

Q&A Summary

Event Name: Mitsubishi Heavy Industries, Ltd. 2024 Medium-Term Business Plan
Progress Briefing

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Speaker: Eisaku Ito, President & CEO

Questioner 1

Q: Regarding gas turbine combined cycle (GTCC), one of your Growing Core Businesses, the profit margin in this year's forecast is better than previous levels, which suggests that resources are being allocated more intensively there. Do you have any plans to accelerate production capacity increases, pulling the timing in? Please tell us if there are any changes from the previous plan.

Ito: As we have received many orders for gas turbines, we will give top priority to improving productivity and increasing production capacity. We will review the entire manufacturing process, identify bottlenecks, and steadily make improvements on the factory floor level. We will also actively leverage automation in areas where the installation of such systems is effective. We will also work on forward-looking R&D. We will concentrate deployment of experts from our shared technology division to develop an Advanced GTCC System with the aim of achieving both high efficiency and reliability.

Q: You have already announced a capacity increase of around 30%. Can we imagine that you will gradually increase capacity during the 2024 Medium-Term Business Plan (MTBP) period ahead of schedule and further increase capacity in the future?

Ito: We want to increase production capacity as soon as possible. We strongly feel that customers have high expectations, and we will do our best to meet them.

Q: At the financial results briefing, you said that business execution in the Defense business is progressing faster than expected and order intake was increasing. You also said that MHI is considering proposals for the next Japan Defense Buildup Plan. Is the current capacity in Defense sufficient, including your efforts to strengthen human capital? Will you accelerate the expansion of resources in the future, such as during this year or the next?

Ito: We are increasing recruitment as planned. We are also in the process of building a new factory. I will note that we are not building the new factory by conventional methods, but we are conducting production simulations and studying the most efficient manufacturing methods. We are also optimizing the flow of materials and the way information is

managed. We are currently preparing proposals for the next five-year plan in areas where MHI's technologies can be utilized.

Q: Would it be fair to say that resource deployment is progressing faster than previously?

Ito: This is one of the areas where we are intensively deploying in-house experts and working through the details.

Questioner 2

Q: I would like to ask about investments and R&D related to Group-wide optimization. At the financial results briefing, you mentioned that the cost burden associated with updating systems is increasing. Will the costs that are currently increasing be reduced by prioritizing the deployment of resources such as capital investments and R&D? Or will they remain high at the current level?

Ito: Regarding R&D, we are considering ways to provide significant added value to end users by adding new technologies to existing products, forming strategic partnerships with external parties, and finding better ways to link hardware and software – rather than simply building on existing concepts in each business. If there are good ideas that are expected to enable significant growth by addressing customer needs and market trends, we will concentrate resources and prioritize those efforts. We will invest intensively in the Focus Areas of GTCC, Nuclear Power, and Defense, but we also want to promote new ideas in other areas as well. Overall, investment for the future will increase.

Q: What is your current progress in optimizing your business structure from the perspective of Best Ownership and inorganic investment?

Ito: We are investing intensively in the Growing Core Businesses as our customers' strategies and governments' policies have become clearer. These include the utilization of natural gas and Nuclear Power, as well as the strengthening of Japan's defense capabilities. In other fields, we are carefully assessing market trends and working to formulate our strategy. In each business, if a hypothesis emerges that ignores existing assumptions and provides new value, we will work intensively on it. There are various ways forward, including our Group conducting the business as the owner, collaborating with a best owner outside the Group, or entrusting the business to an external party better positioned to grow it. We will consider each of these options carefully. Please allow me to refrain from providing specifics.

Q: As the environment changes, will the business structure dramatically change considering Best Ownership, or will MHI continue to consider the business structure without changing the major direction?

Ito: I will refrain from going into the details, but since the markets are changing, we will consider the best option at each step of the way.

Questioner 3

Q: Regarding scope expansion in GTCC, is this related to Dongfang Electric, your licensee in China? Also, what is the timeline for the development of the Advanced GTCC System?

Ito: There is the option of licensing technology and having the licensee manufacture products, as in the case of Dongfang Turbine. That said, there is also the option of providing GTCC systems in partnership with third parties that take care of business development and engineering, procurement, and construction (EPC) planning in each region. Customers' requirements differ depending on the country and region, so we will consider the most appropriate structure for each situation. As for the Advanced GTCC System, this relates to our strategy in this business, so I will refrain from answering in detail.

Q: You spoke about partnering with local companies in each region, but do you intend to expand the type of collaboration you have with Samsung C&T in the Middle East?

Ito: There are various approaches that we could take. We have received requests from customers in the Middle East to build an assembly plant and provide after-sales services there. In Central Asia, we sometimes form EPC consortia with partners to carry out projects. In any case, we believe that we can expand into new regions by working together with partners to accomplish things that are difficult for MHI Group to do alone.

