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2005

MHI Social and Environmental Report

CSR Report

Editorial Policy

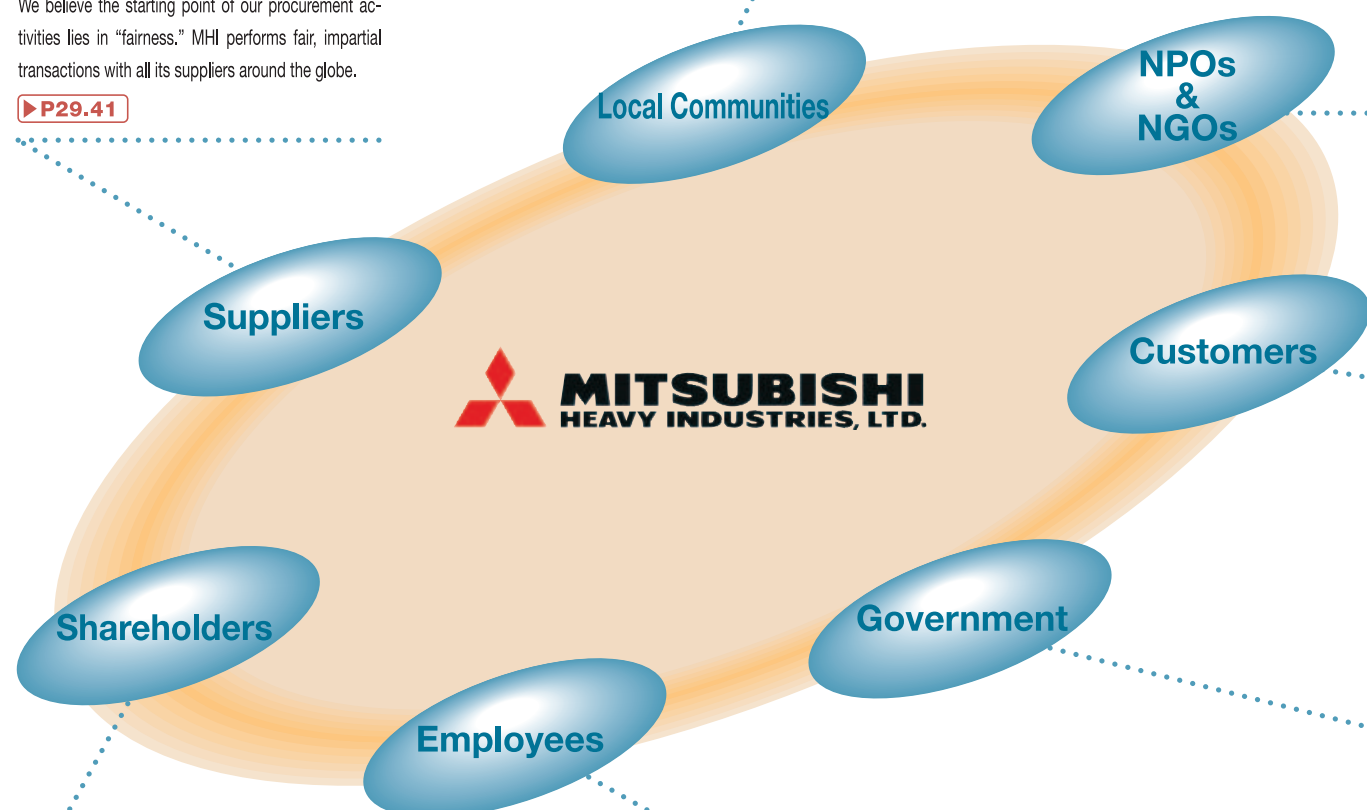
This report describes Mitsubishi Heavy Industries, Ltd.'s business approach and activities related to the development of a sustainable society. MHI hopes that this report will serve as a foundation for positive dialogue with stakeholders from a wide range of fields regarding business practices.

- Specifically, for the first time we held a stakeholders meeting at which we were privileged to hear the opinions regarding our company of seven stakeholders currently active in a variety of fields. In addition, as part of our efforts to improve communication with society, we have included an interview with the President.
- This report also includes a special feature pertaining to measures against global warming, a topic of great public concern, describing our business activities on a global scale.
- Taking into consideration the comments of third parties which we described in our previous report, we committed ourselves to improving, in particular, report quantification of social performance, development of a Group consolidated report, and inclusion of negative information.

Relationship with Stakeholders

We believe the starting point of our procurement activities lies in "fairness." MHI performs fair, impartial transactions with all its suppliers around the globe.

▶P29.41



MHI has forged relationships with various local communities around the world where it conducts business activities and where its products are delivered. We will continue to make every effort to maintain sufficient communication to solidify the relationship of trust with each community.

▶P40.51-54

Scope of Reporting Covered by This Report

- Organization: This report covers information pertaining to Mitsubishi Heavy Industries, Ltd. However, the business outline contains some consolidated data (such as sales figures and numbers of employees).
- Period: April 2004 to March 2005 (information on certain activities after April 2005 is also included)
- Date issued: June 2005 (date of previous report issued: June 2004)
- Referenced guidelines: Edited based on "2002 Sustainability Reporting Guidelines" by Global Reporting Initiative (GRI) and "Environmental Reporting Guidelines (Fiscal Year 2003 Version)" by the Japanese Ministry of the Environment.

To identify our role in building a sustainable society and developing a company that contributes to society, it is essential to listen to the various opinions of specialists in non-profit organizations (NPOs) and non-governmental organizations (NGOs). MHI will continue to value its partnerships with such organizations.

▶P9-12.52

MHI considers its customers to be not only the immediate delivery destinations of its products and services but also those that benefit from its products and services. We will continue to pursue enhanced communication with society.

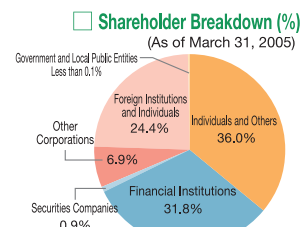
▶P13-18.23.43-44

MHI contributes to the government through participation in national projects and product delivery. In addition, our company promotes business activities that comply with the laws and regulations of overseas countries and other social standards.

▶P16.20.22.24.30

MHI aspires to achieve active communication with shareholders through means such as information disclosure, and further enhances opportunities for dialogue, making every effort to build relationships of trust.

▶P49-50



MHI is constantly working to improve its human resources system in order to help employees realize individual potential and to energize the organization. We also consider employee work conditions, human rights and safety.

▶P29-30.45-48

Company Profile

Trade Name: Mitsubishi Heavy Industries, Ltd.
Founded: July 7, 1884
Established: January 11, 1950
President: Kazuo Tsukuda
Head Office: 16-5, Konan 2-chome, Minato-ku, Tokyo, Japan
Capital: 265.6 billion yen (as of March 31, 2005)
Employees: 33,500 [Non-consolidated] (as of March 31, 2005)

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The Message from the President

CSR is the bedrock of our company's sustained existence. We will continue to contribute to social progress and development through our corporate activities.

Kazuo Tsukuda,
President

What is CSR*? What are the company's social obligations?

Kazuo Tsukuda, President of MHI,
talks with Charmine Koda,
a leading environmental journalist.

*CSR: Corporate Social Responsibility



To contribute to the construction of a sustainable society, we approach CSR from three different angles.

Koda: With the celebration of the company's 120th anniversary last year, MHI must have felt a renewed sense of the largeness of its accomplishments over the years, and at the same time the largeness of society's concerns and expectations concerning CSR. As company president, what are your thoughts on MHI's corporate responsibilities to society?

Tsukuda: CSR equates to social obligation. While many positive events occurred last year for both MHI and the Mitsubishi Group, the year also unfortunately brought many negative events as well. Those experiences turned into an opportunity for us to renew our awareness of the critical importance of CSR. We now consider CSR to be the bedrock of our company's sustained existence.

MHI approaches CSR by broadly dividing the concept into three general categories. The first is "compliance," which serves as the basis of everything. The next is "the environment, human rights and labor." And the third category is "contributing to social progress and development through our corporate activities." While working toward compliance to the best of our ability as a company, we take into consideration the environment, human rights and labor and, through products related to the building of social infrastructure, such as electric power plants, we contribute to the progress of society. The basic stance of MHI is to ensure complete fulfillment of its corporate social responsibility through these three-pronged activities.

Koda: What are your thoughts on MHI's corporate philosophy?

Tsukuda: From the company's beginnings, MHI has adopted a management philosophy whereby, through our business activities, we will contribute to the progress of society. This ethos is also evident in our company creed. The meaning of contributing to "the progress of society" changes with the times. I believe if we continuously turn our attention to society in order to ensure that we are meeting the needs of the age, we will continue to properly fulfill our CSR obligations.

Koda: What kind of society do you think is being sought today?

Tsukuda: A society that can provide a safe and secure everyday life. Our social obligation in this respect is to contribute to the building of a safe, secure and sustainable society while maintaining harmony with the environment.

We promote "global security and safety" through our support of the United Nations' Global Compact.

Koda: Last year MHI announced its participation in the "The Global Compact," a partnership between the United Nations and the business world. There is a large role that can be played by the corporate sector in order to realize globalization that is humane and beneficial to all. For example, a decision regarding the location from which a company procures raw materials may prevent a conflict or contribute to peace in a region. Due to its large size, MHI has a great amount of influence and is capable of beneficially impacting the international community as well. I believe the company has made an important commitment.

Tsukuda: Every day, I think about how I would like to consistently ensure that MHI shares the values of the local community during the construction of an electric power plant or factory. MHI should not simply provide machinery, but also – through plant construction – the skills required by the community, or find ways to coexist with the community through the procurement of materials associated with construction or through employment. To build a safe and secure society for the local residents, we must perform our everyday operations while constantly asking ourselves if there is something we can do for the local community.

Koda: The idea of "safety and security for the local residents" is indeed an important one. Because the Global Compact is not merely a one-time activity, it is expected that MHI will proactively disseminate what kinds of activities it is involved in the



initiative through documents such as the CSR report. Today, consumers want to know what kind of company is making their products. That type of information is what they use to determine whether or not they will buy a product. In that sense, an activity such as the Global Compact may heighten the social value of a corporation.

Proper relaying of information by a manufacturer translates into the fulfillment of social responsibility.

Koda: With regard to “contributing to the progress of society through business activities,” which area is MHI involved in now?

Tsukuda: Our largest area of business is energy, such as power plants. Next is the transportation field, including aircraft and ships, followed by industrial infrastructure such as machine tools, and then environmental and social-related areas including waste incinerators and CO₂ recovery technology.

Koda: In the energy field, MHI is involved in wind power as well.

Tsukuda: We are involved in a variety of energy-related areas, from wind power and solar power to fuel cells and nuclear power. From that standpoint, we always try to identify the best mix of energies for maintaining energy security. Although it is the people of the country who select the type of energy used, we must properly relay information to the public to ensure that there are no misunderstandings such as whether solar or wind power alone can meet their power demands. We consider this one of our social responsibilities as well.

Koda: Due to issues regarding radioactive waste and safety, there is, in the public opinion, those that disapprove the use of nuclear energy. How do you take such opinions?

Tsukuda: The actual problem is not nuclear power, but rather the fact that we cannot supply the quantity of energy the world requires. However, to continue nuclear power generation we must have the public's acceptance of nuclear power. This requires that we put the public's mind at ease not only by making improvements in reliability from a technical standpoint, but also by providing proper explanations. To say that nuclear power is “safe and secure” does not provide a clear and distinct standard of reference. While engineers strongly desire to assess “safety and security” quantitatively based on probability, for instance, “safety and security” cannot be measured by numbers alone, due to changes in the social climate. A stronger sense of

safety and security is now demanded. Based on this, at MHI we established a Managing Board for Innovation in Nuclear Business to firmly instill the concept of safety in all employees, not only with regard to technical aspects, but with regard to everyday safety awareness and mental attitude as well.

At times, perhaps, opinions must be expressed that transcend the perception that we are a manufacturer that simply makes things. The fulfillment of social responsibilities requires activities that are based on a stronger self-awareness.

Koda: Since 9.11, the fear of terrorism that transcends national borders has become a reality. What are your thoughts on the social responsibility of the corporation with regard to the nation's defense procurement?

Tsukuda: In Japan, the national Diet decides what is necessary to ensure the nation's safety and security. In general, our stance is to manufacture whatever is requested. However, due to rapid technical advances in the IT field, we believe we must as a corporation present solution proposals that take even fuller advantage of cutting-edge technologies.

To fulfill our social responsibility, we have determined to support Mitsubishi Motors Corporation.

Koda: MHI has decided to become deeply involved in the management of Mitsubishi Motors Corporation. Could you explain the background of MHI's decision to support Mitsubishi Motors Corporation?

Tsukuda: Although Mitsubishi Motors Corporation has continued to make concerted efforts to tackle problems in accordance with its “Business Revitalization Plan” announced in May 2004, the company has received strong social criticism for its past stance on vehicle recalls and suffered a large downturn in sales, thereby necessitating additional measures. Our compa-





ny, upon confirmation of Mitsubishi Motors Corporation's steady progress with corporate reform designed to recover the public trust that was markedly lost due to past recall issues, joined together with The Bank of Tokyo-Mitsubishi, Ltd. and Mitsubishi Corporation and comprehensively assessed the social responsibility of the Mitsubishi Group and the economic viability of providing support, and made the decision to support the company.

Koda: It is important to thoroughly analyze the causes in order to prevent a reoccurrence, isn't it?

Tsukuda: Yes, most definitely. I myself recognized anew that social justice is the foundation of a company's existence. MHI is also tightening its belt and renewing its resolve to be more involved in CSR activities.

MHI seeks to make contributions to the world through its technology.

We aspire to become a corporation with its windows always open to society.

Koda: The Kyoto Protocol entered into force in February of this year, demanding that the country, corporations and citizens make further efforts to prevent global warming. What types of CO₂ reducing activities is MHI involved in?

Tsukuda: There are many things we can do with regard to reducing CO₂. First, we can streamline our power plants and incorporate wind power and solar power. We have been making progress in technical developments for CO₂ recovery and in our joint biomass research with universities. Although the technology is there, the problem is getting the cost down, or receiving support from the government.

Koda: It seems that the support for such technology is still lacking.

Next year will be the UN's "International Year of Deserts and Desertification." I have heard that MHI monitoring technology is utilized, among other things, for the prevention of desertification. MHI certainly is able to make many contributions on a global scale. It would be nice if MHI could continue to contribute to society, adding new traditions on top of those fostered over the past 120 years.

Tsukuda: Yes indeed. We hope that our technology will be help-



ful in venues that lead to global contributions.

Koda: Lastly, what would you like most to say to the readers of this *CSR Report*?

Tsukuda: Our company aspires to be upfront with the public, including shareholders, employees, customers and other stakeholders, communicate to the public, and continue its business activities while reflecting the public's will. MHI hopes to become a corporation that has its windows always open, windows from which it can sensitively draw in the thoughts and opinions of society.

Koda: I wish you success.

Charmine Koda

Profile

Charmine Koda is a journalist specializing in global environmental issues. She is a graduate of the University of the Sacred Heart and of the John F. Kennedy School of Government at Harvard University. She was earlier employed as a broadcaster at NHK TV and Fuji TV. Currently, in addition to her journalism activities, she is pursuing her doctorate research at the University of Tokyo, Graduate School of Arts and Sciences, Department of Advanced Social and International Studies, Human Security Program. She is a prolific writer, and has published many books, including those on TV news-cast, women's challenge beyond the glass ceiling, and the environment.

MHI's Perspective on Corporate Social Responsibility (CSR)

Creed

- * We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society.
- * We base our activities on honesty, harmony, and a clear distinction between public and private life.
- * 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. It 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.

Issued June 1, 1970

MHI's creed was established based on “The Three Corporate Principles” shared by the Mitsubishi Group from the company's beginnings. In the spirit of this creed, MHI continues its efforts to fulfill its three corporate social responsibilities (CSRs): “corporate governance and compliance,” “the environment, human rights and labor,” and “contribution to society through business activities.”



■ Contribution to Society through Company Business





■ Enhancement of the Four Values of the Enterprise

We strive to improve the four values of the enterprise: “value for shareholders,” “value for customers,” “value for employees” and “value for society.”



■ Basic Policy on Environmental Matters

In order to make the sustainable development of society possible, a basic policy on environmental matters has been established.

Pursuant to the express provision of Section 1 of its creed that “We strongly believe that customers come first and that we are obligated to be an innovative partner to society,” MHI shall, as a matter of primary importance, strive, through its R&D, manufacturing and other business activities, to play a useful role in the development of society. To this end, while remaining aware that a business enterprise is a member of society, MHI shall endeavor, in all aspects of its business activities, to reduce the burden on the environment and shall concentrate and fully utilize its technological capabilities for the development of technologies and products that will protect the environment, thus contributing to the establishment of a society in which sustainable development is possible.

In order to realize its basic policy, MHI has set the following seven conduct guidelines.

1. Recognize that environmental protection is top priority in the company's operations, and encourage the entire company in its endeavors to protect and improve the environment.
2. Define roles and responsibilities regarding environmental protection by developing and maintaining a corporate organization designated for environmental protection, and create and implement corporate policies and procedures on environmental matters.
3. Endeavor to reduce the burden on the environment by preventing pollution, saving resources, saving energy, reducing waste, reusing materials, and recycling in all aspects of the company's business activities in R&D, designing, procurement of materials, manufacturing, transportation, use, service and disposal.
4. Endeavor to develop and provide advanced, highly reliable, unique technologies and products that contribute to solving environmental and energy problems.
5. Comply with national and local environmental laws and regulations, beyond mere compliance by enacting, implementing and evaluating voluntary standards where necessary, and to endeavor to continuously improve and promote environmental protection activities by establishing environmental goals and targets.
6. Endeavor to protect the environments of foreign countries by carefully examining the consequences of the company's overseas business operations and the exportation of its products, and to become actively involved in technological cooperation overseas in areas of environmental protection.
7. Provide environmental training and other programs to enhance the environmental awareness of all company employees, and take steps to expand public relations activities, such as providing environment-related information to the public and social contribution activities.

■ MHI Compliance Guidelines

I Business activities

MHI will conduct sensible company activities in compliance with laws and in an appropriate manner as well as contribute to society by providing safe, high-quality products and services.

1. We will make efforts to provide safe, high-quality products and services.
2. In conducting business activities, we will pursue fair and free intercorporate competition in compliance with the Antimonopoly Act, and Act against delay in payment of subcontract proceeds, etc. to subcontractors, the Construction Business Act, and other relevant regulations.
3. Regarding gift giving and entertainment with civil officers and suppliers, we will not violate laws or deviate from socially accepted practices.
4. We will implement appropriate accounting and tax accounting in accordance with relevant laws, accounting standards, and internal regulations.
5. In relation to overseas business, we will follow laws related to import and export as well as all local laws.

II Relationship between company and society

We will try to preserve the environment and live in harmony with society as a good corporate citizen.

1. We will follow environment-related laws, and try to preserve the environment.
2. We will disclose information related to the management appropriately in a timely manner.
3. We will not make political donations exceeding the amount stipulated in the regulations.
4. We will respond firmly to antisocial forces.

III Relationship between company and employees

The company will secure a safe, healthy work environment, and company members shall make a clear distinction between public and private, complying with laws and internal rules, and execute their duties faithfully.

1. The company will follow labor-related laws and try to secure a safe, healthy work environment.
2. Company members shall follow internal regulations such as labor regulations.
3. Company members shall not engage in discriminative behavior or sexual harassment.
4. Company members shall handle company secrets appropriately, and shall not disclose them without prior consent.
5. Company members shall not conduct unfair stock trading (insider trading).

The Role to be Filled by MHI for the Realization of a Sustainable Society

MHI last year revised its conventional "Environmental Report" to a report that is associated with CSR, entitling the new document the "Social and Environmental Report," and announced as its message from the President the establishment of CSR as its management cornerstone. As part of the company's activities designed to promote management that is upfront with the public and continuously meets the needs of the times, MHI listened to the honest opinions of a number of persons active in a variety of fields, based on the 2004 Social and Environmental Report.

MHI should define its long-term corporate vision.

Kawaguchi: In the 2004 Social and Environmental Report, MHI's philosophy was presented based on four different categories. For each of the categories, the report appeared to give a summary of a 2- or 3-year short-term business plan. I would like to see MHI reveal its 100-year vision, such as "We will develop and change over to such-and-such type of transportation system." I understand that MHI is involved in a variety of activities, but rather than simply presenting the major activities one by one, to us like patchwork, it's necessary to present to us the materiality of MHI and the strategy behind incorporation. With regard to the environmental activities as well, I believe MHI has potential to provide new next generation- environmental technologies so, MHI would not only call attention to its environmental pollution treatment technologies, but also present its vision based on a long-term strategy. Also, the fact that the CSR report does not cover controversial issues such as defense and nuclear power results in deterioration of the corporate image. If MHI's vision and stance toward these controversial issues, were presented even touchy topics would be easier to write about. Even if there were pros and cons regarding methodology, it would be quite significant if MHI could show that it is making every effort to move toward resolution. For this reason, I would like to see MHI define its long-term plan.

Kaneko: I'm sure that developing a vision is extremely difficult. In particular, whether to progress with energy in a large-scale centralized format or a decentralized format remains controver-

sial, and society as a whole continues to search for the answer. In the case of MHI, it would be helpful if those who have knowledge regarding state-of-the-art technology would honestly reveal their thoughts, indicating, for example, that up until now they had "this" type of view for the immediate future, but do not yet know about the distant future. Public assessments pertaining to heavy industry, including nuclear power, are often split and issues regarding the responsibility of the nation also exist. It's important that Japan and the world's business leaders proactively emphasize CSR and encourage a spirit of innovation. While I realize it is impossible to create the ideal society right now, I would like to see MHI present its vision to the extent possible, even if that means only a little.

Iida: While it is difficult to present a vision, whether or not a corporation reveals how it sees the future – not a matter of right or wrong – indicates the corporation's competence and character. For example, Shell presents three future scenarios. Even though society may change course in a variety of directions and uncertainties exist, there must be a way for MHI to present its vision as to which direction it believes the future will advance. Searching for the answer will also lead to reevaluations of its own activities or the creation of new values.

I would also like to see MHI insert a message in its report with regard to what is taking place in society now. Even with regard to the accident at Kansai Electric's Mihama Nuclear Power Plant, the Nuclear and Industrial Safety Agency and the government are constantly out in front of the public, but MHI is also involved in various respects. In addition, with regard to the nuclear fuel cycle as well, I would like to see MHI incorporate



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content based not only on the philosophy of MHI but also on the opinions and thoughts of stakeholders.

Hibi: With regards to the company's impact analysis on the environment, MHI only seems to identify the impacts of direct output. Automobile companies, for example, identify environmental impacts after the product has been delivered to customers based on an LCA¹ perspective, such as fuel consumption and efficiency. For instance, ship building, one of MHI's core businesses, has serious impacts on global warming through fuel combustion of the vessels, or on biodiversity through vessels' ballast waters. I would like MHI to take a closer look at the environmental problems that lie ahead for their customers from such viewpoint. Taking a look at the world and society from a larger perspective could serve as a foundation from which the MHI vision manifests itself.

MHI should approach social issues based on a variety of perspectives.

Iida: Although this holds true for all Japanese heavy industries, the corporation and the government stand side by side. MHI has a Nuclear Power Division as well as a Nuclear Power Public Relations Center. If MHI would separate itself a bit from the government, perhaps we would see its CSR as more self-standing from its own philosophy.

For example, the manner in which MHI approaches nuclear power and global warming prevention technologies in reports is extremely isolationist. The logic seems to be one that is applicable only in Japan's closed circle. I would like to see MHI provide explanations which indicate that advances are being made while keeping the various interpretations of nuclear power from around the world in mind. Although MHI was first to report on

global warming prevention carbon segregation technology, this is now the most controversial technology around. From the viewpoint of a sustainable society or, at the very least, based on the common sense shared by environmental non-profit organizations around the globe, MHI now finds itself standing off in the distance.

Kaneko: Heavy industry fields such as nuclear power and CO₂ recovery are often controversial in the eyes of the public. I get the feeling that MHI surveys public opinion and attempts to achieve a balance in its approach to nuclear power and CO₂ recovery.

From global energy strategies to employee topics... to summarize all that information in a single document would result in quite a few pages. Given that MHI is a conglomerate of huge factories, in the future I would like to see regional information in business site reports and global perspectives in comprehensive reports that are created at such a level that the documents would serve as a reference for persons with a certain level of technical knowledge.

Kawaguchi: Regarding those projects which were regarded as national priority, during the high economic growth era, such as large scale land development and public works, we are now beginning to see the negative side of these project, such as environmental issues and social problems. I respect MHI's contribution to the Japanese economic development through its technology and public works business, but you should balance pros and cons of these public works, by mentioning negative aspects of them.

Hibi: Although MHI aspires to be a global corporation as stated in the "Message from the President", "the world" described in your report seems rather limited. Some of MHI's positions and/or viewpoints laid out in the report are deviated from global



trends, and the target scope in the report is exclusively MHI. In future reports, I would like to see considerate targeting not only MHI itself but also subsidiary and affiliated companies, including those overseas. While there are various interpretations of what is CSR, depending on who you are, to “contribute to society through business activities” is not enough as a CSR. For example, biodiversity conservation may very well become an issue for all businesses in the near future. Major industries and companies in Europe and US are already starting to recognize the impact of the issue on their business. I would like to see MHI proactively involve itself in environmental issues, such as biodiversity conservation, and social that may not have direct impact on their normal businesses.

MHI should disclose its process for tackling CSR.

Tatsui: One of the key CSR concepts is “from output to process.” The same can be said about specific CSR activities and reports as well. In other words, I believe it will become increasingly important to build a framework for thoroughly following up on points such as the level of achievement of established objectives and the identification of problems.

