

Q&A Summary

Event Name: 2021 Medium-Term Business Plan Progress Briefing

Date: April 5, 2023

Speaker: Seiji Izumisawa, Member of the Board, President and CEO

Questioner 1

Q: Please tell me about the concept behind business profit in FY23, the final year of the 2021 Medium-Term Business Plan (MTBP), as outlined on page 7 of the presentation materials. I understand that there has been no change to the business profit margin target of 7%, but if there are one-time items in FY23, would that cause you not to be able to achieve this target? Or, even if there are one-time items, would the business profit target still be well within reach due to contributions from improvements elsewhere?

Izumisawa: Because this is before the earnings release, I will refrain from discussing specific figures. The $\pm X$ on page 7 of the presentation materials includes foreign exchange effects, asset management, and other one-time items. Positive effects from recovery from the COVID pandemic, existing business growth, services expansion, profitability improvements, and organizational transformation are already within view to a certain extent, although we are currently looking into how large the $\pm X$ will be.

Q: It may be the case that some of the recovery from the COVID pandemic and existing business growth has not proceeded according to original estimates through FY22 due in part to materials cost inflation impact, but is it correct to understand that recovery in the Aero Structures business will proceed going forward, largely making up for previous delays in FY23? Do you mean to say that the initiatives laid out in the 2021 MTBP are proceeding as planned, but there may be some variation due to foreign exchange effects, one-time items, and growth investments?

Izumisawa: Regarding the recovery from the COVID pandemic, while markets have recovered significantly, due in part to materials cost inflation and other factors, recovery in FY21-22 was limited. That said, we believe that the benefits of passing through materials cost inflation to sales prices will be realized in the full year of FY23. Moreover, Aero Engines has recovered to pre-COVID levels, but we estimate that recovery in Aero Structures will take a little more time.

Q: I would like to know about CO2 capture. According to page 19 of the presentation materials, the amount of funds required to process the American portion of CO2

capture feasibility studies booked as of December 2022, that is, 30 million tons/year, is ¥300 billion, but it appears that there is a possibility for this to grow to ¥4 trillion due to the passing of the Inflation Reduction Act (IRA). On the other hand, I believe that MHI does not foresee a growth rate for your medium-term CO2 capture revenue forecast equivalent to the growth rate of the market. Around how much of the CO2 capture market in the US does MHI believe you will be able to win for your own business?

Izumisawa: The ¥300 billion shown on page 19 is the cost necessary to process approximately 30 million tons of CO2 per year. This was calculated based on a cost of \$65/ton to capture, transport, and store the CO2. It is difficult to clearly state how much of this will fall within the scope of MHI's business. I believe that CO2 absorbent and capex will be around 10% of this. On top of that, how much of a market share we are able to obtain will determine the size of our turnover. As the predictability of this business's taking off has increased with the passing of IRA, we would like to closely consider this going forward.

Q: MHI's market share in CO2 capture is high, so will your target be around a 50% share in the future as well?

Izumisawa: I would like to set an ambitious goal like that. Also, 10% is the minimum of the CO2 capture market that will be addressable by MHI, and I would like to expand that as well.

Questioner 2

Q: Regarding the 2021 MTBP target of 7% business profit margin, compared to the time of the last MTBP progress briefing one year ago, has the probability of achieving this goal increased? Please let me know what areas you are more confident in regarding the business profit margin target one year later, and those that you see as having more risk.

Izumisawa: Regarding recovery from the COVID pandemic, although Aero Structures has been a bit delayed, I feel that overall, our businesses are recovering. Including services expansion, existing business growth is proceeding according to plan. The decrease in profit from materials cost inflation was a negative factor, but I believe that this can be recovered by increasing sales prices to compensate. Regarding risk factors, some examples are one-time items including foreign exchange effects and project profitability issues.

Q: Please let me know about your long-term growth story. I believe that you are aiming to achieve ¥50 billion in CO2 capture revenue in FY23 and ¥300 billion in

FY30. Has there been any change to this outlook? Are you feeling potential for revenues to increase due to tailwinds from the passage of IRA? Also, in Defense, allocations under Japan's Buildup Program are increasing. How much does MHI's revenue stand to increase from this?

