

1H FY2022 Financial Results

November 1, 2022

Mitsubishi Heavy Industries, Ltd.

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Hello, everyone. This is Hisato Kozawa, CFO of MHI.

Allow me to summarize our 1H financial results.

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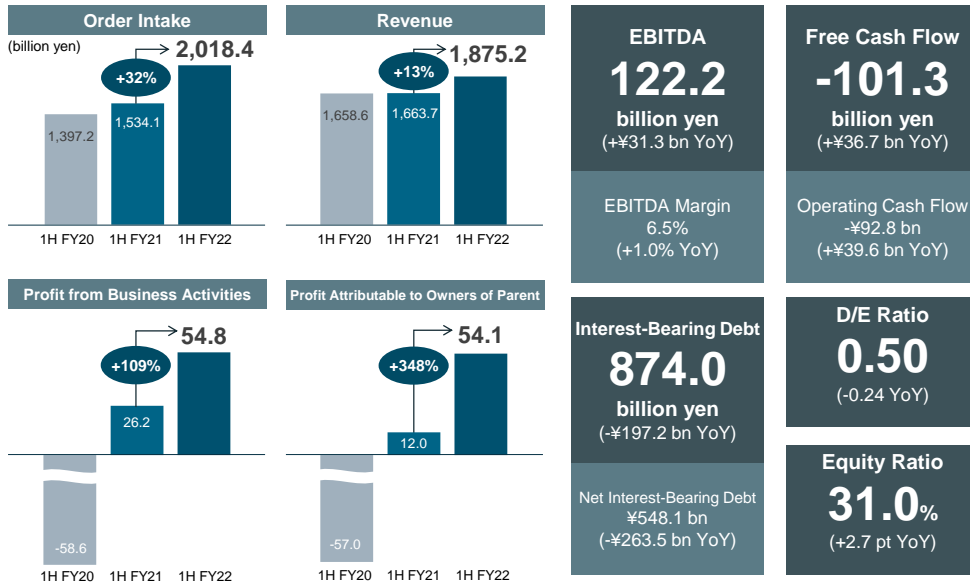


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I. Key Takeaways

1H FY2022 Financial Results



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First, I will provide an overview of the financial results. This page shows the results of several key financial indicators.

1H FY2022 Financial Results Highlights



- **Order Intake: ¥2,018.4 bn (+¥484.2 bn YoY)**
Orders grew mainly in Gas Turbine Combined Cycle (GTCC), Aero Engines, Nuclear Power, Metals Machinery, Logistics Systems, and HVAC, with YoY increases seen in all segments. (See p.6 for additional information on GTCC, Metals Machinery, Logistics Systems, and HVAC)
- **Revenue: ¥1,875.2 bn (+¥211.5 bn YoY)**
Revenue grew mainly in GTCC, Aero Engines, Nuclear Power, Metals Machinery, Logistics Systems, and HVAC, with YoY increases seen in the three segments of Energy Systems, Logistics, Thermal & Drive Systems, and Aircraft, Defense & Space
- **Business Profit: ¥54.8 bn (+¥28.6 bn YoY)**
Business profit doubled from ¥26.2 bn in 1H FY2021 due to revenue increases, fixed cost reductions, and foreign exchange effects
- **Net Profit: ¥54.1 bn (+¥42.0 bn YoY)**
In addition to increases in business profit, foreign exchange gains from depreciation of the yen contributed to a 348% YoY increase in net profit from ¥12.0 bn in 1H FY2021 to ¥54.1 bn

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This page summarizes the highlights from our financial results.

Order intake and revenue increased YoY. Growth in order intake was particularly strong, with increases seen in all segments. Revenue decreased slightly in the Plants & Infrastructure Systems segment, but increased in all other segments.

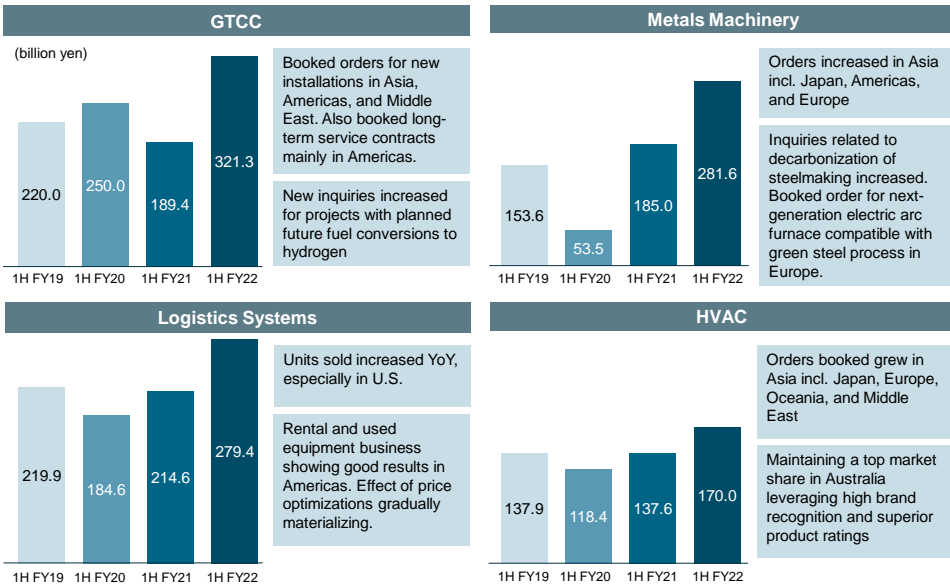
Regarding profit, both profit from business activities (business profit) and profit attributable to owners of parent (net profit) increased due to increased revenue, fixed cost reductions, and the impact of the depreciation of the yen.

