Industrial Systems & General-Purpose Machinery Business Area Briefing

May 17, 2019

IHI Corporation
Masafumi Nagano, Board Director and Managing Executive Officer, President of Industrial Systems & General-Purpose Machinery Business Area

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1. Industrial Systems & General-Purpose Machinery
Business Area Outline
1. Industrial Systems & General-Purpose Machinery Business Area Outline

Key product lines

**Making things**

- **Heat treatment and surface engineering**
  - Vacuum heat treatment furnaces
  - PVD/PACVD coating equipment

- **Rotating machinery**
  - Process gas turbo compressors
  - General-purpose turbo compressors

- **Vehicular turbochargers**
  - Turbochargers
  - Elevator parking
  - Underground parking (Super Square Parking System)

**Moving people**

**Parking**

- **Transport machinery**
  - Continuous unloaders
  - Jib climbing cranes

- **Logistics and machinery**
  - Air-suspended conveyors for large panels
  - Automated storage/retrieval systems
### 1. Industrial Systems & General-Purpose Machinery Business Area Outline

#### Directly controlled businesses

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Business Overview</th>
<th>Main affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicular turbochargers</td>
<td>Suppying turbochargers for automotive engines</td>
<td>IHI Turbo, CloverTurbo Co., Ltd.</td>
</tr>
<tr>
<td>Parking</td>
<td>Designing, manufacturing, constructing, and maintaining mechanical and automated parking systems</td>
<td>IHI Transport Machinery Co., Ltd.</td>
</tr>
<tr>
<td>Rotating machinery</td>
<td>Developing, designing, and manufacturing compressors, separators, and other rotating machinery</td>
<td>IHI Rotating Machinery Engineering Co., Ltd.</td>
</tr>
<tr>
<td>Heat treatment and surface engineering</td>
<td>Supplying and processing heat and surface treatment equipment for tools, automobile parts, and industrial machinery components</td>
<td>IHI Machinery and Furnace Co., Ltd. IHI Hauzer Techno Coating B.V. IHI Ionbond AG</td>
</tr>
<tr>
<td>Logistics and machinery systems</td>
<td>Designing and supplying frozen and refrigerated automatic warehouse facilities, automated warehouses for hazardous goods, and storage and transport facilities</td>
<td>IHI Logistics &amp; Machinery Corporation</td>
</tr>
<tr>
<td>Agricultural machinery and small power systems</td>
<td>Providing grass cutters and lawn maintenance machinery and agricultural machinery</td>
<td>IHI Agri-Tech Corporation</td>
</tr>
<tr>
<td>Transport machinery</td>
<td>Supplying jib climbing cranes for building construction and port unloaders</td>
<td>IHI Transport Machinery Co., Ltd.</td>
</tr>
</tbody>
</table>

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**Legend**
- **SBU**: SBU-controlled domestic affiliate
- **Main affiliates**: Principal affiliates
FY2018 results

**Industrial systems**

- Vehicular turbochargers: ¥189.5 billion
- Industrial systems: ¥251.5 billion

**Other**

- Heat treatment and surface engineering: 17%
- Rotating machinery: 20%
- Parking: 20%
- Transportation machinery: 10%
- Logistics and machinery systems: 15%
- Agricultural machinery and small power systems: 12%
- Other: 7%

Overseas sales: 27.8%
After-sales services: 43%
2. Business Area Management Policies

**Direction**

Contribute to industrial infrastructure progress by thoroughly optimizing operational lifecycles with customers

**Optimize the people, energy, and assets of society and customers**

- **Human resources**
  - Process Automation and Personnel Saving

- **Assets**
  - Optimize facilities utilization and balance sheets

- **Energy**
  - Use electrical, thermal, water, and other energy efficiently

**Prerequisites for maximizing efficiency**

1. Enhance throughput and reduce costs by conserving labor and optimizing manufacturing and distribution processes
2. Reduce environmental impact and electricity costs by improving the efficiency of electrical, thermal, and other energy sources
3. Eliminate traffic accidents by providing a safe, secure, and convenient mobility infrastructure while helping lower environmental impact, eliminating mobility issues, and pioneering CASE* initiatives

