

No. 2023

MHI Announces Outline of FY2016 First 6 Month Financial Results
Ended September 30, 2016 (Consolidated)

Tokyo, October 31, 2016 -- Mitsubishi Heavy Industries, Ltd. (MHI) today announced its **consolidated** financial results for the first six months of fiscal year (FY) 2016 ended September 30, 2016.

(billions of yen)

	FY2016 First 6 Months (From April 1 to September 30, 2016)	FY2015 First 6 Months (From April 1 to September 30, 2015)	Changes (%)
Orders Received	1,664.4	1,784.4	(6.7)
Net Sales	1,750.5	1,882.0	(7.0)
Operating Income	38.4	115.9	(66.9)
Ordinary Income	(1.8)	111.8	—
Income Before Income Taxes	(14.6)	79.0	—
Profit Attributable to Owners of Parent	(18.9)	43.3	—
Operating Cash Flow	(118.3)	(27.1)	/
Investment Cash Flow	(98.7)	(86.9)	/
Financing Cash Flow	122.6	88.6	/
Profit Attributable to Owners of Parent Per Share	(5.64) yen	12.92 yen	—

Figures in parentheses are negative.

Consolidated financial results (continued)

Sales by Operational Segment

(billions of yen)

	FY2016 First 6 Months (From April 1 to September 30, 2016)	FY2015 First 6 Months (From April 1 to September 30, 2015)
Energy & Environment	653.1	681.1
Commercial Aviation & Transportation Systems	244.3	280.0
Integrated Defense & Space Systems	184.8	205.0
Machinery, Equipment & Infrastructure	660.7	704.5
Others	78.5	75.8
Eliminations or Corporate	(71.0)	(64.6)
TOTAL	1,750.5	1,882.0

Operating Income (Loss) by Operational Segment

(billions of yen)

	FY2016 First 6 Months (From April 1 to September 30, 2016)	FY2015 First 6 Months (From April 1 to September 30, 2015)
Energy & Environment	28.5	37.7
Commercial Aviation & Transportation Systems	(18.0)	33.0
Integrated Defense & Space Systems	9.1	11.4
Machinery, Equipment & Infrastructure	22.9	35.8
Others	3.7	4.6
Eliminations or Corporate	(7.8)	(6.6)
TOTAL	38.4	115.9

Figures in parentheses are negative.

Estimate of Consolidated Financial Results for FY 2016

For the fiscal year 2016 ending March 31, 2017, MHI is expecting 4,000 billion yen in net sales, 240 billion yen in operating income, 180 billion yen in ordinary income, and 100 billion yen in profit attributable to owners of parent. This estimate is based on the assumption of currency exchange rate of US\$ 1.00 = ¥100 and €1.00 = ¥115 for the portion yet to be fixed.

Please note that this estimate has been projected with currently available information and data. As such, these projections involve risks and uncertainties. For this reason, investors are recommended not to depend solely on these projections for making investment decisions. The actual results, therefore, may diverge broadly with the influence of a variety of outside factors such as economics surrounding MHI, currency movement of the yen 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.

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CONSOLIDATED BALANCE SHEETS (1/2)

(Millions of Yen)

	As of Mar. 31, 2016	As of Sep. 30, 2016
<u>ASSETS</u>		
Current assets:		
Cash and deposits	310,523	201,796
Trade receivables	1,205,689	1,058,430
Merchandise and finished products	187,330	185,539
Work in process	992,160	1,085,795
Raw materials and supplies	156,507	156,923
Deferred income taxes	137,428	150,453
Other current assets	547,848	573,300
Allowance for doubtful accounts	(7,694)	(7,068)
Total current assets	3,529,792	3,405,170
Non-current assets:		
Property, plant and equipment, net:		
Buildings and structures	397,292	401,087
Machinery and transportation equipment	257,306	249,746
Tools, equipment and furniture	56,570	64,958
Land	197,898	197,366
Leased assets	2,873	2,547
Construction in progress	75,497	64,029
Subtotal	987,440	979,735
Intangible assets:		
Goodwill	136,003	124,239
Others	150,126	143,351
Subtotal	286,130	267,590
Investments and advances:		
Investment securities	534,287	488,751
Long-term loans	4,946	4,535
Asset for retirement benefit	27,459	38,044
Deferred income taxes	15,808	13,935
Others	125,601	109,876
Allowance for doubtful accounts	(8,452)	(7,492)
Subtotal	699,650	647,650
Total non-current assets	1,973,221	1,894,977
TOTAL ASSETS	5,503,013	5,300,148

