Here we present an overview of MHI’s financial results for the first half of fiscal year 2016, the period from April through September 2016.
Table of Contents

I. FY2016 1H Financial Results
   - Summary of 1H Financial Results 3
   - 1H Financial Results by Segment 4
   - Balance Sheets 5
   - Main Financial Measures, Cash Flows 6
   - Orders Received & Order Backlog 7-8
   - Net Sales 9-10
   - Operating Income 11-12

II. Forecast for FY2016
   - Summary of Forecast for FY2016 14
   - Forecast for FY2016 by Segment 15
   - Forecast for FY2016 Operating Income 16

III. Supplementary Information
   - Supplementary Information 18-23

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I. FY2016 1H Financial Results
This table presents a summary of the Company’s FY2016-1H results.

Orders received totaled ¥1,664.4 billion, a decrease of ¥119.9 billion from the year-earlier level.

Net sales finished at ¥1,750.5 billion, down by ¥131.5 billion year-on-year. The decline was attributable primarily to foreign exchange rate impact, but there was also a trend toward delays in the booking of sales. Due to the nature of MHI’s business operations, it takes on average between 1.5 and 2 years from order receipt to sales booking, and in the term under review sales bookings tended to be delayed.

Operating income totaled ¥38.4 billion, down significantly from the year-earlier level. A number of causes can be cited, among them the aforementioned decrease in net sales, increased SG&A expenditures resulting from M&A activities, forex impact, and cost deterioration in some business areas.

Ordinary income declined by ¥113.7 billion year-on-year, finishing ¥1.8 billion in the red. In addition to operating income decrease mentioned above, two factors were largely responsible: foreign exchange loss and loss from equity-method investments. Concerning the latter factor, MHI’s consolidated results for the first half reflect Mitsubishi Motor Corporation’s negative results for the first quarter; from the second quarter, however, MMC was removed as an equity-method affiliate, so from that quarter
the automaker’s business results have no impact on MHI’s earnings.

The Company booked an extraordinary loss for the term totaling ¥12.7 billion. A gain of ¥3.7 billion from sales of investment securities was offset by loss of ¥16.4 billion from the cruise ship construction business.

The loss incurred from the cruise ship business for this term is related to the second ship, which is under construction. The main factors are as follows.

First, the value of net sales decreased by approximately ¥7.0 billion as the yen has appreciated against the euro.

Second, to secure the requisite quality and construction schedule, a partial change in partners was undertaken for the second ship. This resulted in additional costs near ¥4.0 billion.

The remainder consists mostly of outlays arising from the challenge found in the first ship (now in operation) being dealt with regarding the second ship, and impact on the construction schedule from water damage due to heavy rain in Nagasaki, where the Company’s cruise ship construction base is located.

Construction of the second ship is proceeding relatively smoothly, in an orderly fashion, according to the Company’s plans. We actually believe that construction is proceeding somewhat ahead of schedule. We are engaging in close communication with the customer, and are now in discussions concerning the second ship’s delivery date.

As a result of the foregoing, net income—i.e. profit attributable to owners of parent—ended the half with a loss of ¥18.9 billion, off ¥62.3 billion from a year ago.

EBITDA finished at ¥126.3 billion, down by ¥70.8 billion year-on-year, attributable to the decline recorded in operating income.
Here, we have a breakdown of the first-half financial results by business segment.

Orders received and net sales suffered year-on-year declines in 4 segments.

Operating income was especially weak in the Commercial Aviation & Transportation Systems. The segment posted a significant decline from the year-earlier level, finishing the half with an operating loss of ¥18.0 billion. The main factors were as follows.

The first factor was impact from foreign exchange rates. This segment encompasses businesses that are heavily impacted by forex movements: for example, commercial ships and Tier 1 (commercial aircraft).

Next, factors related to Tier 1 operations.
To begin, income was affected by decreased production: specifically, for work performed for Bombardier and for Boeing’s 777.
Additionally, in conjunction with the Boeing 787, cost reductions consistent with gradual decreases in the contract price—which had assumed merits from accumulated expertise as the cumulative number of aircraft production increased—failed to achieve target.

And, impact from the commercial ship business. The term’s income figure factored in increased construction loss provision to reflect increased costs incurred for ships on
order, and expenses for certain ships’ issues.

Lastly, net income was adversely impacted by costs relating to the MRJ’s ongoing development.

In addition to the foregoing, income was affected by forex movements and by deterioration in sales mainly of metals machinery and compressors in the Machinery, Equipment & Infrastructure domain amid the global economic slowdown. Overall, however, we do not see any major changes.