**Build new industrial infrastructure that optimizes operational lifecycles**

Seek to create new industrial systems that comprehensively streamline customers’ human resources, energy, and assets

**Addressing social issues**

- Energy storage and consumption efficiency, progress in industrial and technology innovation infrastructure, overcrowding and urban traffic congestion, rising carbon dioxide emissions, pollution, and aging populations in developed nations
- Compatibility with CASE* in automotive industry, digital transformations in the industrial machinery sector, structural changes across in logistics sector, and urban development progress

*CASE: Connected, Autonomous, Shared & Services, Electric
2. Business Area Management Policies

Focuses Over Three Years

Strengthen business foundations

Strengthen lifecycle businesses to boost customer value and accelerate global development

- Leverage strong ties with customers from providing industrial machinery products and services to enhance the value of customer operations by accelerating efforts to deliver more sophisticated after-service.
- Starting with Southeast Asia, undertake earnest global efforts to bolster after-service capabilities.

Build a robust operational structure

Undertake groupwide structural reforms to create a lean and flexible structure

- Push ahead with reforms to shift away from individual business management toward Group management that makes customers the top priority.
- Specifically, transition to a lean and flexible organization that generates customer value by integrating responses to customers within the Group while strengthening customer relationship management capabilities.

Accelerate preparations for tomorrow

Develop a new business model to drive industrial infrastructure progress

- Connect real and digital spaces for customers and society in manufacturing, logistics, mobility, and other industrial machinery fields, thereby accelerating the creation of new industrial systems that streamline overall efficiency for customers’ human resources, energy, and assets.
2. Business Area Management Policies

Structure

Main roles of key units

- Enhance continuous improvement of quality and coordinate quality assurance in business areas
- Undertake environmental activities for business areas overall

- Plan and deploy business area management policies
- Formulate and deploy business area visions and strategies and manage risks

- Build and reinforce lifecycle business earnings platforms, and strengthen internal and external collaboration (Lifecycle Business Development Group)
- Improve Global business expansion primarily in lifecycle business, centered on Southeast Asia (Global Business Development Group)
- Drive industrial systems advances through digital transformation (Digital Transformation Group)
- Optimize, standardize, and modernize business area value chain processes (Business Process Transformation Group)
3. Industrial Systems & General-Purpose Machinery
Business Area Strategies
3. Business Area Strategies

Reinforce lifecycle businesses
1. Strengthen business fundamentals through after-sales businesses
2. Develop new products, services and create new business models offering higher customer value leveraged by the expertise from after-sales businesses = a cycle of value increasing across product and business lifecycles

Parking business
Strengths: Market-leading maintenance network (Realizing customers’ operation safely and efficiently)

<table>
<thead>
<tr>
<th>Year</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>KYC Machine Industry Co., Ltd.</td>
</tr>
<tr>
<td>2017</td>
<td>Nabco Door, Ltd.</td>
</tr>
<tr>
<td>2018</td>
<td>Orient Industries, Ltd.</td>
</tr>
</tbody>
</table>

- Increasing unit number managed
- Securing service expertise
- Developing new elevator parking systems (Time saving, Noiseless)
- Experiment: Car-sharing services for residents
- Collaborating in joint research with universities in automated driving and parking
- Providing IoT platform services
  Cultivating SST Business (Security Sharing Technology)
3. Business Area Strategies

Enhance customer value and accelerate global development by reinforcing lifecycle businesses

Rotating machinery

Strengths
- Robust delivery record
- Customer-centric service network

Customer Center
- Wide channels for diverse customers
- Building more close ties with customers
  - Secure Customers’ Information and knowledge
- Through advanced service-business processes leveraged by the ICT tools

