MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

Annual Report 2010

For the Year Ended March 31, 2010

MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

MITSUBISHI HEAVY INDUSTRIES, LTD.

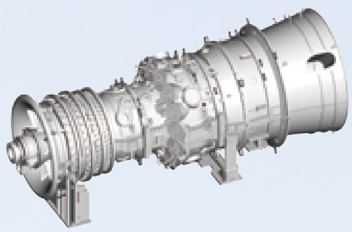
As a Manufacturer,

Mitsubishi Heavy Industries

Provides an Assured Future through

Technologies and Passion

A World of Cleaner Energy



GAS TURBINES

High-efficiency gas turbine that reduces the environmental loads while meeting demands for electric power. MHI Group developed the “J-series” gas turbine featuring the world’s largest power generation capacity and highest thermal efficiency*. Combined cycle power generation plants with steam turbines realize an approximate 50% reduction in CO_2 emissions compared with conventional coal-fired power plants and control nitrogen oxide (NOx) emissions, which usually increase the higher the combustion temperature.

*Thermal efficiency of 60% (LHV) or more at generator terminal of combined cycle power generation plants.

-50%

0

(zero)

NUCLEAR POWER PLANTS

Nuclear power generation, considered one of the solutions to the global warming, produces zero CO_2 emissions in the generation process, which consists of changing water into steam by the heat in the nuclear reactor and spinning turbines that make electricity. It produces a large amount of electricity stably for an extended period with very small quantity of fuel. The 24 PWR (pressurized water reactor) plants MHI Group has delivered in Japan contribute to a CO_2 emission reduction of as much as approx. 80 million tons annually.

A World of Eco-friendly Transport

LNG CARRIERS

Natural gas is gaining popularity for its low emissions of CO_2 which assumed to be cause of global warming and air pollutant as a fuel compared with oil and coal, as well as for its use in fuel cells. LNG carriers play an important role in delivering this clean natural gas by sea. In order to reduce the amount of CO_2 during transportation, MHI Group developed a high efficiency steam turbine engine, which can attain about 15% energy savings against conventional one.

-15%

MRJ

One of the striking features of the MRJ (Mitsubishi Regional Jet), the first small-size passenger jet produced in Japan, is that it provides the top class operational economy in the world, well ahead of its contemporaries. We effected substantial weight reduction and combined new engines with an advanced aerodynamic design to provide superior fuel efficiency of at least 20% compared to conventional small-size aircraft.

-20%

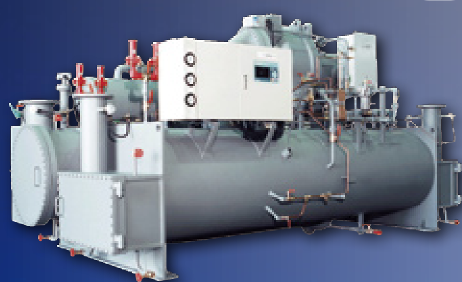
A World of Better Cities

-90%

APM

The APM (Automated People Mover), a new transportation system that runs smoothly on rubber tires in a designated lane with low vibration and noise levels, is attracting attention for easing congestion as well as reducing exhaust fumes and CO_2 emissions. Powered by electricity, it cuts the CO_2 emitted to transport one person over one kilometer by approximately 90% compared to an automobile.

-60%



TURBO CHILLERS

Semiconductors, LCD panels and other precision devices are made in factory clean rooms under strictly controlled temperature and humidity levels. Turbo chillers help realize enormous energy savings in the air-conditioning consumed for such climate control. With the highest level of efficiency in the world using little electricity, the latest inverter machine reduces power consumption and CO_2 emissions by 60% annually compared to 15 years ago.

Our Technologies, Your Tomorrow

Kazuo Tsukuda, Chairman

Hideaki Omiya, President

Reviewing the global economy during FY2009 (April 1, 2009 to March 31, 2010), while emerging nations turned to a recovery tone, the industrialized nations realized only a slight recovery overall, with continued weak consumption, financial anxiety, and a hard employment and income environment. The core markets for the products handled by MHI Group are rapidly shifting from the stagnant industrialized nations to the growing emerging economies. Competition is intensifying in those expanding markets among both powerful global corporations and rapidly rising firms from the emerging nations. Combined with the appreciation of the yen and galloping material costs, MHI Group is facing a competitive environment that is severer than ever before.

We believe, however, that even though these harsh economic times may continue through the near term, in the long-range view the need will continue for products that are beneficial to the future of mankind and our planet's well-being. Numerous problems of severe complexity stand in the way of that future, with global warming, depletion of energy resources, and shortfalls in water resources among them. At MHI Group, through the provision of technologies and products across a broad spectrum of business fields, we have continuously taken steps enabling us to contribute to the resolution of these issues of global scale. Today, governments worldwide are strategically working to make the development of clean energies and protection of the environment the driving forces to revitalize their economies. Those strategies underscore the fact that the business initiatives MHI Group has taken through the years have been moves in the right direction, and we believe that the role to be played by us will remain significant in the future as well.

MHI Group formulated its "2010 Business Plan" (5-Year Medium-Term Business Plan) in April 2010. In addition to continuing and further enhancing the measures that have already borne fruit, we will work to quickly resolve the difficulties we faced as a result of the global recession, aiming to promote "reform" to respond to the drastic changes in the market and achieve "global growth."

MHI Group's corporate identity statement, "Our Technologies, Your Tomorrow", represents our intention to provide the next generation with an assured future of comfortable lives and happiness through technologies that excite people and our passion for manufacturing. To achieve this aim, we seek to provide further value by improving the technologies we have fostered and using new ideas and concepts to integrate our diverse technologies. From a global perspective, we work to solve the problems facing humankind and to realize everyone's dreams. We respectfully ask for your continued understanding and support.

Kazuo Tsukuda, Chairman

Hideaki Omiya, President

Creed

1. **We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society.**

2. **We base our activities on honesty, harmony, and a clear distinction between public and private life.**

3. **We shall strive for innovative management and technological development from an international perspective.**

Reason for Instituting the Creed

In Japan there are many enterprises with their own "creeds" which simply represent their management concept.

Mitsubishi Heavy Industries, Ltd. has a creed of this type, also. This creed was instituted in 1970 on the basis of the policy advocated by Koyata Iwasaki, president of Mitsubishi Goshi Kaisha in the 1920s, to indicate the essential attitude of the company, the mental attitude of the employees, and the future directions of the company. The reason for instituting the present creed is so that all of us can call to mind our one hundred years of tradition, and strive for further development in the future.

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Consolidated Financial Highlights

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

	In millions of yen except per share amounts						In thousands of U.S. dollars except per share amounts*
	2010	2009	2008	2007	2006	2005	**2010**
Net sales	**¥2,940,887**	¥3,375,674	¥3,203,085	¥3,068,504	¥2,792,108	¥2,590,733	**$31,608,845**
Operating income	**65,660**	105,859	136,030	108,912	70,912	14,772	**705,717**
Interest expense—net of interest income and dividend income	**(15,674)**	(6,031)	(5,729)	(4,807)	(1,968)	(5,589)	**(168,465)**
Income before income taxes and minority interests	**28,137**	64,923	101,375	83,711	52,383	16,398	**302,418**
Net income	**14,163**	24,217	61,332	48,839	29,816	4,049	**152,224**
Per share information of common stock:							
(yen / U.S. dollars)							
Net income—basic	**¥ 4.22**	¥ 7.22	¥ 18.28	¥ 14.56	¥ 8.85	¥ 1.20	**$ 0.045**
Net income—diluted	**4.22**	7.21	18.27	14.55	8.83	1.20	**0.045**
Net assets	**380.80**	369.94	423.17	425.54	410.15	390.44	**4.093**
Cash dividends	**4.00**	6.00	6.00	6.00	4.00	4.00	**0.043**
Total assets	**¥4,262,859**	¥4,526,213	¥4,517,148	¥4,391,864	¥4,047,122	¥3,831,144	**$45,817,487**
Net assets**	**1,328,772**	1,283,251	1,440,429	1,446,436	1,376,289	1,309,977	**14,281,728**
Current assets	**2,826,662**	3,165,059	2,936,886	2,787,315	2,543,485	2,465,645	**30,381,147**
Current liabilities	**1,555,796**	1,994,892	1,825,894	1,807,411	1,626,662	1,567,987	**16,721,797**
Interest—bearing debts	**1,495,325**	1,612,859	1,365,393	1,273,572	1,198,664	1,172,896	**16,071,850**
Cash flows:							
Cash flows from operating activities	**¥ 117,977**	¥ 79,533	¥ 161,823	¥ 158,721	¥ 73,928	¥ 107,065	**$ 1,268,024**
Cash flows from investing activities	**(180,704)**	(156,593)	(193,055)	(158,653)	(104,065)	(163,321)	**(1,942,218)**
Ratios:							
Return on equity***	**1.12%**	1.82%	4.31%	3.48%	2.22%	0.31%	
Equity ratio****	**29.98%**	27.43%	31.44%	32.52%	34.01%	34.19%	

Notes: * U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥93.04 = US$1, the exchange rate prevailing at March 31, 2010.

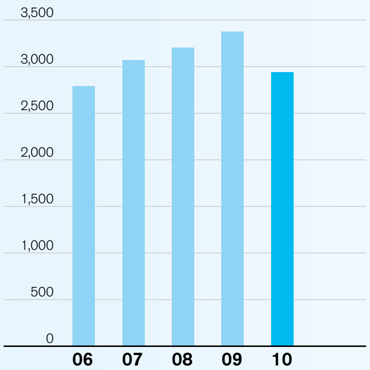
** In calculating the net assets, MHI and its consolidated subsidiaries have applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8) since the year ended March 31, 2007.

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

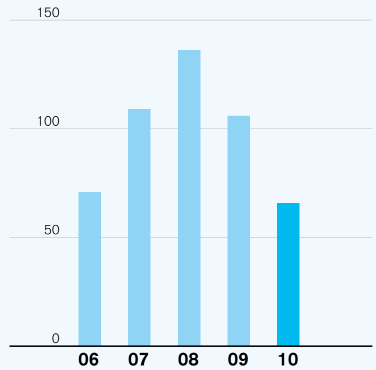
**** Equity ratio = (net assets − share subscription rights − minority interests) / total assets × 100

Consolidated Financial Performance

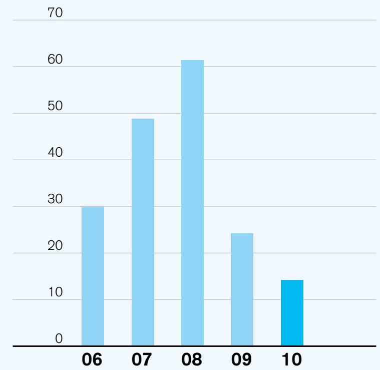
Net Sales
(In billions of yen)



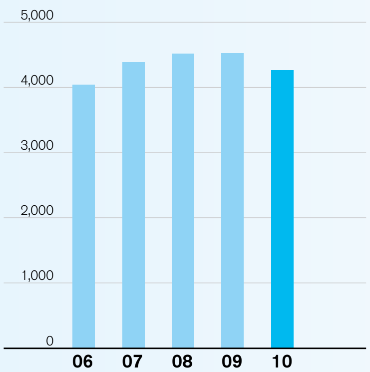
Operating Income
(In billions of yen)



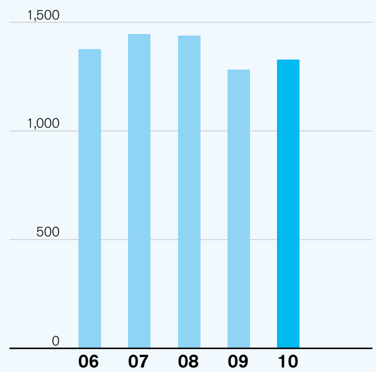
Net Income
(In billions of yen)



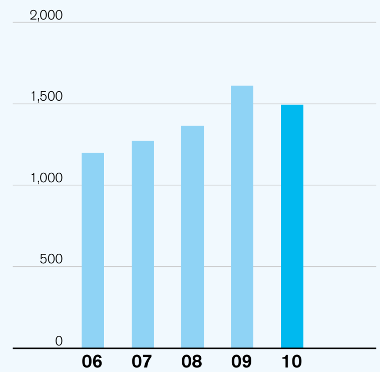
Total Assets
(In billions of yen)



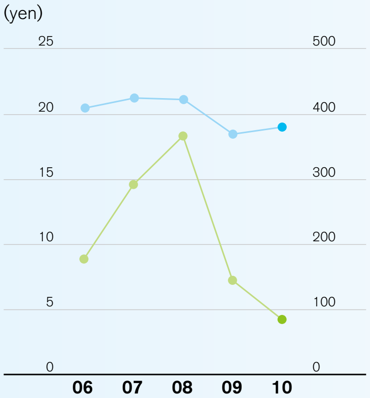
Net Assets
(In billions of yen)



Interest-Bearing Debts
(In billions of yen)

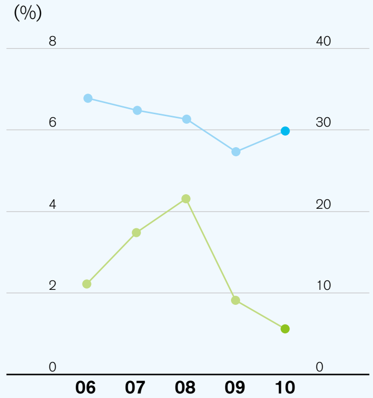


Per Share Information of Common Stock
(yen)



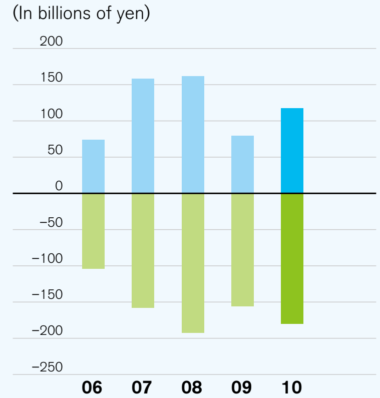
● Net income—basic (left scale)
● Net assets (right scale)

Ratios
(%)



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

Cash Flows
(In billions of yen)



■ Cash flows from operating activities
■ Cash flows from investing activities

Active Promotion of the “2010 Business Plan”

Question 1

Could you tell us about the business performance in FY2009?

Answer

In the severe business environment, although orders received, net sales and profits decreased year on year, regarding profits, we have implemented various measures to improve profitability such as Challenge 09, a company-wide emergency plan and successfully secured profits exceeding beginning-of-year forecasts.

MHI and its consolidated subsidiaries (“MHI Group”) worked assiduously to win orders. Nevertheless, the value of consolidated orders received fell approximately 24% year-on-year to ¥2,476.2 billion, with large declines in every segment because of the delayed recovery of demand in the Mass and Medium-Lot Manufactured Machinery business and the postponement or suspension of business negotiations, continuing from the prior year in the Ordered Goods business, as well as the intensified competition for winning orders in emerging countries.

As a result, consolidated net sales fell approximately 13% to ¥2,940.8 billion, reflecting the large year-on-year decline in the Mass and Medium-Lot Manufactured Machinery segment as well as decreased revenues from the Power Systems segment, mostly due to lower sales of thermal power plants and wind turbines.

Profits also declined on reduced sales, the appreciation of the yen and other factors, despite the profitability improvements achieved through vigorous efforts under Challenge 09, a company-wide emergency plan that was designed to deal with the global recession. Operating income was down ¥40.1 billion to ¥65.6 billion, while ordinary income dropped ¥51.2 billion to ¥24.0 billion.

Net income decreased ¥10.0 billion to ¥14.1 billion. While posting extraordinary gain from the sales of fixed assets, from the sales of investment securities and from the revision of retirement benefit plan, MHI Group posted extraordinary loss from business structure improvement expenses.

Question 2

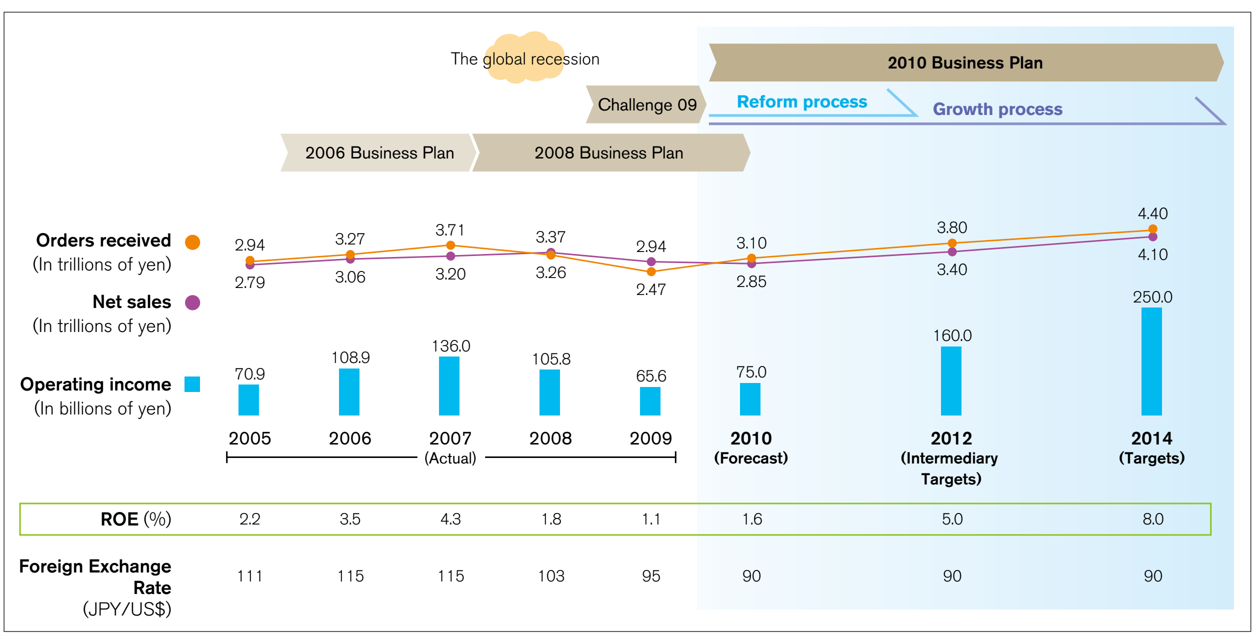
What comes to mind when looking back at the 2008 Business Plan, the previous medium-term business plan?

Answer

We were able to achieve cost improvements, the promotion of activities in the energy and environment businesses and improvements in the profitability of the Machinery & Steel Structures Headquarters, among others.

MHI Group recognizes its long-term challenges as being low profit margins and ROE. A contributing factor to these challenges is that we offer an enormous number of products, the majority of which occupy a mid-level market share which makes for a weak competitive environment. Despite our wide variety of technologies centered on our Technical Headquarters, overall optimization is lagging because those technologies are not used effectively in every process of the value chains, and because of the strong independence of our production bases that results in different operational processes being carried out at each base. In short, we recognize that the failure to exercise our comprehensive strengths is a major issue and that “Global growth in the production business” and “Business process reform” were outlined as the basic policies in the 2008 Business Plan formulated in April 2008.

We have succeeded in realizing achievements such as cost improvements through manufacturing reform activities, company-wide strategic reinforcement of energy and environment businesses and improvements in the profitability of the Machinery & Steel Structures Headquarters. On the other hand, the effects of the global recession confronted us with challenges such as an expansion in orders received by our Ordered Goods business, the need for improvements in our business constitution to enable us to cope with fluctuating demand in our Mass and Medium-Lot Manufactured Machinery business, and the need to reduce our currency exposure.



Question 3

Could you tell us about the outline of the 2010 Business Plan (medium-term business plan) and its targets?

Answer

To achieve record orders received, sales and operating income in FY2014.

The 2010 Business Plan is a medium-term business plan covering the 5 years from FY2010 through FY2014. The two previous business plans were formulated based on periods of 3 years. However, under the current severe business environment, the 2010 Business Plan was formulated based on a period of 5 years, taking into account the characteristics of our business.

The 2010 Business Plan is a continuation and further enhancement of measures that have already borne fruit under the 2008 Business Plan, which was implemented to deal with a market environment experiencing a shift of the market from Japan, Europe and America to emerging countries, the unabating appreciation of the yen, rising raw material costs, and an increased awareness worldwide of global environmental issues. Under the Plan, we will work towards solving at an early stage the challenges we faced as a result of the global recession, aiming to promote “reform” and achieve “global growth” to respond to the drastic changes in

(In billions of yen)

	Segment	Orders Received			Net Sales			Operating Income		
		FY2009 Actual	FY2012 Target	FY2014 Target	FY2009 Actual	FY2012 Target	FY2014 Target	FY2009 Actual	FY2012 Target	FY2014 Target
Growth Business	Power Systems	982.2	1,680.0	1,920.0	1,066.1	1,350.0	1,700.0	82.6	95.0	125.0
	Machinery & Steel Structures	404.3	640.0	810.0	625.7	600.0	730.0	3.0	32.0	40.0
	Aerospace	435.5	510.0	590.0	500.2	500.0	650.0	(6.4)	0.0	17.0
	Total	1,822.0	2,830.0	3,320.0	2,192.0	2,450.0	3,080.0	79.2	127.0	182.0
Reform Business	Shipbuilding & Ocean Development	150.8	230.0	230.0	230.6	220.0	210.0	14.5	5.0	7.0
	General Machinery & Special Vehicles	291.0	450.0	520.0	286.8	450.0	520.0	(23.2)	13.0	35.0
	Air-conditioning & Refrigeration Systems	138.4	200.0	240.0	137.4	200.0	240.0	(9.9)	4.0	11.0
	Machine Tool, Others	113.4	150.0	160.0	146.8	130.0	140.0	5.1	11.0	15.0
	Total	693.6	1,030.0	1,150.0	801.6	1,000.0	1,110.0	(13.5)	33.0	68.0
	Inter-group consolidation adjustments	(39.7)	(60.0)	(70.0)	(53.2)	(50.0)	(90.0)	–	–	–
	Grand Total	2,476.2	3,800.0	4,400.0	2,940.8	3,400.0	4,100.0	65.6	160.0	250.0

Note: FY2009 results shown in the above table have been reclassified based on the new segment classification.

