

IHI REPORT

Interim Report for 201st Fiscal Year

April 1, 2017 to September 30, 2017

To Our Shareholders

In order to achieve the management targets laid out in **Group Management Policies 2016**, we will continue to strengthen our earnings foundations in the four business areas of **Resources, Energy and Environment, Social Infrastructure and Offshore Facilities, Industrial Systems and General-Purpose Machinery, and Aero Engine, Space and Defense.**



Tsugio Mitsuoka

IHI Corporation
President and Chief Executive Officer

Taking a look back over the first six months ended September 30, 2017, how was IHI's performance during the period?

This fiscal year we created the slogan “restore trust and drive change” and have been earnestly pushing through measures in order to prevent the deterioration of profitability of large projects by putting thorough risk management measures in place. In the consolidated business results for the first six months, we were forced to post catch-up costs on process delays on a process plant project in North America, but we are not seeing deteriorating profitability on multiple large projects as we experienced in the past.

Profits in each of our businesses are improving, due to factors including ongoing strong production and shipments of spare parts for civil aircraft engines, the return to “normal conditions” in the boiler and the F-LNG businesses which both recorded large losses in the previous year, and the progress on business structural reforms in businesses including shield systems, construction machinery, and ship machinery. As a result, we feel that we are making some progress in

strengthening our earnings foundations.

Last fiscal year, we unfortunately had to cancel our dividend payment due to insufficient profits, but based on our full-year earnings forecasts for this year, we will pay an interim dividend of ¥3 per share, the first interim dividend in two years.

Going forward, we will continue to strive to restore the trust of all of our shareholders.

Some deterioration of profitability has occurred in some large construction projects. Please tell us if any progress has been made in dealing with this issue?

With respect to the process plant project in North America, we are managing progress very closely based on a new installation plan which includes process improvements. For all of our projects with construction underway, it is extremely important for us to quickly grasp any indications of profitability deterioration and accurately resolve any issues that exist. To this end, we are dispatching experts and

experienced personnel from throughout the IHI Group to worksites to better understand and promptly respond to the implementation status of projects.

Also, we are responding as follows with regard to new project orders. Starting in the previous fiscal year, we have been deploying more resources to study potential projects internally, and examine the risks involved in executing the project from multiple angles as part of the review process conducted before undertaking it. We have put in place a strong nodal management framework, whereby appropriate measures in place are taken to address risks identified for all stages of the project, from providing an estimate all the way through to delivery.

The next fiscal year marks the final year of Group Management Policies 2016. What kinds of initiatives will be implemented to achieve the management targets?

To achieve our management targets for fiscal year 2018, in addition to reducing the risk of profitability deterioration by accurately conducting risk management on large projects, we must also bring about business structural reform and business model transformation under the business area framework we switched to this April, and more quickly gain improvements in profitability.

As one of our initiatives for business structural reform related to establishing a lean

●Earnings Highlights		
(Billions of yen)		
Items	Six months ended September 30, 2017	FY2017 Full-year forecast
Orders received	715.1	1,500.0
Net sales	773.4	1,550.0
Operating profit	34.6	65.0
Ordinary profit	19.5	57.0
Profit attributable to owners of parent	6.8	23.0

and efficient business structure, each business area is taking measures to flexibly allocate management resources among individual businesses, such as by adjusting the surplus/shortage of human resources of each business.

We will also strive to accurately meet the needs of our customers in growth markets through such initiatives as building an optimal production system by organizing our production sites around the world into a network or creating a business structure that optimizes procurement.

For transforming the business models, we are shifting to solution delivery business models, that, instead of simply providing equipment to customers, provide operational and service support to meet the needs of customers' businesses and offer solutions to help customers enhance their value through collaboration of multiple businesses.

In addition, we have begun to use the Group's IoT and AI technologies to acquire and analyze the operational data of equipment and plants that we delivered to customers to detect potential abnormalities, as well as to remotely adjust control systems,

as a service to guarantee equipment operating rates. We will expand this type of service going forward.

We will speedily execute these initiatives aimed at driving "change" inside the IHI Group and put our utmost efforts into achieving our management targets. I express my heartfelt gratitude to all IHI shareholders, and hope to count on their invaluable support going forward.

