



Financial Results for First Quarter FY2016

July 29, 2016

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Here we present an overview of MHI's financial results for the first quarter of FY2016, the period from April through June 2016.

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I . 1Q FY2016 Financial Results

Summary of 1Q Financial Results					MITSUBISHI HEAVY INDUSTRIES, LTD.	
(In billion yen)						
	FY2015-1Q		FY2016-1Q		Change	
Orders received	821.8		924.1		+102.3	+12.5%
Net sales	931.4		847.2		- 84.1	- 9.0%
Operating income	(6.3%)	58.8	(2.9%)	24.9	- 33.9	- 57.7%
Ordinary income	(6.6%)	61.6	(-2.0%)	- 16.6	- 78.2	-
Extraordinary gain/loss	-1.8		-7.3		- 5.5	-
Profit attributable to owners of parent	(3.8%)	35.5	(-1.4%)	- 12.1	- 47.6	-
EBITDA	(10.6%)	99.0	(8.0%)	67.4	- 31.5	- 31.9%

Non-operating expenses below are included:

- Foreign exchange loss -14.1
- Loss from equity method investments -20.7 (Mitsubishi Motors -18.8, etc.)

Breakdown of FY2016-1Q Extraordinary loss (-7.3 billion yen)

<Extraordinary loss>

- Loss on revaluation of investment securities -7.3

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This table presents a summary of the Company's FY2016-1Q results.

Orders received totaled 924.1 billion yen, an increase of 102.3 billion yen from the year-earlier level. Growth was attributable to an increase in orders in the Energy & Environment segment.

Net sales finished at 847.2 billion yen, down by 84.1 billion yen year-on-year. As of the end of the first quarter, sales are thus down from the level of a year ago.

Operating income, impacted by the decline in net sales, decreased 33.9 billion yen year-on-year, ending at 24.9 billion yen. Gross margin, however, was close to 20%, virtually unchanged from the year-earlier level. We attribute this low level of operating income to two factors: 1) decreased gross income owing to reduced sales, and 2) increased SG&A expenditures linked mostly to the acquisition of UniCarriers Corporation.

Ordinary income declined by 78.2 billion yen year-on-year, finishing 16.6 billion yen in the red. This resulted from 1) a foreign exchange loss, including revaluations at the end of the quarter, arising from the yen's rapid appreciation, and 2) loss from equity-method investments. Mitsubishi Motors Corporation was removed as an MHI equity-method affiliate effective the end of the first quarter; but in line with Japan's accounting standards, the carmaker's first-quarter earnings are factored into MHI's quarterly results as an equity-method investment loss.

The Company booked an extraordinary loss in the amount of 7.3 billion yen, a deterioration by 5.5 billion yen from the year-ago level. The decline owed to the booking of revaluation losses on investment securities amid the stock market's current downward trend.

As a result of the foregoing, net income – i.e. profit attributable to owners of parent – ended the quarter with a loss of 12.1 billion yen. EBITDA finished at 67.4 billion yen.

1Q Financial Results by Segment



(In billion yen)

	Orders received			Net sales			Operating income		
	FY2015 -1Q	FY2016 -1Q	Change	FY2015 -1Q	FY2016 -1Q	Change	FY2015 -1Q	FY2016 -1Q	Change
Energy & Environment	271.1	376.1	+104.9	343.7	307.7	- 36.0	15.4	8.3	- 7.1
Commercial Aviation & Transportation Systems	155.0	128.8	- 26.1	145.7	120.5	- 25.2	22.8	1.1	- 21.6
Integrated Defense & Space Systems	30.8	77.9	+47.0	82.1	89.8	+7.6	3.2	4.7	+1.5
Machinery, Equipment & Infrastructure (*)	358.2	338.9	- 19.2	354.9	324.1	- 30.8	19.5	13.2	- 6.2
Others (*)	44.1	38.3	- 5.8	30.8	36.4	+5.5	1.3	1.2	- 0.0
Eliminations or Corporate	- 37.6	- 36.0	+1.6	- 26.0	- 31.4	- 5.3	- 3.4	- 3.9	- 0.4
Total	821.8	924.1	+102.3	931.4	847.2	- 84.1	58.8	24.9	- 33.9

(*) Changes in business domains

• Certain businesses have been re-assigned as "Machinery & Infrastructure System" from "Others" since FY2015-3Q.

