Message from the Executive Officer (Finance & Accounting)

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Executive Officer,
In Charge of Group Finance & Accounting

Supporting sustainable business growth with a firm financial base built on greater profitability and cash generation

My mission as the officer in charge of the IHI Group's Finance and Accounting

As the officer in charge of the Group's Finance and Accounting, my role is to establish a firm financial base that enables the execution of the Group's growth strategies with confidence. While the CEO is tasked with the expansion-oriented role of driving sustainable top-line growth, those in my role assume a resilience-oriented role, shielding the organization from downside risks.

In fiscal 2025, we will continue to pursue efforts to enhance business profitability and reinforce Group-wide cash flow generation capabilities. At the same time, we are working to improve capital efficiency and financial soundness by reducing working capital and divesting non-business-use assets.

We believe that these initiatives will, over time, earn recognition from a broader base of global investors and contribute to a higher credit rating in the medium to long term. As an early milestone of the IHI Group's rising profile in capital markets, in May 2025, IHI was selected for inclusion in the MSCI ACWI (All Country World Index) global equity index.

Integrating strategy and profit planning for more effective growth strategies

Early in my career as a CPA, I worked in audits mainly for the manufacturing industry, where I was fortunate enough to gain firsthand knowledge of manufacturing cost structures and profit generation. The steady, persistent cost-reduction efforts I witnessed left a lasting impression. It became a fundamental tenet for me to understand that this frontline strength, which fuels incremental improvements in profitability, is a pillar of growth and evolution in Japanese industry. Motivated to apply my expertise more directly to business operations, I transitioned from an auditing firm to an operating company, where I engaged in a wide range of functions surrounding business management, including accounting and financial operations (e.g., account settlement and fund procurement), as well as corporate planning, investor relations, and M&A.

Through this broad experience, I came to view both the financial and strategic planning functions as core drivers of corporate growth. At many Japanese companies, accounting and finance are generally managed by separate organizations from corporate planning, which often results in inefficiencies when linking the two calls for disproportionate effort. In contrast, overseas it is common for CFOs to oversee both areas, serving as financial strategists. This is the model I aspire to. In April 2025, we took a structural step in this direction by merging parts of the Finance & Accounting Division and Corporate Planning Division to establish the FP&A (Financial Planning & Analysis) Group.

FP&A: A new, strategic group overlooking the entire Company

The FP&A Group is a mixed team of people who have been rotated in from multiple business divisions, combined with members from the Finance & Accounting Division. Combining these business structure and model-minded members with their quantitatively capable colleagues enables us to approach portfolio reform through both strategic and numerical lenses. Now, we can monitor strategy implementation with a more objective, metrics-based view.

Until the end of fiscal 2024, meetings on numerical target progress and business strategy were held separately; however, beginning in fiscal 2025, we have integrated these discussions into our new Strategy and Performance Confirmation Meetings. This change in meeting organization has led to more grounded and productive conversations backed by quantitative data.

The FP&A Group will continue to promote portfolio reform with a unified strategic and numerical focus, while nurturing management talent capable of viewing the Group holistically, irrespective of their original organization within the Group.

"The best so far" is not enough: Rigorously boosting profitability and managing cash

In fiscal 2024, the Group achieved record-high figures in orders received, revenue, operating profit, and profit. We also met the fiscal 2025 targets outlined in the "Group Management Policies 2023" a year ahead of schedule, namely an operating profit margin of 7.5% (result: 8.8%) and a post-tax ROIC of 8.0% or higher (result: 10.5%). Significant growth in our mainstay civil aero engine business and higher revenue and profitability in our defense business played a key role in these results. As for our task of improving cash flow, we also successfully boosted operating cash flow to 177.6 billion yen, driven by boosted EBITDA (an indicator of earning power) and unified Group efforts to reduce working capital. Subtracting our investment cash flow of 58.8 billion yen, we achieved free cash flow of 118.8 billion yen for the fiscal year. These results demonstrate our ability to generate operating cash flow exceeding 100 billion yen on a stable basis.

Despite this strong performance meeting targets ahead of the "Group Management Policies 2023" schedule, we view these achievements as a waypoint rather than a final destination. With global economic uncertainty expected in fiscal 2025, we are finalizing our business portfolio reforms ahead of our next medium-term management plan, set to begin in fiscal 2026, as well as rigorous profitability improvement and cash management practices.

As for our cash conversion cycle (CCC), we recognize we still have room for improvement to reach our targets. This is why we continue to designate "thoroughly improving cash flow with the participation of all IHI members" as a priority measure, maintained from the previous fiscal year.

