

## MHI Announces FY2006 First-Half Consolidated Financial Results

Tokyo, October 31, 2006 -- Mitsubishi Heavy Industries, Ltd. (MHI) today announced its **consolidated** financial results for the first-half of fiscal year (FY) 2006 ended September 30, 2006.

(billions of yen)

	<b>FY2006</b> April – Sept.	FY2005 April – Sept.	Changes (%)	FY2005 Full-Year
Orders Received	<b>1,358.4</b>	1,270.5	6.9	2,942.0
Net Sales	<b>1,352.4</b>	1,253.7	7.9	2,792.1
Operating Income	<b>44.3</b>	24.1	83.5	70.9
Ordinary Income	<b>33.4</b>	21.4	56.3	50.3
Income Before Tax	<b>36.4</b>	21.4	70.2	52.3
Net Income	<b>21.9</b>	14.9	46.9	29.8
Operation Cash Flow	<b>108.6</b>	78.2	38.8	73.9
Investment Cash Flow	<b>-64.7</b>	-47.7	35.8	-104.0
Financing Cash Flow	<b>5.5</b>	-47.9	-	7.9
Net Income Per Share (Fiscal)	<b>6.53 yen</b>	4.44 yen	46.9	8.85 yen

Consolidated financial results (continued)

**Orders Received by Operational Segment**

(billions of yen)

	<b><u>FY2006</u></b> Apr. – Sept.	FY2005 Apr. – Sept.	Differences	FY2005 Full-Year
Shipbuilding & Ocean Development	159.2 (11.7)	95.9 (7.6)	63.2	207.4 (7.1)
Power Systems	391.0 (28.8)	277.7 (21.9)	113.2	872.8 (29.7)
Machinery & Steel Structures	182.3 (13.4)	349.0 (27.4)	–166.7	515.8 (17.5)
Aerospace	172.2 (12.7)	123.1 (9.7)	49.0	451.5 (15.3)
Mass and Medium-Lot Manufactured Machinery	415.6 (30.6)	379.6 (29.9)	35.9	814.8 (27.7)
Others	37.9 (2.8)	44.9 (3.5)	–6.9	79.6 (2.7)
<b>TOTAL</b>	<b>1,358.4</b> <b>(100.0)</b>	<b>1,270.5</b> <b>(100.0)</b>	<b>87.8</b>	<b>2,942.0</b> <b>(100.0)</b>

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

**Sales by Operational Segment**

(billions of yen)

	<b><u>FY2006</u></b> Apr. – Sept.	FY2005 Apr. – Sept.	Differences	FY2005 Full-Year
Shipbuilding & Ocean Development	137.1 (10.1)	103.0 (8.2)	34.1	222.6 (8.0)
Power Systems	389.4 (28.8)	333.8 (26.6)	55.5	710.9 (25.5)
Machinery & Steel Structures	206.6 (15.3)	239.4 (19.1)	–32.8	538.7 (19.3)
Aerospace	173.3 (12.8)	157.0 (12.5)	16.2	445.9 (16.0)
Mass and Medium-Lot Manufactured Machinery	418.0 (30.9)	386.4 (30.8)	31.5	805.0 (28.8)
Others	27.8 (2.1)	33.8 (2.8)	–6.0	68.7 (2.4)
<b>TOTAL</b>	<b>1,352.4</b> <b>(100.0)</b>	<b>1,253.7</b> <b>(100.0)</b>	<b>98.6</b>	<b>2,792.1</b> <b>(100.0)</b>

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)

	FY2006 Apr. – Sept.	FY2005 Apr. – Sept.	Differences	FY2005 Full-Year
Shipbuilding & Ocean Development	-0.5	-4.8	4.2	-10.6
Power Systems	28.5	14.1	14.3	38.3
Machinery & Steel Structures	-5.1	-2.8	-2.3	2.3
Aerospace	3.3	6.4	-3.1	16.5
Mass and Medium-Lot Manufactured Machinery	15.1	7.9	7.2	16.7
Others	3.0	3.2	-0.2	7.5
<b>TOTAL</b>	<b>44.3</b>	<b>24.1</b>	<b>20.1</b>	<b>70.9</b>

### Estimate of Consolidated Financial Results for FY 2006

For the fiscal year 2006 ending March 31, 2007, MHI is expecting 2,900 billion yen in net sales, 80 billion yen in operating income, 63 billion yen in ordinary income, 63 billion yen in income before tax and 40 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>FY2006</u>	<u>FY2005</u>
198	187

Number of companies under the application of equity method:

<u>FY2006</u>	<u>FY2005</u>
33	33

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For more information, please visit the MHI website (<http://www.mhi.co.jp>).

# CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

	For the six months ended Sep.30,2006	For the six months ended Sep.30,2005	Increase (Decrease)
Net sales	1,352,474	1,253,781	98,692
Cost of sales	1,177,079	1,101,576	75,503
<b>Gross profit</b>	<b>175,394</b>	<b>152,205</b>	<b>23,188</b>
Selling, general and administrative expenses	131,081	128,059	3,021
<b>Operating income</b>	<b>44,312</b>	<b>24,145</b>	<b>20,167</b>
<b>Non-operating income:</b>			
Interest and dividend income	7,483	5,548	1,934
Equity in earnings of unconsolidated subsidiaries and affiliates	1,558	3,615	(2,056)
Other income	1,535	3,019	(1,484)
<b>Total non-operating income</b>	<b>10,577</b>	<b>12,183</b>	<b>(1,606)</b>
<b>Non-operating expenses:</b>			
Interest expense	8,265	7,777	487
Foreign exchange losses	3,690	1,033	2,657
Losses on disposal of fixed assets	2,125	1,941	183
Other expenses	7,366	4,175	3,190
<b>Total non-operating expenses</b>	<b>21,448</b>	<b>14,928</b>	<b>6,519</b>
<b>Ordinary income</b>	<b>33,441</b>	<b>21,400</b>	<b>12,041</b>
<b>Extraordinary income:</b>			
Gains on sales of fixed assets	2,816	-	2,816
Gains on sales of investment securities	1,918	-	1,918
<b>Total extraordinary income</b>	<b>4,735</b>	<b>-</b>	<b>4,735</b>
<b>Extraordinary expenses:</b>			
Business improvement and restructuring charges	1,743	-	1,743
<b>Total extraordinary expenses</b>	<b>1,743</b>	<b>-</b>	<b>1,743</b>
<b>Income before income taxes and minority interests</b>	<b>36,433</b>	<b>21,400</b>	<b>15,032</b>
Income taxes			
Current	7,723	3,272	4,451
Deferred	6,069	2,162	3,907
Minority interests in income after taxes	735	1,057	(321)
<b>Net income</b>	<b>21,904</b>	<b>14,908</b>	<b>6,996</b>

# CONSOLIDATED BALANCE SHEETS (1/2)

(Millions of Yen)

	As of Sep 30, 2006	As of Mar 31, 2006	Increase (Decrease)
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and deposits	243,581	195,185	48,396
Trade receivables	986,294	1,097,403	(111,108)
Securities	2,230	1,549	681
Inventories	1,064,562	971,508	93,053
Deferred income taxes	76,351	75,978	373
Other current assets	246,515	209,608	36,907
Allowance for doubtful receivables	(7,077)	(7,748)	670
<b>Total current assets</b>	<b>2,612,459</b>	<b>2,543,485</b>	<b>68,974</b>
<b>Fixed assets:</b>			
<b>Property, plant and equipment:</b>			
Buildings and structures	300,851	292,406	8,445
Machinery and transportation equipment	226,560	224,091	2,469
Tools, equipment and furniture	76,284	75,128	1,156
Land	142,864	139,951	2,912
Construction in progress	41,005	33,658	7,346
Subtotal	787,566	765,236	22,329
<b>Intangible fixed assets:</b>			
Software and others	33,592	35,769	(2,176)
Subtotal	33,592	35,769	(2,176)
<b>Investments and advances:</b>			
Investment securities	588,800	628,110	(39,310)
Deferred income taxes	9,549	10,158	(609)
Other assets	79,559	83,114	(3,555)
Allowance for doubtful accounts	(15,828)	(18,753)	2,924
Subtotal	662,079	702,630	(40,550)
<b>Total fixed assets</b>	<b>1,483,239</b>	<b>1,503,637</b>	<b>(20,397)</b>
<b>TOTAL ASSETS</b>	<b>4,095,698</b>	<b>4,047,122</b>	<b>48,576</b>

CONSOLIDATED BALANCE SHEETS (2/2)

(Millions of Yen)