CONSOLIDATED BALANCE SHEETS (2/2)

(Millions of Yen)

	As of Mar. 31, 2016	As of Sep. 30, 2016
<u>LIABILITIES</u>		
Current liabilities:		
Trade payables	763,761	648,744
Electronically recorded obligations	96,888	96,536
Short-term borrowings	293,131	257,361
Current portion of long-term borrowings	61,715	38,421
Commercial papers	45,000	222,000
Current portion of bonds	20,000	60,000
Income taxes payable	18,091	17,058
Reserve for product warranties	15,128	15,276
Reserve for loss on construction contracts	56,866	59,891
Reserve for loss on passenger vessel construction business	72,842	40,522
Reserve for stock benefits	98	24
Advance payments received on contracts	749,747	736,422
Other current liabilities	407,108	348,854
Total current liabilities	2,600,378	2,541,113
Non-current liabilities:		
Bonds	245,000	215,000
Long-term borrowings	387,302	389,345
Deferred income taxes	70,385	61,566
Reserve for stock benefits	966	1,654
Reserve for treatment of PCB waste	7,258	7,105
Liability for retirement benefits	124,890	136,621
Other non-current liabilities	66,467	69,249
Total non-current liabilities	902,270	880,543
TOTAL LIABILITIES	3,502,649	3,421,657
<u>NET ASSETS</u>		
Stockholders' equity:		
Common stock	265,608	265,608
Capital surplus	203,951	204,001
Retained earnings	1,173,053	1,127,616
Treasury stock	(4,771)	(4,762)
Total stockholders' equity	1,637,842	1,592,464
Accumulated other comprehensive income (loss)		
Unrealized holding gain (loss) on investment securities	40,108	34,165
Unrealized gain (loss) from hedging instruments	3,044	5,786
Translation adjustments	17,762	(35,843)
Retirement benefits liability adjustments	(18,998)	(16,936)
Total accumulated other comprehensive income (loss)	41,917	(12,827)
Share subscription rights	2,616	2,624
Non-controlling interests	317,987	296,228
TOTAL NET ASSETS	2,000,364	1,878,490
TOTAL LIABILITIES AND NET ASSETS	5,503,013	5,300,148

CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

	FY2015 First 6 Months (From Apr. 1 to Sep. 30, 2015)	FY2016 First 6 Months (From Apr. 1 to Sep. 30, 2016)
Net sales	1,882,067	1,750,523
Cost of sales	1,495,252	1,430,204
Gross profit	386,814	320,318
Selling, general and administrative expenses:		
Provision of allowance for doubtful accounts	(630)	44
Directors' compensations, salaries and allowances	98,123	103,099
Research and development expenses	36,949	43,508
Expenses for inquiries	22,057	22,905
Other expenses	114,344	112,352
Total selling, general and administrative expenses	270,844	281,911
Operating income	115,970	38,407
Non-operating income:		
Interest income	3,613	2,003
Dividend income	5,476	4,754
Income from equity method investments	4,757	-
Other income	3,993	6,046
Total non-operating income	17,840	12,804
Non-operating expenses:		
Interest expense	6,974	5,974
Foreign exchange loss	4,868	11,845
Loss from equity method investments	-	20,376
Loss on disposal of fixed assets	2,679	3,020
Other expenses	7,404	11,848
Total non-operating expenses	21,926	53,065
Ordinary income	111,884	(1,853)
Extraordinary gain:		
Gain on sales of investment securities	-	3,718
Gain on sales of fixed assets	4,223	-
Total extraordinary gain	4,223	3,718
Extraordinary loss:		
Loss on passenger vessel construction business reserve	30,953	16,481
Business structure improvement expenses	3,353	-
Loss on sales of investment securities	2,751	-
Total extraordinary loss	37,058	16,481
Profit before income taxes	79,049	(14,615)
Income taxes	30,989	385
Profit	48,060	(15,000)
Profit attributable to non-controlling interests	4,707	3,946
Profit attributable to owners of parent	43,352	(18,947)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of Yen)

