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MITSUBISHI
HEAVY
INDUSTRIES
GROUP



Financial Results for First Quarter FY2018

August 3, 2018

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FY 2018 Q1 Results

This presentation is an overview of MHI's financial results for the first quarter of the fiscal year 2018, covering the period from April through June, 2018.

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MHI Group has adopted International Financial Reporting Standards (IFRS) from FY2018. Actual financial numbers for first quarter and full year of FY2017 are also shown here in accordance with IFRS.

As introduced earlier, from fiscal 2018, MHI Group has adopted International Financial Reporting Standards (IFRS). To enable year-on-year comparisons, financial results for the first quarter of fiscal 2017 and full-year fiscal 2017 are also shown here calculated in accordance with IFRS. Please note that these figures differ from those announced earlier, which adhered to Japanese generally accepted accounting principles.

I. FY2018 1Q Financial Results

Summary of 1Q Financial Results



(In billion yen)

	FY2017 1Q		FY2018 1Q		Change	
Orders received		701.9		707.1	+5.2	(+0.7%)
Revenue		903.2		906.1	+2.8	(+0.3%)
Profit from business activities	(0.7%)	6.4	(3.5%)	31.4	+24.9	(+384.6%)
Profit attributable to owners of parent		-3.0	(1.7%)	15.0	+18.1	-
EBITDA	(5.1%)	45.8	(7.0%)	63.6	+17.7	(+38.7%)
Free cash flow		-76.5		-96.8	-20.2	-

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Overview

This table shows a summary of the quarterly results.

Orders received totaled 707.1 billion yen, up slightly from the previous fiscal year.

Revenue finished at 906.1 billion yen, also up marginally from the year before.

Profit from business activities reached 31.4 billion yen, an increase by 24.9 billion yen year-on-year.

Profit attributable to owners of parent totaled 15 billion yen, an 18.1 billion yen increase over the previous year.

EBITDA finished at 63.6 billion yen, up 17.7 billion yen from the previous year .

Free cash flow ended the quarter at -96.8 billion yen, down 20.2 billion yen year-on-year. The decrease owed to special circumstances; the situation itself was little changed from a year ago.

Summary of 1Q Financial Results



(In billion yen)

FY2018 1Q	Fundamental business	MRJ	Total
Orders received	707.1	-	707.1
Revenue	906.1	-	906.1
Profit from business activities	(6.0%) 54.0	-22.5	(3.5%) 31.4
Profit attributable to owners of parent	(4.2%) 37.7	-22.7	(1.7%) 15.0
EBITDA	(9.5%) 86.2	-22.5	(7.0%) 63.6
Free cash flow	-68.8	-28.0	-96.8

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Beginning this quarter, financial results will be provided for the MRJ business, into which development investments will continually be made. Results excluding the MRJ factor are shown under “fundamental business.”

On the latter basis, profit from business activities finished the quarter at 54 billion yen, profit attributable to owners of parent totaled 37.7 billion yen, and EBITDA was 86.2 billion yen. The EBITDA margin was 9.5%. In the past several years, we have taken steps to optimize our portfolio through cash flow management and our strategic business evaluation system; the new quarterly results show that these efforts are gradually bearing fruit.

1Q Financial Results by Segment



(In billion yen)

	Orders received			Revenue			Profit from business activities		
	FY2017 1Q	FY2018 1Q	Change	FY2017 1Q	FY2018 1Q	Change	FY2017 1Q	FY2018 1Q	Change
Power Systems	226.8	194.4	- 32.4	295.1	316.6	+21.5	- 1.7	25.1	+26.9
Industry & Infrastructure	384.6	434.0	+49.3	437.9	445.2	+7.2	12.0	14.8	+2.8
Aircraft, Defense & Space	90.1	85.1	- 5.0	170.6	150.6	- 20.0	-6.8	- 12.1	- 5.2
Others	31.9	18.6	- 13.3	31.6	17.8	- 13.8	2.0	2.7	+0.7
Eliminations or Corporate	- 31.7	- 25.1	+6.6	- 32.2	- 24.3	+7.9	1.0	0.7	- 0.2
Total	701.9	707.1	+5.2	903.2	906.1	+2.8	6.4	31.4	+24.9

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Here is a breakdown of the quarterly results by segment.

