

## Q&A for Fiscal 2016 Third-Quarter Results Teleconference

**1. What are the factors in the ¥16 billion project profitability fluctuations that you included in your consolidated forecasts for the Resources, Energy and Environment segment?**

- The prime factor is a downturn in process plant projects and nuclear power-related projects.
- The greatest impact is on a large process plant project in North America. Progress with construction slowed down owing to installation delays. We accordingly decided to secure more workers to meet our deadline, so we set aside appropriate costs, including assumed expenses, through to project completion.
- We will apply the lessons learned from this downturn to other projects.

**2. What are the factors in the ¥12 billion project profitability fluctuations that you included in your consolidated forecasts for the Aero Engine, Space and Defense segment?**

- The prime factor is the civil aero engines, the details of which are as follows:
  - Sales of relatively high-margin spare parts and spare engines have increased more than anticipated.
  - Unit shipments have been lower than expected for engines early in mass production stages, which in general is less profitable.

**3. Why are sales of spare parts rising for civil aero engines, and what is the outlook for next fiscal year?**

- We believe that the demand reflects solid operating results among airlines.
- As accumulated sales of aircraft employing engines that IHI is involved in have increased, spare parts demand should continue to trend upward. We do not anticipate a major downturn next fiscal year.
- That said, we retain our conservative outlook for operating profit levels in fiscal 2017 and 2018, when shipments of low profitability engines early in mass production stages are in full swing.

**4. What are the situations with unprofitable F-LNG and offshore structure projects?**

- Although we posted large losses through the second quarter, conditions are settling down.
  - ① Drill ships
    - Having changed the contract with the customer, we brought forward the delivery date, and made a delivery in December 2016. We booked an extraordinary loss of ¥2.2 billion in line with the contractual change. The customer will shoulder the residual project risks, and IHI will not provide reimbursements even if issues arise from engineering.
  - ② FPSO
    - We dispatched around 30 people to the site, and are monitoring the situation. We have not seen any deterioration since our previous statements on this project.
  - ③ SPB tanks
    - All tanks for the first ship have been installed, and are scheduled to leave dock in February. We have secured highly skilled welders, who are overseeing the more challenging tasks. We also expanded the work area, and the situation has been rectified. We have not seen any deterioration since our previous statements about these tanks.

**5. What assessments will you make with the F-LNG and offshore structure businesses?**

- Situations have settled down with current projects, and we will assess operations and plants in light of cost competitiveness and market conditions.
- We cannot comment specifically at this stage, but we are aiming to reach a conclusion by the end of the current fiscal year, and will disclose the results at the appropriate time.

**6. Why has the profitability of the turbocharger SBU improved, and what is the market environment like?**

- The prime factors have been that we constrained selling, general and administrative expenses and have generated sales of models for development that offer relatively high margins.
- Following is an overview of regional sales:
  - (1) Europe: Sales will trend downward in fiscal 2017 and 2018. We will focus on projects for fiscal 2019 and beyond.
  - (2) China: Unit sales have trended up and are favorable.
  - (3) Japan: We have boosted parts shipments to China and increased models for development under a global production structure, and unit sales have trended upward.

**7. What assets do you plan to divest in the current fiscal year, and for around how much?**

- We will assess the scale of asset divestments in light of extraordinary losses posted this fiscal year and the status of evaluations of F-LNG and offshore structure operations and plants.
- In view of our current equity ratio level, we must prevent our net assets from further deteriorating.
  - **Is there any measures to improve the equity ratio?**
    - The first step in boosting our equity ratio is to reinforce our earnings foundations by executing the initiatives of Group Management Policies 2016.
    - We do not intend to seek equity financing.

**8. How would Toshiba's posting an impairment loss affect IHI's holdings of Westinghouse shares?**

- We would explore whether or not to post a stock impairment loss depending on the contents of any formal announcement that Toshiba is expected to make.
- Under the contract we concluded with Toshiba when making our investment, we have an option to sell Toshiba's shares, and we will make an accounting assessment, including the valuation of that option. We accordingly believe that the impact on results would be immaterial.
- At this juncture, we are not specifically mulling the exercise of our option.