MITSUBISHI HEAVY INDUSTRIES, LTD.

Creating new value

for the 21st century

based on integrated technological strength

ANNUAL REPORT 2003

FOR THE YEAR ENDED MARCH 31, 2003

www.mhi.co.jp

Profile

MITSUBISHI HEAVY INDUSTRIES, LTD. (MHI) has grown into a modern Japanese industrial pioneer during more than a century of history. MHI currently provides a broad range of products and services based on the technological capabilities it has developed in areas including shipbuilding, steel structures, power systems, air conditioners, machinery for industrial and general use, and aerospace systems. Through the manufacture of this broad range of products, **MHI contributes to society by providing support for people's lives and a basis for industrial activity.**

Today, we are expanding our businesses through technological innovations that stem from a global perspective and the development of enterprises aimed at achieving harmony in the international community. Starting with the construction of facilities that provide comfort while adhering to local culture and customs, we have in recent years been grappling with issues of common concern to all mankind, such as development of new energy sources and environmental protection. In the 21st century, **MHI will continue to deal with the issues that will confront us in the future,** such as ocean development and space programs.

Our determination to conduct business on a global scale is supported by, and reflected in, a fundamental philosophy: utilization of technological expertise accumulated over more than a century to assess changes that occur with the passage of time while continuously developing previously unexplored areas. Together with the trust we have earned to date, our untiring effort has become the driving force for building a new tomorrow.

Ensuring harmony among mankind, technology and nature, MHI is moving steadily ahead toward a more prosperous future.

Contents

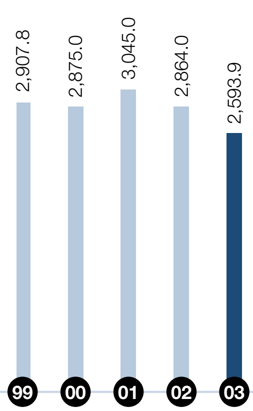
Financial Highlights

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

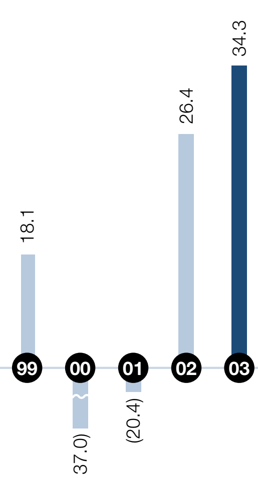
	In millions of yen except per share amounts		In thousands of U.S. dollars except per share amounts	Percent change
	2003	2002	**2003**	
Orders received	**¥2,480,933**	¥2,424,945	**$20,640,042**	2.3%
Net sales	**2,593,894**	2,863,985	**21,579,820**	(9.4)
Operating income	**115,308**	78,655	**959,304**	46.6
Net income	**34,331**	26,447	**285,613**	29.8
Research and development costs	**109,475**	118,556	**910,774**	(7.7)
Capital expenditures	**119,126**	109,770	**991,067**	8.5
Depreciation and amortization	**97,016**	95,962	**807,119**	1.1
Per 100 shares of common stock:				
Net income — primary	**¥ 1,014**	¥ 784	**$ 8.44**	29.3%
Net income — assuming full dilution	**—**	782	**—**	—
Cash dividends	**600**	400	**4.99**	50.0
Total assets	**¥3,666,866**	¥3,915,276	**$30,506,372**	(6.3)%
Stockholders' equity	**1,270,968**	1,282,727	**10,573,778**	(0.9)
Bank loans and long-term debt	**1,122,923**	1,049,998	**9,342,119**	6.9

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥120.20 = U.S.$1, the exchange rate prevailing at March 31, 2003.
2. The accompanying consolidated financial statements for the years ended March 31, 2003 and 2002 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

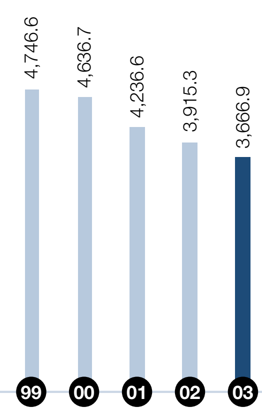
Net Sales
(In billions of yen)



Net Income (Loss)
(In billions of yen)



Total Assets
(In billions of yen)



Note: Consolidated results for years ended March 31 of respective years

Forward-Looking Statements

This report contains forward-looking statements regarding MHI's plans, outlook, strategies and results for the future that are based on management's estimates, assumptions and projections at the time of publication. Certain risks and uncertainties could cause MHI's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the domestic and international economic circumstances surrounding MHI's businesses, competitive activity, related laws and regulations, product development programs and changes in exchange rates.

A Message from the Management

Chairman ***Takashi Nishioka,*** President ***Kazuo Tsukuda***

Superior technologies and improved management efficiency supported results in a challenging operating environment. Innovation, quality and customer satisfaction will remain key areas of focus.

Environment and Performance

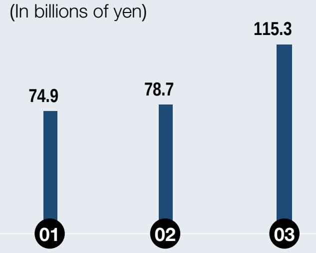
During the fiscal year ended March 31, 2003, the Japanese economy was weak overall, reflecting continued reduced spending on public works projects and restrained capital investment in the private sector, including electric power companies. In addition, personal consumption slowed due to concerns about job security, and the deflationary economy continued to drive price competition. Overseas, although exports, mainly to Asia, were strong, the economic slowdown in the United States triggered uncertainty about the future of the global economy, and business dealings overseas were continually postponed or curtailed. Consequently, Mitsubishi Heavy Industries, Ltd. (MHI) continued to face an extremely challenging operating environment.

In response to this situation, MHI worked to succeed amid intense competition and to secure new orders by emphasizing its technological superiority over other companies. As a result, the Company was able to achieve a slight year-on-year increase in orders. By division, new orders increased compared with the previous fiscal year in the Shipbuilding & Ocean

HIGHLIGHT: EFFICIENCY SUPPORTS PERFORMANCE

Improved efficiency was a key factor in the substantial year-on-year increase in operating income.

Consolidated Operating Income
(In billions of yen)



Note: Figures are for years ended March 31 of respective years.

Development division, the Power Systems division and the Mass and Medium-Lot Manufactured Machinery division, and were essentially unchanged in the Aerospace division. This compensated for a decrease in new orders in the Machinery & Steel Structures division, resulting in an increase of 2.3 percent in the overall value of the Company's new orders compared with the previous year to ¥2,480.9 billion (US$20,640 million).

Although sales of the Aerospace division increased year-on-year, Power Systems division sales were down considerably due to fewer deliveries of large-scale power plants to overseas customers. Decreases in other divisions also contributed to a 9.4 percent decline in total net sales compared with the previous fiscal year to ¥2,593.9 billion (US$21,580 million).

Despite the impact of lower net sales, cost reduction initiatives centered on the cost of materials, coupled with a reduction in selling, general and administrative expenses due to improved management efficiency, resulted in operating income of ¥115.3 billion (US$959 million), an increase of ¥36.6 billion compared with the previous year. Ordinary income totaled ¥78.2 billion (US$651 million), an increase of only ¥10.2 billion compared to the previous year, due to a substantial foreign exchange loss caused by the appreciation of the yen against the U.S. dollar from the beginning of the year. The Company posted an extraordinary loss of ¥12.0 billion (US$100 million), largely stemming from losses on revaluation of investment securities due to a drop in stock prices and losses associated with fire damage to a cruise ship under construction. Net income increased ¥7.9 billion compared with the previous fiscal year to ¥34.3 billion (US$286 million).

In light of this performance, management has proposed to disburse a year-end dividend of ¥300 (US$2.50) per 100 shares, an increase of ¥100 per 100 shares from the previous year. Combined with the interim dividend of ¥300 per 100 shares, this results in total annual dividends of ¥600 (US$4.99) per 100 shares, an increase of ¥200 per 100 shares compared with the previous fiscal year.

Achievements during the Fiscal Year

The Company had numerous noteworthy business achievements during the fiscal year. In the Power Systems business, the Company, in cooperation with Dongfang Electric Corporation of China, received a bulk order for major power equipment, including ten gas turbines, to be installed in gas turbine combined cycle power plants in China. The Company also completed construction of a 2,000kW wind turbine power generator, the largest in Japan, and has begun test runs of the equipment. In the Aerospace business, the Company has launched five H-IIA Launch Vehicles to date, all of which were successful, improving the reliability MHI needs to enter the satellite launching market. The technology required for the launching service business making use of the H-IIA Launch Vehicle is to be transferred from the National Space Development Agency of Japan (NASDA) to MHI. In the Mass and Medium-Lot Manufactured Machinery business, the first orders were received for the Diamondstar, a new sheet-fed offset press for newspaper printing that can produce 180,000 copies per hour, the world's fastest sustained printing speed. The Company also introduced a new type of horizontal machining center that can process titanium and other difficult-to-cut materials with high speed and precision. Regarding the production network, domestic production of residential air-conditioners was transferred entirely to Thailand to strengthen cost competitiveness, and the European manufacturing plant for vehicle turbochargers was expanded to respond to growth in the European market. Overseas, the Company strengthened its marketing capabilities through cooperation with local companies and established joint ventures for flue gas desulfurization equipment and tunnel boring machines.

Thus, despite the adverse business climate during the fiscal year, the Company moved forward steadily with such measures as were designed to strengthen operations in core business fields and launch new products in the market by stepping up investment in R&D and plant and equipment.

Report on the Fire Damage to the Diamond Princess and Destruction of Electrical Cables on F-4 Fighters

Two incidents that occurred during the fiscal year merit a special report: a fire on a cruise ship under construction at the Nagasaki Shipyard & Machinery Works and the cutting of electrical cables on Japan Defense Agency F-4 fighter planes at the Nagoya Aerospace Systems Works.

First, regarding the fire, which occurred on October 1, 2002, the Company has reached an agreement with the customer regarding continued construction of the cruise ship. Although MHI is currently pushing forward with construction in order to meet the new deadline, we regret to announce that the Company posted a substantial extraordinary loss for the fiscal year. Based on our analysis and thorough examination of this incident, we are working to strengthen and thoroughly implement a fire prevention management system throughout the Company to ensure that a similar event never occurs again. We are also working to ensure the delivery of the cruise ship by the deadline to restore the customer's confidence in the Company.

Second, in response to the cutting of electrical cables on F-4 fighter planes, which was discovered to have occurred over a period from May to September 2002, the Company immediately strengthened security inside the plant by carrying out checks of everyone entering and leaving, placing guards and a surveillance system in work areas, and other initiatives. In addition, we are doing our best to restore confidence through such measures as re-emphasizing to the relevant employees the critical nature of their responsibilities.

We deeply regret the concerns that these incidents have caused for many people, including our shareholders. The Company has treated these events with gravity and seriousness, and is taking all necessary measures. We also established an On-Site Management Reform Committee in October 2002, and ask for your understanding and support as we implement company-wide activities designed to promote a change in the consciousness of our employees and improve the work environment.

Issues to be Addressed

The likelihood that the Japanese economy will move toward a full-scale recovery in the near future is low, as it is expected that budgets for public works projects will contract further and private-sector capital investment will remain sluggish due to lower motivation for spending on plant and equipment. Contributing to this situation is, among other factors, a projected slowdown in exports, reflecting uncertainty about the global economy.

