

Group Management Policies 2016— Strengthening Our Earnings Foundations

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IHI Corporation

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Review of Group Management Policies 2013

Review of Group Management Policies 2013

	Policy Targets	Fiscal 2015 Results	Progress
Net sales	¥1,400.0 billion	¥1,539.3 billion	<ul style="list-style-type: none"> ■ Reached target ⇒ Generated global growth, with overseas operations accounting for more than 50% of net sales
Operating income	¥70.0 billion	¥22.0 billion	<ul style="list-style-type: none"> ■ Operating income and ROIC were well below target Key factors <ul style="list-style-type: none"> • Deteriorating profitability of offshore facilities business • Additional costs with some boiler work • Costs for repairing noncompliant boiler welding • Expenses for processes to overcome schedule delays following collapse of Izmit Bay Crossing Bridge catwalk
Total Investments (over three years)	¥400.0 billion	¥327.5 billion	
Debt-to-equity ratio	Less than 1.2x	1.12x	
ROIC	6.5%	2.3%	
Dividends	Swiftly restore to ¥6 per share	¥3 per share planned	<ul style="list-style-type: none"> ■ Dividends per share ¥6 in fiscal 2013 and 2014, ¥3 planned for fiscal 2015

The Three Tsunagu	Progress
Solutions	<ul style="list-style-type: none"> ■ Feasibility studies, front end engineering design, and finance for projects ■ Arranging specific projects (including for biomass power business in Kagoshima and concrete production joint venture in Myanmar)
Advanced information management	<ul style="list-style-type: none"> ■ Expanding use of common platform for control systems and remote maintenance ■ Preventive safety based on failure prediction diagnostics for key facilities
Global	<ul style="list-style-type: none"> ■ Set up marketing model in four important countries (to generate 50% of sales overseas) ■ Create and maintain global human resources network ■ Strengthen shared services and auditing for regional headquarters

Progress in Repairing Noncompliant Boiler Welds

Indonesian subsidiary PT Cilegon Fabricators has made the following progress in repairing noncompliant boiler welds since IHI reported on the matter in the third quarter of fiscal 2015.

(1) Progress with noncompliant boiler weld repairs and impact on results

- Completed repairs on two of four relevant boiler projects, with repairs of the remaining two being scheduled for completion by the second half of 2017
- Changes to repair expenses posted for the third quarter of fiscal 2015 will be minimal
- No changes to costs resulting from contracted completion delays

(2) Progress in implementing measures to prevent a recurrence of noncompliant welding

Cilegon Fabricators plant

- Improved qualifications management and educational programs for welders and welding supervisors
- Set up independent quality assurance department to reinforce quality auditing structure

IHI Group

- Confirmed that there were no similar nonconformities in key welding processes
- Employed information technology and other tools to create a framework that prevents human error

(1) Drill ship construction for Singapore

- Shifted from dock to quay in late-April. Work now focused on fitting electrical machinery. Are test-running and adjusting large machinery

(2) FPSO unit construction for Norway

- Made progress with block construction at Aichi Works and at yards in Japan and abroad. Transporting unit to Singapore yard from end of May to start hull integration and fitting and electrical work
- Carefully assessing impact of engineering delays on procurement and construction and calculating additional costs. Have secured customer agreement on revising delivery schedule

(3) SPB tank construction for LNG ships

- Progressing well with construction on first and second ships. Tank installation on first ship to start in June

F-LNG and Offshore Structure Business (2)

(4) Reinforced efforts to prevent deteriorating profitability

(i) Proper personnel placements

- Commissioned supervisors to oversee construction work that will start in June at a yard in Singapore for an FPSO unit for Norway
- At Aichi facility, focusing on SPB tank construction

(ii) Ongoing company-wide corporate support

Continuing and reinforcing wide-ranging support initiated in July last year, including for Group companies

Project	Overview		
	Order date	Completion rate on cost basis (see note)	Completion rate on process basis
Drill ship project for Singapore	December 2013	86%	88%
FPSO shipbuilding project for Norway	May 2014	39%	60% (including outsourcing)
Four SPB tanks for four domestic LNG carriers each	March 2014 (1 st ship) March 2015 (4 th ship)	75% (1 st ship) 31% (2 nd ship) 0% (3 rd & 4 th ships)	55% (1 st ship) 10% (2 nd ship) 0% (3 rd and 4 th ships)

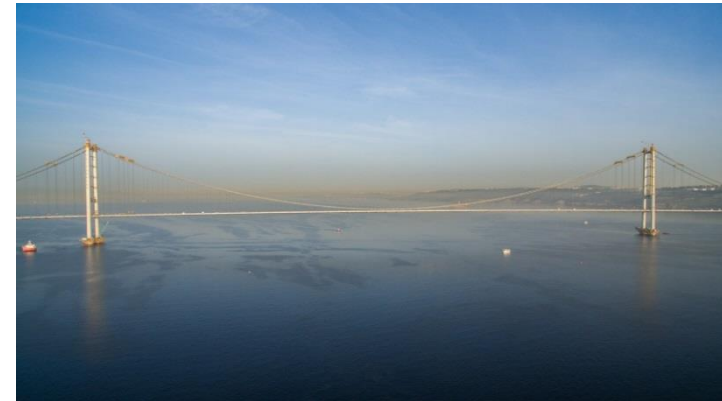
Note: Completion rate as of end-March 2016 based on percentage of completion accounting method

Construction of Izmit Bay Crossing Bridge

(1) Developments to date and construction situation

- On March 21, 2015, a tension rod linking a catwalk to the south main tower broke, with the catwalk falling into the sea
- Completed catwalk restoration work on August 16, 2015
- Main cable strand installation completed on December 5, 2015
- Final girder block erected on April 19, 2016
- Turkish President Recep Tayyip Erdogan attended the ceremony to place the last section of the bridge on April 21, 2016
- Preparations under way to open bridge to traffic in June/July 2016

An ceremony was held after the final girder block was erected



(2) Impact on results

- In the third quarter of fiscal 2015, booked an extraordinary loss to cover costs owing to delivery delays
- In the fourth quarter, posted additional costs expenses to reflect impact of equipment costs and catch-up expenses from process delays

Group Management Policies 2016: Efforts to Materialize Goal of Strengthening Earnings Foundations

