

IHI REPORT

IHI
Realize your dreams

197th Fiscal Year

April 1, 2013 to March 31, 2014





The IHI Group was able to steadily make its first steps toward the realization of growth set out in “Group Management Policies 2013.” We will implement further measures to accelerate growth.

Tamotsu Saito

President and Chief Executive Officer

Q The fiscal year ended March 31, 2014 (FY2013) was the first year of “Group Management Policies 2013,” IHI’s medium-term management plan. Taking a look back over the year, how do you think about this year?

A On a consolidated basis for the year, we have recorded net sales of ¥1,304 billion, operating income of ¥53.2 billion, ordinary income also of ¥53.2 billion, and net income of ¥33.1 billion. We achieved operating profit across all of our reportable segments for five consecutive fiscal years and also set a new record for ordinary income. For orders received, which was one of the biggest challenges, it amounted to ¥1,458.9 billion, greatly surpassing the ¥1,225.6 of the previous fiscal year and achieved our first-year target. This has come from the result of proactively developing business activities in four business areas that were reconfigured in accordance with market characteristics under “Group Management Policies 2013.” Furthermore, our efforts of

strengthening three shared group functions, namely in the “Solution/Engineering,” “Intelligent Information Management,” and “Global Business,” have also come as a result.

As a conclusion, I believe that we were able to steadily make the first steps toward the realization of growth set out for the first year of “Group Management Policies 2013.”

●Earnings Highlights (Consolidated)

(Billions of yen)

Items	FY2013 (Actual)	FY2014 (Forecast)
Orders received	1,458.9	1,550.0
Net sales	1,304.0	1,440.0
Operating income	53.2	65.0
Ordinary income	53.2	57.0
Net income	33.1	35.0

Q Moving steadily ahead toward the realization of growth, please tell us about the targets and tasks for FY2014, the middle fiscal year of the medium-term management plan.

A Our consolidated forecasts for FY2014 are net sales of ¥1,440 billion, operating income of ¥65 billion, ordinary income of ¥57 billion, and net income of ¥35 billion. The exchange rate assumed for these numerical values is ¥100 to the U.S. dollar. If they are achieved, each target will represent an all-time record.

To achieve these targets, the important factor is thoroughgoing control and rapid response to the complex and diversifying risks that the IHI Group will face. To accelerate growth, we will differentiate our products and services outside the framework of our existing businesses by enhancing and leveraging the three previously mentioned shared group functions. In addition to stably securing lucrative orders received, we will engage in strengthening our cost competitiveness by thorough cost-reduction initiatives and in profit structure reforms by changing our business models. We will also advance business selection and concentration to generate management resources, accelerate growth by allocating those management resources mainly to growth/focus businesses and core businesses, and will make progress toward achieving the targets.

Q The three headquarters of shared group functions are an important factor for growth. What kind of specific achievements were made in the first year of “Group Management Policies 2013?” Additionally, would you tell us about the tasks for the coming year?

A Each of three headquarters has been working hard toward its own goals described in the table below. As some of tangible results, firstly, the Solution & Engineering Headquarters supported to receive orders for projects. Specifically, it helped receive an order from Toyama University Hospital covering the construction and management of a parking lot, as well as an order for solar power generation business from a Japanese power generation company. In the years to come, we are going to strengthen efforts toward broadening the scope of target businesses. The Intelligent Information

Headquarters of Shared Group Functions	Goals
Solution & Engineering Headquarters	Tsunagu: the link among existing businesses and between existing businesses and peripheral businesses aims to solve customer problems by linking products, services and technologies in multiple business areas in line with customers' needs.
Intelligent Information Management Headquarters	Tsunagu: the link of products and services with information and communication technology (ICT) aims to gain the trust of customers by suggesting the most suitable services, while gathering and analyzing a variety of information from customers on the IHI Group's products and services with the best use of the latest ICT.
Global Marketing Headquarters	Tsunagu: the link of global markets with the IHI Group aims to strengthen relationships between customers and the IHI Group by enhancing marketing activities based on local needs and regional headquarters functions.



