Mitsubishi Heavy Industries

Annual Report 2002

for the year ended March 31, 2002

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Financial Highlights

Financial Highlights

Consolidated Summary

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	In millions of yen except per share amounts		In thousands of U.S. dollars except per share amounts
	2002	2001	2002
Net sales	¥2,863,985	¥3,045,024	$21,493,319
Operating income	78,655	74,889	590,281
Net income (loss)	26,447	(20,351)	198,478
Per 100 shares of common stock:			
Net income (loss)—primary	¥784	(¥603)	$5.88
Net income—assuming full dilution	782	—	5.87
Cash dividends	400	400	3.00
Total assets	¥3,915,276	¥4,236,634	$29,382,935
Stockholders' equity	1,282,727	1,278,242	9,626,471

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1, the exchange rate prevailing at March 29, 2002.
2. The accompanying consolidated financial statements for the years ended March 31, 2002 and 2001 have been compiled in accordance with accounting principles and practices generally accepted in Japan.

Takashi Nishioka, President **Nobuyuki Masuda, Chairman**

Environment and Performance

During the fiscal year under review, which ended March 31, 2002, multiple terrorist attacks occurred in the United States at a time coinciding with the start of a deceleration in the U.S. economy, and the effects of these incidents exacerbated a worldwide recessionary trend. Economic conditions deteriorated further in Japan, reflecting large drops in exports and private-sector capital investment as well as the continued low level of public investment. These circumstances, combined with a contraction in Japanese electric power companies' investment, an additional intensification of price competition in domestic markets, and other developments presented Mitsubishi Heavy Industries, Ltd. (MHI), with a truly harsh operating environment throughout the fiscal year.

Against this backdrop, MHI's Machinery & Steel Structures division increased the value of its new orders by successfully obtaining several new orders, including a large-scale liquefied natural gas (LNG) storage and receiving terminal in Japan. Also, a rise in business involving F-2 support fighters boosted the level of new orders received by the Aerospace division. However, new orders of the Power Systems division decreased due to various factors, including the lack of new orders related to nuclear power plants and the postponement of projects by customers in the United States following the September 11 incidents. Similarly, the number and value of the Shipbuilding & Ocean Development division's new orders declined because of the postponement of customer investments and other trends that arose amid weak economic conditions in Japan and overseas. As orders of the Mass and Medium-Lot Manufactured Machinery division dropped due to intense competition and falling prices, the overall value of the Company's new orders decreased approximately 8% from the level in the previous fiscal year, to ¥2,424.9 billion (US$18,198 million).

While the Shipbuilding & Ocean Development division sustained net sales roughly equivalent to those in the previous fiscal year, net sales of the Machinery & Steel Structures division were down considerably, owing to a drop in the completion of large-scale chemical plant and environmental protection facilities. This reduction and decreases in sales of the Aerospace division, Power Systems division, and Mass and Medium-Lot Manufactured Machinery division caused the Company's total net sales to drop approximately 6%, to ¥2,864.0 billion (US$21,493 million).

MHI proactively invested in R&D activities designed to increase product competitiveness and operational efficiency, thereby causing a rise in selling, general and administrative expenses. Reflecting the effects of such factors as the depreciation of the yen and the reduction of materials expenses, however, the Company was able to generate ¥78.7 billion (US$590 million) in operating income and ¥68.0 billion (US$510 million) in ordinary income. These figures were up ¥3.8 billion and ¥4.8 billion, respectively, from the levels in the previous fiscal year. On the other hand, loss of ¥19,959 million (US$150 million) was recorded in extraordinary income and expenses. In addition to valuation losses on investment securities due to a drop in stock prices, these losses largely stemmed from business improvement and restructuring charges designed to strengthen the Company overall. However, the Company was able to achieve improvement in both income before income taxes and net income, which amounted to ¥48.0 billion (US$360 million) and ¥26.4 billion (US$198 million), respectively.

In light of this performance, management has proposed to disburse year-end dividends at the rate of ¥200 (US$1.50) per 100 shares. As interim dividends were ¥200 (US$1.50) per 100 shares, total dividends applicable to the year amounted to ¥400 (US$3.00) per 100 shares, the same level as in the previous fiscal year.

Achievements during the Year

MHI had numerous noteworthy business achievements during the fiscal year.

In energy-related business, for example, the Power Systems division proceeded with the establishment of a framework for conducting a competitive gas turbine business worldwide by beginning the operations of U.S.-based Mitsubishi Power Systems, Inc., which will handle a full spectrum of power plant related business, ranging from marketing activities through the provision of postconstruction plant related services. Regarding wind turbines, the Power Systems division decided to establish a Mexican production base for fiberglass-reinforced plastic (FRP) blades used in wind turbines and worked to expand its order receipts in the United States. Drawing on its comprehensive array of LNG-related technologies, MHI was able to obtain orders for three LNG carriers as well as an order for the construction of a large-scale LNG storage and receiving terminal in Japan on a full-turnkey basis.

The Company is also launching a new environmental protection business involving the compression and baling of PET bottles and other used containers.

The Aerospace division successfully undertook the first test flights of the SH-60JKAI next-generation patrol helicopter as well as the first two test launches of the H-ⅡA rocket. The division was commissioned to manufacture the main wings and central fuselage portion of the Global 5000 business jet of Canada-based Bombardier Inc.. In addition, the division agreed to become a risk-share partner in the PW6000 civil airliner engine development project of U.S.-based Pratt & Whitney, a division of United Technology Corporation, and otherwise proceeded steadily with measures designed to strengthen its operations in the future.

The Mass and Medium-Lot Manufactured Machinery division is striving to meet customer needs in fields where it has technologies superior to those of competing companies. In line with this approach, the division has launched diverse new products, such as space-saving models of electrictype injection molding machines; a newspaper offset press that has the world's highest sustained printing speed; and a new type of machining center that can process items with high levels of both speed and precision. To expand its business in the Chinese air-conditioner market, the division broadened the scope of its technical cooperation agreement with China-based Haier Group Company, and began constructing an additional sophisticated manufacturing facility for a joint venture of MHI and Haier to boost that company's production capacity and manufacturing productivity.

Thus, despite facing harsh conditions in its operating environment during the fiscal year, MHI moved forward steadily with measures designed to strengthen operations in core business fields, enter promising new fields, and initiate the marketing of innovative new products.

Outlook

Signs of an improvement in the U.S. economy have led to expectations of a recovery in Japanese exports. In light of projections that public and private capital investments will remain at low levels, however, it is generally believed that more time will be required before the Japanese economy can muster a full-scale recovery.

Amid this environment, MHI anticipates that it will continue to face harsh operating conditions, as the businesses that have traditionally been principal profit sources are in markets not expected to show appreciable growth. In view of this forecast, the Company will be seeking to survive in domestic as well as global markets by equipping itself with overwhelmingly superior technological strengths that will generate competitive advantages even in the harshest operating environments. We expect these strengths and capabilities for precisely tailoring products and services to customer requirements to become increasingly important.

In December 2001, MHI completed the drafting of a new medium-term management plan (the 2002 Business Plan), which is principally aimed at helping further enhance the Company's profitability.

The new plan places strategic emphasis on four business fields—energy, transportation and distribution, society and the environment, and services—and it provides for R&D programs and the concentration of personnel and other management resources with an eye toward promoting the growth of operations in each field. In the energy field, MHI is developing innovative new types of gas turbines and wind turbines and expanding the scope of related business overseas. Regarding transportation and distribution, the Company is working to augment business related to civil aircraft and transportation systems. Among MHI's moves in the society and the environment field are those to market environmental protection equipment and to new engines that harmonize with exhaust gas regulations.

