Investor Day Q&A Session

Date: Tuesday, June 2, 2026

- Attendees:

・ Hiroshi Ide, Representative Director, President & Chief Executive Officer (hereafter “Ide”)
・ Hideo Morita, Representative Director and Senior Executive Officer and General Manager of Corporate Technology Strategy Office (hereafter “Morita”)
・ Jun Kobayashi, Representative Director and Senior Executive Officer (hereafter “Kobayashi”)
・ Atsushi Sato, Representative Director and Senior Executive Officer, and President of Aero-Engine, Space & Defense Business Area (hereafter “Sato”)
・ Kiyoshi Nihei, Managing Executive Officer and President of Industrial Systems & General-Purpose Machinery Business Area (hereafter “Nihei”)
・ Noriaki Ozawa, Managing Executive Officer and President of Resources, Energy and Environment Business Area (hereafter “Ozawa”)
・ Hiromi Oshima, Managing Executive Officer and General Manager of Finance & Accounting Division (hereafter “Oshima”)

The following is a transcript containing the majority of discussion at the Investor Day Q&A. Certain portions have been edited for clarity.

<Questioner 1>

Q: On the nuclear energy business, while page 6 of the opening remarks describes it as highly profitable, it does not appear to be included among the profit growth drivers in Phase 1 on page 2 of the section on Financial Strategy & Capital Allocation. At the same time, the section on the Nuclear Energy Business seems to suggest sales growth from overseas projects for new construction during Phase 1. How should we interpret the assumptions regarding the operating margin?

A: (Ide) While we do expect growth in the nuclear energy business itself, the overall structure is not one in which the operating margin changes significantly.

(Ozawa) It depends on the timing of growth in demand for new construction overseas. While we are already receiving inquiries, we believe full-scale construction of large reactors and SMRs will begin around 2028 to 2030, after which demand is expected to ramp up significantly. For the first three years, we are not assuming substantial sales. The data should be interpreted as being based on expansion occurring from 2029 onward.

Q: Concerning the profitability of the nuclear energy business: Assuming the overall IHI Group operating margin in Phase 1 is expected to be around 10%, what should we expect for the profitability of the nuclear energy business?

A: (Oshima) We refrain from disclosing specific operating margins by business segment. That being said, profitability is at a higher level than in the past. Our policy is to maintain current profitability levels while pursuing even further improvement.

Q: For the overseas projects for new construction on page 10 in the section on the Nuclear Energy Business, which areas serve as the source of earnings in the overseas business, including large reactors and SMRs?

A: (Ozawa) In overseas projects for new construction, the core areas in which we are engaged are the manufacturing of key equipment such as reactor pressure vessels and containment vessels. We are responsible for supplying this equipment. There are only a limited number of competitors in these fields, and we are already receiving multiple consultations and inquiries at this stage. We are making progress toward securing projects for new construction mainly in Europe and the United States. In particular, projects in the United States are moving forward within the context of the United States-Japan cooperation and investment into the United States.

Q: In Phase 1, is it correct to understand that overseas large reactors will account for the core of earnings from projects for new construction?

A: (Ozawa) At present, we expect earnings to be supported by both large reactors and SMRs. Large reactors are an area where we have an established track record, and we are already receiving concrete inquiries. At the same time, specific discussions regarding SMRs are also emerging in the context of investment into the United States, and we believe both will progress in parallel in the not-too-distant future.

Q: Is it reasonable at this stage to assume the mix will be roughly split evenly between large reactors and SMRs in these projects for new construction?

A: (Ozawa) We will refrain from commenting on the specific mix. Generally speaking, large reactors are characterized by large investment scales, while SMRs involve smaller project sizes on an individual basis. This should be taken into account when considering the mix.

(Ide) Recently, against the backdrop of rising demand for data centers and other factors, plans for nuclear energy have been increasing mainly in the United States and Europe. IHI has a track record of supplying reactor equipment to Westinghouse. In addition, within the context of the United States-Japan investment, we are also holding discussions with GE Vernova. At present, we are still in the stage of assessing whether large reactors or SMRs will lead the market first.

While Southeast Asia is still in the process of developing regulatory frameworks, both large reactor and SMR plans are emerging with Japan, the United States, and Europe as leading markets. We are not yet at the stage of indicating a composition ratio but demand itself is materializing.

Q: On price pass-through and the margin structure in the aero engine business: My understanding is that in Phase 1, newly manufactured engines have low margins, while expansion of the aftermarket business contributes to profitability. However, at other companies, unit prices for newly manufactured engines are rising and spare engines appear to generate high margins. Is IHI also able to pass through price increases?