2014
to
2015

Large losses

New risk management issues

Functional issues

- Insufficient resources for operations
- Poor reach of business strategies

New risk factors

- Inadequate organizational use of experts
- Insufficient monitoring with respect to new fields and initial equipment factors

2016

Reform quality and
business systems to
reinforce
manufacturing
capabilities

Concentration and
selection through
new portfolio
management

Boost profitability by
reinforcing project
implementation
structure

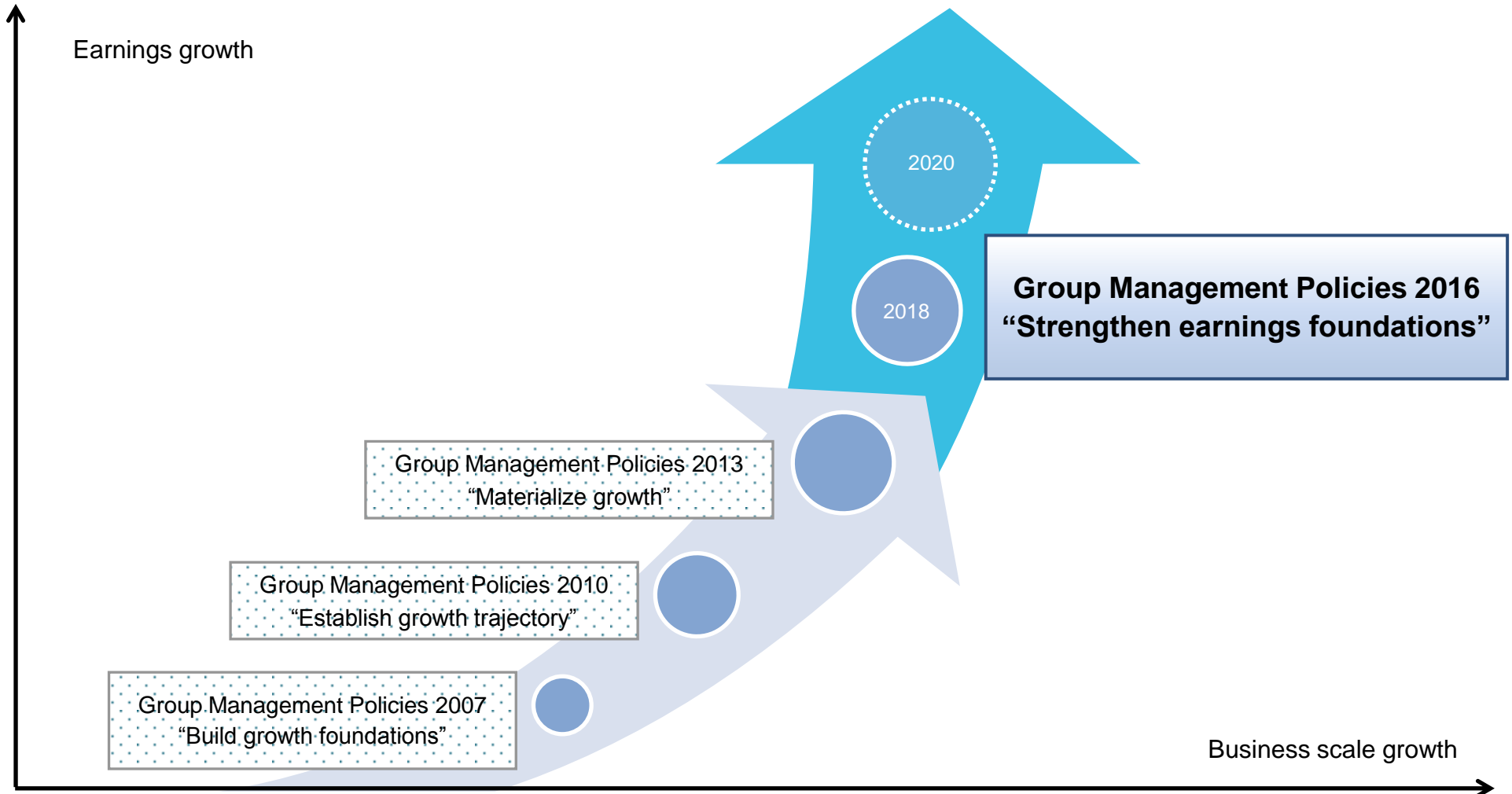
Steadily deploy Group Management Policies 2016

