

1H FY2023 Financial Results

November 6, 2023

Mitsubishi Heavy Industries, Ltd.

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Hello, everyone. This is Hisato Kozawa, CFO of MHI.
Allow me to summarize our 1H FY2023 financial results.

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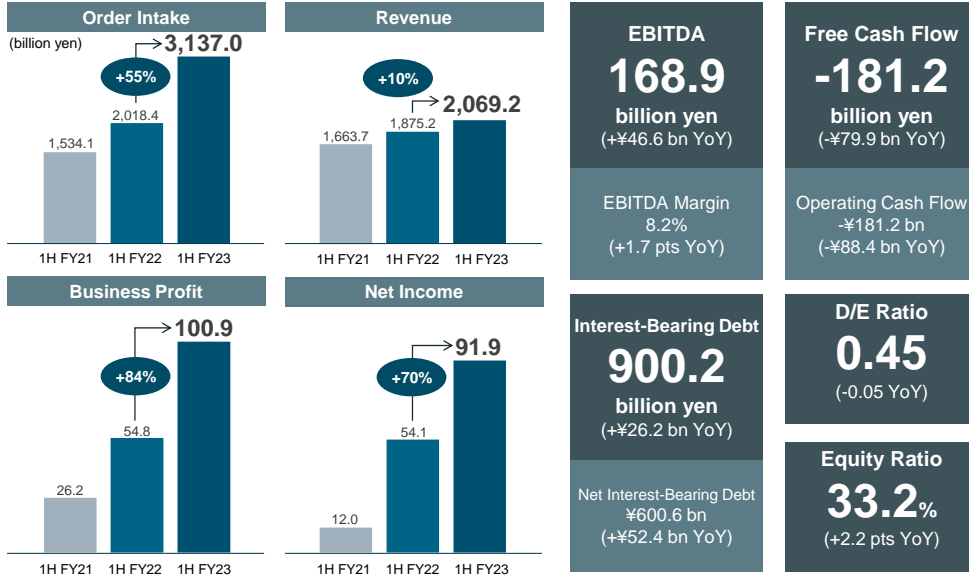
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1. Key Takeaways

1H FY2023 Financial Results



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First, I will provide an overview of our financial results.
 This page shows the results in several key financial indicators.

1H FY2023 Financial Results Highlights



- **Order Intake: ¥3,137.0 bn (+¥1,118.6 bn YoY)**
Order intake increased YoY in Energy Systems, Logistics, Thermal & Drive Systems, and Aircraft, Defense & Space.
In terms of major businesses, large orders growth was seen in Gas Turbine Combined Cycle (GTCC) and Defense & Space.
- **Revenue: ¥2,069.2 bn (+¥194.0 bn YoY)**
Revenue increased YoY in all segments.
In terms of major businesses, GTCC, Aero Engines, Metals Machinery, Logistics Systems, and Defense & Space achieved large increases in revenue.
- **Business Profit: ¥100.9 bn (+¥46.1 bn YoY)**
Business profit increased YoY in all segments.
Despite booking one-time expenses in Aero Engines, revenue growth, project profitability improvements, services business expansion, price optimization, and foreign exchange effects served to increase business profit by 84% YoY to ¥100.9 bn.
- **Net Income: ¥91.9 bn (+¥37.8 bn YoY)**
Bolstered by higher business profit results, net income rose 70% YoY to ¥91.9 bn.
Based on 1H results and in accordance with initial plan, will execute interim dividend payment of ¥80 per share, ¥20 per share above the FY2022 interim dividend, and ¥10 per share greater than the FY2022 year-end dividend.

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This page shows highlights in terms of several key financial indicators.

Order intake, revenue, and business profit all increased YoY. The increase in order intake was particularly large, and the rate of progress versus the initial full-year forecast of ¥4.6 trillion was around 68%, an unusually high level. We have raised the full-year forecast by ¥1.0 trillion to ¥5.6 trillion, due to progress in GTCC and Defense & Space exceeding the plan.

Both business profit and net income increased significantly YoY. As shown on page 9, although one-time expenses were booked in Aero Engines related to an international joint development project, the effects of price optimization executed from last year onward, increases in revenue, and the impact of the depreciation of the yen contributed similarly to the first quarter this fiscal year.

