Q&A Summary

Event Name: Mitsubishi Heavy Industries, Ltd. 2024 Medium-Term Business Plan Progress Briefing
Date: May 27, 2026
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Participant 1

Q: You have exceeded your targets and investment capacity has increased due to higher cash inflows. It seems that growth in GTCC and Defense is accelerating faster than expected. Do you intend to deploy growth investments such as for production capacity expansions ahead of schedule in these businesses? Or should we wait for the next medium-term business plan? In particular, I would like to hear the outlook for increasing gas turbine production capacity. I also feel that there was room to further increase shareholder returns and ROE even after deducting the amount needed to execute the order backlog. Could you explain again what is behind the decision not to change your shareholder return policy and your thoughts on the future trajectory of returns?

Ito: Rather than simply adding more facilities, we are focusing on increasing production capacity with a streamlined operation while pursuing Vertical and Horizontal Optimization. As a result, we have set a goal of increasing the number of GTCC units shipped in FY2028 by 30% or more versus current capacity, and from there we are also looking at increasing the number of units shipped by another 50% or higher, i.e., around two times the FY2024 level.

Total J-Series gas turbine unit orders have been steadily increasing. Many of our gas turbines are delivered to power utilities, and in most cases they are used for baseload power generation. Therefore, it is possible to make highly accurate predictions of demand for hot parts needed in after-sales services (AS). For this reason, after thoroughly reducing lead times, we have already started capital investments in areas that still require an increase in facility capacity, such as precision casting. In the future, there is a reasonable chance that we will make additional, large growth investments after assessing customer needs. In such a case, a large amount of cash will be required, and we will carefully consider our priorities for the use of cash – excluding advances received, which will be used to execute the order backlog.

Our policy is to provide reliable shareholder returns, and we will maintain a dividend-on-equity (DOE) of 4% or higher, as laid out in the current medium-term business plan. We will use the remaining funds for long-term growth investments.

Participant 2

Q: Are you aiming to achieve the 30% production capacity increase target mentioned in the presentation materials by FY2028? Also, when you talk about increasing production capacity by another 50%, do you expect orders to increase further? Please give your view on the gas turbine order environment again.

Ito: In 2025, orders for gas turbines used in power generation reached 96 GW worldwide, and MHI booked a large number of orders as well. Over the next five years, we expect demand to trend at around 70 GW/year on average, which is about two times what it was five years ago. As such, strong inquiries and order intake are expected to continue during this fiscal year and the next. Therefore, we expect total unit orders to continue to grow over the next several years.

Q: Will the monetary amount of order intake also increase?

Ito: Margins at the time of order booking have been improving each year, and this trend is expected to continue for the time being. Therefore, we expect the monetary amount of order intake to increase.

Participant 3

Q: Your business profit margin forecast for FY2026 has already reached 10%. How much further growth potential is there, including the current Group-Wide Optimization initiative and future efforts? In addition, the streamlining of the business portfolio through the sale of the former Mitsubishi Logisnext seems to have contributed to improvements in your margins. How far will you be able to increase margins by focusing on more profitable businesses?

Ito: It is very difficult to determine how much profit margins will increase through Group-Wide Optimization. Eventually, profit margins will gradually improve for each business's products and services. As shown in the graph at the bottom left of page 14, our business profit margin increased from 7.6% in FY2024 to 8.7% in FY2025, and it is expected to rise to 10% in FY2026. I believe that most of this is due to the effects of Group-Wide Optimization. While rising sales prices due to favorable market conditions is a factor, increasing revenue through lead time reduction while minimizing fixed costs has contributed significantly to the increase in profits. Internally, we are targeting ¥100 billion in profit generation through Group-Wide Optimization this year. Some of these initiatives will take time to show results, and some will take as long as 5 years, with effects appearing gradually. However, we expect the magnitude of these improvements to be significant.

Q: Can we expect this ¥100 billion in improvement over three years? Or is that the forecast for the single fiscal year of FY2026?