Group Management Policies 2016

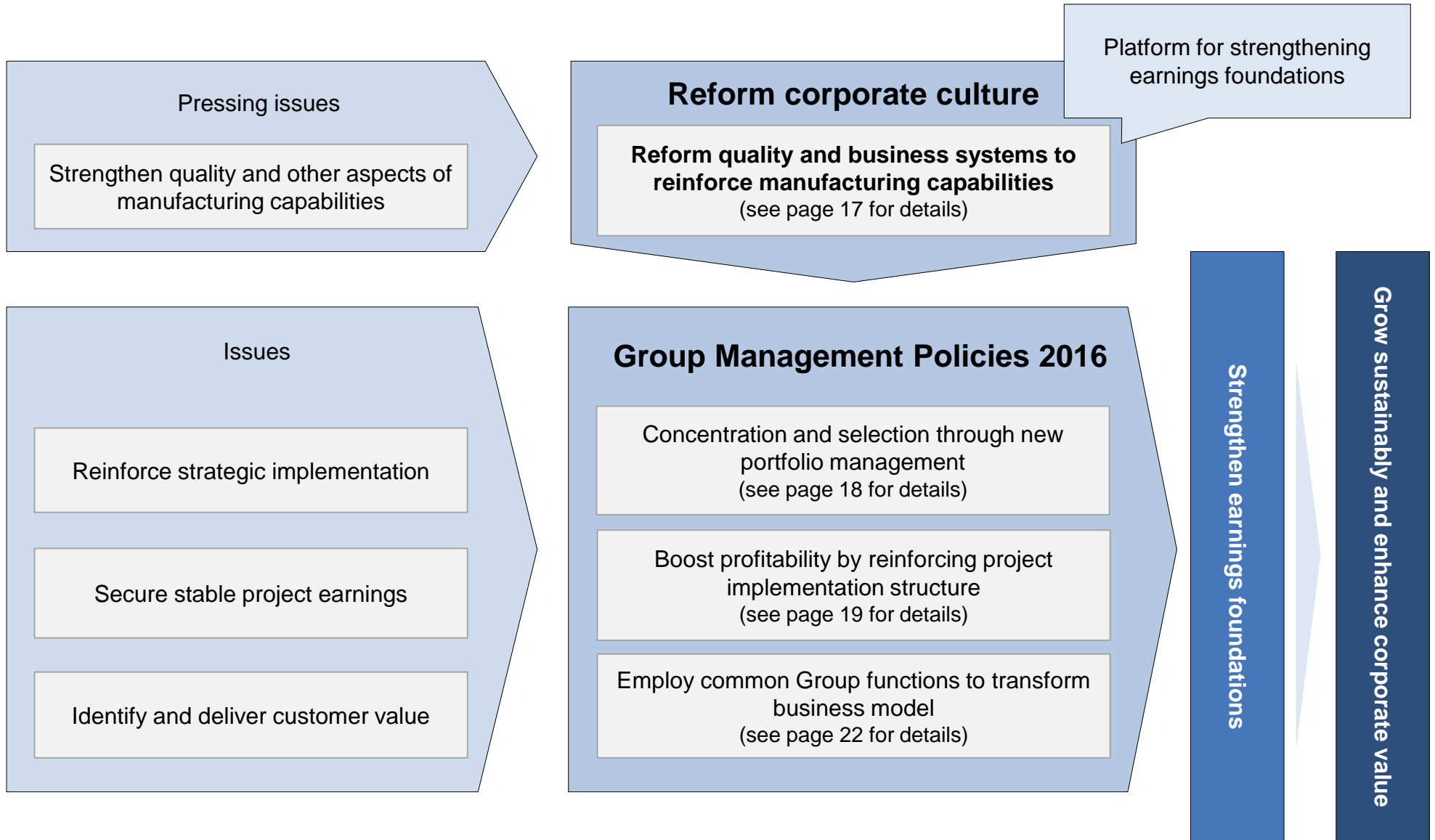
Positioning of Group Management Policies 2016

<IHI Group Vision>

The IHI Group seeks to solve the various environmental, industrial, social, and energy related problems of the 21st century through using engineering expertise to focus on “Monozukuri” technology. In striving towards these goals, IHI is becoming a global enterprise offering the safety and security for the benefit of both the environment and humanity.



Overview of Group Management Policies 2016



Management targets

Benchmarks	Targets (Fiscal 2018)	Attainment targets (Fiscal 2020)
Operating margin	7%	8%
ROIC*	10%	
Debt-to-equity ratio	0.7x or less	
Exchange rate assumptions	¥115/\$	¥115/\$

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

Capital efficiency

- By reaching our management targets and strengthening our earnings foundations, we will consistently maintain a return on equity 10% or more.

Management Targets (2)

Segment Outlook

Billions of yen

	Operating Income (Margin)			Pre-Tax ROIC*			Reference: Net Sales		
	FY2015 (Actual)	FY2016 (Outlook)	FY2018 (Target)	FY2015 (Actual)	FY2016 (Outlook)	FY2018 (Target)	FY2015 (Actual)	FY2016 (Outlook)	FY2018 (Outlook)
Resources, Energy and Environment	-2.2 (-0.5%)	16.0 (3.0%)	38.0 (6.8%)	-1.8%	12.8%	27.0%	452.4	530.0	560.0
Social Infrastructure and Offshore Facilities	-48.9 (-29.1%)	3.0 (1.9%)	12.0 (7.5%)	-27.6%	1.6%	6.5%	168.1	160.0	160.0
Industrial Systems and General-Purpose Machinery	12.6 (3.1%)	15.0 (3.4%)	29.0 (5.9%)	6.3%	6.9%	13.0%	404.7	440.0	490.0
Aero Engine, Space and Defense	58.4 (11.7%)	36.0 (7.8%)	44.0 (9.6%)	17.5%	10.6%	14.5%	500.2	460.0	460.0
Others	2.1	3.0	4.0	-	-	-	69.8	70.0	80.0
Adjustment	0	-8.0	-8.0	-	-	-	-56.0	-60.0	-50.0
Total	22.0 (1.4%)	65.0 (4.1%)	119.0 (7.0%)	2.3%	6.5%	10.0%	1,539.3	1,600.0	1,700.0

Exchange rate ¥118.27/\$ ¥110/\$ ¥115/\$ ¥118.27/\$ ¥110/\$ ¥115/\$ ¥118.27/\$ ¥110/\$ ¥115/\$

* ROIC by business area figures are pre-tax numbers used in portfolio management (weighted average ROICs by strategic business unit)

Pre-tax ROIC = Pre-tax operating income ÷ invested capital (working capital + fixed assets)

