

IHI

Realize your dreams



IHI REPORT

196th Fiscal Year

April 1, 2012 to March 31, 2013

160
Thanks 160th Anniversary

To Our Shareholders



The IHI Group will continue its evolution into a corporate group that realizes society's dreams through *monozukuri* technology by following the “three actuals” principle.

Tamotsu Saito

President and Chief Executive Officer

Q The year ended March 31, 2013 (FY2012) was the final year of Group Management Policies 2010. Please provide an overview.

A In the final fiscal year of Group Management Policies 2010, consolidated net sales amounted to ¥1,256 billion and consolidated ordinary income ¥36.2 billion. As the targets set under Group Management Policies 2010 were ¥1,400 billion and ¥60 billion, respectively, this means that we were unable to achieve either of these numerical targets. Orders received also posted a subdued level of ¥1,225.6 billion.

In contrast, we were able to achieve interest-bearing debt of less than ¥400 billion in each of the three fiscal years since the first fiscal year of the Medium-Term Management Plan, and have achieved operating profit in all business segments for four consecutive fiscal years.

The Group promoted to switch the gear to the “business model focusing on product

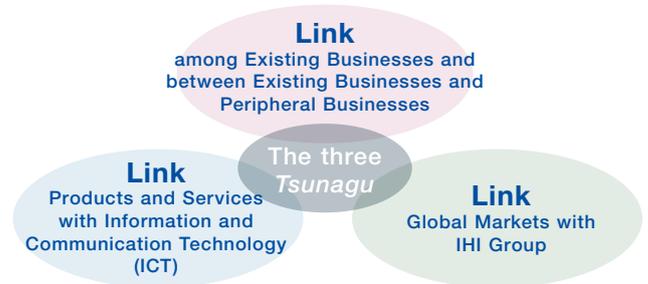
lifecycles” by establishing overseas maintenance bases for power generation gas turbines, heat-treating furnaces, and aero engines, and securing stable orders in the after-service field. The Group also developed the “product strategies in line with market needs” as we were able to conduct full-scale development of the Twin IHI Gasifier that can effectively utilize lignite, and participate in the development and production of the new PW1100G-JM engine that will power the Airbus A320neo. Furthermore, we were able to form a solid foundation for its “global business management approach” by establishing new regional headquarters in Shanghai and Singapore in addition to South America and the United States. Steady progress was made with the three paradigm shifts stated in the Group Management Policies 2010, enabling the Group to establish itself on a growth trajectory.

Q Group Management Policies 2013 has started this current fiscal year. What kind of initiatives will you be taking in this initial fiscal year?

A Realizing growth is the theme of Group Management Policies 2013. We have set numerical targets of ¥1,400 billion in consolidated sales and ¥70 billion in consolidated operating income for fiscal year 2015. To achieve these numerical targets, it is of overriding importance that we steadily win good quality orders. Therefore, for this initial fiscal year 2013, we have set a target of consolidated orders received of ¥1,400 billion.

For this, we will target priority businesses and models by region and steadily fulfill global demand, from emerging countries to other areas.

We will respond to customer needs by raising the value of the products themselves in businesses such as aero engines and vehicular turbochargers, and in other businesses such as boiler and gas processes, by offering them systems that combine products and services.



To increase the pace of these efforts, we established the Solution and Engineering Headquarters, the Intelligent Information Management Headquarters, and the Global Marketing Headquarters in April of this year. Centered on these new organizations, we will speedily implement the three *tsunagu* set out in Group Management Policies 2013.

Q In conclusion, would you like to say a few words to the shareholders?

A I am convinced that IHI's foundation lies in accumulated *monozukuri* technology that has been steadily improved on a daily basis and that is grounded in the "three actuals" principle: "going to the actual place," "seeing the actual things," and "knowing the actual situation," and quickly act on them. It is my wish that the IHI Group continue to evolve into a corporate group that creates customer value through its *monozukuri* capabilities and lives up to its "Realize your dreams" motto.

We would appreciate your continual support.

Financial Highlights (Consolidated)

(Billions of yen)

Items	FY2012 (Actual)	FY2013 (Forecast)
Orders received	1,225.6	1,400.0
Net sales	1,256.0	1,310.0
Operating income	42.1	48.0
Ordinary income	36.2	37.0
Net income	33.3	18.0

Year-end dividend

We have raised the year-end dividend to ¥5.0 per share.

