We aim to drive our corporate value through portfolio management by leveraging the efficient allocation of our management resources.

Tatsuhiko Nojima

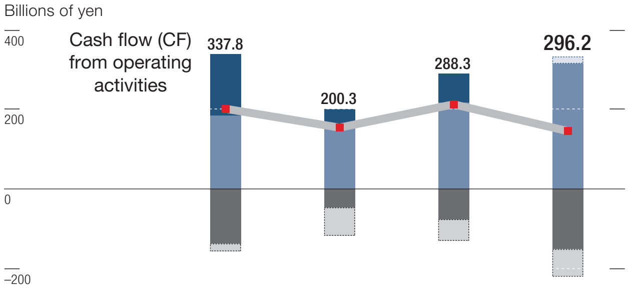
Executive Vice President,
Chief Financial Officer

Q1 MHI has been aggressively promoting cash flow management ever since the launch of the 2010 Medium-Term Business Plan. How has this effort strengthened the Company's financial base?

A1 The MHI Group has generated free cash flow of more than ¥100 billion during each of the four years since fiscal 2010. Thanks to the introduction of various structural reforms and the management of our business portfolio based on strategic evaluations, profitability has grown steadily in each business domain. Our overall EBITDA margin has risen from 8.1% in fiscal 2010 to 10.4% in fiscal 2013. In addition, we have improved capital efficiency through reductions in operating capital and worked to improve investment efficiency while continuing investments for growth and selling assets. As a result, we have slashed interest-bearing debt from ¥1,325.6 billion as of March 31, 2011, to ¥957.4 billion as of March 31, 2014. Our ratio of interest-bearing debt to shareholders' equity (D/E ratio) has accordingly improved to 0.54.

Free Cash Flow (FY2010-FY2013)

Billions of yen



(FY)	2010	2011	2012	2013
Free cash flow	200.5	153.3	211.6	144.6
Improving CF by improving efficiency in operating capital	153.6	36.2	71.7	(17.6)
CF margin	184.2	164.1	216.6	313.8
CF from investing activities	(137.2)	(47.0)	(76.7)	(151.5)
Sale of assets	19.1	70.5	53.4	68.7

Revenue / Invested capital	1.06 times	1.11 times	1.14 times	1.29 times
EBITDA margin	8.1%	8.4%	10.0%	10.4%
Interest-bearing debt	¥1,325.6 billion	¥1,157.1 billion	¥1,031.2 billion	¥957.4 billion
Interest paid	¥22.8 billion	¥20.9 billion	¥17.5 billion	¥16.1 billion

Q2 As business scale expands, funding requirements inevitably increase. What are the Company's financial strategies for the future?

A2 Managing our business portfolio based on strategic evaluations has improved our cash flow circulation. In fiscal 2013 for example, of the cash flow generated by strategic business units (SBUs) in the "grow/maintain" category, we reinvested ¥131.6 billion into business growth and returned the remaining ¥97.0 billion to the Group as a whole. Similarly, we returned ¥40.0 billion in surplus cash from "reform"-type SBUs to the Group. These cash surpluses funded the cultivation of "new" SBUs, and we used the remaining ¥144.6 billion in free cash flow to pay down interest-bearing debt and provide returns to shareholders.

