

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)

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

Consolidated financial results (continued)

Orders Received by Operational Segment

(billions of yen)

	FY2006 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)
TOTAL	1,358.4 (100.0)	1,270.5 (100.0)	87.8	2,942.0 (100.0)

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

Sales by Operational Segment

(billions of yen)

	FY2006 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)
TOTAL	1,352.4 (100.0)	1,253.7 (100.0)	98.6	2,792.1 (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)

	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
TOTAL	44.3	24.1	20.1	70.9

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
Gross profit	175,394	152,205	23,188
Selling, general and administrative expenses	131,081	128,059	3,021
Operating income	44,312	24,145	20,167
Non-operating income:			
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)
Total non-operating income	10,577	12,183	(1,606)
Non-operating expenses:			
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
Total non-operating expenses	21,448	14,928	6,519
Ordinary income	33,441	21,400	12,041
Extraordinary income:			
Gains on sales of fixed assets	2,816	-	2,816
Gains on sales of investment securities	1,918	-	1,918
Total extraordinary income	4,735	-	4,735
Extraordinary expenses:			
Business improvement and restructuring charges	1,743	-	1,743
Total extraordinary expenses	1,743	-	1,743
Income before income taxes and minority interests	36,433	21,400	15,032
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)
Net income	21,904	14,908	6,996

CONSOLIDATED BALANCE SHEETS (1/2)

(Millions of Yen)

	As of Sep 30, 2006	As of Mar 31, 2006	Increase (Decrease)
<u>ASSETS</u>			
Current assets:			
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
Total current assets	2,612,459	2,543,485	68,974
Fixed assets:			
Property, plant and equipment:			
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
Intangible fixed assets:			
Software and others	33,592	35,769	(2,176)
Subtotal	33,592	35,769	(2,176)
Investments and advances:			
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)
Total fixed assets	1,483,239	1,503,637	(20,397)
TOTAL ASSETS	4,095,698	4,047,122	48,576

CONSOLIDATED BALANCE SHEETS (2/2)

(Millions of Yen)

	As of Sep 30, 2006	As of Mar 31, 2006	Increase (Decrease)
<u>LIABILITIES</u>			
Current liabilities:			
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
Total current liabilities	1,657,101	1,626,662	30,439
Long-term liabilities:			
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
Total long-term liabilities	1,060,922	1,026,399	34,522
TOTAL LIABILITIES	2,718,024	2,653,062	64,961
MINORITY INTERESTS	-	17,770	(1,770)
<u>STOCKHOLDERS' EQUITY</u>			
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
TOTAL STOCKHOLDERS' EQUITY	-	1,376,289	(1,376,289)
TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	-	4,047,122	(4,047,122)
<u>NET ASSETS</u>			
Common stock	265,608	-	265,608
Capital surplus	203,873	-	203,873
Retained earnings	727,172	-	727,172
Treasury stock	(5,112)	-	(5,112)
Total stockholders' equity	1,191,541	-	1,191,541
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
Total valuation and translation adjustments	166,809	-	166,809
Share subscription rights	293	-	293
Minority interests	19,029	-	19,029
TOTAL NET ASSETS	1,377,674	-	1,377,674
TOTAL LIABILITIES AND NET ASSETS	4,095,698	-	4,095,698

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Yen)

	Six months ended Sept. 30, 2006	Six months ended Sept. 30, 2005	Differences
Cash flows from operating activities:			
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	111,137	81,159	29,978
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	108,691	78,286	30,405
Cash flows from investing activities:			
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	(64,759)	(47,702)	(17,056)
Cash flows from financing activities:			
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	5,584	(47,936)	53,520
Effect of exchange rate changes on cash and cash equivalents	(253)	1,486	(1,739)
Net increase (decrease) in cash and cash equivalents	49,263	(15,865)	65,128
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	226,016	176,788	49,228

MHI Announces FY2006 First-Half Non-Consolidated Financial Results

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

(billions of yen)

