

## **Q&A for Fiscal 2017 First-Half Results Briefing**

### **1. Kobe Steel product quality issue**

- (1) What is your stance on safety and expense claims? Have you received any requests from customers on this matter?
- We are not in a position to make judgments, as an investigation is ongoing, but we are providing the necessary information to customers, including government offices.
  - The investigation to date has uncovered no major safety concerns.
  - We cannot engage in hypotheticals about expenses, but we will respond appropriately based on findings from the investigation.
- (2) What products have been affected and on what scale? What policy will you adopt to address any issues?
- We employ materials that we procure from Kobe Steel in such offerings as aero engines. We are comprehensively assessing whether any products employ the materials in question or whether any parts we purchase incorporate them.
  - Based on our investigations conducted for each product line and business area, if affected materials are found, we will act appropriately in accordance with the extent of the impact, urgency, and requests from customers.
- (3) Might there be any issues with procuring specialty materials?
- We have not identified any issues with respect to procurement of key specialty materials for aerospace. Since the Great East Japan Earthquake we have engaged in dual sourcing and have pushed forward with eliminating bottlenecks in the supply chain.

### **2. Deterioration of North American process plant project profitability**

- (1) Are you incurring losses on construction itself?
- In the second quarter, we incurred construction losses, which is subject to a provision for loss on construction contracts.
  - We set aside around ¥4 billion in the first quarter and about ¥9 billion in the second quarter to cover the deterioration of project profitability from our original forecasts.
- (2) What is your current delivery timing assumption?
- Both the customer and IHI share responsibility for delays in the process. We are accordingly negotiating with the customer and are not yet in a position to present an agreed completion date.
  - For this fiscal year, we have posted charges eliminate process delays attributable to IHI.

### **3. Please elaborate on the contract adjustments payment for the civil aero engines business.**

- We base expenses on contract reviews with customers. Confidentiality agreements prevent us from providing details.

**4. Why are you retaining your assumed exchange rate of ¥105 to the U.S. dollar for the third quarter and beyond?**

- Although it is true that the yen is currently higher than our assumed rate, given levels through last year we do not believe that the rate is excessive. Another consideration is that the yen could surge in response to geopolitical risks, so we decided to retain the rate of ¥105 to the U.S. dollar that we assumed at the start of the year.

**5. What specific steps are you taking to reach your operating margin target of 7% for the current fiscal year as one of your management benchmarks?**

- There are two main factors:
  - In the Resources, Energy and Environment business we will lift earnings by resolving elements that have detracted from performance.
  - We switched to an SBU-based organization from this fiscal year to optimally allocate group-wide resources. That should enable us to improve profitability through measures that are already under way under the new organization. We particularly look for progress with the Industrial System and General-Purpose Machinery business.

**6. How is construction progressing with the Cove Point LNG Expansion Project, and what are your cost projections?**

- We are doing our best to adhere to the strict schedule described in disclosure materials. At this stage, the project is not affecting profitability.

**7. What is your stance on the future operations of IHI E&C International Corporation?**

- At this stage, we are refraining from taking large construction orders, and are pushing ahead with construction under way and are limiting order-taking activities to Front-End Engineering Design and Feasibility Studies, which offer good profitability.
- Down the track, we will downsize the scale of our operations while assessing our approach to handling certain functions as the IHI Group develops businesses in the North American market.

**8. What is the progress with SPB construction?**

- We have completed two of four SPB tanks that were ordered. Work is under way to install the other two and meet the delivery deadline.

**9. Why was operating income in the Aero Engine, Space and Defense businesses lower in the second quarter than in the first?**

- The key factor was an increase in compensation construction expenses for aero engines. Such costs are common in this business, but the amounts are quite large, so to ensure that everything is processed properly and on time, there could be a distortion of quarterly earnings.
- We posted ¥3 billion for the guaranteed construction allowance in the adjustment row, and this is an accounting treatment to cover the possibility of compensation work down the track.