Questioner 1

Q: The impact of rising material and transportation costs as well as semiconductor shortages (-¥24.0 billion) increased since the 1H FY2021 Financial Results. Could you let me know what the expected impact will be on the full-year profit?

Kozawa: As for the rising costs of materials and transportation as well as semiconductor shortages, at the 1H FY2021 Financial Results briefing, I explained that the impact was -¥11 billion YTD at the time with a full-year forecast of -¥25 billion. As of the Q1-3 results, the latest forecast shows an annual impact likely around -¥30 billion.

Q: It seems that there is a mix of businesses, such as Aircraft, Defense & Space, which are progressing well vs. the plan, and others, Energy Systems being a representative example, which are progressing more slowly. Do you believe that the full-year forecast for business profit (¥160 billion) is achievable?

Kozawa: I would like to provide a comment for each segment as regards the forecast for achieving their full-year business profit targets.

In Energy Systems, the business profit forecast (¥100 billion) seems a little high based on current projections. If we take into account projected progress in projects in Q4 and fixed cost reductions, it is not an unattainable figure. That said, we cannot deny that progress is slow and that profit is trending down compared to the 1H results.

As for Plants & Infrastructure Systems, we are making solid progress toward achieving the full-year forecast. Although we consolidated some international locations through Q3, considering that the forecast includes temporary losses from structural reforms associated with those activities and that we do not expect any one-time losses in Q4, I think that we will be able to achieve the forecast.

In Logistics, Thermal & Drive Systems, business profit growth was slow in Q1-2, but in Q3, we increased profit despite the rising costs of materials and transportation as well the impact of semiconductor shortages. In Q4 in particular, we expect to see results from price increases, so we believe that the probability of achieving the target in this segment is high.

In Aircraft, Defense & Space, we already exceeded our full-year profit forecast in Q1-3. We can't deny that the target (which took into account decline in Commercial Aviation due to COVID-19) is a little conservative. That said, deliveries of B787 have virtually stopped, and we are concerned about whether they will recover in March.

Although we have been working on various measures to reduce fixed costs in Commercial Aviation Aero Structures, only a few cost cutting options remain for us, so further
improvements will be limited. We have set the full-year profit forecast taking these risks into account. Considering current progress levels, we are hoping to achieve results slightly higher than the forecast.

**Questioner 2**

**Q:** MHI booked orders for nine heavy-duty gas turbine units in Q1-3. Please let us know the status of progress toward the full-year target of 15 units and whether there have been any changes in the order situation.

**Kozawa:** At this point, we think that the annual forecast of 15 units is achievable. However, it is not clear whether some projects will finalize certain contractual procedures, including financial close, within the fiscal year. Therefore, there is a possibility that these orders will push out into the next fiscal year. We have received unofficial confirmation from the customer for these projects, so we have not changed the forecast.

**Q:** Please let us know what is behind the increase to the free cash flow forecast. Are you expecting additional asset management-related items in Q4?

**Kozawa:** We expect to sell some land in Q4, but it will not be a large amount. The sales finalized in Q1-3 make up most of the full-year forecast. One of the reasons for the improvement in free cash flow this time is improved operating cash flow from advances received and sales of cross-held shares. We had been pursuing sales of cross-held shares on a continual basis, but this fiscal year, we have generated more cash flow compared to previous years.

**Questioner 3**

**Q:** Please tell us about the trends in gas turbine order intake from a medium-term perspective. Recently, I believe you and other companies have seen an increase in sales activities for hydrogen mixed firing, so I would like to know if there is an increase in such projects. Also, do you plan to maintain the orders target at 15 units for the next fiscal year and beyond?

**Kozawa:** I have the impression that the number of inquiries for gas turbines which will be able to use hydrogen mixed firing in the future is increasing. In the Americas, most inquiries include hydrogen co-firing. However, as a hydrogen supply chain does not exist yet, projects for gas turbines that will be able to fire a mix of natural gas and hydrogen a few years in the future (when the hydrogen supply chain is available) are increasing. MHI’s gas turbines are currently entering the validation phase for 30% hydrogen mixed firing, and I think that one of our sales points is that there is a roadmap to future commercial use of this technology. As for order volumes in the next fiscal year and beyond, we are responding to inquiries assuming around 15 units per year.
Q: You mentioned that price increases in Logistics, Thermal & Drive Systems will show positive effects in Q4. Could you let us know which regions and products will benefit from these price increases? Also, what will be the effect of price increases during the next fiscal year?

