

Results for the Six Months Ended September 30, 2016 Management Review

November 1, 2016

IHI Corporation

Tsugio Mitsuoka, President and Chief Operating Officer

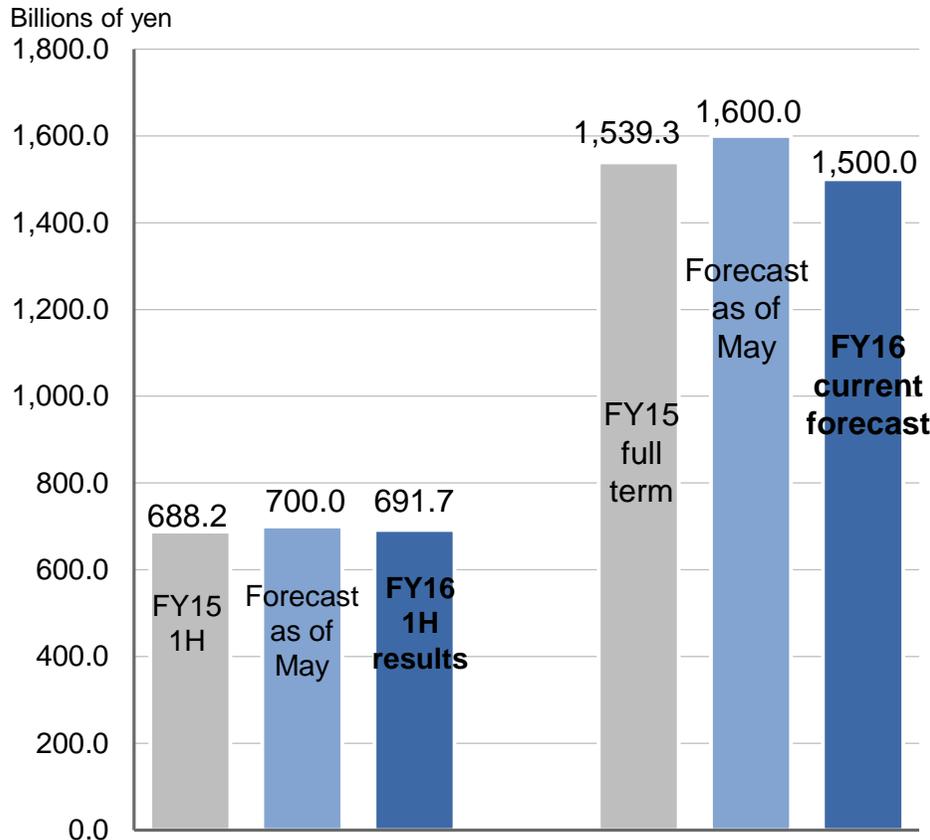
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Management Overview

