Summary of Q&As at Q1-3 FY2020 Financial Results Presentation (February 4, 2021)

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

General

Q. The gain on the share transfers of MVOW, MHI Vestas Offshore Wind, a joint venture with Vestas for offshore wind power, was approximately ¥33 billion higher than initially expected (¥50 billion vs. ¥83.1 billion), but the full-year forecast of profit from business activities was kept unchanged. Please tell us the background of this.

A. We kept the full-year forecast unchanged due to the impact of a decrease in profit in the thermal power (steam power) business despite an increase in gains on the share transfer.

Q. You have explained to us the reasons of MHI keeping its full-year business profit forecast of Energy Systems Segment unchanged. What can you say about Logistics, Thermal & Drive Systems and Aircraft, Defense & Space Segment? For the former, cumulative business profit for Q1-3 was ¥9.5 billion, almost achieving the full-year forecast of ¥10 billion. For the latter, full-year business profit forecast presumably includes a loss of ¥17.9 billion for the three months of Q4, but the loss for the three months of Q3 was only ¥10.8 billion, which gives us the impression that the business is progressing well.

A. We think that there is a possibility that both segments will fluctuate upward to a certain extent. However, we have decided that the amount is not large enough to lead to an upward revision and have left the forecast unchanged since some fluctuation is expected.

Thermal Power Business - Profit Deterioration

Q. According to the Profit Bridge on page 13 of the "Q1-3 FY2020 Financial Results" presentation materials (hereinafter referred to as "presentation materials"), "Profit deterioration in steam power business" impacted profit by ¥45 billion. Please provide us with a breakdown of this figure referring to each of the three factors explained on page 16?

A. First of all, please understand that negative ¥45 billion shows the change from the same period of the previous fiscal year in the cumulative Q1-3 quarter results (Cumulative FY2019 Q1-3 vs. cumulative FY2020 Q1-3), and it does not show the effect on the full-year forecast. The impact of each of the three factors is about the same, but the impact of the "Projected service opportunities shifted due to impact of COVID-19" shown in the 3rd bullet is expected to decrease to a certain extent during the second half of the fiscal year. Therefore, we expect profit deterioration in the steam power business for the full year to be smaller than the negative ¥45 billion.

Q. Are the loss provisions for steam power enough? Or is there a possibility of further booking loss provisions?

A. The provisions I explained address two issues: a steep rise in construction costs for domestic projects and IGCC' s initial nonconformance and schedule delay. For the former, we have booked provisions to cover the expected cost overruns given the status of the projects. For the latter, we believe that the risk of further deterioration is low as countermeasures are currently being implemented.

Q. You have reported an issue with the IGCC (Integrated coal Gasification Combined Cycle) project. Is this an issue caused by your technologies? Also, can the issue be solved?

A. The IGCC technologies were tested and verified at a demonstration plant before installation, but the output of this commercial plant is nearly double that of the demonstration plant. As a result, an unexpected development occurred, but the cause has been identified and countermeasures are currently being implemented.

Thermal Power Business - Market Trend

Q. On page 16 of the presentation materials, it is stated that "Fierce competition continues" in the gas turbine combined cycle (GTCC) business. Please tell us about price and profitability trends as you maintain market share in new installation orders. Also, is there any impact of COVID-19 in the after-sales service of steam power?

A. Both orders for new installation and after-sales service of GTCC have been strong, and the level of after-sales service profit has been maintained. Although the market in new installations for steam power is shrinking, demand for decarbonization of existing steam power plants is growing and after-sales service is expected to grow. We plan to further expand after-sales service for both GTCC and steam power.

Q. I believe that demand for GTCC as a base power source is solid even in the context of the decarbonization movement. How are the current business negotiations and competition?

A. The market for steam power is shrinking rapidly while GTCC market is strong. Last year, a new verification plant was completed at the Takasago Plant, and the latest JAC-type verification operation is underway, surpassing our competitors in performance. Although we are competing with each other over a small number of projects, we recognize that our company's competitiveness has been enhanced by improvements in performance and cost reductions. At present, we have successfully developed a gas turbine that burns natural gas mixed with 30% hydrogen, and in 2025, we expect to have a gas turbine that burns only hydrogen (100%). As a result, natural gas-fired power generation facilities are expected to be converted to hydrogen fuel in the future without major modifications.

Q. I understand that Siemens Energy and GE are pursuing similar strategies in terms of low carbon and decarbonization. What is the main selling point of the MHI Group? What is the incentive for customers to choose the MHI Group?

A. I understand that our company's low carbon and decarbonization menu is considerably more advanced than our competitors, and our GTCC outperforms competitors' in terms of both performance and price. MHI will continue to contribute to society's needs for low carbon and decarbonization by utilizing MHI Group's technologies.