• Results for FY2015-1Q are in accordance with the new business domains.

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Here, we have a breakdown of the quarter's financial results by segment.

Operating income suffered a significant year-on-year decrease in the Commercial Aviation & Transportation Systems segment. Three factors contributed.

First, business involving commercial aircraft components for Boeing, which forms the core of sales in this segment, was heavily impacted by the yen's strength during the term, since sales are booked in dollars whereas costs are primarily incurred in yen.

Second, the MRJ's accelerating development costs increased during the term to acquire type certification.

Third, business in commercial aircraft components for Bombardier was adversely affected by a drop in the number of aircraft produced.

Operating income also declined year-on-year in the Machinery, Equipment & Infrastructure segment, although performance of this segment's various businesses was mixed. The results figures reflected struggling performance in the metals machinery business, largely due to the slowdown in the Chinese economy.

Balance Sheets			
(In billion yen)			
	As of (*) March 31, 2016	As of June 30, 2016	Changes
Trade receivables	1,205.6	1,064.1	-141.5
Inventories	1,335.9	1,413.3	+77.3
Other current assets	988.1	952.5	-35.5
Total fixed assets	1,273.5	1,251.8	-21.7
Investments and advances	699.6	619.3	-80.2
Total assets	5,503.0	5,301.2	-201.7
Trade payables	860.6	772.3	-88.2
Advance payments received on contracts	749.7	768.1	+18.3
Other current liabilities	840.1	783.7	-56.3
Interest-bearing debt	1,052.1	1,094.2	+42.1
Net Assets	2,000.3	1,882.7	-117.6
Net worth (owners equity)	1,679.7	1,582.8	-96.9
Total liabilities and net assets	5,503.0	5,301.2	-201.7

Accumulated other comprehensive income -56.0
 (Foreign currency translation adjustments,
 Net unrealized losses on investment securities, etc.)

(*) Acquisition of UniCarriers Holdings Corporation in FY2015.
 Revision of purchase price and purchase price allocation has been factored into FY2015's year-end balance sheets and some main financial measures.

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Here, we explain the Company's balance sheets as of the end of the first quarter. Total assets finished at 5,301.2 billion yen, down 201.7 billion yen from the end of FY2015.

The main factors that contributed to the decline were 1) a decline in trade receivables, 2) a decrease in other current assets (cash on hand, deposits, etc.), 3) a drop in total fixed assets attributable to ongoing depreciation, and 4) a decrease in investments and advances, including the Company's holdings in Mitsubishi Motors.


The major factors, positive and negative, affecting total liabilities and net assets were as follows:

Interest-bearing debt increased by 42.1 billion yen. This owed primarily to a negative free cash flow for the quarter, and new issuance of commercial paper to meet short-term financing demand.

Net assets decreased by 117.6 billion yen during the quarter. Three main factors contributed: 1) the term's net income loss, 2) payout of dividends, and 3) revaluation loss stemming from the yen's recent strength and the downturn in the stock market.

One approach to reading the balance sheets on which the Company is now focusing is the relationship between 1) the total of trade payables and advance payments received