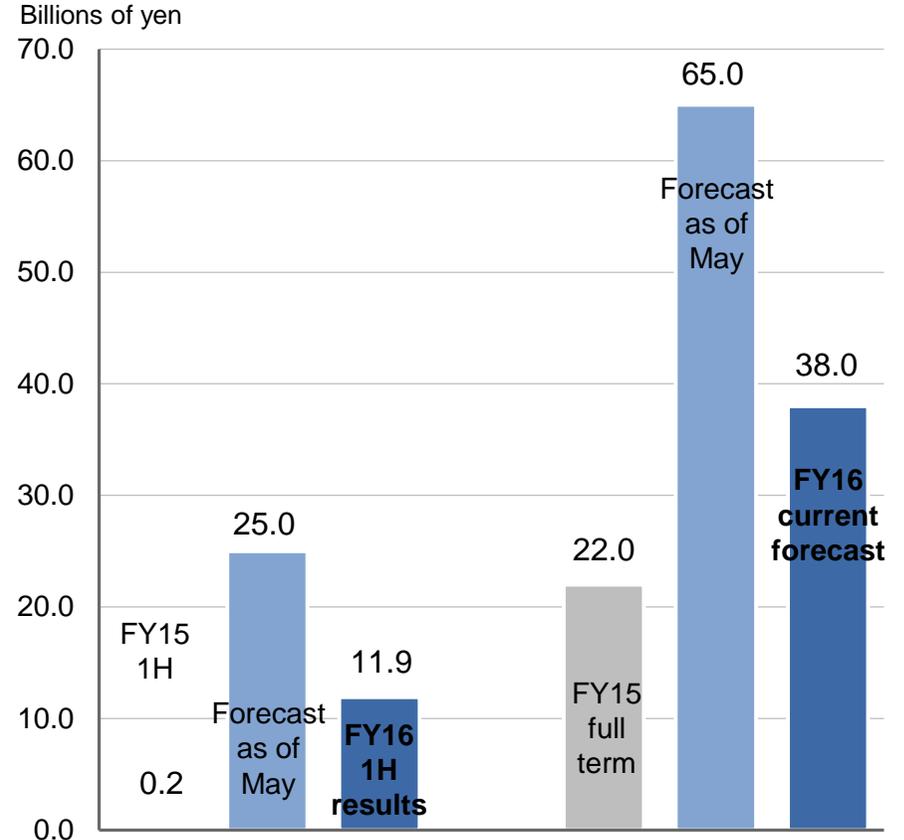
Review of Six Months Ended September 30, 2016 (1)

- Full-year earnings likely to be greatly below projections made in May
 - First half sales were slightly lower than projected in May, but operating income was significantly down
 - We changed our full-year forex assumption to ¥100/US\$ and revised downward our net sales and operating income forecasts

