Summary of Q&A at FY2018 1Q Financial Results Presentation

(August 3, 2018)

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

Q. Please tell us what the Company's aim is in disclosing, starting this quarter, “fundamental business” figures that exclude impact from MRJ investments. Also, what is the Company's assessment of the first quarter results?

A. As of now, the MRJ business is generating no sales but we continue to invest in this project, mainly in the form of research and development costs. In dialogues with our investors, they have occasionally indicated that given the significant impact the MRJ business has been having on our overall business results, they have difficulty grasping the status of our regular business operations. We think that in order to deepen understanding toward MHI, what’s most important is to indicate clearly 1) which of our businesses have earning capacity, and how much, to carry out their operations, and 2) which areas are able to generate cash flow to enable investments into next-generation product businesses. We elected to disclose information this new way starting this year to foster understanding of how the results of the various measures we implemented in our 2012 and 2015 Medium-Term Business Plans are clearly emerging as fundamental business strength.

As to how the first quarter results compare with our full-year forecasts, figures for our “fundamental business” excluding impact from MRJ investments reveal that whereas full year we are forecasting 250 billion yen in profit from business activities and 170 billion yen in profit attributable to owners of parent, corresponding results for the first quarter were 54 billion yen and 37.7 billion yen, respectively. In most years, we typically book more profits toward the end of the fiscal year. Moreover, factoring in detailed analysis of each SBU(STRATEGIC BUSINESS UNIT), in our view the fiscal year got off to a relatively good start.
Q. One reason for the year-on-year improvement seen in profit from business activities in the Power Systems segment is likely the increased revenue from the nuclear power business; but what other factors are behind the improvement?
A. Approximately half the improvement owes to the nuclear power business. Another contributing factor was robust sales of gas turbines, aero engines and compressors. As a whole, the Power Systems segment performed in line with our assumptions made at the start of the term.

Q. Given the current market trend in gas turbines, how does MHI evaluate this area’s first quarter results, and what is the Company’s outlook for the future?
A. Overall, the gas turbine market remains severe. No new orders for large gas turbines were received during the first quarter, and this was a major cause behind the decrease in orders received in the Power Systems segment. We have, however, secured a number of tentative orders and we see a strong likelihood that, for the year as a whole, we should be able to reach our original projection.
Concerning after-sale servicing operations, which is a major pillar of earnings, there is some correlation between the number of gas turbines delivered and plant operating ratios. A look at the operating status of previously delivered gas turbine plants shows that operating ratios in the European and North American markets are low. However, the number of our deliveries to those regions is modest, so we believe impact will be limited. In contrast, in regions where we are in a position of strength—for example, Japan, Taiwan, Korea and Southeast Asia—plant operating ratios are relatively high. As such, we are not anticipating any major change this fiscal year in revenue to be accrued from after-sale servicing operations. Also, many of the plants we completed are highly efficient and relatively new, so we believe our after-sale servicing business has a fair degree of growth potential.
Q. The first quarter results for the Industry & Infrastructure segment seem weak compared to the full-year targets. What is the Company’s assessment?

A. In the case of the Industry & Infrastructure segment, separate explanations are necessary for products made to order and mass-and-medium lot manufactured products. With made-to-order products, negative impact from the commercial ships and metals machinery businesses decreased year-on-year, and this factor increased profit. Meanwhile, reduced sales of chemical plants were among factors that eroded profit. With mass-and-medium lot manufactured products, sales of turbochargers, engines, and air-conditioning and refrigeration systems were firm. When these elements are combined, the bottom line improved roughly 3 billion yen year-on-year.

Q. With accounting related to MRJ investments, to our knowledge even with IFRS there are two components: one part booked as costs and another booked as assets. Of the 22.5 billion yen in MRJ investments made during the first quarter, is the component booked as assets included? Also, the quarterly investment figure of 22.5 billion yen calculates to exactly one-fourth of the full-year investment sum of 90 billion yen. Should we take this to mean that a nearly equivalent investment sum will come every quarter this fiscal year?

A. Materials and parts for production of the MRJ aircraft are partially booked to the balance sheets, but the core development investments are booked as expenses. As to whether or not the MRJ investment sum will be near the first quarter’s level each remaining quarter, we cannot say for certain; however, the development timetable and cost outlook are already set, and we are assuming the annual investment outlay will be near 90 billion yen.