Message from the Managing Executive Officer (Growth Businesses)

Continuing to deliver value-added solutions through advanced technology, ensuring that opportunities from civil aircraft market growth and defense budget increases translate into sustained business growth

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Managing Executive Officer
President of Aero Engine, Space & Defense Business Area

Our awareness of the market

Global passenger demand has exceeded pre-pandemic levels and continues to grow. This has led to significant growth in demand not only for new engines but also for spare parts and other aftermarket products.

In the defense business, momentum is strong following the Cabinet's approval in December 2022 of three strategic documents: the National Security Strategy, the National Defense Strategy, and the Defense Buildup Program. The policies in these three strategic documents aim to raise defense and related expenditures to 2% of GDP by fiscal 2027. In addition, expected reforms to the contracting system are set to improve profitability, and expectations are rising for our Group to provide products and services aligned with all seven pillars where the Japanese government is fundamentally reinforcing defense capabilities. We see particular opportunity in the areas of stand-off defense capabilities, integrated air and missile defense capabilities, and unmanned defense capabilities, where the Group's strengths can be best demonstrated.

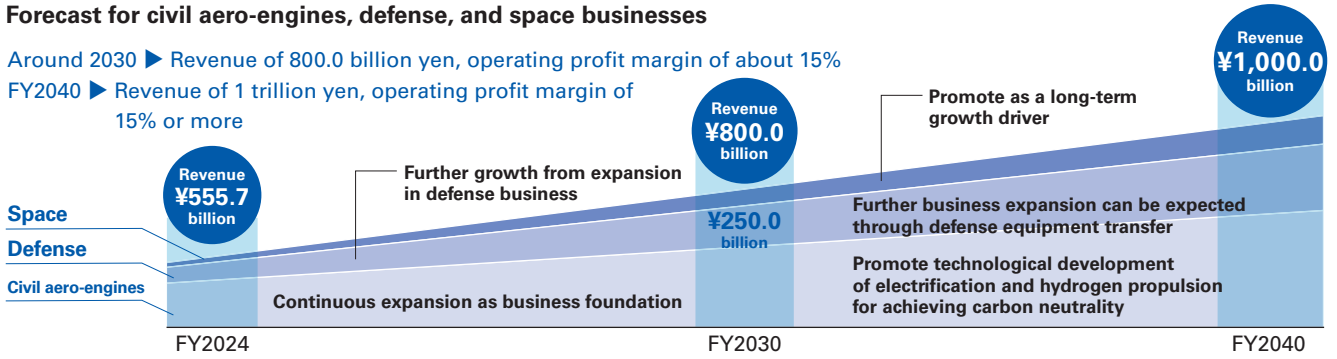
As for the space business, the Japanese government's Basic Plan on Space Policy announced in 2023 set a target of doubling the size of the country's space industry to 8 trillion yen by the early 2030s. Along with our work on solid fuel rockets, the IHI Group will contribute to this goal by supplying turbopumps for liquid fuel rockets and developing satellite management systems. We also aim to support the government's space policy through the advancement of new private sector projects.

Growth strategy and medium- to long-term outlook for a leap forward

A common challenge in the civil aircraft industry is that while demand for aircraft remains robust, the supply capacity of parts and materials manufacturers is under pressure. We are addressing this issue by strengthening the supply chain through public-private partnerships. Also, in response to U.S. tariff policies, we are maintaining competitiveness by engaging in discussions with our U.S. partners regarding the sharing of tariff burdens and related matters.

In the defense industry, as for civil aircraft, we

Forecast for civil aero-engines, defense, and space businesses



are committed to strengthening the supply chain while monitoring U.S. policy trends, changes in the security environment, and arms expansion plans in the European Union. We aim to expand opportunities for collaboration and to reinforce international cooperation with partner countries at the request of the Japanese government.

In fiscal 2024, the Aero Engine, Space & Defense Business Area recorded revenue of ¥555.7 billion and operating profit of ¥122.7 billion (an operating profit margin of 22.1%), both marking record highs. With respect to our fiscal 2030 targets (revenue of ¥800 billion and operating profit margin of 15%), we have already achieved both operating profit and operating profit margin six years ahead of schedule. However, we recognize that the favorable results in fiscal 2024 were influenced by temporary factors such as the depreciation of the yen and delayed expenses linked to extended maintenance periods, and therefore may not fully reflect the Group's underlying capabilities. Accordingly, under our next medium-term management plan to begin in fiscal 2026, we will reassess business opportunities and risks, and define appropriate numerical targets for 2040.

