

IHI REPORT

Interim Report for 198th Fiscal Year

April 1, 2014 to September 30, 2014



IHI
Realize your dreams

To Our Shareholders



Measures implemented in line with our Group Management Policies 2013 are steadily producing results. We will continue to build on this success to realize growth and achieve our targets for FY2015, the final year under our Group Management Policies 2013.

Tamotsu Saito

President and Chief Executive Officer

Q The current fiscal year marks the midpoint of your three-year plan Group Management Policies 2013. Now that you have finished the second quarter, you have reached the turnaround point. How was IHI's performance in the first six months of fiscal 2014?

A On a consolidated basis for the first six months of the current fiscal year, orders received by the IHI Group increased by ¥170.5 billion from a year ago to ¥785.4 billion, net sales increased by ¥69.8 billion to ¥616.1 billion, operating income increased by ¥9.1 billion to ¥28.9 billion, ordinary income rose by ¥8.9 billion to ¥32.3 billion, and net income increased by ¥8.1 billion to ¥20.9 billion.

Consolidated net sales, ordinary income and net income all reached all-time highs for an IHI fiscal first half. Also, all business segments reported growth in both orders received and net sales, and were profitable at the operating level, showing how we are making steady progress toward our Group Management Policies 2013 targets.

● Earnings Highlights (Consolidated)

(Billions of yen)

Items	Six months ended September 30, 2014	FY2014 Full-year forecast
Orders received	785.4	1,550.0
Net sales	616.1	1,440.0
Operating income	28.9	65.0
Ordinary income	32.3	57.0
Net income	20.9	35.0

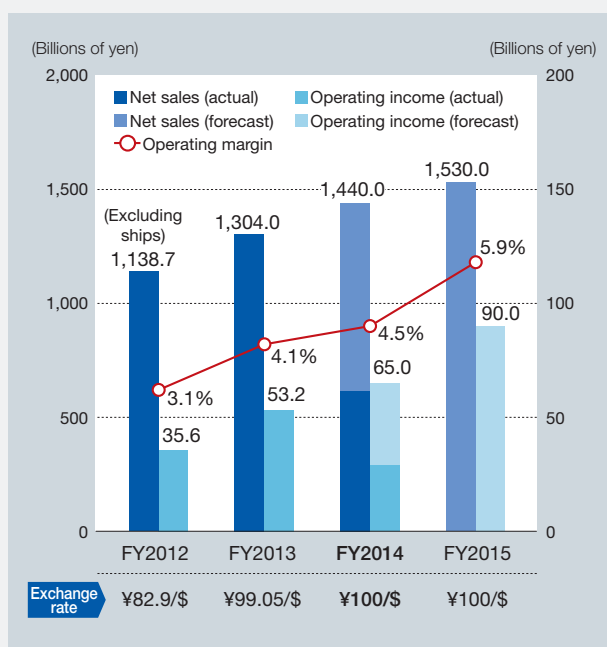
Q You emphasized that IHI is making progress toward its targets. How far have you come and what are the challenges ahead?

A The final year of our current three-year medium-term management plan, Group Management Policies 2013, is FY2015. Our initial final-year targets were net sales of ¥1,400 billion and operating income of ¥70 billion, but based on our foreign exchange rate assumption of ¥100 to the U.S. dollar, our current forecasts for FY2015 are net sales of ¥1,530 billion and operating income of ¥90 billion. As shown in the graph below, we are making good progress toward our targets.

Over the last one and a half years, up to the end of September, we have started to see the fruits of our

efforts, including an increase in orders received worldwide. We have achieved progress in other areas as well, such as aggressive investment in promising growth businesses and human resource training based on the Group Human Resource Management Policy we formulated last year.

As for future challenges, our main priority is to find a way to better utilize our three strategic linkage (in Japanese, *Tsunagu*) functions that we established to draw on the combined strengths of IHI. By leveraging these functions, our aim is to accelerate growth by developing new business models that will generate new value and boost profitability by meeting the latent needs of customers.



