

Supplementary Information Regarding Notice of Adoption of International Financial Reporting Standards (IFRS)

IHI

October 26, 2020

IHI Corporation



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(1) Purpose

- To improve international comparability of financial statements in the capital market
- To improve the quality of group management through unification of accounting policies

(2) Status of Preparation

The preparation process to adopt IFRS has progressed in FY2020. As part of the process, IHI has been gradually unifying the reporting period of foreign subsidiaries and changing accounting policies for financial results under JGAAP as follows.

Major accounting policy changes for financial results under JGAAP

From FY2017: Change of the depreciation method for property, plant and equipment

- Abolished the declining-balance method and unified using the straight-line method

From FY2018: Abolishment of the “*furiate*” method for forward foreign exchange contracts

- Abolished JGAAP-specific accounting method for forward foreign exchange contracts, and applied the deferral hedge accounting method.

From FY2020: Early adoption of the Accounting Standard for Revenue Recognition

- Changed to accounting equivalent to new revenue recognition standards under IFRS

**Adoption of IFRS
at end of FY2020**

2. Scheduled Disclosures

IHI will adopt IFRS in place of JGAAP for consolidated financial statements starting with the year-end financial results for the fiscal year ending March 31, 2021.

Scheduled Disclosures for Voluntary Adoption of IFRS

Accounting Period		Disclosure Documents	Applied Accounting Standards
Fiscal Year Ending March 31, 2021	2nd Quarter, 3rd Quarter	Quarterly Financial Reports, Quarterly Securities Reports	JGAAP
	End of Fiscal Year	Financial Reports, Consolidated Financial Statements, Annual Securities Reports	IFRS

3. Effects of IFRS Adoption on FY2019 Actual Results

Consolidated Statements of Income (Reconciliation using JGAAP→IFRS)

- JGAAP and IFRS adjustment details for FY2019 actual results are as follows. Within the IFRS adjustments, the Accounting Standard for Revenue Recognition has already been applied from the beginning of FY2020 under JGAAP.
- As a result, excluding the impact of the reclassification of line items (reclassification of previous non-operating income/expenses and extraordinary income/losses to operating profit total), the material impact of the adoption of IFRS instead of JGAAP for current financial results for FY2020 (Difference adjustments for recognition and measurement in the table below) is limited.

[Applied under JGAAP from the beginning of FY2020]
Mainly impacts Aero Engine, Space and Defense segment (Civil aero engines Business)

(In billion yen)

	JGAAP FY2019 A	IFRS Adjustments B			IFRS ^(※2) FY2019 C=A+B
		Reclassification of Line Items	Accounting Standard for Revenue Recognition	Difference Adjustments for Recognition and Measurement	
Orders Received	1,374.0	-	▲99.0	5.0	1,280.0
Net Sales	1,387.0	-	▲133.0	5.0	1,259.0
Operating Profit ^(※1)	61.0	2.0	▲13.0	▲2.0	48.0
Financial Income/Costs (including share of profit (loss) of entities account for using equity method)	▲19.0	-	-	0.0	▲19.0
Other Non-operating Income/Expenses	▲10.0	10.0	-	-	
Ordinary Profit	32.0				
Extraordinary Income/Losses	7.0	▲12.0	-	5.0	
Income Taxes/Profit (loss) Attributable to Non-controlling Interests	▲26.0	-	5.0	▲1.0	▲22.0
Profit Attributable to Owners of Parent	13.0	-	▲8.0	2.0	7.0

Change in scope of consolidation

Deduction of loss on valuation of investment securities (not recorded in statements of income under IFRS)

*1 Operating profit based on IFRS = Gross profit - SG&A expenses + Non-operating income/expenses and extraordinary income/losses (under JGAAP) other than financial income/costs

