MITSUBISHI
HEAVY INDUSTRIES, LTD.

ANNUAL REPORT 2004

For the Year Ended March 31, 2004

OUR VISION :
MHI, A PREMIER GLOBAL ORGANIZATION

- **Live up to the trust of customers with outstanding technology**
- **Help people worldwide lead safe and fulfilling lives**
- **Aim for sustainable growth**

CONTENTS

Financial Highlights 1
A Message from the Management 2
An Interview with President Kazuo Tsukuda 6
MHI at a Glance 8
Review of Operations
Shipbuilding & Ocean Development 9
Power Systems 10
Machinery & Steel Structures 11
Aerospace 12
Mass and Medium-Lot Manufactured Machinery 13
Topics 14
Board of Directors 16
Corporate Governance 17
Financial Section 18
Corporate Data 46

FORWARD-LOOKING STATEMENTS

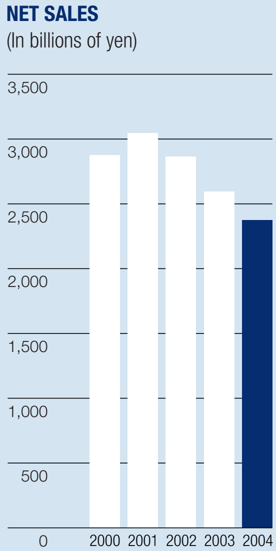
This report contains forward-looking statements regarding MHI's plans, outlook, strategies and results for the future that are based on management's estimates, assumptions and projections at the time of publication. Certain risks and uncertainties could cause MHI's actual results to differ materially 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.

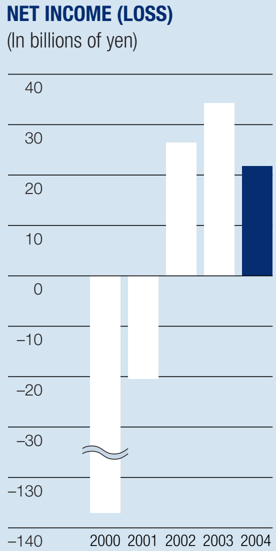
FINANCIAL HIGHLIGHTS

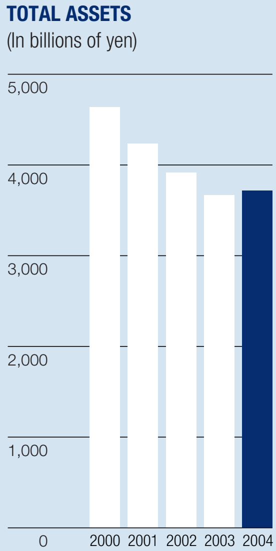
Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	In millions of yen except per share amounts		In thousands of U.S. dollars except per share amounts	Percent change
	2004	2003	**2004**	
Orders received	**¥2,662,844**	¥2,480,933	**$25,194,853**	7.3%
Net sales	**2,373,441**	2,593,894	**22,456,628**	(8.5)
Operating income	**66,631**	115,308	**630,435**	(42.2)
Net income	**21,787**	34,331	**206,142**	(36.5)
Research and development costs	**99,515**	109,475	**941,572**	(9.1)
Capital expenditures	**109,832**	119,126	**1,039,192**	(7.8)
Depreciation and amortization	**99,816**	97,016	**944,423**	2.9
Per share of common stock:				
Net income — basic	**¥6.46**	¥10.14	**$0.061**	(36.3)%
Cash dividends	**6.00**	6.00	**0.057**	–
Total assets	**¥3,715,359**	¥3,666,866	**$35,153,359**	1.3%
Stockholders' equity	**1,324,498**	1,270,968	**12,531,913**	4.2
Bank loans and long-term debt	**1,101,269**	1,122,923	**10,419,803**	1.9

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥105.69 = U.S.$1, the exchange rate prevailing at March 31, 2004.
2. The accompanying consolidated financial statements for the years ended March 31, 2004 and 2003 have been compiled in accordance with accounting principles and practices generally accepted in Japan.







A MESSAGE FROM THE MANAGEMENT

Operating Environment and Performance

During the fiscal year ended March 31, 2004, the Japanese economy showed signs of a gradual but steady recovery, despite the persistent long-term decline in public-sector spending. Key factors supporting this upturn included the continued rise in exports, primarily to a steadily recovering United States and a rapidly growing China, and increased private-sector capital investment on the back of improving corporate profitability.

This operating environment helped Mitsubishi Heavy Industries, Ltd. (MHI) to post a year-on-year increase in orders on the back of a significant increase in exports, mainly new shipbuilding and large-scale thermal power plant projects. This more than outweighed a decline in domestic orders due to falling capital investment by electric utilities, lower spending on public works projects and other factors. By division, orders in both the Aerospace division and the Machinery & Steel Structures division were down year on year , but higher orders in the Shipbuilding & Ocean Development division, the Power Systems division, and the Mass and Medium-Lot Manufactured Machinery division translated into an overall year-on-year increase of more than 7.3% in the value of orders received to ¥2,662.8 billion (US$25,195 million).

Although orders rose, net sales declined by approximately 8.5% to ¥2,373.4 billion (US$22,457 million). This was mainly due to a continuing decline in major projects in the Aerospace and Power Systems divisions, and falling sales in the Shipbuilding & Ocean Development division, which cancelled out higher sales in the Machinery & Steel Structures and Mass and Medium-Lot Manufactured Machinery divisions.

During the year, there was success in further reducing selling, general and administrative expenses and other costs, but the substantial drop in net sales and an appreciating yen against the dollar led to a ¥48.7 billion decline in operating income to ¥66.6 billion (US$630 million), while ordinary income fell ¥48.4 billion to ¥29.8 billion (US$282 million). MHI had extraordinary expenses of ¥21.3 billion (US$201 million), mainly arising from one-off charges related to business improvement and restructuring aimed at reinforcing the Company's operating base. This was offset by extraordinary

Left: Takashi Nishioka
Chairman
Right: Kazuo Tsukuda
President

income of ¥41.6 billion (US$393 million), largely from gains on sales of fixed assets and the partial reversal of prior service costs related to a revision to the expected rate of return on employee pension funds. As a result of the above, income before income taxes and minority interests was ¥50.1 billion (US$474 million) and net income was ¥21.8 billion (US$206 million).

Although net income was ¥12.5 billion less than in the previous year, the Company maintained the year-end dividend at ¥3.0 per share. Together with the interim dividend of ¥3.0, the full-year dividend will be unchanged at ¥6.0 per share.

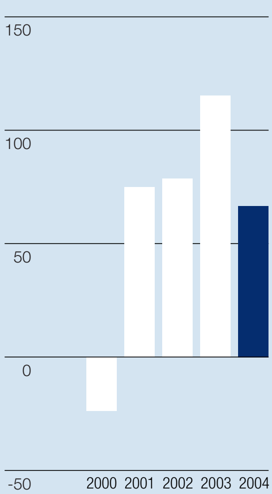
Achievements During the Fiscal Year

Detailed below are some of the Company's key achievements during the year under review. In the Shipbuilding & Ocean Development division major new orders were received for the construction of large container ships and LPG carriers, while the Power Systems division succeeded in winning a number of new contracts for thermal power stations in Taiwan, Thailand and other regions. The Machinery & Steel Structures division secured orders in Japan for detoxifying facilities of used concentrated PCB (polychlorinated biphenyl) and its containers (transformers and condensers). This success reflected the consistent work the division has put into making its PCB waste treatment technology commercially viable. During the year, the Aerospace division started a new R&D program aimed at channeling its advanced technology and expertise into the manufacture of key wing section – made of composite materials – for Boeing's new commercial transport aircraft, the 7E7 Dreamliner, while the Mass and Medium-Lot Manufactured Machinery division launched a range of new products. These included the next-generation GRENDIA forklift truck, the first of its type in the market to be equipped with a clean-burning engine that comfortably meets U.S., Japanese and European environmental standards; the NART-I Series of advanced inverter-driven centrifugal liquid chillers that boasts the world's highest energy efficiency; the MEII series of mid-sized motor-driven injection molding machines that offer a top injection speed 1.5 times greater than conventional models; and the latest Mitsubishi EVOL box-making machine that realizes the world's fastest throughput capacity. All of these products have been selling well since their launch.

In other developments, steps were taken to boost competitiveness by creating a more efficient manufacturing framework. Two factories operated by the Machine Tool Division, one in Ritto City in Shiga Prefecture and another in Hiroshima, were integrated at the Ritto site. Overseas, MHI established a new company in Mexico to enhance marketing capabilities in Central America, while in China, a new joint-venture was set up to manufacture and sell turbochargers and automotive thermal systems, improving the Company's ability meet future demand for these products.

Regarding the fire on the cruise ship in October 2002, the Company went to great lengths to meet the rescheduled delivery date, while at the same time constructing the second vessel in the two-ship project. Consequently, MHI was able to win back the confidence of the customer by delivering the first vessel in February this year.

CONSOLIDATED OPERATING INCOME (LOSS)
(In billions of yen)



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

In conclusion, the year was one of steady progress, characterized by rising orders in the Company's core businesses, and the launch of a raft of new products made possible by aggressive investment in R&D and new facilities and equipment.

Issues to be Addressed

There is still some uncertainty on how sustained the current recovery in the Japanese economy will be in the fiscal year ahead. Although the global economy, centered on the United States and China, is expected to remain on a growth curve that will fuel exports and translate into higher capital investment, spending on public works projects will continue to contract. This situation may be exacerbated by the negative impact on exports of exchange rate fluctuations and fiscal policy in the United States after the presidential election in November 2004.

In this environment, MHI will have to tackle a number of issues: how to respond to the impact of falling capital investment by electric utilities and declining public works spending on operations in Japan; and, how to deal with the increasingly challenging export environment precipitated by intensifying global competition, the appreciating yen and other factors.

In response, the Company will seek to become a premier global organization that lives up to the trust of customers with outstanding technology, and help people worldwide lead safe and fulfilling lives. Improving profitability by driving a recovery in business volume will be the overriding priority going forward, and this will be achieved in line with the Company's 2004 Business Plan (a four-year management plan beginning April 1, 2004) announced on December 18, 2003. Making our businesses more competitive and, to achieve this, reinforcing business functions, are the two pillars of this plan.

In the first area, making our businesses more competitive, the Company's core businesses have been realigned into four fields along market lines—Power & Energy, Transportation & Security, Environment & Society and Industries—and we have formulated appropriate strategies for each field. In the Power & Energy field, MHI is aiming to make its main products, centered on gas turbines and nuclear equipment, even more competitive in order to win a greater share of the global market. At the same time, steps will be taken to accelerate the commercialization both in Japan and overseas of new products such as integrated coal gasification combined cycle (IGCC) power plants, gas engines and high-output wind turbines. In Transportation & Security, the main themes in transportation will be establishing next-generation core technologies such as composite materials for the wings of future passenger aircraft, and developing new products that will ensure MHI maintains its lead in strategic market sectors. One example is large membrane-type LNG carriers that employ highly economical box-type tanks. And as a key contractor in Japan's defense industry, MHI will work to meet the integrated operational needs of the Japanese ground, maritime and air self-defense forces by conducting more proposal-driven sales activities. In Environment & Society, the Company will respond to falling spending on public works projects, originally the dominant source of demand in this field, by using existing products and services such as bridge construction and flue-gas desulfurization equipment to secure earnings, and by handling new business models such as private finance initiatives (PFI). In response to emerging needs, MHI will nurture next-generation businesses based on innovative products such as home-use robots, 3D radiation treatment systems, and soil remediation facilities. In Industries, one objective will be to use the Company's superior proprietary technologies and alliances with partners to create products such as compressors, iron & steel manufacturing machinery, printing machinery and injection molding machines on a global scale. In product categories where competition with specialized manufacturers is particularly intense — machine tools and air conditioners being two examples — steps will be taken to maximize the integrated manufacturing and sales framework to drive a turnaround in profitability. We will also expand sales and after-sales service networks.

In the second area of the 2004 Business Plan, reinforcing business functions, the Company will speed up global expansion by enhancing its presence on the ground in North America, China, Asia (excluding China and Japan), and Europe. Meanwhile, in Japan, MHI will revamp the sales framework for mass and medium-lot products, primarily by realigning sales companies along product lines rather than regional lines. This will enable these subsidiaries to respond more rapidly to customer needs in each product category. In addition, steps will be taken to accelerate the development of new products and businesses, and further enhance trust in the MHI name.

Although our company currently faces an increasingly challenging operating environment, by steadily implementing the above series of initiatives, we are confident that we can achieve a recovery in business volume to drive earnings higher. We ask for your continuing understanding and cooperation as we strive to achieve these goals.

