November 5, 2019

IHI Corporation

Q&A for Fiscal 2019 First-Half Results Briefing

1. **With regard to the revision of your full-term operating income forecast, I understand that your first-quarter earnings were more than 10 billion yen lower than targeted. To what extent have you factored the deterioration from the second half into your forecasts? Also, can we conclude that these revisions are largely because of developments in the first half and do not factor in your second-half performance downturn?**
    - Operating income in the first half was around 15 billion yen less than targeted. For the second quarter, we newly experienced a 5 billion yen shortfall in the Resources, Energy & Environment business. We endeavored to overcome that shortfall by rolling out earnings improvement measures but concluded that a turnaround during the current fiscal year would be unlikely. We also concluded that it would be unrealistic to overcome downturns in the Aero Engine, Space & Defense and Industrial Systems & General-Purpose Machinery businesses, and reflected this in our forecasts for the full year.

2. **Can we conclude that you have reflected all negative factors in your forecast revision?**
    - We have reflected all negative factors, and to ensure that costs do not increase significantly we have devised recovery plans in the second half to engineer a recovery.

3. **You have projected full-year operating income of 13 billion yen for the Resources, Energy & Environment business. You posted a 7.2 billion yen loss in the first half, so will you generate 20 billion yen in operating income in that business in the second half?**
    - We have construction work worth more than 20 billion yen on a gross profit basis, so that is a foundation. Also, we are endeavoring to cut the fixed cost component of selling, general and administrative expenses. On top of that, we aim to further improve earnings in areas that experienced a downturn in the first quarter, and look to generate operating income of 13 billion yen overall for the full year. That said, it will be challenging to fully attain our target, so we have retained a risk buffer of 2 billion yen.

4. **How are you progressing with your process plant project in North America? What is the cost outlook?**
    - We have completed most of the work for which we are responsible, and have entered the pilot operations phase. Commercial operations of the No. 1 Train started in September. At this stage, we do not expect costs to increase significantly. Our key focus will be on negotiating to increase contract amounts. In our view, any completion delays would be due to factors outside our control, and we would charge for related costs.

5. **Is it correct to conclude that you lowered your full-term operating income projection for the Aero Engine, Space & Defense business by 6 billion yen because operating rates for civil aero-engine maintenance have been lower than anticipated, with you remaining unable to cover fixed costs?**
    - We lowered our forecast by 6 billion yen for a several reasons. The prime factor was transient operating losses associated with lower operating rates at the Mizuho Works.

6. **I understand that the message of Group Management Policies 2019 is to extricate yourself from unprofitable projects and progress in new directions. Are you thinking of using your property holdings as resources to improve corporate value and benefit shareholders through dividends and share buybacks?**
    - Over the next three years, we will consider various alternatives, including rearranging our business portfolio, to sustainably enhance corporate value. We will explore ways to generate shareholder returns.