

Q&A Summary

Event Name: FY2023 Financial Results Briefing

Date: May 8, 2024

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

Questioner 1

Q: Regarding the results in FY2023, did Energy Systems experience any one-time negative effects in Q4? Also, in Q4, there was a decrease of about 30 billion yen in Corporate & Eliminations resulting in a decrease of 59.3 billion yen. I would like to know your thoughts and the factors behind this.

Kozawa: Energy reported a larger than expected one-time charge in Q4 due to overseas projects. We had originally expected a certain level of negative impact in Corporate & Eliminations, but R&D and new business-related expenses increased more than we had expected. In addition, we are currently developing a fairly large scale enterprise resource management (ERP) system as a replacement for the entire company, which has had an impact as we decided to book it as expenses. Some parts where we had been unsure of how to proceed as of the Q3 financial results were finally expensed, and their impact is reflected in Q4 financial results.

Q: I would like to know if the one-time costs incurred in Q4 from overseas projects were around 10 billion yen. In addition, on page 26 of the presentation materials, Corporate & Eliminations is negative 10 billion yen for FY2024. I think it includes a 50 billion yen gain from the sale of real estate, about which there has already been a press release. Will the negative impact be reduced in FY2024? Or will FY2024 see a reduction in costs such as the development costs just described?

Kozawa: The one-time costs booked in Energy exceed 10 billion yen. The decrease in Corporate & Eliminations in FY2024 compared to FY2023 is due to the impact of the gain on the sale of land in Honmoku, Yokohama. However, there was a certain amount of gain on the sale of real estate in FY2023, so the difference between FY2023 and FY2024 is around 20 billion yen. In addition, the impact of development costs was very large in FY2023, but it is expected to be a little lower in FY2024.

Q: This may be something that should be covered at the 2024 Medium-Term Business Plan (MTBP) briefing on May 28, but I would like to know as much as possible about your thoughts regarding business profit margins and the business portfolio. In terms of business profit margin, the business profit margin was 6.1% in FY2023, partly due to

increased revenue. The business profit margin was 7% in the original plan, so I think you will continue to improve your margins. As the revenue in Defense and Nuclear Power increases, business profit margins will improve organically, but I would like you to take it a step further and explain your view on restructuring your business portfolio, whether you will maintain it during the next 2024 MTBP, and whether you will accelerate these efforts.

Izumisawa: In FY2023, business profit was 6.1%, falling short of the 7% target. Looking at the details of the individual strategic business units (SBUs), we believe that there is still room for improvement, and we would like to increase profits by building up Nuclear Power and Defense organically. As for the revising the business portfolio, we do not believe that the current status is the final destination, and we would like to deepen discussions on how to optimize the portfolio during the 2024 MTBP period.

Questioner 2

Q: What is your view of Aircraft, Defense & Space in FY2024 in the wake of all the news about Boeing 787 production? Profit margins are expected to be lower in FY2024 compared to FY2023. Is this due to lower margins in Defense or lower margins in Commercial Aviation Aero Structures? What are the conditions and assumptions of the guidance?

Kozawa: Defense does not plan to reduce its profit margin in FY2024 compared to FY2023. The lower profit margin in FY2024 compared to FY2023 is due to the considerably higher profit margin for Commercial Aviation in FY2023. This is due to foreign exchange effects and inflation. Specifically, in FY2023, the company was able to deliver products at good exchange rates which were made from raw materials that had been procured at a time when the yen had appreciated and prices had not yet risen. With regard to this impact, including foreign exchange rate assumptions, the benefits will be reduced in FY2024 compared to FY2023, and the profit margin for Commercial Aviation will be lower in FY2024 than in FY2023. We want to do something to improve this a little bit more, but at the moment, this is the plan. The part of the question that we want to do something about is the influence of Boeing. It is not yet clear what the impact will be. We were not very aggressive about increases in units delivered when we made the plan, and we hope that somehow the numbers will around the guidance. Since we cannot influence this situation, we will respond appropriately while closely cooperating with Boeing.

