Summary of Q&A at FY2016-1H Financial Results Presentation (October 31, 2016)

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

Q. Page 23 of the presentation material titled "Status of 2015 Medium-Term Business Plan" shows the Company's conceptual structure of how earnings will improve in the short term. However, the FY2017 operating income target, ¥450 billion, is based on a forex rate of ¥110/US$ assumed when the Business Plan was announced, so we believe the target's achievement will now be difficult. What is the Company's outlook toward the FY2017 operating income now?

A. As indicated, the forex rate originally assumed when drawing up the 2015 Business Plan was ¥110/$; but today the rate is actually hovering around ¥100/$, which means that efforts will be needed to compensate for the ¥10 gap. Also, besides the forex rate, other discrepancies with the Company's original assumptions include Tier1 cost reductions in the commercial aircraft business and reduced sales owing to the protracted slump in the metals machinery business. Recovery will be needed in these areas also. As to our current assessment of the FY2017 operating income outlook, we will take this under consideration going forward. We will disclose what measures will be taken, how much improvement we expect those measures to produce, and the basis for those expectations, as early as possible.

Increasing the scale of net sales is essential to increasing operating income, but when sales are at a low level, the measures available to achieve an increase are inherently limited. In FY2016, sales are down more than we had projected, but we expect a fairly strong recovery in both FY2017 and FY2018 because of the substantial backlog of orders we have in our Energy & Environment segment. In addition, improving cost efficiency by making progress in post-merger integration is also important. We also believe that by reconsidering our MRJ timetable and cost structure as well as costs relating to the commercial aircraft business as a whole (Tier1 included) then we should be able to improve operating income significantly.

Q. The Company is planning to reduce SG&A expenses, but in FY2016, due to M&A and other initiatives, the ratio of such expenses to net sales is in the 16% range, which is higher than the norm until now. When does the Company expect the ratio to come down, and what is the target figure?

A. With companies of global scale, levels of SG&A expenses vary from one company to another. For the MHI Group, our ideal level is between 12 and 13%. Since the current level of 16% is excessive for our Group's business scale, our intention is to implement significant system changes: for example the consolidation of global management functions to Marunouchi, and further outsourcing of other functions. Also, because we have carried out M&A activities within a short time span, as it stands today all of our management departments have merely been integrated and overlapping still exists. We are instructing these business entities to accelerate their cost-reduction measures.

Q. After the first half of the fiscal year, orders received in the Energy & Environment segment are less than 30% of the yearly forecast. The full-year outlook, however, remains unchanged, at ¥2,100 billion, and the business environment seems severe. Do you still believe the year's target figure is achievable?

A. It's true that the business environment is severe, but our outlook factors in the status of various sales negotiations underway. As of now, we believe our target figure of ¥2,100 billion will be achievable.

Concerning FY2017 and FY2018, since orders already received will be booked to sales, we believe that in the short term there is no risk of a decline in net sales.

Sales negotiations relating to gas turbines are increasingly severe, however. In Southeast Asia, for example, our competitors are strengthening their marketing of new model gas turbines under development – and in response the MHI Group is taking steps to compete. Meanwhile we are also ramping up our sales activities in Central Asia and parts of the Middle East where other companies previously enjoyed an unassailable advantage.

Q. How long does the Company expect the losses arising from the cruise ship construction business to continue? We are concerned about the possibility that losses could continue even after delivery of the second ship, now under construction, from claims lodged against the Company.

A. Construction of the second ship is proceeding relatively smoothly. We can’t rule out the possibility that minor problems might arise again in the future, but the construction work is making steady progress in an orderly fashion. Given the large and complex system of a cruise ship, some issues become clear only after the ship goes into service, but the measures we took to deal with the issues that came up with the first ship are being applied in the second ship as well. Construction of the second ship’s hull is already more than 90% completed, and the issues requiring correction raised by the customer after inspection are far fewer than with the first ship. Construction quality has also improved, so we don’t anticipate any major problems in the future.

Q. The Company says it is going to establish an “MRJ Business Promotion Committee” under the direct oversight of the CEO. How is the Company anticipating MRJ orders will trend going forward?

A. We intend to continue pursuing orders as we have until now. To date we have taken orders for 427 units, including options. Negotiations in the U.S., which is a large market for the MRJ, have generally finished, and we expect more time will be needed before large-scale business talks will emerge again. For now, talks are underway in Europe and Asia involving 10 or so aircraft, but as these negotiations tend to take considerable time, we are giving them meticulous attention.

By putting MRJ business promotion under the direct oversight of the CEO, we will create a framework that will enable the Company to have a clear view of the relationship between orders received and production capacity on the one hand, and net sales on the other – a framework that will enable easy understanding of the optimal approach to order-taking within the overall business plan.