Q: In GTCC, would it be fair to say that – unlike in Nuclear Power – you are not considering involvement in projects that require capital participation?

Ito: We are not considering such an approach currently. However, there is a possibility that such proposals could emerge in various countries and regions.

Q: Regarding your concept for business portfolio management, what are the points on which you place more importance than the former CEO, Mr. Izumisawa? Also, is there a possibility that this concept will change in the future?

Ito: Our businesses have long lifecycles, so there is no major change from our existing policy. However, as we examine the value created by each business, there may be more instances where we find new value to provide. At that time, there may be revisions to our policy.

Questioner 4

Q: As you proceed with “exponential scaling,” what are the new products and segments that you will focus on? In addition, you said that top management will make decisions on the

selection of businesses, but what changes are possible in terms of organizational structure?

Ito: Our Growing Core Businesses already have a certain amount of market share, and it may be difficult to increase that by 10 times, for example. However, it is possible to increase share by proposing new value. That said, we will need to closely monitor market trends in our businesses that require competitiveness enhancements. For example, if we can provide new value to end users, there is a possibility that a business with a 10% market share could reach the remaining 90%. If we can reach 100% of a market, new situations will appear depending on the value provided. Regarding organizational structure, we will consider best approaches in each business unit with the participation of the corporate and shared technology divisions as well – everyone will discuss ideas together. First, I would like to come up with a variety of ideas in the current organizational structure.

Q: The revenue target for the Growing Core Businesses is ¥2.6 trillion or above. Has this changed since the 2024 MTBP was announced last year? Also, there was no slide on capital structure in your presentation. Was none included because there has been no change to the current plan?

Ito: Basically, we are proceeding according to the plan as it was when the original 2024 MTBP was formulated. In the Growing Core Businesses in particular, we have already received many orders, and lead times for delivery to customers are lengthy. Therefore, if things go according to plan, we believe that we will be able to achieve higher results than the disclosed targets.

Questioner 5

Q: If a new nuclear power plant construction project is announced by a power company and MHI's SRZ-1200 is selected, what changes can we expect in the Energy Systems segment's financials over the medium to long term?

Ito: Regarding Nuclear Power, we do not think that there will be any major changes over the next few years, because our customers have to prepare specific plans, and approval procedures and presentations to the local communities will be needed. I cannot provide specific numbers, but our Nuclear Power business has a lot of work going on other than SRZ-1200. We provide a wide range of products and services, including the construction of Specialized Safety Facilities, provision of after-sales services for operating plants, manufacturing of casks, and production of steam generators for the overseas market.

Q: Last year, you booked orders for 25 gas turbine units, specifically in the Americas and the Middle East. What regions would you like to focus on in the future, including strategic

partnerships and licensing? Moreover, the number of orders in Asia has fallen, so what is your outlook for the region?

Ito: The US will definitely grow, and based on many forecasts, market indicators, and direct customer feedback, we believe this trend will continue for several years. Other regions include Asia, the Middle East, and Eastern Europe.

Questioner 6

Q: Today's presentation gave me the strong impression that I was listening to the head of a business unit. Could you tell us the message you are trying to send to your 80,000 employees about what kind of company you, as president, want to see MHI become? What kind of problems do you have at MHI? For example, maybe there is a lack of cooperation between divisions, or profit margins are too low. I think it is only because you are aware of problems that you want to take the approach you presented to us today. Could you tell us about that?

Ito: On page three of the presentation materials, I wrote that we are integrating the wide variety of products and services that we provide with experience, technologies, and IT systems into a common platform. I think it is rare, even on a global scale, for a company to have both this level of diversity in the value it offers to customers, as well as a common internal platform. When viewing MHI Group's potential from the perspective of Group-wide optimization, each division has a sense of being an employee of MHI Group as a whole, and there is a great potential to create new products and solutions by functionally integrating the businesses. We are working on specific initiatives in our internal R&D plans. Going forward, I want to lead each employee to act consciously to expand the value we provide in terms of both quality and quantity. We believe that this will lead to great innovation.

Q: Is your focus on the top line or profitability? When Mr. Izumizawa first became CEO, he emphasized that he wanted to increase revenue. What is your perspective?

Ito: My aim is to achieve a highly profitable business structure. The reason for increasing profitability is that I want to increase medium- to long-term growth investments, and our group has a lot of growth investment opportunities. Unfortunately, we have not reached that phase up to now, but over the past few years, we have reinforced our financial foundation, and we have secured cash. Our Growing Core Businesses are growing steadily, and we have booked many orders, so now is the time to make capital investments and challenge ourselves to develop new technologies. I want to make MHI a company that can run a virtuous cycle of high profitability and future growth investments with unprecedented speed.