In response to this situation, as existing domestic markets are not expected to show appreciable growth, the Company will focus on expanding its export and overseas operations, enhancing its new product lineup, entering new fields and improving profitability, and will actively work on these areas. First, in terms of our export and overseas operations, we have been establishing business bases in North America, Europe, China and Southeast Asia as our four major overseas markets, and are building an operating structure that can accommodate market fluctuations in any particular region of the world. By division, the Power Systems division is actively conducting negotiations for large-scale power plants, for which there are many deals in Asia, including China, and promoting exports of nuclear power equipment to Europe and the U.S. The Machinery & Steel Structures division will strengthen its efforts to secure major deals for transportation systems in Europe, the U.S. and Asia. Second, in terms of new products and new fields, we are actively working to develop new markets such as clean energy, semiconductor manufacturing equipment and robots for household use by utilizing promising key technologies and core technologies from other products.

To improve profitability, we will expand the main production facility of the Machine Tool Division in Ritto, Shiga Prefecture, in order to consolidate and centralize the production network for machine tools, and begin producing injection molding machines at a local facility in China. By taking such measures, we will work to strengthen the Mass and Medium-Lot Manufactured Machinery business. We will continue with efforts to reduce materials expenses and improve the efficiency of operations by using an integrated system for personnel and accounting matters throughout the Company. In addition, we will continue to implement company-wide activities to increase customer satisfaction and will work to steadily enhance competitiveness and improve our business performance by providing products and services that customers truly demand by means of our high level of technology and superior quality.

Although MHI currently faces an extremely challenging operating environment, we believe that the steady implementation of these strategies will lead to growth in the future. In doing so, we request the continuing understanding and cooperation of our shareholders.

July 2003

Takashi Nishioka
Chairman

Kazuo Tsukuda
President

In the following interview, Mr. Tsukuda, the new president of MHI appointed on June 26, 2003, outlines MHI's future management and business development strategies.

President
Kazuo Tsukuda

MHI has been expanding upon its technological strengths. Will this focus change under your leadership?

MHI's overwhelming technological strengths are the key to earnings growth. Over the past several years, former president Mr. Nishioka has been leading a return to the basics in technological fields to create a rock-solid foundation of advanced technology, and his approach led to improvement in earnings. I plan to continue along the same lines.

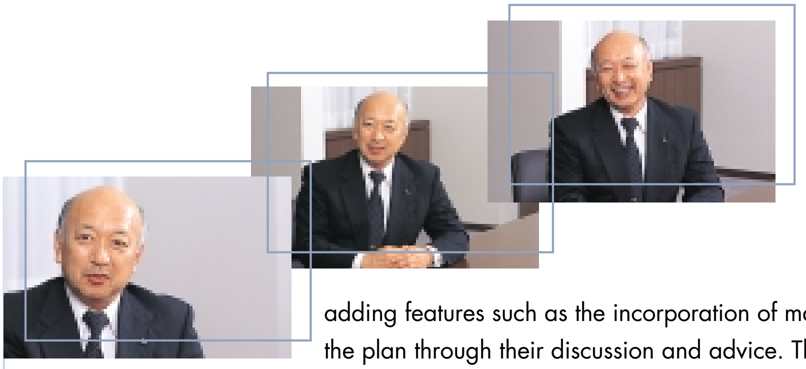
However, domestic demand in both the public and private sectors is stagnant and is not likely to grow rapidly. We must therefore heighten our emphasis on offering customers overseas the high-value-added products and services they require as the means to expand sales and earnings. My task is to determine how MHI can use its advanced technology to provide high-value-added products and services that are attractive to customers. We must differentiate MHI by looking ahead, anticipating needs and swiftly making great proposals that meet these needs.

In step with the emergence of the information society, our markets are changing more quickly. The cycle of technological innovation is faster, and news of new developments spreads almost instantly throughout the world. And with the emergence of powerful new market participants such as China, competition has intensified. MHI must respond to changing markets swiftly and effectively. We must continue to hone our ability to rapidly deploy our more than 100 years of experience in growing by satisfying customers and winning their business.

Your strategies will take concrete form in the medium-term business plan that will be announced in fall 2003. What are some of the specifics of the plan?

At the core of the new business plan is a paradigm shift away from product development that emphasizes the manufacturer's point of view. We need to change our corporate nature to create proposals for customers based on a thorough understanding of what we are able to do, taking the market's perspective, and evaluating our product's strengths and those of competitors. For each product, in addition to objectively evaluating our strengths and weaknesses, we must consider current and future market demand and the actions of competitors, which will make MHI the kind of company that provides marketable products because of the advanced technology we incorporate.

Changing our corporate structure is not going to be a simple task. It will require conscious change by each and every employee. Young employees are therefore participating in



adding features such as the incorporation of market perspectives in product planning to the plan through their discussion and advice. This will enhance employee awareness of our corporate vision, and clarify what they can do on a daily basis to achieve it. My intent is for the plan to create a vital organization that is able to take on challenging goals, at every level of the Company from senior management to our young employees.

MHI is involved in a wide range of products and technologies. How does MHI intend to maximize the value of its broad technology and product portfolio?

Our technology portfolio is quite broad, and we must increase the integration of core competencies with peripheral technologies to commercialize products as comprehensive systems. We can create high-value-added products by incorporating new technologies into existing products. An example from my career is illustrative. We were working to improve an injection molding machine that had contributed to the industry for many years, applying innovative technology such as the use of tribology applied in power systems, our main business. The outcome of this innovation brought more productivity and functionality, resulting in a significant increase in market share, making it a business with good potential. This kind of approach from technological strength to productivity will help make us even more competitive, and will generate opportunities in our markets. To make the most of this approach, MHI will have to further strengthen the linkage among our strategies for technology, marketing, production and services to meet customer needs.

Markets have become more international than ever. What approaches will MHI take in building its participation in global markets?

Our organization emphasizes four key regions: China, Southeast Asia, North America and Europe including Russia. We expect our presence in the former two regions to be a particularly strong source of growth. A recent representative example is our cooperation with Dongfang Electric Corporation in China to supply major power generation equipment including 10 gas turbines for gas-fired power plants in China.

We are moving forward with our international strategy by energetically working with alliance partners and collaborating with customers to build our presence in the regions we serve, taking into consideration overseas production and alliances with local companies. Such partnerships help us become an integral part of markets outside Japan. The days when salespeople traveled overseas and soon returned to Japan are long over. We need to develop our business in harmony with local people. We are carefully researching each market we serve, developing world-leading products, cultivating the necessary personnel and creating the organization to do so.

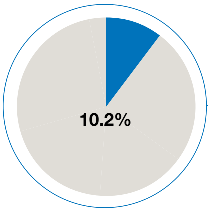
What can stakeholders expect from MHI's new management?

MHI has a vision of contributing to a better life for people by responding to customer trust with great technology and carrying out its environmental and social responsibilities. We have to view our businesses from the perspective of our customers, but at the same time, we must work to satisfy all stakeholders, including our valued shareholders. I believe in the people and products of MHI, and on behalf of the entire organization, look forward to a new and positive phase in its development that is based on swift decision making and decisive action.

MHI at a Glance

Shipbuilding & Ocean Development

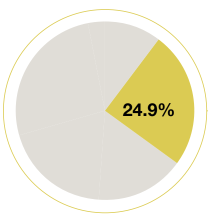
Share of Net Sales



Crude oil carriers, Container ships, Cruise ships, Car ferries, LPG carriers, LNG carriers and various other ships, Defense vessels, Offshore structures

Power Systems

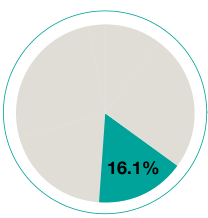
Share of Net Sales



Boilers, Steam turbines, Gas turbines, Diesel engines, Water turbines, Wind turbines, Nuclear power equipment, Nuclear fuel, Denitrification equipment, Marine machinery

Machinery & Steel Structures

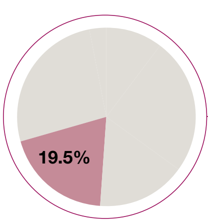
Share of Net Sales



Waste treatment equipment, Flue gas desulfurization systems, Flue gas treatment systems and various other environmental control systems, Transportation systems and equipment, Petrochemical plants and various other chemical plants, Oil and gas production systems, Chemical machinery, Desalination plants, Iron and steel manufacturing machinery, Blowers, Packing machinery, Bridges, Hydraulic gates, Cranes, Stacks, Parking systems, Tanks, Entertainment facilities, Sports and leisure-related facilities, and various other steel structures

Aerospace

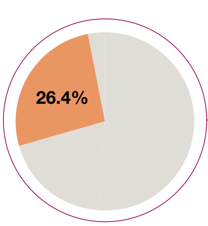
Share of Net Sales



Fighters and other aircraft, Helicopters, Aero engines, Missiles, Torpedoes, Fleet engines, Space systems

Mass and Medium-Lot Manufactured Machinery

Share of Net Sales

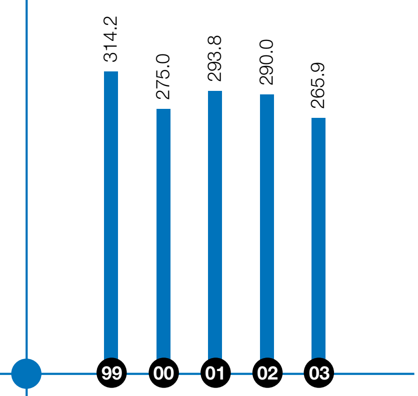


Forklift trucks, Construction machinery, Earthmoving and grading machinery, Medium and small sized engines, Turbochargers, Special vehicles, Air-conditioners (commercial use, residential), Automotive thermal systems, Chilling systems, Plastic processing machinery, Food machinery, Industrial robots, Transmissions, Pulp and paper making machinery, Box making machinery, Printing machinery, Machine tools

Note: Figures represent consolidated net sales by business segment as a percentage of total net sales for the year ended March 31, 2003.

Passenger-Car Ferry "Ferry Kyoto 2"

Segment Net Sales
(In billions of yen)



Note: Consolidated results for years ended March 31 of respective years

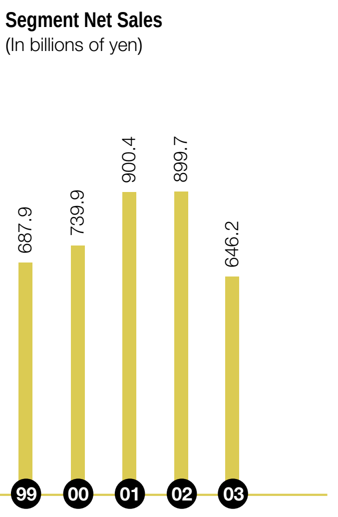
Shipbuilding & Ocean Development

The business environment for new orders remained challenging, as competition intensified further due to expansion of facilities at Korean and Chinese shipbuilders and demand for new vessels weakened due to the global economic slowdown. However, due to the success of marketing operations for a wide range of vessels, primarily high-value-added vessels, which the Company specializes in, new orders were received for 26 vessels (all figures in this section exclude vessels of less than 100 gross tons), including three VLCCs, six pure car carriers, five car ferries, four roro cargo ferries, two LPG carriers, and an Aegis ship and a submarine for the Japan Defense Agency. Consequently, the total value of new orders increased to ¥257.0 billion (US$2,138 million), and the Company's outstanding orders increased to 48 vessels totaling approximately 2,470 thousand gross tons. Although 18 new vessels were delivered to customers, net sales for the period under review fell to ¥265.9 billion (US$2,212 million) due to a decrease in sales of ships to the Japan Defense Agency.

