Mitsubishi Heavy Industries

Annual Report 2000

for the year ended March 31, 2000

Contents

Financial Highlights

Consolidated Summary

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	In millions of yen except per share amounts		In thousands of U.S. dollars except per share amounts
	2000	1999	2000
Net sales	¥2,875,039	¥2,907,762	$27,084,687
Operating income	(23,797)	65,308	(224,180)
Net income (loss)	(137,006)	18,089	(1,290,685)
Per 100 shares of common stock:			
Net income (loss)—primary	¥(4,062)	¥ 536	$(38.27)
Net income (assuming full dilution)	—	515	—
Cash dividends	250	1,000	2.36
Total assets	¥4,636,739	¥4,746,597	$43,681,009
Stockholders' equity	1,245,064	1,337,378	11,729,291

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.15=U.S.$1, the exchange rate prevailing at March 31, 2000.
2. The accompanying consolidated financial statements for the years ended March 31, 2000 and 1999 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

A Message from the Management

A Message from the Management

During the fiscal year under review, ended March 31, 2000, public investment had a supportive influence on the Japanese economy. Moreover, a modest rise was seen in personal consumption and the downtrend in private-sector capital investment ended during the latter half of the fiscal year. These and other developments enabled gradual progress toward economic recovery. A high share of capital investment related to information technologies during the year, however, had a limited effect in stimulating additional consumption. Accordingly, the Japanese economy remained unable to begin an autonomous recovery led by private-sector demand.

Against this backdrop, new orders obtained by Mitsubishi Heavy Industries, Ltd. (MHI) dropped considerably below the level in the previous fiscal year due to the continued overall weakness of private-sector capital investment in Japan and the postponement of domestic electric power companies' investment projects. Moreover, despite the receipt of European orders for cruise ships and the receipt of orders for large-scale power plants, the lack of recovery in the Asian countries that are MHI's principal markets kept growth in the overall value of the Company's exports small. Consequently, the value of new orders was held to ¥2,349.9 billion (US$22,137 million).

An increase in the completion of export projects helped boost net sales of the Power Systems division and the Machinery & Steel Structures division. However, such increases were offset by a decrease in net sales of the Shipbuilding & Ocean Development division and the Mass and Medium-Lot Manufactured Machinery division. As a result, sales were ¥2,875.0 billion (US$27,085 million).

The volume of orders for the Mass and Medium-Lot Manufactured Machinery division's products decreased and the profitability of related operations was negatively affected by the lowering of selling prices due to intensified competition. Regarding other outstanding orders, several overseas construction projects that were completed during the fiscal year involved by cost overruns stemming from confusion related to local construction schedules. We regret to report that these challenges caused us to record a considerable ordinary loss, amounting to ¥89.5 billion (US$843 million). Although the Company earned extraordinary income from sales of securities, it also incurred extraordinary expenses, such as those for the complete amortization of prior service cost under our recently expanded pension plan and those for the provision of reserves to enable the accelerated amortization of losses projected to be incurred on certain ongoing projects. As a result, the Company's net loss before and after income taxes was ¥217.7 billion (US$2,051 million) and ¥137.0 billion (US$1,291 million), respectively. In light of this, the Company suspended interim dividend payments but will propose to disburse year-end dividends at the reduced rate of ¥250 (US$2.36) per 100 shares.

Nobuyuki Masuda, Chairman   Takashi Nishioka, President

Although MHI has done its utmost to obtain new orders, strengthen its capabilities and increase profitability, the Company recorded a substantial net loss for the year under review. This is the first large net loss MHI has incurred since its creation through the 1964 merger of three Mitsubishi Group heavy industry companies based in different regions of Japan. In all candor, it may be said in hindsight that changes in business conditions and customers needs required a more drastic response. We would like to offer our sincere apologies to shareholders for the lower value of the Company's share price and the reduction in dividend.

As described above, fiscal 1999 was a year in which MHI recorded an unprecedentedly poor performance amid a harsh operating environment. The Company is arranging for the recovery of its performance as quickly as possible through the accelerated implementation of measures in its medium-term management plan during fiscal 2000. In particular, we have already fundamentally restructured our Power Systems division and Mass and Medium-Lot Manufactured Machinery division, which were principal causes of the performance deterioration.

The restructuring of Power Systems operations is intended to help MHI better respond to the ongoing general shift in demand—from demand for conventional thermal power plants with boilers and steam turbines to demand for combined-cycle power plants centered on gas turbines. Boilers and steam turbines were previously manufactured at four MHI plants, but as of April 2000 boiler production has been consolidated at two plants and steam turbine production has been consolidated at three plants. Measures are also being taken to increase the Takasago Machinery Works' capacity so that it can meet growing demand for gas turbines.

MHI faces fierce domestic and overseas competition in markets for such mass and medium-lot manafactured machinery as printing machinery, machine tools and air conditioners. We, therefore, have reorganized our operations in this area with the goal of bolstering competitiveness. In January 2000, the Kyoto Machinery Works and Hiroshima Machine Tool Works were merged and reconstituted as the Machine Tool Works. Aiming to more clearly define responsibilities, accelerate decision making and strengthen cost competitiveness, we replaced the matrix-type organizational system for headquarters and works with a new organizational structure that provides for the operational integration of manufacturing and marketing units.

As a result of this change, as of April 2000, we created a new system that integrates the Sagamihara Machinery Works within the General Machinery & Special Vehicles Headquarters, the Air-Conditioning Works within the Air-Conditioning & Refrigeration Systems Headquarters, the Nagoya Machinery Works within the Industrial Machinery division, the Mihara Machinery Works within the Paper & Printing Machinery division, and the Machine Tool Works within the Machine Tool division.

Beginning from fiscal 1999, modifications to Japan's Securities and Exchange Law require the full-scale introduction of consolidation accounting processes within the annual financial statements *(Yuuka Syouken Houkoku Syo)* that companies must submit to the government. In response to this change, we revised our business segment categories based on considerations of the nature and scale of our various operations. The previously used segments—Shipbuilding & Steel Structures, Power Systems, Machinery, Aircraft & Special Vehicle, General Machinery & Components and Air-Conditioning & Refrigeration Systems—have been replaced with the currently-used Shipbuilding & Ocean Development, Power Systems, Machinery & Steel Structures, Aerospace and Mass and Medium-Lot Manufactured Machinery segments.

Looking to the future, despite concern regarding a decline in public investment, we anticipate a gradual recovery in the Japanese economy due to the likelihood of increases in personal consumption and private-sector capital investment. However, rather than creating new manufacturing facilities to increase production volume, it is expected that a large and rising share of private-sector capital investment will be aimed at rationalizing operations and reducing work forces through the modernization of existing facilities and the introduction of electronic information technologies. Thus, economic recovery is likely to be less effective in boosting demand for MHI products than it has been previously.

Moreover, the Company's operating environment is expected to be characterized by major changes, such as rapid innovation in information and other technologies, a progressive decrease in the significance of borders separating various types of business fields, and an accelerating restructuring of industries on a global scale.

Amid this environment, MHI will conscientiously consider the causes of its large net loss during the fiscal year under review and proceed with decisive measures to rectify its weaknesses. The Company recognizes the crucial importance of bolstering its capabilities and restoring its profitability as quickly as possible.

Accordingly, we intend to vigorously implement the diverse measures in the MHI medium-term management plan. In addition to the already completed restructuring of the Power Systems and the Mass and Medium-Lot Manufactured Machinery divisions, the Company will continue its efforts to reduce staffing requirements, strategically redistribute personnel, lower the level of interest-bearing debt and take other steps designed to strengthen its fundamental competitiveness. We are undertaking simultaneous and sustained programs to improve profitability in each of our business fields so as to expeditiously restore the Company's overall profitability.

