



Q1 FY2020 Financial Results

August 3, 2020

Mitsubishi Heavy Industries, Ltd.

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I. Q1 FY2020 Financial Results

Q1 FY2020 Results Overview



The COVID-19 pandemic and resulting economic impact has led to weaker Q1 results compared to the same period last year. However, this is generally in line with expectations.

Amid these challenges, we are continuing to implement fixed cost reductions and other measures to achieve our full-year forecast.

- Order intake fell ¥60.5bn from a year earlier (-8.1% YoY). In Energy Systems domain, orders increased YoY, led by GTCC and nuclear power.
- Revenue declined ¥141.3bn (-15.4% YoY) due to a material decrease in Logistics, Thermal & Drive Systems, impacted by COVID-19. Revenue from the Aircraft, Defense and Space segments was slightly higher than in the same period last year, as increased revenue in Defense and Space offset a decline in Commercial Aviation Systems.
- Losses from business activities were ¥71.3bn. SpaceJet related losses including impairment of goodwill from the acquisition of the CRJ business accounted for ¥68.8bn out of the ¥71.3bn total.
- Although free cash flow was lower YoY mainly because of the CRJ business acquisition, Q1 results were in line with our expectations, and we are maintaining our full-year free cash flow forecast.

I will now explain our Q1 FY2020 financial results.

Please refer to the numerical tables on page 5 and 6.

Our Q1 results are generally lower than those for the same period of the previous fiscal year. While they may appear weak, we believe that the Q1 results are generally within our expectations, in light of the full-year forecast announced on May 11 of this year, which incorporated the expected COVID-19 impact.

We will continue to make efforts to manage any construction delays on projects and to reduce fixed costs in order to achieve our full-year forecast.

Items such as order intake, revenue, and profit from business activities will be addressed later in my presentation.

Summary of Q1 Financial Results



(In billion yen)

	FY2019 Q1		FY2020 Q1		Change	
	(Profit margin)		(Profit margin)			
Order Intake		750.2		689.6	-60.5	(-8.1%)
Revenue		919.3		778.0	-141.3	(-15.4%)
Profit from business activities	(4.4%)	40.4	(-9.2%)	-71.3	-111.8	(-276.6%)
Profit attributable to owners of parent	(1.8%)	16.3	(-7.4%)	-57.9	-74.2	(-453.7%)
EBITDA	(7.8%)	71.2	(-4.8%)	-37.1	-108.4	(-152.1%)
Free cash flow		-169.4		-339.5	-170.1	-

Summary of Q1 Financial Results (Cont'd)



(In billion yen)

FY2020 Q1	Businesses excluding SpaceJet (Profit Margin)		SpaceJet	Total (Profit margin)	
Order Intake	689.6		-	689.6	
Revenue	778.0		-	778.0	
Profit from business activities	(-0.3%)	-2.4	-68.8	(-9.2%)	-71.3
Profit attributable to owners of parent	(0.1%)	0.6	-58.5	(-7.4%)	-57.9
EBITDA	(4.1%)	31.6	-68.8	(-4.8%)	-37.1
Free cash flow	-273.2		-66.2	-339.5	

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Q1 FY2020 results on page 5 are broken down into SpaceJet-related results and results excluding SpaceJet on page 6.

Additionally, with respect to SpaceJet, we recognized a ¥68.8 billion loss from business activities, which includes impairment charges arising from the acquisition of CRJ business of Bombardier, completed on June 1.

In the same period of the previous fiscal year, a substantial portion of development costs for SpaceJet was capitalized, which explains the reason for a smaller loss of ¥5.4 billion.

Q1 Financial Results by Segment



(In billion yen)

	Order Intake			Revenue			Profit from business activities		
	FY2019 Q1	FY2020 Q1	Change	FY2019 Q1	FY2020 Q1	Change	FY2019 Q1	FY2020 Q1	Change
Energy Systems	231.5	317.1	+85.5	343.2	314.0	-29.1	19.2	0.3	-18.8
Plants & Infrastructure Systems	191.1	117.5	-73.6	185.0	139.5	-45.4	6.8	-4.0	-10.9
Logistics, Thermal & Drive Systems	250.3	186.2	-64.0	245.9	182.9	-62.9	7.5	-2.6	-10.2
Aircraft, Defense & Space	87.7	76.5	-11.2	152.1	155.1	+2.9	9.4	-62.0	-71.5
Others	-10.6	-7.8	+2.7	-6.9	-13.7	-6.7	-2.7	-2.9	-0.2
Total	750.2	689.6	-60.5	919.3	778.0	-141.3	40.4	-71.3	-111.8

Classifications for reporting segments have been changed from this fiscal year.
 "Energy Systems" corresponds to the former "Power Systems", and "Plants & Infrastructure Systems" and "Logistics, Thermal & Drive Systems" collectively correspond to the former "Industry & Infrastructure".