As the first half factored in future risks to some extent, a low level of operating margin was recorded for the term. Nevertheless, we anticipate recovery to a normal margin level in the second half.
Here, we explain the Company’s balance sheets after the first half.

Throughout the Company, steps are consistently taken to improve the efficiency of the balance sheets. One example is the introduction of the cash conversion cycle as a management indicator.

Total assets finished the first half at ¥5,300.1 billion, down ¥202.8 billion from the level at the end of FY2015. One issue to be addressed is the increase marked in inventories despite the downward trend in net sales.

Net assets decreased by ¥121.8 billion compared to the end of FY2015. Three main factors contributed: 1) the term’s net income loss, 2) payout of dividends, and 3) booking of translation adjustments on assets held overseas, stemming from the yen’s recent strength.
Here, we explain our main financial measures and cash flows.

Our main financial measures are as indicated.

Free cash flow, one of MHI’s most important management indicators, ended the first half at -¥217.0 billion. Cash flow from operating activities deteriorated substantially year-on-year, mainly due to sluggish growth in operating income compared to the target figure. In the second half, even more robust activities will continue to be made to improve cash flows.
Now, we will review the first half results by segment.

The segment-by-segment breakdown of orders received showed no major changes.

The order backlog finished the half at ¥6,572.9 billion, down ¥322.2 billion from the level at the end of FY2015. The reason why the order backlog reduced by close to ¥320.0 billion while orders received during the term (¥1,664.4 billion) totaled some ¥86.0 billion less than the term’s net sales (¥1,750.5 billion), was because orders based in foreign currencies were revalued in accordance with actual forex rates effective at the term’s end.
<table>
<thead>
<tr>
<th>Segment</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy &amp; Environment</td>
<td>Chemical plants, etc. decreased.</td>
</tr>
<tr>
<td>Commercial Aviation &amp; Transportation Systems</td>
<td>MRJ increased but commercial ships (LNG carriers), etc. decreased.</td>
</tr>
<tr>
<td>Integrated Defense &amp; Space Systems</td>
<td>Naval vessels, etc. decreased.</td>
</tr>
<tr>
<td>Machinery, Equipment &amp; Infrastructure</td>
<td>Forklift trucks increased as result of merger with UniCarriers.</td>
</tr>
<tr>
<td></td>
<td>Metals machinery, etc. decreased amid sluggish demand especially from China.</td>
</tr>
</tbody>
</table>
The segment breakdown of the first half’s net sales also showed no significant changes.

Total net sales declined by ¥131.5 billion from the year-earlier. Two factors, were largely responsible: 1) in the Energy & Environment domain, a decline in sales of chemical plants, which had increased significantly in the first half of FY2015; and 2) in the Machinery, Equipment & Infrastructure segment, a decrease in sales especially of metals machinery under the impact of the sluggish global economy.
Net Sales by Segment

- **Energy & Environment**
  - GTCC(*) and chemical plants decreased.

- **Integrated Defense & Space Systems**
  - Missiles and space systems decreased.

- **Commercial Aviation & Transportation Systems**
  - Sales finished down on FX impact and decreased production of commercial aircraft.

- **Machinery, Equipment & Infrastructure**
  - Forklift trucks increased as result of merger with UniCarriers.
  - Metals machinery, etc. decreased amid sluggish demand especially from China.

(*) GTCC: Gas Turbine Combined Cycle
Here now, we have a breakdown by segment of the term’s operating income.

As the figure indicates, the Commercial Aviation & Transportation Systems segment posted a significant decrease in income, ending ¥18.0 billion in the red. The reasons are as we noted on page 4.

After factoring in these various costs, although operating income dropped considerably year-on-year in the first half, overall we do not believe that the results indicate a major collapse from the Company’s targets.
This graph shows factors impacting operating income compared to year-earlier levels.
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.
Now, we will explain the Company’s current forecasts for FY2016.

Our forecast for orders received has been revised to ¥4,800.0 billion, down ¥200.0 billion from our previous projection. The revision was made to reflect changes in our exchange rate assumptions for the second half.

The net sales forecast has been revised to ¥4,000.0 billion, down ¥300.0 billion from our previous forecast. The revision here too reflects changes in our second-half forex rate assumptions, and also factors in the somewhat delayed sales booking (construction progress) from work on orders received, as indicated on page 3.