Orders received in the Power Systems segment totaled 194.4 billion yen, down 32.4 billion yen year-on-year. The decrease was largely attributable to a lack of new orders taken during the quarter, although a number of tentative orders were indicated. The Industry & Infrastructure segment, in contrast, marked a year-on-year increase by 49.3 billion yen. Orders for metals machinery, which had been sluggish, turned upward, and orders for mass-manufactured products such as turbochargers, forklift trucks, and air-conditioners and refrigeration systems held firm. Orders in the Aircraft, Defense & Space segment decreased year-on-year, with Tier-1 orders linked to the Boeing 777 down as expected. Overall, orders received during the quarter increased slightly, with the decreases in the Power Systems and Aircraft, Defense & Space segments offset by increases recorded in the Industry & Infrastructure segment.

Revenue in the Power Systems segment increased 21.5 billion yen from the previous year, reaching 316.6 billion yen. The increase owed primarily to sales recovery in the nuclear power business, which had been sluggish throughout the first half of fiscal 2017. Revenue in the Industry & Infrastructure segment ended at 445.2 billion yen, little changed from the previous year. Revenue in the Aircraft, Defense & Space segment decreased by 20 billion yen year-on-year, finishing at 150.6 billion yen; a decrease in revenue in the Tier-1 commercial aircraft business was coupled with a slight decrease in defense-related sales. Overall, the decrease in the Aircraft, Defense & Space segment was offset by an increase in the Power Systems segment, enabling a marginal year-on-year increase.

Profit from business activities increased in the Power Systems segment, up 26.9 billion

yen year-on-year to 25.1 billion yen. The increase owed to recovery in the nuclear power business, which had been sluggish last year, and solid results posted in other areas. Profit from business activities in the Industry & Infrastructure segment was also firm overall, increasing 2.8 billion yen from the first quarter of fiscal 2017, to 14.8 billion yen. These results contrasted with profit from business activities recorded in the Aircraft, Defense & Space segment. Here, a 5.2 billion yen decrease, attributable to decreased revenue especially related to the Boeing 777 in the Tier-1 commercial aircraft business, resulted in a loss of 12.1 billion yen. Overall, thanks to the solid performance in the Power Systems and Industry & Infrastructure segments, profit from business activities finished the quarter at 31.4 billion yen, up 24.9 billion yen.

Financial Position Overview



(In billion yen)

	As of March 31, 2018	As of June 30, 2018	Change
Trade receivables	1,504.6	1,431.6	-72.9
Inventories	748.5	794.0	+45.4
Other current assets	* 987.7	* 1,020.7	+33.0
Total fixed assets	997.7	992.3	-5.4
Other non-current assets	1,010.0	1,029.9	+19.8
Total assets	5,248.7	5,268.6	+19.9
Trade payables	801.1	765.6	-35.4
Contract liabilities	914.6	906.4	-8.2
Other current liabilities	1,025.8	972.4	-53.3
Interest-bearing debt	813.1	914.2	+101.1
Equity	1,693.8	1,709.7	+15.9
Equity attributable to owners of the parent	1,395.5	1,408.7	+13.2
Total liabilities and Equity	5,248.7	5,268.6	+19.9

* Including indemnification asset for South African project
(Mar. 31, 2018: 445.9 billion yen)
(Jun. 30, 2018: 506.7 billion yen)

Borrowings +3.1
Commercial papers +98.0

Dividend -20.1
Profit attributable to owners of parent +15.0
Other comprehensive income +16.7 etc.
(Unrealized holding gain on investment securities, etc.)

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Balance Sheets

Total assets reached 5,268.6 billion yen, an increase of 19.9 billion yen from the end of fiscal 2017. Assets relative to the South Africa project increased, but steady decreases were recorded in trade receivables and other factors.

From the standpoint of balance sheet efficiency, we consistently focus on whether the total of trade receivables and inventories on the assets side are offset by the total of trade payables and contract liabilities on the liabilities and equity side. Compared to the end of fiscal 2017, this balance was somewhat askew as of the end of the first quarter; but when a comparison is made year-on-year—which isn't shown here—some improvement can be seen. The same holds true for interest-bearing debt: although debt increased by 101.1 billion yen compared to the end of fiscal 2017, a year-on-year comparison reveals a greater than 100 billion yen decrease (from 1,042.6 billion yen). In summary, balance sheets continue to improve steadily.

