



Group Management Policies 2010 (Outline)

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**Overview of
*Group Management Policies 2010***

Achievements

- Launching a “Sector”, a new organizational structure, and enhancing profit management and internal control systems in each area of operations
- Business selection and concentration (E.g., intensive investment in “focusing business units” such as engines for commercial aircraft and vehicle turbochargers)
- Development of regional headquarters in the Americas and Asia
- Consolidated performance evaluation and enhanced affiliate management

Challenges remaining

- Consolidated ordinary income targets not achieved
→ Reforms not instituted rapidly enough to keep pace with changes in the business environment

Other

- Deficiencies and improvements in internal control systems

Concepts in *Group Management Policies 2007*

- Profitability
 - Concentrate resources in 10 “focusing business units” that will serve as flagship areas of profit and maximize corporate group profits
- Business strategy
 - Implement business strategies throughout and invest in human resources and operating processes that enhance competitiveness
- Global business
 - Accelerate global business expansion with a focus on the Americas, Asia and the BRICs
- Group management
 - Promote restructuring of the organization and affiliated companies, strengthening Group management

FY2009 profit target
Consolidated ordinary income: 60 billion yen

Changes in business environment (post-subprime mortgage crisis)

- Growing global environmental and energy constraints
 - Growing social demand and market needs for realization of a low-carbon society and energy- and resource-saving
 - ⇒ Great chance to support customers by boosting the utilization value of products and services across the entire lifecycle
- Advance of globalization
 - Increasing importance of newly emerging markets in terms of volume market segments
 - Growing sophistication and concentration of industry in newly emerging markets
 - ⇒ Great chance to seize growth opportunities created by deepening globalization
 - Accelerated cross-border movement of management resources (people, goods, money)

We need to perceive these as irreversible changes impacting heavily on business management and pursue internal reforms in the recognition that rising to the challenge of tough changes opens the way for growth.

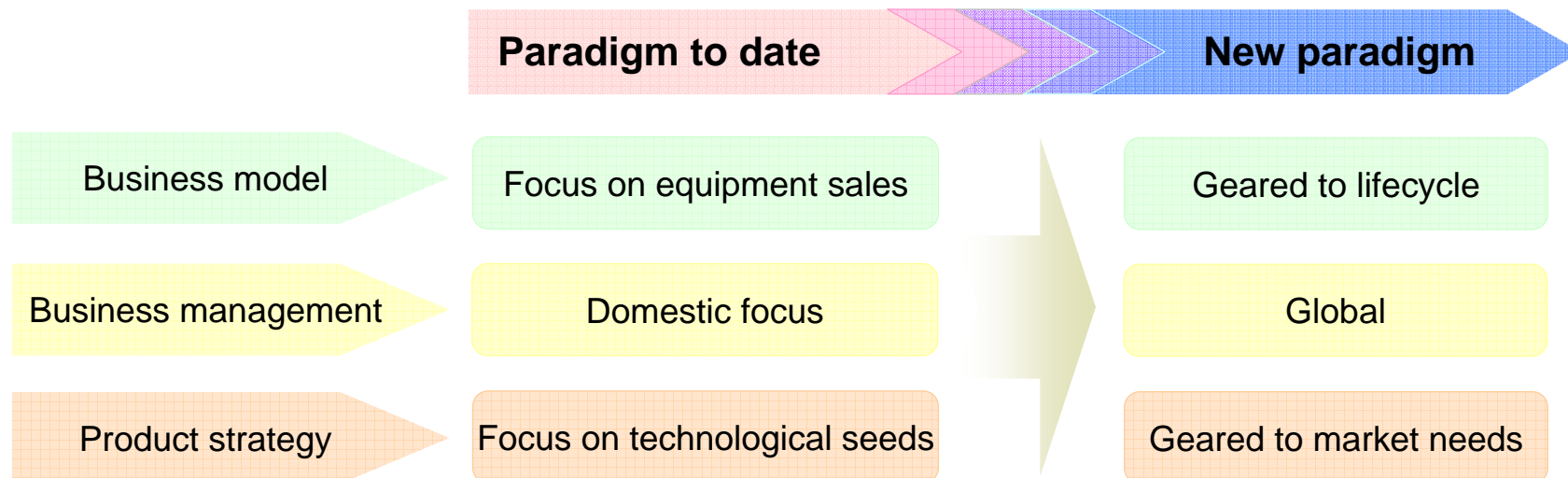
IHI Group Aims

To become a globally-oriented corporate group which uses an engineering capacity grounded in *monozukuri* technology to solve various environmental, industrial, social, and energy related problems of the 21st century, delivering safety and security for the benefit of both the environment and humanity.

