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FASF MEMBERSHIP

Financial Results for First Quarter FY2017

July 31, 2017

MITSUBISHI HEAVY INDUSTRIES, LTD.

MITSUBISHI HEAVY INDUSTRIES

Here, we will provide an overview of MHI’s financial results for the first quarter of fiscal 2017—the period from April 1st through June 30th.

Table of Contents

I. FY2017-1Q Financial Results

II. Forecast for FY2017

III. Supplementary Information

I. FY2017-1Q Financial Results

Summary of 1Q Financial Results

(In billion yen)

	FY2016-1Q		FY2017-1Q		Change	
Orders received		924.1		698.1	-226.0	- 24.5%
Net sales		847.2		888.2	40.9	+4.8%
Operating income	(2.9%)	24.9	(1.8%)	16.1	-8.7	- 35.0%
Ordinary income	(-2.0%)	-16.6	(2.0%)	18.1	34.7	-
Extraordinary gain/loss		-7.3		0.0	+7.3	-
Net income attributable to owners of parent	(-1.4%)	-12.1	(0.5%)	4.4	+16.5	-
EBITDA	(8.0%)	67.4	(6.7%)	59.9	- 7.5	- 11.2%

Non-operating income below are included:
- Foreign exchange gain 6.4 (+20.6)
- Income from equity method investments 1.2 (+21.9)

* ( ) Change from FY2016-1Q

 3

Here you can see a summary of the quarterly results.

Orders received totaled 698.1 billion yen, down 226 billion yen from the previous year. The decline was attributable largely to the Power Systems segment, where large-scale orders were received during the first quarter of fiscal 2016.

Net sales finished at 888.2 billion yen, up by 40.9 billion yen year-on-year. The quarter's operating income totaled 16.1 billion yen, down 8.7 billion yen from the previous year. MHI's business structure means that fiscal years typically get off to a sluggish start. This year the decline in income came mainly from two specific factors: a temporary decline in income in the nuclear power business, and a year-on-year increase in the MRJ's development costs.

Ordinary income ended the quarter at 18.1 billion yen, up by 34.7 billion yen from the previous year. Two principal factors were behind the increase. First, in contrast to the forex loss booked in the first quarter of fiscal 2016, this year a forex gain was recorded. Second, a year ago the Company booked a loss from an equity method investment of 18.8 billion yen relating to Mitsubishi Motors Corporation, which was an equity-method affiliate until the end of the first quarter of fiscal 2016. This year income from equity method investments finished in the plus column.

Net income attributable to owners of parent ended the quarter at 4.4 billion yen, marking a year-on-year increase of 16.5 billion yen.

1Q Financial Results by Segment(*)

(In billion yen)

	Orders received			Net sales			Operating income		
	FY2016 1Q	FY2017 1Q	Change	FY2016 1Q	FY2017 1Q	Change	FY2016 1Q	FY2017 1Q	Change
Power Systems	376.6	226.8	- 149.7	300.0	294.3	- 5.6	7.6	0.6	- 6.9
Industry & Infrastructure	399.7	384.6	- 15.0	386.9	434.0	+47.1	15.0	16.1	+1.0
Aircraft, Defense & Space	145.8	86.4	- 59.4	156.2	160.4	+4.1	4.8	1.9	- 2.9
Others	42.9	31.9	- 11.0	36.4	31.6	- 4.8	1.2	1.2	- 0.0
Eliminations or Corporate	- 40.9	- 31.7	+9.2	- 32.3	- 32.2	+0.1	- 3.9	- 3.7	+0.1
Total	924.1	698.1	- 226.0	847.2	888.2	+40.9	24.9	16.1	- 8.7

(*) The reported segments have been changed in line with the reorganization and business reconfiguration initiatives carried out effective April 1, 2017.

 4

Here we see a breakdown of the quarterly results by segment.

In the Power Systems segment, orders received declined by 149.7 billion yen compared to the first quarter of fiscal 2016. As I explained on the previous page, the year-on-year decline was due to the receipt of large-scale orders for conventional thermal power plants last year. No orders of equivalent scale were received this past quarter. But order receipts in this segment were somewhat sluggish in general. The segment's net sales were little changed from a year ago, but operating income fell 6.9 billion yen, to 0.6 billion yen. In this instance, the main cause was the nuclear power business.

