

Results for the Six Months Ended September 30, 2018

Management Review



November 1, 2018

IHI Corporation

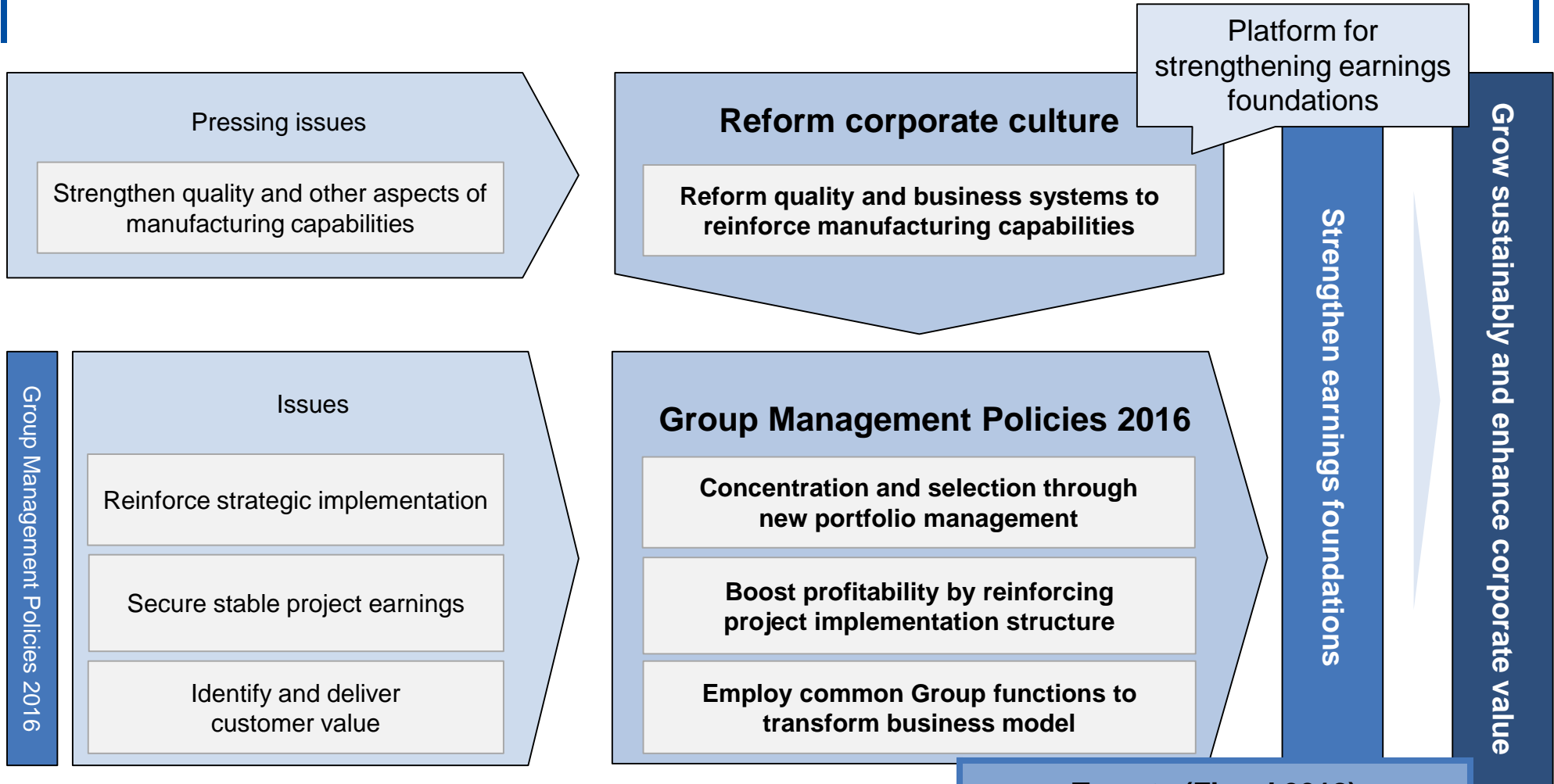
Tsugio Mitsuoka, President and Chief Executive Officer

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Progress with Group Management Policies 2016