● Three Links (*Tsunagu*) Functions

Solution & Engineering Headquarters

Tsunagu: the link among existing businesses, and between existing and peripheral businesses

Solve customer problems by linking products, services and technologies in multiple business areas in line with customers' needs.

Intelligent Information Management Headquarters

Tsunagu: the link of products and services through information and communication technology

Make the best use of advanced ICT to gather and analyze diverse information on IHI products and services in order to refine service offerings to customers and thereby earn their deep trust.

Global Marketing Headquarters

Tsunagu: the link between global markets and IHI

Strengthen relationships between customers and IHI by enhancing marketing activities based on local needs and regional headquarters functions.

To Our Shareholders

Q Orders received from the global market are expanding. What specific steps are you taking to drive this growth?

A In the first six months of the current fiscal year, our consolidated overseas sales ratio was 56.3%. Compared with a year ago, net sales increased in all global regions. Orders received registered particularly strong growth in Southeast Asia, China and the Americas. We are now firmly on track to achieving an overseas sales ratio of more than 50%, which is one of the goals of Group Management Policies 2013.

Specifically, we secured an engineering, procurement and construction (EPC) order for an ultra-supercritical coal-fired power plant from Jimah East Power Sdn. Bhd., a public-private joint-venture power company in Malaysia. Also, we received an order for two IHI-SPB tanks to be installed in a Floating LNG Storage & Regasification Unit from The Wison Group, the largest private EPC contractor in China, highlighting our ability to secure orders in the global market in the face of tough competition. We also invested aggressively to help grow orders, such as by establishing a dedicated subsidiary to lead a full-scale push into the vehicular turbocharger aftermarket. Also, to respond to rising global demand for aircraft, we built new specialist plants for aircraft engine composite components at IHI Soma Aero Engine Works and in

the Tomioka Works of IHI Aerospace Co., Ltd.

The Global Marketing Headquarters held the IHI Forum in Vietnam this year, after organizing the same forum in Indonesia last year, to help promote IHI solutions. Through such measures, we are growing our global business by raising awareness of the IHI brand in individual countries, as well as by building strong relationships with local customers.

Q In conclusion, what is your message to your shareholders?

A The current fiscal year is crucial as the midpoint of our Group Management Policies 2013, because we must accelerate growth to be sure to achieve our FY2015 targets. We also need to grow further as an organization to be able to help increasingly more customers worldwide realize their aspirations. The entire IHI Group is fully committed to this objective.

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, 2014 at ¥3 per share.

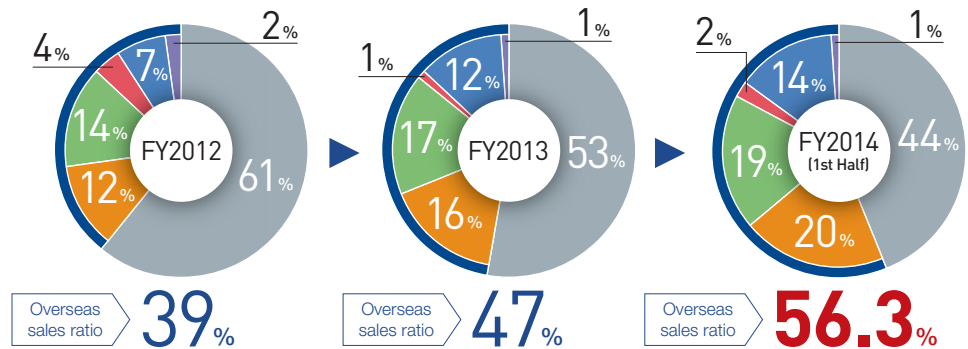
Helping customers worldwide to realize their dreams