Not expecting most domestic markets to grow appreciably in the near future, MHI is working to further expand its export and overseas business. Accordingly, the Company established the Global Strategic Planning & Operations Headquarters, which has strengthened our capabilities for comprehensively addressing such tasks as drafting overseas business strategies, creating networks of overseas bases, arranging for collaboration with overseas companies, and managing the attendant risks. Special strategic emphasis is being placed on China, and MHI is considering augmenting its marketing and manufacturing presence there, particularly in the Mass and Medium-Lot Manufactured Machinery division.

MHI is taking a variety of initiatives regarding new technologies, products, and business fields. Just to give a few examples, in the energy field the Company is working to boost turbine efficiency, devise large-scale wind power generation systems, and create alternative fuel utilization technologies. Among our efforts in transportation and distribution, MHI is endeavoring to expand the scale of intelligent transport systems (ITS). In the society and the environment field, MHI is proceeding with the development of next-generation stoker furnaces. MHI is also implementing measures to boost the cost-competitiveness of the Mass and Medium-Lot Manufactured Machinery division's operations, which include moves aimed at cutting materials costs and boosting the efficiency of administrative departments.

While maintaining MHI's traditional dedication to ensuring customer satisfaction through the supply of dependable products and services, the Company intends to increase the scale and profitability of our operations by implementing marketing operations oriented toward global markets and steadily progressing with the development of innovative new products and services.

Although MHI currently faces an extremely challenging operating environment, MHI believes the methodical implementation of the strategies just described will generate positive results. MHI hopes that shareholders will continue to favor the Company with their understanding and cooperation.

Aiming to further increase our communication with customers and shareholders, the Company established the Corporate Communication Department in April 2002.

N. Masuda

Nobuyuki Masuda, Chairman

T. Nishioka

Takashi Nishioka, President

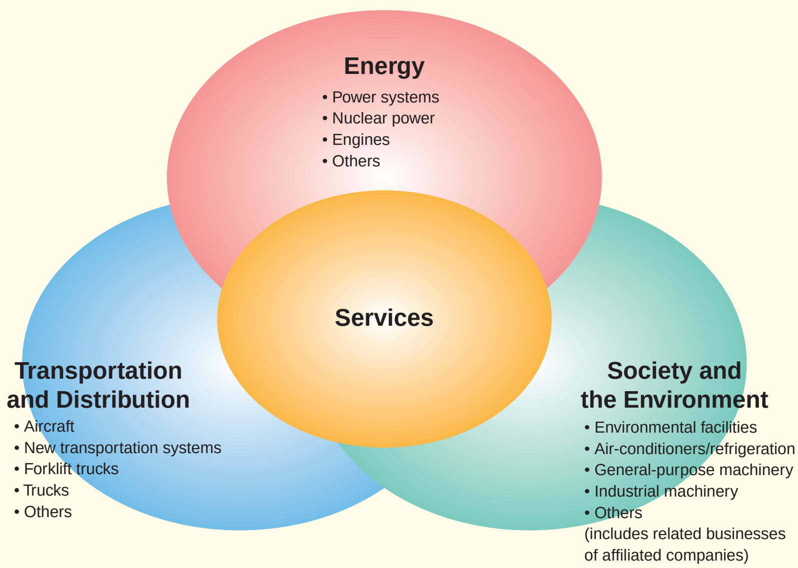
2002 Business Plan

Quantitative Targets (Consolidated)

(In billions of yen)

	1999 (actual)	2000 (actual)	2001 (actual)	2005 (2002 business plan)
Orders received	¥2,349.8	¥2,640.3	¥2,424.9	¥3,100
Net sales	2,875.0	3,045.0	2,864.0	3,000
Operating income	(23.7)	74.8	78.6	170
Ordinary income	(89.5)	63.2	67.9	150
Interest-bearing debt	1,205.3	1,090.6	1,049.9	1,000

Concentrating Resources on Growing Businesses and Markets: Four Major Areas



New Technologies for New Markets

Sector	Next-generation product technology (2005)	Next-generation product technology (2010)
Energy	• Higher efficiency turbines • High-efficiency cogeneration systems • Larger wind turbines • Low-cost solar cells	• Fuel cells • Next-generation nuclear reactors • Petroleum replacement fuels • CO_2 recovery and storage
Transportation and Distribution	• Low-cost composite material aircraft • ITS*1 (post-ETC*2 technology) • Harbor transportation systems	• Ultra-high-speed aircraft • Panamax passenger ships • Low-cost, highly reliable rockets • High-speed linear-motor railroad cars
Society and the Environment	• Next-generation stoker furnaces • Energy conservation systems • Much larger size/Higher reliability/Higher quality Higher precision/Higher speed/Higher performance	• Solutions for quality water sources • Digital network technology • IT-based automation to boost productivity • AI-based robots with human-like capabilities

*1 ITS: Intelligent Transport Systems
*2 ETC: Electronic Toll Collection

Review of Operations

Review of Operations

Shipbuilding & Ocean Development

LNG Carrier "LAKSHMI"

Car Ferry "NEW RAINBOW LOVE"

Container Ship "HATSU EXCEL"

During the fiscal year, competition with Korean shipbuilders for new orders intensified further, as the Korean companies operated large-scale facilities at full capacity and increased their work forces to boost production volume. This situation, combined with the general slackness of economic conditions worldwide and the difficulty of forecasting future developments, increased prospective order postponements and cancellations during the latter half of the fiscal year. Amid these circumstances, MHI conducted marketing operations centered on high-value-added vessels, which the Company is particularly adept at constructing. However, new orders were received for only 14 vessels (All figures in this section exclude vessels of less than 100 gross tons), including three LNG carriers, three LPG carriers, two car ferries, two missile ships for the Japan Defense Agency, and four other types of vessels, including container carriers and pure car carriers. Consequently, the aggregate value of new orders decreased to ¥168.1 billion (US$1,262 million), and the Company's outstanding orders for vessels decreased to comprise 40 vessels totaling approximately 2,090 thousand gross tons. As 17 new vessels were delivered to customers, net sales for the period under review amounted to ¥290.0 billion (US$2,177 million), roughly equivalent to the level in the previous fiscal year.

Power Systems

Mountain View Wind Power Project (USA)

Chihuahua Combined Cycle Power Plant (Mexico)

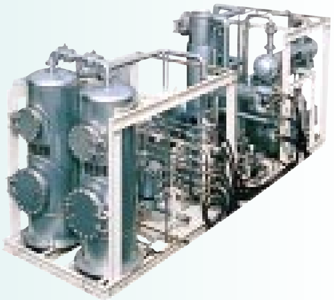
Solid Polymer Electrolyte Water Electrolyzer

The domestic operating environment was severe, reflecting a continued decrease in the capital investments of power companies. Moreover, MHI was not able to obtain a new nuclear power plant order as it did in the previous fiscal year, and the number of orders for upgrading, refurbishing, and repairing existing power plants was relatively low. Thus, the value of new orders was down. The Company obtained orders for gas turbine combined cycle power plants in Singapore, Malaysia, Egypt, and Hong Kong as well as for gas turbines and other facilities in the United States. It was also able to increase its new orders for marine machinery, principally those for LNG carriers. However, the U.S. economic downturn following the September 11 incidents led to the postponement of some gas turbine combined cycle power plant contracts that were under discussion. This and other factors kept the value of new overseas orders below the level in the previous fiscal year. Thus, the total value of new orders in the Power Systems division declined to ¥596.1 billion (US$4,473 million). Although domestic sales of industrial-use boilers and turbines increased, a considerable drop in overseas sales of boilers and turbines caused net sales to total ¥899.7 billion (US$6,752 million), approximately the same level as in the previous fiscal year.

