

Q&A Summary

Event Name: Q1-3 FY2023 Financial Results Briefing

Date: February 6, 2024

Speaker: Hisato Kozawa, Member of the Board, Executive Vice President, and CFO

Questioner 1

Q: What is your assessment of the Q3 results as compared with your projections, especially in terms of business profit?

Kozawa: While there was some unevenness in our individual products' performance, I think we were generally in line with our expectations for the company as a whole. To be honest, we had been expecting a little more. The ¥20 billion buffer that was originally included in the full-year business profit forecast was used in Q3 as a result of various issues. This is why I assess the Q3 results as slightly lower than expected, but not too bad.

Q: You raised the full-year business profit forecast by ¥10 billion in Aircraft, Defense & Space, and decreased it by ¥10 billion in Corporate & Eliminations. Please tell us about the content of these revisions.

Kozawa: Progress improved in Aircraft, Defense & Space during Q1-3, due in part to foreign exchange effects, mainly in Commercial Aviation. The business profit forecast for Q4 may seem a little low, but there is a slight bias in the recording of expenses in Q4, and the forecast is based on that. Contrastingly, we decreased the forecast in Corporate & Eliminations. One factor contributing to this is that we are continuing relatively ambitious investments in our growth areas. We also booked an impairment loss on an international investment. We had not initially anticipated this impairment loss, and as such, we have slightly lowered our forecast. Moreover, part of these revisions served to balance the overall figures.

Q: When you used the ¥20 billion buffer, was there impact from Integrated coal Gasification Combined Cycle (IGCC) in addition to the impairment loss from an international investment?

Kozawa: The items that caused us to use the buffer are not related to IGCC. Other than the impairment loss, these items include claims related to international projects and payments for liquidated damages. This also includes some provisions for dispute-related matters.

Q: The order intake forecast has reached the ¥6 trillion mark. What kind of business currently in the order backlog can we expect to be recognized as revenue during the next fiscal

year? Please let us know your thoughts on the next fiscal year's forecast. Please also share order intake and revenue levels for each business. I think that revenue increases in Defense and other businesses are likely to be a little further down the road.

Kozawa: Order intake has been outstanding during this fiscal year in Aircraft, Defense & Space, particularly in Defense. So I think that the level of orders will have to be lower next year than it is now. As for revenue, perhaps we can expect it to increase a little more than this year in Commercial Aviation, and Defense revenue will also slightly surpass this fiscal year's levels. However, revenue will not rise all at once, and it should be viewed as a gradual upward trend.

In Logistics, Thermal & Drive Systems, we have seen growth over the past year or two. I think we should be somewhat cautious about the next fiscal year, especially with regard to whether we can maintain current revenue levels in Logistics Systems. I do not know how it will turn out, but I myself am not overly optimistic. Since foreign currencies account for a high percentage of the total business, when evaluating order intake and revenue, it will be necessary to consider that exchange rates will have some impact.

In Plants & Infrastructure Systems, the order backlog in Metals Machinery has been accumulating to quite high levels, and revenue has been rising during this fiscal year as well. I think we will be able to maintain the current level of revenue in Metals Machinery. Order intake varies due to the nature of these projects, and at this point, we have not yet crunched the numbers, so it is difficult to say which way it will go.

As for Energy Systems, we have had a very strong year, especially in terms of order intake. I hope that this level of orders will continue, but I honestly do not think it will be that easy. As for revenue levels, the operating environment does not usually create a lot of volatility. Maybe this will change by the time we announce our forecast in May, but I do not there will be any large changes.

Questioner 2

Q: You mentioned that the negative factors affecting business profit in Q1-3 were an impairment loss from an international investment and claims, payments, and reserves for disputes related to international projects, but around how much was from each? Did you use the ¥20 billion buffer? You explained that some of this impact is included in Corporate & Eliminations, but I would like to know the figures for each segment.

Kozawa: To answer your first question, yes, we have used the buffer. In terms of a breakdown by segment, the impairment loss from an international investment was included in Corporate & Eliminations and had an impact of roughly ¥5 billion. The rest was in Energy Systems.

Q: Was a negative impact of around ¥15 billion included in Energy Systems?

Kozawa: Yes. The negative items in Energy were not from a single item but rather were from multiple items.

Q: The progress in order intake in Nuclear Power was very good, but were those orders for the restart work or Specialized Safety Facilities (SSFs) that you always mention? Is the order intake level in Nuclear Power sustainable to some extent? I had always imagined that Nuclear Power revenue would gradually increase beyond the ¥300 billion mark, but are there any major projects coming in that will change this view of revenue? I would like to know about Nuclear Power order intake, its sustainability, and its impact on revenue.

Kozawa: We saw large order intake growth due to the simultaneous booking of several projects in Q3. I believe that order intake will exceed ¥400 billion this year, but it is unlikely to continue at this scale into the future. On average, I estimate that the trend will be between ¥300 billion and ¥400 billion per year.