LNG Carrier "PUTERI INTAN SATU"

Container Ship "HATSU ETHIC"

Photovoltaic Power Generation System

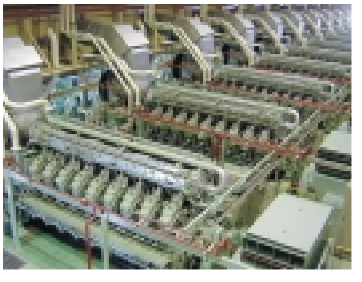


Note: Consolidated results for years ended March 31 of respective years

Power Systems

As a result of aggressive sales activities in Europe, Asia and other areas where demand was relatively strong, the Company received a bulk order for major power equipment, including ten gas turbines, to be installed in gas turbine combined cycle power plants in China, as well as orders including a gas turbine combined cycle power plant in Spain. However, total new overseas orders decreased compared to the previous fiscal year, when there were orders for large-scale projects in Southeast Asia and the United States. New domestic orders grew year-on-year, due to a rise in nuclear power-related orders, despite the fact that the number of orders for upgrading, refurbishing and repairing existing power plants was relatively low. As a result, the total value of new orders rose to ¥608.4 billion (US$5,061 million). Although sales of gas turbines increased, domestic and overseas sales of boilers and turbines declined due to fewer large-scale power plants being completed, causing net sales to fall considerably to ¥646.2 billion (US$5,376 million).

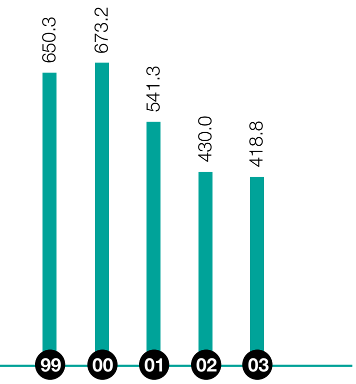
Ilijan Combined Cycle Power Plant (Philippines)



MACH-30G Gas Engine Power Plant

Refuse Incineration Plant

Segment Net Sales
(In billions of yen)



Note: Consolidated results for years ended March 31 of respective years

Machinery & Steel Structures

In the machinery business, new orders were received for large-scale waste treatment facilities in Japan and chemical plants in Mexico, Singapore and Malaysia. Transportation systems and turbo compressors also recorded growth. However, the total value of new orders declined to ¥273.2 billion (US$2,273 million) due to factors such as the transfer of the iron and steel manufacturing machinery business to the joint venture with Hitachi, Ltd. Despite increases in sales of environmental systems, turbo compressors and other products, lower sales of products such as chemical plants and transportation systems were responsible for a decrease in net sales of machinery to ¥277.2 billion (US$2,306 million).

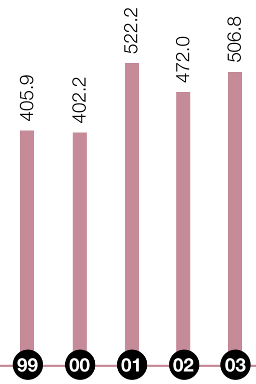
In the steel structures business, the business environment remained harsh, primarily due to the contraction of budgets for public works projects and the slowing of private-sector capital investment. Although orders were received in Japan for major cultural, sports and leisure facilities, orders for LNG storage tanks decreased compared to the previous fiscal year, when there were orders for large-scale projects, and the number of orders for hauling equipment, chimneys and other equipment was also relatively low. Consequently, the total value of new orders fell to ¥115.4 billion (US$960 million). Despite declines in areas such as cultural, sports and leisure facilities, an increase in bridge-related and other sales resulted in net sales of steel structures totaling ¥141.6 billion (US$1,178 million), approximately the same level as the previous fiscal year.

Ferris Wheel "Big O" (Tokyo Dome City)
The innovative design of the world's first center-less Ferris wheel allows a roller coaster to run through it.

Automated People Mover

LNG In-ground Storage Tank

SH-60K Maritime Patrol Helicopter

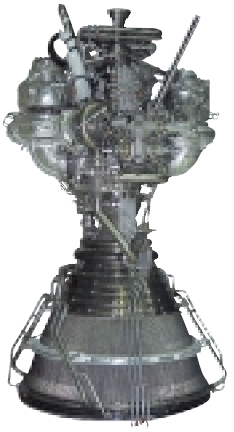


Note: Consolidated results for years ended March 31 of respective years

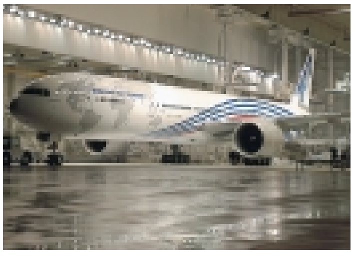
Aerospace

With regard to defense-related products, the overall level of new orders increased due to the start of orders of the SH-60K shipboard maritime patrol helicopter during the fiscal year and an increase in orders for the Patriot surface-to-air guided missile system and other products, despite a decrease in orders for F-2 support fighters. Orders of space systems also rose, supported by the series of consecutive successful launches of the H-IIA Launch Vehicle. However, orders for commercial sector airplane products, particularly those for aft fuselage and other components for Boeing 777 transport and main wings and other components for Bombardier's Global Express business jet, decreased due to a lag in the recovery of demand for new aircraft. As a result, the total value of new orders for aerospace products was ¥441.2 billion (US$3,671 million), approximately the same level as the previous fiscal year. Although sales of aft fuselage and other components for Boeing 777 transport and other products decreased, increased sales of F-2 support fighters for the Japan Defense Agency and other factors caused net sales to increase to ¥506.8 billion (US$4,216 million).

H-IIA Launch Vehicle No.5 Launching (Courtesy of NASDA)



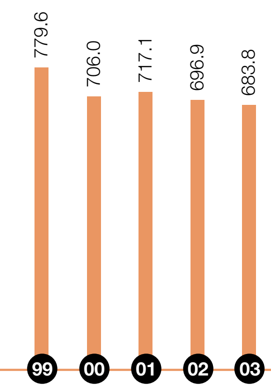
H-IIA Launch Vehicle First Stage Engine (LE-7A) (Courtesy of NASDA)



The Newest Model of Boeing 777, the First 777-300ER

Sheet-fed Offset Press DIAMOND 3000TP

Segment Net Sales
(In billions of yen)



Note: Consolidated results for years ended March 31 of respective years

Mass and Medium-Lot Manufactured Machinery

In the general machinery and special vehicles business, orders for forklift trucks declined due to the continued slowdown in the Japanese and North American markets. However, orders for small and medium-sized engines and turbochargers increased, primarily in Japan, and orders for special vehicles were stable. As a result, orders increased over the previous fiscal year to ¥290.7 billion (US$2,419 million), while net sales fell to ¥285.2 billion (US$2,373 million).

Positive factors in the air-conditioning and refrigeration systems business included major overseas orders for district cooling and heating plants, but orders for residential air conditioners decreased considerably due to slow sales in the domestic market and lower prices caused by heightened competition. Consequently, the total value of new orders decreased to ¥203.5 billion (US$1,693 million), while net sales totaled ¥204.4 billion (US$1,701 million), the same level as the previous fiscal year.

In the industrial machinery business, orders for food and packaging machinery declined due to reduced capital investment by companies in the domestic soft drink and beer industries. However, overseas orders of sheet-fed offset presses, machine tools, paper machinery and injection-molding machines, primarily to countries in Asia, such as China, were strong. As a result, the value of new orders increased to ¥183.1 billion (US$1,523 million). Despite higher sales of such products as sheet-fed offset presses and injection molding machines, decreases in sales of such products as paper machinery brought net sales down to ¥194.2 billion (US$1,615 million).

Large Sized Electric Injection Molding Machine 1450em

Ceiling Recessed Packaged Air Conditioner

Horizontal Machining Center “Σ (Sigma) Series”

Mitsubishi Cogeneration Package (Lean Burn Miller Cycle Gas Engine)

Commendation Ceremony of the 7th New Energy Award

MWT-S2000 Wind Turbine

Completion of Japan's Largest 2,000 kW Wind Turbine Power Generator

MHI has completed construction of a 2,000kW wind turbine power generator, the largest class in Japan. Test runs of the equipment were initiated at Okinawa New Energy Development Co., Inc. in February 2003 and operations began in April 2003. The wind turbine has been installed at the Gushikawa Power Station of The Okinawa Electric Power Company, Inc., to which the electricity is sold.

MHI has led the industry as Japan's sole large-sized wind turbine manufacturer since installing the first 40kW wind turbine power generator at the Nagasaki Shipyard & Machinery Works in 1980. To date, the Company has delivered approximately 1,400 turbines to customers worldwide, including 86 to customers in Japan. The completion of the 2,000kW wind turbine follows the development of Japan's first 1,000kW wind turbine in 1999. This was the first large-scale wind turbine generating 2,000kW or more developed by a non-European wind turbine manufacturer, and the world's largest commercial wind turbine using a permanent magnet synchronous generator.

The technology behind the synchronous generator system is highly regarded, receiving the Minister of Economy, Trade and Industry Prize at the 7th New Energy Awards held by the New Energy Foundation in February 2002.

Remodeled "Energy" Zone of the Museum

Renovation of Mitsubishi Minatomirai Industrial Museum Completed

At the Mitsubishi Minatomirai Industrial Museum, the Company's exhibition facility, the sections, or "zones," dealing with "environment" and "energy" have been completely remodeled.

Built in 1994 as a place that provides opportunities for the young generation, who will be responsible for the future, to expand their horizons by directly experiencing science and technology, the museum is divided into six zones incorporating MHI products and technology: "Environment," "Space," "Ocean," "Construction," "Energy" and "Technology All Around Us." Each zone features various exhibits including actual equipment, models, panel displays and images to make the material easy to understand.

The newly remodeled zones focus on new challenges related to environment and energy in the twenty-first century, and raise awareness of the fact that each and every one of us must do our part to solve these problems. The zones have received praise from educators for their suitability for the Integrated Study class taken by elementary and junior-high school students.

Please come and visit in person,
or at our website
URL: www.mhi.co.jp/e_museum/

"wakamaru"

Bundled Order of Ten Gas Turbines for China's First Large-Scale Natural Gas-Fired Power Projects

In March 2003, MHI signed the contracts for major power generation equipment, including ten gas turbines, for China's first large-scale natural gas-fired combined cycle power plant construction projects. The contracts were negotiated in cooperation with Dongfang Electric Corporation, one of the three largest power generation equipment manufacturers in China, headquartered in Chengdu, Sichuan Province. The signing ceremony took place at the Diaoyutai State Guesthouse in Beijing and was attended by Chinese government officials as well as executives and representatives from Chinese electric power companies, MHI and Dongfang Electric.

China plans to build a number of power generation plants throughout the country utilizing high efficiency gas turbines with clean gas energy. The fuels will be natural gas supplied via pipelines from inland China and liquefied natural gas (LNG) from a terminal currently under construction in Guangdong Province. The contracts are a first big step for MHI in contributing to the development of China's gas turbine power generation projects.

