

MHI Announces FY2007 First-Half Consolidated Financial Results

Tokyo, October 31, 2007 -- Mitsubishi Heavy Industries, Ltd. (MHI) today announced its **consolidated** financial results for the first-half of fiscal year (FY) 2007 ended September 30, 2007.

(billions of yen)

	FY2007 Apr. – Sep.	FY2006 Apr. – Sep.	Changes (%)	FY2006 Full-Year
Orders Received	1,769.6	1,358.4	30.3	3,274.7
Net Sales	1,446.4	1,352.4	6.9	3,068.5
Operating Income	55.8	44.3	26.1	108.9
Ordinary Income	41.0	33.4	22.6	83.0
Income Before Taxes and Minority Interests	48.5	36.4	33.2	83.7
Net Income	27.9	21.9	27.8	48.8
Operation Cash Flow	105.3	108.6	—	158.7
Investment Cash Flow	−88.2	−64.7	—	−158.6
Financing Cash Flow	−7.4	5.5	—	48.7
Net Income Per Share (Fiscal)	8.34 yen	6.53 yen	27.8	14.56 yen

Consolidated financial results (continued)

Orders Received by Operational Segment

(billions of yen)

	FY2007 Apr. – Sep.	FY2006 Apr. – Sep.	Differences	FY2006 Full-Year
Shipbuilding & Ocean Development	212.3 (12.0)	159.2 (11.7)	53.0	314.2 (9.6)
Power Systems	576.3 (32.6)	391.0 (28.8)	185.3	1,008.2 (30.8)
Machinery & Steel Structures	330.0 (18.6)	182.3 (13.4)	147.7	469.0 (14.3)
Aerospace	175.9 (9.9)	172.2 (12.7)	3.7	543.3 (16.6)
Mass and Medium-Lot Manufactured Machinery	446.7 (25.2)	415.6 (30.6)	31.1	856.6 (26.2)
Others	28.1 (1.7)	37.9 (2.8)	–9.8	83.0 (2.5)
TOTAL	1,769.6 (100.0)	1,358.4 (100.0)	411.2	3,274.7 (100.0)

Figures in parentheses represent percentage of each segment's orders in total orders.

Sales by Operational Segment

(billions of yen)

	FY2007 Apr. – Sep.	FY2006 Apr. – Sep.	Differences	FY2006 Full-Year
Shipbuilding & Ocean Development	138.1 (9.6)	137.1 (10.1)	1.0	247.1 (8.1)
Power Systems	449.7 (31.1)	389.4 (28.8)	60.2	890.7 (29.0)
Machinery & Steel Structures	178.0 (12.3)	206.6 (15.3)	–28.5	511.6 (16.7)
Aerospace	197.0 (13.6)	173.3 (12.8)	23.7	495.0 (16.1)
Mass and Medium-Lot Manufactured Machinery	445.0 (30.8)	418.0 (30.9)	26.9	849.0 (27.7)
Others	38.3 (2.6)	27.8 (2.1)	10.5	74.8 (2.4)
TOTAL	1,446.4 (100.0)	1,352.4 (100.0)	93.9	3,068.5 (100.0)

Figures in parentheses represent percentage of each segment's sales in total sales.

Consolidated financial results (continued)

Operating Income (Loss) by Operational Segment (billions of yen)

	<u>FY2007</u> Apr. – Sep.	FY2006 Apr. – Sep.	Differences	FY2006 Full-Year
Shipbuilding & Ocean Development	2.6	-0.5	3.1	-5.3
Power Systems	24.7	28.5	-3.7	56.7
Machinery & Steel Structures	0.1	-5.1	5.3	2.9
Aerospace	5.1	3.3	1.8	14.4
Mass and Medium-Lot Manufactured Machinery	18.0	15.1	2.8	31.3
Others	5.1	3.0	2.1	8.8
TOTAL	55.8	44.3	11.5	108.9

Estimate of Consolidated Financial Results for FY 2007

For the fiscal year 2007 ending March 31, 2008, MHI is expecting 3,100 billion yen in net sales, 115 billion yen in operating income, 90 billion yen in ordinary income and 54 billion yen in net income. Impact of exchange rate fluctuation on this estimates is expected to be minor.

This estimate has been projected with currently available information and data. Therefore please be advised that the actual results may diverge broadly with the influence of the variety of the outside factors such as economics surrounding MHI or currency exchange rate fluctuation.