Although not mentioned in the presentation materials, I would like to provide some supplementary information on the impact of YoY exchange rate fluctuations.

Due to foreign exchange translation effects, we estimate that both order intake and revenue increased by more than ¥140 bn, with business profit and net profit increasing by ¥12 bn and ¥33 bn, respectively.

The level of interest-bearing debt has also significantly improved YoY, and we have maintained a high level of financial stability in terms of debt-to-equity ratio and equity ratio.

Financial Results Highlights: Order Intake



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On this page, we show the trends in order intake over the past several years for the main products that saw a YoY increase in order intake during 1H of this fiscal year.

In the Gas Turbine Combined Cycle (GTCC) business, we have received orders for seven large-frame gas turbines, including for Hongkong Electric.

Orders for Metals Machinery continued to be strong, and the ¥281.6 bn in orders received this fiscal year is the highest ever recorded in a half-year period.

Market demand for Logistics Systems and HVAC was also strong, but production is currently a limiting factor. Both of these products have a high ratio of revenue originating outside of Japan, which means that a certain amount of the increases in order intake and revenue came from foreign exchange rate effects. However, even after excluding these effects, volume-based YoY growth was still more than 10%.

II. 1H FY2022 Financial Results

I will explain the financial results in a little more detail over the next few pages.

Financial Results Overview



| (billion yen) | 1H FY2021 (Profit Margin) | 1H FY2022 (Profit Margin) | YoY (Profit Margin) | (YoY%) |
|--|------------------------------|------------------------------|------------------------|-----------|
| Order Intake | 1,534.1 | 2,018.4 | +484.2 | (+31.6%) |
| Revenue | 1,663.7 | 1,875.2 | +211.5 | (+12.7%) |
| Profit from Business Activities | 26.2 (1.6%) | 54.8 (2.9%) | +28.6 (+1.3%) | (+109.2%) |
| Profit Attributable to Owners of Parent | 12.0 (0.7%) | 54.1 (2.9%) | +42.0 (+2.2%) | (+348.1%) |
| EBITDA | 90.9 (5.5%) | 122.2 (6.5%) | +31.3 (+1.0%) | (+34.4%) |
| Free Cash Flow | -138.0 | -101.3 | +36.7 | |

I will omit an explanation of the table on this page, as it contains information already provided.

Financial Position and Cash Flows



| Financial Position | (billion yen) | FY21 End | 1H FY22 End | YoY |
|---|----------------------|----------------|----------------|---------------|
| Trade Receivables and Contract Assets | | 1,399.4 | 1,428.3 | +28.8 |
| Inventories | | 798.6 | 929.6 | +131.0 |
| Other Current Assets | | 605.0 | 629.1 | +24.0 |
| (Cash and Cash Equivalents) | | (314.2) | (325.8) | (+11.6) |
| Fixed Assets | | 989.2 | 1,008.6 | +19.3 |
| Other Non-Current Assets | | 1,323.9 | 1,380.9 | +57.0 |
| Total Assets | | 5,116.3 | 5,376.7 | +260.3 |
| Trade Payables | | 863.2 | 780.8 | -82.3 |
| Contract Liabilities | | 886.5 | 967.2 | +80.7 |
| Other Current Liabilities | | 969.0 | 991.1 | +22.1 |
| Interest-Bearing Debt | | 734.9 | 874.0 | +139.1 |
| Equity | | 1,662.5 | 1,763.3 | +100.7 |
| (Equity Attributable to Owners of Parent) | | (1,576.6) | (1,666.9) | (+90.3) |
| Total Liabilities and Equity | | 5,116.3 | 5,376.7 | +260.3 |
| Cash Flows | (billion yen) | 1H FY21 | 1H FY22 | YoY |
| Operating Cash Flow | | -132.4 | -92.8 | +39.6 |
| Investing Cash Flow | | -5.5 | -8.5 | -2.9 |
| Free Cash Flow | | -138.0 | -101.3 | +36.7 |