MHI is steadily shifting resources into strategic growth fields. With regard to the Company's existing business fields, we are upgrading the competitiveness of the Power Systems division's operations by pursuing gas-turbine combined-cycle generation systems with increasingly higher efficiency levels. We are also energetically expanding our business in promising sectors of fields that are expected to be characterized by growing demand, such as aerospace, transportation systems, and environmental protection systems. We are in the process of negotiating an alliance with Boeing, the world's top aircraft manufacturer, that will promote the cooperative expansion and strengthening of operations in a wide range of fields. We are also expanding the scope of our service and maintenance operations, aiming to develop such additional business as services to assist customers with the post-delivery operation of our products. In the future, we expect that the field of new energy sources will be a principal business area for MHI. We, therefore, are speeding up our efforts to develop such promising technologies as fuel cells, micro gas turbines and combined-cycle power generation systems fueled with gasified coal.

Currently, MHI faces a serious management situation, but we are confident that our forceful execution of the strategies overviewed in this message will enable the Company to overcome its difficulties and proceed steadily along a highly promising path of corporate development during the new century. We hope for the continued understanding and support of our shareholders and associates.

Nobuyuki Masuda, Chairman

Takashi Nishioka, President

Review of Operations

Review of Operations

Shipbuilding & Ocean Development

135,000m³ Liquefied Natural Gas Carrier "GOLAR MAZO"

MHI faced an extremely harsh operating environment for shipbuilding operations during the period under review. Korean shipbuilders were more aggressive in lowering their prices to obtain orders for the construction of such vessels as very large crude oil carriers and container ships. Chinese shipbuilders, which have recently entered international shipbuilding markets, succeeded in increasing their market share. Moreover, customers in Japan continued to exhibit a conservatively prudent attitude towards the placement of new building orders. Despite these circumstances, the Company's dynamic marketing activities overseas enabled it to obtain orders for 19 vessels of 100 gross tons or more. Among these were the Company's first two orders for large cruise ships to be received from a U.K.-based customer. Other vessels ordered included five container carriers, three pure car carriers, two car ferries and two patrol gunboats for the Japan Defense Agency. Consequently, the total value of new orders held to ¥258.6 billion (US$2,436 million), and the Company's outstanding orders for vessels of 100 gross tons or more grew to consist of orders for 40 vessels with a total gross weight of 2,550 thousand tons. As the number of vessels delivered declined to 24, net sales for the period under review amounted to ¥275.0 billion (US$2,591 million), a decrease from the previous fiscal year.

1,000 Trailing Suction Hopper Dredger, H.V. "ARUANGWA"

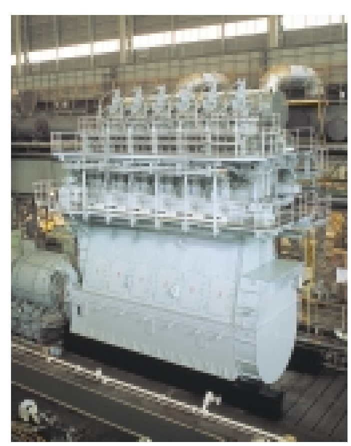
Multi-Purpose Cargo Ship "SCHIPPERSGRACHT"

Power Systems

MWT-1,000 Wind Turbines (Muroran, Hokkaido)

Despite the gradual economic recovery in Southeast Asian countries, which are MHI's principal power systems export markets, it appears that additional time will be required before new power systems projects can be arranged in that region. Despite this challenge, MHI succeeded in obtaining overseas orders with a greater aggregate value than in the previous period. These orders included those for a large-scale conventional thermal power plant in Turkey as well as gas turbine combined cycle power plants in the United States, Mexico and Singapore. In Japan, however, the persistent weakness of the economy restrained demand for electric power, the liberalization of the power industry and other factors caused power companies to reduce their capital investment and postpone numerous power plant construction projects. This caused a drop in domestic orders for the improvement, modification, and repair of existing plants. Amid this environment, the value of MHI's domestic orders was down. Consequently, the total value of new orders in the Power Systems division held to ¥558.2 billion (US$5,258 million). Due to growth in sales of gas turbines and other items, net sales totaled ¥739.9 billion (US$6,970 million), an increase from the previous fiscal year.

Geothermal Power Plant
(Mindanao,Philippines)



Mitsubishi 6UEC85LSII Marine Diesel Engine

Machinery & Steel Structures

Oshima Bridge

CO_2 Recovery Plant (Malaysia)

New Hot Rolling Process for Ultra Thin Strip Rolling

An expected large-scale transportation system project did not materialize during fiscal 1999. MHI, however, was able to book overseas orders with a greater value than in the previous fiscal year as a result of orders, such as flue gas desulfurization systems in Turkey and the United Kingdom and a fertilizer plant in Indonesia. The value of new domestic orders was down, however, due to a considerable drop in orders for large-scale waste treatment facilities and a fall in orders for flue gas desulfurization systems that stemmed from the delay of new thermal power plant projects in Japan. Consequently, the aggregate value of new machinery orders was ¥210.3 billion (US$1,981 million). The Company's chemical plant and transportation system exports and delivery of large-scale waste treatment facilities in Japan enabled it to increase net sales to ¥501.2 billion (US$4,721 million).

With regard to steel structures operations, orders for chimney stacks were depressed by the drop in new thermal power plant projects in Japan. The level of orders in bridge-related operations was relatively high during fiscal 1998 but deteriorated during the fiscal year under review. These situations, and the weakness of demand for such products as steel water supply pipes and transportation equipment, caused the total value of new steel structures orders held to ¥74.8 billion (US$705 million). Net sales were ¥172.1 billion (US$1,621 million), as the substantial drop in sales of transportation equipment was more than offset by increased deliveries of large-scale cultural, sports and leisure-related facilities.

Tuas South Incineration Plant (Singapore)

Aerospace

Mitsubishi MH2000 Helicopter

The budget of the Japan Defense Agency for front-line and rear support equipment has gradually declined. MHI was able to increase its orders for missiles, such as those used in Patriot ground-to-air missile systems, but the number of orders for multipurpose helicopters and F-2 close support fighters decreased. These factors combined with the peaking out of an anti-submarine helicopter development program to reduce the level of new orders from the Defense Agency.

F15J/DJ Aircraft

With regard to commercial-sector markets, the start of full-scale production of center and aft fuselage components for the Dash 8 turboprop aircraft, developed in cooperation with Canada-based Bombardier Inc., had a positive influence on performance. As demand for passenger aircraft from Southeast Asian customers remained slack, however, the Company was unable to improve its performance in business related to the supply of such large passenger-aircraft components as aft fuselage components for Boeing's B777 aircraft and engine parts for commercial airplanes.

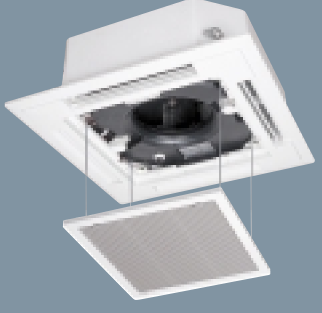
As a result, the value of new orders for aerospace products was ¥438.5 billion (US$4,131 million). Despite the rise in sales of helicopters to the Defense Agency, the drop in sales of Patriot ground-to-air missiles and components for B777 aircraft restrained net sales to ¥402.2 billion (US$3,789 million), approximately the same level as in the previous year.