Net sales



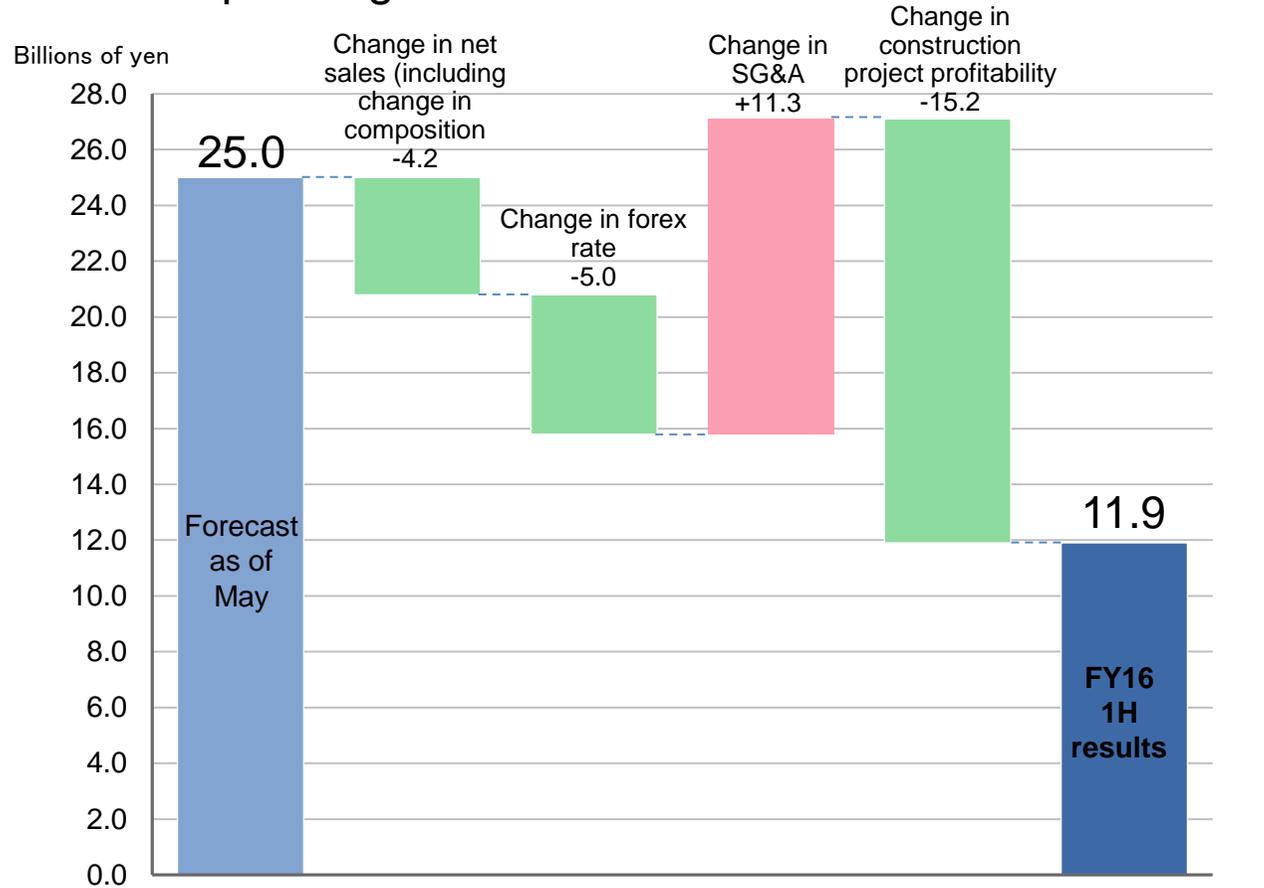
Operating income



* We revised our assumed exchange rate from ¥110/US\$ in May to ¥100/US\$

Review of Six Months Ended September 30, 2016 (2)