	As of Sep 30, 2006	As of Mar 31, 2006	Increase (Decrease)
<b><u>LIABILITIES</u></b>			
<b>Current liabilities:</b>			
Trade payables	659,214	669,667	(10,453)
Bank loans	382,647	409,388	(26,741)
Current portion of debentures	2,604	300	2,304
Reserve for product warranties	16,546	15,999	547
Allowance for losses on construction contracts	6,317	6,298	18
Advance payments received on contracts	370,171	334,879	35,291
Other current liabilities	219,600	190,128	29,471
<b>Total current liabilities</b>	<b>1,657,101</b>	<b>1,626,662</b>	<b>30,439</b>
<b>Long-term liabilities:</b>			
Debentures	240,800	213,311	27,488
Long-term debt	591,140	575,664	15,476
Deferred tax liabilities	83,889	95,691	(11,801)
Reserve for retirement allowance	109,305	108,710	594
Reserve for treatment of PCB waste	4,169	4,360	(191)
Other long-term liabilities	31,616	28,660	2,955
<b>Total long-term liabilities</b>	<b>1,060,922</b>	<b>1,026,399</b>	<b>34,522</b>
<b>TOTAL LIABILITIES</b>	<b>2,718,024</b>	<b>2,653,062</b>	<b>64,961</b>
<b>MINORITY INTERESTS</b>	-	17,770	(1,770)
<b><u>STOCKHOLDERS' EQUITY</u></b>			
Common stock	-	265,608	(265,608)
Capital surplus	-	203,864	(203,864)
Retained earnings	-	718,479	(718,479)
Net unrealized gains on investment securities	-	193,372	(193,372)
Foreign currency translation adjustments	-	117	(117)
Treasury stock	-	(5,154)	5,154
<b>TOTAL STOCKHOLDERS' EQUITY</b>	-	<b>1,376,289</b>	<b>(1,376,289)</b>
<b>TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>	-	<b>4,047,122</b>	<b>(4,047,122)</b>
<b><u>NET ASSETS</u></b>			
Common stock	265,608	-	265,608
Capital surplus	203,873	-	203,873
Retained earnings	727,172	-	727,172
Treasury stock	(5,112)	-	(5,112)
<b>Total stockholders' equity</b>	<b>1,191,541</b>	-	<b>1,191,541</b>
Net unrealized gains on investment securities	168,596	-	168,596
Deferred gains or losses on hedges	(2,264)	-	(2,264)
Foreign currency translation adjustments	477	-	477
<b>Total valuation and translation adjustments</b>	<b>166,809</b>	-	<b>166,809</b>
<b>Share subscription rights</b>	<b>293</b>	-	<b>293</b>
<b>Minority interests</b>	<b>19,029</b>	-	<b>19,029</b>
<b>TOTAL NET ASSETS</b>	<b>1,377,674</b>	-	<b>1,377,674</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>4,095,698</b>	-	<b>4,095,698</b>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Yen)

	Six months ended Sept. 30, 2006	Six months ended Sept. 30, 2005	Differences
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests	36,433	21,400	15,032
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities			
Depreciation and amortization	49,515	47,349	2,165
Losses on impairment for fixed assets	-	-	-
Increase (decrease) in reserve for retirement allowance	471	2,581	(2,110)
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,558)	(3,615)	2,056
Interest and dividend income	(7,483)	(5,548)	(1,934)
Interest expense	8,265	7,777	487
Gains on sales of investment securities	(1,918)	-	(1,918)
Gains on sales of fixed assets	(2,816)	-	(2,816)
Losses on disposal of fixed assets	2,125	-	2,125
Business improvement and restructuring charges	1,743	-	1,743
Provision of reserve for product warranties	-	-	-
Losses on damage from natural disasters	-	-	-
(Increase) decrease in receivables	110,399	97,876	12,522
(Increase) decrease in inventories and advances to suppliers	(131,254)	(95,266)	(35,987)
(Increase) decrease in other assets	4,452	(4,550)	9,003
Increase (decrease) in payables	(11,500)	(37,013)	25,512
Increase (decrease) in advance payments received on contracts	35,601	40,299	(4,698)
Increase (decrease) in other liabilities	19,725	10,247	9,478
Others	(1,063)	(379)	(683)
Subtotal	<b>111,137</b>	<b>81,159</b>	<b>29,978</b>
Interest and dividends received	10,750	6,401	4,348
Interest paid	(8,119)	(7,858)	(260)
Payments for income taxes	(5,077)	(1,416)	(3,661)
Net cash provided by operating activities	<b>108,691</b>	<b>78,286</b>	<b>30,405</b>
<b>Cash flows from investing activities:</b>			
Net (Increase) decrease in time deposits	1,071	1,902	(831)
Purchases of property, plant, equipment and intangible assets	(69,689)	(50,203)	(19,485)
Proceeds from sales of property, plant, equipment and intangible assets	4,207	824	3,383
Purchases of investment securities	(1,934)	(1,019)	(914)
Proceeds from sales and redemption of marketable securities and investment securities	2,511	2,907	(395)
Disbursement of long-term loans	(2,219)	(3,112)	893
Collection of long-term loans	1,419	1,959	(540)
Others	(126)	(959)	833
Net cash used in investing activities	<b>(64,759)</b>	<b>(47,702)</b>	<b>(17,056)</b>
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in bank loans	(6,491)	5,016	(11,508)
Proceeds from long-term debt	48,011	26,996	21,014
Repayment of long-term debt	(52,465)	(32,872)	(19,592)
Proceeds from issuance of bonds	30,000	-	30,000
Payment for redemption of bonds	(150)	(33,333)	33,183
Dividends paid to stockholders	(13,354)	(13,349)	(5)
Dividends paid to minority stockholders of subsidiaries	(378)	(375)	(3)
Others	413	(19)	433
Net cash provided by (used in) financing activities	<b>5,584</b>	<b>(47,936)</b>	<b>53,520</b>
Effect of exchange rate changes on cash and cash equivalents	(253)	1,486	(1,739)
Net increase (decrease) in cash and cash equivalents	<b>49,263</b>	<b>(15,865)</b>	<b>65,128</b>
Cash and cash equivalents at beginning of year	176,274	189,780	(13,506)
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	479	2,873	(2,393)
Cash and cash equivalents at end of period	<b>226,016</b>	<b>176,788</b>	<b>49,228</b>