

“Group Management Policies 2023”

Transforming Business and Business Portfolio

Core Businesses

In the Core Businesses which includes Resources, Energy & Environment, Social Infrastructure, and Industrial Systems & General-Purpose Machinery, we will augment a growth strategy based on Exploit and Evolution of LCB. We will prioritize cash generation by meticulous reform of business structure and generating management resources that we invest in Growth Business and Development-focus Business.

Maximizing Customer Values Through LCB

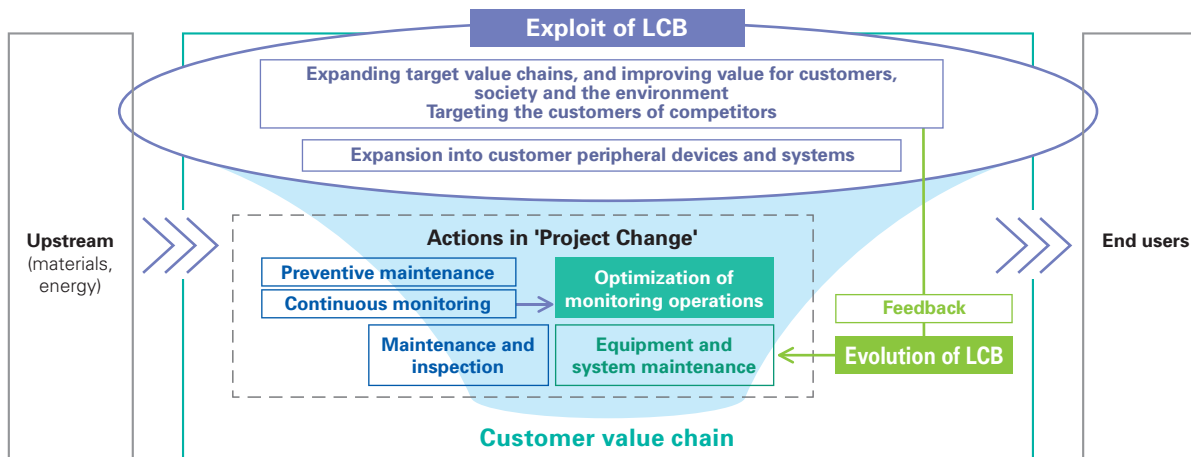
Achieved the LCB revenue target of ‘Project Change’

During the period of former mid-term plan ‘Project Change’, we defined Life Cycle Business (LCB) as “the provision of comprehensive services throughout the entire life cycle to maximize customer value,” and we have been strengthening and expanding LCB.

As for specific examples, in addition to large-scale, highly

complex repair works (bridges, nuclear energy, power generation, etc.) to ensure safety and extend the life of equipment in customer operations, we also carried out continuous monitoring of the status of facilities and plants of customers using digital technology to support their operations, made facility renovation proposals based on maintenance and diagnostics, and took initiatives to shorten the construction period in all the divisions in the Energy, Social Infrastructure and Industry business areas. As a result, we posted a 35% increase in revenues for LCB in fiscal 2022 compared to fiscal 2019 (against a target of 30%).

● Growth strategy centered on exploit and evolution of lifecycle businesses (LCB)



We will aim to exploit and evolution of LCB in “Group Management Policies 2023”

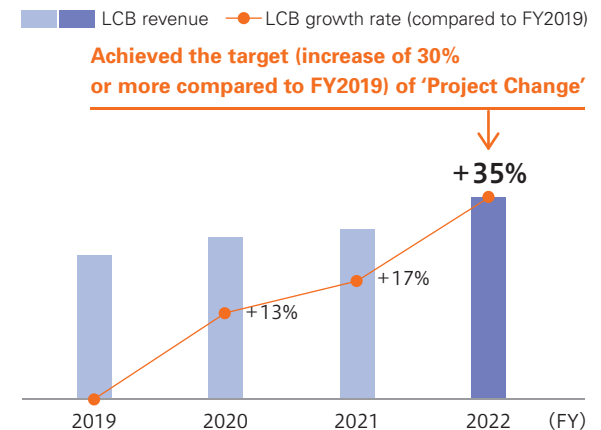
In “Group Management Policies 2023,” the IHI Group expanded the scope of the provision of comprehensive services throughout the entire life cycle to the facility and asset value chains owned by the customers and also to equipment supplied by other companies, without limiting to equipment and systems supplied by the Group.

We will implement initiatives that maximize customer values such as fuel conversion and visualization of energy consumption to promote carbon neutrality at customers in the power generation and industrial fields, measures that promote labor savings through optimization of operations by analyzing operation data of workers and equipment, and preventive maintenance of infrastructure and maintenance and repair of facilities upstream and downstream of river water systems (Exploit of LCB).

