



IHI Report 195th Fiscal Year
April 1, 2011 to March 31, 2012

IHI

Our main objective is to deliver a new era of growth and further expand the IHI Group. We will refocus on one of our core management principles—contributing to the development of society through technology—to create world-leading technology and pursue steady gains in productivity.



Tamotsu Saito

President and Chief Executive Officer

Q. You were appointed President of IHI in April this year. Please tell us about your career at IHI so far.

A. After joining IHI, I was initially assigned to the Mizuho Aero-Engine Works, an aero engine manufacturing facility, where I was involved in engine design, assembly and testing. Through my experience on the factory floor, I learnt the importance of making improvements on a daily basis. I believe these small but gradual improvements eventually add up to underpin our strength in manufacturing, the foundations of the IHI Group. I was subsequently involved in setting up Soma Works and other projects, spending the majority of my career at Aero-Engine & Space Operations. After my appointment as president of the operations and then promotion to the board of directors, I gained even greater experience as the director responsible for various divisions, such as Procurement Strategics, which is tasked with reforming our procurement strategies in response to the strong yen, and the Corporate Business Development Division.

Q. What are your goals as the new President of IHI?

A. When I was asked to become the next President of IHI, I accepted without hesitation. Underpinned by the management framework created by my predecessor, such as stronger internal control system, I will strive to accelerate the three “Paradigm Shifts” targeted under Group Management Policies

2010 in order to transform IHI into a highly profitable corporate group with real growth potential. I hope you continue to support us in these endeavors.

Q. What is your view of results for the fiscal year ended March 31, 2012 (fiscal 2011)?

A. The IHI Group faced an extremely challenging operating environment in the fiscal 2011, the second year of Group Management Policies 2010. Our operations were affected by natural disasters such as the Great East Japan Earthquake, the Central Nagano Earthquake and flooding in Thailand, as well as by power shortages in Japan, the European financial crisis, the historically strong yen, and instability in the crude oil market caused by geopolitical issues surrounding Iran. Despite this backdrop, we reported net sales of ¥1,221.8 billion and ordinary income of ¥41.7 billion, largely in line with our start-of-year forecasts. Also, all our business divisions were in the black for the third consecutive fiscal year.

In addition, we largely completed our efforts to upgrade internal control system, such as stricter criteria for assessing new orders and tighter control over project progress and costs. As a result, I believe

we have put in place the foundations to consistently deliver stable earnings.

Q. In the fiscal 2011, IHI announced plans to integrate its shipbuilding business and make its listed subsidiaries into wholly owned subsidiaries. What is the thinking behind these moves?

A. We started looking into a management integration of our consolidated subsidiary IHI Marine United Inc. (IHIMU) and the JFE Group's Universal Shipbuilding Corporation four years ago. Since then, we and JFE have remained convinced of the need to increase the scale of our shipbuilding businesses. As a result, we concluded a basic agreement in January this year to integrate the two companies (scheduled for October 2012). The new company will be called Japan Marine United Corporation. Although Japan Marine United will be an equity-method affiliate, not a consolidated subsidiary, shipbuilding is our founding business and the company will have strong links with other businesses in the IHI Group.

Also, in order to ensure a smooth start for Japan Marine United, we will pursue synergies between the company and related Group businesses. Regarding our strategy for listed

Earnings Highlights

		(Billions of yen)	
		Fiscal 2011 (results)	Fiscal 2012 (forecasts)
Orders received		1,269.6	1,250.0
Net sales		1,221.8	1,220.0
Operating income		43.3	40.0
Ordinary income		41.7	30.0
Net income		23.8	25.0

Year-end dividend

We have raised the year-end dividend by ¥1.0 to ¥4.0 per share.

subsidiaries, we are preparing to convert IHI Transport Machinery Co., Ltd. (IUK) and Ishikawajima Construction Materials Co., Ltd. into wholly owned subsidiaries. This will enable us to develop and implement long-term strategies based on even closer cooperation across the IHI Group. We are also currently bringing in outside expertise and support in other business fields. This kind of business restructuring is aimed at driving the further growth of the IHI Group.

Q. **You plan to use business restructuring to drive growth over the longer term. However, for the fiscal year ending March 31, 2013, the final year of Group Management Policies 2010, what are the prospects of achieving the plan's target of ¥60 billion in consolidated ordinary income?**

A. Achieving this target will be extremely difficult, as we expect the operating environment in the final year of Group Management Policies 2010 to be as severe, if not more severe, than in the previous fiscal year. However, I believe IHI has the earnings potential to achieve this level of profits. In the current fiscal year, we will focus on the following initiatives in order to attain the target in the near term.

First, in order to secure more orders, we will promote comprehensive operating activity across

multiple business divisions and enhance our competitiveness to handle large-scale projects by restructuring organizations responsible for project engineering, procurement and construction (EPC) in a unified manner in Energy & Resources Operations. We will also develop a growth strategy for new energy and resources fields in line with changes in energy policy and market trends, and that also draws on the strengths of the IHI Group. We will accelerate our shift to a global operating framework by expanding business overseas, particularly in emerging markets, and by stepping up global procurement activities. In the current fiscal year, I plan to use these and other initiatives to focus on transforming IHI into a corporate group with real growth potential, underpinned by a stable operating base.

