May 10, 2018

IHI Corporation

Q&A for Fiscal 2017 Results Briefing

1. Earnings prospects of the Aero Engine, Space and Defense segment:

(1) What are the major factors in your fiscal 2018 operating income forecast compared with results for fiscal 2017?

- Most of a ¥24 billion reduction from sales changes would come from greatly increased unit sales of the PW1100G-JM in view of its low profitability in the initial mass production stage.
- A ¥15 billion earnings gain from fluctuations in construction profitability would largely reflect higher sales of spare parts and the absence of charges incurred in 2017 to cover defects in the initial mass production phase.

(2) What is your earnings outlook for fiscal 2019?

- Unit sales of PW1100G-JM, profitability of which is low in its initial mass production phase, are rising more slowly than originally anticipated. With the forecasted sale of more than 700 units, fiscal 2018 is expected to be the bottom for the civilian aero engines business.
- Greater production process expertise should thereafter drive cost reductions. Aftermarket demand should expand steadily, with performance recovering from fiscal 2019.
- With the full-fledged manufacture of such new engines as the Passport20 and GE9X scheduled to start from fiscal 2018, we must accommodate increased production of these new models and push ahead with cost cutting.

(3) Why is aftermarket demand expanding, including in terms of spare parts sales?

- We believe that there are two key contributory factors in addition to robust passenger demand.
  - The first factor is that the profitability of airlines has improved amid a long-term downturn in oil price despite recent pick up, which facilitates undertaking of maintenance by airline companies at appropriate timing.
  - The second factor is favorable sales of engines in the programs in which IHI is participating. For example, total sales of the GEnx engine exceeded 2,000 units far faster than anticipated.

2. Why are your fiscal 2018 operating income forecasts lower than the initial targets under Group Management Policies 2016 for the Resources, Energy and Environment segment and the Industrial Systems and General-Purpose Machinery segment?

- In Resources, Energy and Environment, we have reduced our fiscal 2018 sales target significantly from the initial level in light of significant changes in the operating climate. We will keep tabs on market trends in striving to allocate resources optimally and effectively for the overall business.
- In Industrial Systems and General-Purpose Machinery, we aim to boost profitability by addressing aftermarket for various SBUs which has been lagging behind schedule.
- By taking such steps, we aim to avoid booking expenses that we have included in forecasts as a risk buffer and thereby post those amounts to profits.

3. **Why would you generate operating income gains for a second straight year in fiscal 2018 for Industrial Systems and General-Purpose Machinery?**
    - In fiscal 2017, our operating income rose more than we initially projected because vehicular turbocharger sales increased, particularly in China. We look for vehicular turbocharger sales to decrease in fiscal 2018, partly because some overseas subsidiaries reported 15-month terms in the previous fiscal year, so sales gains should not be a factor in higher operating income.
    - Our fiscal 2018 operating income forecast factors in earnings gains from aftermarket focuses in strategic business units other than that for vehicular turbochargers, particularly that for rotating machinery.

4. **You plan to make ¥77 billion in capital investments in fiscal 2018. Which businesses will you allocate these investments to and why?**
    - Major expenditure categories are:
        - Civilian aero engines: To accommodate fast expansions in new model production and in the maintenance business
        - Vehicular turbochargers: To keep pace with market expansion and maintain global network
        - Urban development: To increase value of the existing real estate holdings
    - Based on the business areas rolled out in fiscal 2017, we will take a concentration and selection approach to allocating the required R&D, capital expenditure, and funding to businesses that offer potential over the medium and long terms. We allocated 65% of capital investments to 10 priority strategic business units from fiscal 2016 through 2018.

5. **What is your stance on helping to run Japan Marine United?**
    - It is ultimately up to that company to drive operational reforms. As a shareholder, IHI plans to advise its management more than before, and is discussing ways to bolster the company so it can maintain proper order levels and tackle stronger yen.