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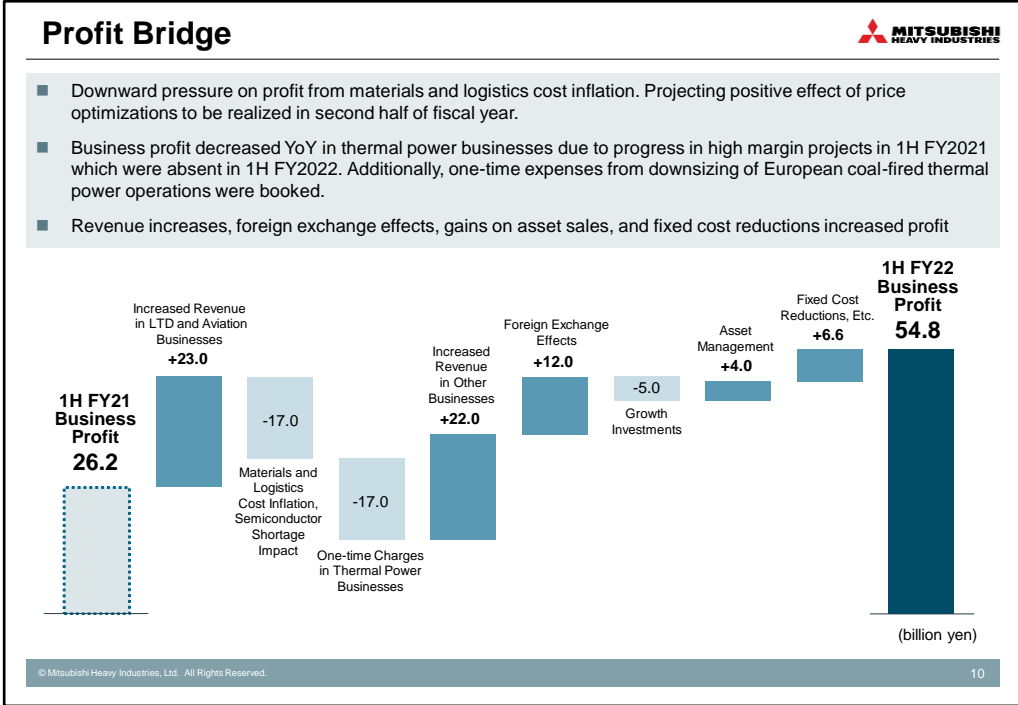
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This page shows an overview of the balance sheet and cash flows.

Total assets increased by ¥260.3 bn from the end of FY2021 to ¥5,376.7 bn. To provide a breakdown of the increase, approximately ¥180 bn came from translation effects of foreign currency-denominated assets associated with the depreciation of the yen. Cash and cash equivalents increased by over ¥10 bn and inventories also increased. However, these were in the range of normal fluctuations.

Regarding cash flows, operating cash flow improved YoY, which led to an improvement in free cash flow.

We typically have negative cash flows until Q3, and I think that the approximately ¥100 bn in negative free cash flow we saw in 1H of this fiscal year was relatively solid progress for us.



This page explains the causes of YoY changes in business profit.

On the far left is our business profit in 1H FY2021, which was ¥26.2 bn.

Increased revenue in Logistics, Thermal & Drive Systems and businesses including Aero Engines increased profit by ¥23 bn. Meanwhile, materials and logistics cost inflation and production cuts caused by supply chain disruptions decreased profit by ¥17 bn.

Next, the impact of one-time factors in the thermal power businesses – which I also touched on during the Q1 FY2022 Financial Results briefing – included a YoY decrease in profit due to progress in high margin projects in 1H FY2021 which were absent in 1H FY2022 and expenses from the downsizing of our European operations, which were recorded this fiscal year.

Other factors shown here also contributed to YoY changes, resulting in business profit of ¥54.8 bn in 1H of this fiscal year.

