

Management Review of FY2019 Financial Results

(for the year ended March 31, 2020)

IHI

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IHI Corporation

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Overview of FY2019

	Targets	Results		Targets	Results
Net sales	¥1,400 billion	¥1,386.5 billion	Cash flows from operating activities	—	¥14.5 billion
Operating profit	¥80.0 billion	¥60.7 billion	Cash flows from investing activities	—	-¥75.8 billion
Operating profit margin	5.7%	4.4%	Free cash flow	—	-¥61.3 billion
Ordinary profit	¥58.0 billion	¥32.2 billion	Cash conversion cycle*	97 days	120 days
Profit Attributable to Owners of the Parent	¥35.0 billion	¥12.8 billion	Return on invested capital**	8.0%	5.7%
Dividends per share (interim/year-end)	¥70 (¥30/¥40)	¥50 (¥30/¥20)	* Cash conversion cycle = Working capital ÷ Net sales x 365 days		
Exchange rate	¥105/\$1.00	¥109.16/\$1.00	**Return on invested capital = (Operating profit + Interest and dividend income) after tax ÷ (Shareholders' equity + Interest-bearing debt)		

Assessment

- First year of Group Management Policies 2019 saw lifecycle and other businesses bear some fruit
- In Resources, Energy and Environment business, performances deteriorated in some small and mid-sized projects
- In Industrial Systems and General-Purpose Machinery business area, sales of vehicular turbochargers to China declined, while operations decreased in Chinese businesses owing to COVID-19 pandemic, causing sales to dwindle
- In Civil aero engine business, earnings rose on owing to reduced sales of new engines whose initial costs are high and increased spare parts revenues on strength of efforts to swiftly obtain sales information, offsetting impact of maintenance-related operations downturn

Long-term approach Tackle social and customer issues with customers and create new value

Group Management Policies 2019

Reform businesses in earnest to tackle social and customer issues

Three reform initiatives

Strengthen business foundations

Accelerate aftermarket business development with customers from lifecycle perspectives

Build a robust operational structure

Create a lean and flexible operational structure

Accelerate preparations for tomorrow

Transform our business model to create value

Safety and quality

Human resources development underpinning reforms

Risk management

Strengthen business foundations

Initiatives

- Roll out solutions proposals, deploy operations and maintenance businesses, present corrective maintenance proposals, and progress in upgrading after-sales business
- Fully launch lifestyle businesses in Asia-Pacific region

Issues

- Generate high added value in lifestyle business by reinforcing in-house and external collaboration
- Accelerate and expand lifecycle businesses overseas

Build a robust operational structure

Initiatives

- Progress with business structure reforms to optimally allocate resources, such as through business integrations and functional centralization
- Leverage Internet of Things to reform business processes and progress with smart factory initiatives

Issues

- Improve cash flows
- Accelerate resource shift to revenue-generating businesses

Accelerate preparations for tomorrow

Initiatives

- Progress in collaborating with customers and partners in Japan and abroad to create new business model
- Make some progress in developing technologies and operations in each business area

Issues

- Accelerate product and business commercializations
- Step up explorations of prospective businesses from value chain perspectives

Revitalize Civil aero engine maintenance business

- Comprehensively educate about aviation safety and compliance and revitalize workplaces through dialogue gatherings and other initiatives
- Rebuild robust quality assurance structure

Restoring engine maintenance capacity to levels before inadequate inspection practices came to light

Initiatives to prevent project downturns

- Keep reinforcing companywide monitoring
- Have experts conduct exhaustive risk reviews
- Strengthen responses in business areas

Prevented downturns on major projects, but experiencing setbacks in small and mid-sized projects

Performance deterioration at Japan Marine United and responses

- This affiliate posted massive losses in FY2019 owing to such issues as construction process turmoil stemming from technical problems
- Will have JMU accelerate its structural overhaul so it can build a robust construction setup that competes better with overseas players

Fully leverage benefits of alliance with Imabari Shipbuilding Co., Ltd.