Category	Segment	Direction of Growth/Reform
Growth Business	Power Systems	With growing calls for global environmental measures and infrastructure demand in emerging nations, increase the size and profits of these businesses as MHI's core operations
	Machinery & Steel Structures	
	Aerospace	Put effort into improving short-term profitability while increasing the size and profits of the businesses, against a backdrop of expanding demand for aircraft over the medium and long terms
Reform Business	Shipbuilding & Ocean Development	Reduce fixed costs, focus on specific areas and ensure stable revenues
	General Machinery & Special Vehicles	Flexibly review fixed costs early to move into the black
	Air-conditioning & Refrigeration Systems	
	Machine Tool	

Changes to the business segments

MHI has newly adopted the “Accounting Standard for Disclosures of Segment information” and, from FY2010, the Paper & Printing Machinery Division has been included in the Machinery & Steel Structures Headquarters, among others. As a result, the reported segments to be disclosed from FY2010 onwards have been partially amended as follows.

1. Of the “Industrial Machinery” that belonged to the Mass and Medium-Lot Manufactured Machinery segment, printing machinery and industrial machinery shall be incorporated into the “Machinery and Steel Structures” segment.
2. “General Machinery & Special Vehicles” that belonged to the Mass and Medium-Lot Manufactured Machinery segment shall be presented as a single business segment.
3. “Air-conditioning & Refrigeration Systems” and the Machine Tool included in “Industrial Machinery,” that belonged to the Mass and Medium-Lot Manufactured Machinery segment, shall be presented in the “Others” segment. However, because “Air-conditioning & Refrigeration Systems” has been presented individually as a sub-segment up until now, it will continue to be presented individually.

Before changes

- Machinery & Steel Structures
- Mass and Medium-Lot Manufactured Machinery
  - General Machinery & Special Vehicles
  - Air-conditioning & Refrigeration Systems
  - Industrial Machinery
    - Printing Machinery, Industrial Machinery
    - Machine Tool
- Others

After changes

- Machinery & Steel Structures
- General Machinery & Special Vehicles
- Others
  - Air-conditioning & Refrigeration Systems
  - Machine Tool, Others

No changes to:
Shipbuilding & Ocean Development;
Power Systems;
and Aerospace

the market. Specifically, in the area of "reform," we will aim to establish a stable revenue structure, accelerate business growth globally and, as a basis for these activities, establish an agile management system and enhance company-wide cross-sectional functions. We will work on promoting CSR activities globally, and aim to achieve targets by applying the comprehensive strengths of MHI Group.

In the 2010 Business Plan, the first two years will be focused on the "reform process," while at the same time aiming to achieve the target for FY2014 by effecting the "growth process." Specific targets include ¥4,400 billion for orders received, ¥4,100 billion for net sales, ¥250 billion for operating income and an ROE of 8% in FY2014, the last year of the 2010 Business Plan. We also set the interim targets at ¥3,800 billion for orders received, ¥3,400 billion for net sales, ¥160 billion for operating income and an ROE of 5% in FY2012. Please refer to the chart on the previous page for the targets by business category and the direction of reform and growth.

Question 4

What are the strategies for the 2010 Business Plan (medium-term business plan)?

Answer

We will execute 5 strategies and depart from vertical integration by exercising our truly comprehensive strengths.

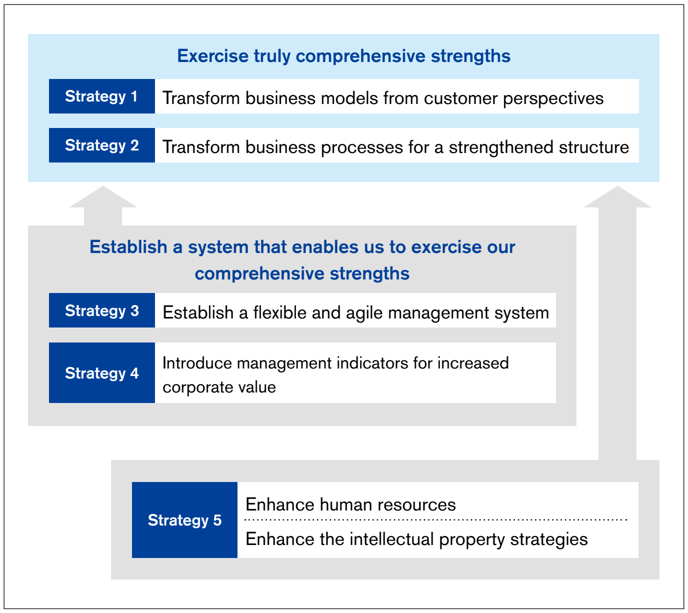
In the 2010 Business Plan, we aim to transform business models from customer perspectives, and transform business processes for a strengthened structure from internal perspectives, by applying our truly comprehensive strengths.

In Strategy 1, "transform business models from customer perspectives," our specific objectives are to strengthen the core businesses further, expand the solutions business, expand upstream and downstream business areas, and expand businesses primarily in new markets (emerging countries).

In Strategy 2, "transform business processes for a strengthened structure," we will standardize and sophisticate the business processes and globally optimize business process allocation by departing from vertical integration.

The underlying basis of the strategy is the "exercise of comprehensive strengths and a departure from vertical integration." Until now, MHI has been unable to satisfactorily exercise comprehensive strengths due to a strong tendency towards vertical integration and partial optimization, policies which have resulted in low growth and lost opportunities. In the 2010 Business Plan, along with exercising truly comprehensive strengths, we will not only engage in passive separation of businesses via business transfer and divestiture but also actively separate and merge businesses via spin-offs, spin-ins, joint ventures with other companies and carve outs, by departing from vertical integration and with the aim of achieving growth within a short period.

In order to establish a structure that will enable the aforementioned application of comprehensive strengths, we will introduce strategies for clarifying business structure and responsibility and enhancing the horizontal cross-divisional coordination functions, namely Strategy 3, "establish a flexible and agile management system," and Strategy 4, "introduce management indicators for increased corporate value." Also, as Strategy 5, we will "enhance human resources" and "enhance intellectual property strategies".



Question 5

Could you tell us in concrete terms about the strategy "transform business models from customer perspectives" (Strategy 1)?

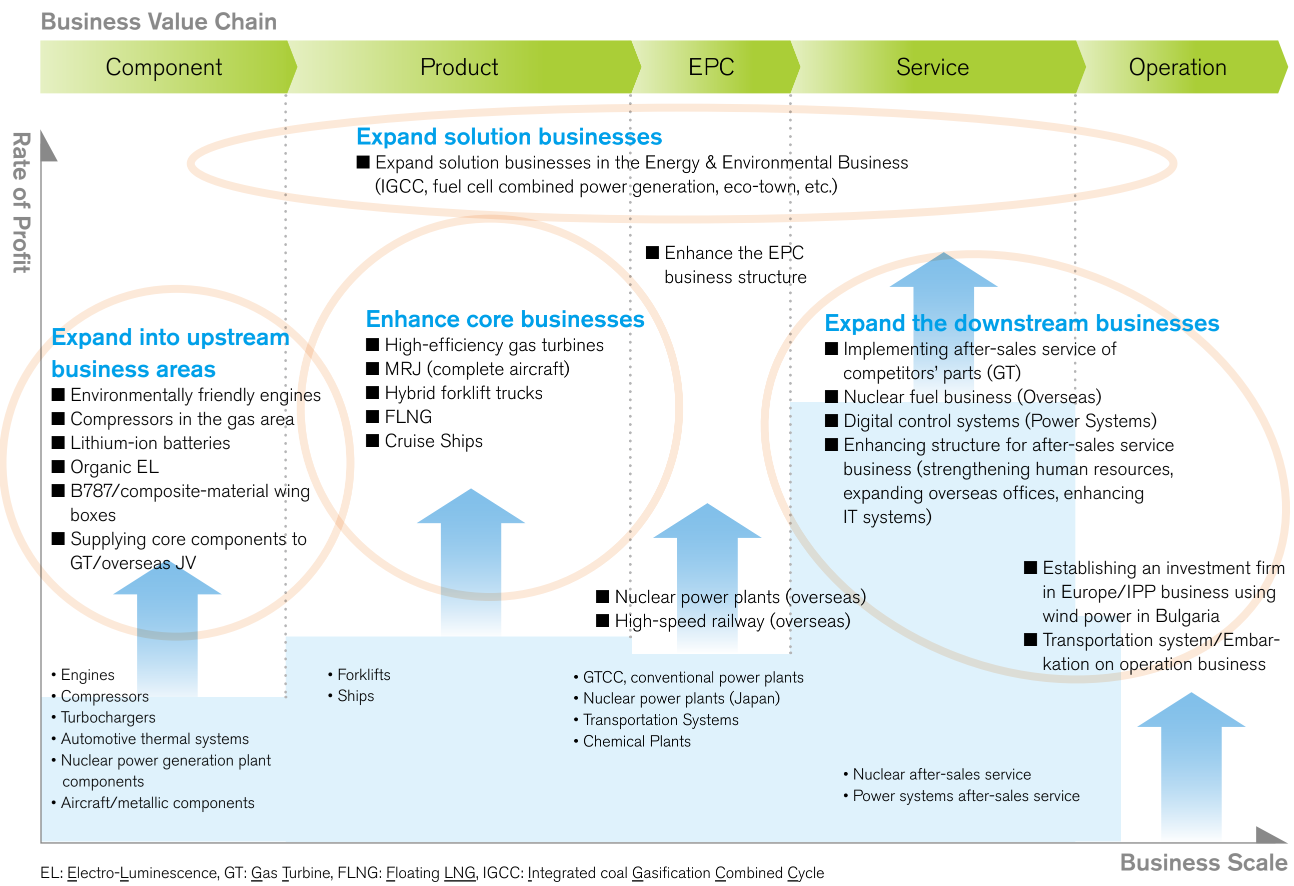
Answer

Aiming to reform 4 areas with a focus on business value chains.

The following chart represents the products and businesses of MHI for each business value chain with profit rate as the vertical axis and business scale as the horizontal axis. The blue-shaded area shows the current business structure. Therefore, despite the large "product" portion of the business scale, the profit rate is high for the "service" and "operation" portions.

The aim is to develop business (transformation of business models) with the focus on customer perspectives throughout the entire value chain from components (components and parts) to products, EPC (lump-sum contract of Engineering, Procurement and Construction), service and operation. We aim to realize business scale expansion and increased profits.

In concrete terms, the strategy aims to further enhance our core businesses including high-efficiency gas turbines, MRJ and hybrid forklifts, and to expand both upstream businesses such as environmentally-friendly engines, compressors in the gas area, lithium-ion secondary batteries and composite-material wing boxes for the Boeing 787, and downstream businesses through measures such as enhancement of the structure of the after-sales service business. In addition, in the field of energy and environment, one of our company's strengths, we plan global expansion of our solutions businesses from the perspective of our customers through the combination of products from a wide diversity of fields and our cutting-edge technology.



EL: Electro-Luminescence, GT: Gas Turbine, FLNG: Floating LNG, IGCC: Integrated coal Gasification Combined Cycle

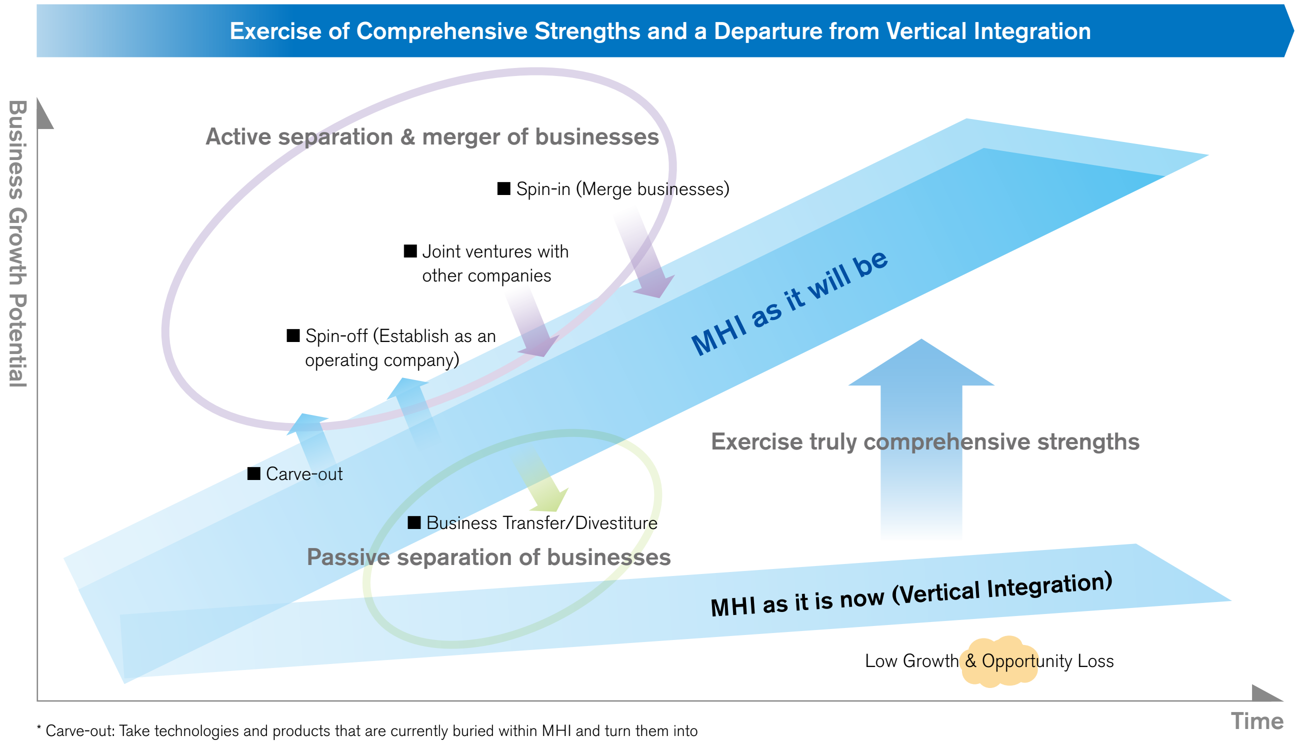
Question 6

How will business process allocation be optimized under the strategy "transform business processes for a strengthened structure" (Strategy 2)?

Answer

We intend to achieve overall optimization by attaining growth on a global scale through a departure from vertical integration.

Up to now, MHI has been responsible for the development of our company's business across the entire value chain from sales to development, design, procurement, manufacture and after-sales service. In future, we will further promote manufacturing reform activities. At the same time, we will undertake initiatives such as establishing companies for existing and new businesses and entering markets in emerging countries through investments and technology licensing, allowing a departure from vertical integration for the efficient allocation of management resources and external resources. Through these measures, we aim to realize growth on a global scale and achieve overall optimization.



* Carve-out: Take technologies and products that are currently buried within MHI and turn them into businesses through third-party investment and participation in management decisions.

Question 7

Could you please tell us about the strategy "establish a flexible and agile management system" (Strategy 3)?

Answer

We will apply the best practice realized on a cross-sectional basis in the Machinery & Steel Structures Headquarters in order to improve income.

This strategy aims to clarify the business structure and responsibility to cope with the drastic changes in the market environment. For example, to expedite decision making, the Machinery & Steel Structures Headquarters has made efforts to develop a highly-agile organization including companies, for example, capable of competing head to head with dedicated manufacturers. It also aims to improve customer confidence by having a top sales force expert in the businesses concerned. As a result of these measures, the Machinery & Steel Structures Headquarters is realizing great improvements in achievements. At the same time as further developing activities such as these, we aim to implement company-wide horizontal transfer.

Question 8

What are the main points of the strategy "introduce management indicators for increased corporate value" (Strategy 4)?

Answer

Business or product-specific ROIC will be introduced as a management indicator, with the aim of achieving an ROE of 8% in FY2014.

Although up to now management of MHI Group has been focused on the amount of profit earned, with the aim of increasing corporate value through effective allocation of management resources, it is important to pursue investment efficiency and ROE. Whilst previously considered an indicator of results, ROE is to be viewed as a business management indicator. The aim is to increase the ROE of 1.1% for FY2009, to 5% in FY2012 and 8% in FY2014. To achieve these company-wide ROE targets, business or product-specific ROIC will be introduced from now on as a management indicator.

To promote the sustainable growth of MHI, we will allocate appropriate returns to shareholders and effectively utilize equity capital for future business growth. We will also strengthen the soundness of our financial position, while at the same time pursuing investment efficiency. Specifically, the target annual dividend for FY2014 is ¥10 per share, and the target D/E ratio is 0.8.

Question 9

Regarding "enhance human resources" (Strategy 5), could you tell us about resource planning in relation to promotion of the 2010 Business Plan?

Answer

Human resources capable of responding to global business developments and process reforms are essential. We will systematically fortify this aspect of our operations.

Regarding human resources, although we will carefully select new recruits in Japan in order to achieve a reduction to 2,000 employees from the average of 3,500 over the past two years, we plan to increase the workforce at overseas group companies to 15,000 employees from the current figure of 8,450, particularly in growth businesses, so that the consolidated workforce will be 72 thousand strong as of March 2015.

Regarding capital expenditure, we plan to continue to make investments with the focus on growth businesses to maintain the yearly average level of the past two years, realizing an annual investment of ¥180 billion.

Regarding R&D expenses, we will actively invest, particularly in growth businesses, and plan an average annual investment of ¥120 billion, higher than the average of the past two years. In addition, in order to expand business we will not only use our own resources, but will also acquire appropriate resources through investments.

Question 10

Could you tell us about "promotion of CSR activities" in detail?

Answer

We engage in CSR activities through our global activities as a manufacturing company.

MHI Group positions CSR as its management cornerstone, carrying it out through our global activities as a manufacturing company. More specifically, regarding global-scale environmental issues, we plan to contribute to "the future of the Earth and humankind" through the provision of superior technologies and products over our wide range of businesses, while striving to minimize the environmental burden from production activities, and appropriately distributing the generated profits to stakeholders.

As part of efforts to reform our corporate culture through CSR activities, we will not only promote CSR awareness at MHI, but also have onsite visits under the "President Town Meeting", and we are holding "Forum 35" meetings targeting employees in their mid-thirties. In addition we have built a nursery school at our Nagasaki Shipyard & Machinery Works. These and other efforts will be made to help foster an open-minded atmosphere for free discussion and continuous improvement.

Expanding the Energy and Environment Businesses

MHI Group shall organically combine organizations in the energy and environment businesses to better apply the Group's integration capability.

Jin Kato
General Manager of Sustainability Energy & Environment Strategic Planning Department

Main role of the Sustainability Energy & Environment Strategic Planning Department

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

The department serves three roles. The first role is to present opinions related to energy and environmental policies to the government and to industry by gathering information and conducting market trend surveys regarding environmental policies around the world and in Japan. The second is to promote horizontally oriented activities throughout MHI Group while creating business opportunities based on MHI's energy and environmental technologies and products. The third is to formulate medium- to long-term development policies such as development roadmaps for new fields and new products related to energy and the environment.

By carrying out these roles, the department will serve as a catalyst for integrating leading-edge technologies in a more diverse range of fields than ever before and maximizing synergy benefits within the group. Through these efforts, MHI Group shall promote new solutions businesses aimed at realizing a low-carbon society.

Achievements and Future Business Expansion

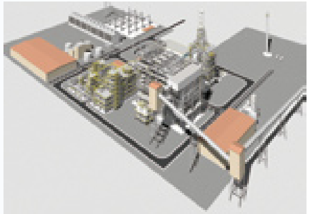
Reflecting on the activities conducted over a two-year period, our efforts to effectively exercise the integration capability of MHI Group have led to greater-than-expected synergy benefits and the creation of new business opportunities. For example, we have signed a zero-emissions umbrella agreement with the Iceland government, our offshore wind turbine development project is currently being introduced mainly in Europe, and we have put forward general concept proposals for environmental model city smart communities which are being planned all over the world.

Looking forward, while making steady progress towards turning these projects into revenue earners, MHI shall expand business opportunities by leveraging the strength of the all-round know-how that is its strong-point. In the energy and environment field, MHI aims to achieve orders of ¥3 trillion, which is 1.7 times the current scale of orders. Moreover, to ensure it maintains the position of a leading company as society advances along an inevitable road towards electrification, MHI Group shall expand its businesses with our integration capability throughout the group.

Technologies in the Spotlight 1

IGCC+CCS

MHI has received a feasibility study order as part of agreement with ZeroGen Pty. Ltd. of Australia to participate in the project to build an integrated coal gasification combined cycle (IGCC) integrated with a carbon dioxide capture and storage (CCS) facility. This will be the world's first commercial-scale IGCC power plant with CCS capability, producing 530 megawatts (MW) of electricity and capturing carbon dioxide (CO_2) emissions. The plant is slated to go on-stream in 2015.



Technologies in the Spotlight 2

Smart Communities project

We propose an environment model city that uses intelligent transport system (ITS) technology that places electric vehicles and electric buses that can contribute to the promotion of the electrification of public transport systems in the electric infrastructure in addition to power generation technologies such as clean renewable energy and nuclear energy. We demonstrate an independent type of energy society in which the standard of living is maintained while reducing CO_2 emissions to zero in the transportation sector. MHI is continuing initiatives for the realization of Smart Communities not only in Japan but also in overseas countries such as India.

Technologies in the Spotlight 3

Iceland zero emissions plan

Boasting top market share in geothermal power generation, MHI provides comprehensive solutions to Iceland beyond geothermal power plants to the realization of a Zero Emission Society. MHI intends to continue to cooperate globally in geothermal energy development.

