

Results for the Fiscal Year Ended March 31, 2015 Management Review

May 8, 2015

IHI Corporation

Tamotsu Saito, President and Chief Executive Officer

1. Management Overview.....	3
Review of 2 nd Year of Group Management Policies 2013.....	4
Review of Fiscal 2014.....	7
Earnings Outlook for Fiscal 2015.....	8
Numerical Targets for Group Management Policies 2013.....	10
Outlook for Reaching Numerical Targets of Group Management Policies 2013.....	11
Materializing Three <i>Tsunagu</i> Growth.....	12
Managing Risks of Major Investments and Orders.....	13
Reinforcing Portfolio Management.....	15
2. Progress of Group Management Policies 2013.....	17
Progress in Large Overseas Projects.....	18
Resources, Energy and Environment.....	21
Social Infrastructure and Offshore Facilities.....	23
Industrial Systems and General-Purpose Machinery.....	25
Aero Engine, Space and Defense.....	27
New Business Development.....	29

Management Overview

Review of 2nd Year of Group Management Policies 2013 (1)

	FY2013 Results	FY2014 Results	FY2015 Target	Initial FY2015 Target
Net Sales	¥1,304.0 billion (¥99.05/US\$)	¥1,455.8 billion (¥110.31/US\$)	¥1,580.0 billion (¥115/US\$)	¥1,400.0 billion (¥80/US\$)
Operating Income	¥53.2 billion (¥99.05/US\$)	¥63.2 billion (¥110.31/US\$)	¥90.0 billion (¥115/US\$)	¥70.0 billion (¥80/US\$)
Total Investment (in plant and equipment, R&D, investments and loans)	¥108.1 billion (Investment in plant and equipment ¥54.6 billion R&D ¥33.5 billion Investments and loans ¥20.0 billion)	¥114.8 billion (Investment in plant and equipment ¥63.9 billion R&D ¥37.0 billion Investments and loans ¥13.9 billion)	175.0 billion (Investment in plant and equipment and equipment ¥90.0 billion R&D ¥45.0 billion Investments and loans ¥40.0 billion)	FY2013–2015 total: ¥400.0 billion (Investment in plant and equipment ¥190.0 billion R&D ¥110.0 billion Investments and loans ¥100.0 billion)
D/E Ratio	0.99	1.14	0.99	1.2 or less
ROIC	5.3%	5.8%	8.0%	6.5%
ROE	10.5%	2.6%	13.4%	—
Dividends	¥6 per share	¥6 per share (¥3 interim, ¥3 year-end) (planned)	¥6 per share (¥3 interim, ¥3 year-end) (planned)	¥6 per share

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

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

Assessment

- Progressed toward growth goals during second year of Group Management Policies 2013 but profitability deteriorated in some major projects
 - ✓ While net sales were in keeping with initial forecasts, operating income (the second highest on record) and operating margin were lower than initially forecast
 - ✓ Posted extraordinary losses on Brazilian investments. Will endeavor for foreseeable future to minimize such losses
- Focused capital and R&D investments on businesses offering growth potential
- Attained D/E ratio target for second straight year

Review of 2nd Year of Group Management Policies 2013 (2)

1 Strengthening and deploying shared Group functions

The Three <i>Tsunagu</i>	Action	Tasks for FY2015
Solutions/Engineering	<ul style="list-style-type: none"> Entrenched solutions sales and expanded projects Projects progressed steadily 	<ul style="list-style-type: none"> Roll out successful approaches throughout Group Contribute to growth by realizing projects
Intelligent Information Management	<ul style="list-style-type: none"> Expanded adoptions of common control system platform/common remote maintenance platform Leveraged sensing-related business and ICT to start upgrading manufacturing and services 	<ul style="list-style-type: none"> Maintain systems and secure resources to acquire and analyze big data Leverage sensing technologies and ICT to create new business models
Global Business	<ul style="list-style-type: none"> Built multilayered networks with customers, particularly in key countries Regional headquarters conducted regional internal audits 	<ul style="list-style-type: none"> Build business models that match regional needs and reinforce required marketing functions Set up human resources development and optimal placement framework

2 Secure orders stably

Action	Tasks for FY2015
<ul style="list-style-type: none"> Accurately assessed project progress, strengthened ties with customers, reinforced intragroup collaboration, had senior management promote sales, and conducted forums in various countries Posted ¥1,664.3 billion in orders received, with overseas order ratio reaching 50% 	<ul style="list-style-type: none"> Manage projects in keeping with orders Identify community-based needs Increase accuracy of estimates

Review of 2nd Year of Group Management Policies 2013 (2)

3 Enhance Profit Structure

Action

- Began transforming business models in several areas, one step being to expand overseas power systems plant maintenance

Tasks for FY2015

- Collaborate using shared Group functions to accelerate efforts to transform business models

4 Allocate resources strategically

Action

- Allocated 70% of total investments businesses with growth potential
- Undertook activities to improve cash flow, using the cash conversion cycle as a benchmark
- Reformed Group headquarters businesses (consolidating back office operations within Group Business Process Platform Div.)

Tasks for FY2015

- Prioritize allocations to business with growth potential
- Build investment capacity through cash flow improvement initiatives
- Reinforce strategic functions of Group headquarters
- Properly attract, cultivate, and deploy global talent

5 Improve manufacturing capabilities

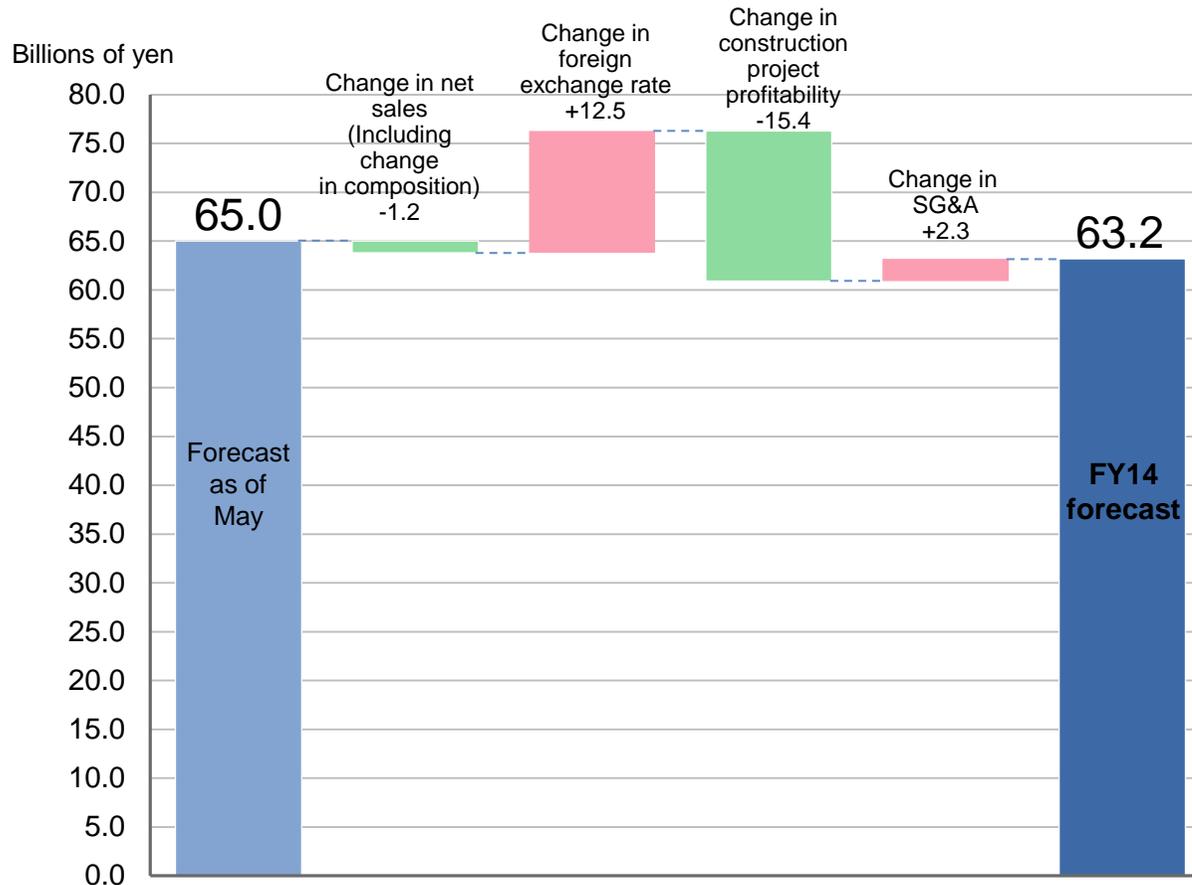
Action

- Pushed ahead with I-Project, a companywide business improvement initiative, to enhance operational quality and productivity
- Leveraged ICT technologies to improve efficiency of plants and construction sites and enhanced safety standards

Tasks for FY2015

- Draw on I-Project to improve groupwide technological capabilities and help improve performance
- Increase open innovation through IHI Tsunagu Lab

■ Analysis of of operating income fluctuations (compared with forecast as of May 2014)



