

Highlights of Q&A at the Earnings Telephone Conference for Third Quarter Results Fiscal
Year 2014

1. What are the factors behind the changes from the previous full year operating income guidance (announced on November 5th 2014)?

- Due to the following reasons ①~④, a ¥5.0bn upward revision was made to the previously announced guidance

Analysis of change in operating income (versus previous guidance)

Unit: billion yen

	Change in foreign exchange rate	Change in construction profitability	Change in net sales	Change in SG&A	Total
Resources, Energy and Environment	4.0	①Δ2.0	0.0	0.0	2.0
Social Infrastructure and Offshore Facilities	0.0	②Δ6.0	0.0	0.0	Δ6.0
Industrial Systems and General-Purpose Machinery	1.0	0.0	0.0	0.0	1.0
Aero Engine, Space and Defense	5.0	③2.0	0.0	④1.0	8.0
Others	0.0	0.0	0.0	0.0	0.0
Adjustment	0.0	0.0	0.0	0.0	0.0
Total	10.0	Δ6.0	0.0	1.0	5.0

① Reasons for the negative ¥2.0bn change in construction profitability

- This is due to the expected delay in finalizing the negotiation to recover the cost already incurred for a domestic boiler project.

② Reasons for the negative ¥6.0bn change in construction profitability

- This is due to the deterioration of profitability of the drill ship body construction for our Singaporean customer that are being manufactured at Aichi Works, as well as the low utilization of Aichi Works.

③ Reasons for the positive ¥2.0bn change in construction profitability

- This is due to increased spare parts sales with higher profitability, as well as improved earnings by subsidiaries

④ Reasons for the positive ¥1.0bn change in SG&A

- This is due to some cost carry-over to the next period

2. What are the changes and balance of the provision for loss on construction contracts, by segment?

• Please refer to the below table

Unit: billion yen

	Mar 2014 Balance	FY2014.1-3Q Accumulated		Dec 2014 Balance
		Increase	Decrease	
Resources, Energy and Environment	11.7	6.5	5.3	12.9
Social Infrastructure and Offshore Facilities	3.5	①7.9	3.6	7.8
Industrial Systems and General-Purpose Machinery	3.1	9.0	1.5	2.5
Aero Engine, Space and Defense	0.0			0.0
Others	1.0			1.0
Adjustment	△1.0	1.0		0.0
Total	18.3	15.4	10.4	23.3

① Increase of ¥4.9bn in 3Q FY3/2015 (Oct-Dec)

3. Has the profitability deterioration in Boiler and Offshore Facilities been reflected in 3Q FY3/2015 earnings?

• Both have been reflected in 3Q FY3/2015 as costs. In Offshore Facilities, some of the costs pertaining to the low utilization at Aichi Works are expected to continue going forward.

4. The negative ¥6.0bn construction profitability in Social Infrastructure and Offshore Facilities appears to be large relative to sales. Please explain what happened. Also, sales is estimated to increase after FY3/2016, but how should we think about profitability?

• The large negative impact relative to sales is largely due to the loss making drill ship body construction for our Singaporean customer and the provisions reflecting future profitability deterioration. We received this order in FY3/2014 and it is the first drill ship project for both our customer and ourselves. Last year, after we started the designing and production, our customer has unexpectedly demanded a substantial amount of design modifications. As a result, we are currently undergoing review of design and production, and the calculated additional costs have been reflected in 3Q FY3/2015. Since we are reflecting future additional costs in the provisions, we are expecting no such loss to be incurred in the next fiscal year.

• Loss from the low utilization of Aichi Works is expanding due to the manufacturing delays above.

5. When do you expect the low utilization at Aichi Works to be resolved?
- The low utilization at Aichi Works in FY3/2015 is a result of construction delays in projects that are currently being worked on. Production of SPB tanks will be started next month, bringing improvement to utilization by the beginning of FY3/2016. However, we are still cautious as there remain delays in some projects and may result in more utilization losses.
6. Has the “domestic complicated projects” in the Bridge Business now been completed? There were losses due to such projects in FY3/2014. However, the situation is under control as of 3Q FY3/2015 including the situation at Sakai Works.
7. What is the profitability of Vehicular Turbocharger Business as of YTD 3Q FY3/2015? What is the status of each region with manufacturing sites?
- We cannot disclose profitability. We would appreciate your understanding.
 - Region wise, both sales and volume have been decreasing in Thailand, while they have been increasing in Europe. We are expecting sales and volume in Europe to increase in FY3/2016 and beyond. In the past, we have incurred one-time additional costs in order to improve manufacturing efficiency. However, the situation has returned back to normal.
8. How much were the R&D expenses in Aero Engine, Space and Defense?
- In FY3/2015, we incurred R&D expenses for the development of new engines, however, due to some delays, we are expecting an amount of ¥1.0bn to be incurred in the next fiscal year. This will result in a negative ¥1.0bn charge in FY3/2016, for which we should be able to absorb. The R&D expense in FY3/2016 is expected to remain high as in FY3/2015.
9. Do you have anything to comment regarding the increase in provision for construction warranties?
- Increase in provision for construction warranties is due to the overall sales increase of the IHI Group, especially Aero Engine.
10. Please describe the impact of the tax reform.
- Since the Cabinet approved the tax rate reform plan for the fiscal year 2015 on January 14th, we are expecting the plan to become legally effective during the current fiscal year. We have incorporated a ¥6.0bn increase in tax expenses due to the reduction in deferred tax asset arising from a decrease in effective tax rate.

11. Is the decrease in oil price either a plus or a minus for IHI?

- The impact of cheap oil price varies across businesses, so it is difficult to generalize. While direct impact from the changes in oil price is limited, for example, our business for shale gas plant or the shale gas-related chemical plant in the U.S may experience delays in Feasibility Study (FS) and Front Engineering Design (FEED). Decline of oil price is favorable for airline companies, but it is difficult to say that our commercial aero engine will expand only because of this short term demand increase resulting from cheap oil. We need to instead look at the long term trend.

12. We would expect oil price decrease to negatively impact EAS, which is dependent on Petrobras and the Brazilian economy. Are there any impairment risks?

- As of 3Q FY3/2015, we are incorporating the full year earnings estimate of Estaleiro Atlântico Sul S.A. in our P&L based on equity method
- Going forward, we will monitor the Brazilian economy and the performance of Estaleiro Atlântico Sul S.A. comprehensively to make our assessment with respect to our investment in the company.

13. IHI has revised downward the FY3/2015 full year order guidance for the F-LNG/Offshore structure business, while maintaining the previous guidance for the Social Infrastructure and Offshore Facilities segment. In which sub segment are you seeing order increase? Also, what is the reason behind the upward ¥10.0bn revision for Industrial Systems and General-Purpose Machinery, despite the Vehicular Turbocharger sales being kept flat?

- In Social Infrastructure and Offshore Facilities, there were approximately ¥10.0bn worth of order delays in the F-LNG/Offshore Structure business, however, we have not changed our segment guidance since our subsidiaries are doing fairly well. We have revised the estimate for Industrial Systems and General Purpose Machinery upwards by ¥10.0bn due to the foreign exchange impact in our foreign subsidiaries.