MHI has made the tough decision to participate in the UN's “Global Compact” initiative and is now focusing closely on employment and human right issues. What will become increasingly important here as well is dialog with the various stakeholders and labor-management consultations at each level, including overseas. I think MHI should include details of the current situation in its next report and share that information with employees and business partners as well.

Top-ranking companies not only clear minimum standards

but also take on the role of leading society in general. I would like the report to be one in which such a direction and changes are seen. Rather than simply being a “PR”, I hope the document develops into a verifiable “process.”

Taka: What I want to learn from the report is definitely that type of change. A report has meaning as a means of giving strategic direction to a company and, by stating the company's five-year objectives, can also be used as a means of realizing the things the employees want to do. While the creation of an activity system is also important, the system will not move unless it has been built after a course has been charted.

What bothers me now is the great risk that is undertaken with the start of CO₂ emission trading activities. A company can acquire emission credits by helping a developing country reduce its global warming gases. The problem is whether or not a trading market can be achieved with the persons of that foreign government. This risk must be recognized. Even for prevention of bribery involving foreign civil servants, the head office must build a framework that will communicate with and support a person who is unable to identify the fine line between ethical and unethical conduct. While the answers to such issues will not always be attainable, it is necessary to at least accumulate the knowledge that results from discussion and debate.

With soil contamination issues as well, the company should make preparations that enable it to respond to discovered contamination by accumulating reserves under the premise that contamination will occur. A stance of looking squarely at a problem, taking action and disclosing such information is also required.



The enterprise company should build a climate in which employees can take pride in their company.

Takahashi: The corporate creed includes “clear distinction between public and private life.” While it is extremely important that a corporation does not mix company business with personal affairs, doesn't this type of policy create a climate that makes communication difficult? For communication to occur, a person must first convey a thought or relay a message. With a corporation of this size, I'm sure there are many individuals who have had successful experiences and have vested interest in the company, so it is important to look for ways to create a climate in which young workers can express their thoughts. It will produce the sympathy with the public good. I would like the process of report development to become a great impelling force for serious discussion.

Because MHI aspires toward a sustainable society, the report must reveal decisions with regard to how the company will act, intentions with regard to how the company will proceed in the future, and related concerns. A sustainable society will not be achieved if created vectors do not align with what society ought to be. This is what CSR is all about. I believe contributions to society as well as CSR depend on whether company employees have affection for and pride in their company.

Taka: I also would like to see MHI become a company in which young employees would want to remain as a result of CSR activities. The competitiveness of a corporation grows with the fostering of personnel as well. If you foster young employees, they will surely like to remain in the corporation. Efforts must be made to create a workplace that offers job satisfaction to ensure that the young do not get involved in misconduct. Although I believe you already have a wonderful culture at MHI, to create an even better culture I would like to see you aspire to become a company in which young employees want to remain. I don't think MHI's involvement in national defense or nuclear power is a problem in this sense. Conversely, I feel that a deterioration of morals of those who work in a nuclear power plant leads to social risk. Workers lose their drive because their efforts are not appreciated by society. Nuclear power will come to an end someday. But given that that day will not come for at least another 50 years or so, it is important for society to create an environment that ensures that those working at such a plant will take pride in their work.

***1. LCA: Life Cycle Assessment**

Life Cycle Assessment is a process for evaluating the environmental impact associated with a product at all stages, from production, use and disposal to recycling. The development of environment-friendly products based on the LCA concept is socially mainstream.

MHI Holds Stakeholders Meeting

The MHI Perspective

MHI held its first stakeholders meeting and received the honor of hearing the thoughts and opinions of seven individuals active in a variety of fields, including those related to the environment, labor and compliance. This meeting was conducted based on our policy “to openly communicate with the various stakeholders in an effort to promote a management style that truly meets the needs of society.” Many thoughts were expressed, such as the opinion that our viewpoints lacked awareness, for example those based on our take on nuclear power and global warming issues. And many strong opinions were also conveyed, giving us a push where we thought we had already made strong efforts. The thoughts and opinions expressed in the meeting will be extremely helpful to us in future activities.

With regard to a vision based on a long-term company concept, etc., we are spending time on the issue and, with added innovation, continuously convey related information. For example, we have reflected expressed thoughts and opinions into our compliance activi-

ties, into our nuclear power safety system, which is of great public interest, and into our support of Mitsubishi Motors, and have gone into greater depth in this report compared to previous reports.

The stakeholders meeting has confirmed our belief that CSR is management itself. Some attendees at the meeting had indicated that they would like to see MHI become a company in which young employees are glad to be employed and in which all employees can work with pride and affection. I believe our responsibility is to make MHI that sort of company.

I look forward to having various future opportunities for further dialog with all stakeholders, and will make every effort to proceed with MHI CSR management.



Senior Vice President
General Manager,
General Affairs Department
Katsuhiko Yasuda



Contribution to Society through Business Activities

We will fulfill our corporate social responsibility (CSR) through company business for the well-being of the people of the world.

The corporate philosophy of Mitsubishi Heavy Industries, Ltd. has not changed since the founding of the company 120 years ago. The company is determined to contribute to society through the manufacturing and provision of products.

The Mitsubishi group, from the company's beginnings, has shared the basic concept of "Three Corporate Principles." The spirit of these principles continues to live in the company creed.

The first item in that creed is that "We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society." This is MHI's CSR.

By manufacturing and providing products, MHI contributed to the industrialization and cultural enlightenment of Japan 120 years ago. Today the company's mission is to work toward realizing safe, fulfilled lives for all people around the world. Above all, MHI will make every effort to reduce the global environmental burden through its technologies and products, as its contribution to the world.

By manufacturing and providing products, MHI will improve communication with people around the world, and continue to propose and provide products and ideas that aid in building a prosperous society...in order to ensure that human beings and society continue for many years to come, and to ensure that we leave this beautiful earth to the children of the future...

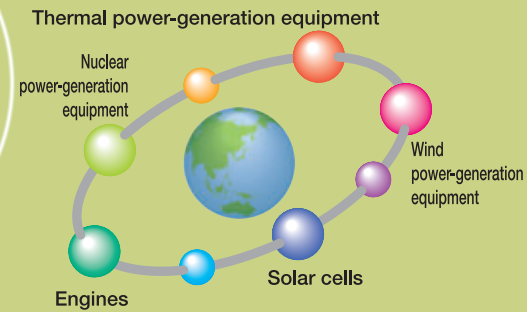
That is MHI's role.

Power & Energy

MISSION

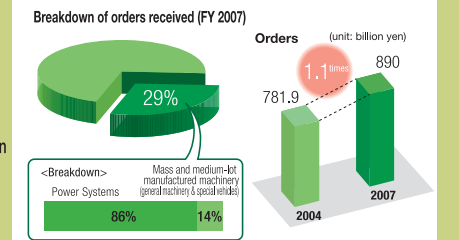
Supply all areas of the world with highly efficient, clean energy

Power & Energy Business



POWER & ENERGY

Medium-Term Business Plan (2004-2007)

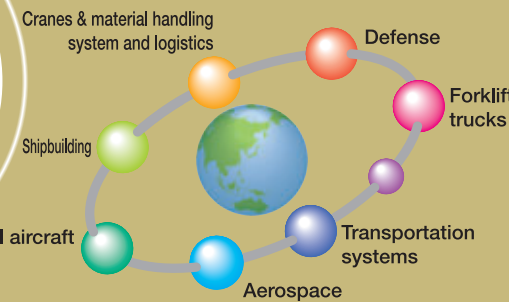


Transportation & Security

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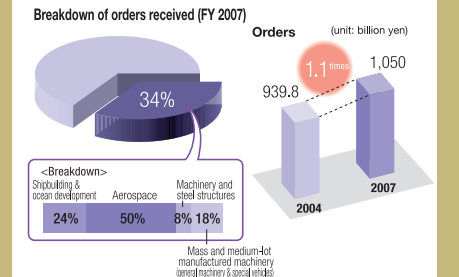
A company with expertise in all modes of transportation, from land, sea, and air to space and in the defense sector

Transportation & Security Business



TRANSPORTATION & SECURITY

Medium-Term Business Plan (2004-2007)

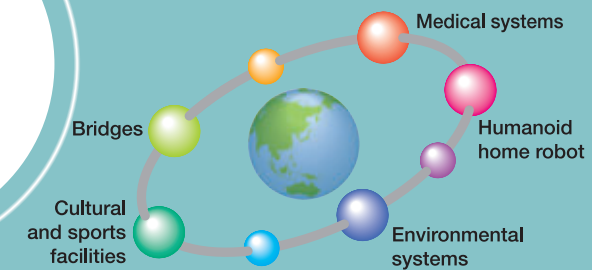


Environment & Society

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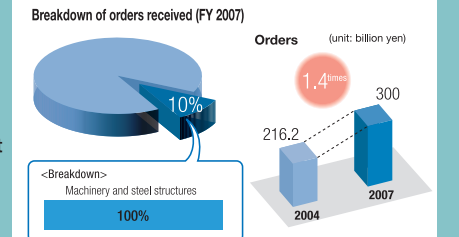
Help people lead fulfilling lives

Environment & Society Business



ENVIRONMENT & SOCIETY

Medium-Term Business Plan (2004-2007)

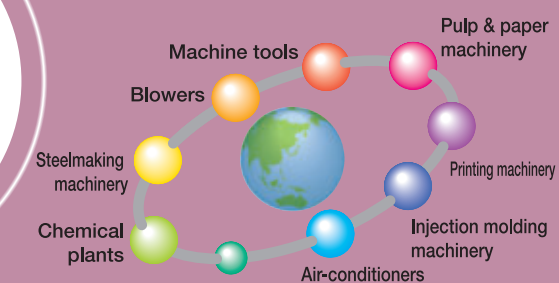


Industries

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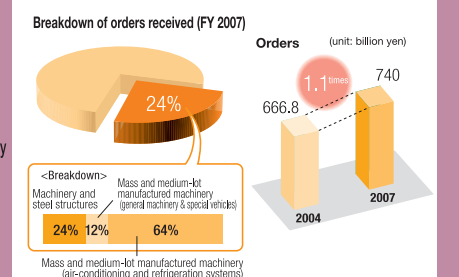
Support manufacturing activities worldwide

Business in Support of Industries



INDUSTRIES

Medium-Term Business Plan (2004-2007)



Power & Energy

POWER & ENERGY

MISSION >>

Supply all areas of the world with highly efficient, clean energy

With the rapid economic progress of the developing countries, additional problems of global scale are taking place, including concerns over supplies of energy and resources, environmental pollution, and expanding economic disparity between regions. Today, maintaining and developing the so-called “3Es” – energy security, environmental protection, and economic efficiency & sustainable economic growth – have become challenges of urgent importance. Aimed at solving these difficult problems, Mitsubishi Heavy Industries, Ltd. is working hard to make every possible effort.

First, being aware that the earth has finite resources, MHI is pursuing development of a variety of power generation technologies. As substitutes for petroleum, many different renewable energy technologies are under development, including wind, geothermal, solar and hydro power, as well as new energy technologies such as fuel cells. MHI is also engaged in the development of integrated coal gasification combined cycle (IGCC) systems to achieve higher generation efficiency and energy saving.

Nuclear power generation does not emit carbon dioxide (CO₂) that causes global warming. Of the 53 nuclear generation units under operation in Japan, 23 were built by MHI. For effective use of finite uranium resources, MHI is involved in nuclear fuel cycle operations. In addition, MHI is engaged in the development of small high-temperature gas-cooled reactors and other related new technologies.

MHI also pours its energies into the operation of gas turbine combined-cycle (GTCC) power plants which offer the highest level of generation efficiency in the world. GTCC plants use a unique generation system that combines exhaust boilers and steam turbines with MHI's original high-efficiency gas turbine technology. The system even utilizes exhaust and waste heat to produce electricity, contributing to effective use of fossil fuels and reduction of CO₂ emissions. In the field of generator technology, MHI has developed a low-pollution gas engine with the highest generation efficiency and lowest NO_x emissions in the world.

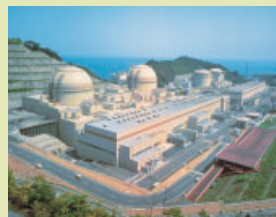
For even more advanced technology, higher cost efficiency and lighter environmental burden, MHI will continue to strive to achieve the best mixes of power generation and energy technologies.

Fuel cells



The fuel cell is a potential clean technology that can generate electricity from hydrogen. MHI completed development of the world's smallest fuel cell system, the “CGII,” for domestic use in 2003. We are now pursuing higher durability and lower cost of the system for future commercialization.

Nuclear power plants



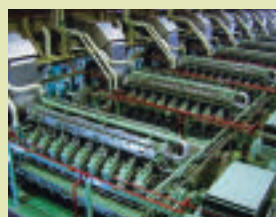
Free of CO₂ emissions, nuclear power plants provide energy suitable for global warming countermeasures.

Gas turbine combined-cycle (GTCC) plants



Compared to conventional thermal power plants, MHI's GTCC technology offers higher plant efficiency by about 20%. GTCC plants incorporate high-efficiency gas turbines with high exhaust energy, exhaust boilers and steam turbines.

MACH-30G gas engine



The MACH-30G is a gas engine offering the benefits of low NO_x and low dust emissions. Using micro pilot ignition with a common rail and independent optimal control of cylinders as well as mirror cycles, it provides the world's top generation efficiency: 45.5% or higher.



Transportation & Security TRANSPORTATION & SECURITY

MISSION >> A company with expertise in all modes of transportation, from land, sea, and air to space, and in the defense sector

From land and sea to air and space, MHI provides a variety of transportation equipment supporting safe, comfortable travel and contributing to logistics around the world. To respond to the need of the government to achieve peace and security, MHI also provides a broad array of defense equipment and systems.

In the civil aircraft sector, we MHI is developing and manufacturing composite main wings for the Boeing 787, next-generation commercial transport aircraft. Presently we are carrying out various tests on the wings for the scheduled entry into service in 2008. Making use of cutting-edge technology, MHI is also involved in a joint development project with Rolls-Royce on a new engine for the Boeing 787. Furthermore, MHI is participating in a leading role in Reserach and Dvelopment for High Performance/Environmental Adaptability of Small-Sized Aircraft of the Ministry of Economy, Trade and Industry, addressing the development of fundamental technologies.

In the space systems sector, MHI supported the successful launch of the H-IIA Launch Vehicle No.7 and are now preparing for the privatization of all services from manufacturing to launch. MHI is also pursuing the development of an improved version of the H-IIA in coordination with the Japan Aerospace Exploration Agency (JAXA).

In the shipbuilding and ocean development industry, huge demand for new ships has arisen in tandem with increased demand for transportation primarily involving China. As a result, there is an increasing need to develop ships with higher cost efficiency and lighter environmental burden. To respond to those needs, MHI is pursuing development of a liquefied natural gas carrier equipped with a next-generation low-fuel-consumption propulsion system and a next-generation high-speed large container ship. We are also working to develop environmentally friendly marine products, including electronically controlled marine diesel engines that can reduce NOx emissions by about 15%.

To provide comfortable transportation for everyday life, MHI has commercialized a 100% low-floor light rail vehicle (LRV), the first domestically produced LRV of this kind. With its high energy efficiency, the LRV has earned an excellent reputation as a new environmentally friendly urban transportation system. We are also making efforts to implement intelligent transportation systems (ITS) for the 21st century, including the automatic electronic toll collection (ETC) system.

In the defense equipment sector, responding to the ever-changing international security environment, MHI continues the reliable development, production and operational support of fighters, tanks, vessels and other defense equipment. MHI is also proposing new solutions in defense equipment and systems to deal with new threats, in response to national needs.

Next-generation commercial transport aircraft: Boeing 787



This new model uses composite material in its fuselage and wing. The aircraft provides high fuel efficiency and has been ordered by a number of airlines. In Japan, All Nippon Airways and Japan Airlines have decided to add them to their fleet. MHI works on development and production of the main wing, which is one of the key components, and is also involved in a joint project on engine development.

H-IIA launch vehicle



Launched from the Tanegashima Space Center, the H-IIA launch vehicle placed the Multifunctional Transport Satellite -1 Replacement (MTSAT-1R) (nicknamed "Himawari No.6") into orbit. The successful launch is expected to serve as a springboard for participation in the international market for launches of commercial satellites.

LNG carriers



Liquefied natural gas (LNG) carriers can use boil-off gas as propulsion fuel to reduce NOx and SOx emissions. The LNG carrier also uses an automatic ballast exchange system to prevent harmful marine organisms from spreading and a double hull fuel tank to prevent accidental oil outflow from ship.

100% low-floor LRVs



The 100% low-floor light rail vehicle has an inner space enclosed by flat walls and floor. The floor level has been lowered to close to the road surface. This design enables elderly and handicapped passengers to get on and off smoothly, ensuring comfortable travel. Low noise, low vibration, and stable running performance from low to high speeds have also been achieved.

Environment & Society

ENVIRONMENT & SOCIETY

MISSION >>

Help people lead fulfilling lives

MHI provides a variety of infrastructural products to help all the people in the world realize fulfilled lives. Toward that goal, MHI proactively pursues diverse new operations, for example, conservation of the global environment, establishment of a recycling society, and development of humanoid home robots and medical systems for the aging and welfare society.

In relation to social infrastructure development, MHI deals with a wide range of civil and industrial infrastructure components including bridges, sluice gates, shield tunneling machines, sound-insulating walls and a variety of distribution facilities. MHI is also engaged in construction of cultural, sports and leisure facilities such as multi-purpose domes and amusement parks.

MHI's efforts targeted at environmental conservation span a broad spectrum. MHI supports large-scale PCB-contaminated soil purification projects with its solvent extraction technology. Using a unique treatment system suitable for the typical soil textures in Japan (the technology won the Chairman's Prize for Excellent Environmental Systems 2004 presented by the Japan Society of Industrial Machinery Manufacturers), the technology enables separation of PCB from contaminated soil without heating or pressurizing the soil, emitting no exhaust at all. This treatment system opens the way for PCB-contaminated soil treatment in urban areas. In addition, MHI has a proven track record in PCB hydrothermal decomposition, biomass technology, next-generation refuse incineration plants and many other technologies.

MHI also pursues the development of a technology to recover CO₂ from power plants and production facilities. Jointly with Kansai Electric Power Co., Inc., MHI has already developed and commercialized a CO₂ recovery technology that offers the world's top energy-saving benefit.

MHI has delivered over 160 flue gas desulfurization systems around the world, which play an important role in conservation of the environment. The environmental burden due to the economic growth of developing countries is expected to get rapidly worse on a global scale. To solve this difficult problem, we are making our best effort to provide the advanced technologies and systems required.

We are also venturing into new business fields. One of the showcase projects is a home robot named "wakamaru," which currently is garnering attention as an attendant at Expo 2005 Aichi. "wakamaru" is designed to provide household services and assistance via an internet communications network. Plans also call for dramatic improvement of the capacity and quality of services provided by "wakamaru." Besides this, our pursuits in the medical industry, typified by our high-precision four-dimensional radiotherapy treatment system, will further expand our achievements, to support the people's healthy life.

PCB-contaminated soil purification system



This environmentally friendly purification system safely purifies soil contaminated with PCB at normal temperature and under normal pressure. This technique separates and removes PCB without heating or pressurizing contaminated soil. No exhaust is emitted by the system. The purified soil can be used as recycled soil.

Flue gas desulfurization system



The system removes 99.9% of the sulfur dioxide (SO₂) contained in the exhaust from power plants and other production facilities. MHI's original liquid column technology not only provides high desulfurization performance but also facilitates maintenance with its simple internal structure, thus increasing customer convenience.

IFX® Theater



The IFX Theater is a combination of three factors: Imagination, Infinity and Effects (FX). Much more than a simple theater, the IFX Theater provides a visual scene where people can vividly experience the sensation of infinite space. The theater is a feature of the Mitsubishi Pavilion at Expo 2005 Aichi.

High-precision 4-dimensional radiotherapy system



MHI is developing the world's first 4-dimensional radiotherapy system in which the radiation beam precisely follows a tumor as it moves in tandem with the respiratory cycle. The system is a fusion of MHI's technologies in precision positional detection, image processing, machining, assembly, and high-efficiency acceleration.



Industries

MISSION >> Support manufacturing activities worldwide

MHI provides diverse industrial infrastructure products to support manufacturing activities around the world.

In chemical plants, MHI is engaged in construction, equipment manufacturing, and engineering of a variety of plants ranging from petrochemical to seawater desalination. In the general machinery sector, we deal with rubber and tire machinery, packaging machinery, testing equipment, and laser and electronic products. In the industrial machinery sector, we handle extruders, injection molding machines, food machinery, industrial washing machines, industrial robots, power transmission devices, engines, and other machines. In addition, we provide an extensive lineup of products including machine tools, printing equipment, paper production machinery, paper processing machinery, air-conditioners, industrial gas compressors and steel-making machinery.

Our machine tool lineup includes gear cutting tools and precision cutting tools that offer complete dry cutting for the first ever in the world, as well as general purpose machine tools that provide high precision, high quality processing. With these cutting edge machines for a wide range of industrial sectors, MHI contributes to the development of many different industries, including the automotive industry.

In conjunction with air-conditioning and refrigeration technology, a wide variety of products are available ranging from home, industrial and automotive air conditioners and refrigeration units to district cooling and heating units. These products contribute to conservation of the environment, for example by preventing ozone layer destruction and through energy saving.

MHI's printing machinery lineup includes the DIAMONDSTAR newspaper offset presses, which won the 2004 Prize presented by the Japan Society of Industrial Machinery Manufacturers. The DIAMONDSTAR is a shaftless-driven press that provides the world's fastest normal printing speed: 90 thousand copies per hour. MHI responds to the needs of newspaper publishers to deliver clearly printed papers with the latest news to readers ahead of others.

In injection molding machines, we have developed the world's largest electric type with a clamping force of 3,000 tons. Compared to the conventional hydraulic type, electric injection molding machines offer substantially higher efficiency and more energy conservation.

A new specialized company to deal in injection molding machines, food packaging machines, industrial washing machines, and other machinery was established in April 2005. The company provides even more customer-oriented operations.

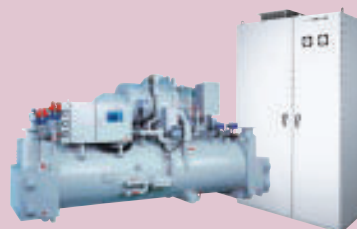
All these products are not only useful for social development and environmental conservation in developed countries, but also contribute to the "product-making" capabilities of those countries undergoing rapid economic growth. In this way, we believe they will substantially contribute to the progress in product manufacture and reduction of environmental burdens worldwide.

Next generation dry cut gear cutting system



The Super Dry II is an environmentally friendly dry cut gear cutting system that uses no cutting oil whatsoever. This dry model offers 2.5 times the cutting speed and 10 times longer tool life than conventional wet type systems. In addition, it provides 20% more energy conservation than conventional systems. MHI's breakthrough technology responds to the demand for lighter environmental burdens and lower production costs.

Centrifugal liquid chiller



This is the first centrifugal liquid chiller with inverter control using a high-speed processing unit. Optimal control according to operating conditions enables the world's highest partial-load efficiency: COP 17.8. This

new model is expected to provide the benefits of more energy conservation by about 30% in summer and about 65% in winter compared to standard models.

Newspaper offset press "DIAMONDSTAR"



The DIAMONDSTAR provides the world's fastest printing speed, 90 thousand copies per hour, and delivers high-definition color newspapers containing the latest news.

The press also helps reduce running costs, for example, less paper waste by about 20% and lower power consumption by 20% compared to conventional systems.

Extra-heavy-duty electric injection molding machine: 3000em



The 3000em is a next-generation cutting-edge machine that proves its worth in molding large automotive parts such as bumpers. Substantially beyond conventional electric molding machines with capacities up to 1,800 tons, this new model offers a capacity of 3,000 tons. The machine will help enhance production efficiency and reduce costs dramatically.

Substantially beyond conventional electric molding machines with capacities up to 1,800 tons, this new model offers a capacity of 3,000 tons. The machine will help enhance production efficiency and reduce costs dramatically.

Efforts to Stop Global Warming

The Kyoto Protocol requiring developed countries to reduce their greenhouse gas emissions came into effect on February 16, 2005. Finally recognizing global warming as a common challenge of all humankind, the international community has taken the first steps toward dealing with this issue.

One of the typical greenhouse gases is carbon dioxide (CO₂), which is primarily emitted by combustion of fossil fuels such as petroleum and coal. As long as the world continues to require use of fossil fuels as a precious energy source, its efficient use should be the most important measure for stopping global warming. Developing countries will certainly have more demand for energy resources in the future than they do today. How can they use energy resources efficiently while reducing the effects on the environment? MHI is committed to fulfilling its social responsibilities on general environmental issues, helping to create a sustainable society. Particularly, MHI proactively provides world-class energy and environmental technologies, thereby contributing to the reduction of global warming.

The Intergovernmental Panel on Climate Change (IPCC) projects that if the atmospheric concentration of greenhouse gasses continues rising at the current pace, the earth will have a temperature rise on the surface up to 5.8°C between 1900 and 2100. If this scenario comes true, the sea level would rise and cause inundations of seawater and other natural disasters such as floods and droughts. There are concerns that such disasters may seriously affect humanity and even the total ecology of the planet.

