

Results for the Fiscal Year Ended March 31, 2017 Management Review

IHI

May 9, 2017

IHI Corporation

Tsugio Mitsuoka, President and Chief Executive Officer

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Management Overview



	Targets	Results
Net Sales	¥1,600.0 billion	¥1,486.3 billion
Operating Income (Operating Margin)	¥65.0 billion 4.1%	¥47.3 billion 3.2%
Ordinary income	¥55.0 billion	¥22.0 billion
Profit Attributable to Owners of the Parent	¥30.0 billion	¥5.2 billion
ROIC	6.5%	5.0%
D/E Ratio	—	1.10
Dividends	¥6 per share (¥3 interim, ¥3 year-end)	—
Exchange Rate	¥110/US\$	¥108.27/US\$

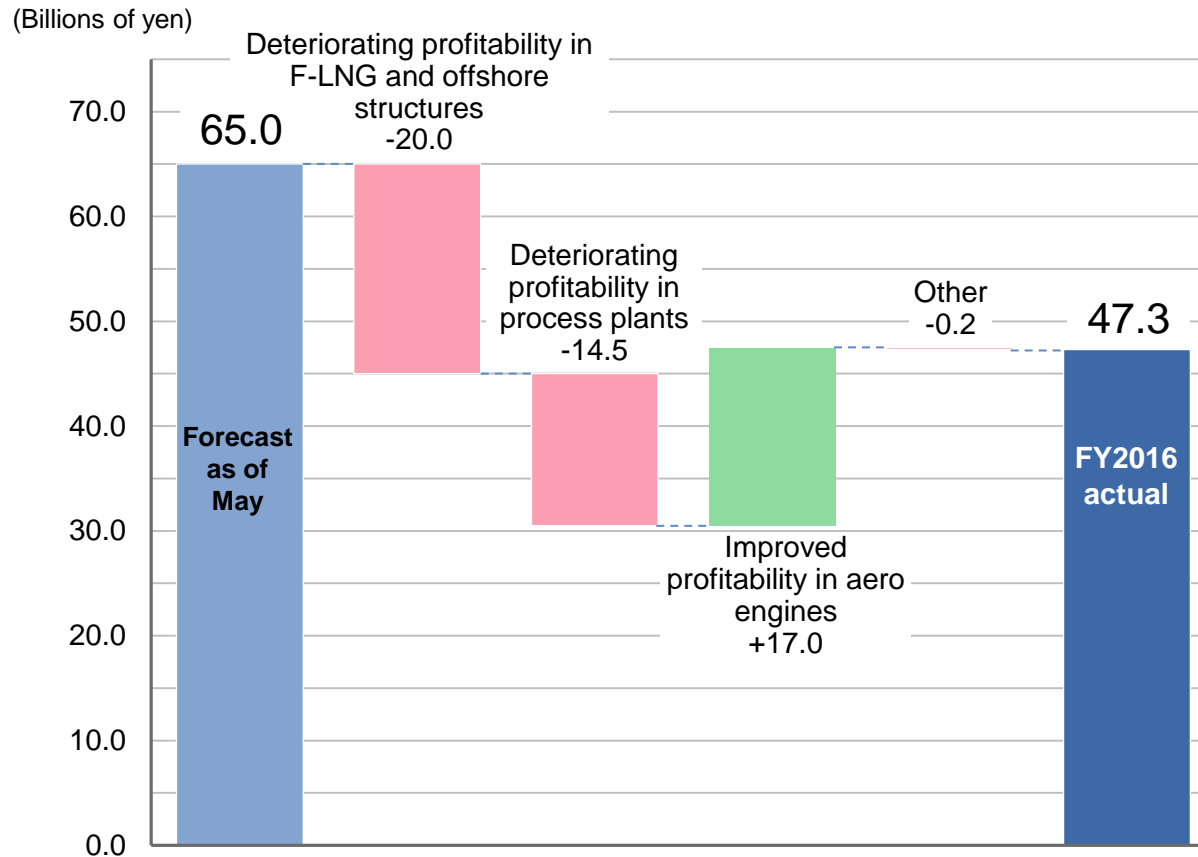
* ROIC (Return On Invested Capital) = (Operating income + Interest and dividend income) after tax / (Owners' equity + Interest-bearing debt)

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

Assessment

- Made progress in some areas under Group Management Policies 2016
 - ✓ Accelerated business structure reforms and concentration and selection under new portfolio management approach
 - ✓ Attained initial earnings targets in Industrial Systems and General-Purpose Machinery and in Aero-Engine, Space and Defense
- As in the previous year, however, performances declined in current large projects
- Ongoing efforts to reinforce our project implementation structure and management are top priorities

■ Analysis of fluctuations in operating income (compared with forecast as of May 2016)



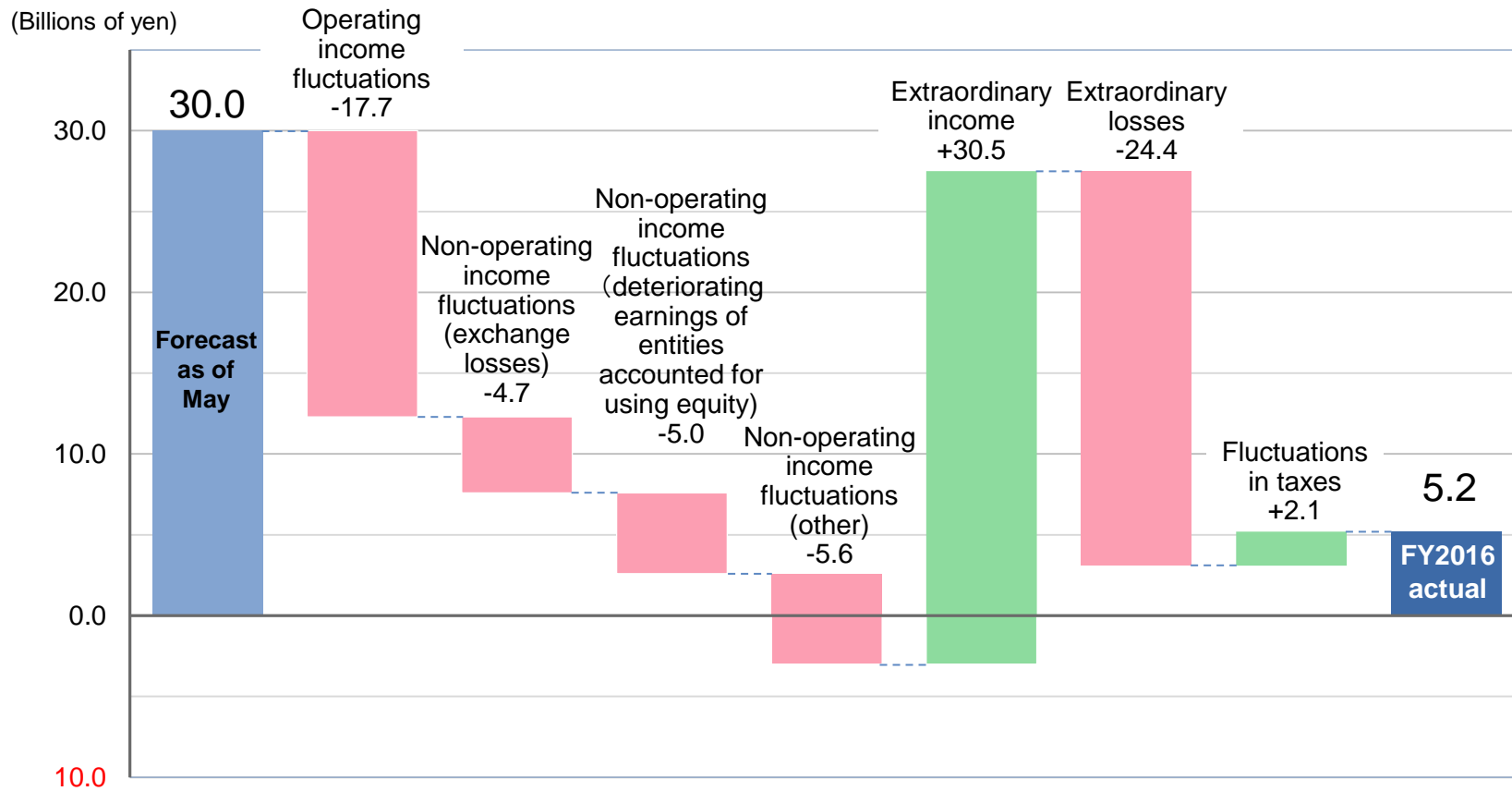
- Forecast as of May 2016: Using official announcement of May 10, 2016 (assumed exchange rate of ¥110/US\$)
- Average foreign exchange rate net sales in FY2016: ¥108.27/US\$