1H FY2022 Financial Results by Segment

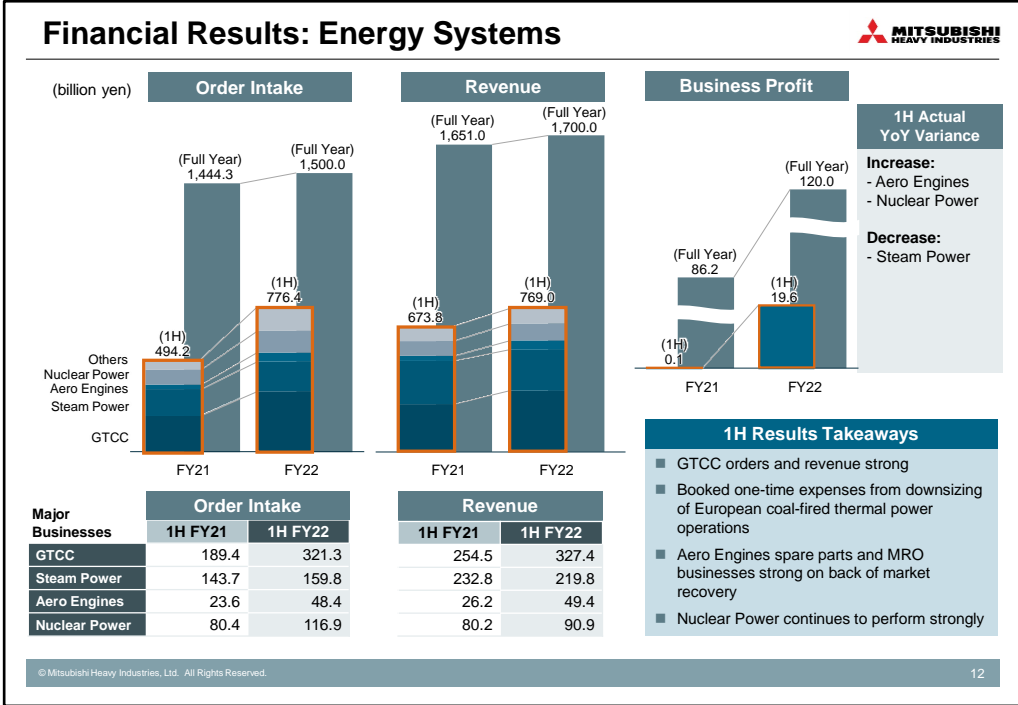


| | Order Intake | | | Revenue | | | Profit from Business Activities | | |
|------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|---------------------------------|-------------|--------------|
| | 1H FY21 | 1H FY22 | YoY | 1H FY21 | 1H FY22 | YoY | 1H FY21 | 1H FY22 | YoY |
| (billion yen) | | | | | | | | | |
| Energy Systems | 494.2 | 776.4 | +282.2 | 673.8 | 769.0 | +95.2 | 0.1 | 19.6 | +19.4 |
| Plants & Infrastructure Systems | 411.3 | 474.6 | +63.2 | 301.7 | 292.1 | -9.5 | 7.0 | 10.6 | +3.6 |
| Logistics, Thermal & Drive Systems | 466.1 | 578.1 | +111.9 | 454.4 | 563.4 | +108.9 | 14.6 | 8.4 | -6.2 |
| Aircraft, Defense & Space | 178.1 | 207.7 | +29.6 | 247.3 | 262.3 | +14.9 | 7.6 | 17.6 | +9.9 |
| Corporate and Eliminations | -15.7 | -18.5 | -2.8 | -13.6 | -11.7 | +1.9 | -3.3 | -1.5 | +1.8 |
| Total | 1,534.1 | 2,018.4 | +484.2 | 1,663.7 | 1,875.2 | +211.5 | 26.2 | 54.8 | +28.6 |

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This page shows a summary of order intake, revenue, and business profit by segment. Over the next few pages, I will explain the situation in each segment.

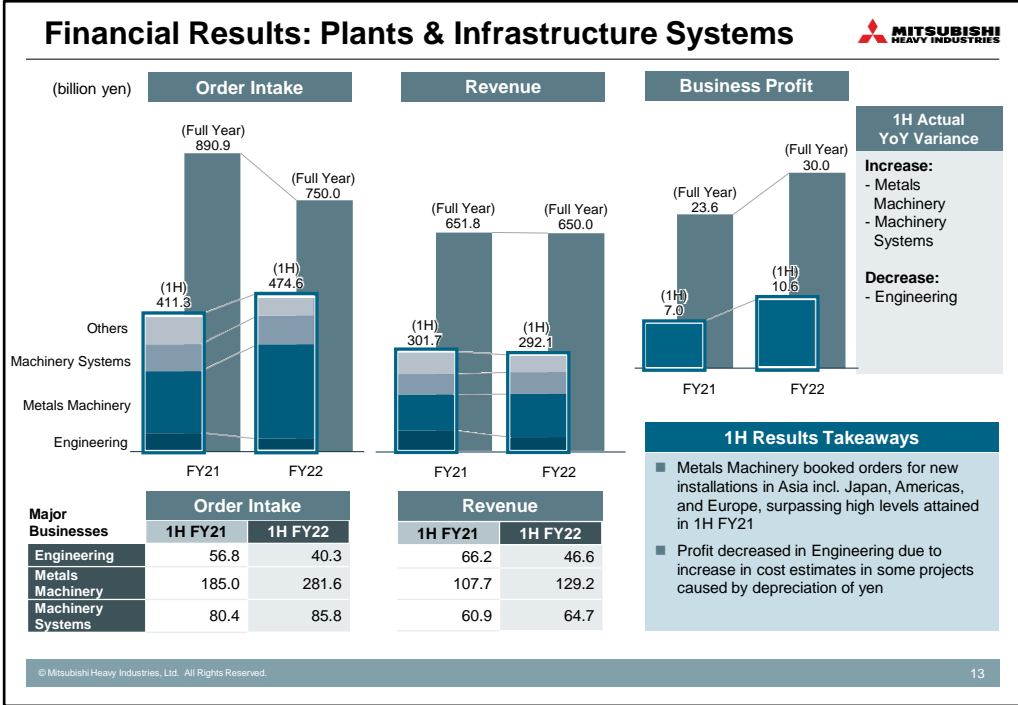


This page shows the situation in the Energy Systems segment.