The operating income forecast has also been lowered, by ¥90.0 billion, to ¥240.0 billion. Although gross margin in the first half was close to 18%, the downward revision to our income forecast reflects a near ¥60.0 billion decrease in gross income in line with the ¥300.0 billion decrease in our net sales forecast.

The ordinary income forecast has been lowered by ¥100.0 billion, to ¥180.0 billion. The change reflects a revised non-operating loss projection from ¥40.0 billion in the first half to a total of ¥60.0 billion for the full year, including a near ¥20.0 billion loss in the second half after removal of Mitsubishi Motors Corporation’s equity-method investment loss (¥18.8 billion), which had been an one-time factor in the first half.
As announced on October 31, as part of the Company’s asset management initiative, a 70% stake in Ryoju Properties Co., Ltd., which is subsidiary of Ryoju Facility and Properties Co., Ltd., a wholly owned subsidiary of MHI, is to be sold to West Japan Railway Company. This transaction is expected to generate some ¥60.0 billion in extraordinary income and near ¥100.0 billion in free cash flow. Accordingly, we have effected no change to our previous full-year net income forecast of ¥100.0 billion.

Our ROE and EBITDA forecasts are as indicated in the table.

The free cash flow forecast has been revised from the previous ¥130.0 billion to ¥100.0 billion. The latter figure factors in the aforementioned near ¥100.0 billion in free cash flow to be generated by the transfer of the equity stake in Ryoju Properties Co., Ltd..

It should be noted that the above forecasts do not factor in impact from arbitration relating to the replacement steam generator supply contract for Southern California Edison’s San Onofre Nuclear Generating Station (SONGS).

We have made no change to our dividend projection. An interim dividend of ¥6.0 per share was decided at the Company’s Board of Directors meeting held on October 31.
### Forecast for FY2016 by Segment

(In billion yen)

<table>
<thead>
<tr>
<th></th>
<th>Orders received</th>
<th>Net sales</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of Oct. 31</td>
<td>(Forecast)</td>
<td>As of July 29</td>
</tr>
<tr>
<td>Energy &amp; Environment</td>
<td>2,005.0</td>
<td>2,100.0</td>
<td>2,100.0</td>
</tr>
<tr>
<td>Commercial Aviation &amp;</td>
<td>607.1</td>
<td>600.0</td>
<td>700.0</td>
</tr>
<tr>
<td>Transportation Systems</td>
<td>447.7</td>
<td>400.0</td>
<td>400.0</td>
</tr>
<tr>
<td>Integrated Defense &amp;</td>
<td>1,392.5</td>
<td>1,600.0</td>
<td>1,700.0</td>
</tr>
<tr>
<td>Space Systems</td>
<td>162.8</td>
<td>200.0</td>
<td>200.0</td>
</tr>
<tr>
<td>Machinery, Equipment &amp;</td>
<td>-129.8</td>
<td>-100.0</td>
<td>-100.0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4,485.5</td>
<td>4,800.0</td>
<td>5,000.0</td>
</tr>
</tbody>
</table>

- Forecasts revised especially for Commercial Aviation & Transportation Systems. (Details on p.14)
This graph shows the various factors behind the Company’s revisions to its FY2016 operating income forecast since the start of FY2016.

The first factor is forex impact mainly stemming from the Commercial Aviation & Transportation Systems domain. The revised ¥/US$ rate forecast from ¥110 at the start of the term to ¥100 has resulted in a ¥35.0 billion decrease (*) in anticipated operating income. (* total of figures shown in gray bar chart)

The second factor is delayed booking of sales Companywide. This is behind an expected ¥30.0 billion decrease (*) in income. (* total of figures shown in orange bar)

Third, factors relating to the Commercial Aviation & Transportation Systems—with respect to commercial ships, Tier 1 (commercial aircraft) and the MRJ—are expected to erode operating profit by ¥35.0 billion (*). (* total of figures shown in blue bar chart)

The fourth factor is an anticipated income decrease by ¥10.0 billion from “other” causes.

As a result of the foregoing factors combined, the operating income forecast is
now set at ¥240.0 billion.

As indicated on pages 3 and 14, risks that could conceivably arise in the second half of FY2016 have to some extent already been factored into the first-half results. Accordingly, although various issues exist, we believe that our most current results forecasts should be achievable if we are able to steadily carry out the measures necessary.

This completes our explanation of our business results for the first half of FY2016.
III. Supplementary Information
Orders received: Down ¥40.3 billion YoY
- Down YoY, largely due to decreased orders for chemical plants.

