MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

Financial Results for FY2016 1-3Q (Apr.-Dec.)

February 2, 2017

MITSUBISHI HEAVY INDUSTRIES, LTD.

Here we present an overview of MHI's financial results for the first three quarters of fiscal year 2016, the period from April 2016 through December 2016.

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Ⅰ. FY2016 1-3Q Financial Results

Summary of 1-3Q Financial Results

MITSUBISHI HEAVY INDUSTRIES

(In billion yen)

	FY2015 1-3Q	FY2016 1-3Q	Change	
Orders received	2,630.9	2,656.4	+25.4	+1.0%
Net sales	2,832.6	2,694.2	- 138.3	△ 4.9%
Operating income	(6.5%) 185.3	(2.5%) 68.4	- 116.9	- 63.1%
Ordinary income	(6.2%) 174.8	(1.9%) 50.9	- 123.8	- 70.8%
Extraordinary gain/loss	- 69.9	-19.7	+50.1	-
Profit attributable to owners of parent	(1.9%) 53.3	(-0.4%) -11.2	- 64.6	-
EBITDA	(10.9%) 310.1	(7.6%) 205.5	- 104.6	- 33.7%

Breakdown of FY2016 1-3Q Extraordinary gain/loss (-19.7 billion yen)

Extraordinary gain

-Gain on sales of investment securities 4.6

Extraordinary loss

-Loss on cruise ship construction business -16.4

-Loss on revaluation of investment securities -5.9

-Business structure improvement expenses -1.9

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This table outlines our financial results for the first three quarters.

Orders received totaled 2,656.4 billion yen, virtually unchanged from the previous year. Although the strong yen dampened orders slightly, there was an overall increase. This was partly the result of a boost in orders following the acquisition and integration of UniCarriers.

Net sales totaled 2,694.2 billion yen, down 138.3 billion yen from the previous year. Previously there has been a two year time lapse between an order being received and the corresponding booking to net sales. Recently, however, this lapse has expanded, taking between 2-and-a-half and 3 years. As a result, net sales growth lagged somewhat compared to our initial projection.

Operating income finished at 68.4 billion yen, down 116.9 billion yen year-on-year. Because of the overall delay in bookings to net sales, a temporary imbalance has occurred between net sales and fixed costs; and this has adversely impacted our operating income. However, orders have been consistently accumulating, in line with our efforts toward achieving a business scale of 5 trillion yen. We have been able to realize a certain level of cost reductions, in spite of the yen's appreciation, and the level of our variable expense ratio remains unchanged.

Ordinary income decreased 123.8 billion yen year-on-year, to 50.9 billion yen. This marked a recovery from the level after the first two quarters, largely attributable to foreign exchange gains as the yen weakened after the second quarter.

Extraordinary gains/losses ended at minus 19.7 billion yen in this period, an improvement of approximately 50 billion yen from the previous year. With respect to losses on the cruise ship construction business, at the interim a loss of 16.4 billion yen was booked, but presently construction is proceeding smoothly and we are in the final phase of the run-up to delivery. In view of the extreme complexity of the cruise ships involved, we can't rule out the possibility that some unanticipated situation might occur in future. As of now, however, work is progressing on schedule, and we do not anticipate any major problems.

As a result of these factors, profit attributable to owners of the parent—in other words, net income—decreased 64.6 billion yen year-on-year, to finish at minus 11.2 billion yen.

In the first quarter of fiscal 2016, we booked an equity-method investment loss of 18.8 billion yen related to Mitsubishi Motors Corporation. In this instance, no tax effect can be recognized, so the loss directly impacts our net income. Had this special factor been absent, we believe net income would have finished somewhere around 10 billion yen.

EBITDA, which is a barometer of our earning capacity, decreased 104.6 billion yen from the previous year, to 205.5 billion yen.

1-3Q Financial Results by Segment

MITSUBISHI HEAVY INDUSTRIES

(In billion yen)

	Orders received			Net sales			Operating income		
	FY2015 1-3Q	FY2016 1-3Q	Change	FY2015 1-3Q	FY2016 1-3Q	Change	FY2015 1-3Q	FY2016 1-3Q	Change
Energy & Environment	916.5	1,058.2	+141.7	1,038.5	993.2	- 45.3	69.1	44.5	- 24.5
Commercial Aviation & Transportation Systems	436.9	325.2	- 111.6	405.7	360.5	- 45.2	44.5	- 28.3	- 72.8
Integrated Defense & Space Systems	215.5	191.0	- 24.5	326.1	310.1	- 15.9	19.3	19.1	- 0.1
Machinery, Equipment & Infrastructure	1,045.4	1,069.6	+24.1	1,042.9	1,015.4	- 27.4	55.3	37.8	- 17.5
Others	120.9	117.9	- 3.0	113.3	119.7	+6.3	7.0	6.5	- 0.5
Eliminations or Corporate	- 104.4	- 105.6	- 1.1	- 94.1	- 104.8	- 10.7	- 10.1	- 11.3	- 1.2
Total	2,630.9	2,656.4	+25.4	2,832.6	2,694.2	- 138.3	185.3	68.4	- 116.9

Here, we see the financial results for the first three quarters, broken down by segment.