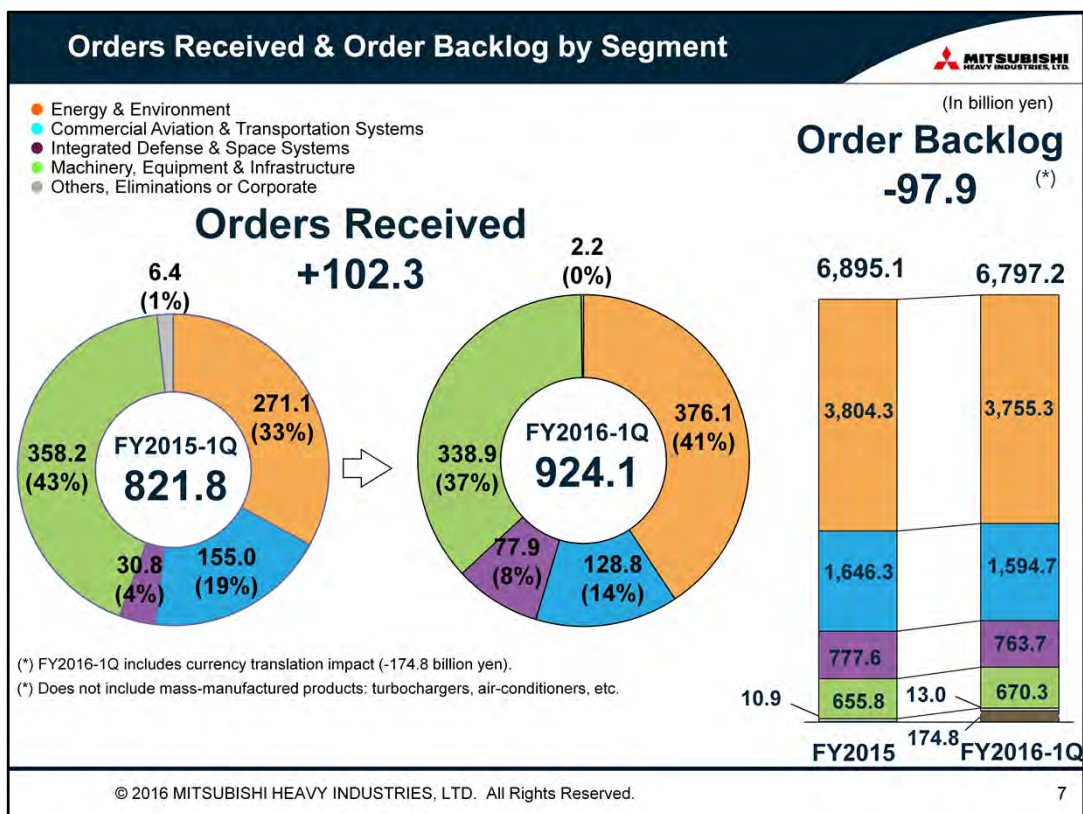
on contracts and 2) inventories. This relationship indicates whether or not production financing can be raised from interest-free debt. Presently, the total expressed in 1) stands at approximately 1,500 billion yen while 2) inventories are close to 1,400 billion yen. From these figures we conclude that our balance sheets are relatively sound.

Main Financial Measures, Cash Flows			
			
Main Financial Measures			
	FY2015	FY2016-1Q	Change
Equity ratio	(*) 30.5%	29.9%	-0.6pt
Interest-bearing debt (In billion yen)	1,052.1	1,094.2	+42.1
D/E ratio	53%	58%	+5pt
Cash Flows (In billion yen)			
	FY2015-1Q	FY2016-1Q	Change
Operating activities Cash Flow	-9.8	-64.1	-54.3
Investing activities Cash Flow	-40.8	-61.2	-20.3
Free Cash Flow	-50.7	-125.4	-74.7
(*) Acquisition of UniCarriers Holdings Corporation in FY2015: Revision of purchase price and purchase price allocation has been factored into FY2015's year-end balance sheets and some main financial measures.			
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Here, we explain our main financial indicators and cash flows.

Free cash flow, one of MHI's most important management indicators, ended the first quarter at -125.4 billion yen. The prime cause behind the operating activities cash flow finishing in negative territory was the significant financing demand generated by the cruise ship currently under construction and by the MRJ, which is now undergoing flight testing. The negative territory registered by investing activities cash flow owed to 1) investments to increase production and enhance productivity relating to commercial aircraft components for Boeing, and 2) investments into testing facilities for new gas turbines.

Overall, the situation is relatively firm, and going forward we will continue to devote our resources to improving free cash flow, one of the Company's most important management focuses.



Now, we will review the quarterly results by segment.

Orders received expanded to 924.1 billion yen, primarily thanks to increased orders in the Energy & Environment segment.

The increase recorded in the Energy & Environment segment came mostly from overseas orders for conventional large-scale thermal power plants. The Commercial Aviation & Transportation Systems segment posted a decrease in orders for commercial ships (LNG carriers, etc.) and commercial aircraft. The Integrated Defense & Space Systems segment marked an increase in orders for defense aircraft and special vehicles. The Machinery, Equipment & Infrastructure segment saw an increase in orders for forklift trucks – the result of M&A synergies – but a decrease in orders for metals machinery amid stagnation of the global economy.