Management Headquarters has developed common systems to accumulate information of operational status and maintenance of IHI Group's products which have supplied to customers. Also, the Headquarters made progress with the applications of those common systems for the Group's products. In the years ahead, we will work to broaden their applications as well as developing new models and businesses using those systems. The Global Marketing Headquarters worked to build, maintain, and develop relationships toward customers and partners by promoting the IHI Group-wide activities as "All IHI Group" that contribute to regional development, such as IHI Forum 2013, which were held in Indonesia, etc. In the years to come, in addition to these activities, we will work to enhance our marketing functions by global key country such as Indonesia and enhance the functions of our regional headquarters located in New York, Shanghai, and Singapore.

Q In conclusion, please provide a message to convey to all your shareholders.

A As I mentioned earlier, the IHI Group was able to steadily make progress in the first year of its "Group Management Policies 2013." Under "Group Management Policies 2013," with

the assumed exchange rate of ¥100 to the U.S. dollar, we have set numerical targets for consolidated net sales of ¥1,530 billion and consolidated operating income of ¥90 billion in FY2015, which is the final year of the said policy.

The IHI Group will aim to achieve these targets and steadily implement the measures described so far. The IHI Group will also operate on the basis of its Management Philosophy, "Contributing to the development of society through technology," and every employee will carry out his or her duties based on the "three actuals" principle that places an emphasis on going to the actual place, seeing the actual things, and knowing the actual situation. Working to improve the quality of each business process, the IHI Group will continue to make our foundation for growth even more robust by raising the level of those *monozukuri* (manufacturing) technical capabilities, including capabilities in sales and design technologies.

We will continue our evolution toward becoming a corporate group that makes dreams come true for customers and people across the world in accordance with our corporate message: Realize your dreams.

I would like to express my gratitude to all IHI Group shareholders, in heartfelt appreciation and eager anticipation of your invaluable, ongoing support.

● Year-end Dividend

We have raised the year-end dividend by ¥1 to ¥6 per share.

Deeming the “securing orders in the global market” to be one of the biggest challenges we face toward achieving its management targets under “Group Management Policies 2013,” the IHI Group has been working diligently across its four business divisions. As a result, orders received by the IHI Group in FY2013 amounted to ¥1,458.9 billion and thus exceeded the target of ¥1,400 billion. We would like to introduce some of our challenges.



Resources, Energy and Environment

Received orders to construct the largest liquefied natural gas (LNG) storage tanks in India

We received an order from India’s Petronet LNG Limited to construct LNG storage tanks for the company’s Dahej LNG receiving terminal. Expanding the LNG receiving terminal that the IHI Group delivered in 2004, IHI takes charge of the engineering, procurement, and construction of two LNG storage tanks, each with a capacity of 170,000 m³ in this construction. The construction is scheduled to be completed in 2016.

The IHI Group’s share will reach to 70 percent of LNG storage tanks in India by the receipt of this order.



The LNG storage tanks for the Kochi LNG receiving terminal that IHI delivered to India’s Petronet LNG Limited in 2012.



Social Infrastructure and Offshore Facilities

Order received from Turkey for the “First and the Second Bosphorus Bridge Rehabilitation Project”

IHI Infrastructure Systems Co., Ltd. announced that, jointly with MAKYOL İnşaat Sanayi Turizm ve Ticaret A.Ş., a leading general constructor in Turkey, has signed a contract for the First and the Second Bosphorus Bridge Rehabilitation Project with the owner of the bridge, General Directorate of Highways. Both bridges are part of the main road in Istanbul connecting Europe and Asia, and have more than 400,000 vehicles pass over them every day.

In addition to the current construction of Izmit Bay Crossing Bridge Project, the IHI Group has a track record of completed projects in Turkey, including the construction of the Second Bosphorus Bridge and the Golden Horn Bridge, and the Seismic Reinforcement Project on 15 major bridges in Istanbul. The IHI Group continues to work on Turkish road infrastructure development.