Q: What do you think about the Japan-made commercial airliner? Media reports on the development of a domestic aircraft, including a 5 trillion yen investment, the participation of several companies, and the connection with hydrogen, have been widely reported. As for SpaceJet, you decided to cancel the program last year after having paused it, but I

would like to know if there is any possibility of the 2024 MTBP including development of such a domestic aircraft or forming any partnerships.

Izumisawa: The Industrial Structure Council is at the stage where the government's policy review for a domestic aircraft project has emerged, but we have no specific plan for it. I think we are going to talk with the government. We recognize that we are not at the stage of incorporating any specific development plan into the 2024 MTBP. On the other hand, there are various projects including the Next-Generation Fighter Aircraft, and it is very difficult in terms of personnel resources, so I think we will deal with it while considering various conditions. Aerospace is still an important business for our company, but how to manage it is a matter for future consideration.

Q: The SpaceJet program cost a total of 1 trillion yen and ended up being cancelled after a pause. If you were to try again, I'm sure there are too many variables, but please let us know if there are things we should be aware of that you learned from the experience of SpaceJet, such as pursuing development with multiple companies instead of just one, getting more money from the government, or changing the design methodologies – conditions that would be non-negotiable.

Izumisawa: There are a lot of things, including what you pointed out, but I cannot explain it in a few words. We do not have any specific plans, so I will refrain from answering. There are a lot of issues with the things you just mentioned, and I think it would be very difficult if they cannot be overcome.

Kozawa: On a more personal note, we are out of the SpaceJet business, and to be honest, it would be difficult to try it again now. That does not mean we are against the project. If there is a place where I can support it, we want to do so. At this point, we are not taking the lead, and if we receive requests from relevant ministries, we will respond to them to the extent possible.

Questioner 3

Q: In terms of R&D expenses, the FY2023 financial results show that you used a fair amount of R&D expenses, which were up compared to the plan. In FY2024, R&D is expected to increase YoY by around 40 billion yen. Since the premise and thinking regarding profit of each segment will change, I would like you to tell me how the R&D expenses will be used and how much R&D expenses are included in each segment.

Kozawa: In a broad sense, R&D expenses include not only selling, general and administrative expenses, but also commissioned research that we do for external parties. The increase from FY2022 to FY2023 and the increase from FY2023 to FY2024 are also significant, but the largest part of the increase is Defense and in the Energy segment, power generation-related areas, and most of the research is commissioned development

of new technologies. We plan to increase the portion of basic research included in the Corporate & Eliminations line to some extent, but most of the increase will be in Defense and Energy, including Nuclear Power. I will forego providing a breakdown, as we do not disclose this information.

Q: Orders ended up exceeding the order forecast from the Q3 financial results presentation. The range of change is large, but I would like you to tell me why there was a big gap in each of the businesses? Please also explain Defense on its own.

Kozawa: Energy and Aviation, Defense & Space accounted for the largest differences, with gas turbines outperforming expectations. For Aircraft, Defense & Space, the upside was in Defense. Regarding Defense, it is always hard to know for sure how far orders will go, partly because they are determined by a bidding process, so we include a certain level of risk in our forecasts. On the other hand, as a result, we were able to receive steady orders for the projects we were aiming for, which was a factor for the upside you saw. As for gas turbines, the monetary amount per turbine is rather large, and it is always somewhat uncertain whether the final contracts will be executed in March, which is the end of the fiscal year. In the end, contracts were successfully concluded by March, and these orders were the main factor for the improvement in the FY2023 financial results. In terms of the difference between FY2023 and FY2024, both Energy and Aircraft, Defense & Space are expecting a decrease. In the case of Energy, there will be a YoY drop due to the fact that order intake in gas turbines was very high in FY2023. There will be a similar decrease in Nuclear Power, in which order intake increased significantly from FY2022 to FY2023. Nuclear Power received a large number of orders in FY2023, because we were selected as the main contractor for future reactor technology development, include high temperature gas-cooled reactors. Since these orders were booked for several years' worth of work, order intake will decrease from FY2023 to FY2024. That said, FY2024 will remain at a moderate level. For Aircraft, Defense & Space, the decrease in FY2024 compared to FY2023 was mainly from Defense. In FY2023, orders were received in areas in which we excel, and we were able to obtain a considerable number of targeted projects. Therefore, order intake in Defense has been high, but this will not continue every year. We explained this at the Defense Business Strategy Briefing in November of last year, but I still think we will be able achieve order intake in excess of 1 trillion yen in Defense.