Global Express High-Speed Business Jet

Mass and Medium-Lot Manufactured Machinery

Mitsubishi CN40 2-Spindle Machining Cell


Automatic Guided Vehicle


Ceiling Recessed Type Packaged Air Conditioner


Mitsubishi MGE 4000 Gasoline Engine Generator

General machinery and special vehicles operations were adversely affected in Japan by the continued slackness of private-sector demand and growing intensity of competition, which combined to reduce selling prices. This brought a drop in domestic sales of such products as earthmoving machinery as well as tunnel-boring machinery. Overseas sales were influenced by a drop in exports of forklift trucks, which were in strong demand in Europe and the United States during the previous fiscal year. Sales in the United States were up, however, as concerns regarding the Y2K issue spurred a sharp surge in demand for portable gasoline engine generators that, in turn, boosted demand for small engines. Thus, new orders and net sales in the general machinery and special vehicles operations were approximately the same as the previous fiscal year, amounting to ¥310.2 billion (US$2,923 million) and ¥319.6 billion (US$3,011 million), respectively.

In air-conditioning and refrigeration systems operations, MHI developed, launched and promoted the sales of energy-saving new types and models of room air conditioners and packaged air conditioning units. Sales of room air conditioners declined, however, largely due to unfavorable weather conditions in Japan and a deterioration of the environment for exports to China. Vehicle air conditioner sales were depressed in Japan owing to a drop in domestic automobile sales. Reflecting these situations, the total value of new orders and net sales in air-conditioning and refrigeration systems operations decreased from the previous fiscal year, to ¥200.6 billion (US$1,890 million) and ¥202.5 billion (US$1,907 million), respectively.

With regard to industrial machinery operations, business associated with pulp and papermaking machinery and injection-molding equipment increased slightly, however, protracted economic sluggishness in Japan reduced demand for offset newspaper-printing equipment and other printing equipment. Demand for machine tools also decreased, particularly with regard to machine tools for automobile manufacturing applications. Consequently, new industrial machinery operations orders were ¥180.9 billion (US$1,704 million). Due to the drop in sales of pulp and papermaking machinery, net sales declined to ¥183.8 billion (US$1,732 million).

Topics

The World’s Most Efficient Gas Turbine Combined-Cycle Thermal Power Plant

Unit No.4-1 Higashi Niigata Combined-Cycle Power Station of Tohoku Electric Power Co., Inc.

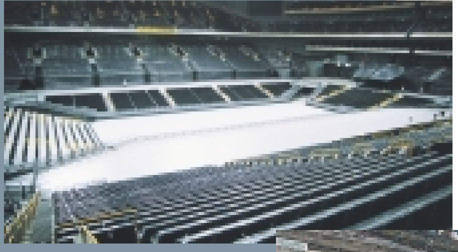
M701G Gas Turbine

Having previously pioneered the commercial use of gas turbines inlet temperatures of 1,450˚C, MHI recently completed the world’s most efficient gas turbine combined-cycle plant. The Tohoku Electric Power Higashi-Niigata Combined-Cycle Power Plant No. 4-1, which started commercial operation in July 1999, achieves thermal efficiency of 50.6% (HHV base).

Compared with a conventional gas-firing thermal power plant with a comparable output capacity, the new plant could save annual fuel cost by approximately ¥10 billion while reducing annual CO_2 emissions by 22%. Moreover, MHI has developed and equipped the world’s first steam-cooled combustor, which maintains NOx emissions low. Thus, the new plant is both highly efficient and highly environment-friendly.

The new technologies incorporated in the plant have been well rated for their contribution to the resolution of environmental and energy-related problems. In April 2000, the plant was chosen as the winner of the 29th Japan Industrial Technics Grand Prix and the Prime Minister's Award.

Completion of a Multipurpose Arena with the World’s First Space Expansion System



Saitama Super Arena

Completed in Saitama New City in March 2000, the Saitama Super Arena can move a 15,000-ton, 42-meter-tall structure with 9,200 spectator seats 70 meters horizontally in only 20 minutes, thereby expanding its seating capacity from 6,000 people to 40,000. It is the first multipurpose arena in the world to be equipped with such a moving-block type system for size-adjustment of event spaces. As a member of the consortium that built the arena, MHI was comprehensively involved with the construction and installation work, and was the supplier for the moving block system as well as the facility's mobile ceiling and mobile seating units.

Medium-Sized Gas Engines with the World’s Top Level of Power-Generation Efficiency

MHI has developed a new type of gas engine able to boost the energy efficiency of gas cogeneration systems, which have attracted considerable attention for their environmental protection and energy conservation potential. This engine has for the first time made it possible to boost the electric power generation efficiency of a gas cogeneration system to 40%. As it can lower fuel expenses while also slashing CO_2 emissions by approximately 13%, the engine is outstanding with regard to both running cost and environmental protection.

GS16R-PTK Gas Engine

Manila Light Rail Transit
System No. 3 Line

Successful Operation of the EDSA Light Rail Transit System No. 3 Line in Metropolitan Manila

On December 15th 1999, the Inauguration Ceremony for the EDSA Light Rail Transit System No. 3 Line was successfully held with the attendance of His Excellency, President Joseph Ejercito Estrada. At this ceremony, Metro Rail Transit Corporation, the owner, expressed their appreciation for MHI's successful completion of the project.

Construction of the line was started in October, 1996, as a Philippine national project aimed at alleviating traffic congestion in Metropolitan Manila. The northern part, 12 km long with 10 stations, was completed and put into service in December 1999, and will eventually extend to 17 km with 13 stations on a north-south line.

High Speed RoRo (Roll on/Roll off)
ship Sun Flower TOMAKOMAI

High Speed RoRo (Roll on/Roll off)
Ship HOKKAIDO MARU

Delivery of the Fastest Cargo Ferry in the World

By developing a slim hull configuration that reduces resistance to waves and wind, MHI has built cargo ferries able to cruise at unprecedentedly high speeds. In August 1999, the Company delivered two such vessels, the Sun Flower TOMAKOMAI and the HOKKAIDO MARU. Both of the sister ships have begun service on the Tokyo-Tomakomai route. They can cruise at approximately 30 knots—the world's fastest cruising speed for large merchant vessels—thus reducing the time required to cover their route from 30 hours to 20 hours. The ships have been highly evaluated in light of their potential for promoting a shift away from truck-based transport, which places a relatively heavy burden on the environment. Consequently, they were chosen as the winners of the Nihon Keizai Shimbun Awards for Excellence within the 1999 Nikkei Superior Products and Services Awards. This is the first time that award has been given to an entry from the distribution service sector.

New Microwave-Plasma Technology for Decomposition of Fluoron Refrigerants

MHI has developed and commercialized technology for decomposing fluoron refrigerants believed to contribute to global warming and other serious environmental problems. The Company's UF200 unit decomposes the fluoron at temperatures exceeding 6,000C° and thereby renders them innocuous. The UF200 unit employs an innovative microwave-plasma technology that involves mixing fluoron refrigerants with steam and then irradiating them with microwaves. Able to decompose more than 99.99% of such fluoron refrigerants as those used in refrigerators and air conditioners, UF200 units can process two kilograms of refrigerant per hour.

