Questioner 1

Q: Today, MHI revised its full-year forecast for profit from business activities from ¥150 billion to ¥160 billion, an addition of ¥10 billion. I assume that the ¥19 billion gain on the sale of land in Kawasaki announced today wasn’t factored into your initial plan. Were there negative factors that offset this gain to result in the ¥10 billion increase to the forecast? Also, if there were positive factors other than the sale of land, please let us know.

Kozawa: First of all, the reason for the forecast revision is not exclusively the ¥19 billion gain on the sale of land. Actually, this was already included in our initial plan. There are other asset management initiatives currently underway, and the total effect of these efforts resulted in a ¥10 billion increase to the forecast.

To explain the current situation, 1H business profit results in Energy Systems remained low due to loss provisions booked for some construction projects in Q2. We cannot disclose the specific amounts, but we factored in nearly the same amount of loss provisions in Q2 as last time for the issues at the Integrated Gasification Combined Cycle (IGCC) plants.

In Logistics, Thermal & Drive Systems, Turbocharger shipments fell below our expectations in Q2 alone, however Engines and HVAC have improved better than expected. We had been hopeful for better performance in the segment overall, but we have maintained the initial forecast this time due to several negative factors, including sharp rises in material and transportation costs.

Currently, the situation in Commercial Aviation Aero Structures is very difficult. In particular, 787 deliveries have significantly fallen year-over-year. The outlook going forward depends on Boeing, so we have made conservative assumptions for this business in the updated forecast. On the other hand, Canadair Regional Jet (CRJ), which we acquired in FY20 and renamed MHIRJ, has outperformed expectations due to recovering domestic air travel demand in the U.S. Overall, the Commercial Aviation business is expected to perform in line with the forecast.

Q: As my second point, I have high expectations for MHI’s many Energy Transition-related initiatives, including the hydrogen solutions ecosystem, CO2 Capture, Utilization, and Storage (CCUS), Small Modular Reactors (SMR), and others. However, I believe that these businesses will only begin generating considerable revenue in 2030 or later. Please explain MHI’s growth story from 2022 to 2030.
Izumisawa: One business that we expect to grow during this period is Gas Turbines. We have received a higher-than-expected number of inquiries related to gas turbines from customers attracted to the possibility of converting to hydrogen fuel or using gas turbines to stabilize power grids which use renewable energy. We also see CCUS as a growing business. Decarbonization in the European industrial sector is picking up speed, and we consider this to be a large opportunity for us. In the area of New Mobility & Logistics, there is high customer need for energy conservation and space saving in logistics and data centers, which represent real opportunities for us. As I see it, the key point for the next 10 years or so is how to harness the global drive toward decarbonization.

Questioner 2
Q: My first question is about Gas Turbine Combined Cycle (GTCC). I believe there is stable demand for GTCC considering the shift to natural gas in the medium to long term, but order intake in 1H FY2021 was only 4 units. Do you think you will be able to book the remaining 11 units in 2H to achieve the plan of 15 units? Please let us know the near-term trends regarding GTCC orders.
Kozawa: There are multiple projects in the final stages of negotiations, so I believe we can reach the plan of 15 units.

Q: Is it correct that there is no particular need for concern regarding GTCC order intake in FY2021?
Kozawa: Yes, that's correct.

Q: My second question is about the Aircraft segment. Despite a sharp reduction in 787 revenue, Q2 profit was unexpectedly good. Even if 787 production cuts were to continue into 2H, can we assume that profit in line with or slightly better than 1H is achievable?
Kozawa: I believe that Commercial Aviation Aero Structures made a solid effort in challenging circumstances. There is a possibility that profit could drop below current levels in 2H, but our full-year forecast includes this risk. This risk is offset by Defense, which tends to book higher revenue in 2H than in 1H. Therefore, we believe the forecast is achievable.

Q: Is it correct that various profit improvement initiatives, such as fixed cost reductions in the 787 business, prevented a decrease in business profit despite decreased shipments in Q2?
Kozawa: Yes, that's correct.
**Questioner 3**

**Q:** (Regarding the “Initiatives through 2030” outlined on page 19 of the 2021 Medium-Term Business Plan Update presentation) how much potential do you think Nuclear Power has to contribute to revenue, considering the expected rise in the share of nuclear power in Japan through 2030?

