**Q&A Summary**

**Event Name:** FY2022 Financial Results Presentation  
**Date:** May 10, 2023  
**Speaker:** Seiji Izumisawa, Member of the Board, President, and CEO  
Hisato Kozawa, Member of the Board, Executive Vice President, and CFO

**Questioner 1**

**Q:** Regarding the profit bridge for the FY2022 financial results, “One-time impact in thermal power and other businesses” was -¥35 billion as of the Q1-3 financial results, and for the full-year, this increased by -¥15 billion to a total of -¥50 billion. Was this due to additional expenses related to an overseas coal-fired thermal power project, which was explained as a negative factor on the Q1-3 financial results? Also, please tell me if there has been any change in the Integrated coal Gasification Combined Cycle (IGCC) situation since the Q1-3 financial results briefing.

**Kozawa:** The additional -¥15 billion booked in Q4 was related to different projects from the ones for which we had booked expenses through Q3. This includes projects in which we are involved as a member of a consortium and where we recognized our share of the final project costs, as well as those where we are now in disagreement with other parties regarding the division of costs. We have booked provisions from an accounting perspective for these projects. As for IGCC, the amount of expenses recognized in FY2021 and FY2022 are at around the same level.

**Q:** Contrastingly, on the profit bridge for the FY2023 earnings forecast, “One-time expenses in thermal power and other businesses” is listed as a positive factor to the amount of ¥54 billion. Regarding IGCC, is this guidance based on the assumption that there will be no additional expenses in FY2023 like those incurred in FY2022?

**Kozawa:** That understanding is correct in a broad sense, but the forecast includes a certain amount of risk allowance for the thermal power businesses overall.

**Q:** In which item on the FY2023 earnings forecast profit bridge is this “certain amount of risk allowance” included?

**Kozawa:** Unlike in FY2022, we believe that no special factors exceeding the tens of billions yen level will be incurred, so we have not indicated this risk allowance as a separate item on the profit bridge. Rather, we have included this in “One-time expenses in thermal power and other businesses.”
Q: In the Corporate & Eliminations segment, the actual results ended up with negative impact that was smaller than the previous forecast. I have the impression that, since FY2021 and before, this segment is one where negative impact has improved from gains on asset sales. Are any such gains included in the FY2022 financial results?

Kozawa: The FY2022 financial results also include gains on asset sales. There were no large gains in Q4, but Corporate & Eliminations includes various items other than gains on asset sales, leading to a final result of -¥3.5 billion. We are planning on a certain amount of gains on asset sales in FY2023 as well.

Q: The FY2023 business profit forecast for the Aircraft, Defense, and Space segment is flat compared to FY2022. Please explain why the profit forecast is flat and not growing despite the fact that Boeing is forecasting an increase in the number of aircraft manufactured. Also, if deliveries to Boeing increase, will business profit improvement progress? Please explain your medium-term business profit forecast for this segment.

Kozawa: As stated in the financial results presentation materials, we believe that profit in Commercial Aircraft will be at the same level as FY2022. Our numbers are slightly more conservative than the plan that Boeing has released. If things go according to Boeing’s plan, there is a possibility that this will be a positive factor. Also, one factor preventing an increase in profit in FY2023 even though revenue is expected to increase year-on-year is the foreign exchange rate assumptions for FY2023. The yen is expected to be slightly stronger in FY2023, but if the yen depreciates, we maybe see an increase in Commercial Aircraft profit.

Izumisawa: Regarding Defense, order intake is expected to increase from FY2022 to FY2023, and this trend is expected to continue through FY2024 and thereafter. The revenue contribution from projects booked in FY2023 is expected to come in FY2024 or subsequent fiscal years. However, I believe that securing the resources for growth in our Defense business is a task for management. Also, corresponding to the revision of Japan’s defense plan, there are currently discussions regarding profit margin improvements in defense equipment, and we are expecting movement in this area.

Questioner 2

Q: In the Logistics, Thermal & Drive Systems segment, you are forecasting an increase in business profit from ¥40 billion in FY2022 to ¥70 billion in FY2023. Of the positive factors affecting profitability, I guess based on Mitsubishi Logisnext's financial results materials that ¥10 billion will come from Logistics Systems, but where will the remaining ¥20 billion come from?

