

Q&A Summary

Event Name: Mitsubishi Heavy Industries, Ltd. Q1-3 FY2025 Financial Results Briefing

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

Participant 1

Q: Following your 1H Financial Results, this is the second time you have increased the full-year order intake forecast in GTCC. Why was order intake higher than expected? Also, there have been comments that you expect order intake will remain high going forward. Do you expect ¥2 trillion or more in orders during the next fiscal year and beyond as well? You have also increased the full-year order intake forecast in Nuclear Power. Does this include orders for the Rokkasho Reprocessing Plant? Please tell us about the background of the increased guidance in both GTCC and Nuclear Power, as well as the outlook for the next fiscal year and beyond.

A: (Nishio) Demand has been stronger than expected in GTCC, and we have been steadily winning orders against that backdrop. Up until now, we have said that the overall market size will be around 70 GW per year from 2025 to 2027. Although we do not know the exact figure yet, demand seems to have been close to 100 GW in 2025. Although we cannot provide specific figures for next fiscal year's GTCC order intake forecast, we believe that strong order intake will continue, as we expect around 70 GW of demand in the market overall and are working to increase our production capacity. As for Nuclear Power, we have increased our full-year forecast this time in response to growth in orders for nuclear fuel cycle-related projects.

Q: I believe that there is a very tight supply-demand dynamic in the gas turbine market. Is profitability also improving?

A: (Nishio) Profitability at the time of order booking for new installations is improving year by year.

Q: You have increased the full-year business profit forecast in Others, Corporate & Eliminations by ¥10 billion. Am I correct in understanding that gains on asset sales are unchanged from the original guidance, and costs will be lower than expected? Will costs decrease during the next fiscal year and thereafter due to ERP system-related investments' having reached their peak, causing a decrease in negatives here?

A: (Nishio) We rounded down the business profit forecasts for each segment to the nearest ¥10 billion and added several billion yen of profit improvements from each segment to Others, Corporate & Eliminations. During the next fiscal year, the negatives here are not expected to decrease, because there are no plans for large asset sales, and expenses

required for company-wide development and functional integration initiatives will be recorded in Others, Corporate & Eliminations.

Participant 2

Q: The Q4 business profit forecast in Logistics, Thermal & Drive Systems is ¥1.6 billion, which represents a margin of around 1%. The business profit forecast in the Aircraft, Defense & Space is ¥34.6 billion, which is a margin of around 7.5%. These numbers are all worse than Q1-3. Perhaps foreign exchange rate assumptions are at play here, but what is causing these declines in business profit and margins?

A: (Nishio) The full-year business profit forecast in Logistics, Thermal & Drive Systems of ¥20 billion has been rounded down to the nearest ¥10 billion. There are no particular factors expected to cause a decline in profit in Q4, and we actually expect a little more growth. Similarly, there are no negative factors expected in Aircraft, Defense & Space, and we expect business profit to grow steadily together with revenue. However, our experience tells us that business profit in Commercial Aviation tends to be somewhat light in Q4, and we expect a similar situation this fiscal year as well.

Q: Regarding production capacity expansion in Defense, please give us a progress update on your plan to increase personnel by 40% and production equipment by 30% by FY2026. Also, what are the risks if things do not go as planned?

A: (Nishio) We are currently working to increase personnel, and capital expenditures are moving forward step by step.

Participant 3

Q: The business profit margin in Energy Systems was high in Q3, but were there any one-time factors behind this? Also, is it correct to assume that there are no factors expected to negatively affect the business profit margin in Q4? Is the bullish business profit margin forecast of around 14% in Q4 a sign of confidence or simply the result of mechanically deducting the Q1-3 results from the full-year forecast?

A: (Nishio) The business profit margin in Energy Systems fell during Q2 due to the booking of ¥30 billion in one-time expenses, but the margin was around 14% in Q1 and Q3. If everything goes well, we expect a similar margin in Q4.

Q: I believe the business profit margin in Aircraft, Defense & Space improved in part due to higher production rates in your Boeing programs. Can we take these numbers at face value—i.e., can we assume there were no one-time factors increasing profit and that profitability is steadily improving in both Defense and Commercial Aviation?

A: (Nishio) That is correct.

Q: At the last financial results briefing, there was a comment that order intake in Defense could exceed the full-year forecast depending on Japan's supplementary defense budget, but you did not increase the forecast this time either. Can we expect upside here? Also, is it likely that you will book the order for the Australian frigate program in the next fiscal year? Please provide some background on why you left the forecast unchanged.

A: (Nishio) First of all, we are currently negotiating the order for three frigates with the Australian government, aiming to sign a contract by the end of this fiscal year. However, we are not bound by any particular deadline. There is a possibility that the booking of this project will be delayed to the next fiscal year, so we have not included it in this year's order intake forecast. Also, the impact of the supplementary defense budget is somewhat unclear, so we did not revise the order intake forecast this time either.

Participant 4

Q: The ¥5 trillion of backlog in GTCC is equivalent to 5 years' worth of work, and it seems like you need to aggressively expand your production capacity. However, your cash flow figures do not show very large outflows from capital expenditures. How quickly and by how much are you increasing production capacity?

A: (Nishio) Of course, we are working hard to increase production, and we now have a line of sight to increase capacity by more than 30%. While we do need to strengthen the supply chain, we have already invested in final assembly capacity for gas turbines in the past—including at Savannah Machinery Works in the United States. Therefore, the first steps to increasing production capacity are shortening lead times and improving the utilization of existing assets. A considerable amount of capital expenditures will be needed to increase the production of hot parts for after-sales services, which will be required as the number of units delivered increases. However, please understand that this is not expected until a later phase, and it has not yet appeared in our cash flow results.

