

# IHI REPORT

Interim Report for 199th Fiscal Year

April 1, 2015 to September 30, 2015





## Tamotsu Saito

President and Chief Executive Officer

The entire IHI Group will strengthen and continue efforts to regain trust from all stakeholders and improve corporate value.

# To Our Shareholders

## Taking a look back over the first six months of FY 2015, how was IHI's performance during the period?

On a consolidated basis for the first six months of the current fiscal year, orders received by the IHI Group decreased by ¥77.7 billion from a year ago to ¥707.7 billion, net sales increased by ¥72.1 billion to ¥688.2 billion, operating income decreased by ¥28.6 billion to ¥0.2 billion, ordinary loss was ¥4.0 billion, a deterioration of ¥36.3 billion, and loss attributable to owners of parent was ¥3.9 billion, a deterioration of ¥24.8 billion. We regretfully find ourselves in circumstances preventing us from achieving the level of profits we had planned in our initial forecasts.

The main factor giving rise to these circumstances is a significant deterioration in the profitability of the F-LNG/Offshore structure Business in the Social Infrastructure and Offshore Facilities Business area. This arose from production process disruption at Aichi Works, purchase budget overruns, and functional inadequacies with the projection structure.

The entire IHI Group is committed to swiftly rectifying the aforesaid situations and preventing further deterioration in earnings. As such, we are proceeding with the following measures and making efforts to ensure there will be no underperformances from this point forward.

### ● Measures for F-LNG/Offshore Structure Business

#### Strengthen project management system

Allocate engineers and experts from across various divisions and reinforce of personnel to strengthen monitoring, etc.

#### Suspend new order activity

Minimize performance downside risks by focusing on completing existing work in hand

#### Reinforce executive structure

Appoint officers, etc. to strengthen measures stated on the left—the Executive Vice President Degawa appointed to President of Offshore Project & Steel Structures Operations

**We are now more than halfway through the final fiscal year of Group Management Policies 2013.  
Please comment on the current situation.**

Under Group Management Policies 2013, consolidated net sales and consolidated operating income for FY2015 were set the targets of ¥1,400.0 billion and ¥70.0 billion, respectively, and we have proceeded with our business operations with the keyword of “growth.”

The main circumstances in each business segment in FY2015 are as follows. In the Resources, Energy and Environment Business, vibrant demand for coal-fired thermal power plants in Japan and overseas keeps the boiler business operating firmly, while in the Social Infrastructure and Offshore Facilities Business, efforts have been strengthened in overseas projects for bridge constructions in response to infrastructural needs, such as in the emerging countries. In the Industrial Systems and General-Purpose Machinery Business, meanwhile, we have established a joint-venture company in the agricultural machinery business to participate in the agricultural machinery market in China, which has continued to grow significantly in recent years to become the world’s largest market. In the Aero Engine, Space and Defense Business, the civil aero engine business is firm, with the market steadily growing and yen depreciation in foreign exchange also having an effect, and profitability has been secured.

In our consolidated forecasts for FY2015, the final year of Group Management Policies 2013, we are expecting orders received of ¥1,600.0 billion, net sales of ¥1,580.0 billion, and we are expressing steady achievements in our efforts to expand the business scale. On the other hand, operating income, as explained previously, is expected to stay at ¥50.0 billion, as a result of significant deterioration in profits in the Social Infrastructure and Offshore Facilities Business, and the current circumstances have made it extremely difficult to achieve the profit target. We have already implemented improvement measures to address the causes of this deterioration. Moreover, the entire IHI Group will work on various measures aimed at increasing net sales, improving construction profitability, reducing operating expenses, and the like. We therefore aim to improve if but a little the level of our current forecasts.

**● Earnings Highlights (Consolidated)**

(Billions of yen)

Items	Six months ended September 30, 2015	FY2015 Full-year forecast
Orders received	707.7	1,600.0
Net sales	688.2	1,580.0
Operating income	0.2	50.0
Ordinary income	(4.0)	38.0
Profit attributable to owners of parent	(3.9)	18.0

**● Forecast of the Consolidated Results for FY2015 (full year)**

(Billions of yen)

	Orders received	Net sales	Operating income
Resources, Energy and Environment	530.0	480.0	24.0
Social Infrastructure and Offshore Facilities	140.0	180.0	(31.0)
Industrial Systems and General-Purpose Machinery	420.0	410.0	12.0
Aero Engine, Space and Defense	490.0	490.0	47.0
Total Reportable Segment	1,580.0	1,560.0	52.0
Others	70.0	70.0	2.0
Adjustment	(50.0)	(50.0)	(4.0)
Total	1,600.0	1,580.0	50.0

### In November, the IHI Group announced Overview of Group Management Policies 2016, the next medium-term management plan. Please comment on these management policies.