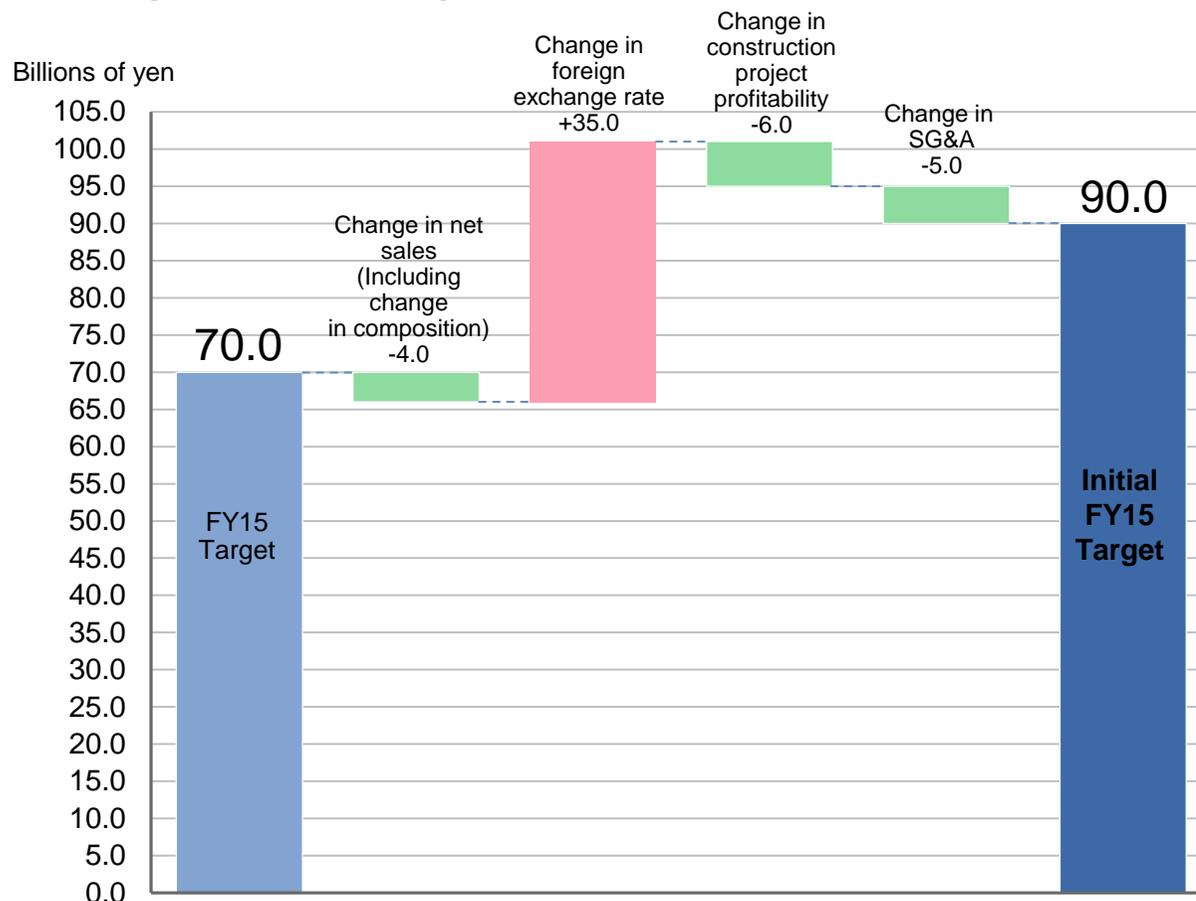
- Forecast as of May 2014: Using official announcement of May 8, 2014 (assumed exchange rate of ¥100/US\$)
- Exchange rate assumption for FY14 forecasts: ¥110.31/US\$

■ Forecast assumptions

- Change in foreign exchange rate
 - Resources, Energy and Environment
 - Aero Engine, Space and Defense
- Positive or negative changes in construction profitability
 - Negative: Social Infrastructure and Offshore Facilities (bridges)
 - Positive: Aero Engine, Space and Defense (civil jet engines)
- Change in SG&A
 - Aero Engine, Space and Defense

Earnings Outlook for Fiscal 2015 (1)

■ Analysis of change in operating income forecasts (compared with initial target)



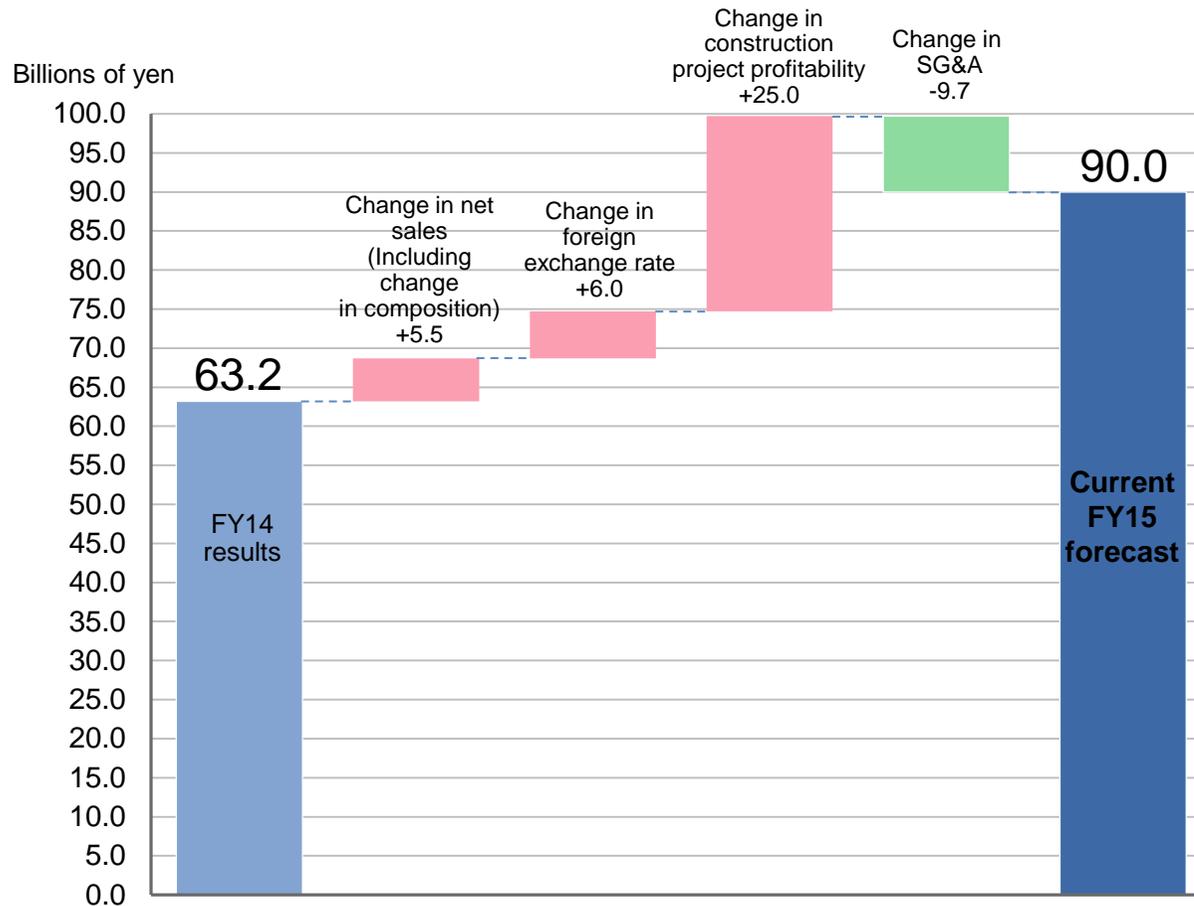
- Forecast as of May 2014: Using official announcement of November 2, 2012 (assumed exchange rate of ¥80/US\$)
- Exchange rate assumption for FY14 forecasts: ¥115/US\$

■ Change from initial target

- Lower yen
- Deteriorating profitability in Social Infrastructure and Offshore Facilities

Earnings Outlook for Fiscal 2015 (2)

■ Analysis of change in operating income forecasts (compared with Fiscal 2014 results)



• Average foreign exchange rate net sales in FY14: ¥110.31/US\$)

• Exchange rate assumption for current FY15 forecast: ¥115/US\$

■ Change from FY14 results

- Higher net sales on construction progress in large overseas projects
- Improved construction profitability and rebound from deteriorated profitability in FY14
- Increased SG&A expenses owing to greater R&D and other costs

Numerical Targets for Group Management Policies 2013 (Net Sales, Operating Income)

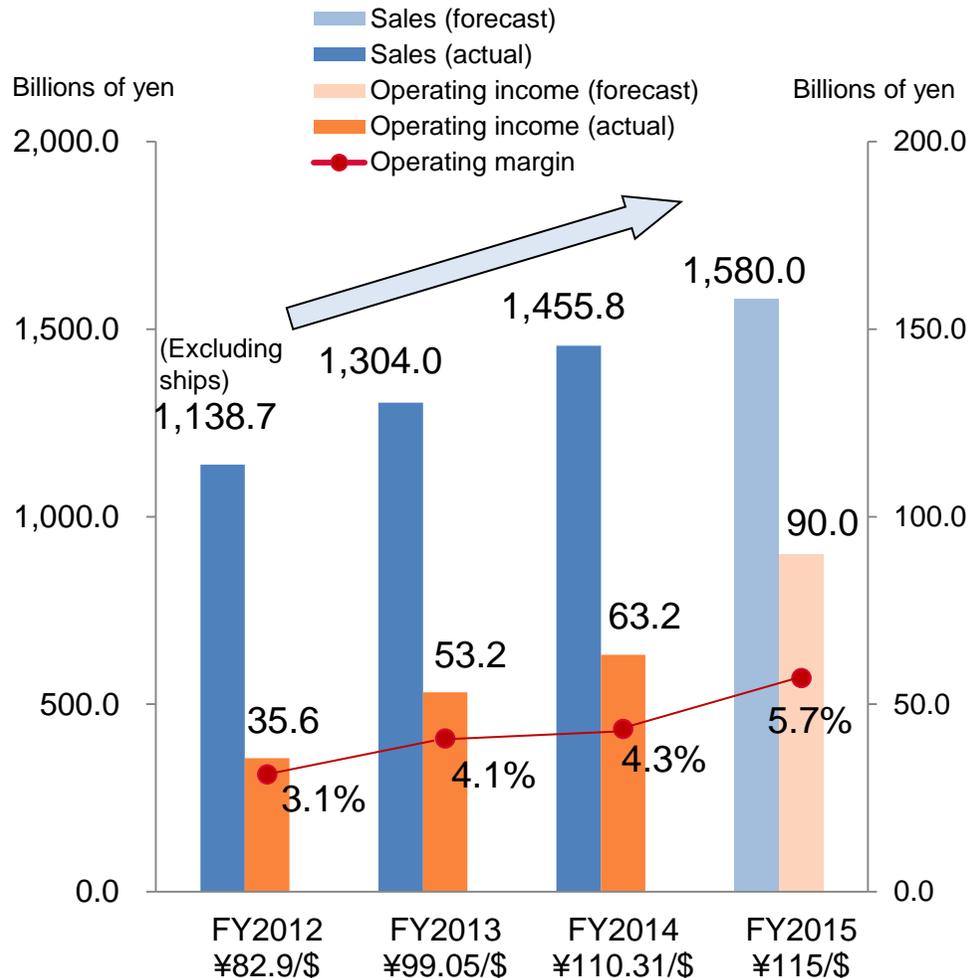
(Billions of yen)

