August 9, 2017

IHI Corporation

Q&A for Fiscal 2017 First-Quarter Results Briefing

1. How do you assess your performance in the first quarter of fiscal 2017?

- Although earnings were higher than envisaged, this stemmed partly from delays in posting charges, so are not in a position at this stage to reflect profit gains in our forecasts for the full year.
- There were no major profitability changes in North American process plant operations and the F-LNG business, which were factors in lower earnings through last fiscal year.

2. What downside risk buffers do you have with respect to your operating profit forecast for the full year?

- Our initial forecast included a risk buffer of ¥11 billion. After a ¥2 billion reversal in the first quarter, the buffer stands at about ¥9 billion.

3. With respect to the analysis of change in operating profit forecast since the one presented in May, please provide a breakdown for the negative ¥5 billion change in construction profitability within the Resources, Energy and Environment segment.

- The key components of that reduction are around ¥4 billion for process plant and around ¥1 billion for nuclear power and power system plants.
- Details of the process plant reduction are as follows:
    - Most of the deterioration is attributed to the North American process plant project that is different from the project in which we incurred large losses last year.
    - When we completed detailed engineering we found that the amounts of materials needed for construction would probably be higher than originally expected, so we factored this into higher construction expenses.
    - Some of the profitability deterioration includes charges associated with delays in deliveries of items procured by customers. We will seek compensation for those costs.
    - Construction is around 40% complete, and as we are set to fully ramp up work we cannot rule out the risk of incurring additional costs.

4. What was your provision for loss on construction projects in the Resources, Energy and Environment segment?

- It comprised of ¥2.2 billion in additions and ¥5.4 billion in reversals. The figures represent an aggregate for multiple projects. There are no projects on which amounts were exceptionally large.

5. Tell us more about the Cove Point natural gas liquefaction facilities that you presented on page 28 of your financial results presentation for the first quarter.

- The project is at the final commissioning stage (i.e., checking whether equipment is working properly), and we plan to initiate liquefaction in September.
- There are no significant changes from our initial projections regarding construction progress or our earnings outlook.

6. **Given your results in the first quarter in the Industrial System and General-Purpose Machinery and the Social Infrastructure and Offshore Facility segments, won't your full-year earnings rise more than you have projected?**
   - In the Industrial System and General-Purpose Machinery segment, our first-quarter earnings levels reflected unification of financial reporting periods among some overseas consolidated subsidiaries Group companies, as part of which they posted six-month accounting periods for the first quarter. Earnings levels were appropriate with this special factor excluded.
   - In the Social Infrastructure and Offshore Facility segment, we performed well in the bridge/water gate, shield systems, and other businesses. In the F-LNG business, however, we have neared the end of production at the Aichi Works. So, as operating rates decline we expect that the profitability of that business will deteriorate because it will be difficult to recover fixed costs.

7. **After factoring out the impact of financial reporting period unification, what were your sales by region for the vehicular turbocharger business relative to the previous corresponding period?**
   - Some Chinese production plants and our European plants had 15-month reporting periods, with six-month accounting periods for the first quarter.
   - Even after factoring this out, sales in China were favorable in comparison with the previous corresponding period.
   - Our European sales were solid, particularly to Daimler AG, notwithstanding press reports about strengthening restrictions on internal combustion engine vehicles.

8. **You only lifted your operating profit forecast for the Aero Engine, Space and Defense by ¥2 billion owing to exchange rate fluctuations. Don't you expect any profitability improvements in your civil aero engines business?**
   - Although earnings in the civil area engines business should rise on growth in spare parts and other factors, our only change in our operating profit forecast was to reflect higher gains from forex fluctuations, as we expect delays on posting charges to be reflected in earnings in the second quarter and beyond. We need some more time to assess whether the profitability of this business will improve throughout the year.

9. **How well is the PW 1100G-JM selling and what is the outlook for this engine?**
   - In the first quarter, we delivered 48 of these engines, 10 or more fewer than initially projected.
   - We aim to sell just under 240 of these engines during the remaining nine months of this fiscal year.
   - Although our initial forecasts for the full year assume costs that are commensurate with surging production and deliveries, costs in the first quarter did not exceed our projections.