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Following a reorganization in business structure, we have changed some of our reporting segments from this fiscal year; specifically, the former "Industry & Infrastructure" segment has been divided into "Plants & Infrastructure Systems" and "Logistics, Thermal & Drive Systems". Figures for the same period from the previous fiscal year in the former reporting segments are adjusted to the new reporting segments to facilitate comparison.

Details of each reporting segment are covered starting on page 10.

Financial Position Overview



(In billion yen)

	As of March 31, 2020	As of June 30, 2020	Change
Trade receivables	1,188.0	1,127.0	-61.0
Inventories	726.2	819.1	+92.8
Other current assets	924.2	926.5	+2.2
(Cash and cash equivalents)	(281.6)	(219.5)	(-62.0)
Total fixed assets	996.3	1,013.6	+17.3
Other non-current assets	1,150.8	1,186.6	+35.7
Total assets	4,985.6	5,072.9	+87.2
Trade payables	824.0	717.3	-106.6
Contract liabilities	835.4	817.5	-17.9
Other liabilities	1,437.8	1,442.0	+4.1
Interest-bearing debt	598.2	887.7	+289.4
Equity	1,290.0	1,208.3	-81.7
(Equity attributable to owners of parent)	(1,218.3)	(1,139.9)	(-78.4)
Total liabilities and equity	4,985.6	5,072.9	+87.2

Borrowings	+44.4
Commercial paper	+245.0

Dividends	-25.1
Profit attributable to owners of parent	-57.9
Others	+4.6

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Total assets increased by ¥87.2 billion to ¥5,072.9 billion from the last fiscal year end.

In a typical year, our company usually sees an increase in total assets and negative free cash flows in Q1, and the same trend continued this year.

Although not shown in this presentation, total assets as of the end of Q1 FY2019 were ¥5,216.1 billion, and since then approximately ¥140 billion in assets were reduced.

On July 31st, we announced that the planned transfer of shares of Mitsubishi Hitachi Power Systems (MHPS) would take place in September this year. Upon completion of this transaction, total assets will be further reduced by ¥407.8 billion.

The breakdown of interest-bearing debt is shown in the red box on this page. Although the amount of interest-bearing debt increased due to negative FCF, we have been able to secure funds without any particular difficulty.

Main Balance Sheet Metrics and Cash Flows



Balance Sheet Metrics

	As of March 31, 2020	As of June 30, 2020	Change	FY2020 Forecast
Equity ratio	24.4%	22.5%	- 1.9pt	-
Interest-bearing debt (in billion yen)	598.2	887.7	+ 289.4	950.0
D/E ratio	0.46	0.73	+0.27	0.8

Cash Flows

(In billion yen)

	FY2019 Q1	FY2020 Q1	Change	FY2020 Forecast
Operating cash flow	-119.9	-223.6	-103.6	-
Investment cash flow	-49.4	-115.9	-66.4	-
Free cash flow	-169.4	-339.5	-170.1	-400.0

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While all of the main balance sheet metrics appear to be on a declining trend, these changes are within our initial forecast range for this fiscal year.

Furthermore, if the impact of the planned share transfer of MHPS mentioned earlier were reflected this quarter, the equity ratio as of Q1 end would have been 24.4%, as opposed to the 22.5% stated here.

Although operating cash flow deteriorated compared with the same period of the previous fiscal year, this was mainly due to a decrease in profits and an increase in inventories.

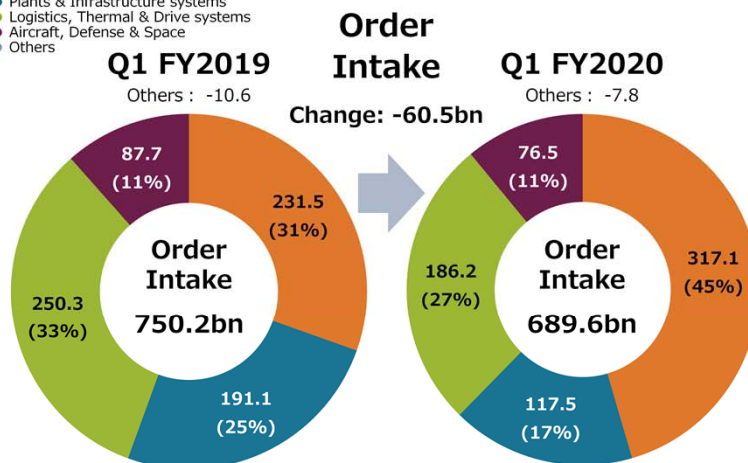
The increase in investment cash flow was primarily due to the acquisition of CRJ business.