■ Factors in first half operating income fluctuations from forecast as of May



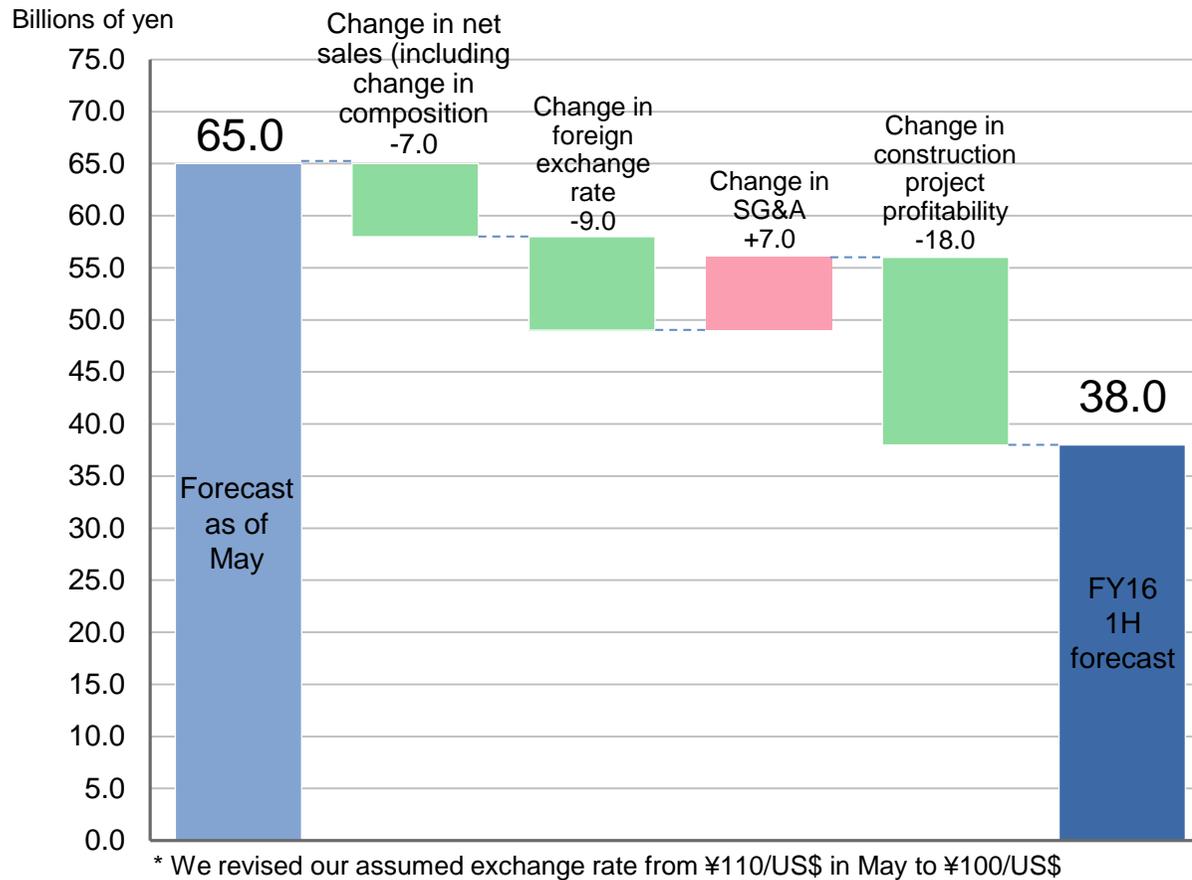
* Exchange rate assumption in May was ¥110/US\$; average rate in first half was ¥105.25/US\$

