May 20, 2019
IHI Corporation

Q&A for Industrial Systems & General-Purpose Machinery Business Area Briefing

1. **Why is your forecast this fiscal year for transport machinery orders 15 billion yen higher than last year's, at 48 billion yen? How are you positioning transport machinery over the next three years?**
   - We encountered finance closing delays in the operations and management business of the Onahama Call Center for orders slated for last fiscal year, which is why we project a 15 billion yen increase for this fiscal year. The three-year outlook for the coal unloading facilities market for coal-fired power plants is adverse in view of decarbonization trends. Our focus will be on accumulating orders, principally for maintenance. We conducted field tests at Kansai Electric's Maizuru Power Station and will accumulate and analyze data, putting together advanced operational proposals to reinforce lifecycle businesses.

2. **What are your turbocharger sales targets for fiscal 2021? We understand you plan to improve operating margin forecast for the entire Industrial Systems & General-Purpose Machinery business area from 5.6% for fiscal 2019, to 7.3% for fiscal 2021. Do you anticipate a similar improvement for turbochargers?**
   - We project segment sales of 200 billion yen for fiscal 2021, slightly higher than the current 190 billion yen, reflecting the launches of new project orders from last fiscal year. While we do not disclose operating margins by strategic business unit, we see the turbocharger business has the potential to deliver an operating margin exceeding those of the entire business area by one percentage point or so. We will additionally leverage our global supply chain to optimize our cost structure and improve our operating margin.

3. **We understand turbocharger sales dropped because you were unable to solicit orders in the aftermath of production defects in Europe. But given medium-sized orders you said you have secured, can we understand you have turned things around?**
   - From 2014, we focused on around three major deals, which made it hard to secure new projects. Next year, sales should settle down at 185 to 190 billion yen. While we do not expect expansion in Europe and overall, we have secured medium-scale projects since last year, so we will draw on a lean structure to keep obtaining orders of a certain scale.

4. **Your turbocharger profit margins seem lower than those of rivals. IHI has explained that this is because of sluggish after-service sales, which we understand. But nonetheless your profit margins are far below than those of Mitsubishi Heavy Industries, a latecomer in this field. We assume that factors apart from a low after-service sales ratio are also at play. Please outline your analysis of the situation and how you plan to improve things.**
   - One results factor has been falling earnings from our European units. That has caused overall strategic business unit profit margins to deteriorate, and we will endeavor to improve them. To date, IHI's global business development approach has been to produce locally for local consumption. With customer plans changing, we will have each business site make the components it is best at and create a global supply chain for production so we can assuredly enhance profitability. We will share information in real time among all sites and boost earnings. Also, we are cultivating world-class business sites and are concentrating on plans to improve manufacturing and profits.