The order backlog as a whole finished the quarter at 6,797.2 billion yen, down 97.9 billion yen from the level at the end of FY2015. The reason why the order backlog contracted during the term reduced despite the fact that the term’s net sales exceeded the term’s orders received, was because foreign-currency based orders were revalued in accordance with actual forex rates at the term’s end, resulting in a decrease by 174.8 billion yen.

The order backlog does not include work (mass-manufactured products, etc.) ordered

and booked to net sales during the same term. A backlog of 6,797.2 billion yen is equivalent to approximately 2 years' worth of work.

Orders Received & Order Backlog by Segment



➤ **Energy & Environment**

- Conventional power plants, etc. increased.

➤ **Commercial Aviation & Transportation Systems**

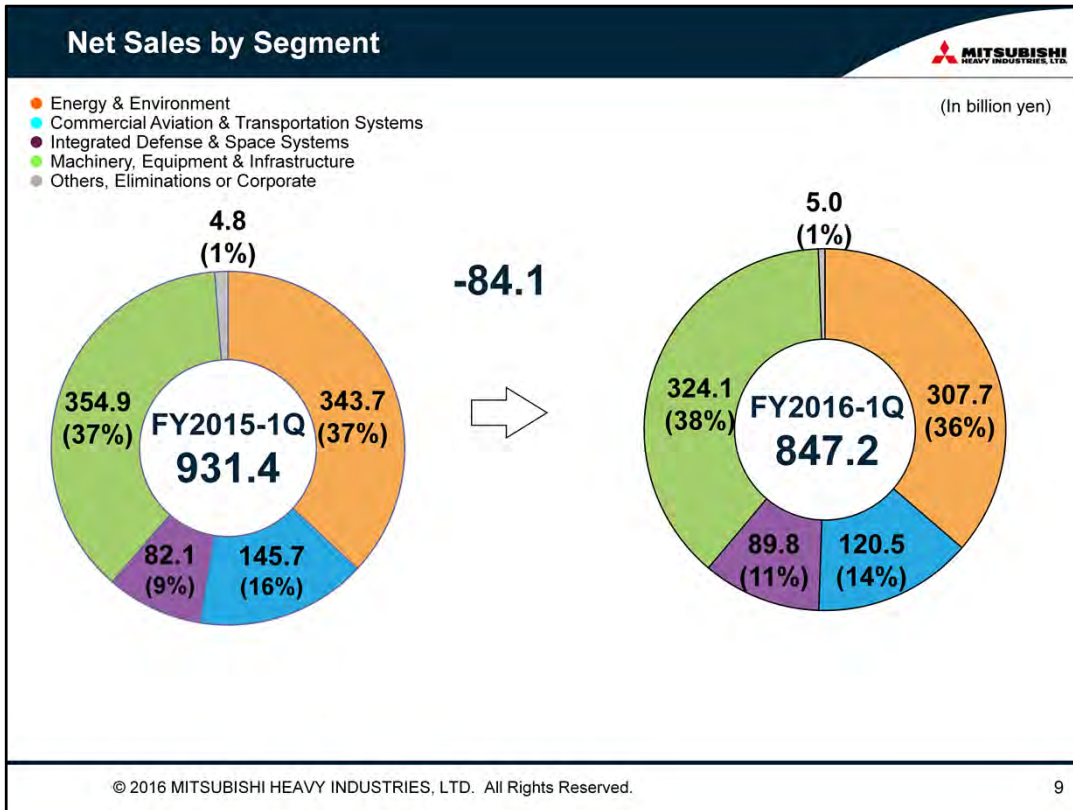
- Commercial ships (LNG carriers, etc.) and commercial aircraft decreased.

➤ **Integrated Defense & Space Systems**

- Defense aircraft and special vehicles, etc. increased.

➤ **Machinery, Equipment & Infrastructure**

- Forklift trucks increased, metals machinery, etc. decreased.



Here, we see a segment breakdown of the quarter's net sales.

Net Sales by Segment



➤ Energy & Environment

- GTCC(*) and chemical plants decreased.

➤ Commercial Aviation & Transportation Systems

- Commercial aircraft and commercial ships decreased.