Kozawa: We cannot expect improvement in Turbochargers, but Logistics Systems, HVAC, and Engines are performing strongly. Also, we expect around ¥20 billion in benefits from
price optimization in the segment overall. In the case of HVAC, the appearance of price optimization benefits has been slightly slower than in Logistics Systems, but we believe that they will come about in FY2023. Although the FY2023 business profit forecast appears to show large growth over the FY2022 results, the profit margin is still expected to be only a little under 6%, so we do not consider this to be an unreasonable figure.

**Questioner 3**

**Q**: Please summarize the opportunities and risks in your FY2023 plan.

**Kozawa**: Although there is a certain level of project execution risk related to our plant projects, there are more risks involved in international projects than in domestic ones. On the other hand, you could say that there is opportunity for some upside from the reversal of provisions booked for projects currently under negotiation with other parties. After-sales services are another opportunity. We are pursuing the expansion of services in such businesses as Thermal Power and Paper Converting Machinery, and if revenue in these areas grow beyond the plan, this will have a positive effect on profits. Also, in Commercial Aviation, if Boeing manufactures aircraft according to their plan, this will exceed the assumptions included in our earnings forecast and potentially increase profit.

**Izumisawa**: Since the COVID pandemic, we have been trying not to force ourselves to take orders. By taking a stricter approach to risk management in the early phases of projects, the profitability of projects at the time of order booking has improved. I believe that if we properly manage costs during the project execution phase, we will be able to increase profits. Other opportunities include Aero Engines and Aero Structures, as demand for aircraft is growing. Moreover, I think that minimizing one-time expenses as much as possible is also important.

**Q**: In FY2022, you booked provisions for downsizing expenses at your European coal-fired thermal power operation, but is there any possibility that there will be any expenses related to restructuring in FY2023 as well?

**Izumisawa**: We have not included in the FY2023 earnings forecast any specific restructuring costs like the reorganization of our European coal-fired thermal power business, but we are proceeding with discussions regarding optimization of the business portfolio.

**Q**: Please let me know your thinking on expenses in the Corporate & Eliminations segment over the next three years. Is there any possibility that upfront costs will increase as you proceed with Energy Transition-related businesses?

**Kozawa**: A certain amount of period costs related to the Energy Transition is already being recognized. As we are forecasting an increase in investments going forward, we will need
to pay attention to cash flows, but unless there is some very special case, we do not expect much impact on any individual fiscal year’s P&L.

**Questioner 4**

**Q:** The order intake forecast for Gas Turbine Combined Cycle (GTCC) is bearish compared to FY2021. Regarding the background for this, other than foreign exchange effects, I can imagine several reasons for this, including FY2023 simply being a year between project bookings, or a year-over-year dip compared to the strong orders seen in FY2022. Please provide us your analysis of the situation.

**Kozawa:** I would not describe the situation in GTCC as bearish. Although there is expected to be some foreign exchange impact, orders will likely be on par with FY2022. We are working to grow after-sales services orders, and we are hoping that revenue in this area will exceed the plan.

**Q:** Your gas turbine licensee in China booked orders for 27 units in FY2022. Please let me know the forecast for FY2023.

**Kozawa:** The unit order forecast for FY2023 is around the same as FY2022.

**Q:** Steam Power order intake is forecasted to decrease year-over-year in FY2023, but do you project orders to stop decreasing in FY2024 and thereafter?

**Kozawa:** Steam Power order intake is expected to continue to decline compared to previous levels during FY2024 and thereafter. However, I do not believe that order intake will be zero in a few years.

**Q:** The global gas turbine market size based on capacity of new equipment orders in CY2022 was 50 GW, but do you expect this level of demand to continue? Also, considering the relationship with your competitors, do you think MHI will be able to secure the number one or two position?

