

Group Management Policies 2013: Toward Realization of Growth

May 8, 2013

IHI Corporation

Tamotsu Saito, President and Chief Executive Officer

1. Group Management Policies 2013: Overall Picture.....	3
Review of Group Management Policies 2010.....	4
Overview.....	6
Changes in Segment Classification Method.....	10
Strengthening of Common Group Functions toward Growth (The Three <i>Tsunagu</i>).....	11
Group Common Measures.....	15
2. Group Management Policies 2013: Development by Business..	16
Resources, Energy and Environment.....	17
Social Infrastructure and Offshore Facilities.....	19
Industrial Systems and General-Purpose Machinery.....	21
Aero Engine, Space and Defense.....	23
New Business Development.....	25

Group Management Policies 2013: Overall Picture

Review of Group Management Policies 2010 (1)

	"2010" Target	Results	Status of Achievements
Net Sales	Approx. ¥1,400.0 billion	¥1,256.0 billion	<ul style="list-style-type: none"> ■ Target levels achieved for interest-bearing debt and investment during period ⇒ Strengthening of financial base (improvement in D/E ratio) and investment toward establishing a growth trajectory ■ Net sales, ordinary income (operating income), and dividend targets not yet achieved 【Factors leading to targets not being achieved】 <ul style="list-style-type: none"> ✓ Major changes in the external environment, e.g. strong yen, Great East Japan Earthquake ✓ Incidences of some unprofitable projects in Energy & Resources Operations ✓ Lack of growth potential ■ Mostly completed internal control system ⇒ Achieved profit in all business segments for 4 consecutive years
Ordinary Income (Operating Income)	¥60.0 billion (Approx. ¥70.0 billion)	¥36.2 billion (¥42.1 billion)	
Balance of interest-bearing debt	Below ¥400.0 billion D/E ratio: 1.5 or less	¥353.8 billion D/E ratio: 1.18	
Investment during Period (Investment in plant and equipment, R&D)	Approx. ¥200.0 billion	¥284.2 billion (FY12 ¥85.2 billion)	
Dividends	Early return to ¥6 per share	¥5 per share (planned)	

Paradigm Shifts	Status of Achievements
Business model Focus on product lifecycles	<ul style="list-style-type: none"> ■ Establishment overseas of maintenance bases for power generation gas turbines, heat treatment furnaces, aero engines, etc. ■ Stable number of orders gained in after-sales servicing area
Product strategy Focus on market requirements	<ul style="list-style-type: none"> ■ Full-scale development of Twin IHI Gasifier business capable of effectively utilizing lignite (decision taken to construct verification plant in Indonesia) ■ Participation in development and production of PW1100G-JM engine for Airbus A320neo
Business management Global management approach	<ul style="list-style-type: none"> ■ Established China regional headquarters (Shanghai), Asia-Pacific regional headquarters (Singapore) and local subsidiary in Brazil ■ Singapore procurement function enlarged to expand global procurement ■ Achieved target of 50% increase in sales at overseas subsidiaries and affiliated companies

Review of Group Management Policies 2010 (2)

■ Strengthening of Business Selection and Concentration

Focus on product lifecycles

- Merged three bridge-building business subsidiaries, strengthened advanced maintenance business, in which burgeoning demand is expected (Oct 2011)
- Established local subsidiary for heat treatment furnace maintenance in Thailand. Reviewed manufacturing base expansion (Nov 2011)
- Established maintenance base for power generation gas turbines in Thailand (Aug 2012)
- Acquired shares in five power stations owned by U.S. company Exelon Corporation, participation in U.S. biomass power generation (Aug 2012)
- Established maintenance and repair base for civil airliner aero engines in United States (Nov 2012)

Focus on market requirements

- Established Toshiba IHI Power Systems Corporation to manufacture turbine equipment for nuclear power stations (Jan 2011)
- Having acquired shares, made Fuso Engineering Co., Ltd. a subsidiary to heighten competitive advantages in parking business in Japan (Jan 2012)
- Having acquired shares, made Meisei Electric Co., Ltd. a subsidiary. Incorporated Meisei's sensing technologies into IHI Group products (Jun 2012)
- Established IHI E&C with the acquisition of land-based EPC business of Kvaerner Americas Inc., entered into North American shale gas liquefaction plant market (Jul 2012)
- Established joint venture company with Paul Wurth S.A., a leading player in the field of iron- and coke-making engineering and supply, to undertake business in iron-making machinery (Nov 2012)
- Merged IHI Marine United Inc. with Universal Shipbuilding Corporation to establish new company, Japan Marine United Corporation. Aims to become world-leading company by its collective strengths in technologies, quality and cost (Jan 2013)

