

## Independent Directors Roundtable

# Advice and supervision by the IHI Group's independent directors strengthen our governance and serve as a foundation for sustainable improvement of the Group's corporate value.

Advanced governance by the Board of Directors serves as a platform for the IHI Group's sustainable value improvement. Following strong performance in the fiscal year ended March 31, 2025, how can the Group further enhance corporate value amid structural reforms, including the transformation of its business portfolio? To answer this question, a roundtable discussion was held with four of the Group's independent directors, moderated by Mr. Shigeru Uchigasaki, President and CEO of Human Resources Governance Leaders Co., Ltd. (Held in April 2025)



**Toshihiro Uchiyama**

Independent Director  
Remuneration Advisory  
Committee Member  
Nomination Advisory  
Committee Member

**Chieko Matsuda**

Independent Director  
Nomination Advisory  
Committee Member

**Shigeru Uchigasaki**

President and CEO,  
Human Resources  
Governance Leaders Co., Ltd.

**Yoshiyuki Nakanishi**

Independent Director  
Chairperson of Remuneration  
Advisory Committee  
Chairperson\* of Nomination  
Advisory Committee

**Minoru Usui**

Independent Director  
Remuneration Advisory  
Committee Member  
Nomination Advisory  
Committee Member

\* Member at the time of the roundtable;  
appointed chairperson in June 2025

## Record profits in FY2024

**Uchigasaki** Let us begin the discussion with a review of the IHI Group's most recent performance in FY2024, ended March 31, 2025. After incurring a net loss for the first time in 15 years in FY2023, the Group achieved a dramatic recovery to achieve record highs in all key metrics: orders received, revenue, operating profit, and profit for FY2024. The stock price has also risen and the PBR has jumped to over 3.5x. As independent directors, how do you view the rising expectations of capital markets for the IHI Group under these circumstances?

**Nakanishi** When I became an independent director in 2020, the year of the COVID-19 pandemic, human flows were disrupted, and among the IHI Group's businesses, its mainstay aero engine business experienced a significant decline in sales and profits. It is very pleasing to see such positive results in FY2024 when compared to those particularly challenging times.

In addition to the strong civil aero engine business, the future offers many bright prospects ahead, including in the defense and space businesses, as well as new businesses in the energy area.

**Usui** Looking at the IHI Group's Aero Engine, Space & Defense Business, which ranges from infrastructure such as rockets

## Independent Directors Roundtable

and space stations to the development and production of aero engines and the sale of aftermarket spare parts, there is a strong consistency throughout. When I became an independent director in 2021, the business was still reeling from the effects of the pandemic, but I saw potential for improved performance due to changes in the external environment.

In particular, the IHI Group is responsible for approximately 70% of Japan's jet engine production and is an integral part of the Japanese aerospace and defense industry. I believe the Group is capable of establishing a competitive position in the European and U.S. markets as well.

Business lines are also largely organized now in the other three business areas, and my understanding is that the Group is poised to begin full-scale establishment of business models that will serve as future pillars.

**Uchiyama** I believe that the high profitability and future potential of the civil aero engines, defense, and space businesses, designated as Growth Businesses, serve as strengths for the IHI Group, and that the potential of the fuel ammonia value chain businesses, designated as Development-focus Businesses, have also been evaluated highly by the market. On the other hand, the defense business must

be watched carefully, as it is susceptible to changes in the international environment and security relations. In order to sustainably increase corporate value going forward, it is vital to improve the profitability and efficiency of Conventional Businesses, which bear the weight of generating management resources. I look forward to seeing the IHI Group's further structural reforms in these Conventional Businesses.

**Matsuda** I feel that the IHI Group's focused business areas have come to align with the industrial structure required by society for sustainable economic growth. This is not simply a change to satisfy a trend; the Group has solid technological capabilities underpinning a strong market reputation, and I believe there is still much room for growth. Looking around the world, there are many businesses and products that only the IHI Group can offer, and I believe more can be done to pitch these to the market. Actions are underway to strengthen the head office organization so that each business can demonstrate its capabilities, and I look forward to watching these developments.

