

IHI Report

Interim Report for 196th Fiscal Year
April 1, 2012 to September 30, 2012



The IHI Group has adopted “Realize your dreams” as the new corporate message. Our mission is to realize “growth” through the creation of value for all our customers across the world.

Q Half a year has passed since you were appointed President in April. Looking back, please provide a summary of this period.

A The operating environment surrounding the IHI Group has been extremely difficult both in Japan and overseas with factors such as the prolonged European debt crisis, a slowdown in the emerging economies, and the continuation of the strong yen.

Orders received on a consolidated basis for the six months ended September 30, 2012 totaled ¥589.0 billion. Among the orders were boiler construction for a large coal-fired thermal power plant in Taiwan and three units of shipbuilding orders, including a helicopter-carrying destroyer. Although consolidated net sales ended ¥15.0 billion short of the initial forecast at ¥564.9 billion, consolidated operating income was ¥14.5 billion, ¥4.5 billion higher than the initial forecast, which was due in part to solid performances such as aero engines. Continuing on from the preceding three periods since fiscal 2009, all business divisions were in the black in the current six months.

In addition, the IHI Group has proceeded actively with new initiatives including making Meisei Electric Co., Ltd. a subsidiary, and participating in a mega-solar project in Kagoshima, which is being jointly developed with Kyocera Corporation etc., and a biomass power generation project in the United States.

In the second half of the fiscal year ending March 31, 2013, the IHI Group will continue with its various initiatives to date to focus on transforming IHI into a corporate group with real growth potential, underpinned by a stable operating base.

Q In November, the IHI Group announced “Group Management Policies 2013,” the medium-term management plan for the next three years. Please comment on these management policies.

A The keyword in the “Group Management Policies 2013” is “growth.”

The current fiscal year is the third and final year of “Group Management Policies 2010.” Under these management policies, the IHI Group implemented various initiatives to proceed with stabilizing the business foundation, strengthening business selection and concentration, and globalization. Achievements through these initiatives included profitability in all business divisions for three consecutive years, the expansion of aero engines and vehicular turbochargers businesses, the merger of the marine businesses, and establishment of regional headquarters in Asia and China. I believe these initiatives resulted in improved operating stability.

Despite these achievements, the tremendous changes in the external environment caused by the rapidly strengthening yen, the Great East Japan Earthquake and other factors have made it extremely difficult to achieve our target of consolidated net sales of ¥1,400.0 billion and consolidated ordinary income of ¥60.0 billion.

In addition, when the trend of our net sales is compared with the trend of the growth rate of the global economy, which is in rapid growth centered on emerging countries, we must unfortunately say it is lagging behind the speed of world growth. As for profits, we are conscious of inadequacies in that area as well. It is necessary that we catch up to the speed of world growth and contribute to the development of our society.

Under the “Group Management Policies 2013,” which will begin in fiscal 2013, we will bring the total power of the IHI Group together to realize growth of net sales and profitability expeditiously.

Q It is very clear that the IHI Group aims to realize growth under the new “Group Management Policies 2013.” The IHI Group also announced a new corporate message in September. Please explain this message.

A In 2013, it will be 160 years since IHI’s foundation, and with this timing, IHI has decided on a new corporate message: “Realize your dreams.” A TV commercial is being broadcasted to popularize the message.

The intent of the new message is to express that by bringing together the IHI Group’s “Monozukuri Technology” (the technology used to improve the competitiveness of products and services offered, by strengthening the capabilities required in development, design, supply, manufacture and construction), we hope to “realize” the dreams and goals of the people of this world. Through these actions, we intend to fulfill our corporate social responsibility. It is the IHI Group’s mission to take a leading role in creating and offering “safety and security” and “quality of life” for each person in the world.

As we look to achieve further growth and expansion, the IHI Group’s posture of creating the world-leading technology and pursuing the steady improvements in daily productivity remains essential under the management principle of “Contributing to the development of society through technology.” I ask for your continued support of our endeavors.