Companywide ROIC is post-tax

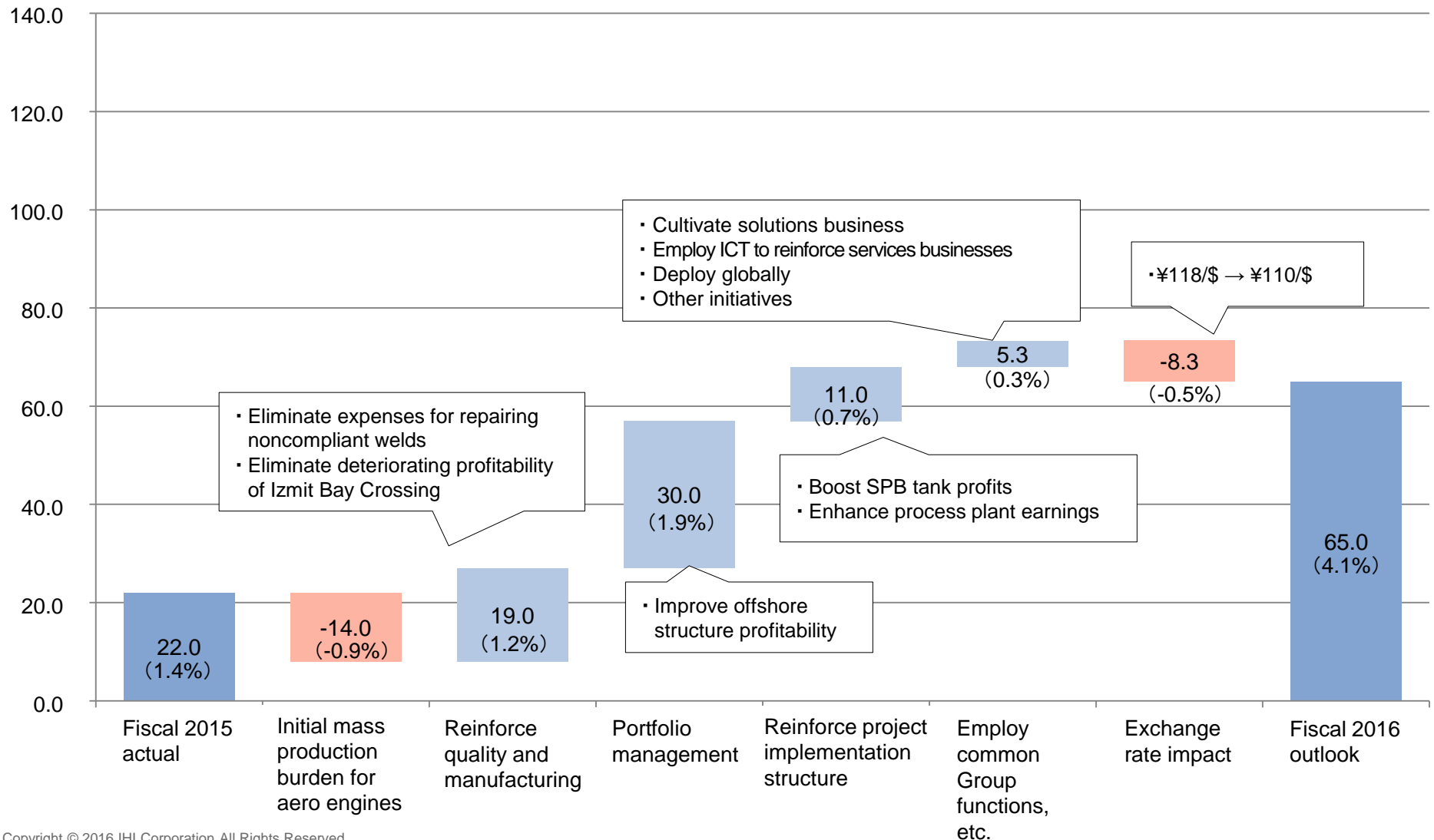
Post-tax ROIC = (Post-tax operating income + Interest income and dividends) ÷ (shareholders' equity + interest-bearing debt)

Management Targets (3)

Scenario for materializing fiscal 2016 operating income forecast

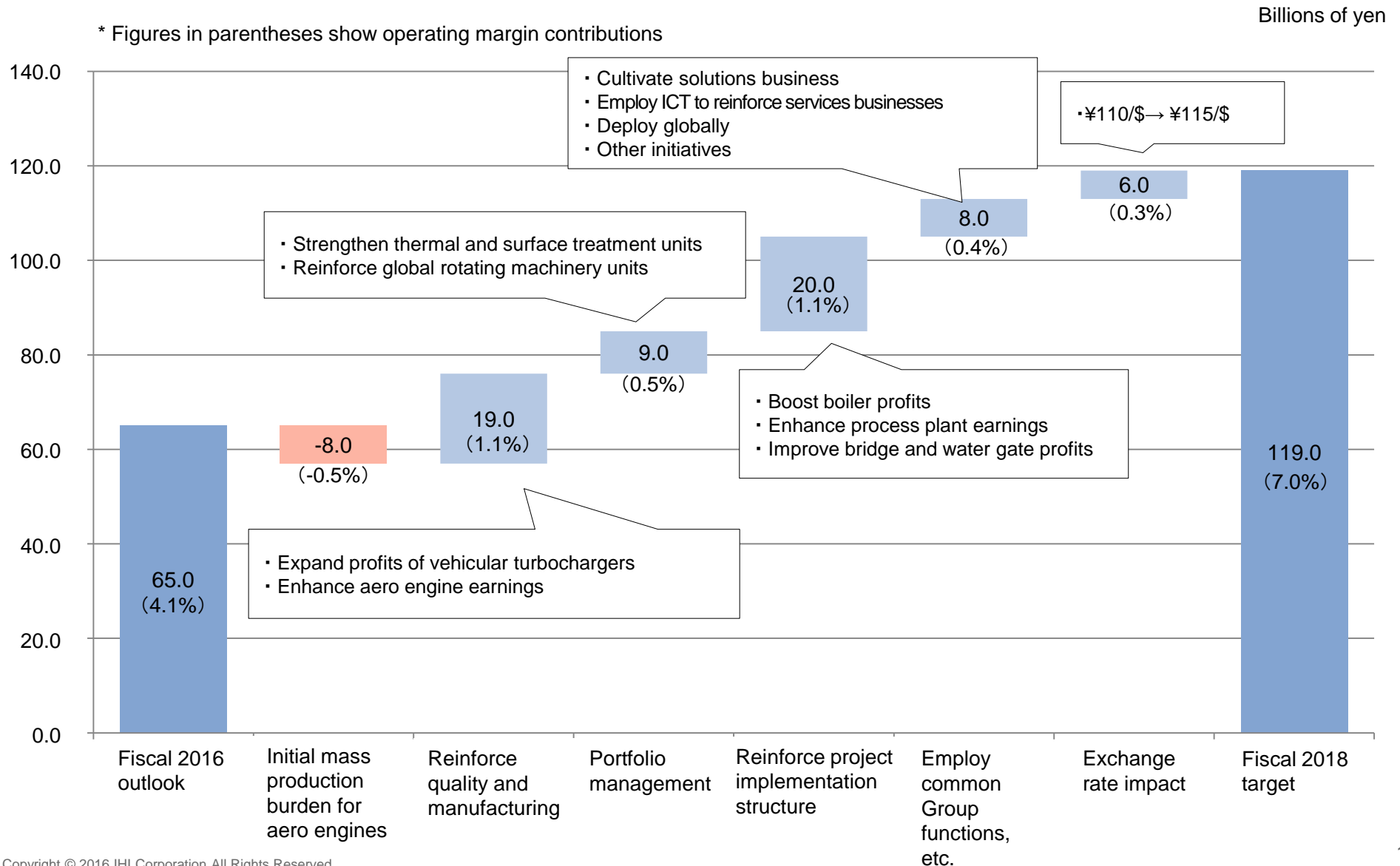
Billions of yen

* Figures in parentheses show operating margin contributions



Management Targets (4)