We start with orders received. The Energy & Environment segment performed relatively well, posting a 141.7 billion yen increase year-on-year, to finish at 1,058.2 billion yen. The Commercial Aviation & Transportation Systems segment, on the other hand, posted orders of 325.2 billion yen, down 111.6 billion from the previous year; this was primarily due to the Tier 1 commercial aircraft business (which is on the cusp of a shift from old to new models), coupled with sluggish performance in the commercial ship business. Orders received for other segments were largely unchanged from the previous year.

As I explained previously, the interval between order receipts and booking to sales is getting longer, and this is the key driving factor in the declines in net sales for segments that we see here. With regards to operating income, while the various segments were impacted by different factors—delayed post-merger integration among them—overall, operating income is being eroded by an imbalance between the scale of fixed costs and net sales. This impact was felt most strongly in the Commercial Aviation & Transportation Systems segment, followed by the Energy & Environment domain and then the Machinery, Equipment & Infrastructure segment. We recognize that this is an important management issue, and will explain how we intend to respond in our review of the progress made under our 2015 Medium-Term Business Plan.

Balance Sheets

MITSUBISHI HEAVY INDUSTRIES

(In billion yen)

	As of Mar. 31, 2016	As of Dec. 31, 2016	Change
Trade receivables	1,205.6	1,151.0	-54.6
Inventories	1,335.9	1,500.8	+164.8
Other current assets	988.1	1,051.7	+63.6
Total fixed assets	1,273.5	1,253.9	-19.5
Investments and advances	699.6	746.9	+47.3
Total assets	5,503.0	5,704.6	+201.6
Trade payables	860.6	766.8	-93.7
Advance payments received on contracts	749.7	690.9	-58.8
Other current liabilities	840.1	834.7	-5.3
Interest-bearing debt	1,052.1	1,406.7	+354.5
Net Assets	2,000.3	2,005.4	+5.0
Net worth (owners equity)	1,679.7	1,679.6	+0.0
Total liabilities and net assets	5,503.0	5,704.6	+201.6

Commercial papers +307.0 etc.

Dividend, net loss, etc. -57.2
Other comprehensive income +57.1
(Unrealized holding gain on investment securities, etc.)

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Next, I would like to explain our balance sheets.

Compared to the end of fiscal 2015, our total assets have increased by 201.6 billion yen, to 5,704.6 billion yen. The increase is primarily due to inventories. Currently, orders are relatively solid, but as a result of delays in booking to sales, our inventories have been building up. At MHI, we are taking steps to improve the efficiency of our balance sheets—for example, by reducing our inventories; but this is where we are now.

In response to this increase, we are seeking to improve liquidity by increasing cash temporarily through commercial papers. We expect to clear this and resolve the issue by the close of this fiscal year.

Main Financial Indicators, Cash Flows

Main Financial Indicators

	As of Dec. 31 2015	As of Mar. 31 2016	As of Dec. 31 2016	Change	FY2016 (Forecast)
Equity ratio	31.3%	30.5%	29.4%	-1.1pt	-
Interest-bearing debt (In billion yen)	1,275.7	1,052.1	1,406.7	+354.5	950.0
D/E ratio	61%	53%	70%	+17pt	-