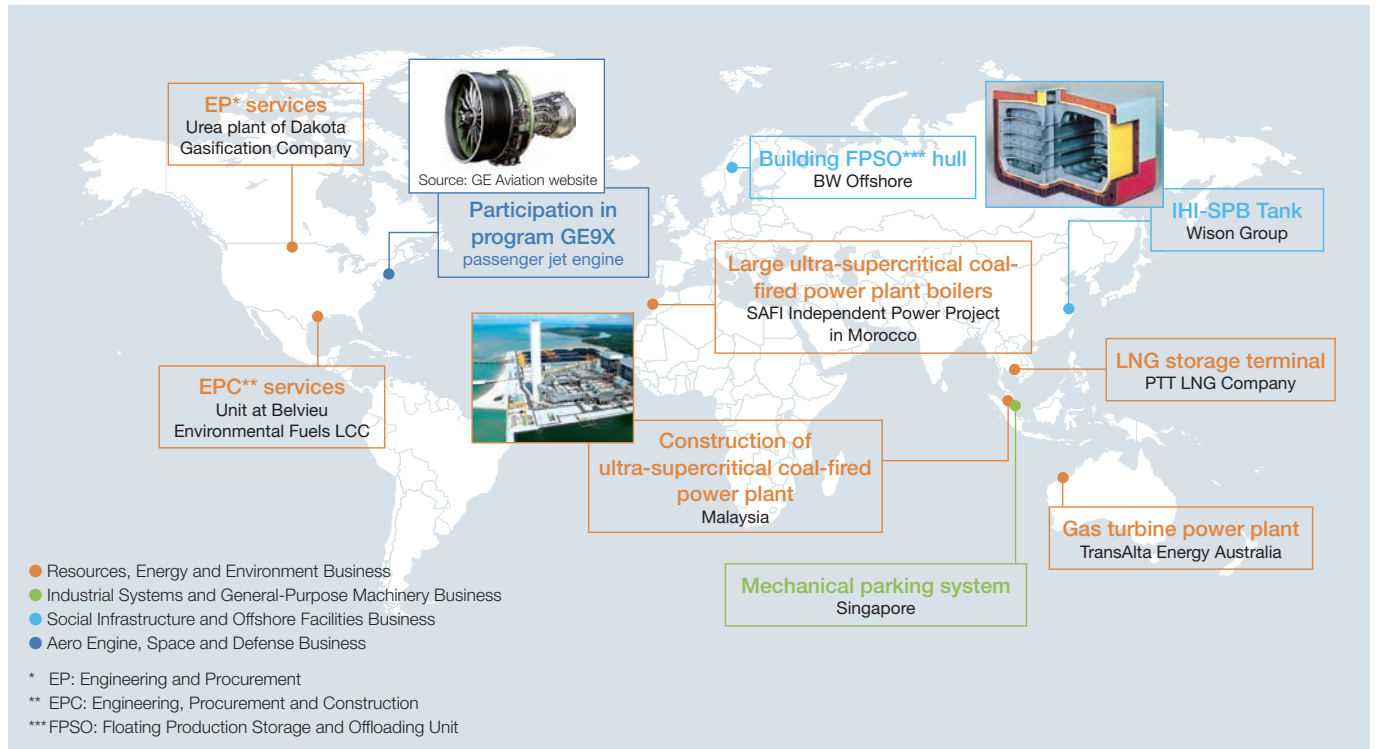
Under Group Management Policies 2013, we are targeting a consolidated overseas sales ratio of **over 50%**.

● Sales Ratios by Region

- Japan
- Overseas
- North America
- Asia
- Central and South America
- Europe
- Others