In the Industry & Infrastructure segment, orders received declined by 15 billion yen from the year-earlier level—but we believe that orders are holding firm overall. The segment's net sales increased by 47.1 billion yen, to 434 billion yen, and operating income expanded by 1 billion yen, to 16.1 billion yen.

The Aircraft, Defense & Space segment posted orders received of 86.4 billion yen, down 59.4 billion yen year-on-year. This was due to the substantial changes in the way that timing of orders of defense equipment affected booking of orders received. Net sales meanwhile finished at 160.4 billion yen, on a par with last year's level. Regarding operating income, costs incurred for the MRJ's development expanded year-on-year; but for the segment as a whole, income remained in the black, thanks in large part to progress in reducing costs within the Tier1 commercial aircraft business.

Balance Sheet Overview

MITSUBISHI HEAVY INDUSTRIES

(In billion yen)

	As of June 30, 2016	As of March 31, 2017	As of June 30, 2016	Change
Trade receivables	1,064.1	1,180.1	1,137.6	-42.4
Inventories	1,413.3	1,325.5	1,364.0	+38.4
Other current assets	952.5	1,016.3	* 1,060.2	+43.8
Total fixed assets	1,251.8	1,184.5	1,172.4	-12.0
Investments and advances	619.3	775.3	794.5	+19.1
Total assets	5,301.2	5,481.9	5,528.9	+47.0
Trade payables	772.3	836.0	787.5	-48.4
Advance payments received on contracts	768.1	777.6	800.4	+22.7
Other current liabilities	783.7	835.3	784.2	-51.1
Interest-bearing debt	1,094.2	925.5	1,042.6	+117.0
Net assets	1,882.7	2,107.2	2,114.0	+6.7
Net worth (Owners equity)	1,582.8	1,782.6	1,788.4	+5.7
Total liabilities and net assets	5,301.2	5,481.9	5,528.9	+47.0

* Including indemnification asset for South African project (318.2 billion yen)

Short-term borrowings +53.1
Commercial papers +69.0
Long-term borrowings -9.8 etc.
- Decreased from FY2016-1Q

Dividend -20.1
Net income +4.4
Other comprehensive income +21.5 etc.
(Unrealized holding gain on investment securities, etc.)

 5

Next, I will provide a brief overview of our balance sheet.

Our total assets now stand at 5,528.9 billion yen, as of the end of the first quarter. This is an increase of 47 billion yen from the year-earlier level.

In many businesses, inventories tend to build up as the fiscal year heads toward the second half; so here also, we see a tendency toward expansion in the first quarter. Taking this into account, the situation is practically unchanged from what it was a year ago—with the exception of inventories relative to the project in South Africa, which have been increasing as the project has progressed. Going forward, we need to make every effort to squeeze our balance sheets further.

Main Financial Measures, Cash Flows

Main Financial Measures

	FY2016-1Q	FY2016	FY2017-1Q	Change	FY2017 Forecast
Equity ratio	29.9%	32.5%	32.3%	-0.2pt	-
Interest-bearing debt (In billion yen)	1,094.2	925.5	1,042.6	+117.0	850.0
D/E ratio	58%	44%	49%	+5pt	-

Cash Flows

(In billion yen)

	FY2016-1Q	FY2017-1Q	Change	FY2017 Forecast
Operating activities Cash Flow	-64.1	-79.2	-15.1	-
Investing activities Cash Flow	-61.2	-36.3	+24.9	-
Free Cash Flow	-125.4	-115.6	+9.7	100.0

Now, I would like to show our main financial measures and cash flows.

