

Q&A Summary

Event Name: Mitsubishi Heavy Industries, Ltd. Q1 FY2025 Financial Results Briefing

Date: August 5, 2025

Speaker: Hiroshi Nishio, Member of the Board, Senior Vice President, and CFO

Questioner 1

Q: Order intake in Energy Systems has been stronger than expected. Which business was responsible for this? Also, was this increase in orders a temporary phenomenon, or is it sustainable?

Nishio: The primary contributor to this was the strong order intake in Gas Turbine Combined Cycle (GTCC), especially in North America. It can be challenging to assess progress toward project booking, and our plan is somewhat conservative, but we saw very good progress in Q1. The trend in orders, particularly driven by strong electricity demand in the US, is indicative of a very favorable situation. We have maintained our full-year forecast, but depending on the progress in order booking going forward, there could be some upside.

Q: There are reports that a contract for the Australian frigate program may be signed by the end of 2026. The entire project is said to be worth around ¥1 trillion, but will a contract likely be signed first for the portion to be built in Japan, separate from the portion to be built in Australia? Also, I believe this project is not included in your FY2025 order intake plan, but I would appreciate any comments you can provide.

Nishio: We aim to sign a contract in 2026, but this is not included in our current plan. Negotiations regarding things like the scale and structure of the contract – including the handling of the three ships to be built in Japan – are just starting. I cannot comment further at this time.

Q: The Plants & Infrastructure Systems segment booked significant business profit in Q1 FY2025, showing good progress versus the full-year guidance. Could you share the background for this and whether there were any special factors in Q1 FY2025?

Nishio: Profit levels in Plants & Infrastructure Systems tend to fluctuate significantly based on the project mix at any given time. Making a YoY comparison, although Q1 FY2024 was not particularly favorable, we were able to book profits from more profitable projects in Q1 FY2025. Engineering and Metals Machinery are showing slightly stronger trends versus the full-year guidance.

Questioner 2

Q: During your explanation of the business profit waterfall chart (page nine of the presentation materials), you mentioned that there was a contribution of around ¥10 billion in Energy Systems from changes in revenue and margin improvements. Was this largely from GTCC, or did the increase in revenue in Nuclear Power contribute to this?

Nishio: Both GTCC and Steam Power performed well. In GTCC, in addition to new installations, service revenue is also increasing. In Steam Power, there was significant impact from profitable after-sales services, which generated a lot of revenue in Q1 FY2025.

Q: Some of Japan's power companies have announced the start of studies related to new nuclear power plants to be built domestically. Could you comment on the contribution to MHI's performance and how you are preparing for new installations?

Nishio: The 7th Strategic Energy Plan outlines a policy targeting around 20% of electricity to be generated by nuclear energy in FY2040, and new plants will be necessary to achieve this. We are proceeding with the development and design of a new type of light water reactor (SRZ-1200), and we believe we will be able to contribute to meeting Japan's electricity demand. Therefore, the emergence of specifics in this area very positive for us. The contribution to our performance will depend on the timing of the new installations, but fundamentally, this will be a discussion for our next medium-term business plan period.

Q: Please share your assessment of business profit's having exceeded ¥100 billion in Q1 FY2025 and your level of confidence in terms of progress versus the full-year guidance.

Nishio: I feel confident in the progress we have made. Although we have not changed the full-year guidance yet since it is still Q1, overall, the business is on a strong upward trend, and the likelihood that we will achieve our plan is high. However, as is customary each fiscal year, I believe we cannot yet release the buffer included for potential one-time expenses. While Logistics, Thermal & Drive Systems (LT&D) is comprised of mass-market products, the slight lag in progress in Q1 FY2025 is a concern.

Questioner 3

Q: Mitsubishi Logisnext has lowered its full-year operating profit guidance by ¥9 billion. Could you let us know if there are any strong businesses within the LT&D segment which can offset this?

Nishio: Within this segment, the Engines business is performing well, but there are still some concerns regarding the full-year guidance for the segment overall. That said, other segments are showing strong trends, so we have not changed the overall earnings forecast for the company.