Free cash flow decreased by approximately ¥80 billion YoY but remained at roughly the same level as forecasted in the first half of our full-year plan, which indicates progress as expected.

We will pay an interim dividend of ¥80 per share, as announced at the beginning of the fiscal year. This is a record high for both an interim dividend as well as any single dividend payment, exceeding the ¥75 paid in FY2019.

2. 1H FY2023 Financial Results

The next few pages provide a little more detail about the 1H FY2023 financial results.

Financial Results Overview



(billion yen)	1H FY2022 (Profit Margin)	1H FY2023 (Profit Margin)	YoY (Profit Margin)	(YoY%)
Order Intake	2,018.4	3,137.0	+1,118.6	(+55.4%)
Revenue	1,875.2	2,069.2	+194.0	(+10.3%)
Profit from Business Activities	54.8 (2.9%)	100.9 (4.9%)	+46.1 (+2.0 pts)	(+84.1%)
Profit Attributable to Owners of Parent	54.1 (2.9%)	91.9 (4.4%)	+37.8 (+1.5 pts)	(+69.8%)
EBITDA	122.2 (6.5%)	168.9 (8.2%)	+46.6 (+1.7 pts)	(+38.2%)
Free Cash Flow	-101.3	-181.2	-79.9	

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This page covers information already discussed, so I will forego an explanation.

Financial Position and Cash Flows



Financial Position (billion yen)	FY22 End	1H FY23 End	YoY
Trade Receivables and Contract Assets	1,536.4	1,594.6	+58.1
Inventories	876.8	1,006.0	+129.1
Other Current Assets	628.9	635.7	+6.7
(Cash and Cash Equivalents)	(347.6)	(299.6)	(-48.0)
Fixed Assets	1,041.1	1,051.2	+10.1
Other Non-Current Assets	1,391.3	1,473.5	+82.1
Total Assets	5,474.8	5,761.1	+286.3
Trade Payables	895.2	843.1	-52.0
Contract Liabilities	936.7	919.8	-16.8
Other Liabilities	1,066.3	1,075.3	+8.9
Interest-Bearing Debt	742.4	900.2	+157.8
Equity	1,833.9	2,022.4	+188.4
(Equity Attributable to Owners of Parent)	(1,740.9)	(1,914.6)	(+173.6)
Total Liabilities and Equity	5,474.8	5,761.1	+286.3
Cash Flows (billion yen)	1H FY22	1H FY23	YoY
Operating Cash Flow	-92.8	-181.2	-88.4
Investing Cash Flow	-8.5	0.0	+8.4
Free Cash Flow	-101.3	-181.2	-79.9

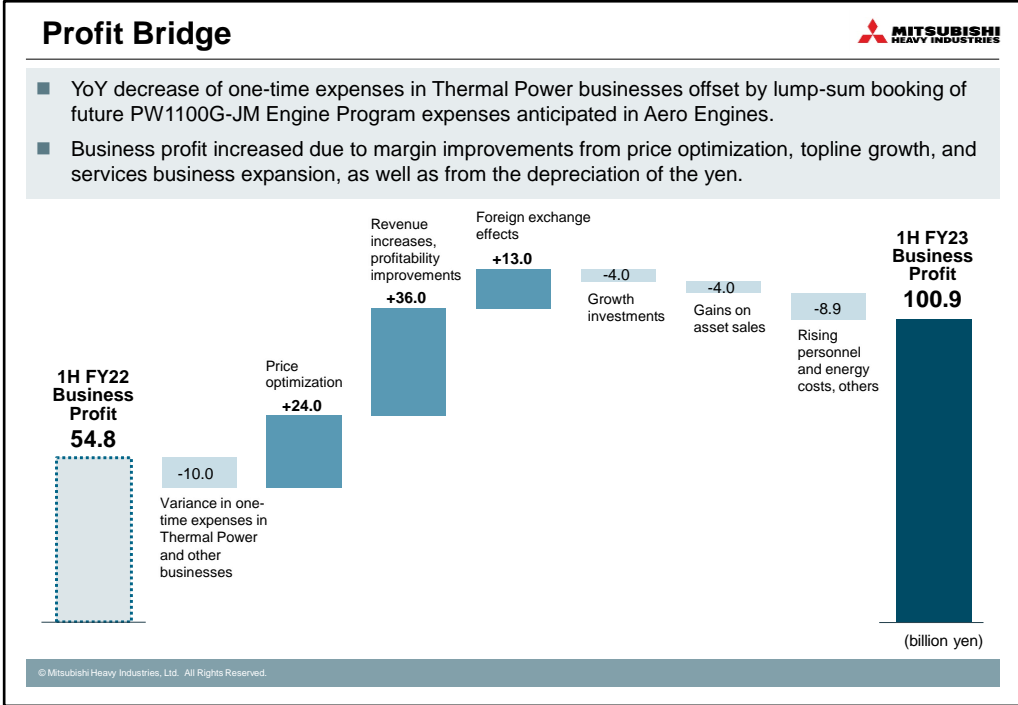
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This page shows the balance sheet and cash flows.