Deploy information that starts at frontlines

Further reinforce relationships

Design Dept.
- Develop more valuable new products and services

Process line engineering Dept.
- Incorporate related businesses

Manufacturing Dept. and back-office units
- Realize specific new service options

Bolster products’ lineup
- Retrofit Business
- Air supply services
- Total plant engineering
- Demand-follow group control system

Further enhance strengths and establish competitive edge

Transition to lifecycle business model originated by Frontlines’ information
3. Business Area Strategies

Enhance customer value and accelerate global development by reinforcing lifecycle businesses

Increasing the value of customer operations and delivering advanced after-sales services by leveraging solid customer ties

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Asian Solutions Center

- Solutions leader
- Solutions team (Sales, Plant management expert and engineers)
- National staff members

Customer issues
- Managing energy
- Lowering environmental impact
- Saving labor
- Preventive maintenance

Solutions
- Surveillance and checks
- Group controls
- Improvement proposals
- Annual maintenance agreements
- Subscriptions
- IoT monitoring
- Operations and maintenance
- Service training

Local business sites
Local business partners

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Establishing Asia Solutions Center at IHI ASIA PACIFIC (Thailand) Co., Ltd., which has solid track record, to expand advanced services throughout Southeast Asia from Thai hub

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3. Business Area Strategies

Undertake Group management-based reforms to create a lean and flexible structure

Create framework to deliver high added value throughout customer lifecycles

Industrial Systems & General-Purpose Machinery Business Area

- Market needs
- New initiatives collaborate with business areas
- External technology

Core resources
- Service network
- Customer relationship

SBU
- Expand existing business earnings
- Collaborate to optimize overall business area resources

SBU
- Expand existing business earnings

New initiatives collaborate with business areas
- Market needs
- External technology

Lean and flexible structure

1. Integrated responses across SBUs in line with customer issues
2. Structure to respond swiftly to emerging issues and cater to new business models
3. Optimization of Group functions, sites, and resources
3. Business Area Strategies

Undertake Group management-based reforms to create a lean and flexible structure

<table>
<thead>
<tr>
<th>Business area’s portfolio management under Group Management Policies 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics system and industrial machinery business integration (2016)</td>
</tr>
<tr>
<td>Compact construction machinery business transfer (2016)</td>
</tr>
<tr>
<td>Turkey: Establishment of general-purpose compressor manufacturing and sales joint venture (2016)</td>
</tr>
<tr>
<td>Agricultural machinery and small power systems business reorganization (2017)</td>
</tr>
<tr>
<td>Disaster prevention business transfer (2017)</td>
</tr>
<tr>
<td>Rotating machinery business integration (2017)</td>
</tr>
<tr>
<td>Ship machinery business transfer (2017)</td>
</tr>
<tr>
<td>China: Establishment of mechanical parking facilities joint venture (2018)</td>
</tr>
<tr>
<td>Small power systems business transfer (2018)</td>
</tr>
</tbody>
</table>

Manage portfolio even under Group Management Policies 2019

- Extend involvement to SBU’s business portfolios
- Reorganization keeping with the transformation to lifecycle business changes

Accelerate business area “Concentration and Selection”
We will cultivate a diverse businesses to resolve customer challenges, such as by virtually shortening and integrating value chains by effectively linking physical and digital spaces.
4. Industrial Systems & General-Purpose Machinery Business Area Business Plans

- FY2018 results, FY2019 forecasts, and FY2021 targets

**Industrial Systems**

Aiming to boost after services contribution from 43% of sales in FY2018, to 50% in FY2021.
Vehicular Turbocharger Business Strategies

IHI Corporation
Yoshinori Kawasaki, Managing Executive Officer, Vice President of Industrial Systems & General-Purpose Machinery Business Area
General Manager of Vehicular Turbocharger Business Unit

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1. Overview of IHI’s Turbochargers

Role of Turbocharger

**Usage**

- Helping to boost power, fuel saving and purify exhaust gases by delivering highly pressurized air to the engine
- Essential devices for diesel engines
- To lower fuel consumption, increasingly used by downsizing gasoline engines