Ito: Our internal target is ¥100 billion in one year. This figure is included in the FY2026 business profit forecast of ¥540.0 billion, which is the bottom-up total of all of our businesses' forecasts.

Participant 4

Q: What was the figure for AS revenue in FY2025 as shown on page 24 of the presentation materials?

Ito: AS revenue in businesses that are targets for competitiveness enhancements was around ¥700 billion.

Nishio: Total MHI Group AS revenue was around ¥2.2 trillion.

Q: If the installed base of gas turbines expands along with shipments of the state-of-the-art J-Series, I believe AS revenue will continue to rise over the next several decades. GTCC is more profitable than the segment average, and the AS revenue ratio has remained stable at around 50%. However, while overseas competitors talk about improving AS margins, MHI says that LTSA profitability is unlikely to increase. Why is this? In addition, considering the structure of MHI's businesses, profitability should further improve above the current 10% over the medium to long term, such as three, six, or ten years from now. What are your thoughts on this view?

Ito: I think there is much more room to increase margins. First of all, the AS revenue ratio in GTCC is currently around 50%. If original equipment (OE) order volume had remained the same, the AS revenue ratio would have been over 55%. However, because we have recently booked a large number of OE orders, while AS revenue has increased, the AS revenue ratio has not. Our LTSA margins are definitely not low. Although I will refrain from providing specific figures, AS has remained extremely profitable.

Q: While costs have also increased, I think LTSA margins could improve a little more.

Ito: There is room for improvement, and initiatives including productivity enhancements will gradually produce results going forward.

Nishio: While margin improvement in AS has been slow compared to the steady increase in OE margins at the time of order intake, newly booked LTSA margins are also rising. It is not the case that LTSA margins have not improved.

Participant 5

Q: It seems that increases to throughput will account for most of the ¥100 billion in YoY profit generation planned this year. What are your estimates for other factors? Is the plan

conservative, and do you expect profit upside as improvements are realized? Furthermore, is the ¥100 billion target limited to this fiscal year, or do you feel that profit generation can proceed at the same pace every year going forward?

Ito: Profit generated by Group-Wide Optimization will appear as a percentage of revenue from each product and service, but it is difficult to provide a single definitive figure, because the magnitude of the improvements will vary from business to business. For example, as we monitor individual factors that can be measured, such as the gradual reduction of overhead costs, we will be able to verify that improvements are actually being made. I think this will lead to the large profit growth we are expecting this fiscal year.

Participant 6

Q: You are targeting ¥100 billion in additional business profit generation this fiscal year, and it seems that Group-Wide Optimization and Reach Expansion are working very well. What do you think is the reason for this success? I think that the results of the various reforms you have made to date – such as organizational transformation and the establishment of the Factory Innovation Center (FIC) – are linked to this, but could you give us a little more color on what is behind these improvements?

Ito: The biggest factor here is that the steady efforts we have made over the years are gradually producing results. We are formulating market forecasts in each business, stepping up the deployment of resources into businesses that are expected to receive more orders, and focusing on early risk management. I think these measures are working. Another important factor is that, although management sets the overall strategy, we consciously refrain from a top-down approach to these efforts. Specific improvement projects are being voluntarily proposed from the shop floor, for example from team leaders and groups at Takasago Machinery Works, and more than 1,000 action items have emerged as a result. I set the initial direction, but after that, proposals have been made one after another from the bottom up. There are currently around 300 large action items at the business unit level, a number that has doubled over the last two months. Once we saw results from one project, people started thinking they could do something similar, and now new proposals keep coming in. We are now at a point where proposals are coming in on their own.

Q: It sounds like you are really harnessing the power of the shop floor. Why is this going so well?

Ito: Everyone on the shop floor is highly motivated to contribute to society through the products they make. Usually, they focus on the work at hand, meeting deadlines, and maintaining quality. However, when we occasionally give a call to action like this, our employees come up with ideas for significant improvements by collaborating with

upstream and downstream processes. You can feel it in the atmosphere on the shop floor that people really enjoy working on these initiatives.

