciation was a factor undercutting earnings, income rose atop companywide activities to boost profitability, including improved profitability in plant construction in the Power Systems and Machinery & Steel Structures segments.

Net non-operating expense was ¥33,106 million, an improvement of ¥8,545 million from the previous fiscal year, as improvement in equity in losses of unconsolidated subsidiaries and affiliates offset a worsening foreign exchange loss.

As a result, ordinary income climbed ¥44,104 million, or 183.7% year on year, to ¥68,113 million.

MHI Group posted an extraordinary gain of ¥15,842 million from sales of fixed assets and investment securities. The Group also posted an extraordinary loss of ¥44,456 million. In addition to business structure improvement expenses and loss on revaluation of investment securities, this extraordinary loss consisted of damages to a thermal power plant under construction caused by the Great East Japan Earthquake.

Consequently, income before income taxes and minority interests increased ¥11,362 million, or 40.4% year on year, to ¥39,499 million. Net income, meanwhile, rose ¥15,954 million, or 112.6%, over the previous fiscal year to ¥30,117 million.

Key Factors Affecting Operating Results

Key factors that affect the management of 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

Market trends are expected to hold to an improvement trajectory overall, supported by robust performance in emerging economies. For MHI Group, there is recognition that the operating environment will grow more severe going forward, with competition heating up as prominent companies from around the world vie for a stake in fast-growing emerging markets. In this climate, MHI Group will win out against this stiffer competition to achieve future growth and development by building a management structure capable of responding rapidly to the market's dramatic changes and delivering consistent earnings. At the same time, the Group will endeavor to leverage unrivaled technology to provide products and services that answer customer needs.

Exchange rate fluctuation

Foreign exchange rate fluctuations can significantly affect MHI Group's business competitiveness and operating results. In order to minimize exchange rate fluctuation risk, 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.

Changes in costs of materials

MHI Group is responding to the impact of certain material price rises, such as for steel products, nonferrous metals and crude oil, promoting design standardization, increasing its utilization of common components, employing standardized parts, signing comprehensive procurement contracts, and expanding its overseas production activities. The 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

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 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

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

Technology and skill transfer

MHI Group is at risk of manufacturing capabilities weakening due to technology and skill transfer issues associated with generational change. In response, MHI Group invests in production process improvement aimed at rationalization and carries out focused investment in R&D related to manufacturing technology. The 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 ¥337,805 million for the fiscal year under review, an increase of ¥219,828 million compared with the previous fiscal year. This outcome mainly reflected decreases in inventories.

Investing activities used net cash of ¥137,248 million, ¥43,456 million less than the previous fiscal year. This decrease was mainly due to a decline in proceeds from cash used for capital investments.

Financing activities used net cash of ¥169,793 million, ¥64,502 million less than the previous fiscal year. This decrease was due mainly to the decline in procurement of long-term borrowings and the issuance of bonds.

Primary funding requirements

MHI Group primarily requires funds in operating activities 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 investments to grow business and enhance productivity, and for the purchase of investment securities related to the execution of business strategies.

In growth areas, MHI Group is planning to execute necessary capital investments and R&D investment. As a whole, the Group plans to streamline its assets and selectively concentrate on core investment schemes, while anticipating fund requirements in future growth fields and closely monitoring the latest market environments and order trends. Accordingly, funding requirements are expected to trend lower going forward.

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2011 was as follows:

(In millions of yen)

	Total	Due within one year	Due after one year
Short-term borrowings	85,488	85,488	—
Long-term borrowings	896,104	211,114	684,989
Bonds	344,074	14,074	330,000
Total	1,325,667	310,677	1,014,989

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, MHI Group must secure a stable level of working capital and funds for capital investments. Since the start of the global financial crisis in 2008, the Group has worked to streamline its assets, and has repaid short-term borrowings that have come due. As a result, the total interest-bearing debt of MHI Group at the end of fiscal year 2010 was ¥1,325,667 million, consisting of ¥310,677 million due within one year, and ¥1,014,989 million due after one year.

The interest-bearing debt mentioned above is utilized as working capital and for capital investments required for business activities, and MHI Group plans to use these funds mainly in key growth fields expected to require funds, including the Power Systems and Aerospace segments.

Financial policy

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, MHI Group takes into account the funding requirements of its business plans, interest-rate trends and various other factors, as well as the repayment schedule for its existing debt.

Additionally, in its efforts to reduce interest-bearing debt, MHI Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, 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.

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, 2011 and 2010

ASSETS	In millions of yen 2011	In millions of yen 2010	In thousands of U.S. dollars (Note 2) 2011
Current assets:			
Cash and deposits (Notes 3 and 18)	¥ 301,047	¥ 274,061	$ 3,620,529
Trade receivables (Notes 3 and 8)	852,645	948,200	10,254,299
Securities (Notes 3 and 4)	8	9	96
Merchandise and finished products	175,630	171,699	2,112,206
Work in process	803,874	937,740	9,667,757
Raw materials and supplies	136,701	130,622	1,644,028
Deferred income taxes (Note 6)	161,823	142,720	1,946,157
Other current assets	151,383	230,490	1,820,601
Allowance for doubtful accounts (Note 1)	(7,500)	(8,881)	(90,198)
Total current assets	2,575,613	2,826,662	30,975,502
Non-current assets:			
Property, plant and equipment, net (Notes 8 and 20)**:**			
Buildings and structures	355,449	344,601	4,274,792
Machinery and transportation equipment	251,507	277,390	3,024,738
Tools, equipment and furniture	39,714	49,527	477,618
Land	166,494	163,784	2,002,333
Leased assets	6,004	5,871	72,206
Construction in progress	42,358	55,176	509,416
Total property, plant and equipment, net	861,528	896,350	10,361,130
Intangible assets	25,165	29,149	302,645
Investments and advances:			
Investment securities (Notes 3 and 4)	321,285	342,480	3,863,920
Long-term loans and advances	5,180	3,597	62,297
Deferred income taxes (Note 6)	10,824	9,367	130,174
Others	198,938	164,917	2,392,519
Allowance for doubtful accounts (Note 1)	(9,535)	(9,665)	(114,672)
Total investments and advances	526,693	510,697	6,334,251
Total non-current assets	1,413,387	1,436,197	16,998,039
Total assets	¥3,989,001	¥4,262,859	$47,973,553