July 2004

T. Nishioka

Takashi Nishioka
Chairman

K. Tsukuda

Kazuo Tsukuda
President

AN INTERVIEW WITH PRESIDENT KAZUO TSUKUDA
—DISCUSSING THE 2004 BUSINESS PLAN—

Our Vision: MHI, A Premier Global Organization
This vision expresses our desire to continue driving the development of the company by living up to the trust of customers with outstanding technology and helping people worldwide lead safe and fulfilling lives. In realizing this vision, we will enhance value for all the company's stakeholders—customers, shareholders, communities and employees.

Q1

Why are you giving a strong global slant to your vision for the company?

Answer: As a company founded in Japan, a country lacking in natural resources, we have worked hard to acquire a reservoir of advanced technologies by focusing on manufacturing underpinned by high levels of technological sophistication. This has been our strength as a company.

MHI's corporate philosophy has been to contribute to society through its business activities. Guided by this thinking, our development has been closely entwined with Japan's social development. This will continue to characterize who we are, but we must also stand shoulder to shoulder with the world's leading companies by helping people worldwide lead safe and fulfilling lives and live up to the trust of global customers. Our determination to drive development based on this approach is embodied in our vision: a premier global organization.

Q2

In your 2004 Business Plan, you are targeting operating income of ¥160 billion on consolidated net sales of ¥3 trillion in fiscal 2007. How do you plan to attain these targets?

Answer: Our core policy is to lift MHI's earnings through a recovery in business volume. With our 2002 Business Plan, we withdrew from major loss-making projects and turned around unprofitable businesses. We also strengthened our operations by integrating product lines at manufacturing facilities and forging alliances, and reinforced our technological capabilities. These actions resulted in a business structure more capable of generating earnings. Our next priority is to increase MHI's competitiveness, increasing business volume to drive earnings higher.

As the first step on this road, we have realigned MHI's core businesses into four fields: Power & Energy, Transportation & Security, Environment & Society and Industries. These businesses will be positioned according to their social mission and profitability, and specific plans formulated and implemented to strengthen their respective positions.

Consolidated Performance Targets

(In billions of yen)	2004 (Actual)	2007 (2004 Business Plan)
Orders received	¥2,662.8	**¥3,100.0**
Net sales	¥2,373.4	**¥3,000.0**
Operating income	¥66.6	**¥160.0**
Bank loans and long-term debt	¥1,101.3	**¥1,250.0**

Improve Profitability by Recovery in Business Volume
- Make Business More Competitive
- Reinforce Business Functions

Kazuo Tsukuda *President*

How do you aim to develop these businesses going forward?

Q3

Answer: In **Power & Energy** field, our social mission is to supply all areas of the world with highly efficient and clean energy. As a comprehensive energy company boasting an extensive array of products—from large-scale facilities such as thermal and nuclear power plants, to dispersed power supplies such as wind turbines plants and solar cells—we have a significant competitive advantage over our rivals in the industry. With expectations for further worldwide growth in this field, we have positioned Power & Energy as a driver of earnings growth. We are expanding business with the view to becoming a global leader in the field by accelerating the development of gas turbine technology, an area where we already have industry-leading technologies, and implementing other initiatives.

In **Transportation & Security**, our social mission is to support industry and contribute to national security with modes of transport for all operating spheres—land, sea, air and space. Focusing on aircraft, launch vehicles, transportation systems, high value-added ships and other product categories where we can grow earnings, we will aggressively invest to establish the next generation of core technologies that will help us build a stronger presence in the global market.

In **Environment & Society**, we are aiming to help people lead fulfilling lives by tackling environmental problems, upgrading social infrastructure and playing an active role in medical and welfare fields. We believe markets in this area will grow in the years ahead, underpinned by a wide range of emerging needs. While continuing to steadily develop our existing business, particularly public works projects such as bridge construction and waste incineration plants, we will also actively develop new business models such as PFI for waste treatment facilities, culture and sports facilities and other areas. To respond to changes in the market, we will use our extensive portfolio of technologies to foster new businesses in the home-use robot, medical and other fields.

Finally, in **Industries**, our social mission is to support manufacturing activities worldwide. This field is now characterized by a wide range of product categories and unprecedented competition. In response, we have divided our businesses in two groups: businesses where we can expand using our technological edge, such as compressors, iron and steel manufacturing machinery and printing machinery; and businesses where the priority is rebuilding profitability, such as in machine tools and air conditioners. We are now implementing strategies specifically designed for each business.

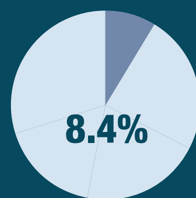
Guided by the approach I've just outlined, MHI is committed to living up to the trust of customers with outstanding technology and helping people worldwide lead safe and fulfilling lives. Expect great things from MHI as a premier global organization in the years ahead.

MHI AT A GLANCE

MHI's businesses are classified below into five business segments along operational lines. In the previous Q&A section, MHI's businesses are classified into four core business fields along market lines.

SHIPBUILDING & OCEAN DEVELOPMENT

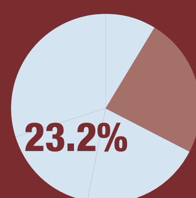
SHARE OF NET SALES



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

POWER SYSTEMS

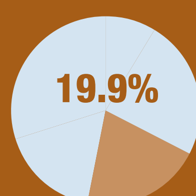
SHARE OF NET SALES



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

MACHINERY & STEEL STRUCTURES

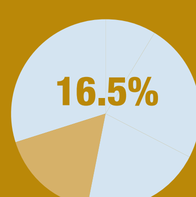
SHARE OF NET SALES



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

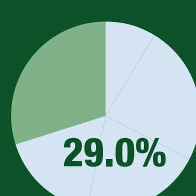
SHARE OF NET SALES



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

MASS AND MEDIUM-LOT MANUFACTURED MACHINERY

SHARE OF NET SALES

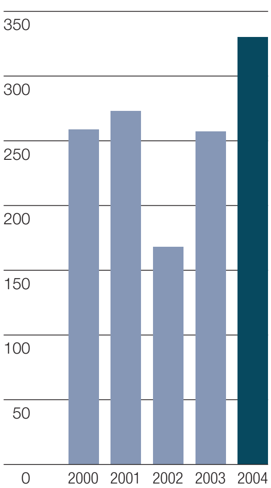


Forklift trucks, Construction machinery, Earthmoving and grading machinery, Medium and small sized engines, Turbochargers, Special vehicles, Air-conditioners(commercial use, residential), Automotive thermal systems, Chilling systems, Plastic processing machinery, Food machinery, Industrial robots, Transmissions,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

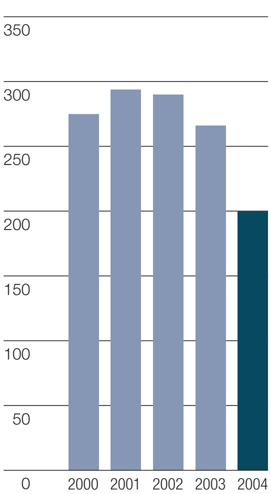
Notes: 1. Figures represent consolidated net sales by business segment as a percentage of total net sales for the year ended March 31, 2004.
2. MHI's operations also include an Others business segment, not shown above.

REVIEW OF OPERATIONS
SHIPBUILDING & OCEAN DEVELOPMENT

ORDERS RECEIVED
(In billions of yen)



NET SALES
(In billions of yen)



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

The marine transport industry continued to power ahead during the year, supported by a recovery in the global economy and rapid growth in China. This fueled strong worldwide demand for new shipbuilding. Against this backdrop, the division conducted extensive sales activities designed to win new orders in vessel categories where MHI has traditionally been strong. These efforts paid off with orders received for a total of 38 new vessels (all figures in this section exclude vessels of less than 100 gross tons). By vessel type, MHI secured orders for 14 container carriers, 10 pure car carriers, five LPG carriers, four VLCCs, one LNG carrier, one destroyer for the Japan Defense Agency, and two patrol vessels for the Japan Coast Guard, and one small workship. Consequently, the total value of new orders was up on the previous year, to ¥329.9 billion (US$3,122 million). As of March 31, 2004, MHI had outstanding orders for 65 vessels totaling approximately 4.05 million gross tons.

Although 21 new vessels were delivered to customers during the year, there were fewer large-scale vessels compared to the previous period, resulting in a drop in net sales to ¥200.1 billion (US$1,893 million).

PRODUCTS

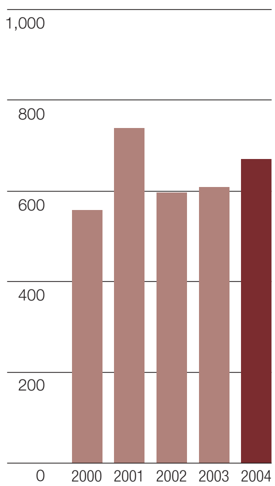
1. Roll on /Roll off Cargo Ship “HIMAWARI NO.5”
2. Container Ship “MOL EFFICIENCY”
3. LNG Carrier “PACIFIC NOTUS”

POWER SYSTEMS

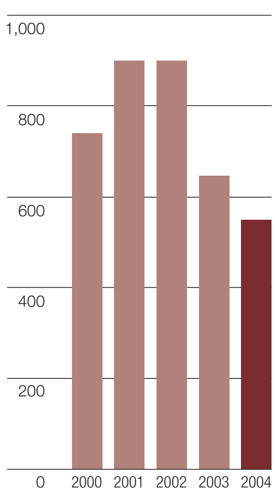
Despite robust orders for gas engines used in private power generation facilities, orders in the domestic market were down compared to the previous period. Reasons for this decline included falling budgets at electric utilities for investment in new facilities and maintenance, a lack of orders for large-scale power plants, and declining orders for the upgrade, refurbishment and repair of power plants already delivered to customers. In export markets, MHI aggressively worked to win new orders in areas of high demand, particularly Asia excluding Japan, and Europe. These efforts won MHI a succession of large-scale orders, including gas turbine combined cycle power plants for Taiwan, Spain and Indonesia, and a coal fired power plant for Thailand. These successes, together with higher orders for wind turbine and nuclear equipment for the United States, contributed to a significant rise in overseas orders overall. As a result, the total value of new orders in this division increased year on year to ¥670.8 billion (US$6,347 million).

Although orders increased, sales were substantially down at ¥549.9 billion (US$5,203 million), primarily due to lower domestic and overseas sales of steam and gas turbines as fewer large-scale power plants were delivered.

ORDERS RECEIVED
(In billions of yen)



NET SALES
(In billions of yen)



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

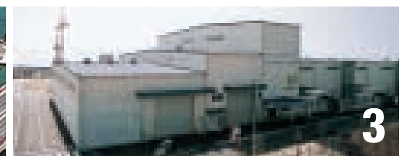
PRODUCTS

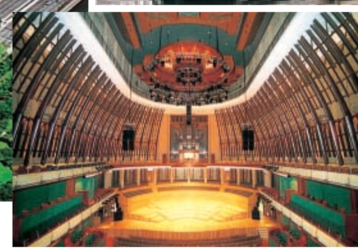
1. Olkaria Ⅱ Geothermal Power Plant (Kenya)
2. Kin Thermal Power Station of The Okinawa Electric Power Co., Inc. (Japan)
3. Integrated Gasification Combined Cycle Power Plant of Nippon Petroleum Refining Co., Ltd. at its Negishi Refinery (Japan)

MACHINERY & STEEL STRUCTURES

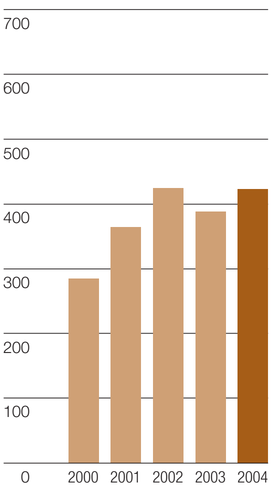
PRODUCTS

1. Earth Pressure Balanced (EPB) Shield Type tunneling Machine
2. Concert Hall
   Stage Machinery System for Esplanade – Theatres On The Bay (Singapore)
3. Waste Plastic Compaction Facilities

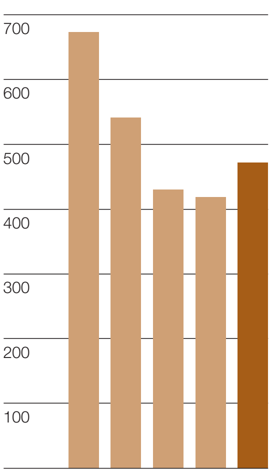




ORDERS RECEIVED
(In billions of yen)



NET SALES
(In billions of yen)



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

In the machinery business, new orders in the domestic market increased year on year thanks to large-scale projects for detoxifying facilities of used concentrated PCB (polychlorinated biphenyl) and its containers (transformers and condensers), which this division has worked hard to make commercially viable, and higher orders for transportation systems, toll-collection equipment and other products. Overseas, MHI signed deals for new environmental control systems, including a flue gas treatment system for Thailand and a flue gas desulfurization system for China. Furthermore, orders rose in other product categories such as rubber and tire machinery, compressors and mechanical drive turbines. However, there was a decline in large-scale orders compared to the previous year when there were major new contracts for transport systems and chemical plants. This consequently impacted on the value of new orders secured, which were lower compared to the previous period at ¥292.4 billion (US$2,767 million). Net sales, however, increased to ¥337.9 billion (US$3,197 million), supported by an increase in sales of transportation systems that more than compensated for a drop in sales of environmental systems.