Notes:

Number of consolidated subsidiaries:

<u>FY2007 first-half</u>	<u>FY2006</u>
209	201

Number of companies under the application of equity method:

<u>FY2007 first-half</u>	<u>FY2006</u>
34	35

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CONSOLIDATED BALANCE SHEETS (1/2)

(Millions of Yen)

	As of Sep.30, 2007	As of Mar.31, 2007	Increase (Decrease)	As of Sep.30, 2006
<u>ASSETS</u>				
Current assets:				
Cash and deposits	254,246	244,233	10,012	243,581
Trade receivables	1,031,166	1,166,702	(135,535)	986,294
Securities	5,441	2,772	2,668	2,230
Inventories	1,181,355	1,048,586	132,769	1,064,562
Deferred income taxes	89,154	87,742	1,411	76,351
Other current assets	261,249	245,214	16,035	246,515
Allowance for doubtful receivables	(6,701)	(7,935)	1,233	(7,077)
Total current assets	2,815,911	2,787,315	28,596	2,612,459
Fixed assets:				
Property, plant and equipment:				
Buildings and structures	308,709	307,004	1,705	300,851
Machinery and transportation equipment	249,741	238,260	11,480	226,560
Tools, equipment and furniture	79,389	78,657	731	76,284
Land	147,415	144,422	2,993	142,864
Construction in progress	63,164	56,399	6,764	41,005
Subtotal	848,420	824,744	23,675	787,566
Intangible fixed assets:				
Software and others	30,975	33,444	(2,468)	33,592
Subtotal	30,975	33,444	(2,468)	33,592
Investments and advances:				
Investment securities	718,906	674,932	43,973	588,800
Deferred income taxes	18,252	6,309	11,943	9,549
Other assets	85,539	80,818	4,720	79,559
Allowance for doubtful accounts	(17,202)	(15,699)	(1,502)	(15,828)
Subtotal	805,495	746,360	59,135	662,079
Total fixed assets	1,684,891	1,604,549	80,341	1,483,239
TOTAL ASSETS	4,500,803	4,391,864	108,938	4,095,698

CONSOLIDATED BALANCE SHEETS (2/2)

(Millions of Yen)

	As of Sep.30, 2007	As of Mar.31, 2007	Increase (Decrease)	As of Sep.30, 2006
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	682,458	746,591	(64,133)	659,214
Bank loans	248,009	354,275	(106,265)	382,647
Current portion of debentures	90,300	52,682	37,617	2,604
Reserve for product warranties	23,350	21,224	2,125	16,546
Reserve for losses on construction contracts	7,900	9,535	(1,635)	6,317
Advance payments received on contracts	506,780	394,932	111,847	370,171
Other current liabilities	205,234	228,170	(22,936)	219,600
Total current liabilities	1,764,032	1,807,411	(43,378)	1,657,101
Long-term liabilities:				
Debentures	286,663	196,605	90,057	240,800
Long-term debt	654,994	670,009	(15,014)	591,140
Deferred tax liabilities	147,905	120,617	27,287	83,889
Reserve for retirement allowance	97,218	98,497	(1,278)	109,305
Reserve for treatment of PCB waste	4,169	4,169	-	4,169
Other long-term liabilities	49,936	48,116	1,819	31,616
Total long-term liabilities	1,240,887	1,138,016	102,870	1,060,922
TOTAL LIABILITIES	3,004,920	2,945,428	59,491	2,718,024
<u>NET ASSETS</u>				
Stockholders' equity:				
Common stock	265,608	265,608	-	265,608
Capital surplus	203,887	203,879	7	203,873
Retained earnings	763,730	744,562	19,168	727,172
Treasury stock	(5,054)	(5,063)	9	(5,112)
Total stockholders' equity	1,228,172	1,208,987	19,185	1,191,541
Valuation, translation adjustments and others:				
Net unrealized gains on investment securities	231,593	212,165	19,428	168,596
Deferred gains or losses on hedges	5,280	657	4,622	(2,264)
Foreign currency translation adjustments	11,068	6,211	4,857	477
Total valuation, translation adjustments and others	247,943	219,034	28,908	166,809
Share subscription rights	551	293	257	293
Minority interests	19,215	18,120	1,095	19,029
TOTAL NET ASSETS	1,495,882	1,446,436	49,446	1,377,674
TOTAL LIABILITIES AND NET ASSETS	4,500,803	4,391,864	108,938	4,095,698

CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

	For the six months ended Sep.30,2007		For the six months ended Sep.30,2006		Increase (Decrease)		FY2006	
Net sales		1,446,416		1,352,474	93,942	6.9%		3,068,504
Cost of sales		1,241,754		1,177,079	64,674			2,681,867
Gross profit	14.1%	204,662	13.0%	175,394	29,267	16.7%	12.6%	386,636
Selling, general and administrative expenses		148,789		131,081	17,708			277,724
Operating income	3.9%	55,872	3.3%	44,312	11,559	26.1%	3.5%	108,912
Non-operating income:								
Interest and dividend income		7,400		7,483	(83)			13,002
Equity in earnings of unconsolidated subsidiaries and affiliates		3,643		1,558	2,084			8,662
Other income		2,398		1,535	863			3,000
Total non-operating income		13,441		10,577	2,864			24,665
Non-operating expenses:								
Interest expense		9,846		8,265	1,581			17,810
Foreign exchange losses		9,230		3,690	5,539			12,992
Losses on disposal of fixed assets		2,747		2,125	622			6,507
Other expenses		6,478		7,366	(887)			13,218
Total non-operating expenses		28,303		21,448	6,855			50,528
Ordinary income	2.8%	41,010	2.5%	33,441	7,568	22.6%	2.7%	83,048
Extraordinary income:								
Gains on sales of fixed assets		10,464		2,816	7,647			9,763
Gains on sales of investment securities		-		1,918	(1,918)			8,901
Total extraordinary income		10,464		4,735	5,728			18,664
Extraordinary expenses:								
Business improvement and restructuring charges		2,955		1,743	1,211			10,742
Losses on revaluation of investment securities		-		-	-			5,227
Prior service cost due to change in defined interest rate of employee retirement annuity		-		-	-			2,032
Total extraordinary expenses		2,955		1,743	1,211			18,002
Income before income taxes and minority interests	3.4%	48,519	2.7%	36,433	12,085	33.2%	2.7%	83,711
Income taxes:								
Current		21,714		7,723	13,990			33,087
Deferred		(1,762)		6,069	(7,831)			3,162
Minority interests		578		735	(156)			(1,378)
Net income	1.9%	27,988	1.6%	21,904	6,083	27.8%	1.6%	48,839

