

Q&A for Fiscal 2020 First-Quarter Results Teleconference

1. How has applying the Accounting Standard for Revenue Recognition affected numbers for the Aero Engine, Space and Defense and Resources, Energy and Environment segments?

- In the Aero Engine, Space and Defense segment, applying this standard lowered segment sales by ¥13.9 billion and increased the operating loss by ¥200 million. The prime reason was that under this standard civil aero engine program participation costs and other program-related expenses that we previously posted to the cost of sales or selling, general and administrative expenses are now deducted from sales. Program participation payments to GE and other original engine makers that we posted to the cost of sales and selling, general and administrative expenses under the previous accounting standard are now, from swiftly applying the new standard, deducted from sales as adjustment items (variable considerations, etc.) with respect to consideration from original engine makers. There is accordingly no impact on gross profit.
- Applying the new standard in the Resources, Energy and Environment segment cuts segment sales by ¥400 million and increased the operating loss by ¥1.4 billion. Under the new standard, we added to sales by expanding the application scope of the construction in progress standard. At the same time, we changed to recognizing compensation for damage in connection with fulfilling contracts, examples being penalties and other liquidated damages for project delays, making deductions from sales (previously posting these items as non-operating expenses) as adjustment items (variable considerations, etc.) with respect to consideration from customers. The impact of switching from posting compensation for damage and other items as non-operating expenses, such as to lower sales, increased the operating loss by ¥1.4 billion.

2. What was the approximate percentage decline year-on-year in sales of spare parts for civil aero engines?

- On a simple basis, these sales fell around 70% from the previous corresponding period. After factoring out the downward sales impact of applying the Accounting Standard for Revenue Recognition, the effective drop was about 40%.

3. Do you think that your civil aero engines business performance bottomed out in the first quarter?

- While some think that aviation demand could increase from September, we are unsure how such a development might affect our civil aero engines business results. We are scrutinizing sales trends by engine model.

4. Do you have any updates to share on major North American projects?

- All processes are going well. Commercial operations of the remaining two liquefaction system trains are scheduled to start by September.

5. Have you made headway in improving profitability in the Resources, Energy and Environment segment?

- We have trimmed our operating loss because we mostly eliminated the major downside factors experienced in the previous fiscal year. We believe that prospects for significant downsides will decrease with large project completions.

6. Have there been any materials procurement or construction progress delays as a result of the COVID-19 pandemic?

- There have been no cases to date that would significantly affect project costs.