**Benefits**

- Improve fuel efficiency around 20% while maintaining output and torque
- Helping increase power output by recovering thermal energy discharges (Normally, around 10%)
- Particulate matter emissions reduced
- Afford acceleration by light pedal action
- Driving with modest engine loads

 Turbochargers are eco-friendly devices that deliver low fuel consumption and low environmental impact
1. Overview of IHI’s Turbochargers

Product lineup

Engine displacement

<table>
<thead>
<tr>
<th>Gasoline vehicles employing IHI turbochargers</th>
<th>Diesel vehicles employing IHI turbochargers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large commercial vehicles</td>
<td></td>
</tr>
<tr>
<td>Passenger cars</td>
<td></td>
</tr>
<tr>
<td>Light commercial vehicles</td>
<td></td>
</tr>
<tr>
<td>Construction and agricultural machinery</td>
<td></td>
</tr>
<tr>
<td>Compact cars</td>
<td></td>
</tr>
</tbody>
</table>

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1. Overview of IHI’s Turbochargers

Global development of turbocharger business

<table>
<thead>
<tr>
<th>Europe</th>
<th>North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICSI/ICSG/ITY</td>
<td>ITA</td>
</tr>
<tr>
<td>✔ Developing products</td>
<td>✔ Making and selling turbochargers</td>
</tr>
<tr>
<td>✔ Making and selling parts and components for Europe and regions</td>
<td>✔ Developing, making, and selling superchargers</td>
</tr>
</tbody>
</table>

- IHI Charging Systems International GmbH (ICSG) (Germany)
- Changchun FAWER-IHI Turbo Co., Ltd. (FIT) (Changchun, China)
- IHI Turbo Korea Co., Ltd. (ITK) (Korea)
- IHI Charging Systems International S.p.A. (ITY) (Italy)
- IHI TURBO (Thailand) Co., Ltd. (ITT) (Thailand)
- Wuxi IHI Turbo Co., Ltd. (WIT) (China)
- IHI Turbo Co., Ltd. (ITJ) (Thailand)
- IHI Turbo America Co. (ITA) (United States)

<table>
<thead>
<tr>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔ IHI Vehicular Turbocharger SBU</td>
</tr>
<tr>
<td>✔ Overseeing vehicular turbocharger business</td>
</tr>
<tr>
<td>✔ Developing turbochargers</td>
</tr>
<tr>
<td>✔ Making and selling turbochargers for Japanese market</td>
</tr>
<tr>
<td>ITJ</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIT/WIT</td>
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</table>

<table>
<thead>
<tr>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITK</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITT</td>
</tr>
<tr>
<td>✔ Making components and turbochargers for regions</td>
</tr>
</tbody>
</table>
1. Overview of IHI’s Turbochargers

Competitive environment

1. IHI’s global market share is around 20%
2. IHI accounts for around 50% of the Japanese market
3. Two leading auto parts manufacturers have also entered the market, but their shares remain low
1. Overview of IHI’s Turbochargers

Customer base

- Passenger vehicles (Japanese automakers)
  - TOYOTA
  - DAIHATSU
  - MITSUBISHI MOTORS
  - HONDA
  - SUBARU
  - SUZUKI
  - NISSAN
  - mazda

- Commercial vehicles
  - ISUZU
  - HINO
  - UD
  - UD TRUCKS

- Passenger vehicles (overseas automakers)
  - Volkswagen
  - Audi
  - Mercedes-Benz
  - HYUNDAI
  - KIA
  - CHANGAN
  - CHRYSLER
  - FIAT
  - GAC GROUP

- Agricultural and construction machinery and small boats
  - YANMAR
  - Kubota
## Key customers

