<u>Q&A Summary</u>

Event Name: Mitsubishi Heavy Industries, Ltd. Q1 FY2026 Financial Results Briefing
Date: August 6, 2026
Speaker: Hiroshi Nishio (Member of the Board, Senior Vice President, and CFO)

Participant 1

Q: Energy Systems recorded a business profit margin of 18.9% in Q1, well above the full-year forecast of 15.5%. I assume this includes certain one-time items. How much of Q1 business profit was attributable to such items? Excluding these items, how do you assess the underlying rate of progress against the full-year plan?

A: (Nishio) Most of the business profit attributable to one-time items in Q1 was recorded in Energy Systems. These items totaled approximately ¥25 billion, comprising around ¥15 billion in profit recognized following the finalization of the contract price for a large-scale, long-term plant construction project and approximately ¥10 billion in gains on sale of project investments. Even excluding these items, the business profit margin exceeded the level assumed in our full-year forecast. We therefore believe there may be some upside to our full-year guidance.

Q: You have raised the full-year order intake forecasts for both GTCC and Defense by ¥100 billion. What drove the upward revision for GTCC? With respect to Defense, was the revision the result of a more detailed review of the project pipeline, or has there been some significant change, such as a larger allocation of funding to missile-related programs and stronger-than-expected order intake?

A: (Nishio) GTCC demand remains strong, particularly in North America. When formulating our initial forecast, we identified prospective projects and calculated expected order intake by assigning a probability of award to each project. Based on progress through Q1 and the continued strength of demand, we raised the forecast by ¥100 billion. The revision was not prompted by the award of any particular large-scale project. Rather, it reflects our assessment of overall market conditions. The same applies to Defense. The upward revision was not driven by the addition of any specific new project. After reassessing Q1 progress and reviewing the expected accumulation of orders over the full year, we concluded that a further increase of approximately ¥100 billion was achievable and reflected this in our forecast.

Participant 2

Q: Simply dividing GTCC order intake by the number of gas turbines booked suggests that the average order value per unit has increased significantly. Since the scope of work differs from contract to contract, does this reflect an increase in the number of higher-margin projects? Please explain the reasons for the increase in average order value, including the regional mix of orders and current supply-demand conditions.

A: (Nishio) Order intake includes after-sales services, and the scope of work undertaken by MHI also varies by project. It is therefore not possible to calculate a meaningful average price per unit simply by dividing order intake by the number of units booked. We received orders for ten large frame gas turbines in Q1, comprising four units for the United States and six for Japan. Projects in Japan generally involve a relatively broad scope of work, which is one factor contributing to the higher average order value. In the Americas, commercial discussions continue against the backdrop of extremely strong demand. Order pricing has not declined, and the profitability of newly booked projects continues to improve gradually.

Q: There have been some concerns that supply-demand conditions may begin to soften, particularly for small- and mid-sized gas turbines. Is it correct to understand that the market for large frame gas turbines, particularly in the United States—which is MHI's principal market—remains strong and that profitability at the time of order booking continues to improve?

A: (Nishio) In the large frame gas turbine market on which we focus, particularly among our core U.S. utility customers, we are being selective in the projects we contract. Within this market and customer segment, there has been no change in the strong supply-demand environment or in the trend of improving profitability on new orders. We continue to monitor market conditions closely, but at present, the trends we have seen to date remain intact.

Q: Do the GTCC projects currently being booked correspond to deliveries around 2031?

A: (Nishio) The projects currently under discussion with customers will generally be delivered around 2030 to 2031. However, the projects we are currently booking are scheduled for somewhat earlier delivery. Delivery timing varies by project, but the orders booked in Q1 are generally scheduled for delivery between 2028 and 2030.

Q: Energy Systems' Q1 business profit margin appears high even after excluding one-time items. Although the proportion of revenue from original equipment sales has increased slightly relative to after-sales services, the business still achieved a high margin. Was the margin boosted by factors seen in other industries, such as U.S. tariff refunds, or should we view this as an underlying improvement in GTCC profitability?

A: (Nishio) Tariff refunds or similar factors did not contribute to the increase in the Q1 margin. Because orders for original equipment have been strong, the proportion of after-sales services in the revenue mix has declined slightly on a relative basis. At the same time, the profitability of original equipment orders, particularly those for the United States, has improved significantly, and the benefits are beginning to be reflected in revenue and profit. Accordingly, even though the relative contribution from after-sales services has declined, improved margins on original equipment projects have lifted the overall profitability of the Energy Systems segment above previous levels.

Q: In the past, the GTCC business profit margin was generally considered to be in the low-to-mid teens, but it now appears to be approaching 20%. Is it reasonable to assume that profitability will continue to improve toward FY2028?

A: (Nishio) As higher-margin orders are progressively recognized as revenue, we expect the profit margin to improve gradually.

Participant 3

Q: The free cash flow forecast has been revised upward every few months. Three months ago, you forecast free cash flow of ¥300 billion for the current fiscal year, whereas the latest forecast is now ¥600 billion. At the same time, there has been no change to the dividend or capital expenditure plans. How do you intend to use the additional cash? Advances received in GTCC appear to be increasing by more than expected, and free cash flow could ultimately exceed ¥600 billion. Could you provide some indication of how the funds may be allocated?