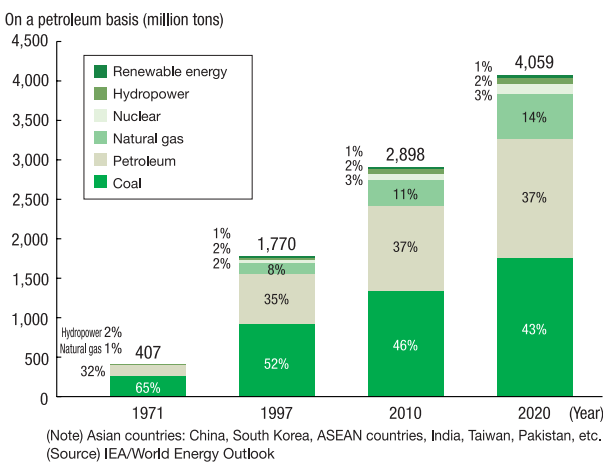
Ecological deterioration has been caused by developed countries that have emitted huge amounts of greenhouse gasses beyond the permissible limit of circulation in the natural world. The recent rapid economic growth of developing countries, particularly in Asia, cannot be sustained without stable supplies of energy at reasonable cost. Since fossil fuels are the most effective and realistic option for the time being, demand for fossil fuels will

probably further increase throughout the 21st century. Countries that have become economic powers recently, such as Brazil, Russia, India and China, use large amounts of coal as an energy resource to produce electricity because of its abundant reserves and reasonable cost. It is expected that these countries will continue using coal over the long term.

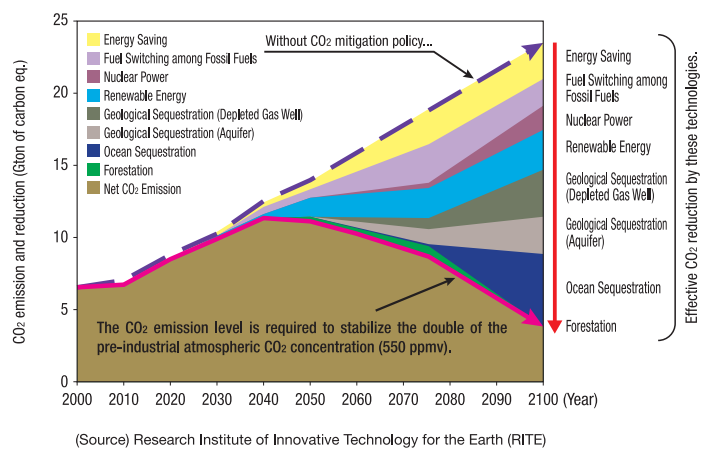
Today we are faced with a dilemma between the reduction of global warming and the increased demand for fossil fuels. MHI addresses the dilemma by making full use of its technologies, i.e., maximizing efficient use of energy resources while minimizing their impact on the global environment.

This feature article introduces power generation technologies with minimum CO₂ emissions, power generation technologies using natural energy, and CO₂-free nuclear technologies that use no fossil fuels.

Projected energy demand by fuel type in Asian countries



Annual CO₂ emissions and required reduction targets in the world





Power Generation with Minimum CO₂ Emissions

–Efficient use of fossil fuels (high-efficiency power generation technologies)–

Gas Turbine Combined-Cycle (GTCC) Power Generation

Natural gas has recently stepped into the limelight for its potential in curbing global warming. This is because use of natural gas results in emissions of relatively low levels of CO₂ compared to other fossil fuels. Particularly, gas turbine combined-cycle (GTCC) generation can effectively use natural gas to provide high generation efficiency. The reason for this is because the GTCC system has two stages of power generation. GTCC systems produce electricity not only by running a gas turbine that burns natural gas but also by turning a steam turbine that utilizes the hot exhaust from the gas turbine. The newest GTCC system with a high-efficiency gas turbine developed by MHI can convert more than 50% of the fuel gas energy into electric energy. Thus, the system provides higher generation efficiency by about 20% and reduces CO₂ emissions by as much as 20% compared to conventional generation with gas turbines alone.

The Kimitsu Cooperative Thermal Power Plant No.5 launched commercial operations in fiscal 2004. MHI has equipped the plant with a line-up of core machinery. The plant can offer the highest output and highest generation efficiency in the world among combined-cycle plants fired by blast furnace and coke oven gas, thereby contributing to efficient use of energy and reduction of CO₂ emissions.



Gas turbine combined-cycle plant

Kimitsu Cooperative Thermal Power Plant No.5: The world's largest combined-cycle plant fired by blast furnace and coke oven gas

Cogeneration Systems

MHI actively proposes the use of the cogeneration system, runs a generator by gas engine to produce electricity and recovers the thermal energy from the cooling water and exhaust of the gas engine

for use in air conditioning or hot water supply. A combination of power generation by gas engine and use of thermal energy makes it possible to utilize as much as 70% to 80% of the fuel gas energy. The cogeneration systems are thus used by many customers including owners of production facilities and office buildings as one of the solutions to energy conservation and CO₂ emissions reduction. MHI has developed a mirror cycle gas engine with the world's highest generation efficiency. The engine is widely used worldwide not only as a component of a cogeneration system but also as a generating engine. The accumulated output of all engines delivered by MHI amounted to 130.1 MW as of the end of fiscal 2004. With this product, MHI helps customers save energy and reduce CO₂ emissions.



Cogeneration system

Not only generates electricity by an engine but also recovers the waste heat and steam for effective use in air conditioning.

Integrated coal Gasification Combined-Cycle (IGCC) Power Generation

Among fossil fuels, coal is the most abundantly available at low price, but it is also associated with heavy CO₂ emissions. Integrated coal Gasification Combined-Cycle (IGCC) technology enables environment-friendly use of coal. IGCC systems convert coal to synthesis gas and use it at a gas turbine. IGCC systems can reduce CO₂ emissions by 10% to 20% compared to conventional coal-fired power plants. MHI has been engaged in the development of IGCC systems as a core technology of coal-fired power generation offering modest environmental burden. A national project to build a 250 MW IGCC demonstration plant was launched in fiscal 2004. MHI supplies the main components of gasification system as well as the combined cycle power island.

Effective Use of Renewable Energy

Wind Power Generation*1

Wind power generation produces electricity by turning wind turbines using the wind, which blows permanently on the earth. Among the various power generation technologies using renewable energy, that generates power without emitting CO₂, wind power generation has most rapidly become popular.

As the only large wind turbine manufacturer in Japan, MHI carries out total production of wind turbine units on its own, including design, development and manufacture. We have delivered about 1,800 units at home and abroad including Europe, the United States and Asian countries, earning credibility and raising expectations.

During fiscal 2004, a total of 71 MHI wind turbine units, including those in the Japan's largest wind farm, were put into operation at home and 120 units went into operation abroad.

Plans call for installation in the next fiscal year, in Yokohama, of the largest class wind turbine unit (2,400 kW), that will also suite to the complicated geographical characteristics and meteorological conditions. Going forward, MHI will continue to develop and supply products that meet customer expectations.



1,000 kW wind turbines at Shikamachi Wind Farm, Nagasaki Prefecture
15 units of 1,000 kW wind turbines have been placed in service for Nagasaki-Shikamachi Wind Power Co., Ltd.

Photovoltaic Power Generation*2

Photovoltaic power generation technology makes use of the feature of silicon semiconductors that converts light energy into electric energy. The amount of solar energy that reaches the earth's surface per hour is equal to the total energy consumed by all mankind in a year. Photovoltaic generation technology utilizes this unlimited solar energy to produce electricity without emitting CO₂. High expectations are held of photovoltaic power generation as a clean

technology that will not adversely affect the environment.

MHI produces environmentally friendly high-efficiency amorphous solar cells in significant quantity. They can be manufactured from only small amounts of silicon material and provide the benefit of substantial reduction of CO₂ emissions.

During fiscal 2004, MHI delivered 10,000 panels for large-scale photovoltaic generation systems of 1,000 kW to Buttenwiesen, Germany. We also introduced 470 kW photovoltaic generation systems in our own plants and research institutions as part of a corporate environmental program.



PV plant in Buttenwiesen, Germany
10,000 panels of 100W capacity have been installed.

Biomass Power Generation

Biomass is a generic term for all plant and animal matters, particularly, chaff, forest thinnings, livestock excreta and all organic matters derived from them. Gasifying, fermenting or incinerating these materials will produce thermal or electric energy without changing the natural CO₂ balance. These thermal treatment processes emit CO₂, yet such CO₂ are originally fixed or absorbed by plants and animals and do not change the natural CO₂ balance (Carbon neutral). MHI carries out research and development of different biomass energy technologies. In 2004, we delivered a biomass gasification power generation system using wood biomass (wood waste)*3 to MIE CHUO KAIHATSU Co., Ltd.



Biomass gasification power generation system for MIE CHUO KAIHATSU Co., Ltd.
The system can process 96 tons of wood chips per day to produce 1,400 kW of electricity.

*1 MHI wind power generation
<http://www.mhi.co.jp/power/wind/index.html>

*2 MHI amorphous solar cells
<http://www.mhi.co.jp/power/a-si/index.html>

*3 Biomass gasification power generation systems

The system thermally decomposes wood biomass in an indirect-heating rotary-kiln type pyrolytic gasifier and uses the cracked gas for power generation. It also produces carbide that can be used as various products including solid fuel and activated carbon.



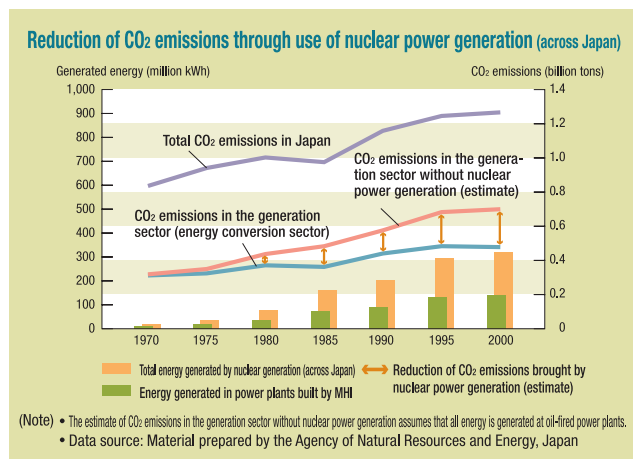
Efforts in Nuclear Power Generation

Helping Reduce CO₂ Emissions

Under the Kyoto Protocol that came into effect in February 2005, Japan is committed to reducing greenhouse gas emissions including CO₂ by 6% from the 1990 level. The Japanese government developed the Kyoto Protocol Target Achievement Plan to achieve the 6% reduction target. In the Plan, nuclear power generation is regarded as a critical technology in promoting measures to stop global warming.

Nuclear power generation technology produces electricity from energy generated by nuclear fission of uranium. It does not involve combustion of any fossil fuel and does not emit CO₂ in the generation process. Therefore, producing electricity using nuclear power is an important solution to reducing usage of fossil fuels.

However, nuclear power generation leaves radioactive waste. How to control that waste is also an important issue. In recent years there has been a move afoot in many countries to seriously consider nuclear power generation as part of efforts to reduce greenhouse gas emissions. MHI provides nuclear power plants as one of the potential options for slowing global warming and ensuring energy security.



Bidding on Construction of Chinese Nuclear Power Plants

With its rapid economic growth, China today is substantially short of electric power ^{*1}. The country, heavily dependent on

coal to obtain more than 70% of its energy, is damaged by acid rain over 30% of the land, resulting in a serious environmental problem. To solve that problem, the Chinese government is putting effort into the construction of additional nuclear power plants.

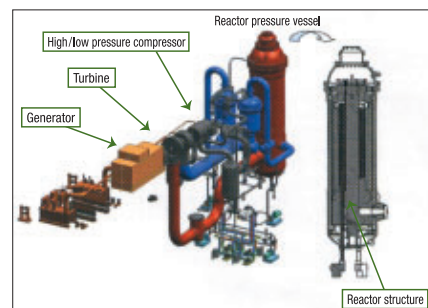
China currently has nine nuclear plants in operation and two under construction. According to the government, the country aims to build about 30 nuclear power plants of the 1 million kW class by 2020. In cooperation with Westinghouse in the United States, in February 2005 MHI responded to a call for bids for the building of four nuclear power plants in China.

The Japanese government's position is to make every effort to provide long-term support to China. MHI will actively promote technical cooperation as well.

Entering the Market for Compact High-Temperature Gas-Cooled Reactors in Gridless Areas

A small nuclear power plant can be installed near a residential area to provide electricity where a grid is not available, such as in developing countries. Although such a plant can transmit only modest amounts of power, it enables the supply of electric power without emitting CO₂.

The South African government-run utility ESKOM is presently planning to introduce compact high-temperature gas-cooled reactors (PBMR^{*2}) in that country. MHI received an order from ESKOM for the preliminary design of turbine generators, which are the core components of the reactors, and a review of the conceptual design of the reactor structure. We are actively working on this project in order to implement PBMRs.



PBMR

*1 Substantial shortage of electric power

With power demand continuously rising at a fast pace of 15% per annum or more since 2003, China was short of 30 million kW of electricity in 2004.

*2 PBMR: Pebble Bed Modular Reactor

A pebble bed modular reactor uses the heat from a reactor vessel to heat inactive helium gas to a high temperature, and uses the gas to turn a turbine generator. The use of coated fuel particles with high heat resistance results in no damage to the core. By addressing the needs of specific regions as well as environmental conservation and safety requirements, PBMRs are expected to attract demand not only in South Africa but also in many other countries that are always concerned about electricity shortages.

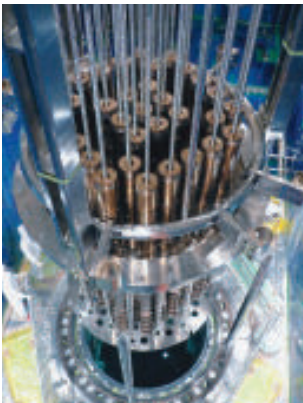
Efforts to Ensure Safety and Security of Nuclear Power Generation

As Japan's top manufacturer of nuclear power plants, Mitsubishi Heavy Industries, Ltd. provides facilities of outstanding reliability. In addition, MHI believes it is one of the company's social responsibilities to provide safety related information about nuclear power generation in order to respond to the public's trust.

We Carefully Control Total Management from Design to Maintenance for Improved Safety of Nuclear Power Plants.

In order to maintain stable power supply, it is more important than anything else to ensure nuclear power plant safety. Based on affluent experience of construction, maintenance and general engineering for more than 40 years, MHI provides reliable products and services ranging from basic planning, design, manufacturing, construction and maintenance.

After completion of construction, MHI provides technical support to all customers as a manufacturer. MHI also shares information about the operation and maintenance of nuclear power plants with customers at home and abroad and carries out necessary preventive maintenance to avoid troubles. For improved safety, MHI reinforces the cooperation with the customer regarding inspection and maintenance technology.



Replacement of core internals
The world's first experience at Ikata Unit No.1 of Shikoku Electric Power Co., Inc.

We are Pursuing Company-Wide Reform to Further Improved Safety.

On August 9, 2004, the Mihama Plant operated by Kansai Electric Power Co., Inc. had an accident in which the secondary piping of Unit 3^{*1} broke, leading to leakage of high-temperature cooling water.

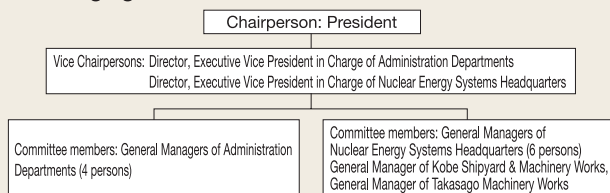
Taking the accident seriously, MHI is making an effort to prevent a reoccurrence by buckling down to improved activity, including measures to prevent reoccurrence, and providing information on its activities through the company's website and so on.

Considering the accident as a start point to carry out reform of overall corporate activities, MHI has established several committees for strengthening the organization and other purposes to start the following improved activities:

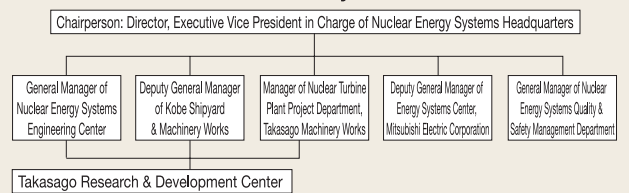
- (1) The Managing Board for Innovation in Nuclear Business was established with the President serving as chairperson. The Committee makes company-wide efforts to ensure nuclear safety in close liaison with the administration departments.
- (2) The Nuclear Energy Systems Quality and Safety Management Department was newly established to reinforce functional capability of QA audit on design process in addition to overseeing conventional nuclear quality assurance. It also strives to improve design quality.
- (3) The Mitsubishi Maintenance Study Committee was established across the Mitsubishi nuclear group. By combining the extensive knowledge and affluent experience of the group, the Committee will prepare a preventive maintenance plan for aging nuclear plants and actively propose the plan to utility companies.

Through these activities, MHI will continue to improve the safety of nuclear power plants as a leading company of nuclear technology in the Japanese industry.

Managing Board for Innovation in Nuclear Business



Mitsubishi Maintenance Study Committee



*1 Secondary piping

A pressurized water reactor plant mainly consists of a reactor system that generates heat in the reactor and a turbine system that produces electricity by turning a steam turbine. The secondary piping refers to the piping of the turbine system.

We want to hear from you!

It is important that we keep an open dialogue regarding nuclear power generation. Please feel free to contact us with your ideas and opinions. Mitsubishi Heavy Industries, Ltd., Nuclear Energy Systems Headquarters, Nuclear Power Public Relations Center
E-mail: genshiryoku-pa-center@mhi.co.jp



Social Responsibilities in the Defense Equipment Business

As the top manufacturer in the Japanese defense industry, Mitsubishi Heavy Industries, Ltd. is engaged in the development, production and support of many defense equipment including fighters, helicopters, missiles, torpedoes, vessels and tanks delivered to the Defense Agency. In Japan, defense equipment is basically developed, produced and supported by private companies. MHI believes the defense industry and technological base is part of the country's defense forces. This section reports MHI's social responsibilities in the realm of the defense equipment business.

Basic Policy of Defense Equipment Business

MHI believes that the biggest purpose of the defense equipment business is to meet the national needs to achieve peace and security and to maintain and strengthen the defense industry and technological base by providing defense equipment requested by the government in a timely manner while making full use of its cutting-edge technology.

The international security environment has drastically changed after the end of the Cold War. To solve increased regional disputes and stop the spreading use of weapons of mass destruction and terrorism has become an urgent task. Modes of fighting are changing dramatically with the advance of military technology, particularly IT-based military technologies such as precision-guided munitions. Whether a country has high-level technology or not has come to affect its defense capability.

MHI's basic attitude toward defense equipment business is that the company helps the nation with its technological progress in response to national needs. However, we are living in the age in which the environment is dramatically changing. We cannot meet the real needs of the nation unless we propose what is ahead of the needs of the Defense Agency more proactively than ever.

The reason for the existence of private companies engaged in development of cutting-edge technologies has been getting larger than ever. Proposing solutions to possible new situations in cooperation with the Defense Agency has also become one of the company's responsibilities. MHI proposes the introduction or operation of new defense equipment and systems making use of the modeling & simulation^{*1} approach and its facilities.

We believe we can contribute to the development of society by also applying our cutting-edge defense technologies to the private sector.

Promotion of Defense Equipment Business

Three headquarters – of Shipbuilding & Ocean Development, Aerospace, and General Machinery & Special Vehicles – are mainly engaged in defense equipment business. They promote the business by applying their specific specialties to the maritime, air and ground forces.

The Defense Agency is reviewing its organizational structure and equipment in the direction of joint operation of the three Self-Defense Forces. MHI's three headquarters work also hand-in-hand with one another to respond to the need for integrated defense systems.

Addressing Important Challenges

During fiscal 2004, MHI experienced some improprieties related to contracts for the Defense Agency, including incomplete missile strength tests that resulted in MHI receiving an administrative order by the Agency to stop bidding for two weeks. The trouble caused a great deal of inconvenience to the Defense Agency and those concerned. It is an important, urgent challenge to track down the root cause of the trouble related to quality and to accomplish quality and reliability improvements, including reform of corporate culture.

Design section has traditionally pursued strengthening of engineering capability and manufacturing section has conventionally carried out improvements in site management. Further promoting these activities, MHI will carry out cross-sectional, radical quality improvement activities for defense equipment business in general: for example, ensuring the proper operation of designers, strengthening inspection before testing, and ensuring education of shop floor workers for a higher standard of production technique.



Type-90 Tank

Main battle tank for land territory defense of Ground Self-Defense Force



Destroyer Myoko

Newest Aegis vessel of Maritime Self-Defense Force



F-2 support fighter

Support fighter for air defense of Air Self-Defense Force

*1 Modeling & simulation

Means to obtain basic data to be used for decision making by simulation using mathematical models and others

Administrative Organization

Mitsubishi Heavy Industries makes every effort to promote fair and sound management premised on the abidance of the law. MHI is reforming its management system to facilitate the company to develop business and exercise its social responsibilities amid intensifying global competition. MHI is also working to make management more transparent by disclosing information quickly and accurately to shareholders and the public.

Corporate Governance

Administrative Organization

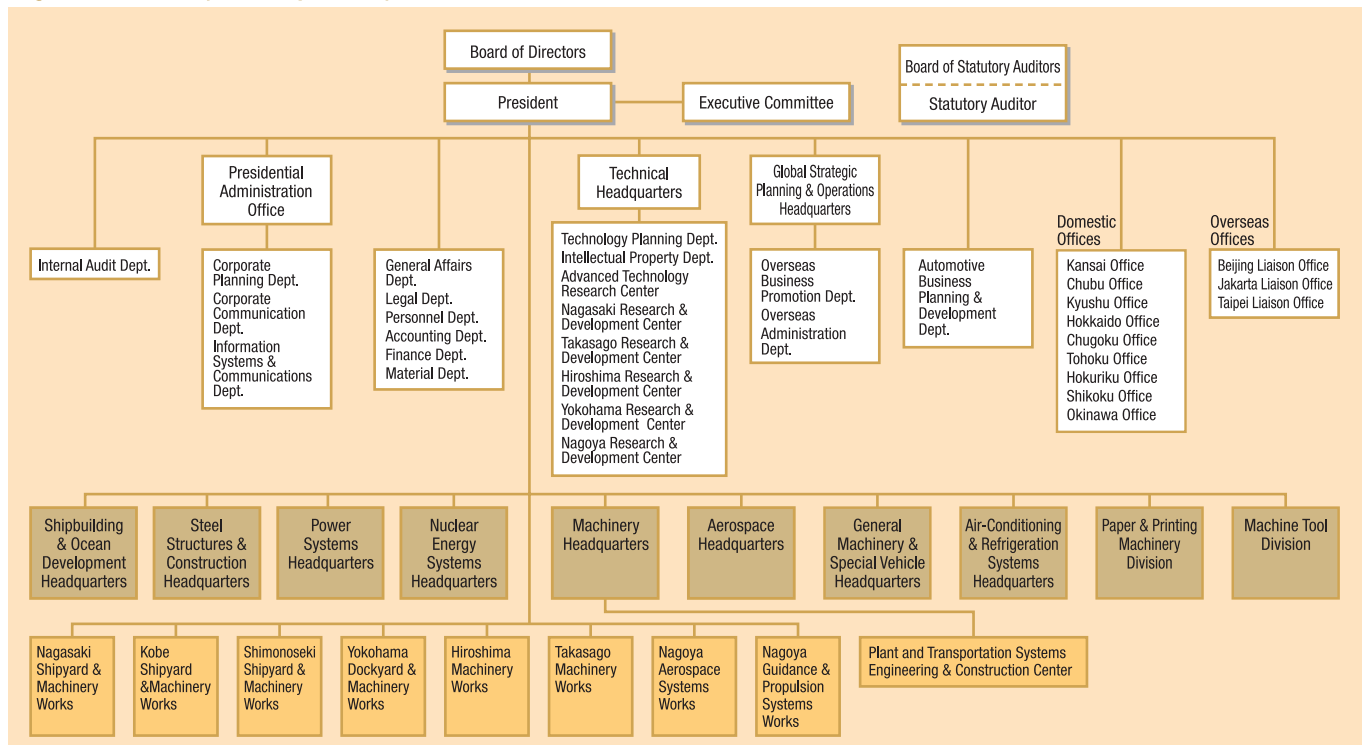
The Board of Directors is responsible for decision making on important management issues and supervision of business execution. The business executed by the Directors is further checked by the Board of Statutory Auditors. A deliberative body to discuss important matters on business execution has been established. Named the Executive Committee (renamed from Meeting of the Representative Directors in July 2005), the new body uses a council system in which the President and members can discuss matters together in a framework that leads to more appropriate management decisions and business execution.

Modifying the Corporate Governance Structure

For the purposes of making management more sound and transparent and enhancing efficiency and flexibility, MHI modified its corporate governance structure in June 2005. The major changes included increasing the number of outside Directors, reducing the number of Directors, making the term of Directors shorter, and appointing Executive Officers. These changes were intended to strengthen the supervision of the Board of Directors and to clearly identify the roles and responsibilities of Directors and Executive Officers. The number of Directors was changed from 26 (including one outside Director) to 17 (including two outside Directors) and the number of Auditors was changed from four (including one outside Auditor) to five (including three outside Auditors).

To further strengthen the monitoring of sectors in charge of business execution, a special organization for internal audit, the Internal Audit Department, was established in July 2005.