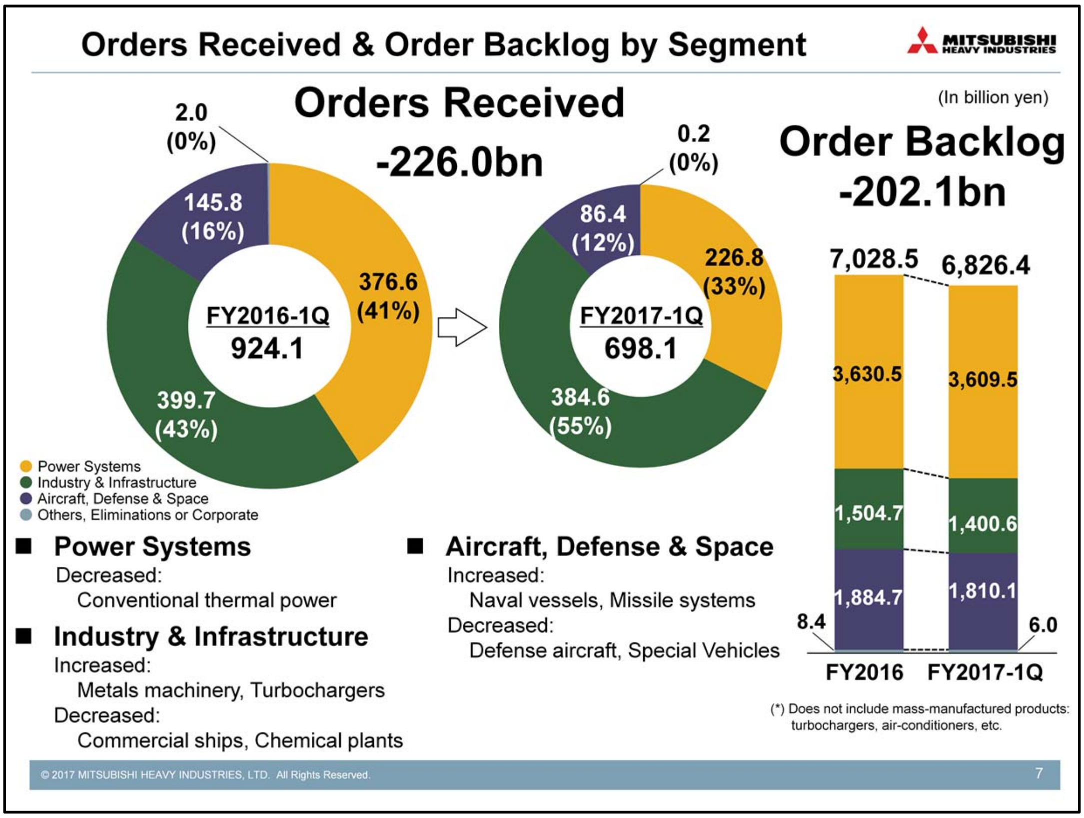
First, I will start with our cash flows, shown here in the lower half. Our cash flow from operating activities finished the quarter at minus 79.2 billion yen; our cash flow from investment activities at minus 36.3 billion yen; and our free cash flow at minus 115.6 billion yen.

In most years, free cash flow tends to finish in negative territory in the first quarter, because of MHI's business structure. This year, however, we have seen a year-on-year improvement of 9.7 billion yen, in part due to a slight decrease in investments.

As a result of the above free cash flow situation, our interest-bearing debt reached 1,042.6 billion yen.

The equity ratio calculated to 32.3%, little changed from previous year, and the D/E ratio was 49%. Both of these figures constituted a marginal improvement over their corresponding levels in the first quarter of fiscal 2016.

Our forecasts for fiscal 2017 remain unchanged: free cash flow of 100 billion yen, and interest-bearing debt of 850 billion yen.



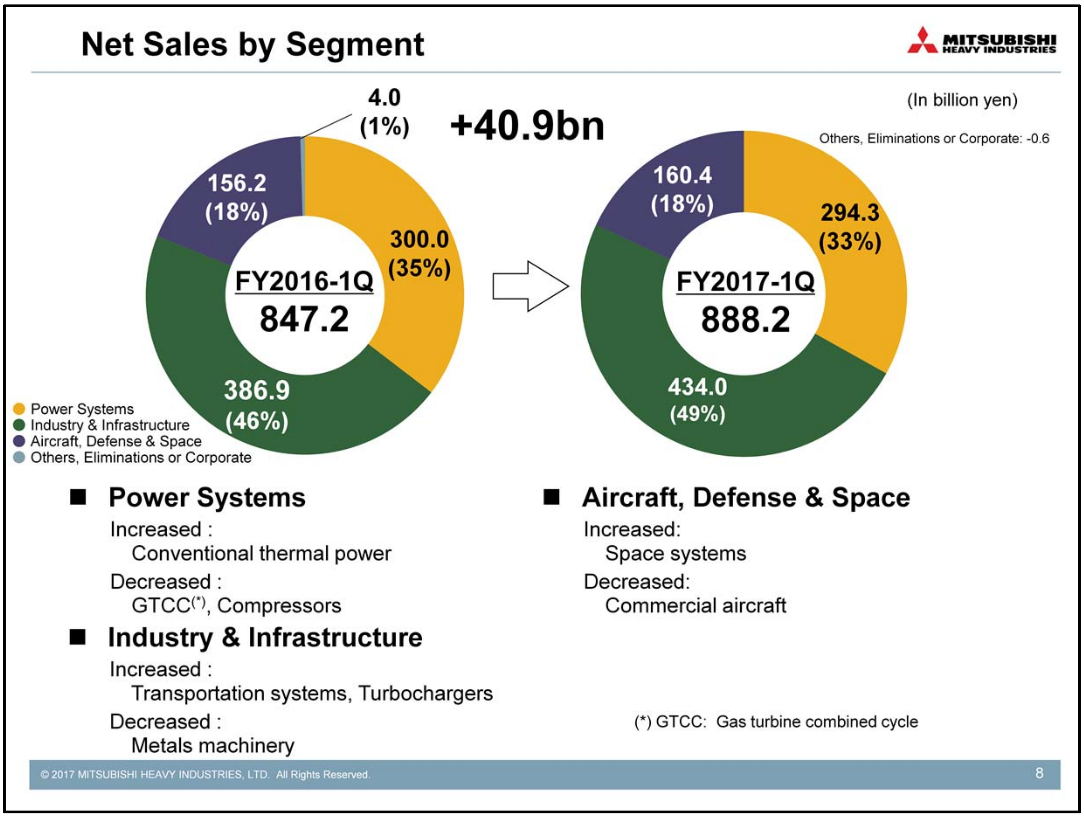
Next, I will present our orders received, order backlog, net sales and operating income results of the first quarter, by segment.