Machinery & Steel Structures

LNG In-ground Storage Tank

Automated People Mover



Mobile Unit of Solvent Extraction System for Oil & PCBs* Contaminated-Soil Remediation (*Polychlorinated Biphenyles)

Container Handling Quayside Crane

Regarding machinery business in Japan, the value of new orders was negatively affected by a drop in waste treatment facilities but was higher than in the previous fiscal year due to new orders such as those for a large-scale LNG storage and receiving terminal and a large-scale testing facility. Despite robust overseas orders for iron and steel manufacturing machinery, waste treatment facilities, compressors, and mechanical drive turbines, the overall value of new machinery orders overseas decreased from an unusually high level in the previous fiscal year that had reflected the receipt of an order for a high-speed rail system in Taiwan. Consequently, the aggregate value of new machinery orders was ¥285.4 billion (US$2,141 million), approximately the same level as in the previous fiscal year. Drops in net sales from large projects—such as those involving chemical plants, flue gas desulfurization systems, and other exhaust gas treatment facilities—were the principal factor causing the Company's net sales of machinery to fall considerably, to ¥285.1 billion (US$2,139 million).

With regard to steel structures operations, the continued reconsideration of orders for public works projects and the restraint of private-sector capital investment created a harsh operating environment. Although bridge-related orders dropped due to the spending restraints of local governments in Japan, major orders were received in Japan for large-scale LNG storage tanks, and large orders were obtained overseas for cultural, sports, and leisure facilities as well as for cranes. As a result, the total value of new steel structures orders grew to ¥138.8 billion (US$1,042 million). Reflecting the drop in bridge-related sales, overall net sales of steel structures was ¥144.9 billion (US$1,088 million), approximately the same level as in the previous fiscal year.

Aerospace

Bombardier Continental Business Jet (Wing)
(Courtesy of Bombardier)

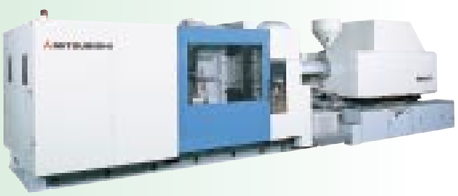
SH-60JKAI Shipboard Maritime Patrol Helicopter (TRDI)

H-IIA Rocket (Courtesy of NASDA)

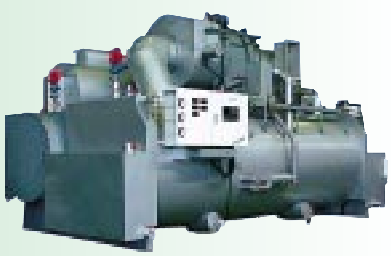
Demand for commercial sector airplane products was slack following the September 11 incidents. MHI obtained new orders such as those for the main wings and other components of Canada-based Bombardier's Global 5000 business jet, which was developed based on the Global Express business jet, but the overall level of new orders decreased, largely due to a drop in orders for the fuselage and rear stabilizer portions of the Dash 8-Q400 regional turboprop aircraft. With regard to defense-related aircraft, the Japan Defense Agency's budget for frontline equipment continued to show a downward trend. This was reflected in a drop in MHI's new orders for patrol helicopters, but the Company's new orders for F-2 support fighters grew due to a rise in the number of such aircraft. As a result, the total value of new orders for aerospace products was ¥447.3 billion (US$3,357 million), an increase from the previous fiscal year. Although sales of aft fuselage and other components for Boeing 777 transport rose, factors that included a drop in the number of F-2 support fighters delivered caused net sales to decrease to ¥472.0 billion (US$3,542 million).

Mass and Medium-Lot Manufactured Machinery

Mitsubishi Cogeneration Package Lean Burn Miller Cycle Gas Engine



Mitsubishi Electric Injection Molding Machine em Series



Centrifugal Liquid Chiller "NART"

Vertical Machining Center ∑ Series "M-V50"

With respect to general machinery and special vehicle operations, orders for turbochargers increased, reflecting strong demand for MHI's products in Korea and Europe. Because of the slack economic conditions in Japan and overseas, however, orders for small and medium-sized engines decreased and North American and European orders for forklift trucks remained low. As a result, new orders and net sales in general machinery and special vehicle operations both declined slightly from the previous fiscal year, amounting to ¥287.6 billion (US$2,158 million) and ¥294.8 billion (US$2,212 million), respectively.

In air-conditioning and refrigeration systems operations, competition in residential air-conditioner markets led to lower prices that depressed the Company's residential air-conditioner orders, while sluggish sales of commercial-use air-conditioners and automotive thermal systems reduced orders for those products. Consequently, the total value of new orders and net sales in air-conditioning and refrigeration systems operations decreased from the previous fiscal year, to ¥211.0 billion (US$1,583 million) and ¥200.8 billion (US$1,507 million), respectively.

Regarding industrial machinery operations, MHI concluded numerous large contracts for the supply of extrusion-molding machines to China, where demand for such equipment is robust, but weak domestic demand depressed orders for paper converting machinery. Demand for IT-related products plummeted both in Japan and overseas, and North American demand for machine tools and injection-molding machines did not recover from a drop that occurred after the September 11 incidents. As a result, total new industrial machinery operations orders decreased to ¥177.2 billion (US$1,330 million). Despite higher sales of such products as extrusion-molding machines and sheet-fed offset presses, decreases in sales of such products as injection-molding machines and paper converting machinery brought net sales down to ¥201.4 billion (US$1,511 million).

JEM Pressurized Module

Completion of the JEM* Pressurized Module (PM) of the International Space Station

A total of 16 countries—including Japan, the United States, Western European countries, and Russia—are cooperatively building the International Space Station in an orbit 400 kilometers from earth. In September 2001, construction of JEM pressurized module for the space station, was completed at the Nagoya Aerospace Systems Works and transported to Tsukuba Space Center of NASDA*.

This pressurized module is 11.2 meters long and 4.4 meters in diameter, and it is designed to support two astronauts in conducting various scientific experiments.

At the Tsukuba Space Center, PM, attached with other Japanese-developed elements such as the Exposed Facility, has been undergoing a series of integrated tests since October 2001. When that work is completed, the module will be transported to the Kennedy Space Center in the United States, where the final check out and pre-launch preparations will be conducted. PM is scheduled to be launched by the Space Shuttle to the International Space Station in the year 2004 or thereafter.

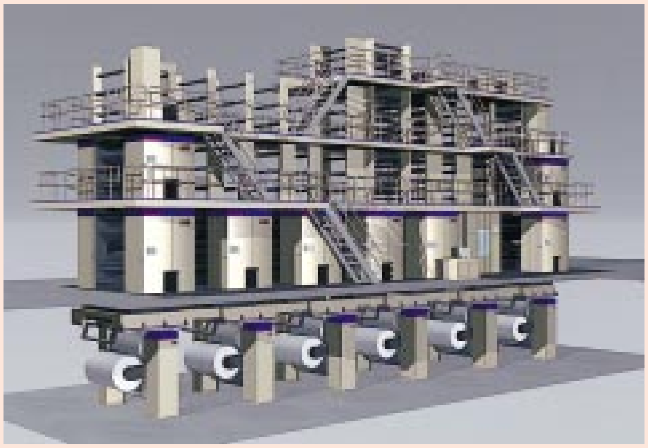
*JEM: Japanese Experimental Module nicknamed “Kibo”

*NASDA: National Space Development Agency of Japan

Development of the World’s Fastest Newspaper Offset Press

In March 2002, MHI completed the development of the DIAMONDSTAR 90 newspaper offset press, the fastest such double-width press in the world. The new DIAMONDSTAR achieves a maximum printing speed of up to 180,000 copies per hour (ie. 90,000 impression per hour).

While retaining the stable and high-quality printing capabilities of MHI's earlier newspaper offset press models, the DIAMONDSTAR is rated at 30% faster. This increased speed capacity will allow newspaper readers to enjoy more of the latest news.



Newspaper Offset Press “DIAMONDSTAR 90”

Capitalizing on the special advantages afforded by the shaftless drive system, including individual drive motors at each printing couple, MHI has designed the DIAMONDSTAR to achieve shorter makeready times, reduced paper waste, and quieter operations. The DIAMONDSTAR also features an ergonomically designed press control station with innovative display panels for easier operation.

