

Q1-3 FY2022 Financial Results

February 7, 2023

Mitsubishi Heavy Industries, Ltd.

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Hello, everyone. This is Hisato Kozawa, CFO of MHI.

Allow me to summarize our Q1-3 financial results.

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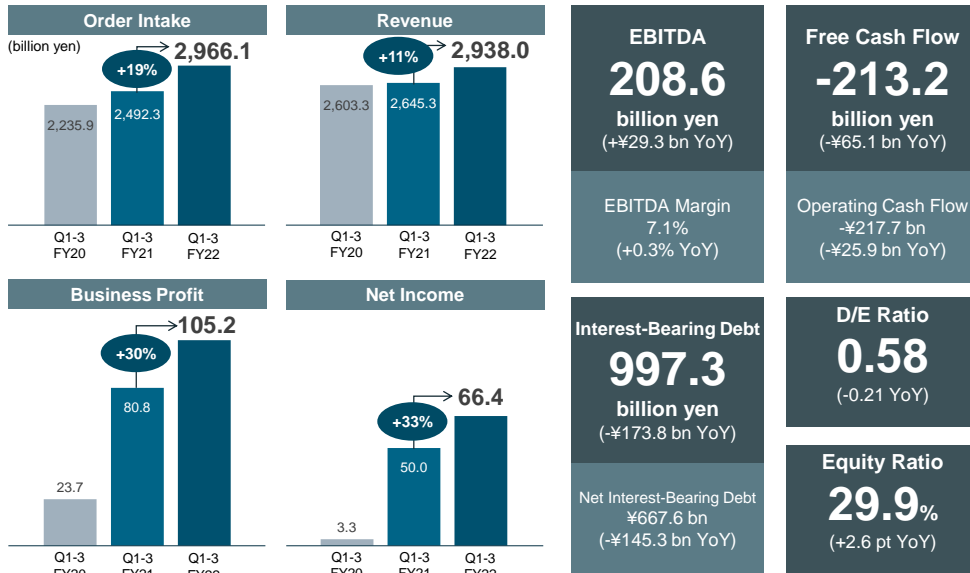


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I. Key Takeaways

Q1-3 FY2022 Financial Results



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

Q1-3 FY2022 Financial Results Highlights



- **Order Intake: ¥2,966.1 bn (+¥473.8 bn YoY)**
Orders increased YoY in the three segments of Energy Systems, Logistics, Thermal & Drive Systems, and Aircraft, Defense & Space.
Gas Turbine Combined Cycle (GTCC) orders grew mainly in Americas, Asia, and Middle East, increasing 57% YoY to ¥536.8 bn.
- **Revenue: ¥2,938.0 bn (+¥292.6 bn YoY)**
Revenue grew in the three segments of Energy Systems, Logistics, Thermal & Drive Systems, and Aircraft, Defense & Space
- **Business Profit: ¥105.2 bn (+¥24.4 bn YoY)**
Despite downward pressure from rising global inflation, business profit increased 30% YoY to ¥105.2 bn due to increased revenue, pricing improvements, fixed cost reductions, and foreign exchange effects
- **Net Income: ¥66.4 bn (+¥16.4 bn YoY)**
Net income increased 33% YoY to ¥66.4 bn corresponding with higher business profit results

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This page summarizes the highlights from our financial results.

Order intake and revenue increased YoY.

Growth in order intake was particularly strong, continuing the trend from Q2. Order intake in all segments other than Plants & Infrastructure Systems increased, including Gas Turbine Combined Cycle (GTCC), which grew 57% YoY to ¥536.8 bn.

Revenue declined slightly in the Plants & Infrastructure Systems segment but increased in other segments.

Order intake and revenue each includes an increase of slightly less than ¥240 bn due to the effect of YoY exchange rate fluctuations, but even excluding this, order intake and revenue both increased.

Regarding profit, there were some negative factors, such as continuing materials and logistics cost inflation, as well as higher electricity and fuel costs. There were also one-time expenses in some businesses. However, both business profit and net income increased due to increased revenues, price optimizations, fixed cost reductions, and the benefits of the depreciation of the yen.

The level of interest-bearing debt also significantly improved YoY, and we maintained a high level of financial stability in terms of debt-to-equity ratio and equity ratio.