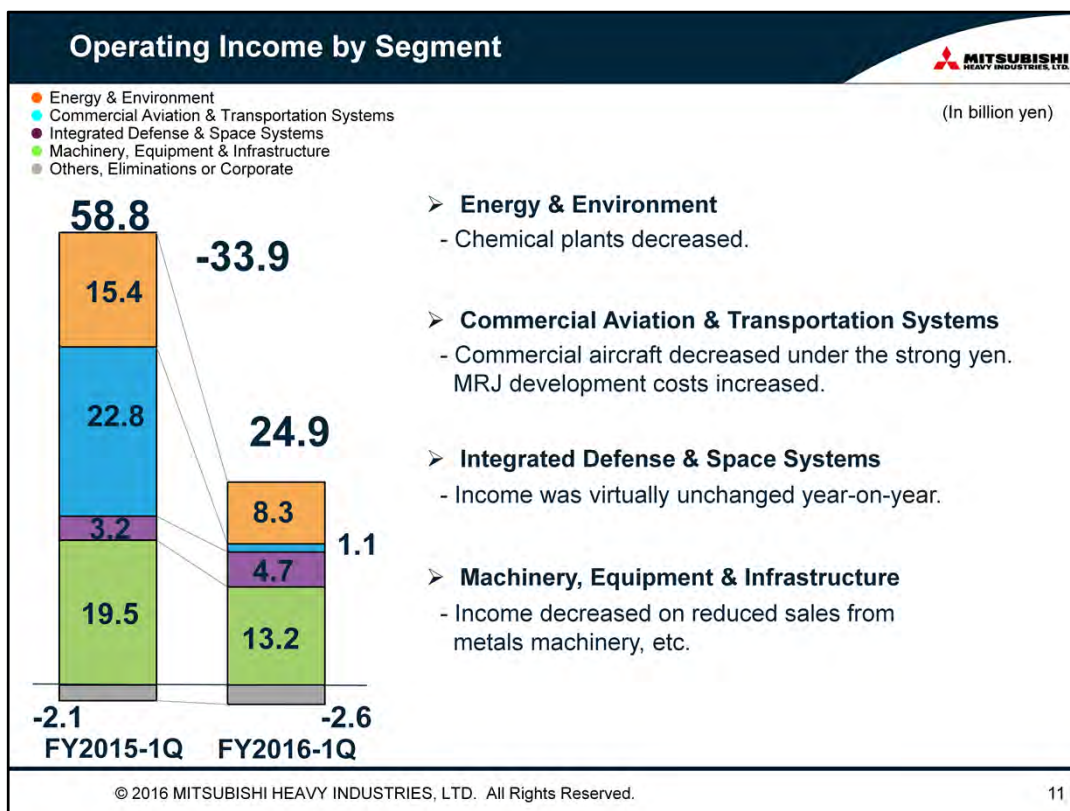
➤ Integrated Defense & Space Systems

- Naval vessels, etc. increased.

➤ Machinery, Equipment & Infrastructure

- Forklift trucks increased, metals machinery, etc. decreased.

(*) GTCC: Gas Turbine Combined Cycle



Here now, we have a breakdown by segment of the term's operating income.

The drop seen in the Energy & Environment segment came largely as a reaction to the completion of highly profitable work on chemical plants a year earlier. Margin on thermal power plant business itself has actually improved slightly from the year-ago level, so in our view the steady earning capacity of that business has not deteriorated.


Regarding the drop in operating income seen in the Commercial Aviation & Transportation Systems segment, as we explained earlier in slide #4, this owed mainly to forex effects and production decreases in the commercial aircraft business, coupled with increased development costs for the MRJ.

Operating income in the Integrated Defense & Space Systems segment was virtually unchanged from the year-ago level.

The decline in operating income in the Machinery, Equipment & Infrastructure segment was due primarily to reduced sales of metals machinery.