Technological innovation and international collaboration for creating new markets and the future

Starting with the manufacture of Japan's first domestically produced jet engine, the IHI Group has cultivated advanced technological capabilities and an extensive track record that give it a strong competitive advantage as a leading Japanese manufacturer. In the civil aero engine business, we have steadily accumulated experience by participating in international engine programs and collaborating with global OEMs. For example, in the PW1100G-JM engine, we developed the world's first composite fan structural guide vanes to reduce engine weight. This innovation has reduced fuel consumption and environmental impact, earning high recognition from customers. We are also expanding our involvement across the entire life cycle of aero engines, from research and design to manufacturing components, producing repair parts, and conducting engine maintenance. The expertise gained through this process gives us a strong competitive edge.

In the defense aero engine business, we have supported the operations of Japan's Ground, Maritime, and Air Self-Defense Forces by producing engines for fighter aircraft, patrol aircraft, training aircraft, helicopters, and naval vessels, as well as providing maintenance and servicing, leveraging decades of experience as a prime manufacturer. We are also taking part in the Global Combat Air Programme (GCAP), an international joint development initiative for next-generation fighter aircraft involving Japan, the U.K., and Italy. Our experience in international joint development from civil aircraft projects has proven valuable in early rule-setting and in discussing the division of responsibilities.

In the space business, we contribute to government-led space initiatives through core technologies such as rockets. In recent years, we have expanded our efforts to satellite data utilization, aiming to offer solutions to social issues through the advancement of satellite data services.

At the same time, building a value chain with high added value requires collaboration with partner companies. For example, in the field of civil aero-engines, partnerships with OEMs and other external players are vital to enhance the value added by maintenance, repair, and overhaul (MRO) services. In the defense business, we will leverage international experience gained through next-generation fighter aircraft development and apply it to global defense business expansion, in close cooperation with the government, to support Japan's national security policy. We also plan to capture further opportunities and expand businesses by promoting dual use of advanced technologies developed for both defense and civil sectors. In the space business, we are widening the scope of data utilization through partnerships with companies specializing in satellite manufacturing and technological platforms.

Redefining our business based on our long-term vision and challenge for sustainable growth

In the Aero Engine, Space & Defense Business Area, we have launched the formulation of our future portfolio at the Business and Product Strategy Committee, one specific initiative under an ongoing Group priority measure to redefine all businesses and processes from fiscal 2024. This is an essential step toward achieving long-term growth while adapting to changing business conditions.

To ensure sustainable growth, it is necessary to set a long-term vision of 10 to 15 years and work backward (backcast) to create concrete action plans. Given the uncertainty surrounding our Growth Businesses, we continue to refine our ideal vision for the future and business strategies by maintaining a disciplined PDCA cycle. We are also focused on building mechanisms so that diverse teams can work toward a shared direction.

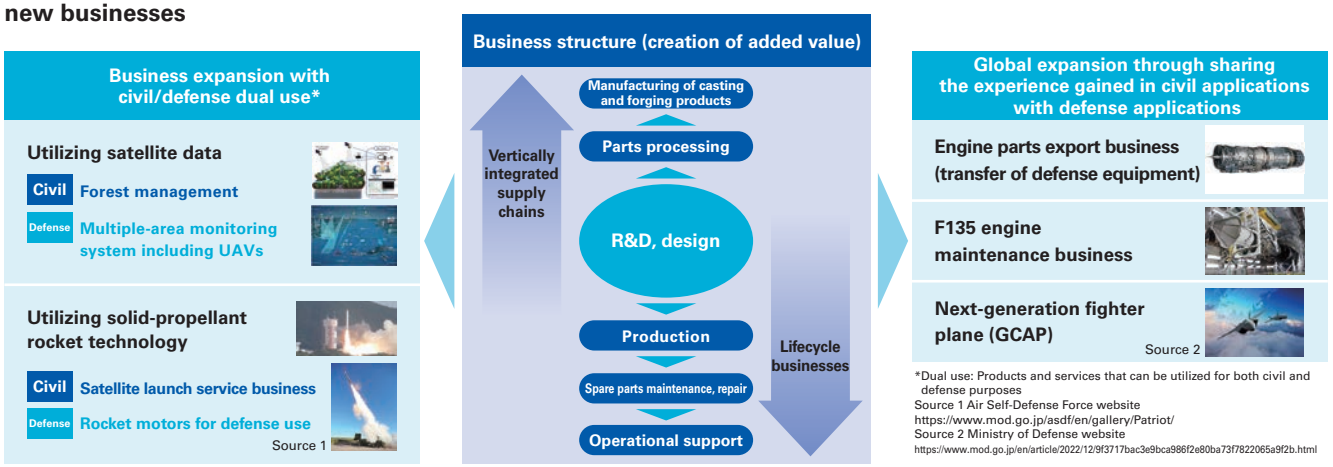
In addition, we are strengthening inter-business