II. Q1-3 FY2022 Financial Results

I will explain the financial results in a little more detail over the next few pages.

Financial Results Overview



(billion yen)	Q1-3 FY2021 (Profit Margin)	Q1-3 FY2022 (Profit Margin)	YoY (Profit Margin)	(YoY%)
Order Intake	2,492.3	2,966.1	+473.8	(+19.0%)
Revenue	2,645.3	2,938.0	+292.6	(+11.1%)
Profit from Business Activities	80.8 (3.1%)	105.2 (3.6%)	+24.4 (+0.5%)	(+30.3%)
Profit Attributable to Owners of Parent	50.0 (1.9%)	66.4 (2.3%)	+16.4 (+0.4%)	(+32.8%)
EBITDA	179.2 (6.8%)	208.6 (7.1%)	+29.3 (+0.3%)	(+16.4%)
Free Cash Flow	-148.1	-213.2	-65.1	

I will omit an explanation of the table on this page, as it contains information already provided.

Financial Position and Cash Flows



Financial Position (billion yen)	FY21 End	Q3 FY22 End	YoY
Trade Receivables and Contract Assets	1,399.4	1,481.4	+82.0
Inventories	798.6	951.2	+152.6
Other Current Assets	605.0	697.8	+92.7
(Cash and Cash Equivalents)	(314.2)	(329.6)	(+15.4)
Fixed Assets	989.2	995.1	+5.8
Other Non-Current Assets	1,323.9	1,351.9	+28.0
Total Assets	5,116.3	5,477.6	+361.3
Trade Payables	863.2	770.6	-92.6
Contract Liabilities	886.5	912.4	+25.9
Other Current Liabilities	969.0	1,066.2	+97.1
Interest-Bearing Debt	734.9	997.3	+262.4
Equity	1,662.5	1,731.0	+68.4
(Equity Attributable to Owners of Parent)	(1,576.6)	(1,637.1)	(+60.5)
Total Liabilities and Equity	5,116.3	5,477.6	+361.3
Cash Flows (billion yen)	Q1-3 FY21	Q1-3 FY22	YoY
Operating Cash Flow	-191.8	-217.7	-25.9
Investing Cash Flow	43.6	4.5	-39.1
Free Cash Flow	-148.1	-213.2	-65.1

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This page shows an overview of the balance sheet and cash flows.

Total assets increased by ¥361.3 bn from the end of FY2021 to ¥5,477.6 bn.

To provide a breakdown of this increase, approximately ¥85 bn came from translation effects of foreign currency-denominated assets associated with depreciation of the yen compared to the end of FY2021, and ¥15 bn came from an increase in cash and cash equivalents.

On this table, the increases in inventories and trade receivables appear large, but they include foreign exchange rate effects. Excluding exchange rate impact, these changes are well within the range of normal fluctuations typically seen during a fiscal year.

Free cash flow decreased YoY by ¥65.1 bn to -¥213.2 bn.

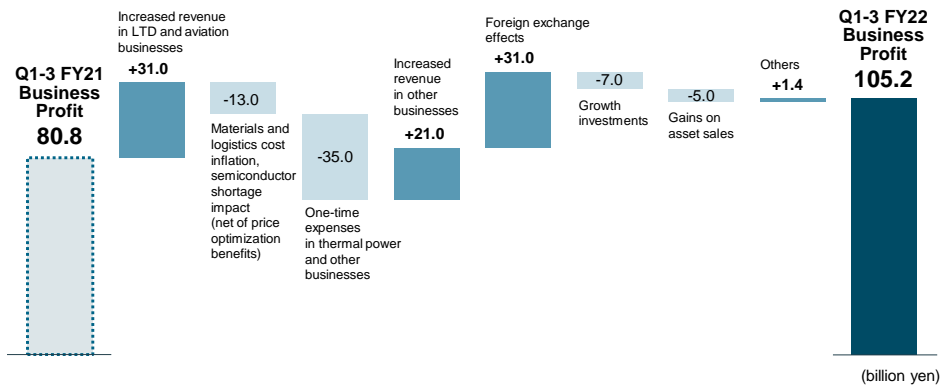
The decrease in investing cash flow was due to lower sales of real estate and marketable securities YoY.

The decrease in operating cash flow was associated with a YoY increase in income tax payments. Excluding this, operating cash flow improved YoY.

