

IHI REPORT

Interim Report for 200th Fiscal Year April 1, 2016 to September 30, 2016



IHI

Realize your dreams



Aiming to achieve the management targets of Group Management Policies 2016, the IHI Group will accelerate the business structural reform aimed at strengthening the earnings foundations.

Tsugio Mitsuoka

IHI Corporation
President and Chief Operating Officer

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

On a consolidated basis for the first six months of the current fiscal year, the IHI Group reported orders received of ¥640.2 billion, net sales of ¥691.7 billion, operating income of ¥11.9 billion, ordinary income of ¥5.0 billion, and loss attributable to owners of parent of ¥5.2 billion. In the Industrial Systems and General-Purpose Machinery, and Aero Engine, Space and Defense areas, the IHI Group secured operating income roughly on par with the previous corresponding period through cutting selling, general and administrative expenses and improving profitability, despite the effect of yen appreciation in foreign exchange. In the Social Infrastructure and Offshore Facilities area, however, operating results were significantly lower than in the plan announced at the beginning of the fiscal year owing to factors including further setbacks in the profitability of the three projects related to F-LNG (floating LNG storage facilities, offshore structures).

The F-LNG projects were principal factors in downward revisions to the forecasts of results since the previous fiscal year. The IHI Group

undertook concerted efforts to deploy support systems and drive forward with work.

However, new issues in each project arose and came to the attention of management, regretfully causing management to project additional costs required to address such issues.

Under these circumstances, the IHI Group forecasts for the full fiscal year ending March 31, 2017, net sales of ¥1,500.0 billion, operating income of ¥38.0 billion, ordinary income of ¥18.0 billion and profit attributable to owners of parent of ¥0.0 billion. In light of these forecasts, it is with sincere regret that we have decided to suspend the interim dividend for the current fiscal year and provide a zero dividend forecast for the year-end dividend.

Management sincerely apologizes for the enormous inconvenience and concern caused to shareholders arising from outcomes not conforming with the expectations of the shareholders.

Concerning the further setbacks in profitability that arose with the F-LNG projects, what kind of risk countermeasures is management implementing to prevent repeats of downside results?

Concerning the three F-LNG projects, although it was tremendously regrettable, as construction progressed in the second quarter, it became clear to management that it was necessary to incur additional expenses in each of these projects. Management has calculated the amount of the additional costs that will be required until the completion of construction, and these amounts have been included in the full-year consolidated results forecasts for the fiscal year ending March 31, 2017, and no further setbacks are expected.

As for the F-LNG business overall, profitability has been deteriorating since the previous fiscal year and the IHI Group has already stopped accepting new orders in this business. Management has looked into transforming the business structure to focus on aluminum SPB tanks, for which future demand was identified for LNG carriers and others. In addition, we are considering a broad range of possibilities, including when this demand materializes, and exploring the need for drastic countermeasures. We plan to reach a decision on the F-LNG business by the end of this fiscal year.

The major reasons for the ongoing downside results since the previous fiscal year have been identified as partly resulting from insufficient examination of the risks before concluding the project contract and partly resulting from insufficient attention to ensuring *monozukuri* (manufacturing) capabilities.

Concerning the former, the IHI Group is taking measures to prevent recurrence of such a dramatic downside result by reinforcing the review process for large-scale orders as part of “boosting profitability by reinforcing project implementation structure,” one of the policies of Group Management Policies 2016.

As for ensuring manufacturing capabilities, the IHI Group is taking measures to “reform quality and business systems to reinforce manufacturing capabilities.” For example, in addition to moving ahead with engineering process reforms including design and production systems such as by incorporating failure case feedback into design through the application of AI, the IHI Group is moving ahead with rebuilding the quality assurance system, and realizing greater efficiency through business process improvements.

●Earnings Highlights

(Billions of yen)

| Items | Six months ended September 30, 2016 | FY2016 Full-year forecast |
|---|--|------------------------------|
| Orders received | 640.2 | 1,400.0 |
| Net sales | 691.7 | 1,500.0 |
| Operating income | 11.9 | 38.0 |
| Ordinary income | 5.0 | 18.0 |
| Profit attributable to owners of parent | (5.2) | 0.0 |

●Three F-LNG Projects

Drill ship construction for Singapore

FPSO (Floating Production Storage and Offloading Unit) shipbuilding project for Norway

Construction of SPB tanks for Japanese LNG carriers (four tanks × four ships)

The prospect of achieving the management targets of Group Management Policies 2016, whose final year is the fiscal year ending March 31, 2019, is currently at yellow lamp status. What measures are needed from this point forward?