Order Intake & Order Backlog by Segment



- Energy systems
- Plants & Infrastructure systems
- Logistics, Thermal & Drive systems
- Aircraft, Defense & Space
- Others

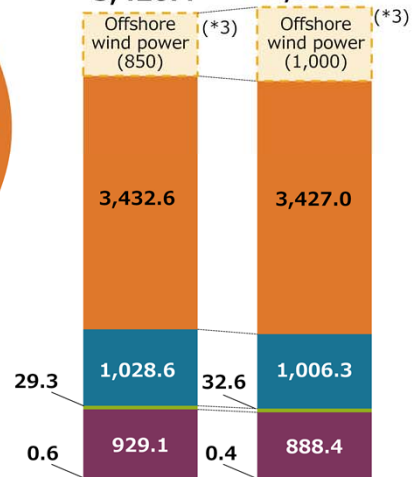
(In billion yen)



Order Backlog(*2)

Change: -65.5bn

As of Mar.31, 2020: 5,420.4
As of Jun.30, 2020: 5,354.9



■ Energy Systems	Increase	GTCC(*1), Nuclear power
■ Plants & Infrastructure Systems	Decrease	Metals machinery
■ Logistics, Thermal & Drive Systems	Decrease	Turbochargers, Logistics systems
■ Aircraft, Defense & Space	Decrease	Commercial aircraft

(*1) GTCC: Gas Turbine Combined Cycle

(*2) Does not include mass-manufactured products: turbochargers, logistics systems, etc.

(*3) Because this business is operated by an equity-method company (MHI Vestas Offshore Wind A/S), its backlog (rounded off) is indicated separate from the total backlog.

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Due in part to the impact of COVID-19, order intake was generally softer compared with the same period of the previous fiscal year; however, in the Energy segment orders increased due in part to successful bids for GTCC plants.

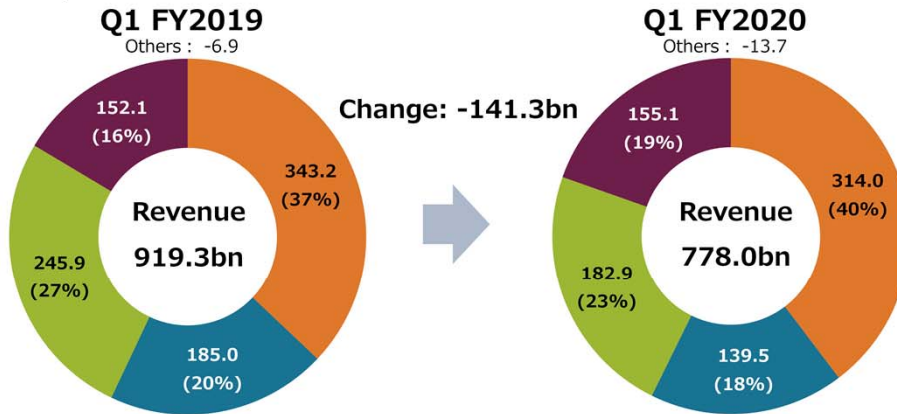
Order backlog decreased from the end of FY2019 due to higher revenue than order intake in Q1 FY2020.

Our order backlog in the offshore wind power business, shown by dashed lines in the graph, operates as a joint venture between Danish Vestas Wind Systems and MHI. Its order backlog increased as a result of order intake for large-scale projects in Scotland in June.

