

## Management Message

**Accelerating transformation  
for new value in value chain creation,  
built on diverse  
IHI Group technologies**

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**Confronting complex social challenges to reshape ourselves and the future**

Today, we find ourselves in an increasingly unpredictable world, shaped by overlapping global issues such as rising geopolitical tensions and shifting trade policies. These conditions directly and indirectly affect the IHI Group, which operates across international borders. Faced with mounting challenges both at home and abroad, we are constantly under pressure to address each and make key decisions. The reality is that overcoming one challenge reveals yet another just behind it. To overcome these challenges and reach our desired goals, nimble and swift organizational management is essential. Our decision-making must also be both quick and precise.

At the heart of this kind of decision-making lies a management philosophy that has guided us from the beginning: “Contribute to the development of society through technology,” and “Human resources are our single most valuable asset.” These principles remain at the unshakeable heart of the IHI Group, unchanged even as the external environment continues to evolve. We are convinced that we can “Create a World where Nature and Technology Work in Unity,” precisely because technology and people are at the very core of our values. While some, including in the West, have begun to question the value of ESG initiatives, IHI Group is staying the course. We will do what needs to be done to bring about the kind of world we want to see. The fiscal year under review

marks the final stage of our “Group Management Policies 2023,” where we have aimed to fulfill our commitments and, as I will show, where we have demonstrated ourselves capable of delivering results. Over the past two years, we have worked to transform our businesses by enhancing value across the entire lifecycle and throughout the value chain. We have also pursued a bold reallocation of management resources to reinforce our portfolio of Growth Businesses and Development-focus Businesses.

**Record revenue and operating profit, but cash generation remains a challenge**

In the fiscal year ended March 31, 2025, we achieved record highs in orders, revenue, operating profit, and profit, driven by strong growth in our civil aero engine and defense businesses. These results are the fruit of long-term investment and sustained commitment from my IHI colleagues across the Group. When I joined IHI in the 1980s, thermal and nuclear power plants formed the Group’s core businesses. This foundation generated the resources needed for our first foray into the international joint development of commercial aero engines. At the time, the aero engine business was still emerging; however, our predecessors, supported by the aforementioned core businesses, steadily evolved their technologies. Today, it has become a pillar of Group performance. Today’s strong performance is the result of our collective Group efforts and forward-looking strategic investments.

Demand for commercial aero engines continues to rise, accompanied by growing demand for spare parts as passenger traffic steadily recovers. For our defense business, in response to new government policies aimed at enhancing national capabilities, we are working to meet growing demand. These sectors that were once considered “Development-focus Businesses” are now firmly “Growth Businesses.” Together, Aero Engine, Space, and Defense Business now account for over 80% of operating profit. Still, these sectors remain susceptible to market fluctuations. It is, therefore, critical that we establish additional business pillars to secure a stable and sustainable earnings base. One such potential focus is clean energy, including fuel ammonia. We



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aim to further strengthen our corporate value by reinvesting earnings from our Growth Businesses and Conventional Businesses into this and other emerging fields.

While the Group's overall earning power is improving, we find ourselves tasked with bridging the gap between profit and cash generation. Under the "Group Management Policies 2023," we set a target of over 100 billion yen in operating cash flow, which we exceeded in fiscal 2024 by reaching over 170 billion yen. However, this result stemmed in part from temporary factors, such as reductions in working capital and tax refunds. Sustaining this level in fiscal 2025 and beyond will require further action, including structural improvements. A first step is to transform internal mindsets. Though more and more IHI Group



employees are being mindful of cash flow, many of our practices remain entrenched in old business traditions. For example, the assumption that customer payment terms are unchangeable still persists. Yet a thoughtful reassessment of the gap between payments in and payments out can help reduce working capital. Staff in sales and administration must act with the readiness to negotiate with customers, unbound by past conventions.