The Contract Signing Ceremony

Development of Futuristic Home-Use Robot

MHI has begun developing a humanoid home-use robot capable of living together with a family, looking after the house, and contacting a designated individual or organization if anything should happen to the family. A model of the robot has already been built nicknamed "wakamaru," which MHI unveiled in February 2003.

It is expected that a majority of owners will be elderly people living alone or people with potential health concerns. The robot features a permanent Internet connection and four main functions: house-sitting, caretaking, emergency notification, and health management.

Offering a new type of lifestyle in which people live together with robots, MHI aims to promote the spread of home-use robots.

Privatization of the H-IIA Launch Vehicle

In February 2003, the Ministry of Education, Culture, Sports, Science and Technology (MEXT) Space Activities Commission decided to transfer the basic technology behind the H-IIA Launch Vehicle standard type, Japan's primary launch vehicle, from the National Space Development Agency of Japan (NASDA) to MHI in order for MHI to develop a satellite launching service business.

These efforts toward privatization are expected to make the manufacture and sale of the H-IIA Launch Vehicle internationally competitive by involving the swift and efficient know-how of the private sector.

In the past, MHI has played a major role in the launch vehicle development and manufacturing, and now will be responsible for the entire production cycle for the H-IIA Launch Vehicle standard type as the prime contractor from manufacturing, sale and engineering to launching services, with launches scheduled to begin in 2005.

The Company is using this opportunity to expand its aerospace business, while working hard to ensure reliable safety measures and respond fully to everyone's expectations.

H-IIA Launch Vehicle Standard Type
(Courtesy of NASDA)

Board of Directors


Takashi Nishioka


Kazuo Tsukuda


Yoshio Miyake


Yoichiro Okazaki


Akira Tominaga


Akira Kaneuji


Junichi Maezawa


Ayao Tsuge


Motoo Makita


Kazunori Ohta


Shigeharu Matsuura


Ikuro Nagata

CHAIRMAN

Takashi Nishioka*

PRESIDENT

Kazuo Tsukuda*

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General Manager, Nuclear Energy Systems Headquarters

Yoichiro Okazaki*
General Manager, General Machinery & Special Vehicle Headquarters

Akira Tominaga*
General Manager, Power Systems Headquarters

Akira Kaneuji*
General Manager, Machinery Headquarters

Junichi Maezawa*
General Manager, Aerospace Headquarters

Ayao Tsuge*
General Manager, Technical Headquarters

Motoo Makita*
In charge of Accounting, Finance and Material

Kazunori Ohta*
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Shigeharu Matsuura*
General Manager, Steel Structures & Construction Headquarters

Ikuro Nagata*
General Manager, Presidential Administration Office

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President of Mitsubishi Corporation

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Deputy General Manager, Power Systems Headquarters

Hideo Egawa
General Manager, Global Strategic Planning & Operations Headquarters

Nobuyoshi Aikawa
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Hideaki Omiya
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Yoshimi Uratani
General Manager, Kobe Shipyard & Machinery Works

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Fumio Tomikawa
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Susumu Uchida
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Sunao Aoki
General Manager, Takasago Research & Development Center of Technical Headquarters

Kototsugu Taniguchi
General Manager, Industrial Machinery Division

Katsuhiko Yoshida
Deputy General Manager, General Machinery & Special Vehicle Headquarters

STATUTORY AUDITOR

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

Toyoshi Nakano
Chairman of The Mitsubishi Trust and Banking Corporation

Yasuo Yasaki

Toshinori Tomita

**Representative Director*

(As of June 26, 2003)

Consolidated Six-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
	2003	2002	2001	2000	1999	1998	**2003**
Net sales	**¥2,593,894**	¥2,863,985	¥3,045,024	¥2,875,039	¥2,907,762	¥3,096,110	**$21,579,820**
Operating income (loss)	**115,308**	78,655	74,889	(23,797)	65,308	144,259	**959,304**
Interest income and expenses — net	**(8,394)**	(9,407)	(7,708)	(7,607)	(3,386)	(2,608)	**(69,828)**
Income (loss) before income taxes and minority interests	**66,162**	48,028	(5,121)	(217,672)	49,018	133,535	**550,430**
Net income (loss)	**34,331**	26,447	(20,351)	(137,006)	18,089	60,605	**285,613**
Per 100 shares of common stock:							
Net income (loss) — primary	**¥1,014**	¥784	(¥603)	(¥4,062)	¥536	¥1,797	**$8.44**
Net income — assuming full dilution	**—**	782	—	—	515	1,782	**—**
Cash dividends	**600**	400	400	250	1,000	1,000	**4.99**
Total assets	**¥3,666,866**	¥3,915,276	¥4,236,634	¥4,636,739	¥4,746,597	¥4,731,822	**$30,506,372**
Stockholders' equity	**1,270,968**	1,282,727	1,278,242	1,245,064	1,337,378	1,368,866	**10,573,778**
Current assets	**2,389,358**	2,598,526	2,891,271	3,474,015	3,638,867	3,549,382	**19,878,186**
Current liabilities	**1,721,515**	1,881,226	1,965,808	2,319,456	2,399,150	2,436,755	**14,322,086**
Bank loans and long-term debt	**1,122,923**	1,049,998	1,090,696	1,205,301	1,249,231	1,177,473	**9,342,119**

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥120.20=U.S.$1, the exchange rate prevailing at March 31, 2003.
2. The accompanying consolidated financial statements for the years ended March 31, 2003 and 2002 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, 2003 and 2002

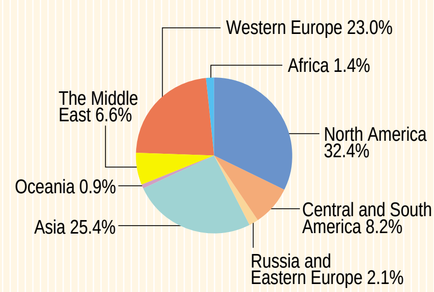
INDUSTRY SEGMENT	Net Sales: In millions of yen 2003	Net Sales: In millions of yen 2002	Net Sales: In thousands of U.S. dollars 2003	Operating Income (Loss): In millions of yen 2003	Operating Income (Loss): In millions of yen 2002	Operating Income (Loss): In thousands of U.S. dollars 2003
Shipbuilding & Ocean Development	**¥ 265,873**	¥ 290,043	**$ 2,211,922**	**¥ 11,118**	¥ 5,477	**$ 92,498**
Power Systems	**646,218**	899,712	**5,376,193**	**51,994**	31,558	**432,566**
Machinery & Steel Structures	**418,785**	430,043	**3,484,065**	**10,037**	9,574	**83,503**
Aerospace	**506,761**	472,002	**4,215,984**	**40,996**	33,376	**341,061**
Mass and Medium-Lot Manufactured Machinery	**683,847**	696,941	**5,689,242**	**(3,471)**	(8,247)	**(28,876)**
Others	**117,617**	121,023	**978,511**	**4,634**	6,917	**38,552**
Subtotal	**2,639,101**	2,909,764	**21,955,917**	**115,308**	78,655	**959,304**
Eliminations or Corporate	**(45,207)**	(45,779)	**(376,097)**	**—**	—	**—**
Total	**¥2,593,894**	¥2,863,985	**$21,579,820**	**¥115,308**	¥78,655	**$959,304**

INDUSTRY SEGMENT	Total Assets: In millions of yen 2003	Total Assets: In millions of yen 2002	Total Assets: In thousands of U.S. dollars 2003	Depreciation: In millions of yen 2003	Depreciation: In millions of yen 2002	Depreciation: In thousands of U.S. dollars 2003
Shipbuilding & Ocean Development	**¥ 276,469**	¥ 258,974	**$ 2,300,077**	**¥ 6,007**	¥ 6,431	**$ 49,974**
Power Systems	**830,846**	881,199	**6,912,193**	**22,540**	22,421	**187,522**
Machinery & Steel Structures	**481,284**	498,582	**4,004,029**	**9,389**	9,308	**78,113**
Aerospace	**617,487**	703,437	**5,137,165**	**16,647**	14,633	**138,495**
Mass and Medium-Lot Manufactured Machinery	**695,258**	741,619	**5,784,176**	**24,003**	24,642	**199,691**
Others	**286,780**	274,835	**2,385,855**	**18,430**	18,527	**153,324**
Subtotal	**3,188,124**	3,358,646	**26,523,495**	**97,016**	95,962	**807,119**
Eliminations or Corporate	**478,742**	556,630	**3,982,877**	**—**	—	**—**
Total	**¥3,666,866**	¥3,915,276	**$30,506,372**	**¥97,016**	¥95,962	**$807,119**

INDUSTRY SEGMENT	Capital Expenditures: In millions of yen 2003	Capital Expenditures: In millions of yen 2002	Capital Expenditures: In thousands of U.S. dollars 2003
Shipbuilding & Ocean Development	**¥ 5,925**	¥ 4,731	**$ 49,291**
Power Systems	**30,569**	26,360	**254,323**
Machinery & Steel Structures	**12,842**	9,244	**106,836**
Aerospace	**20,305**	18,089	**168,926**
Mass and Medium-Lot Manufactured Machinery	**25,629**	25,295	**213,218**
Others	**23,856**	26,051	**198,474**
Subtotal	**119,126**	109,770	**991,068**
Eliminations or Corporate	**—**	—	**—**
Total	**¥119,126**	¥109,770	**$991,068**

OVERSEAS SALES	In millions of yen 2003	In millions of yen 2002	In thousands of U.S. dollars 2003
Overseas Sales	**¥837,879**	¥1,018,770	**$6,970,705**
Ratio to Total Net Sales	**32.3%**	35.6%	

Composition of Overseas Net Sales by Geographic Distribution

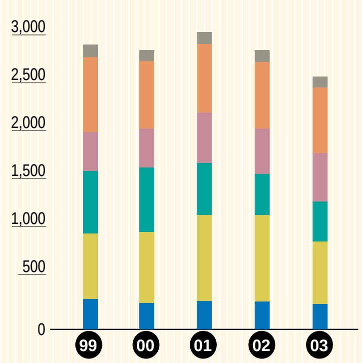


Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥120.20=U.S.$1, the exchange rate prevailing at March 31, 2003.
2. The accompanying consolidated financial statements for the years ended March 31, 2003 and 2002 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

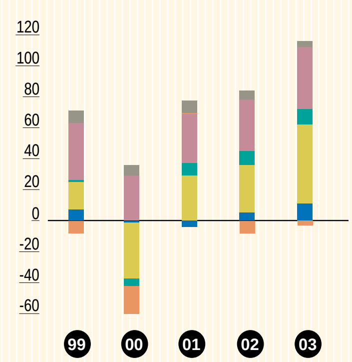
GEOGRAPHIC DISTRIBUTION	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**	**2003**	2002	**2003**
Japan	**¥2,447,329**	¥2,674,973	**$20,360,473**	**¥115,337**	¥79,587	**$959,539**
North America	**181,408**	213,044	**1,509,215**	**(3,826)**	(4,733)	**(31,826)**
Asia	**44,490**	47,180	**370,136**	**1,146**	1,580	**9,535**
Western Europe	**61,761**	60,201	**513,823**	**881**	1,248	**7,333**
Others	**8,416**	8,774	**70,014**	**1,770**	973	**14,723**
Subtotal	**2,743,404**	3,004,172	**22,823,661**	**115,308**	78,655	**959,304**
Eliminations or Corporate	**(149,510)**	(140,187)	**(1,243,841)**	**—**	—	**—**
Total	**¥2,593,894**	¥2,863,985	**$21,579,820**	**¥115,308**	¥78,655	**$959,304**