Profit Bridge



- Revenue growth and benefits from depreciation of the yen served to increase profit
- Price optimization efforts helped mitigate impact of materials and logistics cost inflation
- Business profit decreased YoY in thermal power businesses due to progress in high margin projects in Q1-3 FY2021, which were absent in Q1-3 FY2022. Additionally, booked provisions for one-time expenses associated with international projects and organizational transformation of European operations.
- Offset fixed cost increases caused by rising energy prices with business process improvements



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The next page explains the factors behind YoY changes in business profit.

On the far left is business profit in Q1-3 FY2021, which was ¥80.8 bn. Increased revenue in Logistics, Thermal & Drive Systems and aviation businesses caused profit to rise by ¥31 bn. Meanwhile, profit decreased by ¥13 bn due to materials and logistics cost inflation in addition to production cuts arising from supply chain disruptions. This negative ¥13 bn includes ¥28 bn in benefits from price optimizations.

Next to this is one-time expenses (-¥35 bn) in thermal power and other business. This item shows the impact of organizational transformation expenses and one-time expenses for international projects recorded in Q3. These two factors are additive to YoY decreases in profitability due to progress in high margin projects in FY2021, which were absent in FY2022, and expenses from organizational transformation of our European operations, both of which were explained during the 1H FY2022 Financial Results Briefing.

Other factors shown here also contributed to YoY changes, resulting in a business profit of ¥105.2 bn in Q1-3 this fiscal year.

Q1-3 FY2022 Financial Results by Segment



	Order Intake			Revenue			Profit from Business Activities		
	Q1-3 FY21	Q1-3 FY22	YoY	Q1-3 FY21	Q1-3 FY22	YoY	Q1-3 FY21	Q1-3 FY22	YoY
(billion yen)									
Energy Systems	879.6	1,206.6	+327.0	1,073.7	1,199.4	+125.7	13.8	38.8	+25.0
Plants & Infrastructure Systems	639.1	585.6	-53.5	461.2	457.2	-3.9	12.7	14.4	+1.7
Logistics, Thermal & Drive Systems	720.8	884.5	+163.6	708.5	869.7	+161.2	22.7	22.2	-0.5
Aircraft, Defense & Space	279.8	314.5	+34.7	423.9	432.0	+8.0	20.4	31.5	+11.1
Corporate and Eliminations	-27.1	-25.2	+1.8	-22.0	-20.4	+1.5	11.0	-1.7	-12.8
Total	2,492.3	2,966.1	+473.8	2,645.3	2,938.0	+292.6	80.8	105.2	+24.4

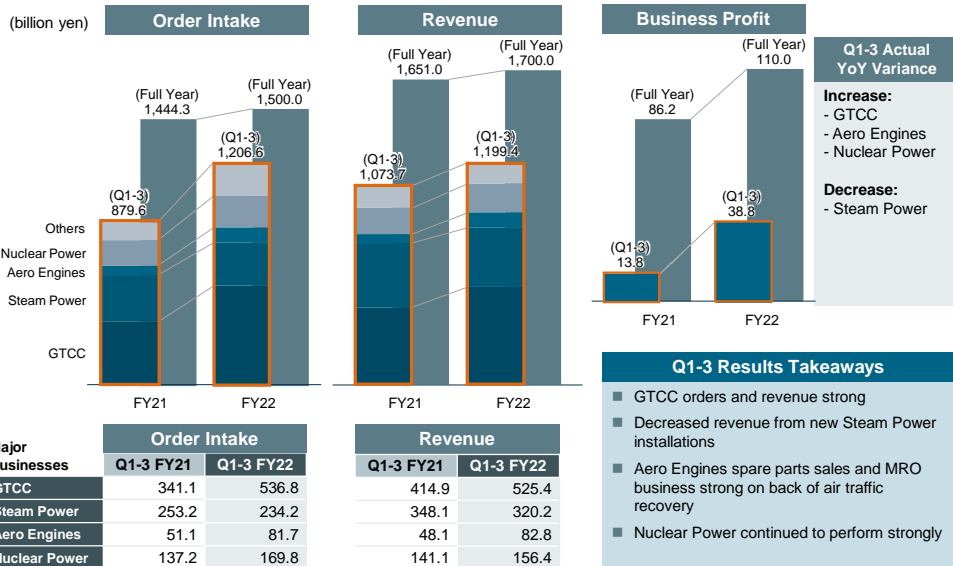
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This page shows a summary of order intake, revenue, and business profit by segment.

