

A Message from the CFO

Now that we have solidified our financial foundation, we will deploy a proactive financial strategy to create a virtuous cycle of high profitability and growth investments.

Hiroshi Nishio

Director, Senior Vice President,
and CFO



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Review of FY2024

Strong results supported by successful past initiatives

MHI Group posted record-high results in FY2024. Our orders received exceeded ¥7 trillion, while figures for revenue, business profit, and free cash flow also reached historical highs. In particular, figures for orders received and free cash flow came in well above our initial expectations. My assessment is that we are making steady progress toward the targets set out in our 2024 Medium-Term Business Plan (MTBP).

While results improved in many businesses in FY2024, the main drivers of this strong performance were our growing core businesses: Gas Turbine Combined Cycle (GTCC), Nuclear Power, and Defense. Even during challenging business conditions, these businesses have maintained focus, refining their technologies, developing talent, and building strong relationships of trust with their customers. I feel that these factors—combined with growing demand throughout society for the Group’s products, technologies, and expertise—have resulted in our strong performance.

The marked improvement in free cash flow is the result of management and business divisions working together to boost profitability and enhance working capital efficiency. These efforts enabled us to rebuild our financial foundation, which was weakened by losses related to SpaceJet and the impact of the COVID-19 pandemic. This demonstrates that our ability to generate cash has been steadily improving.

My View as CFO

Shifting course toward growth investments to shape the company’s future

Our previous CFO focused on two key priorities: strengthening profitability and rebuilding our financial foundation. While increasing profitability, we reduced interest-bearing debt, improving the debt-to-equity ratio to 0.26 and regaining an A rating from S&P for long-term credit. I believe we have reached a milestone in terms of

improving our financial position. Into the future, we will continue forging ahead without allowing ourselves to become complacent.

As the newly appointed CFO, I aim to pursue our next stage of growth—an opportunity made possible by our newly strengthened financials—through proactive investments in our future. I see my most important mission to figure out how to leverage the investment capacity accrued through many years of effort to drive sustained growth into the future.

Under our management policy emphasizing financial discipline, each business division has operated with a strong focus on return on invested capital and, especially, cash flows. While this has contributed greatly to the improvement of our financial base, it also carried the risk of our business operations’ becoming somewhat over-cautious or short-sighted. I would like to swing the pendulum back from an area of restraint toward one of investments to drive future growth. Of course, this does not mean allowing discipline to slip. We will focus on investments that enable profit growth and

enhance corporate value, carefully selecting projects that can deliver high returns over the medium to long term. To this end, we will provide support so that all of our business divisions can seize opportunities and boldly take on new challenges.

CEO Eisaku Ito is a bold and decisive leader who works with strong conviction and pursues ambitious goals. As CFO, I sometimes take on the role of safeguarding the financial side as I strive to maintain a well-balanced management approach.

Key Financial Indicators

Meeting the expectations of the capital markets

In terms of financial indicators, I place particular emphasis on ROE. Our ROE in FY2024 was 10.7%, and our targets are 11% in FY2025 and 12% or above in FY2026, the final year of the 2024 MTBP.

Looking further ahead, we also have our sights on FY2027 and beyond. We believe our current targets—ROE of 12% or higher and a DOE ratio¹ of at least 4%—are aligned with our policy of realizing a

1 Dividends paid + Shareholders’ equity (excluding other comprehensive income)

Evolution of Financial Indicators over Time

	FY2023 (Result)	FY2024 (Result)	FY2026 (Plan)
Revenue	¥4.6 tr	¥5.0 tr	≥¥5.7 tr
Business Profit	¥282.5 bn	¥383.1 bn	≥¥450.0 bn
Business Profit Margin	6.1%	7.6%	≥8%
ROE	11.1%	10.7%	≥12%
Total Assets	¥6.3 tr	¥6.7 tr	¥6.3 tr
Total Asset Turnover	0.8	0.8	0.9
Debt/EBITDA Ratio	1.7x	1.2x	≤1.7x
Dividend per Share ²	¥20	¥23	¥26

2 Historic dividends shown here retroactively adjusted to 1/10 original value to reflect 10-for-1 stock split effective April 1, 2024

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virtuous cycle of high profitability and growth investments. Specific numerical targets for FY2027 and beyond will be set out in our next medium-term business plan.