Total assets increased by ¥286.3 billion from the end of FY2022 to ¥5,761.1 billion. The majority of this increase is attributable to currency translation effects related to foreign-currency-denominated assets caused by the depreciation of the yen. This amounted to approximately ¥180 billion. Moreover, although inventories have increased slightly, we believe that this is a normal trend for MHI within the range of normal fluctuations.

Regarding cash flows, operating cash flow decreased significantly YoY. Despite increasing revenue, due to changes in our product mix, we are in the phase of using advances received. However, we will continue to carefully manage accounts such as trade receivables and inventories.

Investing cash flow increased slightly YoY due to the sale of securities.



This page shows factors which caused YoY changes in business profit.

The leftmost bar shows 1H FY2022 business profit, which was ¥54.8 billion.

The bar to the right of this represents the variance in one-time expenses in the Thermal Power and other businesses. This is the difference between losses incurred during 1H FY2022, i.e., expenses from the organizational transformation of some European operations, and the one-time expenses related to an Aero Engines program in Q2 FY2023.

Regarding price optimization, the magnitude of cost increases in Forklifts, HVAC, and other businesses decreased YoY in 1H FY2023, and the benefits of price optimization, i.e., sales price increases, exceeded this, resulting in an increase of ¥24.0 billion.

Due to these and other factors shown here, business profit in 1H FY2023 was ¥100.9 billion.

Financial Results by Segment



	Order Intake			Revenue			Profit from Business Activities		
	1H FY22	1H FY23	YoY	1H FY22	1H FY23	YoY	1H FY22	1H FY23	YoY
(billion yen)									
Energy Systems	776.4	1,082.0	+305.5	769.0	777.2	+8.1	19.6	35.3	+15.7
Plants & Infrastructure Systems	474.6	421.8	-52.7	292.1	350.7	+58.5	10.6	20.3	+9.6
Logistics, Thermal & Drive Systems	578.1	650.0	+71.9	563.4	633.3	+69.9	8.4	36.7	+28.2
Aircraft, Defense & Space	207.7	999.4	+791.6	262.3	318.9	+56.6	19.7	27.4	+7.6
Corporate & Eliminations	-18.5	-16.2	+2.3	-11.7	-10.9	+0.7	-3.6	-18.9	-15.2
Total	2,018.4	3,137.0	+1,118.6	1,875.2	2,069.2	+194.0	54.8	100.9	+46.1

