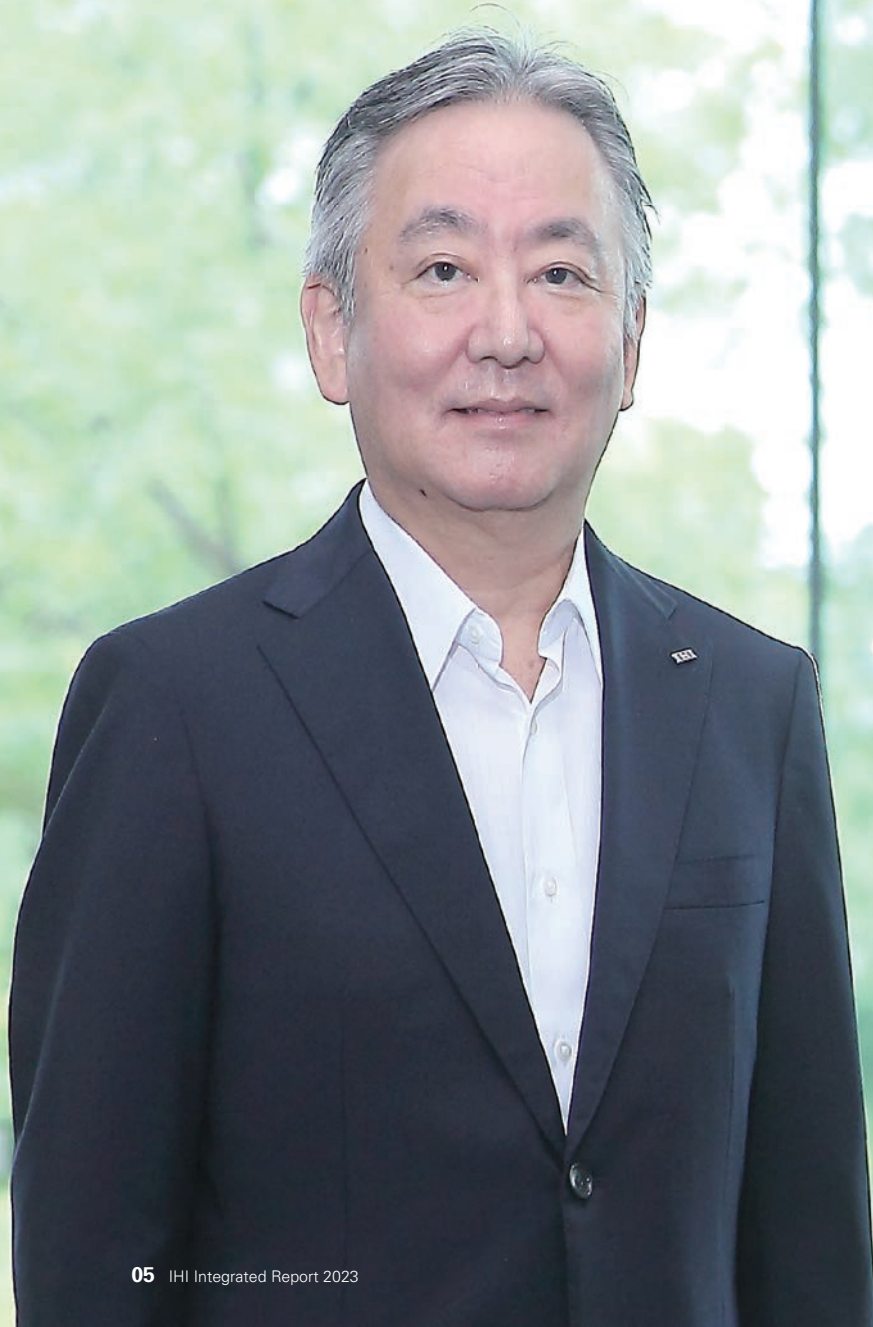


Message from the CEO



Establishing the New IHI Group: Breaking Away from Stereotypes, Resolving Social Issues with a Sense of Scale and Urgency

Project Change ended in FY2022, and the medium-term management plan “Group Management Policies 2023,” began from FY2023.

We will take on challenges for new initiatives that are not a continuation of the past.

President and Chief Executive Officer
Hiroshi Ide

A handwritten signature in black ink, appearing to be 'H. Ide', written in a cursive style.