■ Results fluctuation factors

- Lower sales of power systems for land and marine use and deteriorating profitability of boilers
- Deteriorating profitability of F-LNG and offshore structures
- Improved commercial aero engine profitability
- Shift in period for booking research and development expenses

Forecasts for Fiscal 2017

■ Factors in full year operating income fluctuations from forecast as of May



■ Results fluctuation factors

- Deteriorating profitability of power systems for land and marine use and boilers
- Deteriorating profitability of F-LNG and offshore structures

(1) Drill ship construction for Singapore

- Installing electricals and equipment in ship after finishing hull assembly at Aichi Works dock
- Electrical cable installation work entered customer inspection phase after progressing from July, and customer issues with the quality of electrical engineering work increased, necessitating significantly higher additional costs and leading to rescheduling of delivery to March 2017.

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

- Currently proceeding with outfitting and electrical work on vessel in shipyard quay in Singapore.
- Revisions to yard plan drawings finished in September this year. Reviewing engineering in final confirmation phase. recalibrated future work volumes with shipyard and pushed back projected delivery by two months to July 2017, resulting in significantly higher costs.

(3) Construction of SPB tanks for domestic LNG carriers

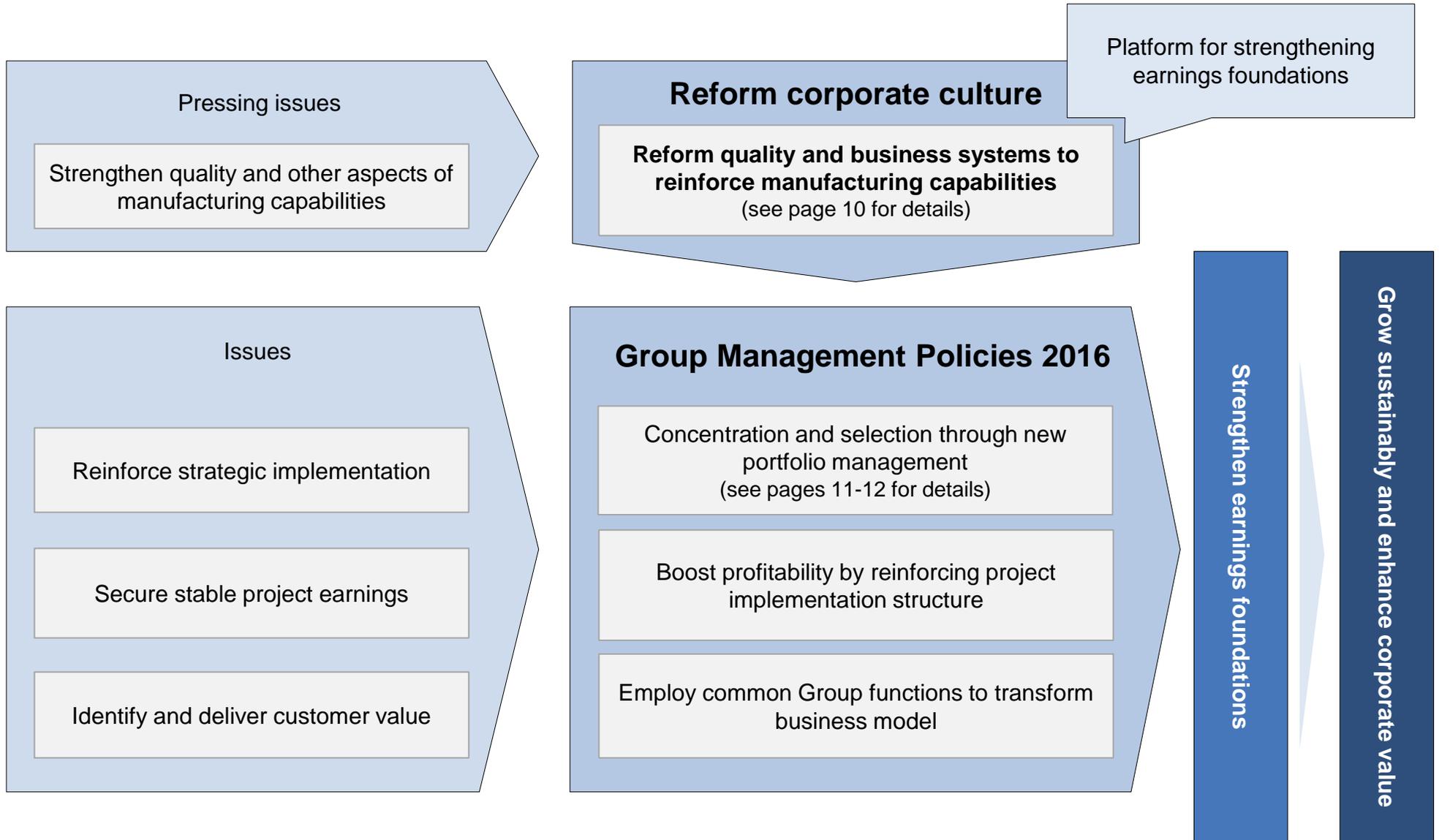
- Of 16 tanks for four ships, two fitted for first vessel in August and October this year. To complete delivery for that vessel by fitting remaining two tanks for it.
- Process more difficult than envisaged; frequent backtracking made planned work efficiency levels impossible. It became clear that no proficiencies had resulted from continuous tank production. With work falling significantly behind, measures to regain lost ground became necessary. We reviewed future work volumes in view of results, with estimated costs soaring. We now expect to hand over the fourth and final ship in December 2017.

Outlook for F-LNG and offshore facilities business

- We are leveraging the Group's comprehensive strengths to complete the above three projects
- We have stopped accepting new orders for F-LNG and offshore facilities. Management looked into transforming business structure to focus on aluminum SPB tanks and are also exploring the need for drastic countermeasures in light of prospects for the offshore market, and aim to reach a decision by end of this fiscal year

Progress with Group Management Policies 2016

Overview of Group Management Policies 2016



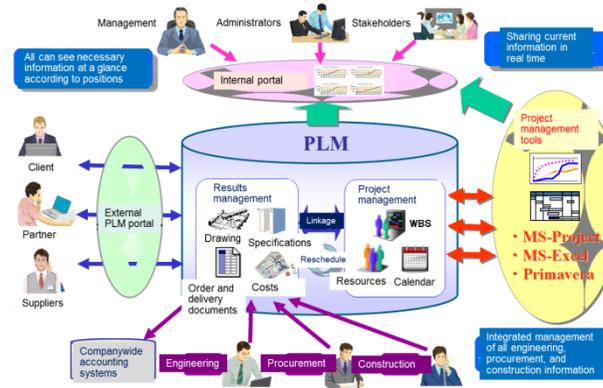
Reforming Quality and Business Systems to Reinforce Manufacturing Capabilities

Rebuilding quality assurance systems

- Completed companywide rollout of identified important quality issues prevention to tackle defects
- Accelerated efforts to formulate medium-term initiatives for quality assurance systems