Technologies in the Spotlight 4

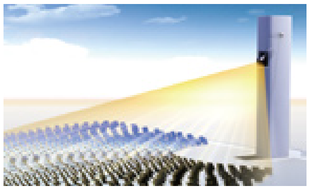
Offshore wind turbine

As the use of offshore wind turbines increases in Europe, MHI has become the first Japanese company to sign a Memorandum of Understanding (MOU) with the government of the United Kingdom for a project to develop large offshore wind turbines. MHI is moving ahead with this development by bringing together the fusion of differing technologies required for offshore wind turbines through its wide range of accumulated technical expertise in several fields.

Technologies in the Spotlight 5

Solar thermal power generation (CSP)

The market for solar thermal power generation is expected to expand particularly in the Middle-East, Africa and Australia. MHI has completed initial market surveys and has started investigations into actual development of solar thermal gas turbines, which will lead directly to orders and sales of commercial plants.



*Keywords
- IGCC: Integrated coal Gasification Combined Cycle
- CCS: Carbon dioxide Capture and Storage
- ITS: Intelligent Transport Systems
- CSP: Concentrated Solar Power

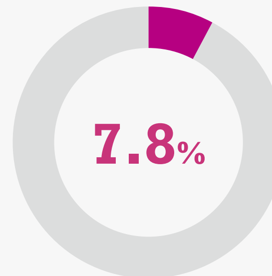
MHI at a Glance

MHI's businesses are classified below into six business segments including an Others segment, which is not shown (below), along operational lines.

Share of Net Sales

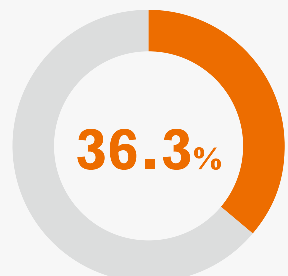
Shipbuilding & Ocean Development

Through its Shipbuilding & Ocean Development segment, MHI plays an extensive role on the world's oceans with the development and construction of a wide range of large vessels and ocean structures that satisfy diverse customer needs. Underpinned by more than a century of tradition and years of technological expertise, MHI is actively working to develop new products that raise the bar on economy, reliability and safety while responding to environmental regulations.



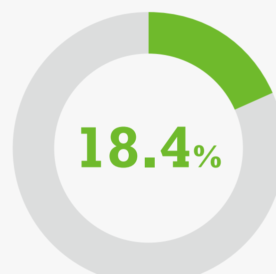
Power Systems

Based on independent research efforts that strike a balance between solving energy supply issues and protecting the environment, MHI's Power Systems segment develops energy conservation measures, petroleum substitutes and new forms of energy to help solve some of the common problems faced by human beings today. In the nuclear energy field, MHI has been widely expanding its business, as the major leading company in the global nuclear energy field.



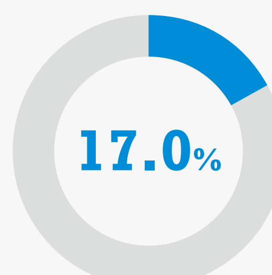
Machinery & Steel Structures

MHI develops and manufactures a variety of products ranging from infrastructure related systems, that are vital to society today including environmental and chemical plants, transportation systems, bridges, cranes, and material handling systems, to other products that help create foundations for industry such as iron and steel manufacturing machinery and compressors. MHI is also moving into new fields, including flue gas CO_2 recovery plants that contribute as countermeasures for global warming, and medical systems, as well as a variety of machinery and equipment that are rooted in our daily lives.



Aerospace

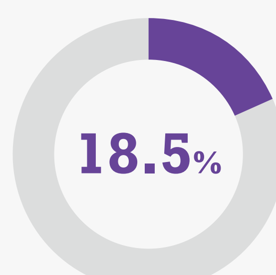
This segment conducts extensive research and development programs underpinned by state-of-the-art technologies to prepare for the advent of the next Space Age. In aerospace products, MHI is working to expand its business into new areas through participation in projects for the development of new commercial aircraft. In space systems, MHI helps to drive forward Japan's space program as a systems integrator in launch vehicle development.



Mass and Medium-Lot Manufactured Machinery

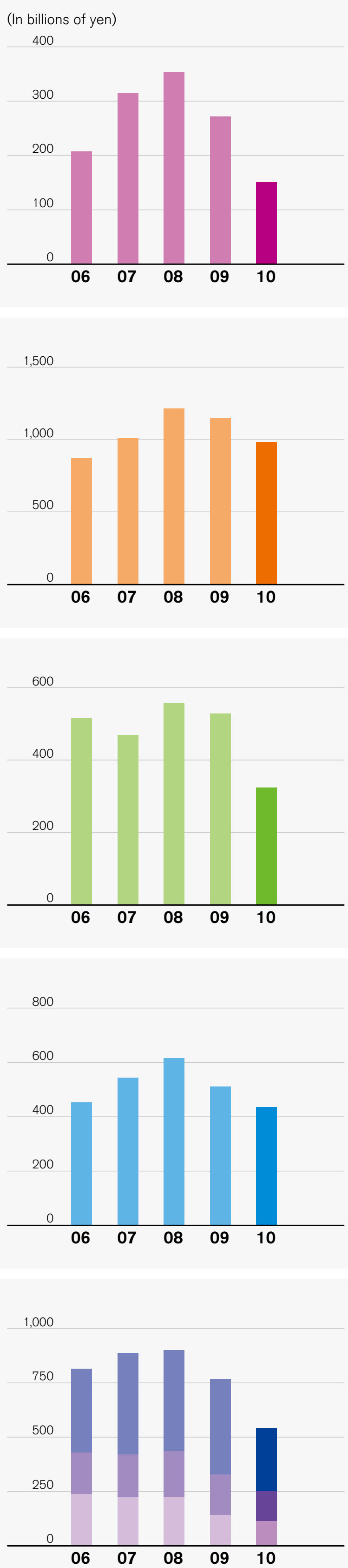
In the General Machinery & Special Vehicles business, MHI develops and manufactures a wide range of products that are essential to daily life, such as engines, power trains and forklift trucks for the distribution field. The Air-conditioning & Refrigeration Systems business boasts an extensive lineup of air-conditioning products, from air-conditioners for commercial, residential and automotive use, to centrifugal chillers.

Also, in addition to various machine tools such as large machines and gear cutting machines, MHI produces printing machinery* as well as injection molding machines and other industrial machinery*.



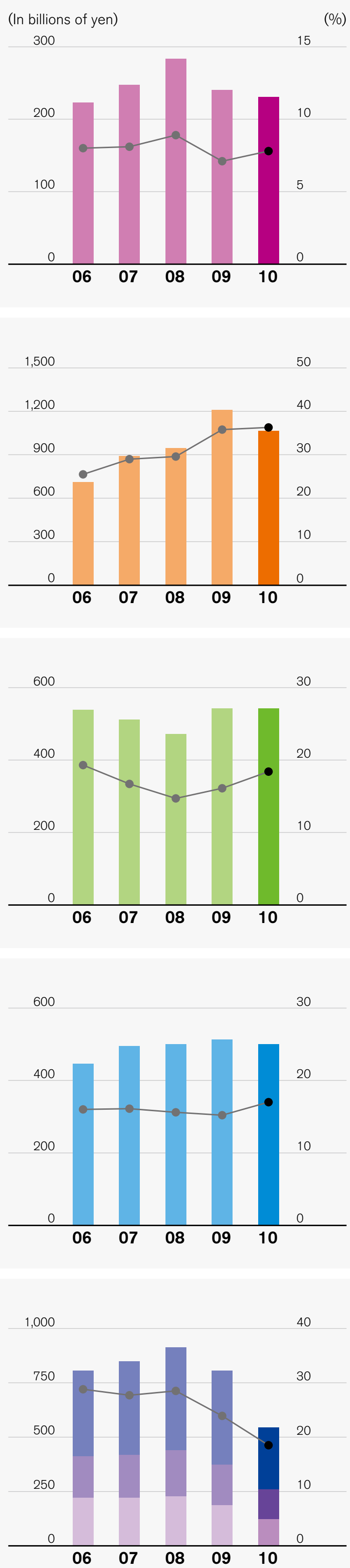
* From FY2010 onward, segment classification has changed to include printing machinery and industrial machinery into the Machinery & Steel Structures segment with the application of the Accounting Standard for Disclosure of Segment Information and the organizational restructuring of MHI. See P16 for details on the change.

Orders Received



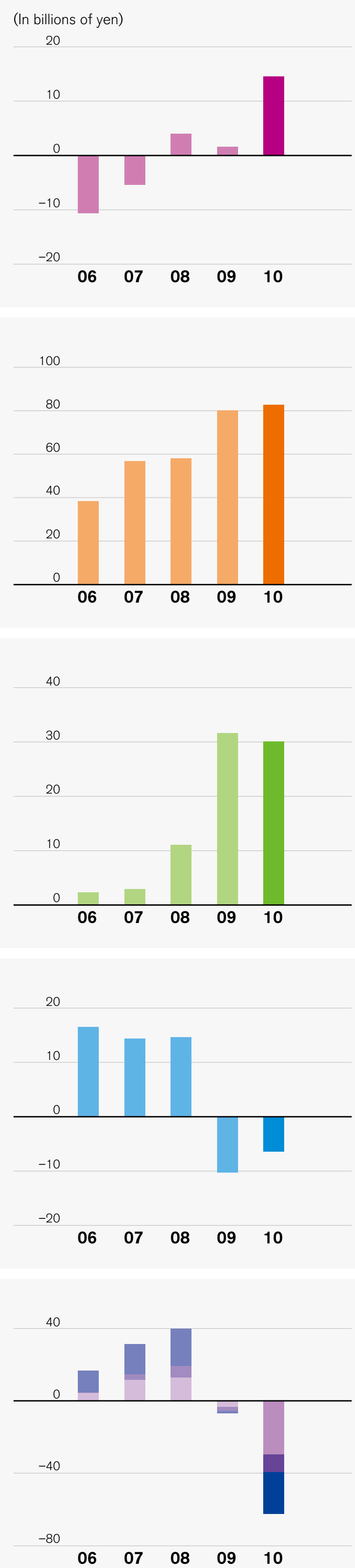
General Machinery & Special Vehicles
Air-conditioning & Refrigeration Systems
Industrial Machinery

Net Sales/Share of Net Sales



General Machinery & Special Vehicles
Air-conditioning & Refrigeration Systems
Industrial Machinery
Share of Net Sales

Operating Income (Loss)



General Machinery & Special Vehicles
Air-conditioning & Refrigeration Systems
Industrial Machinery

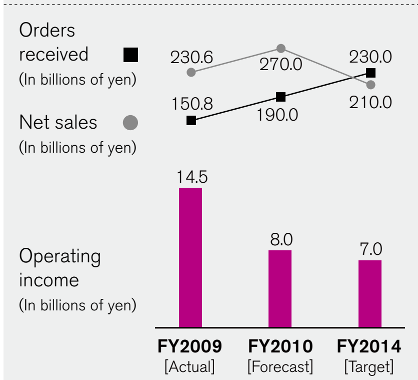
Shipbuilding & Ocean Development

LPG Carrier "AQUAMARINE PROGRESS"

Products

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

FY2014 target



Changes to the business segments

As a result of the application of "Accounting Standard for Disclosure of Segment Information" and the reorganization of the Company's organization, the business segments have been changed effective from operating results of FY2010 (for details please see page 16). The amounts for FY2009 stated in the graph have been modified for reference purposes to reflect the operating results based on the segments after the change.

Fiscal 2009 Review

Amid the continued slump in global demand for new vessels, MHI Group focused sales activities on our strongest types of ships: high value-added vessels. Total orders, however, remained at 13 ships including 7 patrol boats for the Japan Coast Guard and 2 defense vessels for the Japan Ministry of Defense. As a result, the FY2009 consolidated orders decreased from the previous year to ¥150.8 billion. Order backlog at the end of the fiscal year were 59 ships for a total of approximately 2.83 million gross tons.

Consolidated net sales were down slightly to ¥230.6 billion, although deliveries were made of a total of 20 ships including 11 car carriers and 5 LPG carriers. Operating income rose to ¥14.5 billion.

Future Initiatives

The future main business reform and growth direction of this segment is described in the 2010 Business Plan, which targets this segment as a "Reform Business". Aiming to secure stable revenue, the segment shall construct a sustainable system that is responsive to changes in the business environment and review the product lineup.

In the next several years, a fierce battle is expected for small business opportunities as the supply for commercial ships has outgrown demand. Looking at each vessel type, the largest order backlog is for bulk carriers and large container ships and a recovery in shipbuilding demand is expected to be delayed. A recovery in demand for LPG carriers, LNG carriers and car carriers is expected relatively soon, although the outlook remains uncertain overall. In addition, along with pressures to lower ship prices associated with sluggish demand, there are pressures from raw material suppliers for higher raw material prices which have become a

Above:
Pure Car and Truck Carrier "HELIOS LEADER"

Below:
LNG Carrier "CYGNUS PASSAGE"

Message from the Segment Leader

Hisashi Hara
General Manager, Shipbuilding & Ocean Development Headquarters

Activities Policy of the 2010 Business Plan

Seaborne transportation has dwindled due to the global economic slowdown, but enquiries for new ships are steadily progressing. MHI Group is actively continuing its existing production such as LNG carriers, LPG carriers, car carriers, and domestic high-speed ferries, while entering new fields including cruise ships.

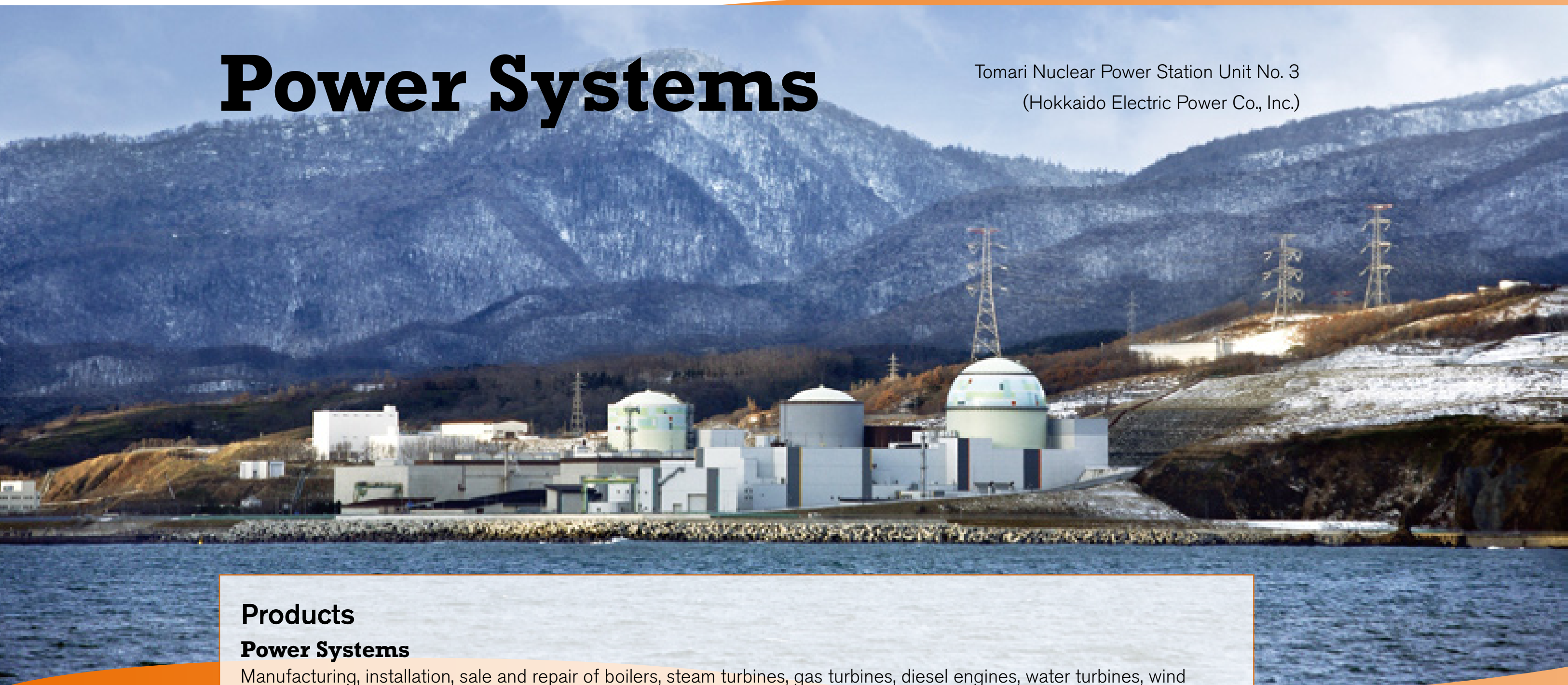
major impediment to reducing the costs of steel materials and other materials and equipment. Nevertheless, caught between these two pressures, we must further cut costs.

Facing such an environment, in the 2010 Business Plan the targets set for FY2014, which is the last year of the plan, are orders of ¥230.0 billion, net sales of ¥210.0 billion and operating income of ¥7.0 billion, while the targets for FY2012 are orders of ¥230.0 billion, net sales of ¥220.0 billion and operating income of ¥5.0 billion as interim targets.

Considering the present sluggish business environment, we have formulated a two-stage strategy whereby the period from FY2010 through mid 2012 is designated for the reform process and the period from the remaining period of FY2012 to FY2014 is designated for the growth process. During the reform process, not only will we bolster the ability to win new orders by enhancing collaboration between the sales and design division, we shall develop a sustainable system to achieve more effective plant operations and waste-free business processes, with a perception of creating a system that can accommodate lower orders as the current task.

In the second stage of the plan, we have outlined a growth process for the period in which we expect market recovery, and during this period we shall construct a new business system. Specifically, this will entail not only a drive to expand orders by upgrading the development of energy-saving and eco-friendly technologies, but also a reconstruction of the product and business lineup and a shift in focus to new fields in which demand is expected to grow such as cruise ships and LNG-FPSO (Floating Production, Storage and Offloading) facilities. Furthermore, we aim to expand in response to tougher environmental regulations by boosting our remodeling engineering business such as improving efficiency of LNG carriers turbine plant and by promoting our design and engineering know-how in our sales operations.

Power Systems

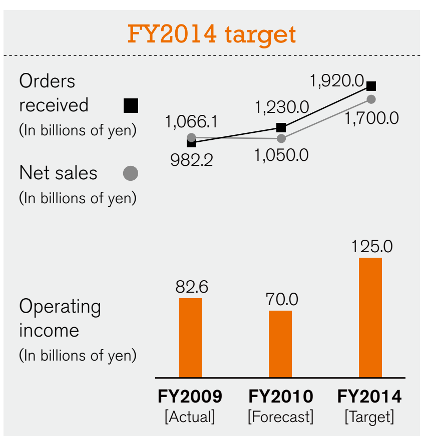


Tomari Nuclear Power Station Unit No. 3
(Hokkaido Electric Power Co., Inc.)

Products

Power Systems
Manufacturing, installation, sale and repair of boilers, steam turbines, gas turbines, diesel engines, water turbines, wind turbines, SCR (DeNOx) systems, marine machinery, and desalination plants, etc.

Nuclear Energy Systems
Manufacturing, installation, sale and repair of nuclear power plants and equipment, advanced reactor plants, nuclear fuel cycle plants, etc.



Changes to the business segments

As a result of the application of "Accounting Standard for Disclosure of Segment Information" and the reorganization of the Company's organization, the business segments have been changed effective from operating results of FY2010 (for details please see page 16). The amounts for FY2009 stated in the graph have been modified for reference purposes to reflect the operating results based on the segments after the change.

Fiscal 2009 Review

Within Japan, orders were received for large-scale thermal power plants, while nuclear power plant improvement, replacement and repair orders held firm. Overseas, a large contract was concluded for a thermal power plant in Indonesia, but the number of contract negotiations declined on flat electric power demand, and orders slumped. Consequently, the total value of consolidated FY2009 Power Systems segment orders declined from the previous year to ¥982.2 billion.

Consolidated net sales fell to ¥1,066.1 billion with reduced revenues from thermal power plants and wind turbines. Nevertheless, operating income increased to ¥82.6 billion as efforts to boost profitability advanced, despite the sales decline and the effects from the appreciation of the yen.

Future Initiatives

With respect to the main future direction in terms of reform and growth, this segment has been identified in the 2010 Business Plan as a "Growth Business," and with growing calls for global environmental measures and infrastructure demand in emerging nations, MHI shall increase the size and profits of these businesses as MHI's core operations.

In Power Systems, recognizing the importance of building an operating structure adapting for changes in the market and transforming eco-friendly technologies into products, MHI is concentrating on expanding business by localization in promising markets, and strengthening the service business network. Specifically, in addition to deepening partnerships with local partner companies in emerging countries such as BRICs, MHI shall accelerate deploying the know-how from our domestic service business to our overseas

Above:
Peñascal Project Wind Turbine Plants (U.S.A.)

Below:
Lithium-ion Secondary Battery “MLiX”

businesses. MHI will also continue product development in growth fields including not only high-efficient thermal power such as the J-series gas turbine, natural energy such as off-shore wind turbines and geothermal power plants, but also lithium-ion secondary batteries. Through these efforts and a further strengthening of core businesses, MHI shall contribute to preventing global warming.

In Nuclear Energy Systems, MHI shall work to expand business operations as a leading company in the global nuclear energy field. Overseas, MHI shall change the business model from one based on component exports to one that is based on plant exports. With regard to domestic light water reactors, MHI shall strongly promote preventative maintenance services for existing units and construction of new APWR plants. In nuclear fuel cycle business, in addition to deploying solutions business, MHI shall lead FBR development as a core company. To achieve this, MHI shall innovate in its value chain based on three pillars: introduction of strategic ICT*, reinforcement of manufacturing capabilities and construction of global SCM*.

