

## Value Creation Process Diagram

## Recognition of the Environment and Challenges

**Society where  
instability  
becomes the norm**

**Decarbonization**

Achieving carbon neutrality  
in the industry

**Resilience**

Achieving a global ecosystem  
resilient to climate change

**Ecosystem**

Building and improving  
industrial ecosystems

**Security**

Economic, national  
and energy security

**Input** [Fiscal 2023]**Business Process****Human Capital**

Revenue per  
employee **¥46.8** million

Ratio of female  
managers  
(non-consolidated) **5.3%**

Ratio of female  
officers  
(non-consolidated) **18%**

Number of  
employees  
with Ph.D. **148** (On a non-consolidated  
basis at IHI, at the time  
of joining)

**Intellectual Capital**

R&D  
expenses **¥39.3** billion

Number of  
patents held **8,172**

**Financial Capital**

Total assets **¥2,097.8** billion

Total capital **¥402.2** billion

Interest-bearing  
liabilities **¥574.3** billion

**Manufactured Capital**

Capital  
expenditure **¥71.2** billion

Works **7**

**Social and Relationship  
Capital**

**Relationship with  
business partners**

**Natural Capital**

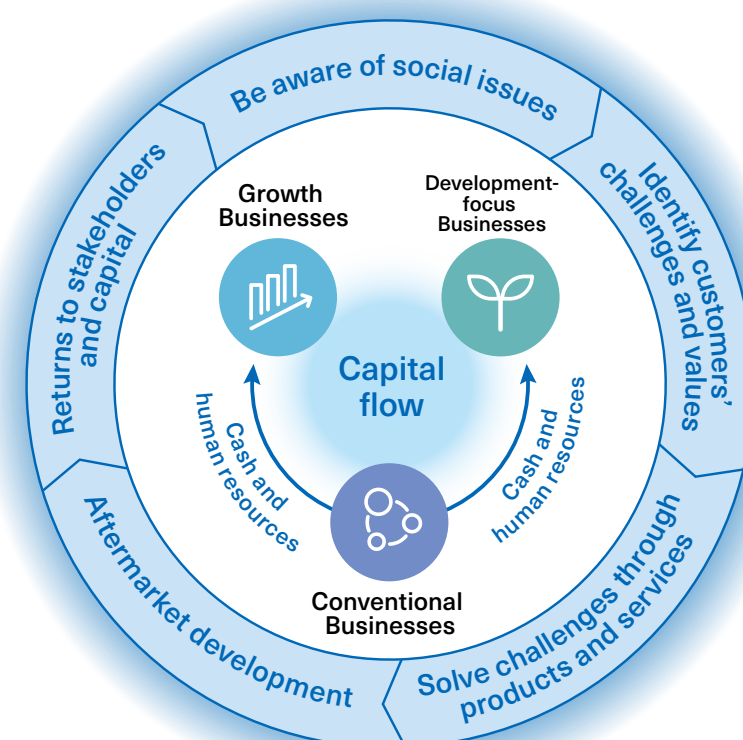
Energy  
consumption **2,322** TJ

Water  
withdrawal **5,844** thousand m<sup>3</sup>



**Lifecycle  
perspective**

**Value chain  
perspective**



**ESG  
management**

“Climate change”, “Human rights”,  
“Diversity, equity, and inclusion”,  
“Securing and maintaining stakeholder trust”

**Management  
Philosophy**

“Contribute to the development of  
society through technology”  
“Human resources are  
our single most valuable asset”

# IHI Sustainability Goal

## Create a World Where Nature and Technology Work in Unity

### Output

#### Products and services



#### Growth Businesses

##### Aero Engines and Space

Civil aero-engines, defense, and space businesses



#### Development-focus Businesses

##### Clean Energy

Fuel ammonia value chain businesses



#### Conventional Businesses

Resources, Energy & Environment Business

Social Infrastructure

Industrial Systems & General-Purpose Machinery

### Outcome

#### Value to be co-created with stakeholders

##### Shareholders and investors

- Medium- to long-term growth and improvement in shareholder value
- Dividends of profits