■ Factors in operating income changes

- Deteriorating profitability in three F-LNG and offshore structure projects (see page 7)
- Worsening profitability in process plant projects including large North American projects (see page 8)
- Improved profitability in aero-engines (spare parts sales were higher than envisaged for commercial aero engines, against delays in PW1100G engine shipments in initial mass production stage)

Review of Year Ended March 31, 2017 (3)

■ Analysis of fluctuations in net profit (compared with forecast as of May 2016)



• Forecast as of May 2016: Using official announcement of May 10, 2016 (assumed exchange rate of ¥110/US\$)

• Average foreign exchange rate net sales in FY2016: ¥108.27/US\$

■ Factors

- Increased non-operating expenses (including greater exchange losses and deteriorating earnings of entities accounted for using equity)
- Extraordinary income (including from fixed asset sales)
- Extraordinary losses (including for transfer of influenza vaccine active pharmaceutical ingredient (API) manufacturing, F-LNG and offshore structures business structural reforms, and settlement expenses for delivered boiler facilities) (see page 9)

- Responses in projects in which profitability deteriorated

F-LNG and Offshore Business Situations

(1) Drill ship construction for Singapore

- Completed delivery in December 2016.

(2) Floating production storage and offloading unit construction for Norway

- Dispatched around 30 IHI construction supervisors to contracted shipyard and stationed around the same number of overseas engineers, reinforcing progress and quality control for final stage piping and electrical work.
- Pushed ahead with commissioning from March. Looking to deliver in July, as planned.

(3) Construction of four SPB tanks for four domestic LNG carriers

- Finished fitting all tanks for first carrier in mid-February. Strengthened process management by visualizing progress, secured welders for each work stage, and stabilized processes and quality.
- Currently fitting tanks for second carrier. Expect to hand over the fourth and final carrier by year-end.

- Responses in projects in which profitability deteriorated

Situation with large North American process plant projects

- Continued to increase personnel numbers to catch up, maintaining schedules through final deliveries.
- Carefully managed work in each installation category, responsively monitoring progress and implementing measures and swiftly confirming effectiveness.
- Transitioning from installation to commissioning stages. We are analyzing commissioning tasks and are setting priorities as part of ongoing efforts to reinforce management.
- Have retained the construction cost outlook that we presented at the end of the third quarter.

■ Action on pending issues

Transfer of influenza vaccine API manufacturing business

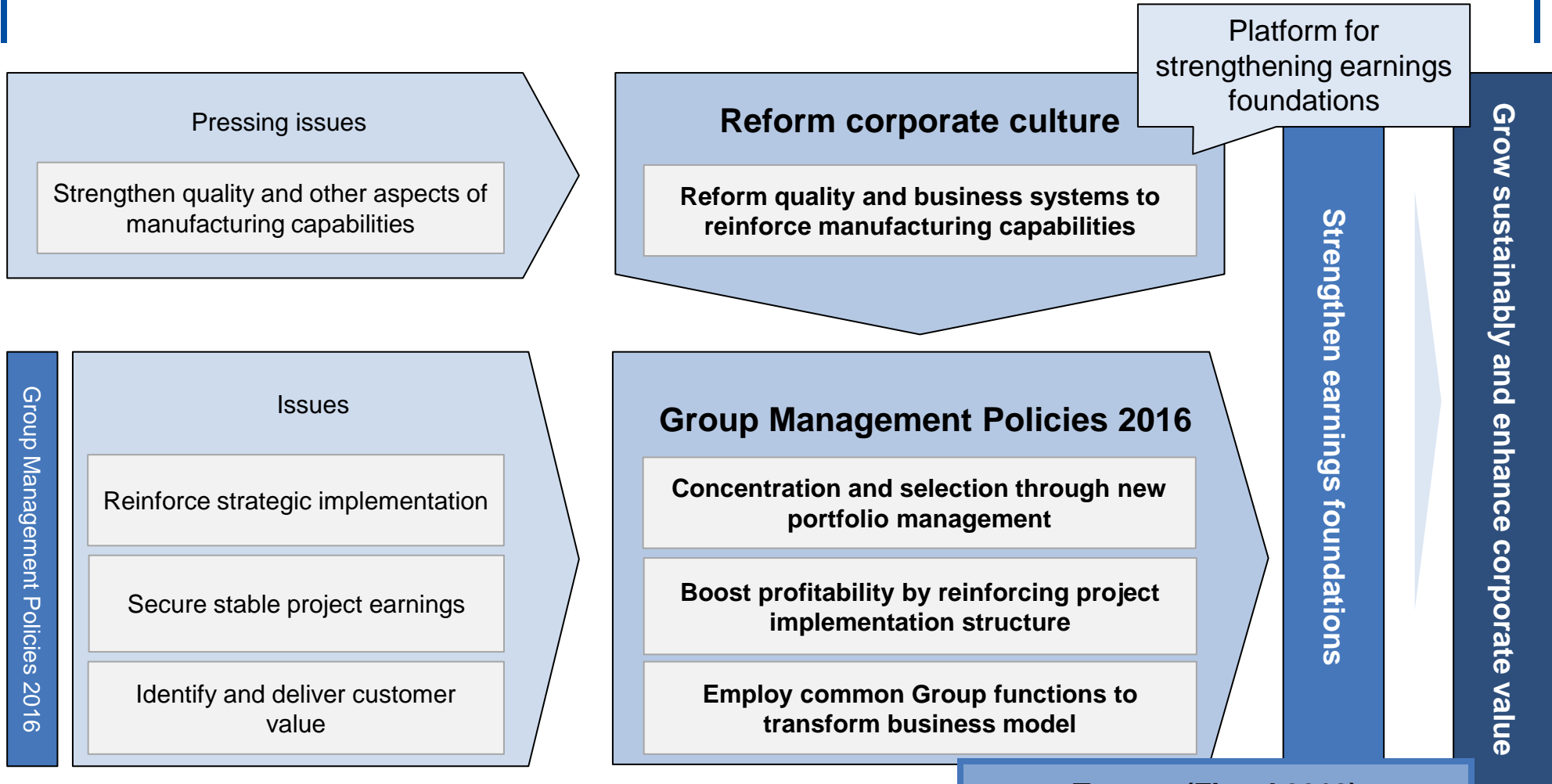
- After assessing the future of the influenza vaccine API manufacturing business with UMN Pharma Inc., both parties transferred their entire stakes in UNIGEN Inc. (a consolidated subsidiary of UMN), a maker of biopharma active pharmaceutical ingredients, to API Co., Ltd., as of January 31, 2017

F-LNG and offshore structures business reforms

- Decided to terminate F-LNG production as the Aichi Works after completing orders (see page 13 for details).
- Reassessed the value of F-LNG production assets, booking impairment charges for estimated uncollectible amounts while rationally estimating dismantlement costs, recording the amounts as business structure reform expenses.