Through these efforts to provide services to maximize customer value, we will produce new technologies and services (Evolution of LCB) and link them to the next growth business by building the entire value chain and enhancing value.

● Change in LCB revenue

*Excluding Aero Engine, Space & Defense business fields



Resources, Energy & Environment Business

Change in business environment:

Emergence of new demand for decarbonization

As for the market environment going forward, some existing businesses are expected to shrink such as new installations of boilers for coal-fired power plants as the move towards carbon neutrality gains momentum. On the other hand, new demand is expected to grow for the effective utilization of existing facilities, such as maintaining the operation of high-efficiency power generation facilities and converting them to carbon neutral. Further, as energy demand is expanding around the world, we anticipate increased demand for installation of gas-fired power plants in the Southeast Asian market and renewable energy-related business in North America. In the nuclear energy business, we are expecting strong market expansion in the medium to long term, with the restarting of deactivated nuclear power plants gathering pace and the decontamination and decommissioning of Fukushima Daiichi Nuclear Power Plant in full swing.

Through business structure reforms, we will transform ourselves into a business entity capable of generating stable profits to a business entity capable of generating stable profits.

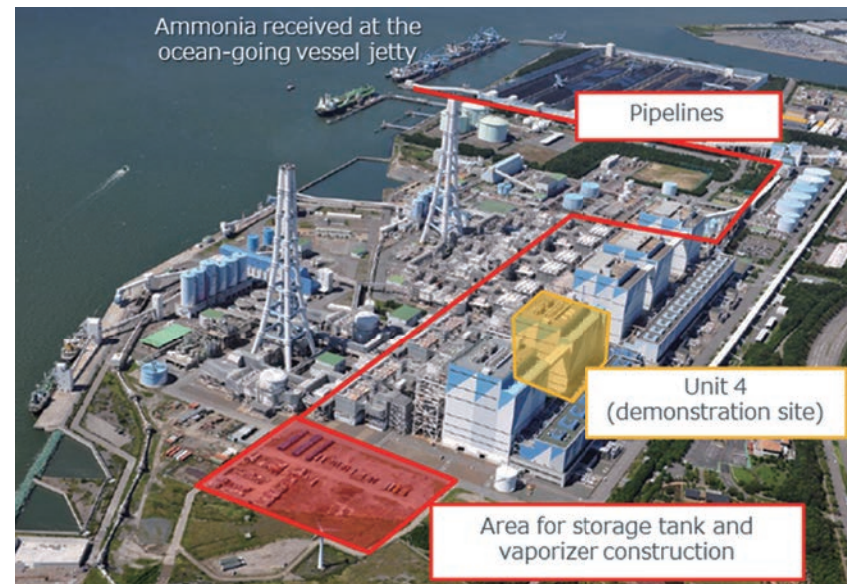
Revenue of the main business (excluding LCB) is expected to remain strong, mainly due to the receipt of several large-scale projects in the EPC business in Southeast Asia and the energy management service business in North America. With focus on these large-scale projects, we will strive to keep in check the increase in project costs and secure profitability by having a three-layered management structure of a business area-driven risk management in addition to risk management by each base as well as the Head Office divisions. In the Power Systems business, we will strengthen profitability by steadily implementing business structure reforms through selection and concentration of businesses and a review of the cost structure.

Promote the business through integrated efforts of the various business areas to secure LCB revenue

In the LCB during the period of "Group Management Policies 2023," the number of projects is expected to decline due to a decrease in periodic inspections and repair work resulting from the suspension of inefficient coal-fired thermal power generation and a lull in nuclear power restart and nuclear fuel cycle-related work. Therefore, both revenue and operating income are expected to shrink with only the efforts taken so far in relation to LCB. In the Carbon Solutions (CS) business, we will aim to secure revenue through acquisition of LCB of boilers manufactured by other companies including overseas projects and through optimization proposals for maintenance based on plant operation data. In the petrochemicals field, we anticipate changes in manufactured items reflecting the customers' business strategies, and will respond to the resulting process changes. In the nuclear power business, we will pursue acquisition of projects with a view on the maximization of nuclear power use in the future.