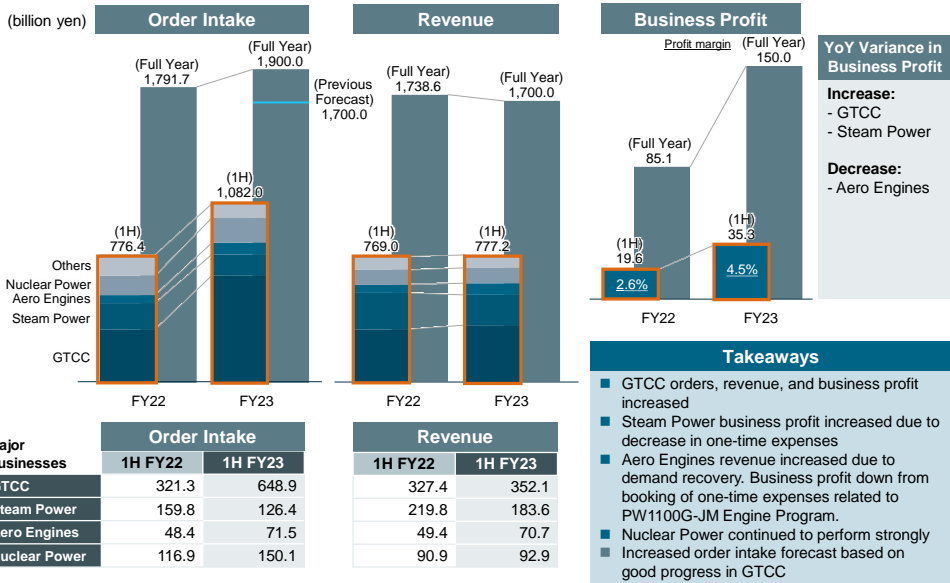
Profits and losses related to SpaceJet are included in Corporate & Eliminations.

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This page shows a summary of order intake, revenue, and business profit by segment.

Over the next few pages, I will explain the situation in each segment.

Financial Results: Energy Systems



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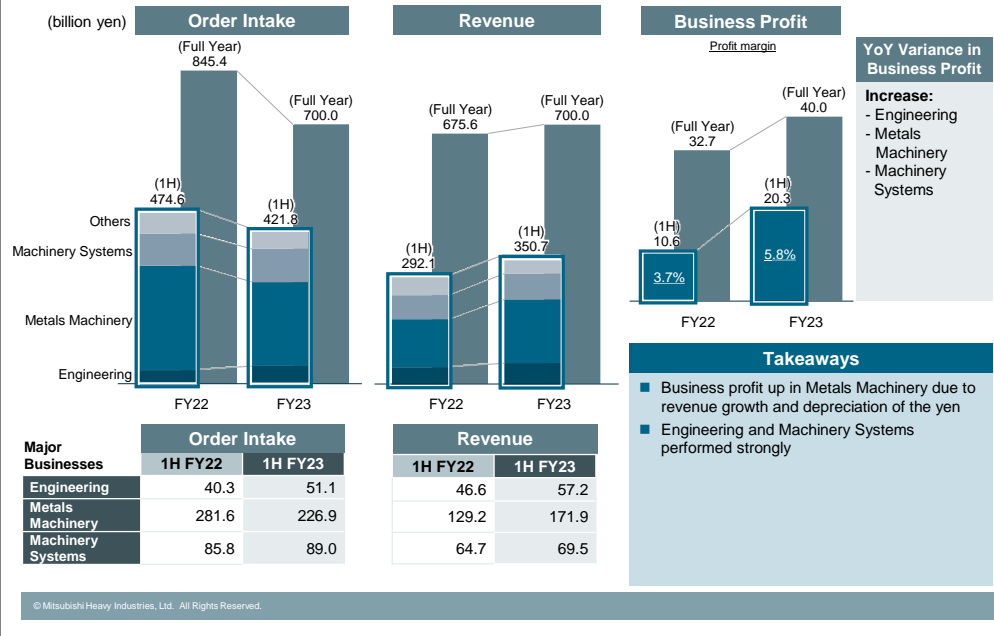
This page shows the situation in the Energy Systems segment.

Order intake, revenue, and business profit all increased YoY.

Particularly of note, based on strong performance in GTCC – continuing the trend from the last fiscal year – and favorable progress in the segment overall, we have raised the full-year order intake forecast by ¥200.0 billion.

In terms of business profit, although progress has been slow compared to the full-year forecast due to the booking of one-time expenses and other factors, we have maintained the current forecast as positive impact from the depreciation of the yen is expected.