Q: As recently reported, there have been discussions on the possibility of exporting Defense equipment to licensing countries and the possibility of exporting the jointly developed Next-Generation Fighter Aircraft to third countries. What is your view on the development

of your business and your approach to your bases of operations in light of the possibility of expanding beyond the domestic business?

Izumisawa: The basic idea is that the export of defense equipment is based on the idea of providing necessary defense systems to allies from the perspective of Japan's national security. First of all, policies will be formulated or decisions made about what to do with which country, and then what role we can play. Therefore, I do not think we are at the stage where we can say what the impact might be.

Questioner 4

Q: As for one-time expenses, are there any additional expenses related to Integrated coal Gasification Combined Cycle (IGCC) incurred in Q4, and are they not factored into FY2024? The Profit Bridge on page 24 of the presentation materials shows "Changes in one-time expenses in Thermal Power and other businesses" as positive 34 billion yen. Is the assumption that there will be a return of 34 billion yen and that one-time factors in FY2024 will be zero? Also, I would like to confirm again whether FY2024 will include such one-time expenses to some extent, and does the positive 34 billion yen include the portion of the decrease in development expenses in Corporate & Eliminations?

Kozawa: As for whether IGCC was included in the one-time costs, it was included in FY2022, but not in FY2023. IGCC is also not included in "Changes in one-time expenses in Thermal Power and other business" on the Profit Bridge on page 24. With regard to the impact of this item, positive 34 billion yen, the one-time expenses incurred in FY2023 were 54 billion yen, and a risk buffer of around 20 billion yen is factored in, resulting in an increase of 34 billion yen. While we hope it will not happen, we believe it is possible for certain projects to incur one-time losses, and we have factored that risk into our FY2024 earnings forecast. Regarding improvements in Corporate & Eliminations, there are some items that we have visibility on and others that we do not, but these are included in "Changes in revenue, margin improvements."

Q: Can IGCC in the Steam Power business be considered OK?

Kozawa: In the last fiscal year, almost a year was spent on remediation work, and certain results were obtained. The plants are now shut down for regular inspections, but if they operate properly, I do not think they will be too big of an issue from here on out.

Q: What is your view of the market and the competitive situation in Gas Turbine Combined Cycle (GTCC)? As demand for power generation is expected to increase with the establishment of data centers, companies investing in data centers are likely to announce that they will use green energy. There is a view that there is demand for peaking gas turbines, and there is a view that storage capacity in California is higher than expected,

so power demand can actually be met. Has the mid- to long-term market outlook for gas turbines changed or not from a year ago? You topped the global market for two consecutive years, but I think the competitive environment will change every year. Do you expect to maintain your current strong position versus GE and Siemens in FY2024 and FY2025? How do you analyze the overall market demand, your company's market share, and the outlook?

Izumisawa: It is difficult to say in a few words, but simply put, renewable energy is increasing, but conversely, the need for gas turbines as load-following power source is also increasing. I am sure you are aware that a couple of years ago, we were predicting that gas turbines would hit a bit of a plateau. More than that, there is a growing need for gas turbines as load-following power sources. On the other hand, as demand for electricity increases due to investment in data centers, there will be a need for power in the short term as new coal-fired power plant construction disappears and coal fades out. Together, we believe the market needs for gas turbines are solid, and we expect this trend to continue for the foreseeable future. Gas turbines are very useful, and this will especially be true when data centers increase.