Reformed engineering processes, including for design and production systems

- Formulated systems reform proposals for four key SBUs
- Continue to plan rollouts for businesses offering profit expansion
- Leverage AI to analyze design flaws



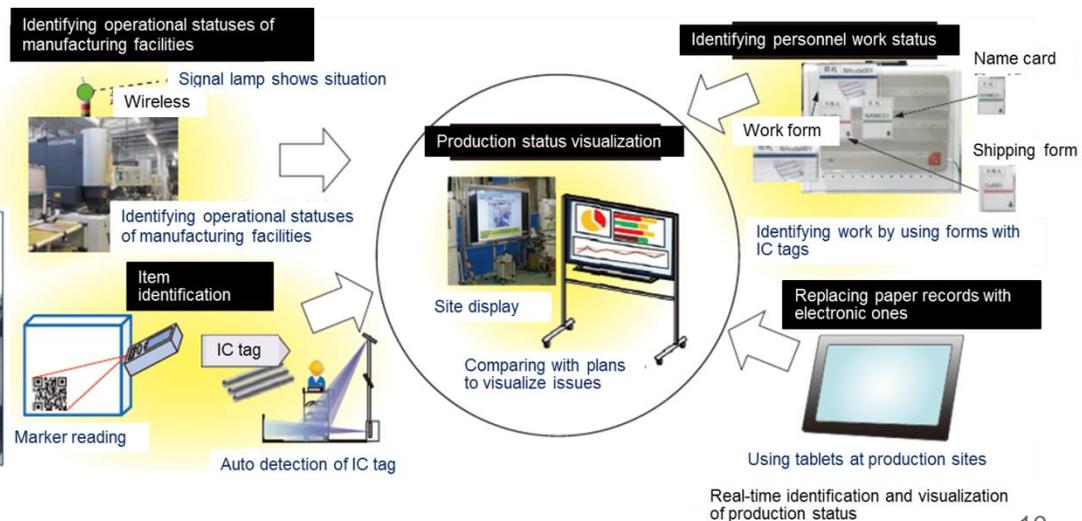
Example of system reform proposal: Process Plant SBU Expanded application of IHI Project Management System (IPMS)

Comprehensive management system for plant and construction work centered on product life-cycle management

Streamlining through business process reforms

- Harnessing ICT for plants and construction sites

Aiming to help increase customer satisfaction, lower environmental impact, and boost productivity



Concentration and Selection through New Portfolio Management (1)

Accelerate concentration and selection

- For businesses with viability concerns (SBUs designated for rehabilitation and reorganization), corporate also involved in formulating structural reform plans, currently being executed to rehabilitate and reorganize within two years
- We are accelerating rehabilitation and reorganization plans without waiting for the end-fiscal 2017 deadline set under Group Management Policies 2016

Rehabilitation and reorganization progress



Concentration and Selection through New Portfolio Management (2)

- Integrating with shield tunneling machinery operations of Mitsubishi Heavy Industries Mechatronics Systems, Ltd., to form JIM Technology Corporation (a consolidated subsidiary of IHI)

We look to swiftly materialize integration synergies and accommodate domestic demand while accelerating business deployments overseas to make the new company an international market leader

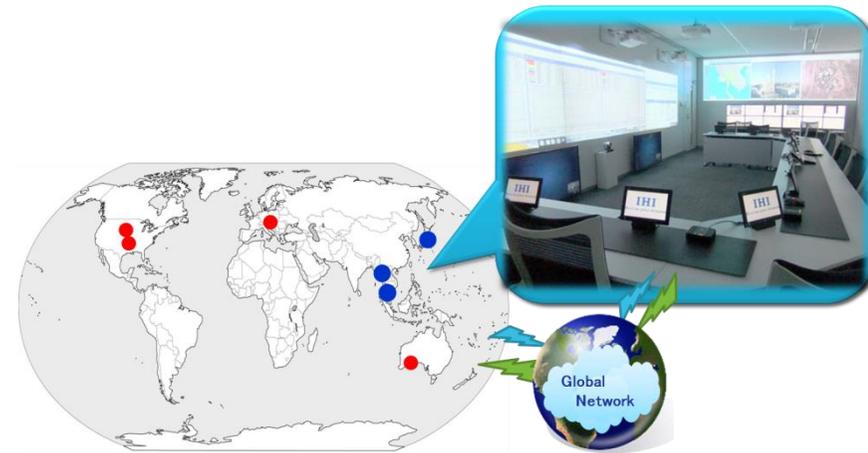
- We concluded an agreement to transfer all of the shares of IHI Construction Machinery Limited to Kato Works Co., Ltd. That subsidiary manufactures and sells mini shovels, cranes, crawler carriers, and other equipment
- We are divesting our stake in Castrip LLC, which operates a strip caster* business, and transferring our patents and other rights as part of a withdrawal from this business