Tamotsu Saito
President and Chief Executive Officer

● **Earnings Highlights (Consolidated)**

(Billions of yen)

	Six months ended September 30, 2012	Fiscal 2012 (forecasts)
Orders received	589.0	1,330.0
Net sales	564.9	1,240.0
Operating income	14.5	35.0
Ordinary income	11.6	28.0
Net income	11.8	19.0

● **Interim Dividend**

Unfortunately, due to considerable uncertainty in our operating environment, we have decided to suspend the interim dividend this year.

In November 2012, the IHI Group announced the “Group Management Policies 2013,” which is to start in fiscal 2013.

I Positioning of “Group Management Policies 2013”

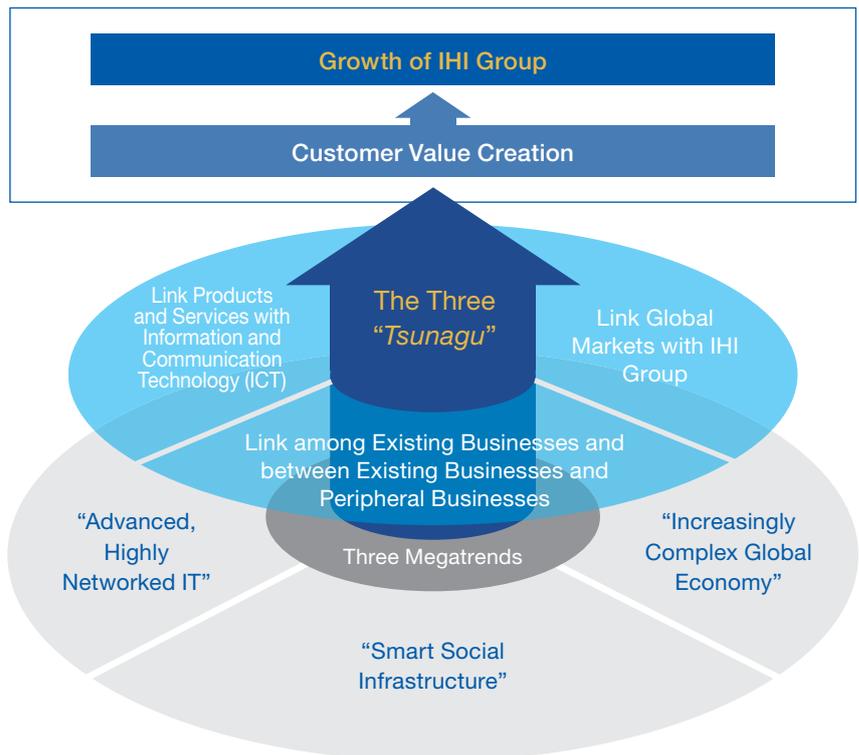
We positioned “Group Management Policies 2007” as a period in which to develop a foundation for growth and “Group Management Policies 2010” as a period in which to establish a growth trajectory.

“Group Management Policies 2013” is positioned as a period to realize “growth” by building on the foundation that has been laid by our achievements to date.



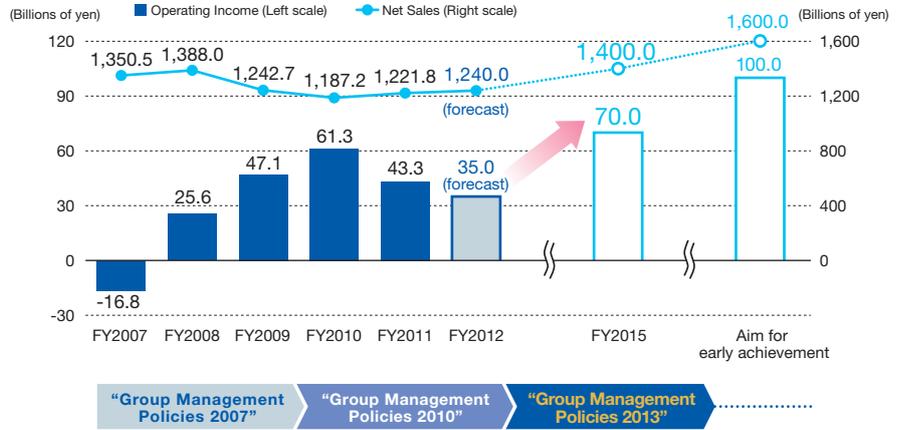
II Trend of Environment and Path toward Growth in “Group Management Policies 2013”

IHI identifies three megatrends that exist in our society: “Smart Social Infrastructure,” “Advanced, Highly Networked IT,” and “Increasingly Complex Global Economy.” By strengthening three “*Tsunagu*” (Links) based on these three megatrends, IHI will create customer value and realize growth of the IHI Group.