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

LIABILITIES AND NET ASSETS	In millions of yen 2011	2010	In thousands of U.S. dollars (Note 2) 2011
Liabilities			
Current liabilities:			
Trade payables (Note 3)	¥ 619,107	¥ 646,538	$ 7,445,664
Short-term borrowings (Notes 3, 7 and 8)	85,488	117,679	1,028,117
Current portion of long-term borrowings (Notes 3, 7 and 8)	211,114	109,539	2,538,953
Commercial papers (Note 7)	–	6,000	–
Current portion of bonds (Notes 3 and 7)	14,074	20,000	169,260
Reserve for product warranties (Note 1)	23,123	28,636	278,087
Reserve for losses on construction contracts (Note 1)	50,753	24,490	610,378
Reserve for legal claims (Note 1)	2,167	13,941	26,061
Advance payments received on contracts	330,275	389,041	3,972,038
Other current liabilities (Notes 6 and 7)	197,965	199,928	2,380,817
Total current liabilities	1,534,070	1,555,796	18,449,428
Non-current liabilities:			
Bonds (Notes 3 and 7)	330,000	344,605	3,968,731
Long-term borrowings (Notes 3, 7 and 8)	684,989	897,501	8,237,991
Deferred income taxes (Note 6)	3,607	17,886	43,379
Reserve for retirement allowance (Notes 1 and 10)	49,842	48,542	599,422
Reserve for treatment of PCB waste (Note 1)	7,007	7,358	84,269
Other non-current liabilities (Note 7)	66,805	62,396	803,427
Total non-current liabilities	1,142,251	1,378,290	13,737,233
Total liabilities	2,676,322	2,934,087	32,186,674
Net assets			
Stockholders' equity (Note 16)**:**			
Common stock, without par value:			
Authorized shares: 6,000,000,000			
Issued shares: 2011 and 2010 — 3,373,647,813	265,608	265,608	3,194,323
Capital surplus	203,939	203,938	2,452,663
Retained earnings	815,145	800,199	9,803,307
Treasury stock (2011 — 18,582,258 shares and 2010 — 17,414,651 shares) at cost	(5,425)	(5,025)	(65,243)
Total stockholders' equity	1,279,267	1,264,721	15,385,051
Accumulated other comprehensive income:			
Net unrealized gains (losses) on investment securities	25,579	35,942	307,624
Deferred gains (losses) on hedges	(467)	(721)	(5,616)
Foreign currency translation adjustments	(42,311)	(21,894)	(508,851)
Total accumulated other comprehensive income	(17,199)	13,327	(206,843)
Share subscription rights (Note 17)	1,509	1,184	18,147
Minority interests	49,101	49,540	590,511
Total net assets	1,312,678	1,328,772	15,786,867
Total liabilities and net assets	¥3,989,001	¥4,262,859	$47,973,553

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2011	2010	2011
Net Sales	¥2,903,770	¥2,940,887	$34,922,068
Cost of sales	2,461,857	2,537,257	29,607,420
Gross Profit	441,913	403,629	5,314,648
Selling, general and administrative expenses (Note 19)	340,693	337,968	4,097,330
Operating income	101,219	65,660	1,217,306
Non-operating income (expenses):			
Interest income	4,029	3,652	48,454
Dividend income	3,499	3,305	42,080
Income (loss) from equity method investments	6,804	(2,074)	81,828
Other income	5,867	5,678	70,559
Interest expense	(22,471)	(22,632)	(270,246)
Foreign exchange loss	(14,556)	(419)	(175,057)
Loss on disposal of fixed assets	(5,882)	(6,279)	(70,739)
Other expenses (Note 14)	(10,396)	(22,882)	(125,027)
Total non-operating income (expenses)	(33,106)	(41,651)	(398,147)
Ordinary income	68,113	24,009	819,158
Extraordinary gain (loss):			
Gain on sales of fixed assets (Note 11)	10,870	10,086	130,727
Gain on sales of investment securities	4,972	5,063	59,795
Gain on revision of retirement benefit plan (Notes 1 and 10)	–	4,950	–
Business structure improvement expenses (Notes 12 and 14)	(22,684)	(15,972)	(272,808)
Loss on disaster (Note 13)	(10,240)	–	(123,150)
Loss on revaluation of investment securities (Note 4)	(9,519)	–	(114,479)
Loss on the application of the accounting standards for asset retirement obligations (Note 1)	(2,012)	–	(24,197)
Total extraordinary gain (loss)	(28,614)	4,128	(344,125)
Income before income taxes and minority interests	39,499	28,137	475,033
Income taxes (Note 6):			
Current	39,905	26,146	479,915
Deferred	(29,423)	(7,920)	(353,854)
Total income taxes	10,481	18,226	126,049
Income before minority interests	29,018	9,911	348,983
Minority interests in income (loss) of consolidated subsidiaries	(1,099)	(4,252)	(13,217)
Net income	¥ 30,117	¥ 14,163	$ 362,200

	In yen		In U.S. dollars (Note 2)
	2011	2010	2011
Per share information of common stock (Note 1)**:**			
Net income—basic	¥8.97	¥4.22	$0.108
Net income—diluted	8.96	4.22	0.108
Cash dividends	4.00	4.00	0.048

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2011

	In millions of yen	In thousands of U.S. dollars (Note 2)
	2011	2011
Income before minority interests	¥ 29,018	$ 348,983
Other comprehensive income (loss):		
Net unrealized gains (losses) on investment securities	(10,934)	(131,497)
Deferred gains (losses) on hedges	(262)	(3,150)
Foreign currency translation adjustments	(17,337)	(208,502)
Share of other comprehensive income (loss) of entities accounted for using the equity method	(2,676)	(32,182)
Total other comprehensive income (loss) (Note 15)	(31,211)	(375,357)
Comprehensive income (loss) (Note 15)	¥ (2,192)	$ (26,361)
Comprehensive income (loss) attributable to:		
Shareholders of the parent	¥ (408)	$ (4,906)
Minority interests	(1,784)	(21,455)

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, 2011 and 2010

	In millions of yen											
	Stockholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
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
Cash dividends (Note 16)			(16,781)		(16,781)							(16,781)
Net income			14,163		14,163							14,163
Changes in scope of consolidation			(0)		(0)							(0)
Changes in scope of equity method application			884	(1)	882							882
Changes in equity interest mainly due to reorganization			12,984		12,984							12,984
Purchase of treasury stock				(21)	(21)							(21)
Disposal of treasury stock		10		38	49							49
Net changes in items other than stockholders' equity					–	18,629	(1,045)	7,588	25,172	303	8,767	34,243
Subtotal	–	10	11,250	16	11,277	18,629	(1,045)	7,588	25,172	303	8,767	45,521
Balance as of March 31, 2010	¥265,608	¥203,938	¥800,199	¥(5,025)	¥1,264,721	¥ 35,942	¥ (721)	¥(21,894)	¥13,327	¥1,184	¥49,540	¥1,328,772
Cash dividends (Note 16)			(13,425)		(13,425)							(13,425)
Net income			30,117		30,117							30,117
Changes in scope of consolidation			(1,763)		(1,763)							(1,763)
Changes in scope of equity method application			18		18							18
Purchase of treasury stock				(412)	(412)							(412)
Disposal of treasury stock		0		12	12							12
Net changes in items other than stockholders' equity					–	(10,363)	254	(20,416)	(30,526)	324	(439)	(30,640)
Subtotal	–	0	14,946	(400)	14,546	(10,363)	254	(20,416)	(30,526)	324	(439)	(16,093)
Balance as of March 31, 2011	¥265,608	¥203,939	¥815,145	¥(5,425)	¥1,279,267	¥ 25,579	¥ (467)	¥(42,311)	¥(17,199)	¥1,509	¥49,101	¥1,312,678

	In thousands of U.S. dollars (Note 2)											
	Stockholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2010	$3,194,323	$2,452,651	$9,623,559	$(60,432)	$15,210,114	$ 432,254	$(8,671)	$(263,307)	$ 160,276	$14,239	$595,790	$15,980,420
Cash dividends (Note 16)			(161,455)		(161,455)							(161,455)
Net income			362,200		362,200							362,200
Changes in scope of consolidation			(21,202)		(21,202)							(21,202)
Changes in scope of equity method application			216		216							216
Purchase of treasury stock				(4,954)	(4,954)							(4,954)
Disposal of treasury stock		0		144	144							144
Net changes in items other than stockholders' equity					–	(124,630)	3,054	(245,532)	(367,119)	3,896	(5,279)	(368,490)
Subtotal	–	0	179,747	(4,810)	174,936	(124,630)	3,054	(245,532)	(367,119)	3,896	(5,279)	(193,541)
Balance as of March 31, 2011	$3,194,323	$2,452,663	$9,803,307	$(65,243)	$15,385,051	$ 307,624	$(5,616)	$(508,851)	$(206,843)	$18,147	$590,511	$15,786,867