	FY2006 April – Sept.	FY2005 April – Sept.	Change (%)	FY2005 Full-Year
Orders Received	1,039.4	941.6	10.4	2,318.3
Net Sales	1,060.3	994.4	6.6	2,206.7
Operating Income	28.2	11.0	156.5	38.2
Ordinary Income	20.0	9.4	110.9	32.4
Income Before Tax	23.7	9.4	150.3	35.3
Net Income	15.6	7.9	96.0	26.1
Net Income Per Share (Fiscal)	4.66 yen	2.38 yen	96.0	7.77 yen
Dividend Per Share	3.0 yen	0.0 yen	—	4.0 yen

Estimate of Non-Consolidated Financial Results for FY 2006

For the fiscal year 2006 ending March 31, 2007, MHI is expecting 2,250 billion yen in net sales, 60 billion yen in operating income, 50 billion yen in ordinary income, 50 billion yen in income before tax and 30 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.

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

NON-CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(From April 1, 2006 to September 30, 2006)

(Millions of Yen)

	For the Six months ended Sep.30,2006	For the Six months ended Sep.30,2005	Increase (Decrease)
<u>ORDINARY INCOME</u>			
Operating income:			
Net sales	1,060,317	994,435	65,881
Cost of sales	967,178	917,362	49,816
Gross profit	93,138	77,073	16,065
Selling, general and administrative expenses	64,903	66,063	(1,160)
Operating income	28,235	11,009	17,226
Non-operating income:			
Interest and dividend income	8,784	9,409	(625)
Other income	1,469	2,051	(582)
Total	10,253	11,461	(1,208)
Non-operating expenses:			
Interest expense	6,476	6,222	254
Foreign exchange losses	3,941	1,690	2,250
Losses on disposal of fixed assets	1,930	1,797	133
Other expenses	6,140	3,278	2,861
Total	18,488	12,988	5,500
ORDINARY INCOME	20,000	9,482	10,517
<u>EXTRAORDINARY INCOME AND LOSS</u>			
Extraordinary income:			
Gains on sales of fixed assets	3,571	-	3,571
Gains on sales of investment securities	1,910	-	1,910
Total	5,482	-	5,482
Extraordinary expenses:			
Business improvement and restructuring charges	1,743	-	1,743
Total	1,743	-	1,743
INCOME BEFORE INCOME TAXES	23,739	9,482	14,256
Income taxes:			
Current	930	(1,774)	2,704
Deferred	7,157	3,272	3,885
NET INCOME	15,652	7,984	7,667
Retained earnings carried forward from previous period	-	14,612	
UNAPPROPRIATED EARNINGS	-	22,597	

NON-CONSOLIDATED BALANCE SHEETS (As of September 30, 2006) (1/2)

(Millions of Yen)

	As of Sep.30.2006	As of Mar.31,2006	Increase (Decrease)
ASSETS			
Current assets:			
Cash and deposits	170,125	98,238	71,887
Trade notes receivable	9,482	9,147	334
Trade accounts receivable	852,067	945,892	(93,825)
Securities	322	9	313
Finished products	70,904	68,318	2,585
Raw materials and supplies	62,530	49,150	13,380
Work in process	733,536	701,731	31,804
Advances to suppliers	93,567	64,408	29,158
Prepaid expenses	1,515	735	780
Deferred income taxes	57,881	58,261	(380)
Other current assets	131,144	144,777	(13,632)
Allowance for doubtful receivables	(58)	(67)	9
Total current assets	2,183,020	2,140,605	42,415
Fixed assets:			
Property, plant and equipment:			
Buildings	211,842	209,228	2,614
Structures	23,284	23,482	(198)
Dock and facilities for ship building	3,161	3,246	(85)
Machinery	162,687	161,723	963
Vessels	20	22	(1)
Aircraft	224	241	(17)
Vehicles and transportation equipment	2,429	2,340	88
Tools, equipment and furniture	49,404	48,356	1,048
Land	108,399	108,349	49
Construction in progress	35,445	29,617	5,828
Subtotal	596,900	586,608	10,291
Intangible fixed assets:			
Software	16,294	17,236	(941)
Right for facility utilization	1,842	1,981	(139)
Other intangible fixed assets	664	804	(139)
Subtotal	18,801	20,022	(1,221)
Investments and advances:			
Investment securities	418,614	457,773	(39,159)
Investments in shares of subsidiaries and affiliates	199,219	307,709	(108,490)
Long-term loans and advances	10,510	10,518	(8)
Investment capital and guarantee deposits	6,322	6,930	(607)
Investments in capital of subsidiaries and affiliates	14,867	13,115	1,751
Long-term prepaid expenses	42,464	39,576	2,888
Other investments	16,532	19,936	(3,404)
Allowance for doubtful accounts	(11,827)	(15,089)	3,262
Subtotal	696,703	840,470	(143,767)
Total fixed assets	1,312,405	1,447,102	(134,697)
TOTAL ASSETS	3,495,426	3,587,707	(92,281)

