

Summary of Q&A at FY2018 Business Strategy Presentation Meeting
(June 5, 2018)

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

[Power Systems]

Q. What is the status of the feasibility study relating to the Sinop project in Turkey, and what is the outlook for the future?

A. The feasibility study is still in progress, and as of now there is no change in the project's status. Bilateral discussions are moving forward, and we have made no changes in our position to devote full resources to the Sinop project.

Q. The Company has said it intends to devote itself fully to the nuclear power business with its sights on 2030 or 2050. In what regions does the Company anticipate demand for construction of nuclear power plants going forward? Please explain why MHI is focusing on nuclear power into the future.

A. Given the issue of global warming, we believe that, from the perspective of curbing CO₂, nuclear power provides a solution. At present, demand is limited, but looking forward to 2030 or 2040, we think nuclear power plant projects will emerge in locations all around the world.

To enable us to respond fully when that time comes, we will strive to maintain and improve our technical capabilities by supporting nuclear power plant restarts in Japan and participating in large-scale servicing work after resumption of operations.

Q. We think that, going forward, demand will increase for distributed power generating systems using gas, and in the presentation materials for engine operations in the Industry & Infrastructure domain, the Company also says that demand will increase for small-size generators. The MHI Group offers a full lineup that includes power plants fueled by natural gas, and large, medium and small-size gas engines for power generation. How will business develop in the years ahead?

A. The large-size gas engines offered in the Power Systems domain and the small and medium-size gas engines in the Industry & Infrastructure domain complement each other, and in our business discussions we incorporate both. By availing this broad product lineup, we will submit proposals that optimally match each customer's needs, as a way of achieving an increase in orders received.

[Industry & Infrastructure]

Q. Regarding the individual domain targets listed in the 2018 Medium-Term Business Plan, the Company is projecting 80 billion yen in EBIT for FY2018 and 160 billion yen in FY2020. In other words, the Company is looking to double its EBIT within the three year term of the Business Plan. What is the breakdown of these added earnings, and what is the road map the Company envisions will lead to this increase?

A. Page 9 of today's presentation materials shows a breakdown of our earnings targets. In FY2020, we are projecting substantial growth in medium-mass-manufactured items such as material handling equipment, thermal systems and turbochargers. Concerning business in made-to-order products, the market for metals machinery is in a recovery trend, and in FY2017 orders received exceeded our original forecast, so this will translate into net sales going forward. As for our EPC business, FY2017 was marked by sluggishness in large-scale transportation systems; but looking ahead, we can expect automated people movers (APMs), now robust, to contribute to earnings. Furthermore, insofar as APMs are concerned, we project further improvement in profitability from expansion of operation & maintenance (O&M) engineering. With respect to commercial ships, because construction of large-scale LNG carriers has now run its course, going forward we will shift our focus to ships requiring high-density outfitting, which are making steady contributions to earnings: for example, ferries, RORO (roll-on/roll-off) ships and patrol vessels. Up to now, ships of these types were constructed at the Shimonoseki Shipyard & Machinery Works, but from now on we will undertake this work using the full resources of our commercial ship business, including the Nagasaki Shipyard & Machinery Works. In addition to the circumstances of our various businesses just noted, our FY2020 forecast also includes a positive impact on earnings from the application of IFRS. For these reasons, we believe the EBIT target for FY2020 should be quite achievable.

Q. Is there a possibility that during the years of the 2018 Business Plan the Company will carry out further concentration into its core competencies and withdraw from non-mass-manufactured items and other businesses that are generating low profits?

A. Our current structure is the end result of having already pursued concentration into our core competencies and retaining businesses that are fundamentally self-sustainable. At present, earnings from made-to-order businesses like metals machinery and commercial ships are weak; but we believe that these areas aren't latently or inherently adverse and that there is ample leverage for them to grow. We will continue to pursue the portfolio we think is best.

Concerning concentration into core competencies, going forward we believe all possibilities exist, including M&A's.

Q. Besides Mitsubishi Heavy Industries Engineering, Ltd., to our understanding engineering-related business is also being conducted by Mitsubishi Heavy Industries Environmental & Chemical Engineering Co., Ltd., Primetals Technologies and MHPS. Is it possible that collaboration will be pursued across companies or domain boundaries?

A. Mitsubishi Heavy Industries Engineering, Ltd. has three companies under its umbrella—Mitsubishi Heavy Industries Environmental & Chemical Engineering Co., Ltd., MHI Plant Engineering & Construction, Ltd., and Mitsubishi Heavy Industries Transportation Equipment Engineering & Service Co., Ltd.—and all of them adopt the same tools and work procedures. We also see advantages in that 1) these companies, each having their own areas and regions where they excel, can pool and exchange their expertise and knowhow, and 2) all three companies have bases in the Yokohama district, enabling swift communication. Furthermore, since the launch of Mitsubishi Heavy Industries Engineering, Ltd. on January 1, 2018, transfers of human resources within the Group have become active.

Concerning Primetals Technologies and MHPS, although both are joint ventures with other companies and therefore use different tools, as members of the MHI Group, they properly exchange information of all kinds and personnel.

Going forward, we will continue to make effective use of resources in our engineering-related businesses.

[Aircraft, Defense & Space]

Q. Concerning satellite launch services, how does the Company see the future outlook as well as the current global competitive environment? At a time when U.S. companies and others are forcing changes to the existing business model by deploying reusable launch vehicles and such, how will MHI contend against its competitors?

A. To compete against U.S. companies and the like, we are working to develop the H3 launch vehicle with a focus on reducing costs. Whereas costs are incurred to refurbish a reusable launch vehicle, we believe the H3 has adequate competitive potential in terms of price. Also, if the highly acclaimed reliability and on-time launch ratio garnered with the H-IIA and H-IIB launch vehicles are carried on by the H3, we think it should be possible to acquire a fair share of orders.

Q. Four years have passed since the “Three Principles on Transfer of Defense Equipment and Technology” were enacted in 2014. Please tell us what MHI is presently doing toward expanding related business overseas, and what challenges have arisen. Also, what is the Company’s view toward impact on domestic industries and on sustaining technological capabilities in the face of increased purchases of equipment from the U.S. and increased maintenance and repair costs stemming from the Foreign Military Sales (FMS) program?

A. Exports based on the Three Principles are predicated on their contribution to Japan’s national security, and exports of large-scale systems are not easily achieved. Also, only a few years have passed since Japan expanded into this overseas market, and we face high hurdles in competing in markets where U.S. and European manufacturers have competed for many years. On a component unit basis, however, we believe we have ample competitive strength, and are taking specific sales under consideration.

FMS puts severe pressure on the Japanese industry, with one issue in particular being the difficulty of work expanding among suppliers. We sense a potential crisis could occur if FMS were to increase to the extent that suppliers withdraw, so members of the industry are currently making their views known to the Government.