Revenue by Segment

- Energy systems
- Plants & Infrastructure systems
- Logistics, Thermal & Drive systems
- Aircraft, Defense & Space

(In billion yen)



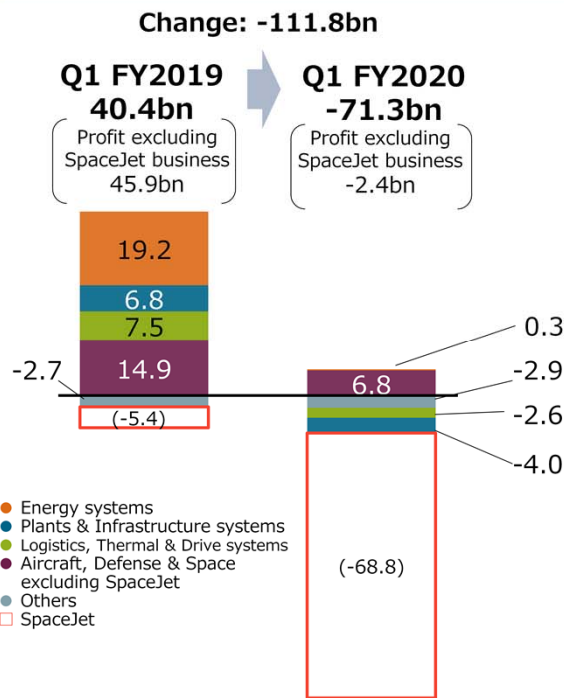
Change: -141.3bn

■ Energy Systems	Increase	Nuclear power
	Decrease	Steam power, Aero engines
■ Plants & Infrastructure Systems	Decrease	Metals machinery, Engineering, Machine tool
■ Logistics, Thermal & Drive Systems	Decrease	Turbochargers, Logistics systems, Car air-conditioners
■ Aircraft, Defense & Space	Increase	Defense aircraft / Missile systems
	Decrease	Commercial aircraft

Businesses that have been significantly affected by changes in the economic environment due to the spread of COVID-19, particularly aircraft-related, automobile-related, and other medium-lot products, experienced a decline in revenue.

Amid these challenges, revenue of nuclear power and defense-related businesses, which center on Japan's domestic infrastructure, have been strong.

Profit from Business Activities by Segment



Energy Systems

(In billion yen)

	Business	Factors
Increase	Nuclear power	Increased revenue, etc.
Decrease	Steam power	Decreased revenue, etc.
	Aero engines	

Plants & Infrastructure Systems

Decrease	Engineering	Decreased revenue, etc.
	Machine tool	

Logistics, Thermal & Drive Systems

Decrease	Turbochargers	Decreased revenue, etc.
	Logistics systems	
	Car air-conditioners	

Aircraft, Defense & Space

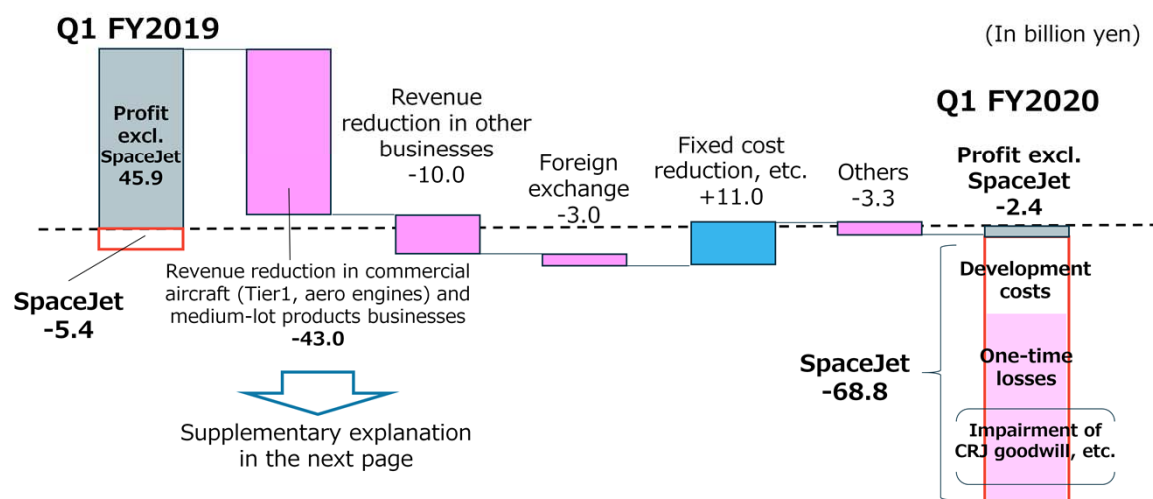
Increase	Defense and space	Increased revenue, etc.
Decrease	Commercial aircraft	Decreased revenue, etc.
	SpaceJet	Impairment of goodwill from CRJ acquisition, etc.

Compared to the same period of the previous fiscal year, profit from business activities is trending in the same direction as revenue mentioned above.

