Summary of Q&A at FY2016 1-3Q Financial Results Presentation (February 2, 2017)

(Responses are based on information current as of date of presentation.)

Q. The operating income forecast for FY2016 remains unchanged at 240 billion yen, in spite of the upturn in the forex rates. Why is that?

A. While it is true that forex rates have improved, during the first three quarters the Company put in place measures to deal with a variety of issues. We do expect growth in the fourth quarter in some areas but circumstances do not warrant an upward revision to the full-year operating income forecast.

Q. On page 20 of the presentation material titled "Status of 2015 Medium-Term Business Plan", the Company appears to anticipate that post-merger integration at its core joint-venture businesses will lift operating income by approximately 30 billion yen next fiscal year; but to our understanding, PMI so far has tended to lag. Does the Company truly expect the positive impact being projected?

A. We believe that as PMI goes forward, we will be able to trim costs by between 30 and 40 billion yen. Cutting of costs including fixed costs has been progressing for some time at Primetals Technologies, which is in charge of our metals machinery business. And going forward we will be promoting greater efficiency in diverse ways at Mitsubishi Hitachi Power Systems, which handles business in thermal power plants.

Q. The Company seems to be planning to sell off some of its assets as part of its asset management program. Won't it be difficult to acquire the cited free cash flow of 100 billion yen in light of the arbitration case relating to the nuclear power plant in the United States (SONGS※) and the dispute with Hitachi concerning cost sharing relating to the construction of the thermal power plant in the Republic of South Africa?

※SONGS: San Onofre Nuclear Generating Station

A. It is true that our balance sheet is expanding under the impact of issues surrounding the MRJ's development, the case relating to South Africa, and so on; but those issues have already been factored into the terms behind our forecast. If there is no major impact from the arbitration relating to SONGS, we believe acquiring a free cash flow of 100 billion yen should be within the range of possibility. Our interest-bearing debt is also increasing, but this is being met mostly by commercial paper that offers short redemption periods. The expansion attributable primarily to temporary inventory increases ahead of the end of the fiscal year is expected to be resolved soon.

Q. According to your explanation, the amount of time between receipt of an order and the corresponding booking to net sales until now has been approximately two years but is now increasing to between 2.5 and three years. Why is that?

A. We are looking into the reasons now. There are an increasing number of projects that require more than three years from receiving orders to booking sales. Today, under the influence of economic conditions, various assessments and other factors, longer periods of time are required between the time an order is received and the start of construction. Also, in the after-sale servicing business we perform, we are seeing an increase in long-term service agreements (LTSA) spanning 10 to 15 years. Going forward, we believe it will be necessary to take these factors into consideration when preparing our income and expenditure plans.

Q. The delayed booking to sales is mainly in the Energy & Environment domain. We understand that accrual to cash flow is also taking longer than assumed. Do you see any impact on the overall level of profitability?

A. There has been no major change in profitability levels at the time of order receipt, and delayed booking to sales doesn't translate to erosion of profitability. However, next year and the year after we will see a peak in conventional thermal equipment . Fixed costs to fulfill those orders are in fact increasing, and we are well aware of the issue we face in properly controlling those fixed costs.