

# Management Review: Progress with Project Change

**IHI**

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**IHI Corporation**

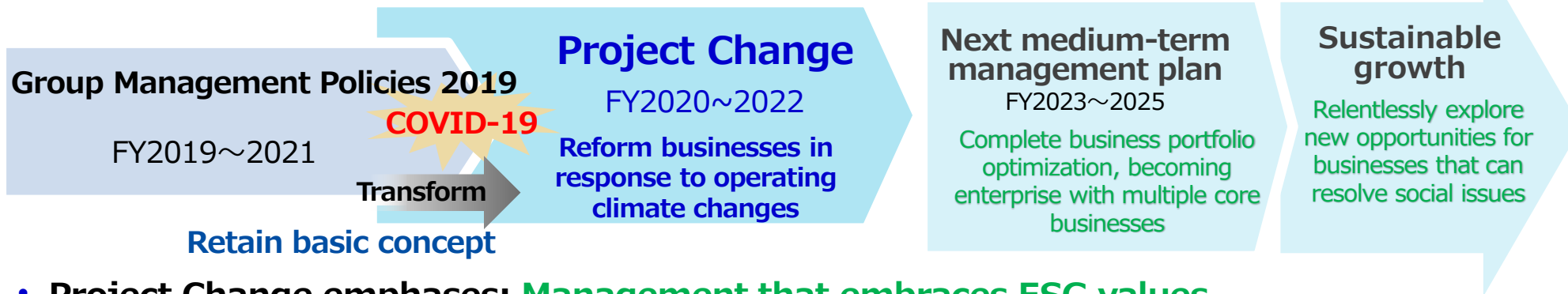
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# Overview of Project Change

## • Positioning



## • Project Change emphasizes: Management that embraces ESG values

### Return to growth trajectory

Further strengthen earnings foundations  
Expand lifecycle businesses

### Overcome operating environment changes to drive value creation

Reallocate personnel  
Pursue diversity and inclusion  
Adopt new work practices

### Financial strategies

Strengthen cash flow generation  
Allocate funds optimally  
Build solid financial position

### Create growth businesses that address social issues

#### Materialize fulfilling lifestyles

#### Air transportation systems

Safe, comfortable, economical, and eco-friendly

#### Carbon solutions

Materialize carbon-free, circular economies and comfortable and secure decentralized communities

**Become carbon-free**

#### Maintenance and disaster prevention and mitigation

Develop robust, economically and eco-friendly social infrastructure

**Prevent and mitigate disasters**

# Second-Quarter Review

## Progress assessment

- Progressed steadily with measures, including to strengthen cost structure and expand lifecycle businesses
- Notwithstanding soaring raw materials and transportation costs and other external factors, reinforced earnings base to position IHI to reach FY2022 management targets

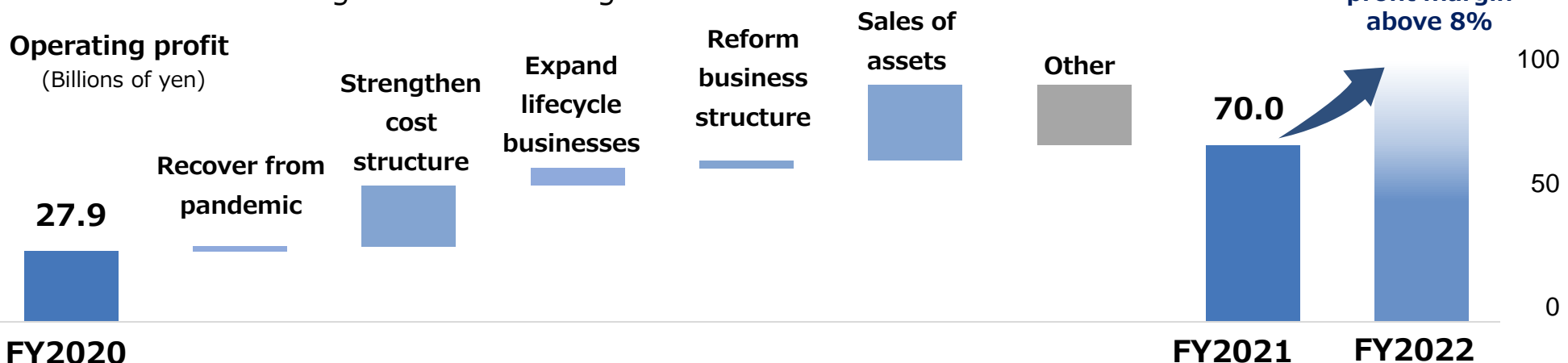
## Results

- Revenue improved for all business areas
- Operating profit increased in three business areas and companywide (Social Infrastructure & Offshore Facilities earnings dropped owing to rising steel prices and transportation costs)
- In terms of profitability, all the profit items turned profitable, posting operating profit even after excluding fixed asset sales gains

