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Overview of Group Management Policies 2016

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IHI Corporation
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Contents

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Review of Group Management Policies 2013..... 3
Direction of Group Management Policies 2016 (1)..... 4
Direction of Group Management Policies 2016 (2) 5
Targets (1)..... 6
Targets (2)..... 7
Deploying New Portfolio Management Approaches (1) 8
Deploying New Portfolio Management Approaches (2) 9
Deploying New Portfolio Management Approaches (3) 10
Reinforcing Project Implementation System.....11
Reinforcing Common Group Functions..... 12
Business Area Direction.....13

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Review of Group Management Policies 2013

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Assessment

■ Scale growth

- Poised to reach 1,400 billion yen in consolidated net sales
- Positioned to reach early achievement sales target of 1,600 billion yen

■ Foundations based on three Tsunagu

- Created common platform through ICT usage
- Overseas operations set to account for more than 50% of net sales

Challenges

Consolidated operating income unlikely to reach 70 billion yen target

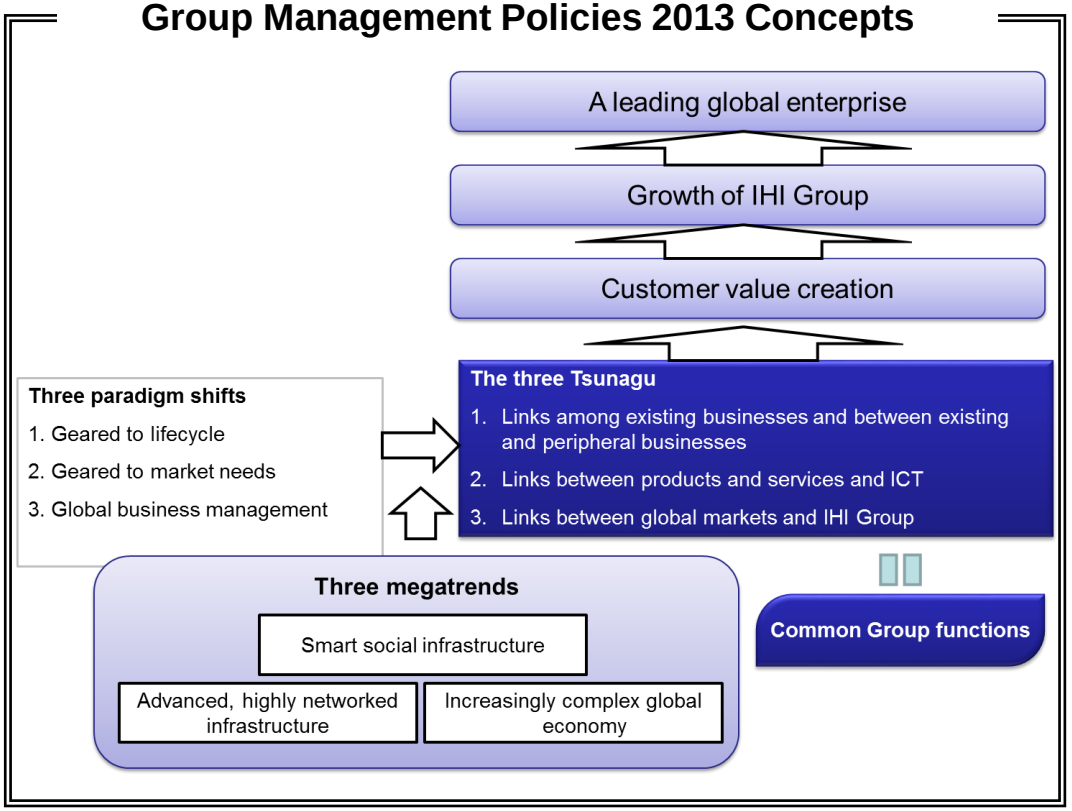
■ Profitability

- Enhance low profitability at strategic business units → Reinforce strategic implementation
- Deploy exhaustive measures to prevent more project shortfalls → Ensure consistent profitability