Financial Results: Plants & Infrastructure Systems



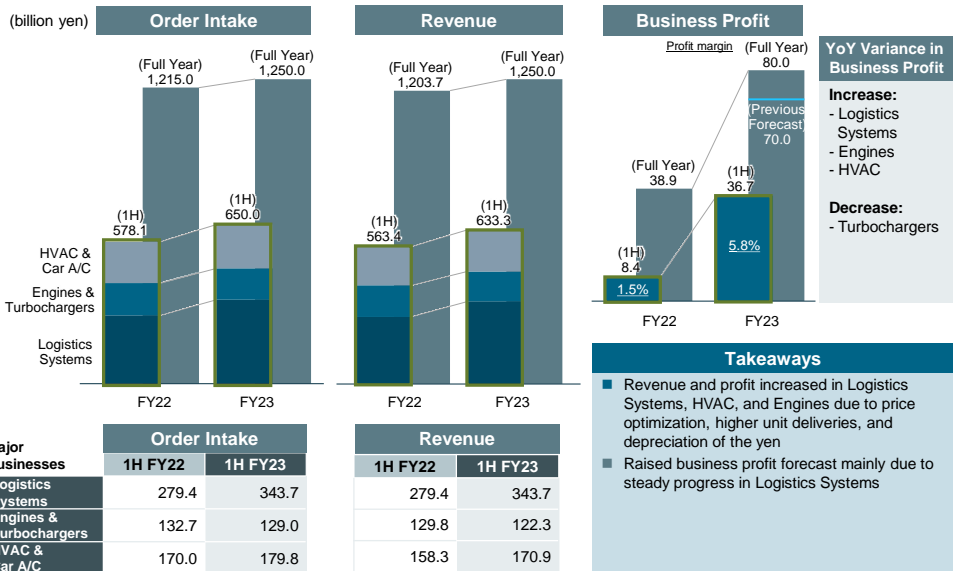
This page shows the situation in the Plants & Infrastructure Systems segment.

In this segment, revenue and business profit increased YoY despite a decrease in order intake.

As shown in the table here, the main cause of the decrease in order intake was Metals Machinery.

However, the ¥226.9 billion in order intake in 1H FY2023 was at a sufficiently high level, and the market continues to be strong.

Financial Results: Logistics, Thermal & Drive Systems

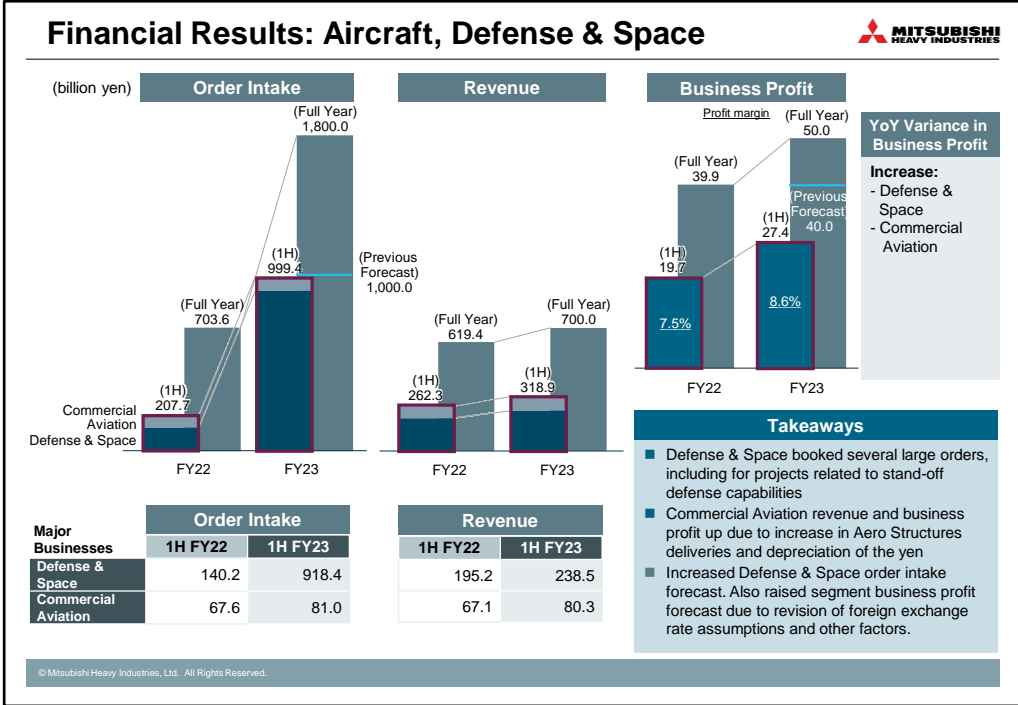


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This page shows the situation in the Logistics, Thermal & Drive Systems segment.