	FY2020 Q2	FY2021 Q2	FY2021 forecasts
Revenue	¥481.7 billion	¥516.5 billion	¥1,180 billion
Operating profit (loss)	(¥6.1 billion)	¥26.3 billion	¥70 billion
Operating profit margin	(1.3%)	5.1%	5.9%
Profit (loss) attributable to owners of the parent	(¥9.7 billion)	¥15.1 billion	¥35 billion

## Operating profit

(Billions of yen)



# Aero Engine, Space & Defense

## Business environment

- Passenger demand for domestic and short-haul international flights recovering on vaccination progress
- Air cargo demand robust and exceeding pre-pandemic levels
- From FY2022, international passenger demand should recover on vaccination progress and domestic flight demand turnaround, with aero engine maintenance demand rising as more aircraft operate

## Project Change progress

Recover from pandemic

- Increased spare parts sales amid moderate aviation demand recovery

Strengthen cost structure

- Boosted productivity with new engines (by procuring materials and parts just in time and by digitizing processes to stabilize them)

Expand lifecycle businesses

- Launched operations at Tsurugashima Works (reinforced structure to take advantage of recovery and growth in commercial aero-engine business)



Tsurugashima Works

**Future initiatives**

- Aviation demand trending upward, should recover further in and beyond FY2022
- Will prepare for rapid demand recovery by becoming more cost-competitive and building more efficient structure based on robust quality assurance setup

# Resources, Energy & Environment

## Business environment

- International decarbonization demand propelling fuel switching in power sector
- Carbon solutions and nuclear lifecycle businesses remain solid
- Southeast Asian engineering, procurement and construction operations and power systems lifecycle businesses overseas lackluster owing to pandemic

## Project Change progress

Strengthen  
cost structure

- Reinforced project risk management in all project stages (initial estimates, project creation, contract conclusion and quotes, and implementation) to eliminate earnings downswings

Expand  
lifecycle  
businesses

- Created engineering environment and framework that eliminates resource overloads and shortages and swiftly shifted resources
- Applied new technologies employing digital processes, information and communication technologies, artificial intelligence, and drones

Reform  
business  
structure

- Entered small modular reactor market by investing in NuScale Power of United States
- Transferred IHI Plant Services pharmaceutical EPC business

Future  
initiatives

- Accelerate resources shift to carbon-neutral projects
- Secure orders through work on Southeast Asian projects that stagnated owing to pandemic
- Accelerate global lifecycle business expansion

# Industrial Systems & General-Purpose Machinery

**IHI**

## Business environment

- All businesses recovering from pandemic-induced downturn
- For vehicle turbocharger business, which has suffered from semiconductor shortages and supply chain disruptions owing to COVID-19 variant, will carefully monitor automotive demand recovery in second half
- Power shortages in China have affected some businesses

## Project Change progress

Recover from pandemic

- Sales of thermal and surface treatment and rotating machinery sales recovered to pre-pandemic levels

Strengthen cost structure

- Improved breakeven point, including by cutting procurement expenses
- Separated fixed and variable costs and leveraged information and communication technologies to shorten lead times

Expand lifecycle businesses

- Built framework to share information, tools, and resources for rapid proposals and services
- Materialized concept to establish domestic services units across businesses

**Future initiatives**

- **Respond flexibly to automotive demand recovery**
- **Reinforce earnings structure by shifting resources faster to lifecycle businesses**
- **Leverage information and communication technologies to optimize services network**

# Social Infrastructure & Offshore Facilities

## Business environment

- Domestic maintenance work steady amid aging social infrastructure
- Steel prices soaring owing to decarbonization policies and surging ocean freight charges from global container shortage
- Military rule in Myanmar and pandemic impact across Asia hampering progress in some overseas construction projects

## Project Change progress

### Expand lifecycle businesses

- Secured steady orders for bridge seismic reinforcement and repair work
- Began marketing Bridge Management Support System