##### Customers

- Environmental consideration through IHI products
- Labor saving, energy saving, automation

##### Employees

- Individual "growth+ happiness"
- Job satisfaction through DE&I
- Workplace where diverse human resources participate actively

##### Business partners

- Sustainable and highly competitive supply chain

##### Government organizations, local communities, NPOs/NGOs

- Favorable relationship

#### Value IHI Group offers to society



#### Achievement of carbon neutrality

Energy transition, energy transformation, carbon solutions



#### Realization of resilient social infrastructure

Realizing maintenance and disaster prevention and mitigation



#### Building an ecosystem

Labor saving, energy saving, and automation of customer value chains



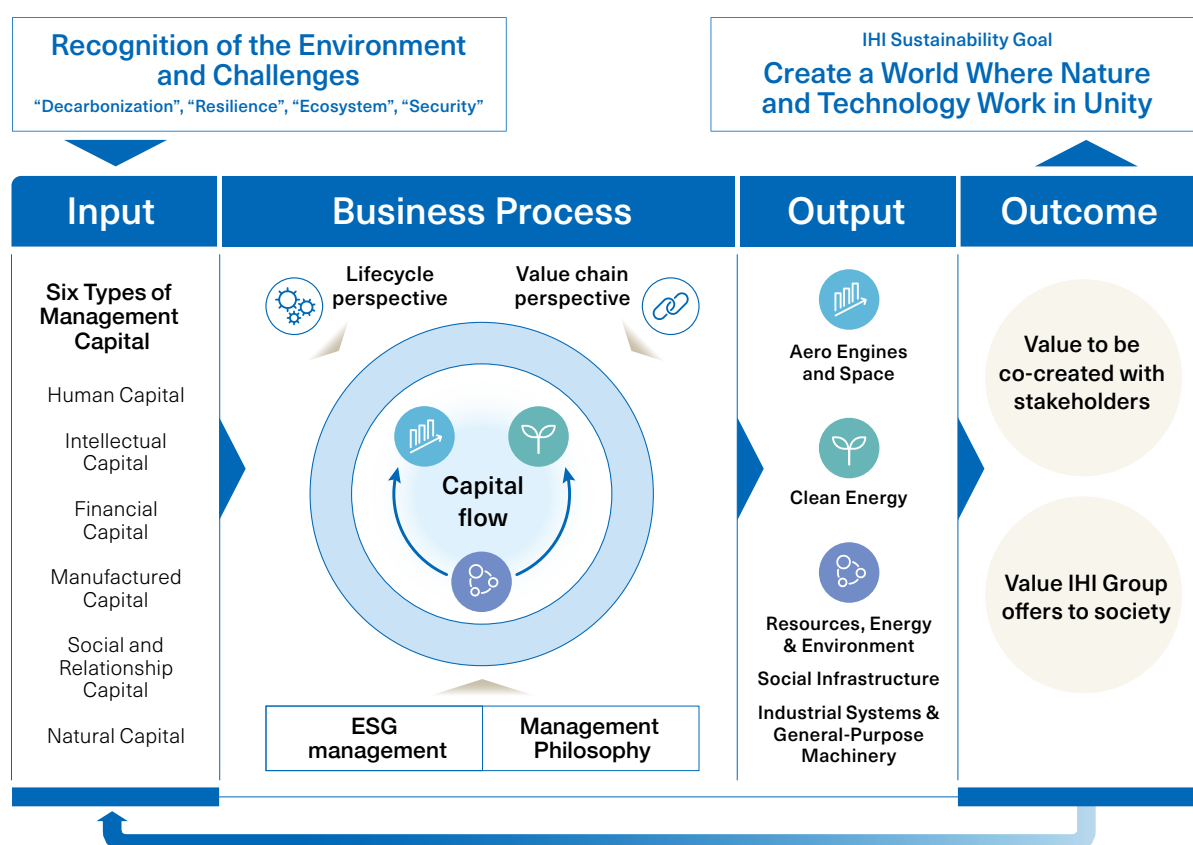
#### Contribution to social security

Strengthening of defense capabilities and stable supply of energy

The current value creation process diagram shows a value-creation scenario looking ahead about 10 years from now to realize the IHI Sustainability Goal to “Create a world where nature and technology work in unity”. The IHI Group has been promoting ESG management to realize the story. We will realize both sustained improvement in value for society and enhancement of our earning power by taking into account the requests from shareholders, investors, and other stakeholders, while maintaining our stance, consistent since our foundation, of working on solving social issues.