collaboration. For example, our defense aero engine organization and our civil aero engine organization possess different strengths, such as expertise in global standards and engine development, as well as challenges. We will further accelerate the exchange of personnel and technologies, creating synergies through the sharing of experience and skills.

As part of shaping our future vision, we have clearly defined the direction of technological development to prioritize in the coming years. In the civil aero engine business, developing technologies to achieve carbon neutrality by 2050, a key target for the aviation industry, is a major focus theme. To advance this effort, in April 2025 we reorganized and established a dedicated division within the civil aero engine business to oversee carbon-neutral technology development. We are also accelerating research and development in the electrification of aircraft and hydrogen fuel cell applications. Furthermore, to prepare for future increases in demand, we are considering expanding our production plants, including the establishment of new facilities overseas.

In the space business, we signed a memorandum of understanding (MOU) in May 2025 with ICEYE of Finland, a global leader in SAR satellites. Through this partnership, we will advance the provision of Earth observation satellite data for security, public use, and commercial applications. Satellite data has immense potential to address societal challenges. In response to the many recent natural disasters, we will also pursue new businesses such as disaster forecasting using satellite data. Through these efforts, the IHI Group will help to build a sustainable society.

Business expansion through synergies of technology and experience in civil and defense applications; creation of new businesses



*Dual use: Products and services that can be utilized for both civil and defense purposes
Source 1 Air Self-Defense Force website
https://www.mod.go.jp/asdf/en/gallery/Patriot/
Source 2 Ministry of Defense website
https://www.mod.go.jp/en/article/2022/12/9f3717bac3e9bca986f2e80ba73f7822065a9f2b.html

Creating a workplace where diverse human capital participates actively and meeting the challenge of sustainable growth

For sustainable corporate and social growth, it is vital to secure and develop the human capital that supports these goals. To secure this talent in our Growth Businesses, we plan to increase headcount by around 1,000 over the next three years, using a mix of hiring channels such as mid-career recruitment and internal Group resource shifts, alongside new graduate recruitment.

For employees with diverse backgrounds, including mid-career hires, it is crucial to place the right talent in the right roles and foster retention. We are launching training packages early for employees brought in through mid-career recruitment and resource shifts. We are also taking proactive measures to enhance employee engagement through conferences and roundtable discussions.

A key focus here is our initiative to have employees take ownership of DE&I, which is a priority measure of ours. We encourage mid-career hires to openly discuss both the strengths of the IHI Group and areas for improvement, rather than simply adapting to existing corporate culture. Through these efforts, we are nurturing an organizational culture that values diversity. Our aim is to grow at a pace exceeding market growth by leveraging the collective strengths of our diverse human capital. We are steadily building the foundation necessary to achieve this aim.

Growth Businesses: Special Feature: Civil Aero engine Business Aftermarket

The aftermarket business as a key driver to grow revenues and profit margins beating civil aviation market benchmarks

Demand for engine maintenance is rising alongside increased demand for civil aircraft. In this special feature, we highlight our initiatives in the aftermarket business, which is expected to drive growth.

