February 2, 2018

IHI Corporation

Q&A for Teleconference on Booking Non-Operating Losses (Share of Loss of Entities Accounted for Using Equity Method) and Revisions to Full-Year Consolidated Forecasts for Fiscal Year Ending March 31, 2018

1. What are the key factors in the ¥24 billion downward revision that you have made to your full-year non-operating income forecast?

(1) One factor is an equity in loss of affiliate Japan Marine United Corporation (JMU) amounting to around ¥16 billion, reflecting a downturn in the profitability of LNG vessels that it is constructing.

(2) Contract adjustment payments for our civil aero engines business and expenses for delayed deliveries on land-based power plants accounted for the bulk of the other ¥8 billion in reductions to our forecast. We acknowledged those expenses when disclosing our previous results forecasts, reflecting them in our new forecasts by reversing a risk buffer.

(3) With less than two months remaining in the current fiscal year, we have accordingly reversed all of the risk buffers included in our initial forecasts.

2. What are the main factors in upgrades to operating profit forecasts for segments in which performances are improving?

- Social Infrastructure and Offshore Facility: ¥1 billion upgrade reflecting higher sales in several strategic business units
- Industrial System and General-Purpose Machinery: ¥1 billion increase owing to higher vehicular turbocharger sales for the Chinese market
- Aero Engine, Space and Defense: ¥4 billion boost in light of improvements in civil aero engine, including spare parts, and forex factors

3. Might the downside factors that prompted your downward forecasts revision for this fiscal year affect your results next year?

- If we can overcome issues with the LNG vessels that JMU is building and with a process plant project in North America, the two prime factors in our downward forecasts revision, we believe that the risks of performance fluctuations will be lower.
- We reviewed expenses very conservatively for LNG vessel construction, and we believe that the potential for any further deterioration in expenses is limited.
- The construction and installation stages greatly affect the profitability of our North American process plants project, and we have become able to assess the overall situation as we have entered this crucial stage.

4. **What is the delivery date and the likelihood of profitability downturn for the LNG vessels that JMU is constructing?**
   - We cannot comment specifically on delivery dates in view of our relationship with the customer.
   - We concluded that we would need to deploy more measures than anticipated for the thermal insulation work on LNG tanks, and incorporated conservative estimates of prospective costs in that regard. At the same time, we expect to include charges for contracted delivery delays.
   - We expect that the learning effect from the construction of the first LNG vessel will enable us to improve our cost structure for the other three vessels that we are contracted to build. We will accordingly need to tackle the challenges of completing and delivering this first vessel.
   - The IHI Group, including JMU, is thus reviewing work allocations and procedures to optimize overall construction processes. We are also in discussions about applying IHI's project risk management techniques.

5. **What is the situation with the SPB tanks that IHI is building?**
   - We have entered the continuous manufacturing stage, and are accordingly progressing well in keeping with the scope of our cost assumptions.

6. **Profitability deterioration on North American process plant project**
   (1) How much of the work have you completed, and what is your outlook for the project?
   - The work is around 56% complete on a cost accrual basis.
   - We learned as construction and installation got fully under way that we would need to undertake additional tasks, and reflect the required expenses for such work in our results forecasts.
   - After entering the construction and installation stages we were able to assess the overall situation with the work.
   - Accordingly, while will continue to be cautious as we complete the first liquefaction unit and utilities we believe that further dramatic fluctuations in project profitability are now less likely.

   (2) Will you change the delivery schedule?
   - We are progressing in line with the schedule that we discussed with the customer to meet the deadline that we initially set.

7. **How have you progressed with construction at the Cove Point natural gas liquefaction facility, and what is the cost outlook?**
   - Based on consultations with the customer, we are in the stage of making pilot operation adjustments and are progressing towards completion; we began LNG production on January 30.
   - At this stage, we look to reach the contracted production capacity, and no elements of the project are likely to detract from earnings.

8. What is your stance going forward on managing the process plants business?

- We will need to review our approach to this business in light of significant downsides that we have experienced despite our efforts to reinforce project risk management.
- Our top priority at this stage is to complete existing construction work. We are therefore refraining from accepting large construction orders and leveraging the comprehensive resources of the IHI Group, including personnel deployments to check construction progress.
- Construction profitability is continuing to deteriorate. At the same, demand in the LNG market should trend upward over the medium and long terms. So, in view of these factors, we embarked on structural reforms to the process plant business, involving headquarters in this effort, to evaluate measures to strengthen our EPC capabilities and our ability to supply attractive products and services.