### Progress in business portfolio transformation and other issues mentioned at last year's roundtable

**Uchigasaki** I believe that the Group's strong performance is the result of the

management team, directors, and Audit & Supervisory Board members advancing a range of initiatives as a unified team with defined roles. However, there were several issues pointed out in last year's integrated report. Please tell us about the current progress, achievements, and issues as we review management initiatives over the past year. First of all, what do you think about the business portfolio transformations set forth in the "Group Management Policies 2023"?

**Nakanishi** Since FY2024, the previous fiscal year, I feel that the Group has made progress in taking concrete actions, such as restructuring of low-profit businesses and reinvestment in growth areas, based on a renewed mindset that the Group must change.

As a team, efforts to increase opportunities for in-depth discussions, such as off-site meetings outside of board meetings, have resulted in richer discussions. Now, the issue at hand is how to build new business pillars alongside the mainstay aero engine business. The Group is pursuing various approaches, including in the fields of natural resources and energy, but the key will be whether the Group can appropriately navigate major developments around the world. Going forward, I will continue to provide appropriate advice on identifying pillar businesses and investing management resources.



**Shigeru Uchigasaki**

President and CEO,  
Human Resources Governance Leaders Co., Ltd.

Established Japan's first start-up consulting firm for sustainability governance. In addition to providing board advisory services to many global companies, he leads governance reform in Japanese companies through advocacy in government, initiatives, media, and academia.

**Matsuda** In order to create new business pillars, it is important to know how to monetize outstanding technologies. As I pointed out last year, one of the IHI Group's weaknesses is a lack of ideating toward monetization, but concrete actions are beginning to emerge to overcome this problem. I look forward to seeing the Group become even more energized by this process.

**Uchigasaki** As pointed out by Mr. Uchiyama last year, manual operations can easily lead to human errors and compliance issues. How is the digitalization of these manual operations progressing?

**Uchiyama** Digital adoption is progressing

## Independent Directors Roundtable

in both Growth and Development-focus Businesses. I visited two manufacturing sites last year and felt that the control of the manufacturing process by digital technology has evolved greatly.

However, the Group's Conventional Businesses have lingering issues. In addition, I believe that the Group must pick up the pace of digitalization in its administrative units, including performance management.

### Growing opportunities for dialogue with the executive side, advice on discontinuous growth

**Uchigasaki** In light of the various issues, please tell us what you have encouraged management to do over the past year, what you have discussed intensively at Board of Directors meetings, and what you have proactively proposed to management, the Board of Directors, and others.

**Uchiyama** I make a variety of recommendations each year to improve the effectiveness of the Board of Directors. Preliminary briefings and preparation of board meeting materials for more efficient discussion have been greatly enhanced by the efforts of the secretariat. I also feel that the ability to review the minutes of Management Committee meetings held on the executive side in advance has further stimulated discussion at board meetings.

**Usui** The IHI Group has led a great deal of industries with technology at its core, based on the management philosophy to "Contribute to the development of society through technology." My recommendation has been that management should aim for a high level of innovation in conventional industrial structures and build new business pillars using technology.

For example, in the fuel ammonia value chain businesses, a current area of focus for the IHI Group, the Group needs to establish core technologies that will drive the global energy transition toward a decarbonized society. I would like to see the Group advance technological development and management with clear goals that accurately capture the trends of the times. I believe that the IHI Group is fully capable of achieving this.

**Nakanishi** I have recommended that the Board of Directors operate in a way that elicits input from the executive side. In order to properly address various issues, exercise supervision, and provide advice, it is essential to fully understand the direction in which a company is headed. To achieve this, we have increased opportunities for free discussions between independent directors and executive officers and for receiving business reports directly from the executive side. As a

result, I feel that the distance between independent directors and the executive side of the Group is gradually closing.