Participant 7

Q: What kind of work are FIC staff doing, specifically? Does this organization operate independently, or is there a person in charge present in each business unit? Or is expertise shared by rotating staff through the business units over a certain period of time?

Ito: Currently, the FIC has fewer than 200 members, and many of them are specialists in particular fields. There are a variety of specialists, including those who had been involved in manufacturing technologies research at our Research & Innovation Center, and those were transferred from manufacturing facilities within our business units. On the topic of AI agents, we have in-house AI specialists, and as a result MHI has industry-leading production planning and scheduling technologies. These areas belong to the field of operations research. It is difficult for human operators to make production plans by themselves, since as many as 1 million parts are sent to the production lines in what are essentially job shops, where situations change daily according to the orders being fulfilled at any given time. As such, we are utilizing AI to control the flow of production at our factories, optimizing processes in a short period of time. We have created a common scheduling platform and are deploying it across different business areas. We are leveraging physical AI to automate manufacturing. There are many skilled welders and other veterans on our factory floors, and our FIC teams are working to automate these processes with quantitative methods leveraging numerical simulation, image processing, and sensing technologies. For example, there are experts who are working to codify and document the skills of specialists with more than 30 years of experience, in some cases. This is helping junior personnel to efficiently learn the skills of veteran workers, and to that end we have also assigned experts to facilitate communication between these groups. Furthermore, experts in 3D printing and additive manufacturing are collaborating with technical design departments to make proposals that significantly reduce man-hours compared to conventional manufacturing methods. This makes it possible to entirely rethink designs, enabling functionality that was not possible before, which is enhancing the competitiveness of our products. These activities are viewed extremely positively within the company, and the FIC is receiving nonstop inquiries from many business units.

Q: Is it correct to assume that FIC personnel are participating in Group-Wide Optimization projects at the request of individual business units?

Ito: That is correct.

Participant 8

Q: What are counter drones, and what is the outlook for their commercialization?

Ito: Drones are being used extensively in the recent Russia-Ukraine conflict and in the Middle East. Counter drones require extremely advanced sensing, instantaneous analysis, and control technologies to predict the trajectory of an incoming drone, to strike it, and to neutralize the threat. MHI has the capability to develop these technologies from scratch, creating a product in around three months. This is because we leverage many technologies from our shared infrastructure platform, which have been developed for other products. We are also pursuing development through open innovation with startup partners. Ideally, conflicts would not occur, but given the reality that such situations exist, we need to consider how to apply these technologies in the defense area. The Japan Ministry of Defense seems to be developing plans for this, and as a manufacturer, MHI is in a position to propose what is possible with the latest technologies. I would add that the counter drone project was developed entirely independently at our own expense.

Q: MHI clearly has a very large and robust shared infrastructure platform, but it seems that organizing and leveraging it to create innovative businesses is quite challenging. That said, I think it also has enormous potential. How do you go about organizing and commercializing these capabilities? Are there examples or methodologies that you can share beyond the counter drone project?

Ito: MHI's shared infrastructure platform boasts capabilities and an organization on a scale unparalleled by other companies. This platform is the result of decades of growth and evolution, with our Research & Innovation Center collaborating with business units to develop products and carry out necessary technology development and R&D. The shared infrastructure platform can be broadly divided into technical design and manufacturing technologies, and breaking these down further, there are around 700 distinct areas. Using technologies already available in-house, we can cover 80% to 90% – and in some cases as much as 95% – of new product development. We fill any remaining gaps in capabilities by partnering with universities and startups that are global centers of excellence. This is the "+ Open Innovation" shown in the presentation materials, and these efforts have been ongoing for decades. By combining existing technologies with open innovation, we can develop almost any product. Due to the large number of products that we have, sometimes we are told to cut back and narrow our focus. However, we believe that this is an advantage in a time of rapid market change. This is because we can combine the right pieces to quickly develop products like this counter drone. I believe that this capability is leading to more business opportunities for MHI. There are many other examples that I could provide, but since they are related to our technology

and product strategies, please allow me to limit my discussion to the counter drone project.