In Group Management Policies 2013, we have been expanding products and services aiming to realize “growth” by utilizing the three links (*Tsunagu*) functions: 1) links among existing businesses and between existing and peripheral businesses, 2) links between products and services and ICT (information and communication technology), and 3) links between global markets and IHI Group.

The three *Tsunagu* functions are becoming more deeply entrenched, and we believe we are experiencing steady achievements in some areas, including the expansion of the business scale. However, these efforts have not extended to large reform of business models and there are also some businesses that still have a low level of profitability. Consequently, the targets concerning the profitability levels set under the Group Management Policies 2013 are not expected to be met. Moreover, as mentioned previously, there are several large construction projects that have delivered significant shortfalls in profitability.

Bearing these issues in mind, we have set “strengthen earnings foundations” as the main theme in Group Management Policies 2016 and decided to deploy measures that give further attention to earnings growth.

Firstly, we will grow highly profitable businesses and reduce poorly profitable businesses by accelerating concentration and selection of businesses that have generally performed sluggishly. Also, to prevent occurrence of project

revenue shortfalls, we will lift our efforts to a higher level to realize sound execution of our projects, particularly construction in new areas and large-scale projects. Furthermore, we will strengthen our common Group functions, the three *Tsunagu* functions, to realize enhanced customer value, and link this to improved profitability.

While being committed to growing sustainably and enhancing corporate value through swift execution of these measures and contributing to the development of societies through the advancement of products and services, the IHI Group aims to earn trust as a corporate group by bolstering profitability and capital efficiency and delivering appropriate return to shareholders.

I express my heartfelt gratitude to all IHI shareholders, and hope to count on their invaluable support going forward.

#### ● Interim Dividend

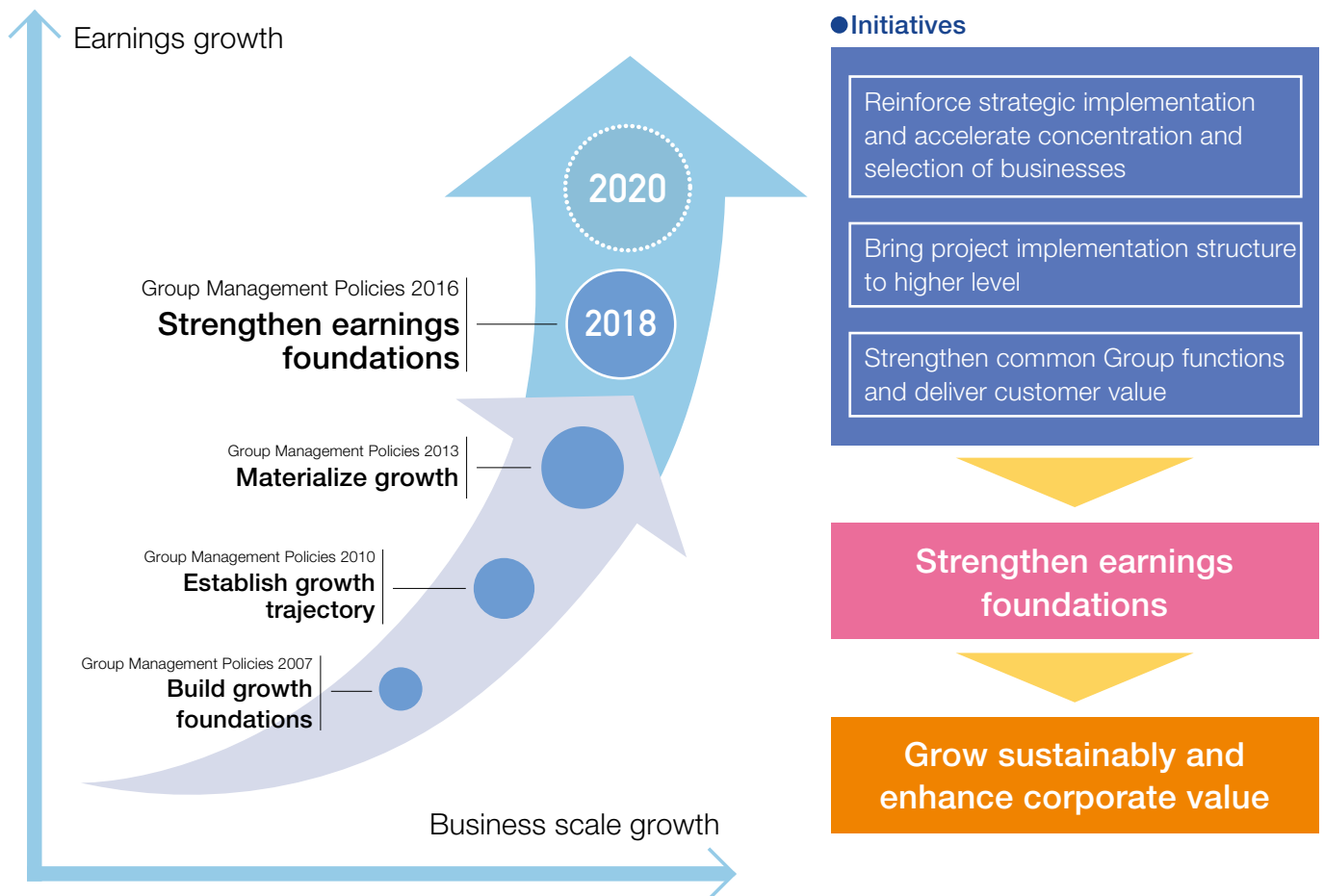
We have set the interim dividend for the six months ended September 30, 2015 at ¥3 per share.