GEOGRAPHIC DISTRIBUTION	Total Assets		
	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Japan	**¥2,954,571**	¥3,056,963	**$24,580,460**
North America	**144,623**	216,274	**1,203,189**
Asia	**33,426**	30,277	**278,084**
Western Europe	**50,083**	48,591	**416,663**
Others	**5,421**	6,541	**45,099**
Subtotal	**3,188,124**	3,358,646	**26,523,495**
Eliminations or Corporate	**478,742**	556,630	**3,982,877**
Total	**¥3,666,866**	¥3,915,276	**$30,506,372**

Net Sales by Industry Segment
(In billions of yen)



Operating Income (Loss) by Industry Segment
(In billions of yen)



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

Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

	In millions of yen		In thousands of U.S. dollars (Note 3)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and deposits	**¥ 219,528**	¥ 221,287	**$ 1,826,354**
Trade receivables (Note 7):			
Notes	**46,413**	48,137	**386,127**
Accounts	**1,008,003**	1,044,140	**8,386,052**
Allowance for doubtful receivables	**(5,816)**	(9,531)	**(48,383)**
Securities (Note 4)	**1,111**	2,827	**9,246**
Inventories (Note 5)	**918,890**	1,039,519	**7,644,672**
Advances to suppliers	**33,785**	56,358	**281,076**
Deferred income taxes (Note 6)	**68,855**	101,197	**572,833**
Prepaid expenses and other current assets (Note 7)	**98,589**	94,592	**820,209**
Total current assets	**2,389,358**	2,598,526	**19,878,186**
Property, plant and equipment (Note 7)**:**			
Land	**140,362**	139,862	**1,167,740**
Buildings and structures	**659,299**	641,298	**5,485,017**
Machinery and equipment	**1,372,648**	1,350,443	**11,419,698**
Construction in progress	**25,794**	25,999	**214,592**
	2,198,103	2,157,602	**18,287,047**
Less accumulated depreciation	**(1,438,346)**	(1,399,537)	**(11,966,270)**
Net property, plant and equipment	**759,757**	758,065	**6,320,777**
Investments and advances:			
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	**83,814**	139,405	**697,288**
Long-term loans and advances	**92,114**	90,713	**766,340**
Investment securities (Note 4)	**287,206**	283,651	**2,389,398**
Deferred income taxes (Note 6)	**50,482**	40,258	**419,986**
Allowance for doubtful accounts	**(67,272)**	(62,737)	**(559,667)**
Net investments and advances	**446,344**	491,290	**3,713,345**
Other assets	**71,407**	67,395	**594,064**
Total assets	**¥3,666,866**	¥3,915,276	**$30,506,372**

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	In millions of yen 2003	2002	In thousands of U.S. dollars (Note 3) 2003
Current liabilities:			
Trade payables:			
Notes	**¥ 34,448**	¥ 83,591	**$ 286,590**
Accounts	**573,239**	610,403	**4,769,041**
Bank loans (Note 7)	**474,434**	339,172	**3,947,035**
Current portion of long-term debt (Note 7)	**161,776**	226,795	**1,345,889**
Advance payments received on contracts	**308,541**	394,099	**2,566,895**
Accrued expenses	**86,513**	126,397	**719,743**
Accrued income taxes	**8,598**	16,907	**71,529**
Allowance for losses on construction contracts	**5,844**	9,685	**48,619**
Other current liabilities	**68,122**	74,177	**566,745**
Total current liabilities	**1,721,515**	1,881,226	**14,322,086**
Long-term liabilities:			
Long-term debt (Note 7)	**486,713**	484,031	**4,049,195**
Reserve for retirement allowance (Note 8)	**152,097**	222,468	**1,265,365**
Other long-term liabilities	**22,786**	30,683	**189,564**
Total long-term liabilities	**661,596**	737,182	**5,504,124**
Total liabilities	**2,383,111**	2,618,408	**19,826,210**
Minority interests	**12,787**	14,141	**106,384**
Stockholders' equity:			
Common stock:			
Authorized — 6,000,000,000 shares			
Issued:			
2003 — 3,373,647,813 shares	**265,609**		**2,209,724**
2002 — 3,373,647,813 shares		265,609	
Capital surplus	**203,853**	203,853	**1,695,955**
Retained earnings	**745,288**	759,773	**6,200,398**
Net unrealized gains on investment securities	**59,984**	63,204	**499,035**
Foreign currency translation adjustments	**(3,621)**	(9,696)	**(30,125)**
Treasury stock:			
2003 — 541,691 shares	**(145)**		**(1,209)**
2002 — 43,833 shares		(16)	
Total stockholders' equity	**1,270,968**	1,282,727	**10,573,778**
Total liabilities, minority interests and stockholders' equity	**¥3,666,866**	¥3,915,276	**$30,506,372**

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Net sales	**¥2,593,894**	¥2,863,985	**$21,579,820**
Cost of sales	**2,203,902**	2,494,489	**18,335,296**
Gross profit	**389,992**	369,496	**3,244,524**
Selling, general and administrative expenses	**274,684**	290,841	**2,285,220**
Operating income	**115,308**	78,655	**959,304**
Non-operating income (expense):			
Interest and dividend income	**13,443**	16,554	**111,840**
Equity in earnings of unconsolidated subsidiaries and affiliates	**5,195**	5,712	**43,223**
Foreign exchange gains	**—**	16	**—**
Other income	**6,000**	6,527	**49,915**
Interest expense	**(21,837)**	(25,961)	**(181,669)**
Foreign exchange losses	**(23,094)**	—	**(192,133)**
Other expenses	**(16,822)**	(13,516)	**(139,953)**
	(37,115)	(10,668)	**(308,777)**
Ordinary income	**78,193**	67,987	**650,527**
Extraordinary income (expense):			
Gains on sales of fixed assets	**—**	2,887	**—**
Gains on sales of investment securities	**5,448**	2,641	**45,322**
Gains on contribution of investment securities to trust for retirement allowance	**14,791**	—	**123,051**
Losses on revaluation of investment securities (Note 9)	**(19,274)**	(12,941)	**(160,349)**
Business improvement and restructuring charges	**—**	(12,546)	**—**
Losses on damage from the cruise ship fire incident	**(12,996)**	—	**(108,121)**
	(12,031)	(19,959)	**(100,097)**
Income before income taxes and minority interests	**66,162**	48,028	**550,430**
Income taxes (Note 6)			
Current	**10,250**	29,346	**85,275**
Deferred	**21,445**	(8,420)	**178,412**
Minority interests in income after taxes	**136**	655	**1,130**
Net income	**¥ 34,331**	¥ 26,447	**$ 285,613**

	In yen		In U.S. dollars (Note 3)
Per 100 shares of common stock (Note 1)**:**	**2003**	2002	**2003**
Net income — primary	**¥1,014**	¥784	**$8.44**
Net income — assuming full dilution	**—**	782	**—**
Cash dividends	**600**	400	**4.99**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Common stock:			
Balance at beginning of year	**¥ 265,609**	¥ 265,455	**$ 2,209,724**
Conversion of convertible debentures (Note 10)	**—**	154	**—**
Balance at end of year	**265,609**	265,609	**2,209,724**
Capital surplus:			
Balance at beginning of year	**203,853**	203,701	**1,695,955**
Conversion of convertible debentures (Note 10)	**—**	152	**—**
Balance at end of year	**203,853**	203,853	**1,695,955**
Retained earnings:			
Balance at beginning of year	**759,773**	747,614	**6,320,903**
Net income	**34,331**	26,447	**285,613**
Cash dividends (Note 10)	**(16,868)**	(20,239)	**(140,331)**
Bonuses to directors and statutory auditors	**(120)**	—	**(998)**
Increase resulting from inclusion of consolidated subsidiaries and companies accounted for by the equity method	**519**	5,951	**4,316**
Decrease resulting from exclusion of affiliates accounted for by the equity method (Note 10)	**(32,347)**	—	**(269,105)**
Balance at end of year	**745,288**	759,773	**6,200,398**
Net unrealized gains on investment securities:			
Balance at beginning of year	**63,204**	78,269	**525,832**
Change during the period	**(3,220)**	(15,065)	**(26,797)**
Balance at end of year (Note 10)	**59,984**	63,204	**499,035**
Foreign currency transaction adjustments:			
Balance at beginning of year	**(9,696)**	(16,797)	**(80,669)**
Change during the period	**6,075**	7,101	**50,544**
Balance at end of year (Note 10)	**(3,621)**	(9,696)	**(30,125)**
Treasury stock:			
Balance at beginning of year	**(16)**	—	**(137)**
Change during the period	**(129)**	(16)	**(1,072)**
Balance at end of year	**(145)**	(16)	**(1,209)**
Total balance at end of year	**¥1,270,968**	¥1,282,727	**$10,573,778**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 66,162**	¥ 48,028	**$ 550,430**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**97,016**	95,962	**807,119**
Decrease in reserve for retirement allowance	**(47,258)**	(46,071)	**(393,162)**
Interest and dividend income	**(13,443)**	(16,554)	**(111,840)**
Interest expense	**21,837**	25,961	**181,668**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(5,195)**	(5,712)	**(43,223)**
Gains on contribution of investment securities to trust for retirement allowance	**(14,791)**	—	**(123,051)**
Losses on damage from the cruise ship fire incident	**12,996**	—	**108,121**
Other non-operating income and expenses	**—**	9,532	**—**
Decrease (increase) in receivables	**33,020**	(8,351)	**274,711**
Decrease in inventories and advances to suppliers	**138,890**	254,453	**1,155,487**
(Increase) decrease in other assets	**(1,570)**	29,082	**(13,058)**
Decrease in payables	**(65,391)**	(54,324)	**(544,015)**
Decrease in advance payments received on contracts	**(82,030)**	(163,041)	**(682,445)**
Decrease in other liabilities	**(76,045)**	(34,575)	**(632,653)**
Others	**11,847**	2,797	**98,565**
Subtotal	**76,045**	137,187	**632,654**
Interest and dividend received	**15,390**	18,032	**128,042**
Interest paid	**(22,514)**	(26,792)	**(187,306)**
Payments for income taxes	**(18,827)**	(29,310)	**(156,633)**
Net cash provided by operating activities	**50,094**	99,117	**416,757**
Cash flows from investing activities:			
Net decrease in time deposits	**3,844**	2,215	**31,979**
Proceeds from sales and redemption of marketable securities and investments	**445**	586	**3,704**
Purchases of property, plant, equipment and intangible assets	**(122,392)**	(103,002)	**(1,018,236)**
Proceeds from sales of property, plant, equipment and intangible assets	**1,795**	7,875	**14,936**
Purchases of investment securities	**(10,592)**	—	**(88,118)**
Proceeds from sales and redemption of investment securities	**16,029**	4,616	**133,353**
Disbursement of long-term loans	**(4,209)**	(11,793)	**(35,015)**
Collection of long-term loans	**10,413**	13,185	**86,631**
Others	**(1,483)**	(3,220)	**(12,346)**
Net cash used in investing activities	**(106,150)**	(89,538)	**(883,112)**
Cash flows from financing activities:			
Net increase (decrease) in bank loans	**136,680**	(6,171)	**1,137,102**
Proceeds from long-term debt	**120,601**	30,959	**1,003,333**
Repayment of long-term debt	**(140,124)**	(72,687)	**(1,165,760)**
Proceeds from issuance of bonds	**50,000**	—	**415,973**
Payment for redemption of bonds	**(90,000)**	—	**(748,752)**
Dividends paid to stockholders	**(16,805)**	(20,154)	**(139,807)**
Dividends paid to minority stockholders of subsidiaries	**(531)**	(880)	**(4,413)**
Others	**(520)**	(529)	**(4,318)**
Net cash provided by (used in) financing activities	**59,301**	(69,462)	**493,358**
Effect of exchange rate changes on cash and cash equivalents	**(3,469)**	5,897	**(28,863)**
Net decrease in cash and cash equivalents	**(224)**	(53,986)	**(1,860)**
Cash and cash equivalents at beginning of year	**189,718**	243,376	**1,578,349**
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	**962**	328	**8,003**
Cash and cash equivalents at end of year (Note 11)	**¥190,456**	¥189,718	**$1,584,492**

See accompanying notes to consolidated financial statements.