Settlement expenses for delivered boiler facilities

- In 2015, a customer filed a lawsuit for damages from an accident during commissioning of a boiler that IHI manufactured and delivered to it.
- After concluding that it would be in our best interests to swiftly resolve this case and reduce legal risks, we agreed to pay part of the damages, booking the settlement package, attorney fees, and other related costs.



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

Priority companywide policies in fiscal 2016

Assessment and issues

(1) Reform quality and business systems to reinforce manufacturing capabilities

- Completed rollout of efforts to identify critical quality defects
- Ongoing issues related to strengthening auditing structure and reinforcing quality management, including for joint ventures and procurement
- Need to maintain and accelerate efforts based on three-year plan to reinforce manufacturing capabilities

(2) Reinforce project implementation structure to boost profitability

- Reviewed order and investment examination processes
- Again experienced significant downturns in current major projects
- Most of the deterioration in project profitability stemmed from initial planning
- Need to swiftly identify and address downturns to eliminate them and continue to strengthen our project implementation and risk management structures

Review of Progress and Issues in First Year of Group Management Policies 2016 (2)

Priority companywide policies in fiscal 2016

Assessment and issues

(3) Generate earnings by consistently implementing business strategies

- Need to carefully deploy and maintain PDCA cycle to reach management goals
- Need to further improve ability to generate cash flows
- Made some progress in reforming and overhauling business structure
- Deploying business domain-level policies and accelerating consolidated management of strategic business unit (SBU) are issues

(4) Transform business model through initiatives to build customer value

- Flexibility and responsiveness to identify and resolve needs by communicating closely with customers are issues
- Although we made steady progress in common Group functions and co-creation with SBUs, need to further accelerate effort, including in terms of growth and progress in target projects

Exploration of business structure reforms

- Looked into business structure reforms centered on aluminum SPB tanks in light of dramatically deteriorating profitability since fiscal 2014.
- Mulled need for radical countermeasures in view of the offshore market outlook.

Result of evaluation

- Near-term prospects for a recovery of the offshore market are unclear, partly because of sluggish oil prices
- Operations at the key Aichi Works are unlikely after next year.
- It would be difficult to secure profitability from stable and ongoing construction, including for using the facilities for other businesses.

Result: Terminate manufacturing at Aichi Works after completing current orders

Future policies

- Harness concerted groupwide efforts to complete current SPB cargo tank and FPSO ship construction.
- For after-service following delivery, swiftly set up a specialist organization and appoint experienced and highly skilled personnel to handle requirements professionally while retaining and applying accumulated manufacturing technologies and expertise.
- Optimally reassign Aichi Works personnel elsewhere in the Group and consider new uses for the site.

Offshore development approach

- Continue R&D in offshore development field, focusing on such areas as ocean current energy

Overview

Lot area	734,000 square meters
Construction dock	810 meters long x 92 meters wide x 14 meters deep
Cranes	Two 400-ton Goliath shipyard cranes
Aluminum facilities	Including automated aluminum block welding line and all-weather assembly building
Approximate number of employees at site (As of April 1, 2017)	
• Aichi Works	420
• Affiliates	150



History

May 1973	Aichi Works opens
March 1979	Shipbuilding facilities shut down
December 1989	Shipbuilding recommences
July 1996	Ship completion operations reorganized (transferred from ship and offshore structure unit to machinery and steel structures unit)
March 2001	Yokohama No. 3 Works closed, bridge business transferred to Aichi
April 2009	Marine and Offshore Structures sector established
November 2009	IHI Infrastructure Systems Co., Ltd., established to build bridges. Beginning of consolidation of bridge operations at Sakai Works Japan Tunnel Systems Corporation set up to make shield machines. Start of consolidation of shield machine business at company's Tsurumi plant
March 2017	Agreement concluded to transfer marine crane business to Iknow Machinery Co., Ltd.

Concentration and Selection through New Portfolio Management (1) IHI

- Currently undertaking business structure reforms to bolster profitability, centered on SBUs slated for priority investments.
- For businesses with viability concerns (strategic business units designated for rehabilitation and reorganization), corporate also involved in formulating structural reform plans under implementation to rehabilitate and reorganize within two years (end-fiscal 2017).

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

Business	Category	Timing	Overview
Parking	Concentration	June 2016	Subsidiary IHI Transport Machinery Co., Ltd., receives 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., integrate shield tunneling machine businesses to form JIM Technology Corporation.
Rolling mills (strip casters)	Selection	October 2016	IHI transfers ownership, patent, and other interests in strip caster company Castrup LLC, withdrawing from that business.
Logistics & industrial machinery	Structural reform	October 2016	IHI integrates 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 transfers all shares in IHI Construction Machinery Limited to Kato Works Co., Ltd.

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
Rotating machinery	Concentration	December 2016	Joint venture established with Dalgakiran of Turkey to manufacture and sell general-purpose turbo compressors.
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 (Planned)	Firefighting equipment business of subsidiary IHI Shibaura Machinery Corporation slated to be 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 (Planned)	Subsidiaries IHI Shibaura Machinery Corporation and IHI Star Machinery Corporation to be integrated
Rotating machinery	Structural reform	October 2017 (Planned)	Rotary machinery business (including compressors and separators) to be integrated with operations of subsidiary IHI Compressor and Machinery Co., Ltd.
F-LNG and offshore structures	Selection	Shutdown after order completion	Production at Aichi Works, a key unit for the F-LNG and offshore structure business, to be terminated after orders completed.

Outlook and Initiatives for Year Ending March 31, 2018



	Fiscal 2016 results	Fiscal 2017 targets
Net Sales	¥1,486.3 billion	¥1,550.0 billion
Operating Income (Operating Margin)	¥47.3 billion 3.2%	¥65.0 billion 4.2%
Ordinary income	¥22.0 billion	¥57.0 billion
Profit Attributable to Owners of the Parent	¥5.2 billion	¥23.0 billion
ROIC	5.0%	6.5%
D/E Ratio	1.10	—
Dividends	—	¥6 per share (¥3 interim, ¥3 year-end)
Exchange Rate	¥108.27/US\$	¥105/US\$