We are making certain steps towards achieving the policies outlined in Group Management Policies 2016, which started in April this year.

Concerning one of the policies, “concentration and selection through new portfolio management,” we targeted the businesses with viability concerns and formulated and executed structural reform plans under which the business must be revitalized or reorganized by the end of the fiscal year ending March 31, 2018. Already, the structural reform plans for one-quarter of these businesses have been completed.

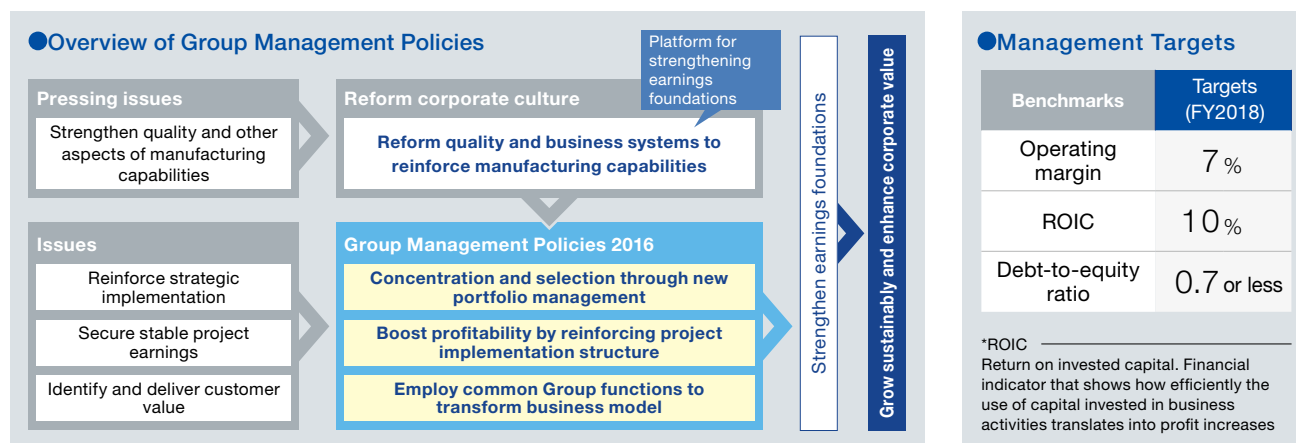
In addition, the IHI Group is driving forward with “strengthening the earnings foundations” in each business area. Such initiatives include, for example, “deployment of remote monitoring for power stations” in the Resources, Energy and Environment area, “initiatives for major upgrade and repair work in Japan and abroad, focusing on bridge business” in the Social Infrastructure and Offshore Facilities area, “reorganization of the roles of each business site and streamlining of investment and

resources use of the turbocharger business” in the Industrial Systems and General-Purpose Machinery area, and “expanding the share of involvement in the GE9X civil aero engine program” in the Aero Engine, Space and Defense area.

In addition, the IHI Group is steadily implementing initiatives to “employ common Group functions to transform the business model.”

In the Group Management Policies 2016, the IHI Group has set the target of achieving an operating margin of 7% in the fiscal year ending March 31, 2019, and this value still remains our target. The IHI Group will strive to fulfill the expectations of all stakeholders through coordinated efforts to accelerate the various initiatives currently underway so that it can recover the financial performance as soon as possible and achieve the management targets.

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



Interim Dividend

We would like to request your understanding for having decided to suspend the interim dividend for the six months ended September 30, 2016.

In Group Management Policies 2016, we have set “strengthen earnings foundations” as the main theme. By implementing measures that further prioritize earnings growth, the IHI Group aims to grow sustainably and enhance corporate value.

Below, we explain the policies “concentration and selection through new portfolio management” and “employing common Group functions to transform the business model.”