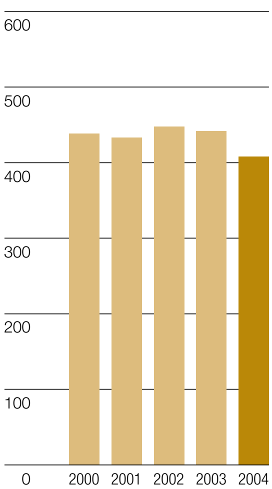
Although the steel structures business continued to experience a challenging operating environment, characterized by intensifying price competition in both the domestic and overseas markets, orders increased year on year. Declining orders in steel bridges, cultural, sports and leisure facilities and other areas, were outweighed by new orders for cranes and material handling systems for Thailand, gasholders and container handling cranes in Japan, and rising orders for stacks. Consequently, the total value of new orders was up year on year to ¥130.4 billion (US$1,233 million). Net sales, however, were lower than the previous year, at ¥133.6 billion (US$1,264 million), mainly due to lower sales of storage tanks, and cranes and material handling systems, which negated sales increases posted by steel structures and tunneling equipment.

AEROSPACE

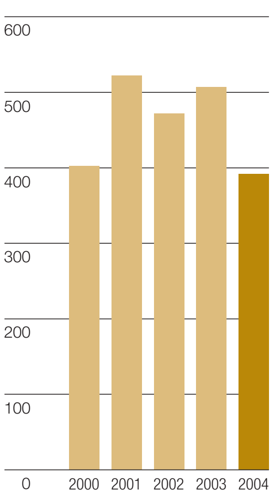
In defense-related products, orders for the development of next-generation maritime patrol aircraft and cargo transport aircraft, and for the inspection and repair service for the aircraft in field increased year on year. However, this could not cover the drop in orders for F-2 support fighters, leading to an overall decline in defense-related orders compared to the previous year. Orders for space systems, primarily for the H-IIA Launch Vehicle, also declined. In commercial aircraft products, the difficult environment compounded by the war in Iraq to a decline in orders, particularly for aft fuselage and other components used in the Boeing 777 and 767 commercial transport aircraft, and aft fuselage components for the Bombardier CRJ 700/900 series regional Jet. As a result, the total value of new aerospace orders decreased year on year to ¥407.6 billion (US$3,856 million).

Sales were also significantly lower than the previous year, at ¥392.2 billion (US$3,712 million), chiefly due to falling sales of F-2 support fighters, maritime patrol helicopters and other products in the defense-related field, a drop in sales of space equipment, and lower sales of commercial aircraft products such as aft fuselage panel and other components for the Boeing 767, and other commercial transport aircraft.

ORDERS RECEIVED
(In billions of yen)



NET SALES
(In billions of yen)



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

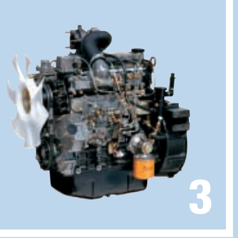
PRODUCTS

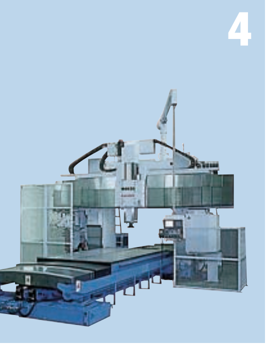
1. F-15J Jet Fighter Modernization Program Phase 1
2. Boeing 777 Transport Aircraft
3. Repairs to a PW4000 Turbofan Engine

MASS AND MEDIUM-LOT MANUFACTURED MACHINERY

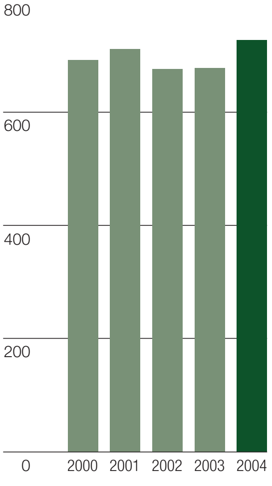
PRODUCTS

1. Multi-indoor Inverter Air-conditioners for office buildings “Hyper KX Ⅲ”
2. Newspaper Offset Press “DIAMONDSTAR”
3. Mitsubishi Diesel Engine Model:S4S (Equivalent model)
4. Vertical Precision Milling Machine “MVR35/40”

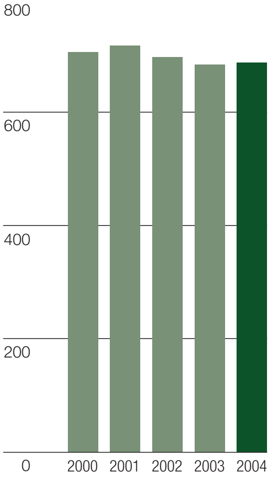




ORDERS RECEIVED
(In billions of yen)



NET SALES
(In billions of yen)



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

In the general machinery and special vehicles business, MHI worked to take advantage of growing demand, fueled by a recovery in the global economy, to boost sales in Japan and overseas. Thanks to a strong performance by newly launched forklift trucks, and gathering momentum in a new OEM supply contract for small diesel engines aimed at the European and North American markets, the total value of new orders reached ¥316.7 billion (US$2,996 million), exceeding the previous year. Sales were also up, at ¥308.4 billion (US$2,918 million), driven by rising demand for small and medium-sized engines, forklift trucks and other products.

In the air-conditioning and refrigeration systems business, there were some positive results, with rising orders for marine transport refrigeration units both in Japan and overseas, and higher orders for newly a launched centrifugal liquid chiller. However, this was outweighed by lower sales in the domestic market for residential use air-conditioners, commercial use air-conditioners and other products, dragged down by sluggish overall demand, a cool summer and lower unit prices. Consequently, the total value of new orders fell to ¥189.1 billion (US$1,790 million), while sales also failed to reach the previous year’s level, declining to ¥184.3 billion (US$1,744 million).

In the industrial machinery business, orders for newspaper offset presses were lower, mainly due to the lack of large-scale contracts like those signed in the previous year. However, exports to China grew, primarily of machine tools, pulp and paper machinery, extrusion machinery and injection molding machinery, and orders for commercial web offset presses in both Japan and overseas increased on aggressive efforts to win new orders. This translated into an increase in the total value of new orders, at ¥221.3 billion (US$2,094 million). Sales were also higher at ¥194.9 billion (US$1,844 million). This increase was driven by stronger sales of pulp and paper machinery, injection molding machinery, commercial web offset presses and other products, which outweighed a decline in food machinery.

TOPICS

MHI Completes Cruise Ship Diamond Princess

In February 2004, MHI's Nagasaki Shipyard & Machinery Works completed construction of the Diamond Princess.

One of the world's largest cruise ships, the Diamond Princess employs a cutting-edge electric propulsion system that realizes high power output while keeping noise and vibration to a minimum. It also boasts numerous comfort-enhancing features to satisfy the most discerning of cruise ship passengers. The Diamond Princess is fitted with world-class environmental systems, including the latest flue gas purification equipment, sewage treatment systems and other technologies designed to carry out the on-board processing of any waste generated during a cruise. Together, these features make the Diamond Princess one of the most comfortable and environmentally friendly cruise ships plying the seas.

The Diamond Princess' sister vessel, the Sapphire Princess, which MHI constructed in parallel, was also completed in May 2004.

MHI Secures Wind Turbine Order for Large U.S. Wind Farm

In July 2003, MHI signed a major contract to supply 160 MWT-1000A wind turbines, each generating an output of 1,000kW, for a planned wind farm in Brazos, Texas. When completed, the wind farm will be one of the world's largest.

Compared to conventional models, MHI has increased blade length by around 10% to achieve an increase in power output of approximately 20%. The turbines can also efficiently generate energy even in regions with relatively poor wind resources. These superior economic characteristics, as well as reliability, helped MHI to secure the order. The MWT-1000A has already won high praise for its excellent economic performance, illustrated by the top prize in the 2003 Nikkei Superior Product and Service Awards, and the Japan Machinery Federation (JMF) Award for Energy-Conserving Machinery in 2003.

Underpinned by its reservoir of advanced wind turbine technology, MHI has won orders for more than 1,700 wind turbines since 1980, and in the process, made a significant contribution to reducing

Diamond Princess

Public spaces on the Diamond Princess have been carefully designed to ensure passengers experience the elegant and luxurious on-board atmosphere only a cruise ship can offer

Wind Turbines "MWT-1000A"

emissions of CO_2. As Japan's only manufacture of large-scale wind turbines, MHI will continue to play a key role in the development of the wind generation market both at home and abroad.

MHI's Initiatives in the Chinese Market

In the rapidly growing Chinese market, MHI is actively developing its business by taking a range of steps, including the establishment of joint ventures with local partners and trading companies.

1. Preparations are currently under way with Dongfang Steam Turbine Works, a division of the Dongfang Electric Group, a leading Chinese heavy manufacturing conglomerate, to establish a gas turbine manufacturing facility in Guangzhou, Guandong Province.
2. MHI and partners Sumitomo Corporation and Shanghai Diesel Engine Co., Ltd. have agreed to set up a turbocharger manufacturing and sales joint venture in Shanghai.
3. MHI and Mitsui & Co., Ltd. have signed a contract to set up an automotive thermal systems manufacturing and sales company in Shanghai.
4. MHI and Zibo Heng Xing Electrical & Mechanical Eguipment Co., Ltd., one of China's leading paper machinery manufacturers, have agreed to establish a joint venture in Zibo, Shandong Province, to conduct related manufacturing, sales and after-sale services.

MHI's NART-I Series Wins Energy Efficiency Prize

Recognizing its advanced energy efficiency characteristics, the NART-I Series of advanced variable speed drive centrifugal Liquid Chiller was awarded the 2003 Minister of Economy, Trade and Industry Prize for Energy Conservation by Japan's Energy Conservation Center.

This centrifugal Liguid Chiller is used in air conditioning applications for buildings, industrial and commercial facilities, as well as district heating and cooling systems. The NART-I Series is the first centrifugal Liquid Chiller run by inverter control system, operated with a high-speed processing unit, as the power source. This allows the NART-I Series to consistently operate at optimum levels and deliver a world-leading energy efficiency performance.

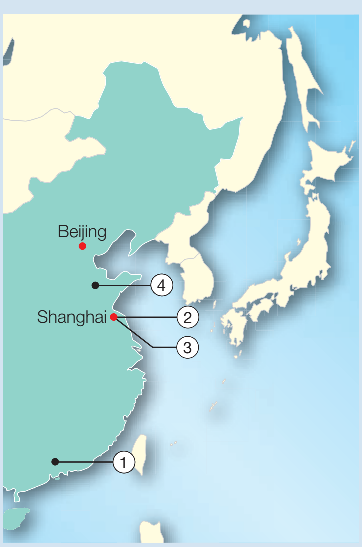
MHI Develops and Wins Order for Japan's First PET Bottle DLC Coating Machine

During the year under review, MHI successfully developed Japan's first commercial high-speed DLC* rotary coating machine for polyethylene terephthalate (PET) bottles, and won its first order.

DLC coating process deposits a fine amorphous hydrocarbon film on the inner surface of PET bottle, which protects content from deteriorating. DLC - coated PET bottles have ten times or more higher gas barrier property than uncoated bottles, against oxygen permeability and loss of carbon dioxide for longer shelf life.

The commercialization of the DLC coating machine is expected to widen uses for PET bottles where high O_2 and CO_2 gas-barrier properties are necessary, particularly carbonated and alcoholic beverages.