Orders received decreased substantially, largely attributable to the drop in orders in the Power Systems segment, here indicated in yellow. This quarter saw a significant difference from the first quarter of fiscal 2016, when we received orders for large-scale conventional thermal plants.

Orders received in the Industry & Infrastructure segment, indicated in green, are relatively firm. While almost no orders were received for commercial ships, this was compensated by a recovery trend in metals machinery, which has now bottomed out, and solid orders for turbochargers and the like. Overall, the quarterly result was close to that of a year ago.

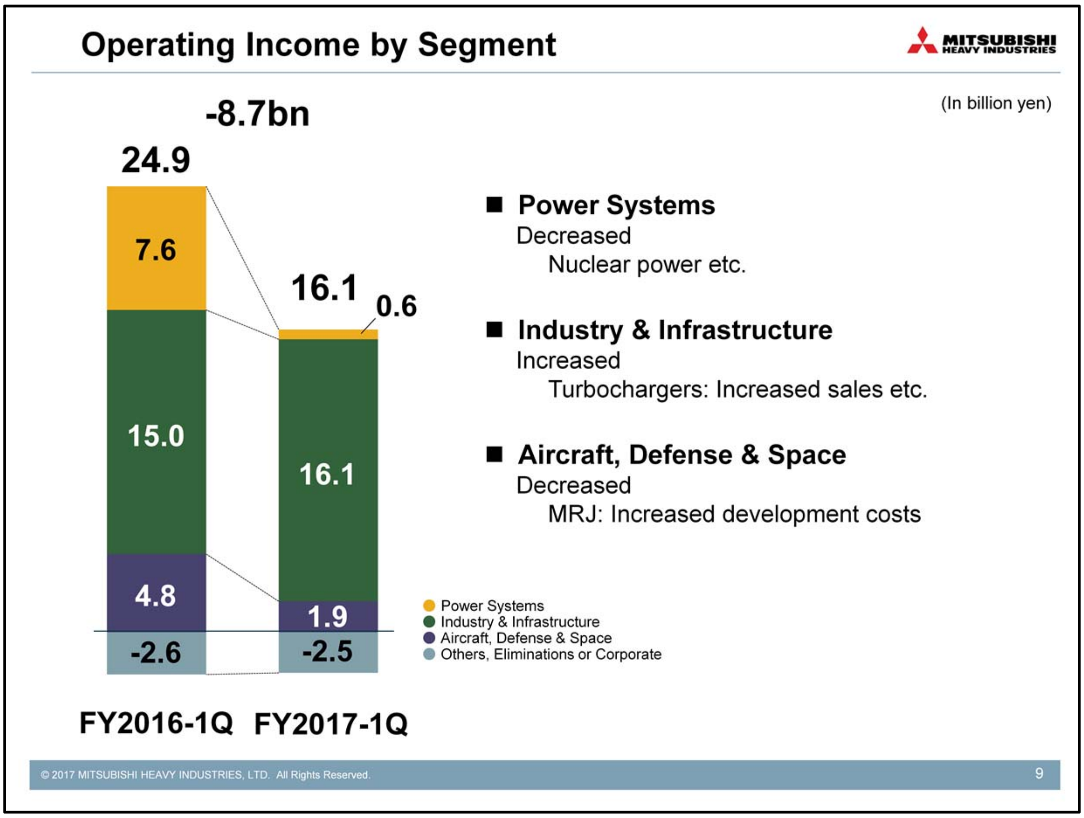
Orders in the Aircraft, Defense & Space segment, shown in purple, decreased year-on-year. The decline was due largely to the timing of defense and space equipment order placements, and we foresee no major concerns for the year as a whole.