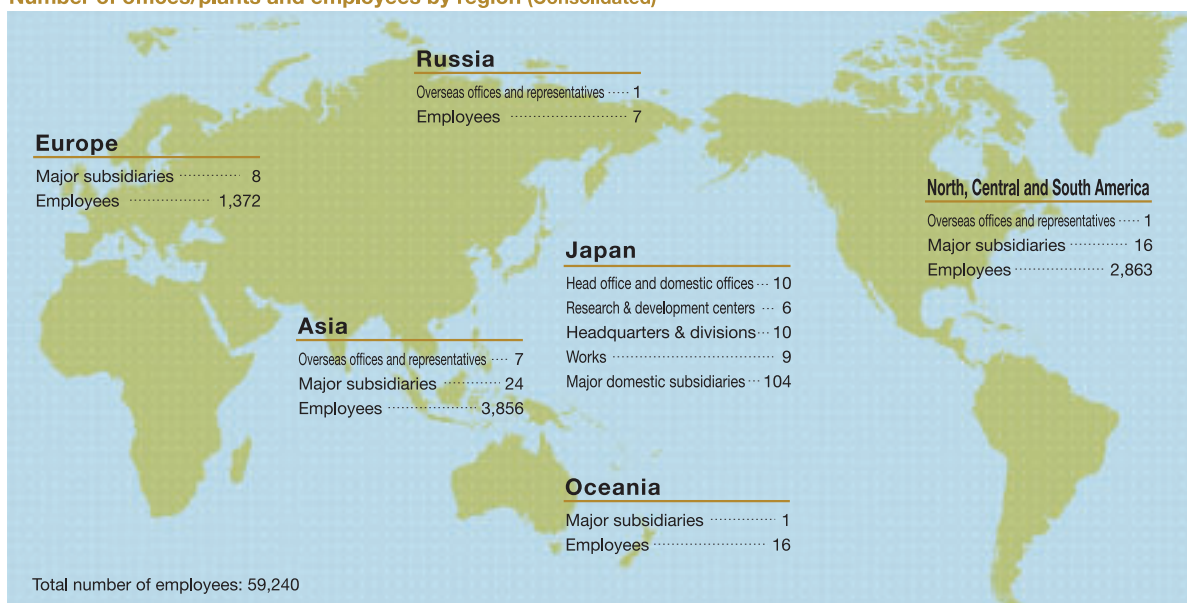
Organization chart (As of July 1, 2005)



*Industrial Machinery Division ceased to exist in April 2005.



Number of offices/plants and employees by region (Consolidated)*1



Role and Efforts of Site Management Reform Committee

The fire accident of a passenger ship that occurred at the Nagasaki Shipyard & Machinery Works in 2002 provided the occasion for the company to rebuild its “capability to make products.” For this purpose, the Site Management Reform Committee was established to help promote improvement measures throughout the company.

The Committee strives to strengthen the “capability to make products” by focusing on the “improvement of matters related to the heart of front-line workers.” Specifically, those efforts include sharing a sense of mission and a sense of value for “making products” on the shop floors, passing down skills and improving individual capabilities through participation in “Skill Olympics,” longer training programs for new employees, improving the production management system for achieving minimum waste, and improving the treatment and educational programs of technical employees.

Furthermore, MHI takes measures to prevent major accidents and disasters, including environmental pollution. We have introduced a risk management approach that quantifies the degree of potential risk associated with equipment or the workplace and take measures suitable for the degree of risk, seeking to prevent all accidents and disasters.

Support for Mitsubishi Motors Corporation

MHI decided to support Mitsubishi Motors Corp. by purchasing stock for a capital increase of 50 billion yen in January 2005, following the previous purchase of 40 billion yen in June 2004. Mitsubishi Motors announced

“Business Revitalization Plan” in May 2004 and has worked to reform the company. However, the company’s past attitude toward the recall issue was strongly criticized by the public. As a result, the automaker suffered nose-diving sales performance particularly in Japan and North America. Concerns about fund raising also came to the surface. Consequently, the company set up “Mitsubishi Motors Revitalization Plan” with additional measures. This plan is considered to be extremely rational and feasible since it includes unprecedented restructuring measures such as discussing a corporate alliance with other companies and reviewing the business by fully taking into account the downside risk in sales. Thus, MHI decided to purchase the stock for a capital increase and to re-apply the equity method to Mitsubishi Motors within fiscal 2005.

Mitsubishi Motors operates its business worldwide. Should Mitsubishi Motors go into bankruptcy, many countries would be seriously affected. To avoid such a situation, MHI has taken the aforementioned actions, aimed at exercising its social responsibility as representative of the Mitsubishi Group, getting more involved in the management of Mitsubishi Motors along with Mitsubishi Corp. and the Bank of Tokyo-Mitsubishi, Ltd., and helping to enhance MHI’s consolidated financial position after recovery. By strengthening the relationship with Mitsubishi Motors, MHI also aims to expand its overall conventional operations associated with automobile products, such as automotive air-conditioners and turbochargers.

MHI is committed to continue making efforts to support the recovery of Mitsubishi Motors along with the two other Mitsubishi Group companies, in tandem with the improvement of MHI’s own performance.

*1 Number of offices/plants and employees in each region (consolidated)

Overseas offices/plants: as of July 2004
 Japanese offices/plants: as of April 1, 2005
 Japanese subsidiaries: as of March 31, 2005
 Total employees: as of March 31, 2005

CSR Promotion

“Contributing to society through business activities” is the underlying management philosophy of Mitsubishi Heavy Industries. MHI carries out its business activities with full commitment to its corporate social responsibility (CSR). To promote CSR, we have established committees on various themes to take appropriate measures. In particular, the environment and compliance are important focal points of our CSR initiatives. We undertake a wide range of activities associated with these themes.

CSR Promotion Activities

To promote CSR-based management, MHI has established committees dealing with environmental conservation, respect for human rights, compliance assurance, and various other issues. These committees develop diverse measures to deal with their respective issues. In addition, MHI opened a new Corporate Social Responsibility Center in July 2005. The Center is a special organization to perform coordination between the committees and the concerned departments, to integrate information from them, and to promote the plan-

ning and development of company-wide CSR management policy.

MHI took part in the Global Compact proposed by the United Nations in September 2004. The Global Compact is a program that encourages participants to support and implement 10 principles on four issues: human rights, labor, the environment and anti-corruption, in order to solve issues that have arisen with economic globalization.

MHI has incorporated these 10 principles into its management policy and will further promote CSR-focused management in the years ahead.

Committee Initiatives

Environment Committee

We established the Environment Committee in 1996 in order to clarify our approach to environmental protection. The committee plans and prepares the annual environmental policy of the entire company to determine the direction of its activities, and follows up the annual plans prepared by the respective headquarters, divisions and works on environmental protection.

Committee for the Promotion of Employment of Disabled People

MHI launched the Committee for the Promotion of Employment of Disabled People in 1992 to expand job opportunities for disabled people. The committee's assignments include developing basic policies for the employment of disabled people, drawing up and implementing related plans, raising awareness of disabled people, collecting and distributing relevant documents, and communicating and coordinating with governmental agencies and other institutions.

Committee for Raising Awareness of Human Rights

Conforming to the spirit of respect for human rights, we established the Committee for Raising Awareness of Human Rights to ensure a proper understanding of this issue and help solve associated problems. This committee promotes human rights awareness, develops basic policies for related training courses, draws up and implements training plans, coaches in-house training instructors, and communicates and coordinates with governmental agencies and other institutions.

Export-related Regulations Monitoring Committee

As MHI exports a wide variety of products, export control is an issue of major importance. In 1987 we established the Export-related Regulations Monitoring Committee. A committee meeting is regularly held every month. The committee is responsible for instruction and supervision of controls regarding export-related regulations and monitors all headquarters, division offices, branch offices, works and associated companies.

Compliance Committee

We established the Compliance Committee in May 2001 to promote fair, faithful business activities in addition to ensuring compliance to laws and regulations. The committee is headed by the managing director in charge of compliance, and consists of general managers of administration departments as committee members. The committee develops various measures to ensure and encourage compliance throughout the company, including establishment of compliance guidelines and implementation of a compliance promotion training program.

Construction Business Act Compliance Committee

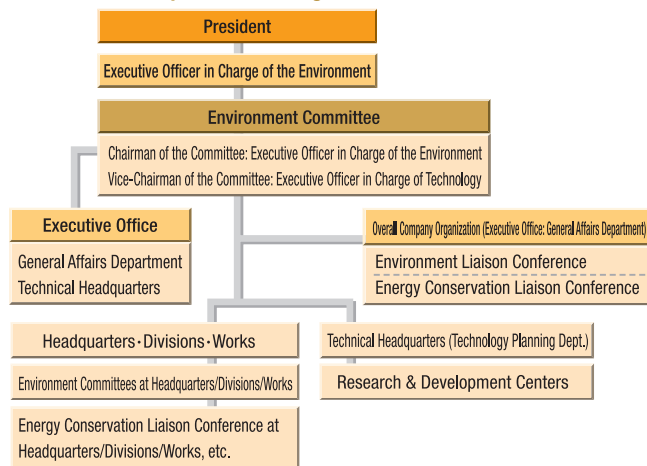
We established the Construction Business Act Compliance Committee in October 2003 to investigate and verify in-house compliance to the Construction Business Act and carry out education and guidance to prevent related improprieties. The committee makes sure that procedures related to the Construction Business Act are properly performed and that engineers are assigned appropriately. The committee also works to spread knowledge concerning the Construction Business Act.



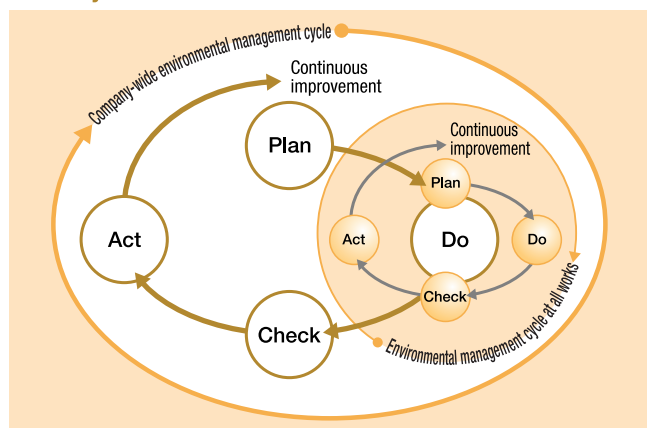
Environmental Management Structure

MHI promotes activities to solve environment-related challenges through an Environment Liaison Conference and Energy Conservation Liaison Conference. The former notifies all sections within the company what is decided by the Environment Committee and the latter specifically deals with energy conservation and reduction of CO₂ emissions. Individual headquarters, divisions and works have their own environment committees to implement the company-wide policy and promote environmental management activities suited to the special features of each region.

Environmental protection organization



PDCA cycle



ISO Accreditation

All of MHI's 15 works in Japan have gained ISO14001^{*1} accreditation. They strive to continuously improve their environmental management system and smoothly implement the spiral cycle of

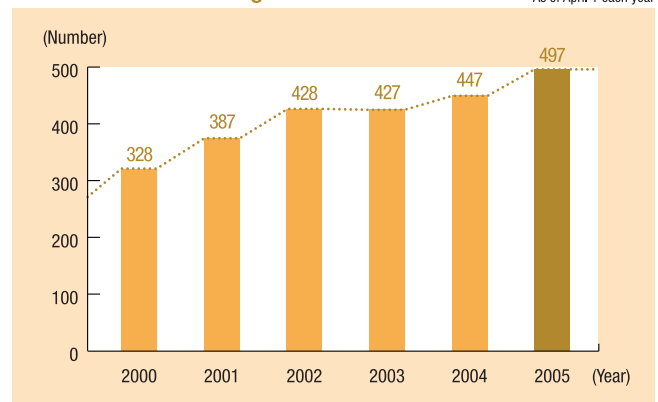
Plan-Do-Check-Act (PDCA). What is required for each renewal of the ISO accreditation is appropriately accomplished. The Head Office, which has not gained ISO certification, has set up a project team targeted at obtaining accreditation by the end of fiscal 2005.

Environmental Education

We regularly provide environmental education to all employees by dividing them into various levels from new employees to managers, in order to raise and enhance their awareness of environmental issues. Each MHI works carries out internal environmental audits according to ISO14001 to verify the effectiveness of the environmental management system and environmental performance.

We also conduct a special education and training program for employees engaged in spray painting or handling of dangerous substances. The program is intended to enable them to learn possible effects of such work on the environment, methods for daily control, monitoring and measurement, and how to deal with problems in an emergency.

Number of ISO14001-registered internal auditors As of April 1 each year



Number of holders of environment-related public qualifications As of January 1, 2005

Qualification Type	Category/Class	Number
Environmental Measurement	(density, noise and vibration)	6
Energy Management	Thermal and Electrical Management	109
Pollution Prevention Management	Air and Water Quality Class 1 to 4, Noise, Vibration	432
Chief Manager of Pollution Prevention		17
Supervisor for Handling Specified Chemical Substances		1,015
Supervisor for Operations Dealing with Organic Solvents		1,884
Engineering Management for Waste Disposal Facilities	(Waste Disposal Engineering Manager)	36
Management for Specially Designated Industrial Wastes		130

*1 ISO14001

An international standard for environmental management systems issued by the International Organization for Standardization (ISO). MHI's Yokohama Dockyard & Machinery Works gained the accreditation in 1997 to become Japan's first ISO14001-certified general heavy industrial manufacturer.

CSR Promotion

Ethical-Legal Compliance

MHI defines the term “compliance” as adherence to laws and regulations and social rules as well as conduct of business activities in a fair and faithful manner. This definition is based on MHI's belief that ensuring compliance will gain the trust of society and also enhance corporate value.

MHI has carried out many different efforts to ensure compliance. To ensure compliance even further, we have compliance promotion training programs more frequently than before, operate a new in-house website, and strengthen the transfer of related information to corporate departments. We will continuously enhance these efforts going forward, as well.

Compliance Promotion Training in Individual Departments

MHI believes that, to ensure compliance, it is particularly important to raise each individual's awareness. The company has conducted a compliance promotion training program on a discussion basis every year since 2003. In the program the superior of each department trains the subordinate staff through discussions. In fiscal 2004, about 76% of all MHI employees, i.e., nearly 25,000 people, participated in the program. With full understanding of the purpose of the program, many reported that this meaningful program provided a place for supervisors and their subordinate staff to have good communication with each other. Starting from fiscal 2005, we will have the program more frequently, i.e., twice a year (once each term), to further ensure compliance and to encourage more employees to take the program.

Compliance Promotion in Procurement Department

With a motto of “fair” procurement, MHI's material procurement operations have three pillars: clean and fair trading, transparent execution of business, and compliance with laws

and regulations. The procurement department conducts various activities to ensure that the motto is carried out. First is a two-day training program to raise employees' awareness of compliance and enable them to learn basic knowledge concerning applicable laws. The program is held twice a year. About 100 employees in total have taken the program since 2004, and they exercise and make use of what they learned through the program in their daily procurement activities. Also, a conference with the theme of compliance in the area of material procurement has been held every year to discuss measures to further ensure compliance by renewing the employees' awareness of social background. These activities are checked and improved by internal audits, ensuring effectiveness and self-checking of compliance activities.

Usage of Hotline System

In June 2001 we set up a hotline and a dedicated contact in the Compliance Committee so that illegal or inappropriate acts in terms of compliance can be uncovered as early as possible, and rectified through the initiative of the company itself. The office accepts letters and calls from employees, affiliated companies and material suppliers. Once the Compliance Committee receive such a letter or call, the committee immediately investigates the problem. If the committee finds anything inappropriate, we correct it. During fiscal 2004, the committee received about 6 letters every month. Most of the problems indicated have been properly corrected, although some are still under investigation. Thus, the compliance system has proven itself to work effectively and help the company make its operations more compliance-oriented.

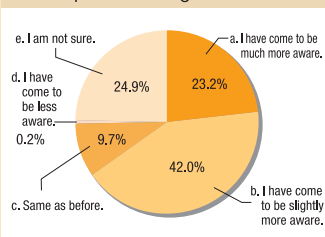
To protect informers, we give them full consideration so that they are not treated unfavorably.

Results of survey on compliance awareness

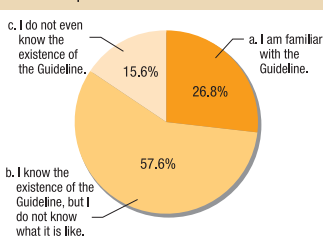
Survey outline

Date of survey: September 2004
 Target: 10,290 employees (about 30% of total number)
 Number of respondents: 6,008
 Response rate: 58.4%

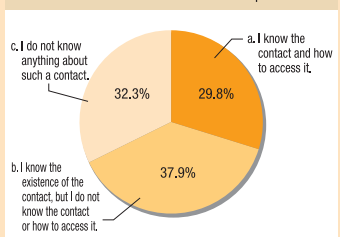
Q. How has your awareness of compliance changed?



Q. Do you know what the MHI Compliance Guideline is like?



Q. Do you know the existence of a dedicated contact to receive letters on compliance?





Survey of Penetration of Compliance Awareness

To identify how individual employees have changed their awareness of compliance through these activities and utilize the results for future efforts, a questionnaire survey was conducted. As shown in the figure below, the survey revealed that the employees have certainly enhanced their awareness of compliance. However, it also showed that there were still some employees who did not know what the Compliance Guideline was like or that the hotline or dedicated contact even existed.

Guideline for the Prevention of Bribery Involving Foreign Civil Servants

In accordance with the Unfair Competition Prevention Law and laws and regulations relating to the prevention of corruption of civil servants in applicable countries, MHI conducts business with a basic policy of never attempting to offer a bribe to a civil servant of a foreign country in order to obtain improper sales advantages. The MHI Compliance Guideline strongly prohibits improper dealing counter to the spirit of compliance. MHI also established a Guideline for the Prevention of Bribery Involving Foreign Civil Servants in April 2005. The Guideline explains terms included in the Unfair Competition Prevention Law and the basic concept, and also indicates specific guidelines of conduct for entertaining or giving gifts to civil servants from abroad, so that employees can properly act without confusion.

Management of Personal Information

MHI has traditionally carried out proper management of personal information according to in-house rules of information management and the related control scheme. As the Personal Information Protection Law was enacted in April 2005, MHI has just established a Personal Information Protection Policy that indicates MHI's basic attitude toward the protection of personal information. The Policy has been disclosed to both the employees and the public. Detailed information is available through the MHI website^{*1}. New rules of personal information protection have been set up and a manual has been prepared as a specific guideline to be used when conducting business. A briefing guide has also been distributed to employees to ensure their full knowledge of related matters. Going forward, MHI will continuously strive to raise company-wide awareness of personal information through education and training programs, conduct audits, and improve the personal information protection system.

^{*1} Personal Information Protection Policy page of MHI website
<http://www.mhi.co.jp/kojinjouhou.html>

Examples of Violations of the Compliance Guideline

Excessive Weight of Track/Road Service Cars During Inspection for Vehicle Registration

It was revealed in February 2005 that MHI had obtained certificates of vehicle registration for Road Railer that MHI delivered to West Japan Railway Co. in 1997 by falsifying the weight of the vehicles as undervalued figures.

Some time ago, West Japan Railway noticed that the registered weight of similar vehicles delivered by another manufacturer was different from the actual weight. Being informed of the fact, MHI conducted an in-house investigation on its own vehicle products delivered to various customers including West Japan Railway. The investigation eventually revealed that the registered weight of three vehicles delivered to West Japan Railway was different from that identified upon delivery. Of the three, two were Road Railer for traction delivered in March 1997 and the other was a Road Railer for trolley lines replacing delivered in February in the same year. These acts violated the Road Vehicle Act. Taking the fact seriously, MHI regretted what the company did and reported the fact to the Ministry of Land, Infrastructure and Transport.

We will take corrective measures including handling of the vehicles with full integrity after discussions with the customer.

Scandal Involving Bridges, in Violation of the Anti-Monopoly Law










An employee of MHI was arrested in May 2005 on a charge of violating the Anti-monopoly Act (bid-rigging) when receiving the order for a bridge construction project. In July 2005, MHI was prosecuted by the Tokyo High Public Prosecutors office after an investigation. We regret the incident and are very sorry for the trouble the incident has caused. We are committed to reflecting back on the company's philosophy and we will fully cooperate with the investigation, in order to prevent a reoccurrence.

We regret that we could not prevent the occurrence of the incident although we had carried out several measures to ensure compliance. We are committed to conducting business activities on an autonomous basis even more strictly. We are also determined to review our educational programs, strengthen our internal audit system, and make further efforts to ensure compliance.

We have launched a project to establish a system that requires regular staff turnover of those in charge of public-works contracts and ensures proper contracts. It has also been decided that the Internal Audit Office, which was established in July 2005, will conduct monitoring of these efforts.

CSR Challenges & Targets and the State of Progress

MHI makes various efforts to carry out its corporate social responsibility (CSR). As one of the new attempts this year, we set performance challenges and targets associated with social matters including labor and employment. Through disclosure of information about these challenges, targets and performance, we will pursue the creation of a sustainable society while communicating with the public.

Category	Item	Mid- and long-term objective	Progress in FY 2004	Evaluation
Management	Ensuring compliance	Raise awareness of compliance	In September 2004, 30% of all employees were surveyed about their awareness of compliance. A Compliance Promotion Training Program was launched in FY 2003.	
Accounting (consolidated)	Orders received	Achieve 3,100 billion yen in FY 2007	2,722.8 billion yen	
	Net sales	Achieve 3,000 billion yen in FY 2007	2,590.7 billion yen	
	Operating income	Achieve 160 billion yen in FY 2007	14.7 billion yen	
	Ordinary income	Achieve 140 billion yen in FY 2007	12.5 billion yen	
Society	Promotion of labor safety	No fatal accident and fewer major accidents than in the previous year.	A labor safety and health management system has been introduced companywide to make effort to ensure labor safety. However, four fatal or major accidents occurred during 2004, although the total number of accidents decreased.	
	Promotion of labor health management	Achieve lower worker-absence rate for accident or sickness than in the previous year.	The target was not achieved in spite of strong promotion of mental health measures and lifestyle-related disease prevention measures.	
	Promotion of employment of the handicapped	Achieve the legal employment rate for the handicapped of 1.80%	1.70% as of April 1, 2005	
	Promotion of work and life balance	Achieve or exceed the following standard of actual child care leaves in the period of 2005 to 2007: <ul style="list-style-type: none"> Men: One or more male employees taking a child care leave during the period. Women: Achieve a child care leave rate of 70% or higher. *Authorized child care leave rate in accordance with the guideline issued by Ministry of Health, Labour and Welfare	(A new effort has been started from FY 2005.)	
	Contribution to society	Continuously promote activities contributing to society, emphasizing a Trust-based Relationship with Local Communities.	A wide variety of activities contributing to society were conducted at our respective regional offices and works.	



---Target achieved or proceeding as planned



---More effort required



---Target not yet achieved

Category	Item	Mid- and long-term objective	Progress in FY 2004	Evaluation
Environment	Controlling generation and emission of waste materials	Limiting the total amount of waste materials in 2010 to 170,000 tons, a minimum 20% cut compared with the amount in 1992, by promoting resource savings and controlling material purchases	Total emission: 150,000 t From the 1992 level: decrease by 30.6%	
	Reducing waste land reclamation and landfill	Zero waste land reclamation and landfill to be achieved by more than half of the works by 2005, and by all works by 2010, through promotion of reuse and recycling	General Machinery & Special Vehicle Headquarters achieved zero emissions, following Yokohama Dockyard & Machinery Works and Takasago Machinery Works. Paper & Printing Machinery Division, Machine Tool Division, and Nagoya Guidance & Propulsion Systems Works are currently pursuing zero emissions.	
	Total disuse of equipment using PCB	Disuse of ballasts for lighting fixtures and high-voltage equipment using PCBs by 2010	Progressing as planned	
	Reducing emission of organic chloride chemical substances	By thoroughly controlling organic chloride chemical substances and their emissions, atmosphere releases of dichloromethane, trichloroethylene and tetrachloro-ethylene to be reduced by 95% by 2005, and by 100% by 2010, compared with 1996 levels	Atmospheric discharge: 17.3 t From the 1996 level: decrease by 93.4%	
	Reducing CO ₂ emission	Reduction of CO ₂ emission by 6% by 2010, compared with the 1990 level, through strict control of CO ₂ emission at production plants.	CO ₂ emission: 529,000 t From the 1990 level: increase by 12.1%	
		Introduction of 400kW solar power generating system by 2005	Introduction in FY 2004: 80 kW (cumulative total: 470 kW)	
	Reducing use of fluorocarbons ^{*1}	Switching from HCFC that can destroy the ozone layer to HFC whose ozone destruction factor is zero, by 2010	Emission in FY 2004: 25.6 t Effort under way toward total elimination in FY 2010	
	Environmental management system	Continuation of renewal of ISO14001 certification for works in Japan	All domestic production sites (15 works, headquarters and divisions) have obtained ISO14001 certification, and are continuing procedures for renewal.	
	Database system for environment-based corporate management	Developing a database system for data on environmental burden by 2005	Investigation was made of on-line tabulation of environmental performance data and environmental accounting.	
	Promoting environmental accounting	Continuous work on environmental accounting, and completion of an on-line summary system by 2005		
Issuing Environmental Reports	Further upgrading of the contents for subsequent issues	Issuance of revised Social and Environmental Report to reflect CSR needs.		
Purchase of environmentally friendly products	Encouraging the purchase of environmentally friendly goods based on the in-house guideline for purchasing "green goods."	The introduction of a company-wide general indirect material purchasing system was completed at all works, headquarters and divisions. Establishment of method for determining green purchase ratio.		
Advancing environment-compatible designs	Setting up and promoting working groups for designs conforming to environmental requirements.	A corporate standard (draft) was prepared for coordination among concerned departments. Environmentally Suitable Design Task Force Conference was held to meet the environmental requirements at home and abroad.		

*1

Fluorocarbons

Chlorofluorocarbons (CFCs), Hydrochlorofluorocarbons (HCFCs) and Hydrofluorocarbons (HFCs)



Financial Performance

Another of MHI's important social responsibilities is to operate permanently by earning stable profits and building a solid financial base. Going forward, we will continuously strengthen our product engineering capabilities and our financial system to enable us to continue growing as “a premier global organization.”