<table>
<thead>
<tr>
<th>[Gas turbine orders]</th>
<th>North America</th>
<th>Asia</th>
<th>Europe</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2015</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>FY2016</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[Backlog of Gas turbine orders]</th>
<th>Large size</th>
<th>Small to medium size</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of Sep. 30 2015</td>
<td>37</td>
<td>30</td>
<td>67</td>
</tr>
<tr>
<td>As of Mar. 31 2016</td>
<td>42</td>
<td>35</td>
<td>77</td>
</tr>
<tr>
<td>As of Sep. 30 2016</td>
<td>38</td>
<td>30</td>
<td>68</td>
</tr>
</tbody>
</table>

Net sales: Down ¥28.0 billion YoY
- Down YoY, largely due to decreased sales of GTCC (*) and chemical plants.

Earnings: Down ¥9.1 billion YoY
- Down YoY, from decreased income mainly from chemical plants.

Full-year forecasts:
- Net sales has been revised downward, from ¥1,550.0 billion to ¥1,550.0 billion
- Operating income has been revised downward, from ¥185.0 billion to ¥160.0 billion.

(*) GTCC: Gas Turbine Combined Cycle
Orders received: Down ¥54.6 billion YoY
- Down YoY. MRJ increased but mainly commercial ships decreased after year-earlier orders for multiple LNG carriers.
  - Number of ships ordered received
    - FY2015 1H: 8 (Q2: 4, Q1: 2, 3Q: 5, 4Q: 5)
    - FY2016 1H: 6 (Q1: 4, Q2: 2)
  - Backlog of ship orders: 37
    - 11 LNG carriers, 7 LPG carriers, 5 patrol vessels and others

Net sales: Down ¥35.7 billion YoY
- Down YoY, primarily from FX impact and decreased production of commercial aircraft.
  - Number of B777s delivered
    - FY2015 1H: 55 (Q1: 28, Q2: 27, 3Q: 25, 4Q: 27)
    - FY2016 1H: 51 (Q1: 27, Q2: 24)
  - Number of B787s delivered
    - FY2015 1H: 63 (Q1: 32, Q2: 31, 3Q: 29, 4Q: 34)
    - FY2016 1H: 67 (Q1: 36, Q2: 31)

Earnings: Down ¥51.0 billion YoY
- Down YoY. from FX impact, decreased production, cost reduction target in response to gradual decreases in contract price unachieved of commercial aircraft, commercial ship cost deterioration, increased MRJ development costs, etc.

Full-year forecasts:
- Orders received has been revised downward, from ¥700.0 billion to ¥600.0 billion
- Net sales has been revised downward, from ¥550.0 billion to ¥500.0 billion
- Operating income has been revised downward, from ¥20.0 billion to -¥25.0 billion.
Supplementary Information ① Financial Results by Business Segment

< Integrated Defense & Space Systems >

Orders received: Down ¥7.2 billion YoY
- Down YoY, on decreased orders for naval vessels, etc.

Net sales: Down ¥20.1 billion YoY
- Down YoY, on decreased sales of missiles and space systems.

Earnings: Down ¥2.3 billion YoY
- Down YoY, mainly from decreased income from space systems.

Full-year forecasts:
- Net sales has been revised upward, from ¥400.0 billion to ¥450.0 billion.
- Operating income has been revised upward, from ¥26.0 billion to ¥28.0 billion.

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Supplementary Information 1: Financial Results by Business Segment

**< Machinery, Equipment & Infrastructure >**

### Orders Received

- **FY2015**
  - 1Q: 358.2
  - 2Q: 728.9
  - 3Q: 1,045.4
  - Full year: 1,392.5
- **FY2016**
  - 1Q: 338.9
  - 2Q: 711.5
  - Forecast: 1,600.0

Orders received: Down ¥17.3 billion YoY

Net sales: Down ¥43.8 billion YoY
- Down YoY. Forlift trucks sales increased as result of merger with UniCarriers, but sales of metals machinery, etc. decreased amid sluggish demand especially from China.

### Net Sales

- **FY2015**
  - 1Q: 354.9
  - 2Q: 704.5
  - 3Q: 1,042.9
  - Full year: 1,432.3
- **FY2016**
  - 1Q: 324.1
  - 2Q: 660.7
  - Forecast: 1,450.0

Earnings: Down ¥12.9 billion YoY
- Down YoY, from decreased sales of metals machinery, compressors, etc.