See page 4 for details on Group Management Policies 2016. 

## In November 2015, the IHI Group announced the Overview of Group Management Policies 2016 that will start in FY2016.

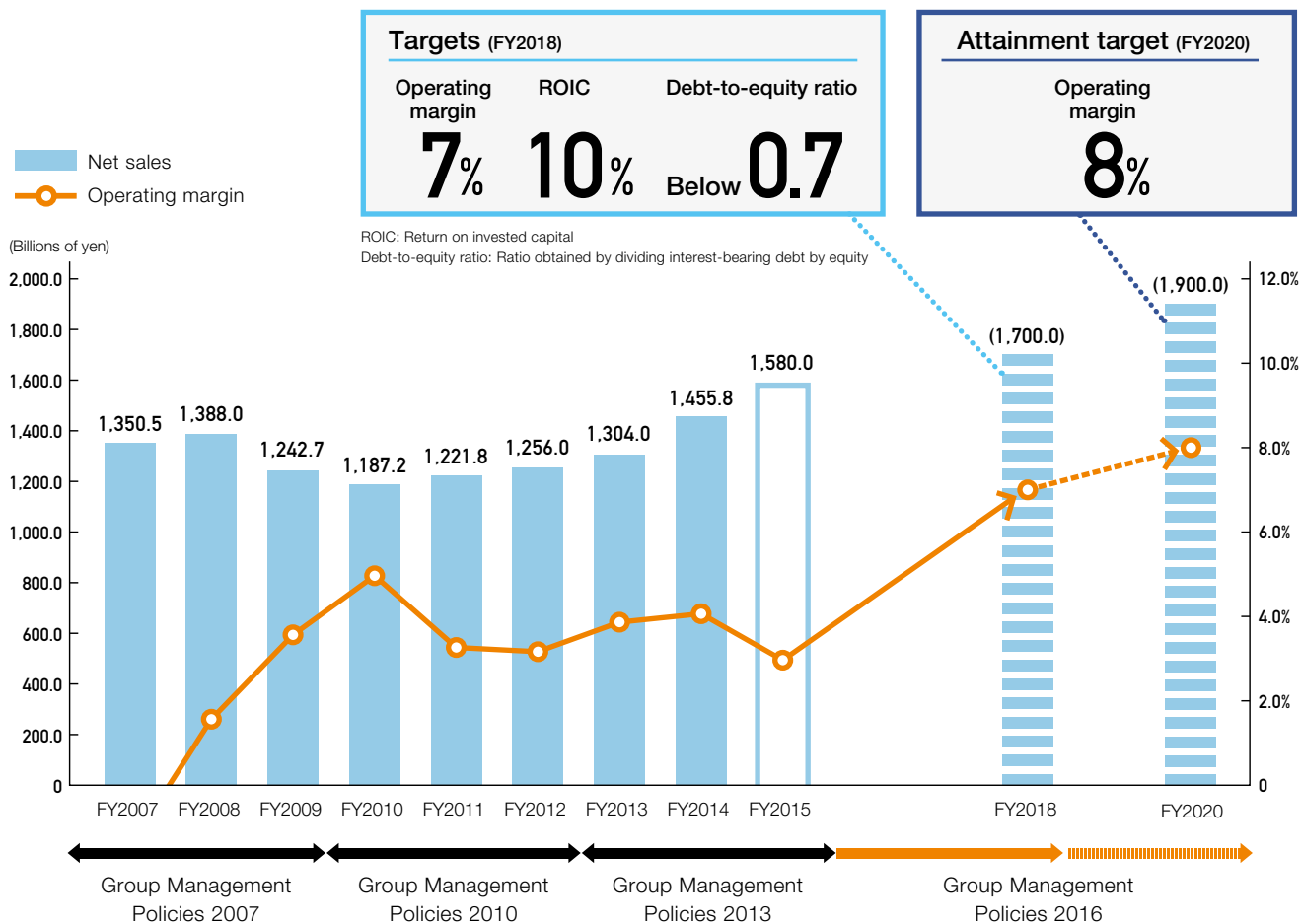
### Direction of Group Management Policies 2016