Q: On the topic of Nuclear Power order intake, have you booked projects in any areas other than the ones that you have been talking about for some time? Or are these projects within the scope of previous explanations?

Kozawa: We have not received large, unexpected orders which have changed previous expectations for order intake levels. Orders are accumulating for various projects that we were working to book or which were under consideration. These include plant restarts, modification work to extend plant service life, nuclear fuel cycle-related work, and several fiscal years' worth of work on GX-related projects, such as fast reactor and high temperature gas-cooled reactor development.

Questioner 3

Q: You said that your overall impression of the results was that there was some unevenness, but this was as expected. On the Profit Bridge on page 9, "Changes in revenue, improved margins" in Q3 alone was around positive ¥50 billion, and the cumulative total during Q1-3 was around positive ¥86 billion. I believe this item was around positive ¥59 billion in the plan at the beginning of the fiscal year, so this has exceeded the initial plan. Was the large increase in Q3 due to an incidental increase arising from the timing of shipments, or is there an ongoing improvement compared to the initial plan? I would appreciate some more details and your assessment of the "Changes in revenue, improved margins" item.

Kozawa: The impact from IGCC is not included in the "Changes in one-time expenses" item. IGCC is included in the "Changes in revenue, improved margins" item, which includes a YoY increase in profit arising from the expenses booked in IGCC in the previous fiscal year, which makes this item appear very large. Excluding the impact from IGCC, the

figure would be around positive ¥50 billion, which is close to the range that we had originally forecasted.

Q: Regarding the increase in the Energy Systems order intake forecast, was the additional ¥200 billion all in Nuclear Power?

Kozawa: It would be an exaggeration to say all of this came from Nuclear Power, as Thermal Power, mainly Gas Turbine Combined Cycle (GTCC), showed stronger progress in order intake than had been projected in Q2. The major contributions were from Nuclear Power and Thermal Power, although Nuclear Power was the bigger of the two.

Questioner 4

Q: Allow me to ask about your plans for Plants & Infrastructure Systems in Q4. In Plants & Infrastructure Systems, business profit in Q1-3 was ¥34.5 billion, and you are expecting ¥40 billion for the full year. The profit expected during the three months of Q4 seems small, but could you tell us about the background of this? I would like to know if there may be any upside.

Kozawa: Because this segment includes plants and other large projects, there are some non-specific concerns about downside. To be honest, the forecast may be somewhat conservative. However, it would be difficult to raise business profit ¥10 billion beyond this level, so our current view is that it will be around ¥40 billion or a little more.

Q: In Logistics, Thermal & Drive Systems, the strength in Logistics Systems can be seen in both your financial results as well as in Mitsubishi Logisnext's. Contrastingly, revenue in Heating, Ventilation, and Air Conditioning (HVAC) and Car Air Conditioners has gradually turned negative YoY, but could you share with us your assessment of the operating environment? Mitsubishi Logisnext has raised their profit forecast, so it seems to me that you could have simply raised your own forecast correspondingly. Please let us know about the operating environment in the businesses other than Logistics Systems.

Kozawa: Mitsubishi Logisnext announced today that they had increased their forecast for operating profit and other indicators. For the segment a whole, we have not been able to adjust our forecast correspondingly, because our Turbochargers business – which we had hoped would recover a little more YoY – has been struggling. This effectively canceled out the increase at Mitsubishi Logisnext. Growth in HVAC and Car Air Conditioners may indeed appear sluggish, but there is no particularly large negative impact at the moment. Looking at the market, heat pump demand in Europe has not increased as much as it once had. The European economy may be a factor in this, and I think there has been a slight decline in our business in the region.

Q: I would like to ask about your thinking on profit levels in the next fiscal year. I estimate that the total impact of one-time items during this fiscal year including the PW1100G-JM Engine Program, international projects, and the impairment loss on an international investment was around ¥40 billion. If this year's results are roughly in line with the plan, and we add back the ¥40 billion in one-time expenses and combine this with topline growth, I expect that you will be able to aim for even higher profit levels during the next fiscal year. At least that is my impression. I know that the guidance for the next fiscal year has not been issued yet, but please let me know your thoughts.

Kozawa: I hope to be able to put together a forecast like that, but it may not be so easy in some areas. There can be variability in plant projects' margins. Where we set our exchange rate assumptions will also have quite an effect. I think in the end the JPY/USD exchange rate for this fiscal year will be in the ¥140-145 range, but I do not know if it be around the same next year. We cannot be overly optimistic about the impact of interest rate trends in Japan and the U.S., or about the global economic outlook, including in the U.S. Our forecast will depend on how much we take all of these factors into account. Of course, I would like to maintain revenue and profit growth as well as margin improvement. In any event, we will issue our forecast for the next fiscal year during our financial results briefing in May.