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 39,499	¥ 28,137	$ 475,033
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	132,159	138,045	1,589,404
Increase (decrease) in reserve for retirement allowance	819	(665)	9,849
Interest and dividend income	(7,529)	(6,957)	(90,547)
Interest expense	22,471	22,632	270,246
(Income) loss from equity method investments	(6,804)	2,074	(81,828)
(Gain) loss on sales of investment securities	(4,972)	(5,063)	(59,795)
Loss on revaluation of investment securities	9,519	–	114,479
(Gain) loss on sales of fixed assets	(10,870)	(10,086)	(130,727)
Loss on disposal of fixed assets	5,882	6,279	70,739
Loss on the application of the accounting standards for asset retirement obligations	2,012	–	24,197
Business structure improvement expenses	22,684	15,972	272,808
Loss on disaster	10,240	–	123,150
(Increase) decrease in receivables	82,377	136,737	990,703
(Increase) decrease in inventories and advances to suppliers	167,088	40,913	2,009,476
(Increase) decrease in other assets	(22,024)	(2,519)	(264,870)
Increase (decrease) in payables	(27,390)	(55,822)	(329,404)
Increase (decrease) in advance payments received on contracts	(54,465)	(91,386)	(655,021)
Increase (decrease) in other liabilities	8,297	(49,177)	99,783
Others	(301)	1,139	(3,619)
Subtotal	368,694	170,253	4,434,082
Interest and dividends received	9,472	8,326	113,914
Interest paid	(22,871)	(22,105)	(275,057)
Income taxes paid	(17,490)	(38,497)	(210,342)
Net cash provided by operating activities	337,805	117,977	4,062,597
Cash flows from investing activities:			
Net (increase) decrease in time deposits	(154)	(607)	(1,852)
Purchases of property, plant, equipment and intangible assets	(138,099)	(183,304)	(1,660,841)
Proceeds from sales of property, plant, equipment and intangible assets	12,899	30,657	155,129
Purchases of investment securities	(16,835)	(38,841)	(202,465)
Proceeds from sales and redemption of investment securities	6,246	8,084	75,117
Disbursement of long-term loans	(2,729)	(15,820)	(32,820)
Collection of long-term loans	3,124	19,337	37,570
Others	(1,699)	(208)	(20,432)
Net cash used in investing activities	(137,248)	(180,704)	(1,650,607)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	(32,522)	(241,103)	(391,124)
Proceeds from long-term borrowings	13,537	182,705	162,802
Repayment of long-term borrowings	(116,220)	(120,038)	(1,397,714)
Proceeds from issuance of bonds	–	100,000	–
Payment for redemption of bonds	(20,000)	(20,350)	(240,529)
Proceeds from issuance of stock to minority stockholders of subsidiaries	1,899	13,873	22,838
Dividends paid to stockholders	(13,351)	(16,698)	(160,565)
Dividends paid to minority stockholders of subsidiaries	(598)	(819)	(7,191)
Others	(2,537)	(2,860)	(30,511)
Net cash used in financing activities	(169,793)	(105,291)	(2,042,008)
Effect of exchange rate changes on cash and cash equivalents	(2,512)	3,478	(30,210)
Net increase (decrease) in cash and cash equivalents	28,251	(164,539)	339,759
Cash and cash equivalents at beginning of year	261,373	425,913	3,143,391
Increase in cash and cash equivalents due to changes in scope of consolidation	275	–	3,307
Decrease in cash and cash equivalents due to changes in scope of consolidation	(1,031)	–	(12,399)
Cash and cash equivalents at end of year (Note 18)	¥ 288,868	¥ 261,373	$ 3,474,058

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, 2011 and 2010

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") of Japan.

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, 2011 and 2010 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 rates in effect at the balance sheet date 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 rates in effect at the balance sheet date, revenues and expenses at the average exchange rates during the year, and stockholders' equity at historical rates. The resulting foreign currency translation adjustments are accounted for as a component of net assets.

d) Securities

Securities include (1) investments in unconsolidated subsidiaries and affiliates and (2) other securities (available-for-sale securities). Their valuation standards and methods are as follows:

(1) Investments in unconsolidated subsidiaries and affiliates excluding those accounted for by the equity method:
Historical cost (moving average method).

(2a) Other securities with market value:
Market value method based on market prices or other fair values at the balance sheet date. Unrealized holding gains and losses are accounted for as a component of net assets, net of tax effect. The costs of sold securities are computed based on the moving average method.

(2b) Other securities without market value:
Historical cost (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.)

f) Depreciation of property, plant and equipment

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

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

g) Amortization of intangible assets

Amortization of intangible assets (excluding leased assets) is computed using the straight-line method over the assets' useful lives, which are substantially the same as those prescribed in the Corporation Income Tax Law.

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

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

h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for possible losses on the collection of receivables. The amount of the allowance for general receivables is based on the write-off ratio. As for certain receivables such as the ones from the debtors whose solvency is in doubt, the recoverability of each receivable is examined individually and the estimated unrecoverable amounts are recognized as the allowance.

i) Reserve for product warranties

Reserve for product warranties is provided for the product warranty expenditure after products are delivered. The amounts are estimated based on the past statistics and other relevant factors.

j) Reserve for losses on construction contracts

Reserve for losses on construction contracts is provided for the expected total losses to be realized in the following years on the construction contracts if (1) those losses are judged inevitable at current year-end and (2) reasonable estimation of the amounts of such losses is possible.

With regard to the construction contracts for which this reserve is recognized, if the year-end balances of their work-in-process already exceed their respective total contract revenues, the exceeding portion is recognized as the loss on devaluation of the work-in-process and, accordingly, is not included in the reserve for losses on construction contracts.

k) Reserve for legal claims

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

l) Reserve for retirement allowance

Reserve for retirement allowance is provided for employees' retirement benefits. The amounts are based on the balances of retirement benefit obligations and estimated pension fund assets (including a 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 period of 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 average remaining service period of employees.

m) Reserve for treatment of PCB waste

Reserve for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment of PCB products and equipment.

n) Revenue recognition

With regard to construction contracts, the percentage-of-completion method is applied if a reliable estimation of the (1) total costs on and revenues from a contract and (2) percentage of completion at the balance sheet date is available. In applying this method, the percentage of completion at the balance sheet date is estimated based on the costs incurred to date divided by the estimated total costs on the contracts. The completed-contract method is applied when the above conditions are not met.

o) Hedge Accounting

The principal method in applying the hedge accounting is deferral hedge accounting, where gains or losses on a hedging instrument are deferred (and recognized as a component of net assets, net of tax effect) until the losses or gains on the hedged item are recognized in the income statement.

The Group applies the "assigning method for foreign currency receivables or payables" (hereinafter referred to as the "assigning method") and the "exceptional method for interest rate swaps" (hereinafter referred to as the "exceptional method") when the transactions meet the requirements of relevant accounting standards.