	Net Sales					Operating Income				
	FY2013 (Results)	FY2014 (Results)	FY2015			FY2013 (Results)	FY2014 (Results)	FY2015		
			Initial Targets	Outlook as of May 2014	Current outlook			Initial Targets	Outlook as of May 2014	Current outlook
Resources, Energy and Environment	344.0	415.3	440.0	490.0	480.0	11.6	24.0	21.0	29.0	31.0
Social Infrastructure and Offshore Facilities	150.3	188.6	160.0	170.0	180.0	2.3	-3.2	10.0	11.0	7.0
Industrial Systems and General-Purpose Machinery	397.8	411.7	430.0	420.0	430.0	15.1	10.2	23.0	17.0	14.0
Aero Engine, Space and Defense	406.0	434.8	380.0	430.0	470.0	36.7	39.5	19.0	33.0	43.0
Others	58.9	62.8	60.0	70.0	70.0	1.9	1.2	1.0	2.0	2.0
Adjustment	-53.2	-57.5	-70.0	-50.0	-50.0	-14.4	-8.6	-4.0	-2.0	-7.0
Total	1,304.0	1,455.8	1,400.0	1,530.0	1,580.0	53.2	63.2	70.0	90.0	90.0

Exchange rate ¥99.05/\$ ¥110.31/\$ ¥80/\$ ¥100/\$ ¥115/\$ ¥99.05/\$ ¥110.31/\$ ¥80/\$ ¥100/\$ ¥115/\$

Prospects for Reaching Numerical Targets for Group Management Policies 2013

Results and outlook



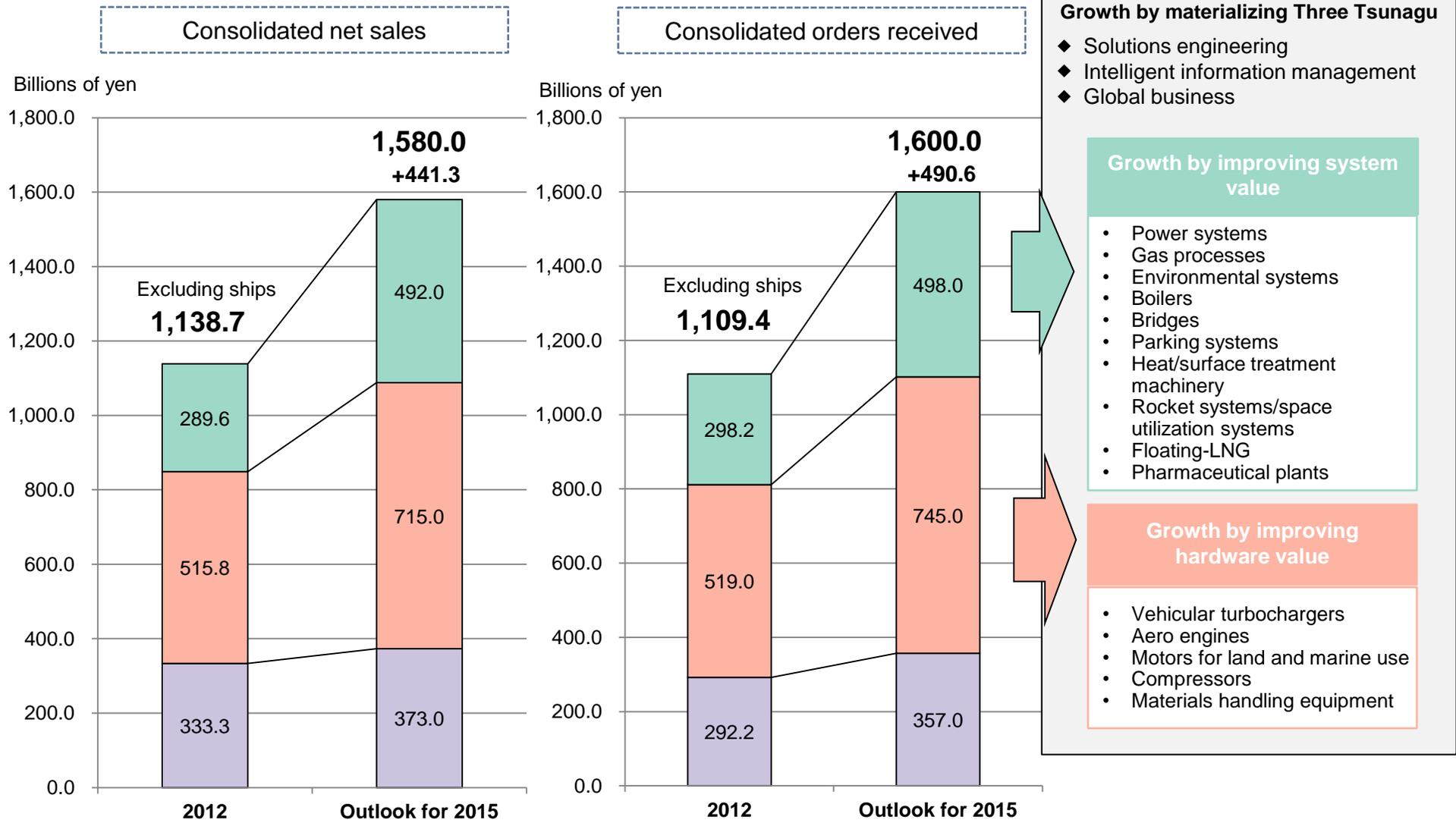
Key growth initiatives for fiscal 2015

- Produce results through shared Group functions collaboration
- Stably secure orders that help enhance customer value
- Accelerate reforms to create highly profitable structure through business model innovations
- Generate growth by allocating management resources
- Reform business processes to generate value

- Materialize growth through Three *Tsunagu*
- Manage risks of large investments and orders
- Reinforce portfolio management

Materializing Three *Tsunagu* Growth

Growth under Group Management Policies 2013



Deteriorating profitability in offshore structure projects in Fiscal 2014 and responses

- Main causes of profit deterioration
 - Profitability worsened on work on first drillship for Singapore because of numerous factors, including design change and drawing delays
 - Aichi Works incurred operational losses owing to design changes and drawing delays
- Responses
 - Improved estimate process and stepped up pre-order screening
 - Reinforced project management structure