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 Financial Services Agency ("FSA") in Japan. The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices of the respective countries of domicile. Certain items presented in the consolidated financial statements filed with the FSA have been reclassified, and "Consolidated Statements of Stockholders' Equity", which is not required to file with the FSA, has been added to the primary financial statements.

The differences between the accounting principles and practices adopted by MHI and Subsidiaries and those prescribed by International Accounting Standards ("IAS") are set forth in Note 2.

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2003 and 2002 include the accounts of MHI and Subsidiaries. All significant inter-company transactions and accounts have been eliminated. Investments in unconsolidated subsidiaries and affiliates, with certain minor exceptions, are accounted for by the equity method.

c) Foreign currency translation

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

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

d) Securities

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

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

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

e) Inventories

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

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

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

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

f) Property, plant and equipment and depreciation

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

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

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

g) Leases

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

h) Allowance for doubtful receivables

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

i) Allowance for losses on construction contracts

An allowance for losses on construction contracts is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

If the costs of partially completed construction contracts (of the construction contracts covered by the allowance for losses on construction contracts at March 31, 2003 and 2002) exceed their respective contract revenues at the end of year, the excess of such costs is recognized as a loss on revaluation of partially completed construction contracts and, accordingly, is not included in the allowance for losses on construction contracts.

j) Reserve for retirement allowance

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

Prior service costs are expensed as incurred by MHI and most of Subsidiaries. Some Subsidiaries amortize those over 11 years, which is shorter than the employees' estimated average remaining service periods. Actuarial gains and losses are amortized from the following year of occurrence by the straight-line method over the employees' estimated average remaining service period.

MHI has established a retirement benefit trust of ¥23,145 million (US$192,557 thousand) by contributing investment securities totaling ¥8,354 million (US$69,506 thousand) at net book value. In this connection, MHI recognized gains on contribution of investment securities to trust for retirement allowance of ¥14,791 million (US$123,051 thousand) as extraordinary income for the year ended March 31, 2003.

k) Revenue recognition

Sales of products are principally recognized upon acceptance by customers. Revenue from long-term contracts with amounts over ¥10,000 million (US$83,195 thousand) each (over ¥5,000 million (US$41,597 thousand) as to aerospace contracts, and over ¥15,000 million (US$124,792 thousand) as to contracts started before fiscal year 2000) and a contract period of two years or longer, is recognized on the basis of the percentage-of-completion method.

The percentage-of-completion method had been applied to contracts with amounts over ¥15,000 million each and a contract period of two years or longer before the year ended March 31, 2001. However, since the proportion of long-term contracts has been, and is expected to continue to be high for MHI and Subsidiaries, the criteria for the use of this method have been revised for the year ended March 31, 2002 in order to ensure more appropriate appointment of incomes between fiscal years.

l) Tax-effect accounting

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

m) Cash and cash equivalents

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

n) Net income per share

The computation of primary net income per share is based on the average number of shares outstanding.

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

Effective the year ended March 31, 2003, MHI has adopted Accounting Standard No. 2 (“Accounting Standards for Earnings per Share”) and Accounting Standards Implementation Guidance No. 4 (“Implementation Guidance for Accounting Standard for Earnings per Share”) issued by the Accounting Standards Board of Japan on September 25, 2002.

In accordance with this new accounting standard, earnings which are not available to common stockholders, such as directors’ and statutory auditors’ bonuses, have been deducted from the net income used in the computation. Had the new standard been applied for the year ended March 31, 2002, net income per share would have been ¥7.80 instead of ¥7.84, and fully diluted earnings per share would have been ¥7.79 instead of ¥7.82.

2. Differences with International Accounting Standards

The accompanying consolidated financial statements of MHI, together with Subsidiaries, have been prepared in accordance with accounting principles and practices generally accepted in Japan.

The differences with International Accounting Standards (“IAS”) are summarized as follows:

Scope of consolidation

Under IAS No. 27, a parent which issues consolidated financial statements should consolidate all foreign and domestic subsidiaries.

Certain subsidiaries which give minor effect to the consolidated financial statements have been excluded from consolidation in accordance with accounting principles generally accepted in Japan. Even if IAS No. 27 had been applied, the difference would not have been material.

Inventories

Under IAS No. 2, inventories should be measured at the lower of cost and net realizable value.

Inventories are valued as indicated in section e) of Note 1 “Summary of Significant Accounting Policies”. Regarding work in process which occupies a significant portion of inventories, the costs which exceed their respective contract revenues have been recognized as loss on revaluation. Even if IAS No. 2 had been applied, the difference in the aggregate value of inventories would not have been material.

Reserve for retirement allowance

Under IAS No.19, to the extent that the benefits are already vested, an enterprise should recognize prior service costs immediately.

The accounting procedure for amortization is indicated in Note 8. In certain Subsidiaries, prior service costs are amortized over 11 years. Even if IAS No.19 had been applied, the difference would not have been material.

Leases

Under IAS No.17, lessees should recognize finance leases as assets and liabilities in their balance sheets and lessors should recognize assets as receivables held under a finance lease in their balance sheets.

In MHI and domestic Subsidiaries, leases, except those which transfer ownership to the lessee, have been treated in the same way as operating leases. However, lease transactions of foreign Subsidiaries are accounted for as either finance leases or operating leases in conformity with generally accepted accounting principles and practices in the respective countries of domicile. Even if IAS No.17 had been applied, the difference would not have been material.

Revenue recognition and expected losses for construction contracts

Under IAS No.11, construction contracts should be accounted for by the percentage-of-completion method, and expected losses should be recognized as expenses immediately.

Revenue recognition and expected losses on construction contracts are indicated in section k) and i) of Note 1 "Summary of Significant Accounting Policies", respectively. Even if IAS No.11 had been applied, the difference would not have been material.

Impairment of assets

Under IAS No. 36, if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount.

The carrying amounts of land which MHI and Subsidiaries possess are, in general, below the net selling prices. Even if IAS No. 36 had been applied, the difference would not have been material.

Business combinations

MHI and Subsidiaries have not had such activities as should be accounted for under IAS No. 22, during the years ended March 31, 2003 and 2002.

Discontinuing operations

MHI and Subsidiaries have not had such occurrences as should be accounted for under IAS No.35, during the years ended March 31, 2003 and 2002.

3. 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 ¥120.20=U.S.$1 prevailing at March 31, 2003 has been used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Securities

a) Other securities with market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2003 and 2002 consisted of the following:

	In millions of yen			In thousands of U.S. dollars		
	2003			2003		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥ 50,257	¥164,773	¥114,516	$ 418,113	$1,370,822	$ 952,709
Bonds	242	361	119	2,017	3,006	989
Others	8	10	2	59	80	21
Subtotal	¥ 50,507	¥165,144	¥114,637	$ 420,189	$1,373,908	$ 953,719
ii) Acquisition costs over carrying amounts:						
Equity securities	¥ 96,137	¥ 83,001	(¥ 13,136)	$ 799,813	$ 690,524	($ 109,289)
Others	1,190	1,116	(74)	9,897	9,288	(609)
Subtotal	¥ 97,327	¥ 84,117	(¥ 13,210)	$ 809,710	$ 699,812	($ 109,898)
Total (i + ii)	¥147,834	¥249,261	¥101,427	$1,229,899	$2,073,720	$ 843,821

	In millions of yen		
	2002		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥113,110	¥213,576	¥100,466
Bonds	242	368	125
Others	2,276	2,302	26
Subtotal	¥115,628	¥216,246	¥100,617
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 48,151	¥ 45,513	(¥ 2,638)
Total (i + ii)	¥163,779	¥261,759	¥ 97,979

MHI and Subsidiaries treated securities whose market values showed a substantial decline and were not judged to recover, as impaired. The amount reflecting the impairment loss is recorded as the acquisition cost for these securities. Securities were judged as impaired when their market values had declined 50% or more from their book values at the end of respective fiscal years, or had declined between 30% and 50% from their book values both at the interim period and the end of respective fiscal years.

The amount of impairment losses for the years ended March 31, 2003 and 2002 amounted to ¥18,272 million (US$152,013 thousand) and ¥11,925 million, respectively, with respect to securities with market value classified as other securities.

b) Sales amounts of other securities and related gains and losses for the years ended March 31, 2003 and 2002, excluding investment securities contributed to the retirement benefit trust mentioned in 1 j), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Sales amounts	**¥255,071**	¥389,144	**$2,122,053**
Gains	**5,367**	2,674	**44,653**
Losses	**186**	(9)	**1,547**

c) Other securities without market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2003 and 2002 mainly consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Equity securities - unlisted	**¥30,495**	¥23,396	**$253,704**
Foreign bonds - unlisted	**—**	5,000	**—**
Negotiable certificate of deposits (“CD”)	**—**	2,320	**—**

MHI and Subsidiaries treated as impaired those securities whose equity values were judged to have declined 50% or more from their book values due to financial difficulties of the issuers. The amount of impairment loss for the years ended March 31, 2003 and 2002 amounted to ¥348 million (US$2,892 thousand) and ¥554 million, respectively, with respect to other securities without market value.

d) Securities of which the purpose of retention was reclassified in the year ended March 31, 2003 were as follows:

	In millions of yen			In thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Unrealized gain	Acquisition cost	Carrying amount	Unrealized gain
	¥14,496	¥67,792	¥53,296	$120,596	$563,991	$443,395

MHI and Subsidiaries have reclassified the investment securities in Mitsubishi Motors Corporation ("MMC") from "investment in unconsolidated subsidiaries and affiliates" to "other securities with market value" for the year ended March 31, 2003, and excluded MMC from affiliates accounted for by the equity method, since MHI does not have significant influence. The number of shares was not changed. These amounts are included in 4 a) above.

e) The contractual maturities of other securities at March 31, 2003 and 2002 were as follows:

	In millions of yen			In thousands of U.S. dollars		
	2003			**2003**		
	Due within one year	Due after one year through five years	Due after five years	Due within one year	Due after one year through five years	Due after five years
CD	**¥1,010**	**¥ —**	**¥—**	**$8,399**	**$ —**	**$—**
Bonds and Debentures						
Bonds	**19**	**361**	**—**	**161**	**3,006**	**—**
Debentures	**—**	**1,433**	**—**	**—**	**11,921**	**—**
Others	**102**	**381**	**—**	**847**	**3,170**	**—**
	¥1,131	**¥2,175**	**¥—**	**$9,407**	**$18,097**	**$—**

	In millions of yen		
	2002		
	Due within one year	Due after one year through five years	Due after five years
CD	¥2,330	¥ —	¥—
Bonds and Debentures			
Bonds	—	—	368
Debentures	359	2,100	—
Others	148	431	—
	¥2,837	¥2,531	¥368

5. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Finished products	**¥122,285**	¥ 125,273	**$1,017,349**
Work in process	**742,729**	859,017	**6,179,107**
Raw materials	**53,876**	55,229	**448,216**
	¥918,890	¥1,039,519	**$7,644,672**

6. Income Taxes

MHI and Subsidiaries are subject to corporation income tax, corporation inhabitants' tax and corporation enterprise tax, based on income, which in the aggregate resulted in the statutory effective tax rate of approximately 42%.

a) Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002, which arose as a result of the recognition of the tax effect mentioned in Note 1 l), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Reserve for retirement allowance	**¥113,794**	¥125,070	**$ 946,704**
Tax loss carryforwards	**29,956**	—	**249,219**
Accrued expenses for product warranty	**18,003**	19,192	**149,777**
Allowance for doubtful receivables	**17,570**	16,959	**146,176**
Accrued expenses for construction contracts	**14,260**	21,900	**118,637**
Accrued bonuses to employees	**6,467**	16,410	**53,799**
Allowance for losses on construction contracts	**3,130**	4,307	**26,040**
Others	**42,115**	65,092	**350,368**
Subtotal	**245,295**	268,930	**2,040,720**
Valuation allowance	**(640)**	(7,582)	**(5,319)**
Total gross deferred tax assets	**244,655**	261,348	**2,035,401**
Deferred tax liabilities:			
Gains on contribution of investment securities to trust for retirement allowance	**(72,609)**	(70,640)	**(604,068)**
Net unrealized gains on investment securities	**(45,349)**	(42,485)	**(377,283)**
Reserve for reduction in costs of fixed assets	**(4,661)**	(4,839)	**(38,777)**
Others	**(2,918)**	(2,663)	**(24,273)**
Total gross deferred tax liabilities	**(125,537)**	(120,627)	**(1,044,401)**
Net deferred tax assets	**¥119,118**	¥140,721	**$ 991,000**

Note: Net deferred tax assets and liabilities at March 31, 2003 and 2002 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Deferred income taxes in current assets	**¥68,855**	¥101,197	**$572,833**
Deferred income taxes in investments and advances	**50,482**	40,258	**419,986**
Other current liabilities	**150**	25	**1,243**
Other long-term liabilities	**69**	709	**576**

b) Reconciliation of the statutory effective income tax rate and the income tax rate as a percentage of income before income taxes and minority interests at March 31, 2003 were as follows:

	2003
Japanese statutory effective income tax rate	**42.0%**
Adjustment:	
Equity in earnings of unconsolidated subsidiaries and affiliates	**(3.3)**
Items excluded from expenses	**2.9**
Items excluded from gross income	**(1.1)**
Decrease of deferred tax assets due to change in Japanese statutory income tax rate	**3.4**
Others	**4.0**
Income tax rate as a percentage of income before income taxes and minority interests	**47.9%**

Reconciliation for the year ended March 31, 2002 was not shown, because the difference between the statutory effective income tax rate and the income tax rate as a percentage of income before income taxes and minority interests was less than 5% of the former.

c) As the Japanese local tax law was revised on March 31, 2003, MHI and Subsidiaries have changed the statutory effective income tax rate used in calculation of deferred tax assets and liabilities, which are expected to be realized after April 1, 2004, from 42% to 41%. As a result of this change, the net deferred tax assets decreased by ¥1,300 million (US$10,816 thousand) and deferred income tax and net unrealized gains on investment securities increased by ¥2,264 million (US$18,833 thousand) and ¥964 million (US$8,017 thousand), respectively.

7. Bank Loans and Long-Term Debt

Bank loans represented principally by notes payable to banks and bank loans at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Secured	**¥ 13,486**	¥ 18,013	**$ 112,197**
Unsecured	**460,948**	321,159	**3,834,838**
	¥474,434	¥339,172	**$3,947,035**

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Loans, principally from banks and insurance companies, due 2003 to 2022 with interest ranging from 0.29% to 8.0%:			
Secured	**¥ 31,276**	¥ 29,505	**$ 260,204**
Unsecured	**300,342**	306,325	**2,498,687**
Debenture bonds due 2003 to 2013 with interest ranging from 1.48% to 6.5%	**270,000**	310,000	**2,246,256**
Unsecured bonds due 2005 to 2007 with interest ranging from 8.29% to 8.39% by a consolidated subsidiary	**5,995**	6,597	**49,875**
Export loans received from main contractors, due 2003 to 2010 with interest ranging from 2.3% to 7.6%	**40,876**	58,399	**340,063**
Subtotal	**648,489**	710,826	**5,395,085**
Less current portion due within one year	**161,776**	226,795	**1,345,890**
Total	**¥486,713**	¥484,031	**$4,049,195**

A summary of assets pledged as collateral for bank loans and long-term debt at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Property, plant and equipment	**¥15,600**	¥17,000	**$129,785**
Trade receivables:			
Notes	**9,447**	8,750	**78,594**
Accounts	**12,539**	8,052	**104,313**
Short-term loans included in prepaid expenses and other current assets	**6,106**	6,673	**50,801**
	¥43,692	¥40,475	**$363,493**

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

	In millions of yen	In thousands of U.S. dollars
2003	¥161,776	$1,345,890
2004	101,617	845,400
2005	74,991	623,885
2006	41,863	348,281
2007	84,132	699,929
2008 and thereafter	184,110	1,531,700
	¥648,489	$5,395,085

8. Retirement Benefits

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

Actuarial losses are amortized over a period shorter than the estimated average remaining service period of employees from the following year of the occurrence by the straight-line method. Prior service costs were incurred and expensed in the current year in MHI, and amortized over 11 years starting the year of the occurrence by the straight-line method in Subsidiaries.

a) Benefit obligations and related information at March 31, 2003 and 2002 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Benefit obligations	**(¥739,941)**	(¥762,796)	**($6,155,915)**
Fair value of plan assets	**337,568**	380,697	**2,808,389**
Unfunded benefit obligations	**(402,373)**	(382,099)	**(3,347,526)**
Unrecognized actuarial loss	**250,629**	159,908	**2,085,100**
Unrecognized prior service cost (benefit)	**(236)**	(265)	**(1,969)**
Net benefit liability recognized on the consolidated balance sheet	**(151,980)**	(222,456)	**(1,264,395)**
Prepaid pension expense	**117**	12	**969**
Reserve for retirement allowance	**(¥152,097)**	(¥222,468)	**($1,265,364)**

b) Benefit expenses for the years ended March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥29,507**	¥29,219	**$245,485**
Interest cost	**22,134**	22,363	**184,140**
Expected return on plan assets	**(10,993)**	(11,246)	**(91,454)**
Amortization of unrecognized actuarial loss	**12,797**	5,690	**106,462**
Amortization of unrecognized service cost (benefit)	**787**	2,591	**6,546**
Net benefit expenses	**¥54,232**	¥48,617	**$451,179**

c) The principal assumptions used in determining the information above at March 31, 2003 and 2002 were as follows:

		2003	2002
Discount rate		**3.0%**	3.0%
Expected rate of return on plan assets		**4.0%**	4.0%
Amortization period for prior service cost	MHI	**Expensed as incurred**	
	Subsidiaries	Expensed as incurred or 11 years	
Amortization period for actuarial gain/loss	MHI	**13 years**	
	Subsidiaries	11~20 years	

9. Losses on Revaluation of Investment

Losses on revaluation of investment securities for the year ended March 31, 2003 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Devaluation of securities	¥18,582	$154,592
Devaluation of golf club membership	692	5,757
	¥19,274	$160,349

10. Stockholders' Equity

a) Common stock

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

b) Capital surplus

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

c) Retained earnings

Cash dividends 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.

Decrease resulting from exclusion of affiliates accounted for by the equity method is due to the exclusion of Mitsubishi Motors Corporation ("MMC").

d) Net unrealized gains on investment securities

The accounting policy of this account is described in Note 1 d). The unrealized gains at March 31, 2003 and 2002 were ¥101,720 million (US$846,257 thousand) and ¥104,191 million, respectively, and ¥59,984 million (US$499,035 thousand) and ¥63,204 million, net of tax effect, were accounted for as net unrealized gains on investment securities for the respective year ends.

The unrealized gain on the investment in the MMC securities, which were reclassified from "investment in unconsolidated subsidiaries and affiliates" to "other securities with market value", was ¥53,296 million (US$443,395 thousand), or ¥31,443 million (US$261,589 thousand) net of tax effect, and is included in the amount of net unrealized gains on investment securities for the year ended March 31, 2003.

e) Foreign currency translation adjustments

The accounting policy of this account is described in Note 1 c).

11. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Cash and deposits	**¥219,528**	¥221,287	**$1,826,354**
Time deposits with maturities over three months	**(30,312)**	(34,059)	**(252,178)**
Short-term investments with maturities within three months included in marketable securities	**1,000**	2,320	**8,319**
Short-term investments with maturities within three months included in prepaid expenses and other current assets	**240**	170	**1,997**
	¥190,456	¥189,718	**$1,584,492**

12. 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
	2003	2002	**2003**
Equivalent of acquisition cost:			
Tools and equipment	**¥12,784**	¥15,596	**$106,357**
Others	**2,777**	3,249	**23,101**
	¥15,561	¥18,845	**$129,458**
Equivalent of accumulated depreciation:			
Tools and equipment	**¥ 7,155**	¥ 8,394	**$ 59,528**
Others	**1,628**	2,016	**13,543**
	¥ 8,783	¥10,410	**$ 73,071**
Equivalent of balance at the balance sheet date:			
Tools and equipment	**¥ 5,629**	¥ 7,202	**$ 46,829**
Others	**1,149**	1,233	**9,558**
	¥ 6,778	¥ 8,435	**$ 56,387**

ii) The equivalent of undue lease payments (including interest portion) at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Within one year	**¥2,756**	¥3,447	**$22,926**
Thereafter	**4,022**	4,988	**33,461**
	¥6,778	¥8,435	**$56,387**

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, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Lease payments	**¥3,513**	¥4,205	**$29,225**

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

b) As lessor

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

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Acquisition cost:			
Machinery and equipment	**¥66,944**	¥64,516	**$556,938**
Others	**4,606**	3,339	**38,319**
	¥71,550	¥67,855	**$595,257**
Accumulated depreciation:			
Machinery and equipment	**¥27,803**	¥26,648	**$231,304**
Others	**2,065**	1,344	**17,181**
	¥29,868	¥27,992	**$248,485**
Balance at the balance sheet date:			
Machinery and equipment	**¥39,141**	¥37,868	**$325,634**
Others	**2,541**	1,995	**21,138**
	¥41,682	¥39,863	**$346,772**

ii) Undue lease income (including interest portion), at March 31, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Within one year	**¥15,208**	¥13,356	**$126,524**
Thereafter	**35,166**	33,705	**292,562**
	¥50,374	¥47,061	**$419,086**

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, 2003 and 2002 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Lease income	**¥15,162**	¥14,369	**$126,136**
Depreciation expenses	**13,564**	13,147	**112,843**

13. Contingent Liabilities

Contingent liabilities for guarantees to loans of others made in the ordinary course of business amounted to ¥176,836 million (US$1,471,178 thousand) and ¥203,341 million at March 31, 2003 and 2002, respectively.