Order intake, revenue, and business profit all increased YoY. Order intake and revenue are showing steady progress at around 50% of the full-year forecast.

We have raised the business profit forecast by ¥10.0 billion based on the progress made in 1H FY2023 and the impact of revisions to foreign exchange rate assumptions.



This page shows the situation in the Aircraft, Defense & Space segment.

Order intake, revenue, and business profit all increased YoY.

Remarkably, order intake totaled ¥999.4 billion, which is roughly equal to the initial full-year forecast. This was due to continued strong growth in Defense & Space in Q1 FY2023. Based on the progress made thus far as well as plans going forward, we have substantially increased our full-year order intake forecast from ¥1.0 trillion to ¥1.8 trillion.

In the Commercial Aviation Aero Structures business, revenue and business profit increased YoY due to an uptick in the number of Boeing 787 unit deliveries and the benefits of the depreciation of the yen. Informed by these results, we have increased the business profit forecast by ¥10.0 billion.

3. FY2023 Earnings Forecast

Forecasts regarding future performance outlined in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. As such, these projections include risk and uncertainty. Investors are recommended not to depend solely on these projections when making investment decisions. Actual results may vary significantly from these projections due to a number of factors, including, but not limited to, economic trends affecting the Company's operating environment, fluctuations in the value of the Japanese yen to the U.S. dollar and other foreign currencies, and trends in Japan's stock markets. The results projected here should not be construed in any way as a guarantee by the Company.

FY2023 Earnings Forecast Highlights



- Order Intake: ¥5,600.0 bn (vs. previous: +¥1,000.0 bn)

Increased forecast for Energy Systems and Aircraft, Defense & Space

	Previous	Revised	Revised vs. Previous
Energy Systems	¥1,700.0 bn	¥1,900.0 bn	+¥200.0 bn
Aircraft, Defense & Space	¥1,000.0 bn	¥1,800.0 bn	+¥800.0 bn

- Business Profit: ¥300.0 bn (vs. previous: ±¥0.0 bn)

After accounting for one-time expenses in Aero Engines, assessed progress in each business, then made adjustments to reflect impact of revision to second half foreign exchange rate assumptions and updated full-year forecasts in each segment

	Previous	Revised	Revised vs. Previous
Logistics, Thermal & Drive Systems	¥70.0 bn	¥80.0 bn	+¥10.0 bn
Aircraft, Defense & Space	¥40.0 bn	¥50.0 bn	+¥10.0 bn
Corporate & Eliminations	¥0.0 bn	-¥20.0 bn	-¥20.0 bn

- No change to previous revenue, net income, free cash flow, or dividends guidance

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The next few pages show the FY2023 earnings forecast.

This page outlines the revisions made to the forecast this time. I will forego an explanation, as I have already covered this information.

This concludes my presentation. Next, our CEO, Izumisawa, will make some remarks.

Hello, everyone. This is Seiji Izumisawa, President & CEO of MHI. Please allow me to share some thoughts with you.

As our CFO mentioned, we outperformed the previous year's performance in terms of order intake, revenue, and business profit in 1H FY2023. This was thanks to the gradual emergence of results from a variety of initiatives implemented under the 2021 Medium-Term Business Plan (MTBP).

While our current operating environment remains somewhat uncertain, with challenges such as further depreciation of the yen, and geopolitical risks leading to energy supply and value chain disruptions, the 2021 MTBP is proceeding mostly as anticipated. As such, we believe that achieving our goals is possible.

Allow me to reflect briefly on the 2021 MTBP. Considering the drastic changes in the market environment caused by the COVID-19 pandemic, we prioritized the strengthening of profitability over revenue expansion and devised and implemented a variety of initiatives to achieve this.

As one of the key initiatives, management faced a significant challenge with SpaceJet development. Considering the progress in development at the time and changes in the market environment, we decided to suspend and subsequently cancel the project. In terms of addressing challenging businesses, we restructured boiler business locations in Thermal Power and consolidated unprofitable operations in Metals Machinery. We also worked to expand services across many businesses leveraging digitalization solutions.