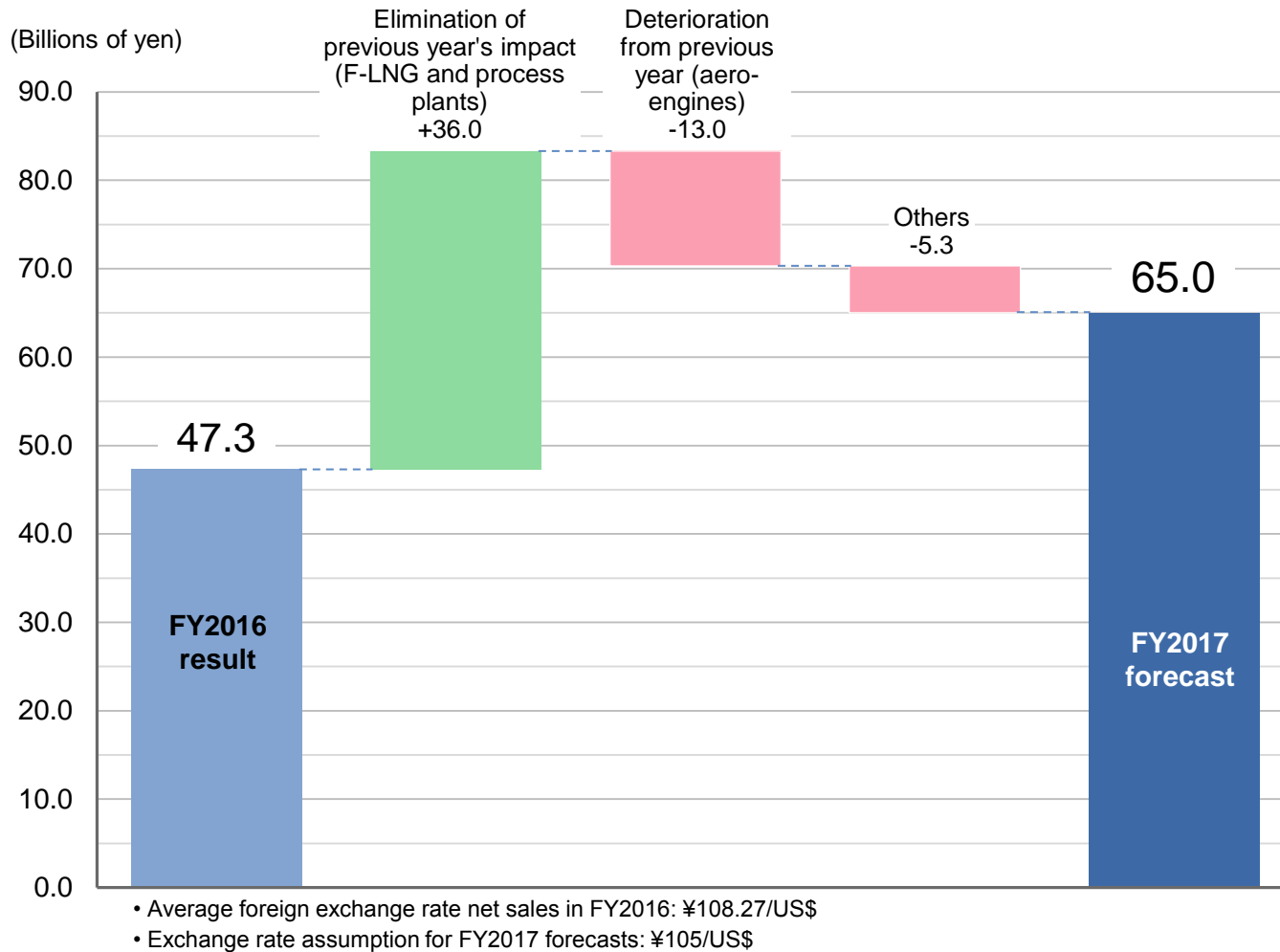
* ROIC (Return On Invested Capital) = (Operating income + Interest and dividend income) after tax / (Owners' equity + Interest-bearing debt)

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

Overview of forecasts for fiscal 2017

- Planning to make all businesses profitable, boosting earnings after eliminating previous year impacts of loss-making projects in Resources, Energy and Environment and Social Infrastructure and Offshore Facilities businesses.
- Planning to pay ¥6 in dividends per share annually.

■ Analysis of fluctuations in operating income (compared with fiscal 2016 results)



■ Changes from fiscal 2016 result

- Elimination of impacts of unprofitable F-LNG and process plant projects
- Deteriorating profitability of aero-engines owing to major increase in shipments of PW1100G engine in initial mass production stage

Forecasts (3)

(Billions of yen)

	Operating Income/Operating Margin		ROIC*		Reference: Net Sales	
	FY2016 (Results)	FY2017 outlook	FY2016 (Results)	FY2017 outlook	FY2016 (Results)	FY2017 outlook
Resources, Energy and Environment	-10.6 -2.5%	23.0 4.3%	-15.2%	30.1%	427.3	540.0
Social Infrastructure and Offshore Facilities	-12.0 -7.6%	8.0 5.3%	-7.3%	4.4%	157.7	150.0
Industrial Systems and General-Purpose Machinery	17.5 4.3%	11.0 2.6%	9.7%	5.9%	411.6	430.0
Aero Engine, Space and Defense	53.0 11.2%	37.0 8.4%	15.2%	10.4%	471.9	440.0
Others	2.5	2.0	-	-	75.1	70.0
Adjustment	-3.0	-16.0	-	-	-57.5	-80.0
Total	47.3 3.2%	65.0 4.2%	5.0%	6.5%	1,486.3	1,550.0

Exchange rate

¥108.27/US\$

¥105/US\$

¥108.27/US\$

¥105/US\$

¥108.27/US\$

¥105/US\$

* ROICs (return on invested capital) by business domain are pretax amounts for portfolio management (weighted average values by SBU)
 Pretax ROIC = Pretax operating income / invested capital (operating capital + fixed assets)

Companywide ROIC is after tax

ROIC after tax = (Operating income + interest and dividend income) after tax / (Owners' equity + interest-bearing debt)

Priority companywide policies for fiscal 2017

Restore trust and drive change
Ensure thorough communication

Thoroughly manage new project implementation and risk management structures

Reform quality and operational systems to bolster manufacturing capabilities

Secure profits by pushing ahead with structural reforms and by deploying business strategies

Transform business model by creating customer value

Create new workplaces and human resources by reforming work practices

Accelerate reforms and emphasize communication

Making reinforcing project implementation structure and risk management system top priorities

Continue to bolster manufacturing capabilities

Push forward with structural reforms and boost profitability

Accelerate creation of customer value

Improve labor productivity and eliminate long working hours

Group Management Policies 2016

Strengthen earnings foundations

Target an operating margin of 7% and ROIC of 10% in fiscal 2017 and 2018 and thoroughly implement policies

Shift from sector to strategic business unit organization

See next page for details

- In April 2017, IHI switched to an SBU-based organization and management structure to clarify authority, responsibilities, and roles to attain the goals of Group Management Policies 2016 and drive Group growth over the medium and long terms

- Halted business division and sector structure, organizing in four business domains of Resources, Energy and Environment, Social Infrastructure and Offshore Structure, Industrial Systems and General-Purpose Machinery, and Aero Engine, Space and Defense
- Set up SBUs to implement operations in domains

Goals

1 Accelerate business structure reforms

- ✓ Oversee implementation through SBUs
- ✓ Implement business level strategies through these units
- ✓ Accelerate concentration and selection