NON-CONSOLIDATED BALANCE SHEETS (As of September 30, 2006) (2/2)

(Millions of Yen)

	As of Sep.30.2006	As of Mar.31,2006	Increase (Decrease)
LIABILITIES			
Current liabilities:			
Trade accounts payable	569,193	583,644	(14,451)
Bank loans	256,856	277,861	(21,005)
Current portion of long-term debt for exports loans from main contractors	4,955	5,884	(929)
Accrued payables	46,219	49,503	(3,284)
Accrued expenses	39,439	34,093	5,345
Accrued income taxes	2,778	-	2,778
Advance payments received on contracts	347,699	313,025	34,674
Deposits received	21,189	22,087	(898)
Reserve for product warranties	16,546	15,999	547
Allowance for losses on construction contracts	6,317	6,298	18
Reserve for directors' retirement allowance	-	1,737	(1,737)
Other current liabilities	32,698	18,396	14,302
Total current liabilities	1,343,892	1,328,531	15,361
Long-term liabilities:			
Debentures	240,000	210,000	30,000
Long-term debt	518,186	503,437	14,749
Long-term debt for exports loans from main contractors	9,886	11,916	(2,029)
Deferred tax liabilities	91,938	150,290	(58,352)
Reserve for retirement allowance	60,138	61,756	(1,617)
Reserve for treatment of PCB waste	3,884	4,075	(190)
Other long-term liabilities	14,111	10,608	3,503
Total long-term liabilities	938,145	952,083	(13,937)
TOTAL LIABILITIES	2,282,038	2,280,614	1,423
STOCKHOLDERS' EQUITY			
Common stock	-	265,608	(265,608)
Capital surplus:			
Capital reserve	-	203,536	(203,536)
Other capital reserve:			
Gains on sales of treasury stock	-	10	(10)
Subtotal	-	203,547	(203,547)
Retained earnings:			
Legal reserve	-	66,363	(66,363)
Revenue reserve:			
Reserve for reduction in costs of fixed assets	-	14,700	(14,700)
Reserve for accelerated depreciation	-	6,648	(6,648)
General reserves	-	460,000	(460,000)
Unappropriated earnings	-	40,809	(40,809)
Subtotal	-	588,522	(588,522)
Net unrealized gains on investment securities	-	254,567	(254,567)
Treasury stock	-	(5,153)	5,153
TOTAL STOCKHOLDERS' EQUITY	-	1,307,092	(1,307,092)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	-	3,587,707	(3,587,707)
NET ASSETS			
Stockholders' equity:			
Common stock	265,608	-	265,608
Capital surplus:			
Capital reserve	203,536	-	203,536
Other capital reserve	19	-	19
Retained earnings:			
Legal reserve	66,363	-	66,363
Revenue reserve:			
Reserve for reduction in costs of fixed assets	21,007	-	21,007
Reserve for accelerated depreciation	8,054	-	8,054
General reserves	460,000	-	460,000
Earned surplus brought forward	35,216	-	35,216
Treasury stock	(5,111)	-	(5,111)
Total stockholders' equity	1,054,696	-	1,054,696
Valuation,translation adjustments and others:			
Net unrealized gains on investment securities	160,268	-	160,268
Deferred gains or losses on hedges	(1,870)	-	(1,870)
Total valuation,translation adjustments and others	158,397	-	158,397
Share subscription rights	293	-	293
TOTAL NET ASSETS	1,213,387	-	1,213,387
TOTAL LIABILITIES AND NET ASSETS	3,495,426	-	3,495,426