Main Financial Measures, Cash Flows



Main Financial Measures

	As of Mar.31, 2018	As of Jun.30, 2018	Change	FY2018 Forecast
Equity ratio	26.6%	26.7%	+0.1pt	-
Interest-bearing debt (In billion yen)	813.1	914.2	+101.1	770.0
D/E ratio	48%	53%	+5pt	-

Cash Flows

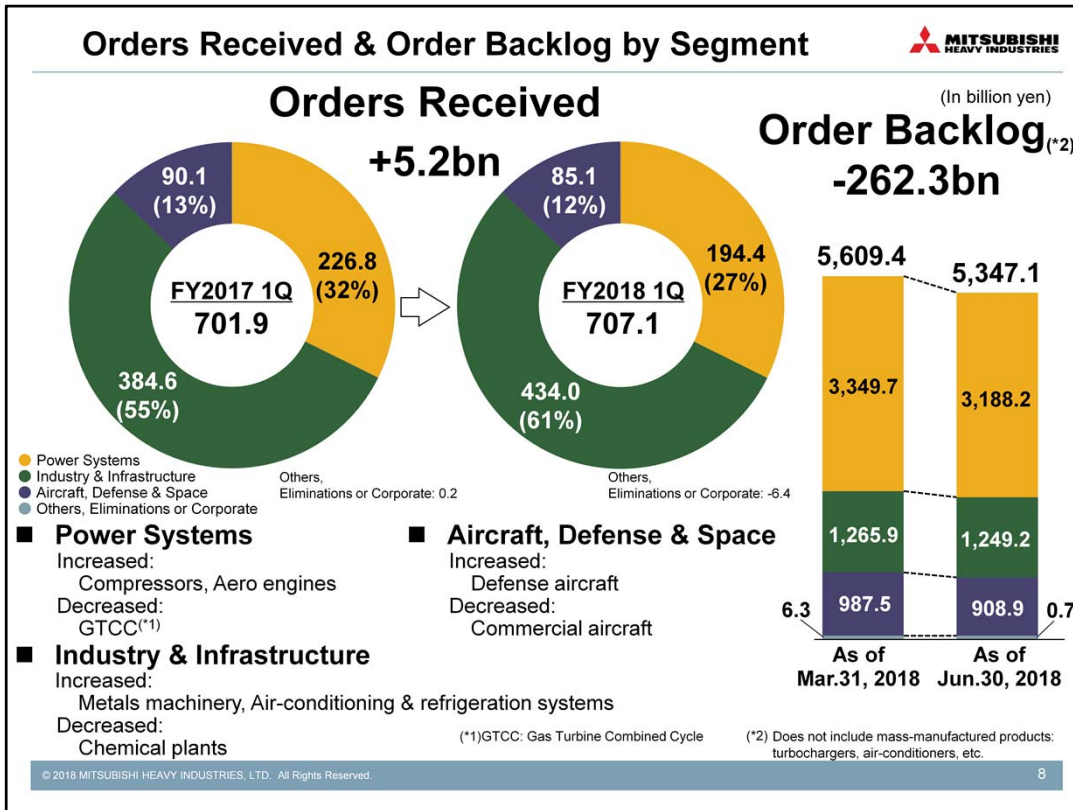
(In billion yen)

	FY2017 1Q	FY2018 1Q	Change	FY2018 Forecast
Operating cash flow	-16.9	-55.5	-38.6	-
Investment cash flow	-59.6	-41.2	+18.3	-
Free cash flow	-76.5	-96.8	-20.2	50.0