In March 2020, reached agreement with that company to form capital alliance and establish joint venture



Lead market with eco-friendly technologies

Overhaul business structure through mechanization and automation to enhance production efficiency

Consolidate resources to optimize business structure

In December 2019, decided to have Maizuru Works specialize in ship repairs

Civil aero engine business

- Plunging international air transportation demand will inevitably affect operations, although decline in unit sales in this business was not significant in fourth quarter of FY2019

Vehicular turbocharger business

- In fourth quarter of FY2019, sales of this business decreased for Chinese market but began recovering in March

Other businesses

- Customer plants and Group affiliates stopped production, scaled down operations, or halted corporate activities from mid-March 2020 in Europe, North America, and Southeast Asia, but these factors minimally affected FY2019 results
- Although lockdowns and supply chain turmoil hampered progress in some overseas projects, impact on FY2019 results was limited

FY2020 Initiatives



Announcement of FY2020 forecasts

- Have postponed formulating and announcing forecasts as it is hard at this juncture to reasonably estimate impact of COVID-19 pandemic on Group performance
- Looking to announce forecasts as soon as possible after carefully assessing and accurately determining performance impact
- Pandemic impact on following businesses could be particularly large
 - ✓ Civil aero engine business: plunging travel demand
 - ✓ Vehicular turbocharger business: lower automobile sales owing to stagnant consumer spending
- Customer reviews of capital investment decisions and plans, demand declines, and other factors could affect other businesses

FY2020 dividends projection

- Similarly postponing dividends forecast for FY2020
- Planning to pay year-end cash dividend of ¥20 per share for FY2019 (interim payment was ¥30)

Aviation industry situation

- Airline business conditions have deteriorated as travel demand has plunged, leading to some bankruptcies
- Aircraft and engine manufacturers have instituted emergency measures, including to slash jobs and constrain investments

Impact on Civil aero engine business

- Expecting engine and spare parts sales to decline
- Earnings and cash flows will inevitably suffer
- Recoveries in international air transportation demand and airline results and financial positions will likely take some time
- Relatively new aircraft employ IHI engines, so looking for airlines to prioritize restarting operations with those models owing to lower operating costs, with aftermarket recovering swiftly

Automotive Sector Situation

- Private research firm expects global automobile unit sales to fall 10% to 20% year on year in 2020
- Outlook unclear, however, one factor being that Japan Automobile Manufacturers Association has postponed announcing domestic demand projections
- Leading Japanese and foreign automakers have halted plant production worldwide and have announced furloughs

Impact on vehicular turbocharger business

- Reduced sales of these components amid declining automotive demand worldwide
- Supply chains of automotive sector and Group's vehicular turbocharger business span multiple countries, so production halts and operational slowdowns possible
- In key Chinese market, looking for demand to recover as pandemic abates
- Need to push forward with preparations for swift startups when recoveries materialize

Impact on other businesses

- For projects for Resources, Energy and Environment and Social Infrastructure and Offshore Facilities business areas, work progress overseas affected owing to such factors as movement restrictions and lockdowns
- Industrial machinery, plant and other new facilities orders could decline owing to stagnant capital investment
- Demand could drop for automotive parts treatment services in thermal and surface treatment businesses
- Operational stagnation from supply chain turmoil

As it is unclear when pandemic will end, deploy measures that assume prolonged impact on all businesses

	Responses
Financial	<ul style="list-style-type: none">● Secure liquidity● Temporarily freeze or constrain capital and R&D expenditures
Business	<ul style="list-style-type: none">● Prioritize safety and health of employees, their families, customers, and other stakeholders● Constrain total and fixed expenses and inventories● Adjust production● Executives partially returning remunerations from April 2020● Adopt new work practices● Accelerate expansion of lifecycle businesses● Flexibly shift human resources to growth areas and lifecycle businesses

Create a lean and flexible corporate structure

Changing operating climate

- COVID-19 has reshaped the business climate
- Pandemic has transformed socioeconomic landscape, making change-responsive management vital

Key challenges

1 Determine post-pandemic business direction

- Identify and predict social and values changes and industrial and market trends and determine business direction
- Swiftly revitalize and reorganize businesses subject to countermeasures

