Progress of the Group Management Policies 2023

Overview of the "Group Management Policies 2023"

We aim to achieve the management targets set out in the "Group Management Policies 2023" (FY2023–2025) and the vision of the IHI Group through business transformation to achieve strong sustainable growth and development of capability to realize transformation.

- **Key points for the "Group Management Policies 2023"**

In May 2023, the IHI Group announced the three-year medium-term management plan "Group Management Policies 2023" with fiscal 2023 as the first fiscal year.

In the previous Medium-Term Management Policy "Project Change", which was launched as a preparation period for business transformation, we aimed to return to a growth trajectory and drove forward transformation of the business model with focus on the Lifecycle businesses (LCB) and strengthening of our cost structure. At the same time, we started full-fledged efforts in the fuel ammonia value chain business to create a new growth business main pillar equivalent to Aero Engines.

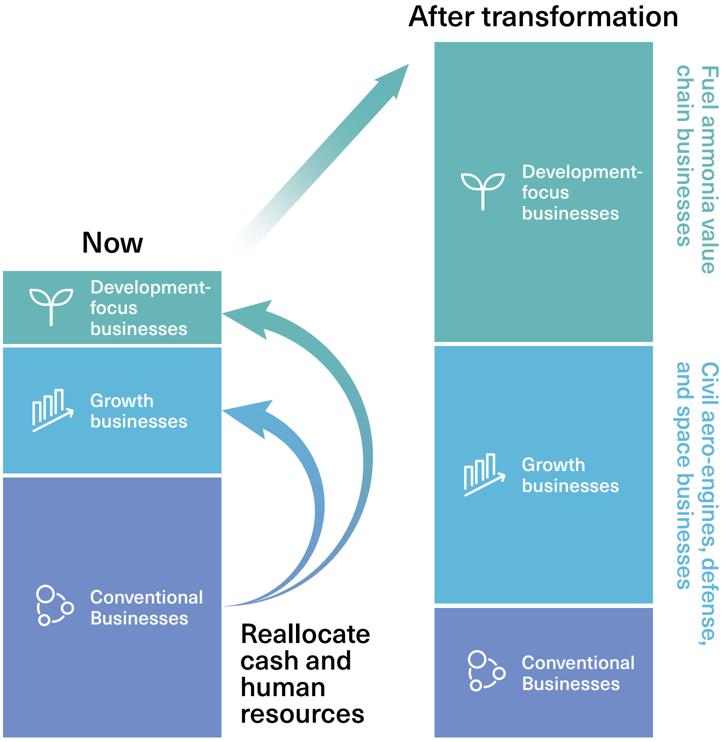
In the "Group Management Policies 2023", we classified the existing businesses into three categories: the Conventional Businesses, the Growth Businesses, and the Development-focus Businesses. The two pillars that support our medium- to long-term growth are the civil aero-engine, defense, and space businesses, which are the Growth Businesses, and the fuel ammonia value chain businesses, which form the Development-focus Businesses, and we aim to leap forward to become a sustainable high-growth company by boldly shifting management resources (cash and human resources) to growth areas. In the Conventional Businesses, we will focus on exploitation and evolution of LCB to improve profitability. We will also focus on development and recruitment of the human resources required for business and corporate structure transformation. To achieve business transformation, we will work on improving customer value by pursuing advancement of our digital infrastructure and raising the efficiency of our work processes.

- **Management Targets and Shareholder Returns**

We set out management targets for fiscal 2025 of 7.5% in operating profit margin, 8% or more in return on invested capital (ROIC), and 100 days in cash conversion cycle (CCC), and aim to improve profitability and capital efficiency. The reference value for revenue is 1,700.0 billion yen.

The basic policy in stockholder returns is stable dividends, and we will aim for a consolidated dividend payout ratio of around 30%.

Medium- and Long-Term Business Portfolio Stance



FY2025 Management Targets

Operating profit margin	7.5% Operating profit (127.5 billion yen)
ROIC (after tax)	8% or more
CCC	100 days
Shareholder Returns	Aim for a consolidated dividend payout ratio of around 30% with a basic policy of stable dividends

Progress of the "Group Management Policies 2023"

Results and Issues

Profits have been favorable in general when the impact of special factors is excluded, but there are issues remaining in our financial structure.