Scenario for reaching operating income targets beyond fiscal 2016



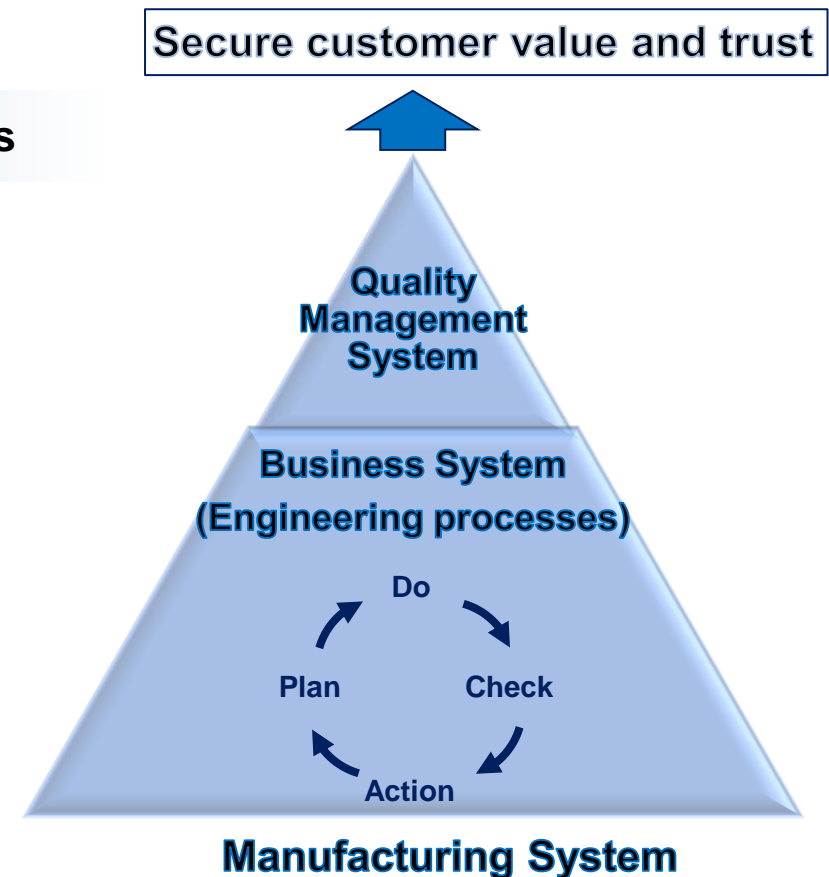
Reform Quality and Business Systems to Reinforce Manufacturing Capabilities

Priority policies

- Rebuild quality assurance systems
- Reform engineering processes, including for design and production systems
- Drive efficiencies through business process improvements

Set up manufacturing strategies headquarters



- Establish this organization to build stable earnings foundations by reinforcing manufacturing capabilities, including in terms of quality



Concentration and Selection through New Portfolio Management Approaches

■ Reinforce business strategy implementation

- Reorganize strategic business units (SBU) so it is easier to formulate business strategies (reduce from 36 units to 27)
- Craft plans and accelerate PDCA cycles to fulfill business strategies and quantitative targets

	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense
 SBU seeking to expand earnings	<ul style="list-style-type: none"> • <u>Power systems for land and marine use*</u> • <u>Boilers*</u> • Environmental response systems • Process plants • Asian unit engineering, and construction work 	<ul style="list-style-type: none"> • <u>Bridges and water gates*</u> • Transport systems • Urban Development 	<ul style="list-style-type: none"> • <u>Vehicular turbochargers*</u> 	<ul style="list-style-type: none"> • <u>Aero Engines*</u> • <u>Rocket systems / Space exploration*</u> • Defense equipment systems
 SBU needing to improve earnings	<ul style="list-style-type: none"> • <u>Power system plants*</u> • Pharmaceuticals plants • Large engines • Nuclear power plants 	<ul style="list-style-type: none"> • Floating LNG units • Shield tunneling machines • Concrete building materials 	<ul style="list-style-type: none"> • <u>Rotating machinery*</u> • <u>Parking systems*</u> • <u>Thermal and surface treatment*</u> • Materials handling equipment • Logistics and industrial systems • Agricultural machinery and small power systems • Construction machinery • Marine machinery 	

■ Priority investment designation (for asterisked strategic business units)

- Designated based on market attractiveness, business position, competitive edge, and business risks
- Of SBUs needing to improve earnings, those designated because investments could enable them to capitalize on growth potential (SBUs asterisked in lower half of table)

■ Rehabilitation/reorganization designation

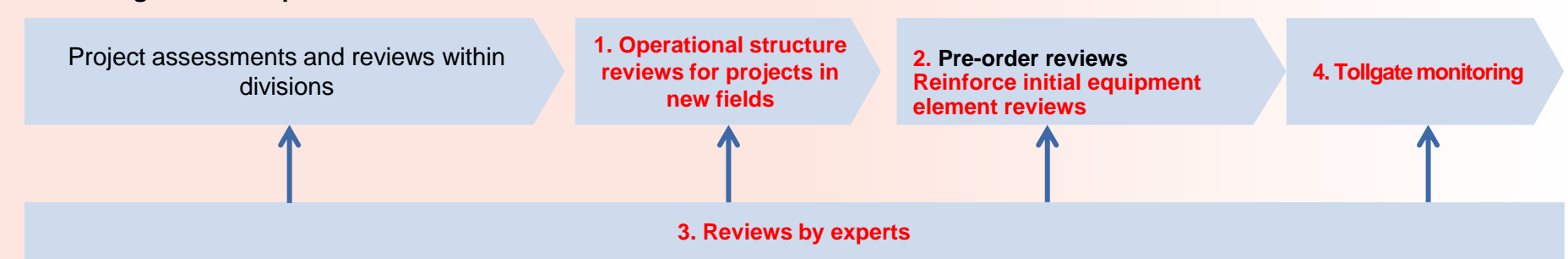
- SBUs designated thus amid concerns about prospective business viability in terms of market attractiveness, assets, or other aspects
- Formulating restructuring plans with corporate input, rebuilding within two years (by end-fiscal 2017)