The "assigning method" is applied when a forward exchange contract (hedging instrument) with the corresponding conditions (e.g. amount, currency and settlement period) to the hedged item is concluded to fix the conversion rate of those receivables or payables. Under this method, the hedged item and the hedging instrument are treated as a single item, thus the hedged item is converted by the forward exchange contract rate; the fair value of the hedging instrument is not computed. The assigning method is not applied in case of comprehensive forward exchange contracts.

The "exceptional method" is applied when an interest rate swap (hedging instrument) with the corresponding conditions (e.g. principal amount, maturity and index) to the hedged item is concluded to fix the interest rate on the hedged item. Under this method, the amounts to be paid or received under the contract is added to or deducted from the interest; the fair value of the hedging instrument is not computed.

The Group evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and those on the hedged items from the commencement of the hedges.

p) Tax-effect accounting

Deferred income taxes arise from temporary differences between the financial reporting and tax bases of assets and liabilities. They are accounted for under the asset and liability method, where the amounts of deferred income taxes are calculated using the future tax rates in effect when the temporary differences are recovered or settled.

q) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, demand deposits and short-term highly liquid investments with maturities of three months or less when purchased that have insignificant risk of changes in value.

r) 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).

s) Change in accounting policy

Application of the accounting standards for asset retirement obligations

The Group has applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, issued on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on March 31, 2008) since the year ended March 31, 2011.

As a result, operating income and ordinary income for the year ended March 31, 2011 decreased by 505 million yen ($6,073 thousand); income before income taxes and minority interests for the year ended March 31, 2011 decreased by 2,517 million yen ($30,270 thousand).

t) Additional information

Application of the accounting standard for presentation of comprehensive income

The Group has applied the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, issued on June 30, 2010) since the year ended March 31, 2011.

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 ¥83.15=US$1 prevailing at March 31, 2011 is used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. FINANCIAL INSTRUMENTS

The carrying amounts on the consolidated balance sheet, fair values and the variance between them of financial instruments as of March 31, 2011 and 2010 are shown in the following table. The ones whose fair values are extremely difficult to determine are excluded from the following table and shown in Footnote 2. See Note 1 o) for the information on hedge accounting.

	In millions of yen			In thousands of U.S. dollars		
	2011			2011		
	Carrying Amount	Fair Value	Variance	Carrying Amount	Fair Value	Variance
(1) Cash and deposits	¥ 301,047	¥ 301,047	¥ –	$ 3,620,529	$ 3,620,529	$ –
(2) Trade receivables	852,645	852,645	–	10,254,299	10,254,299	–
(3) Securities and investment securities	168,795	240,080	71,284	2,030,006	2,887,312	857,294
Asset Items Total	¥1,322,487	¥1,393,772	¥71,284	$15,904,834	$16,762,140	$857,294
(4) Trade payables	619,107	619,107	–	7,445,664	7,445,664	–
(5) Short-term borrowings	85,488	85,488	–	1,028,117	1,028,117	–
(6) Bonds	344,074	352,480	8,405	4,137,991	4,239,085	101,082
(7) Long-term borrowings	896,104	919,911	23,806	10,776,957	11,063,271	286,301
Liability Items Total	¥1,944,774	¥1,976,987	¥32,212	$23,388,743	$23,776,151	$387,396
(8) Derivatives (*)	¥ (1,620)	¥ (1,620)	¥ –	$ (19,482)	$ (19,482)	$ –

(*) The derivatives positions shown are net amounts. The amounts in parentheses show liability balances.

	In millions of yen		
	2010		
	Carrying Amount	Fair Value	Variance
(1) Cash and deposits	¥ 274,061	¥ 274,061	¥ –
(2) Trade receivables	948,200	948,200	–
(3) Securities and investment securities	188,822	280,742	91,920
Asset Items Total	¥1,411,083	¥1,503,003	¥91,920
(4) Trade payables	646,538	646,538	–
(5) Short-term borrowings	117,679	117,679	–
(6) Bonds	364,605	371,423	6,818
(7) Long-term borrowings	1,007,041	1,025,214	18,172
Liability Items Total	¥2,135,864	¥2,160,855	¥24,991
(8) Derivatives (*)	¥ 266	¥ 266	¥ –

(*) The derivatives positions shown are net amounts.

(Footnote 1) The computation method of the fair values of financial instruments

(1) Cash and deposits
The book values are used as the fair values since all the deposits are short-term and the fair values are almost equal to the book values.

(2) Trade receivables
The book values are used as the fair values since a large portion of these are settled in a short period and the fair values could be deemed almost equal to the book values.

(3) Securities and investment securities
Market prices are used as the fair values.

(4) Trade payables; (5) Short-term borrowings
The book values are used as the fair values since a large portion of these are settled in a short period and the fair values are almost equal to the book values.

(6) Bonds
If market prices are available, they are used as the fair values. If not, the present values of the principal and total interest (discounted by the rate based on the remaining years and the credit risk of the bonds) are used as the fair values.

(7) Long-term borrowings
The present values of the principal and total interest (*) (discounted by the rate assumed to be applied to the new borrowings of the same conditions) are used as the fair values.
(*) As for the long-term borrowings to which the "exceptional method for interest-rate swaps" is applied, the principal and total interest according to the interest rate under the interest-rate swaps are used.

(8) Derivatives
See Note 5.

(Footnote 2) Financial instruments shown below are excluded from the above table because they do not have market prices and it is extremely difficult to determine their fair values.

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Carrying amounts of unlisted securities	¥152,498	¥153,668	$1,834,010

(Footnote 3) The contractual maturities of monetary receivables and other securities at March 31, 2011 and 2010 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2011				2011			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 300,596	¥ –	¥ –	¥–	$ 3,615,105	$ –	$ –	$–
Trade receivables	812,450	38,504	1,690	–	9,770,895	463,066	20,324	–
Securities and investment securities								
Other securities								
Government bonds	0	9	–	–	0	108	–	–
Total	¥1,113,047	¥38,513	¥1,690	¥–	$13,386,013	$463,174	$20,324	$–

	In millions of yen			
	2010			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 273,453	¥ –	¥ –	¥–
Trade receivables	912,994	32,328	2,876	–
Securities and investment securities				
Other securities				
Government bonds	0	9	–	–
Certificate of deposit	7	–	–	–
Total	¥1,186,455	¥32,337	¥2,876	¥–

4. SECURITIES

a) Other securities with market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2011 and 2010, consisted of the following:

	In millions of yen			In thousands of U.S. dollars		
	2011			2011		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥105,204	¥ 51,883	¥53,321	$1,265,231	$ 623,968	$ 641,262
Others	2	1	0	24	12	0
Subtotal	¥105,206	¥ 51,884	¥53,321	$1,265,255	$ 623,980	$ 641,262
ii) Acquisition costs over carrying amounts:						
Equity securities	¥ 40,660	¥ 49,457	¥ (8,797)	$ 488,995	$ 594,792	$(105,796)
Government bonds	9	9	(0)	108	108	(0)
Others	10	12	(1)	120	144	(12)
Subtotal	¥ 40,680	¥ 49,479	¥ (8,799)	$ 489,236	$ 595,057	$(105,820)
Total (i+ii)	¥145,887	¥101,364	¥44,522	$1,754,503	$1,219,049	$ 535,441

	In millions of yen		
	2010		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities.	¥126,018	¥57,520	¥68,498
Government bonds	9	9	0
Others	34	13	21
Subtotal	¥126,063	¥57,543	¥68,520
ii) Acquisition costs over carrying amounts:			
Equity securities.	¥ 39,115	¥ 47,420	¥ (8,305)
Total (i+ii)	¥165,179	¥104,964	¥60,214

Footnote: The Group treated as impaired those securities whose market values showed a substantial decline and were not judged to recover. The impairment loss amount is recorded as adjustment to the acquisition cost of those securities.

b) Sales amounts of other securities and related gains and losses for the years ended March 31, 2011 and 2010 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Sales amounts	¥3,242	¥6,985	$38,989
Gains	2,756	5,021	33,144
Losses	(23)	(13)	(276)

c) Impaired securities

The breakdown of the securities impairment recognized in the years ended March 31, 2011 and 2010 was as follows:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Other securities with market value	¥9,472	¥1,343	$113,914
Securities whose fair values are extremely difficult to determine .	47	65	565
Total	¥9,519	¥1,409	$114,479

Securities with market value 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.