Global management approach

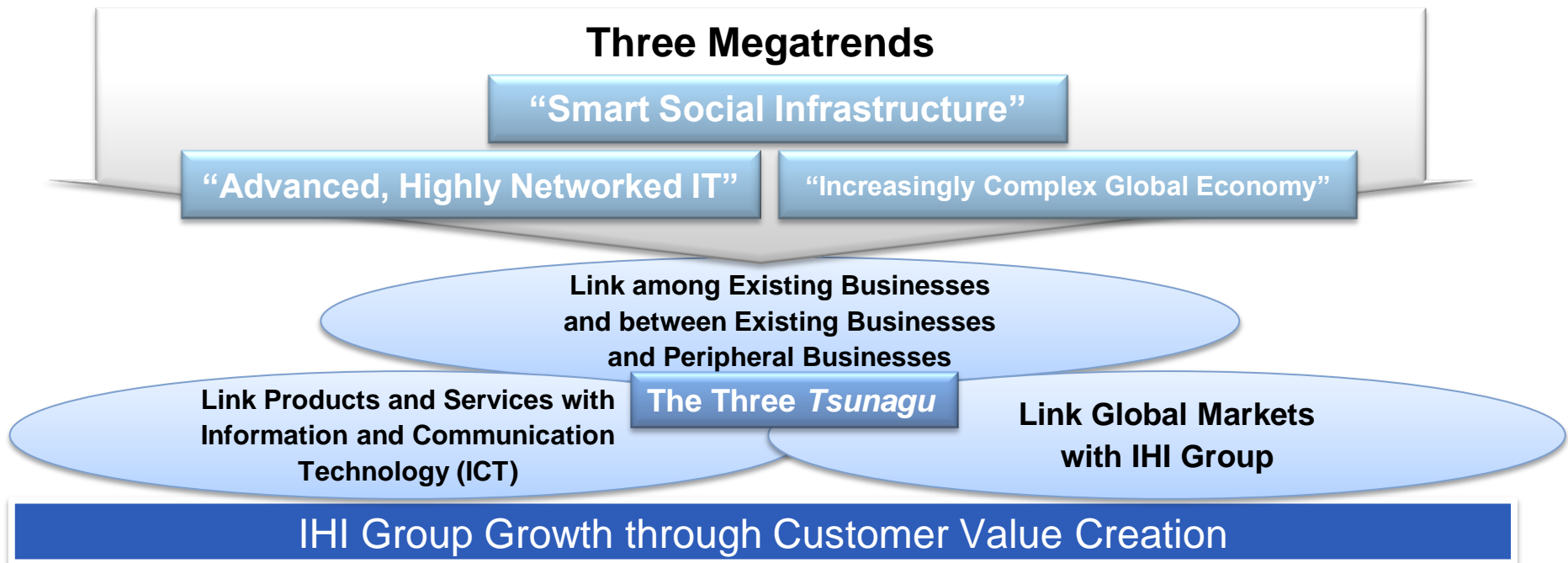
- In the general-purpose compressor business, signed a memorandum of understanding to partner in marketing with major world player Atlas Copco AB (Apr 2011)
- In the parking business, established a local subsidiary in Malaysia. Making enterprising advances into Southeast Asian market, where ongoing orders expected (Oct 2011)
- Implementation of tender offer for shares of IHI Transport Machinery and Ishikawajima Construction Materials for further global development through effective use of IHI's group-wide management resources. Conversion into wholly owned subsidiaries (Aug 2012)
- Having acquired shares, made Ionbond AG a subsidiary to expand IHI's consignment service area globally in its surface treatment business (Dec 2012)

Overview (1)

■ Positioning of “Group Management Policies 2013”



■ Trend of Environment and Path toward Growth in “Group Management Policies 2013”



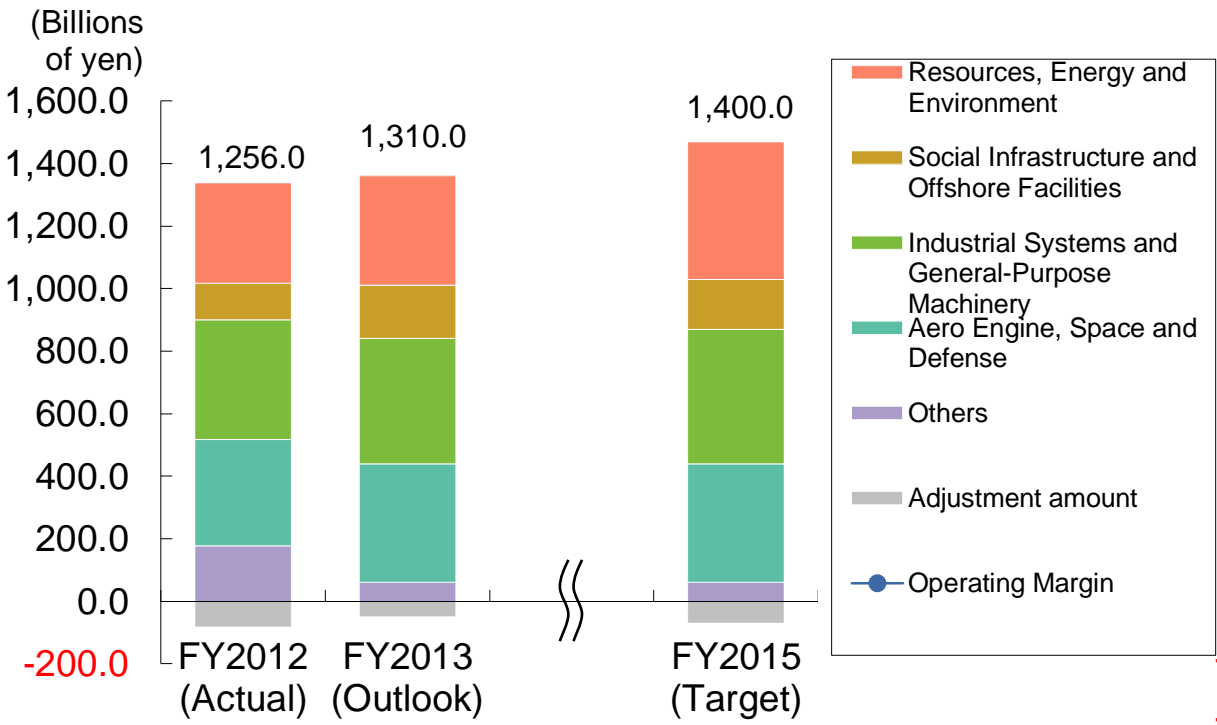
Overview (2)

■ Targets

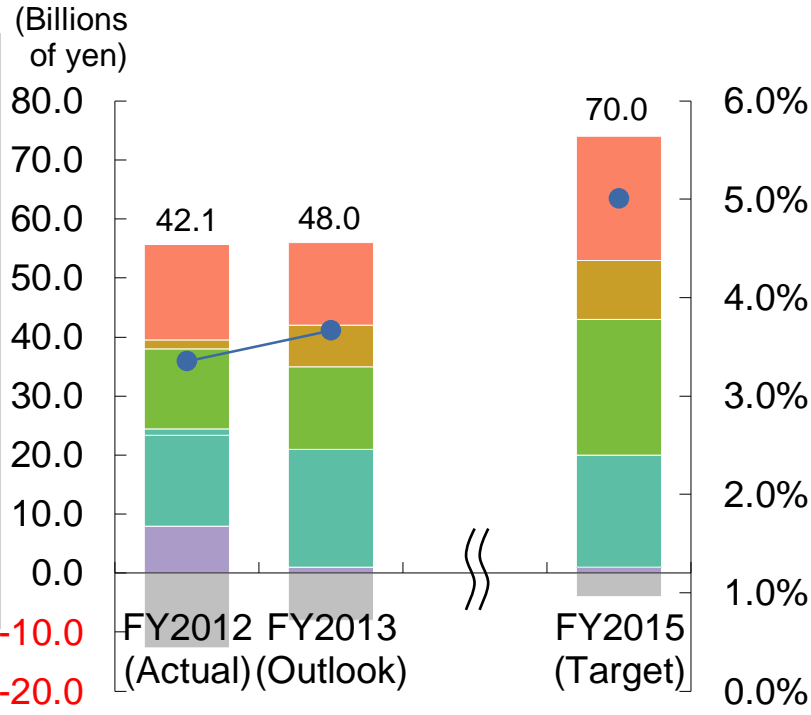
Consolidated Sales 1,400 Billion Yen
Consolidated Operating Income 70 Billion Yen