■ Employ three Tsunagu

- Accelerate business model reforms → Identify and create customer value

Group Management Policies 2013 Concepts



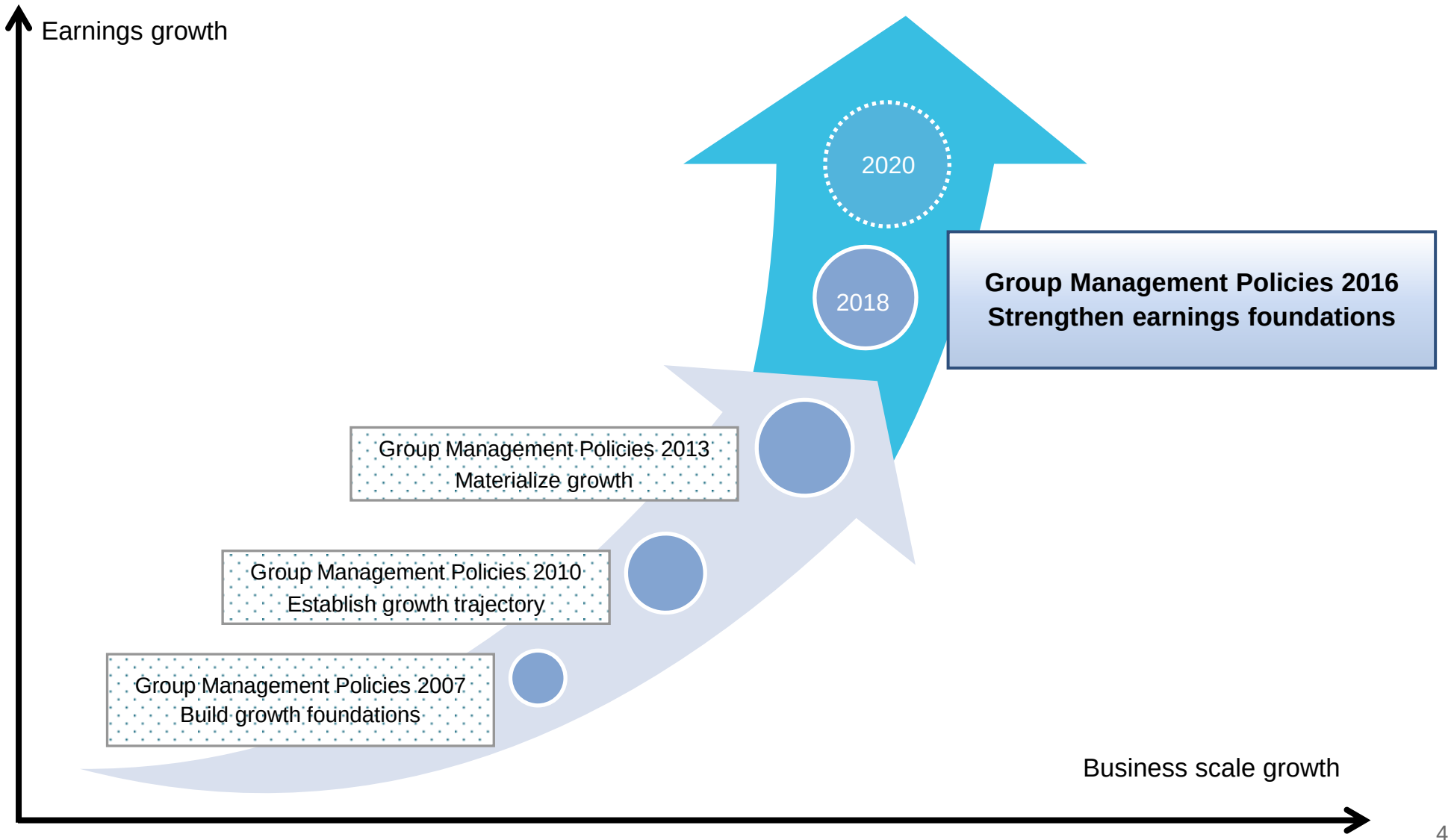
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Direction of Group Management Policies 2016 (1)