Financial Measures and Cash Flows

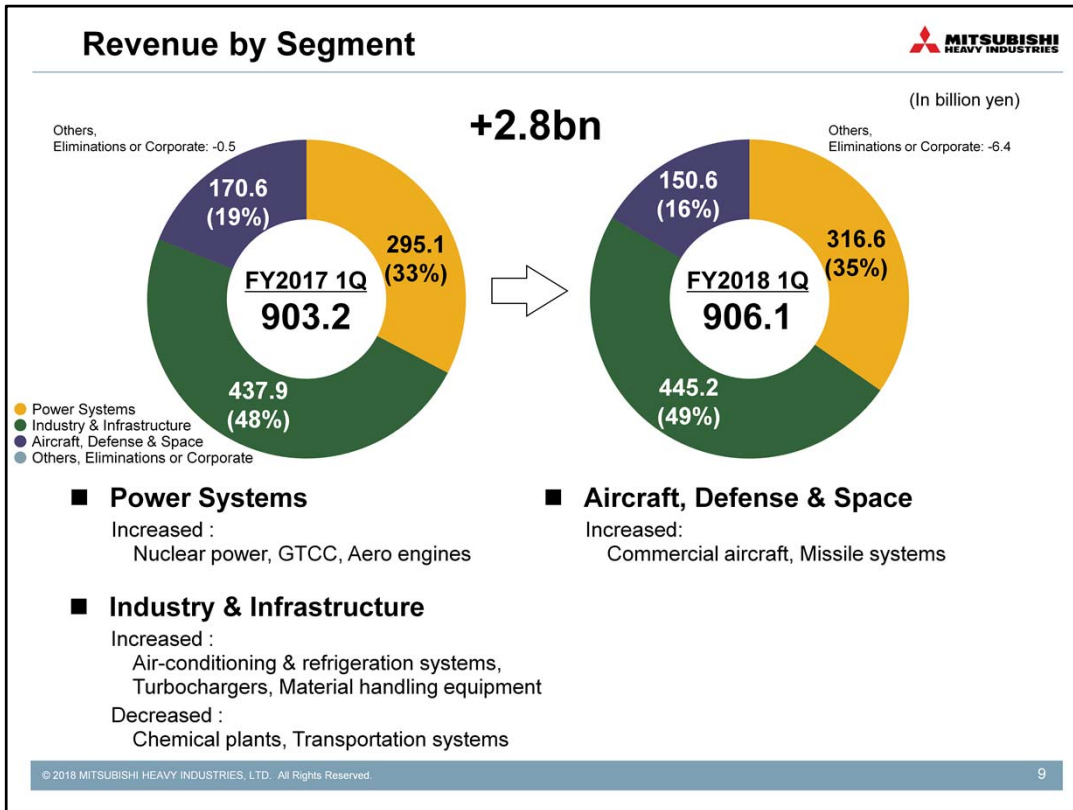
The equity ratio calculated to 26.7%, interest-bearing debt reached 914.2 billion yen, and the debt/equity ratio finished at 53%. Although the equity ratio was down significantly from the 33% recorded at the end of fiscal 2017, this reflected a decrease in equity stemming from squeezing of MRJ-related assets in tandem with the adoption of IFRS.

Regarding cash flows, although these deteriorated year-on-year, the figures shown incorporate extraordinary factors. Overall, cash flows are on track as planned.



For information regarding segment-based data, please refer to page 5.

Orders received during the first quarter reached 707.1 billion yen, while revenue totaled 906.1 billion yen. The order backlog thereby shrank by more than 200 billion yen.