● Orders for Key Overseas Projects in FY2014 First Half



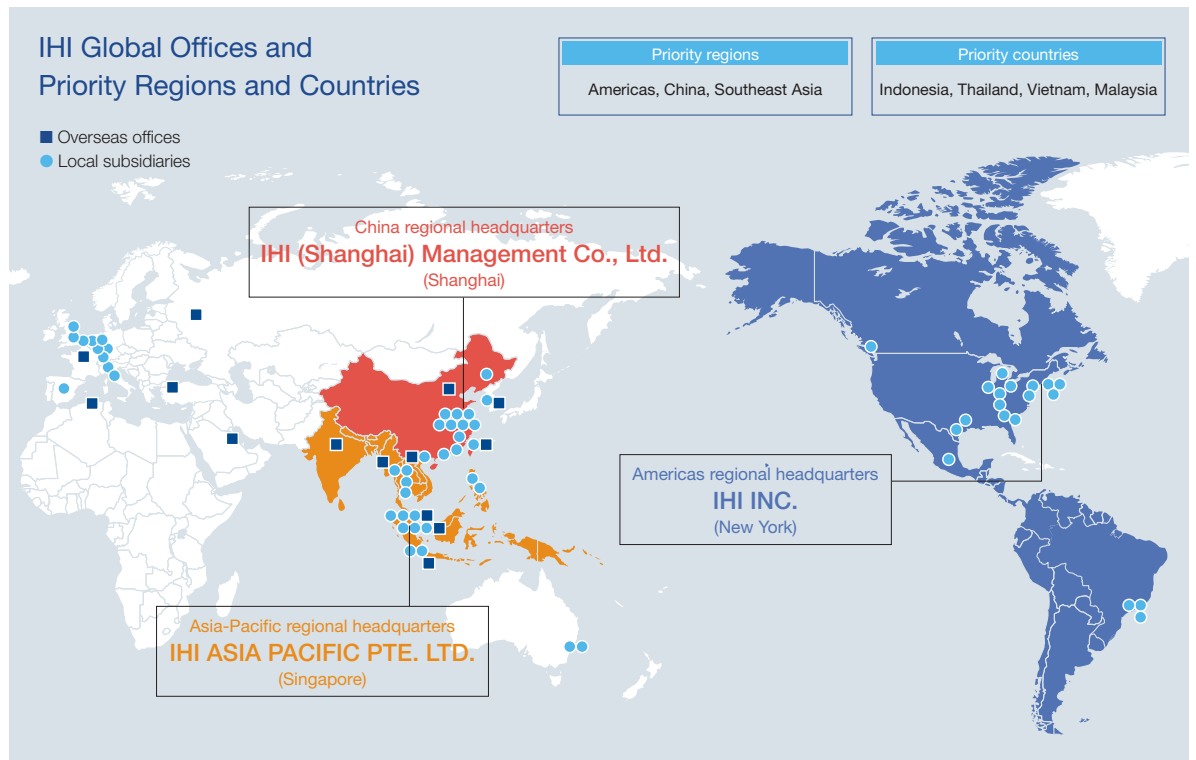
To satisfy the needs of customers worldwide, IHI is working to globally optimize its corporate resources allocation and strengthen its network for delivering products and services efficiently. In April 2013, the Global Marketing Headquarters was established to lead global expansion. This section looks at three key steps to make IHI more global.

I

Effective management within local areas

As part of its global expansion, IHI has set priority regions and countries. Three regional headquarters have been established under the Global Marketing Headquarters, to ensure operations in each region are managed more efficiently. These regional headquarters are responsible for sharing information within each region, ensuring efficient management, and building and reinforcing relationships with customers and partners in the region.

IHI ASIA PACIFIC (Thailand) CO., LTD. was established in Thailand in February 2014 and a representative office was set up in Istanbul, Turkey in April. Also, a branch office of the Asia-Pacific regional headquarters was opened in Myanmar in June.



II

Region-based business expansion

Aiming to expand business by working more closely with local people, IHI holds forums in priority countries to showcase the Group's comprehensive technological capabilities and to put forward ideas that help local customers accelerate growth and solve issues they face in their operations. Following forums held in Indonesia and Brazil in previous years, the IHI Forum 2014 took place in Vietnam in October. Held with support from Vietnam's Ministry of Planning and Investment's Foreign Investment Agency, the forum attracted local media attention with its theme, "Vietnam 2020 and Beyond: Modernization for the next stage of growth." The aim was to show local customers, government officials and the mass media how diverse solutions from the IHI Group can contribute to Vietnam's growth. Meanwhile, the openings of new offices in Turkey and Myanmar were also leveraged to conduct a wide range of promotional activities.

IHI will continue using this approach to maintain and build stronger relationships of trust with customers and to increase the value of the IHI brand for accelerated business expansion worldwide.



IHI Forum 2014

III

Global human resource development



Joint training in China



Signing ceremony with Federal University of Pernambuco

Creating a more global workforce is crucial to IHI's further development in overseas markets.