Statement of Accounts (Consolidated)

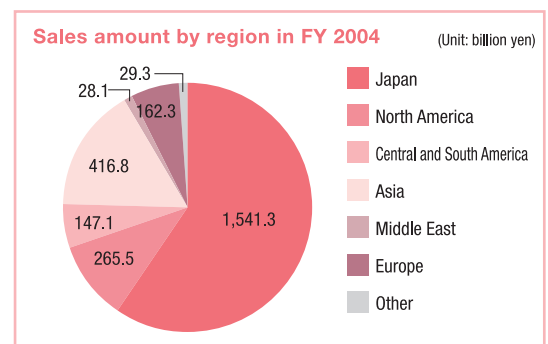
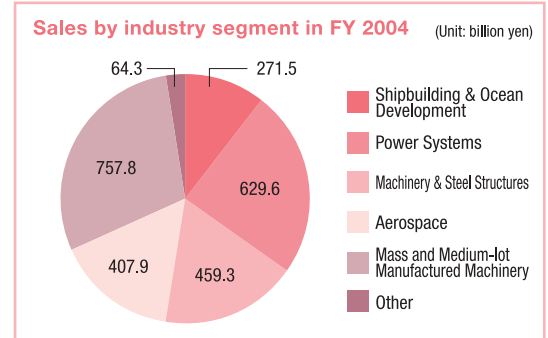
(Unit: billion yen)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Orders received	2,640.3	2,424.9	2,480.9	2,662.8	2,722.8
Net sales	3,045.0	2,863.9	2,593.8	2,373.4	2,590.7
Operating income (loss)	74.8	78.6	115.3	66.6	14.7
Net income (loss)	-20.3	26.4	34.3	21.7	4.0
Total assets	4,236.6	3,915.2	3,666.8	3,715.3	3,831.1
Net assets	1,278.2	1,282.7	1,270.9	1,324.4	1,309.9

Relationship between four business categories and each of the headquarters, divisions and segments

Segment	Headquarters and Divisions	Power & Energy	Transportation & Security	Environment & Society	Industries
Shipbuilding & Ocean Development	Shipbuilding & Ocean Development Headquarters		●		
Machinery & Steel Structures	Steel Structures & Construction Headquarters		●	●	
	Machinery Headquarters		●	●	●
Power Systems	Power Systems Headquarters	●			
	Nuclear Energy Systems Headquarters	●			
Aerospace	Aerospace Headquarters		●		
Mass and Medium-lot Manufactured Machinery	General Machinery & Special Vehicle Headquarters	●	●		●
	Air-Conditioning & Refrigeration Systems Headquarters				●
	Paper & Printing Machinery Division				●
	Machine Tool Division				●

Sales by segment and by region





Environmental Accounting

In order to gain an understanding of our investments and outlays for environmental protection and their results, we have established our own "Guidelines for Environmental Accounting," incorporating concrete examples with reference to the "Environmental Accounting Guidelines 2002" of the Ministry of the Environment. We have continued to quantitatively measure these matters since FY 2001. In addition, since FY 2003 we have been implementing a trial calculation of the economic effect on customers when they use our products.

Cost of Environmental Protection

Both investments and expenses increased in fiscal FY 2004 from the FY 2003 level. R&D costs associated with environment-friendly airliners (main wings) and environmental damage outlays necessitat-

ed by soil contamination abatement also expanded substantially.

Economic Effect

As a result of environmental protection activities such as recycling and energy saving, economic effect reached about 2.6 billion yen.

Environmental accounting and its economic effect

(Unit: million yen)

Category	Activities in FY 2004	Investments		Costs		Economic Effect		Description	Effect on Environmental Protection
		FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004		
1. Production Areas		2,610	1,996	3,439	4,121	2,128	2,624		
① Pollution control	Maintenance and management of wastewater and flue-gas treatment systems	991	532	1,424	1,565	435	432	Reduction of wastewater treatment costs	Reduction in Emission of Air/Water Pollutants
② Global environmental conservation	Energy conservation	1,377	1,374	216	563	574	434	Cost reduction from energy conservation	
③ Recycling	Reduction in waste generation, recycling	242	90	1,799	1,993	1,119	1,758	Income derived from recycling, cost reduction from reduced waste generation	Reduction of waste taken to landfill sites: 1,325 tons
2. Upstream/Downstream	Recycling of household electrical appliances	—	2	96	69	—	—		
3. Management Activities	Establishment of environmental management system, ISO Office, publication of Social and Environmental Report	14	3	965	901	—	—		
4. R&D ^{*2}	Development of environment-friendly products	945	3,569	9,531	11,572	—	—		Development of Various Types of Environment-friendly Products
5. Public & Social Activities	Support to environmental protection, greening activity	4	12	393	442	—	—		
6. Environmental remediation	Soil contamination abatement	126	251	125	813	—	—		Prevention of Outflow of Oils and Chemical Substances
Total		3,699	5,833 ^{*1}	14,549	17,918	2,128	2,624		

Economic effect gained by customers (CO₂ reduction in FY 2004)

Product	CO ₂ Reduction (1000 t)	Amount (million yen)	Basis of Calculation	
Nuclear Power Plants	49,200.00	464,940	Trial calculations based on the actually generated output in 2004 from nuclear power plants built by MHI. ^{*3 *4}	
Thermal power generation	Conventional thermal plants	213.00	2,013	Trial calculations based on actual delivery record in FY 2004 ^{*3 *4} (compared to conventional MHI product) Generation efficiency increased by 5.71% from the 1990 level
	Gas turbine combined-cycle plants	31.10	294	Trial calculations based on actual delivery record in 2004 ^{*3 *4} (compared to conventional MHI product) Generation efficiency increased by 4.17% from the 1990 level
	Industrial power plants (biomass power generation)	679.00	6,417	Trial calculations based on actual delivery record in 2004 ^{*3 *4}
Geothermal power plants	47.80	452	Trial calculations based on actual delivery record in 2004 ^{*3 *4}	
Natural Energy Power Generation (wind power, solar photovoltaic power generation)	161.11	1,522	Trial calculations based on actual delivery record in FY 2004 ^{*3 *4}	
Gas Engine Co-generation Systems	377.03	3,563	Trial calculations based on delivery record in FY 2004 of MACH-30G gas engine and GSR series Miller cycle gas engine ^{*3 *4 *5}	
High-Efficiency Centrifugal Liquid Chillers	46.41	439	Trial calculations based on aggregated delivery record up to FY 2004 (compared to conventional product) ^{*3 *4}	
Forklift trucks	26.63	252	Trial calculations based on sales record of "GRENDIA" in FY 2004 (compared to conventional product) ^{*3}	

^{*1} Total capital investment in FY 2004 was 74.5 billion yen. Of this, environmental capital investment was 5.8 billion yen (7.9%).

^{*2} Total expense for R&D in FY 2004 was 120.6 billion yen. Of this, environmental expense for R&D was 15.1 billion yen (12.9%).

^{*3} In calculating the monetary amount, the proforma calculation value of 9,450 yen / t-CO₂ of the Ministry of the Environment was used.

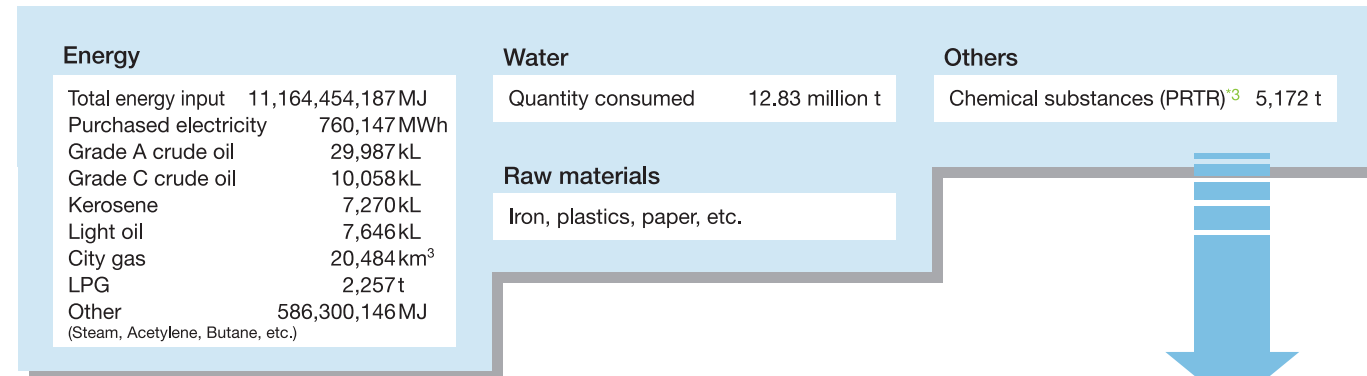
^{*4} Comparison was made with the CO₂ emission amount of 0.379 kg-CO₂ / kWh for the amount of electricity used (the actual fiscal 2001 result reported by the Federation of Electric Power Companies of Japan).

^{*5} In addition to ^{*4} above, comparison concerning calorific value was made with a grade A oil-burning boiler with an efficiency of 90%.

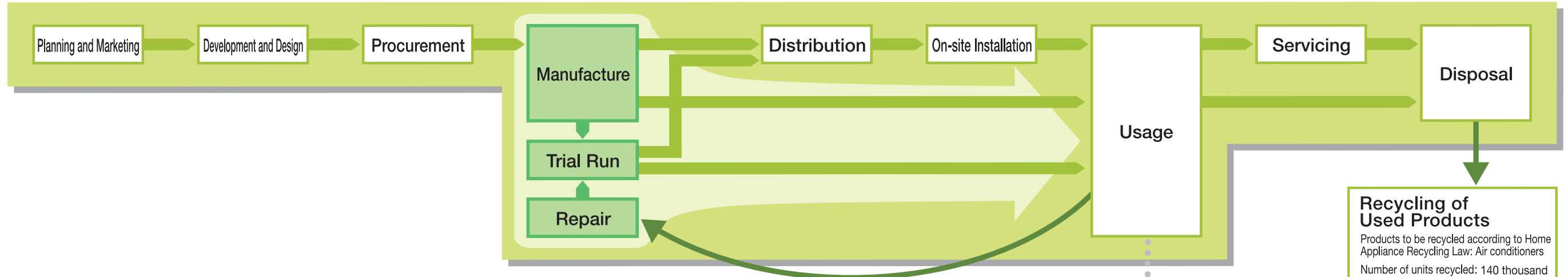


Overview of Effect on the Environment of Our Business Operations

INPUT



Business Operations



OUTPUT



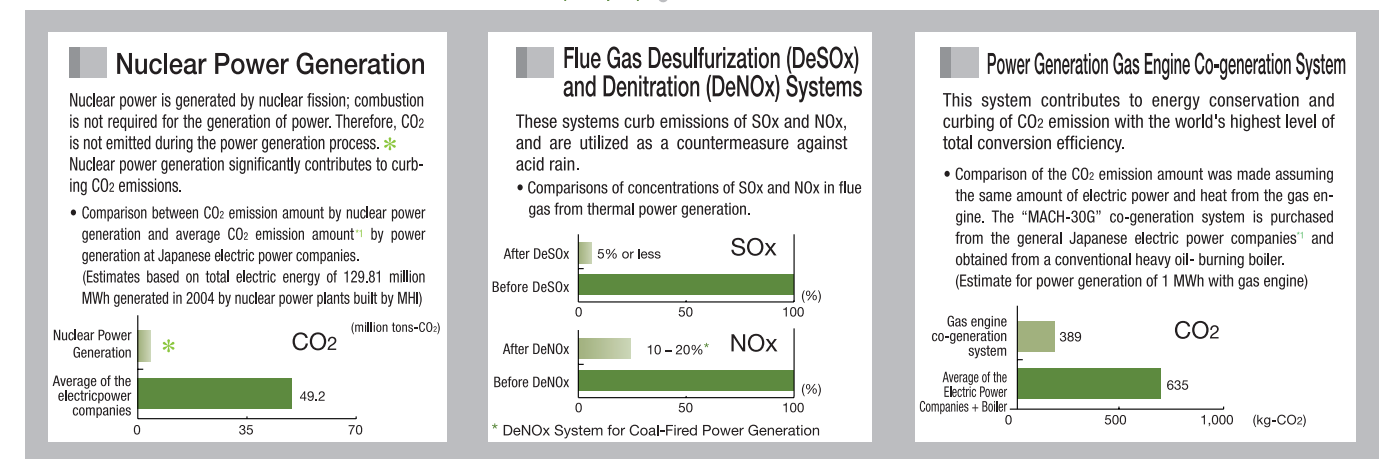
To carry out its business operations, MHI uses various types of energy and resources.

We consistently strive to reduce environmental load throughout the lifecycle of a product, from development, design, procurement and manufacture to distribution, on-site installation, usage, servicing and disposal.

The figure below shows input and output of materials in the manufacture, trial run and repair stages. In other stages, we address the demands of environmental friendliness in line with the specific features of each product.

We will continue striving to reduce environmental load throughout the lifecycle of products as our way of continuously contributing to preservation of the environment.

Decrease Effect on Environmental Burden When MHI Products Are Used (examples)



^{*1} Water pollutants

Only pollutants regulated by total pollutant load are counted.

^{*2} Air pollutants

Except CO₂, only pollutants controlled by laws and regulations are counted.

^{*3} PRTR

Please refer to page 39.

^{*1} Average CO₂ emission amount

The CO₂ emission amount of 0.379 kg-CO₂/kWh was adopted for the amount of electricity used (the actual fiscal 2001 result reported by the Federation of Electric Power Companies of Japan).



Resources Conservation and Waste Management

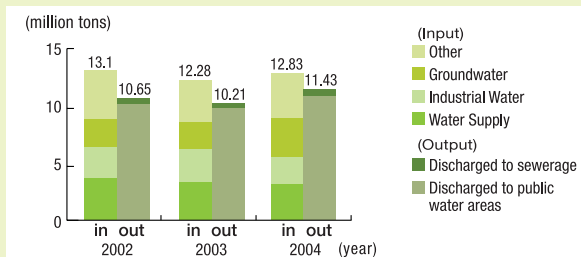
MHI consistently pursues reduced usage of resources, recycling, and waste reduction. Toward the goal of achieving zero emissions (means zero waste landfill) at all MHI works by 2010, MHI carries out a host of effective recycling activities: for example, seeking out recycling contractors, ensuring sorting of recyclables, having company-wide meetings on zero emissions, and sharing information about recycling contractors. Following the Yokohama Dockyard & Machinery Works and the Takasago Machinery Works, the General Machinery & Special Vehicle Headquarters achieved zero emissions in fiscal 2004.

Resources

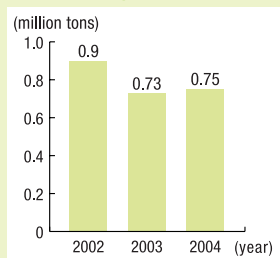
Individual works reuse water for effective use. Water consumption and amounts of effluent during fiscal 2004 increased by about 4.4% and 11.9%, respectively, from the previous year's level. Still, water recycling increased by 2.7%, helping to achieve effective use of water resources.

For paper resources, MHI basically uses recycled paper. Paper usage during fiscal 2004 was cut by about 8.7% from the previous year's level. This was achieved by encouraging use of the reverse side of used paper sheets and paperless documentation.

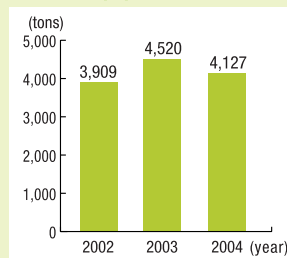
Amount of water used and discharged



Amount of recycled water



Amount of paper used



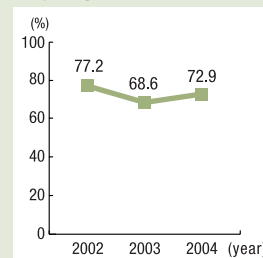
Waste Materials

MHI consistently seeks to achieve zero emissions and limit waste generation. In FY 2004 waste generation increased by about 4% from the previous year's level. The increase was partially attributable to the disposal of sludge and soil left at the Hiroshima Machinery Works as property damage caused by a typhoon, in the amount of about 3,000 tons. The mid- and long-term objective of a 20% reduction from the 1992 level was achieved and exceeded with a track record of about a 30.6% reduction.

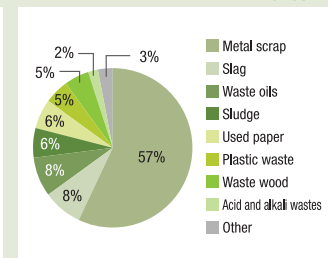
Amount of waste material generation and landfilled waste



Recycling ratio



Generation of waste materials by type



General Machinery & Special Vehicle Headquarters Achieves Zero Emissions!

In fiscal 2002 the General Machinery & Special Vehicle Headquarters launched efforts to reduce waste for landfill and achieve zero emissions. In addition to what had been recycled conventionally, plastic, batteries, sludge, paint, medical waste and other materials were also included in the recyclable list. Some substances are difficult to recycle, such as the strong acid called "parkerized sludge." These substances are accepted by few recycling contractors and generated in small

amounts, which makes it difficult to take samples. However, we achieved 100% recycling in November 2004.

We are committed to further promotion of recycling in the future by recovering resources and converting them into materials for production.



General Affairs and Environmental Management Section, General Affairs Department



Countermeasures against Global Warming

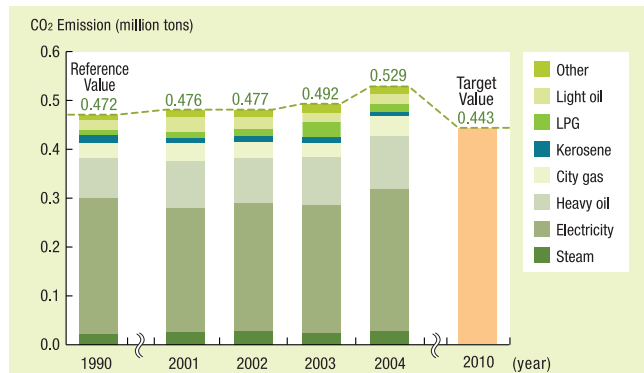
MHI makes every effort to reduce CO₂ emissions from its production facilities by integrating Japan's CO₂ emissions reduction target of 6% required under the Kyoto Protocol into the company's mid- and long-term objectives. Many plants have introduced energy-saving equipment and/or cogeneration systems to promote CO₂ emissions reduction. As the Kyoto Protocol was put into effect in February 2005, we are determined to strongly promote company-wide efforts toward a 6% reduction, partly from the viewpoint of exercising our social responsibilities.

CO₂ Emission Reduction

In spite of the promotion of energy conservation activities at all company works, CO₂ emissions in fiscal 2004 increased by 12.1% from the level in the base year of 1990. The primary reason for the increase was a boost in production, particularly in the field of shipbuilding.

To achieve the goal of the Kyoto Protocol, individual works have prepared their own CO₂ reduction menu. In August 2005, a company-wide meeting will be held to discuss additional efforts to achieve the goal.

CO₂ emission



Green Power

MHI is an active participant in the "Green Power Certification System^{*1}" of Japan Natural Energy Company Limited (JNE). Under this program, since April 2002 MHI has contracted to purchase 1 million kWh per year of wind-generated power from JNE over a period of 15 years. This ecologically friendly "green power" is used at MHI's Head Office Building and the Mitsubishi Minatomirai Industrial Museum.



Green power certificate

*1 Green Power Certification System

"Green power" is electric power generated without emitting a large amount of CO₂ and without destroying the surrounding environment. Green power is traded at a price that includes the added value due to reduction in fossil fuels, reduction in CO₂ emission, etc. A certificate is issued to green power

Energy Conservation Measures

As energy conservation measures, MHI promotes activities to improve energy use efficiency during production processes. In particular, during fiscal 2004 we revised control standards and ensured the elimination of energy loss (waste). These activities improved our production processes, resulting in higher energy use efficiency. Capital investment was also carried out for energy conservation, including introducing high-efficiency transformers, changing fuel type, and using high-efficiency lighting fixtures and insulating films on windows in office buildings.

The Law Regarding the Rationalization of Energy Use requires all Type 1 designated energy management factories to undergo general inspections by the Ministry of Economy, Trade and Industry. Seven MHI works that manufacture general machines and equipment were inspected during fiscal 2004. As a result, six works passed inspection; the remaining one received advice for achieving further improvements in energy conservation.

Utilization of Solar Power Generation and Monitoring Its Performance

MHI began installing its amorphous-type solar cell modules in fiscal 2002, and introduced a total capacity of 470 kW by the end of fiscal 2004. The total amount of power generated by all solar systems in fiscal 2004 reached 360 MWh, which is equivalent to a reduction of CO₂ emissions by 136 tons per year.



10 kW solar system installed at the Advanced Technology Research Center

purchasers showing the amount of green power used in their operations. The system encourages enterprises and local governments to take further voluntary measures for environmental preservation



Control of Chemical Substances

MHI strictly controls the use and storage of chemical substances required for its production processes. In addition, through participation in the PRTR^{*1} pilot project of the former Environment Agency and promoting the guidelines of the Keidanren (Japan Federation of Economic Organizations) Voluntary Action Plan on the Environment, we have been collecting and controlling data on such chemical substances since 1997. Each of our plants and works prepares its own MSDS (Material Safety Data Sheet)^{*2} to ensure the safety of customers and employees. We also work to curb the use and emission of organic solvents and organic chlorine chemical substances by developing and shifting to alternative engineering methods and substances.

PRTR emission and transfer amount of environmental pollutants

Substance No.	Name of Substance	FY 2002		FY 2003		FY 2004	
		Emission Amount	Transfer Amount	Emission Amount	Transfer Amount	Emission Amount	Transfer Amount
30	Bisphenol A-Type Epoxy Resin	0.5	39.5	0.9	47.6	0.4	56.8
40	Ethylbenzene	290.5	16.9	307	31.5	475.5	42.5
43	Ethylene Glycol	0	1	0	1.3	0	2.4
63	Xylene	1201.4	83.1	1365.1	94.5	1548.7	117.9
68	Chromium and Chromium (III) Compounds	1.7	82.2	2	216.3	2.9	282.3
69★	Chromium (VI) Compounds	0	10.6	0.3	10.9	0	12.6
85	Chlorodifluoromethane (HCFC-22)	0.9	13	0.8	5.3	0.1	5.2
99	Vanadium Pentoxide	0	1	0	0	0	0
100	Cobalt and its Compounds	-	-	-	-	0	12
132	1,1-Dichloro-1-Fluoroethane (HCFC-141b)	30	1.4	15	0	24	6.2
144	Dichloropentafluoropropane (HCFC-225)	-	-	-	-	0.3	0.9
145	Dichloromethane	8.8	8.1	9.9	0	15.4	3.7
177	Styrene	20	1.6	32	0	14	0
179★	Dioxins*	69.5	590.1	1.7	3.9	2.8	0

(Unit: t)

Substance No.	Name of Substance	FY 2002		FY 2003		FY 2004	
		Emission Amount	Transfer Amount	Emission Amount	Transfer Amount	Emission Amount	Transfer Amount
200	Tetrachloroethylene	1.1	6	0.6	9.4	0.1	3
211	Trichloroethylene	4.7	16.8	0.4	14	0.5	14
224	1,3,5-Trimethylbenzene	1.7	0	0	0	15.4	1
227	Toluene	465.1	33.6	543.9	46.5	544	80.9
230	Lead and Lead Compounds	-	-	-	-	0	0
231	Nickel	0	2.1	0	0.8	0	0.9
232★	Nickel Compounds	-	-	-	-	0	13
243	Barium and Soluble Barium Compounds	-	-	-	-	0	2.3
283	Hydrogen Fluoride and Soluble Hydrogen Fluoride Compounds	-	-	-	-	0	3.7
299★	Benzene	0	0	0	0	10.1	0
311	Manganese and its Compounds	0	5.5	0.2	20.4	0.3	22.3
346	Molybdenum and Molybdenum Compounds	-	-	-	-	0	11.7
353	Phosphatetris (dimethylphenyl)	-	-	-	-	0	0

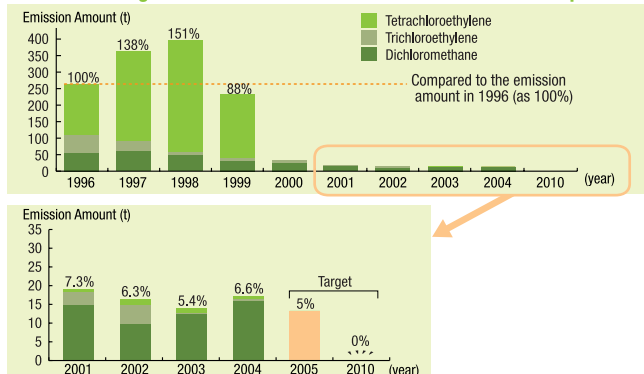
Note: For designated Class 1 specified chemical substances, records are for substances whose annual transaction amount is 0.5 tons or more. For other Class 1 specified chemical substances, records are for substances whose annual transaction amount was 1 ton or more in 2004, and 5 tons or more in 2002 and 2003.

* The unit of dioxins is mg-TEQ

Organic Chlorine Substances

Emissions of organic chlorine substances into the atmosphere in fiscal 2004 were 6.6% of the 1996 level. The emissions have steadily been reduced toward the goal, but last year's record was actually more than that of the previous year. We will promote the use of dichloromethane substitutes from now on.

Emissions of organic chlorine chemical substances into the atmosphere

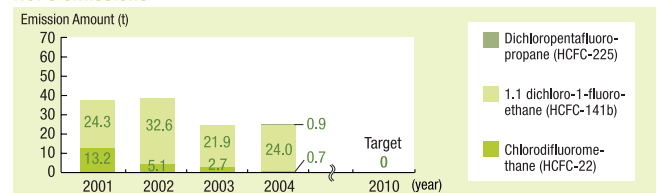


Substances that Deplete the Ozone Layer

MHI uses some substances that deplete the ozone layer, including chlorodifluoromethane (HCFC-22), dichloropentafluoropropane (HCFC-225) and 1,1-dichloro-1-fluoroethane (HCFC-141b), to clean equipment or for other purpose. Total emissions of these substances increased in FY 2004 as the aeronautics division boosted production.

Toward the mid- to long-term goal of total elimination by 2010, we will continue making every effort to reduce usage of harmful substances, for example by promoting use of HCFC substitutes.