Order intake, revenue, and business profit all increased YoY.

Order intake and revenue have increased steadily versus the initial plan, and the depreciation of the yen has caused some of these increases. This has led us to increase our full-year forecast for order intake and revenue by ¥100 bn and ¥50 bn, respectively. As a result, we expect order intake and revenue to exceed FY2021 levels.

Although business profit has generally progressed in line with the initial plan, we have lowered our full-year forecast by ¥10 bn to ¥120 bn, factoring in one-time expenses in the Steam Power business and concerns about decreased profitability in some projects.

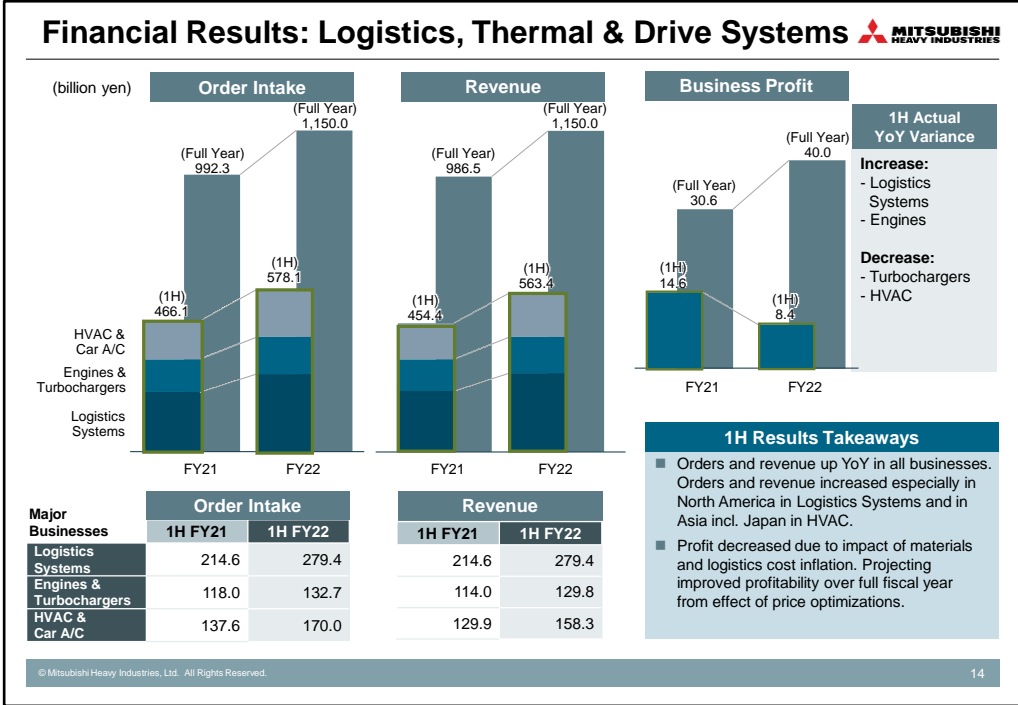


This page shows the situation in the Plants & Infrastructure Systems segment.

Revenue declined by slightly less than ¥10 bn YoY, while order intake and business profit remained steady.

Orders for Metals Machinery continued to be strong, and we raised our full-year order intake forecast by ¥100 bn to ¥750 bn, taking into account the progress made in 1H.

This segment tends to see lower profits as the yen depreciates, but overall profitability improved during 1H FY2022, resulting in higher business profit YoY.