Resonating to Our Management Philosophy and Corporate Culture

What kind of work would you like to be involved in at IHI Group in the future?

When this year's newly hired employees were asked this question, almost all replied that it would be solving social issues. This response was given regardless of workplace assigned or the background of the individuals.

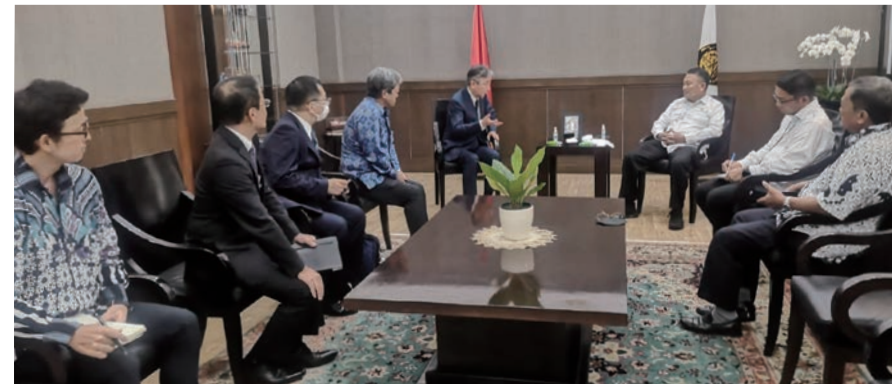
In various discussions that took place up to announcement of the IHI Group's ESG Management in November 2021, most officers and employees were in agreement that ESG management is the essence in resolving social issues. As a result of discussions, it was decided that the IHI Group's ESG Management would be the solving of social issues through business activities and achieving a sustainable society.

In this way, all within the IHI Group's desire to solve social issues. We believe this strong-rooted corporate culture is our strength.

The IHI Group's Management Philosophies are "Contribute to the development of society through technology," and "Human resources are our single most valuable asset." The first management philosophy involves "technology," which is the collective embodiment of technology (skills, talent) held by individuals (employees). Individuals (employees) refer to "human capital (resources)" that are part of the other management philosophy. The IHI Group's technology is not that which exists solely on its own, but all of which is linked to human capital. These two management philosophies are combined into one, enabling human capital possessing technology to maximize their capabilities. Leveraging this strength, we will take on the challenge of solving society's major issues.

Social issues such as carbon neutrality are grave problems. Realizing a business that can achieve carbon neutrality is affected by how countries and societies change. Business cannot be successfully carried out unless it integrates policies and visions of countries. It is important now more than ever for all officers and employees, including myself, to hold dialogue with and attend to various stakeholders.

Last year in September, I visited Indonesia where initiatives are currently being proactively carried out to achieve carbon neutrality. I introduced the IHI Group's carbon solutions business, such as ammonia combustion and methanation, to government agencies and exchanged opinions. Thereafter, in October of last year, we conducted ammonia combustion at the Gresik Thermal Power Plant in Indonesia. The IHI Group is taking various other actions in Indonesia as well, such as collaborating on fuel ammonia, utilizing palm waste effectively as a fuel, concluding a Memorandum of Understanding (MoU) for exporting synthetic methane from Japan, and moving up start of business in forestry management. I feel that close dialogue held with stakeholders on a daily basis regarding the management philosophy is leading to such results.



Scene from opinion exchange held at the Ministry of Energy and Mineral Resources

From Project Change to "Group Management Policies 2023"

The medium-term management plan Project Change lasted until the year ended March 31, 2023, and from this fiscal year, the "Group Management Policies 2023" is underway. Project Change was positioned as a preparation and transition phase for business transformation in response to operating environment changes. There were four areas of focus for which initiatives were taken, i.e., "Return to growth trajectory," "Business structure to overcome environmental changes," "Financial strategies," and "Create growth businesses." The greatest achievement can be said to be growth in lifecycle businesses by focusing effort into businesses that not only supply products and services, but also provide value throughout life cycles. In FY2022, Lifecycle Business revenue for three businesses

excluding the Aero Engine, Space & Defense business achieved an increase of 35% against a plan of 30% increase compared to FY2019. This was made possible by the dedication of various employees including those in services and on-site. Changes in a sense of value regarding work by the employees helped to enhance value provided to customers, and contributed to the increase in the IHI Group's profit. Meanwhile, issues remain in generating operating cash flow. Operating cash flow in FY2021 was a record high of 114.1 billion yen, but in FY2022 the figure did not reach even half that. To generate operating cash flows that is to become the source of funds for investments in the future, it is necessary to establish a system that will organically tie the businesses together and heighten overall strength of the Group.