CFC (Chlorofluorocarbon)
Decomposition Equipment

Topics

Financial Section

Five-Year Summary

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

	In millions of yen except per share amounts					In thousands of U.S. dollars except per share amounts
	2000	1999	1998	1997	1996	2000
Net sales	¥2,875,039	¥2,907,762	¥3,096,110	¥3,142,472	¥3,016,163	$27,084,687
Operating income (loss)	(23,797)	65,308	144,259	198,084	185,333	(224,180)
Interest income and expenses—net	(7,607)	(3,386)	(2,608)	3,615	(1,359)	(71,662)
Income (loss) before income taxes	(217,672)	49,018	133,535	216,938	180,335	(2,050,604)
Net income (loss)	(137,006)	18,089	60,605	123,609	103,791	(1,290,685)
Per 100 shares of common stock:						
Net income (loss)—primary	(¥4,062)	¥536	¥1,797	¥3,665	¥3,080	($38.27)
Net income—assuming full dilution	—	515	1,782	3,650	3,074	—
Cash dividends	250	1,000	1,000	1,000	900	2.36
Total assets	¥4,636,739	¥4,746,597	¥4,731,822	¥4,361,701	¥4,172,920	$43,681,009
Stockholders' equity	1,245,064	1,337,378	1,368,866	1,347,390	1,255,271	11,729,291
Current assets	3,474,015	3,638,867	3,549,382	3,191,901	3,048,377	32,727,414
Current liabilities	2,319,456	2,399,150	2,436,755	2,340,766	2,298,005	21,850,735
Bank loans and long-term debt	1,205,301	1,249,231	1,177,473	755,568	702,812	11,354,696

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.15=US$1, the exchange rate prevailing at March 31, 2000.
2. The accompanying consolidated financial statements for the years ended March 31, 2000 and 1999 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2000	1999	2000	2000	1999	2000
Shipbuilding & Ocean Development	¥ 275,036	¥ 314,210	$ 2,591,014	(¥201)	¥ 7,079	($1,891)
Power Systems	739,884	687,920	6,970,175	(37,156)	18,612	(350,033)
Machinery & Steel Structures	673,228	650,319	6,342,232	(5,079)	1,740	(47,850)
Aerospace	402,173	405,878	3,788,728	29,542	37,963	278,304
Mass and Medium-Lot Manufactured Machinery	705,950	779,587	6,650,490	(18,841)	(8,531)	(177,490)
Others	118,327	131,121	1,114,720	7,938	8,445	74,780
Subtotal	2,914,598	2,969,035	27,457,359	(23,797)	65,308	(224,180)
Eliminations	(39,559)	(61,273)	(372,672)	—	—	—
Total	¥2,875,039	¥2,907,762	$27,084,687	(¥23,797)	¥65,308	($224,180)

	Total Assets			Depreciation		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2000	1999	2000	2000	1999	2000
Shipbuilding & Ocean Development	¥ 306,112	¥ 305,848	$ 2,883,771	¥ 7,829	¥ 7,738	$ 73,757
Power Systems	1,194,055	1,244,551	11,248,751	24,980	24,870	235,329
Machinery & Steel Structures	704,783	864,105	6,639,495	11,221	9,880	105,705
Aerospace	747,643	689,016	7,043,269	16,683	15,653	157,162
Mass and Medium-Lot Manufactured Machinery	813,541	869,136	7,664,069	25,978	28,047	244,732
Others	286,210	292,045	2,696,280	18,668	15,458	175,862
Subtotal	4,052,344	4,264,701	38,175,635	105,359	101,646	992,547
Corporate Assets and Eliminations	584,395	481,896	5,505,374	—	—	—
Total	¥4,636,739	¥4,746,597	$43,681,009	¥105,359	¥101,646	$992,547

	Capital Expenditures		
	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2000	1999	2000
Shipbuilding & Ocean Development	¥ 4,922	¥ 11,823	$ 46,368
Power Systems	18,618	34,939	175,389
Machinery & Steel Structures	8,537	15,031	80,423
Aerospace	22,264	23,796	209,743
Mass and Medium-Lot Manufactured Machinery	21,214	35,886	199,850
Others	24,674	21,822	232,448
Subtotal	100,229	143,297	944,221
Eliminations	—	—	—
Total	¥ 100,229	¥ 143,297	$ 944,221

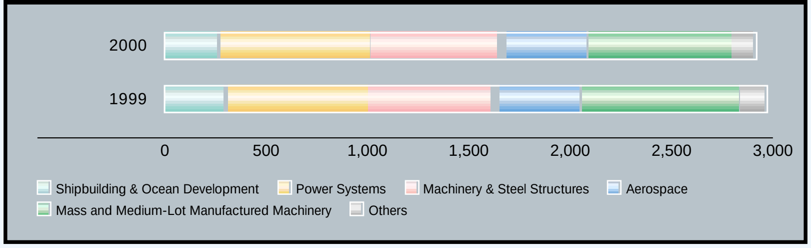
Overseas Sales			
Overseas sales	¥1,178,505	¥1,008,000	$11,102,257
Ratio to Total Net Sales	41.0%	34.7%	

Segment Information had previously been provided on the basis of a four-segment classification: 1) Machinery and Plants, 2) Aerospace Systems, 3) Shipbuilding and Steel Structures, and 4) Others. Starting with the year ended March 31, 2000, MHI has changed the classification to six industry segments as stated above. Segment information was reclassified and presented within six segments for the year ended March 31, 1999.

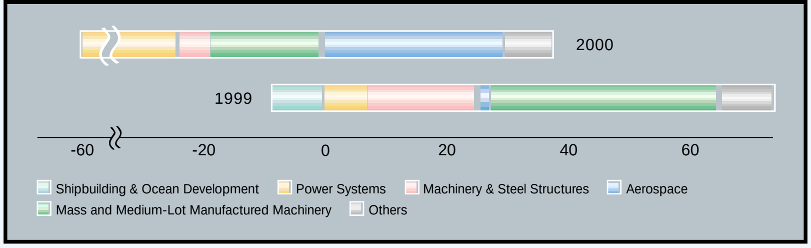
GEOGRAPHIC DISTRIBUTION	Net Sales		Operating Income (Loss)	
	In millions of yen	In thousands of U.S. dollars	In millions of yen	In thousands of U.S. dollars
	2000	2000	2000	2000
Japan	¥2,733,433	$25,750,664	(¥33,349)	($314,167)
North America	140,020	1,319,074	5,006	47,161
Asia	36,090	339,987	3,260	30,715
Western Europe	56,959	536,591	1,772	16,694
Others	17,072	160,834	(486)	(4,583)
Subtotal	2,983,574	28,107,150	(23,797)	(224,180)
Eliminations	(108,535)	(1,022,463)	—	—
Total	¥2,875,039	$27,084,687	(¥23,797)	($224,180)

GEOGRAPHIC DISTRIBUTION	Total Assets	
	In millions of yen	In thousands of U.S. dollars
	2000	2000
Japan	¥3,852,935	$36,297,081
North America	116,963	1,101,863
Asia	23,577	222,109
Western Europe	47,474	447,236
Others	11,395	107,346
Subtotal	4,052,344	38,175,635
Corporate Assets and Eliminations	584,395	5,505,374
Total	¥4,636,739	$43,681,009

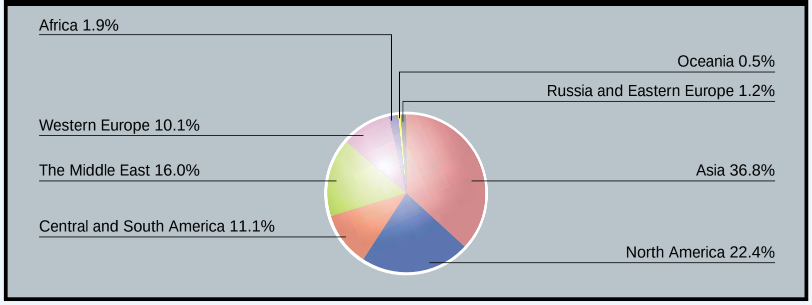
Net Sales by Segment (In Billions of Yen)