**Izumisawa:** Nuclear Power records around ¥300 billion in revenue per year. For the time being, the main earnings drivers are power plant restarts and construction of Specialized Security Facilities. I believe that revenue will remain roughly the same or increase slightly over the next few years.

The Japanese government’s 6th Strategic Energy Plan calls for 20-22% of the country’s energy to be generated by nuclear power by 2030. This target may not be achievable only with MHI’s Pressurized Water Reactors (PWR). That said, our PWR business will likely remain around current levels.

**Q:** As my second question, in MHI’s Carbon Neutrality Declaration, you target a 50% reduction in CO2 emissions (Scope 1&2) by 2030. How much investment will be needed to achieve this? Also, what are your thoughts on revenue creation by new businesses?

**Izumisawa:** We will take additional measures to meet these new targets. Where possible, we have already made progress toward reaching the Scope 1 energy conservation targets with existing initiatives. However, there are still processes inside our factories that use steam. We will implement a combination of measures including replacing boilers with new equipment that does not emit CO2, such as heat pumps, and installing solar panels. We will also use our factories as proving grounds for decarbonization solutions, proposing the successful solutions to our customers and creating new business opportunities.

**Q:** I believe that the idea is to use MHI’s factories as showrooms for your customers. Do you expect these efforts to generate revenue in the future that was not included in the 2021 MTBP or your target for 2030?

**Izumisawa:** During the 2021 MTBP period, these efforts will mainly be a part of our investment activities. They will likely not produce revenue until the second half of the 2021 MTBP period or during the 2024 MTBP period.

**Questioner 4**

**Q:** Energy Systems booked ¥100 million in profit from business activities in 1H FY2021, which means that you will essentially need to book the entire full-year business profit target of ¥100 billion in the second half of this fiscal year. In 2H FY2020, there were one-time items which increased profit by ¥80 billion yen, meaning that business profit excluding one-time items was 140 - 80 = ¥60 billion. This means that there is a ¥40 billion gap to achieving ¥100 billion in 2H FY2021. Do you think you can achieve the latest forecast considering this
situation?

Kozawa: It is true that there was an approximately ¥80 billion gain on the sale of our Off-Shore Wind Systems business (MVOW) in 2H FY2020. However, we also experienced ¥45 billion in decreased profitability in the same period due to increased construction costs in Thermal Power along with other factors. Excluding these one-time items, the normalized figure for 2H FY2020 business profit in Energy Systems comes to approximately ¥100 billion. We forecast that any slight fluctuations across businesses will offset each other within the segment, allowing us to achieve ¥100 billion in full-year business profit.

Q: Next, I would like to ask about new businesses. I got the impression that CCUS is showing forward momentum, but I also think Small Modular Reactors (SMR) are receiving interest. Do you think it will be possible to use this favorable situation to achieve growth area targets ahead of schedule, or even to exceed these targets? Please let us know your thoughts on these new businesses.

Izumisawa: There has indeed been an increase in demand for decarbonization solutions, and we are receiving a large number of inquiries. That said, we are still waiting to see when these new businesses will be materialize. Therefore, we are not yet confident enough to accelerate the schedule for achieving current targets or to increase those targets.

Q: Technology validation is in progress and business opportunities are increasing, but feasibility assessments, including locking down financing, are not yet complete. Is that an accurate portrayal of the situation?

Izumisawa: Yes, I believe so. That said, we are seeing trends now that we had not foreseen when formulating the 2021 MTBP (e.g. a rush to decarbonize by oil majors and other fossil fuel consumers, including the steelmaking industry). We plan to focus on developing technologies that will allow us to address these decarbonization trends.

Q: Is there any additional information you can provide regarding your initiatives for SMR?

Izumisawa: Currently SMR technology is still in the R&D stage.

Questioner 5

Q: I believe Energy Systems posted a loss of around ¥8.6 billion in Q2 alone. I understand that additional loss provisions for IGCC projects were involved, but were no other one-time items at play?

I believe Plants & Infrastructure Systems also posted a slight loss in Q2. Please let us know if there were any special factors behind this loss?

Kozawa: Energy Systems did not post a loss because of loss provisions for IGCC projects. Thermal Power is turning a profit, but we had to book provisions for one-time losses. We haven’t released any data on individual businesses’ profitability, but Aero Engines posted a
loss despite improvement from FY2020. In Plants & Infrastructure Systems, several billion yen in loss provisions for some construction projects were booked. We also booked one-time expenses from restructuring and reorganization of some international operations. Excluding these one-time factors, business profit in Q2 would have been around the same as in Q1.