Medium- to long-term business strategy: Realize a carbon-neutral society

During the transition period until 2030, we will optimize the operation of facilities by making effective use of existing facilities and operating them in a highly efficient manner. In addition, we will gradually reduce CO₂ emissions from thermal power generation by switching to fuels such as biomass and ammonia, and develop infrastructure accordingly. In the nuclear power field, we will assist in the reduction of CO₂ emissions by contributing to the restart of nuclear power plants and their maximum utilization. Further, we will accelerate the establishment of technologies necessary for achieving carbon neutrality by 2050. In the transformation period from 2030 onwards, we will promote carbon neutrality by 1, utilization of ammonia led by exclusively ammonia combusted power generation, 2, CCUS with CO₂ capture and conversion technology that does not emit CO₂ outside the system, 3, electrification of ships and 4, promotion of safe and secure nuclear power with small-scale nuclear reactors.



Hekinan Thermal Power Station demonstration project for ammonia co-firing
Source: JERA Co., Inc.

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Social Infrastructure

Change in business environment: Current status of the infrastructure business in and outside Japan

The social infrastructure market is witnessing expansion and sophistication of demand for infrastructure system maintenance in Japan such as in measures against intensifying natural disasters following the government’s promotion of disaster prevention and mitigation and the National Resilience Plan as well as the shift to preventive maintenance for extending the life of infrastructure. Overseas, while there remains a certain level of demand for construction work that call for high level technology such as construction of long-span bridges including suspension bridges and large-scale repair work in various countries in Europe and the U.S. Meanwhile, vigorous demand for new infrastructure continues in emerging countries, though competition with foreign companies is intensifying due to cost increases caused by the yen’s depreciation.

In this business environment, the aging of skilled engineers continues due to the declining birthrate and aging population in Japan, and securing human resources and passing on skills have become major challenges. Further, the shortage of engineers and operators in infrastructure management has led to standardization and streamlining of operations and labor savings through digital transformation, which has become a pressing issue. Consequently, we are also facing a transitional period for business reforms reflecting these issues.

Aim for stable cash generation by building a strong business structure that can withstand changes in the environment

We will strengthen cash generation ability with “enhancement of order winning capability of existing businesses” and “creation of businesses that solve social issues”.

In the various businesses including the Bridges/water gates and shield systems, we will further burnish the technical and management capabilities gained in the existing highly complex works and overseas projects, and strive to increase orders it wins in a total war effort by precisely identifying changing customer needs. We will also ensure further strengthening of the revenue base by expanding into new businesses based on the exploit and evolution of LCB for solving social issues such as “aging of

infrastructure,” “intensifying natural disasters,” and “declining birthrate and aging population.”

Drive forward enhancement of the LCB revenue by transitioning from post-maintenance to preventive maintenance and comprehensive maintenance management

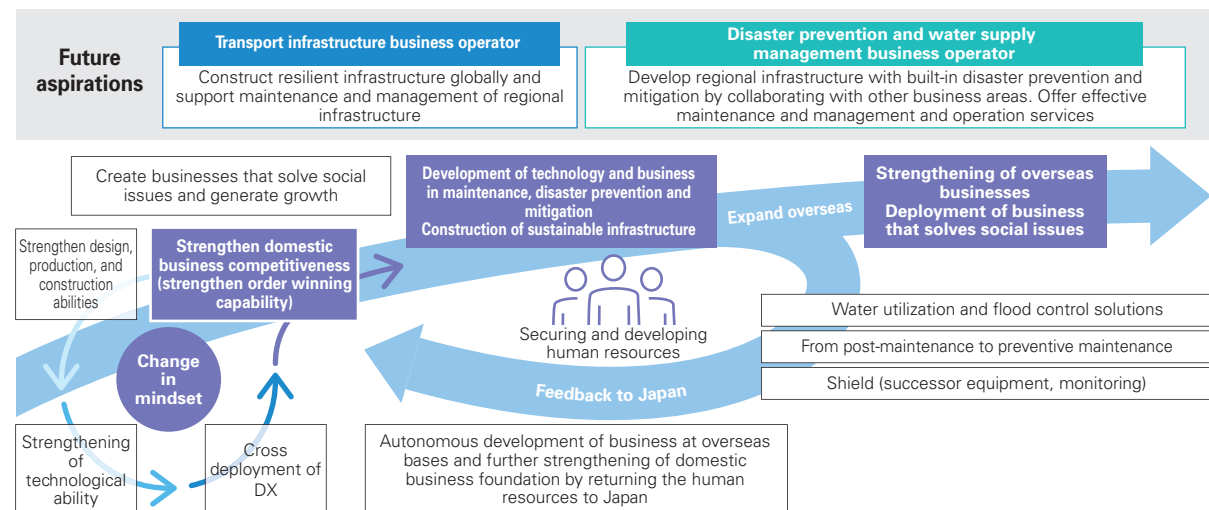
In the Social Infrastructure field in Japan, while aging of infrastructure is advancing, there is a shift from post-maintenance to preventive maintenance aimed at extending the life of infrastructure and increasing outsourcing of comprehensive maintenance and management to private players to address the shortage of budget and personnel necessary for maintenance and management.