The Second Bosphorus Bridge



Industrial Systems and General-Purpose Machinery

EvaCryo, new vacuum vapor degreaser selling well

Developed by IHI Machinery and Furnace Co., Ltd., the EvaCryo won the Minister of Economy, Trade and Industry Award, the highest award at the Japan Machinery Federation's 2013 Fiscal Year (34th) Excellent Energy-Saving Machinery Awards. Compared to conventional models, the EvaCryo is an innovative machine that reduces energy consumption by more than 50% and also offers better cleaning performance and saves space. An increasing number of units are being sold to makers of metallic parts for industrial machines, aircraft, and automobiles.



IHI Machinery and Furnace Co., Ltd.'s EvaCryo, vacuum vapor degreaser

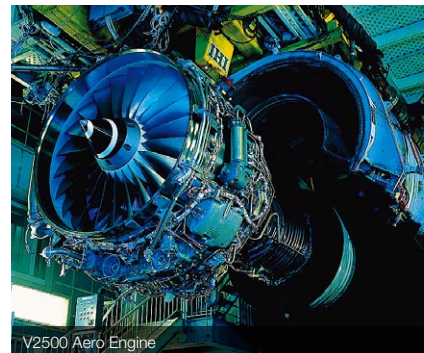


Aero Engine, Space and Defense

Attained the 1,500 mark for the cumulative total of V2500 aero engines overhauled

In March 2014, IHI attained the 1,500 mark for the cumulative total of V2500 aero engine overhauls. The V2500 was jointly developed by five countries—Japan, the United States, the United Kingdom, Germany, and Italy—as an aircraft engine to power medium-size airliners. Since it was first used on commercial flights in 1989, the V2500 has used by more than 190 airlines in 70 countries worldwide, mainly on Airbus S.A.S.'s A320 series.

Carrying out V2500 overhauls at Mizuho Aero-Engine Works as its base, IHI has a market share of approximately 40% in the region of Asia.



V2500 Aero Engine



Close-up Started operations of Kagoshima Nanatsujima Mega Solar Power Plant

On November 1, 2013, the Kagoshima Nanatsujima Mega Solar Power Plant started sales of electricity to Kyushu Electric Power Co., Inc. The Plant was constructed on IHI-owned land at 2 Nanatsujima, Kagoshima City, Kagoshima Prefecture.

The Plant is operated by Kagoshima Mega Solar Power Corp., which was established by capital investment from a seven-company consortium that includes IHI. The site of the solar power plant covers approximately 1,270,000 m² (approx. 314 acres) and the forecast of approximately 78,800 MWh electricity generated per year makes Nanatsujima one of the largest solar power plant in Japan.

The plant's annual power generation is equivalent to the annual consumption of roughly 22,000 households. Moreover, it will contribute to reduce roughly 25,000 tons of CO₂ per year.



Kagoshima Nanatsujima Mega Solar Power Plant

Topics

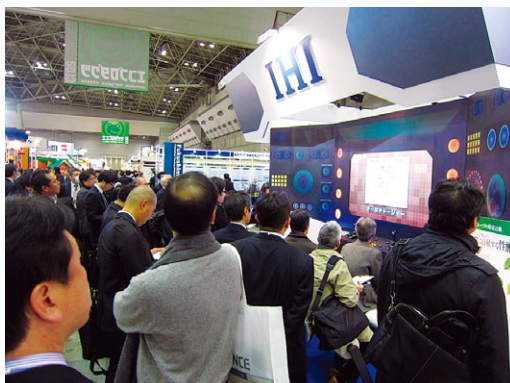
In accordance with its Management Philosophy of “Contributing to the development of society through technology,” the IHI Group will work to solve social issues through products and services in wide-ranging business fields.