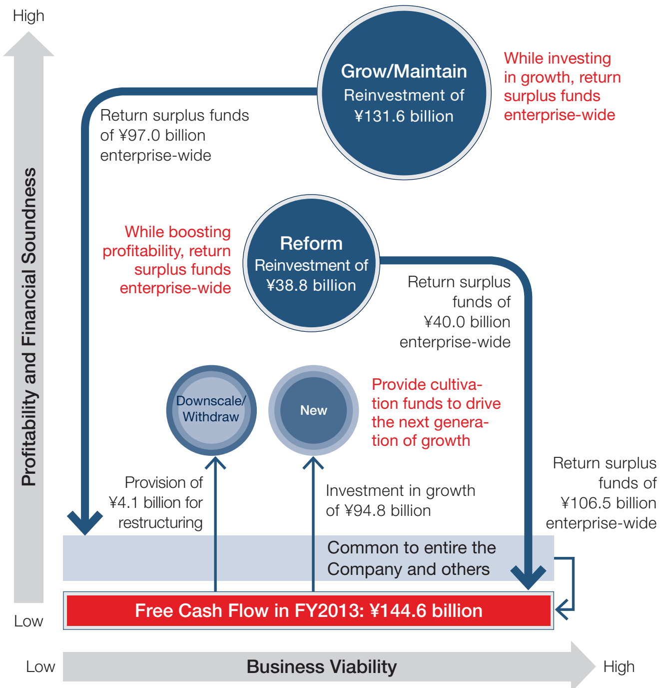
The MHI Group is aiming to become a highly profitable group with a business scale of ¥5 trillion during or after fiscal 2017. To reach that goal, I believe we need to boost our net worth to ¥2.0 trillion, compared with ¥1.5 trillion as of March 31, 2014. By diversely allocating our capital, we will simultaneously pursue three objectives—expansion of our business scale, strengthening of our financial base, and enhancement of our shareholder returns—and this, I believe, will enable us to boost our corporate value.

Specifically, we plan to prioritize capital allocations into SBUs in the highly profitable "grow/maintain" category and then allocate a high proportion into the "new business/risk" category (which includes "new" SBUs, funding necessary for future growth investments, and a buffer to deal with unexpected risks), while aiming for ROE of 12%.

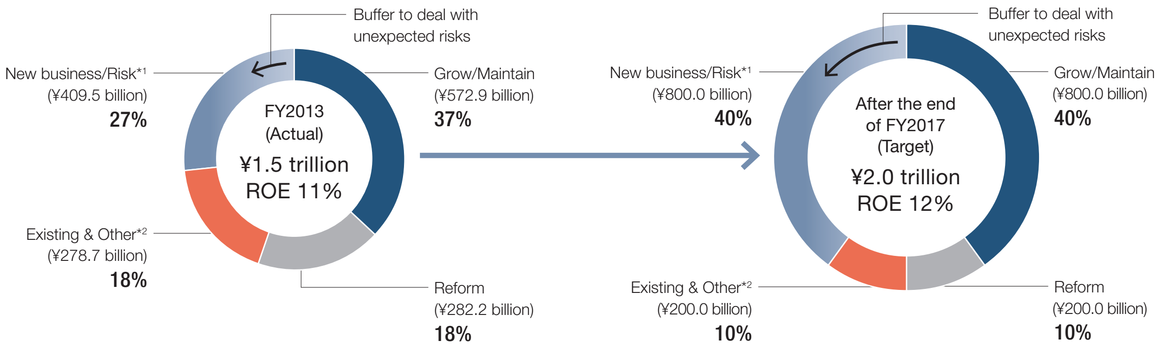
Meanwhile, we will reduce capital allocations into the "reform" and "existing & other" categories (SBUs in the "downscale/withdraw" category and areas "common to the entire Company"). In these ways, we will work to raise profitability further and establish a financial base that will support a business scale of ¥5 trillion.

Regarding shareholder returns, we have continuously raised our dividends per share—from ¥4 in fiscal 2010, to ¥6, then ¥8, and now we are planning a dividend of ¥10 per share for fiscal 2014. In fiscal 2015 and onward, during the period of our next Medium-Term Business Plan, we will consider raising the dividend level even further, depending on our net worth situation, progress in reducing risk, and status in improving our ROE.

Cash Flow Circulation in FY2013



Enhancement of Net Worth to Strengthen the Financial Base



*1. Capital for the existing SBUs in the "new" category as well as seed money (growth investments) and capital required as a buffer for unexpected risk
*2. Capital for SBUs in the "downscale/withdraw" category and the "common to the entire Company" category