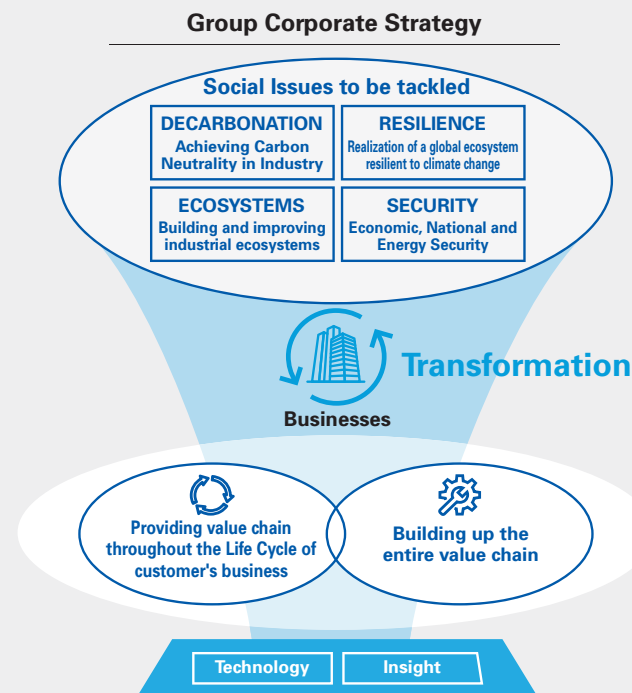
Message from the CEO

Also, corporate divisions need to become a firm foundation to carry out various strategies. Such issues remain, but preparations are underway for business transformation after Project Change. Meanwhile, the social environment is extremely unstable, and that is becoming the norm. Given such circumstances, in formulating the new medium-term management plan "Group Management Policies 2023," the IHI Group reviewed issues and selected four to work on, namely: "Realizing a carbon-neutral society," "Achieving a global ecosystem resilient to climate change," "Building and improving industrial ecosystems," and "Economic, national, energy security." "Building and improving industrial ecosystems" was newly added. Thus far, energy and labor savings for customers were often considered on an individual basis. The perspective of an ecosystem, which is the involvement of the entire system including products, was not included. We have come to believe that this perspective is an important one.

Aiming to resolve the issues faced by customers, industry, and society, the IHI Group will transform businesses with the "Group Management Policies 2023," working from multiple

perspectives to provide value across the life cycle of customer's businesses, create and improve the entire value chain, while leveraging the technology and insight of the IHI Group. To implement this transformation, we will promote the recruiting and developing human capital and the advancement of digital infrastructure. Based on this concept, the businesses of the IHI Group are classified into three businesses: the Growth Business (Aero Engines and Space), the Development-focus Business (Clean Energy including ammonia), and the Core Businesses (Resources, Energy & Environment, Social Infrastructure, Industrial Systems & General-Purpose Machinery). Focusing on Lifecycle Businesses, value chain perspectives, and fluidity, the idea of classifying businesses vertically into four business areas, i.e., Resources, Energy, & Environment; Social Infrastructure; Industrial Systems & General-Purpose Machinery; and Aero Engine, Space, and Defense, has been changed, and a decisive shift is being made to apply management resources from the Core Businesses to business fields that are positioned as the Growth and Development-focus Businesses. For example, to realize the Ammonia Value Chain business that the IHI Group is currently

"Group Management Policies 2023": Business transformation to achieve strong sustainable growth



Key points for the "Group Management Policies 2023"

- Leaping forward to become a sustainable high-growth company through a bold shift of management resources to growth areas



Allocating management resources (cash and human capital)