■ Goals of *Group Management Policies 2010*

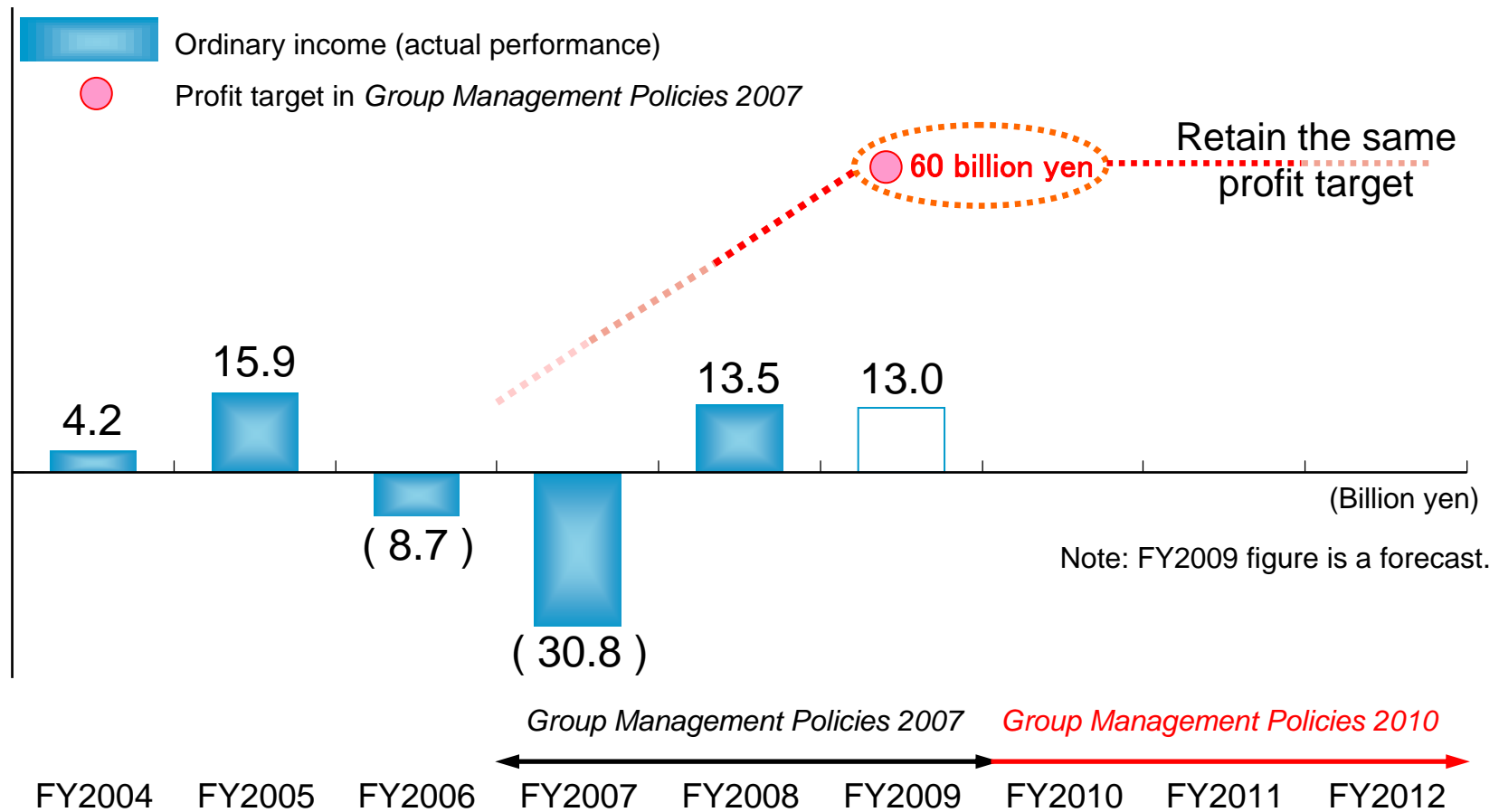
- To maximize corporate value through profit growth
- To become a global corporate group

■ Need for a rapid change in mindset (paradigm shift)



