

Q&A for Fiscal 2015 Third Quarter Results Briefing

1. What are the main components of the ¥28 billion reduction in project profitability in your reporting segments in view of the comparison of your revised and previous operating results forecasts?

- As follows:
 - (1) Resources, Energy and Environment: -¥19 billion
 - This is mainly because of boiler welding nonconformities, while losses in the second quarter were for a different reason.
 - As well as a ¥15 billion decline booked through the third quarter, also factoring the risks of a further deterioration.
 - (2) Social Infrastructure and Offshore Facilities: -¥9 billion
 - The breakdown is ¥8 billion for offshore facilities and ¥1 billion relating to the Izmit Bay Crossing Bridge.

2. When do you expect an end to your announcements of performance downturns?

- Projects are progressing well in the F-LNG and Offshore Structure Business, and the likelihood of further losses is diminishing.
 - (1) Drill ships
 - The contracted delivery date is the end of November 2016, with a permissible one-month deferment for liquidated damages. With construction progressing, we booked additional charges through completion.
 - (2) FPSO
 - We factored in the risks of additional costs, exploring a structure to reliably undertake construction work in hand by scaling down construction at the Aichi Works. We are discussing handover timing with the customer, and anticipate delivery by the end of this year.
 - (3) SPB tanks
 - Improvements usually accrue as a facility does more of the same, but we decided to project benefits conservatively.
- We plan to open the Izmit Bay Crossing Bridge to traffic in around spring 2016. Although snowfalls at the site are heavy this year, we do not expect further losses.
- The repair technique that we are using for noncompliant boiler welding on four projects is the same as the well proven one used for aging facilities, and we believe that we have estimated the costs rationally.

3. You have attributed much of your downward forecast revision to deterioration in your manufacturing capabilities. What is the backdrop for that?

- Manufacturing is IHI's lifeblood, so something like the use of the wrong welding materials was completely unexpected and most regrettable.

- While a rigorous probe into the causes of this issue verified that the quality management system is appropriate, we will look into what further measures to deploy, as we assume that skill sharing and other issues were factors in this situation.
- The human element is pivotal to production processes. It is vital to adhere quality management procedures, but our analysis shows that, unfortunately, this has not always been the case.

4. Might the president and his team management resign to take responsibility for the boiler issue?

- The issue relates to manufacturing basics, and we believe that management's mission is to overhaul our manufacturing techniques.

5. This is your third downward forecast revision this fiscal year, during which time you have announced a new midterm management plan. Haven't you sent the wrong message to the markets?

- We had to undertake major investigations of boiler welds for a number of projects. It was in December that we learned just how extensive and grave this situation was, which is how the new losses associated with welding nonconformities came about in the latest downward revision.
- Our new midterm management plan deliberations did not reflect this situation because they started well before it came to light.
- That said, our new midterm management plan did factor in the need to reinforce our project implementation structure in view of a downturn identified for the offshore facilities business through the second quarter.

6. Your boiler operations were a common factor in the latest downward results revision and in your 2007 one. Could you comment on that?

- There is a difference in why this happened. The 2007 revision came about because of local construction factors. The latest revision stemmed from a plant production process, which is deeply distressing for us to have to say as a manufacturing-driven enterprise. Overhauling our manufacturing capabilities will be a major challenge for management.

7. Around how many workers had the PT Cilegon Fabricators plant added to its payroll when the boiler welding nonconformities occurred? Why didn't those new people get enough training?

- The plant normally had around 120 welding technicians. The number peaked at around 200.
- Although we did send experts from the Aioi Works to instruct in welding, the instruction and management were not at sufficient levels to accommodate such a surge in the number of welding technicians.

8. Weren't poor communication between the production site and other operations or between office and technical people the principle factor in the boiler welding nonconformities? Are your engineering and production site people out of touch with each other?

- Welding is a specialized procedure for which only experts can truly understand the quality requirements. The problem arose when we as an organization failed to properly manage the processes involved. The

welding issue was a manufacturing one.

9. Have you reached an agreement with the customer on the boiler repair procedure?

- The customer has basically agreed. We will employ the correct welding materials to repair the parts welded with materials that did not comply with the design instructions. It is the same technique as that used for aging facilities and is highly reliable.

10. With what company have you placed a final assembly order for a Floating Production Storage and Offloading Unit? What is the nature of the contract? And might you incur additional costs?

- Blocks currently under construction at the Aichi Works and abroad will be taken to a third-country yard for outfitting. We should soon conclude a formal contract, which will probably be a cost plus fee agreement.
- Once a lot of the outfitting is done in a third country, the Aichi Works would be able to cut its outfitting costs, offset by the expenses of final assembly in the third country. Although we would need to scrutinize things in view of shared responsibilities, our forecasts have already factored in downside risks.

11. What are the key risks for the Cove Point natural gas liquefaction facility construction project?

- Construction is proceeding steadily. As installation work goes into full swing, we would note that risks tend to emerge in the latter stages of installation in engineering, procurement, and construction projects. We included contingency costs in that regard when we created our estimate. So, while we will need to monitor whether the risks are within the estimated scope, we are not yet in a position to make an assessment, as we will not complete the project until the end of 2017.

12. Might you defer losses until fiscal 2017? Do you think you can post regular earnings that year?

- Management's latest revised results forecasts have incorporated all foreseeable downside factors at this juncture, so we do not intend to carry over losses to next fiscal year. We are not investigating any other projects for possible performance issues at this point.
- We will carefully scrutinize next year's forecasts in view of the earnings plans we are currently formulating.