November 2, 2016
IHI Corporation

Q&A for Fiscal 2016 First-Half Results Briefing

1. **How have you progressed with portfolio management? Can you quantify the impact of structural reforms in terms of operating income or other numbers?**
   - We are formulating structural reform plans to rehabilitate and reorganize SBUs with viability concerns within two years (by fiscal year ending March 2018).
   - We have completed around a quarter of our portfolio management goals to date. These include the recently disclosed decision to transfer all of the shares of IHI Construction Machinery Limited to another party. Such business structure reforms have positive and negative impacts, so we cannot simply quantify their impacts in operating income or other terms.

2. **What allowances did you allocate by segment for the first half of this fiscal year for losses on construction orders?**
   - We set aside a total of ¥32.2 billion, the components of which were as follows (amounts below ¥100 million rounded off)
     - Resources, Energy and Environment: ¥7.8 billion
     - Social Infrastructure and Offshore Facility: ¥23.5 billion
     - Industrial System and General-Purpose Facility: ¥0.6 billion
     - Others: ¥0.1 billion

3. **What will be your tax rate over the next two or three years?**
   - It will be 30.86% this and next fiscal year, and will likely be slightly lower than that in the year ending March 31, 2019.

4. **Did loss-making projects in the Social Infrastructure and Offshore Facility segment account for around ¥20 billion of the earnings deterioration in the first half of the year? What is the outlook for a downturn in the second half?**
   - There was a profitability deterioration of about ¥22.0 billion in the first half of the year in three F-LNG and offshore structure projects. We arrived at this figure after factoring in the maximum costs that we can foresee at this juncture, and do not expect a further deterioration in the second half.

5. **You posted ¥31.5 billion in operating income for the Aero Engine, Space and Defense segment in the first half, and project ¥4.5 billion in operating income for the second half. Why is the difference so large, and what earnings level do you envisage next fiscal year?**
   - Spare parts contributed more than we expected to earnings in the first half, and while we hope that this favorable situation will continue in the second half we are refraining from being optimistic because the outcome depends on market trends.
   - Also, selling, general and administrative expenses and sales of some engines that we projected for the first half shifted to the second half. Such engines contribute little to earnings as they are in initial mass-production phases. Because of that shift, our second-half forecasts for operating income are lower than our results for the first half.
   - As we initially explained, production of new engines is set to surge in this and next fiscal year, so we have refrained from being optimistic about earnings because the situation is in flux in that respect.

6. **Price competition in the aircraft business is apparently intense. How has this affected the engine business, particularly the spare parts area?**
   - The aircraft and engine businesses are different, so there has been no direct impact.
   - That said, we offer long-term maintenance contracts and diverse other engine services and can also cater to the needs of cost-sensitive customers.

7. **Do you see any signs of a turnaround from declining profitability in the turbocharger business? What operating margin levels do you envisage down the track?**
   - A plant that we set up in Europe initially suffered from low productivity, which has recently recovered to normal levels.
   - We are deploying various initiatives to optimally operate the global network that we have constructed to date.
   - Group Management Policies 2016 targets an operating margin of 7% for the IHI Group. We look to significantly exceed that level over the medium and long terms for the turbocharger business.