2013

Group Management Policies 2013

Toward Realization of Growth

Our targets in “Group Management Policies 2013” are as follows:

Targets (achievements targeted for FY2015)

Consolidated Sales ¥1,400 billion

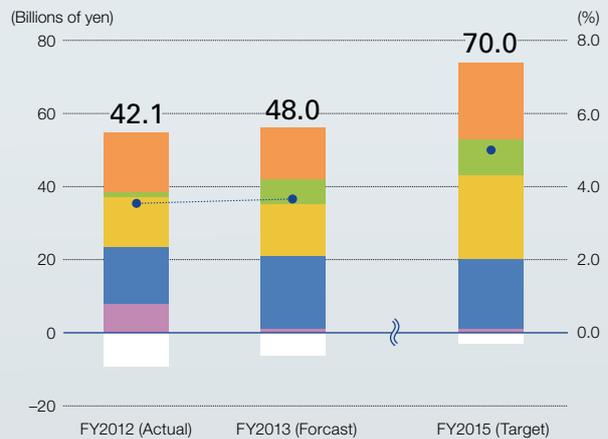
Consolidated Operating Income... ¥70 billion

■ Resources, Energy and Environment ■ Other
■ Social Infrastructure and Offshore Facilities ■ Adjustment Amount
■ Industrial Systems and General-Purpose Machinery ● Operating Margin
■ Aero Engine, Space and Defense

Net Sales



Operating Income (Left scale)/Operating Margin (Right scale)



Total Investment | ¥400 billion (FY2013–FY2015)

- Focus on investment for growth
Use approx. 70% of investment on growth/focus businesses and core businesses
- Over three years, ¥190 billion of investment in plant and equipment, ¥110 billion of R&D, ¥100 billion of investments and loans
- FY2013 plan: ¥67 billion of investment in plant and equipment, ¥37 billion of R&D
- Investments in each segment over three years are as follows:
 - Resources, Energy and Environment ¥90 billion
 - Social Infrastructure and Offshore Facilities ¥65 billion
 - Industrial Systems and General-Purpose Machinery ¥100 billion
 - Aero Engine, Space and Defense ¥120 billion
 - Head Office ¥25 billion

D/E Ratio | Less than 1.2 times (End of FY2015)

- Achieve the target by, in principle, keeping increase in interest-bearing debt to a minimum and covering investment resources with internal funding and by increasing owners' equity by creation of profit

* D/E ratio = Interest-bearing debt/Total net assets

ROIC | 6.5% (End of FY2015)

- Maintaining financial discipline by ensuring investment of ¥400 billion, aim to achieve operating income of ¥70 billion by implementing growth strategies

* ROIC (Return On Invested Capital) = (Operating income + Interest and dividend income) after tax / (Owners' equity + Interest-bearing debt)

Rearranged the previous seven segments into four reportable segments based on four business areas.

Development by Business

Energy & Resources	➔	Resources, Energy and Environment	<ul style="list-style-type: none"> ● Leveraging U.S. engineering subsidiary IHI E&C's strengths, steadfastly execute EPC business from Cove Point LNG facility in the United States ● Leveraging the world's largest coal combustion test facility located within Aoi Works, accelerate low-grade coal combustion tests and development of CO₂ capture and absorption technologies ● Expand biomass power generation business in North America 	 <p>Liquefied natural gas plant (image)</p>	
Ships and Offshore Facilities			Social Infrastructure and Offshore Facilities	<ul style="list-style-type: none"> ● Smooth execution of overseas projects (Turkey: bridge spanning Izmit Bay; Vietnam: Nhat Tan Bridge) ● Positive efforts on offshore facilities projects such as those in Brazil ● Strengthen efforts on offshore structures with a focus on SPB Tanks construction 	 <p>Bridge spanning Izmit Bay (image)</p>
Social Infrastructure				Industrial Systems and General-Purpose Machinery	<ul style="list-style-type: none"> ● Extend Thai production base of Vehicular Turbochargers, augment supply of key parts to China ● Through local Indonesian subsidiary established in October 2012, respond to burgeoning demand for materials handling equipment associated with market penetration by Japanese company plants
Logistics Systems & Industrial Machinery		Aero Engine, Space and Defense	<ul style="list-style-type: none"> ● Execute development of new engines, construct mass production systems ● Development of Epsilon rocket under way toward first launch in August 2013 ● Leverage small satellite technologies and propulsion technologies in the fields of space science and earth observation 		 <p>Epsilon Launch Vehicle ©JAXA</p>
Rotating Equipment & Mass-Production Machinery			Others		

New Business Development (Current Major Initiatives)

- ▶ Manufacture of influenza vaccine ingredients at UNIGEN Inc., the ingredient manufacturing company formed as a joint venture with UMN Pharma Inc.
- ▶ Aiming to manufacture and sell biofuel from algae

UNIGEN Gifu plant



TOPICS



Energy & Resources

Plant Constructed in Indonesia to Verify Twin IHI Gasifier (TIGAR®) Technology that Produces Hydrogen Gas from Lignite Heading toward Verification Operations

The Company constructed a Twin IHI Gasifier (TIGAR®) pilot plant in Indonesia that will produce hydrogen gas as a fertilizer ingredient from lignite, a low-grade coal that previously was almost never used. Preparations are under way toward verification operations from next year.

