Summary of Q&A at FY2018 1-3Q Financial Results Presentation (February 6, 2019)

(Responses were based on information available at the time of the presentation.)

Q. The Company has reported year-on-year increases in both revenue and profit from business activities. What specifically are the reasons behind these gains, and how does the Company evaluate the results for the first three quarters vis-à-vis its full-year forecasts?

A. Concerning the Power Systems segment, year-on-year increases in revenue were achieved in the areas of nuclear power, GTCC (gas turbine combined cycle) and aero engines. In the case of GTCC, two factors contributed: smooth progress in construction of previously received orders, and relatively solid performance in after-sale servicing operations. Regarding aero engines, a shift is underway from the development phase to a phase reaping investment returns, and sales are increasing, especially from after-sale servicing business.

In the Industry & Infrastructure segment, after a period of sluggish market conditions, metals machinery orders are now recovering; and along with recovery, sales are trending upward. Also, business in material handling equipment—an area where we now rank 3rd globally after M&A activity—is sustaining solid sales in the U.S.

In the Aircraft, Defense & Space segment, concerning commercial aircraft, although deliveries for B787s are solid, revenue and profit both decreased overall amid the transition from the B777 to the B777X.

Regarding profit from business activities, profits are rising in all sectors, largely on the back of productivity improvements, and free cash flow is also improving. No particular business areas have marked extreme improvement; rather, our impression is that earnings are improving overall. Based on the results for the first three quarters, we have lowered our orders forecast; concerning revenue and profit, however, we believe this is generally progressing in line with our full-year forecast.

Q. In releasing the results for the first three quarters, the Company has lowered its full-year orders forecast by ¥300 billion. Please break this down for us.
A. We lowered our orders forecast by ¥200 billion for the Power Systems segment, and by ¥100 billion for the Industry & Infrastructure segment. The figure for the Power Systems segment was lowered due to cancellation of a domestic order for a coal-fired power plant; also, an overseas order for a coal-fired plant that we had anticipated this fiscal year is now likely to be received next term.
Regarding the ¥100 billion reduction in our forecast for the Industry & Infrastructure segment, here too we lowered our forecast owing to the strong possibility that an order for an overseas chemical plant will be booked in the fiscal 2019.

Q. In the Industry & Infrastructure segment, is the economic slowdown in China having an impact on mass and medium-lot manufactured products?
A. Mass and medium-lot manufactured products marked extremely solid performance through the first three quarters, but now that vehicle production and sales in China are dropping sharply, sales of turbochargers to China are slowing compared to the year-earlier level. Under the circumstances, full-year sales are now expected to slightly undershoot the forecast we issued at the start of the fiscal year. Even so, we expect to secure orders on a par with last year’s level. Turbochargers aside, the economic slowdown in China is not having any noticeable impact on any other products.