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IHI Group vision

The The IHI Group seeks to solve the various environmental, industrial, social, and energy related problems of the 21st century, through using engineering expertise to focus on “Monozukuri” technology. In striving towards these goals, IHI is becoming a global enterprise offering the safety and security for the benefit of both the environment and humanity.

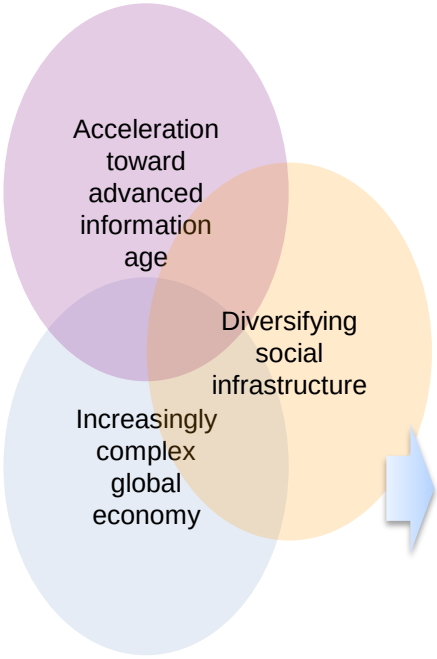


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Direction of Group Management Policies 2016 (2)

