Questioner 1

**Q:** Please let us know the status of progress versus the full-year plan by factor and by business. Regarding the result for Q1 profit from business activities (business profit) of ¥14.9 bn, how do you evaluate this against the plan?

**Kozawa:** As for the ¥14.9 bn in business profit, our impression is that technical foreign exchange effects had more impact than we had expected. However, regarding these technical aspects, we basically think that they will essentially disappear when viewed over the full year. Conversely, if the yen continues to depreciate, the positive impact will remain. Although foreign exchange effects were a negative factor for profit, our understanding is that the results were not that bad. In terms of segments, Logistics, Thermal & Drive (LTD) is lagging. My impression is that automotive-related businesses did not recover in Q1. I believe the benefit of price increases will become apparent in the second half of the fiscal year, although this depends on automotive OEMs’ production going forward. I feel we had a bit of a rough start to this fiscal year. On the other hand, as market demand for Logistics Systems continues to be very strong, if semiconductor shortages are resolved and production recovers, I think we will progress in line with the plan.

**Q:** I hear that the materials and logistics costs situation at other companies was also more difficult than expected. Whereas MHI is expecting a net increase in business profit of ¥10 bn within the full-year plan, including the effect of price increases, in Q1 these factors resulted in a negative effect of ¥11 bn. You explained that this will become positive in the second half, but looking at materials and logistics cost inflation by itself, do you feel that recently the situation has been getting tougher, or was the impact of inflation in line with the plan?

**Kozawa:** My honest response is that the situation was tough, as expected. The negative impact was larger YoY, because the impact of materials and logistics cost inflation had not become very apparent in Q1 FY2021. Since the impact only became significant in Q2 and after in the previous fiscal year, as shown on the waterfall chart on page 10 of the presentation materials, the negative impact looks quite large when compared to Q1 of the previous fiscal year.

**Q:** Regarding the impact of decreased profitability in thermal power businesses (¥23 bn), you explained that this was caused by two factors, a YoY decrease corresponding to
the progress of high margin projects in Q1 FY2021 and the booking of one-time expenses from downsizing of European coal-fired thermal power operations. What were the percentages of these two factors? Also, were these downsizing costs factored into the full-year plan?

Kozawa: As for these two factors, each had an effect of slightly less than ¥10 bn. The -¥2 bn impact of foreign exchange effects includes some special foreign exchange factors. Major businesses affected by these special factors were Gas Turbine Combined Cycle (GTCC) in Energy Systems and Engineering in Plants & Infrastructure Systems. European operation downsizing costs were factored into the full-year forecast at the beginning of the year.

Q: Additional costs related to the Integrated Gasification Combined Cycle (IGCC) projects were incurred through FY2021, but did any occur in Q1 of this fiscal year? Please let us know how they are progressing.

Kozawa: We booked a few billion yen in additional IGCC-related expenses in Q1. Regarding the current state of progress, unfortunately, new events occur from time to time, and we are now repeatedly trialing and verifying improvement measures.

Questioner 2

Q: What was the amount of the technical foreign exchange effects? Plants & Infrastructure Systems saw profit decline by ¥6.4 bn YoY mostly due to these technical foreign exchange effects. If there was also similar impact in GTCC, is it correct to understand that there was ¥6 bn of impact in Plants & Infrastructure Systems and ¥4 bn in GTCC, totaling ¥10 bn?

Kozawa: The breakdown may be different, but you can take the overall impact amount to be around ¥10 bn.

Q: Is it correct to understand that these technical foreign exchange effects were foreseen at the beginning of the fiscal year, assuming that there would be no impact on the full-year results?

Kozawa: Yes, that is correct.

Q: You explained that orders were trending strongly overall. Were there any businesses which performed better than initially expected?

Kozawa: Defense & Space order intake increased YoY. That said, orders usually tend to be concentrated at the end of the fiscal year, and amounts tend to be low in Q1-3. Because we have to consider the total over the full year, we are not in a situation where we can say that progress is strong. On the other hand, order intake in Metals Machinery
is trending above projections, and order backlog is accumulating. I think that the full-year total will probably exceed our expectations, however we are not in a situation where we will achieve as much order intake in Q2 and thereafter as in Q1.

Q: GTCC happened to have good order intake performance in Q1, but is it correct to understand that the full-year forecast will remain the same?
Kozawa: That is correct. We are booking projects as expected in the initial plan, and there is no impact on the full-year forecast.

Q: Preparing for tight power supplies, they are pushing coal-fired thermal power plants to their limits in the leadup to winter in Europe, and there are moves to run aging thermal power plants in Japan. Responding to this situation, is your after-sales service business performing better than expected?
Kozawa: Over the last three months, we did not see any such changes in the situation.