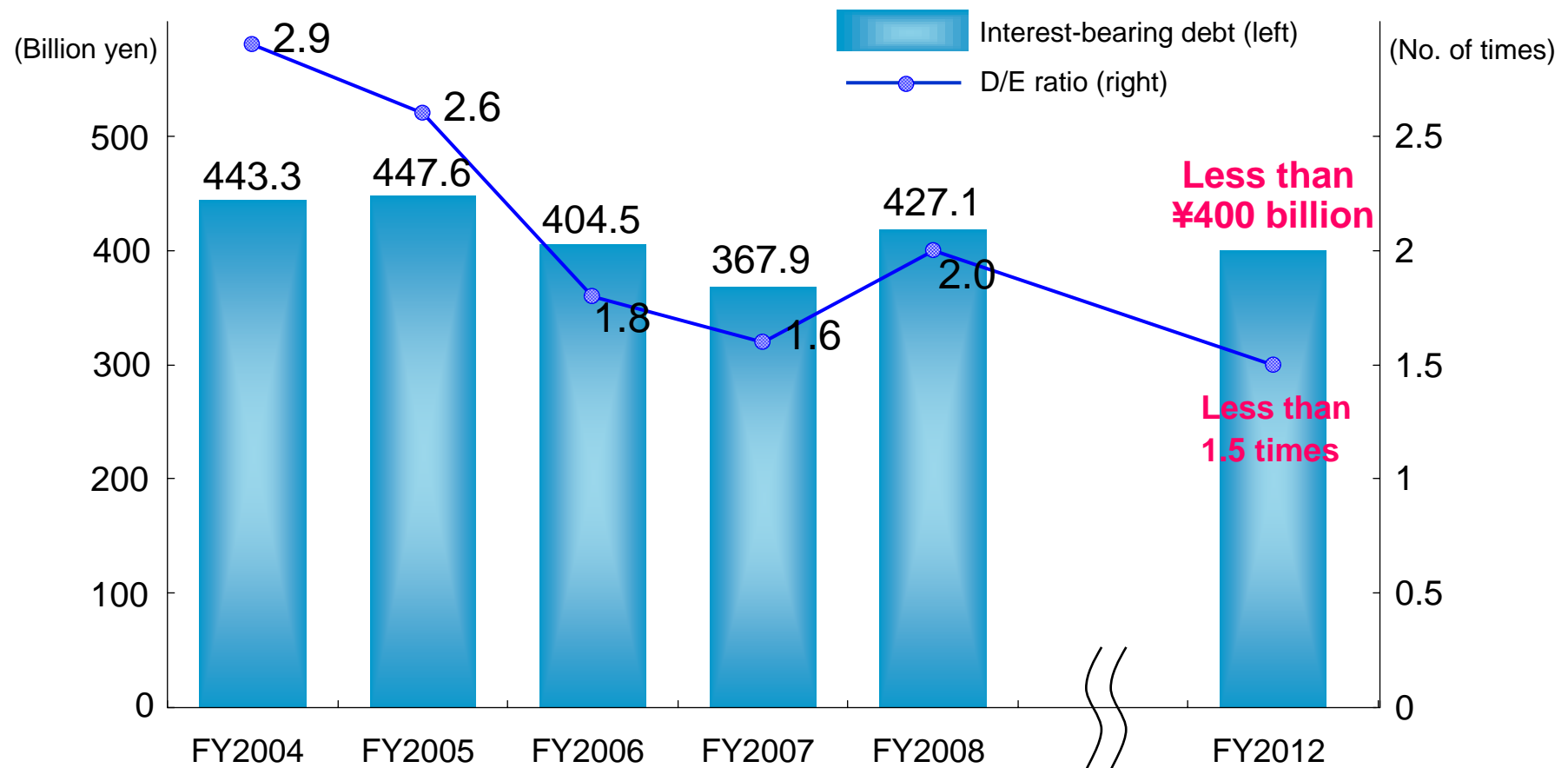
Numerical targets (1)

- Consolidated sales 1,400 billion yen, consolidated ordinary income 60 billion yen
 - Aim to achieve these targets as soon as possible within the period covered by *Group Management Policies 2010*