Cash Flows

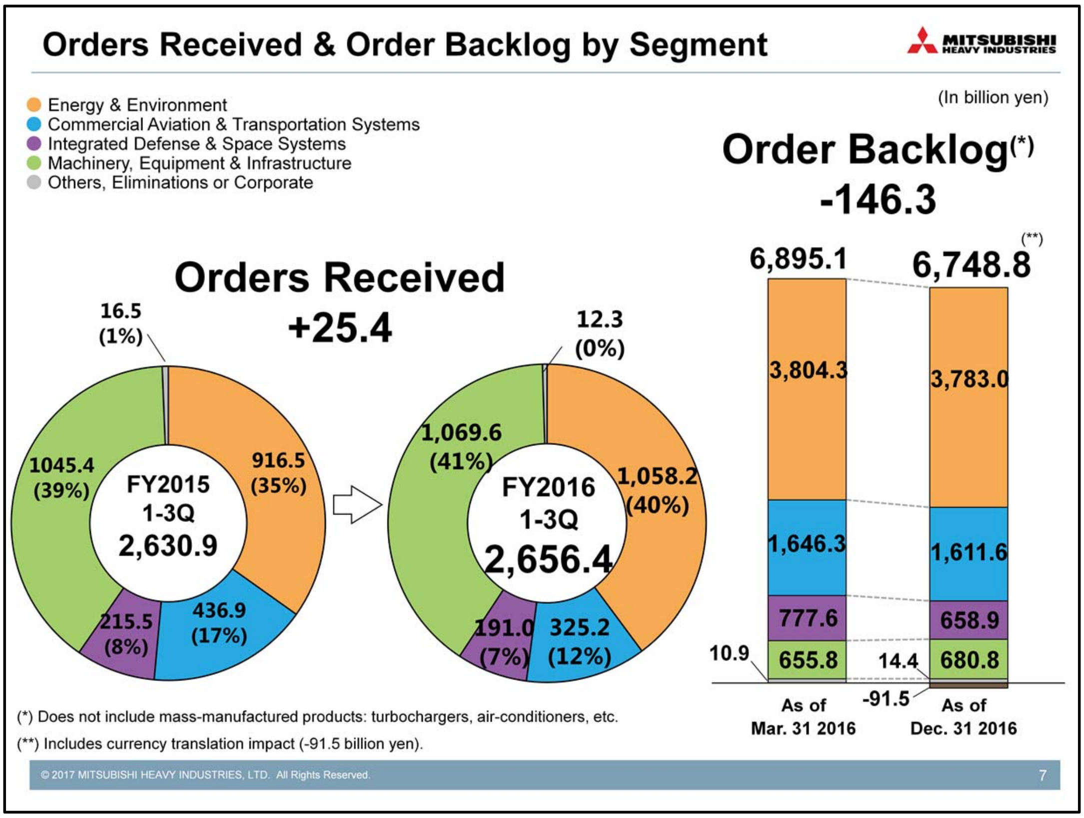
(In billion yen)

	FY2015 1-3Q	FY2016 1-3Q	Change	FY2016 (Forecast)
Operating activities cash flow	-112.7	-261.9	-149.2	-
Investing activities cash flow	-129.7	-131.9	-2.2	-
Free cash flow	-242.4	-393.9	-151.4	100.0

Next, I will turn to explaining our main financial indicators and cash flows.

Our equity ratio ended the 3rd quarter at 29.4%, down 1.1 point year-on-year, primarily as a result of somewhat slow profit growth. Interest-bearing debt is increasing due to the temporary expansion in the balance sheets as I explained in the previous page. Our full-year outlook, however, is for recovery of this cash flow position, and we forecast that interest-bearing debt will return to near 950 billion yen by the term's end. Our D/E ratio currently stands at 70%.

With respect to cash flows, these are moving deeper into negative territory along with the aforementioned sluggish growth in operating income and temporary expansion of the balance sheets. At MHI, cash flows have typically hit bottom at the end of the 3rd quarter—which is when inventories increase—and then recover through the remainder of the fiscal year as deliveries go forward. Free cash flow deteriorated compared with the previous year, but we believe this will be brought up to 100 billion yen in the plus column on a full-year basis, supported by our effort in asset management and asset liquidation.



Here we see breakdowns, by segment, of our orders received and order backlog.

Overall, the levels of orders received are largely unchanged from the previous year. A breakdown by segment, however, shows a year-on-year increase in the Energy & Environment segment, while the Commercial Aviation & Transportation Systems domain finished down year-on-year amid the current shift from old to new models in the Tier 1 commercial aircraft business. The Integrated Defense & Space Systems segment finished virtually unchanged. Finally, the Machinery, Equipment and Infrastructure segment maintained a similar level to the previous year. Forklift trucks posted an increase on the back of the integration of UniCarriers; but amid the sluggishness of the global economy, metals machinery, compressors and other infrastructure equipment are struggling somewhat.

