May 10, 2017

IHI Corporation

Q&A for Fiscal 2016 Results Briefing

1. **Your consolidated forecasts for fiscal 2017 show an adjustment to reflect a ¥11 billion earnings decline from a change in construction profitability. What is the breakdown of that amount? Could those factors drive earnings up?**
    - We incorporated this figure in our forecasts from a companywide viewpoint after identifying risks from various perspectives and assessing their probabilities.
    - We are set to explore and implement measures to prevent risks from emerging.

2. **How is changing your depreciation method affecting your forecasts for fiscal 2017?**
    - We plan to change from declining-balance to straight-line depreciation for property, plant and equipment from fiscal 2017. This shift should add around ¥1.5 billion to operating profit.

3. **You have targeted a 7% operating margin for fiscal 2018. That would mean an operating profit of around ¥100 billion. To what extent should measures you deploy in fiscal 2017 contribute to such results?**
    - Part of the fiscal 2017 sales will be derived from projects that have incurred loss provisions for orders due to prolonged deterioration of profitability (i.e., projects with approximately zero profitability). However, due to such projects ending in fiscal 2017, we anticipate our fiscal 2018 operating margin to improve compared to fiscal 2017.
    - We believe that aero engine earnings should bottom out in fiscal 2017 and begin improving in fiscal 2018, which will contribute to operating profit that year.
    - Our structural reforms are gradually bearing fruit. Momentum should pick up down the track, boosting earnings.

    - <u>Following up on question 3, how will you generate ¥100 billion in operating profit?</u>
        - Deteriorating construction profitability has been the prime reason in being unable to generate sufficient operating profit, and profitability on some major projects has deteriorated. We therefore embarked on companywide initiatives three or four years ago to identify and resolve issues. Such efforts have become firmly established throughout our organization, which we believe should enable us to prevent further performance downturns and reach our financial targets in fiscal 2018.
        - Accelerating structural reforms should enable us to reduce fixed costs and turn earnings around.

4. **Do you think that your fiscal 2018 earnings in the Aero Engine, Space and Defense segment should be higher than in fiscal 2017?**
    - Profits should bottom out in fiscal 2017 and improve from fiscal 2018.
    - However, a key factor in whether we can materialize a V-shaped recovery will be the extent to which we progress in cutting costs for the PW1100G-JM engine, for which unit shipments are continuing to rise.

5. **What is the situation with respect to your North American process plant projects?**
    - Two of these projects are under way in North America. One is nearly 90% complete and is entering the commissioning stage. We conducted a range of simulations to eliminate assumed risks and confirmed that our overall system has worked well. Although we have yet to eliminate all concerns, we have done our best to formulate and deploy countermeasures.
    - With regard to the other North American project, we are expecting to make strong progress in fiscal 2017. The IHI Group is managing this project independently, not through a joint venture, and it is on schedule. High labor costs in North America are within the scope of our assumptions.

6. **What's your medium-term outlook for your nuclear power business?**
    - We have worked with Toshiba Corporation to date in our nuclear power-related operations, so the direction that company takes may affect our prospects.
    - Nuclear power is a vital energy source for Japan and is accordingly an important industry. We are therefore pushing forward in various respects. That includes working on the nuclear fuel cycle, construction to restart operations at nuclear power plants, and developing reactor decommissioning and decontamination technologies. The IHI Group will do its best to contribute to progress.

7. **Why did you forecast an operating profit decline for fiscal 2017 in the Industrial System and General-Purpose Machinery segment?**
    - We must invest to maintain and reinforce our competitiveness in the vehicular turbocharger business, a core earnings contributor. Such investment will put temporary pressure on fiscal 2017 earnings.
    - Additionally, certain vehicular turbocharger / rotating machinery projects with high profitability were recognized in fiscal 2016, which could also factor into fiscal 2017 profit decline on a relative basis.

8. **What do you plan to do with the Aichi Works after you end production there?**
    - We are exploring our options and are not yet in a position to comment. We will make an announcement once we reach a decision.