Questioner 5

Q: My question is about order intake in Defense. You mentioned that Defense order intake will be around ¥1.6 trillion this year and more than ¥1 trillion in the next fiscal year as well. Can we take this to mean that order intake will be around ¥1.7 trillion this year and over ¥1 trillion next year, too? I would also like to confirm whether a large Boiling Water Reactor (BWR) project was included in Nuclear Power.

Kozawa: On the topic of Defense, I think your view is generally correct. As for Nuclear Power, some BWR-related work was included in the Q1-3 order intake results.

Q: Regarding "Price optimization," which is mentioned in the Profit Bridge on page 9, you mentioned that YoY cost increases have gradually contracted from the first half to the second half of this fiscal year. As inflation continues worldwide, some companies have continued to increase sales prices. Are you making moves to continue this successful price optimization not only during this fiscal year but also into the next fiscal year, so that the profit increases will continue into the next fiscal year? Also, considering the weak yen, new orders for gas turbines are coming in with reasonable margins, and I think that revenue will start to be recognized from these projects going forward. Can we therefore expect margins to increase during the next fiscal year and thereafter?

Kozawa: Regarding price optimization, we will continue our efforts to raise prices. However, what shows up in the Profit Bridge on page 9 is the sum of cost increases and price increases. In the past, costs increased, and sales prices did not rise to meet them, so this was a major negative factor for profit. We have been working to raise prices in a way that exceeds cost increases. From here on out, we will raise prices in a way that matches cost increases. Naturally, there will be some benefit from these efforts, but it will not be as large in terms of monetary value as seen in the past. This will likely be at a level that will show up in the “Changes in revenue, improved margins” item on the Profit Bridge. On the topic of project margins at the time of order booking, we have been working to hedge risks in a variety of ways, and we can expect a certain level of improvement. However, unfortunately there is a certain amount of margin downside risk during project execution, so we cannot be overly optimistic.

Questioner 6

Q: Regarding the PW1100G-JM Engine Program, has there been any change since your last briefing? Also, Boeing is in trouble, but I understand that the only part of the project that directly involves MHI is the flaps on the B737. Should we consider the possibility that, as Boeing suffers in various ways, there will be changes such as in contract terms, business practices, or requests for more stringent checks?

Kozawa: I have not received any new information about PW1100G-JM. On the topic of Boeing, I have some concerns, but so far there has been no move to change contractual terms or the projects in which we are directly involved. This is not confined to recent developments, but we would like to support Boeing if there is anything that we can do for them.

Q: Regarding the financials, your dividend plan is ¥160 per share. If you have a bit of incremental upside such as in Plants & Infrastructure Systems, and business profit exceeds ¥300 billion, what expectations should we have for dividends? Simply put, would you increase dividends? Based on ¥300 billion in business profit, the dividend payout ratio would be less than 30% at ¥160 per share. There was mention of increasing shareholder return when you ceased SpaceJet development, but can we expect this?

Kozawa: I think that the relevant indicator in this area is not ¥300 billion in business profit, but rather net income, for which we our current disclosed target is ¥190 billion. Based on ¥190 billion in net income, a ¥160 per share dividend would be a 28% payout ratio, which is slightly lower than our guidance of 30%. I cannot promise anything, but last year and the year before that, we returned a certain amount of profit that exceeded initial projections to our shareholders in the form of dividends. So I personally think that there

is a possibility of such a thing happening if we achieve good results. I think that it should be up for discussion.

Questioner 7

Q: I would like to ask for a breakdown of the increase to the Energy Systems order intake forecast. You mentioned that the majority of the ¥200 billion increase in Energy Systems is from Nuclear Power, but can we understand this to be around 80% or 90%?

Kozawa: It is not 90%, but rather around 80% or a little lower.

Q: Please let me know the breakdown of the order intake forecast increase in Aircraft, Defense & Space. Does Defense & Space account for most of the increase? Is Defense around 90% of this?

Kozawa: Some of this is from Commercial Aviation, but most is from Defense & Space, Defense in particular. I have not calculated the percentage, so I cannot say if Defense is 90% or not, but you are likely not far off.

Q: You increased the order intake and revenue forecasts in Plants & Infrastructure Systems and Logistics, Thermal & Drive Systems by ¥50 billion each. Which of the main businesses saw the largest increases?

Kozawa: In Plants & Infrastructure Systems, most of the ¥50 billion increase this time was in Metals Machinery. Most of the increase in Logistics, Thermal & Drive Systems was in Logistics Systems.

Q: Regarding Metals Machinery, you said that revenue has exceeded targets because of the large order backlog, but I was wondering if it will be hard to get orders going forward. Will orders bottom out this fiscal year and not decrease any further in the future?