A: (Sato) As you pointed out, newly manufactured engines are provided at discounted prices, and profitability is generally low. Installed engines supplied through airframe manufacturers are set at particularly low-price levels. On the other hand, spare engines for airlines tend to be priced higher than installed engines.

Q: Is it correct to understand that spare engines are sold at a profit, or that high margins are secured on them?

A: (Oshima) We will refrain from commenting on individual profitability at this time. However, the underlying assumptions are as reflected in page 4 of the section on the Civil Aero Engines Business and Defense Business. At present, the important point is not the profitability of newly manufactured engines on a standalone basis, but rather steadily introducing new engines into the market and building up our stock. This will form the basis for expansion of the aftermarket business over the medium- to long-term. With this in mind, we intend to steadily advance production.

Q: Have prices for spare engines increased to a reasonable extent over the past several years?

A: (Sato) In coordination with OEMs, we are working to reflect cost increases in pricing.

<Questioner 2>

Q: How does the Company position ROE? ROE in the previous fiscal year was high at 28% but is expected to decline going forward due to the accumulation of equity. Considering these trends, why was ROE not presented as a target this time? How does the Company position ROE over the medium term and to what extent will it emphasize it?

A: (Oshima) The reason ROE is currently high is that equity (the denominator) has been reduced due to losses incurred in the past. Basically, we view ROE as an indicator of results. Rather than focusing on it directly as a target, we place greater emphasis on ROIC and financial

leverage, which are its component elements. First, we will ensure a spread in which ROIC exceeds WACC, while advancing investment and profit growth. Thereafter, in Phase 3, against the backdrop of growth in operating profit and free cash flow and taking into consideration funding requirements for M&A and capital expenditures, we intend to strengthen shareholder returns through dividends and other means. As a result, we envision ROE in the range of approximately 15% to 18%, with the possibility of reaching close to 20% if conditions are favorable.

Q: At the end of Phase 2, what level of ROE is assumed?

A: (Oshima) It will depend on investment progress and underlying assumptions, but we believe ROE could reach around 15% to 16% in the latter half of Phase 2. This is only an indicative level, as it may fluctuate depending on various factors.

Q: In the operating profit outlook shown in the waterfall chart on page 5 of the opening remarks presentation, I understand that the term “growth business” refers to newly manufactured engines, but over the next three years, including defense and aero engines, which businesses are expected to make the largest contributions?

A: (Ide) The stable earnings businesses consist of the three areas of energy, industrial machinery, and social infrastructure (excluding aero engines and nuclear energy). In energy, we have a lifecycle business (LCB) centered on maintenance and servicing of domestic coal-fired power plants. Recently, demand has been stronger than expected in light of the situation in Iran and other factors. This allows us to secure earnings through maintenance work as a boiler manufacturer. Last year, the LCB coal-fired power and power systems achieved record-high profits, although it was difficult to see due to losses on overseas projects. Maintenance work fluctuates on a biennial basis. Last year was a trough year, but this fiscal year is in a recovery phase. We expect further improvement from this fiscal year onward. In industrial machinery, we are concentrating on high-profitability fields such as urban markets while strengthening services. We expect growth in rotating machinery, heat treatment and surface engineering, and parking systems. In social infrastructure, although new domestic construction projects are limited, our business is centered on maintenance. Profitability is increasing through the expansion of high-difficulty projects such as the Daishi Bridge project (for example, construction work minimizing traffic restrictions). Across these three land-based business areas, we intend to steadily contribute to earnings even during the next three years, which will be a period of heavy investment burden.

<Questioner 3>

Q1: How should we think about the assumption of current ROIC at 11% and more than 13% over the medium- to long-term by segment, and what is the timeline from 11% to 13% across Phases 1 through 3?

A: (Ide) We do not disclose ROIC by segment. Oshima will provide additional comments regarding the timeline.

(Oshima) Please refer to page 6 of the opening remarks presentation. Although we have not disclosed specific figures, our objective is for ROIC to consistently exceed WACC. Currently, excluding overseas subsidiaries in the energy business, there are basically no businesses with ROIC below WACC. We will continue investing in civil aero engines, defense, and nuclear energy, where solid demand is expected. Although it will take some time, we intend to expand profits. While ROIC could decline temporarily due to investments, we will also proceed with asset compression in parallel. In Phases 1 and 2, we would like to maintain the current level of around 11%. In Phase 3, we aim to achieve more than 13% through profit expansion in civil aero engines and asset compression, including shareholder returns. Even while making investments, we will work to limit any decline in ROIC and continue managing the balance sheet appropriately.