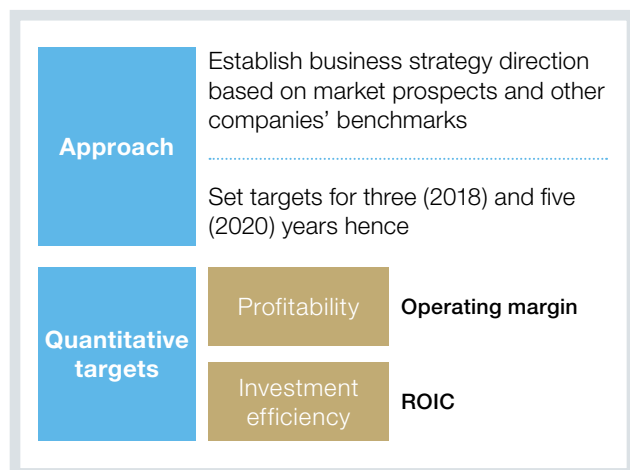
Pursue concentration and selection through new portfolio management

Goals

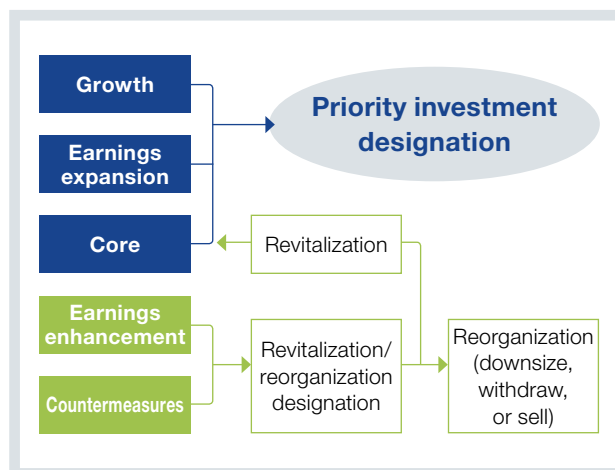
Reinforce business strategy implementation and accelerate concentration and selection of businesses

- Reorganize strategic business units (SBU) so that it is easier to plan and formulate business strategies (reduce from 37 to 27 units).
*SBU: strategic business unit (Unit of business for allocation of management resources, and establishment of policies for business strategy)
- Each SBU formulates a medium-term target to achieve after five years and a business strategy for achieving the target based on market prospects and other companies' benchmarks. It also sets targets that should be achieved after three years. Each business strategy and its accompanying targets is jointly referred to as a “mission.”
- Each SBU mission is categorized into one of five mission categories, selected according to the future vision of the business, and management resources are allocated to these categories.
- In order to pursue the optimum business portfolio, in addition to allocating management resources by giving priority to businesses that are the Group's growth engines (priority investment designation), the IHI Group is carrying out concentration and selection of businesses by revitalizing or reorganizing businesses whose future viability is under question (revitalization/reorganization designation).
- Revitalization/reorganization designated SBUs are to complete revitalization/reorganization within two years (until fiscal year ending March 31, 2018).

Mission



Mission categories



Example of progress of concentration and selection

Integration of shield tunneling machine business

An IHI Group company and a subsidiary of Mitsubishi Heavy Industries, Ltd. integrated their respective shield tunneling machine businesses, which resulted in the establishment of a new IHI consolidated subsidiary JIM Technology Corporation on October 1, 2016.

Transfer of construction machinery business

IHI executed a share transfer agreement to transfer all of the shares of IHI Construction Machinery Limited, which is engaged in manufacturing and sales of construction machinery such as mini excavators, cranes and crawler carriers, with Kato Works Co., Ltd. in October 2016.

Employ common Group functions to transform business model

Goals

Create business models with competitive advantage and apply these models across the Group

Measures to reinforce common Group functions and transform business model

| | Business areas | | | |
|---|-----------------------------------|---|--|--------------------------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facilities | Industrial Systems and General-Purpose Machinery | Aero Engine, Space and Defense |
| Solutions Linkage between businesses | | Cultivate life cycle businesses Create business schemes that incorporate finance Set up various solutions businesses | | |
| Intelligent information management Linkage between products/ services and ICT | | Leverage ICT to create an advanced operational support and preventive maintenance structure Harness big data to launch a failure prediction and prevention system Draw on ICT to pursue advanced manufacturing management | | |
| Global businesses Linkage between global markets and the IHI Group | | Reinforce handling of projects mainly targeted at five priority nations* *Indonesia, Thailand, Vietnam, Malaysia, Turkey Localize businesses with powerful presence in each area Enhance strategic partnerships | | |

Examples of measures to reinforce common Group functions and transform the business model

Solutions

Establishment of company to operate biomass power plant in Kagoshima City

IHI has partnered with eight investment-partner companies to establish Nanatsujima Biomass Power Limited Liability Company, a company that will operate the largest woody biomass power plant in Kagoshima Prefecture in the Nanatsujima district of Kagoshima City.