In fiscal 2025, as in the prior year, we will pursue two key priorities: thoroughly improving cash flow with the participation of all IHI members, and reflecting on all our business practices and reorganizing them accordingly. Each business is addressing specific challenges toward better cash flow—improving payment terms and reducing inventory, for instance—while building a healthier balance sheet. In parallel, we are encouraging employees to reassess their own businesses from the perspectives of growth and profitability, moving beyond long-held assumptions. In this way, we are building a stronger foundation for sustainable growth across the IHI Group.

### **Integration, unification, and enhancement of technologies for value chain creation and gaining competitive advantage**

In my May 2024 address during a Management Overview, I announced that "The IHI Group creates Value Chains" was to become the message guiding our direction beyond the "Group Management Policies 2023." As outlined in last year's Integrated Report, this

message reflects the IHI Sustainability Goal to "Create a World where Nature and Technology Work in Unity." Through ongoing discussions, senior management has gradually reached a shared understanding: we must move beyond simply supplying products. We must build services that amplify the value and competitiveness of IHI offerings throughout their use and lifespan.

The value that the IHI Group offers comes from its diverse technologies. We have long contributed to society in the form of diverse products that embody the value of our technologies. Senior management and employees alike have sought to boost product performance within their own spheres of responsibility. However, I must state plainly: we will not achieve sustainable growth with business as usual. Take compressors, for instance. Competing only on product efficiency invites pricing pressure. The underlying customer need here is often labor reduction or automation at their factories or other sites. Our mission is to address these profound needs directly. To do so, we combine technologies and offer engineering and after-sales services that go beyond the product itself. This integrated approach allows us to build value chains on top of our compressor products that heighten competitiveness. We refer to this set of processes as "integrating," "uniting," and "enhancing" technologies.

A representative example of these processes is our fuel ammonia value chain businesses. Here, we are building a robust value chain from upstream production

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to downstream usage, anchored by our globally unique ammonia combustion technology and proven storage expertise. Across our Growth Businesses and even our Conventional Businesses, we will continue to pursue competitive advantage by aligning our proprietary technologies to capture opportunities across entire value chains and product lifecycles.

### Finalizing discussions to establish a business portfolio resilient against external shocks

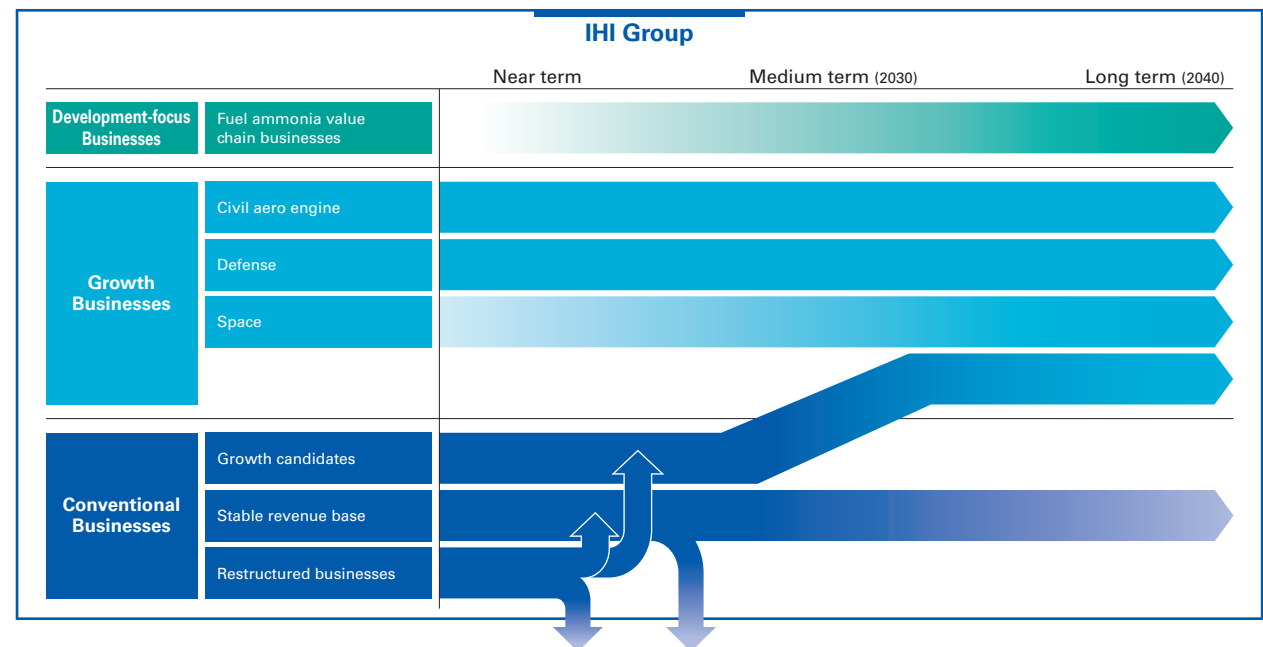
Our aim is to build a balanced business portfolio, one less susceptible to external shifts and capable of stable cash generation. Discussions about such a business portfolio are to conclude during the period for the “Group Management Policies 2023.” This undertaking is essential for the IHI Group’s continued growth. Management Committee members regularly convene with corporate divisions such as finance and corporate planning to analyze business structure and discuss how to rebalance our portfolio. These analyses are followed by in-depth discussions with each business division before key decisions are made from a management perspective. All technologies and businesses within the IHI Group hold social value. However, it is essential they be placed under the ownership best suited to environmental adaptation. The key is to determine whether IHI is the best owner for a given business or whether another party is better suited, and to select the path that benefits all involved. Our decisions regarding the transfer of