Q: How does the Company view the positioning of the turbocharger business? Although the plan assumes operating margin improvement amid declining sales, how does the Company view the necessity of continuing to operate this business in-house in the first place?

A: (Ide) The strength of the turbocharger business lies in advancing development in a tailor-made manner while staying close to customers' needs. This is highly valued by Japanese manufacturers and European luxury automakers. On the other hand, in light of the progress of electrification, we do not believe the current structure is sufficient. It is important both to thoroughly streamline the business and to determine how to respond to future market changes. In particular, we are advancing development regarding how to deploy our turbocharger technology for HEVs (hybrid electric vehicles).

(Nihei) HEV development is currently entering a full-scale phase. There is a growing trend toward increasing output through a combination of engine downsizing and turbochargers. As compactness and integration with the engine become increasingly important, one characteristic of our approach is that we do not simply wait for customer requests but instead engage proactively from the early design stage with proposal-based involvement. In particular, speed is emphasized among Japanese customers, so we are working under a structure that enables us to respond ahead of demand.

<Questioner 4>

Q: My understanding is that in the civil aero engine business, medium- to long-term growth assumes the expansion of newly manufactured engines and growth in aftermarket revenues. However, this is also a business with significant year-to-year volatility. How does the Company intend to address this volatility? In addition, how are the effects of business initiatives such as profitability improvements for newly manufactured engines reflected in the current plan?

A: (Sato) In the past, losses have occurred due to quality issues. As the scale of the business expands, there is a possibility that maintenance costs arising from quality and durability issues could increase temporarily. We believe it is important to steadily resolve the technical issues that become sources of such volatility. To that end, we are advancing technological development while also strengthening efforts to feed back field data analysis into design. These technical initiatives form the base of our approach. Also, rather than relying solely on the civil aero engine business, we are also expanding the scale of our defense and space businesses in order to enhance overall resilience against volatility.

Q: The profitability of newly manufactured engines and spare parts is being presented as factors behind year-on-year fluctuations. What specific initiatives are being undertaken to improve profitability?

A: (Sato) In order to respond to strong demand, we are expanding our production base. This goes beyond simply increasing capacity, as we are also working to improve efficiency through automation and the use of DX. As a result, the effects of cost reductions are beginning to emerge. Profitability for newly manufactured engines as a whole remains challenging. Even so, we continue to pursue improvements aimed at reducing the scale of losses.

Q: On page 5 of the opening remarks presentation, while it is understandable that focusing on LCBs will improve the operating margin, in which areas does the Company intend to build up LCB earnings on a larger scale across the Group?

A: (Ide) In addition to bridges and parking systems, the power system business is also growing. With respect to gas engines and diesel engines (for coastal vessels, tugboats, etc.), resources had previously been concentrated on new installations. Insufficient attention has been devoted to these areas, but we are now prioritizing the highly profitable LCB domain. Even within LCBs, we are narrowing down the range of legacy engine models and concentrating on high-selling products, while shifting our focus toward spare parts and maintenance. This has resulted in an improvement in operating margin from the single-digit range to the double-digit range. We hold approximately a 70% share of the domestic market and also maintain a certain share overseas. We are working to achieve both volume expansion and profit growth. This way of thinking is

common across bridges, energy, and industrial machinery as well. It is important to allocate limited resources toward high-profitability areas. For example, we hold the top domestic market share in water gates, and the number of large-scale maintenance projects associated with aging infrastructure replacement is increasing. Maintenance businesses may have the image of being small-scale, but in recent years the number of large projects with extended construction periods has also increased. This has contributed both to top-line expansion and earnings generation. We position these LCBs as stable sources of earnings that will support overall company profitability even during periods of heavy investment burden.

<Questioner 5>

Q: In the overseas nuclear energy market, my understanding is that PWRs are the mainstream technology, while BWRs account for a relatively smaller share. Given that IHI's strength lies in BWRs, can the Company still secure order opportunities in PWR projects?

A: (Ozawa) Overseas new-built plans for both large reactors and SMRs are becoming more concrete. We have extensive experience in manufacturing pressure vessels and containment vessels for BWRs, so we are receiving a large number of inquiries. We expect this to continue going forward. On the other hand, with respect to PWRs, we are not currently assuming that we will directly handle reactor pressure vessels. That being said, we are capable of supporting containment vessels for both BWRs and PWRs. In fact, we have a track record of supplying containment vessels for the Vogtle Electric Generating Plant in the United States (Westinghouse's AP1000). Accordingly, there are areas in which we can be technically involved even in PWR projects.