Q: Regarding the full-year free cash flow guidance of negative ¥200 billion, cash flow was positive ¥64.3 billion as of Q1 FY2025. While the improvement in advances received contributed to this strong cash flow, will free cash flow decline as planned in the second half of the fiscal year? If free cash flow exceeds the plan, is there a possibility that the cash would be allocated to dividends? Please explain how you will use cash.

Nishio: It is not often that MHI has positive free cash flow in a first quarter. We are on track versus the plan, and the significant amount of advances received booked in GTCC and Metals Machinery was the main contributor to this positive free cash flow. Generally speaking, cash from advances received will be utilized during the manufacturing phase, so we have not changed the full-year guidance. However, this depends on when we enter the manufacturing/cash-out phase for these advances, and we do not rule out the possibility that free cash flow may exceed initial expectations as in previous years.

Questioner 4

Q: If you convert GTCC order intake to dollars and divide by the number of units booked, unit price does not appear to be going up. Of course, this simple calculation does not account for the long-term service agreements included in order intake, but how do you assess GTCC pricing levels in Q1 FY2025?

Nishio: In GTCC, it is difficult to compare unit pricing levels by dividing order intake from these three months by the number of units booked, as there is variation in the scope of work in new installation projects, and the amount of services booked also complicates things. Margins at the time of order intake have been steadily improving over the past few years, and this trend continues.

Q: Orders for eight large-frame gas turbines were booked in Q1 FY2025. I believe the full-year guidance is 20 units, but can we assume that there are no particular issues with production capacity?

Nishio: We booked orders for 25 units in FY2024 and are expecting a similar level in FY2025. We have started to increase production capacity, but this will not immediately be reflected in the number of units we book in FY2025.

Q: Order intake in Defense & Space in Q1 FY2025 was approximately ¥290 billion, but how much of that was solely for Defense? I would like to confirm the likelihood of achieving the full-year guidance based on the Q1 FY2025 results.

Nishio: Right now, I believe the probability that we will achieve the full-year guidance is high.

Q: Can we assume that results will not significantly underperform your initial expectations?

Nishio: That is correct.

Questioner 5

Q: The term “AI” frequently appears in the earnings reports of companies in the US, but I do not often hear it from Japanese companies. Looking at your Q1 FY2025 results, it seems that SG&A expenses were kept quite low. There was a 7% increase in revenue, while SG&A only increased by 1%. Was the impact of AI included in this?

Nishio: In our business model, depending on the fiscal year, revenue varies in a way that is not always related to fixed costs, so we will evaluate this on a full-year basis. I do not believe we can say that the utilization of AI reduced SG&A in Q1 FY2025.

Q: In FY2024, SG&A increased by only 3%, whereas revenue increased by 8%. In the recent small meeting with your CEO, there was mention of reducing back-office costs and improving efficiency through the application of AI and IoT. Have you seen any such benefits?

Nishio: I believe such benefits will start to appear in the future. While revenue grew significantly in FY2024, the scale of fixed costs did not necessarily correlate with this revenue growth.

Q: You booked six large-frame gas turbine units in the Americas. When will they be delivered?

Nishio: Lead time varies by project, so it is difficult to answer with a standard lead time, such as one and a half years from order book. We book orders once contracts take effect. Many of the projects you asked about will be handed over to the customer and begin commercial operation between FY2028 and FY2030.

Questioner 6

Q: I would like to hear your thoughts on profitability in the Energy Systems segment. During the Q3 FY2024 financial results briefing, (former CFO) Mr. Kozawa commented that a business profit margin of 15% in Energy Systems might be too much to hope for, and 10% to 12% was more realistic. However, profitability has already significantly exceeded this figure. Considering the tight supply-demand balance, there have been comments from your American competitor suggesting that profitability will further increase beginning in 2028. Given that currently booked projects will contribute to revenue from FY2028 to FY2030, can we expect even more improvements to profitability?

Nishio: I do not expect a 15% margin within the 2024 Medium-Term Business Plan period, but I believe that is a level we can aim for in the future. The profitability of new installations at the time of booking has been trending upward in recent years, and as the proportion of revenue coming from these profitable projects increases, I believe margins in the GTCC business will improve further. Additionally, looking at the Energy Systems segment

as a whole, the profitability of Steam Power is also improving. With the reduction of new coal-fired thermal power plant installations, we have been working on structural reforms such as fixed cost reductions and the shifting of resources, leading to a much more cost-conscious organization. Although no new coal-fired thermal power plants are being built in the US or Japan, many are still in operation. That is to say, continuing after-sales services in Steam Power will contribute to increased profitability, and we expect margins in the Energy Systems segment to improve further due to this and other factors.