Entertainment Robots

Creation of Entertainment Robot

MHI has developed the world's first mobile entertainment robots, which use artificial intelligence capabilities to handle diverse performances. The robots were delivered to Kobe Science Museum in February 2002. The two robots—a "male" robot called Yu-kun and a "female" robot called Ai-chan—are 140 centimeters tall.

After inputting data on people's appearance from integral cameras, Yu-kun and Ai-chan sing songs and converse in the local Kobe dialect while using their six-jointed arms to sketch portraits. They can also play the "rock-scissors-paper" game with their hands and dance rhythmically.

Construction of Mass Manufacturing Plant for Solar-Cells

Solar energy has attracted increasing attention as an environment-friendly form of energy. In February 2001, MHI completed a facility for the mass manufacture of solar cells on the grounds of the Isahaya plant of its Nagasaki shipbuilding facility.

Solar Cell Production Plant

Compared with crystalline solar cells, MHI's amorphous solar cells can supply energy more inexpensively and are therefore expected to make a considerable contribution to environmental protection. The Company's solar cells are also the most efficient of their type in the world, with an 8% energy conversion capability.

The new plant has high-speed production equipment and is scheduled to begin producing solar cells with an annual production capacity of 10MW from fall 2002.

New Appellation for Employees with Exceptional Technical Expertise and Skills

MHI has established a new employee category of "chief engineer" to recognize and reward exemplary and irreplaceable employees who have exceptional expertise and skills in specified technical fields and who have made noteworthy contributions as well as to give young employees an additional occupational goal.

In addition, aiming to spotlight the technical skills that are the basis of superior manufacturing operations and demonstrate the Company's emphasis on superior technologies to those inside and outside the Company, MHI has established the new employee category of "master technician" for employees who have outstanding technical skills and craftsmanship, enthusiastically teach their skills and train next-generation technicians, and have exemplary characters.

In fiscal 2001, the first year of this new employee category system, 11 irreplaceable employees in various technical fields were made chief engineer and 17 outstanding employees were made master technicians.

Financial Section

Financial Section

Five-Year Summary

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

	In millions of yen except per share amounts					In thousands of U.S. dollars except per share amounts
	2002	2001	2000	1999	1998	2002
Net sales	¥2,863,985	¥3,045,024	¥2,875,039	¥2,907,762	¥3,096,110	$21,493,319
Operating income (loss)	78,655	74,889	(23,797)	65,308	144,259	590,281
Interest income and expenses—net	(9,407)	(7,708)	(7,607)	(3,386)	(2,608)	(70,602)
Income (loss) before income taxes	48,028	(5,121)	(217,672)	49,018	133,535	360,438
Net income (loss)	26,447	(20,351)	(137,006)	18,089	60,605	198,478
Per 100 shares of common stock:						
Net income (loss)—primary	¥784	(¥603)	(¥4,062)	¥536	¥1,797	$5.88
Net income —assuming full dilution	782	—	—	515	1,782	5.87
Cash dividends	400	400	250	1,000	1,000	3.00
Total assets	¥3,915,276	¥4,236,634	¥4,636,739	¥4,746,597	¥4,731,822	$29,382,935
Stockholders' equity	1,282,727	1,278,242	1,245,064	1,337,378	1,368,866	9,626,471
Current assets	2,598,526	2,891,271	3,474,015	3,638,867	3,549,382	19,501,136
Current liabilities	1,881,226	1,965,808	2,319,456	2,399,150	2,436,755	14,118,014
Bank loans and long-term debt	1,049,998	1,090,696	1,205,301	1,249,231	1,177,473	7,879,909

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Segment Information

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2002	2001	2002	2002	2001	2002
Shipbuilding & Ocean Development	¥ 290,043	¥ 293,797	$ 2,176,684	¥ 5,477	(¥4,101)	$ 41,100
Power Systems	899,712	900,388	6,752,058	31,558	29,026	236,836
Machinery & Steel Structures	430,043	541,286	3,227,338	9,574	8,415	71,847
Aerospace	472,002	522,211	3,542,232	33,376	32,871	250,479
Mass and Medium-Lot Manufactured Machinery	696,941	717,067	5,230,322	(8,247)	435	(61,889)
Others	121,023	121,547	908,243	6,917	8,243	51,908
Subtotal	2,909,764	3,096,296	21,836,877	78,655	74,889	590,281
Eliminations	(45,779)	(51,272)	(343,558)	—	—	—
Total	¥2,863,985	¥3,045,024	$21,493,319	¥78,655	¥74,889	$590,281

	Total Assets			Depreciation		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2002	2001	2002	2002	2001	2002
Shipbuilding & Ocean Development	¥ 258,974	¥ 280,144	$ 1,943,520	¥ 6,431	¥ 7,372	$ 48,260
Power Systems	881,199	1,022,611	6,613,125	22,421	23,649	168,262
Machinery & Steel Structures	498,582	545,634	3,741,707	9,308	10,072	69,855
Aerospace	703,437	677,766	5,279,076	14,633	15,765	109,818
Mass and Medium-Lot Manufactured Machinery	741,619	761,595	5,565,618	24,642	24,209	184,931
Others	274,835	300,242	2,062,550	18,527	18,285	139,041
Subtotal	3,358,646	3,587,992	25,205,596	95,962	99,352	720,167
Corporate Assets and Eliminations	556,630	648,642	4,177,339	—	—	—
Total	¥3,915,276	¥4,236,634	$29,382,935	¥95,962	¥99,352	$720,167

	Capital Expenditures		
	In millions of yen		In thousands of U.S. dollars
INDUSTRY SEGMENT	2002	2001	2002
Shipbuilding & Ocean Development	¥ 4,731	¥ 5,313	$ 35,506
Power Systems	26,360	16,237	197,825
Machinery & Steel Structures	9,244	7,834	69,372
Aerospace	18,089	12,022	135,755
Mass and Medium-Lot Manufactured Machinery	25,295	26,572	189,827
Others	26,051	28,483	195,505
Subtotal	109,770	96,461	823,790
Eliminations	—	—	—
Total	¥ 109,770	¥ 96,461	$ 823,790

Overseas Sales

Overseas Sales	¥1,018,770	¥1,173,064	$7,645,554
Ratio to Total Net Sales	35.6%	38.5%	

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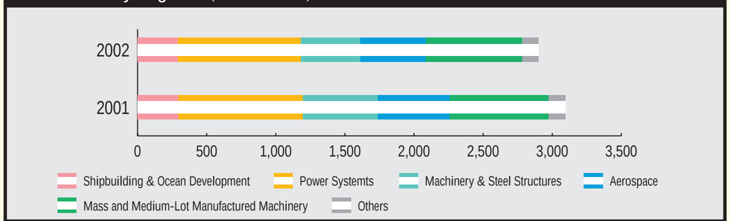
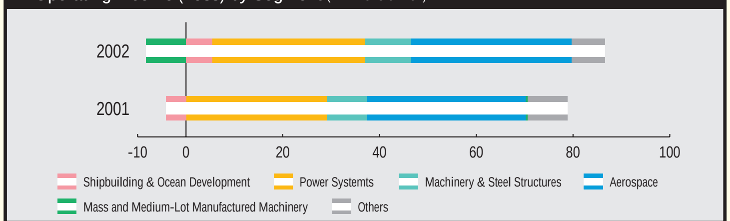
GEOGRAPHIC DISTRIBUTION	Net Sales			Operating Income (Loss)		
	In millions of yen		In thousands of U.S. dollars	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002	2002	2001	2002
Japan	¥2,674,973	¥2,908,382	$20,074,844	¥79,587	¥71,529	$597,273
North America	213,044	147,949	1,598,829	(4,733)	(585)	(35,519)
Asia	47,180	35,749	354,074	1,580	2,785	11,859
Western Europe	60,201	58,893	451,788	1,248	1,477	9,364
Others	8,774	7,806	65,847	973	(317)	7,304
Subtotal	3,004,172	3,158,779	22,545,382	78,655	74,889	590,281
Eliminations	(140,187)	(113,755)	(1,052,063)	—	—	—
Total	¥2,863,985	¥3,045,024	$21,493,319	¥78,655	¥74,889	$590,281