* Strip caster: A technology for manufacturing carbon steel plate with a thickness of less than 2mm from molten steel through cooling rolling. We excluded that business from the transfer of our mill business in 2013, engaging in it as the IHI Group



Efforts to reinforce earnings foundations

- Order for ultra super-critical coal-fired power boilers for Indonesia
 - Rolling out Japan's leading-edge technology in the Asian market
 - Securing orders in Indonesia as well as Malaysia
- Deploying remote monitoring for power stations
 - Established after-service unit in Malaysia
 - Added remote monitoring capability at after service unit, reinforcing life cycle business
- From power plant EPC business through power plant life cycle business
 - Participation in Nanatsujima Biomass Power



Remote monitoring for power stations



Planned site of Nanatsujima Biomass Power station

Efforts to reinforce earnings foundations

Focusing on bridge building business

- Undertaking major upgrade and repair work in Japan and abroad
 - Tackling many work constraints in applying new techniques based on a wealth of experience
 - Proposing dehumidification systems with condition monitoring capabilities, seismic reinforcement, and other solutions that help prolong service lives
- Overseas infrastructure export business initiatives
 - Leveraging track record with Izmit Bay Crossing Bridge in Turkey in exploring participation in build-own-transfer business



Rainbow Bridge repair work



Repair work on 1st Bosphorus Bridge

Efforts to reinforce earnings foundations

- Turbocharger business
 - From local production and consumption approach to cultivating global network
 - Reorganize roles of each business site and streamline investment and resources use
- Compressor business
 - Establishing production and sales unit in Turkey and fully penetrating European and Middle Eastern markets
- Proposing maintenance services that employ ILIPS
 - Linking operations monitoring data and service personnel knowhow to optimize maintenance services



Business sites of worldwide for vehicular turbocharger business



General-purpose turbo compressor

* ILIPS is the acronym for IHI group Lifecycle Partner System. We developed the system to create advanced and comprehensive Group products and services. We currently operate more than 450 units with remote monitoring systems.

Efforts to reinforce earnings foundations

- GE9X program (engine exclusively for Boeing 777X)
 - Lifting share from the approximately 9% level of the GE90 program to 10.5%
 - Looking to swiftly apply our proprietary composite materials and innovative manufacturing techniques for mass production
- Soma Works
 - Constructing no. 5 processing building to accommodate increased production of composites parts for the Airbus A320 neo's PW1100G-JM engine



GE9X engine



No. 5 Soma processing building

Group Management Policies 2016 Targets

- We aim to attain our business targets under Group Management Policies 2016 and are executing business structure reforms to reinforce our profit foundations

Management targets

Benchmarks	Targets (Fiscal 2018)
Operating margin	7%
ROIC*	10%
Debt-to-equity ratio	0.7x or less

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

IHI

Realize your dreams

Forward-looking figures shown in this material with respect to IHI's performance outlooks and other matters are based on management's assumptions and beliefs in light of the information currently available to it, and therefore contain risks and uncertainties. Consequently, you should not place undue reliance on these performance outlooks in making judgments. IHI cautions you that actual results could differ materially from those discussed in these performance outlooks due to a number of important factors. These important factors include political environments in areas in which IHI operates, general economic conditions, and the yen exchange rate including its rate against the US dollar.