Group Management Policies 2016

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

Group Management Policies 2016: Strengthen earnings foundations	Results and Issues
<p>Boost profitability by reinforcing project implementation structure</p>	<p>Results:</p> <ul style="list-style-type: none"> - Built a screening process to ensure the selection of good quality orders - Swiftly identifies and tackled project implementation risks - Resolved downswings in current large projects <p>Issues:</p> <ul style="list-style-type: none"> - Identifying and addressing risks at early stages - Reinforcing global and local procurement capabilities - Strengthening project process management
<p>Employ common Group functions to transform business model</p>	<p>Results:</p> <ul style="list-style-type: none"> - Harnessed IoT and deployed new business models (encompassing Soma Smart Community and Nanatsu-jima Biomass Power Plant, etc.) <p>Issues:</p> <ul style="list-style-type: none"> - Proposing solutions that create additional customer value - Shifting away from focus on equipment supply business
<p>Concentration and selection through new portfolio management</p>	<p>Results:</p> <ul style="list-style-type: none"> - Concentrated human resources on priority and highly profitable businesses <p>Issues:</p> <ul style="list-style-type: none"> - Accelerating business structure reforms to address major changes in the business climate

■ Reinforcing governance of affiliates

North American process plant project

- Were unable to recover from schedule delays, and plan to hand over No. 1 train and balance of plant (ancillary) facilities in fourth quarter of this fiscal year. Although costs have increased owing to schedule delays, are endeavoring to reduce losses by lowering expenses and seeking reimbursements from customers and vendors.
- Overall plant handover scheduled for 2019.
- Assessing position of IHI E&C International Corp based on business downsizing.

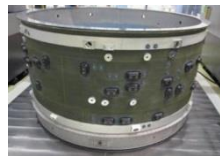
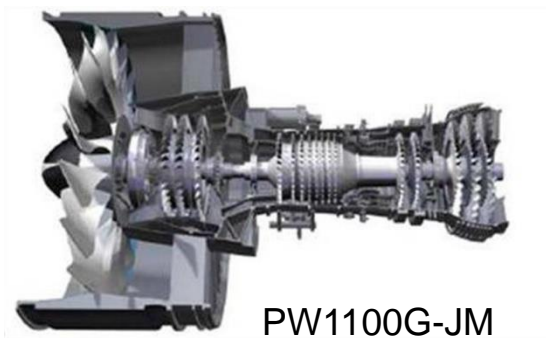
Japan Marine United Corporation

- Handed over first vessel in LNG carrier project on October 7.
- Remained profitable in second quarter on fixed cost reductions, proper order acceptance, and other earnings enhancement efforts, as well as from the yen's depreciation.
- Endeavoring to rebuild robust earnings foundations by reforming business structure, notably by reviewing business site management structure and further improving cost competitiveness.

■ Aero Engine, Space and Defense (Aero-Engine Business)

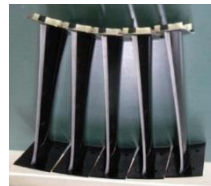
Transforming business model to align with changes in the operating environment and restore profitability

- **Accelerating capacity increase ahead of schedule to accommodate increased PW1100G-JM engine production**
 - Bolstering personnel and capital expenditure to handle higher unit volume
- **Focusing on cost reductions to structurally lighten PW1100G-JM (composites and adhesives)**



Composite fan case

Structural guide vane incorporating composites (SGV)



Fan blades with adhesive structure



New PW1100G-JM technologies

- Lightness from composites and adhesives structure
 - Contributing to lower fuel consumption and noise
 - Covering most parts we handle
- Expanded impact of costs on business earnings
 - Swiftly reducing costs