2 Create growth businesses

- Create key future businesses and pursue sustainable growth
- Concentrate resources on promising areas

3 Overcome operating climate changes

- Shift resources to respond flexibly to business climate changes
- Streamline and trim through business process reforms

4 Improve cash flows and strengthen financial position

- Strengthen cash flow generation and manage assets to secure funding sources and build solid financial position

Long-term approach

- Group Management Policies 2019 direction
- Three reform initiatives

Pandemic responses

- Reform corporate culture to withstand business climate changes

Sustainable business portfolio

- Consider business portfolio for post-pandemic socioeconomic situation

Assessment of current medium-term management plan
(to be announced in second half of year)

Next medium-term management plan

Stepping up measures to prevent infections and continuing operations in line with air transportation support obligations

Mizuho Aero Engine Works
Adopted shifts to increase spacing between personnel



Kure Aero Engine No. 2 Works
Deployed infection prevention measures, operating normally



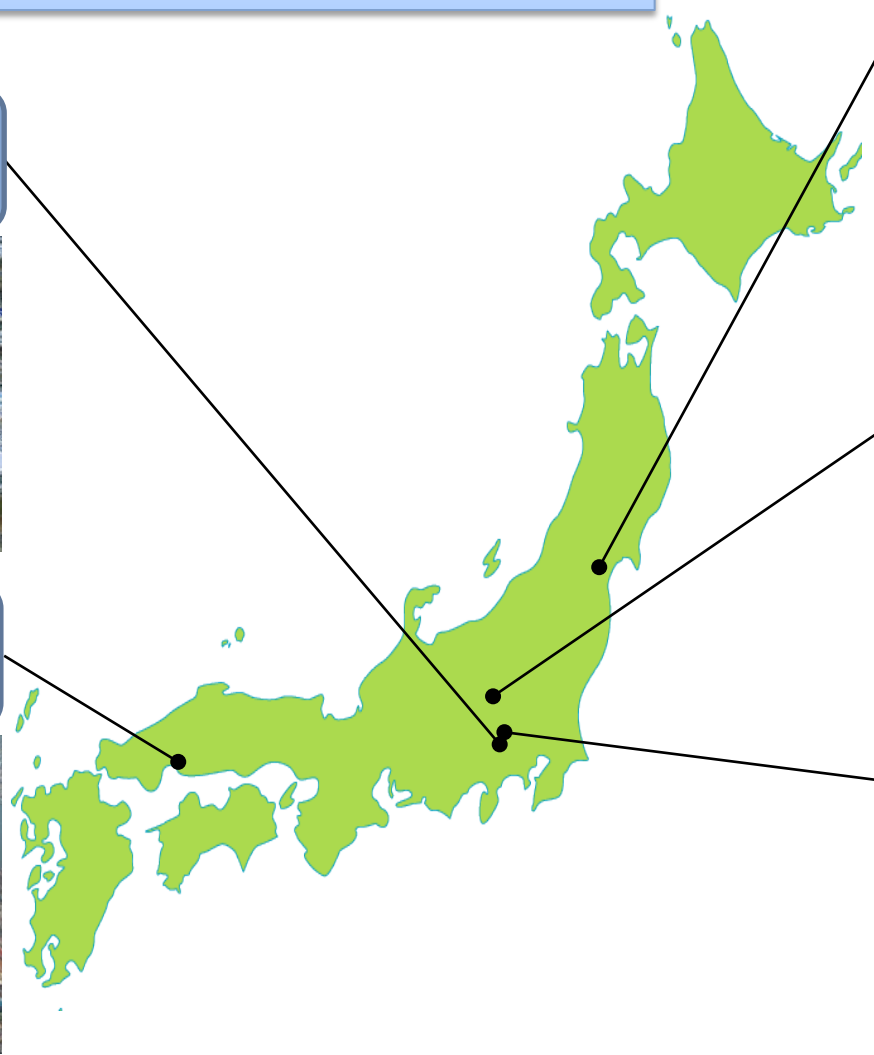
Soma No. 1 Aero Engine Works and Soma No. 2 Aero Engine Works
Deployed infection prevention measures, operating normally