14. Revision of the Term for the Payment of Employees' Bonuses

No accrual for employees' bonuses of MHI was provided for the year ended March 31, 2003, because of a revision of the term for the payment of bonuses to employees. The effect of this revision was to increase operating income, ordinary income and income before income taxes and minority interests by ¥26,507 million (US$220,526 thousand) for the year ended March 31, 2003, compared with those calculated under the previous term for the payment of bonuses to employees.

15. Supplementary Income Information

	In millions of yen		In thousands of U.S. dollars
	2003	2002	**2003**
Depreciation	**¥ 97,016**	¥ 95,962	**$807,119**
Research and development costs (including routine or periodic alterations to existing products)	**109,475**	118,556	**910,774**

16. Subsequent Events

a) On June 24, 2003, MHI issued 0.365% unsecured debentures due June 24, 2010 of ¥20,000 million (US$166,389 thousand) and 0.7% due June 24, 2013 of ¥50,000 million (US$415,973 thousand) at par, in accordance with the resolution of the Board of Directors on May 29, 2003.

b) At the Ordinary General Meeting of Shareholders on June 26, 2003, the shareholders approved the following:
i) Appropriation of retained earnings
Appropriation of retained earnings are as follows:

	In millions of yen	In thousands of U.S. dollars
	2003	2003
Cash dividends	¥20,240	$168,387
Reserve for reduction in costs of fixed assets	111	924
Bonuses to directors and statutory auditors	120	998
	¥20,471	$170,309

ii) Acquisition of treasury stock
In accordance with the provisions of Article 210 of the Commercial Code, MHI can purchase its shares up to 100 million share and ¥30,000 million (US$249,584 thousand) in a period through the next Ordinary General Meeting of Shareholders.

iii) Grant of stock option
In accordance with provisions of Article 280-20 and Article 280-21 of the Commercial Code, MHI will grant stock options up to 540,000 shares to directors in a period from June 27, 2003 to June 26, 2009 with the following terms and conditions.

Outline:

Recipients	Directors who are designated by the Board of Directors
Type of stock	Common stock
Number of shares	Up to 540,000 shares
Exercise value	Note (1)
Exercisable period	From June 27, 2005 to June 26, 2009
Other conditions on exercise	Note (2)
Restriction on transfer	Approval of the Board of Directors is required for the transfer of subscription rights.

Note (1):

The amount to be paid on exercise will be determined by multiplying the amount paid per share issued or transferred for this purpose (hereinafter called “exercise value”) by the number of shares granted.

The exercise value will be the higher of: (a) the average (fractions of one yen being rounded up) of the closing price of MHI’s common shares traded in regular transaction on the Tokyo Stock Exchange (“closing price”) for each day (except for days when no trading takes place) of the month preceding the month which includes the day when shares are issued or transferred for this purpose (“date of issue”), such average being calculated only for days when there was a closing price, and (b) the closing price on the date of issue (if there was no closing price on that day, the closing price on the nearest prior date).

Further, if any of the following events occurs after the date of issue, the exercise value will be adjusted accordingly.

① In the event that MHI carries out a split or a reverse split of its common stock, the exercise value will be adjusted according to the following formula and any fractions of one yen resulting from the adjustment will be rounded up.

$$\text{Exercise value after adjustment} = \text{Exercise value before adjustment} \times \frac{1}{\text{Ratio of split or reverse split}}$$

② In the event that MHI issues new common shares or disposes of its treasury stock at a value lower than the market price (except for the case of exercise of subscription right), the exercise value will be adjusted according to the following formula and any fractions of one yen resulting from the adjustment will be rounded up.

$$\text{Exercise value after adjustment} = \text{Exercise value before adjustment} \times \frac{\text{No. of shares already issued} + \dfrac{\text{No. of new shares issued} \times \text{Amount paid per share}}{\text{Market price}}}{\text{No. of shares already issued} + \text{No. of new shares issued}}$$

In the above formula, the “number of shares already issued” means the total number of shares issued by MHI minus the number of treasury stock. In case MHI disposes of its treasury stock, the “number of new shares issued” should be read as the “number of treasury stock disposed of”.

③ If MHI should face circumstances such as capital reduction, merger or corporate divestiture, making it unavoidable to adjust the exercise value, it will be adjusted within a reasonable range, taking into consideration matters such as the terms of capital reduction, merger or corporate divestiture.

Note (2):

① Partial exercise of subscription right is not allowed.

② An eligible recipient who has been allotted subscription right (hereinafter called “stock option holder”) may exercise the right after losing his position as director of MHI. In the event that a stock option holder dies, his/her heirs may exercise the subscription right.

③ Subscription right may not be transferred to a third party, pledged or otherwise disposed of without the approval of the Board of Directors of MHI.

④ Other conditions will be as prescribed in the “Agreement on Allotment of Subscription Right to New Shares” entered between MHI and the recipients based on a resolution of this General Meeting of Shareholders of MHI and a resolution of the Board of Directors.

Shin Nihon & Co.

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

Report of Independent Auditors

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Mitsubishi Heavy Industries, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly, in all material respects, the consolidated financial position of Mitsubishi Heavy Industries, Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Explanatory information

1)As described in Note 1.k) to the consolidated financial statements, Mitsubishi Heavy Industries, Ltd. changed the criteria for the use of the percentage-of-completion method for the year ended March 31, 2002.

2)As described in Note 16.a) and b) ii), iii) to the consolidated financial statements, Mitsubishi Heavy Industries, Ltd. issued the unsecured debentures on June 24, 2003, and acquisition of treasury stock and grant of stock option were approved at the Ordinary General Meeting of Shareholders on June 26, 2003.

3)The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3. to the consolidated financial statements.

Shin Nihon & Co.

June 26, 2003

Corporate Data

Head Office
16-5, Konan 2-chome, Minato-ku,
Tokyo 108-8215, Japan
Phone: +81-3-6716-3111
Fax: +81-3-6716-5800
(New office opened May 6, 2003)

Established: January 11, 1950

Paid-in Capital: ¥265.6 billion

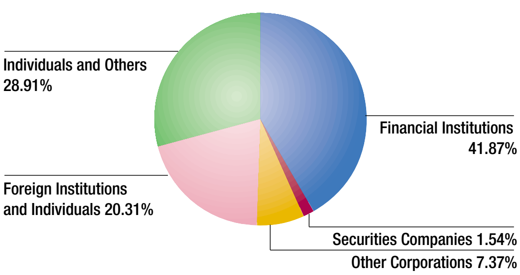
Total Number of Shares Authorized: 6,000,000,000

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

Number of Shareholders: 312,304

Number of Employees: 61,292

Composition of Shareholders



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

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

Ticker Code: 7011

Transfer Agent: The Mitsubishi Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

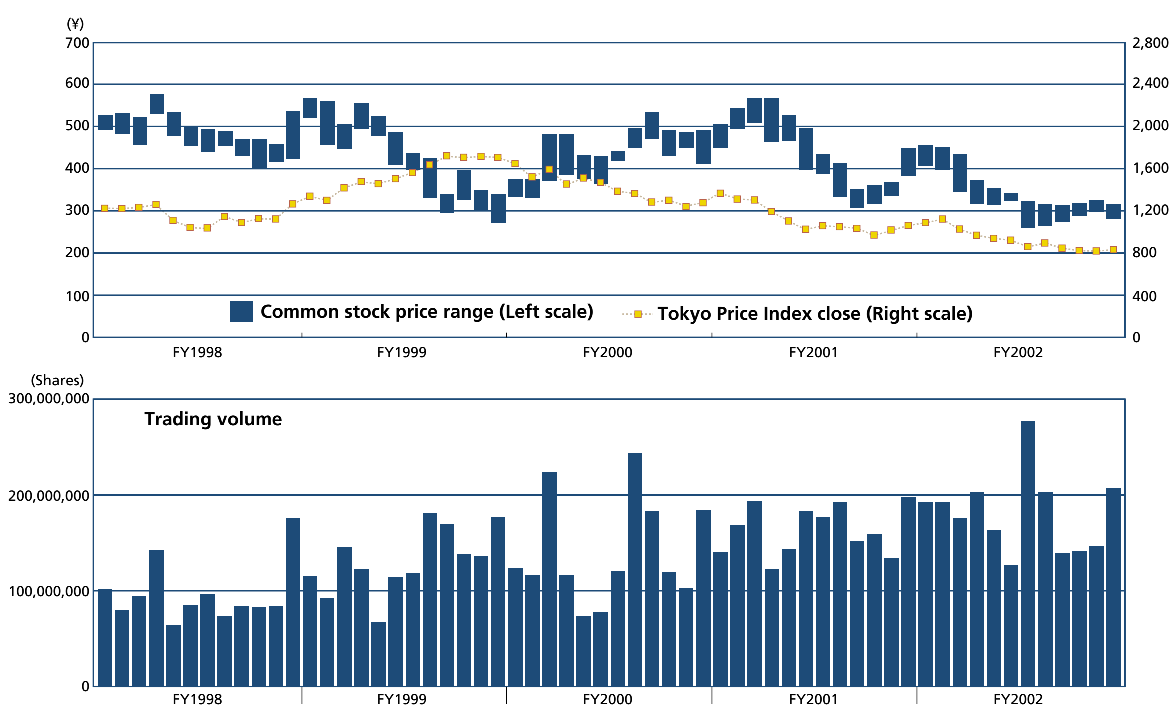
Certified Public Accountants: Shin Nihon & Co.
Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo 100-0011, Japan

Major Shareholders

	Number of shares owned by major shareholders	% of total shares
Japan Trustee Services Bank, Ltd. (Holder in Trust)	250,933,000	7.44%
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	150,940,000	4.47
The Master Trust Bank of Japan, Ltd. (Holder in Retirement Benefit Trust for The Bank of Tokyo-Mitsubishi, Ltd.)	125,666,000	3.72
The Meiji Mutual Life Insurance Company	112,022,741	3.32
The Tokio Marine and Fire Insurance Co., Ltd.	63,000,000	1.87
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	61,219,300	1.81
UFJ Trust Bank (Holder in Trust A)	46,404,000	1.38
Euroclear Bank S.A. /N.V.	46,289,410	1.37
The Mitsubishi Trust and Banking Corporation	45,944,470	1.36
The Mitsubishi Trust and Banking Corporation (Holder in Trust)	44,231,000	1.31

(As of March 31, 2003)

MONTHLY STOCK PRICE RANGE & TRADING VOLUME
(Tokyo Stock Exchange)



Further Information
For further information, please contact:

Head Office
Investor Relations Group
Corporate Communication Department
16-5, Konan 2-chome, Minato-ku, Tokyo
108-8215, Japan
Phone: +81-3-6716-3111 (Rep)
Fax: +81-3-6716-5800

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