* Diamond-like Carbon (DLC) is amorphous hydrocarbon including diamond- like structure



Locations of MHI's recent initiatives in China


Centrifugal Liquid Chiller "NART-I Series"


DLC coating machine for PET bottles

BOARD OF DIRECTORS


Takashi Nishioka


Kazuo Tsukuda


Junichi Maezawa


Ayao Tsuge


Motoo Makita


Kazunori Ohta


Shigeharu Matsuura


Ikuro Nagata


Osamu Wakazono


Yoshimi Uratani


Tsutomu Takaoka

CHAIRMAN

Takashi Nishioka*

PRESIDENT

Kazuo Tsukuda*

MANAGING DIRECTORS

Junichi Maezawa*
General Manager, Aerospace Headquarters

Ayao Tsuge*
General Manager, Technical Headquarters

Motoo Makita*
General Manager
Accountig Department

Kazunori Ohta*
General Manager, Shipbuilding & Ocean Development Headquarters

Shigeharu Matsuura*
General Manager, Steel Structures & Construction Headquarters

Ikuro Nagata*
General Manager, Presidential Administration Office

Osamu Wakazono*
General Manager, Power Systems Headquarters

Yoshimi Uratani*
General Manager, Nuclear Energy Systems Headquarters

Tsutomu Takaoka*
General Manager, Machinery Headquarters

DIRECTORS

Mikio Sasaki
Chairman of Mitsubishi Corporation

Hideo Egawa
General Manager, Global Strategic Planning & Operations Headquarters

Hideaki Omiya
General Manager, Air-Conditioning & Refrigeration Systems Headquarters

Nobuo Kiyama
General Manager, Paper & Printing Machinery Division

Ichiro Fukue
Deputy General Manager, Power Systems Headquarters

Fumio Tomikawa
General Manager, Plant and Transportation Systems Engineering & Construction Center of Machinery Headquarters

Susumu Uchida
Deputy General Manager, Machinery Headquarters

Nobuo Toda
General Manager, Nagoya Aerospace Systems Works

Hiroshi Kan
General Manager, Accounting Department

Heki Kasugai
General Manager, Machine Tool Division

Yutaka Nakahara
Deputy General Manager, Nuclear Energy Systems Headquarters

Sunao Aoki
General Manager, Takasago Research & Development Center of Technical Headquarters

Kototsugu Taniguchi
General Manager, Industrial Machinery Division

Katsuhiko Yoshida
General Manager, General Machinery & Special Vehicle Headquarters

Toshiyuki Matsuoka
Deputy General Manager, Shipbuilding & Ocean Development Headquarters

Akihiko Miyakubi
General Manager, Yokohama Dockyard & Machinery Works

Yoji Yamada
General Manager, Hiroshima Machinery Works

STATUTORY AUDITORS

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

Toyoshi Nakano
Senior Adviser, The Mitsubishi Trust and Banking Corporation

Toshinori Tomita

Toyohiko Inaguma

(As of June 25, 2004)

*Representative Director

CORPORATE GOVERNANCE

Fundamental Policy

MHI is taking a number of initiatives to enhance management efficiency and strengthen compliance, including reforming the management system to allow more effective decision making in response to radical changes in the economic environment, and promoting fair and sound management. The Group is also working to make management more transparent by disclosing information rapidly and accurately to shareholders and other external stakeholders.

Corporate Governance Initiatives

Appointing outside directors and corporate auditors

For some time, MHI has sought to strengthen management oversight functions through the appointment of outside directors and corporate auditors. Currently, of the 28 directors, 1 is from outside MHI, while 2 of the 4 corporate auditors are external appointments. None of external directors or auditors has conflicts of interest with MHI.

Creating a more efficient executive framework

In order to enhance management efficiency, all managing directors have been given the authority of representative directors. This devolution of authority is aimed at ensuring more effective and flexible management. Furthermore, discussions on important management decisions under consideration are held in meetings of the representative directors, resulting in a framework that leads to more appropriate management decisions and business execution.

Strengthening and upgrading compliance activities

In May 2001, MHI established a Compliance Committee to ensure compliant and appropriate business activities. A Mitsubishi Heavy Industries Compliance Policy was also formulated to define concrete actions related to the observance of relevant laws and the promotion of fair and honest business practices. This policy is distributed to all employees, who are required to carry it at all times. In addition, MHI works to ensure employees are fully aware of their compliance responsibilities by carrying out regular compliance training programs for the entire MHI workforce.

Enhancing internal control systems

In addition to its corporate auditor system, MHI is enhancing internal audit functions and strengthening control systems based on regular voluntary audits of each business unit and special audits targeting specific areas of operations.

Creating a risk management system

MHI is building an email-based Crisis Management Data System to ensure risk information is passed to senior management as rapidly as possible. The Group's risk management system is headed by the managing director in charge of the General Affairs Department, who is responsible for company-wide crisis management, and is supported by individuals at each business unit area responsible for crisis management in their respective operating fields. MHI also activates a Countermeasures Headquarters in the event of an emergency.

Anchored by this framework, MHI carries out all its business activities based on its fundamental management philosophy of striving to be a good corporate citizen. This means making a meaningful contribution to society with safe and advanced products and services, observing all relevant laws and social norms, and helping to protect the environment.

FINANCIAL SECTION

Consolidated Six-Year Summary 19
Segment Information 20
Management's Discussion and Analysis 22
Consolidated Balance Sheets 26
Consolidated Statements of Income 28
Consolidated Statements of Stockholders' Equity 29
Consolidated Statements of Cash Flows 30
Notes to Consolidated Financial Statements 31
Report of Independent Certified Public Accountants 45

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
	2004	2003	2002	2001	2000	1999	**2004**
Net sales	**¥2,373,441**	¥2,593,894	¥2,863,985	¥3,045,024	¥2,875,039	¥2,907,762	**$22,456,628**
Operating income (loss)	**66,631**	115,308	78,655	74,889	(23,797)	65,308	**630,435**
Interest expense – net of interest income	**(6,333)**	(8,394)	(9,407)	(7,708)	(7,607)	(3,386)	**(59,916)**
Income (loss) before income taxes and minority interests	**50,124**	66,162	48,028	(5,121)	(217,672)	49,018	**474,253**
Net income (loss)	**21,787**	34,331	26,447	(20,351)	(137,006)	18,089	**206,142**
Per share of common stock:							
Net income (loss) — basic	**¥6.46**	¥10.14	¥7.84	¥(6.03)	¥(40.62)	¥ 5.36	**$0.061**
Net income — diluted	**–**	–	7.82	–	–	5.15	**–**
Cash dividends	**6.00**	6.00	4.00	4.00	2.50	10.00	**0.057**
Total assets	**¥3,715,359**	¥3,666,866	¥3,915,276	¥4,236,634	¥4,636,739	¥4,746,597	**$35,153,359**
Stockholders' equity	**1,324,498**	1,270,968	1,282,727	1,278,242	1,245,064	1,337,378	**12,531,913**
Current assets	**2,402,987**	2,389,358	2,598,526	2,891,271	3,474,015	3,638,867	**22,736,183**
Current liabilities	**1,519,467**	1,721,515	1,881,226	1,965,808	2,319,456	2,399,150	**14,376,635**
Bank loans and long-term debt	**1,101,269**	1,122,923	1,049,998	1,090,696	1,205,301	1,249,231	**10,419,803**

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥105.69=U.S.$1, the exchange rate prevailing at March 31, 2004.

SEGMENT INFORMATION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S.dollars	In millions of yen		In thousands of U.S.dollars
INDUSTRY SEGMENT	**2004**	2003	**2004**	**2004**	2003	**2004**
Shipbuilding & Ocean Development	**¥ 200,096**	¥ 265,873	**$ 1,893,230**	**¥(14,985)**	¥ 11,118	**$(141,783)**
Power Systems	**549,895**	646,218	**5,202,906**	**23,476**	51,994	**222,118**
Machinery & Steel Structures	**471,505**	418,785	**4,461,209**	**9,668**	10,037	**91,479**
Aerospace	**392,242**	506,761	**3,711,255**	**29,585**	40,996	**279,925**
Mass and Medium-Lot Manufactured Machinery	**687,627**	683,847	**6,506,074**	**9,850**	(3,471)	**93,192**
Others	**115,892**	117,617	**1,096,525**	**9,037**	4,634	**85,504**
Subtotal	**2,417,257**	2,639,101	**22,871,199**	**66,631**	115,308	**630,435**
Eliminations or Corporate	**(43,816)**	(45,207)	**(414,571)**	**–**	–	**–**
Total	**¥2,373,441**	¥2,593,894	**$22,456,628**	**¥ 66,631**	¥115,308	**$ 630,435**

	Total Assets			Depreciation		
	In millions of yen		In thousands of U.S.dollars	In millions of yen		In thousands of U.S.dollars
INDUSTRY SEGMENT	**2004**	2003	**2004**	**2004**	2003	**2004**
Shipbuilding & Ocean Development	**¥ 260,480**	¥ 276,469	**$ 2,464,567**	**¥ 5,912**	¥ 6,007	**$ 55,941**
Power Systems	**750,856**	830,846	**7,104,323**	**22,708**	22,540	**214,859**
Machinery & Steel Structures	**524,870**	481,284	**4,966,126**	**9,563**	9,389	**90,485**
Aerospace	**626,728**	617,487	**5,929,873**	**17,187**	16,647	**162,614**
Mass and Medium-Lot Manufactured Machinery	**708,680**	695,258	**6,705,273**	**25,585**	24,003	**242,072**
Others	**253,270**	286,780	**2,396,343**	**18,861**	18,430	**178,452**
Subtotal	**3,124,884**	3,188,124	**29,566,505**	**99,816**	97,016	**944,423**
Eliminations or Corporate	**590,475**	478,742	**5,586,854**	**–**	–	**–**
Total	**¥3,715,359**	¥3,666,866	**$35,153,359**	**¥99,816**	¥97,016	**$944,423**

	Capital Expenditures		
	In millions of yen		In thousands of U.S.dollars
INDUSTRY SEGMENT	**2004**	2003	**2004**
Shipbuilding & Ocean Development	**¥ 5,651**	¥ 5,925	**$ 53,473**
Power Systems	**20,541**	30,569	**194,355**
Machinery & Steel Structures	**10,192**	12,842	**96,428**
Aerospace	**17,905**	20,305	**169,409**
Mass and Medium-Lot Manufactured Machinery	**30,379**	25,629	**287,433**
Others	**25,164**	23,856	**238,094**
Subtotal	**109,832**	119,126	**1,039,192**
Eliminations or Corporate	**–**	–	**–**
Total	**¥109,832**	¥119,126	**$1,039,192**

	In millions of yen		In thousands of U.S. dollars
Overseas Sales	**2004**	2003	**2004**
Overseas Sales	**¥892,659**	¥837,879	**$8,446,008**
Ratio to Total Net Sales	**37.6%**	32.3%	

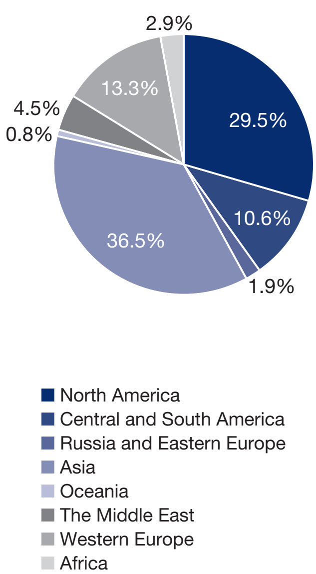
Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥105.69=US$1, the exchange rate prevailing at March 31, 2004.