● Achievements Targeted for FY2015

Net Sales



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



Overview (3)

■ Targets

Outlook and Numerical Targets by Segment

(Unit: Billions of yen)

	Net Sales			Operating Income		
	FY2012 (Actual)	FY2013 (Outlook)	FY2015 (Target)	FY2012 (Actual)	FY2013 (Outlook)	FY2015 (Target)
Resources, Energy and Environment	321.5	350.0	440.0	16.2	14.0	21.0
Social Infrastructure and Offshore Facilities	117.8	170.0	160.0	1.5	7.0	10.0
Industrial Systems and General-Purpose Machinery	382.5	400.0	430.0	13.6	14.0	23.0
Aero Engine, Space and Defense	338.4	380.0	380.0	15.4	20.0	19.0
Others	178.1	60.0	60.0	8.0	1.0	1.0
Adjustment amount	-82.5	-50.0	-70.0	-12.7	-8.0	-4.0
Total	1,256.0	1,310.0	1,400.0	42.1	48.0	70.0

Exchange rate

¥82.9/US\$

¥95/US\$

¥80/US\$

¥82.9/US\$

¥95/US\$

¥80/US\$

* Other segment for FY2012 (actual) includes the results of former Ships & Offshore segment (net sales ¥117.3 billion, operating income ¥6.5 billion).

■ Targets

Total Investment 400 Billion Yen (FY2013–2015)

- Focus on investment for growth. Use approx. 70% of investment on growth / focus businesses and core businesses
- Over three years, investment in plant and equipment ¥190 billion, R&D ¥110 billion, investments and loans ¥100 billion
- FY2013 plan: Investment in plant and equipment ¥67 billion, R&D ¥37 billion
- Over three years, investments in each segment 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)

Dividend Policy

- Early return to dividend of ¥6 per share

Changes in Segment Classification Method

- Rearranged each business into reportable segments based on four business areas

After change Currently	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense
Energy & Resources	Boilers, power systems, motors for land and marine use, gas processes, pharmaceuticals, nuclear power	Floating-LNG, offshore structures		
Ships & Offshore Facilities				
Social Infrastructure		Bridges, water gates, shield tunneling machines, urban development	Marine machinery	
Logistics Systems & Industrial Machinery	Environmental systems	Transportation systems	Logistics systems, materials handling equipment, parking systems, steel manufacturing machinery, industrial machinery, heat / surface treatment machinery, papermaking machinery	
Rotating Equipment & Mass-Production Machinery			Vehicular turbochargers, compressors, separation equipment, marine turbochargers	
Aero Engine & Space				Aero engines, rocket systems / space utilization systems, defense systems
Others	Large marine motors		Construction machinery, agricultural machinery and small motors	

Strengthening of Common Group Functions toward Growth (The Three *Tsunagu*) (1)

**Resources, Energy
and Environment**

**Social Infrastructure
and Offshore
Facilities**

**Industrial Systems
and General-Purpose
Machinery**

**Aero Engine,
Space and Defense**

Solution & Engineering Headquarters

**Extend value chain to combine upstream/downstream businesses, or other businesses
Enhance EPC business**

Example: Flexible provision of resources to projects spanning multiple organizations

Intelligent Information Management Headquarters

**Create innovative business opportunities by obtaining/analyzing and feeding back information
and turn them into increasingly sophisticated and comprehensive products and services**

Example: Remote monitoring systems, water gate maintenance that utilizes automatic controls