<table>
<thead>
<tr>
<th>Customers</th>
<th>Main models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volkswagen</td>
<td><img src="image1" alt="Volkswagen Car 1" /> <img src="image2" alt="Volkswagen Car 2" /> <img src="image3" alt="Volkswagen Car 3" /></td>
</tr>
<tr>
<td>Audi</td>
<td><img src="image4" alt="Audi Car 1" /> <img src="image5" alt="Audi Car 2" /> <img src="image6" alt="Audi Car 3" /></td>
</tr>
<tr>
<td>Mercedes-Benz</td>
<td><img src="image7" alt="Mercedes-Benz Car 1" /> <img src="image8" alt="Mercedes-Benz Car 2" /> <img src="image9" alt="Mercedes-Benz Car 3" /></td>
</tr>
<tr>
<td>TOYOTA</td>
<td><img src="image10" alt="Toyota Car 1" /> <img src="image11" alt="Toyota Car 2" /> <img src="image12" alt="Toyota Car 3" /></td>
</tr>
<tr>
<td>HONDA</td>
<td><img src="image13" alt="Honda Car 1" /> <img src="image14" alt="Honda Car 2" /> <img src="image15" alt="Honda Car 3" /></td>
</tr>
<tr>
<td>ISUZU</td>
<td><img src="image16" alt="Isuzu Car 1" /> <img src="image17" alt="Isuzu Car 2" /> <img src="image18" alt="Isuzu Car 3" /></td>
</tr>
</tbody>
</table>
Regional market outlooks

Unit sales of vehicular turbochargers by region

Thousands of units

Europe
China
Japan
North America
Others

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2016</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>7,030</td>
<td>9,300</td>
<td>15,670</td>
<td>24,090</td>
</tr>
<tr>
<td>China</td>
<td>1,290</td>
<td>6,870</td>
<td>11,390</td>
<td>18,190</td>
</tr>
<tr>
<td>Japan</td>
<td>2,360</td>
<td>4,190</td>
<td>6,590</td>
<td>11,390</td>
</tr>
<tr>
<td>North America</td>
<td>2,600</td>
<td>5,070</td>
<td>6,870</td>
<td>12,820</td>
</tr>
<tr>
<td>Others</td>
<td>11,880</td>
<td>20,090</td>
<td>25,250</td>
<td>29,120</td>
</tr>
</tbody>
</table>

Average annual growth rates

<table>
<thead>
<tr>
<th>Region</th>
<th>2012-2016</th>
<th>2016-2020</th>
<th>2020-2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>+14%</td>
<td>+0%</td>
<td>-2%</td>
</tr>
<tr>
<td>China</td>
<td>+18%</td>
<td>+26%</td>
<td>+15%</td>
</tr>
<tr>
<td>Japan</td>
<td>+15%</td>
<td>+12%</td>
<td>+2%</td>
</tr>
<tr>
<td>North America</td>
<td>+25%</td>
<td>+21%</td>
<td>+11%</td>
</tr>
<tr>
<td>Others</td>
<td>+7%</td>
<td>+14%</td>
<td>+9%</td>
</tr>
</tbody>
</table>

Growth outlook beyond 2025

1. North American and Chinese markets should expand by fiscal 2025
2. After FY2025, the switch to electric vehicles should gradually progress, primarily in mature markets

Sources: Fuji Chimera Research Institute, Inc., and interviews with experts from KPMG and Takaki Nakanishi of Nakanishi Research Institute
1. Overall automotive market
The market should continue to expand through 2030. The proportion of powertrains solely employing internal combustion engines should trend down overall. Full hybrid penetration should rise, with demand soaring for 48-volt mild hybrid vehicles.

2. Gasoline engine turbochargers
Stronger fuel efficiency (carbon dioxide emissions) regulations in each country have driven efficiencies through engine turbocharging, with turbocharger installation rates rising in China and North America. More than 90% of 48-volt mild hybrid models should be equipped with turbochargers, and demand should keep rising.

3. Diesel engine turbochargers
Demand is unlikely to rise because of the costs incurred in complying with increasingly tighter environmental regulations in developed and emerging nations.

4. Markets in which turbocharger demand should continue to grow are:
   (1) Gasoline passenger cars in China
   (2) Gasoline passenger cars in North America
   (3) Gasoline passenger cars in Asia
2. Vehicular Turbocharger Business Market Climate

Long-term powertrain forecasts and new product areas (existing turbochargers)

**Target areas for electric turbochargers for electrified vehicles**
- Hybrid vehicle electromotive compressors and electromotive turbochargers, etc.

