Summary of Q&A at FY2016 1Q Financial Results Presentation (July 29, 2016)

(Responses were based on information available at the time of the presentation)

Q. The forecast for FY2016 operating income has been revised downward by 20 billion yen. Please tell us why.

A. The main reason for the downward revision to our operating income forecast is the foreign exchange rate outlook. While reduced sales of metals machinery and products sold to Bombardier will also take a toll, this will be on a smaller scale than the effects of exchange rates.

Broken down by segment, we lowered our operating income forecast in the Energy & Environment segment by 5 billion yen. This was done to reflect not only the effects of forex movements, but also our assumption of a decline in the profitability of our chemical plants, which had generated excellent profits in FY2015. In our thermal power generation systems business we expect both new construction work and after-sale servicing to be generally solid. Concerning the Commercial Aviation & Transportation Systems segment, we lowered our operating income projection by 10 billion yen. This is due to forex effects primarily linked to our commercial aircraft business – sales to Boeing, for example – and to increased development costs for the MRJ. Concerning the Integrated Defense & Space Systems segment, we made no revision to our operating income forecast, as this business is performing according to expectations. With the Machinery, Equipment and Infrastructure segment, however, we lowered our projection by 5 billion yen, due to a fairly severe outlook for metals machinery and compressors. At the same time, in our air-conditioning and refrigeration systems business meanwhile, turbocharger operations, which tend heavily toward products ordered by the automakers, are performing extremely solidly.

Q. At the FY2015 results presentation, the Company expressed confidence of achieving a free cash flow of 130 billion yen in FY2016. The Company also stated that over the next two years it would be selling off land and other assets. Has there been any progress on these fronts?

A. In FY2015 we had a cash outflow of between 300 and 400 billion yen, consisting of more than 100 billion yen invested to acquire UniCarriers, investments into the MRJ, expenditures in conjunction with our cruise ship construction business, and so on. Even so, we ended with a free cash flow of +7.5 billion yen for the year. We consider this outcome to be the result of our enhanced ability to generate cash, through finely executed measures relating to cash conversion cycle management, etc. For FY2016, given the exclusion of the 100-plus billion yen cash outflow to purchase UniCarriers, we believe that securing a free cash flow of 130 billion yen should be achievable within the scope of our regular earning capacity.

Q. At the FY2015 results presentation, the Company stated that the dividend payout ratio in FY2016 would be 30% ±5%, which is the target set in the 2015 Medium-Term Business Plan. Now the Company's net income outlook has been lowered to 100 billion yen. Assuming the (projected) annual dividend is kept at 12 yen, this would translate to a dividend payout ratio in excess of 40%. Please tell us your current thinking regarding dividend distribution.

A. Our basic thinking is that since the Company is in a growth phase, the dividend payout ratio should be around 30%. The remaining funds should be used to grow our next pillars of business. In FY2015 net income fell short of our forecast issued at the start of the term, owing in large part to the extraordinary loss booked against our cruise ship construction business. Nevertheless, we kept to our forecast at the term's start and issued an annual dividend of 12 yen per share, up 1 yen from FY2014, resulting in a high payout ratio. Although there will be variations from one year to another, we are taking "30% ±5%" as our medium to long-range guideline. In FY2016 too, we have no intention of reducing our dividend disbursement due to lowered net income outlook.

Q. Please tell us the current situation concerning the cruise ship construction.

A. The loss booked on the first cruise ship, which was handed over at the end of FY2015, was fully written down within the framework of FY2015. In the first quarter of FY2016 there were moderate additional losses stemming from residual work and the effects of the strong yen, but the total amount was not significant.

Regarding the second cruise ship, outfitting work (plumbing, duct installations, wiring) is nearly completed, and the focus will now shift to work inside the passenger cabins, public rooms, etc. In light of the various challenges we faced with the first vessel, construction of the second ship is proceeding based on this experience and knowledge.

Q. Please tell us the status of the Company with regards to whether or not to continue the cruise ship construction business.

A. This is an extremely complex issue, so in order to make an evaluation from multiple perspectives and enable us to make a well-thought-out decision, we have set up an internal evaluation committee chaired by Executive Vice President Kazuaki Kimura, President and CEO of the Machinery, Equipment and Infrastructure domain. The committee is currently delving into the areas where problems existed, listening to the opinions of the people involved at all levels, from managers to workers. The committee's conclusions are due to be ready by this autumn. We understand the issue and we are contemplating announcing the committee's conclusions, if necessary. As to whether or not to continue the cruise ship construction business, separate from the findings of the committee, it is necessary to also consider this matter as an issue affecting the Company's business plans. We will judge what place the cruise ship construction business should occupy within MHI's business portfolio, including whether or not we should allocate more resources into this business.

Q. Please tell us your thoughts, from an accounting perspective, on the removal of Mitsubishi Motors Corporation as an equity-method affiliate of MHI from the second quarter. Once this occurs, is there a possibility it will have an impact on MHI's business results?

A. At the non-consolidated financial results, in the first quarter we booked a valuation loss on investment securities in the amount of approximately 58 billion yen, the difference between MMC's book value and current market value. The book value on a consolidated basis is already the market value as of the end of the quarter, after booking of losses through the past quarters, etc.

Accordingly, if from now on MMC's share price moves at the current level, it will have no major impact on MHI's bottom line on a consolidated basis.