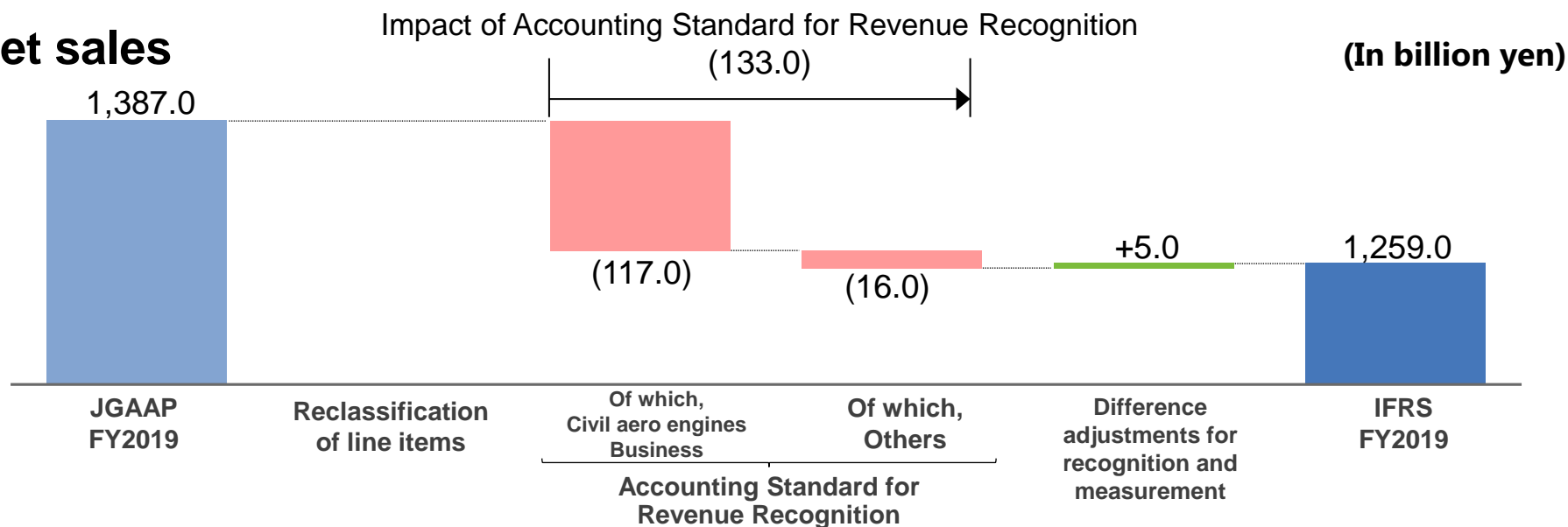
*2 Actual results for FY2019 based on IFRS are trial calculations prior to accounting audits. Furthermore, JGAAP and IFRS are both presented in round numbers.

3. Effects of IFRS Adoption on FY2019 Actual Results

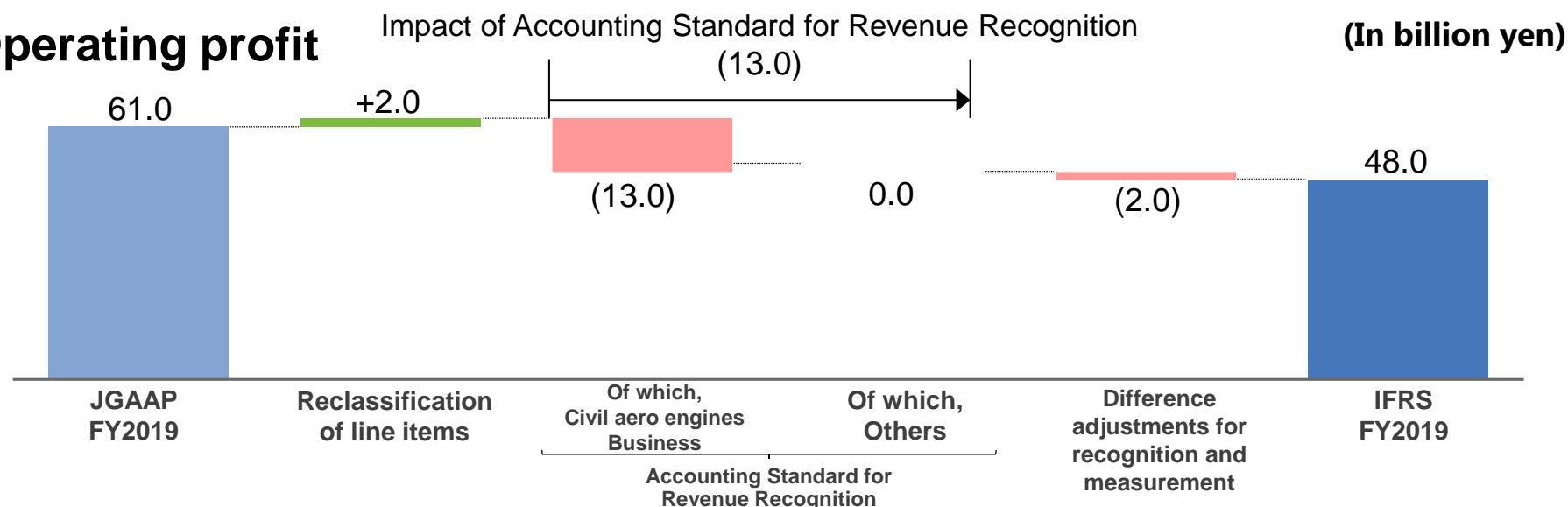
Consolidated Statements of Income (Reconciliation using JGAAP→IFRS)