Aichi Works

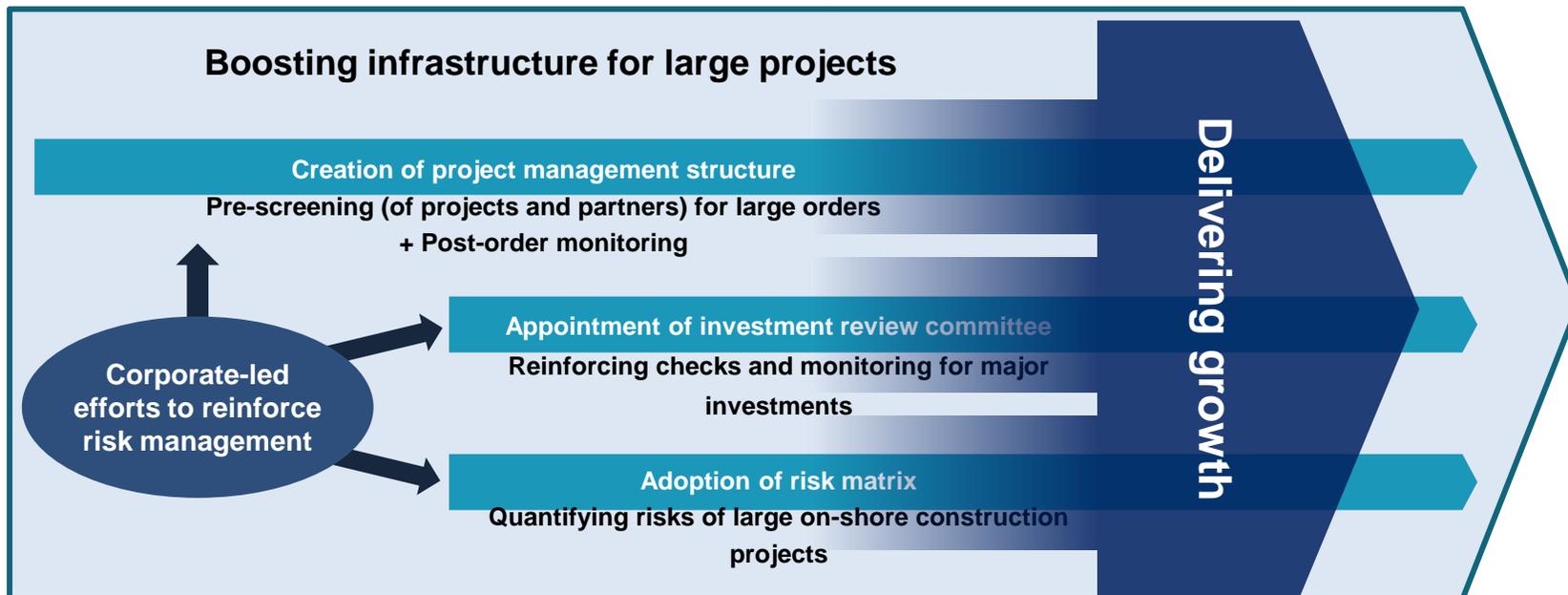


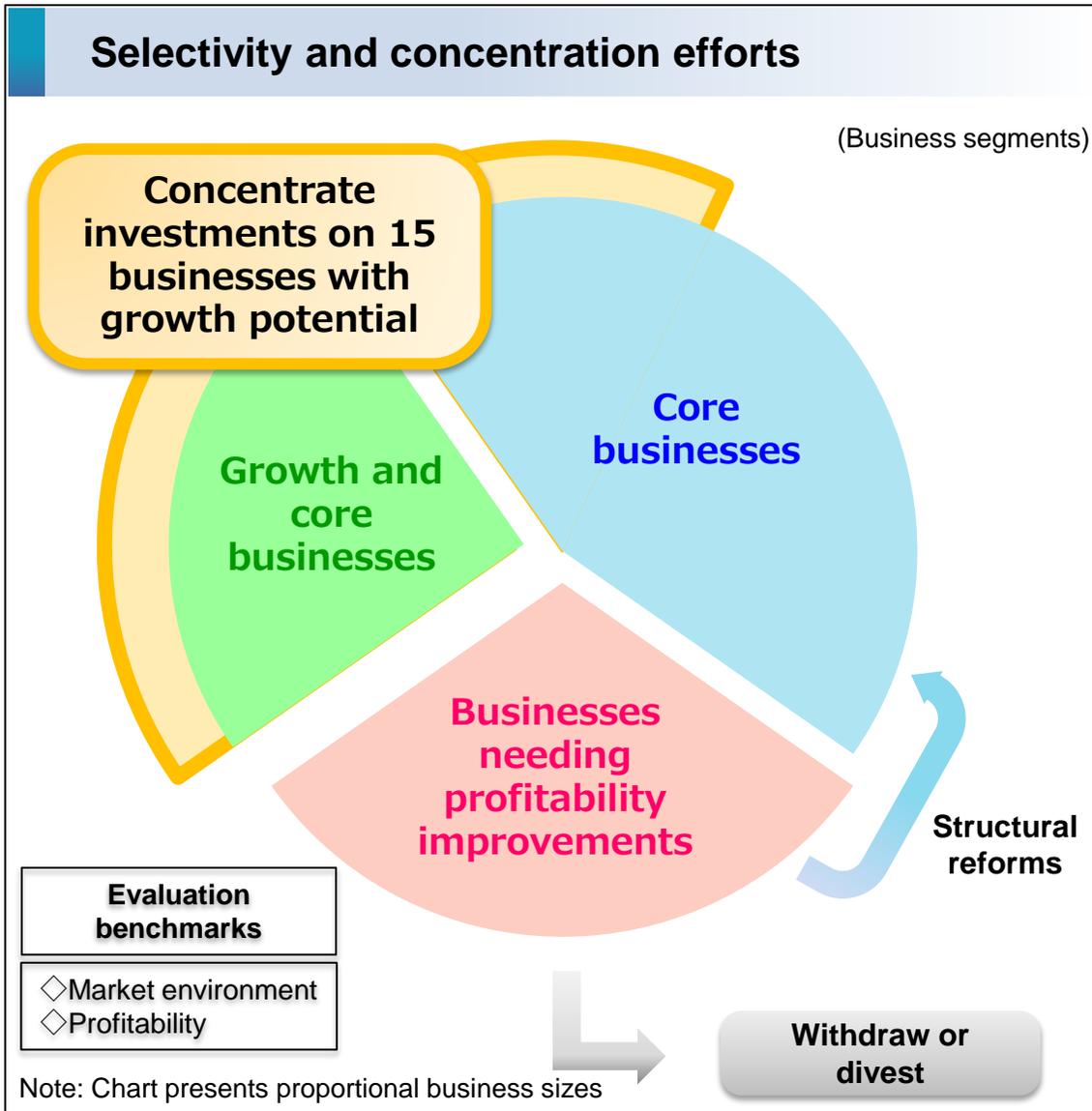
Drillship

Strengthening risk management

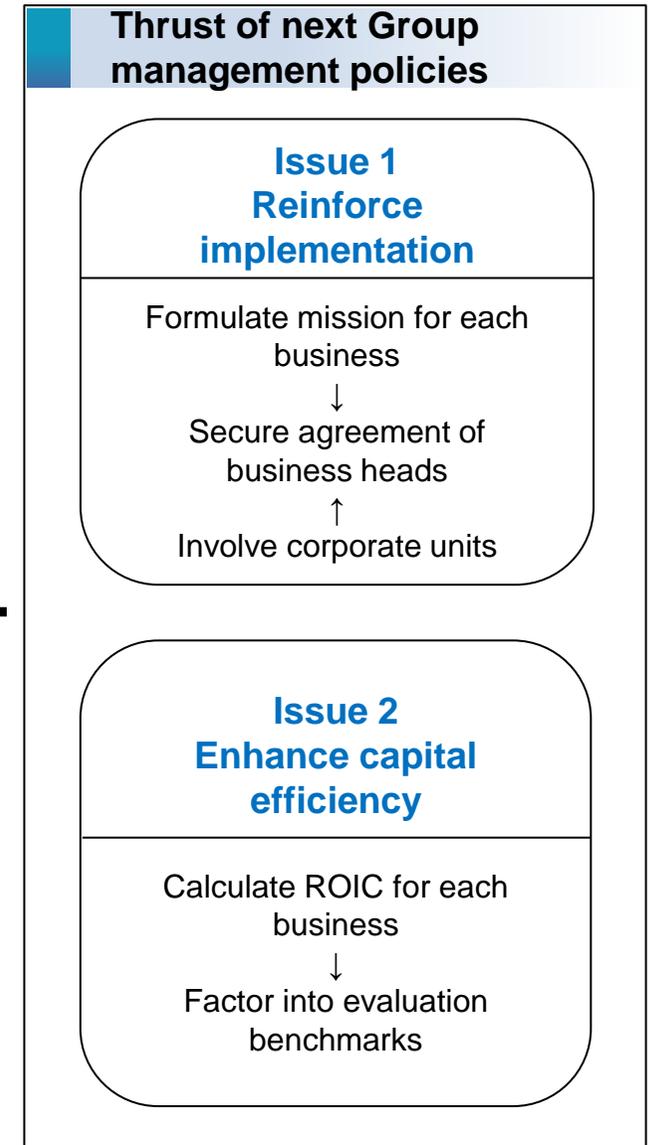
- We have constantly enhanced the risk control technique approach (shown below) that we set up in 2007, notably by improving estimate procedures and incorporating partner assessments in pre-order screenings
- For orders and investments exceeding certain amounts, we created a monitoring structure in which specialist departments assess whether plans are appropriate
- We repeat assessments to reinforce monitoring. We will roll out improvements that build on our experiences in fiscal 2014

Support framework for large projects





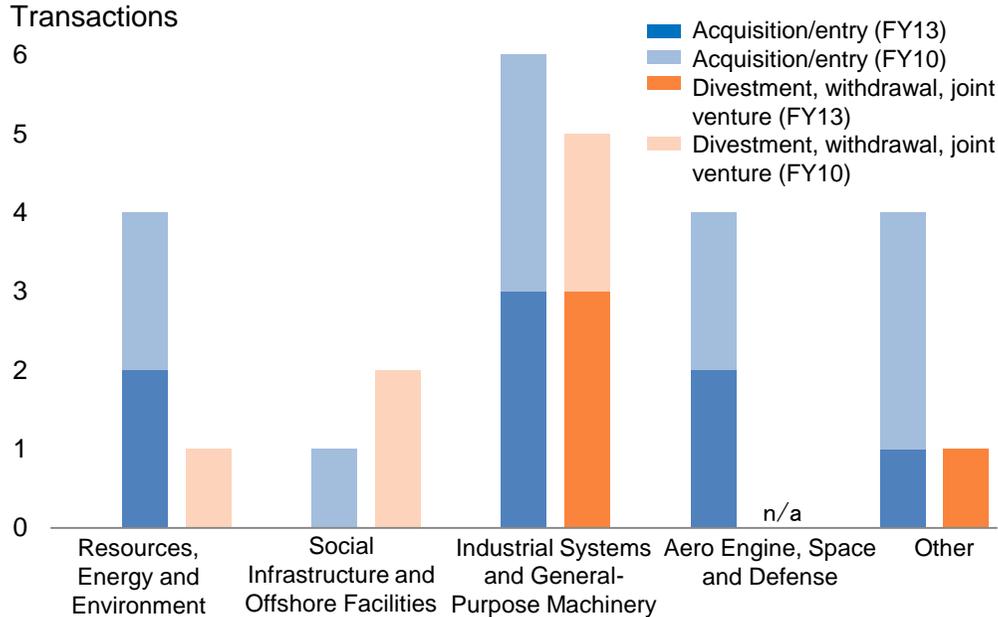
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Reinforcing Portfolio Management (2)

