

**Summary of Q&As at 1H FY2020 Financial Results and
2021 Medium-Term Business Plan Presentation
(October 30, 2020)**

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

Q. On October 29, a revision to the full-year earnings forecast was announced. The reason for this revision was the posting of a profit of 50 billion yen, as explained in the "Notice of Share Transfer of Joint Venture with Vestas and Commencement of New Business Alliance" also announced on the same day. By segment, however, the upward revision for the full-year profit from business activities in Energy was only 30 billion yen. I understand that this means that there are other factors contributing to the decrease in business profit. Also, the full year forecast for the profit from business activities in the Plant and Infrastructure has been revised downward by ¥25 billion. Could you explain the reasons for these decreased profits by dividing them into those attributable to COVID-19 and those due to other factors?

A. Excluding the impact of the transaction announced on October 29 (+ ¥50 billion), Energy saw a decrease in profit from business activities of ¥20 billion, due to delays in construction progress arising from the impact of COVID-19, as well as the deterioration in profitability in some projects. The downward revision of the full-year forecast of profit from business activities for Plant and Infrastructure was due in large part to delays in construction progress due to the spread of COVID-19, and in part to losses realized because of the settlement of cost issues in an overseas project that had been completed.

Q. Please explain your thoughts on the statement "Notice of Share Transfer of Joint Venture with Vestas and Commencement of New Business Alliance". You explained that MHI would exchange its 50% of the JV (MHI - Vestas Offshore Wind), a manufacturer of offshore wind turbines for a 2.5% stake in Vestas. However, it may seem a bit hasty and ill-considered to sell a business that is expected to grow in the future and which could become one of the pillar businesses of MHI, especially at a time when the business is about to be profitable.

A. The price competition for offshore wind turbines is intensifying as the unit cost of wind power generation decreases due to the growing size of wind turbines that is itself driven by competition in development among wind turbine manufacturers. In particular, the production of the wind turbines themselves is in an extremely competitive environment. Therefore, after discussions with Vestas, we have come to the conclusion that unifying the development and production of offshore and onshore wind turbines under Vestas would contribute to improving cost competitiveness. Through its strengthened business alliance, MHI aims to secure access to Europe as an advanced market for renewable energy by transferring its shares in the joint venture to Vestas, which is more likely to generate higher synergies, and by acquiring shares in Vestas and gaining a board seat in Vestas. We believe this is an effective realignment of our business portfolio in accordance with our growth strategy.

In addition, as the offshore wind market is expected to expand in Japan and other Asian countries in the future, we will establish a joint venture with Vestas to strengthen sales in Japan. As a next step, we are considering collaboration in the field of "green hydrogen" which combines offshore wind turbines with hydrogen production.

Q. According to 2021 MTBP on page 11 (capital allocation plan), the cumulative 3-year dividend payment will be 140 billion yen. Please explain to us the thought behind this plan.

A. Our policy regarding shareholder returns in terms of dividend has not changed significantly. In the current fiscal year (FY 2020), we plan to pay ¥75 per share, which is half of the previous fiscal year's level, but we hope to return this amount to the previous level as soon as possible. The annual dividend payout is assumed to be linked to the amount of profit in the respective year.

Q. During the 3 years in the 2021 MTBP, you plan to invest ¥180 billion in "Energy Transition" and "New Mobility & Logistics". Could you share your ideas about the specific use of these investment?

A. The breakdown of this 180 billion yen figure is roughly half for Energy Transition and half for New Mobility & Logistics. This includes R&D expenses as well as business investments. Investment in Energy Transition will target the supply of CO₂-free fuels such as hydrogen and ammonia. In the areas of New Mobility & Logistics, we are considering M&A and equity participation in companies in anticipation of future business development.

Q. According to your explanation, the growth investment of 180 billion yen will create new businesses with annual sales of 100 billion yen. Will there be a loss in profit due to the investment having to take place in advance? Also, in fiscal 2023, how much profit contribution do you think will be made from these new businesses of approximately 100 billion yen in sales?

A. Growth investment of ¥180 billion is mainly included in our R&D expenses and is already reflected in our profit plans. As a result of this investment, we expect to generate sales of approximately ¥100 billion during the 2021 MTBP, although the contribution to profits is limited at this stage. As specific target areas for this growth investment, we will focus on the "Energy Transition" and "New Mobility & Logistics" as described in Chapter IV and Appendix 1 of the 2021 MTBP.