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

Financial Results: Energy Systems



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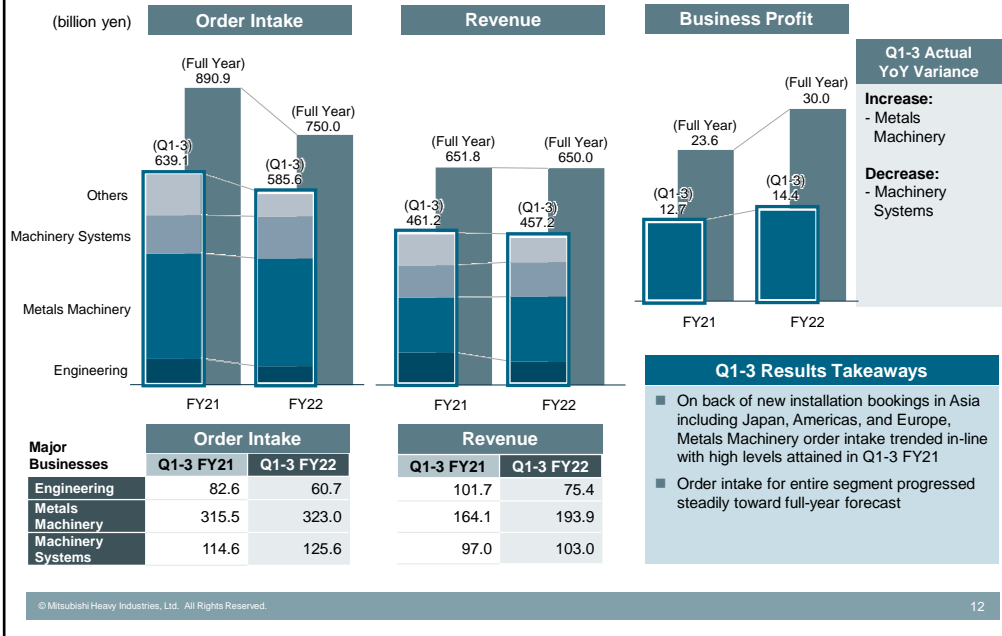
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This page shows the situation in the Energy Systems segment.

Order intake, revenue, and business profit all increased YoY. As you can see from the order intake and revenue breakdowns in the tables at the bottom of the page, GTCC, Aero Engines, and Nuclear Power showed solid progress.

We have lowered our full-year business profit forecast in this segment by ¥10 bn to ¥110 bn. This is mainly due to the booking of additional provisions to account for response to international project claims and unstable Integrated coal Gasification Combined Cycle (IGCC) plant operation.

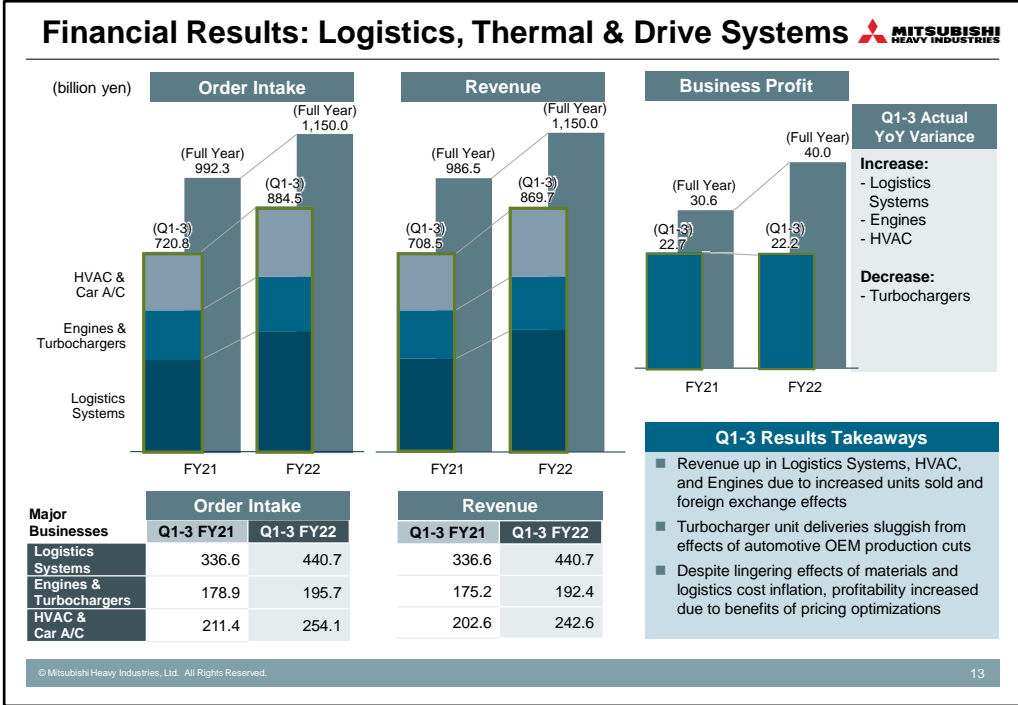
Financial Results: Plants & Infrastructure Systems