Orders Received & Order Backlog by Segment

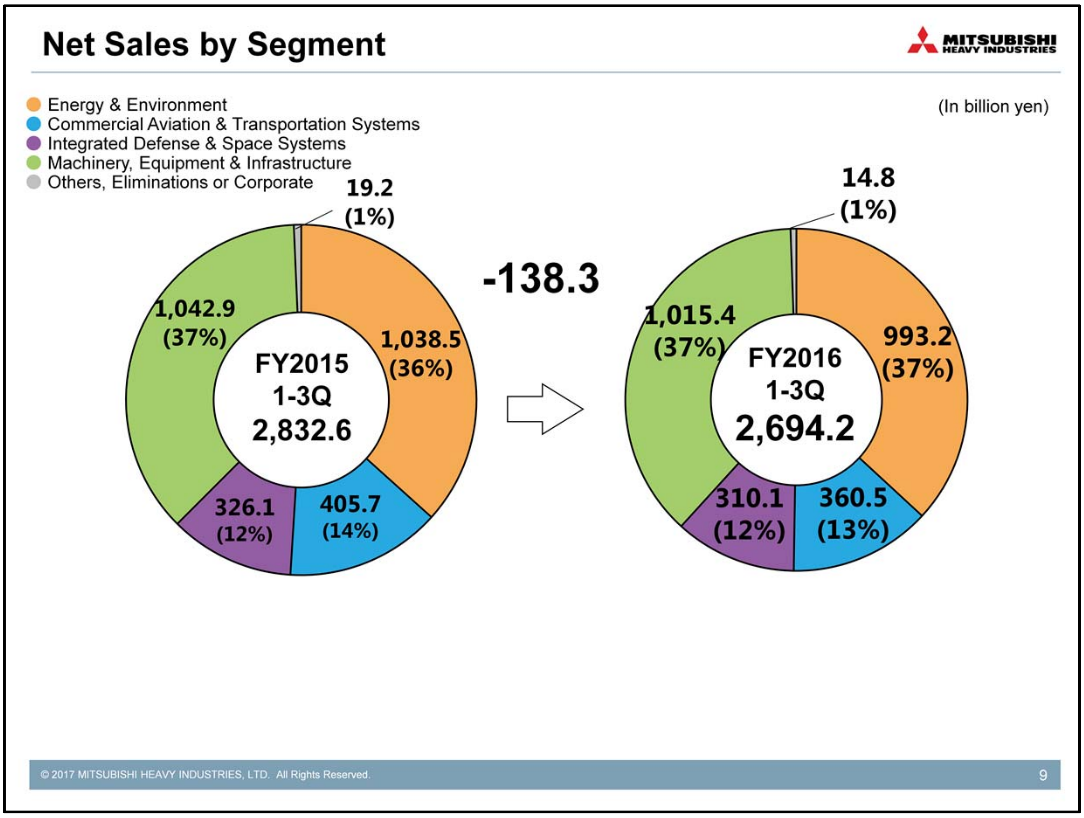
- **Energy & Environment**
  - Increased : Conventional thermal power plants
  - Decreased : Chemical plants, GTCC(*)

- **Commercial Aviation & Transportation Systems**
  - Increased : MRJ
  - Decreased : Commercial ships, Commercial aircraft

- **Integrated Defense & Space Systems**
  - Increased : Special vehicles
  - Decreased : Naval vessels, missiles

- **Machinery, Equipment & Infrastructure**
  - Increased : Forklift trucks
  - Decreased : Metals machinery, compressors

(*)GTCC: Gas turbine combined cycle



Here, we see a breakdown of net sales, by segment.

In the Energy & Environment segment, net sales of conventional thermal power plants increased while sales of GTCC systems decreased. In the Commercial Aviation & Transportation Systems segment, transportation systems are robust but sales of commercial aircraft declined amid the shift from old to new models in the Tier 1 business. Integrated Defense & Space Systems posted net sales that were largely unchanged since the previous year. Machinery, Equipment & Infrastructure posted a modest decline in sales.

Net Sales by Segment

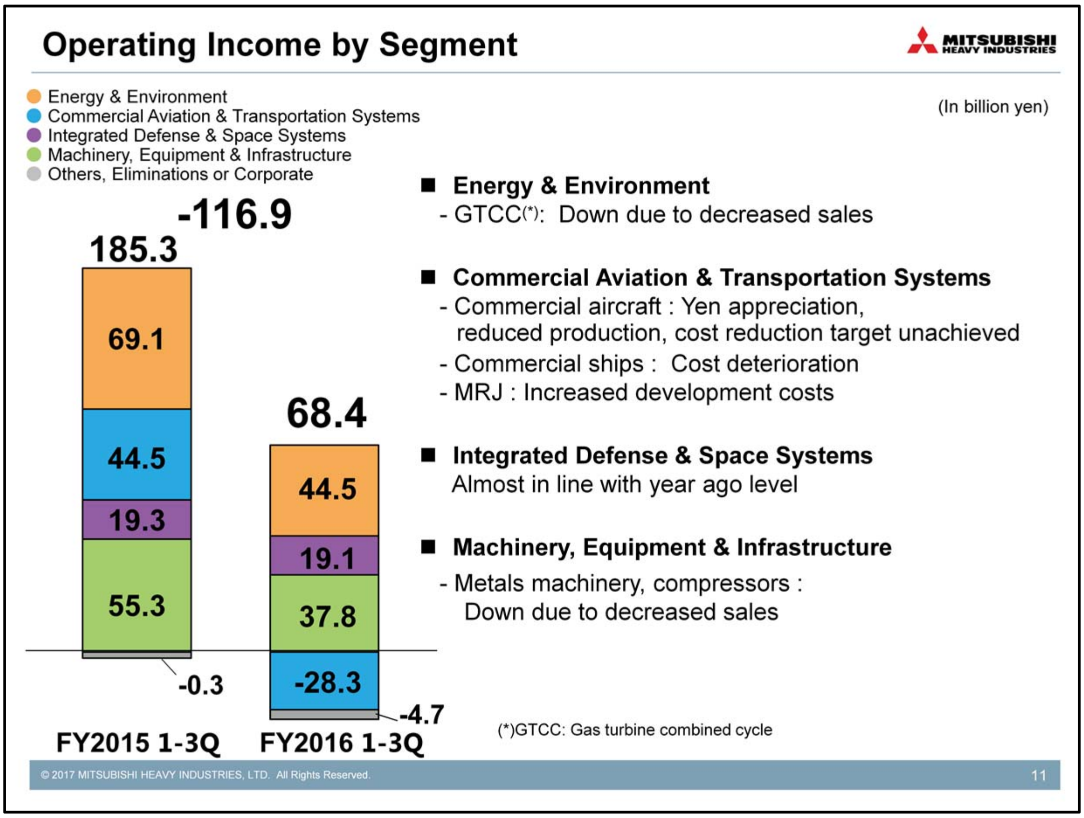
- **Energy & Environment**
  - Increased : Conventional thermal power plants
  - Decreased : GTCC(*)