The decline in new orders led to a reduction in the order backlog. However, because the order backlog doesn’t include mass-manufactured products the order backlog in the Industry & Infrastructure segment is, in fact, roughly 1 trillion yen larger than it appears here.



Here you can see the quarter's segment-based net sales figures.

Orders for metals machinery are in a recovery trend. But in light of the severity of orders taken in fiscal 2016, net sales continue to decline. We believe that once orders bottom out and sales start recovering, we will then begin to see the results of our continuous efforts to reduce fixed costs.



Turning to quarterly operating income, the decrease recorded in the Power Systems segment stands out. The drop comes primarily from decreased income in our nuclear power business. But since recovery is expected and this will not significantly impact the segment's full-year result, we do not see the quarterly drop as a cause for concern.

The Industry & Infrastructure segment recorded operating income generally in line with that of a year ago.

In the Aircraft, Defense & Space segment, the aforementioned increase in the MRJ's development costs were the primary factor for the quarterly decrease. That said, we expect those costs to enter a downward trend on an annual basis, and in fact they have come down from the level of the previous three months—the fourth quarter of fiscal 2016.

II. Forecast for FY2017

Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. As such, those projections involve risks and insecurity. For this reason, investors are recommended not to depend solely on these projections for making investment decisions. It is possible that actual results may vary significantly from these projections due to a number of factors. These include, but are not limited to, economic trends affecting the Company's operating environment, currency movements of the yen value to the U.S. dollar and other foreign currencies, and trends of stock markets in Japan. Also, the results projected here should not be construed in any way as being guaranteed by the company.

Summary of Forecast for FY2017

(In billion yen)

	FY2016 (Actual)		FY2017 (Forecast)		Change	
Orders received		4,275.6		4,500.0	+224.3	+5.2%
Net sales		3,914.0		4,150.0	+235.9	+6.0%
Operating income	(3.8%)	150.5	(5.5%)	230.0	+79.4	+52.8%
Ordinary income	(3.2%)	124.2	(5.1%)	210.0	+85.7	+69.0%
Net income attributable to owners of parent	(2.2%)	87.7	(2.4%)	100.0	+12.2	+14.0%
ROE		5.1%		5.5%	+0.4pt	-
EBITDA	(8.7%)	339.8	(10.4%)	430.0	+90.1	+26.5%
Free cash flow		104.6		100.0	- 4.6	- 4.4%
Dividend (per share)		12.0yen Interim: 6.0yen year-end: 6.0yen		12.0yen Interim: 6.0yen (*)year-end: 6.0yen		

<Assumed exchange rate>
US$ 1.00 = ¥110
Euro 1.00 = ¥120

<Undetermined foreign currency amount>
US$: 1.3 billion
Euro: 0.2 billion

There is no change in the forecast announced on May 9, 2017.

(*) MHI will undertake a share consolidation (ten to one) effective October 1, 2017.
In FY2017 the Company expects to issue a year-end dividend of 60 yen; however, for the purpose of comparison against FY2016 results, here the year-end dividend does not factor in the scheduled share consolidation.

Now, let me briefly show our full-year forecasts for fiscal 2017.

In the first quarter of the year, MHI’s business structure usually shows both net sales and incomes at sluggish levels. The current situation as I have described so far also suggests that circumstances do not diverge noticeably from the forecasts we announced at the start of the fiscal year. For that reason, we do not change our previous projections for this fiscal year, which were announced on May 9th.