We also have been reviewing the Social Infrastructure business area to address these issues, and it will engage in the preventive maintenance business such as proposing repair period utilizing accumulated data from diagnosis of bridges and deterioration information. This will be achieved by enabling easy data linkage from the various processes starting from design to maintenance and management through promotion of use of BIM/CIM. Specifically, we will widely deploy our bridge management support system (BMSS) and carry out damage analysis of infrastructure and support the formulation of plans to extend

infrastructure lifespan targeting local governments and road management entities.

Medium- to long-term business strategy: Support development of safe and secure social infrastructure

We aim to support a safe and secure society from the aspects of both transportation infrastructure and disaster prevention/water management. We will acquire more orders by further enhancing the business foundation based on the five existing businesses (Bridges/water gates, Transport systems, Shield systems, Concrete construction materials, and Urban development) and aim to further grow the business. Towards that end, we will transform ourselves into an entity that customers can rely on by building a strong business structure through pursuit of cross deployment of DX and production/construction reforms. Moreover, we will strive to solve social issues by making disaster prevention and mitigation businesses such as wide-area management of water utilization and watershed flood control that address the intensifying natural disasters occurring frequently nowadays, into a new pillar of the business. By raising the added value of the business through these growth strategies, the IHI Group will ensure further strengthening of the business structure.



Industrial Systems & General-Purpose Machinery

Change in business environment:

Growing need for decarbonization, automation, and labor saving

While the impact from the increasing shift of passenger cars to EVs is visible in the vehicular turbocharger market, new demand for turbochargers is being generated such as for making internal combustion engines more efficient, utilization of hydrogen and alternative fuels, and introduction of fuel cell system. The IHI Group also delivers turbochargers for engines used in a wide range of applications including commercial, general, and marine uses in addition to passenger vehicle applications and it expects the business to continue retaining a certain size for the time being. Meanwhile, needs for decarbonization, automation, and labor saving have been growing in the industrial systems market to respond to social issues such as climate change and declining population. We expect the business related to offering of solutions such as energy saving at customer plants as a whole and improvement in production efficiency to expand in addition to sales of equipment.

Continue to stably generate cash and support the Growth and Development-focus businesses

The vehicle turbochargers business will forcefully promote selling price improvement activities as automobile production normalizes globally and aims to sustainably improve profitability by gradually reducing the impact of soaring prices of materials through VA/VE activities*, and optimizing fixed costs. In the industrial systems business, the impact of supply shortage and prolonged delivery time of material and equipment including electric components continues to linger. As a countermeasure to this, we will ensure appropriate inventory levels and reliable implementation of construction works based on demand forecast by building a process for timely grasping and reflection of delivery information.

*VA/VE are short for value analysis and value engineering. These are activities to review product designs and manufacturing methods through analysis of costs, functions, etc. and reduce costs while maintaining quality.

Deliver a growth story centered on exploit and evolution of LCB and strengthen business structure

In exploit of LCB, we will focus on customer's business activities as a whole and work on issues of decarbonization, automation, and labor saving of primarily the IHI Group's products as well as peripheral equipment, other companies' products, and the plant as a whole. We will also build a brand new profit model such as by entering into operation business by going beyond the framework of existing equipment and system delivery. Further, we will offer meticulous service rooted in the requirements of the customers in each region and also expand the service business overseas along with the global deployment of the product sales business. At the same time, in evolution of LCB, we will offer solutions by going beyond the boundaries of the existing businesses and development of new businesses including electric turbocharger (ETC) for fuel cell systems and creation of values as part of initiatives for realizing decarbonization, automation, and labor saving.

Medium- to long-term business strategy:

Aim to become a highly profitable business entity that solves issues

We list "decarbonization of the manufacturing industry," "labor saving and automation," and "global" as the key words for growth, and will drive forward structural reform to make it into a highly profitable business entity that solves issues by leveraging to the maximum extent the advantages of having multiple industrial equipment businesses. We will also work to share and redistribute resources and to enable flexible utilization of people, goods, and funds within the area and build an optimum structure that can demonstrate collective strengths. We have already been implementing an initiative for sharing information, in which information of the entire life cycle of customers and products is made available on the customer success dashboard (CSD) as a digital base, and it is utilized by all businesses. We will offer new values to customers by looking at their issues from various angles going beyond the framework of individual products.

● Exploit and evolution of LCB