Operating Income (Loss) by Segment (In Billions of Yen)



Composition of Overseas Net Sales by Geographic Distribution



Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
March 31, 2000 and 1999

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	2000	1999	2000
Current assets:			
Cash and deposits	¥ 196,726	¥ 215,049	$ 1,853,279
Trade receivables (Note 4):			
Notes	59,546	67,661	560,958
Accounts	965,160	1,008,451	9,092,419
Allowance for doubtful receivables	(7,791)	(7,611)	(73,395)
Marketable securities	262,978	141,664	2,477,423
Inventories (Note 3)	1,758,014	2,006,947	16,561,598
Advances to suppliers	60,695	77,644	571,781
Deferred income taxes (Note 5)	80,014	—	753,785
Prepaid expenses and other current assets (Note 4)	98,673	129,062	929,566
Total current assets	3,474,015	3,638,867	32,727,414
Property, plant and equipment (Note 4):			
Land	137,424	132,257	1,294,623
Buildings and structures	626,580	616,902	5,902,782
Machinery and equipment	1,307,953	1,303,649	12,321,737
Construction in progress	16,058	23,009	151,280
	2,088,015	2,075,817	19,670,422
Less accumulated depreciation	1,311,107	1,274,598	12,351,457
Net property, plant and equipment	776,908	801,219	7,318,965
Investments and advances:			
Investments in unconsolidated subsidiaries and affiliates accounted for under the equity method of accounting	155,139	166,956	1,461,509
Long-term loans and advances	77,838	68,130	733,283
Sundry investments in securities	46,302	43,447	436,195
Deferred income taxes (Note 5)	81,618	—	768,892
Allowance for doubtful advances	(49,017)	(40,335)	(461,772)
Net investments and advances	311,880	238,198	2,938,107
Other assets	73,936	68,313	696,523
Total assets	¥4,636,739	¥4,746,597	$43,681,009

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	In millions of yen 2000	In millions of yen 1999	In thousands of U.S. dollars (Note 2) 2000
Current liabilities:			
Trade payables:			
Notes	¥ 130,997	¥ 123,133	$ 1,234,070
Accounts	559,560	556,146	5,271,412
Bank loans (Note 4)	410,137	441,354	3,863,748
Current portion of long-term debt (Note 4)	101,045	70,016	951,911
Advance payments received on contracts	880,836	1,005,438	8,298,031
Accrued expenses	107,690	118,207	1,014,504
Accrued income taxes	1,827	12,874	17,210
Allowance for losses on construction contracts	61,691	—	581,168
Other current liabilities	65,673	71,982	618,681
Total current liabilities	2,319,456	2,399,150	21,850,735
Long-term liabilities:			
Long-term debt (Note 4)	694,119	737,861	6,539,037
Long-term payables for pension expense	96,582	—	909,863
Accrued severance indemnities	226,214	216,169	2,131,080
Other liabilities	40,130	42,111	378,053
Total long-term liabilities	1,057,045	996,141	9,958,033
Total liabilities	3,376,501	3,395,291	31,808,768
Minority interests	15,174	13,928	142,950
Stockholders' equity:			
Common stock:			
Authorized—6,000,000,000 shares			
Issued (Note 6):			
2000—3,373,015,502 shares	265,452		2,500,725
1999—3,372,973,080 shares		265,441	
Capital surplus (Note 6)	203,697	203,687	1,918,953
Retained earnings (Note 7)	775,915	868,250	7,309,613
Total stockholders' equity	1,245,064	1,337,378	11,729,291
Total liabilities, minority interests and stockholders' equity	¥4,636,739	¥4,746,597	$43,681,009

Consolidated Statements of Income and Retained Earnings

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2000	1999	2000
Net sales	¥2,875,039	¥2,907,762	$27,084,687
Cost of sales	2,624,905	2,555,561	24,728,270
Gross profit	250,134	352,201	2,356,417
Selling, general and administrative expenses	273,931	286,893	2,580,597
Operating income (loss)	(23,797)	65,308	(224,180)
Non-operating income:			
Interest and dividend income	21,242	28,957	200,116
Gains from sales of marketable securities	—	13,584	—
Other income	3,860	3,540	36,368
	25,102	46,081	236,484
Non-operating expenses:			
Interest expense	28,849	32,343	271,778
Equity in losses of unconsolidated subsidiaries and affiliates	17,574	5,094	165,555
Exchange losses on foreign currency receivables and payables	24,556	1,665	231,336
Other expenses	19,847	18,348	186,975
	90,826	57,450	855,644
Ordinary income (loss)	(89,521)	53,939	(843,340)
Gains from sales of marketable securities	116,007	—	1,092,860
Gains from sales of fixed assets (Note 8)	4,710	—	44,370
Prior service cost for retirement pension plan	130,755	—	1,231,795
Losses on works on construction contracts	91,972	—	866,432
Losses on improvements in Mass and Medium-lot manufactured machinery (Note 9)	25,242	—	237,798
Losses on damage from natural disasters	899	—	8,469
Losses incurred in connection with expansion of pension plan to cover prior service cost (Note 10)	—	4,921	—
Income (loss) before income taxes	(217,672)	49,018	(2,050,604)
Income taxes (Note 5)			
Current	15,612	28,445	147,076
Deferred	(96,815)	—	(912,052)
Minority interests in income after taxes	537	2,484	5,057
Net income (loss)	(137,006)	18,089	(1,290,685)
Retained earnings:			
Balance at beginning of year	868,250	838,732	8,179,463
Balance of legal reserve at beginning of year	—	61,079	—
Adjustment for deferred income taxes of prior year	55,604	—	523,826
Add:			
Increase retained earnings at beginning of year by adding newly consolidated subsidiaries and companies accounted for by the equity method	900	—	8,486
Increase reflecting increases of beginning balance of retained earnings of companies accounted for by the equity method (Note 11)	2,497	—	23,520
Increase reflecting increases in capital stock of companies accounted for by the equity method (Note 12)	2,665	98	25,105
Deduct (Note 7):			
Cash dividends	16,865	33,264	158,877
Bonuses to directors and statutory auditors	130	220	1,225
Decrease in retained earnings of an overseas subsidiary (Note 13)	—	786	—
Decrease in retained earnings of a company accounted for by the equity method (Note 14)	—	486	—
Decrease in retained earnings by excluding a company accounted for by the equity method (Note 15)	—	14,992	—
Balance at end of year	¥ 775,915	¥ 868,250	$ 7,309,613

	In yen		In U.S. dollars (Note 2)
Per 100 shares of common stock:	2000	1999	2000
Net income (loss)—primary	(¥4,062)	¥ 536	($38.27)
Net income—assuming full dilution	—	515	—
Cash dividends	250	1,000	2.36