- Capability of realizing transformation



Message from the CEO

promoting, appropriate allocation of technology and funding and human capital to the correct locations that go beyond the boundaries of the four business areas is needed. Out of the Growth, Development-focus, and Core businesses, we believe Clean Energy, which is a Development-focus Business, is the one that must be developed the most going forward. However, as there are many uncertain factors in how operations related to the Development-focus Business will develop. Aero Engines and Space is being positioned as the Growth Business so as to drive even more certain growth for the IHI Group. Regarding Aero Engines, long-term initiatives will be taken such as sustainable aviation fuel (SAF) and hydrogen fuel, for lighter weight and electrification which are initiatives for carbon neutrality in aircrafts, in addition to growth in existing aero engines. The aviation business, including the current defense-related business, is being expected to generate profit. In Resources, Energy & Environment, Social Infrastructure, and Industrial Systems & General-Purpose Machinery which are positioned as the Core Businesses, the IHI Group will prioritize strengthening its cash generation through meticulous business structural reforms and generate management resources to be invested in Growth Business and Development-focus Business, in addition to a growth strategy based on exploitation and

evolution of Lifecycle Businesses.

Again, the perspectives of “lifecycle” and “value chain” are vital in all of the businesses. With the energy business in particular, the IHI Group up until now had only been taking on a portion of EPC (engineering, procurement, and construction). By taking on the perspective of value chain, new business opportunities can be discovered. The Ammonia Value Chain business, for example, began with combustion technology to use ammonia as fuel for boilers. By taking the life cycle regarding ammonia as fuel, and considering the overall value chain for fuel from production, storage, transport, to utilization, ideas for business changed significantly. Each of the processes in the value chain contains issues that need to be resolved, and we have come to realize that we possess the technology necessary for such resolution.

Not limited to the Ammonia Value Chain, we will promote transformation into businesses that can achieve strong sustainable growth from the perspectives of providing value chain throughout the life cycle of customer’s business and establishing value chains in all businesses.

Practicing ESG Management and Holding Dialogue with Stakeholders

As we recognized the need for management that faces up to social issues that gives consideration more than ever to the natural environment and to society, and that can gain the trust of stakeholders, that is essentially ESG (Environment, Social, Governance) management, the IHI Group’s ESG Management started in November 2021. In the future, it will become important more than ever before to practice ESG management in order to establish the new IHI Group that will balance its own strong sustainable growth with the sustainable growth of society, while responding to a new social environment in which instability becomes the norm.

To further spread ESG management, we must deepen the understanding of ESG across the Company and have all officers and employees need to make it personal. For example, with “Social (S),” we must ensure that everyone can correctly understand respecting the human rights and accepting diversity of all in the workplace, feel personally responsible and take action accordingly. I believe that my role is to encourage these actions.

Four especially material issues in ESG management are “climate change,” “human rights,” “diversity and inclusion,” and “securing and maintaining stakeholder trust,” and this holds true in the “Group Management Policies 2023.” Resolving social issues lies at the root of the IHI Group ESG Management. Balancing social and corporate sustainability and leading it to medium- to long-term value creation is the essence in ideal IHI Group management.

Again, the core of this medium- to long-term value creation is the close dialogue with stakeholders that leads to awareness reform of ESG internally and to material issues. We must broaden the range of stakeholders for dialogue and incorporate the feedback gained

into the management policies and business strategies, for a repetitious virtuous cycle. For example, we began dialogue and engagement with non-governmental organizations (NGOs) and non-profit organizations (NPOs) last fiscal year. We, as a company, lend an ear to understand opinions of civil society, object at times, and discuss what we can do together.



It is material to empower diverse human capital.

Message from the CEO

In practicing ESG management, the IHI stance is changing to one that targets potential stakeholders with a “come and join us” strategy. Thus far, information on technology being developed was not communicated externally until it could be demonstrated to a certain degree. For example, success with ammonia combustion in small-scaled gas turbines would not have been disclosed to the public in the past. However, since this was a world’s first technology that we had been working on for over ten years, we believed it necessary to quickly communicate this fact to our stakeholders even though it was a 2MW small-scaled

gas turbine. We hope to actively communicate and share information not only on results, but also the process leading up to them.

Issues we are facing today are extremely complex, and in looking at the trends of the times, resolution is not possible by one country or one corporate group alone. To contribute more to the creation of an even better sustainable society, we hope to share issues with a wide range of stakeholders, form new partnerships, and run alongside each other toward solving social issues.