Impairment losses on securities whose fair values are extremely difficult to determine are recognized when the equity values are judged to have declined 50% or more from their book values due to financial difficulties of the issuers.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivatives for the purpose of reducing the risks mentioned below and does not enter into derivatives for speculative or trading purposes.

The derivative financial instruments which the Group utilizes are principally foreign currency forward and option contracts and interest rate swaps. The former is to hedge against the exchange rate risk on the receivables and payables denominated in foreign currencies and the latter is to fix the interest rate on certain long-term borrowings. See Note 1 o) for the information on hedge accounting.

The use of the derivatives is subject to the internal control policy; the objective of the derivatives transactions is limited to hedging against such risks as exchange rate risks and interest rate risks and their use is limited to the extent corresponding to actual business. Accordingly, the Group believes that market risks resulting from the change in exchange rates and interest rates are insignificant. The Group also believes that the risk of nonperformance by counterparties is insignificant because all the counterparties are banks with high credit ratings.

Summarized below are the notional amounts and the fair values of the derivative positions outstanding at March 31, 2011 and 2010.

1. Derivatives to which hedge accounting is not applied

Forward foreign exchange contracts (*1)

	In millions of yen			In thousands of U.S. dollars		
	2011			2011		
	Notional amount (*2)	Fair value	Unrealized gain (loss)	Notional amount (*2)	Fair value	Unrealized gain (loss)
Sell:						
US$	¥20,658	¥20,603	¥ 55	$248,442	$247,781	$ 661
Euro	17,113	17,471	(358)	205,808	210,114	(4,305)
Others	3,578	3,749	(170)	43,030	45,087	(2,044)
Buy:						
US$	2,468	2,563	95	29,681	30,823	1,142
Total	¥38,882	¥39,260	¥(378)	$467,612	$472,158	$(4,546)

	In millions of yen		
	2010		
	Notional amount (*2)	Fair value	Unrealized gain (loss)
Sell:			
US$	¥18,395	¥18,624	¥ (229)
Euro	16,338	15,182	1,155
Others	4,323	4,387	(63)
Buy:			
US$	2,332	2,344	11
Others	1,019	1,076	57
Total	¥35,704	¥34,774	¥ 930

(*1) The fair values of exchange contracts are based on forward exchange rates.
(*2) Notional amounts shown above are all due within one year.

2. Derivatives to which hedge accounting is applied

(1) Forward foreign exchange contracts (to which deferral hedge accounting is applied)

	In millions of yen			In thousands of U.S. dollars		
	2011			2011		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)						
US$	¥ 9,955	¥ –	¥ 9,666	$ 119,723	$ –	$ 116,247
Euro	13,288	–	13,718	159,807	–	164,978
Others	3,396	–	3,399	40,841	–	40,877
Buy:(*2)						
US$	26,293	14	25,830	316,211	168	310,643
Euro	19,065	–	18,875	229,284	–	226,999
Others	4,824	–	4,378	58,015	–	52,651
Total	¥(23,542)	¥(14)	¥(22,299)	$(283,126)	$(168)	$(268,177)

	In millions of yen		
	2010		
	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)			
US$	¥83,760	¥–	¥84,425
Euro	13,661	–	13,055
Others	4,407	–	4,369
Buy:(*2)			
US$	47,774	–	48,924
Euro	28,180	–	27,419
Others	8,995	–	7,963
Total	¥16,879	¥–	¥17,543

(*1) The hedged items on these derivatives are principally trade receivables.
(*2) The hedged items on these derivatives are principally trade payables.

(2) Forward foreign exchange contracts (to which the "assigning method for foreign currency receivables or payables" is applied)

	In millions of yen			In thousands of U.S. dollars		
	2011			2011		
	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)						
US$	**¥12,682**	**¥–**	**(*3)**	**$152,519**	**$–**	**(*3)**
Euro	**18,008**	**–**	**(*3)**	**216,572**	**–**	**(*3)**
Buy:(*2)						
US$	**2,847**	**–**	**(*3)**	**34,239**	**–**	**(*3)**
Euro	**3,891**	**–**	**(*3)**	**46,794**	**–**	**(*3)**
Others	**785**	**–**	**(*3)**	**9,440**	**–**	**(*3)**
Total	**¥23,166**	**¥–**		**$278,604**	**$–**	

	In millions of yen		
	2010		
	Notional amount	Therein: portion due after one year	Fair value
Sell:(*1)			
US$	¥46,810	¥–	(*3)
Euro	3,233	–	(*3)
Others	46	–	(*3)
Buy:(*2)			
US$	3,516	–	(*3)
Euro	1,323	–	(*3)
Others	66	–	(*3)
Total	¥45,184	¥–	

(*1) The hedged items on these derivatives are principally trade receivables.
(*2) The hedged items on these derivatives are principally trade payables.
(*3) Since the "assigning method for foreign currency receivables or payables" is applied, the above contracts are treated as part of the hedged trade receivables/payables, thus their fair values are included in those of the trade receivables/payables, which are shown in Note 3.

(3) Interest rate swaps (to which the "exceptional method for interest-rate swaps" is applied) (*1)

	In millions of yen			In thousands of U.S. dollars		
	2011			2011		
Type of transactions	Notional amount	Therein: portion due after one year	Fair value	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	**¥342,139**	**¥251,001**	**(*2)**	**$4,114,720**	**$3,018,653**	**(*2)**

	In millions of yen		
	2010		
	Notional amount	Therein: portion due after one year	Fair value
Fixed payment / variable receipt	¥361,770	¥342,139	(*2)

(*1) The hedged items on these derivatives are principally long-term borrowings.
(*2) Since the "exceptional method for interest-rate swaps" is applied, the above interest rate swaps are treated as part of the hedged long-term borrowings, thus their fair values are included in those of the long-term borrowings, which are shown in Note 3.