Establishment of CSR Committee

The IHI Group established a CSR Committee with the aim of discussing and promoting CSR-related matters, including basic policy and measures. The Committee is made up of Senior Management including the President, Directors and the heads of each Business Operation Division; the President serves as its chair and a Director responsible for CSR serves as its vice-chair. The Committee enables the Senior Management levels to involve actively in the promotion of CSR activities. Held in August 2013, the first meeting of the CSR Committee formulated the IHI Group’s status, tasks and goals with regard to CSR promotion in its businesses and the promotion of social activities.



IHI Group exhibits at Eco-Products 2013, Japan's largest environment industry trade show



The IHI stand at Eco-Products 2013

As part of its CSR activities, the IHI Group exhibited at Eco-Products 2013, which was held at Tokyo Big Sight (international exhibition center) in December 2013. The IHI Group introduced its environment-friendly products and initiatives.

At the exhibition, the IHI Group presented CO₂ recovery by oxyfuel combustion technology in coal-fired power generation plant and small binary power generation equipment. Also, the quizzes for children and students were prepared with a view to having them learn about the environment. More than 4,000 people visited the IHI stand during the exhibition.



Publicized the environmental performances of the IHI Group products and services

With a view to preserving the global environment and reducing the environmental impact in various aspects of all its business activities, the IHI Group will work to offer environment-friendly products, estimate the environmental performance of its products and CO₂ emissions as well as promote activities that disseminate information to society.

Features in IHI Group Products That Contribute to Preserve the Global Environment

	Energy saving	Saving energy resources through more efficient energy usage
	Greenhouse gas reduction	Global warming prevention through reductions in emissions of greenhouse gases, including CO ₂
	Natural resource saving	Reducing water usage or the promotion of recycling by effective use of natural resources
	Reduction of chemicals	Preserving the living environment and ecosystems by reducing the chemical substances contained in products and preventing the spread of such substances into the surrounding environment
	Reducing environmental risk	Reducing risk on human health and on the living environments of organisms
	Biodiversity conservation	Diversity preservation, such as ecosystems, species and genes

Examples of IHI Group Environmental Products

Clean Energy Supply Systems

It is important to reduce emissions of greenhouse gases, including CO₂ particularly for the machinery and equipment which is involved in stably producing electricity.

- LNG Plant
- Binary Power Generation
- Floating-LNG
- Coal-Fired Power Generation

Machinery for Production Facilities

Using energy more efficiently and reducing waste is essential for the industrial machinery used in *monozukuri* (manufacturing).

- New Vacuum Vapor Degreaser
- Compressors
- Industrial Diesel Engines
- Vehicular Turbochargers
- Aero Engines

Transport Equipment

In traffic and transportation systems that are becoming more convenient, the IHI Group is creating mechanisms that reduce CO₂ emissions or do not produce hazardous substances.

Social Infrastructure

By increasing efficient use and durability of the products that support the safety of society, the IHI Group aims to save energy and resources.

Materials Resources

Global Environment



IHI Presents SPACE BALL event held, around 300 students were invited from local elementary and junior high schools

For three months from August 2013, the SPACE BALL, a 360-degree spherical mobile theater presented by TV Tokyo Corporation with special support by IHI, was held in the Toyosu IHI Building.

During the event, around 170 sixth graders from the Toyosu North Elementary School and 130 seventh graders from the Fukagawa Fifth Junior High School, both in Tokyo's Koto Ward, were invited to the event with the aim to support the students' "career tuition with dreams." The students enjoyed; SPACE BALL viewing, the lecture of engineers about Epsilon rocket for the first time after its successful launch, and an exchange of opinions. Tours of i-muse, IHI Technological History Museum, were also made.