Please also refer to the "Appendix," starting on page 19, which describes the status of each segment.

Profit Bridge

- Commercial aircraft businesses and medium-lot products businesses have been most negatively impacted by COVID-19.
- We have mitigated some of this impact by implementing emergency measures such as fixed cost reductions.
- Q1 SpaceJet development costs of ¥20.0bn (Full-year forecast: ¥60.0bn), and one-time charges such as goodwill impairment from the CRJ acquisition of ¥50.0bn (Full-year forecast: ¥60.0bn) also weighed on performance.



This slide explains the factors behind year-on-year changes in profit from business activities (excluding SpaceJet). Here we show a breakdown of the difference between Q1 FY2019 profit of ¥45.9 billion and the ¥2.4 billion loss in the same period of the current fiscal year.

The first pink bar on the left, negative ¥43.0 billion, represents a decrease in profit from business activities due to a decline in revenue mainly because of the COVID-19 impact in the commercial aircraft and medium-lot products businesses.

This is largely in line with the estimated ¥140.0 billion decrease in profits caused by COVID-19, as shown in the full-year forecast.

On a quarterly basis, the impact of COVID-19 is expected to be greatest in Q1 of this fiscal year. More details regarding COVID-19 are on the next page.

The next bar to the right, negative ¥10.0 billion, shows a profit decrease due to changes in revenue in businesses other than the aforementioned.

This includes the impact of delays in some overseas plant construction projects due to COVID-19.

Foreign exchange effects resulted in a decrease in profit mainly due to the yen's appreciation against the U.S. dollar by more than ¥3 (¥110.87 to ¥107.43) compared to the same period of the previous fiscal year.

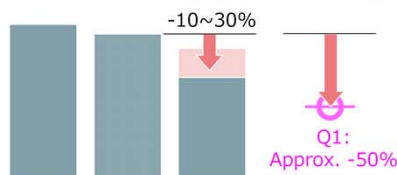
This was followed by an increase of ¥11.0 billion in cost reductions, including fixed costs reduction, and a decrease of ¥3.3 billion in other product mix changes.

COVID-19 Impact

Business FY20 Revenue Forecast

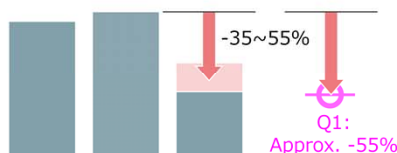
Status as of Q1

Commercial Aircraft - Aero Structures (Tier1)



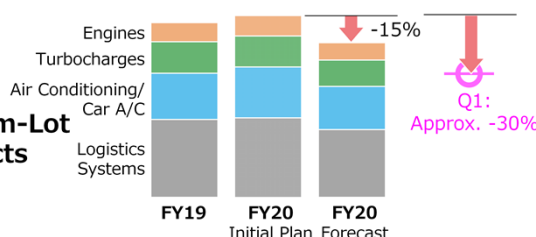
- Q1 Revenue fell by about half compared to the initial plan as a result of production adjustments, etc. Q1 expected to be the bottom. Risks remain that production rate plans going forward may require further changes; closely watching industry trends.

Commercial Aircraft - Aero Engines



- Q1 revenue roughly half of the initial plan. Results are at the bottom range of the FY2020 forecast (35~55% reduction from initial plan).

Medium-Lot Products



- Q1 revenue fell about 30% from the initial plan. The impact on automotive turbochargers and car air-conditioners was particularly significant. April was the weakest month and then back on the recovery track. Exceeded Q1 forecast.

This slide illustrates revenue development as of Q1, reflecting the assumptions of COVID-19, which we presented in our outlook for the current fiscal year on May 11.

Q1 revenues from commercial aircraft Tier 1 business (aircraft structures and components business largely with Boeing) were about half of the initial plan, which did not include COVID-19 effects.

The magnitude of the decrease was significant due to production adjustments in response to OEMs' (Original Equipment Manufacturer) production rates. For the full fiscal year, we expect Q1 to be the bottom of the market, but we are paying close attention to trends as there is still some uncertainty in production plans. We are taking countermeasures as we consider the risk of slightly exceeding the initial estimates for maximum deterioration that we included in our May presentation.

Q1 revenue in aircraft engines remained at the bottom of the expected decline. My impression is that this business has bottomed out, so if it continues the way it has been in Q1, we can expect the full-year results to be within our revised forecast.

Although revenues in our medium-lot products businesses in Q1 may appear to have fallen beyond the expected range, they have been recovering since May and overall revenue in this segment is slightly better than forecast.

