Summary of Q&A at FY2017 1H Financial Results Presentation
(October 31, 2017)

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

Q. In announcing 1H results, the Company has lowered its earnings outlook mainly for the Power Systems segment. Please explain why.

A. Thermal power plants account for a large proportion of the Power Systems segment's business. We lowered our orders outlook because the booking of some large orders has been pushed back, and because the environment surrounding the thermal power plant business has become severe. Further, a decline in operational rates of gas turbines is eroding sales volume from after-sale servicing operations, and we expect this situation to continue for two to three years.

At Mitsubishi Hitachi Power Systems (MHPS), we are working to consolidate production bases and cut fixed costs; but judging from the current orders picture, business scale is languishing below the level we had assumed. Our challenge going forward will be to devise how to make this business highly profitable.

Concerning the nuclear power business, we anticipate a sufficient amount of construction during the second half and believe that net sales and operating income will mark solid performance. As far as compressors are concerned, however, U.S. zeal for capital investment into oil & gas infrastructure is weak, and both new orders and sales of compressors have remained severe in FY2016 and FY2017.

In light of this, we have revised our FY2017 operating income forecast for the Power Systems segment to 100 billion yen, the same level as FY2016.

Q. Is the protracted sluggishness in the global market for thermal power plants due in part to structural issues, including the shift to renewable energies in Europe?

A. We believe structural factors play a large role in the sluggishness of the thermal plant market. In Europe, the adoption of renewables is proceeding amid moves toward shifting to a low-carbon society. As power providers have become more proactive in making related investments and technological innovations—in wind power generation, for example—have led to improved performance, the cost per unit of power generation has come down and the price of renewable-based electricity has decreased, bringing renewable energy into direct competition with GTCC (Gas Turbine Combined Cycle) type plants. In the United States, as a result of deregulation of the power industry, IPP projects have become less certain due to financing constraints and the like. Moreover, competition is intensifying with GE and Siemens.

In the emerging economies, where robust power demand can be expected through the long term, slower economic growth, heightened awareness toward issues surrounding CO2 and other factors are expected to lead to shrinkage in the market for coal-fired plants. Even so, demand for new plants should remain to some extent—a situation we believe will call for submission of various environmentally friendly proposals, such as CCS (Carbon Capture and Storage) and IGCC (Integrated coal Gasification Combined Cycle) plants.

Q. The Company has retained its earnings outlook for the Aircraft, Defense & Space segment. Please tell us the status of the various businesses within this domain.

A. Concerning the MRJ, flight testing is currently underway in the United States, and in Japan ground tests of various kinds are moving steadily forward. Development costs in the first half of FY2017 have increased slightly from the same period in the previous year, but progress is being achieved toward forging an efficient development structure. In the area of commercial aircraft, although the product mix is changing significantly—with production of the Boeing 777 decreasing and the Boeing 787 increasing, as well as the ramping up of the 777X—these operations are a stable source of earnings. Defense & Space operations are relatively solid. We are strengthening our cash flow management in order to improve our bottom line, leading to the generation of stable profits.

Q. In spite of lowering your earnings outlook for FY2017, the Company has retained its free cash flow outlook at 100 billion yen. Do you think that will be achievable?

A. As of the end of the first half, all SBUs (Strategic Business Units) except MHPS are close to target. Meanwhile, as business scale shrinks, we believe our balance sheet is roughly 1 trillion yen over its optimal level. In addition to improving the current assets turnover, we are working to generate cash directly from fixed assets through asset management, and we believe we will be able to reach our target.