II . Forecast for FY2016

Forecasts regarding future performance in these materials are based on judgment 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 decision. It is possible that actual results may change significantly from these projections for a number of factors. Such factors include, but are not limited to, economic trends affecting the Company's operating environment, currency movement 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 FY2016					 (In billion yen)	
	FY2015 (Actual)	FY2016 (Forecast)		Change		
		As of July 29, 2016	As of May 9, 2016			
Orders received	4,485.5	5,000.0	5,000.0	+514.4	(+11.5%)	
Net sales	4,046.8	4,300.0	4,400.0	+253.1	(+6.3%)	
Operating income	(7.6%) 309.5	(7.7%) 330.0	350.0	+20.4	(+6.6%)	
Ordinary income	(6.7%) 272.5	(6.5%) 280.0	330.0	+7.4	(+2.8%)	
Net income attributable to owners of parent	(1.6%) 63.8	(2.3%) 100.0	130.0	+36.1	(+56.7%)	
ROE	3.7%	5.8%	7.5%	+2.1pt	-	
EBITDA	(11.9%) 479.6	(12.1%) 520.0	540.0	+40.3	(+8.4%)	
Free cash flow	7.5	130.0	130.0	+122.4	-	
Dividend (per share)	12.0yen Interim: 6.0yen year-end: 6.0yen	12.0yen Interim: 6.0yen year-end: 6.0yen	<small><Undetermined foreign currency amounts> <Assumed exchange rates> US\$: 1.8 billion (2.7 billion*) US\$ 1.00 = ¥105 (¥110*) Euro: 0.3 billion (0.4 billion*) Euro 1.00 = ¥115 (¥125*) (*) forecast as of May 9, 2016</small>			
Net sales and income forecasts have been revised in light of forex impact in FY2016-1Q and changes in assumed exchange rates.						
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Now, we will present the Company's current forecasts for FY2016.

Our forecast for orders received remains unchanged from our previous figure. As a result of fluctuations in the global economy, we expect to see a drop in the metals machinery market and reduced demand for compressors as investment enthusiasm wanes in the oil and gas industries. Overall, however, our assessment is that orders are relatively firm.

The Company has revised its net sales forecast to 4,300 billion yen, down 100 billion yen from our previous plan. The revision reflects changes in our forex rate assumptions going forward and the downward trend anticipated in sales of metals machinery, etc.

The operating income forecast has also been lowered, by 20 billion yen, to 330 billion yen. Although we see no problem in the gross income level, i.e. steady earning capacity, we have revised the forecast downward in reflection of the foregoing downward revision to our sales forecast.

We have also lowered our ordinary income forecast, to 280 billion yen, down 50 billion yen from our earlier projection. In this case, the revision factors in the foreign exchange losses booked in the first quarter and the equity-method investment loss suffered from Mitsubishi Motors.

As a result of the foregoing, we have revised our net income forecast for the year to 100 billion yen, down 30 billion yen from our previous forecast.

Our free cash flow forecast remains unchanged.

We have also made no change to our dividend projection.

This concludes our presentation of MHI's financial results for FY2016-1Q.

Forecast for FY2016 by Segment



(In billion yen)

	Orders received			Net sales				Operating income			
	FY2015 (Actual)	FY2016 (Forecast)	Change	FY2015 (Actual)	FY2016 (Forecast)		Change	FY2015 (Actual)	FY2016 (Forecast)		Change
					As of July 29	As of May 9			As of July 29	As of May 9	
Energy & Environment	2,005.0	2,100.0	+94.9	1,542.7	1,650.0	1,700.0	+107.2	154.6	185.0	190.0	+30.3
Commercial Aviation & Transportation Systems	607.1	700.0	+92.8	548.5	550.0	550.0	+1.4	54.5	20.0	30.0	- 34.5
Integrated Defense & Space Systems	447.7	400.0	- 47.7	485.0	400.0	400.0	- 85.0	25.7	26.0	26.0	+0.2
Machinery, Equipment & Infrastructure	1,392.5	1,700.0	+307.4	1,432.3	1,650.0	1,700.0	+217.6	80.0	105.0	110.0	+24.9
Others	162.8	200.0	+37.1	177.3	160.0	160.0	- 17.3	12.6	14.0	14.0	+1.3
Eliminations or Corporate	- 129.8	- 100.0	+29.8	- 139.2	- 110.0	- 110.0	+29.2	- 18.1	- 20.0	- 20.0	- 1.8
Total	4,485.5	5,000.0	+514.4	4,046.8	4,300.0	4,400.0	+253.1	309.5	330.0	350.0	+20.4

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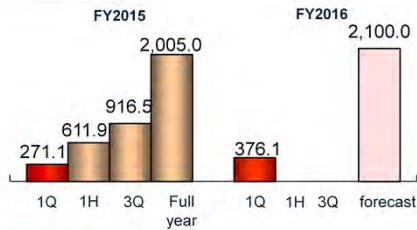
III. Supplementary Information

< Energy & Environment >

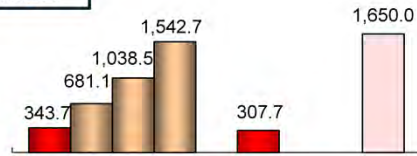


(In billion yen, accumulated amount)

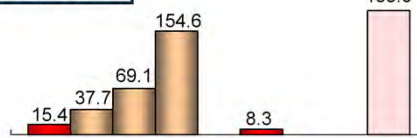
Orders Received



Net Sales



Operating Income



Orders received : Up ¥104.9 billion YoY

- Orders increased year-on-year mainly on increases in conventional power plants.