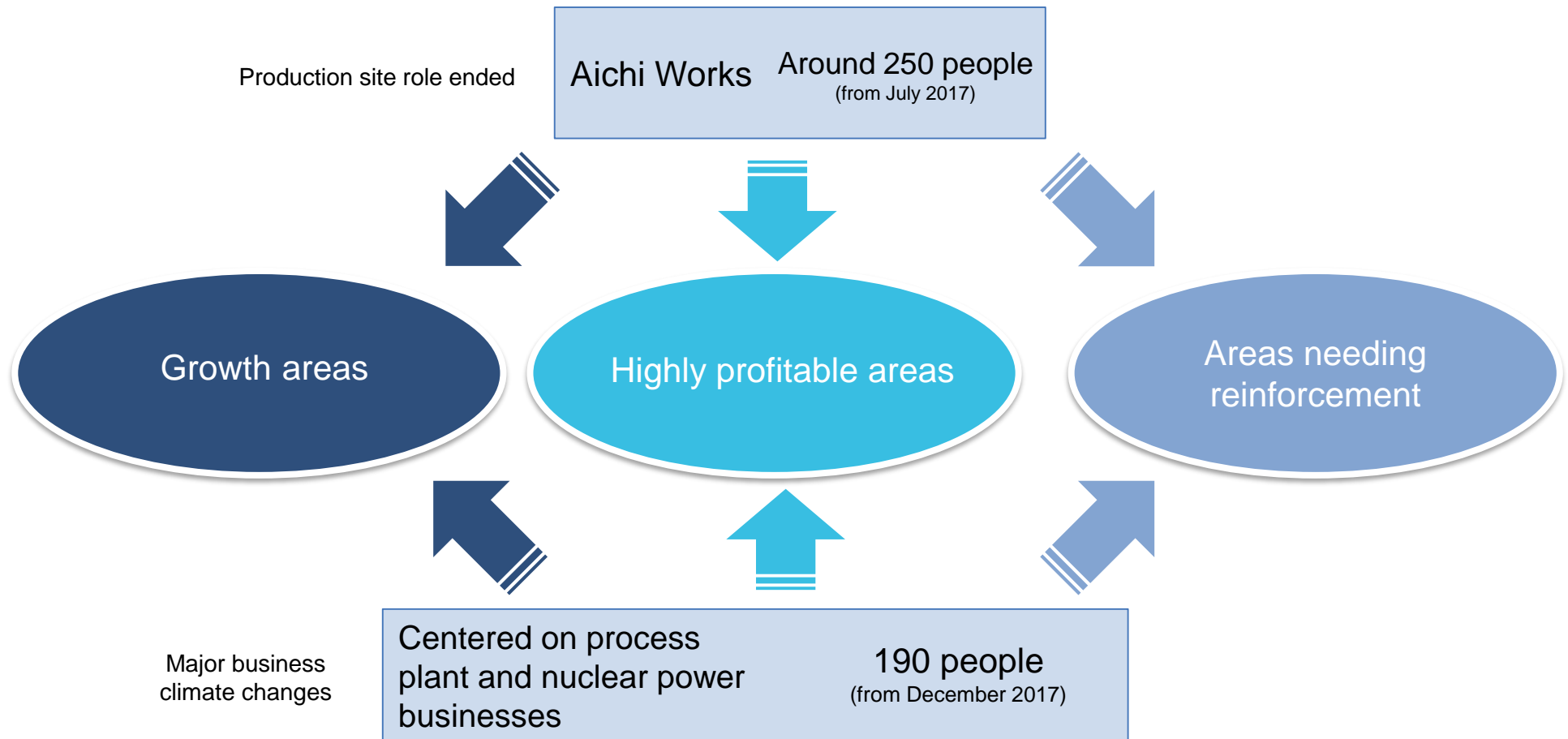
● **Enhance earnings base in engine maintenance business**

- Planning to set up new plant in Tsurugashima, Saitama Prefecture, in 2019



- Optimal allocation of management resources

Formed team reporting directly to CEO to push ahead with Lean & Flexible initiatives across divisional boundaries for entire Group