Capital Allocation Plan

Capital allocation to drive a virtuous cycle of growth

As for capital allocation, there is no change to the general framework set out in the 2024 MTBP. However, we will flexibly adjust the allocation of funds in response to changes in our business environment. In the Energy Transition area, for example, demand is rising for practical, short-term options, such as GTCC and nuclear power. Globally, however, progress in developing institutional frameworks for the real-world implementation of hydrogen and ammonia technologies appears to be slowing. Responding to these changes, we will allocate capital in a focused and flexible manner to areas with greater growth potential while steadily pursuing

technology development in new domains.

Flexible investment requires a sound financial foundation. To achieve an optimal capital structure, we will also consider a more appropriate balance between debt and equity.

Disciplined Portfolio Management

Focused investment in growth areas

CEO Eisaku Ito has set forth a new management approach called Innovative Total Optimization (ITO). This is designed to fully unlock the Group's potential and achieve sustained growth through Group-Wide Optimization and Reach Expansion.

At first glance, it may appear that we are expanding our business in all directions, but in fact, we are working to focus our efforts with clear priorities and strict discipline. Our top capital allocation priorities are our three growing core businesses—GTCC, Nuclear Power, and Defense—followed by our future growth areas,

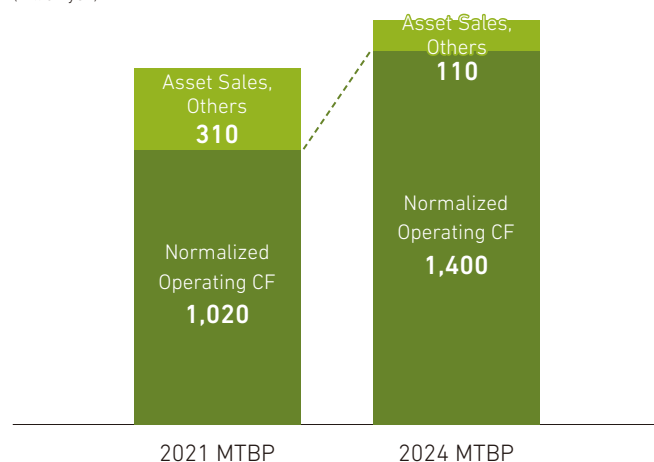


including data centers and the Energy Transition. Within our businesses requiring competitiveness enhancements, technologies and businesses that leverage our core competencies and show potential for growth will also be eligible for investment. There are numerous other areas that require investment as well, such as the utilization of Group-wide shared digital technologies, the upgrade and reinforcement of manufacturing infrastructure, and resilience enhancements for our supply chains. This may lead to competition for investment within the Group. In this context, a key role for management will be to clearly prioritize where our limited resources should be allocated. The key criteria here will be whether we possess leverageable core competencies that can help solve the issues facing society, and whether a potential investment could lead to profit growth in the future. We will make sure that—above all else—investments contribute to a virtuous cycle of high profitability and growth investments.

At MHI Group, we treat each of our approximately 30 business units as independent companies and individually monitor the state of their businesses and financial performance. This approach aims to optimize our portfolio of businesses. Even as we move on to

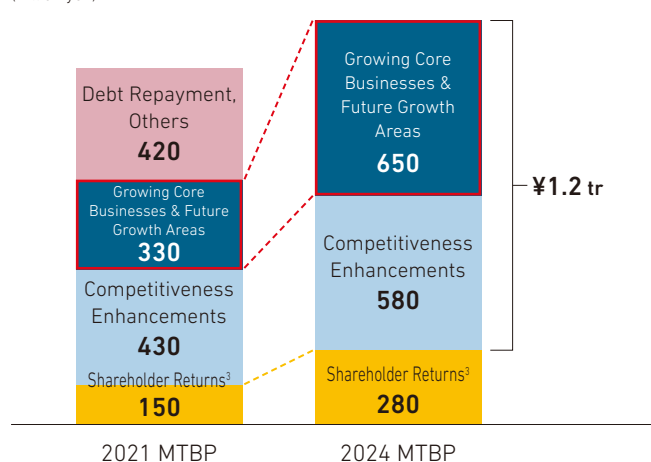
Cash Inflows (3-year total)