The business process at the center of the value creation process is based on the management policies of the three-year medium-term management plan “Group Management Policies 2023”, started in fiscal 2023, and the business concept of creating value chains that extend beyond the management plan. In this endeavor, we enhanced a cyclical perspective of the business process by clearly showing the flow of capital acquired, which we had not done before.

The value-creation scenario we are currently presenting is not something static. We will transform our management by reflecting, onto the story, the changes in the external environment, as well as the feedback gained in interactions with stakeholders.



## Recognition of the Environment and Challenges

In a society where instability has become the norm, we have been reviewing the business opportunities and risks to identify new business opportunities for raising our earning power while improving the sustainability of society. In particular, the IHI Group has been working on the four social issues of “decarbonization”, “resilience”, “ecosystem”, and “security”. With the impact of climate change becoming increasingly conspicuous and a global shift toward a decarbonized society expected to accelerate, the IHI Group will play a leading role in the industry in taking measures against climate change. To solve these four social issues, it is important that the IHI Group work together with various companies and build relationships to grow together. We believe that it is necessary to develop an ecosystem that includes customers.

## Key Points of Business Process

- **Be aware of social issues**

In order to recognize the actual social issues the IHI Group should be working on, we have to identify such issues by gathering information from regions, including other countries, and interacting with stakeholders. We will break free from the conventional mindset of an equipment seller, think of the world we want to create and ways to create that world, and recognize and identify the challenges to be solved.

- **Identify customers' challenges and value**

It is important that the IHI Group offers value through the lifecycle of customers' businesses and improves value by building an entire value chain in order to solve social issues through its business and achieve high, sustainable growth for the society and the Group. We need to examine the requests from customers in depth and discover challenges and value which the customers as such have not noticed.

While the IHI Group has offered value through products in limited formats, in the future it will focus on value itself, and by providing an entirely new form of products and services, the IHI Group will connect the value it creates with the value that its customers seek.

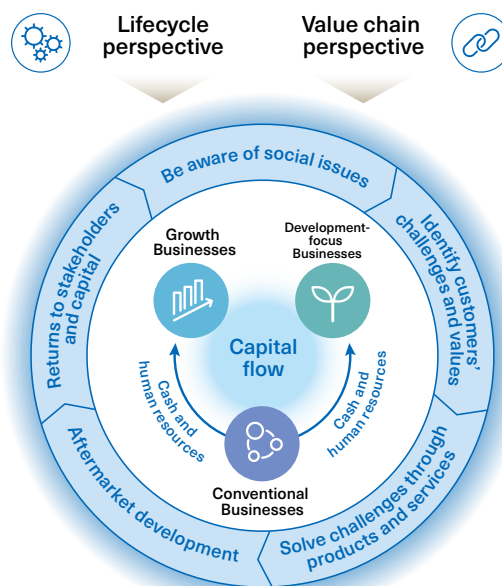
- **Solve challenges through products and services and develop aftermarket**

The IHI Group is engaged in the Aero Engines and Space, Resources, Energy & Environment, Social Infrastructure, and Industrial Systems & General-Purpose Machinery fields. In the Resources, Energy & Environment, Social Infrastructure, and Industrial Systems & General-Purpose Machinery fields, which it positions as the Conventional Businesses, the Group aims to achieve growth through exploitation and evolution of lifecycle businesses (LCB) to offer value with focus on the entire lifecycle of customers' businesses. It will invest the cash and human resources created and developed in the Conventional Businesses in the Growth Businesses (Aero Engines and Space) and the Development-focus Businesses (Clean Energy).