HCFC emissions



*1 PRTR Law (Pollutant Release and Transfer Register) :

This mechanism detects, summarizes and publicizes sources of toxic chemical substances, the amount of such substances generated, the amount of such substances in waste and taken from plants and works, and other data. This method was established as a regulation in 1999. The manufacturer or user of the substances concerned must report to the administrative authority once a year.

*2 MSDS

Material safety data sheet for chemicals and other substances. The sheet provides information on ingredients, characteristics, handling methods, etc., to ensure proper control of chemical substances and other products when they are shipped to other business operators.



Environmental Risk Management

To protect the global environment, in addition to observing various laws and regulations concerning the environment it is necessary to accurately understand risk in business activities, such as contamination accidents that adversely impact the environment, and to establish procedures to prevent such occurrences. For this purpose, each of MHI's works has its own risk management system to identify latent risks. They control risks based on various manuals prepared by themselves, including risk identification procedures, daily control procedures and contingency plans. They also regularly carry out emergency response training for various emergency cases, such as oil leakage.

In the event of a crisis, management up to the President level is systematically informed of the occurrence immediately using an in-house crisis management information system.

Countermeasures against Soil and Groundwater Contamination

MHI is striving to terminate use of volatile organic compounds such as trichloroethylene that may cause environmental pollution. However, it was revealed in March 2004 that the Biwajima Plant of the Air-Conditioning & Refrigeration Systems Headquarters (Nishi-Biwajima-cho, Nishi-Kasugai-gun, Aichi Prefecture) had soil and groundwater contaminated with volatile organic compounds. We then conducted an investigation of soil contamination of volatile organic compounds in all other headquarters and works (18 sites in total) simultaneously, particularly in places where the use of such compounds had been recorded.

The investigation newly revealed that soil and groundwater contamination had occurred at three sites: the former Industrial Machinery Division, the Oye Plant of the Nagoya Aerospace and Systems Works, and the Nagoya Guidance & Propulsion Systems Works. These sites reported the investigation results to the appropriate local government office and promptly made the fact known to the public by issuing a press release and holding an explanatory meeting with community residents. These four sites where groundwater contamination was discovered, including the Biwajima Plant, are making efforts to purify the water as soon as possible using various measures such as groundwater pumping, soil gas absorption and iron powder mixing.

Soil contamination without groundwater contamination was found at three sites: the Main Plant of the Kobe Shipyard & Machinery Works, the Kannon Plant of the Hiroshima Machinery Works, and the Main Plant of the Takasago Machinery Works. These plants also reported the facts to the applicable local government office and have continued monitoring the quality of the groundwater.

At sites other than those where contamination was identified in the autonomous investigation, MHI will carry out necessary investigations and measures to additionally prevent soil and groundwater contamination by substances other than those targeted in the foregoing investigation.

Sites with volatile organic compounds *1 exceeding the limit, and decontamination progress

Site name	Location	Both solid and groundwater contamination	Soil contamination alone	Decontamination progress	Decontamination technique *2
Air-Conditioning & Refrigeration Systems Headquarters, Biwa Plant	Nishi Biwajima-cho, Nishi Kasugai-gun, Aichi	○		Decontamination in progress	A, B
Former Industrial Machinery Division	Nagoya, Aichi	○		Decontamination in progress	A, C
Nagoya Aerospace Systems Works, Oye Plant	Nagoya, Aichi	○		Decontamination in progress	B
Nagoya Guidance & Propulsion Systems Works	Komaki, Aichi	○		Decontamination in progress	A, C
Kobe Shipyard & Machinery Works, Main Plant	Kobe, Hyogo		○	Monitoring	
Hiroshima Machinery Works, Kannon Plant	Hiroshima		○		
Takasago Machinery Works	Takasago, Hyogo		○		

*1 Tetrachloroethylene, trichloroethylene, 1,1,1-trichloroethylene, cis-1,2-dichloroethylene, 1,1-dichloroethylene, dichloromethane, benzene

*2 The major decontamination techniques include: (A) groundwater pumping, (B) soil gas absorption, and (C) iron powder mixing.

Countermeasures against Environmental Pollution

The general wastewater treatment center at the Honmoku Plant of the Yokohama Dockyard & Machinery Works had a water contamination accident in June 2004. Boiler washing water was accidentally released into the sea during the purification stage. The washing water was highly acidic wastewater generated in the process of warm water washing of ship boilers. The accident occurred during pretreatment of the wastewater before neutralization. An operator forgot to close a water supply valve, and the washing water overflowed from the water tank. The overflow coursed through the plant's storm sewer and was finally released into the sea. The effluent in the sea was found to exceed wastewater quality standards*1.

In response to the accident, MHI carried out a company-wide recurrence prevention program at all works and subsidiaries. The program included: [1] improvement of equipment including automatic stopping devices, [2] general inspection of wastewater treatment plants and other specified facilities, [3] re-education and training of wastewater treatment plant operators in emergency response procedures.

*1 Analysis of the wastewater

pH	3.2	(5.8 – 8.6)	Zinc (mg/L)	1.1	(1)
COD (mg/L)	27	(25)	Soluble iron (mg/L)	97	(3)
Suspended solid (mg/L)	130	(70)	Soluble manganese (mg/L)	1.7	(1)

Figures in parentheses indicate the wastewater quality standards specified in the Yokohama City Ordinance for Conservation of the Living Environment.



Environment-friendly Production

MHI makes every effort to implement environment-friendly production throughout the product life cycle including the design, procurement, manufacturing, distribution, usage and disposal stages. Environment-friendly production is one of the important challenges demanded by today's society. MHI is committed to further expanding its efforts in all related areas.

The following are a sampling of MHI's environment-friendly practices implemented for specific products.

Environment-friendly Practices Associated with Forklifts

Design stage

1. Design concept reflecting environment-friendly practices

- (1) **Reduced use of toxic substances**
Change component materials from toxic substances to alternatives.
•Radiators (copper → aluminum, lead for soldering to be eliminated)
•Seats (PVC films → integrally molded urethane)
Urethane seats have been introduced for material recycling.
 - (2) **Use of recyclable materials**
Change cover or seat materials to recyclables.
 - (3) **New model of CNG forklift *1**
Use environmentally friendly natural gas as fuel.
 - (4) **DPF *2 muffler option**
A ceramic filter built into the muffler traps graphite. The soot is burned by an external power heater.
 - (5) **Longer maintenance interval**
- #### 2. Greater safety and improved riding comfort
- (1) **Handling/travel interlock provided as standard**
 - (2) **Less vibration and noise**
Power line full-floating technology of the kind widely used in passenger cars makes for improved riding comfort.
 - (3) **Suspension seat equipped as standard**
 - (4) **Equipped with large steps**



Forklift

Manufacturing stage

1. Environment-friendly materials

Introduction of coating materials containing no heavy metals (lead, hexavalent chrome, cadmium).

2. Zero emissions

General Machinery & Special Vehicle Headquarters manufacturing forklifts achieved "zero emissions" of waste for landfill in November 2004.

3. ISO14001 certified plant production processes

4. Energy conservation through fewer man-hours

- (1) **Less welding**
- (2) **Promotion of sub-assembly systems**
Sub-assembly is a way of assembling in which parts are pre-assembled to modules and then finally assembled on the line, as a way of enhancing work efficiency and saving energy.

Usage stage

1. Energy conservation with low fuel-consuming engines

- (1) Diesel engines
- (2) Electronically controlled gasoline engines

2. The industry's cleanest level exhaust

- (1) **Diesel engines conforming to stage II exhaust gas standards**
Thorough pursuit of less toxic substances contained in diesel engine exhausts and lower noise. MHI's proven diesel engines have further approached maturity, clearing stage II of exhaust gas standards in many countries around the world.
- (2) **Electronically controlled gasoline engines**
Equipped with a three-way catalyst muffler. In addition to cleaner exhaust than ever before in any conventional forklift, higher power and torque have been achieved. Emissions of CO, HC and NOx have been cut by 90% or more from MHI's earlier levels.

3. Less frequent maintenance and reduced regular replacement

- (1) Prolonged interval of oil replacement
- (2) Longer greasing interval

Green Procurement/Purchasing

MHI partially launched green purchasing – buying products and raw materials by selecting those with lower burden on the environment. MHI is forging a material management system that numerically controls chemical substances contained in products or raw materials, as an important way to achieve environment-friendly production.

MHI is also making efforts to increase green purchasing for office supplies used at MHI and its subsidiaries in accordance with the Basic Policy on Green Purchasing (established in March 2002). In fiscal 2004 the company developed a system to identify and check the green purchase rate*3 of individual works and departments. Making use of the system, we will strive to further increase the company's green purchase rate.

*1 CNG forklift

Use of compressed natural gas (CNG) as fuel is very economic and safe and ensures clean exhaust emissions.

*2 DPF

Diesel particulate filter

*3 Green purchase rate

Performance in April 2005 was 92.8%.



Environmental Management System of MHI Group

MHI decided to require each subsidiary to develop its own environmental management system, aimed at establishing a general environmental management system for the whole MHI group. Individual group companies have already promoted specific activities at related MHI works in accordance with their specific environmental burden. Taking those conditions into account, it was decided to establish MHI's original standards, in addition to ISO 14001, to facilitate their achievement of environmental management.

Following domestic subsidiaries, those abroad launched efforts to introduce their own environmental management system, including ISO 14001, in fiscal 2004.

Environmental Management System

Establishing M-EMS (original environmental management system requirements)

To encourage subsidiaries to introduce an environmental management system, MHI prepared two original environmental standards. One is M-EMS conforming to ISO 14001, and the other is M-EMS EcoAction, a version that conforms to EcoAction 21. With these standards, MHI supported 103 domestic companies in obtaining environmental accreditation. The standards are controlled by MHI's Environment Section as secretariat and 14 chief auditors and 9 auditors (qualified auditors trained at external institutes). Each subsidiary creat-

ed environmental policies and selected related environmental aspects in accordance with the requirements of the standard. They prepared and organized documentation and conducted environmental training programs for all employees. Through these active efforts, 90 percent of domestic subsidiaries have now undergone auditing or are ready for auditing.

Going forward, the MHI group will make concerted efforts to implement the environmental management standards by precisely identifying environmental management problems, discussing solutions, and promoting PDCA cycle-based EMS activities.

ISO 14001 accreditation of MHI works and group companies (A blank "Standard" box indicates that the company has obtained ISO14001.)

MHI site or company name	Date of issue (or registration)	Standard	MHI site or company name	Date of issue (or registration)	Standard	MHI site or company name	Date of issue (or registration)	Standard
Yokohama Dockyard & Machinery Works	97/10/31		Hiroshima Ryoju Estate Co., Ltd.	05/04/09		Engineering Development Co., Ltd.	05/03/24	*2
Nagasaki Shipyard & Machinery Works	98/05/22		Shimonoseki Ryoju Estate Co., Ltd.	05/03/14		Nuclear Power Training Center, Ltd.	05/03/24	*2
Takasago Machinery Works	98/06/26		Ryoju Coldchain Co., Ltd.	05/04/23		Kobe Ryohkoh Service Co., Ltd.	05/03/24	*2
Air-Conditioning & Refrigeration Systems Headquarters	98/11/20		MHI Environment Engineering Co., Ltd., Head Office	05/04/07		Ryojin Co., Ltd., Kobe Branch	05/03/24	*2
General Machinery & Special Vehicle Headquarters	99/05/21		Tamachi Bldg Co., Ltd.	05/03/25		Nuclear Development Corporation	05/05/30	*3
Paper & Printing Machinery Division	99/09/03		MHI Food & Packaging Machinery Co., Ltd.	05/03/17		Daiya Building Service Co., Ltd.	05/04/21	*3
Plant and Transportation Systems Engineering & Construction Center (Mihara)	99/09/03		Socio Diamond Systems Co., Ltd.	04/10/08	*1	MHI Erection Co., Ltd.	05/05/16	*4
Hiroshima Machinery Works	99/09/30		Ryojin Co., Ltd., Nagoya Branch	04/10/22	*1	Ryojin Co., Ltd., Tokyo Solution Center	05/04/26	*4
Shimonoseki Shipyard & Machinery Works	99/11/24		MHI Aerospace Production Technologies, Ltd.	04/10/22	*1	Kensa Kenkyusho Inspection Co., Ltd.	05/04/25	*4
Nagoya Guidance & Propulsion Systems Works	99/12/18		Diamond Air Service Incorporated	04/10/22	*1	MHI Air-Conditioning & Refrigeration Systems Corporation	05/05/13	*4
Kobe Shipyard & Machinery Works	00/02/18		Ryojin Co., Ltd., Shimonoseki Branch	04/11/22	*1	MHI Printing & Paper Converting Machinery Sales Co., Ltd.	05/05/12	*4
Former Industrial Machinery Division	00/04/01		Kanmon Dock Service Co., Ltd.	04/11/22	*1	Ryojin Co., Ltd., Head Office	05/04/26	*5
Machine Tool Division	00/12/28		Shimonoseki Ryo-Jyu Engineering Co., Ltd.	04/11/22	*1	MHI Marine Engineering, Ltd.	05/05/16	*5
Plant and Transportation Systems Engineering & Construction Center (Yokohama)	01/06/29		Ryojin Co., Ltd., Iwatsuka Branch	05/01/06	*1	MHI Turbo-Techno Co.	05/05/11	*5
Nagoya Aerospace Systems Works	03/10/01		MHI Industrial Machinery Co., Ltd.	05/01/06	*1	Ryosen Engineers Co., Ltd.	05/05/10	*5
Ryomei Engineering Co., Ltd.	98/08/28		MHI Plastic Technology Co., Ltd.	00/04/01	*1	Churyo Engineering Co., Ltd.	05/05/16	*5
Mitsubishi Agricultural Machinery Co., Ltd.	01/07/24		MHI Machine Tool Engineering Co., Ltd.	05/02/25	*1	MHI Sagami High-tech, Ltd.	05/05/09	*5
Nagoya Ryoju Estate Co., Ltd.	02/03/14		Ryojin Co., Ltd., Kyoto Branch	05/02/25	*1	Mihara Ryoju Engineering Co., Ltd.	05/04/20	*5
Nishinohon Ryoju Estate Co., Ltd.	03/05/14		MHI Diesel Service Co., Ltd.	05/05/12	*1	Hiroshima Dia System Co., Ltd.	05/05/11	*5
MHI Environment Engineering Co., Ltd., Yokohama Branch	04/04/12		Nuclear Plant Service Engineering Co., Ltd.	05/05/12	*1	Shunjusha Ltd.	05/04/26	*5
Ryojin Co., Ltd., Biwajima Branch	04/07/22		Sinryo Thermal Power Plant Service Engineering Co., Ltd.	05/05/12	*1	Ryoju Transportation Equipment Engineering & Service Co., Ltd.	05/05/12	*5
Ryojin Co., Ltd., Mihara Branch	04/08/03		Sanshin-Tec. Ltd.	05/05/12	*1	Ryojin Co., Ltd., Sagamihara Branch	05/04/25	*5
Mihara Ryoju Machinery Works Co., Ltd.	05/02/16		MHI Tunneling & Foundation Machinery Engineering Co., Ltd.	05/05/12	*1	Ryojin Co., Ltd., Minatomirai Branch	05/05/16	*5
Ryowa Engineering Co., Ltd.	05/02/17		MHI Aero Engine Service Co., Ltd.	05/04/11	*1			
Kusakabe Co., Ltd.	05/03/24		MHI Logitech Company Limited	05/04/11	*1	Mitsubishi Power Systems, Inc. Orlando Service Center	04/02/08	
Tokiwa Machinery Works Ltd.	05/05/18		Kinki Ryoju Estate Co., Ltd.	05/02/23	*2	MHI Equipment Europe B.V.	01/11/09	
Dia Precision Casting Co., Ltd.	05/05/11		Seiryu Engineering Co., Ltd.	04/12/24	*2	Mitsubishi Caterpillar Forklift Europe B.V.	02/07/25	
Kantou Ryoju Estate Co., Ltd.	05/03/17		Shinryo High Technologies, Ltd.	05/02/23	*2	MHI-Haier (Qingdao) Air-Conditioners Co., Ltd.(MHAQ)	98/12/14	
Higashi Chugoku Ryoju Estate Co., Ltd.	05/03/29		MHI Environment Engineering Co., Ltd., Kobe Branch	05/03/24	*2	MHI Climate Control Inc.	03/06/12	

*1 Integrated into the ISO certification of an MHI works

*2 Environmental Management System promoted by Kobe City

*3 EcoAction 21 promoted by the Ministry of the Environment

*4 Original standard conforming to ISO14001 (M-EMS)

*5 Original standard conforming to EcoAction 21 (M-EMS EcoAction version)

Commitment to Our Customers

With a creed that “we strongly believe that the customer comes first and that we are obligated to be an innovative partner to society,” MHI carries out company-wide activities to enhance customer satisfaction (CS). We believe “to provide products and services that reward the trust that customers place in us” and “to develop a customer-oriented corporate culture” are the primary challenges to ensure our survival in the 21st century.

Promoting CS Activities to Develop a Customer-Oriented Corporate Culture

Recognizing that we may have been deficient in listening to the customers' voices in the past, today we promote CS activities aimed at developing a customer-oriented corporate culture.

The CS Promotion Office Department under the Presidential Administration Office is engaged in coordination of company-wide policies, support to departments, training for raising CS awareness, and other activities. Through their own CS improvement activity secretariats, the various works and headquarters always seek to hear the customer's views through questionnaires or bulletin boards on our website.

CS Forum

At MHI, a grass-roots approach is used to carry out CS activities. Teams are formed for specific products or organizational units. There are 3,000 teams covering roughly 4,000 subjects. A forum is held once a year where selected teams present their experiences or benefits of the achievements they have made, so

that successful performance penetrates throughout the company. The 3rd CS Forum held in December 2004 gathered 250 participants, including the President, and presented 16 successful cases.

Company-wide CS Liaison Meeting

The CS improvement activity secretariats at the headquarters and works convene at a Company-wide CS Liaison Meeting every two months to exchange information about their CS efforts. Through these meetings, they try to actively introduce others' successful activities such as benchmarking and CS action plans.

Education for Raising CS Awareness

To ensure a customer-oriented corporate culture, it is indispensable to raise CS awareness among employees. MHI provides a variety of educational opportunities including CS basic training, management quality training and CS lectures.

Speedy Service for Urgent Recovery Work on Gas Holder *1

An explosion occurred in a gas holder at the Nagoya Works of Nippon Steel Corporation on September 3, 2003. The gas holder had been delivered by MHI to Nippon Steel in 1963. MHI's Yokohama Dockyard & Machinery Works, which is in charge of production of gas holders, rushed to the scene of the accident immediately to identify and investigate where the accident occurred, what was damaged, and what had actually happened. The customer made two specific requests at the time: “extremely swift delivery” and “absolute safety.” MHI organized a company-wide team to exercise a mission designed to achieve safe recovery of the customer's facilities as soon as possible while minimizing possible effects on end users. We carried out safety verification with the customer to ensure all possible safety measures. Under the circumstances, we shortened the construction period as far as possible in individual stages including design, procurement, manufacturing and installation.

We made an all-out effort to design and manufacture the gas holder

by calling all possible forces from individual MHI departments, even including retired personnel, although we have installed only one new gas holder in the past ten years. In the design stage, it was proposed to use a standard design in order to shorten the lead time. In the procurement stage, steel was supplied by the customer in a short time and also by another MHI plant. In the construction stage, an early-morning meeting was held every day in spite of the severe winter season, in order to ensure quick decisions. The construction work was carried out in two shifts, day and night.

As a result, the total construction period was shortened to one-third of the regular time and the work was accomplished with no accidents.



*1 Gas holder

A storage tank for holding surplus gas generated in a steel plant, to be used as fuel



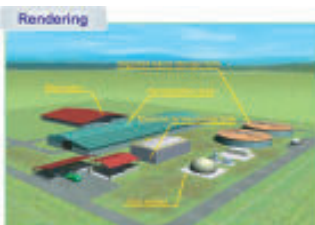
Proposing Total Solutions in Technology, Services and Consulting

MHI has pursued the development of various biomass ^{*1} energy technologies. A biomass gasification power generation system is planned to be put into operation at Koiwai Farm, Ltd. in Shizukuishi, Iwate Prefecture, in 2006. This is the first attempt in the private sector in Japan to implement a "combined biomass power generation project" that uses a combination of residue from a food-processing plant and livestock excreta to produce methane gas for power generation.

The demands or requirements of the customer (Koiwai Farm) and local communities (Shizukuishi, Iwate Prefecture, Ministry of Agriculture, Forestry and Fisheries) necessitated conforming to the Law on Livestock Excreta Management and Recycling, fulfilling the management philosophy of a recycling farm, and meeting expectations of a model project that combines environmental and energy issues and revitalization of communities. Responding to these requirements, MHI proposed a total solution from the perspectives of technology, services and consulting.

The proposal included, from the technology perspective, the use of a combination of diverse biomass technologies (methane fermentation, composting and biomass power generation); from the service perspective, providing subsidies to biomass projects and other financial support programs; and from the consulting

perspective, the implementation of a new energy recycling farm and a project scheme as a potential model of community revitalization. The proposal solved the problem, meeting the customer's demands.



Speedy Customer Service by Information Technology

MHI's General Machinery & Special Vehicle Headquarters manufactures engines, forklifts, turbo equipment and other products. It is important not only for these products to ensure performance and quality but also for MHI to provide speedy after-service. For those reasons, a computer-based information sharing system was established to bring together diverse information, ensuring speedy customer services.

Creating an Engine Trouble Database

MHI annually produces about 50,000 engines of 3 to 3,800 kW capacity for use in vehicles, generators or ships. These engines are purchased by a wide range of customers, including vehicle, ship and generator users. It is

essential to quickly respond to customers who experience trouble with the product. To achieve customer satisfaction, it is important that distributors – Mitsubishi Heavy Industries Engines & Equipment, Ltd., for example – act properly since MHI engines are sold to customers through them. With the idea of "improving CS through exact, quick responses to customers," MHI conducted an after-service improvement campaign with the keywords of "quick" and "information sharing" in mind.

Trouble and remedy information used to be transmitted from distributors to MHI via e-mail or on paper (fax or mail). This way of information transmission did not allow MHI to see the progress of remedy, and MHI was sometimes prodded by the customer to remedy the difficulty right away. The system also made it difficult for distributors and MHI to share or search for trouble-related information. It was then decided to create an engine trouble database for distributors and MHI and to disclose the trouble and remedy information to all distributors and related departments of MHI. The creation of this database resulted in drastic labor saving in documentation, particularly in terms of technical documents, easier searching for information, and visualizing progress in troubleshooting. The database now allows MHI to provide quicker troubleshooting.

Utilizing Service Tools in Forklifts

MHI manufactures forklifts, which are important equipment for physical distribution, in Japan, the United States and Europe. More than 400 thousand MHI forklifts are used around the world. Under the circumstances, it is very important to provide after-service throughout the world. MHI has conventionally held Worldwide Service Meetings three times a year to directly discuss with key personnel from the overseas production sites, in an effort to improve after-service around the world.

However, now another problem has arisen. More and more time has come to be needed to identify specific trouble as technology has become increasingly sophisticated and complicated. In response, MHI has developed a special tool ^{*2} for troubleshooting, diagnosis and recovery in order to provide speedy response immediately after the occurrence of any trouble. This tool is designed to be used in combination with a commercially available laptop computer or personal digital assistant (PDA) and MHI's original software program. The tool enables MHI to identify exactly where



the trouble occurred, carry out preventive maintenance, and provide uniform services. Using the tool, MHI provides speedy, high-quality services to customers around the world.

^{*1} Biomass

See page 21.

^{*2} Tool

The tool can be connected to a faulty forklift to collect data, explore the trouble site, and display trouble history information, thereby enabling quick troubleshooting.

Commitment to Our Employees

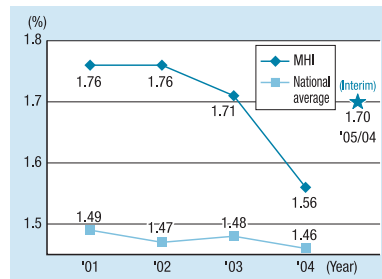
MHI believes that human resources are a company's most important asset and that the growth of each employee enhances the total capability of the company. Based on this belief, the Personnel Department is delegated the role of helping individual staff members improve themselves and make them feel fulfilled. Specifically, MHI's human resources development policy is to assist each employee to improve his or her performance and move toward self-realization. The pay system is being shifted to a performance-oriented scheme. A target management system and active dialogue are promoted. Re-employment of retired employees and a balance between work and family life are supported. Through these activities, we are striving to form a corporate culture that enables employees to make the most of their capabilities and individual strengths.

Addressing the Diversity Issue

Creating More Job Opportunities for the Handicapped

MHI has conventionally made significant efforts to create more job opportunities for handicapped persons through an in-house Committee for the Promotion of Employment of Disabled People. A legal reform in April 2004 cut the deduction rate^{*1} by 10%, which led to a drop in the employment rate of the handicapped at MHI to 1.56% as of June 1, 2004. MHI then carried out an active effort to promote employment of the handicapped inside and outside of the company. As a result, the employment rate of the handicapped rose to

Employment rate of the handicapped by year



1.70% in April 2005. From now on, we will further actively strive to achieve the legal employment rate of 1.80%.



Under a motto of "mano a mano" – a Spanish phrase that means "hand in hand" – MHI actively conducts public relations to disseminate information about the company's attitude toward the employment of handicapped persons through the company website, recruiting magazines and other media.

Supporting a Balance between Work and Family Life

MHI helps all employees, of both genders, to achieve a proper balance between their work and family life. A balance support scheme has been developed that enables employees to: [1] work flextime during child-raising until their child reaches the third grade of elementary school at maximum, and [2] take a leave or work flextime in order to provide elderly care, for up to one year in total. Both systems exceed the legal requirements. The Ministry of Health, Labour and Welfare requires companies to prepare a "Private Sector Employer Action Plan"^{*2} for next-generation education and support promotion. MHI is now pursuing the preparation of a plan with the aim of obtaining certification.