In the 2010 Business Plan the targets set for FY2014, which is the last year of the plan, are orders of ¥1,920.0 billion, net sales of ¥1,700.0 billion and operating income of ¥125.0 billion, while the targets for FY2012 are orders of ¥1,680.0 billion, net sales of ¥1,350.0 billion and operating income of ¥95.0 billion.

* ICT: Information Communication Technology
*SCM: Supply Chain Management

Message from the Segment Leaders

Yoshiaki Tsukuda
General Manager,
Power Systems Headquarters

Activities Policy of the 2010 Business Plan

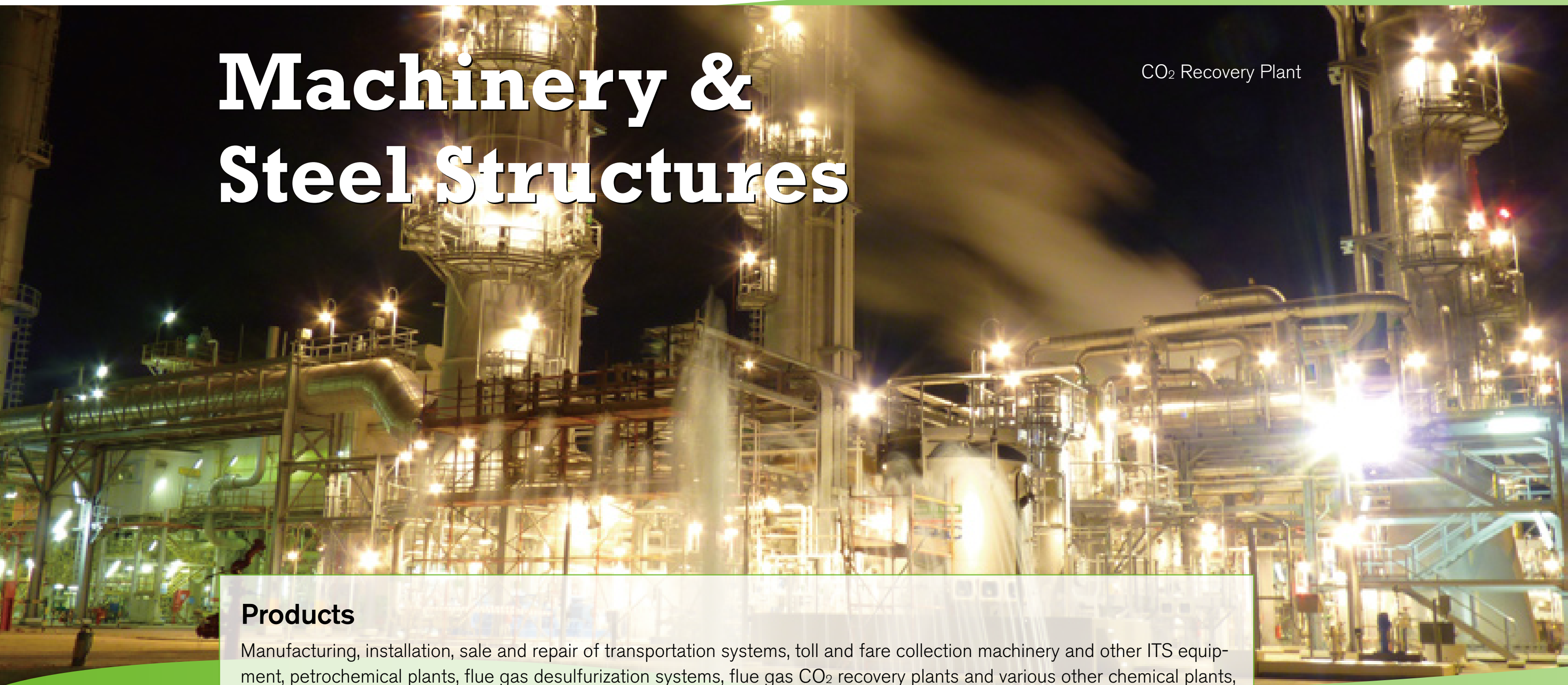
Although MHI is currently experiencing a temporary weakening of demand for electricity in the developed countries, new negotiations are proceeding for power generation plants as a result of the surging electricity demand in some regions such as the Middle East. Looking to the future, aided by the growing momentum throughout the world towards realization of a low-carbon society, MHI shall expand the sales of its high-efficient thermal power plants and renewable energy products such as wind turbines and promote globalizing its business to cope with a strong yen since last year.

Akira Sawa
General Manager, Nuclear Energy
Systems Headquarters

Activities Policy of the 2010 Business Plan

Nuclear power, which contributes towards countering global warming, is expected to expand in demand by about 1.6 times current demand levels by 2030. As the major leading company in the global nuclear energy field, MHI shall utilize its strong foundation of manufacturing capability to positively contribute to the realization of a low-carbon society. In Japan, in addition to constructing new plants and steadily improving the operational efficiency of existing plants, MHI shall concentrate on establishing a nuclear fuel cycle in Japan and developing FBR (fast breeder reactor). Overseas, utilizing EPC operational capabilities gained in Japan, MHI shall switch its business model from one based on component exports to one that is based on plant exports and thereby expand its business.

Machinery & Steel Structures

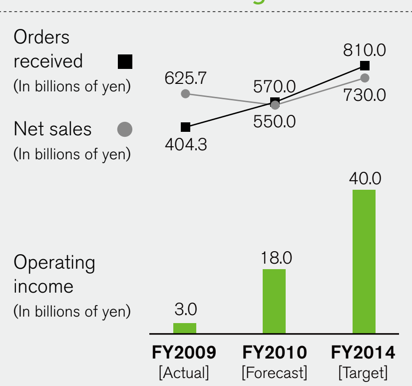


CO_2 Recovery Plant

Products

Manufacturing, installation, sale and repair of transportation systems, toll and fare collection machinery and other ITS equipment, petrochemical plants, flue gas desulfurization systems, flue gas CO_2 recovery plants and various other chemical plants, oil and gas production systems, compressors and turbines, steel and metal production machinery, automotive products, medical systems, semiconductor production equipment and other advanced equipment, transportation equipment, cranes and material handling systems, rubber and tire machinery, waste treatment equipment, electrostatic precipitator and various other environmental control systems, bridges, hydraulic gates, stacks, parking systems, tanks, and various other steel products, etc.

FY2014 target



Changes to the business segments

As a result of the application of "Accounting Standard for Disclosure of Segment Information" and the reorganization of the Company's organization, printing machinery and industrial machinery has been included in the Machinery & Steel Structures segment effective from operating results of FY2010 (for details please see page 16). The amounts for FY2009 stated in the graph have been modified for reference purposes to reflect the operating results based on the segments after the change.

Fiscal 2009 Review

Inside Japan, MHI Group focused sales activities on public projects and on improvements and after-sales service orders as the private sector demand for new equipment contracted. As a result, orders for toll and fare collection machinery and material handling machines increased. Overseas, MHI Group carried out energetic marketing efforts focused on winning large-scale orders, but chemical plant and steel and metal production machinery orders declined as projects were postponed with revisions of customer capital investment plans. Consequently, the total value of consolidated FY2009 Machinery & Steel Structures segment orders declined from the previous year to ¥323.8 billion.

Consolidated net sales and operating income remained around the same level as the previous year, at ¥542.0 billion and ¥30.1 billion, respectively.

Future Initiatives

In the 2010 Business Plan, this segment is identified as a "Growth Business". With growing calls for global environmental measures and infrastructure demand in emerging countries, MHI Group shall increase the size and profits of this business as one of MHI's core operations.

In the above plan, the targets set for FY2014, which is the last year of the plan, are orders of ¥810.0 billion, net sales of ¥730.0 billion and operating income of ¥40.0 billion, while the targets for FY2012 are orders of ¥640.0 billion, net sales of ¥600.0 billion and operating income of ¥32.0 billion.

The above targets include printing and packaging machinery as well as industrial machinery such as injection molding machinery that shall be included in this business segment from FY2010. As a result of this change, although the scale of orders received and net sales has increased, the level of operating income has declined. Thus, MHI Group considers it a prime

Above:
Atlanta International Airport CONRAC APM

Below:
Compressor Module for Air Separation Unit

Message from the Segment Leader

Shunichi Miyanaga
General Manager, Machinery & Steel Structures Headquarters

Activities Policy of the 2010 Business Plan

MHI Group expects an increased demand in chemical field amid the Asia-centered trend of growing population and improved levels of personal income. Moreover, as the BRICs economies grow, MHI Group expects an expansion of demand in the fields of natural resources, fuel, and energy. There is a growing need for transportation system as solutions to combat deteriorated transport conditions caused by the urban congestion of growing cities, as well as a growing focus across world as means of transport with low CO_2 emission. Taking advantage of this environment, MHI Group is looking to expand its business and increase its profits.

task to complete the reform process early, and then the growth process ahead of schedule to become more profitable.

The business strategies for achieving the 2010 Business Plan center on two objectives. The first objective is to complete the reform process early to achieve high profitability. The reform process entails wrapping up the decentralization process and reconstructing the printing and packaging machinery business, which shall be carried out as an emergency measure. While implementing the reform process, MHI Group shall work to quickly strengthen core businesses and make full use of comprehensive strength. Through these measures, MHI Group will execute its strategy to innovate in its business models, strengthen its regional businesses and quickly advance to the growth process.

The second objective is to accelerate global growth by completing the growth process ahead of schedule. Possessing a product business with a diverse array of products, MHI Group believes it can adapt to the changing needs of its customers while the business environment surrounding MHI Group is changing. MHI Group believes that adopting a method of work using outside resources can also help achieve high profitability.

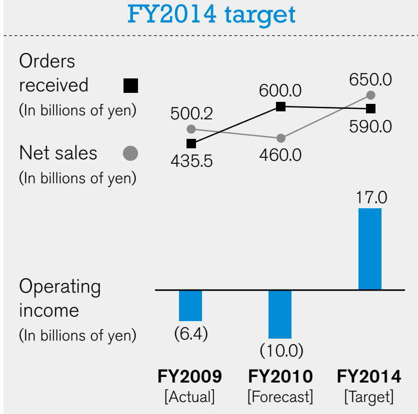
For example, although long-term growth is expected in the area of the environment and infrastructure, there is uncertainty with regard to timing and the regions related projects are materialized. For these reasons, MHI Group is working on turning MHI's differentiated technologies into marketable ones in cooperation with customers at the earliest and joint business promotion with major partners in specific regions. Moreover, MHI Group recognizes that regional strategies will have growing importance in the future. In Japan, it is developing redefinition of the function of each manufacturing site and streamline of the same. While overseas, it will also study the effective set up of manufacturing sites and reorganization of existing manufacturing sites.

Aerospace

First Flight of Boeing 787 Dreamliner

Products

Manufacturing, installation, sale and repair of fighters, helicopters and other aircraft, structural parts and components of commercial transport aircraft, aero engines, missiles, torpedoes, and space systems, launch services by H-IIA rocket and Mitsubishi Regional Jet (MRJ).



Changes to the business segments

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Fiscal 2009 Review

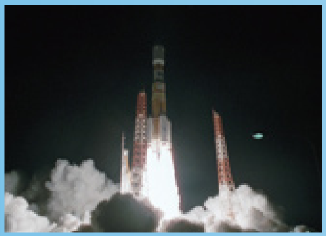
In space systems, orders surpassed the previous year, with increased orders for launch services by the H-IIA rocket. Orders for defense-related products fell from the previous year due to a decrease in orders for guided missiles. In commercial aircraft, orders were less than the previous year, due to weak aircraft demand under the global economic slump, with decline of the orders for the Boeing 787 wing box and the Boeing 777 aft fuselage and other components etc. and for commercial aircraft engine components. As a result, the total value of consolidated Aerospace segment orders declined to ¥435.5 billion.

Consolidated net sales fell slightly to ¥500.2 billion as a result of the decrease of sales of defense-related products notwithstanding the increases of sales of space systems and commercial aircraft. Although operating income improved from the previous year, the Aerospace segment posted an operating loss of ¥6.4 billion, mostly because of an increase of R&D costs.

Future Initiatives

In the Aerospace segment, which is ranked as a "Growth Business" in the 2010 Business Plan, we will put effort into improving short-term profitability while increasing the size and profits of the businesses as we expect expanding demand for aircraft over the medium and long terms.

In commercial aircraft, notwithstanding weak aircraft demand due to deterioration of conditions in airline customers under the global economic slump, we expect to achieve growth in medium and long terms because market is heading toward recovery.



Above:
H-IIB Launch Vehicle

Below:
Mitsubishi Regional Jet (MRJ)

Message from the Segment Leader

Teruaki Kawai
General Manager,
Aerospace Headquarters

Activities Policy of the 2010 Business Plan

As a result of the global economic slowdown, airline companies have been temporarily holding back on orders for airplanes. However, global passenger demand for air flight is expected to continue to expand. MHI Group, while working hard to manufacture the composite-material wing boxes for the Boeing 787, which we expect to be in growing demand in the medium to long term, and consolidating our position as a global "Wing Center", we are making steady progress in our development of MRJ, for which we expect to receive more orders. In this way, we are emerging as a global aircraft manufacturer.

In FY2009, commercial aircraft made up about 30% of the segment's net sales. Commercial aircraft is expected to be the segment's mainstay business alongside the defense in the near future by strategic investments in 787 and MRJ.

The Boeing 787 is expected to increase production rate to support abundant orders from airline customers to Boeing. Accordingly, we began with preparations for the 787 wing box to be put into commercial production, so that we can expand sales and generate earnings. MRJ has been also developed steadily, led by Mitsubishi Aircraft Corporation (MJET), toward the first delivery in 2014.

In space systems, we completed the first H-IIB rocket and Technical Demonstration Vehicle of the H-II Transfer Vehicle (HTV), and greatly contributed to the success of HTV Demonstration Flight aboard the H-IIB rocket Test Flight last September. Furthermore in May 2010, we successfully launched the 17th H-IIA rocket, which was the eleventh straight successful launch of the H-IIA rocket since 2005. We expect to increase orders by continuing successes of rocket launches.

On the other hand, in defense-related products, which are expected to be sustained as mainstay business, we are seeking to secure the budget for the procurement of fighters in FY2011.

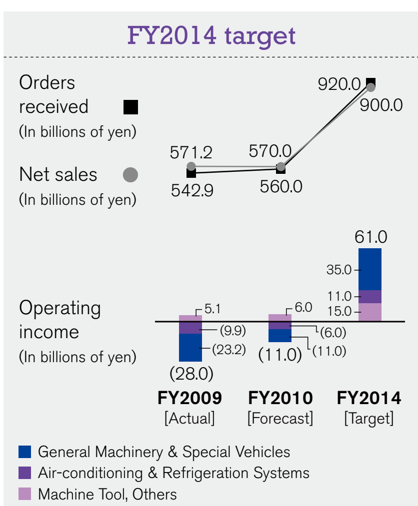
As a result of strategic investment mainly in commercial aircraft along with other factors, the segment forecasts operating loss of ¥10.0 billion in FY2010. However, by improving profitability with cost reduction activities etc., we plan to get out of the red by FY2012. The targets stated in the 2010 Business Plan are orders of ¥510.0 billion, net sales of ¥500.0 billion and operating loss of ¥0.0 billion in FY2012, and orders of ¥590.0 billion, net sales of ¥650.0 billion and operating income of ¥17.0 billion in FY2014.

Mass and Medium-Lot Manufactured Machinery

Mitsubishi Forklift Truck "GRENDiA EX Hybrid"

Centrifugal Heat Pump
(Heat Recovery Type) "ETW"

Horizontal Boring Mill(Floor Type)



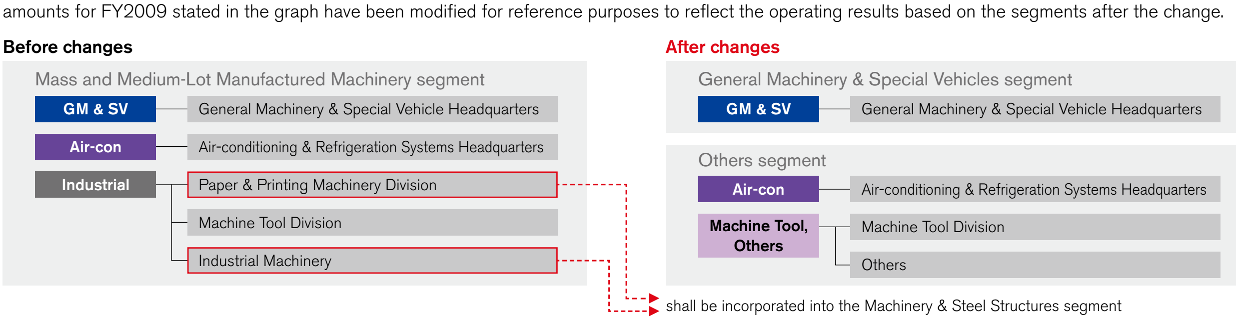
Fiscal 2009 Review

In the General Machinery and Special Vehicles business, MHI Group launched new production bases in Thailand and China and developed other facilities, but the demand for medium- and small-sized engines, forklift trucks and other machinery remained stagnant. As a result, the total value of consolidated orders and net sales for General Machinery and Special Vehicles fell to ¥290.8 billion and ¥286.3 billion, respectively, with an operating loss of ¥23.2 billion.

Orders for the Air-conditioning and Refrigeration Systems business also declined on reduced overseas orders for residential use and commercial use air-conditioners, especially in Europe, where economic recovery is slow, and on lower automotive thermal systems orders in Japan due to the

Changes to the business segments

As a result of the application of "Accounting Standard for Disclosure of Segment Information" and the reorganization of the Company's organization, the business segments have been changed as shown in the following diagram effective from operating results of FY2010 (for details please see page 16). The amounts for FY2009 stated in the graph have been modified for reference purposes to reflect the operating results based on the segments after the change.



Products

General Machinery and Special Vehicles
Manufacturing, installation, sale and services of forklift trucks, construction machinery, earthmoving and grading machinery, medium- and small-sized engines, turbochargers, agricultural machinery, tractors, special vehicles, etc.

Air-conditioning and Refrigeration Systems
Air-conditioners (commercial use, residential), automotive thermal systems, transport refrigeration units, centrifugal chillers, etc.

Paper & Printing Machinery *
Sheet-fed offset presses, commercial web offset presses, newspaper offset presses, corrugating machinery, and box making machines

Machine Tool
Various machine tools, precision cutting tools, engine valves, power transmissions, etc.

Industrial Machinery *
Plastic processing machinery, food and packing machinery, etc.

* Please refer to the explanation at the bottom of page 34.

Message from the Segment Leader

Akira Hishikawa
General Manager, General Machinery & Special Vehicle Headquarters

Activities Policy of the 2010 Business Plan

Up until the end of 2009, demand was extremely weak as a result of the prolonged recession, but at the beginning of 2010, there has been a clear trend of recovery driven mainly by the emerging countries. MHI Group shall expand its business in turbochargers and engines by developing and selling products compliant with new emission regulations that are becoming stricter in various countries around the world, and in forklift trucks, by supplying hybrid forklift trucks and enhancing the production capacity of Mitsubishi Heavy Industries Forklift (Dalian), which went into production in October 2009.

reduction of customers' automobile production, among other factors. As a result, the total value of consolidated Air-conditioning and Refrigeration Systems orders and net sales decreased to ¥138.3 billion and ¥137.3 billion, respectively, with an operating loss of ¥9.9 billion.

In the Industrial Machinery business, orders for sheet-fed presses, for which customers' capital investment drive was low due to credit contraction since the financial crisis, declined significantly. Orders also declined for machine tools mainly in automobile-related industries. Consequently, the total value of consolidated Industrial Machinery orders decreased to ¥112.1 billion while consolidated net sales declined to ¥120.6 billion, with an operating loss of ¥29.4 billion.

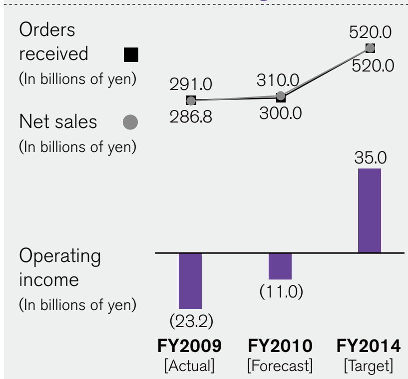
Future Initiatives

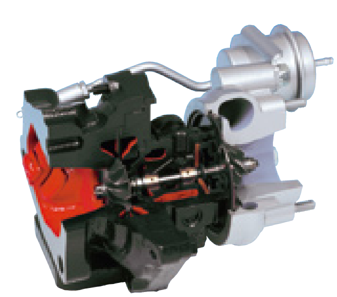
General Machinery and Special Vehicles Business

In the 2010 Business Plan the targets set for General Machinery and Special Vehicles business for FY2014, which is the last year of the plan, are orders/net sales of ¥520.0 billion and operating income of ¥35.0 billion, while the targets for FY2012 are orders/net sales of ¥450.0 billion and operating income of ¥13.0 billion.

With regard to the order environments of individual products, turbochargers were assisted by a temporary halt in production adjustments by auto manufacturers. Their demand has been picking up since the beginning of the year and MHI Group expects orders in FY2010 to be comparable with a peak period. As for engines, orders from emerging markets for small-sized engines such as those installed on construction machinery are increasing as inventory adjustments wind down. With respect to forklift

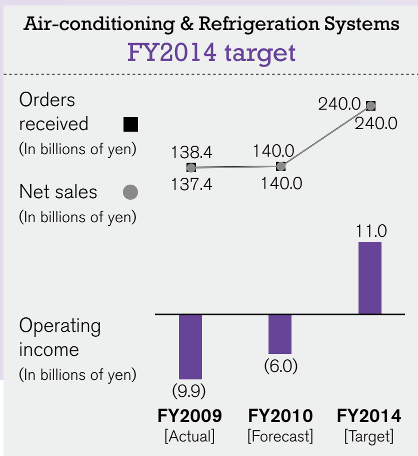
General Machinery & Special Vehicles
FY2014 target





Turbocharger

Residential Use Air-conditioner,
Wall mounted type "SL series"



trucks, as demand in the key advanced markets of Japan, the United States and Europe has been reduced sharply, MHI Group is making efforts to accelerate expansion into emerging markets.