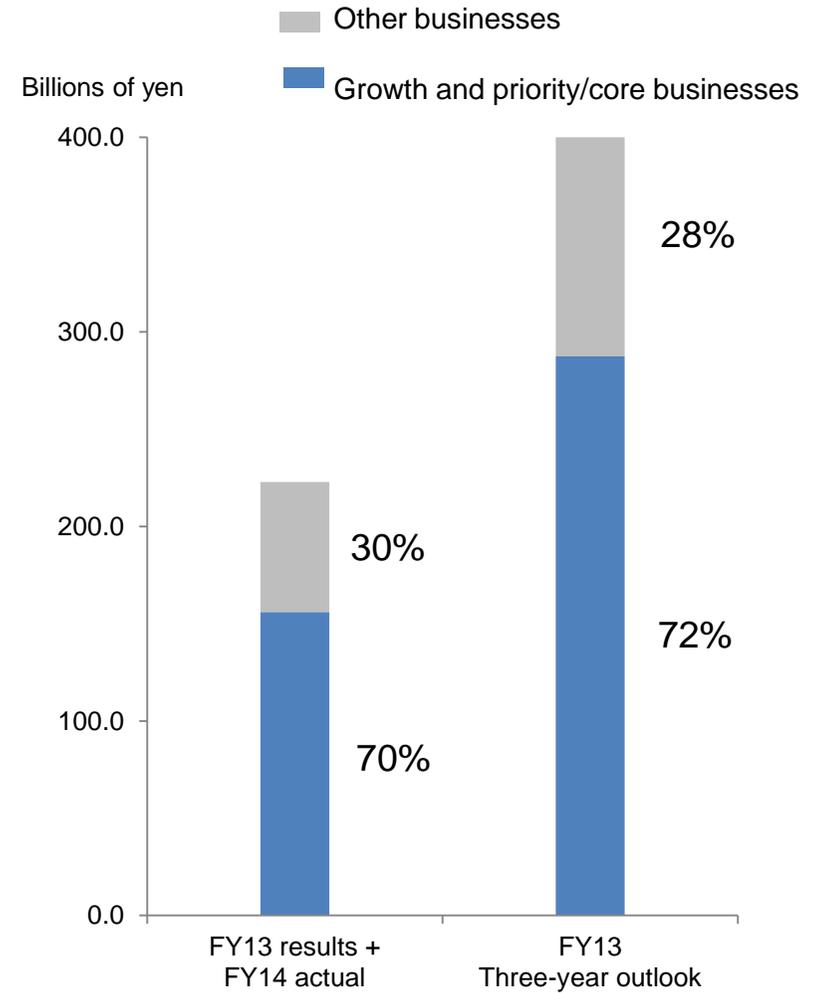
Portfolio management transactions

Number of key transactions by business segment since 2010



Period	Key divestments, withdrawals and reorganizations
Fiscal 2010	Established nuclear steam turbine joint venture
Fiscal 2011	Transferred dishwashing machine business
Fiscal 2012	Established blast furnace joint venture
	Integrated shipbuilding operations
Fiscal 2013	Transferred heat burner and printing machinery businesses
	Integrated rolling mill business with joint venture of other company

Investment allocation results



Progress of Group Management Policies 2013

Progress in Large Overseas Projects (1)

Dominion Cove Point LNG Expansion project



(image of completed project)



(Site location)



(image as of Feb 2015)



(Groundbreaking Ceremony)

IHI E&C International Corporation and Kiewit Energy Company, have entered into an engineering, procurement and construction contract to develop the Cove Point liquefied natural gas facility located on the Chesapeake Bay in Lusby, Maryland. The IHI/Kiewit joint venture will design, construct, commission and start up the estimated 5.25 million tonnes per annum liquefaction facility.



(Sound wall drilled-shaft installation)

Key milestones

April 2013:	Contract award
September 2013:	DOE authorization to export to non-Free Trade Countries
September 2014:	FERC Order received & accepted
March 2015:	Groundbreaking Ceremony held
Late 2017:	Substantial Completion and commencement of operations

Current status (March 2015)

- Engineering is approximately 80% complete
- Procurement of equipment is 96+% complete
- Equipment deliveries have started
- Key bulk materials contracts have been awarded; fabrication of piping and structural steel has begun
- Subcontracts for early site activities have been awarded
- Underground construction activities are underway

Progress in Large Overseas Projects (2)

Izmit Bay Crossing Bridge in Turkey



Artist's impression of Izmit Bay Crossing Bridge



Location of Izmit Bay Crossing Bridge



Completed main towers

On December 17, 2014, we erected the upper beams of the north and south main towers, completing their construction. In January 2015, we started constructing a catwalk between these towers for the erection of the main cables. On March 21, the tension rod linking the catwalk to the south main tower broke, with the catwalk falling into the sea. We apologize deeply to the Turkish people and many other stakeholders for the concern and disruption that this accident has caused. The IHI Group set up an emergency headquarters to investigate the accident, and is doing its utmost to complete construction and regain trust.

Corporate Research and Development sent a team of structural and materials experts to the site to investigate structural and materials causes, while we are pushing ahead carefully with restoration.

Project Overview

- Type of bridge: Road suspension bridge
- Span: Approx. 3,000m
- Construction site: Izmit Bay, Turkey
- Total cost of contract: Approx. USD 1.1 billion (consortium of IHI Infrastructure Systems and Itochu Corporation)
- Areas of responsibility: Construction covering a full set of design, production and erection of superstructure and substructure of suspension bridge on a full turnkey basis

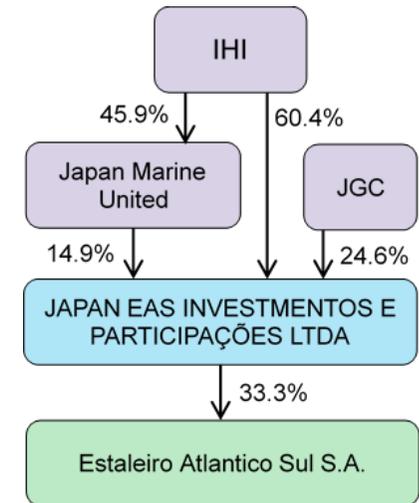
Progress in Large Overseas Projects (3)

Estaleiro Atlântico Sul S.A. (EAS) in Brazil

Backdrop and purpose for investment in EAS

- In 2013, investments in offshore structures and plants rose amid increasing global demand for oil and natural gas. Brazil led the world in investing in offshore resources development.
- In 2013, EAS was the sole Brazilian shipyard able to construct offshore structures, with a solid order backlog and further growth potential amid plans to help build floating production storage and offloading vessels.
- IHI invested in EAS as part of Group Management Policies 2013, which we set up to accommodate social needs through offshore resources development. We responded to a request from Brazilian shareholders to invest in EAS, which was then positioned to offer solid investment returns.

Investments in EAS



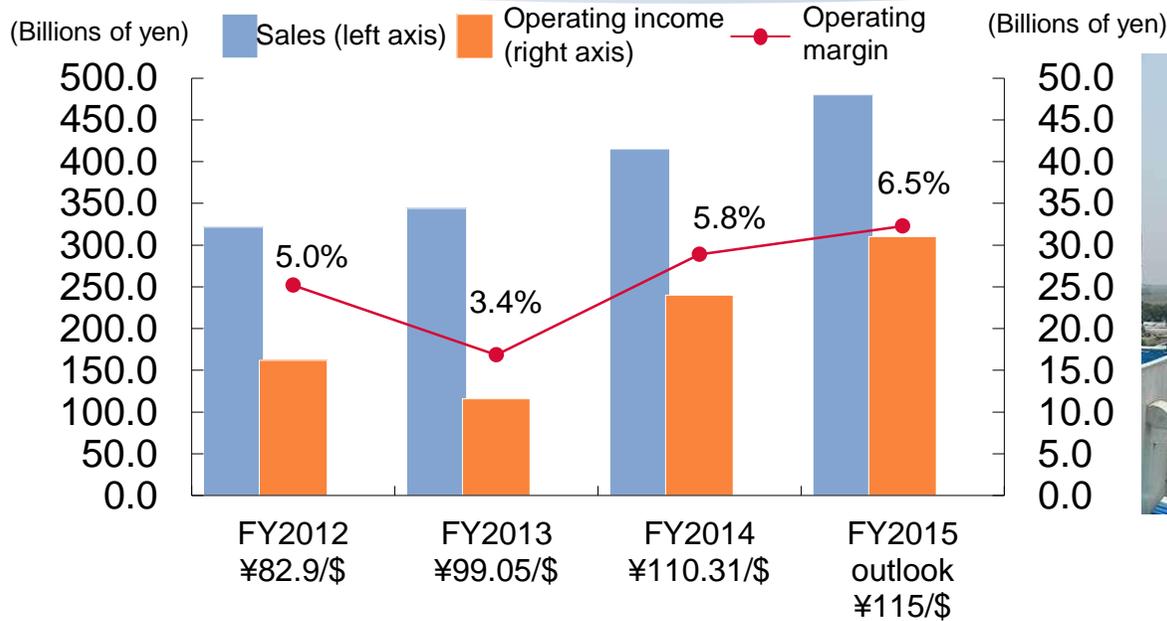
Assessment of current situation

- Declining oil prices and a major corruption case involving Petrobras hurt the Brazilian economy recently. Corruption allegations in the press regarding an order for a drilling ship that IHI had agreed to invest in led banks to halt funding in Sete Brasil, which ordered the vessel. It thus became unclear whether outstanding payments to shipbuilders would be resolved, imperiling the cash flows of EAS and causing its financial position to deteriorate.
- Brazil could experience a prolonged political and economic downturn, making it necessary to obtain Brazilian government support and restore the financial structure of EAS.



EAS shipyard

Resources, Energy and Environment (1)



TIGAR® twin gasifier

Solid global progress and orders

- Awarded a contract in Morocco to supply Africa's first ultra-supercritical coal-fired boilers.
- Niigata Power Systems licensed its 28AGS series medium-speed gas engine generator to Korea's STX Engine.
- Diesel United received an order for the X-DF, Japan's first low-speed two-stroke, dual-fuel marine engine to employ pre-mixed lean-burn combustion.

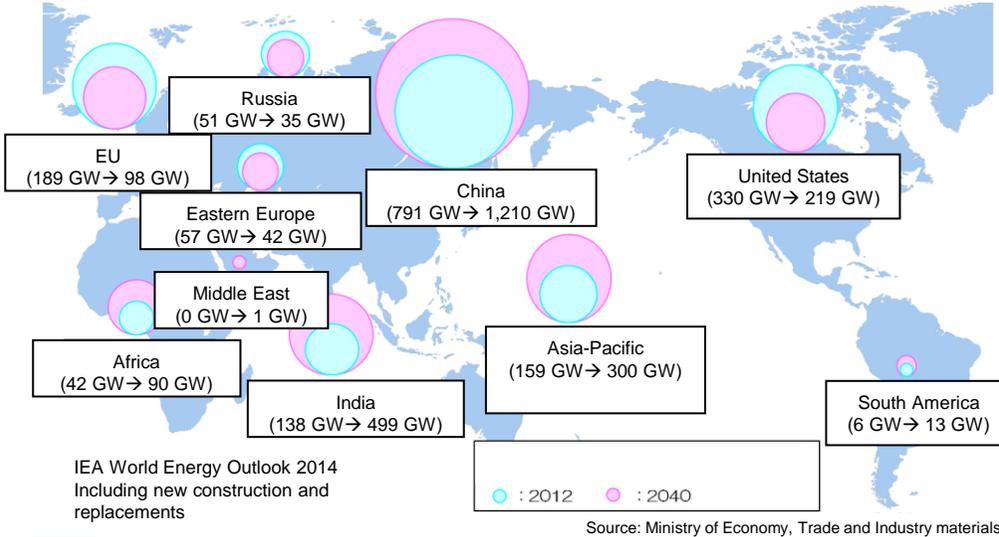
Accelerating development of eco-friendly, energy-efficient products

- Started demonstration operations with the TIGAR® twin gasifier, accelerating efforts to use lignite effectively.
- Completed the world's first integrated oxyfuel combustion and carbon dioxide capture demonstration at a power station as part of the Callide Oxyfuel Project.