**Matsuda** Over the past year, I have made recommendations to management under the policy that purely continuing legacy business practices means nothing. In the recent investment environment, risk-return profiles have undergone a significant transformation away from tradition, and various risks have grown. How the IHI Group responds to this change is critical. There have also been many discussions about the transformation of the Group's business portfolio and financial structure.

In response to explanations given by the executive side at Board of Directors meetings, I have asked them not to discuss the future of their businesses as an extension of the present, but rather to broaden their perspective and consider various possibilities with an eye to the external environment. I believe that by pivoting to focus on

discontinuous change rather than just focusing on the business at hand, the Group can gain new insights into changes in the market and into its own strengths.

### Challenges in the monitoring function and improvement efforts

**Uchigasaki** The next topic will be the monitoring function of the IHI Group. Unfortunately, in FY2024, consolidated subsidiaries were found to have engaged in misconduct, including falsified fuel consumption data for marine engines and other products, as well as the replacement of parts in performance tests of snowplows. What kind of challenges exist for strengthening the monitoring function and culture reform, and how has the management team responded to these? Also, as independent directors, how have you worked with the management team to motivate them, make recommendations, and check their status?

**Matsuda** This is, quite frankly, a frustrating and deeply regrettable matter. For some time, I have expressed my opinion whenever appropriate on the state of the internal control defensive line. Although management has strengthened its actions in this area, it is unavoidably and greatly regrettable that these actions have not permeated the entire Group.

## Independent Directors Roundtable

In response to the misconduct in question, a thorough review of Group governance issues has been conducted, and compliance aspects are being strengthened. As an independent director, I will continue to firmly fulfill my supervisory function.

**Nakanishi** As Ms. Matsuda pointed out, systems and frameworks have been put in place to prevent misconduct, but I am once again reminded that it is very difficult to effectively operate the monitoring function in every corner of a large organization.

Ultimately, it is important to know how to raise awareness among all employees. In addition to the implementation of compliance education and other efforts, I think it is important to have a process, even if slow and steady, in which rigorous compliance becomes deeply rooted in the organizational culture through messages from the highest levels of management. Also, in order to ensure that checks and balances function adequately from the head office divisions, I believe that the Group must weigh the option of integrating its numerous affiliated companies and subsidiaries.

**Usui** The Group must be mindful of the risk that the desire by those in the field to improve business profitability and performance may sometimes add pressure and lead to fraud. Also, as Mr. Nakanishi mentioned, reviewing the portfolio

is important from the perspective of strengthening compliance. As an enterprise, the IHI Group must establish a business portfolio that can clarify its business direction and contribute to the sustainability of society.



**Uchiyama** In fact, a company I worked for once uncovered misconduct similar to the one experienced by the IHI Group. Based on this experience and the lessons learned, I have worked to make recommendations to management for their reference.

I believe that excessive deference to rules and conventions built up in the field is a common phenomenon in companies with a long history. Particularly in manufacturing companies that handle many different businesses, manufacturing divisions are often quite powerful, and head office divisions tend to be relatively weak.

I also believe that the field is not always actively dishonest, but rather is often forced into unavoidable situations. It is necessary to identify the groundwork

underneath the organization that is creating these unavoidable situations and what mechanisms are in place to justify maintaining the status quo.

Here, one of my recommendations is to encourage ownership when it comes to compliance. Rather than condemning injustices that have occurred in other organizations, it is important to look inward and simulate how each employee would think and act if they were in a similar situation, and to provide places for discussion within the organization. I have presented this and many other opinions to management.

**Uchigasaki** While strength in the field is what leads to competitive technologies, it also reminds us that internal controls can be difficult to maintain. I felt that, in order to strengthen the monitoring function, it is important to build internal controls in line with business portfolio transformation, and at the same time, it is important for upper management to exercise leadership.