GEOGRAPHIC DISTRIBUTION	Total Assets		
	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Japan	¥3,056,963	¥3,378,563	$22,941,562
North America	216,274	126,563	1,623,067
Asia	30,277	26,343	227,217
Western Europe	48,591	47,785	364,664
Others	6,541	8,737	49,086
Subtotal	3,358,646	3,587,991	25,205,596
Corporate Assets and Eliminations	556,630	648,643	4,117,339
Total	¥3,915,276	¥4,236,634	$29,382,935

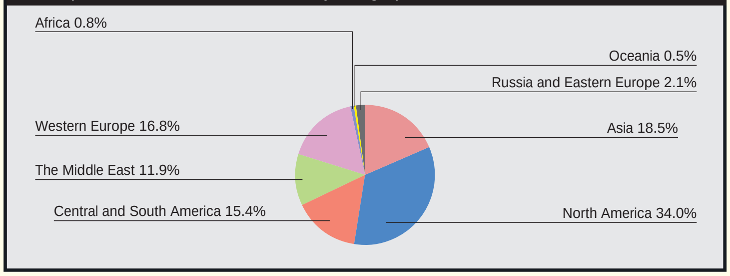
Net Sales by Segment (In Billions of Yen)



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



Composition of Overseas Net Sales by Geographic Distribution



Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

	In millions of yen		In thousands of U.S. dollars (Note 3)
ASSETS	2002	2001	2002
Current assets:			
Cash and deposits	¥ 221,287	¥ 203,055	$ 1,660,691
Trade receivables (Note 7):			
Notes	48,137	56,259	361,251
Accounts	1,044,140	1,019,906	7,835,950
Allowance for doubtful receivables	(9,531)	(6,549)	(71,526)
Securities	2,827	75,965	21,219
Inventories (Note 5)	1,039,519	1,290,684	7,801,265
Advances to suppliers	56,358	51,068	422,948
Deferred income taxes (Note 6)	101,197	87,527	759,450
Prepaid expenses and other current assets (Note 7)	94,592	113,356	709,888
Total current assets	2,598,526	2,891,271	19,501,136
Property, plant and equipment (Note 7):			
Land	139,862	138,612	1,049,619
Buildings and structures	641,298	633,817	4,812,747
Machinery and equipment	1,350,443	1,321,158	10,134,653
Construction in progress	25,999	17,368	195,117
	2,157,602	2,110,955	16,192,136
Less accumulated depreciation	1,399,537	1,355,183	10,503,089
Net property, plant and equipment	758,065	755,772	5,689,047
Investments and advances:			
Investments in unconsolidated subsidiaries and affiliates accounted for under the equity method of accounting	139,405	111,688	1,046,192
Long-term loans and advances	90,713	103,788	680,773
Investment securities	283,651	337,288	2,128,714
Deferred income taxes (Note 6)	40,258	32,680	302,120
Allowance for doubtful advances	(62,737)	(62,477)	(470,822)
Net investments and advances	491,290	522,967	3,686,977
Other assets	67,395	66,624	505,775
Total assets	¥3,915,276	¥4,236,634	$29,382,935

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	In millions of yen 2002	In millions of yen 2001	In thousands of U.S. dollars (Note 3) 2002
Current liabilities:			
Trade payables:			
Notes	¥ 83,591	¥ 143,851	$ 627,324
Accounts	610,403	599,431	4,580,889
Bank loans (Note 7)	339,172	340,047	2,545,378
Current portion of long-term debt (Note 7)	226,795	70,802	1,702,025
Advance payments received on contracts	394,099	552,023	2,957,591
Accrued expenses	126,397	117,541	948,569
Accrued income taxes	16,907	16,343	126,883
Allowance for losses on construction contracts	9,685	52,043	72,683
Other current liabilities	74,177	73,727	556,672
Total current liabilities	1,881,226	1,965,808	14,118,014
Long-term liabilities:			
Long-term debt (Note 7)	484,031	679,847	3,632,506
Reserve for retirement allowance (Note 8)	222,468	268,474	1,669,550
Other long-term liabilities	30,683	31,250	230,269
Total long-term liabilities	737,182	979,571	5,532,325
Total liabilities	2,618,408	2,945,379	19,650,339
Minority interests	14,141	13,013	106,125
Stockholders' equity:			
Common stock:			
Authorized—6,000,000,000 shares			
Issued:			
2002—3,373,646,980 shares	265,609		1,993,312
2001—3,373,027,082 shares		265,455	
Capital surplus	203,853	203,701	1,529,859
Retained earnings	759,773	747,614	5,701,858
Net unrealized gains on investment securities	63,204	78,269	474,333
Foreign currency translation adjustments	(9,696)	(16,797)	(72,768)
Treasury stock	(16)	—	(123)
Total stockholders' equity	1,282,727	1,278,242	9,626,471
Total liabilities, minority interests and stockholders' equity	¥3,915,276	¥4,236,634	$29,382,935

Consolidated Statements of Operations

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2002	2001	2002
Net sales	¥2,863,985	¥3,045,024	$21,493,319
Cost of sales	2,494,489	2,707,842	18,720,368
Gross profit	369,496	337,182	2,772,951
Selling, general and administrative expenses	290,841	262,293	2,182,670
Operating income	78,655	74,889	590,281
Non-operating income:			
Interest and dividend income	16,554	20,084	124,229
Equity in earnings of unconsolidated subsidiaries and affiliates	5,712	1,916	42,870
Foreign exchange gains	16	9,771	118
Other income	6,527	3,032	48,987
	28,809	34,803	216,204
Non-operating expenses:			
Interest expense	25,961	27,792	194,831
Other expenses	13,516	18,669	101,431
	39,477	46,461	296,262
Ordinary income	67,987	63,231	510,223
Gains on sales of fixed assets (Note 9)	2,887	5,731	21,667
Gains on sales of investment securities	2,641	9,901	19,816
Gains on contribution of investment securities to trust for retirement allowance	—	167,880	—
Gains on change in interest of affiliates	—	10,561	—
Valuation gains on long-term foreign currency receivables and payables	—	6,419	—
Losses on revaluation of investment securities (Note 10)	12,941	16,808	97,117
Business improvement and restructuring charges (Note 11)	12,546	4,346	94,151
Amortization of transition difference arising from initial adoption of the new accounting standard for retirement benefits	—	172,549	—
Equity in loss of affiliates	—	53,357	—
Provision for doubtful receivables	—	16,052	—
Losses on damage from natural disasters	—	5,732	—
Income (loss) before income taxes	48,028	(5,121)	360,438
Income taxes (Note 6)			
Current	29,346	24,101	220,231
Deferred	(8,420)	(9,939)	(63,188)
Minority interests in income after taxes	655	1,068	4,917
Net income (loss)	¥ 26,447	(¥20,351)	$ 198,478

	In yen		In U.S. dollars (Note 3)
Per 100 shares of common stock:	2002	2001	2002
Net income (loss)—primary	¥784	(¥603)	$5.88
Net income—assuming full dilution	782	—	5.87
Cash dividends	400	400	3.00