(1) Net sales



(2) Operating profit



3. Effects of IFRS Adoption on FY2019 Actual Results Financial Results by Segment

■ Net sales & Operating profit

(In billion yen)

	Net Sales			Operating Profit		
	JGAAP	IFRS	Change	JGAAP	IFRS	Change
Resources, Energy and Environment	328.0	325.0	▲3.0	5.0	4.0	▲1.0
Social Infrastructure and Offshore Facility	153.0	149.0	▲4.0	13.0	13.0	0.0
Industrial System and General-Purpose Machinery	406.0	404.0	▲2.0	12.0	13.0	1.0
Aero Engine, Space and Defense	481.0	365.0	▲116.0	40.0	21.0	▲19.0
Total Reportable Segment	1,368.0	1,243.0	▲125.0	70.0	51.0	▲19.0
Others	70.0	67.0	▲3.0	4.0	7.0	3.0
Adjustment	▲51.0	▲51.0	0.0	▲13.0	▲10.0	3.0
Total	1,387.0	1,259.0	▲128.0	61.0	48.0	▲13.0

*Actual results for FY2019 based on IFRS are trial calculations prior to accounting audits. Furthermore, JGAAP and IFRS are both presented in round numbers.

3. Effects of IFRS Adoption on FY2019 Actual Results Financial Results by Segment

■ Analysis of change in operating profit (In billion yen)