MHI Group plans to restore a growth scenario in the short term by implementing the reform process and the growth process. As reform process, we will strengthen the business operating structure for individual products and accelerate the off-shoring of our operations. Specifically, in addition to increasing the flexibility of our global operating structure to compete with specialist manufacturers, we shall improve cost-competitiveness through local production and procurement in low cost countries and increase overseas procurement to take advantage of the strong yen. As growth process, in addition to adapting to market polarization and diversification of demand, MHI Group plans to expand its environmental solutions business such as by starting up a power train system business to propose optimum power systems that can significantly reduce CO_2 emissions and running costs.

Air-conditioning and Refrigeration Systems Business

In the 2010 Business Plan the targets set for Air-conditioning and Refrigeration Systems business for FY2014, which is the last year of the plan, are orders/net sales of ¥240.0 billion and operating income of ¥11.0 billion, while the targets for FY2012 are orders/net sales of ¥200.0 billion and operating income of ¥4.0 billion.

The basic policy for Air-conditioning and Refrigeration Systems business is to firstly become an air-conditioning and refrigeration systems manufacturer that can contribute to the global environment and play a role in MHI's energy and environmental business, and secondly, is to acquire and maintain the position as the dominant niche player in specific business domains with a scale to suit the size of business activities and its own management resources.

To achieve this, MHI Group shall undertake reform process. Specifically, in addition to reforming the production structure such as by converting fixed costs to variable costs using overseas business facilities, we shall adopt ROIC as a management indicator and shift from a management based on sales/profit to build a diversified management structure that includes balance sheets and cash flows.

MHI Group shall also undertake growth process. To achieve a low-carbon society, we shall enter environment and energy fields, which are growing around the world, such as heat-pump hot water systems, centrifugal chillers, and inverter integrated electric scroll compressors for electric vehicles and hybrid vehicles, and solidify our share in niche fields. As part of these efforts, we shall change from independent management to a management style based on cooperation with business partners, including manufacturers in the same industry, manufacturers in different industries and suppliers/contracted manufacturers, to accelerate business development and disperse business risks.

Message from the Segment Leader

Masahiko Arihara
General Manager, Air-conditioning & Refrigeration Systems Headquarters

Activities Policy of the 2010 Business Plan

Although Air-conditioning & Refrigeration Systems business has experienced a considerable impact from the global recession, the market in the medium to long term has followed a trend of expansion. In products for commercial and residential use, focus will be on heat pump hot water systems in sales-expansion/growth markets such as Europe and China. In automotive thermal systems, we shall expand sales of electromotive compressors for hybrid vehicles and in centrifugal chillers, we shall expand sales for centrifugal chillers for heat pump hot water systems and enhance our service business.

Machine Tool Business

The basic policy for Machine Tool business is to achieve a high revenue structure through globalization and increasingly high-added value products. To realize this, MHI Group seeks to enhance a balanced operational structure for two businesses (machine tools and precision machinery products) that exhibit different market characteristics.

In the machine tools business, in addition to launching global strategic machine tools that will outstrip the European competition and enhancing cost competitiveness through production in optimum locations worldwide, MHI Group is currently considering alliances or M&A with other companies.

MHI Group shall also enhance the after-sales service business and strengthen the functions of the Machining Technology Center. Specifically, we plan to grow the after-sales service business to a scale in FY2014 of double the size it was in FY2008.

In the precision machinery products business, MHI Group shall increase high-added value for products in Japan and shift existing models overseas, and also expand its business through investment in new products set to become core products in the future. For example, in the cutting tools business, we shall develop the manufacturing facilities in Japan as the mother plant and establish mass production plants in India. By doing so, we shall realize an expanded production capacity that can respond to the rapid growth in the Indian automobile market.

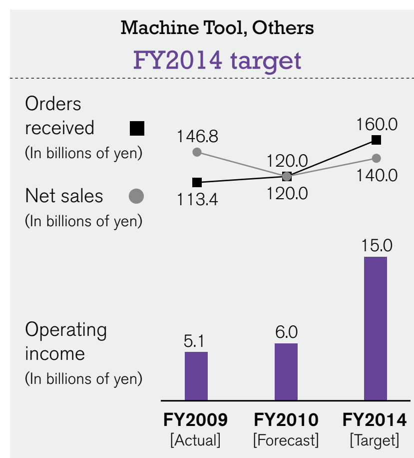
In the 2010 Business Plan the targets set for Machine Tool business are included in the "Others" segment. The targets for FY2014, which is the last year of the plan, are orders of ¥160.0 billion, net sales of ¥140.0 billion, and operating income of ¥15.0 billion, while the targets for FY2012 are orders of ¥150.0 billion, net sales of ¥130.0 billion and operating income of ¥11.0 billion. MHI Group plans to achieve the profit targets through business operation focused on investment efficiency.

Message from the Segment Leader

Akihiko Fujiwara
General Manager,
Machine Tool Division

Activities Policy of the 2010 Business Plan

Although machine tools business suffered a decrease in orders due to the global constraint on capital investment that has been continuing since the autumn of 2008, demand for high value-added products is strong. MHI Group expects to further expand orders for new products that can perform high-precision gear machining, hollow-type engine valves for highly efficient engines, and processing systems for large-size components that have cutting-edge machining technology.



Mitsubishi Double Gantry Type Miller

Intellectual Property Strategies for Business Globalization

While developing our business globally, Intellectual Property strategy is a key component. In order to protect the business with patents and survive the global competition, we are enhancing Intellectual Property strategies in terms of both "defense" and "offense."

MHI's Intellectual Property Activities Policy

MHI's priority in acquiring patents is to protect its technology assets and competitiveness. Accordingly, we take every possible step to apply for and acquire patents for technologies we have developed that will be used in MHI products. Although this is partly to protect our technology assets from copying by other parties, our main aim here is to ensure that our customers can use MHI products with peace of mind.

Against a backdrop of fierce competition in new technology development between companies worldwide, our integrated approach to intellectual property activities is based on two key principles—protecting the results of R&D with patents, and promoting global patent protected manufacturing.

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

MHI's intellectual property activities are an integral part of its business and R&D strategies.

MHI has established a team made up of members from its business divisions (sales and design personnel) and R&D and intellectual property departments for each core, mainstay and new product line. By sharing information from a wide variety of sources—business plans, business schemes, product development, R&D policy, technology roadmaps, and analyses of R&D trends and patents at both MHI and other companies—the team works to formulate an optimal intellectual property strategy.

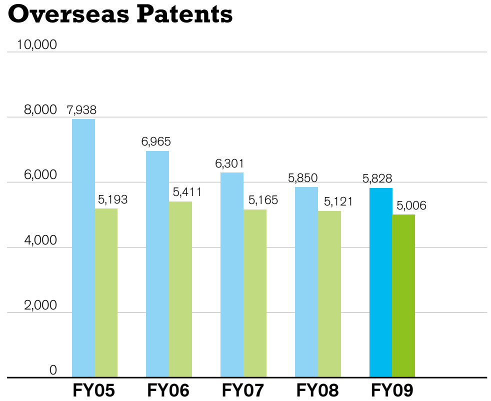
To promote activities in line with this strategy, the Intellectual Property Division develops effective and efficient business processes, takes steps to manage intellectual property appropriately, and develops highly specialized and skilled personnel.

Guided by MHI's fundamental business strategy of adopting a more international approach in its operations, and the basic R&D strategy of ensuring that MHI remains successful in the face of ever-intensifying competition worldwide, the Intellectual Property Division is shifting the focus of patent acquisition from the domestic market to a more aggressive global approach.

Research and Development Activities

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

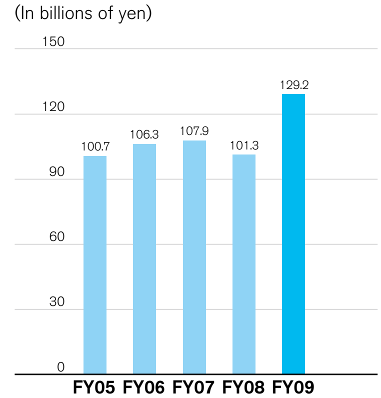
Number of Domestic and Overseas Patents



Domestic
Overseas

R&D Investment

(In billions of yen)



* Includes expenses related to R&D under contract.

Fundamental Policy

Committed to the ethos of customer-first, MHI conducts its business activities as a responsible corporate citizen based on consideration for all stakeholders.

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

Corporate Governance Initiatives

Corporate Governance Framework

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

As of June 24, 2010, of the Company's 18 directors, three are from outside MHI. Through receiving valuable opinions and frank comments from outside directors concerning the management of the Company, MHI works to strengthen the management oversight functions. Additionally, MHI has established an Executive Committee to provide a forum for discussing important matters related to business execution. This allows for a more cohesive approach to discussion as part of the operational execution framework centered on the President, and consequently leads to more appropriate management decisions and business execution.

MHI overhauled its corporate governance framework in June 2005 to improve the soundness and transparency of management and increase efficiency and flexibility and it now implements this corporate governance framework. The main components of this reform included streamlining the Board of Directors while increasing the number of outside directors, shortening the terms of directors, and introducing an executive officer system. These modifications were aimed at enhancing the oversight functions of the Board of Directors and clearly delineating the roles and responsibilities of directors and executive officers. Directors are responsible for general oversight of the Company's operations and making important business decisions, while executive officers are responsible for the day-to-day business and affairs of the Company.

Enhancing Internal Control Systems

In compliance with laws and regulations, the Board of Directors has approved resolutions to establish systems that ensure business operations are conducted in an appropriate manner, and the Company makes efforts to promote fair and sound management. An overview of these resolutions is as follows.

1. System to ensure the execution of duties by directors is in compliance with relevant laws and the Articles of Incorporation
   (i) Directors shall lead by example in realizing the Company's fundamental principle of fair and honest business activities that comply with all relevant laws and emphasize social norms and business ethics.
   (ii) The Board of Directors shall fully discuss all matters raised and reports submitted by directors and monitor the Company's operations from the perspectives of sound and efficient management. The views of outside directors shall be employed to introduce greater objectivity and enhance the effectiveness of oversight.

2. System to store and manage information related to the execution of duties by directors
   (i) Principle matters related to the management of documents shall be specified in Company regulations, and information related to the execution of duties by directors shall be appropriately recorded, stored and managed.
   (ii) Directors and statutory auditors shall be given access to such information at any time where it is deemed necessary to supervise and audit actions by the directors.

3. Regulations and other systems to manage risk
   (i) Systems designed to manage each type of risk shall be implemented and responsibilities shall be clearly defined to ensure the appropriate management of risk.
   (ii) Risk shall be regularly evaluated and analyzed and necessary avoidance or mitigating measures taken; internal audits shall monitor the effectiveness and appropriateness of these measures and reports shall be regularly submitted to the Board of Directors.
   (iii) To prepare for cases where significant risk may materialize, the Company shall ensure the means to immediately communicate information to senior management to respond promptly and accurately to emergency situations; individuals responsible for crisis management shall also be appointed in each business division.

4. System to ensure directors execute their duties efficiently
   (i) The Board of Directors shall formulate business plans and establish Company-wide management policy and objectives; business execution, led by the President, shall be conducted with the aim of achieving these objectives.
   (ii) The Company's organizational structure, division of duties, and lines of authority shall be specified in Company regulations to ensure steps to achieve management objectives are conducted efficiently.

5. System to ensure the duties and actions of employees comply with relevant laws and the Articles of Incorporation
   (i) The Company shall create a framework comprising the Compliance Committee and other bodies to raise awareness of compliance among employees by formulating a code of conduct, implementing various training programs and taking other steps.
   (ii) The Company shall establish a whistleblower system and other mechanisms to enhance the effectiveness of compliance, conduct internal audits of the compliance framework, and report the results to the Board of Directors.

6. System to ensure appropriate business activities by the MHI Group
   (i) The presidents of Group companies shall be responsible for the independent management of their companies as autonomous bodies; in addition, the Company shall create a system to define the management responsibilities of Group companies, determine operational procedures and provide support and guidance with the aim of improving consolidated operating performance through sound and efficient Groupwide management.
   (ii) To ensure appropriate Group-wide operations, the Company shall promote various compliance and risk measures in conjunction with Group companies and create internal control systems tailored to the size and specific nature of each company; the respective departments in the Company responsible for managing Group companies shall also monitor the status of compliance at these companies.
   (iii) MHI and MHI Group companies shall ensure the accuracy of their respective financial information, and arrange the organization, company regulations and other matters required for the preparation and disclosure of reliable financial reports.

7. Matters related to employees requested by statutory auditors to support audit activities
   (i) In response to requests by the statutory auditors, the Company shall establish a Statutory Auditors' Office with a dedicated staff to support the smooth conduct of audit activities.

8. Independence of employees in 7. (above) from directors
   (i) To ensure independence from the executive bodies of the Company, Auditing Office staff shall not be subject to the orders of directors, and the appointment, transfer and evaluation of these employees shall be conducted with the agreement of the statutory auditors.

9. System to allow directors and employees to report information to the statutory auditors and other related reporting systems
   (i) The Company shall implement arrangements to allow the reporting and provision of information to statutory auditors, and promote appropriate communication through regular exchanges of views.

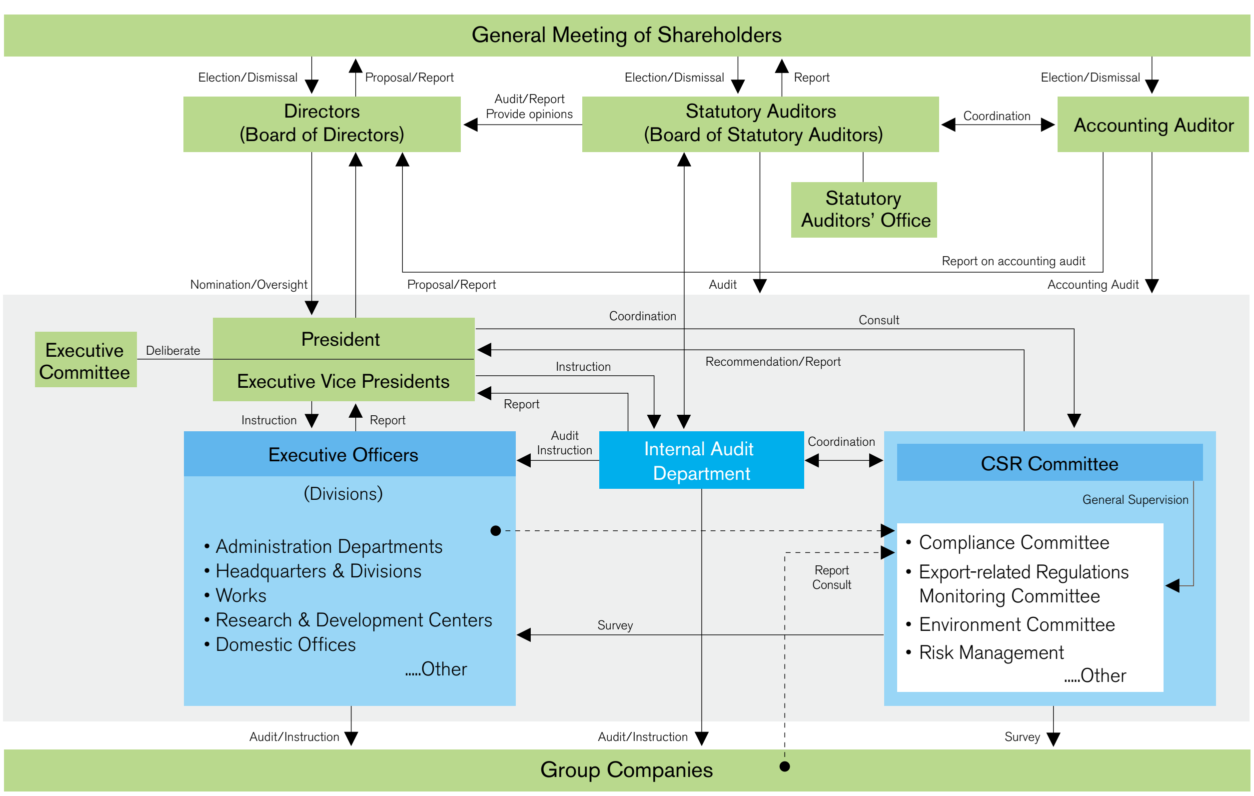
10. Other systems to ensure statutory auditor activities are conducted effectively
   (i) Due consideration shall be given to statutory auditors to allow them to conduct audits in an effective manner by gathering information, conducting surveys and taking other steps to ensure appropriate communication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

Internal Audits

The Company has established a 23-member Internal Audit Department, and it conducts internal audits and evaluation of internal control related to financial reports to check the effectiveness of internal control systems.

As part of internal audits, each fiscal year the Internal Audit Department formulates an internal audit policy and instructs each of MHI's departments to conduct audits in accordance with this policy. The Internal Audit Department confirms the status and results of these internal audits and conducts its own separate audits targeting specific themes. The Internal Audit Department also regularly receives reports from the internal control department concerning the status of compliance.

Concerning the internal control reporting system related to financial reports, the Company takes actions appropriately abide by the Financial Instruments and Exchange Act, and as of the end of FY2009, the Company had obtained an evaluation result that the internal controls related to the Company's financial reports were effective.



Statutory Auditors

The Company's Board of Statutory Auditors has five members, three of whom are outside appointments. Additionally, one of the full-time statutory auditors has long-standing business experience in the fields of accounting and finance and those considered for election as statutory auditors are people with a suitable level of knowledge in finance and accounting. In accordance with the auditing policy and auditing plan determined by the Board of Statutory Auditors, statutory auditors attend meetings of the Board of Directors, the Executive Committee and other key meetings related to business planning, enabling them to accurately assess the status of management in a timely manner. As part of the audit, statutory auditors make sure the execution of director duties complies with laws and regulations and the Articles of Incorporation and ascertain whether or not business operations of the Company are being executed appropriately by conducting spot checks and verifying compliance with relevant laws and regulations, and by monitoring the status of establishment and operation of internal control systems including those in relation to financial reporting.

In addition to regularly exchanging information and opinions with the Internal Audit Department and accounting auditors, statutory auditors also work in close collaboration in other ways, including receiving audit results and being present for the auditing performed by the accounting auditors. The statutory auditors also regularly receive reports from the internal control department concerning the status of compliance, risk management and other activities. As a support to the statutory auditors, the Company has established a Statutory Auditors' Office with a dedicated six-member staff, which assists the statutory auditors in performing their duties more smoothly.

Accounting Audits

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

In addition to the above, the auditing team includes 14 other certified public accountants and 27 assistant accountants.

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

Outside Directors and Outside Statutory Auditors

For the purpose of receiving advice and oversight of the Company's management from an objective standpoint not biased by an internal company perspective and based on abundant experience and broad knowledge as a corporate manager or government official, three of the 18 directors elected and three of the five statutory auditors elected are from outside the company.

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

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

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

The Company's corporate governance framework, including internal control systems, is shown in the diagram on page 41.

Director and Statutory Auditor Compensation

Position	No. of Recipients	Amounts of Compensation by Category (In millions of yen)			Total Amount of Compensation (In millions of yen)
		Base Compensation	Performance-Linked Compensation	Stock Options	
Directors (Excluding Outside Directors)	20	658	184	219	1,062
Statutory Auditors (Excluding Outside Statutory Auditors)	2	66	14	–	81
Outside Officers	7	76	–	–	76

Notes 1. The personnel in the table include four directors and one statutory auditor who retired during the fiscal year under review. They are stated in "Directors (Excluding Outside Directors)" and "Outside Officers," respectively.
2. Amounts stated in performance-linked compensation include the difference between the amounts disclosed as compensation in the previous fiscal year (the estimated compensation) and the actual amounts paid.
3. Amounts stated as stock options include the cost associated with the accounting of stock acquisition rights issued in a so-called stock-linked compensation scheme.
4. The maximum permitted financial compensation amounts including both base and performance-linked compensations are ¥1,200 million per fiscal year for directors and ¥160 million per fiscal year for statutory auditors (resolution of the 81st Ordinary General Meeting of Shareholders on June 28, 2006).
5. The maximum permitted total issuance price for stock acquisition rights related to stock-linked stock options is ¥300 million per fiscal year for directors excluding outside directors (resolution of the 82nd Ordinary General Meeting of Shareholders on June 27, 2007).
6. The retirement allowance program has been abolished effective the conclusion of the 81st Ordinary General Meeting of Shareholders on June 28, 2006.
7. The amount stated in "Directors (Excluding Outside Directors)" includes compensation paid to director Kazuo Tsukuda and director Hideaki Omiya of ¥119 million (base compensation of ¥71 million, performance-linked compensation of ¥21 million, and stock options of ¥26 million) each. Note that there is no compensation, etc. paid to the two individuals as directors of major consolidated subsidiaries.