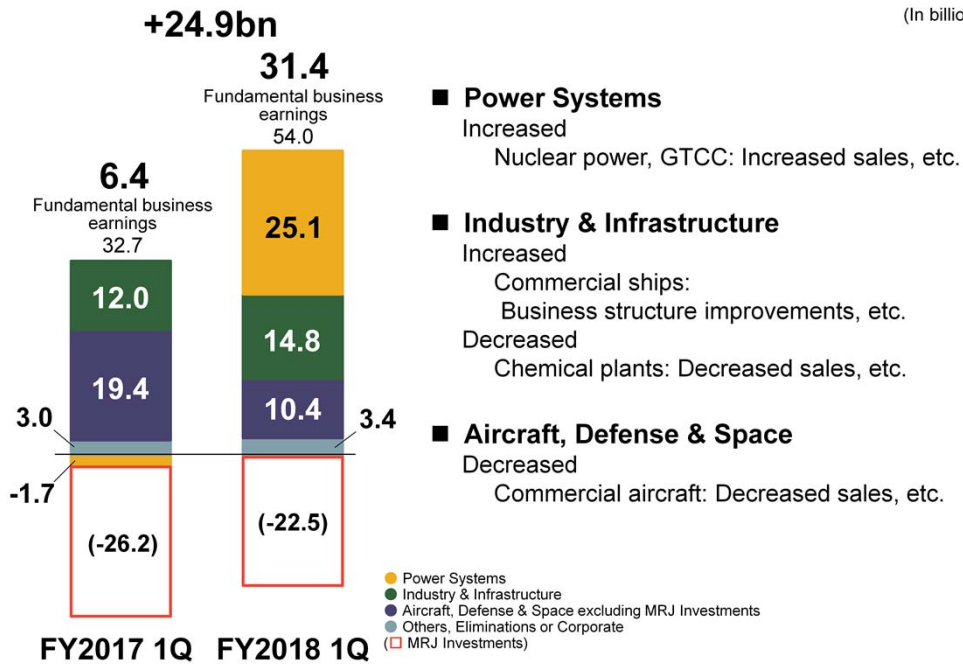


The quarterly revenue results are shown here.

Profit from Business Activities by Segment



(In billion yen)



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Profit from business activities improved substantially, due mainly to recovery in the nuclear power business, which had been sluggish last year. Profit also increased in the Industry & Infrastructure segment. Together these two segments offset the decrease recorded in the Aircraft, Defense & Space segment. In the figure, MRJ investments are indicated enclosed in red at the bottom. Profit after MRJ investments totaled 31.4 billion yen, whereas fundamental business profit excluding the MRJ factor reached 54 billion yen. These quarterly figures indicate a generally favorable situation.

II. Forecast for FY2018

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 FY2018



(In billion yen)

	FY2017 (Actual)		FY2018 (Forecast)		Change	
Orders received	3,868.7		4,100.0		+231.2	(+6.0%)
Revenue	4,085.6		4,200.0		+114.3	(+2.8%)
Profit from business activities	(1.4%)	58.1	(3.8%)	160.0	+101.8	(+175.0%)
Profit attributable to owners of parent	-7.3		(1.9%)	80.0	+87.3	-
ROE	-0.5%		6%		-	
EBITDA	(5.7%)	231.9	(7.6%)	320.0	+88.0	(+38.0%)
Free cash flow	167.5		50.0		-117.5	-
Dividend (per share after the share consolidation)	(*)120.0yen Interim: 60.0yen year-end: 60.0yen		130.0yen Interim: 65.0yen year-end: 65.0yen		Undetermined foreign currency amount US\$: 1.7 billion Euro: 0.5 billion	

There is no change in the forecast announced on May 8, 2018.

(*) MHI implemented a share consolidation (10 to 1) effective October 1, 2017.
Actual dividend for FY2017 interim was 6 yen; however, for the purpose of comparison, dividends are shown here at post-share consolidation levels.

Assumed exchange rate
US\$ 1.00 = ¥110
Euro 1.00 = ¥130

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Forecasts

Based on the quarterly situation just explained, there will be no changes to the forecasts issued at the start of the fiscal year.

Summary of Forecast for FY2018



(In billion yen)

FY2018 (Forecast)	Fundamental business	MRJ	Total
Orders received	4,100.0	–	4100.0
Revenue	4,200.0	–	4200.0
Profit from business activities	(6.0%) 250.0	–90.0	(3.8%) 160.0
Profit attributable to owners of parent	(4.0%) 170.0	–90.0	(1.9%) 80.0
ROE	12%	–	6%
EBITDA	(9.8%) 410.0	–90.0	(7.6%) 320.0
Free cash flow	170.0	–120.0	50.0

- TOP^(*) for fundamental business **1 : 1.2 : 0.7**
(Revenue ¥4.2 trillion / Total assets ¥5.1 trillion / Market capitalization ¥2.8 trillion^(**))

(*1) TOP (Triple One Proportion) is a concept under which the managerial goal (proportion) is: Net sales : Total assets : Market capitalization = 1 : 1 : 1.
(*2) Market capitalization is assumed as 16.7 times profit attributable to owners of parent, i.e. capital cost as 6%.

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The fundamental business forecasts for fiscal 2018, which exclude MRJ investments, are as follows: profit from business activities, 250 billion yen; profit margin from business activities, 6%; profit attributable to owners of parent, 170 billion yen; profit margin attributable to owners of parent, 4%; ROE, 12%; EBITDA, 410 billion yen; EBITDA margin, 9.8%; and free cash flow, 170 billion yen.