Participant 9

Q: You mentioned that the risk of supply chain disruptions is increasing. I would like to know how the naphtha shortage and China's rare earth export restrictions are affecting MHI's businesses. What countermeasures are you taking, such as securing alternative sources?

Ito: We have surveyed the materials and elements used in each of our products across all business units, and fortunately, we do not expect significant impact from rare earths. That said, we understand that many suppliers and partners who provide us with motors used in our products and plants are having difficulty procuring and manufacturing them. With regard to the impact of the situation in the Middle East on naphtha supplies, we used to be able to secure necessary quantities of lubricants, cutting fluid, organic solvents, and paints used at our manufacturing facilities 1-2 months in advance, but the actual situation is that procurement periods are gradually shortening. However, according to the producers of these materials, production volumes are higher than before. As the Japanese government has pointed out, there seem to be bottlenecks in the supply chain, or purchasing volumes are increasing in industries with high consumption. Fortunately, our domestic manufacturing facilities are currently operating without significant disruption. However, at some of our overseas facilities, such as our Heating, Ventilation & Air Conditioning (HVAC) systems factory in Thailand – which uses large quantities of plastics – material delivery timing has become increasingly tight.

Participant 10

Q: You mentioned that you plan to increase hiring going forward. Amid ongoing labor shortages and limitations in the pool of science and engineering talent, companies that previously did not employ people in science- and technology-related fields are starting to hire them, and competition for candidates is intensifying. What challenges do you see in recruitment? Also, are there any skill sets or types of candidates that you are looking to prioritize going forward, including mid-career hires?

Ito: In terms of technical talent, my sense is that the number of students at universities, technical colleges, and technical high schools is particularly declining in the specialized fields that MHI needs most. In order to attract talent, we need to make sure MHI is an attractive company from the students' perspective. For example, our GTCC business is developing a next-generation Advanced GTCC System. Our Nuclear Power business is moving forward with the design of the Advanced Light Water Reactor SRZ-1200. Beyond that, MHI also serves as the core company leading development of fast reactors. We

believe that it is important to steadily communicate these cutting-edge development programs to external stakeholders and to show more clearly how they contribute to society. These kinds of efforts are already underway in some areas. In particular, junior employees are very focused on contributing to society, so it is important to create a workplace and workflows that can help maintain their high level of motivation. We are also enhancing training programs so that employees can feel they are growing every day. We are doing everything we can, including improving working environments.

Participant 11

Q: You mentioned that internally you are targeting ¥100 billion in new profit generation during FY2026 from your Innovative Total Optimization initiative. You also explained that the results from these efforts would vary from business to business. Please share with us, to the extent possible, which businesses have the largest or smallest room to generate new profit, and which businesses will see quick results versus those which will take more time.

Ito: To provide one example from Vertical Optimization, businesses that produce in a manner closer to mass production are likely to see the fastest effects. Gas turbines are a typical example; we repeatedly manufacture J-Series gas turbines, which share a standardized design. By adjusting the production sequence and consecutively manufacturing five to ten units of the same model, we can reduce changeover time and cost. Products like this can see very rapid results. Hot parts for LTSAs are also mass-produced products. After improving the production process to reduce lead times as much as possible, we will deploy capital investment and automation to generate efficiencies very quickly, although this will require some investment. To provide another example: we outsource many steps within our manufacturing process, and production volumes can become quite significant if we combine them. If we were to consolidate orders for outsourced processes from all of the business units, that would result in very large volumes indeed. For instance, one business might outsource ¥3 billion worth of work, but adding up multiple businesses doing the kind same outsourcing would result in ¥60 billion to ¥70 billion. The FIC is considering whether we should do all of that work in-house. We are in the stage of selecting and implementing individual projects where we already have the required manufacturing facilities and where significant benefits from insourcing are expected.

Participant 12

Q: Given constant labor shortage concerns, could you let us know why MHI has been able to increase headcount each year in your Growing Core Businesses? Also, in Defense and Nuclear Power, where high quality assurance is absolutely essential, have you taken any specific measures to prevent quality issues – other than enhancing onboarding programs – such as increasing the number of inspection man-hours?