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

Order intake decreased YoY in such businesses as Engineering and Commercial Ships. Metals Machinery, which had been performing well previously, showed sluggish growth in Q3, but the nine-month YTD result was still up YoY.

Revenue decreased by ¥4 bn due to the significant impact of the YoY decline in Engineering revenue. Business profit increased, partly due to the effect of increased revenue in Metals Machinery.

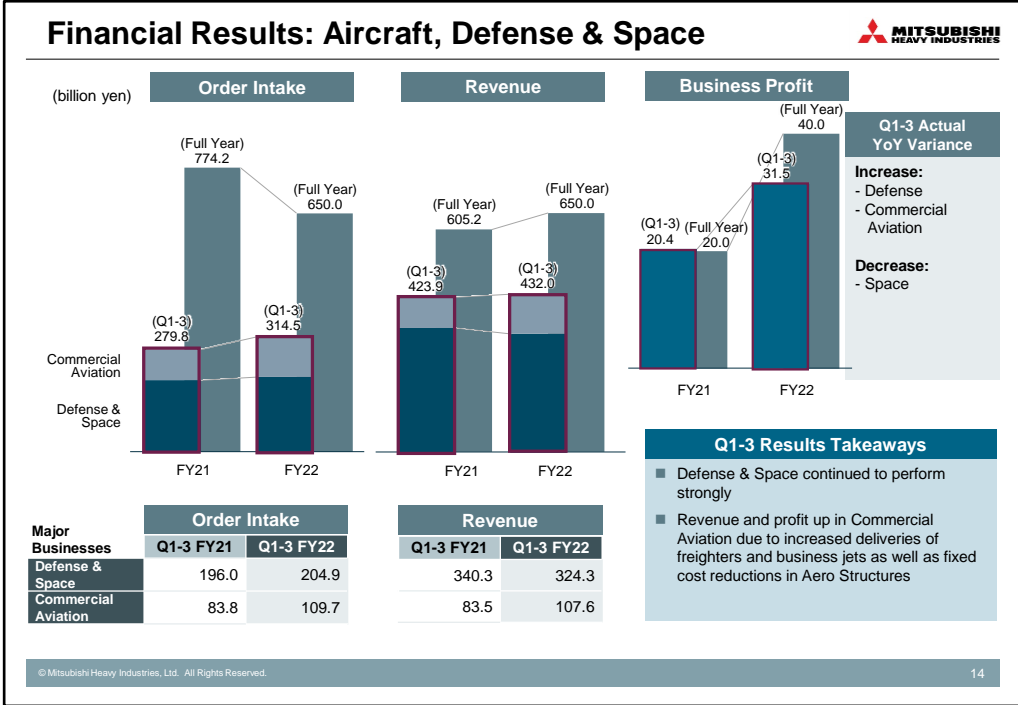


This page shows the situation in the Logistics, Thermal & Drive Systems segment.

For the segment as a whole, order intake and revenue increased steadily, while business profit decreased slightly. Order intake and revenue significantly increased YoY.

In Logistics Systems, HVAC, and Engines, even when excluding the effects of exchange rates and price optimizations, sales increased on a volume basis. In terms of profit, the effects of price optimizations had not kept pace with material and logistics cost inflation through Q2, but we are finally beginning to enjoy the benefits of these efforts.