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Yen)

	Six months ended Sep. 30, 2007	Six months ended Sep. 30, 2006	Differences	FY 2006
Cash flows from operating activities:				
Income before income taxes and minority interests	48,519	36,433	12,085	83,711
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities				
Depreciation and amortization	57,934	49,515	8,419	106,608
Increase (decrease) in reserve for retirement allowance	(1,443)	471	(1,914)	(12,441)
Interest and dividend income	(7,400)	(7,483)	83	(13,002)
Interest expense	9,846	8,265	1,581	17,810
Equity in earnings of unconsolidated subsidiaries and affiliates	(3,643)	(1,558)	(2,084)	(8,662)
Gains on sales of investment securities	-	(1,918)	1,918	(8,901)
Losses on revaluation of investment securities	-	-	-	5,227
Gains on sales of fixed assets	(10,464)	(2,816)	(7,647)	(9,763)
Losses on disposal of fixed assets	2,747	2,125	622	6,507
Business improvement and restructuring charges	2,955	1,743	1,211	10,742
Prior service cost due to change in defined interest rate of employee retirement annuity	-	-	-	2,032
(Increase) decrease in receivables	144,186	110,399	33,787	(63,857)
(Increase) decrease in inventories and advances to suppliers	(141,458)	(131,254)	(10,203)	(110,540)
(Increase) decrease in other assets	13,026	4,452	8,574	(4,275)
Increase (decrease) in payables	(71,372)	(11,500)	(59,871)	69,459
Increase (decrease) in advance payments received on contracts	109,325	35,601	73,723	59,140
Increase (decrease) in other liabilities	(15,732)	19,725	(35,457)	41,260
Others	1,237	(1,063)	2,300	(1,274)
Subtotal	138,265	111,137	27,128	169,780
Interest and dividends received	8,067	10,750	(2,682)	20,525
Interest paid	(9,724)	(8,119)	(1,604)	(17,090)
Payments for income taxes	(31,263)	(5,077)	(26,186)	(14,494)
Net cash provided by operating activities	105,345	108,691	(3,345)	158,721
Cash flows from investing activities:				
Net (Increase) decrease in time deposits	(201)	1,071	(1,273)	1,690
Purchases of marketable securities	(262)	(126)	(136)	-
Proceeds from sales and redemption of marketable securities	634	184	450	59
Purchases of property, plant, equipment and intangible assets	(83,807)	(69,689)	(14,117)	(174,396)
Proceeds from sales of property, plant, equipment and intangible assets	6,634	4,207	2,427	15,407
Purchases of investment securities	(9,673)	(1,934)	(7,739)	(15,295)
Proceeds from sales and redemption of investment securities	2,612	2,327	284	11,733
Disbursement of long-term loans	(4,485)	(2,219)	(2,265)	(2,496)
Collection of long-term loans	343	1,419	(1,076)	3,961
Others	-	-	-	682
Net cash used in investing activities	(88,204)	(64,759)	(23,445)	(158,653)
Cash flows from financing activities:				
Net decrease in bank loans	(120,894)	(6,491)	(114,402)	(19,201)
Proceeds from long-term debt	19,693	48,011	(28,318)	161,789
Repayment of long-term debt	(22,847)	(52,465)	29,617	(105,941)
Proceeds from issuance of bonds	130,000	30,000	100,000	35,819
Payment for redemption of bonds	(2,553)	(150)	(2,403)	(300)
Dividends paid to stockholders	(10,040)	(13,354)	3,314	(23,400)
Dividends paid to minority stockholders of subsidiaries	(425)	(378)	(46)	(529)
Others	(335)	413	(749)	494
Net cash provided by (used in) financing activities	(7,403)	5,584	(12,988)	48,730
Effect of exchange rate changes on cash and cash equivalents	2,496	(253)	2,749	2,032
Net increase in cash and cash equivalents	12,233	49,263	(37,029)	50,830
Cash and cash equivalents at beginning of year	227,584	176,274	51,310	176,274
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	610	479	130	479
Cash and cash equivalents at end of period	240,428	226,016	14,411	227,584