Q: You have sequentially increased your full-year free cash flow forecast, from negative ¥200 billion at the beginning of the fiscal year, to breakeven at the 1H release—and now to positive ¥200 billion. If cash flow is improving, from the perspective of shareholder returns, would it not be better to increase dividends?

A: (Nishio) The recent improvement in cash flow is mainly due to the booking of advances received in GTCC, which took in around ¥400 billion in Q1-Q3. However, since these advances will be used during project execution, we are only temporarily holding this cash on behalf of our customers—which is why we do not plan to use these funds for dividends. We will continue to consider appropriate shareholder returns based on our Dividend on Equity (DOE) model.

Participant 5

Q: Did you increase the order intake forecast in GTCC because of foreign exchange impact or because you are booking more gas turbine units and the service contracts that come with them? Are rising prices also a factor?

A: (Nishio) The ¥300 billion increase in the order intake forecast is not from foreign exchange impact or rising prices but is rather due to the fact that we are winning orders in excess of our initial expectations.

Q: Given the impact of the sale of Mitsubishi Logisnext, I believe that the ¥450 billion business profit target for the next fiscal year—as set out in the current medium-term business plan—will actually be around ¥420 billion. What are your expectations for upside and downside risks for each segment during the next fiscal year?

A: (Nishio) The next fiscal year is the final year of our 2024 Medium-Term Business Plan, and our targets are ¥5.7 trillion or more in total revenue with a business profit margin of 8% or higher. Considering that order intake is increasing due to strong demand, I think we can aim for ¥5.7 trillion in revenue even without Mitsubishi Logisnext. As for the business profit margin, we expect to achieve over 8% during the current fiscal year, and we do not expect any particular negative factors during next fiscal year, so we believe we can aim for our initial target. We cannot provide breakdowns by segment at this time, but we are not aware of any specific downside risks.

Q: As performance continues to improve, are there internal discussions about metrics such as ROE or ROIC?

A: (Nishio) Under the 2024 Medium-Term Business Plan, we have set an ROE target of 12% or higher. Although this is a challenging target, we plan to aim for 12% or above in the next fiscal year.

Participant 6

Q: During past briefings, MHI has commented that annual demand for gas turbines will be around 70 GW from 2025 to 2027, falling to 40-50 GW thereafter. Please let us know if there have been any changes to your medium- to long-term market outlook. Also, please tell us what factors led to the recent expansion of the market from 70 GW to 100 GW.

A: (Nishio) First of all, I would like to clarify that the information about market size potentially coming close to 100 GW is as yet uncertain, and I want to make sure to point out that I did not say it will definitely exceed 100 GW. Furthermore, although the future is still uncertain, our view remains that market size will be around 70 GW per year for the time being and that it will remain at around 50 GW after that. We do not have specific data on the factors causing market volume to exceed 70 GW, but we believe that it is due to an

increase in orders from utilities against the backdrop of booming electricity demand in the United States.

Q: Could you tell us why Plants & Infrastructure is doing so well, particularly the Engineering business?

A: (Nishio) The main reason that we increased the full-year order intake forecast is the signing of a contract for a fertilizer plant in Turkmenistan, which was not included in the original guidance. Business profit margins have improved in Metals Machinery and Machinery Systems, as well as in Commercial Ships. While the dropout of unprofitable projects from the previous fiscal year had something to do with this, steady progress in project execution in Metals Machinery and other plant-type businesses is the main reason for the increase in the full-year business profit forecast as well as the overall segment profit margin.

Q: Is it fair to expect that profitability at the time of order booking is on an upward trend and will continue to improve?

A: (Nishio) Overall, profitability at the time of order booking is improving. Although the depreciation of the yen is also involved, profitability at the time of order intake has been improving in all segments over the past two or three years. In particular, margins in GTCC have improved remarkably, but profitability in other segments is also increasing moderately.

Participant 7

Q: You increased the full-year order intake forecast in Steam Power. The global trend toward decarbonization is beginning to change, but have you seen a surge in demand or a change in general sentiment in this area? Also, while you booked around ¥100 billion in orders each quarter through Q3, please let us know why the Q4 order intake forecast is less than ¥40 billion.

A: (Nishio) There is no change in the general trend of phasing out coal-fired thermal power plants, and it is difficult to build new ones. However, the reality is that coal-fired thermal power plants still need to be operated, and we are starting to see moves to extend the life of existing plants. Against this backdrop, we have shifted to an organization specializing in after-sales services, and order intake is increasing. The quarterly order intake forecast is not precisely aligned with the annual forecast, so the figure you mentioned ended up a bit conservative after adjustment within the full-year total.

Q: Is it correct to assume that order intake in Steam Power will not drop significantly—as was originally expected—and will instead continue at around ¥300 billion per year for the time being?

A: (Nishio) We had expected that—as decarbonization progressed—order intake would decrease to around ¥200-250 billion, but it will not fall that far. Order intake will likely be around ¥300 billion for the time being and may slightly increase in some cases.

Q: CEO Eisaku Ito has announced an initiative to improve profit margins through optimization across and within divisions. Have you seen any concrete results from this?

A: (Nishio) ITO* is a management methodology, and therefore it is very difficult to measure its fiscal impact in a quantitative way. ITO initiatives are starting to become established across the organization, and we expect their impact to appear in our performance and KPIs from the next fiscal year onward.

*Innovative Total Optimization (ITO): A management strategy and methodology that aims to unlock MHI Group's maximum potential, achieving sustained growth through Group-Wide Optimization and Reach Expansion.

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 U.S. 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 U.S. 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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