Questioner 7

Q: In the defense sector, there are moves to cooperate with the US in shipbuilding. How will MHI Group and Mitsubishi Shipbuilding respond to this?

Ito: There are various media reports about this, but there are no specific details that I can provide at this point. However, if we receive such a request, and there is something that we can do with our company's technologies or facilities, we will do our best to help.

Questioner 8

Q: At last week's Defense and Security Equipment International (DSEI) Japan exhibition, MHI displayed a concept model for a next-generation trainer aircraft. In the future, will it be possible to appropriately allocate headcount to development of the next-generation trainer aircraft in parallel with the deployment of development resources to the Global Combat Air Programme (GCAP), or will things be tight if you do not increase the number of personnel?

Ito: MHI will do the best we can to help once the customer's needs become clear. As for resources, we have increased the number of personnel, and we can also intensively deploy in-house experts, so I think we will be able to respond to those needs.

Q: I attended a demonstration of Prismo (an MHI-developed next-generation automated guided transit platform), and it impressed me as a very strong product – it was very fast and quiet. However, one characteristic often seen in Japanese companies is that when competing with overseas competitors in international markets, even when they excel in terms of technology, they tend to fall short in areas like sales capabilities or strategic influence. Currently, what can you tell us about MHI's chances of succeeding in the new transportation system market, and how excited are you about it?

Ito: Our new transportation systems have fairly high market shares in Japan, and we have received highly evaluations. Internationally, our systems have been installed in various locations, such as in the US and Asia – for example, airports in Singapore and Manila. In the US, our systems have a very good reputation among customers in places like Atlanta and Miami, and we have received many requests to expand our coverage. Therefore, in the US, I think that it is possible to expand the business further by taking advantage of our products' reliability and quiet operation. We are preparing to do just that.

Questioner 9

Q: GTCC is doing very well, and I think the reason for this is due to the market environment and the high evaluation of your technological capabilities. I also hear that GE Vernova and Siemens Energy's orders are increasing as well. What are MHI's strengths?

Ito: We are particularly highly rated by customers for the high efficiency and reliability provided by our advanced gas turbines. These are large, highly efficient models that can be operated for extended periods of time.

Q: I understand that the Energy Transition businesses – carbon capture, utilization, and storage (CCUS), hydrogen, and ammonia – are currently in the pre-commercial, investment-heavy phase of development. When do you expect to book revenue in these areas?

Ito: Regarding the Energy Transition businesses, it has gradually become clear that projects will not reach the final investment decision phase, and considering increases in labor and material costs, I think the biggest bottleneck is economics. Therefore, in the areas of hydrogen, ammonia, and CO2 capture, we are working to prepare the most economically competitive products as options for customers who need them. As for the timing of revenue booking, I cannot answer at this time.

Questioner 10

Q: In the Growing Core Businesses, you will increase personnel by 1.2 times, and R&D and capital investment will grow by 1.7 times. What is the specific amount of R&D and capital investment you are targeting? Also, how much headcount will be added?

Ito: The expenses you mentioned are part of the ¥1.2 trillion in total investments that we announced in the 2024 MTBP. If we come up with other ideas that can provide new value, we would like to add them to these initiatives.

Q: With an order backlog of ¥10 trillion, I imagine that not only MHI but also your entire supply chain are under considerable strain. What do you think needs to be done to address the challenges you are currently facing in the supply chain as a whole?

Ito: Of course, we are thinking about our supply chain as well as our factories and on-site construction being run by MHI. We are working to quickly identify bottlenecks in the supply chain and value chain and overcome them with a variety of techniques – such as leveraging automation and separating processes into two parts and processing them in parallel.

Questioner 11

Q: What is your assessment of your progress under the 2024 MTBP, based on your FY2024 financial results?

Ito: There are some differences between businesses, and some are showing slight slowdowns in growth, but we are generally seeing progress as planned.

Q: China and South Korea have a significant presence in the shipbuilding industry. What are MHI's strengths when compared to companies in these countries?

Ito: Based on my experience to date, I believe that our engineering capabilities for commercial ships are top-class. For example, we believe that our overall engineering capabilities are very high, including those related to decarbonized fuel conversions and fuel supply systems – not to mention the precision of the final vessel itself. We are also working to increase capacity at our Shimonoseki Shipyard & Machinery Works. We are capable of handling highly specialized orders from a variety of customers, and to deliver them within tight deadlines. Going forward, as we work to functionally integrate businesses, we believe that there are many areas that can be improved by sharing best practices. Also, we would like to further enhance productivity by automating manufacturing processes and implementing digital transformation (DX) techniques.

Questioner 12

Q: Shipbuilding has become a topic of the ongoing Japan-US trade negotiations. If cooperation in shipbuilding becomes a reality, I believe that MHI will be asked to repair US military vessels. What kind of challenges would you face in that case?

