

## Q&A for Fiscal 2017 Third-Quarter Results Teleconference

### 1. What were the provision for loss transfers, reversals, and balances by segment?

- As shown in the table below:

(Units: Billions of yen, rounded down to nearest 100 million yen)

	March 31, 2017	Nine months ended		December 31, 2017
		December 31, 2017		
		Transfers	Reversals	
Resources, Energy and Environment	18.2	16.1	17.1	17.2
Social Infrastructure and Offshore Facility	17.6	1.3	14.0	4.9
Industrial System and General-Purpose Machinery	0.9	-0.2	0.2	0.4
Aero Engine, Space and Defense	0.3	0	0.1	0.1
Others	0.1	0.8	0.5	0.4

### 2. Are you confident that you can reach your operating margin target of 7% in fiscal 2018?

- Given that the number of projects in which we face major profit fluctuation risks has declined, we believe that we have the capability to reach our 7% operating margin target next fiscal year if we fully manage the risks on those projects.
- We will accordingly need to constrain factors contributing to downward construction profitability while ensuring that existing measures, such as business structure reforms and generation of competitive edge through advanced products and services that employ information and communication and Internet of Things technologies, contribute to earnings.

### 3. Aero Engine, Space and Defense segment

(1) What were the key contributors to the ¥17.2 billion operating profit for this segment in the third quarter of this fiscal year?

- There were three main factors:
  - The yen depreciated more than expected.
  - Spare parts sales increased.
  - Unit sales increased of highly profitable engines.

- (2) Why was your fourth-quarter operating profit projection below the level of the third quarter?
- There were two main factors:
    - One is that we project full-fledged cost reductions to materialize from next fiscal year on the new PW1100G-JM engine. Profitability on that model should deteriorate in the fourth quarter as unit shipments increase (we shipped a total of around 200 units in the first three quarters of this fiscal year, and plan to ship more than 100 units in the fourth quarter).
    - The booking of some costs tends to be at year-end, research and development expenses being a good example.

(3) What is your outlook for this segment in fiscal 2018?

- We maintain our stance that the current fiscal year will be our most challenging in terms of profitability.
- While PW1100G-JM unit sales should be higher than in this fiscal year, we look for further cost reductions to contribute more to earnings next term.
- The civil aero engines market is growing, and we look for the segment overall to fare somewhat better next fiscal year.

**4. What are the outlooks for your other segments for the fourth quarter of this fiscal year?**

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|--|---|
| <ul style="list-style-type: none"> <li>• Resources, Energy and Environment:</li> </ul>               | <p>The operating profit forecast is ¥8.7 billion.</p> <p>This earnings level should be reasonable in view of major operating losses having been booked through the first three quarters and much repair work being booked at the end of this fiscal year.</p> |
| <ul style="list-style-type: none"> <li>• Social Infrastructure and Offshore Facility:</li> </ul>     | <p>In the fourth quarter, we expect to maintain the same level of earnings as the first three quarters.</p>   |
| <ul style="list-style-type: none"> <li>• Industrial System and General-Purpose Machinery:</li> </ul> | <p>We anticipate a slight upturn in this segment.</p>   |

**5. What is the situation with your boiler business?**

- Orders have been steady this fiscal year, and there is a lot of work in progress. Our risk management framework has proven effective, and we do not expect any deterioration in earnings that would materially affect performance.
- Our operating margin through the first three quarters of this year was around 8%, and we aim to maintain that level.

**6. How is IHI doing in the Chinese and European vehicular turbocharger markets?**

- Unit production and sales are exceeding expectations in the Chinese market, and we look for this situation to continue for the foreseeable future.
- In contrast, there seem to be no major developments in Europe. As before, we assume a downward trend in that market.