(Billion yen)



Capital Allocation (3-year total)

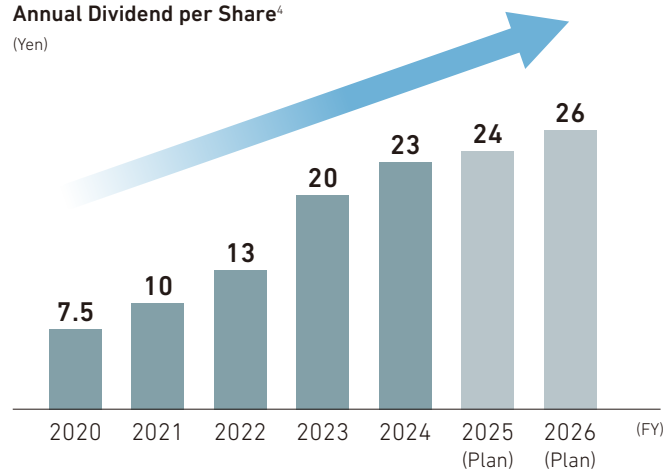
(Billion yen)



³ Includes dividends to non-controlling interests



Annual Dividend per Share⁴
(Yen)



Targeting ≥4% DOE

- Adopt DOE based on shareholder capital (excl. OCI)
- Planning a ¥24 full-year dividend in FY2025, a ¥1 increase over FY2024
- Planning a ¥26 full-year dividend in FY2026

⁴ A stock split was enacted on April 1, 2024. To facilitate comparison, dividends through FY2023 are shown here retroactively adjusted to reflect the stock split.

future stages of growth, we will continue to assess our businesses based on objective data as we work to optimize the portfolio.

For businesses identified as requiring competitiveness enhancements, it is important to look beyond current profitability levels to assess whether they can generate new value in combination with our other businesses—or, by changing our approach, whether we can unlock growth potential to reach an exponentially greater number of customers. If we feel we are not the best owner of a particular business, we will not hesitate to entrust it to an external party. In so doing, rather than basing our decisions solely on financial indicators, we will take a medium- to long-term perspective unique to the Group, assessing true growth potential from both technological and business viability standpoints.

Improving Asset Efficiency

Improving the balance sheet to support business growth

The Group's order backlog currently exceeds ¥10 trillion, representing an unprecedented volume of orders. Our first priority is to fulfill such orders with utmost diligence. As total assets will expand during this phase of business growth, we will focus particularly on improving asset efficiency.

We will also accelerate efforts to improve production efficiency, one of the main pillars of ITO. Moreover, we will continue to monitor cash conversion cycle (CCC) as a KPI while promoting awareness of cash efficiency on the frontlines of our businesses.

Shareholder Return

Attaining an optimal balance between sustained growth investments and dividends

Our most critical challenge today is to prioritize growth investments in order to seize the wealth of business opportunities that present themselves to us. Based on this understanding, our basic approach to shareholder return is to balance sustained growth with stable,

progressive dividend payments. As indicated in the 2024 MTBP, we are targeting ROE of 12% or above and a DOE of 4% or higher. We are committed to distributing the benefits of growth in a balanced manner that supports both development of the business and shareholder return.

Dialogue with the Capital Markets

Delivering tangible results in line with expectations

We believe that a company's share price is comprised of the value generated by its current operations (current operating value) and the value created through future growth (future growth value). MHI's share price has risen significantly over the past year. This reflects the capital markets' high expectations for the Group's future and brings with it a deep sense of responsibility.

With 140 years of history behind us, we are reaffirming our position as a growing company. As such, we will continue making future-oriented investments and push forward one step at a time to meet the high expectations of our shareholders.

In the area of investor and shareholder relations, my responsibility is to clearly explain to investors how we aim to realize a virtuous cycle of high profitability and growth investments, thereby enhancing future growth value. Fortunately, I feel that many investors have high expectations for the Group and share our medium- to long-term perspective. Through ongoing dialogue, we aim to deepen our investor base's understanding of our efforts to enhance corporate value, and we look forward to showing them tangible results in the future. Please follow MHI Group as we forge ahead with these bold plans.