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2000

	In millions of yen	In thousands of U.S. dollars (Note 2)
Cash flows from operating activities:		
Income (loss) before income taxes	(¥217,672)	($2,050,604)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:		
Depreciation and amortization	105,868	997,344
Equity in losses of unconsolidated subsidiaries and affiliates	17,574	165,555
Interest and dividend income	(21,242)	(200,116)
Interest expense	28,849	271,778
Gains (losses) from sales and devaluation of marketable securities	(113,890)	(1,072,914)
Other non-operating income and expenses	47,749	449,822
(Increase) decrease in receivables	41,816	393,930
(Increase) decrease in inventories and advances to suppliers	257,487	2,425,689
(Increase) decrease in other assets	3,736	35,200
Increase (decrease) in payables	20,514	193,255
Increase (decrease) in advance payments received on contracts	(123,996)	(1,168,121)
Increase (decrease) in long-term payables for pension expense	96,582	909,863
Increase (decrease) in other liabilities	47,267	445,286
Others	19,237	181,221
Subtotal	209,879	1,977,188
Interest and dividends received	22,634	213,228
Interest paid	(29,503)	(277,942)
Payments for income taxes	(35,421)	(333,690)
Payments for prior service cost for retirement pension plan	(23,125)	(217,850)
Payments for other non-operating income and expenses	(10,684)	(100,646)
Net cash provided by operating activities	133,780	1,260,288
Cash flows from investing activities:		
Net (increase) decrease in time deposits	(3,396)	(31,996)
Purchases of marketable securities and investments	(117,899)	(1,110,686)
Proceeds from sales and redemption of marketable securities and investments	142,290	1,340,463
Purchases of property, plant, equipment and intangible assets	(100,335)	(945,214)
Proceeds from sale of property, plant, equipment and intangible assets	7,964	75,026
Disbursement of long-term loans	(5,794)	(54,586)
Collection of long-term loans	13,616	128,274
Others	(4,006)	(37,736)
Net cash used in investing activities	(67,560)	(636,455)
Cash flows from financing activities:		
Net increase (decrease) in bank loans	(22,768)	(214,490)
Proceeds from long-term debt	67,306	634,059
Repayment of long-term debt	(79,779)	(751,567)
Dividends paid to stockholders	(16,339)	(153,922)
Dividends paid to minority stockholders of subsidiaries	(568)	(5,353)
Others	(63)	(592)
Net cash used in financing activities	(52,211)	(491,865)
Effect of exchange rate changes on cash and cash equivalents	3,730	35,144
Net increase (decrease) in cash and cash equivalents	17,739	167,112
Cash and cash equivalents at beginning of year	181,786	1,712,541
Cash and cash equivalents at end of year	¥ 199,525	$ 1,879,653

1. Summary of Significant Accounting Policies

a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Mitsubishi Heavy Industries, Ltd. ("MHI"), together with its consolidated subsidiaries ("Subsidiaries") have been prepared in accordance with accounting principles and practices generally accepted in Japan and from the consolidated financial statements filed with the Ministry of Finance ("MOF") in Japan. Certain items presented in the consolidated financial statements filed with the MOF have been reclassified for the convenience of readers outside Japan.

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2000 and 1999 include the accounts of MHI and Subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and affiliates have been, with certain minor exceptions, stated at cost plus equity in undistributed earnings. Consolidated net income (loss) includes MHI's equity in the current net income (loss) of such companies, after the elimination of unrealized intercompany profits.

c) Inventories

Work in process represents the accumulated production costs of contracts and other work in process.

Raw materials and finished product inventories are stated at cost determined principally by the average cost method.

Starting with the year ended March 31, 2000, MHI and Subsidiaries have decided to apply the lower of cost or market method, based on moving averages, to the valuation of certain finished products, instead of the previously used cost method. This change has resulted in an increase in the loss before income taxes by ¥3,431 million (US$32,325 thousand), compared with the amount calculated by the previous method.

d) Marketable securities and sundry investments

Marketable securities are stated principally at the lower of cost or market value, and sundry investments in securities are stated principally at cost.

Realized gains or losses are determined by the moving-average method.

e) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are carried at cost. When an asset is retired or otherwise disposed of, the cost and related depreciation are relieved from the respective accounts, and the net difference, less any amounts realized on disposal, is reflected in earnings.

Depreciation, with minor exceptions, has been computed by the straight-line method for buildings except for related equipment, and by the declining-balance method for other assets based on the useful lives of assets provided for in the Corporation Income Tax Law.

In the year ended March 31, 1999, MHI changed the method of depreciation of buildings, except for related equipment, from the declining-balance method to the straight-line method and shortened the useful lives of buildings in accordance with the revised Corporation Income Tax Law. The effect of these changes was to increase ordinary income and income before income taxes for the year ended March 31, 1999 by ¥3,093 million each, compared with the amount calculated by the previous method.

f) Leases

Noncancelable lease transactions of MHI and its domestic Subsidiaries are accounted for as operating leases (whether such leases are classified as operating leases or finance leases), except those lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, lease transactions of foreign Subsidiaries are generally accounted for as either finance leases or operating leases, according to their classification.

g) Allowance for losses on construction contracts

Allowance for losses on construction contracts has been provided for the amount of losses that are reasonably expected for the next fiscal year and later in respect to construction projects in the pipeline as of March 31, 2000, for which an eventual loss is deemed inevitable.

In the case of those among such projects whose value of construction work in process had already exceeded the value of orders in hand as of March 31, 2000, the amount of the overrun has been treated as work in process valuation losses and not been included in the allowance for losses on construction contracts.

Since a large number of plant export contracts signed during 1995 and 1996 have entailed additional or corrective work in the course of project implementation and considerable losses are expected, the accounting treatment has been changed to create allowance for losses on construction contracts and resort to work in process evaluation losses in the year ended March 31, 2000.

For the year ended March 31, 2000, ¥61,691 million (US$581,168 thousand) has been set aside for the allowance and ¥30,280 million (US$285,264 thousand) treated as an evaluation loss, both included in losses on works on construction contracts. This policy change has thus resulted in an increase in the loss before income taxes by ¥91,971 million (US$866,432 thousand), compared with the amount calculated by the previous method.

h) Accrued severance indemnities and pension plans

Employees who terminate their service with MHI and Subsidiaries are generally entitled to lump-sum severance indemnities determined by reference to current basic rates of pay and length of service. Indemnities awarded in cases of voluntary termination are lower than those awarded in cases of involuntary termination or retirement. MHI and Subsidiaries have, in general, provided for the amount equivalent to 40% of the liabilities which would be required if all employees voluntarily terminated their service at the balance sheet date, as accrued severance indemnities.

In addition to lump-sum severance indemnities, MHI and several Subsidiaries have funded noncontributory pension plans that cover part of the existing retirement allowances payable to employees retiring at the age limit under certain conditions.

Prior service liabilities (the amount by which the value of liability reserve exceeded the fair value of plan assets) had previously been amortized principally by the declining-balance method at a fixed annual rate of 20%. In the year ended March 31, 2000, MHI and Subsidiaries have changed the method of accounting for pension cost principally to the accrual method.

Upon this change, ¥123,237 million (US$1,160,975 thousand) of prior service liabilities at March 31, 2000 were treated as an expense and entered under long-term payables for pension expense as an unpaid amount not requiring the outflow of funds.

This change has resulted in a decrease in the operating loss and ordinary loss for the year ended March 31, 2000 by ¥9,045 million (US$85,215 thousand) and an increase in the loss before income taxes for the same year by ¥95,969 million (US$904,095 thousand), compared with the amount calculated by the previous method.

i) Revenue recognition

Sales of products, including those under long-term contracts, are generally recognized in the accounts upon acceptance by the customers. Revenue on specific long-term contracts which meet certain conditions is recognized on the basis of the percentage-of-completion method.