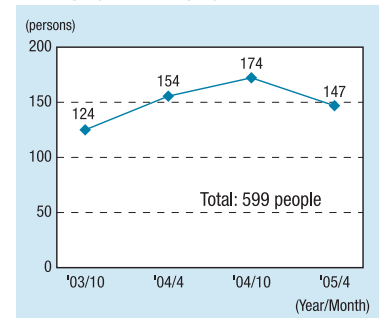
Work and family life balance support performance

Child care leave or flextime work			Elderly care leave or flextime work		
(Performance in FY 2004)	Men	Women	(Performance in FY 2004)	Men	Women
Child care leave	1	100	Elderly care leave	8	2
Child care flextime	0	70	Elderly care flextime	2	2

Re-Employment of Retired Employees

MHI launched a re-employment program in October 2003 to provide retired employees aged up to 62 with an opportunity to return to their workplace. MHI and affiliated companies have re-employed about 600 senior ex-employees since the start of the program. They have actively worked as veteran engineers to pass on their high-level skills and expertise to younger employees. There is also a plan to raise the mandatory retirement age to 65 in stages after October 2005. The re-employment program will be reviewed for improvement by taking into account the revision of the Law on Employment Stability for the Elderly.

Re-employed ex-employees



Supporting Employees to Improve Abilities and Achieve Self-Actualization

New employees are required to participate in an on-the-job training (OJT) program immediately after they join the company. Starting with that program, MHI provides employees with opportunities to take many different educational or training programs prepared for different functions or skill levels. In this way we pursue ongoing development of human resources. As business methods diversify from, for example, the simple export of products to the implementation of internationally coordinated projects and overseas production schemes, we help employees to improve their communication skills through foreign language training programs or overseas studying, so that they can actively work in the international business scene.

*1 Deduction rate

Corrected deduction rate specified for each of the job categories in which handicapped people usually find it difficult to get a job.

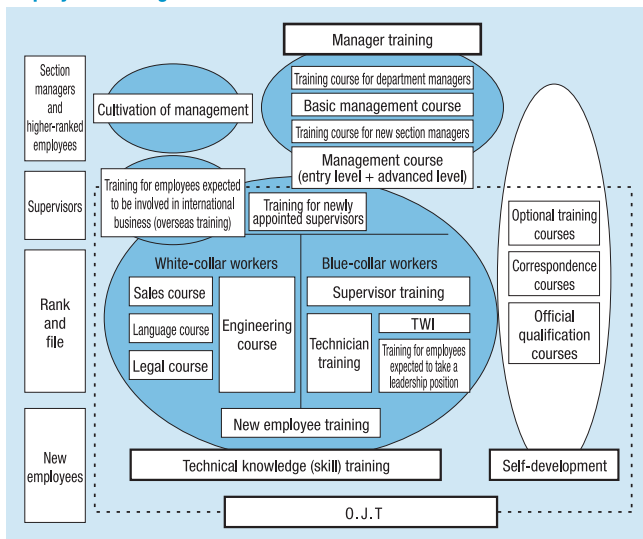
*2 Action Plan

MHI's specific efforts:

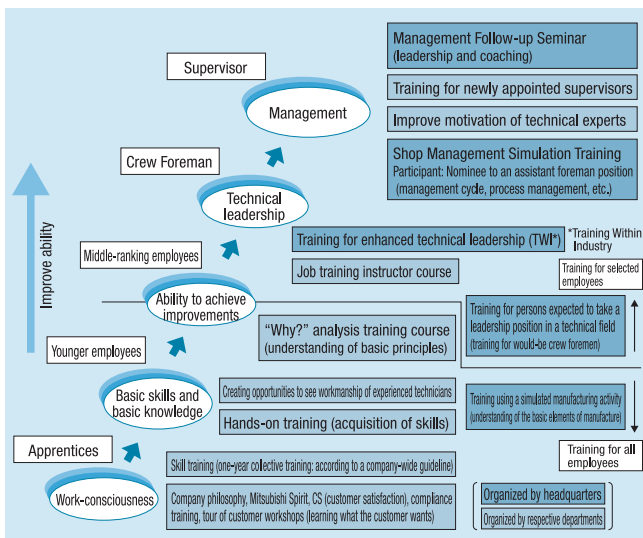
- To transmit information for raising awareness
- To increase the number of employees who take a child care leave
- To develop a workplace environment that helps employees obtain a proper balance between work and family life



Employee training scheme



Education scheme for blue-collar workers



Long-term Cultivation of Engineers and Technicians

We believe that engineering prowess, workmanship in manufacturing and reliable products cannot be obtained without extensive knowledge and expertise accumulated by employees over a long time. With this in mind, we provide systematic, precise education and training programs for engineers and technicians.



Engineer training (lectures on "product making")

Effort to Support Female Employees to Improve and Make Full Use of Their Abilities

To create an environment that helps female employees make full use of their abilities and vitalize the workplace, MHI holds "Career Improvement Seminars for Female Employees."

In-house Recruiting System

An in-house recruiting system was introduced in 1992. Major offerings include entry into business sectors that are new to or hitherto not experienced by would-be recruits, participation in national projects, and personnel reinforcement to segments expected to expand. Applications are taken on a quarterly basis. Seven offerings were made and 10 employees moved to another position during fiscal 2004.

Creating Vigorous Corporate Culture

Modification of Organizational Structure for Blue-collar Workers

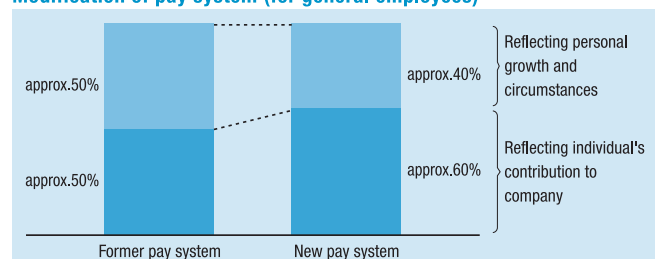
The source of MHI's competitive edge is front-line workers with stable capability to make products. To restore such capability, the organizational structure for blue-collar workers has been partly modified so that individuals can make full use of their abilities in their own positions. For example, the line of command has been made clearer than before.

Modification of Pay System and Performance Appraisal Review System

The traditional pay system has been modified by enlarging the portion that reflects an individual's contribution to the company in terms of duty and/or role. Still, the periodical increment portion remains, as it reflects long-term personal growth brought by honing one's skills. This is based on MHI's belief that it is essential to improve an individual's skills over the long term.

The performance appraisal review (PAR) system has also been revised along with the modification of the pay system. The new PAR system takes into account overall performance and contribution to the company. Individual employees will be evaluated under the new system for not only their achievements but also their work and attitude toward their job. The Achievement Appraisal Standard, which is used for evaluating an employee's achievements and contribution to the company, is available on the Intranet so that all employees can access the information any time.

Modification of pay system (for general employees)



Commitment to Our Employees

Promoting Target Management and Encouraging Dialogue

The white-collar sector has introduced a Target Management System that requires employees to set their own job targets at the beginning of each term (every six months). To what extent the targets have been achieved is appraised at the end of each term. The individual's targets must be challenging and linked to the operational targets of the department they work in. Target setting and achievement appraisal are jointly performed by the employee and his/her supervisor. Both sides are encouraged to engage in dialogue concerning the appropriateness of the targets, what is good and what should be improved. Through dialogue, supervisors strive to raise the motivation of their subordinates, to give them incentives, and to induce them to make full use of their abilities.

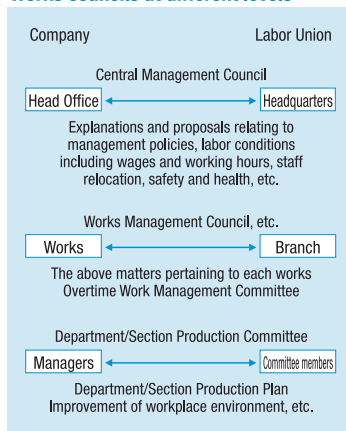
In the blue-collar sector, a program of dialogue using "communication sheets" is being launched in fiscal 2005. The program is intended to further strengthen the management organization and seek solidarity among blue-collar employees.



Building Mutual Understanding and Trust between Labor and Management

MHI believes it is very important to maintain communications between employees and management in the performance of business operations. Making use of the Intranet and our in-house magazines, we make every effort to disseminate information and messages from top management to all employees as swiftly as possible. Labor-management consultations are utilized to convey management policies and strategies and to integrate the views of labor unions into management policies. These consultations cover an extensive range of topics and are

Works councils at different levels



held in many works councils that have been set up at different levels, such as between the Head Office and the headquarters of a labor union or between local works or workplaces and union branches. Through such consultations, we strive to build mutual understanding and trust between labor and management.

Creating a Better Workplace for Employees

Last year, MHI, in collaboration with the labor unions, conducted a questionnaire survey to identify the degree of employee satisfaction (ES).

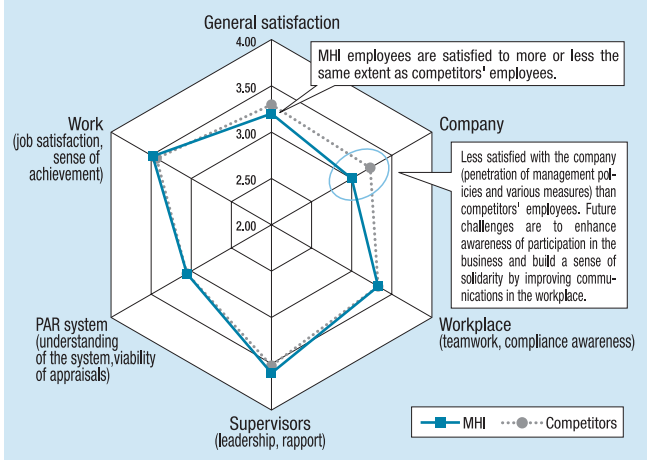
The survey covered five topics:

- (1) Company (penetration of management policies and various measures)
- (2) Workplace (teamwork, compliance awareness)
- (3) Supervisors (leadership, rapport)
- (4) PAR system (understanding of the system, viability of appraisals)
- (5) Work (job satisfaction, sense of achievement)

Through the survey, the degree of satisfaction of employees was identified for each of these five categories. The results were disclosed to employees and serve as base material to create a work environment where employees can work even more actively.

Results of survey on employee satisfaction

The figure below shows the degree of satisfaction in five categories (company, workplace, supervisors, PAR system and work) and the average points of "general satisfaction" (figures over 3.5 when rated on a scale of 1 to 5 represent relatively good result).





Working toward Improved Worker Health and Safety

At MHI, observing health and safety related regulations, the management and employees make unified efforts according to basic guidelines on employee health and safety, which are based on the following three principles: 1) “Consistently devote yourself to the spirit of holding life sacred and execute safety-first practices as deemed necessary in your place or circumstances”; 2) “Contribute to the development of the community by turning out good products while making an all-out effort to ensure safety”; and 3) “Be aware that health is the basis of everything, and make continued efforts and act creatively to build a sound body and create a comfortable workplace.”

On-the-Job Accidents and Preventive Measures

Toward Fewer On-the-Job Accidents and Injuries

We introduced an occupational health and safety management system throughout the company, under which individual operation centers carry out activities to sort out the causes of work-site accidents or injuries, including near-accidents, and to implement corrective action. Efforts are being made to cut back on the incidence of accidents and injuries by encouraging individual staff members to: 1) systematically promote health and safety management as seen fit in his or her position or circumstances, 2) take appropriate corrective measures and evaluate their results, and 3) eliminate accident-causing factors. We also carry out our responsibility to our employees and the local community by replacing or refurbishing aging manufacturing facilities so that occurrences of major accidents are prevented.



Safety education and training class

Incidence of on-the-job injuries and deaths

(year)	'00	'01	'02	'03	'04
Deaths	3	4	0	0	4
Injuries	89	79	84	94	92

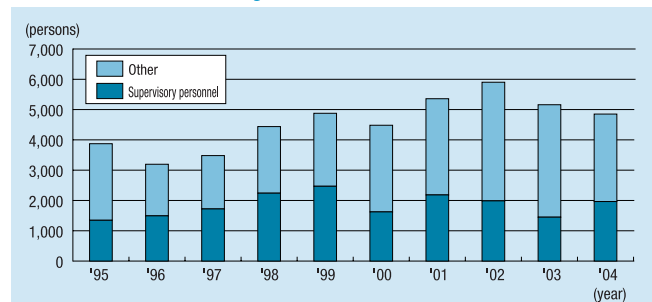
Figures represent the total number of injuries and deaths sustained by employees of MHI and its subsidiaries, subcontracted employees working on MHI premises or on site, and temporary MHI transferees.

Employee Health Management Program

MHI vigorously aids its employees in maintaining their physical and mental health. Health management systems have been formed at the various operation centers. Here, medical examinations and other tests for employees are provided using six company-run hospitals, and health guidance courses, both physical and mental, based on the results of the health checkups are provided to ensure that employees stay in shape. Various programs and events are also devised to promote the good health of employees and educate them in avoiding sickness or injuries.

In addition, we drew up “Guidelines for a Comfortable Workplace” to improve the workplace environment, and are endeavoring to maintain and improve our working environment and work procedures as well as our support systems (locker rooms, washrooms, etc.)

Attendants of mental health guidance courses



HIV/AIDS Policy and Program

We address these problems using as a basis the “Guideline Relating to Workplace AIDS Problems” issued by the Labor Ministry and other references. Rules are set to ensure that employees are not tested for HIV infection or discriminated against in promotion or employment on the grounds of infection.

Commitment to Our Shareholders

We build a relationship of trust with our shareholders by disclosing information and maintaining communications. We also increase opportunities for our shareholders to engage in dialogue with us, to forge relationships of trust between us.

Building Relationships of Trust with Our Shareholders

MHI has a mission to improve four types of corporate value: shareholder, customer, employee, and social values. To improve shareholder value, we have made effort to stabilize and enhance our business performance in order to build a relationship of trust with our shareholders. In addition, we have also worked on the improvement of information transmission and disclosure. During fiscal 2004, we revamped our shareholder newsletter ("To Shareholders") to have richer content so as to deepen their understanding of the company. A questionnaire survey was also conducted to identify the needs of our shareholders. Furthermore, we invited them to a plant tour for the first time.

Plant Tour by Shareholders

For the very first time, we invited our shareholders on a plant tour in March 2005. The shareholders who participated in the tour visited the Yokohama Dockyard & Machinery Works (Honmoku and Kanazawa Plants) and the Mitsubishi Minatomirai Industrial Museum. A total of 40 pairs, i.e., 80 people, were chosen under a lottery system from among 916 entries (1,489 people) across Japan, as only a limited number of participants could be accommodated to take part in the tour. At the Yokohama Dockyard & Machinery Works, which mainly manufactures bridges and gas engines and repairs ships, the participants made a tour of the plant, attended the showing of a video movie, and read explanations on display panels. We received constructive opinions and questions from the participants regarding the products before them. We gave an explanation about the environmental measures taken by the Yokohama Dockyard & Machinery Works that enabled it to become the first among MHI's works to achieve zero waste emissions.

After the tour, we asked the participants to respond to a questionnaire. Among the respondents, many said like "it was good to take part in the tour," "I have learned very much about MHI's products," or "I hope this tour will be held often in the future too."

We intend to continue holding such plant tours that help our

shareholders understand what we do and contribute to the forging of a relationship of trust with them, although we need to rearrange the timing and target plants of the tour over and over again. We will also plan for shareholder conferences and explanatory meetings to increase opportunities for shareholders to engage in dialogues with us.



Participants in the plant tour

Dividends

Accounting Period	Dividend per share
Profit Dividend FY 2000	4 JPY
Interim Dividend FY 2001	2 JPY
Profit Dividend FY 2001	2 JPY
Interim Dividend FY 2002	3 JPY
Profit Dividend FY 2002	3 JPY
Interim Dividend FY 2003	3 JPY
Profit Dividend FY 2003	3 JPY
Interim Dividend FY 2004	0 JPY
Profit Dividend FY 2004	4 JPY

Results of Shareholder Questionnaire

For the purpose of ensuring a close dialogue with our shareholders, we intend to actively plan and implement diverse measures. Toward that end, a questionnaire was conducted to directly gather our shareholders' opinions so as to incorporate them into future measures.



Outline of Questionnaire

Those polled: All shareholders as of the end of September 2004 (331,449 people)

Delivery: Enclose business reply mail with a questionnaire on the back in the mail of "To Shareholders (Interim Report FY 2004)"

Collection: 30,063 replies (about 10% of the total number of shareholders)

Analysis of Questionnaire Responses

Over 80% of the respondents were in their 60's or older and over 50% have held MHI stock for more than 10 years. In general, many of them are long-time shareholders.

When asked the reason for shareholding, many respondents selected "business operations," "management vision," or "dividends." These responses indicated that our shareholders embrace high expectations toward MHI.

When asked what information is useful for them, many selected "financial status" and "management vision." As to IR activity, most requested "better publications" and "invitations to plant tours."

To the question about the MHI website, which is expected to be a major information transmission mode in the future,

nearly 60% of the respondents said they rarely access the website or have not accessed it at all.

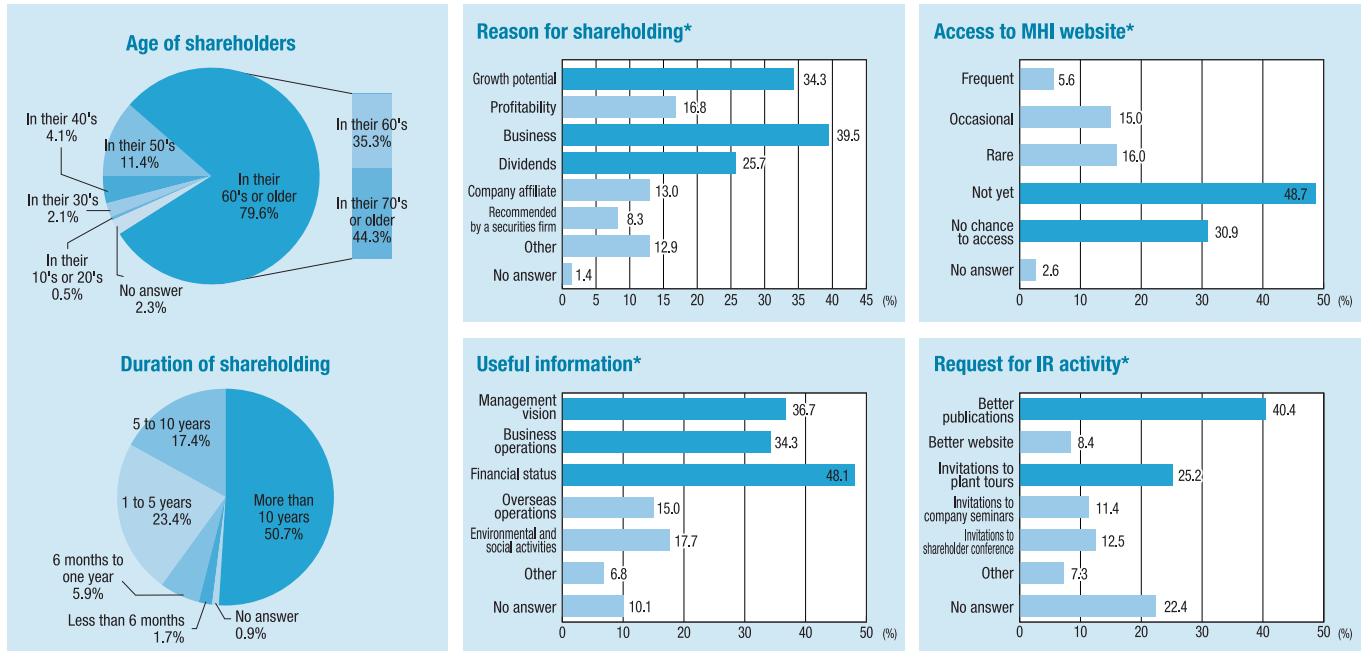
Future Efforts Based on Questionnaire Responses

From the questionnaire responses, we have reconfirmed the necessity to further improve information disclosure to meet shareholders' expectations.

Specifically, the shareholder news "To Shareholders," which is published twice a year, will be expanded in content. PR of the MHI website will also be promoted to let more shareholders know the existence of the site. The website itself will be improved to provide easy-to-read and -understand information. The request for "invitations to plant tours" is under consideration in the direction of continuing in the future too. In the comment box in the questionnaire, many respondents offered valuable opinions about, for example, management, dividends and the share price. Taking the shareholders' opinions seriously, we are committed to reflect them in our future management.

We will continue to conduct questionnaires like this to directly receive our shareholders' opinions.

Questionnaire responses from shareholders



* Select all that apply.

Communication with Society

MHI is involved with a variety of local communities around the world. These communities are locations of MHI business activities or product delivery destinations. While improving harmony between the global environment and economic activities, MHI makes every effort to achieve a high level of communication in order to nurture a relationship of trust with these communities.

“MHI, a Premier Global Organization” in Touch with Local Communities

Contribution to Society Through Business Activities

Our basic philosophy is shown in our creed - “We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society.” We will continue contributing to society as a global corporation through the delivery of safe, excellent products and services brought about by our technology and human resources.

Emphasizing Trust-based Relationships with Local Communities

Our regional offices and works have continuously implemented philanthropic activities compatible with the characteristics of the local community of which they are a member. It is our belief that strengthening the relationships with local communities puts us on a sounder basis. We will continue to conduct activities that contribute to communities and nurture their trust in us.

Our Spending on Philanthropic Activities

MHI endorses the purpose of the “1% (One Percent) Club” conducted by Keidanren (Japan Federation of Economic Organizations)*1. As a member of the club since its foundation, we report our philanthropic expenditure every year.

By-field expenditure

(In million yen)

year	2001	2002	2003
Academic research	293	278	269
Education	199	476	490
Local community	131	133	120
Sports	108	123	118
Other	330	244	239
Total	1,061	1,254	1,236
Ratio to our operating profit	1.78%	1.92%	16.37%

Note: • The figures include, in addition to cash donations, payments in kind, activities by employees, free use of our facilities, etc., which are translated into monetary equivalents. However, they do not include private activities of employees.
• 2004 figures in preparation

Mitsubishi Minatomirai Industrial Museum



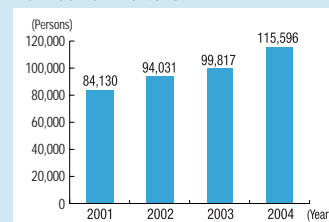
The Mitsubishi Minatomirai Industrial Museum was founded in June 1994 with the hope of becoming a place where young people who are to shoulder the future can entertain dreams through experiencing science and technology firsthand.

The museum is divided into six display zones: “Environment,” “Space,” “Ocean,” “Construction,” “Energy,” and “Technologies All Around Us.” Exhibits are in the form of the real thing or models, panels, video images, attractions, and so on. All of these comprehensively explain various products and technologies that support our everyday lives.

2004 marked the 10th anniversary of the museum, ushering in renovations to the Space Zone, the lowering of entrance fees, and the addition of high schools to the free-of-charge field trips previ-

ously offered to elementary and junior high schools only. For the first time since its foundation, the museum welcomed over 100,000 visitors in a single year. Elementary, junior high and high school students accounted for approximately 60 percent of the visitors.

Number of visitors



Mitsubishi Minatomirai Industrial Museum

Mitsubishi Juko Yokohama Bldg.,
3-1, Minatomirai 3-chome, Nishi-ku, Yokohama
Postal Code: 220-8401
Phone: 81-45-224-9031
<http://www.mhi.co.jp/museum/>

*1 Keidanren 1% Club

The Keidanren (Japan Federation of Economic Organization) 1% Club is an organization comprised of corporate members donating at least 1% of their current profits and individual members donating at least 1% of their disposable income for social contributions. The 1% Club inclusive of corporate members was formally established in November 1990.



Representative Social Contribution Activities at Head Office and Works

Boys' and Girls' Dodgeball Tournaments

General Machinery & Special Vehicle Headquarters

The General Machinery & Special Vehicle Headquarters holds two dodgeball tournaments on plant grounds every year for the children of the local community. Over 1,000 children participate in each tournament, enjoying exciting games.



Public Open to Nagoya Aerospace Systems Works Museum

Nagoya Aerospace Systems Works

To convey changes in aircraft technology and aviation culture to future generations, the Nagoya Aerospace Systems Works opened a Museum in 1990, allowing free-of-charge entry to the general public from 1991.



Brass Band Concerts

Nagasaki Shipyard & Machinery Works

The Nagasaki Shipyard & Machinery Works Brass Band gives mini concerts in hospitals and regular concerts to which local junior high and high school students are invited, thereby contributing to the local community through music.



Plant Area Cleanup Activities Cleaning Areas around Factories (Across Japan)

Employee of factories across the country volunteer to do cleaning activities, such as picking up litter in the area. For example, the Kobe Shipyard & Machinery Works implements cleanup activities during lunch breaks twice a year at public facilities and on the commute routes surrounding factories.



Mitsubishi Shinsen (Kobe Shipyard & Machinery Works) Summer School

The Kobe Shipyard & Machinery Works invites elementary school children and their parents during every summer holidays for an event featuring a plant tour and a hands-on scientific experiment show. Last year, the Kobe Shipyard & Machinery Works also offered a lecture on aerospace experiments with cars and explanations and demonstrations of experiment instruments for research on aquatic habitats which is currently under development for the International Space Station.



Matching Gift^{*1}

Head Office

The company donated the same amount of money that employees raised for charity, and donated spoons and forks made of shape-memory alloy incorporating MHI's technology to 45 welfare facilities in the Kanto district.