To summarize our Q1 results, revenue and profit from business activities decreased significantly from the same period of the previous fiscal year due to the recording of impairment losses associated with the acquisition of CRJ, as well as the impact of COVID-19. However, we have been able to control the extent of the losses within the range of the full-year forecast, and we believe that Q1 results were generally as anticipated.

II. FY2020 Forecast

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 FY2020 Forecast



The latest forecast announced on May 11, 2020 is maintained

(In billion yen)

	FY2019 (Actual) (Profit margin)	FY2020(Forecast) (Profit margin)	Change	
Order Intake	4,168.6	3,500.0	- 668.6	(- 16.0%)
Revenue	4,041.3	3,800.0	- 241.3	(- 6.0%)
Profit from business activities	(-0.7%) - 29.5	0.0	+29.5	
Profit attributable to owners of parent	(2.2%) 87.1	0.0	- 87.1	
ROE	6.6%	-	-	
EBITDA	(2.8%) 115.1	(3.7%) 140.0	+24.9	(+21.6%)
Free cash flow	212.9	-400.0	-612.9	-
Dividend per share	150.0yen Interim: 75.0yen year-end: 75.0yen	75.0yen Interim: 0.0yen year-end: 75.0yen	Undetermined foreign currency amount USD: 1.7 billion Euro: 0.3 billion Assumed exchange rate USD 1.00 = ¥110 Euro 1.00 = ¥120	

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Pages 16 to 18 show our full-year forecasts, but to make a long story short, we have not changed our forecast which was announced on May 11.

Although progress in Q1 may appear to be slower than the full-year forecast would suggest, we have decided to maintain our full-year forecast as we expect the COVID-19 impact to be greatest in Q1 and the results were not that far from our original expectations.

Of course, I acknowledge that significant uncertainties remain in the future economic situation, so we will continue to pay close attention and take necessary measures in response to changes in the outlook.

This concludes my review of our Q1 FY2020 financial results.

Summary of Forecast for FY2020 (Cont'd)



The latest forecast announced on May 11, 2020 is maintained

(In billion yen)

FY2020 (Forecast)	Businesses excluding SpaceJet (Profit margin)	SpaceJet	Total (Profit margin)
Order Intake	3,500.0	-	3,500.0
Revenue	3,800.0	-	3,800.0
Profit from business activities	(3.2%) 120.0	-120.0	0.0
Profit attributable to owners of parent	(2.4%) 90.0	-90.0	0.0
ROE	-	-	-
EBITDA	(6.8%) 260.0	-120.0	(3.7%) 140.0
Free cash flow	- 280.0	-120.0	-400.0

Forecast for FY2020 by Segment



The latest forecast announced on May 11, 2020 is maintained

(In billion yen)

	Order Intake			Revenue			Profit from business activities		
	FY2019	FY2020	Change	FY2019	FY2020	Change	FY2019	FY2020	Change
Energy Systems	1,772.1	1,450.0	- 322.1	1,590.2	1,550.0	- 40.2	144.3	100.0	- 44.3
Plants & Infrastructure Systems	739.9	650.0	- 89.9	792.9	750.0	- 42.9	25.5	30.0	+4.4
Logistics, Thermal & Drive Systems	985.9	850.0	- 135.9	990.1	850.0	- 140.1	29.3	- 30.0	- 59.3
Aircraft, Defense & Space	719.2	600.0	- 119.2	704.9	700.0	- 4.9	- 208.7	- 90.0	+118.7
Others	- 48.5	- 50.0	- 1.4	- 36.9	- 50.0	- 13.0	- 20.0	- 10.0	+10.0
Total	4,168.6	3,500.0	- 668.6	4,041.3	3,800.0	- 241.3	- 29.5	0.0	+29.5