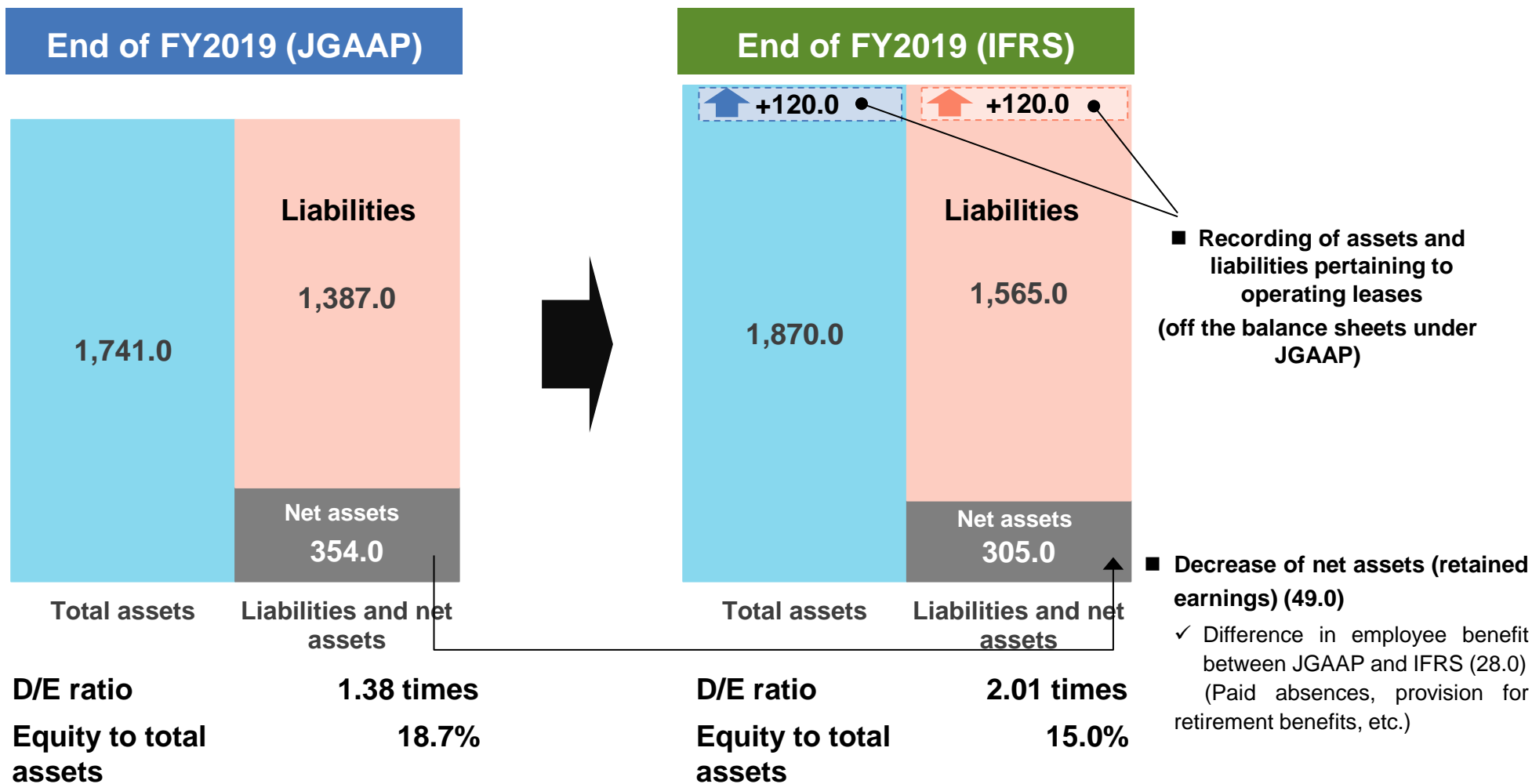
	Reclassification of Line Items	Accounting Standard for Revenue Recognition	Difference Adjustments for Recognition and Measurement	Total
Resources, Energy and Environment	▲ 1.0	0.0	0.0	▲ 1.0
Social Infrastructure and Offshore Facility	0.0	0.0	0.0	0.0
Industrial System and General- Purpose Machinery	1.0	0.0	0.0	1.0
Aero Engine, Space and Defense	▲ 3.0	▲ 13.0	▲ 3.0	▲ 19.0
Total Reportable Segment	▲ 3.0	▲ 13.0	▲ 3.0	▲ 19.0
Others	4.0	0.0	▲ 1.0	3.0
Adjustment	1.0	0.0	2.0	3.0
Total	2.0	▲ 13.0	▲ 2.0	▲ 13.0

* Reclassification of line items includes fractional adjustments.

*Actual results for FY2019 based on IFRS are trial calculations prior to accounting audits.
Furthermore, JGAAP and IFRS are both presented in round numbers.