Reinforcing Project Implementation Structure

Reinforcing the review process

	Old approach	Enhancements
1	Reviewing operational structures for projects in new fields <ul style="list-style-type: none"> Reviewing initial equipment factors and risk countermeasures in pre-order assessments 	<ul style="list-style-type: none"> Review technological requirements, resources, and contract terms during project evaluation stages
2	Identifying initial equipment factors and risks <ul style="list-style-type: none"> Reviewing initial equipment factors and risks that divisions have explored 	<ul style="list-style-type: none"> Deploy companywide risk identification process that draws on lessons from experiences throughout organization (bolster processes for identifying initial equipment factors) Set up upon- and post-order milestones and reinforce tollgate management
3	Review structure <ul style="list-style-type: none"> Divisional and corporate reviews 	<ul style="list-style-type: none"> Appoint qualified personnel to assess and review technologies, contract terms, and other areas Reflect in-house and external knowledge and experience in impartial project assessments and reviews
4	Monitoring structure <ul style="list-style-type: none"> Project management office auditing costs and project progress 	<ul style="list-style-type: none"> Monitor traffic through tollgates Respond quickly when risks could arise

Reinforcing the review process



Note: Areas in red to be improved

Group Management Policies 2016: Development by Business

Resources, Energy and Environment

– Boilers, power system plants, and power systems for land and marine use



- Reinforce ability to deliver diverse infrastructure solutions
 - Expand and enhance energy resource usage technologies
 - Strengthen system supply capabilities for diversifying power source needs (decentralization and stabilization)
 - Create and swiftly commercialize advanced technologies to lower environmental impact
 - Enhance value of life cycle service technologies harnessing ICT

Industrial Systems and General-Purpose Machinery

– Vehicular turbochargers, thermal and surface treatment, rotating machinery, and parking



- Expand global network centered on automotive industry
- Increase value in life cycle business
- Create advanced products and services harnessing ICT and robotics

Social Infrastructure and Offshore Facilities

– Bridges/water gates

- Measures to upgrade and strengthen infrastructure and prevent disasters
 - Build a market position by supplying solutions
 - Expand into Southeast Asian and emerging markets
 - Contribute to security field
- Marine resources and energy development efforts
 - Operate business centered on aluminum SPB tanks



Aero Engine, Space and Defense

– Aero engines and rocket systems/space utilization systems

- Enhance technological and manufacturing capabilities and expand life cycle businesses
- Expand rocket propulsion systems business and cultivate space usage field
- Develop new businesses that leverage technological and manufacturing capabilities



Employing Common Group Functions to Transform the Business Model

Solutions

- Cultivate life cycle businesses through operation and maintenance businesses
- Create business schemes that incorporate finance
- Set up various solutions businesses



Planned site of Kagoshima biomass power plant

Advanced information management

- 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



ILIPS
(IHI group Lifecycle Partner System)

Global businesses

- Reinforce handling of projects targeted at five priority nations and neighboring countries
- Localize businesses so they have powerful presences where they operate (accordingly, bolster maintenance infrastructures and review supply chains)
- Build strategic partnerships



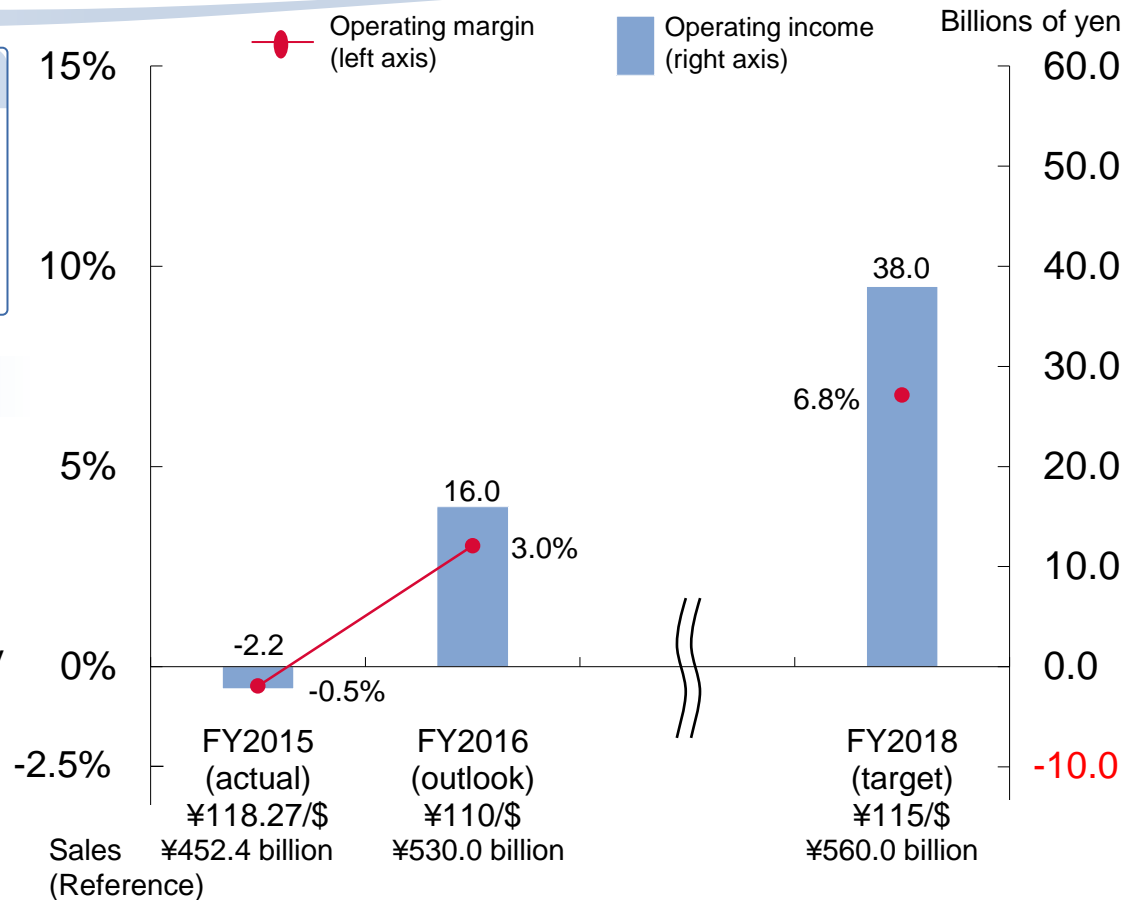
Established a joint venture company to manufacture concrete products in Myanmar