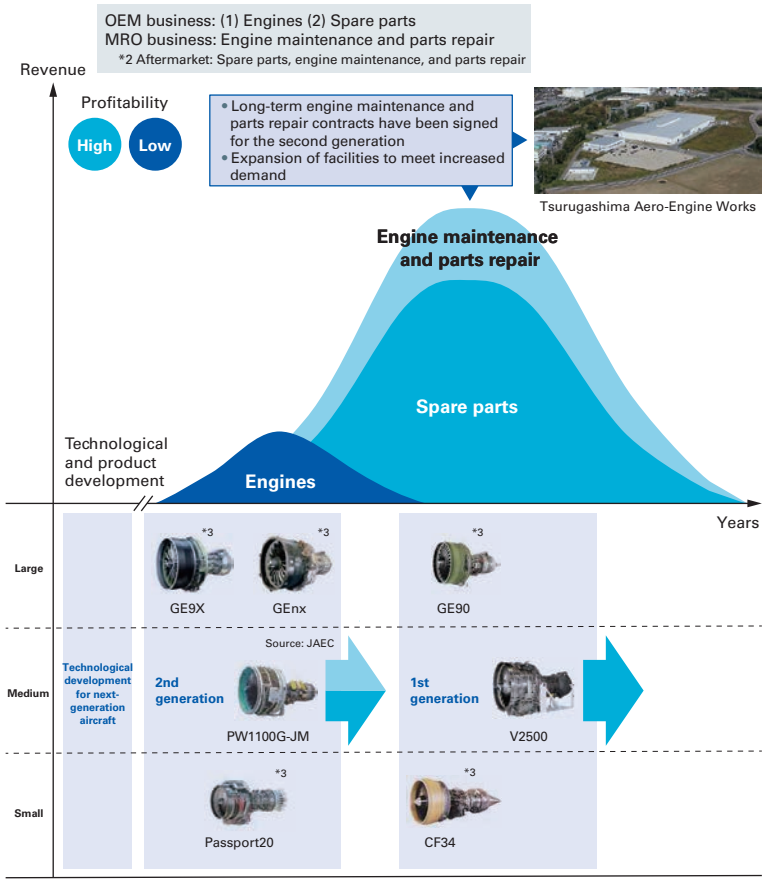
Aftermarket business driving growth as cumulative engine shipments rise

The IHI Group's civil aero engine business consists of the OEM business (design and production of engine parts, spare parts) and the MRO*1 business (engine maintenance and parts repair). The aftermarket*2 (spare parts and MRO) forms the core of our business model and accounts for most of our revenues.

The number of engines currently in service is increasing, leading to expected further growth in the market scope for aftermarket services. We see this as a significant business opportunity for the IHI Group, and in addition to spare parts manufacturing, we are developing high-value-added repair technologies and building production systems to expand our repair business, with a focus on parts where we can leverage our technical strengths. Strengthening domestic maintenance capacity provides value to the airlines we serve by reducing geopolitical risks, shortening delivery times, and lowering costs; it also supports the development of Japan's domestic industry. Through these efforts, we aim to establish a stable and profitable business with an operating profit margin of at least 20% in the civil aero engine business by around 2030.