2. The accompanying consolidated financial statements for the years ended March 31, 2004 and 2003 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

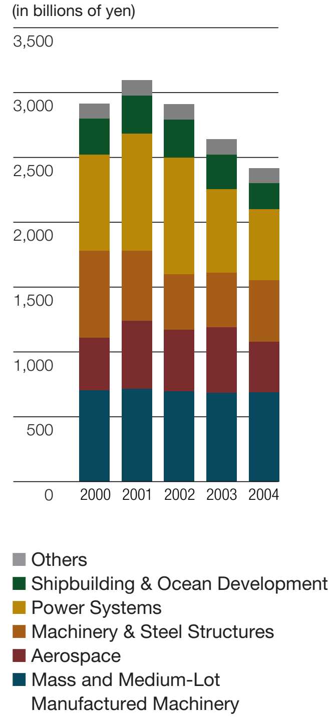
GEOGRAPHIC DISTRIBUTION	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S.dollars	In millions of yen		In thousands of U.S.dollars
	2004	2003	**2004**	**2004**	2003	**2004**
Japan	**¥2,221,309**	¥2,447,329	**$21,017,213**	**¥61,691**	¥115,337	**$583,701**
North America	**168,895**	181,408	**1,598,026**	**1,465**	(3,826)	**13,862**
Asia	**50,374**	44,490	**476,623**	**1,428**	1,146	**13,508**
Western Europe	**72,370**	61,761	**684,737**	**1,298**	881	**12,279**
Others	**6,208**	8,416	**58,732**	**749**	1,770	**7,085**
Subtotal	**2,519,156**	2,743,404	**23,835,331**	**66,631**	115,308	**630,435**
Eliminations or Corporate	**(145,715)**	(149,510)	**(1,378,703)**	**–**	–	**–**
Total	**¥2,373,441**	¥2,593,894	**$22,456,628**	**¥66,631**	¥115,308	**$630,435**

GEOGRAPHIC DISTRIBUTION	Total Assets		
	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Japan	**¥2,892,331**	¥2,954,571	**$27,366,176**
North America	**138,887**	144,623	**1,314,098**
Asia	**31,814**	33,426	**301,015**
Western Europe	**54,042**	50,083	**511,321**
Others	**7,810**	5,421	**73,895**
Subtotal	**3,124,884**	3,188,124	**29,566,505**
Eliminations or Corporate	**590,475**	478,742	**5,586,854**
Total	**¥3,715,359**	¥3,666,866	**$35,153,359**

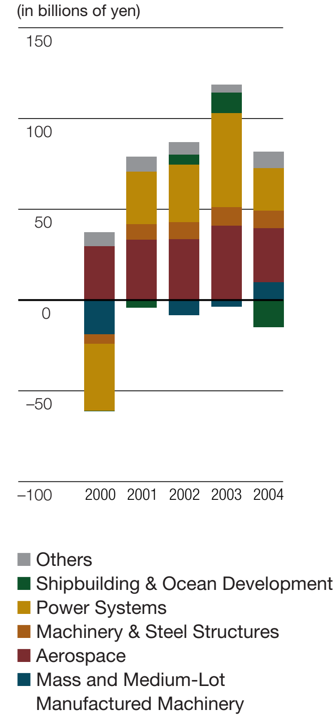
COMPOSITION OF OVERSEAS NET SALES BY GEOGRAPHIC DISTRIBUTION



NET SALES BY INDUSTRY SEGMENT



OPERATING INCOME (LOSS) BY INDUSTRY SEGMENT



MANAGEMENT'S DISCUSSION AND ANALYSIS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2004

Analysis of Operating Results

Consolidated net sales of Mitsubishi Heavy Industries, Ltd. (MHI) and consolidated subsidiaries (hereinafter collectively referred to as "the Group") for the year ended March 31, 2004 declined by 8.5%, or ¥220,453 million vis-à-vis previous year, to ¥2,373,441 million (US$22,456,628 thousand). This was mainly due to the decline in the number of large-scale projects in the Aerospace and Power Systems divisions, and to falling sales in the Shipbuilding & Ocean Development division which cancelled out the higher sales recorded in the Machinery & Steel Structures and Mass and Medium-Lot Manufactured Machinery divisions.

Despite progress in improving operational efficiency, particularly in R&D, the substantial drop in net sales and the appreciation of the yen against the U.S. dollar led to a 42.2% decline in operating income, or ¥48,677 million, to ¥66,631 million (US$630,435 thousand). Certain domestic subsidiaries have revised the terms for the payment of bonuses to employees effective the year ended March 31, 2004 following MHI's revision of the previous year. The effect of this revision was to increase operating income by ¥13,538 million (US$128,092 thousand) for the current year.

The Group booked net non-operating expenses of ¥36,858 million (US$348,737 thousand), at approximately the same level as those recorded in the previous year: although foreign exchange losses declined by ¥5,468 million and financing expenses improved by ¥2,061 million, losses on disposal of fixed assets and other expenses increased by ¥7,272 million.

Ordinary income declined by 61.9%, or ¥48,420 million, to ¥29,773 million (US$281,698 thousand). Extraordinary income booked for the current year consisted of a gain of ¥35,845 million (US$339,155 thousand) for prior service cost due to change in defined interest rate of employee retirement annuity, and a gain of ¥5,733 million (US$54,244 thousand) on sales of fixed assets. Extraordinary expenses included ¥20,208 million (US$191,206 thousand) related to business improvement and restructuring charges, and a loss of ¥1,019 million (US$9,638 thousand) incurred on revaluation of investment securities.

As a result of the above, income before income taxes and minority interests declined by 24.2%, or ¥16,038 million, to ¥50,124 million (US$474,253 thousand) and net income fell by 36.5%, or ¥12,544 million, to ¥21,787 million (US$206,142 thousand).

Key Factors Affecting Operating Results

Key factors which affect the management of the Group include external factors such as market trends, foreign exchange rate fluctuations and changes in material costs, and internal factors such as risks associated with various overseas business contracts, accidents and disasters, etc.

Market trends

Recent situation of the market of the power generation and public works field, which are the Group's key operating areas, include on-going curbs on capital investment and intensifying price-based competition. These have resulted in a challenging operating environment characterized by an increasingly shrinking market. With few prospects of significant market growth going forward, the Group will continue to strive to maintain its position in this field as a vital partner to its customers. This will mean offering products and services which satisfy customers' needs by leveraging the Group's industry-leading technologies. The Group will also work aggressively to strengthen its overseas presence in China, Southeast Asia, Europe and the U.S., target markets where there is potential for substantial growth.

Exchange rate fluctuation

Foreign exchange rate fluctuation can significantly affect the Group's competitiveness and operating results. In order to minimize exchange rate risk, the Group is increasing its liabilities denominated in foreign currencies by expanding the procurement of overseas materials, promoting a greater use of yen-denominated contracts, and hedging risk with timely forward foreign exchange contracts.

Changes in costs of materials

Rapidly rising prices for materials such as steel products primarily reflecting the increase in the demand from China in recent years, are driving up the cost of steel and other raw materials. There is also a concern about the increasing difficulty of securing a steady supply of certain materials. In response, the Group is working to further reduce costs by promoting design standardization, increasing its utilization of common components, employing standardized parts, signing comprehensive procurement contracts, and expanding its overseas production activities. The Group is also passing the price rises of materials on to customers. In order to secure the supply of materials, the Group is strengthening relationships with its business partners, promoting an even greater level of information sharing, and moving even more rapidly to secure the materials essential to its business activities.

Overseas business contracts

The Group is exposed to a number of risks associated with the business contracts which it concludes in overseas markets. These include the quality and delivery dates of locally procured materials and the skill levels and specific labor practices of the local staff, as well as the risks inherent in its contractual obligations such as performance guarantees and the payment of late delivery penalties. In order to mitigate these risks, all contracts undergo a rigorous internal assessment process prior to their formal conclusion. In addition to the business headquarters and the divisions concerned, the Global Strategic Planning & Operations Headquarters, as well as the Legal, Corporate Planning, and Accounting Departments, are all involved in this process, which includes the verification of local contractual obligations, the removal of unilateral conditions, as well as other prudent steps.

Accidents and disasters

Accidents and disasters, such as the fire which broke out on a cruise ship under construction in 2002, can have a significant impact on the Group's results. In managing this type of risk, the Group is taking steps to minimize the probability of another such occurrence by training employees on the worksite to become more aware of risks and by reforming worksite management.

Strategic Position and Business Forecasts

In the light of these conditions in its operating environment, the Group is implementing the initiatives outlined in its 2004 Business Plan (a four-year management plan beginning April 1, 2004), the fundamental policy of which is to improve profitability by driving a recovery in business volume.

This plan realigns the Group's core businesses by market into four fields: Power & Energy, Transportation & Security, Environment & Society, and Industries, positioning them according to their social mission and profitability. Specific steps in accordance with this realignment will be pursued to boost earnings by enhancing the competitiveness of the respective product lineups and ultimately expanding business volume.

In the Power & Energy fields, the Group is aiming to boost profitability with a number of initiatives: to drive business growth by making key products such as gas turbines even more competitive and by winning full turnkey projects; to accelerate the development and commercialization of new products; and to expand its service business.

The Transportation & Security fields has two key objectives: maintain the Group's competitive edge by establishing next-generation core technologies for such projects as the development composite materials for the wings of Boeing's new commercial transport aircraft, the 7E7 Dreamliner; and forge business alliances whose synergies will ensure business growth.

In the Environment & Society fields, the Group is dedicated to enhancing the profitability of its existing businesses and to developing new business models, such as private finance initiatives (PFI), in response to changes in its operating environment.

In the Industries fields, the Group plans to expand its global presence by using its iron and steel manufacturing machinery and printing machinery which incorporate its superior proprietary technologies, and to restructure by focusing on operational reforms at targeted businesses where a turnaround in earnings capability is a high priority.

The Group will work to strengthen its presence in four key overseas markets: North America, Europe, China and other regions of Asia.

Accelerating the development of new products and businesses will also be crucial. In addition to enhancing the performance of its existing core products, the Group will use new products such as home-use robots and medical equipment to create new innovative businesses which will spur growth.

By aggressively implementing the above strategies, the Group believes that it can further enhance its earnings capabilities going forward.

Source of Funds and Liquidity

Cash flow analysis

Operating activities provided net cash of ¥134,240 million (US$1,270,131 thousand), ¥84,146 million more than corresponding amount for the previous year. This increase is mainly attributable to the cash inflows related to the delivery of a large cruise ship to P&O Princess Cruises plc. in February 2004, and advance payments received on contracts for large gas turbine, combined-cycle power plants for Taiwan, Europe and Southeast Asia.

Net cash of ¥95,379 million (US$902,445 thousand), ¥10,771 million less than in the previous year was used in investing activities. This was chiefly due to a drop in outflows for the acquisition of tangible and intangible assets as payments relating to the construction of a new head office building in Shinagawa, Tokyo have declined.

Net cash of ¥44,403 million (US$420,119 thousand), ¥103,704 million less than in the previous year was used in financing activities. This primarily reflects repayment of the current portion of long-term debt and commercial paper.

For the current year, the free cash-flow, the sum of operating and investing cash flows, totaled ¥38,861 million (US$367,686 thousand). These funds were mainly used for the payment of cash dividends as well as for the repayment of bank loans and long-term debt.

Primary funding requirements

The Group requires funds primarily for working capital for manufacturing activities (materials, outsourcing and personnel costs), order preparation costs and other sales expenses related to winning new orders, and funds for R&D activities that strengthen the product lineup and enhance the competitiveness of the Group's proprietary technologies. In investing activities, funds are required for capital investment to grow the business and enhance productivity, and for the purchase of investment securities related to the execution of business strategies. The Group is also preparing to make aggressive R&D and capital investments in power systems, a key area for the Group which includes gas turbines, and in new projects centered on the commercial sector airplane products. This may lead to higher funding requirements in periods commencing in fiscal 2005.

Breakdown of bank loans and long-term debt and their uses

Bank loans and long-term debt as of March 31, 2004 are summarized as follows:

	In millions of yen			In thousands of U.S dollars		
	Total	Due within one year	Due after one year	Total	Due within one year	Due after one year
Bank loans	¥ 300,211	¥300,211	¥ –	$ 2,840,484	$2,840,484	$ –
Long-term debt	514,326	92,778	421,548	4,866,362	877,830	3,988,532
Export loans	39,526	9,988	29,538	373,979	94,501	279,478
Debenture bonds	247,206	300	246,906	2,338,978	2,839	2,336,139
Total	¥1,101,269	¥403,277	¥697,992	$10,419,803	$3,815,654	$6,604,149

The Group is involved in numerous projects with comparatively long construction schedules. The Group also owns a number of manufacturing facilities which employ large-scale equipment and machinery. Consequently, the Group must secure a stable level of working capital and funds for capital investments. Taking into account these factors and future interest rate projections, the Group's funding procurements for the in the current year resulted in bank loans and long-term debt of ¥403,277 million (US$3,815,654 thousand) due within one year and of ¥697,992 million (US$6,604,149 thousand) due after one year.

Bank loans and long-term debt are utilized as working capital and for capital investments. Going forward, these funds will be channeled into key areas involving gas turbines and new projects centered on the commercial sector airplane products where R&D expenses and capital investment are expected to increase in the years ahead.

Financial Policy

The Group, in general, funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with bank loans and long-term debt.

In appropriately determining the methods of procuring, and the amounts of long-term funding by issuing long-term debt instruments, debentures bonds and by other means, the Group takes into account the funding requirements of its business plans on effect at that time, interest-rate trends and various other factors as well as the amount of and repayment schedule for, its existing debt. At the same time, the Group is working to improve asset efficiency by reducing trade receivables and inventories and by raising the utilization rate of its fixed assets. Steps to utilize excess funds effectively within the Group are aimed at reducing the levels of bank loans and long-term debt.