It is essential to leverage the technologies and diverse human resources of the IHI Group in order to discover the challenges and value of customers and develop them into businesses. Further, we are in the process of identifying the direction of creating value chains and changing the way we consider business so as to utilize the value created with our strong technical capabilities to boost our earning power. The social issues the IHI Group should be solving are too large for an individual company to solve on its own. Therefore, it is necessary to win the trust of diverse stakeholders in various countries and regions and build a structure for co-creating an entire value chain, and the top management of the IHI Group has been working on this on a daily basis.

- **Returns to stakeholders and capital**







The social and financial value gained by solving social issues will be returned to stakeholders. To realize the IHI Sustainability Goal, the Group will make investments toward solving these social issues and improve its corporate value. In the "Group Management Policies 2023", the Group plans to allocate about 55% of its total investment budget of about 450.0 billion yen for the Growth Businesses and the Development-focus Businesses. In terms of human resources, we plan to shift 600 employees to the Growth Businesses and the Development-focus Businesses by the end of fiscal 2024.



## Output and Outcome Generated by the IHI Group

The value the IHI Group will offer to society through its business activities can be roughly divided into value co-created with stakeholders and value the IHI Group offers to society. The value co-created with stakeholders promotes mutual sustainable growth. On the other hand, the value IHI offers to society is something that will solve the social issues it has currently grasped and will contribute to raising the sustainability of society.

# Six Types of Management Capital

	Basic Policy	Input (fiscal year ended March 31, 2024)
 <b>Human Capital</b>	<p>The IHI Group has been strengthening human capital in accordance with the Group Human Talent Strategy 2023 linked with the “Group Management Policies 2023”. In order to achieve business transformation and corporate structural reform, we will implement human talent strategies aiming to balance a “Good + Strong” company and “Growth + Happiness” for all individuals</p>	<ul style="list-style-type: none"> <li>• Revenue per employee <b>¥46.8</b> million</li> <li>• Ratio of female managers (non-consolidated) <b>5.3%</b></li> <li>• Ratio of female officers (non-consolidated) <b>18%</b></li> <li>• Number of employees with Ph.D. <b>148</b> (on a non-consolidated basis at IHI, at the time of joining)</li> </ul>
 <b>Intellectual Capital</b>	<p>We will work on technology development to continuously provide new value, aiming to solve issues faced by society and our customers. Aiming to strengthen the competitiveness of Conventional Businesses, expand Growth Businesses, and create business in Development-focus Businesses, we will conduct everything from basic research to practical application in collaboration with a variety of partners.</p>	<ul style="list-style-type: none"> <li>• R &amp; D expenses <b>¥39.3</b> billion</li> <li>• Number of patents held <b>8,172</b></li> </ul>
 <b>Financial Capital</b>	<p>We will strengthen our cash flow generation and actively invest in business transformation to achieve sustainable high growth, while balancing the expansion of our financial base and shareholder returns. The basic policy in stockholder returns is stable dividends, and we will aim for a consolidated dividend payout ratio of around 30%.</p>	<ul style="list-style-type: none"> <li>• Total assets <b>¥2,097.8</b> billion</li> <li>• Total capital <b>¥402.2</b> billion</li> <li>• Interest-bearing liabilities <b>¥574.3</b> billion</li> </ul>
 <b>Manufactured Capital</b>	<p>Through our products and services, we aim to solve social issues and realize a safe, secure, and affluent society. We aim to establish manufacturing sites that place the highest priority on the safety and quality of our products and services, minimize environmental impact, and give full consideration to the safety of our employees.</p>	<ul style="list-style-type: none"> <li>• Capital expenditure <b>¥71.2</b> billion</li> <li>• Works <b>7</b></li> </ul>
 <b>Social and Relationship Capital</b>	<p>We uphold human rights, customer relationships, supply chain management, corporate citizenship, and others as material issues, strengthen engagement with the social and relationship capital, and engage with stakeholders in other countries and regions under the leadership of the top management.</p>	<ul style="list-style-type: none"> <li>• Relationship with business partners</li> </ul>
 <b>Natural Capital</b>	<p>We established the Environment Committee chaired by the officer in charge of ESG-related matters. The Committee deliberates and determines the measures to address climate change, resource recycling, and environmental protection in plants and offices. The Environmental management system has been established at each primary production plant as we strive to enhance the level of environmental management.</p>	<ul style="list-style-type: none"> <li>• Energy consumption <b>2,322</b> TJ</li> <li>• Water withdrawal <b>5,844</b> thousand m<sup>3</sup></li> </ul>

