

October 22nd, 2015

IHI Corporation

**Highlights of Q&A at the Telephone Conference for “Revisions to the First Half and Full Year Consolidated Financial Forecasts for the Fiscal Year ending March 31, 2016”**

**【F-LNG/Offshore Structure Business】**

**1. What is the breakdown of downward revision of ¥23.0bn for the full year forecast (Operating Income)?**

- The breakdown is (1) minus ¥3.0bn associated with the drill ship construction for Singapore, (2) minus ¥14.0bn associated with FPSO hull construction for Norway, (3) minus ¥4.0bn for the domestic LNG SPB tank, (4) no material impact from the LNG SPB tank for China, and (5) minus ¥1.0bn associated with the cost variance.

**2. While it is understood that the expected delivery of the drill ship and the FPSO is March 2016 and May 2016, respectively, the completion % is assumed to indicate little progress compared to the one as of 1Q end as increasing costs negatively affect the completion %. Also, the delivery of the SPB tank for China was planned at the end September, but it has yet to be delivered. Any additional costs if IHI fails to meet the target delivery date?**

- We are discussing with our clients regarding potential delays of delivery for each project. Additional costs have been incorporated in our cost estimate, assuming some delays by a couple of months.

**3. We understand that the drawing has yet to be finalized for the drill ship. When will it be finalized?**

- The drawing is almost complete for the drill ship. Even after finalizing the drawing, there might be some re-work when we actually start production on site, but it is almost done.
- Regarding FPSO, 80% of the basic drawing has been completed while 50% is completed for the detailed drawing. We estimated costs, assuming “disruption of production will continue.” In terms of FPSO, the overseas subcontractor has been making more progress for the construction of the block than the completion rate based on the accounting standard for percentage of completion.

**4. What caused ¥20.0bn of deterioration in Operating Income compared to 1Q?**

- With regard to the drill ship, at the time of 1Q announcement, we explained that “while drawing revisions were beginning to settle, revisions related to electric instruments had occurred,” but we decided to review the forecast assuming “more man-hours and more re-work is required” because of further delay of the entire construction process this time.
- In terms of the FPSO, we tried to estimate potential costs as much as possible even without a complete list of all raw materials. However, we started to realize potential shortage of some materials when we began discussions on details with the overseas subcontractor. Now that the materials list has been completed, we have reviewed the materials required for the project, which

resulted in additional man-hours in processing. This time, we made estimate by assuming “the low productivity will continue for FPSO as it was the case for the drill ship.”

**5. Is the impact on construction of SPB tanks so serious that you have to send additional 80 workers?**

- Regarding the domestic SPB tanks, at the time of 1Q announcement, we assumed lower productivity of tanks for China would be applied to the first two ships out of four and that learning level would be expected to pick up for the rest of the two ships. However, we changed our assumptions rather conservatively, assuming that “lower productivity will continue for production of all four ships.”

**6. Does the management change for the Offshore Project & Steel Structures Operations as of October 21 mean that Aichi Works will be operated by the corporate going forward?**

- The corporate started to support Aichi Works in July to oversee its entire operation, but we started to identify the issues only in August. More specifically, it took us one and half months to fully understand the issues after we sent experts in project management, procurement management, and electric instruments as support staff.

**7. If it is true that “the business cannot be operated well without support from the corporate,” would the drastic review of Aichi Works be considered?**

- We have been discussing the strategic direction of Aichi Works as well as F-LNG/Offshore Structure Business. Depending on the progress of such discussion, we would like to explain the outcome of the discussion at the earnings conference for 2Q financial results scheduled on November 11.

**【Boiler】**

**8. Deterioration in profitability seems to be continuing for the boiler business. Please provide more details. It is understood that IHI won orders in the last two quarters consecutively. We are concerned about potential disruption of production based on historical performance of the boiler business as well as the recent issues with F-LNG/Offshore Structure Business.**

- It is true that the deterioration in profitability for the boiler business is continuing.
- The deterioration this time was caused by the delay of construction by our customer overseas, which stopped our work and required longer storage term for materials. We are also dealing with various other requests from our customer such as the request for additional scaffolds. As these are additional requests, we are seeking to recover additional costs from our customer.
- There is some delay for the domestic project as well. We incorporated additional costs and resources in relation to the catch-up.
- No such disruption of production process has not been observed. We are simply forced to recognize additional costs associated with individual issues specific to each project.

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