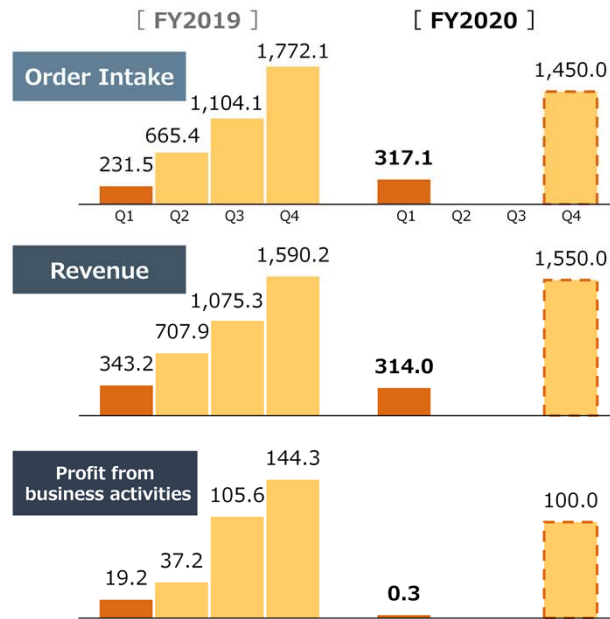
Classifications for reporting segments have been changed from this fiscal year.
 "Energy Systems" corresponds to the former "Power Systems", and "Plants & Infrastructure Systems" and "Logistics, Thermal & Drive Systems" collectively correspond to the former "Industry & Infrastructure".

III. Appendix

Appendix. Financial Results by Business Segment (Energy Systems)



(In billion yen, accumulated amount)



- Q1 revenue in aero engines declined to about half YoY, but generally remained within the range of our FY20 forecast.
- While we initially assumed the COVID-19 impact on the thermal power plant business to be relatively minor, we have seen delays in some overseas projects and after sales service work; however, this is expected to be made up in Q2 or later in FY20.

Gas turbine order intake & order backlog

Q1 FY2020 : 2 units

	Americas	Asia	EMEA	Others	Total	Backlog
Large size	-	2	-	-	2	45
Small to medium size	-	-	-	-	0	15
Total	0	2	0	0	2	60

FY2019 : 32 units

	Americas	Asia	EMEA	Others	Total	Backlog
Large size	7	10	2	2	21	49
Small to medium size	3	2	6	-	11	15
Total	10	12	8	2	32	64

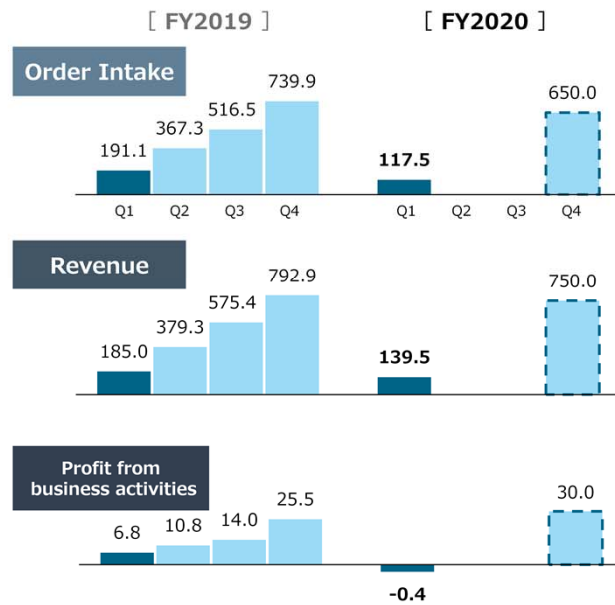
Q1 FY2019 : 6 units

	Americas	Asia	EMEA	Others	Total	Backlog
Large size	-	1	2	-	3	44
Small to medium size	3	-	-	-	3	11
Total	3	1	2	0	6	55

Appendix. Financial Results by Business Segment (Plants & Infrastructure Systems)



(In billion yen, accumulated amount)

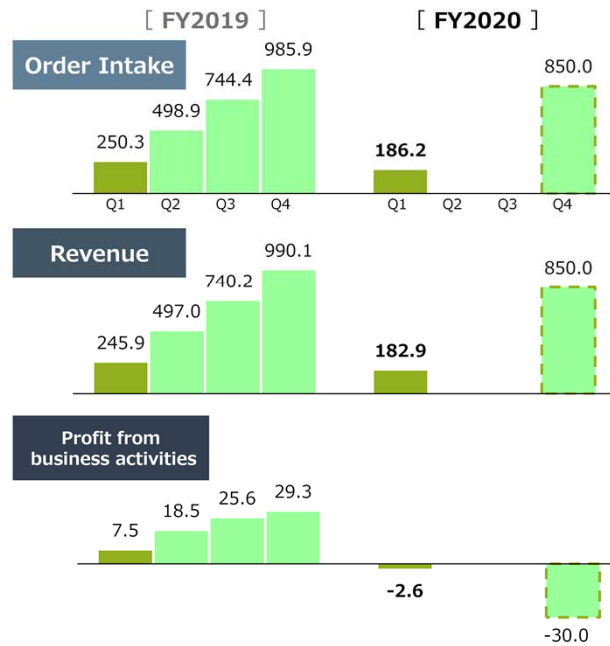


- At the beginning of the fiscal year, the impact from COVID-19 was assumed to be immaterial; however, some overseas projects have experienced construction interruptions or schedule extensions, requiring close management attention.
- Q1 revenue of machine tool business decreased by about half YoY. Fixed cost optimization measures are being implemented.