Recycled Birdhouse Contest

Hiroshima Machinery Works

As an event for Environmental Awareness Month, the Hiroshima Machinery Works holds a recycled birdhouse contest in which contestants build birdhouses using scrap wood produced at the plant. Some of the contest entries are donated to the Hiroshima Botanical Garden, where they are placed on the trees in the garden.



Shinagawa Charity Event

Head Office

The Head Office held a charity event providing nonprofit organizations and vocational training centers an opportunity and location to sell goods and to introduce their activities. During the three-day event, there were approximately 2,200 visitors.



Takasago Pictures Competition

Takasago Machinery Works

The Takasago Machinery Works holds a picture competition every August, asking for entries from elementary school children in Takasago City. Last year's competition, the 12th was held with the theme "wouldn't it be nice to have this type of machine!" and received 3,460 entries from young artists. The pictures were exhibited at the Employee Club during the summer festival as well as in local shopping centers and public transportation facilities.



Charity Musical

Head Office

Member companies of the Mitsubishi Group volunteer in working together to put on a charity musical every year. Last year, 9 member companies including MHI sponsored and invited approximately 400 children from nursing institutions to the musical "The Dragons of Blue Land."



*1 Matching Gift

A system where the company contributes a certain amount of money additionally that contributed by all its employees. MHI adds the amount equivalent to the donations collected by employees.

Communication with Society

PA Activities for Nuclear Power Generation

One of the key factors for the successful development of Nuclear Program is Public Acceptance (PA).

As a major supplier of nuclear energy systems, MHI is actively conducting PA activities to provide the public with opportunities to obtain precise knowledge on Nuclear Power Generation.

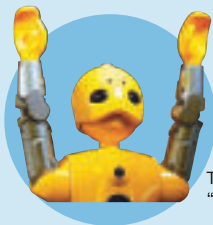
Kobe Shipyard & Machinery Works, main shop for nuclear components, is willing to accept public visitors. (Approximately 3,000 visitors per year)

Through the shop tour and presentations, visitors obtain

hands-on knowledge. They are often impressed by the state-of-the-art manufacturing technologies and develop deeper understandings on the safety of Nuclear Power Generation.



Plant tour at Kobe Shipyard & Machinery Works



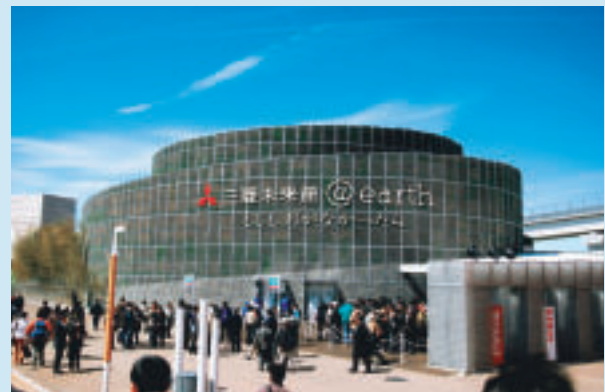
Promoting the Importance of Global Environment Sustainability at The 2005 World Exposition, Aichi, Japan

The robot attendant "wakamaru"

As a member of the Mitsubishi Group, MHI is currently presenting "Mitsubishi Pavilion @Earth – What If the Moon Didn't Exist?" based on the pavilion theme "The Wonder of our Lives on Earth – A Glimpse of the Miracle" at the 2005 World Exposition, Aichi, Japan. The pavilion provides viewers the opportunity and enjoyment of thinking about the world, its people and the future.

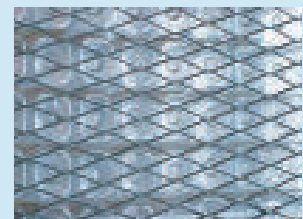
The pavilion is environmentally-friendly from construction to dismantling, in accordance with the sub-theme of the exposition: "Development for Eco-Communities." For the foundation we did not use any piling works that would adversely impact the ground. The structure is made from construction materials consisted of steel pipes and plates used for scaffoldings made of a temporary material that is recyclable and easy to disassemble. For the outer walls we used materials which accommodate to "Reuse and Recycle," such as rocks, PET bottles, china and bamboo.

The roof and outer walls are covered with grass, heightening insulation effectiveness and reducing air-conditioning energy consumption. From NATSOURCE JAPAN, we have purchased "Greenhouse Effect Gas Credit" to cover the amount of greenhouse effect gas emissions produced from the start of pavilion construction to dismantling. The money spent will be invested in greenhouse gas reduction programs in various regions around the world. One of the specific examples presented in the Mits-



bishi Pavilion introduces a project for stopping burnt field in Madagascar.

In addition to the pavilion presentation, MHI is also participating in the exposition in a variety of other ways, flexibly using its diverse technical capabilities, including provision of the first car of the superconducting linear motorcar exhibited in JR Central Pavilion. In addition, MHI participates in the "Demonstrative Project of Regional Power Grids with Various New Energies" sponsored by NEDO^{*1}, specifically in the two fields of fuel cells and photovoltaic power-generation system. In particular, the SOFC^{*2} fuel cell is one of the most eagerly anticipated technologies geared toward future practical applications.



Outer wall made of PET bottles

^{*1} NEDO
New Energy and Industrial Technology Development Organization

^{*2} SOFC
Solid Oxide Fuel Cell



Projects of Support and Assistance

MHIA 1% Club

Mitsubishi Heavy Industries America, Inc., which has developed a variety of businesses in 18 different locations in the US, including the New York Head Office, is involved in the “MHIA 1% Club.” The club contributes 1% of its group's pre-tax profits to charity activities. It also donates to or is a paid member of various cultural and art institutions and educational organizations, such as Carnegie Hall.

Natural Disaster Area Restoration Support

Many natural disasters have occurred in Japan and abroad in the recent years. MHI has been continuously offering proactive support for reconstruction from humanitarian reasons.

When the Niigata Chuetsu Earthquake occurred in October 2004, MHI provided items such as monetary donations, nonperishable foods and drinkable water. When the Major Earthquake off the Coast of Sumatra occurred in December of that same year, MHI made the decision to provide monetary donations two

days after the disaster, making contributions in a form corresponding to that requested from economic organizations such as the Keidanren (Japan Federation of Economic Organizations). (The MHI Group donated approximately 27 million yen to areas stricken by the Major Earthquake off the Coast of Sumatra.) In addition, MHI has provided various kinds of support as needed to aid other disaster areas.

Appreciation from Society

“Yokohama G30” Strategy Excellence Award

“Yokohama G30” is a movement that aims to reduce the level of garbage in the city of Yokohama by 2010 to 30% of the 2001 level. In November 2004, MHI's Yokohama Dockyard & Machinery Works received the Yokohama G30 Strategy Excellence Award from Yokohama, for two reasons. It was commended for its barcode-based system of material accountancy for each waste-generating department, and for its thoroughness in refuse recycling, which is based on 30 separation categories.

Awards received from outside the company

Award Name	Sponsor	Reason for Commendation (Product, Activity, Business Location, etc.)	Date Received
The 30 th Environmental Equipment Excellence Award (Chairman's Prize)	The Japan Society of Industrial Machinery Manufacturers (JSIM)	PCB contaminated soil purification system	June 2004
JGA Awards for Outstanding R&D, 2004	The Japan Gas Association	Development of Remote Monitoring Adaptor for Gas Heat Pumps	June 2004
The 34 th Machine Design Award (The Japan Society of Industrial Machinery Manufacturers Award)	The Nikkan Kogyo Shimbun, Ltd.	Dry Cut Gear-hobbing Machine (GE15A)	July 2004
The 24 th Individual Award for Engineering Merit Group Prize (Environmental Contribution)	Engineering Advancement Association of Japan	Combined-cycle power plant construction project (gas turbine, steam turbine) in Mexico	July 2004
2003 Ship of the Year Award Runner-up	The Society of Naval Architects of Japan	10,000-ton high-speed RORO vessels (“Himawari 5,” “Himawari 6,” “Sunflower Hakata” and “Sunflower Tokyo”)	July 2004
The Compass Industrial Award	The Marine Technology Society	Submerged equipment development and manufacture	October 2004
Chubu Region Invention Award (Invention Encouragement Prize)	Japan Institute of Invention and Innovation (JIII)	Scroll compressor	November 2004
Wastec Grand Prize 2004 (New Technology Category)	WASTEC Organizing Committee	Electrolytic denitrification system	November 2004
Wastec Grand Prize 2004 (Judging Committee Chairman's Special Prize)	WASTEC Organizing Committee	AWMT (Ash and Wastewater Mixture Treatment System)	November 2004
Kanto Region Invention Award (Invention Encouragement Prize)	Japan Institute of Invention and Innovation (JIII)	Fire-resistant tiles for boiler aqueduct of refuse incinerator	November 2004
Kanagawa Block Technology Award	The Japan Society of Mechanical Engineers, Kanagawa block	Carbonization-based wood biomass energy and material recycling system	November 2004
2004 “Yokohama G30” Strategy Excellence Award	City of Yokohama	Yokohama Dockyard and Machinery Works activity related to refuse separation, reduction and recycling	November 2004
Federation of Economic Organizations Recommended In-house Newsletter (Onsite Skill Award)	Nippon Keidanren	Yokohama Dockyard and Machinery Works' “Frontier Yokosei News”	November 2004
The Japan Institute of Energy Progress Award	The Japan Institute of Energy	Water current oxidation system	February 2005
The 34 th Japan Industrial Technology Grand Prize (Judging Committee Chairman's Special Award)	The Nikkan Kogyo Shimbun, Ltd.	Development of “Urashima” deep ocean survey vehicle with fuel cell	April 2005
The Japan Society of Mechanical Engineers Award (Technology)	The Japan Society of Mechanical Engineers	Development of “DIAMONDSTAR” large-scale high-speed newspaper offset press	April 2005

Progress toward a Sustainable Society

MHI's Activities (Society/Environment)	year	Major Events, At Home and Abroad (Society/Environment)	
		Japan	World
<p>1970 Completes Japan's first PWR power plant.</p> <p>1973 Inaugurates Environment Management Department.</p> <p>1977 Develops "Basic Guidelines for Safety & Health Management."</p> <p>1978 Sets up Meeting of Environmental Managers.</p> <p>1980 Forms Committee on Promotion of Training in the Dowo Issue.</p> <p>1987 Forms Export-Related Laws Compliance Committee.</p> <p>1989 Initiates In-House Conference on CO₂ Measures. Initiates In-House Conference on CFC Measures.</p> <p>1992 Committee on Promotion of Training in the Dowo Issue is renamed Committee for Raising Awareness of Human Rights. Forms "Committee for the Promotion of Employment of Disabled People."</p> <p>1993 Draws up voluntary plan titled "Our Approach to Environmental Problems."</p> <p>1996 Establishes "Environmental Policies," and forms Environmental Committee.</p> <p>1997 Yokohama Works becomes the first ISO14001-accredited organization among Japan's heavy-duty equipment manufacturers. Launches R410A-compatible air-conditioner. (R410A: new type of environmentally friendly cooling medium)</p> <p>1998 Develops system that thermally decomposes PCBs contained in industrial effluents.</p> <p>1999 Completes delivery of a combined-cycle power plant incorporating M701G, a gas turbine with the world's highest efficiency rating.</p> <p>2000 All manufacturing bases (13 operation centers) obtain ISO14001 certification.</p> <p>2001 Engineering Sector is awarded ISO14001. Forms "Compliance Committee."</p> <p>2002 Sets medium- to long-term environmental activity goals.</p> <p>2003 Forms "Construction Business Act Compliance Committee."</p> <p>2004 Participates in The Global Compact initiative.</p> <p>2005 Establishes "Management Board for Innovation in Nuclear Business." Introduces executive officer system. Establishes "Internal Audit Department." Establishes "Corporate Social Responsibility Center."</p>	<p>1967 Institutes "Basic Law for Environmental Pollution Control."</p> <p>1971 Establishes "Environment Agency."</p> <p>1980</p> <p>1985 Enacts "Equal Employment Opportunity Law."</p> <p>1988 Enacts "Ozone Layer Protection Law."</p> <p>1990</p> <p>1991 "Keidanren Global Environmental Charter" is established. Establishes "Child Care Leave Law." "Keidanren Charter of Corporate Behavior" is established.</p> <p>1992 Ministry of International Trade and Industry requests a Voluntary Plan on the Environment.</p> <p>1993 Institutes "Basic Environmental Law."</p> <p>1995 "Child Care Leave Law" is revamped into "Child Care and Family Care Leave Law."</p> <p>1996 "Keidanren Charter of Corporate Behavior" is revised.</p> <p>1997 "Keidanren Voluntary Action Plan on the Environment" is drawn up.</p> <p>1998 Institutes "Law Concerning the Promotion of Measures to Cope with Global Warming." Institutes "Law to Promote Specified Nonprofit Activities."</p> <p>1999 Enacts "Law of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management" (PRTR law). Institutes "Law Concerning Special Measures against Dioxins."</p> <p>2000 Introduces "The Basic Law for Establishing a Recycling-based Society." Revises "Law for the Promotion of Recycled Resources Utilization." Enacts "Construction Recycle Law." Enacts "Food Recycle Law." Institutes "Law on Promoting Green Purchasing."</p> <p>2001 Establishes Ministry of the Environment. Institutes "Law Concerning Special Measures against PCB Waste." Institutes "CFC Reclamation/Destruction Law."</p> <p>2002 Establishes "Soil Pollution Prevention Law." Ratifies "Kyoto Protocol." Nippon Keidanren revamps "Nippon Keidanren Charter of Corporate Behavior." Ministry of Economy, Trade and Industry holds first meeting of CSR Standardization Committee. Revises "Law concerning the Rational Use of Energy."</p> <p>2003 Ministry of the Environment implements a trial project for trading of greenhouse gases emissions. Strengthen emissions standards for diesel vehicles. Japan Committee for Economic Development releases 15th Corporate White Paper, entitled "Evolution of Market and Social Responsibility-Minded Business Management." Revises "Law for Disposal of Waste."</p> <p>2005 Enactment of "Personal Data Protection Law."</p>	<p>1948 Universal Declaration of Human Rights</p> <p>1972 "United Nations Conference on the Human Environment" convenes in Stockholm. Adoption of "Statement for Human Environmental Quality." "United Nations Environment Program (UNEP)" is established.</p> <p>1976 "OECD Guideline for Multinational Enterprises" is issued.</p> <p>1981 "Convention on the Elimination of All Forms of Discrimination against Women" takes effect.</p> <p>1987 International Year of Disabled Persons "Montreal Protocol on Substances that Deplete the Ozone Layer" is adopted.</p> <p>1990 "Americans with Disabilities Act" is instituted.</p> <p>1992 "United Nations Conference for the Environment and Development (Earth Summit)" convenes in Rio de Janeiro. "Rio Declaration on Environment and Development" is adopted "Agenda 21" is adopted.</p> <p>1994 "Caux Round Table - Corporate Activity Guideline" is established.</p> <p>1995 "1st Meeting of Conference of Parties to Convention on Climate Change" (COP1) convenes in Berlin.</p> <p>1996 ISO14001 is instituted. "2nd Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP2) convenes in Geneva.</p> <p>1997 "3rd Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP3) convenes in Kyoto.</p> <p>1998 "4th Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP4) convenes in Buenos Aires.</p> <p>1999 "5th Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP5) convenes in Bonn.</p> <p>2000 "6th Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP6) convenes in Hague. "United Nations' Global Compact" is instituted. "GRI Guideline Version 1" is announced.</p> <p>2001 "7th Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP7) convenes in Marrakech. ISO Council begins feasibility study on establishing international CSR standards.</p> <p>2002 "World Summit for Sustainable Development" convenes in Johannesburg. "8th Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP8) convenes in New Delhi. "GRI Guideline Version 2" is announced.</p> <p>2003 First study meeting is held to discuss treaty on safety of radioactive waste management. "9th Meeting of Conference of Parties to United Nations Framework Convention on Climate Change" (COP9) convenes in Milan.</p> <p>2004 Tenth item (on corruption prevention) added to The Global Compact. "10th Session of the Conference of Parties to United Nations Framework Convention on Climate Change (COP10)" convenes in Buenos Aires.</p> <p>2005 Kyoto Protocol goes into force.</p>	



Professor, Public Policy School, Hokkaido University
Hiroyuki Ishi

Many people seem to share the view that corporations are fundamentally corrupt. Cover-ups of product defects, bid-rigging on public work projects, false labeling on beef products scandal and unsavory business conditions revealed after a vehicle derailment-and-rollover accident... On the daily news, it is easy to find events that will convince you of such corruption.

Yet, what first surprised me when I read this "Social and Environmental Report" was MHI's declaration of its creed of responsibility toward society and the environment, its admission of cases of compliance violations, and its presentation of specific actions to be taken. I have attended internal stakeholders meetings in the past, but I have never known a case in which the discussions were publicly disclosed in detail.

Frankly speaking, the conflict that exists between "transparency" and a for-profit venture seeking maximum profits is undeniable. That is probably why bid-rigging and defect cover-ups occur repeatedly and never go away. I took this report as a renewed declaration of MHI's break from such opacity.

In the international market, however, MHI must compete with the products and prices of the countries where companies virtually ignore such social and environmental responsibilities. Looking inside Japan, we find a dwindling birthrate and aging population, and an increase in the number of people who have opted out of the labor market. Looking outside, we see a raw material / energy supply crunch and price increases, and an increasingly severe business environment. Under such conditions, CSR realization cannot be easy.

If you were to live abroad, you would strongly get the sense that Mitsubishi is perceived to be synonymous with Japan. Even though I am but one citizen of Japan, I welcome the release of such a CSR report from this leading company. At the same time, the eyes of the world will now most likely scrutinize the realization of the CSR declared in this report.



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Kanji Tanimoto

While a CSR report defines CSR incorporation policies, establishes the objectives of each division, and discloses implementation and verification results, the impression I received from this report was that MHI, without a basic CSR system fully in place, had added a bit of social information to its conventional environmental information and just placed the word "CSR" at the start of the document.

At the same time, however, I have heard that in the process of developing this report over the past two years, the persons responsible for the report have explained the importance of CSR within the company and, as a result, a Corporate Social Responsibility Center will be established at MHI in the summer of 2005. I get the sense that the development of this report brought about the opportunity to get the internal system in shape.

In the "Stakeholders Meeting" reported in the report, there were some important issues identified with regard to MHI's business activities. I would like to add a few suggestions without repeating what has already been said.

First, with regard to the Global Compact, participation will have no meaning if a vision and plan for a system of execution for both Group companies and suppliers are not disclosed on a global level. Now, top management must with keen purposefulness construct a CSR system and, for company-wide incorporation, think about the specific actions to be performed by each division.

In addition, it is also necessary not only to indicate factual relevance and regret with regard to negative information such as bid-rigging, but also the reason why policies and systems employed to date did not function, the types of criticisms received from inside and outside the company, the existence or non-existence of similar problems, and the manner in which a system designed to prevent reoccurrences will be developed.

Furthermore, more solid environmental data needs to be disclosed. Judging from the scale of each plant, disclosure of data at the site level is desirable.

I hope that MHI uses the discussions related to CSR as a jump-start to redefine management practices and reveal a vision and direction that clearly define what the company is to be in the future.



Environmental Committee
Chairman,
Executive Vice President

Hideo Egawa

We Value Your Comments

This report is our second report since we revised our prior "Environmental Report" into a "Social and Environmental Report" correlated to CSR.

In this report, we had the honor of hearing Mr. Ishi's views regarding the critical importance of corporate social responsibility and business transparency. This is truly the most important task for our business and, giving due consideration to events such as the recent bridge bidding scandal, we will continue to make every effort companywide to restore public trust. We also received specific suggestions from Mr. Tanimoto relat-

ing to such matters as future CSR promotion methods, compliance enforcement and disclosure of environmental information. Each of these suggestions is important, and we will be sure to look into them one at a time in the near future.

MHI held its first stakeholders meeting and graciously received many valuable opinions. While we continue to prioritize dialog with the community, in order to realize the well-being of the people of the world, we will faithfully proceed with productive business activities on the basis of MHI's CSR policy presented in this report.

GRI Guideline and The Global Compact Comparison Chart

In preparing this report, we referred to GRI Guideline* 2002. Starting from the year 2004, MHI has also participated in the United Nations' Global Compact initiative. The following table shows the details described in GRI Guideline 2002, the United Nations' Global Compact Principles and the relevant pages in this report.

*Global Reporting Initiative - Sustainability Reporting Guideline

This is a guideline created as a joint project between CERES (a U.S. non-profit organization) and the U.N. Environment Program (UNEP) to provide a framework for developing a "sustainability report."

GRI Guideline		Corresponding The Global Compact Principle	Relevant Page in This Report
1	Vision and Strategy		
1.1	Statement of the organization's vision and strategy regarding its contribution to sustainable development	Principle 8	3-6
2	Profile		
	Organizational Profile		
2.1	Name of reporting organization		2
2.2	Major products and/or services, including brands if appropriate		14
2.3	Operational structure of the organization.		14,33
2.4	Description of major divisions, operating companies, subsidiaries, and joint ventures		33
2.5	Countries in which the organization's operations are located		2
2.6	Nature of ownership; legal form		2
2.8	Scale of the reporting organization		26,33
2.9	List of stakeholders, key attributes of each, and relationship to the reporting organization		1-2
	Report Scope		
2.10	Contact person(s) for the report, including e-mail and web addresses		Back cover
2.11	Reporting period (e.g., fiscal/calendar year) for information provided		2
2.12	Date of most recent previous report (if any)		2
2.13	Boundaries of report and any specific limitations on the scope		2
	Report Profile		
2.18	Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits		34
2.19	Significant changes in the measurement methods applied to economic, environmental and social information		45
2.20	Policies to enhance and provide assurance about the accuracy, completeness and reliability of the sustainability report		1
2.22	Means by which report users can obtain additional information and reports about economic, environmental and social aspects of the organization's activities		Back cover
3	Governance Structure and Management Systems		
	Structure and Governance		
3.1	Governance structure of the organization, including the major committees under the board of directors that are responsible for setting strategy and for oversight of the organization		25
3.2	Percentage of the board of directors that are independent, non-executive directors		25
3.4	Board-level processes for overseeing the organization's identification and management of economic, environmental, and social risks and opportunities		23,27,28
3.6	Organizational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies		23,28,43
3.7	Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance and the status of implementation.		7-8,14
	Stakeholder Engagement		1-2
3.9	Basis for identification and selection of major stakeholders		
3.10	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group		9-12,23,29,47-50,53,56
3.11	Type of information generated by stakeholder consultations		9-12,29,47,49-50
3.12	Use of information resulting from stakeholder engagements		1,12,50
	Overarching Policies and Management Systems		
3.13	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Principle 7	23,40
3.14	Externally developed, voluntary economic, environmental and social charters, sets of principles, or other initiatives to which the organization subscribes or which it endorses		27
3.16	Policies and/or systems for managing upstream and downstream impact		23
3.17	Organization's approach to managing indirect economic, environmental and social impacts resulting from its activities		41
3.19	Programs and procedures pertaining to economic, environmental and social performance		31-34,35-42,43,45-49,51
3.20	Status of certification pertaining to economic, environmental and social management systems		42

The Ten Principles of “The Global Compact”

Human Rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.
Labour Standards	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies
Anti-Corruption	Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

GRI Guideline		Corresponding The Global Compact Principle	Relevant Page in This Report
4	GRI Content Index		
4.1	Table identifying the location of each element of the GRI Report content, by section and indicator.		57-58
5	Performance Indicators		
Integrated Indicators			
Overall Indicators	These indicators show the relationship between the extensive economic, environmental and social system of which this organization is a part, and the activities of the organization.		22,45
Economic Performance Indicators			
EC1,EC2	Net sales, Geographic breakdown of markets.		33
EC6	Interest and dividends		49
EC10	Donations to community, civil society, and other groups		51
Environmental Performance Indicators			
EN1,EN3	Total material use by type and energy use	Principle8	35
EN5,EN22	Total water use and total recycling	Principle8	35,37
EN8	Greenhouse gas emissions	Principle8	32,35,38
EN9	Use and emissions of ozone-depleting substances	Principle8	39
EN10	NOx, SOx, and other significant air emissions	Principle8	35
EN11	Total amount of waste by type and treatment method	Principle8	37
EN13	Significant spills of chemicals, oils and fuels	Principle8	40
EN14	Significant environmental impacts of principal products and services	Principle8	41
EN17	Renewable energy and energy efficiency	Principle9	20-21,38
EN31	Waste deemed “hazardous” under the terms of the Basel Convention		39
EN35	Total environmental expenditures by type		34
Social Performance Indicators			
LA1	Employment		26
LA4	Employer-employee relationship	Principle3	47
LA6,LA7	Worker health and safety		48
LA10	Equal opportunity policies or programs	Principle6	45
LA12	Employee benefits		45,48
LA16,LA17	Education and training		45-46
Human Rights			
HR1	Description of policies to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results	Principle1	8,27,58
HR4	Measures against discrimination	Principle1,Principle6	8,58
HR5	Policy on freedom of union formation and collective negotiations (policies)	Principle3	58
HR6	Policy on eradicating child labor	Principle5	58
HR7	Policy to prevent forced and compulsory labor	Principle4	58
HR8	Employee training on corporate policies and practices concerning all aspects of human rights		29
HR9,HR10	Appeal practices and non-retaliation policy		29
Society			
SO2	Organization's policy and procedures addressing bribery and corruption	Principle10	8,29-30,58
SO4	Awards received relevant to social, ethical and environmental performance		17,18,54
SO7	Organization's policy and procedures for preventing anti-competitive behavior		8
Product Responsibility			
PR1	Policy for preserving customer health and safety		8,23
PR4,PR5	Number of instances and complaints of non-compliance with regulations concerning customer health and safety		23
PR8	Organization's policy and procedures related to customer satisfaction		43