Q. **Finally, what is your vision for the IHI Group?**

A. My main goal is to deliver a new era of growth and further expand the IHI Group by refocusing on one of our core management principles—contributing to the development of society through technology—to create world-leading technology, and by pursuing steady improvements in productivity. To achieve this goal, we will need to lift profits even higher.

Group Management Policies 2010 are underpinned by three “Paradigm Shifts” in the way we do business: focusing on product lifecycles, strategies emphasizing market requirements, and adopting a global management approach.

Progress in the second year	Key issues for the third and final year
<p style="text-align: center; border: 1px solid #e91e63; padding: 5px; color: #e91e63;">Focusing on product lifecycles</p> <ul style="list-style-type: none"> ● Stably received orders in after-sales services, including orders for urgent projects after the earthquake and Thai floods ● Established marine vessel servicing center in Istanbul 	<p>Step up our global management approach</p> <ul style="list-style-type: none"> ● Establish a Regional Headquarters for Asia-Pacific in Singapore to expand our business in Southeast Asia
<p style="text-align: center; border: 1px solid #e67e22; padding: 5px; color: #e67e22;">Emphasizing market requirements</p> <ul style="list-style-type: none"> ● Responded to post-earthquake rebuilding demand ● Started joint development of household-use wireless charging systems for electric vehicles 	<p>Increase orders</p> <ul style="list-style-type: none"> ● Promote comprehensive operating activity across multiple business divisions ● Target stable orders in the after-sales service field to underpin the Group ● Restructure organizations responsible for project engineering, procurement and construction (EPC) and focus on securing large-scale orders
<p style="text-align: center; border: 1px solid #27ae60; padding: 5px; color: #27ae60;">Global management approach</p> <ul style="list-style-type: none"> ● Established a Regional Headquarters for China in Shanghai ● Received an order to construct the Izmit Bay Bridge in Turkey 	<p>Boost competitiveness</p> <ul style="list-style-type: none"> ● Step up initiatives in engineering and other upstream divisions in order to expand global procurement ● Boost productivity by improving and developing manufacturing processes <p>Realize our growth strategy</p> <ul style="list-style-type: none"> ● Expand the vehicle turbocharger and aero engine businesses and increase profits ● Develop a growth strategy for new energy and resources fields <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;">  <p>Manufacturing biodiesel through mass cultivation of algae</p> </div> <div style="text-align: center;">  <p>Floating wind turbines</p> </div> <div style="text-align: center;">  <p>Tidal stream power generating system</p> </div> </div>
	<p>Shipbuilding business integration</p> <ul style="list-style-type: none"> ● IHI Marine United Inc. and Universal Shipbuilding Corporation are scheduled to be integrated in October 2012. The new company will be called Japan Marine United Corporation (estimated sales: ¥400 billion). ● Aims to be the world's leading shipbuilder in terms of technology, quality and cost ● Planning to generate synergies between the new company and Group businesses <div style="display: flex; align-items: center; justify-content: center; margin-top: 20px;"> <div style="text-align: center;">  <p>IHI Marine United Inc.</p> </div> <div style="margin: 0 20px;">  <p>Universal Shipbuilding Corporation</p> </div> <div style="margin-left: 20px;">  </div> <div style="text-align: center;"> <p style="background-color: #0056b3; color: white; padding: 2px 5px; font-weight: bold;">New company</p>  <p>JMU Japan Marine United Corporation</p> </div> </div>



Energy & Resources

Transportable System to Treat Water Contaminated with Radiation Jointly Developed with Toshiba

IHI and Toshiba Corporation jointly developed a transportable system to treat water contaminated with radiation. Known as SARRY-Aqua, the system was developed by reducing the size of the simplified active water retrieval and recovery (SARRY) polluted water treatment system that has been in operation at the Fukushima Daiichi Nuclear Power Plant since August 2011.

The system can process one ton of contaminated water per hour, lowering the density of radioactive cesium in the water to 10 becquerels per kilogram or less. Installing the system in a small container with dimensions conforming to international standards facilitates transportation for example by truck and enables the treatment of contaminated water and other substances that occur in a variety of locations.



SARRY-Aqua



Ships & Offshore Facilities

Order Received from Ministry of Defense for Helicopter-Carrying Destroyer

IHI Marine United Inc. (IHIMU) received an order from the Japan Ministry of Defense for a helicopter-carrying destroyer (DDH). The ship's standard displacement of 19,500 tons will make it the largest in service with the Japan Maritime Self-Defense Force (JMSDF), with space provided on its single deck for five helicopters to take off or land.

IHIMU has already built DDHs, such as the *Hyuga* and the *Ise*. Based on the technologies and experience gained from these ships, IHIMU will continue to build high-value-added vessels, including those for purposes that require advanced levels of technology.