### Operating Income

- **FY2015**
  - 1Q: 19.5
  - 2Q: 35.8
  - 3Q: 55.3
  - Full year: 80.0
- **FY2016**
  - 1Q: 13.2
  - 2Q: 22.9
  - Forecast: 85.0

Full-year forecasts:
- Orders received has been revised downward, from ¥1,700.0 billion to ¥1,650.0 billion
- Net sales has been revised downward, from ¥1,650.0 billion to ¥1,450.0 billion
- Operating income has been revised downward, from ¥105.0 billion to ¥85.0 billion.

(*) Changes in business domains
- Certain businesses have been re-assigned as "Machinery, Equipment & Infrastructure" from "Others" since FY2015-3Q
- Results for FY2015 1H are in accordance with the new business domains.

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### 1. R&D Expenses, Depreciation and Capital Expenditure

<table>
<thead>
<tr>
<th></th>
<th>FY2015 1H</th>
<th>FY2016 1H</th>
<th>FY2016 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D Expenses</td>
<td>58.3</td>
<td>66.0</td>
<td>150.0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>75.5</td>
<td>79.8</td>
<td>170.0</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>75.8</td>
<td>93.7</td>
<td>200.0</td>
</tr>
</tbody>
</table>

### 2. Selling, General and Administrative expenses

<table>
<thead>
<tr>
<th></th>
<th>FY2015 1H</th>
<th>FY2016 1H</th>
</tr>
</thead>
<tbody>
<tr>
<td>SG&amp;A</td>
<td>270.8</td>
<td>281.9</td>
</tr>
</tbody>
</table>

### 3. Foreign Exchange Rates

<table>
<thead>
<tr>
<th></th>
<th>FY2015 1H</th>
<th>FY2016 1H</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$</td>
<td>121.4</td>
<td>106.7</td>
</tr>
<tr>
<td>Euro</td>
<td>133.2</td>
<td>117.4</td>
</tr>
</tbody>
</table>
## 4. Overseas Sales by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2015 1H (in billion yen)</th>
<th>FY2016 1H (in billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>329.4 (18%)</td>
<td>288.0 (16%)</td>
</tr>
<tr>
<td>North America</td>
<td>381.0 (20%)</td>
<td>319.1 (19%)</td>
</tr>
<tr>
<td>Europe</td>
<td>186.2 (10%)</td>
<td>204.9 (12%)</td>
</tr>
<tr>
<td>Central &amp; South America</td>
<td>72.1 (4%)</td>
<td>42.3 (2%)</td>
</tr>
<tr>
<td>The Middle East</td>
<td>45.4 (2%)</td>
<td>55.9 (3%)</td>
</tr>
<tr>
<td>Africa</td>
<td>46.6 (2%)</td>
<td>56.5 (3%)</td>
</tr>
<tr>
<td>Oceania</td>
<td>13.2 (1%)</td>
<td>15.3 (1%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,074.3 (57%)</strong></td>
<td><strong>982.4 (56%)</strong></td>
</tr>
</tbody>
</table>

## 5. Segment Information by Geographic Distribution

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2015 1H (in billion yen)</th>
<th>FY2016 1H (in billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Net Sales: 1,395.9</td>
<td>1,334.9</td>
</tr>
<tr>
<td></td>
<td>Operating Income: 97.3</td>
<td>28.8</td>
</tr>
<tr>
<td>North America</td>
<td>Net Sales: 253.7</td>
<td>217.4</td>
</tr>
<tr>
<td></td>
<td>Operating Income: 3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Asia</td>
<td>Net Sales: 191.3</td>
<td>170.9</td>
</tr>
<tr>
<td></td>
<td>Operating Income: 15.1</td>
<td>14.8</td>
</tr>
<tr>
<td>Europe</td>
<td>Net Sales: 184.6</td>
<td>181.3</td>
</tr>
<tr>
<td></td>
<td>Operating Income: -0.7</td>
<td>-7.7</td>
</tr>
<tr>
<td>Others</td>
<td>Net Sales: 50.4</td>
<td>43.2</td>
</tr>
<tr>
<td></td>
<td>Operating Income: 1.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Eliminations or Corporate</td>
<td>Net Sales: -194.0</td>
<td>-197.4</td>
</tr>
<tr>
<td></td>
<td>Operating Income: -</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Net Sales: 1,882.0</td>
<td>1,750.5</td>
</tr>
<tr>
<td></td>
<td>Operating Income: 115.9</td>
<td>38.4</td>
</tr>
</tbody>
</table>