In Group Management Policies 2016, we have set “strengthen earnings foundations” as the main theme. By using the business scale that we have grown to date as a base, and implementing measures that prioritize earnings growth, the IHI Group aims to grow sustainably and enhance corporate value. Also, by strengthening earnings foundations, the IHI Group will provide appropriate shareholder returns while maintaining stable return on equity (ROE) exceeding 10%.



## Targets

The first target set under Group Management Policies 2016 is the operating margin, which represents profitability. The IHI Group will strive to achieve an operating margin of 7% in FY2018, aiming to reach an operating margin of 8% in FY 2020.







Resources, Energy and Environment Business

## Signed EPC contract with Kobe Steel for ultra-supercritical coal-fired boilers

IHI received an engineering, procurement and construction (EPC) order from Kobe Steel, Ltd. for large-scale ultra-supercritical coal-fired boilers (650 MW x 2 units) that will achieve world-leading levels of generating efficiency. The order was for a project to build a thermal power plant at a Kobe Steel facility. The first and second boilers are slated to start operating in FY2021 and FY2022, respectively.

The newly ordered boilers will become equipment capable of boosting generating efficiency while constraining fuel consumption and CO<sub>2</sub> emissions by heating steam to ultra-high temperatures of 593°C and higher while realizing ultra-high pressures of 24.1 Mpa and higher (ultra-supercritical pressure).

Having already delivered the first ultra-supercritical boiler in Japan, IHI possesses a strong track record in coal-fired boilers for power generation and environmental facilities in Japan and overseas.

IHI will continue to supply mainly boilers and other power-generation equipment and systems that offer high generation efficiency and superior environmental performance in order to realize environmentally friendly electricity supply that is both stable and efficient.



No. 2 generator of Shinko Kobe Power Station that IHI delivered in 2004



Social Infrastructure and Offshore Facilities Business

## Received order for dedicated freight railway bridge construction in India

One of IHI subsidiaries IHI Infrastructure Systems Co., Ltd. has established a joint venture company with an India's largest general contractor Larsen & Toubro Limited. The joint venture company received an order from the Dedicated Freight Corridor Corporation of India Limited, whose parent is India's Ministry of Railways, for the construction of bridges along the Western Dedicated Freight Corridor between Delhi and Mumbai.

This order is for the construction of 12 steel bridges and five short concrete bridges within sections totaling 555 kilometers located at both ends of the 1,500-kilometer high-speed Western Dedicated Freight Corridor, which is positioned as a symbolic project for Japan-India economic cooperation. The construction of these bridges is scheduled for completion at the end of September 2019.

It is expected that once the entire corridor starts operation, transportation times will be vastly reduced, streamlining India's logistics network and contributing to economic development.

The IHI Group will continue to further push forward with activities to receive bridge orders overseas and contribute to the development of various countries through the development of social infrastructure.



Planned route of Western Dedicated Freight Corridor



## Industrial Systems and General-Purpose Machinery Business

### Establishment of joint venture company in agricultural machinery business in China

Having continued to grow significantly over recent years, the Chinese agricultural machinery market is becoming the world's largest. The needs for high function and high quality for agricultural machinery are also growing.