The percentage-of-completion method had previously been applied to long-term contracts of over ¥50,000 million (US$471,032 thousand) each, with a contract period of three years or longer. Starting with the year ended March 31, 2000, MHI has changed the criterion under which the percentage-of-completion method would be adopted, and new criterion is applicable to the contracts of over ¥15,000 million (US$141,309 thousand) each, with a contract period of two years or longer. This change has resulted in an increase in net sales for the year ended March 31, 2000 by ¥78,145 million (US$736,179 thousand) and a decrease in the operating loss, ordinary loss and loss before income taxes for the same year by ¥4,929 million (US$46,439 thousand) each, compared with the amount calculated by the previous method.

j) Tax-effect accounting

MHI and Subsidiaries had previously not recognized the tax effect of timing differences between taxable income and income for financial statement purposes, except for the tax effect which relates primarily to certain unrealized profits arising from intercompany transactions being eliminated for consolidated financial reporting.

During the year ended March 31, 2000, the regulations of consolidated financial statements were changed to recognize the tax effect by the following method.

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

This change has resulted in a decrease in the net loss for the year ended March 31, 2000 by ¥96,814 million (US$912,053 thousand) and an increase in the retained earnings for the same year by ¥152,418 million (US$1,435,878 thousand), compared with the amount calculated by the previous method.

k) Cash and cash equivalents

MHI and Subsidiaries had previously not prepared the consolidated statements of cash flows. During the year ended March 31, 2000, the regulations of consolidated financial statements were changed to prepare the consolidated statements of cash flows.

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

l) Translation of foreign currency accounts

Short-term receivables and payables denominated in foreign currencies (principally U.S. dollars) are translated at the exchange rate prevailing at the balance sheet date.

Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical exchange rates.

Assets and liabilities of overseas Subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date, except for common stock, capital surplus and opening retained earnings, which are translated at historical rates. Income and expense items of these companies are translated at the average exchange rates during the year.

m) Net income (loss) per share

The computation of primary net income (loss) per share is based on the avarage number of shares outstanding.

Fully diluted earnings per share are determined on the assumption that the convertible debentures were converted on the dates of each issue, appropriately adjusted for subsequent redemption.

2. U.S. Dollar Amounts

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

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥106.15=U.S.$1 prevailing at March 31, 2000 has been used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. Inventories

Inventories at March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Finished products	¥ 123,867	¥ 124,403	$ 1,166,903
Work in process	1,578,674	1,819,358	14,872,101
Raw materials	55,473	63,186	522,594
	¥1,758,014	¥2,006,947	$16,561,598

4. Bank Loans and Long-Term Debt

Bank loans represented principally by notes payable to banks and bank loans at March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Secured	¥ 17,694	¥ 15,260	$ 166,686
Unsecured	392,443	426,094	3,697,062
	¥410,137	¥441,354	$3,863,748

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Loans, principally from banks and insurance companies, due 2000 to 2022 with interest ranging from 0.5% to 8.8%:			
Secured	¥ 17,332	¥ 21,017	$ 163,277
Unsecured	386,135	383,194	3,637,641
Debenture bonds due 2002 to 2008 with interest ranging from 1.48% to 6.5%	310,000	310,000	2,920,396
2.1% convertible bonds due 2001	759	780	7,150
Export loans received from main contractors, due 1999 to 2010 with interest ranging from 1.9% to 7.7%	80,938	92,886	762,484
	795,164	807,877	7,490,948
Less current portion due within one year	101,045	70,016	951,911
	¥694,119	¥737,861	$6,539,037

A summary of assets pledged as collateral for bank loans and long-term debt at March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Property, plant and equipment	¥18,153	¥18,497	$171,014
Trade receivables:			
Notes	9,242	9,789	87,068
Accounts	7,055	3,457	66,458
Short-term loans included in prepaid expenses and other current assets	8,930	11,662	84,130
	¥43,380	¥43,405	$408,670

The aggregate annual maturities of long-term debt at March 31, 2000 were as follows:

	In millions of yen	In thousands of U.S. dollars
2001	¥101,045	$ 951,911
2002	63,754	600,600
2003	209,975	1,978,100
2004	142,131	1,338,967
2005	74,991	706,459
2006 and thereafter	203,268	1,914,911
	¥795,164	$7,490,948

5. Income Taxes

MHI and Subsidiaries are subject to corporation income tax, corporation inhabitants' taxes and corporation enterprise tax, based on income, which in the aggregate resulted in the effective tax rate of approximately 41.9% for the year ended March 31, 2000 and 48% for the year ended March 31, 1999.

Significant components of deferred tax assets and liabilities at March 31, 2000, which arose as a result of the recognition of the tax effect mentioned in 1 j), were as follows:

	In millions of yen	In thousands of U.S. dollars
Deferred tax assets:		
Prior service cost for retirement pension plan	¥ 40,541	$ 381,922
Losses on works on construction contracts	36,226	341,272
Accrued severance indemnities	24,510	230,905
Accrued expenses for construction contracts	19,935	187,797
Allowance for doubtful receivables	13,125	123,644
Others	30,044	283,037
Total gross deferred tax assets	164,381	1,548,577
Deferred tax liabilities:		
Reserve for reduction in costs of fixed assets	(2,710)	(25,530)
Others	(39)	(370)
Total gross deferred tax liabilities	(2,749)	(25,900)
Net deferred tax assets	¥161,632	$1,522,677

Significant components of statutory effective income tax rate and income tax rate as a percentage of loss before income taxes at March 31, 2000 were as follows:

Japanese statutory effective income tax rate	41.9%
Adjustment:	
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.0)
Items excluded from expenses	(1.0)
Per capita levy for corporation inhabitants' tax	(0.9)
Items excluded from gross income	1.2
Others	(0.9)
Income tax rate as a percentage of loss before income taxes	37.3%

6. Common Stock and Capital Surplus

The increase in the common stock account is due to the conversion of convertible debentures. The increase in the capital surplus account is due to the conversion of convertible debentures.

7. Appropriations of Retained Earnings

Cash dividends, transfers to the legal reserve and bonuses to directors and statutory auditors are recorded in the financial year in which the appropriations of retained earnings are approved by meeting of the Board of Directors and/or stockholders.

8. Gains from sales of fixed assets

Gains from sales of fixed assets at March 31, 2000 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Land	¥3,029	$28,532
Others	1,681	15,838
	¥4,710	$44,370

9. Losses on improvements in Mass and Medium-lot manufactured machinery

Losses on improvements in Mass and Medium-lot manufactured machinery at March 31, 2000 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Allowance for doubtful receivables	¥ 6,120	$ 57,650
Devaluation of inventories and others	19,122	180,148
	¥25,242	$237,798

10. Losses incurred in connection with expansion of pension plan to cover prior service cost

In the year ended March 31, 1999, MHI expanded the portion of its non-contributory pension plan. In accordance with this expansion, losses to cover prior service cost, which amounted to ¥4,921 million, were accounted for by offsetting ¥9,945 million being losses to cover prior service cost paid in the year against ¥5,024 million being profits due to reversal of provision for severance indemnities, which were calculated in accordance with the rules of the Corporation Income Tax Law concerning the expansion of this pension plan.

11. Increase reflecting increases of beginning balance of retained earnings of companies accounted for by the equity method

Increase reflecting increases of beginning balance of retained earnings of companies accounted for by the equity method were mainly generated as a result of adjustments following the recognition of the tax effect mentioned in 1 j).

12. Increase reflecting increases in capital stock of companies accounted for by the equity method

Increase reflecting increases in capital stock of companies accounted for by the equity method was generated by a capital increase effected by Mitsubishi Motors Corporation which allotted the new shares to AB VOLVO.

13. Decrease in retained earnings of an overseas subsidiary

Decrease in retained earnings of an overseas subsidiary for the year ended March 31, 1999 resulted from a decrease in retained earnings of CBC Industrias Pesadas S.A., which came into being as a result of the merger of CBC Industrias Ltda. and TOPS MECATRONICS IND E COM LTDA. during the year.