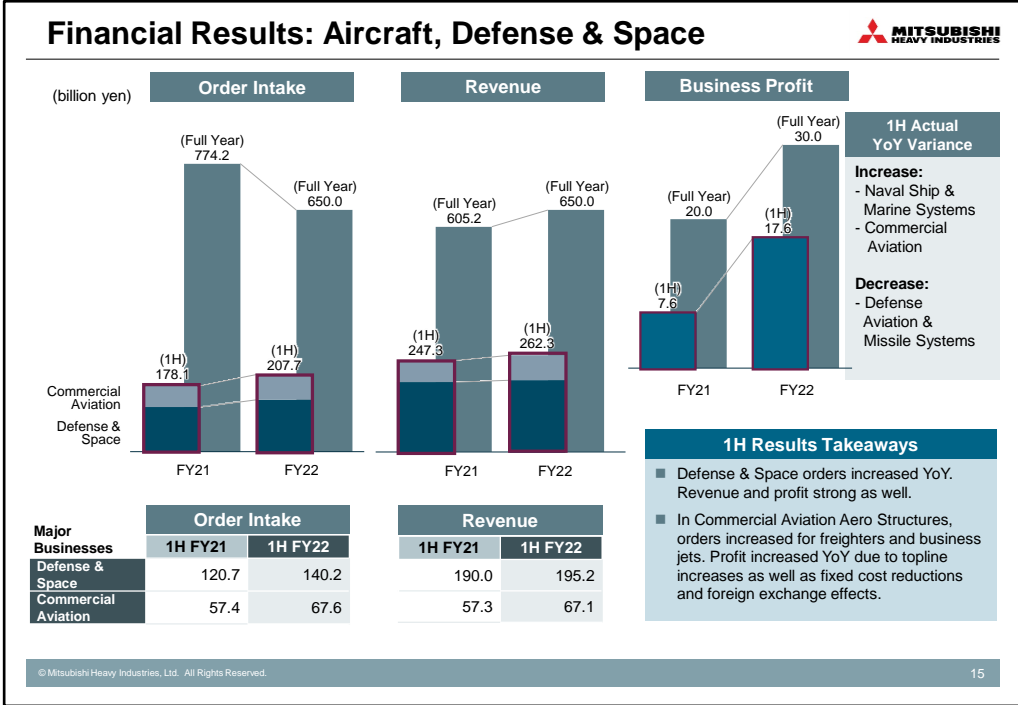
This page shows the situation in the Logistics, Thermal & Drive Systems segment.

For the segment as a whole, order intake and revenue progressed steadily, whereas business profit contracted.

Mainly in the Logistics Systems and HVAC businesses – where market conditions are favorable – order intake and revenue have progressed better than initially planned, partly due to the impact of the depreciation of the yen. As a result, we increased our full-year forecast for order intake and revenue by ¥100 bn each.

Regarding business profit, the effects of price increases have not yet fully caught up with materials and logistics cost inflation.

Although not stated in the presentation materials, Q1 profit declined by ¥8 bn YoY, while 1H profit decreased by ¥6.2 bn, so the decline in profit has started to slow. We expect to enjoy the benefits of higher sales prices in 2H of this fiscal year and thereafter.



This page shows the situation in the Aircraft, Defense & Space segment.

The difficult situation in the Commercial Aviation Aero Structures business continued, as the number of units delivered to Boeing has not yet recovered. However, due to fixed-cost reduction efforts and the positive impact of the depreciation of the yen in the current fiscal year, business profit increased YoY.

Taking into account the progress made so far in 1H and changes in our exchange rate assumptions, we increased our revenue forecast by ¥50 bn to ¥650 bn, and the business profit forecast by ¥10 bn to ¥30 bn.

III. FY2022 Forecast

Forecasts regarding future performance as outlined in these materials are based on judgments made in accordance with information available at the time they were prepared. As such, these projections include risk and uncertainty. Investors are recommended not to depend solely on these projections when making investment decisions. Actual results may vary significantly due to a number of factors, including, but not limited to, economic trends affecting the Company's operating environment, fluctuations in the value of the yen to the U.S. dollar and other foreign currencies, and Japanese stock market trends. The results projected here should not be construed in any way as a guarantee by the Company.

FY2022 Forecast Overview



Revised from forecast announced August 5, 2022.

| (billion yen) | FY2021 (Profit Margin) | FY2022 (Profit Margin) | | YoY (Profit Margin) | (YoY%) |
|--|--|--|--|--|----------|
| | | Revised Forecast | Previous Forecast | | |
| Order Intake | 4,067.7 | 4,000.0 | 3,700.0 | -67.7 | (-1.7%) |
| Revenue | 3,860.2 | 4,100.0 | 3,900.0 | +239.8 | (+6.2%) |
| Profit from Business Activities | 160.2 (4.2%) | 200.0 (4.9%) | 200.0 (5.1%) | +39.8 (+0.7%) | (+24.8%) |
| Profit Attributable to Owners of Parent | 113.5 (2.9%) | 120.0 (2.9%) | 120.0 (3.1%) | +6.5 (+0.0%) | (+5.7%) |
| ROE | 7.7% | 7.7% | 7.7% | - | |
| EBITDA | 292.4 (7.6%) | 330.0 (8.0%) | 330.0 (8.5%) | +37.6 (+0.4%) | (+12.9%) |
| Free Cash Flow | 301.8 | -100.0 | -100.0 | -401.8 | |
| Dividends | 100 yen Interim: 45 yen Year-End: 55 yen | 120 yen Interim: 60 yen Year-End: 60 yen | 120 yen Interim: 60 yen Year-End: 60 yen | Exchange rate assumptions: USD 1.00 = ¥140 (prev. ¥120) EUR 1.00 = ¥140 (prev. ¥130) Undetermined foreign currency amounts: USD 1.6 bn, EUR 0.3 bn | |

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This page shows our full-year forecast for FY2022.