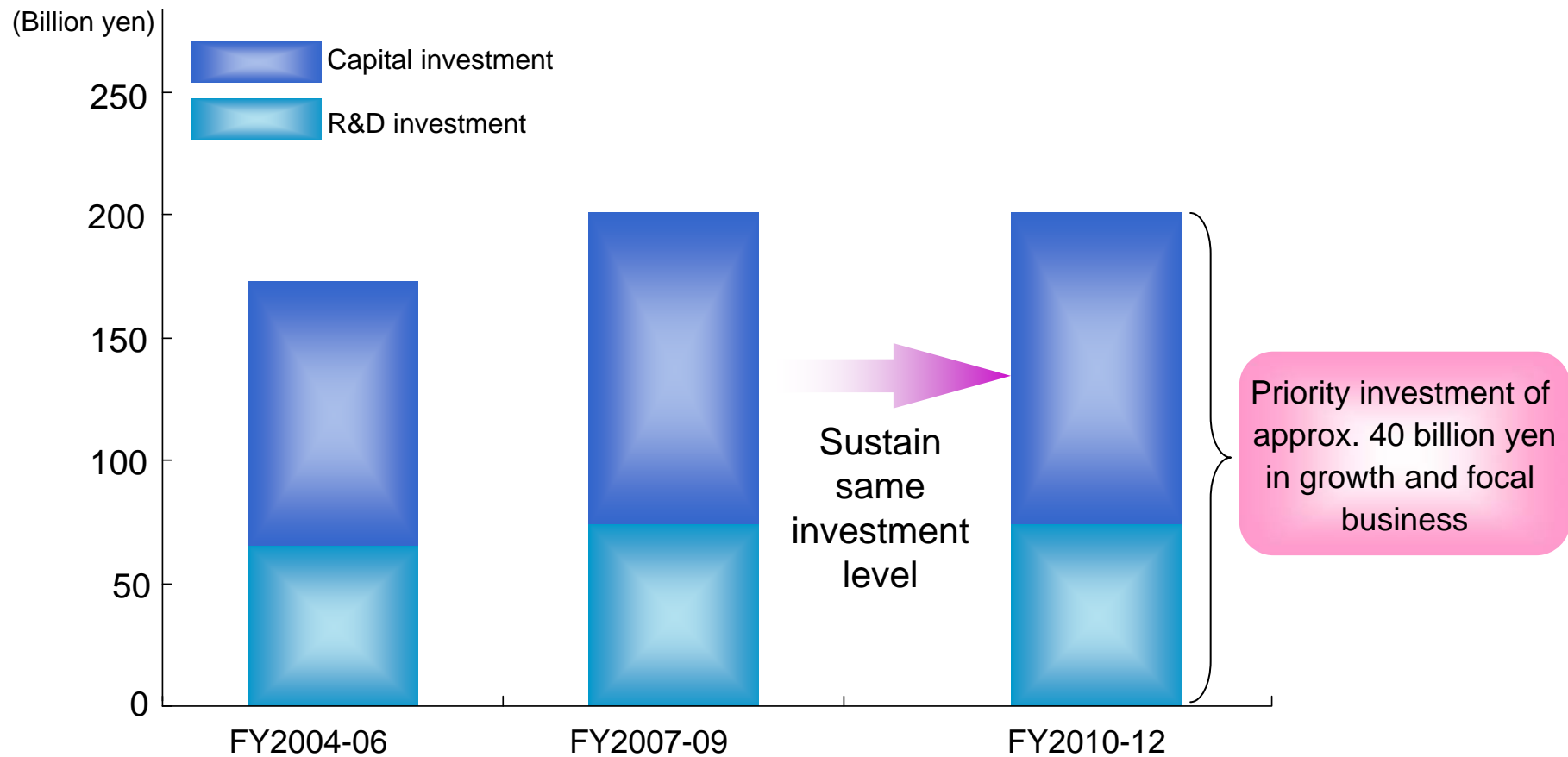
Numerical targets (2)

- Interest-bearing debt: Less than 400 billion yen (as at the end of FY2012)
 - Secure free cash flow and return to our D/E ratio at the end of FY2007



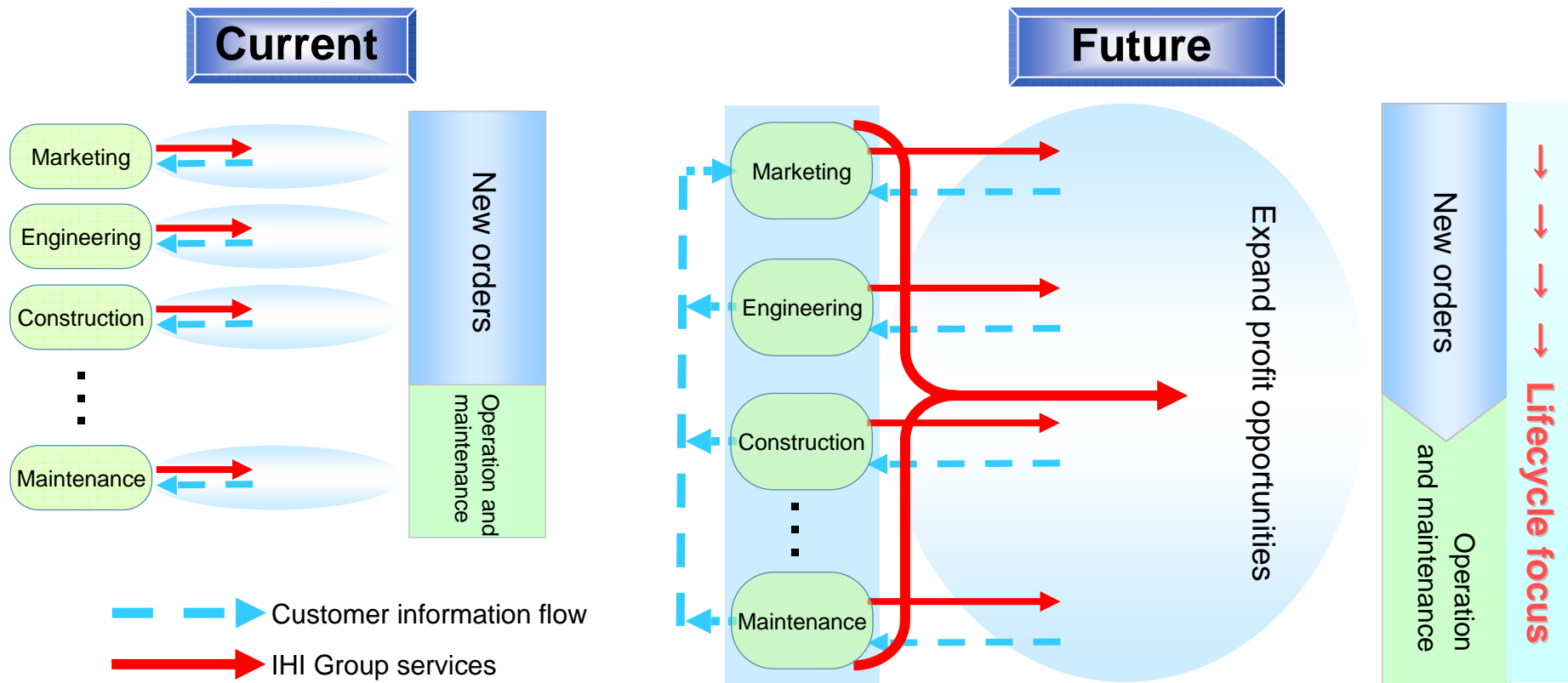
Numerical targets (3)