Auditing Certified Public Accountant Compensation

(In millions of yen)

Category	Fiscal Year 2008		Fiscal Year 2009	
	Audit Attestation Duty Based Compensation	Non-Audit Based Compensation	Audit Attestation Duty Based Compensation	Non-Audit Based Compensation
MHI	186	3	185	10
Consolidated Subsidiaries	132	–	99	–
Total	319	3	284	10

DIRECTORS

Chairman

Kazuo Tsukuda

President

Hideaki Omiya

Senior Executive Vice Presidents

Ichiro Fukue
Providing assistance to the President. In charge of Production System Innovation Planning, Energy & Environment business and other matters specially assigned by the President

Hiroshi Kan
Providing assistance to the President. General Manager, Presidential Administration Office. In charge of other matters specially assigned by the President

Sunao Aoki
Providing assistance to the President. General Manager, Technical Headquarters. In charge of Information Systems & Communications and other matters specially assigned by the President

Executive Vice Presidents

Katsuhiko Yasuda
In charge of Internal Audit, Corporate Social Responsibility, General Affairs, Legal and Personnel

Akira Sawa
General Manager, Nuclear Energy Systems Headquarters

Teruaki Kawai
General Manager, Aerospace Headquarters

Shunichi Miyanaga
General Manager, Machinery & Steel Structures Headquarters

Yoshiaki Tsukuda
General Manager, Power Systems Headquarters

Yujiro Kawamoto
In charge of Accounting, Finance and Material

Hisashi Hara
General Manager, Shipbuilding & Ocean Development Headquarters

Senior Vice Presidents

Makoto Shintani
General Manager, Production System Innovation Planning Department

Takashi Abe
Deputy General Manager, Machinery & Steel Structures Headquarters

Akira Hishikawa
General Manager, General Machinery & Special Vehicle Headquarters

Outside Directors

Akihiro Wada
Advisor, Executive Technical Advisor of Aisin Seiki Co., Ltd.

Yoshihiro Sakamoto
Former Vice-Minister for International Affairs of the Ministry of International Trade and Industry

Yorihiko Kojima
Chairman of the Board of Mitsubishi Corporation

STATUTORY AUDITORS

Koshin Nakamoto

Naoki Yasaka

Toyoshi Nakano
Senior Adviser of Mitsubishi UFJ Trust and Banking Corporation

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

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

(As of June 24, 2010)

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

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

MHI Group CSR Action Guidelines

(formulated July 2007)

In order to ensure a secure future for the Earth, we will establish and maintain:

Close ties with the Earth

Safeguard an abundantly green Earth through environmental technologies and environmental awareness;

Close ties with Society

Build a relationship of trust with society through proactive participation in society and trustworthy actions;

A bridge to the next Generation

Contribute to the cultivation of human resources who can shoulder responsibility in the next generation through technologies that can realize dreams.

Carrying out CSR through "manufacturing" that contributes to society

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

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

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

In addition, to promote greater CSR awareness groupwide, representative CSR activities were formulated in June 2008 to be implemented in each headquarters, division, work and Group company in line with the three themes of the CSR Action Guidelines.

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

CSR Topics

Topic 1 Close ties with the Earth

New "Mitsubishi Wind Turbine View Park" opened at Kanazawa Plant, Yokohama Machinery Works

Amid growing interest in energy and environmental issues, MHI opened "Mitsubishi Wind Turbine View Park" at its Kanazawa Plant, Yokohama Machinery

The new park with views of the wind turbine

Topic 2 Close ties with Society

Photovoltaic power generation system donation and university course endowment in Vietnam

MHI group company MHI Aerospace Vietnam Co., Ltd. (MHIVA), located in Vietnam's capital Hanoi, uses local Japanese school DOWACEN to provide Japanese language training to its Vietnamese employees. In September 2009, MHI decided to donate one of its photovoltaic power generation systems to the school in accordance with its representative CSR activities, one theme of which is to support developing countries with MHI products. This marked MHI's first project under this theme. Installation is scheduled for completion in September 2010 and will provide electricity for classroom lighting and enable uninterrupted teaching even during power outages. In addition, from September 2009, MHI endowed a new course and set up a scholarship scheme at the Hanoi University of Technology, which provides graduates employed at MHI in Vietnam. MHI's aim is to contribute to the development of industry in the country.

Ceremony to mark the donation of the photovoltaic power generation system

Works in October 2009. The 5,600m^2 park faces the sea and offers views of the wind turbine in use at the Kanazawa Plant. Surplus earth from the plant was used to create a rolling hill, which has been planted with a variety of shrubs. A photovoltaic power generation system with an output of approximately 3kW is also installed in the park. MHI is actively using the park in factory tours and school study visits as a place where people can get up closer to wind and photovoltaic power generation systems in a natural environment. The park is also being used by employees as a place to relax.

Topic 3 A bridge to the next Generation

MHI providing support to science classes nationwide

In recent years, Japanese school children are said to have been moving away from the sciences amid a loss of interest in the field and a drop in their level of understanding. This has led to concerns that Japan's technological strength—a source of economic growth—could be affected, leading to a decline in the country's international competitiveness. In an effort to help resolve this issue, and based on the belief that a manufacturing company like MHI has a duty to help train engineers that will contribute to global society in the future, MHI formulated a "Three-year Plan to Support Science Education at Schools" in April 2008. Since then, MHI has dispatched employees from business sites nationwide to hold science classes at nearby elementary and junior high schools. In FY2009, more than 2,700 children participated in classes featuring products and technologies from MHI works and with themes such as how science learned at school is valuable.

A science class held by the Nagoya Guidance & Propulsion Systems Works

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

Basic Policy on Environmental Matters (Established 1996)

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

Action Guidelines (Established 1996)

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

Column

Additional MHI-made amorphous solar cell panels installed at works

MHI is steadily pushing ahead with its plan to install solar cell panels at our works. In FY2009, it installed systems with capacities of 50kW at the Kobe Shipyard & Machinery Works, 70kW at the Takasago Machinery Works, and 100kW at the Nagoya Guidance & Propulsion Systems Works (for a total of 220kW in FY2009). As a result, the company's cumulative introduction of solar power has been expanded to 2,110kW. As such, we have achieved our FY2009 CSR Action Plan goal of installing systems with a total capacity of 200kW, and reached our medium-term FY2010 target of a combined 2,000kW installed at our works one year ahead of schedule. Also in FY2009, we installed photovoltaic power generation systems at a dormitory for single employees, a company's daycare facility for children, and in the "Mitsubishi Wind Turbine View Park" at the Yokohama Machinery Works with a combined capacity of 33.5kW.

Solar cell panels at the Nagoya Guidance & Propulsion Systems Works

Financial Section

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Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

INDUSTRY SEGMENT	Net Sales In millions of yen 2010	Net Sales In millions of yen 2009	Net Sales In thousands of U.S. dollars 2010	Operating Income (Loss) In millions of yen 2010	Operating Income (Loss) In millions of yen 2009	Operating Income (Loss) In thousands of U.S. dollars 2010
Shipbuilding & Ocean Development	¥ 230,692	¥ 240,178	$ 2,479,492	¥ 14,544	¥ 1,641	$ 156,319
Power Systems	1,066,128	1,209,150	11,458,813	82,603	80,001	887,822
Machinery & Steel Structures	542,061	542,203	5,826,107	30,148	31,605	324,032
Aerospace	500,270	512,355	5,376,934	(6,424)	(10,340)	(69,045)
Mass and Medium-Lot Manufactured Machinery	544,324	805,403	5,850,429	(62,623)	(7,030)	(673,076)
Others	110,193	121,147	1,184,361	7,413	9,982	79,675
Subtotal	2,993,669	3,430,438	32,176,150	65,660	105,859	705,717
Eliminations or Corporate	(52,782)	(54,763)	(567,304)	–	–	–
Total	¥2,940,887	¥3,375,674	$31,608,845	¥ 65,660	¥ 105,859	$ 705,717

INDUSTRY SEGMENT	Total Assets In millions of yen 2010	Total Assets In millions of yen 2009	Total Assets In thousands of U.S. dollars 2010	Depreciation and Amortization In millions of yen 2010	Depreciation and Amortization In millions of yen 2009	Depreciation and Amortization In thousands of U.S. dollars 2010
Shipbuilding & Ocean Development	¥ 275,198	¥ 250,386	$ 2,957,846	¥ 9,827	¥ 9,707	$ 105,621
Power Systems	1,226,529	1,238,460	13,182,813	39,888	36,629	428,718
Machinery & Steel Structures	489,631	494,383	5,262,585	11,397	10,624	122,495
Aerospace	913,620	954,452	9,819,647	38,004	46,103	408,469
Mass and Medium-Lot Manufactured Machinery	697,497	821,649	7,496,743	33,693	33,541	362,134
Others	181,224	189,606	1,947,807	7,624	17,250	81,943
Subtotal	3,783,701	3,948,939	40,667,465	140,436	153,856	1,509,415
Eliminations or Corporate	479,158	577,274	5,150,021	–	–	–
Total	¥4,262,859	¥4,526,213	$45,817,487	¥ 140,436	¥ 153,856	$ 1,509,415

INDUSTRY SEGMENT	Capital Expenditures In millions of yen 2010	Capital Expenditures In millions of yen 2009	Capital Expenditures In thousands of U.S. dollars 2010
Shipbuilding & Ocean Development	¥ 11,365	¥ 8,045	$ 122,151
Power Systems	78,763	66,220	846,549
Machinery & Steel Structures	19,030	15,765	204,535
Aerospace	22,229	40,225	238,918
Mass and Medium-Lot Manufactured Machinery	33,188	58,957	356,706
Others	12,612	7,463	135,554
Subtotal	177,190	196,677	1,904,449
Eliminations or Corporate	–	–	–
Total	¥ 177,190	¥ 196,677	$ 1,904,449

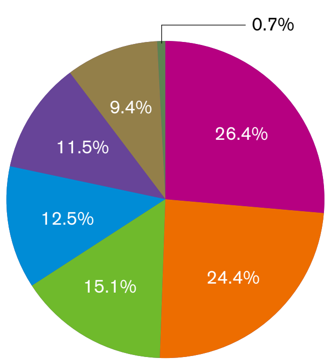
OVERSEAS SALES	In millions of yen 2010	In millions of yen 2009	In thousands of U.S. dollars 2010
Overseas Sales	¥1,478,695	¥1,652,269	$15,893,110
Ratio to Total Net Sales	50.3%	48.9%	

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥93.04=US$1, the exchange rate prevailing at March 31, 2010.

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
	2010	2009	2010	2010	2009	2010
Japan	¥2,766,525	¥3,120,614	$29,734,791	¥ 68,883	¥ 91,203	$ 740,358
North America	225,465	297,395	2,423,312	(3,127)	6,647	(33,609)
Asia	93,613	120,344	1,006,158	995	2,471	10,694
Europe	108,465	166,908	1,165,788	(5,305)	2,821	(57,018)
Others	28,836	39,155	309,931	4,214	2,715	45,292
Subtotal	3,222,907	3,744,419	34,640,015	65,660	105,859	705,717
Eliminations or Corporate	(282,020)	(368,744)	(3,031,169)	–	–	–
Total	¥2,940,887	¥3,375,674	$31,608,845	¥ 65,660	¥ 105,859	$ 705,717

GEOGRAPHIC DISTRIBUTION	Total Assets		
	In millions of yen		In thousands of U.S. dollars
	2010	2009	2010
Japan	¥3,228,177	¥3,447,183	$34,696,657
North America	240,335	217,999	2,583,136
Asia	92,265	84,073	991,670
Europe	134,044	115,970	1,440,713
Others	88,879	83,711	955,277
Subtotal	3,783,701	3,948,939	40,667,465
Eliminations or Corporate	479,158	577,274	5,150,021
Total	¥4,262,859	¥4,526,213	$45,817,487

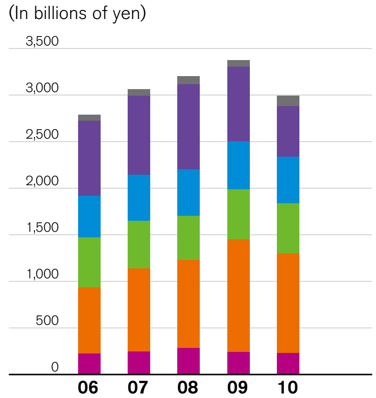
Composition of Overseas Net Sales by Geographic Distribution



- Asia
- North America
- Europe
- Central and South America
- The Middle East
- Africa
- Oceania

Net Sales by Industry Segment

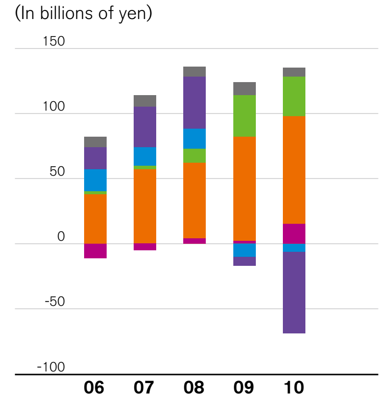
(In billions of yen)



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

Operating Income (Loss) by Industry Segment

(In billions of yen)



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

Analysis of Operating Results

In fiscal 2009, ended March 31, 2010, consolidated net sales of MHI Group fell ¥434,787 million or 12.9 % to ¥2,940,887 million, as a result of lower sales compared with the previous fiscal year recorded in all segments such as in the Mass and Medium-Lot Manufactured Machinery business in which recovery of demand is delaying.

Operating income fell from the previous fiscal year by ¥40,198 million or 38.0% to ¥65,660 million. The decline from the previous fiscal year is due to the reduced sales, the appreciation of the yen and other factors, despite the profitability improvements achieved through vigorous efforts by MHI Group under the "Challenge 09" company-wide emergency plan to deal with the global recession.

Net non-operating expense was ¥41,651 million, ¥11,098 million more than in the previous fiscal year, due to such factors as a decrease in dividend income and worsened foreign exchange loss, despite an improvement in equity in losses of unconsolidated subsidiaries and affiliates.

As a result of this, ordinary income fell from the previous fiscal year by ¥51,297 million or 68.1% to ¥24,009 million.

MHI Group posted extraordinary loss of ¥15,972 million from business structure improvement expenses, while posting ¥20,100 million as extraordinary gain from gain on sales of fixed assets, gain on sales of investment securities and gain on revision of retirement benefit plan.

Income before income taxes and minority interests declined ¥36,786 million or 56.7% to ¥28,137 million, with net income decreasing ¥10,053 million or 41.5% to ¥14,163 million compared with the previous fiscal year.

Key Factors Affecting Operating Results

Key factors that affect the management of MHI Group include external factors such as market trends, foreign exchange rate fluctuations and changes in material costs, and internal factors such as risks associated with various overseas business contracts, accidents and disasters. Another key factor is the risk of manufacturing capabilities weakening due to technology and skill transfer issues associated with generational change.

Market trends

The recovery trend of the global economy is being strengthened, led by China with its outstanding economic growth and other emerging economies. The core markets for the products handled by MHI Group are rapidly shifting from the industrialized nations to the emerging economies. Competition is intensifying in those expanding markets among both powerful global corporations and rapidly rising firms from the emerging nations. Under these conditions, MHI Group must build up a corporate management constitution that can react promptly to dramatically shifting global markets and also generate stable revenues, and is continuing its efforts to provide products and services suited to the needs of customers using technologies superior to the competition.

Exchange rate fluctuation

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

Changes in costs of materials

MHI Group is responding to the impact of certain material price rises, such as for steel products, non-ferrous metals and crude oil, promoting design standardization, increasing its utilization of common components, employing standardized parts, signing comprehensive procurement contracts, and expanding its overseas production activities. MHI Group is also strengthening relationships with its business partners, promoting an even greater level of information sharing, and striving to achieve further cost reductions.

Overseas business contracts

MHI Group is exposed to a number of risks associated with individual business contracts it concludes in overseas markets. These include the quality and delivery dates of locally procured materials and the skill levels and specific labor practices of the local staff, as well as the risks inherent in its contractual obligations. In order to prevent or mitigate these risks, all contracts undergo a rigorous internal assessment process prior to their formal conclusion. In addition to the business headquarters and the segments concerned, several administrative departments are involved in this process, which includes the verification of local contractual obligations, the removal of unilateral conditions, and other prudent steps.

Accidents and disasters

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

Technology and skill transfer

MHI Group is at risk of manufacturing capabilities weakening due to technology and skill transfer issues associated with generational change. In response, MHI Group invests in production process improvement aimed at rationalization and carries out focused investment in R&D related to manufacturing technology. MHI Group also strives to enhance its basic manufacturing capabilities through programs to train and improve the skills of its employees.

Source of Funds and Liquidity

Cash flow analysis

Operating activities provided net cash of ¥117,977 million for the fiscal year under review, an increase of ¥38,444 million compared with the previous fiscal year. This mainly reflected decreases in trade receivables, inventories and payments for income taxes.

Investing activities used net cash of ¥180,704 million, ¥24,111 million more than the previous fiscal year. This increase was mainly due to a decrease in proceeds from sales of investment securities. Financing activities used net cash of ¥105,291 million, due to decreases in short-term borrowings and commercial papers.

Primary funding requirements

MHI Group primarily requires funds in operating activities for working capital for manufacturing activities (materials, outsourcing and personnel costs), order preparation costs and other sales expenses related to winning new orders, and funds for R&D activities that enhance the competitiveness of its products and strengthen manufacturing capabilities. In investing activities, funds are required for capital investment to grow business and enhance productivity, and for the purchase of investment securities related to the execution of business strategies.

In growth areas, MHI Group is planning to execute necessary capital investment and R&D investment. As a whole, MHI Group plans to selectively concentrate on core investment schemes, while closely monitoring the latest market environments and order trends, and accordingly a decrease in funding requirements is forecasted for next year and beyond.

Breakdown of interest-bearing debt and its applications

The breakdown of interest-bearing debt as of March 31, 2010 was as follows:

(In millions of yen)

	Total	Due within one year	Due after one year
Short-term borrowings	117,679	117,679	–
Commercial papers	6,000	6,000	–
Long-term borrowings	1,007,041	109,539	897,501
Bonds	364,605	20,000	344,605
Total	1,495,325	253,219	1,242,106

MHI Group is involved in numerous projects with comparatively long construction periods. It also owns numerous manufacturing facilities that employ large-scale machinery facilities. Consequently, MHI Group must secure a stable level of working capital and funds for capital investments. Taking into account these factors, MHI Group has procured funds and as a result, the total interest-bearing debt at the end of fiscal year 2009 was ¥1,495,325 million: ¥253,219 million due within one year, and ¥1,242,106 million due after one year.

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

Financial policy

MHI Group currently funds its working capital and capital investments from its operating cash flows. Any additional requirements can be met with interest-bearing debt.

In appropriately determining the amounts and methods of procuring long-term funds through long-term borrowings, bonds, and other means, MHI Group takes into account the funding requirements of its business plans, interest-rate trends and various other factors, as well as the repayment schedule for its existing debt.

Additionally, in its efforts to reduce interest-bearing debt, MHI Group strives to efficiently utilize surplus funds within the Group using a cash management system. At the same time, MHI Group is working to improve asset efficiency by reducing trade receivables and inventories and by raising the utilization rate of its property, plant and equipment.

MHI Group flexibly considers the repurchase of treasury stock based on the financial position of the Group, the stock price, as well as recent earnings forecasts and other factors.

Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	In millions of yen		In thousands of U.S. dollars (Note 2)
ASSETS	**2010**	2009	**2010**
Current assets:			
Cash and deposits (Notes 3, 6 and 13)	**¥ 274,061**	¥ 435,038	**$ 2,945,625**
Trade receivables (Notes 3 and 6)	**948,200**	1,082,569	**10,191,315**
Securities (Notes 3 and 4)	**9**	3,010	**96**
Merchandise and finished products	**171,699**	170,754	**1,845,432**
Work in process	**937,740**	959,138	**10,078,890**
Raw materials and supplies	**130,622**	138,724	**1,403,933**
Deferred income taxes (Note 5)	**142,720**	136,341	**1,533,963**
Other current assets	**230,490**	245,100	**2,477,321**
Allowance for doubtful receivables	**(8,881)**	(5,617)	**(95,453)**
Total current assets	**2,826,662**	3,165,059	**30,381,147**
Non-current assets:			
Property, plant and equipment, net (Note 6)**:**			
Buildings and structures	**344,601**	331,063	**3,703,794**
Machinery and transportation equipment	**277,390**	282,371	**2,981,405**
Tools, equipment and furniture	**49,527**	65,916	**532,319**
Land	**163,784**	157,986	**1,760,361**
Leased assets	**5,871**	3,044	**63,101**
Construction in progress	**55,176**	51,966	**593,035**
Total property, plant and equipment, net	**896,350**	892,347	**9,634,028**
Intangible assets	**29,149**	30,991	**313,295**
Investments and advances:			
Investment securities (Notes 3 and 4)	**342,480**	274,195	**3,680,997**
Long-term loans and advances	**3,597**	2,505	**38,660**
Deferred income taxes (Note 5)	**9,367**	9,372	**100,677**
Others	**164,917**	162,274	**1,772,538**
Allowance for doubtful accounts	**(9,665)**	(10,533)	**(103,880)**
Total investments and advances	**510,697**	437,814	**5,489,004**
Total non-current assets	**1,436,197**	1,361,153	**15,436,339**
Total assets	**¥4,262,859**	¥4,526,213	**$45,817,487**