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Megatrends



Engineering capabilities centered around manufacturing technology

Group Management Policies 2013

Issues

Paradigm shift

- Life cycle focus
- Market needs-driven
- Global business operations

Group Management Policies 2016

Reinforce strategic implementation

Secure stable project earnings

Identify and deliver customer value

Initiatives

Pursue concentration and selection through new portfolio management approaches

Strengthen project implementation structure to bolster profitability

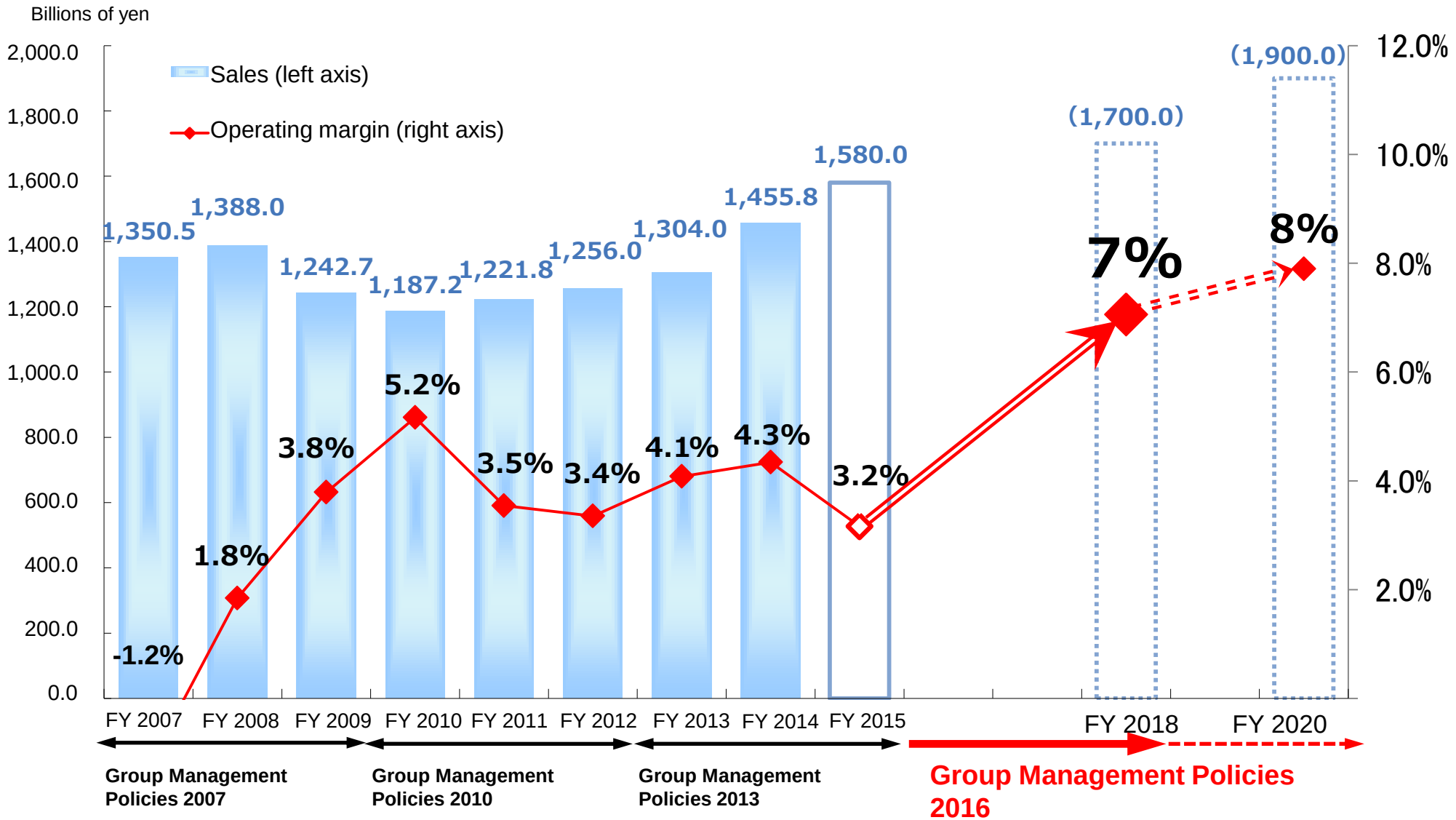
Employ common Group functions to transform business model

Strengthen earnings foundations

Grow sustainably and enhance corporate value

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Targets (1)



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Targets (2)

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Initiatives

Pursue concentration and selection through new portfolio management approaches

Strengthen project implementation structure to bolster profitability

Employ common Group functions to transform business model

Improve ability to generate cash flow

Profit rates
×
Turnover
=
Investment efficiency
×
Financial leverage

ROE Consistently exceed 10% to ensure appropriate shareholder returns

	Targets (FY 2018)	Attainment target (FY 2020)
Operating margin	7%	8%
ROIC*	10%	
Debt-to-equity ratio	below 0.7	

◆ Sales
FY 2018: ¥1,700 billion
FY 2020: ¥1,900 billion
◆ Investments: ¥400 billion over three years
*Post-tax ROIC

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Deploying New Portfolio Management Approaches (1)

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Approaches	● Visualize business strategy, share strategies between business units and corporate, and accelerate reforms ● Draw on capital efficiency and profitability to clarify business positions and push ahead with concentration and selection

Pursue selection and concentration through new portfolio management approaches

Strengthen business strategy implementation

- Reorganize strategic business units **so it is easier to formulate business strategies** (reduce **from 36 units to 27**)
- For each strategic business unit, clarify **missions** that combine strategic directions and quantitative targets (including **ROIC*** and operating margin), with strategic businesses and corporate agreeing and sharing
- **Narrow focus on** strategic business units that prioritize investments (reduce that number **from 15 units to 10**)
- Set time limit for reorganization and revitalization process to **within two years**

Capital efficiency and profitability

- Designate ROIC **as threshold required for business efficiency**
- Designate operating margin **as profitability threshold for growth businesses**