In accordance with a resolution passed at the ordinary general meeting of the shareholders held on June 26, 2003, MHI repurchased 4,348,000 shares of its treasury stock on the open market during the current year, with a value of ¥1,206 million (US$11,408 thousand). At the ordinary general meeting of the shareholders held on June 25, 2004, a resolution was passed revising the Articles of Incorporation with regard to the repurchase of treasury stock. This revision gives the Board of Directors the authority to make repurchases based on the financial position of the Company, the stock price, as well as recent earnings forecasts and other factors, unconstrained by predetermined limits as to the reasons for, or the scale of, such repurchases. This measure has been implemented in order to provide a more flexible framework for the repurchase of treasury stock.

CONSOLIDATED BALANCE SHEETS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	In millions of yen		In thousands of U.S.dollars (Note 3)
ASSETS	**2004**	2003	**2004**
Current assets:			
Cash and deposits (Note 7)	**¥ 209,806**	¥ 219,528	**$ 1,985,104**
Trade receivables (Note 7):			
Notes	**44,241**	46,413	**418,590**
Accounts	**951,065**	1,008,003	**8,998,634**
Allowance for doubtful receivables	**(6,709)**	(5,816)	**(63,472)**
Securities (Notes 4 and 7)	**1,759**	1,111	**16,646**
Inventories (Note 5)	**975,977**	918,890	**9,234,335**
Advances to suppliers	**35,832**	33,785	**339,029**
Deferred income taxes (Note 6)	**59,819**	68,855	**565,982**
Prepaid expenses and other current assets (Note 7)	**131,197**	98,589	**1,241,335**
Total current assets	**2,402,987**	2,389,358	**22,736,183**
Property, plant and equipment (Note 7)**:**			
Land	**139,342**	140,362	**1,318,405**
Buildings and structures	**660,094**	659,299	**6,245,567**
Machinery and equipment	**1,368,540**	1,372,648	**12,948,620**
Construction in progress	**25,421**	25,794	**240,520**
	2,193,397	2,198,103	**20,753,112**
Less accumulated depreciation	**(1,450,165)**	(1,438,346)	**(13,720,926)**
Net property, plant and equipment	**743,232**	759,757	**7,032,186**
Investments and advances:			
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	**89,987**	83,814	**851,423**
Long-term loans and advances	**81,032**	92,114	**766,689**
Investment securities (Note 4)	**373,748**	287,206	**3,536,265**
Deferred income taxes (Note 6)	**22,797**	50,482	**215,698**
Allowance for doubtful accounts	**(61,993)**	(67,272)	**(586,554)**
Net investments and advances	**505,571**	446,344	**4,783,521**
Other assets	**63,569**	71,407	**601,469**
Total assets	**¥ 3,715,359**	¥ 3,666,866	**$ 35,153,359**

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

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	In millions of yen 2004	2003	In thousands of U.S.dollars (Note 3) 2004
Current liabilities:			
Trade payables:			
Notes	¥ 21,197	¥ 34,448	$ 200,559
Accounts	609,773	573,239	5,769,448
Bank loans (Note 7)	300,211	474,434	2,840,484
Current portion of long-term debt (Note 7)	103,066	161,776	975,170
Advance payments received on contracts	327,301	308,541	3,096,801
Accrued expenses	70,163	86,513	663,855
Accrued income taxes	6,725	8,598	63,628
Allowance for losses on construction contracts	649	5,844	6,141
Other current liabilities	80,382	68,122	760,549
Total current liabilities	1,519,467	1,721,515	14,376,635
Long-term liabilities:			
long-term debt (Note 7)	697,992	486,713	6,604,149
Deferred income taxes (Note 6)	21,584	–	204,219
Reserve for retirement allowance (Note 8)	114,610	152,097	1,084,395
Other long-term liabilities	22,991	22,786	217,533
Total long-term liabilities	857,177	661,596	8,110,296
Total liabilities	2,376,644	2,383,111	22,486,931
Minority interests	14,217	12,787	134,515
Stockholders' equity:			
Common stock:			
Authorized—6,000,000,000 shares			
Issued:			
2004—3,373,647,813 shares	265,609		2,513,093
2003—3,373,647,813 shares		265,609	
Capital surplus	203,854	203,853	1,928,795
Retained earnings	747,872	745,288	7,076,093
Net unrealized gains on investment securities	114,245	59,984	1,080,947
Foreign currency translation adjustments	(5,722)	(3,621)	(54,143)
Treasury stock:			
2004—4,917,104 shares	(1,360)		(12,872)
2003—541,691 shares		(145)	
Total stockholders' equity	1,324,498	1,270,968	12,531,913
Total liabilities, minority interests and stockholders' equity	¥3,715,359	¥3,666,866	$35,153,359

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	In millions of yen		In thousands of U.S.dollars (Note 3)
	2004	2003	**2004**
Net sales	**¥2,373,441**	¥2,593,894	**$22,456,628**
Cost of sales	**2,041,245**	2,203,902	**19,313,511**
Gross profit	**332,196**	389,992	**3,143,117**
Selling, general and administrative expenses	**265,565**	274,684	**2,512,682**
Operating income	**66,631**	115,308	**630,435**
Non-operating income (expense):			
Interest and dividend income	**10,461**	13,443	**98,982**
Equity in earnings of unconsolidated subsidiaries and affiliates	**6,104**	5,195	**57,753**
Other income	**5,759**	6,000	**54,489**
Interest expense	**(16,794)**	(21,837)	**(158,898)**
Foreign exchange losses	**(17,626)**	(23,094)	**(166,777)**
Losses on disposal of fixed assets	**(7,055)**	–	**(66,749)**
Other expenses	**(17,707)**	(16,822)	**(167,537)**
	(36,858)	(37,115)	**(348,737)**
Ordinary income	**29,773**	78,193	**281,698**
Extraordinary income (expense):			
Prior service cost due to change in defined interest rate of employee retirement annuity (Note 1)	**35,845**	–	**339,155**
Gains on sales of fixed assets (Note 9)	**5,733**	–	**54,244**
Gains on contribution of investment securities to trust for retirement allowance	**–**	14,791	**–**
Gains on sales of investment securities	**–**	5,448	**–**
Business improvement and restructuring charges (Note 10)	**(20,208)**	–	**(191,206)**
Losses on revaluation of investment securities (Note 11)	**(1,019)**	(19,274)	**(9,638)**
Losses on damage from the cruise ship fire incident	**–**	(12,996)	**–**
	20,351	(12,031)	**192,555**
Income before income taxes and minority interests	**50,124**	66,162	**474,253**
Income taxes (Note 6)			
Current	**6,764**	10,250	**63,993**
Deferred	**20,946**	21,445	**198,187**
Minority interests in income after taxes	**627**	136	**5,931**
Net income	**¥ 21,787**	¥ 34,331	**$ 206,142**

	In yen		In U.S. dollars (Note 3)
Per share of common stock (Note 1):	**2004**	2003	**2004**
Net income	**¥6.46**	¥10.14	**$0.061**
Cash dividends	**6.00**	6.00	**0.057**

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	In millions of yen		In thousands of U.S.dollars (Note 3)
	2004	2003	**2004**
Common stock:			
Balance at beginning of year	**¥ 265,609**	¥ 265,609	**$ 2,513,093**
Balance at end of year	**265,609**	265,609	**2,513,093**
Capital surplus:			
Balance at beginning of year	**203,853**	203,853	**1,928,790**
Gains on sales of treasury stock (Note 12)	**1**	–	**5**
Balance at end of year	**203,854**	203,853	**1,928,795**
Retained earnings:			
Balance at beginning of year	**745,288**	759,773	**7,051,640**
Net income	**21,787**	34,331	**206,142**
Cash dividends (Note 12)	**(20,239)**	(16,868)	**(191,496)**
Bonuses to directors and statutory auditors	**(120)**	(120)	**(1,136)**
Increase resulting from inclusion of consolidated subsidiaries and companies accounted for by the equity method	**1,156**	519	**10,943**
Decrease resulting from exclusion of affiliates accounted for by the equity method	**–**	(32,347)	**–**
Balance at end of year	**747,872**	745,288	**7,076,093**
Net unrealized gains on investment securities:			
Balance at beginning of year	**59,984**	63,204	**567,547**
Change during the year	**54,261**	(3,220)	**513,400**
Balance at end of year (Note 12)	**114,245**	59,984	**1,080,947**
Foreign currency transaction adjustments:			
Balance at beginning of year	**(3,621)**	(9,696)	**(34,261)**
Change during the year	**(2,101)**	6,075	**(19,882)**
Balance at end of year (Note 12)	**(5,722)**	(3,621)	**(54,143)**
Treasury stock:			
Balance at beginning of year	**(145)**	(16)	**(1,375)**
Change during the year	**(1,215)**	(129)	**(11,497)**
Balance at end of year	**(1,360)**	(145)	**(12,872)**
Total balance at end of year	**¥1,324,498**	¥1,270,968	**$12,531,913**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	In millions of yen		In thousands of U.S.dollars (Note 3)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 50,124	¥ 66,162	$ 474,253
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	99,816	97,016	944,423
Decrease in reserve for retirement allowance	(1,684)	(47,258)	(15,929)
Interest and dividend income	(10,461)	(13,443)	(98,982)
Interest expense	16,794	21,837	158,898
Equity in earnings of unconsolidated subsidiaries and affiliates	(6,104)	(5,195)	(57,753)
Prior service cost due to change in defined interest rate of employee retirement annuity	(35,845)	–	(339,155)
Business improvement and restructuring charges	20,208	–	191,206
Gains on contribution of investment securities to trust for retirement allowance	–	(14,791)	–
Losses on damage from the cruise ship fire incident	–	12,996	–
Decrease in receivables	57,200	33,020	541,205
(Increase) decrease in inventories and advances to suppliers	(64,495)	138,890	(610,231)
Increase in other assets	(6,455)	(1,570)	(61,073)
Increase (decrease) in payables	19,872	(65,391)	188,021
Increase (decrease) in advance payments received on contracts	18,011	(82,030)	170,413
Decrease in other liabilities	(6,352)	(76,045)	(60,099)
Others	(5,963)	11,847	(56,417)
Subtotal	144,666	76,045	1,368,780
Interest and dividend received	11,592	15,390	109,676
Interest paid	(16,765)	(22,514)	(158,626)
Payments for income taxes	(5,253)	(18,827)	(49,699)
Net cash provided by operating activities	134,240	50,094	1,270,131
Cash flows from investing activities:			
Net decrease in time deposits	4,021	3,844	38,043
Proceeds from sales and redemption of marketable securities and investments	40	445	377
Purchases of property, plant, equipment and intangible assets	(114,061)	(122,392)	(1,079,204)
Proceeds from sales of property, plant, equipment and intangible assets	9,081	1,795	85,919
Purchases of investment securities	(2,587)	(10,592)	(24,472)
Proceeds from sales and redemption of investment securities	5,375	16,029	50,855
Disbursement of long-term loans	(2,637)	(4,209)	(24,952)
Collection of long-term loans	7,821	10,413	74,003
Others	(2,432)	(1,483)	(23,014)
Net cash used in investing activities	(95,379)	(106,150)	(902,445)
Cash flows from financing activities:			
Net (decrease) increase in bank loans	(175,965)	136,680	(1,664,916)
Proceeds from long-term debt	251,541	120,601	2,379,991
Repayment of long-term debt	(69,535)	(140,124)	(657,913)
Proceeds from issuance of bonds	72,000	50,000	681,238
Payment for redemption of bonds	(100,150)	(90,000)	(947,582)
Dividends paid to stockholders	(20,162)	(16,805)	(190,762)
Dividends paid to minority stockholders of subsidiaries	(372)	(531)	(3,525)
Others	(1,760)	(520)	(16,650)
Net cash (used in) provided by financing activities	(44,403)	59,301	(420,119)
Effect of exchange rate changes on cash and cash equivalents	(3,190)	(3,469)	(30,183)
Net decrease in cash and cash equivalents	(8,732)	(224)	(82,616)
Cash and cash equivalents at beginning of year	190,456	189,718	1,802,024
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	3,043	962	28,788
Cash and cash equivalents at end of year (Note 14)	¥ 184,767	¥ 190,456	$ 1,748,196

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

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") and International Financial Reporting Standards ("IFRS") are set forth in Note 2.

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2004 and 2003 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 held-to-maturity debt securities, investments in unconsolidated subsidiaries and affiliates, and other securities (available-for-sale securities).

Held-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, 2004 and 2003) 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 10 to 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 reduced its defined interest rate in the pension plans, and, as a result, the projected benefit obligation decreased by ¥35,845 million (US$339,155 thousand), which was credited to income as an extraordinary gain.