Questioner 3
Q: Materials and logistics cost inflation as well as semiconductor shortages caused a ¥11 bn decrease in profit. Please let us know the impact from each of these factors. Please also let us know if all of this impact was as expected initially.
Kozawa: The amounts were: ¥5 bn from materials costs, ¥4 bn from logistics costs, and ¥2 bn from semiconductor shortages.

Q: Please share a rough schedule for the European coal-fired thermal power operations downsizing. Some media reports said that you will reduce headcount to a quarter of current levels over the next year or two. Could you let us know if this is the last time you will book expenses for this downsizing, or if there is the possibility of additional expenses going forward?
Kozawa: This time we will perform downsizing at a location in Germany. This location is also engaged in environment-related businesses, but it is mainly involved in coal-fired thermal power. Going forward, we will start reducing headcount due to the reduction in business on hand. We have presented the plan to the employees, and going forward, we will begin to make specific reductions. In terms of the time frame, I believe it will take one or two years from now. The expenses booked this time are not from costs occurring now, but are rather provisions based on current estimates of future costs. As such, the amount could increase or decrease.
Questioner 4

Q: You mentioned that profit decreased by ¥10 bn due to technical foreign exchange effects. Could you explain the process by which these expenses occurred?

Kozawa: Basically, there are three main processes. The first one was the impact caused by translation of undetermined foreign currency amounts in the calculation of the costs used to measure the progress percentages under the percentage-of-completion method. The second factor, which is similar to the first, was the impact of the translation of foreign currency amounts during the calculation of provisions for losses on construction contracts, i.e., the estimates of losses to be incurred during the entirety of the project. Regarding the third factor, unrealized profit on inventories is deducted during the closing of the consolidated accounts, and this time, the depreciation of the yen resulted in an increase in the yen value of these inventories when converting the assessed value of inventories held at foreign subsidiaries into yen. Multiplying these values by a certain profit margin resulted in an increase in the deduction amount.

Q: The reason that these technical foreign exchange effects will resolve over the full year is that, although the exchange rate fluctuated significantly in Q1, if the exchange rate does not change from now on, then the weak yen will have a positive effect. Is that correct?

Kozawa: Because the revenue booked during Q1 according to the percentage-of-completion method was only generated in these three months alone, the impact on the percentage of completion was extraordinarily large. If the percentage of completion increases over the full year, then the impact of foreign currency effects will be greater on the revenue side, which will dilute the losses experienced in Q1. As for the provisions for losses on construction contracts, the impact will not reduce over the full year even if exchange rates remain stable.

Q: During the FY2021 Financial Results Briefing, you mentioned that there was strong demand in Metals Machinery and that you would be taking a profit-focused approach to selecting projects. Are there any businesses operating in harsh competitive environments in which you plan to book contracts? Or is the trend to improve profitability in the same way as Metals Machinery continuing?

Kozawa: Metals Machinery profitability continues to improve. In the GTCC business, new installation projects have always been difficult, with projects booked on the edge of profitability. There is a large difference in profitability between new installations and after-sales services in this business.

Q: Is the order intake situation in GTCC after-sales services strong?
Kozawa: Order intake increased in Q1 due to the booking of some new installation projects, but after-sales services orders are also strong.

Questioner 5
Q: You mentioned that the one-time expenses for European coal-fired thermal power business downsizing had been factored into the initial plan, but will it be necessary in the future to execute similar downsizing in the thermal power business at other locations in Europe or perhaps elsewhere? Please let us know the outlook, including monetary amounts.

Kozawa: There is a possibility of downsizing at other locations. However, at this point, I cannot mention any concrete movements. Regarding the downsizing in Europe, we had been considering various approaches for a considerable amount of time, including transitioning to another business. This time, we chose to reduce the scale of operations at this location. In Europe, the location in question is the only target for these actions. We do have some other locations in other regions, including Asia. Regarding how to go forward with these locations, there are a number of options, for example, utilizing personnel that had been working in coal-fired thermal power in other businesses or perhaps selling these locations to another company. That said, nothing is decided at this point.

Q: Regarding Nuclear Power, there is talk that nine Pressurized Water Reactors (PWR) in Japan will be restarted in Q2 and thereafter. What impact on your earnings do you expect from this?

Kozawa: It is not the case that it was suddenly decided that these nine nuclear reactors would be restarted. Rather, these reactors are going to be restarted as planned. Some of the ability to restart these reactors has to do with our moving up the timing of construction completion at some Specialized Security Facilities (SSF). However, these restarts are not expected to contribute to our revenue or profit above and beyond our plan. In terms of the impact on the plan, business accumulated from nuclear fuel reprocessing facilities and restart support for Boiling Water Reactors (BWR) is expected to contribute more to an increase in this fiscal year’s revenue and profit.

Q: Regarding Aero Engines, order intake, revenue, and profit all recovered significantly. Could you tell us about the progress against the full-year plan and whether there is any possibility of upside in this business?