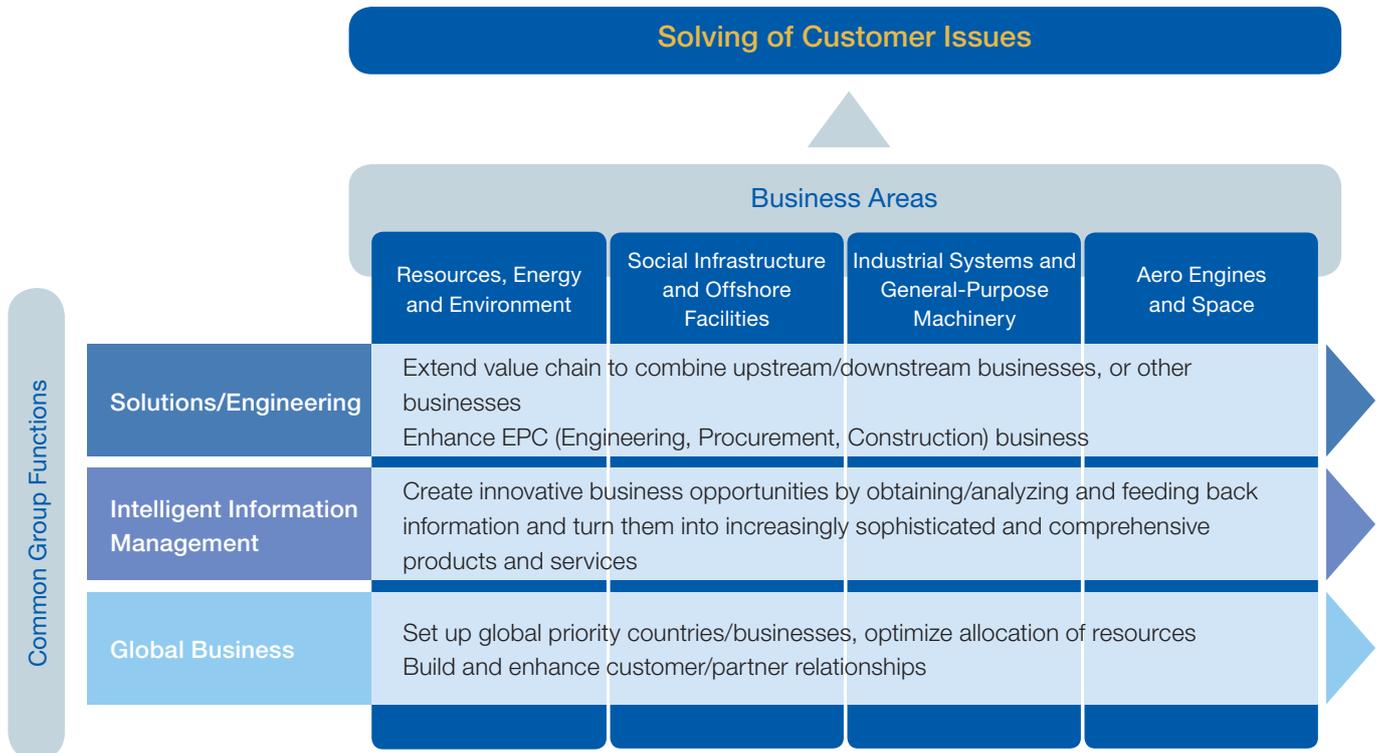
III Targets

By fiscal 2015, IHI Group aims for the IHI Group to achieve consolidated net sales of ¥1,400.0 billion and consolidated operating income of ¥70.0 billion.



IV Four Business Areas and Common Group Functions

Based on the three megatrends, IHI Group has realigned its business activities of the IHI Group into four business areas that correspond to market characteristics so that customer issues can be better solved. In addition, IHI Group will strengthen three common group functions to promote its efforts towards the three "Tsunagu," in order to realize growth in all business areas.