The financial results for fiscal year 2023, which was the first fiscal year of the "Group Management Policies 2023", were favorable in general, posting record actual operating profit when the impact of temporary special factors of the additional inspection program for PW1100G-JM engines and the IHI E&C settlement is excluded. However, the D/E ratio worsened due to increases in refund liabilities and interest-bearing liabilities in addition to worsening of CCC caused by a rise in inventories and other working capital. While earning capability has been strengthened, we need to work on improvement of financial structure such as streamlining operating cash flows and the balance sheet.

In fiscal 2024, we are expecting to achieve the management target for ROIC (after tax) one year ahead of schedule, and operating profit margin is also likely to remain steady. On the other hand, given the financial structure issues, we aim to improve financial soundness through measures such as strengthening of operating cash flow generation capabilities, reduction of working capital, and sale of assets.

Progress toward Management Targets

Assumed foreign exchange rate: 130 yen per dollar
[ ] = excluding special factors

	FY2022	FY2023	FY2024 (Forecast)	FY2025 (Targets)
Operating profit margin	6.1%	-5.3% [7.0%]	6.9%	7.5%
ROIC (after tax)	6.3%	-4.9%	8.3%	8% or more
CCC	120 days	107 days [132 days]	129 days	100 days
Revenue	1,352.9 billion yen	1,322.5 billion yen [1,493.2 billion yen]	1,600.0 billion yen	1,700.0 billion yen
Consolidated dividend payout ratio	30.6%	—	25.3%	30%
Dividends per share	90 yen	100 yen	100 yen	—

Progress made by each Business

Steadily implemented initiatives to achieve "Group Management Policies 2023"

Development-focus Businesses

Fuel ammonia value chain businesses

While there will be upfront investments for the time being, these are expected to contribute to financial results starting in 2030
Expected to become a business that will be a pillar matching the Growth Businesses in the medium to long term

- Development of the fuel ammonia value chain businesses is progressing smoothly, such as the world's first demonstration testing of a large-volume fuel ammonia substitution (20% of heating value) at JERA's Hekinan Thermal Power Station

Growth Businesses

Civil aero-engines, defense, and space businesses

Favorable business environment continued as airline passenger demand increased
When the impact of special factors is excluded, both actual revenue and operating profit exceeded pre-pandemic levels

- Costs of the additional inspection program for PW1100G-JM have been recorded in a lump sum in fiscal 2023
- No change in expected number of aircraft on ground, compensation costs, additional maintenance costs, etc., in the additional inspection program except for the impact of foreign currency fluctuations
- The civil aero-engine business has transitioned onto the growth phase; defense and space businesses as well as civil MRO business have expanded steadily

Conventional Businesses

Resources, Energy & Environment, Social Infrastructure, Industrial Systems & General-Purpose Machinery

Made progress in preparation for resource shifts such as cash generation

- Sales and orders of Lifecycle businesses (LCB) have expanded smoothly (increased 50% compared to fiscal 2019), and we aim to further improve profitability
- We will accelerate transformation of low-profitability businesses into muscular business entities through structural reforms and review of our business portfolio

Resource Allocation

Enhance earning power and make investments for achieving strong sustainable growth

