

August 4<sup>th</sup>, 2015

IHI Corporation

Highlights of Q&A at the Earnings Telephone Conference for First Quarter Results Fiscal  
Year 2015

1. The full year operating income forecast declined ¥15.0bn in the Social Infrastructure and Offshore Facility business. Please describe the breakdown in terms of the amount related to the Izmit Bay Crossing Bridge construction project in Turkey and that related to the F-LNG / Offshore structure business (drill ships for Singapore, shipbuilding project for FPSO for Norway, SPB tanks for LNG carriers).
  - ¥3.0bn is related to catch-up expenses for the Izmit Bay Crossing Bridge construction project in Turkey and ¥12.0bn is related to profitability deterioration in the F-LNG / Offshore structure business. We cannot disclose the breakdown of the F-LNG / Offshore structure business.
  
2. Is there a possibility of further drawing revisions in relation to the drill ships for Singapore? If drawing revisions are delayed, would there be a risk of further increase in the outsourcing expenses, etc. related to the FPSO shipbuilding project for Norway?
  - With respect to drawing revisions for the drill ships for Singapore, revisions related to hull construction are beginning to settle. Drawing revisions related to electric instruments are continuing and we have factored in the related additional processing expenses. Construction is approximately 70% completed and we are not expecting any large movements in expenses going forward.
  - With respect to FPSO, we are not expecting further outsourcing and transportation expenses besides the amount that was recorded during the quarter.
  
3. Is the order for SPB tanks the one IHI received last fiscal year (order received in May 2014, production began in March 2015) for LNG tanks for FSRU (Floating Storage and Regasification Unit), which is expected to be delivered in September 2015?
  - The orders for SPB tanks consist of the project for China as mentioned in the question and large scale SPB tanks for LNG carriers for a domestic customer. We have factored in the profitability deterioration concerning both projects in our recent earnings.
  - With respect to the project for China, we have started the construction and found that processing efficiency has not gone up partly because it is our first model. We have reevaluated the entire project based on this low processing efficiency.
  - With respect to large scale SPB tanks for LNG carriers, we observed a low material yield (cutting off components from aluminum plate material) from our first tank. Therefore, we have assumed that this low material yield will continue throughout all

four tanks and factored in additional costs accordingly. For the second, third and fourth tanks, we will try to improve the material yield .

4. In relation to SPB tanks for a domestic customer, please confirm that you have factored in all additional costs up to the fourth tank, therefore all negative factors have been released. Additionally, please confirm that Aichi Works will only be left with the SPB tank order after the completion of the drill ships for Singapore and FPSO shipbuilding for Norway.

- We have factored in all negative elements that we are foreseeing at the moment. We will monitor and support the business with the help of the entire IHI group in order to avoid incurring additional costs.
- With respect to the F-LNG / Offshore structure business, we will be giving a comprehensive consideration to the long-term demand, the current business environment (depressed price of resources) and technological superiority to consider profitability recovery and the future positing of the business.

5. You mentioned that you have begun the consideration of the future positioning of the F-LNG / Offshore structure business. Can we expect any decision to be announced at the next midterm management plan announcement in November?

- First, we need to consider whether there is room for profitability recovery at Aichi Works. Then, we will consider the future positioning of the business while taking into consideration the market condition. We cannot give any firm comment as to whether or not a decision can be made by the announcement of the next midterm management plan in November.

6. Please let us know the delivery schedule for 1) drill ships for Singapore, 2) FPSO shipbuilding for Norway, 3) SPB tanks for LNG carriers, and 4) Izmit Bay Crossing Bridge construction project.

- Delivery schedule for the 1) drill ships for Singapore is March 2016 and 2) FPSO shipbuilding for Norway is May 2016. As to 3) SPB tanks, the delivery of SPB tanks for China is September 2015, and the first of the four tanks for a domestic customer is August 2016, followed by the second and the third tank. The fourth tank is expected to be delivered in August 2017.
- The initial delivery schedule of the Izmit Bay Crossing Bridge was February 2016. After the catwalk accident, as we have explained at our FY2014 earnings announcement, the project will be delayed for three months if we do not take any measures. We are currently in discussion with the customer regarding the confirmation / adjustment of the timeline and the approval of the construction method and, therefore, we cannot comment on the specific delivery schedule. We have been implementing measures to minimize delays, including changing of the construction

method to shorten construction period and adding additional man power. Such measures have resulted in the additional costs for this quarter.

