May 11, 2016
IHI Corporation

Q&A for Fiscal 2015 Results Briefing

1. **In November last year, you announced that you would invest ¥400 billion during Group Management Policies 2016. Has anything changed? What is the investment breakdown by business area and what key investments are you making?**
    - The ¥400 billion is a maximum that we would invest over the next three years, and we will carefully control spending in line with cash flow.
    - The investment categories are as follows:
      (1) Research and development: ¥125 billion
      (2) Capital investments: ¥190 billion
      (3) Investment and loans: ¥85 billion
    - The investment breakdowns by business area are:
      (1) Resources, Energy and Environment: ¥50 billion
      (2) Social Infrastructure and Offshore Facilities: ¥35 billion
      (3) Industrial Systems and General-Purpose Machinery: ¥80 billion
      (4) Aero Engine, Space and Defense: ¥125 billion
      (5) Other: ¥110 billion (including a ¥43 billion reserve for mergers and acquisitions and other investments)

2. **You aim to become a global enterprise. What are your overseas sales targets for fiscal 2018?**
    - We currently generate around 52% of our net sales overseas. We consider it vital to expand our operations outside Japan as growth prospects in the domestic market will be limited. We are therefore forecasting the proportion of sales generated overseas to increase during the next three years.
    - That said, overseas sales ratio is not our objective in endeavoring to become a global enterprise under Group Management Policies 2016. That goal will encompass such efforts as collaborating with overseas affiliates and building worldwide supply and value chains.

3. **Group Management Policies 2016 prioritizes profit margins and ROIC over volumes. What do you need to do to reach your operating margin target of 7%?**
    - We cannot reach that target without changing how we operate. Management has engaged in repeated deliberations since last year about the measures needed to reach our operating margin target of 7%. We are currently discussing initiatives to reduce risks and drive improvements while working on detailed plans to implement such initiatives simultaneously and undertaking efforts to accelerate PDCA cycles.
    - On top of that, we consider it important to make swift decisions on our approach to pushing ahead with concentration and selection, and have already gone into action in that regard.

4. **You will appoint experts to reinforce your project implementation structure. Will you choose such people on a project by project basis?**
    - We will list up experts in various specialist fields, calling on them as needed for their assessments. Although we have evaluated risks within our business units to date, from now on we intend to draw on in-house experts and those outside the organization, including former employees, in order to have them assess our projects from estimate stages.
    - Although project management to date has focused on review of orders received, from now on we will undertake such assessments from project exploration stages, as part of which we will explore business viability. In addition to assessing projects when receiving orders and signing contracts, we will also carefully monitor the progress of our measures for mitigating risks during the projects execution phase.

5. **For fiscal 2016, you have forecasted operating income gains in all segments whose performances deteriorated in fiscal 2015, and you do not seem to be incorporating risks into your projections. What kind of risks apart from exchange rate fluctuations are you expecting to encounter to reach your targets?**
    - Profitability has been Mr. Mitsuoka’s top priority ever since he became president. We can only enhance earnings if we implement plans and improvements that reduce risks.
    - The Resources, Energy and Environment segment, which performed poorly in fiscal 2015, delivered an acceptable level of operating margins until several years ago. We are determined to regain and exceed those levels. We need to tackle numerous issues to drive progress, and solutions lie in each employee

becoming more aware of the need to enhance profitability.

6. **The fiscal 2016 operating income forecast for the Resources, Energy and Environment segment appears to be too conservative given that negative factors that affected fiscal 2015 are no longer in play. Does the forecast assume a further downturn in the Process Plant SBU (strategic business unit), including the impact of overseas projects?**
   - Our operating income forecasts for fiscal 2016 reflect improvements in the profitability of the Boiler and Process Plant SBUs that should stem from reinforcing our project implementation system but also reflect the risks we have forecasted for large projects.
   - In the Process Plant SBU, overseas projects are among whose profitability declined in fiscal 2015. Our fiscal 2016 forecasts assume that project profitability may slip somewhat, although it should be noted that no projects are in the red.
   - At the same time, we anticipate increased orders for LNG tanks, which have experienced sluggish demand until lately. We also look for earnings contributions from a recently ordered LNG export facility in Elba Island, Georgia, as the technical risks are low.
   - Also, reinforcing the project implementation system should enable us to normalize reviews at project implementation stages and swiftly tackle any signs of deteriorating profitability.

7. **You have projected ¥3 billion in operating income in fiscal 2016 for the Social Infrastructure and Offshore Facilities segment. What approximate losses do you expect from offshore facilities?**
   - We included all foreseeable factors in posting offshore structure project losses in fiscal 2015. We therefore do not envisage any project losses in fiscal 2016.
   - At the same time, we do expect to post operating losses at the Aichi Works, which manufactures offshore structures, to reflect an inability to recoup fixed costs. We are exploring ways to minimize the financial impact, which should be around several billion yen.

8. **What steps will you take to enhance the operating margin for the Industrial Systems and General-Purpose Machinery segment?**
   - We will endeavor to boost the earnings of the Turbocharger SBU while enhancing earnings and margins at other SBUs. The latter include the Thermal and Surface Treatment SBU, which will enter the investment recovery stage, the Logistics System SBU, which has yet to fulfill its potential, and the Rotating Machinery SBU, which has solid global business development prospects. While boosting the profitability of these SBUs, we will focus on concentration and selection as part of efforts to rebuild and reorganize other SBUs.