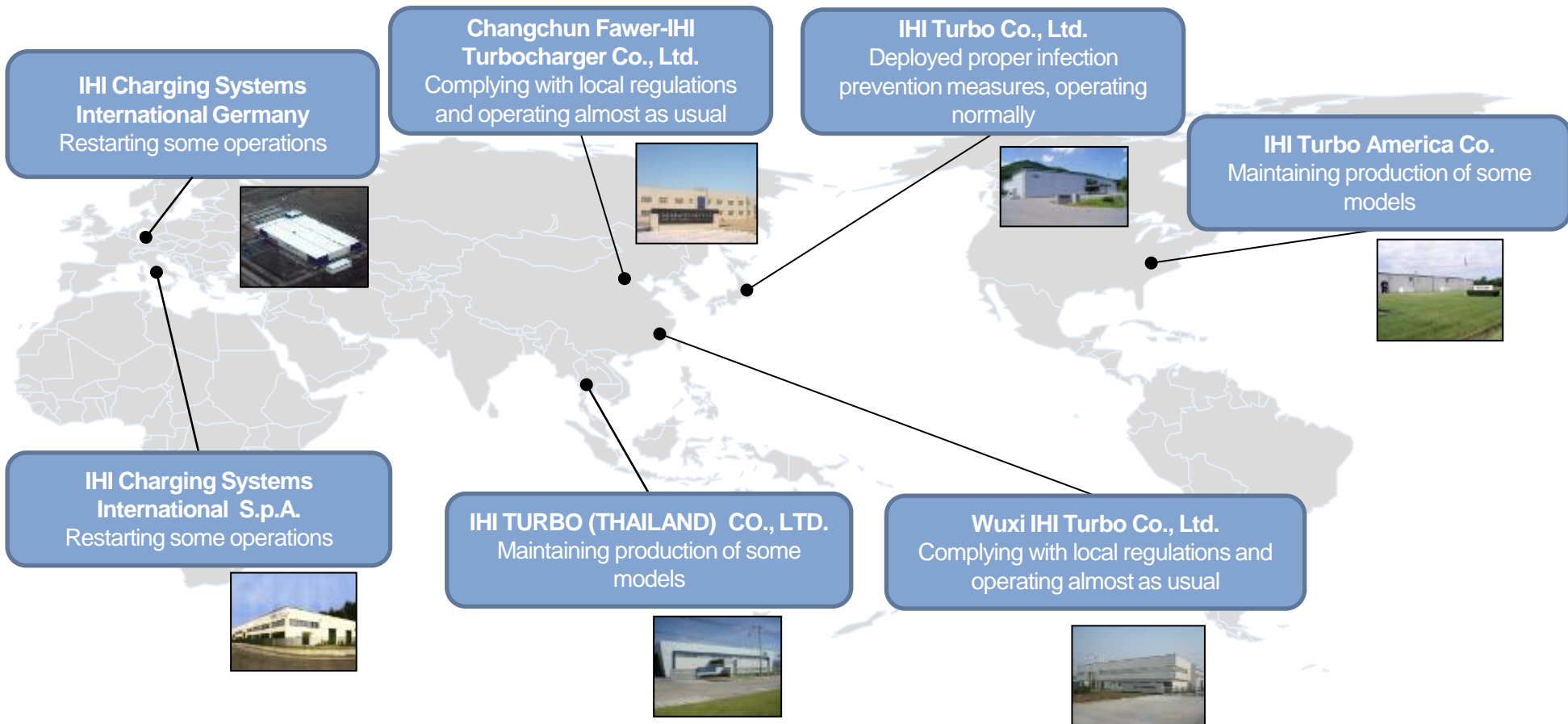
IHI Aerospace Co., Ltd.
Deployed infection prevention measures, operating normally



Tsurugashima Works



- Chinese operations have almost returned to normal
- In other countries and territories, sites are gradually restarting operations as they deploy infection prevention measures in line with moves to lift urban lockdowns and resume economic activity





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