Izumisawa: The goal of ¥300 billion in revenue by FY30 includes not only CO2 capture but also the Energy Transition overall. Regarding CO2 capture, as the number of feasibility studies has significantly increased, I feel that this area may grow more than initial projections. Also, other than CO2 capture, gas turbine business is also growing more than expected. During the Transition, the ability to install CO2 capture plants in the future and the capability to convert fuel to hydrogen has been highly evaluated by customers, and the gas turbine market has been steadily growing more than forecasted. As such, you can think about the Energy Transition overall as being a little bullish. On the topic of Defense, this will depend on what kinds of equipment the government will require and when, so it's difficult to predict. However, if the defense budget increases from 1% to 2% of GDP, although I do not think our turnover will double correspondingly, I also do not think that this will be limited to a 10-20% growth rate.

Questioner 3

Q: You commented that gas turbine business is growing more than forecasted due to the capability to add CO2 capture plants and the possibility of converting fuel to hydrogen, but looking at the revenue trend through FY25 shown on page 16 of the presentation materials, it seems that you do not quite yet see large growth in this business. Around when do you forecast gas turbine revenue will grow due to the addition of CO2 capture plants or hydrogen fuel conversions?

Izumisawa: Page 16 of the presentation materials shows gas turbine revenue, which we had initially forecasted to be flattish, but which currently is expected to grow steadily from FY19 through FY25. Although some of this is from demand for gas-fired thermal power as a replacement for coal-fired thermal power, we believe that one factor affecting this is customers' deciding that it is OK to invest in gas turbines right now due to the option of adding CO2 capture plants or converting fuel to hydrogen in the future. It's difficult to distinguish clearly between the effects of both of these factors, but we believe that the business is growing.

Q: Regarding gas turbines, are you also expecting growth in China? Also, I imagine that MHI will also enjoy the benefits of growth in hydrogen and CO2 capture in Europe and the US, but are there any regional disparities?

Izumisawa: Inquiries from China will likely increase. Business is strong in the US, and Central and South America now as well. Regions where we expect growth going forward are the Middle East and Asia. Our market share in Europe is not very large, so I do not believe there will be much contribution from there.

Q: Please let me know the state of progress and your revenue forecast in Smart Infrastructure. Within the 2021 MTBP, the revenue target for FY30 was ¥700 billion, but if you add up the targets for intelligent logistics and the other areas that you are planning to grow according to today's presentation materials, there is still a gap with the original target. Going forward, please let me know if you are planning to grow other areas.

Izumisawa: As I mentioned during my presentation, we are recently seeing growth including in energy conservation and automation for logistics, data centers, and refrigerated warehouses, and there are strong trends in these areas. Initially we were considering a variety of measures including M&A, but these have not proceeded as much as initially forecasted, partly due to the COVID pandemic. We believe that progress in Smart Infrastructure overall needs to be accelerated.

Questioner 4

Q: Today's presentation materials do not mention 12% ROE, which was one of the targets under the 2021 MTBP. You have not withdrawn this target, have you?

Izumisawa: We included the business profit margin target as a representative example of our profitability targets. We have not withdrawn our ROE target.

Q: If you add the effects of each of the initiatives outlined on page 8 of the presentation materials (¥380 billion + ¥220 billion) to FY20 actual revenue, ¥3.7 trillion, you arrive at ¥4.3 trillion in revenue and ¥300 billion in business profit for FY23. However, if you add together the figures other than the $\pm X$ (foreign exchange effects, one-time items, growth investments, and others) on the profit bridge on page 7, you arrive at ¥280 billion in business profit for FY23. How should we understand this variance?

Izumisawa: When comparing the time when the 2021 MTBP was originally formulated and today, foreign exchange rate assumptions have changed significantly. How to evaluate this variation is troublesome. Currently we are formulating the guidance for FY23 taking into considering foreign exchange effects and using ¥4 trillion in revenue and a 7% business profit margin as a base. Please understand that how to handle these figures during today's presentation is difficult, because we have not yet issued our earnings results.

Q: Around how large will the $\pm X$ (foreign exchange effects, one-time items, growth investments, and others) as shown on page 7 of the presentation materials be? Should we interpret this to be in keeping with the scale of the graph?

Izumisawa: That block is meant to be a general representation of other items. We are currently looking into the specific figures.

Questioner 5

Q: It has been reported that Japan will invest ¥15 trillion over 15 years in the hydrogen supply chain. What impact will this have on MHI's MTBP?

