

Management Message

Representative
Director and President,
Chief Executive Officer

Hiroshi Ide



The IHI Group celebrated its 170th anniversary on December 5, 2023.

We owe this to the understanding and support we have received from our shareholders, customers, business partners, local communities, employees, and all other stakeholders. We would like to express our heartfelt gratitude.

The IHI Group will go through
transformation into
a company that
creates value chains,
looking beyond
“Group Management Policies 2023”.

The IHI Group creates Value Chains

In the Management Overview of the fiscal year ended March 31, 2024, we published the message “The IHI Group creates Value Chains” as our direction beyond the medium-term management plan “Group Management Policies 2023”. By integrating, uniting, and enhancing diverse technologies as the sources of our value, the IHI Group forges new value for our customers moving beyond traditional products and services. We announced the message with the intention to bring together our employees’ minds and aims by the end of the period for the “Group Management Policies 2023”. I believe that my role is to not only accomplish what the “Group Management Policies 2023” set out, but also to show and connect the paths to be taken for the next medium-term management policies. The IHI Group will transform into a company that creates value chains in order to “Create a world where nature and technology work in unity”,

which is its sustainability goal. The management team members have various opinions about the idea of value chain creation. In my opinion, because there are diverse opinions, it is important for top management to choose a direction. It is vital that top management bring its members’ perspectives into alignment while discussing with various people.

Creating value chains to fashion new business models

An example of value chain creation is the fuel ammonia value chain business. The key to creating a fuel ammonia value chain is to generate a need. The IHI Group is the world’s pioneer developer of a combustion technology that uses ammonia as a fuel. By establishing this technology, we have created the value of ammonia as a carbon-free fuel. This newly created value of ammonia meets the needs of

direct users of the fuel. The IHI Group will develop value chains using its technologies to satisfy this type of demand. To fulfil needs that will continue to grow, we ought to keep improving our technological capabilities and expand the scale of our businesses. The IHI Group plans to “integrate”, “unite”, and “enhance” these technologies in pursuit of these ends, thereby taking part in the building of value chains as a partner.

The IHI Group is capable of contributing to building value chains as a partner not only because it has robust technologies, engineering skills, and expertise, but also because it is capable of identifying business risks related closely to technology and sharing them with its partners. In the case of the fuel ammonia value chain, I believe that we can draw on the IHI Group’s technologies from upstream to downstream to make the chain stronger. We will keep ourselves informed about technical issues by our partner businesses and receive feedback from them on the value the IHI Group offers while working on tasks in each process. This information and feedback will be management resources for technological development and business model creation.

Looking back, LNG was first imported into Japan 55 years ago. Today, LNG is distributed around the world as a core energy source. If we had imagined what the whole LNG value chain would look like in 55 years, we could have been among the first players in chains other than the LNG tank chain. Being in such a position would have brought us multiple business opportunities, including participation in discussions about various new LNG-related specifications that were to be created. Joining the fuel ammonia value chain as a pioneering player will be a once-in-a-lifetime opportunity to put us at an advantage in terms of management strategies. Our businesses to date have revolved

around manufacturing, and our processes have ended when our products were sold. It is time to redefine our idea of business for the future. We will take a broad view of each value chain to identify the processes we should create or join, thereby creating more opportunities to offer value. More opportunities to offer value within a value chain means more opportunities to make a profit. If we also increase the value by creating synergy between the processes we join, our earning capacity may grow to an unprecedented level.

Value chains that “integrate”, “unite”, and “enhance” technologies

We cannot expect to regularly find opportunities to participate in the building of a value chain from the start. By “creating value chains”, I mean one more thing, which is to create businesses of substantial scale that are built on technological value. The IHI Group’s sources of value are the technologies that it has developed during the 170 years of the Group’s history. Some of these technologies were mundane, and others were cutting-edge. By combining these diverse technologies, we generate new value and can be stronger than ever. For example, parts for jet engines use the IHI Group’s technologies for simulation, materials, processing, and production, among others. Combining these technologies with other technologies in the same or different fields offers the potential for creating new value. When we create a business built upon the value of our technologies, we should focus on the strength of the IHI Group’s core technologies and on the degree of the impact that the value generated by these technologies has on society, and study them in the context of our vision and the scenario of how to make it a reality.

IHI Group will develop value chains using its technologies

Our Approach to Portfolio Management and Business Model

We plan to complete the discussion on our business portfolio review during the period for the “Group Management Policies 2023”. Since we believe that the discussion must be complete before we move on to the next medium-term management plan, we have set the deadline for the portfolio review, which is also to speed up our investment in the Development-focus and Growth Businesses. When we discuss any of our Conventional Businesses, we focus on not only return on investment capital (ROIC), but also whether the business is essential for the IHI Group’s value creation. The discussion has just begun, and we plan to examine each of the

businesses in the business portfolio review process, considering who is the best owner as well as competitive advantages, timelines, and return on investment, among other aspects.