- **Integrated Defense & Space Systems**
  - Decreased : Missiles

- **Commercial Aviation & Transportation Systems**
  - Increased : Transportation systems
  - Decreased : Commercial aircraft

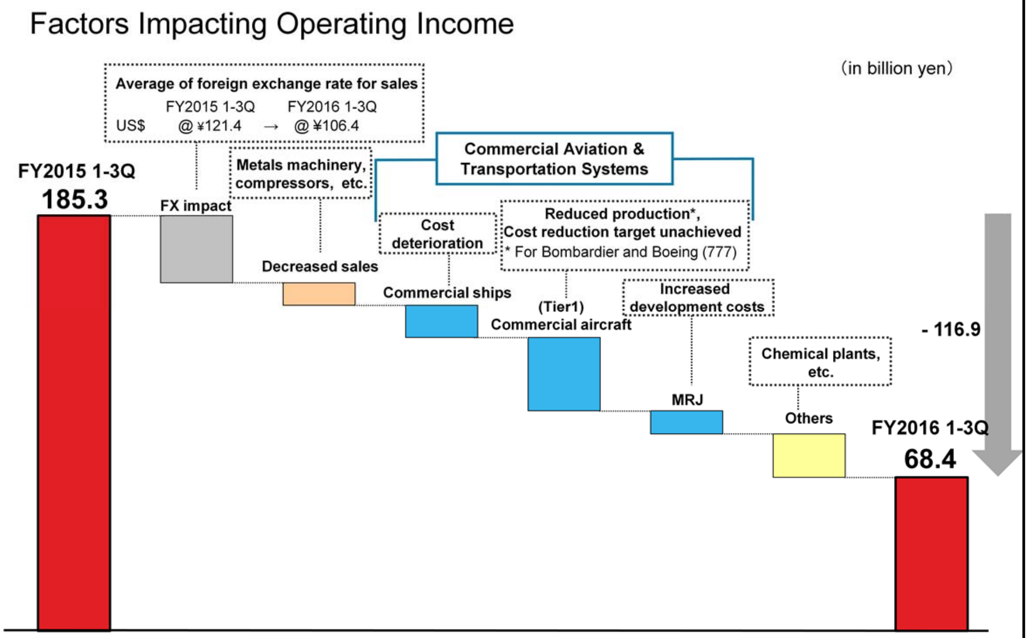
- **Machinery, Equipment & Infrastructure**
  - Increased : Forklift trucks
  - Decreased : Metals machinery

(*)GTCC: Gas turbine combined cycle



With respect to operating income, all segments were negatively impacted by the aforementioned imbalance between business scale and fixed costs. The Integrated Defense & Space Systems segment, where business scale is stable, performed on par with the previous year, but other segments that are targeting expansion in business scale posted sluggish sales growth—with the result that, as a whole, operating income has been in decline. This is particularly so in the case of the Commercial Aviation & Transportation Systems segment. Because this segment's business model is to export products manufactured in Japan, results are impacted by foreign exchange rates; furthermore, stagnant expansion in the segment's business scale has caused a loss at the operating level. It must be noted that these results also include increased development costs for the MRJ.

Operating Income



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Here we see the various factors that impacted operating income.