As I mentioned earlier, taking into account the progress made so far in 1H and the impact of the depreciation of the yen, we have revised our foreign exchange rate assumptions as well as our order intake and revenue forecasts.

We left our forecasts for profit, free cash flow, and other items unchanged due to concerns about economic uncertainties such as inflation and recession, and only made some inter-segment adjustments.

This concludes my section of the presentation. Thank you.

Next, Seiji Izumisawa, our CEO, will provide some remarks.

FY2022 Forecast by Segment



Revised from forecast announced August 5, 2022.

| (billion yen) | Order Intake | | | | Revenue | | | | Profit from Business Activities | | | |
|------------------------------------|----------------|----------------|----------------|--------------|----------------|----------------|----------------|---------------|---------------------------------|---------------|--------------|--------------|
| | FY21 | FY22 Forecast | | YoY | FY21 | FY22 Forecast | | YoY | FY21 | FY22 Forecast | | YoY |
| | | Revised | Previous | | | Revised | Previous | | | Revised | Previous | |
| Energy Systems | 1,444.3 | 1,500.0 | 1,400.0 | +55.7 | 1,651.0 | 1,700.0 | 1,650.0 | +49.0 | 86.2 | 120.0 | 130.0 | +33.8 |
| Plants & Infrastructure Systems | 890.9 | 750.0 | 650.0 | -140.9 | 651.8 | 650.0 | 650.0 | -1.8 | 23.6 | 30.0 | 30.0 | +6.4 |
| Logistics, Thermal & Drive Systems | 992.3 | 1,150.0 | 1,050.0 | +157.7 | 986.5 | 1,150.0 | 1,050.0 | +163.5 | 30.6 | 40.0 | 40.0 | +9.4 |
| Aircraft, Defense & Space | 774.2 | 650.0 | 650.0 | -124.2 | 605.2 | 650.0 | 600.0 | +44.8 | 20.0 | 30.0 | 20.0 | +10.0 |
| Corporate and Eliminations | -34.1 | -50.0 | -50.0 | -15.9 | -34.5 | -50.0 | -50.0 | -15.4 | -0.3 | -20.0 | -20.0 | -19.8 |
| Total | 4,067.7 | 4,000.0 | 3,700.0 | -67.7 | 3,860.2 | 4,100.0 | 3,900.0 | +239.8 | 160.2 | 200.0 | 200.0 | +39.8 |

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Hello, everyone. This is Seiji Izumisawa, CEO of MHI.

I would like to share with you a few words on the 1H results.

Based on the business environment through the end of the previous fiscal year, we incorporated the impact of materials costs inflation, increased logistics costs, semiconductor shortages, and the crisis in Ukraine into our initial plan and implemented measures accordingly during 1H of this fiscal year. However, the rapid depreciation of the yen, among other factors, has made this a more volatile period than we had anticipated.

Despite these circumstances, as our CFO explained earlier, our results in 1H of this fiscal year were generally in line with the plan. I believe that this is the result of recovery in Logistics, Thermal & Drive Systems and strong performance in GTCC and Metals Machinery, as well as our continued efforts to improve productivity and operational efficiency across the organization. In this sense, I consider the measures we have taken so far to have been successful.

As for the outlook for 2H and the full year, the business environment remains uncertain and defies prediction, despite the positive aspects of the depreciation of the yen. However, I believe that the benefit of price increases in Logistics, Thermal & Drive Systems will gradually make contributions during 2H of this fiscal year. I also expect the GTCC and Metals Machinery businesses to continue to perform well, so we are on track to achieve our initial plan.

Moreover, discussions in the nuclear power and defense sectors are gaining momentum, which will increase predictability in our businesses, and we consider this to be a positive factor for the future.

Moving on, I would also like to discuss the status of our growth strategy.

In the Energy Transition area, there is growing interest in energy security with a move toward more realistic approaches. I recently visited the U.S. and felt a lot of excitement in this field. As I have said in the past, the approach to Carbon Neutrality will depend on the characteristics of each region and economic situation. I believe that a trend is emerging for countries and regions to select solutions compatible with their specific needs from the many options available.

Against this backdrop, interest in CO₂ capture is growing in relation to the utilization of existing assets and the need to reduce emissions from hard-to-abate industries. In addition, efforts to diversify energy sources – including the use of ammonia and hydrogen – are accelerating, and MHI's role is becoming even more important in these areas.

To provide a specific example, inquiries for CO₂ recovery increased in 1H this fiscal year. Studies regarding the establishment of ammonia and hydrogen value chains are also underway. Governments in various countries are supporting these studies with diverse public support mechanisms, including incentives and subsidies.