### Role of the Board of Directors in strengthening governance effectiveness

**Uchigasaki** Next, we move on to the state of the Board of Directors. The IHI Group defines corporate governance as “a system that assures sustainable growth and maximization of corporate value by

enhancing management efficiency so that IHI can leverage its innate capabilities to the fullest extent possible.” What are some of the key points that you are aware of with respect to the Board of Directors fulfilling its role in establishing effective corporate governance?

**Usui** I am strongly mindful of whether the IHI Group is maximizing the comprehensive potential of its human resources. While I do not believe that the IHI Group’s direction is a major mistake, it is important to make sure that it is the consensus of the entire organization. From the perspective of comprehensive capability of human resources, there must be room to consider different directions and other possibilities.

Therefore, I always keep a close eye on whether proposals are brought to the Board of Directors in a manner that demonstrates active and creative discussion and conceptualization on the executive side. In my view, the new prior briefings of agenda details are a major step forward.

I also believe that by providing a forum for communication among independent directors, different perspectives can be incorporated into discussions to derive a sense of unity and direction, rather than just having one-on-one discussions with the chairperson or president. Furthermore, I would like for the



## Independent Directors Roundtable

Group to harness the diversity of its board members to its advantage.

**Uchiyama** I believe that in the Board of Directors' efforts to sustainably enhance corporate value, two axes are key.

The first is to strengthen supervision. We must understand the current status of the company and the issues it is facing, and if there are any problems, to encourage appropriate improvements. The second is to have a discussion regarding the company's long-term direction. To this end, it is effective to provide a place for discussion outside of board meetings, where we face time restrictions. At off-site meetings and other venues, we are able to exchange a variety of opinions. I believe it is important to understand exactly what is happening in the field, while valuing both these supervisory functions and discussions from a long-term perspective.

However, my primary duty as an independent director is to supervise. I would like to contribute to maximizing corporate value while being aware of the balance of my involvement in business execution according to the company's situation and issues.

**Matsuda** Discussion of diversity is essential to the effectiveness of the Board of Directors. I believe that diversity is judged comprehensively, not only on the

basis of attributes such as gender and nationality (demographic diversity), but also on the basis of an individual's career and skills (task diversity). From this perspective, the other three independent directors all come from management backgrounds, but have different and diverse insights and personalities. I feel that we function very well as a team, naturally covering different roles in discussions.

**Uchigasaki** I have also served as an advisor on nomination committees, and I have heard many people say that they would like to have someone from a management background with diverse experience join their organizations as an independent director. My sense is that the diverse experience and knowledge possessed by the independent directors of the IHI Group are the strength of the Board of Directors, which contributes to maximizing corporate value.

### Importance and challenges of developing the next generation of management talent

**Uchigasaki** Next, I would like to ask you about the challenges and expectations for developing the next generation of management talent. At last year's roundtable, it was pointed out that the development of management talent is the

most significant challenge in governance. Please tell us about the particular efforts that the Board of Directors and the Nomination Advisory Committee are making to confirm and monitor the succession of the next CEO and the development of the next generation of IHI's management team. Also, from your position as independent directors, how do you evaluate the CEO's goal of building a management team?

**Nakanishi** The Nomination Advisory Committee is responsible for checking that proposals made by the executive side are appropriate. For this reason, opportunities for individual interviews are provided to evaluate the management skills and qualities of candidates in advance.

The IHI Group is facing a challenge in that it needs a career path to cultivate a CEO with practical experience in a powerful head office. The Group has a large and rich talent pool, and I would like to help strengthen this system to cultivate the Group's next CEO as an organization.

**Matsuda** The IHI Group has many people who are well-versed in its businesses and excel in operational excellence, but I feel that there is a lack of management professionals to guide the organization. Though head office functions are being strengthened, this must be done with full awareness of the importance of these

management professionals and not fall into the trap of solely micromanaging projects and tasks in detail.