Global Marketing Headquarters

Set up global priority countries/businesses, optimize allocation of resources

Build and enhance customer/partner relationships

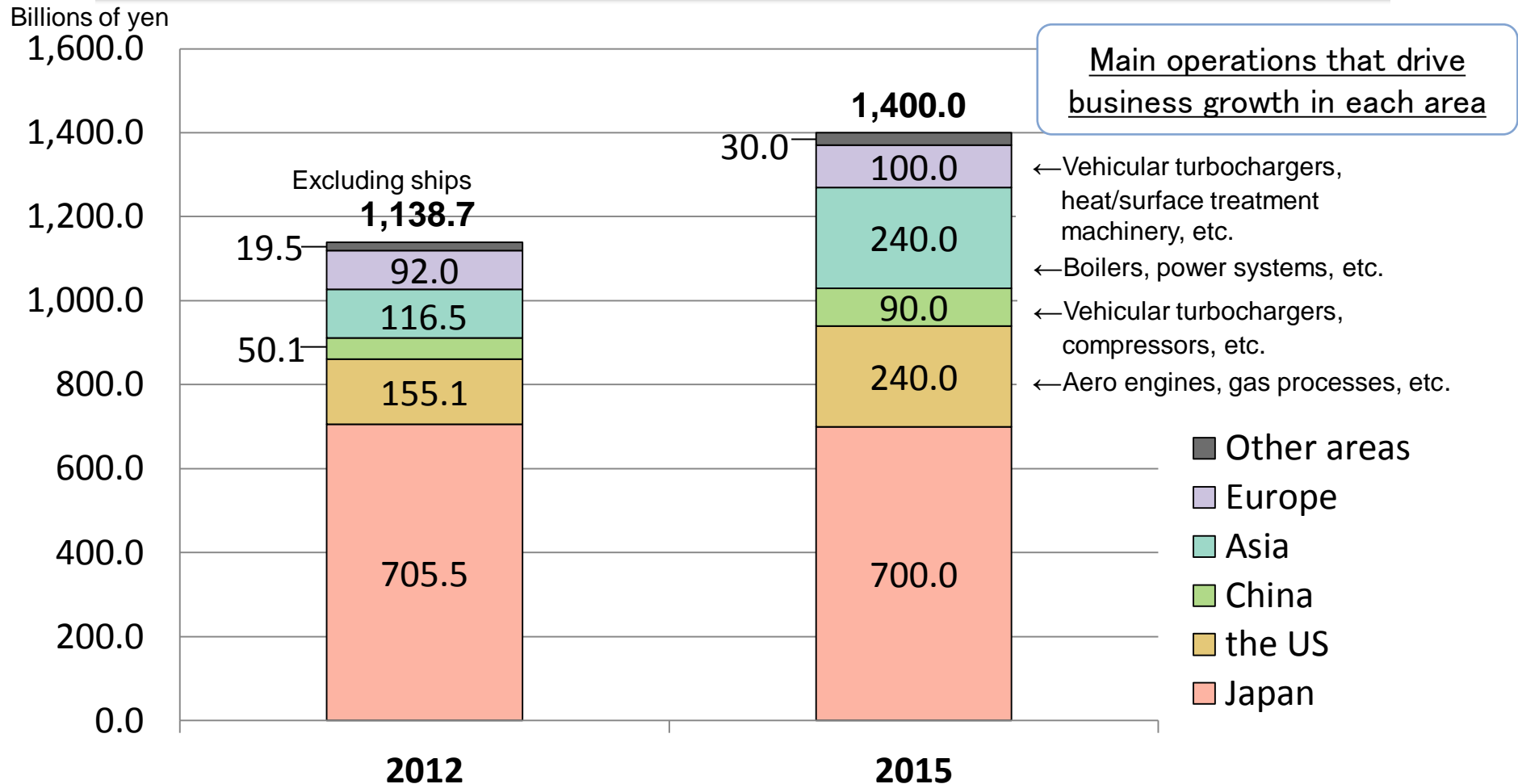
**Example: Functional enhancements of regional headquarters in marketing,
business management, etc.**

**Targeting overseas
net sales of 50% of
consolidated net
sales**

Strengthening of Common Group Functions toward Growth (The Three *Tsunagu*) (2)

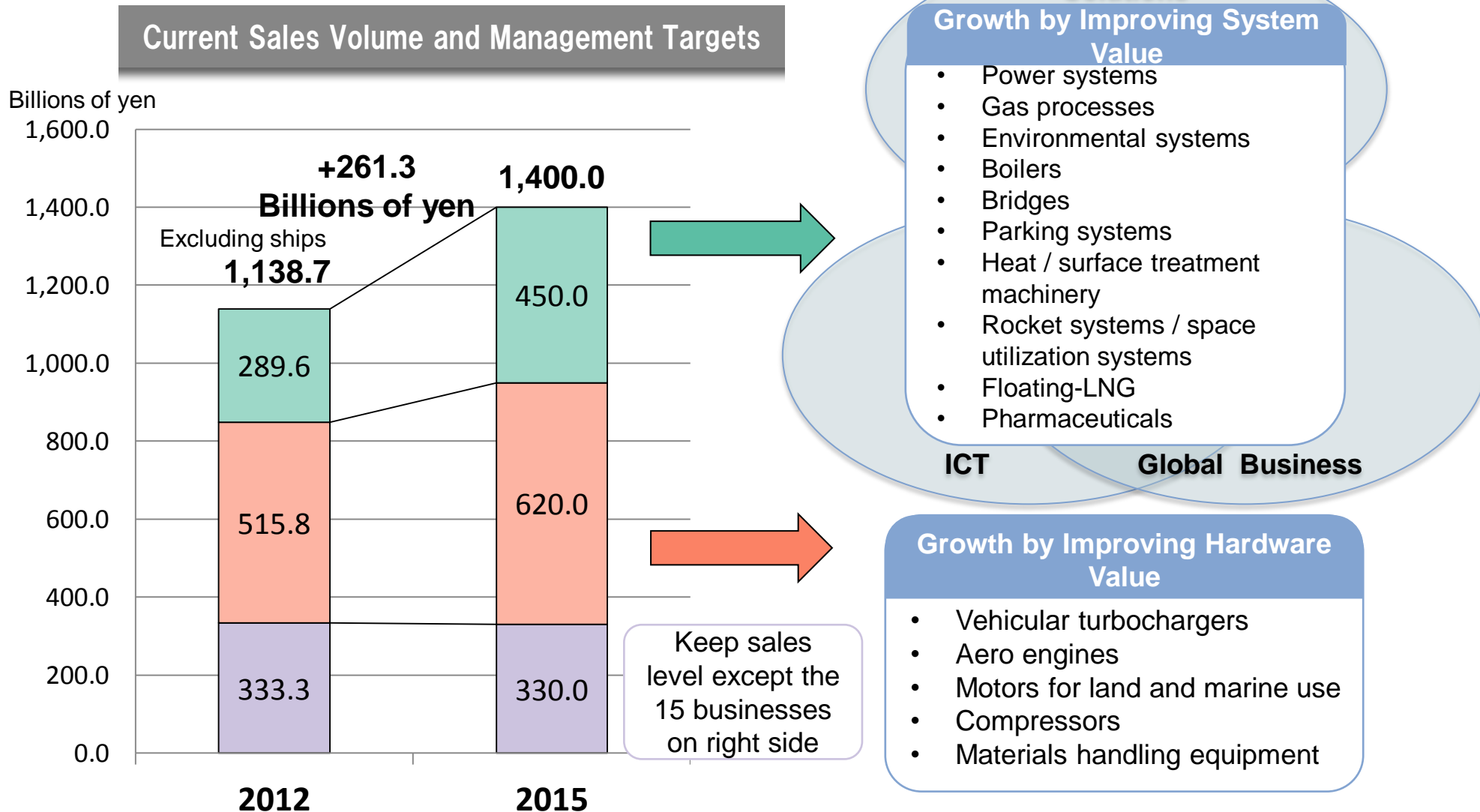
■ Scenario for Achieving Target of ¥1,400 Billion in Net Sales

Current Sales Volume and Management Targets (net sales by area)



Strengthening of Common Group Functions toward Growth (The Three *Tsunagu*) (3)