**Izumisawa:** Although this is difficult to forecast, and there is some impact from LNG prices, we predict that the global gas turbine market is likely to stay around 50 GW or slightly larger over the next 4 to 5 years. As it will be difficult to achieve decarbonization all at once, there will continue to be stable need for gas turbines. In that context, MHI’s advantages are strong demand for gas turbines in regions where we are relatively strong and positive reception from our customers for our JAC-Series gas turbines (MHI’s series of top-of-the-line, high-efficiency large frame gas turbines). As such, we intend to maintain our top market share.
Q: Is the strong demand for JAC-Series gas turbines due to electric utilities’ requirement that GTCC provide base load power?

Izumisawa: The electric utilities’ requirements for GTCC systems depend on the region, but I believe that the ability to convert our products from LNG to hydrogen fuel as well as high single-cycle gas turbine efficiency are what is behind this demand.

Q: Metals Machinery order intake is forecasted to decrease in FY2023. Some potential causes for this are a shift of order backlog to revenue, peaking out of order intake from steel manufacturers for metals machinery, and issues with MHI’s production capacity. Please let us know the reason for this decrease.

Izumisawa: There are decarbonization needs in the steel industry, but it is very difficult to predict how much investment in electric arc furnaces or decarbonization will emerge among steel manufacturers. Also, MHI’s order intake in this business was close to the upper end of our capacity in FY2021 and FY2022.

Q: I hear that there is progress in order pricing optimization in Metals Machinery. Going forward, do you expect the Plants & Infrastructure Systems segment’s overall revenue and profit margin to continue around ¥700 billion and 5.7%, respectively, or do you see profit levels rising due to changes in product mix?

Kozawa: It is difficult to comment on what will happen in FY2024 and beyond, but I think there is opportunity to improve profit margins. However, profit can vary due to the performance of businesses included in the "Others" category in this segment.

Questioner 5

Q: In FY2022, ¥74 billion in one-time expenses were incurred across the entire company, but the profit bridge of the FY2023 earnings forecast only includes ¥54 billion in improvement due to the lack of “One-time expenses in thermal power and other businesses.” Why is this?

Kozawa: If no expenses are incurred, then we will see improvement in profit equal to ¥74 billion yen. As we have included a buffer for potential risk in the forecast, we have kept the improvement amount to ¥54 billion.

Q: Is this risk buffer already attached to certain projects?

Kozawa: If it were attached to anything specific, it would have already been recognized as expenses in FY2022, and that is not the case. However, there may be some projects with potential risks.
Izumisawa: In projects with long construction periods, it is often the case that risk factors appear before customer delivery, and we believe it is necessary to set ourselves a certain amount of allowance to absorb these costs.

Q: If you achieve ¥300 billion in business profit during FY2023, that will be roughly equivalent to your past high in profit. That said, I do not feel the sense of elation that I had back then. When comparing then and now, I have the impression that there is no change in profit levels in Energy Systems or Aircraft, Defense & Space, whereas the impact of the increase in profit coming from ¥200 billion in topline growth in Logistics Systems in the Logistics, Thermal & Drive Systems segment is large. While manufacturers pursue electrification of forklifts, how will MHI position this business going forward?

Izumisawa: I think this is a difficult matter. However, I think the issue here is how best to manage this business to expand its turnover and improve profitability. I will think this over in the lead-up to the next medium-term business plan.

Kozawa: Logistics Systems was given as one example, but we are also considering our approach to other businesses.

Questioner 6
Q: I believe you are projecting around ¥50 billion in CO2 Capture turnover by FY2023. What is the latest forecast?

Izumisawa: There are many feasibility studies in the CO2 Capture business, but it may be a little difficult to reach ¥50 billion in turnover. Whether these studies will lead to orders within FY2023 or FY2024 and thereafter will depend on subsidies or other incentive programs around the world, so I cannot comment at this time. If all of the feasibility studies we have now became real projects and we booked them, the scale of that business would be huge, but we will need more time to ascertain whether all of these projects will come to fruition.

Q: Why is your FCF forecast -¥100 billion in FY2023 despite a business profit forecast of ¥300 billion?

Kozawa: Because we are expecting large cash outflows in investing cash flow in FY2023, we have set the FCF forecast at -¥100 billion. Although we are projecting reasonable operating cash flow improvement compared to FY2022, there was a considerable increase in advances received in FY2022, and we are expecting to enter a cash out phase as we deliver on these advances. However, we would like to improve FCF over the -¥100 forecast.
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