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	In millions of yen		In thousands of U.S.dollars (Note 3)
	2002	2001	2002
Common stock:			
Balance at beginning of year	¥ 265,455	¥ 265,452	$1,992,157
Conversion of convertible debentures (Note 12)	154	3	1,155
Balance at end of year	265,609	265,455	1,993,312
Capital Surplus:			
Balance at beginning of year	203,701	203,697	1,528,710
Conversion of convertible debentures (Note 12)	152	4	1,149
Balance at end of year	203,853	203,701	1,529,859
Retained earnings:			
Balance at beginning of year	747,614	775,915	5,610,611
Net income (loss)	26,447	(20,351)	198,478
Cash dividends (Note 12)	(20,239)	(8,433)	(151,890)
Increase in retained earnings at beginning of year by adding newly consolidated subsidiaries and companies accounted for by the equity method	5,951	483	44,659
Balance at end of year	759,773	747,614	5,701,858
Net unrealized gains on investment securities:			
Balance at beginning of year	78,269	—	587,387
Change during the period	(15,065)	78,269	(113,054)
Balance at end of year (Note 12)	63,204	78,269	474,333
Foreign currency transaction adjustments:			
Balance at beginning of year	(16,797)	—	(126,055)
Change during the period	7,101	(16,797)	53,287
Balance at end of year (Note 12)	(9,696)	(16,797)	(72,768)
Treasury stock:			
Balance at beginning of year	—	—	—
Change during the period	(16)	—	(123)
Balance at end of year	(16)	—	(123)
Total balance at end of year	¥1,282,727	¥1,278,242	$9,626,471

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	In millions of yen		In thousands of U.S. dollars (Note 3)
	2002	2001	2002
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 48,028	(¥5,121)	$ 360,438
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	95,962	99,352	720,167
(Decrease) in accrued severance indemnities	—	(226,214)	—
Increase (decrease) in reserve for retirement allowance	(46,071)	268,473	(345,752)
Interest and dividend income	(16,554)	(20,084)	(124,229)
Interest expense	25,961	27,792	194,831
Equity in earnings of unconsolidated subsidiaries and affiliates	(5,712)	51,442	(42,870)
Other non-operating income and expenses	9,532	24,955	71,536
(Increase) in receivables	(8,351)	(45,914)	(62,674)
Decrease in inventories and advances to suppliers	254,453	482,755	1,909,589
Decrease in investment securities due to contribution to trust for retirement allowance	—	31,671	—
(Increase) decrease in other assets	29,082	(43,520)	218,248
Increase (decrease) in payables	(54,324)	47,375	(407,685)
(Decrease) in advance payments received on contracts	(163,041)	(330,475)	(1,223,572)
(Decrease) in long-term payables for pension expense	—	(96,582)	—
Increase (decrease) in other liabilities	(34,575)	5,351	(259,473)
Others	2,797	11,936	20,994
Subtotal	137,187	283,192	1,029,548
Interest and dividend received	18,032	20,311	135,321
Interest paid	(26,792)	(28,110)	(201,065)
Payments for income taxes	(29,310)	(4,063)	(219,963)
Payments for other non-operating income and expenses	—	(17,197)	—
Net cash provided by operating activities	99,117	254,133	743,841
Cash flows from investing activities:			
Net decrease in time deposits	2,215	3,580	16,625
Proceeds from sales and redemption of marketable securities and investments	586	1,604	4,400
Purchases of property, plant, equipment and intangible assets	(103,002)	(100,339)	(772,998)
Proceeds from sales of property, plant, equipment and intangible assets	7,875	7,474	59,097
Proceeds from sales and redemption of investment securities	4,616	18,554	34,640
Proceeds from sales of subsidiaries' stock resulting in change in consolidation	—	258	—
Disbursement of long-term loans	(11,793)	(9,304)	(88,500)
Collection of long-term loans	13,185	6,591	98,947
Others	(3,220)	(4,579)	(24,167)
Net cash used in investing activities	(89,538)	(76,161)	(671,956)
Cash flows from financing activities:			
Net (decrease) in bank loans	(6,171)	(74,295)	(46,314)
Proceeds from long-term debt	30,959	48,225	232,335
Repayment of long-term debt	(72,687)	(100,947)	(545,494)
Proceeds from issuance of bonds	—	5,392	—
Dividends paid to stockholders	(20,154)	(8,423)	(151,247)
Dividends paid to minority stockholders of subsidiaries	(880)	(1,094)	(6,606)
Others	(529)	(106)	(3,966)
Net cash used in financing activities	(69,462)	(131,248)	(521,292)
Effect of exchange rate changes on cash and cash equivalents	5,897	(2,873)	44,253
Net increase (decrease) in cash and cash equivalents	(53,986)	43,851	(405,154)
Cash and cash equivalents at beginning of year	243,376	199,525	1,826,464
Increase in cash and cash equivalents by adding newly consolidated subsidiaries	328	—	2,461
Cash and cash equivalents at end of year (Note 13)	¥189,718	¥243,376	$1,423,771

See accompanying notes to consolidated financial statements.

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

1. Summary of Significant Accounting Policies

a) Basis of presenting consolidated financial statements

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

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

b) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2002 and 2001 include the accounts of MHI and Subsidiaries. All significant inter-company transactions and accounts have been eliminated. Investments in unconsolidated subsidiaries and affiliates, with certain minor exceptions, are accounted for by the equity method.

c) Foreign currency translation

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

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

Effective the year ended March 31, 2001, MHI and Subsidiaries adopted a revised accounting standard for foreign currency transactions ("Opinion Concerning the Establishment of Accounting Standards for Foreign Currency Transactions" issued by the Business Accounting Deliberation Council ("BADC") on October 22, 1999). As a result, long-term monetary receivables and payables in foreign currencies, which had formerly been translated into yen at the average exchange rates during previous month of the respective transactions, have been translated into yen at the exchange rate in effect at the fiscal year end. The translation gain resulting from this change was ¥6,419 million and accounted for as an extraordinary income for the year ended March 31, 2001.

d) Securities

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

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

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

Effective the year ended March 31, 2001, MHI and Subsidiaries have adopted a new accounting standard for financial instruments ("Opinion Concerning the Establishment of Accounting Standards for Financial Instruments" issued by the BADC on January 22, 1999) and have changed its method of valuation of securities.

In accordance with this new accounting standard, accounting for securities with market prices listed on securities exchanges, which were stated at the lower of cost or market in previous years, has been changed to a method based on market value. Under the new method, the difference between the acquisition cost and the carrying value is recognized and ¥78,269 million, net of tax effect, was accounted for as a separate component of stockholders' equity.

e) Inventories

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

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

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

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

f) Property, plant and equipment and depreciation

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

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

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

g) Leases

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

h) Allowance for doubtful receivables

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

Effective the year ended March 31, 2001, as a result of the adoption of a new accounting standard for financial instruments, MHI and Subsidiaries have changed its method of estimating the allowance for doubtful receivables. In accordance with this new accounting standard, MHI and Subsidiaries recognized ¥16,052 million as an extraordinary expense on its provision for doubtful accounts which was established as a new classification of receivables for the year ended March 31, 2001.

i) Allowance for losses on construction contracts

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

If the costs of partially completed construction contracts (of the construction contracts covered by the allowance for losses on construction contracts at March 31, 2001 and 2002) exceed their respective contract revenues at the end of year, the excess of such costs is recognized as a loss on revaluation of partially completed construction contracts and, accordingly, is not included in the allowance for losses on construction contracts.

j) Reserve for retirement allowance

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

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

Effective the year ended March 31, 2001, MHI and Subsidiaries adopted a new accounting standard for retirement benefits ("Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits" issued by BADC on June 16, 1998). MHI and Subsidiaries had, in general, provided for the amount equivalent to 40% of the liabilities which would be required if all employee voluntarily terminated their service at the balance sheet date, as accrued severance indemnities. In the initial adoption of this new accounting standard, MHI and Subsidiaries recognized the whole of transition difference of ¥172,549 million as an extraordinary expense for the year ended March 31, 2001.

k) Revenue recognition

Sales of products are principally recognized upon acceptance by customers. Revenue from long-term contracts with amounts over ¥10,000 million (US$75,047 thousand) each [over ¥5,000 million (US$37,523 thousand) as to aerospace contracts, and over ¥15,000 million (US$112,570 thousand) as to contracts started before fiscal year 2000] and a contract period of two years or longer, is recognized on the basis of the percentage-of-completion method.