(Ide) Our nuclear energy-related equipment business is centered on three fields: pressure vessels, containment vessels, and steel modules. For the Vogtle Electric Generating Plant project, we supplied steel modules in addition to containment vessels. The NuScale SMR, in which we have invested, is also a PWR, and we are in discussions regarding equipment supply. Pressure vessels are mainly limited to BWR applications, but for other key equipment we support both PWRs and BWRs. As production capacity is limited, rather than expanding into all fields, we intend to focus on our strengths and respond steadily on the basis of safety and quality.

Q: For the operating margin in the resources, energy and environment business, what differentiates the upper end (13%) from the lower end (11%) of the Phase 3 operating margin range in terms of scenario assumptions? In particular, should we anticipate margins moving closer to 13% if the overseas business ratio expands?

A: (Oshima) We believe there is substantial room for future growth in the energy domain. One factor behind opearting margin improvement is that the composition ratio of the nuclear energy business is expected to increase. The LCB in the carbon solutions field also has a high operating margin, and business opportunities are expanding. On the other hand, while we are not disclosing details of the underlying assumptions, the current plan as a whole has been formulated conservatively.

<Questioner 6>

Q: I would like to confirm two points on aero engine MRO. First, for the engine test facility development shown on page 8 of the Civil Aero Engines Business and Defense Business section, up to what engine size will the facility support for civil applications? How do you view the ramp-up timeline? Second, my understanding is that MRO can be a significant driver of profitability, depending on how the supply chain and operational setup are structured. How do you view the earnings contribution of the maintenance business itself, and what operating margin target do you have in mind, given that overseas peers generally achieve margins of around 10%?

A: (Sato) Regarding the engine test facility on page 8, it is difficult to disclose the specific engine sizes we will support at this stage. However, the engine test facility project is intended to expand maintenance capacity for the PW1100G (the engine used on the A320neo), which is the core of our maintenance business, and we are proceeding with the development of test cells capable of operating that engine.

(Oshima) The civil aero engine business consists of engine business and aftermarket, and maintenance and repair operations. While we are not disclosing specific figures for the profitability of maintenance and repair operations, the general image is that the operating margin is at a high level. We believe that investment effects in this field will contribute to profits relatively quickly. From 2028 onward, through both operating margin improvement and sales expansion, this area will become a factor driving overall earnings growth.

Q: Do you believe it is possible to improve MRO profitability from current levels through Phases 1 and 2?

A: (Ide) Yes. For that reason, we will expand the maintenance facility in Tsurugashima in stages. As explained earlier, this is an area where returns can be expected relatively quickly, and it is therefore one of the initiatives we are prioritizing.

Q: On the cost of capital, I would like to confirm not only the ROIC framework, but also the assumptions used in setting the cost of capital for each segment. Also, is it correct to understand

that as the phases progress and financial leverage normalizes, WACC will decline overall, thereby expanding the spread between ROIC and WACC?

A: (Oshima) It is difficult to disclose specific figures for the cost of capital by business. However, we generally set the cost of capital at a somewhat higher level for growth businesses and at a lower level for stable earnings for businesses, taking into account business risks and other factors. Regarding the spread between ROIC and WACC, because our businesses operate over long-time horizons, we do not rely excessively on financial leverage. Instead, we place priority on improving profitability and cash flow. On that basis, we will first work to raise ROIC, while also seeking to lower WACC in light of circumstances. In addition to lowering the cost of capital through dialogue with investors, we may also consider utilizing a certain level of leverage where necessary. Even so, we will always keep the assumption of maintaining financial soundness, with improvement of ROIC as the primary focus.

<Questioner 7>

Q: My understanding is that the bridge business is targeting an improvement in the operating margin from the current level of around 6% to approximately 10%. Over the medium-to long-term, is there room to raise the operating margin further to around 15% to 20%?

A: (Kobayashi) Operating margins in both new construction and maintenance have been gradually improving. This is supported by the reflection of rising prices into selling prices in Japan, as well as changes in the views of ordering parties regarding appropriate profit levels. We have been making efforts in this regard, and we are gradually forming an environment in which healthy profits can be secured.

As the number of high-difficulty projects increases, the number of players capable of handling such projects is limited, and these projects tend to offer high profitability. On the other hand, because these are public works projects, excessively high profit levels are not expected, although we believe a certain level of profit can still be secured.