Ito: I think the biggest factor that has enabled us to recruit at this scale is the steady effort to explain to students and mid-career hires the extent to which our products contribute to society. Regarding onboarding, we have established a Technical Skill Development Center for mid-career hires in our Defense business. The Center provides these new personnel with one-on-one quality standard training using real-world examples. This is particularly important, because quality standards for defense systems are higher than for civilian products. In Nuclear Power, we have a well-established QMS framework and development processes that have been built up over many years. Since these processes have already been systematized and implemented, we are maintaining the existing platform, while leveraging IT tools to achieve operational efficiencies. That said, there are some areas that require time to learn, so in the process of teaching new skills, we form teams for each task, making sure that veteran and junior employees work together. We then perform skill evaluations after each task is completed. As a result of combining person-to-person training with IT and AI tools, we have seen skill levels improve over much shorter times than before.

Participant 13

Q: You said that you developed a production prototype drone in three months. MHI's manufacturing capabilities are clearly very strong, so I can understand how this would be possible with existing know-how. However, how much technical know-how do you have in the software and control areas? There are cases in which software companies are taking the lead in drone development, such as Anduril in the United States, and I believe that control technology is very important. How do MHI's technological capabilities – in areas other than hardware – stack up against existing overseas platform companies? What areas do you need to strengthen in the future?

Ito: Many of our company's products are in the form of hardware, so I am grateful that people see us as highly capable in that area. In reality, however, one of MHI's hidden core competencies is technologies for precisely controlling complex products under extreme operating conditions. We have already accumulated extremely advanced technologies in-house. Some examples include: precision control of large products with inherent physical constraints, guidance of high-speed objects reaching several times the speed of sound, and swarm control for drones. On the AI side, our in-house specialists have independently developed control algorithms, which have reached an extremely high level. We are not doing this alone: through open innovation, we are collaborating with top startups and university research labs in the relevant fields to quickly introduce cutting-edge algorithms under research and put them into practical application. As a counterpart to Anduril's systems, our company has an integrated defense command-and-control system called CoasTitan®. This system combines our longstanding expertise in manned

systems deployed in the air, land, and sea domains with up-and-coming unmanned vehicle control, sensing, and communications technologies to optimize operations under a variety of mission profiles. Going forward, we will continue to accelerate development with the speed seen in the example where we developed a complex drone in three months. Needless to say, there are areas that MHI cannot address alone, so we are pushing forward with development through partnerships with various startups, both in Japan and overseas.

Participant 14

Q: You said that you will reduce lead times to 1/3 previous levels at a manufacturing facility in Defense. Is this currently a work in progress? Or has this reduction to 1/3 already been achieved?

Ito: Construction on our new factory in Nagoya has already been completed, and the facility will begin operations soon. As a result of preparations made in advance of construction, we are now able to manufacture products in 1/3 of the time it used to take, say, a year ago.

Q: Since this is a new plant, will manufacturing take less time than processes at other plants?

Ito: This factory was built at a different location within an existing facility.

Q: Are you going to roll out these kinds of initiatives across other product lines in the Defense business?

Ito: That is correct.

Q: In the past, you set a goal of halving lead times company-wide. Is the current progress faster than expected?

Ito: This example involved building a new factory, and we were able to achieve significant lead time reductions through repeated optimization through simulations with no restrictions. However, in most cases, we are working to shorten lead times within existing facilities while production continues, which is more challenging. There are cases where lead times can be halved, while in other cases they can only be reduced by around 10%. However, if we halved the number of processes, then we could cut lead times in half. We are constantly carrying out these kinds of small improvements, and by combining all of them together, we aim to achieve our target.

Q: Is it fair to say that the target is to approximately halve average lead times across the company?

Ito: We aim to halve lead times on average across the company. However, while there are areas where we are making progress, there are also challenging areas where we are facing difficulties. I believe that if all of our employees work together, we can achieve even greater results.

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