Currently, each of the IHI Group’s businesses uses its own business model. In the past, revenue from our Aero Engine, Space & Defense business made up for considerable drops in profits from our plant, social infrastructure, and offshore facilities businesses. When our aero engine business experienced a significant downturn during the COVID-19 pandemic, the other three business areas supported it. This was most likely a testament to the capabilities they had developed to do what they should be able to do as IHI Group’s businesses, including risk management, in addition to the earning power each of the four business areas already had.

Future visions of the Conventional, Growth, and Development-focus Businesses, and timelines

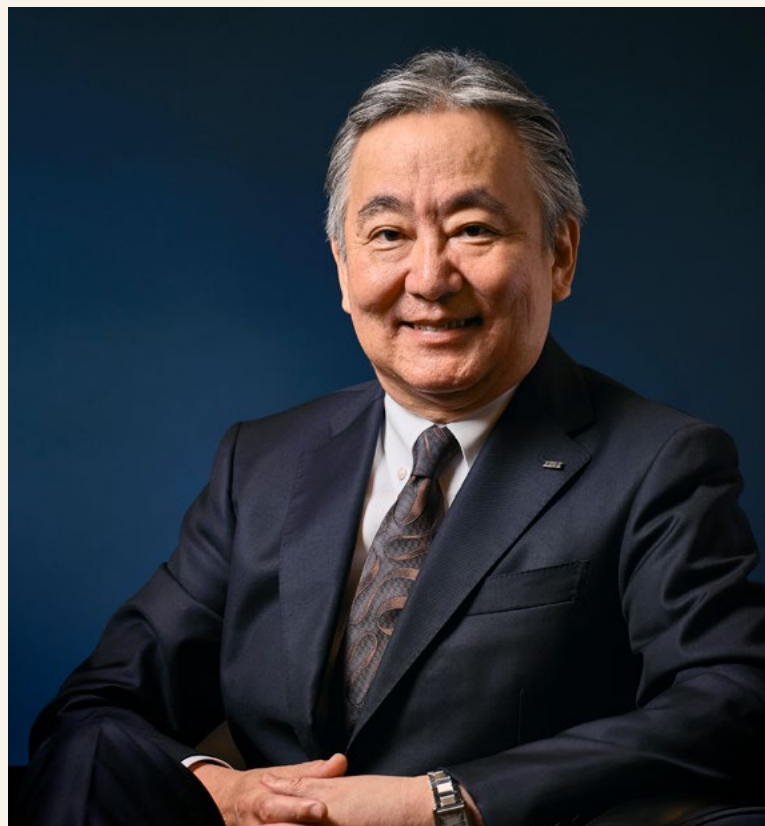
The Conventional Businesses are to develop businesses centered on lifecycles, to work out businesses that will likely be the next Growth Business, and raise funds for investments. In FY2023, the lifecycle businesses (LCB) we are focusing on enjoyed a 52-percent increase in revenue compared to FY2019. With the high profit margins they have, LCB serve as our foundation of cash creation. We believe that these businesses have great potential for growth depending on how we develop them, and thus we will continue to work on their expansion. In the Growth Businesses, it is essential for us to make investments for future growth while continuing to achieve greater profits. The Development-focus Business works on high-risk and high-return businesses, leveraging the value created by our core technologies. In this process, the Conventional Businesses provide the resources needed. The fuel ammonia value chain business, which is part of the Development-focus Business, may remain in the investment phase for a while and begin to generate revenue in 2035 or thereafter. If we need capital for further growth and development as we move forward with these businesses, we should raise it by various means, including M&A.



Changing the ways we earn cash

We will need to generate operating cash flows (CF) as our highest-priority task. Our employees in sales or on the ground are more focused on revenue and profitability than ever. They should also approach their work from the perspective of how to earn cash. Old business practices from the past still linger in the Group, and we also face issues in how we receive cash and manage inventory. Even the aero engine business, our top earner, falls short of the mark when it comes to cash flow analysis and actions based on it. How we manage inventory and receive payments for our products and services in particular could use improvement. Long-term projects, which are typical in the bridges and energy businesses, require the challenge and creativity for fundamental changes to generate cash.

I believe that earning cash is the first step toward our transformation. I define it as one of the tasks that must be accomplished by the end of the period for the “Group Management Policies 2023”.



