

Q&A for Fiscal 2019 First-Quarter Results Teleconference

1. Was your operating profit in the first quarter as projected?

- We originally looked for earnings to be greater in the second half of this year than in the first. Still, first-quarter operating profit was around 10 billion yen lower than we projected. That said, we have ample scope to turn things around, and have retained our full-year forecast.
- The shortfalls were 5 billion yen for the boiler business, 1.5 billion yen for vehicular turbochargers in China, and 3 billion yen for aero engines.

2. With respect to boiler shortfall, what's the risk of costs ballooning further?

- Around half of the 5 billion yen shortfall in boilers was from a project in Malaysia. The rest stemmed from forward construction spending for two projects in Japan.
- Installation for the Malaysian project is near complete, and spending is for issues arising in the pilot operations phase. We do not anticipate further cost risks. The two domestic projects are in the installation stage, and we expect handovers to be in June next year. These projects are just under 80% complete. We are incurring costs in advance to shorten construction lead times, and we don't expect profitability to deteriorate further.

3. It's said that the No. 1 Train in a North American process plants project was completed in July. What's the situation now? Also, what risks do you face given that you have maintained your forecasts?

- The No. 1 Train was fully operational in July, but we haven't completed handover. This is more an equipment problem than an issue attributable to us, and we are waiting for the equipment supplier to resolve it. We would like to deliver during August if possible.
- Construction and installation is under way for the No. 2 and subsequent trains. We have already finished installation for the No. 8 Train. We look to hand over the No. 10 Train, the last one, in April next year. It is certainly true that our expenses will rise with the construction period stretching out. But we're employing back charging, which means no changes in earnings from the end of last year. We are already seeing costs fluctuate less, and the prime focus going forward will be on contract negotiations with the customer and equipment supplier.

4. Your sales of vehicular turbochargers were particularly low in China in the first quarter. Can you reach your full-year targets?

- In China, sales to European automakers have stagnated. We projected that sales could fall further, and have put together a recovery plan. We have formulated and already implemented a range of quite extensive financial measures, including for cutting fixed costs.
- We think that the situation is tougher with vehicular turbochargers than with the boiler and aero engine businesses. A key consideration is how much sales could bounce back in China. If they don't, I think we'll have to look very closely at the extent to which we could recover.

5. Could you provide details of the 2.4 billion yen in changes in construction profitability among the factors in operating profit fluctuations in the Aero Engine, Space and Defense segment?

- Compared with a year earlier, we incurred additional program costs that were a major negative factor. These were additional expenses from cost-sharing reviews in a program based on a risk-sharing partnership agreement.

6. What happened to the 6 billion yen risk buffer that you set up at the start of the term?

- We have not used that yet as part of our forecasts. That said, we are launching the Mizuho Works quite cautiously, and even in the first quarter we incurred losses from operational fluctuations, so we may have to draw the buffer down somewhat at some stage.

7. How much is your provision for loss on construction contracts?

- It was 21.2 billion yen at the end of March this year, and has since risen slightly. New carryovers total 8 billion yen, comprising just under 6 billion yen for the Resources, Energy and Environment segment and a little under 2 billion yen for the Social Infrastructure and Offshore Facility segment.