Human capital for Transformation That is Being Expected of IHI

Policy regarding coordinated acquisition of human capital for transformation, a priority issue, was presented as human capital strategy for this fiscal year. In most cases thus far, human capital were kept by business divisions within which they worked. However, in implementing the “Group Management Policies 2023,” we felt we should shift from the conventional idea of dividing businesses by business field into four classifications to a concept in which human capital can be allocated flexibly beyond the boundaries of organizations. To promote business transformation, it is necessary to create opportunities for human capital to be flexibly moved to leverage their expertise, instead of limiting their positioning within confines of business divisions.

While the overall picture of what constitutes human capital for transformation for the IHI Group may not be complete, it is human capital that take on new challenges that are at the very least not an extension of the past. Some business divisions had human capital with intent and ability to go beyond frameworks to face new challenges in addition to their existing work. To identify such human capital and allocate them flexibly beyond the boundaries of businesses, visualization of human capital and systems are needed. The IHI Group positions “diversity and inclusion” as one of the material issues. I strongly wish for employees to be able to work in an environment where they can feel their own growth. The current management is in thorough discussions as to how employees and their expertise can be leveraged and as to evaluation and treatment that appropriately match their

abilities. Discussions are being held to create a tailor-made system in which purpose can be found in working for the IHI Group and that can attract human capital.



Scene from dialogues between CEO Ide (right) and employees

Breaking Away from Stereotypes

I have continued to promote the importance of breaking away from stereotypes and appealed to employees to create a corporate culture where characteristics and experience of each person can be leveraged, which will be defined as the new IHI Group. However, simply relaying that will not cause significant change within the company. Therefore, as one measure in breaking away from stereotypes, we decided that the honorific “(Family Name)-san” would be used to address everyone. Some employees were apparently uncomfortable at first to use “(Name)-san” instead of official job titles, but its use actually

spread much faster within the Company than I had imagined. We also eliminated restrictions regarding attire at the head office starting this April. Now, we have employees who remain in the conventional suit and tie as well as those who come to the office wearing T-shirts and jeans – there are officers who participate in management meetings wearing hoodies. Management leaders of other companies have said “Are you serious? That IHI?” But I feel that being able to choose what you wear and to be yourself has helped us to break away from stereotypes.

Message from the CEO

Everyone has stereotypes, but they might change if a chain reaction occurs. I was told within the Company at first that using "san" would not uphold discipline. To this I asked in return, "Do you go about your work by using your job title?" As long as artificial hierarchies made from seniority are not first destroyed, I believe new ideas cannot be created at the IHI Group and it will not grow. What to destroy and what to leave intact must be made clear. I believe that is something only I as President can do, and have created a trigger to change the system.

When we changed names from Ishikawajima-Harima Heavy Industries to IHI in 2007, the words "Heavy Industries" were removed from the company name. This can be said to be a major shift. The IHI Group has a corporate culture that is able to accept such shift and change without resistance. There may be a sort of an underlying mentality that is flexible, where if I ask our officers, "So, should we do it?" they would reply, "Good idea!"

Creating a workplace culture that allows free thinking and speaking out is necessary to establish the new IHI Group.

To Establish the New IHI Group

The vision of the IHI Group to "create a world where nature and technology work in unity" is a challenge toward something that was not possible thus far. The IHI Group will be marking its 170th anniversary this year. Over various eras, it has faced many obstacles and problems, challenged them head on, and always worked in earnest to find solutions. On the other hand, in the process, there were times when consideration of the natural environment was insufficient as priority was placed on economic rationality. However, I believe we can learn from the past and apply the core values we have developed so that the IHI Group will play a major role in creating a better society. To realize a world where nature and technology work in unity, I will shift toward implementation through guidance for the top with a sense of scale and urgency.

By "guidance for the top," it is to mean all employees of the IHI Group, as it is diverse human capital that play a central role in generating value. In Japan, nationality and gender are often used to exemplify diversity, but characteristics and experience of individuals can also be said to be diversity. It is stereotypes, which everyone has, that resists diversity, and a culture that doesn't allow objection against what one feels is not the way forward. Creating a workplace culture where free thinking beyond the framework of traditional stereotypes and voicing opinions is required in establishing the new IHI Group.

It is here that I will take the lead in promoting transformation to aim for our vision. Achieving transformation and finding business opportunities in solving social issues that lead to medium- to long-term generation of social value and enhancing corporate value is the role of management and a responsibility toward our stakeholders.