The percentage-of-completion method had been applied to contracts with amounts over ¥15,000 million (US$112,570 thousand) each and a contract period of two years or longer before the year ended March 31, 2001. However, since the proportion of long-term contracts has been, and is expected to continue to be high for MHI and Subsidiaries, the criteria for the use of this method have been revised for the year ended March 31, 2002, in order to ensure more appropriate appointment of incomes between fiscal years.

The effect of this change was to increase sales by ¥3,821 million (US$28,675 thousand), and both ordinary income and income before income taxes by ¥460 million (US$3,455 thousand) for the year ended March 31, 2002.

l) Tax-effect accounting

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

m) Cash and cash equivalents

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

n) Net income (loss) per share

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

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

2. Differences with International Accounting Standards

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

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

Scope of consolidation

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

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

Inventories

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

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

Reserve for retirement allowance

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

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

Lease

Under IAS No.19, lessees should recognize finance leases as assets and liabilities in their balance sheets and lessors should recognize assets as receivables held under a finance lease in their balance sheets.

In MHI and domestic Subsidiaries, leases, except those which transfer ownership to the lessee, have been treated in the same way as operating leases. However, lease transactions of foreign Subsidiaries are accounted for as either finance leases or operating leases in conformity with generally accepted accounting principles and practices in the respective countries of domicile. Even if IAS No. 19 had been applied, the difference would not have been material as stated in Note 14.

Revenue recognition and expected losses for construction contracts

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

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

Impairment of assets

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

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

Business combinations

MHI and Subsidiaries have not had such activities as should be accounted for under IAS No. 22, during the years ended March 31, 2001 and 2002.

Discontinuing operations

MHI and Subsidiaries have not had such occurrences as should be accounted for under IAS No. 35, during the years ended March 31, 2001 and 2002.

3. U.S. Dollar Amounts

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

As the amounts shown in U.S. dollars are for convenience only, the rate of ¥133.25=U.S.$1 prevailing at March 29, 2002 has been used for the purpose of the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Securities

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

	In millions of yen			In thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
i) Carrying amounts over acquisition costs:						
Equity securities	¥113,110	¥213,576	¥100,466	$ 848,854	$1,602,823	$753,969
Bonds and Debentures Bonds	242	368	125	1,819	2,761	941
Others	2,276	2,302	26	17,079	17,272	194
	¥115,628	¥216,246	¥100,617	$ 867,752	$1,622,856	$755,104
ii) Acquistion costs over carring amounts:						
Equity securities	¥ 48,151	¥ 45,513	(¥2,638)	$ 361,362	$ 341,563	($19,799)
	¥163,779	¥261,759	¥ 97,979	$1,229,114	$1,964,419	$735,305

MHI and Subsidiaries treated securities whose market values showed a substantial decline and were not judged to recover, as impaired. The amount reflecting the impairment loss is recorded as the acquisition cost for these securities. Securities were judged as impaired when their market values had declined 50% or more from their book values at March 31, 2002, or had declined between 30% and 50% from their book values both at September 30, 2001 and March 31, 2002.

The amount of impairment losses for the year ended March 31, 2002 amounted to ¥11,925 million (US$89,490 thousand) with respect to securities with market value classified as other securities.

b) Sales amounts of other securities and related gains and losses for the year ended March 31, 2002, were as follows:

	In millions of yen			In thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
	¥389,144	¥2,674	(¥9)	$2,920,405	$20,066	($65)

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

	In millions of yen	In thousands of U.S. dollars
Equity securities—unlisted	¥23,396	$175,581
Foreign bonds—unlisted	5,000	37,524
Negotiable certificate of deposits (“CD”)	2,320	17,411

MHI and Subsidiaries treated as impaired those securities whose real values were judged to have declined 50% or more from their book values due to financial difficulties of the issuers. The amount of impairment loss for the year ended March 31, 2002 amounted to ¥554 million (US$4,156 thousand) with respect to other securities without market value.

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

	In millions of yen			In thousands of U.S. dollars		
	Due within one year	Due after one year through five years	Due after five years	Due within one year	Due after one year through five years	Due after five years
CD	¥2,330	¥ —	¥ —	$17,491	$ —	$ —
Bonds and Debentures						
Bonds	—	—	368	—	—	2,761
Debentures	359	2,100	—	2,691	15,759	—
Others	148	431	—	1,111	3,234	—
	¥2,837	¥2,531	¥368	$21,293	$18,993	$2,761

5. Inventories

Inventories at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Finished products	¥ 125,273	¥ 120,140	$ 940,136
Work in process	859,017	1,116,946	6,446,651
Raw materials	55,229	53,598	414,478
	¥1,039,519	¥1,290,684	$7,801,265

6. Income Taxes

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

Significant components of deferred tax assets and liabilities at March 31, 2002 and 2001, which arose as a result of the recognition of the tax effect mentioned in Note 1 l), were as follows:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Reserve for retirement allowance	¥125,070	¥133,800	$ 938,610
Accrued expenses for construction contracts	21,900	20,896	164,350
Accrued expenses for product warranty	19,192	—	144,027
Allowance for doubtful receivables	16,959	14,281	127,274
Accrued bonuses to employees	16,410	—	123,153
Allowance for losses on construction contracts	4,307	22,854	32,323
Others	65,092	59,081	488,502
Subtotal	268,930	250,912	2,018,239
Valuation allowance	(7,582)	—	(56,904)
Total gross deferred tax assets	261,348	250,912	1,961,335
Deferred tax liabilities:			
Gains on contribution of investment securities to trust for retirement allowance	(70,640)	(71,118)	(530,131)
Net unrealized gains on investment securities	(42,485)	(55,755)	(318,840)
Reserve for reduction in costs of fixed assets	(4,839)	—	(36,314)
Others	(2,663)	(3,832)	(19,983)
Total gross deferred tax liabilities	(120,627)	(130,705)	(905,268)
Net deferred tax assets	¥140,721	¥120,207	$1,056,067

Note: Net deferred tax assets and liabilities at March 31, 2002 and 2001 are reflected in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Deferred income taxes in current assets	¥101,197	¥87,527	$759,450
Deferred income taxes in investments and advances	40,258	32,680	302,120
Other current liabilities	25	—	185
Other long-term liabilities	709	—	5,318

7. Bank Loans and Long-Term Debt

Bank loans represented principally by notes payable to banks and bank loans at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Secured	¥ 17,974	¥ 18,362	$ 134,888
Unsecured	321,198	321,685	2,410,490
	¥339,172	¥340,047	$2,545,378

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Loans, principally from banks and insurance companies, due 2002 to 2022 with interest ranging from 0.29% to 8.0%:			
Secured	¥ 29,505	¥ 27,118	$ 221,424
Unsecured	306,325	338,051	2,298,874
Debenture bonds due 2002 to 2008 with interest ranging from 1.48% to 6.5%	310,000	310,000	2,326,454
2.1% convertible bonds due 2001	—	753	—
Unsecured bonds due 2005 to 2007 with interest ranging from 8.29% to 8.39% by a consolidated subsidiary	6,597	5,738	49,512
Export loans received from main contractors, due 2002 to 2010 with interest ranging from 1.9% to 7.6%	58,399	68,989	438,267
	710,826	750,649	5,334,531
Less current portion due within one year	226,795	70,802	1,702,025
	¥484,031	¥679,847	$3,632,506

A summary of assets pledged as collateral for bank loans and long-term debt at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Property, plant and equipment	¥17,000	¥17,561	$127,582
Trade receivables:			
Notes	8,750	7,969	65,664
Accounts	8,052	9,449	60,426
Short-term loans included in prepaid expenses and other current assets	6,673	8,462	50,081
	¥40,475	¥43,441	$303,753