businesses such as turf care machinery and general-purpose boilers in fiscal 2024 were based on the belief that such changes would enhance competitiveness and facilitate the development of high-value-added products. While we believe this was the right course for both businesses and employees, we understand that portfolio changes can be unsettling, and we have taken care to communicate transparently. Although we have focused first on divestitures, we are also flexibly exploring inorganic growth strategies—including M&A and alliances—depending on the nature and potential

of each business. Our core decision criteria include growth potential and earnings stability and efficiency. Furthermore, we emphasize synergies and strategic fit with areas mentioned earlier, such as commercial aero engines and fuel ammonia, and whether we can build barriers to entry with our technological capabilities.

Looking ahead to the revenue structure we expect to have around 2030, the Aero Engine, Space & Defense Business will continue to be a pillar of our earnings, though their volatility threatens to destabilize our performance. For example, significant losses

### Envisaged corporate value creation





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were incurred in 2020 through 2022 as a result of the pandemic and in 2023 due to the powder metallurgy issue found in the PW1100G-JM commercial aero engine. However, at the time of these events, revenues and profits from the other three business areas kept overall Group performance up. Thus, it is very important to maintain earning power in each of the four business areas. In light of this, the Group will continue to pursue a balanced portfolio where a greater proportion of businesses can provide stable cash generation.

### **Embedding DE&I and creating an organization where all individuals are empowered to drive change**

In addition to the human capital shift and mid-career recruitment associated with business portfolio realignment, the IHI Group must create a climate where a diverse workforce can thrive, particularly as globalization accelerates and joint development projects increase across our Growth Businesses. To this end, we have made “perceive DE&I as personal, and incorporate it into activities” a key policy as of fiscal 2024 and will accelerate these efforts further in fiscal 2025.

Some of our more rigorous businesses demand high technical skill and confidentiality, which has historically led to a degree of organizational homogeneity. Yet, to lead global initiatives, we must embrace dynamic internal change and involve individuals with varied experiences, skills, and

perspectives not previously present. The creation of new value will rely on talent exchange across divisions and active knowledge sharing. A company, I believe, should be a collective shaped by diverse views and perspectives. We are encouraging all employees to take ownership of DE&I and adjust their behavior to realize their full potential.

