February 8, 2022

IHI Corporation

Q&A for Fiscal 2021 Third-Quarter Results Teleconference

1. Why did you increase your full-year operating profit forecast by 10 billion yen?

- We reversed our earnings volatility risk buffer and allocated it to cover falling operating profit in the Industrial Systems and General-Purpose Machinery segment, in which vehicular turbochargers and other offerings suffered from lower automobile production amid a semiconductor shortage, and in the Social Infrastructure and Offshore Facilities segment, where bridges, water gates, and other businesses faced surging steel prices and ocean freight costs.
- At the same time, we lifted our operating profit forecast for Aero Engine, Space and Defense owing to higher sales of spare parts for civil aero engines.

2. What is the outlook for a recovery in the civil aero engines business?

- We do not expect demand on international routes to return to pre-pandemic levels next fiscal year, as entry restrictions for various countries will probably remain in place. At the same time, demand on domestic routes in Europe, and United States, and other markets continues to turn around, so spare parts sales are steadily recovering. We look for demand to return to 80% of pre-pandemic levels during fiscal 2022.
- On top of that, we look for the enhanced profitability of the PW-1100G engine and lower costs in improving engine performance to drive higher earnings.

3. How did you reflect a gain from an Aero Engine, Space and Defense segment subsidiary's property sale in your results?

- The gain came about because we planned a sale for this business area from the start of the fiscal year. That is different from the posting of a sale of assets as an Adjustment to secure investment funding to create growth businesses.
- The gain on sale during the quarter was greater than we initially envisaged, and was a factor in management lifting its operating profit forecast for this segment.

4. How likely are you to reach Project Change's 8% operating margin target in next fiscal year?

- The civil aero engines business is on a recovery path, and delivered an operating profit in the third quarter even after excluding the impact of asset sales.
- We anticipate a stronger recovery next fiscal year and a significant operating profit level.
- Also, we envisage that the impact of semiconductor supply shortages on automobile production will dissipate gradually, with vehicular turbocharger unit sales turning around. This would enable us to reap the rewards of efforts to bolster our cost structure.
- Steadily improving earnings in other businesses would also help us to reach our Project Change target.