Izumisawa: I think that once the specific investments come into view, they will serve as a tailwind to our MTBP, and specific projects will appear. When we formulated the 2021 MTBP, we did not have visibility on hydrogen investments in Japan, so the MTBP does not include much of this. When the specifics of the investments come to light, I believe projects in which MHI is involved will increase. However, I believe that hydrogen needs to be properly looked into including the costs.

Q: At the moment, can you not foresee how much impact there will be and in which areas if the ¥15 trillion investment plan is officially decided?

Izumisawa: That is correct. Renewable energy in Japan is definitely not cheap. The methods of hydrogen production and supply will likely be dissimilar to those of Europe. I believe that there needs to be a model suited to Japan.

Q: What do you imagine to be a suitable model for hydrogen in Japan?

Izumisawa: In Europe, they can transport hydrogen via pipeline, whereas I think that Japan will more likely take a local production for local consumption approach. For example, production of hydrogen at locations close to power plants by reforming LNG or electrolyzing water will come first from the perspective of utilizing existing infrastructure. We need to carefully consider what kind of business opportunities there would be in such a situation. Please understand that, as everyone has different opinions on this issue, this is just one perspective.

Q: If the Japanese model for hydrogen that you envision becomes a reality, what business would MHI have the highest expectations for?

Izumisawa: One example is hydrogen-fired gas turbines. Also, although it is still under development, and I cannot say much, MHI has our own unique hydrogen production process. If it becomes a reality, it would be possible to produce hydrogen very efficiently, so I have high expectations for it. However, development will take a little more time.

Questioner 6

Q: Regarding the bar graph showing services revenue on page 10 of the presentation materials, please explain exactly what is included in the upper (light blue) half of the bars.

Izumisawa: Businesses with high growth rates (GTCC, Machinery Systems, and Logistics Systems) are included in the lower (dark blue) half of the bars. In the other businesses as well, departments overseen by the CTO are leading a program to expand services across the company. We are especially putting effort into businesses which had traditionally been focused mainly on selling products to customers in response to their needs and which had not offered much in the way of services. This is represented by the upper (light blue) half of the bars. Some examples are online monitoring systems or services using augmented reality (AR).

Q: How long do you plan to continue the parent-subsiary listing situation with Mitsubishi Logisnext?

Izumisawa: We are currently planning to continue with this situation. I will refrain from answering how long this situation may continue.

Q: SpaceJet development was officially terminated recently. From the perspective not only of utilizing human resources, assets, and funds, when it comes to pursuing businesses with high degrees of technical difficulty, are there any initiatives that you have realized that you need to reconsider? I believe that there is a possibility that you will face similar risks in the future, but what do you think?

Izumisawa: When developing a project, I believe that it is necessary to seriously consider the industry and technology involved, and to thoroughly investigate our capabilities and shortcomings. There are some areas where we will have to make snap decisions, but in addition to making good initial plans, it is also important to properly follow-up at the intermediate stages of a project.

The area in which we had the most difficulty with SpaceJet was how to respond to requirements that were not clearly defined. We learned a great deal from SpaceJet regarding project management methods, including verification and validation (V&V), and we plan to apply this experience going forward.

Questioner 7

Q: Please let me know your thinking on the one-time items shown on page 7 of the presentation materials. Over the past 2 years, MHI has had so many one-time items that I cannot keep track of them all. I believe that taking on challenges is something that should be encouraged, but when setting a 7% business profit

margin target, achieving goals, or indeed overachieving them, is a chance to show management skill. At the moment, can we consider that one-time items included in the FY23 guidance will not be very large?

Izumisawa: One-time items are caused by issues or unforeseen events occurring in ongoing projects. Of course, we are working to investigate items of which we are currently aware and estimate their potential impact. Whether these estimates will be able to cover all of the items that may occur will require a little more time to determine. We plan to report on this and other topics during the FY2022 Financial Results Briefing.

Q: Regarding shareholder returns, your 2021 Medium-Term Business Plan targets record-high dividends. Please let me know your thinking regarding your business plan as it pertains to shareholder returns as well as overall governance issues that are being discussed at the Tokyo Stock Exchange.

Izumisawa: Our way of thinking regarding shareholder returns has basically remained unchanged since we originally formulated the 2021 MTBP. First, we will return profit to shareholders with dividends. As we will also make investments in new businesses in the long term, we will also consider investments, dividends, and returns to employees. At the moment, we have not changed our stance of achieving a 7% business profit margin and seeking to return this to shareholders.

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Note regarding forward looking statements:

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