Found in several countries—in Germany and Australia as well as in Indonesia—lignite accounts for half of the world's total coal reserves. However, the usage of lignite has previously been limited as it contains a lot of moisture and is highly pyrophoric.

Enabling the gasification of lignite at relatively low temperatures and atmospheric pressures, the IHI-developed gasifier is supremely cost effective and has advantages in operation and maintainance.

Furthermore, as the Twin IHI Gasifier runs not only on lignite but also on biomass fuel that gives off zero CO₂ emissions, the system also contributes to lowering environmental impact.

The Company is verifying the plant's performance and reliability through verification operations with a



Exterior view of the pilot plant (3D CAD)

view to receiving orders for commercial plants in fiscal year 2015.



Ships and Offshore Facilities

Japan Marine United Inaugurated

Japan Marine United Corporation (“JMU”) was inaugurated in January 2013 through management integration of IHI Marine United Inc. (“IHI Marine United”) and Universal Shipbuilding Corporation (“Universal Shipbuilding”), an affiliate of JFE Holdings, Inc. (“JFE Holdings”).

The purposes of the integration of our management are to enhance our line of products, improve productivity by consolidating the types of ships by shipyard, and create synergies, including among others, accelerated new product development enabled by combining the two companies' capabilities in energy-saving and eco-friendly technologies and thereby, to endeavor to establish a solid business foundation and a highly competitive business platform. We believe that will lead us to continue our business operations and achieve further growth amidst intense competition.

IHI, as a shareholder of JMU, will support the initiatives of JMU and also improve the business performance of the Group by enhancing synergies with IHI's Power Systems businesses, etc. to live up to our shareholders' expectations.



Japan Marine United Corporation

TOPICS



Social Infrastructure

First IHI Group-Owned Factory Being Built in Vietnam

A new factory is being built for local IHI Group company IHI Infrastructure Asia Co., Ltd. (IIA) in the Dinh Vu Industrial Zone in Haiphong, Vietnam.

Having previously leased its factories, the new factory will be the first in Vietnam to be owned by the IHI Group. Beginning the fabrication of steel structures such as bridge girders in the first half of fiscal year 2014, IIA plans to successively complete the strengthening of its production capabilities of machinery and concrete products.

In recent years, advances have been made in infrastructure development in Southeast Asia, and demand is expected to rise. IIA fulfills the role of IHI's base in Vietnam for fabrication and the construction of steel structures, especially bridges. In addition to relocating IIA from inland to the coast, the company's production capabilities will be enhanced and thus able to fully respond to that rising demand.



General view of IIA factory signing ceremony



Logistics Systems & Industrial Machinery

Order Received from Steel Producer in Vietnam for World's Largest Continuous Unloader

IHI Transport Machinery Co., Ltd. (IUK) received an order for two continuous unloaders for handling ore and coal from Vietnamese steel producer Formosa Ha-Tinh Steel Corporation.

The unloaders are to be erected at Southeast Asia's largest integrated steelworks blast furnace, which Formosa Ha-Tinh Steel plans to fire up for the first time in 2015. Possessing world-class handling capabilities of 3,000 tons of iron ore or 2,100 tons of coal per hour, these continuous unloaders will be the first of their kind in Vietnam.

Drawing on engineering capabilities that are based on its accumulated experience and know-how, the IHI Group will propose solutions that best meet the wide-ranging needs of its customers across the world.



Continuous unloaders of the type ordered by Formosa Ha-Tinh Steel Corporation

TOPICS



Rotating Equipment & Mass-Production Machinery

New Vehicular Turbocharger Plant in Thailand Completed

IHI Turbo (Thailand) Co., Ltd. (ITT) has commenced operations at its new third factory, which was completed on the Amata Nakorn Industrial Estate in Thailand's Chonburi province.

As there is burgeoning demand for diesel-engine automobiles, and environmental controls are becoming stricter in Southeast Asia, an increase in demand for vehicular turbochargers is foreseen.