The company plans to rent the Kagoshima City Nanatsujima district, which is land owned by IHI, establish a woody biomass power plant there, and supply electricity to Kyushu Electric Power Co., Inc. The power plant is scheduled for completion in the second half of 2018. Once it begins operation, it is planned to have a service life of 20 years.

The IHI Group has secured the contract to build the woody biomass power plant from the company. Through its involvement in the operation of the biomass power plant that uses a feed-in tariff (FIT), the IHI Group aims to expand into a life cycle business that includes operation and maintenance.

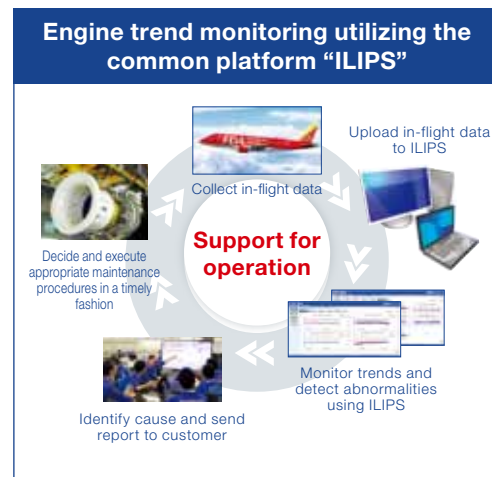


Intelligent information management

Develop life cycle services concentrating on maintenance capabilities for civil aircraft engines

IHI's civil aircraft engine maintenance division collects engine performance data measured during operation by utilizing the IHI system ILIPS to make service proposals regarding reducing operation costs and optimizing engine service times and maintenance specifications, in addition to providing such services. In this way, IHI offers a total-support service from operation through maintenance.

*ILIPS: IHI group Lifecycle Partner System. It is a common platform for remote maintenance that can be applied to various machines manufactured by the IHI Group.





Resources, Energy and Environment

IHI awarded contract for ultra-supercritical coal-fired boiler for Indonesia



In April 2016, IHI was awarded a contract of ultra-supercritical (USC) coal-fired boiler unit (output 315 MW × one unit) from Sumitomo Corporation. This boiler is for the construction of an additional unit at the Lontar power station, being developed by PT. PLN, an Indonesian state owned electricity company. The unit is being built next to existing units, and is expected to start operations in 2019.



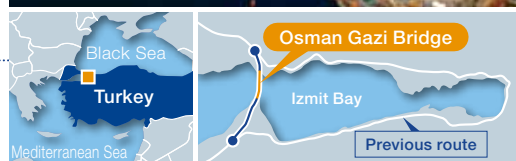
As part of the expansion of the Lontar power station, there was a special requirement to improve the efficiency of the power-generating facility within the scope of the existing transmission capacity so that the existing transmission infrastructure can be used. IHI utilized highly efficient coal-fired power generation technology to make the USC boiler a middle size, thereby enabling the facility to meet medium-level electricity demand while reducing environmental impact.

IHI receives orders for USC boilers in Japan and overseas, including the Asian market, and it has already made many deliveries. IHI will continue to contribute to the realization of stable and efficient electricity supply.



Social Infrastructure and Offshore Facilities

Opening of Osman Gazi Bridge (Izmit Bay Crossing Bridge), Turkey's longest suspension bridge



A ceremony was held on June 30, 2016 to open the Izmit Bay Crossing Bridge (Turkish name: Osman Gazi Bridge, hereinafter the "Bridge"), which was constructed in Turkey by IHI subsidiary IHI Infrastructure Systems Co., Ltd.

The Bridge is the fourth-longest suspension bridge in the world and the longest overseas bridge for the IHI Group as a contractor. The opening of the Bridge has reduced the time it takes to cross the bay from one hour by car or ferry to six minutes, which has dramatically improved transportation efficiency.