Kozawa: Order intake reached the ¥270 billion mark in Q3, and it will probably exceed ¥300 billion in the full year. I hope we can maintain this level if possible, but this year is still relatively high. We have booked some electric arc furnaces and other projects, but we should not expect the situation to continue easily, so I am slightly cautious. That being said, I do not think order intake will reduce by half or anything like that. Rather, I think orders will remain at a level close to where they are now.

Q: I believe that the business plans for Defense and Nuclear Power are to some extent fixed, so why has order intake fluctuated so much? I have the feeling that your forecast for Defense was conservative, but what factors caused this variation in Nuclear Power?

Kozawa: Orders in Defense are not necessarily pre-determined, and a good number of projects are put to competitive bids. We assess how many of these projects we will likely be able to obtain when we set the initial forecast. We made revisions during this fiscal year, because we booked projects that we had planned for. In Nuclear Power, there is a

long period of preparation during which we coordinate various projects with our customers before booking orders. Our order intake is affected by the timing at which our customers decide to make orders and sign contracts with us, so it is very difficult to predict in which fiscal year we will book a given project. Even if order intake is higher this year, it does not mean that this level will continue, because projects have simply moved between this fiscal year and the next. Therefore, we have to look at a number of fiscal years together in order to determine how high order intake levels are.

Q: Is the previous explanation regarding Nuclear Power, namely that once Rokkasho Reprocessing Plant work has peaked out, revenue will decrease, now a thing of the past? Revenue will not increase from ¥300 billion to ¥400 billion, but will you be able to maintain current levels?

Kozawa: Regarding the Rokkasho Reprocessing Plant, once plant construction ends and it begins operation, there will be a certain, constant amount of work from services and maintenance. We had expected Pressurized Water Reactor (PWR) restarts and SSFs to decrease. That said, even after the BWR and PWR plants have restarted, there will be a certain amount of work to replace and improve equipment in order to extend the plants' service life. However, as I mentioned earlier, it is difficult to predict the timing of orders in terms of individual fiscal years.

Q: In Nuclear Power, do you not need to worry about a decrease in order intake caused by projects disappearing?

Kozawa: That kind of thing may happen in the short term, but there will not be much impact in the medium to long term. In the future, we expect to hear about the construction of new plants or replacements, and therefore we see foresee a growth trend in this business.

Q: The level of order intake in GTCC is high. Am I correct in understanding that this is not due to any special factors, but rather it is the result of market growth and MHI's increasing share of it? Can we expect these trends to continue?

Kozawa: Both new installations and services have been increasing since the last fiscal year. I believe we will be able to maintain the current level of service orders. Regarding new installations, the scope of work differs quite a lot from project to project, and it is not simply a matter of how many units we book. The amount of order intake varies greatly depending on the project scope. In some cases, this could comprise of only the gas turbine unit itself; construction, including equipment installation; the Heat Recovery Steam Generator (HRSG) and the entire bottoming cycle; or technical advisory services in addition to equipment supply. Depending on the scope of supply, there are cases in which we may not be able to maintain the current level of order intake.

Q: Did you increase the revenue forecast while leaving the business profit forecast where it was, because you used the buffer? Or, to put it another way, can we look at it as though there is a new buffer?

Kozawa: There will be some profit corresponding to the ¥100 billion increase in revenue, but an impairment loss was recognized in Corporate & Eliminations, and we are continuing to actively invest in our growth areas, so I think you should expect a certain amount of losses in Corporate & Eliminations. I hope we can achieve better results than expected, but at this point, we cannot assess that a significant change to the ¥300 billion business profit forecast is warranted.

Questioner 8

Q: Cash flow from investing activities includes an outflow of around ¥70 billion. Is this all from the acquisition of Concentric? Also, could you give us some hints regarding Concentric's revenue scale and the extent of impact on your financial results?

Kozawa: The ¥70 billion outflow was indeed from the Concentric acquisition. Concentric's revenue is currently around USD 300 million to USD 400 million. Converting this to yen using the current exchange rate gives us between ¥50 billion to ¥60 billion in revenue per year. Since the acquisition was made at the beginning of October, we will only see the impact from this during the last six months of the current fiscal year.

Q: Is Concentric included in Energy Systems? How are its margins?

Kozawa: Concentric is included in Corporate & Eliminations. We do not disclose profit margins for individual businesses, so I cannot give you the exact figure, but their margin is a little higher than our company average.

Q: Did you acquire a building somewhere?

Kozawa: Yes. We originally owned a building in Tamachi, which was rebuilt and then acquired by us.

Note regarding forward looking statements:

Forecasts regarding future performance as outlined in these materials are based on judgments made in accordance with information available at the time they were 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 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 yen to the U.S. dollar and other foreign currencies, and Japanese stock market trends. The results projected here should not be construed in any way as a guarantee by the Company.

End of Document