- Capital and R&D investment: Approx. 200 billion yen (FY2010-12)
 - Sustain the same level as for the period covered by *Group Management Policies 2007* (FY2007-09)



**Details of
*Group Management Policies 2010***

- Aim to become a critical partner in customers' business operations
 - View entire product and service lifecycle as a profit opportunity
 - Organize and integrate customer information to identify diverse customer needs
 - Develop global supply systems optimized to boost utilization value for customers

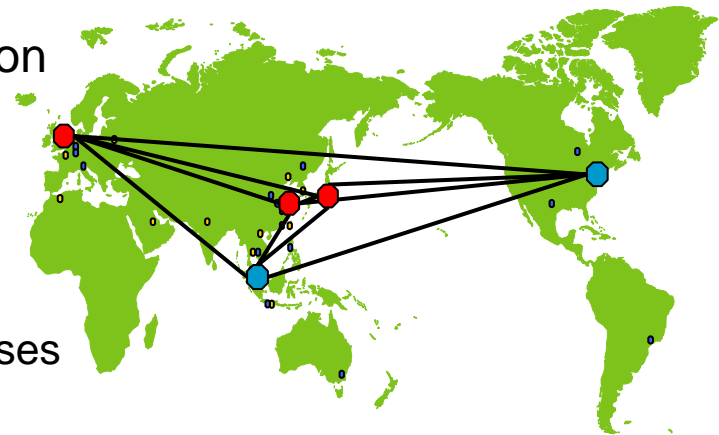


IHI defines globalization as;

Accurate identification of local market needs around the world, optimal global deployment of internal and external management resources, and construction of a network to enable efficient supply of products & services

■ Organization

- Bolster head office functions to support the globalization undertaken by operational divisions
- Enhance functions toward overall optimization of business strategies from a Group-wide management strategy perspective
- Create regional headquarters or appoint chief regional officers at the four regional bases
- Establish a Global Strategy Division



■ Human resources

- Share HR information and implement HR development across the Group
- Actively secure talented personnel in the various regions

■ Five business areas

- “In which areas should the IHI Group make a contribution to the world?”

Revision of the IHI Group Vision in May 2009 saw the definition of five business areas revolving around markets and technologies.

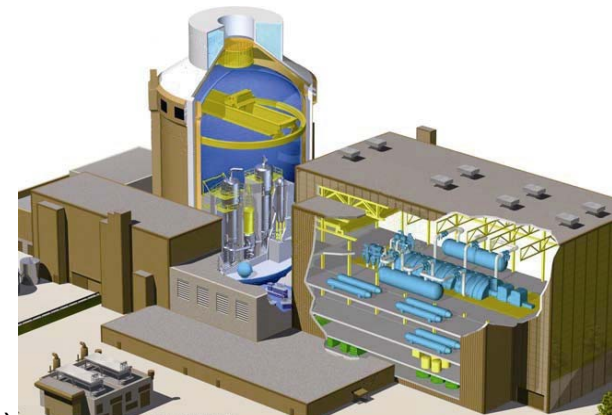
■ Targets in the five business area (Summary)

- Strengthen efforts to boost utilization value for customers
 - Address energy- and resource-saving needs in all products
 - Strengthen after-market efforts