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$94,616 thousand) each (over ¥5,000 million (US$47,308 thousand) as to aerospace contracts, and over ¥15,000 million (US$141,924 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.

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 basic 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.

2. DIFFERENCES WITH IAS & IFRS

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") and International Financial Reporting Standards ("IFRS") are summarized as follows:

a) 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.

b) 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.

c) 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 10 to 11 years. Even if IAS No. 19 had been applied, the difference would not have been material.

d) 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.

e) 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 sections 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.

f) 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.

g) Stock options

Under IFRS No.2, share-based payment transactions should be recognised in the financial statements.

MHI has one stock option plan, but no options are granted at price below the market price on the day of the grant. Even if IFRS No.2 had been applied, the difference would not have been material.

h) Business combinations

MHI and Subsidiaries have not had such activities as should be accounted for under IFRS No.3 during the years ended March 31, 2004 and 2003.

i) Discontinuing operations

MHI and Subsidiaries have not had such occurrences as should be accounted for under IFRS No. 5 during the years ended March 31, 2004 and 2003.

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 ¥105.69=US$1 prevailing at March 31, 2004 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, 2004 and 2003, consisted of the following :

	In millions of yen			In thousands of U.S. dollars		
	2004			2004		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs :						
Equity securities	¥141,572	¥333,962	¥192,390	$1,339,497	$3,159,821	$1,820,324
Bonds	242	346	104	2,294	3,279	985
Others	730	767	37	6,911	7,262	351
Subtotal	¥142,544	¥335,075	¥192,531	$1,348,702	$3,170,362	$1,821,660
ii) Acquisition costs over carrying amounts :						
Equity securities	¥ 1,291	¥ 589	¥ (702)	$ 12,211	$ 5,570	$ (6,641)
Total (i+ii)	¥143,835	¥335,664	¥191,829	$1,360,913	$3,175,932	$1,815,019

	In millions of yen		
	2003		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs :			
Equity securities	¥ 50,257	¥164,773	¥114,516
Bonds	242	361	119
Others	8	10	2
Subtotal	¥ 50,507	¥165,144	¥114,637
ii) Acquisition costs over carrying amounts :			
Equity securities	¥ 96,137	¥ 83,001	¥ (13,136)
Others	1,190	1,116	(74)
Subtotal	¥ 97,327	¥ 84,117	¥ (13,210)
Total (i+ii)	¥147,834	¥249,261	¥101,427

Note: MHI and Subsidiaries treated as impaired those securities whose market values showed a substantial decline and were not judged to recover. The amount reflecting the impairment loss is recorded as the acquisition cost for these securities.

Securities were judged as impaired when their market values had declined 50% or more from their book values at the end of respective fiscal years, or had declined between 30% and 50% from their book values both at the interim period and the end of respective fiscal years.

The amount of impairment losses for the years ended March 31, 2004 and 2003 amounted to ¥66 million (US$622 thousand) and ¥18,272 million, respectively, with respect to other securities with market value.

b) Sales amounts of other securities and related gains and losses for the years ended March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Sales amounts	**¥4,771**	¥255,071	**$45,142**
Gains	**1,278**	5,367	**12,089**
Losses	**(76)**	(186)	**(719)**

c) Other securities without market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2004 and 2003, mainly consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Equity securities—unlisted	**¥31,312**	¥30,495	**$296,262**

Note: 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 year ended March 31, 2004 and 2003 amounted to ¥726 million (US$6,868 thousand) and ¥348 million, respectively, with respect to other securities without market value.

d) The contractual maturities of other securities at March 31, 2004 and 2003 were as follows:

	In millions of yen			In thousands of U.S. dollars		
	2004			**2004**		
	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
Certificate of deposit	**¥1,229**	**¥ –**	**¥–**	**$11,629**	**$ –**	**$–**
Loan trusts	**145**	**298**	**–**	**1,374**	**2,817**	**–**
Bonds and Debentures						
Bonds	**10**	**356**	**–**	**91**	**3,370**	**–**
Debentures	**375**	**600**	**–**	**3,552**	**5,676**	**–**
Foreign bonds	**–**	**688**	**–**	**–**	**6,513**	**–**
	¥1,759	**¥1,942**	**¥–**	**$16,646**	**$18,376**	**$–**

	In millions of yen		
	2003		
	Due within one year	Due after one year through five years	Due after five years
Certificate of deposit	¥1,010	¥ –	¥–
Loan trusts	102	381	–
Bonds and Debentures			
Bonds	19	361	–
Debentures	–	1,433	–
	¥1,131	¥2,175	¥–

5. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following :

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Finished products	**¥127,471**	¥122,285	**$1,206,086**
Work in process	**797,132**	742,729	**7,542,167**
Raw materials	**51,374**	53,876	**486,082**
	¥975,977	¥918,890	**$9,234,335**

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, 2004 and 2003, 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
	2004	2003	**2004**
Deferred tax assets:			
Reserve for retirement allowance	**¥ 100,610**	¥ 113,794	**$ 951,931**
Tax loss carryforwards	**38,703**	29,956	**366,195**
Accrued expenses for product warranty	**20,331**	18,003	**192,366**
Allowance for doubtful receivables	**16,100**	17,570	**152,330**
Accrued expenses for construction contracts	**15,557**	14,260	**147,192**
Accrued bonuses to employees	**–**	6,467	**–**
Others	**32,386**	45,245	**306,429**
Subtotal	**223,687**	245,295	**2,116,443**
Valuation allowance	**(3,936)**	(640)	**(37,242)**
Total gross deferred tax assets	**219,751**	244,655	**2,079,201**
Deferred tax liabilities:			
Net unrealized gains on investment securities	**(77,281)**	(45,349)	**(731,206)**
Gains on contribution of investment securities to trust for retirement allowance	**(68,560)**	(72,609)	**(648,689)**
Reserve for reduction in costs of fixed assets	**(6,794)**	(4,661)	**(64,280)**
Reserve for accelerated depreciation	**(3,021)**	–	**(28,584)**
Others	**(3,065)**	(2,918)	**(29,001)**
Total gross deferred tax liabilities	**(158,721)**	(125,537)	**(1,501,760)**
Net deferred tax assets	**¥ 61,030**	¥ 119,118	**$ 577,441**

Note: Net deferred tax assets and liabilities at March 31, 2004 and 2003 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Deferred income taxes in current assets	**¥ 59,819**	¥68,855	**$ 565,982**
Deferred income taxes in investments and advances	**22,797**	50,482	**215,698**
Other current liabilities	**(2)**	(150)	**(20)**
Deferred income taxes in long-term liabilities	**(21,584)**	–	**(204,219)**
Other long-term liabilities	**–**	(69)	**–**

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, 2004 and 2003 were as follows:

	2004	2003
Japanese statutory effective income tax rate	**42.0%**	42.0%
Adjustment :		
Equity in earnings of unconsolidated subsidiaries and affiliates	**(5.1)**	(3.3)
Items excluded from expenses	**3.9**	2.9
Items excluded from gross income	**(0.9)**	(1.1)
Valuation allowance	**7.8**	–
Decrease of deferred tax assets due to change in Japanese statutory income tax rate	**–**	3.4
Unrealized profit in excess of taxable income	**4.2**	–
Others	**3.4**	4.0
Income tax rate as a percentage of income before income taxes and minority interests	**55.3%**	47.9%

7. BANK LOANS AND LONG-TERM DEBT

a) Bank loans represented principally by notes payable to banks and bank loans at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Secured	**¥ 8,140**	¥ 13,486	**$ 77,017**
Unsecured	**292,071**	460,948	**2,763,467**
	¥300,211	¥474,434	**$2,840,484**

b) Long-term debt at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Loans principally from banks and insurance companies (due 2004 to 2022 with interest ranging from 0.20% to 6.12% at March 31, 2004)			
Secured	**¥ 29,714**	¥ 31,276	**$ 281,143**
Unsecured	**495,125**	300,342	**4,684,686**
Debenture bonds (due 2005 to 2013 with interest ranging from 0.365% to 2.525% at March 31, 2004)	**241,550**	270,000	**2,285,458**
Unsecured bonds of consolidated subsidiaries (due 2004 to 2010 with interest ranging from 0.62% to 8.39% at March 31, 2004)	**5,656**	5,995	**53,520**
Export loans received from main contractors (due 2004 to 2010 with interest ranging from 2.30% to 6.60% at March 31, 2004)	**29,013**	40,876	**274,512**
Subtotal	**801,058**	648,489	**7,579,319**
Less current portion due within one year	**(103,066)**	(161,776)	**(975,170)**
Total	**¥697,992**	¥486,713	**$6,604,149**

c) A summary of assets pledged as collateral for bank loans and long-term debt at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Property, plant and equipment.	**¥17,451**	¥15,600	**$165,113**
Trade receivables:			
Notes	**7,670**	9,447	**72,568**
Accounts	**16,416**	12,539	**155,326**
Short-term loans included in prepaid expenses and other current assets	**4,479**	5,444	**42,377**
Securities	**585**	632	**5,535**
Cash and deposits	**30**	30	**284**
	¥46,631	¥43,692	**$441,203**

d) The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

	In millions of yen	In thousands of U.S. dollars
2004	¥103,066	$ 975,170
2005	84,681	801,223
2006	92,186	872,233
2007	87,936	832,014
2008	100,729	953,060
2009 and thereafter	332,460	3,145,619
	¥801,058	$7,579,319

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 gains and 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 are incurred and expensed in the current year in MHI, and are amortized over 10 to 11 years from the year of the occurrence by the straight-line method in Subsidiaries.

a) Benefit obligations and related information at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Benefit obligations	**¥(758,412)**	¥(739,941)	**$(7,175,818)**
Fair value of plan assets	**494,264**	337,568	**4,676,551**
Unfunded benefit obligations	**(264,148)**	(402,373)	**(2,499,267)**
Unrecognized actuarial loss	**172,026**	250,629	**1,627,643**
Unrecognized prior service cost (benefit)	**(225)**	(236)	**(2,133)**
Net benefit liability recognized on the consolidated balance sheet	**(92,347)**	(151,980)	**(873,757)**
Prepaid pension expense	**22,263**	117	**210,638**
Reserve for retirement allowance	**¥(114,610)**	¥(152,097)	**$(1,084,395)**

b) Benefit expenses for the years ended March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥27,557**	¥29,507	**$260,731**
Interest cost	**21,627**	22,134	**204,629**
Expected return on plan assets	**(10,148)**	(10,993)	**(96,013)**
Amortization of unrecognized actuarial loss	**20,923**	12,797	**197,964**
Amortization of unrecognized service cost (benefit)	**(35,844)**	787	**(339,145)**
Net benefit expenses	**¥24,115**	¥54,232	**$228,166**

c) The principal assumptions used in determining the information above at March 31, 2004 and 2003 were as follows:

		2004	2003
Discount rate		**2.0%**	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 10 to 11 years	
Amortization period for actuarial gain/loss	MHI	**13 years**	
	Subsidiaries	11 to 20 years	

9. GAINS ON SALES OF FIXED ASSETS

Gains on sales of fixed assets for the year ended March 31, 2004 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Land	**¥5,744**	**$54,346**
Others	**(11)**	**(102)**
	¥5,733	**$54,244**

10. BUSINESS IMPROVEMENT AND RESTRUCTURING CHARGES

Business improvement and restructuring charges arising from Mass and Medium-Lot Manufactured Machinery business for the year ended March 31, 2004 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Losses on disposal and devaluation of inventories	**¥ 7,150**	**$ 67,655**
Losses on product warranty	**6,917**	**65,445**
Losses on disposal of fixed assets	**2,812**	**26,610**
Relocation charges of facilities	**1,165**	**11,024**
Others	**2,164**	**20,472**
	¥20,208	**$191,206**

11. LOSSES ON REVALUATION OF INVESTMENT SECURITIES

Losses on revaluation of investment securities for the year ended March 31, 2004 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Devaluation of securities	**¥ 767**	**$7,251**
Devaluation of golf club membership	**252**	**2,387**
	¥1,019	**$9,638**

12. STOCKHOLDERS' EQUITY

a) Capital surplus

The increase in the capital surplus account is due to the gains on sales of treasury stock.

b) 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.

c) Net unrealized gains on investment securities

The accounting policy of this account is described in Note 1. d). The unrealized gains at March 31, 2004 and 2003 were ¥192,863 million (US$1,824,800 thousand) and ¥101,720 million, respectively, and ¥114,245 million (US$ 1,080,947 thousand) and ¥59,984 million, net of tax effect, were accounted for as net unrealized gains on investment securities for the respective year ends.

d) Foreign currency translation adjustments

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

13. STOCK OPTION PLAN

MHI has a stock option plan, under which directors have been granted stock options to purchase MHI's common stock of 535,000 shares.