[Gas turbine orders]

		North America	Asia	Japan	Others	Total
FY2015 -1Q	Large size	-	2	-	-	2
	Small to medium size	-	-	-	1	1
	Total	0	2	0	1	3
FY2016 -1Q	Large size	2	1	-	-	3
	Small to medium size	-	-	-	-	0
	Total	2	1	0	-	3

[Backlog of Gas turbine orders]

	Large size	Small to medium size	Total
FY2015-1Q	34	31	65
FY2015-4Q	42	35	77
FY2016-1Q	42	32	74

Net sales : Down ¥36.0 billion YoY

- Sales decreased year-on-year from reduced sales of GTCC(*) and chemical plants, etc.

Earnings : Down ¥7.1 billion YoY

- Income decreased year-on-year from reduced income from chemical plants.

Full-year forecasts :

- Net sales has been revised downward, from ¥1,700 billion to ¥1,650.0 billion
- Operating income has been revised downward, from ¥190.0 billion to ¥185.0 billion.

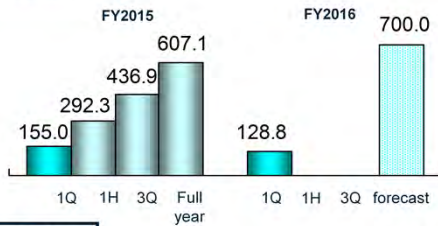
(*) GTCC: Gas Turbine Combined Cycle

< Commercial Aviation & Transportation Systems >



(In billion yen, accumulated amount)

Orders Received



Orders received : Down ¥26.1 billion YoY

- Orders decreased year-on-year mainly from decreases in commercial ships (multiple LNG carrier orders in FY2015-1Q) and commercial aircraft.

[Number of ships orders received]

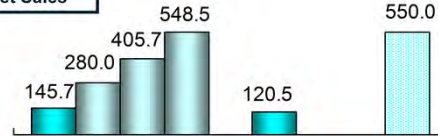
FY2015-1Q: 4 (1Q: 4, 2Q: 2, 3Q: 5, 4Q: 5)

FY2016-1Q: 4 (1Q: 4)

[Backlog of ship orders] 36

(11 LNG carriers, 8 LPG carriers, 5 patrol vessels and others)

Net Sales



Net sales : Down ¥25.2 billion YoY

- Sales decreased year-on-year from reduced sales of commercial aircraft and commercial ships.

[Number of B777s delivered]

FY2015-1Q: 28 (1Q: 28, 2Q: 27, 3Q: 25, 4Q: 27)

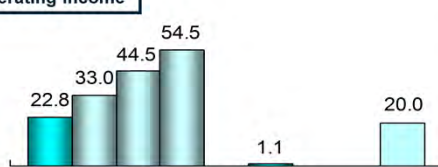
FY2016-1Q: 27 (1Q: 27)

[Number of B787s delivered]

FY2015-1Q: 32 (1Q: 32, 2Q: 31, 3Q: 29, 4Q: 34)

FY2016-1Q: 36 (1Q: 36)

Operating Income



Earnings : Down ¥21.6 billion YoY

- Income decreased year-on-year mainly under the impact of the strong yen (especially commercial aircraft) and increased MRJ development costs.

Full-year forecasts :

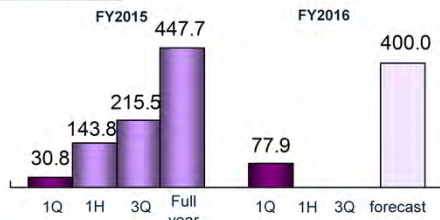
- Operating income has been revised downward, from ¥30.0 billion to ¥20.0 billion.

