November 2, 2018

IHI Corporation

Q&A for Fiscal 2018 First-Half Results Briefing

1. **Did you reach your operating profit target in the second quarter? Did you use your buffer? Is anything of greater concern for you in the second half of the year than in the first?**
    - Operating profit in the second quarter exceeded our internal target. That said, the operating climate poses some uncertainties down the track, so at this juncture it would be difficult to raise our forecasts for the full year. We have therefore left our annual operating profit projection unchanged.
    - We have yet to draw on our buffer. The focus this fiscal year is on bolstering profitability, and we are amassing a buffer for earnings improvements. In each of our business areas we are reallocating resources to reform our business structure. Improvements should materialize in the second half of this fiscal year, so we do not intend at this stage to draw down on the buffer.

2. **Did you recognize expenses in the second quarter for your North American process plant project?**
    - We are currently undertaking additional work, while work halted owing to the impact of a massive hurricane in the United States. We have therefore postponed the No. 1 train handover to early 2019. We are closely monitoring the project management situation. We are costing project delays, although the impact on second-quarter results was relatively minor.

3. **Are you retaining your earnings forecast for the Aero Engine, Space and Defense business, including with respect to cost reductions on new engines? Are you still doing as well as before in spare parts?**
    - We have not reached our cost reduction goals on new engines for which we have increased production. Our precision castings and forgings require key materials that are available from only a handful of companies around the world. Orders come from all engine manufacturers, causing supply chain bottlenecks. We face increasing challenges, and we cannot tell for certain at this stage whether earnings will bottom out from this or next fiscal year in the Aero Engine, Space and Defense business.
    - Spare parts earnings rose from the previous corresponding term commensurately with aviation demand growth rates.

4. **What is your cash flow outlook for this fiscal year?**
    - We have expected since the outset of this fiscal year that the situation would be very challenging. We posted a provision for loss on construction contracts that we took for major projects last year, and have made a lot of capital investments. We originally expected to post a negative free cash flow. While the situation has actually improved somewhat, the result for the full year will likely be much less than desired. For next fiscal year and beyond, we will focus on optimizing capital efficiency.

5. **Can we anticipate dividend increase for shareholders if your results improve more than projected?**
    - We will review our dividend policy in keeping with our priority of first ensuring dividend stability.