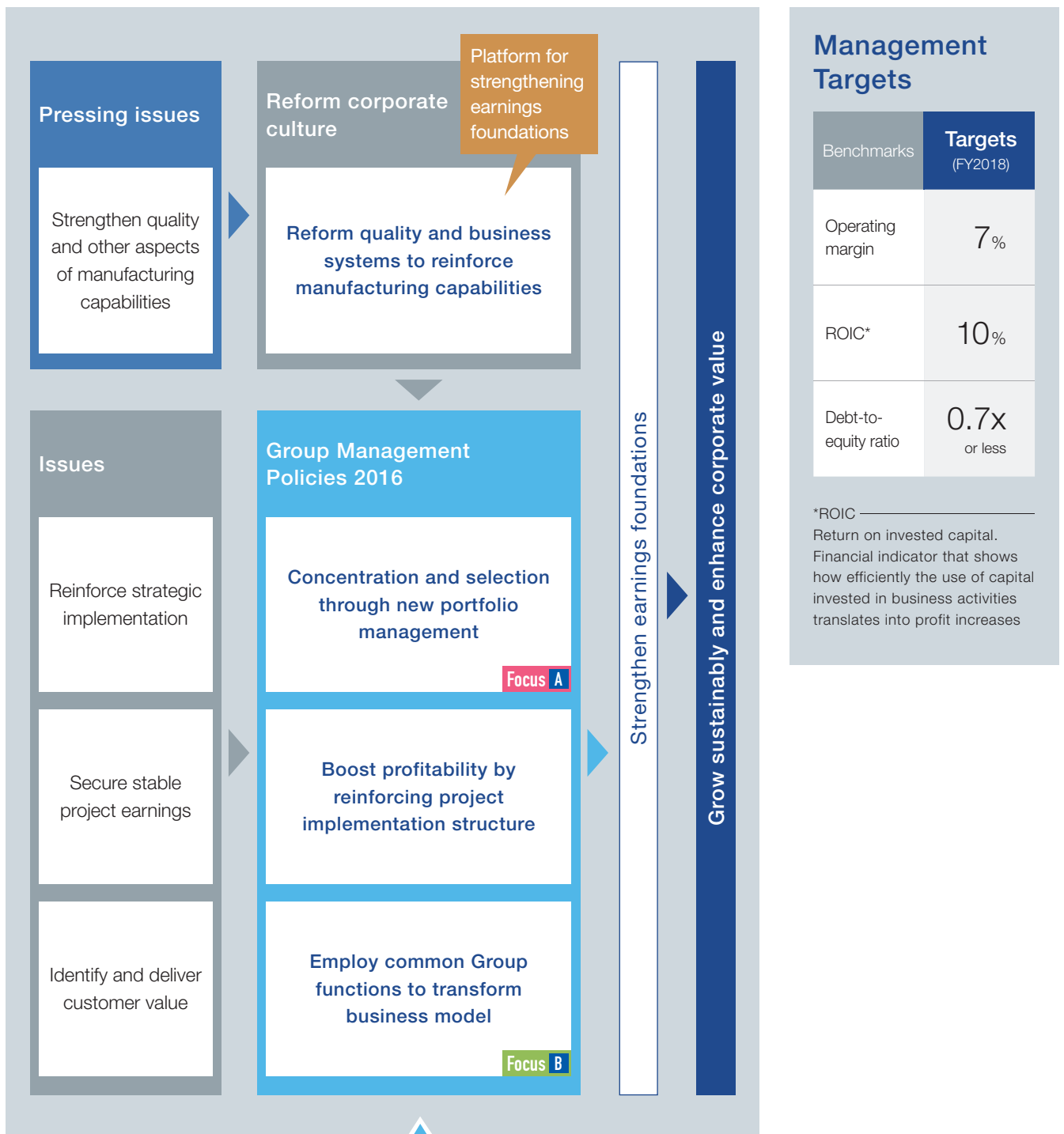
Interim Dividend

¥3 per share

We have set the interim dividend for the six months ended September 30, 2017, at ¥3 per share.

© We plan to pay a dividend of ¥30 per share (after share consolidation) as a year-end dividend for the fiscal year ending March 31, 2018.