Kozawa: Unfortunately, I am not aware of any regional differences in this matter. In terms of products, many products in Logistics, Thermal & Drive Systems have experienced negative effects of rising material costs, so this is basically the area where we are expecting to see the effect of price increases. The rise in material costs has also affected Energy Systems and Plants & Infrastructure Systems. In order to prevent negative consequences in these businesses, we are making sure that price increases are discussed during business negotiations for projects to be booked in the future. For existing projects, we have included escalation clauses for materials and labor costs in our contracts, meaning that we have effectively hedged against rising material costs.

Furthermore, although we have been working on price increase initiatives for products in Logistics, Thermal & Drive Systems for a while, and we had already started to see some results in 3Q, we believe that these will become readily apparent in Q4.

Questioner 4
Q: Although I don’t know how much in SpaceJet costs were booked in Q1-3, business profit has increased considerably by around ¥9 billion QoQ in Q3. Please let me know the cause of this. Did cost reductions in Commercial Aviation contribute to this, or were there some one-time items in Defense & Space?

Kozawa: The full-year plan for SpaceJet costs this fiscal year is around ¥5 billion, and actual figures in Q1-3 are progressing in line with the plan. Revenue levels were higher overall in the segment in Q3 compared to Q1-2, which led to increased profit. Compared to FY2020, profit levels in Defense are mostly unchanged, although there was a slight decrease YoY. That said, the recently acquired CRJ business is performing well.

Q: Compared to the initial plan, Aircraft, Defense & Space has already achieved the initial full-year business profit plan in Q1-3. Could you let us know which businesses have booked higher profit vs. the plan?

Kozawa: As I mentioned earlier, CRJ is performing better than initially projected. Also, we have reduced fixed costs in the Aero Structures business based on initial risk assumptions. The decrease in Aero Structures deliveries, especially B787, was greater than we had originally expected. This was quite difficult for us, but we have been able to mitigate the impact as much as possible.
Q: Were there any one-time items in Aircraft, Defense & Space in Q3?
Kozawa: If I had to say, we didn’t have any launch vehicle launches in Q1-2, but there was one in Q3, which contributed to increased profit in the segment. That isn’t really a one-time item, however.

Q: Regarding Steam Power, there was some order intake for Biomass, but the order backlog is decreasing. Your revenue target is approximately ¥500 billion for this fiscal year, but how much will this decrease in the next fiscal year?
Kozawa: We also assume that Steam Power revenue will likely decrease YoY in the next fiscal year. However, although the number of new installations will decrease, we expect an increase in after-sales service. The associated decrease in revenue is expected to be limited to only a few tens of billions of yen, which will likely not have a large impact on profit. If anything, we believe that the absence of negative one-time losses from IGCC will have a greater effect to drive profit growth.

Q: There was a gain of about ¥20 billion from the sale of Hirama Athletic Field this fiscal year. How much asset management are you planning for the next fiscal year? If none is expected, will there be a rebound decrease in profit?
Kozawa: We completed some large asset sales in both FY2020 and FY2021. We expect that gains on property sales will be smaller in FY2022. Also, in terms of cross-held shares sales, there will be a decrease compared to FY2020 and FY2021. Sales of cross-held shares do not have an impact on the P&L. Only the sale of land will affect the P&L, and we are expecting a corresponding YoY decrease in profit associated with asset management of around ¥10 to ¥20 billion next fiscal year.

Questioner 5
Q: Please let me know about the status of gas turbine orders. In order to achieve your full-year forecast, you will need to book six units in Q4. Have these projects been confirmed by the customers?
Kozawa: Yes, they have.

Q: How many projects do you currently have confirmed for the next fiscal year?
Kozawa: The number of projects for which we have yet to execute contracts or received official orders, but which are basically confirmed, is in the double digits.
Q: Could you let me know about the regions of the projects which are basically confirmed?
Kozawa: Allow me to refrain from speaking about unofficially confirmed projects. In Q3, we received orders for one unit in Japan, and four in Russia. The units for the Ust-Luga LNG project in Russia are being sold as a set with compressors.