Alongside DE&I, it is equally important to foster psychological safety. Although frontline employees have always had varied insights, their voices rarely reached senior management. Following my appointment as president in 2020, I began visiting offices and affiliated companies, both online and in person after the pandemic subsided, to speak directly with employees. In discussions with more than 2,500 employees held over five years, I have listened to their concerns—one of the most pressing being the practice of delegating unmanageable tasks down the line. Employees were forced to accept tasks even when they were impossible or inconsistent. This creates strain on teams in the field and, over time, culminates in critical organizational issues. To prevent recurrence, we must build an environment where it is a firmly rooted concept that employees feel free to speak and confident that their voices will be heard by leadership. To that end, I am continuing my dialogue with division managers and field teams. I call upon all division heads to engage with their teams as I have, listening carefully to the voices of those on the ground.

Currently, we are advancing initiatives to support

DE&I and psychological safety while preserving the strengths of our organizational culture. These efforts to build a diversity-forward environment include our work to revise personnel systems, expanding our training programs, and strengthening cultural foundations underpinning DE&I. As DE&I’s importance takes root across the Group, there is a growing awareness in our workplaces that each person plays a role in this effort. I will continue to take the lead in encouraging behavioral change by showing how each employee can take ownership of DE&I.



Dialogue session between President Ide (far back on the right) and employees

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**Building trust through sound governance and sustained engagement with capital markets**

In last year's integrated report, I committed to eliminating negative surprises in all areas, including compliance and safety. Despite this, fiscal 2024 brought unfortunate instances of misconduct at consolidated subsidiaries. As president, I offer my sincere apologies to our customers, shareholders, and all concerned parties for the resulting inconvenience. At the same time, we are witnessing an encouraging rise in compliance awareness, with employees increasingly voicing concerns in response to messages from senior management about compliance. To prevent future issues, we are introducing talent rotation and other mechanisms designed to detect early signs of potential problems. In ensuring psychological safety, we are also implementing a self-reporting system and related measures aimed at preventing misconduct.

Alongside these efforts, we continue to enhance governance in order to build stakeholder trust. As of June 2025, the proportion of independent directors has increased from one-third to one-half. Going forward, this proportion will continue to serve as an indicator as we further reinforce supervisory functions. In addition, we are promoting individuals with diverse backgrounds to the roles of independent director and executive officer, enhancing the quality of our corporate management.

Furthermore, through dialogue with independent

directors and stakeholders, we have come to recognize succession planning as a critical issue, and we are working to design clear pathways for future leaders to gain the necessary insight and capabilities. The IHI Group views dialogue with our independent directors as one effective way to tackle this challenge. Our independent directors possess a deep understanding of our business and share a genuine concern for the future of the IHI Group. By engaging with them, we aim to develop stronger leadership capabilities among those tapped for future senior management positions.

In our communications with capital markets, we have placed emphasis over the past year on increasing both the quality and quantity of our engagement. Where previously such meetings were attended only by myself and our general manager of the Finance & Accounting Division, we now include senior executive officers and other directors in proactive IR efforts, both in Japan and overseas. Through these interactions, we have learned that investors are particularly focused on the IHI Group's growth trajectory and structural changes over the next five to ten years—far beyond the horizon of the three-year Group Management Policies.

These many dialogues often provide valuable insights that help refine our management direction, and even shed light on the issues we face. For instance, shortly after launching the "Group Management Policies 2023," I presented about our portfolio reforms to a group of European institutional

investors. One investor remarked, "I understand your aims, but can they truly be realized?" This comment underscored that our plans, while sound in concept, would be judged by our ability to execute them. It was a moment that reinforced for me that strategizing capability alone is insufficient; what earns trust is follow-through. With this realization, we have renewed our commitment to diligent execution in our management. Looking ahead, we will continue to reflect investor perspectives in management in a timely manner. The IHI Group will remain united in striving to earn trust through tangible achievement of quantitative targets.



The IHI Group ALL Hands Meeting, held with the purpose of activating two-way communication between management and employees