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

LIABILITIES AND NET ASSETS	In millions of yen 2010	In millions of yen 2009	In thousands of U.S. dollars (Note 2) 2010
Liabilities			
Current liabilities:			
Trade payables (Note 3)	¥ 646,538	¥ 699,648	$ 6,949,032
Short-term borrowings (Notes 3 and 6)	117,679	248,734	1,264,821
Current portion of long-term borrowings (Notes 3 and 6)	109,539	108,267	1,177,332
Commercial papers (Note 6)	6,000	115,000	64,488
Current portion of bonds (Notes 3 and 6)	20,000	20,300	214,961
Reserve for product warranties (Note 1)	28,636	23,872	307,781
Reserve for losses on construction contracts (Note 1)	24,490	37,911	263,220
Reserve for legal claims (Note 1)	13,941	23,300	149,838
Advance payments received on contracts	389,041	479,004	4,181,438
Other current liabilities (Notes 5 and 6)	199,928	238,853	2,148,839
Total current liabilities	1,555,796	1,994,892	16,721,797
Long-term liabilities:			
Bonds (Notes 3 and 6)	344,605	264,601	3,703,837
Long-term borrowings (Notes 3 and 6)	897,501	855,956	9,646,399
Deferred income taxes (Note 5)	17,886	7,519	192,239
Reserve for retirement allowance (Notes 1 and 7)	48,542	50,776	521,732
Reserve for treatment of PCB waste (Note 1)	7,358	4,293	79,084
Other long-term liabilities (Note 6)	62,396	64,921	670,636
Total long-term liabilities	1,378,290	1,248,068	14,813,950
Total liabilities	2,934,087	3,242,961	31,535,758
Net assets			
Stockholders' equity (Note 11)**:**			
Common stock, without par value:			
Authorized-6,000,000,000 shares			
Issued in 2010 and 2009-3,373,647,813 shares	265,608	265,608	2,854,772
Capital surplus	203,938	203,928	2,191,938
Retained earnings	800,199	788,948	8,600,591
Treasury stock, at cost:			
2010-17,414,651 shares	(5,025)		(54,009)
2009-17,474,958 shares		(5,041)	
Total stockholders' equity	1,264,721	1,253,443	13,593,303
Valuation, translation adjustments and others:			
Net unrealized gains on investment securities	35,942	17,313	386,306
Deferred gains (losses) on hedges	(721)	323	(7,749)
Foreign currency translation adjustments	(21,894)	(29,482)	(235,318)
Total valuation, translation adjustments and others	13,327	(11,845)	143,239
Share subscription rights (Note 12)	1,184	881	12,725
Minority interests	49,540	40,772	532,459
Total net assets	1,328,772	1,283,251	14,281,728
Total liabilities and net assets	¥4,262,859	¥4,526,213	$45,817,487

Consolidated Statements of Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2010	2009	**2010**
Net Sales	**¥2,940,887**	¥3,375,674	**$31,608,845**
Cost of sales	**2,537,257**	2,945,340	**27,270,604**
Gross Profit	**403,629**	430,334	**4,338,230**
Selling, general and administrative expenses	**337,968**	324,475	**3,632,502**
Operating income	**65,660**	105,859	**705,717**
Non-operating income (expense):			
Interest income	**3,652**	5,575	**39,251**
Dividend income	**3,305**	8,617	**35,522**
Foreign exchange gain	**–**	1,230	**–**
Other income	**5,678**	2,584	**61,027**
Interest expense	**(22,632)**	(20,224)	**(243,250)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(2,074)**	(9,006)	**(22,291)**
Foreign exchange loss	**(419)**	–	**(4,503)**
Loss on disposal of fixed assets	**(6,279)**	(7,080)	**(67,487)**
Other expenses	**(22,882)**	(12,248)	**(245,937)**
	(41,651)	(30,552)	**(447,667)**
Ordinary income	**24,009**	75,306	**258,050**
Extraordinary gain (loss):			
Gain on sales of fixed assets (Note 8)	**10,086**	3,932	**108,404**
Gain on sales of investment securities	**5,063**	14,286	**54,417**
Gain on revision of retirement benefit plan (Notes 1 and 7)	**4,950**	–	**53,202**
Gain on contribution of securities to retirement benefit trust	**–**	36,104	**–**
Business structure improvement expenses (Notes 9 and 10)	**(15,972)**	(10,434)	**(171,668)**
Effect of the application of the accounting standard for measurement of inventories	**–**	(33,436)	**–**
Loss on legal claims	**–**	(20,835)	**–**
	4,128	(10,382)	**44,368**
Income before income taxes and minority interests	**28,137**	64,923	**302,418**
Income taxes (Note 5)**:**			
Current	**26,146**	54,206	**281,018**
Deferred	**(7,920)**	(13,144)	**(85,124)**
Minority interests in loss after taxes	**(4,252)**	(355)	**(45,700)**
Net income	**¥ 14,163**	¥ 24,217	**$ 152,224**

	In yen		In U.S. dollars (Note 2)
	2010	2009	**2010**
Per share information of common stock (Note 1)**:**			
Net income—basic	**¥ 4.22**	¥ 7.22	**$ 0.045**
Net income—diluted	**4.22**	7.21	**0.045**
Cash dividends	**4.00**	6.00	**0.043**

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

Consolidated Statements of Changes in Net Assets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

In millions of yen

	Stockholders' equity					Valuation, translation adjustments and others						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2008	¥265,608	¥203,893	¥787,007	¥(5,045)	¥1,251,464	¥ 157,546	¥ 7,346	¥ 3,847	¥168,739	¥ 549	¥19,676	¥1,440,429
Effect of changes in accounting policies applied to foreign subsidiaries			(2,142)*		(2,142)							(2,142)
Cash dividends (Note 11)			(20,137)		(20,137)							(20,137)
Net income			24,217		24,217							24,217
Increase resulting from inclusion in the scope of consolidation and equity method			3		3							3
Purchase of treasury stock				(72)	(72)							(72)
Disposal of treasury stock		34		76	111							111
Net changes in items other than stockholders' equity					–	(140,232)	(7,022)	(33,329)	(180,585)	332	21,095	(159,157)
Subtotal	–	34	4,083	3	4,121	(140,232)	(7,022)	(33,329)	(180,585)	332	21,095	(155,035)
Balance as of March 31, 2009	¥265,608	¥203,928	¥788,948	¥(5,041)	¥1,253,443	¥ 17,313	¥ 323	¥(29,482)	¥ (11,845)	¥ 881	¥40,772	¥1,283,251
Cash dividends (Note 11)			(16,781)		(16,781)							(16,781)
Net income			14,163		14,163							14,163
Increase resulting from inclusion in the scope of consolidation and equity method			883	(1)	882							882
Changes in equity interest mainly due to reorganization			12,984		12,984							12,984
Purchase of treasury stock				(21)	(21)							(21)
Disposal of treasury stock		10		38	49							49
Net changes in items other than stockholders' equity					–	18,629	(1,045)	7,588	25,172	303	8,767	34,243
Subtotal	–	10	11,250	16	11,277	18,629	(1,045)	7,588	25,172	303	8,767	45,521
Balance as of March 31, 2010	¥265,608	¥203,938	¥800,199	¥(5,025)	¥1,264,721	¥ 35,942	¥ (721)	¥(21,894)	¥ 13,327	¥1,184	¥49,540	¥1,328,772

In thousands of U.S. dollars (Note 2)

	Stockholders' equity					Valuation, translation adjustments and others						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains on investment securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Share subscription rights	Minority interests	Total net assets
Balance as of March 31, 2009	$2,854,772	$2,191,831	$8,479,664	$(54,180)	$13,472,087	$186,081	$ 3,471	$(316,874)	$(127,310)	$ 9,469	$438,220	$13,792,465
Cash dividends (Note 11)			(180,363)		(180,363)							(180,363)
Net income			152,224		152,224							152,224
Increase resulting from inclusion in the scope of consolidation and equity method			9,490	(10)	9,479							9,479
Changes in equity interest mainly due to reorganization			139,552		139,552							139,552
Purchase of treasury stock				(225)	(225)							(225)
Disposal of treasury stock		107		408	526							526
Net changes in items other than stockholders' equity					–	200,225	(11,231)	81,556	270,550	3,256	94,228	368,046
Subtotal	–	107	120,915	171	121,205	200,225	(11,231)	81,556	270,550	3,256	94,228	489,262
Balance as of March 31, 2010	$2,854,772	$2,191,938	$8,600,591	$(54,009)	$13,593,303	$386,306	$ (7,749)	$(235,318)	$ 143,239	$12,725	$532,459	$14,281,728

* Decrease of 2,111 million yen included in the above figures was an effect of changes in accounting policies applied to overseas subsidiaries of an affiliate company accounted for by the equity method. (This was an amount proportionate to the number of its shares the MHI Group held.)

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	In millions of yen		In thousands of U.S. dollars (Note 2)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 28,137	¥ 64,923	$ 302,418
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	138,045	152,989	1,483,716
Decrease in reserve for retirement allowance	(665)	(38,827)	(7,147)
Interest and dividend income	(6,957)	(14,193)	(74,774)
Interest expense	22,632	20,224	243,250
Equity in losses of unconsolidated subsidiaries and affiliates	2,074	9,006	22,291
Gain on sales of investment securities	(5,063)	(14,286)	(54,417)
Gain on sales of fixed assets (Note 8)	(10,086)	(3,932)	(108,404)
Loss on disposal of fixed assets	6,279	7,080	67,487
Loss on legal claims	–	20,835	–
Business structure improvement expenses (Note 9)	15,972	10,434	171,668
Decrease in investment securities due to the contribution to retirement benefit trust	–	71,735	–
(Increase) decrease in receivables	136,737	(41,289)	1,469,658
(Increase) decrease in inventories and advances to suppliers	40,913	(149,996)	439,735
(Increase) decrease in other assets	(2,519)	(40,010)	(27,074)
Increase (decrease) in payables	(55,822)	305	(599,978)
Increase (decrease) in advance payments received on contracts	(91,386)	26,492	(982,222)
Increase (decrease) in other liabilities	(49,177)	77,159	(528,557)
Others	1,139	(1,397)	12,242
Subtotal	170,253	157,255	1,829,890
Interest and dividends received	8,326	18,644	89,488
Interest paid	(22,105)	(19,863)	(237,585)
Payments for income taxes	(38,497)	(76,503)	(413,768)
Net cash provided by operating activities	117,977	79,533	1,268,024
Cash flows from investing activities:			
Net (increase) decrease in time deposits	(607)	3,029	(6,524)
Purchases of marketable securities	–	(245)	–
Proceeds from sales and redemption of marketable securities	–	555	–
Purchases of property, plant, equipment and intangible assets	(183,304)	(182,273)	(1,970,163)
Proceeds from sales of property, plant, equipment and intangible assets	30,657	6,363	329,503
Purchases of investment securities	(38,841)	(41,068)	(417,465)
Proceeds from sales and redemption of investment securities	8,084	53,541	86,887
Disbursement of long-term loans	(15,820)	(1,615)	(170,034)
Collection of long-term loans	19,337	5,038	207,835
Others	(208)	80	(2,235)
Net cash used in investing activities	(180,704)	(156,593)	(1,942,218)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings and commercial papers	(241,103)	134,936	(2,591,390)
Proceeds from long-term borrowings	182,705	249,621	1,963,725
Repayment of long-term borrowings	(120,038)	(84,925)	(1,290,176)
Proceeds from issuance of bonds	100,000	–	1,074,806
Payment for redemption of bonds	(20,350)	(40,300)	(218,723)
Proceeds from issuance of stock to minority stockholders of subsidiaries	13,873	23,533	149,107
Dividends paid to stockholders	(16,698)	(20,083)	(179,471)
Dividends paid to minority stockholders of subsidiaries	(819)	(501)	(8,802)
Others	(2,860)	(279)	(30,739)
Net cash provided by (used in) financing activities	(105,291)	262,002	(1,131,674)
Effect of exchange rate changes on cash and cash equivalents	3,478	(23,388)	37,381
Net increase (decrease) in cash and cash equivalents	(164,539)	161,554	(1,768,475)
Cash and cash equivalents at beginning of year	425,913	262,852	4,577,740
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	–	1,506	–
Cash and cash equivalents at end of year (Note 13)	¥ 261,373	¥ 425,913	$ 2,809,254

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of the Mitsubishi Heavy Industries Group (the "Group"), which consists of Mitsubishi Heavy Industries, Ltd. ("MHI") and its consolidated subsidiaries ("Subsidiaries"), have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been prepared from the consolidated financial statements filed with the Financial Services Agency ("FSA") in Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2010 and 2009 include the accounts of the Group. All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and affiliates, with certain minor exceptions, are accounted for by the equity method.

c) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the exchange rate in effect at the end of the 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 the 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 "Valuation, translation adjustments and others."

d) Securities

Securities include (1) investments in unconsolidated subsidiaries and affiliates and (2) other securities (available-for-sale securities). Their valuation standards and methods are as follows:
(1) Investments in unconsolidated subsidiaries and affiliates excluding those accounted for by the equity method: Historical cost (moving average method).
(2a) Other securities with market value: Market value method based on market prices or other fair values at the balance sheet date. Unrealized holding gains and losses are accounted for as a component of net assets, net of tax effect. The costs of sold securities are computed based on the moving average method.
(2b) Other securities without market value: Historical cost (moving average method).

As to the presentation of the balance sheet, the Group has classified securities due within one year as securities in current assets and the others as investment securities in "Investments and advances."

e) Inventories

Merchandise and finished products are principally stated at cost determined by the moving average method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

Work in process is principally stated at cost determined by the specific identification method. (Balance sheet amounts are determined by the method of writing down to reflect a decline in the profitability of the assets.)

f) Property, plant and equipment (excluding leased assets) and depreciation

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

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

g) Intangible assets (excluding leased assets)

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

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

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

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

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

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

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

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

m) Reserve for retirement allowance
Reserve for retirement allowance is 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 either expensed as incurred or amortized by the straight-line method over the years shorter than the average remaining service periods of the Group's employees.

Actuarial gains and losses for each year are amortized, starting in the following year of the incurrence, by the straight-line method over the years shorter than the employees' average remaining service periods.

(Additional information)
In the year ended March 31, 2010, MHI revised its retirement benefit plan to lower the additional interest rate on the retirement annuities.

The resulting reduction of 4,950 million yen ($53,202 thousand) in its retirement benefit obligation was recognized as a "Gain on revision of retirement benefit plan" under extraordinary gain.

n) Reserve for treatment of PCB waste
Reserve for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment for PCB products and equipment as well as their collection and transportation fees.

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

(Change in accounting policy)

Until the year ended March 31, 2009, revenues from construction contracts were recognized on the basis of the percentage-of-completion method if the contract amount was 5,000 million yen ($53,740 thousand) or greater and the contract period was two years or longer; otherwise the completed-contract method was applied. Effective April 1, 2009, the Group has applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, issued on December 27, 2007). Accordingly, as for the construction contracts whose construction activity started on or after April 1, 2009, the percentage-of-completion method is applied if a reliable estimation of the (1) total costs on and revenues from a contract and (2) percentage of completion at the balance sheet date is available. In applying this method, the percentage of completion at the balance sheet date is estimated based on the costs incurred to date divided by the estimated total costs on the contracts. The completed-contract method is applied when the above conditions are not met.

Owing to this change, sales for the year ended March 31, 2010 increased by 12,058 million yen ($129,600 thousand); operating income, ordinary income, and income before income taxes and minority interests for the same year increased by 2,705 million yen ($29,073 thousand), respectively.

p) Hedge accounting

Principally, the "deferral method" is applied where the Group defers recognition of gains or losses until the related losses or gains on the hedged items are recognized.

If a forward exchange contract for foreign currency receivables or payables meets conditions of hedged items in terms of amount, currency and period, the "assigning method" is applied where the hedged item is stated at the forward exchange contract rate. (Note: The "assigning method" is not applied in case of comprehensive forward exchange contracts.)

If an interest rate swap contract meets conditions of hedged items in terms of amount, index and period, the "exceptional method" is applied where the net amount to be paid or received under the contract is added to or deducted from the interest.

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

q) 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.

r) 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.

s) Net income per share

The computation of basic net income per share is based on the net income available to common stockholders and the weighted average number of shares outstanding during each period.

Diluted net income per share is computed based on the assumption that all the share subscription rights are exercised at the beginning of the year (or issue date if later).

2. U.S. DOLLAR AMOUNTS

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

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥93.04=US$1 prevailing at March 31, 2010 is used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. FINANCIAL INSTRUMENTS

The amounts on the consolidated balance sheet, fair values and the variance between them of financial instruments as of March 31, 2010 are shown in the following table. The ones whose fair values are deemed extremely difficult to determine are excluded from the following table. (See Note 2 below the table.)

	In millions of yen			In thousands of U.S. dollars		
	2010			2010		
	Consolidated Balance Sheet Amount	Fair Value	Variance	Consolidated Balance Sheet Amount	Fair Value	Variance
(1) Cash and deposits	¥ 274,061	¥ 274,061	¥ –	$ 2,945,625	$ 2,945,625	$ –
(2) Trade receivables	948,200	948,200	–	10,191,315	10,191,315	–
(3) Securities and investment securities	188,822	280,742	91,920	2,029,471	3,017,433	987,962
Asset Items Total	¥1,411,083	¥1,503,003	¥91,920	$15,166,412	$16,154,374	$987,962
(4) Trade payables	¥ 646,538	¥ 646,538	¥ –	$ 6,949,032	$ 6,949,032	$ –
(5) Short-term borrowings	117,679	117,679	–	1,264,821	1,264,821	–
(6) Bonds	364,605	371,423	6,818	3,918,798	3,992,078	73,280
(7) Long-term borrowings	1,007,041	1,025,214	18,172	10,823,742	11,019,067	195,313
Liability Items Total	¥2,135,864	¥2,160,855	¥24,991	$22,956,405	$23,225,010	$268,604
Derivatives (*)						
•to which hedge accounting is not applied	¥ 930	¥ 930	¥ –	$ 9,995	$ 9,995	$ –
•to which hedge accounting is applied	(663)	(663)	–	(7,125)	(7,125)	–
Derivatives Total	¥ 266	¥ 266	¥ –	$ 2,858	$ 2,858	$ –

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

Notes: 1. The computation method of the fair values of financial instruments

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

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

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

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

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

(7) Long-term borrowings
The present values of the principal and total interest (*) (discounted by the rate assumed to be applied to the new borrowings of the same conditions) are used as the fair values.
(*) As for the long-term borrowings to which the "exceptional method" on interest-rate swaps is applied (see (8) below), the principal and total interest according to the interest rate under the interest-rate swaps are used.

(8) Derivatives
The fair values of exchange contracts are based on forward exchange rates. Out of those to which hedge accounting is applied, the ones to which the "assigning method" is applied are treated as part of the hedged trade receivables/payables, thus their fair values are included in those trade receivables/payables. (See above (2) and (4).)
Those to which the "exceptional method" on interest-rate swaps is applied are treated as part of the hedged long-term borrowings, thus their fair values are included in those long-term borrowings. (See above (7).)

2. Unlisted securities, whose consolidated balance sheet amount is 153,668 million yen ($1,651,633 thousand), are excluded from the above table because they do not have market prices and it is deemed extremely difficult to determine their fair values.

3. The contractual maturities of monetary receivables and other securities at March 31, 2010 were as follows:

	In millions of yen				In thousands of U.S. dollars			
	2010				2010			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and deposits	¥ 273,453	¥ –	¥ –	¥–	$ 2,939,090	$ –	$ –	$–
Trade receivables	912,994	32,328	2,876	–	9,812,919	347,463	30,911	–
Securities and investment securities								
Other securities								
Government bonds	0	9	–	–	0	96	–	–
Certificate of deposit	7	–	–	–	75	–	–	–
Total	¥1,186,455	¥32,337	¥2,876	¥–	$12,752,095	$347,560	$30,911	$–

(Additional information)

Effective the year ended March 31, 2010, the Group has applied the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10, 2008).

4. SECURITIES

a) Other securities with market value, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2010 and 2009, consisted of the following:

	In millions of yen			In thousands of U.S. dollars		
	2010			2010		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥ 57,520	¥126,018	¥68,498	$ 618,228	$1,354,449	$736,220
Government bonds	9	9	0	96	96	0
Others	13	34	21	139	365	225
Subtotal	¥ 57,543	¥126,063	¥68,520	$ 618,475	$1,354,933	$736,457
ii) Acquisition costs over carrying amounts:						
Equity securities	¥ 47,420	¥ 39,115	¥ (8,305)	$ 509,673	$ 420,410	$ (89,262)
Total (i+ii)	¥104,964	¥165,179	¥60,214	$1,128,159	$1,775,354	$647,184

	In millions of yen		
	2009		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:			
Equity securities	¥ 31,575	¥ 84,090	¥ 52,514
Government bonds	498	499	0
Others	13	51	37
Subtotal	¥ 32,087	¥ 84,641	¥ 52,553
ii) Acquisition costs over carrying amounts:			
Equity securities	¥ 74,550	¥ 53,183	¥(21,366)
Total (i+ii)	¥106,637	¥137,824	¥ 31,187

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

b) Sales amounts of other securities and related gains and losses for the years ended March 31, 2010 and 2009 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	2010
Sales amounts	¥6,985	¥1,266	$75,075
Gains	5,021	282	53,966
Losses	(13)	(16)	(139)

c) Securities whose fair values were extremely difficult to determine, which were included in securities (current assets) and investment securities (investments and advances) at March 31, 2009, mainly consisted of the following:

	In millions of yen
	2009
Equity securities - unlisted	¥14,326
Certificate of deposit	3,000

d) The contractual maturities of other securities at March 31, 2009 were as follows:

	In millions of yen	
	2009	
	Due within one year	Due after one year through five years
Certificate of deposit	¥3,007	¥ –
Bonds:		
Government bonds	–	509
Total	¥3,007	¥509

Note: See the note 3 (financial instruments) for the corresponding figures in 2010.

e) Impaired securities

The impairment loss on other securities with market value for the years ended March 31, 2010 and 2009 amounted to 1,343 million yen ($14,434 thousand) and 420 million yen, respectively. The impairment loss on securities whose fair values are extremely difficult to determine for the years ended March 31, 2010 and 2009 amounted to 65 million yen ($698 thousand) and 9 million yen, respectively.

Securities with market value were judged as impaired when their market values had declined 50% or more from their book values at the end of respective fiscal years, or had declined between 30% and 50% from their book values at every quarter end (Q1-Q4) of respective fiscal years.