(Ide) High-difficulty projects also involve risks. However, we believe risk predictability is high because we operate in areas where we have accumulated experience. The risk profile differs from EPC projects such as plants or chemical plants with rotating equipment that require operational testing and performance guarantees. In bridge projects, it is important that we possess core technologies such as structural design and cable installation technology. Even so, there are aspects where profitability is still insufficient. We need to improve profitability through selective project screening. Rather than pursuing top-line growth, it is important to concentrate on areas where we have competitive advantages.

(Kobayashi) There have also been some overseas projects that appeared to post losses on a period basis due to financial accounting under the percentage-of-completion method. However,

we have been able to secure sufficient profits overall. We believe there is further room for operating margin improvement by carefully selecting regions and partners and targeting highly profitable projects. In addition, as the number of companies possessing bridge repair technology declines, demand for bridge maintenance is expanding globally in countries such as the United States, the United Kingdom, Germany, and Poland. We intend to leverage our technological capabilities to expand this as a profit opportunity.

Q: My understanding is that the space business is currently on the scale of approximately JPY 50 billion. When expanding to JPY 100 billion or JPY 150 billion, how do you view the composition and breakdown of growth?

A: (Sato) At present, the space business has not yet become a sufficiently established industry even across Japan as a whole. Operations are still centered mainly on participation in government development projects. On the other hand, global demand for satellite launches and data utilization is expanding. One of our strengths is space transportation through rockets, and we intend to respond to growing demand for satellite launches. We aim to establish this as a properly operated private-sector business. We will also firmly address the remaining technical challenges. There is also room for expansion in transportation fields such as cargo transport to space stations. Furthermore, we are already advancing solution businesses utilizing satellite data, mainly through affiliated companies, and are providing intelligence services incorporating AI-based analysis to government agencies. In this way, there is room for involvement across the value chain construction from launches to data utilization. We are also advancing proposals related to satellite constellations. We intend to first establish this as an infrastructure-type business originating in the national security field and thereafter expand into broader data utilization opportunities.

(Ide) At present, the space business remains relatively small within the Company, and we position it as a stage of planting seeds for growth beyond Phase 2. Accordingly, the space business is not heavily incorporated into the current materials, but we will continue to pursue it as a medium- to long-term growth area.

<Questioner 8>

Q: Defense spending on the materials appears to be based on a 2% assumption. However, if defense spending under the next five-year plan were expanded to 2.5%, 3%, or 3.5%, then (1) which products could have shipments increased within a short period of time, and (2) if government orders increased by 20% to 30%, would bottlenecks arise in production, personnel, or suppliers?

A: (Sato) The government is currently engaged in discussions toward revising the so-called “three strategic documents” (the National Security Strategy, National Defense Strategy, and Defense Buildup Program). The Company is working to ensure that areas in which we can contribute are appropriately reflected in the budget. Products that can respond relatively easily to shipment increases in the short term include aero engines, marine engines, and solid rocket motors, all of which are already established businesses. If specific demand arises alongside budget increases, these are areas where we can increase shipments relatively quickly. On the other hand, medium- to long-term growth will require the development and adoption of new equipment and systems. We are proposing products and services aligned with the key focus fields explained earlier. This will be a medium- to long-term initiative. With respect to production, if defense demand were to increase substantially, there are areas where the current production base would be insufficient, and expansion would be necessary. Because demand for civil aero engines is also strong, a key challenge will be to make effective and efficient investments while internally evaluating the most efficient production framework to support both defense and civil demand.

(Ide) In addition to production facilities, human resources are a major challenge. Recently, we have shifted a considerable number of personnel from other businesses, particularly into the civil aero engine and defense businesses. In this context, optimizing resource allocation across the entire IHI Group will be important. We have also worked to reform our portfolio based on this assumption. On the other hand, if substantial increases in production capacity are required in the defense field, our current capabilities are not yet sufficient. In addition to internal personnel reallocation, securing external talent through mid-career hiring and other measures will also become necessary. However, developing personnel takes time. Safety and quality are critically important in these fields, including nuclear energy. Therefore, the amount of preparation that can be completed over the next three years will be key. Accordingly, in addition to capital expenditures and technology development investments, we believe that investment in human capital will also be necessary.

Closing Remarks

(Ide) For us, exchanging views with our many stakeholders is extremely important. In the past, there have been areas where our efforts to communicate with stakeholders were insufficient. Going forward, we would like to create more diverse opportunities and increase dialogue. We will sincerely welcome your candid opinions and use them as a driving force as we advance our transformation.

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