A: (Nishio) The main reason for the upward revision to our full-year free cash flow forecast is that advances received in GTCC have increased more than expected. However, these are advance payments that will be used over time as we execute the project backlog. The fact that cash has accumulated in the near term does not mean that it can immediately be treated as surplus funds available for allocation. We are currently formulating our 2027 Medium-Term Business Plan (MTBP). As part of that process, we are carefully assessing the extent to which we can continue to grow earnings and the level of investment required to support future growth. Based on that assessment, we are also considering measures to further improve capital efficiency.

Q: If the GTCC order environment remains strong, there is a possibility that the free cash flow forecast could be raised again in three months. We are also receiving many questions from overseas investors about the use of cash. Can you provide a more specific answer?

A: (Nishio) The latest upward revision reflects not only higher advances received in GTCC but also changes to the timing of certain major investment projects. As part of the 2027 MTBP currently under consideration, we will continue to refine our projections for future earnings growth and the investment required to support that growth. Once those deliberations have been completed, we intend to explain our approach to capital allocation.

Q: Of the ten large gas turbines ordered in Q1—four for the United States and six for Japan—are all ten covered by long-term service agreements (LTSAs)?

A: (Nishio) The projects in the Americas include LTSAs. For projects in Japan, after-sales services are generally contracted separately on an annual basis.

Participant 4

Q: Assuming that all of the approximately ¥25 billion in one-time items was recorded in Energy Systems, I estimate that the business profit margin would be approximately 15% after deducting ¥25 billion from both business profit and revenue. Is that calculation broadly correct? I also understand that the full-year business profit margin forecast of 15.5% includes a risk buffer of approximately ¥20 billion. Even after taking that into account, do you still see upside potential? How do you assess progress on a quarterly basis?

A: (Nishio) We do not set detailed quarterly plans. For Q1, most of the approximately ¥25 billion in one-time items was recorded in Energy Systems. Even after excluding these items, the business profit margin exceeded the level we are targeting for the full year. However, of the approximately ¥25 billion, the roughly ¥10 billion in gains on sale of project investments only affected profit. This should therefore not be deducted from revenue.

Q: GTCC commercial discussions are already progressing for projects scheduled for delivery from 2030 onward. At a previous briefing, you indicated that production capacity would be doubled relative to FY2024. Are you building the current order book on the assumption that this doubling of capacity will be achieved, or will you expand order intake only after there is greater certainty regarding the capacity increase? You previously referred to annual orders of around 35 units. What is your current outlook for order intake?

A: (Nishio) There has been no significant change in our basic approach. Demand for large frame gas turbines remains broadly in line with, or slightly above, the strong level we had anticipated. The expansion of production capacity needed to meet that demand is also progressing smoothly. That said, the fact that production capacity is expected to double in the future does not mean that we are immediately seeking to book twice as many orders as before. We are building the order book while carefully monitoring progress on the capacity expansion and confirming the extent to which additional capacity can be brought on stream with sufficient certainty.

Participant 5

Q: What specific project investments were sold to generate the approximately ¥10 billion in gains recorded as one-time items in Energy Systems?

A: (Nishio) The gains arose from the sale of investments in several power generation projects. These included a project in South America in which we had invested with the aim of securing an order for MHI gas turbines. Once the gas turbine order had been secured and the investment had fulfilled its original purpose, we sold our equity interest. We also divested several other power generation projects, including investments in onshore wind and solar power. The approximately ¥10 billion represents the aggregate gain from these divestments.

Q: I understand that the accounting treatment under which profit is not recognized until the contract price is finalized has been applied for some time, and that similar profit recognition therefore occurs to some extent on an ongoing basis. You recognized approximately ¥15 billion in profit this time. Was the corresponding adjustment to revenue also approximately ¥15 billion, or was the impact on revenue larger? In addition, given the transition from a deflationary to an inflationary environment, it may be that a particularly large amount of profit was recognized at one time in this case. How should we think about the possibility of similar gains arising in the future and the remaining amount of profit associated with contract prices that have yet to be finalized?

A: (Nishio) This was an exceptionally large, long-term construction project, and we do not expect gains of a similar nature to arise frequently in the future. In ordinary projects, cost contingencies may become unnecessary when construction progresses smoothly and may ultimately be materialized as profit. We expect these kinds of situations to continue. However, there are not many projects in which a large amount of profit is recognized at one time because a previously unsettled contract price has been finalized, as occurred in this case. The profit recognized this time was approximately ¥15 billion, while the corresponding adjustment to revenue was greater than ¥15 billion.

Q: Was the project related to gas turbines or conventional thermal power?

A: (Nishio) We would prefer not to comment on the nature or location of the project.

Q: In Defense, I understand that you are working to expand production capacity, including the introduction of a new production facility in the Nagoya area. This is likely to be related to the next MTBP, but at what pace do you intend to increase production capacity?

A: (Nishio) At present, we do not have a clear-cut data point that directly indicates the increase in production capacity. Defense order intake has been approximately ¥1.5 trillion annually for the past three years. Following the latest upward revision, we are also forecasting approximately ¥1.5 trillion in orders for the current fiscal year. Going forward, we expect revenue to increase gradually toward that level of annual order intake. We are therefore investing in facilities and expanding production capacity so that we can meet the corresponding level of demand.

Q: Is it correct to understand that the next MTBP will provide a more detailed explanation of the planned expansion in production capacity?

A: (Nishio) In the next MTBP, we intend to provide greater detail than is currently available.

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