Topic: Achievements of Soma IHI Green Energy Center

Keys

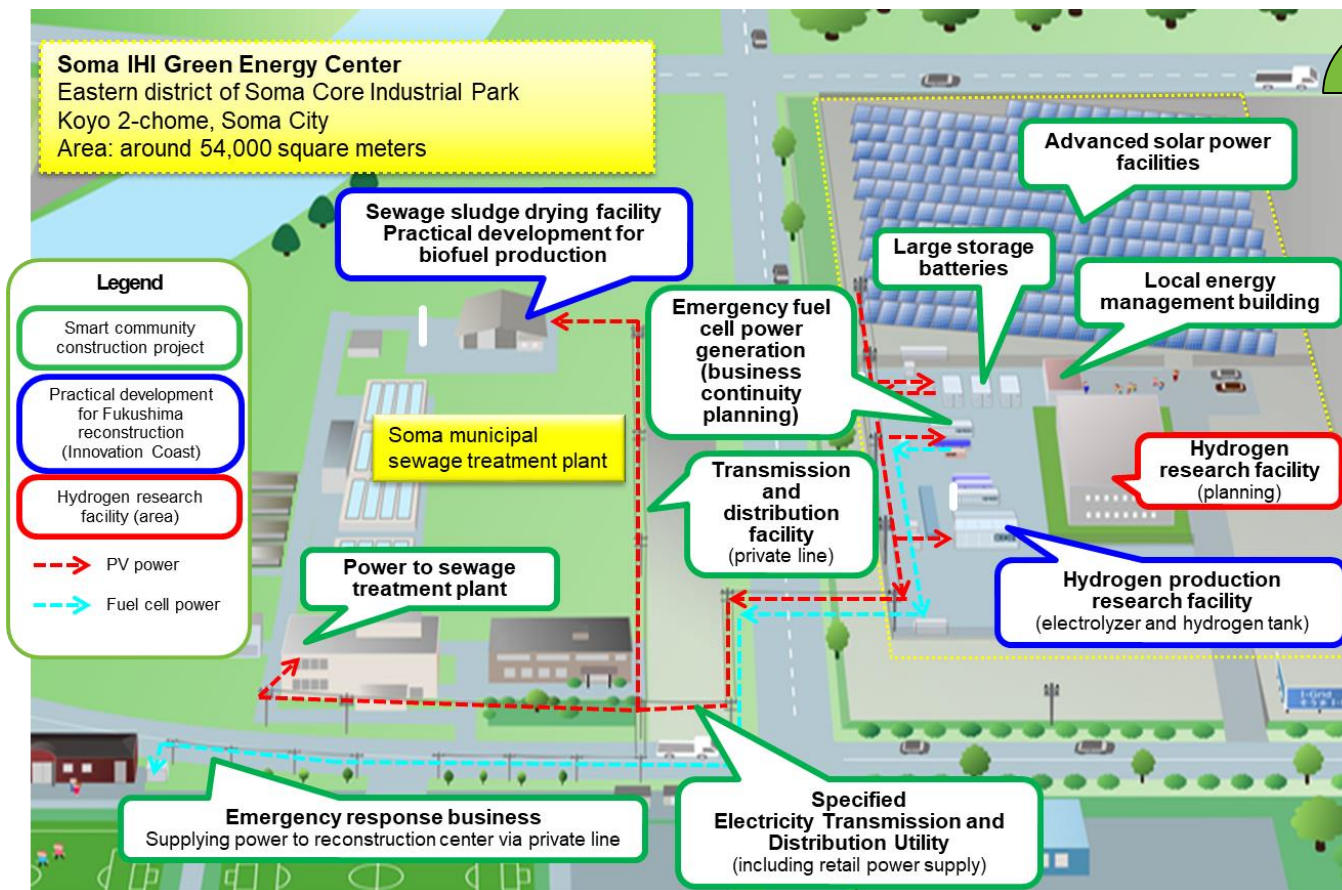
- Local renewables production and consumption
- Enhancing disaster prevention capabilities
- Business development that revitalizes the region

Current Achievements

- Locally producing and consuming within private microgrid all surplus photovoltaic power that can not be sent to the electric power system (advanced production/consumption technology verification and P2G, P2H, and storage batteries)
- During blackouts following disasters, supplying emergency power from fuel cells over private lines to disaster response sites
- Pursuing hydrogen-related open innovation

Future Initiatives

- Virtual power plant dispersed power sources (linked to electric power system)
- Strengthen business continuity planning from point to surface (independent PV operations, securing EV and PV power)
- Integrate new industrial infrastructure and collaborate with local educational institutions



ILIPS

Remote monitoring, operations, and adjustments from Tokyo

Glossary
P2G: Power to Gas
P2H: Power to Heat
PV: Photovoltaic power
EV: Electric vehicles