Next, how do we think about it in terms of clean power? There is a need for this in the future, and because gas turbines can fire hydrogen and also use capture carbon. The need for gas turbines is expected to increase because both options are possible: first, natural gas will be used, and in the future, there will be conversion to hydrogen co-firing or carbon capture.

It is difficult to compare our gas turbines with other companies', but one reason that we have been so successful is that our gas turbines are reliable and operate well. I think we have a good reputation with customers because of our track record. The speed of start-up and shutdown is also a factor.

To conclude, we believe that the ability to handle both hydrogen conversion and carbon capture are also an advantage, which we have heard from our customers.

Q: I remember that GE's G-frame was highly evaluated for its start-up performance in combined cycle. Is your reputation improving now? I think other companies are working on hydrogen co-firing, but is your understanding that you are one step ahead?

Izumisawa: It is not always clear how much hydrogen is actually used by other companies. We are already doing 30% co-firing in commercial machines at our demonstration plant in Takasago. This is an advantage. It is not a small size turbine, but a JAC series, so I think we are either close to our competitors or a little ahead of them. The start-up and shown-down performance are not inferior to our competitors. I think it is the reliability that is the key.

Questioner 5

Q: With regard to the impact of the new GX Solutions* business, how much do you plan to increase Energy Transition-related and GX-related expenses in Plants & Infrastructure in FY2024 compared to the previous year? Will costs continue to increase YoY in this area in the long term?

Kozawa: Looking at FY2023 and FY2024, we expect a decrease in profit of around 15 billion yen, but we expect this amount to be an additional expenditure related to GX Solutions. I do not know if this negative range will continue to increase every year, but I think for a while to come, we will need around the same amount of upfront investment as we are forecasting in FY2024. I would like to explain this item again at the 2024 MTBP briefing scheduled for May 28. It will take time for GX Solutions to enter the return phase. We will not comment on how the impact will continue beyond FY2024, but we expect the investment phase to continue.

*GX (Green Transformation) Solutions: A new organization established on April 1, 2024, which is in charge of promoting our Energy Transition businesses, which is a part of our growth strategy.

Q: As for GX Solutions, another company mentioned that they had just devoted management resources to the Energy Transition, which led to the neglect of existing businesses and increased costs. Your company will have a lot of talented people in these new areas, and I think this is the natural direction of things. In this context, are there risks, the possibility that something will be left out in existing businesses, and the recognition that it is necessary to manage the business portfolio more closely and selectively than in the past, or will there be no changes? You might explain the details in the 2024 MTBP, but I would like you to give me a sense of how you see the costs and returns in the new areas, including resource allocation.

Izumisawa: I think there are two characteristics in the field of GX Solutions. First is that personnel resources, including investments, are needed during the R&D and validation phases. Second is that the market is uncertain, so we need to identify resources to be deployed on an ad hoc basis. This past April, the GX Solutions business was created to bring together the related divisions. Resources are aggregated in GX Solutions so that the distribution of resources and where focus is placed can be adjusted as needed. In terms of resources, we have invested resources in GX Solutions, but we have been able to manage it well, for example, by allocating personnel from the Thermal Power plants area to the related teams within GX Solutions.

Q: As for the FY2023 financial results, the business profit forecast was 300 billion yen, but the result was 282.5 billion yen. Therefore, you did not achieve the forecast despite the

positive effect of more than 30 billion yen from foreign exchange rates. The implication of the business profit of 350 billion yen in FY2024 is that 20 billion yen is included as a risk buffer, and the exchange rate is 145 yen, which seems to be too low. From the outside, FY2023 simply fell short due to an increase in various expenses. How should we consider your level of commitment to 350 billion yen in business profit in FY2024?