On the topic of the business portfolio, we integrated former subsidiaries Mitsubishi Power and Mitsubishi Heavy Industries Engineering into MHI. We acquired a naval and governmental ships business as well as an electrification company. We also divested our Machine Tools business.

Another main focus of the 2021 MTBP has been the development of growth areas, and we are gradually seeing results here as well. In the Energy Transition area, there is a deepening understanding of the need for a realistic Energy Transition that aligns with regional and customer needs and balances S + 3Es (Safety + Energy Security, Economic Efficiency, and Environmental Protection) – in addition to the use of renewable energy. This is an approach for which we have long advocated. Solving social issues presupposes the coexistence of social sustainability and the economic viability of businesses. From this perspective, MHI is advancing initiatives across a wide range of areas.

Specifically, we are dealing with a move to gas power which anticipates the future conversion of existing facilities to hydrogen fuel. We are also participating in the development of clean hydrogen hubs bolstered by the US Inflation Reduction Act and collaborating with ExxonMobil on CO2 capture. Furthermore, we are pursuing R&D into hydrogen and ammonia and validating technologies at Takasago Hydrogen Park. In the area of Smart Infrastructure, the data center market is growing rapidly due to advancements in generative AI and high-speed communications technologies such as 5G. Targeting this industry, we acquired an American company, Concentric, to create a base from which to deploy our high-efficiency cooling systems and decarbonized power solutions. We aim to leverage this as a foothold for providing cutting-edge, one-stop total energy solutions.

Moreover, a move toward strengthening national security in the face of heightened geopolitical risks, as well as growing awareness of energy security are generating new business opportunities in our Nuclear Power and Defense businesses. As a leading company in these industries, we will address these opportunities going forward.

Next, I would like to speak about the goals of the 2024 MTBP, which we are currently drafting.

MHI Group's mission is to integrate cutting-edge technology into expertise built up over many years to provide solutions to some of the world's most pressing issues and provide people with better lives.

Informed by this mission, we aim to realize MISSION NET ZERO and a safe, secure, and comfortable society in the medium to long term. Under the 2024 MTBP, we will seek to provide realistic solutions tailored to each region and customer while becoming a hub for ecosystems founded in quality craftsmanship which seek to make the Transition a reality by connecting upstream and downstream processes. To achieve this, we will focus on three key priorities: decarbonization, energy conservation/automation, and contributing to new national security measures.

While the 2021 MTBP focused on strengthening profitability, the 2024 MTBP will aim to transition MHI to a stage where we can achieve sustained growth together with strong profitability. In other words, we will work toward business growth that rivals our competitors' while improving profitability and capital efficiency. To this end, we will expand our business areas upstream and downstream, participate in project development, and shift resources to growth areas through further business portfolio optimization. To realize these goals, we are considering an investment of around ¥300 billion during the 2024 MTBP period to spur business growth.

We will provide specific details on these initiatives when we announce the new MTBP in May 2024.

This concludes my presentation. Thank you for your attention.

Earnings Forecast Overview



Revised from forecast announced August 4, 2023.

	FY2022 (Profit Margin)	FY2023 Forecast (Profit Margin)		YoY (Profit Margin)	(YoY%)
		Previous	Revised		
(billion yen)					
Order Intake	4,501.3	4,600.0	5,600.0	+1,098.6	(+24.4%)
Revenue	4,202.7	4,300.0	4,300.0	+97.2	(+2.3%)
Profit from Business Activities	193.3 (4.6%)	300.0 (7.0%)	300.0 (7.0%)	+106.6 (+2.4 pts)	(+55.2%)
Profit Attributable to Owners of Parent	130.4 (3.1%)	190.0 (4.4%)	190.0 (4.4%)	+59.5 (+1.3 pts)	(+45.6%)
ROE	7.9%	11%	11%	+3 pts	
EBITDA	331.1 (7.9%)	440.0 (10.2%)	440.0 (10.2%)	+108.8 (+2.3 pts)	(+32.9%)
Free Cash Flow	35.3	-100.0	-100.0	-135.3	
Dividends	130 yen Interim: 60 yen Year-End: 70 yen	160 yen Interim: 80 yen Year-End: 80 yen	160 yen Interim: 80 yen Year-End: 80 yen	Exchange rate assumptions: USD 1.00 = ¥140 (prev. ¥130) EUR 1.00 = ¥150 (prev. ¥140) Undetermined foreign currency amounts: USD 2.2 bn, EUR 0.4 bn	

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Earnings Forecast by Segment



Revised from forecast announced August 4, 2023.