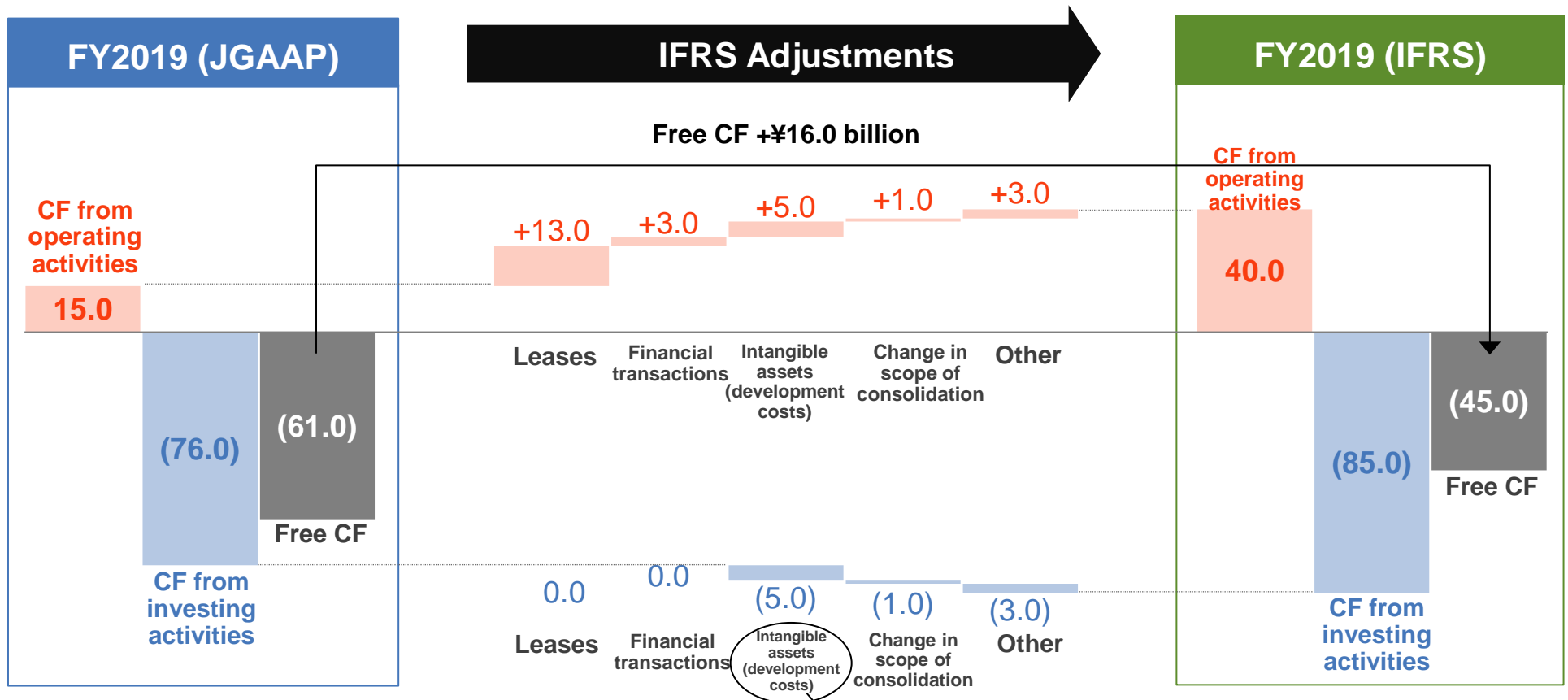
3. Effects of IFRS Adoption on FY2019 Actual Results Consolidated Balance Sheets (JGAAP→IFRS)

- Total assets based on IFRS increased by approximately ¥130.0 billion and liabilities increased approximately ¥180.0 billion mainly due to leased assets and lease obligations being brought onto the balance sheets.
- Lease obligations and interest-bearing liabilities both increased by approximately ¥120.0 billion.
 - ...At the end of FY2019, the balance of interest-bearing liabilities went from ¥490.0 billion under JGAAP to ¥610.0 billion under IFRS.



3. Effects of IFRS Adoption on FY2019 Actual Results Consolidated Statements of Cash Flows (JGAAP→IFRS)

- Free cash flows based on IFRS (cash flows from operating activities + cash flows from investing activities) increased by approximately ¥16.0 billion because the payment of liabilities pertaining to operating leases was reclassified from cash flows from operating activities to cash flows from financing activities.



■ Intangible fixed assets (development costs)

Regarding development costs for the Civil aero engines Business (costs in the preparation stage for mass production), despite previously recording inventories, the payments were reclassified from cash flows from operating activities to cash flows from investing activities in order to classify them under intangible assets (non-current assets) under IFRS.

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