Further, all the electricity consumed during the event was fully covered by "the Certificate of Green Power."^{**}



Panoramic view of SPACE BALL



General view of a tour

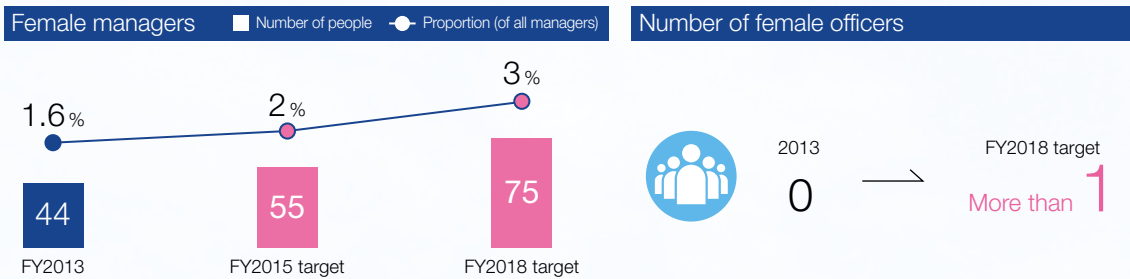
^{**}The certificate represents the tradable environmental attributes of power generated from renewable energy.

Topics

Diversity Activities

IHI promotes diversity measures with a view of further development by invigorating diverse human resources that include women, non-Japanese employees, the physically challenged, and elderly people.

1 To promote the invigoration of female employees, the IHI Group has upgraded its systems (Note 1) and implemented training sessions with regard to return to work after childbirth and childcare. In addition, IHI announced numerical targets (Note 2) for female promotion to managing position in October 2013.



Main Systems Related to Childbirth/Childcare	Childcare Leave System (Long-term)	Can be taken until child reaches three years of age (until one year six months age designated by law)
	Childcare leave System (Short-term)	Granted 20 days' vacation per child that can be used for childcare/nursing (For employees with children of elementary school age or younger)
	Career Return Entry System	In the case of employees who give up work for reasons of marriage, childcare and nursing care or the relocation of a spouse, the system enables a return to IHI if the individual expresses a desire to return and if this meets the Company's needs.

(Note 1) Systems related to childbirth and childcare: Refer to the above-mentioned "Main Systems Related to Childbirth/Childcare."
 (Note 2) Numerical targets: Refer to the above-mentioned "Female managers" and "Number of female officers."

2 With regard to non-Japanese employees, IHI conducts training not only for non-Japanese employees who are appointed/hired, but also for their workplaces to foster cross-cultural understandings.

Number of non-Japanese employees at IHI
 Note: Excluding temporary transfers, part-time employees, and technical interns



An event for non-Japanese new employees and senior members to get together

3 With regard to the physically challenged, the IHI Group meets the legally set employment ratio and will continue to employ those persons in the years to come.

Specific Activities Besides recruitment activities that utilize external professional recruiters, the IHI Group cooperates with job assistance activities for the physically challenged persons, conducted by volunteer companies.

4 In FY2013, IHI introduced a selection retirement system that allows employees to choose the age, between 60 and 65, at which they will retire. IHI has created an environment that enables accumulated expertise to be utilized in a way of working that suits the individual.



Nobuko Mizumoto

Executive Officer
 General Manager, Group Business Process Platform Division

Although tending to have a masculine image from being in the “heavy industry” sector,

IHI actually has many employees who work with enthusiasm regardless of such factors as gender or nationality. Since joining IHI as a researcher, I have had the opportunity to work in a variety of areas, including the Human Resources Division and Corporate Social Responsibility Division. In April 2014, I became the first woman to be appointed as Executive Officer at IHI. In the years ahead, I would like to make IHI a company that creates workplace environments that inspires maximum performance from each and every one of its employees, a company in which each and every employee can feel they really help society.



Selected as “Nadeshiko Brand”

On March 3, 2014, IHI became one of the companies selected by the Tokyo Stock Exchange and the Ministry of Economy, Trade and Industry as a “Nadeshiko Brand” that picks out companies encouraging women’s success in the workplace. The “Nadeshiko Brand” companies are selected on the basis of company policies, activities, and performance with regard to the career advancement of women and support enabling women to combine work and home life.

The IHI Group is currently expanding the appointment of female Executive Officers and General Managers and will continue to promote the creation of workplace environments in which women can flourish in the years to come.



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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