■ Scenario for Achieving Target of ¥1,400 Billion in Net Sales

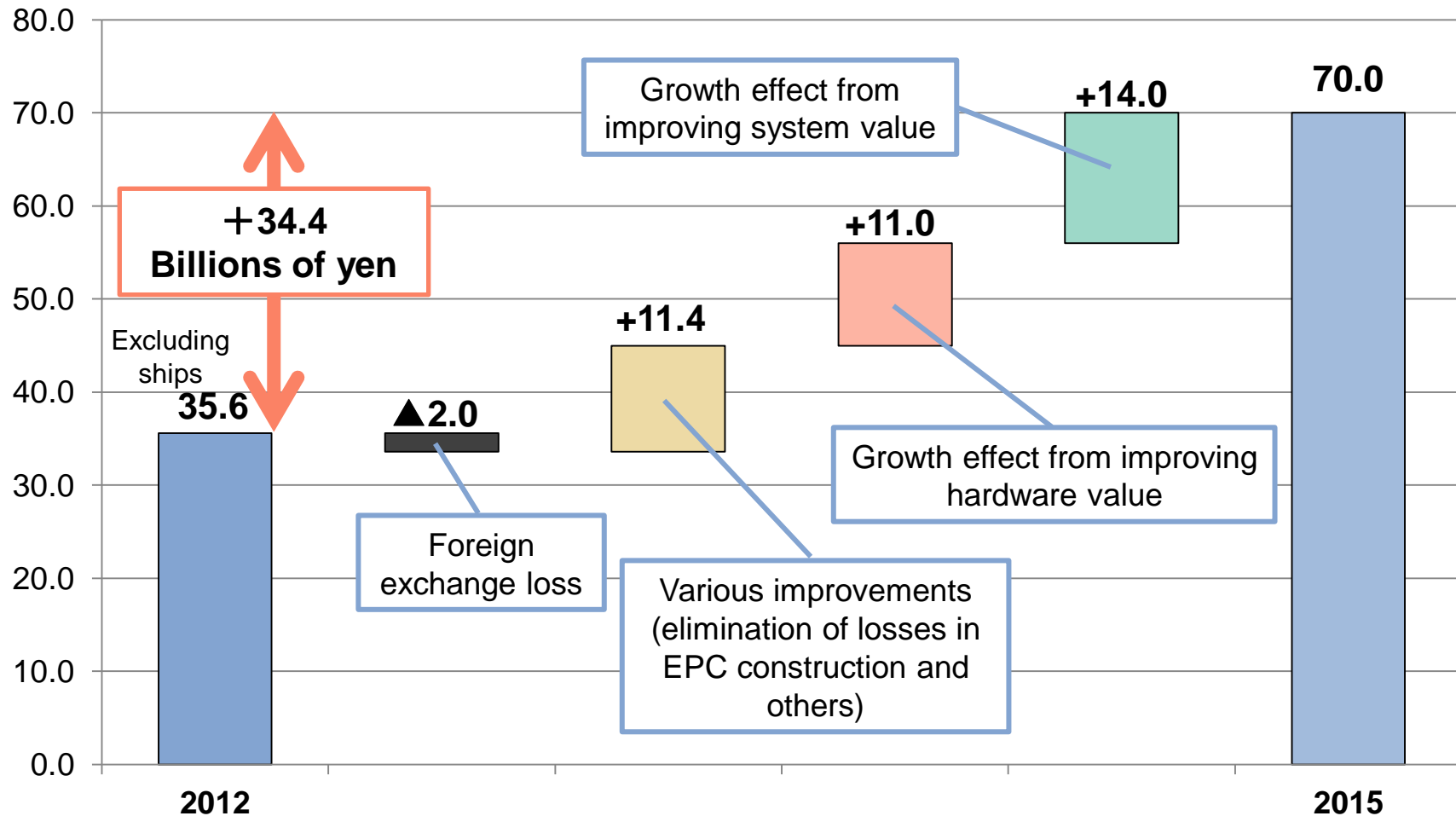


Strengthening of Common Group Functions toward Growth (The Three *Tsunagu*) (4)

■ Scenario for Achieving Target of ¥70 Billion in Operating Income

Current Profit Levels and Management Targets

Billions of yen



* Average exchange rate in FY2012 ¥82.9/US\$

* Assumed exchange rate for FY2015 ¥80/US\$

Strengthening of Cost Competitiveness by Expanding Overseas Procurement / Production

- Enlarge Singapore procurement base, expand overseas procurement ratio from 20% to 30%
- Enhance / augment overseas production base capabilities (vehicular turbochargers: Thailand; bridges: Vietnam; boilers: Indonesia)

Strengthen Group Technological Capabilities

Increase sophistication of products
/ services

Strengthen technological capabilities in
businesses where growth is expected

Strengthen basic technologies

Control technologies / ICT; preventive maintenance
technologies; leading-edge production technologies;
electrification technologies; heat energy management
technologies

High-speed rotating machinery technologies;
chemical process technologies

Combustion technologies; materials technologies;
structural strength technologies; etc.