The IHI Group will push forward with bridge business development overseas, particularly in Turkey, and contribute to the development of various countries through the development of social infrastructure.



Industrial Systems and
General-Purpose Machinery

IHI and Taiyo Nippon Sanso Corporation jointly develop turbo rotating machine for large cooling capacity turbo refrigerator for cooling superconducting power equipment



Turbo-Brayton refrigerator

IHI has partnered with Taiyo Nippon Sanso Corporation to jointly develop a turbo rotating machine for large cooling capacity turbo-Brayton refrigerators, which are capable of cooling superconducting power equipment at -200°C or lower by using neon gas as a refrigerant.

In the electric power related field, steady progress is being made in research and development of superconducting power equipment that achieves zero electrical resistance for the purposes of enhancing capacity and reducing loss of transmission systems and stabilizing such systems. Up until now, IHI has an extensive delivery record for cryogenic rotating machines, including delivery to CERN (European Organization for Nuclear Research). This experience led to IHI becoming involved in the development of this turbo rotating machine using its cutting-edge cryogenic rotating machine technology such as its optimal design knowhow for different refrigerants and conditions.



Turbo rotating machine

This refrigerator will be sold by Taiyo Nippon Sanso Corporation mainly in the targeted markets of United States and South Korea where superconducting technology is aggressively being adopted.



Aero Engine, Space
and Defense

Completion of new processing center for aircraft engine parts (No. 5 processing building) at Soma No. 1 Aero-Engine Works



No. 5 processing building

IHI has completed a new processing center for the production of aircraft engine parts, which was being constructed at the Soma No. 1 Aero-Engine Works. Operation at the new processing center is scheduled to start from December 2016. The building will produce parts such as structural guide vanes made of carbon fiber reinforced plastic (CFRP) for the PW1100G-JM engine that will be fitted to the Airbus A320neo.



Structural guide vane

There is growing demand for aircraft engines to offer improved economy through reduced fuel consumption, and meet more stringent environmental specifications such as reduced emissions and reduced noise. Such engine improvements are expected to be realized through the utilization of new materials. IHI has developed its own CFRP that has superior shock resistance, and its CFRP structural guide vane is the first in the industry to be put into practical application.

IHI will continue to contribute to improving environmental performance of aircraft engines through its own technological and manufacturing capabilities while supporting the advancement of peace-of-mind, safety, and comfort in aircraft operations throughout the world.

* Structural guide vane: a component that functions as a wing component that adjusts the flow of air coming from the fan, while also functioning as a structural material that supports the fan case.

IHI selected as “2016 Competitive IT Strategy Company”

IHI was selected as one of the “Competitive IT Strategy Companies” in the “2016 Competitive IT Strategy Company Stock Selection” by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (TSE). The “Competitive IT Strategy Company Stock Selection” is a selection of companies chosen from companies listed on the TSE for their active utilization of IT to bring about business innovation, and to improve earnings levels and productivity, from the perspective of improving corporate value on a medium- and long-term basis and strengthening competitiveness.

In addition IHI was included in the “2016 Nadeshiko Brand” selection, which selects the companies listed on the TSE for encouragement of the empowerment of women, and the “2016 Health and Productivity Stock Selection,” which selects companies that have adopted strategic policies for the health management of employees based on business management perspectives.

IHI will continue to actively adopt initiatives in these areas.



Information delivery service | Holding of plant observation tours

Aiming to earn the trust and support of its shareholders over the long term, IHI works to deepen shareholders' understanding about the IHI Group, and since 2015, it has been providing “information delivery services” to provide such understanding. Currently more than 23,000 shareholders have subscribed to the information delivery service.

As a new initiative, IHI held “plant observation tours” at IHI's Yokohama works targeting all shareholders who have subscribed to the service. By visiting the IHI Group's frontline of product manufacturing and technological development, shareholders are able to gain an understanding of the manufacturing capabilities of the IHI Group.

In fiscal 2017, IHI is continuing with such initiatives as enhancing information dissemination and planning plant observation tours.

IHI plans to call for shareholders to express interest in subscribing to the next information delivery service, scheduled for the end of June 2017. When this call for interest is made, shareholders who apply will be in time to be informed of the next plant observation tour (details yet to be decided), and so IHI invites all shareholders to apply.



▲ Plant observation tour



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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