(billion yen)	Order Intake				Revenue			Profit from Business Activities			
	FY22	FY23 Forecast		YoY	FY22	FY23 Forecast	YoY	FY22	FY23 Forecast		YoY
		Previous	Revised						Previous	Revised	
Energy Systems	1,791.7	1,700.0	1,900.0	+108.2	1,738.6	1,700.0	-38.6	85.1	150.0	150.0	+64.8
Plants & Infrastructure Systems	845.4	700.0	700.0	-145.4	675.6	700.0	+24.3	32.7	40.0	40.0	+7.2
Logistics, Thermal & Drive Systems	1,215.0	1,250.0	1,250.0	+34.9	1,203.7	1,250.0	+46.2	38.9	70.0	80.0	+41.0
Aircraft, Defense & Space	703.6	1,000.0	1,800.0	+1,096.3	619.4	700.0	+80.5	39.9	40.0	50.0	+10.0
Corporate & Eliminations	-54.5	-50.0	-50.0	+4.5	-34.7	-50.0	-15.2	-3.5	0.0	-20.0	-16.4
Total	4,501.3	4,600.0	5,600.0	+1,098.6	4,202.7	4,300.0	+97.2	193.3	300.0	300.0	+106.6

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4. Appendix

Appendix: Reference Data



Large Frame Gas Turbine Order Intake and Contract Backlog (units)				Commercial Aviation Deliveries (units)						
	1H FY22	FY22	1H FY23	777	Q1	Q2	Q3	Q4	Total	
Americas	2	4	1	FY22	6	7	7	10	30	
Asia	4	7	6	FY23	7	11	/	/	18	
EMEA	1	1	-							
Other Regions	-	4	-	777X	Q1	Q2	Q3	Q4	Total	
Order Intake Total	7	16	7	FY22	1	0	0	0	1	
Contract Backlog	42	43	39	FY23	0	1	/	/	1	
				(Reference) Order Intake of China Licensee	787	Q1	Q2	Q3	Q4	Total
	1H FY22	FY22	1H FY23	FY22	5	7	8	5	25	
Order Intake	19	27	9	FY23	9	7	/	/	16	

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Appendix: Reference Data



R&D Expenses, Depreciation and Amortization, and Capital Expenditures (billion yen)

	1H FY22	1H FY23	FY23 Forecast
R&D Expenses	53.7	67.7	150.0
Depreciation and Amortization	67.4	67.9	140.0
Capital Expenditures	52.9	101.3	180.0

Selling, General, and Administrative Expenses (billion yen)

	1H FY22	1H FY23
SG&A	293.5	311.8

Foreign Exchange Rates (Average Rates Used for Revenue Recognition)

	1H FY22	1H FY23
U.S. Dollar (JPY/USD)	130.2	139.6
Euro (JPY/EUR)	136.9	150.8

Appendix: Reference Data



(billion yen)

Order Backlog	FY22 End	1H FY23 End
Energy Systems	3,325.6	3,788.3
Plants & Infrastructure Systems	1,509.2	1,608.0
Logistics, Thermal & Drive Systems	54.8	70.4
Aircraft, Defense & Space	1,171.8	1,853.2
Total	6,061.8	7,320.2

(billion yen)

Revenue by Region	1H FY22		FY22 Full Year		1H FY23	
Japan	769.9	(41%)	1,808.3	(43%)	809.7	(39%)
Asia-Pacific (excluding Japan)	378.6	(20%)	765.8	(18%)	349.2	(17%)
Americas	466.9	(25%)	1,068.4	(26%)	606.8	(29%)
EMEA	259.7	(14%)	560.2	(13%)	303.4	(15%)
Total	1,875.2	(100%)	4,202.7	(100%)	2,069.2	(100%)

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