Business area: Energy and resources

- Identify changes in needs in resource utilization and the energy transformation process toward realizing a low-carbon society
 - Strengthen areas such as nuclear energy, natural gas and coal
 - Full-scale development of steam generator, a key device in pressurized water reactors (Manufacturing starts FY2012)
 - Orders currently being sought toward early launch of F-LNG business (Key hardware: SPB tank)
 - Launch expansion into world markets (U.S. and Southeast Asia) for gas turbine maintenance operations
 - Develop technology in areas that anticipate future social needs, such as new types of energy
 - Currently developing gasification technologies using lignite (low-rank coal)
 - Participation in joint Japan-Australia CCS demonstration project using oxyfuel combustion at an existing coal-fired power station (Verification experiments begin in 2011)



■ Ship building & offshore

- Push ahead development, basing our competitiveness on the lower transportation costs offered by our energy-saving and environmental technologies
 - Completion of conceptual design for plug-in electric propulsion ferry (2015 launch)
- Other key themes: Cutting costs and managing exchange risk by accelerating overseas procurement

■ Social infrastructure

- Respond to developed countries' needs for replacement of existing infrastructure and/or measures to make this last longer and to new infrastructure needs in newly emerging markets
 - Offshore expansion by new affiliates (bridges and water gates in November 2009, shields in January 2010)
 - Develop tower parking system for electric cars

■ Security

- Focus on types of business that deliver safety and reliability, such as antibiotics and defense systems
 - Expand sales of system-use 3D laser radar to support safe operation of public transportation
 - Develop and sell small-sized ozone disinfectors as a defense against new types of influenza

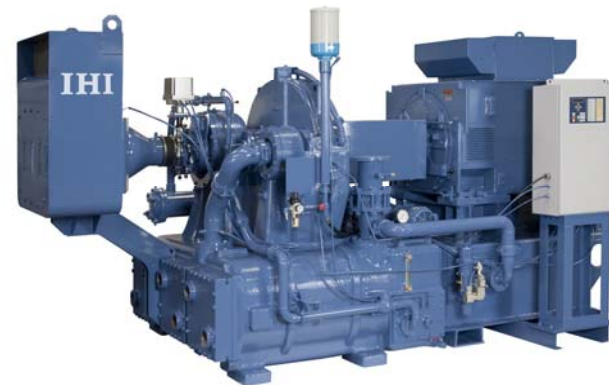


- Enhance our proposals for products and services that boost the added value of clients' entire production processes
 - Develop and strengthen marketing and maintenance networks
 - Develop networks in Europe and Southeast Asia for furnaces for heat treatment & new material manufacturing
 - Set up a company in the U.S. to handle after-sales maintenance for steel mill facilities (September 2009)



■ Target volume market segments

- Vehicle turbochargers: Expand market scale particularly in Europe and boost technology capacity
 - Operations launched at new plants in Europe and China where market scale is expected to expand (Europe in June 2009, China by the end of 2009)
 - FY2012 sales goal: Around 100 billion yen
- Mass-produced compressors: Product development targeting growth markets such as Southeast Asia and China and construction of procurement, production, sales and after-sales maintenance networks there
 - Currently building networks of bases with local partners particularly in Asia



■ Aero engines

- Begin R&D for next-generation engines and strengthen lifecycle business
 - Pursuing the possibility of engine maintenance operations in the Americas
 - Set up marketing bases (2010) and maintenance bases (2011-12)

