

November 10, 2020

IHI Corporation

Q&A for Fiscal 2020 First-Half Results Briefing

1. How did your civil aero engines business perform in the second quarter?

- Sales in this business recovered moderately.
- That said, the International Air Transportation Association expects air traffic to drop 66% from the 2019 level this year, so we forecast that revenues from this business will drop by a similar extent.
- Earnings declined from the first through second quarters because while our spare parts operations were profitable, overall losses mounted amid a rise in the number of new engines.

2. What is your outlook for the civil aero engines business for fiscal 2021?

- While we expect sales of high-margin spare parts to increase, this business is unlikely to return to profitability solely on the strength of those offerings. We will strive to generate earnings through a range of measures to cut costs and lower the break-even point.

3. For the full term, you project an operating profit of 20 billion yen on an International Financial Reporting Standards basis and 8 billion yen based on Japanese Generally Accepted Accounting Principles. Why the difference?

- The difference is calculated by sum of “The Combined Impacts of Asset Sales” to secure funds for investments in business portfolio reforms, and “The Buffer” accounting to cover the risks of results fluctuations, which are recorded on non-operating and extraordinary income and losses in accordance with the Japanese principles.

4. Why are you performing quite solidly well in segments other than Aero Engine, Space and Defense?

- The prime factor in the Resources, Energy and Environment segment is that several years of efforts have positioned us to eliminate downward swings in large construction projects.
- In Industrial System and General-Purpose Machinery, we are performing well in our vehicular turbocharger business in China, for which we projected a major COVID-19 pandemic impact at the start of this fiscal year.
- It is against this backdrop that we believe that steadily rising earnings from lifecycle businesses, particularly in the Resources, Energy and Environment segment, have contributed to relatively solid results.

5. I assume that you need to enhance human resources mobility in view of operational declines in the civil aero engines business. Do you have specific measures in place for this?

- We will first shift employees between businesses and works within the Aero Engine, Space and Defense segment. We do not plan at this juncture to relocate them outside that segment.

6. You cite reinforcing your cost structure and reforming your business structure Under Project Change as performance drivers. What are the specifics of these efforts?

- We will reinforce our cost structure by creating a setup to lower both fixed and variable expenses.
- We will reform our business structure by pushing ahead with selection efforts that include reducing the number of unprofitable operations and shifting human resources to highly profitable ones.