Q&A Summary

Event Name: Mitsubishi Heavy Industries, Ltd. FY2025 Financial Results Briefing
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Speaker: Eisaku Ito (Member of the Board, President and CEO)
Hiroshi Nishio (Member of the Board, Senior Vice President, and CFO)

Participant 1

Q: Gas Turbine Combined Cycle (GTCC) order intake tends to come in above forecast each year, but the initial forecast for FY2026 is high at over ¥2 trillion. Does this reflect an extensive order pipeline? Also, was the upside in FY2025 Defense order intake attributable to the booking of frigates for Australia?

A: (Nishio) Demand for GTCC remains very strong, and actual order intake in FY2025 significantly exceeded the forecast issued in February. Although we already had an extensive order pipeline in February, we included a buffer in the forecast to account for projects where booking during FY2025 was uncertain. Ultimately, we secured a substantial number of orders. The FY2026 forecast is lower than FY2025 mainly due to a high base effect from the large Taiwan Power Company turnkey project we booked in FY2025. On a unit basis, however, we expect orders in FY2026 to be on par with or exceed FY2025.

Regarding the upside in Defense order intake, the forecast in February did not include the frigates for Australia, but since we finalized that contract during FY2025, we were able to include it in our order intake results for the year.

Q: Could you outline the drivers of profit growth and margin improvement in the Energy Systems segment expected in FY2026? Also, was the FY2025 Industrial Power Solutions goodwill impairment included within the Energy Systems segment?

A: (Nishio) We expect improvement in Energy Systems segment margins will primarily be driven by GTCC. In particular, original equipment margins at the time of order booking have improved significantly. As such, we expect margin improvements to continue as we steadily execute the backlog. Moreover, efficiency gains from our ITO* initiatives – which are in the process of implementation – are expected to make significant contributions to profits.

The goodwill impairment in Industrial Power Solutions was included in Others, Corporate & Eliminations in the FY2025 results.

*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.

Q: How is the current status of efficiency improvements under the ITO initiative? Can we expect greater impact on performance going forward?

A: (Ito) In GTCC, we have identified over 1,000 specific action items aimed at improving factory productivity, working to shorten lead times and increase throughput across all processes. We have a line of sight to increase production capacity by 30% by FY2028 and are considering further capacity expansions and lead time reductions. By further shortening lead times, we will be able to cut costs below initial estimates made at the time of order booking, thereby transforming projects into high-margin opportunities. We are also strengthening project risk management, focusing on rigorous front-end intake management to avoid cost overruns down the line.

Participant 2

Q: The Energy Systems segment's business profit margin has improved steadily from 13% in FY2025 to a forecast of 15.5% in FY2026. Considering that revenue from GTCC projects with improved pricing will be recognized in FY2029-30, and revenue from Nuclear Power – which already has high margins – will also increase, can we expect a 20% business profit margin in this segment? Let us know your medium- to long-term margin target for the Energy Systems segment, if there is one.

A: (Nishio) Our FY2026 margin forecast includes a risk buffer of around ¥20 billion. If risks do not materialize, we can expect margins to improve further. While I cannot share specific figures for the longer term, we will aim to reach the profitability levels targeted by the next medium-term business plan.

Q: Is the Australian frigate order for three vessels? Also, have the project's margin and monetary value increased compared to previous media reports or your forecasts?

A: (Nishio) We cannot disclose specifics about individual projects, but I can say that the order is for three vessels.

Participant 3

Q: I expect that GTCC margins will improve further as a result of ITO. Could you explain how the benefits of ITO initiatives aiming to improve margins and increase production capacity will materialize? Also, before implementing the ITO initiatives, are you planning to increase utilization of your U.S. production facilities?

A: (Ito) Productivity improvement is our top priority in GTCC. If we were to invest in capacity expansion based on current production methods, fixed costs would increase proportionally. Therefore, we aim to improve productivity first, after which we will address any remaining capacity shortfalls by investing in equipment. This approach will keep operations lean while targeting a high-profit business model. Simply put, the idea is to increase order volume without raising fixed costs, thereby significantly boosting margins.

We are already expanding capacity for hot parts used in after-sales services – such as precision castings – and for which an increase in demand is guaranteed.
We also rigorously manage risks before signing contracts – checking for unfavorable contract terms, issues with supplier capabilities, and shortfalls in engineering resources for on-site work – to prevent losses and enhance productivity.

