October 25, 2016

IHI Corporation

Q&A for Briefing on Revisions to Results Forecasts and Planned Dividends

1. The lowered operating income projection for three F-LNG and offshore structure projects

(1) What is the breakdown of the approximately ¥16 billion cut in your earnings outlook?

- The prime factor is the construction of SPB tanks for Japan, accounting for around half of the reduction.

(2) What were the factors in the downturn, and are further declines possible?

- Although the three projects entered their final work or construction stages, we were unable to factor in the risks in planning to date in those stages.
- Our latest forecasts all reflect all of the necessary tasks and work volumes that were evident in final phases. At the same time, projections do not factor in enhanced capabilities from proficiencies that have yet to be verified. So, we believe that our revisions have taken all foreseeable downside factors into account.

(3) Do cuts in your forecasts include penalties that you expect would stem from delivery delays?

- Our operating income now includes additional manufacturing costs.
- The largest penalties envisaged as a result of delivery delays were factored in for the previous fiscal year for FPSO forecasts and this fiscal year's results for drill ships. The penalty amounts in both cases are not particularly large.

2. What specific aspects of your F-LNG and offshore structure business will you look into?

- Regarding SPB tanks, which are pivotal to that area, there is potential demand for LNG ships and others. However, it is not clear when exactly that demand will become apparent. We are exploring a number of measures in this area, factoring in all possibilities.
- We will leverage of the necessary resources, centered on corporate units, in exploring measures.

3. Regarding plans to cut dividends to zero

(1) When was the last time you paid no dividends?

- This is the first time in 8 years since March, 2009.

(2) How are you performing on a nonconsolidated basis?

- We expect to post small nonconsolidated losses this fiscal year. While the main impact of the reduced forecasts is in terms of operating income, in view of the dividends and other financial expenses of affiliates there should not such a major operating income downturn, and we have secured sufficient earnings for dividends.
- That said, we projected that we would not pay dividends in light of the downturn in consolidated results and the need to maintain a healthy financial position.

(3) What is the dividends outlook for next fiscal year?

- Our forecasts for this term factor in all the negatives, and we seek to resume dividend payments from next term.

4. **You expect a ¥3 billion downturn in operating income for the boiler business. Is that because of welding defects that occurred in the previous fiscal year? Or does this stem from something new?**
   - It is not because of the same factor as last year. We factored in profitability downturns for each of several projects in process.

5. **What structural reform initiatives have you undertaken with respect to attaining the operating margin target of 7% under Group Management Policies 2016?**
   - We are taking steps to address performance downturns while pushing forward with business structure reforms. We allocated two years to revitalizing and reorganizing strategic business units whose operational prospects have been concerns. We will report on results in those respects at the appropriate stage.
   - Overall, the IHI Group is globalizing operations, centered on Asia, and discussing and implementing business deployments that leverage the Internet of Things. We look forward to explaining our initiatives as soon as possible.