*Pretax ROIC used in portfolio management

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Deploying New Portfolio Management Approaches (2)

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New system stance deploying mission and ROIC

Mission

(Growth pathway)

Approach

Establish strategic direction for strategic business units based on market prospects and other companies' benchmarks

Set targets for three (2018) and five (2020) years hence

Quantitative targets

ROIC — **Business efficiency line for reaching minimum targets**

Operating margin — **Profitability line for reaching growth business targets**

Business units — **Agree & share** — Corporate

→ Reinforce business strategy implementation

Mission category

ROIC · Operating margin — 5 categories

→ Allocate management resources

$$\text{(Pretax) ROIC} = \frac{\text{(Pretax) Operating income}}{\text{Return on invested capital: Working capital + Fixed assets}}$$

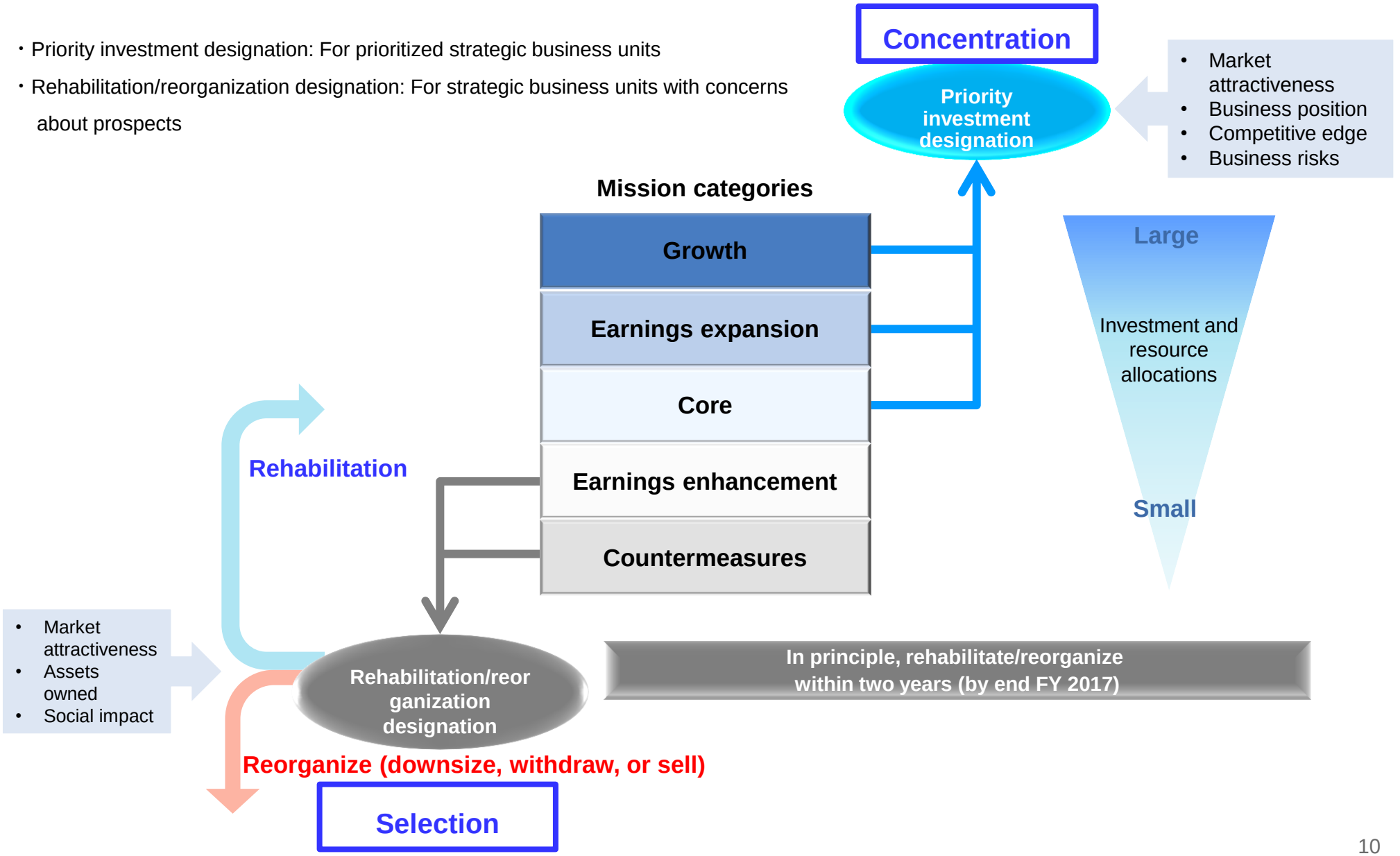
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Deploying New Portfolio Management Approaches (3)