Forecast for FY2017 by Segment(*)

(In billion yen)

	Orders received			Net sales			Operating income		
	FY2016 (Actual)	FY2017 (Forecast)	Change	FY2016 (Actual)	FY2017 (Forecast)	Change	FY2016 (Actual)	FY2017 (Forecast)	Change
Power Systems	1,726.3	1,950.0	+223.6	1,448.4	1,650.0	+201.5	108.1	145.0	+36.8
Industry & Infrastructure	1,590.3	1,900.0	+309.6	1,747.0	1,850.0	+102.9	50.0	85.0	+34.9
Aircraft, Defence & Space	955.0	600.0	- 355.0	703.4	650.0	- 53.4	0.9	10.0	+9.0
Others	160.4	150.0	- 10.4	175.9	150.0	- 25.9	10.7	10.0	- 0.7
Eliminations or Corporate	- 156.6	- 100.0	+56.6	- 160.7	- 150.0	+10.7	- 19.3	- 20.0	- 0.6
Total	4,275.6	4,500.0	+224.3	3,914.0	4,150.0	+235.9	150.5	230.0	+79.4

(*) The reported segments have been changed in line with the reorganization and business reconfiguration initiatives carried out effective April 1, 2017.

We are also making no particular changes to our segment forecasts.

This completes my presentation of our results for the first quarter of fiscal 2017.

Thank you.

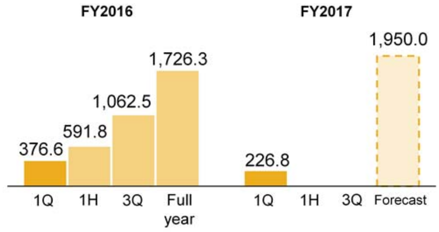
III. Supplementary Information

Supplementary Information (1) Financial Results by Business Segment
< Power Systems >

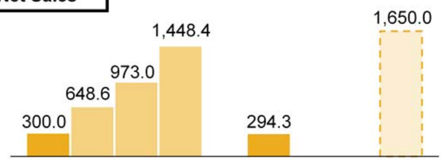
MITSUBISHI HEAVY INDUSTRIES

(In billion yen, accumulated amount)

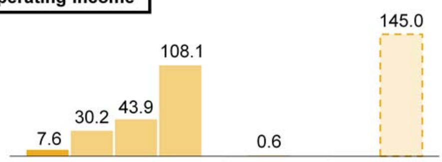
Orders Received



Net Sales



Operating Income



Orders received : Down ¥149.7 billion YoY
- Decreased : Conventional thermal power

[Gas turbine orders received]

		North America	Asia	Japan	Others	Total
FY2016-1Q	Large size	2	1	-	2	5
	Small to medium size	-	-	-	-	0
	Total	2	1	0	2	5
FY2017-1Q	Large size	-	1	-	1	2
	Small to medium size	-	-	-	-	0
	Total	0	1	0	1	2

[Backlog of Gas turbine orders received]

	Large size	Small to medium size	Total
As of Jun. 30 2016	42	32	74
As of Mar. 31 2017	43	14	57
As of Jun. 30 2017	43	14	57

Net sales : Down ¥5.6 billion YoY
- Increased : Conventional thermal power
- Decreased : GTCC(*), Compressors

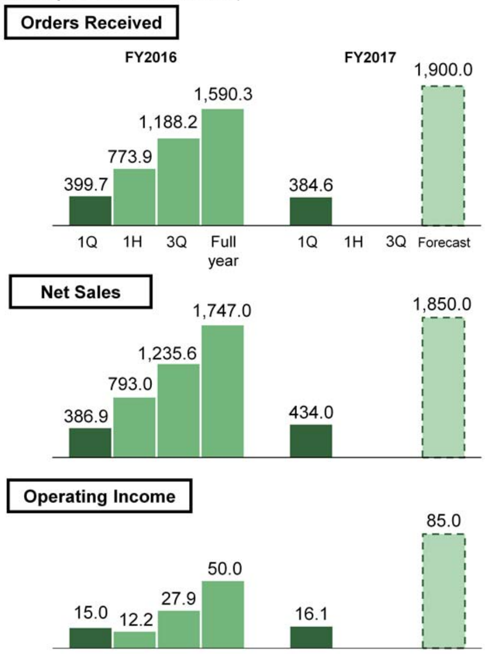
Earnings : Down ¥6.9 billion YoY
- Decreased
  Nuclear power etc.