We had originally thought that the Energy Transition would be a medium- to long-term effort, but it is already rapidly taking off. In the lead up to real-world implementation, MHI Group will continue pursuing various initiatives, including alliances with other companies. We also plan to strengthen our organization in order to enhance our ability to respond to the market's needs.

In the area of Smart Infrastructure, we have launched a proof of concept for the automation and systemization of logistics systems at Yokohama Hardtech Hub. We have received a great deal of interest in this project, and we look forward to its commercialization in the future.

Smart Infrastructure will support decarbonization by combining existing businesses and digitalization solutions.

On the topic of digitalization, our new Digital Innovation Headquarters – which we established in July – will serve as a hub for the horizontal integration of MHI Group's proprietary technologies and open innovation initiatives while accelerating our digitalization efforts.

In parallel, we are working on the Mihara Machinery Works decarbonization project, which aims to realize a carbon neutral factory within our company. About six months have passed since a full-scale study was initiated, and it is proceeding as planned.

In the area of Scope 1 emissions, we are working to achieve a balance between decarbonization and strengthening competitiveness with thorough energy conservation and streamlining. In the realm of Scope 2 emissions, we are on track to install solar panels.

I have high expectations for this facility not only as a concrete precedent of decarbonization within the Group, but also as an opportunity to acquire expertise that we can then offer to our customers.

In this way, we have positioned the 2021 Medium-Term Business Plan as a period of preparation for future growth, and I am pleased to report that these efforts are progressing as planned.

I plan to provide a detailed report on the progress we have made in these initiatives during the spring of next year.

This concludes our presentation. Thank you.

IV. Appendix

Appendix: Reference Data



| Large-Frame Gas Turbine Order Intake/ Contract Backlog (units) | | | | Commercial Aviation Deliveries (units) | | | | | |
|---|---------|------|---------|--|----|----|----|----|-------|
| | 1H FY21 | FY21 | 1H FY22 | | Q1 | Q2 | Q3 | Q4 | Total |
| Americas | - | 5 | 2 | 777 | | | | | |
| Asia | 2 | 5 | 4 | FY21 | 5 | 4 | 6 | 5 | 20 |
| EMEA | - | - | 1 | FY22 | 6 | 7 | / | / | 13 |
| Other Regions | 2 | 6 | - | 777X | Q1 | Q2 | Q3 | Q4 | Total |
| Total | 4 | 16 | 7 | FY21 | 2 | 1 | 1 | 0 | 4 |
| Contract Backlog | 46 | 46 | 42 | FY22 | 1 | 0 | / | / | 1 |
| (Reference) Order Intake through China Licensee | | | | 787 | Q1 | Q2 | Q3 | Q4 | Total |
| | 1H FY21 | FY21 | 1H FY22 | FY21 | 14 | 5 | 4 | 2 | 25 |
| Order Intake | 4 | 7 | 19 | FY22 | 5 | 7 | / | / | 12 |

Appendix: Reference Data



R&D Expenses, Depreciation and Amortization, and Capital Expenditures (billion yen)

| | 1H FY21 | 1H FY22 | FY22 Forecast |
|-------------------------------|---------|---------|---------------|
| R&D Expenses | 50.9 | 53.7 | 130.0 |
| Depreciation and Amortization | 64.7 | 67.4 | 130.0 |
| Capital Expenditures | 56.5 | 52.9 | 130.0 |

Selling, General, and Administrative Expenses (billion yen)

| | 1H FY21 | 1H FY22 |
|------|---------|---------|
| SG&A | 266.8 | 293.5 |

Foreign Exchange Rates (average rates used for revenue recognition)

| | 1H FY21 | 1H FY22 |
|-------------|---------|---------|
| 1 USD (JPY) | 109.1 | 130.2 |
| 1 EUR (JPY) | 130.0 | 136.9 |

Appendix: Reference Data



Order Backlog

(billion yen)

| | FY21 End | 1H FY22 End |
|------------------------------------|----------------|----------------|
| Energy Systems | 3,114.4 | 3,333.3 |
| Plants & Infrastructure Systems | 1,243.4 | 1,596.2 |
| Logistics, Thermal & Drive Systems | 43.2 | 58.1 |
| Aircraft, Defense & Space | 1,087.1 | 1,033.2 |
| Total | 5,488.5 | 6,021.5 |

Revenue by Region

(billion yen)

| | 1H FY21 | | FY21 Full Year | | 1H FY22 | |
|--------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|
| Japan | 787.3 | (47%) | 1,887.7 | (49%) | 769.9 | (41%) |
| Asia-Pacific (excluding Japan) | 320.6 | (19%) | 711.6 | (18%) | 378.6 | (20%) |
| Americas | 313.4 | (19%) | 739.9 | (19%) | 466.9 | (25%) |
| EMEA | 242.3 | (15%) | 520.8 | (14%) | 259.7 | (14%) |
| Total | 1,663.7 | (100%) | 3,860.2 | (100%) | 1,875.2 | (100%) |

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