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Mission categories and priority investment and rehabilitation/reorganization designations

- Priority investment designation: For prioritized strategic business units
- Rehabilitation/reorganization designation: For strategic business units with concerns about prospects



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Reinforcing Project Implementation System

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Approach	
	● Develop administration structure to take up projects in new fields ● Deploy measures to prevent reoccurrence of project revenue shortfalls

		Companywide	Business units
Projects in new areas		• Consider large project management structure in areas in which IHI has no track record	• Identify technological and resource risks in projects in new areas and build management structure
Large projects	Pre-order	• Strengthen review system when receiving initial equipment orders • Have qualified personnel companywide conduct technological and project reviews	• Rigorously assess initial equipment factors and establish review framework • Strengthen estimate phase review system system
	Post-order	• Step up initial responses when risks become apparent	• Encourage efforts to visualize project progress • Bolster human resources to strengthen monitoring
Human resources development		• Set up human resources development system to enhance project management capabilities	• Harness rotations in developing human resources

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Reinforcing Common Group Functions

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Approach	● Create advanced framework to enhance customer value ● Leverage common Group functions to accelerate transformation of business model
Solutions	• Expand scopes of businesses upstream and downstream and combine with other businesses and systematize • Reinforce resources to bolster Feasibility Studies capabilities
Advanced information management	• Concentrate Group ICT resources to reinforce functions • Rigorously employ common platforms for remote monitoring and controls • Accelerate efforts to drive manufacturing advances through smart factories
Global businesses	• Strengthen marketing functions • Build business models based on regional needs • Designate five key countries (Indonesia, Thailand, Vietnam, Malaysia, and Turkey)

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Business Area Direction

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Resources, Energy and Environment

– **Boilers, nuclear power plants, and gas turbines, diesel engines, and gas engines**



- Reinforce ability to deliver diverse infrastructure solutions
  - Expand and enhance energy resource usage technologies
  - Strengthen system supply capabilities for diversifying power source needs (decentralization and stabilization)
  - Create and swiftly commercialize advanced technologies to lower environmental impact
  - Enhance value of life cycle service technologies harnessing ICT

Industrial Systems and General-Purpose Machinery

– **Vehicular turbochargers, heat and surface treatment equipment, rotating machinery, and parking systems,**



- Expand global network centered on automotive industry
- Increase value in life cycle business
- Create advanced products and services harnessing ICT and robotics

Social Infrastructure and Offshore Facilities

– **Bridges and water gates**



- Measures to upgrade and strengthen infrastructure and prevent disasters
  - Build a market position by supplying solutions
  - Expand into Southeast Asian and emerging markets
  - Contribute to security field
- Marine resources and energy development efforts
  - Operate business centered on aluminum SPB tanks

Aero Engine, Space and Defense

– **Aero engines, rocket systems, and space exploration**



- Enhance technological and manufacturing capabilities and expand life cycle businesses
- Expand rocket propulsion systems business and cultivate space usage field
- Develop new businesses that leverage technological and manufacturing capabilities

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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.