**Existing turbocharger product area**

1. Demand for existing turbochargers should peak in 2025 and continue through 2030
2. Accelerate development of new products in line with growing numbers of hybrid, electrical, and other electrified vehicles thereafter

Source: IHS Markit
1. Supplying electromotive compressors and electric-assist turbochargers for mild hybrid electric vehicles, for which demand is expected to spread in Europe and China.

2. Developing next-generation oil-free electromotive turbochargers for supplying air in fuel cell vehicles launched in 2018, catering to full-fledged penetration from 2030.
3. Vehicular Turbocharger Business Strategies

Vehicular Turbocharger SBU Goals

Transform business from focusing on new turbos supply to centering to the aftermarket for the automotive and industrial machinery market, and establish a highly profitable, world-class business

Contribute to innovations driving environmental improvements and economy in advanced powertrain systems

FY2026: Operating margin exceeding 10% on sales of ¥300 billion

After service business

Expand earnings through regional strategies based on global value chain
- Independent aftermarket sales
- Downgrade product development
- Customer spare parts
- Parts supplies

Mass production turbocharger business

Specialty turbochargers
- Create advanced turbos and lineup with customers
  - Technology customers
  - Technology and cost balance customers
  - Low-price customers
  - Commercial customers

General-purpose turbochargers
- Leverage lineup to generate earnings
  - Other passenger vehicle customers
  - Industrial engine manufacturers

New businesses

Forward investments to develop and accelerate commercialization of products for electrified vehicles
- Plug-in hybrid vehicles
- Electric vehicles
- Fuel cell vehicles
- Battery management

Customer proposal platform

Development platform

Production platform

Operational management platform

Organization and human resources

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1. **Step up order taking in key markets**
   (1) Reinforce efforts to secure orders in China and North America (orders confirmed for major North American project: second plant under construction at IHI Turbo America Co)
   (2) Strengthen efforts to generate orders in Europe (orders confirmed for medium-scale project)

2. **Launch new models**
   (1) Start rolling out RHS series
   (2) Developing higher-performance RHZ model, and will swiftly commercialize

3. **Strengthen procurement**
   Reinforce centralized purchasing and global supply chain to accelerate cost reductions

4. **Set up global production structure** *(from “local production for local consumption” to global production approach)*
   Collaborate at each site to build an optimal production structure for global customer project

5. **Expand after service business**
   (1) Reinforce regional activities by increasing one region (CloverTurbo) to three (Asia, Europe, and Americas)
   (2) Set up dedicated organization – personnel in each region

6. **Develop products for new business areas** *(to cater to electrification)*
   (1) E-compressors and electronic automatic transmissions to encompass premium and standard class models
   (2) Start shipping electric turbochargers for fuel cell vehicles
Order strategy
- Reinforced European order structure in FY2018
- Strengthened after service structure, shifting from one region to three region structure in FY2018
- Launch new models for gasoline engine vehicles

Compound annual growth rate
- FY2010 to FY2015: 13.4%
- FY2015 to FY2018: 11.9%
- FY2010 sales: ¥83.4 billion
- FY2015 sales: ¥139.6 billion

*FY2017 figure included impact of accounting period unification
5. Global Project

1. Develop in Japan and Europe
2. Establish a lean and flexible global production structure
3. Basic approach to be of final assembly in each region and optimal global supply of key parts
Forward-looking figures shown in this material with respect to IHI’s performance outlooks and other matters are based on management’s assumptions and beliefs in light of the information currently available to it, and therefore contain risks and uncertainties. Consequently, you should not place undue reliance on these performance outlooks in making judgments. IHI cautions you that actual results could differ materially from those discussed in these performance outlooks due to a number of important factors. These important factors include political environments in areas in which IHI operates, general economic conditions, and the yen exchange rate including its rate against the US dollar.