Rapid creation / acquisition of new value by promoting open innovation

Global Expansion of Internal Control Systems

- Strengthen global risk management systems through regional headquarters

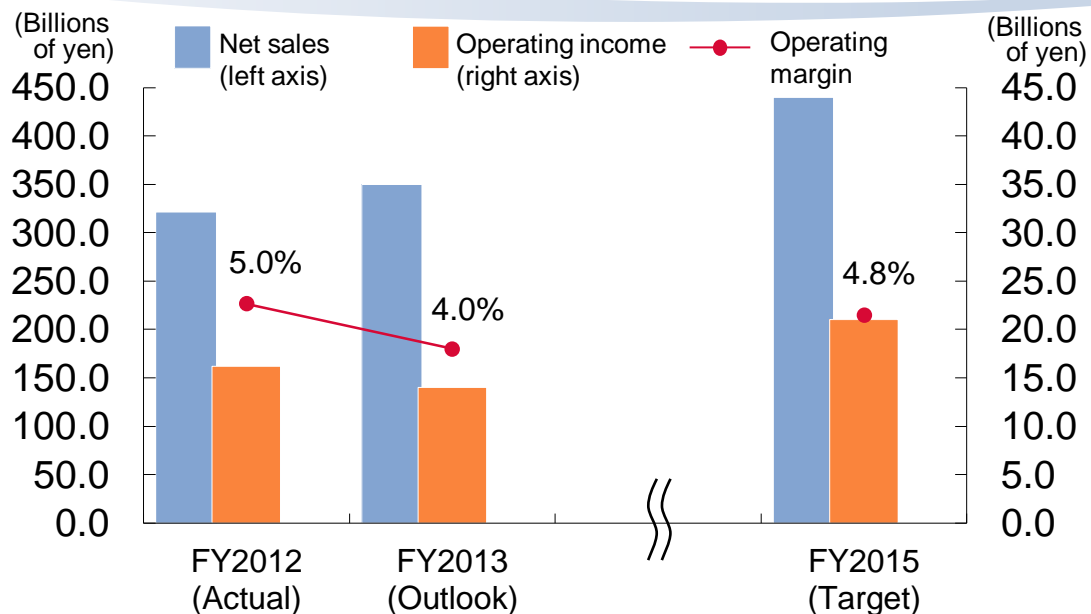
Search for New Business Areas

- Create future new businesses from fields that are becoming challenges for society, such as life sciences, food and water

Group Management Policies 2013: Development by Business

	Market Perception	Basic Three-Year Strategy
Boilers	<ul style="list-style-type: none"> ◆ Increased demand for coal-fired thermal power due to downturn in nuclear power generation demand in Japan ◆ Increased energy demand in emerging countries, particularly those in Southeast Asia 	<ul style="list-style-type: none"> ◆ Utilization of low-grade coal (lignite, etc.) ◆ Expansion of new construction / renovation projects, particularly in Southeast Asia
Gas processes	<ul style="list-style-type: none"> ◆ In addition to increased demand for liquefied natural gas (LNG)-related facilities in Japan and overseas, expanded market for shale gas-related facilities in the United States 	<ul style="list-style-type: none"> ◆ Respond to FEED projects through U.S. engineering subsidiary IHI E&C
Power systems	<ul style="list-style-type: none"> ◆ Expanded demand for decentralized power generation associated with economic growth of emerging countries 	<ul style="list-style-type: none"> ◆ Gain more orders by introduction of new models ◆ Strengthen lifecycle business primarily in Thailand
Environmental systems	<ul style="list-style-type: none"> ◆ Increased demand for biomass power generation in Japan and overseas from expanding need to reduce CO2 	<ul style="list-style-type: none"> ◆ Take up biomass power generation business in the United States and Europe ◆ Re-enter into construction of biomass incineration facilities in Japan
Motors for land and marine use	<ul style="list-style-type: none"> ◆ Steady sales of products for harbor tugboats / offshore support vessels ◆ Expanded demand for decentralized, land-based power generation associated with economic growth of emerging countries 	<ul style="list-style-type: none"> ◆ Gain more orders by introduction of new models ◆ Strengthen lifecycle business

Resources, Energy and Environment



Liquefied natural gas plant (image)

Accelerate Overseas Development in New Construction / Maintenance Business

- Leverage IHI E&C's strengths, execute in ensuring EPC business from Cove Point LNG facility in the United States
- Leverage gas turbine maintenance subsidiary in Thailand to expand / strengthen overseas maintenance business
- Strategic Overseas Development in Nuclear Power Major Machinery

Efforts toward New Energy Fields

- 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
- Promote lignite gasification furnace R&D toward verification tests from 2014
- Expand biomass power generation business in North America

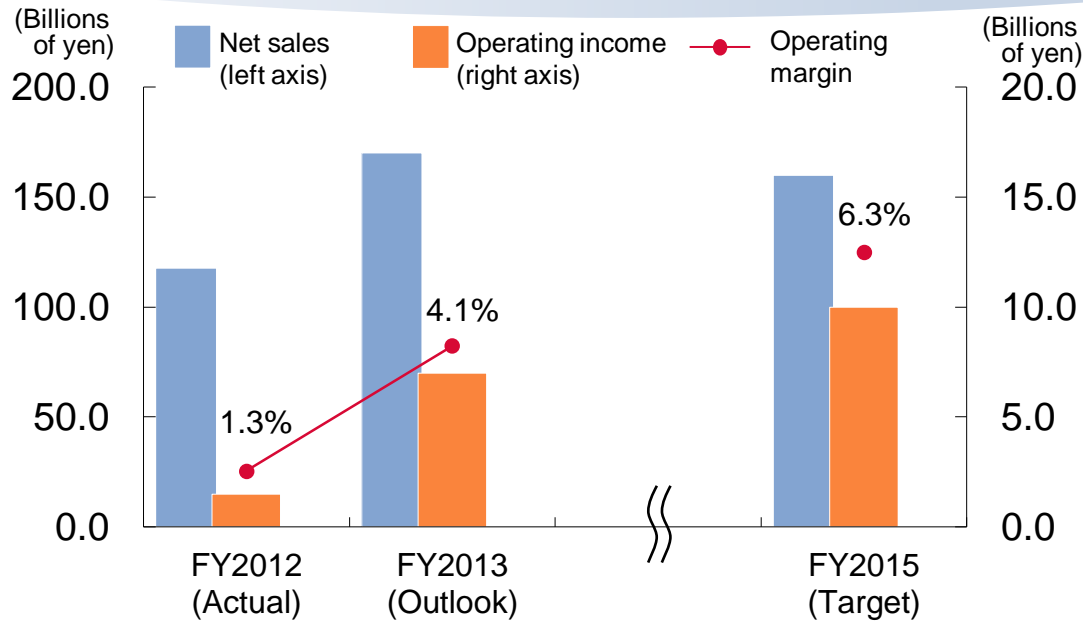


Coal combustion test facility within Aoi Works

Social Infrastructure and Offshore Facilities

	Market Perception	Basic Three-Year Strategy
Bridges	<ul style="list-style-type: none"> ◆ New construction demand in accordance with growth in Southeast Asia and ongoing large-scale upgrade and repair demand in Europe and North America ◆ Increased demand for investment related to disaster prevention / mitigation, measures to tackle aging municipal infrastructure 	<ul style="list-style-type: none"> ◆ Smooth execution of large-scale overseas projects ◆ New project efforts in Southeast Asia ◆ Focus on complex renovation projects for Ministry of Land, Infrastructure, Transport and Tourism, and Metropolitan Expressway Public Corporation
Floating-LNG	<ul style="list-style-type: none"> ◆ Increased demand for F-LNG facilities due to activation of marine resources development 	<ul style="list-style-type: none"> ◆ Gain early orders for / expand sales of aluminum SPB tanks
Urban development	<ul style="list-style-type: none"> ◆ Increased office building needs for business continuity plan (BCP) compliance / strengthening of earthquake resistance 	<ul style="list-style-type: none"> ◆ Increase value of holding assets ◆ Smoothly promote planned projects / those projects currently under way