In booking our net sales figures we apply the average telegraphic transfer middle rate of the previous month. Since sales in December use the average exchange rate of November, the 3rd quarter sales figures continue to be impacted by the strong yen. For January and February sales figures, the average exchange rates for December and January respectively will be used. For that reason we believe the impact of forex rates will soften. Meanwhile, with respect to the imbalance between business scale and fixed costs, we see its impact on areas such as metals machinery, compressors, and the Tier1 commercial aircraft business. In addition to exchange rate fluctuation and the imbalance between scale and cost, a further issue is the increase in the MRJ's development costs. Due to a combination of all these factors, operating income has been on a downward trend.

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	
Orders received		4,485.5		4,800.0	+314.4	(+7.0%)
Net sales		4,046.8		4,000.0	-46.8	(-1.2%)
Operating income	(7.6%)	309.5	(6.0%)	240.0	-69.5	(-22.5%)
Ordinary income	(6.7%)	272.5	(4.5%)	180.0	-92.5	(-33.9%)
Profit attributable to owners of parent	(1.6%)	63.8	(2.5%)	100.0	+36.1	(+56.7%)
ROE		3.7%		5.8%	+2.1pt	-
EBITDA	(11.9%)	479.6	(10.5%)	420.0	-59.6	(-12.4%)
Free cash flow (FCF)		7.5		100.0	+92.4	-
Dividend (per share)		12.0yen Interim: 6.0yen year-end: 6.0yen		12.0yen Interim: 6.0yen year-end: 6.0yen		

<Undetermined foreign currency amounts>
US$: 0.2 billion (2.0 billion*)
Euro: 0.4 billion (0.5 billion*)

<Assumed exchange rates>
US$ 1.00 = ¥110 (¥100*)
Euro 1.00 = ¥120 (¥115*)
(*) Forecasts as of Oct. 31 2016

There is no change in the forecast announced on October 31, 2016.

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Based on the fundamentals I have described so far, I will now explain our full-year forecasts for fiscal 2016.

Concerning orders received, while the possibility exists of modest changes in specific businesses, we expect to be able to achieve our forecast of 4,800 billion yen announced previously.

Regarding net sales, we now expect the full-year results to undershoot the 4,400 billion yen projection issued at the start of the fiscal year. That said, we expect to post results close to our most recent forecast of 4,000 billion yen.

In terms of operating income, we adhere to our previous forecast of 240 billion yen, for several reasons. These include a decrease in marginal income stemming from sales below our initial projection, and the impact of a strong yen.

Since net sales are virtually set, any change that may occur going forward would likely come primarily from forex impact.

It should be noted that as a result of the initiatives we are taking on asset management and asset liquidation, we are scheduled to book an extraordinary gain in the 4th quarter.

Taking that into account, we expect net income for the year to reach our previous forecast of 100 billion yen.

Concerning free cash flow, as I explained on page 6, this is currently in negative territory. However, because operating activities' cash flow can be expected to improve in the 4th quarter, and additional cash is to be acquired through asset management and the like, we believe free cash flow will finish the year at 100 billion yen.

In light of this, we are keeping to our projection of an annual dividend of 12 yen per share.

It must be added, however, that our full-year forecasts do not factor in impact from the arbitration relating to the supply contract for replacement steam generators for the San Onofre Nuclear Generating Station—SONGS—operated by Southern California Edison.

With respect to our assumed exchange rates, given that the effective rates are moving toward a weaker yen, we have changed our forecasts: from 100 yen to the U.S. dollar, to 110 yen; and from 115 yen to the euro, to 120 yen. These changes in exchange rate assumptions toward a weaker yen aside, bearish factors are also in evidence. As a result, we are holding to our earlier full-year forecasts.

Forecasts for FY2016 by Segment

MITSUBISHI HEAVY INDUSTRIES

(In billion yen)

	Orders received			Net sales			Operating income		
	FY2015 (Actual)	FY2016 (Forecast)	Change	FY2015 (Actual)	FY2016 (Forecast)	Change	FY2015 (Actual)	FY2016 (Forecast)	Change
Energy & Environment	2,005.0	2,100.0	+94.9	1,542.7	1,550.0	+7.2	154.6	160.0	+5.3
Commercial Aviation & Transportation Systems	607.1	600.0	- 7.1	548.5	500.0	- 48.5	54.5	- 25.0	- 79.5
Integrated Defense & Space Systems	447.7	400.0	- 47.7	485.0	450.0	- 35.0	25.7	28.0	+2.2
Machinery, Equipment & Infrastructure	1,392.5	1,600.0	+207.4	1,432.3	1,450.0	+17.6	80.0	85.0	+4.9
Others	162.8	200.0	+37.1	177.3	160.0	- 17.3	12.6	12.0	- 0.6
Eliminations or Corporate	- 129.8	- 100.0	+29.8	- 139.2	- 110.0	+29.2	- 18.1	- 20.0	- 1.8
Total	4,485.5	4,800.0	+314.4	4,046.8	4,000.0	- 46.8	309.5	240.0	- 69.5

Here we see our full-year forecasts, by segment, for orders received, net sales and operating income. As you can see, the projected operating income for the Commercial Aviation & Transportation Systems segment is minus 25 billion yen, attributable to insufficient recovery in earnings.