The IHI Group needs to strengthen its mechanism for selecting and cultivating not only candidates to be the next CEO, but also candidates for management talent from a long-term perspective. In managing the Group's businesses going forward, there must be a strong management team, centered on the CEO, that will drive the organization. Within this team, the various CxOs must have a high-level management perspective. As the number of mid-career hires increases, I believe that the importance of utilizing outside perspectives in management is also becoming increasingly recognized. I believe it is important to enhance the system for selecting, training, and acquiring management talent from a broad perspective, both internally and externally.



## Independent Directors Roundtable

**Usui** Succession planning is an extremely important issue for the future of a company, as the shape of a company depends greatly on the talent at the top. Recognizing that factory tours and individual interviews are practical and effective means of identifying the next CEO, we practice dialogue that enables us to gain a deep understanding of the candidate's management sensibilities.

What is important is to establish a system to promote management candidates through early selection and to develop talent with management sensibilities. To do this, having candidates actually experience corporate management, including operations, is a shortcut to understanding their qualities and cultivating them as talent.

**Uchiyama** In addition to interviews and discussions with management candidates, another useful opportunity is observing how they demonstrate leadership in their daily work and meetings. It is important to understand aspects that are not visible when engaging these candidates directly in one-on-one or group discussions.

It would also be helpful to have them gain experience in non-traditional divisions or outside the Group. Testing candidates' ability to thrive and assert themselves in different cultures and work styles

can help develop the next CEO. I have recommended that the Group introduce such a training program.



### The IHI Group's leadership and expectations on future growth

**Uchigasaki** Finally, please share your thoughts on the leadership practiced by the management team and your expectations for the future growth of the IHI Group.

**Nakanishi** Frankly speaking, the IHI Group has considerable room for growth. In addition to new businesses related to space and next-generation energy, the Group's contribution to the repair of Japan's aging infrastructure will play a very significant role. High expectations are also held in the nuclear energy area.

Going forward, it will be important to determine how to get the market to appreciate the value generated by the IHI Group. I look forward to the Group's work to confidently showcase its strengths even more to the market.

**Matsuda** There was an old tagline in the IHI Group's commercials about always creating in keeping with the voice of the times. I believe that is a good representation of the DNA that has taken root in the IHI Group. Regardless of future industrial structures and economic trends, infrastructure will always be important. The IHI Group, which has long contributed to building social infrastructure, would do well to pitch its strengths and impacts on society more.

I look forward not only to the strength of IHI's technologies, but also to leadership practiced by those in top management. The current top management is keenly aware of and committed to building a strong management team that will lead this enormous organization. It is also noteworthy that the Group has consistently produced female directors through internal promotions. Diverse human resources are one of the strengths of the IHI Group, and I look forward to the Group's work to further enhance this area.

**Usui** I would like for the IHI Group to envision a new company that responds to the changing times, and for it to demonstrate strong leadership that everyone will change together. My hope is that by integrating the perspectives of

business and technology development, and by involving other companies and human resources, a new world will be created that can only be realized by the IHI Group.

**Uchiyama** One of the elements of leadership is how strong an impression you can make on people. In this sense, President Ide is an extremely impressive leader who clearly articulates thoughts in his own unique language. Messages from the president are also published monthly in the In-House News Letter, helping his relatable personality to spread among IHI Group employees.

As for challenges, I would point out the IHI Group's need to strengthen global messaging. The IHI brand has a long and rich history, but in order to develop the brand outside Japan, the Group should further incorporate human resources and insights from overseas. I believe that newly tackling this challenge will lead to further growth of the IHI Group.

**Uchigasaki** Thank you very much. In this roundtable, the IHI Group's shareholders, investors, and other stakeholders were able to hear your expectations about the Board of Directors' approach to sustainable growth and about the Group's management team, which I believe has raised their expectations in turn. I look forward to your continued efforts to strengthen the effectiveness of IHI's Board of Directors.