To identify global talent, IHI actively carried out recruitment campaigns in the United Kingdom, South Korea and Singapore. As a result, IHI Corporation had 68 employees of foreign nationalities as of September 30, 2014.

Also, at IHI locations in priority regions and countries, the aim is to utilize local human resources more effectively, including by increasing the ratio of indigenous personnel to over 50%. Also, management courses and other training programs are helping to develop these people into global human resources. The training is designed to foster a sense of shared values across the IHI Group, ultimately to cultivate future regional leaders who can build stronger locally focused operations.

IHI has set up a number of programs for human resource development overseas, including an internship scheme for students at Indonesia's Bandung Institute of Technology, student scholarships at Hanoi University of Science and Technology in Vietnam and a tie-up with the Atlântico Sul Shipyard and Federal University of Pernambuco in Brazil for human resource development in the shipbuilding and offshore industry. It is hoped that these programs will contribute to the growth and vitalization of local industries in each country.



Resources, Energy and Environment Business

Signed EPC contract for 2,000 MW ultra-supercritical coal-fired power plant in Malaysia

IHI and partners Toshiba Corporation, Hyundai Engineering Co., Ltd., and Hyundai Engineering & Construction Co., Ltd., the latter two from South Korea, were jointly awarded a contract for the engineering, procurement and construction of an ultra-supercritical (USC) coal-fired power plant in Malaysia. The plant will comprise two 1,000 MW units, one starting commercial operation in 2018 and the other in 2019. The order came from Jimah East Power Sdn. Bhd., which was established by 1Malaysia Development Berhad, a fund that is wholly owned by the Minister of Finance Incorporated (a state-owned incorporated body) and Mitsui & Co., Ltd. USC technology will 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.

IHI has delivered nine boiler plants totaling 5,100 MW output to customers in Malaysia, including an existing Jimah coal-fired thermal power plant (two 700 MW units) adjacent to the site being planned for this project's coal-fired thermal power plant. IHI will continue to supply mainly boilers and other power-generation equipment and systems that offer high generation efficiency and superior environmental performance.



Existing Jimah coal-fired thermal power plant adjacent to the new power plant project site



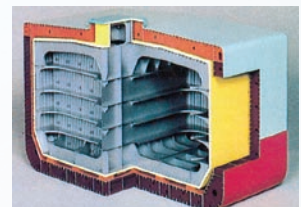
Social Infrastructure and Offshore Facilities Business

Won an order for IHI-SPB tanks for a floating LNG storage & regasification unit

IHI secured an order for two IHI-SPB (SPB: Self-supporting, Prismatic shape, IMO type B) LNG storage tanks from The Wison Group, the largest private EPC contractor* in China. The tanks will be installed in a floating LNG storage & regasification unit, which will be used as a base to regasify LNG before delivery to local users (to be delivered in 2015 second half).

IHI-SPB tanks offer competitive advantages based on unique IHI technologies. The tanks have internal walls that are independent from the hull of the ship, which prevents damage to the vessel caused by the sloshing of LNG in the tanks while at sea. The tanks have also been designed to fit in the cargo hold of the vessel, resulting in a flat upper deck with space for the installation of LNG plant and other equipment.

Focusing on technologies such as IHI-SPB LNG tanks, IHI aims to play an increasingly key role in all areas of the LNG marine supply chain, from global offshore LNG production, storage and shipment to LNG marine carriers and LNG fuel ships.



IHI-SPB tank

* EPC contractors handle the engineering, procurement and construction of plants, other facilities and equipment.

Topics



Industrial Systems and General-Purpose Machinery Business

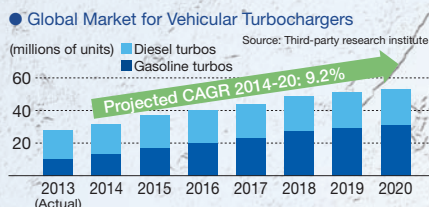
Expanding global market for vehicular turbochargers

IHI is one of the world's leading suppliers of vehicular turbochargers, serving over 20% of the global market for turbochargers in automobiles, including commercial vehicles. IHI supplies vehicular turbochargers not only to Japanese companies but also to companies in markets where these products are widely used, such as Italy, Germany and other parts of Europe, North America and China.