Q: Regarding Aircraft, Defense & Space, am I correct in understanding that the profit increases in Q3 over Q1 and Q2 resulted from the launch vehicle launch and an increase in gross profit corresponding to higher revenue?
Kozawa: That is correct. Revenue is increasing in Defense.

Q: Defense revenues tend to be concentrated in Q4 every year, which is the same this year as well. Do you forecast similar revenue levels in Q4 as in Q3?
Kozawa: Yes, I believe that Defense revenue will tend to concentrate in Q4. Therefore, we expect full-year revenue to exceed guidance.

Q: Will the number of B787s delivered decrease QoQ in Q4?
Kozawa: Actually, there were no deliveries in January, and there are none planned in February either. We have received notification from the customer, and there is the possibility of a few deliveries in March. That said, it is difficult to imagine that we will be able to ship as many units in one month as we did in all of Q3 (four units). Therefore, I think that a decrease is highly probable.

Questioner 6
Q: Aircraft, Defense & Space profit has improved in Q3 over Q1 and Q2. Please explain why this is.
Kozawa: Improved profit in Q3 came from Defense, not from Aero Structures. However, we may not be able to achieve such a high profit margin on a full-year basis. The profit ratio in any given quarter can vary greatly depending on the timing of customer handover at the completion of a contract. Revenue recognition in most of our projects in this business is determined according to the percentage-of-completion method. In these projects, completion projections include some risk, and when the projects approach customer handover, total estimated cost and price are revised, which can often distort profitability data for a given quarter.

Q: You said that the impact of semiconductor shortages and rising material and transportation costs would be about -¥30 billion total this fiscal year. What is the breakdown for the total impact through Q3 (-¥24 billion)?
Kozawa: These are rough figures, but of the ¥24 billion, ¥8 billion was from materials costs, ¥7 billion was from transportation costs, and ¥9 billion was from semiconductor shortages. On a full-year basis, the total is ¥30 billion, with ¥11 billion from materials costs, ¥11 billion from transportation costs, and ¥8 billion from semiconductor shortages. The current figures are based on the expectation that automotive production will recover. Assuming that automotive production will ramp up again, causing semiconductor shortage impact to decrease, the full-year forecast for that item is less than the Q1-3 actual figure.

Q: There were some one-time losses booked in Metals Machinery in 1H, but how about Q3? If so, please let us know the level of impact.

Kozawa: During the 1H FY2021 Financial Results briefing, I mentioned restructuring costs associated with the closure of some international locations in the Metals Machinery business. We booked around ¥2-3 billion in expenses from the same item in Q3. There are no further expenses expected from this item in Q4.

Q: I believe that one-time expenses in Energy Systems (IGCC) and Plants & Infrastructure Systems (location consolidation) exceed ¥30 billion this fiscal year. You also booked ¥20 billion in gains on the sale of land. If there are no similar one-time items next fiscal year, I think you could achieve around ¥170 billion in business profit. That said, I believe that there would need to be a step up in profitability growth efforts to achieve something like ¥200 or ¥250 billion. In the last few months of business activities, is there anything that you feel is going well?

Kozawa: I believe that we are seeing positive results from the integration with Mitsubishi Power which occurred last October. We are also currently moving forward with reallocating headcount from Steam Power to Energy Transition and other growth areas. I would like to add that, regarding Mitsubishi Power, we are moving a large number of people who were working in Yokohama to the various manufacturing bases of each of the business divisions such that these businesses can each be completely run from one location. I expect this will show positive results going forward.

In October, Mitsubishi Heavy Industries Maritime Systems began operations, and the integration process is going relatively smoothly. I don’t believe that this integration alone will generate ¥30 or ¥50 billion in business profit, but there have been some positive effects in the past few months, so I think we can expect a fair amount of contributions in the future.

Other than that, the Aero Engines business recently opened a new production center in Nagasaki.

Next fiscal year, I also hope to be able to report on something other than organic improvements (such as non-organic areas or M&A).