< Integrated Defense & Space Systems >



(In billion yen, accumulated amount)

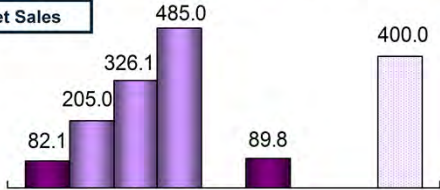
Orders Received



Orders received : Up ¥47.0 billion YoY

- Orders increased year-on-year from increases in defense aircraft and special vehicles, etc.

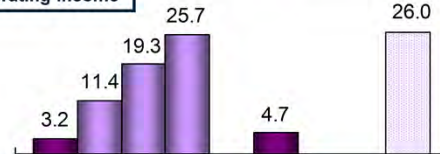
Net Sales



Net sales : Up ¥7.6 billion YoY

- Sales increased year-on-year mainly in naval ships.

Operating Income



Earnings : Up ¥1.5 billion YoY

- Income was virtually unchanged.

Full-year forecast :

-No change

< Machinery, Equipment & Infrastructure >



(In billion yen, accumulated amount)

Orders Received

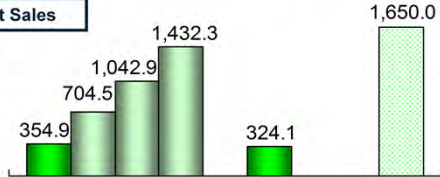


Orders received : Down ¥19.2 billion YoY

Net sales: Down ¥30.8 billion YoY

- Sales decreased year-on-year, with increased sales for forklift trucks offset by decreased sales for metals machinery, etc.

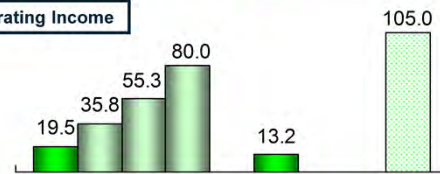
Net Sales



Earnings : Down ¥6.2 billion YoY

- Income decreased year-on-year from reduced sales of metals machinery, etc.

Operating Income



Full-year forecasts :

- Net sales has been revised downward, from ¥1,700 billion to ¥1,650.0 billion
- Operating income has been revised downward, from ¥110.0 billion to ¥105.0 billion.

(*) Changes in business domains

• Certain businesses have been re-assigned as "Machinery & Infrastructure System" from "Others" since FY2015-3Q.

• Results for FY2015-1Q are in accordance with the new business domains.

Supplementary Information ② Reference Data



(In billion yen)

1. R&D Expenses, Depreciation and Amortization-Capital Expenditure

	FY2015-1Q	FY2016-1Q	FY2016 (Forecast)
R&D Expenses	26.4	29.0	150.0
Depreciation	37.1	38.4	170.0
Capital Expenditure	27.6	38.6	200.0

2. Selling, General and Administrative expenses

	FY2015-1Q	FY2016-1Q
SG&A	133.0	141.8

3. Foreign Exchange Rates

(In yen)

	FY2015-1Q	FY2016-1Q
US\$	120.2	110.1
Euro	132.1	123.9

Supplementary Information ② Reference Data



(In billion yen)

4. Overseas Sales by Region

	FY2015-1Q		FY2016-1Q	
Asia	173.1	(19%)	142.6	(17%)
North America	204.6	(21%)	163.0	(18%)
Europe	95.9	(10%)	107.8	(13%)
Central & South America	32.7	(4%)	21.1	(2%)
The Middle East	26.2	(3%)	18.2	(2%)
Africa	25.2	(3%)	26.4	(3%)
Oceania	6.0	(1%)	7.4	(1%)
Total	564.0	(61%)	486.8	(57%)

5. Segment Information by Geographic Distribution

		FY2015-1Q	FY2016-1Q
Japan	Net Sales	676.3	639.8
	Operating income	49.5	19.4
North America	Net Sales	132.4	104.4
	Operating income	2.8	2.0
Asia	Net Sales	104.3	87.1
	Operating income	7.8	8.8
Europe	Net Sales	84.3	93.7
	Operating income	-1.9	-4.6
Others	Net Sales	26.1	18.2
	Operating income	0.5	-0.7
Eliminations or Corporate	Net Sales	-92.1	-96.1
	Operating income	-	-
Total	Net Sales	931.4	847.2
	Operating income	58.8	24.9



Our Technologies, Your Tomorrow

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