February 7, 2020

IHI Corporation

Q&A for Fiscal 2019 Third-Quarter Results Teleconference

1. **You lowered your full-year operating profit forecast for the Resources, Energy and Environment segment by ¥7.0 billion. What are the main factors in the ¥4.0 billion sales reduction and ¥3.0 billion reduction in construction profitability? What is the situation with your North American process plant project?**
   - Around half of the ¥4.0 billion sales reduction reflects operating profit carryovers to next fiscal year owing to gaps in posting several orders. The other half stemmed from shifting resources based on changes in the business climate owing to structural reforms. So, while we planned to generate earnings, centered on after-sales services, there were delays in materializing them.
   - The ¥3.0 billion decrease in construction profitability was because with boiler and other operations deteriorating in the first quarter, we looked to offset that by increasing earnings, for example, primarily by increasing contract amounts. We secured almost half of the required amount but concluded that it would be difficult to post the remainder during the current fiscal year, so we factored that amount in.
   - The process plant project under way in North America is proceeding well. We are unlikely to encounter significant cost fluctuations associated with the work. Then there are contract negotiations with customers that will probably take a little more time to finalize.

2. **Your turbocharger sales in China seem to have recovered in the third quarter. How do things stand, including with regard to fixed cost reductions planned for the second half of the year? Were turbochargers a key factor in your ¥1.0 billion downward revision in your full-year forecast for the Industrial Systems & General-Purpose Machinery business?**
   - We have already restored the turbocharger business to planned levels. In China in particular, unit numbers are slightly up from the previous corresponding period. That said, the reality is that we have yet to attain the planned level on an aggregate basis, and this will likely have an effect for the full year. While we revised our forecasts through the second quarter, there has been no major change in the situation. Reductions in fixed costs have borne fruit. We are making steady progress, and will continue pursuing improvements in the remaining quarter of this fiscal year.
   - Apart from turbochargers, the prime factor in our ¥1.0 billion downward revision in our operating profit forecast for the full term is that we expect earnings to decline in several strategic business units.

3. **How did the Aero Engine, Space & Defense business perform in terms of your operating profit assumptions for the third quarter? What is the reason for the ¥2.0 billion decline in sales with respect to your full-term operating profit projection?**
   - The Aero Engine, Space & Defense business experienced a greater downturn than expected through the third quarter. This is due largely to spare parts sales growth being lower than envisaged in December 2019. At this juncture, however, we can say that as of January this year we envisage a significant recovery.

- One reason for the ¥2.0 billion sales reduction with respect to our full-term operating profit projection is additional operating losses at the Mizuho Works. On top of that, a recovery for some spare parts seems unlikely, so we factored that into our forecasts. Still, the ¥2.0 billion drop reflects a positive ¥2.0 billion forex impact, so we have not altered our full-year operating profit projection for the Aero Engine, Space & Defense business.

4. **Have you used up the ¥6.0 billion risk buffer you allocated at the start of the term?**
    - We drew down ¥4.0 billion of the risk buffer in the second quarter and another ¥2.0 billion in the third quarter, so it is all depleted.

5. **What approximate equity in loss from affiliate Japan Marine United Corporation do you project on your third quarter and full-year results?**
    - We reflected an equity in loss for Japan Marine United through the third quarter in our results. For the full year, we forecast a loss for that company of ¥36.0 billion, and we have factored this amount into our forecast for the full term.

6. **How might coronavirus effect your businesses?**
    - We see risks in coronavirus affecting our turbocharger and aero-engine businesses, and will keep tabs on developments.