With the implementation of the 2018 Medium-Term Business Plan, TOP—Triple One Proportion—has been adopted as the KPI for evaluating fundamental business soundness. The TOP forecast—in other words, revenue to total assets to market capitalization—is 1 : 1.2 : 0.7. The balance sheet is somewhat large and profit attributable to owners of parent, which forms the base of market value, is small; but the objective is to make steady improvements in the run-up to fiscal 2020, the final year under the 2018 Medium-Term Business Plan.

Forecast for FY2018 by Segment



(In billion yen)

	Orders received			Revenue			Profit from business activities		
	FY2017 (Actual)	FY2018 (Forecast)	Change	FY2017 (Actual)	FY2018 (Forecast)	Change	FY2017 (Actual)	FY2018 (Forecast)	Change
Power Systems	1,437.5	1,500.0	+62.4	1,482.4	1,600.0	+117.5	84.9	135.0	+50.0
Industry & Infrastructure	1,711.3	1,950.0	+238.6	1,890.0	1,900.0	+9.9	41.0	80.0	+38.9
Aircraft, Defense & Space	714.6	650.0	- 64.6	718.3	700.0	- 18.3	- 63.5	- 45.0	+18.5
Others	113.5	100.0	- 13.5	120.7	120.0	- 0.7	3.4	5.0	+1.5
Eliminations or Corporate	- 108.3	- 100.0	+8.3	- 125.9	- 120.0	+5.9	- 7.7	- 15.0	- 7.2
Total	3,868.7	4,100.0	+231.2	4,085.6	4,200.0	+114.3	58.1	160.0	+101.8

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Here is a breakdown of fiscal 2018 forecasts by segment. These too are unchanged from the figures released at the start of the fiscal year.

This completes the review of first quarter financial results for fiscal 2018.

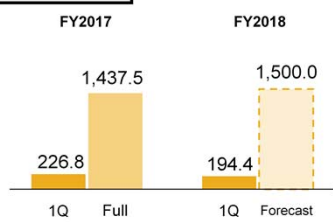
III. Supplementary Information

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

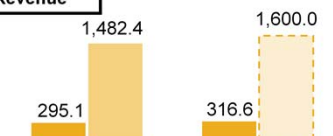


(In billion yen, accumulated amount)

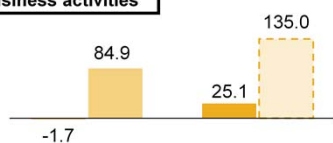
Orders Received



Revenue



Profit from business activities



Orders received : Down ¥32.4 billion YoY

- Increased : Compressors, Aero engines
- Decreased : GTCC^(*) (*):GTCC: Gas Turbine Combined Cycle

Gas turbine orders received

		North America	Asia	Japan	Others	Total
FY2017 1Q	Large size	-	1	-	1	2
	Small to medium size	-	-	-	-	0
	Total	0	1	0	1	2
FY2018 1Q	Large size	-	-	-	-	0
	Small to medium size	-	2	-	-	2
	Total	0	2	0	0	2

Backlog of Gas turbine orders received

	Large size	Small to medium size	Total
As of Jun. 30, 2017	43	14	57
As of Mar. 31, 2018	38	6	44
As of Jun. 30, 2018	38	8	46

Revenue: Up ¥21.5 billion YoY

- Increased : Nuclear power, GTCC, Aero engines

**Profit from business activities :
Up ¥26.9 billion YoY**

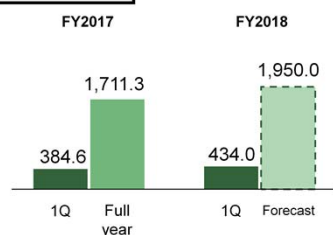
- Increased
Nuclear power, GTCC: Increased sales, etc.