Overview of Group Management Policies 2016



Keys to Achieving the Management Targets of Group Management Policies 2016

No longer remaining unprofitable large projects

Accelerating efforts to improve profitability under the business area framework

Reducing profitability deterioration risks in large construction projects by reinforcing execution structure

Focus A Intensively deployed business area resources to swiftly streamline portfolio management



Concentration

Businesses where additional IHI resources can be deployed to boost competitiveness

Vehicular turbochargers

Increase profitability by employing investments and resources effectively

- ◆ Reinforced customer responsiveness at global sites
 - Opened offices for China in Shanghai and for North America in Detroit
- ◆ Optimized productivity by harnessing global network

Aero engines

Steadily cater to surging demand for PW1100G-JM engine and boost profitability

- ◆ Continuing to invest in additional production lines, expand unit production, and accelerate cost reduction efforts early in mass production stage



Structural reform

Businesses where growth can be achieved by integrating IHI's resources

Logistics & industrial machinery

Integrated IHI's sales units into IHI Logistics & Machinery Corporation to create a structure that can undertake business activities more responsively and flexibly

Agricultural machinery

Integrated agricultural machinery subsidiaries IHI STAR Machinery Corporation and IHI Shibaura Machinery Corporation to form IHI Agri-Tech Corporation

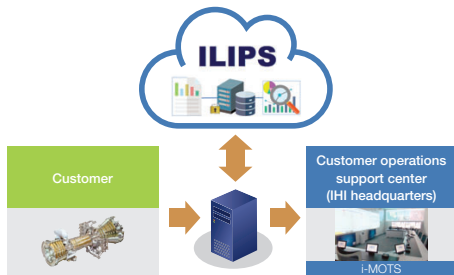
Rotating machinery

Integrated rotating machinery business with operations of subsidiary IHI Compressor and Machinery Co., Ltd., to form IHI Rotating Machinery Engineering Co., Ltd.

Focus B Utilization of IoT and AI to propose new services with value added to customers

Gas turbine power plants

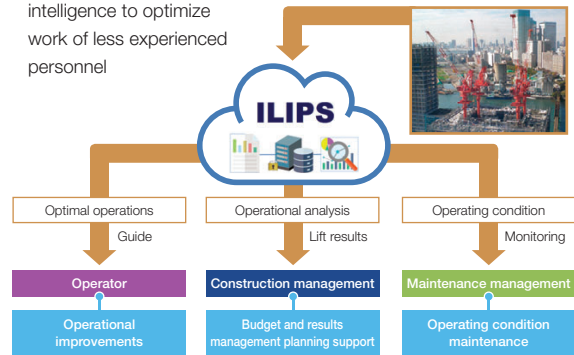
- In gas turbine business, have long provided services that support swift recoveries if issues arise
- Deployed algorithms to analyze operational data, detect potential abnormalities, and avoid unplanned shutdowns
- Expert technicians assess operational data and remotely adjust control systems



i-MOTS: IHI Global Monitoring & Technical Service. The trademark for gas turbine power plant services.

Jib climbing cranes for construction sites

- Analyzing crane operational data and supporting optimal operational plans for crane work
- Expert technicians evaluate operational data and advise on optimal maintenance plans
- Analyzing skills of experienced operators and using artificial intelligence to optimize work of less experienced personnel



* ILIPS (for IHI group Lifecycle Partner System): This is a cloud service that makes it possible to amass, visualize, and analyze operational data on Group products and plant deliveries.

Add customer value to existing products and services, and conclude new service agreements



Resources, Energy and Environment

Consecutive orders for boilers for coal-fired thermal power plants in Asia



3-D image of same model of boiler for which order was received in Bangladesh

IHI, Sumitomo Corporation, and Toshiba Corporation jointly received an order to construct an ultra-supercritical (USC) coal-fired thermal power plant and port for Coal Power Generation

Company Bangladesh Limited (scheduled to be completed in 2024). This project has a total cost of approximately ¥500 billion, and is one of the largest international yen loan-based projects in history. IHI will be responsible for manufacturing, installing, and test operating the two boilers as well as auxiliary equipment.

IHI also received an order for additional boilers (output 100MW × two units) in a coal-fired thermal power plant operated by PT. PLN, an Indonesian state owned electricity company (scheduled to commence operation in 2020). This order follows the order for the boiler for the Lontar power station received from that company last year.

