Summary of Q&A at FY2017 Financial Results Presentation
(May 8, 2018)

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

Q. According to page 31 of the presentation materials of the "2018 Medium-Term Business Plan", between FY2018 and FY2020 the Company projects that the Power Systems segment will register an increase in EBIT of 55 billion yen. Please give us a breakdown of where this increase is expected to come from.

A. Between FY2018 and FY2020, we project EBIT will increase by 55 billion yen on the back of increased sales of thermal power systems, reduced fixed costs, and expansion of our aero engine business, etc.

Concerning thermal power systems, we have an order backlog large enough to keep us busy during the three years of the 2018 Business Plan. Therefore, we are expecting increased sales as construction steadily moves forward, plus growth in after-sale servicing operations.

Regarding fixed costs, we are taking steps to reduce these outlays through reallocation of employees and continuing post-merger integration (PMI) at Mitsubishi Hitachi Power Systems (MHPS).

With respect to our aero engine business, we believe increased earnings from expanding sales will also contribute to the achievement of our EBIT target.

Q. The amount of provision in the Industry & Infrastructure segment is significant. Is that attributable to several projects? Also, should we recognize that as a risk which will require ongoing attention?

A. We made a few provisions on engineering related businesses. One is to resolve a pending concern in which we expect will have no impact on future profit and loss. Another is against future risk of construction work. Currently, this project is under control in terms of schedule and quality and reaching its final phase.

Furthermore, we have recorded expenses resulting from issues in mass and medium lot-manufacturing businesses and believe that it is less likely to recur.

Q. Concerning MRJ development costs, in FY2017 the Company was unable to reduce costs to the level envisaged at the start of the term. What is your outlook for FY2018 and FY2019?
Also, concerning the Company's operating income forecast for FY2018 in the Aircraft, Defense & Space segment, under Japanese Accounting Standards the projection is a 15 billion yen loss, while EBIT that year under IFRS is shown as a 45 billion yen loss. Please tell us why the adoption of IFRS will erode EBIT by 30 billion yen.

A. Insofar as MRJ development costs are concerned, these were slated to peak out in FY2017. However, after the need to introduce another test aircraft in preparation for acquiring type certification, development is now in the final stages and we are assuming that development costs will peak out in FY2018. We expect costs to start falling, gradually, beginning in FY2019.

Concerning EBIT in the Aircraft, Defense & Space segment, the main reason behind the 30 billion yen drop in EBIT compared with operating income under Japanese Accounting Standards is the fact that the MRJ's development costs—which until now have been booked as assets—will in part be treated as FY2018 costs under IFRS.

Q. In tandem with the adoption of IFRS, the Company has said that 400 billion yen in MRJ-related assets will be squeezed. How is the Company intending to book this to its accounts?

A. With the change in accounting standards to IFRS, we revalued long-term assets using the concept of time value, and this has resulted in a deduction of the majority of MRJ-related assets from the balance sheet. As a direct deduction from the balance sheet is being made at the start of FY2018, there will be no impact on our profit and loss statement.

We wish to add that there will be no change made to our evaluation of the investment return potential of the MRJ program as a whole.