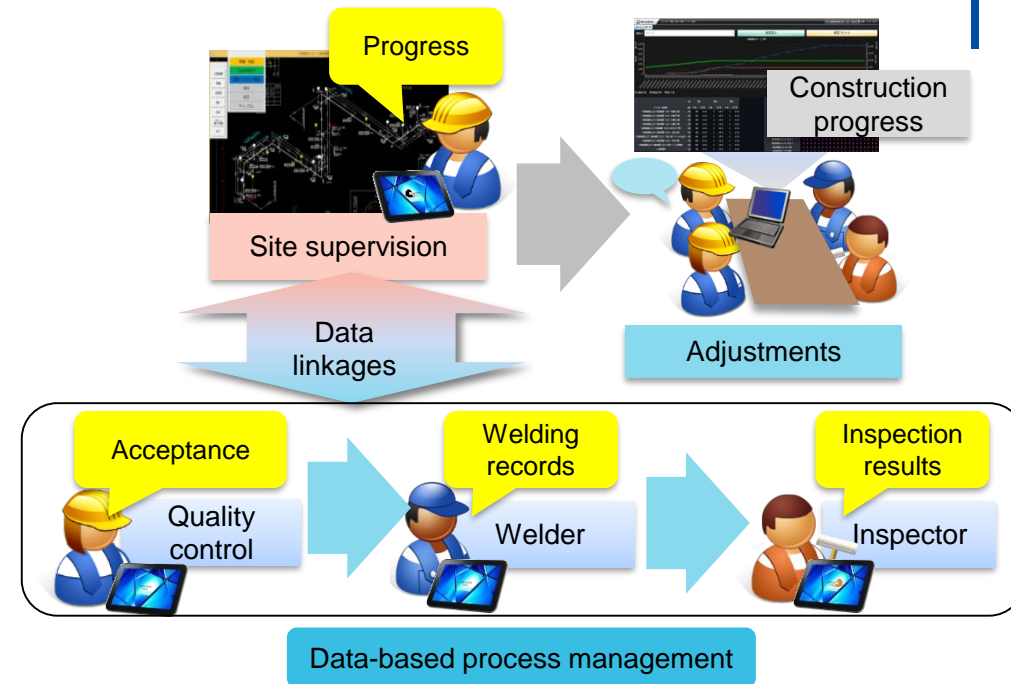


April 4 opening ceremony

1. Digitizing construction sites

We will centrally manage people, objects, quality, work progress, and other data at construction sites and strengthen and optimize collaboration across businesses.

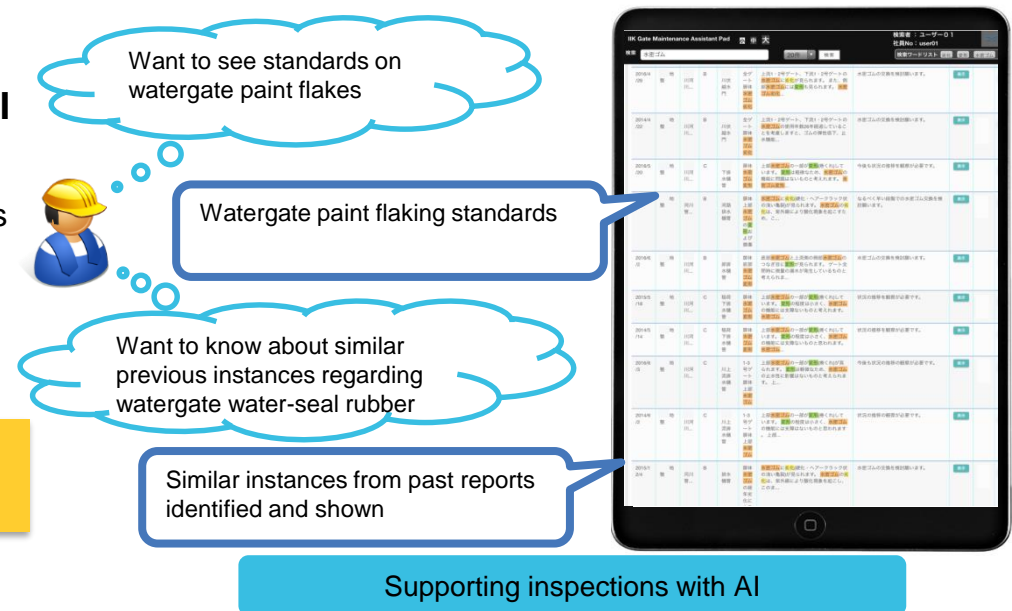
- **Materializing safer worksites**
We materialized safer site management by sharing real-time site conditions with electronic boards and identifying worker skills.
- **Enhancing work quality**
We ensured work and inspection records collaboration from materials acceptance to project work situations, enabling us to optimally place welders and other workers.
- **Streamlining operations**
We eliminated wasted tasks by visualizing and sharing work progress and enabling real-time work adjustments.



2. Driving inspection efficiency and advances with AI

We deployed AI to suggest and support maintenance and inspection efforts based on the knowledge of experienced workers to maintenance and inspection work, ensuring swift and appropriate efforts.

Using IoT and AI to drive work advances at sites and ensure work quality that satisfies customers



Reference Materials

Concentration and Selection through New Portfolio Management (1) IHI

- Reforming business structure to bolster profitability, centered on strategic business units slated for priority investments.
- For businesses with viability concerns (strategic business units designated for rehabilitation and reorganization), made progress in formulating structural reform plans under implementation to rehabilitate and reorganize within two years (end-fiscal 2017). Will continue to implement structural reform plans in third year.

