Progress of the "Group Management Policies 2023"

The IHI Group is working to achieve the management targets set forth in its three-year medium-term management plan, "Group Management Policies 2023" (FY2023–2025), and to realize the IHI Group Sustainability Goal. To achieve this, we are advancing business transformation to drive strong, sustainable growth and developing our capabilities to realize transformation.

Overview of the "Group Management Policies 2023"

In May 2023, we announced the medium-term management plan, "Group Management Policies 2023," with fiscal 2023 as the first fiscal year. This plan categorizes our existing businesses into three categories: Growth Businesses, Development-focus Businesses, and Conventional Businesses. The two pillars that support our medium- to long-term growth are the civil aero engines, defense, and space businesses, which are the Growth Businesses, and the fuel ammonia value chain businesses, which form the Development-focus Businesses. We aim to leap forward and become a sustainable high-growth company by boldly shifting management capital (human capital and cash) from Conventional Businesses to these aforementioned pillar businesses. In our Conventional Businesses, we will focus on leveraging and evolving our lifecycle businesses (LCBs) to improve profitability and maximize cash generation. We will also focus on development and recruitment of the human capital required for business and corporate structure transformation, and improve the value we provide by pursuing advancement of our digital infrastructure and raising the efficiency of our work processes.

Progress of the "Group Management Policies 2023"

In fiscal 2024, the second year of the "Group Management Policies 2023," our civil aero engine and defense businesses grew significantly, with orders received, revenue, operating profit, and profit all reaching record highs. As a result, we achieved an operating profit margin of 8.8% and ROIC of 10.5%, beating the respective targets of 7.5% and 8% or more (after tax for ROIC) a year ahead of schedule. Challenges remain for us to address, however, such as low profitability and capital efficiency in some of our Conventional Businesses. In fiscal 2025, the final year of the medium-term management plan, we will continue to boldly shift management resources and aggressively invest in Growth Businesses that will drive the Group's growth and in Development-focus Businesses that will become future business pillars. In addition,

Progress toward management targets

Assumed foreign exchange rate: 140 yen per dollar

	FY2022	FY2023	FY2024	FY2025 [Forecast]
Operating profit margin	6.1%	(5.3%)	8.8%	9.1%
ROIC [after tax]	6.3%	(4.9%)	10.5%	9.9%
CCC	120 days	132 days*	115 days*	123 days*
Revenue	¥1,352.9 billion	¥1,322.5 billion	¥1,626.8 billion	¥1,650.0 billion
Dividends per share	¥90	¥100	¥120	¥140

* Excludes losses recorded related to impact from the PW1100G-JM engine additional inspection program and the IHI E&C settlement

Progress made by each business

Steadily implemented initiatives to achieve "Group Management Policies 2023"

Development-focus Businesses
Fuel ammonia value chain businesses

Many milestones were successfully hit in FY2024. These businesses 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
- Participation in green ammonia production and supply business
- Progress in developing and commercializing utilization technologies

Growth Businesses
Civil aero engines, defense, and space businesses

Favorable business environment continued as airline passenger demand increased
- In the civil aero engine business, aiming to grow our business in the aftermarket sector and increase capacity for engine maintenance and parts repair
- Started engine maintenance business for the F-35 fighter aircraft
- Expansion of exports to U.S. OEMs of engine parts for licensed fighter aircraft domestically produced
- International joint development of next-generation fighter aircraft (under GCAP*)

* Global Combat Air Program

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

Business structural reforms have yielded some positive impact. Reforms will continue swiftly
- Although the lifecycle businesses (LCBs) are currently in a transitional period due to a major project and revenue will temporarily decline, the potential for cash flow generation over the medium to long term remains large
- Will invest resources in carbon solutions and nuclear energy, capital-efficient businesses with market growth potential, to generate stable cash flow
- In FY2025, will continue structural reform of low-revenue and low-efficiency businesses

we intend to improve the profitability and efficiency of our Conventional Businesses by decisively implementing business structure reforms, which will lead to an optimized business portfolio for our Group and further progress in the next medium-term management plan, which will begin in fiscal 2026.

Resource allocation

In addition to continuously generating operating cash flows of more than 100 billion yen, the "Group Management Policies 2023" set a total investment budget of 450 billion yen, of which approximately 60% is to be invested in Growth and Development-focus Businesses.

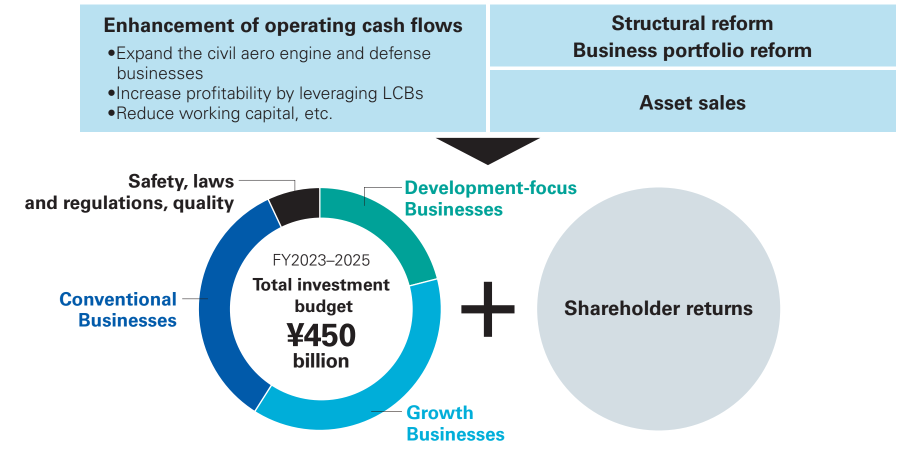
An ample operating cash flow of 177.6 billion yen was secured in fiscal 2024 (versus 62.1 billion yen in fiscal 2023), backed by profit before income taxes swinging significantly back into the black, plus a reduction in working capital. Free cash flow (FCF) after deducting investment cash flow of 58.8 billion yen was 118.8 billion yen (versus 10.4 billion yen in fiscal 2023). Capital expenditures amounted to 97.4 billion yen (versus 71.2 billion yen in fiscal 2023), and R&D expenses amounted to 34.0 billion yen (versus 39.3 billion yen in fiscal 2023). Investments have generally trended according to plan.

Dividends per share for fiscal 2024 were increased by 20 yen from the previous fiscal year to 120 yen (interim dividend of 50 yen and year-end dividend of 70 yen). The ratio of dividends to equity attributable to owners of parent (DOE) rose to 4.2% (versus 3.7% in fiscal 2023), supported by a sharp recovery in ROE.

Balance sheet reform

In fiscal 2024, the ratio of equity attributable to owners of the parent to total assets improved significantly from the fiscal 2023 results of 17.9% to 21.5%, reflecting a recovery in business performance. The D/E ratio also improved from 1.43 times to 1.01 times, thanks to a reduction in interest-bearing liabilities. Although our financial soundness is improving year by year, we recognize the need to further strengthen our financial base. In fiscal 2025, we will enhance our ability to generate operating cash flow and strengthen our financial structure through reduction of working capital and business restructuring.

Resource allocation strategy



Changes in total assets and D/E ratio