Appendix. Financial Results by Business Segment 〈Logistics, Thermal & Drive Systems〉



(In billion yen, accumulated amount)

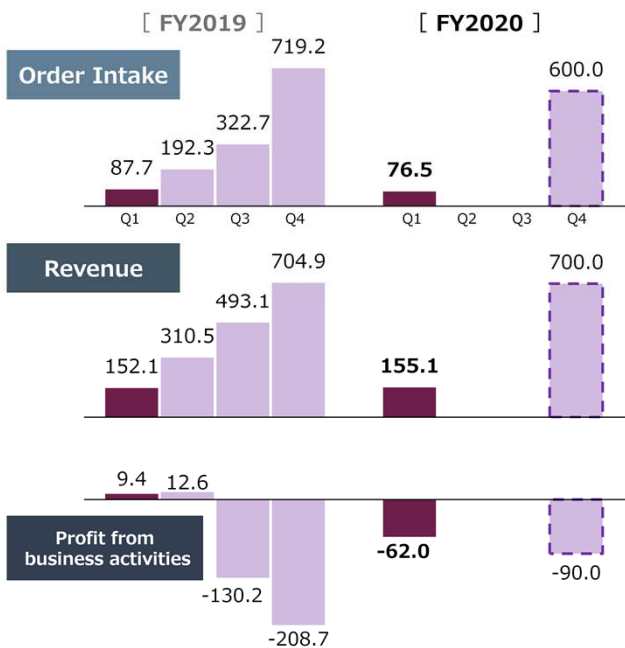


- Q1 revenue fell about 30%, YoY. While automotive related business such as turbochargers and car air-conditioners were materially impacted in Q1, the market has been recovering after bottoming out in April.
- Positive effects of emergency measures such as fixed costs reduction being seen. Q1 loss from business activities was kept to -¥2.6bn. Exceeded Q1 forecast (-¥30.0bn).

Appendix. Financial Results by Business Segment (Aircraft, Defense & Space)



(In billion yen, accumulated amount)



- Q1 revenue from commercial aircraft (Tier 1) was roughly halved YoY as a result of production adjustments. Risks remain that production rate plans going forward may require further changes. We are implementing operational adjustments and fixed cost reduction measures.
- Defense and space businesses remain strong.
- SpaceJet related loss including impairment of goodwill arising from the acquisition of the CRJ business was ¥68.8bn

SpaceJet order backlog: as of June 30, 2020
287 (firm order 163, options and purchase rights 124)

Number of B777s/B777Xs delivered

	Q1	Q2	Q3	Q4	Total
FY2019	16	14	13	11	54
FY2020	6	-	-	-	-

Number of B787s delivered

	Q1	Q2	Q3	Q4	Total
FY2019	43	42	38	43	166
FY2020	18	-	-	-	-

1. R&D Expenses, Depreciation and Capital Expenditure

(In billion yen)

	FY2019 Q1	FY2020 Q1	FY2020 Forecast
R&D Expenses	27.3	28.3	140.0
Depreciation	30.8	34.2	140.0
Capital Expenditure	31.6	28.4	150.0

2. Selling, General and Administrative Expenses

(In billion yen)

	FY2019 Q1	FY2020 Q1
SG&A	134.8	130.4

3. Foreign Exchange Rates (Average rate used for revenue)

	FY2019 Q1	FY2020 Q1
USD	110.9	107.4
Euro	124.5	117.5

4. Overseas Revenue by Region

(In billion yen)

	FY2019 Q1	FY2020 Q1
Asia	170.6 (19%)	125.8 (16%)
North America	177.7 (19%)	116.3 (15%)
Europe	87.3 (9%)	57.4 (7%)
Central & South America	34.1 (4%)	14.9 (2%)
The Middle East	24.0 (3%)	12.3 (2%)
Oceania	3.8 (0%)	3.8 (0%)
Africa	17.9 (2%)	11.8 (2%)
Total	515.8 (56%)	342.5 (44%)

MOVE THE WORLD FORWARD

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