### Strengthen cost structure

- Shortened lead times and cut manufacturing costs by rectifying bridge production processes
- Created platform for digitizing construction technologies and drove advances in building information and construction information modeling

### Future initiatives

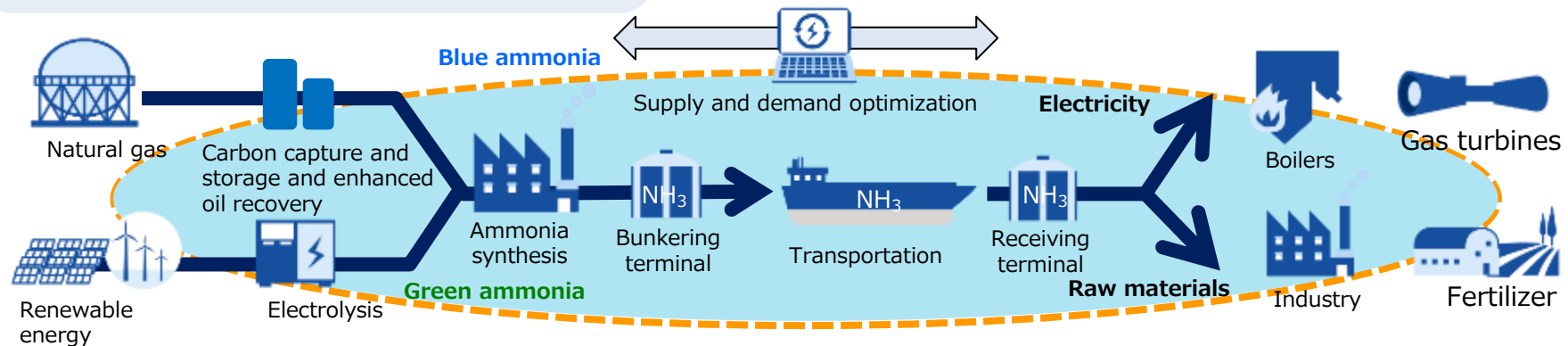
- **Steadily undertake large overseas projects**
- **Secure infrastructure improvement project work under Japanese government's national resilience plan**
- **Flexibly allocate resources to key global and maintenance operations**



# Growth Business Creation

## Undertaking development initiatives and partnerships to create growth businesses

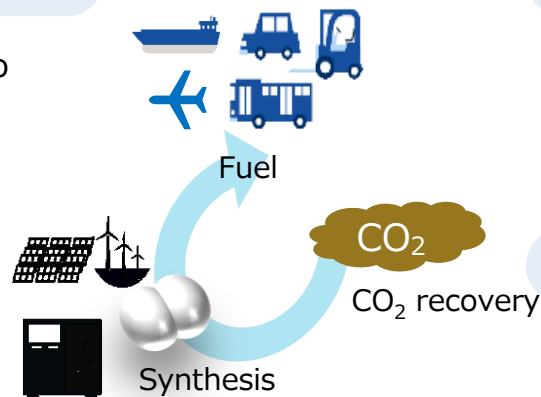
### Ammonia value chain



- Launched ammonia co-firing demonstration project (beginning with low-level fuel ammonia usage tests)
- Embarked on studies to establish carbon-free ammonia supply chains in Australia, Malaysia, and other countries
- Began developing large ammonia receiving terminal by improving ammonia receiving and storage technologies

### Carbon recycling

- Delivered first methanation unit to customer R&D center
- Commissioned to undertake research project for CO<sub>2</sub> separation and recovery in thermal power plants and for pipeline transportation



### Electric turbochargers

- Signed technical cooperation agreement for fuel cell system electric turbochargers

### Tropical peatland consulting

- Began collaborating to create consulting business for properly managing tropical peatlands

# Summary

## Build foundations for IHI Group to achieve sustainable growth by steadily undertaking Project Change initiatives

### Steady progress through Project Change measures

- Fast-tracking efforts to strengthen earnings foundations, expand lifecycle businesses, and reinforce cash-generation capabilities
- Accelerating strategies to creating growth businesses and optimally allocate resources
- Corporate management emphasizing sustainability from long-term perspective and undertaking initiatives that bolster corporate value

Project Change  
management targets  
for FY2022  
8% operating  
profit margin and  
10% ROIC

Sustainable growth



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