■ Growth factors for this business

Coal-fired thermal power initiatives

World coal-fired thermal power generation demand outlook

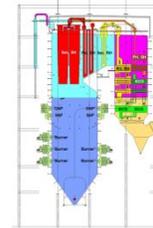


Acquisition to accelerate low-grade coal business



- ✓ Acquired Steinmüller Engineering GmbH of Germany, which has numerous lignite-fired boiler technologies, to accelerate development of such boilers and swiftly enter this market.

Order for Africa's first ultra supercritical boilers

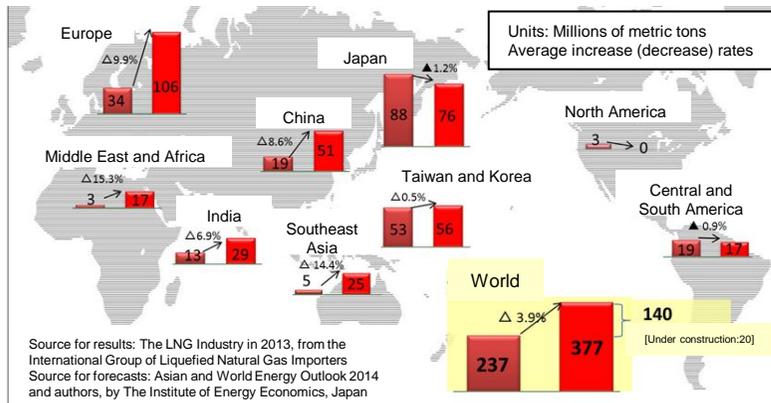


- ✓ Awarded a contract to supply two ultra-supercritical 693MW boilers for SAFI of Morocco thermal power project in Africa.
- ✓ New facilities will generate 3 million metric tons less carbon dioxide annually than conventional subcritical setups.

IHI's superior position in LNG tanks

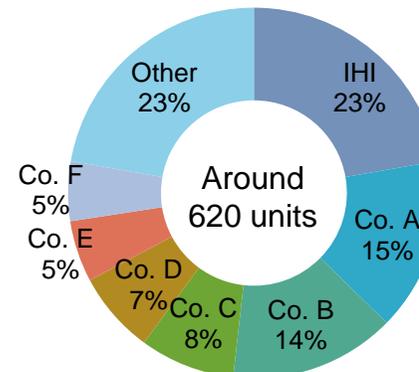
World LNG demand outlook

2013 actual and 2025 forecast



World LNG demand increasing, reflecting higher Southeast Asian gas demand and European LNG imports to reduce reliance on Russia.

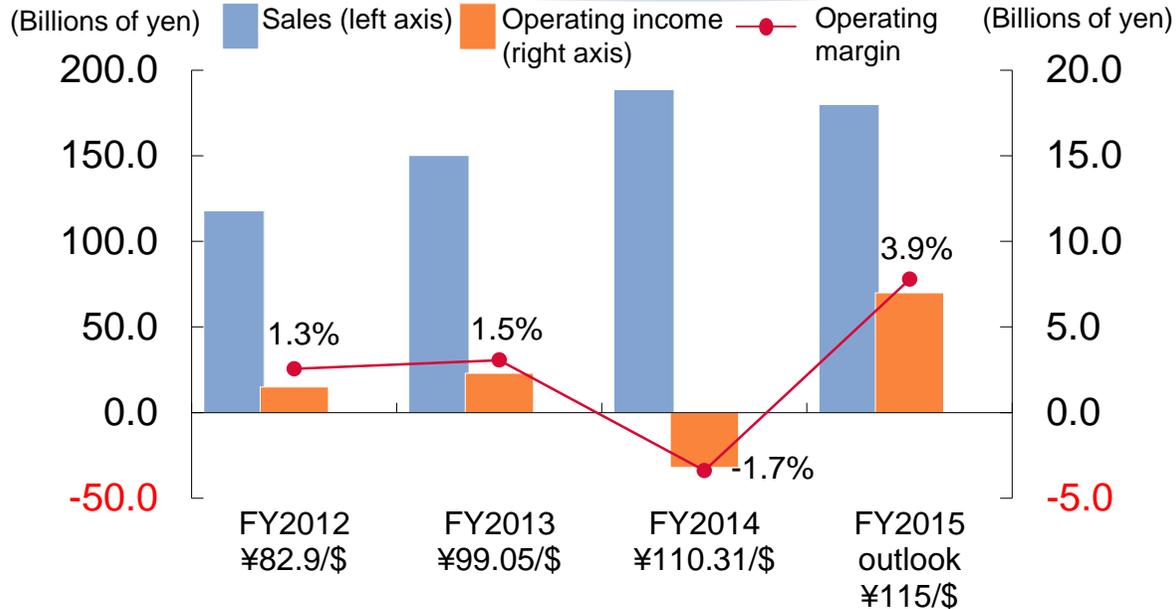
Global LNG tank market share



Number of LNG storage facility installation projects steadily increasing with LNG demand. IHI currently constructing 13 tanks for 8 projects (including in Japan, India, and Thailand).

(Including in Japan and abroad and including facilities under construction)

Social Infrastructure and Offshore Facilities (1)



Việt Tân Bridge

Full-scale involvement in marine businesses

- Began manufacturing IHI-SPB tanks for Floating LNG Storage and Regasification Unit for China's Wilson Group.
- Equity method affiliate Japan Marine United received an order for large LNG carriers employing IHI-SPB tanks.

Globally cultivating large bridge and floodgate businesses

- Completed IHI Group's first Vietnamese plant, in Hai Phong. The facility will fabricate steel bridges and other structures.
- Việt Tân Bridge opened as link between Noi Bai International Airport and Hanoi.
- Received floodgate pipe construction order for Nam Ngiep 1 Hydropower Project, the largest such initiative in Laos.

Smart social and urban infrastructure initiatives

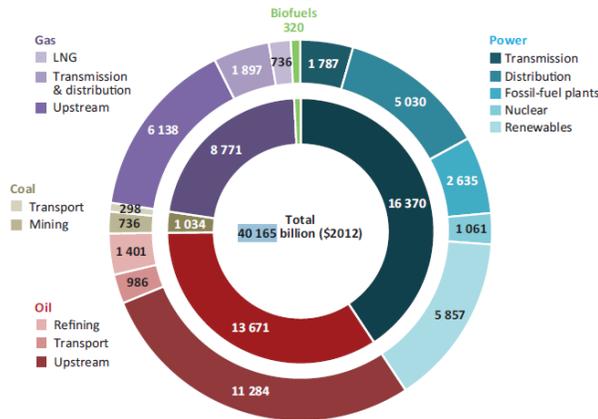
- Completed and opened Toyosu Foresia, a large anti-seismic office complex with diverse disaster prevention capabilities constructed as part of a Toyosu area redevelopment project.

Social Infrastructure and Offshore Facilities (2)

Growth factors for this business

Market potential of oil and gas offshore development

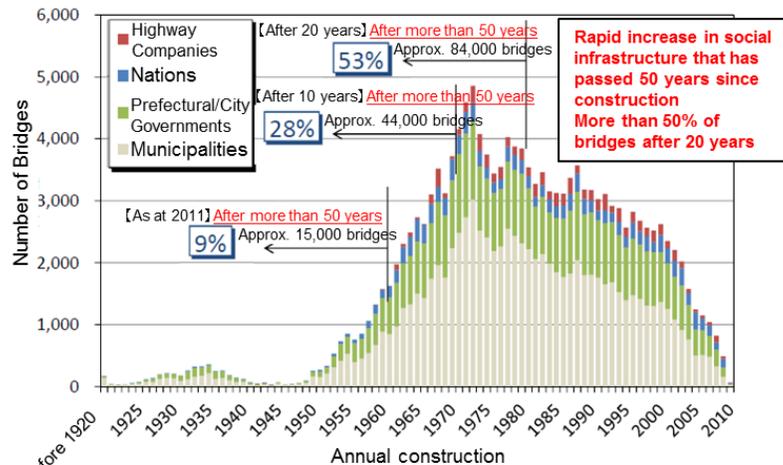
Global energy investments for 2014 through 2035 (Source: IEA)



- ✓ Oil and gas development likely to shift from existing onshore and offshore gas fields to exploration, development, and production in highly challenging areas.
- ✓ The deep sea, Arctic, and other offshore sources account for about 40% of recoverable oil reserves. Oil and gas development investments from 2014 through 2035 should reach around \$17 trillion. This would include an estimated \$7 trillion in total offshore resources development investments.
- ✓ Japan has the world's sixth largest exclusive economic zone, offering strong market potential in terms of offshore resources development.

Domestic infrastructure market growth

Number of bridges by construction year

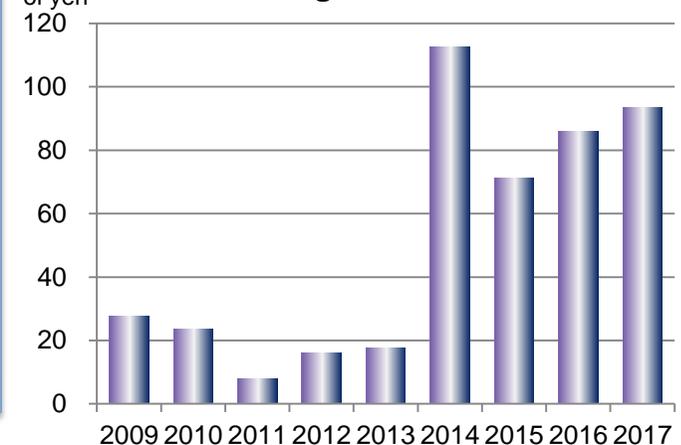


Source: MLIT Survey on Current Conditions of Road Facilities "Bridge Status Survey" April 1, 2010

- ✓ In domestic bridges, strong demand prospects for disaster prevention or mitigation investments in large upgrades in Tokyo
- ✓ In segment businesses, demand set to increase in new infrastructural projects (including in peripheral ring road projects and the Linear Chuo Shinkansen).