(*) GTCC: Gas turbine combined cycle

Supplementary Information (1) Financial Results by Business Segment

< Industry & Infrastructure >

(In billion yen, accumulated amount)



Orders received : Down ¥15.0 billion YoY

- Increased : Metals machinery, Turbochargers
- Decreased : Commercial ships, Chemical plants

[Number of ships orders received]
FY2016-1Q: 4 (1Q: 4, 2Q: 2, 3Q: 0, 4Q: 3)
FY2017-1Q: 1 (1Q: 1)

[Backlog of ship orders] 29
(10 LNG carriers, 4 LPG carriers, 5 roll-on/roll-off ships and others)

Net sales : Up ¥47.1 billion YoY

- Increased : Transportation systems, Turbochargers
- Decreased : Metals machinery

Earnings : Up ¥1.0 billion YoY

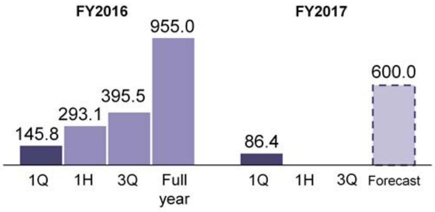
- Increased
  Turbochargers: Increased sales, etc.

Supplementary Information (1) Financial Results by Business Segment

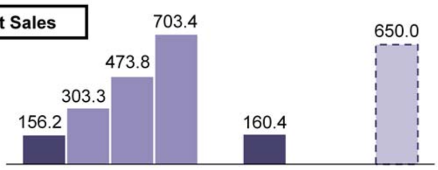
< Aircraft, Defense & Space >

(In billion yen, accumulated amount)

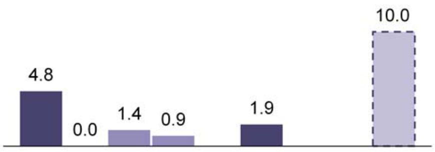
Orders Received



Net Sales



Operating Income



Orders received : Down ¥59.4 billion YoY

- Increased : Naval vessels, Missile systems
- Decreased : Defense aircraft, Special vehicles

Net sales : Up ¥4.1 billion YoY

- Increased : Space systems
- Decreased : Commercial aircraft

[Number of B777s delivered]
FY2016-1Q: 27 (1Q: 27, 2Q: 24, 3Q: 19, 4Q: 21)
FY2017-1Q: 17 (1Q: 17)

[Number of B787s delivered]
FY2016-1Q: 36 (1Q: 36, 2Q: 31, 3Q: 25, 4Q: 33)
FY2017-1Q: 36 (1Q: 36)

Earnings : Down ¥2.9 billion YoY

- Decreased
  MRJ: Increased development costs

Supplementary Information (2) Reference Data

1. R&D Expenses, Depreciation and Capital Expenditure

(In billion yen)

	FY2016 1Q	FY2017 1Q	FY2017 (Forecast)
R&D Expenses	29.0	30.7	170.0
Depreciation	38.4	39.7	180.0
Capital Expenditure	38.6	29.8	200.0

2. Selling, General and Administrative Expenses

(In billion yen)

	FY2016 1Q	FY2017 1Q
SG&A	141.8	147.6

3. Foreign Exchange Rates (For sales)

(In yen)

	FY2016 1Q	FY2017 1Q
US$	110.1	111.9
Euro	123.9	122.5

Supplementary Information (2) Reference Data

MITSUBISHI HEAVY INDUSTRIES

4. Overseas Sales by Region

	FY2016 1Q		FY2017 1Q	
Asia	142.6	(17%)	153.8	(18%)
North America	163.0	(19%)	161.3	(18%)
Europe	107.8	(13%)	85.8	(10%)
Central & South America	21.1	(2%)	38.8	(4%)
The Middle East	18.2	(2%)	39.4	(4%)
Africa	26.4	(3%)	21.0	(2%)
Oceania	7.4	(1%)	7.0	(1%)
Total	486.8	(57%)	507.3	(57%)

5. Segment Information by Geographic Distribution

(In billion yen)

		FY2016 1Q	FY2017 1Q
Japan	Net sales	639.8	653.6
	Operating income	19.4	9.2
North America	Net sales	104.4	117.3
	Operating income	2.0	1.4
Asia	Net sales	87.1	95.5
	Operating income	8.8	7.5
Europe	Net sales	93.7	91.3
	Operating income	-4.6	-1.7
Others	Net sales	18.2	24.8
	Operating income	-0.7	-0.3
Eliminations or Corporate	Net sales	-96.1	-94.5
	Operating income	-	-
Total	Net sales	847.2	888.2
	Operating income	24.9	16.1

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