Energy & Resources

Orders Received for Construction of Large Coal-Fired Ultra-Supercritical Pressure Thermal Power Plant (800MW) in Taiwan

IHI and its consortium partners, Sumitomo Corporation, Toshiba Corporation, and CTCI Corporation of Taiwan, have received orders for engineering, procurement and construction of Unit 1 and Unit 2, each with an output of 800 megawatts, at Talin Thermal Power Plant in Taiwan. The commercial operation dates are scheduled in 2016 for Unit 1 and 2017 for Unit 2.

In addition to our role to supply boilers, IHI is the consortium leader in this project. The ultra-supercritical pressure coal-fired boilers that IHI and its partners will build for the power plant will provide higher power generating efficiency by producing steam at ultra-high temperature and pressure, which allows a reduction in environmental impact through less CO₂ emissions.

IHI will continue to be involved in power plant construction projects in many countries around the world.



Jimah coal-fired thermal power plant in Malaysia, a previous project of IHI together with Sumitomo Corporation and Toshiba Corporation



Ships & Offshore Facilities

Order Received from Ministry of Defense for Fiscal 2012 Helicopter-Carrying Destroyer

IHI Marine United Inc. (IHIMU) received an order from the Japan Ministry of Defense for a helicopter-carrying destroyer as part of its fiscal 2012 plan.

The ship is a flush-decked helicopter-carrying destroyer with a standard displacement of 19,500 tons. It is the second of its type with the first ship currently under construction at IHIMU's Yokohama Shipyard.

Using the technologies and experience gained from constructing destroyers, IHIMU will continue to build high-value-added vessels, including those for purposes that require advanced levels of technology.



CGI representation of completed ship



Social Infrastructure

Huey P. Long Bridge (U.S.) Widening Work Completed

One of IHI's U.S. subsidiary, IHI Inc. and its joint-venture partners, Massman Construction Co. (U.S.) and Trailer Brothers (U.S.), have completed widening work on the "Huey P. Long Bridge," a truss bridge* spanning the Mississippi river.

In addition to widening the deck roadway from 2 lanes in a single direction to 3 lanes to accommodate greater traffic flow, the aging bridge was also reinforced.

IHI has been previously involved in more than 20 bridge projects in the U.S. including large bridges such as the cable-stayed Luling Bridge. IHI expects this project will lead to further opportunities for orders in Japan and other countries.



Huey P. Long Bridge

* Bridge that uses a truss (structure formed by triangular elements) as its main structure



Logistics Systems & Industrial Machinery

Launch of In-Line Heat Treatment Equipment that Dramatically Improves Productivity of Machine Processing

IHI and IHI Machinery and Furnace Co., Ltd. (IMS) have started to sell “in-line heat treatment equipment” that turns the conventional knowledge of heat treatment processes on its head.

Through our originally developed water-based mist cooling and the reduction of equipment size, it is no longer necessary to meet the requirements of the Japanese Fire Service Act or have a cleaning process that is required by conventional oil-cooled equipment, and the heat treatment process can now be incorporated in the processing line. Moreover, in addition to heat treatment, the equipment also performs surface treatment, making its use applicable for a wide range of components.

IHI and IMS plan to continue our development of this equipment, which dramatically improves productivity at a low cost, focusing on automobile related manufacturers.

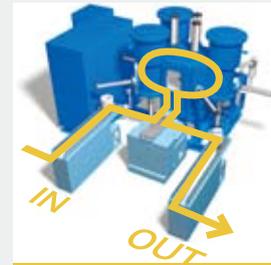


Image of entire in-line heat treatment equipment



Rotating Equipment & Mass-Production Machinery

Development of Compact Binary Power Generation System with Maximum Output of 20 Kilowatt

IHI has developed a “compact binary power generation* system,” which is a revolutionary device that can use warm water less than 100°C that is generated in factories etc.

This system is able to extract energy from small amounts of warm water that up until now would have been considered impractical for heat recovery. The electric power generator that is the heart of this system employs turbo machinery technology that was developed for turbochargers in automobiles and ships, and industrial compressors.

Aiming to start selling this system in fiscal 2013, we will continue to expand the line up to support the energy conservation and power generation needs of our customers.