To realize stable and efficient electricity supply in the global market including Asia, where significant economic growth is expected over the coming years, IHI will continue to supply power generation equipment and systems, primarily consisting of boilers boasting high power-generating efficiency as well as superior environmental performance.

●Orders received for ultra-supercritical coal-fired boilers in Asia (past 5 years)

Order year	Country	Project
2017	Indonesia	Two additional units for PT. PLN Kalselteng-2 coal-fired power plant
2017	Bangladesh	Two USC units for Coal Power Generation Company Bangladesh Limited coal-fired power plant
2016	Indonesia	One additional USC unit for PT. PLN Lontar coal-fired power plant
2014	Malaysia	Two USC units for Jimah East Power coal-fired power plant

*USC boilers enable the plant to operate with very high efficiency through the use of extremely high steam temperature and pressure for lower fuel consumption and reduced CO₂ emissions.



Social Infrastructure and Offshore Facilities

Delivery of FPSO hull to Norway

IHI completed construction of a floating production, storage and offloading unit (FPSO) hull for the BW Group in Norway, and delivered the unit on August 30.

The FPSO has a total length of 240m, breadth of 50m, and depth of 27m, and is expected to begin crude oil production from subsea oil fields in the U.K.'s North Sea by the end of 2017.



Delivered FPSO



Industrial Systems and General-Purpose Machinery

New companies established

On October 1, 2017, IHI established both IHI Rotating Machinery Engineering Co., Ltd. and IHI Agri-Tech Corporation as part of the business structural reforms in the Industrial Systems and General-Purpose Machinery business area.

All of the IHI Group's management resources related to the Rotating machinery Business (compressors, separation systems, large turbochargers) were integrated and consolidated into IHI Rotating Machinery Engineering Co., Ltd., thereby creating a complete operational framework covering product development, sales, design, manufacturing, and servicing.

IHI Agri-Tech Corporation was established through the integration of grass and lawn maintenance equipment company IHI Shibaura Machinery Corporation, and agricultural machinery company IHI STAR Machinery Corporation. IHI Agri-Tech Corporation will merge the technologies of both companies to provide customers with products, services and solutions that deliver even more added value.

The IHI Group will continue to proactively engage in selection and concentration, including business structural reforms, and strengthen the Group's earnings foundations.

● IHI Rotating Machinery Engineering Co., Ltd.



Oil-free turbo compressor

● IHI Agri-Tech Corporation



Lawn maintenance equipment



A chopped materials baler wrapper which bales and wraps corn for animal feed



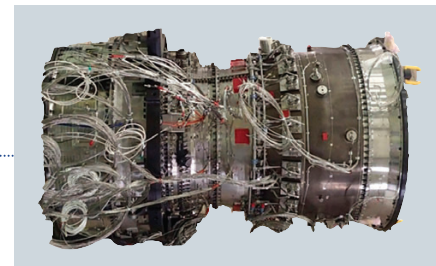
Aero Engine, Space and Defense

Delivery of key jet engine component targeting future fighter jets

IHI delivered a key component (core engine) of a 15-ton thrust jet engine that IHI had been performing research on targeting use on future fighter jets to the Acquisition, Technology & Logistics Agency in June 2017.

The core engine delivered is a unit capable of autonomous operation, and comprises a compressor, combustor, and high-pressure turbine. It is an important component that affects a jet engine's performance.

As a research prototype in order to realize a future fighter jet engine, in fiscal 2010, IHI received an order for "research core engine components for next-generation engine" from the Acquisition, Technology & Logistics Agency, while in fiscal 2013 an order was received from the same agency for "research fighter engine components." IHI has since been working on the design and production of these prototypes. Going forward, IHI will continue to support the Acquisition, Technology & Logistics Agency with a robust framework, and through this business IHI will develop and integrate globally-leading technologies and build a technological foundation for the development of fighter jet engines.



Core engine

Completion of world's first 100kW class demonstration test of ocean current power generation

IHI and New Energy and Industrial Technology Development Organization (NEDO) are jointly engaged in research and development on ocean current power generation, which is expected to be a new source of renewable energy. In August 2017, IHI and NEDO carried out the world's first 100kW class ocean current power generation demonstration test, as Kairyu, the 100kW class subsea floating-type ocean current power generation system demonstration machine, was submerged in the ocean.