Q: Regarding gas turbine demand, your previous forecasts expected a decline to about 70 GW annually. Your latest comments seem more optimistic compared to a year ago. Are you now aligned with other companies' forecasts that expect demand to remain around 100 GW for some time?

A: (Ito) We do not expect demand to continue at 100 GW. Previously, we forecasted an average of 50-60 GW over the next five years, but now we see demand rising by around 10 GW to an average of around 70 GW.

Q: Japan has removed export restrictions on defense equipment – which had limited the overseas transfer of defense-related systems to five categories – and there have been various media reports on the topic. Do you generally aim for higher margins on overseas defense contracts compared to domestic programs?

A: (Ito) Contracts with the Japan Ministry of Defense have clearly defined responsibilities based on our long-standing relationship with them, and there are a variety of uncertainties when dealing with first-time overseas customers. The Australian frigate project is particularly complex, and even when contract terms use similar language to domestic programs, differences in business practices require adjustments. Because of these risks and the need to deal with unfamiliar items, pricing is somewhat higher.

Participant 4

Q: What kind of risks are covered by the ¥20 billion buffer included in the FY2026 Energy Systems segment business profit forecast? Does it factor in potential geopolitical risks in the Middle East or anticipated additional costs in ongoing projects?

A: (Nishio) This item is not tied to any specific projects and is included as a general risk buffer.

Q: Although GTCC order intake is expected to decline YoY in monetary value during FY2026, is it fair to say that order volume on a unit basis is expected to be on par with FY2025?

A: (Nishio) Yes, we expect unit orders to be around the same as – or higher than – FY2025.

Q: What is the current annual production capacity for gas turbines?

A: (Ito) While we cannot disclose the exact number, we plan to increase production capacity by 30% by FY2028 while keeping capital expenditures to a minimum. We are also considering further expansion.

Participant 5

Q: You expect GTCC revenue to increase around 11% in FY2026, but could capacity expansions lead to upside here? Also, with your competitors aggressively investing in capacity and aiming to win orders, how do you view the risk of market share erosion?

A: (Ito) Our revenue forecast is based on the timing of shipments for existing orders.
(Nishio) To clarify, revenue is booked according to percentage-of-completion accounting based on the existing backlog, so revenue does not directly correlate with production or shipment volumes.
(Ito) We specialize in large, state-of-the-art gas turbines, and considering the volume of inquiries we are receiving, my impression is that customers are prioritizing MHI. Many orders are from utilities who use their gas turbines for baseload power generation, and they choose MHI based on the high efficiency and reliability of our products. GE Vernova has a full lineup from large frame to aero-derivative and small- and mid-size gas turbines, and we infer that they are winning orders by filling gaps in large frame gas turbine supply with some of these smaller models. Similarly, Siemens Energy is strong in small- and mid-size gas turbines – in addition to the large frame – and has a high share in the smaller segment. During FY2025, capacity constraints limited production at all of the manufacturers, and those who maximally utilized capacity in each product segment gained the largest share. As demand normalizes, the focus of competition will shift back to reliability and performance, at which point there will likely be a chance for us to win back the top market share.

Q: You mentioned that you are deploying capital expenditures for gas turbine materials production. Are there any potential bottlenecks in these processes, including suppliers?

A: (Ito) Most processes that could become bottlenecks are performed in-house, so currently there are no supplier-related bottlenecks. Furthermore, we proactively share information with suppliers as early as possible to avoid delays in securing materials.

Participant 6

Q: The goodwill impairment in Industrial Power Solutions is related to the data center business, but it seems unusual for impairment losses to occur in this area. ¥30 billion is a substantial amount, so could you provide us with some more details on this?

Also, you mentioned that you moved the data center business to the Industrial Solutions segment in FY2026. Which segment was the data center business in previously, and how much revenue does it generate?

A: (Nishio) The impairment was related to Concentric, LLC, which has two businesses: data centers and motive power (forklift battery maintenance). These businesses generate around ¥70 billion in total revenue annually. The motive power business underperformed in FY2025, and a goodwill impairment test based on cash flow projections resulted in an impairment loss. Going forward, Concentric plans to shift resources from motive power to actively grow their data center business. Since the data center business was still in an early growth phase, it was located in Others, Corporate & Eliminations through FY2025.

Q: Have you seen any changes in GTCC advanced payment intake?

A: (Nishio) There are effectively only three large frame gas turbine manufacturers in the market, and the supply-demand dynamic remains tight. Customers continue to provide us with advanced payments in order to secure production slots. In fact, these kinds of payments may be even more common now.

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