Although not mentioned in the presentation materials, when examining each three-month quarter's YoY performance, while profit was down by ¥8 bn in Q1, it increased by ¥1.8 bn in Q2 and again by ¥5.7 bn in Q3, showing that profitability improvements are beginning to take root.



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

In Commercial Aviation Aero Structures, both order intake and revenue increased due to an increase in freighter and business jet deliveries, as well as from the benefits of the depreciation of the yen.

Defense-related business has remained solid.

Taking into account the progress made in Q1-3, we have raised our full-year business profit forecast for the segment by ¥10 bn to ¥40 bn.

III. FY2022 Forecast

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.

FY2022 Forecast Overview



Revised USD exchange rate assumption from previous forecast announced November 1, 2022.

(billion yen)	FY2021 (Profit Margin)	FY2022 (Profit Margin)	YoY (Profit Margin)	(YoY%)
Order Intake	4,067.7	4,000.0	-67.7	(-1.7%)
Revenue	3,860.2	4,100.0	+239.8	(+6.2%)
Profit from Business Activities	160.2 (4.2%)	200.0 (4.9%)	+39.8 (+0.7%)	(+24.8%)
Profit Attributable to Owners of Parent	113.5 (2.9%)	120.0 (2.9%)	+6.5 (+0.0%)	(+5.7%)
ROE	7.7%	7.7%	-	
EBITDA	292.4 (7.6%)	330.0 (8.0%)	+37.6 (+0.4%)	(+12.9%)
Free Cash Flow	301.8	-100.0	-401.8	
Dividends	100 yen Interim: 45 yen Year-End: 55 yen	120 yen Interim: 60 yen Year-End: 60 yen	Exchange rate assumptions: USD 1.00 = ¥130 (prev. ¥140) EUR 1.00 = ¥140 Undetermined foreign currency amounts: USD 1.1 bn, EUR 0.2 bn	

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The next few pages show our full-year forecast for FY2022.

As I mentioned earlier, the full-year forecast for the entire company remains unchanged in terms of order intake, revenue, and business profit, although we have revised business profit guidance in two segments.

In addition, we updated the USD exchange rate assumption for undetermined foreign currency amounts from the previous ¥140 to ¥130 in light of current market conditions. Please refer to the presentation materials for specific figures.

This is the end my explanation of the Q1-3 financial results.

(Kozawa's comments continue on page 23.)

FY2022 Forecast by Segment



Partially revised from forecast announced November 1, 2022.

(billion yen)	Order Intake			Revenue			Profit from Business Activities			
	FY21	FY22 Forecast	YoY	FY21	FY22 Forecast	YoY	FY21	FY22 Forecast		YoY
								Revised	Previous	
Energy Systems	1,444.3	1,500.0	+55.7	1,651.0	1,700.0	+49.0	86.2	110.0	120.0	+23.8
Plants & Infrastructure Systems	890.9	750.0	-140.9	651.8	650.0	-1.8	23.6	30.0	30.0	+6.4
Logistics, Thermal & Drive Systems	992.3	1,150.0	+157.7	986.5	1,150.0	+163.5	30.6	40.0	40.0	+9.4
Aircraft, Defense & Space	774.2	650.0	-124.2	605.2	650.0	+44.8	20.0	40.0	30.0	+20.0
Corporate and Eliminations	-34.1	-50.0	-15.9	-34.5	-50.0	-15.4	-0.3	-20.0	-20.0	-19.8
Total	4,067.7	4,000.0	-67.7	3,860.2	4,100.0	+239.8	160.2	200.0	200.0	+39.8

IV. Appendix

Appendix: Reference Data



Large-Frame Gas Turbine Order Intake/ Contract Backlog (units)				Commercial Aviation Deliveries (units)					
	Q1-3 FY21	FY21 Total	Q1-3 FY22	777	Q1	Q2	Q3	Q4	Total
Americas	-	5	4	FY21	5	4	6	5	20
Asia	3	5	4	FY22	6	7	7		20
EMEA	-	-	1						
Other Regions	6	6	2	777X	Q1	Q2	Q3	Q4	Total
Total	9	16	11	FY21	2	1	1	0	4
Contract Backlog	41	46	43	FY22	1	0	0		1
(Reference) Order Intake through China Licensee				787	Q1	Q2	Q3	Q4	Total
	Q1-3 FY21	FY21 Total	Q1-3 FY22	FY21	14	5	4	2	25
Order Intake	4	7	21	FY22	5	7	8		20