Repeated messaging has deepened understanding of employees in each business division and on the frontlines, and their awareness of CCC and cash generation has greatly improved. For example, business divisions are creatively visualizing inventories, helping those in the field to work together and reduce inventories to appropriate levels. Other business divisions with many long-term projects are applying new and innovative ideas to quickly recover cash more effectively, including seeking advances from early project stages. While fundamental, these initiatives are critical. We believe that the consistent and thorough execution of these basics is key to improving cash flow.

There are still issues to be addressed on the balance sheet. As of the end of fiscal 2024, our financial structure has improved, with the ratio of equity attributable to owners of the parent to total assets reaching 21.5% and the D/E ratio standing at 1.01 times. However, a considerable amount of interest-bearing liabilities remains, and our capital levels are still inadequate. We will work to strengthen cash flow generation, enhance profitability, and accelerate the divestment of non-business-use assets in order to reduce liabilities and build up capital, with the aim of building a

Results for FY2024

Revenue **¥1,626.8 billion** +¥304.2 billion	Operating profit **¥143.5 billion** (8.8%) +¥213.6 billion (+14.1pt)	EBITDA **¥215.6 billion** (13.3%) +¥215.0 billion (+13.3pt)
Profit (Attributable to owners of parent) **¥112.7 billion** +¥180.9 billion	Operating cash flow **¥177.6 billion** +¥115.5 billion	Return on invested capital (ROIC) **10.5%** +15.4pts

more resilient balance sheet.

Capital allocation strategy for sustainable growth

Under the "Group Management Policies 2023," we aim to consistently generate 100 billion yen or more in annual operating cash flow and have allocated 450 billion yen in total investment over the plan's three-year period.

These funds will be sourced from operating cash flow, structural reforms, and asset sales. Approximately 60% of this capital is earmarked for investments in Growth Businesses and Development-focus Businesses. In fiscal 2025, the final year of the plan, we will continue this policy, investing in core and high-growth areas on the medium to long term such as the Aero Engine, Space & Defense Business, carbon solutions, nuclear energy, and fuel ammonia value chain businesses. On the investment side, we remain committed to disciplined execution, balancing investments for Growth Businesses and Development-focus Businesses with financial soundness, and carefully assessing returns and risks from a medium- to long-term perspective.

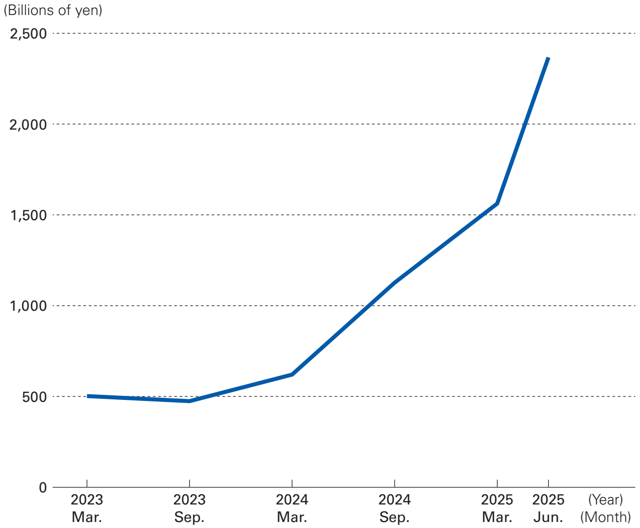
As for shareholder returns, our policy during the medium-term management plan period has been to prioritize investment and financial reinforcement in these growth areas, while steadily increasing dividends in line with growth. For fiscal 2024, the dividend per share has been set at 120 yen, an increase of 20 yen over the previous fiscal year. We will communicate our medium- to long-term shareholder return policy for the next medium-term management plan in due course.