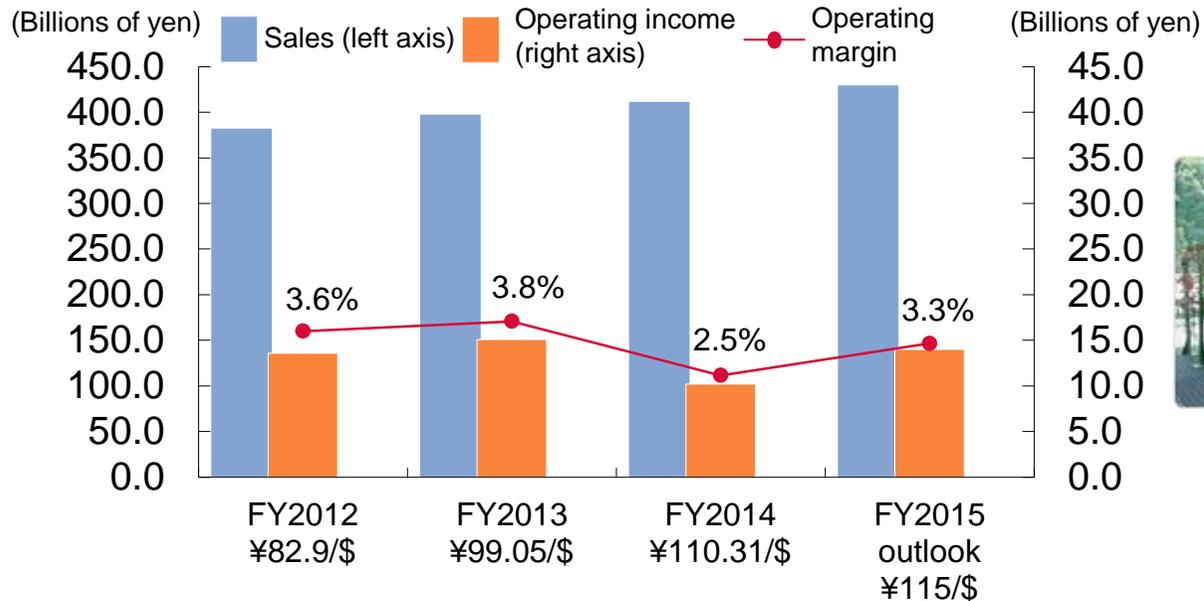
Billions of yen

Domestic segment market trends



Source: Survey by IHI Construction Materials Co., Ltd.

Industrial Systems and General-Purpose Machinery (1)



Process gas (BOG) reciprocating compressors

Expanding vehicular supercharger business

- Total turbocharger production at plants worldwide reached 50 million units.
- Orders solid for new projects in North America, China, Thailand, Japan, Korea, and other countries.
- Established Clover Turbo to enter aftermarket for vehicular superchargers.

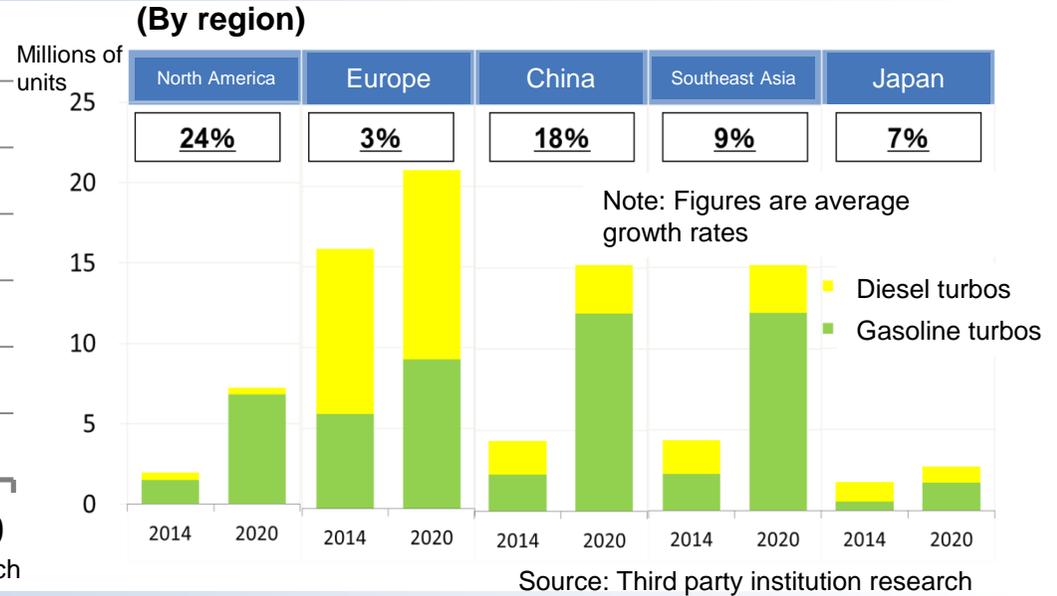
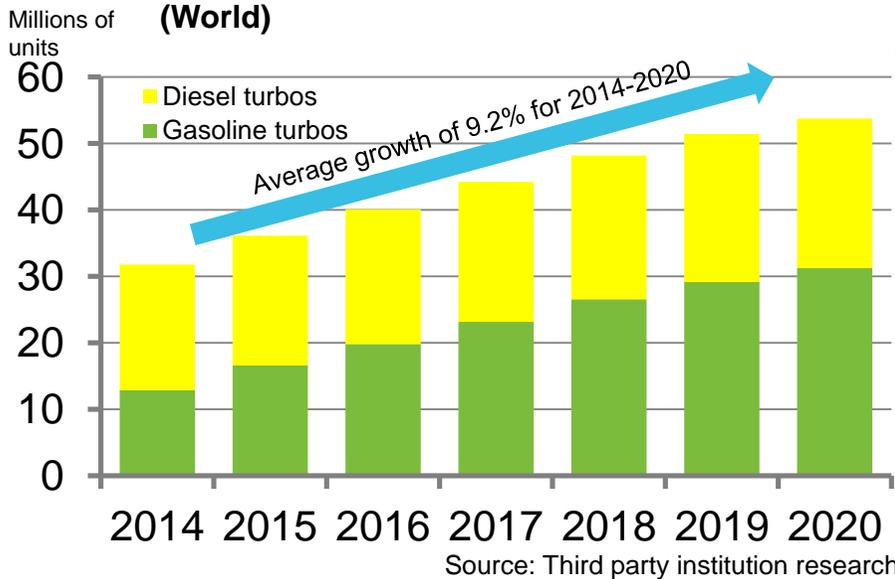
Progress in compressor business

- Received orders in Europe and India for process gas reciprocating compressor.
- Developed upgraded model of GP series water-flooded oil free screw compressor.

Industrial Systems and General-Purpose Machinery (2)

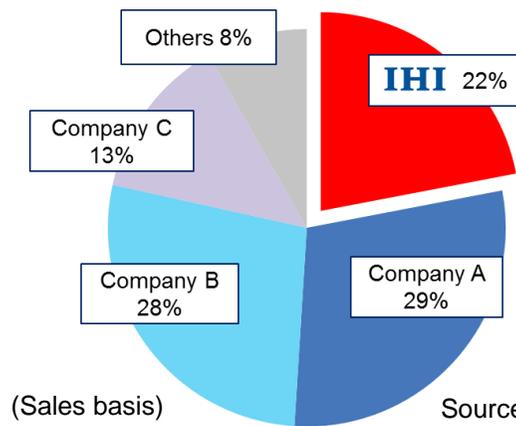
Growth factors for this business

Forecast for world vehicular turbocharger market



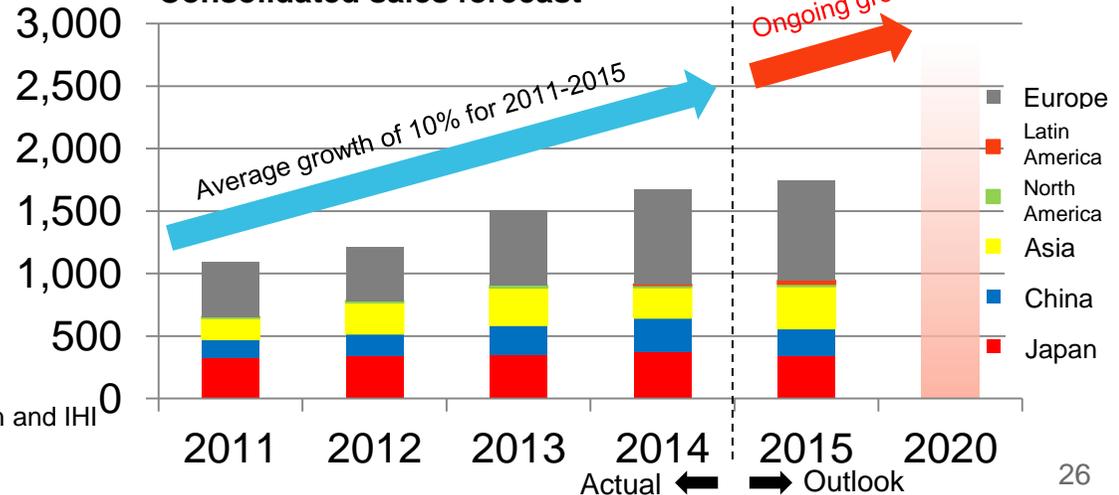
IH's competitive edge in turbochargers

Global share (2013)