Supplementary Information (1) Financial Results by Business Segment
< Industry & Infrastructure >



(In billion yen, accumulated amount)

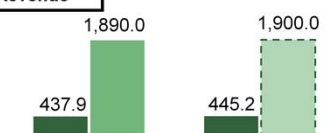
Orders Received



Orders received : Up ¥49.3 billion YoY

- Increased : Metals machinery,
Air-conditioning & refrigeration systems
- Decreased : Chemical plants

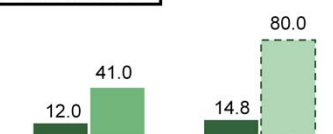
Revenue



Revenue : Up ¥7.2 billion YoY

- Increased : Air-conditioning & refrigeration systems,
Turbochargers, Material handling equipment
- Decreased : Chemical plants, Transportation systems

Profit from business activities



Profit from business activities :

Up ¥2.8 billion YoY

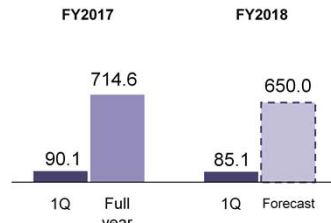
- Increased
 - Commercial ships:
 - Business structure improvements, etc.
- Decreased
 - Chemical plants: Decreased sales, etc.

Supplementary Information (1) Financial Results by Business Segment
< Aircraft, Defense & Space >



(In billion yen, accumulated amount)

Orders Received

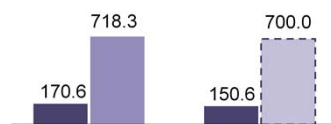


Orders received : Down ¥5.0 billion YoY

- Increased : Defense aircraft
- Decreased : Commercial aircraft

Accumulated number of MRJ orders received: 387
 (firm orders: 213 / options and purchase rights: 174)
 [As of August 3, 2018]

Revenue



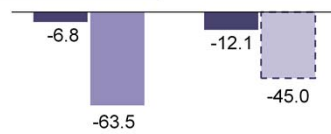
Revenue : Down ¥20.0 billion YoY

- Decreased : Commercial aircraft, Missile systems

Number of B777s / B777Xs delivered
 FY2017 (actual) : 58 (1Q: 17, 2Q: 15, 3Q: 16, 4Q: 10)
 FY2018 (forecast) : 50 (1Q: 11, 2-4Q: 39[planned])

Number of B787s delivered
 FY2017 (actual) : 141 (1Q: 36, 2Q: 36, 3Q: 33, 4Q: 36)
 FY2018 (forecast) : 148 (1Q: 37, 2-4Q: 111[planned])

Profit from business activities



Profit from business activities :

Down ¥5.2 billion YoY

- Decreased
 Commercial aircraft: Decreased sales, etc.

Supplementary Information (2) Reference Data



1. R&D Expenses, Depreciation and Capital Expenditure

(In billion yen)

	FY2017 1Q	FY2018 1Q	FY2018 (Forecast)
R&D Expenses	30.7	30.4	180.0
Depreciation	39.3	32.2	160.0
Capital Expenditure	29.8	27.4	160.0

2. Selling, General and Administrative Expenses

(In billion yen)

	FY2017 1Q	FY2018 1Q
SG&A	132.0	131.9

3. Foreign Exchange Rates (For sales)

(In yen)

	FY2017 1Q	FY2018 1Q
US\$	111.9	108.7
Euro	122.5	129.9

Supplementary Information (2) Reference Data



(In billion yen)

4. Overseas Revenue by Region

	FY2017 1Q	FY2018 1Q
Asia	154.0 (18%)	163.4 (17%)
North America	161.5 (18%)	155.6 (17%)
Europe	89.1 (10%)	108.9 (12%)
Central & South America	39.5 (4%)	34.0 (4%)
The Middle East	39.0 (4%)	32.9 (4%)
Oceania	6.9 (1%)	5.7 (1%)
Africa	20.3 (2%)	5.0 (1%)
Total	510.5 (57%)	505.8 (56%)

5. Segment Information by Geographic Distribution

		FY2017 1Q	FY2018 1Q
Japan	Revenue	668.7	697.3
	Profit from business activities	-1.4	22.0
North America	Revenue	117.5	110.3
	Profit from business activities	2.6	3.5
Asia	Revenue	95.2	104.9
	Profit from business activities	8.7	7.8
Europe	Revenue	91.3	93.0
	Profit from business activities	-3.0	-2.6
Others	Revenue	24.8	0.9
	Profit from business activities	-0.3	0.6
Eliminations or Corporate	Revenue	-94.5	-100.5
	Profit from business activities	-	-
Total	Revenue	903.2	906.1
	Profit from business activities	6.4	31.4

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