May 9, 2019

IHI Corporation

Q&A for Fiscal 2018 Results Briefing

1. Should we assume that risks associated with the North American process plant project will continue?

- There were significant equipment delivery delays attributable to the customer, so we concluded that it is difficult at this stage to reasonably estimate liquidated damages figure relating to the delays, and have accordingly not factored it into our results for the year. That said, we received an invoice from the customer, so we determined this matter needs to be deemed a risk and accordingly included it to an extent in our extraordinary loss forecast for fiscal 2019.
- We believe that the most recent information is that delivery of the No. 1 train and auxiliary equipment will be soon. In view of repetitions for the No. 2 train and subsequent units we expect major fluctuations in costs to decline. In the meantime, the lead time for final delivery has shrunk, and we need to complete the remaining work in a short period.

2. Profitability of Aero-Engine, Space & Defense business area?

(1) To what extent did your fiscal 2018 results factor in the impact of civil aero-engine maintenance business work, which you have voluntarily halted? Also, what will be the likely impact on fiscal 2019 performance?

- There is no major impact for fiscal 2018. We voluntarily halted maintenance business work from mid-February through March this year, so there have been some operational losses. We have allocated an amount in non-operating expense to cover compensation and penalty expenses for the inconvenience caused to customers.
- Even if operations recommence, we see it would be difficult to maintain previous efficiency levels, so we have included a 6 billion yen operational loss risk buffer in our operating income forecast for fiscal 2019.

(2) In fiscal 2018, you incurred higher procurement costs for precision castings and expense claims from partners for some engines. What sorts of assumptions have you included in your forecasts for fiscal 2019?

- The prime difference between Aero-Engine, Space & Defense business area operating income for fiscal 2018 and our forecast for fiscal 2019 is a 6 billion yen foreign exchange fluctuation. There is also a sales fluctuation of 6 billion yen, but that is mainly associated with a decline in earnings from defense engine sales and earnings from a rise in PW1100G deliveries (an annual increase of 60 to 70 units). We have included the impact of procurement costs for precision castings and expense claims from partners for some engines in 1.4 billion yen in construction profitability fluctuations. Our spare parts assumptions have not been changed, and we look for consistent growth there.

3. In terms of restarting the civil aero-engine maintenance business, is it correct to understand that you would submit an improvement report to the Ministry of Land, Infrastructure, Transport and Tourism on May 10 and, subject to an evaluation, start operations on the Mizuho Works maintenance line during May?

- The assumed procedure is that we would submit the improvement report on May 10 with officials from the Ministry visiting the Mizuho Works to confirm progress with improvements. We plan to share the contents later of the May 10 improvement report. That said, we have adopted the basic policy of dealing very carefully with this case, and will undertake trials with experts before beginning specific work, so while we aim to begin preparing to restart operations during May we cannot state a restart date.

4. **Under Group Management Policies 2019, your operating income forecasts are 80 billion yen for fiscal 2019 and 120 billion in fiscal 2021, the final year of that initiative. Your operating income growth in the Aero-Engine, Space & Defense business area would not be more than 9 billion yen, so you would have to generate 30 billion yen from other businesses. Assuming that sales would not increase significantly, from what businesses would growth come, and how?**

- The operating climate for the Aero-Engine, Space & Defense business area will be adverse in fiscal 2019, and a turnaround would largely be in fiscal 2021.
- In the Resources, Energy & Environment business area, we expect an end to a downturn, with technicians having been being intensively at customer sites from fiscal 2018 and customer-centric proposals for upgrades and other work starting to lead to projects. So, we see these factors would contribute to earnings.
- In the Social Infrastructure & Offshore Facilities business area, we will steadily undertake projects overseas, centered on bridges.
- We have endeavored for the past three years to steadily enhance earnings in the Industrial Systems & General-Purpose Machinery business area, and aim for further improvements. We will engage even more closely with customers and maintain plans that envisage progress little by little from aftermarket and lifecycle initiatives.