The IHI Group has been providing agricultural machinery that has been popularly used for various agricultural operations from rice paddy and field cultivation to dairy and livestock farming, mostly in Japan via IHI subsidiaries, IHI STAR Machinery Corporation (STAR) and IHI Shibaura Machinery Corporation (ISM). Aiming to supply high quality agricultural machinery in China, the IHI Group has now established a joint venture company with Yuanda China Holdings Limited, a large company from Liaoning Province, China.

In addition to introducing the medium-sized corn picker that was jointly developed by STAR and ISM to meet the expanding demand for agricultural machinery for harvesting corn for livestock in Liaoning, Jilin, and Heilongjiang Provinces (Three Northeastern Provinces), the joint venture company will manufacture and sell some models of agricultural tractors that ISM manufactures.



Corn picker



## Aero Engine, Space and Defense Business

### Posted cumulative shipments of 1,000 units for GENx engine parts

IHI has achieved cumulative shipments of 1,000 units for the GENx engine parts for Boeing's medium-size passenger aircraft Boeing 787 and wide-body jet passenger aircraft Boeing 747-8.

IHI started development for the GENx as an international collaborative project in 2004 led by General Electric Company. Compared with previous models, the engine boasts 15% improved fuel efficiency, reduced emissions of CO<sub>2</sub>, nitrogen oxide and other gases, and lowered noise levels. IHI has approximately a 15% stake in the program, with responsibility for the design and manufacture of the low-pressure turbine module and the aft part of the high-pressure compressor, which are key components in the engine. IHI plans to produce around 300 units in the current fiscal year in response to strong demand of Boeing 787.

Currently involved in a wide range of engines for airplanes from 70-seat class regional jets to 500-seat class wide-body jets, IHI plans to participate in an engine program for the GE9X civil aircraft engine, which will be loaded on the next-generation wide-body jet Boeing 777X, which Boeing plans to start commercial operation in 2020. Through its provision of various civil aero engines, IHI will continue to contribute to the safe operation of airliners worldwide.

Photo source: General Electric Company



Low-pressure turbine module



## Concluded official sponsorship agreement with Japan Wheelchair Basketball Federation

On May 10, 2015, IHI concluded an official sponsorship agreement with Japan Wheelchair Basketball Federation up until FY2020.

In the lead up to the Tokyo 2020 Olympics and Paralympics, IHI has been involved in various ways such as participating in the social infrastructural development. In addition to this, IHI is promoting various activities as a local corporation of the sponsor city. As part of this, IHI decided to fully support the various activities of Japan Wheelchair Basketball Federation.

As you may already know, at the MITSUBISHI ELECTRIC 2015 IWBF Asia Oceania Championship Chiba, which was held on October 10 to 17, 2015, the Japanese men's team won the bronze medal and spectacularly earned the right to compete at the Rio de Janeiro Paralympics next year.

IHI will continue to support the activities of the Japanese men's and women's wheelchair basketball teams through holding training camps involving members of the Japanese teams at locations where IHI's offices are located, and holding events to which Japanese team members are invited.



▲Japanese women's team

## Release of IHI Integrated Report 2015

IHI has published the IHI Integrated Report 2015 for the first time this fiscal year. The report is an integration of the Annual Report and the CSR Report that had been prepared separately up until last year. The report is more than just an annual report. It presents, in an easy-to-understand format, the management philosophy, business strategies for business practice, the base that underpins business, the status of implementation of measures concerning corporate governance and all other aspects that exist to ensure IHI will continue to grow sustainably into the future.

We aim to proactively utilize the report as a tool by which to communicate with all stakeholders to deepen understanding about the IHI Group.

For more detailed and the latest information on the IHI Integrated Report, please visit IHI's website.

Website:

(Japanese) <http://www.ihico.jp/csr/integrated/index.html>

(English\*) <http://www.ihico.jp/csr/english/integrated/index.html>

\*To be posted in late December 2015.



▲IHI Integrated Report 2015



# Realize your dreams

We want to realize the dreams of the world.

This is why we want to contribute on a global level by fully understanding the needs of customers and people.

Therefore our work focuses on capturing the essence of technology and manufacturing skills to deliver products that are of true value.

We feel it is our duty to support our global community by being the first to connect it to the most advanced solutions in technology.

Our dream is to be entrusted with turning the world's aspirations into a reality.

## Inquiries regarding administrative procedures for stocks

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