Kozawa: Progress is good. At this point, we are not at a level where we can determine if there will be upside, however there is no negative trend.
**Questioner 6**

**Q:** Is it correct to assume that the one-time factors, such as European coal-fired thermal power downsizing expenses and asset management were all factored into the initial plan, and that the only unexpected item was the additional expenses in IGCC?

**Kozawa:** Yes, that is correct. If I could venture to give another example, while we believe that we will be able to achieve the forecast in the LTD segment overall, some risks emerged in the automotive-related businesses in Q1.

**Q:** Considering the situation including the lockdowns in China, delayed supplier deliveries, and uncertainty whether automotive production will recover around this summer, I think you will have to catch up in the second half of this fiscal year. Is your impression that recovery in automotive production is a little slow?

**Kozawa:** We have heard from the automotive OEMs that production will recover, however, it is not going quite as well as forecasted. We have heard that the tight supply-demand situation in semiconductors is easing a little, but I have the impression that automotive-related businesses continue to be in a rather difficult situation. As such, I am not able to be too optimistic about these businesses.

**Q:** In Aircraft, Defense & Space, if we multiply the Q1 profit figure by four, it surpasses the initial full-year estimate, so I believe that the business is in good shape. Is it correct that Commercial Aviation got off to a good start, including the impact of foreign exchange effects on profitability? Will deliveries to Boeing recover in Q2 and beyond?

**Kozawa:** As this business was in a downturn in FY2021, it has definitely improved compared to then. However, revenue in the Boeing business significantly decreased YoY. The reason that revenue was flat in Commercial Aviation as a whole was that there were contributions from an increase in revenues from other businesses within that category, including Bombardier and CRJ. In terms of the P&L, the depreciation of the yen has had a decidedly positive effect on the Commercial Aviation business. Regarding the outlook for 787 deliveries, we hear that Boeing is forecasting a resumption of 787 shipments in the near future. Accordingly, I believe that the situation will greatly improve over how it has been. However, Boeing has more than 100 completed 787s at its U.S. factory. Therefore, Boeing's first step will be to deliver the finished aircraft one by one. It will not likely be a situation where our deliveries will suddenly increase because of the restart of shipments from Boeing to their customers. In Q1 of this fiscal year, we delivered one or two units per month, and we would be happy if this number were to increase to three or four per month within the current fiscal year.
Q: Is it correct to assume that 787 deliveries will be a mirror image of the figures from Q1-4 in FY2021 and that they will return to Q1 FY2021 levels in Q4 of this fiscal year?
Kozawa: That’s correct. There may be slight delays or reductions in deliveries.

Questioner 7
Q: Looking at the comparison with the full-year forecast, you mentioned that, among the one-time losses, the additional expenses in IGCC were unexpected. If the technical foreign exchange effects were negative ¥10 bn, and these effects occurred in accordance with the exchange rate over the recent three months, assuming that the current rate levels continue until the end of March next year, would it not be the case that the negative impact of foreign exchange rates would expand going forward? Of course, I understand that there will be more room for offsetting foreign exchange effects with revenue that will increase profit, but will a considerable amount remain that wasn’t able to be offset?
Kozawa: ¥125 was the average rate for revenue recognition from April to June. The technical foreign exchange effects that occurred this time were calculated using the end of quarter rate, not the average rate from these three months. Moreover, in terms of stock/flow aspects of the business, please understand that the impact of this technical factor was on the stock side, not the flow side. On the flow side, we will definitely enjoy a positive impact, so if the current trend of depreciation of the yen continues, although there may be fluctuations in individual products, foreign exchange effects will overall increase profit YoY.

Q: You explained that a ¥10 bn YoY decrease in profitability in Thermal Power corresponded to the progress of high margin projects in FY2021. Could you let me know which projects were highly profitable in FY2021? I have no memory that there were such projects in Q1 FY2021. If this was the result of an accumulation of a few projects, usually there is a mix of profitable and unprofitable ones, so I was not sure if this factor needed to be mentioned so prominently.
Kozawa: Unfortunately, I cannot share with you the project details. Last fiscal year, there was a project which received additional revenue. This was a special factor, and therefore not related to the profitability of the project as a whole. As the Q1 FY2021 results were positive, I may not have been as proactive in explaining this to you, but that project was included in that fiscal year’s results.

Q: LTD segment businesses continued to face a difficult situation, and I understand that they had a low start with some big hurdles. Could you tell us if there was anything that went better than expected over these three months?
Kozawa: The pace of progress in Aero Engines was better than forecasted in the initial plan. Commercial Aviation has been in a difficult situation, but we have managed to keep the numbers within a reasonable range, which was better than expected. Regarding GTCC, although profit was down due partly to technical foreign exchange effects, orders were strong and better than originally forecasted.

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