14. Decrease in retained earnings of a company accounted for by the equity method

Decrease in retained earnings of a company accounted for by the equity method for the year ended March 31, 1999 resulted from a decrease in retained earnings of Mitsubishi Motors Corporation.

15. Decrease in retained earnings by excluding a company accounted for by the equity method

Decrease in retained earnings by excluding a company accounted for by the equity method resulted from excluding Kinki Coca-Cola Bottling Co., Ltd., which was formerly accounted for by the equity method.

In the year ended March 31, 1999, MHI sold part of its shares of Kinki Coca-Cola Bottling Co., Ltd., reducing its ownership to less than 20% and excluding that company from this category of companies.

16. Leases

a) As lessee

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

	In millions of yen	In thousands of U.S. dollars
Equivalent of acquisition cost:		
Machinery and equipment	¥18,876	$177,820
Others	6,141	57,852
	¥25,017	$235,672
Equivalent of accumulated depreciation:		
Machinery and equipment	¥ 9,950	$ 93,734
Others	3,007	28,332
	¥12,957	$122,066
Equivalent of balance at the balance sheet date:		
Machinery and equipment	¥ 8,926	$ 84,086
Others	3,133	29,520
	¥12,059	$113,606

ii) The equivalent of undue lease payments (including interest portion) at March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Within one year	¥ 4,530	¥ 4,209	$ 42,676
Thereafter	7,529	7,378	70,930
	¥12,059	¥11,587	$113,606

iii) Lease payments (the equivalent of depreciation expenses)

Lease payments relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Lease payments	¥4,924	¥5,033	$46,388

iv) Method of computing the equivalent of depreciation expenses

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

b) As lessor

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

	In millions of yen	In thousands of U.S. dollars
Acquisition cost:		
Machinery and equipment	¥84,992	$800,676
Others	4,682	44,113
	¥89,674	$844,789
Accumulated depreciation:		
Machinery and equipment	¥40,901	$385,310
Others	1,701	16,026
	¥42,602	$401,336
Balance at the balance sheet date:		
Machinery and equipment	¥44,091	$415,366
Others	2,981	28,087
	¥47,072	$443,453

ii) Undue lease income at March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Within one year	¥11,358	¥10,651	$106,997
Thereafter	36,552	32,558	344,347
	¥47,910	¥43,209	$451,344

iii) Lease income and depreciation expenses

Lease income and depreciation expenses relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2000 and 1999 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Lease income	¥15,246	¥14,193	$143,626
Depreciation expenses	12,680	13,744	119,457

17. Contingent Liabilities

Contingent liabilities for notes discounted and loans guaranteed in the ordinary course of business amounted to ¥190,837 million (US$1,797,806 thousand) and ¥210,333 million at March 31, 2000 and 1999, respectively.

18. Supplementary Income Information

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Depreciation	¥105,359	¥101,646	$ 992,547
Charges to income for severance and pension expenses	88,807	69,492	836,622
Research and development costs (including routine or periodic alterations to existing products)	129,768	125,750	1,222,497

19. Subsequent Event

On June 29, 2000 and June 29, 1999 at meetings of the stockholders of MHI, the following appropriations of retained earnings were approved:

	In millions of yen		In thousands of U.S. dollars
	2000	1999	2000
Cash dividends	¥ 8,433	¥16,865	$ 79,440
Transfer to legal reserve	844	1,700	7,951
Reserve for reduction in costs of fixed assets	1,599	—	15,068
Bonuses to directors and statutory auditors	—	130	—
	¥10,876	¥18,695	$102,459

Report of Independent Certified Public Accountants

CENTURY OTA SHOWA & CO.
ERNST & YOUNG INTERNATIONAL

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

Phone 03 3503-1100
Fax 03 3503-1197

The Board of Directors of
Mitsubishi Heavy Industries, Ltd.

We have examined the consolidated balance sheets of Mitsubishi Heavy Industries, Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, the related consolidated statements of income and retained earnings for the years then ended, and the consolidated statement of cash flows for the year ended March 31, 2000, expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in Japanese yen, present fairly the consolidated financial position of Mitsubishi Heavy Industries, Ltd. and consolidated subsidiaries at March 31, 2000 and 1999, the consolidated results of their operations for the years then ended, and their cash flows for the year ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the method of accounting for the valuation of certain products as described in Note 1. c), the accounting treatment to the allowance for losses on construction contracts and the work in process valuation losses as described in Note 1. g), the method of accounting for pension cost as described in Note 1. h) and the criterion under which the percentage of completion method would be adopted as described in Note 1. i) in the year ended March 31, 2000, and the method of accounting for depreciation of buildings as described in Note 1. e) in the year ended March 31, 1999, to the consolidated financial statements.

As described in Note 1. j) and k) to the consolidated financial statements, Mitsubishi Heavy Industries, Ltd. has adopted revised accounting standards for consolidation and tax effect accounting in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our examination also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2. to the consolidated financial statements.

Century Ota Showa & Co.

June 29, 2000

Board of Directors

CHAIRMAN
Nobuyuki Masuda*

PRESIDENT
Takashi Nishioka*

EXECUTIVE VICE PRESIDENTS
Kimiyuki Hanada*
Naochika Namba*

MANAGING DIRECTORS
Masanori Hirose*
Shoji Uchida*
Takashi Ishikawa*
Tomohiko Sato*
Haruya Hiura*
Tadayuki Tanioka*
Hiroshi Nanjo*
Kiyoshi Kondo*
Akio Kishi*

DIRECTORS
Shinroku Morohashi
Takeshi Fujii
Hirooki Shibanai
Yoshio Miyake
Atsunobu Murata
Iwao Suda
Yoichi Tsukiji
Yoichiro Okazaki
Masayasu Hirasaki
Akio Morita
Shozo Kaneko
Akira Tominaga
Kazuo Tsukuda
Yorimasa Takeda
Akira Kaneuji
Yoichi Aeba
Isao Yamazaki
Junichi Maezawa
Ayao Tsuge

STATUTORY AUDITORS
Tsuneo Wakai
Hiroshi Hayashi
Yoshinobu Shimano
Kazunori Gose

** Representative Director*
As of June 29, 2000

Corporate Data

HEAD OFFICE
5-1, Marunouchi 2-chome,
Chiyoda-ku, Tokyo 100-8315, Japan
Phone: 81-3-3212-3111
Fax: 81-3-3212-9800

TECHNICAL CENTER
Mitsubishi Juko Yokohama Building,
3-1, Minatomirai 3-chome,
Nishi-ku, Yokohama 220-8401, Japan
Phone: 81-45-224-9888
Fax: 81-45-224-9901

PAID-IN CAPITAL
¥265.5 billion
(3,373,015,502 shares)
As of March 31, 2000

STOCK LISTINGS
Tokyo, Osaka, Nagoya, Kyoto, Fukuoka and Sapporo stock exchanges

TRANSFER AGENT
The Mitsubishi Trust and Banking Corporation
11-1, Nagatacho 2-chome,
Chiyoda-ku, Tokyo 100-0014, Japan

CERTIFIED PUBLIC ACCOUNTANTS
Century Ota Showa & Co.
Japan Red Cross Bldg.,
1-3, Shibadaimon 1-chome,
Minato-ku, Tokyo 105-8535, Japan

MITSUBISHI
HEAVY INDUSTRIES, LTD.

www.mhi.co.jp

Printed in Japan

K060-ANAL00E1-B-0, (9.0) 00-8,R