

IHI's Series of Inadequate Inspections, etc.—JCR will Watch Effectiveness of Measures to Prevent Recurrence and Impact on Business Performance

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on IHI Corporation (security code: 7013)'s series of inadequate inspections, etc. in its aero engine business.

- (1) IHI Corporation (the "Company") announced on April 9 that it had received a business improvement order concerning its civil aero engine maintenance business from the Ministry of Land, Infrastructure, Transport and Tourism (the "Ministry"). It was found that inappropriate inspections had been conducted on 34 engines and 125 single parts, out of the 45 engines and 605 single parts repaired by the Company for the past 10 years, which are in operation in the jurisdiction of the Ministry, and these became subject to the disposition. The total number of inspections reached 190 thousand cases, of which 1,251 cases resulted in inappropriate ones. Although the Company confirmed that there had been no problems with the flight safety, it said that it would conduct a voluntary recall, etc. of a part of the components from a perspective of long-term continued use after consultation with customers.
- (2) The Company also announced on April 8 that there were inappropriate inspections, which were deviated from internal rules, on aero engine parts manufacturing, which were found as a result of comprehensive quality inspections conducted on the entire aero engine business after inappropriate practices were found in the civil aero engine maintenance business in January 2019. Inappropriate inspections were found to be the following: (i) there were inspections, or entry into or sealing the inspection records by trainees, deviating from internal rules; and (ii) inspectors entered into or sealed inspection records on behalf of inspectors concerned. Inappropriate inspections reaching 7,138 cases were found out of the 1.8 million total number of inspections for the past 2 years at plants manufacturing aero engine parts including Soma Works, Kure No.2 Works, and Mizuho Works. The Company reported to the engine manufacturers, and confirmed that there had been no technical problems with the functions and performances of parts.
- (3) It is considered that lack of awareness for compliance and mismatch between work volume and the number of inspectors party led to these series of inappropriate inspections. JCR will closely watch effectiveness of the Company's measure to prevent recurrence and the impact on its activities to win orders, business performance, etc.

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<Reference>

Issuer: IHI Corporation

Long-term Issuer Rating: A- Outlook: Stable

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