The aggregate annual maturities of long-term debt at March 31, 2002 were as follows:

	In millions of yen	In thousands of U.S. dollars
2002	¥226,795	$1,702,025
2003	159,172	1,194,538
2004	94,033	705,685
2005	59,599	447,270
2006	26,087	195,773
2007 and thereafter	145,140	1,089,240
	¥710,826	$5,334,531

8. Retirement Benefits

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

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

a) Benefit obligations and related information at March 31, 2002 and 2001 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Benefit obligations	(¥762,796)	(¥757,556)	($5,724,547)
Fair value of plan assets	380,697	417,830	2,857,014
Unfunded benefit obligations	(382,099)	(339,726)	(2,867,533)
Unrecognized transition difference	—	—	—
Unrecognized actuarial loss	159,908	71,562	1,200,058
Unrecognized prior service cost (benefit)	(265)	(310)	(1,989)
Net benefit liability recognized on the consolidated balance sheet	(222,456)	(268,474)	(1,669,464)
Prepaid pension expense	12	—	86
Reserve for retirement allowance	(¥222,468)	(¥268,474)	($1,669,550)

b) Benefit expenses for the years ended March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Service cost	¥29,219	¥ 30,092	$219,281
Interest cost	22,363	22,120	167,828
Expected return on plan assets	(11,246)	(11,829)	(84,399)
Amortization of transition difference	—	172,549	—
Amortization of unrecognized actuarial loss	5,690	—	42,700
Amortization of unrecognized service cost (benefit)	2,591	(2)	19,449
Net benefit expenses	¥48,617	¥212,930	$364,859

c) The principal assumptions used in determining the information above at March 31, 2002 and 2001 were as follows:

		2002	2001
Discount rate		3.0%	3.0%
Rate of return on assets		4.0%	4.0%
Amortization period for prior service cost	MHI	Expensed as incurred	
	Subsidiaries	11 years	
Amortization period for actuarial gain/loss	MHI	13 years	
	Subsidiaries	11~20 years	

9. Gains on Sales of Fixed Assets

Gains on sales of fixed assets for the year ended March 31, 2002 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Land	¥2,887	$21,667
	¥2,887	$21,667

10. Losses on Revaluation of Investment Securities

Losses on revaluation of investment securities for the year ended March 31, 2002 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Devaluation of securities	¥12,467	$93,560
Devaluation of golf club membership	474	3,557
	¥12,941	$97,117

11. Business Improvement and Restructuring Charges

Business improvement and restructuring charges for the year ended March 31, 2002 consisted of the following:

	In millions of yen	In thousands of U.S. dollars
Losses on disposal and devaluation of inventories	¥ 8,053	$60,436
Expenses for prior service cost relating to the establishment of the early retirement plan	2,580	19,361
Others	1,913	14,354
	¥12,546	$94,151

12. Stockholders' Equity

a) Common stock

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

b) Capital surplus

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

c) Retained earnings

Cash dividends are recorded in the financial year in which the appropriations of retained earnings are approved by meeting of the Board of Directors and/or Stockholders.

d) Net unrealized gains on investment securities

The accounting policy of this account is described in Note 1 d). In the years ended March 31, 2001 and 2002, the valuation differences recognized were ¥130,462 million and ¥104,191 million (US$781,920 thousand) respectively, and, net of tax effect, ¥78,269 million and¥63,204 million (US$ 474,333 thousand) were accounted for on the balance sheet of the respective year ends.

e) Foreign currency translation adjustments

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

13. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Cash and deposits	¥221,287	¥203,055	$1,660,691
Time deposits with maturities over three months	(34,059)	(35,987)	(255,607)
Short-term investments with maturities within three months included in marketable securities	2,320	75,019	17,411
Short-term investments with maturities within three months included in prepaid expenses and other current assets	170	1,289	1,276
	¥189,718	¥243,376	$1,423,771

14. Leases

a) As lessee

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

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Equivalent of acquisition cost:			
Tools and equipment	¥15,596	¥16,098	$117,046
Others	3,249	4,646	24,382
	¥18,845	¥20,744	$141,428
Equivalent of accumulated depreciation:			
Tools and equipment	¥ 8,394	¥ 8,418	$ 62,995
Others	2,016	2,902	15,131
	¥10,410	¥11,320	$ 78,126
Equivalent of balance at the balance sheet date:			
Tools and equipment	¥ 7,202	¥ 7,680	$ 54,051
Others	1,233	1,744	9,251
	¥ 8,435	¥ 9,424	$ 63,302

ii) The equivalent of undue lease payments (including interest portion) at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Within one year	¥3,447	¥3,893	$25,868
Thereafter	4,988	5,531	37,434
	¥8,435	¥9,424	$63,302

iii) Lease payments (the equivalent of depreciation expenses)

Lease payments relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Lease payments	¥4,205	¥4,471	$31,557

iv) Method of computing the equivalent of depreciation expenses

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

b) As lessor

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

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Acquisition cost:			
Machinery and equipment	¥64,516	¥70,555	$484,175
Others	3,339	3,993	25,055
	¥67,855	¥74,548	$509,230
Accumulated depreciation:			
Machinery and equipment	¥26,648	¥30,294	$199,990
Others	1,344	1,627	10,078
	¥27,992	¥31,921	$210,068
Balance at the balance sheet date:			
Machinery and equipment	¥37,868	¥40,261	$284,185
Others	1,995	2,366	14,977
	¥39,863	¥42,627	$299,162

ii) Undue lease income (including interest portion), at March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Within one year	¥13,356	¥13,274	$100,230
Thereafter	33,705	34,676	252,950
	¥47,061	¥47,950	$353,180

iii) Lease income and depreciation expenses

Lease income and depreciation expenses relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2002 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Lease income	¥14,369	¥14,405	$107,835
Depreciation expenses	13,147	12,090	98,667

15. Contingent Liabilities

Contingent liabilities for guarantees to loans of others made in the ordinary course of business amounted to ¥203,341 million (US$1,526,013 thousand) and ¥206,099 million at March 31, 2002 and 2001, respectively.

16. Supplementary Income Information

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Depreciation	¥ 95,962	¥ 99,352	$720,167
Research and development costs (including routine or periodic alterations to existing products)	118,556	116,243	889,725

17. Subsequent Event

On June 27, 2002 and June 28, 2001 at meetings of the stockholders of MHI, the following appropriations of retained earnings were approved:

	In millions of yen		In thousands of U.S. dollars
	2002	2001	2002
Cash dividends	¥13,494	¥13,492	$101,272
Transfer to legal reserve	—	1,129	—
Reserve for reduction in costs of fixed assets	1,887	1,152	14,159
Bonuses to directors and statutory auditors	120	—	901
	¥15,501	¥15,773	$116,332

Report of Independent Certified Public Accountants

Shin Nihon & Co.

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The Board of Directors of
Mitsubishi Heavy Industries, Ltd.

We have audited the consolidated balance sheets of Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the financial position of Mitsubishi Heavy Industries, Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, the criteria of the percentage-of-completion method as described in Note 1. k) in the year ended March 31, 2002, to the consolidated financial statements.

As described in Note 1. to the consolidated financial statements, Mitsubishi Heavy Industries, Ltd. and its consolidated subsidiaries adopted new accounting standards for financial instruments, retirement benefits and foreign currency transactions, effective April 1, 2000, in the preparation of their consolidated financial statements .

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3. to the consolidated financial statements.

Shin Nihon & Co.

June 27, 2002

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** Representative Director*

As of June 27, 2002

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PAID-IN CAPITAL

¥265.6 billion
(3,373,647,813 shares)

As of March 31, 2002

STOCK LISTINGS

Tokyo, Osaka, Nagoya, Fukuoka and Sapporo stock exchanges

TRANSFER AGENT

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www.mhi.co.jp

Printed in Japan

K060-ANAL02E1-A-0, (10.0) 02-7, R