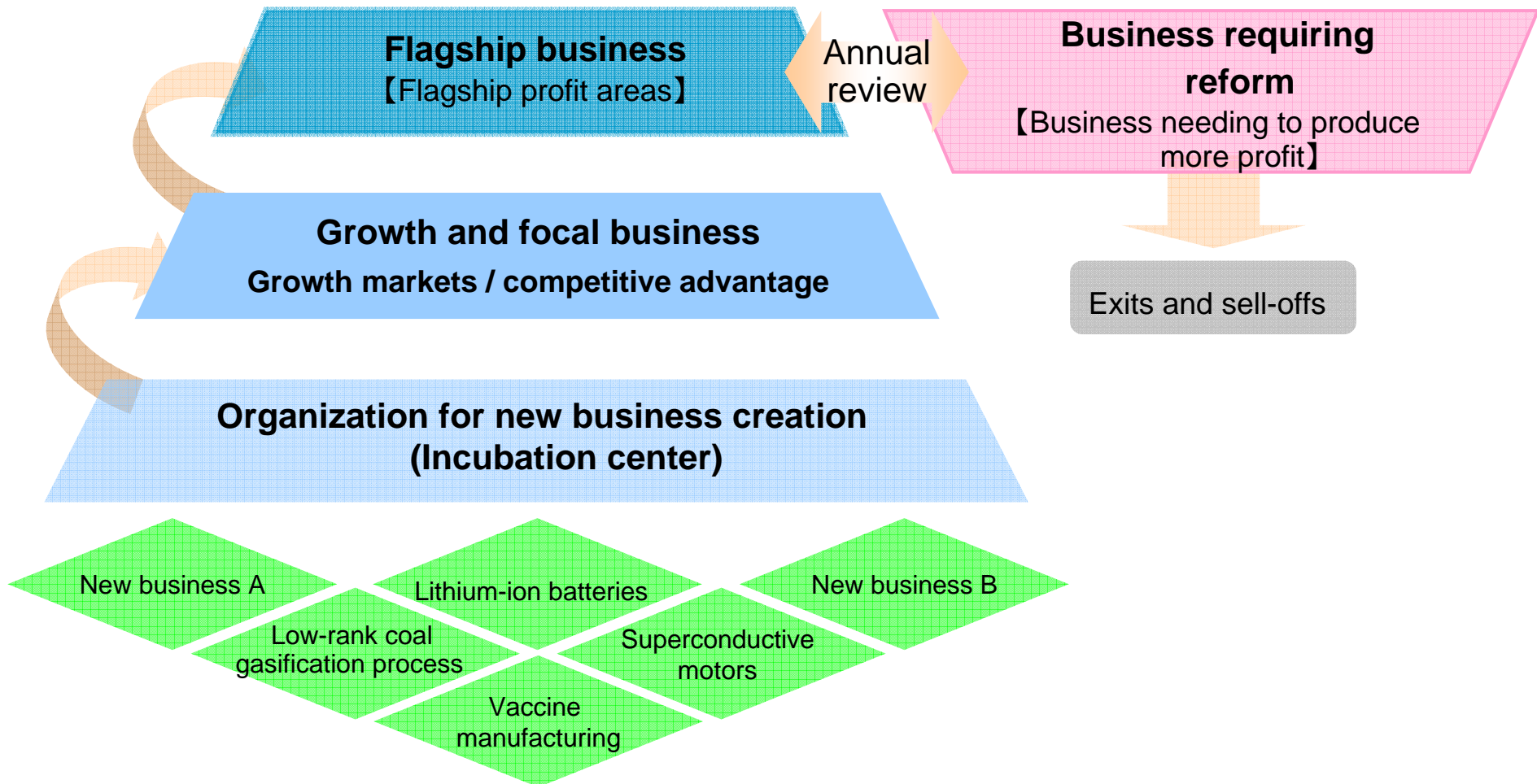
■ Space

- Develop small and medium-sized rockets and lock in our top domestic position in the propulsion field
 - Successful launch of H-IIB and HTV (IHI Group responsible for large-scale solid-rocket booster and satellite propulsion systems, etc.)
 - Currently participating in GX launch vehicle development and research on next-generation solid fuel rockets



(Photo credit: JAXA)

- Business categories: Existing business divided into three categories



- **Business categories and resource allocation**
 - **Flagship business:** In principle, re-investment by business
 - **Business requiring reform:** Resource injection decided on a case-by-case basis
 - Annual review of flagship businesses and businesses requiring reform from the perspective of:
 - Market conditions (growth potential, bargaining power, etc.)
 - Extent to which various measures have been implemented
 - Profitability (past, present and future)
 - Technological superiority
 - **Growth and focal business:** Priority resource injection by corporate divisions
 - **Organization for new business creation:** Establish within head office to strengthen and accelerate the creation of business which could become Growth and focal business in the future