**Q:** In Q1 you mentioned that some Aero Engines orders had been pushed out. Could you please provide us with an update on this issue?

**Kozawa:** Orders that were pushed out of Q1 were successfully booked in Q2.

**Q:** Are no more loss provisions for IGCC projects expected in the future?

**Kozawa:** We had thought the loss provisions booked last time would be sufficient. Unfortunately, IGCC is a newly developed product, and we experienced some unexpected setbacks. The loss provisions booked in Q2 have been calculated somewhat conservatively and include provisions for improvements as well. Therefore, we think these will be the last loss provisions we need to book for this issue.

**Izumisawa:** These are new plants, and some initial trouble is inevitable. The problems have been solved to a large extent, and I believe that going forward we will be able to enter the phase of addressing issues arising from normal operations.

**Q:** You mentioned that there have been efficiencies as a result of the integration with Mitsubishi Power. Could you provide some specifics about this?

**Izumisawa:** We had originally planned to reorganize Mitsubishi Power with the goal of shortening the decision-making process in each business even before integration. As a result of the integration, we were able to carry out that reorganization in order to increase efficiency.

In the Energy Transition space, we need to facilitate cross-functional initiatives within the Group. To that end, we have brought together engineering teams from Mitsubishi Power and business development teams from MHI, who are now working together to produce results. Preliminary steps had already begun in April, and we put our plans into action in October. For the time being, the Growth Strategy Office will coordinate with Energy Systems to promote Energy Transition initiatives.

**Q:** Are organizations being consolidated during the streamlining process of these businesses?

**Kozawa:** To add some information about the cost aspects of the integration with Mitsubishi Power, it is helpful to separate the issue into the business side and the corporate side. Regarding the business side, as mentioned previously, we have reorganized former Mitsubishi Power businesses and have started making process improvements. In the realm
of solutions development, the aim of integrating MHI and Mitsubishi Power processes was more to enhance performance than to reduce costs.

On the corporate side, Mitsubishi Power had its own administrative departments, such as HR and finance, which were no longer needed after integration. I can’t provide the specifics, but we were able to significantly improve efficiency during this process.

In terms of financial benefits, we were able to eliminate the dual size-based business tax that was incurred when Mitsubishi Power operated as a subsidiary, a tax reduction of several billion yen.

Questioner 6

Q: Listening to today’s briefing, I wanted to see more focus on growth and be able to feel a sense of urgency. I understand that MHI has been optimizing your business portfolio, including divesting the Machine Tools business and selling Koyagi Shipyard, but honestly I just don’t see a growth story here.

I have two questions about this. First, what are your plans for Mitsubishi Logisnext? The revision to Mitsubishi Logisnext’s full-year forecast announced today showed an increase in revenue, but profit was unchanged.

My second question is about your growth strategy for the Energy Transition. I think you would get better results by focusing investments of assets and human resources dynamically in just a few areas. What are your thoughts on this?

Izumisawa: I’m sure there are many ways to view the situation at Mitsubishi Logisnext. We are planning to increase profits in the logistics space by connecting many of their products with our ΣSynX platform. Studies have already begun at Mitsubishi Logisnext, the MHI Research & Innovation Center, and the Logistics, Thermal & Drive Systems segment, and our first goal is to expand the business.

Regarding your question about our growth strategy, there are two important points. The first point is how much resources to allocate to coal-fired thermal power plants. The second point is how much to invest in the Energy Transition value chain (upstream and downstream). I believe it is important not to rely solely on propriety technology but to look outside MHI Group by investing in start-ups and forming strategic partnerships with third parties. We will cover the entire value chain by focusing on core products and components and also partnering with other companies.

Q: Growth in Logistics, Thermal & Drive Systems can be viewed as a natural result of the growing global economy. I would like to see growth that outpaces the economy sooner than forecasted. Do you think that the 2021 MTBP period is more of a preparatory phase, and we shouldn’t have excessively high expectations?

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1 Read “Sigma Syncs.” MHI’s common digital technology platform designed to synchronize and coordinate between a variety of machinery systems, optimizing operation through intelligent automation.
Izumisawa: Please understand that we are currently in a preparatory phase. That said, we have high expectations for our CCUS projects, the hydrogen solutions ecosystem, and our FEED (Front End Engineering Design) initiatives. Contributions from these areas could potentially exceed the plan.