

Summary of Q&As at Q1 FY2020 Financial Results Presentation
(August 3, 2020)

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

Q. In the “Profit Bridge” on page 13 of the “Q1 FY2020 Financial Results” presentation materials, it is stated that fixed cost reduction of ¥11.0 billion contributed to an increase in profit from business activities of ¥11.0 billion. My impression is that fixed costs have been reduced more than projected, and that the decrease in profit from business activities was therefore smaller than one would expect from the magnitude of the decrease in revenue. What is the outlook for fixed cost reductions for the full year?

A. In the medium-lot products business, we embarked on fixed cost reduction efforts at an early stage in the crisis, in line with the actual decrease in production rates. Accordingly, we continue to make steady progress in cost reductions. The improvement of ¥11.0 billion shown here is inclusive of the estimated savings from emergency measures of ¥45.0 billion, including asset management-related amounts, announced on May 11 (FY2019 Financial Results announcement). Cost reduction progress in the Q1 against the full-year forecast is slightly higher than expected.

Q. It has been reported that the Ministry of Economy, Trade and Industry would announce a policy to shut down low-efficiency coal-fired power plants in Japan. What kind of impact will this policy have on MHI? What is your current outlook for this business?

A. The specifics of the Ministry of Economy, Trade and Industry's policy have not been provided yet, so the extent of the impact is not fully known at present. If the number of coal-fired thermal power plants decreases, revenue from after-sales service will decrease accordingly. However, it is possible that demand for GTCC and nuclear power will increase as substitutes for the existing coal fired thermal power plants. In addition, we can expect an increase in projects to improve the efficiency of coal-fired thermal power.

Through such shifts we plan to make up for the decrease.

It is believed that there will be some period of time before the closure of coal-fired thermal power plants, and we, the MHI Group, are investigating various solutions for decarbonization during this transition period. We are developing next-generation decarbonization technologies such as hydrogen- or ammonia-fired power generation. In this respect, we see ourselves to be ahead of our competitors.

In the field of offshore wind power, we have established a joint venture for offshore wind power development in Hokkaido in cooperation with Copenhagen Infrastructure Partners P/S in Denmark, which operates a renewable energy development investment fund. We are also engaged overseas in the development of a power management system combined with batteries. We are confident that our ability to provide a wide range of total solutions will be a significant strength going forward.

Q. We understand that the amount of goodwill impairment arising from the acquisition of the CRJ business was assumed to be approximately ¥60.0 billion (median of ¥50.0 billion ~ ¥70.0 billion published on May 11). Could you explain the reason why one-time losses including the impairment loss amounted to only negative ¥50.0 billion in today's presentation?

A. As the amount of goodwill impairment associated with the acquisition of CRJ business has not been finalized at this time, an estimated amount has been reflected in the Q1 results based on discussions with our auditors. As the PPA (Purchase Price Allocation) is carried out after the final valuation of the assets transferred from Bombardier is confirmed, the impairment amount may increase. As a result, one-time losses are expected to increase slightly from the current ¥50.0 billion, but are expected to remain within the range of the initial forecast.

Q. In terms of the CRJ business, how has the MHI Group operated it after closing the transaction in June? In addition, please explain the future impact on the P&L Statement and the Balance Sheet.

A. The CRJ business has been the part of MHI Group under the newly created group entity MHI RJ Aviation Group since this June. Currently the company operates as an OEM and after service provider including MRO; however, after completion of deliveries in the current backlog the OEM business will cease. In terms of the financial impacts of the operation after acquisition of CRJ, we believe the impact to our P&L is rather limited. The impact on our B/S is also limited, since a large portion of the goodwill has been already impaired as of Q1 end.

Q. In terms of SpaceJet, what impact will the delay of flight testing in the US for TC (Type Certificate) have on your full-year guidance? Also please explain management's view on the direction of SpaceJet development.

A. The development costs in Q1, which amounted to approximately 20 billion yen, may look disproportionately large when compared against the full-year forecast planned to be 60 billion yen. However, we expect that the development costs for SpaceJet in each of the remaining three quarters will be less than Q1 as a result of the organization reductions implemented in June and July. Currently we are focusing on validation work in order to conduct TC tests most effectively. Flight tests and further development activities will be planned out in more detail after completion of this validation work.