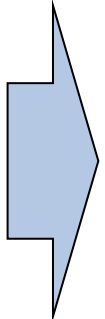
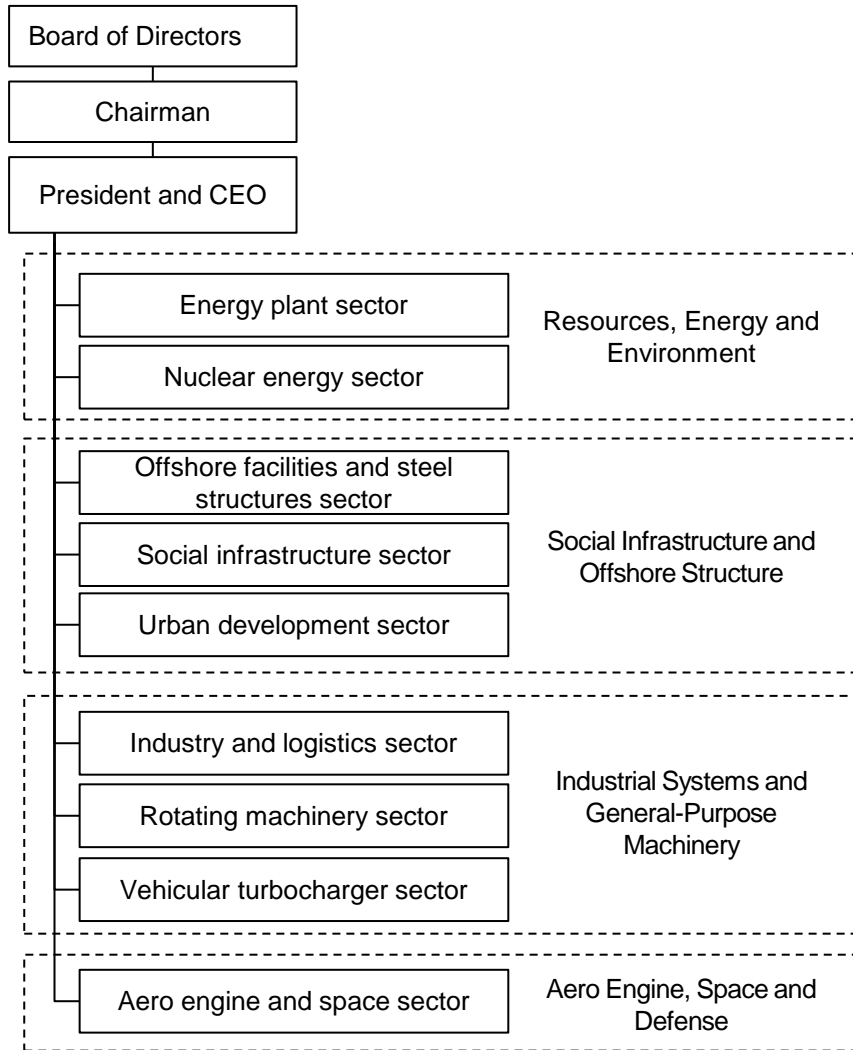
2 Reinforce risk management

- ✓ Reallocate resources to reinforce risk management structure in business domains
- ✓ Strengthen corporate (Group risk management) liaison

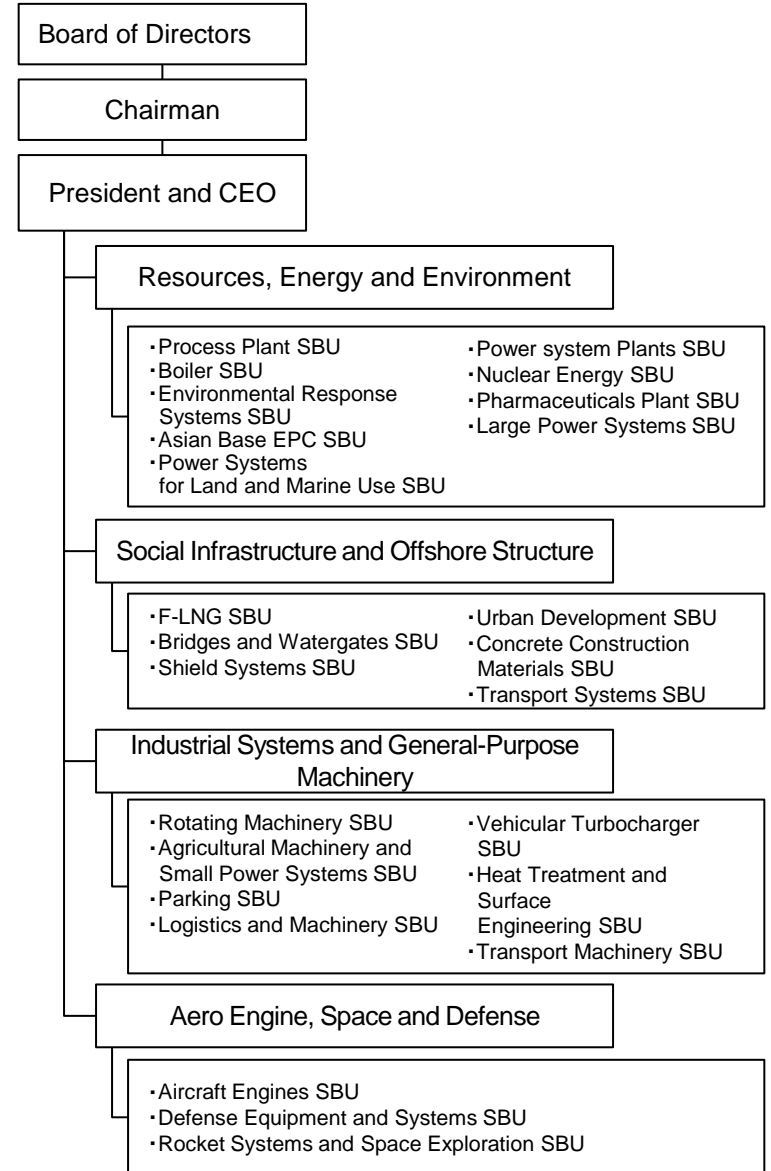
3 Pursue group management

- ✓ For business run by subsidiaries, position the leading company as “SBU Company” to strengthen group management