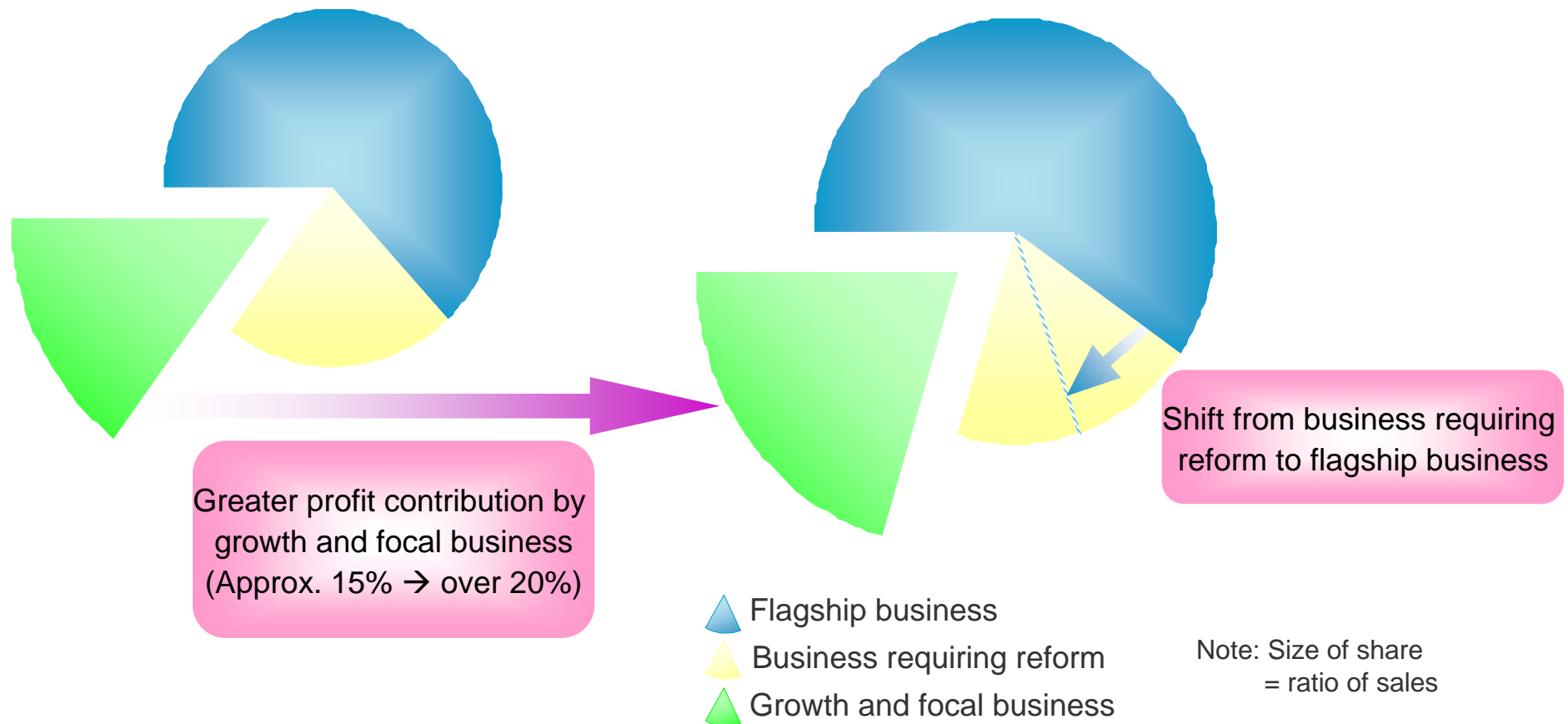
Profit impact of each business category

■ FY2009 forecast

- Sales 1,290 billion yen
- Ordinary income 13 billion yen

■ Targets for the period covered by *Group Management Policies 2010*

- Sales 1,400 billion yen
- Ordinary income 60 billion yen



Businesses in each category (as at November 2009)



Business Categories	5 Business Areas				
	Energy & Resources	Shipbuilding, Social Infrastructure & Security	Industrial Machinery & Systems	Rotating & Mass Production Machinery	Aero Engines & Space
Flagship Business 【Flagship profit areas】	<ul style="list-style-type: none"> • Boilers • Gas Turbines • Gas Engines 	<ul style="list-style-type: none"> • Steel Bridges • Gate Equipment for Rivers & Dams • Shield Tunneling Machine • Transportation Systems • Mechanical Parking Systems • Defense Equipment & Systems • Shipbuilding & Offshore • Urban Development 	<ul style="list-style-type: none"> • Deck Cranes • Industrial Furnace for Steel Manufacturing • Industrial Machinery (Calenders etc.) 	<ul style="list-style-type: none"> • Centrifuges • Gears etc. 	<ul style="list-style-type: none"> • Aero Engines
Business Requiring Reform 【More profit needed to be Flagship Business】	<ul style="list-style-type: none"> • Storage Plant 	<ul style="list-style-type: none"> • Prestressed Concrete Bridges • Self-driving-type Parking Systems • Chemical Process Plant 	<ul style="list-style-type: none"> • Physical Distribution Systems • Material Handling Equipment • Rolling Mills • Pulp & Paper Production Machinery • Construction Machinery 	<ul style="list-style-type: none"> • Turbochargers for Marine Use • Agricultural Machinery & Small Power Systems • Diesel Engines for Marine Use 	
Growth & Focal Business 【Priority resource injection】	<ul style="list-style-type: none"> • Equipment for Nuclear Power Plant • F-LNG 	<ul style="list-style-type: none"> • Pharmaceutical Plant 	<ul style="list-style-type: none"> • Heat Treatment & Surface Coating Equipment 	<ul style="list-style-type: none"> • Vehicle Turbochargers • Rotating Machinery 	<ul style="list-style-type: none"> • Rocket Systems

Explore the Engineering Edge