* Binary power generation is a method of power generation whereby a medium with a low boiling point is heated to create steam and electricity is obtained from a turbine that is rotated by that steam.

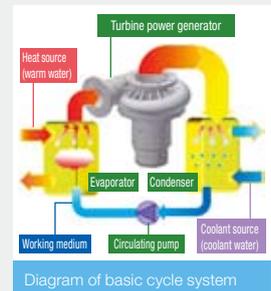


Diagram of basic cycle system



Aero Engine & Space

Re-Entry Observation System “i-Ball” on “KOUNOTORI” Successfully Acquired Data Taken During Re-Entry

IHI Aerospace Co., Ltd. (IA) developed the re-entry observation system “i-Ball” to acquire data and images when spacecraft such as the H-II Transfer Vehicle “KOUNOTORI” re-enter the atmosphere.

The “i-Ball” was transported to the International Space Station on the “KOUNOTORI 3,” which was launched using the H-II B launch vehicle No. 3 on July 21 as a joint experiment with Japan Aerospace Exploration Agency (JAXA). On September 14, the “i-Ball” re-entered the atmosphere together with “KOUNOTORI 3” and it successfully took images of the “KOUNOTORI” and obtained data such as acceleration.

IA will continue research and development of systems for re-entry into the atmosphere.



Depiction of re-entering the atmosphere



“i-Ball,” which successfully completed its re-entry mission



Others

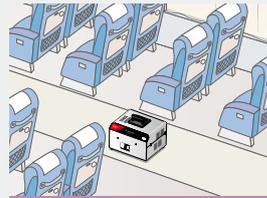


Development of New Ozone Deodorizer/Sterilizer for Vehicle Installation

IHI has teamed up with J-BUS Ltd. to develop “E-OZONE,” a new type of ozone deodorizer/sterilizer for vehicle installation that uses ozone gas to quickly deodorize and sterilize the inside of buses and other vehicles.

Ozone is generated at a stable rate using a new, high-performance ozonizer developed by IHI, and then the ozone gas flows throughout the inside of the vehicle within a short time (30 to 60 minutes for large buses), effectively removing odors and bacteria attached to the seats, curtains and other interior fittings.

This product is being sold by Hino Motors, Ltd. and vehicle sales companies of Isuzu Motors Limited. IHI is continuing to develop the product for not only buses but also trucks.



Depiction of “E-OZONE” in use



E-OZONE

Close-Up



Weather observation on land

Visual image of collected temperature data
Source: Japan Meteorological Agency website



AMeDAS

Automated Meteorological Data Acquisition System

Meisei Electric Co., Ltd. becomes a member of the IHI Group

In June, IHI acquired 51% of the common shares of Meisei Electric Co., Ltd. to make the company a subsidiary.

Meisei Electric is an electric and communications company that operates an environmental measurement business such as various meteorological measurements including AMeDAS; disaster prevention systems business such as an earthquake observation and warning system; and a space related business including satellite observation equipment and rocket measurement equipment etc. that were used on spacecraft such as “Hayabusa” and “Kaguya.” In all of these fields, Meisei Electric has strong technological knowhow and development capabilities.

By making Meisei Electric an IHI’s subsidiary, IHI can now realize synergies through cooperation between the businesses of Meisei Electric and the accumulated knowhow of the IHI Group in the security business, which handles laser radar for railway crossing surveillance etc., the field of space utilization such as satellite technology, and the field of social infrastructure such as water gates. Through such cooperation, both IHI and Meisei Electric can look forward to boosted corporate value.

● Meisei Electric Co., Ltd. (TSE Second Section)

Incorporated: February 20, 1938

Capital: ¥2,996 million

Net sales: ¥9,025 million (Fiscal 2011; consolidated)





Realize your dreams

We want to realize the dreams of the world.

This is why we want to contribute on a global level by fully understanding the needs of customers and people.

Therefore our work focuses on capturing the essence of technology and manufacturing skills to deliver products that are of true value.

We feel it is our duty to support our global community by being the first to connect it to the most advanced solutions in technology.

Our dream is to be entrusted with turning the world's aspirations into a reality.

Inquiries regarding administrative procedures for stocks

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