This completes my overview of our business results after the first three quarters of fiscal 2016.

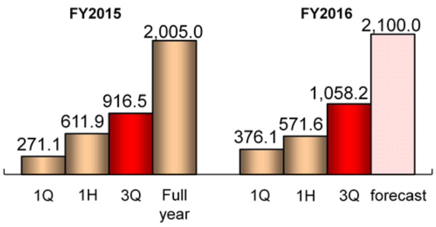
Ⅲ. Supplementary Information

Supplementary Information (1) Financial Results by Business Segment

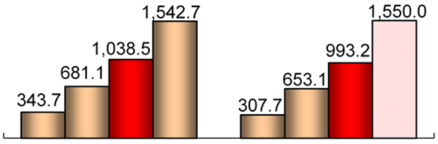
Energy & Environment

(In billion yen, accumulated amount)

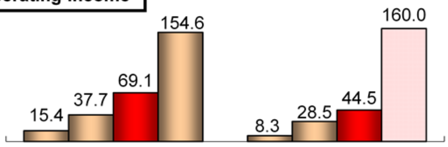
Orders Received



Net Sales



Operating Income



Orders received : Up ¥141.7 billion YoY

- Increased : Conventional thermal power plants
- Decreased : Chemical plants, GTCC(*)

Gas turbine orders received

		North America	Asia	Japan	Others	Total
FY2015 1-3Q	Large size	1	6	1	2	10
	Small to medium size	-	1	-	1	2
	Total	1	7	1	3	12
FY2016 1-3Q	Large size	4	6	2	1	13
	Small to medium size	-	1	-	-	1
	Total	4	7	2	1	14

Backlog of gas turbine orders received

	Large size	Small to medium size	Total
As of Dec. 31 2015	40	27	67
As of Mar. 31 2016	42	35	77
As of Dec. 31 2016	38	24	62

Net sales : Down ¥45.3 billion YoY

- Increased : Conventional thermal power plants
- Decreased : GTCC

Earnings : Down ¥24.5 billion YoY

- GTCC: Down due to decreased sales

(*)GTCC: Gas turbine combined cycle

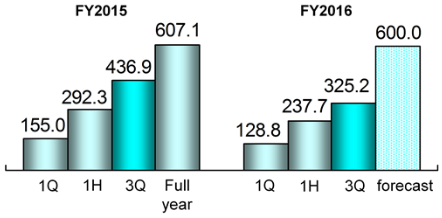
Supplementary Information (1) Financial Results by Business Segment

Commercial Aviation & Transportation Systems

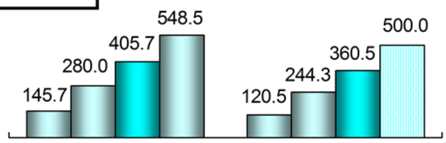
MITSUBISHI HEAVY INDUSTRIES

(In billion yen, accumulated amount)

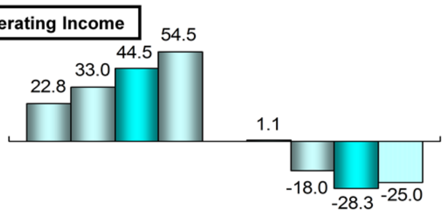
Orders Received



Net Sales



Operating Income



Orders received : Down ¥111.6 billion YoY

- Increased : MRJ
- Decreased : Commercial ships, Commercial aircraft

Number of ship orders received
FY2015 1-3Q: 11 (1Q: 4, 2Q: 2, 3Q: 5, 4Q: 5)
FY2016 1-3Q: 6 (1Q: 4, 2Q: 2 , 3Q: 0)
Backlog of ship orders received 34
(10 LNG carriers, 7 LPG carriers, 3 patrol vessels and others)

Net sales : Down ¥45.2 billion YoY

- Increased : Transportation systems
- Decreased : Commercial aircraft

Number of B777s delivered
FY2015 1-3Q: 80 (1Q: 28, 2Q: 27, 3Q: 25, 4Q: 27)
FY2016 1-3Q: 70 (1Q: 27, 2Q: 24, 3Q: 19)

Number of B787s delivered
FY2015 1-3Q: 92 (1Q: 32, 2Q: 31, 3Q: 29, 4Q: 34)
FY2016 1-3Q: 92 (1Q: 36, 2Q: 31, 3Q: 25)