7. The figures for the Aero Engine, Space and Defense business appear to be stable but in the first quarter of last fiscal year, operating income increased due to cost carry-over. Is there any cost carry-over in the first quarter of this fiscal year? Please explain whether there are any factors besides foreign exchange rate that may contribute to further upward movement from the current full year operating income forecast of ¥43.0bn in the Aero Engine, Space and Defense business.

- There is a cost carry-over this fiscal year as we had in the same quarter last year
- The Aero Engine, Space and Defense business did relatively well in the first quarter, but we are not expecting changes to our second quarter and full year operating income forecast. The first quarter had a foreign exchange rate change of approximately ¥3.5bn versus the same quarter last year. We are cautious towards the fiscal year as there will be costs related to new engine development, etc.

8. What are the reasons behind the increasing level of inventory in the Aero Engine, Space and Defense business. Is it due to the foreign exchange rate or increase in orders as a part of the normal course of business?

- Inventory is increasing as we prepare for a quick ramp up of production of our new engines while aero engine orders are increasing.
- Last November, we launched a corporate wide project to strength our cash generation ability and as a part of this we are trying to decrease inventory and working capital. We have also set a specific target within the IHI's Aero-Engine & Space operations and we are working diligently towards this target.

9. In the Resources, Energy and Environment business, there were approximately ¥5.0bn of additional costs in the first quarter of last fiscal year. Please confirm that there are no such additional costs in this first quarter.

- Last fiscal year, additional costs were recorded as provision for loss on order received, while on the other hand there was a significant amount of regular maintenance / renewal projects. The change in construction profitability included both of these elements. This year, regular maintenance / renewal projects are decreasing and at the same time small provisions for loss on order received collectively amounted to ¥2.3bn. Therefore, the change in construction profitability was negative ¥1.0bn compared to the same quarter of last fiscal year.

10. While sales from vehicular turbochargers increased in the first quarter, what happened to profit? Also, how do you see the business to perform in China given the current economic condition?

- Operating income is almost flat.
- The situation in China is difficult to predict due to the economic slowdown. We have not experienced any significant damages in relation to turbocharger manufacturing in China as of the first quarter. However, we are expecting the situation to affect us more towards the end of the fiscal year.

11. Share of profit / losses of entities accounted for using equity method for this quarter is positive ¥1.1bn. How did Estaleiro Atlântico Sul S.A. (EAS) in Brazil affect this figure? Also, what are the reasons behind the change in the full year non-operating income forecast?

- Until the last fiscal year, EAS' profit/loss were consolidated into IHI as an equity method affiliate. However, at the end of the last fiscal year, we have recorded a loss on valuation in relation to all of our investment in EAS and recorded an extraordinary loss related to investment in affiliate on all foreseeable contractual losses including potential future losses. Therefore, IHI did not consolidate the profit/loss of EAS for this quarter. The full year earnings forecast has been revised due to the same reason.

12. Despite the downward earnings revision, the dividend of ¥6 remains unchanged. What kind of message are you trying to deliver?

- Although we have revised our earnings forecast significantly, we have still managed to generate a certain level of profit and our distributable profit can be accumulated. We have therefore maintained the ¥6 dividend

13. What is the amount of 1Q provision for loss on order received on a segment basis?

Please see below. Unit: billion yen

	Amount
Resources, Energy and Environment	2.3
Social Infrastructure and Offshore Facility	12.6
Industrial System and General Purpose Machinery	—
Aero Engine, Space and Defense	0.1
Others	—
Adjustment	0.1
Total	15.1

14. What is the amount of 1H operating income on a segment basis?

• Please see below. Unit: billion yen

	Op. Income
Resources, Energy and Environment	6.0
Social Infrastructure and Offshore Facility	(11.0)
Industrial System and General Purpose Machinery	4.0
Aero Engine, Space and Defense	27.0
Others	(1.0)
Adjustment	(5.0)
Total	20.0