Social Infrastructure and Offshore Facilities



Bridge spanning Izmit Bay
(image of completed bridge)

Smooth Execution of Overseas Projects, Strengthening of Efforts toward Overseas Projects

- Smooth execution of overseas projects (Turkey: bridge spanning Izmit Bay; Vietnam: Nhat Tan Bridge)
- Strengthen overseas project efforts that leverage newly constructed plant in Vietnam
- Positive efforts on offshore facilities projects such as those in Brazil

Smooth Execution of Toyosu Redevelopment

- Strengthen progress management, smoothly execute redevelopment of city blocks 3-2 and 2

Strengthening of Production System of SPB Tanks for F-LNG

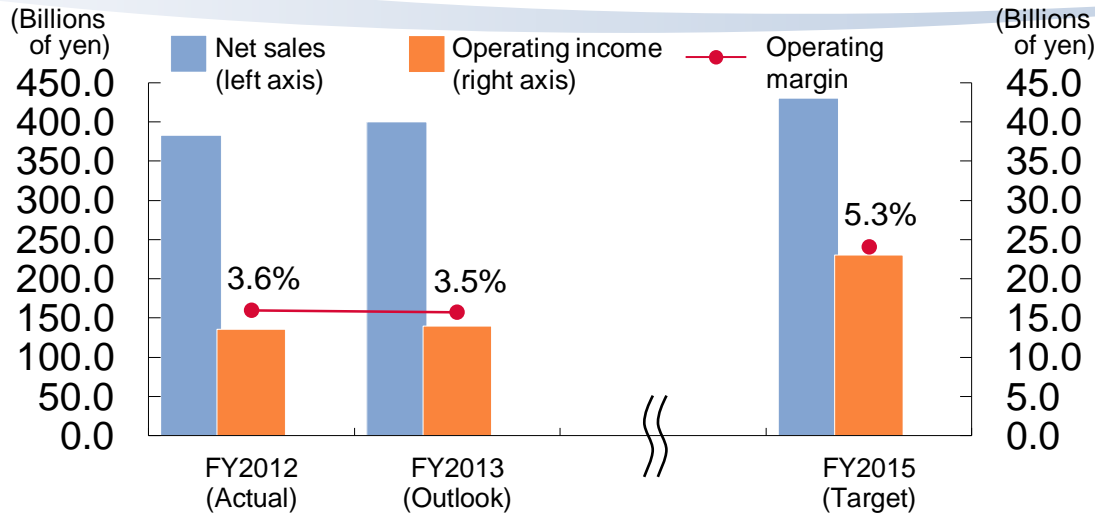
- Strengthen efforts on offshore structures with a focus on SPB Tanks construction



Exterior of Toyosu 3-2 Block Building (tentative name)

	Market Perception	Basic Three-Year Strategy
Vehicular turbochargers	<ul style="list-style-type: none"> ◆ Expanding automobile market in emerging countries and expanding needs for vehicular turbochargers from engine downsizing 	<ul style="list-style-type: none"> ◆ Besides European, Southeast Asian, and Chinese markets promote entry into U.S. market, etc. ◆ Promote global development of after-sales service business
Compressors	<ul style="list-style-type: none"> ◆ Increased demand for petrochemical and industrial uses associated with increasing sophistication of production in Southeast Asia 	<ul style="list-style-type: none"> ◆ Strengthen global business development in cooperation with overseas partners ◆ Further strengthen after-sales service business
Heat / surface treatment machinery	<ul style="list-style-type: none"> ◆ Increased demand for automobile production due to advance of motorization in emerging countries 	<ul style="list-style-type: none"> ◆ Expand business by development and launching new products and new processes ◆ Full-scale entry into the consignment services
Materials handling equipment	<ul style="list-style-type: none"> ◆ Increased demand for cargo-handling equipment against backdrop of increasing social infrastructure upgrades in emerging countries 	<ul style="list-style-type: none"> ◆ While maintaining position as leading company in Japan, address emerging country demand for coal unloaders and conveying equipment as well as harbor upgrades
Parking systems	<ul style="list-style-type: none"> ◆ Increasing replacement demand for multistory parking facilities accompanying increases in the number of automobiles sold in Southeast Asia 	<ul style="list-style-type: none"> ◆ Promote expansion of Southeast Asian market ◆ Strengthen general automobile parking business in Japan, including repair, maintenance and management

Industrial Systems and General-Purpose Machinery



IHI TURBO (THAILAND)'s new No. 3 Plant

Strengthen Response to Increased Overseas Demand for Vehicular Turbochargers

- Extend Thai production base, augment supply of key parts to China
- Respond to forecast of increased sales in Europe and China (Global unit sales forecast of 5.2 million in FY2012 → 7.0 million in FY2015, Europe / China forecast to increase to about 1.8 times)

Full-scale Entry into the Consignment Services for Heat / Surface Treatment Business

- Expand consignment services globally in addition to equipment sales

Accelerate Deployment of Materials Handling Equipment in Southeast Asia

- Through local Indonesian subsidiary established in October 2012, respond to burgeoning demand for materials handling equipment associated with market penetration by Japanese company plants