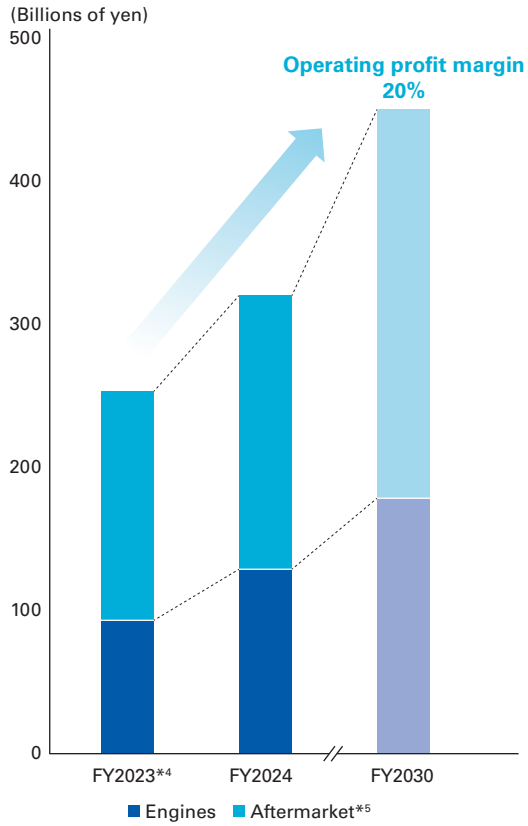
*1 Maintenance, repair, and overhaul

Revenue model: Civil aero engine business



*3 Courtesy of GE Aerospace

Revenue: Civil aero engine business



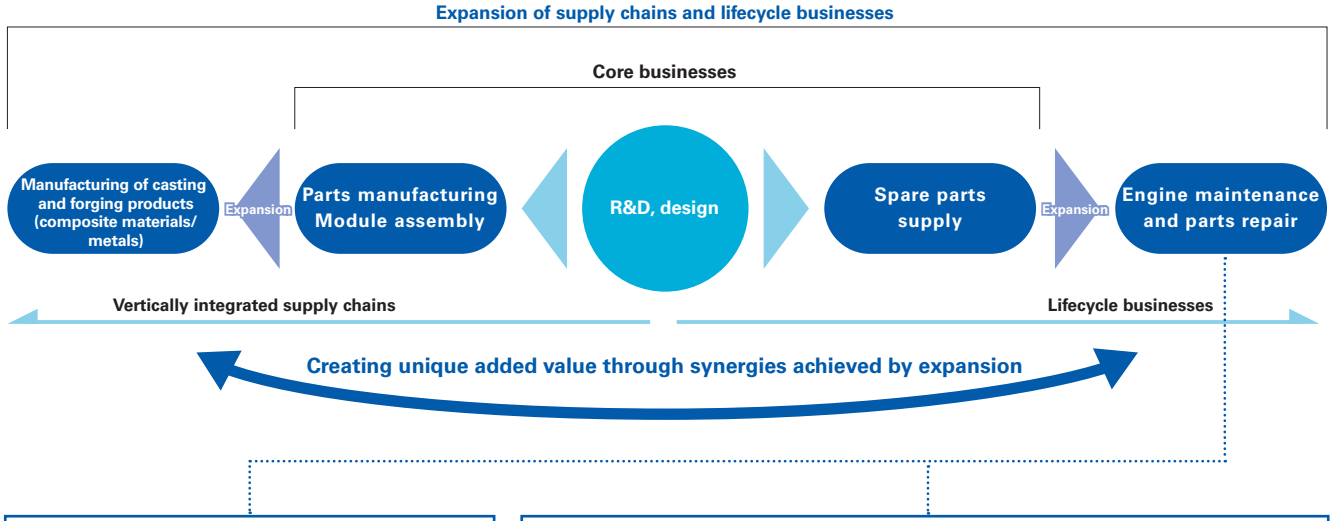
*4 FY2023 excludes PW1100G-JM powder metallurgy issue effects
*5 Aftermarket: Spare parts, engine maintenance, and parts repair

The new Tsurugashima Aero-Engine Works is our answer to the growing aircraft aftermarket field

In addition to R&D and design and parts manufacturing, the IHI Group is expanding its involvement both upstream into manufacturing of casting and forging products, and downstream into engine maintenance and parts repair. By extending this value chain, we are adding value and driving growth.

The PW1100G-JM engine, in which we hold roughly a 15% share, incorporates composite materials developed in-house to reduce weight. A great strength for the IHI Group lies in our advanced design and manufacturing capabilities for such composites, as well as our ability to perform complex in-house repairs that competitors find difficult. Our competitive advantage is also underpinned by our participation in international joint development programs for various engines and our long and proven record of success. Building on these technological foundations and achievements, we continue to develop high-value-added repair technologies.

To secure future growth, repair capacity must keep pace with demand. The expansion of the repair facility at the Tsurugashima Aero-Engine Works, announced in January 2025, is part of this effort. This initiative aims to achieve high-value-added repairs in-house and grow faster than the civil aircraft industry market.



Maintenance planning by the Lifecycle Solutions Center

The Lifecycle Solutions Center develops and executes maintenance plans for civil aero engines in close collaboration with the OEM business. It is also developing technologies for the operation and maintenance of civil aero engines.

The Mizuho Aero-Engine Works seeks to consolidate management of maintenance-related data

Facility expansion at the Tsurugashima Aero-Engine Works

The Tsurugashima Aero-Engine Works was initially established as a base to meet maintenance demand for the PW1100G-JM engine. Since operations began in June 2021, we have enhanced our capabilities by training additional personnel and investing in equipment. The new repair facility is expected to be operational by the end of 2026, and together with the Mizuho Aero-Engine Works, which also handles maintenance, it will accelerate our ability to meet high-value-added parts repair demand with more rapid high-quality service provision. This will be achieved through improved productivity from initiatives such as automation and digital transformation.

Rendering of the new Tsurugashima Aero-Engine Works