Appendix: Reference Data



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

	Q1-3 FY21	Q1-3 FY22	FY22 Forecast
R&D Expenses	75.5	82.9	130.0
Depreciation and Amortization	98.4	103.3	130.0
Capital Expenditures	84.4	93.3	130.0

Selling, General, and Administrative Expenses (billion yen)

	Q1-3 FY21	Q1-3 FY22
SG&A	404.8	448.5

Foreign Exchange Rates (average rates used for revenue recognition)

	Q1-3 FY21	Q1-3 FY22
1 USD (JPY)	110.5	135.3
1 EUR (JPY)	130.0	137.6

Appendix: Reference Data



Order Backlog

(billion yen)

	FY21 End	Q3 FY22 End
Energy Systems	3,114.4	3,263.8
Plants & Infrastructure Systems	1,243.4	1,483.1
Logistics, Thermal & Drive Systems	43.2	57.7
Aircraft, Defense & Space	1,087.1	969.7
Total	5,488.5	5,774.9

Revenue by Region

(billion yen)

	Q1-3 FY21		FY21 Full Year		Q1-3 FY22	
Japan	1,249.9	(47%)	1,887.7	(49%)	1,214.2	(41%)
Asia-Pacific (excluding Japan)	518.1	(20%)	711.6	(18%)	567.0	(19%)
Americas	502.9	(19%)	739.9	(19%)	753.2	(26%)
EMEA	374.3	(14%)	520.8	(14%)	403.4	(14%)
Total	2,645.3	(100%)	3,860.2	(100%)	2,938.0	(100%)

SpaceJet Program

SpaceJet Program



MHI decides to discontinue SpaceJet development

- Paused SpaceJet M90 development activities to be discontinued
- MHI to leverage knowledge and experience acquired through SpaceJet program to continue contributing to Japanese aviation industry, which aspires to return OEM aircraft manufacture to the country

Lessons Learned

- ✓ Insufficient initial understanding of highly complex type certification process for commercial aircraft
- ✓ Insufficient resources to continue long-term development

Reasons for discontinuing SJ

Failed to confirm sufficient business viability for resuming development from the following perspectives:

- Technology** Partial revisions needed due to prolonged development. Decarbonization solutions also required.
- Product** Difficult to obtain understanding and necessary cooperation from global partners
- Customer** Little progress on scope clause (conditions related to aircraft number and size included in airline-labor union agreements) relaxation resulted in M90's not meeting North American RJ market needs. Recent pilot shortages also adding to uncertainty of SJ business viability.
- Funding** Further extensive funding required to continue Type Certification acquisition process. Business not feasible in the market environment described above.

Initiatives going forward

1. Continue OEM business with CRJ Program
2. Deepen partnerships with global OEMs
3. Consider next-generation technologies with eye toward aircraft development programs
4. Apply knowledge and experience to F-X (next-generation fighter) Program
5. Utilize SJ facilities and equipment in Aichi Prefecture

SpaceJet development achievements

Developed an organizational structure to design, manufacture, and certify aircraft which could obtain Type Certification. Achieved over 3,900 hours of flight tests with no safety issues.

Completed commercial aircraft Type Certification process in Japan. Bilateral Aviation Safety Agreements signed with US and EU authorities.

Acquired technical data for digitalization of aircraft development process
 - Model Based Systems Engineering
 - Certification by Analysis

Technical accomplishments

Full-scale application of V&V to aircraft development

Large fan diameter GTF engine mount design for RJ class aircraft wings

Aerodynamically optimized design with CFD

Certification of new materials processed with VaRTM

Experience conducting world-class flight tests

Full-size aircraft test rig facilities and equipment (Nagoya area)

V&V: validation & verification GTF: geared turbofan RJ: regional jet CFD: computational fluid dynamics VaRTM: vacuum assisted resin transfer molding

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At today's Board of Directors meeting, we officially decided to discontinue the development of the SpaceJet Program. Please refer to this page for details.

This concludes my presentation. Thank you very much.

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GROUP