DE&I as Part of the IHI Group's Culture

Initiatives for DE&I as the springboard for a new mindset for our employees

In FY2023, we clearly defined innovative human resources for the transformation of the IHI Group into a value chain creator, and communicated the definition to our employees as a model for their behavior to achieve their full potential. We believe that our corporate culture will become more conducive to transformation when each employee is motivated to become an innovative human resource and change the way they act accordingly. We also plan to hire more people with careers developed outside the Group. Diversity, equity, and inclusion (DE&I) is essential, as it allows employees with diverse experiences to exchange knowledge and pursue their careers in a fair way without becoming a homogenous group.

I have listed DE&I as one of the three priority measures for FY2024. The reason for the inclusion of DE&I among the priority measures is that I consider DE&I to be the key to our transformation. We have set 2024 as the year to broadly launch DE&I efforts in the IHI Group. With these words, I hope to convey the idea that we do not need to understand what DE&I is in the beginning because we can learn it as we go along. I do feel that many employees are still insensitive to the

importance of DE&I and have only a limited understanding of what it is about. Since we intend to move ahead with our activities for DE&I at a faster pace from FY2025 and onward, we will focus on enhancing employees' understanding of it during FY2024. Just telling them what DE&I is may not be enough to increase their understanding, and so we also provide hands-on experiences to employees as part of our efforts.

We believe that engaging in DE&I initiatives is acting to respect human rights. While there have been many incidents related to human rights around the world, it may be rare that people in Japan perceive human rights issues as something that concerns them. No one in the IHI Group doubts the importance of diversity, yet I think we should gain a deeper understanding of how critical it is to ensure human rights are protected. In my opinion, employees will be more likely to perceive human rights issues as their own concerns when they are encouraged to learn about DE&I and then to engage in lively discussions, rather than go straight into discussions about human rights issues and how to ensure these rights are respected. I believe taking this step will lead each employee in the IHI Group to consider the issues to be their own concerns, raising their awareness of human rights faster than ever.

Making the right business and investment decisions, taking account of capital costs

Business Management in Alignment with Capital Markets

I personally hope that the IHI Group's market capitalization will rise to 1.5 trillion yen sometime in the future. I believe that the current capitalization is at a conglomerate discount of hundreds of billions of yen. To fill the gap, we should provide detailed illustrations of our businesses to the markets. Through dialogue and engagement with our shareholders and investors, I believe that there are three key factors in high valuation of IHI stocks in the medium- to long-term.

The first factor is "no negative surprises". When I became the president in 2020, the IHI Group's biggest commitment was to prevent negative surprises. Today, our large projects no longer cause surprises, whereas a surprise of a different nature did arise, which was the PW1100G-JM powder metallurgy issue in FY2023. As investors tell us that they will not invest in a business that causes a negative surprise, it is essential for us to prevent an incident of that nature. I am keenly aware that, in capital markets, we must become a company in which shareholders and investors always feel safe investing. I will not farm out this whole task to our employees. I will be taking the lead in the efforts to prevent any negative surprises in all areas, including compliance and safety.

The second one is a clear business portfolio. Except for the Aero Engine, Space & Defense Business, we have many businesses for which we have not made it clear why we need them. I feel the need to clarify our business portfolio, including why we have these businesses and why we should continue to run them. This task is related to the business portfolio review. We plan to identify where we should make growth investments and then discuss whether continuing the business will lead the IHI Group to create value going forward. The Aero Engine,

Space & Defense Business will not be excluded from this process. We are exploring the idea of earning investors' understanding by re-categorizing all our businesses according to the concepts of the Conventional, Development-focus, and Growth Businesses to make the right business and investment decisions, taking account of capital costs.

The third factor is the excitement the IHI Group generates among investors. This is the responsibility I have in my role. A European investor I talked with told me, "You should tell a story of your future growth", which opened my eyes to something I had not considered. Investors may understand what the Development-focus and Growth Businesses do, yet they need clarification of what the IHI Group is built upon, what it is growing, and what can be expected from the Group. Given that the IHI Group's businesses have long timelines, we are expected to provide a carefully crafted growth story. Our Independent Directors have the same opinion. We plan to proceed with discussing our growth story with our shareholders and investors to improve their understanding.

This is my fifth year as Representative Director and President. To establish a new IHI Group, it is essential to create an organizational culture where people can think freely and speak up. Actions toward transformation have become increasingly common across the company, yet we could use greater speed. I will remain committed to raising our corporate value, with employees of the IHI Group working together toward the same goal to solve social issues. Continued support and encouragement from our shareholders and investors would be greatly appreciated.