Izumisawa: We want to make sure that we generate 350 billion yen in business profit. When you mention that we only achieved 282.5 billion yen in FY2023, I cannot argue with you, but I think there is plenty of room for improvement when I look at each business. By adding these improvements together, we can reach 350 billion yen. The whole group is working on it.

Questioner 6

Q: As reflected in today's stock price, there is a sense of disappointment in both the financial results and the earnings forecast. Allow me to check the numbers again. It was explained that the one-time costs in Energy in FY2023 were 54 billion yen, but were they not around 45 billion yen? There was 20 billion yen for PW1100G-JM, 15 billion yen in one-time expenses in GTCC and Steam Power through Q3, and if there was 10 billion yen in one-time expenses in Q4, then the total would be 45 billion. Were there really 54 billion yen in one-time expenses in FY2023?

Kozawa: If we add everything up, the one-time expenses in FY2023 were 54 billion yen.

Q: Is it correct to understand that all of this 54 billion yen was from one-time expenses incurred in Energy? As for the FY2024 earnings forecast, a buffer of 20 billion yen has been included, so a YoY drop out of 34 billion yen is also factored in.

Kozawa: Actual one-time expenses in FY2023 were 54 billion yen, and since 20 billion yen was factored in as a risk buffer in FY2024, 34 billion yen will be drop out YoY.

Q: Since the 20 billion yen in one-time expenses from PW1100G-JM will come back YoY, so I think the portion that will drop out in FY2024 will be 14 billion yen. Why is the forecast for FY2024 calculated in such a way? There was a one-time charge of 54 billion yen in FY2023, which is broken down into negative 20 billion yen and positive 34 billion yen in FY2024. Is it a problem of the way these numbers are factored into the forecast, or does it mean that smoke is rising somewhere?

Kozawa: The situation here is that we see fires starting where there was no smoke. The IGCC-related business, which was the largest one-time item in FY2022, has stopped impacting our results to a certain extent, but claims arose in Q3 and Q4 related to projects that had not been considered issues in the previous quarters.

Q: Even with 20 billion yen added Energy business profit in FY2024, the business profit margin for the segment will fall short of 11%, and will be lower than in FY2023. In the second half of FY2023, the operating profit margin exceeded 11%, excluding one-time expenses. With that in mind, I feel that Energy in FY2024 will not perform very well, but is that different within the margin of error?

Kozawa: I think it is within the margin of error. Personally, I would like to see the numbers go higher than this.

Q: Corporate & Eliminations decreased by ¥60 billion in FY2023, including an increase of ¥30 billion in gains on asset sales. This means expenses in Corporate & Eliminations were around 90 billion yen. This amount is simply large. On the other hand, excluding 50 billion yen in asset management, the forecast for FY2024 is around negative 60 billion yen. Furthermore, since expenses in GX Solutions are included in Plants & Infrastructure, there seems to be a sudden mention of large costs. Is it true that only up-front investment is included in Corporate & Eliminations? Is it better to assume that this level of Corporate & Eliminations is expected in FY2025 and FY2026?

Kozawa: In addition to the parts transferred to GX Solutions, the entire company has made considerable investments in future growth areas such as electrification. It would be nice if these achieve commercialized, but there will be a certain level of expenses as upfront investments until commercialization is reached. R&D expenses, including basic research, are around 20 billion yen every year. There are also company-wide corporate management costs in addition to this. I will not answer whether the figures of negative 60 billion yen and negative 70 billion yen will continue, but there will be a certain level of negatives. We want to manage these expenses well, including through asset sales.

Q: A briefing on the 2024 MTBP is scheduled for the afternoon of May 28. When will the 2024 MTBP be announced? Will it be announced after the end of trading on May 27, or at noon on May 28? On May 28, I would like to hear from President Izumisawa about the big picture.

Kozawa: We will release the data in the afternoon of May 28, similar to how we announce our financial results. After that, a briefing session will be held after the close of trading.

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