Ito: Shipbuilding can be quite difficult due to issues involving the workforce, not to mention challenges in our shipyards and supply chains. However, I think we may be able to cooperate in technological areas such as automation and productivity improvements, which MHI is currently working on. However, the requests from the US side are not yet clear, and I believe that we are not yet at the stage where we can share what kind of issues there may be.

Questioner 13

Q: I believe that American companies are at an advantage in terms of winning orders in the US GTCC market. I would like to ask how MHI, as a Japanese company, expects to increase your market share? Could you also speak about your outlook and strategy?

Ito: I believe that the US GTCC market will continue to see significant demand over the next five to ten years. Against this backdrop, the production capacity at each OEM is the bottleneck in the market. Therefore, I do not think that American companies have an advantage. Customers have given us high evaluations in terms of the performance and reliability of our gas turbines, as well as the quality of after-sales services that we provide.

Questioner 14

Q: There are several businesses that have high market shares, but which are small when viewed as a whole. You said that you are aiming for a high-profit business structure, while in parallel, there are more businesses that can be expanded by proposing new value.

What is your view on the position of the businesses that are small when compared to the company as a whole? Does the statement that there are businesses that can provide new value mean that you are going to suspend efforts to optimize the business portfolio?

Ito: In businesses that may be small in scale but have a very high market share in one region, I think we can increase revenue and profits by expanding the number of regions in which we operate. For example, if our current global market share is 10%, we would like to reach the remaining 90%. Also, as for the optimal form of creating new value, in cases where it is better for MHI to go it alone, we will do so, and in cases where it is better for us to partner with third parties, we will do so as well. Or, if another company is the best owner and is therefore in a better position to grow a business, then divestment is also an option. As such, we will not interrupt any other initiatives to focus on creating new value. As we consider all the possibilities available to us, we will look at each business from the perspective of which method can maximize growth and provide great value.

Q: I understand that the criteria for business portfolio optimization are based on indicators such as operating profit margin. What do you think personally of such criteria?

Ito: We evaluate our businesses using various indicators. In the process, we make a comprehensive judgment based not only on the latest indicators, but also on how much we can grow the businesses in the next year, the year after that, and five to ten years from now – as well as what kind of indicators are currently used to prepare for that. Please allow me to refrain from providing the specific criteria.

Questioner 15

Q: The biggest change in the past year has been the inauguration of President Trump in the US. You did not mention tariffs during today's explanation, but what do you think about tariff impact during the 2024 MTBP period?

Ito: We export many products to the US. For example, GTCC has a factory in the US and exports some components from Japan. These may be subject to tariffs, but given the current market environment in GTCC, I think we will be able to pass through these costs to our customers. In the case of other businesses as well, we are basically looking to implement cost passthroughs. Although I cannot discuss specific products, we have already passed through around 90% or more of tariff impact to the prices of some products. Going forward, we will carefully explain the situation to each of our customers and work hard to prevent any impact.

Q: What is the impact of tariffs on the Commercial Aviation business?

Ito: In Commercial Aviation, MHI is a Tier 1 supplier of aero structures, so we believe there will basically be no impact from tariffs.

Q: You have expectations for ammonia and CCUS, but when will we see a return on investments in the new energy area?

Ito: This is a difficult question. First of all, the most important factor when customers make investment decisions is economic viability. In the hydrogen production area, we are working to develop solid oxide electrolysis cell (SOEC, a high temperature steam electrolysis technique) technology, a more economically competitive method than current methods of electrolysis. As for CCUS, concrete projects emerging from utility customers in the power generation field, and although it is difficult to say exactly when they will materialize, more and more customers are considering pragmatic decarbonization solutions.

Q: It is regrettable that CCUS, hydrogen, and ammonia have not become as highly profitable as expected.

Ito: Market trends have changed a little since Carbon Neutrality became popular, but I think a major swell in interest is bound to come again. We are continuing to steadily prepare for that.

Questioner 16

Q: What do you think is important while you seek to balance efforts to automate and improve efficiencies in the lead up to capacity increases with human resources development? What challenges do you currently see on your production floors?

Ito: I think one of the biggest challenges converting the technical design skills and know-how of people in the field – especially skilled engineers and technicians – into formalized knowledge and conveying that to junior employees. We have organized dedicated teams to conduct interviews and document key insights, and we are seeing tangible effects from this – such as better communication between junior and more experienced staff. Younger employees have a higher level of IT literacy and will be able to drive forward automation initiatives. In the field of technical design, we are working to preserve the know-how of veteran employees in the form of designs that are easy to manufacture on the factory floor. As a manufacturing company, I would like to turn these ideas into practical, visible results that can move the industry forward.

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Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. As such, these projections involve risks and uncertainties. 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

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Note that the earnings forecast contained herein includes neither upside nor downside risk from US tariff policy impact.

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