Thermal Power Business – Outlook

Q. From the graph of the steam power revenue on page 16 of the presentation materials, it seems that the after-sales service revenue in FY2021 is expected to exceed the level in FY2019, a pre-COVID-19 year. Is this because the service opportunities are going to shift from FY2020 to FY2021 due to COVID-19, making FY2021 a better year than usual? Or does it include the expected wins due to additional effort on MHI's part to secure new orders and projects?

A. Although both factors are included, revenue expansion due to the significant shift to after-sales service as outlined in the 2021 Medium-Term Business Plan accounts for a larger share than the impact of carry-over or period shift. As customers' needs for low-carbon and decarbonization are increasing and the market is expanding, we aim to achieve higher after-sales service revenue than in FY2019 by securing orders for high-efficiency and modification projects.

Q. Is the after-sales service revenue of steam power projected for FY2021 coming from projects that have already been received? Or is it for orders that will be won from now on?

A. We will continue to expand our low-carbon and decarbonization offerings. As a result, only a limited portion of after-sales service revenue expected in FY2021 will be generated from projects that have already received orders. However, we expect to receive a certain number of orders based on our relationships with customers and our track record.

Q. What is your expectation of the revenue trend of steam power shown on page 16 of the presentation materials for FY2022 and 2023? Is it around ¥300 billion to ¥400 billion?

A. Although new installation is expected to decrease, the demand for after-sales service is increasing. We will work on maintenance for existing plants and expand revenue by incorporating low-carbon and decarbonization offerings. We have already received inquiries from our customers, and we believe that the revenue level mentioned in your question is sufficiently achievable.

Thermal Power Business - Structural Reforms

Q. Will this structural reform reduce the fixed costs burden?

A. By consolidating boiler production in Nagasaki, operating costs (equipment maintenance and repair costs) of the Kure Plant can be reduced. Including the effects of integrated management of corporate functions, we estimate that fixed costs can be reduced by several billions of yen annually.

Q. Will you continue to use Kure after consolidating boiler production at Nagasaki? If so, will there be excessive facilities and resources?

A. Operations at Kure and Nagasaki have already been integrated to some degree, but production will be consolidated at Nagasaki in light of the sharp decrease in new steam power projects. The reason why we decided to concentrate the production in Nagasaki is that the production capacity of Nagasaki is larger than that of Kure, so better positioned to respond to the anticipated production volume in the future. Since Kure mainly handles boilers employing opposed firing technology and Nagasaki mainly handles those based on swirl combustion technology, both Kure and Nagasaki will continue to be in charge of after-sales service for their respective installations. We will further enhance the comprehensive services offered by Kure and focus on services for boilers manufactured by other companies that we have been unable to adequately address due to shortage of resources. We will also expand our low-carbon and decarbonization offerings which are increasingly in demand. In terms of how to utilize excessive sites and facilities, we will discuss these issues with related stakeholders.

Q. Are there any plans to produce offshore wind turbines at Kure?

A. Currently, there are no plans to make the Kure Plant a production base for offshore wind turbines.

Q. On page 17 of the presentation materials, you note that production consolidation and factory realignments will be "moved up". When was the consolidation originally planned to take place?

A. The consolidation of boiler production to Nagasaki is scheduled for the end of FY2022, but initially it was planned to be one or two years later than that. The timing had not been firmly decided because we were planning to transfer the production function of the Kure Plant when projects in the order backlog of Kure were completed. However, considering the current situation, we have decided to execute this consolidation regardless of the order backlog.

Q. On page 17 of the presentation materials, the reorganization such as integrating the Energy Transition Division of Mitsubishi Power to MHI is mentioned. If Mitsubishi Power itself were integrated with MHI, I think business operations would be more effective in terms of speed.

A. We are continuously reviewing various optimization options for our management systems and organization. Today, we have announced our decision to consolidate boiler production from Kure to Nagasaki, and I believe that you can look forward to future structural reforms. Since Mitsubishi Power became a 100% subsidiary of MHI, we can expect strengthened cross-domain collaboration in the MHI Group, for example with MHI Engineering, which handles CCS/CCUS.

<u>Aero Structures Tier1 Business</u>

Q. On page 14 of the presentation materials, you mention that the Commercial Aircraft - Aero Structures (Tier1) is now expected to fall below the initial forecast. Do you have any updates from the 1H Financial Results announcement (October 2020) regarding the outlook for passenger demand and the impact of Boeing's production cutbacks?

A. It is a business that is indirectly affected by the number of air passengers, but more directly affected by the production rate of Boeing. At first, we expected the monthly production rate to recover a little sooner, but now we see the current situation continuing for a while. We expect it to start recovering gradually from FY2022.