Sector Organization

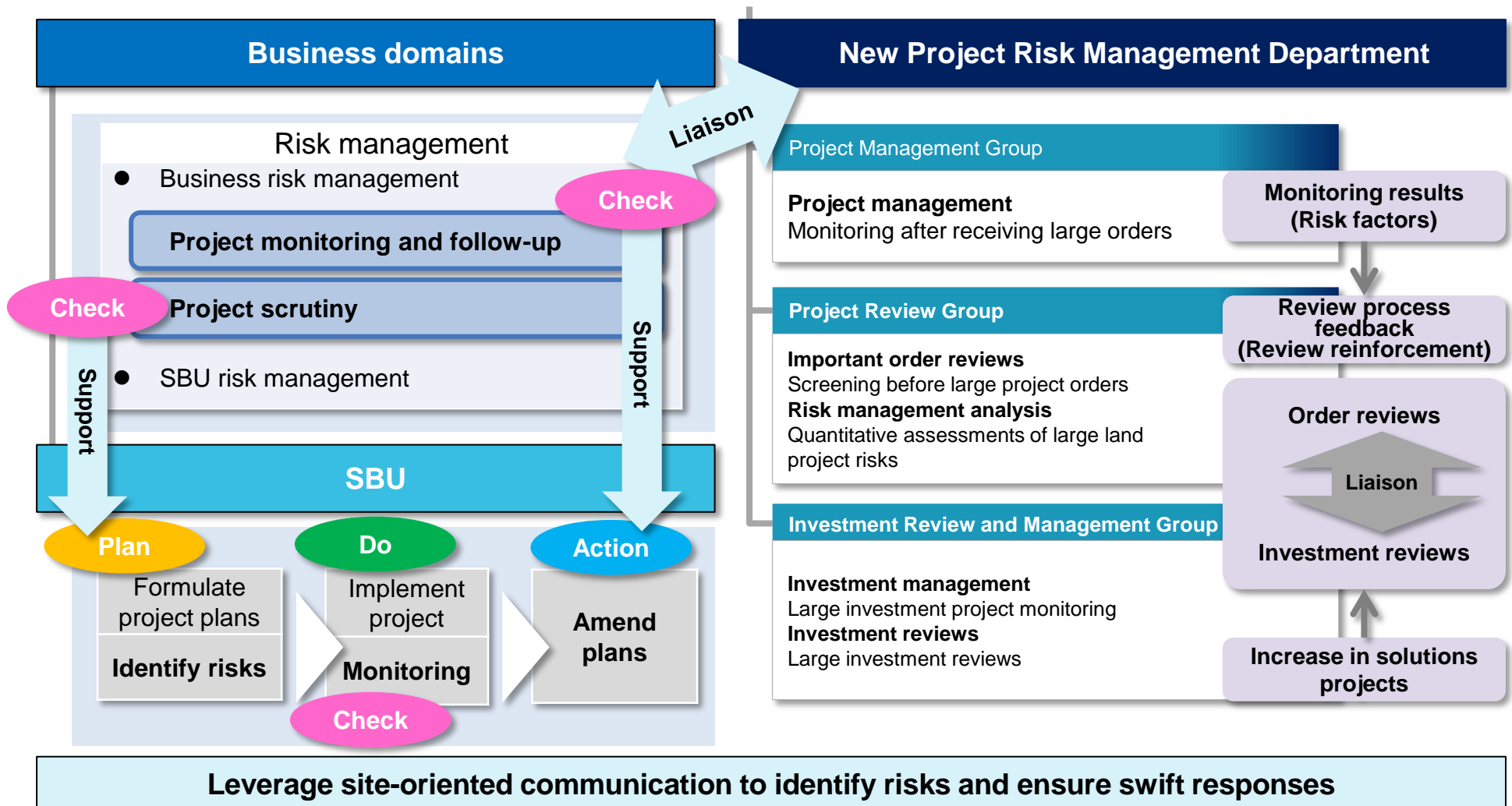


Strategic Business Unit Organization



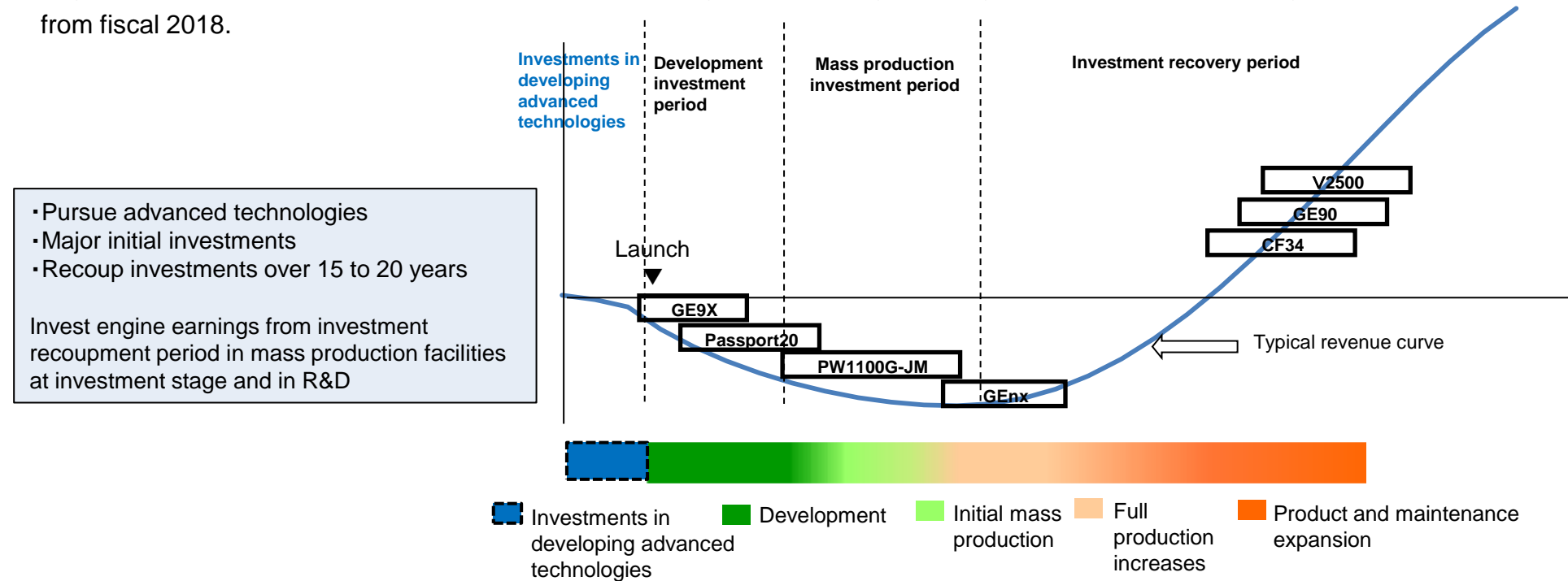
Reinforcing risk management

- Bolster risk management by consolidating large investment review and monitoring functions previously spread among headquarters divisions
- Strengthen project implementation structure to better identify and assess risks through collaboration with business domain risk management

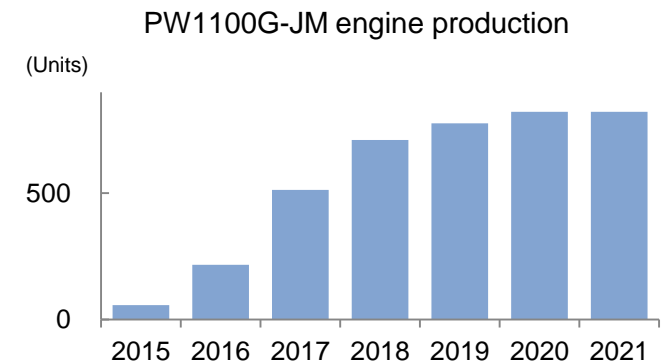


Recover from leveling off in aero engine business

- Although after market earnings from existing programs should steadily increase, increased shipments of the PW1100G-JM engine became burdensome in initial mass production stage, with earnings leveling out in fiscal 2017. Looking to recover from fiscal 2018.



- Continue to increase investments in PW1100G-JM engine production line facilities upgrades, increase unit production, and accelerate cost reductions in initial mass production stages
- Ongoing investments as needed to drive growth
 - Construct new Akishima office
 - Explore rebuilding of production sites
 - Develop advanced technologies for materials technologies and manufacturing techniques

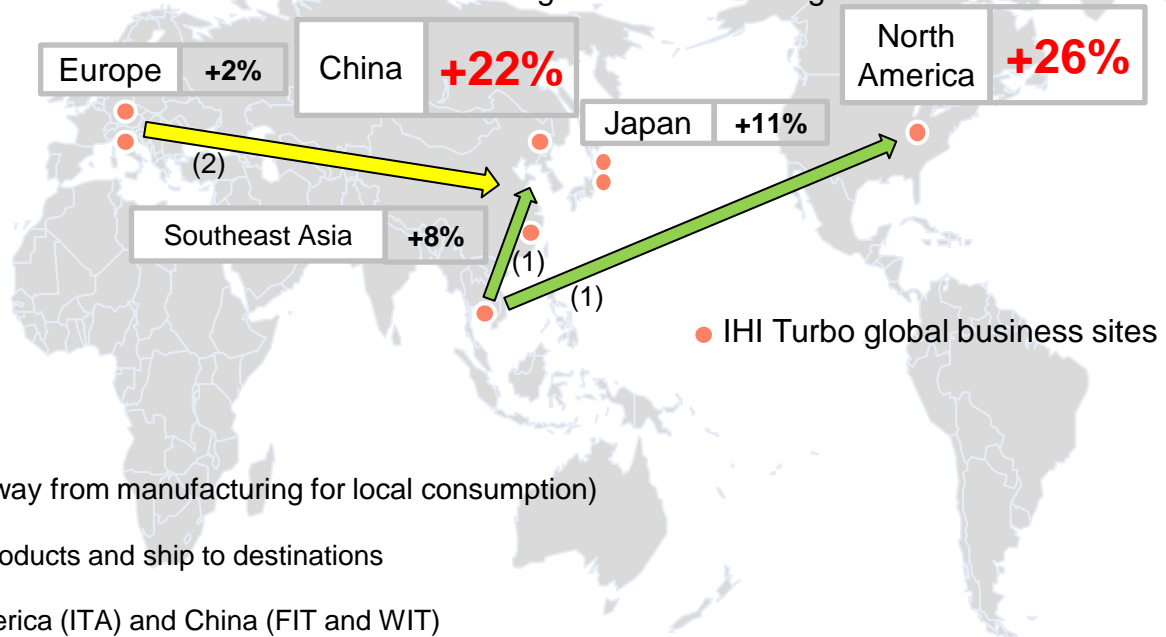
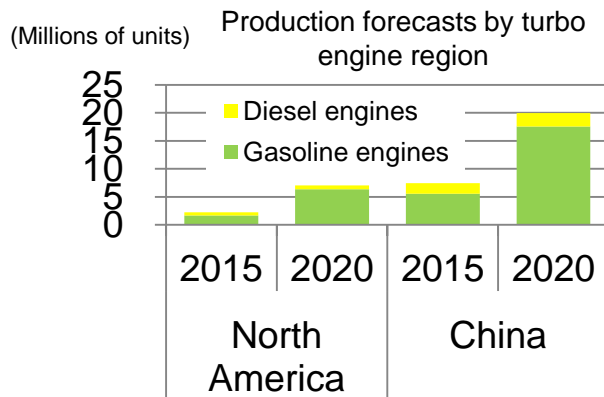