Under this stock option plan, options were granted with the strike price not less than market price at the date of grant, and are exercisable in a period from June 27, 2005 to June 26, 2009.

Stock options outstanding at the balance sheet date consisted of the following:

	Stock options (shares)	Weighted-average exercised price (yen)	Weighted-average exercised price (U.S dollars)
Outstanding at March 31, 2003	–	–	–
Granted	535,000	¥315	$2.98
Outstanding at March 31, 2004	**535,000**	**¥315**	**$2.98**

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Cash and deposits	**¥209,806**	¥219,528	**$1,985,104**
Time deposits with maturities over three months	**(26,320)**	(30,312)	**(249,026)**
Short-term investments with maturities within three months included in marketable securities	**1,221**	1,000	**11,550**
Short-term investments with maturities within three months included in prepaid expenses and other current assets	**60**	240	**568**
	¥184,767	¥190,456	**$1,748,196**

15. 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
	2004	2003	**2004**
Equivalent of acquisition cost:			
Tools and equipment	**¥10,690**	¥12,784	**$101,151**
Others	**2,444**	2,777	**23,123**
	¥13,134	¥15,561	**$124,274**
Equivalent of accumulated depreciation:			
Tools and equipment	**¥ 6,097**	¥ 7,155	**$ 57,691**
Others	**1,550**	1,628	**14,669**
	¥ 7,647	¥ 8,783	**$ 72,360**
Equivalent of balance at the balance sheet date:			
Tools and equipment	**¥ 4,593**	¥ 5,629	**$ 43,460**
Others	**894**	1,149	**8,454**
	¥ 5,487	¥ 6,778	**$ 51,914**

ii) The equivalent of undue lease payments (including interest portion) at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Within one year	**¥2,468**	¥2,756	**$23,347**
Thereafter	**3,019**	4,022	**28,567**
	¥5,487	¥6,778	**$51,914**

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, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Lease payments	**¥3,038**	¥3,513	**$28,742**

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
	2004	2003	**2004**
Acquisition cost:			
Machinery and equipment	**¥58,563**	¥66,944	**$554,099**
Others	**5,335**	4,606	**50,482**
	¥63,898	¥71,550	**$604,581**
Accumulated depreciation:			
Machinery and equipment	**¥25,136**	¥27,803	**$237,825**
Others	**2,220**	2,065	**21,013**
	¥27,356	¥29,868	**$258,838**
Balance at the balance sheet date:			
Machinery and equipment	**¥33,427**	¥39,141	**$316,274**
Others	**3,115**	2,541	**29,469**
	¥36,542	¥41,682	**$345,743**

ii) Undue lease income (including interest portion) at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Within one year	**¥14,230**	¥15,208	**$134,637**
Thereafter	**29,963**	35,166	**283,502**
	¥44,193	¥50,374	**$418,139**

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, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Lease income	**¥15,441**	¥15,162	**$146,092**
Depreciation expenses	**10,086**	13,564	**95,426**

16. CONTINGENT LIABILITIES

Contingent liabilities for guarantees to loans of others made in the ordinary course of business amounted to ¥151,342 million (US$1,431,946 thousand) and ¥176,836 million at March 31, 2004 and 2003, respectively.

17. REVISION OF THE TERM FOR THE PAYMENT OF EMPLOYEES' BONUSES

Certain domestic subsidiaries have revised the terms for the payment of bonuses to employees for the year ended March 31, 2004, following MHI's revision made for the year ended March 31, 2003.

According to this revision, no accrual for employees' bonuses of these domestic subsidiaries was provided for the year ended March 31, 2004.

The effect of this revision was to increase operating income, ordinary income and income before income taxes and minority interests by ¥13,538 million (US$128,092 thousand) for the year ended March 31, 2004, compared with those calculated under the previous terms for the payment of bonuses to employees.

18. SUPPLEMENTARY INCOME INFORMATION

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Depreciation	**¥99,816**	¥ 97,016	**$944,423**
Research and development costs (including routine or periodic alterations to existing products)	**99,515**	109,475	**941,572**

19. SUBSEQUENT EVENTS

a) At the Board of Directors meeting held on May 20, 2004, MHI approved a resolution for subscription to a private placement for ¥40,000 million (US$378,465 thousand) of preferred shares issued by Mitsubishi Motors Corporation (MMC), subject to the approval of MMC's Board of Directors.

MMC, in turn, approved a resolution to issue the preferred shares referred to above at its Board of Directors meeting held on May 21, 2004 and June 8, 2004.

In accordance with this resolution, MHI approved a resolution for subscription to this private placement on the following terms at its Board of Directors meeting held on June 23, 2004 and paid the above amount on June 24, 2004:

(1) Name of preferred shares	MMC No.1 Class A preferred shares
(2) Issue price	¥1 million per share
(3) Number of shares issued to MHI	40,000 shares (Amount subscribed: ¥40,000 million)
(4) Offering date	June 24, 2004
(5) Payment date	June 24, 2004

b) At the Board of Directors meeting held on June 17, 2004, MHI approved a resolution to integrate its Air-Conditioning & Refrigeration Systems Headquarters (excluding the automotive thermal systems business) and Hitachi Air Conditioning Systems Co., Ltd. (Hitachi Air Conditioning Systems), a subsidiary of Hitachi, Ltd. (Hitachi), into a joint venture company to be co-owned by MHI and Hitachi.

MHI, Hitachi and Hitachi Air Conditioning Systems entered into a basic agreement as of the same date.

The integration is scheduled for April 1, 2005, and details of the joint venture will be decided after further discussions.

c) At an ordinary general meeting of the shareholders of MHI held on June 25, 2004, the following appropriations of retained earnings were approved:

	In millions of yen	In thousands of U.S. dollars
Cash dividends	**¥10,106**	**$ 95,624**
Reserve for accelerated depreciation	**4,348**	**41,139**
Reserve for reduction in costs of fixed assets	**3,224**	**30,501**
	¥17,678	**$167,264**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Mitsubishi Heavy Industries, Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2004 and 2003, 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 express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 19. a), the Company subscribed to a private placement for ¥40,000 million of preferred shares issued by Mitsubishi Motors Corporation and paid the above amount on June 24, 2004.
As described in Note 19. b), at the Board of Directors meeting held on June 17, 2004, the Company approved a resolution to integrate its Air-Conditioning & Refrigeration Systems Headquarters (excluding the automotive thermal systems business) and Hitachi Air Conditioning Systems Co., Ltd., a subsidiary of Hitachi, Ltd., into a joint venture company to be co-owned by the Company and Hitachi, Ltd. The Company, Hitachi, Ltd. and Hitachi Air Conditioning Systems Co., Ltd. entered into a basic agreement as of the same date.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

Shin Nihon & Co.

June 25, 2004

CORPORATE DATA

As of March 31, 2004

Head Office
16-5, Konan 2-chome, Minato-ku,
Tokyo 108-8215, Japan
Phone: +81-3-6716-3111
Fax: +81-3-6716-5800

Established: January 11, 1950

Paid-in Capital: ¥265.6 billion

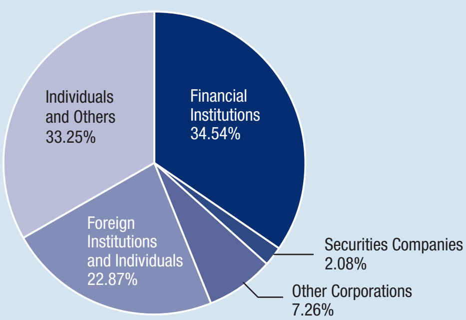
Total Number of Shares Authorized: 6,000,000,000

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

Number of Shareholders: 331,123

Number of Employees: 59,949

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

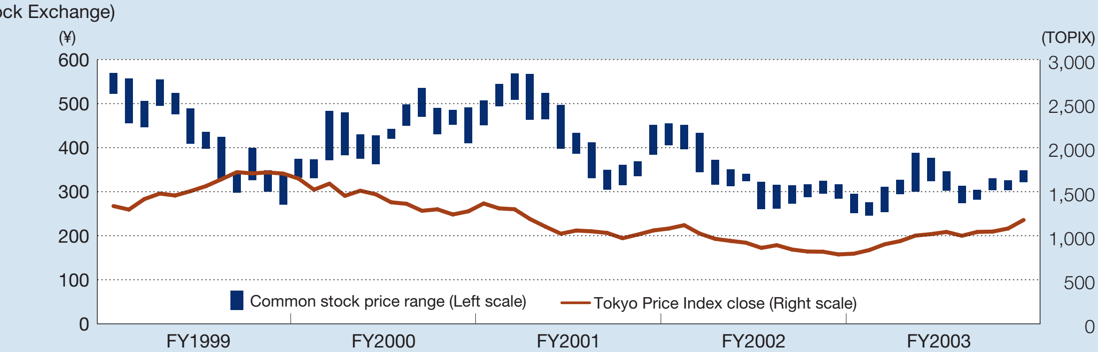
Transfer Agent: The Mitsubishi Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

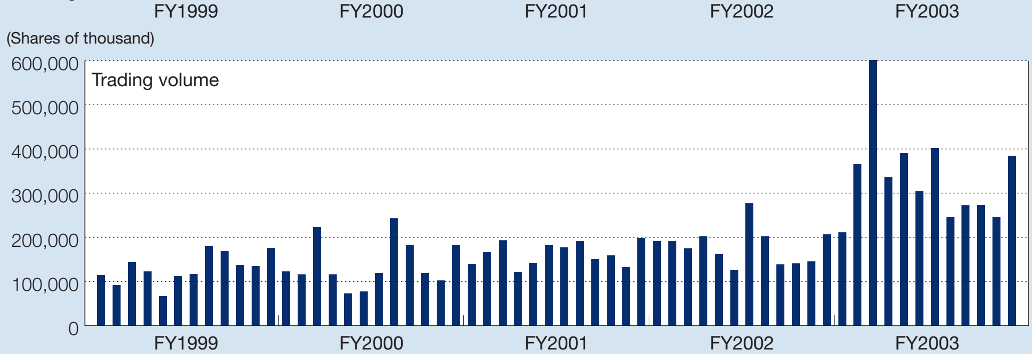
Certified Public Accountants: Shin Nihon & Co.
Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011, Japan

Major Shareholders	Number of shares owned by major shareholders	% of total shares
Japan Trustee Services Bank, Ltd. (Holder in Trust)	230,812,000	6.84%
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	147,280,000	4.37
The Master Trust Bank of Japan, Ltd. (Holder in Retirement Benefit Trust for The Bank of Tokyo-Mitsubishi, Ltd.)	125,666,000	3.72
Meiji Yasuda Life Insurance Company	88,000,741	2.61
The Tokio Marine and Fire Insurance Co., Ltd.	63,000,000	1.87
Morgan Grenfell and Co.Limited. 600	48,711,000	1.44
The Master Trust Bank of Japan, Ltd. (Holder in Retirement Benefit Trust for The Mitsubishi Trust and Banking Corporation)	45,934,000	1.36
Nippon Life Insurance Company	40,793,000	1.21
The Chase Manhattan Bank N.A. London	39,027,654	1.16
Nomura Securities Co., Ltd.	36,804,048	1.09

MONTHLY STOCK PRICE RANGE & TRADING VOLUME

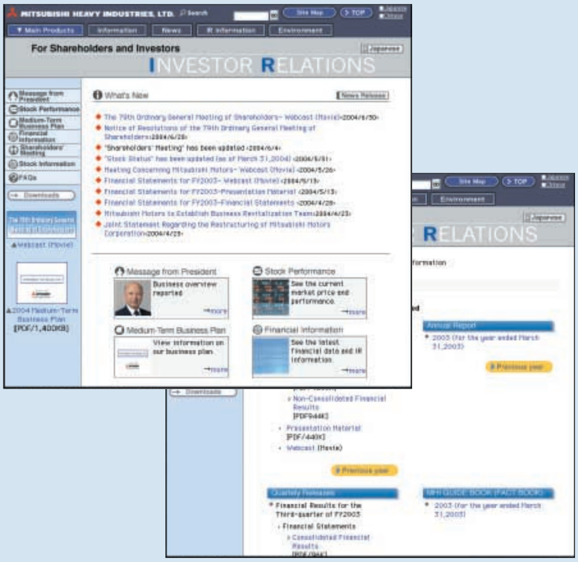
(Tokyo Stock Exchange)





For more information please visit our IR website.

http://www.mhi.co.jp/index_kabu_e.html



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