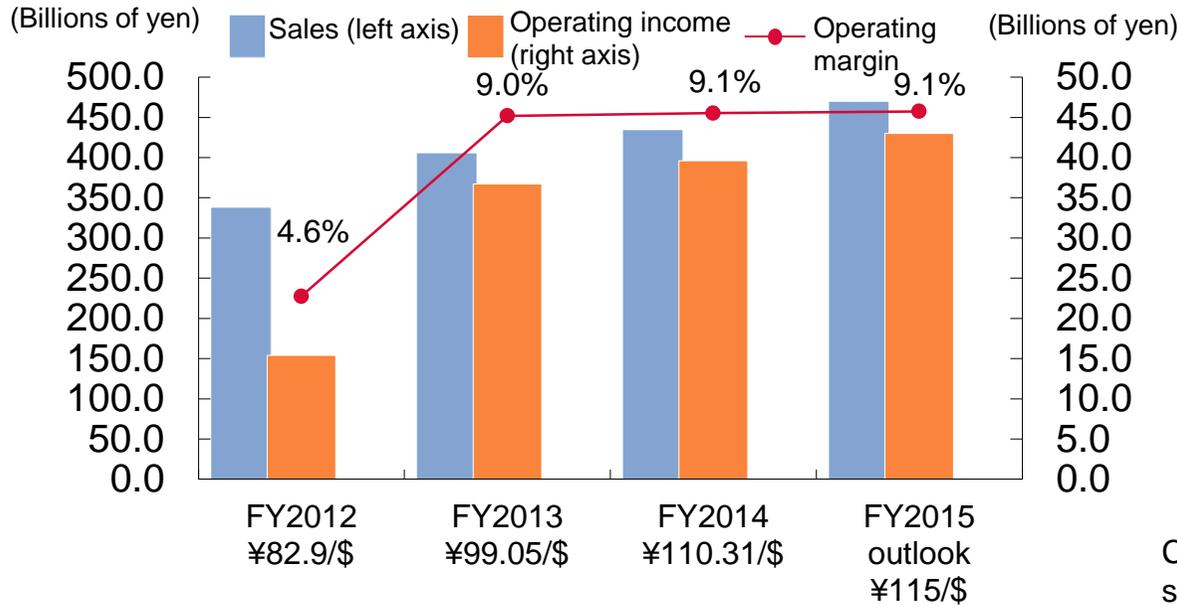


(Billions of yen)

Consolidated sales forecast



Aero Engine, Space and Defense (1)



Ceremony at Kure No. 2 Works to commemorate shipment of parts for the 2,000th GE90 engine

Robust civil aero engine demand

- Obtained type approval for PW100G-JM engine for Airbus A320neo.
- Cumulative parts shipments for GE90 engine, the world's most powerful turbofan engine, reached 2,000 units.
- Started joint research for JAXA's advanced Fan Jet Research Project to verify high-efficiency light fan turbine technologies.

Expansion in aerospace

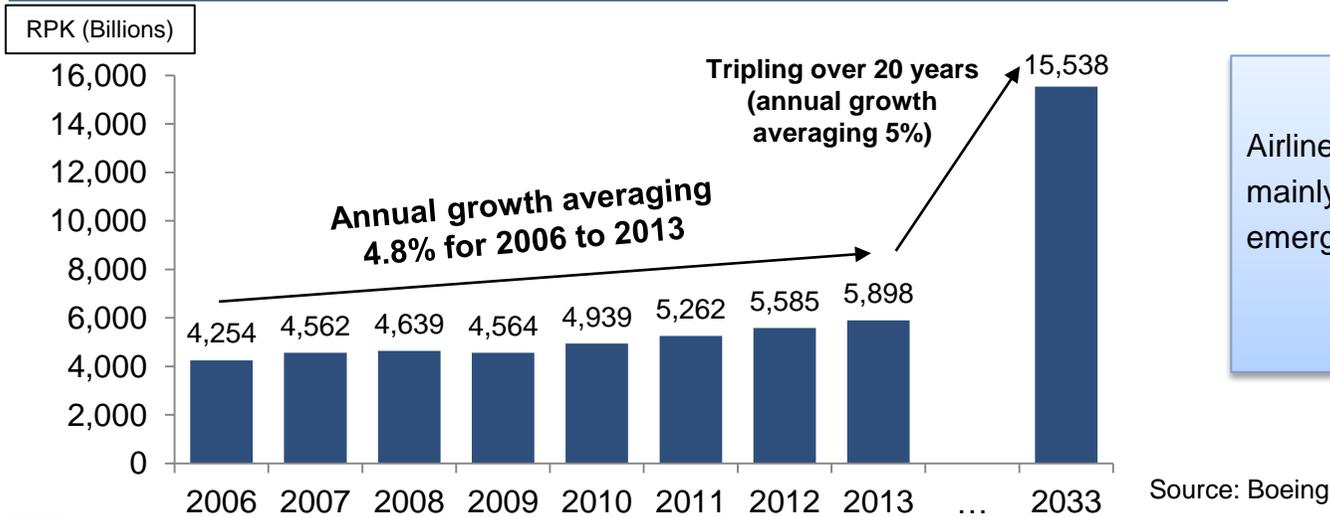
- IHI Aerospace Put Hayabusa 2 asteroid probe into orbit as part of program to develop a reentry capsule and an impactor for collecting samples from asteroids.

Aero Engine, Space and Defense (2)

Growth factors for this business

Global airline passenger traffic expanding solidly

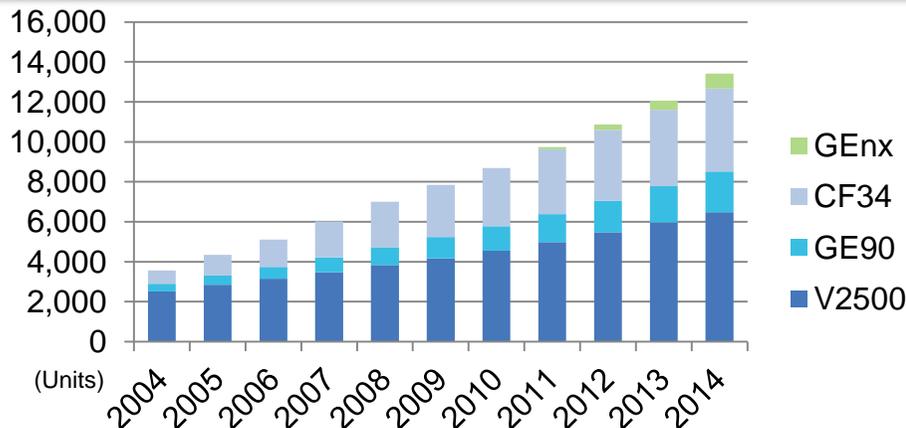
Global revenue passenger kilometers (RPK): 2006 to 2033



Airline passenger volume to remain solid, mainly because of economic growth in emerging nations and rising populations.

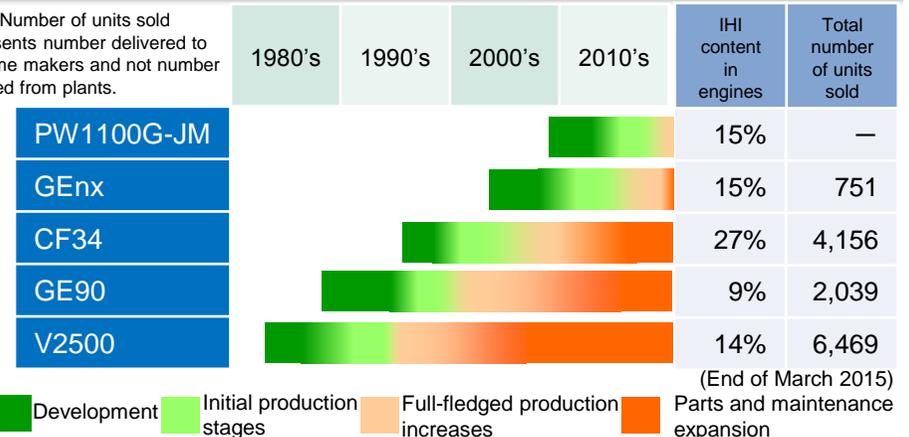
Solid demand for civil aero engine programs involving IHI

Aggregate civil aero engine sales



Development and deliveries of engines from programs involving IHI

Note: Number of units sold represents number delivered to airframe makers and not number shipped from plants.



New Business Development (Current Major Initiatives)

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

Exploring new business areas

- Started collaborating with Draper Nexus, a cross-border venture capital firm based in Tokyo and Silicon Valley with a strong record in cultivating startup firms and began stationing staffers in Silicon Valley to explore new businesses, particularly in the life sciences, food, and water fields in keeping with Group Management Policies 2013.

Biofuel from algae

- Established IHI NeoG Algae with Gene & Gene Technology and Chitose Laboratory (formerly, Neo-Morgan Laboratory) to manufacture and sell biofuel by mass cultivating the fast-growing *Botryococcus braunii* algae.
- In fiscal 2013, successfully grew biofuel algae outdoors at 100m² part of Yokohama Works.
- In fiscal 2015, completed and started operations at a 1,500m² biofuel algae pond at a test facility (see photo on right) in Kagoshima Prefecture for a NEDO-commissioned project.



Agricultural information service

- Leveraging Field Touch, an agricultural production support system that focuses on crop and environmental sensing, to supply information on trial basis to monitoring producers in the Tokachi Obihiro area.
- Exhibited at 33rd International Agricultural Machinery Show in Obihiro in July 2014 and at Agro Innovation 2014 (see photo on right) in November.



Manufacturing active pharmaceutical ingredients for influenza vaccines

- Collaborating with UMN Pharma, whose cell culture technology makes it possible to manufacture vaccines in one-third the time of conventional methods. Using cell culture technology to make active pharmaceutical ingredients for influenza vaccines. Sharing findings with IHI Group's pharmaceutical plant operations and seeking advances for business.
- Completed test production program at UNIGEN Gifu plant. UMN Pharma and Astellas Pharma attained the primary endpoint in Phase III clinical trials of a seasonal influenza vaccine, applying for marketing and approval in May 2014.

IHI

Realize your dreams

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