6. 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, 2011 and 2010.

a) Significant components of deferred tax assets and liabilities at March 31, 2011 and 2010, which arose as a result of the recognition of the tax effect mentioned in Note 1 p), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Reserve for retirement allowance	¥ 106,470	¥ 107,286	$ 1,280,457
Accrued expenses for product warranties	42,516	34,319	511,316
Accrued expenses for construction contracts	31,469	31,563	378,460
Inventory write-downs	28,081	20,187	337,714
Tax loss carryforwards	24,074	32,743	289,524
Reserve for losses on construction contracts	20,727	10,159	249,272
Reserve for product warranties	9,370	11,600	112,687
Others	108,357	95,491	1,303,150
Subtotal	371,066	343,352	4,462,609
Valuation allowance	(63,607)	(53,594)	(764,966)
Total gross deferred tax assets	307,459	289,758	3,697,642
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	(79,798)	(80,818)	(959,687)
Reserve for reduction in costs of fixed assets	(25,963)	(23,729)	(312,242)
Net unrealized gains on investment securities	(21,572)	(27,828)	(259,434)
Others	(11,414)	(23,497)	(137,269)
Total gross deferred tax liabilities	(138,748)	(155,873)	(1,668,647)
Net deferred tax assets (liabilities)*	¥ 168,710	¥ 133,884	$ 2,028,983

* Net deferred tax assets (liabilities) at March 31, 2011 and 2010 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Deferred income taxes in current assets	¥161,823	¥142,720	$1,946,157
Deferred income taxes in investments and advances	10,824	9,367	130,174
Other liabilities in current liabilities	(329)	(316)	(3,956)
Deferred income taxes in non-current liabilities	¥ (3,607)	¥ (17,886)	$ (43,379)

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, 2011 and 2010 are as follows:

	2011	2010
Japanese statutory effective income tax rate	40.5%	40.5%
Adjustment:		
Items excluded from expenses	5.3	6.8
Items excluded from gross income	(4.3)	(2.7)
(Income) loss from equity method investments	(7.0)	3.0
Valuation allowance	21.3	9.5
Tax exemption for research & development expenditure	(17.2)	(6.1)
Unrealized profit in excess of taxable income	–	7.8
Income taxes for previous periods	(7.2)	–
Others*	(4.9)	6.0
Income tax rate as a percentage of income before income taxes and minority interests	26.5%	64.8%

* "Others" at March 31, 2010 includes "Income taxes for previous periods" which amounts to 4.2%.

7. INTEREST-BEARING DEBTS AND LEASE OBLIGATIONS

a) Short-term interest-bearing debts at March 31, 2011 and 2010 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	**2011**
Short-term loans, principally from banks (with weighted-average interest rate of 1.5% at March 31, 2011)	**¥ 85,488**	¥117,679	**$1,028,117**
Current portion of long-term loans, principally from banks and insurance companies (with weighted-average interest rate of 1.4% at March 31, 2011)	**211,114**	109,539	**2,538,953**
Commercial papers	**–**	6,000	**–**
Current portion of bonds	**14,074**	20,000	**169,260**
Total	**¥310,677**	¥253,219	**$3,736,343**

b) Bonds at March 31, 2011 and 2010 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	**2011**
Unsecured bonds issued by MHI:			
1.03% bonds due 2013 (issued in Jan 2003)	**¥ 30,000**	¥ 30,000	**$ 360,793**
0.365% bonds due 2010 (issued in Jun 2003)	**–**	20,000	**–**
0.70% bonds due 2013 (issued in Jun 2003)	**50,000**	50,000	**601,322**
1.45% bonds due 2011 (issued in Sep 2006)	**10,000**	10,000	**120,264**
2.04% bonds due 2016 (issued in Sep 2006)	**20,000**	20,000	**240,529**
1.47% bonds due 2012 (issued in Sep 2007)	**50,000**	50,000	**601,322**
1.69% bonds due 2014 (issued in Sep 2007)	**20,000**	20,000	**240,529**
2.03% bonds due 2017 (issued in Sep 2007)	**60,000**	60,000	**721,587**
0.688% bonds due 2014 (issued in Dec 2009)	**50,000**	50,000	**601,322**
1.482% bonds due 2019 (issued in Dec 2009)	**50,000**	50,000	**601,322**
Unsecured bonds issued by Subsidiaries:			
6.45% bonds due 2011 (issued in Aug 2006)	**4,074**	4,605	**48,995**
Total	**¥344,074**	¥364,605	**$4,137,991**

The aggregate annual maturities of bonds at March 31, 2011 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2012 (= current portion)	**¥ 14,074**	**$ 169,260**
2013	**80,000**	**962,116**
2014	**50,000**	**601,322**
2015	**70,000**	**841,852**
2016	**–**	**–**
Thereafter	**130,000**	**1,563,439**
Non-current portion subtotal	**330,000**	**3,968,731**
Total	**¥344,074**	**$4,137,991**

c) Long-term borrowings at March 31, 2011 and 2010 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	**2011**
Non-current portion of long-term loans, principally from banks and insurance companies, due 2011 to 2023 (with weighted-average interest rate of 1.7% at March 31, 2011)	**¥684,989**	¥897,501	**$8,237,991**

The aggregate annual maturities of long-term borrowings at March 31, 2011 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2012 (= current portion)	¥211,114	$ 2,538,953
2013	129,584	1,558,436
2014	150,047	1,804,533
2015	181,083	2,177,787
2016	49,701	597,726
Thereafter	174,572	2,099,482
Non-current portion subtotal	684,989	8,237,991
Total	¥896,104	$10,776,957

d) The aggregate annual maturities of lease obligations at March 31, 2011 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2012 (= current portion)	¥ 2,233	$ 26,855
2013	2,118	25,472
2014	1,701	20,457
2015	920	11,064
2016	572	6,879
Thereafter	4,618	55,538
Non-current portion subtotal	9,931	119,434
Total	¥12,164	$146,289

8. PLEDGED ASSETS AND RELATED LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Assets pledged as collateral	2011	2010	2011
Property, plant and equipment	¥14,925	¥15,404	$179,494
Trade receivables	1,263	1,183	15,189
Others	386	306	4,642
Total	¥16,574	¥16,894	$199,326

	In millions of yen		In thousands of U.S. dollars
Liabilities related to the assets pledged as collateral	2011	2010	2011
Short-term borrowings	¥10,276	¥10,101	$123,583
Long-term borrowings	7,123	8,090	85,664
Total	¥17,400	¥18,191	$209,260

9. CONTINGENT LIABILITIES

	In millions of yen		In thousands of U.S. dollars
Contingent liabilities	2011	2010	2011
Guarantee obligations on such debts as borrowings from financial institutions by companies outside the MHI Group	¥72,543	¥89,214	$872,435

10. 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. See Note 1 l) for accounting polices and related information.

a) Benefit obligations and related information at March 31, 2011 and 2010 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
①Retirement benefit obligations	¥(629,674)	¥(662,323)	$(7,572,748)
②Fair value of plan assets	527,925	586,920	6,349,067
③Unfunded benefit obligations (① + ②)	(101,748)	(75,402)	(1,223,668)
④Unrecognized actuarial losses (gains)	147,425	120,101	1,773,000
⑤Unrecognized prior service costs (credits)	(136)	(368)	(1,635)
⑥Net benefit liability recognized on the consolidated balance sheets (③ + ④ + ⑤)	45,539	44,330	547,672
⑦Prepaid pension expenses	95,382	92,873	1,147,107
⑧Reserve for retirement allowance (⑥ – ⑦)	¥ (49,842)	¥ (48,542)	$ (599,422)

b) The components of net periodic retirement benefit expenses for the years ended March 31, 2011 and 2010 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 28,783	¥ 28,347	$ 346,157
Interest cost	13,026	13,538	156,656
Expected return on plan assets	(13,884)	(10,639)	(166,975)
Amortization of actuarial losses (gains)	18,959	26,152	228,009
Amortization of prior service costs (credits)	(195)	(5,052)*	(2,345)
Retirement benefit expenses	¥ 46,689	¥ 52,346	$ 561,503

* Amortization of prior service costs (credits) for the year ended March 31, 2010 included the credits caused by the reduction in the additional interest rate on the retirement annuities, which were credited as incurred.

c) The principal assumptions used in determining the information above at March 31, 2011 and 2010 were as follows:

	2011	2010
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 9 to 15 years	Expensed as incurred or 9 to 11 years
Amortization period for actuarial gains and losses	9 to 19 years	10 to 19 years

11. GAIN ON SALES OF FIXED ASSETS

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Land	¥10,946	¥10,148	$131,641
Others	(76)	(62)	(914)
Total	¥10,870	¥10,086	$130,727

12. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the year ended March 31, 2011 consisted of business reorganization expenses relating mainly to Power Systems business and Machinery & Steel Structures business.