Progress with concentration and selection and structural reform initiatives since fiscal 2016 (1)

Business	Category	Timing	Overview
Parking	Concentration	October 2016	Subsidiary IHI Transport Machinery Co., Ltd., received a maintenance order for mechanical car parking systems from KYC Machine Industry Co., Ltd.
Shield	Concentration	October 2016	Subsidiary Japan Tunnel Systems Corporation and Mitsubishi Heavy Industries Mechatronics Systems, Ltd., integrated shield tunneling machine businesses to form JIM Technology Corporation.
Rolling mills (strip casters)	Selection	October 2016	IHI transferred ownership, patent, and other interests in strip caster company Castrup LLC, withdrawing from that business.
Logistics & industrial machinery	Structural reform	October 2016	IHI integrated sales units into IHI Logistics & Machinery Corporation to create a structure that can undertake business activities more responsively and flexibly.
Construction machinery	Selection	November 2016	IHI transferred all shares in IHI Construction Machinery Limited to Kato Works Co., Ltd.
Rotating machinery	Concentration	December 2016	Joint venture established with Dalgakiran of Turkey to manufacture and sell general-purpose turbo compressors.

Concentration and Selection through New Portfolio Management (2) IHI

Progress with concentration and selection and structural reform initiatives since fiscal 2016 (2)

Business	Category	Timing	Overview
Influenza vaccine API manufacturing	Selection	January 2017	Shares in biopharma API manufacturing business UNIGEN Inc. transferred to API Co., Ltd.
Waste treatment	Structural reform	March 2017	Comprehensive waste treatment facilities business alliance agreement concluded with Kobelco Eco-Solutions Co., Ltd.
Machinery for ships	Selection	May 2017	Marine deck cranes (deck cranes and mooring machines) business transferred to Iknow Machinery Co., Ltd., a ship machinery subsidiary of Oshima Shipbuilding Co., Ltd.
Disaster prevention	Selection	June 2017	Firefighting equipment business of subsidiary IHI Shibaura Machinery Corporation transferred to a company established by NH-2 (New Horizon No. 2 Investment LP), a unit of New Horizon Capital.
Agricultural machinery	Structural reform	October 2017	Subsidiaries IHI Shibaura Machinery Corporation and IHI Star Machinery Corporation integrated to form IHI Agri-Tech Corporation.
Rotating machinery	Structural reform	October 2017	Rotary machinery business (including compressors and separators) integrated with operations of subsidiary IHI Compressor and Machinery Co., Ltd., to launch IHI Rotating Machinery Engineering Co., Ltd.
Parking	Concentration	February 2018	Subsidiary IHI Transport Machinery Co., Ltd., took over multi-storey parking machinery maintenance business of Nabco Door, Ltd.

Concentration and Selection through New Portfolio Management (3) IHI

Progress with concentration and selection and structural reform initiatives since fiscal 2016 (3)

Business	Category	Timing	Overview
Parking	Concentration	June 2018	Subsidiary IHI Transport Machinery Co., Ltd., established mechanical parking business in China with Qingdao Huatong Energy Investment Co., Ltd., and Qingdao Huatong Science & Industry Investment Co., Ltd., two affiliates of the Qingdao Huatong State-owned Capital Operation(Group) Co., Ltd.
Rocket systems	Concentration	June 2018	Subsidiary IHI Aerospace Co., Ltd., Canon Electronics, Inc., Shimizu Corporation, and the Development Bank of Japan Inc. jointly established Space One Co., Ltd., to launch small rockets.
F-LNG and offshore structures	Selection	September 2018	Aichi Works, a key production site for F-LNG and offshore structures production, completed project order and ends its manufacturing role.
Parking	Concentration	October 2018	Subsidiary IHI Transport Machinery Co., Ltd., acquired multi-storey parking machinery maintenance business of Orient Industries, Ltd.
Shield	Concentration	October 2018	Subsidiary JIM Technology Corporation acquired 51% of Terratec Ltd. of Hong Kong to enhance its global competitiveness in shield tunneling machinery.
Small power systems	Selection	December 2018 (Planned)	Subsidiary IHI Agri-Tech Corporation to sell small engine business to Caterpillar Inc.
Environmental response systems	Selection	January 2019 (Planned)	Subsidiary IHI Enviro Corporation to sell waste process facilities-related and other businesses to Kobelco Eco-Solutions Co., Ltd.



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.