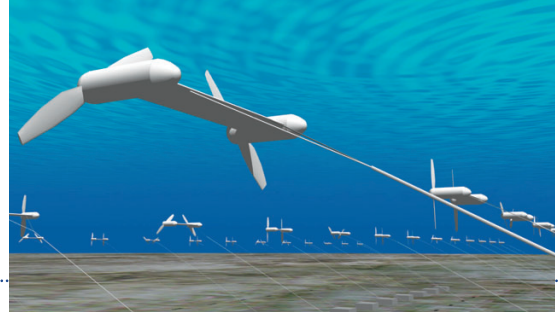


Image of the subsea floating-type ocean current power generation system being installed in the ocean

The demonstration test was conducted in the Kuroshio Current off of Kuchinoshima Island of Kagoshima Prefecture, and the system generated a maximum power output of approximately 30kW. In addition, the test validated the performance of the autonomous control system that stabilizes its underwater position as well as installation and removal method and other data to be used for practical application in the future.



Kairyu demonstration test system

IHI will aim for practical application of this type of ocean current power generation system, especially for power generation on remote islands, by 2020.

Izmit Bay Crossing Bridge awarded Japan Society of Civil Engineers' Tanaka Award



Izmit Bay Crossing Bridge

One of the IHI Group companies, IHI Infrastructure Systems Co., Ltd. was awarded the Japan Society of Civil Engineers' Tanaka Award (Excellence in Bridge Design and Construction)* for the construction of the Izmit Bay Crossing Bridge (official name: Osman Gazi Bridge).

The Japan Society of Civil Engineers' Tanaka Award recognizes outstanding achievements in the field of bridge and steel structural engineering. The Tanaka Award is the most prestigious award in the civil engineering field.

This award is in recognition of the Izmit Bay Crossing Bridge's fast completion, innovative seismic isolation structure, and sleek, elegant look. Located in northwest Turkey and crossing Izmit Bay, this long-span bridge has the world's fourth-longest center span. It is expected to contribute to economic and industrial growth in Turkey.



Izmit Bay Crossing Bridge in Turkey construction record

We have posted a powerful video of the bridge's construction on our website. Please have a look.



<https://www.ihl.co.jp/iis/videos/video1.htm>

* The Japan Society of Civil Engineers' Tanaka Award (Excellence in Bridge Design and Construction): The award recognizes construction or reconstruction (functionality enhancement or maintenance through repairs utilizing all or a portion of an existing structure) of bridges or related structures, which are distinctive in aspects such as planning, design, construction, maintenance and management. Special technologies and innovative technologies applied in the structure are also considered for the award.

Web page renewal

IHI recently renewed its corporate website. In addition to the website now being easier to read, the site provides more detailed information about financial results. Announcements of financial results are now accompanied by video and audio recordings of financial results presentations given by IHI officers.

The “To Individual Investors” page provides summaries of the IHI Group’s distinctive characteristics as well as recent financial results. The renewed website also allows for easy access to the latest IR materials. We hope you will take a look at our renewed website.



Information delivery service

In 2015, IHI began an information delivery service to provide information related to the IHI Group. As of September 30, 2017, more than 22,000 shareholders subscribe to this service. Under this service, the IHI Integrated Report 2017 was sent to subscribers, and feedback and opinions were received from over 2,000 readers. This feedback will be utilized when preparing future editions of the IHI Integrated Report.

In addition, more than 800 people entered a sweepstakes to participate in the plant observation tours of IHI’s Mizuho Aero-Engine Works and Yokohama Works. We look forward to having winners of the sweepstakes experience the manufacturing capabilities of the IHI Group up close with their own eyes.

In fiscal 2018, we will work to provide even more attractive services to allow people to gain an even better understanding of the IHI Group. We look forward to your continued support.



Complete view of Mizuho Aero-Engine Works



Complete view of Yokohama Works



Inquiries regarding administrative procedures for stocks

Stock Transfer Agency Business Planning Department
Sumitomo Mitsui Trust Bank, Limited
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan
Telephone: 0120-782-031 (toll-free in Japan only)