Market trends

- In Japan, rising medium-term demand for coal-fired power, dispersal of power sources from electricity liberalization, and growing cogeneration market
- In emerging nations, new power source markets and more defined dispersed power sources

Efforts to reinforce earnings foundations

- Reinforcing project implementation structure to secure targeted profit margins (see page 19)
- Boosting added value and profitability with lignite boilers offering high steam condition and efficiency
- Procuring overseas as part of cost-cutting efforts
- Leveraging information and communication technologies to reinforce systems provision and enhancing lifecycle service value to increase profitability



Large, high-efficiency coal-fired power plant

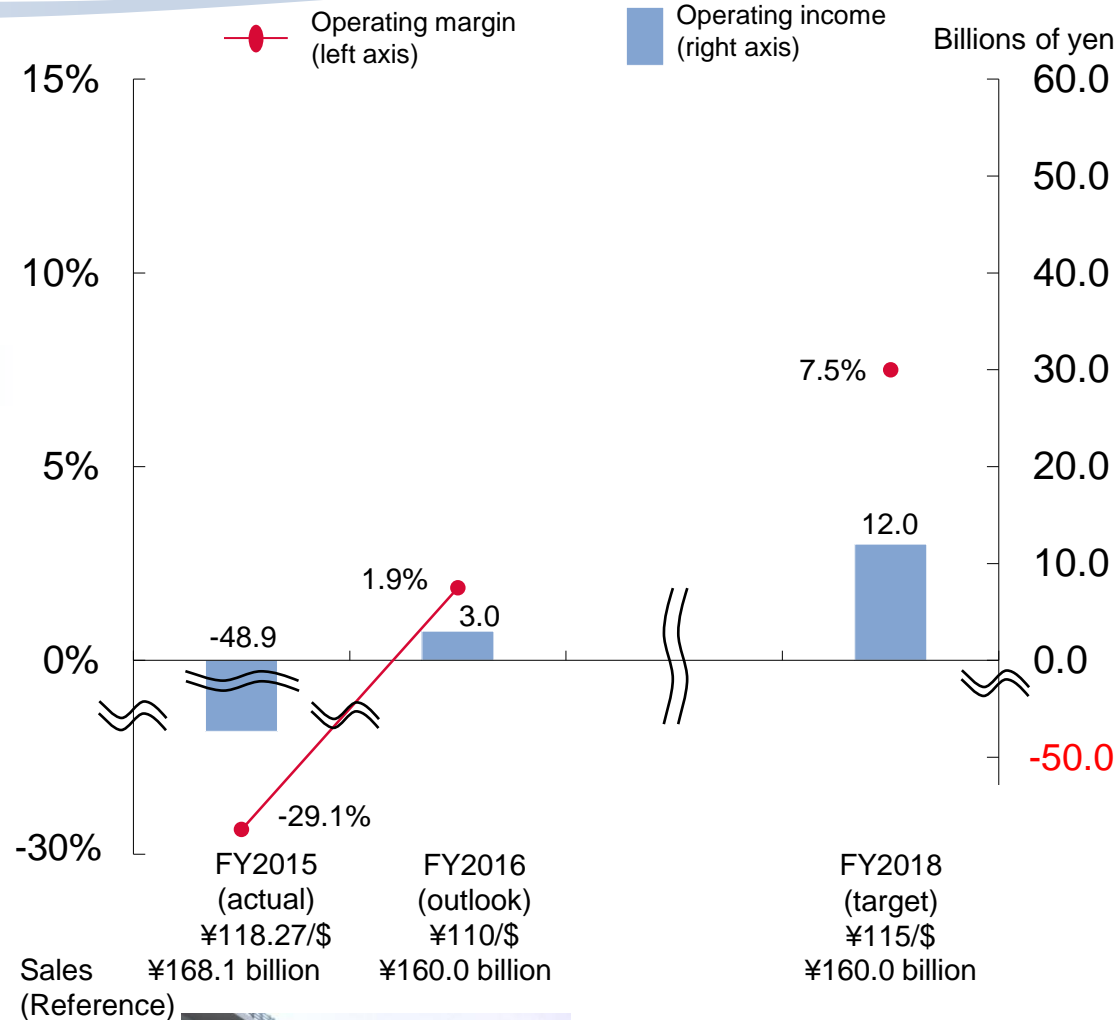
Social Infrastructure and Offshore Facilities

Market trends

- In Japan, market expanding for upgrade and repair work
- Overseas market growing owing to such factors as overseas development aid projects, particularly in Southeast Asia

Efforts to reinforce earnings foundations

- Boosting profitability by pursuing major bridge upgrade and repair projects in Japan while offering highly competitive solutions overseas for new bridge construction
- Steadily lowering SPB tank costs to establish a business structure that boosts earnings
- Generate stable profits and cash flows through real estate business in Toyosu and Sunamachi in Tokyo