Boost profitability by driving structural reforms

■ Vehicular turbocharger business

- Potential in fast-growing Chinese and North American markets

Percentages shown are average production growth rates for turbo engines in 2015 through 2020



- Build global production network (switch away from manufacturing for local consumption)

Efficiently centralize production of key products and ship to destinations

- Supply (1): Thailand (ITT) → North America (ITA) and China (FIT and WIT)
- Supply (2): Europe (ICSI) → China (FIT and WIT)

Serve growth markets through globally optimized investments and efficient production

* ITT···IHI TURBO(THAILAND)CO.,LTD.
 ITA···IHI Turbo America Co.
 FIT···Changchun FAWER-IHI Turbo Co.,Ltd.
 WIT···WUXI IHI TURBO CO.,LTD.
 ICSI···IHI Charging Systems International GmbH

- In all business domains, undertake structural reforms in keeping with business climate changes and optimize Group human and facilities resources (see pages 15 and 16)

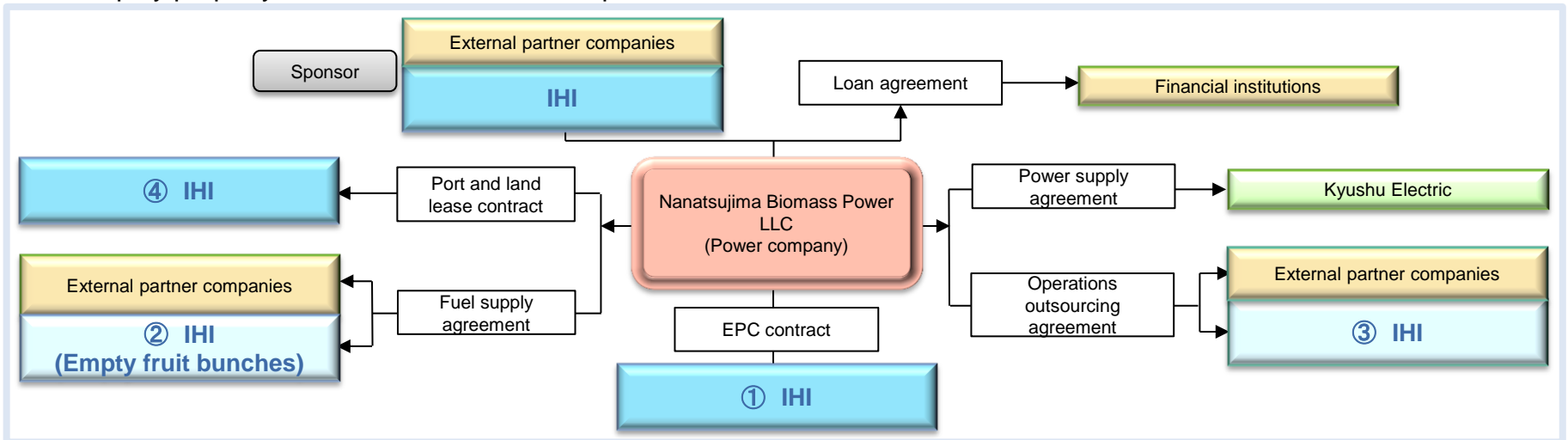
Creating New Customer Value (1)

Biomass power generation business in Nanatsujima, Kagoshima

Contribute to renewable energy and local economic growth

Expand from conventional engineering, procurement, and construction (EPC) business to power business and fuel supply

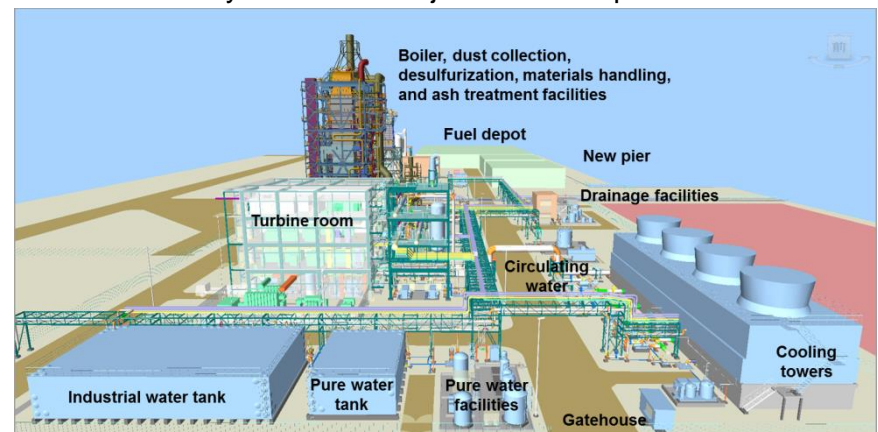
- ①: Collaboration between IHI Group companies and business units, including in Resource, Energy and Environment business
- ②: Explore using palm oil biomass fuel from Southeast Asia, currently under planning as new business
- ③: Leverage operations and maintenance expertise from North American biomass power business
- ④: Employ property knowhow of Urban Development SBU



Facility overview

Generating facilities	49-megawatt biomass generating systems
Location	Nanatsujima 2-chome, Kagoshima-shi, Kagoshima Prefecture
Land area	62,000 square meters
Construction schedule	Construction started in January 2017, slated for completion at end-2018
Annual generating capacity	Around 337,000 megawatt-hours (enough to supply 77,000 households and cut carbon dioxide emissions by 200,000 metric tons)

Planned layout of Nanatsujima Biomass power station



Soma Smart Community Construction Project

Business model of local production and consumption of solar power through regional energy management

- Solar electricity that cannot be transmitted to the regular grid can be converted to hydrogen and heat and used effectively
- Future hydrogen research institutes (for open innovation) can attract hydrogen-related industries