Related Material Issues	Future Initiatives and Ideal Vision
<ul style="list-style-type: none"> <li>• <b>Diversity, equity, and inclusion</b></li> <li>• <b>Human rights</b></li> <li>• Work-style and operational process reforms</li> <li>• Improvement of occupational health and safety standards</li> </ul>	<ul style="list-style-type: none"> <li>• Promote DE &amp; I</li> <li>• Improve employee engagement</li> <li>• Allocate to the Growth and Development-focus Businesses</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Securing and maintaining stakeholder trust</b> (Innovation management)</li> </ul>	<ul style="list-style-type: none"> <li>• Acquire basic technology through open innovation</li> <li>• Create new value that goes beyond products and services</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Securing and maintaining stakeholder trust</b> (Disclosure of appropriate information in a timely manner)</li> </ul>	<ul style="list-style-type: none"> <li>• Improve capability to generate operating CF</li> <li>• Strengthen earnings foundations</li> <li>• Gain equity spread obtained by ROIC-WACC</li> </ul>
<ul style="list-style-type: none"> <li>• Improvement of occupational health and safety standards</li> <li>• Work-style and operational process reforms</li> </ul>	<ul style="list-style-type: none"> <li>• Improve production efficiency through DX</li> <li>• Make profits from growth investment</li> </ul>
<ul style="list-style-type: none"> <li>• Supply chain management</li> <li>• Corporate citizenship</li> <li>• Customer relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Development of partnerships</li> <li>• Building industrial ecosystems</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Climate change</b></li> <li>• Circular economy</li> <li>• Conservation of the global environment</li> </ul>	<ul style="list-style-type: none"> <li>• Energy transition</li> <li>• Energy transformation</li> <li>• Carbon solutions</li> </ul>

## Relationship between Value the IHI Group Offers to Society and Management Capital

### Achievement of carbon neutrality

It is necessary to acquire human resources capable of creating change in terms of human capital and develop a DE&I culture for that to realize carbon neutrality. From the perspective of intellectual capital, we are required to offer value throughout the lifecycle of a business. This necessitates generation of operating cash flow that would lead to growth investment in financial capital, shifting to manufacturing facilities that would allow monitoring and curbing of CO2 emissions in manufactured capital, and developing partnerships in social and relationship capital.

### Realization of resilient social infrastructure

Maintenance and disaster prevention and mitigation is important for realization of resilient social infrastructure. In this field, we believe that business development by the IHI Group contributes to preventative maintenance of bridges, maintenance of water gate facilities, and upgrade of water management. Management capital involved in this is primarily allocation of human capital to the Growth and Development-focus Businesses and offering value across the lifecycle in terms of intellectual capital.

### Building an ecosystem

Development of ecosystem involves labor saving, energy saving, and automation of the entire value chain of customer, and in addition to human capital, it requires improvement in value of the entire value chain and creation of new value that goes beyond products and services in terms of intellectual capital. It also involves building an industrial ecosystem in social and relationship capital. From the perspective of financial capital also, it requires generation of operating cash flow for increasing growth investment.

### Contribution to social security

Contribution to social security includes strengthening of defense capabilities and stable supply of energy. It requires shifting human resources to the Growth and Development-focus Businesses in terms of human capital and creation of value across the entire value chain in intellectual capital. With respect to financial capital, it requires generation of operating cash flow through growth investment, while improvement in production efficiency through DX of manufactured capital is also required upon raising production capacity in strengthening defense capabilities.