July 30, 2016

IHI Corporation

Q&A for Fiscal 2016 Q1 Results Teleconference

1. **What are the statuses of projects that prompted you to lower the full-year operating income forecast for the Social Infrastructure and Offshore Facilities segment? Any possibility for further losses?**

(1) Drill ships

- We commissioned experts to scrutinize remaining construction work according to the progress of construction. They found that we will need more electrical wiring than originally estimated. We posted a loss for the first quarter of fiscal 2016 in view of required materials and man-hour costs.
- The project is more than 90% complete. The delivery is scheduled for November 2016.
- We envisage conducting a final electrical equipment and outfitting assessment in August through September this year, and we could reappraise costs at that stage.

(2) Floating production, storage and offloading (FPSO) unit

- A shipyard in Singapore is assembling hull blocks manufactured in Japan and elsewhere around the world, and for the first quarter of this fiscal year we posted additional costs based on the latest estimates from the shipyard. This is our first assembly of a vessel in an overseas shipyard, so we accordingly made additional contingency allocations to cover the risks.
- The project is more than 70% complete. We look to hand over the vessel next year.
- We are conducting final design reviews. We plan to complete the review during August, at which point we will confirm amounts and man-hours. By early September, we should be able to determine whether our estimates to date have been accurate and whether the current contingency allocations are sufficient or excessive.

(3) SPB tanks

- We are constructing 16 tanks for four LNG carriers. We have reached peak production for tanks for the first vessel. Production efficiency for final assembly (shaping the tanks) in the first quarter of the year was less than anticipated. For the first quarter results, we have booked additional cost for future construction of tanks based on lower efficiency realized so far.
- The tanks for the first carrier are around 80% complete. Tanks for the second vessel are more than 50% finished. Production has just begun on tanks for the third vessel and has yet to start on tanks for the fourth carrier. We plan to hand over tanks from November 2016 through October 2017.
- We will undertake final assembly of the upper and lower sections of these massive SPB tanks. We are fitting tank lower sections in the first carrier, and will thereafter mount the upper ones. It should become evident whether we will need to incur additional costs as tank joining proceeds. We plan to start mounting upper sections from August. The cost outlook should become clear in around September, at which point we will analyze expenses. We should thereafter be able to estimate costs for subsequent tank construction.

2. **You generated ¥21.5 billion in process plant sales in the first quarter. Why were these sales around ¥10 billion lower than in the previous corresponding period? Why are you cutting your full-year projection by ¥35 billion?**
   - The first quarter decline from a year earlier reflects solid progress in the previous year with large projects and unanticipated order delays.
   - There were two prime factors in the full-year sales forecast reduction. First, there were delays in orders, mainly for overseas projects, for some anticipated LNG plants in light of weaker crude oil prices. Second, we encountered delays with some construction work, so we may not be able to reach the sales targets we set for the term.

3. **The profitability of process plant projects declined in the previous year. How have these projects been progressing this year? Has profitability continued to deteriorate?**
   - With overseas process plant projects whose profitability declined last year, there have been no such downturns with additional work. The projects are in the black, and we are posting revenues and earnings as construction progresses.

4. **What is the state of the turbocharger business? How is the stronger yen affecting the business and how are you factoring this into your full-year plans?**
   - We look to sell 900,000 more units than last year in fiscal 2016. Most of the growth should come from China, and we should enjoy a slight increase in North America. Unit sales should probably decline in Thailand and be basically unchanged in Europe.
   - The yen is currently strong, particularly against China's RMB and Thai baht, and things would become difficult if the yen stays where it is. We have reviewed our exchange rate assumptions, and our full-year forecasts reflect the new rate.

5. **Have you been able to secure payment to recoup all of your construction costs for the Izmit Bay Crossing Bridge?**
   - The opening ceremony was recently held, and there is only a little construction work left to do. We are negotiating costs associated with contracted delivery date delays, so the customer has yet to pay associated construction costs. We already recognized all such charges as extraordinary losses in the last fiscal year, so we do not anticipate any impact on results for this fiscal year.

6. **When you announced your results for the previous fiscal year, President and CEO Tsugio Mitsuoka emphasized that management would endeavor to reduce unprofitable projects and reinforce profitability. Have subsequent measures to bolster profitability been fruitful? How will they affect your outlook for the full year?**
   - Management issued instructions to minimize the impact of a strong yen by deploying full-fledged measures to boost profitability, not just over the medium and long terms but also in the short term. In the Resources, Energy and Environment area, for example, we worked on regular inspections and upgrade projects in the first quarter, with revenues and earnings rising year on year. While contributions thus far are not sufficient for us to revise our full-year forecasts, the Group is continuing its measures to reinforce short-term profitability, including by cutting selling, general and administrative expenses, and we would like our results to thereby improve.