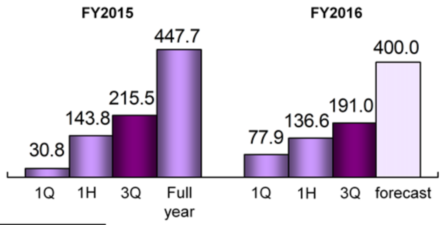
Earnings : Down ¥72.8 billion YoY

- Commercial aircraft : Yen appreciation, reduced production, cost reduction target unachieved
- Commercial ships : Cost deterioration
- MRJ : Increased development costs

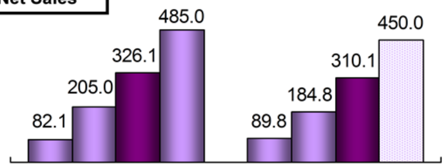
Integrated Defense & Space Systems

(In billion yen, accumulated amount)

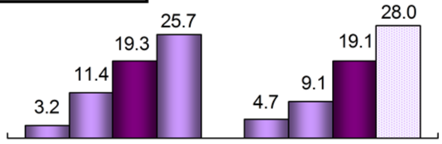
Orders Received



Net Sales



Operating Income



Orders received : Down ¥24.5 billion YoY

- Increased : Special vehicles
- Decreased : Naval vessels, missiles

Net sales : Down ¥15.9 billion YoY

- Decreased : Missiles

Earnings : Down ¥0.1 billion YoY

Almost in line with year ago level

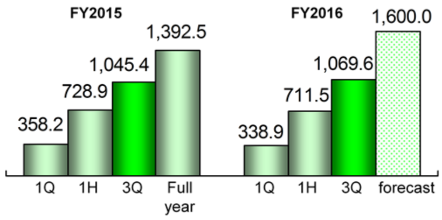
Supplementary Information (1) Financial Results by Business Segment

Machinery, Equipment & Infrastructure

MITSUBISHI HEAVY INDUSTRIES

(In billion yen, accumulated amount)

Orders Received

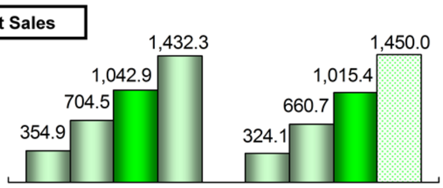


Orders received : Up ¥24.1 billion YoY

Net sales: Down ¥27.4 billion YoY

- Increased : Forklift trucks
- Decreased : Metals machinery, compressors

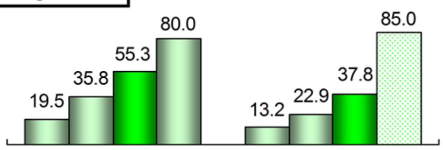
Net Sales



Earnings : Down ¥17.5 billion YoY

- Metals machinery, compressor : Down due to decreased sales

Operating Income



Supplementary Information (2) Reference Data

1. R&D Expenses, Depreciation and Capital Expenditure

(In billion yen)

	FY2015 1-3Q	FY2016 1-3Q	FY2016 (Forecast)
R&D Expenses	91.7	98.8	150.0
Depreciation	116.1	125.1	170.0
Capital Expenditure	116.4	135.3	200.0

2. Selling, General and Administrative Expenses

(In billion yen)

	FY2015 1-3Q	FY2016 1-3Q
SG&A	401.0	420.1

3. Foreign Exchange Rates

(In yen)

	FY2015 1-3Q	FY2016 1-3Q
US$	121.4	106.4
Euro	134.9	117.3

Supplementary Information (2) Reference Data

(In billion yen)

4. Overseas Sales by Region

	FY2015 1-3Q		FY2016 1-3Q	
Asia	508.6	(18%)	446.8	(17%)
North America	571.8	(19%)	481.3	(18%)
Europe	262.0	(9%)	303.8	(11%)
Central & South America	106.4	(4%)	76.7	(3%)
The Middle East	76.7	(3%)	82.0	(3%)
Africa	76.6	(3%)	88.7	(3%)
Oceania	21.5	(1%)	24.1	(1%)
Total	1,623.9	(57%)	1,503.6	(56%)

5. Segment Information by Geographic Distribution

		FY2015 1-3Q	FY2016 1-3Q
Japan	Net sales	2,098.4	2,035.8
	Operating income	152.0	45.9
North America	Net sales	385.5	341.7
	Operating income	10.7	5.7
Asia	Net sales	286.5	269.2
	Operating income	24.2	22.3
Europe	Net sales	268.1	272.1
	Operating income	-3.4	-5.8
Others	Net sales	78.1	70.1
	Operating income	1.8	0.2
Eliminations or Corporate	Net sales	-284.1	-294.8
	Operating income	-	-
Total	Net sales	2,832.6	2,694.2
	Operating income	185.3	68.4

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