	FY2015 First 6 Months (From Apr. 1 to Sep 30, 2015)	FY2016 First 6 Months (From Apr. 1 to Sep 30, 2016)
Profit (Loss)	48,060	(15,000)
Other comprehensive income (loss)		
Unrealized holding gain (loss) on investment securities	(20,827)	(6,426)
Unrealized gain (loss) from hedging instruments	(1,856)	1,450
Translation adjustments	(15,278)	(68,722)
Retirement benefits liability adjustments	3,895	222
Share of other comprehensive income (loss) of entities accounted for by the equity method	(4,773)	(3,208)
Total other comprehensive income (loss)	(38,841)	(76,685)
Comprehensive income (loss)	9,218	(91,686)
Comprehensive income (loss) attributable to		
Owners of parent	1,013	(73,691)
Non-controlling interests	8,204	(17,994)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Yen)

	FY2015 First 6 Months (From Apr.1 to Sep.30,2015)	FY2016 First 6 Months (From Apr.1 to Sep.30,2016)
Cash flows from operating activities:		
Profit (loss) before income taxes	79,049	(14,615)
Adjustments to reconcile profit (loss) before income taxes to net cash provided by operating activities:		
Depreciation and amortization	75,517	79,872
Amortization of goodwill	5,669	8,046
Increase (decrease) in liability for retirement benefit	(3,688)	904
Interest and dividend income	(9,089)	(6,758)
Interest expense	6,974	5,974
Foreign exchange loss (gain)	6,589	6,038
(Income) loss from equity method investments	(4,757)	20,376
(Gain) loss on sales of investment securities	2,751	(3,718)
(Gain) loss on sales of fixed assets	(4,223)	(334)
Loss on disposal of fixed assets	2,679	3,020
Business structure improvement expenses	3,353	-
Loss on passenger vessel construction business reserve	30,953	16,481
(Increase) decrease in receivables	158,884	96,884
(Increase) decrease in inventories and advances to suppliers	(136,679)	(173,883)
(Increase) decrease in other assets	(66,379)	(12,833)
Increase (decrease) in payables	(87,215)	(81,558)
Increase (decrease) in advance payments received on contracts	(25,229)	(14,326)
Increase (decrease) in other liabilities	(44,305)	(40,638)
Others	(4,961)	597
Subtotal	(14,108)	(110,471)
Interest and dividends received	10,373	8,381
Interest paid	(6,966)	(6,096)
Income taxes paid	(16,416)	(10,167)
Net cash provided by operating activities	(27,117)	(118,354)
Cash flows from investing activities:		
Net (increase) decrease in time deposits	(2,208)	(3,794)
Purchases of property, plant, equipment and intangible assets	(74,450)	(98,267)
Proceeds from sales of property, plant, equipment and intangible assets	5,753	5,369
Purchases of investment securities	(10,137)	(2,967)
Proceeds from sales and redemption of investment securities	2,896	6,696
Payment for sales of investments in subsidiaries that result in change in scope of consolidation	(6,352)	-
Disbursement of long-term loans	(3,122)	(3,006)
Collection of long-term loans	2,335	1,743
Others	(1,633)	(4,482)
Net cash used in investing activities	(86,919)	(98,709)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings and commercial papers	89,465	160,371
Proceeds from long-term borrowings	5,742	590
Repayment of long-term borrowings	(2,743)	(32,661)
Proceeds from issuance of bonds	20,000	30,000
Payment for redemption of bonds	-	(20,000)
Proceeds from issuance of stock to non-controlling shareholders	3,246	100
Dividends paid to stockholders	(20,086)	(20,134)
Dividends paid to non-controlling shareholders	(7,992)	(1,691)
Purchase of investments in subsidiaries that do not result in change in scope of consolidation	(570)	(0)
Others	1,581	6,077
Net cash used in financing activities	88,641	122,652
Effect of exchange rate changes on cash and cash equivalents	(15,248)	(14,729)
Net increase (decrease) in cash and cash equivalents	(40,643)	(109,140)
Cash and cash equivalents at the beginning of the year	357,349	300,267
Increase in cash and cash equivalents due to changes in scope of consolidation	433	-
Decrease in cash and cash equivalents due to changes in scope of consolidation	(1,590)	(1,470)
Cash and cash equivalents at the end of period	315,548	189,656