Q: Considering your ITO* initiative and the increasing proportion of profitable projects, do you anticipate that profitability will improve progressively toward FY2030?

Nishio: That is my understanding. Particularly in GTCC, demand remains strong, and in response to this, we are working to shorten lead times and increase production capacity to meet that demand. The positive effects of these efforts will likely become evident during the next medium-term business plan period.

*Innovative Total Optimization (ITO): A new concept that seeks to utilize MHI Group's inherent potential to transform the future of the Group.

Q: Is profitability in Defense & Space continuing to improve, and is profitability in Commercial Aviation declining? Please provide some direction on this. Regarding the Australian frigate program, I expect that the margin will be good, as it is an export project.

Nishio: Regarding Defense margins, there is still room for improvement, since the proportion of new contracts is expected to increase in the future. Also, while Commercial Aviation is affected by foreign exchange rates, we believe profit margins will increase in this business, since we expect production to ramp up, especially for Boeing. I will refrain from commenting on the Australian frigate program, as negotiations on pricing and other factors are ongoing.

Questioner 7

Q: Could you provide a more quantitative overview of the guidance and state of progress regarding GTCC capacity expansion?

Nishio: Our plan remains to increase production capacity by 30% during the 2024 Medium-Term Business Plan period. Additionally, given the recently strong demand for electricity and the fact that we expect demand for gas turbines to increase even further, we have begun studies on potentially accelerating our capacity expansion plans or further increasing capacity.

Q: Are there any bottlenecks or supply risks associated with your GTCC capacity expansion?

Nishio: We are increasing capacity across the board. Not only will we strengthen our supply chain, but we will also increase production in terms of assembly and manufacturing capacity. We are also working to increase capacity in the US. In the area of human capital, we will increase headcount as needed and take appropriate actions.

Q: From the perspective of listening to what is happening on the ground, what do you talk about when you discuss the demand environment with your customer-facing GTCC and Nuclear Power sales and marketing staff? Have there been any changes recently?

Nishio: Just before our earnings announcements, we gather insights from our staff working on the front lines in sales and marketing, which informs our briefings. Basically, we aim to convey information from the field. Our information is always sourced from the front lines.

Q: What was the background for the strong orders in Nuclear Power?

Nishio: Order intake in Nuclear Power fluctuates greatly depending on the timing of the booking of large projects. The main reason for the YoY increase in orders in Q1 FY2025 was that we booked some large nuclear fuel cycle projects.

Questioner 8

Q: Many capital market participants seem to have the impression that progress in your structural transformation initiatives is somewhat slow. Could I get a comment on this? (Former CFO) Mr. Kozawa previously commented that your assessments regarding the “best ownership” of each business are moving quickly. However, there has been no concrete progress on this topic, and as summer reaches its peak, I feel we might end up welcoming in the New Year without any noticeable progress.

Nishio: That is a difficult question, and I frequently discuss this topic with the CEO. Such matters do not necessarily involve only divesting or acquiring businesses. MHI has around 30 business units, and we are now starting to look at our businesses more closely, combining or prioritizing them with a sense of urgency. Please bear with us a little longer.

Q: While you disclose order intake and revenue results by sub-segment, I believe it would be beneficial to break down the full-year guidance in your disclosure materials as well. There was some back-and-forth related to this during today’s Q&A session, and a large number of investors have become interested in MHI recently. Now that you have a new management team, why not improve your disclosures to better respond to investors’ requests?

Nishio: By engaging in dialogue with everyone in the capital markets, we aim to incorporate their wishes into our disclosure materials.

Note regarding forward looking statements:

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 US dollar and other foreign currencies, and trends in Japan's stock markets. The results projected here should not be construed in any way as a guarantee by the Company.

In response to US tariff policy, the Company is pursuing mitigation strategies focused on cost passthroughs. As of the date of this release, the Company expects any impact on performance to be limited in nature.

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