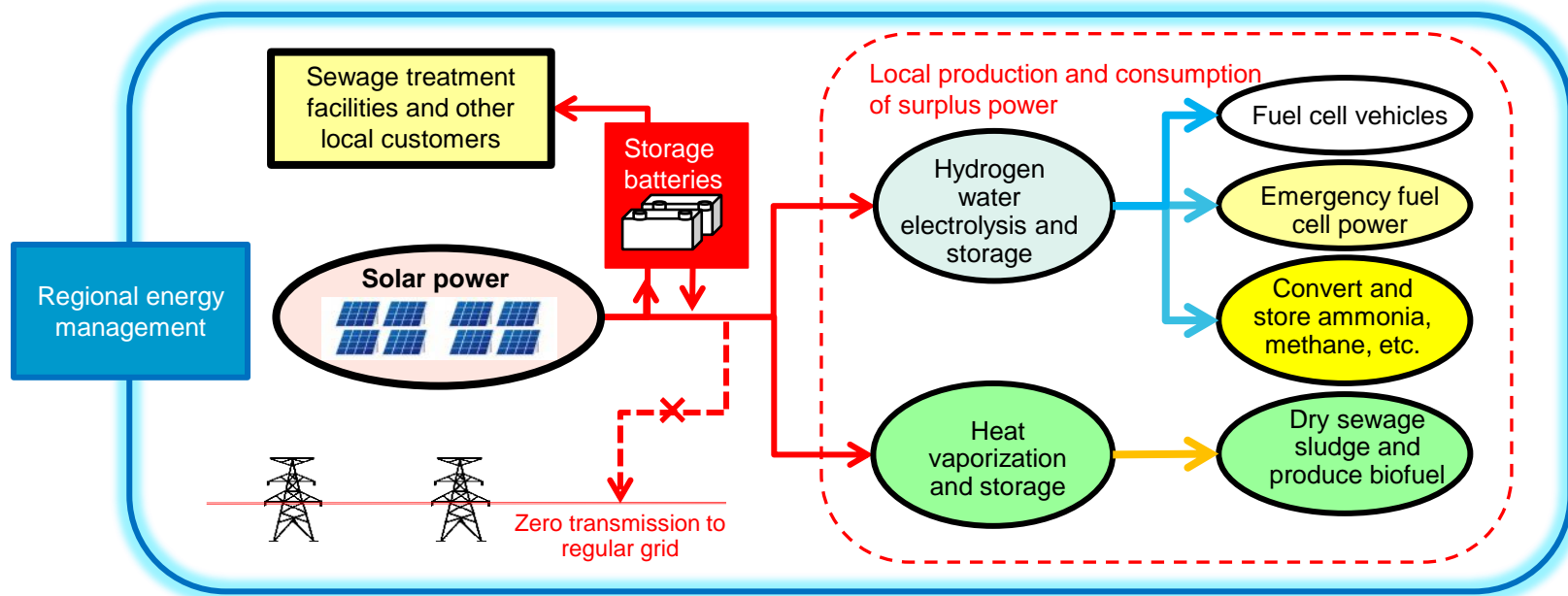
Key concepts

- Local renewable energy production and consumption
- Enhanced disaster prevention
- Business development that revitalizes regions

Soma's goals **IHI's goals**

Collaborating to create recycling-driven, carbon dioxide-free communities

We aim to build a sustainable smart community by materializing Japan's first advanced local renewables production and consumption framework and helping to create a self-sustaining regional business model, contributing to new urban development from reconstruction through revitalization



- Completed basic research and engineering in fiscal 2016. Planning to conduct verification tests in fiscal 2018.

Creating New Customer Value (3)

Advancement of products and services through IoT

Accumulating and analyzing operational data on our products through the IHI Group Lifecycle Partner System (ILIPS), a common platform for remote monitoring and maintenance, to provide new services

1. General-purpose boilers (IHI Packaged Boiler Co., Ltd.)

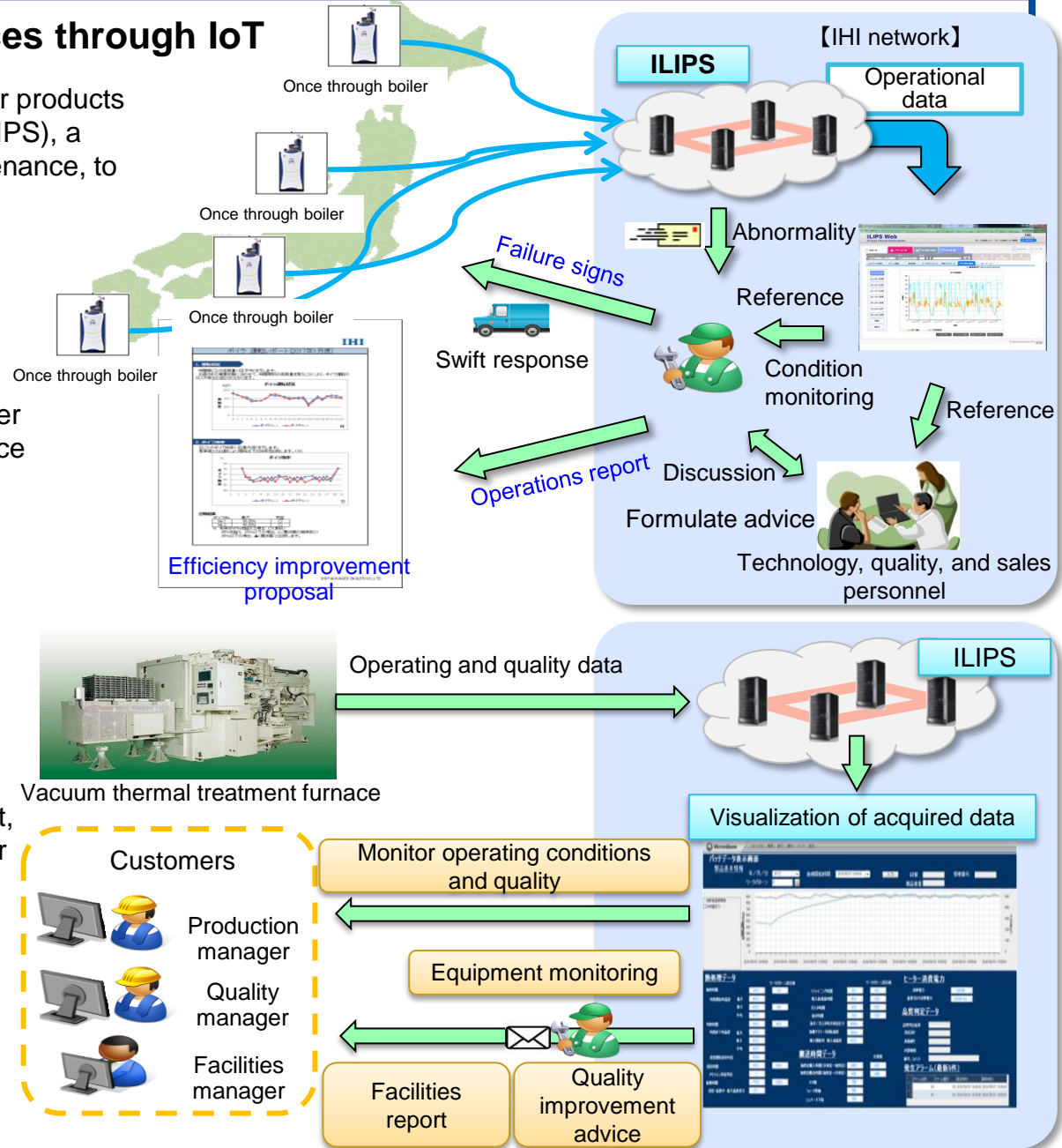
- Improve capacity utilization rates by identifying potential failures
- Provide optimal maintenance in line with customer operational conditions and help lower performance degradation
- Specialized engineers assess data and provide operational advice, such as on reducing fuel

Package above customer value and contract to provide new services

2. Vacuum thermal treatment furnace (IHI Machinery and Furnace Co., Ltd)

- As well as providing thermal treatment equipment, accumulate and analyze quality data on customer products, to enhance quality. Also contribute to new orders from their customers
- Specialized engineers advise on improving thermal treatment processes
- Provide and optimize maintenance plans in line with customer operating conditions

Package above customer value and contract to provide new services





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.