Business structure improvement expenses for the year ended March 31, 2010 consisted of the following expenses relating mainly to Mass & Medium-Lot Manufactured Machinery business and Power Systems business.

	In millions of yen
	2010
Business reorganization expenses	¥ 9,411
Business withdrawal expenses	6,561
Total	¥15,972

13. LOSS ON DISASTER

Loss on disaster for the year ended March 31, 2011 arose from the Great East Japan Earthquake. It consisted of the following items.

	In millions of yen	In thousands of U.S. dollars
	2011	2011
Expenses on restoration or disposal of damaged assets	¥ 9,981	$120,036
Abnormal idle time cost	259	3,114
Total	¥10,240	$123,150

14. LOSS ON IMPAIRMENT OF FIXED ASSETS

The following is a description of the loss on impairment of fixed assets recognized in the year ended March 31, 2011.

a) Description of the impaired asset group
The impaired asset group consisted mainly of construction in progress, machinery and transportation equipment for operating purpose which were located in Nagasaki, Hiroshima, etc.

b) Method of asset grouping
The principal unit of asset grouping is works. Basically, assets for rental purpose, idle assets and assets to be disposed of due to termination or transfer of some operation are each treated as separate asset groups.

c) Reason to recognize the impairment
Because some assets are going out of use in relation to transfer of some operation, their book values were written down to recoverable amounts.

d) Calculation method of recoverable amounts
Recoverable amounts are measured either by fair value less costs to sell or the value in use. The value in use is computed by discounting the future cash flows to be derived from the assets to present value with the rate of 3.5%.

e) Impairment loss amount and the breakdown

Breakdown by the income statement accounts	In millions of yen	In thousands of U.S. dollars
"Business structure improvement expenses" under extraordinary loss	**¥16,203**	**$194,864**
"Other expenses" under non-operating expenses	**1,438**	**17,294**
Total	**¥17,641**	**$212,158**

Breakdown by the category of the fixed assets	In millions of yen	In thousands of U.S. dollars
Construction in progress	**¥12,653**	**$152,170**
Machinery and transportation equipment, etc	**4,987**	**59,975**
Total	**¥17,641**	**$212,158**

15. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Comprehensive income (loss) for the year ended March 31, 2010 was as follows:

	In millions of yen
	2010
Comprehensive income (loss) attributable to shareholders of the parent	¥52,320
Comprehensive income (loss) attributable to minority interests	(4,148)
Total	¥48,172

Other comprehensive income (loss) for the year ended March 31, 2010:	
Net unrealized gains (losses) on investment securities	¥17,583
Deferred gains (losses) on hedges	(778)
Foreign currency translation adjustments	6,960
Share of other comprehensive income (loss) of entities accounted for using the equity method	1,747
Changes in equity interest mainly due to reorganization	12,747
Total	¥38,261

16. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

a) Retained earnings

The Corporate Law of Japan provides that an amount equal to 10% of the amount of the dividends of surplus shall be recorded as legal reserves (i.e. capital reserves or retained earnings reserves) unless the legal reserves balance is equal to or exceeds 25% of stated capital. The distribution of the dividends can be made at any time by resolution of the shareholders, or of the Board of Directors if certain conditions are met.

b) Total number of shares issued and treasury stock at March 31, 2011 and 2010 are as follows:

	Type of shares	At March 31, 2010	Increase by March 31, 2011	Decrease by March 31, 2011	At March 31, 2011
Total number of shares issued.	Common stock	3,373,647,813	–	–	3,373,647,813
Treasury stock.	Common stock	17,414,651	1,210,015	42,408	18,582,258

(1) Reason for increase of treasury stock

Repurchasing of shares held by lost shareholders (under Article 197, Paragraphs 3 and 4 of the Corporate Law of Japan)	1,144,637
Repurchasing of shares that were less than the minimum trading unit	65,378
Total	1,210,015

(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.	31,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	11,408
Total	42,408

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 24, 2010 Ordinary General Meeting of Shareholders. . .	Common stock	March 31, 2010	June 25, 2010	¥2	$0.0241	¥ 6,712	$ 80,721
October 29, 2010 Board of Directors	Common stock	September 30, 2010	December 3, 2010	¥2	$0.0241	¥ 6,712	$ 80,721
Total						¥13,425	$161,455

(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 23, 2011 Ordinary General Meeting of Shareholders. . .	Common stock	March 31, 2011	June 24, 2011	¥2	$0.0241	¥ 6,710	$ 80,697

17. 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 324 million yen ($3,896 thousand) in the year ended March 31, 2011 and 326 million yen in the year ended March 31, 2010, 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)	Stock options (8th grant)	Stock options (9th grant)
Grantee (Number of individuals) . . .	Directors (29)	Directors (27)	Directors & Executive officers (26)	Directors & Executive officers (25)	Directors & Executive officers (30)	Directors & Executive officers (33)	Executive officers (2)	Directors & Executive officers (33)	Directors & Executive officers (35)
Number of shares	535,000	500,000	502,000	663,000	400,000	806,000	46,000	1,109,000	1,259,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Grant date.	August 11, 2003	August 11, 2004	August 11, 2005	August 17, 2006	August 16, 2007	August 18, 2008	February 20, 2009	August 17, 2009	August 17, 2010
Exercise period (from)	June 27, 2005	June 26, 2006	June 29, 2007	August 18, 2006	August 17, 2007	August 19, 2008	February 21, 2009	August 18, 2009	August 18, 2010
(to)	June 26, 2009	June 25, 2010	June 28, 2011	June 28, 2036	August 16, 2037	August 18, 2038	February 20, 2039	August 17, 2039	August 17, 2040

b) Activities of stock options in the years ended March 31, 2011 and 2010

	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)	Stock options (8th grant)	Stock options (9th grant)
Unexercised at March 31, 2009	1,000	21,000	148,000	580,000	366,000	806,000	46,000	–	–
Granted	–	–	–	–	–	–	–	1,109,000	–
Vested	–	–	–	–	–	–	–	1,109,000	–
Exercised	–	21,000	55,000	18,000	10,000	18,000	–	–	–
Expired	1,000	–	–	–	–	–	–	–	–
Unexercised at March 31, 2010	–	–	93,000	562,000	356,000	788,000	46,000	1,109,000	–
Granted	–	–	–	–	–	–	–	–	1,259,000
Vested	–	–	–	–	–	–	–	–	1,259,000
Exercised	–	–	31,000	–	–	–	–	–	–
Expired	–	–	–	–	–	–	–	–	–
Unexercised at March 31, 2011	–	–	62,000	562,000	356,000	788,000	46,000	1,109,000	1,259,000

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)	Stock options (8th grant)	Stock options (9th grant)
Weighted-average exercise price	¥315	¥289	¥294	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2010	–	354	352	350	350	350	–	–	–
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2011	–	–	307	–	–	–	–	–	–
Grant date fair value	–	–	–	443	644	471	194	294	258

	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)	Stock options (8th grant)	Stock options (9th grant)
Weighted-average exercise price	$3.79	$3.48	$3.54	$0.01	$0.01	$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, 2011	–	–	3.69	–	–	–	–	–	–
Grant date fair value	–	–	–	5.33	7.75	5.66	2.33	3.54	3.10

d) Estimate method of fair value of stock options

The fair value of stock options granted in the years ended March 31, 2011 and 2010 (8th and 9th grant) were estimated using the Black-Scholes option-pricing model with the following assumptions.