In Thailand, where Japanese automakers operate strategic bases geared toward the Southeast Asian market, ITT primarily manufactures and sells vehicular turbochargers for pickup trucks. Currently achieving an annual production rate of 1.2 million units, ITT holds more than an 80% share of the Thai market. The new factory produces key parts for vehicular turbochargers and fulfills the role of parts supplier for each IHI base not only in Thailand but also for bases such as in China.

Positioning ITT as an important core base for vehicular turbochargers, the IHI Group will enhance the building of its global production system in the years to come.



General view of ITT's third factory (Floor area: 10,000m²)



Aero Engine & Space

IHI's First Overseas Civil Aero Engine Repair and Overhaul Base Established

IHI reached an agreement with International Component Repair, LLC, a U.S. aircraft repair specialist, to establish U.S. joint venture IHI-ICR, LLC to undertake civil aero engine repair and overhaul work.

IHI-ICR will undertake the repair and overhaul of the fuel diverter and return valves that form a key component of the V2500 engines that power the Airbus A320 airliner. Previously, Mizuho Factory was the only repair base IHI had for civil aero engine components. By establishing IHI-ICR as the second base, we will aim to reduce costs and shortening delivery times for the repair of engine components on aircraft as we receive orders mainly from North, Central and South America and undertake the repair a base that is nearer to its customers.

Using IHI-ICR's establishment as a stepping stone, IHI will be active in developing its overseas civil aero engine maintenance business in the years to come.



At the ceremony to commemorate IHI-ICR's establishment



Others

Industrial Engine Developed to Meet New Emission Controls by Clean Combustion Awarded EPA Certification

In the field of diesel engines that are often installed in construction and agricultural machinery, IHI and IHI Shibaura Machinery Corporation (ISM) have developed an engine in which the post-treatment of exhaust gases is greatly simplified. Versatile and with no DPF*1, the engine is the first from a Japanese maker to be awarded certification in conformity with U.S. Environmental Protection Agency (EPA) Tier 4 emission controls*2.

Engines fitted with DPFs necessitate reclamation processes by which the soot trapped in the filter is periodically burned off. In response, leveraging the technologies it possesses in combustion, fluids, and structures, the IHI Group succeeded in developing a compact engine that has no DPF and high combustion ratio by making the combustion process inside the engine cleaner. This reduces the fuel consumption associated with the reclamation process, negates the need for periodic filter maintenance, and makes this engine more environment- and customer-friendly.

Having commenced sales that focus on construction and agricultural machinery, generators and compressors in Europe and the United States, where emission controls are in force ahead of other countries and regions, IHI and ISM project global sales of 50,000 units over the next three years.

Harnessing its technological capabilities, the IHI Group will endeavor to reduce environmental impact and work to preserve the world's environment in the years to come.



Diesel engine (left)
EPA certificate (right)

*1 Diesel particulate filter (DPF): Generally used to collect and remove the soot in an engine's exhaust gases.

*2 Tier 4 controls: Emission controls covering the harmful gases from engines introduced with a view to significantly decreasing environmental impact in the United States



Reconstruction Implementation Group at Tohoku Branch Established

Having a factory and its 1,700-strong workforce in Soma, Fukushima Prefecture, the IHI Group has been with the local community in the Tohoku region. The Group have provided infrastructure including bridges, water gates, and power generation facilities.

From the Great East Japan Earthquake of March 2011 onward, the IHI Group has been advancing a raft of measures toward recovery and reconstruction. In May 2012, the Group established a Reconstruction Implementation Group at its Tohoku branch office in Sendai, Miyagi Prefecture, as part of its corporate philosophy of "contributing to the development of society through technology."

Focusing its efforts on four themes—

(1) decontamination and the earthquake debris disposal; (2) development and maintenance of infrastructure facilities; (3) introduction of reusable energy; and (4) rebuilding of disaster-hit companies—the IHI Group have continued making proposals and offering activities to link the technologies it has amassed to recovery of the disaster-affected areas.

These efforts have already produced results in Soma, such as a large-scale solar power business (planned to start power sales in October 2013) and in IHI Infrastructure Systems Co., Ltd.'s building of a hybrid caisson for the baymouth breakwater at Kamaishi in Iwate Prefecture. The IHI Group's initiatives toward reconstruction will gain momentum in the coming years.

As a company that supports regions and maintains close links with society, the IHI Group will work on and contribute to the recovery from the Great East Japan Earthquake.



The hybrid caisson leaves dock en route for Kamaishi Bay.



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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