Accelerate Deployment of Parking Systems in Southeast Asia

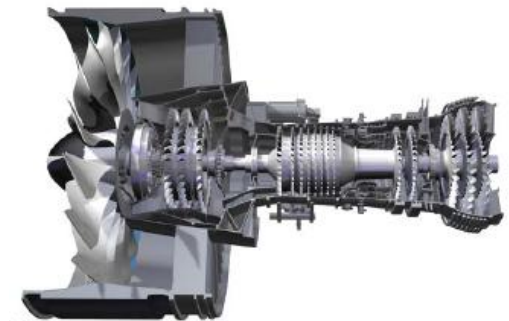
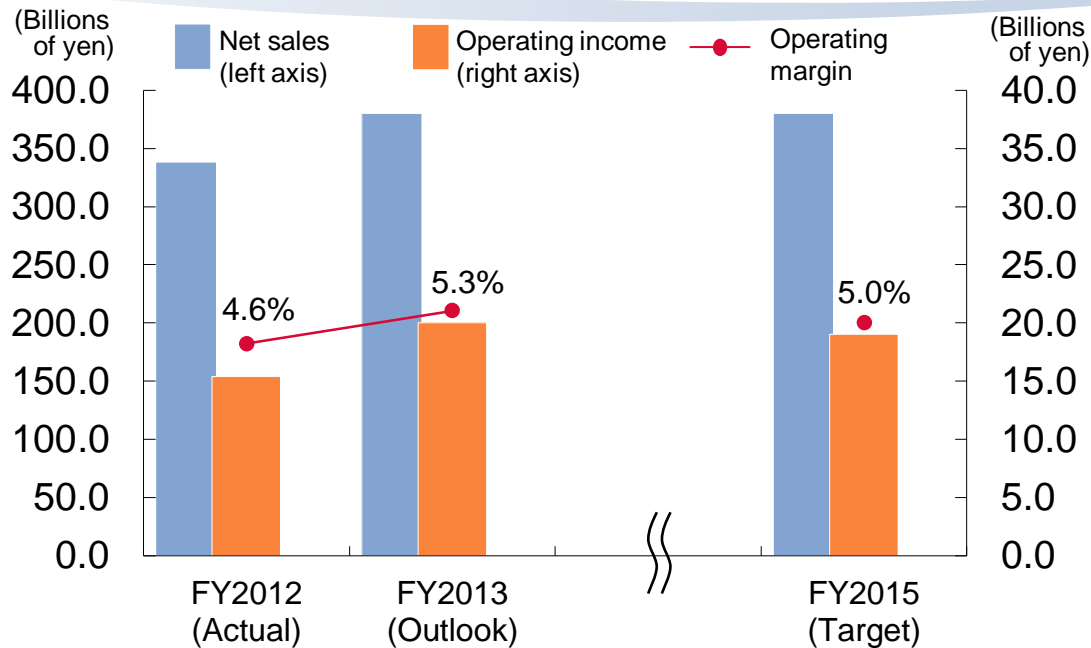
- Expand Southeast Asian deployment through local subsidiary in Malaysia



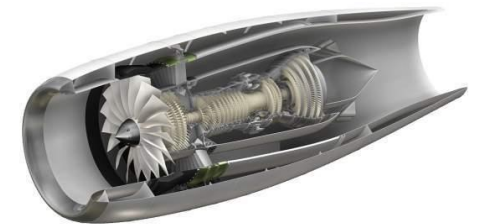
Targeting the gaining of orders for complete raw material and fuel bulk handling systems for iron manufacturing and power generation projects primarily in Southeast Asian market (Photo shows continuous ship unloaders)

	Market Perception	Basic Three-Year Strategy
Aero engines	<ul style="list-style-type: none"> ◆ Growth in air cargo forecast to remain firm at an annual rate of 5% over the medium to long term ◆ Accelerated development of successor engines in accordance with replacement demand for fuel-efficient aircraft 	<ul style="list-style-type: none"> ◆ Expand after-sales service business in close collaboration with partners on V2500 engine ◆ Increase share of the role of F135 engine ◆ Steady participation in new program to succeed the GE90 ◆ Expand orders for engine overhauls by strengthening maintenance base in the Americas
Rocket systems / space utilization systems	<ul style="list-style-type: none"> ◆ Growth expected in the space services sector (national security, agriculture, etc.) 	<ul style="list-style-type: none"> ◆ Besides its existing products, establish IHI's position as a systems manufacturer, starting with the Epsilon rocket ◆ Enter into space utilization business

Aero Engine, Space and Defense



PW1100G-JM



Passport20



Epsilon rocket ©JAXA

Steady Aero Engine Demand

- Production volume forecasts for civil aircraft engines: from 1,178 (FY2012) to 1,500 (FY2015)
- Execute development of new engines (PW1100G-JM, Passport20), construct mass production systems
- Contract for F135 engine to power the next-generation mainstay fighter F35-A planned for FY2013

Rocket Development Progressing Smoothly

- Development of Epsilon rocket under way toward first launch in summer 2013
- Leverage small satellite technologies and propulsion technologies in the fields of space science and earth observation

New Business Development (Current Major Initiatives)

- Strengthen / accelerate creation of businesses that can become future growth / core businesses, centered on Corporate Business Development Division

Influenza Vaccine Pharmaceutical Ingredients Expected sales in FY2016: ¥7.5 billion (vaccine and other sales)

- Business Overview
 - Tie-up with UMN Pharma, which has cell culture technology (vaccine manufacturing period is one third of previous method)
 - Manufacture of influenza vaccine pharmaceutical ingredients using cell culture technology
- Achievements and Future Initiatives
 - Completion of Akita Plant of UNIGEN, a joint venture company that manufactures pharmaceutical ingredients established with UMN Pharma, and start of operations as research facility for production techniques
 - Completion of world-class biopharmaceutical manufacturing plant in Gifu Prefecture as an actual production facility of UNIGEN for influenza vaccine pharmaceutical ingredients
 - UMN Pharma and Astellas Pharma have commenced Phase III clinical trials of seasonal influenza vaccine aiming to obtain the approval to sell



UNIGEN Gifu plant

Biofuel from Algae

- Business Overview
 - Establishment of IHI NeoG Algae with Gene & Gene Technology and Neo-Morgan Laboratory, aiming to manufacture and sell biofuel through mass cultivation of enomoto algae, the algae type with the highest fuel production capability
- Achievements and Future Initiatives
 - Expansion of cultivation test equipment within Yokohama business facility, start of full-scale tests toward mass cultivation
 - Aiming to commence sample sales of algae biofuel by around 2014



Algae cultivation test equipment inside Yokohama business facility

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.