	Stock options (8th grant)	Stock options (9th grant)
Expected volatility *1	36.888%	36.990%
Expected life of option *2	15 years	15 years
Expected dividends *3	¥6 per share	¥4 ($0.048) per share
Risk-free interest rate *4	1.834%	1.363%

(*1) Estimated based on the actual share prices of 15 years shown below.
Stock options (8th grant): August 17, 1994–August 17, 2009
Stock options (9th grant): August 17, 1995–August 17, 2010
(*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 (8th grant): full year ended March 31, 2009
Stock options (9th grant): full year ended March 31, 2010
(*4) Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

e) Estimate method of the number of vested share subscription rights

All of the share subscription rights were vested when granted.

18. CASH AND CASH EQUIVALENTS

"Cash and cash equivalents at end of year" in the statements of cash flows for the years ended March 31, 2011 and 2010 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Cash and deposits	¥301,047	¥274,061	$3,620,529
Time deposits with maturities over three months	(12,178)	(12,687)	(146,458)
Total	¥288,868	¥261,373	$3,474,058

19. RESEARCH AND DEVELOPMENT EXPENSES

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Research and development expenses	¥123,293	129,262	$1,482,778

20. ACCUMULATED DEPRECIATION

	In millions of yen		In thousands of U.S. dollars
	2011	2010	2011
Accumulated depreciation of property, plant and equipment	¥1,720,375	¥1,673,488	$20,690,018

21. ASSET RETIREMENT OBLIGATIONS

When the Group disposes of certain assets belonging to nuclear energy business, those assets are required to be treated with a special care as radioactive wastes. In principle, the Group recognizes asset retirement obligations on those assets. With regard to some of those assets, however, the Group does not recognize asset retirement obligations because estimation of necessary costs to dispose of them is not available due to the fact that the technology necessary to dismantle or dispose of them and the legislation on how they should be disposed of have been developed only partially. Those assets include the facilities conducting research and development concerning the safeness of constituting material of reactors, nuclear fuel and so on.

22. SIGNIFICANT AFFILIATES

Disclosure of condensed consolidated financial statements of significant affiliates under statutory criteria is required. Caterpillar Japan Ltd. was a significant affiliate in the year ended March 31, 2011.

	In millions of yen	In thousands of U.S. dollars
Caterpillar Japan Ltd.	2011	2011
Total current assets	¥139,567	$1,678,496
Total non-current assets	88,004	1,058,376
Total current liabilities	129,583	1,558,424
Total non-current liabilities	16,860	202,766
Total net assets	81,127	975,670
Sales	367,958	4,425,231
Income before income taxes and minority interests	37,623	452,471
Net income	¥ 22,656	$ 272,471

ERNST & YOUNG

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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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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.

Ernst & Young ShinNihon LLC

June 23, 2011

CORPORATE DATA

As of March 31, 2011

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

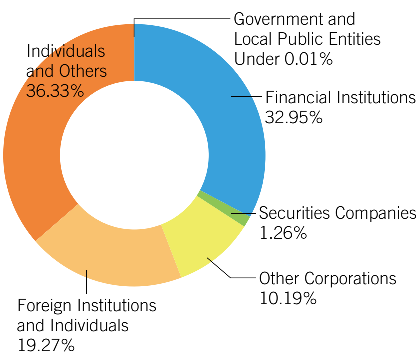
Total Number of Issuable Shares: 6,000,000,000

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

Number of Shareholders: 349,540

Number of Employees: 68,816 (Consolidated)

Composition of Shareholders



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

Ticker Code: 7011

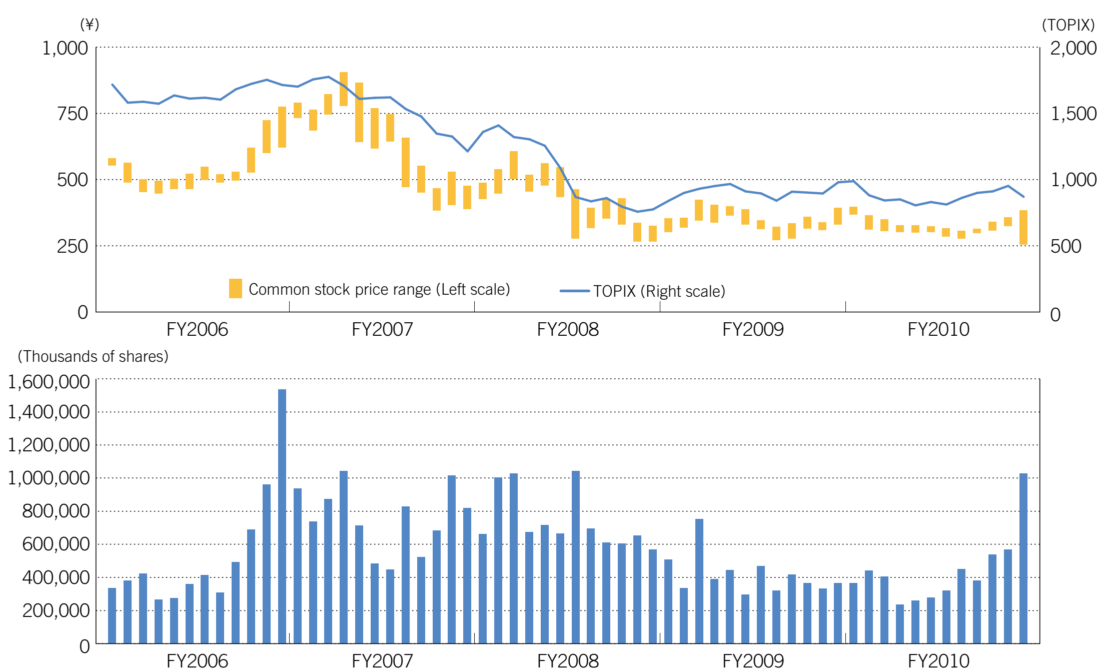
Manager of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

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)	168,868,900	5.01
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	142,166,000	4.21
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	125,666,000	3.72
Meiji Yasuda Life Insurance Company	80,022,741	2.37
SSBT OD05 OMNIBUS ACCOUNT – TREATY CLIENTS	63,129,700	1.87
Tokio Marine & Nichido Fire Insurance Co., Ltd.	50,400,000	1.49
Japan Trustee Services Bank, Ltd. (Holder in Trust 9)	49,795,000	1.48
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for Mitsubishi UFJ Trust and Banking Corporation)	45,934,000	1.36
MHI Stock Ownership Plan	35,869,216	1.06
The Nomura Trust and Banking Co., Ltd. (Holder in Investment Trust)	31,542,000	0.93

Monthly Stock Price Range & Trading Volume

(Tokyo Stock Exchange)



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