Q. What is the future direction of the SpaceJet business? According to the "2021 Medium-Term Business Plan" on page 11 (capital allocation plan), SpaceJet related development cost during the 2021 business plan period (3 years) would be 20 billion yen. If MHI restarts the program development at full scale will the cost increase significantly?

Furthermore, as mentioned on page 13, if the full recovery of aircraft demand will not occur until 2024, are you expecting that even in the case where the program is restarted in earnest, it will not be during the 2021 MTBP period?

A. In the 2021 MTBP, the majority of M90 development activities will be temporarily paused. There will be no major development activities during this period. In the commercial aircraft business, MHI has become a type certification (TC) holder through the acquisition of the CRJ business. We will carefully review the business environment for commercial aircraft and assess strategies for the future.

Q. Page 17 of the 2021 MTBP lists three measures to "Grow existing businesses and solve pre-COVID challenges." Which measures are you most confident in achieving?

A. I am confident in achieving all three measures. "Reducing SG&A" is an internal issue that can be driven by ourselves, so we will take up this effort using every possible means and reviewing every possible item. We have high expectations to "Grow existing businesses" especially in the fields of environmental sustainability and automation technologies. For example, natural refrigerants have been used in our HVAC business since the early times. We have also set up a test center at the Takasago Machinery Works for the automation of logistics equipment and have been developing solutions in cooperation with customers. We are quite confident about the progress so far. We recognize that "addressing challenged businesses and structural transformation" is also a critical measure requiring our urgent efforts.

Q. How are the workforce related measures described in 2021 MTBP on page 18 (Plan to Strengthen Profitability) incorporated in your projections for profits and losses?

A. We have already reduced our overseas workforce as shown. As for domestic measures, we will mainly focus on the efficient allocation of personnel within the MHI group, so we do not expect a major impact on profits and losses as a whole.

Q. I have the impression that MHI is taking a series of measures to recover earnings rapidly. On the other hand, you mentioned long-term growth areas such as Energy Transition and New Mobility & Logistics. What are your thoughts on the next pillar business?

A. While we continue to face a severe market environment, we plan to return a portion of profits to the company by investing in next-generation businesses. Positioning the 2021 MTBP as a period to firm up our footing, we will work to return to profitability and strengthen our business structure. In line with the major moves toward carbon neutrality by 2050, we will make investments to contribute to the decarbonization of energy supplies, the supply of fuels such as CO₂ free hydrogen and ammonia, and the adoption of CO₂ capture and usage. In New Mobility & Logistics, a challenging task is how to integrate MHI's existing businesses and technologies into a system. In this field, we are also working to develop electrical components and control technologies that will enhance the competitiveness of our company products. In addition, we will shift to a business model where we generate stable profits by participating in operations and strengthening maintenance business.

Q. How does each of the businesses in the Energy Transition, described on page 21 of the 2021 MTBP, contribute to the company's profit? Although some of these in existing fields may already be contributing to the profits, please tell us about the expected future growth in these new fields.

A. In the short term, the greatest profit contribution is expected to be made by increasing the efficiency and technical performance of existing thermal power plants. In terms of nuclear power, we can maintain a certain level of sales because the restart of existing reactors is expected to proceed steadily forward. As the next stage, CO₂ capture is expected to grow moderately in business scale. Hydrogen gas turbines are also expected to contribute in the long term. Hydrogen production and CO₂ conversion and usage are at the stage where the market is just beginning to emerge, so I think it will take some time to contribute to the profits.

Q. Do you have any plans to collaborate with other companies in the same industry in Japan that are trying to expand into similar fields instead of competing against each other? Looking overseas, you have strong competitors such as GE and Siemens.

A. If we compete for a limited market while the Japanese market is gradually shrinking, we will not be able to win business against foreign companies. I think your suggestion that we should be conscious of competition with our global competitors is right on the mark. It is not an easy task, but I would like to explore the possibility of developing relationships with Japanese competitors in cases where we can secure a win-win arrangement for each company involved. There is no doubt that the trend toward business consolidation in Japan will continue. In this context, we must consider which businesses to grow on our own and which to carve out.