Artist image of second Meghna bridge under construction in Bangladesh

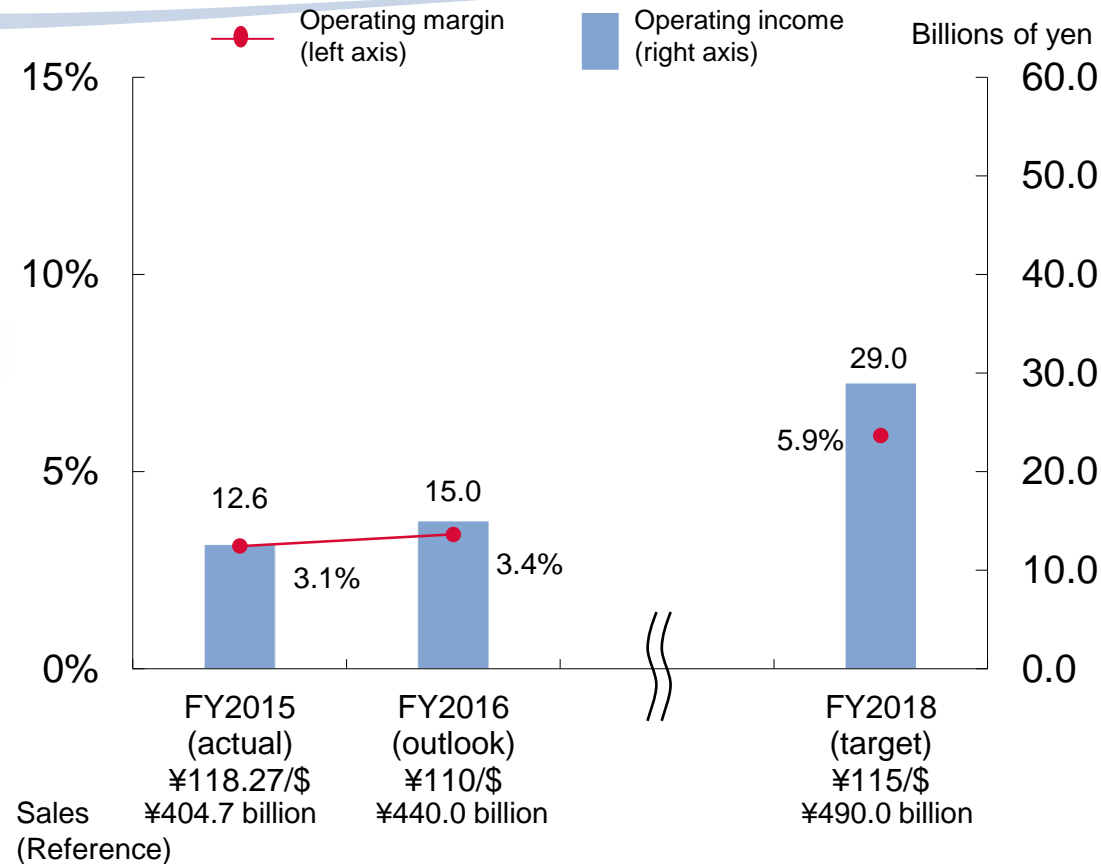
Industrial Systems and General-Purpose Machinery

Market trends

- Vehicular turbocharger market expanding because of more stringent environmental requirements and downsizing progress
- Growing demand for industrial machinery, including for thermal and surface treatment in automotive field

Efforts to reinforce earnings foundations

- Improving profitability through groupwide capability reforms in vehicular turbochargers
- In rotating machinery, expanding global alliances and overhauling business structure to lower costs and enhance profitability
- Employing a global network for thermal and surface treatment equipment and contract operations to accommodate customer needs and increase profitability
- Leveraging ICT to create more sophisticated products and services and expanding life cycle businesses to boost profitability



Vehicular turbocharger

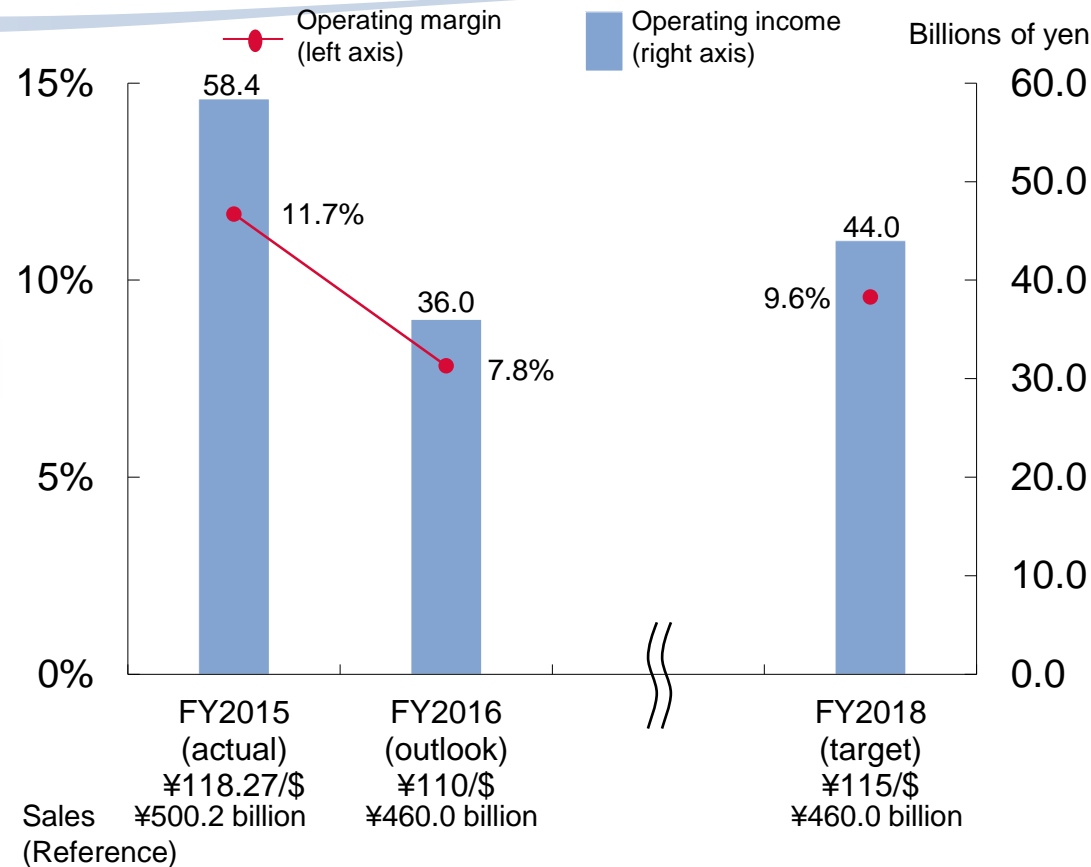
Aero Engine, Space and Defense

Market trends

- Solid commercial aero engine demand
- Replacement demand for engines reducing environmental impact and offering outstanding economy
- Expanding space usage field

Efforts to reinforce earnings foundations

- Solidly launching mass production for new PW1100G-JM engine and progressing with plans for GE9X engine development
- Cultivating proprietary manufacturing technologies, including in new materials and advanced production technologies
- Expanding our rocket propulsion and space usage businesses
- Cultivating new businesses drawing on our technological and manufacturing capabilities



PW1100G-JM engine mounted on A320neo that was commercialized

IHI

Realize your dreams

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