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

5. INCOME TAXES

The Group is subject to corporation income tax, inhabitants' tax and enterprise tax, based on income, which in the aggregate resulted in the statutory effective tax rate of approximately 40.5% for the years ended March 31, 2010 and 2009.

a) Significant components of deferred tax assets and liabilities at March 31, 2010 and 2009, which arose as a result of the recognition of the tax effect mentioned in section q) of Note 1 "Summary of Significant Accounting Policies," were as follows:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Reserve for retirement allowance	**¥ 107,286**	¥ 109,792	**$ 1,153,116**
Accrued expenses for product warranties	**34,319**	30,568	**368,862**
Tax loss carryforwards	**32,743**	21,658	**351,923**
Accrued expenses for construction contracts	**31,563**	24,982	**339,241**
Inventory write-downs	**20,187**	18,251	**216,971**
Reserve for product warranties	**11,600**	–	**124,677**
Reserve for losses on construction contracts	**10,159**	16,780	**109,189**
Others	**95,491**	121,251	**1,026,343**
Subtotal	**343,352**	343,285	**3,690,369**
Valuation allowance	**(53,594)**	(56,362)	**(576,031)**
Total gross deferred tax assets	**289,758**	286,922	**3,114,337**
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	**(80,818)**	(84,421)	**(868,637)**
Net unrealized gains on investment securities	**(27,828)**	(21,278)	**(299,097)**
Reserve for reduction in costs of fixed assets	**(23,729)**	(22,576)	**(255,040)**
Deferred gains on hedges	**(42)**	(1,719)	**(451)**
Others	**(23,454)**	(18,910)	**(252,085)**
Total gross deferred tax liabilities	**(155,873)**	(148,905)	**(1,675,333)**
Net deferred tax assets (liabilities)	**¥ 133,884**	¥ 138,016	**$ 1,438,993**

Notes: 1. "Others" in deferred tax assets at March 31, 2009 includes "Reserve for product warranties" which amounts to 9,668 million yen.

2. Net deferred tax assets (liabilities) at March 31, 2010 and 2009 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Deferred income taxes in current assets	**¥142,720**	¥136,341	**$1,533,963**
Deferred income taxes in investments and advances	**9,367**	9,372	**100,677**
Other current liabilities	**(316)**	(177)	**(3,396)**
Deferred income taxes in long-term liabilities	**¥ (17,886)**	¥ (7,519)	**$ (192,239)**

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, 2010 and 2009 are as follows:

	2010	2009
Japanese statutory effective income tax rate	**40.5%**	40.5%
Adjustment:		
Items excluded from expenses	**6.8**	2.5
Items excluded from gross income	**(2.7)**	(12.9)
Equity in losses of unconsolidated subsidiaries and affiliates	**3.0**	5.6
Valuation allowance	**9.5**	34.6
Tax exemption for research & development expenditure	**(6.1)**	(7.7)
Unrealized profit in excess of taxable income	**7.8**	–
Others	**6.0**	0.6
Income tax rate as a percentage of income before income taxes and minority interests	**64.8%**	63.2%

6. INTEREST-BEARING DEBTS AND LEASE OBLIGATIONS

a) Short-term borrowings and commercial papers at March 31, 2010 and 2009 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Loans, principally from banks, with weighted-average interest rate of 1.2% at March 31, 2010 and 1.3% at March 31, 2009:			
Secured	**¥ 10,101**	¥ 10,065	**$ 108,566**
Unsecured	**107,578**	238,669	**1,156,255**
Commercial papers with weighted-average interest rate of 0.1% at March 31, 2010 and 0.4% at March 31, 2009	**6,000**	115,000	**64,488**
Total	**¥123,679**	¥363,734	**$1,329,309**

b) Long-term borrowings and bonds at March 31, 2010 and 2009 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	2010
Loans, principally from banks and insurance companies, due 2010 to 2023 with weighted-average interest rate of 1.2% (on the ones due within one year) and 1.7% (on the ones not due within one year) at March 31, 2010 and due 2009 to 2023 with weighted-average interest rate of 1.7% at March 31, 2009:			
Secured	¥ 8,090	¥ 8,764	$ 86,951
Unsecured	998,950	955,459	10,736,779
Unsecured bonds:			
0.63% bonds due 2010	–	20,000	–
1.03% bonds due 2013	30,000	30,000	322,441
0.365% bonds due 2010	20,000	20,000	214,961
0.70% bonds due 2013	50,000	50,000	537,403
1.45% bonds due 2011	10,000	10,000	107,480
2.04% bonds due 2016	20,000	20,000	214,961
1.47% bonds due 2012	50,000	50,000	537,403
1.69% bonds due 2014	20,000	20,000	214,961
2.03% bonds due 2017	60,000	60,000	644,883
0.688% bonds due 2014	50,000	–	537,403
1.482% bonds due 2019	50,000	–	537,403
Unsecured bonds issued by Subsidiaries:			
0.62% bonds, due 2009 to 2010 in 2009	–	350	–
6.45% bonds due 2011	4,605	4,551	49,494
Subtotal	1,371,646	1,249,125	14,742,540
Less current portion due within one year	(129,539)	(128,567)	(1,392,293)
Total	¥1,242,106	¥1,120,558	$13,350,236

c) A summary of assets pledged as collateral for short-term borrowings and long-term borrowings at March 31, 2010 and 2009 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	2010
Property, plant and equipment	¥15,404	¥23,787	$165,563
Trade receivables	1,183	–	12,714
Others	306	283	3,288
Total	¥16,894	¥24,070	$181,577

d) The aggregate annual maturities of long-term borrowings and bonds at March 31, 2010 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2011	¥ 129,539	$ 1,392,293
2012	226,976	2,439,552
2013	209,145	2,247,904
2014	199,238	2,141,423
2015	251,940	2,707,867
Thereafter	354,805	3,813,467
Total	¥1,371,646	$14,742,540

e) The aggregate annual maturities of lease obligations at March 31, 2010 were as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2011	¥2,289	$ 24,602
2012	2,006	21,560
2013	1,877	20,174
2014	1,418	15,240
2015	651	6,996
Thereafter	1,736	18,658
Total	¥9,980	$107,265

7. RETIREMENT BENEFITS

The Group has several non-contributory defined benefit pension plans and severance indemnity plans, and there are occasions where employees receive special lump-sum payments at retirement. Contributions to the plans are funded in accordance with the applicable laws and regulations. MHI has established a retirement benefit trust, as mentioned in section m) of Note 1 "Summary of Significant Accounting Policies."

Prior service costs are expensed as incurred by MHI and most of the Subsidiaries. Some Subsidiaries amortize them by the straight-line method over the years shorter than the employees' estimated average remaining service periods.

Actuarial gains and losses for each year are amortized, starting in the following year of the incurrence, by the straight-line method over the years shorter than the employees' estimated average remaining service periods.

a) Benefit obligations and related information at March 31, 2010 and 2009 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Benefit obligations	**¥(662,323)**	¥(692,808)	**$(7,118,690)**
Fair value of plan assets	**586,920**	479,574	**6,308,254**
Unfunded benefit obligations	**(75,402)**	(213,233)	**(810,425)**
Unrecognized actuarial losses (gains)	**120,101**	259,640	**1,290,853**
Unrecognized prior service costs (benefits)	**(368)**	(449)	**(3,955)**
Net benefit liability recognized on the consolidated balance sheets	**44,330**	45,958	**476,461**
Prepaid pension expense	**92,873**	96,734	**998,205**
Reserve for retirement allowance	**¥ (48,542)**	¥ (50,776)	**$ (521,732)**

b) The components of net periodic retirement benefit expenses for the years ended March 31, 2010 and 2009 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥ 28,347**	¥ 29,694	**$ 304,675**
Interest cost	**13,538**	14,017	**145,507**
Expected return on plan assets	**(10,639)**	(12,917)	**(114,348)**
Amortization of actuarial losses (gains)	**26,152**	16,484	**281,083**
Amortization of prior service costs (credits)	**(5,052)***	(105)	**54,299**
Net benefit expenses	**¥ 52,346**	¥ 47,174	**$ 562,618**

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

c) The principal assumptions used in determining the information above at March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**3.5%**	3.5%
Amortization period for prior service costs	**Expensed as incurred or 9 to 11 years**	Expensed as incurred or 10 to 11 years
Amortization period for actuarial gains and losses	**10 to 19 years**	11 to 18 years

8. GAIN ON SALES OF FIXED ASSETS

Gain on sales of fixed assets for the years ended March 31, 2010 and 2009 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
	2010	**2010**
Land	**¥10,148**	**$109,071**
Others	**(62)**	**(666)**
Total	**¥10,086**	**$108,404**

	In millions of yen
	2009
Land	¥3,457
Others	474
Total	¥3,932

9. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the year ended March 31, 2010, which mainly arose from Mass and Medium–Lot Manufactured Machinery business and Power Systems business consisted of the following:

	In millions of yen	In thousands of U.S. dollars
	2010	**2010**
Business reorganization expenses	**¥ 9,411**	**$101,150**
Business withdrawal expenses	**6,561**	**70,518**
Total	**¥15,972**	**$171,668**

Business structure improvement expenses for the year ended March 31, 2009, which mainly arose from Mass and Medium–Lot Manufactured Machinery business and Power Systems business consisted of the following:

	In millions of yen
	2009
Expenses on the restructuring of affiliate companies	¥ 7,883
Expenses on the restructuring of the production structure	2,550
Total	¥10,434

10. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

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

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

d) Calculation method of recoverable amounts
Recoverable amounts are measured either by fair value less costs to sell or the value in use. The value in use is computed based on the expected future cash flows derived from the assets with the discount rate of 3.8%.

e) Impairment loss amount
4,341 million yen ($46,657 thousand) of impairment loss was recognized as part of business structure improvement expenses under extraordinary loss. The breakdown of the loss by the type of the fixed assets was as follows:

	In millions of yen	In thousands of U.S. dollars
Machinery and transportation equipment	**¥3,996**	**$42,949**
Buildings and structures	**344**	**3,697**
	¥4,341	**$46,657**

11. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

b) Total number of shares issued and treasury stock at March 31, 2010 and 2009 are as follows:

	Type of shares	At March 31, 2009	Increase by March 31, 2010	Decrease by March 31, 2010	At March 31, 2010
Total number of the shares issued	Common stock	3,373,647,813	–	–	3,373,647,813
Treasury stock.......................	Common stock	17,474,958	74,281	134,588	17,414,651

(1) Reason for increase of treasury stock

Repurchasing of shares that were less than the minimum trading unit	61,401
Portion of MHI's shares that a new equity method investee holds which is treated as treasury stock for the purpose of consolidation	12,880
Total	74,281

(2) Reason for decrease of treasury stock

Disposal resulting from the exercise of share subscription rights, which were issued for the purpose of providing stock options	122,000
Disposal resulting from purchase request from shareholders who have some shares that were less than the minimum trading unit	12,588
Total	134,588

c) Cash dividends

(1) Cash dividends paid

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In U.S. dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of U.S. dollars
June 25, 2009							
Ordinary General Meeting of Shareholders....	Common stock	March 31, 2009	June 26, 2009	¥3	$0.0322	¥10,068	$108,211
October 30, 2009 Board of Directors...........	Common stock	September 30, 2009	December 3, 2009	¥2	$0.0215	¥ 6,712	$ 72,141
Total						¥16,780	$180,352

(2) Dividends of which record date is within this fiscal year but the effective date is within next fiscal year

Resolution	Type of shares	Record date	Effective date	Cash dividends per share: In yen	Cash dividends per share: In U.S. dollars	Total cash dividends paid: In millions of yen	Total cash dividends paid: In thousands of U.S. dollars
June 24, 2010							
Ordinary General Meeting of Shareholders....	Common stock	March 31, 2010	June 25, 2010	¥2	$0.0215	¥ 6,712	$ 72,141

12. SHARE-BASED COMPENSATION PLANS

MHI has the following share-based compensation plans for the directors and corporate executive officers.

The share-based compensation expenses, which amount to 326 million yen ($3,503 thousand) in the year ended March 31, 2010 and 388 million yen in the year ended March 31, 2009, are included in selling, general and administrative expenses.

a) Conditions for issue of stock options

	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)
Grantee (Number of individuals)	Directors (29)	Directors (27)	Directors & Executive officers (26)	Directors & Executive officers (25)	Directors & Executive officers (30)	Directors & Executive officers (33)	Executive officers (2)	Directors & Executive officers (33)
Number of shares	535,000	500,000	502,000	663,000	400,000	806,000	46,000	1,109,000
Type of share	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Date of grant	August 11, 2003	August 11, 2004	August 11, 2005	August 17, 2006	August 16, 2007	August 18, 2008	February 20, 2009	August 17, 2009
Exercise period (from)	June 27, 2005	June 26, 2006	June 29, 2007	August 18, 2006	August 17, 2007	August 19, 2008	February 21, 2009	August 18, 2009
(to)	June 26, 2009	June 25, 2010	June 28, 2011	June 28, 2036	August 16, 2037	August 18, 2038	February 20, 2039	August 17, 2039

b) Activities of stock options in the years ended March 31, 2009 and 2010

Number of shares

	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)
Unexercised at March 31, 2008	1,000	21,000	203,000	658,000	400,000	–	–	–
Granted	–	–	–	–	–	806,000	46,000	–
Vested	–	–	–	–	–	806,000	46,000	–
Exercised	–	–	55,000	78,000	34,000	–	–	–
Expired	–	–	–	–	–	–	–	–
Unexercised at March 31, 2009	1,000	21,000	148,000	580,000	366,000	806,000	46,000	–
Granted	–	–	–	–	–	–	–	1,109,000
Vested	–	–	–	–	–	–	–	1,109,000
Exercised	–	21,000	55,000	18,000	10,000	18,000	–	–
Expired	1,000	–	–	–	–	–	–	–
Unexercised at March 31, 2010	–	–	93,000	562,000	356,000	788,000	46,000	1,109,000

c) Price per share

	In yen							
	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)
Weighted-average exercise price	¥315	¥289	¥294	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2009	–	–	519	454	477	–	–	–
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2010	–	354	352	350	350	350	–	–
Fair value on the date of grant	–	–	–	443	644	471	194	294

	In U.S. dollars							
	Stock options (1st grant)	Stock options (2nd grant)	Stock options (3rd grant)	Stock options (4th grant)	Stock options (5th grant)	Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)
Weighted-average exercise price	$3.39	$3.11	$3.16	$0.01	$0.01	$0.01	$0.01	$0.01
Weighted-average market share price when the share subscription rights were exercised in the year ended March 31, 2010	–	3.80	3.78	3.76	3.76	3.76	–	–
Fair value on the date of grant	–	–	–	4.76	6.92	5.06	2.09	3.16

d) Estimate method of fair value of stock options

The fair value of stock options granted in the years ended March 31, 2009 and 2010 (6th, 7th and 8th grant) were estimated using the Black-Scholes option-pricing model with the following assumptions.

		Stock options (6th grant)	Stock options (7th grant)	Stock options (8th grant)
Expected volatility	Note 1	34.420%	36.454%	36.888%
Expected life (of option)	Note 2	15 years	15 years	15 years
Expected dividends	Note 3	¥6 per share	¥6 per share	¥6 ($0.064) per share
Risk-free interest rate	Note 4	1.873%	1.783%	1.834%

Notes: 1. Estimated based on the actual share prices of 15 years shown below.
Stock options (6th grant): August 18, 1993–August 18, 2008
Stock options (7th grant): February 20, 1994–February 20, 2009
Stock options (8th grant): August 17, 1994–August 17, 2009
2. Calculated on the assumption that the share subscription rights would be excised at the middle point of the exercise period.
3. Actual cash dividends for the following periods.
Stock options (6th grant): full year ended March 31, 2008
Stock options (7th grant): second half of the year ended March 31, 2008 and first half of the year ended March 31, 2009
Stock options (8th grant): full year ended March 31, 2009
4. Yield of Japanese government bonds with the same years to maturity as the above expected life of option.

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

All of the share subscription rights were vested when granted.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2010 and 2009 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Cash and deposits	**¥274,061**	¥435,038	**$2,945,625**
Time deposits with maturities over three months	**(12,687)**	(12,124)	**(136,360)**
Short-term investments with maturities of three months or less when purchased (included in securities)	**–**	3,000	**–**
Total	**¥261,373**	¥425,913	**$2,809,254**

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Summarized below are the notional amounts and the fair values of the derivative positions, except the ones hedge accounting are applied to, outstanding at March 31, 2010 and 2009.

	In millions of yen			In thousands of U.S. dollars		
	2010			**2010**		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sell:						
US$	**¥18,395**	**¥18,624**	**¥ (229)**	**$197,710**	**$200,171**	**$ (2,461)**
Euro	**16,338**	**15,182**	**1,155**	**175,601**	**163,177**	**12,414**
Others	**4,323**	**4,387**	**(63)**	**46,463**	**47,151**	**(677)**
Buy:						
US$	**2,332**	**2,344**	**11**	**25,064**	**25,193**	**118**
Others	**1,019**	**1,076**	**57**	**10,952**	**11,564**	**612**
Total	**¥35,704**	**¥34,774**	**¥ 930**	**$383,748**	**$373,753**	**$ 9,995**

	In millions of yen		
	2009		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US$	¥22,350	¥21,363	¥ 987
Euro	15,616	13,702	1,914
Others	2,627	2,232	394
Buy:			
US$	1,076	982	(93)
Others	790	811	20
Total	¥38,727	¥35,504	¥3,223

15. CONTINGENT LIABILITIES

Contingent liabilities for guarantees to loans of others made in the ordinary course of business amounted to 89,214 million yen ($958,877 thousand) and 94,606 million yen at March 31, 2010 and 2009, respectively.

16. SUPPLEMENTARY INCOME INFORMATION

	In millions of yen		In thousands of U.S. dollars
	2010	2009	**2010**
Depreciation	**¥140,436**	¥153,856	**$1,509,415**
Research and development costs (including routine or periodic alterations to existing products)	**129,262**	101,332	**1,389,316**

17. ACCUMULATED DEPRECIATION

Accumulated depreciation of the property, plant and equipment at March 31, 2010 and 2009 were 1,673,488 million yen ($17,986,758 thousand) and 1,636,727 million yen, respectively.

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
Mitsubishi Heavy Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Mitsubishi Heavy Industries, Ltd.(the"Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 24, 2010

Ernst & Young Shin Nihon LLC

Corporate Data

As of March 31, 2010

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

Established: January 11, 1950

Paid-in Capital: ¥265.6 billion

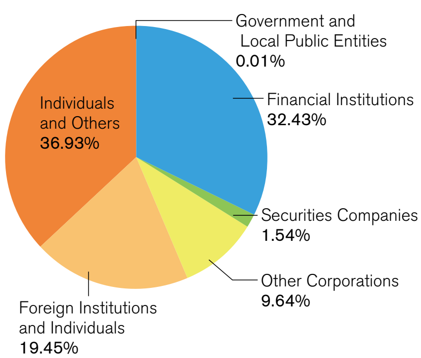
Total Number of Issuable Shares: 6,000,000,000

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

Number of Shareholders: 368,762

Number of Employees: 67,669 (Consolidated)

Composition of Shareholders



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

Ticker Code: 7011

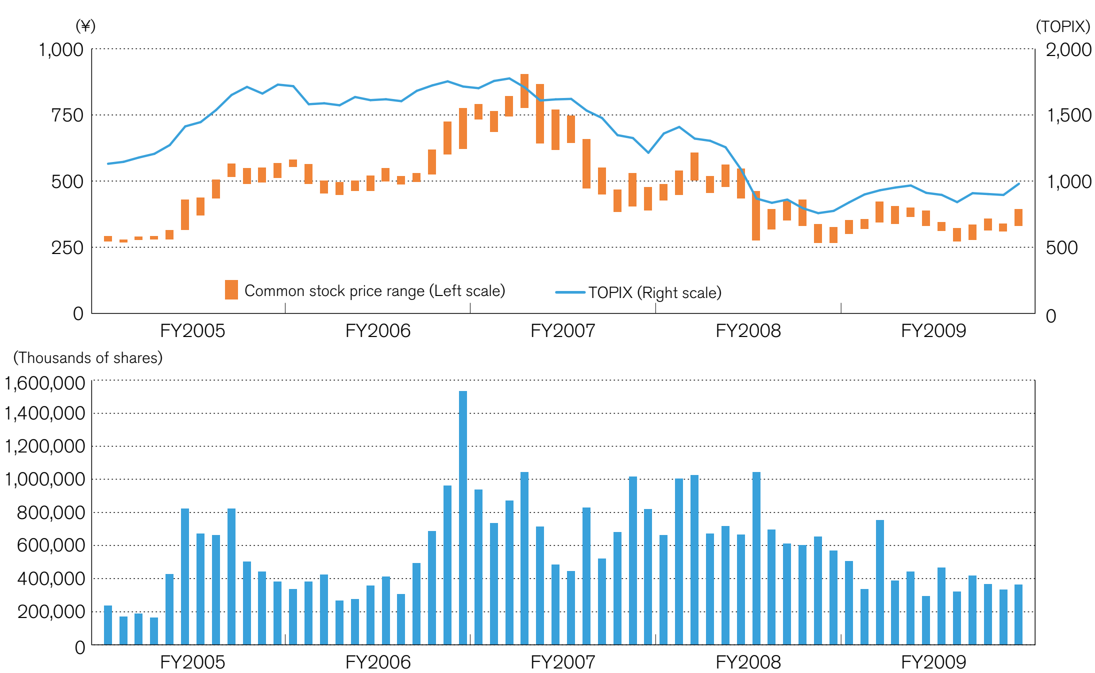
Manager of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Independent Auditors:
Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo 100-0011, Japan

Major Shareholders	Number of shares owned by major shareholders	% of total shares
Japan Trustee Services Bank, Ltd. (Holder in Trust)	155,104,900	4.6
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	132,051,000	3.9
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	125,666,000	3.7
Meiji Yasuda Life Insurance Company	80,022,741	2.4
Tokio Marine & Nichido Fire Insurance Co., Ltd.	50,400,000	1.5
The Nomura Trust and Banking Co., Ltd. (Holder in Retirement Benefit Trust for Mitsubishi UFJ Trust and Banking Corporation)	45,934,000	1.4
OD 05 Omnibus China Treaty 808150	38,875,700	1.2
Japan Trustee Services Bank, Ltd. (Holder in Trust 9)	38,070,000	1.1
MHI Stock Ownership Plan	31,683,447	0.9
JFE Steel Corporation	28,056,000	0.8

Monthly Stock Price Range & Trading Volume

(Tokyo Stock Exchange)



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