CGI representation of completed helicopter-carrying destroyer



Social
Infra-
structure

Japan's Largest River Barrage Completed

In January 2012, IHI Infrastructure Systems Co., Ltd. (IIS) delivered the Ohkouzu River movable barrage, a large floodgate built at Ohkouzu-Bunsui in the city of Tsubame, Niigata Prefecture that had been ordered by the Ministry of Land, Infrastructure, Transport and Tourism's Hokuriku Regional Development Bureau. Constructed at Ohkouzu-Bunsui to eliminate the flood damage repeatedly caused by the Shinano River, this radial river gate, the largest in Japan in terms of span, is activated by the largest hydraulic cylinders in the country.

IHI and IIS have been involved in numerous floodgate projects both in Japan and overseas and can boast a track record of more than 8,000 such deliveries. IHI will continue to contribute to infrastructure development throughout the world and develop proactive sales activities by utilizing its high technological capabilities.



The new movable barrage at Ohkouzu



Logistics
Systems &
Industrial
Machinery

Order Received for Africa's Largest Jib Crane

IHI Transport Machinery Co., Ltd. (IUK) received an order from PAENAL Yard in Angola for a 2,500-ton static rotating jib crane, which will be the largest located onshore in Africa. Although capable of hoisting 2,500-ton loads, weight savings have been achieved by the use of light, rugged pipe steel, which led to cost savings for the customer by decreasing the load on the foundations. IUK will conduct development and sales to supply safe, efficient handling machinery.



CGI representation of completed jib crane



Rotating
Equipment
& Mass-
Production
Machinery

Cumulative Production Volume at IHI Turbo Surpasses 20 Million Units

The cumulative production volume of vehicular turbochargers at IHI Turbo Co., Ltd. (ITJ) passed the 20 million unit mark in November 2011.

ITJ commenced turbocharger production in 1970, when the production rate was 13,900 units a year; today it is a million units a year. The cumulative production milestone of the 10 millionth unit was passed in 2001, and thus it has taken around only another 10 years since then to reach 20 million.

Demand for turbochargers has surged in recent years, particularly in Europe, where there are stringent environmental controls. The IHI Group that includes ITJ is working to expand its turbocharger business.



Vehicular turbocharger

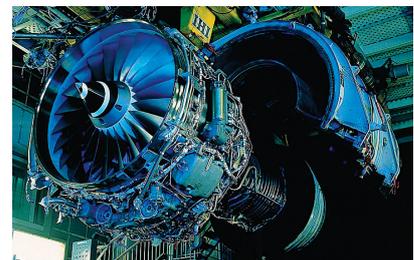


Aero
Engine &
Space

Cumulative Deliveries of IHI Components for Internationally Developed V2500 Civil Aero Engine Reaches 5,000 Units

IHI has taken a 14% share in the development and manufacture of the V2500 aero engine that powers aircraft such as the Airbus A320 and the cumulative number of supplies of the engine's fan module has reached 5,000 units. This achievement ranks third in the history of aero engines.

With the participation in the joint international development of the V2500's successor, the PW1100G-JM, IHI will continue to expand the Company's civil aero-engine business.



V2500 turbofan engine

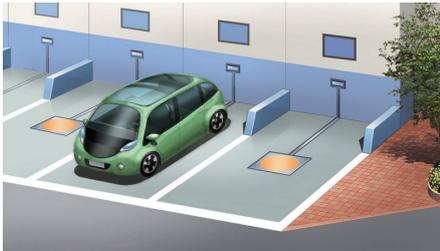


Others

Wireless Charging System Jointly Developed with U.S. Company



Wireless charging equipment



An example of wireless charging equipment installed in an outdoor parking lot

IHI signed a license agreement with WiTricity Corporation to jointly develop wireless charging systems. Wireless charging is a technology by which electric power is transmitted without the need for cables. Since neither charging cables nor power outlets are necessary, electrical equipment will be much easier to use. In addition to IHI working on development with a view to commercializing wireless charging equipment for charging electric vehicles, the IHI Group will be examining the technology's application in various types of industrial machinery.

CSR Activities

Local Contacts in Kochi, India

IHI is in the process of constructing liquefied natural gas (LNG) storage tanks in Kochi, in the Indian state of Kerala. As a member of the local community, IHI sought ways it could contribute to the local community, not only through the construction of the LNG tanks. One example is the presentation of 100 dictionaries and the donation of fabric enough for 50 school uniforms as well as hats, to bring about improvements in the learning environment of a public elementary school situated close to the local IHI office.

Also, by arranging simple quizzes about the construction work, the children gained a deeper understanding of the construction site.

A member of staff at the school offered these words: "Making clear what was being built and its intended use was instructive for the school staff and children alike. We are very grateful for the support you have shown to local learning."

To gain more of an understanding of local people about IHI, the Company will continue with activities that meet local needs.



School uniform fabric donation ceremony



Children wearing hats bearing the IHI logo