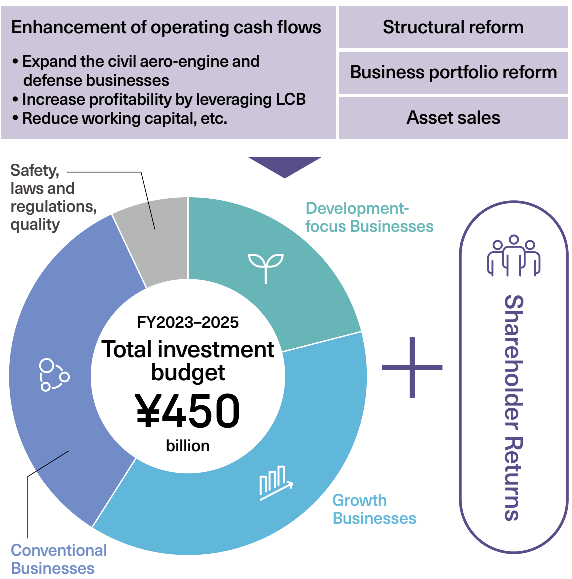
In the “Group Management Policies 2023”, we had planned to continuously generate operating cash flows worth 100.0 billion yen or more and invest about half of the total investment budget of 500.0 billion yen in Growth and Development-focus Businesses. However, we decided to revise the total investment budget to 450.0 billion yen to strengthen our financial structure. We will make investments in a well-modulated manner by determining the priority, profitability, and implementation timing of individual investment projects.

Balance Sheet Reform

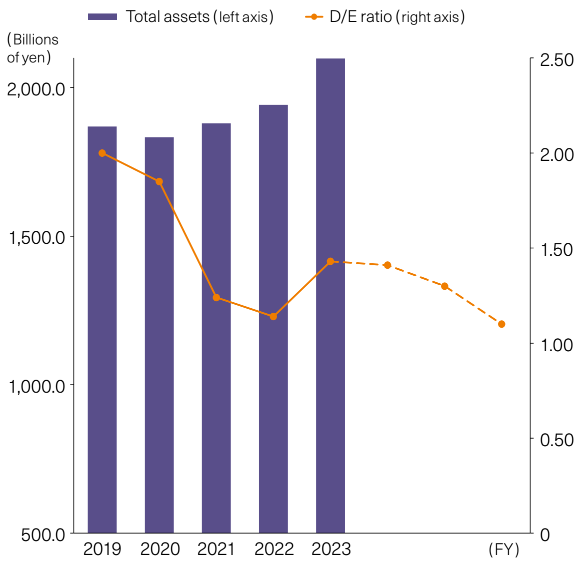
Improving D/E Ratio

Our D/E ratio improved from 2.0 times in fiscal 2019 to 1.1 times in fiscal 2022 as profitability rose. However, the ratio rose to 1.43 times in fiscal 2023, as we posted an operating loss and refund liabilities and interest-bearing liabilities increased. We will aim for a D/E ratio of around 1.1 times, the same as in fiscal 2022, by strengthening financial structure through improvement of profitability and asset sales.

Resource Allocation Strategy



Changes in Total Assets and D/E Ratio



Performance by Business Area

(Billion yen)

	Revenue, Operating Profit, Operating Profit Margin											
	FY2022 (result)			FY2023 (result)			FY2024 (Forecast)			FY2025 (Forecast, Target, Target)		
	Revenue	Operating profit	Operating profit margin	Revenue	Operating profit	Operating profit margin	Revenue	Operating profit	Operating profit margin	Revenue	Operating profit	Operating profit margin
Resources, Energy & Environment	371.3	26.2	7.1%	419.6	32.4	7.7%	420.0	28.0	6.7%	430.0	31.0	7.2%
Social Infrastructure	171.0	17.0	9.9 %	170.9	15.0	8.8%	170.0	21.0	12.4%	210.0	18.0	8.6%
Industrial Systems & General-Purpose Machinery	436.5	18.0	4.1%	466.1	12.7	2.7%	470.0	22.0	4.7%	530.0	40.0	7.5%
Aero Engine, Space & Defense	364.1	36.1	9.9%	426.3	56.8	13.3%	540.0	66.0	12.2%	520.0	60.0	11.5%
Other	54.2	1.3	—	56.0	4.4	—	50.0	1.0	—	50.0	3.0	—
Adjustments	(44.4)	(16.8)	—	(46.0)	(17.2)	—	(50.0)	(28.0)	—	(40.0)	(24.5)	—
Total	1,352.9	81.9	6.1%	1,493.2	104.2	7.0%	1,600.0	110.0	6.9%	1,700.0	127.5	7.5%
FX rates	$1 = 134.32 yen			$1 = 145.27 yen			$1 = 140.00 yen			$1 = 130.00 yen		