February 7, 2023

IHI Corporation

Q&A for Fiscal 2022 Third-Quarter Results Briefing

1. **Why do you expect your fourth-quarter operating profit in the Aero Engine, Space and Defense segment to be lower than in the third quarter?**
   - This decline should stem largely from a downward foreign exchange impact in the Aero Engine business, higher projected R&D and other selling, general and administrative expenses at the end of the fiscal year, a rise in unit sales of engines, and a hike in program-related spending.
   - Still, these factors are transitional. We look for spare parts sales transaction volumes to surpass the pre-pandemic level through 2024 on aviation demand turning around, with earnings recovering commensurately.

2. **Why did earnings decline in the logistics systems and parking businesses of the Industrial Systems and General-Purpose Machinery segment? What are your outlooks for these areas?**
   - The prime factors in the earnings downturn were longer electrical parts delivery times and surging raw material prices.
   - We expect long electrical parts delivery lead times to continue into fiscal 2023. We are exploring measures to address this situation.
   - It will be hard to overcome surging raw materials prices for existing orders. We will strive to pass on higher costs with future orders.

3. **Tell us about your results and outlook for the vehicular turbochargers business.**
   - Sales dropped owing to a new wave of COVID-19 infections in China in December 2022. We lowered our operating profit forecast because we do not anticipate a significant recovery until in or after January this year.
   - We concluded that it would be impossible to recover all cost increases within this fiscal year attributable to surging raw materials prices. We recently reflected this in forecasts for the full year. We will keep negotiating terms with customers.

4. **Did you revise your operating profit projection under your forecasts for the full year to reflect an adjusted operating profit outlook for the Industrial Systems and General-Purpose Machinery segment?**
   - We decided to employ a risk buffer included in the adjustment amount, as after assessing our results forecasts, we cut our full-year operating profit projection for this segment by 9 billion yen, representing the greatest change in projections. We made changes for other segments after also scrutinizing them. We reversed the risk buffer we had incorporated adjustment amount because we decided that each segment reflected factors in altering our business outlook.

5. Why do you plan to lift dividends?

- During the first quarter, we raised our forecast for profit attributable to owners of parent to 50 billion yen, from 40 billion yen at the start of the term. It was nonetheless hard at that juncture to evaluate results of fluctuation risks.
- Having now completed a full-year assessment of our forecast, we decided to increase dividends in view of the greater certainty of our projection.
- We will keep striving to stabilize operating cash flows so we can secure sufficient resources to invest extensively in growth businesses.