Vehicular turbochargers

The market for turbochargers is expanding worldwide due to growing demand for fuel-efficient vehicles in the face of intensifying fuel-consumption regulations and rising fuel costs. In North America and China, where gasoline vehicles are the most common, the increasing downsizing* of engines should stimulate strong growth in the turbocharger market.



The global market for vehicular turbochargers is projected to reach over 50 million units by 2020, spurred by stricter regulations on vehicle fuel consumption worldwide.

IHI plans to expand orders by marketing turbochargers developed by its European subsidiary for sale in North America and China. In Japan, increased market share is targeted through expanded sales of turbochargers mainly for commercial vehicle diesel engines and passenger car gasoline engines.

* Engine downsizing involves technologies that enable a smaller capacity engine to achieve the power output of a larger engine by using turbochargers. This can also help to raise fuel efficiency by around 20%.



Aero Engine, Space and Defense Business

IHI to participate in GE9X engine development program for Boeing 777X

IHI has decided to participate in the development of the GE9X engine that will power Boeing's next-generation aircraft, the Boeing 777X, due to launch in 2020.



Source: GE Aviation website

GE9X engine

General Electric Company (GE) will lead the development of the GE9X, which is set to be one of the most powerful commercial jet engines on the market, yet is planned to achieve a roughly 10% improvement in fuel burn compared with the Boeing 777's GE90 engine.

As with the GE90, IHI will be responsible for designing and manufacturing key large parts, such as low-pressure turbine blades, disks and turbine shafts.

Through its involvement in various commercial aircraft engine programs, IHI will continue to contribute to the safe operation of airliners worldwide.



Toyosu Foresia rental office building

In August 2014, IHI and development partner Mitsubishi Estate Co., Ltd. completed construction of Toyosu Foresia, a rental office building in Tokyo's fast-developing Toyosu area, which has been attracting attention in recent years.

This large office building is close to central Tokyo thanks to excellent transport links. Standard floors in the office portion of the building (floors 2-16) each have a rentable area of around 4,600 m², making them some of the largest office floors in Japan. Floor layout is also efficient, meaning that Toyosu Foresia can address needs for major office relocations and consolidations.

The building also incorporates a number of environmental features, such as a green plot ratio of 44%, full use of LED lighting, natural lighting with sunlight concentrators and lithium-ion batteries manufactured by IHI that allow the building to reduce power consumption during peak demand periods. The structure is also highly resilient to natural disasters, including through base-isolated foundations for enhanced earthquake resistance. Primary equipment, such as the electric power room, is located on the second floor to avoid water damage in the event of flooding.

The completion of Toyosu Foresia means around 90% of the redevelopment projects in the Toyosu 2- and 3-chome address areas have now been finished. As a result, Toyosu is gaining popularity as an area for business as well as for residential, entertainment and educational purposes.

IHI selected for the Climate Disclosure Leadership Index and the Climate Performance Leadership Index in the CDP 2014 report

The international nonprofit organization CDP,* which is based in London, selected IHI as a member of its Climate Disclosure Leadership Index (CDLI) and its Climate Performance Leadership Index (CPLI). Companies in the CDLI are viewed as proactive disclosers of information about climate change, while those selected for the CPLI are regarded as leaders in tackling climate change.

Of the 500 Japanese companies that responded to the survey, the top 10% (28 companies) were selected for the CDLI, and only the 24 companies that were awarded a performance band A rating were named in the CPLI.

IHI operates many businesses that have close links with the global environment, such as infrastructure facilities, energy, and industrial systems. IHI will continue to actively disclose relevant information, take steps to reduce environmental impact through its products, services and business activities, and seek new challenges as a global corporate group that protects the global environment.

* Formerly called the Carbon Disclosure Project, CDP is supported by 767 institutional investors worldwide, managing a combined \$92 trillion in assets, who send annual questionnaires to large companies worldwide to evaluate their climate-change information disclosure and initiatives to reduce greenhouse gas emissions.





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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