A 35-year and all-time record share price

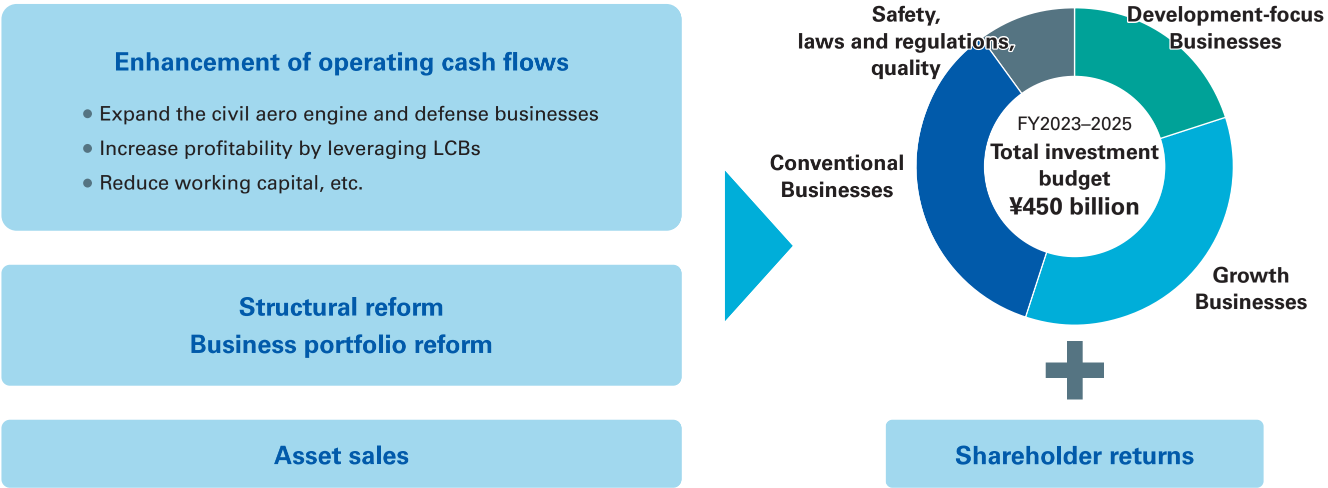
In fiscal 2024, our share price reached its highest level since our stock was listed, reflecting capital market support for our business portfolio reforms, the expansion of our civil aero engine and defense businesses, and yen depreciation. As of June 20, 2025, our market capitalization stood at 2.4 trillion yen, exceeding President Ide's personal aspiration to reach 1.5 trillion yen stated in the Management Message on page 10 of the *IHI Integrated Report 2024*.

We believe this high market valuation is driven by two key factors. First, our strengths in growth strategy and technology are clearly articulated and underpinned by results. In our current medium-term management plan, we have clearly identified Growth Businesses and Development-focus Businesses and are investing a

Market capitalization



Resource allocation strategy



significant portion of our management resources in these areas. In particular, the Aero Engine, Space & Defense Business Area is expanding its performance significantly as a Growth Business.

Second, we are decisively executing structural reforms in underperforming businesses. We conduct detailed internal analysis of the external environment surrounding each of our Conventional Businesses, customer trends, and the competitive landscape, as business and corporate functions work together to examine and implement strategies and initiatives aimed at improving profitability. In the course of our discussions, we decided to transfer the businesses for which we determined that we were not the best owner, and to pursue the realization of business growth in a new environment and with new partners.

As mentioned above, we feel that investors appreciate our consistent approach to portfolio reform, in which we are pursuing investment in Growth Businesses and Development-focus Businesses and further future growth, while at the same time undertaking fundamental reforms in underperforming businesses.

In investor relations, we emphasize communicating our equity story from a medium- to long-term perspective. By clarifying our medium- to long-term growth roadmap, rather than merely explaining our current performance, we are trying to provide our unique answer to the question, “Why IHI?’—that is, why invest in IHI? Since fiscal 2024, we have greatly expanded opportunities for direct dialogue between management (including the CEO) and investors, which we believe has contributed to deeper understanding of our growth strategy.

With our share price on the rise in the previous fiscal year, the conglomerate discount has gradually been disappearing. This has led to a shift in shareholder composition away from value investors and toward growth-oriented and overseas institutional investors, which reflects rising expectations for IHI’s future.

Building a robust financial base facilitating proactive growth activities by each of our businesses

Over the years, the IHI Group has refined its technological capabilities into businesses that support development on a national level and global economic infrastructures and nations, including in areas such as civil aero engines, defense, energy, and bridges. We are proud of the fact that IHI is built on an excellent business portfolio, with many areas promising significant market growth ahead. Our goal is to ensure that these “uniquely IHI” businesses continue to grow steadily over the medium to long term.

Within this, the finance function’s mission is to provide the solid and all-encompassing foundation necessary for business divisions to take on bold challenges. Given rising geopolitical risks and increasing macroeconomic volatility, building a robust balance sheet that can absorb some business risk has become a mission of greater importance than ever before. Specifically, we will continue to manage downside risk, optimize fixed costs, improve profitability, enhance cash flow generation, and advance business portfolio reform.

While the CEO takes an expansionary approach to our top-line, I will focus on building resilience and strengthening the IHI Group’s corporate value through sound financial stewardship.