23-D-1008
October 26, 2023

IHI Revises Forecasts of Financial Results Downward—JCR Will Confirm Directions of Performance and Finances to be Reflected in Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on IHI Corporation (security code: 7013)'s revisions of forecasts for financial results.

(1) On October 25, IHI Corporation (the "Company") announced revisions of its forecasts of the consolidated financial results for the fiscal year ending March 31, 2024 (FY2023), with an operating loss (IFRS) of 80 billion yen (previous forecast was a profit of 90 billion yen) and a loss attributable to owners of parent of 90 billion yen (previous forecast was a profit of 50 billion yen). The main reason for the losses is the recording of approximately 160 billion yen in compensation and maintenance costs associated with additional inspections of engines for commercial aircraft. This is due to the fact that the PW1100G-JM engine manufactured by Pratt & Whitney, a subsidiary of RTX, a major U.S. aerospace defense company, was found to have a defect in the manufacturing process, requiring additional inspections of the already shipped engines. In general, commercial aircraft engines are developed under the risk & revenue sharing partner method in which the companies participating in the development program share the revenue and costs in proportion to their participation in the program. Of the total program impact expected from additional inspections through 2026, the Company included the full cost of approximately 15%, its participation share, in its forecasts for FY2023. In addition to this, the Company also included in its forecasts as a decrease in the operating profit (loss) the difference of approximately 15 billion yen between the amount already recognized as revenue and the amount of settlement due to the settlement of litigation that had been filed by the Company's overseas consolidated subsidiary in the past.

(2) The large amount of loss posted is expected to damage the equity attributable to the owners of the parent at the end of the second quarter of FY2023. On the other hand, except for the two cases mentioned above, the Company's performance has been generally in line with its plans. The additional engine inspections were not its fault, and it has stated that it will not carry over the losses to FY2024 and beyond. Therefore, JCR believes that these cases will not have an immediate negative impact on the Company's earnings base. In addition, the Company says that it will consider ways to cover the damaged equity capital and anticipated cash outflows, including the sale of assets. JCR will assess the direction of the Company's business performance and measures for financial improvement, including the asset management, from FY2024 onward to be reflected in the rating.

Hiroaki Sekiguchi, Takahiko Yamaguchi

<Reference>
Issuer: IHI Corporation
Long-term Issuer Rating: A-   Outlook: Positive

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026